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Operator: Ladies and gentlemen, thank you for standing by and welcome to the Reliance Worldwide Corporation Full Year Earnings Call. At this time all participants are in a listen only mode. After the speaker's presentation, there will be a question and answer session. To ask a question at that time, you will need to press star one on your telephone. I would now like to hand the conference over to your speaker today, Mr Heath Sharp, CEO. Thank you, please go ahead.

Heath Sharp: Good morning everyone and welcome to our FY20 earnings call. With me is Andrew Johnson, Group CFO and we are talking to you from Atlanta this morning. Before I get into the main points, I really want to acknowledge the effort of RWC's people over the last several months.

I would especially point to the folks in our factories and warehouses around the world. They have kept our business running under really tough circumstances while at the same time looking after their own safety and that of their colleagues. I would also like to call out the likes of customer service and accounting. They toiled in difficult office environments or from home in suboptimum work conditions and they did a great job to keep our customers supported. Finally, I need to recognise our supply chain organisation. It was a really difficult period and they really stepped up to the challenge.

Overall, I believe the team has done a tremendous job. They have carried us through the challenges to date. We are well positioned to continue forward, meeting our customer's expectations and keeping us ahead of our competition. I really could not be more proud.

With that, let's move on to discuss the results, starting on page 5 of the presentation. Here we start with some overview comments for the results for the year. Let me begin by noting that while we are presenting our results for the full year, throughout the deck we will also focus on what happened in the second half of the financial year and particularly what we saw in each of our major markets during the COVID-19 pandemic.

As we have observed in the released materials today, we had very different challenges across the various markets in which we operate. As the extent of the COVID impact became apparent, our focus narrowed to concentrate on execution and to tackle the specific challenges presented in each region. What was particularly pleasing in the second half was how well the US fared despite COVID-19. Australia held up well in the second half

with positive external sales growth.

EMEA was adversely impacted by COVID-19 and for us that impact was most acute in the UK. The lockdown of the economy there saw sales revenues fall more than 60% at one point during the second half. In Continental Europe our sales fell to less than half the prior run rate.

Despite these conditions, we completed the integration of the John Guest business with RWC and importantly from a financial perspective, delivered on the corresponding synergy target. Our operating earnings were lower than the prior year and this was driven principally by the decline in revenue in EMEA which we will discuss shortly.

A highlight of the result was a very strong operating cashflow performance. Operating cashflows were up more than 50% to $278.3 million, representing a cash earnings conversion of 128%. Included in the result is a restructuring charge of $10.7 million which includes the closure of HoldRite's manufacturing plant in Tennessee and other SG&A savings in the US that we outlined at the half. The charge also covers a restructuring of our UK operations which we commenced in June and which has resulted in the net reduction of 60 roles.

Lastly, we are pleased to be able to announce a final dividend of $0.025 per share, bringing total dividends declared for the year to $0.07 per share. We will be paying the interim dividend which was deferred from April concurrent with the final dividend in October.

Turning to page 6. Let me cover off some of our financial highlights and then Andrew will give more detail on this a little later. We reported 5% sales growth for the Group for the year. If we strip out the currency impacts, sales growth was 0.3% for the year. In the second half, we achieved 11% constant currency sales growth in the Americas segment. Asia Pacific was down 2% and EMEA was down 24% in constant currency.

In terms of operating earnings, adjusted EBITDA was down 9% year on year. The challenge in the second half was significant as is highlighted by the magnitude of the downturn in EMEA. Nonetheless, supported by the resilience of the business and our markets, we were able to mobilise to limit the EBITDA impact.

Turning now to slide 7. You can see graphically some of those points I have just covered, beginning with the improved cashflow from operations of $278.3 million. With this strong

cash result we were able to reduce our net debt by $124.4 million and consequently our leverage ratio declined from 1.67 times to 1.39 times. It is the great execution of our operational and financial teams that delivered this strong result.

Total dividends declared for the year were $55.3 million. While this is lower than the dividend we paid in FY19, it reflects a conservative stance on our part to preserve cash given the ongoing uncertainty surrounding the outlook for our major markets in the year ahead.

Page 9. Let me turn to discussing the impact of COVID-19 on the business and how we responded. It is clear that COVID presented significant challenges. Early on we were mainly confronting supply chain challenges in China with the supply of finished goods and components. This was quickly compounded by supply issues out of Italy and then onto other countries. Adding to the mix was the fact that we then experienced a surge in sales activity in US retail and hardware channels, on top of which we were rolling out a new stop valve bay into one of our retail channel partners in the US. This placed pressure on our supply chain and manufacturing people to meet the demand and it was a very busy period for us.

At the same time, we were under way with the integration of HoldRite's manufacturing facility into our Alabama facility and the closure of those manufacturing operations in Tennessee. I am pleased to say we incurred only minor delays due to the complications of COVID-19 and issues such as state border closures. The transferred production lines are now up and running and we expect to be at normal operating capacity by the end of the September quarter. This is a good outcome given what we were confronting during the second half in the Americas.

Looking to EMEA. We went live in the UK with our new ERP system on 2 March. Unbeknownst to us at the time, that was just prior to COVID-19 descending on the UK. I cannot emphasise enough just how difficult that implementation became during those weeks following the overnight impact of COVID.

As I have already referenced, our teams have executed well on John Guest and exited the year with a synergy realisation run rate of over $30 million. The UK restructuring we are doing is enabled by the benefits and efficiencies from our new ERP system. These changes will also set us up to operate more efficiently in a post-COVID world. Again, it has been our executional focus and capability that allowed us to navigate these challenges and position

us very well going forward.

On slide 10, we look more specifically at some of our responses to COVID-19. Clearly health and safety was a big concern throughout the period and remains so. Looking after our employees is our number one priority always. We have kept all our major facilities operating across all sites. We implemented physical distancing protocols and daily temperate checks and we have provided our employees with additional PPE for their safety. Where necessary, we have instituted additional cleaning protocols where we've had a COVID case at a location.

One of the things we've been particularly attending to is the need to keep up communications with our employees, particularly for the many who have been working from home since March.

We've implemented expanded employee communications and engagement programs around the world and we undertook a companywide survey to check in with all our people and identify issues they may have.

In terms of operational impacts, while all our major sites remained open throughout the period, we have had disruption caused by the need for enhanced cleaning at sites and changes to factory layouts to improve material flow and to ensure that we could meet physical distancing requirements.

The biggest disruption was in the UK where we placed over 400 employees on furlough for a period of two to three months. Doing this enabled affected employees to access payment under the UK government scheme and meant that we were able to effectively manage costs at a time of heavily suppressed demand.

Turning to page 11. We were very clear at the outset that preserving cash would be important for us to make sure that we retained a strong financial position. As the operating cashflow result demonstrated, taking action such as limiting capital expenditure, cutting back on discretionary SG&A, as well as tight working capital management, all bore fruit.

In terms of customer service impacts in the US, we maintained very high service levels for our retail customers achieving around 98% DIFOT despite the COVID disruptions. In the UK, with the need to reduce and restructure production, and with 40% of our workforce placed on furlough, we did see impacts on delivery timeframes.

Our visibility of end market demand also became very limited for a time, particularly with

many of our distributors restricting their own operations. The main source of government support was in the UK from the Coronavirus job retention scheme. The combine support from the UK government and Continental European Government exceeded $4 million.

Now, let me pass to Andrew to take you through our financial performance.

Andrew Johnson: Thanks Heath and good morning everyone. Turning to page 13 and a summary of our FY20 financial performance. Net sales for the full year were up 5% driven by the strong Americas performance in the second half, offset by the lower EMEA sales due to COVID-19.

Reported sales were also favourably impacted by the strength of the US dollar relative to the Australian dollar. If we adjust for currency impact, net sales growth was essentially flat at 0.3% year over year.

Adjusted EBITDA was 9% lower than the prior year. Adjusted EBITDA excludes the $33 million in restructuring and non-cash impairment charges that we took in the US and Europe which I'll cover later.

On page 14 we will walk you through the key EBITDA drivers for the year. The biggest impacts were primarily the drop in EMEA sales which were compounded by the fact that EMEA is our highest margin region.

The lower volumes also led the lower manufactured overhead recoveries. As expected, we recorded an increase in SG&A as a result of the investment we made in corporate capability, increased development expenses in the first half, and customer initiatives.

We were pleased with progress on the cost savings front. Cost savings from John Guest synergies and continuous improvement initiatives totalled $19 million for the year.

Let me move now to our segment performance. To eliminate currency impacts, we are showing half over half and year over year numbers, all expressed [audio cuts out].

Heath Sharp: Are we live? Okay, I believe we're live. I apologise. Problem with the phone line between Atalanta and Australia it would seem. We'll start again on slide 15 I believe.

Andrew Johnson: Yes. I think 2020 continues. Okay, so slide 15 starts the segment discussion. Let me just reiterate that to eliminate currency impacts, we're showing half over half and year over year numbers all expressed in the regional functional currencies.

On slide 15 we see the Americas segment reported in US dollars. Americas recorded 6%

sales growth for the year and 11% sales growth in the second half. The second half result was due to the very strong sales we saw through the US retail and hardware channels.

March and June were both record months for the US business. Partly offsetting this was a decline in our wholesale channel, reflecting lower professional plumber activity due to shelter in place restrictions.

Higher volumes and tighter cost controls drove improvement in the Americas EBITDA margin which increased to 16.5% in the second half from 15.5% in the first half. You may recall that the first half performance was impacted by lower manufacturing volumes as we reduced the SharkBite finished goods inventory which resulted in lower manufacturing overhead recoveries.

The month by month performance for the Americas in the bottom left hand quadrant of slide 15 demonstrates the performance we saw throughout the second half relative to the same month last year. You can clearly see the strong sales month in the half and certainly July has continued that trend.

Turning to slide 16 and revenue bridge for the Americas. The key point we want to make here is that of the 11% top line sales growth in the Americas, we believe 7.5% was due to the combination of the underlying market growth and demand we generated through our marketing efforts, including the stop valve rollout to our retail channel partner.

We estimate that around 3.5% of the growth was due to demands specifically arising from COVID-19. The point we want to stress is that we don't think investors should bake in this COVID-19 demand on a long term basis.

Now to slide 17 and performance in Asia Pacific. Sales for the year were down 2% on a reported basis and all but flat in the second half. Worth noting is that this trading result was heavily impacted by the reduction of sales to the Americas in the first half.

External sales growth was 3% for the second half, bringing total external sales growth in APAC to 2% for the year. We did see margin dilution in the APAC region which was driven by reduced manufacturing overhead recoveries, mostly in the first half, and overall increased supply chain and corporate costs. You can clearly see the strong sales month in the half and certainly July has continued that trend.

Onto slide 18 and EMEA. I think the graph on the bottom left hand side of the page tells the story well. You can see in the blue bars just how significantly our revenue dropped off,

starting in March and carrying through until April and May. This decline was followed by gradual recovery part way through June which has continued into July.

Consequently, our net sales were down 24% in the second half and down 13% for the year. This had a significant impact on second half EBITDA which was down 38%, having risen 3% in the first half.

With the help of synergy savings, we were seeing margins before COVID-19 that were higher than those we saw in the first half. One positive note was that despite some very significant decline in sales volumes, we remained EBITDA positive in EMEA for every month throughout the second half.

Clearly sales have started to recover in July. We know that some of the demand we are seeing is due to demand that was not satisfied through March, April, and May. We also know that distributors are rebuilding their inventory levels and these were reduced during the lockdown period. So we are pleased to see the volumes coming back. However, we are cautious about what the underlying demand level is now and what it will be for FY21.

Turning now to slide 19 and specifically, a look back on two years with John Guest. Amidst the noise of COVID-19, one can lose sight of the progress we have made within the business. Certainly it's hard to draw strong conclusions around the John Guest financial and operating performance given what we've been dealing with in the second half.

There's no doubt we have successfully integrated John Guest with our UK and US operations and this is now complete. We have driven improved operational performance in the UK manufacturing operations in terms of productivity and customer service levels. While some of this progress has been disrupted by COVID-19, we are starting to get back into normal mode of operation as our teams have returned to work.

Turning now to slide 20. I just want to cover off the one-time restructuring and non-cash impairment charges we incurred in the second half which totalled $33.4 million. Included in that number are restructuring charges of $10.7 million which were incurred related to the moving of the HoldRite factory in Tennessee to Alabama, and further restructuring activities in the US and the UK.

The non-cash impairment charge relates to the US and Europe. In the US, they were determined by our decision to pull back from the development of certain product categories which were non-core as indicated at the half year results. Consequently, we

have impaired the intellectual property associated with those products and written down inventory items as well.

In EMEA, we undertook a review of our operations and the asset carrying values in Spain. Consequently, we determined that impairing plant and equipment by $5.9 million was appropriate given the trading outlook for that part of our operations.

Page 21 provides you with some further metrics on our cash flow performance. For the full year, cashflow from operations was up 56% to $278 million for a conversion rate of 128%. In the second half, you can see our performance was particularly strong with cashflow from operations up 31% in the second half to $143 million, representing an operating cash flow conversion of 155% for the half.

Managing our working capital was a priority for us given the uncertainty of COVID-19 and we were very careful to ensure that we didn't over-build inventory levels.

Our accounts receivable collections remained strong throughout the year and I want to thank our credit management teams for that effort. We did see growth in US receivables, reflecting the strong sales momentum in that market, but that was offset by a reduction in EMEA receivables, given the slowdown in sales.

On page 22, our CapEx spend for FY20 was $43 million, split evenly between growth and maintenance. Maintenance will include the ERP rollout in the UK. For FY21, we have posted an indicative range of $35 million to $55 million. The higher end of that range will be incurred if we see strong volume growth as we will need to add in more capacity if current volume trends continue.

On the other hand, if we see a tapering off in volume growth, then we won't need to add that capacity and we'll pull that back. We plan to be nimble and will respond depending on what we see in the market.

Turning lastly to our balance sheet on page 23, as we have already referenced, we saw group leverage reduced from 1.67 times to 1.39 times as a result of the reduction in net debt by $124 million. We have significant headroom under our syndicated bank facility of almost $450 million. As we noted here, we remain comfortably in compliance with our financial covenants.

With that, let me hand back to Heath to cover strategy and outlook.

Heath Sharp: Okay, cheers Andrew. I'll touch briefly on our strategy. As we note on slide

25, this is not much changed from what we have presented previously, apart from the tweaks we signalled at the half year. In particular, I would confirm our decision to minimise our investment in selected product categories, which we determine to be non-core and which had pay-back periods that were too long or too uncertain for us.

We did use the time of COVID-19 to consider whether any further changes should be made to the strategy, but we have concluded that we're on the right track with our current product focus. The strategy summary is shown in Appendix 1 and you may recognise it from our investor day last year. Our priority continues to be around product extensions and new products that expand our offering to our core end users.

We also remain very much focused on supporting and creating value for existing distribution partners and leveraging this network to increase our market penetration. This is supported by concentrating on segments where our brands are recognised and valued and the whole thing is founded on our operational and executional capabilities. For FY21, we will continue to focus on execution. We will pursue improved operational efficiencies and drive cost savings, while ensuring we continue to provide our channel partners with industry-leading service.

Let me turn now to the outlook for FY21 on slide 26. Firstly, we're not in a position at this point in time to provide earnings guidance for the current financial year. The reality is that market conditions remain too uncertain for us to have any great degree of certainty around demand levels over the course of the year. We certainly intend to update the market at sufficiently regular intervals as we get a read on the underlying demand and trading conditions across our three segments.

We have provided some specific line-item guidance to help analysts with their forecasting for the year and they are presented in our results announcement released today. Additionally, we believe it would be useful to provide an update on how trading conditions have looked for the first few weeks of the current financial year.

July was a good month for us from a revenue perspective; we saw strong sales growth in the Americas, up 22% on July 2019, EMEA recovered to 96% of the sales recorded in the same month a year ago; Asia Pacific also recorded positive sales growth, albeit modest.

For the first three weeks of August, Americas is showing continued sales growth, although not as strong as we recorded in July, but certainly consistent with what we saw in the second half of FY20. EMEA has recorded positive sales growth over the same period last

year and Asia Pacific is still showing slightly positive sales growth. That is a decent start to the year, but we continue to watch these trends closely and we get into more detail on that in these next slides.

Looking to the year ahead in each of our segments, starting with Americas on slide 27, in the US low interest rates and demographic drivers will be supportive of the underlying market demand, but we also have a watchful eye on what happens with unemployment and the broader risks around a recession.

The particular signs we will be watching include trends in retail sales and any indication that the buoyant conditions which we have experienced in retail and hardware, are coming off. We will continue to track the recovery in the wholesale channels as pro plumber activity returns to normal levels and we will also be looking at any changes in US customer sentiment and what impact that may have on the remodel segment for us in particular.

Page 28 and Asia Pacific, sales have continued to hold up well in Australia, but we do believe that part way through this next financial year, we will start to see impacts of the decline in new housing approvals, noting that new residential construction approvals were down 26% between FY18 and FY20.

In EMEA, on page 28, we are mindful of the fact that economies there have recorded very sharp reductions in GDP in recent weeks. I note in particular the UK recorded earlier [audio cuts out].

Heath Sharp: Okay, I am terribly sorry. I believe we got to starting EMEA, so let me shoot from there. So we are on page 29, dealing with the EMEA segment and as I was saying, we are mindful of the fact that economies there have recorded very sharp reductions in GDP in recent weeks and in particular, the UK recorded earlier this month a 20% reduction in GDP for the June quarter, which is the largest such reduction since records began.

You can see that in the graph on slide 29 with repair and maintenance work down significantly throughout the second quarter. We will be looking particularly to see any signs that the pent-up demand, which has helped the recovery in volumes, is easing and what sales channels are doing with their inventory levels.

Turning now to slide 30, in general terms, during FY21, we will continue to invest in the business. We are not downhearted at all by the challenges we’ve had to confront in FY20 and indeed we’re excited in many ways by the strength of our markets, despite COVID-19

and we're excited frankly by the confirmed resilience in the repair and maintenance segment.

Our first priority of course is to continue to ensure the ongoing safety, health and wellbeing of our employees during the COVID-19 pandemic. As we move through FY21, our focus will remain on execution. We will continue to provide industry-leading customer service and support, while making sure that we are positioned to act rapidly should external factors change. This will assist us in our drive to achieve ongoing above-market growth in all our key geographies.

We will also pursue ongoing margin expansion through continuous improvement initiatives, supply chain improvement and general cost management. To this point, I would l like to provide more colour on the restructuring and continuous improvement initiatives we have announced. They are expected to deliver a $25 million reduction in annual operating costs on a run-rate basis by the end of FY21.

A good portion of these initiatives are well defined and underway and will be delivering cost savings by the end of Q1, while others will deliver benefits progressively throughout the year. As an example, the closure of the Tennessee plant and the transfer of manufacturing to Alabama has only just been finished, so we will start to see the benefits of that flow in the second quarter of the year.

Lastly, on our priorities for the year, we will of course allocate capital appropriately given the current uncertain environment.

Now to the final slide on page 31, we are well positioned to move forward. RWC has been severely tested in recent months and our teams around the world have responded very well. The business is robust. Our markets, especially our core repair and maintenance category has proven their resilience. Our focus has turned to execution and operational excellence and that will continue through FY21.

Overall, while there is clearly uncertainty ahead, we are confident that we are structured appropriately and focused on the right things. We are in a position to handle any future challenges and to then accelerate as visibility improves.

Thank you very much and we will now open the call up for questions. We have some callers joining by audio and we will take those questions first, then we'll take questions submitted by the platform, which can be typed in at any time.

Operator: Ladies and gentlemen, if you'd like to ask a phone question, please press star one on your telephone. Our first question comes from Peter Steyn from Macquarie, please go ahead.

Peter Steyn: (Macquarie, Analyst) Good evening Heath and Andrew, thanks very much for your time, really appreciate it. Just wanted to ask you perhaps a slightly broader question around your very solid cash flow performance and how you're thinking about both the sustainability but also some aspects of your supply chain from a strategic point of view.

Given what you said about CapEx and requiring additional capacity, where would you be investing that capacity? What's the impact of the ERP in its ability to manage down your overall working capital cycle, so how much of that 24 days do you think is a sustainable improvement on a go-forward basis?

I guess in a nutshell, what has COVID resulted or how has COVID altered your thinking from a supply chain point of view as things stand now?

Heath Sharp: I might start broadly and then Andrew perhaps can get into some of the more technical details of that, that's quite a question, Peter. We've gone through a couple of cycles with supply chain. Early on we were focused in trying to mobilise inventory out of China and then Italy and then as COVID hit more broadly, we pulled the reins in to preserve cash, which we then continued doing in UK as that really slowed up. But we had to then mobilise inventory and production again in the US when the demand here ramped up.

So there's been a number of competing challenges that we've had to deal with. I think that's been a real highlight of the half as in some parts of the world we've been pulling the levers on cost and slowing down, and in other parts we've been trying to push ahead.

So that's been the challenge. I think - so it really is quite specific by region in terms of the supply chain. We are - look, we're working hard managing the supply chain daily at a sku level really. But it feels under control. But it's - we're working hard there for sure and certain.

Jumping to the CapEx side of it, look, the CapEx we've pulled back was generally volume related and directly related to those things where the volume had eased. So there clearly will be some things we'll need to get back onto this year. That time is fine, we haven't by any stretch left any of that too late.

So shelf life, production, equipment assembly, machining, that's in focus right now. Whereas in the UK we're focused on some of the less - some of the bigger projects and more trying to take some of the manual assembly out with automation. So again there's quite a juggle, depending on what part of the world you're in. Andrew, do you want to touch on the cash management specifically?

Andrew Johnson: Yes, specifically to your question in regards to, is that level of cash conversion sustainable? I mean the answer is, yes and no. I think that yes, in the sense that the investment that we have made in core capabilities around supply chain management, production management, and also S&OP.

So the S&OP chain, for example, here in the US. We have certainly made improvements in our ability to manage our inventory, no doubt about it. In addition we have a real focus on accounts receivable and collections that I think has really borne fruit in this, not just the second half, but also in the first half. So there is a portion of that cash conversion that is sustainable.

On the flip side, in a downward cycle it's easier to have a higher cash conversion with receivables decreasing and inventory decreasing. As that comes back up you will see inventories increase and receivables increase, specifically in EMEA. So there will be inventory growth next year in the first half, which is normal for our business as we prepare for winter. Then towards the end of the year you'll start to see the receivables build back up in EMEA.

So part of it is sustainable, but then there will be a part of that that we'll give back next year. As we've mentioned before, long-term cash conversion for us we would expect to have somewhere in the 90% range. So that I imagine next year we'll get back closer to that.

Peter Steyn: (Macquarie, Analyst) Thanks yes, and Andrew, that's great. Maybe just a very specific pull-out, Heath, in relation to intersegment sales out of APAC into Americas. Are you thinking very differently about the creation of parallel capacity in the US at this point yet, or not yet?

Heath Sharp: Look, we're looking at increasing the volume here. The plan all along has been to sort of incrementally add capacity here in the US, and that's still the case. But there's no dramatic change there in the near-term. I think though it's fair to say standing back, we are looking globally at our supply chain and where we're making things across all

our products. Looking at what actually should be in three years', five years' time. I mean they're things that take a long time to play out. But yes, definitely that's something we're looking closely at right now.

Peter Steyn: (Macquarie, Analyst) Thanks Heath. Then perhaps just one quick one on the markets. So you mentioned that pro-demand is back to more or less where it has been before. That's certainly incrementally a positive indicator. How are you seeing that at this point, what is the channel feedback on pro activity in the near-term, both I think focus from my point of view would in the UK and the US. If you could give us a bit of a sense of those two markets and what you are seeing in pro?

Heath Sharp: Yes, sure. Again a little different in each part of the world. In the US it certainly eased through April-May-June, but it's returning. July was a pretty good month for that channel.

In the UK it's - and there's obviously a big chunk of our core business in the UK is through that channel. It certainly did pick up in July, and August is looking solid. There's no question there is some pent up demand driving that. There's also some inventory restocking at the distributors. In a couple of places we've even heard of trying to put a little bit of inventory in, in case there's a second wave.

So there's - those three issues are driving I believe the demand through July and August. It's really quite difficult to see through that to what the underlying demand is and what that might mean on a run rate basis. One of the challenges in the UK with the furloughs that everyone was doing is, there's - we lost, I mean our wholesalers and we lost a lot of visibility into what the inventory levels were, what the end users were doing. So it's a little bit harder to see than normal right now.

Peter Steyn: (Macquarie, Analyst) Thanks Heath. I'll leave it there. I appreciate it, cheers.

Heath Sharp: Thank you Peter.

Operator: Our next question comes from Simon Thackray from Jefferies. Please go ahead.

Simon Thackray: (Jefferies, Analyst) Thanks very much, g'day Heath, g'day Andrew. Thanks for taking the questions. Peter's covered off a couple of things. But I'm interested in the US, Heath, in terms of mix. There was obviously the comment about the new product rollout in the channel. But can we talk about what really hums during this second half in the US between, say, SharkBite and non- SharkBite product. Just a little detail

around how the new product rollout went in the second half and what that provided for you?

Heath Sharp: Certainly. So the impact, if you like the COVID-19 impact in the second half, it affected pretty much the whole portfolio. SharkBite, PEX and crimp, SharkBite accessories, the HoldRite brackets and supports, they were all impacted, and impacted negatively in the wholesale channels that were off and certainly softened, and certainly impacted positively as the retail and hardware channels picked up. So there weren't any real stand-outs there, it was pretty much across the board.

In terms of new products, the grid we set out on page 16. So we noted that the sales bridge through the Americas, we noted the customer product initiative. That was heavily new product. So that was related to the product that went into one of the retailers here in the US. Now that was - that’s not new to the world product, it's not disruptive product. It's new to us. The way we've packaged it, present it and rolled it out is really where the innovation is. It's starting to show some positive comp, even though it's early days.

But that’s where the new product is. But if you put it on a table and looked at it next to our other stuff, it looks all pretty similar.

Simon Thackray: (Jefferies, Analyst) Right. Okay. Maybe I can jump to the discussion, I think you've been pretty clear so far on EMEA and the channel restock, if you like. How long would you think it takes on this for a restocking event of the channel? Notwithstanding your comments that some people might actually be restocking in case of a second wave. So what would be the sort of organic run rate on the business in EMEA?

I guess as a second part to that, which I think Peter kind of touched on earlier, how does the ERP, the new ERP system, help you achieve your objectives and give you that flexibility to move in case demand does more or less than what you're thinking about?

Heath Sharp: Okay, so look, frankly it is really hard to get a feel for what that run rate is in the UK and what the level of stocking is. I mean it's becoming clearer that it's been quite literally a black hole for some months. It's - I mean the UK business is not back to normal by any stretch. I mean we're delivering to wholesalers we're down to a five-minute window at midnight on a Wednesday is our delivery spot. There's lots of challenges there and there's a lot of people on furlough. So getting that information is tough.

I really don’t want to speculate on whether it's back to normal, or whether we get another

month, and where it's going to come off to. Because quite frankly we just don’t know, which is why keeping - streamlining as much as we can, but still keeping flexibility is important. I mean the organisation we need to operate the business in the UK as it looked in April is quite different to what we needed to operate in July. So flexibility is key there. I know that’s not a - that's a very unsatisfactory answer, but that’s honestly where we're at.

ERP, look, I'd say some of the - we're already seeing some benefits with what Andrew was just talking about, with the cash flow management. We've got better data at our fingertips now than we did 12 months ago. That’s one of the benefits. I think the other benefit at an operational level is, we announced the restructure in June which will be completed during the first quarter. Some of - to some extent that is enabled by having a more comprehensive ERP system in place.

There are ongoing benefits though over a long period of time. I mean connecting that ERP system up to all of our divisions around the world on the same system and seeing the same data has benefits a little bit intangible. Hard to put a number on. But data visibility and being able to react quickly is the real benefit.

Simon Thackray: (Jefferies, Analyst) That’s really helpful. Does it enhance order visibility as well? I mean can you talk about order visibility at the moment in terms of time across the three regions, how far ahead you can see…

Heath Sharp: Yes, look, it hasn’t changed. I wish our ERP system could solve this. But we get a two-day or a three-day window to our orders. Our order book is that long. So for us trying to read what the market is doing, having inventory and being able to react quickly when we get the order is really the key.

Yes, the ERP system helps that. But it's about how you handle it, it doesn’t really - it certainly doesn’t increase the length of our order book and it never will. That’s the same across all the regions.

Simon Thackray: (Jefferies, Analyst) No, that’s fair. Then one final follow-up question, Heath, just in terms of you did mention a sort of a three year to five year view on supply chain and sourcing and thinking about that from a global perspective. Has COVID-19 created any more immediate rethink or medium-term rethink around sourcing product from China, from Australia, or changed any of the way that you're thinking about the supply chain in the current climate? Thank you.

Heath Sharp: I guess a couple of things. We've always tried to have a five-year plus view of the manufacturing footprint and working on it each year and that - so that's no different.

We've also - there's a lot to be said for making close to the market but the - look, the supply chain from Australia to here is fine. I think it is fair to say that we are looking closely at what we get from outside our own businesses, if you like, and how can we provide more redundancy and other options.

That's not an overnight sensation by any stretch of the imagination but yes, I think you - we are looking at that probably a little more closely than what we were in the past.

Simon Thackray: (Jefferies, Analyst) All right, thanks. I'll leave it there. Thanks so much, guys.

Heath Sharp: Thanks, Simon.

Operator: Our next question comes from Raju Ahmed from CCZ. Please, go ahead.

Raju Ahmed: (CCZ, Analyst) Hi, everyone. A couple of questions from me, if I may. The first one is around your cost out. You mentioned the $25 million benefit annualised by the end of FY21. So if I could just deep dive in there? Can you just give us some colour on how much of that $25 million you could bank in FY21 itself. Secondly, on that theme do you see that $25 million ultimately flowing to your operating margin? Or do you expect to pass some of that to customers?

Andrew Johnson: Yes, I'll take that. Thanks for the question. To that last point, no, we would not pass any of that along to the customer. So let me give you some colour on the $25 million.

If you look at that and again, that's the - where we expect to be from a - in a run rate basis at the end of FY21 but about 50% of that number will come from the restructuring activities that are ongoing, that we would hope to have completed by the end of this first quarter of FY21.

But those things are on foot. About 40% of that number will come from continuous improvement and that's the continuation of the activity that we started in FY20, that will continue on to FY21.

So I guess in terms of how much we'll hit FY21, it's not going to be a linear progression.

We ought to be able to do a little better than that, so we ought to have a little more than half hit FY21. Think of a number around $15 million as an estimate.

Raju Ahmed: (CCZ, Analyst) Okay, that's very helpful. Thank you. The second question, going to particularly around the EMEA and I suppose to a lesser extent, Australia. You do have a reasonable new housing exposure on those markets. When we talk about some seeing recovery, particularly around July and August, would you say you're seeing recovery coming from the new housing construction? Or is it more the bread and butter repairs and maintenance segment?

Heath Sharp: You broke up just a little there. I think your question was in regard to the UK and EMEA? Is [that] the reason?

Raju Ahmed: (CCZ, Analyst) Yes, so look, I'll just go through it again. What I was getting at was in both the UK and the Australian markets, you've got a reasonable housing construction exposure. So I just wanted to get a sense of whether the demand recovery that you have seen, was it coming from the new housing construction market? Or was it more the - the more stable - typically stable repairs and maintenance segment?

Heath Sharp: Look it will be, in both places, it will be more repair and maintenance. So in the UK, our exposure, or our focus - our primary market is repair and maintenance. That's in the order of 70%-plus of our business in the UK, is repair and maintenance.

Frankly, it all shut down for a period there through April, May and started to come back in June but as it's come back, what we're getting is our traditional products that as far as we can tell are heading to our traditional end-users.

So - and that makes sense, if you like, and fits with the idea that there is pent-up demand there. I mean, we believe there were things that - there were repairs that needed to happen in April, May and June that just didn't happen and I think there's some catch-up there but that's certainly on a repair and maintenance side.

Our market in Australia was actually pretty robust through the whole time. I mean, our volumes came off in the first half with the impact of that part of our business that is related to new construction and that carried on at a similar level but we didn't really see it come off any more because of COVID. Just a little bit, maybe, but not a whole lot.

So both the part of the business exposed to repair and maintenance and the part of the business exposed to new construction kept at a similar level through the period.

Raju Ahmed: (CCZ, Analyst) Okay, thank you and the last question, just to focus a bit more on the UK market. I've heard stats that the market expectation is for the housing starts in the UK market to fall about 20% or thereabouts in FY21. Do you think it's one of your - if not the highest margin market? How do you - what I'm trying to get a sense of is, is that what you're expecting in terms of your internal budgeting? In terms of housing starts? Also, what is the margin exposure to that particular market?

Heath Sharp: Look, again, our biggest focus in the UK is on repair and maintenance. We certainly have a portion of our business that's in that residential new construction sector so if that market comes off, that portion of our business, the sort of 20%, 25% of our business, will be impacted.

What actually happens there, how much it comes off and when, honestly we just don't really know and again, it's we try to position ourselves as flexibly as we can to deal with whatever comes down the pipeline, to be honest.

Raju Ahmed: (CCZ, Analyst) Okay, I'll leave it there. Thank you for your time.

Heath Sharp: Okay, thank you.

Operator: Our next question comes from Lee Power from CLSA. Please, go ahead.

Lee Power: (CLSA, Analyst) Hi, Heath, hi Andrew. Just on the restocking, has that been broadly consistent across your whole range or is there any signs of product rationalisation or, likewise, strength in any key products?

Heath Sharp: No, it's more just the broad-based sort of logistics issues. It's not particularly our product focus point.

Lee Power: (CLSA, Analyst) Okay and then can you just remind us what capacity utilisation, where it currently sits? Particularly in the US.

Heath Sharp: That's a really good question. I haven't got the exact number to hand but I think it's fair to say that we're quite busy right now. Look, we - but we are at the point of just turning on an additional shift. So I guess that answers the question that we weren't running at 24-7 at all over the last little bit but we have got that ability. So we've got some extra capacity there.

Australia is also ramping up, partly to meet the demand - the current demand in the US but also looking for being prepared for winter. So look, right now it's - they are busy. It's

okay but it is the right time for us to be looking really closely at our footprint for next year and the year beyond.

Lee Power: (CLSA, Analyst) Okay so sorry, with the extra shift are you now 24-7?

Heath Sharp: Yes in the US.

Lee Power: (CLSA, Analyst) Okay and then just a final one. Given retail is running very strong in the US, you've talked about pent-up demand. How does that change your thinking around promotional activity across the next 12 months? If it does at all.

Heath Sharp: Look, I think it actually, to some extent, is a little bit out of our hands. It is the major retailers and the hardware stores here are very focussed on their supply chain and meeting their current demands. The timing - their timing for any store changes or layout will really dictate what we might be able to get done. They are very focussed on that right now.

So our view of the coming year is, same products, same channels, same customers. Just focus on execution and operation. We've got some conversations going in the background about new opportunities and products, but frankly they're not baked into this year. We'll just get the current stuff made and out the door, is the focus.

Lee Power: (CLSA, Analyst) Okay, thank you very much.

Heath Sharp: Thanks, Lee.

Operator: Our next question comes from Keith Chau from MST Marquee. Please, go ahead.

Keith Chau: (MST Marquee, Analyst) Good evening, Heath and Andrew. Just a few questions from my end. Firstly, Heath, just following on from your last comment around new product roll outs. Looking at the second half of the year, 3.5% of revenue growth was driven by customer or product initiatives so just wanting to clarify whether there will or won't be a repeat of that? Or whether there are any new products to be rolled out this year that's in the pipeline? I know you just briefly mentioned it but just wanted to be explicitly clear on that, please.

Heath Sharp: Yes, sure. At this point, no, we are not baking into our plan anything in particular. We think the focus in this half is really going to be on that right-hand bar on that chart, which is the COVID-related volume. That's going to be our focus and that's going to be our customer's focus for at least the first half and we think that means any

new projects will probably then push to the year beyond that. Beyond this.

Keith Chau: (MST Marquee, Analyst) Okay, thanks Heath. Then, just reflecting back on the channel, maybe just asking the question a bit more simplistically. In the US and in Australia, I appreciate some of the comments that have been made on EMEA but in the US and Australia, is there any prospect for a channel re-fill to benefit the numbers? Again, bearing in mind your visibility out in the order pipeline is two to three days but are you hearing anything to that effect from your customers at this point in time?

Heath Sharp: Look, we watch inventory levels for a number of major customers here in the US and their inventory levels are not bad. They might be off just a little bit but not a material amount so it doesn't feel like there's a hole there to fill. In Australia, it's actually been moving along at pretty much a normal level, both restocking and going out the door with our distributors, as far as we can tell. So no, there doesn't look to be any gaps or holes to fill there.

Keith Chau: (MST Marquee, Analyst) Okay, excellent and then just the last one for perhaps Andrew. Your copper sensitivity. I know you've provided some guidance for a neutral outcome this year given recent copper price movements.

Just wondering if you'd be able to give us an update, if possible, on your copper sensitivity? I think in the past the sensitivity has been $1.2 to $1.3 million of EBITDA for every $100 million - sorry, $100 per tonne movement in copper. Have you got an updated sensitivity you can provide us please?

Andrew Johnson: Keith that is our updated sensitivity what you just recited and of course it always depends on if we're increasing inventories or decreasing inventories, but what you just mentioned is what we generally work with.

Keith Chau: (MST Marquee, Analyst) Okay, great, thanks very much gents.

Operator: Once again, if you would like to ask a phone question, please press star one. Our next question comes from James Brennan-Chong from UBS. Please go ahead.

James Brennan-Chong: (UBS, Analyst) Evening Heath, Andrew, thanks for taking my question. Just coming back to slide 16 again. Thank you for this granularity, I really appreciate it. I guess at the beginning of this year pre-COVID you always said that the new products were coming online, so it seems like COVID didn't impact you there, but you always said that first half versus second half would be very different for product initiatives.

I appreciate your comments just before that you're not expecting any products this half year, but if I think about FY21 or if I think about a normalised year outside of COVID, is this a business that is built for 7.5% revenue growth, or is customer and product initiatives something that we should think of as annualising zero long term and this business is geared perhaps for that 2.7% plus 1.3%. Just trying to get a sense now with this framework that you've got here, how do we think about the long-term growth of this business. Then I've got one more question after that. Yes, but the first one please.

Heath Sharp: Okay, okay. Look, I think what's on page 16, we did it deliberately, it sets out the big - how we think about the growth and how we try and build up the growth if you like, because I know this is something we have talked about a lot and we are striving to try and give more understanding here.

Certainly our objective is, for any given period, is to put a point or two on top of market growth. Now, in our market the long-term CAGR is 2% to 3% for repair and maintenance. This is in the US context and this is something we're going to get into some detail in at our investor day. We have done quite a lot of work on this and we want to set out where we're at and hopefully that will be useful.

So certainly though we want to put a point or two of growth on top of that in any given period at the minimum. Then as you identify, we will always try and put more on top of that again with a customer or product specific activity. Now, we had some this year, we had some last year. This year we got it in the second half, last year we got it in the first half, so half on half it is going to bounce around and frankly there are going to be some years where we might get a couple or we might get zero. It's not linear.

We will also have situations where we will have a half where we will incur the cost of ramping up for that and won't - or even that might have fallen in a year and then the benefit is the year after. So that can move the needle and we will try and set that out as we go, but certainly we will always aim for those initiatives.

Then, look, the COVID impact, I think that's the benefit of the network we have got, more than 20,000 outlets in the US, we're positioned to be able to deal with an opportunity that comes along or a shift from one region to another or a shift from one channel to another. That certainly doesn't happen every year by a long shot but that's the objective.

James Brennan-Chong: (UBS, Analyst) Okay, great and then just an extension to that, the second question. How much of this was price within market growth and above market

growth.

Heath Sharp: Very little price. Very, very little price.

Andrew Johnson: Almost none.

James Brennan-Chong: (UBS, Analyst) Almost none, got it. Then just an extension then into EMEA. I appreciate you haven't given a chart with this, but I mean to what extent though would market growth and above market growth here be similar in the UK on a long-term basis? I appreciate the last six months was COVID but just trying to think is the market growth in repair and remodel and your underlying business, plus your objective for above market growth, similar in EMEA? Or is it the case that with a much larger exposure in EMEA to new housing that the underlying base is fundamentally different?

Heath Sharp: No, I think quite similar contextually. Certainly in the UK our goal is to put a couple of points on top of the market growth over there and additionally we traditionally have got some price over there as well. I think that's actually quite informative in relation to the US market, so part of that above market growth rate comes from conversion of plumbers from traditional fittings to push to connect fittings.

This is what we have done here in the US for the last sort of 15 or 16 years and it is what John Guest has done for a lot longer than that in the UK and that is still part of their growth rate. That for us is really quite important. It confirms that there is a long and incremental opportunity there for growth on top of market here in the US based on what we have seen in the UK.

James Brennan-Chong: (UBS, Analyst) Right, got it, cool. Crystal clear. That's all from me. Thank you.

Heath Sharp: Thanks James.

Unidentified Company Representative: Just two emailed questions, Heath and Andrew. The first one, both from Peter Wilson at Credit Suisse actually, the first one is could we please quantify the abnormal items from the FY20 cost base and what these mean for margins in FY21? As a subset to that, in Americas are FY20 margins a fair reference and for EMEA should we look to prior year adjusted for synergies?

Andrew Johnson: Thank you. I think I'll take the first one. Look, in terms of abnormal items in 2020 the very obvious abnormal item is the volume impact on manufacturing inefficiencies that we have seen in EMEA had a tremendous impact on overall EBITDA

margins. We fully expect that when those, when the volumes come back in EMEA, that we should see margins ahead of where we were pre-COVID.

In terms of the Americas, are FY20 margins a fair reference? Well yes and no. I think that first half, as we talked about, we were reducing inventory and we had manufacturing inefficiencies and under recoveries in the US. Second half we did much better and you would expect the margin that we saw in the second half to continue assuming that volumes stayed close to that same level.

Unidentified Company Representative: Thank you and the second question from Peter is if July/August sales strength was attributed in part to pent up demand and distributors rebuilding inventory, can you please separate those factors and provide the percentage point boost provided by inventory build? As of the third week of August, where do inventories sit versus normal levels?

Heath Sharp: Look, we talked about this a little bit before with the question that Simon Thackray asked, is no. No, is the short answer. We just don't have that level of visibility and getting that sort of information from our channel partners right now is really difficult. I think that they're getting the people back to work in their inventory management, in FP&A areas, but only just. I think they're trying to catch up with what it all means and it hasn't really flowed through to us. So it's very much a gather what information we can, but frankly it's a be ready to react based on what orders come in.

Look, to that end, I would note that our orders in the UK, look, they're never flat day on day through the month but they're reasonably close. Right now they're still bouncing around from a quarter of average to 50% above average and that's a reflection of I think the catch up in inventory and demand in the UK right now. It's quite [normal].

Unidentified Company Representative: Thanks Heath. No more written questions so I will hand back to [Tara] to wrap it up.

Operator: Thank you. There are no further phone questions either so if there's no final comments that does conclude the call today. Thank you for your attendance. You may now disconnect.

Health Sharp: Thanks everyone. I appreciate you dialling in today. Thanks so much.

End of Transcript