

ASX Announcement

24 August 2021

Preliminary Final Report

Growth and opportunity.

Reece Limited (“**Reece Group**”; ASX:REH) announces its financial results for the full year ended 30 June 2021.

Attached is the FY21 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 Group 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 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 group.reece.com/au.

Reece Limited and controlled entities

(ABN 49 004 313 133)

Appendix 4E

Full-year information for the twelve months ended 30
June 2021 provided to the ASX under listing rule 4.3A

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Appendix 4E - Preliminary Final Report

Reece Limited

(ABN 49 004 313 133)

1. Reporting period

Report for the financial year ended 30 June 2021

Previous corresponding period is the financial year ended 30 June 2020

2. Results for announcement to the market

					\$A'000
Revenues from sale of goods	Up	4.3%	to		6,270,706
EBITDA excluding finance costs and finance income	Up	10.9%	to		720,290
EBIT	Up	20.0%	to		492,572
Profit after tax	Up	24.7%	to		285,595
Net profit for the period attributable to members	Up	24.7%	to		285,595
Dividends		Amount per security		Franked amount per security	
Interim dividend		6.0 cents		100%	
Final dividend		12.0 cents		100%	
Record date for determining entitlements to the dividend		13 October 2021			

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3. Statement of Comprehensive Income

for the year ended 30 June 2021

	2021 (\$000's)	2020 (\$000's)
Revenue		
Revenue from sale of goods	6,270,706	6,009,878
Other income	11,102	3,863
	6,281,808	6,013,741
Less: Expenses		
Cost of sales	4,509,176	4,338,667
Employee benefits expense	735,663	699,161
Depreciation	184,310	188,670
Amortisation	43,236	43,778
Business acquisition costs	172	2,625
Other expenses	316,679	330,228
	5,789,236	5,603,129
Operating profit	492,572	410,612
Finance income	2,588	12,773
Finance cost	(114,877)	(110,880)
Profit before income tax expense	380,283	312,505
Income tax expense	94,688	83,506
Net profit for the year	285,595	228,999
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	(129,285)	22,907
Change in fair value of effective cash flow hedges, net of tax	58,815	(22,295)
Total comprehensive income, net of tax	215,125	229,611
Basic earnings per share	44 cents	40 cents
Diluted earnings per share	44 cents	40 cents

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4. Statement of Financial Position

as at 30 June 2021

	2021 (\$000's)	2020 (\$000's)
Current assets		
Cash and cash equivalents	828,966	1,004,708
Trade and other receivables	1,044,037	931,628
Inventories	1,138,117	967,510
Derivative financial instruments	1,029	-
Total current assets	3,012,149	2,903,846
Non-current assets		
Property, plant and equipment	624,099	655,214
Right-of-use assets	633,052	688,408
Investments in associates	14,468	1,718
Intangible assets	1,780,630	1,970,942
Deferred tax assets	53,671	49,808
Derivative financial instruments	-	73,949
Total non-current assets	3,105,920	3,440,039
Total assets	6,118,069	6,343,885
Current liabilities		
Trade and other payables	984,024	792,977
Lease liabilities	95,934	81,936
Interest-bearing liabilities	16,443	18,013
Deferred consideration	41,474	45,433
Current tax liability	32,304	34,431
Provisions	76,698	69,374
Derivative financial instruments	11,950	33,290
Total current liabilities	1,258,827	1,075,454
Non-current liabilities		
Long-term payables	14,886	31,408
Interest-bearing liabilities	1,319,173	1,747,219
Lease liabilities	574,321	633,732
Deferred tax payable	47,983	74,424
Provisions	4,958	5,444
Derivative financial instruments	9,812	26,318
Total non-current liabilities	1,971,133	2,518,545
Total liabilities	3,229,960	3,593,999
Net assets	2,888,109	2,749,886
Equity		
Contributed equity	1,246,918	1,246,918
Reserves	(39,470)	30,384
Retained earnings	1,680,661	1,472,584
Total equity	2,888,109	2,749,886

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5. Statement of Changes in Equity

for the year ended 30 June 2021

	Contributed equity (\$000's)	Reserves (\$000's)	Retained earnings (\$000's)	Total equity (\$000's)
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
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	1,246,918	(40,086)	1,758,179	2,965,011
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

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6. Statement of Cash Flows

for the year ended 30 June 2021

	2021 (\$000's)	2020 ¹ (\$000's)
Cash flow from operating activities		
Receipts from customers	6,586,311	6,167,820
Payments to suppliers and employees	(6,022,709)	(5,394,230)
Interest received	2,584	2,509
Finance costs paid	(75,276)	(85,400)
Income tax paid	(119,274)	(89,737)
Net cash from operating activities	371,636	600,962
Cash flow from investing activities		
Purchase of property, plant, and equipment	(69,608)	(83,328)
Proceeds from sale of property, plant, and equipment	16,967	8,382
Purchase of intangibles	(3,031)	(27,436)
Purchase of controlled entities and investments, net of cash acquired	(12,248)	(177,121)
Net cash used in investing activities	(67,920)	(279,503)
Cash flow from financing activities		
Proceeds from borrowings	-	281,432
Repayments of borrowings	(276,365)	(158,150)
Proceeds from capital raising	-	642,069
Dividends paid	(77,518)	(113,566)
Payment of lease liabilities	(108,246)	(95,503)
Net cash from/(used in) financing activities	(462,129)	556,282
Net (decrease)/ increase in cash and cash equivalents	(158,413)	877,741
Net foreign exchange translation difference	(17,329)	(740)
Cash and cash equivalents at the beginning of the year	1,004,708	127,707
Cash and cash equivalents at the end of the year	828,966	1,004,708

¹ 'Receipts from Customers' and 'Payments to suppliers and employees' have been restated to gross up for the impact of taxes. There is no impact to net cash from operating activities as previously reported.

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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	
	2021 (%)	2020 (%)	2021 (\$000's)	2020 (\$000's)
True Pillars Pty Ltd	20.2	-	2,500	-
FieldPulse Pty Ltd	26.1	7.1	9,080	1,468

True Pillars Pty Ltd and FieldPulse Pty Ltd both became associates of Reece Ltd during the year. There have been no material contributions to net profit, and there have been no transactions other than the provision of equity capital between Reece Ltd and its associates during the year.

9. Dividends

	Date of payment	Total amount of dividend \$
Interim dividend – year ended 30 June 2021	15 April 2021	38,759,051
Final dividend – year ended 30 June 2021	27 October 2021	77,518,102

Amount per ordinary security	Amount per security	Franked amount per security
Final dividend: Current year	12.0 cents	12.0 cents (at 30% tax rate)
Previous year	6.0 cents	6.0 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	18.0 cents	12.0 cents

10. Statement of retained earnings

	Consolidated Entity	
	2021 (\$000's)	2020 (\$000's)
Balance at beginning of year	1,472,584	1,357,151
Net profit attributable to members of the parent entity	285,595	228,999
Dividends paid	(77,518)	(113,566)
Balance at end of year	1,680,661	1,472,584

11. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	171 cents	124 cents

The calculation of net tangible asset backing per ordinary security on issue at the end of the year.

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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

FY21 has seen the Group continue to execute its long-term growth agenda and deliver another record result. Sales revenue increased by 4.3% to \$6,271m (2020: \$6,010m). Normalised EBITDA was up 10.9% to \$720m (2020: \$650m) and statutory net profit after tax grew 24.7% to \$286m (2020: \$229m).

ANZ Region

In the ANZ region, sales revenue increased by 9.2% to \$3,154m (2020: \$2,888m) in a market that remains operationally impacted by COVID-19 restrictions. New housing approvals increased by 23% in the year to 30 June 2021, and alterations and additions increased by 25% over the same period. Capacity constraints within the industry started to present in the second half, with border closures coupled with elevated construction demand causing labour shortages. Price inflation on construction products and supply chain tightening created additional challenges for the ANZ end markets.

Reece continues to deliver customised service, through quality products, strong relationships, and technical support, alongside an ongoing continuous improvement and innovation focus. The Group's footprint in ANZ increased to a total of 642 branches as at 30 June 2021.

US Region

In the US region, sales revenue was flat at \$3,117m (2020: \$3,122m). On a constant currency (US Dollar) basis sales revenue increased 11.4%. COVID-19 related restrictions and disruptions have continued to impact US operations, through short-term temporary branch closures and tightening supply chains. Price inflation on construction products began to present in the second half of the financial year. The US market also faced labour market shortages during FY21 which created capacity challenges for our end markets. Additionally, in February winter storm Uri led to prolonged and widespread power and gas outages, property damage and trading disruptions across Texas, Oklahoma, and other areas of the US sun belt.

New housing commencements trended upwards in FY21, as demand increased, and interest rates remained low. Alterations and additions increased 4.8% with people spending more time at home for both work and leisure.

The US branch network comprised 189 branches as at 30 June 2021. The region continued to trial and invest in new branch formats and service concepts, which are the result of an ongoing focus on understanding end markets and customers. The business continues to take a long-term approach to growth in the US region, with the focus during FY21 on continuing to build on strong operational foundations while investing in growth capabilities across the business.

Group

Throughout FY21, the Group has maintained its focus on being brilliant at the fundamentals of distribution, creating and delivering on growth opportunities, and embedding a culture of innovation.

In ANZ, the business focussed on further digitising the customer's experience, to deliver the same world-class experience irrespective of when, where, or how they want to do business. In the US, the focus remains on optimising the fundamentals of the business, while looking to pursue growth opportunities across markets and formats. Where appropriate, Reece looks to leverage and implement processes and strategies from the ANZ region across the US region.

The health and safety of the Reece team and customers is core to the Group's people promise. The ANZ business has digitised the safety and compliance processes. Safety is fundamental to the daily and weekly routines of the branch networks. Through this continued focus, Lost Time Injury Frequency Rates decreased by 20% in FY21.

In the US, process innovation around operational excellence audits, led to a safer customer and team member experience. Additionally, the US team developed a COVID-19 reporting application to streamline communication, cleaning, isolation, and reopening processes for impacted branches, and to keep everyone as safe as possible during the pandemic.

Despite operational disruptions, branches remained open when possible. As such, the Group did not receive any government stimulus or support payments during FY21. Furthermore, due to the outstanding work of our people, the financial performance of the Group in FY21 has not been adversely impacted by COVID-19.

During FY21, the Group has continued to invest in the core business. The cost of doing business excluding depreciation, amortisation and business acquisition costs increased by 2.2% to \$1,052m (2020: \$1,029m).

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In FY21, Reece dedicated additional resources to innovation through the establishment of the Breakthrough Innovation Group ('BIG'). BIG will provide insights, capabilities and differentiated thinking to both the ANZ and US regions. BIG has a mandate that includes the creation and incubation of new products and services, corporate venture capital, innovation labs and creative 'outside in' thinking.

Inventory levels increased to \$1,138m up 17.6% on the previous year (2020: \$968m), representing higher levels of inventory and increased supply costs in both regions. 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 with the net working capital ratio increasing from 18.4% to 19.1% at 30 June 2021.

The Group made a one-off payment against the US Term Loan B (TLB) debt (denominated in USD) in FY21, of \$260m AUD. The TLB is covenant light and partially hedged for interest rate and foreign currency changes. The net senior debt position of the Group at 30 June 2021 is \$528m including the impact of cash and derivative instruments. The leverage ratio (net debt plus leases divided by normalised EBITDA) decreased to 1.7x at 30 June 2021 (2020: 2.2x). Cash flows from operating activities decreased from \$601m to \$372m during the year, which was a result of an increased working capital ratio due to higher inventory holdings and the unfavourable impact of foreign currency conversion.

The Board has declared a final dividend of 12 cents per share fully franked, taking the total dividends in respect of FY21 to 18 cents per share (2020: 12 cents per share). The final dividend will be paid on 27 October 2021 with the record date for entitlement of 13 October 2021.

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	28 October 2021

The annual report will be available on 24 August 2021 at group.reece.com/au.

Chantelle Duffy
Company Secretary

24 August 2021