



ASX Announcement

23 February 2017

RWC delivers continued strong growth in first half of FY2017 and affirms full year Prospectus forecast

Reliance Worldwide Corporation Limited (ASX: RWC) (“RWC”) has today announced its consolidated results for the six months ended 31 December 2016.

Key highlights:

- Continued strong growth in core SharkBite Push-To-Connect (“PTC”) plumbing fittings business in the Americas.
- Net sales of \$282.7 million, an increase of 4.0% over Pro Forma 1HFY2016¹ and up 9% on a constant currency basis.
- EBITDA of \$63.7 million, an increase of 18.0% over Pro Forma 1HFY2016¹.
- Net profit after tax of \$35.3 million, representing 56% of Prospectus forecast for FY2017 and slightly ahead of anticipated half year results.
- Maiden interim dividend of 3.0 cents per share declared.
- Strong balance sheet to support continued growth in the business.
- Net debt reduced by \$31.6 million to \$96.3 million at 31 December 2016.

FY2017 outlook:

- Full year net profit after tax expected to remain slightly ahead of Prospectus profit forecast².
- Distribution to Lowe’s has now commenced.
- Confirmation of The Home Depot continuing to support SharkBite PTC.
- Acceleration of capital investment in order to meet the increasing demand for SharkBite PTC.

Results for the period

	Actual (\$m)	Pro Forma 1HFY2016¹ (\$m)	Change (%)
Net sales	282.7	271.9	4.0
Gross profit	120.9	113.1	6.9
EBITDA ³	63.7	54.0	18.0
EBIT ³	54.7	46.0	18.9
Net profit after tax	35.3	n/a	n/a



Group Overview

RWC is a leader in the design, manufacture and supply of water flow and control products and solutions for use in “behind the wall” plumbing. RWC is the clear number one manufacturer in the world of brass PTC plumbing fittings. These are sold under our SharkBite brand and manufactured in RWC’s facilities in Australia and the USA. PTC products remain the primary driver of the business and will continue to be so going forward. PTC replaces the traditional labour intensive crimp and expansion PEX systems and copper solder fittings. These time saving solutions are increasingly supported by the continuing trend of a reduced supply of plumbers and other skilled labour in our key markets.

During the period RWC continued its strong focus on building awareness of the SharkBite PTC fittings and associated accessories to drive sales growth and market penetration. The PTC business in North America is at the core of the RWC growth story and that business continued to deliver double digit sales growth in the first half.

The majority of PTC sales continue to be in the defensive repair and maintenance and renovation end markets. The newly launched EvoPEX PTC system begins our penetration into the residential new construction sector in North America. RWC now has the range of PTC fittings to cover all residential plumbing fittings sectors.

RWC has 11 manufacturing facilities across Australia, New Zealand, the USA and Spain. Manufacturing of SharkBite SKUs for the Americas segment continues to be transitioned to Cullman, Alabama following the successful completion of the installation and commissioning of two new SharkBite PTC fittings production cells at that facility during 2016. Production at Cullman is running ahead of plan with additional shifts to meet demand requirements. The majority of SharkBite PTC continues to be manufactured in Australia.

Group Results Review

Net sales for the period of \$282.7 million were 4% higher than for the comparative period (9% higher on a constant currency basis). The increase was driven by continued sales growth in the core SharkBite business in the Americas operating segment. This increase was partially offset by lower AUD translated sales in the United Kingdom which were affected by Brexit and a materially stronger AUD/GBP exchange rate.

EBITDA³ was \$63.7 million, an increase of 18.0% over Pro Forma 1HFY2016. This strong result reflects the growth in net sales combined with the benefits of procurement initiatives and improved manufacturing efficiencies achieved during the period.

Net profit after tax (“NPAT”) was slightly ahead of original expectations and represents 56% of Prospectus forecast for FY2017. RWC currently projects the second half NPAT result to be consistent with original expectations thus maintaining the slight first half NPAT benefit.



Segment Review

Americas

	Actual (\$m)	Pro Forma 1HFY2016¹ (\$m)	Change
Net sales ⁴	198.8	184.1	8.0%
EBITDA ³	37.1	29.5	25.8%
EBITDA margin	18.7%	16.0%	+270bps

The Americas segment delivered solid growth in net sales and EBITDA. Net sales for the period were \$198.8 million⁴, an increase of 8.0% over Pro Forma 1HFY2016 (13% increase on a constant currency basis). EBITDA contribution was \$37.1 million, an increase of 25.8% over Pro Forma 1HFY2016. The Americas performance was driven by continued market penetration of SharkBite products. Procurement and other ongoing cost saving initiatives also contributed to the EBITDA Margin improvement.

RWC continued to work with The Home Depot (“THD”) to deliver growth in their sales. THD’s buying followed the same pattern as prior periods with strong pre-winter purchasing.

The America’s result includes the impact of customers increasing their inventory levels in anticipation of any potential freeze event occurring during the northern hemisphere winter. No weather has been observed to date representing what RWC would classify as a freeze event. Should that remain the case, RWC expects its customers to manage down their inventory during the second half, as was the case in FY2016.

Asia Pacific

	Actual (\$m)	Pro Forma 1HFY2016¹ (\$m)	Change
Net sales ⁴	110.9	105.5	5.1%
EBITDA ³	27.1	23.5	15.3%
EBITDA margin	24.4%	22.3%	+210bps

Asia Pacific delivered a 5.1% increase in net sales for the comparative period with growth mainly from above plan sales to the Americas. Typically, more favourable results are achieved by Asia Pacific during the December half year period with production volumes increasing to meet the demand from the Americas in preparation for the northern hemisphere winter. This half year also saw demand from the Americas in preparation for supplying to Lowe’s. External sales saw strong demand from Wholesale customers partially offset by somewhat lower demand in the OEM



channel. The Asia Pacific segment also achieved savings from procurement activities, ongoing manufacturing efficiencies and other cost saving initiatives.

EMEA

	Actual (\$m)	Pro Forma 1HFY2016¹ (\$m)	Change
Net sales ⁴	23.7	27.1	(12.5%)
EBITDA ³	0.8	2.2	(63.6%)
EBITDA margin	3.4%	8.1%	-470bps

Net sales in the EMEA segment were down 12.5% on the prior comparative period but increased 10% on a constant currency basis. Uncertainty following Brexit adversely affected sales in the United Kingdom, particularly in the first quarter, and a materially stronger AUD/GBP exchange rate impacted the translated results. Demand from Wholesale customers, particularly for thermostatic products, remained strong in the period but was offset by weakness in OEM sales.

Spain continues to supply its PEX product to Australia to meet external demand. Increased production capacity in Spain is planned to meet this demand and to have sufficient capacity to support local market sales.

Dividend

A maiden interim dividend of 3.0 cents per share has been declared. This represents a NPAT payout ratio of 45%, within the intended range of 40% to 60% stated in the Prospectus. The dividend is franked to 40%. The Record Date for dividend entitlement is 10 March 2017. The payment date is 31 March 2017.

Capital expenditure

Capital expenditure payments during the period were \$9.5 million, split between maintenance expenditure (\$5.4 million) and growth capital expenditure (\$4.1 million). The latter included acquisition of a property in Cullman, Alabama which will initially be utilised as a warehouse / distribution facility to support projected growth in demand.

Increased capital expenditure is anticipated during the second half of the financial year as additional capacity is built to meet expected future demand. Some growth capital expenditure originally planned for FY2019 will need to be brought forward to FY2018, which will result in a requirement to pay equipment deposits during the second half of FY2017 given the lead time required by equipment manufacturers.



Cash Flow

Cash flow from Operations for the period was \$45.4 million. Continued active management of inventory, trade debtors and trade creditors delivered a strong cash conversion result.

Net borrowings reduced by \$31.6 million as available funds were used to pay down cash advance facilities. The facilities are available for redraw, if required.

Balance Sheet

The balance sheet at 31 December 2016 continues to be in a strong position with significant liquidity to support further growth.

Inventory levels at 31 December 2016 reflected seasonal requirements to support the North American winter sales. In addition, inventory is carried to support the first phase of rollout to Lowe's occurring in the second half of FY2017. Inventory levels at 30 June 2017 may be higher than in prior years as we expect to carry inventory for the second phase of the Lowe's rollout.

Net debt at 31 December 2016 was \$96.3 million (30 June 2016 - \$127.9 million). Net Debt to LTM⁵ Pro Forma EBITDA was 0.9 times as at 31 December 2016 (30 June 2016 - 1.9 times) and LTM⁵ Pro Forma EBIT to net finance costs was 15.4 times (30 June 2016 - 13.1 times).

Expanded USA Retail Distribution to drive PTC adoption

The foundations of the growth of RWC's USA retail business are the SharkBite PTC fittings and PTC accessories. In the first half of FY2017, RWC continued to see double digit growth in this category in our Retail channel. As announced on 22 August 2016, there will be an additional 1,700+ Lowe's home improvement centres distributing RWC's PTC products. RWC is also pleased to announce THD has confirmed its decision to continue selling SharkBite PTC across its network (further details are provided below).

RWC is continuing its strategy of expanding access to SharkBite branded products in order to substantially grow and develop the overall PTC category. As a result, we expect to continue seeing strong double digit growth in the PTC category going forward.

We believe the expanded distribution of our USA Retail business will progress as follows:

Rollout to Lowe's

- The agreement with Lowe's includes distribution of RWC's full SharkBite Plumbing Solutions portfolio – PTC fittings, PTC accessories, PEX pipe and crimp fittings.
- The first phase of the rollout to approximately half of the Lowe's home improvement centres will be completed during the second half of FY2017. The final phase will be completed during the first half of FY2018.



Investment in capacity and operating capability has allowed RWC to efficiently build stock and prepare to supply Lowe's while seamlessly supporting existing customers.

Confirmation of SharkBite PTC at The Home Depot ("THD")

- Following formal review, THD has clarified RWC's position with them going forward.
- THD will continue to stock and support RWC's SharkBite PTC fittings and accessories across its national network of stores, excluding a small number of outlets in one region.
- THD will replace RWC's PEX pipe and crimp fittings in all but a small number of stores where we will retain the entire SharkBite Plumbing Solutions platform.
- RWC's understanding is that these changes will be phased in commencing during June 2017 and are expected to be completed during the first half of FY2018.

RWC is pleased to continue our longstanding partnership with THD in building our respective SharkBite PTC businesses reflecting the strength of the SharkBite brand and our high level of delivery, execution and service capabilities. We are hopeful of winning back THD's non-PTC business over time based on those proven capabilities.

THD remains RWC's largest customer globally and we remain committed to investing in and supporting THD with industry leading solutions and service and a broader range of solutions for plumbers.

RWC strongly believes that by adding SharkBite to additional USA retail outlets and gaining broader access to professional end-users, PTC growth and adoption will continue driving sales of the entire rough plumbing solution which we offer. We are confident that this will create stronger brand awareness and a larger and more diversified platform for growth for the benefit of all distributors moving forward, including THD.

New Product Development and Innovation

Product development and innovation remain a key pillar of RWC's growth strategy. EvoPEX, which is designed for the new residential construction market in North America, is an example. A controlled launch in target markets occurred late in 2016. Sales are expected to grow in FY2018 as the product is rolled out in additional markets and new construction adoption grows.

RWC's Research and Development team continues to focus on product solutions which will make the job of professional plumbing contractors easier and create value for our distributors. The team has been undertaking preliminary work on Connected Devices, in the context of application within the Internet of Things ("IoT"). During the period, we acquired IP specifically related to this field which has advanced our capabilities in flow monitoring and associated IoT infrastructure. In the mid-term, this is expected to yield a number of unique water usage monitoring products, although these are not expected to deliver significant revenue in the FY2017 or FY2018 periods. Longer term, this area of development raises the possibility of a range of advancements, in conjunction with our existing product range, to move towards "smart plumbing" systems. In doing so, we will position ourselves to



better understand and manage water usage within buildings, and thus better specify future plumbing products, and lead future plumbing standards development.

Outlook

RWC expects its full year NPAT for FY2017 to be in line with or slightly ahead of Prospectus NPAT forecast of \$62.6 million².

RWC expects to see continued strong double digit growth in the underlying SharkBite PTC sales in USA at or above recent trends in FY2017. Overall growth in Retail sales in the USA are likely to be above trend in FY2017 tempered by unfavourable translation effects and expected continuing Brexit impacts in EMEA.

Recent increases in the price of copper are not expected to have a material impact on the forecast FY2017 NPAT. RWC buys brass bar from its suppliers who in turn mainly use scrap brass (with swarf from Brass machining being the largest constituent) in their production cycle. There is a lag effect on the price impact, the length of which depends on where we and our suppliers are in our respective purchasing cycles. Rise and fall agreements are in place with major OEM customers. RWC will seek to pass on to other customers any sustained increase in the copper price or seek to manage its costs through its procurement processes.

RWC is exposed to movements in foreign exchange rates and traditionally does not hedge foreign exchange exposures. Unfavourable movements in GBP/AUD have and may continue to erode the translated value of sales in the UK.

RWC expects to continue to drive growth and development in the business through executing on several strategies, including:

- Increased penetration of product into existing markets, particularly the PTC fittings market in the USA;
- Release of new products and enhancements to existing products. We expect to continue development of new products and product enhancements to bring innovative solutions to the market;
- Expansion into the New Construction market in the USA. The initial driver for this will be the EvoPEX product into the new residential construction market;
- Continued opportunities for expansion into new geographies, including continental Europe, Central and South America and South East Asia; and
- Remaining alert for potential acquisition opportunities in the plumbing products industry. Any acquisitions will need to deliver products complementary to our existing product range or provide access to new distribution channels and will be carefully evaluated against the Company's business strategy and investment criteria.



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Additional information

Please refer to the Appendix 4D, 31 December 2016 Half Year Financial Report and presentation slides released today for additional information and analysis. These documents should be read in conjunction with each other document.

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- 1 "Pro Forma 1HFY2016" refers to Pro Forma Historical Results for 1H FY2016 as contained in the Prospectus dated 18 April 2016.
- 2 Forecast confirmed assuming, among other things, that current general economic conditions are maintained, including in the geographies where RWC operates, and no significant changes to foreign currency exchange rates, particularly USD/AUD.
- 3 Before significant items (include non-operating foreign exchange gains and losses in 1H FY2016).
- 4 Prior to elimination of inter-segment sales.
- 5 "LTM" means Last Twelve Months.