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Moderator: **Phil King**

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Operator: Please stand by. Good day, everyone, and welcome to the RWC Fiscal Year 2023 First Quarter Trading Update Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Heath Sharp, Group CEO. Please go ahead, sir.

Heath Sharp: Good morning everyone, and welcome to RWC's FY23 First Quarter Trading Update, which we've just announced to the market. This is Heath Sharp. And with me here in Melbourne is our CFO, Andrew Johnson. First up, I'd just like to apologize for the difficulties in connecting this morning. Made us a few minutes late, but hopefully, everyone's now on and we're good to go.

So we will start by making some brief comments on the first quarter. We will then open for questions from those joining via the conference call, followed by those on the webcast. On slide three of our presentation, we have a summary of our first quarter performance. The headline is net sales growth of 23% for the quarter, which included a full quarter of EZ-FLO. During the period, US dollar strength against most other currencies, including the British pound and the Australian dollar adversely impacted reported sales. On a constant currency basis, sales growth was 28%, excluding EZ-FLO, constant currency sales growth was 6%.

Having previously provided information with respect to July and August, the most relevant data points relate to September trading. We would note that we've continued to see volatility in sales month to month and region to region throughout the quarter. In summary, the Americas in September was a little lower than we had seen in the prior two months. EMEA was a little stronger and Asia-Pacific was broadly in line. Both EMEA and Asia-Pacific recorded lower inter-company sales, which adversely impacted their operating margins.

Reported EBITDA was up 16%. This included the gain on the sale of a property in the UK of $15 million. We were able to sell the surplus property following the outsourcing of our freight logistics operations to a third party last year. We also incurred $1.4 million in costs to achieve EZ-FLO cost reduction synergies. Adjusting for these two items, EBITDA was down 4% at $53.2 million. Net debt finished the period $32.9 million lower than at 30th June, principally due to the receipts from the sale of that UK property.

I'll now hand to Andrew to step through the financials.

Andrew Johnson: Thanks, Heath, and good morning, everyone. Turning to slide four, we provided an EBITDA bridge in more detail on margin drivers for the first quarter. We knew the first quarter would see tough margin comps versus the prior year. We recorded an adjusted EBITDA margin of 21.4% in the first quarter of FY23 and that compares with a margin of 26.6% in the same period last year.

The first quarter last year saw the highest margin of the year as higher commodity cost had not fully hit the PNF. While the first quarter of FY23 we saw and expect that to be the lowest margin rate of the year where those results reflect input cost at their peak. The three major drivers of the margin percent declines were one, lower volumes. Secondly was the dilution effect of the higher prices we implemented to offset cost inflation. And lastly, it was higher SG&A cost.

As we've outlined previously, higher prices realized inflate the revenue line. But to the extent, they only offset input cost inflation, the overall effect on margin is diluted. In this quarter, this dilution impact and higher cost in our factories amounted to 240 basis points. The higher SG&A

costs reflect wage and other inflation, as well as an increase in marketing and travel expenses, which we plan to come back into the business.

We have seen a return to a more normal level of business activity after two years of COVID, which has impacted SG&A. Unfortunately, the higher spin comes at a time when volumes have softened. Given the economic forecast and potentially tougher trading conditions ahead, we will be taking a fresh look at our cost base and reinvigorating our cost reduction program to make sure that our costs remain in line with our revenues. Expect more information on our cost reduction efforts at the half.

Turning to slide five in the Americas. Net sales were up 43%, driven by the EZ-FLO contribution. Excluding EZ-FLO, net sales were up 6% for the quarter. As we have said, we expect sales volumes to remain choppy, which is what we saw in the first quarter where July and September were soft but demand in August was strong.

Subsequently, trading in the first two-thirds of October has also been strong. While there has been some noise in the market with movements and customer ordering patterns, cutting through that noise, we feel that unit volumes in the Americas are generally down mid-single digits.

FluidTech volumes were down versus the PCP and we believe that the catch-up work in commercial and hospitality following COVID has now played out in that market. We continue to execute very well in terms of order fulfillment. And we finished the quarter with our highest order fulfillment rates we've had for quite some time.

EZ-FLO had a very strong quarter with an adjusted EBITDA margin of 18.2%. This is the final period in which we will be showing EZ-FLO's EBITDA performance separately as from 1st of October, we have fully integrated EZ-FLO's reporting into the Americas and are no longer maintaining a separate P&L for the business.

While it is disappointing that volumes were down on the PCP, we are mindful of the fact that we've had two very strong years from a volume growth perspective and a small retracement, when viewed in a broader context, isn't entirely unexpected, given the challenging economic conditions.

On slide six, in APAC, we recorded further growth in external sales, and volumes in the Australian residential and new construction and remodel market were up 3% on the PCP. This was offset to some extent by lower manufactured exports to the Americas as well as higher commodity input costs.

Turning to media on slide seven, you can see they had quite a strong quarter with external sales up 7%. This was driven by 9% growth in UK external sales with plumbing and heating sales up 13%. This was certainly stronger than anticipated. Continental Europe sales were up 1%.

FluidTech volumes have leveled off after a period of strong growth. Inter-company sales in EMEA were down 24% due to lower volumes of FluidTech sold to the Americas. And this has had an impact on EBITDA outperformance along with higher input and other costs.

Now over to Heath for the outlook and closing comments.

Heath Sharp: Thanks, Andrew. Turning now to the outlook on slide eight. It is fair to say that economic conditions have deteriorated since we last presented to the market, the outcome being, frankly, that we have even less clarity around the economic outlook for most markets in which we operate. Nonetheless, we believe that our contractors' current backlog of [inaudible]. We also believe that our concentration in repair and maintenance end markets positions us well, regardless of the economic cycles.

Of course, we are cautious as to how the next nine months will play out. We are paying renewed attention to operating costs and cash generation. We are confident that we will continue to execute well in what is likely to be a challenging environment. Looking further ahead, as we presented at our Investor Day last month, we are tremendously optimistic about the opportunity ahead of us. We will continue to prudently invest in the business to ensure that we deliver on these long-term growth objectives.

So we'll conclude the presentation there and now open up to questions. Thanks.

Operator: Thank you. And we'll take our first question from Daniel Kang with CLSA.

Daniel Kang: Good morning, Heath and Andrew. My first question is just the contraction in Americas volume of mid-single digits. Do you expect this to sustain through the FY23 year? I guess my question is really on channel inventories. Just as you're looking to bring inventories back in line with sales volume, do you think your customers are similarly doing this?

Andrew Johnson: Daniel, thanks for the question. Look, trying to project what 2023 looks like is just super difficult right now. I think, as we've set out, best we can see looking through all the noise and volatility is the market in the Americas feels like it's off mid-single digits at this point in time. Now, as we set out, month-to-month volatility is certainly evident. It's been a down-up, down-up a start to the year. What next month looks like is just impossible to judge.

I think we are seeing some volatility, particularly in the channels outside of retail. We're seeing volatility in ordering patterns. And when we get into our OEMs, we're seeing volatility driven by their manufacturing plans for their own reasons. As far as inventory is concerned, look, we are obviously looking at it closely, but we're also in a period where we need to build inventory for the end of the half as we approach the winter cycle, which is our normal process.

So in some cases, we're managing to bring inventory down, in other products, inventory sort of is building as we plan. And I think the second half is going to be the major move for us from an inventory point of view. So look, there's a lot going on trying to read through all of it's really tough, trying to project that out from there is even more difficult. That's sort of the environment we're in.

Daniel Kang: Appreciate that, Heath. Just a real quick second question on the positive. A very strong margin performance at EZ-FLO, EBIT margins of over 16%. Now given costs, price moves, and further synergy benefits, I realize that you won't be reporting EZ-FLO numbers going forward, but where do you see normalized EBIT margins?

Heath Sharp: Look, we're certainly pleased with where it got to. Some months ago, we were a little behind where we'd expected to be. We put extra focus on that and have moved that into a better position. As Andrew said, though, that business is now integrated. And it's really tricky to now determine whether our actions are EZ-FLO actions or legacy RWC actions because they just overlap so much from a product and a channel and customer point of view.

But that approach that we took to EZ-FLO when we weren't comfortable, where the margins were at and where the pricing actions were at and their cost actions were at, that's the approach we take to the entirety of the business. And I think it's fair to say we've got a renewed focus on that operational executional side of the business and we'll be looking to make improvements where we can across the whole business going forward.

Daniel Kang: Thanks very much, Heath. I'll leave it there.

Heath Sharp: Thanks, Daniel.

Operator: And our next question will come from Lisa Huynh with JPMorgan.

Lisa Hunt: Hi. Morning. So just on the price rise of 7.9% in the first quarter. Can I just confirm that's equally felt across the region?

Heath Sharp: No, it's not. It's not equal across the region.

Lisa Hunt: Okay. So I guess on a year-on-year basis, have we fully cycled the impact of price rises now, in your view?

Heath Sharp: No, I don't think so, Lisa.

Lisa Hunt: Okay. Sure. And then I guess, what's the view around deflation, I guess as we enter the second half and the commodity prices start coming off?

Heath Sharp: Look, certainly we're seeing easing in a lot of areas. It's still a little bit sporadic. I think as Andrew pointed out right now with our lag, we're actually seeing essentially peak costs right now, which was certainly a driver in the margin of the first quarter. And we expect that to improve through the rest of the year. I don't want to get too far ahead of ourselves on inflation.

We thought this time last year, we were through it and then a war broke out and whatever else has happened. So our mindset today is you deal with what's in front of you on any given day. You focus on execution and you get to do it all again tomorrow. I'm sure that's an unsatisfactory answer, but that's the reality of the last couple of years, really.

Lisa Hunt: Sure. I understand, Heath. I appreciate the answer. And I guess the UK is still quite strong. Is there anything you can put this down to just given the anecdotes we've heard out of that region?

Heath Sharp: Look, not particularly. We were certainly pleased with how that market's continued through July, August, September. We continue to watch it. I think it's fair to say October has felt a little bit softer in both mainland Europe and also the UK. How that tracks through the rest of the month and then going forward is hard to know. I don't think there's anything specifically over there, although again, I'd point to the fact that a lot of our product is used in repair and maintenance, which is at the less discretionary end of the spectrum that no doubt helps us there as it does in the Americas.

Lisa Hunt: Okay. Sure. Thanks. I'll leave it there. Thanks, Heath.

Heath Sharp: Thanks, Lisa.

Operator: Our next question will come from Brook Campbell-Crawford with Barrenjoey.

Brook Campbell-Crawford: Yeah. Thanks for taking my question. Just one on seasonality. Are you able to help us a bit with the 1Q into 2Q seasonality? If we focus on group EBIT, historically, the first quarter has been ahead of the second quarter but I take your point around margins. So any colour around if current demand trends persist and what we might see in terms of 1Q, 2Q split at group EBIT for FY23?

Heath Sharp: Look, I might jump in to start with. I guess my view is sitting here is our historical seasonality went out the window a couple of years ago with COVID. We were looking yesterday region by region at what the profile has been and some regions and some product groups were down while others were just absolutely bursting through the roof.

And then 12 months later it had gone the other way. So for me, it feels like our traditional seasonality is out the window. I guess I'd throw to Andrew in terms of what we see this year playing out based on our cost basis in particular.

Andrew Johnson: Yeah, Brook, I would say, historically, and use historically in quotation marks, the first quarter of our financial year is not going to be the strongest quarter of the year. You've got the summertime vacations that certainly impacts EMEA. But also in the US, that second quarter, we see a lot of customers typically preparing for winter just like we are.

And sometimes in some years, you can get what we call a freeze load-in in the second quarter. And that's historically what we've seen. I agree with Heath, this year it feels like you can kind of set that aside and you won't see those normal patterns this year. It just doesn't feel to me that we'll see that.

Brook Campbell-Crawford: Okay. Thanks. So just to clarify, is there a view on 1Q to 2Q split this year or is it just too difficult to say at this point?

Andrew Johnson: I think it's too difficult to say.

Brook Campbell-Crawford: Yeah. Okay, that's fair enough. Just one, Andrew, for you. Just on margins, the commentary over the last 12 months has be ex EZ-FLO EBITDA margin range of 24 to 26 [percent]. And that was a target anyway for the fourth quarter 2022 and landed in around the bottom of that range due to a new target perhaps for that metric going forward, bearing in mind we effectively won't be able to back it out ourselves. But within the business, do you have a view on what that range could look like going forward in what you're targeting?

Andrew Johnson: Brooke, I do have a view, but I'm not going to share that on the call. I think that we'll hold that one.

Brook Campbell-Crawford: Yeah. Okay, that's fair enough. One last one for me if I can. But back in August, the commentary was for a 2% price increase in FY23 based on just what had already been announced and until August. And effectively you've done 7.6% in the first quarter. So just want to reconfirm that 2% in FY23 is still the right number, or is there a revision to that on what you expect the roll-through from price increases today it's going to be in FY23?

Andrew Johnson: I may bump that up a little bit to around the 3% range. I will say, if you recall last year, the business had very little price coming through in the first quarter of last year. And based on those margins, we had relatively little commodity inflation coming through last year. So that's 7.9% year over year, that's going to decline in the following quarters as we start comping over periods last year with higher price than what we saw in the first quarter.

Brook Campbell-Crawford: That's helpful. Thank you for that.

Heath Sharp: Thanks, Brook

Operator: And our next question will come from Simon Thackray with Jefferies.

Simon Thackray: Hi, Heath. Hi, Andrew. Thanks for taking the questions. Three quickies. Just Ningbo noting your comments that US inventory is supporting sales for now and you expect Ningbo to reopen, I think you said at the end of this week. How long can US inventory support sales if we do see this extended lockdown in China?

Heath Sharp: Yeah, that's a great question and quite a frustrating situation is if we can get moving again this week, or look, if we have the rest of this week down and even if the rest of next week was down, I think we're in an okay spot. Beyond that, we'll then have to scramble a little bit, frankly. And look, that's not across the board. That'll be particular containers that cause pain for a particular customer or a particular product group across a lot of customers. So I think we've still got a couple of weeks there where we'll be okay if it stretches beyond that. If we get into four weeks of shutdown, that's a scramble.

Simon Thackray: Got it. Got it. So there's a sensitivity there the longer that goes on in terms of the EM, the sales.

Heath Sharp: Just in terms of – sure. Sure. Look, it's like any business. The inventory, as we all know, is pretty robust, but there's always some key items in there that you need today. And if that happens to be the one you haven't got because the ship is delayed or you weren't able to ship, then it can have a big impact. If it's other time, you can sail through for three weeks or four weeks just depending on. That's kind of been our supply chain environment for the last 12 months or so.

Simon Thackray: Okay, Heath. And this probably links to a question for Andrew then. You made the comment that we go into the winter build for inventory, so we need to build inventory in this quarter. If that's the case with a potential risk around Ningbo, I'm not sure what happens to the balance sheet.

And then as an adjunct to that, the extent of the inventory build and then what it means for the syndicated drawn debt where you've got the variable rate applying. And Andrew, just that the extent to which you've seen that rate increase in the September quarter and what it's looking like in the December quarter for the syndicated debt.

Andrew Johnson: Yeah. There was a lot in that.

Heath Sharp: Sorry, Andrew.

Andrew Johnson: That's all right. As Heath said, in the first half of any year but I think it's also the case in this year, we're going to make sure that we've got an appropriate quantity of our core Shark Bite push to connect fittings that sell through during a freeze activity. And so like every year, we're making sure that we're going to have adequate stocks, our customers will have adequate stocks heading into that January timeframe.

So don't expect an inventory reduction in this first half. Didn't see it in the first quarter. Probably not going to see it in the second quarter. You will see inventory unwind in the second half of FY23. And we are keenly focused on that. I have the regional CEOs and the regional CFOs very focused on those targets, and I feel pretty good that we're making momentum. But I will say it's taken us a little longer than expected to get that ship turned, but I expect that ship to turn in the second half of FY23.

In terms of our interest rate that we're seeing, if you recall with our USPP debt that we placed last year, roughly 45% of our drawn debt is fixed. And with the increase in rates now that fixed rate is a little bit lower than what we're paying on the variable side. So we have seen an increase in the cost of debt over this quarter for our guidance.

Simon Thackray: Got it. Yeah, yeah, I saw that in the guidance. And expect that goes I guess is a slight lag in that. So that goes higher again second quarter and potentially a higher third quarter. Yeah.

Andrew Johnson: Potentially.

Simon Thackray: And then just quickly, then when we're talking about things moving parts, raw materials, relief. Now, we've all been observing falling non-ferrous commodity prices, and your comment about what's in stock and to be sold forward giving margin relief. Just to be clear, is that on a raw materials basis, is that a third-quarter event or a fourth-quarter event more likely in your view?

Andrew Johnson: So based on what we can see in terms of the inventory valuation that's on our books today, you'll see slight relief in the second quarter, but you'll really start to see it in the third quarter of this financial year. And it will continue through from the third to the fourth.

Simon Thackray: Excellent. All right, that's it for me. Thanks, gentlemen.

Heath Sharp: Thanks, Simon.

Andrew Johnson: Thanks.

Operator: And our next question comes from Keith Chau with MST Marquee.

Keith Chau: Good morning, Heath and Andrew. Andrew, perhaps the first question for you, trying to understand cash conversion in the quarter. If you look at the change in net debt ex the property sale, I think gives up around $7.7 million. There was a $40 million dividend in there as well. So excluding dividends, it looks like cash conversion was around the 70 to 80% mark.

Can you confirm that my maths are correct and what you're targeting for cash conversion for the full year? I would have thought if you are reducing inventory levels, perhaps your cash conversion for the full year could get into the 90% range.

Andrew Johnson: Yeah. To remind you, we did pay a dividend in the fourth quarter. Look, Keith, I'm going to stick with what we've said around cash conversion, and that is cash conversion will improve in FY23 over FY22 for the full year when you'll see that improvement primarily in the second half of FY23.

Keith Chau: And are you able to give us a bit of a steer as to what it could improve to? Just noting that operating cash conversion in FY22 was pretty low at 52%, so an improvement should be expected. But if you can help us quantify what the improvement could be, that would be useful. Thank you.

Andrew Johnson: Keith, I'm not going to give guidance on cash conversion other than to say that we feel like on a full-year basis it will improve.

Keith Chau: Okay. Second question, and another one for you, Andrew. Lower inter-company sales and reduction of inventory in the second half. If that continues to persist, can you isolate the potential margin impact from production scheduling on the business as you reduce inventories?

I suspect your fixed cost recovery is going to be lower and if your inter-company sales are lower as well, then it will have an impact as well. So are you able to break down what you think could be the potential impact from that initiative going into the second half?

Andrew Johnson: So lower production volumes will have a drag on margins. We did see a little bit of that in the first quarter and you'll continue to see that until we get inventories right size. It's just part of it. It's unavoidable but it's the right thing to do. And that's what we're currently planning. Hard to really give an estimate there, Keith. I just don't think there's guidance that I can give you on that.

Keith Chau: No, that's fair. I guess perhaps maybe just to confirm the overarching theme that margins are going to improve through the balance of the year, I guess ultimately means that your cost recovery through price should be more than enough to offset whatever production impacts you have going through the balance of FY23.

Andrew Johnson: The cost recoveries of inflation through price, as well as our cost reduction efforts, should drive margin improvement.

Keith Chau: And Andrew, do you have a sense of the size and scope of your cost-help program? I know you mentioned that in the formal release today. Be good to try and understand the quantum of those benefits as possible.

Andrew Johnson: Yeah, Keith, we certainly have targets that we've assigned to the regions and are chasing those pretty hard. But really, I can't comment on those right now. And as we said in the release, we will have more to share when we get together in February and discuss the half.

Keith Chau: Okay. Thanks, Andrew. And just one for Heath. I know you're probably going to hate me for asking you this question, but it's the I guess, the outcome of monthly sales reporting. But the discussion is that October sales were better or stronger than September. So it feels to me that if you combined September and October together, it's not going to be down that mid-single digit level, which has been discussed about for the rest of the year. I know at this point in time, it is a bit of a guess, but I'm just wondering if you can help us understand how tricky it is actually to dictate forward volumes.

The other point that I'd raise is underlying demand based on point of sales data is stable. But to rely on, the volumes are net down. So there's something in there that suggests to me that the outlook is very tricky. So the mid-single digits, how much do you believe in that number going forward?

Heath Sharp: Yeah. Yeah. I'm glad you recognized that you're getting monthly updates at the moment and gaining great visibility into our business. And look, what I'd say, first of all, is month-to-month volatility is not unusual. It's what we deal with all the time. I think it's certainly more volatile now than normal but for a variety of reasons for our channel partners, their ordering patterns for their own internal purposes. The way our OEMs plan their manufacturing, they all make their own decisions for their own reasons. And then we have to deal with it. That's normal.

I think it is a little more volatile now than traditionally. So as you noted, we do spend a lot of time looking at that point of sales data. We think it is the best indication of the true demand for our product. And it is the least volatile of all the data we get because it's closer to the market. Every other bit of data we get essentially is the order on our books, which has got human intervention, system intervention, algorithms, planning processes, minimum balances, life sizes, all of that can influence those order quantities.

So the real truth or the closest to the truth is that point of sales data. And it has been pretty steady. I think it's fair to say that did soften that retail point of sales data towards the end of September. We haven't gone in and analyzed closely what's happening through this month, but it does feel overall like the orders we're receiving picked up in October. So we'll need to cross checks at that point of sales data.

But the reality is, Keith, although we look at that point of sales data, we still have to deal with and ship to all our other channels with all that volatility. And that's what's driven our result for the quarter or part of the results for the quarter. So if you try and mix that all to – and FluidTech, I'd call out FluidTech in the US certainly softened as the quarter went on.

You put all that together, you mix it up. It just feels that at the moment perhaps conservative, but I think that's sensible way to think about the volume is down mid-single digits. With the price increases in the Americas, that then feels like revenue's up mid-single digits or in really round numbers.

That's how it feels today. And look, at the end of next week and the end of next month, we'll probably have a different view. That's the world we're in right now. But it does come back to how you plan for that. You end up talking about inventory again, don't you? That's always been the reality of our business. And I think even more so right now. So a lot to juggle. But that's just our industry right now, I think.

Keith Chau: Thanks for the comments, Heath. Thanks, Andrew. Appreciate your time.

Heath Sharp: Thanks.

Andrew Johnson: Thanks, Keith.

Operator: And once again, if you'd like to signal for a question, press star one. We'll now hear from Peter Wilson with Credit Suisse.

Peter Wilson: Morning. Thank you. I also wanted to just follow up that question on internal sales. And I think what I want to understand is that the rate of decline in internal sales or the volumes as we progress through the year, do you expect them to be higher or lower than the first quarter? And perhaps partly you can answer that by giving us some explanation for the decline in the first quarter.

Heath Sharp: Look, what happens through the rest of the year is really tough to project a lot of the first quarter I think there's no question on the macro environment, the move in interest rates, all the normal stuff that a whole lot more about than [inaudible] is driving what's happening in the marketplace. But I think we're also at a really interesting position where we're coming out of a really challenging supply chain period.

And I think there's been an element of for a while now, if you cannot get a part or if it's going to be late and you need three of them, well, your response is, well, I'll order six because I can't get three ordering more must be the answer. And then one day you get six, you only need three, but you get six and then you've got to deal with it. And I think we're seeing some of that sort of noise flowing through, particularly on the OEM side of our business.

So there's a lot of factors at play that I think have driven the first quarter number and I hadn't pinned any of those down, which frankly makes it really tough to try and project what the rest of this quarter will be or certainly the second half of the year. And look, is that an unsatisfactory answer for you? I'm positive it is. It's just really hard for me to offer any more than that definitively.

Peter Wilson: I guess what I was getting at is that like internal sales, the internal sales appear to have declined more than America's external sales. So was there any kind of one-off readjustment or something like that that won't recur in the latter half of the year?

Heath Sharp: Okay. So look, and I'd probably answering more generally there if we specifically jump on internal sales, and my apologies if I missed that. That inter-company sales we do have a little bit more control over. And I think that's part of our thinking in relation to managing our inventory. So that's been an objective. I think the frustrating part of that is there's a lot of FluidTech in that from the UK to the to the US and to Asia-Pacific and then those markets have come off.

So even though we have bought the inventory or lowered our production, they're trying to bring inventory down. The inventory hasn't come down because the volume is falling even at the same rate or even more. But that's a little more under our control in terms of how much inventory we've got, where in the world. But look, ultimately, we're still at the mercy of what the market does. And that particular sector is at the more discretionary end of the spectrum, of course.

Andrew Johnson: So I'll just say that you have to distinguish when we say inter-company sales, you have to distinguish between there's two big buckets. It's the FluidTech product that the UK sells to the US. That is down significantly. That's down, I said 24%. That pretty much matches what the Americas has seen in the marketplace. From an inter-company sales from Australia to the US, it's not so much that it's low this year is that it was high last year, but even then we're only talking about it being off about 10%. So not nearly to the extent that the FluidTech product is off.

Peter Wilson: Okay, That's helpful. Thank you. And one last one on cost. So other than copper costs, can you give us some commentary on how the other major buckets might be fairing, your other commodities like resins and things like freight?

Andrew Johnson: Yes. So when we talk about copper, you also have to talk about zinc because our brass formula is about 30% zinc. Zinc has increased significantly quarter over quarter. So Q1 last year versus Q1 this year. You put those two together in our formula and brass costs are up about 25% Q1 versus Q1. And look, I can go through the next highest increasing commodity is resins, and of course, we use quite a bit of resins in the business.

Freight cost, although the spot rates have come off, we're still cycling through higher freight rates that we capitalize in inventory. We haven't seen that benefit yet, just like on the commodities, but we would expect to start seeing that towards the end of the second quarter and into the third quarter.

Peter Wilson: Okay. Good. I'll leave it there. Thank you.

Heath Sharp: Thank you, Peter.

Operator: And our next question will come from Peter Steyn with Macquarie.

Peter Stein: Morning Heath and Andrew, thanks very much. I had a related question to Pete's, just in terms of the segregation of product performance in North America. Clearly, FluidTech was a very big contributor, albeit a small component of sales to that mid-single digit. But then outside of what you mentioned on retail, could you just give us a bit of a sense of what you're seeing in the rest of the product relative to that mid-single-digit experience in Americas?

Heath Sharp: Yeah. Look, and we haven't called out the specifics by channel or by product. There's a bit of variability there. I think though most variability that we're seeing right now is not really product specific, it's more nuanced related to a particular customer and where they're at with their order profiles or a manufacturer and where their volume is at.

So I think it's very difficult to say that particular product groups or areas that are outperforming. I think the noise within the channels and the customer is bigger than that. But there's no question that the retail channel for us has been the least volatile. FluidTech is at the other end or the other channels and all the products within those channels had fallen in the middle there.

Peter Stein: So on balance, everything has come off a touch as opposed to anything printing an improvement in Americas.

Heath Sharp: I think that's fair. I think that's fair. The only one that we really think that was worth calling out specifically was the FluidTech.

Peter Stein: Thanks, Heath. And then just coming back to the price conversation just very briefly, as well as cost and what you're seeing from a price perspective. Would you expect that by the end of FY23 there'd be a degree of deflation in your prices as a consequence of price costs coming off on balance? Or do you think that you'd still be passing slight price increases through to your channel partners?

Heath Sharp: It seems like a long way away because I wonder what tomorrow looks like. And look, that question is such a challenging one when you look at the numbers we've just reported where we've got peak costs, the idea of having conversations about pricing right now is just can't get my head around it. Look, at this point, I think the prices are at the right level for what we think the run rates are for commodities. As the year unfolds, we'll deal with what we have to deal with.

Look, obviously, we can't and won't get into specific customer conversations, but at this point, it all feels like it's the right level. Over the last 12 months, we've been very focused on retaining our gross margin dollars. As costs went up, we tried to offset it with the appropriate amount of cost to keep that gross margin dollar constant.

Now, that's had a negative impact on the margin rate, but we were focused on the gross margin dollars. If costs come down, then we'd have the same approach going the other direction is making sure we maintain those gross margin dollars. But at this point, it's a quarter where that whole idea of pricing discussion just is kind of hard to imagine. We'll see how the year plays out, I guess.

Peter Stein: Sure. Thanks, Heath. Appreciate it. Thanks, gents.

Heath Sharp: Thank you, Peter.

Operator: Yes. And we will take that question now from Sam Seow with Citi.

Sam Seow: Morning, Heath and Andrew, thanks for staying on the line for more questions. I just wanted to talk about that margin slide on page four. I guess as we look forward, the comps get easier from here, would you expect that you could keep in line with the prior year given now the high cost from here now in the comp, essentially?

Heath Sharp: Referring to the chart on page four?

Andrew Johnson: Yeah, Sam, that would sound a lot like margin guidance if we answered that question and we're not going to give margin guidance.

Sam Neill: Okay. And then maybe then another way to ask it is could you perhaps talk to what you think on that chart might reverse through the year?

Andrew Johnson: Well, for sure, we would hope that the commodity inflation that we're seeing in the P&L would start to subside as we've sold through the higher cost product and we start to sell through the product that was manufactured with when commodity rates were a little lower. That's certainly something we would expect to go the other way. And quite frankly, I don't like to see that increase in SG&A and I want to see that number unwind.

Sam Neill: Got it. Got it. That's the 240 in the 115.

Andrew Johnson: Yeah.

Sam Neill: Cool. And then just quickly, I think in a prior presentation in the first quarter, it showed a weak 1Q UK comp in the prior period, which looks to be backed up by, I guess, the industry merchant data. Any chance you could help us quantify that to understand, I guess, what the true UK performance you delivered is?

Heath Sharp: Sam, just looking at the chart you referred to there.

Sam Neill: I think it's in the third quarter. Sorry. In the third quarter last year, you showed a chart that had a dip in first quarter UK comps. And I just kind of want to understand you've obviously delivered a strong UK number. Just trying to understand what impact the weak comp had.

Heath Sharp: Yeah. So if we compare what we're shifting versus the overall market, it was in line until the end of the year. We obviously know what we've shipped now these three months and it's been sort of roughly in line with the price movement. It deviated a whole lot. We have not yet received the data or been able to pull out the data on what the market has.

So I can't really comment on what it's doing, but it doesn't strike me that the markets were doing dramatically better than the market right now. I'd have to go back and look specifically at that chart. I haven't got it in front of me that you're referring to, to comment on any variations period on period.

Sam Neill: Okay. No, thanks. I appreciate the tough environment. So yeah, appreciate the color. Thanks for that, guys.

Heath Sharp: Okay. Thanks. Thanks, Sam. Okay, everyone, look, I appreciate your time this morning. Thank you very much. And we look forward to speaking again in February next year. Thank you.

Operator: And that does conclude today's conference call. Once again, thanks, everyone, for joining us. You may now disconnect.