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Moderator: **Phil King**

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Operator: Good day, and welcome to the RWC’s FY22 Half Year Earnings Announcement conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Heath Sharp, Group CEO. Please go ahead, sir.

Heath Sharp: Hello, everyone, and welcome to our RCW's FY 2022 first half earnings announcement. This is Heath Sharp, CEO of RWC, and with me today is Andrew Johnson, our group CFO. We're coming to you once again from Atlanta in the US. We had hoped to be in Australia at this time, but unfortunately, Australia's borders didn't quite open up in time to allow Andrew to visit. We are optimistic that we will get to Australia in the near term. Before we get underway, I want to remind everyone that this is the first time we have reported our results in US dollars.

This follows the change in presentation currency we made with effect from July 1, 2021. All dollar references are in US dollars unless we state otherwise in this presentation. So, I'd like to start on slide four with some remarks on the latest six month reporting period. Firstly, this was very much a half where we consolidated volumes and activity levels on the back of the very strong growth we saw in FY21. In this half, we had sales growth of 12%, and experienced generally stable volumes across the group with some regional variation.

This is on top of the 25% constant currency step up for the FY21 year. Top line growth was driven by price increases in each region. A key feature of the first half has been our ability to achieve price increases to offset higher input costs. As we noted in the first quarter briefing, there is a lag between inflation pressure occurring and when we're able to introduce price adjustment offsets. While this lag was evident in the first half, we are confident that by the end of the year, we will have fully offset the cost pressures with corresponding price adjustments.

We expect this to be reflected in improved operating margins. I do particularly want to call out the execution by our teams within RWC. This has been a very difficult half from a supply chain perspective. Our people have mobilized really well, and we've been able to deliver for our customers despite the many obstacles. Of course, we are not alone in confronting these global supply chain challenges. I do believe though, we have executed and performed as well as any of our peers and competitors, and this attests to the strength and depth of our capability in this area.

Finally, it was a significant half from an M&A perspective. We completed the LCL and EZ-FLO acquisitions, which we will talk about further later in the presentation. Turning to slide five and the financial highlights of the half in US dollars. Reported net sales of $522 million were 12% up overall. Operating earnings EBITDA were up 5% on an adjusted basis. There were one off costs relating to the LCL and EZ-FLO acquisitions. When we net off those, we had an underlying operating earnings growth of 5%.

Similarly, our adjusted Net Profit after Tax was up 5% to $75.4 million. Operating cash flow for the half was $60 million, which was down 47% versus the prior period. We'll discuss this more fully later, but I'd note here that this follows a very clear decision we made to increase our inventory to ensure we could continue to serve our customers despite supply chain disruptions. Consequently, our operating cash conversion for the half was only 50%, which is below our normal run rate of around 90%.

We certainly believe this was the appropriate action to take given the global supply chain issues at the moment. We expect cash conversion to return to normal levels in the second half. Net debt has increased by $371 million due almost entirely to the debt funding of the two acquisitions. Finally, we have declared an interim dividend of 4.5 cents per share. This is up slightly versus the comparable figure for the last year, which of course, was declared in Australian dollars.

Turning to slide six. Standing back from these latest results, our strong performance really is obscured a little by comparison with the very strong FY 2021. In this period, we also had to manage rapidly escalating costs and the price increases to offset these, and of course, supply chain bottlenecks within the construction sector. Despite these issues, the fundamentals of our business prevailed. The sustained strength of underlying demand and our high level of execution in all regions drove outperformance over the past two years.

We have presented on this slide our results for the last two years to highlight this performance. Obviously, 2021 was very strong for us, with the COVID uplift driving volumes growth in all our markets. We are very pleased that we have been able to build on that strength in 2021 and carry the momentum into 2022. On a two year basis, net sales were up 34%, adjusted EBITDA was up 45%, and adjusted NPAT was up 89%. Turning now to slide seven and the story of the first half.

I think the sub headline speaks volumes here. This was an exceptionally challenging period from an operational point of view, but it was one in which our core markets remained resilient in terms of end user demand. The trends, which started late in FY 2020 were more evident throughout FY 2021, and have continued into this half. Home owners are continuing to invest in their houses, driving strong repair and remodel markets. We are also seeing very strong new housing construction.

This period was complicated by dynamic cost pressures, requiring us to adjust prices to compensate. This half, we saw more impact from COVID in our operations than in any other time during the pandemic due to the Omicron variant. Supply chain issues led to occasional material shortages, while shipping and logistics have been difficult with lengthy delays and certainly rising costs. Nonetheless, we juggled all of this very well. On a brighter note, we were excited to open our new distribution center in Alabama.

It really is not an entirely straightforward thing to commission such a new facility in this pandemic environment. Again, our people executed very well, and this will give us a much needed increase in distribution center capability. Turning to the two acquisitions made during the period, we have made great progress with integrating LCL into our Australian operations. EZ-FLO was completed on the 17th of November, and we've made a good start to get our arms around that business. It's still early days, but we remain as excited as ever with the opportunities we see for EZ-FLO.

Lastly, full credit to the finance team under Andrew for completing a comprehensive debt refinancing following the EZ-FLO acquisition. We have used slide eight to set out a few of the highlights in the first half. First, we had our service capability recognized by both Lowe's and Do It Best during the period. It's always really pleasing to have external acknowledgment of our execution capability. We are pleased with the two acquisitions during the half, and with the commissioning of our new DC in Coleman. As that slide notes, the 600,000 square foot facility in Alabama will double the capacity versus our prior set up. Now, let me hand over to Andrew to discuss our financial performance.

Andrew Johnson: Thank you, Heath. Let me start on slide 10 with a summary of our performance for the half year. We reported sales growth of 12% for the period, including an initial six week contribution from EZ-FLO. On a two year stack basis, growth in revenue was up 34% versus the first half of FY20. We'll talk through the revenue bridge a little more region by region. But in summary, most of the top line growth, excluding EZ-FLO, was driven by price increases and aided by volume growth on new product revenues.

As Heath has mentioned, underlying demand was resilient, driven by the continued strength of the home repair and remodeling markets, as well as new housing construction. Adjusted EBITDA was up 5% to $125 million, and adjusted net profit after tax was also up 5%. The declared dividend of 4.5 cents equates to 56% of reported impact, so well within our target payout range of 40% to 60%. Now turning to slide 11 and walking through EBITDA performance in a little more detail, you can see in the chart the impact price had on EBITDA with a $34.5 million contribution offset by higher copper and zinc costs, as well as other inflation such as resin, steel and freight.

We did achieve average price increase across the group of 7.4% of sales for the period. Most importantly, we are confident that at today's inflation rates, we will have enough price to offset the inflation we are seeing currently in the business. The other column on the chart relates primarily to manufacturing costs and reflects both the absence of charges in the prior year for tariffs and obsolescence, as well as improved recoveries and manufacturing overhead spend in the current year.

As we foreshadowed last year, we did see EBITDA margin dilution as a result of the price increases undertaken to cover rising input cost and other inflation pressures. Excluding EZ-FLO, we saw EBITDA margin dilution of 120 basis points versus the first half of last year, which is in line with the 100 to 150 basis points we had indicated in our first quarter briefing. We did have cost initiatives during the period which yielded $3.1 million in savings. This is slightly behind what we had hoped to achieve for the half.

We are targeting an additional $5 million in cost out in the second half, and we expect to end the year with an annual exit run rate of $10 million in cost savings. We continue to exercise really strong discipline around our SG&A costs, which increased just 2% over the last year when excluding M&A and EZ-FLO. Let me now turn to the regions, starting with the Americas. Net sales for the Americas were up 15% and up 7% if we back out EZ-FLO. As we discussed in the first quarter update, we were impacted by changes in the logistics arrangements at Lowe's with their move to a cross dock system rather than holding stock in regional warehouses.

If we adjust for this one off change by Lowe's and back out EZ-FLO sales, America's underlying sales were up 12% for the half. We had an initial contribution from EZ-FLO for the six weeks under RWC ownership, with sales of $22.5 million and EBITDA of $2.3 million.

Excluding EZ-FLO, America's adjusted EBITDA margin was down 140 basis points from the period from 18.9% in the first half of FY 2021 to 17.5% in the half just ended. This was a function of price rises lagging cost increases, and also due to the dilution impact of price rises achieved to offset cost inflation.

On Slide 13, we set out the main revenue drivers for the Americas segment. You can see market growth of $27 million, which includes both actual volume growth plus inflation. We also achieved above market growth and growth from new product initiatives. Those items in total delivered 12% underlying revenue growth on the prior comparative period. I should mention we do have further price rises being implemented in the third quarter to offset cost increases and improved margins. This is also the case for EZ-FLO, whose margins were impacted by the lag between rising input cost and implementing price increases with their channel partners.

This is no different than what we've seen on the legacy RWC side. Price adjustments coming through should lift EZ-FLO margins starting in the third quarter and into the fourth quarter. On Slide 14, APAC recorded constant currency sales growth of 10% driven by external sales growth of 17%. Australia has continued to be a very resilient market for both remodeling activity and new housing construction, with housing approvals in Australia up 23% in calendar year 2021. Total new dwellings commenced in the year to September were up 31%.

One aspect of the result we need to explain is why there was no contribution from LCL in the half in the APAC region. The reason is quite straightforward. We have a lag of between four and six months between our ordering and consumption of brass in our manufacturing process. So, during the half, we were working through our existing stocks of brass, which had been purchased prior to the acquisition. With the passage of time, that material has now been consumed, and therefore from this half onwards, we will see the expected EBITDA contribution from LCL of approximately AU$7 million Australian dollars per annum.

Also, we recorded a negative $2 million impact on reported results for APEC due to an increase in profit in stock related to the increased finished goods inventories held in the Americas. Turning now to the EMEA region, net sales in local currency were up 1% for the half and 6% on a reported US dollar basis. As we saw at the first quarter, sales volumes in the UK were lower than the first half last year, but were offset by price increases and a strong performance in continental Europe.

In the UK plumbing and heating market, we have seen volumes and activity return to normal. This follows a surge in activity in the prior year following the UK's lifting of lockdown restrictions. Looking at revenue on a two year historical basis, our sales in the UK were actually up 8% versus the same half in the 2020 financial year. We believe that broader supply chain constraints, including shortages of materials and skilled tradespeople in the construction sector, are limiting construction activity in the UK despite strong underlying demand.

Continental European sales were up 23% on the prior half. This reflects strong demand for water filtration and drinks dispense products. This performance has also been driven by the restructuring we've done with the European sales management teams over the past two years. The new structure we have in place is helping to deliver the strong results we are now seeing. On the operations side, one of the issues we have been managing has been a significant delay in the delivery of machinery and parts for some of the capex projects we have planned.

These projects will further automate our production processes, and the delay will mean that we will see those efficiencies later in the half and into FY 2023. Looking at slide 16, cash flow from operations of $60 million was down 47% on the prior comparative period. This is largely due to the investment we made in inventory in the half, which we flagged at the start of the period. On the bottom right hand side of page 16, we set out in the waterfall chart the drivers of the inventory movements during the half.

Volume increases in inventory accounted for about a third of the movement, which includes higher in transit inventory as international supply chain lead times have increased significantly. The inventory we gained with EZ-FLO and LCL acquisitions accounted for around half of the increase, and the balance was due principally to the impact of inflation. Most of the increase in finished goods inventories was in the Americas, and constitutes fast moving core products.

As a result of the investment in inventory, our operating cash flow conversion for the first six months came in at 50%, which is below our target level of 90%. At this point, we believe we have sufficient inventory on hand, and we therefore expect a much stronger operating cash flow going forward. We are targeting operating cash conversion of around 90% for the second half. The other item of note in terms of working capital movements was the growth in trade and other receivables. This was due principally to the 12% growth in sales, which had a corresponding impact on the receivables line. Turning to Page 17 here, we set out our debt metrics.

Debt levels increased by $371 million over the prior comparative period, of which $350 million related to the acquisitions of LCL and EZ-FLO. As we announced during the half, we put in place new committed borrowing facilities totaling $800 million, with longer maturity dates of 2024 and 2026. These have given us additional debt headroom following the EZ-FLO and LCL acquisitions and extended our debt maturity profile. In terms of our leverage, net debt to EBITDA was 1.97 times on a rolling 12 month basis to December 2021, up from 0.88 times at the half last year.

We remain comfortably within a target leverage range of 1.5 to 2.5 times net debt to EBITDA. Looking at CapEx, we have maintained our budget for the year of between $60 million and $70 million. In the first half, we spent $27 million on CapEx, which included approximately $20 million for growth projects. Delays in equipment delivery are referenced earlier have meant that the rate of spend has been a little slower than we had originally budgeted. But at this stage, we haven't pulled back on our full year forecast.

Key projects are related to expanding our production capacity on core products. In the Americas, this includes valves, Pex pipe, and SharkBite, while in EMEA, we are investing in additional automation of our speed fit and fluid tech production lines. Let me conclude there and now hand you back to Heath to discuss strategy and outlook.

Heath Sharp: Thanks, Andrew. So, we're now on Slide 19. I will touch on our strategy only briefly as we have presented this before, and there are no changes to note. So, Slide 19 sets out the schematic, and then onto slide 20, we consider the main elements. We remain focused on driving growth in our core markets and in markets immediately adjacent to those. The pro plumber is at the heart of our business. Our products and solutions are all about making their lives easier and improving their productivity.

Maintaining strong relationships with our channel partners is incredibly important. Ensuring that we are helping them grow their business over time is a priority for us. As we have proven over the past year, running an operation efficiently, and maintaining high customer service levels is absolutely critical. We executed well for our channel partners and for our end users during the heightened demand from COVID. This enhances our relationships and positions us extremely well going forward.

Of course, our culture and our people remain integral to our performance. This has been well demonstrated as we have managed through the supply chain and logistics issues of the past six months. M&A continues to be an area in which we remain active, particularly in North America and the UK. Turning to Slide 21, our capital management approach is unchanged. When we last presented this, we had leverage of 0.5 one times net debt to EBITDA. That ratio is now at 1.97 times, so right in the middle of our target range.

As such, there is nothing new to signal at this point in time with regards to our capital structure or distribution approach. We will continue to look for opportunities to invest in our business via both organic growth and acquisitions. The increase in CapEx we have underway and the LCL and EZ-FLO acquisitions are good representations of our approach. I'd like to turn now to the outlook for the remainder of our FY 2022 on slide 22. We believe the outlook for our key markets for the balance of the year remains positive from a demand perspective.

We don't see any significant change on the horizon in terms of the demand drivers which are underpinning remodeling activity and new home construction. We are optimistic that supply chain challenges and shipping and logistics issues have peaked, but they will certainly remain a factor for the second half, and we continue to monitor closely. We are comfortable that we have the capability within RWC to continue to manage these effectively. As we've already mentioned, we have further price rises that are being implemented in the second half. This will positively impact our margin as the year progresses.

Importantly, by the fourth quarter, we expect that our EBITDA margin will be approaching that which we achieved in FY 2021. This is excluding EZ-FLO and of course, based on what we can see today. I reiterate Andrew's comment that we expect a return to our normal operating cash flow performance in the second half. I am also pleased to note that trading in January saw a continuation of the sales patterns in the first half. Turning now to the outlook for each of our regions for the period ahead, starting with the Americas on slide 23.

The Lira forecast of remodeling activity indicates significant growth in the year ahead. The forecast for the third quarter of the 2022 calendar year shows a peak of 19.7% as a four quarter moving rate of change. That's a nominal measure reflecting strong materials inflation. That number will clearly be heavily influenced by major remodel projects and bulk building materials such as lumber. We don't expect our core repair and maintenance sector to be quite as strong, but we certainly expect robust demand ongoing.

Looking at Asia Pacific on slide 24, Australian residential approvals and new dwelling commencement numbers have risen significantly. These increases bode well for continued strong markets for new residential construction. We believe these strong approval numbers signal that remodeling activity is likely to remain very robust over the period. In EMEA on slide 25, we're expecting a more steady level of activity here. We are confident that underlying demand remains strong. Supply chain constraints across the sector will continue to act as bottlenecks on activity.

Some of the issues are structural in nature and will take some time to work through. Nonetheless, we are confident we are performing at or ahead of the UK market in general, and we continue to have a very positive outlook for our key continental European markets. On slide 26, we set out our priorities for the remainder of FY 2022. Our ongoing imperative is to look after and protect the well-being and safety of our people, with a particular emphasis on managing through COVID.

Over the last couple of years, our focus on execution has been paramount. It will remain the number one priority for us. We will look to pursue top line growth. Our expectation is that we will continue our long standing trend of achieving above market growth. We will continue to invest in capacity expansion to support volume growth. We'll also continue our investment in automation to deliver further manufacturing efficiencies, and to support the introduction of new products. This year is important in terms of CapEx implementation, notwithstanding the delays in equipment deliveries.

The investment we are making will continue to expand our base for future growth. Regionally within EMEA, our priority will be to complete the realignment of our warehousing and logistics operations through our third party provider. In the Americas, we will be focused on completing the integration of EZ-FLO, as well as pursuing revenue and cost synergies. Across all regions, we will continue to manage cost increases and other inflationary pressures, and we will continue to keep a tight rein on discretionary expenditure.

Our efforts to integrate sustainability into our organization will continue. In 2021, we partnered with Schneider Electric to establish our greenhouse gas emissions. I'm really pleased that we now have that baseline, and can move to the next phase in the coming year where we will use science based methodologies to set and drive emission reduction targets, and this leads nicely into slide 27. Our next social impact report will be released mid-March. There are a few key issues relating to this report that I'd like to highlight here.

Our board has just established two new committees, one with responsibility for ESG, and the other for health and safety. These two committees are a further milestone on our journey to build out our capability in these areas, but it also acknowledges that these are board level priorities, critical to managing our business responsibly. I am extremely pleased that this report will present our scope one and scope to greenhouse gas emissions. This has been a big focus for our ESG efforts over the past year.

Importantly, it now gives us the benchmark from which to build our long term targets. I would also note that the report includes our initial review against the TCFD framework. Finally, on diversity and inclusion, I've been delighted to see that employee resource groups have been formed in each region. Empowering our people to identify what's important and how to effect change is, we believe, the best way to achieve progress.

And to conclude on page 28, we are comfortable with our current position and optimistic about our trajectory.

We operate in solid, reliable business sectors, dominated by the defensive repair and maintenance sector, and bolstered by renovation and new construction in some markets. We have benefited from the step change in repair and remodel activity in all regions in what is now feeling like a structural change. This positions us at a higher level than we would have anticipated a few years back. So, we now have the same expectation for ongoing above market growth but from a higher base. As has been the case for decades, our growth will be driven by continuous incremental product additions.

We will also continue to augment this growth at appropriate intervals with major internally developed products and products from acquisitions. RWC foundation remains our industry leading execution. This capability has been pressure tested and proven over recent years. It is the solid platform from which we will continue our growth journey.

Thank you, everyone. Let's now move to questions. We'll take them first from those who are on the conference call, and then Phil will read out questions submitted by those listening to the webcast. So, opening to questions.

Operator: We will now take our first question from Lisa Huynh from JP Morgan. Your line is open. Please go ahead.

Speaker: Hi, morning. So, I just had a question on, I guess, the inventory balance. We're seeing everyone in the industry hold more stock now. I guess, can you quickly - can you talk about how quickly you see yourselves and your competitors unraveling this inventory over the next 12 months as demand stays elevated, but eases at the same time as well?

Andrew Johnson: Yeah. Hey, I'll take this one. This is Andrew. I think as we work through the half, it is very important that we proceed with caution in terms of reducing inventory. Inventory is a strategic advantage, I think, for RWC at this point in time to help mitigate those supply chain disruptions. Having said that, we do see inventories coming down based on what we've planned during this second half, but it will be well into FY 2023 before the full amount of the increase kind of gets worked out.

Speaker: Okay, sure. I guess in terms of the pricing crisis you've negotiated for the third quarter, I mean, it was a circa 6% price rise in the first half. I guess, what's the quantum we should expect for the second half? And I guess as a follow on from that, you've given us an estimated copper price for the full year. I'm just wondering if the price rises include any provisioning for a scenario where raw materials might take another step up.

Andrew Johnson: So, I'll take that one as well. I think the price increases that we've seen certainly will increase over the second half, approaching double digits by the end of the financial year.

So, certainly we feel like that will offset inflation that we're currently seeing. I have to emphasize that because this is an extremely dynamic environment that we've all been working in, and certainly it's hard to predict where some of these commodities will go. We would expect that at those levels that we've talked about, copper at 10,000, that we've got that offset. If it goes beyond that, then of course we would have to take further action.

Speaker: Okay. Sure. Thanks for the answers, guys. I'll leave it there.

Heath Sharp: Thank you.

Operator: We will now take our next question from Peter Stein from Macquarie Your line is open. Please go ahead.

Peter Steyn: Hi, Heath and Andrew. Thanks very much. Perhaps just a quick question, an extension of your long term outlook comments, Heath. How comfortable are you that the R&R environment that we're seeing now can extend on a multi-year basis? You sort of spoke to that elevated position and your ability to grow within that context, but it would be interesting just to get your more detailed perspective on what frames up their confidence that R&R is here to stay, and particularly in relation to your product set and how you play into that market.

Heath Sharp: Yeah, sure. So, I mean, as we've spoken about a lot, this year for us is very much a year of consolidating those gains we made last year, and we watch those point of sales numbers for our major customers quite closely. The really big comps we were seeing back in the early days - the 20, 25, 35 have obviously gone, and we've had 12 months of comping on them, and it's returned to what is feeling like the long term average and normal level for this industry, which is a couple of points of growth every year.

It really is feeling like a structural change so that, a combination of factors there, but certainly driven by the change in mindset that people are having with regards to their home and how important it will be to them going forward, whether they need a new home, to add a room, to renovate, to add an office and so on. There's a lot of demand for that still evident, and we think it has some runway.

Peter Steyn: I guess I'll ask a question in light of the fact that it certainly seems like bathrooms and kitchens were particularly a big part of R&R spend over the last little while, and whether that's critical or whether you just think that that broader view of, we want to invest in our homes is sufficient to underpin it. So, something specific in where people are spending their money that may change how you think about that.

Heath Sharp: I think like everyone, we're watching closely how things unfold and how travel goes and so on. I guess my view is that here in the US, travel has picked up for some months. We're not still at a complete stay at home approach by a long shot. So, the activity is really returning to normal, but the volume of product being consumed and projects underway is staying high. I'd say there is a shift to larger projects away from some of the smaller projects that were driving things early days, which moves it a little bit back into the window of the pro, but there certainly is evidence that that is ongoing. But as I've said for the last several announcements, it really is a number we watch quite closely, that point of sales activity on a weekly basis.

Peter Steyn: Thanks, Heath. Just one for Andrew. I just wanted to be clear on the improvement in working capital, and particularly as it related to EZ-FLO and the complexity that their supply chain comes with. Just curious, when you allocated the $66.2 million to EZ-FLO and LCL, is that inclusive of improvement in the underlying volumes in EZ-FLO, or would you have moved all that into the 41.4 bucket, just as we understand what impact EZ-FLO may have had to the underlying working capital movements?

Andrew Johnson: Yeah. Look, having just owned the business for six weeks prior to the half that inventory number was really the number that we purchased in November. Hard to split out volume out of that number of at least the $66.2 million. Now, they have increased inventory over the last 12 months, and we feel like their stocks, like ours, are in pretty good shape at the moment.

Peter Steyn: Yeah. So, it's elevated by a similar quantum as opposed to something that was particularly outsized as a consequence of the complexity in the supply chain?

Andrew Johnson: That's - I would say that's correct.

Peter Steyn: Okay. Thanks, Andrew. I'll leave it there.

Operator: We will now take the next question from Daniel Kang from CLSA. Your line is open. Please go ahead.

Daniel: Good morning, Heath and Andrew. Just a couple of questions. Firstly, on the US winter freeze situation, how does it look at this point?

Heath Sharp: Like a normal winter. So, there was a little bit of weather down in Texas, I guess, a couple of weeks ago now. Minor impact, but it feels like a normal winter. So, nothing particularly to look for there.

Daniel: Okay, great. And in terms of raw material costs, I understand the position to pass on price hikes to recover costs. But can you talk more about how you're managing direct raw material costs? Are you carrying elevated raw material inventories, and can you remind me of your position on hedging for copper and any other input costs? Thank you.

Andrew Johnson: Sure. I'll work that question backwards. So, we are not hedging. That's a decision we've made. We feel like that was the right choice in this environment. Looking back on raw materials, we certainly are holding higher raw material stocks, and of course, that comes with inflation. But certainly, the increase is to protect the business, and inflation is going to be part of that. But we feel like we're in a pretty good shape, and as we've mentioned, we're comfortable right now where our inventory levels are, but we do see those coming down over the course of the half, with coming down more significantly in FY 2023.

Daniel: Thanks.

Operator: We will now take the next question from Lee Power from UBS. Your line is open. Please go ahead.

Lee: Hi, Heath. Hi, Andrew. Can we just get some clarification on the margin commentary? So, I get the comment that fourth quarter ex- EZ-FLO EBITDA margin is going to be comparable with FY 2021. The comment around operating margin expected to improve in the second half, do we take that as what up on a half and a half basis for the second half?

Heath Sharp: Up on the period we just were reporting on. So, up from this number.

Lee: Okay. Yeah. So, first half, the second half is an increase. Okay. And then -

Heath Sharp: Andrew, will provide more detail.

Andrew Johnson: Hold on, Lee. Look, the second half last year was an incredible half for RWC with the freeze and the volume that we saw and the leverage that we saw in the business. Certainly, we will not see margins in the third quarter anywhere - I won't say anywhere near, but we will not see the margins that we saw in the third quarter last year. What we said is that we do think by the fourth quarter, EBITDA margins will get back to where we ended the year in FY 2021, which was, I believe, 26%.

Lee: Okay. That's useful. Thank you. And then, just following on from Dan's question around the freeze, like when would you usually see the negative impact from not having a freeze? Because if we look at your trading commentary, America's sales ex-EZ-FLO still up on the PCP. Is it just that that takes a while to come through and it's more of a fourth quarter story?

Heath Sharp: Look, I think it's - probably the best way to think about it is how we bridged it last year. So, we indicated, I think it was like $42 million uptick last year due to the freeze. That would be over a normal winter, and it feels we're having a normal winter right now. Now, we've got a little bit to go, but I'd probably consider that it will end up being a normal winter. So, when you're looking at the second half, it's probably fair to back out the entirety of that amount we bridged in the year end number.

Lee: Okay. Yeah. I guess I'm just trying to work out like what's market, and is there any impact from the freeze in what you've given - what you're seeing thus far.

Heath Sharp: In our trading for February, you mean?

Lee: Yeah. January or February. So, if January you've said - and it'd be good if you could talk to February as well, but if January -

Heath Sharp: Yeah. January, I don't think there was any real impact. We're having a little bit of impact in February, but it's not a big number. It was one specific reason. It was pretty light for a small amount of time. It is not particularly noticeable.

Lee: And do you think that number would still be positive? So, the January, you saw positive ex-EZ-FLO, would it still be positive in February today?

Heath Sharp: Sure.

Andrew Johnson: Minus the freeze impact last year -

Lee: Okay. Excellent -

Lee: All right. Excellent. Thank you very much.

Operator: We will now take the next question from Brooke Campbell-Crawford from BarronJoey.. Your line is open. Please go ahead.

Brook Campbell Crawford: Yeah. Thanks for taking my question. Just one on CapEx please. Are you able to provide a rough estimate of how much your capacity increases by, given all that's going to be spent in FY 2022? A rough stance, maybe its 15% increase, not too sure, maybe more. And as an extension to that, is it a one year significant CapEx program, or is it a multi-year? So, in FY 2023, 2024, with a comeback down closer to D&A, or is it a few years of very significant CapEx? Thanks.

Andrew Johnson: So, assuming we can get the $60 million to $70 million spent in this financial year, we would expect in FY 2023 that our CapEx spend would revert back to a more normal level of 4% to 6% of sales. So, the higher number is not a multi-year spend for us. We do see that as being kind of unique to FY 2022. So, in terms of capacities that we're going to gain from the projects, gosh, it really does vary by project and by region. For example, in the Americas, we're putting in a fourth SharkBite line. So, that's a new one out of three. That's 30% some odd increase on SharkBite, which of course, is going to be a great help for the business. But Pex pipe, we'll put a put a line in there.

Heath Sharp: It feels more like a 15%, 20% increase. Interesting thing about the Pex is we've also reached the limit of the footprint. So, that's part of the reason why this year is a big step up. It's not just for the equipment, but we've got to expand the footprint because we just ran out of space, and that's a step change, which of course, gives us a little bit of room then to move over the next couple of years. So, there's quite a few moving pieces in the CapEx this year.

Brook Campbell Crawford: Okay. That's great. And Heath, one for you just around EZ-FLO. A few months now having owned the business, any aspects of the company or growth options that you're seeing that you're more encouraged about, relative to the last update? And in particular, if you can comment around the decline of the 10% plus sales growth, I think, was the target. Just how you're feeling about those growth options now?

Heath Sharp: Sure. Look, overall, we're very happy with it. Look, I think the best way to state it is, it is the business we thought we were buying. So, well underway with our integration, and in fact, we announced last week the restructuring, which is on track or a little bit ahead of the prior couple of acquisitions we did. Really confident we'll hit our synergy targets. We talked a little bit about the price increases and so on before. I think it's fair to say we're bringing a little more rigor and perhaps vigor to the approach to pricing there, and we'll see the same pick up in margins there, as you'll see in our business, albeit maybe just a few months extra lag.

But the most important part to loop all the way back to your question is, the demand is strong. So, we're seeing revenue at or even a little bit above what we expected, which is a good place to be. And I think also very importantly is the pipeline of opportunities that we saw during due diligence is definitely real, and I think that's been confirmed by the conversations we're having with our major customers. I think it's fair to say our customers get it.

They understand why we've joined our companies, and excited about what we bring. I mean, our approach with our customers is to make their shelf space more productive, and we've got some really good conversations happening now with those customers, which is what we expected, but it's good to see it playing out. So, overall, pleased with what that business will do for us in the long term. So, happy.

Brook Campbell Crawford: Right, thanks for the comment.

Operator: Thanks. We will now take the next question from Keith Chau. Your line is open. Please go ahead.

Keith: Hi, Heath and Andrew. Thanks for taking my questions. First question, Andrew, just on the lag between price and cost, you'll have to excuse me if I've missed this in the written commentary, but are you able to quantify the impacts on earnings as a result of the price cost lag within the first half period please?

Andrew Johnson: Yes. We did put an EBITDA transition chart in the PowerPoint presentation, just looking to see what page it's on, but there you can see the impact of price and inflation. And so, price was $34.5 million, and then the two inflation bars added together was $43.2 million. So, that essentially is that that lag effect we were referring to.

Keith: Right, okay. And then, when you get it back in the next half - so when you get it back in the next half, there should ultimately be some over recovery. So, there's been a bit of a timing lag in the period, and this kind of goes back to Lee's question earlier. You're talking about margins getting back to FY 2021 levels, or at least approaching them in the fourth quarter, do we take that to mean that the FY 2023 margin can be somewhat similar to FY 2021, or is that too bold of a statement to make at this point?

Andrew Johnson: Look, I think at this point, I wouldn't venture to speculate on FY 2023 margins. It's just too early. We always aspire to maintain and grow our margins, and that certainly will be the goal depending on where we exit FY 2022. But look, at this point it's just hard too hard to predict where FY 2023 would go.

Keith: No, indeed. That's fair enough, Andrew. And then the second point, I just want to talk about EZ-FLO. I think - to Brooke's question, Heath, you talked about synergies and that's running quite well at this point in time. Any issues around the supply chain from China going into the US? Are you happy with how that's tracking at the moment?

Heath Sharp: Yeah. Look, it's been no more challenging than the other products we sourced from China or elsewhere in the world, quite frankly. So, nothing particular to call out there.

Keith: Okay. And then my final question is just on the Americas revenue growth guidance for the second half. I think the qualitative commentary was around the run rate in the second half being similar to the first half at this point. If we look at the Americas division, I think there was 7% growth in the first half, 12% ex Lowe's for the underlying Americas business. When you provide guidance for the second half, are you're referring to the underlying growth running at 12% or 7%? If you could clarify that, it would be great. Thank you.

Heath Sharp: I'm not sure we specifically provided guidance on what the revenue would be, but our expectation is that specific Lowe's changes is one off and certainly done, so that business will continue to run at the normal level. And all else sort of being equal, I would think gets you to the answer.

Keith: Okay. That's great. Thanks very much, Heath. Thanks, Andrew.

Heath Sharp: Thanks, Keith.

Operator: We will now take the next question from Peter Wilson from Credit Suisse. Your line is open. Please go ahead.

Peter Wilson: Hi, good morning. Could I follow up that question on the FY 2023 margins. I get you don't want to provide any firm guidance, but I guess you've chosen FY 2021 as a comparable, and that EBITDA margin there was the highest ever. So, would we be right to infer that you don't see that FY 2021 margin is extraordinary? That is the kind of reference point against which you'll try to maintain or grow from now?

Heath Sharp: Yeah. Look, I guess we always spoke about that sort of target ,that number, as being the aspirational number, 26%. It was sort of heavily boosted last year by the - not heavily boosted, but boosted last year by the freeze. So, it certainly seemed out of reach in the near term. I think we've done a really good job managing costs, managing the supply chain issues, and I think managing pricing that it brings it within reach, we believe, in the fourth quarter.

Our caution there is what played out in the second quarter was really quite different to what we saw play out in the first quarter, because things just moved so rapidly. So, the qualifier has to be based on where we've been running over the last month or two in terms of pricing, but that fourth quarter should be a pretty strong margin quarter, we believe.

Peter Wilson: Got it. And then UK sales, can you just unpick that a little bit? So, a couple of factors, especially you've called out that supply chain and labor were a constraint on volumes. And then secondly, a little bit contrast to the US, your comments seem to suggest that you don't expect - well, you expect a pullback in volumes over supply levels, unlike in the US, where there's been - what appears to be a step change to a high level. So, can you just kind of unpick exactly what happened in the second quarter between those two factors, and comment on why the UK might be different to what's happening in the US?

Heath Sharp: Yeah, sure. Look, we spent a lot of time looking at the UK number, trying to get whatever reference points we can. It is the most challenging market we have in terms of reading it and predicting where it's going. Why is it different to the US? I think it's a little hard, first of all, to determine exactly where it's going to settle out. I'd say it's different simply because of - it's got BREXIT mixed in with it, and the UK handled COVID with lockdowns really quite different to the US.

They are sort of the only things I can come up with as we thought about it, why there's a fundamental difference. I think if we look back, there was a lot of exuberance in the UK once the lockdowns eased, and that period July, December, and even in 2020, and then even into the start of calendar 2021, there was a lot of exuberance there, a lot of pent up demand which was met, but I think there was also a little bit of exuberance with distributors perhaps putting a little bit more inventory than they needed which has been unwound.

Getting a hold of all that is proving to be really quite challenging. So, we spent a lot of time as best we can comparing to what our peers and our customers are presenting and trying to get point of sales data. I think the important thing for us is we certainly don't believe we've lost any customers or lost any share along the way. We think we're running ahead of the index for plumbing and heating that the builders merchant, our building index group publish.

And overall, and I think this is really quite important, and as Andrew said, overall, the six months just finished were up 8% on six months two years prior, which kind of feels like a normal run rate. There was just a big dip in the middle there. But then if you compare the 12 months ended December, just gone to the 12 months two years ago, so that's 12 months in 2019, pre-COVID, it's up 14% in the more recent 12 month period, which I think is starting again to show that overlap into 2021 with COVID.

So, trying to draw a straight line through all that is really tough. When we put it all together, we think it's - the market's back to - generally back to pre-COVID levels. I think we're performing just a bit better - well, we are performing a bit better than pre-COVID levels, but the dynamics do feel different to the US for sure, and the reasons I presented before are sort of the only things we can really point to.

Peter Wilson: Would you - the fourth quarter growth rate in the UK, would you say that is a fair reflection, or was there something unusual that the PCP or Omicron this time around, or is it a fair reflection of the kind of growth?

Heath Sharp: Look, honestly, I'm really loathe to draw any big conclusions from quarter by quarter over there. There's just so many moving pieces and different driving factors. So, I don't want to step too far out there.

Peter Wilson: Okay. That's fair. I'll leave it there. Thank you.

Heath Sharp: Okay. Cheers then.

Operator: We have one question left on the queue, it'll be Christopher [inaudible] from Jefferies. Your line is open. Please go ahead.

Christopher: Hi, good morning, gents. I just want to see if you thought that the current situation in Europe will have any impact going forward.

Heath Sharp: Wow. I have absolutely no idea what's going to happen there and what impact it will have. And I'll come back to our fundamentals, which is a big chunk of our business, particularly here in North America, is repair and maintenance plumbing, and I'd like to think that will remain pretty resilient irrespective. Beyond that, it's a tough one to call.

Christopher: Fair enough. And just on the pricing, you guys have talked about obviously the current pricing going forward. When do you expect to see the full effect of the pricing? Third quarter, fourth quarter, or is it first quarter, 2023?

Andrew Johnson: Yeah, no. It'll - pricing will start coming through in the third quarter, but it'll be the fourth quarter when we see the full impact of the price increases that we've gotten through.

Christopher: Very good, thanks. And then the price increase you guys have mentioned coming through in the next half, is it the same similar lag that we expect to see, the full effect?

Andrew Johnson: No. I mean, the lag that we saw in this first half, we won't expect that to repeat in the second half. You're going to see some of that in the third quarter. I think we'll still have some lag that we'll talk about in April, but then in that fourth quarter, that price should have caught up with inflation based on what we're currently seeing in terms of increased commodities.

Christopher: Okay. Thanks so much.

Operator: We have one follow up question from BarronJoey. Can we go ahead?

Andrew Johnson: Yes.

Brook Campbell-Crawford All right. Yeah, thanks for that. Just another one on pricing, just trying to understand the nature of the more recent price increases you've put through. Is it all nominal increases unrelated to or unlinked into contracts for [inaudible] raw materials? Really what I'm trying to understand if we move into a situation where inflation moderates and copper reverts back to lower levels, can you hold on to that price and margin, or is there reasons why that'll have to be passed back through the channel?

Andrew Johnson: So, if you look at the price increases that we've put through, specifically in the OEM channels where we operate, those are typically contractual in their own - an index or rise and fall type clause. And so, for the OEM customers, certainly if copper were to come back down, then prices will naturally adjust. In terms of the other customers, look, I think - I personally don't expect copper, for example, to go down anytime soon.

I certainly wish it would. We have - the inflation in inventory would be something we would have to work through. Would we give some of that back? Certainly, that's something that - if that discussion comes up, then we'll talk to our channel partners about that, but it's not an automatic adjustment, that's only in the OEM channel where we operate.

Brook Campbell-Crawford Okay. Understood. Thanks.

Operator: We do not have any questions now on the queue. I would like to turn the conference back to Mr. Sharp for any additional remarks.

Heath Sharp: Phil, do we have any additional questions online?

Phil King: A couple of quick ones, Heath. To what extent have we thought about using the Port of Seattle instead of LA for Trans-Pacific shipping, and to what extent are we using rail instead of road for our logistics?

Heath Sharp: Okay. Look second part first is, we'll certainly use rail where we can. Where our location is in Alabama, that's a little difficult sometimes. Where we can, we will. Sorry, can you just repeat the first question again, please Phil?

Phil King: It was just - given the delays in the port of Los Angeles, have we considered shipping into Seattle, to the extent we use Los Angeles?

Heath Sharp: Sorry. Yeah. Look, right now, we'll use whichever ports are open, quite frankly. Most of the stuff we actually bring around to the East Coast, so Savannah, if we can. But frankly, right now, we've used New York. We'll - wherever we can get a landing spot, we will. It's every day is a new day right now.

Phil King: Thank you. That's it for the questions.

Heath Sharp: Okay. Very good. Well, with that, I will say we'll wrap up. Thank you very much, everybody for joining us today. Have a good day.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.