

ASX Announcement

23 August 2022

Preliminary Final Report

Reece Limited (“**Reece Group**”; ASX:REH) announces its financial results for the full year ended 30 June 2022.

Attached is the FY22 Preliminary Final Report, Appendix 4E.

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This announcement has been authorised by Chantelle Duffy, Company Secretary at the direction of the Reece Limited Board.

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 9,000 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 group.reece.com/au.

Reece Limited and its controlled entities

(ABN 49 004 313 133)

Appendix 4E

Full-year information for the twelve months ended 30
June 2022 provided to the ASX under listing rule 4.3A

Appendix 4E - Preliminary Final Report

Reece Limited

(ABN 49 004 313 133)

1. Reporting period

Report for the financial year ended 30 June 2022

Previous corresponding period is the financial year ended 30 June 2021

2. Results for announcement to the market

					(\$000's)
Revenues from sale of goods	Up	22.1%	to		7,654,047
Normalised EBITDA*	Up	16.4%	to		838,286
EBIT	Up	17.4%	to		578,204
Profit after tax	Up	37.4%	to		392,487
Net profit for the period attributable to members	Up	37.4%	to		392,487
Dividends	Amount per security		Franked amount per security		
Interim dividend	7.5 cents		100%		
Final dividend	15 cents		100%		
Record date for determining entitlements to the dividend	12 October 2022				

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs and finance income/(costs)

All figures in this report are in Australian Dollars, unless otherwise stated.

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3. Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2022

	2022 (\$'000's)	2021 (\$'000's)
Revenue		
Revenue from sale of goods	7,654,047	6,270,706
Other revenue	31,362	11,816
	7,685,409	6,282,522
Cost of sales	(5,515,083)	(4,509,176)
Selling and administrative expenses	(1,592,122)	(1,280,774)
Earnings before interest and tax	578,204	492,572
Finance costs (net)	(68,803)	(112,289)
Profit before income tax expense	509,401	380,283
Income tax expense	(116,914)	(94,688)
Net profit for the year	392,487	285,595
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations, net of tax	137,811	(129,285)
Change in fair value of effective cash flow hedges, net of tax	26,851	58,815
Total comprehensive income, net of tax	557,149	215,125
Basic earnings per share	61 cents	44 cents
Diluted earnings per share	61 cents	44 cents

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4. Statement of Financial Position

as at 30 June 2022

	2022 (\$000's)	2021 (\$000's)
Current assets		
Cash and cash equivalents	220,483	828,966
Trade and other receivables	1,367,503	1,044,037
Inventories	1,528,411	1,138,117
Derivative financial instruments	6,719	1,029
Total current assets	3,123,116	3,012,149
Non-current assets		
Property, plant and equipment	729,405	624,099
Right-of-use assets	763,515	633,052
Investments in associates	21,326	14,468
Intangible assets	1,906,340	1,780,630
Deferred tax assets	63,872	53,671
Total non-current assets	3,484,458	3,105,920
Total assets	6,607,574	6,118,069
Current liabilities		
Trade and other payables	1,215,975	984,024
Lease liabilities	118,644	95,934
Interest-bearing liabilities	-	16,443
Deferred consideration	1,451	41,474
Current tax liability	30,783	32,304
Provisions	93,208	76,698
Derivative financial instruments	-	11,950
Total current liabilities	1,460,061	1,258,827
Non-current liabilities		
Long-term payables	8,011	14,886
Interest-bearing liabilities	1,090,088	1,319,173
Lease liabilities	694,196	574,321
Deferred tax payable	29,625	47,983
Provisions	4,724	4,958
Derivative financial instruments	-	9,812
Total non-current liabilities	1,826,644	1,971,133
Total liabilities	3,286,705	3,229,960
Net assets	3,320,869	2,888,109
Equity		
Contributed equity	1,246,918	1,246,918
Reserves	126,769	(39,470)
Retained earnings	1,947,182	1,680,661
Total equity	3,320,869	2,888,109

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5. Statement of Changes in Equity

for the year ended 30 June 2022

	Contributed equity (\$000's)	Reserves (\$000's)	Retained earnings (\$000's)	Total equity (\$000's)
Balance as at 1 July 2020	1,246,918	30,384	1,472,584	2,749,886
Net profit for the year	-	-	285,595	285,595
Exchange differences on translation of foreign operations, net of tax	-	(129,285)	-	(129,285)
Change in fair value of effective cash flow hedges, net of tax	-	58,815	-	58,815
Total comprehensive income for the year, net of tax	-	(70,470)	285,595	215,125
Transactions with owners in their capacity as owners:				
Share-based payments	-	616	-	616
Dividends paid	-	-	(77,518)	(77,518)
Total transactions with owners in their capacity as owners	-	616	(77,518)	(76,902)
Balance as at 30 June 2021	1,246,918	(39,470)	1,680,661	2,888,109
Balance as at 1 July 2021	1,246,918	(39,470)	1,680,661	2,888,109
Net profit for the year	-	-	392,487	392,487
Exchange differences on translation of foreign operations, net of tax	-	137,811	-	137,811
Change in fair value of effective cash flow hedges, net of tax	-	26,851	-	26,851
Total comprehensive income for the year, net of tax	-	164,662	392,487	557,149
Transactions with owners in their capacity as owners:				
Share-based payments	-	1,577	-	1,577
Dividends paid	-	-	(125,966)	(125,966)
Total transactions with owners in their capacity as owners	-	1,577	(125,966)	(124,389)
Balance as at 30 June 2022	1,246,918	126,769	1,947,182	3,320,869

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6. Statement of Cash Flows

for the year ended 30 June 2022

	2022 (\$000's)	2021 (\$000's)
Cash flow from operating activities		
Receipts from customers	7,968,613	6,586,311
Payments to suppliers and employees	(7,539,222)	(6,022,709)
Interest received	537	2,584
Finance costs paid	(42,143)	(75,276)
Interest repayments on leases	(21,689)	(19,720)
Income tax paid	(144,310)	(119,274)
Net cash from operating activities	221,786	351,916
Cash flow from investing activities		
Purchase of property, plant, and equipment	(184,232)	(69,608)
Proceeds from sale of property, plant, and equipment	12,180	16,967
Payment for intangible assets	(15,874)	(3,031)
Purchase of controlled entities and investments, net of cash acquired	(93,055)	(12,248)
Net cash used in investing activities	(280,981)	(67,920)
Cash flow from financing activities		
Proceeds from borrowings	1,076,620	-
Repayments of borrowings	(1,418,388)	(276,365)
Dividends paid	(125,966)	(77,518)
Payment of lease liabilities	(106,928)	(88,526)
Net cash used in in financing activities	(574,662)	(442,409)
Net decrease in cash and cash equivalents	(633,857)	(158,413)
Net foreign exchange translation difference	25,374	(17,329)
Cash and cash equivalents at the beginning of the year	828,966	1,004,708
Cash and cash equivalents at the end of the year	220,483	828,966

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7. Acquisitions

There have been no material acquisitions during the year.

8. Associate entities

The table below shows investments in associate entities held by the Group:

	Ownership		Consolidated carrying amount	
	2022 (%)	2021 (%)	2022 (\$000's)	2021 (\$000's)
True Pillars Pty Ltd	40.1	20.2	5,000	2,500
FieldPulse Pty Ltd	26.1	26.1	9,080	9,080

There have been no material contributions to net profit during the year. Reece Limited invested an additional \$2.5m equity into its Associate True Pillars Pty Ltd in FY22. During the current financial year The Creative Plane Pty Ltd (a wholly owned subsidiary of Reece Limited) invested \$2.5m in pooled units in a registered managed investment scheme - TruePillars Investment Trust (a wholly owned subsidiary of True Pillars Pty Ltd). The pooled units have a maturity date of 1 June 2023 and a target return of 6.1% per annum. This transaction was made on an arm's length basis.

9. Dividends

	Date of payment	Total amount of dividend \$
Interim dividend – year ended 30 June 2022	12 April 2022	48,448,814
Final dividend – year ended 30 June 2022	26 October 2022	96,897,627

Amount per ordinary security		Amount per security	Franked amount per security
Final dividend:	Current year	15.0 cents	15.0 cents (at 30% tax rate)
	Previous year	12.0 cents	12.0 cents (at 30% tax rate)
Interim dividend:	Current year	7.5 cents	7.5 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	22.5 cents	18.0 cents

10. Statement of retained earnings

	Consolidated Entity	
	2022 (\$000's)	2021 (\$000's)
Balance at beginning of year	1,680,661	1,472,584
Net profit attributable to members of the parent entity	392,487	285,595
Dividends paid	(125,966)	(77,518)
Balance at end of year	1,947,182	1,680,661

11. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security at the end of the year (includes lease assets and lease liabilities in accordance with AASB16 Leases)	214 cents	171 cents

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

13. Commentary on the results for the period

Reece Limited ('Reece') delivered another strong result in FY22. Sales revenue increased 22% to \$7,654m (2021: \$6,271m) driven by demand and price inflation across all markets during the period. Normalised EBITDA increased 16% to \$838m (2021: \$720m) and statutory net profit after tax increased 37% to \$392m (2021: \$286m).

Customer activity remained elevated across each region throughout FY22 as demand continued and a backlog of activity was worked through. Macroeconomic challenges were ongoing, in particular the widespread impact of inflation.

Disruption of global supply chains also persisted, compounded by geopolitical tensions in the second half of the year. We continued to work closely with suppliers and made a strategic investment in inventory, which enabled us to successfully avoid material supply chain disruptions for customers. Our inventory position increased to \$1,528m at 30 June 2022 (30 June 2021: \$1,138m), translating to an increased net working capital to sales ratio of 22%, up from 19% at 30 June 2021.

In a complex macro environment we maintained focus on our vision of becoming the Trade's Most Valuable Partner, by executing on the three pillars of our strategy; being brilliant at the fundamentals of distribution, investing for growth, and delivering innovation. During FY22, we focused in particular on the expansion and refurbishment of our branch network, updating and expanding our delivery vehicle fleet, deepening talent and capability in our teams, and investing in our technology platforms. With the easing of COVID-19 restrictions across regions, we took the opportunity to bring our people together to collaborate and focus on developing future leaders, creating high-performing teams and embedding The Reece Way.

In December 2021, we successfully refinanced our USD Term Loan B debt facilities with a \$1,250m syndicated multi-currency revolving facility, which was further extended in March 2022 to \$1,400m. The new facilities provide Reece with a diversity of maturity dates and flexibility to be drawn in either Australian or US dollars. We are compliant with the maintenance covenants of $\leq 3.5x$ Net Leverage Ratio and $\geq 2.5x$ Interest Coverage Ratio at 30 June 2022, both of which are assessed and reported at each reporting date. Our net leverage ratio is 1.2x at 30 June 2022, down from 1.4x at 31 December 2021 under the new syndicated facility agreement. The facility provides us with the flexibility to support the strategic investment in working capital, capital expenditure and other innovation initiatives in line with our long-term strategy.

ANZ Region

In Australian and New Zealand (ANZ), sales revenue increased by 12% to \$3,518m (2021: \$3,154m). Normalised EBITDA was up 5% to \$526m (2021: \$502m) and EBIT grew 4% to \$398m (2021: \$381m).

COVID-19 restrictions had a significant operational impact in the first half of FY22, with lockdowns in various regions of Australia and New Zealand disrupting our customer base and network. We focused on ensuring a safe environment for our team and customers, and utilised the flexibility of our network to focus our resources on areas of high demand to deliver on our customer promise.

In line with our strategy, we focused on further digitising the customer's experience during the period, seeking to deliver the same world-class service experience irrespective of when, where or how our customers choose to interact with us. We continue to see customer engagement with our digital tools grow as these enhancements are rolled out.

We also focused on ensuring high standards across our network, with 33 branch refurbishments during the period. The Group's network footprint in ANZ increased to a total of 645 branches as at 30 June 2022 (2021: 642).

In December 2021, Marius Vermeulen was appointed CEO of the ANZ business and has renewed focus on the delivery of our 2030 strategy, embedding culture and building leadership capability in the team. In April 2022, we moved into 'The Works', our new purpose-built support centre in Australia. The building is a strategic investment to attract and retain talent, facilitate new ways of working, inspire collaboration and drive innovation so that we can keep partnering with our branch network to provide customised service for our customers, in line with our vision.

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13. Commentary on the results for the period (cont.)

US Region

In the US region, sales revenue increased by 33% to \$4,136m (2021: \$3,117m), an uplift of 28% on a US dollar basis. The result was the outcome of elevated demand and price inflation. Normalised EBITDA increased by 43% to \$312m (2021: \$219m) and EBIT increased by 63% to \$181m (2021: \$111m).

The US region recognised a tax benefit that reduced income tax expense by \$28m relating to valuation of inventory for tax purposes based on a last in first out (LIFO) methodology. In an inflationary environment, with a comparatively higher inventory balance, the LIFO adjustment increased from the 2021 tax benefit recognised of \$15m.

We continue to take a long-term approach to investing to build a successful business in the US region, particularly focusing on delivering operational upgrades, embedding brilliant fundamentals, and building a culture and leadership team driven by our vision and values.

In FY22 we focused on building capability in the business and delivering training and development programs on trading fundamentals. We also built out the leadership team and launched a series of targeted programs for our managers to develop future leaders at all levels. We continue to enhance our employee value proposition to build a pool of future talent.

We maintained our focus on building scale in the network, growing our footprint organically and through bolt-on acquisitions to 204 branches (2021: 189). We also refurbished a further 11 stores. The establishment of new stores was impacted by COVID-19 in FY22, and we would anticipate the rate of rollout to increase in FY23. Having trialled a range of store formats and service concepts, we are pleased with the customer response to new branches opened in FY22.

We launched our online offer, maX, during the year, which has been developed specifically for the US market, and we will continue to enhance this platform for customers. We also introduced the Reece brand at a corporate level, which will progress to a rebrand of our physical network over coming years, starting with California in FY23.

Dividends

The Board has declared a final dividend of 15 cents per share fully franked, taking the total dividends in respect of FY22 to 22.5 cents per share (2021: 18 cents per share). The final dividend will be paid on 26 October 2022 with the record date for entitlement of 12 October 2022.

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14. 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	27 October 2022

The annual report will be available on 23 August 2022 at group.reece.com/au.

Chantelle Duffy
Company Secretary
23 August 2022