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Operator: Good day and welcome to the Reliance Worldwide Corporation Half Year Results 2021 Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Heath Sharp. Please go ahead, sir.

Heath Sharp: Good morning, everyone, and welcome to RWC's First Half 2021 Results Presentation. This is Heath Sharp, CEO of RWC. And with me this morning is Andrew Johnson, our Group CFO. We are joining you from our head office here in Atlanta in the US.

A few words on logistics before we start. Normally, of course, we'd be down in Australia. Unfortunately, COVID continued to make that difficult. So once again, we are doing all of our results activities remotely.

We have people joining the call this morning by both webcast and telephone. And you'll have the opportunity if you're joining by webcast to ask questions as we go by typing them into the site. We will hit those questions at the end of the presentation and Q&A. Those of you joining by audio call will be able to ask your questions live as we hit the Q&A at the end of the main presentation.

So let's get started on slide 5 of the presentation with some brief remarks about the half ended 31st December 2020. Having updated the market towards the end of January on our sales performance, these figures won't be particularly surprising, I wouldn't think. We had a very strong half from a top line sales perspective with 17% sales growth for the group on a constant currency basis. That was driven by revenue growth in all 3 regions.

The Americas with 22% constant currency sales growth was particularly strong. A really pleasing result was the Asia Pacific performance with constant currency sales 14% higher driven by both a stronger domestic Australian market as well as increased export sales to the U.S. to support the growth we saw here. EMEA recovered really well from weak conditions at the start of the half to finish with 10% constant currency sales growth. In all our markets, we saw particularly strong repair, maintenance and home improvement trends drive our volume growth.

From an operational perspective, the strong growth in sales had us running hard at all our facilities. And we've had to do that whilst at the same time managing the COVID-19 impacts on our operations.

I'd like to pause here and record my appreciation for our people around the world who have worked really so hard to keep our operations going and meet the requirements of our distributors and our end users, while at the same time, looking after their own health and that of their colleagues.

Another really pleasing aspect of the result for this half is the way that the top line sales growth has translated into operational margin expansion and improved net earnings. This improvement in earnings was driven not only by top line sales but also by cost reduction measures we undertook in the half, which delivered $9.5 million of savings.

So let's turn to slide 6, which presents a good overview of the first half results. Consolidated net sales for the half of $642 million was up 13% on a reported basis and up 17% in constant currency. Operating earnings or EBITDA was up 32% to $166.3 million. And adjusted net profit after tax was up 56% to $99.3 million.

Operating cash flow increased by 17% to $155.6 million, which represents a cash conversion percentage of 94%, a little higher than our target of 90%. As a result of the cash flow and the

stronger Australian dollar, our net debt reduced overall by AUD 76 million. We have declared a dividend of $0.06 per share for the half, which compares with the $0.045 per share for the first half last year. This dividend will be 20% franked for Australian taxation purposes based on the more diverse geographic mix of our earnings as we've signaled previously.

To slide 7. Our key results are highlighted here, and we can clearly see the improvement in cash flow from operations and the impact it has had on our leverage. We had a net leverage ratio at the end of the period of 0.88x, which is nearly half of the 1.57 ratio of a year ago. So this represents a very significant strengthening of the balance sheet during the period.

Now on to slide 8, and I'd like to set out in a little more detail the story of the half. There's no doubt that COVID has presented us with significant operational challenges, particularly in the U.S. and the U.K., with our major manufacturing plants sustaining interruptions. Through the period, we remained focused on sustaining all appropriate measures to ensure the health and safety of our employees at the workplace.

The volume growth we've seen has been driven by the strength of the repair and remodel markets. This has certainly been the case in the U.S., but Australia and more recently, the U.K. have also been very strong. The recovery in EMEA started to become evident from August onwards. It was initially around satisfying pent-up demand but more recently has been very much associated with increased expenditure on home remodeling activity. In Australia, new housing construction has been stronger than we had anticipated. And it's been really pleasing to see the stand-alone housing commencements rise.

From an operational perspective, we've been able to keep all our facilities operational. This has been particularly pleasing in the context of the U.S. and the U.K. We've also made really good progress on implementing the cost reduction initiatives we outlined at the full year, with $9.5

million in benefit delivered in the first half, and we are certainly on track to deliver the $25 million on a run rate basis by the end of FY '21.

This combination of top line sales growth and cost reduction initiatives has meant we've seen improved margins in all regions. We'll step through that detail shortly. But first, I'd like to just stop briefly on slide 9.

And as we highlighted at the - 6 months ago, the last several months, we really have been focused on execution, which was our intention. Nonetheless, during this challenging period, we were also able to land quite a few significant awards from 2 important channel partners in the U.S. and Canada. In the U.S.A., Lowe's not only awarded us their Rough Plumbing Vendor Partner of the Year, but also their Acme Award in the building products category as Building Products Vendor Partner of the Year. In Canada, we were delighted to be awarded Home Depot Partner of the Year for Department 26 rough plumbing.

What is important about these awards is that we've been able to meet the extremely high demands expected of us from major distributors and channel partners during a time of COVID and during a time of significantly increased demand. That we've been able to rise to the challenge and meet these demands says a lot, I believe, about the values and capabilities of the people who work here at RWC.

So now over to Andrew to take you through our financial performance.

Andrew Johnson: Thanks, Heath, and good morning, everyone. We will start with Page 11, which summarizes what is really an exceptional financial performance.

So net sales for the half were 13% ahead of the same period last year. Volume and strong execution of our cost savings initiatives drove a 32% increase in EBITDA to $166 million and a

43% improvement in EBIT to $137 million. EBITDA margins increased 370 basis points to 25.9%. Adjusted NPAT was up 56% to $99 million. Cash flow from operations, as Heath just mentioned, was up 17% to $156 million.

On to slide 12. Slide 12 provides a little more color on the movement we saw in EBITDA within the period. What this chart clearly shows is that execution is the story of the half with significant volume contributions as well as capturing savings from not only current year initiatives but the savings from carryover procurement savings in the Americas and synergy savings in John Guest.

We ran our manufacturing facilities pretty hard this half, which has certainly helped deliver strong recoveries as we leveraged the increase in volume. We signaled that we will be investing this half in additional capacity. And as this comes online, we will lose a little of that full operational leverage benefit until demand catches up.

As expected, copper was also favorable in the half, which we signaled at the beginning of the period. We did see inflation of $6 million during the period in the form of wage inflation, insurance, freight costs as well as additional COVID costs, all of which were offset somewhat by lower travel and advertising spend. Of course, we do expect spending on travel and entertainment to increase again once we have emerged from the COVID current restrictions. So those are not permanent savings that we can count on in the future.

The year-over-year growth in EBITDA was also assisted by the absence of an unfavorable adjustment in APAC last year of $3.5 million for profit-in-stock versus a $1.3 million favorable adjustment in the current period. So that's a $4.8 million swing. Currency was a negative impact on reported EBITDA this period with a much stronger Australian dollar relative to the U.S. dollar. EBITDA increased by 38% on a constant currency basis and 32% on a reported basis. Now let's take a quick look at the segments.

Looking first at the Americas on slide 13. As Heath mentioned, net sales in U.S. dollar constant currency terms were up 22% and EBITDA was up 49%. Most will be aware of the very strong demand we're seeing, especially through hardware and retail channels driven by home repair and remodel activity, which we saw consistently across the months throughout the half.

The strength in demand can certainly be seen on the graph in the bottom left-hand corner of the page, where we show performance on a monthly basis. It really was a very consistent performance throughout the half, with growth in sales relative to the prior corresponding period.

Another notable feature of the half was the higher valve sales to our water heater OEM customers, which was, again, due to the strong level of remodeling activity going on in the U.S.

In the wholesale channel, we did see a continued improvement in demand throughout the period. You may recall that at the start of the half, wholesale was a little soft due to COVID-19 restrictions.

So in summary, higher volume led to strong recoveries in our factories as well as operating leverage in SG&A. This, combined with tight cost control and good execution of cost savings, drove EBITDA margins up 340 basis points for the Americas region.

On the next slide, the key point we're trying to make is the fact that of the 22% constant currency growth in the Americas segment, we estimate that around half of that was driven by the COVID impact on sales activity. We would stress this is not an exact science and that we've derived the figure based on what we've seen in terms of broader market growth and the success we've had with some of our own initiatives with our channel partners. Our fundamental view of the business has not changed in that we expect to be able to put 2 to 3 percentage points of growth on top of market growth in any given period.

Turning now to slide 15. Asia Pacific recorded 10% growth in sales. And this was driven in part by an 8% increase in external sales and a 20% increase in export sales to the Americas on a constant currency basis. We were especially pleased with the recovery and demand growth in Australia driven by stronger home improvement markets.

The increased stand-alone housing starts during the period more than offset the decline in apartment and multifamily dwelling starts in terms of impacts to our business. I would like to point out that a feature of the half was strong growth of sales in China of the John Guest product, which we report in the APAC results.

As referenced earlier, gross profit in the period benefited $4.8 million versus prior year based on the absence of an unfavorable profit-in-stock adjustment that we saw last year. Operating margins were up 340 basis points, bringing the APAC EBITDA margin to 21.6%.

Turning now to the EMEA region on slide 16. EMEA recorded 11% constant currency sales growth or 10% on a reported basis. As you can see in the graph on the bottom left-hand corner of the page, sales began to recover in August and continued to build momentum throughout the half. The initial recovery in sales was due to the distributors restocking and because of pent-up demand from our plumbing wholesale customers. As the half progressed, this was replaced by increased spending on home improvement as we saw in other markets, specifically the U.S. and Australia.

In terms of Continental Europe, sales were up slightly half-on-half. We did see a lower level of pent-up demand as lockdown and restrictions had been far less severe in Europe than they were in the U.K. EMEA's EBITDA margin increased 300 basis points driven by stronger operational leverage from the increased volumes as well as further synergies from the integration of the John Guest and Reliance businesses.

Turning to our cash flow performance on slide 17. As we said, we generated $156 million of cash from operations in the half. Our cash conversion was 94%, so slightly ahead of the 90% range we were thinking earlier in the half. We did see a reduction in working capital, but that was principally due to foreign currency translation impact of the weaker U.S. dollar.

Inventory levels were higher on a constant currency basis due to the normal seasonal buildup in the Americas ahead of winter. This was offset by increases in trade payables and accruals, while trade and other receivables were broadly flat excluding foreign currency translation effects.

A final point I want to make on cash flow is that both dividend payments for FY '20 were paid in the first half of FY '21. We paid the interim dividend from last year, which was deferred to October as well as the final dividend for FY '20.

Turning now to slide 18 and capital expenditure. In the half, we spent $12 million on CapEx, which was down from the $25 million we spent in the first half of 2020. This is largely a matter of timing and the fact that in the prior year, we were completing the ERP implementation in the U.K. Remember, we did pull that card late last year as part of our belt-tightening efforts in light of the uncertainty of COVID.

And as you would expect, it takes a while to refill the pipeline with projects and activities. We do have a number of projects that commenced in the first half, which we will see CapEx spending in the second half, specifically on capacity projects. So for the full year, we are guiding towards capital expenditure of between $40 million and $50 million.

Looking at the balance sheet on slide 19. As Heath mentioned, our financial position has been further strengthened in the first half with debt reduction of $76 million due to both the cash generated in the half and the positive impact of foreign currency movements. Our net debt-to-

EBITDA leverage ratio improved further to 0.88x, down from 1.57x a year ago, which is significant.

During the half, we extended one of the 3 tranches of our syndicated bank facility. And as a result, we now have one tranche of $250 million maturing in September of 2022 and $500 million being the other 2 tranches maturing in September of 2023. We continue to have significant headroom within our banking facilities and remain comfortably in compliance with all financial covenants.

I'd now like to briefly discuss our capital management approach. On slide 21, we did want to lay out our approach to capital management and the framework we're using internally. So our top priority remains to create value through organic growth by investing in R&D activities and manufacturing capacity. In addition, growth through M&A has been and will continue to be a priority for the business.

From a capital management point of view, we are targeting a net leverage ratio of 1.5 to 2.5x net debt to EBITDA. In the normal course of business, we will remain in the lower end of this range and will operate below this range if the situation dictates.

In terms of cash distribution to shareholders, we will always prioritize dividends first, and there's no change to our previously stated policy of targeting 40% to 60% payout of net profit after tax as we have done in this half. Beyond that, we do see the potential for cash distributions through on-market share buybacks to the extent that we retain flexibility and that we're comfortably at the bottom end of our leverage target and have fully funded organic and inorganic growth opportunities.

On slide 22, we further set out our goals in respect of our capital management approach, which ensures that we at all times have access to adequate liquidity and funding while also minimizing

the cost of capital. To the extent we're able to do that and have excess cash, then beyond dividends, on-market share buybacks make the best sense for returning excess cash, and we see these being accretive from an EPS perspective and value-enhancing for shareholders.

So thank you very much. And with that, I will now hand back to Heath to talk about our strategy and outlook.

Heath Sharp: Okay. Thanks, Andrew. Let's dive briefly into our key strategy points on slide 24. These are essentially unchanged from those we presented at our Annual Investor Day in October last year. Clearly, creating value through product leadership is core for RWC. We do this through deep customer insight, which allows us to deliver solutions for the end user to improve the productivity of the contractor or enable a DIY repair.

Just as important are the relationships we have with our channel partners and distributors. A key element of our value proposition is to continually add value to their shelves through a growing array of products that are increasingly attractive to end users and sought after by them. This must be accompanied by industry-leading execution in terms of delivery performance and product quality, which in turn should translate into margin expansion for us.

The foundation of all this must be a great team of people and an organization which is connected to the communities in which it operates. As we've seen with the awards we've garnered in the U.S. and Canada in the first half, these are evidence of our performance in the period, and we're certainly delivering on that strategy.

Looking ahead for the balance of the FY '21 year, our priorities are firmly around continuing to execute and support our channel partners through the current buoyant demand, while at the same time, delivering on our cost reduction initiatives and assuring we are operating as efficiently as possible.

Beyond that, we do feel that we now have the organizational capacity to look harder at M&A again given that we have normalized our operations in terms of COVID and strengthen the capabilities and resources required to function within this environment. Equally, we are very confident that we have our arms around the U.K. business and that we now very much have a platform that we can seek to leverage through product extensions and into new markets.

Turning now to our outlook for the balance of 2021, and this is set out on slide 25. We are not at this time providing formal guidance for the full year given the continued uncertainty around what COVID-19 means for each of our markets. However, we maintain our commitment to you to provide appropriate levels of visibility on our trading as the year progresses, really in keeping with our approach through the first half.

We do expect to see a couple of significant variations in year-on-year growth patterns because of what was happening from March onwards a year ago. As a reminder, it was in March last year when we first saw COVID-19 start to impact our operations in the U.S. This was when we first experienced a significant uptick in sales activity as the start of the stay-at-home home improvement phenomenon emerged. Given how strong our sales performance was from March onwards last year, we expect the year-over-year top line sales growth rates to moderate or even flatten as we progress through the second half of FY '21.

Conversely, in Europe and the U.K., the fourth quarter of 2021 financial year was particularly tough - fourth quarter of the 2020 financial year was pretty tough. Lockdown restrictions were implemented, and sales fell to 35% to 40% what they had been prior to COVID-19. So we expect to see quite strong rates of growth year-over-year in EMEA because of these low prior period comparative figures in that market.

Another factor to bear in mind for the second half will be the impact of inflation on cost categories. This includes raw materials beyond copper, which I will talk about briefly in a moment, but include notably zinc, steel and plastic resins. We are also seeing rising freight costs and packaging costs. Of course, we are actively managing all of these but do expect to see some cost pressures impacting our second half earnings performance.

In regards to our trading performance at the start of the second half, January has been another very solid month in terms of sales activity. There were 2 fewer trading days in January this year compared with last year. Despite that, sales on a constant currency basis were 14% higher than for the same month in 2020. And so on a daily basis, the trend was up 24% in constant currency.

Within the regions, the Americas sales growth rates have remained strong and consistent with what we saw in the first half. Asia Pacific sales were up 1%, but of course, stronger than that if we normalize for the 2 fewer trading days.

And Australia has continued to benefit from growth in export volumes to the Americas segment. EMEA sales were up 6% on the prior period. A standout for the month were the sales to U.K. plumbing and heating, which were 18% higher. We're only partway through February, but I can confirm that we've continued to see positive growth in each of the 3 regions so far during the month.

And finally for this slide, many of you will be aware that we've had a weather event here in the U.S. last week with freezing temperatures in the south and particularly impacting Texas. We do expect to get a bump in sales from this, and we've been working around the clock with our channel partners to get them restocked and their shelves filled as best we can.

It is worth noting that logistics throughout many of the southern states have been adversely impacted by the severity of the weather. But we have made good progress, and I know from the

contact we have had with our channel partners that they are very appreciative of how we have managed this event over the past week.

It will take a couple of weeks for this event to play out and for us to understand the impact on our business. I would note, though, that as our business has grown, the effect of any freeze event on a percentage basis will be less than in prior years.

So continuing to look forward, I'll comment on the outlook of each of our 3 geographic segments, starting with the Americas on slide 26. We expect that the home improvement sector is likely to remain robust for the balance of this financial year. That said, this is still an abnormal market, and we'll track closely the numbers coming in from key distributors to confirm the momentum as the period progresses.

We will also be looking to see what's happening in the commercial construction and multifamily markets as these are two areas which have been impacted by COVID, and this recovery is less certain. Again, I would note that even with the current momentum continuing in North America, the comparisons will be tough starting from March as they will be against months that benefited from a pop of 20% plus last year.

To slide 27. In Asia Pacific, we also now have increased confidence of a solid second half, with the continued trend in home improvement spending in Australia coupled with increased stand-alone housing construction likely to be supportive for the next few months. We do have a watchful eye on the longer-term trends because there can be no hiding from the fact that household formations as a result of COVID-19 immigration trends and international student arrivals are down significantly, and the impact on new housing construction is really yet to be felt in a major way.

And finally, to EMEA, this is on slide 28. We expect continued strength in the U.K. home improvement market. And as you can see on the chart here, there has been a very strong

rebound in repair and maintenance work after a dramatic slump in the middle of last calendar year. Where we have somewhat less confidence is in our more commercially oriented products, particularly around discretionary drinks dispense. But overall, we are reasonably optimistic about our prospects in the U.K. and Europe for the second half.

Turning to slide 29 where we discuss the copper cost impacts. Clearly, for FY '22, the rise in the cost of copper is going to have an impact on earnings absent any moves by us to mitigate these costs. We show on the table in the slide what the EBIT impact would be of an average copper price of USD 7,800 per tonne absent any mitigation, and that will be to negatively impact EBIT by AUD 18.5 million.

We do have actions underway, which we believe will significantly reduce any negative impact from higher copper costs. Some of these are commercially sensitive, and I cannot really discuss them with you today, as I'm sure you'd appreciate. But obviously, price adjustments to offset higher copper costs and supply chain management are both areas where we are actively engaged.

From a long-term product road map point of view, we are extremely well placed to leverage our design capabilities and alternative materials. As examples of long-term positioning, I would point you to our plastic push-to-connect fitting ranges, ProLock and EvoPEX. Additionally, we have invested significantly through R&D efforts into new product types and new product designs in the push-to-connect space.

We believe we have an exciting product road map, which we will implement as appropriate and with a comprehensive commercialization strategy. We feel it is certainly within our capability and indeed our responsibility to continue to lead this market profitably forward.

Let's move to slide 30 and our priorities for the rest of the year. Our #1 priority, of course, will remain the health, safety and well-being of our people as we continue to manage through COVID-19. It's exciting that vaccines are on the way, but it will still be some time before life returns to normal in the post-vaccine world, and we need to manage carefully through this next period.

From an operational perspective, we will continue to focus on high levels of service, delivery performance for our channel partners, ensuring that we have good levels of inventory in store and that our end users are able to get what they want when they want it. We will continue to focus on delivering top line growth above that of the markets we are in and pursue continuous improvement and cost reduction initiatives, which will maintain and enhance our margins over time.

Now in summary on slide 31. The RWC business continues to be extremely robust. I believe we've done a really good job of managing through COVID supporting our distributors and customers, and we've delivered an extremely strong set of financial results today, which pay a testament to that.

There's no doubt that our core plumbing and heating markets have proved and particularly resilient through COVID, and we don't see that changing in the near term. We continue to be excited about the opportunities we see in front of us to both grow the business organically and to expand over time through selected M&A as opportunities present themselves.

Of course, we are still in quite an uncertain environment, and external factors could impact our momentum. Nonetheless, I feel we are, if you like, match hardened based on the last several months, and we are well placed to face whatever comes our way. That said, I would stress there is no complacency here, and we remain focused on executing as well as we can, day by day, week by week.

Finally, on slide 32. I'd like to bring your attention to our social impact report for 2020 that we released recently in addition to the modern slavery statement we issued in January. Both of these documents set out the progress we've made in a number of areas. And I want to particularly reference the work we've done on diversity and inclusion, including our response to the racial injustices that were highlighted here in the U.S. last year.

Now while we did make quite as much progress on a few of the ESG initiatives as we had intended due to the need to manage through COVID, we have nonetheless been able to build on prior year achievements in a number of areas, and we set out their progress in the report.

So thank you, everyone, for listening. And now we'll be happy to open up to questions, firstly, from those on the call and then to those who are online.

Operator: Well, thank you. If you would like to signal with questions, please press “star,” “1” on your touchtone telephone. If you’re joining us today using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. You’ll hear a tone indicating when your line is open. At that point, please state your name and company name and pose your questions. Again, that is “star,” “1” if you would like to signal with questions. “Star,” “1.”

We'll go ahead and take the first caller.

Lee Power: It's Lee Power from CLSA. Heath, just firstly, touching on the divisional performance growth rates that you've given for January, can you just confirm if they're constant currency as well?

Heath Sharp: I think in my narrative, they certainly were. I think we presented both in the announcement, though.

Andrew Johnson: I think so.

Lee Power: Yes, I'm talking to the...

Heath Sharp: Well, throughout...

Andrew Johnson: Constant currency.

Heath Sharp: Yes, that was constant currency definitely. So reported in Aussie dollars is 16%. So it's - the 22% is constant currency for Americas.

Lee Power: Okay. And then just your comment on freeze. I mean in the past, you've talked about $5 million earnings impact to half. Can you just quantify what you think that would be now?

Heath Sharp: Look, no, we really can't at the moment. We are quite literally in the middle of it. So it's, I guess, a week old or a week when the event occurred. Certainly, there's a lot of product has been taken off the shelves of all our distributors in Texas. We struggled to get any product in there. We had it staged ready to go last weekend, but we struggled to get it in there simply because there were no trucking companies available or prepared to head down there early in the week. So that started to move at the end of the week.

But how that plays out in terms of getting that product on the shelf, how it then moves off the shelf in the coming week or so and then what the resupply looks like will inform us. So it's impossible at the moment, Lee, to put a number on that. Look, I would say it looks pretty bad in Texas. It's quite focused. It's quite localized.

So in a few weeks, we'll have a feel for that. And as I said, we'll need to get out to the market, I think, regularly during the second half to update, and that's one issue that's going to be an open question, I think, over the next some weeks.

Lee Power: Okay. Fair enough. And then just on the 11% above-market growth in U.S. I mean, is that just due to the mix to DIY, Home Depot, Lowe's? Or is - are you taking share in other segments? Can you just maybe talk a little bit about that?

Heath Sharp: It will be taking - it depends on the product category. If you talk about the push-to-connect, it's taking share from other segments, from other fittings types. Similarly with the Holdrite products, some of those brackets, and the HydroFlame, I mean, that's taking share from makeshift methods and other competitors as well.

And if you think about the period we've had with the really strong home improvement and invest in your remodeling approach, the products that we've got and, in particular, SharkBite really lend themselves to that use. So all those things combined have helped us grow above market.

Lee Power: Yes. Okay. I guess that was my question. Do you think the 11% is more given your product suite being better suited to what seems to be running hot? Or are you continuing to grow in other areas?

Heath Sharp: I think it's - look, I mean, we're talking about this other - Andrew put it really well, is the bar that's talking about customer product initiatives. I mean there are activities that have taken place in this period or in the last 12 months. The bar - the above-market growth is really a reflection on what the long-term benefit of those initiatives drive. So additional product space, the nature of the product that drives a better outcome for the end user, so attracts the end user to those products. That's really how we generate above-market demand.

Operator: And we'll go ahead and take the next question.

Simon Thackray: Simon Thackray from Jefferies. I've only got a couple of really quick ones for you. Appreciate very much the slide on copper and the headwinds looking into FY '22, the $18.5 million and your comments around mitigation strategies against that target. Depending on who and where you are, copper could be much higher than that given the current commodity construct.

I just wanted to ask, I know you normally don't look at hedging and et cetera, but is it appropriate to be thinking about some portion of hedging for copper in FY '22 just to create some certainty around the cost that you'll need to target in that year under your mitigation strategy? Can I start with that?

Heath Sharp: Sure.

Andrew Johnson: Yes, Simon, I'll answer that question. So we've looked at hedging a couple of times in the past, and that can get fairly complex and be somewhat expensive to administrate. And we haven't done that. Look, copper hedging isn't going to – isn’t going to eliminate that additional cost out of your P&L. This is going to smooth it and protect your budget period. Having said that, we are going to take another look at it and make a decision later on in the half. That is something that's on the table.

Simon Thackray: Andrew, I figured you may do that. Just looking at capital management, again, thanks, it's a good update in terms of the way you're looking at value creation and capital management. I presume, however, M&A from your comments remains top priority for allocation of capital. I just want to understand the - both the Board's and management's approach to capital management. If a buyback were announced for 12 months, presumably, you'd have a pretty good idea of what your M&A opportunities are also in that 12 months.

I just want to understand, we're not likely to sort of see a buyback announced and then not executed as happens with some of the companies under our coverage. If you make a commitment to a buyback, we do assume that, that becomes the priority for capital in that 12 months. Or indeed, is that a priority alongside and now an M&A opportunity in that 12-month period?

Heath Sharp: I - so it's Heath here. We definitely start thinking about growth opportunities. Well, look, actually, we start thinking about capacity first. And there's obviously quite a bit of capital now that we're directing towards capacity. And that return on the capacity increase is pretty good. So that will always be a focus. But beyond that, if we can grow the business with - even pre-M&A with product developments close to the core, new product lines and so on, then we'll do that. Absolutely, we'll look at M&A. And that's certainly where my head's at to drive the business.

That said, the incoming cash is pretty strong right now, and we think it will be for the near term. So I think we're in that position where we can consider - we haven't, in any way, given up on our growth aspirations or our approach there. But I think we can also look at the opportunity for buybacks.

Simon Thackray: That's helpful from both. And one final sort of - I guess it's a little bit of an admin question, perhaps. I appreciate your comments on SG&A during the period of uncertainty, which has been significant over the last 12 months. As we think about the world - and I appreciate there's no guidance for the second half. As we think about the world, at a group level, what should we be thinking about SG&A as a percentage of sales going forward?

Heath Sharp: Okay. I'll give my broad answer, then, Andrew, you can get more accurate if you want to.

So look, this has been quite an unusual half. I mean, as Andrew said, we've been running the factories really hard. We haven't, during this period, had a lot of reinvestment show up, certainly

at the P&L level anyway, and managed cost tightly and even had some costs that we didn't expand that we normally would. And that was not an insignificant number when you look at the travel and the marketing spend and so on. So a whole lot played out really well in this half.

I guess where my head goes to in terms of the - I've jumped probably to EBITDA margin here, I suppose, to SG&A specifically. But - so if you look at where we landed this period, compare that to what we had for the full year last year, the midpoint between those 2 seems like an aspirational number for the near term for us. We're not going to repeat the percentages in this half going forward. That's multi-years out before that sort of leverage will manifest itself in those numbers, I would think.

Simon Thackray: Sure. I guess it's an interesting question, Heath, the change in behavior and some of the opportunities that you've learned as an organization. Are there costs that you think now from an SG&A perspective are permanently out of the business?

Heath Sharp: Look, I think so. It's hard to put a number on it. I think, certainly, we won't travel as much as we did. I think we're pretty keen to get back to doing marketing exhibitions. I mean there's just such a great opportunity to get face-to-face with end users and your distribution partners. And we've missed those. So as soon as it's safe to - for those exhibitions to happen again, we'll jump back into that. But travel, I think, will be less.

But look, the flip side of that is there's some additional costs, I guess, we've got in the operations with PPE and material handling and extra people and so on that should come off. So there's some ups and downs in those numbers.

Operator: And we'll go ahead and take the next question.

Peter Steyn: Peter Steyn from Macquarie. I wanted to just further the conversation around M&A thoughts, Heath. In your prepared remarks, certainly, you left the impression that EMEA is the region where you'd be focused from a potential M&A point of view. Could you give us a sense of how you're looking at that opportunity, are valuations still at a place where you'd be comfortable? Are there some clear thoughts in terms of product versus region expansion? Just some elaboration there.

Heath Sharp: Sure. I'd say, overall, our thinking on M&A is probably simply returned to where it was 9 months, 12 months ago. I mean we did certainly have more of a focus on operating the business on a daily basis over the last period. I think it's the right time to sort of go back to the level of focus and concentration we had on M&A in sort of 9, 12 months ago. So it's not a drastic departure. It's just recognizing the state of the business more than anything.

The U.K. now, that business is running really well. And I'll tell you what's really pleasing about these results is that we've been able to put on the table some results that I think indicate just how strong that business is. As we've talked about previously, there's been some real noise with COVID and Brexit over the last few periods that have made it tough to see how nicely that business can deliver.

So I think these results show that. But it also reflects the strength of the management team and how well they're operating over there. And that brings - and that gets us to exactly where we wanted, which is a platform in the U.K. to consider bolt-ons and adopting the same approach that we have in the U.S. over the past some years. And I think the U.K. is there, and that certainly we'll continue to look at bolt-ons from a U.K. point of view.

Europe, Mainland Europe, Continental Europe, a little bit different. It's more about is there an opportunity there to make an acquisition that could in turn give us a platform in Europe. So scale-

wise, that suggests maybe a little bit bigger than a bolt-on but not a great deal. And I would also say our focus or our priority is a little more towards the U.K. to leverage that platform.

That said, these things sometimes come up when you least expect it. There's a lot of sort of family companies that would be interesting for us in many parts of the world. And the timing on those, sometimes you don't have a lot to say when they come up. So we'll be flexible. But the U.K. and the U.S. would be the priority.

Peter Steyn: And then perhaps just on the product development side of things. One of the things that's interesting is the - of the $9.5 million of cost reduction that you've generated in the period, $3.6 million of that would - has come from product development. Would be interested, first of all, how much of the $25 million will be in that product development bucket?

And then I suppose more fundamental question is, is this essentially, let's call it, wasteful sort of - call it, lack of a better description, wasteful expenditure that you've avoided? Or are you cutting away at the muscle in your product development spend?

Heath Sharp: That - the big chunk of that is the sort of the restructurings that we've undertaken on the Streamlabs and related products and including some water quality things we were working on. So we've stepped back from those to focus on the core. And I would say we're actually spending - that saving aside, we've ended up spending more on the core and working harder in that area. So certainly not cutting away muscle at all in that area, it's just a return to focus on what it is we do well. And I think that manifests itself.

Most readily, if you jump on the Holdrite website, holdrite.com, I mean, there's a section there on the new range of the HydroFlame products that we've launched, which is the next-generation HydroFlame, including some larger sizes in the sort of 8, 10 and 12 inch. That's absolutely core business. That's activity that's been going on for the last couple of years, and we've certainly

ramped it up recently and is yielding a product that will be a really important part of our range going forward. So it's a return to the core. It's not stripping back at all in that sense.

Peter Steyn: Sorry, just one last quick one. Just on your price negotiations, the commercial process that you spoke of back in January. Any updates there? And would probably be most interested if you look at the numbers that you provided for '22, if you had to take a crystal ball view on how your mitigation looks, is the majority of it going to be price? Or how does one think about pricing and the importance in that mitigation strategy?

Heath Sharp: Yes. No, good question. Look, price is going to be an important aspect of it. It's a pretty big number. I mean there's a few things we can do, but price is obviously quite important. I'd say based on what copper is doing, it's going to be a pretty dynamic environment for some time. It doesn't strike me that it's tick the box and move on. I think it's going to be dynamic for a while, which actually matches what happened back in - I'm going to say, it's like 2005, maybe 2006 thereabouts. Copper, we had to move a lot and a few times back then.

But here's how I'm thinking about it from an overall point of view is, if you like, break it up into chunks. There's a chunk where we know we've – this is pricing in relation to the U.S., where we've done what we had to do, it's locked away, and we're moving forward. There's another chunk where it's not in place at this point, but it will be.

And then there's a final chunk where there's still a little bit of work to do, but our confidence level that we can get that across the line is pretty high as well. But it's a work in progress. And again, I think it's going to play out for a while during the course of the year based on what copper is doing, and we'll mobilize and do what we need to do.

Operator: We'll take the next question.

Brook Campbell-Crawford: Brook Campbell-Crawford here from JPMorgan. Just a question on slide 29, actually. You were just talking about this. But just interested in the bullet point there, just around alternative materials, pointing out EvoPEX and ProLock. Just curious on your thoughts there. You're looking to push those products a bit harder, potentially given the different material costs there.

Heath Sharp: Yes. Look, I think we've - I mean, as you know, we've had those product ranges out in the market for a couple of years now, and we're learning a lot about how they're received, where they work well, what we can do with them. So having those at our disposal is, I think, really, really beneficial. But certainly, it's not the only thing that we've been are working on.

And there's various fittings and products that we've designed over the years that are on the shelf, and we will pull them off the shelf and use them as we can. But in the near term, the core fitting is the right fitting. The pricing has got some elasticity in it in terms of being able to increase a little bit and still offer the utility to the end users. So that's the focus.

But I guess the message here is it's - there's more than that to the portfolio - or will be more than that to the portfolio if we look out sort of 5, 10 years into the future. I mean we've got an obligation, I think, to consider what that market should look like. And frankly, we should lead it, and that's our approach. So there's nothing in particular to put on the table at this stage other than we're aware of what all those options are, and we'll take those steps as necessary going forward.

Brook Campbell-Crawford: Understood. And maybe just one for Andrew. So the incremental margin looked pretty good in the half for Americas, about a 47% drop-through from sales there to gross profit. This is for the Americas in the half. You noted in your opening remarks, that might be difficult to achieve again in the second half given you're putting some capacity online, I think per your comment.

So just if you could perhaps provide a bit of a steer on what sort of incremental margin to expect going forward with investment going to that division or if there's another way. If you're be able to articulate that dynamic, that would be fantastic.

Andrew Johnson: Sure. In the Americas, given the level of volume that just dropped down, there's been very little costs that have been put into the business. But that's going to have to change in order to sustain that level of volume. The capacity that I talked about will come primarily in the form of equipment to support really the core business that's pipe and fittings.

And look, from an SG&A standpoint, as Heath mentioned, you're going to have T&E and marketing that will come back into the business. And we'll take other swings at product development projects similar to Streamlabs. I think we'll do it a lot smarter going forward, but we will invest in projects like that in the future.

The fortunate thing that we've got is that we've been able to see very quickly a dramatic improvement through operating leverage and our cost structure. The challenge for the organization going forward is to hold on to as much of that gain as possible. And so that as we put investments back into the business, we try to match that with growth in volume.

I don't want to really comment on where we see that going in the second half. But I think Heath mentioned, certainly, the margins we saw in this first half, we're going to come off that a little bit in the second half going forward. It's going to definitely be the case.

And you would like to think that we could level out somewhere between what we saw this time last year and what we were able to achieve in this first half of '21. So I think we were 15.5% EBITDA margin this time last year. We were 16.5% in June. And then we're at 18.9%. I think

there's somewhere in the middle that will be kind of a long-term margin target for the business in Americas.

Brook Campbell-Crawford: Yes. No, that's fair enough. And one of the other analysts was asking about just T&E in general. But do you have a rough number of what the savings was at the group level in the half, ordinary costs that you'd expect to put into the business that you didn't because of COVID? Just some sort of rough dollar number?

Andrew Johnson: Sure. So think about travel, entertainment, advertising and promotions, marketing costs, costs associated with trade shows and whatnot. If you put all of that in a bucket, that's going to be $4 million to $5 million at the group level for the half.

Operator: And we'll take another question.

Peter Wilson: It's Pete Wilson here, Crédit Suisse. Can I just ask on the breakdown of the sales growth in the Americas on slide 14? The 3.8% contribution from customer and product initiatives, can you just remind us what those initiatives were and whether we should expect a similar contribution in the second half and maybe whether it will extend into FY '22?

Heath Sharp: Okay. So around about half of that were the stop valves in Lowe's. So we rolled those in the prior period, as you know. So the period that we're discussing here was also new, if you like. So as a comp over the prior year, we had to call that out.

The other half of that amount were a whole range of miscellaneous activities with particular customers, in-store displays, promotions and so on. So certainly, I think we get a little bit of that in the second half, not the Lowe's stop valve, that's done then. That will then go into the core business, if you like. But there'll be a few little promotions here and there that we should be able to get in the second half.

I think it gets more interesting as we look out to '22. As we've talked about quite a lot, we thought that the first half of this financial year was going to be tough for initiatives because everyone was going to be focused on the core. And that is what's transpired.

That big uptick in demand across the industry has taken everyone's focus. So some of the activities we would have liked to have gone underway this year are more likely to hit in '22. So I think we should have some things in '22 that we'll be talking about for that column, that bar.

Peter Wilson: Okay. Great. And if you think about that similarly, I guess, for the U.K. business, what kind of contribution, if any, are you getting from new products and initiatives in that business?

Heath Sharp: It's a little bit less. There's some of those products that we've released in the last couple of years. There are some that have just been released, and we'll be talking about them in the near term. But there's been - mainly the focus over there has been just getting our arms around the business. So the growth over there is primarily the first 2 bars, so meeting the market growth rate and then trying to get better than market based on the end user relationships and brands and so on.

And also in - there's a bit of price build in there as well as - if you look at from the U.K. point of view. So less of sort of customer product initiatives. But that, certainly, in keeping with our view of that business now as sort of a growth - good platform for growth, that will come into focus in the coming years.

Peter Wilson: Okay. And then on the raw material and other cost inflation. So a bit of a focus on copper. But if you compare, I guess, the magnitude of the impact of the other factors that we called out compared to copper.

Andrew Johnson: Sure, Peter. So look, other commodities that we track that will impact profit, zinc, obviously, is one as a component of brass. We also are tracking resins and steel. So think about those other 3 primary commodities are going to drive about 40% to 50% of what we provided as the impact of copper. So where we said $18 million in FY '22, if you were to look at zinc, resin and steel, that's going to be pushing $8 million or $9 million on top of that.

Peter Wilson: Okay. I don't know, I mean, on top. And then - and what about freight and packaging?

Andrew Johnson: Sure, yes. So we've seen quite an increase in freight. On an annualized basis, that's about $3 million a year that we'll see in FY '21 versus what we saw in FY '20. Assuming that continues in FY '22, it will be somewhere in that ballpark.

Peter Wilson: Okay. Packaging, is that a material increase?

Andrew Johnson: Yes. I mean that was kind of in that $3 million number that I just mentioned for freight and packaging.

Operator: And we'll take the next question.

Keith Chau: Just a couple of follow-ups. Just back on the copper point. Obviously, copper had a bit of a run-up over the last few days up to about $8,800. So on that slide 29, with copper prices factored in that $7,800 for FY '22, is that the maximum recovery that you think you can get back from those methods that were outlined on the right-hand side of the slide? Or perhaps putting it in another way, if copper prices stay at $8,800 or keep going up, do you think you could still aim to largely mitigate those cost impacts from copper?

Heath Sharp: I mean that will certainly be the goal. I guess, as I said before, our view there is it's going to have to be a pretty dynamic year because it doesn't feel - I mean, look, who knows what it's going

to do. But it doesn't feel like we can sort of take an action today, and then we're done for the rest of the year. I think we're going to have to track it really closely and take the appropriate action as we go along.

And look, in some cases, Keith, we talked about this before, we've got our sale pricing indexed to copper. So that's covered for part of our business. I guess one of the questions is - going forward is that what we should look at for other parts of our business. And I think if it continues to stay high or even go higher, I think that comes into focus. So I wouldn't at all sort of suggest that we're done, and we just now get on with '22, I think it's going to be a pretty active conversation for us and activity for us for the rest of the year.

And it actually feels a little bit like the action on tariffs if we go back a year or so, where we had to mobilize a few times there. We'll do what we have to do. I mean the frustrating thing about copper is similar to tariffs. There's a whole lot of hard work, and that's by a whole lot of people to end up neutral, but that's our goal.

Keith Chau: Indeed. And then the point on index pricing is an interesting one because I think your competing fittings - or sorry, your fitting product competitors are indexed price as well for the most part. So would - if you move to that, to some of your distributors or to your distributors that don't have that pricing mechanism at the moment, are you just moving towards an industry standard?

Heath Sharp: Look, it varies a lot by product and by channel. And in some cases, it's - I guess whatever we do sort of leads the industry and becomes the standard, and others, we have to follow. And overall, for copper, and we've talked about this a lot, is what the market does for brass generally makes a big difference in what we can and we can't do. And it's a pretty active area right now.

Other products, when you get into some of the Holdrite stuff, which is steel, is - the mindset in relation to those products and what happens with prices is really quite different to plastic pipes, for example. So each of them has to be dealt with on its - given its circumstances.

Keith Chau: Okay. The second point, just following up on the freeze comment. I think a couple of years back, the lack of a modest freeze for a period impacted EBITDA by about $6 or 7 million. And I appreciate your comments about not kind of understanding or perhaps getting an idea of where the current one is going to turn out. But would you classify this current freeze as more than just a modest freeze?

Heath Sharp: Look, I'd say what's occurred in Texas is pretty unusual. It's a pretty narrow - it's a pretty small geographic focus. Some of the freezes we've talked about in the past have had a much, much more bigger geographic footprint, but that gets really tough to - population comes into it as well. So it's really - and this is an answer you hate, Keith. But we don't know. We just don't know. It really is all hands on deck right now to just try and get the product out there. And we'll tidy up the numbers over the next few weeks.

Keith Chau: Okay. I understand that. The last one and perhaps just a qualitative question around the prominence of the SharkBite brand over the last year. You pointed out you've won the vendor partners awards with both Lowe's and Home Depot in Canada. Do you think the SharkBite brand has gained a bit of prominence within the market over the COVID period? Is there anything you can point to that suggests that has been the case?

And then an extension to that question is if you look at the Lowe's pipe and fitting reset, have you had any benefits from that as well?

Heath Sharp: Yes. Okay. So let me deal with that one first. I'll write this down so I'll remember this firmly. So look, I think there has been some benefit from that Lowe's reset. I would say, though, that it's

swamped by just the magnitude of the overall increase in plumbing products through that channel. So it's hard to put an exact number on it. But it would appear to be doing what they wanted it to do. Can't really quantify it. It's just too hard to pick that out. But it seems like it's heading in the right direction.

In terms of the brand, look, anecdotally, the - you have to believe there have been a lot of people standing in an aisle looking at SharkBite for the first time ever in the last 9 months or 12 months. And that's a good thing.

And given how many outlets Sharkbite is in, 20,000-plus across the country, it's our product and it's our brand that they will see in push-to-connect. And if you've never done plumbing before, you're going to end up in front of push-to-connect as opposed to the copper sweat or the PEX crimp or the CPVC glue. So this is anecdotally, but there must be a lot of people who view SharkBite for the first time, and that's a good thing.

And I believe - and to just come back to the freeze, the real value to us of a freeze is not the pop that you get over a couple of week period. The real value is in the opportunity you have to strengthen your relationship with the distributors, with our channel partners. So the weather forecast for the last vortex became clear 5 or 6 days out.

Now I didn't guarantee it was going to happen, but we got on the phone to our partners and said, "Hey, if this is real, you've got to be ready for it. You need to get inventory underway this week to get it on the shelf to be prepared." And then when it happens, you get back on the phone, in some cases, on literally an hourly basis, to deal with where each store is at, how you can get product in there, how you can mobilize it more quickly.

That's what gives us - that's the benefit of the freeze for the long term, the relationship building that it gives and that confirmation of our execution capability. So if you do that, it puts you in a really good position.

But to bring it back to your question, it raises the awareness of the brand. It raises the awareness of our service and our execution within the stores across all channels, which helps us in the long term.

So all of that's anecdotal. Our supplier can't point to a marketing report or a study or a survey. I mean you can do look at Google Trends and whatever, and they're clearly up. But I'm not sure how much you can derive from that. But anecdotally, I have to believe this has been a good period for us in terms of brand recognition and awareness and to display our ability to execute.

Operator: And that does conclude the phone questions.

Philip King: Okay. So I've got a couple online. Some of them we've already answered, but there are just 2 which I think might be worthy of comment. Firstly, it's concerning COVID-19 and the need for plumbers to socially distance when they're doing a repair in a house. Do you think that need has driven them towards using SharkBite and PTC products more?

Heath Sharp: Well, that's a really interesting question. I - again, this is anecdotal. It's - part of the reason the market slowed down a little bit back in April, May, June time is people didn't want plumbers or electricians or any tradesmen coming into their house. Now that's opened up a little bit. But there's still a wariness there. And all the contractors are using masks and promoting the - hand washing and being very careful about social distancing.

You would have to believe that getting in and out more quickly, getting the job done more quickly would be higher on their priority list now than previously. So that may be helping us. I haven't got

any proof of that. But again, anecdotally, I think that's possibly the case. That is a really good question. So I know that's not a really concrete answer, but nonetheless, that's where I'm at.

Philip King: That's right. The second and final question. We've mentioned that normal growth in the U.S. will be sort of the market growth plus 2 to 3 percentage points. Can we say what that would be in EMEA and Asia Pac? And as an extension, we've mentioned the increased sales in China, is this expected to become significant for us.

Heath Sharp: Okay. So in Australia, for us, it's a much more mature market. We've been there for a much longer period with a much more stabilized product range. So our ability to grow above market there is a little tougher, but we do it. And it tends to be quite specific product activities or customer activities that drive that as opposed to sort of broad-based increases.

In the U.K., we do think about it really similarly to the U.S., where the John Guest and Speedfit brands in the U.K. have just such great power. And the end user relationships, the man in the van, the team just has really good relationships there as well. That helps us grow above market in the U.K. The U.K. is also quite disciplined with price increases. So that helps grow that overall business as well.

If the final part of that question was talking about the opportunity in China, I'd say that's coming from a fairly low base. That's a little bit of plumbing but more FluidTech, the John Guest Fluid Tech products. The team over there is doing a good job to service that market and is getting good increases off a relatively low base. So it's different - it's not the same mechanism as we're talking about for the U.S., U.K. and Australia plumbing markets, but they're making good inroads there for different reasons.

Philip King: Thanks, Heath. No more questions from online.

Heath Sharp: Okay. Well, with that, I think we'll wrap up. I appreciate everyone's time this morning. Thank you very much, and we'll leave it there. Cheers.

Operator: Thank you. That does conclude today's conference. We do thank you for your participation. Have an excellent day.