Company: **RS Group: Q3 Trading Update**

Date: **28 January 2025**

Time: **8:00am**

Hosts: **Simon Pryce (Chief Executive Officer)**

Kate Ringrose (Chief Financial Officer)

[START OF TRANSCRIPT]

Operator:

Good morning everyone and welcome to the RS Group Q3 results. My name is Dru and I'll be the operator for today's call. During today we will have a Q&A session. If you would like to ask a question, please press star followed by one on your telephone keypad. To withdraw your question, it's star followed by two.

If you are on the webcast and would like to submit a written question, please click the question box and type out your question. Lastly, please limit yourselves to one question and one follow-up. It's now my pleasure to hand over to Simon Pryce, Chief Executive Officer, to begin. Please go ahead.

Simon Pryce:

Good morning everybody and thanks for joining us this morning and welcome to this Q&A after the release of our Trading Update earlier today.

In brief, as you might have expected, weakening Q3 industrial production and PMI data, mainly in Europe and particularly in the UK, together with a weak two weeks at the end of December means that our Q3 trading was a bit softer than anticipated. Whilst we've seen trading recover in January in line with our revised expectations, we don't think we're actually going to catch back up the weaker Q3 trading with only two months of the year left and therefore we're guiding to full year profit before tax being around the bottom end of the current consensus range.

More importantly, as I look across the business I'm really pleased with the progress we continue to make as we drive efficiency, execute better and continue to deliver share gains even in these challenging markets.

While PMIs have softened, we continue to manage our cost base effectively whilst maintaining our investment in a controlled way to further strengthen our already differentiated proposition and to better position us to generate stronger and more sustainable returns in the future, which will accelerate when markets return to growth.

So with that I'll hand it back to Dru who will facilitate the Q&A session. Dru over to you.

Operator:

Thank you very much. If you would like to ask a question today, please press star followed by one on your telephone keypad. To withdraw your question, please press star followed by two. If you are on the webcast, you can ask a question by clicking the question box and typing in your question. As a reminder, that is star followed by one on your telephone keypad.

Our first question today comes from James Rose from Barclays. Your line is now open, please go ahead.

James Rose: (Barclays, Analyst)

Hi there, thanks for taking my questions. I've got two, please. The first is for the UK specifically, within EMEA, could you perhaps give us a number for how the business has traded?

Secondly, is there a view on a sort of exit rate that you could talk to? You sort of mentioned January, perhaps that's a bit more stable, but how would you think about EMEA for the fourth quarter?

Then thirdly, if we think about the level of OpEx inflation still running in the business in both FY25, FY26, what's your latest thoughts there? Thank you.

Simon Pryce:

Thanks, James. We're not going to get down into country-level, quarter-on-quarter detail, but just to re-emphasise what I said both in the announcement and in my introduction, we did see PMI data soften in EMEA in Q3 and particularly in the UK from November, and that is the principal area where trading was weaker than we anticipated. The exit rate is alluded to in our comments about January trading being in line with expectations and we're comfortable that markets have stabilised but PMI data has yet to demonstrate a sustained recovery, and so it's still quite challenging out there. Costs, Kate, for ‘25 and ‘26.

Kate Ringrose:

So inflation costs in ‘25 are of the order of around 3%-ish. Just to remind you as to how inflation works within RS, our salary increases go in in June every year. With regards to next year, clearly, we're still working through our budget numbers, but in our markets, weighted inflation is sitting at around 3% to 4%. That includes the NI increases that came out of the UK budget.

Simon Pryce:

I think just to conclude on next year, James, I don't know what people are going to do after this call, but our view is it makes the most sense for us to continue to plan for relatively low growth and soft markets until we see a more sustained improvement in PMI data.

James Rose: (Barclays, Analyst)

Okay, noted. Thank you.

Karin So: (J.P. Morgan, Analyst)

Yes, so my question is around the tariffs, maybe if you could remind us about your exposure there in Mexico and China as well, [inaudible] basis, how should we read the strength in Mexico and the strength in America? How much of that do you see as clients pulling forward? Hopefully that went through.

Simon Pryce:

I think - sorry, you kept cutting out, Karin, but I'll try. I think it was a question about tariffs. It's still too early to understand what is going on in reality on tariffs versus what is political positioning. Importantly though, we need to think about tariffs in two or three different ways. Firstly, it's the tariffs on goods that we import into our central and regional distribution centres where that's sourced out of Mexico and China. That's principally an issue for our suppliers and most of them have been busy working on managing their supply chain for a number of years. So we don't see a major issue with suppliers supplying from high tariff areas and being unable to find an alternative.

Second, we don't do much cross-border trading into the US, from Mexico, from China, or indeed from Europe, so that's not really an issue for us. Thirdly, tariffs, because we have pricing power, generally are passed on in the cost price or as a separate line item to customers. Fourthly, because we're a broad range electrical and industrial automation MRO provider, we carry a broad range of brands and product alternatives.

So if you go back and take a look at - you know, we've also experienced the first version of tariffs under the last Republican administration and if you go back, you'll see we were able to weather of that without really any material impact and, indeed, a little bit of benefit.

Karin So: (J.P. Morgan, Analyst)

Great, thank you.

Webcast question

Given the strength in Asia-Pacific, is it fair to say electronics conditions have improved?

Simon Pryce:

I wouldn't say they've improved, I would say they're not getting materially worse. I think we have seen two years of both reducing demand and supply chain unwind and it certainly doesn't seem to be falling at the same pace, and if anything is stabilising and indeed even in a couple of areas we are beginning to pick up a little bit of that share that we lost over the last couple of years as people get back to a more normal way of buying for production.

Webcast question

Just coming back on the cost of inflation for FY26 actually: given the ongoing weak PMI situation and your comment that you should continue to plan cautiously in Europe in particular, could you maybe flesh out your plans for cost mitigation rather than just allowing for the 3% to 4% cost increases on a potentially stable top line.

Kate Ringrose:

So just in terms of where we are, just as a reminder as to the cost-based dynamic that we have, about 6% of our costs are variable in relation to revenue. We're still very much in the process of our budgeting dynamic. So the indications of inflation are a reflection of the metrics that we're working with at the moment.

We are, and intend, to continue to invest in our business. We think it's very important that we continue around the strategic actions that we talked about in CMD as they position us well for market recovery and ensuring over the long term, we can have a more productive fixed cost base more sustainably. So, therefore, there will be a continuation of the integration and restructuring cost into next year. We also expect more benefits to come through into next year. So, I would expect the behaviour of the cost base in full year ‘26 to reflect those assumptions that we made, which are similar to the assumptions in ‘25.

Simon Pryce:

I suppose I'd just tail this question with something that I said at the introduction, which is that we're making really good underlying progress at RS, as we told you back at our prelims last year. We do see significant opportunity by investing sensibly and in the right place to better position RS to benefit both from the existing business it does and also to accelerate share gain and our gain of market when it gets back to growth.

We've made really good progress on our digital and technology platform improvements, our e-commerce capability, we're introducing major changes to our delivery to promise capability, we're improving our customer relationship managing, we're beginning to use trends and effective data and to leverage much more analytics into the decisions we make. All of this is as a result of the investments that we have made and will continue to make going forward, but clearly, we're mindful of the trading environments in which we play and we'll continue to ensure that that investment is appropriate, positions the company well for recovery but is not excessive given that we're anticipating a flatter 2026 than we might have said a year ago.

Webcast question

Can you just elaborate on the comment that you think you're taking share? Can you please point us to where that is most evident regionally and maybe can you quantify any numbers at all, just reminding what measure you use for market share, please.

Simon Pryce:

Thank you. It's always an interesting question, talking about market share. As you know, it's quite difficult to define the markets in which we play and more importantly, it's quite difficult to measure them quarter-on-quarter. The way we test that, whether or not we're gaining share or not, is talking to our suppliers. We have about 200-and-odd - we have about 2,000 suppliers, all of which are key, but there's sort of just over 200 of them that will share with us, on a quarter-by-quarter or half-year-by-half-year, data around the growth or otherwise in the distribution channel to market and then the growth or otherwise of the participants in that channel.

We continue to gain share in virtually all of our suppliers' channels and that's the source of how we verify whether we're gaining share or not. I think - we also look at things by product category and I think we're gaining share across all categories with the exception of particularly semis and passives in electronics, which we talked about a lot before. We benefited from supply chain constraints and when we had availability to deal with customers we wouldn't traditionally deal with. And in one area, connectors, where we have a particular supplier issue which we've now dealt with.

So, pleased with the continued share gain that we see. Our suppliers are pleased with what we continue to do, but clearly, we're doing it against the background of quite a tough market, so it's difficult to see that in our top-line numbers.

Webcast question

A follow-on from that is actually asking in regions or countries.

Simon Pryce:

I said that I shouldn’t - I don't think we're going to get into talking about regional share or individual country market share, but it's pretty much across the board.

Webcast question

Referencing the stability in January, does this include the UK and does this imply a year-on-year stability?

Simon Pryce:

I think we refer to stability in line with our revised expectations. I mean, it is more stable, but it's still quite challenging in the UK. Everywhere else is actually not a bad place.

Operator:

We have no further questions dialled in either, so I'll hand back over to Simon for some closing remarks.

Simon Pryce:

Great, thanks Dru, thanks everybody for attending relatively early this morning. I think the main message we're trying to say is that we had a weak Q3 for the reasons I've outlined. I don't think we're going to catch that up in the last two months of the year. Trading has stabilised but we haven't seen a sustained recovery in PMIs across the globe really yet and so we're going to be pretty conservative going into ‘26.

The most important thing for me is the business is performing on an underlying basis much better than it would have done a couple of years ago. We are making significant improvements in our underlying processes and infrastructure. We're continuing to gain share whilst we do that and this is positioning us for much more sustained and high quality growth and value creation, particularly when markets return to growth, which they certainly will.

Thanks for your interest.

[END OF TRANSCRIPT]