Reliance Worldwide Corporation Limited
ACN 610 855 877 | ABN 46 610 855 877
Level 54, 525 Collins Street Melbourne Vic 3000
Ph: +61 3 9099 8299 | Fax: +61 3 9099 8277

ASX Announcement

28 August 2017

RWC delivers strong growth for FY2017 with continuing positive momentum expected in FY2018

Reliance Worldwide Corporation Limited (ASX: RWC) ("RWC" or "the Company") has today announced its consolidated results for the financial year ended 30 June 2017. These are the first full financial year results for RWC following listing of its shares on the ASX on 29 April 2016. The results exceed the financial forecast for FY2017 contained in the Prospectus issued by the Company dated 18 April 2016 and continue the track record of ongoing annual growth in net sales and earnings.

Key highlights for FY2017

- Net sales of $601.7 million, an increase of 12.6% over Pro Forma FY2016[1], up 17.2% on a constant currency basis and 2.4% ahead of Prospectus Forecast[2]
- Continued growth in core SharkBite Push-To-Connect ("PTC") plumbing fittings business in the Americas with net sales increasing by 19% over Pro Forma FY2016[1]
- EBITDA of $120.7 million, an increase of 21.8% over Pro Forma FY2016[1] and 2.5% ahead of Prospectus Forecast[2]
- Net profit after tax of $65.6 million, representing an increase of 25.9% over Pro Forma FY2016[1] and 4.8% ahead of Prospectus Forecast[2]
- Final dividend for FY2017 of 3.0 cents per share declared, delivering total dividends for FY2017 of 6.0 cents per share
- Continued strong cash generation from operations
- Strong balance sheet to support continued growth in the business
- Acquisition of Holdrite successfully completed in June 2017

Operating and Financial Review[3]

Results for the financial year

	Actual FY2017 ($m)	**Pro Forma FY2016[1]** ($m)	***Variance*** *(%)*	**Prospectus Forecast[2] FY2017** ($m)	***Variance*** *(%)*
Net sales	601.7	534.4	*12.6*	587.8	*2.4*
EBITDA[4]	120.7	99.1	*21.8*	117.7	*2.5*
EBIT[4]	101.3	82.7	*22.5*	97.8	*3.6*
Net profit after tax	65.6	52.1	*25.9*	62.6	*4.8*

Reliance Worldwide Corporation Limited
ACN 610 855 877 | ABN 46 610 855 877
Level 54, 525 Collins Street Melbourne Vic 3000
Ph: +61 3 9099 8299 | Fax: +61 3 9099 8277

Group Overview

RWC is a leader in the design, manufacture and supply of water flow and control products and solutions for use in "behind the wall" plumbing. RWC is the clear number one manufacturer in the world of brass PTC plumbing fittings which are sold under our SharkBite brand. PTC replaces the traditional labour intensive crimp and expansion PEX systems and copper solder fittings.

The SharkBite PTC business in North America is at the core of the RWC growth story and that business continued to deliver strong double digit sales growth in FY2017. RWC has continued its strategic focus on building awareness of SharkBite PTC fittings and associated accessories to drive sales growth and market penetration. The majority of SharkBite PTC sales are in the defensive repair and maintenance and renovation end markets.

The launch of the EvoPEX PTC system into target markets late in 2016 began our penetration into the residential new construction sector in North America. Penetration into this sector has been expanded following completion of the Holdrite acquisition. Holdrite also provides us with expansion into the commercial construction market. Holdrite's results have been consolidated from 12 June 2017 and are included in the Americas segment. Revenue and profit contribution from Holdrite in FY2017 was minimal given the short period of inclusion.

RWC has 12 manufacturing facilities across Australia, New Zealand, the USA and Spain. Manufacturing of SharkBite SKUs for the Americas segment continues to be transitioned to Cullman, Alabama following the successful completion of the installation and commissioning of two new SharkBite PTC fittings production cells at that facility during 2016. Holdrite products are manufactured at a facility in Tennessee, USA.

Group Results Review

Net sales for FY2017 of $601.7 million were 12.6% higher than for Pro Forma FY2016[1] (17.2% higher on a constant currency basis) and 2.4% ahead of Prospectus Forecast[2]. The increase was driven principally through continued expansion of SharkBite PTC business in the Americas operating segment, including a sales benefit in the second half from the initial rollout of product to approximately half of Lowe's 1,700+ stores in the USA. This was partially offset by a decline in the AUD translated value of sales in the EMEA segment that was primarily due to a materially stronger AUD/GBP exchange rate post Brexit. On a local currency basis, sales in the UK increased 7.5% on the prior year.

EBITDA was $120.7 million, an increase of 21.8% over Pro Forma FY2016[1] and 2.5% ahead of Prospectus Forecast[2]. This strong result reflects growth in net sales combined with benefits of procurement initiatives and improved manufacturing efficiencies achieved during the year. Partially offsetting this was increased SG&A spending in the second half to support retail channel expansion activities in the Americas together with expensing transaction costs associated with the Holdrite acquisition.

Net profit after tax ("NPAT") was also ahead of Prospectus Forecast at $65.6 million, an increase of 25.9% over Pro Forma FY2016[1]and 4.8% ahead of Prospectus Forecast.

Segment Review

Americas

	Actual FY2017 ($m)	**Pro Forma FY2016[1]** ($m)	***Variance***	**Prospectus Forecast[2] FY2017 ($m)**	***Variance***
Net sales[5]	435.3	365.0	19.3%	397.6	9.5%
EBITDA[4]	74.6	58.4	27.7%	69.3	7.6%
EBITDA margin	17.1%	16.0%	+110 bps	17.4%	-30 bps

The Americas segment delivered solid growth in net sales and EBITDA. Net sales for the year were $435.3 million[5], an increase of 19.3% over Pro Forma FY2016[1] (23.4% increase on a constant currency basis) and 9.5% ahead of Prospectus Forecast[2]. EBITDA contribution was $74.6 million, an increase of 27.7% over Pro Forma FY2016[1] and 7.6% ahead of Prospectus Forecast[2]. The Americas performance was driven by continued market penetration of SharkBite products and execution of the retail channel strategy in the USA. Procurement and other ongoing cost saving initiatives also contributed to EBITDA margin improvement compared with Pro Forma FY2016. The EBITDA margin was slightly lower than Prospectus Forecast mainly as a result of expensing Holdrite related transaction costs and set up costs incurred for the roll out to Lowe's.

The segment enjoyed strong growth across all market sectors and product groups with continued investment in building awareness, expanding distribution and educating end users about the efficiency and effectiveness of RWC's core SharkBite products and solutions.

As noted at the half year result, we benefited from the impact of customers increasing their inventory levels in anticipation of potential freeze events occurring during the North American winter. No weather conditions which RWC would classify as a freeze event eventuated and, as a result, customers managed down their inventory levels during the second half consistent with what occurred in FY2016. Customers have returned to normal buying patterns.

Reliance Worldwide Corporation Limited
ACN 610 855 877 | ABN 46 610 855 877
Level 54, 525 Collins Street Melbourne Vic 3000
Ph: +61 3 9099 8299 | Fax: +61 3 9099 8277

Asia Pacific

	Actual FY2017 ($m)	Pro Forma FY2016[1] ($m)	*Variance*	Prospectus Forecast[2] FY2017 ($m)	*Variance*
Net sales[5]	218.1	201.0	8.5%	209.8	4.0%
EBITDA[4]	47.5	39.3	20.9%	45.6	4.2%
EBITDA margin	21.8%	19.6%	+220 bps	21.7%	+10 bps

Asia Pacific delivered net sales of $218.1 million, an increase of 8.5% over Pro Forma FY2016[1] and 4.0% ahead of Prospectus Forecast[2]. Growth was mainly achieved from increased sales to the Americas. External sales saw demand from Wholesale customers partially offset by somewhat lower demand in the OEM channel.

EBITDA for the year was $47.5 million, an increase of 20.9% over the comparative period and 4.2% ahead of Prospectus Forecast[2]. Asia Pacific also achieved savings from procurement activities, ongoing manufacturing efficiencies and other cost saving initiatives.

EBITDA margin for the year was 21.8%, up from 19.6% for Pro Forma FY2016 but below the 24.4% achieved in the first half of FY2017. This reflects both normal seasonality in the business, with production volumes increasing in the December half year period in preparation for the northern hemisphere winter, as well as the relatively higher cost of copper experienced in the second half. Production for the Lowe's rollout helped the second half margin for Asia Pacific.

EMEA

	Actual FY17 ($m)	Pro Forma FY2016[1] ($m)	*Variance*	Prospectus Forecast[2] FY17 ($m)	*Variance*
Net sales[5]	50.1	51.1	*(2.0%)*	67.2	*(25.4%)*
EBITDA[4]	0.5	3.8	*(86.8%)*	5.2	*(90.4%)*
EBITDA margin	1.0%	7.4%	*-640 bps*	7.7%	*-670 bps*

Net sales in EMEA were $50.1 million, down 2.0% on Pro Forma FY2016[1] sales. Pleasingly, segment sales increased 19% in constant currencies with external sales in the UK increasing by 7.5% in GBP. Uncertainty following Brexit adversely affected sales in the United Kingdom, particularly in the first quarter. Sales in the UK improved in the second half of the year. Demand from Wholesale customers, particularly for thermostatic products, remained strong in the period while sales to OEM customers increased. A materially stronger AUD/GBP exchange rate impacted both the cost of goods sold and the translated results in FY2017. Spain continues to supply its PEX pipe product to Australia to meet external demand. Increased production capacity in the second half enabled that business to support higher demand in local markets.

EBITDA in EMEA for the full year of $0.5 million declined slightly from $0.8 million at the half year. This reflects both the higher cost of goods sold related to the weakening of the GBP as well as a one-time non-cash expense of $1.0 million in the second half associated with restructuring and business improvement initiatives in 2HFY2017 designed to position the UK business to better capitalise on its solutions-oriented value proposition to the market.

Dividend

A fully franked final dividend for FY2017 of 3.0 cents per share has been declared. This takes the total dividend for FY2017 to 6.0 cents per share, franked to 70 %, which represents a NPAT payout ratio of 48%, within the targeted payout range of 40% to 60% stated in the Prospectus dated 18 April 2016. The record date for dividend entitlement is 12 September 2017. The payment date is 10 October 2017. At the lower end of the targeted payout range, RWC expects dividends to continue to be fully franked for the foreseeable future.

Capital expenditure

Capital expenditure payments during FY2017 totalled $25.5 million, split between maintenance expenditure ($13.3 million) and growth capital expenditure ($12.2million). The latter included acquisition of a property in Cullman, Alabama, which is presently being utilised as a warehouse / distribution facility, as well as the fit out of a previously acquired facility at the site. Both were acquired to support growing demand and the need for additional manufacturing and warehousing space.

Following regular review of our capital plans, growth expenditure was also incurred to build additional capacity to meet expected future demand, particularly for additional fitting capacity in the USA and Australia and increased PEX production capacity in Spain.

Some growth capital expenditure originally planned for FY2019 has been brought forward to FY2018, driven by sales growth in core SharkBite PTC products in the USA, which has resulted in a requirement to pay equipment deposits during FY2017 given the lead time of up to 12 months required by equipment manufacturers.

The current program of investment in capacity expansion to meet forecast growth in demand for SharkBite PTC and EvoPEX fittings as well as PEX pipe is expected to be substantially completed during FY2018. Capital expenditure for FY2018 is currently forecast at $35 million.

Cash Flow

Cash flow from Operations for the period was $71.9 million. EBITDA performance, along with continued active management of inventory, trade debtors and trade creditors delivered a strong cash conversion result. This result was achieved despite the increase in inventory levels in 2H FY2017 in preparation for the second phase of the Lowe's store rollout, which will take place in 1H FY2018. We expect inventory levels to reduce as that rollout occurs.

Balance Sheet

The balance sheet at 30 June 2017 continued to be in a strong position with liquidity to support further growth.

Net debt at 30 June 2017 was $235.4 million (30 June 2016 - $127.9 million). The increase over 30 June 2016 reflects additional borrowings of A$125 million to fund the Holdrite acquisition partially offset by net cash generated from operations during the year being used to reduce borrowings.

Net Debt, including the effect of the Holdrite funding, to EBITDA was 1.95 times as at 30 June 2017 (30 June 2016 - 1.29 times) and EBIT to net finance costs was 20.2 times (30 June 2016 - 13.1 times). EBITDA and EBIT reflect contributions from Holdrite only for the post-acquisition period from 12 June 2017 to 30 June 2017.

Health and Safety

RWC places a strong emphasis on the health and safety of our workforce and is committed to providing a safe and healthy workplace for all employees and contractors. We aim for zero harm across the group. A robust health and safety management system is maintained which assists in the identification of potential issues and hazards and the development of strategies and initiatives to mitigate the risk of harm. We have a good track record in managing and preventing injuries.

Strategy and Business Development Activities

Overview

As noted in the Group Overview, 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 plans to 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 be driven by the EvoPEX and Holdrite 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 (to include large multi-family developments as well as office, retail, education, hospitality, health care facilities and other institutions). Of particular interest are products or technologies that support growth in more than one area. These effective "platform enablers" could be ones we develop, acquire or partner to develop. What continues to link them all together is their focus on conveying, regulating, controlling, filtering and monitoring water from the source to the fixture in a reliable and effective manner and increasing the ease and efficiency of installation.

Beyond product and system solutions 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, developed and developing markets in Asia, and select markets in Central or South America.

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

New product development and innovation

Product development and innovation remain a key pillar of RWC's growth strategy. Holdrite, with its strong innovation culture, has added to this capability.

RWC's already strong Research and Development team has been enhanced following the Holdrite acquisition and will continue to focus on developing innovative engineered product solutions to solve the everyday problems of plumbers and contractors and facilitate professional and time saving installations in the residential and commercial new construction markets, while creating value for our distributors.

The team has been undertaking preliminary work on Connected Devices, in the context of application within the Internet of Water™ ("IoW"™) platform. During the year, we acquired intellectual property specifically related to this field which has advanced our capabilities in flow monitoring and associated IoW™ infrastructure. In the mid-term, this is expected to yield a number of unique water usage monitoring products which are expected to launch in FY2018, although these are not expected to deliver significant revenue until after FY2019. Longer term, this area of development raises the possibility of a range of advancements, in conjunction with our existing product range, to move towards "smart plumbing" systems.

USA Retail Distribution arrangements

In the second half of FY2017, we successfully completed the rollout of RWC's full range of SharkBite Plumbing Solutions – PTC fittings, PTC accessories, PEX pipe and crimp fittings – to approximately half of Lowe's home improvement centres. The rollout added to our revenue for FY2017 although the EBITDA contribution also reflects the set up and training costs incurred in the rollout. The final phase of the rollout has commenced and will be completed during the first half of FY2018.

We continued to work with The Home Depot ("THD") to deliver growth in their sales. THD's buying followed the same pattern as prior periods through to late June. During June, THD commenced the process of destocking RWC's PEX pipe and crimp fittings in all but a small number of its stores where it will retain the entire SharkBite Plumbing Solutions platform. THD continues to stock and support RWC's SharkBite PTC fittings and accessories across its national network of stores, excluding a small number of outlets in one region. Implementation of these changes is consistent with our expectations advised at the time of the half year results announcement in February.

RWC remains committed to investing in and supporting all our distribution partners with industry leading solutions and service and a broader range of solutions for plumbers.

FY2018 Outlook

RWC currently expects FY2018 EBITDA to be in the range of $145 million to $150 million. This compares with EBITDA of $120.7 million in FY2017. The 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 ongoing growth and targeted opportunities to gain market share in Asia Pacific and EMEA. 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/AUD[6]. We have also assumed the copper price in FY2018 to be similar to prices experienced during the second half of FY2017 noting that we buy brass bar from our suppliers who in turn mainly use scrap brass in their production cycle (with swarf from brass machining being the largest constituent).

Additional information

Please refer to the Appendix 4E, 30 June 2017 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 information, please contact:
David Neufeld
Investor Relations
T: +613 9099 8299

1 Pro forma unaudited results for the 12 months ended 30 June 2016 prepared on the same basis as set out in the Prospectus dated 18 April 2016. Comparison is made to the Pro Forma FY2016 results as comparison with the FY2016 Statutory Period results is not considered meaningful. The FY2016 Statutory Period covered the period from incorporation of the Company on 19 February 2016 to 30 June 2016 with Australian trading operations consolidated from 6 April 2016 and non-Australian trading operations consolidated from 3 May 2016. The FY2016 Statutory Period results are presented in the 30 June 2017 Financial Report and the Appendix 4E.
2 Forecast results presented in the Prospectus dated 18 April 2016.
3 The Operating and Financial Review forms part of, and should be read in conjunction with, the statutory Directors' Report for the year ended 30 June 2017.
4 Before significant items (including non-operating foreign exchange gains and losses) in Pro Forma FY2016.
5 Prior to elimination of inter-segment sales.
6 RWC traditionally does not hedge foreign currency exposures. Unfavourable rate movements may erode the translated value of results in the Americas and EMEA segments.