Company: **Reliance Worldwide Corporation Limited**

Conference Title: **Reliance Worldwide Corporation Limited EVENT**

Moderator: **Heath Sharp**

Date: **23 August**

Conference Time: **09:00 (UTC+10:00)**

Operator: Good day and welcome to the RWC FY21 results announcement conference call. Today's conference is being recorded. At this time. I'd like to turn the conference over to Mr. Heath Sharp, Chief Executive Officer. Please go ahead, sir.

Heath Sharp: Thank you. Good morning, everyone, and welcome to RWC's Financial Results Presentation for the year ended 30th June 2021. This is Heath Sharp, CEO of RWC. I'm joined here today in Atlanta by Andrew Johnson, our group CFO. We are webcasting this call and we have also people joining via the audio conference facility. We will take questions at the end of the presentation. If you are joining by webcast, you can type your question and it will be read out at the end of the presentation by Phil King, or IR director.

So let's get started. I'll begin on Slide four and provide overview comments on the year. In short, it has been a record year for RWC. We achieved exceptionally strong revenue growth across all three segments and a significant uplift in earnings. In constant currency terms America's sales were up 27% for the year. Asia-Pacific sales were up 18%, and EMEA sales were up 25%. What was common to all regions was the growth in repair and remodel activity that we experienced throughout FY21. Consumers staying at home and spending more on their home environments has been a positive for the business.

Our results were further boosted by buoyant housing markets and new construction activity. What was also pleasing was how top line growth translated into higher operating earnings and margin expansion. We achieved this through a combination of operating leverage driven by the higher volumes and through good cost management. This also translated into higher net earnings with

adjusted net profit after tax up 63% to just under $212 million. This growth in earnings was responsible for the 20% increase in cash flow from operations. This enabled us to further pay down debt and pay an increased dividend for the year.

On Slide five, we've set out the financial highlights for the FY21 year. We reported net sales of $1.34 billion, up 15% on a reported basis and up 25% in constant currency. Adjusted EBITDA of $349.2 million was up 39% on a like for like basis with the prior year. This growth in operating earnings translated into higher adjusted net earnings of $211.9 million. Operating cash flow of $334.3 million represented a cash conversion ratio of 98%, which was ahead of our target of 90%. As a result of debt reduction, net leverage stood at 0.51 times at 30th June, down from 1.39 times. This strong performance enabled us to increase our dividend for the year to 13 cents per share. So that's a seven cents per share final dividend on top of the six cents per share we paid at the half.

Briefly stopping on Slide six. And here we graphically illustrate these points. You can see the strong increase in cash flow from operations, which is nearly double what it was two years ago. Also clear is the substantial reduction in our net debt position along with the growth in dividends declared.

Now, turning to Slide seven, I'd like to make some observations about the year. Firstly, this is a year in which every one of our major markets experienced extremely strong volume growth. In the US we were already experiencing 20% plus top line growth coming out of the first half. Then in late February, we experienced the freeze event in Texas and surrounding US states that caused demand to surge. We had to urgently mobilize to meet the new demand. And our second half results reflect our strong execution. The broader trend of homeowners investing in their homes, prompted by Covid, continued right through the year. This trend has been supported by rising house values, and when combined with record low interest rates made for a very supportive macro environment. Meantime, the commercial sector was slower to recover, although in Europe we have

seen sales rebound as economies have opened up post lockdown. Meeting the very strong demand was our biggest operational challenge of the year, especially when managing through a pandemic at the same time. I'd really like to acknowledge the fantastic team of people working across RWC. Their enormous contribution over the past year delivered for our customers and generated these excellent results.

Now, beyond the day-to-day execution focus, we did continue to work on the business during the year. We delivered on our cost reduction program with cost savings of $22.3 million. In the US and the UK, we commenced the rationalization and expansion of distribution and logistics capabilities. With rising commodity prices and inflation in other cost areas, implementing offsetting price increases was a second high priority. I am pleased to report that we were able to achieve this.

Turning to Slide eight. We thought it was worth taking just a moment to reflect on RWC's first five years as a listed entity. We were listed on the ASX in April 2016. So completion of this latest year represented our first full five years. Over that time, through a combination of organic growth and the acquisitions of HoldRite and John Guest, we achieved a 22% compound annual growth rate in sales. And through strong execution, we turned this into a 30% operating earnings growth rate and a 34% compounded growth rate in net earnings. Expressed another way, we've more than doubled our annual net sales and nearly tripled our operating earnings and net earnings. Importantly, we have a larger and more robust business today. The platforms that we now have in our key markets provide us with even greater opportunity for further growth and expansion.

And now I'll hand over to Andrew to discuss our financial performance.

Andrew Johnson: Thanks Heath. On Slide 10, we've summarized our financial performance for the FY21 year. As Heath has already mentioned, our reported net sales were up 15%, and on a constant currency basis, sales were up 25%. Reported EBITDA was up 56% and adjusted EBITDA was up

39%. The difference between reported and adjusted will be one off costs in the year of 8.5 million related to warehousing and logistics improvements in both the US and the UK. Reported net profit after tax was up 111% to $188 million, while adjusted impact was up 63% to $212 million. As already mentioned, we will pay a total dividend for the year of 13 cents per share, which represents 55% of reported net profit after tax.

As we announced in February, we are moving to US dollar reporting in the next financial year. Slide 11 shows what our results would have been in FY21 had we presented them in US dollars. With over half of our business generated in the US and Canada, the move to US dollar reporting should help eliminate some of the currency volatility and will mean the trends are much closer to underlying performance.

On Slide 12, we set out the main contributors to our strong EBITDA performance. While adjusted EBITDA was up 39%, it was up 45% on a constant currency basis. The biggest driver of this performance was the increase in sales volumes. Price was also a positive factor, along with $22 million in cost out savings. Higher commodity costs, Covid-related cost and other cost pressures were partial offsets.

On Slide 13, we have provided more detail on cost. Commodity cost inflation was a significant cost driver for us this year. The average copper cost and FY21 was USD 6600 per ton, compared with $6000 per ton in the prior year. In the second half, the average copper costs running through our P&L rose to almost $7500 per ton. One point to note is that the higher sales during the second half has resulted in increased turnover and therefore the lag effect of copper prices has reduced from six months to four months within that second half. On the right-hand side of the page is a summary of the cost reduction areas we have targeted, and it's very pleasing to report we achieved our goal of $25 million in annual cost savings on a run rate basis.

Now we'll look at each of the segments. On Slide 14 in US dollars, the Americas recorded 27% growth in net sales and 52% growth in EBITDA. The second half was impacted by the freeze event in Texas and surrounding US states. We estimate the sales impact to have been USD 42 million in the second half and helped drive the 32% top line growth. This growth was especially noticeable in the third quarter, which you can see in the bottom left-hand chart with sales up substantially versus the same quarter in the prior two years. With the exceptional volumes combined with cost savings initiatives, operating margins trended higher, with 19.2% operating margin in the second half and a 19.1% margin for the year as a whole.

On Slide 15, we have broken down the US sales growth drivers in a little more detail. The market growth figure is derived from the LIRA Index. And we have isolated for you both the impacts of the US freeze event and COVID-19. Excluding the US freeze, the Americas saw a 19% constant currency growth for the year.

Looking at Asia-Pacific on Slide 16, we recorded 13% sales growth for the year. And on a constant currency basis, sales were up 18%. The Australian repair and remodel market was strong throughout the year, as was new housing construction with home starts up 7% in the year through March 2021. Intercompany sales were up 16% on a reported basis and 25% on a constant currency basis. I'd also draw your attention to the benefit in the year of over $10 million related to favorable profit in stock adjustment.

This adjustment resulted from a combination of lower intercompany inventory levels as well as foreign currency transactional impacts. For Asia Pacifc, this was a significant factor in the operating margin uplift for the year, which we are likely to see reverse in FY22 as we rebuild inventory.

Now to Slide 17 in Europe, sales growth reported in local currency was up 26% for the year and up 43% for the second half. We saw a strong recovery in the UK from July onwards last year following the lockdowns of the fourth quarter in FY20. And this was followed by a recovery in continental

European markets as their economies opened up. EMEA also sold increased volumes of FluidTech products to the Americas and APAC regions. Operating margins were up strongly for the year, with an adjusted EBITDA margin of 33%, benefiting from operational leverage and cost out measures on top of John Guest synergies achieved in earlier years.

On Slide 18, as Heath noted, we recorded a very strong cash flow performance for the year with cash flow from operations up 20% to $334 million. As a result of tight management of working capital, our operating cash conversion was 98%. We've previously indicated a target cash conversion ratio of 90%. So this was a very good result for the year. With the strong growth in sales, our receivables balance grew, but was offset by increased trade and other payables balances.

Inventory balances continued to be rebuilt from very low levels at the start of FY21 as we geared up our manufacturing operations to meet future demand growth and to help mitigate supply chain issues. The cash flow generated was used to reduce net debt levels and resulted in a reduction in our leverage from 1.39 times to 0.51 times net debt to EBITA. We paid cash dividends of one $102 million in the year, which included the additional payment of the deferred interim dividend of FY20.

Turning to our capital expenditure profile on Slide 19, we spent a total of $49 million in CapEx for FY21, with $26 million of that targeted to growth projects and the remaining $23 million to maintenance CapEx. The growth CapEx related primarily to capacity expansion projects in the US and UK. For FY22, we are forecasting to spend between 80 and 90 million Australian dollars across a number of projects. In the Americas. We will be expanding our T&P valves and PEX pipe capacity, as well as adding a fourth SharkBite manufacturing line. In EMEA, we will be increasing capacity for both Speedfit and FluidTech production and investing in tooling for product-related projects. In Asia-Pacific, most of our investment will be primarily growth and maintenance CapEx to support SharkBite production.

Part of the increase in CapEx for FY22 relates to carryover projects from FY21 as a result of delays in the delivery of equipment we have ordered. Previously we have indicated that CapEx would range between 4-6% of sales, and the FY22 figure will be towards the higher end of that range, partly because of the carryover of some projects from FY21.

On Slide 20, we have outlined the two warehousing and logistics projects we have underway in the US and the UK. In the America, we are pleased to be underway with a new project to lease a 600,000 square foot purpose-built facility adjacent to our plant in Alabama. This will enable us to consolidate several locations in the area under one roof and will give us the warehousing capacity needed to support future growth. In EMEA, we're consolidating five warehouses into one facility located centrally in the UK. Initial capacity of 140000 square feet will be scalable up to 280000 square feet. We're also outsourcing our logistics fleet to a third-party provider which will give us greater flexibility in our logistics operations. The combined cost of implementing these changes across the US and UK is approximately $8.5 million, and we have provided for these one-off cost in the FY21 year. Thanks to everyone.

And with that, I'll now hand you back to Heath.

Heath Sharp: Ok. Thanks, Andrew. So moving forward, I will touch briefly on our strategy and then turn to the outlook for FY22. The Slide 22 schematic presents the summary of our strategy, which we have previously outlined to the market.

And then on the next Slide, I will step through these major points. So on 23, 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 our operations 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 both Covid and the US freeze. This enhances our relationships and positions us extremely well going forward. Our culture and our people have been integral to our performance over many years. Of course, this is easy to say, hard to prove, but it is absolutely at the heart of our success.

In terms of M&A, we continue to have a very active stance. We are looking for and assessing opportunities to add products and brands to our portfolio, particularly in North America and the UK. As you will be aware, the market at present is running quite hot. We have been determined to maintain our discipline around valuation and certainly maintain an emphasis on strategic fit.

Onto Slide 24, and here we reiterate our approach to capital management, which we first outlined in February. Our priorities are unchanged; being first to invest in organic growth opportunities and to invest where we can in selective inorganic growth through M&A. Beyond that, we remain open to returning excess cash to shareholders through on market share buybacks.

Turning now to Slide 25 and our outlook for the financial year 2022. To start, I can confirm that we will be providing quarterly updates to the market on our trading performance, starting from the first quarter of FY22. We intend to provide segment revenue and operating earnings data along with group cash flow for each quarter. We are not providing guidance at this time as we believe the continuing uncertainty as a result of Covid makes forecasting the year ahead too difficult. As we have noted in our release materials, price increases will average 6% across the company this year and will be reflected in reported sales. The rate of price increase varies by region, and those differences will be apparent in our segment reporting. In terms of margin impacts, we estimate that margins will be diluted by around one percentage point as a result of these price increases, which are simply offset to cost inflation. We expect some impact on cash flows from inventory build, particularly in the first half. We also note that investing cash flows will reflect increased CapEx and the payment for the acquisition of LCL for $37 million.

Turning now to our expectations for each of the three regions, starting first with the Americas. So we're now on Slide 26. We are becoming increasingly confident that a step change last year in repair and remodel activity will persist through FY22. Clearly, given the Covid uplift and the Texas freeze, this would mean the rate of sales growth will moderate significantly from the rate seen in FY21. But it would leave us with a significant step change in revenue on a two-year stacked basis, so FY22 over FY20. And this would position us extremely well to continue our long-term growth journey. As always, for FY22, we expect growth in the Americas will be augmented by marketing initiatives and new product releases. In Asia Pacific, we are expecting to see continued volume growth from ongoing repair and remodel activity, as well as robust new housing. Similarly, in EMEA, we believe that residential repair and remodel activity will remain positive. We believe that underlying demand continues to be robust, particularly given the backlog of work driven by a shortage of plumbers and some material shortages as well.

At this point, I think it is prudent to note that we continue to face supply chain challenges, as indeed does everyone in our industry. The challenges span shipping and general logistics, raw material availability and supply capacity. This continues to demand resources to manage. But our teams are doing well. We are confident that we are handling these demands as well or better than our peers. Nonetheless, we do expect disruptions through most of the year. So while we expect demand to remain very strong, meeting the demand in full will be an ongoing battle.

Now we look at some of the macro drivers in the Americas on Slide 27. The fundamentals in the Americas remain solid. In an environment of strong house price appreciation, low interest rates and strong new construction activity, we would expect a positive influence on the remodel sector as well. We remain cautious on the non-residential sector, including multi-family apartment construction. We also continue to monitor closely the momentum of the Covid uplift. We've called out the increase in the LIRA and note in particular that it is a nominal measure of inputs and

outputs. Therefore, the price increase is seen across the building materials sector are reflected in the higher repair and remodel forecasts for the year ahead.

In Australia, we've continued to see strong growth in new housing approvals. As we show in the chart on Slide 28, these were up 26% in the year to June, driven by increases in standalone residential approvals. The current lockdowns in eastern states are a concern in terms of the ability of the construction sector to carry on at full pace. So we will be watching how this plays out.

Onto Slide 29. In EMEA, the residential repair and remodel outlook remains robust. As you can see from the chart on the top left-hand side of the page, this has been the strongest performing part of the UK residential construction sector. Activity levels have been running above their pre-Covid rate. As with other markets, we will continue to track consumer spending patterns as economies open up and discretionary expenditure is potentially redirected to other areas.

Now, on Slide 30, we set out our priorities for the new financial year. A key objective for the business remains delivering top line growth above that of the market in each of the regions. As was the case in FY21, this will be achieved via ongoing focus on execution. We will also strive to further refine our operations with a view to improving efficiencies and optimizing margins. We will be increasing our investment in capacity, as Andrew said, in each region, and also investing in new products. Aligning our warehousing and distribution footprints in both the US and the UK will be a positive development for this year. In Asia PAC, integrating the recently acquired LCL business will be a priority for the team in Australia.

So now I'll conclude on Slide 31 with some final remarks. This has been a record year for RWC. But beyond the very strong financial results is the fact that the business has ended the year bigger and stronger than ever. We are very well positioned to continue growing this business as we have over the prior several years. Our platforms in each of our major markets provide the foundation upon which to execute our strategy to continue creating value. So thank you, everyone, for

listening. We will now open up to questions, firstly for those on the call, and then we will address those questions online via the webcast platform.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone. Keep it. If you are using a speakerphone, please make sure your mute function is turned up to allow your signal to reach our equipment. Once again, please press one to ask a question. We will take our first question from the line Peter Steyn from Macquarie. Your line is open now. Please go ahead.

Peter: Thank you. Good evening, Heath and Andrew. Thanks for your time. Appreciate it. Heath, I just wanted to delve into the underpinnings of your expectations for growth in Americas, in particular in the context of some of the comments your channel partners made last week, the results in terms of the transition they are seeing some DIY to pro. And obviously bases have varied quite significantly through this period. But is there something fundamental that is positioning you better in that in that pro customer base than it has been in the past that gives you more confidence that you continue to see growth supported by pros that are probably spending a little bit more than DIYs obviously as the Do It for Me trend continues to grow, particularly in bathrooms and kitchens?

Heath Sharp: Ok, thanks. Thanks, Peter, for the for the question. Certainly early days of Covid there was quite a shift to DIY. And that's kind of over a few months at the beginning. But there really has been a move back towards the pro fairly consistently over the months since. And what we're seeing now is that the demand coming through, both the retail channel and the wholesale channel is really quite strong, and in both cases driven certainly more by the pros than the DIY. And I think that also is in line with some of the comments we've heard from some of the big retailers where traffic has eased a little, but the ticket size has increased, which certainly points to more pro-business.

Peter: And fundamentally, do you think you're better positioned or has the pro increased this inclination to buying and using your products here?

Heath Sharp: Look, I think it's somewhat neutral. The pro we like because they tend to do the bigger projects. So there's some real momentum there. But I don't think there's any real fundamental. It actually feels to us that the early days of Covid were the anomaly, and we're now back to sort of really how our business has felt for some years.

Peter: Well. Yeah. Ok, perfect. And then I just wanted to get a brief elaboration on EMEA and what you see as the product opportunities, the products that you can add to the range, given how high is the strategic priority seems to be on that.

Heath Sharp: Sure. Look, from the from the early days of that acquisition, we were pretty keen to utilize that strong John Guest organization from the end user relationships, the distribution partnerships, the operational capability back in the factory, to utilize that to push more Reliance product through. I think it's fair to say that Brexit and Covid have kind of made that a little bit challenging. But our outlook for ‘22 is that we are starting now to see and expecting ongoing to see additional accounts buying RWC or legacy RWC products, and also a growth rate of those RWC products where we've integrated John Guest components and connected onto them. So little bit slower than we expected, but it feels now and our expectations are that we should get some acceleration there in the coming year.

Peter: Fantastic. And sorry, just a very last quick one. Just in terms of the rebuilding of inventories from here, presumably it'll be a little bit more pronounced than it has been in previous periods, given the strength of the demand environment. Would we be thinking about an excess, should I call it operational leverage effect in the first half as you rebuild that inventory, or would it be very similar to how we've seen it over the last few years?

Heath Sharp: Ok, so a few things to consider there is I think we ended the year a little bit on where we normally would have, so there's a little bit of rebuild there in any case. You are correct that demand

is running quite strong, so we also need to build a little bit extra for that. I think we are also needing to build extra given supply chain issues right now, shipping in particular. We definitely have and are putting more inventory in the system just to cope with those supply chain delays. So, yes, I think that all points to there being a higher-than-normal inventory position at the end of the first half. That will, of course, manifest itself in some additional recoveries corresponding to that inventory. And then, of course, the same discussion we have this time every year is what does that then look like once we cross into winter, and what happens with winter here and then what the second half looks like. So it's that same profile as normal, Peter, although I think you are correct in that it will be exacerbated a little bit this year for those reasons that I set out.

Peter: Fantastic, thanks, Heath. I'll leave it there.

Heath Sharp: Thanks, Peter.

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

Lee: Hi. If we just dig into the quarterly revenue numbers to the Americas, I know it's probably pretty hard just to try and strip freeze out, it sounds like from your comments you saw most of that happened in the third quarter. I mean, should we think of those quarterly numbers for ‘21 accelerating ex the freeze or was enough of that in the first quarter that revenues actually declined quarter on quarter 3Q to 4Q?

Andrew Johnson: Hi, Lee this is Andrew. Look, if you look at that 42 million that we called out for the freeze, and you can see on the chart, a significant portion of that was in the third quarter. You take out that for fourth quarter number and we still had pretty significant growth. But keep in mind, the Americas saw a big impact from Covid in the fourth quarter of FY20. So the growth rate that we

did see in the fourth quarter of '21 is on top of a Covid period in the same quarter last year. So we're pretty pleased with that.

Lee: Ok, excellent, thank you. And then the fourth SharkBite line. How long does that take to actually to get up and running? And then maybe you can just tell us where the peak capacity utilization is at at the moment?

Heath Sharp: Ok, look, that additional line is you need to think in terms of 12 months, even a little longer. Actually, everything is longer at the moment, so it's longer than 12 months. But think in those sort of terms. Right now, all the factories are busy running hot. We have the capacity we need, but the reason, of course, that we're investing is that is that we don't want to run our people nor our facilities at the rate that we're doing at the moment on a long-term basis. So that's really why our CapEx projection is higher for this year, because we will be putting in some new capacity across all regions.

Lee: Excellent. Thanks Heath. Thanks Andrew.

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

Peter Wilson: Right. Thank you. Can I just delve into the expectations for America's growth a little bit? So I guess it's one thing to think that the market is going to grow. But I guess if you compare your sales last year to LIRA, LIRA looks, – LIRA was low to mid-single digit growth when you you're doing 20-30% growth. So do you think it's possible not only for that market to grow but for you to grow as well, given that you did so much better than the market in the last 12 months?

Heath Sharp: Look, and certainly we are starting to lap some pretty strong comps. That's the reality sort of week by week, month by month now. Look, I think it's useful to go back to page 15 of the presentation deck where we set out the bridge for '21, because I think that's actually really useful

in terms of informing '22. So, look, the first thing you need to do is back out the entire freeze number, that $42 million. So that brings it back down to around $588. That's really what I'm thinking of, is the start for the for the for the coming year. Then you've got to make a decision on that Covid uplift, that 30-some million dollars that we allocated to the Covid up uplift for '21. And take a view on whether you think that's sustainable through the whole year or not and then apply the price increase. And we've given some indication of that price increase on the way through. And frankly, that combination of the sustainability of the Covid uplift and the price increase really defines, it feels like how we've described it, what market growth will be for the year. And look, we expect to outperform the market by a point or two. And we do have some relatively minor product customer initiatives that can move a point or two as well. But really, you back out the freeze – apply your opinion on the Covid uplift and whether that's sustainable for the year or to what extent, and then the price increase on top of it, really how I'd suggest to think about the '22 outlook for the Americas.

Peter Wilson: Ok, that's good, that's a good way to look at it, actually. Would I be right to interpret your comments that I guess it was June – June last year, I guess, when your sales really started to rock in the Americas. Would I be right to interpret comments today that you've been still growing off that June figure and also July figure?

Heath Sharp: Yes, certainly that growth rate has moderated. Where it would be lovely to think we could do a 25% and put another 25% on top of it, but clearly that's not going to happen. And I think we called out that for the for the July period, we were up on 9% on a reported basis, I think at 6% constant currency. And we were up in every region. So that sort of thing – frankly, for me and I'm somewhat biased, I guess, that feels like a pretty strong outcome on a month last year that was pretty strong. But that's where we're at this year, of course, is lapping those strong numbers. So for us, it feels like a year of consolidation. If that Covid uplift is sustained, we continue to execute well, we actually finished the '22 in a good spot. But hey, it's day by day, which is how it's been for the last 18 months, Peter.

Peter Wilson: Understood. And one last one on EMEA. The investment in tooling this year, might that herald a bit of an acceleration in your NPD rollout in that business?

Heath Sharp: I think most of what we're spending on tooling over there is core production of existing items. You've seen that facility over there. There's not much space to move. And there's an awful lot of people there. There is opportunity there for automation. There's opportunity there for tools that have more cavities so that you get more piece parts per cycle. That's where a lot of our effort is going into now so that we can utilize that space better and in the fullness of time get better efficiencies.

Peter Wilson: Thanks for that.

Heath Sharp: Thanks Peter.

Operator: Thank you. We will take our next question from the line Keith Chau from MST Marquee. The line is open now. Please go ahead.

Keith: Thank you. Good evening, Heath and Andrew. Heath, just want to talk about your comments for July, and I know it's dangerous just looking at one month, but to Peter's point, I think last year we had that step up in sales between June and July anyway, you've got it to 6% price growth, and constant currency revenues with 6%. So I take that as volumes in July were flat, or is it the case that those price increases are still ramping up such that you did see a bit of volume growth in that month?

Heath Sharp: We didn't get the entirety of the price increase in in July, a good chunk of it. So there was a combination there that drove that number. But back to your first comment. Yeah, I'd be a little bit cautious of drawing too much from a single month and particularly in the context of supply chain issues right now. You know, you can have $5 million worth of stuff that either does or doesn't get

picked up in the last week of the month, which can mess up two months. So it's a pretty dynamic environment right now.

Keith: Do you think those supply chain issues are actually holding your growth back? I know you mentioned the team was pushing as hard as it can or doing as well if not better than the industry, but were it not for those supply chain issues, could your volume growth actually be stronger at the moment?

Heath Sharp: I think the answer is yes. And look, it's not going to double it, but I think all of us in the industry are struggling right now. Look, there could be a shortage of lumber, stops a project, and we miss out on it. It could – the next project, it could be a case where we don't have the product that we could miss out on. So we actually hurt others in the industry. So, yeah, it's affecting everyone right now. I think we're really pleased that demand remains strong in all parts of the world. I think we're grappling pretty well with those supply chain issues. But it will – I think for this year, the supply chain issues will potentially dent our numbers just a little bit month to month depending on.

Keith: And where do you reckon your DIFOT metrics are sitting at the moment, Heath, because I know for some of the larger retailers over there, you've got to have a certain number in order not to be penalized by them. Can you give us some insight as to as to how the business is tracking?

Heath Sharp: Look, nobody is meeting their DIFOT numbers right now. Nobody anyway. I think the feedback we're getting is quite positive and indicating that we are performing as well or, frankly, better than everyone else. And there's just – it really is hand to mouth. I think everyone in the supply chain kind of realizes that. And it feels, frankly, like we've got some months to go with that daily challenge.

Keith: And then just one question for Andrew. Andrew, I think you mentioned earlier on the call there may be some deleverage within the business after you built up your inventory. The intercompany sales and how products shifted between each division can make that reasonably tricky to understand

going forward. I'm just wondering if you can give us a hand on understanding which divisions we might see therein if I did interpret you coming correctly.

Andrew Johnson: Well I think that what I specifically mentioned was around that profit in stock adjustment that we saw in APAC, that favorability in FY21 certainly will not repeat, and is very likely to reverse. And so that's going to be something that we'll be challenged with. And so if you're going to – you certainly see that in APAC over the course of FY22. Outside of that, margins really depend on volume. And that's first and foremost the rest of those factors that will impact margin. We've mentioned the dilution from the price increases. But then outside of that, look, there's a lots of puts and takes. And certainly the team is focused on execution. We're going to enjoy the operating leverage that we saw in FY21. And that's something that we're quite proud of. And I think that we know how to achieve that. And we're quite focused on cost and facing those cost pressures that we see and quite confident that the team will continue to work through it.

Keith: And Andrew, on those price increases, I know you mentioned in the recent commentary that the price increases will recover all costs. Two questions on that front. One is, do you think you will over cover on your cost increase this year or is it simply just a full cost recovery? And secondly, if input costs do start to retrace, is there the potential for some of your larger customers to ask for some of that price back, or do you think prices have been rebased to a sustainable level going forward?

Andrew Johnson: The exercises that we've been through is a recovery of costs, for sure. And it's based on the increase in commodities. I think that if those commodities do retrace, certainly some of that will be given back, that's just how that works. But it's a cost recovery process. So it goes both ways.

Heath Sharp: I think it's fair to say that that the movement in copper is the key one. The movement in copper over the last three or four or five months is in keeping with what we've captured. And that's been the duration of our discussions with our customers. So right now, it all feels settled. But definitely, as Andrew said, it captures the cost increase. And that's it.

Keith: Ok, that's great. Thanks very much. I might circle back. Thank you.

Heath Sharp: Thank you.

Operator: Thank you. We will take our next question from the line Simon Thackray from Jefferies. The line is open now. Please go ahead.

Simon: Thanks very much. Morning, Heath, Andrew and Phil, no doubt on the line. Congrats on the performance for you and the team, because it's been a pretty unusual year, to say the least. A few questions if I may. I just want to explore again on the back of Keith's question and your response Heath, the discussion around how price rises are achieved, especially around copper. And, yes, sure, there's the propensity for those to be given back if copper was to go in the opposite direction. But did – was there any pricing discussions, particularly in and around Europe on resins as well for the plastic side for John Guest?

Heath Sharp: Oh, yes. Yes, for sure. And look, across the globe, we've dealt with pricing ultimately on a product-by-product basis, depending on what it's made up or whether that be steel or copper or resin. So, yeah, it's been lots of moving parts and everything has sort of come into focus in the last six months or so.

Simon: Yeah, terrific. Ok. And then I know how near and dear to you like getting on site, Heath, understanding the whole plumbing process. Heath, the capacity constraints in Australia that we're seeing in new housing, I mean, we're seeing an increasing number of home builders struggling to move from slab to frame, given obviously what's happening with timber. And we've seen a market shift to steel frame, which is great. But given where your products come during the rough in in the timber frames particularly, just wondering whether you're seeing those delays manifest, particularly in the last sort of couple of months in Australia. And it's particularly important, as you know,

because those home builders, particularly the smaller tail, rely on a 15% progress payment to get to frame and then another 20% to get to lock up. So I'm just wondering whether that's – you're really seeing those constraints play out in the detached market in particular in Australia.

Heath Sharp: At this point, no, we haven't. There's – we're not particularly early in that in that process. As you said, the frames will be well and truly up before we get call to action, if you like. So no, at this point, we haven't. We do actually expect, though, that we will probably see some impact. I guess one thing we think that has become clear over the last sort of 15, 18 months is that these delays serve to a large extent just prolong the uplift in the market, is – the demand remains, it just becomes pent up demand in two weeks or two months' time to be back then. Now, that makes it tough from an operational point of view. We'd much prefer that there weren't lockdowns, from an operational point of view and from a health of the community point of view. But one, we can deal with it from an operational point of view, and, two, the demand simply from what we've seen so far gets pushed down the track a little bit. So crazy times that they are. And as I said, you deal with it on a day-by-day basis. But that's really what we've seen.

Simon: Sure, sure. So, you wouldn't be worried about sort of a rising number of insolvencies and/or in some of these projects actually being canceled rather than pushed out?

Heath Sharp: Look, when there's a macro shift to the point that it moves those sorts of numbers and, yeah, there's knock on effects that are potentially beyond the day to day. So we will be watching that. Experience I should say over the last 15, 18 months is it has pushed the demand out as opposed to killed it.

Simon: Yeah, no, let's hope that remains the case. Just one for Andrew, strong cash flow numbers and obviously an inventory run down as you point out, there'll be a rebuild in the first half. Can I just confirm the LCL acquisition, the $37 million, is that – apologies if you've answered this – is that in the 90 million CapEx guidance or it's over and above that?

Andrew Johnson: No, that's over and above.

Simon: Ok. So what's the sort of target for net debt, for the leverage targets by the end of the first half?

Andrew Johnson: We haven't provided that guidance.

Simon: Ok.

Andrew Johnson: There'll be a lot of factors that will play into that, certainly.

Simon: Yeah, okay, but I presume higher than where we're currently sitting based on the guidance that's been given?

Andrew Johnson: Yeah, I would assume[?] so.

Simon: Ok. And just in the phasing of that CapEx, half on half, for the 90 mil?

Andrew Johnson: Look, it's going to be pretty evenly spread. You will likely see more in the first half than the second half, given the nature of the projects that we're working on. Larger projects required down payments, and you'll see a lot of those in the first half. So it'll be a little bit more than half in the first half to say that.

Simon: Excellent, excellent. All right, thanks, Andrew. Thanks, Heath. Appreciate it.

Heath Sharp: Thank you, Simon.

Operator: Thank you. We will take our next question from the line, Daniel Kang from CLSA. The line is open up. Please go ahead.

Daniel: Morning, gentlemen. Heath, first one is for you. I guess you spoke about your own inventory restocking. Just wondering if you can shed some light on how you are viewing the whole channel inventory levels around the regions. I guess what I'm trying to work out is if the market is in a restocking cycle, how much further we should expect it to run.

Heath Sharp: Yes, I would say that – look, again, I'm just thinking through the different product ranges and so on. On average, it's actually not too bad in the channels. It certainly doesn't feel like we've got a whole lot of catch up. But it certainly doesn't feel like it's overstaffed either. So our comments before were really in relation to having our position strong, both to get back to where we want to be, but also, as we do every year, be in a good spot as we head into winter.

Daniel:. And just maybe one for Andrew. In terms of your balance sheet end of the year, very strongly. Now it looks a little undergeared in my view, anyway, in terms of M&A opportunities, can you talk about your key focus areas, the likely acquisition size and potential timing? And should you not be able to find the right opportunities, what's the board's view with regards to capital returns? Thank you.

Andrew Johnson: Sure. I think for us right now, the focus is to make the investments in the business. And we've talked about the CapEx investment next year. We've done the LCL acquisition that we've just talked about. Outside of that, our main priority is to be patient and certainly disciplined. You never can quite predict when M&A opportunities will arise. It does feel like there's quite a bit of activity out there right now. We want to be able to take advantage of opportunities as they arise. So I think we're going to be patient. I think we're comfortable with the leverage where it is. In the event that we do feel like we've exhausted those opportunities, then capital management is

something – returning funds to shareholders - is something that would be considered. But that's not our priority at the moment.

Daniel: Great guys, I'll leave it there. Thank you.

Heath Sharp: Thank you.

Andrew Johnson: Thanks.

Operator: Thank you. We will take our next question from the line, James Casey from Ord Minnett. The line is open now. Please go ahead.

James: Good morning, gentlemen. Andrew, I just wonder, just on Slide 16, you called out that 10.9 million dollar realization of profit and stock. Can you just explain that line item to me? And then looking into FY22, is it best to look at that APAC result, if the EBITDA was kind of $11 million lower or 55 million, you set the right starting point?

Andrew Johnson: Thanks. You know, that's not a bad way to look at it. Inventory increases and decreases over time. And that tends to knock around that APAC P&L. This year it was favorable. Years past, it's been unfavorable. It kind of swings back and forth. So certainly don't take that in if you're looking at FY22.

In terms of explaining that. So obviously, APAC sells inventory to the Americas. To the extent that America is still holding that inventory, we have to back that profit out of the APAC result. So in years where we built stock, it's an unfavourable adjustment. In years where inventory is decreased, it's a favorable adjustment to the P&L. So you've got really two combinations. You've got fluctuation in inventory, but you've also had fluctuations in profit. And given where the exchange rate went, APAC saw lower profits on those sales to the Americas. And so that also turned it down

a bit in terms of the profit that we put on the balance sheet that covers that inventory that's still sitting in the Americas.

James: Ok, thanks. With regards to the commodity pricing, I think I saw somewhere you called out the second half copper price was $7400. What would the price be for the first half '22?

Andrew Johnson: You know, look, that's seven – it was almost 7500 – 7450 in the second half on average. And that's a lag, right? So, that is what sets the panel after that inventory and those cost flow through inventory and then we do the inventory turns and we actually sell the product. So the rate that we'll see in the first half of FY22 certainly will be higher and will be closer to the spot rates that you're seeing right now in that low nine range.

James: Ok. And just to clarify, the price rise that you've put through will offset that copper price increase?

Andrew Johnson: We are very confident that the price increases that we had through at the moment will cover that copper price increase.

James: Yes. That's great. Thanks, gentlemen.

Andrew Johnson: Thanks.

Heath Sharp: Thanks.

Operator: Thank you. And we will take our last question from the line, Keith Chau from MST Marquee. The line is open now. Please go ahead.

Keith: Thanks very much for taking my follow up, Heath and Andrew. Just a question on your CapEx. It's ramping up quite significantly. And I think, and correct me if I'm wrong, Heath, that some of these

projects might have been growth oriented which to us seems like a signal of confidence that the business is on a bit of pathway of stronger growth. Is there anything that's changed your view internally as to the line of sight for growth that you can see, whether it be in the core products or new products to be released?

Heath Sharp: Not particularly. Look, I think there's certainly a little bit of – this time last year, I guess we were talking about pausing some projects a little bit earlier than 12 months ago; pausing some projects given there was some uncertainty there. And so, we've had to – there's a little bit of catch up in that number. But I think mainly it's connected to the current volumes. Our order book is still only about three days long, two days long, maybe. So this is all based on sort of the current run rate and us making a call on how it looks going forward. There's also we called out – I think we called out increasing PEX capacity in the US, and we're at the point where that particular shed is full. So we need to expand the shed to put a couple more lines in. And you don't expand the shed just for two lines; you expect it expanded a bit more than that. So there's some of those step changes in there as well. But yeah, look, generally, that was in keeping with the sort of the volume, the demand we're seeing right now and our expectation that that demand will continue or at least our – certainly our desire to be ready for it to stay at this level and then keep incrementing in coming years.

Keith: Thank you. And then just a quick one, Heath. I'm not sure this is possible to answer, but your DIY versus pro, is there any way or do you have an assumption on how much of your business goes to the pro plumbers versus DIY?

Heath Sharp: It's a really hard number to get. Look, our customers have a really good idea of that. That is not information that they share with us. So we're – we then take deductions based on the nature of the product. So, for example, a 100-foot coil is a lot of pegs. A 10-foot stick suggests more of a repair. Whereas a 700 foot coil suggest a larger project and probably a pro. It's not that black and white, but generally. So we watch those trends. And look, those splits feel somewhat normal. As

I said to Peter on the first call – the first question there, certainly was some variation. Early Covid seem to be more of a push to DIY. But the pro, at least from what we've seen, has certainly been running much harder for several months now. But we don't have that exact data, unfortunately.

Keith: Do you think you'll be somewhere in the vicinity of call it 75% something to that effect?

Heath Sharp: We always felt that the pro versus DIY split was in that order of magnitude. Could have been in the 70-75 range, that's been the case historically, and it kind of feels similar to that now.

Keith: Ok. That's great. Thanks very much.

Heath Sharp: Thanks, Keith.

Operator: Thank you. There appears no further question at this time.

Phil King: Heath, I've got a few online quick ones.

Heath Sharp: Ok.

Phil King: The first one is just the growth in Americas EBITDA. To what extent was that driven by operational leverage and how should we think about margins into FY22?

Heath Sharp: So I'll take that one. That Americas EBITDA margin was really driven primarily by volume and also those cost out initiatives, but by and large, the largest part of that would have been the operating leverage that we saw. We're not going to guide to directionally even to '22 margins for the Americas, but I will say this that what has given us the margin result in FY21 has been good execution, good focus in execution and good cost management. Those things will continue into

FY22. So if the volume is there, I think we're very confident in the chain that we'll be able to have a good margin result in FY22 as well.

Look, operating leverage is something that certainly the team is focused on. Over the short term, there's many factors that will impact operating leverage; but over the long term, we expect to make progress and to see improvement in operating leverage. And so that's directionally kind of what we would say. But we'll keep doing what kind of got us that results in ‘21 in terms of executing well and good cost management.

Phil King: Thank you. The next question is around increasing our inventory and how do we manage that if there's a reduction in demand, and what would the impacts be.

Heath Sharp: Yeah. Look. Sure, and this is sort of an ongoing forever issue, of course, is – particularly given the build to the freeze at the end of every year, is we need to be ready for it. And look, with the Covid uplift as well, is we need to assume from an inventory point of view that that continues. If, for example, we don't get a freeze and that means we do what we've had to do many times before, which is bring that inventory back down in the second half, and that has a has an impact on the recoveries in the factory – it's not our preferred outcome. We've done it many times before. We know what to do, and you just get on with it.

Phil King: Thank you. The next one. RWC has been recognized in the US by the big retailers for its service. Have there been any changes to product skus or shelf space awarded to RWC as a result for FY22?

Heath Sharp: Not as a direct result. I think those sorts of awards and recognition are lovely, and I think it's great for our people who do a tremendous job to get that recognition. The reality is the relationship with our customers is built over many years or decades, and it's our ability to bring them new

product and to bring them product that sells at a higher rate and at a higher margin is what really drives those relationships. And that's what we work on every day.

Phil King: Thank you. And the last one. Clarification, really, possibly, for Andrew. The assumption of 1% margin dilution in FY22, is that based on relevant copper pricing of USD 10,000, and if the copper price falls below that, would margins fall by less than 1%?

Andrew Johnson: Well, I will say that any time that you've got a price increase that is just recovering cost, you're going to see some margin dilution. It's just the way the math works. But I think that where copper prices go from there really I have no clue. But I do know for sure that the team has managed well through that whole dynamic. I think we're comfortable with the fact that we've got copper pricing covered. And if that changes, then we'll just have to continue to manage through it.

Phil King: Thank you. There were some others but I think we've covered them off on the commentary and some of the other questions, so I'll leave it there. Heath, I'll hand it back to you.

Heath Sharp: Ok, thank you, Phil. Ok, with that, we will wrap it up. I certainly appreciate everybody joining the call this morning. Thanks very much. Have a good day.

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