Reliance Worldwide Corporation Limited

Level 26
140 William Street
Melbourne
Victoria 3000
Australia
Tel: +61 (0) 3 8352 1400

rwc.com

OPERATING AND FINANCIAL REVIEW

FOR FINANCIAL YEAR ENDED 30 JUNE 2023

HIGHLIGHTS

Year ended: US$ million	30 June 2023	30 June 2022	Variance
Net sales	**1,243.8**	**1,172.2**	**6%**
EBITDA[1]			
Reported EBITDA	**276.1**	**258.9**	**7%**
Adjusted EBITDA[2]	**274.6**	**268.7**	**2%**
Net profit after tax			
Reported net profit after tax	**139.7**	**137.4**	**2%**
Adjusted net profit after tax[1, 2]	**155.7**	**161.4**	**(4%)**
Earnings per share			
Basic earnings per share	**17.8 cents**	**17.5 cents**	**2%**
Adjusted earnings per share[1, 2]	**19.8 cents**	**20.6 cents**	**(4%)**
Dividend per share (US$)	**9.5 cents**	**9.5 cents**	**0%**

Net sales[3] were $1,243.8 million, up 6% on the prior corresponding period ("pcp"). Sales include a full year contribution from EZ-Flo, while the pcp included only a partial contribution following its acquisition in mid-November 2021. Constant currency sales were up 9% on pcp, with the strength of the US dollar against the Australian dollar and British pound negatively impacting translation of sales into US dollars.

Sales growth in all regions was driven mainly by price increases introduced to offset higher costs for some inputs, and higher utilities, packaging and employee costs. RWC achieved average price increases across the group of approximately 6.5% during the period. Excluding EZ-Flo, constant currency sales were 3% higher.

Reported EBITDA for the period was $276.1 million, 7% higher than the pcp. Results for the period included a $15.0 million gain on sale of a surplus property in the UK, costs of $13.5 million incurred in the realisation of EZ-Flo cost reduction synergies, and restructuring costs and other one-off cost items. Excluding these items, Adjusted EBITDA was $274.6 million, 2% higher than the pcp and up 5% on pcp in constant currency.

[1] EBITDA (earnings before interest, tax, depreciation, and amortisation), Adjusted EBITDA, Adjusted NPAT and Adjusted EPS are non-IFRS measures used by RWC to assess operating performance. These measures have not been subject to audit or audit review.

[2] Refer to table on page 8 for further detail on adjustments.

[3] All figures are in US$ unless otherwise indicated.

ABN 46 610 855 877

Adjusted EBITDA margin declined by 80 basis points from 22.9% in the pcp to 22.1%, but second half margins were higher than for the first half of FY23 as the benefits of lower input costs and cost reduction measures positively impacted earnings.

Cost savings of $18.3 million were achieved in the year, driven by:

i. Savings of $9.4 million realised from continuous improvement initiatives across the three regions, ahead of the $8 million forecast at the start of FY23.
ii. The realisation of EZ-Flo cost synergies delivered a further $5.8 million in cost savings, with four distribution centres closed during the year. Delivery of EZ-Flo's $10 million in annualised cost synergies by the end of FY24 is on track.
iii. A thorough review of our cost structures undertaken during the year identified additional cost saving measures totalling $15 million on an annualised basis. Savings totalling $3.1 million were realised in the second half of FY23 and the full $15 million benefit is forecast to be achieved in FY24. The savings are the result of a reduction in employee numbers, operational efficiencies, procurement gains, and supply chain improvements. One-off costs of $4.3 million to implement this cost reduction programme were incurred in the second half of FY23.

Reported NPAT of $139.7 million was 2% higher than pcp. Adjusting for the one-off items noted above and the cash tax benefit arising from the amortisation of goodwill, NPAT was $155.7 million, down 4% on pcp. NPAT was impacted by higher net finance costs of $32.3 million versus $15.8 million in the pcp. The increase was due to higher borrowings arising from the debt issued to finance the EZ-Flo acquisition in November 2021, as well as higher interest rates.

SEGMENT REVIEW - *AMERICAS*

Year ended: US$ million	30 June 2023	30 June 2022	Variance
Net sales[4]	**890.1**	**791.0**	**13%**
Adjusted EBITDA[5]	**159.5**	**133.8**	**19%**
Adjusted EBITDA margin (%)	17.9%	16.9%	*100bps*
Adjusted EBIT [5]	**131.0**	**111.5**	**17%**
Adjusted EBIT margin (%)	14.7%	14.1%	*60bps*

Americas segment sales were up 13% for the period. Excluding EZ-Flo, sales growth for the period was 4%. Sales growth was driven primarily by price increases and new product revenues.

Adjusted EBITDA was 19% higher than pcp, driven by a full year contribution from EZ-Flo[6]. Operating margins were higher driven by lower input costs, particularly in the second half of the year, and the benefit of cost reduction initiatives. Operating margins improved progressively throughout the year.

In March 2023 two new product ranges were launched in the Americas - SharkBite Max, and PEX-a pipe and expansion fittings. The impact of these product launches on sales for the year was not material. Costs associated with the introduction of SharkBite Max fittings, which will progressively replace the first generation of SharkBite push to connect fittings, totalled $1.6 million. These costs related to the impairment of assembly equipment and component inventory for first generation SharkBite products.

Good progress continued to be made in delivering EZ-Flo revenue synergies, with expanded product availability and cross selling of products being facilitated through RWC's channel partners, along with growth in EZ-Flo's gas appliance connector volumes. Weaker consumer demand for appliances impacted revenue growth particularly in the second half of the year. Four distribution centres in North America were closed during the year as part of the EZ-Flo cost synergies realisation. Following these closures, RWC has seven distribution centres in North America compared with eleven immediately following the EZ-Flo acquisition.

Adjusted EBITDA reflects $7.2 million of one-off costs incurred in FY23, consisting of:

- $4.3 million of EZ-Flo synergy realisation costs,
- $1.6 million in one-off costs related to the introduction of SharkBite Max, as noted above, and
- $1.3 million of restructuring costs, as part of RWC's $15 million group-wide cost-out program initiated in the second half of FY23.

---

4 Prior to elimination of inter-segment sales.
5 Prior to elimination of profits made on inventory sales between segments.
6 EZ-Flo was acquired in November 2021

SEGMENT REVIEW - *ASIA PACIFIC*

Operating results for the Asia Pacific segment in US dollars were as follows:

Year ended: **US$ million**	**30 June 2023**	**30 June 2022**	**Variance**
Net sales[7]	**190.4**	**213.3**	**(11%)**
Adjusted EBITDA[8]	**31.9**	**42.7**	**(25%)**
Adjusted EBITDA margin (%)	*16.8%*	*20.0%*	*(320bps)*
Adjusted EBIT[8]	**22.5**	**32.5**	**(31%)**
Adjusted EBIT margin (%)	*11.8%*	*15.2%*	*(340bps)*

Operating results for the Asia Pacific segment in Australian dollars were as follows:

Year ended: **A$ million**	**30 June 2023**	**30 June 2022**	**Variance**
Net sales[7]	**282.7**	**293.5**	**(4%)**
Adjusted EBITDA[8]	**47.2**	**58.7**	**(20%)**
Adjusted EBITDA margin (%)	*16.7%*	*20.0%*	*(330bps)*
Adjusted EBIT[8]	**33.2**	**44.6**	**(26%)**
Adjusted EBIT margin (%)	*11.7%*	*15.2%*	*(350bps)*

Asia Pacific sales were down 11% on a reported basis and down 4% on a local currency basis. External sales were 1% lower.

A significant proportion of RWC's external net sales in Australia are made in the new residential construction market, and sales were impacted by lower housing commencements. Total new dwelling units commenced in the year ended 31 March 2023 were down 20% on pcp. This trend is likely to continue, with total dwellings approved in the year ended 30 June 2023 13% lower than pcp.[9]

With the launch of the new SharkBite Max product range in the Americas, the transfer of some manufacturing and all assembly of SharkBite Max fittings to the US commenced in the second half of FY23. Inter-company sales were 8% lower than pcp mainly due to this change.

Asia Pacific Adjusted EBITDA for the period was US$31.9 million, 25% lower than pcp and 20% lower in local currency. The decline was due to lower sales, higher input costs and lower manufacturing overhead recoveries. Consequently, Adjusted EBITDA margin declined by 320 basis points to 16.8%.

---

7 Prior to elimination of inter-segment sales

8 Prior to elimination of profits made on inventory sales between segments

9 Source: Australian Bureau of Statistics

During the year, the Australian Building Codes Board set the timeline for the implementation of lead-free brass in Australia, with a revised date of 1 May 2026. To minimise stock obsolescence, RWC will adopt the lead-free requirement ahead of this date and is targeting to supply lead-free products from the second half of FY24. As a result of this change, a one-off charge of US$1.6 million was incurred in FY23 reflecting the write-down of excess inventories of products in Australia containing lead.

Restructuring costs of US$1.7 million were incurred in the period, driven mainly by changes to manufacturing operations in APAC following the transfer of some SharkBite manufacturing and assembly to the US. This has enabled the rationalisation of manufacturing operations in APAC, with a plant in Melbourne, Australia and a plant in Auckland, New Zealand being closed, and manufacturing activities of those plants to be consolidated at RWC's other sites in Melbourne.

SEGMENT REVIEW - *EUROPE, MIDDLE EAST, AND AFRICA ("EMEA")*

Operating results for the EMEA segment in US dollars were as follows:

Year ended: **US$ million**	**30 June 2023**	**30 June 2022**	**Variance**
Net sales[10]	**272.1**	**291.3**	**(7%)**
Adjusted EBITDA[11]	**87.8**	**98.7**	**(11%)**
Adjusted EBITDA margin (%)	*32.3%*	*33.9%*	*(160bps)*
Adjusted EBIT[11]	**74.1**	**85.2**	**(13%)**
Adjusted EBIT margin (%)	*27.2%*	*29.2%*	*(200 bps)*

Operating results for the EMEA segment in British Pounds were as follows:

Year ended: **£ million**	**30 June 2023**	**30 June 2022**	**Variance**
Net sales[10]	**226.0**	**218.8**	**3%**
Adjusted EBITDA[11]	**72.9**	**74.3**	**(2%)**
Adjusted EBITDA margin (%)	*32.3%*	*34.0%*	*(170bps)*
Adjusted EBIT[11]	**61.5**	**64.2**	**(4%)**
Adjusted EBIT margin (%)	27.2%	29.3%	*(210bps)*

Reported net sales in EMEA were 7% lower but 3% higher in local currency. External sales in local currency were 4% higher than pcp.

Sales in the UK were 7% higher than pcp driven by price increases, with UK plumbing and heating sales up 12% in local currency. A slowdown in underlying volumes was experienced in the second half.

Continental Europe sales were 5% lower than pcp due to lower sales of water filtration and drinks dispense products only partly offset by price increases.

Adjusted EBITDA of $84.8 million was 14% lower than the pcp, and 2% lower in local currency. Adjusted EBITDA margin declined from 34.0% to 32.3% due to lower sales in Continental Europe as well as higher input and energy costs.

Results for the year included a US$15.0 million gain on the sale of a surplus property in the UK, and one-off costs of US$3.0 million incurred in implementing a cost-out program in the UK together with costs relating to a restructure of Continental Europe's operations.

[10] Prior to elimination of inter-segment sales

[11] Prior to elimination of profits made on inventory sales between segments

GROUP PERFORMANCE

Year ended: **US$ million**	**30 June 2023**	**30 June 2022**	**Variance**
Net sales	**1,243.8**	**1,172.2**	**6%**
Reported EBITDA	**276.1**	**258.9**	**7%**
Adjusted for one-off items	(1.5)	9.7	
Adjusted EBITDA	**274.6**	**268.7**	**2%**
Depreciation and amortisation	(52.6)	(47.2)	**12%**
Adjusted EBIT	**222.0**	**221.5**	**0%**
Net finance costs	(32.3)	(15.8)	**104%**
Adjusted net profit before tax	**189.7**	**206.8**	**(8%)**
Adjusted tax expense	(34.0)	(45.3)	**-**
Adjusted net profit after tax	**155.7**	**161.4**	**(4%)**
Basic earnings per share	**17.8 cents**	**17.5 cents**	**2%**
Adjusted earnings per share	**19.8 cents**	**20.6 cents**	**(4%)**
Dividend per share (US$)	**9.5 cents**	**9.5 cents**	**0%**
Dividend per share (A$)	**14.2 cents**	**13.4 cents**	**6%**

Depreciation and amortisation expense was 12% higher due to recent capital investments in manufacturing capacity, along with the amortisation of intangible assets arising from the EZ-Flo acquisition.

Net finance costs were 104% higher due to higher borrowings arising from the debt issued to finance the EZ-Flo acquisition in November 2021, as well as materially higher interest rates. Approximately 55% of debt was at a fixed interest rate at period end with the balance of debt financed on a floating interest rate basis.

Results for the year ended 30 June 2023 were translated at the following exchange rates:

- The average Australian Dollar/US Dollar exchange rate in FY23 for earnings translation was US$0.6738 (US$0.7258 in the pcp).
- The average Pound Sterling/US Dollar rate in FY23 for earnings translation was GBP 1.2022 (GBP 1.3323 in the pcp).

As noted earlier, results for the period included a $15.0 million gain on sale of a surplus property in the UK and costs of $13.5 million incurred in the realisation of EZ-Flo cost synergies, restructuring and other one-off items. The impact of these items, together with the amortisation of goodwill for US tax purposes (described further below) on reported and adjusted EBITDA, EBIT and NPAT is summarised in the following table:

US$ million	FY23 EBITDA	FY23 EBIT	FY23 Tax Expense	FY23 NPAT
FY23 Reported	**276.1**	**223.5**	**(51.5)**	**139.7**
Adjusted for:				
Restructuring costs	6.0	6.0	(1.5)	4.5
SharkBite Max one-off costs	1.6	1.6	(0.3)	1.3
Australia lead-free brass transition costs	1.6	1.6	(0.5)	1.1
EZ-Flo costs to achieve synergies	4.3	4.3	(0.9)	3.4
Total one-off costs	**13.5**	**13.5**	**(3.2)**	**10.3**
Gain on sale of surplus UK property	**(15.0)**	**(15.0)**	**5.0**	**(10.0)**
Goodwill tax amortisation	**-**	**-**	**15.7**	**15.7**
Adjusted	**274.6**	**222.0**	**(34.0)**	**155.7**

TAXATION

Year ended: US$ million	30 June 2023	30 June 2022	Variance
Reported net profit before tax	**191.2**	**195.8**	**(2%)**
Tax Expense	(51.5)	(58.4)	**(12%)**
Reported net profit after tax	**139.7**	**137.4**	**2%**
Accounting effective tax rate	**26.9%**	**29.8%**	**-**
Reported tax expense	**(51.5)**	**(58.4)**	**(12%)**
Adjusted for:			
Cash tax benefit of goodwill amortisation for tax purposes	15.7	14.3	**10%**
Gain on sale of UK property	5.0	-	-
One-off cost items detailed on page 8	(3.2)	-	-
Adjusted tax expense	**(34.0)**	**(45.3)**	**(25%)**
Adjusted net profit after tax	**155.7**	**161.4**	**(4%)**
Adjusted effective tax rate	**17.9%**	**21.9%**	**-**

The accounting effective tax rate for the period was 26.9% compared with 29.8% in the pcp. This rate excludes RWC's entitlement to claim amortisation of certain intangibles for taxation purposes under longstanding tax concessions available in the USA. Goodwill is not amortised for accounting purposes under accounting standards. The benefit arising from the amortisation of goodwill for cash tax purposes in the period was $15.7 million.

Adjusting for this item and the net tax effect of adjustments to EBITDA from the UK property sale together with other one-off costs referenced earlier, tax expense for the period was $34.0 million, representing an Adjusted effective tax rate of 17.9%.

Whilst the trajectory of the group's effective tax rate continues to be in line with previous reporting periods, certain one-off items have resulted in the effective tax rate for FY23 being below that trajectory. These one-off items are not expected to continue, and the effective tax rate should therefore normalise as a result of this together with the increase in the corporate tax rate in the UK from 19% to 25% effective from 1 April 2023. Adjusted effective tax rate best represents the rate of tax paid by the Group. RWC expects that the Adjusted effective rate for FY24 will be in the range 22% to 25%.

DIVIDEND

Year ended:	30 June 2023	30 June 2022
Interim dividend	US4.5cps	US4.5cps
Final dividend	US5.0cps	US5.0cps
Total dividend	**US9.5cps**	**US9.5cps**
Total amount payable/paid	**US$75.1m**	**US$75.1m**
Final dividend franked amount	**0%**	**10%**
Total dividend payable/paid in Australian Dollars	**14.241cps**	**13.424cps**

An unfranked final dividend of US5.0 cents per share has been declared. Total dividends declared for the year ended 30 June 2023 are US9.5 cents per share totalling $75.1 million which represents 54% of Reported NPAT and 48% of Adjusted NPAT. The FY23 interim dividend was 10% franked, however, the FY23 final dividend will be unfranked.

The record date for entitlement to the final dividend is 8 September 2023. The payment date is 6 October 2023.

RWC's dividend policy has been to distribute between 40% and 60% of annual NPAT. Given changes in RWC's geographic business, with Australian earnings now accounting for less than 10% of total group earnings, it is expected that future dividends will generally be unfranked. Given this change in RWC's ability to pay even partly franked dividends, RWC intends to review its current distribution policy settings. The review will assess the benefits of other forms of cash distribution, including on-market share buybacks. The review is expected to be completed by the end of calendar 2023.

CASH FLOW

A summary of the consolidated statement of cash flows is provided in the following table.

Year ended: **US$ million**	**30 June 2023**	**30 June 2022**	**Variance**
Cash generated from operations	292.7	139.6	110%
Income tax paid	(42.4)	(43.4)	(2%)
Net cash inflow from operating activities	**250.3**	**89.3**	**180%**
Capital Expenditure	(42.5)	(60.5)	(30%)
Sale of property, plant & equipment	28.0	0.6	-
Business acquisitions	-	(353.2)	-
Net cash outflow from investing activities	**(14.5)**	**(413.0)**	**-**
Net proceeds from (repayment of) borrowings	(127.6)	431.9	-
Net interest paid & lease payments	(43.1)	(22.0)	96%
Dividends paid	(74.5)	(76.8)	(3%)
Net cash inflow (outflow) from financing activities	**(246.6)**	**332.4**	-
Net change in cash	**(10.8)**	**8.7**	**-**

Cash generated from operations was $292.7 million, an increase of 110% on pcp. Net working capital reduced by $39.6 million during FY23 due mainly to a reduction of $26.1 million in inventory levels. With supply chain and logistics pressures having eased, inventory levels were able to be reduced in the second half of FY23.

Operating cash flow conversion[12] for the year was 107% of Adjusted EBITDA versus 52% in the pcp, with the improvement mainly due to the reduction in net working capital versus pcp.

Capital expenditure payments for property, plant and equipment acquired during the year totalled $42.5 million compared with $60.4 million in the pcp. Capital expenditure totalling $26.7 million was focused on growth initiatives for key projects including SharkBite Max and PEX-a manufacturing initiatives. Capital expenditure for FY24 is expected to be in the range of $55 million to $60 million.

[12] FY23: Cash flow from operations to Adjusted EBITDA of $274.6 million.

DEBT POSITION AND CAPITAL STRUCTURE

Net debt[13] at 30 June 2023 was $451.7 million (30 June 2022 - $551.1 million). Net debt to EBITDA was 1.69 times[13] at 30 June 2023 (based on historical EBITDA for a 12-month period ended 30 June 2023) compared with 2.1 times for the pcp.

RWC's committed borrowing facilities are summarised in the following table.

US$ million	Facility Limit	Amount Drawn at 30 June 23	Expiry
Bank Facilities			
Tranche A	480.0	201.7	Nov-24
Tranche B	320.0	-	Nov-26
US Private Placement			
7 Years	55.0	55.0	Apr-28
10 Years	65.0	65.0	Apr-31
12 Years	65.0	65.0	Apr-33
15 Years	65.0	65.0	Apr-36
Total	**1,050.0**	**451.7**	

RWC's weighted average debt maturity was 5.4 years at 30 June 2023. 55% of total drawn debt at 30 June 2023 was at fixed rates. RWC further strengthened its balance sheet during the year through using the strong cash flows generated to repay borrowings. The Company is comfortably within its target leverage ratio of 1.5 times to 2.5 times net debt to EBITDA. RWC expects that it will remain in compliance with all borrowing facilities' financial covenants.

The Company has assessed that its optimal capital structure will be achieved by maintaining its net debt levels to achieve a leverage ratio (net debt to EBITDA) in the range of 1.5 to 2.5 times. Sustaining a level of debt within this range will ensure the Company optimises its cost of capital whilst at the same time maintaining investment grade equivalent credit metrics, such that it will continue to be able to access long term debt markets and have acceptably low refinancing risk of its debt facilities.

---

[13] Excludes leases.

HEALTH AND SAFETY

Health and safety continue to be RWC's highest priority, with an ongoing focus on maintaining a physically and emotionally safe and healthy workplace for employees, contractors and visitors. In FY23, our recordable injury frequency rate (RIFR)[14] reduced by a further 6% from 5.17 to 4.9 at the end of FY23, marking a total reduction of 23% over the past 4 years. No serious injuries were recorded in FY23, and 81% of RWC sites were injury free throughout the year.

The reduction in injury rate was achieved through all regions collaborating to focus on common elements of safety improvement including:

- greater engagement of our people in safety leadership behaviours
- improved incident reporting
- risk assessment and controls
- adherence to appropriate personal protective equipment requirements
- machine guarding
- traffic management and minimising the interaction between people and mobile equipment
- contractor management
- ergonomics and manual handling risk
- behavioural safety leadership

During the year a global benchmarking review of policies, procedures and culture was undertaken. As a result of this review, a multi-year program was initiated to improve safety in our workplace and ultimately achieve our objective of zero harm.

This program will initially focus on strengthening accountability, transparency and governance, developing safety leaders, managing critical risks, and enabling our frontline staff through training and support to keep themselves and their colleagues safe. We are also undertaking a more robust review of reporting practices across the globe, to ensure alignment and consistency of reported measures.

[14] The RIFR measures the rate of all recorded last time injuries, cases or alternate work, and other injuries requiring medical treatment, per one million hours worked.

FY2024 OUTLOOK

RWC believes that its end market exposure globally to the less cyclical repair and maintenance sector provides greater resilience to economic downturns compared with the more cyclical new residential construction market. RWC's products feature in non-discretionary repair projects and our brands are recognised "go to" products for repair work.

RWC believes it is well placed with its local manufacturing operations and strong track record of class-leading customer service to navigate economic challenges and respond to customer needs. We also expect our ongoing new product introductions will enable us to continue our long-standing record of delivering above-market growth with quality margins.

Global economic conditions in FY24 are expected to remain challenging. Interest rate rises since 2022 have impacted housing markets through slowing house price appreciation or declining house values, lower turnover of existing houses, and reduced consumer appetite for remodel activity. In some markets, new home construction activity is forecast to trend sharply lower in FY24.

Although some cost inflation pressures have eased, including selected raw materials inputs, shipping and logistics costs, other costs have continued to rise. RWC's cost out programs should help to mitigate ongoing cost inflation. We will continue to monitor costs and adjust prices if necessary.

At a consolidated level, RWC expects that its revenues will be down by low single digit percentage points in FY24 compared with FY23 due to lower sales in most markets. Our target is to achieve stable operating margins for the full year compared with FY23, with the impact of lower sales on operating margins to be offset by cost savings and price increases. We expect FY24 first half operating margins will be lower than the pcp. Inventory reduction initiatives underway in FY23 will continue into the first half of FY24 and will adversely impact manufacturing overhead recoveries. First half margins are also likely to be impacted by lower sales and costs associated with the SharkBite Max and PEXa product rollouts.

Specific commentary for each of RWC's three regions is provided below.

AMERICAS

Remodelling activity is expected to decline by mid-single digits in FY24 from the peak levels of activity experienced during Covid.[15] Lower turnover of existing housing stock was a headwind for remodel activity in FY23 and is expected to persist in FY24[16]. A lift in new home construction in the US from low levels in FY23 is expected, based on recent approvals data.[17] Non-residential construction activity is expected to be flat to slightly down, based on the Architecture Billings Index survey.

RWC expects sales to be down on the pcp by low single digit percentage points. Operating margins are expected to be higher than for FY23, following the progressive transfer of some SharkBite manufacturing and assembly from Australia to the US. The phased timing means this will be more evident in the second half of FY24.

---

[15] Source: Leading Indicator of Remodel Activity (LIRA), Joint Centre for Housing Studies of Harvard University

[16] National Association of Realtors

[17] US Census Bureau, National Association of Home Builders

ASIA PACIFIC

In Australia, it is estimated that current end-market exposure is 60% to new housing construction and 40% to repair, maintenance and remodel activity. Given the 21% decline in new housing commencements in the year to 31 March 2023, demand is expected to be lower in FY24. Lower manufactured volumes will negatively impact operating margins through reduced manufacturing overhead absorption.

Intercompany sales will also be significantly lower in FY24 following the transfer of some SharkBite Max production to the US. While Australia will continue to manufacture brass components for part of the SharkBite Max fittings range, the lower value of the components compared with the finished product that was previously manufactured in Australia for the US will also negatively impact operating margins.

For Asia Pacific overall, operating margins in FY24 are expected to be around one third lower than in FY23 due to the lower demand in the Australian market, along with the major changes in manufacturing orientation away from exports to the US.

EMEA

Macroeconomic conditions are expected to be more challenging in EMEA compared with RWC's other two regions.

In the UK, new home construction activity has been tracking lower[18], and high interest rates have dented consumer confidence which in turn is impacting the outlook for remodel activity. Consequently, sales are expected to be down by low single digit percentage points in FY24 versus the pcp and operating margins will also be slightly lower.

EARNINGS GUIDANCE

RWC is not providing quantitative earnings guidance for FY24 due to the ongoing uncertainty affecting market conditions. We intend to continue providing quarterly updates to investors on trading conditions in the three regions.

In terms of specific items, the following key assumptions are provided for FY24:

- Consolidated revenues are expected to be down by low single digit percentage points in FY24 due to lower sales in most markets.
- RWC is targeting stable operating margins for full year FY24 vs FY23, with lower sales targeted to be offset by cost savings and price increases.
- FY24 first half operating margins are expected to be lower than pcp due to inventory reduction initiatives.
- RWC expects operating cash flow conversion to return to normal levels of around 90% for the year.
- Capital expenditure is expected to be in the range of $55 million to $60 million.
- Depreciation and amortisation expense is expected to be in the range of $50 million to $55 million.
- Net interest expense is expected to be in the range of $28 million to $31 million.
- The adjusted effective tax rate is expected to be in the range of 22% to 25%.

[18] Source: UK Office of National Statistics

The additional cost saving measures identified in FY23 are expected to deliver $15.0 million in savings on a full year run rate basis in FY24, of which $3.1 million was achieved in FY23. Other continuous improvement and cost reduction initiatives are being pursued with a further $4.0 million in savings targeted in FY24.

Variations in economic conditions, trading conditions or other circumstances may cause these key assumptions to change.

Additional information

Please refer to the Appendix 4E, 2023 Annual Report and presentation slides released today for additional information and analysis. These documents should be read in conjunction with each other document.

For further enquiries, please contact:

Phil King
Group Investor Relations Director
Tel: +61 (0) 3 8319 6717
Mob: +61 (0) 499 986 189
Email: phil.king@rwc.com

This document was approved for release by the Board.

Appendix 1: RWC Overview

RWC is a global market leader and manufacturer of water delivery, control and optimisation systems for the modern built environment. Established in Brisbane, Australia in 1949, today RWC continues to pioneer and innovate plumbing products for residential, commercial and industrial plumbing applications. Its unique plumbing solutions target the repair and re-model, renovation service and new construction markets.

RWC is a preferred supplier of high-quality products, including its brass and plastic Push-to-Connect ("PTC") fittings, PEX pipes, valves, manifolds, underfloor heating components and various accessories to the plumbing and heating, ventilation and air conditioning (HVAC) industry globally. RWC markets its products under industry-trusted brands such as SharkBite, Cash Acme, Reliance Water Controls, RMC Water Valves, HoldRite, JG Speedfit, ProLock and Eastman through wholesale, OEM and retail channels.

RWC established the global market for brass PTC products and today is the largest manufacturer in the world of brass PTC products; SharkBite is the number one brass PTC brand. Since its introduction in the US in 2004, PTC has grown to approximately 15% of the USA fittings market by volume. PTC systems disrupt and replace the traditional labour-intensive fittings, significantly increasing job throughput for contractors and satisfaction ratings from end users. The majority of SharkBite PTC sales are in the defensive repair, maintenance and renovation end markets. In March 2023, RWC launched the next generation of PTC products in North America, SharkBite Max.

RWC looks to achieve sales growth on top of broader market growth through a combination of end user conversion from more traditional methods to RWC's products and systems, market share gains, new products introduced to the market and acquisitions. RWC's distribution networks in each of its core markets provide a strong platform that can be leveraged to accelerate growth of new or newly acquired products.

Product development is central to RWC's longer-term strategic plan. Our objective is to positively disrupt sectors within which we operate through developing and launching innovative, differentiated solutions that improve the productivity of our professional trade customers and end users. With commercialisation of new products becoming increasingly costly, particularly for entirely new product categories, RWC has continued to explore M&A, focused on acquiring products that add to RWC's range and growth.

The acquisition of HoldRite in 2017 enabled RWC to broaden its offering to the commercial construction market. HoldRite products, including engineered plumbing support systems, fire stops, water heater accessories and acoustic pipe isolation solutions are complementary to RWC's traditional products. They are designed for both residential and commercial new construction market segments and generally sold and installed alongside RWC's traditional products.

RWC acquired John Guest, the largest manufacturer in the world of plastic PTC products in June 2018, to become the global leader in plastic as well as brass PTC fittings technology. UK-based John Guest is a leading manufacturer of plastic PTC fittings and pipe for a diverse range of industries, including plumbing and heating, water quality and fluid dispense and other PTC applications. John Guest is a clear market leader in the UK and has a solid European distribution platform.

EZ-Flo International was acquired by RWC in November 2021. EZ-Flo is a leading manufacturer and distributor of plumbing specialty products, appliance supply lines, flexible water connectors, gas connectors, and other accessories. The acquisition included Eastman, the leading brand in large appliance connectors in the US. With Eastman, RWC is positioned as a leader in supporting those who service major appliance installations including plumbed appliances, gas, hot water, and dryer venting.

The combined RWC business has an enlarged global footprint and manufacturing capabilities to reach more markets and customers with an enhanced portfolio of complementary products. RWC's footprint today includes 12 manufacturing facilities, 22 distribution centres and 4 R&D locations across its Americas, Asia Pacific and EMEA operating segments. The combined business employs approximately 2,600 people.