RS-Group-Q3-Trading-Update

Operator:
Good morning or good afternoon. Welcome to the RS Group, PLC Q3 Trading Update. My name is Adam and I'll be your operative for today. If you'd like to ask a question at the Q&A portion of today's call, please press star one on your telephone keypad if you've joined us by the phone or if you've joined by the webcast, please use the Q&A option towards the top right of the page. I would now hand over to David Egan to begin. So David, please go ahead when you are ready.

David Egan:
Thank you, Adam. And good morning. I'm David Egan, acting Chief Executive Officer and also Chief Financial Officer of RS Group. I'm joined on this call by members of our senior management team [inaudible] available to take questions at the end of this update. Welcome to our Q3 trading update to 31 December 2022. This quarter, we have continued to deliver further market share gains with our core industrial customer base. Our people are the greatest [inaudible] and they continue to be brilliant. I, alongside the senior management team, thank everyone for their ongoing hard work.

In December, Lindsley Ruth stepped down as Chief Executive Officer of RS Group, and we will miss his humor, knowledge, and industry experience. I would like to personally thank Lindsley for all that he did for RS, our people, our stakeholders, and for me. Thank you, Lindsley. But Lindsley has left the greatest legacy at RS, a great team and a purpose led culture. Our people are empowered to continue [inaudible] as we accelerate our profitable growth opportunities on our journey to greatness. Our regional model has increased accountability and responsibility throughout the group, allowing our teams to utilize their local, industry, customer and supplier knowledge to [inaudible] appropriate proposition. RS is in a strong position with passionate people who see significant growth opportunities. And last week we welcomed Risoul to the group. We're really excited about the opportunities Risoul opens for us and I look forward [inaudible] on Risoul’s progress in coming updates as our teams in the Americas have started working closely together already.

Now moving on to our overview of our continued outperformance in quarter three. Like for like revenue, revenue increased by 8 percent. Industrial products, which accounts for circa 77 percent of aggregate revenue, remains strong, delivering 15 percent growth, including low single digit volume growth. We continue to gain market share within this area, as evidenced by conversations with our suppliers, industrial production data and peer reports. Electronics revenue fell by 4 percent during quarter three, reflecting the slowing market with industrial and electronics outperforming more consumer related electronics. Revenue from single-board computing products, which account for less than 2 percent of group revenue and is sold largely within OKdo almost halved due to lack of supply.

We are moving our electronics range closer to our industrial customer's needs. We are well placed to provide electronic expertise and solutions for our core industrial customers base, as their businesses become more automated, digitized, and connected. Our main own-brand product range RS PRO revenue by 19 percent, driven by enhanced brand recognition, phone product launches, such as our energy efficiency range, and better marketing tools that have driven greater conversion rates. Web revenue rose 9 percent like-to-like with digital accounting and 64 percent of overall growth revenue.

Our average order value from loyal customers is growing again, reflecting the strength of our proposition. We continue to pivot our proposition and service towards higher value customers. However, we are also developing a more cost effective service, such as using central sales teams or increased automation to provide a more profitable buffer to both lower spending customers. RS Integrated Supply is delivering strong growth, reflecting increasing demand for our service as businesses look to consolidate spending through trusted suppliers with transparent pricing.

In Americas, our integrated supply business is targeting -- is trading above target, giving growth and new business and from our existing accounts. And in EMEA we are seeing improved trading within our core client base as they continue to recover from the pandemic and ensuring supply shortages which have been holding back their businesses.

Moving now onto our regions. EMEA, which account for 61 percent of group revenue grew like-for-like revenues by 12 percent, outperforming our industrial peers. We've enhanced our strategic supplier relationships, enabling us to broaden our product range and offer. We’ve increased our focus on our corporate and key customer base - our core areas of profitability. We've developed our service solutions propositions further with strong growth in our paid for services offered.

Our strongest performing area is the U.K. and Ireland, accounting for roughly 40 percent of the region's revenue. This is where our go-to market strategy is the most developed and we have a lower proportion of electronics revenue and therefore less impacted by the slowing market and product shortages. Revenue in the DACH region, which is Germany, Austria and Switzerland, despite having above average electronics participation delivered revenue growth marginally ahead of the group as a whole. The strength versus the underlying market reflects the investments we have made to our commercial and operating model. Service levels are improving as the increasing utilization upgraded and expanded distribution centre in Germany is resulting in more accurate delivery performance.

For the Americas, which accounts for 31 percent of growth revenue. Like-for-like growth was 6 percent, against very strong comparatives of 37 percent last year. Our revenue per day remains strong and we continue to drive our transformation within the region from a supplier of components to an industrial solutions provider with improvements in our focus areas of growth in our B2B customer base and increased average order value within our key and corporate customers due to improved sales force initiatives. Improvement in our digital offer due to more targeted sales campaigns and greater collaboration across business functions. Better availability due to the increased capacity at our Fort Worth distribution center, investment into our product offer. We continue to invest to support future growth, especially after generating over 40 percent revenue growth over the last 18 months.

We have a strong team in the Americas, excited about our growth opportunities, widening our product range, developing our service solutions offer, expanding our reach into Latin America with the acquisition of Risoul, growing our customer base and developing our margin further improving our cash returns. We are annualizing over 1 billion U.S. dollars of revenue and can see how our proposition is gaining traction.

Okay, now for Asia-Pacific, which accounts for 9 percent of group revenue. Like for like revenue fell by 8 percent. Our revenue performance continues to be affected by several factors that we've talked about before. The slower electronics market, which is 35 percent of the region's revenue. Lack of single-board computing product due to a global chip shortage. This is a lower margin product, that knocked six percentage points off the region’s revenue growth rate during the quarter. Tough comparatives and the more challenging backdrop in China with COVID lockdown, difficult economic conditions, and the chip export ban.

Although China is less than 2 percent of our group revenue, it accounts for circa 15 percent into Pacific's regional revenue. We continue to adjust our offering in Asia Pacific concentrating on where we have a differentiated offer versus the competition to drive profitable growth. We are developing our industrial products offer, which grew 10 percent. We're taking market share. We're operating a more commercial proposition and strategy, concentrating our efforts on more profitable revenue opportunities, generating a strong margin and adding to our service solutions offer, such as the acquisition of domnick-hunter last year.

Across the group price inflation at the group level continues to be low double digits, but we are starting to see early signs of this easing. We have still been delivering volume growth within our industrial product range, but volume declines within electronics reflect a more cyclical and slowing market. Our gross margin continues to benefit from margin optimization work includes pricing and discount model. Plus the inflationary pressures, especially within labor have continued but this has been largely offset by strong cost control and operating leverage.

Meanwhile, we continue to invest in our operating model to support the growth opportunities that we see. We are managing our inventory closely and increased our inventory turn from the 2.4 times reported in the first half as our purchases have concentrated on faster turning product categories, and customer web searches. There has been some improvement in global supply chain lead times and our inventory availability has also improved. This, combined with enhanced customer support in delivery information, led to an improvement in our Net Promoter score across the group. We continued to remain very cash generative.

But looking forward, given our performance and strong cost control year to date, we expect our full year adjusted profit before tax be towards the top end of current consensus estimate for FY 23. We continue to be mindful of a more challenging backdrop and have contingency planning and cost mitigation in place with all markets ready to respond, if necessary, to protect our profit.

Despite the environment, this is an exciting time for RS group to really drive profitable market share. We have a team of passionate people whose specialist expertise and a why not mindset. We have a business that's benefited from significant investment over recent years, especially in operation, digital, product, and service solutions for people. We’ve established a strong strategic vision with focus on making our customers lives easier. We’re running a more commercial regional operating model, focusing on where we can add more value. We're providing innovative solutions with increased accountability and agility. And most importantly, we have a purpose led culture. We’ve proved that despite all the challenges of the last few years, we can outperform our industrial peers while still investing in our future. Additionally, we are continuing to look at ways to accelerate our growth through inorganic opportunities and on maintaining our strong investment discipline. Very excited about the opportunity Risoul brings to drive stronger revenue growth within the Americas, especially with the move toward onshoring being seen in the region.

Next month our business in the Americas, Allied becomes RS, providing even greater cohesion and consistent brand recognition across the group. We remain confident in the strength of our people and differentiated proposition to turn challenges into opportunities, to drive further market share and generate stronger revenue and high quality profitable growth. As an acting CEO, I will ensure we continue to look after the heart of RS group. That's been our people and our purpose led culture.

With that, I'd like to hand you back to Adam and invite your questions. Please type your questions in the message box on the webcast or dial into the audio conference call and ask your questions directly. Adam, back to you.

Operator:
Thanks, David. As a reminder, if you would like to ask a question today, that’s star one on your telephone keypad, if you've joined us by the phone. If you've joined us by the webcast, please use the Q&A option to the top right of the screen. When preparing to ask your question, please ensure your headset is fully plugged in and unmuted locally. Our first question today comes from Sylvia Barker of JP Morgan. Sylvia, please go ahead. Your line is open.

Sylvia Barker:
Thank you. Hi. Morning, everyone. Just to confirm on the overall volumes, first of all. So you're saying the price is still low double digits? When you say low single digits in industrial implies low double digits in electronics. So overall, that will be down slightly -- down low single digits for the group? If you can just confirm. Secondly, the U.K. and Ireland electronics seems to have grown well in the quarter. If you maybe give us an idea of that growth rate and you say that the split of customers is different in the U.K. from the rest of the business within electronics and still more industrial oriented. Could you give us any quantification of those splits perhaps in the U.K. versus other regions? And then finally on China and what impact that had on Asia Pacific in the quarter and obviously now. Thank you.

David Egan:
Sure. So let me kick off and then I'll hand some of these over to our team. So in terms of volume, our overall volume growth was eight percent for the quarter. We saw low double digit price for the quarter. For industrial we saw 15 percent growth and, again, low double digit. So again real volume being delivered in industrial. And we saw volume contraction in electronics at the group level. It does vary by region, but that's how it stacks at the group level. So industrial, 77 percent of the group saw volume growth. Electronics, which is 23 percent of the group, saw some volume contraction.

In terms of U.K. and Ireland. I'll hand over to Pete Malpas who was our president of the EMEA region. But overall, I would just say to start with that U.K. and Ireland business certainly did perform very well. It was ahead of the group average in the quarter in terms of their overall growth and their performance. I will let Pete just handle now in terms of how we've done it. Pete.

Pete Malpas:
Good morning, David. Good morning, everybody. Yes. So thank you very much for the question. As David has highlighted, the U.K. and Ireland business has performed overall above the average and performed well. I think that's really due to the maturity of the strategy

in the U.K. and Ireland. That's where we have the greatest maturity, particularly in our range of value added solutions and areas that are really resonating with the customers. The question was specifically around electronics. I think it's fair to say that the electronics share within the U.K. and Ireland is one of the lower market shares in electronics, but the electronics offer in the U.K. and Ireland is much more aligned to our industrial MRO type customer. So a little less on the semiconductors and passives, which are slightly more volatile but more aligned to the industrial products. And I think that's what's making the big difference for us in the U.K. and Ireland.

David Egan:
Thank you, Pete. And then finally, Sylvia, your question on China. Just remind you that China, for us is 2 percent for the group, 15 percent for the region. It has been relatively tough going in China. I'm just going to hand over to Sean Fredericks, our president for Asia-Pacific, to give you a little bit of color going on in China. Sean.

Sean Fredericks:
Yeah. Thanks, David. Yeah. So China for the quarter saw a contraction of 25 percent. Now it's, you know, for various factors, but December was the most impacted at 40 percent contraction. That was the peak of the COVID cases that we [inaudible]. So we at one point, we had maybe 70 percent of our workforce COVID positive during month of December, and that's tapering down now. Obviously, China reopening is something positive to look forward to. However, we have Chinese New Year starting 21st of January and many companies have opted to take -- to start that holiday period a week or two early. So we expect in January to be not many working days, but we are hoping for a bit of a bounce back come February. Now, the 25 percent in China, pretty much all of that was on the electronics' side. So their impact of the electronics contraction was the chip export ban that was put in through the Biden administration, which realistically, for the six weeks from the start to where we are now, has almost shut down that industry. And then we were exposed in several big companies and customers with that. So, yeah, it's -- the COVID situation is by far the most impacted area for us. But we are hoping that that stopped easing outgoing into the last couple of months of the Q4.

[talking simultaneously]

David Egan:
I think there's one final build on Asia-Pacific. You know look, China is challenging, but we're still seeing good performances in Southeast Asia, in Australia, New Zealand. You know China -- Japan is against tougher comps. We're moving our businesses there into more industrial space. And you know Sean and the team are very much focused on the profitable customers, more profitable customers and still delivering double digit operating margins within that part of the world. So, overall, you know yes there’s been challenges, but still a very important part of our proposition going forward.

Sylvia Barker:
Thanks very much.

David Egan:
Adam.

Operator:

Apologies. The next question is from Rory Mackenzie from UBS. Rory your line is open. Please, go ahead.

Rory Mackenzie:
Morning all. It's Rory here. Firstly, just a follow up on pricing, which has of course been rising for two years. David, you commented just now that you think you're seeing signs of that peaking. So does that mean we should now expect pricing to start to decline sequentially? And can you also comment on the pricing trends in industrial and electronic separately?

Secondly, the electronics volume declines of, you know, about minus 15 percent are pretty extreme given we don't typically think of you as being exposed to the destocking cycles. Could you help us understand how to get there? You know, you've obviously had losses of single board computing. There's China, which has been the issue. So maybe can you help bridge out what kind of underlying customer trends are and anything else to be aware of?

And then just lastly, could you share any early thoughts on your plans for FY 24? And I guess you still got some pricing to annualize, but are you preparing the business and the cost base to see real revenue declines? Thank you.

David Egan:
Right, Rory. So again, I'll kick off and hand a few of these over. So in terms of pricing, we haven't really seen any price contraction. The only exception to that would be a little bit around in some of the electronic areas, but in the industrial side, we're still seeing price or cost increases flowing through. In terms of electronics, I think what we've seen is we've seen contraction in the Asia Pacific region where 40 percent or so, 35, 40 percent of our business is a little bit more orientated towards electronics. And I'll -- I'm going to hand over to Chris. He's going to provide you a little bit more color around the electronics. So Chris Beeson, could you answer the electronics question, please?

Chris Beeson:
Sure. Thank you, David. As it relates to, I think -- I believe both pricing trends as well as overall demand, I certainly -- we know the last 24 months has been a unique supply chain environment and so our business participated in that equation. And you recall, certainly from a pricing perspective, we made sure that we were aligned with the scarcity environment that we -- we're involved in the scarcity environment and we participated in that. The -- we're seeing that slowing down and lead times are coming in, but nothing drastic at this point. As a matter of fact, as a general statement, we don't see massive pressures on the pricing equation at this point. And once again, I would say that we accelerated upward you know, our pricing over the last couple of years, but we're watching that on a daily basis to make sure we're aligned with the trends and what the customer expectations are.

David Egan:
And then Chris from the volume perspective in electronics.

Chris Beeson:
The volume -- anticipation of volume. There are -- you see a lot of different headlines, and electronics is a very broad term as it relates to, you know, consumer and all the different market sectors. So you'll -- there's anticipation and some companies will be negative 10 percent this year. Some are projecting growth of five to 10 percent upwards. So I believe

that we'll see a positive growth, probably more modest versus the last couple of years. But you know, five to six percent growth is probably anticipated mindset for us and be aligned with the market.

David Egan:
And Rory, I think just in terms of Q3, we've seen single board computing contract. We've seen Asia Pacific electronics contract and in particular sort of, you know Japan and China. We've obviously don't have the broad line in terms of the product offer in electronics. And we're also coming off a very strong comps in terms of, you know 30 plus percent growth that we delivered over the course of the last 12 months. So that's really what's happening in electronics for us. With regards to FY24, we do have plans in place in terms of various scenarios. You know, obviously those scenarios range from, you know strong growth to moderated growth to contracting and reduced growth at the top line. And we've got plans in place depending upon each of those scenarios and how we will actually then drive and manage the business accordingly. At this point in time you know there are certainly levers we have already pulled. But there's many other levers that we have yet to pull and you know we are looking for opportunities in converting the challenges into opportunities wherever we possibly can.

Rory Mackenzie:
Great. Thanks, David.

Operator:
The next question is from David Brockton from Numis. David, please go ahead. Your line is open.

David Brockton:
Morning to two questions, please. Firstly, I just wanted you just touch on the exit rate by region. It feels like given the contraction you flagged in China in December, Asia Pacific would have been weaker as an exit rate. But just wondered if you could touch on that for the other regions as well. The second question. just in terms of acquisition pipeline, appreciate you've just closed Risoul, but any sort of update on opportunities in the pipeline. Are you still progressing opportunities and could we expect anything in the near term in that regard? Thank you.

David Egan:
Sure. So let me start with the exit rate. So December is always a tricky month because it's a short month and it doesn't necessarily set a trend. So again, some degree of caution with regard to the performance in December. At the group level, the exit rate in the month of December was just a tad down from where we were for the quarter. If I look at the region, EMEA was pretty strong, you know solid and strong throughout the quarter. And the exit rate was not materially different. We saw a little bit of slowing in the Americas and that was really off the back of some pretty extreme weather around the Christmas time. And then we did see some slowing in Asia Pacific and that was largely, as we called out before China related. So again, I wouldn't sort of look at December as setting a trend. And we remain confident as we see Q4 going forward hence we are expecting full year profitability to be you know, nearer to the top end of the consensus range.

In terms of the acquisition pipeline, I would simply say that it's strong. We're busy and we are actively looking at various opportunities across the world. But our discipline remains incredibly robust as we look through those. Jane Titchener, corporate development, is there anything you would like to add to that?

Christian Horn:
No, to just echo what you said. I think, you know, we've been really clear that our strategy is an organic first. But I mean, M&A still a really important part of our strategic journey. And, you know, the pipeline is continuing to increase. And as you say, you know, we are still quite busy and we are seeing some slowing of deals, maybe deals being paused or put off for a while. But that doesn't mean that we've got no deals at all and all deals are off and we're still looking at opportunities and working through those. To reiterate what you said, retaining our discipline, you know, quality businesses with really good quality financial metrics is so incredibly attractive to us. I mean, they will create value creation for us, and we'll continue to pursue those as appropriate.

[inaudible commentary]

Operator:
The next question comes from Kean Madden from Jefferies. Kean, please go ahead. Your line is open.

Kean Madden:
Thank you. Morning all. Could we first of all start in the U.S.? So could you give us a bit of insight, please, into the expansion of your own label RS PRO offering there? Looks like you may have added another batch of lines in the December quarter. So just looking at basically about how you're looking to resource that and when we're going to start to see the revenue contribution from those categories starting to increase. Secondly, just your view on how the German distribution center would evolve and ramp over the next 12 months. And then thirdly, just looking at sort of peer reaction and strategy at the moment, are you starting to see some other companies move into sort of industrial automation and control area that may have been slightly more electronic focused in the past? I presume it's quite pertinent if the electronics market is contracting in the moment, they may choose to seek growth in some other attractive adjacent categories. Thanks.

David Egan:
Thanks Kean. So, Doug Moody, presidential -- acting president for the Americans. Can you take the first one on our RS PRO Please?

Douglas Moody:
Yeah. Hello. It's Doug Moody. For RS PRO in the Americas, this is an area that we -- there's a couple of things that are happening there. First, we've added some resources into RS PRO, a leader that reports directly to me to get the focus working along with Jerry and the global team to really -- to drive that. But we've also increased our interface with our integrated supply business to offer that more to our customers. So I see a year ahead of growth in RS PRO overall. Just through a little more focus -- a little more -- and we're also adding more lines in the Americas to our inventory that'll make those products available right away. So taking all the actions, we are seeing an uptick in that area, but it's starting from a fairly small base. The other aspect of that is we're changing our brand of Allied as David mentioned earlier in early February to RS, which gives us an opportunity to really emphasize the RS PRO brand along with the branding change of the Americas and leverage that part of our offering overall.

David Egan:
And Jerry. Just from a group perspective, is there anything you would add terms of the overall, you know outperformance, in terms of growth of RS PRO in the quarter?

Jerry Abraham:
Thank you, David. From our perspective, we continue to see strong growth across all three regions, and majority of that growth is driven through brand recognition, especially in EMEA and APAC. As Doug has already alluded, as the brand shifts in the Americas over to RS it gives us the great opportunity to drive our store much harder in the American region. We are preparing ourselves to do so as we increase our stockholding in the Americas. At the same time, they are also working to drive a lot more brand equity work in the Americas to strengthen our position in the Americas. We do believe that as we move forward, we do need to increase our current stock holdings from 14,000 to around 40,000 in the future to really capitalize on the opportunities in the Americas.

David Egan:
Thanks, Jerry. And the German distribution center, Pete. Anything you'd like to add? Answer that question around DC and the utilization of it and ramp up.

Pete Malpas:
Yeah. By all means David. So Kean, thank you for the question. The Bad Hersfeld expansion that has been ongoing now for the last 12, 18 months is really now starting to, if you like, I guess, some of the early teething problems that were more related to trying to expand a distribution center in the middle of the COVID crisis, which caused some challenges. Where now coming out of that. We're seeing increased efficiency and our order availability out of Bad Hersfeld and our on time to promise is improving significantly. And we're starting that journey of moving some of the sourcing routes and increasing our stockholding capacity in the German facility. So we're starting to see the benefits and we expect that to continue through Q4 and into the early part of next year.

David, if you just want me to also make a comment on the peers moving into more industrial space, I think as mech-electronics, if you like, is becoming more prevalent and electronics and particularly automation and controls are becoming more aligned. We are seeing some changes in dynamics in the marketplace with some of the traditional pure play electronics peers are moving into the automation and control space, but that's not a new phenomenon. Certainly over the last 3 to 4 years, we've seen that trend happening and it continues to happen.

David Egan:
Thank you. And this one we are seeing -- we are seeing certainly an increase in the number of products that we have within the Bad Hersfeld distribution center. It certainly increased by around -- just over 30 percent so far. So, you know we'll continue to do that. But we're swapping products in and out of that. So it'll take a little bit of time for us to just ramp up. But otherwise we'll then get the efficiencies and also have product closer to the customer base within continental Europe.

Kean Madden:
Thanks. Very comprehensive. Appreciate it.

Operator:
As a reminder, if you'd like to ask the question today, please press star followed by one on a telephone keypad. If you've joined us by phone or if you've joined us by the webcast, please use the Q&A option provided in the top right of the screen. Our next question comes from Henry Carver from Peel Hunt. Henry please go ahead. Your line is open.

Henry Carver:
Thanks. Morning, guys. Just a quick one for me on the market share gains and just any kind of data points or, you know, what you're measuring that against and whether it's, you know, customer acquisition or just outperforming sort of underlying markets. And any sort -- where it's most pronounced and you know, where you see more scope for improvement. Is it basically where the customer -- where the initiatives are more mature, as you were saying, in the UK and Ireland or any color around that -- further color would be great. Thanks.

David Egan:
Sure. So look, I think in very simple terms, it's more pronounced in the industrial side of our business, the MRO industrial side of our business. We're seeing market share gains in that space in many of the markets in which we operate. Even in electronics, we would say that there are certainly product ranges where we are holding market share and maintaining our market share position. But equally, there are a couple of areas where we're probably losing a little bit of market share simply because we just don't have the breadth and or the range of products that others may have within the electronics space. If you look around the region, I would say that the market share things that have been captured in most countries. You know, there are quite a few that we would call out, probably not, but I think they're largely outside of our control, for example, China. So, look, I think generally speaking, Henry, we tend to look at supplier information and making sure that we're continuing to capture share of the channel. We look at industrial production output. We look at the competitive landscape and we talk to our customers. The vast majority of our share gains is existing customers and share of their wallet.

Henry Carver:
Brilliant. Thanks, David. Very clear. Cheers.

Operator:
Nothing further from the phone lines are present. So now hand over to Lucy Sharma, VP Investor Relations.

Lucy Sharm:
Hi, we've got two questions coming in from the Web. Taking the first one, they say you’ve called out the digital campaign in the U.S. helping in performance, what are you doing generally in digital across the group given our advantage versus the traditional peers?

David Egan:
So I'm going to hand that to Nicki Young, who heads our digital innovation. Nicki.

Nicki Young:
Thank you, David. Yeah. We're seeing over the last 12 months specifically our continued outperformance from the strength of our digital offerings in the market. As we know, many organizations have had to pivot towards more digitally orientated offerings. We continue to invest in driving more engagement with the right customers and optimizing our cost to serve

for those customers. And that's really resonating. And we're seeing from our recent studies that we're gaining market and gaining share of wallet with those customers.

When we look at the future moving forward, we still see further opportunity to enhance our offering, supporting our Net Promoter Score and making sure that our onsite experience is fit for purpose. Some of the initiatives that we're looking to bring in there have already commenced and we'll see some upside of those in financial year 24.

[talking simultaneously]

Lucy Sharma:
And the second question from the Web was about our inventory levels. Given the increase in the first half and [unintelligible] in the second half, they're asking what's happening with our inventory going forward?

David Egan:
Our inventory levels have -- inventory levels have ticked down slightly, absolute inventory levels. Our inventory turns have moved up a tad from where we were in the first half. Our expectations for the full year is that we will see a year on year increase in overall inventory levels. As we said in the past, is probably going to be around the £50 million mark. And that really -- that increase is being driven one, in terms of inflation in cost increases. But two, with the product expansions in particular in both Germany and also in the US operations. But we are managing our inventory levels closely to ensure that we have the right inventory in the right location to consider our customer needs based on the demand pattern today.

Lucy Sharma:
Thanks. That was it from the Web. Send it back to you Adam.

Operator:
Thank you, Lucy. We have a follow up from Rory McKenzie of UBS. Rory your line is open. Please go ahead.

Rory Mackenzie:
Yeah, morning. Just one last one for me please. I appreciate it's a very recent change, and I'd like to add my regards and thanks to Lindsley, but could you just tell us anything about the board's approach to succession and anything on timetable? Thank you.

David Egan:
So, look, there is a process that's underway that the board is leading. You know, I think it's about finding the, you know, the best available candidates, you know, from both internal and external. So it's an ongoing process. There isn't really a time frame that I can provide an indication that I can provide at this point in time. But I'm sure when the board has something to say, the board will certainly inform the market accordingly. But it's an ongoing process. It's an active process.

Rory Mackenzie:
Understood. Thank you.

Lucy Sharma:

Sorry, Adam, can I butt in? We've had another question from the Web asking, why is the vast majority of market share gains coming from existing customers? Why not winning new business?

David Egan:
So I will hand -- I will start and then maybe I'll hand over to Pete who might wish to add some comments. So, look, we are focused on both existing customers and also new customers, but certainly there is a great you know, there's opportunity in both, but certainly in existing customers, the customer that we already know and a customer that knows us and in many instances we are not, you know, we're not their sole source supplier or provider of indirect spend activities. And so for us, as we broaden out the range, we make them more aware of what we have to offer and we utilize our services and solutions within our proposition. It certainly is something that we're very much targeted on to actually drive share of wallet with existing customers and then complement that with growing new customers, targeted new customers where there's actually an opportunity to make money. Pete, would you like to add anything further?

Pete Malpas:
Yeah. I will David. And just to say, to reiterate David's point, you know, both existing and new customers are very much on the radar. And some of the stuff that Nicki just alluded to around some of our digital journey is all about attracting new customers. I think it's just pertinent to say at the moment that we're seeing a deliberate focus and a change of strategy in some respects around some of our low value one time high cost to serve customers that particularly came to us during the pandemic, where we're definitely, if you like, moving away from that customer base and trying to focus much more on those customers that have got a lower cost to serve and a higher customer lifetime value where we can grow that bigger share of wallet. So, you know therefore, that's why the overall customer numbers, the dynamic is changing a little bit, but moving forward very much new customer acquisition and growth from existing customers are both an integral part of the strategy.

David Egan:
Thank you, Pete.

[talking simultaneously]

David Egan:
Can I just thank -- thank you all for joining the call this morning. We look forward to updating you as we continue to progress through Q4 and our full year '23. So thank you for your time this morning.

[end of transcript]