Electrocomponents
2017 half-year financial results

18 November 2016

Agenda

Overview of results	Lindsley Ruth
Financial results and performance update	David Egan
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Overview

Strong progress on Performance Improvement Plan initiatives

Revenues in line with expectation with both North America and Asia Pacific returning to growth

Improvement in gross margin driven by price and mix initiatives

Better than expected progress on costs, upgrade to cost savings guidance

45% underlying growth in headline PBT and significant uplift in free cash flow

Strong momentum at RS Pro with first half revenue growth of 7%

Substantial improvement in customer experience, global Net Promoter Score (NPS) up 9%

A major step forward

Financial results

‘A significant step forward in the first half’

Financial highlights

Highlights	H1 2017	H1 2016	% Change	% Change[1] Underlying
Revenues	£706.3m	£626.5m	12.7%	2.1%
Gross Margin	43.6%	43.3%	0.3pts	0.3pts
Headline[2] operating profit	£57.7m	£33.8m	70.7%	42.1%
Headline operating margin	8.2%	5.4%	2.8pts	2.3pts
Headline profit before tax	£55.1m	£31.3m	76.0%	44.6%
Headline earnings per share	9.1p	5.2p	75.0%	56.9%
Headline free cash flow	£61.9m	£11.8m	424.6%	
Net debt	£140.9m	£169.6m	16.9%	
Interim dividend	5.0p	5.0p	-	

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(2) Headline measures of profitability and cash flow are defined as the relevant reported profit/cash flow measure before reorganisation costs/cash flows, asset write-downs or disposals.

- Reported revenue up 12.7% aided by foreign exchange (9.5%) and extra trading days (1.1%)
- An acceleration in underlying revenue growth in Q2 to 3.1% vs 0.9% in Q1
- 0.3% points of gross margin improvement
- 'Simplify – Operate for Less' initiatives drove £13m of H1 cost savings, 2% underlying decline in costs
- 42% underlying growth in operating profit
- Operating margins increased 2.3% points to 8.2%
- Headline free cash flow was up £50.1m year on year – improved stock turn 2.8x
- Dividend maintained

Stabilise and grow the gross margin

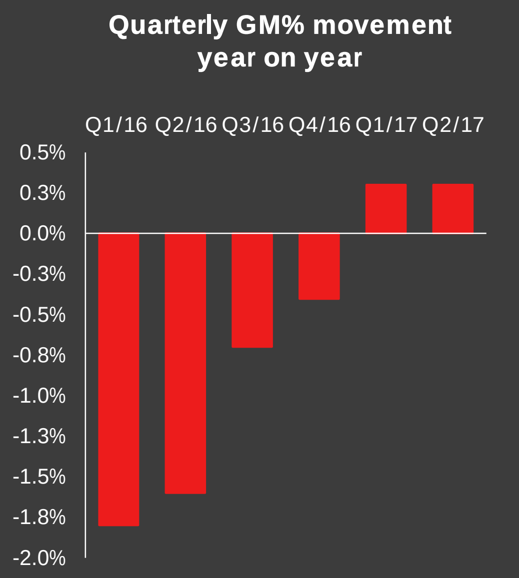
H1 progress

1. Reported 0.3% improvement in first half gross margin

2. Pricing initiatives and improved discounting discipline drive 0.5% underlying gross margin improvement – offset by 0.2% negative drag from transactional fx

3. Acceleration in RS Pro growth also aiding mix

Results



Next steps

1. Improve mix
   - Drive RS Pro growth
   - Prune low margin tail
2. Control discounts
   - Controls and process
   - Incentivisation link
3. Purchasing initiatives
   - Smarter purchasing
   - Incentivisation link
   - Development of global franchises for semis
4. Transactional foreign exchange will move to be a positive in H2

On track to improve gross margin in full year

Operate for less

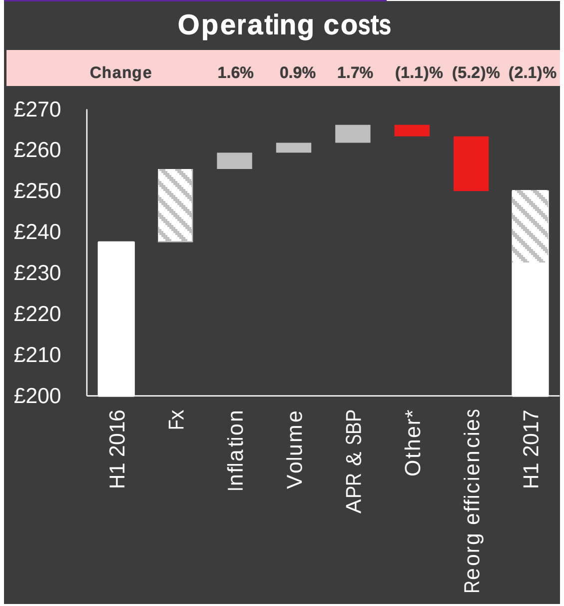
H1 progress

1. £13 million of net cost savings delivered in H1

2. Operating profit conversion ratio (operating profit as % of gross profit) rose to 18.8% in H1 (H1 2016: 12.5%)

3. Reinvestment in focus areas: RS Pro and digital

Results



Next steps

1. Net savings target increased from £25 million to £30 million of annualised cost savings by 2018
   - £7 million in 2016
   - £18 million in 2017
   - £5 million in 2018

2. We continue to pursue other cost efficiencies

3. Review of supply chain continues

4. Continue to reinvest in growth areas: RS Pro, electronics and digital

Savings target increased to £30 million

* Other includes IT and one-off costs

Summary income statement

	H1 2017			H1 2016		
(£m)	Reported	Adjustments	Headline results	Reported	Adjustments	Headline results
Revenue	706.3	-	706.3	626.5	-	626.5
Operating profit before exceptional items	57.7	-	57.7	33.8	-	33.8
Exceptional items	(0.6)	0.6	-	(11.4)	11.4	-
Operating profit	57.1	0.6	57.7	22.4	11.4	33.8
Net interest	(2.6)	-	(2.6)	(2.5)	-	(2.5)
Profit before tax	**54.5**	**0.6**	**55.1**	**19.9**	**11.4**	**31.3**
Income tax costs – ordinary activities	(15.3)	-	(15.3)	(8.5)	-	(8.5)
Income tax costs – exceptional items	0.6	(0.6)	-	2.3	(2.3)	-
Profit for the year	**39.8**	**-**	**39.8**	**13.7**	**9.1**	**22.8**
Earnings per share (p)	9.0	0.1	9.1	3.1	2.1	5.2

£0.6m H1 exceptional charge includes:

- £1.8 million labour restructuring charge
- £1.2 million profit on disposal of Singapore warehouse

- **H1 2017 headline tax rates of 28%**
- **No change to 2017 tax guidance**
  - Headline tax rate of 28%
  - We expect the cash tax rate and profit and loss tax rate to converge

Cash flow

(£m)	H1 2017	H1 2016
Headline[1] operating profit	57.7	33.8
Depreciation and amortisation	14.9	14.1
EBITDA	**72.6**	**47.9**
Loss on assets and other non-cash movements	2.5	1.6
Movement in working capital	7.0	(11.1)
Adjusted cash generated from operations	**82.1**	**38.4**
Net interest paid	(2.6)	(2.5)
Income tax paid	(9.2)	(9.8)
Adjusted net cash inflow from operating activities	**70.3**	**26.1**
Net capital expenditure	(8.4)	(14.3)
Headline[1] free cash flow	**61.9**	**11.8**
Outflow related to restructuring	(3.0)	(0.5)
Free cash flow post restructuring	**58.9**	**11.3**
Net debt	**140.9**	**169.6**

H1 highlights

- Headline free cash flow up £50.1m year on year
- Operating cash flow conversion[2] 128% (H1 2016: 71%)
- Stock turn 2.8x (H1 2016: 2.5x)
- Working cap as a % of sales 22.4% (1.5% point improvement)
- Net Debt: EBITDA 1.0x (H1 2016: 1.6x)

(1) Headline measures of profitability and cash flow are defined as the relevant reported profit/cash flow measure before reorganisation costs/cash flows, disposals and asset write-downs
(2) Headline operating cash flow conversion is defined as headline free cash flow, pre taxation and interest as a percentage of operating profits.

Net debt movements

(£m)	H1 2017	H1 2016
Net debt at 1 April	(165.1)	(152.6)
Headline free cash flow	61.9	11.8
Restructuring outflow	(3.0)	(0.5)
Equity dividends paid	(29.7)	(29.7)
New shares issued	1.0	0.8
Own shares acquired	(0.4)	(1.1)
Translation differences	(5.6)	1.7
Net debt at 30 September	**(140.9)**	**(169.6)**

Strong balance sheet

- Extension of £186m syndicated multi currency facility by two years to August 2021
- EBITA to interest cover 23.7x (covenant 3x)
- Net debt: EBITDA 1.0x (covenant 3.25x)

Pension

- Combined deficit £133.5 million (March 2016: £43.3 million)
- Rise due to increase in UK defined benefit scheme due to discount rates falling from 3.6% to 2.4%
- No change to annual £7m cash contribution

Guidance points

Foreign exchange

- Positive currency movements increased H1 headline profit before tax by around £7m
- At H1 exchange rates the full-year currency benefit will be around £13m
- Assuming current (16/11) rates persist for the rest of the year, full-year benefit would be closer to £17m

Trading days

- During the first half we saw £8m revenue and around £3m profit benefit from additional trading days. For the full year we expect there to be a positive impact of around £12m to revenues
- In 2018 we will see an adverse impact on revenues from fewer trading days of around £21m

Foreign exchange rates

	H1 2016 reported rates	H1 2017 reported rates	Average assuming November rates prevail
Sterling: euro	1.39	1.22	1.19
Sterling: USD	1.54	1.37	1.31

Other guidance points

- Capital expenditure: 0.7x depreciation in 2017
- Stock turn: 2017 will be in line with H1 levels
- 2017 effective tax rate: no significant changes from current year's headline rate of 28%
- Cash tax rate: to converge with profit and loss rate over time

Progress on key focus areas

Efficiency

- £13m of net savings in H1, increased full year net savings target to £18m versus £15m previously
- Increasing 2018 net cumulative savings target to £30m vs £25m previously - work continues to identify further efficiencies

Cash flow

- Significant growth in first half cash flow
- Inventory turn improved to 2.8x vs 2.5x

Stabilise gross margin

- H1 margins up 0.3% points
- On track to improve gross margin in current year

Growth

- H1 revenue growth of 2.1% in line with expectations
- Significant activity to accelerate organic growth
- Building capabilities to do bolt-on acquisitions

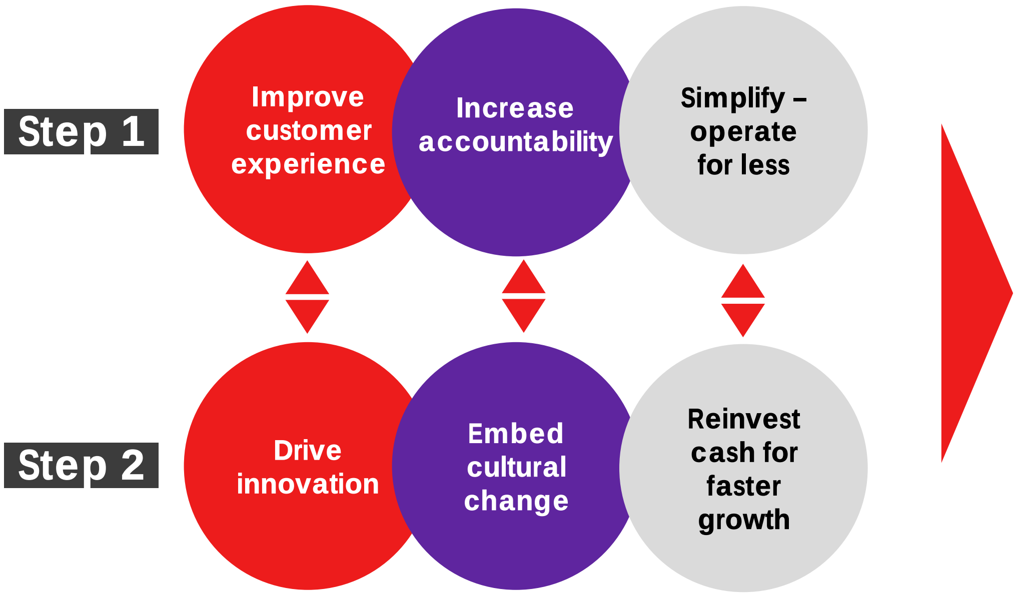
Still significant opportunity for improvement

Performance improvement plan

‘Driving superior results for customers, suppliers and shareholders’

Performance improvement plan

Getting the basics right – PIP



Accelerate growth

Our strategic priorities

- Best supplier and customer experience
- High-performance culture
- Operational excellence
- Innovation
- Reinvest cash to accelerate growth

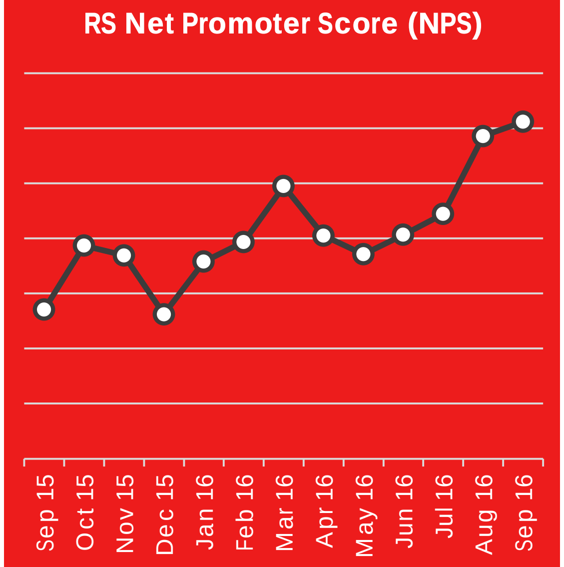
Driving superior results for customers, suppliers and shareholders

Good progress on improving customer experience

Improvements

1. Five agile teams focused on tackling key online pain points on customer journey (search, navigation, content, performance and mobile)
2. 40% improvement in site speed year on year Sept 2016
3. Filtering time lowered
4. 60% year-on-year improvement in net ease score 2016
5. New mobile launch

Progress



Next steps

Agile customer experience teams set up to tackle key offline pain points including:

1. Delivery accuracy to promise and completeness
2. Proactive calls on all delivery and or lead time changes
3. Stock availability improvement plan

Focused on delivering an unrivalled customer experience

Business overview

‘We have market share opportunities in all our regional hubs’

Northern Europe (28% of revenues)

	H1 2017	H1 2016	Change	Underlying[1] change
Revenue (£m)	199.3	187.1	6.5%	3.5%
Operating profit (£m)	42.0	31.2	34.6%	28.4%
Operating profit margin (%)	21.1%	16.7%	4.4 pts	3.8 pts

- Northern European hub consists of the UK, Ireland and Scandinavia
- Overall 3.5% revenue growth (Q1 3%, Q2 4%), with all 3 markets in the region growing well
- October saw our 11th consecutive year-on-year month of growth in UK
- Our new go to market approach, improvements in customer experience and increased sales activity we believe has driven market share gains in the UK
- Operating profits up 28.4% in H1 on an underlying basis driven by higher gross margins and tight cost control

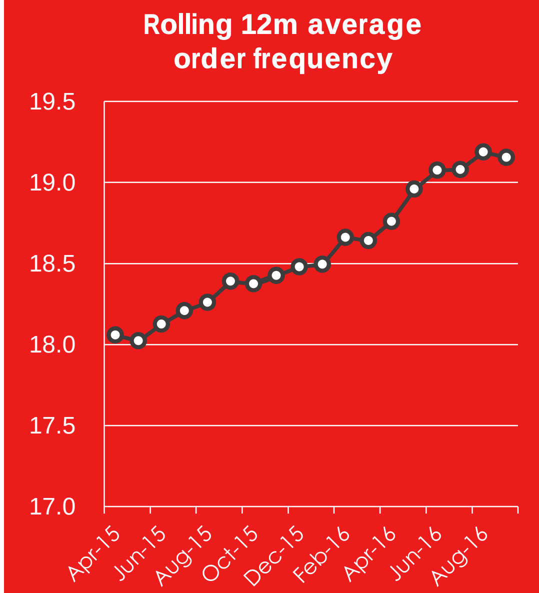
(1) Underlying change, unless otherwise stated, is adjusted for currency. Underlying revenue growth is also adjusted for trading days.

Accountability to the hubs – Northern Europe

Improvements

1. Customer experience
   - Initiatives to improve online experience, stock availability, speed up processing of queries and improve customer service over phone
   - Improvements in both NPS and Net Ease Score
2. New go to market approach
   - Identifying high potential customers
   - Sector & regional focus
3. Increased sales activity
   - More sales touches
   - Rise in average order frequency
   - Growth in customer numbers

Results



Next steps

1. Further embed go to market approach
2. Pilot sales effectiveness
   - Improve lead identification
   - Common sales process
   - Establishing best practice for global rollout
3. Drive differentiation into customer experience via value added services
4. RS Live
   - 35 tonne mobile experience showcasing innovation

Southern Europe (19% of revenues)

	H1 2017	H1 2016	Change	Underlying[1] change
Revenue (£m)	136.3	114.3	19.2%	3.8%
Operating profit (£m)	12.1	9.5	27.4%	0.8%
Operating profit margin (%)	8.9%	8.3%	0.6 pts	(0.3) pts

- Southern European hub consists of France, Italy, Spain and Portugal
- 3.8% revenue growth (Q1 4%, Q2 3%) driven by strong performances in France and Spain, where we believe we have gained share
- Cost initiatives offset by an FX related gross margin reduction, higher digital spend and some incremental start-up costs related to the implementation of the global planning tool
- Operating profit up 0.8% on an underlying basis

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Central Europe (14% of revenues)

	H1 2017	H1 2016	Change	Change[1] change
Revenue (£m)	95.3	82.6	15.4%	(0.2)%
Operating profit (£m)	4.3	3.5	22.9%	(15.7)%
Operating profit margin (%)	4.5%	4.2%	0.3 pts	(0.9) pts

- Central European hub includes Germany, Austria, Benelux, Switzerland and Eastern Europe
- Revenues were broadly flat during the period (Q1 1%, Q2 (1)%) with softness in Germany and Benelux only partially offset by strong growth from Switzerland
- Operating margins down 0.9% points on an underlying basis, with cost initiatives offset by the negative impact of FX on gross margins and start up costs in supply chain relating the Global Planning Tool
- Operating profits were down 15.7% year on year on an underlying basis, reflecting sluggish sales and falling margins
- Performance unacceptable – leadership change and short-term plans to address underperformance

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Americas (26% of revenues)

	H1 2017	H1 2016	Change	Underlying[1] change
Revenue (£m)	181.8	159.9	13.7%	1.4%
Operating profit (£m)	21.0	17.9	17.3%	4.5%
Operating profit margin (%)	11.6%	11.2%	0.4 pts	0.4 pts

- North America consists of our Allied business
- Revenues were up 1.4% in first half, with a marked recovery in trading in Q2 (Q1 (2)%, Q2 4%)
- Interim management team driven a successful marketing campaign to win back share
- Margins rose 0.4% to 11.6% with cost savings activities being at least partially offset by some initiatives to drive market share, which impacted gross margins in the region
- Overall operating profits were up 4.5% on an underlying basis to £21.0m

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Asia Pacific (13% of revenues)

	H1 2017	H1 2016	Change	Underlying[1] change
Revenue (£m)	93.6	82.6	13.3%	0.5%
Operating profit (£m)	(4.2)	(13.2)	68.2%	69.6%
Operating profit margin (%)	(4.5)%	(16.0)%	11.5 pts	10.5 pts

- Asia Pacific hub includes Australia, New Zealand, China, Japan, SEA and emerging markets operations
- Revenues were up 0.5% overall, with a marked improvement in Q2 (Q1 (2)%, Q2 3%)
- Australia/New Zealand, Emerging-Markets saw strong double digit growth across the first half
- Japan, Singapore and China were as anticipated impacted by the significant restructuring in the region. However, Singapore and China saw an improved revenue performance in Q2 driven by improvements in service reliability and go-to-market approach
- Gross margin improvement driven by increased discounting discipline and some foreign exchange benefit
- Rise in gross margin and cost reductions led to a 69.6% reduction in hub losses during the first half

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Accountability to the hubs – Asia Pacific

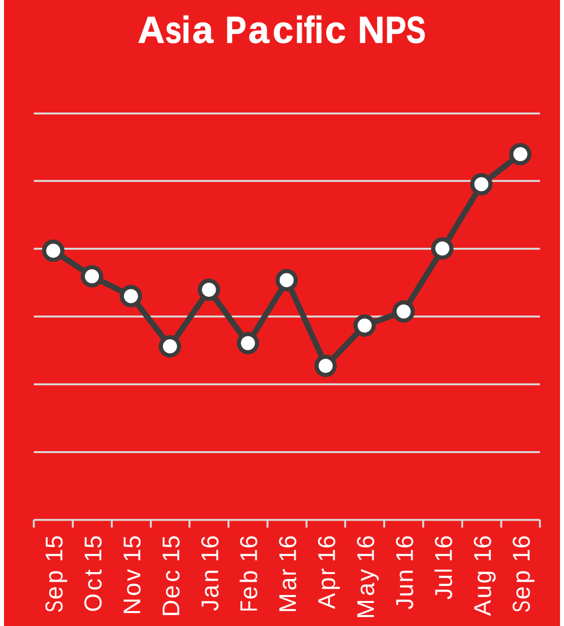
Improvements

1. Customer experience
   – Range project delivers a significant improvement in service reliability
   – China OTTP (on time to promise) up from 73% to 87%
   – NPS at 18 month high

2. Accountability
   – Central management team in Hong Kong
   – Strengthened leadership

3. Operate for less
   – 14.6% reduction in hub costs
   – Asia Pacific head count down over 25% year on year

Results



Driving growth

1. Customer experience
   – Ongoing efforts to improve service reliability and online experience

2. Define go to market approach for each sub-region
   – Key sectors
   – Correct range
   – Right model for each market

3. Increased focus on growth
   – Customer acquisition
   – PPC

4. RS Pro
   – A significant priority

Looking forward

‘Well positioned to make strong progress in 2017’

Current trading and outlook

An encouraging start to the second half of the year in October

All hubs saw an improvement in underlying revenue growth in October versus the Q2 trend

Return to positive revenue growth seen in North America and Asia Pacific in Q2 has continued

Northern and Southern Europe are again seeing good growth

Central Europe returned to modest growth in the month

Well positioned to make strong progress in 2017

Summary

We have taken a major step forward but we still have a lot to do

We will transform the customer experience with our organisation

We will continue to drive accountability

We will simplify and operate for less

We are focused on increasing innovation within our business

We will reinvest both organically and via bolt-on acquisitions to accelerate growth

A major step forward but the opportunity remains significant

Appendix

Basis of preparation

Unless otherwise stated:

- Figures have been prepared using International Financial Reporting Standards
- Headline measures of profitability and cash flow are defined as the relevant reported profit/cash flow measure before reorganisation costs/cash flows, asset write-downs or disposals
- Changes in sales are adjusted for currency movements and for the number of trading days (‘underlying sales growth/decline’)
- Changes in profit, cash flow, debt and share related measures such as earnings per share are, unless otherwise stated, at reported exchange rates
- Key performance measures such as return on sales use headline profit figures
- Sign conventions: % changes in sales and costs are disclosed as positive if improving profit and negative if reducing profit
- A net charge of £0.6m (H1 2016: £11.4m) was reported for items excluded from headline profit before tax
- We have restated our balance sheets for H1 2016 and full year 2016 following a change in accounting policy relating to the grossing up treatment of our cash pools

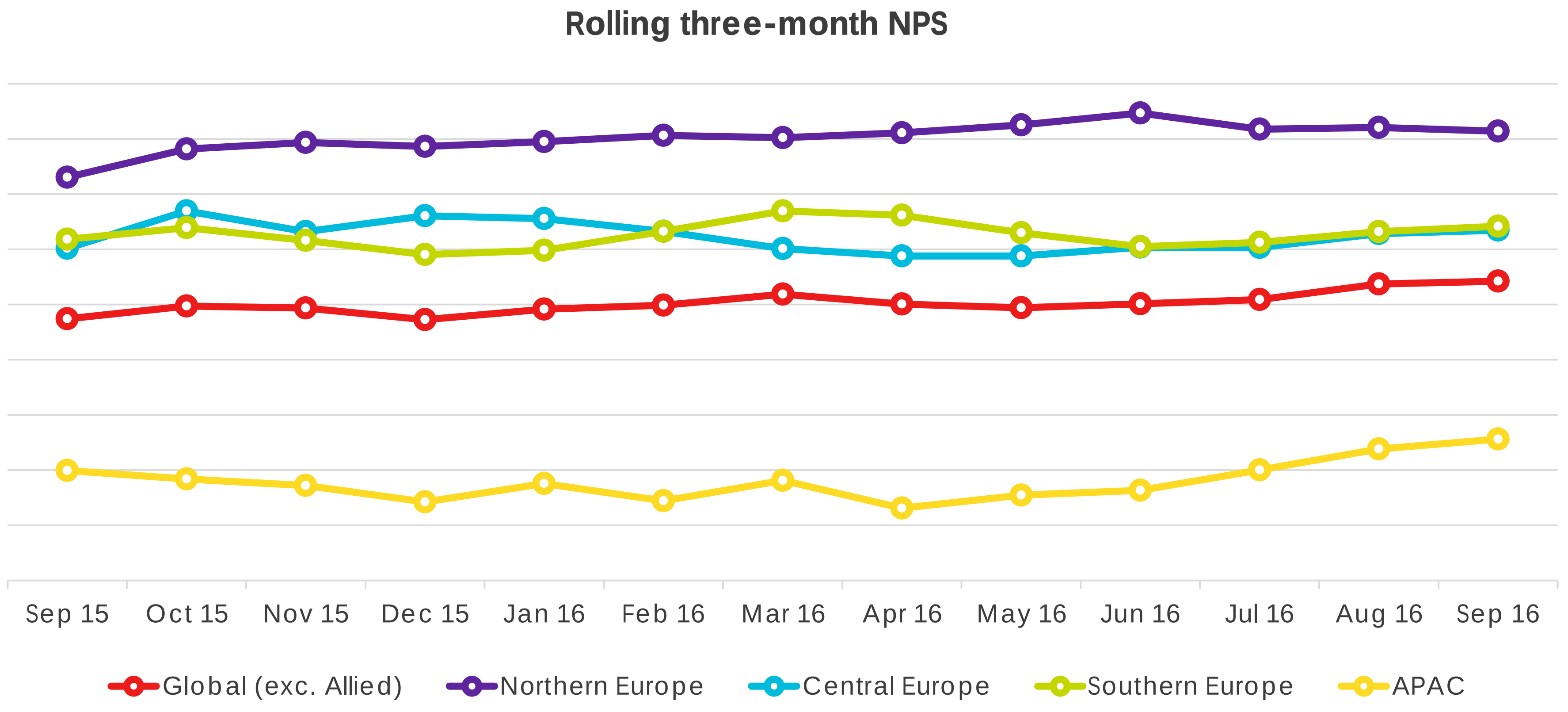
Group financial highlights

	Reported		Change (%)	
	H1 2017	**H1 2016**	**Reported**	**Underlying**
Revenue (£m)	706.3	626.5	12.7%	2.1%
Gross profit (£m)	307.7	271.3	13.4%	4.0%
Operating costs (£m)	(250.0)	(237.5)	(5.3)%	2.1%
Operating profit (£m)	57.7	33.8	70.7%	42.1%
Headline PBT (£m)	55.1	31.3	76.0%	44.6%
Headline EPS (p)	9.1p	5.2	75.0%	56.9%
Headline free cash flow (£m)	61.9	11.8	424.6%	
Net debt (£m)	140.9	169.6	17.0%	
Underlying Revenue growth (%)	2.1%	3.7%		
Gross margin (%)	43.6%	43.3%	0.3pts	0.3pts
Operating profit margin (%)	8.2%	5.4%	2.8pts	2.3pts
Gross profit conversion (%)	18.8%	12.5%	6.3pts	
Operating cash flow conversion (%)	127.7%	71.3%	56.4pts	
Net debt/EBITDA (x)	1.0x	1.6x	0.6x	
Return on capital employed (%)	22.5%	14.6%	7.9pts	

Segmental analysis

	Revenue (£m)				Headline operating profit (£m)				Operating margin (%)			
	Reported		Change (%)		Reported		Change (%)		Reported		Change (%pts)	
	H1 2017	H1 2016	Reported	Underlying	H1 2017	H1 2016	Reported	Underlying	H1 2017	H1 2016	Reported	Underlying
Northern Europe	199.3	187.1	6.5%	3.5%	42.0	31.2	34.6%	28.4%	21.1%	16.7%	4.4pts	3.8pts
Southern Europe	136.3	114.3	19.2%	3.8%	12.1	9.5	27.4%	0.8%	8.9%	8.3%	0.6 pts	(0.3) pts
Central Europe	95.3	82.6	15.4%	(0.2)%	4.3	3.5	22.9%	(15.7)%	4.5%	4.2%	0.3 pts	(0.9) pts
North America	181.8	159.9	13.7%	1.4%	21.0	17.9	17.3%	4.5%	11.6%	11.2%	0.4 pts	0.4 pts
Asia Pacific	93.6	82.6	13.3%	0.5%	(4.2)	(13.2)	68.2%	69.6%	(4.5)%	(16.0)%	11.5 pts	10.5pts
Central costs					(17.5)	(15.1)	15.9%	12.9%				
Group	**706.3**	**626.5**	**12.7%**	**2.1%**	**57.7**	**33.8**	**70.7%**	**42.1%**	**8.2%**	**5.4%**	**2.8 pts**	**2.3 pts**

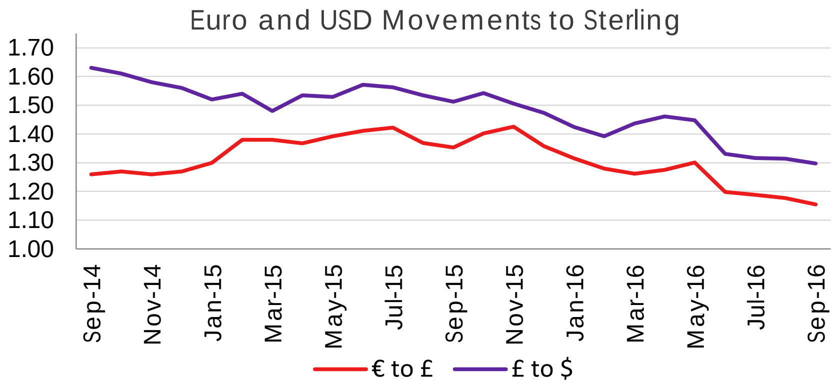
Net promoter score (NPS)



Impact of foreign exchange

Translation

- Reported profit sensitivity to a 1 cent movement in:
  - Euro: £0.8 million
  - USD: £0.3 million
- H1 saw a £7m PBT benefit from foreign exchange.
- If H1 average rates persist the full year benefit would be around £13 million. If current (16/11) rates persist the benefit would be closer to £17 million.



Transaction Exposure

- Group treasury maintains 3-6 month hedging to smooth impact of currency movements
- Key exposures: net buyer of US dollars, net seller of euros and other Asian currencies
- Gross margin impacted over time from weakening in sterling versus
- Euro and Asian currencies: positive impact
- USD: negative impact
- Sterling weakness will impact hub margins – positive impact in our Asia Pacific and Central and Southern European hubs. Negative impact: Northern Europe. No impact North America
- Overall, if we assume constant pricing foreign exchange should move from a negative impact in H1 to a positive impact in H2

Pension

	2016					2015				
£m	**UK**	**Germany**	**Republic of Ireland**	**Other**	**Total**	**UK**	**Germany**	**Republic of Ireland**	**Other**	**Total**
Status of funded plans	(116.6)	(9.6)	(2.0)		(128.2)	(30.4)	(7.5)	(0.6)		(38.5)
Unfunded plans				(5.3)	(5.3)				(4.8)	(4.8)
Total net liabilities	**(116.6)**	**(9.6)**	**(2.0)**	**(5.3)**	**(133.5)**	**(30.4)**	**(7.5)**	**(0.6)**	**(4.8)**	**(43.3)**

- Combined deficit rose to £133.5 million (March 2016: £43.3 million)
- UK defined benefit scheme deficit rose to £116.6m (£30.4m at 31 March 2016)
- Rise in UK deficit due to discount rates falling from 3.6% to 2.4%
- A recovery plan is in place, which has been agreed with the Trustees of the UK Scheme and our deficit contributions will continue with the aim that the Scheme is fully funded on a technical provisions basis by 2023