orient capital

EDITED TRANSCRIPT

RS Group: Acquisition of Distrelec

27 April 2023 / 08:00 BST

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Simon Pryce – *RS Group – CEO*
Good morning everyone and welcome to this conference call on our proposed acquisition of Distrelec. I'm Simon Pryce, CEO of R.S. Group, and I'm joined by David Egan, our CFO and by Peter Malpas, our president of EMEA. We've uploaded this short presentation onto our website and you'll be able to access it under the Investor Relations section, which is wwwrsgroup.com/investors or alternatively contact Lucy or Sophie in the IR function.

So moving on to slide 3, hopefully this demonstrates that Distrelec truly meets all of our RS's acquisition criteria. I think you've probably seen the Venn diagram on the left-hand side of this slide before, but it emphasizes that in assessing acquisitions, we look at three things. We look for a good cultural fit. It goes without saying that we look for sound, risk adjusted value creation, economics, and most importantly, we look for a good strategic fit. Taking each of those blobs in an order and moving anticlockwise, the Distrelec high performance, customer-first, digitally led culture is a very strong fit with ours. As you'll hear from David in a minute, the acquisition economics are very sound, and that's the table on the right hand side of this chart demonstrates Distrelec is a strong fit, ticking three of our four strategic criteria, namely increased product and service solution potential, geographic expansion in some key markets for us, and of course operational improvement and effectiveness. So for us, Distrelec sits right in our strategic sweet spot.

Moving on to slide 4. Distrelec is therefore an exciting opportunity for us as we continue to execute our growth and value creation strategy. It's high service and digital. It's focused on industrial and MRO business in continental Europe, and it's a decent scale, last year generating €34 million EBIT on turnover of €270 million. It's been on our target list for some time, and we did look at it when it was first sold out of Detwiler, but we were busy acquiring and integrating Synovos and Needlers. We did need to improve our own German business and we were developing our integration capability all at the same time as managing through COVID.

However, we did continue to monitor them and towards the end of last year decided that it was the right time to approach them because we saw an opportunity to significantly expand our presence in European markets. We see that there's a high degree of operational alignment with strong combination potential. And of course, this gives us the ability to drive material cost and improvement synergies together with revenue growth opportunities. And all of this will accelerate value creation for RS stakeholders.

Seeing into this in a bit more detail on slide 5. Distrelec gives us increased presence in the large and attractive industrial and MRO markets. The European market for industrial MRO products is significant, growing and has attractive three cycle GDP plus growth characteristics. In the high end service where we play, it's also important to have a local presence and critical mass in key markets, but to have that supported by efficient distribution infrastructure. And Distrelec significantly accelerate growth and strengthens our competitive position, therefore, in Europe.

It increases DACH and Scandinavia revenues by 40 percent and 80 percent respectively. It significantly increases our presence in the German market and it gives us critical mass in Switzerland and Sweden and adds scale to our operations in Italy, Benelux and Eastern Europe. And as you can see from the map on the right hand side, this is all supported by a local presence and complementary infrastructure, which is what is needed in those key European markets that we're pursuing with lots of additional potential.

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Slide 6 highlights that strong operational alignment that I referred to between RS and Distrelec. We both generate about 70 percent of our revenue from the industrial MRO space. We're both very digitally led with around two thirds of our revenue coming from, in Distrelec, coming from digital channels. We both have low customer concentration and dependency. We both have extensive supplier bases and we both hold wide and long tails of stocked and non-stock products. Distrelec, like RS has a really purpose-led culture with great people that we believe will be able to prosper within RS. And Distrelec is as passionate as we are about being a responsible business and taking advantage of the trends in ESG as a business opportunity, as well as driving good internal and responsible business practices.

The two businesses have complementary operational footprint, Distrelec has two distribution centers, one in Switzerland and one in the Netherlands. It has a shared service center like we do in Eastern Europe and some overlap from Distrelec's 12 – and there is some overlap from Distrelec's 12 sales offices which serve the 19 countries that they address. In summary, this is a business, therefore, that we know and understand, and this provides us with much reduced transaction risk and as I've referred to, that significant combination potential.

On slide 7, this demonstrates how all of this translates into strong synergy and opportunity. We see significant cost savings through combining central functions and indirect costs, through consolidating carriers and transport and freight routes, improving the efficiency of the combined distribution footprint and the opportunity to drive significant operational improvement. The combined scale provides increased buying power, which brings associated procurement benefits, but also the potential closer and more strategic relationships you can build with key suppliers. We also see revenue growth potential through bringing our much broader product range to the Distrelec customer set, introducing RS pro and our broader services solutions to a larger customer community and extending our marketing reach to a broader range of existing and potential customers.

We've been quite conservative in risk adjusting the scale, cost and timing of the delivery of these synergies, but the team has targeted on the significant upside to that which we used in building our investment case. So all in all, I think this is an exciting one for RS.

Now with that, I'll hand over to David, who'll take us through the transaction economics. David.

David Egan – *RS Group – CFO*
Thank you, Simon, and good morning, everyone. You can turn to slide 8. The acquisition price of €365 million or £323 million represents an acquisition multiple of under 11 times trailing adjusted EBIT or under 10 times trailing adjusted EBITDA. We hope to complete the acquisition in two to three months after customary regulatory clearances. We expect to deliver over €15 million of easier to realize cost savings. We also expect revenue synergies from the combined business as we drive cross selling and benefit from greater marketing reach.

The acquisition is expected to be accretive to adjusted earnings in the first full year of ownership and comfortably exceed the group's cost of capital within three years of ownership. Our balance sheet remains strong. Post the acquisition, our pro forma net debt to adjusted EBITDA to March 2023 will be circa one times, well within our target leverage range of one and one half to two times and leaving us with plenty of additional capacity to continue to drive our organic and inorganic growth ambitions.

And with that, I'll hand you back to Simon to close.

Simon Pryce – *RS Group – CEO*
Thanks, David. So in summary, and in this short presentation, I think we've demonstrated why the acquisition of Distrelec is an exciting opportunity for us. And I think on this slide 9, it shows and highlights that this is just a continuation of the RS team's effective execution and delivery of our strategy to become first choice and make amazing happen for a better world through developing our product and service solutions and enhancing our customer experience to drive stickier customer relationships and expand our share of wallet.

This underpinned the share growth in the large and fragmented industrial and MRO growth markets in which we operate whilst accelerating digitalization and driving operational excellence, all of which, of course, is supplemented by strategic opportunities and where we have the people, the process, and the financial capacity to deliver them and enhance our already strong organic growth opportunities to accelerate value creation for all of our RS stakeholders. So with that, David and I would like to hand it over to, for a short period, to allow for any questions on the Distrelec acquisition. And with that, over to the moderator.

Operator
Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If for any reason you would like to remove that question, please press star followed by two. Again to ask the question, please press star followed by one. As a reminder, if you are using a speakerphone, please remember to pick up your handset before asking your question and please be sure to unmute locally.

Our first question today comes from the line of Rory McKenzie from UBS. Rory, please go ahead. Your line is now open.

Rory McKenzie – *UBS*
Morning, all. It's Rory here. Two questions for me. First, on the synergy potential. Can you, just as a starting point, remind us on the range of margins that you have within Europe? And we haven't had the split since 2017, I think, but back then you had Northern Europe at over 19 percent EBIT margins, but Central Europe 7 percent.

And then secondly, can you talk about how you plan to integrate the two businesses, especially in the Dutch region, which is bigger? Are you looking at warehouse consolidation or do you think that the, kind of, distribution center footprint will stay the same for each business?

And then my final question is just, I guess, on the timeline and history. And obviously, [inaudible] public markets have heard of Distrelec a couple of times when it [inaudible] it was acquired again in 2020, each time I think it was less profitable than it looks now. But were you ever involved with it in the past and why you decided that now is the right time to take a step forward? Thank you.

Simon Pryce – *RS Group – CEO*
Thanks, Rory. That sounds like three questions. You're up two, so we'll take it as three. David, do you want to start on the nature of the synergies? And I'm not sure that we disclosed our European margins, but I'll leave you to handle that piece of it all.

David Egan – *RS Group – CFO*
So thanks, Rory. In terms of EBIT margins, we don't disclose the individual countries' margins. I think it's suffice to say, though, that the vast amounts of individual countries have good EBIT margins underpinned by strong gross margins and also a sensible cost to serve ratios. The EBIT margin of this business is slightly lower than that of the gross margin, but it won't have a material effect on the overall group margin -- EBIT margin as we see it. In terms of the synergies, the synergies are, as we said, more orientated towards costs. Who said they're going to be more than €15 million and it will be in bigger buckets such as procurement, distribution and also some SG&A type costs.

Simon Pryce – *RS Group – CEO*
And Pete, perhaps you'd like to just expand a little bit on your approach to the integration and the sorts of things at the very highest level we think will drive the realization of those.

Peter Malpas – *RS Group – President of EMEA*
Yeah, no problem Simon. Rory, good morning. So as Simon articulated at the beginning, you're one of the key drivers for any acquisition is to drive operational efficiencies. And this is -- this is no different here. You ask the question

specifically about the distribution centers, I think in Europe. As slide seven shows, we see a number of potential opportunities from transportation, freight, and across the whole supply chain capability. You'll be aware that we've made significant investments over the last couple of years in this area and EMEA. So I think as we understand this business more closely, we'll be able to look at how do we leverage all of those investments we've made in the last couple of years.

Simon Pryce – *RS Group – CEO*
Thanks. And then just Rory, on prior interest and timeline. As I said, we have looked at this a couple of times. It has been on our target list. I think Aurelius has done a good job in fixing and then investing in and growing Distrelec. I think, though, we see significantly greater opportunity under our ownership to drive that growth further and of course, to realize the combination benefits that we've alluded to and referred to both in the presentation and then the things that David and Peter just talked about. So for us, it's the right time to acquire Distrelec and we see really good opportunity for Distrelec and for RS combined going forward.

Rory McKenzie – *UBS*
Thank you. Thank you.

Operator
Thank you. The next question today came from the line of James Rose from Barclays. Please go ahead. Your line is now open.

James Rose – *Barclays*
Hi. Good morning. I've got two, please. Firstly, could you talk about their recent growth track record? They're always taking market share themselves recently. And then secondly, when you compare their operations, when you compare their customer value and options versus euro, where are they at? How much work have you got to do to bring them up to RS standards?

Simon Pryce – *RS Group – CEO*
David, you want to talk about the growth side of things and then we'll hand over to Pete to talk about their operations versus ours and the opportunity or otherwise that we see to accelerate revenue growth?

David Egan – *RS Group – CFO*
So in very simple terms, their growth has been very similar to that of our India business in the markets in which we have, you know, common businesses and you know, don't expect that to change, won't talk about current trading, but certainly historical trends and very similar trends to that of our main business. Yeah.

Simon Pryce – *RS Group – CEO*
And I think you know that that is credit to Aurelia to help support and drive that Distrelec growth just as we have been investing and driving that growth as well. So very similar sort of profiles there. Pete, opportunities their operational maturity and the ability for us to pull through and accelerate revenue growth?

Peter Malpas – *RS Group – President of EMEA*
Yeah. And James, I think we covered in the earlier presentation, they've got a very broad customer count across the territories in which they operate and we see a great opportunity there to work with Distrelec to exploit both opportunities given the broad product range that is available through RS, There's some cross-selling opportunities, but also significantly through our RS Pro brand where we see a great opportunity there, particularly on the services side. They have some service capability but not as mature as ours at this moment in time. So again, a great opportunity to expand into a new customer base with our existing service offerings. Sorry.

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David Egan – *RS Group – CFO*
Thanks, James. Just to put it into perspective, about 8 percent of their revenue is services and solutions. So we would see certainly plenty of upside there over time. I think.

Operator
Thank you. The next question today comes from the line of Oscar Val from J.P. Morgan. Please go ahead, Oscar. Your line is now open.

Oscar Val – *JP Morgan*
Hi, good morning, Simon and David. Just two quick ones from my side. The first one is just understanding the supplier relationships. Are there any, I guess, exclusive agreements that could have to be renegotiated or have a change of control costs or any, I guess, the synergies that we should that we should think about? And then the second one is, could you just touch upon how much exposure you have to electronics at Distrelecs? Thank you.

Simon Pryce – *RS Group – CEO*
So just on supply relationships, Oscar. No, there are no synergies around suppliers. There's actually quite a big opportunity around suppliers as we as we become potentially better partners for certain key suppliers. So we don't see we don't see we see this as a positive, not just for Distrelec customers, but also for Distrelec and RS Suppliers. And David and Pete, between you, do you want to talk about electronics?

David Egan – *RS Group – CFO*
Sure. So Distrelec is largely an MRO industrial player in terms of the on-the-board exposure that they have. It's yes, it's high single digits or 10 percent or so with the balance being more of an industrial nature product sale and customer sale with the customers and pulling through the on the board products in the same way that they do with RS.

Peter Malpas – *RS Group – President of EMEA*
Nothing really to add, Oscar, to what David just said, I think RS have done a good job to focus on the MRO customer segment and that's where that large performance has come in recent times.

Simon Pryce – *RS Group – CEO*
And I think a lot of a lot of the on board, particularly electronics that they do, is in support of the customer set and is very targeted to the customer that industrial in MRO testimony.

Oscar Val – *JP Morgan*
Great. Thank you very much.

Operator
Thank you. As a reminder, if you would like to ask a question, please press star followed by one on your telephone keypad. The next question today comes from the line of Anvesh Agrawal [spelled phonetically] from Morgan Stanley. Please go ahead, Anvesh. Your line is now open.

Anvesh Agrawal – *Morgan Stanley*
Yeah. Hi. Good morning. [unintelligible] and apologies if you already talked about it, I was slightly late, but on the on the -- on the synergy side, 15 million is easy growth number. Right. Can you just sort of tell us about the phasing and what are the costs that you expect to achieve it? So how should we think about that over the next couple of years? And then the second is really I mean, in the last quarter, I think we talked about some spare capacity in your own distribution centers and wondering how this MNA could sort of help to achieve refill rate on those distribution centers.

Simon Pryce – *RS Group – CEO*
David, do you want to take synergies and phasing? And I'll just touch on distribution.

David Egan – *RS Group – CFO*
So with synergies, we said, you know, more than €15 million and the cost synergies, there will be some revenue synergies. So out of bit on there and that should give you sort of a, you know, synergy number in terms of the cost to implement. It's going to be a bit more than one times somewhere between one to one and a half. So maybe take the middle -- middle of the road there. And then with regards to the phasing, the delivery of the synergies will occur over a three year period. The cost synergies will be a little bit more frontloaded.

Simon Pryce – *RS Group – CEO*
And then on the distribution infrastructure, we have been investing and consolidating our European and in fact our global distribution and infrastructure network bringing Distrelec into the RS group does give us an opportunity to consolidate at the right time some of that distribution infrastructure. It also creates a cost avoidance for us where actually in particular in Switzerland, we were probably going to have to put in a smallish fulfillment center or a distribution center and of course Distrelec already has a very effective one of those. So there are real benefits, Anvesh, that's from combining the two distribution networks. And from what we can see, there's no duplication and inefficiency over time.

Anvesh Agrawal – *Morgan Stanley*
Thank you.

Operator
Thank you. The next question today comes from the line of Henry Carver from Peel Hunt. Henry, please go ahead. Your line is now open.

Henry Carver – *Peel Hunt*
Thanks, Chair. Morning, guys. Just two quick ones from me. First of all, any ideas around the schools for Distrelec, or at least how they compare to RS and the other things is just in terms of integration, thoughts around branding, are you going to look to convert it to an RS brand in due course or just -- you know, how we should look at that? Thanks.

Simon Pryce – *RS Group – CEO*
Thanks, Henry. Pete, probably both of those on customer satisfaction and NPS score and then views on branding is for you.

Peter Malpas – *RS Group – President of EMEA*
Thank you, Henry. Let's take the NPS question first of all. I'm going to talk both a little bit about internal and external. So from an external perspective, Distrelec have been very focused on that whole customer experience and digitalising to become best in class, use that terminology there. And so all of the research we've done, all of the assessments, we've looked at it, our customer satisfaction level is extremely high, at least comparable to our own. So we're very comfortable there from a customer perspective. And then when we look internally, looking at both our internal customers and employees, we've all equally got a very high engagement score and satisfaction levels. So I think both externally and internally, things look very good from a brand perspective initially, you know, there's value in the brands which Distrelec trade under, so they will be part of the group. So they will retain their brands, but as part of the RS group and then over a period of time we'll assess what that looks like as we get more integrated into the business. So, no immediate change, but we'll keep you posted on that.

Henry Carver – *Peel Hunt*
Thanks. Thanks, guys.

Operator
Thank you. There were no additional questions waiting at the window, so I'd like to pass the conference back over to Simon Pryce for any closing remarks. Please go ahead.

Simon Pryce – *RS Group – CEO*
Okay. That brings to close this presentation on Distrelec. And we look forward to seeing you soon, certainly in 6 to 8 weeks' time. Thanks very much.

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