RS Group plc
Full Year Results 2024

Wednesday, 22nd May 2024

Introduction

Simon Pryce

CEO, RS Group

Welcome

Kick off this morning's presentation. Thank you for joining us, and thank you for your continuing interest in the RS Group. Welcome to our preliminary results announcement for the year ended 31st March 2024. Before we get into it, for those physically present, I would just like to point out the fire exits. They are in the corner of the room. There is no scheduled fire alarm test this morning. So if the alarm does go off, please make your way to the fire exit and follow the guidance and the instructions of the fire marshals.

The presentation should take about 40 minutes. I will do a quick overview of the year, and then Kate will take us through markets and numbers before I look at underlying strategic and operational progress and what we are focusing on for the next couple of years and why we are so excited about the opportunity at RS. And then we will leave plenty of time at the end for questions, but we should get you away by about 10:15.

Corporate Values

Just before we get into the meat of the presentation, again, as I said, we have recently launched new corporate values. And we start all of our sessions not just with a safety moment but also with the values call out. This helps us embed those values as rapidly as possible into the organisation and get it to be real for our people. So I would just like to call out one of those values now.

We are one team. We listen, respect and trust each other. We actively seek diverse input and perspectives. We collaborate with purpose, and we act as one. So hopefully, you will see us demonstrating that today. But as we expect of all of our stakeholders, if you do not see it, please call it out.

And then finally, I would just like to start with my four key takeaways from the past year. One, markets remain subdued. And although demand is stabilising, short-term visibility is limited. Lead indicators are currently suggesting a small market improvement in the second half of fiscal 2025. And it certainly is not about if markets return to growth. It is just about when, but we are being prudent, and we are not counting on market recovery, and we are focusing on the things that we can control.

Two, this is a good company with great people, but there is a lot we can continue to do to improve this business. And it is a multiyear effort that we are working hard to accelerate.

Three, in addition to organic investment, we have demonstrated that targeted M&A is an effective way to accelerate growth and value creation at RS, particularly now that we integrate more effectively. And therefore, M&A remains a key piece of our strategic agenda going forward.

And fourth and probably most importantly, the RS team has responded well to the difficult markets we faced and to the challenges that the new management team has laid down for them. And given the progress that we have already made, I am increasingly confident of our ability to deliver and meet or exceed our medium-term target.

2023/24 in line, significant underlying progress increasingly confident of delivering

So let us have a look at what happened in '24, which, as I have said, was a difficult year but one in which we ultimately delivered an in-line performance and, more importantly, made significant underlying progress.

Again, strong comparators as the slide says, the markets were challenging with weak global industrial demand, an aggressive electronic cycle, resulting in revenue that was down 8% on an organic basis, although pleasingly, our growth accelerators either outperformed or remained in growth.

Revenue was also impacted by the unwinding of strong post-pandemic trading and inflationary tailwinds that you will hear more from Kate on later. And as a result, the financial performance that is set out on the right-hand side of this slide was weak, although ultimately, aligned with an admittedly revised set of market expectations, and the Board is recommending a 5% increase in the full year dividend in line with our progressive dividend policy.

This more difficult trading environment highlighted the need at RS, though, for increased focus across the Group. And during the year, we created much greater clarity and strategic alignment.

I will share with you in a bit more detail what we are doing to drive operational effectiveness and improve operating leverage and also how the ongoing investments in our growth accelerators are progressing and what we can anticipate in 2025.

We made good progress this year with our recent acquisitions, where more effective integration is delivering greater than anticipated synergies, and we actually made an additional small £8 million acquisition post year-end.

And then importantly, and despite these difficult markets, RS remains well positioned as a good company with great people operating in cyclical but growth markets. We are improving this business and positioning RS to accelerate and deliver more sustainable outperformance going forward. And we are increasingly confident of delivering that outperformance.

With that, let me hand over to Kate, who will take you through the numbers.

Challenging Markets

Kate Ringrose

CFO, RS Group

Introduction

Good morning, everyone. It is good to see you all again. I have been here for eight months now, and Simon and I have been working closely together to really get to grips with the detail of what is driving our performance.

As Simon said, we have been making good progress at improving the underlying operating business to make the future performance more robust and sustainable. There is still a lot to do, but today we have got a much clearer data-led understanding of how our business has performed, which is monitored in a consistent way across our markets and regions.

In the slides to come, I will take you through what has been going on with the markets, the performance of the business with specific reference to the different regions, a focus on the cost movements year-on-year and provide you with what is hopefully helpful pointers on what is likely to feature in the outcomes for 2025 and beyond.

Weak industrial demand and effect of exaggerated electronics cycle accelerators outperformed

All right. So let us start with the market context.

Our revenue has got a strong correlation with PMI and electronic cycle. And although, of course, we expect to grow faster in the upcycles and mitigate the impact of downcycles to deliver through-cycle outperformance, as the charts on the left-hand side of the slide show, PMIs have been below 50 in most major markets, indicating sentiment contracting, and therefore, production contracting, the worst market being Germany.

Despite that, our industrial performance excluding automation and control was robust, growing by 2%. Through 2023 to 2024, the electronic cycle has been in reverse. While electronic cycles are not unusual, there has being a rapid transition from a high peak to an excess of available product in the market that has exaggerated the impact on electronic and associated automation and control revenue in full year 2024.

Unwinding post-pandemic trading benefit c. £95m revenue and c. £60m operating profit

So now let us dig a little deeper into why the electronic peak in 2022 and in 2023 was particularly high and where we can see the impact on the sales, which unwound in our financial year ended 31st March 2024.

You remember in 2022 and 2023 was a time of pent-up demand and supply constraints, particularly in electronics. The top left chart is a good example in EMEA and Asia Pacific, where we measured the degree of unexpected demand that we service. This peaked at 33% at the start of full year 2023 and is now normalizing again at around 18%.

For revenue to benefit from the shortage, availability was key, and that is what our business model is predicated on, industry-leading availability. And in addition, we had recently expanded and stocked our distribution centre in Fort Worth, Texas, which enabled us to meet the rapid rise in demand in Americas, which is illustrated by the rapid increase in sales per day in the chart on the top right.

This unusual demand came from core customers who increased order quantities and sales to retailers and one of transitory customers. This is at a time of material inflation, which given our low inventory turn, especially on long-tail products, led to a short-term gross margin gain, also illustrated by the bottom chart.

At the interims, we estimated that the benefit of these tailwinds in full year 2023 was £95 million revenue and around £35 million operating profit. Having analysed our data further, we identified gross margins that were higher than usual across many products in electronics and automation and control categories. We have sought to isolate the gross margin achieved outside of historic ranges, which we estimate to be a further £25 million of profit.

This takes the total estimate of the post-pandemic tailwind to around £60 million profit in full year 2023. This analysis provides a much more accurate view of the Group's underlying

trading benefit in full year 2023. We have been making material improvements to our performance management systems to take the data learnings from this cycle and others, improve our ability to identify the early indicators of the change in the cycles and customer behaviour going forward. This includes regular monitoring of a refresh set of commercial KPIs, which will enable us to react more quickly to changing market conditions.

Financial Review

Moving swiftly on to the financial performance in the year.

2023/24 performance reflects difficult markets and unwinding of unusual demand

This slide summarises the results on the page. Whilst year-on-year revenue appears flat, adjusting for acquisitions, trading days and FX, revenue declined 8%. This is the key factor in the decrease in operating profit. Although we took meaningful action to reduce some variable and discretionary costs, it was more than offset by associated costs.

Reported ROCE includes additional capital deployed on acquisitions. And once those are excluded, ROCE was 22%, which was a good result in the circumstances. Our growth accelerators, specifically digital capability, RS PRO and the Service Solutions offerings, differentiate us, and we were pleased with their relative outperformance.

Revenue bridge – affected by inventory benefit unwind and market decline

This bridge helps unpack the year-on-year movement in revenue. Revenue decreased by 1%, including a 10% uplift from acquisitions, but was down 8% like-for-like when accounting for differences in number of trading days and forex. I have isolated on the chart £95 million of post-pandemic trading benefit, which I talked to earlier.

Around 70% of the volume and mix change is concentrated in the electronics and automation and control categories, where customers have reduced their volumes purchased and sought to burn through excess inventory build up. In industrials, we were able to pass through cost inflation and we have isolated the impact of the additional nine months of Risoul and the nine months of Distrelec since its acquisition at the end of June.

Adjusted operating cost bridge – supported by improving cost control

While full year 2024 operating costs were broadly flat against full year 2023, there are a number of moving parts to highlight.

Inflation impact was 3%. The additional year-on-year operating costs associated with the full year of Risoul and nine months of Distrelec was £72 million, so around 8%. In response to the decrease in revenue, we reduced variable costs directly associated with the revenue shortfall, and around 15% of our cost base is directly associated with changes in revenue.

We took action to reduce non-essential spending of £25 million, which includes the 2023 cost of living payment granted to colleagues, which was not repeated. We invested £13 million in restructuring, including Distrelec integration costs. This generated £9 million of in-year benefits. And together, these actions will deliver in excess of £30 million annualised savings.

Given in-year performance, the annual incentives earned in full year 2023 were significantly reduced for full year 2024, and we expect this to normalise in full year 2025. We continue to invest in our processes, digital and technology systems and infrastructure, and this was consistent with the prior year spend at £24 million.

Adjusted operating profit margin bridge – affected by post-pandemic trading unwind and cost inflation

The net outcome of the reduction in revenue and associated gross profit, reduced gross margin and flat operating costs is a 2.9 percentage point reduction in adjusted operating margin, 1.8 percentage points of this related to the post-pandemic trading unwind and includes 1.1 percentage points of related gross margin reduction.

The volume reduction was partially recovered by the in-year cost actions, the expected dilution in gross margin from acquisitions flow-through to operating margin.

EMEA: More evolved proposition, delivering resilient performance

Moving on to our regions and starting with EMEA. We were actually really pleased with EMEA's robust performance, particularly in industrial. Like-for-like revenue fell by 5%, reflecting weak PMI data and the electronics downcycle, of which we attribute 2% to the unwind in post-pandemic trading.

Performance was robust in France and the UK & Ireland, which, in part, balanced the more challenging markets in Germany and rest of EMEA as all countries saw PMI fall below 50 for most of the year. We saw outperformance in growth accelerators, digital capability, RS PRO and the Service Solutions, which have been longer in the EMEA market and are therefore better established. And we saw a strong performance from our corporate accounts, where revenue grew, reflecting the success of our targeted sales and marketing effort.

Like-for-like gross margin was flat, with disciplined control of discounts offsetting the unwinding of post-pandemic trading benefits, and we took in-year cost actions with like-for-like costs down 4%, and this includes the investment of £9 million of integration and cost action expenditure.

Americas: Greater exposure to electronics cycle and OEM affected financial performance

So let us move on to the Americas. Revenue reduced by 13% on a like-for-like basis, which excludes Risoul for nine months of the year. Of that reduction, we estimate the post-pandemic trading benefit, supported by particularly high product availability and the expanded distribution centre, contributed 5 percentage points.

This proportionately higher impact in Americas is reflective of the concentration they have of customer spend on A&C and electronic products. The remainder, we attribute in the main to the change in cycle.

Risoul is a bright spot, and we've been pleased with the revenue performance, which exceeded expectation. Like-for-like gross margin fell by 2.8 percentage points, of which we estimated half is the unwind of post-pandemic tailwinds, and half increased competition as product was more widely available.

Excluding the additional Risoul costs in-year, costs were down 8% on constant exchange rates as a result of restructuring and discretionary cost action. Approximately, 40% of the reduction in operating profit is attributed to the unwind of the post-pandemic tailwind.

Asia Pacific: Electronics unwind resulted in high operational gearing

And moving to the final region of Asia Pacific, the majority of the 15% like-for-like revenue decline in0year was concentrated in Greater China and Japan. We estimate £10 million or 4%

of the revenue decline was due to the unwind of the post-pandemic trading, and 300 basis points of a 6.5 percentage point decline in gross margin is attributed to basically a function of the increased market competition in electronics and reduction in cost inflation.

Japan is particularly concentrated in the electronics category. China's reduction in revenue is more peculiar to that market as trading sanctions have reduced our customers' revenue.

Asia Pacific is a region in development. The smaller scale increases the sensitivity in operating profit to changes in revenue.

Cash flow improved in second half as anticipated

And now let us wrap up the year's performance with a summary of cash flow, starting with adjusted free cash flow.

So I am pleased with the cash performance in H2, which generated £125 million of the £151 million generated as inventory builds at the end of 2023 were converted into cash in the second half.

In full year 2024, adjusted free cash flow was primarily impacted by two things:

- In 2023, we had a significant benefit from an increase in accounts payable as those large inventory orders have been placed near the end of the year but not as yet cash settled; and
- EBITDA year-on-year is reduced, as we have discussed earlier in the presentation.

Working capital as a percentage of revenue increased by 3.8 percentage points, with more than half of this increase being the impact of lower revenue, and the remainder a decrease in trade and other payables.

The strong second half performance increased inventory turn back to a more normal 2.6 times. Capital expenditure remained steady at 1.3 times depreciation as we continue to invest organically in improving our physical distribution sites operationally, implementing product and customer management systems and strengthening our digital and technology platforms.

Net debt increased to £418 million with the acquisition of Distrelec increasing net debt by £333 million.

Clear capital allocation prioritising growth and balance sheet efficiency

Our capital allocation policy has not changed. However, as a reminder, first, we prioritise organic investment behind our strategy to support organic growth. This includes the physical system and process infrastructure we need to deliver sustainable growth as we scale and achieve improvements in operating margin.

Second, financially disciplined acquisitions in this global fragmented market can enable us to accelerate our strategy. We seek to invest behind a compelling strategic rationale, attractive synergy benefits, cash returns. We target to comfortably cover our cost of capital within three years whilst maintaining sensible leverage over time.

Third, we believe in sharing cash generated with shareholders through a progressive dividend policy, and that we seek to productively invest and ultimately return any excess capital to our

shareholders. We have announced a 5% increase in the full year dividend, which remains adequately covered in both EPS and adjusted free cash flow.

However, given the sizable increase in full year 2022 and full year 2023, partially on the back of trading benefit from post-pandemic tailwinds and with plenty of good organic investment opportunities, we would expect future increases to be low single-digit and to cover growth back to more historic levels.

We target a return on capital employed of over 20% and leverage an efficient balance sheet with a range of 1 to 2 times net debt adjusted EBITDA and depending on prevailing market conditions and acquisition opportunities.

Factors to consider for 2024/25

So lastly, before I hand back to Simon, here are some factors to consider for 2025 and beyond. Trading is stabilisng but remains subdued, with limited short-term visibility.

PMIs remain weak, and although some lead indicators suggest some second half recovery is possible, we are focusing on what we can control. In the immediate term, we are prioritisng investments to systems and processes, which have a meaningful positive impact on operating profit margin. We expect to continue to invest around an additional £15 million this year on improving our operating model, with the benefits increasingly evident as we move into full year 2026 and beyond.

We expect further investment is likely to enable us to access the material operational efficiencies that are available through:

- Process standardisation;
- Removal of demand failure; and
- Removing technical debt as our systems are modernised.

Additional factors just to help you populate your models: we expect our pricing strategy to offset the cost of goods sold and inflation and gross margin.

On cost and interest:

- We anticipate around 2% to 3% inflation in our run costs;
- Some resumption of our employee incentives;
- Increased organic investments, as I have talked about, of £15 million; and Simon is going to give a bit more detail on that;
- Another quarter of Distrelec costs;
- An additional £7 million of depreciation costs; and
- The second year of our cost savings programme delivering £22 million of in-year benefits.

Investment related to cost savings and integration is going to continue at £13 million for 2025, which is consistent with our spend in 2024.

Ongoing capital expenditure is flat to last year at £50 million, which includes continued disciplined organic investment and planned spend to deliver our 2030 ESG action plan.

And there are guidance points, including trading days, foreign exchange, tax and a summary of the operating cost actions included in slide 33 of your pack.

So eight months in, we have got a firm grip on the business, and we are feeling the benefit of the measures and the interventions that we have put in place. They are starting to work. The opportunity ahead is material and very exciting. There is a lot to do, but we and the team are very much up for the challenge.

Now I am going to hand you back to Simon. Thank you.

Increased focus

Simon Pryce

CEO, RS Group

Greater strategic clarity and more alignment

Thanks, Kate. It is great to have you on board. And as you can see, Kate has got up to speed very quickly and is bringing much greater rigour to understanding what is driving performance at RS and, more importantly, how to improve it.

So I talked in my summary about more difficult trading conditions, highlighting the need to increase focus across the Group. And of course, this starts with strategy. And during the year, we revisited strategy and put much greater clarity around it, and most importantly, put in place detailed multiyear action plans that better focus and prioritise our people and our resources on the things that really matter.

Our strategy now realises and recognises that suppliers and customers are at the heart of everything we do. But as the wheel shows and starting at the top, on customers, we cannot be all things to all customers. And so we will focus on those where we see the opportunity to generate significant potential lifetime value, with high complexity and low-volume high service needs, whilst not forgetting the long tail of mainly transactional customers that we will continue to serve but in a more cost-effective way.

Clockwise, on products. We need to focus on those core industrial MRO categories where there is a technical and specialist support need, and where we can differentiate, which for us is automation and control and electrical, including MRO electronics, but supported by a range of adjacent and pull-through categories and a broad product offer, where there is consolidation potential and where availability and immediacy is key.

We need to continue to build a more solutions orientation in the Group, but we need to restrict the services and solutions that we provide to those that are scalable, that we are best placed to provide, that satisfy our target customer needs, and importantly, that they recognise and are prepared to pay for, and then enhance loyalty and ultimately pull-through of our core product.

In terms of customer experience, of course, we need to continue to provide a multichannel market-leading customer experience, recognising that we are multichannel but digitally enabled, and that customers should expect and receive a consistent tailored service and best-in-class customer interactions that reflects their potential but also their cost to serve.

And then finally, we need to deliver this with operational excellence that leverages our physical, digital and process infrastructure most effectively and to achieve this all with great people. And this strategic clarity is already creating much greater alignment across the Group and prioritisation of key actions.

Driving operational effectiveness, improved agility and better execution

When growth is strong, you might get away with not looking at driving improvement. But particularly in a solutions-oriented distribution business like ours, there is a need to continually drive operational effectiveness, irrespective of where you are in the cycle. Last year, we re-established this discipline at RS.

We put in place a new senior leadership team made up of existing executives and new external hires and created and empowered a small executive committee to lead RS in the next phase of our development. And it is this empowered executive team and strengthened functional capability that is setting, aligning behind, coordinating and driving our change agenda.

Next, we have also clarified and simplified our operating model to empower our teams closest to the supplier and the customer. We created clear accountabilities across the organisation to ensure rapid and effective decision-making, supported by enabling functions to ensure we realise efficiency and scale benefits and accelerate the functions that set high-level Group direction and share and enable best practice.

This is all supported by an enhanced performance management system and process, and a much better suite of operational KPIs that Kate referred to earlier that improve visibility, accountability and allow us to drive better delivery.

And then last, we recognise the need to evolve the RS culture to support this change agenda. And we have engaged over 350 of our people to define and drive that evolution, and most clearly, it is represented in our purpose, our strategy and the four new and common corporate values, one of which you heard me refer to at the beginning of the presentation.

And these are reflected in clear behavioural expectations that we are embedding into our people, performance and development assessment processes.

So the progress that we are making on operational effectiveness is already beginning to deliver improved agility and better execution across the organisations.

Improving operating leverage, significant further potential efficiencies over time

But last year was not only about driving operational effectiveness, it was also about creating more focus on operating leverage. And we recognised the need to react to the challenging trading and commenced cost reduction actions in all three regions and across functions, including accelerating the integration of Distrelec.

Together, these actions will, as you have heard from Kate, deliver in excess of £30 million of annualised cost savings by fiscal year 2026. But the work on the operating model, together with a detailed review of the investment cases behind some of the growth investments we are making, has highlighted a significant additional opportunity to improve productivity and efficiency through harmonising some of our processes where customers do not value differentiation, and we have started to drive this work.

We are continuing to optimise our supply chain. And I think I mentioned at the interims that this time last year, I could pack quicker than our picking system could deliver the products to me at our newly extended and invested distribution centre in Germany.

Well, I am pleased to report that it is no longer the case, and through tuning the system and through a greater focus on continuous improvement, we have nearly doubled the lines shipped per FTE per hour at Bad Hersfeld over the course of the year, which creates significant additional capacity in that distribution centre.

Staying with supply chain:

- At a network level, we have closed our Newport distribution facility but continue to increase flexible local fulfilment capacity;
- Completing a large and more energy-efficient fulfilment centre in Spain; and
- Increased our 3PL footprint in Asia Pacific to get product closer to the customer.

And process harmonisation is also enabling the last block on the chart, technology simplification. We have started to converge our SAP applications and simplifying our SAP instance through extracting and standardising key processes.

Over time, this will allow consolidation of our over 800-plus applications that we currently support, and reduces both complexity and ongoing management and maintenance costs.

So the key takeaway from the efficiency work that we are doing is that the £30 million annualised cost reduction action, which we have already actioned is just the start of our drive to improve operating leverage in this business. There is a ton of other things going on throughout the organisation that will increase efficiency, and we expect to see, as Kate has said, significant additional improvements in this over time.

Growth accelerators investment continuing additional £15m in 2024/25

And whilst much of our efforts during the year was focused on improving the efficiency of the underlying business, we also continued to invest in our growth accelerators, but with greater focus on more effective programme management and improved delivery.

We are enhancing our digital and customer experience across the organisation. And there is too many actions to explain the activity sufficiently here, but whether it is rolling out AI to enable AI-enabled search capabilities in 27 markets or cleansing our customer data to improve targeting and engagement, we continue to invest significantly in improving our customer experience whilst reducing our cost to serve them.

In terms of product, we continue to enhance our product offer through things like better supplier partnering and range optimisation, selectively investing in expanding our RS PRO range, and also, importantly, our Better World sustainable range which is now up to 30,000 products and available in 30 countries.

And then finally, in value-added services and solutions, the one thing I would particularly like to call out is the progress that we are making in developing a more standardised, scalable and global integrated supply offer. Everything that we are doing, every live programme, many of which are multiyear, now has a detailed project plan.

It has a rigorous program management structure in place. It has clear milestones and good payback. And as Kate said, that is why we expect to invest around £40 million this year of operating costs in these growth accelerators, which is an increase of about £15 million over last year.

Recent acquisitions delivering exceeding expectations in difficult markets

And as you have heard me say before, the large fragmented markets in which we operate provides us with opportunities to accelerate strategy and value realisation through consolidating, in a value disciplined way, of course, businesses that accelerate product and service solution development, enhance product range, give us increased scale, or where we can drive significant operational efficiencies.

And although it is a bit of an eye-chart, those are the four boxes under each of the acquisitions that I am about to talk about now.

Clearly, though, the value creation is not only the ability to pay the right price but also to deliver the benefits and to integrate it effectively, and I am pleased to see that this is a muscle we are really building. And as a result, our recent acquisitions are delivering.

Let us start with Risoul. Risoul has significantly outperformed our operational expectations, and we are already starting to realise some of the revenue benefits that we anticipated when we acquired Risoul.

In Distrelec, the middle column, we have accelerated our initial integration plans, and our expected and delivered cost savings are already exceeding those anticipated when we made the initial investment.

So whilst trading in Distrelec in the fiscal year 2024 has been weaker than anticipated, although in line with our comparable EMEA markets, we still expect returns on our Distrelec investment to exceed our cost of capital by fiscal year 2027, as originally anticipated, and with the longer-term benefits of the acquisition remaining extremely attractive.

And with our recent acquisitions exceeding expectations despite difficult markets, this gives me the confidence that selective M&A will continue to be an important source of value creation for us going forward.

And just the last block on the chart, post year-end, we've acquired Trident, a specialist MRO distributor and service provider in energy and natural resources in Australia, at the beginning of April for £8 million, adding to and enhancing our already strong Australian business.

Well positioned

So stepping back from the detailed performance in fiscal 2024, I think we are very well positioned.

Good and differentiated business with regional nuances

RS is what I thought it was, as the chart says, a differentiated and good business, the critical link between some of the world's leading suppliers of technical and specialist A&C and electrical products for MRO applications, and a broad and diverse customer base that wants to purchase small volumes and where high service levels are valued and key.

We are the leading global distributor in large fragmented markets. We have a clear competitive advantage in multi-category, high-service products and service solutions, that is digitally enabled and data-rich.

We have improved strategy, and we are focusing, aligning and prioritising executing better whilst continuing to invest in our growth accelerators to drive further outperformance.

What is set out below is that this is applicable to all of our businesses despite some of their regional nuances.

Aligned in their direction of travel each supported multi-year action plans

And whilst our regions have different starting points, they are all aligned in this direction of travel. With EMEA, which is the yellow block, where we have our most developed proposition and the broadest market in industry exposure, it is all about expanding high lifetime value customers and share of wallet.

It is about product and range curation. It is about solutions expansion and operational excellence. And all of this should drive accelerated outperformance and better operating leverage.

The purple block in the middle, in Americas, where we are much more automation and control and electrical focused and have a much narrower industry exposure, it is about expanding those high lifetime value customers and share of wallet just like EMEA, but also expanding verticals, range, category and solutions and margin optimisation. And all of this will lead to less volatility and more sustainable growth, margin improvement and better operating leverage.

And then last but not least, in Asia Pacific, where our country businesses, have a range of maturities and with more electronics exposure, particularly in China, Japan and Hong Kong, it is about building cost-effective critical mass over time, continuing to evolve towards the Americas and the European high-service model, also expanding high lifetime value customers and share of wallet, but also range and particularly MRO expansion, category and solutions expansion, all of which will lead to more sustainable growth, more scale, reduced volatility and better operating leverage.

And most importantly, each region now has a clear and specific action-oriented multiyear strategic plan against which they are delivering.

Operating in cyclical, growth markets continuing to outperform

Just quickly, because Kate has touched on this a little bit. We are operating in cyclical growth markets, but the important piece in this is they are growth markets. As the chart, I think on this slide demonstrates, we are pretty closely correlated to both GDP and industrial production, and as Kate has said, the best external demand signals are probably PMIs.

We are coming to the end of a particularly sharp electronic cycle, and we are seeing the unwind of some post-pandemic trading tailwinds. But when you look through this, we have consistently grown at about double industrial production over the medium term.

Going into to 2024-2025, PMIs remain volatile, generally below 0.5, and the market demand remains subdued, albeit generally stabilising. But we do have limited short-term visibility. And so whilst internal and external lead indicators suggest some market improvement in H2,

we are planning for a broadly flat year organically, but I still expect this to meet or exceed that 2 times growth in industrial production over the medium term and for this business to continue to outperform.

Improving the fundamentals positioning to accelerate

And in the meantime, we are focused on improving the fundamentals. There is a lot we can do in this business through a multiyear programme that we will focus on, our growth accelerators, continuing to drive operational leverage, continuing to focus on operational effectiveness. And there is much more improvement to come in this business, which enhances how the organisation will respond when the market returns to growth and position the business to effectively accelerate into the next cycle.

Summary

So finally, reflecting on my first 13 months here, it has been challenging and probably more challenging than I initially anticipated when I took this role. However, I am really pleased with the way that RS is responding, and in my executive career, I have never seen a large organisation achieve so much in one year as we have done in fiscal 2024. In part, that is due to Kate and our executive colleagues and their exceptional efforts, and I would like to thank them for their extraordinary support in setting, aligning behind and driving this change agenda.

But it is mainly due to everyone at RS. We have the one asset in this business that everybody else would die for. We have passionate people who are demonstrating that we are one great team seeking to deliver brilliantly, doing the right thing and making every day better, which just happens to be our new corporate values that I referred to earlier and what we are seeing demonstrated and embedded across all our organisation every day.

Our opportunity is significant increasingly confident of delivering

Our opportunity is significant. And make no mistake, there is lots of potential here. We are working hard but increasingly on the right things, and we are making progress even if, depending on markets, it will take a couple of years for it to get fully reflected in our financial outcomes.

But I am sure you will remember from my presentation of last year's prelims, when I would only been here for three weeks, that I talked about our medium-term target. So top line growth is twice market, mid-teens adjusted operating margins, greater than 70% cash conversion, return on capital employed greater than 20%, and 30% operating drop-through.

Well, after 13 months in this business, I am increasingly confident that we will deliver or even exceed them.

So if that has not come across in today's presentation and why that confidence is well-founded, we are actually intending to provide you with a bit more colour on it at an Investor Day on 24th September in London. So please feel free to save that date, and we will tell you more about that presentation and that meeting later in the year.

But with that, it is the end of the formal presentation. I would like to now open up the meeting to questions.

Q&A

David Brockton (Deutsche Numis): Can I ask a few questions around the £60 million operating profit number that you have drawn out today, just to help my understanding? A year ago, the business reported like-for-like operating profit growth of 18%, which was £60 million through the year for the entirety of last year. Are you today saying that all of that was one-off and that there was no market gain through that period of post-pandemic growth? This is the first one. And probably the best to do them one by one, actually.

Kate Ringrose: I think what we are saying is when you look at the revenue chart, what we really sought to do is isolate the movements in revenue and £95 million of that is the revenue dynamic. Then what I have look to do is what has going on in the associated revenue movement to gross margin, so that was around £35 million associated with that revenue and an additional £25 million.

I think what we are seeing, David, with regards to how that is moving through into the profit numbers is that is basically the flow-through of the £60 million. I think in the chart that we have given you the flow-through in terms of how the operating profit charges moved year-on-year and then isolated that.

David Brockton: Okay. So you do not think the business saw any market growth through that year. It was all excess?

Kate Ringrose: I think I would not say that it was all excess. This is primarily within the electronics and the A&C is basically where we are seeing. But what you did see in 2023 is a rapid rise in 2022, and then that is starting to come through in 2023 and then coming through more formidably in 2024.

David Brockton: And then just to pick up again on that. In terms of average order value and average order frequency, can you maybe just give us an understanding of how those have trended through the year? Because one would expect those have declined quite sharply to reflect that as well, please?

Kate Ringrose: Yes. Actually, I mean when you look at average order value, it is gone up by £2. Now, some of that is actually to do with incorporation of things like Risoul, which you have got a much higher average order value. So on an underlying basis, what we are seeing from a customer behaviour perspective is where during 2022-2023 when the shortage was there, they would buy fewer lines but very deeply, particularly the Americas. So you can see that dynamic of stocking up.

Now what we are seeing is slightly broader lines being bought but fewer of them, which implies that there is more stock to be had. So actually, year-on-year, statistically, it has gone up a bit, but underlying absolute, the average order value has gone down. Order frequency has gone down a little bit. Not that much, actually.

David Brockton: Then the last question just, again, related to the £60 million. Can you just confirm in terms of where you have lost activity? One would presume it has been more at the transactional end. But has the business lost any meaningful customers or suppliers over the last 18 months?

Simon Pryce: I think we definitely have lost some share in electronics, David. But that is not surprising, because a lot of that stuff is the transactional customers that were acquired in 2022 and 2023 based solely on supply. We actually see no deterioration in our key or corporate customers, in fact, a slight growth there. And so this is mainly about electronics, and it is mainly about those transactional customers that appeared in 2022 and 2023 and would not appear again until the end of the next electronic cycle.

Kean Marden (Jefferies): Sorry to jump the queue. Apologies. So I will have three. I mean your quarterly IMS, you provided the like-for-like growth breakdown between electronic and industrial. I appreciate you have given us the full year numbers, but if you could isolate the fourth quarter, that would be much appreciated, if not so much trouble.

Secondly, I am wondering if you can expand on the £69 million inventory provision in the notes. And is that provision against stock that has particularly fast or slow turns? I.e., how quickly should we see that working its way through the system?

And then finally, just when we see the reporting accounts in a few months' time, how will we see the Journey to Greatness targets embedded in management incentives, and particularly with a view on the EPS target for the medium term, which I think from memory gave a range of about 84p to 92p? Are you rolling that forward or will there be any changes to that? Apologies, I should have started by saying it is Kean Marden from Jefferies.

Simon Pryce: I will ask Kate to do quarterly electronics and industrial and the inventory position. But just on remuneration and targets, we are actually looking at that this year. we have got a policy renewal in 2025, and I think the Journey to Greatness scheme and everything that is underneath it probably will go away. I do not think we actually need that scheme to drive exceptional performance in this business, and I am pretty sure it will be replaced by a slightly more traditional incentive structure but still focusing on demanding and stretch and sustainable growth in revenue and in operating profit, and importantly, capital employed.

Kate Ringrose: On the quarterlies, the Q4 split for industrial was negative 3.6. On electronics, it was negative 18.4. I am going to be brutally honest and say I cannot remember what the 4Q numbers are that we could provide those.

Specifically, with regards to the inventory provision, so yes, it is up £25 million last year. Some of that is just a function of there is more inventory, so there is more provision. It is pretty mechanistic. There is a bit that is a write-off of particularly stuff within OKdo, so older stuff that has gone out that when we have refocused that business, really looked at the movements and that we have taken a provision against that.

Simon Pryce: I think that has driven more by strategic refocusing of that business than it is by actually carrying bad inventory. I am pretty sure we will sell that stuff at some stage, but we are targeting OKdo on our core customer set, not the retail customer set, which I do not think we really set up to deliver for.

Kean Marden: Does that stop churn relatively quickly or just in line with Group average?

Kate Ringrose: Pardon? I did not hear the question.

Kean Marden: Does the stock churn relatively quickly or just in line with Group average?

Kate Ringrose: No. Well, it is electronics. So electronics turn is definitely lower than industrials. And fundamentally, actually, that is the biggest driver between the year-on-year movement. So our stock is, on a mix perspective, proportionately more electronics than industrial. We apply an entirely mechanistic time-orientated provision methodology, which basically spits out a higher provision. And we would not stock that stuff if we did not think that we could sell it, but it is just the mechanism as to how that provision works.

Simon Pryce: Yes. I think the important thing is it is principally a mechanistic calculation. We have looked at inventory that we are carrying and we do not believe we need to make any judgments on the realisable value of that inventory that is not dealt with by the mechanistic inventory provisioning.

Sam Dindol (Stifel): A couple from me, please. Firstly, on the RS rebranding in the US, are you seeing any signs that, that is helping the RS PRO growth in that? I appreciate early days.

And then secondly, on the wider operational efficiency processes. After the £30 million of cost savings in terms of process harmonisation, supply chain, etc., when would you be in a position to put maybe £1 million saving on that? Is that something in a year or two years' time, you would look to do?

Simon Pryce: So I will leave Kate to try and work out the answer to the difficult second question. I will focus on the easier first one.

The rebranding of RS in America is an important part of changing the focus of our American business. We are evolving the focus of our American business from quite a narrow vertical A&C and electronics provider into the small OE space to a broader range of MRO distributor that we described earlier.

The building of brand value takes time. And we continue to invest in that brand. And over time, we will see the benefits of it as customers recognise us not just for the traditional Allied product suite that it carried but for the broader product range we are now delivering.

And of course, on the back of that comes RS PRO. We are also directly investing in the RS PRO brand because in America it actually does not mean very much, because they did not know what RS was until the beginning of this year, let alone what RS PRO is.

So a continued investment in marketing the RS PRO brand, positioning that brand sensibly in the marketplace with product that our American customers buy is a starting point. But it will be an ongoing investment in both the RS and the RS PRO brand in America, and you will realise the benefits of that over time. But it is not going to be three months. It is a multiyear process. But we are continuing to see increased interest in and adoption of both RS PRO by our traditional customers in America, and increasingly, people recognising that we are providing a broader range of products and services in America than we used to under the old Allied badge. Operating efficiency?

Kate Ringrose: Operating efficiency. So I mean I think between the two years, I mean, basically, we have are going to spend £13 million. We spent £13 million in 2024. We are going to spend another £13 million in 2025. And then between the two years, we are going to deliver £31 million. So I will take that. That is around a one-year payback in terms of that investment. That investment is really predominantly integration investment and restructuring.

So that is what we are talking about there. So I think the way I look at that is that was a commitment that we made at H1, and now we have followed through and done. Now we are on to the next frontier.

In terms of where we are on operating efficiencies, the investment that we can do in terms of our processes and our systems in order to get us even more efficient, that is part of the additional £15 million, but there will also be, as we move through the years, actually, the restructuring investment that we need to make in order to ensure that our label and third-party costs get effectively realigned.

Simon Pryce: I think one of the challenges, Samuel, on giving hard targets for operational efficiency that goes out a couple of years in this business is because the top line is variable, hard targets do not necessarily flow through to operating margin in the way you would anticipate. And therefore, what we are looking at the operating efficiency initiatives is more than underwriting the medium-term target. We have talked about the mid-teens margins as and when markets kick back in.

I expect you will hear us give you a bit more colour about that at the Capital Markets Day in September, but I doubt I will be able to persuade the Finance Director to put some targets out there.

Alex Virgo (Bank of America): I wondered if you could talk just a little bit about what you are seeing from customers with respect to the machine tool builders, the OEMs, that you are supplying into. You mentioned very low visibility. We have heard from a number of supply chain participants that this is something that keeps getting pushed to the right in terms of what they want, how much inventory they have. And obviously, what they are doing is driven by the broader macro indicators that you talked about. So I wondered if you could just broaden that for us a little bit into the regions as well, would be super helpful.

And then second question. Kate, it is super helpful to have the £95 million and the £60 million. Thank you for that. So I think just in terms of how you would advise us to think about how we go from here with respect to those £95 million and £60 million. Is it just that, that was it, that is done, and we are rebased now at a new level and we go from here? Or do we need to start thinking about whether or not we should be recapturing some of that? I guess, the whole kind of history thing is an interesting debate, right?

Simon Pryce: So clearly, you directed the difficult question again to the right person. Markets, look, I would love to say it is different in each region. I mean, frankly, if I am honest, Asia Pacific is a bit better. We are seeing green shoots in a number of the markets out there. EMEA and America, it is still stabilising, but it is still difficult.

Like many of our suppliers and many of our end user customers, we have seen a continuing softening in broader industrial demand that is moving everything to the right. I think the other thing at play here is because of the supply chain constraints, particularly in electronics, there was a big build of inventory in the system over the last couple of years. That is unwinding. I am not sure it is completely unwound yet.

Because I think that inventory unwind was against an inflated demand, the demand is actually coming down a little bit, and therefore, people are still burning off what has become surplus inventory.

I think if you look forward, all the lead indicators and some of our internal stuff says it does get better in the second half. But if we look back six months, it said we were going to get better in the first half of this year, and it does not feel like that today.

And quite prudently, therefore, we are not anticipating a huge amount of growth in H1 or H2. We are focusing on what we can control, and there is plenty to be getting on with. And then the markets will do what the markets will do, and we will be in a great place to accelerate the benefits of growth when it comes back.

That is about as much as I can give you, unless there is anything you want to add, Kate? And then the difficult question.

Kate Ringrose: Okay. I mean it is very difficult to isolate what is a post-pandemic tailwind from what is a change in cycle. So I mean you will understand that is part of the agonising and the learnings that we have gone through over the last six months is how do you differentiate one from the other? Because ultimately, electronics and the associated automation and controls are very much tied, to some degree, to those changes in cycles.

I think the way I am holding that £95 million and £60 million is I am growing, right, it is treat as unwound in 2024, and move forward to manage the cyclical developments as they move forward into the coming year. Because ultimately, we as an organisation, need to be able to be resilient in cycles and to build the resilience in cycles, and that is partly why this operating leverage question and really focusing on that fixed cost base and making sure that when the cycles do change, more of that improvement falls through to the bottom line is fundamentally what we are most focused on.

If we do see very peculiar circumstances or very high acute shortages and a very well-stocked distribution centre that can meet that demand, then we have demonstrated that we can get the boxes out to the customers within those time frames and generate the margins and the profits that come with it. But I do not think that's something that we necessarily plan for.

James Rose (Barclays): I have got two, please. I think in the release about electronics, it talks around how that business was managed somewhat separately before and perhaps you are now looking at a more integrated approach. Could you talk us through the rationale sort of before and after on that?

Simon Pryce: I cannot really talk to you about the rationale before other than in order to drive greater exposure to the electronics market and position ourselves better with suppliers, it was felt that we should experiment by creating a separate electronics organisation within the business that had its own view on inventory planning and NPI and all that sort of good stuff.

Stepping back, though, we are not trying to compete with Mouser. We are not trying to compete with DigiKey. Electronics is a key product category for us, but it is a key product category to small MRO customers. And it is important that suppliers understand that, and it is important we set ourselves up to deliver that proposition.

And therefore, it seems strange to carry a lot of additional overhead to treat electronics as a completely independent category and run it almost as a separate business from the 80% of our business that is actually industrial MRO.

So what we have done? We retained a lot of the good people in our electronics business but collapsed it back and treated it just like one of our other product categories. That is already been much appreciated by the suppliers who were confused by what we were trying to do. I think it is also being appreciated by our people, because it is absolutely getting the same inventory management disciplines and supplier disciplines that the rest of our product categories do now.

James Rose: Great. And then secondly, if we look at the long tail of smaller customers, which you have, which have perhaps contributed to more earnings volatility, what can you do to improve the economics of those going forward?

Simon Pryce: Yes. I think that, James, is what I was alluding to and I was talking about. We need to focus on those high lifetime customers whilst continuing to support transactional customers who will always be a big piece of our business, but in an effective way, understanding what our true costs to serve those customers are and ensure that we are profitably serving them in the right way.

Those transitory customers that Kate talked about were generally electronics customers. They were coming in for availability rather than anything else, and price was less of an issue. I suspect, though, as part of delivering those products, we were shipping small packages and probably losing money on it. And so I think that is what I am trying to allude to is we will continue to serve transitory customers, but we will make sure that we understand the costs of serving them and that we do make money on those transactions going forward.

Kate Ringrose: Just a small example of action we have taken in regard to increasing things like handling costs. So I think before, it is taking a view on data and ensuring that we do not apply the same service to absolutely everyone and making sure that there is a value and supply to that. So we have increased handling charges for smaller customers in a response to that because we have got to make sure that they are profitable[?].

Simon Pryce: The small order values. That is just one example. Thanks, James.

Alex Virgo: It is Alex Virgo again. I wondered if I could just ask a direct question in terms of interpretation on margin dilution. Does that mean that margins for FY 2025 will be lower than they were this year? And any sort of sense of magnitude? Or are you referring to last five-year average or the margin dilution impact in this year, would be great.

Kate Ringrose: I assume you are talking operating margin.

Alex Virgo: Yes.

Kate Ringrose: Yes. So I mean, I think I have tried to be as helpful as I can, particularly with regards to the cost base, which I recognise hasn't perhaps been as easy to simulate. And I think when you guys move through the models in terms of what we have signalled, particularly the stuff that we have neutralised, the further investment that we are making, how we expect the benefits to turn up in the numbers, the £50 million incremental, etc., then all else being equal, and that is kind of assuming that markets do not dramatically improve, then yes, net for net, I would expect a small dilution in operating margin.

Simon Pryce: But I think that is a below the gross margin issue. I think the profitability that we talked about from that post-pandemic trading and the inflationary environment, we think that has burned through.

Kate Ringrose: Yes, of course. Yes.

David Brockton: Sorry, it is David Brockton again from Deutsche Numis. Sorry to come back to the £60 million. And I do not want to do too much of a reveal for your investor event. But in terms of the mid-teens operating profit margin target, given that you benefited from £60 million of profit on £95 million of revenue, you need to put on another £0.5 billion of revenue just to get back to the 13.5% that you made as a peak for the business. So what fundamentally needs to shift within the business to get to the mid-teens target?

Simon Pryce: Look, I think we do need some volume, but I think, as I hope that is clear from our chat, we are not the most operationally efficient business, and we have not done the things that would create as much operational leverage in this business as we think we can. So I am very comfortable with that mid-teens operating margin target, and it does not all come from revenue.

David Brockton: Okay. And the time period by which we should expect it?

Simon Pryce: Medium term, but it still requires a bit of volume. So look, you do not have to wait 10 years. I am pretty sure of that. But I am not going to be more specific around it. Any questions online?

Sylvia Barker (JP Morgan): Some have been answered, but maybe just picking up on that price competition point in Americas. Could you maybe talk a little bit more around that, what trends are you seeing? Who is that coming from, specifically?

And then just going back to the post-pandemic tailwind unwind, I guess I appreciate it is related to specific products, but just it is surprising how small it is in EMEA relative to the divisional profit. I do not know if you could just reiterate what types of products specifically that was related to.

And then finally, on the faster integration benefits and the cost benefits I guess that you might see from the Distrelec, you said material cost benefits from the Distrelec integration. Could you talk a little bit more around how much that might be benefiting the margin in 2025 and 2026?

Simon Pryce: So I will leave Kate to answer the Distrelec one. On price competition in America. I mean, look, there has been and there was, at various points during the year, a bit of price competition in electronics, but we are not chasing that transitory customer. And therefore, I think that's what was being referred to. It is more acute in America because it is more automation and control and particularly electronics focused than our European business, but very similar to what we are experienced in Asia Pacific, which has similar electronics concentrations. And that is a little bit about the story around the tailwind unwind too.

The electronics and automation and control concentration in Asia Pacific and in Americas is higher than in Europe, and therefore, Europe did not have as much of the tailwind, which was principally electronics driven, that we saw in the other three regions. Distrelec?

Kate Ringrose: So just with regards to Distrelec, the OPEX number, because I talked about £22 million of OPEX benefit in 2025, around £5 million of that relates to Distrelec OPEX.

Simon Pryce: I think looking forward, I think we talked about the Distrelec operating margin being lower than the Group average. We anticipate the continued integration will move that operating margin well towards the Group average.

Kate Ringrose: Let me just bearing in mind the investment we are making in integration both will benefit operating costs, but gross margin as well. And probably the only other add I would make, Simon, if you do not mind, just to that post-pandemic dynamic in the Americas, remember, I talked about the distribution centre in Fort Worth that had been recently opened, which particularly had a lot of the stock that was in demand. We have got a high proportion of OEM customers in the Americas who would be buying deeper in periods of acute shortage.

Speaker: So one of the questions online is looking at the gross margin, over a longer time frame. How do you see it evolving going forward on account of pricing deflation and generally two to three years out?

Simon Pryce: I think most of the impact of slowing price inflation, I would not call it price deflation, slowing price inflation and the catch-up of our average inventory value or the inflation impact on our underlying average inventory value will smooth out. I do not anticipate any material gross margin headwinds going forward.

Kate Ringrose: I think just with regards to gross margin, it is also just worth bearing in mind that because we have got such a long lead time to such a low turn on inventory margin, which again is all tied to the way we structure the business and around availability, you do have a dynamic of inflation and changes of inflation that will impact gross margin. So again, these are very high-level numbers. But in terms of how I have looked at it, I think there is easily around a 200-basis point shift around gross margin that's entirely normalised, depending on when you buy stock and when you sell that stock on average broadly.

Simon Pryce: I do not think we think there is a major gross margin headwind going into 2025.

Kate Ringrose: Yes.

Speaker: Other question as well is, can you comment on how much capacity you have in the European warehouse, [inaudible].

Simon Pryce: We have a lot more than we did before we tuned the picking system, but there is plenty of capacity to meet our medium-term growth ambitions.

Tom Burlton (BNP Paribas): I just wanted to ask a question on the £40 million of investment in operations systems infrastructure. £15 million of that clearly is an incremental piece that we are going to see over the course of the next two years. How much of the remainder of that bucket should we think about as being now an ongoing part of the underlying cost base versus what gradually phases out?

Simon Pryce: I think it is a really good question, Tom. I mean we continue to invest in growth accelerators and the associated technology enablement of those. I think in the past, those would be called strategic projects. I think, on purpose, we are calling them continued investment, which is being realised through OPEX.

I suspect some of it is just the ongoing cost of continuing to improve and develop our business. I think the most important thing is we will call it out for you and we will call it out for you each year.

So you will see we will be open with you on what we are investing in and how much that investment is going to cost, and importantly, what we are going to generate from that investment as we go forward. But I do think we do not expect that £40 million to all unwind in 2026. I am pretty sure we will be continuing to spend a chunk of it, and we will be clear and tell you at the time. You want to add to that?

Kate Ringrose: Yes. I mean I think the philosophy around that, I mean, in my head, I call it organic investment. I mean our business model is predicated on investment we make in infrastructure processes and systems and then how we scale that up really efficiently. And that is how I think about the deployment of that £40 million. It is how it generates attractive returns off the back of how we are improving our customer experience, our analysis on how we are serving our customers, our ability to curate products and also managing our technical evolution in terms of the next stage.

Simon Pryce: Actually, to conclude, Tom, at the end of the day, we are a solutions-orientated distribution business. I think that our model and our particular advantage is we have significant investments in physical process and digital infrastructure. Maintaining that critical advantage and ensuring that that physical, digital and process infrastructure is working as efficiently and effectively as possible is an important part of the continuing investment case in this business. And that is how you need to think about it.

Any other questions? So one minute late. Thanks very much for attending today, guys. I am sure we will see you, if not before, at the interims in November. Thank you.

Kate Ringrose: September.

Simon Pryce: September, sorry.

[END OF TRANSCRIPT]