

ASX Announcement

22 February 2023

Appendix 4D and Interim Financial Report

Attached for release is Reece Limited's Appendix 4D and Interim Financial Report for the 6 month period ended 31 December 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

Appendix 4D

Half-year report for the six months ended 31 December 2022

Reece Limited

(ABN 49 004 313 133)

1. Reporting period

Report for the half-year ended 31 December 2022. The information in this report should be read in conjunction with the most recent annual financial report for the year ended 30 June 2022.

Previous corresponding periods are the financial year ended 30 June 2022 and half-year ended 31 December 2021.

2. Results for announcement to the market

		\$A'000
Revenues from sale of goods	Up 23.0%	4,427,290
Normalised EBITDA ¹	Up 24.6%	494,989
EBIT	Up 18.4%	325,376
Statutory NPAT	Up 18.4%	185,930
Adjusted NPAT ²	Up 28.1%	210,259
Net profit for the period attributable to members	Up 18.4%	185,930

Dividends	Amount per security	Franked amount per security
Interim dividend	8 cents	8 cents
Previous corresponding period – interim dividend	7.5 cents	7.5 cents
Record date for determining entitlements to the dividend is 22 March 2023 to be paid on 5 April 2023.		

Review of Operations

Reece has delivered a strong start to FY23. Sales revenue increased 23% to \$4,427m (HY22: \$3,600m), driven by persistent inflation and ongoing execution by the team. Normalised EBITDA was up 25% to \$495m (HY22: \$397m) and EBIT was up 18% to \$325m (HY22: \$275m). Statutory NPAT grew 18% to \$186m (HY22: \$157m), while adjusted NPAT increased 28% to \$210m (HY22: \$164m).

In our Australia and New Zealand (ANZ) region, sales revenue increased by 11% to \$1,928m (HY22: \$1,733m), with estimated product inflation of 11%. Normalised EBITDA was up 18% to \$293m (HY22: \$249m). EBIT grew 6% to \$198m (HY22: \$186m) impacted by a goodwill impairment of \$29m in the Metalflex business recognised in the half. This business unit was impacted particularly by COVID-19 disruptions and, more recently, irregular weather conditions.

In the US region, sales revenue increased by 34% to \$2,500m (HY22: \$1,867m), an uplift of 23% on a US dollar basis. Estimated product inflation was 22%. Normalised EBITDA increased by 36% to \$202m (HY22: \$148m) and EBIT grew 43% to \$127m (HY22: \$89m).

During the half, global supply chains improved but complexities remained. We worked closely with our suppliers and made strategic investments in inventory to avoid disruption for our customers. Our inventory position increased to \$1,575m at 31 December 2022 (30 June 2022: \$1,528m), translating to a net working capital to sales ratio of 22%, in line with 30 June 2022. We continued to make progress on delivering our 2030 strategy and our vision to be our trade's most valuable partner during the period.

In ANZ, we continued to progress a wide range of activity focused on operational excellence, while accelerating innovation and investing to strengthen our business. In particular, we were pleased to deliver a strong Customer Net Promoter Score of +60 following the extremely challenging pandemic period. This result was a testament to our team and reinforces our focus on building future leaders, which remained a priority during the half.

¹ Normalised EBITDA is EBITDA adjusted to exclude impairment, business acquisition costs and refinance costs (as reported in note 2 of the Interim Financial Report)

² NPAT adjusted to exclude tax effected government incentive scheme income (BAC) of \$5m (HY22: \$6m), impairment of \$29m (HY22: \$Nil) and refinance costs of \$Nil (HY22: \$13m)

Appendix 4D

Half-year report for the six months ended 31 December 2022

Reece Limited

(ABN 49 004 313 133)

Review of Operations (cont)

Post period end we also appointed Scott Marshall as ANZ CEO. Scott is the CEO of Supermarkets and Convenience at Metcash Limited. He is a strong cultural fit for Reece and will bring fresh perspectives from his time leading a large, decentralised business.

In the US, we have continued to deliver on initiatives to uplift standards across the business. We made strong progress on expanding and upgrading our network and fleet during the half, opening seven new branches, acquiring one branch and completing five refurbishments. At the end of the period, we had a total of 212 branches. The team worked hard to uplift standards across our California branches, which were the first to convert to the Reece brand post period end in our multi-year rebrand process. We also continued to focus on developing our employee proposition, developing future leaders, creating high performing teams and embedding The Reece Way. We are delivering this through targeted programs for our managers to develop future leaders at all levels. This strengthens and enhances our employee value proposition to build a pool of future talent for our US business.

3. Details of entities over which control has been gained during the period

There have been no material acquisitions during the six months ended 31 December 2022.

	31 Dec 2022	31 Dec 2021
4. Net tangible assets per security		
Net tangible asset backing per ordinary security	229 cents	185 cents

	31 Dec 2022	31 Dec 2021
5. Dividends	\$A'000	\$A'000
Dividends paid during the half-year (fully franked)	96,898	77,518

The final dividend relating to the year ended on 30 June 2022 of 15 cents (30 June 2021: 12 cents) was paid on 26 October 2022.

On 22 February 2023, the directors declared a fully franked dividend of 8 cents per fully paid ordinary share (31 December 2021: 7.5 cents) with a record date of 22 March 2023 and payment date of 5 April 2023.

6. Associate entities

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

	Ownership		Consolidated carrying amount	
	31 Dec 2022	30 Jun 2022	31 Dec 2022	30 Jun 2022
	%	%	\$A'000	\$A'000
True Pillars Pty Ltd	40.1	40.1	5,000	5,000
Fieldpulse Pty Ltd	26.1	26.1	10,086	9,080

There have been no material contributions to net profit from the associates during the period.

7. The financial information provided in the Appendix 4D is based on the half-year financial report (attached).

8. Independent review of the financial report

The financial report is based on the consolidated financial report for the half year ended 31 December 2022 which has been independently reviewed by KPMG.

reece®

Financial Report

for the Half Year to
31 December 2022

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

This half year financial report is to be
read in conjunction with the financial
report for the year ended 30 June 2022

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Directors' Report

The Directors present their report together with the condensed financial report of the consolidated entity consisting of Reece Limited and the entities it controlled (the 'Group' or 'Reece'), for the half-year ended 31 December 2022 and independent review report thereon. This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

Directors' Names

The names of the Directors in office at any time during the period until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

L. Alan Wilson
Peter Wilson
Tim Poole
Bruce C. Wilson
Megan Quinn
Andrew Wilson

Review of Operations

Reece has delivered another strong result in the first half of the 2023 financial year (FY23). Sales revenue increased 23% to \$4,427m (HY22: \$3,600m), driven by persistent price inflation and ongoing execution by the team. Normalised EBITDA¹ increased 25% to \$495m (HY22: \$397m) while EBIT increased 18% to \$325m (HY22: \$275m), impacted by a goodwill impairment recognised in the first half of FY23 of \$29m. Statutory net profit after tax increased 18% to \$186m (HY22: \$157m). A review of operations for the Group during the half-year and the results of these operations are set out in the Appendix 4D and HY23 Results Announcement.

Significant changes in the state of affairs

There have been no significant changes in the Group's state of affairs during the financial period.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is provided with this report.

Rounding of amounts to nearest thousand dollars

In accordance with ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Signed in accordance with a resolution of Directors.



T. M. Poole
Acting Chair

Melbourne
22 February 2023



P.J. Wilson
Group Chief Executive Officer & Managing Director

¹ Normalised EBITDA is EBITDA adjusted to exclude impairment, business acquisition costs and refinance costs



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Reece Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Reece Limited for the half-year ended 31 December 2022 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

The KPMG logo, consisting of the letters 'KPMG' in a blue, sans-serif font, with a stylized graphic of four vertical bars of increasing height to the left of the letters.

KPMG

A handwritten signature in blue ink, appearing to read 'BW Szentirmay', with a stylized flourish at the end.

BW Szentirmay

Partner

Melbourne

22 February 2023

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half-year ended 31 December 2022

	Note	31 Dec 2022 (\$'000's)	31 Dec 2021 (\$'000's)
Revenue			
Revenue from sale of goods		4,427,290	3,600,201
Other revenue		9,734	9,672
		4,437,024	3,609,873
Cost of sales	3	(3,185,866)	(2,598,399)
Selling and administrative expenses		(925,782)	(736,700)
Earnings before interest and tax		325,376	274,774
Finance costs (net)	3	(37,314)	(51,213)
Profit before income tax expense		288,062	223,561
Income tax expense	5	(102,132)	(66,479)
Net profit after tax		185,930	157,082
Other comprehensive income			
<i>Items that may be reclassified subsequently to the profit or loss:</i>			
Exchange differences on translation of foreign operations, net of tax		32,256	54,915
Change in fair value of effective cash flow hedges, net of tax		(12,118)	20,875
Total comprehensive income, net of tax		206,068	232,872
Basic earnings per share		28.8 cents	24.3 cents
Diluted earnings per share		28.8 cents	24.3 cents

Condensed Consolidated Statement of Financial Position

as at 31 December 2022

	Note	31 Dec 2022 (\$'000's)	30 Jun 2022 (\$'000's)
Current assets			
Cash and cash equivalents		141,805	220,483
Trade and other receivables		1,292,939	1,367,503
Inventories		1,575,005	1,528,411
Derivative financial instruments	9	-	6,719
Total current assets		3,009,749	3,123,116
Non-current assets			
Property, plant and equipment	6	757,537	729,405
Right-of-use assets	6	738,084	763,515
Investments in associates		22,767	21,326
Intangible assets	7	1,906,063	1,906,340
Deferred tax assets		68,024	63,872
Total non-current assets		3,492,475	3,484,458
Total assets		6,502,224	6,607,574
Current liabilities			
Trade and other payables		988,490	1,215,975
Lease liabilities		118,568	118,644
Deferred consideration		1,476	1,451
Current tax liabilities		22,831	30,783
Provisions		97,027	93,208
Derivative financial instruments	9	5,400	-
Total current liabilities		1,233,792	1,460,061
Non-current liabilities			
Long-term payables		6,106	8,011
Interest bearing liabilities		1,128,678	1,090,088
Lease liabilities		677,161	694,196
Deferred tax payable		25,435	29,625
Provisions		4,724	4,724
Total non-current liabilities		1,842,104	1,826,644
Total liabilities		3,075,896	3,286,705
Net assets		3,426,328	3,320,869
Equity			
Contributed equity		1,246,918	1,246,918
Reserves		143,196	126,769
Retained earnings		2,036,214	1,947,182
Total equity		3,426,328	3,320,869

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2022

	Note	Contributed equity (\$000's)	Reserves (\$000's)	Retained earnings (\$000's)	Total equity (\$000's)
Balance as at 1 July 2021		1,246,918	(39,470)	1,680,661	2,888,109
Profit for the half-year		-	-	157,082	157,082
Exchange differences on translation of foreign operations, net of tax		-	54,915	-	54,915
Change in fair value of effective cash flow hedges, net of tax		-	20,875	-	20,875
Total comprehensive income for the half-year		-	75,790	157,082	232,872
Transactions with owners in their capacity as owners:					
Share-based payments	8	-	907	-	907
Dividends paid	4	-	-	(77,518)	(77,518)
Balance as at 31 December 2021		1,246,918	37,227	1,760,225	3,044,370
Balance as at 1 July 2022		1,246,918	126,769	1,947,182	3,320,869
Profit for the half-year		-	-	185,930	185,930
Exchange differences on translation of foreign operations, net of tax		-	32,256	-	32,256
Change in fair value of effective cash flow hedges, net of tax		-	(12,118)	-	(12,118)
Total comprehensive income for the half-year		-	20,138	185,930	206,068
Transactions with owners in their capacity as owners:					
Share-based payments	8	-	1,567	-	1,567
Shares purchased as part of Long-Term Incentive Plan		-	(5,278)	-	(5,278)
Dividends paid	4	-	-	(96,898)	(96,898)
Balance as at 31 December 2022		1,246,918	143,196	2,036,214	3,426,328

Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2022

	31 Dec 2022 (\$'000's)	31 Dec 2021 (\$'000's)
Cash flow from operating activities		
Receipts from customers	4,847,639	3,840,603
Payments to suppliers and employees	(4,532,663)	(3,784,501)
Interest received	1,631	396
Finance costs paid	(24,427)	(41,590)
Interest repayments on leases	(14,518)	(10,351)
Income tax paid	(90,132)	(88,210)
Net cash provided by / (used in) operating activities	187,530	(83,653)
Cash flow from investing activities		
Purchase of property, plant and equipment	(73,892)	(87,277)
Proceeds from sale of property, plant and equipment	6,770	3,376
Payment for intangible assets	(13,584)	-
Purchase of controlled entities and investments, net of cash acquired	(49,155)	(72,830)
Net cash used in investing activities	(129,861)	(156,731)
Cash flow from financing activities		
Proceeds from borrowings	22,330	1,011,676
Repayments of borrowings	-	(1,356,332)
Dividends paid	(96,898)	(77,518)
Principal repayment on leases	(58,662)	(53,114)
Payments for shares purchased as part of Long-Term Incentive Plan	(5,278)	-
Net cash used in financing activities	(138,508)	(475,288)
Net decrease in cash and cash equivalents	(80,839)	(715,672)
Net foreign exchange translation difference	2,161	4,667
Cash and cash equivalents at the beginning of the half-year	220,483	828,966
Cash and cash equivalents at 31 December	141,805	117,961

Notes

for the half-year to 31 December 2022

Note 1: Notes to the condensed half-year financial report

About this report

This condensed half-year financial report for Reece Limited and its controlled entities (the Group) for the six months ended 31 December 2022 was authorised for issue in accordance with a resolution of the directors on 22 February 2023. The information in this report should be read in conjunction with the most recent annual financial report for the year ended 30 June 2022.

The financial report covers Reece Limited and controlled entities (the Group). Reece Limited is a company limited by shares, incorporated and domiciled in Australia. Reece Limited is a for-profit entity for the purpose of preparing the financial statements. The registered offices of Reece Limited is 57 Balmain St, Cremorne, Victoria, 3121.

The Group is a leading supplier of plumbing, bathroom, heating, ventilation, air-conditioning, waterworks and refrigeration products to customers in the trade, retail, commercial and infrastructure markets, operating for more than 100 years. Reece has strong market positions across its global footprint spanning Australia, New Zealand, and the United States' Sun Belt region. The Group's businesses are supported by leading innovation and service solutions.

Statement of Significant Accounting Policies

The half-year consolidated financial statements have been prepared using consistent accounting policies as used in the annual financial statements for the year ended 30 June 2022, with one additional policy noted below.

Shares purchased as part of Long-Term Incentive Plan

During the half year, the Group set up an employee share trust in order to satisfy future potential vesting of performance rights under the Reece Long-Term Incentive Plan. For accounting purposes, the trust is deemed to be controlled by Reece Limited. Accordingly, the shares held by the trust are consolidated into the Group's financial statements.

The shares purchased as part of the Long-Term Incentive Plan during the current period are recognised in Reserves in the Condensed Consolidated Statement of Changes in Equity. At 31 December 2022, the Group held 350,274 of the Company's shares.

Several other amendments and interpretations also applied to the Group for the first time from 1 July 2022, but do not have an impact on the condensed half-year financial report of the Group.

The Group has not early adopted any standards or interpretations.

Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Rounding amounts

The Group has applied the relief available under the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, and accordingly, the amounts in the Directors' Report and in the condensed half-year financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Key judgements and estimates

In the process of applying the Group's accounting policies, management applies judgements and estimates of future events. These key accounting judgments and estimates have not changed materially from those described in the notes to the financial statements for the year ended 30 June 2022.

Notes

for the half-year to 31 December 2022

Note 2: Segment reporting

Segment information is presented in a manner which is consistent with the internal reporting to the Group Chief Executive Officer who is the entity's chief operating decision maker for the purpose of performance assessment and resource allocation. The Group's segments are based on the geographical operation of the business and comprise:

- Australia and New Zealand (ANZ)
- United States of America (United States)

	ANZ		United States		Total	
	31 Dec 2022 (\$000's)	31 Dec 2021 (\$000's)	31 Dec 2022 (\$000's)	31 Dec 2021 (\$000's)	31 Dec 2022 (\$000's)	31 Dec 2021 (\$000's)
Revenue from sale of goods	1,927,736	1,733,343	2,499,554	1,866,858	4,427,290	3,600,201
Government grant	6,600	8,119	-	-	6,600	8,119
BAC income ²						
Normalised EBITDA ¹	293,183	249,346	201,806	147,976	494,989	397,322
Expenses						
Depreciation	(61,270)	(61,092)	(50,120)	(38,295)	(111,390)	(99,387)
Amortisation	(4,404)	(2,613)	(24,379)	(20,319)	(28,783)	(22,932)
Impairment	(28,949)	-	-	-	(28,949)	-
Business acquisition costs	(165)	-	(326)	(229)	(491)	(229)
Finance costs (net)	(9,109)	(13,591)	(28,205)	(37,622)	(37,314)	(51,213)
Segment profit before tax	189,286	172,050	98,776	51,511	288,062	223,561
Income tax expense	(73,643)	(52,769)	(28,489)	(13,710)	(102,132)	(66,479)
Segment profit after tax	115,643	119,281	70,287	37,801	185,930	157,082
	31 Dec 2022 (\$000's)	30 Jun 2022 (\$000's)	31 Dec 2022 (\$000's)	30 Jun 2022 (\$000's)	31 Dec 2022 (\$000's)	30 Jun 2022 (\$000's)
Current assets	1,367,094	1,379,128	1,642,655	1,743,988	3,009,749	3,123,116
Non-current assets	1,274,328	1,323,661	2,218,147	2,160,797	3,492,475	3,484,458
Total Assets	2,641,422	2,702,789	3,860,802	3,904,785	6,502,224	6,607,574
Total Liabilities	1,142,024	1,195,103	1,933,872	2,091,602	3,075,896	3,286,705

1. Normalised EBITDA is EBITDA adjusted to exclude impairment, business acquisition costs and refinance costs
2. Boosting Apprenticeship Commencements (BAC) income

Notes

for the half-year to 31 December 2022

Note 3: Expenses

	31 Dec 2022 (\$000's)	31 Dec 2021 (\$000's)
Cost of sales	3,185,866	2,598,399
Employee benefits expense	499,111	413,654
Depreciation	111,390	99,387
Amortisation	28,783	22,932
Impairment of goodwill	28,949	-
Finance costs		
Unrealised foreign currency (gain)/loss on financial assets	-	6,485
Realised foreign currency (gain)/loss on financial assets	-	(6,038)
Interest on debt and borrowings	22,796	40,415
Interest on lease liabilities	14,518	10,351
Total finance costs (net)	37,314	51,213

Note 4: Dividends paid and proposed

	31 Dec 2022 (\$000's)	31 Dec 2021 (\$000's)
The following are the dividends paid and/or proposed for the financial year:		
Dividends paid at 15 cents per share fully franked (2021: 12 cents) paid on 26 October 2022 (2021: 27 October 2021)	96,898	77,518
Proposed dividends not recognised at the end of the half-year at 8 cents per share fully franked (2021: 7.5 cents) payable on 5 April 2023 (2021: 12 April 2022).	51,679	48,448

Note 5: Income tax expense

The Group's consolidated effective tax rate in respect of continuing operations for the half year ended 31 December 2022 was 35% (31 December 2021: 30%). The change in the effective tax rate was impacted by the following factors:

- During the half year, adjustments related to prior period were recognised. At 30 June 2022, the Group had an under provision for tax payable of \$6.7m, relating to a foreign currency loss realised upon refinancing external debt during FY22. This non-deductible expense was included in the FY22 tax filing and in the income tax expense in the current period.
- During the half year, an impairment expense was recognised in the Group's statutory net profit before tax. The effect of this non-deductible expense for tax purposes is \$8.7m.

Notes

for the half-year to 31 December 2022

Note 6: Property, plant and equipment and right-of-use assets

	Property, plant and equipment		Right-of-use assets	
	Half-year ended 31 Dec 2022 (\$000's)	Year ended 30 Jun 2022 (\$000's)	Half-year ended 31 Dec 2022 (\$000's)	Year ended 30 Jun 2022 (\$000's)
Net book value at 1 July	729,405	624,099	763,515	633,052
Additions through business combinations	229	197	-	-
Additions	73,892	184,232	36,556	185,590
Reassessments	-	-	978	53,035
Disposals	(3,917)	(6,031)	(2,837)	(14,905)
Depreciation	(44,764)	(83,717)	(66,626)	(120,996)
Net foreign exchange impact	2,692	10,625	6,498	27,739
Net book value at period end	757,537	729,405	738,084	763,515

Note 7: Goodwill and intangible assets

Key estimate and judgement – assumptions for impairment testing

On an annual basis management develops a three-year business plan which is used to underpin the assumptions in the impairment testing. Assumptions from the third year of the three-year business plan are held consistent for two additional years to allow management to perform impairment testing on a five-year forecast. Management has referenced current economic data for the building and construction industry, and its experience to date to reflect the estimated impact of market conditions in the forecasting period for each CGU as part of the Group's impairment testing. Business plans have regard to market-specific economic factors impacting the business including inflation, rising interest rates and supply chain constraints.

The calculation of value in use for all CGUs are most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Terminal growth rate

Gross margins – gross margins are based on management's business plan. Gross margins have been maintained for all material CGUs with the exception of Metalflex (discussed below) in the current period and prior year notwithstanding challenging market conditions due to macro-economic factors.

Discount rates – discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money, individual risks of the underlying assets that have not been incorporated in the cash flow estimates, and the comparable companies that operate broadly in the distribution of manufacturing of plumbing materials, heating and air-conditioning equipment or water systems. The discount rate calculation is based on the specific circumstance of the Group and is derived from its weighted average cost of capital ('WACC'). The WACC considers debt, equity and leases. The cost of equity is derived from the expected return on investment by the Group's shareholders. The cost of debt is based on the interest-bearing financial liabilities the Group is obliged to service and the cost of leases is based on the interest-bearing lease liabilities for each CGU. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows to reflect a post-tax discount rate.

Terminal growth rates – calculated using external professional advice based on published industry research.

Notes

for the half-year to 31 December 2022

Note 7: Goodwill and intangible assets (continued)

	31 Dec 2022 (\$'000's)	30 Jun 2022 (\$'000's)
Goodwill		
Carrying amount at beginning of year	1,477,243	1,362,238
Additions through business combinations	-	5,147
Impairment (a)	(28,949)	-
Net foreign currency exchange movements	22,276	109,858
Carrying amount at end of year	1,470,570	1,477,243
Brand names		
Carrying amount at beginning of year	49,800	49,800
Carrying amount at end of year	49,800	49,800
Customer contracts and relationships		
Carrying amount at beginning of year	330,225	314,756
Additions through business combinations	-	8,274
Additions	14,821	9,044
Amortisation	(16,799)	(29,231)
Net foreign currency exchange movements	6,136	27,382
Carrying amount at end of year	334,383	330,225
Trade names		
Carrying amount at beginning of year	15,183	27,358
Additions through business combinations	-	413
Additions	-	1,395
Amortisation	(6,373)	(15,411)
Net foreign currency exchange movements	274	1,428
Carrying amount at end of year	9,084	15,183
Software		
Carrying amount at beginning of year	13,627	-
Additions	13,584	15,874
Amortisation	(3,280)	(2,247)
Net foreign currency exchange movements	322	-
Carrying amount at end of year	24,253	13,627
Other intangible assets		
Carrying amount at beginning of year	20,262	26,478
Amortisation	(2,331)	(6,629)
Net foreign currency exchange movements	42	413
Carrying amount at end of year	17,973	20,262
Total intangible assets		
Carrying amount at beginning of year	1,906,340	1,780,630
Additions through business combinations	-	13,834
Additions	28,405	26,313
Impairment	(28,949)	-
Amortisation	(28,783)	(53,518)
Net foreign currency exchange movements	29,050	139,081
Total carrying amount at end of year	1,906,063	1,906,340

Notes

for the half-year to 31 December 2022

Note 7: Goodwill and intangible assets (continued)

(a) Impairment of goodwill

In the Group's most recent annual report for the year ended 30 June 2022, management identified that a reasonably possible adverse change in certain key assumptions (gross margins, discount rates and terminal growth rates) could have caused the carrying amount of the indefinite life intangible assets to be below the recoverable amount for Metalflex, one of the Group's cash generating units (CGUs). Metalflex is a heating and cooling wholesaler and distributor. Based in Australia, Metalflex has a national network of 19 branches. At 31 December 2022, the recoverable amount of the Metalflex CGU was tested for impairment as indicators of impairment were identified.

As a result of current market conditions, the Metalflex CGU did not meet forecast earnings for the half year, which negatively impacted forecast cash flows. When determining forecasts for Metalflex, management referenced current economic data for the building and construction industry. COVID-19 lockdowns, supply chain constraints and, more recently, unpredictable weather conditions, have impacted the performance of Metalflex. Managements business plan, and the resulting projected cash flows, have been updated to reflect current economic circumstances and forecasts.

A terminal growth rate of 2.5% (30 June 2022: 2.5%) and a pre-tax discount rate of 12.3% (30 June 2022: 12.0%) has been used to determine value-in-use. As a result of this analysis, there was an impairment charge of \$28,948,741 in the Metalflex CGU which has reduced the goodwill value to nil as at 31 December 2022. The impairment charge is recorded within sales and administrative expenses in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Note 8: Share-based-payments

On 27 October 2022 at the Annual General Meeting, shareholders approved a grant to the Group CEO and Senior Executives under the Reece Group Long Term Incentive Plan (the Plan).

During the period, the Group CEO was granted 205,598 performance rights, and Senior Executives were granted 288,812 performance rights under the Plan. The fair value of the performance rights at the grant date was \$14.34 per right.

The performance rights have a four-year vesting period from 1 July 2022 until 30 June 2026 and expire on 27 October 2037. The performance rights will vest subject to achieving the performance hurdles.

No options or plan shares have been exercised, forfeited, vested, or expired during the period.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transaction recognised during the period as part of employee benefit expense were \$1,567,523 (31 December 2021: \$906,965).

Notes

for the half-year to 31 December 2022

Note 9: Fair value measurements

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The table below provides information about how the Group determines the fair value of various derivative financial instruments used for managing financial risk. All derivative financial instruments are determined by a third party based on observable market inputs and categorised as Level 2 financial instruments using discounted cash flows and standard option models. There were no transfers between categories during the period.

The carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair value.

	Consolidated Entity			
	Current (\$000's)	31 Dec 2022 Non-current (\$000's)	Current (\$000's)	30 Jun 2022 Non-current (\$000's)
Financial assets				
Cash	141,805	-	220,483	-
Trade and other receivables	1,292,939	-	1,367,503	-
Derivative financial instruments				
- Forward foreign exchange contracts	-	-	6,719	-
Total financial instrument assets at fair value	1,434,744	-	1,594,705	-
Financial liabilities				
Trade and other payables	988,490	6,106	1,215,975	8,011
Borrowings	-	1,128,678	-	1,090,088
Lease liabilities	118,568	677,161	118,644	694,196
Derivative financial instruments				
- Forward foreign exchange contracts	5,400	-	-	-
Total financial instrument liabilities at fair value	1,112,458	1,811,945	1,334,619	1,792,295

Note 10: Business Combination

There have not been any material business combinations in the half-year ended 31 December 2022.

Note 11: Subsequent events

There have been no material events subsequent to the end of the half-year that require recognition or disclosure in the half-year financial report, except for the proposed interim dividend payable as detailed in note 4.

Directors' declaration

The directors declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 8 to 18, are in accordance with the *Corporations Act 2001*:
 - (a) Comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2022 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



T. M. Poole
Acting Chair

Melbourne
22 February 2023



P.J. Wilson
Group Chief Executive Officer & Managing Director



Independent Auditor's Review Report

To the shareholders of Reece Limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Reece Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Reece Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2022 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2022;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Reece Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



KPMG



BW Szentirmay

Partner

Melbourne

22 February 2023



J. Carey

Partner

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