

Group Strategic Report For the Year Ended 31st March 2023

Business review

Ross-Shire Engineering Limited ('RSE') (the 'parent company' and the 'group') is a trusted clean water technology company – developing market leading products and services for purifying drinking water, recycling waste water and cleaning water in industrial processes.

A prolonged and strategic approach to R&D differentiates RSE's offering through modular build and productisation of process equipment. Factory built solutions reduce construction schedules, enhance quality, provide greater cost certainty, and have a positive impact on the environment.

An increase in demand for these solutions led to a 71% growth in financial year 2022/23 on prior year sales.

The growth in the year reflects the group's strategy to develop regional hubs throughout the UK, through branch start-ups and acquisition.

RSE acquired a majority stake in DPS Group Limited ('DPS') in April 2022. DPS are specialists in industrial automation and systems integration, based in Glenrothes, Scotland. This was a strategic investment to enhance RSE's technology differentiation.

Greenacre Environmental Systems Limited was acquired in October 2022 and specialise in industrial ventilation equipment and systems. The Greenacre skillset enables RSE to offer environmental-based solutions including the control of dust, odour, fume and temperature related emissions.

The group also acquired Bristol based General Panel Systems Limited ('GPS'), and its majority owned subsidiary GPS Links Limited in July 2022. The GPS Group specialise in industrial automation and the manufacture of control systems. The acquisition strengthens RSE's controls and automation offering and creates a strategic hub in the South West of England.

Recruitment and talent management remain a high priority for the group, with investment levels increasing year on year. The group runs active modern apprenticeship schemes, graduate recruitment programmes and a series of leadership development initiatives. RSE see the development of employees as fundamental to the continued success of the group. During the year ended 31 March 2023 RSE recruited 31 graduates and 30 apprentices across the business.

Principal risks and uncertainties

Market and economic risk

RSE operate a self-delivery, manufacturing-biased business model. Quality & performance standards are also underpinned by a high staff to contractor philosophy underpinned by significant levels of staff training and development.

This approach provides sustainable revenues to avoid seasonal and cyclical trading. The choice of markets, customers, services, and product development are carefully planned to anticipate risks with this approach.

The Board also continues to exercise caution in relation to the impact of macroeconomic and geopolitical risks, which can affect key variables such as liquidity, supply chain and skills. Supply chain challenges are common following the Covid-19 pandemic and the conflict in Eastern Europe. The Board monitor the performance of key suppliers against project plans to ensure it can act swiftly to mitigate any challenges that may arise.

RSE is somewhat sheltered from energy inflation due to its investments in renewables, but inflation remains a key risk in the future.

Credit risk

Financial and commercial risk is prioritised through a conservative approach to capital and debt. Ongoing trading and growth liquidity are key to the ongoing success of the business, therefore robust measures are taken to ensure best practice throughout the portfolio.

Foreign exchange risk

Foreign exchange as a result of international operations is continually monitored to ensure the impact of currency movements is reduced wherever possible.

Key Performance indicators

Financial

RSE continues to monitor its financial performance and working capital closely. Capital to develop products and solutions, to support trading, CAPEX and acquisitions are vital for the continued growth and development of the group. This is a key KPI for all senior management, along with a suite of financial and commercial metrics established to ensure the group maintains a strong balance sheet.

Other

Health, Safety, Quality & Environmental standards are crucial to the protection and development of the business. Management is committed to all of these areas and adhere to ISO 9001, 14001 and 45001 across a number of the portfolio companies.

Talent acquisition, retention and development underpins the success of all companies within RSE. The board and management invest heavily in apprenticeship and graduate schemes, technical training and leadership development. Such initiatives fit within a structured approach to organisational development and KPIs in this field and are closely linked to business performance.