

Strategic report

The directors present their strategic report for the year ended 30 June 2020.

Principal activity

Renishaw UK Sales Limited (“the Company”) sells, distributes and services high-precision metrology and healthcare products. The Company sells to third-party customers in the Renishaw Group’s UK and Rest of World territories (UKRoW). These comprise of UK & Ireland; Continental Europe excluding Germany, Italy, France, Switzerland and Austria; the Middle East and Africa.

The Company also sells certain products and services globally to other group undertakings.

Review of the business

For the year to 30 June 2020 revenue was £107,144,631, with an operating loss of £386,610 and a retained loss of £350,712. The level of revenue was below our expectations at the beginning of the year, with the adverse macroeconomic conditions and latterly the Covid-19 pandemic resulting in reduced demand. The losses in the year arose primarily as a result of the lower revenue compared to the prior year.

The balance sheet shows net assets of £6,064,267 and net current assets of £5,163,029.

The directors monitor turnover and profitability against budgets. There are no specific financial or non-financial KPIs relating to the Company. Further information on the Group’s analysis using KPI’s can be found in the Renishaw plc annual report.

Section 172 statement

Under the Companies Act 2006, the directors are required to explain how they have complied with their duty to have regard to the matters in section 172 (1) (a)-(f) (Section 172) of the Companies Act 2006. Under Section 172 a director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing so the director must have regard to other matters including:

- likely consequences of any decisions in the long term;
- interests of the company’s employees;
- the need to foster the company’s business relationships with suppliers, customers and others;
- impact of the company’s operations on the community and the environment;
- the company’s reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The board takes the interests of stakeholders into account when making decisions. The relevance of each stakeholder group may increase or decrease by reference to the issue in question, so the board seeks to understand the needs and priorities of each group during its discussions. This, together with the combination of the consideration of long-term consequences of decisions and the maintenance of our reputation for high standards of business conduct, has always been integral to the way the board operates.

Having carefully considered the Company’s business, the board considers its key stakeholders to be its workforce and customers.

Directors are informed of their statutory duties as part of their induction when appointed to the board and reminded that they owe their duties to the Company and not to the Renishaw Group as a whole, or the parent company. Stakeholder considerations has been added as a standing agenda item to board meetings, acting as a prompt to ensure such matters are considered on an ongoing basis. Regular reports on employee headcount, customer and supplier delivery performance are also received as part of board meetings to support the board in considering the impact of their decisions on stakeholders. During a challenging year, the below have been some of the principal matters discussed and how stakeholders’ views have been considered:

- Channel Partners: Making greater use of channel partners to serve customers was discussed by the board during the year. The board considered the interests of stakeholders when discussing this, in particular the interests of employees and existing distributors, to help minimise the potential for channel conflict.

- Covid-19: The board also considered the impact of the Covid-19 pandemic on the Company and its stakeholders. Making greater use of communication technologies, the government's furlough scheme and implementing appropriate health and safety measures were all matters discussed to help mitigate the impact on both the Company and its stakeholders.
- Price increases: Price increases for the Company's products due to increases in manufacturing and distribution costs or other strategic or commercial reasons were discussed by the board. When discussing the price increase, the impact on customers was considered, and they were provided substantial notice to allow time to make their own appropriate arrangements.

As part of the Renishaw Group's wider governance arrangements, matters that the directors are responsible for considering under Section 172 have also been considered by the board of Renishaw plc in relation both to the Group and the Company, including on the principal decisions taken by the Group during the financial year. An explanation of how the Renishaw plc board has considered those matters (for the Group and the Company) is set out on page 49 of the Renishaw plc's 2020 Annual Report, which does not form part of this report. Stakeholder engagement was also undertaken using Group resources. Details of the engagement that took place with the Company's stakeholders at Group level is set out on pages 38 to 39 of Renishaw plc's 2020 Annual Report. The board took account of the outputs of these Group-wide engagement activities in its decision making.

Principal risks and uncertainties

The directors consider the below to be the principal risks and uncertainties.

(a) Current trading levels and order book

Revenue growth is unpredictable and orders from customers generally involve short-lead times.

The Group products that the Company distributes, remain world leading in the field of metrology. The range of products is expanding and diversifying. The Company balance sheet is and is expected to remain strong with net current assets of £5,163,029 and a positive cash position.

(b) Brexit

The significant risks in relation to Brexit are:

- Increased uncertainty around growth, inflation, interest and currency rates.
- Potential changes to UK and EU-based law and regulation.
- A possible short-term supply chain disruption at group level could impact the Company.

To help mitigate potential impacts the Company established a distribution warehouse in Ireland. Inventory holdings will continue to be monitored to ensure efficient management of supply to our customers in a timely manner.

(c) Credit risk

The Company's credit risk is primarily attributed to its trade receivables. The amounts presented in the balance sheet are net of allowance for bad debt. The directors deem the credit risk to be low with no significant concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. The risk is managed by the group treasury team. The directors are satisfied that the Company is not subject to significant liquidity risk.

(e) Currency risk

The majority of sales are made in foreign currencies. The group treasury manages the impact of foreign exchange fluctuations at a group level. The transfer prices of products purchased by the Company in sterling are monitored regularly to determine whether any changes are required to counteract the effect of exchange rate volatility on turnover.

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(f) Covid-19 (coronavirus)

The impact of Covid-19 on businesses worldwide is changing on a daily basis. The measures being adopted by the UK Government and others around the EMEA region served by the Company could have a significant adverse impact on trade in the foreseeable future. The Company, in conjunction with all other Group Companies, is monitoring and managing the impact of this on a daily basis to ensure that the business can continue to source and deliver its products in a timely manner. With strong cash balances and assurance from the Company's parent entity that intercompany payment terms will be relaxed to allow the Company to meet its ongoing third-party liabilities, the directors do not foresee this impacting the Company's ability to continue as a going concern.

Future Developments

Despite the economic uncertainties the board remains confident in the future prospects of the business.

By order of the board

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