Full-year results 2023

Tuesday, 23rd May 2023

Introduction

Simon Pryce

Chief Executive, RS Group

Welcome

Safety Directions

Right. Good morning, everybody. Thanks very much for attending this morning, and thank you all for your interest in the RS Group. Welcome to our full year results presentation for the year ended 31st of March 2023. Just before we get into the meat of the presentation, a bit of health and safety stuff. There are no planned fire alarms this morning, for those of you attending physically. If an alarm does go off, you'll be directed out of the building by fire marshals. To find the fire marshals, take any of the exits marked with the green arrow. Two stairwells in the main lift lobby area. Please walk to the ground floor, exit the building into Wood Street, and then meet in Aldermanbury Square. And make yourself known to a Numis, or to an RS contact person, and they will advise you when it's okay to get back into the building.

Participants

So I'm Simon Pryce, the recently appointed CEO of RS Group. And I'm joined by Jane Titchener, who was appointed our interim CFO a couple of weeks ago. I don't know what she's been doing for the last couple of weeks. But anyway, welcome Jane. I've been an NED at RS for six years prior to taking up the CEO role. But, perhaps more importantly, Jane has been at RS for over 15 years in various roles, heading our tax, developing strategic planning, M&A, and most latterly was CFO of our Asia-Pacific regions. So she is very well informed on what's really going on in the RS Group. We're also joined in the room by a number of our RS senior leadership, including Lucy and Sophie, who you will know from IR. But we've also got... And I'll ask them to just stand up so you put a face to a name. Doug Moody, who leads Americas. Pete Malpas who leads Europe. Christian Horn, who leads product and supply management. And Jerry... Where's Jerry? Abraham, who leads our RS PRO and pricing. And various other of our colleagues are in the room.

We think the presentation will, at least at run through, takes about 40 minutes. And so that should leave you plenty of time for questions, but we'll try and get you away by 10, 10:15, if that works for everybody.

2023

So 2023, I think, was another strong performance for RS. We saw, as the slide shows, good growth in revenue, up 17% and 10% on a like for like basis, after adjusting for currency, trading days, and our two completed acquisitions. We saw strong conversion with operating profit, PBT and EPS all growing by mid-teens, like for like. And solid cash generation, even after the continuing investment in strategic development and operational excellence, as well as a couple of one-offs that Jane will talk about in a minute.

The board is proposing a 16% increase in the full year dividend. And returns on capital employed showed further improvement. And that's even after a significant level of investment. And even after that, we still have plenty of balance sheet capacity to accelerate strategic realisation, should opportunities present themselves. And, as the chart at the bottom of the slide demonstrates, we continue to grow at well over double the rate of global industrial production. And whilst we did see a good growth still in the second half, we did experience a slowing in the rate of industrial production, as well as an easing of some supply chain constraints in electronics which created a much more competitive electronics market. And we also saw the anticipated impact of our strategic decision to exit Raspberry Pi, in our OKdo business, whilst we develop a different product range, much more suited to our RS customer group. And one that we could actually make money out of, which did reduce revenue in the second half by about 3%.

So, hopefully, I think you'll agree with me that, actually, it was a very strong 2023 for RS, even given the slightly increased headwinds in the second half.

But not only was it a good '23 as it relates to financial performance, but it was also, more importantly, one of good operational and strategic progress. We've rebranded all of our B2B businesses to the RS name. We've continued to make major operational and strategic investments to drive long-term and sustainable value creation in this group. Our programs to enhance our product content, and content capacity, and management, and the acceleration of new product introduction are all well advanced. We continue to upgrade our data technology and digital platforms. Our investments in freight and distribution optimization are already beginning to yield good cost benefit. And, also, to reduce our carbon footprint. And we're using much more detailed user analytics to continue to enhance our digital customer experience. And, finally, we continue to develop and test much more innovative service solutions for customers that are scalable across the group.

We introduced our Better World range, providing customers with greener and more sustainable alternatives to support them in their carbon neutral journeys. And, of course, we completed £234 million of acquisitions with Domnick Hunter and Risoul in Mexico closing during the year. And, of course, after the year-end, we reached agreement to acquire Distrelec for just over £320 million. So, to me, all of this demonstrates that '23 was a really good all-round year for RS and our stakeholders. But it was only delivered because of the extraordinary efforts of our great people, who've done lots of good stuff in this business over the last few years and have created a great platform for us to kick on from. But there's still so much more to go after, and so much more to do in this business, of which a little bit more later. But now, I'm going to hand over to Jane. And she'll take you through the detailed financials and how we've started '24. Thanks, Jane.

Financials

Jane Tichener

Interim CFO, RS Group

Presentation

Slide 7 strong profitability

So on slide seven we summarise our strong profitability, returns, cash, and shareholder value creation over the last year. We delivered a 13.5% adjusted operating profit margin, which reflects nearly 30% adjusted operating profit conversion. And we generated over £260 million of adjusted free cash flow, and over 30% return on capital employed. And the board has proposed a final dividend of 13.7 pence per share, which gives a full year increase of 16% and COVET of three times.

Slide 8 income statement

So if we move on to our income statement on slide eight, which shows that our total revenue, including acquisitions, increased by 17% to £2.98 billion. And our adjusted PBT grew 25% to £391 million. During the year, we've been able to take advantage of our strong product availability, during a time of supply constraints. And our gross margin has benefited from some pricing inflation. Please do note our guidance slide in the appendix, which guides to a 26% tax rate in the current year because of the increased UK corporate tax income rate.

Slide 9 revenue detail

So moving on to looking at revenue in more detail on slide nine. Total revenue growth was 17%, 10% like for like growth. And this was largely driven by price inflation, a 2% contribution from acquisitions, and 5% from currency. As Simon has already said, growth slowed with first half like for like of 16%, but only 4% in the second half. Full year like for like growth would've been two percentage points higher, at 12%, if we exclude the impact of our single-board computing business offer OKdo. And there was a big disparity between our industrial performance of plus 16% and electronics which grew by 1%.

Slide 10 drivers of improvement

So onto slide 10, where we detail the drivers of the one percentage point improvement in our adjusted operating profit margin, which increased to 13.5%. Firstly, we had the benefit of our revenue growth. Our gross margin grew by 1.1 percentage points, 1.8 percentage point like for like. And this was driven by the benefit of sale price inflation, inventory returns of 2.6 times, and our margin optimisation work. There was a diluting impact on our gross margin from currency, and from our acquisitions. And the latter will partly unwind as we integrate and align these businesses with ours. Total operating costs grew by 18%, with adjusted operating costs growing 13% on a like for like basis. Underlying cost inflation was mid single digit. But we also had strategic investment, over and above our business as usual, of around £20 million, £7 million more than the prior year. And there were also two ad hoc payments, totalling £10 million, made to our employees, which helped reduce our employee turnover rates to under 10%.

Slide 11 Regions

So if we now move on to look at the regions, we'll start with EMEA on slide 11. Like for like revenue grew 12%, and operating profit margin was 15.6%. Our performance in EMEA continues to benefit from the investment we've made into our growth accelerators, product expansion, value added solutions, and digital and customer experience. We've been focusing on our larger industrial customers, improving their customer journey, with digital revenue up 16%. We're providing more service solutions, that grew at 21%. And we're improving our specialist range offer, including our main own brand, RS Pro, which is up 21% and driving growth in our share of customer wallets. Our operating profit margin is benefiting from price inflation, margin optimisation, and operational efficiencies, despite ongoing operational investments. We believe the flywheel effect we've talked about before is the most mature in our EMEA region.

Slide 12 Americas

So, now, onto the Americas, on slide 12. We saw 11% like for like growth, and a 1.9 percentage point improvement in the adjusted operating profit margin to 15.7%. Our trading performance has been driven by our extra capacity after our DC expansion, and strong product availability, which has allowed us to take advantage of market opportunities. In the first half, we benefited from customers stocking up to avoid production disruptions and increased demand from more transitory customers and resellers who were seeking product. In addition, we integrated our sales and marketing teams and plans and we had stronger sell through of our solutions offer, which increased to 34%. We've improved our proposition in RS integrated supply in the Americas. However, in Q4, we saw a slower market, some industry destocking, mainly within our OEM and manufacturer customers, loss of some of those more opportunistic low value customers, who are now reverting back to their former channels, and some disruption to our digital organic search, due to our rebranding.

We're continuing to invest in our model to move from being a product distributor, with a narrow customer focus in the rest of the group, to a more broad based, product and solutions provider across the MRO market. During the year, we improved our operating profit margin through pressing through price inflation and sales leverage. And we're really pleased that our acquisition in Mexico, Risoul, is operating slightly better than expected, and more on that later.

Slide 13 APAC

And onto slide 13 then, Asia-Pacific. Revenue here failed 2% like for like, mainly due to the nearly 70% decline in single-board computing products sold through OKdo. Excluding OKdo, like for like growth was 5%, with strong growth in our industrial products of 13% like for like. Additionally, there were the headwinds from a soft electronics market, which is over a third of revenue, against strong comparatives, COVID lockdowns, and the geopolitical backdrop and weakness in China. The region's been focusing on larger, more profitable customers, expanding the industrial product range, with RS Pro growing 5% like for like. And we're developing a service-solutions offer, which grew by 37% like for like, aided by the acquisition of Domnick Hunter. Operating profit margins here grew 2.9 percentage points to 14.3%, driven by price inflation and much greater cross control, including reorganising freight and supply routes.

Slide 14 Cash performance

So let's move on to our cash performance, and our balance sheet strength, which is on slide 14. We remain very cash-generative, and we delivered £264 million of adjusted free cash flow, over 90% adjusted operating cashflow conversion. And that includes an additional £44 million of inventory investment, reflecting our strong availability, and the build out of product in our extended DCs. Our balance sheet remains very strong. We spent £234 million acquiring Risoul and Domnick Hunter during the year. And last month, we agreed to a acquire Distrelec for £323 million. Post Distrelec, our proforma net debt to adjusted EBITDA will still be under one times. We had committed debt facilities of £560 million at the 31st of March, which included a £400 million sustainability link loan. And post the year-end, an additional EUR150 million loan has been arranged for the acquisition of Distrelec.

We have accelerated our growth through the acquisitions of Domnick Hunter in Thailand, and Risoul in Mexico. They both expanded our product and service solutions offer, and geographic coverage. And we're really pleased with early progress in pursuing revenue synergies, and their trading performance. Since the year-end, we also agreed to acquire Distrelec, which operates in a very similar model to RS. And significantly expands our continental European presence, particularly in Germany, Switzerland, and Sweden. And we hope to complete that transaction by the end of July. Including Distrelec, we'll have spent over £550 million on acquisitions in the last 12 months or so.

Slide 16 Outperforming

So onto slide 16. We continue to outperform the industrial market, especially in EMEA, illustrating the strength of our more developed proposition. Trading over the last seven weeks reflects a slowing in industrial growth, indicated by PMI data, and continued weakness and aggressive competition and electronics. Despite this more uncertain economic environment, and the strong comparative period in the last year, we remain comfortable with current consensus profit expectations for 2024. Although, we do expect performance to be more weighted towards the second half. I'll hand back over to Simon.

Introduction

Simon Pryce

Chief Executive, RS Group

Business model

Thanks, Jane. As you can see, she's been in the business a long time. So I suppose one of the advantages, or possibly disadvantages, of being a customer of RS for over 25 years, and a non-executive director for six, as you become a chief executive, you enter the business with enough knowledge to be dangerous about the strategy, the senior leadership, and the people. Now, pleasingly, what I've found is what I thought I knew. And what I've found is very closely aligned with why I took the job in the first place. There have been few surprises here. And I'm extremely excited by the role that I've been fortunate enough to step into.

Solid business model

As this slide shows, we've got a solid business model that we're evolving. And we've got great people who, as you can see from the pictures of the tall individual on the bottom of the slide, I've been out and about meeting, and actually losing at table football, in one instance, but we'll sort that out, Pete, next time, won't we? We're very well positioned in fragmented and through cycle growth markets. We have a pretty clear strategy, where ESG is core. And the breadth of the opportunity that our strategy is targeting is exciting. And we have been, and continue, to invest in the long-term and sustainable future of RS, which is all focused on significant value creation for all RS stakeholders.

Business model detail

Taking each of these points in turn in a bit more detail. I really like our solid business model and, more importantly, where we are taking it. We are transitioning from a good, albeit traditional, digitally enabled distributor to an omnichanneled high service products and solutions provider to industrial and MRO customers. We're increasingly purpose led, and digitally sophisticated, and data rich. We are orientating ourselves, more and more, to our customers, to understand their pain points. And how we can best help them solve those pain points, whilst continuing to support our suppliers' strategic needs. And as a result, we're increasingly differentiated by our product and value added service offering. And, importantly, we've got a proven track record of delivery and outperformance. But what I like best about our business, what I like best about what I've seen in RS, is the passion, and the energy, and the commitment of our great people.

We're really well placed in growth markets. I think the first two charts on this slide were shared with you at our investor event in March 2022. And they're a bit of an eye chart. They're in your presentation. What they're really telling you is that we serve a number of different industries, with a broad range of products, across a number of specialist categories. All of which show decent through cycle growth over the next five years.

We do need to improve our customer understanding and our customer segmentation and targeting, as we build strategic as well as transactional relationships with them. But whatever work we do need to do around segmentation, our share of the products, and the customers we serve with them is relatively small. What the chart on the right-hand side of the slide is trying to show is just what the potential opportunity is here. And the bar charts are percentage shares in the country markets in which we operate. And the bar on the left is our market share in the UK where our strategic positioning and our solution set is probably most developed. If you take that market share, which is just around about 4%, and you apply it to all the other local markets in which we operate around the world, there's a £15 billion opportunity for RS, going forward, even before those markets grow.

And, of course, whilst any of these markets are different, and there are different levels of maturity, and there are different product mixes, and all that sort of stuff, I think this is very much an indication of the potential here. And, importantly, our spread of product, customers, and geographies means that we have excellent geographical and sector diversification.

And we're pursuing clear strategy to realise the exciting opportunities that our evolving business model, and the attractive markets that we operate in, has created, which we've tried to summarize on this page. And whilst it's a complicated diagram at the highest level, our strategy is pretty simple. I'd like you to follow the quadrants around the outside of the balls and wheels. Firstly, we want to build and increase scale. Because there's a minimum amount of physical and digital infrastructure needed to deliver the products and services to our customers that they demand. The more volume you put through this infrastructure, the more profitable you become, the better returns you can generate, and the more effective you can be in supporting that customer. This means gaining critical mass, growing customer numbers, and growing share of wallet in the markets that we target in which we play.

Moving on to the next quadrant. To do this, we need excellent user experience that digitally increasingly mirrors their B2C experience, as customers evolve the way they transact, which, coincidentally, gets us closer to them, and generates more data to allow us to improve our insights and our decision making.

Into the next quadrant, that means we will continue to move away from a purely transactional relationship with many of our customers to a much more strategic one. Better understanding the issues that they face, and using our data, our technical knowledge, and our capabilities, to provide more of the products they need, when they need it. And to develop solutions that they're prepared to pay for, that address a number of their ongoing pain points, and create product pull through for us.

And then, in the last quadrant, of course, we need to do this and deliver a world-class and seamless customer and supplier experience. And we need to continue to improve our underlying processes, and our digital and physical infrastructure, to ensure that we deliver operational excellence. It's a relatively simple summary of what we're trying to do, but it is absolutely focused on driving great value for creation for all of our stakeholders. But, of course, the devil on executing this strategy is in the detail.

And ESG is core to how we operate, and to being first choice for all of our stakeholders. And I hope the quote on the top right-hand side of this slide, from Siemens, shows we really take ESG seriously here. We have targets and actions to deliver them. And we're making really good progress against our long-term ESG goals. But almost more importantly, not only is ESG core to what we do, but we're using our knowledge and our expertise to support our customers and suppliers in their own ESG journeys. For example, the Better World products that I referred to earlier, we've already introduced 20,000 into the UK and Ireland to provide customers with greener choices. And we're aiming to extend this to over 100,000 by the end of 2025 and to make those products available globally.

Although small for now, we are developing and deploying sustainability solutions, using our technical product knowledge and data, to help customers improve the operational efficiency, and reduce the energy demands and carbon emissions in their facilities and in their supply chains. And, finally, we're focusing on product and service solutions that are supporting new and emerging industries that are developing in response to the global low carbon agenda, like offshore wind. So ESG isn't just core to how we do business. It's a very real business opportunity for us that we are already beginning to take advantage of.

So much of the work that's been done over the last few years is to identify RS's potential to create ambition and to build a strategy to realise it. But as I said earlier, of course, the devil is in the detail. And, pleasingly, we've also done a lot of work to identify what actions we need to undertake to deliver our strategic goals. And we have real breadth and quantified scale of opportunity to pursue, with over 800 ideas and 130 projects in development that fall broadly into the three buckets in the pyramid on the left. We have our growth accelerators, some of which we've talked about already today. Projects that drive more rapid top line growth, like increased traffic, improved conversion, reduced churn, more value-added services, our Better World product portfolio, improving our delivery to promise.

We also have a chunk of projects that are very much focused on improving our operating leverage, such as dynamic pricing, supplier partnering, supply chain optimization, and enhanced digital user experience. And then, of course, we also have a number of projects that are fixing and improving some of the basics that all great global businesses have, such as clear empowerment, accountability, and visibility, more consistent ways of working, more process focus and improvement, more transactional standardisation, and automation. And, of course, world-class, and agile tech and applications infrastructure.

We've started a lot of this work, but there is so much more we can do. We need to improve our focus on the things that matter. We need to be better aligned across the organization, behind those things that matter so that we can identify and address resource strengths, constraints, and interdependencies, quickly and rapidly. We need to get better at prioritization, recognising that whilst we have great people, there is only so much capacity for change that an organisation can have. And, finally, and most importantly, we need to improve our execution focus. We do all this, and we can really accelerate value creation in this business.

So as I hope you can hear in my voice and in my body language, there's an awful lot here to be excited about. And I'll be talking to you more, in detail, about some of these initiatives, and the progress we're making on them, as part of our ongoing communications with the financial markets in the months and years to come.

We are investing in RS for an exciting future, and it feels like we have the right sort of investment priorities. And, again, I think you saw this slide at our investor day in March 2022. But we are absolutely, first and foremost, focused on driving organic improvement and organic growth. That means investing in improving our execution and processes, driving greater operating efficiencies, levering our operations through geographical expansion, and increased scale in industrial and MRO markets, improved digitalisation, and customer experience, expanding relevant product and service solutions, and driving operational excellence. But we'll also look at inorganic investment but if, and only if, it accelerates our strategic ambition. And meets our strict financial and cultural criteria.

As Jane has said, we have significant investment capacity. Proforma net debt to EBITDA is still less than one, even after the £550 million of acquisitions that we've either completed or announced over the last year. And as I think we've shared in the past, the cash flow dynamics in RS means we're more than happy to let leverage creep up to two times for the right sort of investment.

And, finally, of course, providing shareholder returns with our progressive dividend policy. And you saw Jane refer to the 16% increase the board is recommending for 2023. And from what I've seen in my time here, I don't see any need to change our clear approach to capital allocation.

So stepping back and trying to pull this all together, even after only about six weeks in this business, but actually six years in this business, I know RS is making real progress. We have a solid business that we're transitioning, and we have really great people. We're well positioned in attractive, through cycle growth markets. We're executing a pretty clear strategy that has ESG at its core. We have great ambition, clear plans, loads of opportunity, and significant investment capacity. And we enter 2023/24 in a really good place. Trading over the first seven weeks has been slightly softer than we expected, but we anticipated a slowing in industrial growth, a continued difficult electronics market, for the first couple of quarters at least. And, therefore, even without the benefits of a couple of the tailwinds that Jane referred to in her session, the Raspberry Pi headwind, particularly in H1, and a strong comparator period for last year, we're pretty comfortable with current consensus profit expectations, albeit, that our performance will be more weighted to the second half this year than it was last year.

So against that background, and from what I've seen so far, with greater focus, better alignment, more prioritisation, and by driving execution excellence, the breadth and scale of opportunities here more than support the medium-term and through cycle targets that were shared at our investor day in March '22. Which I've put on the right-hand side of this slide.

RS has a really clear and exciting future. It's a great time to be here, for me, personally, I think for the RS team, and also for all the RS stakeholders.

With that, I'm now going to open the floor for questions. We've got Kevin and Sophie, who'll be wandering around with mikes. If you could raise your hand to ask a question, if you could state your name, the institution that you represent, and then ask your question, we'll do all we can to answer it. But I'm going to sit down to do it if that's okay.

Q&A

David Brockton (Numis): Oh, good morning. It's David Brockton at Numis. May I ask three, please?

Simon Pryce: Go for it, David.

David Brockton: Two on the short-term, and then one on strategy. Firstly, can you just touch on pricing, and what you're seeing from an industry perspective, and how you're responding to that?

Secondly, in the Americas, you flagged that you saw customers overstocking through the first half. And, clearly, you've flagged the weakening trends through the final quarter. Can you just touch on... Do you have any indication or visibility as to how much more de-stocking there could be to come from that customer base?

And then, the final question, which is more strategic, you touched on quite a lot of levers for accelerating growth, but also the requirement to be better at prioritising. If there was one particular lever that you could draw out that you would see as having the biggest return for the business with, I guess, the least cost or risk, it'd be great to hear. Thanks.

Simon Pryce: Thanks, David. Three really good questions. Pricing, I'll take headline, then I'll pass it over to Jerry, who'll pick that up. I think pricing, look, we're still seeing price inflation. I think, clearly, we're selling inventory that is six months old. So there is a declining tailwind that might have been referred to in Jane's session. But electronics, in particular, remains highly competitive. A number of the supply chain constraints that existed through the tail end of 2022, and the first quarter of 2023, are going away. And that's certainly creating a more competitive electronics environment. But, Jerry, I don't know if there's anything you want to add about what you're seeing in pricing?

Jerry Abraham: Yeah, so one of the advantages we do have as a business is the breadth of our categories. So in the electronics side, we are seeing a lot more deflationary pressures, and especially in semis and passives. Whereas, industrial, we are seeing less of that deflationary pressure. One of the things we do have, as capabilities that we build, in terms of pricing for the last six plus years, is that we are able to identify changes a lot quicker. And make changes on our systems from optimising a price in line with competitor changes, or making prices in line with what the customer expects from us. Now, these capabilities vary from region to region. In the Americas, we are still building the capability. We are hoping to see some of that alive in the Americas this financial year.

Simon Pryce: Thanks, Jerry. I think we're definitely seeing a different market dynamic in industrial than we are in electronics. Electronics is highly competitive. We don't see that same competitive environment, nor, I think, do we really see the same stock build that's gone on in the industrials and MRO space, as there has been in electronics. And then that leads on to the destocking and the unwinding. I guess that's a challenging one because it's quite difficult to quantify how much stock buildup has been going on in the Americas, particularly. But I'll ask Doug to comment on that in a minute. But we're certainly expecting that, specifically in the electronics space, it's going to be a relatively competitive year. Don't forget, we are not attempting to compete with the global commodity electronics producers. We absolutely are an electronics supplier. But supplying those components and products, mainly off-board that our key customers want and demand, and we won't chase pricing down. But, Doug, is there anything you want to say about destocking and how you're feeling in the US?

Doug Moody: Yeah, just to reference last year in why it was such a powerful year for us. First, we have a strong field force out that can talk to our, and helped, our customers and some new customers, find alternatives when they couldn't get stock. But we also served the MRO market very strongly. But we also served some OEMs that were very concerned about their security of supply. And they did overstock because the lead times got very long on several products. As we see that unwind a little bit with the supply chain, they have inventory that they burned off some of it, frankly. We don't know exactly how much. And then there's some getting into the supply chain now too. But, generally, they bought to assure that supply, both for their maintenance and for their production. And it's slowly unwinding. But we do have... Now, the supply chain's loosening up, and the lead times are shortening. And so they're naturally saying, "I don't need to buy as much."

Simon Pryce: Thanks, Doug. And then, your last question, David, levers, there is a huge amount of opportunity in RS. The one thing that I think will improve and accelerate our realization of those opportunities if we get better at executing. So I think there is so much going on in the group. And it's really why I alluded to we need to focus on the things that matter, and then execute them brilliantly. Just improving that execution will make a huge difference in RS. It's not that we aren't executing, we could just execute better. Thanks, David. Yeah?

James Rose (Barclays): Hi, it's James Rose from Barclays.

Simon Pryce: Hi, James.

James Rose: I've got two, please. The first is on the profit bridge. Could you talk us through the various moving parts of how they get from 402 this year to the 390 of consensus you referenced? I know we've got M&A to factor in, FX has a slight drag. Gross margin being a, perhaps, one-off in there, and then, assuming some organic decline as well. If you could go through those moving parts, that would be helpful. And then, secondly, in the Americas, could you talk about how you positioned that business to be a more industrial MRO focused one, from Allied Electronics as it once was, without causing more confusion or disruption to your customers?

Simon Pryce: Jane?

Jane Titchener: Yeah.

Simon Pryce: Fancy having a go at the profit bridge?

Jane Titchener: Yeah, I think you called out the component part. So we did have some strong in the prior year, so there's some upside from pricing. And, particularly, in that electronics conditions that we've just talked about. And that's representing both our revenue and our margin. So we would've been able to move more inventory that we perhaps have bought previously, during the last year, when supply chains were constrained. So you definitely see some positive impact in the prior year from that. And, also, we've got some one-off costs, which we've called out in the prior year. And then, moving forward into the current year, we had a very strong half one last year. Clearly, conditions are different now, so we'd expect to see half one much more difficult than half two, as we've alluded to. We've clearly got our acquisitions, which are going to give us some PBT and profit benefits. So you've called out all the component parts. I think the numbers were on the slide.

Simon Pryce: Yeah. I think what what's definitely true, James, is that in '23, we did take the opportunity to benefit from positive markets created by supply constraints in the first half. I think that's very much a tailwind, when you think that with an average inventory turn of 2.6, 2.7 times, and underlying price inflation running at 10% or 11%, there is a chunk of additional profit that you generate. And that's certainly a good chunk of the bridge. And then, we're offsetting that with a chunk of inorganic contribution next year. So I think, broadly, if you think about it, it feels like a flat to mildly up revenue and a normalised flat profit. That's how it feels.

Americas, just remind me what the question... Oh, how do we transition it. Yeah, look, and Americas is a macrocosm of a lot of our individual country markets. We have quite a spread of different customer types. And, therefore, the products and services that we provide them with is quite widely spread. In all of those country markets, of which we include America, we are migrating from that existing customer base, whatever it looks like, to becoming an increasingly gross strategic supplier to those and broader customers. How are we doing that? We're getting closer to them. We are providing them with value added services that they need, and that provide product pull through from our broader and broadening product range. Doesn't happen overnight, but it is the journey that our strategy has us on, and that we'll continue to execute effectively. Does that help?

I think a little bit has been made of the rebranding. I think part of the rebranding in the Americas is to exactly demonstrate and flag that strategic direction of travel. It doesn't mean that we're not going to be a big ANC supplier in North America for as long as I'm here and well beyond. It does mean that we're expanding what we do for those ANC customers. And introducing more and more different customer types that we can provide service and product solutions to. Thank you. Yeah?

Anwesha Grewal (Morgan Stanley): Good morning. This is Anwesha Grewal from Morgan Stanley. Two questions. First, in the statement you flagged somewhere that there is an increase in provision this year. And some of that is tied down to electronics business. And then you mentioned in your comments that the pricing is quite aggressive and you're not playing the volume game. My question is, why won't you do that in this market? Because pricing is what it is. And instead of taking up the provision, why just don't chase the volume here?

And the second question is, just maintenance, what are you assuming for the strategic investment and employment incentives for FY24?

Simon Pryce: So Jane'll ask the specifics of provision, but please don't misunderstand us. We're all about long-term value creation. And if market prices move, we'll move our prices on those products we believe we need to move our prices on. But the increase in provision, Jane?

Jane Titchener: Yeah, so with inventory provision... Yeah, so predominantly around electronics, and because we've talked about OKdo, so there is some increase in our provisioning position in the year. We did have, in the prior year also, an opposite with us being able to sell inventory that we'd previously provided, given the supplier constraints. You've got a bit of a... Not quite an offset from that situation, which indicates some of that increase. But it's predominantly electronics and OKdo which is just driving that additional... It's just about the aging profile of our stock and the minimal amount of quantities from an inventory investment point of view.

Simon Pryce: It's generally maths, Jane.

Jane Titchener: It's maths, yeah.

Simon Pryce: We have an inventory provisioning policy that's driven by the size of the inventory and the age of that inventory. We obviously make interventions where we do, but actually if you see our inventory go up, you'll see our inventory provisioning go up. Doesn't mean we don't think that stock's good or sellable, it's just the way the maths work. And then, just on continuing strategic investments in 2024, I think we called out £20 million or something of strategic operating profit in... Or strategic operating costs that we've put into the business in '23. I think you should anticipate that continuing in 2024. And then Jane has given guidance on capital investment and all that sort of stuff. So I don't think you'll see any big change in that level of ongoing operating cost investment in improving the business and pulling those growth levers. Thank you. Yeah?

Keyan Mardon (Jefferies): Thanks, morning all. It's Keyan Mardon from Jefferies. Sorry to come back on the inventory point. So there's a £33 million write-down that you mention in the notes. Is that included in the 90 basis points, gross margin tailwinds that you flagged for the fiscal '23 year? So, effectively, there's a net effect of 90, but it includes a headwind from the £33 million write-down. And if it's all electronics, and electronics is about a quarter of your business, and therefore presumably about a quarter of cost of sales, would that imply that you've written down something in the region of 7-8% of the inventory that you've got in your electronics business?

And then a couple of other quick questions on RS Pro. Forgive me, the data in the notes is slightly different to how you've presented it on slide seven. But it would appear that the US RS Pro revenue hasn't really increased substantially over the last six to 12 months. But we can see that you're putting a lot of investment into the SKU count in that business. Just wondering how to reconcile those. And then, finally, I guess the external perception of RS at the moment is that there's quite a lot of change. Internally, how would you assess operational execution over the last six months? Do you perceive any disruption in the US or in Europe? Thank you.

Simon Pryce: So I'm going to do the terrible thing of a chief executive trying to pretend to be an accountant for two seconds. Then, I'm going to let Jane educate you properly. But just a couple of things on that inventory provision. It's not a write-off, it's a provision. So, importantly, you need to understand that, even though it's provisioned, and as Jane alluded to, in '23, we actually will sell stuff that has been provisioned, and realise super profits on that. And a little bit of that is what was going on in '23. Have I just misled everybody, Jane?

Jane Titchener: No, that's exactly what I was going to say so we're totally aligned, yeah.

Simon Pryce: And there is some other stuff in there, where... So we do have an inventory provisioning policy that is just maths, based on aging and the amount of inventory we carry. We then will make interventions on specific lines if we think there's no chance of realising them, or there's a much lower chance of realizing them. The one thing not to forget is that we had Pi and OKdo, and quite high levels of stock of that, going into 2023. And, of course, we'll need to provision a good chunk of that because we're effectively out of Pi now because we're moving... Pi is not something we particularly made very much money on. Also, Pi appeals to a slightly different customer base to the sort of customers that are key and strategic for us, going forward.

We are migrating that product range that OKdo markets through RS to something that is much more B2B focused. But it takes time to build that product range up, and to develop and sell that into the market. I think you heard us say it was a 2% headwind in '23. It was a 3% headwind in the second half of '23. It will continue to be a headwind in the first half of '24. And then we will build that OKdo growth up behind it. Gross margin, the provision, and the gross margin impact, where does the provision sit in the P&L?

Jane Titchener: So yes is the answer to your question. It's included in the number we gave you.

Simon Pryce: RS Pro in the US, yeah, sales of RS Pro in the US remain low, compared to the rest of the RS Group. Partly, it's driven by the product range we carry, and partly it's driven by the nature of our US customers. But I think, Jerry or Doug, do either of you want to pick on that? Because it is something that we are addressing and dealing with this year.

Doug Moody: Yeah, I can cover it. So the RS Pro growth, despite starting from a low thing, has grown about 30% this year. But that's really driven by, and we see that increasing, based on focus, where we've added another person to my staff focused strictly on that. And just the rebrand makes a big difference too, as we're now RS, and RS Pro fits much better with that. As well as, we've had an expansion of our products of about 25%, many of those RS, over the last year. So those were from our DC investments, and expanding so that we can serve the MRO market with RS Pro and some other products.

Simon Pryce: Thanks, Doug. So there's a definite focused effort now on producing, and introducing, a range, and stocking a range, that's much more suited to our North American customers than historically we've done. Then, lastly, the changed perception externally. Look, I'd actually... Yes, there's been senior leadership change, but the people who really drive RS, and deliver the RS performance, are the people within it. I don't think they see much change. They have got a very focused set of operational and strategic actions they're undertaking. And they continue to do a really good job of driving our business forward. And though there may be some external perceptions of the level of change, I think, frankly, internally, they're all focused at continuing on the RS journey that was set a couple of years ago. So you'll have to ask the guys here. But it feels to me like we're continuing to do what RS has always done, and we're doing it because of our great people, not one or two leaders. Yeah?

Oscar Val Mas (JP Morgan): Yes, good morning. It's Oscar Val Mas from JP Morgan. I have three questions. The first one, I guess going back to the guidance and the second half waiting, can you give us a bit more colour on what's behind that second half waiting? Is it just a recovery in the destocking that comes back in the second half? And how do you think about macro? And what macro assumptions do you have in that guidance?

Second one is on cost inflation. And it goes a bit to what Anwesha asked about one-off costs. How much is your cost base growing at the end of the year? And how are you thinking about the cost base, given you've exited at a low growth? And then, the final question is on integrated supply. We haven't talked about it much today. But, in the past, you've talked about investing into new growth and new customers. Is that a part of the bridge this year or next year? And if so, could you quantify it?

Simon Pryce: So just first half, second half waiting. Look, I think our first half growth last year was 16%-

Lucy:16.

Simon Pryce: ... something like that, Lucy. So just comparator maths, say, that significant growth in a softening industrial and competitive electronics market just, mathematically, is quite hard to deliver. I do think we are planning for a slower growth year. And a more competitive electronics environment. A continuation of what we saw in H2 through the rest of the year. But, of course, we're only making assumptions about what the market will do. And we are running the business according to those assumptions. We've got lots of levers that we can pull, or accelerators we can push, if the market turns out to be different to that we're anticipating. But just maths says that it's likely to be more second half waiting than first half waiting. I don't think it assumes a massive recovery in markets in H2. Cost inflation, Jane?

Jane Titchener: Yep. So we said in the presentation cost inflation running at mid-single digits. We're continuing to, obviously, put investment into the business. And we've indicated similar levels to the prior year from a strategic investment point of view. There's some modest input price inflation. Our energy costs, we're coming off some hedging, so we're expecting those to bob up a little bit. But transport inflation is easing. I think the key on costs is that we don't want to make decisions which short-term our organisation. So it's really important that we get that balance right between delivering performance today but, also, setting ourselves up for future success. And that is a balance we will continue to keep in check all the way through the year. We're only seven weeks into this year, so we're not going to make any big decisions based on that. We're going to continue to monitor performance and manage the cost base accordingly.

Simon Pryce: I think, in overview, we're assuming a mid-single digit input cost inflation during the course of the year. But to Jane's point, there's lots of levers we can pull in this business, but we're in it for long-term value creation. And balancing those short-term and long-term pressures is what RS has been very good at in the past, and will continue to be fantastic at, going forward.

I suppose the last thing on integrated supply, it's just one of a very large number of value-added services we have across the group. We're making good progress in our integrated supply, but it's not enough to move the needle or to pull out on the bridge. But we're pleased with the progress those guys are making, but there's a long way to go on creating a more scalable solution in integrated supply, particularly in Europe. But we've made a good start.

Oscar Val Mas: Thank you.

Simon Pryce: You can't ask questions. You're head of IR.

Lucy: I've got two questions from the web. Yeah, not mine. So first question, in Q4, talked about short-term disruption to the digital organic search revenue flagged, due to the Allied rebranding. So how has that picture evolved? And has there been any improvement in the traction of the RS brand over recent weeks?

Simon Pryce: Doug, do you want to take that one?

Doug Moody: So with the rebrand, after so many years as Allied, and a rebrand to RS, we expected search engine optimisation issues, things like that, and invested to address those. And we did see a dip, as Google and some others crawled our website and reindexed it. And so we did see a drop. But we've reinvested more in that and gotten that back. And, also, the actual buy rate, also, rebounded a little bit over the last couple of weeks as well. So we're back on track, but we had to make investments, and we expected that. It came at a time when there was also some softness in the market, so it's hard to tell exactly how much it was. But we have made the right investments and have gotten the rebound on that.

Simon Pryce: Thanks, Doug. Look, I think I've heard a couple of people say, "Well, why on earth did you rebrand?" We needed to rebrand because we are evolving our offering in the States. We're not just an electronics supplier. I think we planned well for a lot of the disruption that goes with rebranding. I think there were, at the margin, a couple of things, particularly where you have agreed supplier buy lists, where they cease to be able to match a company name and a company number, where we probably had to do a little bit more work than we thought we had. But it's not a major needle mover. And I think we're through whatever that branding issue was, going into 2024.

Lucy: Second question online is on competition. So it says that "Aggressive competition was flagged in the outlook statement and in the Americas. And the press release talked about competitive pricing in electronics. Can you add a little bit more detail to the points, please? Where's the aggressive pricing coming from? And given RS's differentiation is traditionally the availability of product rather than price, why is this now a problem in the US?"

Simon Pryce: So I think we've touched on all this in the answers to a couple of questions. The pricing competition, or the more competitive environment we're flagging is solely in electronics. And those of you that have been watching this business, and indeed the other big electronics distributors around the world, will understand the supply and demand electronics cycle that exists. And we're in it. As I think you heard earlier from Jerry, we have much greater flexibility now to move our prices. But only on the right products, and when we need to move them. We care about long-term and sustainable value creation here. We won't chase commodity pricing down, but we will protect that product and that share, where it's a differentiated offer, and a premium offer for our customers.

Lucy: Another question, what are the financial hurdles for M&A, please?

Simon Pryce: So I don't think we do, other than tell you that the returns from the investment need to exceed our cost of capital at the end of year three. Just so, perhaps, people can understand, all our investments, whether they're M&A or otherwise, we look at risk adjusted cash flows. And we discount those cash flows. We don't care about multiples in all this. This is an outcome of the fundamental valuation work that we do. So we have pretty rigorous financial criteria for any investments, including M&A, but, also, we need to understand, culturally, the fit. And in M&A, strategically, it has to accelerate strategy realization. So there are a number of hurdles, not just financial hurdles, that we go through.

And I'm very comfortable with the M&A process, and the evaluation process that we've been through. And as you can imagine, a chief executive who's only been in role for two and a half weeks, has a pretty close look at a £300-and-odd million acquisition. And I was very pleased and impressed by what I saw, both in terms of analytics, in terms of the construction and risk adjustment of the cash flows associated with those acquisitions and the combination with our own business and, also, the integration planning.

So I think, with that, getting you away a couple of minutes late, thanks very much for all your attention and for your interest in RS. And we look forward to seeing you, if not before, at our interims, whenever that is, September time. Thanks very much.

[END OF TRANSCRIPT]