

Start of Transcript

Operator: Good day. Thank you for standing by. Welcome to Reliance Worldwide Corporation full year earnings conference call. At this time, all participants are in a listen only mode. After the speakers' presentation, there'll be a question and answer session. To ask a question during the session, you will need to press star, one, one on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press star, one, one, again.

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, to Mr Heath Sharp, CEO. Please go ahead.

Heath Sharp: Good morning, everyone. Welcome to RWC's FY24 full year earnings call. This is Heath Sharp. I'm joined here in Sydney today by Andrew Johnson, our CFO. We will provide a short overview of our results for the financial year ended 30 June 2024, followed by a Q&A session, but before we get underway, I would like to note that we have released our 2024 ESG report today along with our annual report and FY24 announcement materials. We're very pleased to have achieved this milestone of concurrently releasing our annual report and our ESG report.

Now, moving on to our results. We will start with an overview of the year on slide 3. We are pleased to present these financial results for FY24. We believe these are strong numbers, delivered due to a combination of our resilient market sector and our ongoing execution focus. The year, again, demonstrated the resilience of our business due to our end-market exposure to repair and maintenance. This continues to provide a solid base from which to combat the impact of weaker discretionary remodel and new construction activity.

We're pleased that we were able to meet our guidance in terms of revenue and operating margins. The work we've done across the business to drive further cost reductions enabled the stable margin performance despite lower volumes in all regions. At the same time, our focus on working capital has delivered a strong operating cashflow result. Andrew will take you through this in greater detail shortly, but I am certainly proud of our team's work to generate sufficient cash to allow us to fully fund the acquisition of Holman while also reducing our leverage and net debt.

Operationally, we had a standout year with the delivery of a number of key new product initiatives. During '24, we substantially completed the rollout of the SharkBite Max product range in North America. I am proud of how well we executed on this critical new product.

The rollout was seamless. This is a testament to the calibre of the people here at RWC and the collaboration between the Australian and US teams.

Importantly, SharkBite Max is delivering the commercial value we expected. Another important initiative during '24 was the rollout of PEX-a pipe and expansion fittings in the US. During the year, we completed the [load in to Lowe's]. We also made inroads with a number of wholesale channel partners in the US. Other new products launched during the year included HoldRite fixture boxes. This range aids our push into commercial construction while also providing a value add product for residential new construction and our core repair and maintenance business.

The US team also released an extended range of EZ-Flo gas appliance connectors, increasing penetration into the retail channel. In the Asia Pacific region, the integration of Holman with RWC is progressing well. We moved quickly to integrate the two management teams and now operate under one combined organisational structure. The revenue opportunities we identified at the time of the acquisition are being actively pursued. We continue to be excited about the long-term value of this combination.

From a cost perspective, we are well advanced in our plans for rationalising the RWC and Holman distribution network around Australia. We are also working on the combined manufacturing footprint. Progress in these areas will help to deliver our projected synergy savings. Considering our operations globally, a key outcome for us this year was a 52% reduction in the reportable injury frequency rate. This is a key metric of our health and safety performance. We launched a multi-year health and safety program in FY23. This is having a positive impact on our safety culture and performance.

The initiatives we've undertaken to reduce our scope 1 and scope 2 greenhouse gas emissions continue to deliver. We have now achieved a 35% reduction in our scope 1 and scope 2 emissions, relative to the baseline we set in FY21. You will recall that we set a goal of 42% reduction in scope 1 and scope 2 emissions by 2030. We are on track to meet or exceed this goal.

During the year, we established Group-wide projects to optimise supply chain, strategic sourcing, and operations and fulfilment. These are new initiatives which leverage our global expertise to develop a common approach across all RWC businesses. I'll talk about these later in the presentation, but we are pleased with the early progress we have made. These actions are strengthening our operational foundation, positioning us to efficiently deliver future growth.

Turning to slide 4, I will briefly cover some of our financial highlights. Net sales were up 0.2%, including a four-month contribution from Holman. Excluding Holman, net sales were down 2.4%. This is in line with the guidance we provided at the start of the year. Andrew will cover our performance at a regional level. Operating earnings, as measured by adjusted EBITDA of \$274.6 million, were exactly in line with the result we recorded in FY23.

Adjusted EBITDA margin excluding Holman was up slightly to 22.3% from 22% in FY23. This was achieved by our solid execution, coupled with our cost out initiatives, despite lower volumes in all our regions. Adjusted net profit after tax was 5.7% lower than the pcp. Cash generated from operations was \$314 million, up 7% on the pcp and represented an operating cashflow conversion of 114%.

We have announced a final distribution of US\$0.05 per share. In line with the new distribution policy we announced in February, this will be split between a US\$0.025 per share dividend, together with an on-market share buyback of \$19.6 million to be undertaken in the coming weeks. In summary, we believe this is a strong result, delivered against the challenging market backdrop in all regions with operating earnings maintained and a strong cash outcome. I will now hand over to Andrew to step through our financial results in more detail.

Andrew Johnson: Thank you, Heath. On slide 5, we have set out our key performance metrics. Net sales were up 0.2%, reflecting a four-month contribution from Holman. Excluding Holman, net sales were 2.4% lower than pcp, reflecting lower volumes in all regions. While non-discretionary repair and maintenance activities held up well, we did see demand weaken for products tied to remodel activity and commercial construction. A lower turnover of existing homes in the US was a headwind for remodel activity. We saw significantly lower levels of residential new construction activity in both the UK and Australia.

As Heath mentioned, adjusted EBITDA came in at \$274.6 million, which was 22% of revenue compared to 22.1% in FY23. Holman was diluted from a margin standpoint. When you exclude Holman, EBITDA margin increases to 22.3%. The FY24 adjusted EBITDA result includes \$27 million in one-off items related to the closure of the Supply Smart business in the US, the EMEA restructuring and the Holman acquisition in APAC.

In the Americas, \$10 million was related to the closure of the Supply Smart business which we acquired along with EZ-Flo. This charge was a non-cash write off of the customer

relationship intangible we booked at the time of the acquisition. We announced the closure in February. This has now been completed. With the exit of Supply Smart, we were also able to close two distribution centres that supported that business, which leaves us with a total of four DCs in the Americas, down from 11 shortly after the EZ-Flo acquisition.

In APAC, the one-off items relate primarily to the acquisition of Holman. These include acquisition and integration costs of \$4 million and the unwind of the fair value inventory uplift recorded at the time of the acquisition of \$3.4 million. As we mentioned in February, we undertook further restructuring in the AMEA region, which resulted in a charge of \$4.1 million for the year. In addition, we impaired the value of property, plant and equipment at our manufacturing plant in Spain which gave rise to a \$4.3 million charge.

Pipe sales to Eastern Europe out of that plant have been severely impacted by the war in the Ukraine and its ongoing effect in Eastern Europe. The drop in demand has impacted the operating and financial performance of the plant which led to the impairment charge being taken. Depreciation and amortisation charges were a little higher than we guided. That reflects, in part, the impact of the Holman acquisition. In particular, the accounting impacts of operating leases under AASB 16. The increase also reflects the depreciation on recent capital projects related to new products and capacity expansion.

Turning now to slide 6 and looking at the Americas result in a little more detail. Excluding Supply Smart, Americas' external sales were down 0.6% versus the pcp. The success we've had in rolling out new products have helped to offset lower volumes driven by weaker market activity.

A key highlight of the Americas performance has been the EBITDA margin expansion. EBITDA margin increased from 17.9% in FY23 to 21% in FY24. This was partly due to the benefit of the transfer of SharkBite assembly and manufacturing from Australia to the US. The increase is also due to the cost reduction and efficiency initiatives we've had underway in the Americas region, which the team has done a really good job executing on.

Now on to slide 7 and the Asia Pac region. While the transfer of SharkBite manufacturing to the US was a benefit for the Americas, it negatively impacted volumes and margins for the APAC region by approximately AU\$11 million. We are pleased that the same respective amount can be seen as an uplift for the Americas, so not profit leakage as part of the manufacturing move.

APAC external sales were down 3%. We feel this result outperforms the market, given Australian new housing commitments were down 13% in the year at the end of March.

60% of Australia's end market exposure is to new home construction. We're really pleased with the performance of sales through our wholesale channel partners, with sales up year on year due to product initiatives and market share gains.

Looking at EMEA on slide 8, this was our most challenging region from a volume perspective. Sales overall in local currency were down 7% and external sales for EMEA were down 9.6% relative to FY23. UK external sales were down 9% with UK plumbing and heating sales down by 6%. Speciality product sales were down by 20%. This latter category includes sectors which have been under some pressure, including telecommunications, automotive, and underfloor heating.

Continental European sales for the year were 11% lower than the pcp. What is encouraging is that we saw an improvement in the sales trend in Continental Europe in the second half. First half sales were down 21% while second half were down just 1%. While this is partly a function of cycling weaker comps, it is pleasing that volumes have generally stabilised at these lower levels.

As we saw in the first half, EBITDA margin was impacted by lower volumes. For the full year, EBITDA margin was 29.3% versus 32.3% for the pcp and 28.8% in the first half. The restructuring we have undertaken in EMEA, and ongoing cost reduction should help reduce EBITDA margins, even if there is no uplift in volumes in the short term.

Turning to slide 9 and looking at our cashflow performance for the year. We're really proud of what the team has achieved this year managing working capital with a focus on reducing inventory, keeping our accounts receivable current, as well as extending payment terms with our vendor partners. Heath has already given you the headlines but just to repeat, cash generated from operations of \$314 million was up 7% on the prior year. Operating cashflow conversion was 114%. Another really strong result for us and the second year in a row in which we've had operating cashflow conversion above 100%.

In FY25, we're targeting to again deliver an operating cashflow conversion above 90%. However, given our progress in reducing working capital over the last couple of years, it is unlikely that we'll be able to achieve operating cashflow conversion meaningfully above 90% in FY25.

On slide 10, we have set out in a little more detail, the movements we saw on working capital balances. Holman contributed to a \$22 million increase in inventory. When you exclude Holman, we saw a reduction in net working capital of \$43 million, bringing our working capital intensity down to 28% of net sales. CapEx for the year came in at \$41

million, which was lower than our forecast. We are forecasting a similar level in FY25, which is the lower end of our CapEx range, historically. The investments we've made in manufacturing capacity and plant modernisation over the last three years mean we are well positioned for the near term.

Looking at our balance sheet briefly on slide 11. The strong cashflow performance of FY24 enabled us to not only fund the AU\$160 million acquisition of Holman but also further reduce our net debt. Our leverage ratio net debt EBITDA reduced to 1.59 times at year end versus 1.69 times in the pcp. Our target leverage is 1.5 times to 2.5 times net debt to EBITDA so the progress we've made in FY24 means we are now close to the bottom end of that range which we're comfortable with.

During the year, we extended the duration of our bank facilities which put our average debt maturity at 6.3 years. 57% of our drawn debt was at fixed rates. This has provided a degree of interest rate protection. The average cost of funding in FY24 was just over 5%. With that, let me now hand you back to Heath to discuss the outlook for FY25.

Heath Sharp: Thanks, Andrew. Now, moving to slide 12. We set out our outlook for financial year 2025. Forecasting '25 continues to be challenging. Markets are expecting interest rate cuts potentially later in calendar '24 and into calendar '25. There is considerable uncertainty around the timing of these cuts, their magnitude and how quickly they might feed through into positive demand. Given this uncertainty, we're confining our guidance to the first half of FY25.

From a revenue perspective, we're expecting consolidated net sales to be broadly in line with FY24 for the first six months of FY25 within a range of plus or minus low single digit percentage points. We expect a similar trajectory in each of our three regions. This guidance excludes both the impact of Holman, which will be positive for revenues, and the closure of Supply Smart in the US. We're targeting an improvement in EBITDA margin for the first six months of '25 relative to the pcp.

Despite a subdued volume outlook for the first half, we believe that our ongoing cost management initiatives will enable us to achieve margin expansion in the first half. We are targeting an additional \$10 million to \$15 million of cost out in FY25. With regard to Holman, we continue to be pleased with this acquisition. Their capabilities and customer relationships are very strong.

In this first full year of ownership, we expect to realise results in line with the numbers we presented at the time of the acquisition. I would remind everyone that this business is

somewhat more cyclical than the traditional RWC Asia Pacific business. We would expect approximately 60% of Holman earnings to be realised in the first half of the financial year.

On slide 13, we have set out our strategic growth priorities in each of our three regions. These are all aligned with our global growth strategy, but as we note in the headline, the execution is regional. Market conditions and market sector maturity dictate these local priorities. For the Americas, our efforts will continue in our core residential repair and remodel market. We will expand our offering through our channel partners both in store and online. Further penetration of the commercial plumbing market will continue to be a priority in the Americas. Our PEX-a offering will lead our incremental growth within the larger remodel and residential new construction markets.

In Asia Pacific, the prime opportunities centre on the integration of Holman and delivering on the revenue synergies the combine businesses offer. These include drain, waste and vent product into the product into the professional wholesale channel and the expansion of our product offering into the retail channel. We also see opportunity for our irrigation products across a broader range of channels, including the Pro sector.

In EMEA, we will continue to focus on driving day to day operational performance. This ensures we maintain margins despite the volume outlook, and also positions us well for the future market recovery. Beyond that, we continue to work on new product developments that will help drive incremental organic growth.

Finally, I'll hit the highlights of slide 14 before we open it up to Q&A. Broadly, our focus for the new financial year continues to be on execution excellence. From a culture perspective, we will continue the progress we have made in the critical area of health and safety. Over the last couple of years, we have made great strides in terms of our safety culture. We are developing effective and authentic safety leadership at all levels of the organisation. This is beginning to shine through in our injury numbers, but of course there is always more we can do, and the health and wellbeing of our employees remains a clear priority.

We will maintain our focus on risk, our culture and our people and maintain our commitment to ensure everyone's safe every day. Additionally, we will continue to pursue the ESG priorities we've outlined in our ESG report. In terms of supply chain, we have a Group-wide project centred around strengthening and standardising our S&OP process. That is sales and ops planning. The benefit of this will be improving delivery performance to our customers while also optimising our inventory levels.

We're working to strengthen our strategic sourcing operations to ensure that we are leveraging our scale across the Group. We are increasingly taking a global approach to sourcing to enable us to achieve optimum cost while also maintaining highest quality. Another key benefit will be increasing supply redundancy and ensuring we can respond quickly to changes in demand. Coupled with this is our increased attention to supplier ESG practices, including modern slavery and greenhouse gas emissions.

From an operations perspective, we're doing a lot of work around our global manufacturing footprint. Our priority at the moment is Australia following the SharkBite Max transition coupled with the Holman integration, but it is fair to say that our work here is catalysing a broader review across the globe. It is critical that we continue to challenge ourselves and to always strive to achieve the lowest cost to manufacture.

Finally, in terms of innovation, we will continue to work on new product releases, product updates and range extensions, as we do every year. The fruits of this work certainly helped 2024 revenue in a down market. This was clear in the US but perhaps the largest impact was Australia. Our initiatives were able to deliver a positive comp in local wholesale revenue in the second half in a market that is down significantly. Beyond these ongoing incremental product releases, we of course have a longer term R&D program in place. This program seeks to create new solutions that improve the productivity of end users while also increasing value on the shelves of our distributors.

In summary, we will continue working on the business, driving efficiencies and chasing cost out while ensuring we are ready to capture the upturn in demand when it eventuates. With that, I will pause and open up to questions via the conference call.

Operator: Thank you, sir. As a reminder, to ask a question, you will need to press star, one, one on your telephone. To withdraw your question, please press star, one, one, again. We ask that you keep your questions to no more than one question, and one follow-up. If time permits, we'll be more than happy to take more questions. Please stand by while we compile the Q&A roster. The first question comes from the line of Sam Seow from Citi. Please go ahead.

Sam Seow: (Citi, Analyst) Morning, guys. Thanks for taking my question. Look, just one on the UK. The 9% decline in sales matches your first half so it appears things haven't gotten any worse. I guess my questions are, (1) is that correct, and (2) on the cost out, are we to assume most of that \$10 million to \$15 million benefit you called out will be in EMEA in the first half '25? Thanks.

Heath Sharp: Sam, thanks for your question. I think that's the right observation. The comps in the first half and second half were pretty similar. I'm not sure I want to sort of step all the way out on a limb and say we think it's troughed over there but certainly we're seeing a similar run rate and have been for some months now. We are projecting that going forward into the first half. In terms of savings, I think those savings really are driven across the board, Andrew. They're not exclusively UK.

Andrew Johnson: That's correct. The majority of those, Sam, will fall in the Americas.

Sam Seow: (Citi, Analyst) Got it. Okay. Then just on the US, I note one of the big [boxes] called out plumbing comps were positive in the last quarter. I guess given they're your largest customer, is it fair to say you've seen a similar trend in your last quarter? Anything to call out why that exit rate may not be reflective of the current trading conditions? (2) Was there any SharkBite Max launch costs that you might cycle out this period? Thanks.

Heath Sharp: I think in regard to the announcement you're referring to, we were not surprised by that. That's sort of in keeping with what we've seen. There's a little bit of variability across our different channels. That feels right, there. Andrew, I don't think – is there any particular SharkBite...

Andrew Johnson: Really, the cost associated with Max, we saw in our factories in the form of start-up costs as we transferred that production over. That was primarily something that we saw in the first half. That was pretty much all worked through by the time that we came through the second half.

Sam Seow: (Citi, Analyst) Thanks. Appreciate the time, guys.

Heath Sharp: Thanks, Sam.

Operator: Thank you. Your next question comes from the line of Peter Steyn from Macquarie. Please go ahead.

Peter Steyn: (Macquarie, Analyst) Hi, Heath and Andrew. Appreciate your time. Perhaps just a bigger picture question. Heath, around supply chain and strategic sourcing, you've outlined a little bit of what one could expect but could you give us a sense of how you're thinking about policy and maybe geopolitical scenarios here and how that's influencing the flexibility with which you're trying to implement some of these thought processes?

Heath Sharp: Sure, Peter. Thanks for your question. Look, there's a few, I guess, fundamentals at play here. Wherever we can, we would like to manufacture or source close to the market. Reducing the length and the complexity of that supply chain helps from a

robustness point of view. That's one of our key tenants. Providing redundancies where we can is important, but at the same time, we do have a lot of IP in our manufacturing processes.

We will always want to apply that wherever we can but underlying all of that has to be an approach of having the lowest cost to manufacture. If you're going to go into battle, that's the right place to be. That's kind of a given and then the rest of those tenants kind of apply as you can.

Peter Steyn: (Macquarie, Analyst) Yes. Got you. Just as a follow-up then, we've got \$23 million worth of cost reduction in this year. Is there an annualization process and then incremental reductions that you're anticipating '25 and beyond as you implement some of the plans?

Andrew Johnson: Hi, Peter. The \$23 million that we were able to achieve this year within a year – if you annualise that, that would result in carry over savings in the next year of between \$7 million to \$8 million, which of course is part of the \$10 million to \$15 million that Heath mentioned that we're targeting for savings next year.

Peter Steyn: (Macquarie, Analyst) Perfect. Thanks, Andrew. Anything beyond that as you go through this process?

Heath Sharp: I think there is. I mean, it's got to be an ongoing forever process. I mean, it falls under that broad heading of continuous improvement. We're certainly not calling out anything beyond that but there's absolutely no complacency in our approach. I think you should expect some level of CI every period going forward.

Peter Steyn: (Macquarie, Analyst) Perfect. Thanks, Heath. Appreciate it.

Heath Sharp: Thanks, Peter. Cheers.

Operator: Thank you. Our next question comes from the line of Simon Thackray from Jefferies Australia. Please go ahead.

Simon Thackray: (Jefferies Australia, Analyst) Thanks very much. Hi, Heath. Hi, Andrew. First of all, thank you very much for being able to go top to bottom in that program in 25 minutes. Much appreciated. You can't have a discussion I guess in the current environment without talking about cost inflation and the role of price to recover that appreciating that the conditions are a little softer. Could you just give us a bit of a regional summary of inflation expectations and the ability of price in each of the regions to be able to recover cost?

Heath Sharp: I'll comment broadly to start with. No question, inflation it has – it's having an ongoing impact. It's certainly reduced quite a lot from the peak but whenever we think we're through it, then you'll see something happens. Our biggest battle right now is with container costs. They've jumped quite significantly recently. Bringing us back to the question Peter just asked, that really does put pressure in our CI programs. We'll take that action as best we can.

In terms of pricing, I think our pricing in pretty much all of our regions is appropriate for the raw material costs that we've got at the moment. We're comfortable with that. We're also comfortable with the process that we need to go through in the event that there are swings in key commodities. That's been, as you know, a really big factor over the last few years. I think we navigated that pretty well and are pretty comfortable that we can deal with that going forward. Andrew, I'm not sure if you want to add anything.

Andrew Johnson: I think that covers it. I think that where copper is currently – so for the Americas and Australia, I think we're in a pretty good place from a pricing standpoint. EMEA did have a price increase in FY24 that they went out with at the start of the calendar year, so we feel like we're well positioned there as well. In terms of FY25 pricing, we're still evaluating and looking at how commodities are moving, but currently we feel like we're in a good place.

Simon Thackray: (Jefferies Australia, Analyst) That's very helpful. This should be a follow-up question but it's not. It's not related. Just on the effective tax rate, which is a bit of a range there, Andrew – 18% to 21% – what are the key assumptions we need to think about in that effective tax rate that you've provided?

Andrew Johnson: Regional mix always comes into play, depending on profitability that we're seeing in the different regions. As we do make more profits in Australia, that'll push the effective tax rate up a little bit, but we think 18% to 21% is a good range. I think in the half, I said if you were going to put something in a model, to put 20%. I would stick with that.

Simon Thackray: (Jefferies Australia, Analyst) Okay. Good as gold. Thanks, gentlemen.

Heath Sharp: Thanks, Simon.

Operator: Thank you. Your next question comes from the line of Lee Power from UBS. Please go ahead.

Lee Power: (UBS, Analyst) Hi, Heath. Hi, Andrew. Heath, just on the EBITDA guidance that you've got, you obviously had pretty solid margin expansions through the year, cost out. I think the second half was higher 22% EBITDA margin. That obviously then rolls into '25. Why do you set the guidance relative to the first half '24 rather than use the second half as an appropriate starting point?

Heath Sharp: I guess in general terms, we just restricted all our guidance to the first half. We thought it was relevant to peg that as the reference point, but I would also note that the first half is when we roll through a new salary and wages which inevitably impacts the first half just a little bit, so we thought that was the more relevant number.

Lee Power: (UBS, Analyst) Okay, so we should...

Andrew Johnson: Lee, I'll also add to that – sorry, I would also add to that that volumes are always different, first half, second half. In our business, the second half is always a higher volume half. That's going to drive higher margins. You really have to look at the first half in isolation. We expect volumes will be lower.

Lee Power: (UBS, Analyst) Okay. Yes. That makes sense. Just there's obviously a very big differential between the two and you've got this cost out rolling so I was just trying to work out how relevant it is. Then, Andrew, just on the D&A number, is it just Holman that drives that into '25 or is there something else going on there? I just probably would have thought maybe some of the other closures and other work you've done might have partially offset that '25 guidance number.

Andrew Johnson: No. Of the \$11 million increase from '24 to '25, over half of that is Holman. Roughly \$6 million of that \$11 million. The remainder of it comes from the new product in capacity projects that we've had over the last few years. Of course, we've made those decisions. Those were longer term decisions, and they position us well to be able to respond to volume when that does come back, but 50% of it's going to be Holman and the remainder will be things that we've talked about over the last few years. PEX-a, SharkBite Max, increased automation in EMEA – those are the highlights that are bringing that number up.

Lee Power: (UBS, Analyst) Okay. Excellent. Thank you. Appreciate the colour, as always.

Heath Sharp: Thanks, Lee.

Operator: Thank you. Your next question comes from the line Harry Saunders with E&P. Please go ahead.

Harry Saunders: (E&P, Analyst) Morning, guys. Thanks for taking my questions. Just firstly back on that margin point. Are we comparing margin on the first half of last year? In that case, can you talk through what's the overall cost out we've seen across the year and then expected for '25, cumulatively? Just so we can work out the potential improvement that we're talking to, here.

Andrew Johnson: Hi, Harry. Sure. \$23 million in FY24 – probably 50% of that's going to be procurement. Those activities were mainly centred and driven by the Americas team. If you look at EMEA, we did talk about the restructuring at the half and then the additional restructuring that we did really towards the end of the year. Then from an APAC standpoint, they've had some good initiatives but it's the smaller piece when you look at it, regionally.

Going forward – I think as I mentioned to Peter – we'll see carry over savings of approximately \$7 million to \$8 million next year, so we've got at least half of that \$10 million to \$15 million. Of course we've got a good line of sight on how we're going to get the remainder of that, but if you look at the split in '25, first half versus second half, it's probably going to be pretty much 50/50. Half of that, we'll see in the first half, and the other half, we'll get in the second.

Harry Saunders: (E&P, Analyst) Great. Thanks. Perhaps just the overall dollar cost out for the first half alone '25 versus '24 – could you just give us an idea of that – the cumulative savings?

Andrew Johnson: I'd go with approximately \$8 million in the first half.

Harry Saunders: (E&P, Analyst) Versus first half '24?

Andrew Johnson: Correct.

Harry Saunders: (E&P, Analyst) Thanks. Just a follow up as well on EMEA. I mean, how are you seeing the recovery in EMEA end markets play out? Is there upside from a UK residential construction rebound? What is the margin upside from a recovery there? Could you see additional productivity when you see volumes come back?

Heath Sharp: Oh. For sure. For sure. There's no question there's a significant pent up demand in the UK. That market has been tough for a long time. There's some sort of anecdotal green shoots coming through, if you like, but the unknown is when that manifests itself in an increase in demand. We are pretty confident that it's there. It's just a matter of when.

I guess the two things I would note is we have made some restructuring changes over there and taken some costs out of that business. We've also invested pretty significantly over the last few years on capacity so that would point to there being a nice uptick to the bottom line margin rate when that volume comes back. Again, it's just a matter of when.

Harry Saunders: (E&P, Analyst) Thanks. Just to follow up as well, given the guidance is all sort of ex-Holman, can you just talk through how you're anticipating Holman performance in the first half and perhaps how it's performed today?

Heath Sharp: Overall, we're very pleased with Holman. Really pretty good business. Really good people executing really well. Really good relationships. It's absolutely as advertised, which is always pleasing when you get into the details of a new business, so very pleased from that point of view. In terms of performance for our first full year of ownership, I really would direct you back to the numbers that we posted at the time of the acquisition. I think we gave a 12-month rolling revenue and an EBITDA number. I think they're still valid. As I called out earlier, you should think generally of a 60/40 split, first half/second half, on how those earnings apply.

Harry Saunders: (E&P, Analyst) Great, so effectively assume pretty much flat in your underlying assumptions?

Heath Sharp: I think that's reasonable in the current environment. Yes.

Harry Saunders: (E&P, Analyst) Great. Thank you.

Heath Sharp: Thanks, Harry.

Operator: Thank you. Your next question comes from the line of Daniel Kang from CLSA. Please go ahead.

Daniel Kang: (CLSA, Analyst) My question has already been asked so I'll hand it back to you.

Operator: Thank you.

Heath Sharp: Thanks, Daniel.

Operator: Our next question comes from the line of Brook Campbell-Crawford from Barrenjoey. Please go ahead.

Brook Campbell-Crawford: (Barrenjoey, Analyst) Thanks. Good morning, Heath and Andrew. Just a couple from me, please. Back on the margin – I appreciate there's been a few questions on this, but I just want to clarify. You were talking about margin

improvements in the first half and excluding Holman. We can see what the dilution is there from Holman so I just want to clarify, does this mean you wouldn't expect margin expansion including Holman – so over and above the dilution there?

Andrew Johnson: Good morning, Brook. We would expect margin expansion including Holman. Holman is diluted but not to the extent that it's going to take us below where margins were in the first half of '24.

Brook Campbell-Crawford: (Barrenjoey, Analyst) Excellent. Thanks for clarifying. Then maybe just one on this potential opportunity to restructure the manufacturing base. I think a lot of it's relating to Australia. Heath, you've commented in the past on this one, but can you provide an update – just what stage of planning you're at at the moment and when you might be ready to provide some details to market around what's going to happen there, and maybe early indications of the range of potential benefits when that all works itself through? Thanks.

Heath Sharp: As you indicated, Australia's the focus right now. There's quite a few things that we're working through there following the SharkBite Max change and also Holman. There's a lot of moving pieces there with the number of DCs and manufacturing sites we now have. Working through that over the next six months – 12 months, to be honest, to work through all of that, at least. As I said earlier, that's, I think, correctly moving us to just question everything else. I don't think there's anything at the moment we want to put on the table. I'd say probably in six months' time, we'll have a better view of what that might look like and be able to discuss it further, then.

Brook Campbell-Crawford: (Barrenjoey, Analyst) Thanks for the answer. Congratulations on the result.

Heath Sharp: Thanks, Brook. Appreciate it. Cheers.

Operator: Thank you. Your next question comes from the line of Rohan Gallagher from Jarden Group. Please go ahead.

Rohan Gallagher: (Jarden Australia, Analyst) Heath, Andrew, good morning. Good morning, everybody. With respect to – everyone's been focused on FY25, understandably – I'm just looking at more margins on a mid-cycle basis, particularly in the US and APAC following the respective transfer of your manufacturing assembly operations. Within your sort of plans on a medium-term basis, what sort of margins should we be aspiring to with a return to more normal market conditions across your key jurisdictions, please?

Andrew Johnson: I would say in APAC, with the acquisition of Holman, it gives that business scale which will create opportunities to help drive margins. We've talked about \$5 million in synergies that we'll get over the next three years. When all that comes through, we would anticipate, or we'd like to see those APAC margins back into the mid-teens for that combined business.

If you look at EMEA, of course last year we had margins of roughly 32%. We're slightly below 30% for this year. In the second half, we got close to 30% but didn't quite get there, but we're confident that the team can get that margin really 30% plus. Then when the volume comes back, we can see that margin getting back to that 32%, 33% range for EMEA.

In the Americas – look, the team has done a lot of work to get margins where they are today at 21%. That margin expansion is certainly a good thing, but our focus going forward will be on growth. We'll need to invest in order to achieve that growth so I would expect that Americas' margins, we could maintain in the low 20s, but, look, across all of our regions, we're going to need volume in order to significantly expand margins over and above where they are today.

Rohan Gallagher: (Jarden Australia, Analyst) That's excellent. Thank you, Andrew. Just a follow up associated with CapEx. Your CapEx, you're sort of in that \$45 million – I think you're targeting. It's well below D&A. How sustainable is that in terms of not only maintaining a footprint but then pursuing those growth ambitions over the medium-term to facilitate that business plan you just articulated? Thank you.

Heath Sharp: I think the current level – it's appropriate. We did invest quite a bit over the last few years. I think that positions us really well from a capacity point of view but also from a new product point of view. SharkBite Max is a pretty significant move. The PEX-a in expansion fitting investment was pretty significant. That has some way to play out. That's a multi-year growth story. I think we're well positioned right now so it doesn't at all feel like we're leaving any investment or projects behind.

Rohan Gallagher: (Jarden Australia, Analyst) That's excellent. Just related with that, Heath, can you just sort of highlight to people [or ourselves] where you see the latent capacity at the moment with Cullman? When we were there, there seemed to be plenty of scope for you to grow before you'd have to consider additional sort of assembly manufacturing plants.

Heath Sharp: I think we're in a good spot with Cullman. As you know, we put in quite a lot of new equipment there as part of the SharkBite Max implementation. We took the approach of essentially duplicating capacity as opposed to simply moving all that we had from Australia, so we've got quite some headroom there. I'd certainly think in terms of 30% plus capacity.

The UK's probably the same or even more, to be honest. Partly because the volumes have come off so much from where they were, but we've also invested – as you've seen – quite a bit in equipment there. That spare capacity there is well beyond 30%. In both those cases, I'm talking about our core product – so SharkBite Max in the US and Speedfit in the UK, but they're the most manufacturing intense activities we do, so generally some nice headroom right now.

Rohan Gallagher: (Jarden Australia, Analyst) That is excellent. Thank you, gentlemen. Appreciate your time.

Heath Sharp: Thanks, Rohan.

Operator: Thank you. Your next question comes from the line of Keith Chau from MST. Please go ahead.

Keith Chau: (MST, Analyst) Hi, Heath and Andrew. First question just on the channel. I noticed given there's still some uncertainties around the macro backdrop or demand backdrop at the moment across all geographies, some of our channel partners are certainly still trying to manage down inventory.

From that perspective, Heath, would you describe the current channel as being lean, full or normal for Reliance on this product, and if you could highlight if there are any variations across each of the geographies? In relation to that question, Andrew, whether you think we should be factoring any kind of seasonality for gas generation in FY25, please?

Heath Sharp: Okay. Let me deal with the first half there, Keith. I would say there's nothing to call out. Generally, it feels pretty normal in most parts of the world. I think looking backwards, I think OEM probably was the last to unwind, but even that feels pretty normal right now. So, nothing I would call out.

Andrew Johnson: Keith, on cash, the first half, we typically generate a little less cash than we do in the second half. Part of that reason is that we're building inventory for that wetter season. If I were to call it, if we're going to be in that 90% or low 90% cash conversion

range, we'll be a little below that in the first half and maybe a little bit above that in the second half.

Keith Chau: (MST, Analyst) Okay. Thank you. Appreciate that. Just a couple of quick questions following up on Holman. Just firstly around the earning seasonality. Heath, you talk about the 60/40 number. I think at the time of the acquisition it was 75/25. The change in seasonality there – is that a reflection of how the end markets are progressing or is there something fundamentally changed in that business which means the earnings seasonality is different now under Reliance ownership?

Heath Sharp: Yes. No. I certainly wouldn't call out any difference. I think it's just us getting a better handle on the profile of that business so there's nothing to call out, there.

Keith Chau: (MST, Analyst) Okay. Great. Then just covering off on the synergies for Holman, Heath, it sounds like you're pretty confident about the transaction of the business that you've acquired, so any further guidance or direction on how the synergies of that acquisition will transpire in the next coming year?

Heath Sharp: No. Nothing significantly different from what we've spoken about previously. I think we called out a \$5 million target over the first few years. I think it's fair to say it's probably the second year that we will see most of those. Right now, we're just getting our arms around it, making a few small changes, getting some new systems in place, but that won't really deliver much in year 1. I'd say it's year 2 where most of it would come home. I don't want to change our guidance, but I'd suspect by the end of year 2 we won't be talking about that number anymore.

Keith Chau: (MST, Analyst) Okay. That's great. Very helpful. Thank you.

Heath Sharp: Okay. Thanks, Keith.

Operator: Thank you. Our last question in the queue comes from the line of Shaurya Visen from Bank of America. Please go ahead.

Shaurya Visen: (Bank of America, Analyst) Good morning, Heath. Good morning, Andrew. Just a quick clarification on the margin guide, please. For the first half, [just saying, the margin slightly improving versus] the first half of last year – is that a similar across regions or is there anything you would want to call out? It looks like Europe should be higher. Is that a fair understanding? Thank you.

Andrew Johnson: Thanks for the question. I think that we do see a slight margin improvement in the first half versus last year. Certainly that's true in Americas and APAC.

We do see EMEA currently being flattish. That's simply because we hadn't baked in volume coming back in the first half. Actually, we haven't baked in volume coming back in the first half in all of our regions, but we think the UK will continue to be subdued so think more in line with last year as opposed to slightly ahead for the EMEA region.

Shaurya Visen: (Bank of America, Analyst) Thanks, Andrew. That's all. Thank you.

Operator: Thank you. That concludes our Q&A session. At this time, I'd like to turn the call back over to Heath Sharp, CEO, for closing remarks.

Heath Sharp: Very good. Thank you so much. I appreciate everybody connecting this morning. With that, we will leave you back to your day. Thanks so much.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

End of Transcript