

ASX Announcement

23 August 2022

FY22 Investor Presentation

Attached for release is Reece Limited's results presentation for the 12 month period ended 30 June 2022.

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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.



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Full Year Results 2022

12 months ended
30 June 2022



Disclaimer

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Non-IFRS Financial Information

Reece uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as non-IFRS financial measures. Although Reece believes that these measures provide useful information about the financial performance of Reece, they should be considered as supplemental to the measures calculated in accordance with Australian Accounting Standards and not as a replacement for them. Because these non-IFRS financial measures are not based on Australian Accounting Standards, they do not have standard definitions, and the way Reece calculates these measures may differ from similarly titled measures used by other companies. Readers should therefore not place undue reliance on these non-IFRS financial measures.

Non-IFRS performance measures have not been subject to audit or review.

Note: All financial amounts contained in this presentation are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and the sum or calculation of components in tables contained in this presentation are due to rounding.

Presenters



Peter Wilson

Group Chief
Executive Officer



Andrew Cowlshaw

Group Chief
Financial Officer

What we'll share today

01

**FY22
overview**

02

Our focus

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**Operational
overview**

04

**FY22 Financial
Performance**

05

Outlook

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Summary

Navigating a challenging environment in FY22



Focused on team and customer

Flexible model to spread demand on network, focus on maintaining customer promise

Increased inventory, prioritised being in stock for customers

Focused on safe environment, supporting team & retention



Financial highlights

Strong result in a complex environment; significant inflation tailwind

Sales Revenue



up 22%
to \$7.7b

Normalised EBITDA*



up 16%
to \$838m

EBIT



up 17%
to \$578m

NPAT



up 37%
to \$392m

EPS



up 37%
to 61 cents

ANZ

Sales Revenue up
12% to \$3.5b

US

Sales Revenue up
33% to \$4.1b

Net leverage ratio**

1.2x

Total FY22 dividend

22.5 cents
per share

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

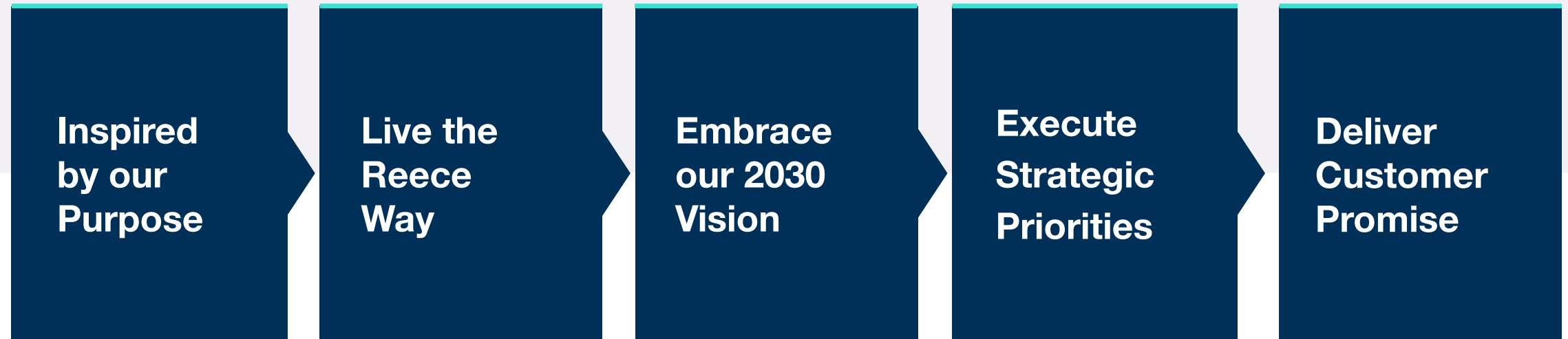
**Calculated on a pre-AASB 16 Leases basis



02

Our focus

Our Blueprint



Our Blueprint

Inspired by our Purpose

To improve the lives of our customers and our people by striving for greatness every day.

Live the Reece Way

Our purpose and values guide our decisions and our actions, big and small.

Embrace our 2030 Vision

We will be the trade's most valuable partner

Execute Strategic Priorities

-  Brilliant Fundamentals
-  Investing for Growth
-  Delivering Innovation

Deliver Customer Promise

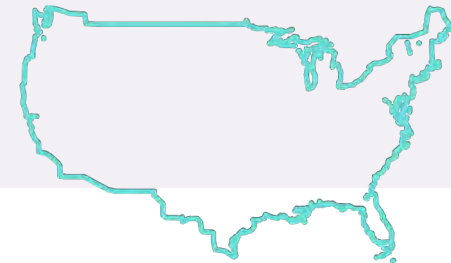
Customised service

Strategy translates to long term regional opportunities



Australia & New Zealand

- Market leader
- Robust long term market prospects
- Strong focus on less cyclical R+R markets
- Growth in business units outside plumbing, adjacencies, innovation



United States

- Large, highly fragmented and growing market
- Opportunity to create differentiated proposition
- Focus on establishing brilliant fundamentals and scaling network

Operational Overview

ANZ

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Strong execution to manage macro challenges

ANZ



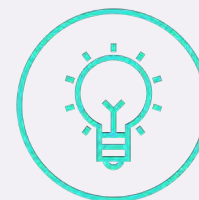
Brilliant Fundamentals

- Focused on fundamentals, strategy and culture in complex environment
- Continuous improvement initiatives ongoing
- Progressed product innovation for customers



Investing for Growth

- Network upgrades; store refurbishment program, relocations



Delivering Innovation

- Progressing innovation initiatives; focus on trade of the future
- New support centre - facilitate new ways of working
- Investment in future leaders

**2030
Vision**



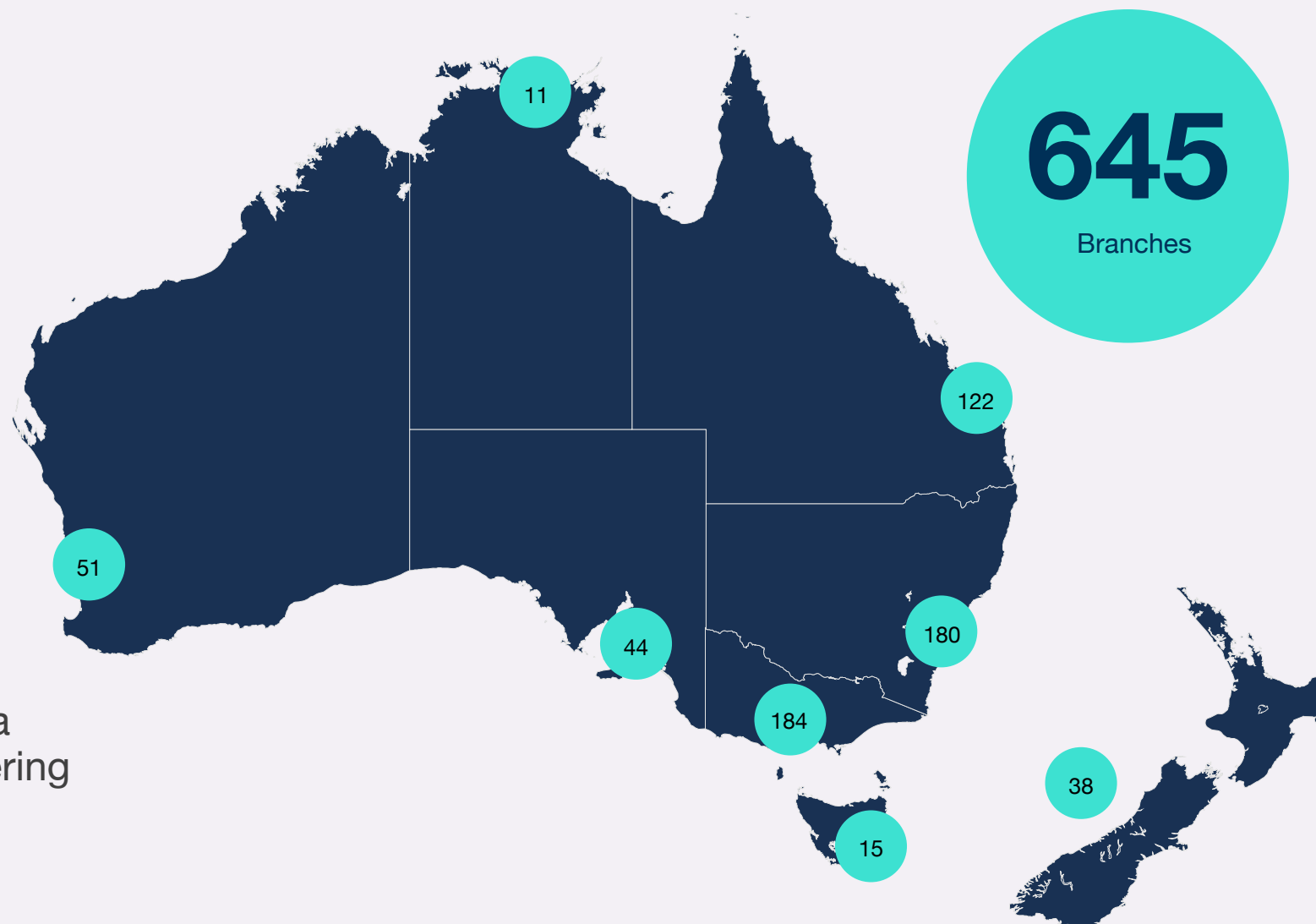
Supporting our people and refreshing our strategic focus

Focused on our team in
a year of disruption





Australia & New Zealand network



Network density enabled a flexible approach to delivering customer promise despite disruption in FY22



Delivering market leading products for customers



Inspiration for consumers

- Mizu sensor basin mixer provides new consumer choice and inspiration
- Sensor technology creates more hygienic environment, saves water cost



More sustainable products

- Thermann split heat pump delivers a highly efficient hot water solution
- Utilising natural CO2, improved resource efficiency, lower running cost



Outstanding quality

- DiMax civil range manufactured to highest tolerance for Australian conditions
- Consistent quality, long term durability and impact strength for evolving water industry standards



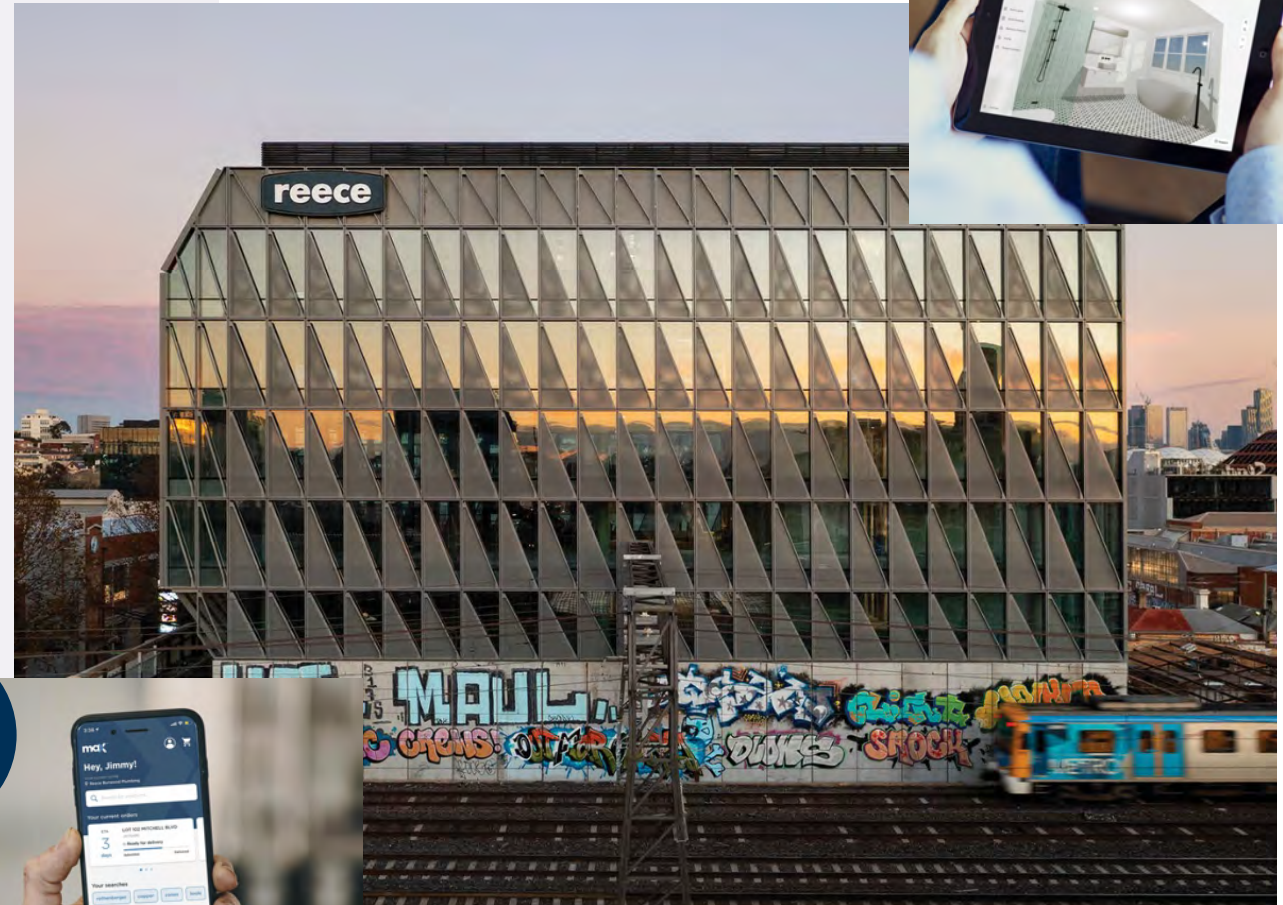
Delivering Innovation

Enabling innovation & collaboration

Continued focus on delivering innovation for trade of the future

Moved to purpose built support centre, The Works, to drive innovation and collaboration

imagin3D™



Operational Overview

US



Reflecting on four years in the US

Strategic rationale when announced in 2018

- ✓ Strategic platform in the growing US Sun Belt region
- ✓ Access to large, growing markets with strong demand drivers
- ✓ Experienced management team with deep industry knowledge and a proven track record
- ✓ Ability to leverage operational expertise and relationships
- ✓ Significant opportunity to drive future organic and acquisition led growth

Since that time we have navigated

Global
pandemic

Weather
events

Surging
demand

Disrupted
supply chain

High
inflation

Labour
challenges

Strategic rationale intact, reflecting long term strategy and opportunity

Considered approach to establishing a long term US platform

	1	2	3	4
What we said we would do	Listen and learn	Adopt ‘Best of breed’ approach	Leverage relationships & local team	Get the basics right
What we have done	<ul style="list-style-type: none"> • Built deep local insight • Not rushed change 	<ul style="list-style-type: none"> • Trialled new branch formats • Culture and values focus • Commenced network upgrade and expansion 	<ul style="list-style-type: none"> • Combined ‘local’ and Australian team 	<ul style="list-style-type: none"> • Introduced Reece brilliant fundamentals • Begin to establish high performance culture • Established stronger EVP

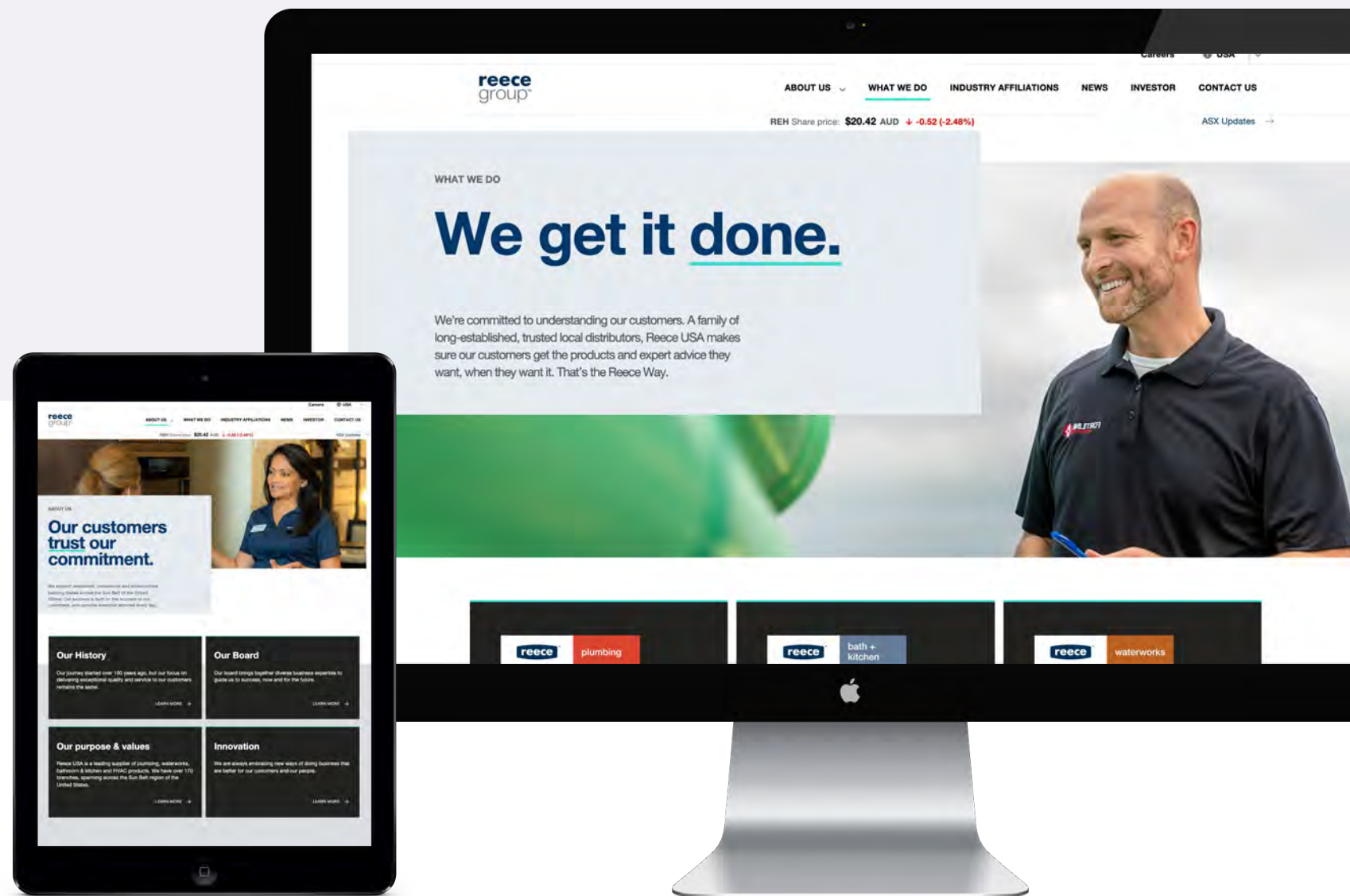


Investing for Growth

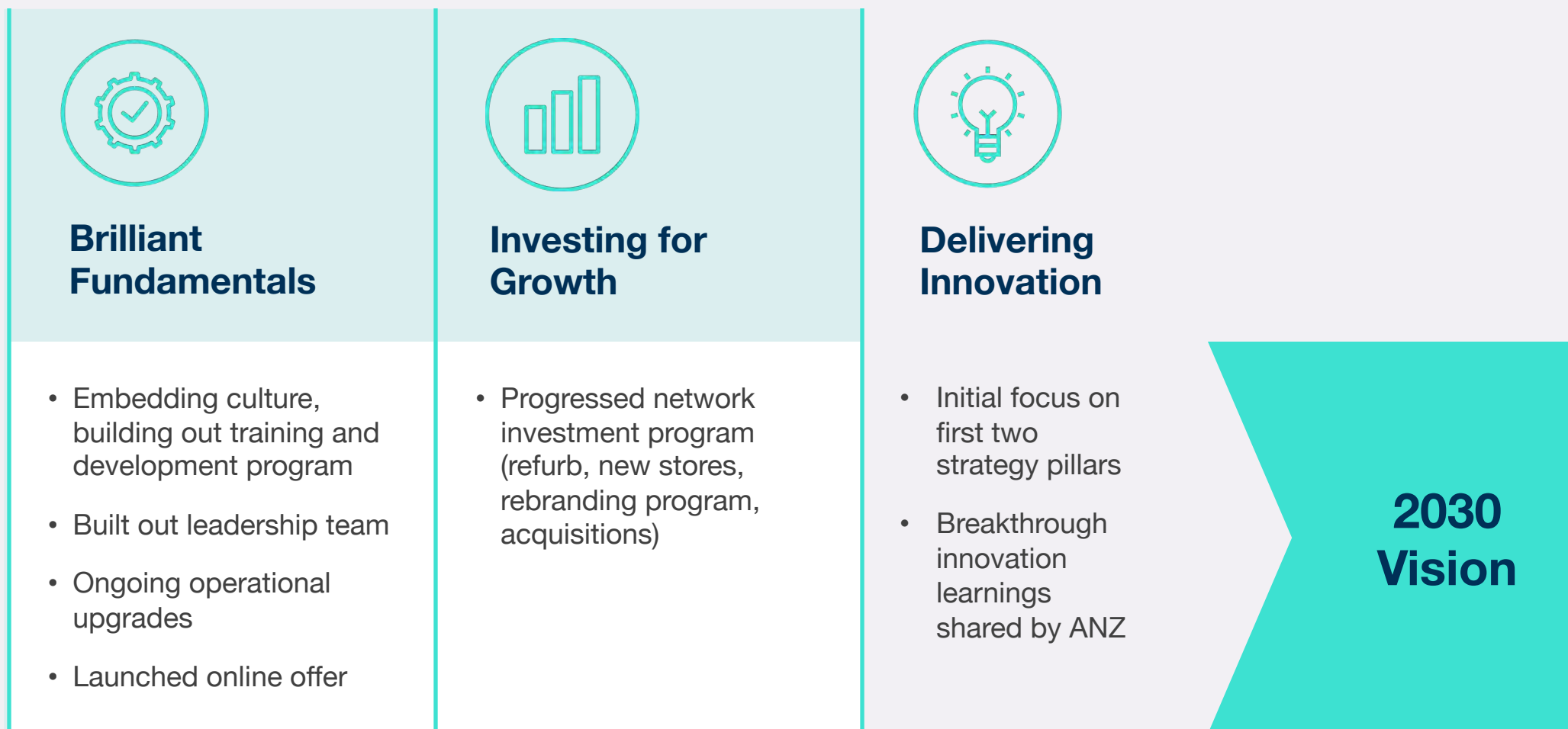
Moving to a single Reece brand

Local Reece presence a symbolic milestone

Physical network rebrand commencing in California

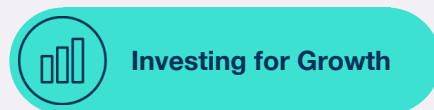


FY22: early stages of executing of a long-term strategy



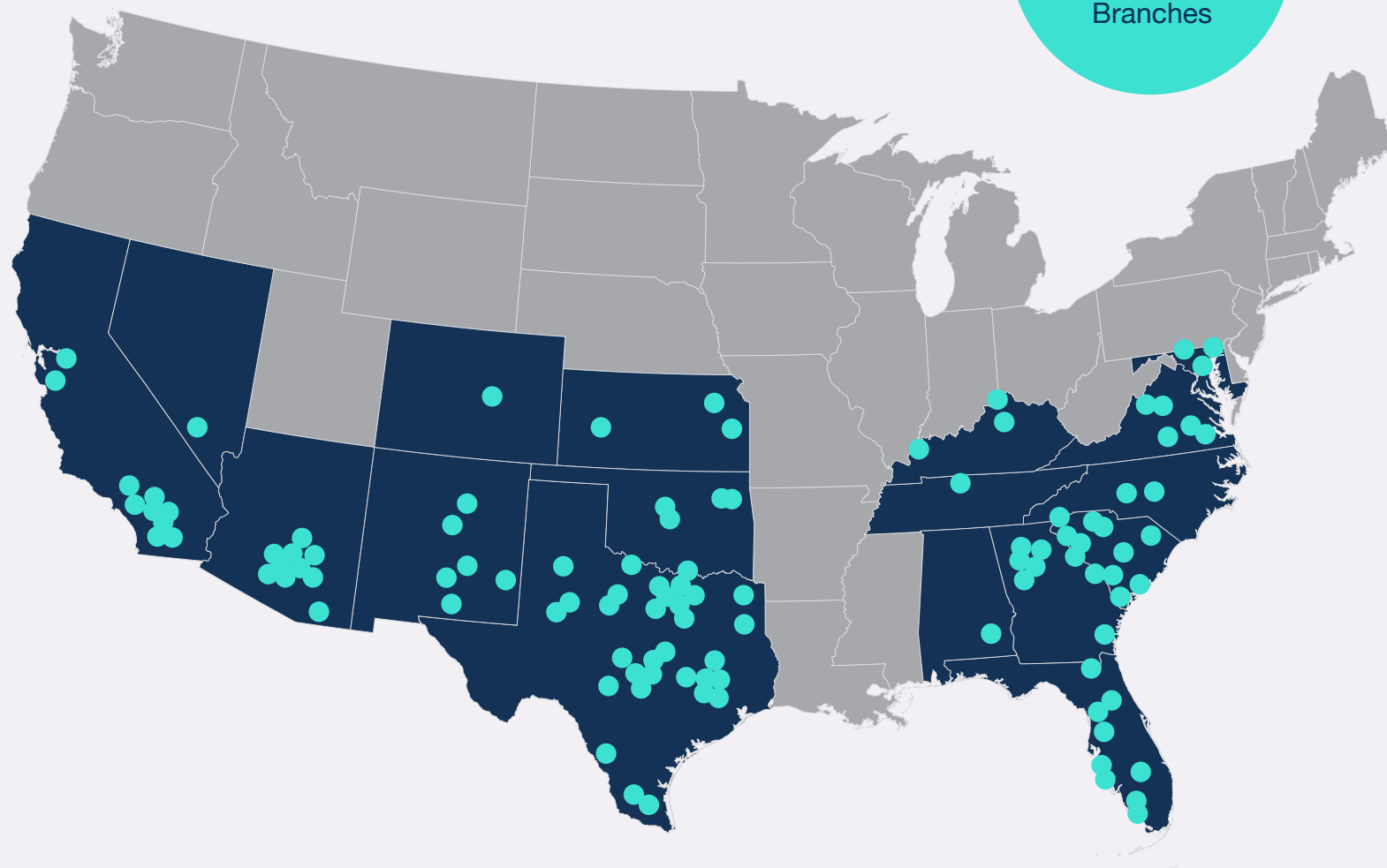
US

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US network

204
Branches



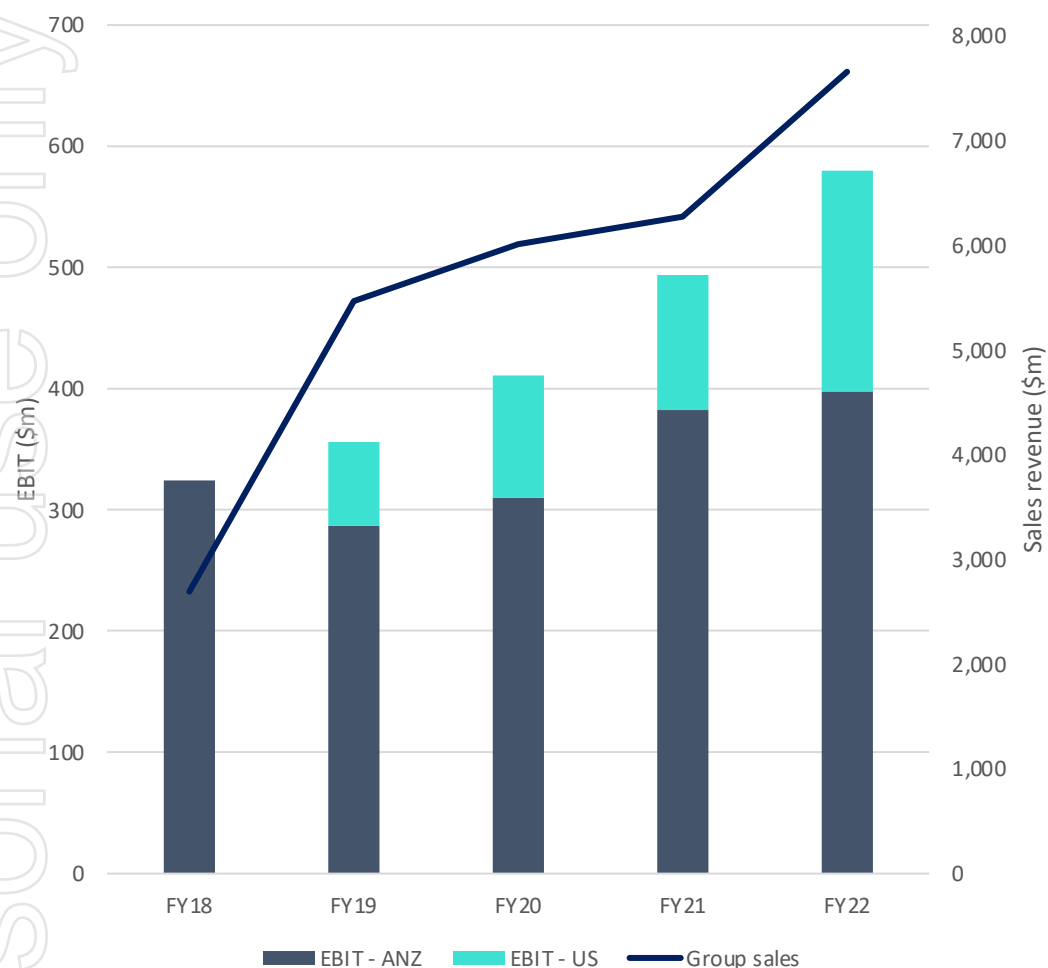
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FY22 Financial performance



Group performance



1 Step up in long term investment strategy

2 Strategic investment in net working capital

3 Pricing discipline – selling the Reece way

Solid growth in Group sales and EBIT while navigating significant macro challenges

Financial highlights

Sales Revenue



up 22%
to \$7.7b
from \$6.3b

Normalised EBITDA*



up 16%
to \$838m
from \$720m

EBIT



up 17%
to \$578m
from \$493m

NPAT



up 37%
to \$392m
from \$286m

EPS



up 37%
to 61 cents

Final dividend

15 cents per
share, fully
franked



from 12 cents per share

Total dividend

22.5 cents per
share, fully
franked



from 18 cents per share

Normalised EBITDA margin

down 50bps
11.0%
from 11.5%



Net leverage ratio** 1.2 x

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

**Calculated on a pre-AASB 16 Leases basis

ANZ performance

- Sales up 12% due to demand and inflation
- Estimated product inflation dynamic H2 9% (H1 8-9%)
- Adjusted EBITDA margin compression of 150bps
 - Increased CODB primarily due to wage inflation and increased headcount
 - Excludes income of \$21.6m *Boosting Apprenticeship Commencements* (BAC) (FY21: \$0.7m) and refinance costs
 - Estimated BAC income in FY23 \$6.4m
- More conservative provisions against inventory and debtors

FY22 30 June 2022 (AU\$m)	1HY	2HY	FY22	FY21	Var. %	FY20
Sales revenue	1,733	1,785	3,518	3,154	↑ 11.5%	2,888
Normalised EBITDA*	249	277	526	502	↑ 4.8%	431
EBIT	186	212	398	382	↑ 4.2%	310
Normalised EBITDA margin	14.4%	15.5%	15.0%	15.9%	↓ 90bps	14.9%
Adjusted EBITDA** margin	14.1%	14.8%	14.4%	15.9%	↓ 150bps	14.9%

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs and finance income/(costs) (Normalised EBITDA as reported in note 2.1 of the Annual Report)

**Adjusted EBITDA is normalised EBITDA adjusted to exclude refinance costs and non-recurring revenue

US performance

- Sales up 28% on USD basis
- Estimated product inflation dynamic H2 circa 20% (H1 low-mid teens)
- Normalised EBITDA margin up 50 bps
 - Sales velocity > increased opex
- Favourable foreign currency impact to sales \$147m
- More conservative provisions against inventory and debtors

USD

FY22 30 June 2022 (US\$m)	HY1	HY2	FY22	FY21	Var. %	FY20
Sales revenue	1,364	1,622	2,986	2,333	↑ 28.0%	2,094
Normalised EBITDA*	108	118	226	163	↑ 38.7%	147
EBIT	65	66	131	83	↑ 57.8%	67
Normalised EBITDA margin	7.9%	7.2%	7.5%	7.0%	↑ 50bps	7.0%

AUD

FY22 30 June 2022 (AU\$m)	HY1	HY2	FY22	FY21	Var. %	FY20
Sales revenue	1,867	2,269	4,136	3,117	↑ 32.7%	3,122
Normalised EBITDA*	148	164	312	219	↑ 42.5%	219
EBIT	89	92	181	111	↑ 63.0%	101
Normalised EBITDA margin	7.9%	7.2%	7.5%	7.0%	↑ 50bps	7.0%

*Normalised EBITDA is earnings before interest, tax, depreciation, amortisation and has been adjusted to exclude business acquisition costs and finance income/(costs) (Normalised EBITDA as reported in note 2.1 of the Annual Report)

Cashflow

FY22 30 June 2022 (A\$m)	FY22	FY21
Normalised EBITDA*	838	720
Net movements in working capital (incl. FX)	(412)	(152)
Non-cash items in EBITDA	4	(2)
Income tax paid	(144)	(119)
Finance costs	(42)	(75)
Lease interest paid	(22)	(20)
Cash inflow from operations	222	352
Capital expenditure	(200)	(70)
Proceeds from sale of assets	12	17
Dividends paid	(126)	(78)
Cash (outflow) / inflow before acquisitions and repayment of borrowings	(92)	221
Business acquisitions/ investments	(93)	(15)
Net repayment of borrowings (including leases)	(449)	(364)
Net decrease in cash	(634)	(158)

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

Areas of strategic investment

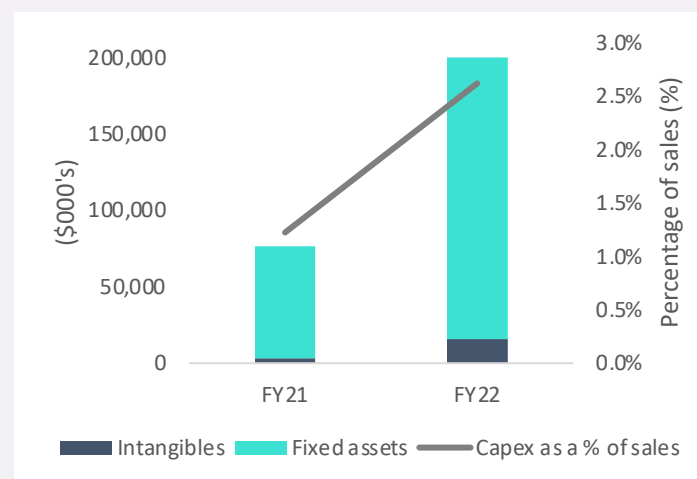
Net working capital

- Strategic investment in inventory
- Anticipate to remain elevated into FY23
- NWC to sales 21.9% (FY21: 19.1%)

Net working capital	(A\$m)
NWC 30 June 2021	1,198
Inventory	↑ 390
Receivables	↑ 324
Payables	↑ (232)
NWC 30 June 2022	1,680

Capital expenditure

- 2.6% of sales (FY21:1.1%)
- Invest through the cycle
- Long-term focus
- Branch refurbishment and new stores, fleet, technology



Repayment of debt

- Fully repaid Term Loan B
- Drawdown new syndicated multi-currency revolving facilities
- Interest savings under new facility
- Decrease in net leverage ratio from 1H22

Cash	(A\$m)
Cash 30 June 2021	829
Total debt repaid	↓ (1,418)
Total debt drawdown	↑ 1,077
Other	(268)
Cash 30 June 2022	220

Strong balance sheet

Net leverage ratio*

1.2x

Significant available liquidity of \$520m
(at 30 June) to fund strategic investment.**

Focus for the future:

- Net working capital
- Network expansion, upgrade and US rebrand
- Debt management/ dividends
- Bolt-on acquisitions
- Digital transformation

* Calculated on a pre-AASB 16 Leases basis

** Available liquidity defined as cash plus headroom on the Group's available facilities at 30 June 2022

FY22 30 June 2022 (A\$m)	FY22	FY21
Cash	220	829
Trade and other receivables	1,368	1,044
Inventories	1,528	1,138
Other current assets	7	1
Total current assets	3,123	3,012
PPE and leases	1,493	1,257
Intangible assets	1,906	1,781
Other non-current assets	85	68
Total non-current assets	3,484	3,106
Trade and other payables	1,216	984
Other current liabilities	244	275
Total current liabilities	1,460	1,259
Interest bearing liabilities	1,090	1,319
Other non-current liabilities	736	652
Total non-current liabilities	1,826	1,971
Net assets	3,321	2,888
Net tangible assets ratio	2.14	1.71



05

Outlook



Complex macro environment



Constrained supply chain



Persistent inflation



Mixed demand outlook



Low labour availability



Consumer sentiment weakening



Rising interest rates



Capacity constraints



Strong consumer balance sheets



Structural shift to the home



Recession risks rising

Reece well placed to navigate complex environment

1

A trusted brand
with a differentiated
customer proposition

2

Clear track record
100 years of growing
through the cycle

3

Diversified business
By geography, segment,
customer; focused on
resilient R+R

4

Large markets
with attractive long
term fundamentals

5

Long term focus
Invest to build
stronger business

6

Well capitalised
Strong balance sheet to
support investment
agenda

Chair Transition

Alan Wilson, currently Executive Chair, to transition to Executive Director role from 1 September

Will continue to share expertise and mentor teams in an advisory role

Will remain a committed, long term contributor to Reece

Peter Wilson to remain Group CEO



“I love what I do and look forward to continuing to help drive the success of this great business.”



06

Summary



Summary



**Strong
Result**



**Long-term
Focus**



**Investing for
the Future**

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reece
group™

Supplementary information

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Reconciliation of normalisations

Normalised EBITDA

FY22 30 June 2022 (AU\$m)	FY22
EBIT (statutory)	578
Add back:	
Depreciation and amortisation	258
Business acquisition costs	2
Normalised EBITDA	838

Adjusted EBITDA – ANZ

FY22 30 June 2022 (AU\$m)	FY22
Normalised EBITDA	526
Deduct non-recurring:	
Boosting Apprenticeship Commencements (BAC) income	(22)
Debt refinancing expenses – advisors, establishment and legal fees	4
Adjusted EBITDA	508

Adjusted NPAT

FY22 30 June 2022 (AU\$m)	FY22
NPAT (statutory)	392
Deduct non-recurring (tax effected):	
US inventory adjustment (LIFO)	(28)
BAC income	(15)
Debt refinancing costs	13
Adjusted NPAT	362

FX impact on sales

