

7 May 2018

Reece to acquire MORSCO; launches A\$560m Equity Raising

Overview

- Reece Limited (ASX:REH, Reece) has entered into a binding agreement to acquire 100 per cent of MORSCO Inc. (MORSCO) for US\$1.44bn (A\$1.91bn)¹.
- MORSCO is a leading US distributor of plumbing, waterworks and heating and cooling equipment (HVAC) products.
- The transaction provides Reece with a strategic platform in the fast-growing US Sun Belt region².
- The transaction will be funded by a combination of debt and new equity. Reece is today announcing a A\$560m Equity Raising (including a A\$421m Entitlement Offer and a A\$139m Placement, both fully underwritten).
- The Wilson Family, the major shareholder group, is supportive of the acquisition and will subscribe for A\$300m of shares as part of the Equity Raising.

Reece is pleased to announce that it has agreed to acquire MORSCO from Advent International and other co-owners for an all cash enterprise value of US\$1.44bn (A\$1.91bn) following a period of exclusive due diligence.

MORSCO is a leading US distributor of plumbing, waterworks and HVAC products operating in 16 states across the Sun Belt region. MORSCO achieved adjusted sales³ of US\$1,716m (A\$2,276m) and pro-forma adjusted EBITDA^{3,4} of approximately US\$100m (A\$133m) in the twelve months ended 31 December 2017. Following the acquisition, Reece expects to deliver mid-high single digit EPS accretion in its first full year of ownership on an NPATA basis. No synergies have been assumed in the acquisition metrics.

The transaction is expected to complete in July 2018 and is subject to regulatory approvals and other customary conditions.

Strategic rationale

The acquisition is underpinned by a compelling strategic rationale and delivers an international business with a combined ~A\$4.8bn in sales across plumbing, HVAC-R and waterworks.

- **Provides Reece a strategic platform in the growing US Sun Belt region**
 - MORSCO footprint comprises a unique combination of coast-to-coast US scale
 - MORSCO has a presence in 16 states in the US, with 171 branches and ~2,500 employees
 - The Sun Belt states are forecast to generate higher rates of GDP and population growth compared to national forecasts

¹ Fx rate of A\$1.00 = US\$0.7539 used to convert all US\$ metrics

² The Sun Belt region in the US comprises the southern tier of the country, including Alabama, Arizona, Florida, Georgia, Louisiana, Mississippi, New Mexico, South Carolina and Texas, and parts of California, Arkansas, North Carolina and Nevada

³ Adjusted sales and EBITDA reflects MORSCO reported sales and EBITDA adjusted to exclude the impact of certain normalisation items identified during the due diligence

⁴ In CY2017, MORSCO made changes to its purchasing function to drive savings in its supply chain. The pro-forma adjusted EBITDA in CY2017 includes the full year anticipated effect of these changes as if they had been in place from the start of the year and is adjusted for startup costs associated with opening new branches during the year

- **Allows access to a large, growing plumbing market in the US with strong demand drivers**
 - US plumbing is a US\$32bn market, while the waterworks and HVAC markets are estimated at US\$11bn and US\$35bn respectively
 - MORSCO is a top 3 supplier in 85% of branch markets
 - End markets are driven by building and construction demand which have a positive outlook, with US new housing starts still below the 40-year average
- **Delivers an experienced management team with a proven track record**
 - MORSCO CEO Chip Hornsby leads a strong team with distribution industry expertise (senior leadership brings a combined 130+ years in market)
- **Presents the ability to leverage operational expertise and relationships across both businesses**
 - Opportunity for the measured implementation of best-in-class operational capability, utilising Reece and MORSCO management's extensive industry expertise
- **A significant opportunity to drive future organic and acquisition led growth for Reece**
 - Organic growth will be driven by both underlying market expansion and improvements in branch operating efficiency
 - The US is a large, fragmented market with numerous potential consolidation opportunities across plumbing, HVAC and waterworks

Reece Chief Executive Officer, Peter Wilson said: *"We're excited to be entering a long-term partnership with MORSCO to invest in the growth of their business in the US market. It's a market that's forecast to grow at twice the rate of the Australian market and it is currently about eight times the size. By working with this experienced local team led by Chip Hornsby, we are writing the next chapter of Reece's growth for the benefit of our team, our customers, our suppliers and the long-term wealth generation of our shareholders."*

MORSCO Chief Executive Officer, Chip Hornsby said: *"The Reece track record of innovation is truly world class and their customer offer is second to none. We can't think of a better home for MORSCO. Our team is very much looking forward to the opportunity to join forces with a successful, strategic, long-term industry player and we believe there will be many opportunities for cross-pollination of ideas and talent over the years ahead."*

Reece intends to operate MORSCO separately to its businesses in Australia and New Zealand, with the existing MORSCO management team remaining in place under the leadership of Chip Hornsby. Reece has not assumed any cost or operational synergies in the short term. Reece intends to deploy some of its own team members to the US with a view to long term collaboration and sharing of industry knowledge and expertise. It is proposed that Reece's Chief Financial Officer, Sasha Nikolic, will be Reece's senior operational representative in the US. Gavin Street, Reece's Chief Digital & Data Officer and Company Secretary, will transition back to the Chief Financial Officer role (which he previously held from 2008 to 2016).

Transaction funding

The acquisition is expected to be predominately funded by an underwritten US\$1,140m 7-year senior secured credit facility from the US institutional term loan market. The facility offers long term, flexible financing with no financial maintenance covenants. The senior secured credit facility is supported by a US\$100m 5-year revolving credit facility (undrawn at acquisition).

Pro-forma for the acquisition, Reece's net debt / EBITDA⁵ as at 31 December 2017 was 2.9x, with the acquisition expected to complete in July 2018. Reece is committed to deleveraging the business and is focused on prudent balance sheet management.

⁵ Pro forma adjusted EBITDA for MergeCo for 12 months ended 31 December 2017

The remainder of the acquisition funding will be provided by a fully underwritten 1 for 11 pro-rata accelerated non-renounceable Entitlement Offer to raise A\$421m and a fully underwritten A\$139m institutional Placement, together raising approximately A\$560m. Approximately 60.2m new shares to be issued (equivalent to approximately 12.1% of existing shares on issue).

The Equity Raising will be conducted at A\$9.30 per New Share ("Offer Price"), representing a:

- 13.5% discount to the last traded price of A\$10.75 on 4 May 2018
- 12.2% discount to TERP of A\$10.59 (including placement)
- Placement price will be determined by a bookbuild from the Offer Price

In addition to each retail shareholder's entitlement under the Entitlement Offer, retail shareholders will be offered the opportunity to apply for Additional Shares (~40% of their entitlement) to enable them to maintain their proportional shareholding as at the record date following completion of the Entitlement Offer and Placement.

New Shares issued will rank pari passu with existing shares and will be eligible for the 2H18 dividend which will be no less than the 2H17 dividend on a split adjusted per share basis.

The current structure of the Wilson Family's registered shareholdings makes it impractical for them to participate in the Entitlement Offer by taking up their entitlements directly. As a result, the Wilson Family's participation in the Entitlement Offer will come by way of a A\$300m sub-underwriting commitment as "sub-underwriters of last relief", so that the first A\$300m of the shortfall under the retail component of the Entitlement Offer will be taken up by the Wilson Family sub-underwriters. The combination of the Placement and the Entitlement Offer, and the participation of the Wilson Family in the Entitlement Offer, will result in the aggregate holding of the various Wilson Family shareholders reducing marginally from 76.0% to 73.6%. Each of the three Wilson Family sub-underwriters is an entity controlled by a different Wilson Family member – Leslie Alan Wilson, John Wilson and Bruce Wilson. No fees are payable to the Wilson Family entities acting as sub-underwriters.

Key dates

Trading halt, announcement of the Transaction, Entitlement Offer and Placement. Institutional Entitlement Offer opens	Monday, 7 May 2018
Institutional Entitlement Offer closes	Tuesday, 8 May 2018
Placement conducted	Tuesday, 8 May 2018
Announcement of results of Institutional Entitlement Offer and Placement	Wednesday, 9 May 2018
Trading halt lifted – Shares recommence trading on ASX on an "ex-entitlement" basis	Wednesday, 9 May 2018
Record Date for Entitlement Offer (7pm)	Wednesday, 9 May 2018
Retail Entitlement Offer opens and Retail Offer Booklet (including Entitlement and Acceptance Form) dispatched	Monday, 14 May 2018
Settlement of Institutional Entitlement Offer and Placement	Wednesday, 16 May 2018
Allotment and commencement of trading of New Shares issued under the Entitlement Offer and Placement	Thursday, 17 May 2018
Retail Entitlement Offer closes	Wednesday, 23 May 2018
Announcement of results of Retail Entitlement Offer	Monday, 28 May 2018
Settlement of New Shares under the Retail Entitlement Offer	Tuesday, 29 May 2018
Allotment of New Shares under the Retail Entitlement Offer	Wednesday, 30 May 2018
Commencement of trading of New Shares issued under the Retail Entitlement Offer	Thursday, 31 May 2018
Dispatch of holding statements in respect of New Shares issued under the Retail Entitlement Offer	Friday, 1 June 2018

FY18 trading update

Reece is expecting to deliver a record FY18 result driven by:

- New branch openings
- Continued leveraging of its supply chain to deliver market leading products and services
- Investment across the branch network to improve and deliver great customer service
- An enhanced online offering for both trade and retail customers

Reece expects sales in the range of A\$2,650–2,700m, EBITDA in the range of A\$370–380m, and NPAT guidance is in the range of A\$223–230m⁶.

Additional information

Further details of the Acquisition and the Equity Raising are set out in the Investor Presentation also provided to the ASX today. The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Equity Raising.

J.P. Morgan and Ernst & Young are acting as joint financial advisers to Reece. J.P. Morgan is acting as Sole Lead Manager, bookrunner and underwriter to the Equity Raising. J.P. Morgan is also acting as Sole Mandated Lead Arranger, bookrunner and underwriter of the senior secured credit facility and the revolving credit facility. DLA Piper and Allens Linklaters are serving as legal advisers to Reece.

If you have any questions in relation to the Equity Raising, please call your stockbroker, accountant or other professional adviser or the Reece Limited Offer Information Line on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) between 8:30am and 5pm (Melbourne time), Monday to Friday from Monday, 14 May 2018 to Tuesday, 5 June 2018.

For further information contact:

Lauren Thompson +61 438 954 729 | Courtney Howe +61 404 310 364

Jurisdictional distribution

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer, invitation or recommendation to subscribe for or purchase any security or financial product and neither this announcement nor anything attached to this announcement shall form the basis of any contract or commitment. In particular, this announcement does not constitute an offer to sell, or the solicitation of an offer to buy, securities in the United States or any other jurisdiction in which such an offer would be illegal. Any securities described in this announcement have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "US Securities Act"), or the securities laws of any state or jurisdiction of the United States. Accordingly, the securities may not be offered or sold directly or indirectly in the United States unless they have been registered under the US Securities Act (which Reece has no obligation to do or procure) or are offered and sold in a transaction exempt from, or not subject to, the registration of the US Securities Act and any other applicable United States state securities laws.

Forward looking statements

This announcement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. Forward looking statements should, or can generally, be identified by the use of forward looking words such as "believe", "expect", "estimate", "will", "may", "target" and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include but are not limited to the expected outcome of the Acquisition. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of Reece and cannot be predicted by Reece and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which Reece operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

None of Reece or any of its subsidiaries, advisors or affiliates (or any of their respective officers, employees or agents) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward looking statement or any outcomes expressed or implied in any forward looking statements.

⁶ FY18 guidance range has been prepared based on Reece's nine month trading to 31 March 2018 and consideration of the budget performance for the remaining three months of FY18. The guidance has been provided as a result of the Transaction and does not indicate an intention for Reece to provide similar guidance going forward