DCC Technology

Our Growth Opportunity Presentation

Tuesday, 15th February 2022

Introduction

Hollie Daly

Investor Relations Manager, DCC Technology

Welcome

Welcome, everyone. It is an exciting time for DCC Technology. Before Christmas, we announced our largest acquisition to-date, not just for DCC Technology but for our Group DCC. The acquisition of Almo in a deal worth $610 million makes DCC Technology a much larger part of our Group.

Almo doubles the size of our technology business in North America, and it makes us the largest specialist Pro AV player in that market. There are huge growth opportunities for DCC Technology. And we are here today to hear from the talented management team running the business.

After we hear from Tim and Clive, we will be opening for questions. Please email any questions you may have to the email address on screen, investorrelations@dcc.ie.

Okay. Let us kick things off. Over to you, Tim.

Overview

Tim Griffin

Managing Director, DCC Technology

Our business today

Thank you, Hollie, and good afternoon, everybody. Over the next few slides, Clive and I are going to tell you a little bit about how by focusing in on specialist sales, marketing and distribution capabilities, DCC Technology have been able to double their revenues whilst improving margins.

We are also going to be telling you why through the investments that we have made that we are poised for growth and poised to drive improved return on capital employed. By focusing on a few examples, we are going to be able to demonstrate why customers value what we do and why they reward us with their customer loyalty.

The first example is around Pro AV. While the number of pictures on this slide could really talk to that story, what we do in the meeting room or indeed in terms of providing technology that enable you to join calls like this, I am going to focus in on the picture of the stadium.

This is the SoFi stadium, where the Super Bowl was played this weekend. Congratulations to the Rams. Obviously, we provided the technology that really enables the sound, the music and that experience for live audiences.

The second example I am going to focus in on is the data centre, where we support vendors like Dell with their storage, server and networking story getting to market. We work with their resellers to enable us to architect, install, configure and ultimately deliver to site for our resellers to be able to deliver their projects for banking infrastructures, telcos, or indeed the e-tail revolution.

The third example I am going to focus in on is that mobile experience, where we have all enjoyed the moment where we pale off the film. If you pause a minute, we have not only delivered that to your front door but we have managed the logistics from the Far East, the retail experience, including marketing creating activities.

If you stop a moment again, reflect on where was your old phone going to? We have built the online trading portals for vendors and we have taken that product away. We have refurbished it and re-launched it as new for the market, checkout as new mobile.com to see what we do and something that we are really proud about.

How we add value for our partners

What is it that links all these examples that I have just shared with you? In each instance, we are enabling our partners to do more. We enable their success. We enable them to focus on their core competencies and grow their business.

For vendors, we make the market through sales, marketing activities, like an example may be what we did for Microsoft in the Westfield stores in London, where we delivered pop-up stores for their Xbox launch. For retailers, resellers, installers and even e-tailers, we invest in deep specialist knowledge that enables them to have leverage and simplicity that allows them to focus on their customers' experience.

Our footprint & scale

We are an international business with size and scale. We serve thousands of brands through tens of thousands of partners, be it retailers, resellers or integrators. We are delivering nearly £6 billion worth of revenue with our 5,000 people around the world. We have established a footprint of the last three or four years in North America that is delivering £1.8 billion worth of revenue and we are just getting started.

The pins that you can see in Europe, obviously, have opportunity to be reproduced in North America. We see North America as a high-margin high-growth opportunity with the ability for us to share our specialist capabilities from Europe into that marketplace.

We play in seven deep specialisms so far

Here are the specialisms I have been talking to. As you can see, we have considerable breath and that in its own right brings diversity and resilience. We do not have every specialism in every geography just yet, and that is clearly a work in progress and the source of great opportunity.

Each of these markets we have been able to create a competitive advantage and reflect on the fact that they are growing and delivering high margins.

Growing margins with added-value & specialism

Our strategy is to grow by adding value. We build on volume, innovative sales marketing and distribution capabilities that really add value to our customers through deep specialism. We become increasingly relevant and sticky to our partners in their supply chain.

As we do so, we increase our margins. We look to complement our deep specialisms by building great own brand solutions that really enable their speed to market or for them to have a complete portfolio within a retail marketplace.

We look to seek to be complementary within the own brands that we build. An example might be what we do for Facebook and their Oculus virtual-reality solution where we build cases, docking stations, charge points, really enabling the ecosystem of their solution so they can get to market faster and enabling us to make even greater margins. Clive?

Financial Review

Clive Fitzharris

Managing Director, DCC Technology

Growing our margins while scaling our platforms

We have been extending geographically into specialisms via acquisition. This strategy has delivered top line growth, but more importantly, significant gross margin improvement.

Over the last four years, our gross margins have increased from 7.6% to 10%. This is an American and European story of growth and development. In 2018, we made our first acquisitions in North America with Stampede and Jam. Marty Szpiro sold us Jam, and you will be meeting him shortly.

This created platforms in Pro AV, Pro Audio and Musical Instruments. These businesses have grown and developed strongly since then. In 2020, we made both-on acquisitions of JB&A and The Music People. In December last, we made the very, very significant announcement of Almo. This is a hugely exciting acquisition for us. It transforms our scale, capability and scope in North America for further growth and development.

During this time in Europe, we added Pro AV and consumer platforms. We also added to our existing mobile services and B2B cable businesses. As we leverage our international scale, we use the Exertis brand. We re-branded Stampede last year to Exertis with great energy and passion, and I would like to show you a video which demonstrates the fun that we have as an organisation. Have a look.

[Video]

Leading market positions and specialist focus

Back to North America. We are now leaders in Pro AV with a truly scaled nationwide warehouse footprint. Since the December announcement of the Almo acquisition and our planned combination with the Stampede-Pro AV business, the Pro AV vendor response has been very positive. Why not? We have $1 billion of value-added sales with the largest dedicated sales for us throughout North America. Almo has brought us leadership in indoor and outdoor appliance distribution. New news since the December acquisition announcement, we have added the Danby range of appliances nationwide. We have also added Frigidaire in the southeast of the country across nine states and the Hestan premium appliance brand for the east of the country.

We will continue to drive the organic growth of this business through the addition of new brands adding new lines for existing brands and adding new territories, including Canada. We have just a 7% market share in a growing market. We are really excited about the further opportunities to organically grow this business and define further acquisition opportunities.

Sustainability is also embedded into our North American operations. And I am going to pass you over to Tim to talk about more examples across our division.

Operational Performance

Tim Griffin

Managing Director, DCC Technology

Sustainability

Thank you, Clive. Almo's focus on sustainability is really making a better tomorrow for us all, and it is a shared passion by all our businesses around the world. Each of them are charged with delivering in the most sustainable way.

If you think about our operational focus, whether or not our businesses are choosing the energy source with which they run their operations, they may be choosing biogas as our Pro AV business in Buffalo did, or indeed solar as our business in Burnley in the UK did by installing solar panels across that warehouse. Each of them is thinking about how to be sustainable.

It may be through our programmes that we are driving a packaging improvement. Our business in the Nordics, for example, recently invested in mechanical equipment that allowed us to optimise the size of cartons that we use for shipping. They also invested in machinery that pre-stretched the plastic and reduced the wrapping that was required before shipping.

If you shift gears a little and think about the offerings that we make in the commercial space, I already spoke a little about the work that we do in the mobile business. We repair, we refurbish, and we recover components. Each of those are driving the circular economy, driving businesses like as new mobile, and indeed, the subscription economy, where many of those products and services are predicated on refurbished units.

Positioned to win

We are positioned to win in large fragmented marketplaces. The businesses in which we operate are growing at 3-5% and we see very fragmented marketplaces in North America. We only have a 10% share, in fact less than 10% share in the sectors in which we operate and we see great opportunity to diversify, extend our specialisms and to go into adjacencies.

This is why we will win. We are expanding geographically in buoyant marketplaces. Our focus on specialisms is improving margins, and our operational excellence is driving organic growth. The fragmented marketplaces deliver us great opportunity to expand our footprint. We have invested in the future that will really improve our margins as we go forward.

[Video]

Q&A

Hollie Daly: Great video to bring the energy into the Q&A. Joined here by Tim and Clive for a Q&A, and also Marty all the way from California. Tim, Clive, great presentation. Great to hear more about the business, about the strategy, the specialisms, the expansions and more about the sustainability initiatives got there too. Just before we kick off for Q&A, actually a reminder to everybody at home, if you think have any questions, please email them into investorrelations@dcc.ie. That email address should be on screen, investorrelations@dcc.ie.

Tim, let us kick off with you. Everybody listening is keen to hear more Almo, how is the acquisition, how is the integration going, any synergies, early days, is everything going to plan?

Tim Griffin: Yes, Hollie. I mean, as you say, it is very early days, but I think the first thing to say is it was a substantial acquisition and we are absolutely delighted to have Almo and the team in the business and welcome them to the family.

As many of you will know, there were four divisions for three of them in many respects, it is business as usual, and that is going very well so far. The other was a Pro AV business and we are looking to integrate that with our existing Pro AV assets in North America.

Obviously, the focus is on growth. From a synergies perspective, that is where we are looking to see the benefits of that acquisition. Marty is on the ground. He is driving that for us. Perhaps, Marty, I hand over to you to answer that more fully.

Marty Szpiro: Thanks, Tim. The Almo integration is going very well. It is on target. It is on schedule. It is a real pleasure to work with a large distributor like Almo through the process. Their scale supports a very talented professional back office, and quite a few of them have worked in public companies, including their CFO. Thus, they are aligning very quickly with the Group without distracting their sales leads from their targets.

Almo itself was acquisitive over their history. They understand both sides of the process well. I think it bodes, particularly well for the future, their ability to bolt-on into their segments. We see a lot of good synergies. Clearly, great operations and very large regional warehouses that will provide opportunities for the whole group in North America, as well as Jam has provided a likely platform for Almo to expand their segments into Canada, which is something they wanted to accomplish.

Finally, as Clive said earlier, the combination of the Pro AV businesses in the US make us the largest by far specialty Pro AV business and gives us new extended leverage with both our vendors and our customers.

Hollie Daly: Thanks, Marty. Marty, you joined the DCC Group about 3.5 years ago when we acquired your business, Jam Industries. Can you tell us a little bit about the last 3.5 years, what your journey has been like with DCC? You recently moved to an expanded role, President and CEO of Exertis North America. You might tell us a little bit about that role.

Marty Szpiro: Thanks, Hollie. It has been a great ride really. DCC really gets entrepreneurs. I think it is one of DCC's greatest tools in M&A kind of a secret weapon. I spent 30 years building Jam. Price is important, but it is only part of what I considered when looking for a buyer. I think, Warren, the President of Almo felt the same. I was concerned about the people of Jam, our partners, our customers, and of course, what my role would be after a sale.

DCC allowed me to continue to run the business with the same methods and the same way that made us winners. We were empowered to get to the next levels with financial support, professional management. Of course, we had access to the DCC M&A process.

Not long after DCC bought Jam, we, Jam, made our largest acquisition with this new skill set and a company called Music People, great company. In addition to our other divisions, Jam is now the largest pro audio distributor, not just in North America but globally. Tim and Clive offered be my new role as President and CEO of Exertis North America. We had a great number two at Jam, Our CFO, Stuart Frenkel, who stepped up and replaced me, so it made it a smooth transition.

It has been a great opportunity and out of the gate one of my first jobs was the Almo acquisition. A lot of adrenaline to deal that size that and we have targeted quite a few exciting new acquisitions. This is great stuff. Keeps me very interested. The future looks very exciting, Hollie.

Hollie Daly: Thanks, Marty. Might come to you, Clive. You talked a little bit in the presentation about lots of opportunities for growth through acquisition. Where do you see those opportunities? Is North American really the focus now?

Clive Fitzharris: Well, North America is a priority market. For all the reasons that we covered in the presentation and what Marty said, it is a scale market with a relatively small market share in it. We have scale presence with very capable management and we have had inbounds already. We have had other conversations that we are having with potential targets and we are refreshing those now.

We have a little bit of work to do in relation to the Pro AV integration, but I think very soon you will see us do more acquisitions in North America. It is not just a North American story though. There is plenty for us to do in Europe, and I referenced it in the presentation earlier. We have added to some of our specialisms in Europe, but there is more to do in individual countries and there is bigger platform ones that cover multiple geographies as well.

Tim Griffin: Yeah. I think you are right, Clive. I tend to think about this in terms of white space. Where do we have specialisms that we have geographies that we can expand into. We have both specialisms and geographic areas that we need to grow into, and that covers both North America, UK and Europe, so plenty of opportunities for consolidation and expansion.

Hollie Daly: Great. Okay. I think it is time to take some questions from our audience. Okay. So first up, we have Oscar from JP Morgan. Oscar?

Oscar Val Mas (JP Morgan): I had a question on the end market demand and how much comes in your opinion from B2B and how much comes from consumer demand? And I guess, how that is different between the US and Europe? And how you think that will progress over the next year or so? Will that demand be different?

Hollie Daly: Tim?

Tim Griffin: Yeah. I suppose broadly speaking, our business is 50-50 between consumer and B2B. That fluctuates season to season, and indeed it is fluctuated through the global pandemic. Obviously, there were periods when a lot of consumer demand came through and we obviously saw a certain amount of volume B2B come through in terms of work from home technology and so on.

Obviously, as the world has gradually started to get back to normal, you have seen some of the more specialist B2B businesses really come back very, very strongly. If you think through to the way that we see that playing out over the next two or three years, to answer your questions, most of our specialist B2B businesses will be looking at future growth of the sort of 3-5% growth rates.

We are pretty bullish around both the margins, as I said, in the presentation and the growth of the specialisms that we play in.

Hollie Daly: Okay. We have another question in here from Sean Kenzie for Setanta. Given gross margin improvement in 2018 to 2022, why is ROCE flat to lower over that period and how will you improve it in the future?

Tim Griffin: Yeah. Maybe I can answer that one as well. Obviously, as I said in the presentation, we have been making conscious investments in what we believe will deliver a better tomorrow in terms of both our business and the experience for our customers. Those investments have clearly had a slightly dampening effect in our return on capital employed over the last couple of years, but we fully expect now we have got those up and running and operational to be able to deliver improved return on capital employed over the coming years. Fully expect to see the rewards of those investments.

Those investments are very much around improved offerings, driving our digital transformation, and of course, creating platforms that enable us to deliver further inorganic acquisitions.

Clive Fitzharris: I might add to that, Hollie, if it is okay. I talked in the presentation about the gross margin improvement and we will see that dropping through to the bottom line, like the Almo acquisition on its own brings us from 1-point something into sort of mid-2% operating margin. At the time of the announcement of Almo, we talked about the return aspirations. I would say over three-year period, we will be delivering our 15% plus, I think overall is a division to pick up what you are saying to Tim. That is the momentum that we see within the division. That is where we would see the returns going and typically over that time period.

Hollie Daly: Great. Okay. Another one coming here. Annelies from Morgan Stanley.

Annelies Vermeulen (Morgan Stanley): Just a quick follow-up actually on what you were talking about in terms of the margins. I do not know you talked about it on the slides too. Over what timeframe and how much should we think about how much margins can grow from here? Given the nature of the industry, do you think there is a cap on margins, given price transparency? Therefore, do you think the margin growth will come from value-added services or from further bolt-on deals perhaps into higher margin segment-run markets as you mentioned?

Hollie Daly: Clive, do you want to kick off on that?

Clive Fitzharris: Yes. We talked about the Almo piece, there is a sort of a mixed portfolio effect in it. Tim's presentation talked about gross margin. However, if we go to operating margin, specialist businesses in general are 3-10% I would say operating margins.

The volume side of our business would have generally lower operating margins, but that is not an unattractive business either. If you can get the right characteristics in terms of gross margin, get your operating costs right and get your velocity into your working capital, that is good business to have alongside the value side of our business as well, which is higher margin.

As we continue to invest into specialisms and extend into the white spaces that you talked about, Tim, I would like to think that we will see our operating margins improving but there will be that mix element because we are not stepping away from those volume-related activities. They can be attractive as well.

Tim Griffin: Absolutely spot on, Clive. I think to your point around transparency, we have to drive into more value creating spaces and I talked about brand, which again increased the opportunities around those margin improvements.

Hollie Daly: Great. Another question in from Mark McDonnell from Invesco. What are the key drivers for end market growth across countries and specialisms? You talked about gaps we have not done every specialism in every geography. What are those gaps? Tim?

Tim Griffin: Just reflecting on that, I think if you recollect from the presentation, the pins that were representing our specialisms in Europe, you could see there were seven there or so, and only three or four in North America. There are a number of specialisms that we have in Europe that are not present in North America and we see a lot more opportunity beyond the specialisms that we have.

I mentioned in the first question that I see white space pretty much everywhere I look, whether or not it is a specialism and geography or new specialisms. Lots of opportunity as I say.

Clive Fitzharris: Maybe I will take the drivers a bit. In an overall sense, technology spend grows GDP plus a little bit. The specialisms that we set out have higher growth than that, and I will dive into a couple of media take. Pro AV, which is one that we have talked about a lot today. It is corporate spend. It is education spend. It is entertainment spend. A lot of the experiential spend as well in terms of live events, drive the underlying activity then in our Pro AV business, consumer appliances.

It is really repair and remodelling spend. It is a lot about the health of the housing market. As part of the Almo acquisition, we spent a lot of time looking at the strength of the US consumer and the US housing market and that renovation and remodelling spend, which we see it into the medium term at a robust 4% alongside 4.5-5% on Pro AV and the other specialisms we showed on the slides.

Tim Griffin: You mentioned a really interesting point there around the way that we have built a platform and then looked to add on adjacencies and we have done that very nicely in North America. Marty, maybe you would like to just talk a little bit about JB&A and how we add in adjacency there.

Marty Szpiro: Our expertise in Pro Audio is extensive and Pro AV, though, there is many adjacent spaces as is Tim is indicating, and JB&A is in broadcast. Thus, a lot of similar vendors, a lot of similar activities, but really a new space. We have quite a few of those that we can add to Pro Audio and Pro AV.

This all speaks to back to 5% growth in technology that is driven particularly right now by content creation. If you think about the amount of time people are spending consuming content and if you think about what you need to create content, you get quickly to audio and video. There is lots of adjacent spaces in the creation of audio and video from musical instruments to microphones to cameras and audio and all of the interfaces that we sell that make this possible.

For example, in creation of content at home, let us say YouTube creation, you might need a product like Focusrite Scarlett, which is an interface that allows your computer to be connected to microphones. I think saw a stat, this year we sold in North America 500,000 of these devices. If you can think about the power of content creation. You could think about all the adjacencies.

Tim Griffin: Yeah. It is a great point, Marty. As you get into content, you obviously then start thinking about curating and storing that content and you get yourself into the enterprise space that I talked in the presentation.

Hollie Daly: Great. You talked so much about specialisms, why the big push into specialism? What do you like about them?

Tim Griffin: I suppose the highest level, it is really around the solutions that we can build and support our vendors and customers in a specialism. But what we tend to find is that specialisms have much more attractive growth dynamics and better margins than perhaps more traditional pure play distribution. It is that solution that we can build around sales marketing and go to market.

Hollie Daly: Okay. Great. We have another question in from Allan Smylie from Davy.

Allan Smylie (Davy): I have a question on M&A, please. I find it interesting to the best of my knowledge, we have not seen much private equity involvement in the North America tech distribution markets. How would you characterise the competitive backdrop for assets across the different specialisms that you are addressing in North America?

Hollie Daly: Clive, you can kick off?

Clive Fitzharris: Yes, I will. Well, at the large end, there is quite a bit of private equity activity with Tech Data and Ingram Micro going into private equity hands and then Tech Data merging then with a listed entity, Synnex. There has been a lot of activity at the very high-end.

Indeed, I have seen an article Warren Buffett and Berkshire Hathaway were an underbidder and I think that supports the value that is in tech distributions in general. We would also see private equity in certain specialisms. As you know, Allan, we are a very disciplined acquirer and you know it has to fit our strategy. We have to add value to it. We have to be able to buy it at quite reasonable value or fair value. We do see private equity playing in certain specialisms around the security space, the cloud space. The multiples would be quite high.

However, in the areas that we are looking to play, we tend not to come up against private equity too much. Marty's point is a very well-made bond in relation to his decision to sell to us and the Chaiken's decision to sell Almo to DCC. That sort of people cultural fit and just long-term owners and being able to add value out of the box in terms of our vendor relationships and just our knowledge and our long-term view is a real differentiator in the M&A market.

Tim Griffin: Yeah, absolutely. Clive, I think the important part is the process and the fact that we are proactively going out to meet with prospective companies that we would have in our sites and ideally create bilateral opportunities before they ever get to market. That is really part and parcel of our secret sauce.

Hollie Daly: Great. Marty, I might bring you in there at just the competitive nature of acquisitions in North America.

Marty Szpiro: I think Clive and Tim covered it well. In our space, particularly in adjacent spaces to the core of what we are doing, it is a lot of family-owned or privately-owned companies. I am heading out tomorrow with the M&A team to look at a company that is privately owned. They have taken a pass on private equity because they do not want to resell again.

I think in the world or the larger spaces, or more commodity spaces, where private equity is slipping to private equity over and over again, it is different. However, in our space, we are buying from a lot of privately-owned companies and we are well suited to that and they like our process.

Hollie Daly: Great. Next question is coming from Gerry Hennigan from Goodbody.

Gerry Hennigan (Goodbody): Just obviously the focus on the Almo transaction has been on the Pro AV side. But you obviously have a large appliance business there as well. What are your aspirations or plans with regard to that?

Hollie Daly: Tim?

Tim Griffin: Well, I was going to actually go straight to Clive actually. However, clearly, the ambition is to grow that and take advantage of the great dynamics that we see in that marketplace. Clive and Marty?

Hollie Daly: It is a new area for us.

Tim Griffin: Absolutely.

Clive Fitzharris: We have been in appliances in Europe in a much more modest way and lifestyle products as well. The characteristics that we would have seen in Europe, we would have seen reflected into the Almo business. However, Gerry, to buy a position in that market, the largest consumer market in North America and to buy the largest distributor in consumer appliances straight away is just a great step for us.

The margin characteristics are good and attractive and the underlying growth dynamics, I talked about that remodelling renovation spend of 4% into the medium-term is just really attractive. The team in Almo are so long in the industry and they add so much value. I talked in my presentation as well about just the new brands that are coming to the Almo business. We want to stay in that business for a very long time and continue to invest behind organic growth and we think there will be acquisition opportunities as well to grow and develop that business.

Marty is the man on the grounds, I guess.

Hollie Daly: Anything to add there, Marty?

Marty Szpiro: Yes, I believe that is so well put. I can just add that it has opened up our pipeline dramatically to be in the appliance business. There is a lot of beginnings coming up for interesting acquisitions. This is key to us to have this adjacent technology platform that leads to the next. Of course, Almo being a national player, we have a role strategy of long regional players in the same space. It has given us a big M&A lift in our plans.

Hollie Daly: It is fair to say then that the appliance division and post acquisition Almo is business as usual.

Marty Szpiro: Absolutely, yes. Two very experienced managers, Steve Terry and Jack Halperin running those businesses. Just maybe if I could add, Hollie. I touched on our e-commerce fulfilment. Alongside the appliances, there is also very interesting division which does outdoor living products and air comfort, air conditioning equipment that goes into people's homes selling it through e-commerce channels.

It fits the warehouse capability of Almo exactly well in terms of the larger format boxes. However, that is a very interesting space for us well. We would hope to bring with lots of ideas in terms of other products that we can bring to that particular channel and we think there is acquisition opportunities there as well.

Hollie Daly: Okay, another question from Rajesh from HSBC.

Rajesh Kumar (HSBC): Just a few questions, frankly, do not get a lot of opportunities to understand each sub-segment. The first is, how can you help investors get comfortable that the tech sector or your segment has not been over earning during COVID. Given how much work from home investment have gone in, people have bought screens, people have bought – you know. How can we feel comfortable that the level of revenue generation the space has had is not a one-off but it could be recurring?

I know it is not a very straightforward question, but if you could run us through, say, for example, what proportion of revenue is maintenance and repair, what are the secular demand drivers in terms of how long do these installations last, and how often your customers have to replace them. Something like that, that would be super helpful. That is the first question.

Second question is on the margin improvement aspirations you have shared with us. Really interesting. I mean, listed AV players earn gross margins close to 15%. We would love to understand how much of improvement is coming from a shift in mix towards higher margin products versus, you told me in the past, you told me that if there is drop shipping, your gross margin could be low, but it could be very high return. How much of it is by taking more inventory on balance sheet? That is the second question. Then what are the drivers of that margin mix?

Finally, I appreciate that your ROCE in the segment has not been more stellar, but given the amount of capital you have deployed for M&A, given the margin improvement and the fact that your balance sheets do not look that stretched, I mean, do you think the return on operating capital must have shown a slightly different trend? Could you give us the trend you saw on the return on operating capital, excluding the acquisition intangibles which obviously has grown because you have done a lot of deals?

Hollie Daly: Thanks, Rajesh.

Tim Griffin: We want to recap some of those questions.

Hollie Daly: The first one there, I might give it to you, Tim. The COVID bounce in the business and how you have seen that over the past two or so years.

Tim Griffin: No, I think we touched on this at the very outset with the first question, which was really around the nature of our portfolio being diverse. We see this on an annual basis in terms of its seasonality and the mix between consumer and B2B. We certainly saw that through COVID. There was definitely a consumer wave that went through as we have all experienced. We saw work from home technologies come through. As I said, we have seen as the world gets back to something resembling normal, a significant bounce in our specialist B2B activities.

Clearly, as we have looked at our future projections, we have normalised for those and certainly that is reflected in the acquisitions that we have made, we have normalised for those prices. We feel pretty comfortable that it is part of our strength but we are very cognisant of the impact of COVID on our diverse portfolio.

Hollie Daly: Okay. Marty, do you want to add the COVID impact on North America?

Marty Szpiro: I could say, though, that obviously we have some products that should stay at home that had more demand during COVID, but I have to say it has been gated by supply because offsetting that have been a tremendous limitation on production and getting containers from Asia. We have a fair amount of product that come directly into our warehouses from Asia.

Even though we have had some lift, we have had some headwinds in getting the stock. Some wins, some losses as a result of COVID even in that space.

Hollie Daly: Thanks, Marty. Second part there, Clive, margin improvement. I suppose how much of that is down to shift in mix or where are we going to see that from?

Clive Fitzharris: The margin improvement, I do not think it is related to COVID, if that was part of the question. A lot of the COVID bounce was in the B2C space, which generally would maybe be slightly lower margin than the B2B space. The volume then has dropped off on B2C, and we have picked up on the B2B side of it. I would not attribute it to COVID at all. I think it is more about the top line turnover growth that we have as we have been deploying capital into specialisms and there you have higher margin characteristics. That is why we have so much confidence about the continued momentum.

Hollie Daly: Okay.

Tim Griffin: There was one question from Rajesh there on refresh cycles and I think you said yourself it was a difficult question to answer, because technologies are very diverse. One end of the spectrum, you have almost consumable technology. At the other end, you have got very robust durable. It could be anything between 18 months and five years. The fact that we are able to be in all of those spaces gives us a constant refresh.

Clive Fitzharris: If his question was particular to the appliances, like the appliance usage has increased during COVID. There is an expectation of that there will be a slight increase in the refresh rate. However, that is not a material part of the growth dynamic.

Hollie Daly: Okay, great. Last few questions. If people want to keep sending them into, investorrelations@dcc.ie. One question we get asked all the time in investor relations is about supply chain issues. How is that impacting your business? What is the impact there for DCC Technology? Tim?

Tim Griffin: Well, Marty touched on this actually, and it has been a pretty complex cocktail of effects. On one end of the spectrum, we have had supply shortages out of the factories. We have had freight challenges, both in terms of availability and pricing. We have had labour challenges in terms of being able to source drivers, not just for ourselves and within the forklift truck drivers for example. But we have seen that in our 3PL and our retailers being able to source drivers for the trucks to do pick-ups some drop-offs. So it has been incredibly challenging.

Obviously part of that is inflationary pressures that come with labour shortages, freight charges. We have had to be able to pass those on and try and manage those relationships with our customers. It has been a challenging time, but the team have done an amazing job of navigating through it.

I do not know whether Marty you have got more colourful explanation, given that you are on the ground there?

Marty Szpiro: Yeah. No, I think that summarises it very well. It is a lot of plusses and minuses, a very complex cocktail of issues going on as you said. Certainly, there is inflation in all the products taking places the cost to bring them in. It goes up, the cost of labour goes up. We, as distributors, have the opportunity to quickly change prices and follow these new cost structures. To some degree, as long as the demand holds together, our GP dollars actually improve with the cost increases.

It is a complex series of headwinds and tailwinds that are going on right now. Overall, we have managed it extremely well and look forward. I think the next wave is the increase in our B2B business. We see book of orders building for B2B side of our business.

Hollie Daly: Thanks, Marty. We talked a lot about growth and margins. Can you expand a little on that, where you see those improvements?

Tim Griffin: Part of this is a mixed challenge. Obviously, we have been investing in specialisms. As they become a greater proportion of our overall volume, we will see our margins rise. Those specialisms have great growth dynamics. Again, fuel that improvement.

We talked about investments that we have made in businesses that allow us to deliver better products to our customers around the world. All of those contribute to improving margins. We have a maniacal focus on operational excellence. Day in, day out, we have a £6 billion business nearly to drive excellence, which is constantly improving our margins. It is a journey of micro steps in that regard.

Hollie Daly: Great. I think we have time for one last question. I believe Gerry Hennigan from Goodbody, another question. Gerry?

Gerry Hennigan: Just, Tim, your reference there to challenges generally, would that have been more prevalent in certain jurisdictions? I think probably more the UK than anything else than in other areas, and your ability to pass through prices; can you comment on that from a regional point of view?

Tim Griffin: Yeah. I think the challenges that the UK had to endure are well documented and many of them were reproduced around the world. Obviously, there was the added complication of Brexit. We have said we have made investments in that space that have also created some challenges that we worked our way gladly through that.

However, if you think about our ability to manage prices, we have been able to work with customers very closely to be able to pass those on. As Marty said, the team have done a really good job of being able to manage that.

Hollie Daly: Okay. I think that is all we have time for. Just thank you to Tim, Clive and Marty for joining us today. Thank you for all tuning in and to everybody who asked the question.

To wrap up, just leave you with that DCC Technology is a well invested growing business. There are huge opportunities for growth and a strong management team focused on returns and scaling the business. Take care.

[END OF TRANSCRIPT]