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Conference Title: **RWC Full Year Earnings Call**

Moderator: **Phil King**

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Operator: Good day, and welcome to the RWC Full Year's Earnings Call Conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Heath Sharp, the Group CEO. Please go ahead, sir.

Heath Sharp: Good morning, everyone, and welcome to RWC's FY'22 full year earnings call. This is Heath Sharp, and joining me today is Andrew Johnson, our Chief Financial Officer.

We are pleased to be here in Melbourne, Australia, presenting our results for the first time in 2.5 years. Once we've made our remarks, we will take questions from those joining via the conference call followed by those on the webcast.

Let's start on slide four and reflect on our financial performance for the year. At the start of the year, there were three big questions for FY'22. First, could we achieve the pricing outcomes which would fully offset inflation? Could we build on the strong step-up in growth we saw in '21, particularly in the Americas? And three, could we execute, given the supply chain challenges and ongoing disruption due to COVID?

I believe we have delivered emphatic results to all three questions with our results today. We experienced significant commodity and other cost inflation during the year, but we were able to fully offset this through price increases across our markets. We were also, able to consolidate and build on the step-up in volumes we experienced in FY'21. This was especially the case in the Americas.

We delivered 15% underlying sales growth on top of FY'21, excluding EZ-FLO and adjusting for the US freeze. Australia also, saw continued growth, driven by both residential new construction and repair and remodel activity. EMEA was more mixed.

UK volumes were lower against a very strong comp in the prior period. By comparison, Continental Europe saw strong volume growth in FY'22. We will cover each of the regions in more detail later in the presentation.

From an operational perspective, FY'22 undoubtedly presented significant challenges. Our execution focus allowed us to manage our way through these difficulties extremely well. Our ability to minimize disruption to our channel partners despite shipping and logistical challenges stands up in good stead for the future.

During the year, we completed the acquisitions of EZ-FLO and LCL. All credit must go to our team for the way in which they've achieved the integration of those businesses into RWC. We also, successfully commissioned our new distribution center in Cullman. In the UK, we completed the upgrading of our freight and logistics activities via a third-party logistics partner.

Now turning to slide five and our financial highlights. Net sales were $1.17 billion, 15% higher than the prior period. If we adjust for EZ-FLO, sales were up 5% overall. Adjusted EBITDA was 3% higher. A couple of items to note here. First, FY'21 EBITDA received a significant benefit from the volume uplift due to the US winter freeze. And second, the top line during the FY'22 year was boosted by the price rises implemented during the year. These largely provided only a direct offset to our cost increases, and thus did not increment gross margin dollars achieved.

Adjusted NPAT was up 2%. We've outlined the adjustments in the release materials. But in summary, they principally relate to the cost of acquiring LCL and EZ-FLO and the usual tax adjustment for the amortization of goodwill.

Operating cash flow was $139.6 million, down 44% on the prior year. This is the result of the inventory investment we made as well as higher receivables driven by our top line growth. Similarly, cash conversion was 52%, reflecting the increase in working capital during the year. We started the year with low leverage of just over 0.5 times net debt to EBITDA. We were able to use our balance sheet capacity to debt fund the LCL and EZ-FLO acquisitions, as well as our working capital growth. We ended the year with a net leverage ratio of 2.1 times. This is comfortably within our target range of 1.5 to 2.5 times.

At year-end, we had $1.05 billion in total debt facilities available to us and net debt of $551 million. This was a result of the debt restructuring we undertook during the year. We've declared a final dividend of US$0.05 per share. This brings the total dividend for the year to US$0.095 per share, up slightly on the corresponding $0.093 for FY'21.

Stopping briefly on slide six. These charts illustrate the consolidated growth we achieved in FY'22. Looking back over the past two years, we've grown our net sales by 50% through a combination of organic growth and the acquisition of EZ-FLO. Of course, pricing inflation has also, been a factor. Adjusted EBITDA is up 59% over the same period. Adjusted NPAT is up 87%.

Before Andrew dives deeper into the financials, I would like to touch on some of our other achievements in the year. These are set out on slide seven.

It is pleasing to show a further reduction in our reportable injury frequency rate. It is down 15% to 5.17 lost time injuries per million hours worked. Further, the Board established a Health and Safety Committee earlier this year, recognizing the importance of this issue. This year, we will be undertaking a best practice benchmarking exercise to help us identify where we need to focus to further improve safety for our people.

COVID again impacted operations during the year. We had more disruption this year than last year with the Omicron variants leading to higher absenteeism. We were fortunate that EZ-FLO's plant in Ningbo closed for only two weeks and that we weren't impacted by the longer shutdown seen elsewhere in China.

We made progress on measurement of Scope 1 and Scope 2 greenhouse gas emissions this year. Our next priority is to establish emission reduction targets and plans to achieve these. We aim to have this completed by the end of calendar 2022, and we'll report this in our next social impact report. The newly formed Board ESG Committee is helping to provide oversight and focus on this important issue. We are pleased with the progress we made integrating EZ-FLO and LCL and their key functions with the RWC organization. They are very much operating now as part of the larger RWC team.

Finally, I really want to acknowledge the contribution of our people during the year. Our teams see RWC through simply extraordinary supply chain disruption. We maintain strong service levels even through these difficulties. I believe this has set us apart from many of our competitors in terms of delivery performance and support for our channel partners.

Now let me hand you over to Andrew to talk through our financial performance.

Andrew Johnson: Thank you, Heath, and good morning, everyone. So, let's start on slide nine, where we've set out a summary of our financial performance, which I'll go through quickly.

Net sales were up 17% for the year, including 7.5 months of EZ-FLO. Underlying sales growth for the business was 9% when you exclude EZ-FLO and also, exclude the freeze benefit from last year. This underlying growth was driven by a combination of price increases, new product revenues and core volume growth. What's really pleasing about the year is that underlying demand remained resilient with strong repair and remodeling activity in all of our key markets.

We did see lower volumes in the UK, but this was partly a tough comp from the prior year and the fact that some channel partners ordered ahead of demand towards the end of FY'21, which they worked through during the course of the year.

The final dividend of $0.05 per share brings the total for the year to $0.095, and that represents 55% of our reported NPAT, which is comfortably within the payout range of 40% to 60%. The final dividend will be 10% franked with the interim having been 20% franked. This lower level of franking reflects the geographic mix of our operations. Cash flow from operations was 44% lower than the prior year. As Heath mentioned, this was due to the investment we made in inventory to ensure we maintained our service levels and also, higher receivable balances driven by price increases and top line sales growth.

Turning to slide 10 and looking at our adjusted EBITDA drivers. You can see that at the Group level, price was the biggest contributor to EBITDA during the period. The $95.6 million we achieved through price represented average price increases across the Group of 9.5%. This increase, together with what we'll carry over next year, will balance out the inflation increases we have seen going back to FY'21. So, essentially, we were able to fully offset cost inflation through price actions.

The negative volume variance of $20.4 million reflects the fact that the prior year benefited from extra volumes due to the US winter freeze and also, lower volumes in the UK, as I've already mentioned. Cost reduction initiatives delivered a further $9 million, which is a good result considering the inflation we were dealing with and the fact that we worked to integrate two acquisitions, speaking of which, LCL and EZ-FLO contributed EBITDA of $19 million during the year.

Adjusted EBITDA margin, excluding EZ-FLO, was 24.2% compared with 26% in the prior year. As we've referenced on the slide, we calculate that higher prices to offset inflation diluted margins by about 200 basis points. At the start of the year, we indicated dilution would be around 100 basis points. However, as the year progressed, we continued to see ongoing cost inflation requiring further price rises, and that dilution impact became more pronounced.

We did a good job on cost control during the year and have kept costs tight despite activity levels increasing post-COVID. SG&A as a percentage of revenues declined slightly from 22% to 21.6%.

Let me turn now to slide 11 and talk through the Americas performance. Americas net sales were up 26% with EZ-FLO the most significant contributor to that growth. Adjusting for EZ-FLO and also, backing out the freeze and the Lowe's distribution changes earlier this year, Americas recorded underlying sales growth of 15%. This was driven in part by price as well as volume and new products. In the bar chart on the right-hand side of the page, you can see the sales by quarter over the last three years. In every quarter, the Americas recorded sales growth over the pcp.

Americas' adjusted EBITDA was 10% higher, driven by the contribution from EZ-FLO. Excluding EZ-FLO, adjusted EBITDA was 3% lower. This was again due to the US winter freeze in the prior year. The underlying EBITDA margin, excluding EZ-FLO, for the Americas was 17.7% versus 19.3% in FY'21. Margins continued to improve throughout the year as pricing actions began to impact profits. Those pricing actions that principally only offset inflation diluted margins by 200 basis points when compared to the prior year.

On slide 12, we've broken down the sales performance for the Americas to provide you a little more detail. We backed out both the freeze impact for FY'21 and the Lowe's one-off distribution changes in FY'22 to give you a sense of what drove the underlying growth of 15%, excluding EZ-FLO.

EZ-FLO margin, which was 12.5% for the seven months of ownership, was 16.8% in the fourth quarter. We have benefited from the price increases implemented in the second half of the year as well as lower cost, which both positively impacted the fourth quarter.

Looking at Asia Pacific on slide 13. Sales growth for the year was 6%. External sales were up 12%, and this was driven by continued strong activity in the Australian new residential construction market, along with strong repair and remodel activity. The growth in external sales was offset by lower intercompany sales to the Americas. Last year, APAC had higher SharkBite shipments to the US as a result of the winter freeze.

Adjusted EBITDA was down 11% from $66 million FY'21 to just under $59 million in FY'22. The key item to call out here is the movement in profit and stock. Year-over-year profit and stock had a $9.2 million unfavorable impact on EBITDA as inventory levels were reduced in the prior year but increased during the current year. For FY'21, profit and stock was a favorable $7.4 million, while FY'22 saw an unfavorable adjustment of $1.8 million.

Margins were also, reduced due to lower recoveries and higher commodity costs associated with intercompany sales. The recovery of those commodity costs on intercompany products are part of the pricing action undertaken in the Americas. FY'22 also, included an EBITDA contribution from LCL of $4.6 million. The acquisition was completed in August, but there was no earnings contribution in the first half as we worked through existing residual brass bar inventory. So, it wasn't until the second half that the earnings benefit from the LCL acquisition started to flow through.

Importantly, I'd like to call out that Asia Pacific team who shipped the 2,000th container of SharkBite fittings from Melbourne to the US during the year. That's the equivalent of 351 million fittings shipped to the US since we first started exporting in 2005. Great job to everyone in the team, and specifically to those team members working in our factories in Melbourne.

Turning now to EMEA on slide 14. Net sales for the year in local currency were up 1% versus the prior year. The two areas within EMEA were quite different in terms of how the year played out. In the UK, plumbing and heating volumes were down for the year. As mentioned earlier, this was due in part to a strong comp as well as some channels overstocking post-COVID lockdowns. The other factor, which is specific to the UK was the outsourcing of our warehousing and freight activities to a third-party logistics provider. A project of that magnitude is never straightforward, and we saw third quarter sales down as a result of delays of some customer shipments. We made that up fully in the fourth quarter, which contributed to fourth quarter constant currency sales being up 7% on the pcp.

Continental Europe performed strongly with sales up 17% on FY'21. Growth was driven by the fluid tech range of water filtration and drinks dispense products. We definitely benefited from the close proximity of our manufacturing location to end markets and our supply chain capabilities. Our new sales organization in Europe also, made a very positive impact.

EMEA adjusted EBITDA was up 4%, and we saw further improvement in the adjusted EBITDA margin of 90 basis points to 34%. This is a great effort, given the price actions we had to take to offset the cost inflation during the year.

On slide 15, we set out our cash flow performance and the drivers of our inventory build during the period. Cash conversion was 52%, which is down on the FY'21 figure of 96%. You can see in the chart on the bottom right-hand corner that the inventory increased from $195 million to $315 million in FY'22, which explains the lower cash conversion. $58 million is the actual increase in unit volume in our warehouses as we worked to rebuild inventories from the relatively low levels at the end of FY'21. EZ-FLO and LCL accounted for another $55 million and inflation a further $22 million.

Also, of note was the growth in trade receivables from $220 million to $266 million over the year as a result of higher sales. Cash conversion improved to 82% in the fourth quarter as our inventory position stabilized. For the year-end, we are targeting an improved cash conversion performance compared to FY'22.

On slide 16, we set out our balance sheet metrics related to leverage. Net debt to EBITDA increased to 2.1 times from a starting position of 0.51 times. This increase was delivered and driven by the fact that we debt funded the two acquisitions we made as well as the working capital increase. During the year, we completed the refinancing of our syndicated debt facility with $800 million in new committed facilities established as well as the $250 million issuance in the US private placement market.

The latter has the dual benefit of extending our debt maturity profile and providing us with fixed interest rate debt. As a result of the USPP issuance, approximately 43% of our gross debt at year-end carry a fixed interest rate.

In terms of CapEx, this year's spend of $60 million was 5.2% of sales, which is right in the middle of our normal range of 4% to 6% of sales. Much of that was growth-oriented CapEx to increase our SharkBite, Speedfit and PEX pipe manufacturing capacity in each of the three regions.

On slide 17, we have provided a little more detail on our outlook for CapEx in FY'23. We are forecasting CapEx to be in the range of $60 million to $70 million, so, a little higher potentially than what we spent in FY'22.

A couple of key points to note. You'll see the yellow band on the FY'23 forecast bar, and that relates to an upgrade of SAP that we're contemplating across the Group. If we start the implementation in the coming year, that will come with an investment of $8 million to $9 million for this fiscal year.

The second item is what we're calling strategic initiatives. We've been working on a new product initiative for some time, and we're at the point where we need to start investing in the manufacturing capability for these new product ranges. For commercial confidentiality reasons, it's too early to talk to you in specifics about what those products are, but I would stress that they are very much centered within our core pipe and fittings product branch.

We look forward to sharing more details with you at a later date as these initiatives are progressed and we get closer to commercial launch.

Finally, before I hand you back to Heath, let me touch on the progress so, far with the EZ-FLO acquisition. We have owned the business for 7.5 months. And in that time, it has generated net sales of just under $125 million and contributed EBITDA of $15.6 million. Early on, EBITDA margins were low as the business worked to put price increases through to offset the cost inflation it was incurring. As these have been implemented, margins have improved accordingly.

We're really pleased with the progress the sales teams have made in terms of securing more shelf space and the growth we've seen in - with the channel partners through the EZ-FLO and Eastman product ranges. Extending our share of the gas appliance connector market and growing our business with one of our OEM customers are two examples of where we're seeing the EZ-FLO acquisition deliver.

We remain comfortable that we will deliver the 10% sales growth target each year for the first three years in cost synergies of $10 million. We have recently announced changes to our North

American DC network, and we'll be reducing the number of distribution warehouses across the combined RWC and EZ-FLO footprint in the first half of FY'23.

And with that, now let me hand you back to Heath to discuss strategy and outlook.

Heath Sharp: Thanks, Andrew. On slide 20, we have provided you with the graphic of our strategy summary with further details on slide 21. Our strategy has three drivers of growth. The first of these is creating value through product leadership. We achieve this with smart product solutions that improve the productivity of the plant and make their lives easier. At its core, our products, that are easier to use, work brilliantly together and allow the plumber to get more work done.

The second element of our strategy is creating value for our distribution partners. We do this through high levels of service, differentiated brands, continued product innovation and clever merchandising solutions.

The third element is industry-leading execution. We make and deliver the highest quality product, running our operations efficiently and sustainably. Underpinning all this is a strong positive organizational culture, one that provides a safe and encouraging work experience for our people. It delivers diversity and inclusiveness, and it makes RWC an employer of choice.

Moving ahead to slide 22 and the outlook for financial year 2023. So, this is not an easy time to be trying to paint a picture for the year ahead. To call the economic outlook uncertain is absolutely an understatement. Further, geopolitical risk factors features more than any time in the past two decades. Looking at the positive outlook factors for us, there continues to be a backlog of work in most markets. Demand has run well ahead of the contractor's ability to satisfy it. We believe that this backlog will underpin volumes in FY'23.

Further, household balance sheet strengthened during COVID, which should enable ongoing household repair and remodel activity. We continue to believe that our market orientation helps cushion us from any marked economic downturn, should it eventuate. We are principally focused on repair, maintenance and remodel activity with lower exposure to cyclical construction markets.

I believe we have proven over the last few years that our execution is solid. We have the ability to manage dynamic supply chains, and the direct control we have over our manufacturing operations leaves us really well positioned from a product quality and customer service point of view. On the other hand, of course, the outlook has become more uncertain since February. We have seen continued inflation pressure, rising interest rates, geopolitical tensions, higher energy costs and new COVID variants. These are all risks that we confront, as does every other company. While some commodity prices have eased in recent months, it is premature to assume that they will return to their pre-COVID levels.

Given the dynamics of the current environment, more than ever, we need to consider outlook on a regional basis. We address the Americas first on slide 23. The economic outlook has softened over the past six months with lower consumer confidence and rising interest rates acting as potential headwinds.

The LIRA graph on slide 23 shows reducing expectations for repair and remodel activity going forward. While the outer quarters still show double-digit growth, values in this chart are nominal and not inflation-adjusted. So, most of that growth is likely to be price.

Nonetheless, we do expect that the backlog of R&R work will support volumes this year. Further out, the trend in existing home values will be an important factor in the confidence of homeowners to invest in remodeling projects. Inventory movements within some US customers and channel partners may impact our volumes in the near term. We have seen over the past couple of months some wholesale customers reduce their inventory levels.

We believe that as a result of supply chain issues, some channels were holding higher levels of safety stock, and this is now being unwound as the outlook softens. Many of our OEMs had pulled back following a period of catch-up production. This included a number of major appliance OEMs scheduling an extra vacation week in July as they slowed up production and shipments. All of this serves to complicate execution and obscure true demand. This makes point-of-sales data from major customers more important than ever. At the moment, we are seeing ongoing stable demand at our key retail and hardware partners and that their inventory levels are in line with this demand.

Moving to Asia Pacific on slide 24. Our Australian business should continue to see strong underlying volumes in the first half, given higher new residential commencements in the year to 31 March. The 7% drop in annual approvals to 30th June could see slightly lower levels of new starts later in the year. We expect repair and remodel volumes to remain steady this year, given the backlog.

Now turning to EMEA on slide 25. The outlook for repair and remodel in the UK is probably flat at best. From a consumer confidence point of view, this feels like the most challenged of our markets. Rising interest rates, high inflation and rising energy costs are all sapping consumer confidence.

Our Continental Europe business is based on fluid tech products for drinks dispense and water filtration. The underlying demand has been strong, but we are conscious of potential negative factors that could impact volumes, in particular, the knock-on effects of the Ukraine war and its impact on energy supply in Germany, which is our most significant market on the continent.

On slide 26, we have listed our priorities for the year. Despite less certainty around short-term economic factors, in the year ahead, we will continue to seek to grow above market in all geographies. We will continue to operate and execute well, I believe, and continue delivering the products and service that our channel partners and customers need. In our second year of EZ-FLO ownership, we will continue to deliver against the cost synergy and revenue targets we set at the time we acquired the business. We'll be investing through CapEx to support volume growth and the new product initiatives we referenced earlier.

Inflation is likely to continue to be a challenge to manage. Even with some commodity input costs easing, it is too early to declare the end of high inflation. We will be targeting higher operating cash flow conversion this year now that inventory levels have stabilized. And of course, looking after the health and safety of our people remains paramount.

We wrap up the presentation on slide 27. Looking back over the past two years, we believe we have demonstrated the resilience of our business through surges in demand, lockdowns, supply chain challenges. Our industry-leading execution has allowed us to continue to maintain our service and deliver growth. In addition to this day-to-day execution, we have also, completed a number of strategic projects. We have expanded distribution capabilities in the US and the UK. We completed multiple SAP implementations. We completed two acquisitions, and we delivered a steady stream of additional products that provides the backbone of our ongoing growth.

We also, continue our internal development work on core major products and capabilities that will augment our growth in future years. So, our strategy remains unchanged, and it continues to allow us to deliver. Going forward, each region offers different growth opportunities, and we have the management teams in place in each region to pursue these.

Finally, M&A remains on our agenda. The market is still active, notwithstanding recent gyrations, and we continue to be actively engaged in looking at opportunities.

So, I will conclude there and open the floor to questions, starting with those on the conference call.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take our first questions. Please state your name and company before asking your questions. The line is open. Please go ahead.

Lisa Huynh: Hi, Heath. Hi there, Andrew. It's Lisa Huynh from JP Morgan. I understand it's very uncertain at the moment around the demand outlook. But just around the comments around volumes being underpinned in the short-term. I mean, can you talk about how far out you see the order book and just how you're approaching planning for the next six to 12 months with your key customers? That would be great. Thanks.

Heath Sharp: Sure, Lisa. Thanks for the question. It does vary a little bit region by region. I guess our planning process very much centers on what we can see as the true demand at the moment. I think the US is the best example. So, the point of sales data there points to demand still being quite stable. It has been through the whole of '22, and that's consolidated our step-up on '21, so, a good position to be in. And our planning really has to be based on that level.

I think Australia is similar. We expect with approvals coming off a little bit that myself and Andrew in the year, we'll watch that closely. When we get to UK and EMEA, it's different mechanism - I guess somewhat different mechanisms at play there with so, many different products.

Europe is quite strong right now and has been for a while. They had a great year. So, we have to really plan based on that, but we're watching that really closely because I think that probably got the biggest uncertainty over than any of areas.

And the UK is soft. There's no question. It's been flat in the second half. This is our core plumbing and heating market. It's been flat, was down a little bit in the first half. It was flat in the second half. If it continues at that rate, I think that's probably a good outcome. We have to plan at that rate. Back to your specific question, we're watching that one really closely, watching as much as we can what our sales into our wholesalers are doing or our merchants versus what their sales out are doing and trying to balance that. So, it's pretty dynamic, but that's just the nature of the resources now.

Lisa Huynh: Yes, I understand. And I guess around inventory levels now that some of the channels are getting back to more normalized levels, I mean, how quickly could that ordering outlook kind of deteriorate?

Heath Sharp: Look, I think it's already bouncing around. And it depends a little bit on the customer is - the bigger retail customers are really quite sophisticated. Their ordering really matches, by and large, what's happening with the demand, unless there's some project they're undertaking. Once you get to the smaller independent merchants, well, they make decisions for, I guess, different reasons. And through an environment like this, we tend to see that at that smaller end of the - or the more independent merchants, if you like, they tend to get conservative more quickly and bring back inventory or wind down their orders more quickly.

Of course, what's interesting right now is I think they probably had more inventory than normal. So, there's a little bit of wind back to normal and then a little bit of conservatism to maybe wind it back further. So, there really is a lot of noise coming through all the channels right now. And - but then the last two years have kind of been crazy. So, it really is just dealing with - watching as close as we can, dealing with it as well as we can on a daily basis, to be frank.

Lisa Huynh: Sure. Understood. And just as a follow-up, I guess, on price, price rises continue to come through the industry, albeit at a lag. I guess when you're talking to the retailers, is this the expectation that, that should still cover costs into next year and that's all being passed through on a six to 12-month view?

Heath Sharp: Look, I think the process of pricing discussions over the last years are different - over the last year is different to what I've ever seen. It's become kind of a continuous ongoing activity as opposed to discrete moments in time. At the moment, it feels like, and I think the numbers show, we did a pretty good job to offset the inflation we saw during the year. That took a number of - a lot of discussions and work during the year.

At the moment, it feels like it's about at the right level. But again, we're watching what happens with commodity costs, and we'll react accordingly. But I think at the moment, it feels like it's at about - the pricing is about the right level based on where the costs we were seeing a couple of months ago.

Lisa Huynh: Okay. Good color. Thanks, guys. I'll leave at that.

Heath Sharp: Thanks, Lisa. Cheers.

Lee Power: Hi Andrew, it's Lee Power from UBS. Just following up on Lisa's question around inventories. Like where do you think they sit now? Is that destocking that you're seeing with some of the channels down or you think that will continue and maybe the impact of that on your July sales numbers that you've given us? Thank you.

Andrew Johnson: Good morning, Lee. This is Andrew. We really have our best visibility in terms of customer inventory with the retailers. And from that perspective, we feel like they've set our inventory about right, and we compare that in terms of weeks of stock on hand and look at it as a comparison over the year and then against prior year. So, from a retail perspective, we feel like we're in pretty good shape.

As Heath mentioned, it differs depending on the channel. Wholesalers specifically and smaller hardware customers tend to be a little more conservative and cautious in times like this. And so, you will see some volatility. I think we probably saw a little bit of that in July with that top line revenue number. But so, far, I think it looks pretty good. At least the significant inventory holdings are in the retail channel, and those are in pretty good shape from our perspective.

Lee Power: Got it. So, how do you think we should think about working capital and potential working cap unwind, given you've kind of called out some inventory management and yet you've called out the supply chain disruption continues into FY'23?

Andrew Johnson: Yeah. As we said, we do expect cash conversion to be better in FY'23 than it was in FY'22. As with most years, we're not going to make a significant inventory change in the first half. We're going to be a little cautious heading into the winter months to make sure that we've got the inventory to support our customers.

There will be an unwind at some point in FY'23, but I expect that, that will be more significantly same in the second half versus the first half.

Lee Power: Okay. Thank you. And maybe just a final one for Heath. On page 23, the mix of pro and DIY end users should mitigate downside risk. Can you just maybe give a little bit of clarity around where they sit and maybe where they sit now versus pre-COVID, given that comment?

Heath Sharp: Yeah. Look, and that's a comment that probably doesn't need a huge amount of attention. Certainly, over thinking is our business. As we talked about a lot, it's pro-driven, not DIY-driven. And the foot traffic in the retailers is off and has been for a while, but the average ticket is up. So, it's definitely the pro that's driving the retail business at the moment, and that helps us. I think more recently, there's a little bit of softening in the DIY. That has just - I mean have a slight impact on us, but it's like the pro is the driver, and they're still strong. And that speaks to what we mentioned a couple of times that there really is a lot of pent-up demand out there. By and large, consumer sentiment is still strong.

From an R&R point of view, we watch that closely. That's today. And who knows what it's like in a month or three months' time? But the focus for our business is on the pro, and that's still solid, for sure.

Lee Power: Okay. Thank you.

Heath Sharp: Thanks, Lee.

Sam Seow: Hi. It's Sam Seow from Citi. Just want to clarify some of your earlier comments. So, that 3% decline in July trading year-to-date, it looks like that implies a 7% decline in volumes. So, should we assume because of the backlog flat activity, but then most of that volume decline is actually the modest kind of second quarter inventory unwind that your US retail customers are reporting?

Heath Sharp: Not US retail. I think there's a couple of things that are at play in July. Look, first of all, I'm - I'd be really wary whether July is above or below your expectations. I'd be really wary of rolling out one month into a 12-month outlook. I mean, at the moment, there's just so, much noise. We anticipate that our order book, which will be reflected in our monthly numbers, is going to be quite lumpy this first quarter and frankly will be sort of high, I think.

The big issues for us that moves the needle in July wasn't so much the retail side of it. It was more the merchant side of it in the US. And that's inventory moves. We believe, as far as we can look through the demand, it's not demand-driven. It's more a bit of inventory balancing in some places. And we did specifically call out our OEMs in July. So, across all of our OEMs, it seemed, in July, they'd all reached a point where after manufacturing really hard for many months trying to catch up due to supply chain reasons so, that we're making really hard, they hit their internal inventory targets, and they filled the channel with their products.

And then they just pulled up a lot in July. And I think we called that specifically. We had a few major appliance OEMs who called at really short notice an additional week of vacation in July. And for us, that means 70% of the normal orders came through. And again, if you look through the retail point of sales numbers, which is our best indication of what's happening, it doesn't indicate there's a demand issue there. It's the noise in the channel and in the planning and in the catch-up from supply chain issues and so, on.

And I think that's going to be the case in the first half. And look, I think the points you hit on, I think, which is an interesting one, is that if you think about that OEM demand, that was a bit soft in July because of overproduction in the months before, that's a bit of a contributor to really our fourth quarter number as well, which helped the margin there.

So I think that's just where we're going to be for this period. It will be bumpy across periods, across products, across channels and across regions, and that's the world we're in right now.

Sam Seow: Okay. Thanks. And I guess just on some of your price comments earlier, are you planning on taking any further price increases in FY'23? Or should we just assume, I guess, 4% for the first half and nothing in the second?

Andrew Johnson: This is Andrew. Yes, we did call out that based on the pricing actions we've achieved so, far that there will be a 2% benefit carryover into FY'23. Beyond that, we're just - we feel like we're in a pretty good spot. We will continue to watch inflation and push through more, if need be. But at least from where we sit right now, we don't foresee any additional pricing actions.

Sam Seow: Great. And just finally, I mean, within that, copper has fallen off of cliff, I guess, post results. I appreciate in the OEM channel, there's more of an automatic adjustment. So, we know what's happening there. But any color around, I guess, other channel partners and the conversations you're having there? And does that sensitivity you've given us assume you hold prices?

Andrew Johnson: Look, commodities have come off more recently at the end of the financial year, and I expect that we'll see ups and downs. By no means do I think we've conquered inflation, and I think we need to continue to watch it. And certainly, we'll do that. But I think it's still early to think there's been discussions with customers regarding copper.

Sam Seow: Okay. Thanks for that. Appreciate that.

Heath Sharp: Thanks, Sam.

Brook Campbell-Crawford: Yeah, thanks. It's Brook Campbell-Crawford here from Barrenjoey. Listen, appreciate it's pretty sort of short term, but just given the commentary on July volumes, which was a bit weaker than I would have thought, can you provide an update, I guess, for August? Do you think there's further destocking going on in the current month? Or do you think your sort of sales will match that point of sales comments around sort of flat demand trends in the current month?

Heath Sharp: Look, August is going to be noisy. It's going to bounce around. It could be different channels to July, and now I think September will be the same thing. I think point of sales demand is interesting. Looking at those numbers in the last few days is the last four weeks of comps were a little bit better than what the last eight weeks looked like.

Now can you bake that? Absolutely not, but that's where we look to get a feel for what the real demand is. But Brook, it comes down to where the OEMs are at, if they nailed it in terms of their inventory, if they overshot or undershot? Does that mean they'll have another week vacation, that they then have to pick up manufacturing? We'll learn that as we go. It's going to be similar with the smaller wholesalers, I guess, what they would do with their inventory based on their own sort of interpretation of the outlook and where they're at right now.

So, probably nothing more to add than it's going to be bumpy. But look, having been through these cycles many, many times over the last 30 years, nothing that's happening right now feels unusual other than the supply chain craziness, which is making it a little bit more erratic and a little bit more difficult to read than usual. But other than that, it's the machinations that you see. It just gets tough to look through in an environment like this.

Brook Campbell-Crawford: Yeah. I appreciate that. It moves around a lot. Just on the margin, because I guess, the fourth quarter ex EZ-FLO EBITDA margin for the Group was in line with what you were expecting at that kind of, call it, 25% EBITDA margin. Do you think that's a realistic target for FY'23? I guess volume is always uncertain. But if it's a normal – it's a flattish or a bit down a bit type of volume year, do you think you can continue that fourth quarter ex EZ-FLO margin?

Andrew Johnson: Brook, this is Andrew. That is a good question, and I would agree. We did have a good margin quarter in that fourth quarter, but how that develops going forward really depends on volume. It depends on mix, and we have to continue to look at inflation and make sure that we're managing that appropriately.

As I'd mentioned earlier, I do think it's too early to say that we've conquered inflation and that problem is behind us. That's not the case at all. We haven't given guidance on margins and where we think that's going to go. But I think what we will say is that we'll continue to control what we can control, and that's executing on the top line, servicing our customers and maintaining a good focus on cost. If we can do those things, we think margins will respond accordingly.

Brook Campbell-Crawford: Okay. That's good. Just last one, if I can, just squeeze one in on, I guess, the upgrade to SAP. You've flagged the CapEx number. But just want to confirm, is there any OpEx cost relating to that upgrade in FY'23 that we should see in underlying earnings?

Andrew Johnson: We don't think at this point there'll be any OpEx costs. We do have a very talented group of people within the organization who are SAP experts. They're employees, but they've been in our cost base now for years and will continue to be there. So, no incremental costs associated from an OpEx perspective, at least no significant cost to call out.

Brook Campbell-Crawford: Okay. Great. Thanks for that.

Heath Sharp: Thanks, Brook.

Keith Chau: Good morning, Heath and Andrew. Thanks for taking my questions. It's Keith from MST Marquee. First question, Heath, I am surprised that I guess the differential in commentary between how you're calling out the US market being regionally stable at point of sales compared to what HD and Lowe's have talked about in their recent results, although at least one of them have called out pipe and fittings as a strong category and has been driving sales, and the only thing that's propping up their sales is pro demand. So, I think you were saying for the retail channel at least, the inventories were reasonably balanced or the channel is reasonably balanced. So, could you provide us maybe with your thoughts on why the differential in the two statements between yourselves and the large retail distributors?

Heath Sharp: Look, Keith, good morning. It's interesting to say the only thing propping up their sales is pro demand. Well, that's good because that kind of is where we live and what drives our business. And I think if – and without getting into the details of the two specific announcements, is plumbing overperformed. I think it was a double-digit comp when you consider the sort of price increases that go through that suggests volume in line with last year, so, flat. And that's really been our goal all year from a volume point of view. As if we can get - if we can keep that '22 volume as the step-up from '21, that's a good activity. We've consolidated that step-up. That's our feel. And frankly, recently, it continues to feel the same way.

Keith Chau: Maybe perhaps another way of asking the questions on the call today, Andrew, can you give us a sense of the impact that channel destocking in wholesale and OEM has had on the sales outcome in July? Are you able to quantify that for us or maybe have a guess?

Andrew Johnson: Yeah, Keith, I believe that's a little too granular for July in terms of the outlook that we're prepared to give. We feel like it did have an impact, and that's part of the overall result that we called out, but nothing really specific to mention there.

Keith Chau: Okay. That's fair. And then as you think about the regional differences for July, maybe into August, firstly, the comments you made in response to Brook's question on the last four weeks growth comps being better than the last eight weeks, is that a comment that was made specifically for the North America business rather than the Group as a whole? And secondly, if you can give us a sense of how much variation there was from a regional basis in respect of that 3% growth number for July. Was it markedly different across the regions?

Heath Sharp: Maybe we'll split this answer up a little bit. The first part of my comment was very specifically North America, and it was very specifically related to the point of sales data we get across our hardware and retail customers on average across the Americas. So, the last four weeks were a little bit better than the last eight weeks but just a little bit. And I guess the takeaway from that is it hasn't changed, but mainly, it hasn't started to show any decline. So, that was really the reference and why I noted it.

I think the issues we specifically called out in the announcement were around the Americas, that OEM side of the business. And I think in our voiceover, we talked about the wholesale distributors starting to move a little bit on inventory. And I think they're the two big points. I think the Asia Pac region and the EMEA region were sort of - nothing specifically to call out on either of those in relation to July.

Andrew Johnson: Yeah, I agree with that.

Heath Sharp: So, Keith, that's sort of what - how it feels.

Keith Chau: Okay. That's great. And finally, if I may, just one on price increases, retail business, wholesale versus OEM. I know there's been a price increase put into the retail channel or at least the retail prices stepped up in August. So, it seems like price increases are flowing through reasonably well in that channel. Can you help us understand the differentials between each of your channels with respect to price increases across the regions, please? Thanks very much.

Heath Sharp: Look, I mean, we go - even with granularity there, I think it's fair to say we work really hard to not - to make sure no one sort of gets out of whack. We take a universal approach on pricing. Specifically on OEMs, a lot of our OEMs are on index prices. So, it's a little bit of a different conversation, but there's really nothing to call out there, Keith.

Keith Chau: Okay. That’s great. Thanks very much, gents.

Heath Sharp: Thank you.

Daniel Kang: Good morning. It's Daniel Kang from CLSA. Heath, just in terms of past 30 years in terms of inventory destocking cycles, how long does it typically last? We see other industries typically last maybe six months. I mean, what's your thoughts on that?

Heath Sharp: Do you mean how long is the process of actually taking inventory down? Or do you mean how long until it starts to sort of go back up again? And look, Daniel, on your question, I'm not trying to be opaque. It really varies by the distributor wholesaler, where their mind is set out.

I think some of them you speak to now, they think they've got it covered. Others probably haven't started moving. It just depends on the nature of the beast. When you get to the more sophisticated or the larger players with more sophisticated planning systems, I mean, they really react to data. So, if you're running your business based on demand and demand hasn't come off, then your inventory hasn't come off. So, it really does vary.

I would say the lumpiness, though, and there is actually – now there's a lot of uncertainty out there, and there's going to be people interpreting different ways as we go forward is, I think the next six months look challenging from the point of view of us looking through all the noise to the true demand. I mean, we, I think, are pretty good at it, but it's much harder now than what it normally is. So, that outlook for less visibility than normal or harder to interpret the normal is certainly the first half would be where my head is at.

Daniel Kang: Thanks for that, Heath. And just in the event that conditions were to worsen, can you talk about the levers that you may have to combat that? Can you take SG&A down more aggressively, defer CapEx?

Heath Sharp: Look, I think ultimately, everything comes into play if things get really tough. And I'd point you back to, I guess, sort of April 2020 when COVID hit. In the UK, for example, we furloughed

400 people pretty quickly. Mechanically, that's pretty simple. Emotionally, it's quite painful exercise to do. But we've been through that before. We know what we have to do.

Everything ends up being on the table if things are really tough. But right now, the demand hasn't really come off. I think we're being a little more conservative on our discretionary spend right now than we would normally be. I think we're looking at over time a little more closely. I think we're looking at additional heads with more scrutiny now than what we normally would. But ramping up from there, I think we know what to do if we need to.

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

Heath Sharp: Thanks, Dan.

Peter Wilson: Thank you. It's Pete Wilson here from Credit Suisse. Just following up on the question on - good morning or good evening - the fourth quarter EBITDA run rate and what we should take from that. Can you just confirm, is the pricing catch-up, is that done or is there further pricing catch-up that might flow through into the first half?

Andrew Johnson: Well, I think, as we said, I think we're in a pretty good spot. Most of those pricing actions are done. We will have some carryover pricing in the next year that should balance out our recovery of that inflation. But other than that, there's nothing significant that we've got planned. But of course, we'll watch it and react accordingly.

Peter Wilson: Okay. When you say balance out, I guess I was talking like a margin catch-up as some costs have been going ahead of price. Have those two aligned now, have they?

Andrew Johnson: No. I mean, I think that - as we've said, that pricing action that we've undertaken is to offset inflation, specifically the commodity cost and freight and some other things. And so, I wouldn't agree that the pricing is ahead of inflation. I think we're still working to balance that out.

Peter Wilson: Okay. And then the comment on - go ahead.

Andrew Johnson: Well, further, Pete, I mean, that margin dilution that we've seen with pricing to just offset the inflation, that's something that will remain through FY'23.

Peter Wilson: Got it. Okay. And a comment on the UK market. So, previously, the language had been that the negative volumes in the UK was effectively the market reverting back to pre-COVID levels. The comments today, slide 25, seemingly suggest that you think that the UK market may well keep going lower. Is that the case? Or do you think that reversion back to the kind of FY'19 levels is a reasonable base from here on in?

Heath Sharp: Yeah. Look, it's the question, isn't it? Honestly, we don't know. So, from a sort of planning point of view, we have to assume that it will continue with the - at the current rate. The current rate, to your point, does feel like it's at about pre-COVID level. This is the core UK plumbing and heating business, a little bit different to Europe. But we're talking about that core UK plumbing and heating business. It was flat through the second half. It's up revenue on pre-COVID, but it feels flat, maybe up a little bit on a volume point of view pre-COVID.

If over the next six months it stayed at that level, I think we'd be pretty happy with that outcome. It's – I mean, who knows, Peter. We'll watch it and see.

Peter Wilson: And one last one, if I could. You gave a breakdown of the revenue by product category. It's interesting that push to connect fittings revenue actually was down 4% for the year. Can you give a comment on what is that, or why, and I guess the regional differences there potentially?

Heath Sharp: Yeah. Look, two really key things. The first one is the US freeze. That impact is all push to connect, and that coming off in '22 versus '21 impacted the volumes, without question. And then the other one, back to the point we were just talking about, which is the UK volumes. So, UK volumes are definitely off in '22 over '21 in that core plumbing and heating business, and push to connect is a driver of that. So, they're the two movers on push to connect.

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

Heath Sharp: Thanks, Peter.

Peter Steyn: Hi, Heath and Andrew. Peter Steyn from Macquarie. Thanks very much for your time. Andrew, just keen to pick up on your comments around - sorry, and we've gone through this 15 times. But you continue to be concerned about inflation. But copper, nickel, petrochems, they've all come off reasonably significantly relative to where we were certainly at the peak, obviously, on an average basis, maybe not as much. Is that the key to your concern that you're still not fully there in terms of managing inflation? I'm just sort of struggling to reconcile the comment that you're sort of there or thereabouts from a price perspective, but you obviously had to deal with a very significant peak in the second half pretty much across the cost base.

Andrew Johnson: Yeah. Peter, as we talked about in the past, there is a lag through our P&L as we capitalize cost of inventory. And so, we still have inflation on our balance sheet that will roll into FY'23 that we'll need that price to offset. And so, although current prices are - have improved, I think we have to continue to watch those. I mean, they've gone up slightly, but – and I think they will move around. But most of my comment there is related to the lag effect and the inflation that we got on the balance sheet that will roll off into FY'23.

Peter Steyn: And just on the inflation on the balance sheet, so, you're fully comfortable that you will recoup that? There's no inventory risks, obsolescence or otherwise, that you ought to be concerned about?

Andrew Johnson: Well, two things. I think that we need that carryover price to balance that out, what we called out, that will carry over into FY'23. In terms of obsolescence, look, the increase that we've made in inventory over the last 18 months or so, 12 months or so, that's all core SKUs and SKUs that turn rather quickly. So, no concern on my part either, one, on obsolescence; or two, that we can bring that down when the time comes. Always easy to manage inventory if it turns.

Peter Steyn: Yeah. Thanks. And then, Heath, just perhaps a question for you. Service has obviously been a critical part of your value proposition to your markets over time. Just curious how you're seeing that play into your competitive position, because I'd assume that competitors would have been given a little bit of a free pass if they didn't quite meet the grade over this past period. Or is that not the case? Do you see that your competitive position, and therefore, your sales performance is going to be boosted by where you're at relative to competitors in all markets?

Heath Sharp: Look, I think that's a great question and that is getting right to the heart of our value proposition. I mean, that decision we made to invest in inventory, I think, will pay us back for years to come. It's - look, everyone - back to your comment about free pass, there was a period there where everyone was getting a free pass, and everyone needed it. I think the real differentiator is how quickly you recovered and got back to normal, and we did really quite well.

And if you can take fill rate discussions and general operational discussions off the table really quickly while your competitors are still having them, that's a really good spot to be in. It also, means you can get back to conversations about growth and additional space more quickly. And you take - and this is perhaps most importantly, you take more credibility into those discussions.

Is it a proposal for an additional SKU or an additional shelf or an additional bay? If your history is you can fill, then that's a great basis upon which to have a discussion about more space. So, that, I think, is an important part of our investment just in whatever it takes to continue that delivery performance.

Peter Steyn: And you're seeing tangible impacts from some of those conversations as we speak by year?

Heath Sharp: Look, and I think we called out some initiatives for the period. And it was about a point worth of growth, which feels lighter than normal, but it's kind of been a crazy year. Everyone's pretty much being hand to mouth. I think it's fair to say we've got some good conversations sort of underway in the background. We would hope that some of that comes to fruition during '23. Everyone is still pretty busy. I mean, the - some of the inflation charts are starting to point of - different commodities are pointing in the right direction.

But on a daily basis, it's as complex to operate today as what it was six months ago. So, it's really pleasing to see those inflation charts point in the right direction that some of the availability numbers are pointing in the right direction, but it's got a way to play out before it feels normal and before we're back to that normal cycle of new product discussions with our customers. But I'm really comfortable with where we're at in terms of those discussions. I think we have enhanced our position, and it enabled us to have those conversations a little bit more readily than some of our customers. It still, though, is not back to the normal rate, Peter, I suppose I could say.

Peter Steyn: Great. Thanks, Heath. Thanks, Andrew. I'll leave it there.

Heath Sharp: Thanks, Peter.

Kai Erman: This is Kai Erman from Jefferies here. Thank you very much, Heath and Andrew, for taking my question. It's just in relation to the net interest guidance basis point risk of the debt stack has, especially if working capital improvement comes in the second half of '23. Is there any upside risk to the interest cost?

Andrew Johnson: I'm sorry, could you repeat that question?

Kai Erman: Yeah. Of course, I can. So, it was just around the net interest guidance and the basis point risk that the debt stack has, especially if we see a working capital improvement in the second half of '23. Is there any upside risk to the interest cost?

Andrew Johnson: Well, I do think that as our net debt position evolves through the year, as we pay down debt, our intention is to maintain the fixed portion through the USPP. And so, overall, rate may slightly increase, but it certainly will protect us from a standpoint that it will be - that fixed rate percentage will increase over the course of the year.

Brook Campbell-Crawford: Yeah. It's Brook Campbell-Crawford here again from Barrenjoey. Thanks for taking my follow-up. It was just the one around, I guess, the CapEx that's gone through the business over the last 12 months. Another amount coming through in FY'23. I think the last sort of commentary was a 15% to 20% increase in broader capacity and across the last 12 months, call it. And you're now talking about perhaps a stable demand environment. I'm just trying to understand if we should be thinking about, A, sort of fixed cost relating to that CapEx, if it's going to impact your sort of fixed cost recovery, or is there perhaps this incremental capacity that's very variable, we don't need to consider any sort of fixed costs that come along with it? I'm just trying to think about the margins into FY'23. Thanks.

Andrew Johnson: Hi. This is Andrew. I think the first thing I would say that the CapEx spend in FY'22 was very comfortably within that range of 4% to 6%. So, even though it was higher than the previous year, the previous year was low because we just couldn't get that spend through because of COVID and supply chain issues and other things. So, when you balance out those two years, I think our CapEx spend has been relatively normal, which then should have a knock-on, relatively normal impact from a fixed cost standpoint in FY'23 and FY'24 when that equipment comes online.

Brook Campbell-Crawford: Okay. Thanks.

Operator: Thank you. At this time, we don't have any questions for now. At this time, I will turn the conference back to the speaker for any additional or closing remarks.

Phil King: We just have one question, Heath, from online. It was about the new product initiatives we flagged on slide 17. Are they US-based? Will they impact the FY'24 or FY'23 sales? And how will the size of this compare with the $8 million of new product revenues we flagged in FY'22?

Heath Sharp: Okay. Thanks, Phil. Look, I think you need to look at to FY'24 for any impact. We continuously work behind the scenes on major developments of core products. And as we approach commercialization, we need to invest in new tooling and new equipment and so, on. And really, that's just where we are now on a few major projects we're working on. So, they will start to roll out during '23 and then start to impact from '24 onwards.

As Andrew said, sort of commercial sensitivity, I guess, prevents us from elaborating further other than they are core pipe and fitting developments. And look, we will set out more detail on that at the back half of this financial year.

Philip King: Thanks, Heath. That was the last question we had. So, over to you.

Heath Sharp: Very good. Well, look, I appreciate everyone's time to join us this morning. Thank you very much. And we'll leave it at that. Have a good day.

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