Internal

RS Group Half Year results FY2023

Thursday, 3rd November 2022

Opening Remarks

Baroness Rona Fairhead

Chair, RS Group

Welcome

Well, good morning, and welcome. Thank you, all of you in this room for joining us this morning, and thank you for everybody else who is online. We are here, as you will know, to discuss the first half results for RS Group. But before we start the results presentation, I just wanted to take a moment to address the announcement that we made this morning about our CEO, Lindsley.

Lindsley is not here today because the Board has agreed for him to take a leave of absence from the business due to personal reasons. This is a personal situation, and out of respect for that, I am not going to get into the details as those are personal matters for Lindsley.

However, it is necessary that he takes a leave of absence from the business, and he is being well supported during that time. As you all know, under Lindsley's leadership, we have built a truly great business. You will be hearing more about that today, and we are incredibly grateful to David Egan and our entire senior management team, many of whom are here today for stepping up to make sure that we just keep that momentum going because the momentum we have is extraordinary. And of course, the Board and I sound fully ready to support them in any possible way we can.

So on behalf of everyone at RS, we wish Lindsley well, and we sent him our thoughts and best wishes. Now I will respectfully ask that we focus the rest of the discussion on the results. In that regard, I am delighted that RS is in a really fantastic place.

Our strategy is clear. It is really resonating with our customers and our suppliers, and it is delivering consistent share gains across every region. We have really a fantastic depth in people. We have a top-class senior management team, and that goes all the way through the company's serious talent throughout the company.

Under the leadership of David during this period and the executive team, the Board is extremely confident that we just would not miss a beat. I would not steal the team's thunder, and will now hand over to David and to Jane Titchener to take you through our first half results. I thank you for your understanding and your support.

Introduction

David Egan

Acting CEO, RS Group

Welcome

Thank you, Rona, and good morning. I am David Egan, the acting CFO of RS Group. I am joined here today by Jane Titchener, a very senior member of the finance team within RS Group, the Vice President of Corporate Development and Strategy. This is Jane's first time; please take it easy on her. Welcome, Jane.

However, may I start by saying something about Lindsley. Lindsley is both a boss, but he's also a very personal and close friend of mine. I wish him well through this leave of absence.

Lindsley, what I would say to you is that we will continue the momentum, and we will be focusing on customers, our people, the culture and the purpose that you have established, and we have every intention of doing you proud upon your return and the team that you have assembled in the delivery of that.

A strong first half performance

Now let's shift gears and let us focus on our first half results presentation for the six months ended 30th September 2022. We have delivered strong revenue and profit performance in the first half.

Slide four shows our ongoing market share outperformance versus our peers as our differentiated proposition continues to resonate in the market and with our customers. We continue to invest in our future, while delivering increased margins, and more importantly, or equal importance, returns. This has been supported by a very strong balance sheet within our Group.

The most powerful driver of our success is our people

Moving on to slide five. As Lindsley has said many times, our people are the most powerful driver of our business. We have invested in and supported high performance, purpose-led culture throughout the world. We never underestimate the value that our people bring to our stakeholders, our customers, our suppliers, our communities and our shareholders.

We have launched a share-based award under our Journey to Greatness plan for all employees to participate globally. We have recently conducted our employee engagement survey, and our score improved 3 points to 78, which places us very close to upper quartile of top performing companies throughout the world.

Our US business ranked 33rd on the list of the Top 50 Inspiring Workplaces in North America in 2022 with a special mention for our inclusivity.

One Brand. One Team. One Culture

Turning to slide six. We have had an exciting six months rebranding our company to RS Group. IESA and Synovos has become RS Integrated Supply. Needlers and Liscombe, the acquisitions that we did a little while ago now operate under the brand of RS Safety Solutions, and in February 2023, we plan to rebrand Allied in the Americas to RS.

Operating as RS brings recognition to our global proposition. It strengthens our product and solutions offer, and it delivers greater collaboration and efficiencies across the Group. It allows us to have one team, one purpose, one brand and one culture.

So now let me pass you over to Jane. As I said, please be easy on her. This is her first time, and she is going to cover our first half results. Then I will come back and talk to you about the outlook and also some of the areas that we are focusing on to drive superior outperformance. Over to you, Jane.

Financial Performance

Jane Titchener

VP, Corporate Development and Strategy, RS Group

Strong returns and cash generation

Thank you, David, and good morning, everybody. Let us go through our results for the six months ended 30th September 2022. Slide eight summarises our strong profitability, returns, cash and shareholder value over the last three years. We have outperformed in the first half, leveraging our operating base to deliver an adjusted operating profit margin of 13.4%, nearly 30% adjusted operating profit conversion, over 31% return on capital employed, and we generated over £110 million of adjusted free cash flow.

We have eight non-financial KPIs and they're detailed in the appendix.

Metrics linked to our sustainability-linked loan

On slide nine, we have highlighted three metrics, which are linked to our sustainability linked loan and our progress on delivering our 2030 ESG action plans. They are carbon emissions, packaging intensity and the percentage of women leaders in our business.

Strong profit performance

On to our income statement on slide 10, which shows that our revenue increased by 21% to £1.5 billion, and our adjusted PBT grew by 35% to £192 million.

Revenue bridge

If we look at revenue in a bit more detail, as shown on slide 11, we delivered 16% like-for-like growth, with 5 percentage points from volume and mix and 11 percentage points from price inflation. In the total revenue growth of 21%, there was 5 percentage point benefit from favourable foreign exchange.

Adjusted operating profit margin bridge

On slide 12, we detail the drivers of the 1.4 percentage point improvement in our adjusted operating profit margin, which has increased to 13.4%. Our revenue growth has provided strong operational leverage on our cost base. Our gross margin grew by 1.8 percentage points to 45.5%, and this is driven by margin optimisation work, especially within our own brand, a tighter discounting policy and more focused buying commitments. We had limited transaction currency impact.

Total operating costs have grown by 22%, approximately a third of that relates to inflation mainly in labour, one-third is volume driven and the balance relates to strategic investments, which we are continuing to make. We continue to invest in digital, our Journey to Greatness, rebranding to RS, as David referred to earlier, and in our people, including paying a total of £5 million in additional one-off payments to all of our employees to help them through what is a very difficult economic time.

Our Group energy bill is around £5 million and is largely hedged for the next nine months.

Regional performance

Slide 13 shows all three regions delivering material improvements in revenue and operating profit through a greater focus on higher value B2B customers, price optimisation, improved

digital capability, and strong operational leverage on our cost base. This was all achieved, while managing constrained supplier single-board computing, particularly Raspberry Pi, which is sold through our consumer brand OKdo, and the cost pressures on investment identified earlier.

Regionally, we have seen EMEA drive profit improvement despite ongoing investment in our operating model. In the Americas, we benefited from strong operational investment on the underlying cost base, and from inventory investment into the expanded DC.

In Asia-Pacific, we delivered greater scale with tighter commercial focus.

Cash flow

If we move on to slide 14, which shows our cash performance. We remain very cash generative with an adjusted operating cash flow conversion of 82%. Our inventory investment, which has supported customer demand in the first half, led to a decline in inventory turns to 2.4 times. We expect our inventory turns to improve slightly in the second half as we tighten inventory commitments, restricting our investments to the higher inventory turn products, which we know will sell through quickly, and the products, which are searched most from online by our customers.

Balance sheet strength

If we move to slide 15. Our balance sheet remained strong. We had a small net cash position at the half year, and this will move towards pro forma net debt to adjusted EBITDA of 0.6 times after the acquisition of Risoul.

Last week, we completed the refinancing of our sustainability-linked loan, which is increasing the value to £400 million, extending the maturity to five years plus one plus one extension option and all at similar terms. This eliminates any financing risk over the medium-term.

Our fixed to floating interest rate swaps on our US private placement loans will all mature before the year-end.

Capital allocation priorities investment

There is no change to our capital allocation as shown in slide 16. Our three focus areas for growth are unchanged. Our number one priority remains organic growth. And given our high ROCE of over 31%, we are able to profitably leverage our asset base.

However, our balance sheet is strong and that provides inorganic opportunities too, and there are some exciting opportunities in our M&A pipeline. We do continue to be super disciplined financially, strategically and culturally.

We are welcoming two businesses to RS Group

Onto slide 17. We are really proud to welcome two new businesses to RS Group. First is domnick hunter, a leading distributor and service provider of major air compression, purification and filtration products based in Thailand. Second, Risoul, a major distributor of industrial and automation products and service solutions in Mexico, and this acquisition remains on track to complete by the end of this calendar year.

Both businesses expand our products and service solutions, offer geographically and are expected to exceed our Group cost of capital by the third year, and we welcome everyone from domnick hunter and Risoul to the RS Group.

So now, I will hand you back to David to update you on current trading.

Current Trading Update

David Egan

Acting CEO, RS Group

Current trading in line with our expectations

Thank you, Jane. Great job. Well done. Current trading, slide 19.

Trading over the first four weeks of the second half has been in line with our expectations. Despite the more difficult economic backdrop, our performance in the EMEA region is broadly in line with the second quarter. This is driven by our strong industrial offer, greater proportion of service solutions revenue, and an improving service levels.

The Americas continues to deliver strong revenue against tougher comparatives as we maintain our investment in our operational capabilities, after a period of exceptional growth.

Trading in Asia-Pacific continues to be affected by lower electronics market demand, reduced availability of single-board computing, and also a more challenging geopolitical backdrop in China. Despite the tougher global economic environment, trading remains in line with our and consensus expectations for the full year.

As previously guided, given our strong performance in the first half of this year, we expect there to be a greater first half weighting than what has been historically being delivered by RS Group.

We are delivering real market outperformance

We continue to deliver market outperformance. Slide 21 shows our outperformance versus global industrial production data, which is accelerated throughout COVID-19. This is driven by our breadth of offer, strength of availability and ease of ordering, which has increased the average order value within our Group, while our dynamic pricing tool is enabled improved pass-through of product cost inflation.

Our strategic scorecard is driving our outperformance

The Group is run according to a strategic scorecard, which we outlined on slide 22. Fundamentally, everything links back to our people, our purpose and our culture. We believe that we can operate more efficiently, a reminder the distribution is all about excellent execution and we want to be world-class with our growth accelerators unchanged.

Focusing on these areas is the reason for our outperformance as we demonstrated in the first half.

Change in culture and mindset underpins our outperformance

We have seen a change in culture and mindset. On slide 23, as it starts with being more strategically focused, having a stronger balance sheet, being more commercial and returns-focused, and prioritising investments.

We are more agile. We believe we are more dynamic. We have a Group strategy that is implemented regionally with end-to-end accountability. When we use our data to change prices, inventory and costs quicker to demonstrate that resilience, but agility. We have a

more customer-centric model, as we focus on delivering our growth drivers and becoming more integrated with our customers on an end-to-end journey, and becoming ultimately their first choice.

We can improve our operational efficiencies further

Today, I want to talk to you about how we are improving our operating efficiencies further, and this is on slide 24. I want to focus on three areas: our pricing model, our inventory management and having greater commerciality throughout our model to drive superior returns.

Running a dynamic pricing model

On slide 25, we operate a dynamic pricing model. First, let me start by saying that our customers' decisions are not primarily down to price in the first instance. We supply products that help our customers businesses continue to run. By having specialist products in-stock available, delivering to them quickly and providing them with end-to-end support along that journey.

On the most part, this is more important to them than price, when the transaction value is just under £250. In addition, we are becoming more integrated into our customers' business model with our products and services solutions revenue and providing that double revenue opportunity for us as a Group.

We have a dynamic pricing tool, which is fed data, including, but not limited to transactional information and digital search, price elasticity, foreign exchange, inventory turns, and we use the tool to calculate the best pricing and discounts available in the markets in which we operate for us to maximise margins and returns, but ultimately to demonstrate value to our customers.

Our teams all work together to maximise those margins, and you will have seen the gross margin improvement during the first half of the year, in part, down to the tools, the processes and the people, but the value that we deliver to our customers. Due to our digital catalogue, we have immediate dynamic pricing with over 70 million price changes being delivered in the last year alone.

Strong inventory management

Moving onto slide 26. We benefited from our strong inventory management delivering good availability where many other competitors have not. Key is ensuring disadvantage does not disappear when the demand supply balance changes. We have a very sophisticated model. We have great people with specialist experience and knowledge of supply chain.

Using our vast database to predict plan and analyse trends with deep rooted supplier relationships helping us develop and deliver a superior performance. What drops out is real time inside of our customer demand. We take learnings across the Group and we apply it locally, making many iterative changes.

We have made changes to our second half commitments on inventory. Investing mainly in high inventory turn products that we know will sell through faster. Key is working closely with our suppliers, being more restrained now, having a strong balance sheet, but equally using that balance sheet when life becomes a bit tougher. Enabling us to step in, when demand softens.

Increased commercial focus

We are becoming more commercial in the decisions and choices that we continue to make. For example, focusing on our more valuable customers as shown in slide 27. We are using our extensive customer transactional and search data much better, overlaying it with our industry knowledge and deep-rooted experience within our teams, and our strong customer and supplier relationships to focus on higher value, longer lasting valuable customers, resulting in, if you look at the top right-hand chart, our total customer numbers have declined 5% during the year, but there has been a focus on more valuable customers.

We have seen a decline in the B2C one-time customers and a particular emphasis on greater strength within our B2B customers. However, our average order value, as I have said before has grown to just below £250, which is a 23% improvement. We are focusing our sales and marketing efforts on our higher and highest spending customers, but not necessarily ignoring the smaller ones that we can then move up that curve over time.

These are our key and corporate customers, and we are promoting our digital self-serve lower spending standard customers, which come through at a lower cost to serve with increased customisation within our salespeople and our digital offer, including personalisation depending upon each customer's persona.

There is much more that we can do and we know that, and we are definitely on a journey here in terms of operational excellence, but it is very exciting and we look forward to continuing this momentum as we go forward.

Driving operational efficiencies

All of this means that we are continuing to improve our operational efficiencies as you will see on slide 28. We are doing through increased use of automation and data, enabling us to redeploy our labour into more value-added areas. Utilising our data, specialist experience and knowledge across the Group with the regions adopting it for their best purpose as they manage according to the local customer needs.

Our Group strategy is being deployed locally leading to, for example, reduced freight miles and costs, decreased CO2 emissions, and quicker responses to our customers. Our model is now more relevant, agile and returns focused than it has ever been before.

Our levers for accelerating growth

Our levers of growth, delivered on slide 29, remained unchanged through expanding our product choice by widening our breadth and depth, for example, in the Americas; developing our solutions offer for both products and services, for example, across the world; and improving our customer experience and services offer delighting our customers, doing it more consistently and delivering more value to them is the name of the game.

Our ESG approach delivers value to all our stakeholders

We truly believe that investing in our people and planet drives profit, and we continue to develop our 2030 ESG Action Plan for a better world and this is detailed on slide 30. This is to deliver value to all of our stakeholders, including our people, customers, suppliers, communities and our owners.

We are being recognised externally within the ESG rankings, including platinum status with EcoVadis, putting us in the top 1% of 100,000 businesses globally.

We have proven we are resilient and can outperform

Our business has changed. RS Group is a very different company from the Electrocomponents of old. We are less cyclical, significantly less exposure to electronics. We are easier to do business with, with greater digital and its solutions revenue. We are more agile in our pricing, cost base and operating model. We are more returns focused and we have built the foundations for a much stronger business. We have proven our ability to be resilient during Brexit, COVID, global supply chain shortages, keep going, the list is long, delivering strong growth, while still investing in our business. We have great people and a great team to be able to do that consistently as we go forward.

Our Journey to Greatness will deliver our growth ambitions

We outlined in our Journey to Greatness plan that we know we can deliver strong, more profitable growth through improving our culture, the customer experience, data usage, solving our customers' problems and executing exceptionally. We are mindful of a slowing economic backdrop but we remain confident in the strength of our people and our differentiated proposition, and delivering ongoing market share outperformance as we make progress on our Journey to Greatness.

With that, I would be delighted to invite questions in the first instance in the room. I will remind you that we do have a number of our leaders within the room. Where appropriate, and if I do not know the answer, I will certainly be handing it over to members of our senior leadership team here in the room.

Q&A

Sanjay Vidyarthi (Liberum): Just a question in terms of the operating leverage within the business. I can see that the gross margin up a 180 bps and the operating margin up a 140 bps. The investment that you have made in growth is more than offset the underlying operating leverage. How do you think about that? Obviously, the gross margin improvement and pricing is allowed you to make that investment and still grow the margin. However, those decisions in terms of longer-term investment clearly are not going to be just about which direction the gross margin is going. How should we think about that both for H2 and longer-term as to when you decide to pull the lever on more investment in the business?

David Egan: Sure. Thank you. We will continue to invest in the business. We recognise that there may be some economic headwinds in the short-term. We are certainly not looking to short-term the business. What I would say is, if the world does turn horrible, we know what we will do, but certainly, we would like to try and look through that in terms of the investments that we will continue to make.

As we have said in the past, our objective is to continue to improve the operating margin of our Group. Gross margin is an important element, but also cost to serve is also a very important element.

In order to do that, we need to ensure that we continue to invest in this business. Some of the areas that are really important to us is customer experience and service, digital, inventory management, delighting that customer, supplier relationships, data. We will continue to invest progressive. It is not going to be a massive step change for us, but we will continue to invest in the business progressively.

However, if we have to pull some levers, because of some short-term headwinds, we will do it, but we are not looking to short term the business materially.

David Brockton (Numis): Can I ask three questions, please? Firstly, revenues are clearly benefiting at present from a big price element. I am just wondering, if you could just touch on to what extent that can continue in the short-term as a sort of the base effect starting to annualise, and given your dynamic pricing, you still pushing on prices materially? That is the first question.

The second question just relates to the divisional margins. EMEA has gone from being the strongest relative to, I guess, below Group average, despite not underperforming. I just wonder, if you can touch on whether there is any specific investment that is going into the EMEA region? That is the second question.

The final question, just in relation to the acquisition pipeline. You note that it is strong. I just wondered, if you could touch on the types of opportunities you are pursuing and whether you are changing how you look at the deals in the perspective of changing market conditions?

David Egan: Thank you, David. I will let Jane talk about acquisitions. We will start there given she is in corporate development.

Jane Titchener: As we said in the presentation, we do have a strong pipeline of M&A opportunities and we are working really hard to bring those forward. We are maintaining our discipline. Clearly, in the environment, the bar may be goes up a little bit in terms of what we are looking for and what we want those opportunities to deliver for us. However, we are certainly not slowing down our efforts to identify good quality M&A opportunities for us to bring into the business. Actually, this is a good time for us to do that.

The market is inevitably unpredictable, changing, but there are still targets out there that come forward. Pricing expectation is probably still a little bit higher. We are still not seeing that come off perhaps as we would expect it to, which is I think flowing through into some of the transaction volumes that we are seeing. However, we are certainly very positive about the opportunity. The key message is we will retain our discipline in terms of pricing and the opportunities we are looking for.

David Egan: Just one little build. Our objective is to keep this team really busy through this process, because we want to be looking at lots of opportunities. Then it is a question of are they fit and right for us, strategically, financial returns and culturally and we will maintain that discipline.

In terms of the EMEA, I will make one comment and then I am going to hand over to Pete Malpas, who is the President of EMEA. I say the regional returns, we would say, are all very strong. I think for EMEA, we have always said the focus for EMEA has been on reducing the cost to serve. It is very pleasing that EMEA has a strong top line growth. It is across multiple markets, and that does create some complexity and a higher cost to serve. That is just one thing to bear in mind. I will now hand over to Pete, who will provide a specific response.

Pete Malpas: Thank you, David, and good morning, everybody. As David said, I am Pete Malpas, the President for the EMEA region. As I think the question mentioned, the growth performance, the top line performance for EMEA remains strong, and we are happy with that,

obviously. The margins are strong. You talk about particularly the operating margin dilution, let us say, at the moment.

As David said, it is a complex region. It is a complex organisation given the complexity of the markets. Overall, it is strong. What I would say, specifically around the dilution, we mentioned earlier the acquisitions of IESA and Synovos, now RS Integrated Supply, a great business, a great proposition that really resonates well with the markets across EMEA. We have made a lot of strategic investments at this moment in time to scale up the integrated supply model across EMEA, which we have not yet seen the benefits coming through. They are a little bit slower than we would have hoped. That is circumstantial, if you like, environmental and that is improving and accelerating.

Secondly, we have got the Bad Hersfeld expansion. Bad Hersfeld is going well. The service levels are now starting to improve and get back to the levels, but the investments we have made in Bad Hersfeld have yet to fully realise the efficiency benefits that we expect from them.

Then thirdly, David mentioned the service level. Service is critical for our people. We have made some really solid investments in technology that will ultimately help improve the customer service level and then reduce the cost to serve and drive further efficiency.

David Egan: Then the last question was on revenue and price. I think just a very simple answer here is that we will continue to focus on price. I will let Jerry answer it in a moment. However, we will continue to focus on the price and optimising the margin as much as we possibly can.

We have not necessarily seen any material change in terms of the cost of the products at this point in time. In some instances, there are still inflationary prices running through the cost prices of our products. I will just hand over to Jerry, who will provide a little bit more detail.

Jerry Abraham: Good morning, everyone. I am Jerry. I am the President of RSPRO and Margin Optimization. One of our biggest strengths is the breadth of our categories. Because we have breadth of categories across industrial and electronics, there are certain deflationary challenges we do see in semis and passives within the electronic categories, which is less than 10% of our overall revenue. When you look at the industrial side, which is less cyclical, we are not seeing that deflationary challenge. Secondly, we got a high proportion of our revenue through RSPRO, which also protects us from a margin perspective.

Finally, I think David already mentioned is that, we got a new pricing tool which enables us to do a lot more price changes. Therefore, we have a good understanding of the price elasticity of our product across categories as well as across regions as well.

Henry Carver (Peel Hunt): Just one for me around sort of competitive landscape, because obviously, a lot has changed in the business over the last few years. As you have described in the deals that you have done and you are taking share, I just wonder if you could give us a snapshot, a bit of an update of who you are taking share from, who you are up against now and just any thoughts on that would be really useful.

David Egan: Sure. Good morning, Henry. Look, we operate in many, many markets. Those markets are very, very fragmented and there is not really a real peer from a global perspective that we come up against. The vast majority of the competitors for us in the local

markets are local players. They can be larger. They can be regional or they can be very, very small one-stop shop type competitors. There is not any one single competitor that I could easily point to. I think for us, it is about our proposition to the customer, the breadth of our range, our digital capabilities, and we would say certainly our people demonstrates and really resonates with our customers, and that is what they are looking for and we can deliver them value.

Oscar Val Mas (JP Morgan): I have three questions. The first one is on Asia Pacific. Very strong margin in H1, but you have talked about that region struggling a bit more in the second half. How do you think about the margin there because that division clearly was unprofitable for a long time in the past?

Then the second question is on inventory. There has been a £50 million working capital outflow in the first half. Are we still putting inventory into the business in the second half into the new warehouses?

The third question on just freight costs. If we see sea freight and air freight coming down, do we expect to benefit in the future from that?

David Egan: Great. Again, I am going to get off quite lightly. I'm going to hand it over to Jane. She is going to talk about APAC first.

Jane Titchener: Yes. I mean, as we have said about APAC, it has been affected by the slowing down, particularly in the electronics market and also the reduced availability of single-board computing products that we have seen that come through definitely. We have definitely seen a softening, particularly in electronics in the region.

The impact of China. China is about 15% of the APAC region. It is just under 2% of Group sales. It is not significant from a Group point of view, but it is a big chunk of the region. We are seeing that the geopolitical situation in China becoming more uncertain. That is flowing through.

The focus in APAC is on profitability. The leadership team there are very focused on maintaining and growing the operating margin. Even in the environment where we see the top line start to soften, there is lots of opportunity for us to continue to grow and profitably particularly in industrial. There are a number of markets where our industrial base is still incredibly strong.

We have got a lot of market share to go after still within the region, and that is really where we are placing our focus, and we continue to invest. We are starting to grow out some of our operational capability, particularly across Southeast Asia and ANZ in order to allow us to take advantage of those opportunities as we go through into the second half and certainly into next year. That would be my comments on APAC.

David Egan: I think with APAC, I just want to little build. I think, look, whilst China is a little bit more challenging, whether it be the CHIPS Act or whether it be COVID lockdowns, I think the rest of the Asia Pacific region, Southeast Asia, Australia and New Zealand, they are very strong markets and good markets for us, and we will continue to drive growth and also profitability improvements there.

With regards to inventory, just one comment, then I will hand over to Christian. With regards to inventory, in terms of the working capital build, we have seen quite a lot of FX running

through our balance sheet in the first half. Approximately around £40 plus million on the inventory side and a similar £40 plus million on the receivable side, that is FX-related.

Specifically, on inventory in the second half, Christian?

Christian Horn: Yes. Thanks, David. So Christian Horn, Chief Product and Supply Chain Officer. If you deconstruct the inventory increase, to David's point, there is quite a significant FX element in there. There is also a significant volume element, probably accounts for half. The balance is really investing in depth and breadth in the Americas and in service in EMEA.

To answer your question, we are putting an inventory into the business all the time because that is part of our business. We will continue to put more products into Bad Hersfeld. At the same time, we believe we have a very robust capability to sense demand. As David said, we expect inventory turns to slightly improve over the second half.

When it comes to transport, now we do see freight and air freight rates coming down. We do not see them coming down to pre-COVID levels. Also, the majority of our freight expense is out on freight, which a lot of that is driven by fuel sale. We are going to see some blend of impact between reduced A&C freight inbound and some continued pressures on outbound; probably not a dramatic change from what we have seen previously.

David Egan: Just on the inventory for the full year, we would anticipate inventory year-on-year probably up around £40 million, £50 million for the year. I think we are going to be sensible with regards to inventory and make sure that it is going to be dynamic, depending upon demand patterns. At the end of the day, availability of inventory drives our model. We have got to make sure that we do not short-term the business for the sake of improving the balance sheet. We will look at it on a balanced basis looking at the return on capital employed, but also looking at what our customers need to ensure that we can serve both needs.

Tom Fraine (Shore Capital): I was hoping to get your thoughts on the potential risk of customers destocking, whether that might be gradual or quite sharp as supply chain issues alleviate and they get a bit more cautious about the macro environment. Yes, so any thoughts generally on that basis and the impact it would have on your sales would be much appreciated.

David Egan: I will just remind everyone that we tend to serve the indirect spend. We are not supplying into the direct manufacturing process. It tends to be more of a just-in-time purchase, and you can see that in the average order value being just around £250.

For us, stock of our products tends to be very limited. The potential risk around destocking is very low. I would not say zero, but it is certainly very low for us.

James Bayliss (Berenberg): I think in your half year report, you talked about churn being slightly elevated at about 12% for the last 12 months versus 10%, which is what you have seen in the past. Just wondered if you could give any further comments on how that breaks out by seniority. Then if there is any overarching reason as to where that additional churn is coming from. Is that pricing pressure or is that just kind of natural attrition?

David Egan: I will make a comment and then I will hand over to Jordan. I think, look, as we have called out in the past, we certainly have some hotspot areas in terms of people or a higher labour turnover. Some of those areas include distribution centres. One of those areas

was in Fort Worth. We also have the fight for talent in some of our technology-related digital technology resources.

Certainly, our focus has been on making sure that we give our people the best environment in which to excel and enjoy coming to work. At the end of the day, it is also a very competitive and hot market. There are certain things that we just cannot necessarily meet in terms of their expectations or whatever they have been offered in terms of an alternative with regards to salary and opportunity.

However, for us, it is more focused on purpose and culture, ensuring that we reward appropriately. Jordan, you may wish to add a bit more colour.

Jordan Barry: Sure. Good morning, everybody. I am Jordan Barry. I am the Chief People and Culture Officer. We have had some and some in different regions. As David pointed out, the biggest turnover and some of the spike that we are seeing is driven by some of our distribution centres and people, particularly in the US, walking up the road for an extra couple of dollars an hour. We are facing into that and looking at all the rewards, the total reward in those areas.

I think David is absolutely right. I think one of the things that we are absolutely focused on is the quality of leadership that we are providing, because we know and we can see in our engagement scores that material impact on how our engagement scores have risen. Then obviously, on the back of that, the idea being that performance improves in association with that.

I am not expecting a turnover in the current market to continue to increase. I would say that that would probably stabilise as you will see in most businesses, but that is where we are. Obviously, as David said, and all of us are very focused on our strap line of people and culture being our greatest differentiator, and that is something that we are very focused on as a business.

David Egan: Any more in the room? Can we go to the phone lines? Do we have any questions online?

Speaker: Jerry, on the pricing contribution to revenue, are you able to give a rough split between how much of this is general inflation in the market and how much can be attributed to your new pricing initiatives and tools which are extracting higher pricing?

Jerry Abraham: When we do pricing, we look at the price elasticity of product depending on different regions. Inflationary impacts varies from region to region. I cannot give an overarching position because we have a huge mix of products. At the same time, we have a very large diversity in terms of the regions we cater to.

One thing that we have seen is that inflationary impact is across majority of the categories. We tend to see somewhere in the region of 6-7% depending on the region we are in. Europe seems to be higher impacted on inflation compared to the likes of Asia, which is a bit lower as well.

Speaker: A follow-up on it was how much of your pricing tools or how expansive across the entire business line?

Jerry Abraham: Our pricing capability tool is for all regions. Now Pricefx is the tool that we use. We use across Asia as well as across EMEA. In the Americas, we are building the same tool. In the next 18 months, we are hoping to have the capability across all regions.

But the main thing is that the approach we take in terms of pricing is the same even though the tools are not available in the Americas. It is very much around how do we make sure that we look at customer data, how do we look at external data, at the same time, look at macroeconomic terms to make the decision and what is the right price for our customers. That is the approach we take.

David Egan: I do not believe there are any more questions. I would just like to conclude. Firstly, thank you, Jane, and thank you for everyone attending either in the room or on the phone. We look forward to updating you further in terms of the progress that we believe that we as a Group are going to continue to make. Thank you, and good morning.

[END OF TRANSCRIPT]