



ASX Announcement

26 February 2018

RWC reports strong first half results with continued business growth. EBITDA guidance for FY2018 increased.

Reliance Worldwide Corporation Limited (ASX: RWC) (“RWC” or “the Company”) today announced its consolidated results for the six month period ended 31 December 2017.

Key highlights:

- Net sales of \$362.6 million, an increase of 28.3% compared with the six months ended 31 December 2016 (“comparative period”) and up 31.3% on a constant currency basis
- Led by strong double digit growth in core SharkBite Push-To-Connect (“PTC”) fittings and accessories and first full period inclusion of Holdrite
- EBITDA of \$79.3 million, an increase of 24.5% over the comparative period and up 26.8% on a constant currency basis
- Net profit after tax of \$41.5 million
- Interim dividend of 3.5 cents per share declared
- Continued strong cash generation from operations
- Balance sheet strength continues to support business growth
- EBITDA guidance range for FY2018 raised to between \$150 million and \$155 million (from \$145 million to \$150 million advised in August 2017)

Operating and Financial Review¹

An overview of RWC’s business activities is provided in Appendix 1.

Results for the period

	31 December 2017	31 December 2016	Variance
Six months ended:	(\$m)	(\$m)	(%)
Net sales	362.6	282.7	28.3
EBITDA	79.3	63.7	24.5
EBIT	67.8	54.7	23.9
Net profit after tax	41.5	35.3	17.5



Review of Group Results

Net sales for the period of \$362.6 million were 28.3% higher than the comparative period (31.3% higher on a constant currency basis). The increase was driven principally through:

- continued expansion of SharkBite PTC business in the Americas operating segment, including a one-time benefit from completing the product rollout to Lowe's stores in the USA. The SharkBite PTC business continued to deliver strong double digit sales growth during the period;
- sales into new construction markets, led in the USA by the addition of Holdrite products and EvoPEX; and
- strong sales performance in the Asia Pacific and EMEA segments.

Partly offsetting these results were:

- lower net sales of PEX pipe and crimp fittings to The Home Depot following its decision to destock these products from all but a small number of its stores; and
- a weakening of the US dollar relative to the Australian dollar which reduced the translated value of sales from the Americas segment.

EBITDA for the period was \$79.3 million, an increase of 24.5% over the prior period (26.8% higher on a constant currency basis). This strong result primarily reflects:

- growth in net sales as described above;
- margin benefits from inclusion of higher margin Holdrite products and increased scale and efficiencies within its manufacturing activities; and
- ongoing procurement initiatives across the business.

These benefits were partially offset by:

- increased copper and other input costs;
- a weakening of the US dollar relative to the Australian dollar; and
- SG&A investment to support the Company's growth activities which is expected to yield benefits both in the second half of the year and in future periods. In particular, the Company invested in additional selling and marketing resources and capabilities; in expanding and enhancing distribution channel access, particularly in the Americas; and in other corporate development and growth initiatives, including spend on key R&D activities.

RWC expects its full year EBITDA margin to be at or above the 20% achieved for the full year in FY2017. As a business, RWC does not set specific margin targets. Margins will move up and down from time to time as we invest for the long term benefit of the business.

Net profit after tax ("NPAT") was \$41.5 million. This result includes a higher net interest expense as a result of increased external borrowings which funded the acquisition of Holdrite in June 2017. NPAT was also affected by a reduction in income tax expense of US\$2.0 million resulting from changes to the federal corporate tax rate contained in the Tax Cuts and Jobs Act passed by the USA Government in December 2017. Of this amount, US\$1.2 million relates to a lower current income tax expense resulting from using a blended federal corporate tax rate of 28% on US earnings for the period and US\$0.8 million relates to the restatement of deferred tax balances.



Segment Review

Americas

Six months ended:	31 December 2017 (\$m)	31 December 2016 (\$m)	Variance
Net sales ²	266.8	198.8	34.2%
EBITDA	52.9	37.1	42.6%
EBITDA margin	19.8%	18.7%	110bps

The Americas segment continued to deliver strong growth in net sales and EBITDA. Net sales for the period were \$266.8 million, an increase of 34.2% over the comparative period (38.6% increase on a constant currency basis). EBITDA contribution was \$52.9 million, an increase of 42.6% over the comparative period.

The Americas performance was driven by:

- continued market penetration of SharkBite PTC fittings and accessories in the repair and renovation market. This reflects our continuing investment in building brand awareness and educating end users about SharkBite PTC products;
- execution of a strategy to expand our product availability. RWC products are now available in over 23,000 outlets across the Americas, creating a powerful distribution network to help build both the PTC category and the SharkBite brand and to support future product growth; and
- expansion into the residential and commercial new construction markets through the Holdrite and EvoPEX product ranges.

During the period the US business completed the final stage of the rollout of product to Lowe’s 1,700+ home improvement centers. From the middle of 2017, RWC ceased supplying PEX pipe and crimp fittings to all but a small number of The Home Depot outlets as part of their previously announced decision to destock these products. SharkBite PTC fittings and accessories continue to be supplied to all but a small number of The Home Depot outlets. These activities were completed in line with the expectations announced by the Company last year. We also successfully signed up over 2,000 stores with a long standing Hardware Channel customer for an expanded footprint, which includes a full PEX pipe and fitting display, in conjunction with an expanded PTC offering for the SharkBite Total Solution package. The business has seen increased sales through this customer following the roll out.

Outside of the growth in the retail sector, the Americas segment experienced solid growth over the comparative period in all market sectors and product groups. Across all channels, we again saw forward buying ahead of the North American winter. Moreover, the results include the first



full period contribution from Holdrite which was in line with our expectations at the time of acquisition.

EBITDA margin in the Americas expanded partly as a result of product mix and inclusion of Holdrite. In addition, scale and efficiency benefits from investment into manufacturing capacity in the USA also contributed to the higher EBITDA margin. This improvement was partially offset by increased copper costs and higher SG&A costs to support growth and expansion of the business. The Americas result was also partially offset on translation to Australian dollars as result of a weakening exchange rate.

Asia Pacific

	31 December 2017 (\$m)	31 December 2016 (\$m)	
Six months ended:			Variance
Net sales ²	121.6	110.9	9.6%
EBITDA	29.9	27.1	10.3%
EBITDA margin	24.6%	24.4%	20bps

Asia Pacific delivered net sales of \$121.6 million, an increase of 9.6% over the comparative period. Growth occurred across all major product categories in both external sales and inter-segment sales to the Americas. In particular the business experienced continued strong growth in our PEX piping systems and PTC fittings.

EBITDA for the period was \$29.9 million, an increase of 10.3% over the comparative period. Growth in EBITDA was driven primarily by growth in sales. Margins were slightly up on the prior year, supported by strong manufacturing volumes to meet demand in the Americas prior to the winter season. This was partially offset by an increase in SG&A driven by modest inflationary rises and ongoing investment to support growth.

EBITDA margin in the Asia Pacific segment is traditionally higher in the first half than in the second half. This reflects normal seasonality in the business, with production volumes increasing in the December half year period as we and our customers in the Americas segment prepare for possible extreme cold weather events during the northern hemisphere winter.



EMEA

	31 December 2017	31 December 2016	
Six months ended:	(\$m)	(\$m)	Variance
Net sales ²	29.4	23.7	24.1%
EBITDA	(0.4)	0.8	<i>nm</i>
EBITDA margin	(1.4%)	3.4%	<i>(480bps)</i>

nm = not meaningful

Net sales in EMEA were \$29.4 million, an increase of 24.1% on the comparative period (23% increase on a constant currency basis). Growth was driven by a double digit increase in the UK across all market sectors and product groups, particularly underfloor heating, thermal interface units and control valves. Sales in Spain more than doubled with continuing supply of PEXa pipe to Australia and growth of external sales in Europe.

The EBITDA loss of \$0.4 million in the first half reflects investments made to grow the business particularly in selling and marketing capabilities in both the UK and Europe as well as one-time business development costs. While RWC expects sales in the second half to be comparable to sales in the first half, we expect to see a significant improvement in profitability as gross margin improves as a result of the investments made in the first half, leading to a forecast positive EBITDA in EMEA for the full year.

Dividend

An interim dividend of 3.5 cents per share franked to 100% has been declared, an increase of 16.7% over the comparative period dividend of 3.0 cents per share franked to 40%. The dividend is within the targeted dividend payout range of 40% to 60% of annual NPAT. The record date for dividend entitlement is 9 March 2018. The payment date is 29 March 2018.

Capital Expenditure

Capital expenditure payments on property, plant and equipment during the first half totalled \$15.9 million, with \$10.4 million for growth expenditure and \$5.5 million for maintenance expenditure. Growth capital expenditure is mainly being incurred to complete previously announced expansion plans to meet forecast growth in demand for SharkBite PTC, EvoPEX fittings and PEX pipe.

Capital expenditure for the full financial year is forecast to be approximately \$35 million, consistent with prior guidance.



Cash Flow from Operations

Cash flow from Operations for the period was \$55.8 million compared with \$53.6 million for the comparative period. The ratio of Cash flow from Operations to EBITDA was 70.4% (84.1% in the comparative period). While EBITDA grew \$15.6 million over the comparative period, net working capital grew \$23.3 million, \$13.4 million higher than in the prior year. The growth in net working capital reflects an investment over the past six months in higher levels of inventory to support an expanded business, larger trade receivables reflecting the presence of new major customers and lower payables.

Balance Sheet

The balance sheet at 31 December 2017 continued to be in a strong position. Liquidity of \$82 million was available at balance date under \$350 million of borrowing facilities to support further growth.

Net debt at 31 December 2017 was \$243.3 million (30 June 2017 - \$235.4 million). Net Debt to LTM³ EBITDA was 1.79 times as at 31 December 2017 (30 June 2017 - 1.95 times) and LTM³ EBIT to net finance costs was 15.9 times (30 June 2017 – 20.2 times).

New Product Development and Innovation

The Research and Development team continues to focus on developing innovative engineered product solutions which will transform traditional plumbing methods. We aim to solve the everyday problems of plumbers and contractors and facilitate professional and time saving installation and repair solutions in the residential, commercial and industrial markets, while creating value for our distributors.

Streamlabs Monitor is RWC's first smart home water monitoring technology solution. The release of Streamlabs in January 2018 represents RWC's long-standing strategy to merge our proven rough plumbing products of water conveyance (pipes and fittings) and water control devices with the overlay of modern-day digital and mobile technology. Streamlabs utilises water monitoring technology to capture and report real-time water flow data in a meaningful way coupled with a non-invasive installation method.

Streamlabs is not expected to deliver significant revenue until after FY2019. Longer term, this area of development raises the possibility of a range of further advances in conjunction with our existing product range.



Strategy and Business Development Activities

RWC's core brass PTC fittings have been the primary driver of growth and are likely to remain so over the coming period, particularly in the Americas. RWC will continue its strong focus on building awareness of the SharkBite PTC fittings and associated accessories to drive sales growth and market penetration in the repair and re-model markets. Expansion into the residential and commercial new construction markets in the USA will continue to be driven by the Holdrite and EvoPEX products.

The Company also continues to pursue and invest in other adjacent growth opportunities. These include products and solution systems that have resonance in both the residential new construction and repair and remodel markets as well as the commercial construction market. Of particular interest are products or technologies that support growth in more than one area. These "platform enablers" could be developed internally, acquired or developed in partnership with third parties. What continues to link them all together is their focus on conveying, controlling and optimising water use from the source to the fixture in a reliable and effective manner and increasing the ease and efficiency of installation.

The Company also continues to explore and evaluate opportunities to expand sales and distribution into new geographic markets. Focus remains on key markets in the UK and continental Europe, as well as developed and developing markets in Asia.

Growth opportunities in new products and/or geographies could be pursued organically, through acquisition or via joint venture partnership. Any acquisitions or partnerships would need to deliver products complementary to our existing product range and/or provide access to new distribution channels and will be carefully evaluated against RWC's business strategy and investment criteria. We will maintain a disciplined approach towards acquisition opportunities.

Full Year EBITDA Forecast

Forecast EBITDA for FY2018 is expected to be in the range of \$150 million to \$155 million. This compares with an EBITDA for FY2017 of \$120.7 million. The range has been increased from the forecast of \$145 million to \$150 million advised in August 2017.

Achievement of the full year forecast result will be driven by continued strong top line growth expected from ongoing expansion of the PTC business in the Americas, inclusion of a full year of Holdrite results and continued growth in the Asia Pacific and EMEA markets, along with improvement in EMEA profitability. The USA business has seen an uplift in sales during January and February and anticipates a net positive impact from the current North American winter. The final impact will be known over the next few months as winter ends and we assess any effect on customer reorders.



The forecast assumes, among other things, that current general economic conditions are maintained, including in the geographies where RWC operates and no significant changes to current foreign currency exchange rates, particularly USD/AUD and GBP/AUD⁴. We have also assumed that copper and other input costs remain similar to current levels.

USA Federal Corporate Tax Reform

RWC is continuing to assess the potential effect on its future consolidated financial position and results following the recent passing by the USA Government of the Tax Cuts and Jobs Act (“Act”). The Act introduces a number of reforms, including reducing the federal corporate income tax rate from 35% to 21% effective from 1 January 2018. RWC is adopting a blended federal corporate tax rate of 28% to calculate the taxation expense in its US operations in FY2018. The 21% federal rate will fully apply to USA operations from 1 July 2018. RWC currently anticipates that the Group’s effective tax rate will be between 4.0 and 6.0 percentage points lower from FY2019 following the full impact of the Act taking effect⁵.

Additional Information

Please refer to the Appendix 4D, 31 December 2017 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 The Operating and Financial Review forms part of, and should be read in conjunction with, the statutory Directors’ Report for the period ended 31 December 2017.
- 2 Prior to elimination of inter-segment sales.
- 3 LTM means last twelve months.
- 4 RWC traditionally does not hedge foreign currency exposures. Unfavourable rate movements may erode the translated value of results from the Americas and EMEA segments.
- 5 Subject to any future changes in the RWC Group’s geographic mix of earnings.



Appendix 1

About RWC

RWC is a global innovator focused on providing water solutions for the built environment. The Company is a leader in the design, manufacture and supply of integrated systems that deliver, control and optimise water use for residential and commercial industrial applications. RWC's portfolio of products, which target the new construction, renovation, service and repair markets, work together to create a total end-to-end solution from the water meter to the fixture.

The SharkBite PTC business in North America is at the core of the RWC growth story. PTC systems replace the traditional labour intensive crimp and expansion PEX systems and copper solder fittings, providing significant efficiency benefits for end users. The majority of SharkBite PTC sales are in the defensive repair, maintenance and renovation end markets. RWC continues to focus on building awareness and expanding distribution of SharkBite PTC fittings and associated accessories to drive sales growth and market penetration in North America.

RWC's expansion into the North American residential and commercial new construction markets is led by the EvoPEX and Holdrite product ranges. EvoPEX is the first PTC rough-in plumbing solution designed for these markets. It leverages SharkBite PTC technology and combines it with RWC's PEX pipe and control valves to provide a comprehensive system that improves contractor efficiency and optimises installation time. EvoPEX was formally launched in January 2017.

The Holdrite business was acquired in June 2017. Holdrite products are complementary with RWC's traditional products and include a range of pipe support systems, water heater accessories and acoustical isolation and firestop systems. They are designed for both residential and commercial new construction and are generally sold and installed alongside RWC's traditional products. Holdrite is now integrated into the RWC business and we continue to be encouraged by the benefits and opportunities we are seeing from the acquisition.

RWC has 12 manufacturing facilities and 12 distribution centres across its Americas, Asia Pacific and EMEA operating segments.

Product development and innovation remain a key pillar of RWC's growth strategy.