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Conference Title: First Quarter Trading Update

Moderator: Phil King

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Operator: Good day and welcome to the RWC first quarter trading update and EZ-FLO acquisition conference call. Today's conference is being recorded. At this time, I'd like to turn conference over to Mr Heath Sharp, the Group Chief Executive Officer. Please go ahead, sir.

Heath Sharp: Thank you. Hello, everyone. Thank you for joining us on the call today. This is Heath Sharp, CEO of RWC. Joining me here in Atlanta, Sean McClenaghan, CEO of our Americas region, and Andrew Johnson, Group CFO. We've released two announcements this morning. The first of these highlights the acquisition of EZ-FLO International. The second is our first quarter trading update. We'll begin today with the presentation about EZ-FLO and then move to our trading update. We will take questions on both of these topics at the end of the presentation.

I'll start proceedings with an overview of the EZ-FLO acquisition. Sean will talk through the business in more detail, the opportunities we see for it and the integration planning we have done. Andrew will then take us through the first quarter trading update.

So starting on slide five. I'll step through an overview of the EZ-FLO acquisition. As we've announced today, the purchase price is $325 million. For clarity, I want to remind you that the dollar figures we mention here will be in US dollars unless we specify otherwise. This, of course, reflects our move to US dollar currency for reporting purposes starting this financial year. The purchase price represents an EBITDA multiple of 12 times pre-synergies and seven times post-revenue and cost synergies. Given how demanding valuations are at present, we are pleased that we've been able to conclude this transaction at what we believe is a realistic multiple. We have a good line of sight to both revenue and cost synergies. We will act on these synergies within three years. Once realized, we will see a capital return in the mid to high teens. Further, the transaction will be earnings accretive from year one, and we expect to out-earn the weighted average cost of capital from the outset.

We see EZ-FLO as having a strong fit with RWC's existing North American operations. Equally important, it takes us into a new category in large appliance installation and service. As is typical with a family-owned business, exit timing is unpredictable. So, we have to be ready to act when the opportunity comes up. I would note that we have known EZ-FLO for a long time and have participated against them in prior retail line reviews. Unsuccessfully, I might add. Their manufacturing advantage and long-standing position kept us out. It is fair to say that as we studied the business, we came to better appreciate the substance of their operations and execution and the depth of their customer relationships. Frankly, we were really quite impressed. Key for us is the Eastman brand. Eastman is the leading brand in the large appliance connector segment. A further attraction is the fact EZ-FLO have a strong record of delivering top line growth. They have won market share through operational excellence and high service levels. So, the parallels to RWC are clear.

Turning now to slide six. Funding for the acquisition will come from our existing committed credit facilities. We have been able to take advantage of the significant headroom we've created through strong cash generation over recent trading periods. Following completion of this acquisition, our pro forma leverage ratio net debt to EBITDA will be approximately 1.78 times. This is still comfortably within our target range of 1.5 to 2.5 times. We have also increased our committed bank funding lines by 100 million Australian dollars, and this will give us an undrawn committed credit capacity of 127 million US dollars on a pro forma basis. We have outlined the strategic rationale for the EZ-FLO acquisition on Slide seven.

Firstly, it will expand our product range in the Americas, in particular for the large appliance connector market. Examples of these appliances include washing machines and dryers, dishwashers, ice makers and, of course, water heaters. All of these appliances require specialized products for plumbing and venting. These products give us diversification across merchants, aisles and even sectors within the store. This serves to make us a more important supplier to the retailer. With the Eastman brand, we will have the leading position with major appliance installers in the US. EZ-FLO will establish RWC in a new category and enable us to engage with different merchants within our existing retail channel partners. We'll also be looking to leverage our channel partner relationships in both wholesale and hardware to broaden the reach of the Eastman and EZ-FLO portfolio.

Sean will elaborate further on the benefits from manufacturing and sourcing and the strategic location of EZ-FLO's Warehouse in the free trade zone within China. These capabilities are an important part of the acquisition from day one, but we are also convinced we can derive broader benefits in the long term. Adding a network of seven distribution centers in the US is clearly beneficial. EZ-FLO's national network and execution capability allow them to provide next day service to 80% of the US population. This, in combination with our existing network, will further enhance our fulfillment and delivery performance.

To Slide eight. The EZ-FLO acquisition clearly meets the criteria we have set for acquisitions of this type. It adds to RWC's product range targeted at our existing end user base. It also solidifies and in fact expands our relationships with key channel partners. Finally, it also broadens our geographic reach, in this case, to Central and South America. Now let me hand over to Sean, who will discuss EZ-FLO in more detail.

Sean McClenaghan: Thank you, Heath, and hello, everyone. On Slide 10, we provided an overview of EZ-FLO. The company's history dates back over 40 years. EZ-FLO was established in 1980 and has a track record of growing organically over that time. The company supplies a broad range of plumbing products principally used in behind the wall and rough plumbing applications. In 2000, the company acquired Eastman, a brand founded more than 50 years ago. And since that acquisition, EZ-FLO has grown Eastman into the leading brand for US large appliance connectors. Today, approximately half of EZ-FLOs revenue come from large appliance connectors, including connectors for water heaters and a further 20% from adjacent products related to those installations.

We estimate that the total market size for US large appliance connectors is approximately $1.2 billion. This compares with the estimated total market size for US residential, portable water pipe and fittings of $2 billion. We consider the large appliance connector market to be a significant market that we will serve competitively with this acquisition. Now, in terms of channel mix, about half of EZ-FLO sales are through retail channel partners, which includes home improvement and hardware. A further 29% is through wholesale and the balance is split equally between OEMs and international sales within the Americas. While we don't comment specifically on customer revenue, we can say that EZ-FLO’s percentage of revenue attributable to the Home Depot and Lowe's combined is meaningfully lower than RWC the Americas while still being their two largest customers.

From a manufacturing perspective, EZ-FLO self-manufactures in China product that generates about half of its revenue. The in-house manufactured product principally consists of large appliance and water heater connectors, water fixture connectors, appliance outlet boxes and gas connector products. A further 20% of products sold by EZ-FLO are manufactured through exclusive arrangements with businesses in China. EZ-FLO has approximately 550 employees; of these, 350 are manufacturing-focused employees located in China, and the balance of the team is located here in the US.

EZ-FLO’s competitors vary by product category, but key competitors include the Brasscraft division of Masco, the Dormont division of Watts, as well as Oatey and Sioux Chief here in the United States.

Turning to Slide 11. This page provides additional detail about the nature of the products manufactured and sold by EZ-FLO. The left-hand side of the page highlights that 50% of revenues generated by Eastman connectors and outlet boxes. As mentioned, most of these products are manufactured in-house and consist of large appliance supply lines, water supply lines, gas connectors, outlet boxes, water heater connectors and venting products.

On the right-hand side of the page are two categories of products also sold the EZ-FLO. The category on the upper right of the page, the Eastman insulation products consist of a full line especially insulation and accessory products that supplement the Eastman connector product offering. These are additional or optional items most likely needed when completing the installation of a large appliance or water heater. Collectively, these products account for approximately 20% of revenues. A further 29% of revenues consist of a broad array of supporting plumbing and repair and replacement products represented here on the bottom right hand side of the page, including general plumbing valves, tubular drainage, toilet repair and plumbing tools. These products are in the EZ-FLO's product line to support the needs of the property maintenance and MRO channels, which is an area of focus for the company.

While the Eastman brand is synonymous with premium quality appliance and plumbing connectors, the EZ-FLO brand is associated with quality repair and maintenance, plumbing products used by property maintenance and MRO professionals. The majority of EZ-FLO products are complementary to RWC's product offering. We estimate that approximately 10% of EZ-FLO's sales are from products that overlap with those we currently offer. In addition, new construction accounts for about 5% of revenue, with the core EZ-FLO business model focus on repair, maintenance, replacement and remodeling activity.

Slide 12 highlights the similarity between RWC and EZ-FLO's value propositions. This page uses large appliance connectors and their critical importance to the installation process as an example. It is important to understand two things about the large appliance market. First, a key part of the sales process for retailers of large appliance is to cross-sell the installation and delivery services of these appliances. And second, the major retailers require the purchase of new connection kits when electing the delivery and install options for these appliances. For these reasons, having in stock, high quality connectors that will outlast the life of the appliance is fundamental to supporting a positive experience for all those involved in the purchase of the new appliance. That is a positive experience for the consumer, a positive experience for the retailer, and a positive experience for the installer.

You should also note that as with RWC's SharkBite, HoldRite and John Guest product lines, the dollar cost of each Eastman connector or connection kit is low relative to the cost of the overall job. But like RWC products, it is critical that these connectors work well, are easy to use and are available when needed. This example helps illustrates how over the past decade EZ-FLO with the Eastman product line has created the number one brand for appliance connectors in the US. Their success is based on high quality products designed with the installer in mind and supported by the highest level of execution for retail partners, including logistics, service, support, and in-stock position. The alignment between EZ-FLO and Eastman product promise and benefits is strong with RWC's and our key product lines.

With Slide 13 and the next four pages, we'll now look at EZ-FLO's operational infrastructure. We'll start with their manufacturing and bonded warehouse facility in China. These are located within a free trade zone and adjacent to the Port of Ningbo, one of the world's busiest ports. And then we'll look at EZ-FLO's US network of distribution centers.

Starting with Slide 14, which spotlights EZ-FLO's manufacturing operations in China. EZ-FLO has been manufacturing in China since 2003, with manufacturing concentrated principally on appliance and water supply lines, water heater connectors, outlet boxes and tubing. In early 2020, EZ-FLO invested further to bring online gas connector manufacturing, and they have recently completed an upgrade to the capacity of this line. With more than 200000 square feet of space and an average employee of tenure of ten years, EZ-FLO has the capacity and capability to support significant additional growth for these product lines from this facility.

Turning to Slide 15. One of EZ-FLO's core competencies is sourcing products and components in China, mainly from suppliers in the Greater Ningbo Shanghai region. This area of China is where our RWC's current China supply base is located, and it's also the primary center for manufacturing, plumbing products and components in China, particularly for the export – for export to the American and European markets. Most key plumbing brands and distributors in the Americas source some products or components from this area of China. We see upside for RWC by utilizing EZ-FLO's expertise and presence on the ground to better leverage our China-sourced products in the future.

Critical to EZ-FLO's operations has been their ability to consolidate goods before export to the United States. Their bonded warehouse in the free trade zone enables them to consolidate goods manufactured in EZ-FLO's adjacent factory with goods procured elsewhere in China and then ship these efficiently to the US. This strategically located warehouse adjacent to the plant and the port in Ningbo is something we will leverage with RWC's purchases and shipments from China.

EZ-FLO's operational profile in China is consistent with our approach around the globe. This is highlighted on Slide 16. With longstanding supplier, employee, government and agency relationships, EZ-FLO's Ningbo facility is well-regarded in China and provides a stable and clear competitive advantage to RWC. It brings a team deep in manufacturing, sourcing, quality and engineering experience, and is located in a region with entrenched supply chain and manufacturing capabilities for our industry. In addition, the Ningbo Free Trade Zone is a special economic area with the best trade policies and most flexible operating mechanisms in China and has the objective of promoting international trade. Like many of our factories, this facility also undergoes routine audits by many agencies and other organizations. For EZ-FLO's Ningbo facility, this includes audits from certification agencies such as IAPMO, NSF International, CSA Group, and ISO, which are focused on product and quality management system compliance, but also includes annual audits by customers such as Lowe's, The Home Depot, Whirlpool, Electrolux and Sub-Zero, which are focused on broader ethical sourcing, compliance and manufacturing requirements.

Looking at EZ-FLO's US distribution network on Slide 17, you will see that EZ-FLO has seven distribution centers that span the country. They are well-located. And this has enabled EZ-FLO to deliver next-day service to 80 percent of the US population. In addition, EZ-FLO has been able to demonstrate a 95%-plus percent fill rate across all channels through this network. These high service levels are a core part of the EZ-FLO brand proposition. Combining this network with RWC's four America's distribution centers will be a great catalyst to broaden our distribution capability and provide us a comprehensive footprint in the US and Canada for warehousing logistic activities going forward. With this network and in the fullness of time, we may be able to combine some facilities. But the immediate priority for us will be extracting savings via freight optimization with the combined volumes and combined customer base.

Moving on to Slide 18, which showcases some of EZ-FLO's channel partners and customers. You will notice overlap with our RWC's channel partners and the addition of some new names as well. There's no doubt that we'll have an opportunity between our expanded product portfolio, our set of channel partners and our combined resources to further grow organically leveraging the integrated businesses. As noted on an earlier slide and in terms of the key product category of major appliance connectors, EZ-FLO has relationships with Lowe's, the Home Depot and through its OEM relationship with Electrolux, the retailer Best Buy. These three retailers are the three largest retailers of major appliances, and are estimated to have between them over 70% share of the US large appliance market.

Now, looking ahead to the integration of these two businesses on Slide 20. The Americas team will take responsibility for integrating EZ-FLO and RWC. The management team here in Atlanta has worked closely on this transaction and has already gotten to know the business well. As a result of this and similarities between our business model, go to market approach and our cultures, we have a clear integration plan developed. Significantly, senior members of the management team of EZ-FLO will remain with the business and we welcome them to RWC. Key areas, we'll be focusing on in the integration, we'll be merging our sales and channel management teams, integrating our marketing operations and combining our supply chain and sourcing operations to quickly leverage the opportunities we see in combining these two businesses. The overall integration approach and methodology will be similar to the one we successfully used for integrating HoldRite and John Guest North America into the RWC Americas business. We will combine resources and capabilities into one go to market and operational supply chain strategy and utilizing a common set of capabilities while leveraging increased scale and a common overhead structure.

On slide 22, we note some of the key financial metrics to give you a sense of scale and impact that EZ-FLO will have on the Americas segment. EZ-FLO has LTM revenues of 169 million for the period ending 31st July, 2021, an LTM adjusted EBITDA of 27 million. Combined, RWC Americas and EZ-FLO will have a pro forma annual revenue of almost 800 million, EBITDA of 147 million and an EBITDA margin of 18.2 percent. While EZ-FLO's operating margin is slightly lower than RWC in the Americas, we expect it to expand as we deliver on synergies and growth.

Turning now to synergies on Slide 24. The first point to stress is that we see a path to capture and drive synergies both through revenue growth and through identified material cost out opportunities. We have a clear line of sight as to how we expect to grow the top line through further channel gains with EZ-FLO's lead product categories, particularly through their large appliance connectors, including gas and water heater connectors. In addition, we see an opportunity to leverage areas where RWC has deeper existing channel strength, particularly in wholesale plumbing, hardware, and throughout Canada. We'll do this with EZ-FLO's product range to drive above market growth.

For the next three years, we are targeting a 10% compounded annual growth rate for EZ-FLO product revenues. We've also identified cost out opportunities mainly where there's overlap in our operations as well as through leveraging EZ-FLOs expertise with China manufacturing, sourcing and freight logistics. We expect to achieve 10 million in cost out synergies on a run rate basis in year three following the deal's completion. Cumulatively, these synergies, once realized, will reduce the multiple paid by RWC for EZ-FLO to approximately seven times EBITDA by the end of year three.

On Slide 25. We've outlined one example of a revenue synergy that will drive incremental growth. RWC has a strong position supporting water heater replacement and upgrades across all channels in the US and Canada. Combining with EZ-FLO's complete range of water heater connectors and gas appliance connectors will give us 100% of the products we require to support all new water heater installations. EZ-FLO's in-house manufacturing in gas and water heater connectors gives it a critical advantage, particularly when supply chains are disrupted. In addition, our retail partners focus on the delivery and installation of water heaters as a key growth area, much as they have done with major appliances. This is just one example from the growth pipeline we have with EZ-FLO. The pipeline has substantial depth, as measured by the number and quality of the opportunities we see materializing from the combined RWC and EZ-FLO product ranges and channel resources. However, for commercial confidentiality reasons, we won't disclose specific – plan specifics or the size of each opportunity at this stage.

Let me conclude there and hand you back to Heath for some summary remarks on the EZ-FLO acquisition.

Heath Sharp: Thank you, Sean. Now to summarize. And we're on Slide 27. EZ-FLO is a logical acquisition for RWC given the alignment of our channel partners, end users and application of the products. We believe the multiple we’re paying is appropriate, the realization of synergies and the growth we see in combining these two businesses will generate very positive returns on the investment. We're very excited by what this acquisition will do in terms of opening up new product categories and taking us into new parts of the market. Just as significant is the fact that we will gain access to different merchants and move into different aisles within large retailers, hardware outlets and wholesalers.

EZ-FLO’s China operation will benefit us in terms of providing a low-cost manufacturing base. It also significantly enhances our overall procurement and logistics capabilities. In the US, the national network of seven DCs will be highly complementary to our own, both in terms of our service levels and achieving those levels more cost-effectively.

So I'll finish up there on the EZ-FLO presentation and hand over to Andrew. He will talk through the first quarter trading update we released this morning in Australia.

Andrew Johnson: Thanks Heath, and good morning, everyone. I'll now take you through the first quarter trading update that we've provided today. Net sales for the group were up 8.3% for the quarter, with year over year sales growth in all three regions. As we noted in August, at our full year result, we see this as a year where we consolidate the step up in volume levels we saw through FY21. Looking at sales growth on a two-year stack basis, we recorded net sales in the first quarter almost 29% higher compared with the same quarter in fiscal year 2020. Reported EBITDA was up 4.4% and up 3.1% on an adjusted basis. The adjustments we made this quarter were, firstly, the elimination of the gain on sale of the StreamLabs business and secondly deducting the one-off costs associated with the LCL acquisition. As we flagged in the full year result in August, we did see margin dilution. This was because of the price rises we put through in the second half of the last financial year which took effect in the first quarter. These price increases are offsetting input cost inflation, but are dilutive to our overall operating margins.

Reported EBIT was up 5.4% and adjusted EBIT up 3.9% to 55.4 million. While net debt was down year on year by 10%, we actually saw net debt levels increase slightly from the 30th June 2021. This was due principally to the payment for the acquisition of LCL, which was USD 28 million. In addition, we increased our working capital through building up inventory levels, and we also saw higher capital expenditure in the period, reflecting the planned increase in FY22. We signaled at the full year earnings announcement that we intended to increase inventory levels and we still believe this to be the right thing to do in the current environment where supply chains are stretched.

Let's look at each of the regions now, turning first to the Americas on Slide 31. The Americas recorded net sales growth of 4.5%, and this was principally driven by price increases and some new product revenues. Excluding price and new products, volumes were slightly lower than the same period last year. This was due in part to supply chain impacts which adversely affected the availability of some raw materials and components. On a two-year stack basis, Americas first quarter sales were 27% higher than the same period in fiscal year ‘20.

The other big influence on volumes this quarter was a change in Lowe's warehousing and logistics activities. Lowe’s are bringing their distribution activities in line with other retailers, whereby regional stocking warehouses are converted to cross dock facilities, which lowers overall inventory levels. Importantly, this has not impacted the amount of inventory in the stores or the range of products they carry. If we adjust for this one-off change, growth in the Americas would have been approximately 12% in the first quarter. We were pleased to have been named Lowe's vendor of the Year in the rough plumbing category earlier this month. This is the third time we've received this accolade in the last four years, which we feel demonstrates the strength of our relationship. Also, for the second time in five years, RWC was named plumbing vendor of the year by Do it Best, the second largest US member-owned hardware cooperative.

On Slide 32. Asia Pacific had another strong quarter, with net sales up 16.5%. The sales growth reflected continued strong domestic demand in the Australian market with higher residential construction and remodeling activity. Additionally, APAC continued to manufacture strong volumes for export to the Americas, partly related to the inventory bill I referenced earlier. As in other regions, margins were adversely impacted by price increases which are dilutive to margins. We also saw a negative impact from profit in stock, which is a natural consequence of increase in inventory levels of Australian-made product.

Looking at EMEA on Slide 33. EMEA recorded 9% net sales growth in local currency. Sales in EMEA for the first quarter were up 15% on the same period two years prior in FY2020. We did see strong increases in demand in continental Europe with the fluid tech product range driven by further reopening of many European economies. On the other hand, in the UK, we saw lower volumes in July and August due to the resumption of typical UK vacation patterns. Also impacting sales volumes in the UK were supply chain and logistics issues. The shortage of transport drivers has received plenty of attention and this is certainly having effect throughout the construction industry in the UK. Compounding this are material shortages and other supply chain issues, which have slowed the rate of new projects and led to the postponement of some construction and remodeling activity. We believe these conditions are transitory, but likely to remain as headwinds over the next quarter or two at least.

Let me conclude on Slide 34 by talking to the outlook for the balance of FY22. Underlying demand for our products remains strong, driven by continued repair and remodel activity, and in Australia driven by strong new residential construction. Rising costs due to general inflation, freight cost and logistics delays will continue to challenge our supply chain teams in the next few quarters. Against this dynamic environment, we are putting through further price increases to offset the rising cost pressure we've been experiencing. But there will be a lag between when we incur some of these cost increases and when we see the price increases take effect on the revenue line.

So we are flagging that we think margins at the half will continue to be 100 to 150 basis points behind prior year margins, assuming volumes remain at current levels. The impacts of cost headwinds should lessen in the third quarter as further rounds of price increases continue to come through in our results. We believe most of the supply chain headwinds are likely to be short term. Ultimately, we are confident we can continue to manage through these difficult times by keeping our focus on the customer and continuing to focus on ongoing strong execution. And with that, I'll hand you back to Heath.

Heath Sharp: Thanks, Andrew. So now let's get straight into Q&A. We'll take questions from those on the conference call first, and then we'll move to questions from those joining via webcast. Operator. I'll pass back to you for the questions.

Operator: Thank you, sir. If you'd like to ask questions, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure you mute function is turned off to allow your signal to reach equipment. A voice problem on the phone line will indicate when your line is open. Again, press star one to ask questions. We will pause for just a moment to allow everyone an opportunity to signal for questions. We will take our first questions. Your line is open. Please go ahead.

Speaker: Thanks. Andrew – Heath, quite a lot in that in a very short space of time with 20 minutes to digest all this M&A as well as the trading update. So let's just start with a trading update, if we can. The price rises. I really want to understand this for the second half. The previous commentary we were talking about one per cent margin dilution. And I take your point, Andrew, 100 to 150 basis points in the first half. That should be the peak of it and then abatement in the second half. What's the mechanism for these price rises, and is it across all channels or is it across some channels? I'm just trying to understand this, put this in perspective just how these price rises will be transmitted through the course of the fiscal year.

Heath Sharp: Sure, look, and I guess it's really a continuation of the process we've been we've been on for many months now: And it's across all regions and all channels and virtually all products. So, the timing of individual parts of that based on product and channel and whatever, is different. But there's an awful lot of activity underway right now. And look, as it has been for a while.

Speaker: Yeah, Heath. But I mean, the understanding we'd certainly been given was that Depot and Lowe's, for example, take it once a year. Is that not the case now? They'll take multiple pricing cases.

Heath Sharp: Look, I think what we've talked about in the past particularly in relation to copper is that doesn't move. They're not daily discussions. I mean, there's some period after you've – after a commodity has moved you all just check that it’s got some sort of stability. But no, it's not. It's not a once-a-year thing by any stretch. Look, and particularly in this environment, I think there's awareness across the board that it's more dynamic and those conversations are just happening more regularly; and that's happening across the board, not just with us, of course.

Speaker: That's good, it's really good, really encouraging to hear. So that's just kind of the acquisition. I mean, the last time you spoke publicly, I think was at our forum and said M&A was kind of mop up minnows here and there and nothing really of note. And you're talking with great detail and joy about this EZ-FLO acquisition. So I was sort of taken a little bit aback by that, Heath, the commentary. And also it would seem to be that EZ-FLO would have been a really decent COVID beneficiary in terms of shelter in place with major appliances, etc. I just want to understand the run rate for the EBITDA in the current year, given what's been happening with supply chain constraints globally and for this business specifically, particularly with its China manufacturing base and whether it has maintained the same kind of run rate going into the into the current year.

Heath Sharp: Well, look, two things that I really like about how they they've been operating over the last several years. First of all, pre-COVID, their top line growth rate was in excess of 10%, nicely in excess of 10%. So, pre-COVID, growing really quite well. Into COVID, yes, they had a pick up all through that period, which we've interrogated. I mean, a large part of our due diligence process was into their details virtually SKU by SKU looking for what the movements are. And I think that brings me to the second point that I really like, their ability to move pricing through the market is very strong. They've done a great job to manage just the complexity of the supply chain issues, but also to move those prices through to the market; their pricing power has really been evident as we as we dived into the details.

Speaker: Okay. Okay, thanks Heath. Thanks Andrew. I'll let somebody else have a crack.

Keith: A good evening, Heath and Andrew. It's Keith from MST. Can you hear me come through?

Andrew Johnson: Got you Keith.

Keith: Very good. Thanks for taking my question. So just a couple on the trading update, first of all. So I just want to talk around the revenue growth for the Americas business, up 4.5% for the quarter. Can you remind me we're still correct in assuming that the effective price increases flowing through that period is around 6% for North America, which means when you talk about a slightly down volume number, it's around kind of that 1-2% range?

Heath Sharp: Keith, that's a good assumption. Well the price increase in that first quarter is in line with what we had signaled back in August.

Keith: And then, Andrew, you talked about the Lowe’s distribution model changing from regional to cross stock. Is that something that you'd have been aware of previously? And if that's the case, are you still expecting an impact to flow through in the second quarter or was that largely done because if you stripped it out, I mean, the growth rate in the Americas of 12% is actually very reasonable, if not strong.

Heath Sharp: Oh, I go with strong. I think strong is probably – that's exactly the case. I think it's it was a significant move. It was quite reassuring for us is, as we track the point of sales data really closely, that number, that 12% number is certainly more indicative of what we're seeing sort of on average at point of sales.

Andrew Johnson: And, Keith, we feel like it largely –

Heath Sharp: Sorry, go on, Andrew.

Andrew Johnson: Sorry, I was just going to say we feel like it largely was worked through in the first quarter, the impact in the second quarter will – there will be some, but it'll be pretty small.

Keith: Okay, and are there any of your other distributors where you need to think about them changing the distribution model this year? Anything on the pipelines, any discussions that may continue to drag on sales?

Sean McClenaghan: Hey, Keith,, this Sean McClanahan. No, it's really just limited to Lowe’s, we don't see any other distribution models changing across the channels or customers.

Keith: Ok. Can I get an understanding, Sean, of how much notice you were given about that because it seems like quite a material move – if it had an 8% revenue impact on the division as a whole, it must have been massive in the context of loads of the customer.

Sean McClenaghan: Yeah, not to go into too much detail regarding Lowe's, I think everyone understands they're kind of going through that quite well, three-to-five-year turnaround process. And I think they're just beginning to address some of the gaps between them and other world class retailers on supply chain. So I think a lot of these changes are rather recent; and as they've been driving those changes, they've not communicated them all to the vendor community. So it's an area they're working to improve is to let the vendors know a little bit more visibility before they make these moves because we had limited visibility to this one.

Keith: Okay. Ok, thank you, Sean. And then perhaps one on the acquisition, EZ-FLO. I think Andrew, you mentioned Seven DCs in the US and you're kind of okay in stocks, given the distribution model you've got of the US. Can you give us a sense of how much stock on hand that business would have at any given time? I think obviously the discussions around the freight issues that we're seeing globally and the logistics challenges, but let's just say freight between China and the US was impacted by a lag of two months:, would you have enough to cover yourself or your customers with stock for that kind of period if you got into a two-month whole?

Andrew Johnson: Hi Keith, this is Andrew. We think so. That business was carrying a little bit more inventory than what the US business would typically carry. So we would feel confident based on the number you just quoted two months that we'd be able to carry through that.

Keith: Ok, but for the time being, no major logistics issues have transpired since the start of DD and the acquisitions on?

Andrew Johnson: No, no, look, I mean, they're handling all the same craziness that all of us are, handling it quite well. Nothing we saw in DD was a surprise given what we're what we're dealing with in our business.

Keith: Thank you. And then, Andrew, just a few kind of minors to cover off on the financials of EZ-FLO. Can you give us a sense of what the DNA for that business is and the tax rate that that business would incur? I'm assuming it would be pretty similar to the tax burden for the North America business from an effective tax rate perspective. But if you can give us a sense on D&A tax, and may as well go with interest as well, that would be very useful.

Andrew Johnson: Look, D&A is going to be 2.5-3 million, I don't have an interest number for that business; and of course, it was – the acquisition didn't come with debt.

Keith: So what would you –

Andrew Johnson: I think we had signaled it should add a couple million to our interest expense in FY22, the acquisition would.

Keith: Ok. Excellent. Thanks very much. I'll circle back.

Speaker: Thanks, Keith.

Operator: We will take our next questions. Your line is open. Please go ahead.

Peter: Hi Heath, Andrew, Sean, thanks very much for your time. Peter Steyn from Macquarie. If I may just very quickly try and quantify the level of disruption you've seen in the UK from a supply chain perspective, Heath, how much would that have taken from your growth rates in those periods?

Heath Sharp: Oh, God. Look, I'd say I don't think the UK is sort of any better or worse than what we're seeing everywhere in the world right now, and it's sort of hand to mouth day by day, really. And honestly, it's impossible to put a number on exactly how it would have dented the revenue. I want to think it's a it's a 0.02 but I haven't got hard data in front of me to determine that. Right now, it's really hard to read through a look through the whole supply chain from the contractor through the distributor to us. It's a pretty dynamic period.

Peter: Yeah. Understood. It certainly seems that way. Maybe I'm just going to – on EZ-FLO – get the answer to Keith's question around the tax rate just very quickly. Is that demonstrably different from your position given the Chinese sourcing strategy?

Andrew Johnson: It's not, Peter. We would still call the tax rate between 24-26% for the financial year.

Peter: Thanks, Andrew. And then maybe just a slightly more macro question around the supply chain for EZ-FLO. I'm wondering about the current situation and the risks. I'm curious in the sort of macro context what are some of the things EZ-FLO would have had to do two years ago when tariffs were introduced on Chinese imports as an example? What sort of mitigation strategies should an unfavorable trading regime come about or aggravate itself over the coming years? So just some of those macro whole processes around that trade relationship?

Speaker: Look, I don't think what they had to do was a whole lot different to us. I mean, it's what mitigation they could get from the customer end as well as what mitigation they could get through sourcing and manufacturing strategies. I think it's fair to say some items or components that were previously manufactured in China, they, like us, looked at manufacturing those elsewhere. So it was there – they pulled all the levers available to them in the same way that we did. So there's nothing really there that's a stand out, that's different, I guess, than what we had to do.

Peter: Yeah, thanks. So what was their thinking about half manufactured in China and another 20% sourced in China, and then I presume the rest is onshore manufacturing in the US, is it? And was that proportion then lower historically?

Speaker: Look, other things sourced from elsewhere. There's not a whole lot of true manufacturing in the US within EZ-FLO. And yeah, that proportion has changed a little bit over the period, but not drastically, just a few key items that helped them deal with the complexities of the tariffs.

Peter: Yeah. Yeah, last very quick question. I'm just curious what the biggest part of the cost synergy bucket would be – Heath, what's the single biggest area?

Speaker: The breakdown of cost synergies. Generally what those buckets are.

Sean McClenaghan: Yeah. So of those cost synergies, you could think of them about fairly close to equally split between procurement and sourcing synergies, synergies we're going to get on the distribution side, including freight and freight optimization. Those are the two largest buckets. And then obviously behind that will be some SG&A synergies by running common overhead structure here in the Americas business. So call it 35-35% each and then the balance would be on the SG&A side.

Peter: Perfect thanks, Sean. I appreciate that color. Thanks, gents. Good luck. Thanks very much.

Speaker: Thank you, Peter.

Operator: We will take our next questions. Your line is open. Please go ahead.

Peter Wilson: Good morning, it’s Pete Wilson here. Just on the trading update, the comment that you expect first half margins to come in 100 to 150 basis points below, were you referring to group margins there? And could you give some commentary on Americas, which seemed to suffer the biggest margin decline in in the first quarter?

Andrew Johnson: Hey, Peter, this is Andrew. That was group margins we were referring to, and we did not intend to get into that level of detail in terms of the Americas margins for the half. So we'll just not get ahead of ourselves at this point and we'll talk about that in February.

Peter Wilson: Fine. And then the EMEA sales growth rate, 9% seems slow potentially a little bit since the second half of last year. I'm just wondering whether you agree with that and what might be causing that.

Andrew Johnson: I think what we saw a little bit in the in the UK in this period was vacation that we'd kind of forgotten about a little bit last year. Last year was – it was an unusual year last year and this year just felt a little bit not normal by any stretch, but I think there was a whole lot of people who took the opportunity in sort of July, August and even into September a little bit to take some vacations. So I think that trimmed some of the growth off. But I think it's fair to say it was probably a good time to have a vacation as well because some of the supply chain issues were limiting what material was available as well. So there's a few factors at play there.

Peter Wilson: Okay, good. And just a couple on EZ-FLO. Basically, the – your liquidity post the transaction, USD 127 million strikes me as a little bit light. Just wondering how you're thinking about that versus your uses in the next 12 months.

Andrew Johnson: Look, I mean, I don't think there's anything specific to call out there. That USD 127 million US, obviously, is where we're seeing the headroom post-acquisition. But nothing specific to call out. We did – other than the capital investment that we mentioned at year end last year, the USD 60-70 million, we certainly are on track to invest that into the business. So that's going to be a pretty big use as we as we go through this financial year. But that's about it, Peter.

Peter Wilson: Okay. And you think that's enough to account for all possible contingencies?

Andrew Johnson: I think so.

Peter Wilson: Okay. And then on EZ-FLO, so you've given an estimate of the market size 1.2 billion versus a two billion market size for residential plumbing and fitting. So it implies a 15% share for EZ-FLO. I'm just wondering, could you give some commentary on who has the other 85, because, I mean, it's anecdotal, but in my experience, those kinds of connector fittings retailers generally only carry one particular brand. So just wondering, who has the other 85 per cent?

Andrew Johnson: I think, look, it's pretty fragmented market. I think if you break – if you get into the details, there's a fair bit that – or a number of different product categories that make up 1.2. The couple of key ones there, the water heater connectors and also the water appliance water connectors were sort of well in excess of 20% share from what we see with the numbers there. And some of the other categories we're obviously a whole lot lower. But that's sort of I guess from our point of view the opportunity being in that channel or within those parts of that channel gives us the opportunity to grow those sectors. But there are a number of other suppliers and brands out there. As I said, it's quite a fragmented market.

Peter Wilson: Ok. Perfect. I think I'll leave it there, thank you.

Andrew Johnson: Thanks Peter.

Operator: We're taking our next questions. Your line is open. Please go ahead.

Daniel Kang: Oh, hi, everyone, it's Daniel Kang from CLSA. Just curious about the background of the EZ-FLO transaction. How long had you been looking at the opportunity? How did the opportunity arise? Did the family approach you?

Speaker: Look, without getting into too many details, I mean that process is – or those discussions, I guess, are several months old or since they first began. I think COVID kind of disrupted them a little bit as well. And, look, we try and put ourselves in a position to be aware of when these things are going to move. And we did so in this case and look closely at it. And I think it's fair to say the more we got into it, the more we liked it, frankly.

Daniel Kangg: All right, thanks. And you mentioned before that EZ-FLO generated pre-COVID revenue growth of around 10%. Can you talk about the organic growth and the market share growth of EZ-FLO over the past five years and your expectations going forward?

Speaker: Well, look, pre-COVID, where they were more than 10% growth, I think we believe from here on in, we can continue – they've had a couple of years of higher growth through COVID, which is what you'd expect. As we look forward, we're being – we don't expect that COVID level growth, obviously, but we think the ongoing 10% plus growth rate is possible with their products. That's certainly what we're targeting. And look, that's based on the nature of the products, the quality of the products, but their execution level, their reputation and capabilities to execute. So, they've got a good track record of organic growth. Their last acquisition, Eastman, was years and years ago. Everything they've done over the last several years has been organic.

Daniel Kang: Right.

Sean: But I think if you look at the long-term growth of that market, right, it's like the water heater market, right, it's tied to major appliances. If you looked over a ten-plus year period, you can call those type of markets – call it GDP growth markets. That's like the water heater market we serve today. So the majority of their success has been tied to those things Heath just outlined around the value proposition, which has enabled them to take share from other manufacturers, both through execution and expansion of their product line and offering.

Daniel Kang: And just on the topic of share, where would that 15% market share have stood, say, five years ago? And where do you see the natural market share of EZ-FLO in the long term?

Heath Sharp: Look, we don't have the specifics of what their breakdown was five years ago. Certainly they've grown a couple of categories in particular well ahead of market. Look, we think there's a lot of runway here. If the – one comment Sean made as he went through was he noted that three biggest installation or appliance retailers in the US are Lowe's, Home Depot and Best Buy. And we're in two of those and EZ-FLO is in three of those. So we certainly see there's opportunities to expand the share they've got in each of those outlets across different parts of the stores and across different parts of the of the country, depending on where they're currently in place and where the opportunity lies.

Daniel Kang: Thanks, Heath. And just a final one on supply chain issues. Just interested in how you see the situation evolving, any areas of incremental improvement that you are seeing at the moment?

Heath Sharp: How's it evolving? It's a – Sean is sitting here smiling. I mean, it's a day-by-day thing. You conquer steel today and you wake up tomorrow and it’s a particular resin and the day after it's cardboard. I mean that that's its a wild ride right now. I'm not confident to say anything is settled at this point. I think we still got some ways to go. Certainly, we see it as transitory, but it's – we've got a few montHeath Sharp: of craziness left, particularly on the shipping side, I think.

So look, it's you pull all the levers you have available to you. The good longstanding relationships with our vendors at – looking for material alternatives, particularly when it comes to resins, borrowing from other regions, doing deals with suppliers to swap one material for a different material. I mean, all sorts of stuff on the table and has been for months: now. And look, we're not alone. I mean, everyone's doing the same thing. It's the nature of the beast.

Daniel Kang: Got it. Thank you, guys.

Speaker: Thanks, Daniel

Operation: We'll move to next questions. Your line is open. Please go ahead.

Lee: Hi, Heath, hi, Andrew, hi, Sean. Lee Power here. Just firstly on the trading update. Asia PAC at 17% sales growth was that – in terms of the intercompany sales, were they impacted by that cross docking as well given they're obviously imported into the US, or should we think that the intercompany component was close to that 12% number?

Andrew Johnson: Hey, Lee, this is Andrew. No, those intercompany sales to the US would not have been impacted by that reduction. It did allow us to build a little inventory in Americas, which is something we try to do this time of year. But that's – we've got the Australian factory working pretty hard right now as we prepare for the kind of this winter season coming up and no impact from that Lowe's inventory reduction.

Lee: Okay. Excellent, and then the 10% per annum EZ-FLO sales growth that you've talked to for the next – or 10%-plus for the next three years, you've obviously given a bunch of different examples there on Slide 24. Any of them larger than others, like – it looks like the share growth, there's product line extension, there's geographic extension, like it's any one of them that you're kind of pinning to drive the larger proportion of that sales growth? And then maybe at the same time, I think, Sean, you mentioned that EZ-FLO only 5% of its sales were to new construction. Is that just a factor of the style of business? It's a very R&R-led business? Or is there something like –

is there some sort of large component of new construction that's sitting there that's potentially to be won?

Sean McClenaghan: So in terms of those opportunities, they're as listed or prioritized. So from largest to smallest to give you a sense of some of the growth avenues opportunities in the pipeline. From your new construction question, again, there's a lot of similarities between our business that services the tank water heater market. If you look at just – as a rule of thumb, say there's ten million tank water heaters sold a year, there's a million to a million five new housing units starts a year in the US, kind of implies 10 or 15% of that market is new construction and the balance is repair or replacement, I should say. I think the appliance – major appliance market is similar. You only have so many new housing starts a year that require new washers and dryers versus those that are replaced.

I think the other key activity that is slightly different, however, is remodeling. And I think, as you all know, with all the various dynamics that are taking place in the American housing market today, I think we expect and most people expect the remodeling activity to remain robust. I do think you get a lot of new appliance sales, particularly in the kitchen, ties to gas connectors and other appliance connectors for that remodeling activity. That is really probably their biggest growth opportunity. So a little less on the new appliance side that ties to new construction, more on replacement in the natural life cycle and then that remodel work that's going on.

Lee: Ok. Excellent. Thank you.

Speaker: Thanks, Lee.

Operator: We'll move to next questions. Your line is open. Please go ahead.

Keith: Oh, hi, Heath and Andrew, it's Keith again from MST. I just want to follow up on the growth in the North Americas ex the Lowe’s issues of 12%. If we look at it another way, can you give us a sense of what's driving most of that growth, whether it's the pro channel or the DIY channel?

Heath: Oh, both. It's –, yeah, it's going well across – well, both – I say both are old channels, including OEM hardware strong. It's – I think across all channels, we're seeing the consolidation of that step up from last year. Then with a little bit of volume on top of it and then certainly the price increase on top of that. So there's really, Sean, no one channel that's a standout.

Sean: There’s not. And then you can layer in the complication that when you refer to the home improvement channel, I don't know if you're referring to that as DIY or pro, but if you follow the major home improvement players, clearly what's been driving their growth, especially in categories like rough plumbing, has been pro base growth and their investments to drive pros. So it is really across all channels. And then even within a home improvement, pro right now is probably outpacing what you would classically consider pure DIY work.

Keith: And, Sean, as you look at – or the conversations, you're having with your customers, are there any signs of growth moderating or your discussions with the sales folks, does that suggest that things could potentially even accelerate at the end of this year? I mean, I don't want to get ahead of myself here, but obviously a 12% number extra lows distribution change issues is a really punchy number, especially when you're still comping some pretty strong periods in the PCP as well. So I guess based on the discussion that we've had just around Lee’s question and the discussions you're having with your sales team or customers, are there any signs of let up at all?

Sean McClenaghan: There really isn't. I think outside of obviously supply chain disruptions and complications, which again has several levels to it, right? I mean, there could be supply chain disruptions that could impact rough plumbing products, but a lot of jobs are slowed or stalled because of disruptions that impact other building materials. So as an example, in the world of single family and multifamily construction today in the US, I believe the item that is in the shortest supply with the longest lead time right now are windows and windows and doors. So the availability of that product slows down construction generally for single multifamily construction, right? So absent that type of noise that's throughout the system, the fundamental demand remains robust. Most people will tell you their job boards are booked into 2023 from a contractor standpoint. So the work in the volume is there. It's product availability across all building materials and building products that's the complication.

Speaker: Look, I mean, I think the commentary and the analysis that we're seeing and receiving is that the supply chain issues will actually serve to stretch out the uptick in the market, is the demand is not waning. The supply chains are just going to play out over a longer period and we don't really want the supply chain issues we're dealing with every day, but we're kind of happy for that prolonged uptick in demand if that's in fact how it how it plays out.

Speaker: Yeah. The insight we have to the volume at cash registers remains solid. Remains solid.

Keith: The. And Andrew, I just want to circle back on a couple of things. So you pointed out to the acquisition being accretive in the first year; the preliminary numbers that we're getting to are close to the high single-digit range. Just wondering whether you think that's a fair assumption, whether there are any adjustments below the EBITDA line or EBIT line that we need to take into consideration?

Andrew Johnson: Yeah, and of course, that we thought it would be accretive in the Americas in the first year post synergies, just to clarify that. Look, from an EBIT perspective – or I'm sorry from an EPS accretion standpoint, this is going to be treated as an asset sale, so we'll get a step up in basis as part of the acquisition. And like we did with HoldRite, then we'll be able to amortize that stepped-up basis on the intangibles and goodwill over 15 years for tax purposes. So, we'll have more of that adjusted impact effect where we've got a cash tax benefit related to the amortization of goodwill in this case. So that is something that you'll need to take into consideration; about 4.5 million on an annual basis from that perspective. So that's an additional deduction that we'll get because of that step up in basis.

Keith: All right, okay. And that comes through which line item? I might be kidding myself –

Speaker: That'll impact the cash tax benefit.

Keith: Ok, I'll leave it at that. Thank you.

Speaker: Thanks Keith.

Operator: We do not have any further question at this time. Once again, if you'd like to ask a question, you may press star one on your telephone keypad.

Speaker: And Heath, just to let you know, there are no questions from online. So I think it looks like we're all done.

Heath Sharp: Ok. Well, very good. Well, with that, we will wrap it up. Appreciate your time today. Certainly grateful for the opportunity to step through what is a fair bit of material here. But hopefully we've done so satisfactorily. Thanks very much for your time and we will leave it there.

Operator: Thank you. This concludes the call. Thank you for your participation. You may now disconnect.