

**ASX Announcement**

27 February 2020

## Reece Limited - HY20 Results

Reece Limited (“Reece Group”; ASX: REH) today announces its financial results for the half-year ended 31 December 2019.

Please find attached the HY20 Appendix 4D and half-year financial report.

**For further information contact:**

Andrew Hewett  
*Media Relations*  
**Reece Group**  
E: [andrew.hewett@reece.com.au](mailto:andrew.hewett@reece.com.au)  
T: 0419 559 517

Scott Newstead  
*Investor Relations*  
**Reece Group**  
E: [scott.newstead@reece.com.au](mailto:scott.newstead@reece.com.au)  
T: 0437 066 512

This announcement has been authorised by Gavin Street, CFO and Company Secretary with endorsement from the Board of Directors.

### About the Reece Group

Reece Group is a leading distributor of plumbing, waterworks and HVAC-R products to commercial and residential customers through over 800 branches in Australia, New Zealand and the United States.

Established in 1920 and listed on the Australian Securities Exchange (ASX: REH), Reece Group has approximately 7,800 employees committed to improving the lives of its customers by striving for greatness every day.

For further information on Reece Group and its portfolio of businesses please visit [www.reecegroup.com.au](http://www.reecegroup.com.au).

**Reece Limited**  
(ABN 49 004 313 133)  
and controlled entities

Half-year information for the six months ended 31 December 2019 provided to  
the ASX under listing rule 4.2A.3

This half-year financial report is to be read in conjunction with  
the financial report for the year ended 30 June 2019

## Appendix 4D

Half-year report for the six months to 31 December 2019

Reece Limited  
(ABN 49 004 313 133)

### 1. Reporting period

Report for the half-year ended 31 December 2019. The information in this report should be read in conjunction with the most recent annual financial report for the year ended 30 June 2019.

Previous corresponding period is the financial year ended 30 June 2019 and half-year ended 31 December 2018.

### 2. Results for announcement to the market

				\$A'000
Revenues from sale of goods	Up	9.0%	to	2,961,668
EBITDA excluding business acquisition costs and finance income	Up	20.2%	to	312,706
Profit after tax excluding business acquisition costs	Up	0.1%	to	106,078
Statutory profit after tax	Up	36.7%	to	104,930
Net profit for the period attributable to members	Up	36.7%	to	104,930

  

Dividends	Amount per security	Franked amount per security
Interim dividend	6.0 cents	6.0 cents
Previous corresponding period – interim dividend	6.0 cents	6.0 cents
Record date for determining entitlements to the dividend		18 March 2020

### Review of Operations

Refer to the Review of Operations contained in the financial report for the half-year ended 31 December 2019.

### 3. Details of entities over which control has been gained during the period

Effective 1 October 2019 the Group acquired 100% of Todd Pipe Holdings, Inc and its controlled entities (Todd Pipe). Todd Pipe is a plumbing wholesaler and operates six stores in California, United States of America. This acquisition expands the Group's customer base and existing footprint in California.

## Appendix 4D

	2019 \$A'000	2018 \$A'000
<b>4. Net tangible assets per security</b>		
Net tangible asset backing per ordinary security	13 cents	26 cents
<b>5. Dividends</b>		
Ordinary shares		
Dividends paid during the half-year (fully franked)	79,917	79,917
<p>The final dividend relating to the year ended on 30 June 2019 was paid on 30 October 2019.</p>		
<p>Subsequent events</p>		
<p>Since the end of the half-year the directors have declared the following interim dividend:</p>		
6.0 cents (2018: 6.0 cents) per ordinary share fully franked	33,649	33,649
<p>The interim dividend relating to the half-year ended on 31 December 2019 has not been included as a provision in the financial statements because the dividend was declared after balance date.</p>		
Date dividend is payable	26 March 2020	
Record date to determine entitlement to the dividend	18 March 2020	
Amount per ordinary security		
	Amount per security	Franked amount per security
Interim dividend: Current year	6.0 cents	6.0 cents (at 30% tax rate)
Previous year	6.0 cents	6.0 cents (at 30% tax rate)

### 6. The financial information provided in the Appendix 4D is based on the half-year condensed consolidated financial report (attached).

### 7. Independent review of the financial report

The financial report has been independently reviewed. The financial report is not subject to a qualified independent review statement.



27 February 2020  
Melbourne

Gavin Street  
Company Secretary

**Reece Limited**  
(ABN 49 004 313 133)  
and controlled entities

Financial report for the half-year ended 31 December 2019

This half-year financial report is to be read in  
conjunction with the financial report for the year ended  
30 June 2019

**Reece Limited and controlled entities**  
**Financial report for the half-year ended 31 December 2019**

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## Reece Limited and controlled entities

### Directors' Report

The Directors present their report together with the condensed financial report of the consolidated entity consisting of Reece Limited and the entities it controlled (the 'Group' or 'Reece'), for the half-year ended 31 December 2019 and independent review report thereon. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

#### **Directors' Names**

The names of the Directors in office at any time during or since the end of the half-year are:

<b>Name</b>	<b>Period of directorship</b>
Mr L.A. Wilson	50 years
Mr P.J. Wilson	22 years
Mr T.M. Poole	3 years
Mr B.C. Wilson	3 years
Ms M.L. Quinn	2 years
Ms G. Williams	2 years
Mr A.W. Wilson	1 year

Each Director has been in office since the start of the financial period to the date of this report unless otherwise stated.

#### **Review of Operations**

In its 100th year, Reece Group delivered record sales revenue of \$2,962m for the half-year ended 31 December 2019, this represents 9% growth on HY19. Normalised EBITDA<sup>1</sup> was up 20% to \$313m (HY19: \$260m). Statutory NPAT<sup>2</sup> grew 37% to \$105m (HY19: \$77m).

MORSCO's sales revenue was up 19% to \$1,496m and up 9%, like-for-like on a constant currency basis.

In Australia and New Zealand, Reece maintained sales revenue at \$1,466m in a market that continues to moderate.

Through Reece Group's strategic US growth platform, MORSCO, it takes an insight led approach to learning about the business and customers. Through this understanding, the business is developing its new store approach. Concept branches provide the flexibility to test, learn and iterate, ultimately guiding the long-term approach for the network across the growing Sun-Belt region.

During the first half, MORSCO added eleven stores to its network, bringing the total to 186, including six from the acquisition of Todd Pipe in October 2019. Todd Pipe is a plumbing wholesaler located in California. The integration is progressing as planned.

In Australia and New Zealand, Reece continues to deliver customised service, through quality products, building strong relationships and expertise, alongside an innovation focus. Reece's footprint in Australia and New Zealand expanded during the first half with the addition of five new branches, bringing the total to 639.

<sup>1</sup> Normalised EBITDA excludes business acquisition costs and finance income.

<sup>2</sup> The HY19 comparative NPAT has been restated to reflect the \$21m amortisation expense from 2 July 2018 until 31 December 2018 for the identified intangible assets relating to the acquisition of MORSCO.

## Reece Limited and controlled entities

### Directors' Report

#### ***Review of Operations, continued.***

Through the Group's corporate social responsibility strategy; Reece Cares, the Bushfire Relief Commitment has contributed to the Salvation Army's Bushfire Emergency Relief Fund. For customers volunteering their time, the Reece Grant provides funds to rebuild projects for those most in need. In the community, branches have donated pipe and materials to build wildlife feeders. Reece is committed to supporting the rebuild over the months and years to come.

The Board has declared an interim dividend of 6 cents per share (HY19: 6 cents per share), fully franked. The interim dividend will be paid on 26 March 2020, with a record date of 18 March 2020.

#### ***Significant changes in the state of affairs***

In October 2019, the Group acquired Todd Pipe Holdings Inc. and its controlled entities (Todd Pipe). Todd Pipe is a plumbing wholesaler in California.

#### ***Auditor's Independence Declaration***

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is provided with this report.

#### ***Rounding of amounts to nearest thousand dollars***

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Signed in accordance with a resolution of Directors.



L.A. Wilson  
Executive Chairman



P.J. Wilson  
Group Chief Executive Officer

Melbourne  
27 February 2020



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Reece Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Reece Limited for the Half-year ended 31 December 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG  
KPMG

BW Szentirmay  
Partner

Melbourne

27 February 2020

**Reece Limited and controlled entities**  
**Condensed Consolidated Income Statement and Statement of**  
**Comprehensive Income for the half-year ended 31 December 2019**

	Notes	Half-year	
		2019 (\$'000)	2018 <sup>1</sup> (\$'000)
<b>Revenue</b>			
Revenue from sale of goods	4	2,961,668	2,718,210
Other income		1,697	4,239
		2,963,365	2,722,449
<b>Less: Expenses</b>			
Cost of sales		2,133,290	1,945,361
Employee benefits expense		345,040	298,693
Depreciation		89,287	41,270
Amortisation		17,410	20,975
Business acquisition costs		1,148	29,221
Other expenses		172,329	218,252
		2,758,504	2,553,772
<b>Operating profit</b>		204,861	168,677
Finance income	8(a)	517	2,481
Finance cost	8(b)	(54,691)	(43,045)
<b>Profit before income tax expense</b>		150,687	128,113
Income tax expense		(45,757)	(51,352)
<b>Net profit after tax</b>		104,930	76,761
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to the income statement:</b>			
Share-based payment reserve		96	-
		96	-
<b>Items that may be reclassified subsequently to the income statement</b>			
Items that may be reclassified subsequently to the income statement (net of tax):			
Exchange differences on translation of foreign operations		1,675	72,868
Change in fair value of effective cash flow hedges		1,725	(7,854)
		3,400	65,014
<b>Total comprehensive income, net of tax</b>		108,426	141,775
<b>Basic EPS</b>		18.7cents	13.7 cents
<b>Diluted EPS</b>		18.7cents	13.7 cents

1. The prior year numbers have been restated to include amortisation expense for the MORSCO intangible assets from 2 July 2018 until 31 December 2018. Prior period Basic and Diluted EPS was 17.4 cents. Refer to Note 6 for further information.

Reece Limited and controlled entities

Condensed Consolidated Statement of Financial Position  
as at 31 December 2019

	Notes	31 Dec 2019 (\$'000)	30 Jun 2019 (\$'000)
<b>Current assets</b>			
Cash and cash equivalents		103,337	127,707
Trade and other receivables		864,228	875,324
Inventories		985,157	955,711
Derivative financial instruments	10	-	2,209
<b>Total current assets</b>		<b>1,952,722</b>	<b>1,960,951</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	663,898	664,009
Right-of-use assets	3	676,640	-
Intangible assets		1,947,674	1,772,166
Deferred tax assets		50,054	39,263
Derivative financial instruments	10	42,966	37,721
<b>Total non-current assets</b>		<b>3,381,232</b>	<b>2,513,159</b>
<b>Total assets</b>		<b>5,333,954</b>	<b>4,474,110</b>
<b>Current liabilities</b>			
Trade and other payables		651,852	699,893
Lease liabilities	3	86,363	-
Interest bearing liabilities	7	16,271	16,256
Deferred consideration	6	44,506	-
Current tax payable		7,158	1,555
Provisions		68,511	66,808
Derivative financial instruments	10	13,798	8,680
<b>Total current liabilities</b>		<b>888,459</b>	<b>793,192</b>
<b>Non-current liabilities</b>			
Long-term payables		25,969	29,335
Interest bearing liabilities	7	1,721,807	1,593,041
Lease liabilities	3	609,277	-
Deferred tax liabilities		48,446	43,777
Provisions		5,008	5,008
Derivative financial instruments	10	14,899	18,177
<b>Total non-current liabilities</b>		<b>2,425,406</b>	<b>1,689,338</b>
<b>Total liabilities</b>		<b>3,313,865</b>	<b>2,482,530</b>
<b>Net assets</b>		<b>2,020,089</b>	<b>1,991,580</b>
<b>Equity</b>			
Contributed equity		604,849	604,849
Reserves		33,076	29,580
Retained earnings		1,382,164	1,357,151
<b>Total equity</b>		<b>2,020,089</b>	<b>1,991,580</b>

**Reece Limited and controlled entities**

**Condensed Consolidated Statement of Changes in Equity  
for the half-year ended 31 December 2019**

	Contributed equity	Reserves	Retained earnings	Total equity
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Balance as at 1 July 2019</b>	604,849	29,580	1,357,151	1,991,580
Profit for the half-year	-	-	104,930	104,930
Exchange differences on translation of foreign operations, net of tax	-	1,675	-	1,675
Change in fair value of effective cash flow hedges, net of tax	-	1,725	-	1,725
<b>Total comprehensive income /(loss) for the half-year</b>	-	3,400	104,930	108,330
Transactions with owners in their capacity as owners:				
Share-based payments	-	96	-	96
Dividends paid	-	-	(79,917)	(79,917)
Total transactions with owners in their capacity as owners	-	96	(79,917)	(79,821)
<b>Balance as at 31 December 2019</b>	604,849	33,076	1,382,164	2,020,089

Reece Limited and controlled entities

Condensed Consolidated Statement of Changes in Equity  
for the half-year ended 31 December 2018

	Contributed equity	Reserves	Retained earnings	Total equity
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Balance as at 1 July 2018</b>	604,349	7,872	1,268,617	1,880,838
Profit for the half-year	-	-	97,736	97,736
Restatement of prior year amortisation (Note 6)	-	-	(20,975)	(20,975)
Exchange differences on translation of foreign operations, net of tax	-	72,868	-	72,868
Change in fair value of effective cash flow hedges, net of tax	-	(7,854)	-	(7,854)
<b>Total comprehensive income/(loss) for the half-year (restated)</b>	-	65,014	76,761	141,775
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(79,917)	(79,917)
Total transactions with owners in their capacity as owners	-	-	(79,917)	(79,917)
Other movements	500	-	-	500
<b>Balance as at 31 December 2018 (restated)</b>	604,849	72,886	1,265,461	1,943,196

**Reece Limited and controlled entities**

**Condensed Consolidated Statement of Cash  
Flows for the half-year ended 31 December 2019**

	<b>2019 (\$'000)</b>	<b>2018 (\$'000)</b>
<b>Cash flow from operating activities</b>		
Receipts from customers	3,017,060	2,769,076
Payments to suppliers and employees	(2,728,672)	(2,620,354)
Interest received	816	766
Finance costs	(42,354)	(41,321)
Income tax paid	(45,628)	(58,724)
<b>Net cash provided by / (used in) operating activities</b>	<b>201,222</b>	<b>49,443</b>
<b>Cash flow from investing activities</b>		
Payments for property, plant and equipment	(46,678)	(51,838)
Proceeds from sale of property, plant and equipment	6,352	7,846
Purchase of intangibles	(13,716)	(4,648)
Purchase of controlled entities	(172,482)	(1,991,600)
<b>Net cash provided by / (used in) investing activities</b>	<b>(226,524)</b>	<b>(2,040,240)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	183,830	1,667,282
Repayments of borrowings	(53,622)	(37,885)
Payment of lease liabilities	(50,495)	-
Dividends paid	(79,917)	(79,917)
<b>Net cash provided by / (used in) financing activities</b>	<b>(204)</b>	<b>1,549,480</b>
Net decrease in cash and cash equivalents	(25,506)	(441,317)
Translation of cash balances held in foreign currencies	1,136	701
Cash and cash equivalents at the beginning of the half-year	127,707	539,891
<b>Cash and cash equivalents at 31 December</b>	<b>103,337</b>	<b>99,275</b>

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 1: Statement of significant accounting policies**

This condensed half-year financial report for Reece Limited and its controlled entities (the Group) for the six months ended 31 December 2019 was authorised for issue in accordance with a resolution of the directors on 27 February 2020.

The financial report covers Reece Limited and controlled entities (the Group). Reece Limited is a company limited by shares, incorporated and domiciled in Australia. Reece Limited is a for-profit entity for the purpose of preparing the financial statements. The registered offices of Reece Limited is 118 Burwood Highway, Burwood, Victoria, 3125.

The Group is a leading supplier of plumbing, bathroom, heating, ventilation, waterworks, air conditioning and refrigeration products with operations in Australia, New Zealand and the United States of America. The Group's activities include importing, wholesaling, distribution, marketing and retailing. The Group supplies customers in the trade, retail, professional and commercial markets.

**(a) Basis of preparation of the condensed consolidated half-year financial report**

This condensed consolidated half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* as appropriate for for-profit entities and the *Corporations Act 2001*. The report is to be read in conjunction with the financial report for the year ended 30 June 2019 and any public announcements made by Reece Limited during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

**(b) New standards, interpretations and amendments adopted by the Group**

The half-year consolidated financial statements have been prepared using consistent accounting policies as used in the annual financial statements for the year ended 30 June 2019, with the exception of the adoption of AASB 16 *Leases* effective from 1 July 2019.

*Adoption of AASB 16 Leases*

The Group adopted AASB 16 using the modified retrospective method. As a result the comparative information for year ended 30 June 2019 has not been restated. On transition the Group elected to apply the recognition exemption for short-term leases and leases for which the underlying asset is of low value.

The Group has lease contracts for various items of property, motor vehicles and other equipment. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership; otherwise it was classified as an operating lease.

On 1 July 2019 the Group recognised \$661.8m of right-of-use (ROU) assets and \$674.2m of lease liabilities. The Group applied AASB 16 only to contracts that had been previously accounted for as leases under the previous accounting standards: AASB 117 *Leases* and AASB *Interpretation 4 Determining whether an arrangement contains a lease*. Where there were options to extend or terminate the lease, the Group has used hindsight to determine the lease term for each lease. To measure the lease liability, the Group applied the relevant discount and discounted the lease payments using its incremental borrowing rate at 1 July 2019. The weighted average borrowing rate applied is 3.06%.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 1: Statement of significant accounting policies, cont.**

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019.

	<b>2019 (\$'000)</b>
<b>Total operating lease commitments disclosed at 30 June 2019</b>	424,374
Discounted operating lease commitments as at 30 June 2019	385,503
<b>Less:</b>	
Low value assets	(1,252)
Short-term leases	(3,341)
<b>Add:</b>	
Future optional lease periods considered reasonably certain to be exercised	293,310
<b>Lease liabilities as at 1 July 2019</b>	<b>674,220</b>

**Right of use asset**

The ROU assets were recognised at 1 July 2019 at an amount equal to the lease liability, then adjusted for previously recognised prepaid or accrued lease payments.

	<b>1 July 2019 (\$'000)</b>	<b>31 Dec 2019 (\$'000)</b>
Carrying amount - property	661,495	671,224
Carrying amount - motor vehicles and equipment	313	5,416
<b>Total carrying amount right-of-use assets</b>	<b>661,808</b>	<b>676,640</b>

The Group recognised variable lease payments of \$4.1m for the six months ended 31 December 2019.

There was no material impact on other comprehensive income and basic and diluted EPS.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 1: Statement of significant accounting policies, cont.**

**Leases (new accounting policy applicable from 1 July 2019)**

The Group leases various branches, warehouses, offices, motor vehicles and equipment. Rental contracts are typically fixed periods and may have extension options. Lease terms are negotiated on a lease by lease basis.

At contract inception the Group assesses whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group recognises lease liabilities to make lease payments and right-of-use (ROU) assets representing the right to use the underlying assets. Each lease payment is allocated between the liability and the finance cost.

For the leases of motor vehicles and equipment, the Group has elected not to separate non-lease components and will account for the lease and non-lease components as a single lease component. For property leases the Group will separate the non-lease components from lease components and the consideration in the contract is allocated to each lease and non-lease component on the basis of their relative stand-alone selling prices.

ROU assets are recognised at cost at the start of the lease, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the asset as follows:

- |                                |              |
|--------------------------------|--------------|
| • Property                     | 2 – 16 years |
| • Motor vehicles and equipment | 2 – 4 years  |

In situations where ownership transfers to the Group at the end of the lease term, or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated life of the asset.

*Lease liabilities*

At the start of a lease, the Group recognises the present value of lease payments to be made over the lease term as a lease liability. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Where the Group is reasonably certain to exercise a purchase option or pay a penalty to terminate a lease, this is included in the lease payments. Variable lease payments that do not depend on an index or a rate are recognised as expenses.

The present value of lease payments has been calculated by using the Group's incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable.

Subsequently, the lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in CPI) or a change in the assessment of an option to purchase the underlying asset.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 1: Statement of significant accounting policies, cont.**

*Short-term leases and leases of low value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of property, motor vehicles and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

*IFRIC decision Lease Term and Useful Life of Leasehold Improvements*

In November 2019, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, *Lease Term and Useful Life of Leasehold Improvements*, on how the lease term of a cancellable or renewable lease should be determined for both the lessor and lessee when applying AASB 16 *Leases*. IFRIC clarifies that the broader economics and not only the contractual termination payments should be considered in determining lease terms. The adoption of this clarification may increase ROU assets and lease liabilities in the Statement of Financial Position as well as an increase in depreciation and interest expense in the Profit or Loss Statement.

As at 31 December 2019, the Group has not adopted this IFRIC Agenda Decision. The impact of the change is not reasonably estimable as the Group has yet to complete its assessment of the impact.

**c) Long term incentive plan**

The Reece Limited Long-Term Incentive Plan was established by the Board and approved by shareholders at the Annual General Meeting in October 2019. The plan is designed to provide long-term incentives for employees to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the discretion of the Remuneration Committee by recommendation to the Board. No individual has a contractual right to participate in the plan or receive any guaranteed benefits.

The amount of options that will vest depends upon growth targets achieved for EPS over a five-year period. Once vested, the options can be exercised on and from the two-year anniversary of the vesting date and remain exercisable for a period of eight years. The options granted under the plan are for no consideration and carry no voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of the options is based on the weighted average price at which Reece Limited's shares are traded on the Australian Stock Exchange over the ten trading days prior to the date of the grant.

**d) AASB Interpretation 23 *Uncertainty of Income Tax Treatment***

The Group adopted AASB Interpretation 23 *Uncertainty of Income Tax Treatment* effective for the Group from 1 July 2019. On adoption of this Interpretation the Group assesses if there were any uncertain tax positions and determined that it was probable that its tax treatments (including those for subsidiaries) will be accepted by the relevant taxation authorities. The Interpretation did not have a significant impact on the consolidated financial statements of the Group.

The Group has not early adopted any other standards or interpretations

**e) Rounding amounts**

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 2: Subsequent events**

There have been no material events subsequent to the end of the half-year that require recognition or disclosure in the half-year financial report, except for the proposed interim dividend payable as detailed in Note 5(b).

**Note 3: ROU asset and lease liability**

*Amounts recognised in the statement of financial position and profit or loss*

	Right-of-use Assets			Lease liabilities
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
	Property	Motor vehicles & other equipment	Total ROU	
<b>As at 1 July 2019</b>	661,495	313	661,808	674,220
Additions	52,759	5,522	58,281	58,282
Reassessments	7,520	-	7,520	7,520
Depreciation expense	(46,422)	(419)	(46,841)	
Interest expense	-	-	-	10,391
Payments	-	-	-	(50,495)
Net foreign exchange impact	(4,128)	-	(4,128)	(4,278)
<b>As at 31 December 2019</b>	671,224	5,416	676,640	695,640

On 1 July 2019, the Group adopted AASB 16, the prior year period has not been restated. The Group has lease contracts for various items of property, motor vehicles and other equipment. Further information on the impact from adoption of AASB 16 can be found in Note 1(b).

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 4: Segment reporting**

Segment information is presented in a manner which is consistent with the internal reporting to the Chief Executive Officer who is the entity's chief operating decision maker for the purpose of performance assessment and resource allocation. The Group's segments are based on the geographical operation of the business and comprise:

- Australia and New Zealand (ANZ)
- United States of America (USA)

	ANZ		USA		Total	
	HY2020 (\$'000)	HY2019 (\$'000)	HY2020 <sup>1</sup> (\$'000)	HY2019 <sup>2</sup> (\$'000)	HY2020 <sup>1</sup> (\$'000)	HY2019 <sup>2</sup> (\$'000)
<b>Revenue</b>						
External customers	1,465,482	1,465,116	1,496,186	1,253,094	2,961,668	2,718,210
Normalised EBITDA <sup>3</sup>	208,414	185,962	104,292	74,181	312,706	260,143
<b>Income/(expenses)</b>						
Depreciation	(56,050)	(27,958)	(33,237)	(13,312)	(89,287)	(41,270)
Amortisation	(432)	-	(16,978)	(20,975)	(17,410)	(20,975)
Business acquisition costs	-	(27,274)	(1,148)	(1,947)	(1,148)	(29,221)
Finance income	517	2,481	-	-	517	2,481
Finance costs	(29,929)	(29,103)	(24,762)	(13,942)	(54,691)	(43,045)
Segment profit before tax	122,520	104,108	28,167	24,005	150,687	128,113
Income tax expense	(38,804)	(40,690)	(6,953)	(10,662)	(45,757)	(51,352)
<b>Segment profit after tax</b>	83,716	63,418	21,214	13,343	104,930	76,761
	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
Current assets	1,014,283	1,044,328	938,439	916,623	1,952,722	1,960,951
Non-current assets	1,326,865	888,249	2,054,367	1,624,910	3,381,232	2,513,159
<b>Total Assets</b>	2,341,148	1,932,577	2,992,806	2,541,533	5,333,954	4,474,110
<b>Total Liabilities</b>	1,805,790	1,410,583	1,508,075	1,071,947	3,313,865	2,482,530

1. Todd Pipe was acquired on 1 October 2019.

2. The prior year numbers have been restated to include amortisation expense for the MORSCO intangible assets from 2 July 2018 until 31 December 2018. Refer to Note 6 for further information.

3. Normalised EBITDA is earnings before interest, tax, depreciation, amortisation, business acquisition costs and finance income.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 5: Dividends**

	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>(a) Dividends paid or declared</b>		
Dividends paid at 14.25 cents per share (2018: 14.25 cents) fully franked at 30% paid on 30 October 2019 (2018: 25 October 2018)	79,917	79,917
<b>(b) Dividends proposed after the reporting period and not recognised</b>		
Proposed dividends not recognised at the end of the half-year at 6.0 cents per share (2018: 6.0 cents) fully franked at 30% is payable on 26 March 2020 (2018: 28 March 2019).	33,649	33,649

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 6: Business Combination**

Effective 1 October 2019 the Group acquired 100% of Todd Pipe Holdings, Inc and its controlled entities (Todd Pipe). The acquisition was funded via a combination of cash and debt through the Group's Term Loan B facility (refer Note 7). Todd Pipe is a plumbing wholesaler and operates six stores in California, USA. The acquisition of Todd Pipe expands the customer base and the Groups' existing footprint in California.

Costs of \$1.1m in respect of the Todd Pipe acquisition have been expensed during the period.

The following fair values of the identifiable assets and liabilities of Todd Pipe as at acquisition have been determined on a provisional basis:

	(\$'000)
Cash consideration paid (excluding business acquisition costs)	178,871
Deferred consideration	46,483
<b>Total purchase consideration</b>	<b>225,354</b>
Assets and Liabilities acquired:	
Trade and other receivables	46,837
Other assets	2,742
Inventory	25,927
Property plant and equipment	2,579
Right-of-use assets	46,884
Trade and other creditors	(17,894)
Other liabilities	(5,629)
Lease liabilities	(46,884)
<b>Provisional goodwill</b>	<b>170,792</b>

The acquisition accounting for the above transaction is considered provisional due to the on-going work to complete the identification and valuation of certain assets acquired including relevant intangible assets that will be amortised at their estimated life from the date of acquisition.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at 1 October 2019. The right-of-use assets were measured at an amount equal to the lease liabilities; and no further adjustments were required.

Goodwill on acquisition is attributable mainly to:

- Expected ability to leverage operational expertise and relationships across Todd Pipe and the Group;
- Expected opportunity to drive future organic growth; and
- The skills, extensive industry expertise and technical talent of Todd Pipe's employees.

*Deferred consideration*

As part of the purchase agreement with the former owners of Todd Pipe, deferred consideration of US\$30m is payable in cash on 31 December 2021. As at 1 October 2019, the fair value of the deferred consideration was estimated to be \$46.5m, which is the maximum amount, undiscounted. The deferred consideration is classified as a current liability in the balance sheet. As at 31 December 2019, the value is \$44.5m.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 6: Business combinations, cont**

**Prior year acquisition – MORSCO**

On 2 July 2018, Reece Limited acquired 100% of Patriot Supply Holdings, Inc and its controlled entities (MORSCO), a leading US distributor of plumbing, waterworks, heating and cooling (HVAC) products. At the acquisition date, MORSCO operated 173 branches in 16 states in the Sun Belt region of North America. The acquisition of MORSCO, provides the platform to diversify and grow Reece's operations into the US market.

The fair values of the identifiable assets and liabilities of MORSCO as at 2 July 2018 were:

	(\$'000)
<b>Assets</b>	
Trade and other receivables	404,793
Inventories	336,404
Property, plant and equipment	83,064
Intangible assets	382,149
Other assets	19,199
	1,225,609
<b>Liabilities</b>	
Trade and other payables	(334,649)
Current tax payable	(946)
Deferred Tax payable	(31,045)
Other payables (non-current)	(16,232)
	(382,872)
<b>Total identifiable net assets at fair value</b>	<b>842,737</b>
Goodwill arising on acquisition	1,124,508
<b>Cash consideration transferred</b>	<b>1,967,245</b>

Subsequent to reporting a provisional balance sheet at 31 December 2018, the Group has determined the fair values of the assets and liabilities acquired as part of the business combination. This resulted in the identification of intangible assets with finite lives including customer contracts and relationships, trade names and a backlog of customer orders.

The 2018 comparative information in the income statement has been restated to reflect the \$21m amortisation from 2 July 2018 until 31 December 2018 for the identified intangible assets. This has also impacted the EPS calculation from the prior period. The 30 June 2019 annual report included \$43.2m of amortisation which is reflective of 12 months amortisation for the period.

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 7: Interest bearing liabilities**

	<b>31 Dec 2019</b>	<b>30 June 2019</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
Term Loan - current	16,271	16,256
Term Loan <sup>1</sup> - non-current	1,721,807	1,593,041
<b>Total interest-bearing liabilities</b>	<b>1,738,078</b>	<b>1,609,297</b>

<sup>1</sup> In December 2019, the Group extended the maturity date of the Term Loan from July 2025 to January 2027. All other terms remain the same.

The Term Loan is a Senior Secured Term Loan B USD facility with the carrying value of the borrowings translated at the spot rate at balance date. It is subject to both foreign currency and interest rate hedging instruments (refer Note 10).

**Note 8: Finance income and finance cost**

	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
<b>a) Finance income</b>		
Realised foreign currency gain on forward exchange contract	-	5,753
Unrealised foreign currency gain on financial assets	-	2,396
Unrealised foreign currency gain / (loss) on derivative instruments	517	(5,668)
<b>Total finance income</b>	<b>517</b>	<b>2,481</b>
<b>b) Finance cost</b>		
Interest on debt and borrowings	(44,300)	(43,045)
Interest on lease liabilities	(10,391)	-
<b>Total finance cost</b>	<b>(54,691)</b>	<b>(43,045)</b>

**Notes to the Condensed Consolidated Financial Statements  
for the half-year ended 31 December 2019**

**Note 9: Property, plant and equipment**

*Acquisitions and disposals*

During the six months ended 31 December 2019 the Group acquired assets with a cost of \$46.7m exclusive of the acquired entity's assets (six months ended 31 December 2018: \$51.8m).

Assets with a carrying amount of \$6.1m were disposed of during the six months ended 31 December 2019 (six months ended 31 December 2018: \$6.5m), resulting in a gain on disposal of \$286k (six months ended 31 December 2018: gain of \$3m).

**Note 10: Fair value measurements**

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in this note.

	31 Dec 2019		30 June 2019	
	Current (\$'000)	Non-current (\$'000)	Current (\$'000)	Non-current (\$'000)
<b>Financial assets</b>				
Derivative financial instruments				
Forward foreign exchange contracts	-	-	1,986	-
Cross currency swap contracts	-	42,966	-	37,721
Interest receivable	-	-	223	-
<b>Total financial instruments assets at fair value</b>	-	42,966	2,209	37,721
<b>Financial Liabilities</b>				
Derivative financial instruments				
Interest rate swap contracts	4,544	14,899	3,759	18,177
Forward foreign exchange contracts	570	-	-	-
Cross currency swap contracts	6,108	-	4,091	-
Interest payable	2,576	-	830	-
<b>Total financial instruments liabilities at fair value</b>	13,798	14,899	8,680	18,177

The fair value of financial instruments is estimated based on the terms of the contract at each reporting date. As at 31 December 2019 and 30 June 2019, all derivative financial instruments were determined based on observable market inputs and categorised as Level 2 financial instruments. There were no transfers between categories during the period.

## Directors' Declaration

The directors declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 6 to 21, are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (b) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2019 and of its performance for the half-year ended on that date.
  
2. In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



L. A. Wilson  
Executive Chairman



P. J. Wilson  
Chief Executive Officer

Melbourne  
27 February 2020



# Independent Auditor's Review Report

To the shareholders of Reece Limited

## Report on the Half-year Financial Report

### Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Reece Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Reece Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2019
- Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the Half-year ended on that date
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Reece Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

### Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.



### Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the Half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Reece Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

BW Szentirmay

Partner

Melbourne

27 February 2020