Reliance Worldwide Corporation Limited

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

rwc.com

ASX Announcement

20 February 2023

RWC REPORTS RESULTS FOR SIX MONTHS ENDED 31 DECEMBER 2022

SALES RISE 15% TO US$601.3 MILLION

NET PROFIT AFTER TAX RISES 5% TO US$66.6 MILLION

Highlights:

- 15% growth in Net Sales to US$601.3 million over the prior corresponding period ("pcp")
  - **Americas** growth of 28% over pcp including full six-month contribution from EZ-Flo
  - **Asia Pacific** constant currency sales up 1% on pcp, external sales up 2%
  - **EMEA** constant currency sales up 3% overall, UK sales up 10%
- Adjusted EBITDA[1] of US$128.1 million, up 2% on pcp
- Adjusted net profit after tax[1] of US$67.5 million, down 10% on pcp

Reliance Worldwide Corporation Limited (ASX: RWC) ("RWC" or "the Company") today announced Net Profit after Tax ("NPAT") of US$66.6 million for the six months ended 31 December 2022 (up 5% on pcp) and Adjusted NPAT US$67.4 million (down 10% on pcp).

RWC will pay an interim dividend of US4.5 cents per share, in line with the dividend paid in the pcp.

Sales growth of 15% reflects a full six-month contribution from EZ-Flo which was acquired in November 2021. Reported sales were adversely impacted by the strength of the US dollar against the Australian dollar and British pound, and constant currency sales were up 20% on the pcp. Sales growth in all regions was driven partly by price increases introduced to offset rising input and other cost increases, with average price increases of 8.5% achieved compared with the pcp. Volumes were 11% higher overall, chiefly due to the EZ-Flo acquisition. Excluding EZ-Flo, volumes were down 2% overall.

Operating earnings (EBITDA) for the period were US$139.3 million, 16% higher than pcp. Results for the period included a US$15.0 million gain on sale of a surplus property in the UK, and costs of US$3.8 million incurred in the realisation of EZ-Flo cost reduction synergies. Excluding these items, Adjusted EBITDA was US$128.1 million, 2% higher than pcp and up 8% on pcp in constant currency.

Operating (EBITDA) margins were impacted by lower volumes and higher costs. Higher input costs impacted margins due to the timing lag between materials purchase and consumption and the sale of finished goods. Other cost increases including energy and wages also adversely impacted margins. The easing of some input costs since their peak in mid-2022 is expected to help improve operating margins in the second half of FY23.

Cashflow from operating activities increased 57% to US$94.3 million, and operating cash flow conversion was 76% of EBITDA versus 50% in the pcp. Higher levels of inventory were maintained to mitigate shipping and logistical delays. Production of new product inventory ahead of commercial launch later in FY23 also impacted inventory levels. With supply chain and logistics pressures having eased, RWC is seeking to reduce inventory levels in the second half of FY23.

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

ABN 46 610 855 877

RWC Chief Executive Officer Heath Sharp said demand in the first half had proven to be resilient despite challenging economic conditions.

"Our core business is oriented towards repair and remodel work, and this has underpinned volumes through the half. Following two exceptionally strong years, however, we have seen demand moderate in each of our markets."

America's sales were up 28% reflecting a full six month's contribution from EZ-Flo versus 6 weeks contribution in the pcp. Excluding EZ-Flo, sales were up 6%, with higher prices offsetting a 2% decline in volumes versus the prior half. EZ-Flo continued to deliver volume growth through expanded distribution of its appliance connector product range.

In EMEA, local currency sales were up 3% overall, with external sales up 6%. The UK market performed strongly despite a subdued economic backdrop, with sales up 10% driven mainly by price increases while volumes were stable. Continental Europe sales were in line with the prior period, with lower volumes offset by price increases.

Sales of water filtration and drinks dispense products were lower in both the Americas and EMEA following a period of strong growth in the prior period as the commercial and hospitality sectors reopened post Covid.

Asia Pacific external sales were 2% higher, with growth in the Australian market slowing considerably in the latter part of the half.

Heath Sharp said that higher commodity prices and lower volumes had negatively impacted margins.

"This was a period when margins were significantly impacted by the sell-through of products manufactured when commodity costs were at their peak. Despite this, second quarter operating margins improved on the first quarter. We expect further improvement in the second half of FY23 as the lower input prices of the past six months flow through to product sales.

"We have also undertaken a thorough review of our cost base which has identified approximately $15 million in annualised cost savings. We expect to see the full benefit of these in FY24. This is in addition to the $8 million in cost reduction initiatives we are on track to deliver this year, along with further EZ-Flo cost synergies.

"We were pleased with the 57% increase in cash flow from operations and are targeting further cash flow growth in the second half. Improving global supply chains means we will start to unwind the buffer inventory we have been carrying to protect our customer service levels. This will help further drive our cash flow performance."

Additional information

Please refer to the Appendix 4D, 31 December 2022 Interim Financial Report, Operating and Financial Review (attached) and presentation slides released today for additional information and analysis. These documents should be read in conjunction with this and each other document.

ENDS

For investor enquiries, please contact:

Phil King
Group Investor Relations Director
+61 499 986 189

Email: phil.king@rwc.com

For media enquiries please contact:

Nick Howe
GRACosway
+61 407 183 221

This document was approved for release by the Board.

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 SIX MONTHS ENDED 31 DECEMBER 2022

HIGHLIGHTS

Six months ended: US$ million	31 December 2022	31 December 2021	Variance
Net sales	**601.3**	**521.8**	**15%**
Reported EBITDA[1]	**139.3**	**119.6**	**16%**
Adjusted EBITDA[1]	**128.1**	**125.5**	**2%**
Reported net profit before tax	98.3	92.0	7%
Tax Expense	-31.7	-28.3	12%
Reported net profit after tax	**66.6**	**63.7**	**5%**
Adjusted net profit after tax[1, 2]	**67.5**	**75.4**	**-10%**
Basic earnings per share	**8.5 cents**	**8.1 cents**	**5%**
Adjusted earnings per share[1]	**8.6 cents**	**9.6 cents**	**-10%**
Dividend per share (US$)	**4.5 cents**	**4.5 cents**	**0%**

Net sales[3] were $601.3 million, up 15% on the prior corresponding period ("pcp"). Sales include a full six-month contribution from EZ-FLO, while the pcp included only a partial contribution following completion of the acquisition in mid-November 2021. Constant currency sales were up 20% 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 rising input and other cost increases. RWC achieved average price increases across the group of approximately 8.5% during the period. Volumes were 11% higher overall, chiefly due to the EZ-Flo acquisition. Excluding EZ-Flo, constant currency sales were 6% higher while volumes were down 2% overall.

Reported EBITDA for the period was $139.3 million, 16% higher than the pcp. Results for the period included a $15.0 million gain on sale of a surplus property in the UK, and costs of $3.8 million incurred in the realisation of EZ-Flo cost reduction synergies. Excluding these items, Adjusted EBITDA was $128.1 million, 2% higher than the pcp and up 8% 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

Lower volumes and higher costs negatively impacted margins. Adjusted EBITDA margin declined by 280 basis points from 24.1% to 21.3%, but margins improved sequentially from the first quarter to the second quarter. Higher input costs experienced in the first half of calendar 2022 also adversely impacted margins due to the timing lag between materials purchase and consumption and the sale of finished goods. The easing of input costs since their peak in mid-2022 is expected to contribute to improved operating margins in the second half of FY23.

Cost savings of $6.2 million were achieved in the half. We expect to achieve approximately $8.0 million in cost savings in FY23 from continuous improvement initiatives, as forecast at the start of FY23. Realisation of EZ-Flo cost reduction synergies is on track to deliver $10.0 million in annualised cost savings by end of FY24.

Following a thorough review of our cost structure, additional cost saving measures totalling $15 million on an annualised basis have been identified, with $2.5 million in savings expected in the second half of FY23 and the full benefit to be achieved in FY24. The savings will come from a reduction in employee numbers, operational efficiencies, procurement gains, and supply chain improvements. One-off costs of $4 million to $5 million to implement the cost reduction programme will be incurred in the second half of FY23.

Reported NPAT of $66.6 million was 5% higher than pcp. Adjusting for the one-off items noted above and the cash tax benefit arising from the amortisation of goodwill, NPAT was $67.5 million, down 10% on pcp.

SEGMENT REVIEW - *AMERICAS*

Six months ended: US$ million	31 December 2022	31 December 2021	Variance
Net sales[4]	**427.3**	**333.6**	**28%**
Reported EBITDA	**67.7**	**53.0**	**28%**
Adjusted EBITDA[5]	**71.6**	**56.9**	**26%**
Adjusted EBITDA margin (%)	16.8%	17.1%	*(30bps)*
Adjusted EBIT [5]	**57.6**	**47.5**	**21%**
Adjusted EBIT margin (%)	13.5%	14.2%	*(70bps)*

Americas segment sales were up 28% for the period. Excluding the sales contribution from EZ-Flo, legacy RWC sales growth for the period was 6%.

Sales growth was driven primarily by price increases and new product revenues. Volumes excluding EZ-Flo were 2% lower than the pcp. Sales of FluidTech water filtration and drinks dispense products were lower following a period of strong growth in the pcp when commercial and hospitality sectors reopened following Covid lockdowns.

There was no material impact on sales in the first half from the widespread US winter freeze event in December 2022, and we currently do not expect it to materially impact second half sales in the Americas.

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 in the latter part of the half. Three distribution centres in North America were closed in the period as part of the EZ-Flo cost reduction synergies realisation, with a fourth to close at the end of February. Following this closure, RWC will have 7 distribution centres in North America compared with 11 immediately following the EZ-Flo acquisition.

Adjusted EBITDA was 26% higher than pcp, driven by a full six-month contribution from EZ-Flo. Operating margins reduced as a result of lower volumes, increased SG&A expenses, and the impact of higher prices which offset input cost inflation. Operating margins improved in the second quarter from the first quarter and are expected to improve further in the second half of FY23 as the benefit of lower input costs flow through to earnings along with the benefit from cost reduction initiatives.

4 Prior to elimination of inter-segment sales

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

SEGMENT REVIEW - *ASIA PACIFIC*

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

Six months ended: US$ million	31 December 2022	31 December 2021	Variance
Net sales[6]	**103.1**	**110.9**	**-7%**
Adjusted EBITDA[7]	**19.1**	**23.7**	**-19%**
Adjusted EBITDA margin (%)	*18.5%*	*21.4%*	*(290bps)*
Adjusted EBIT[7]	**14.3**	**18.7**	**-24%**
Adjusted EBIT margin (%)	*13.9%*	*16.9%*	*(300bps)*

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

Six months ended: A$ million	31 December 2022	31 December 2021	Variance
Net sales[6]	**153.6**	**151.4**	**1%**
Adjusted EBITDA[7]	**28.4**	**32.4**	**-12%**
Adjusted EBITDA margin (%)	*18.5%*	*21.4%*	*(290bps)*
Adjusted EBIT[7]	**21.3**	**25.5**	**-16%**
Adjusted EBIT margin (%)	*13.9%*	*16.8%*	*(290bps)*

Asia Pacific sales were down 7% on a reported basis and up 1% on a local currency basis. External sales increased by 2% driven by price increases. Volumes continued to be strong in Australia, supported by new housing construction and repair and remodelling activity, which offset weakness in Korea and China. External volumes overall were in line with pcp. Inter-company sales were lower than pcp due to lower volumes.

New housing approvals in Australia peaked in 2021 and have declined subsequently. In the year to 31 December 2022, total dwellings approved were 16% lower with multi-family approvals down 8%, and a 20% decline in new detached dwelling approvals[8]. This has started to impact housing commencements, with total new dwelling units commenced in the year ended 30 September 2022 down 8% on pcp[8]. A significant proportion of RWC's external net sales in Australia are made in the new residential construction market.

Asia Pacific Adjusted EBITDA for the period was US$19.1 million, 19% lower than pcp and 13% lower in local currency. The decline was due to lower intercompany volumes, weaker sales to China in the period, and higher raw materials costs. Consequently, EBITDA margins declined by 290 basis points to 18.5%.

6 Prior to elimination of inter-segment sales

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

8 Source: Australian Bureau of Statistics

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

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

Six months ended: **US$ million**	**31 December 2022**	**31 December 2021**	**Variance**
Net sales[9]	**127.7**	**144.6**	**-12%**
Adjusted EBITDA[10]	**40.8**	**47.6**	**-14%**
Adjusted EBITDA margin (%)	*31.9%*	*32.9%*	*(100bps)*
Adjusted EBIT[10]	**34.4**	**41.0**	**-16%**
Adjusted EBIT margin (%)	*26.9%*	*28.4%*	*(150 bps)*

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

Six months ended: **£ million**	**31 December 2022**	**31 December 2021**	**Variance**
Net sales[9]	**108.7**	**105.9**	**3%**
Reported EBITDA	**47.2**	**34.8**	**36%**
Adjusted EBITDA[10]	**34.7**	**34.8**	**0%**
Adjusted EBITDA margin (%)	*31.9%*	*32.9%*	*(100bps)*
Adjusted EBIT[10]	**29.3**	**30.0**	**-2%**
Adjusted EBIT margin (%)	27.0%	28.3%	*(130bps)*

Reported net sales in EMEA were 12% lower but 3% higher in local currency. External sales in local currency were 6% higher than pcp. Sales in the UK were 10% higher than pcp in local currency due mainly to price increases. Continental Europe sales were in line with the pcp, with lower volumes of FluidTech water filtration and drinks dispense products offset by price increases. Intercompany sales were 24% lower mainly due to reduced exports of FluidTech products to the Americas.

Adjusted EBITDA of $40.8 million was 14% lower than the pcp, but flat on pcp in local currency. Adjusted EBITDA margin declined from 32.9% to 31.9% due to lower sales volumes of FluidTech products as well as higher input and energy costs.

GROUP PERFORMANCE

9 Prior to elimination of inter-segment sales

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

Six months ended: US$ million	31 December 2022	31 December 2021	Variance
Net sales	**601.3**	**521.8**	**15%**
Reported EBITDA	**139.3**	**119.6**	**16%**
Adjusted for one-off items:			
Gain on sale of a UK Property	(15.0)	-	-
One-off costs to achieve EZ-Flo cost reduction synergies	3.8	-	-
Net of EZ-Flo & LCL acquisition costs and debt financing costs expensed, partially offset by gain on sale of StreamLabs	-	5.9	-
Adjusted EBITDA	**128.1**	**125.5**	**2%**
Depreciation and amortisation	(25.5)	(21.7)	**18%**
Adjusted EBIT	**102.5**	**103.8**	**-1%**
Net finance costs	(15.4)	(5.9)	**162%**
Adjusted net profit before tax	**87.2**	**99.0**	**-12%**
Reported net profit before tax	**98.3**	**92.0**	**7%**
Tax expense	(31.7)	(28.3)	**12%**
Reported net profit after tax	**66.6**	**63.7**	**5%**
Adjusted tax expense	(19.7)	(23.6)	-
Adjusted net profit after tax	**67.5**	**75.4**	**-10%**
Basic earnings per share	**8.5 cents**	**8.1 cents**	**5%**
Adjusted earnings per share	**8.6 cents**	**9.6 cents**	**-10%**
Dividend per share (US$)	**4.5 cents**	**4.5 cents**	**0%**
Dividend per share (A$)	**6.493 cents**	**6.285 cents**	**3%**

Depreciation and amortisation costs were 18% 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 162% higher due to higher borrowings arising from the debt issued to finance the EZ-Flo acquisition in November 2021, as well as higher interest rates. Approximately 44% 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 half year ended 31 December 2022 were translated at the following exchange rates:

- The average Australian Dollar/US Dollar exchange rate in FY23 for earnings translation was US$0.6705 (US$0.7300 in the pcp).
- The average Pound Sterling/US Dollar rate in FY23 for earnings translation was GBP 1.1740 (1.3700 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 $3.8 million incurred in the realisation of EZ-Flo cost reduction synergies. 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	HY23 EBITDA	HY23 EBIT	HY23 Tax Expense	HY23 NPAT
HY23 Reported	**139.3**	**113.7**	**(31.7)**	**66.6**
EZ-Flo costs to achieve synergies	3.8	3.8	(1.0)	2.8
Gain on sale of surplus UK property	(15.0)	(15.0)	5.2	(9.7)
Goodwill tax amortisation	-	-	7.8	7.8
Total adjustments	(11.2)	(11.2)	12.0	0.9
HY23 Adjusted	**128.1**	**102.5**	**(19.7)**	**67.5**

TAXATION

Six months ended: US$ million	31 December 2022	31 December 2021	Variance
Reported net profit before tax	**98.3**	**92.0**	**7%**
Tax Expense	(31.7)	(28.3)	**12%**
Reported net profit after tax	**66.6**	**63.7**	**5%**
Accounting effective tax rate	**32.2%**	**30.8%**	**-**
Reported tax expense	**(31.7)**	**(28.3)**	**-**
Adjusted for:			
Cash tax benefit of goodwill amortisation for tax purposes	7.8	5.7	**-**
Gain on sale of UK property, one-off costs to achieve EZ-Flo cost reduction synergies	4.3	-	**-**
Net of EZ-Flo & LCL acquisition costs and debt financing costs expensed, partially offset by gain on sale of StreamLabs	-	(1.0)	**-**
Adjusted tax expense	(19.7)	(23.6)	
Adjusted net profit after tax	**67.5**	**75.4**	**-10%**
Adjusted effective tax rate	**22.6%**	**23.9%**	

The accounting effective tax rate for the period was 32.2%. 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 $7.8 million.

Adjusting for this item and the net tax effect of adjustments to EBITDA from the UK property sale and EZ-Flo synergy realisation costs referenced earlier, tax expense for the period was $19.7 million, representing an Adjusted effective tax rate of 22.6%. Adjusted effective tax rate best represents the rate of tax paid by the Group. RWC expects that the Adjusted effective rate for FY23 will be in the range 22% to 25%.

DIVIDEND

Six months ended:	31 December 2022	31 December 2021
Interim dividend	**US4.5cps**	**US4.5cps**
Amount payable or paid	**US$35.6m**	**US$35.6m**
Franked amount	**10%**	**20%**
Dividend payable/paid in Australian Dollars	**6.493 cps**	**6.285 cps**

A partially franked interim dividend of US4.5 cents per share has been declared totalling $35.6 million which represents 53% of Reported NPAT and 53% of Adjusted NPAT. The dividend will be paid in Australian dollars at 6.493 cents per share. The amount has been converted to Australian currency using the average exchange rate over the five business days ending 16 February 2023. The Company's intended pay-out range remains between 40% and 60% of annual NPAT.

The interim dividend is 10% franked. As previously disclosed, future dividends are also likely to be only partially franked given changes in the company's geographic mix of earnings following acquisitions. It is currently expected that future dividends will be less than 20% franked.

The record date for entitlement to receive the interim dividend is 10 March 2023. The payment date is 6 April 2023.

CAPITAL EXPENDITURE

Capital expenditure payments for property, plant and equipment acquired during the period totalled $21.8 million compared with $27.3 million in the pcp. $14.4 million of capital expenditure for the period was focused on growth initiatives with key projects including establishment of production capacity for new product initiatives. Capital expenditure for the full year is expected to be in the range of $55 million to $60 million.

WORKING CAPITAL AND CASH FLOW

Net cash inflow from operating activities for the period was $94.3 million, an increase of 57% on pcp. Working capital increased by $30.0 million over pcp due mainly to an increase in inventory levels of $34.8 million. The increase partly reflects the build-up of new product inventory ahead of product launches planned for the second half of FY23.

Higher levels of inventory have been maintained to mitigate against shipping and logistical delays which might adversely impact customer service levels. With supply chain and logistics pressures having eased, RWC is seeking to reduce inventory levels in the second half of FY23.

Operating cash flow conversion[11] in the first half was 76% of EBITDA versus 50% pcp, with the improvement due to lower net working capital growth than in the pcp.

---

[11] HY23: Cash flow from operations to Adjusted EBITDA of $124.2 million.

BALANCE SHEET

Net debt[12] at 31 December 2022 was $533.5 million (31 December 2021 - $545.3 million). Net debt to EBITDA was 2.12 times[9] at 31 December 2022 (based on historical EBITDA for a 12-month period ended 31 December 2022) compared with 1.97 times for the pcp.

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

US$ million	Facility Limit	Amount Drawn at 31 Dec 22	Expiry
Bank Facilities			
Tranche A	480.0	291.5	Nov-24
Tranche B	320.0	26.9	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**	**568.4**	

RWC's weighted average debt maturity was 4.6 years as at 31 December 2022. RWC continues to have a strong balance sheet and conservative financial position and remains well 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.

To the extent that the Company is generating excess cash flows beyond what is required to fund maintenance and growth capital expenditure and pursue acquisitions and other inorganic growth opportunities, RWC's principal means of distributing cash to shareholders will be through dividends. The Company will continue to pursue its policy of distributing between 40% and 60% of annual NPAT by way of dividends each year.

[12] Excludes leases

FY2023 OUTLOOK

RWC believes that its end market exposure globally to the less cyclical repair and maintenance sector will provide 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.

The volume outlook for RWC's key markets in the second half of FY23 is uncertain from a demand perspective. Despite the economic challenges in the first half of FY23, volumes were only slightly down on the pcp. This reflects, in part, a backlog of remodel and new construction activity which sustained activity levels in the first half.

Weaker global economic conditions and the risk of downturns in RWC's key markets remain potential headwinds for the second half, in particular:

- Slowing economic activity that may further impact consumer confidence and cause deferral of remodelling.
- Rising interest rates which could further negatively impact construction activity.
- Declining home values which may adversely impact home equity loan availability and confidence in reinvesting in the home.
- Inflationary pressures making home remodelling less affordable for homeowners.

While some cost inflation pressures have eased, notably shipping and logistics costs, other costs have continued to rise. We believe current pricing levels are appropriate for the prevailing cost environment, including commodities, but will continue to monitor costs and adjust price if necessary.

AMERICAS

The US experienced strong growth in repair and residential remodelling activity between 2020 and 2022 driven by a change in consumer preferences as a result of Covid with more time spent at home. This trend has appeared to be long term structural in nature reflecting a desire by homeowners to invest more in their houses. Supporting this trend has been the continued ageing of US housing stock and relative underinvestment in home repair, maintenance and remodelling since the global financial crisis.

These factors should remain supportive of activity levels over the medium to long term. Near-term, however, demand may be adversely impacted by rising interest rates, declining consumer confidence and a weaker economic outlook. The trend in existing home values will also be a key factor in consumers continuing to spend on home remodelling projects.

As noted earlier, RWC's volumes in the Americas in the first half, excluding EZ-Flo, were down slightly. This decline is a partial reversal of the very strong volume growth recorded in FY21 and FY22, suggesting a drop in remodelling activity levels. We expect volumes in the second half of the year will also be lower than the pcp due to the headwinds noted above.

ASIA PACIFIC

In Australia, volumes in the first half held up well, supported by the strength of repair and remodelling activity and new housing construction. Declines in residential dwelling approvals and new dwelling commencements are expected to flow into a lower level of construction activity which may adversely impact volumes in the second half. Falls in house prices and higher interest rates are risks to remodelling activity levels.

EMEA

In the UK, deteriorating economic conditions and weak consumer sentiment continue to suggest a subdued outlook for residential remodelling activity, although higher volumes in the first half did not reflect this economic backdrop. In Continental Europe, volumes are expected to be down on the pcp, consistent with the first half. Macroeconomic headwinds together with geopolitical tensions and energy supply disruption represent potential downside risk factors.

EARNINGS GUIDANCE

Due to the ongoing uncertainty affecting market conditions RWC has not provided earnings guidance for FY23. We will continue to provide updates to investors each quarter on trading conditions in the three regions.

In terms of specific items, the following key assumptions are provided for FY23:

- Adjusted EBITDA margins are expected to improve in the second half, as the benefit of lower commodity prices flows through to products sold in the period along with the benefits from cost reduction initiatives.
- Cash flow from operations is expected to increase in the second half as a result of inventory reductions.
- Capital expenditure is expected to be approximately $55 million to $60 million, including investment in manufacturing capability for new product initiatives.
- 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 $30 million to $32 million.
- The adjusted effective tax rate is expected to be in the range of 22% to 25%.
- Earnings sensitivity to changes in the cost of copper is such that a $100 per tonne movement in the copper price would impact EBITDA by $1.1 million p.a., lagged by approximately 6 months.

Cost reduction initiatives will continue to be pursued in the second half. As noted earlier, RWC expects to achieve $8.0 million in cost savings from continuous improvements in FY23 in addition to EZ-Flo cost reduction synergies.

Additional cost saving measures totalling $15 million on an annualised basis have been identified, with $2.5 million in savings expected in the second half of FY23 and the full benefit expected to be achieved in FY24. One-off costs of $4 million to $5 million to implement the cost reduction programme will be incurred in the second half of FY23.

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

COMMENTARY ON TRADING CONDITIONS SINCE 31 DECEMBER 2022

Trading in the month of January was broadly consistent with the trends observed in the first half of FY23.

Additional information

Please refer to the Appendix 4D, 31 December 2022 Interim Financial 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, SharkBite has grown to approximately 15% 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.

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 16 manufacturing facilities, 26 distribution centres and 5 R&D locations across its Americas, Asia Pacific and EMEA operating segments. The combined business employs approximately 2,800 people.