RS Group plc

A high-service industrial distributor emerging from a three-year investment cycle with operating leverage still latent

Ticker / price	Equity / enterprise value	FY2026 adjusted EPS	Current income yield
LSE: RS1 / 688p	£3.2bn / ~£3.5bn	38.7p	3.3% dividend

Reference price as of July 27, 2026; financial data for the year ended March 31, 2026. Enterprise value uses £329m net debt. [1][2]

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5-YEAR TSR REFERENCE CASE: 15.6% = 3.3% + 8.0% + 4.3%			
15.6%	**3.3%**	**8.0%**	**4.3%**
Annualized TSR	Dividend yield	EPS growth	Multiple reversion

Mechanical bridge: 688p / 38.7p adjusted EPS = 17.8x, reverting over five years to the 2016-2025 reported mean of 22.0x. The decade median is about 17.8x, so the mean-reversion term should not be treated as the base case. [1][7]

Thesis

RS Group distributes maintenance, repair and operations products that are inexpensive relative to a customer's downtime, creating a service-led value proposition rather than pure price competition. FY2026 was the third year of muted industrial demand and heavy internal investment, yet gross margin rose, cash conversion reached 109%, Distrelec synergies exceeded £40m and leverage fell to 1.0x. The debate is whether the technology, data and product foundation merely catches up with peers or releases a higher-growth, higher-margin model led by RS PRO, solutions and eProcurement. At 17.8x depressed adjusted EPS, the shares offer a reasonable starter price; the upside requires activation and cyclical recovery, not historical-average multiple alone.

Four-question scorecard

Question	Score	Why it is not higher
Business quality	4.0 / 5.0	Broad assortment, availability and service density; cyclical volumes and digital rivalry cap quality
Price	4.0 / 5.0	17.8x trough-like EPS with 3.3% yield; base value still depends on margin recovery
People / allocation	4.0 / 5.0	Experienced industrial / M&A CEO; Distrelec delivery strong, but acquisition record remains mixed
Hidden nugget	4.5 / 5.0	RS PRO, services and a new data stack can turn fixed investment into disproportionate profit growth

2 Business and Industry

A one-stop availability and knowledge network serving maintenance engineers whose real cost is downtime

Business model in plain English

RS stocks or lists millions of electronic, electrical, automation, mechanical, safety and consumable products from thousands of suppliers. Customers—plants, laboratories, utilities, transport operators and contractors—buy small baskets frequently and value product availability, technical confidence and procurement convenience. RS earns a distribution gross margin, then deepens the relationship through own-brand RS PRO, digital purchasing, inventory solutions, design tools and integrated services. [1]

Engine	FY2026 scale	Economics	Strategic role
Digital	£1.73bn / 60% of revenue	Efficient ordering and search	Core channel, not a separate business
RS PRO	£415m / +5% LFL	Higher-margin own brand	Share of wallet and value alternative
Services & solutions	£787m / +6%	Embedded workflows	Retention and lower price comparison
Stocked / listed range	875k / >5m products	Availability and long tail	Supplier and search-data advantage

Why business quality is 4.0 / 5.0

- An urgent £20 component can protect thousands of pounds of production. Availability, correct specification and next-day delivery matter more than the unit price.
- The catalog, local inventory, 2,500 suppliers and roughly one million customers create a dense two-sided data asset that improves search, stocking and cross-sell. [1]
- RS PRO and solutions deepen economics beyond reselling branded components; both grew despite weak industrial demand.
- Cash economics are resilient. FY2026 adjusted free cash flow was £202m and cash conversion 109%, with net leverage only 1.0x. [1]
- The deduction reflects cyclicality, fragmented competition, product transparency and the risk that large digital or specialist distributors match the service proposition.

Industry structure and profit pool

Force	Assessment	Investment implication
Customer power	Medium	Large accounts negotiate, but fragmented baskets and downtime reduce price sensitivity
Supplier power	Medium	Leading brands matter; RS offers reach, demand data and small-order fulfillment
Rivalry	High	Global, regional, specialist and digital distributors compete on stock and service
New entrants	Low-medium	A website is easy; assortment, inventory, credit, data and fulfillment density are not
Substitution	Medium	OEM direct sales and marketplaces fit simple needs; complex MRO remains fragmented

CUSTOMER VALUE PROPOSITION RS reduces the total cost of keeping assets running: one trusted search, broad availability, technical assurance, fast delivery and less procurement administration.

3 Financials and Business Quality

Demand is subdued but gross margin, integration savings and cash conversion create a better starting point for recovery

Metric	FY2023	FY2024	FY2025	FY2026
Revenue	£2.98bn	£2.94bn	£2.90bn	£2.88bn
Adjusted operating profit	£402m	£306m	£274m	£265m
Adjusted operating margin	13.5%	10.4%	9.4%	9.2%
Adjusted EPS	63.6p	42.9p	39.1p	38.7p
Dividend / share	20.9p	22.0p	22.4p	22.9p
Net debt / EBITDA	0.8x	1.3x	1.4x	1.0x

Company-reported adjusted measures; FY2024 comparatives reflect subsequent restatement where applicable. [1][3][4]

Five-year owner-earnings bridge

Driver	Base assumption	Why it is plausible
Like-for-like revenue	4%-5%	Market + share gains; below management's twice-market ambition
Gross margin	43%-44%	RS PRO, pricing and service mix offset competition
Adjusted operating margin	9.2% to ~11.0%	Fixed-cost absorption, Distrelec and activation benefits
Share count	~1% annual decline	£100m buyback, then valuation-dependent repurchases
Adjusted EPS	~8% CAGR	Revenue recovery + modest margin + share shrink

Balance sheet, ratings, maturities and covenants

Position. FY2026 net debt was £329m, or 1.0x adjusted EBITDA; committed facilities were £682m with £335m undrawn and EBITA / interest was 14.9x. **Rating.** No public issuer credit rating was identified in the FY2026 annual-results materials; bank and private-placement access therefore matter more than a rated bond curve. **Maturities.** The £400m multicurrency revolver matures in October 2029 and a €150m term loan in October 2028. Approximately £76m of private-placement notes were current at March 2026, with a further ~£75m non-current. **Covenants.** The results disclose net debt / adjusted EBITDA and EBITA / interest measures and state ample headroom, but do not publish the contractual thresholds. [1]

BALANCE-SHEET JUDGMENT The balance sheet is sound and liquid enough to fund the activation plan, £100m buyback and small bolt-ons. The key constraint is return discipline, not refinancing.

4 Valuation, Hidden Nugget and LBO

The historical mean offers optical upside; an 11% base return needs earnings recovery more than re-rating

Ten-year P/E context

2016-2025 year-end P/E	Low	Average	High	Today
Reported range	15.2x	22.0x	43.8x	17.8x

Reported annual year-end P/E series. The 22.0x mean is skewed upward by 2016 and 2021; the decade median is approximately 17.8x. [7]

Five-year valuation cases

Case	2031 adj. EPS	Exit P/E	Dividends	2031 value	5-year CAGR
Bear	42.7p	10x	~125p	552p	(4.3%)
Base	56.9p	18x	~135p	1,159p	11.0%
Bull	68.2p	22x	~145p	1,645p	19.1%

Analyst estimates. Bear/base/bull EPS growth is 2%/8%/12%; the bear exit multiple is explicitly 10x. Dividends are not reinvested.

Hidden nugget — the investment phase is becoming an activation phase

From FY2023 to FY2026, adjusted margin fell from 13.5% to 9.2% as industrial demand weakened and RS funded systems, digital content, customer data, range expansion and Distrelec integration. The market may be capitalizing the cost without crediting the output. RS can now list roughly 50,000 products a month, operate a global CRM and search stack, and push higher-value RS PRO, eProcurement and services into a common customer base. Distrelec synergies exceed £40m annually and cumulative restructuring / integration savings since April 2023 reached £55m. If like-for-like demand turns positive, much of the gross profit can land on a cost base built for more volume. [1]

Activation lever	FY2026 evidence	What would prove it
RS PRO	£415m; +5% LFL	>8% growth and gross-margin accretion
Services / solutions	£787m; +6%	>30% of revenue with better retention
Digital / data	60% digital sales	Conversion and basket size improve
Distrelec	>£40m synergies	EMEA margin expands without revenue loss

Illustrative five-year take-private analysis

Stage	Purchase / operating case	Debt / multiple	Sponsor outcome
Entry	20% premium; ~£4.2bn EV	5.0x EBITDA / ~£1.6bn debt	~£2.6bn equity check
Exit	EBITDA ~£480m; ~£5.3bn EV	11x exit; ~£0.8bn debt	~£4.5bn equity value
Return	8% EBITDA CAGR	No dividend recap	~1.7x MOIC / ~12% IRR

Illustrative analyst model. A higher exit multiple can lift returns, but a sponsor should not underwrite public-market re-rating.

LBO CONCLUSION RS fails a conventional 20% sponsor hurdle at a control premium. The current equity is reasonable, not distressed; public-market returns must come from activation, margin and compounding.

5 CEO and Capital Allocation

A seasoned industrial operator inherited underinvestment, completed the build phase and now has to prove commercial conversion

Simon Pryce — industrial operator, dealmaker and turnaround steward

Pryce became CEO in April 2023 after serving on the board since 2016. He previously led Ultra Electronics through operational improvement and its 2022 sale to Advent, spent a decade as chief executive of BBA Aviation, and held finance and management roles at GKN, JPMorgan and Lazard. He also serves as a Smiths Group non-executive director. The résumé is well matched to portfolio simplification, integration and margin accountability; the risk is that a transaction-oriented background encourages purchased growth before the organic platform is fully proven. [5]

Capital priority	FY2026 evidence / policy	Underwriting judgment
Organic acceleration	£35m-£45m incremental opex; ~£50m capex	Right priority if conversion metrics become visible
Distrelec	>£40m annual synergies	Ahead of case; revenue retention still matters
Small M&A	BPX acquired for up to £30m	Adds automation / control expertise; keep deals small
Buyback	£100m over 12 months	Sensible at depressed margins and 1.0x leverage
Dividend	22.9p; progressive policy	Well covered by £202m adjusted FCF
Leverage	1.0x; target 1x-2x	Capacity exists, but does not need to be filled
Medium-term ambition	Twice-market growth; mid-teens margin	Attractive destination, not an underwriting input

Capital-allocation audit

- Distrelec integration is the clearest positive: savings are ahead of the acquisition case and the combined EMEA platform has strategic logic.
- The £100m buyback retires about 3% of shares at 688p, adding modest per-share growth without stretching leverage.
- The organization has already funded product content, data and digital infrastructure; incremental spending should now be tied to revenue, retention or gross-profit output.
- Management should resist a large acquisition until adjusted margin exceeds 10.5% and organic growth demonstrates the new platform's value.

Rules that would increase conviction

1. Disclose revenue and gross-profit productivity for RS PRO, services, digital search and corporate accounts.
2. Hold acquisition leverage below 2x and publish post-deal returns including integration cost.
3. Return excess capital when shares trade below conservative intrinsic value, without protecting EPS targets mechanically.
4. Tie executive incentives to organic gross-profit growth, cash ROIC and customer outcomes—not adjusted margin alone.

MANAGEMENT JUDGMENT — 4.0 / 5.0 Pryce has delivered integration and cash discipline while funding the platform. The deduction is evidence: organic commercial acceleration and durable margin recovery are still prospective.

6 Risks and Disconfirming Evidence

The thesis fails if activation spending becomes a permanent cost layer or service differentiation cannot outrun industrial cyclicality

Risk	Why it matters	Early warning / thesis killer	Response
Industrial cycle	Volume drives fixed-cost absorption	LFL remains <2% through recovery	Lower revenue / margin
Activation failure	Thesis relies on prior investment	Opex rises without gross-profit growth	Cut quality and EPS growth
Digital rivalry	Search and price are transparent	Traffic / conversion weakens, CAC rises	Lower terminal multiple
RS PRO execution	Own brand is a margin lever	Growth below group or quality complaints	Remove mix benefit
Distrelec integration	Largest recent platform deal	Customer churn offsets savings	Value synergies at zero
Americas / tariffs	Supply and Mexico can disrupt	Gross margin falls despite pricing	Stress working capital
Inventory	Availability is the promise	Stock turns fall with service misses	Lower cash conversion
M&A	Balance-sheet capacity invites deals	Large deal before organic proof	Raise allocation discount
Supplier direct	Manufacturers can digitize	Key brands reduce distributor economics	Re-underwrite moat

Pre-mortem: it is 2031 and the investment failed

Industrial production recovered, but RS grew no faster than the market. Customers used the improved website to compare prices rather than consolidate spend, RS PRO stayed niche, and services required more labor than expected. Savings were reinvested into a permanent cost base, while a larger acquisition used the balance-sheet capacity. EPS grew 2%, the market assigned 10x, and dividends could not offset the loss.

Disconfirming evidence hierarchy

A weak PMI quarter is not disconfirming. Temporary inventory investment is not disconfirming if service levels and turns improve. The strongest evidence is two years of below-market organic growth after industrial recovery, falling digital conversion, services that dilute margin without improving retention, or acquisition savings that never appear in cash operating profit.

SINGLE MOST IMPORTANT UNKNOWN Does the new data, product and digital foundation produce faster organic gross-profit growth—or merely keep RS competitively current at a permanently higher cost base?

TWO-QUARTER DASHBOARD LFL revenue | gross margin | digital conversion | RS PRO growth | services growth | corporate accounts | stock turns | FCF conversion | adjusted margin

7 Portfolio Decision and Research Plan

The holding period is always 5-8 years; buy a measured position before the cycle turns, then demand operating proof

Conviction	Score	Reason
Analytical	4 / 5	Cash, margin and segment data are solid; investment productivity needs better disclosure
Portfolio	4 / 5	Diversified industrial exposure with low leverage; PMI and sterling remain factors
Temporal	4 / 5	Five years spans a cycle and allows the activation thesis to prove itself

Position-size recommendation

Initiate a 1.5%-2.0% position around 675-700p. Increase toward 3% below 600p with the balance sheet intact, or after like-for-like growth exceeds 4% and adjusted operating margin rises above 10.5%. Full 4% sizing requires evidence that RS PRO and services are increasing organic gross profit and that sustainable ROCE is moving toward 20%.

Action	Price / evidence rule	Rationale
Buy starter	≤700p	Trough-like EPS and 3.3% yield provide entry
Add	≤600p or LFL >4% / margin >10.5%	More margin of safety or proof
Full size	ROCE path >20% with organic share gains	Confirms activation quality
Trim	>22x without >8% EPS growth	Mean valuation alone is not value
Exit	Below-market growth for 2 recovery years	Platform investment failed to differentiate

Next research steps

- Build a regional gross-profit and cost bridge separating cyclical volume, price, mix, Distrelec and restructuring.
- Measure digital search traffic, conversion, repeat baskets and customer acquisition by cohort.
- Test RS PRO quality, price gap and reorder behavior with procurement managers and maintenance engineers.
- Audit Distrelec purchase price, retained revenue, working capital and realized cash synergies.
- Compare stock availability, delivery promise, service attach and private-label mix against Grainger, Fastenal and peers.

FINAL DECISION BUY A 1.5%-2.0% STARTER. Business quality is 4.0/5.0 and hidden nugget is 4.5/5.0; add when activation converts into organic gross profit and margin.

Source notes

[1] RS Group FY2026 results

[2] RS Group investor relations / share price

[3] RS Group FY2025 results

[4] RS Group FY2024 results

[5] Simon Pryce official biography

[6] RS Group annual reports centre

[7] CompaniesMarketCap RS Group P/E history

[8] StockAnalysis RS1 company and market data

Framework source: Chapter 4 and Appendix E of Investing Book July 34(1). Facts are drawn primarily from company reports. Valuation, probabilities, operating bridges, LBO returns and position sizing are analyst estimates, not company guidance. Adjusted measures are company-defined.

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