



Group update and acquisition of Almo transcript

Wednesday, 15th December 2021

DONAL MURPHY, CHIEF EXECUTIVE, DCC PLC

INTRODUCTION

- Good morning and Welcome
- I'm Donal Murphy, Chief Executive of DCC and I'm joined on the call this morning by a number of my colleagues
- Here with me in DCC House is Kevin Lucey, our CFO
- from the UK Tim Griffin, MD of our Technology Division
- And from a very early morning in Philadelphia, Clive Fitzharris MD of our International Technology businesses
- Thank you for joining us this morning on this very exciting day for DCC as we announce the significant expansion of DCC Technology in North America through the acquisition of Almo Corporation. This is DCC's largest acquisition to date. We also want to take the opportunity this morning to update you on our Group Strategy and our capital allocation framework which we believe will create significant shareholder value over the short, medium and long term.
- Thankfully I don't have to read the disclaimer
- I'll give you an update on the Group Strategy and our value creation model
- I'll take you through our growth to date in North America to demonstrate our strategy in action
- Tim will update you on the DCC Technology Strategy and our growth in North America
- Clive will take you through the highlights of the Almo acquisition and why we see it as a really exciting opportunity and a very important step in the further development of our business in North America
- Kevin will then give you an update on our capital allocation framework, our priorities for capital deployment and our growth agenda
- And I'll wrap up and open up for Q&A

GROUP UPDATE: OUR BUSINESS MODEL FOR GROWTH

- DCC is a purpose led organisation and we are focussed on the value we create for all our stakeholders. Our Purpose "enabling people and businesses to grow and progress" really came to life throughout the pandemic as DCC delivered the essential products and services that people and businesses required while also delivering a strong financial performance.
- We achieve this by building impactful connections, as a distributor we are at the heart of the supply chain connecting the producers of products with consumers
- We're a trusted provider building long term and deeply embedded partnerships with our customers and our suppliers

- We focus on creating sustainable growth and superior value over the long term
 - We achieve this through a consistent strategic objective to build a growing, sustainable and cash generative business which consistently provides returns on capital employed significantly ahead of our cost of capital
 - Throughout our presentation today, you will see the key elements of this strategy in action
 - We take a long term, sustainable view of value creation which ensures our commercial strategies prioritise growth and create value adding strategic positions in our chosen markets. You will see later how Almo fits this objective
 - Our focus on capital allocation ensures our ability to reinvest into growth trends and Kevin will show you later how our capital allocation priorities are aligned with the growth trajectories of our sectors
 - And finally sustainability is core to everything we do across the group and we are making really great progress on our sustainability agenda including our journey to Net Zero, more on this from me in a few moments
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- We have a proven business model that has consistently delivered high growth and high returns over our 27 years as a public company. We achieve this by driving the organic performance of our businesses, investing and reinvesting capital and leveraging the benefit and resilience of our diverse sectors.
 - We have proven processes for the financial and commercial management of our businesses driving organic growth and consistent cash conversion
 - Our Group centre empowers our businesses while providing expertise and shared value in specialised areas
 - We add value through economies of scale, synergies and deep industry experience
 - We build long term and deeply embedded relationships with our customers and suppliers
 - We invest capital in our businesses and deploy capital on large and small scale acquisitions where the returns on capital employed are consistently ahead of our cost of capital
 - We reinvest cashflows to enable our businesses to grow and scale creating real value for shareholders
 - As we will further demonstrate today, that we are an advantaged acquirer for businesses in our sectors due to our long term outlook, a differentiation from private equity and scale benefits of a strategic acquirer
 - Our diversification by sector and geography gives us optionality to pursue the assets with the highest returns while also providing great resilience
 - And our devolved model ensures proximity to customers, local responsibility and focus which creates real agility and drives a high performance culture.
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- Our diversified model provides significant expansion opportunities and creates real resilience.
 - We have clear winning strategies for each of our sectors:
 - In Energy our strategy is to Lead the Energy Transition, bringing decarbonisation closer for our customers through domestic and commercial energy solutions and multi-fuel mobility networks. We are making really good progress and regularly update the market on the innovative products and solutions we are providing to our customers to reduce their carbon footprint. We will host an Investor Event in calendar Q2 next on our Energy Strategy
 - Our Healthcare strategy

- is to build a substantial international healthcare group focused on the provision of high quality contract manufacturing and related services to Health & Beauty brand owners and on the supply of medical products to healthcare providers.
- Conor Costigan gave a good update on our Healthcare strategy at our Healthcare Investor Event last September, a recording of which is available on our website
- And finally our Technology Strategy is growing a leading international specialist distribution group in technology and lifestyle products; and Tim will outline more on this shortly.
- Regardless of sector all our businesses have consistent characteristics; they are:
 - Customer focused sales, marketing, distribution or light manufacturing businesses
 - Asset light with relatively low capital intensity
 - Generate recurring revenue with high cash conversion
 - In devolved markets with similar risk profiles and importantly with consolidation opportunities
- This chart summaries the points I've discussed already and emphasises why we believe that DCC's diversified business model really delivers and will continue to do so over the long term.
- It provides:
 - Resilience through cycles
 - Exposure to multiple growth trends
 - Optionality in capital allocation
 - Facilitates geographic expansion
 - Creates many career opportunities for our people, our greatest asset
 - And it provides the ability to leverage operational and divisional best practice adding real value to all our businesses
- This is enabled at the Group level by:
 - A clear strategic direction and capital allocation framework
 - A culture of driving performance and growth
 - Backed by financial strength and discipline
- As I mentioned a few moments ago sustainability, aligned with our purpose, is core to everything we do across the Group and we are committed to driving excellence in sustainability.
- During the year we launched our first stand-alone sustainability report
- In November 2020 at our Energy Event we set out our approach to driving excellence in Sustainability and related reporting.
- In this context we are delighted to have very recently retained our AAA rating from MSCI
- And improved our CDP rating to B, up two classes, which is a significant achievement for our team.
- We are also making great progress on our journey to Net Zero

DCC NORTH AMERICA: SCALING OUR BUSINESS TO CAPTURE MARKET OPPORTUNITIES

- Now let me use our expansion into North America as a case study to demonstrate DCC's strategy in action
- Less than 4 years ago DCC decided to expand into North America and today, after the acquisition of Almo, we now have c. 30% of our Group capital employed in North America, businesses in all our sectors and approximately 3,000 colleagues growing and developing our business in North

America. But most importantly we are only starting - as we have small shares in large, fragmented sectors. With the growth platforms we've created we now are an advantaged acquirer in North America.

- Having identified the nutritional contract manufacturing market as a very attractive fragmented market where we could leverage the knowledge and experience of our European business, we set about building relationships with businesses in the sector. Our first acquisition in North America was in February 2018 when we acquired Elite One Source, a nutritional contract manufacturer based in Montana. We further expanded our business in this sector through the acquisitions of Ion Labs in November 2019 and Amerilab in March 2020. Organic growth in our nutritional business in North America is strong. And we've created a platform for further capital deployment in this attractive high growth sector.
- In April 2018 we acquired Retail West: our entry into the energy sector in North America. Retail west, now DCC Propane, had operations in 10 States, mainly in the Midwest. Since the acquisition we've grown strongly, deploying c. \$500m in total to create a business operating across 22 states supplying propane and related products and services to approximately 300,000 customers.
- And similarly in technology we have created a substantial platform for growth which Tim will take you through shortly.
- What pleases me most about our progress in North America is the organic growth we've achieved by leveraging the DCC business model we discussed earlier
- As I mentioned earlier geographic diversity has created great resilience in our business and created platforms for further growth. Over the past decade we've evolved the Group from being principally a business operating in the UK and Ireland to a Group operating in 21 countries on 3 continents.
- Today, the UK and Ireland accounts for c. 32% of our capital employed, Continental Europe has 34%, North America is the home for 31% with the balance in Asia.
- We have also sharpened our strategic focus over the past decade exiting sectors and businesses that did not fit our strategic framework or where we did not see sustainable growth in the medium to longer term.
- We exited our Food and Beverage Division in 2015
- We exited our Environmental Services Division in 2017
- And we also divested a number of businesses in our core sectors of energy, healthcare and technology where the growth rate or the returns profile did not meet our objectives.
- We will always focus on optimising our portfolio in line with long term trends and our long-term strategic objective
- Our expansion into North America has created substantial value. We have deployed c. \$1bn (pre Almo) in North America and as you can see on the chart, significantly improved the return on capital employed from the entry level returns.
- We've achieved this by applying the DCC business model we discussed earlier:
 - driving organic growth and operational efficiencies
 - through capital discipline and capex investment
 - and by extracting cost synergies

- We have already created businesses of substantial scale in North America in each of our sectors. I won't call out the stats. you can read them for yourselves, but the more important point is that we have created platforms for further growth as all our sectors are large fragmented markets where we still have relatively small market shares.
- In energy there is considerable roll up potential given the highly fragmented nature of the propane market. We will also invest in our energy transition strategy bringing low carbon and renewable multi-energy products and services to our customers
- In Health and Beauty we are investing capex to further develop our capability, capacity and form factors while seeking further consolidation opportunities
- And now I'll hand you over to Tim who will update you on our technology strategy and our growth in North America
- Tim

TIM GRIFFIN, MANAGING DIRECTOR, DCC TECHNOLOGY

DCC TECHNOLOGY: GROWTH IN NORTH AMERICA

- Like elsewhere in the DCC Group, in DCC Technology we are focused on the value we create for all our stakeholders. We talk all the time in DCC about partnerships... In DCC Technology we bring this to life by building really impactful connections between our vendors and our customers.
- For our 2,500+ vendors/suppliers, we provide reach and market access. We support them through our sales, marketing and distribution channel, enabling them to maximise demand for their products.
- We are the route to market for our vendors across 19 countries.
- For our more than 50,000 customers, we provide vast breadth of solutions and product choice offering supply chain simplicity and the ability to leverage our technical and logistics capabilities.
- We have embedded long-term relationships with vendors and customers. They trust us because they know the value we add as their vital partner in the growing distribution channel
- The fantastic thing about this industry is that it is always changing and growing. Distribution is providing more and more of the services that vendors and customers require to be agile in a dynamic market. The trends towards e commerce, working from home, smart home... I could go on of course— are all being enabled by DCC Technology and the services we provide.
- We are constantly innovating to add value to our customers and vendors:
- Although the technology industry is always evolving, our position between our vendors and customers remains familiar. Our specialist focus really delivers that extra expertise and technical capabilities which bring real value to our vendors and helps us make the market for their product.
- Our knowledge, expertise and technical support are increasingly valuable for customers where products are changing constantly. We make the complex simple – for example the Pro AV architecture for a major event centre or the installation of Pro AV equipment or premium appliances in a large new construction project. We work hand in hand with the integrator to design the best solution for the end user.
- We also support the new technology coming to market with our own-brand or white label products which are complementary to our vendors' offerings – and helps build out their offering in terms of accessories or other essential peripherals and which helps their overall go-to-market

strategy..... and we also provide these own brand or white label solutions for customers who need full range across all price points

- The evolution of sales channels is resulting in an Omni-channel world ... In this environment, as well as providing solutions to retailers and etailers, we are also enabling technology brands to sell directly to their end users. We do this by providing bespoke digital solutions and web offerings. This enables them to reach more of the market than they could on their own simply by leveraging our Infrastructure
 - Our whole value proposition is predicated on great teams and every day our people make life simpler for vendors, resellers and retailers
 - Finally our approach to sustainability – we are continuing to develop our capability in delivering a 2nd Life for technology, developing the residual market for technology and enabling subscription models to evolve. In parallel we have reduced the carbon footprint of our own operations by installing our own renewable energy solutions on our sites
 - We are incredibly proud of our heritage of building businesses both through operational and sales excellence delivering growth either organically or by acquisition
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- The context to this latest acquisition is our expansion into North America and continued investment in Professional Audio-Visual distribution
 - This slide tracks our journey over the last 3 years or so starting ... starting with our beach-head Pro AV acquisition of Stampede.... Quickly followed by the addition of Jam which gave us not only a Pro Audio extension but also consumer platforms in Electronics and Musical Instruments.
 - Since acquiring both those larger businesses we have, in a typical DCC fashion, completed a number of value adding bolt ons.
 - The Music People extended our capability in Pro Audio.
 - and then more recently we were able to leverage our position in Pro AV to expand into the Broadcast adjacency with JB&A being added to the family
 - Our business has performed very well in the last couple of years. Throughout the covid pandemic the business has demonstrated real resilience and continued to grow in North America.
 - The strong performance and increased scale over time has given us a strong position in Pro AV and Pro Audio and a developing position across the consumer channel more generally. It is great that we have found another complementary acquisition in Almo which will further strengthen our business in North America.
 - Post this acquisition we will have a multi-billion revenue entity in North America with over 1,400 colleagues, operating from 19 locations. North America will also have well over half of the invested capital of the Technology division. We are excited by the prospects of the business and look forward to more growth and development in North America in the future.
 - I am delighted to hand over to Clive who leads our International Businesses in DCC Technology to explain more about this transaction and Almo

CLIVE FITZHARRIS, MANAGING DIRECTOR, EXERTIS INTERNATIONAL

DCC TECHNOLOGY: ACQUISITION OF ALMO

- Thank you Tim and hello to you all. I will give you more colour on the transaction and what makes Almo such an exciting and high-quality business for us in North America.
- We have been building our relationship with the Chaiken family for three years since we entered North America in 2018. Building this relationship and mutual trust has allowed us the opportunity to do an off-market transaction.
- The majority of transactions which DCC do are bilateral and off-market. This reflects the effort we put into building relationships with other players in our sectors and demonstrates an important differentiator within our M&A capability.
- Almo is a large scale, value added distributor with nationwide coverage across the US.
- It operates across three major sectors with distinct vendors, customers and sales forces supported by common infrastructure and back office:-
 - In the ProAV sector, Almo is very similar in scale, products, margins and market approach to our existing ProAV business but with complementary geographic strength in terms of sales activity.
 - In Appliances, Almo is the largest distributor of mainstream appliances to small and medium sized specialist retailers throughout the US. They have long standing vendor relationships, some stretching to over 40 years, and it is the only nationwide player.
 - Almo also are the leading distributor of premium appliances for luxury residential installations which are used in both indoor and outdoor settings. In the premium space, Almo typically has long standing, exclusive vendor relationships and serves specialist retailer and construction channels for these high end products.
 - Finally, Almo has a dedicated capability focussed on e-Commerce fulfilment for a range of third party and own branded products in home comfort, principally, air treatment appliances, and a range of lifestyle products.
 - These products are typically large and hard to handle items which fits with Almo's warehouse capability with rapid nationwide shipping. The customer base includes the leading US retailers and e-tailers.
- Almo fits with our ambitions - geographically.
- It fits with our existing specialist focus in ProAV and own brand products.
- It fits with our strategy in continuing to acquire platform assets for further growth and development - this time with a North American platform in consumer appliances and lifestyle products.
- Warren Chaiken will continue to lead an experienced and proven management team who individually have decades of experience and relationships with vendors and customers.
- It is an excellent management team with a long track record of driving organic and acquisitive growth.
- Their sales capability, the large product format warehouse footprint and access to retailer, e-tailer, construction and installer channels across various business units gives resilience and numerous avenues for growth.
- In addition, each of Almo's markets have attractive growth outlooks.

- Combining Almo's proAV offering with our existing ProAV business creates the clear Number 1 Pro AV specialist distribution business in North America with significant market share.
- The doubling of our Pro AV presence gives us leading sales expertise and coverage nationwide and a more complete warehousing footprint and vendor set.
- By combining the best of both businesses, we will enhance our market reach and breadth for the benefit of vendors.
- It broadens our technical capability, product range and availability for our customer base of installers. We see revenue and cost synergies when the businesses are integrated.
- The Pro AV market is rebounding well and is expected to fully recover during next year. Industry forecasts are for mid-single digit market growth per annum in the medium term.
- ProAV is a key element of the acquisition. However, we are also acquiring a market leading platform in Consumer and Lifestyle products.
- As Tim mentioned, Jam has performed very well since acquisition. It has specialist consumer positions in electronics and musical instruments, alongside its leading Pro Audio business.
- Similar to Jam, Almo has specialist positions in consumer and lifestyle products, alongside its significant Pro AV business.
- As mentioned already, Almo is the largest independent distributor of appliances in North America.
- Almo's addressable markets here is expected to continue to grow at similar rates to Pro AV at mid-single digits per annum.
- Almo's really interesting e-commerce capability has high growth. It also provides opportunity to further scale existing and new product categories with similar characteristics and margin profiles.
- The strong gross and operating margins within each business unit are in line with our businesses in DCC Technology which have deep specialism, scale, and exclusive or own brand aspects.
- Almo's management are focussed on its core strengths with simplicity in operations and shared back-end functions. They translate their business unit margins into strong overall profitability for the company.
- Almo is also a strong fit with DCC's culture of sustainability. They already have an ambition to be carbon neutral by 2024. Indeed, approximately a third of their warehouses are powered by roof top solar installations.
- Almo is a terrific business in its own right. Plus we have a value creation plan through revenue and cost synergies and will be seeking to leverage the platform with further acquisitions.
- A highly successful business and management team and, with the DCC approach and capital, we are confident that we will deliver strong growth.
- Now, over to Kevin

KEVIN LUCEY, CHIEF FINANCIAL OFFICER, DCC PLC

- Thanks Clive and Good Morning everyone.
- Over the next few minutes I'll take you through some of the financial metrics of the transaction as well as giving a brief overview of our capital allocation priorities in DCC.
- Firstly, to Almo...
- As Clive mentioned, Almo is a scale business and last year generated underlying revenue and EBITA of \$1.3billion and \$75m respectively. At current exchange rates that is EBITA of approximately fifty seven million pounds sterling.

- The operating margin profile of the business reflects the value added service the business provides and the specialist focus around ProAV and consumer appliances and electronics. The acquisition will be materially margin enhancing for DCC Technology.
- The initial Enterprise value was \$610 million and the vast majority of the consideration was settled in cash at completion.
- The acquisition will be significantly earnings enhancing and we expect it will add approximately 10% to adjusted EPS in its first full year.
- As always in DCC, we are focused on Returns. Clearly this is a scale transaction and will deliver returns well above DCCs cost of capital from completion – and we expect it will deliver a return on capital employed of 15% within three years.
- Of course the returns are attractive, but we also believe that the enlarged business will be a real platform for us to deploy further capital at good returns in due course.

DCC: CAPITAL ALLOCATION AND GROWTH AGENDA

- Now – to switch gears a little and talk a bit more about our capital allocation priorities in DCC.
- To get going – This is our overall framework for capital deployment in DCC.
- DCC is growing organically by on average 4% over the last 5 years. And our teams have innovative business development plans that we support in development capex.
- We allocate capital to M&A where we see the opportunity to bring good businesses into the Group and improve them further, or improve our Group capability by bringing them in. We focus on delivering sustainable returns on capital well in excess of our cost of capital. We have deployed well over 900 million pounds in M&A over the last 18 months.
- Finally, we are growing our returns to shareholders and we have a progressive approach to dividend.
- Donal talked earlier about our agile business model and our growth focus. This manifests itself in our approach to capital deployment. Our priorities for capital deployment are driven by our views on the long term sustainable growth that can be delivered from any deployment.
- We have clear priorities for capital allocation across the two pillars of organic development capex and M&A. As you can see on the Right-Hand Side here in particular, we are focused on accelerating the growth of our Healthcare and Technology divisions and in building our capability in new or renewable energies.
- We believe there is a substantial growth opportunity in our Healthcare business. The market growth rates are strong across both the Health and Beauty market and in the sectors which are addressed by DCC Vital. The overall environment is one of increasing consumer interest in healthcare and nutrition.... And a backdrop of policy and regulation which also plays to the skillsets we have in DCC and our position as a well-invested player. We have built scale into the Healthcare division over the last two to three years in particular and the organic growth we have delivered has been very strong. We see long term market growth rates available to us to be in the range of 4-6%.
- In Technology again we are focused on building out the specialist capability we have in what is a growth industry. The industry is one of constant change, but one where the supply chain services and route to market we offer tends to be ever present – and growing. We believe the market growth rates available to us here will be in the range of 3-5%.

- Our Energy business produces incredible cash flow that enables the development ambitions of the entire Group. We are focused on redeploying those cashflows into areas which will support our capability to lead our customers in energy transition. This is a really exciting area. There will be huge investment by all economies in energy transition over the next 30 years – and the emerging energy areas we will play in will have high market growth of at least 5%.
- Finally, we continue to deploy capital in consolidating in our markets and building our customer base where we believe there is a clear transition pathway for them and a profitable cash generative transition for DCC.
- This prioritization of capital has been reflected in our acquisition activity over the last two and half years. Indeed over that time we have deployed one point one billion on acquisitions – and between 75% and 80% of that deployment has been in scaling our Healthcare and Technology divisions and bringing in new energy transition capability into the Group. This deployment is clearly evident in the mix of profits being generated now by DCC – just three years ago DCC Healthcare and DCC Technology were combined 26% of our total profits. Today on a pro-forma basis they are approximately 40%. And the Group in total is 1.6x the size it was three years ago – so the mix shift is quite substantial.
- We have talked at length about building out our Tech and Healthcare businesses in North America – some of the acquisitions are listed here on the Left-Hand Side of the slide. We have deployed capital into renewable power and solar too – to give some examples of the high growth energy transition capability we are building.
- On the Right-Hand Side, just some examples of how the same Capital Allocation Priorities manifest themselves in Organic Capital Expenditure.
- We are significantly expanding our capacity and form factor capability in our Health & Beauty business. We will deploy substantial capex in the next year in adding a new facility to our business in Minnesota and building a gummy line in Florida.
- We are investing in EV charging and renewable or lower carbon fuels in the energy sector. And we are investing across our business in decarbonizing our own energy use.
- To finish up on the capital allocation side of things:
- In just the last 18 months we have deployed well over 900 million pounds on acquisitions. Our balance sheet remains strong and we believe we have the opportunities and capability to continue to be acquisitive and to invest in organic development capex for growth.....
- Our capacity to be acquisitive is enabled by both ... our balance sheet but also by the very resilient and cash generative nature of our business.
- Our business model and the cash generative nature means DCC can deploy at least 6 billion in M&A over the next ten years, relative to our capital employed of 3 point seven billion today. This capital will be deployed to where we see the greatest growth opportunities for DCC. Today, we have outlined those priorities to you.
- The great thing about bringing growth businesses into the Group and combining them with our existing quality businesses and Group culture... is that they in turn create more growth opportunities for us.
- It is this mix of organic and acquisitive growth that we believe can continue our track record of double digit earnings growth over the longer term.
- And finally for me, before I hand you back to Donal.
- In terms of communicating with the market.

- We have already held a couple of sessions which were relevant to our themes today around the growth and capital allocation of DCC.
- Conor Costigan who leads our Healthcare business held an informative teach in on the growth opportunity in DCC Healthcare at the end of September and that webcast is available on the website.
- At the half year stage we took some time to talk through some of the great initiatives we are taking to lead our customers through energy transition. Again, that is available currently on the website.
- Obviously today is another step but we realise that we have more work to do to articulate the growth opportunities available to the Group.
- With that in mind we plan on hosting a couple more sessions early next year.
- Firstly, Tim and team will provide the market with an update on DCC Technology and the growth opportunities available to us there.
- After that we will hold a longer event focused specifically on our strategy for the energy sector and how we expect to grow while leading our customers on their own net zero journey.
- So, with that – back to you Donal.

DONAL MURPHY, CHIEF EXECUTIVE, DCC PLC

WRAP UP AND Q&A

- Thanks Kevin, So in summary
- DCC's consistent strategy has and we believe will continue to deliver superior growth and create significant value for all our stakeholders
- We have built a business of real scale in North America in a relatively short period but the most important factor is that we are only just starting
- The acquisition of Almo is an exciting and significant step in scaling our capability in DCC Technology
- Our capital allocation framework is aligned to our strategy and aligned to growth
- Our priorities for growth are clear and
- We are excited about the growth potential across all our three sectors
- Finally we believe that our strategy will continue our track record of double digit earnings growth for our shareholders
- Many thanks and we'll now open up the line for questions:

DONAL MURPHY, CHIEF EXECUTIVE, DCC PLC

CLOSING COMMENTS

- Acquisition of Almo is a really exciting development for DCC. It increases DCC's operating profit and earnings per share by 10%
- Significantly scales our Technology business and expands our capabilities in lifestyle products
- Despite the challenges presented by the pandemic DCC has spent c £900m on M&A in the last 18 months
- North America grown from zero to >30% of capital employed in less than four years with platforms for further growth and development; All our sectors are large fragmented markets where we still

have relatively small shares – c. 7% in Technology; 3% in Healthcare and 2% in energy in our addressable markets

- Starting ROCE in North America of 12% boosted to 15% by the value that DCC has delivered
- Our capital deployment priorities are clear both organic and through M&A and aligned with the growth trajectories of our sectors
- Healthcare and Technology now accounting for 40% of pro forma Group operating profit. These divisions and renewable energy account for 75-80% of capital deployment in the last 30 months.
- We have the capacity to deploy £6bn over the next decade, from current Group size of £3.7bn
- DCC is making great progress in Sustainability our AAA sustainability rating was confirmed in recent weeks by MSCI, while we jumped two notches to B with CDP
- Group is well positioned for further growth and development

Q&A

Allan Smylie (Davy): Good morning Donal, Kevin, Tim and Clive. Congratulations on the transaction this morning. I have a few questions please. Firstly, on Almo, it would be helpful if we could get some colour around the growth rates of the business, either historically, or how we should think about market growth going forward. Also, if you could give us a sense of the profit mix within the business given you are entering some new and potentially quite exciting segments. Then a bigger picture question for Donal around capital allocation. Donal, in the past you have reactively allocated capital to attractive opportunities as they arise and it sounds like in the presentation today, I'm alluding to slide 25, you are now taking a somewhat more proactive approach to allocating capital to future growth opportunities. If you could comment on that and then as a follow-on, are there now parts of the energy portfolio that you think will be somewhat de-emphasised from a capital allocation perspective if the pathway to energy transition is less clearcut? Thank you.

Donal Murphy: Thanks Allan and I will ask Kevin to talk a little bit about the Almo growth rates historically and going forward but like I said, it has been actually a high-growth business and the market that we are in. One of the really exciting things about the opportunity is not only does it give us that number-one position in the specialist Pro-AV market, which is a high-growth market generally across the world but a high-growth market in the US, but it also brings us into new areas that are also high-growth. Going forward we would see that business growing 3-5% organically but building on a long track record of growth.

Kevin Lucey: Yes Allan, in terms of growth rates looking out the industry bodies that we would look at, there is a trade player in Pro-AV or the industry forecaster would be AVIXA. They would be calling out 4.5% growth in the Pro-AV side over the next five years, which broadly we would agree with. On the appliances side I think again outdoor appliances are growing very quickly. Premium appliances are growing quickly. You have solid growth rates on appliances, about 2.5% and then in certain areas growing upwards of 5% or higher. Blended basis addressable for Almo in total it very much feels somewhere between 3% and 5% organic growth opportunity for us and has been organically [SHORT BREAK IN AUDIO].

Donal Murphy: Hello, apologies about that. Sorry Allan. I think Kevin was pretty much through on the first question. If there was any additional point that he has not covered just let us know. Looking at the capital allocation priorities, DCC has been and is committed to diversity within our business model. That is nothing new. You have followed us for some time. You know that the different sectors have grown at different rates, both the organic growth but also our ability to

deploy capital across the different sectors. We very much want to be deploying capital in line with the growth trajectories of the different sectors that we operate within. As Kevin outlined earlier, clearly we are in a high-growth healthcare sector and we would love to have a much bigger Healthcare business as part of the Group. The technology sector again is a high-growth sector and we have been growing very well over the last number of years. Almo is a material step increasing the scale of our Technology business globally and we believe will help accelerate the growth of our Technology business by bringing us into new areas and new platforms for growth. On the energy side there is going to be phenomenal capital deployed to drive energy transition. As we have talked about many times in the past and we will talk about in our energy session next year, we are just very well positioned to support customers on that energy transition journey and on their journey to net zero. That is going to create lots of opportunities for us and opportunities not just to grow the business organically but to deploy capital in some of the areas that we have been deploying in. Whether it is our renewable electricity, whether it is our solar, whether it is investment in EV fast charging, you will see us continue to do that. Our core asset within our Energy business is the nine million customers that we provide energy products and services to today across the 12 countries that we operate within. We want to continue to consolidate those customers. Are there areas that we will not deploy capital in? Well, absolutely there will be areas that we will not deploy capital in, in the energy sector, just like in the past in the other sectors that we have been in where businesses do not have the growth trajectory, do not have the cash generation and do not have the ability to transition customers to low-carbon and ultimately zero carbon solutions. Then they will not fit within our portfolio. We will actively manage that and I think when we look at the areas of focus, the areas of focus are really in those lower-carbon areas as we go forward.

Kevin Lucey: Just to add Allan, not to step back too much to Almo but you did have a question on splits. Obviously Pro-AV is the largest part of Almo and it represents just over 40% of revenues on an underlying basis. Appliances would be just under 40% of revenues and then the fast-growing e-commerce or fulfilment side would be roughly 20% of revenues. That will give you an indication of the split in Almo.

Kate Somerville (UBS): Good morning everyone. Thanks very much for the presentation. My first question is on slide 26 you give a really good idea of the energy outlook and the more positive areas. I was wondering if you could give us an overall mid-term outlook in energy. Then my second question is within your Energy division can you remind us, what percentage is coming from non-fossil fuels and what the returns are in the non-fossil fuels versus the fossil fuels? Then finally, I think the margin for Almo is around 6%. I was wondering where you expect this to get to and where the cost savings are coming from. Many thanks.

Donal Murphy: Sure, thanks Kate. On the energy side we called out and Kevin called out in the slides, we said put in 5% plus in new energy growth. That is going to be plus plus plus because clearly the opportunities in the low-carbon area are going to be very significant. The estimate of about £100 trillion to be spent to get net-zero by 2050 and there will be lots of areas in the segments of the market that we work in within the energy side particularly focused on the off gas grid end of the market where we have a particular strength will create plenty of opportunities for us. We see that element as high-growth. We are very confident in our ability to grow our existing business even though traditional volumes will decline over time with the ability to manage our cash contribution from our existing Energy businesses as we are transitioning customers to lower-carbon fuels. That low, 2%+ kind of growth is where we see the existing business and our ability to transition customers to lower-carbon fuels.

In terms of our volumes to-date we have grown very significantly in the low-carbon areas and just shy of 10% of our volume. Volumes are different to traditionally litres of fuel or tonnes of gas because we are investing in renewable electricity. We are investing in solar but about 10% of our business now is in clean energy areas and that percentage will grow further as we go forward.

Kevin Lucey: To emphasise on that Kate, we have obviously built small but growing positions in renewable power and solar. The returns we are getting from those acquisitions we have made and the businesses we are building organically are no different to those of the rest of the DCC Group. We are generating mid-teen returns from those investments, albeit that we are still early in their growth journeys. We are being encouraged by the progress we have made so far on returns in those areas.

Donal Murphy: Maybe Clive, you would like to talk a little bit about the margin profile within the Almo business and impact on Technology?

Clive Fitzharris: Okay, thank you Donal. I suppose Kate the first thing I would say is we see real opportunity in relation to top line growth at similar margins. As you pointed out, the 6% or so margin in the business is impressive but it is in line with similar businesses that we have elsewhere in Technology that will have deep specialisms, exclusivity and own brand elements. Kevin spoke about the market growth at mid-single-digit. We think we can gain market share ahead of that growth and deliver revenue growth.

In relation to cost synergies, there is cost synergies on the Pro-AV side but we want to maintain the really strong market presence of our combined businesses. It is relatively modest, maybe about 1% of return on capital employed on cost synergies. We will also be looking at growth into Canada and where Almo does not have a presence in appliances and home comfort products. We have a strong presence in our Jam business.

Donal Murphy: Super, thanks Clive.

Rajesh Kumar (HSBC): Hi, good morning. Thanks for taking my questions. The first one is, after this deal how much more capacity do you have on the balance sheet? Looking at available cash and cash generation that is available for redeployment, how are you thinking about 2022 capital allocation? Are you at the end of your pipeline for deals or are there more in the pipeline which you are thinking about? Second question is on the business mix in Almo. You have given quite a lot of colour of what they do and how they do. Could you just run us through the type of growth rates you are getting in those different market segments and why?

Donal Murphy: Great, thanks Rajesh. I will take the pipeline piece and I will give Kevin the balance sheet piece to answer. On the pipeline, we talked about this at the full-year. We said we have a pretty active pipeline from an M&A perspective and one deal does not make a pipeline. We have as always lots of things in play across the Group against across our three core sectors. We feel good about the opportunities to deploy capital going forward. M&A is one of those things Rajesh that is a little bit like the buses. They come in at different times, sometimes together and sometimes a little bit spread apart. It is always about timing but we are pretty pleased with the pipeline we have across the sectors.

Kevin Lucey: I guess we are pleased that firstly we have deployed well over £550 million in the year so far in terms of acquisition commitments. Notwithstanding that level of spend and notwithstanding the fact that we will have spent £900 million or more over the last 18 months, the balance sheet remains very strong. We finish FY22 with pro forma net debt/EBITDA of around about

0.4x. On a look forward basis the balance sheet will have plenty of capacity. As you know, we set an upper-end of leverage at about 2.0x so very substantial room for further capital deployment from 0.4x where we think we will finish this current financial. Plenty of capacity in balance sheet.

Donal Murphy: Again Rajesh in terms of the mix there is different growth rates in the different segments of the Almo business. Clive, you might like to take Rajesh through that.

Clive Fitzharris: Yes, as Kevin said earlier, overall it is 3-5% growth across appliances and Pro-AV. In appliances it will be higher growth in channels such as e-commerce. E-commerce even without Covid is probably mid-teen growth. Then you are going into certain product categories. Air treatment/outdoor would be higher growth versus major appliances. As I mentioned earlier, the Almo business has had a long track record of exceeding that market growth, gaining share, going into new territories, adding new brands and adding new lines for existing brands. I think 3-5% is a good guide overall but we would hope to surpass that.

Donal Murphy: Great, thanks Clive.

George Gregory (Exane BNP Paribas): Good morning chaps, thanks for taking my question. There was a lot of useful colour on the Pro-AV piece. I am keen to understand how you see the appliances part of Almo. Is that a business that you will continue to look to grow or do you see it being de-prioritised within the mix of activities? More importantly, how do you view the structural outlook for distribution of consumer appliances, please?

Donal Murphy: Thanks George and I think it is a very exciting area actually. If you think about the home and the whole range of products that people consume or use within their homes, we have been providing tech products into the home and that has been a big growth area for us. Home appliances is a major spend area for customers. It is very similar to the tech products. There are replacement cycles. There are people refurbishing their properties. It is a big new market area for us and if you think about the smart home of the future and our ability to provide the total range now of products for our customers from consumer appliances, consumer electronic products and air conditioning which is part of the Almo business. Ultimately as we go forward within our Energy businesses our heat pump solutions, our solar solutions, the whole range of smart tech products that go into the home. Building out our business in the appliance area it is a really good growth opportunity for us as an organisation. Maybe Tim, you would like to add something to the growth objectives of Technology within this area?

Tim Griffin: Yes, thanks Donal. George, thanks for your question. I think you have covered much of it in terms of the context in smart home, the proliferation of consumer electronics and we definitely see this as a major growth area. It is also an opportunity for us to service our channels to a greater extent and really cover more of their wallet. It is an area that we have already been in, albeit it in a less material way in some of our more successful acquisitions like Amacom, for example, where we have been involved in large box distribution. We see it as a major opportunity to service both the market, the customers and our vendors who absolutely are similar vendors across multiple parts of our vendor landscape whether or not it is IT or whether into appliances and even air conditioning. It is the same customers. Thanks for your question George, it is a great opportunity and something that we will be looking to double down on.

Donal Murphy: Super, thanks Tim.

Christopher Bamberry (Peel Hunt): Good morning gents. With regards to Almo, how well invested is their IT and warehouse infrastructure? Secondly, you have talked about their e-fulfilment and e-

commerce capability. How does that compare to yours? What extras does it bring? You mentioned £6 billion of capital you could deploy over the next ten years. Could you give us some of the assumptions behind that please? Thank you.

Donal Murphy: Thanks Chris and the answer to the first bit is well-invested from an IT and a warehouse infrastructure perspective. Not just well-invested but we have a huge focus on sustainability across our Group but there is not a lot we need to add to the Almo business. Their focus on sustainability is very significant. They will be net-zero across their operations I think by 2024 and have been investing in solar and so on. A wonderful footprint of warehouse infrastructure across the businesses and the technology has enabled the business to deliver to within two days all the products across the entire market. Maybe Clive you would like to talk a little bit about the fulfilment business and what it brings to us.

Clive Fitzharris: The fulfilment business supported by that large box handling capability is really an attractive space in terms of air conditioning, air treatment products and other sorts of outdoor living products. We will look to expand the product ranges that they are currently selling and also add in other products, particularly in formats that suit the warehouse and are more defensible in terms of the capability and the services we are providing to e-tailers. The e-commerce business, the overall market is probably growing in mid-teen percentages and we would continue to see that growth going forward. We think we can do a lot with that part of the Almo business.

Donal Murphy: One of the focuses Chris that we have had has been the direct-to-consumer element of our business. You have heard us talking about that within our Technology business over the last number of years. This acquisition further strengthens our capability within that area. Whether it is supporting vendors bringing their vans directly to their direct-to-consumers or whether it is supporting the online retailers or mainstream retailers who want to develop their online presence. That has been a real driver for growth for us all the way through the pandemic. Kevin, on the assumptions?

Kevin Lucey: Hi Chris. You will be familiar with our capital deployment over the last number of years and we have regularly talked about an ambition to deploy £300-400 million per annum on capital. If you look at the last 18 months we deployed well over £900 million on capital in that time. As we look out and over the next ten years a £6+ billion number really is continued confidence in the cash generation, the growth outlook for the Group and the scaling up over time of what we believe the appropriate level of M&A spend for the Group will be. If you take it that the growth and the scale opportunities that we have delivered, for example in North America, every time that we have expanded we have found that it brings more opportunities towards the Group. We believe we will have the financial capacity to spend that sort of money but more importantly we believe we will have the opportunities and the capability in DCC to execute against it. It is really just to say that we have continued confidence in the financial performance of the Group, the cash generation of the Group, our strong balance sheet today and then the opportunity set and the capability to spend the money.

Donal Murphy: Unfortunately, we have time for only one more question and I know there are probably more questions on the line but we will note everyone who has raised questions with the operator and we will get back to you afterwards. We will just take the final question.

Thomas Truckle (Jefferies): Hi all, thank you for your time today. I just have two quick ones, if I may. Coming back to Kate's point on cost synergy, is there a way in which we should consider the phasing of those cost and commercial synergies or would it be fair to evenly phase those across the next

three years or so? Then coming to tax rate, is there a particular tax rate we should have in mind for the Almo business or keep relatively in line with the current Group? Thanks.

Donal Murphy: Thanks Thomas.

Kevin Lucey: Thanks Tom and no problem with either of those two. Yes, is the answer to the first question in that I think we would be considering a pretty steady phased profile across the three years in terms of getting from that broadly initial 12.5% return to the 15% return within three years. On tax, you will know the US corporation tax rates are higher than a lot of the rates we see in Europe. We would broadly be assuming a corporation tax rate of about 26% on profits coming into the Group from that part of the world. Tax rates are always subject to change, particularly at the moment with governments looking to pay for all the support they have put behind the Covid pandemic but as we see it at the moment 26% or so out of North America.

Donal Murphy: Super, thanks. Thank you all for all the questions. Sorry we do not more time to deal with more questions. Maybe just to leave you with a couple of comments, firstly the acquisition of Almo is a really exciting development for DCC. It increases our operating profits, our earnings per share by 10% so materially accretive on a full-year basis. It significantly scales the Technology business and expands our capability out into lifestyle products, as we have talked about earlier. Despite the challenges presented by the pandemic DCC has now spent £900 million on M&A in the last 18 months. Not being able to get out and about has not stopped us deploying capital which augers well for our ability to deploy capital going forward.

A key aspect of not just this deal but the last number of years for DCC is the growth of our business in North America and now North America accounts for just north of 30% of our capital employed. Not bad in less than four years. All the sectors are large, fragmented markets where we still have relatively small shares of 7% in Technology, 3% in Healthcare and 2% in the Energy sector that we operate within. Lots of room for further growth. Our return on capital employed in North America, the entry level is about 12% up to 15% now. I think we are making really good progress applying the DCC business model that we talked about earlier. Our capital deployment priorities are clear, as Kevin outlined earlier, and they are very much aligned to the growth trajectories of the sectors that we operate within. Diversity is hugely important to DCC. Healthcare and Technology on a pro forma basis now account for 40% of our Group operating profit and we continue to grow clearly in the renewable and lower-carbon areas of the Energy sector.

As we have just talked about, we have got capacity to deploy another £6 billion in this Group building on the £3.7 billion of capital that we have deployed today. The shape of the Group will very much be driven by the capital that we deploy going forward. DCC is making really good progress on the sustainability agenda. Getting our AAA-rating from MSCI recently again, moving up two notches in CDP, that is all really good progress. We are scoring well from an ESG perspective. Overall the Group is in really good shape. Today is a big day for us. It is a great day to welcome the Almo business and the Chaiken family into the DCC family. I would like to thank you all for your time. Thank you and have a good day. Take care.

[END OF TRANSCRIPT]