

ASX Announcement

27 August 2020

Amended Preliminary Final Report

Proudly essential for 100 years

Reece Limited ("Reece Group"; ASX:REH) announces record financial results for the year ending 30 June 2020.

There was a minor transposition error in relation to two line items in the Statement of Financial Position (non-current lease liabilities and non-current interest bearing liabilities).

The amended 4E is attached.

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This announcement has been authorised by Chantelle Duffy, Company Secretary at the direction of 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 8,000 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.

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

Appendix 4E
Full-year information for the twelve months ended 30 June 2020
provided to the ASX under listing rule 4.3A

Preliminary Final Report

Reece Limited
(ABN 49 004 313 133)

1. Reporting period

Report for the financial year ended 30 June 2020

Previous corresponding period is the financial year ended 30 June 2019

2. Results for announcement to the market

				\$A'000
Revenues from sale of goods	Up	10.0%	to	6,009,878
EBITDA excluding business acquisition costs, finance income, fair value inventory unwind and impairment expense	Up	24.5%	to	649,604
Profit after tax	Up	13.3%	to	228,999
Net profit for the period attributable to members	Up	13.3%	to	228,999
Dividends	Amount per security		Franked amount per security	
Interim dividend	6.0 cents		6.0 cents	
Final dividend	6.0 cents		6.0 cents	
Record date for determining entitlements to the dividend			7 October 2020	

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3. Statement of Comprehensive Income

for the year ended 30 June 2020

Revenue	2020 (\$000's)	2019 ¹ (\$000's)
Sales Revenue	6,009,878	5,463,787
Other income	3,863	8,026
	6,013,741	5,471,813
Less: Expenses		
Cost of sales	4,338,667	3,926,427
Employee benefits expense	699,161	635,587
Depreciation	188,670	84,862
Amortisation	43,778	43,210
Business acquisition costs	2,625	28,516
Other expenses	330,228	396,831
	5,603,129	5,115,433
Operating profit	410,612	356,380
Finance income	12,773	23,948
Finance cost	(110,880)	(83,304)
Profit before income tax expense	312,505	297,024
Income tax expense	83,506	94,924
Net profit for the year	228,999	202,100
Other Comprehensive Income		
<i>Items that may not be reclassified subsequently to profit or loss:</i>		
Share-based payment expense	192	-
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations, net of tax	22,907	82,839
Change in fair value of effective cash flow hedges, net of tax	(22,295)	(61,131)
Total comprehensive income	229,803	223,808
Basic earnings per share	40 cents	36 cents
Diluted earnings per share	40 cents	36 cents

1. The Group has adopted AASB 16 *Leases* using the modified retrospective method, as a result comparable information for year ended 30 June 2019 has not been restated.

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4. Statement of Financial Position

as at 30 June 2020

	2020 (\$000's)	2019 ¹ (\$000's)
Current assets		
Cash and cash equivalents	1,004,708	127,707
Trade and other receivables	931,628	875,324
Inventories	967,510	955,711
Derivative financial instruments	-	2,209
Total current assets	2,903,846	1,960,951
Non-current assets		
Property, plant and equipment	656,932	664,009
Right-of-use assets	688,408	-
Intangible assets	1,970,942	1,772,166
Deferred tax assets	49,808	39,263
Derivative financial instruments	73,949	37,721
Total non-current assets	3,440,039	2,513,159
Total assets	6,343,885	4,474,110
Current liabilities		
Trade and other payables	792,977	699,893
Lease liabilities	81,936	-
Interest bearing liabilities	18,013	16,256
Deferred consideration	45,433	-
Current tax payable	34,431	1,555
Provisions	69,374	66,808
Derivative financial instruments	33,290	8,680
Total current liabilities	1,075,454	793,192
Non-Current Liabilities		
Long-term payables	31,408	29,335
Interest bearing liabilities	1,747,219	1,593,041
Lease liabilities	633,732	-
Deferred tax liability	74,424	43,777
Provisions	5,444	5,008
Derivative financial instruments	26,318	18,177
Total non-current liabilities	2,518,545	1,689,338
Total liabilities	3,593,999	2,482,530
Net assets	2,749,886	1,991,580
Equity		
Contributed equity	1,246,918	604,849
Reserves	30,384	29,580
Retained earnings	1,472,584	1,357,151
Total equity	2,749,886	1,991,580

- The Group has adopted AASB 16 *Leases* using the modified retrospective method, as a result comparable information for year ended 30 June 2019 has not been restated.

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5. Statement of Changes in Equity

for the year ended 30 June 2020

	Contributed equity	Reserves	Retained earnings	Total Equity
	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Balance as at 1 July 2018	604,349	7,872	1,268,617	1,880,838
Net profit for the year	-	-	202,100	202,100
Exchange differences on translation of foreign operations, net of tax	-	82,839	-	82,839
Change in fair value of effective cash flow hedges, net of tax	-	(61,131)	-	(61,131)
Total comprehensive income for the year, net of tax	-	21,708	202,100	223,808
Transactions with owners in their capacity as owners:				
Additional contributed equity	-	-	-	-
Dividends paid	-	-	(113,566)	(113,566)
Total transactions with owners in their capacity as owners:	-	-	(113,566)	(113,566)
Other movements	500	-	-	500
Balance as at 30 June 2019	604,849	29,580	1,357,151	1,991,580
Balance as at 1 July 2019	604,849	29,580	1,357,151	1,991,580
Net profit for the year	-	-	228,999	228,999
Exchange differences on translation of foreign operations, net of tax	-	22,907	-	22,907
Change in fair value of effective cash flow hedges, net of tax	-	(22,295)	-	(22,295)
Total comprehensive income for the year, net of tax	604,849	30,192	1,586,150	2,221,191
Transactions with owners in their capacity as owners:				
Additional contributed equity	642,069	-	-	642,069
Share-based payments	-	192	-	192
Dividends paid	-	-	(113,566)	(113,566)
Total transactions with owners in their capacity as owners:	642,069	192	(113,566)	528,695
Balance as at 30 June 2020	1,246,918	30,384	1,472,584	2,749,886

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6. Statement of Cash Flows

for the year ended 30 June 2020

	2020 (\$000's)	2019 (\$000's)
Cash flow from operating activities		
Receipts from customers	6,039,261	5,446,191
Payments to suppliers and employees ²	(5,265,671)	(5,018,635)
Interest received	2,509	1,637
Finance costs	(85,400)	(82,376)
Income tax paid	(89,737)	(92,351)
Net cash from operating activities⁴	600,962	254,466
Cash flow from investing activities		
Purchase of property, plant, and equipment	(83,328)	(99,199)
Proceeds from sale of property, plant, and equipment	8,382	10,382
Purchase of intangibles	(27,436)	(5,329)
Purchase of controlled entities, net of cash acquired	(177,121)	(2,001,442)
Net cash from/(used in) investing activities	(279,503)	(2,095,588)
Cash flow from financing activities		
Proceeds from borrowings	281,432	1,771,568
Repayments of borrowings	(158,150)	(230,938)
Proceeds from capital raising	642,069	-
Dividends paid	(113,566)	(113,566)
Payment of lease liabilities ³	(95,503)	-
Net cash used in financing activities	556,282	1,427,064
Net (decrease)/ Increase in cash and cash equivalents	877,741	(414,058)
Net foreign exchange translation difference	(740)	1,874
Cash and cash equivalents at the beginning of the year	127,707	539,891
Cash and cash equivalents at the end of the year	1,004,708	127,707

1. The Group has adopted AASB 16 *Leases* using the modified retrospective method, as a result comparable information for year ended 30 June 2019 has not been restated.
2. For FY20, payments to suppliers and employees excludes the repayment of lease liabilities.
3. Net cash from operating activities excludes lease payments now classified as financing activities following the adoption of AASB 16, being \$95.5m for the year ended 30 June 2020.

7. Todd Pipe Holdings acquisition

On 1 October 2019 the Group acquired Todd Pipe Holdings, Inc (Todd Pipe). The Group purchased 100% of Todd Pipe for \$221m funded through a combination of cash and debt. Todd Pipe is a plumbing wholesaler and operates six stores in California, USA. Todd Pipe has contributed \$110.7m of sales revenue in FY20. The acquisition of Todd Pipe expands the customer base and the Group's existing footprint in California.

8. Dividends

	Date of payment	Total amount of dividend \$
Interim dividend – year ended 30 June 2020	26 March 2020	33,649,371
Final dividend – year ended 30 June 2020	28 October 2020	38,759,051

Amount per ordinary security	Amount per security	Franked amount per security
Final dividend: Current year	6.00 cents	6.00 cents (at 30% tax rate)
Previous year	14.25 cents	14.25 cents (at 30% tax rate)
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)

Total dividend per security	Current period	Previous period
Ordinary securities	12.00 cents	20.25 cents

9. Statement of retained earnings

	Consolidated Entity	
	2020 (\$000's)	2019 (\$000's)
Balance at beginning of year	1,357,151	1,268,617
Net profit attributable to members of the parent entity	228,999	202,100
Dividends paid	(113,566)	(113,566)
Balance at end of year	1,472,584	1,357,151

10. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security		
The calculation of net tangible asset backing per ordinary security on issue at the end of the year. The comparative has not been restated on adoption of AASB 16.	124 cents	40 cents

11. The financial information provided in the Appendix 4E has been prepared in accordance with Australian Accounting Standards.

12. Commentary on the results for the period

In its 100th year, Reece delivered a record result. Sales revenue increased by 10.0% to \$6,010m (2019: \$5,464m), driven by increased sales in all geographic locations during a year of challenging market conditions. MORSCO's sales revenue was up 20.2% to \$3,122m and up 6.8% on a constant currency basis excluding Todd Pipe. In Australia and New Zealand, Reece increased sales revenue by 0.8% to \$2,888m.

Profit before tax was up 5.2% to \$313m (2019: \$297m) and net profit after tax was \$229m, an increase of 13.3% on the previous year (2019: \$202m). In addition to organic growth, there were favourable contributions from the Todd Pipe Holdings, Inc ('Todd Pipe') acquisition and foreign currency impacts.

The Reece Group completed the acquisition of Todd Pipe in October 2019 funded through a combination of cash and debt. The Group purchased 100% of Todd Pipe for \$221m. Todd Pipe is a plumbing wholesaler and operates six stores in California, United States. The acquisition of Todd Pipe expands the customer base and the Group's existing footprint in California.

Since March 2020, government restrictions have been in place to varying levels in the United States, Australia and New Zealand in response to the COVID-19 pandemic. The Group acted quickly to implement social distancing procedures and additional hygiene measures which enabled the business to continue to provide essential services to customers.

During the COVID-19 pandemic, the majority of the Group's branches and distribution centres have continued trading. There are established protocols in place for managing positive COVID-19 diagnoses in our people or our customers.

During the four-week Stage 4 lock down in New Zealand, Reece continued to trade from 50% of our branches providing emergency products for essential services. For the period of the Stage 4 lockdown in New Zealand, Reece accessed \$1.5m from the New Zealand Government Wage Subsidy Scheme.

In May 2020, the Group completed a \$647m equity raising which strengthened the balance sheet and positioned the Reece Group for the future. The equity raised enables the Group to navigate through the current market uncertainties and be well positioned to deliver on its long-term strategy.

During the year, the Reece Group has continued to invest in the core business. The cost of doing business excluding depreciation, amortisation and business acquisition costs decreased by 0.3% to \$1,029m (2019: \$1,032m) due to the continued investment in the United States business and investment in people and technology. During the second half of FY20, the Group pursued targeted cost reduction measures to position for possible changes to the trading environment due to COVID-19.

The Reece Group continues to embrace innovation and technology to drive change across the business through the online customer platform maX, innovation centre NEXT and our learning platform LXP available for our people and customers.

Inventory levels increased to \$967.5m up 1.2% on the previous year (2019: \$955.7m), although this includes Todd Pipe, the inventory level at year end is illustrative of slightly higher stock turns. The Group continues to work closely with its suppliers to manage and mitigate supply chain risk during the COVID-19 pandemic. As a result, the Group did not experience material supply chain disruptions during the year. Net working capital continues to be a focus for the business with net working capital ratio decreasing from 20.7% to 18.4% at 30 June 2020.

The United States Term Loan B debt (denominated in USD) is partially hedged for interest rate and foreign currency risk. In December 2019, the Term Loan B maturity date was extended from July 2025 to January 2027. The net senior debt position at 30 June 2020 was \$746m including the impact of cash and derivative instruments. The leverage ratio (net debt divided by normalised EBITDA) decreased from 3.0 at 31 December 2019 to 1.4 at 30 June 2020. Cash flows from operating activities increased from \$254m to \$601m during the year.

Key leadership changes were announced in May, increasing the focus on a regional structure to support the Group's long-term growth strategy. From July 2020, the Group leadership structure will be led by Peter Wilson as Group CEO and Managing Director and consists of Group CFO, CEO Australia and New Zealand and CEO United States. The revised leadership structure will look to leverage synergies across both regions and accelerate the long-term strategy.

The Board has declared a final dividend of 6 cents per share fully franked, taking the total dividends in respect of FY20 to 12 cents per share (2019: 20.25 cents per share). The final dividend will be paid on 28 October 2020 with the record date for entitlement of 7 October 2020.

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13. The audit has been completed

The financial report is not subject to audit dispute or qualification.

The annual general meeting will be held as follows:

Place Virtual AGM, further details will be provided in the notice of meeting.

Time 2pm

Date 29 October 2020

The annual report will be available on 26 August 2020 at www.reecegroup.com.au

Chantelle Duffy
Company Secretary

27 August 2020