‘Unprecedented’ price inflation is why you’re paying more for pipes

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Reliance Worldwide, which makes plumbing and heating systems, is facing an “unprecedented” surge in materials costs, chief executive Heath Sharp said as the company delivered a net profit of US$63.7 million ($88.8 million), down 3 per cent.

“I have never seen prices move so rapidly and so significantly,” Mr Sharp told *The Australian Financial Review* from Atlanta, where RWC’s operational headquarters are based. “It really is unprecedented.”

Reliance Worldwide is raising prices to counter inflation in materials such as copper as well as packaging.

The company had only intended to raise prices by about 6 per cent in 2021-22 to offset rising costs of copper and zinc when it was setting its budgets. But then the costs of other materials –such as plastic resin that it uses in pipes, stainless steel, and cardboard – also started going up, Mr Heath said.

It usually takes RWC several months to discuss price increases with customers. In several cases, the company had raised prices but by the time the increases came into effect, they were no longer sufficient to offset the inflation in commodity costs, Mr Heath said.

"In the UK, we've moved prices on some items four times in the last 12 months," he said. The company, which reports its earnings in US dollars, lifted prices by an average of 7.4 per cent in the six months to December.

It plans to raise prices further in the second half. Chief financial officer Andrew Johnson said he expected the price increases to be "approaching double-digits" by the end of June.

Net sales jumped 12 per cent to US$521.8 million, partially due to the acquisition of US appliance connector business EZ-FLO International in November. Excluding the purchase of EZ-FLO, sales rose 8 per cent.

Construction of new homes and renovations helped boost sales.

But RWC warned materials were getting caught up in supply chain glitches, curtailing volume growth. It currently takes about 12 weeks for the company to ship manufactured goods to the US, up from six weeks before the pandemic broke out.

While shipping prices had not come down, they were no longer going up, Mr Heath said. "That feels like a real positive."

The group's operating margins have suffered from the time lag between incurring higher costs and raising its own prices. But it expects it will be able to keep raising prices to offset inflation by the end of the financial year.

Excluding EZ-FLO, adjusted earnings margins fell to 24.7 per cent from 25.9 per cent a year earlier. The company hopes that profit margins will rebound to about 26 per cent by the end of June.

Mr Sharp said trading in January was consistent with the first half. In the Americas, RWC's biggest market, net sales rose 15 per cent in the six months to December to US$333.6 million compared with a year earlier.

UK a challenging market

Net sales were up 10 per cent in the Asia-Pacific region over the same period, but up just 1 per cent in Europe and the Middle East due to a drop in UK sales.

The UK is the company's most challenging market, with sales hurt by shortages of truck drivers and materials partially due to disruption caused by Brexit. Long lockdowns have also hampered activity, with some housing construction and renovation postponed, Mr Heath said. "The dynamics do feel different to the US," he said.

The CEO has not been to Australia since the outbreak of the pandemic but hopes to travel here in March.

RWC opened a new 55,000 sq m distribution centre in Alabama in the first half. The company is confident that demand will continue for core products such as pipes and water heaters even if housing markets weaken, Mr Heath said. "If you get a leaky pipe, you're going to replace that pipe and the fittings."

The company will pay a dividend of US4.5¢ per share, up from US4.3¢ a year earlier.

RWC's shares fell 2.5 per cent in morning trading on Monday to $4.96.