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Operator: Hello, and welcome to the Reliance Worldwide Corporation Half Year Earnings Call. At this time all participants are in a listen only mode. After the speaker presentation there will be a question and answer session. To ask a question during the session you will need to press star one one on your telephone. You will then hear an automated message advising that your hand has been raised. To withdraw your question, please press star one one again. Please be advised that today’s conference is being recorded. It is now my pleasure to introduce Chief Executive, Heath Sharp.

Heath Sharp: Good morning, everyone. Welcome to RWCs Half Year Earnings Call for the period ended December 31, 2023. This is Heath Sharp, CEO of RWC. Joining me here in Atlanta is Andrew Johnson, our Chief Financial Officer. In addition to our first half results, we will also provide an overview of the Holman Industries acquisition which we announced last week.

Let's start on slide three with an overview of the first half. Our core repair and maintenance market remained resilient in all geographies. This has undoubtedly underpinned our performance for the half. In addition, the impact of our continuous improvement activities is evident in this result. These actions have enabled us to maintain our operating margin despite lower volumes. So, we are pleased with the strong financial result overall and, in particular, the performance of the Americas region.

Sales in the Americas were stable year on year, while operating margin improved significantly. This improvement is a result of focusing on those initiatives directly within our control. A key element was on our new product activity which I'll address shortly, but certainly our cost initiatives, including the restructure undertaken 12 months ago, have made a strong positive impact in the Americas region.

Trading conditions in EMEA continued to be challenging. New construction and large remodel projects in particular have been negatively impacted. While our repair and maintenance activity proved resilient, our overall volume did decline. Nonetheless, we were able to take a number of actions to hold margin only slightly below 30%. Towards the end of the period, we undertook a more comprehensive restructure similar to that in the US last year. We will see the benefits going forward.

At a Group level our resilient top line and careful cost control, coupled with disciplined working capital management, led to another period with strong operating cash flow. This enabled us to further strengthen our balance sheet. A portion of this financial capacity will support the funding of the Holman acquisition.

I would like to call out our new product activities. They certainly contributed to the overall result and particularly in the Americas. The headliners, of course, are SharkBite Max and PEX-a pipe and fittings, but they were supported by EZ-Flo gas appliance connectors and new HoldRite products. I am particularly proud of our team's execution of the SharkBite Max rollout. This is an immensely complex and challenging product implementation. Our people in the Asia-Pac region and in the Americas region really stepped up to deliver this project. Importantly, the customer reaction has been tremendous. We have delivered a clearly better, simpler, faster to install product, and we are also putting more value on our distributor shelves.

To summarise our performance for the first half, overall we have delivered in line with our expectations and the guide we set at the beginning of the period. The Americas has done a little better than we had guided, while EMEA has seen weakened, weaker conditions. Importantly, we are maintaining our guidance for the full year.

Turning now to our financial highlights on slide four. Net sales declined 2% in line with our guidance. Adjusted EBITDA was 3% lower. We had several one-off items in the period, which Andrew will note. Adjusting for those net profit after tax was up a little to US$67.7 million. Cash from operations was up 61% on the prior corresponding period at just under US$152 million. That represented a cash conversion rate of 121%.

Lastly, following our review over the last several months, we have announced changes to our distribution policy, Applying for this half and going forward. These changes will see us making future distributions through a mix of dividends and on-market share buybacks.

I'll hand over to Andrew now to talk through our financial performance in more detail.

Andrew Johnson: Thanks, Heath, and good morning everyone. On slide five, we have set out our performance summary for the half year and there are a few highlights to note. The first of these is that sales were down 2% on the pcp. This is in line with the guidance we gave at the start of the year and the first quarter. We did have some favourable currency exposure in the period with the British pound stronger against the US dollar. On a constant currency basis sales were 3% lower, well in line with our outlook statements.

In terms of operating margins, we signalled that EBITDA margin in the first half would likely be lower than the pcp. As you can see from this result we are only 10 basis points down on the prior period margin, so very nearly in line with what we achieved in the first half of FY23. We feel this is a strong result given that we saw lower volumes in APAC and EMEA. This performance has been primarily driven by the cost management initiatives we have underway in all regions. We did incur some one-off cost in the first half, totalling US$12.2 million, related to closing down the Supply Smart business and a restructuring in the EMEA region. Supply Smart is a direct sales business which was acquired along with the Easy Flow acquisition in 2021.

We have made the decision not to continue selling direct to end customers. Instead, we will maintain our focus on working with our channel partners in North America. As a result, we will take a US$9.4 million non-cash write down of intangible assets related to the Supply Smart customer relationships. We will also incur US$400,000 in severance costs related to Supply Smart for a total of US$9.8 million. In EMEA, we undertook a restructure in the first half and incurred US$2.4 million in restructuring costs. Adjusting for these one off costs impact was flat to the prior period.

Turning now to slide six and looking at our EBITDA performance in a little more detail, at a Group level we saw slightly lower volumes. Price was positive, although the impact was relatively small in comparison to prior periods. While we did see some input costs reduce over the pcp, overall, our manufacturing costs were slightly higher driven by [under] recoveries as a result of lower volumes and reducing inventory. SG&A costs were also higher, driven mainly by increased employee costs. We were able to offset these higher costs with cost management initiatives, primarily in the Americas.

On slide seven, we have set out the Americas performance highlights. We have guided to sales being down low single digits and the stable year-on-year sales performance is ahead of this guidance. Note the pcp included the benefit from a winter freeze in the US. While there was no freeze in the first half of FY24, we did see freezing weather in January. However, we expect the impact to be lower than last year.

As Heath mentioned, a driver of our sales performance has been the rollout of new products, and we've listed them on slide seven. The SharkBite Max rollout is going to plan. We are now in the final phases of this product rollout and we expect this to be substantially complete by the end of this financial year. The rollout of PEX-a pipe and fittings is also going well. We have finished the initial retail rollout and are now introducing this product into the wholesale channel. We got further traction with the EZ-Flo gas appliance connector rollout during the period. Finally, HoldRite launched a new range of fixture boxes in the half, and they have had a successful entry into the market. So overall, we had a broad range of new product initiatives which have contributed to the Americas sales performance.

From a cost price standpoint I want to stress that while we have seen input cost ease back from their highs, input costs such as copper and zinc are now aligned to the levels which are reflected in our pricing.

The Americas EBITDA performance was very strong in half, with adjusted EBITDA margin up 310 basis points to 19.9%. This is partly due to the transfer of SharkBite manufacturing and assembly from Australia to the US. We estimate that the impact on EBITDA in the first half was around US$5 million, Also positively impacting earnings or the cost reduction initiatives we have undertaken in the Americas. You may recall that a year ago we announced a restructure of the Americas organisation, and we saw the benefits of that in the operating performance in the first half.

Turning now to slide eight and our results for Asia Pacific. Total sales were down 21% in large measure due to the transfer of SharkBite manufacturing to the US. External sales were only down 4%. New home starts were down 15% in the 12 months ending September but the resilience of residential repair and remodel underpinned sales. Lower volumes of SharkBite manufacturing following the transfer to the US impacted operating earnings in APAC. We estimate that there was a AUS$9 million impact from the shift in production of SharkBite components from APAC to the Americas. As we mentioned above, this reduction in APAC was substantially offset by a commensurate increase in America's operating earnings. So, the net effect at a Group level is not material. This is a permanent change so will feature in APACs results going forward.

A second driver of APACs EBITDA performance was the reduction in SharkBite manufacturing activity to lower inventory. In the prior year we had built up inventories ahead of the SharkBite Max launch. The reduction in manufactured volumes led to lower manufacturing overhead recoveries and this impacted margins. So, while the first half EBITDA margin contraction was a little higher than the one-third guidance we gave previously, our guidance for the full year continues to be for APAC EBITDA margin contraction of around one-third versus the full year of FY23.

On slide nine, EMEAs net sales were down 7%. External sales were down 12% versus the 10% we noted in the first quarter. This reflects a further softening in the second quarter, specifically in the UK. UK external sales were down 9% on the pcp, with plumbing and heating sales down 6% and specialty sales down 20%. Specialty sales include water filtration and drinks dispense products, as well as products for telecommunications and automotive. These products are tied to broader economic activity, which was weak for the half. It was a similar picture in continental Europe where the majority of sales are in water filtration and drinks dispense. We saw continued reduced demand as a result of the economic backdrop in virtually all European markets.

Despite the weaker top line, EBITDA margin in EMEA held up well at 28.8% due to tight cost management. We will continue to pursue cost savings with the aim of ensuring our cost base is aligned with volumes. The restructure we took in EMEA in the first half will help mitigate lower volumes and we will continue to look for further cost reductions in light of the current demand conditions.

On to slide 10. Talking briefly to our cash flow performance. We have had another very strong cash flow performance this half with cash generated from operations up 61% to US$152 million, and operating cash flow conversion of 121%. Net working capital was US$77 million lower versus the prior comparative period, driven by a US$52 million reduction in inventories. We have included a chart on our Americas SharkBite Inventory mix and, as you can see, first generation SharkBite now accounts for less than 20% of our total SharkBite inventories in North America. The team have done an outstanding job in managing through the complex transition to SharkBite Max and ensuring we manage down our first generation inventories.

On slide 11, you can see the reduction of US$139 million in net debt since December 31, 2022. As a result, net debt to EBITDA has declined from 2.12 times last year to 1.56 times for the 12 months ending December 31. For the full year, we have slightly lowered our CapEx forecast to a range of US$50 to US$55 million, and that's down from US$55 to US$60 million that we indicated at the start of the year. For the half year CapEx was [3.6% of sales], which is slightly below our longer term range of 4% to 6% of sales.

With that, let me hand you back to Heath.

Heath Sharp: Thanks, Andrew. On slide 12 we have outlined our new shareholder distribution policy. As we have flagged previously, our ability to frank dividends has reduced significantly due to the geographic mix of our earnings. The acquisition of Holman does not materially change this. Following a review of our policy, including consulting with many of our shareholders, we have made the changes set out here on slide 12.

We will continue to target distributing 40% to 60% of annual NPAT, but the mix will change. We now intend to distribute half of this in the form of dividends and half through on-market share buybacks. This new distribution policy will be implemented from this first half FY24 onwards. For this period we have declared a total distribution, in line with the pcps US$0.045 cents per share. Per our new approach, this yields a dividend of US$0.0225 per share. The balance will be applied to an on market share buyback of US$17.8 million. This total distribution equates to 70% of reported NPAT and 53% of adjusted NPAT.

Now turning to the outlook for FY24. On slide 13, we have summarised the guidance we have previously provided and updated as appropriate. At a Group level, we are confirming guidance for the full year. We continue to expect sales to be down by low to mid-single digits compared with FY23. We are continuing to target stable EBITDA margins. We expect ongoing strong cash generation, with a cash conversion rate in excess of 90% for the second half.

For the Americas, we have upgraded our top line guidance. We now expect sales to be broadly in line with FY23 after adjusting for the closure of the Supply Smart business. As we saw in the first half, we expect the full year EBITDA margin to be higher than FY23. In Asia-Pac we continue to expect external sales to be down by low single digits in line with the first half. We expect the EBITDA margin for the full year to be around one-third lower than FY23. This is consistent with our previous guidance and an improvement on the first half for the reasons Andrew outlined.

In EMEA, we expect full year external sales to be down by low double digits on FY23, consistent with the run rate we recorded in the first half of this year. This is slightly lower than our previous guidance, which was for external sales to be down by high single digits. This reflects the further deterioration in market conditions, particularly in the UK. EBITDA margins are expected to be lower than FY23 but, as we have mentioned, we have taken action to better match our costs with the volumes we are seeing.

Finally, before I turn to the Holman acquisition, I would like to confirm our focus for the balance of FY24. Of course, our people will always be at the forefront of our thinking, particularly in relation to safety. Nobody deserves to go home less healthy than when they arrived at work. Everyone safe, every day. We will continue to invest in our people and we will continue to progress our ESG actions.

We are now at exactly four years since COVID first affected our business. This has been a tremendously challenging period with ongoing unexpected external impacts. Our focus during this time has been on day-to-day execution and it has served us well. This execution capability gives us confidence that we can deliver on the programs noted here.

We have rebased the EMEA cost structure and we are actioning our continuous improvement initiatives in all regions. This will augment our profitability. We will also maintain our focus on working capital management to deliver another strong cash result.

Of course, growth activities remain tremendously important for RWC. SharkBite Max and PEX-a are at the centre of these plans, but we will also continue to deliver on a myriad of smaller projects. These ongoing product enhancements and range extensions are the backbone of our above market growth and will continue and we are certainly also working on the next major initiatives for future years.

Of course, we now have the Holman acquisition to complete, ready to provide multiple additional growth avenues. Overall, our goal is to ensure that we continue to make progress on strengthening the business and our product offering while also pursuing efficiency and cost management initiatives. This will ensure that we are well placed to benefit from the upswing in demand as economic conditions improve.

So that completes our review of our first half performance. I would like to now briefly discuss the acquisition of Holman Industries that we announced last week. On slide 15 we are set out the overview of the Holman acquisition. I won't dive too deeply into the detail but just cover off the key points here today.

The purchase price is AU$160 million, which represents a multiple of seven times EBITDA of AU$22.9 million for the 12 months ended December. We expect this acquisition will be EPS and ROCE accretive from the first full year of ownership. That is FY25. We will use existing borrowing facilities to fully fund the acquisition. As we indicated last week, this increase will result in a proforma leverage ratio of 1.9 times net debt to EBITDA. This is comfortably within our target leverage range of 1.5 to 2.5 times.

Holman's revenues for the last 12 months were AU$192 million. Combining Holman with RWC will essentially double our external revenues for the APAC segment. Holman's complementary product range will effectively double the size of our target addressable market in Australia.

On slide 16 we have set out the strategic drivers for the acquisition. We really are excited by the opportunity to add Holman to our Asia-Pac business. It will provide us with multiple additional levers for growth going forward. The primary driver for us will be Holman's range of water out, drain waste and vent products.

Holman have established a strong market position in the water out part of the plumbing market. This has been a part of the market that RWC has been looking to enter in each of our regions. In residential repair and remodel, residential new construction and commercial construction water out and water in are closely coupled elements of the same plumbing market.

Adding the Holman product suite to our existing portfolio in the Australian market will create significant opportunity. We will be looking to expand the penetration of Holman plumbing products across our broader combined distribution footprint.

The second major driver for us will be the diversification of our channel mix in Australia. Holman has a tremendously strong position within retail distribution in Australia. By comparison, RWC is largely centred around wholesale plumbing distribution. Holman has a formidable reputation for operational excellence in servicing the retail sector.

For those who want to touch and see for themselves I would encourage you to walk the aisles of any Bunnings store. You will see the breadth of product offering and the in-store presence that Holman has built over the last 20 plus years.

We have met with the Holman management team as part of the due diligence process. There is a great culture and a real depth of talent in the business that we will be able to harness. We are really pleased that the founder, Wally Edwards, is going to remain involved for the next two years as we combine our businesses.

So I'll stop at that point and open up the call to questions both on the half year results and Holman. We will take questions first from those on the conference call and then Phil will convey any questions that have come in via the webcast. Thank you.

Operator: Thank you. As a reminder, to ask a question please press star 11 on your telephone and wait for your name to be announced. To withdraw your question please press star 11 again. One moment please for our first question. Your first question comes from the line of Lee Power with UBS.

Lee Power: (UBS, Analyst) Morning, team. Heath, can you maybe just talk a little bit about the focus of the big box channel in the US just about pricing as we go into the second half? Obviously you've done quite well on the new products side. But I guess everyone here reports around potential price deflation and the focus of big box. Is that something that we should think about or is it just solely linked to raw material inputs?

Heath Sharp: Look, there's a couple of major aspects. We've talked, Lee, previously about the freight and the shipping, and some of those charges were surcharges that have come off. When we get to the primary driver of our costs though, as you pointed out is the commodities, at the moment our pricing is pretty much exactly aligned with the commodity pricing at the moment. Andrew noted that in his presentation. You will recall there was a period where we were absorbing some of those costs that were a little bit higher than the pricing, but at the moment it feels well aligned.

Lee Power: (UBS, Analyst) Perfect. Then maybe just on Europe and the UK specifically, how far below normal - as you said, it's gone from - COVID we're a long way past but we had before that Brexit and we've got a regional dispute in there as well. How far below normal volumes do you think we are, one, and then, two, they have obviously been pretty messy results for a while. Do you think there's anything else going on in the result as far as you can see around share changes or anything else that you've noticed over the last 12 months?

Heath Sharp: Certainly that volume has come off a lot, Lee, with an overall double digit revenue decline and, as you know, there's been some pricing in there. That points to a volume decline that's even greater than that. We have done quite a bit of work comparing where we're at to our peers and taking a whole lot of feedback.

It's certainly a valid question to ask about share position. We don't believe we've lost share, but I think it's fair to say we're not complacent at all on that issue and we're looking really closely at where we're at and very focused on meeting our customers' expectations, which is the best way we can protect that share under the current environment.

Lee Power: (UBS, Analyst) Perfect. Thank you. I might leave it there. Thanks.

Operator: Thank you. One moment please for our next question. Your next question comes from the line of Peter Steyn with Macquarie.

Peter Steyn: (Macquarie, Analyst) Hi, Heath and Andrew. Thanks very much for your time. Appreciate it. Andrew, just a quick question around the cashflow performance and particularly that inventory position. Clearly you expected a lot of it with the transition to Max, but can you give us a sense of whether you're comfortable with that as a sustainable position on a go-forward basis?

Andrew Johnson: Thanks, Peter. We do feel like as we go through this second half that cash conversion will be thereabouts 90%, which is historically where we've tried to target, maybe a little bit better, and that is a sustainable level. We do expect to continue to work on inventories and there could possibly be some further reductions if we're successful with that. But generally speaking, where we ended the first half is a level we feel like we can sustain.

Peter Steyn: (Macquarie, Analyst) Then just to further expand on Max's benefits, Heath, could you comment on any sense of an uplift in penetration trends under Max from a sales cadence point of view and what you're seeing there?

Heath Sharp: Thanks, Peter. I don't believe it has had a particularly dramatic impact in the results, any penetration increase. As you know, a really good year for push to connect the penetration might increase by a point overall into the market. So the ability of SharkBite Max to change that significantly, it just isn't going to change that significantly. It might improve it a little bit but it's not really going to come through in the results.

I think what is quite important about SharkBite Max is that we're getting the additional value that we saw in the product before we launched it. We're seeing that value be realised for ourselves and, importantly, for our distributors, and that is being accepted by the end users based on them getting a better product that is simpler and easy to use. So the rationale for doing it in the first place has been proven. We think it will incrementally improve the penetration, but it's not going to double it overnight or change a 1% to a 2% penetration.

Peter Steyn: (Macquarie, Analyst) Perfect. I'll leave it there. I was tempted to sneak a last one in, but I won't. Thanks.

Heath Sharp: Thanks, Peter.

Operator: Thank you. One moment please for our next question. Your next question comes from the line of Daniel Kang with CLSA.

Daniel Kang: (CLSA, Analyst) Good morning, everyone. I just wanted to ask in terms of your guidance, it does imply that there's a slight improvement in terms of your outlook. You were previously looking for low to mid-single digit decline. Now you're looking for low single digit decline. What are the drivers behind that? Is that performance of North America?

Heath Sharp: I thought we were guiding to that being unchanged. So previously, we did say low to mid-single digits and I think we're at that same point. I think where we have changed is that the Americas we thought were pointing to low single digits down. We think the Americas will be in line with '23. So a slight improvement there and of course a slight weakening in EMEA.

But at a consolidated level, it should bring us to about the same position.

Daniel Kang: (CLSA, Analyst) Okay, thanks, Heath. Just in terms of your guidance for the full year for stable operating margins, it does imply that the second half is going to show some improvement on the first half. Is that likely to be driven by the cost savings coming through?

Andrew Johnson: Hi, Daniel, this is Andrew. I think cost savings will be the primary driver of the improvement. I think we also expect, as you would typically see in our second half, that volumes will be a bit of a tail wind as well which will help out. But those are the two main drivers.

Daniel Kang: (CLSA, Analyst) Thanks, Andrew. I'll leave it there.

Operator: Thank you.

Heath Sharp: Thanks, Daniel.

Operator: One moment please for our next question. Our next question comes from the line of Harry Saunders with E&P.

Harry Saunders: (E&P, Analyst) Morning, guys. Thanks for taking my questions. Firstly, just one thing on margin profile into the second half and then into FY25. Given the stronger first half margins than you perhaps guided to, given it's pretty much in line with PCP rather than lower, but sort of the unchanged flat full year margin guidance, just wondering I guess the nuances there.

Should the full year be all else equal a bit better than you previously thought, albeit sort of still broadly unchanged? You talked about various one offs in the first half previously, like new product introduction costs, so just wondering if that profile still ramps up in considerably in the second half? Thanks.

Andrew Johnson: Hey, Harry. No, when we talked about margins dropping in the first half, we really referred to that being driven by three things. One was the lower volume that we expected to see in the business. Secondly was the under recoveries driven by lowering inventory.

The third thing was the startup cost related to SharkBite Max, as we started into those later phases that had a broader SKU range and we expected that to bring efficiencies down a little bit in Cullman. I think all three of those things did impact the first half margin, however, SharkBite startup costs were a little bit lower than what we anticipated and I think that we got ahead of cost management initiatives a little bit better than what we expected. So that was able to offset that margin reduction that we expected.

I think as you look for the - as the margins progress in the second half and you look for the full year, last year we ended the year with EBITDA margins right at 22%. That still should be what you're thinking in terms of how we finish the year.

Harry Saunders: (E&P, Analyst) Great, thank you. One other question. Just if you could give a bit more colour on the key business lines in EMEA outside of that core UK plumbing market. Just given that they were down significantly more than that core market. Perhaps some key drivers. I appreciate you said broader macro but anything else you could point to there? Thank you.

Heath Sharp: Sure, Harry. I think when you consider our offering in EMEA, in Europe, it is almost exclusively or heavily FluidTech. So water dispense, water filtration product offering. Certainly they're more discretionary, those products. I think that's where the bigger impact has come through. Just less remodelling of offices and updating offices and commercial establishments.

When you jump across the channel to the UK, there is our core plumbing and heating market, as you notice. Which has some exposure to new construction and remodel, but primarily, it's a repair and maintenance business. That resilience held that number up better than the FluidTech number.

Then in the UK, we do have a little bit of FluidTech or speciality business there which again, is simply a more discretionary product. Underfloor heating, for example. If you're concerned about the outlook, you probably won't put underfloor heating in your backyard conservatory. So that's really the dynamic at play there.

Harry Saunders: (E&P, Analyst) Great, thank you.

Heath Sharp: Thanks, Harry.

Operator: One moment please for our next question. Our next question comes from the line of Keith Chau with MST Marquee.

Keith Chau: (MST Marquee, Analyst) Morning, Heath. Morning, Andrew. First question, just to follow up on Harry's question. I might ask it the other way, Andrew. On EBITDA margin. So clearly performance was strong in the first half. Is there anything for us to think that you might not be able to get slightly better in a stable outcome?

So maybe this is the nuance but previously with the guidance, were you thinking stable to down and now it's possible for stable to up? Even if you'd roll through those costs - costs out faster than expected and roll out SharkBite Max better than expected, you should be keeping some of those gains, shouldn't you, going into the full year?

Andrew Johnson: You know, we're certainly going to work towards achieving that, Keith. But we will definitely stay with stable margins for FY24 versus FY23. Volume is going to play a big part in that. Obviously with the EMEA volumes being down and being our strongest contributor from an EBITDA standpoint, we're watching that closely.

But all things considered, we're pretty confident with stable EBITDA margins over the prior year.

Keith Chau: (MST Marquee, Analyst) Maybe I'll follow on to that, Andrew. Your cost profile, your targeted cost savings, they've gone from $18 million to $20 million, it seems like as you look through the business, and as you've had change of leaders, you're turning the screws on cost. Period on period, you're getting some more efficiencies here, there, and everywhere through the business.

So how close to the end of the line are we for maximising the efficiencies of the business? Can you give us a sense of where that's tracking, please? Thank you.

Andrew Johnson: Sure. Look, from a continuous improvement standpoint, you never really hit the end of that road, right? It's just something that, from a business perspective, you need to constantly be looking to improve and drive efficiencies.

So you're never going to hear me say that I feel like we're at the end of that in terms of what we might be able to achieve. I think we will have a good year from a cost out standpoint.

We will have savings that will carry over into next year. The team has done a really good job. But I think there's more to get there, Keith.

Keith Chau: (MST Marquee, Analyst) Thanks, Andrew. Just to clarify that point, when you say the carry over cost savings, if you don't explicitly cut costs from the business, what's that carry over benefit into FY25? Thank you.

Andrew Johnson: Yes. So you know, a big chunk of the achievement in this first half was carry over from last year, in the second half of last year with the Americas restructuring and some of the other initiatives that we kicked off.

We've got the new round of primarily procurement savings that we'll start to see in the second half that will carry into FY25 and think about the $5 million carry over of those initiatives that will - what we've identified that will start in FY24 that will impact as cost savings in FY25.

Keith Chau: (MST Marquee, Analyst) That's great. Thanks very much.

Heath Sharp: Thanks, Keith.

Operator: Thank you. One moment please for our next question. Our next question comes from the line of Shaurya Visen with Bank of America.

Shaurya Visen: (Bank of America, Analyst) Hi, Heath. Hi, Andrew. Thanks for taking my questions and congratulations on a very good half. Heath, first for you. Just on your revenues, right. So you're saying flat revenues for first half. Can you give us a sense of the price and volume within that?

Just secondly, on your guidance, right? You've obviously raised your guidance for North America revenue. Could you give us a sense of what's driving that? So is it the continued strength in new construction? Or is it that repair and remodel is tracking better than you had earlier expected? I had another one on cost but perhaps you comment on this first. Thank you.

Heath Sharp: Okay. I would say the results for the first half, and I think it will be similar in the second half, will be primarily volume driven. I think on page 6 of the presentation we called out the price impact in that EBITDA bridge. It certainly is not the primary driver and we don’t think that will change particularly in the second half. So it's really volume.

I would say what's changed, and I guess it's in the context of the Americas region from our initial guidance to where we landed and then our outlook for the rest of the year, I think we're quite pleased with how well some of the new product initiatives have gone.

The EZ-Flo gas connectors, for example. That was a program we had our sights on even at the time of the EZ-Flo acquisition and we've been able to execute on that which is pleasing and that helps.

But I would say that the core of the business, as has been for the last few years, is supported by the really quite resilient repair and maintenance sector which is our primary business.

Our products are used generally in smaller, less discretionary repair projects. Water heater replacement, pipe replacements if there's an issue and so on. I think that still is underpinning our result right now.

Shaurya Visen: (Bank of America, Analyst) Thanks, Heath. Andrew, next one for you, just really quickly. On your shipping costs and delays, I'm just curious to see are the Red Sea disruptions that we're seeing, does it impact you at all?

I mean my experience is that some of your volumes from the UK to APAC would be impacted as perhaps they take the Middle East route. But can you just confirm that and also roughly what percentage of your volumes go through that route. Thank you.

Heath Sharp: I…

Andrew Johnson: Go ahead.

Heath Sharp: I was going to say I don't think it's particularly disruptive from a logistics point of view. That's not a major shipping channel for us. I would think - I would say though that the knock on impact, we are seeing. Not dramatically but a little bit.

So costs have gone up again more recently. Logistics, although we're not going through the channel a whole lot, logistics generally just got a little bit more complex on shipping. So not sufficient for us to have called out in our announcement but it's taking more effort to manage that now than certainly what it was before the issues started there.

Shaurya Visen: (Bank of America, Analyst) Thanks, Heath, really helpful. Thank you.

Heath Sharp: Thanks Shaurya.

Operator: Thank you. One moment please for our next question. Our next question comes from the line of Rohan Gallagher with Jarden Group.

Rohan Gallagher: (Jarden Group, Analyst) Good morning, Heath. Good morning, Andrew. Good morning, everybody. A couple of questions have already been asked. But in respect to Supply Smart, could you just highlight the annual sales and EBIT contribution from that business that we should be backing out for go forward forecasting purposes please?

Andrew Johnson: Sure. In this financial year, in the first half, we saw approximately $9 million in sales. That number will be - there will be some come through and the second half will be lower than the $9 million, at least around $6 million or so. But it's going to be very low margins in the second half. Overall, for this year I think from an EBITDA margin perspective less than 10%. Total for the year around about $15 million, with EBITDA margin's pretty insignificant.

Rohan Gallagher: (Jarden Group, Analyst) Okay. Thank you. In terms of the medium term, obviously there's been some significant shift around your manufacturing from APAC to the Americas. I'm conscious that in the Americas you're only part way through your automation process. What sort of sustainable margins over the medium term would you be looking at given the business mix now for Americas and APAC going forward?

Heath Sharp: I would say we're really quite a long way through the automation for SharkBite Max. That part of the factory is up and running really quite well. There were some start-up costs for that that Andrew referred to, which was partly why we were forecasting a lower margin raise in the first half. I think the teams did really well to get that up and running quite quickly. I think that cost will roll off going forward, and then it's into a normal continuous improvement activity. There's always efficiencies we will go after, but by and large that's up and running really quite well right now.

Rohan Gallagher: (Jarden Group, Analyst) An extension to that, Heath, and Andrew. With respect to Europe, how would you define your fixed versus variable cost structure? Conscious of no - even a recovery in Europe, can we see that capitulate further from where it currently is?

Heath Sharp: The UK and Europe is really the toughest market, obviously, and quite difficult to know exactly where it's at. There's a lot of noise there as we try and read what's happening. I think it's fair to say our plans for the rest of the year are based on there being no recovery.

Essentially, we're planning the current run rate to continue for the half and honestly, probably the whole calendar year, so we're not seeing an uptick there. Frankly, that's the reason why we went through a restructure at the end of the half. We simply had to change the shape of that business according to the current volumes. Nothing pleasant or easy about that but it was a necessary action. Now, we think that will - even with current volumes, we'll see the benefit of that in the second half and into '25.

This a little bit comes back to Keith's question before as well, is I think we're comfortable with the structure that we have over there now. We're very cognisant of the capabilities there, what that business is good at, what they bring to the market and to us as a Group. We did not want to damage that, and we haven't.

As volumes return, and at some point they will return, I'm certainly not going to try and put a date on that, but when volumes return then we will be very, very well positioned to take advantage of that with a business that will be very streamlined and ready to rock and roll.

So, tough period for sure for the UK organisation. I'm really pleased with the way the organisation is reacting. They've come back from Christmas; they've just grabbed hold of that business and they're getting on with it. I'm very pleased with where they're at. It's a simple approach over there, it's back to basics, build the core product, deliver the core product, keep the customer content, and then move on to do the same thing the next day. There's nothing particular glamorous and there's no rocket science for that but it's just everyday execution, that's where we're at.

Operator: Thank you. One moment please for next question. Our next question comes from the line of Sam Seow with Citi.

Sam Seow: (Citi, Analyst) Morning, guys. Thanks for taking the question. Just on EMEA, I guess the sales were down 12% there, clearly a bit softer than what you were initially expecting in August. Could you perhaps talk to what changed there versus your expectations I guess in the last quarter, the year? Then on the guidance you've got double digits, which I guess implies you don't expect things to get any worse. Maybe just a couple of comments on why you think the environment has inflected there in your guidance. Thanks.

Heath Sharp: Certainly there has been a move in that volume from probably just before the start of the half, it started to soften and then it continued to soften through July, August, September. As you've identified, we are currently not projecting an increase in that volume for the second half. We're also not projecting a decrease in that volume. That seems to continue at the current run rate, certainly from our planning point of view seems to be the prudent thing to do.

As you know, Sam, those volumes are off quite a lot. At some stage you get to the point from a repair and maintenance point of view where you just need so much pipe and fittings and valves to keep the place running and it does strike me that we must be getting mighty close to that point. I'd like to think up is the direction we go from here. I just think it will be a while before we get there, but I'd qualify all that by saying it is the most difficult market for us to read at the moment.

We have spent a lot of time speaking with our customers, our invoicing customers, our distributors but also the contractors, the true users, a lot of time looking at peers, whether it be peer manufacturers or peers on the distribution side, and their numbers, trying to judge where the market's at, and it's tough right now. We are essentially projecting to continue at the run rate we left the first half from a planning point of view for second half, and frankly, I think in the first half '25, but we'll get another opportunity to review that and update you in the next months of course.

Sam Seow: (Citi, Analyst) Thanks. That's actually very helpful. Just another quick question then maybe on margin. I guess a couple of years ago you produced a margin that was probably 300 basis points higher, and you've got SharkBite Max, the cost-out, synergies from EZ-Flo which should be accretive now. It basically implies structurally if you had got to the same level of volumes you should have a higher margin than back then. Am I missing anything there? Was there any key detractors that you'd call out as to why you wouldn't get back there?

Heath Sharp: I think that's fair. The business is a better business today than what it was three years ago, there's no question, better systems, better tools, and better capability. The UK is just so frustrating. That loss of margin, as you know, that is a high-margin business, that loss of volume just is very painful. The converse of course is when the margin comes back a lot of it drops to the bottom line and we're positioned to take advantage of that.

We really do need to stop though and just reflect on what the Americas did over the last 12 months. They were in a similar position I guess to where the UK was 12 months ago in terms of volumes had come off, took some really hard decisions here, went through a restructuring, leaner, fitter business, and the benefits of that are obvious. It's not very often that you get to present a 300 basis point margin improvement, and that was the work that the team did. There's no free kicks in that. They had to execute on all of that themselves. I think that's a real indication of the capability of the business.

We talk a lot about execution but certainly we still are focused on growth activities as well. New products are the driver of our growth. We are continuing to bring through new products, we do have a business that's leaner and fitter and more capable than it was a few years ago, so when the volume comes back we are very, very well positioned to take advantage of that.

Sam Seow: (Citi, Analyst) Got it. Thanks, guys. Appreciate the colour.

Heath Sharp: Thanks, Sam.

Operator: Thank you. One moment please for our next question. Your next question comes from the line of Kai Erman with Jefferies.

Kai Erman: (Jefferies, Analyst) Hi, Heath and Andrew. Thank you for taking my questions, the first one around Holman. Could you please talk to the capital intensity and D&A of Holman compared to the existing RWC APAC business?

Heath Sharp: Sounds like a question for Andrew.

Andrew Johnson: They are a little lighter on capital than what we would typically see in that APAC business. That APAC business manufactures a lot of product not only for itself but also for the US business, so much more capital light than what we would currently have in Australia.

Kai Erman: (Jefferies, Analyst) Perfect, thank you. Then just one on capital management. Going forward do you expect to continue a 50/50 split between the dividend and buyback or will the buyback be used to top up the dividend based on where your cash and franking credits sit at the end of each half?

Andrew Johnson: I think that from where we sit today and the decisions that the Board has made, we'll continue a 50/50 split between a buyback and a dividend, but stay within - in a total distribution perspective, would stay within that 40% to 60% of NPAT, but obviously just split, as I mentioned 50% buyback and 50% dividend.

Kai Erman: (Jefferies, Analyst) Okay, perfect. Thank you. I'll pass it on then.

Heath Sharp: Thank you.

Operator: Thank you. One moment please for our next question. Your next question comes from the line of James Casey with Ord Minnett.

James Casey: (Ord Minnett, Analyst) Good morning, gents. Andrew, just a question around the effective tax rate, 17.2% around about for the half. You've guided there to 17% to 20% for the year. Is this structurally lower now, does it stay around that 20% for '25, '26 or should we expect it to return up to around that 22% level again?

Andrew Johnson: For this first half, we were approximately 5% lower from an adjusted effective tax rate perspective. Half of that is related to just the regional mix and the fact that we had lower earnings in EMEA. The other half of that comes from the fact that we have - as a result, there's lower EMEA income that's subject to US tax. From a structural perspective, of that 5% reduction I think half of that would continue going forward.

James Casey: (Ord Minnett, Analyst) Okay, so around perhaps 20% for FY25/FY26?

Andrew Johnson: Yes.

James Casey: (Ord Minnett, Analyst) Okay. Thank you.

Operator: Thank you.

Heath Sharp: Thanks, James.

Operator: One moment please for our next question. Your next question comes from the line of Harry Saunders with E&P.

Harry Saunders: (E&P, Analyst) Hi, guys. I just had a follow-up in relation to an answer you gave before. I think you said in EMEA expecting to continue at that sort of run rate of down low single digits in the second half. Then I think you made a comment frankly in the first half ‘25 too. I'm just wondering, are you talking about a further reduction, down low single digits first half of ‘25, or are you talking about effectively continuing at that run rate, so flat, quite flat.

Heath Sharp: Continuing at the run rate. The volume at which we exited the second half, to be honest, feels like a sensible volume to consider for the second half and I don't think we're bold enough to predict the point at which it turns up, which is why I made the comment about potentially rolling into first half ‘25 as well. We've got a few months to see whether that ‘25 comment is valid or not and we'll update you there, but certainly in terms of the second half you should consider it will continue at that run rate, which is why we've tweaked that guidance for the EMEA region.

Harry Saunders: (E&P, Analyst) Got it, thank you. Also just wondering on EMEA, any pricing plans there given historically you've always had an annual price rise?

Heath Sharp: We're certainly looking at that right now. We have noted that quite a few companies within the industry have moved on pricing and that would certainly be our inclination at this stage. As I said though, we are looking really closely at all the information over there to read where it's at before we make that call.

Harry Saunders: (E&P, Analyst) Thanks. Sorry, one last one if I can sneak it in, just on interest guidance. Assuming a March completion on Holman, any idea where interest guidance could land?

Andrew Johnson: Yes. In our outlook statement we've put interest, including the Holman acquisition, at $26 million to $29 million for the year.

Harry Saunders: (E&P, Analyst) Great. Thank you.

Heath Sharp: Thanks, Harry.

Operator: I'm showing no further questions on the phone lines.

Unidentified Company Representative: Heath, I've got one from online which hasn't been answered. The others have been answered. It's whether we would consider further expansion in APAC through M&A, beyond Holman.

Heath Sharp: Yes. I think the answer to that is yes. It needs to be on strategy, of course. I would say our focus right now is clearly on Holman, very, very good company that execute very well. We need to understand that business, which is what our focus is going to be on in the near term. Down the track, absolutely not excluding additional acquisitions in Australia, nor in the Americas or UK. I think at the moment the UK we're far more focused on day-to-day operations with a back-to-basics approach. I think in the Americas though certainly we're interested in acquisitions still if it's in line with strategy.

Okay. Well, I believe that's all the questions we've had coming in, so with that, we will wrap up. I would like to thank everyone for their time this morning. Thank you so much. Have a good day.

Operator: Ladies and gentlemen, thank you for participating. This does conclude today's program and you may now disconnect.

End of Transcript