



# FY2019 Results Presentation

27 August 2019

RELIANCE WORLDWIDE CORPORATION LIMITED  
ABN 46 610 855 877

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This presentation forms part of a package of information about Reliance Worldwide Corporation Limited. It should be read in conjunction with the Appendix 4E, 30 June 2019 Financial Report and Results Announcement also released on 27 August 2019.

# Agenda

- |                          |    |
|--------------------------|----|
| 1. Highlights            | 04 |
| 2. Financial Performance | 11 |
| 3. Segment Performance   | 17 |
| 4. Outlook               | 22 |

# Highlights

# Key Business Highlights

FY2019 a record year: Adjusted Net Profit after Tax up 80% to \$152 million

- **Reported net sales growth of 43.5%:**
  - First full year contribution from John Guest
  - Underlying sales growth in the Americas of 8.3%
- **Strong earnings accretion post John Guest acquisition:**
  - Basic earnings per share of 17.0 cents, up 38%
- **Successful integration of John Guest:**
  - \$14.2 million of realised synergies achieved for FY2019 following John Guest acquisition
  - Significant progress in driving cultural alignment between John Guest and RWC
  - Annual synergy realisation expected to exceed \$30 million p.a. on a run rate basis by end of FY2020
- **Continued investment in product development, commercial capabilities and sales management resources to drive growth in medium to long term**

# FY2019 Financial Highlights

Net sales

**\$1.1 billion**

+43% growth overall  
+5.4% underlying growth on comparable basis<sup>1,2</sup>

Adjusted EBITDA<sup>3</sup>

**\$263.2 million**

+66% growth<sup>1</sup>

Adjusted NPAT<sup>3</sup>

**\$152.0 million**

+80% growth<sup>1</sup>

**Continued strong sales growth from the Americas**

+17% growth<sup>1</sup> overall  
+8.3% underlying growth on comparable business<sup>2</sup>

**Balance Sheet strength**

Pro-forma leverage ratio at 1.67x<sup>4</sup>

Net operating cash flow

**\$178.9 million**

+43% growth  
Cash conversion 90% for the second half

<sup>1</sup> Growth rates expressed as change over comparative period for the twelve months ended 30 June 2018

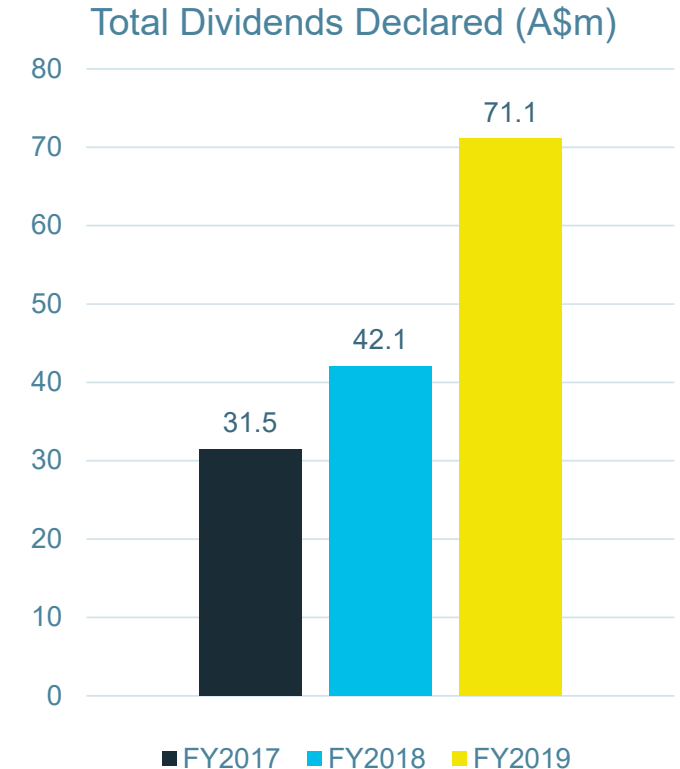
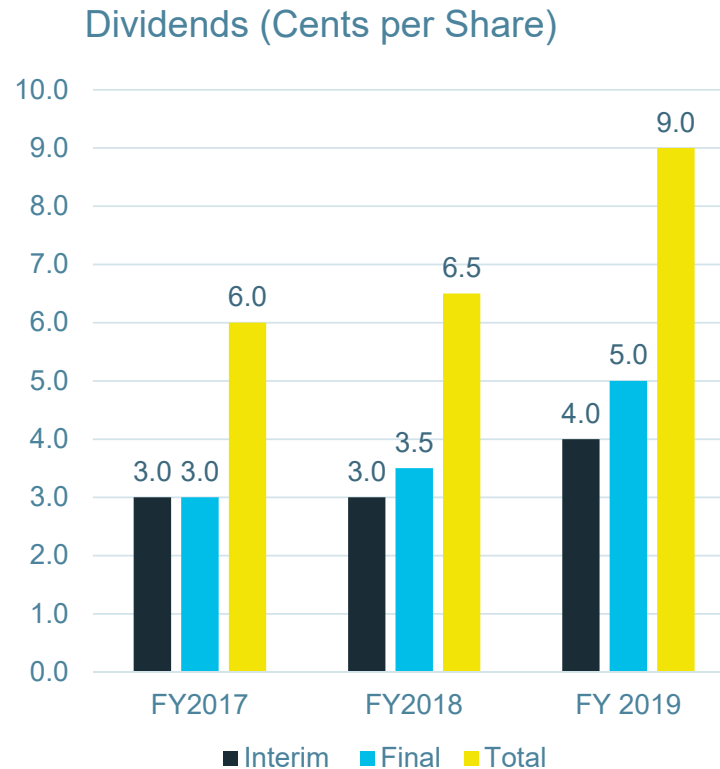
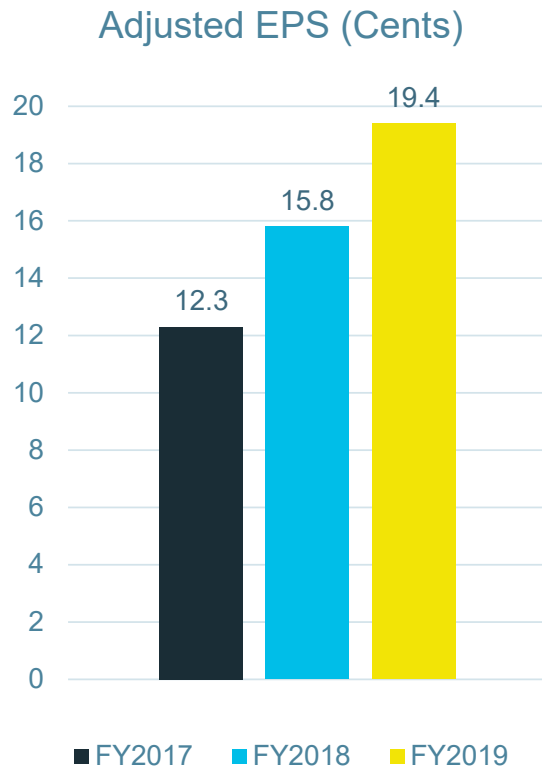
<sup>2</sup> Comparable basis Net Sales growth calculated excluding the impact of translational FX in the current period and one-off events in both periods

<sup>3</sup> Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance and defined in the Results Announcement dated 27 August 2019

<sup>4</sup> Net Debt/EBITDA (excluding acquisition transaction costs and \$10 million of costs to achieve synergies)

# Strong earnings growth and cash returns

Strong earnings accretion - EPS growth of 23% following John Guest acquisition



# The story of the year

## FY2019 was a year of significant achievements for RWC

- Successful integration of John Guest and delivery of first year earnings performance and synergies ahead of forecast
- Strong net sales growth in Americas segment
- Leveraged expanded product portfolio across distribution channels – Holdrite and John Guest products enabling further growth beyond core RWC product range
- Continued investment in new product development
- Group capability enhanced across key functions:
  - Operational Improvement, Legal, Finance, Technology, Commercialisation and Business Intelligence
- Strong EPS growth despite headwinds including net higher raw materials costs, Australian housing construction downturn, no US freeze event, Brexit uncertainty
- New ERP system successfully delivered in Asia Pacific



# Strategic focus on revenue and earnings growth

## RWC's business fundamentals are stronger than ever

- RWC has strong core businesses in its two most important sales markets of the USA and UK
- A robust and diverse business across end users, channels, geographic reach, product, raw materials and technology
- Growth levers continue to include market share gain through conversion of end users to RWC's products and systems, distribution expansion, price and commercialisation of new products
- SharkBite's market strength, scale and value proposition provide a long runway of above market growth
- John Guest Speedfit products in the UK still offer conversion opportunity 25 years after launch
- Holdrite product suite is taking us into residential and commercial new construction
- FluidTech has enabled access to new channels and new OEM opportunities in Europe and USA
- Distribution base can be leveraged for volume growth from new product development and acquisitions
- At the forefront of smart plumbing with Streamlabs leak detection and usage-monitoring products

# Strategic investment being made in key areas

Investment in R&D, people and capability to realise future opportunities

## Commercialisation

- Investment in new product development and commercialisation to support penetration of new markets: commercial construction, residential new construction, smart plumbing solutions
- Focus is on sales and marketing capability, and new areas e.g. application development

## Continuous improvement

- Investment in capability to drive operational performance improvements across the business
- Senior people recruited to lead procurement, manufacturing operations efficiency, supply chain and logistics
- Targeting non-commodity inflation in COGS

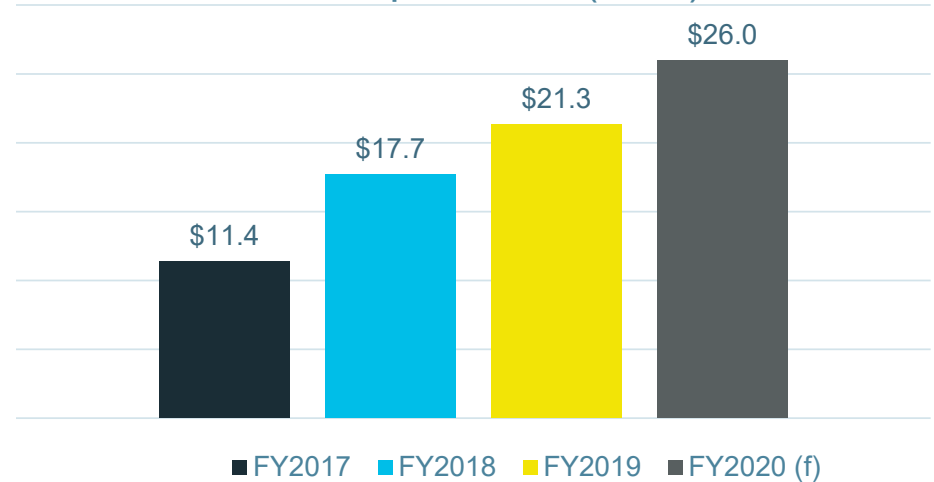
## Group capability

- Investment in core capabilities: operational improvement, legal, finance, technology, commercialisation and business intelligence
- Delivers step change in the level of support capability for the enlarged RWC Group
- No significant further cost growth foreseen in this area beyond 2020

R&D expenditure over FY2017 to FY2020(f) will more than double  
FY2020 key areas of investment:

- Smart plumbing – Streamlabs
- Holdrite – fire stopping
- John Guest
- Water quality and monitoring
- Core RWC product development

R&D Expenditure (A\$m)



# Financial Performance

# FY19 Consolidated Results

(A\$m)	FY19	FY18	Variance
Net Sales	1,104.0	769.4	43%
Reported EBITDA <i>EBITDA margin</i>	242.5 22.0%	135.4 17.6%	79% 440bps
Adjusted EBITDA <sup>3</sup> <i>Adjusted EBITDA margin<sup>3</sup></i>	263.2 23.8%	158.7 20.6%	66% 320bps
Reported NPAT	133.0	66.0	102%
Adjusted NPAT <sup>3</sup>	152.0	84.6	80%
Reported EPS (cents)	17.0	12.3	38%
Adjusted EPS (cents)	19.4	15.8	23%

## Commentary

- Net sales up 43% over prior year (+37% on a constant currency basis)
- Revenue performance varied across 3 segments<sup>1</sup>:
  - Americas (+17%)
  - Asia Pacific (+7%)
  - EMEA (+345% including John Guest sales post acquisition)
  - John Guest sales for the period were \$321.1 million, up 8.2%<sup>2</sup> on the prior year
- Adjusted EBITDA<sup>3</sup> up 66% over prior year (+60% on a constant currency basis) due to:
  - Margin benefits from John Guest business
  - Net favourable impact of currency movement
  - Partly offsetting the growth was a net negative impact of higher copper and other input costs across the full year, expensing of ongoing investment in development and commercialisation costs for new products, and continued investment in Group capability
- Strong Adjusted EPS accretion: +23%

<sup>1</sup> Segment net sales growth includes intercompany sales between segments

<sup>2</sup> John Guest sales growth on a pro-forma basis

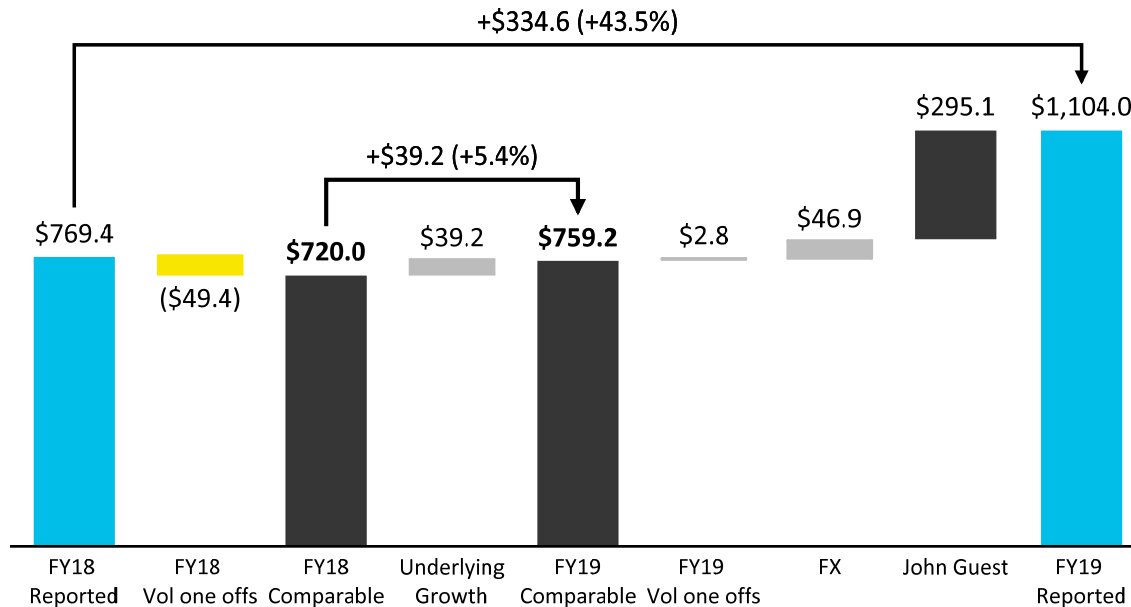
<sup>3</sup> Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance and defined in the Results Announcement dated 27 August 2019

# Year over Year Change in Net Sales

All values in A\$m

## Commentary

- Net sales up 43% (37% on a constant currency basis) driven by:
  - First full year inclusion of John Guest
  - Favourable foreign exchange movements for translation purposes
  - One-off events in both periods that impacted net sales including:
    - FY18 load-in to second half of Lowe's stores and RWC sales to John Guest
    - FY18 freeze event in the US
    - FY19 impact from adoption of new accounting standard AASB 15 Revenue
    - FY19 exit of certain product lines previously sold by the core RWC business in the UK
- Excluding all of these impacts, underlying growth was 5.4% versus the comparative period



FY18 Volume one-offs include the one-time rollout of stock to the second half of Lowe's stores in the USA, RWC sales to John Guest and the impact of a modest freeze event in the US.

FY19 Volume one-offs include the impact of adopting new revenue accounting standard AASB15 and impact of the decision to exit certain product lines previously sold by the core RWC business in the UK, in particular Thermal Interface Units

# Sound Cash Flow Generation from Operations

(A\$m)	FY19	FY18	Variance
<b>Reported EBITDA</b>	<b>242.5</b>	<b>135.4</b>	<b>+ 79%</b>
Changes in Working Capital	(63.6)	(10.5)	- 505%
<b>Cash flow from operations<sup>1</sup></b>	<b>178.9</b>	<b>124.8</b>	<b>+ 43%</b>
<b>Operating cash flow conversion<sup>2</sup></b>	<b>73.8%</b>	<b>92.2%</b>	<b>- 18.5 pps</b>
Growth capital expenditure	(45.2)	(26.6)	- 70%
Maintenance capital expenditure	(24.4)	(11.8)	- 107%
Interest paid, net	(22.5)	(11.8)	- 91%
Tax paid	(25.4)	(44.8)	+ 43%
Dividends paid	(54.9)	(33.9)	- 62%
Purchase of Treasury Shares	(7.4)	(8.6)	+ 14%
Other, net	<u>0.2</u>	<u>1.3</u>	+ 85%
<b>Cash Flow before acquisitions and repayment of borrowings</b>	<b>(0.7)</b>	<b>(11.4)</b>	<b>n / m</b>
Proceeds from Capital Raising	-	1,100.1	n / m
Acquisition of John Guest, net of cash & debt acquired	-	(1,157.3)	n / m
Transaction & Debt/Equity Raising Costs	-	(37.5)	n / m
John Guest related non-recurring payments <sup>3</sup>	(17.5)	-	n / m
Net repayment of borrowings	<u>(186.3)</u>	<u>352.5</u>	n / m
<b>Net change in cash and cash equivalents</b>	<b>(204.5)</b>	<b>246.4</b>	<b>n / m</b>
<b>Change in net debt</b>	<b>(38.6)</b>	<b>(152.6)</b>	<b>n / m</b>

## Commentary

- Cash flow from operations<sup>1</sup> generated \$178.9 million in FY2019, an increase of 43% over FY2018
- Cash flow conversion was 90% in the second half and 74% for the full year
- Working capital growth and impact on operating cash flow conversion rate was principally due to:
  - Inventory increases to support growth, improved service levels to John Guest customers, additional inventory levels to mitigate potential Brexit risks
  - Expiry of one-off payment terms incentive impacting accounts receivable
  - Change in payment terms to a supplier in exchange for a price reduction impacting accounts payable
- John Guest non-recurring payments reflect loyalty bonuses paid to John Guest employees in July 2018, post the closing of the acquisition, and funded by cash received at closing from the vendors of the John Guest business

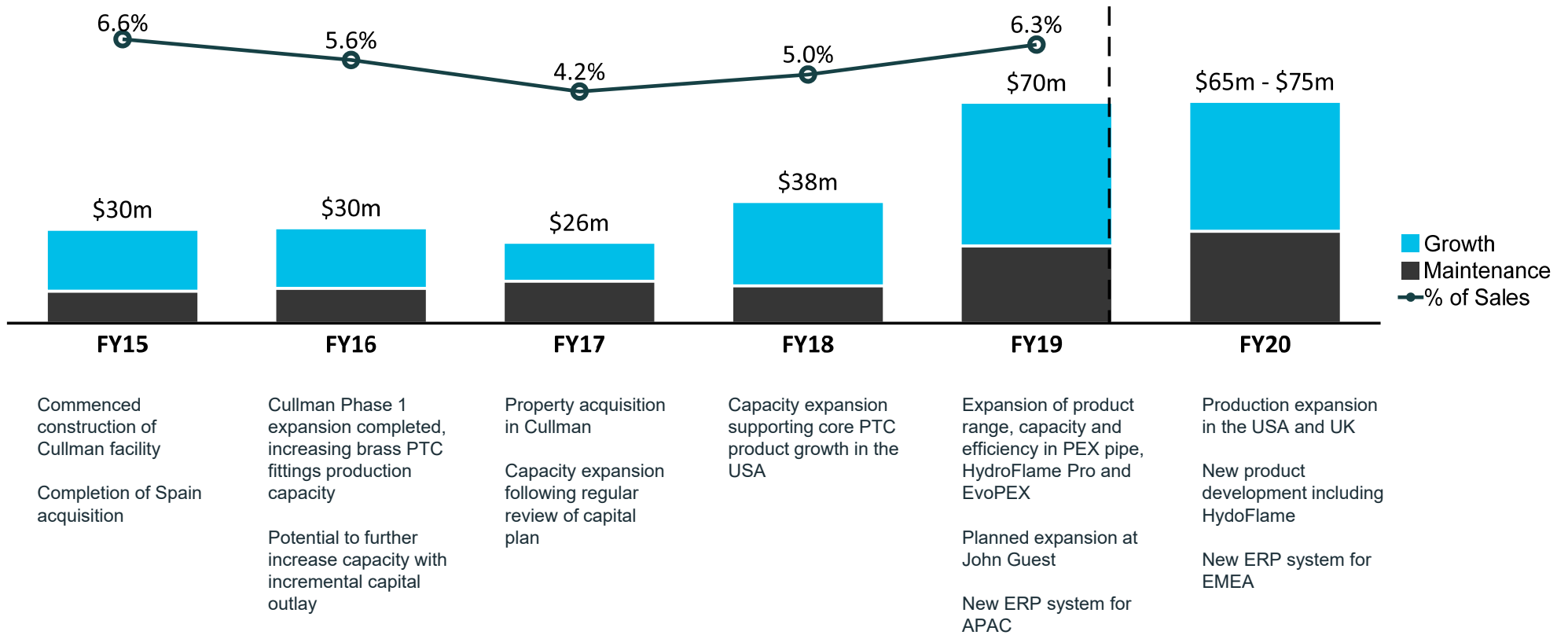
<sup>1</sup> Before John Guest related non-recurring acquisition and integration payments, capex, financing and taxation

<sup>2</sup> FY19 = Cash flow from operations to Reported EBITDA of \$242.5 million

<sup>3</sup> Cash bonuses paid to John Guest employees. Funded by cash received from the vendors at closing of the acquisition

# Capital expenditure

## FY2020 Forecast Capital Expenditure (A\$m and % of Net Sales)



# Balance Sheet Strength

## Debt metrics

(A\$m)	30 June 2019	30 June 2018
Cash and cash equivalents	69.3	274.3
Gross debt	495.9	662.3
<b>Net debt</b>	<b>426.6</b>	<b>388.0</b>
Net debt / EBITDA	1.67x	1.57x

## Net working capital

(A\$m)	30 June 2019	30 June 2018
Trade and other receivables	232.3	204.9
Inventories	229.1	202.6
Trade and other payables	(132.0)	(167.7)
<b>Net working capital</b>	<b>329.4</b>	<b>239.8</b>

## Commentary

- Strong balance sheet with pro forma net leverage of 1.67x at 30 June 2019<sup>1</sup>
- Higher working capital compared with 30 June 2018 to support a growing business:
  - Trade receivables increase reflects the expiry of one-off payment term incentives
  - Inventories reflect planned increase in the UK to improve service levels and delivery times for John Guest, additional inventory levels to mitigate potential Brexit risks and inventory levels in the US following the mild northern hemisphere winter
  - Trade payables reflect the non-recurring payment of loyalty bonuses to John Guest employees in July 2018 funded by the cash received at closing and a change in payment terms to a supplier in exchange for a price reduction
  - Foreign currency translation impacts on working capital of \$14m

<sup>1</sup> Net Debt/EBITDA (excluding acquisition transaction costs and \$10 million of costs to achieve synergies)



# Segment Performance

# Segment Results – Americas

(A\$m)	FY19	FY18	Variance
Net sales <sup>1</sup>	653.9	559.7	+ 17%
EBITDA <sup>2</sup> <i>EBITDA margin</i>	102.5 15.7%	95.4 17.1%	+ 7% (140 bps)
Adjusted EBITDA <sup>3</sup> <i>Adjusted EBITDA margin</i>	105.3 16.1%	96.0 17.2%	+ 10% (110 bps)

## Financial commentary

- Net sales grew 17% over the prior year with benefit of John Guest acquisition
  - Reported RWC sales growth excluding John Guest 8.6%
- Impact of no freeze event – estimated to have reduced net sales by \$12 -\$15 million in FY19
- Stronger first half relative to second half as distributors working through the overstock for winter freeze; consistent with prior years with no freeze event
- Market conditions generally softer in the April to June quarter
- Holdrite product sales continued strong growth trend and achieved revenue synergies foreseen at acquisition in FY2017
- Margins impacted by higher raw material (copper) costs, increased investment in new product development and commercialisation and impact of supplier and equipment issues in the first half

## Operational commentary

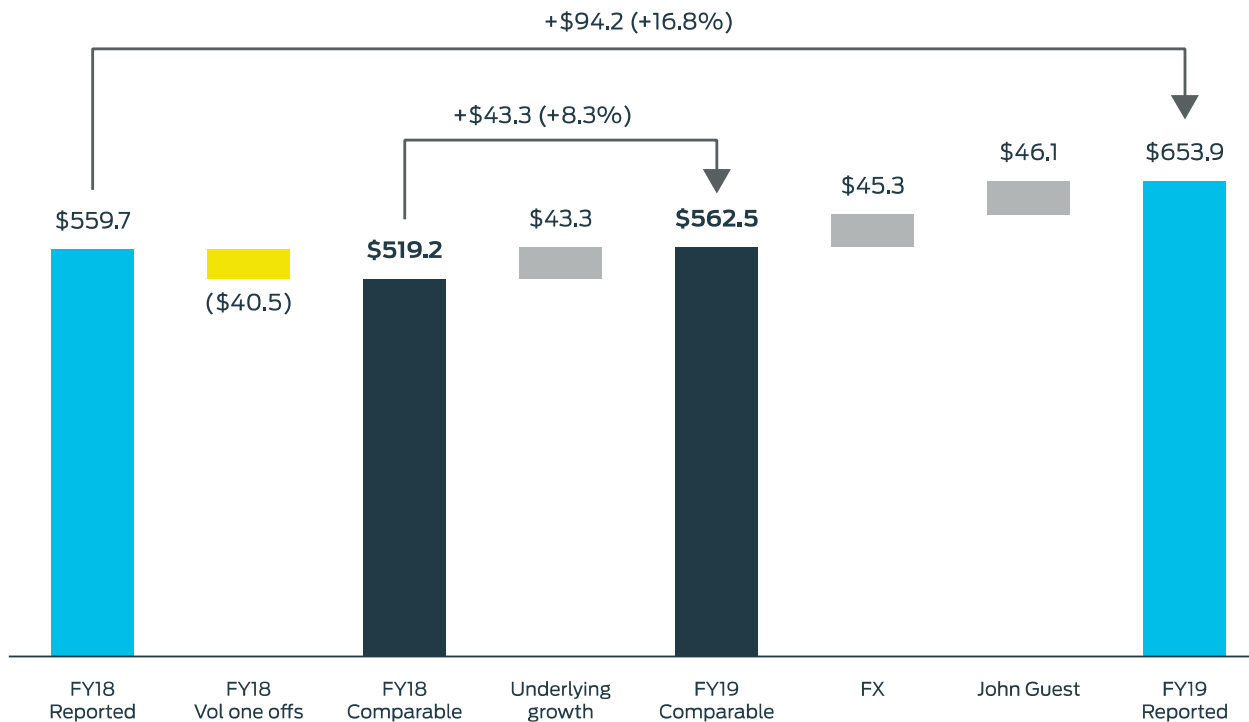
- John Guest integration completed on schedule, with sales and EBITDA growing as expected
- Continued strong relationships with all key channel partners; one Wholesale customer introducing competing private label brand with minor revenue impact on RWC expected in FY2020
- Continued expansion into residential and commercial new construction and residential remodel
- Secured distribution of John Guest ProLock in Mexico

<sup>1</sup> Segment net sales includes \$3.1 million of intercompany sales to other segments

<sup>2</sup> EBITDA from financial statements

<sup>3</sup> EBITDA before one-time charge for purchase price accounting impacts and costs to achieve synergies

# Year over Year Change in Net Sales – Americas



## Commentary

- Overall growth in reported sales 17% versus prior year. Major drivers:
  - The addition of John Guest revenues
  - Favourable impact of a weaker Australian dollar on translated revenue
  - Continued market penetration of SharkBite PTC fittings and accessories in the core repair and renovation market driven by strong end user demand
  - Growth in Holdrite sales
  - Expanded range of products sold to The Home Depot in Canada
- FY18 net sales included the one-off impact of load ins to the second half of the Lowe's stores and US freeze
- Underlying growth was 8.3% versus the prior year driven by continued end user demand for RWC's products

# Segment Results – Asia Pacific

(A\$m)	FY19	FY18	Variance
Net sales <sup>1</sup>	249.1	232.0	+ 7%
EBITDA <sup>2</sup> <i>EBITDA margin</i>	48.1 19.3%	52.4 22.6%	(8%) (330bps)
Adjusted EBITDA <sup>3</sup> <i>Adjusted EBITDA margin</i>	50.0 20.1%	52.8 22.8%	(5%) (270bps)

## Financial commentary

- Net sales growth of 7% versus the prior year reflecting the first full year contribution from John Guest product sales
- Sales to the Americas segment grew by 2%, lower growth than in previous years due to the expansion of domestic production capacity in the USA
- External sales were down 3.3%, due to weaker sales into the new housing construction market in Australia partly offset by modest growth in the rest of the Asia Pacific region
- New housing commencements in Australia declined 7% in the year ended 31 March 2019 and for the quarter ended 31 March 2019, were down 26% on pcp<sup>4</sup>
- Adjusted EBITDA was 5% below the prior year, reflecting lower external sale, higher input costs, including wage and energy inflation, partly offset by lower SG&A expense.

## Operational commentary

- Strong SharkBite production to meet demand in the Americas prior to and during its winter season
- Manufacturing and supply chain issues associated with the EvoPEX rollout impacted results but were resolved in the second half
- The ERP rollout was successfully completed in March 2019 with Asia Pacific now on the same platform as the Americas segment.

<sup>1</sup> Segment net sales includes \$106.5 million of intercompany sales to other segments

<sup>2</sup> EBITDA from financial statements

<sup>3</sup> EBITDA before the impact from adopting new revenue accounting standard AASB15, one-time charge for purchase price accounting impacts, and costs to achieve synergies

<sup>4</sup> Source: Australian Bureau of Statistics

# Segment Results – EMEA

(A\$m)	FY19	FY18	Variance
Net sales <sup>1</sup>	360.9	81.1	+ 345%
EBITDA <sup>2</sup> <i>EBITDA margin</i>	95.8 26.5%	8.3 10.2%	<i>n/m</i> <i>n/m</i>
Adjusted EBITDA <sup>3</sup> <i>Adjusted EBITDA margin</i>	109.4 30.3%	10.1 12.4%	<i>n/m</i> <i>n/m</i>

## Financial commentary

- Net sales include \$300.8 million from net sales of John Guest products
- Sales growth was driven by increases in core UK plumbing and heating volumes, price rises and stronger FluidTech sales in Continental Europe
- John Guest sales in EMEA grew 13.4%, including the impact of favourable foreign currency translation
- On a constant currency basis and excluding sales to the Automotive sector, external sales grew 6.9%, in line with expectations
- Net sales of core RWC products in the UK grew by 3.0% after normalising sales for discontinued product lines. Reported net sales from core RWC products were down 1.3% on the prior year due to exit from certain product lines
- Synergies achieved in the year totalled \$11.4 million in EMEA

<sup>1</sup> Segment net sales includes \$50.4 million of intercompany sales to other segments

<sup>2</sup> EBITDA from financial statements

<sup>3</sup> EBITDA before one-time charge for purchase price accounting impacts and costs to achieve synergies

## Operational commentary

- Integration of the RWC and John Guest UK businesses was completed during the year.
- Improved customer service achieved with reduction in arrears in delivery of orders of 75% from the prior year
- John Guest UK sales team started to gain additional sales of the RWC catalogue. A new product range which integrates RWC valves with John Guest's Speedfit connections is scheduled to launch in the first half of calendar 2020
- The focus going forward continues to be on activities to achieve synergies, cost savings and customer service improvement
- Further opportunities around procurement and leveraging combined operational expertise are being pursued.

# Outlook

# FY2020 Outlook

- Expect to achieve sales growth above that of the broader markets in which we operate
- The outlook for each of RWC's regions for FY2020:
  - Americas: positive conditions, with modest growth in residential new construction and continued growth in remodel activity
  - Asia Pacific: Australian new housing construction is expected to continue at lower levels than in recent years with the risk of further decline
  - EMEA: Brexit uncertainty clouds the short-term outlook for the UK; softer trading conditions at the end of FY2019 have continued in the first two months of FY2020
- Realised John Guest synergies achieved are expected to be at least \$30 million p.a. on a run rate basis by the end of FY2020
- Opportunities to lower operating and manufacturing costs to ensure we remain cost competitive will be an area of increased focus in FY2020
- Realised margin expansion in FY2020 will be partly offset by investment in new product development and commercialisation

# FY2020 Earnings Guidance

Earnings guidance will now be provided on a Net Profit after Tax (NPAT) basis, rather than EBITDA

- RWC currently expects FY2020 NPAT in the range of \$150 million to \$165 million
- This corresponds to an EBITDA range of \$280 million to \$305 million, inclusive of the effect of AASB16
- Performance within this range will be contingent on the following factors:
  - No material deterioration in economic activity levels from current conditions in key markets
  - Stable input costs, with average copper costs expected to be no higher than US\$6,200 per tonne over the full year
  - No further increases in tariffs or import duties in the USA
  - Delivery of John Guest synergies, which are expected to exceed \$30 million p.a. on a run rate basis by the end of FY2020
  - No significant changes to prevailing foreign exchange rates



# Management Priorities FY2020

- Delivery of above market top line growth in all key geographies
- Realisation of John Guest related synergies
- Margin expansion through continuous improvement initiatives
- Targeted SG&A investment
- Operating cash flow generation – focus on reducing working capital
- Prudent capital expenditure allocation
- Successful commercialisation of key innovation/new product projects
- Delivery of ERP upgrade in the UK
- Effective management of key externalities (e.g., Brexit, tariffs)



**Thank you.**