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24 February 2020

RWC ANNOUNCES RESULTS FOR SIX MONTHS ENDED 31 DECEMBER 2019

Reported net sales up 5% to $569.3 million

Reported net profit after tax of $50.1 million

Adjusted net profit after tax[1] of $63.7 million

EBITDA[1] of $126.3 million

Strong cash generation with net cash from operating activities up 163% to $112.8 million and operating cash conversion of 105% of EBITDA

Continued sales growth in the Americas, particularly in retail and hardware channels

Net external sales growth in the UK despite weaker market conditions

John Guest synergy benefits of $12.3 million achieved in first half, an increase of $7.5 million on prior period

Interim dividend of 4.5 cents per share, up 13%

Full year Adjusted net profit after tax[1] expected to be in the range of $140 million to $150 million

Reliance Worldwide Corporation Limited (ASX: RWC) ("RWC" or "the Company") has today announced its consolidated results for the six months ended 31 December 2019.

KEY ITEMS

REVENUE

- Net sales were $569.3 million, up 5% on the prior corresponding period ended 31 December 2018 ("prior period"). This growth rate was significantly influenced by currency translation effects, with net sales growth on a constant currency basis of 0.4%.
- Reported net sales growth in the Americas was 7%, while sales growth on a constant currency basis was 1.4%.
- EMEA's reported sales were 1% higher, and 1% lower on a constant currency basis. RWC's UK operations recorded positive external net sales growth in core plumbing and heating despite Brexit uncertainty and weakness in residential construction and remodel activity.
- Asia Pacific external sales were modestly higher despite significant declines in residential construction activity in Australia.

[1] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance

EARNINGS

- Reported net profit after tax of $50.1 million, down 22% on prior period.
- Adjusted net profit[2] after tax of $63.7 million, down 21% on prior period. Adjusted net profit after tax comparatives reflect:
    - Amortisation of certain intangibles for taxation purposes under longstanding US tax rules that are not amortised for accounting purposes under accounting standards ($7.9 million), and
    - An additional net tax expense item ($5.7 million) relating to reassessment of certain tax items for prior years.
- Reported earnings per share of 6.4 cents, down 22% on the prior period.
- Adjusted earnings per share of 8.1 cents, down 21 % on the prior period.
- Reported EBITDA[3] of $126.3 million, down 2% on the prior period.

OTHER HIGHLIGHTS

- Continued realisation of John Guest synergies totalled $12.3 million in the period, an increase of $7.5 million over the prior period. Total annual synergy realisation remains on track to exceed $30 million on a run rate basis by the end of FY2020.
- Continuous improvement and procurement initiatives delivered $1.5 million in cost reduction benefits during the period.
- Strong cash generation with net cash flow from operating activities up 163% to $112.8 million.
- Earnings cash conversion of 105% for the period, up from 58% in the prior period.
- Net debt of $394.7 million at 31 December 2019; reduced by $31.9 million since 30 June 2019.
- Reduction in leverage, with Net Debt to EBITDA ratio down from 1.67 to 1.57 times[4].
- Interim dividend of $35.6 million, being 4.5 cents per share (prior period: $31.6 million, being 4.0 cents per share).

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[2] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance
[3] EBITDA means Earnings before interest, tax, depreciation and amortisation
[4] Net debt excludes lease liabilities

OPERATING AND FINANCIAL REVIEW[5]

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

Review of results for the financial period

Six months ended:	**31 Dec 2019 ($ million)**	**31 Dec 2018[6] ($ million)**	**Variance**
Net sales	**569.3**	**544.2**	**5%**
Reported EBITDA[7]	**126.3**	**128.6**	**(2)%**
Adjusted for one-time items:			
- John Guest integration costs expensed	-	6.4	n/m
- John Guest fair value inventory unwind	-	2.4	n/m
Adjusted EBITDA[6]	**126.3**	**137.4[8]**	**(8)%**
Reported net profit before tax	**84.7**	**88.3**	**(4)%**
Tax Expense	(34.6)	(22.6)	54%
Reported net profit after tax	**50.1**	**64.3**	**(22)%**
Adjusted for specific tax items:			
- Cash tax benefit of goodwill amortisation for tax purposes	7.9	7.9	n/m
- Prior periods tax adjustment	5.7	-	n/m
John Guest Integration and Purchase Accounting	-	8.3	n/m
Adjusted net profit after tax[6]	**63.7**	**80.5**	**(21)%**
Basic earnings per share	**6.4 cents**	**8.2 cents**	**(22)%**
Adjusted earnings per share	**8.1 cents**	**10.3 cents**	**(21)%**
Dividend per share	**4.5 cents**	**4.0 cents**	**13%**

n/m = not meaningful

[5] The Operating and Financial Review forms part of and should be read in conjunction with the statutory Directors' Report for the six months ended 31 December 2019.
[6] Prior period restated for the impact of AASB16: Leases and the impact of tax-deductible goodwill amortisation. Certain line items shown in this prior period column may not sum as a result of these restatements
[7] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance
[8] Adjusted EBITDA for HY2019 included a $1.3 million positive adjustment for the impact of AASB15: Revenue from Contracts with Customers. This adjustment is no longer required for comparative purposes as AASB15 applied to both HY2019 and HY2020.

Constant Currency Revenue and EBITDA Performance

Six months ended:	31 Dec 2019 $ million Constant Currency	31 Dec 2018 $ million[9]	Variance % Constant Currency	31 Dec 2019 $ million Reported
Net Sales				
Americas	328.0	323.6	1.4%	346.8
Asia Pacific	122.6	129.8	(5.5)%	125.4
EMEA	169.7	172.1	(1.4)%	173.6
Eliminations (inter-segment sales)	(73.9)	(81.3)	n/m	(76.5)
RWC Group	**546.5**	**544.2**	**0.4%**	**569.3**
EBITDA[10]				
Americas	50.0	59.9	(16.5)%	53.6
Asia Pacific	24.0	27.6	(13.0)%	22.8
EMEA	52.1	49.3	5.7%	52.3
Corporate	1.7	0.5	n/m	(2.3)
RWC Group	**127.8**	**137.4**	**(7.0)%**	**126.3**

[9] Prior period EBITDA restated for the impact of AASB16: Leases
[10] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance

Net sales for the period ended 31 December 2019 of $569.3 million were 5% higher than the prior period. Results for the period were impacted by favourable foreign exchange movements for translation purposes, primarily a weaker Australian dollar versus the US dollar. Excluding the impact of translational foreign exchange movement during the period, underlying net sales growth was 0.4%.

Trading conditions were weaker than expected, negatively impacting planned revenue growth:

- In the USA, remodelling activity slowed to an annual rate of 4.8% growth from 7.0% in the prior period[11] while the Remodelling Market Index only trended up late in the period from relatively weak expansionary levels[12]. The repair and maintenance market remained supportive in line with historical experience.
- The Australian market was weaker than anticipated with total new dwelling commencements for the 12 months ended September 2019 down 21.5% on the prior period;[13]
- Trading conditions in the UK were volatile due to Brexit and election uncertainties. The Builders Merchants Federation sales indicator showed total sales were down 5.7% for the three months to November 2019 versus the prior corresponding period;[14] and
- Germany's GDP growth slowed to 0.6% for calendar year 2019 and the Eurozone economy grew by just 0.1 percent in the final quarter of calendar 2019, the weakest growth rate since 2013 as the economies of France and Italy contracted.[15]

Net sales growth in the Americas on a constant currency basis was 1.4%. Sales growth in retail and hardware channels in the USA was partly offset by lower sales to the wholesale channel. New product sales were also lower than planned. Also negatively impacting reported growth rates was the timing of key channel promotional activities, which in FY2019 occurred in the first half but which in FY2020 are planned for the second half. Adjusting for this and wholesale distributor changes, like for like sales in the Americas were 4.2% higher.

The revenue growth rate is also partly explained by the strength of prior period revenue performance. Distributors stocked additional inventory for the 2018/2019 winter season following the winter freeze events that had been a feature of the 2017/2018 winter. As a result, underlying net sales growth in the prior period was particularly strong at 14%, whereas sales in HY2020 were reflective of more typical seasonal trading patterns.

Other key markets recorded stable to positive external sales performance despite weaker macro-economic conditions. In Asia Pacific, reported external sales were up 1.1%, with weaker sales into the Australian new housing construction market offset by new product revenue growth. Adjusting for the one-time impact of AASB15 in the prior year, underlying net sales in Asia Pacific were broadly flat.

[11] Source: Leading Indicator of Remodelling Activity - Joint Centre for Housing Studies of Harvard University
[12] Source: National Association of Home Builders, Remodelling Market Index
[13] Source: Australian Bureau of Statistics
[14] Source: Builders Merchants Federation
[15] Source: Eurostat, Destatis

EMEA reported sales were up 1%, and in constant currency were down 1%. Sales in the UK were 3% higher in constant currency, with growth in core UK plumbing and heating sales partly offset by lower sales of RWC products as a result of the decision in the second half of FY2019 to exit certain product lines. Sales in Continental Europe were mixed but were 10% lower in the key German market and the automotive sector was weaker than expected.

Reported EBITDA[16] for the period was $126.3 million, a decrease of 2% on the prior period, driven by:

- A positive impact on cost of goods sold from lower raw materials ($3.4 million), principally copper costs (in the form of brass bar), and from continuous improvement initiatives ($1.5 million).
- A negative impact of other COGS inflation ($1.1 million).
- A further negative impact from product mix and lower manufacturing volumes in all regions as a result of lower than planned sales volumes and a focus on reducing inventory levels, with a corresponding reduction in manufacturing overhead recoveries in the period ($4.8 million).
- A positive impact from additional John Guest related synergies achieved ($7.5 million).
- The cost of continuing investment into research, product development and commercialisation of new products and general management depth and capability ($7.9 million) as previously outlined.
- Other SG&A increases ($6.6 million) including wage inflation, higher insurance premiums and other spending.
- A negative impact from the absence of prior year Other Income primarily related to the settlement of an insurance claim in the USA ($2.7 million).
- A net unfavourable impact from currency movements (A$1.4 million).
- Depreciation expense for the period was $25.9 million, an increase of $7.9 million. The increase is due principally to the adoption of AASB16: Leases from 1 July 2019. Information on the impact of AASB16 on reported financial results is set out in Appendix 2.

Reported net profit after tax (“NPAT”) was $50.1 million, a decrease of 22% on the prior period. Adjusting for the two tax items referenced earlier (which are explained more fully on page 9) and the impact of AASB16 accounting for leases, net profit after tax was $63.7 million, down 21% on prior period.

RESULT COMMENTARY

The financial performance for the period was lower than plan. While we had flagged softness and uncertainty in some markets, ultimately most markets were weaker than expected and consequently sales growth was lower than projected.

In the Americas segment, sales of core RWC products in the Americas continued to benefit from the breadth of RWC distributor relationships which also drove further growth in adjacent product categories including the Holdrite product range.

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[16] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance

New Products

We continued to invest in new product development and commercialisation as outlined previously, however, we did not achieve the sales of these newer products that we had targeted for the period.

While we remain confident in the potential for the long-term success of these new products, we are re-evaluating our approach to developing product categories beyond core range extensions and immediate adjacencies in light of the current sales trends and product uptake. Included in the review are considerations of which products we should invest in and develop internally, how we might partner with other enterprises to bring new products to market and commercialise them more rapidly and cost efficiently and the potential acquisition of businesses that can provide adjacent products and product range extensions that are relevant to our core customer base.

RWC's focus on its end markets, customers, products and solutions remains unchanged. The evaluation is being undertaken to ensure we have the right balance of new and existing products, and short term and long-term growth options and that investment in longer term product opportunities is structured efficiently.

Operations

We continue to take action to optimise the efficiency of our operations and the productivity of our capital investment plans.

Following a review of our US manufacturing facilities, we are consolidating manufacturing of Holdrite products that are currently undertaken at RWC's plant in Tennessee with the main USA manufacturing plant in Alabama. This will see the closure of the Tennessee plant and all manufacturing activities moved to the Alabama facility. Consolidation will enable lower manufacturing costs and improved efficiencies. It will also provide space for expansion to accommodate the growing demand for Holdrite's products. Relocation of manufacturing operations will be able to be fully accommodated within RWC's owned site in Alabama.

The consolidation will incur capital expenditure of approximately US$3 million and one-off up-front operating expenditure of approximately US$4 million in FY2020. Consolidation of the two sites is expected to generate operational cost savings from FY2021 onwards, including avoided lease costs, overhead reductions and transportation savings of approximately US$2-3 million per annum. Closure of the Tennessee plant will be substantially completed by the end of FY2020.

We continue to pursue other opportunities on a global basis for efficiency improvements and to optimise our manufacturing footprint.

GROUP PERFORMANCE REVIEW

DIVIDEND

A partly franked interim dividend of 4.5 cents per share has been declared totalling $35.6 million which represents 56% of Adjusted NPAT. The targeted pay-out range remains 40% to 60% of annual NPAT.

Six months ended:	**31 December 2019**	**31 December 2018**	**31 December 2019 *Franked amount***	**31 December 2018 *Franked amount***
Interim	4.5cps	4.0cps	20%	100%
Amount payable or paid	$35.6m	$31.6m		

The record date for entitlement to the final dividend is 11 March 2020. The payment date is 9 April 2020.

As previously disclosed, future dividends are also likely to be only partially franked given recent changes in the geographic mix of earnings following acquisitions. It is currently expected that future dividends will be less than 30% franked.

CAPITAL EXPENDITURE

Capital expenditure payments on property, plant and equipment totalled $25.4 million compared with $35.5 million in the prior period. The prior period amount included $8.3 million spent on repairing hail damage to the roof of the Alabama manufacturing facility. Growth capital expenditure was $11.7 million while $6.3 million was incurred on equipment maintenance expenditure. In addition, $7.4 million was incurred on long term IT projects, with the most significant of these being the replacement ERP system in the UK.

Capital expenditure for the 2020 financial year is now forecast to be in the range of $55 million to $65 million, which is lower than the previously indicated guidance range of $65 million to $75 million. The reduction is due to the timing of capacity expansion requirements and the deferral of projects in EMEA pending completion of the ERP implementation in the UK.

WORKING CAPITAL AND CASH FLOW

Reported net cash inflow from operating activities for the period was $112.8 million, an increase of 163% on the prior period. A reduction in working capital as a result of active management in this area positively impacted operating cash flow conversion[17] for the period (105.1% of EBITDA versus 57.6% in the prior period).

[17] HY20: Cash flow from operations to Reported EBITDA of $126.3 million.

Inventory levels increased only slightly with reductions in manufactured product volumes in response to the lower than planned sales levels.

BALANCE SHEET

RWC continues to maintain a sound balance sheet and conservative financial position.

Net debt at 31 December 2019 was $394.7 million (30 June 2019 - $426.6 million). The reduction since 30 June 2019 reflects the strong cash conversion performance in the period with net cash generated used to reduce debt levels.

Net debt to EBITDA was 1.57 times[18] at 31 December 2019 (based on historical EBITDA for a 12-month period ended 31 December 2019) compared with 1.67 times at the end of the prior period.

TAXATION

The accounting effective tax rate for the period was 40.9%. This rate reflects two items totalling $13.6 million:

- RWC is entitled 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 this period was $7.9 million.

- RWC operates in multiple jurisdictions which are subject to differing taxation laws and regulations. Tax calculations are estimated using available information when preparing financial statements and are finalised when filings are made to the relevant tax authority. During the period, a number of tax matters have been reassessed, giving rise to differences in what was recognised for accounting purposes in prior periods compared with the final tax position. The net impact of these tax treatment revisions is a one-off adjustment totalling A$5.7 million. Consequently, an additional tax expense item of $5.7 million has been recorded in this period. This will not have a material impact on the cash tax paid by companies in the Group in FY2020.

Adjusting for these two items, tax expense for the period was $21.0 million, representing an Adjusted effective tax rate of 24.8%. Adjusted effective tax rate best represents the rate of tax paid by the Group. RWC expects that the future Adjusted effective rate will be in the range of 24% to 25%.

[18] Excludes leases

HEALTH AND SAFETY

Health and safety are focus areas of our strategic planning. We aim to increase ownership of health and safety by operations managers and supervisors, as well as creating a culture where safety is led by all employees. Initiatives we are undertaking include increasing the reporting of leading indicators including first aid treatments, near misses and hazard identification; investigations to focus on root causes, with learnings to be shared and implemented globally; increasing global communication and employee engagement, fostering proactive ownership through employee-led safety committees; defining global standards and instituting global policies, starting with life-critical policies.

RWC had a reportable incident rate of 1.32 per 100 employees for the period compared with 1.50 in the prior period. Our safety goals for FY2020 include a 10% reduction in the injury rate.

Regional and global executives review reportable and lost time injuries monthly, together with details of specific incidents. Data is regularly reviewed by the Board. In addition to metrics such as reportable injury rate and lost time injury rate, all regions are now implementing more proactive metrics.

This year we are implementing a global health and safety management system. This system will enable central reporting and management of key safety performance indicators, injuries and investigations, action items and risk assessments.

SEGMENT REVIEW

AMERICAS

Six months ended:	**31 December 2019 (A$ million)**	**31 December 2018[19] (A$ million)**	**Variance**
Net sales[20]	**346.8**	**323.6**	**7%**
Reported Segment EBITDA	**53.6**	**59.0**	**(9)%**
Margin	*15.5%*	*18.2%*	*(270bps)*
Adjusted Segment EBITDA[21]	**53.6**	**59.9**	**(11)%**
Adjusted Margin	*15.5%*	*18.5%*	*(300bps)*

The Americas segment recorded continued sales growth. Net sales growth on a constant currency basis in the Americas was 1.4%. Reported net sales for the period were $346.8 million, an increase of 7% on the prior period. Reported net sales in the period included the positive foreign exchange translation impacts of the lower Australian dollar relative to the US dollar.

Growth in net sales in the Americas segment was strong in both retail and hardware channels with continued growth in core PTC fittings and pipe, Holdrite products and other key product categories. Revenue growth was also positively impacted by selected price increases introduced to offset USA tariffs on products imported from China to the USA.

Partly offsetting growth in net sales was the expansion by a wholesale distributor of its private-label strategy that included replacing certain RWC SharkBite branded items as we disclosed at the time of our FY2019 results release. Also negatively impacting reported growth rates was the timing of key channel promotional activities, which in FY2019 occurred in the first half but which in FY2020 are planned for the second half. Adjusting for these two items, underlying sales growth in the Americas segment on a constant currency basis was 4.2%, which we believe is broadly indicative of the underlying business growth rate for the period.

In addition, prior period revenue performance was especially strong. Distributors stocked additional inventory for the 2018/2019 winter season following the winter freeze events that had been a feature of the 2017/2018 winter. As a result, underlying net sales growth in the prior period was particularly strong at 14%, whereas sales in HY2020 were reflective of more typical seasonal trading patterns.

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[19] Prior period restated for the impact of AASB16: Leases

[20] Prior to elimination of inter-segment sales

[21] Adjusted for John Guest integration costs in HY2019; and the impacts of AASB16 Leases in HY2020 EBITDA. Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance

An area of underperformance in the period was the adoption rate of newer non-core products. While steady sales growth was achieved across the portfolio of new products, total revenues generated by new product categories did not meet target for the period.

Sales of John Guest products in the USA were below expectations and slightly lower than in the prior period. While strong growth in demand was recorded in the hospitality sector, volumes in the OEM market were more subdued due to particularly strong prior period comparatives as a result of new product launches by OEM customers at that time.

EBITDA for the Americas segment was $53.6 million, 9% lower than the prior period. EBITDA for the prior period included $0.9 million of John Guest integration costs. Adjusted EBITDA for the current period was 11% lower than Adjusted EBITDA figure for the prior period.

EBITDA performance reflects the net impact of:

- A positive impact from lower raw material inflation primarily due to lower copper costs (in the form of brass bar) and other continuous improvement and procurement benefits partly offset by cost inflation for the period ($2.9 million);
- Lower manufacturing overhead recoveries as a result of lower growth in volumes and a focus on reducing inventory levels beginning in the fourth quarter of last financial year ($1.9 million);
- Higher SG&A arising from increased investment in the long-term growth of the business, primarily new product development and commercialisation costs ($6.3 million);
- Absence of one-off gains recorded in the prior year ($2.9 million); and
- A favourable impact of foreign exchange rates on translation of revenues and earnings ($3.6 million).
- A positive impact of AASB 16 accounting for leases ($4.1 million)
- A negative impact of tariffs and higher freight costs on net margins

ASIA PACIFIC

Six months ended:	31 December 2019 (A$ million)	31 December 2018[22] (A$ million)	Variance
Net sales[23]	**125.4**	**129.8**	**(3%)**
Reported Segment EBITDA[24]	**22.8**	**27.3**	**(16%)**
Margin	*18.2%*	*21.0%*	*(280bps)*
Adjusted Segment EBITDA[23]	**22.8**	**27.6**	**(17%)**
Adjusted Margin	*18.2%*	*21.2%*	*(300bps)*

Asia Pacific recorded net sales of $125.4 million, a decrease of 3% on the prior period. External sales were up 1.1%, driven by new product revenue growth partially offset by weaker sales into the new housing construction market in Australia. Inter-segment sales to the Americas were lower due to the expansion of production capacity in the USA, lower sales volumes in the Americas and as a result of actions taken to optimise inventory levels.

New housing commencements in Australia were substantially lower than anticipated at the start of the period. They declined 22% in the twelve months ended 30 September 2019 and for the quarter ended 30 September 2019, were 27% below the prior corresponding period with the multi-family sector down 39%.[25] Approximately half of RWC's external net sales in Australia are made in the more cyclical new residential construction market.

Asia Pacific reported EBITDA contribution for the period was $22.8 million, a decrease of 16% on the prior period. EBITDA was impacted by lower sales to the Americas segment, with the impact on manufacturing margins not able to be fully offset by continuous improvement initiatives. Additional costs were also incurred to support operation of the ERP platform that was implemented in FY2019.

[22] Prior period restated for the impact of AASB16: Leases
[23] Prior to elimination of inter-segment sales
[24] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance
[25] Source: Australian Bureau of Statistics

EUROPE, MIDDLE EAST AND AFRICA ("EMEA")

Six months ended:	**31 December 2019 (A$ million)**	**31 December 2018[26] (A$ million)**	**Variance**
Net sales[27]	**173.6**	**172.1**	**1%**
Reported Segment EBITDA[28]	**52.3**	**44.3**	**18%**
Margin	*30.1%*	*25.7%*	*440bps*
Adjusted Segment EBITDA[27]	**52.3**	**49.3**	**6%**
Adjusted Margin	*30.1%*	*28.6%*	*150bps*

Net sales in EMEA were up 1% to $173.6 million. EMEA sales in constant currency were down 1%. Sales in the core UK plumbing and heating business were 3% higher in constant currency.

Growth in core UK plumbing and heating sales was partly offset by lower sales of discontinued products as a result of a decision in the second half of FY2019 to exit certain product lines. UK specialty product sales were lower due to subdued trading conditions. Improved product delivery performance has meant that channel partners can hold lower inventory levels which has negatively impacted sales for the period as these channels aligned their inventory levels with the new delivery performance timeframes.

Sales in Continental Europe were 1% higher in constant currency. This result reflects lower net sales in the key market of Germany due to weaker economic activity in the industrial sector, offset by higher sales in Spain. Sales to the automotive sector were lower due to the continued withdrawal from that market as planned.

Internal sales of John Guest products to other segments were lower principally because the prior period had seen significant additional shipments to improve product availability and order delivery timeframes in these markets, especially in the USA.

Reported EBITDA was $52.3 million, up 18% on the prior period. EBITDA for the prior period included $5.0 million of John Guest synergy realisation costs. Adjusting for these costs, EBITDA for the period was 6% higher than for the prior period. EBITDA growth was driven by the benefit of prior year price increases as well as further synergy benefits realised and continuous improvement and procurement initiatives during the period.

[26] Prior period restated for the impact of AASB16: Leases
[27] Prior to elimination of inter-segment sales.
[28] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance

Partially offsetting these improvements was a lower recovery of factory overheads given the lower production volumes, particularly for intercompany sales to the Americas, as well as unfavourable product mix in Continental Europe. EBITDA also reflects increased SG&A spending driven by investment in product development and organisational capability.

The integration of the John Guest business was substantially completed in FY2019, and during the first half of FY2020 the focus was on:

- Improving delivery performance and reducing back orders for John Guest. This included enhancing sales and operations planning processes, articulating and delivering against a clear customer service proposition and lifting total output from the existing manufacturing footprint. Continued progress was made in further reducing order arrears, down 23% over the six months to 31 December 2019.
- The planned migration of John Guest UK onto RWC's ERP platform. Good progress was made with delivery scheduled for the second half of FY2020 as originally planned.
- Achieving near term synergies and cost savings. Total synergies realised for the period were $12.3 million, an increase of $7.5 million over the prior period. The focus continues to be on activities to achieve synergies, cost savings and customer service improvement. Further procurement opportunities and leveraging combined operational expertise are being pursued. Total annual synergies realisation is still expected to exceed $30 million on a run rate basis by the end of FY2020.
- Pursuing revenue synergy opportunities from the John Guest acquisition. A new product range which integrates RWC valves with John Guest's Speedfit connections is scheduled to launch in the first half of calendar 2020. FluidTech fittings will continue to offer growth potential in Continental Europe in the water quality and beverage dispense markets and are also an important growth opportunity in the USA and Canada where we can leverage the Americas strong distribution network. John Guest's ProLock plastic PTC fittings were launched into the Mexico market during the period.

UPDATE ON OTHER MATTERS

Coronavirus

RWC is evaluating the impact coronavirus will have on our supply chain and our customers. Our preliminary assessment indicates there will be minimal impact short term, which can be managed with expediting measures. However, the situation is evolving daily and we will continue to evaluate potential impacts and our response.

Our major suppliers restarted by 17 February. While it is typical for manufacturing restarts to occur at lower capacity levels after Chinese New Year, this year the start-up has been even slower as many workers could not resume work. Additionally, suppliers face temporary shortages of their purchased materials due to the delay in Chinese businesses restarting.

We are assessing the full extent of the longer-term impact with suppliers as they determine their own inventory positions and current capacity levels. In a parallel effort we are working with our supply base to prioritise production to restock products that have lower inventory levels. RWC is monitoring the logistics conditions out of China as air freight capacity has been greatly reduced and ocean freight capacity has also been affected, albeit to a lesser extent. We are actively working with suppliers and freight forwarders to fully assess the situation.

While coronavirus could, if prolonged, adversely impact economic activity levels in major markets, it is not possible to fully assess the potential implications for RWC at this time.

Brexit

The UK exited the European Union (EU) on 31 January 2020 without concluding negotiations for ongoing trade terms. On 1 February 2020, the UK and EU moved into a transition period that lasts until 31 December 2020 during which they will seek to work out the future trade relationship between the two. During this time the status quo remains, with Britain remaining part of the EU single market and customs union.

Currently a range of imports into the UK are subject to a 0% tariff, including the plastics John Guest uses in manufacturing. If negotiations for ongoing trade terms cannot be concluded in the transition period, then trade will revert to a World Trade Organisation tariff-based scenario. At that point the UK Government may look at whether, if at all, certain imported products will still be allowed to come in at a reduced, or zero, tariff and for how long.

For exports from John Guest UK to the EU, tariffs are likely to be applied by the EU if there is no deal, with the tariff rate set at 6.5% of the value. It is estimated that this tariff would have a negative EBITDA impact of approximately GBP 1.9 million per annum, assuming that the tariff impost cannot be offset by commensurate pricing changes.

Given the uncertainty of the timing and outcome of the UK and EU negotiations we cannot be more definitive about potential impacts on RWC's operations at this time.

FY2020 EARNINGS GUIDANCE

RWC has amended its earnings guidance for FY2020 to incorporate the impact of the first half financial performance. As advised at the time of the FY2019 result announcement, RWC now provides guidance on a Net profit after tax (NPAT) basis.

For the financial year ending 30 June 2020, RWC now expects Adjusted NPAT[29] to be in the range of $140 million to $150 million. This compares with the prior NPAT guidance range of $150 million to $165 million. The revised range excludes the one-off costs associated with the closure of the manufacturing plant in Tennessee and consolidation of manufacturing activities in Alabama. These are estimated to be US$4 million.

The NPAT range corresponds to an EBITDA[28] range of $265 million to $280 million, excluding Tennessee plant closure costs.

Key assumptions underpinning the earnings guidance are:

- Stronger sales performance in the Americas in the second half, including the benefit of the marketing and promotional activity referenced earlier
- Stronger sales in EMEA in the second half consistent with typical seasonal trading patterns
- No material adverse impact on EMEA trading performance from the ERP implementation
- Flat external sales in APAC
- Favourable copper price impacts relative to the first half, with the average copper price expected to be no higher than US$5,900 per ton
- Further delivery of continuous improvement initiatives and John Guest synergy realisation benefits
- An adjusted effective tax rate in the range of 24% to 25%
- An Australian Dollar/ US Dollar exchange rate of US$0.68

There are external risk factors pertinent to RWC which are particularly heightened at present, including coronavirus and Brexit negotiations referenced earlier, and achievement of earnings within the guidance range is contingent on no further material deterioration in trading as a result of these factors.

[29] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance

Additional information

Please refer to the Appendix 4D, 31 December 2019 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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This document was approved for release by the Board.

Appendix 1

About RWC

RWC is a global market leader and manufacturer of water delivery, control and optimisation systems for the modern built environment. Established as a small private tooling and manufacturing shop in Brisbane, Australia in 1949, today RWC continues to pioneer and innovate plumbing products for residential, commercial and industrial plumbing applications. Its unique end-to-end meter to fixture and floor to ceiling 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, StreamLabs, Holdrite, JG Speedfit, Polar Clean and ProLock to the wholesale, OEM and retail channels via well-established partner companies.

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. The SharkBite PTC business in North America has been at the core of the RWC growth story. Since its introduction in 2004, SharkBite has grown to in excess of 10% of the USA fittings market by volume. PTC systems disrupt and replace the traditional labour-intensive crimp and expansion PEX systems and copper solder 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.

Historically, RWC has achieved sales growth on top of broader market growth through a combination of selected price increases, end user conversion from more traditional methods to RWC's products and systems, market share gains, distribution expansion, new products introduced to the market and acquisitions. While distribution expansion opportunities in the core USA, UK and Australian markets are more limited now given the strength of the distribution networks that have been developed in each of these markets, these gains in distribution have created a strong platform that can be leveraged to accelerate growth of new or newly acquired products.

RWC continues to focus on product development as a central part of its 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 provided RWC with an expanded product portfolio and enabled it 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.

The John Guest group is the largest manufacturer in the world of plastic PTC products. RWC acquired John Guest in June 2018, to become the global leader in plastic as well as brass PTC fittings technology. Based in the UK, 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 together with operations in the USA and Asia Pacific.

The combined business has a greater global footprint and manufacturing capabilities to reach more markets and customers with an enhanced portfolio of complementary products. RWC, following the acquisition of John Guest, has 15 manufacturing facilities, 24 distribution centres and 5 R&D locations across its Americas, Asia Pacific and EMEA operating segments. The combined business employs over 2,000 people.

APPENDIX 2

IMPACT OF AASB16: LEASES

The introduction of the new accounting standard AASB 16: Leases removes the classification of leases as either operating leases or finance leases and introduces a single, on-balance sheet accounting model for leases.

The RWC Group adopted AASB 16 on 1 July 2019 using the modified retrospective method, in which leases are recognised as a right-of-use asset and a corresponding liability at the date of adoption. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of financial performance over the lease period. The right-of-use asset is depreciated over the shorter of the leased asset's useful life and the lease term on a straight-line basis.

On adoption of AASB 16, the RWC Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117: Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 July 2019.

The impact on HY2020 EBITDA from applying AASB 16 was an increase of approximately $7.9 million. There was a negative impact of $1.4 million on HY2020 Reported net profit after tax. It is estimated that the full year EBITDA impact for FY2020 will be $15.8 million.

The impact of AASB 16 on reported depreciation and interest expense is outlined in the table below:

Six months ended:	**31 December 2019 (A$ million)**	**AASB:16 Leases Impact (A$ million)**
Reported EBITDA[30]	**126.3**	**7.9**
Depreciation expense	**(25.9)**	**(7.4)**
Interest Expense	**(11.7)**	**(2.3)**
Reported Profit before tax	**84.7**	**(1.8)**
Reported Net profit after tax	**50.1**	**(1.4)**

[30] EBITDA, Adjusted EBITDA and Adjusted NPAT are non-IFRS measures used by RWC to assess operating performance