ASX Announcement

23 August 2023

Preliminary Final Report

Reece Limited announces its financial results for the full year ended 30 June 2023.

Attached is the FY23 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 2023 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 2023

Previous corresponding period is the financial year ended 30 June 2022

2. Results for announcement to the market

				($000's)
Revenue from sale of goods	Up	15.5%	to	8,839,572
Normalised EBITDA*	Up	16.3%	to	974,576
EBIT	Up	13.1%	to	654,104
Statutory NPAT	Down	1.2%	to	387,607
Adjusted NPAT^	Up	11.4%	to	404,556
Net profit for the period attributable to members	Down	1.2%	to	387,607

Dividends	Amount per security	Franked amount per security
Interim dividend	8 cents	100%
Final dividend	17 cents	100%
Record date for determining entitlements to the final dividend	11 October 2023	

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

* Normalised EBITDA is EBITDA adjusted to exclude impairment, business acquisition costs and finance costs
^Adjusted NPAT is NPAT adjusted to exclude US inventory adjustment (LIFO), tax effected government incentive scheme income (BAC), impairment, tax effected business acquisition costs and refinance costs

3. Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2023

	2023 ($000's)	2022 ($000's)
Revenue from sale of goods	8,839,572	7,654,047
Cost of sales	(6,332,859)	(5,515,083)
Gross profit	**2,506,713**	**2,138,964**
Other revenue	21,741	31,362
Selling and administrative expenses	(1,845,401)	(1,592,122)
Impairment of goodwill	(28,949)	-
Earnings before interest and tax	**654,104**	**578,204**
Finance costs (net)	(86,265)	(68,803)
Profit before income tax expense	**567,839**	**509,401**
Income tax expense	(180,232)	(116,914)
Net profit for the year	**387,607**	**392,487**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss*:*		
Exchange differences on translation of foreign operations, net of tax	71,288	137,811
Change in fair value of effective cash flow hedges, net of tax	(3,672)	26,851
Total comprehensive income, net of tax	**455,223**	**557,149**
Basic earnings per share	60 cents	61 cents
Diluted earnings per share	60 cents	61 cents

4. Statement of Financial Position

as at 30 June 2023

	2023 ($000's)	2022 ($000's)
Current assets		
Cash and cash equivalents	372,706	220,483
Trade and other receivables	1,338,414	1,367,503
Inventories	1,504,892	1,528,411
Derivative financial instruments	3,047	6,719
Total current assets	**3,219,059**	**3,123,116**
Non-current assets		
Property, plant and equipment	786,922	729,405
Right-of-use assets	799,379	763,515
Investments	25,424	21,326
Intangible assets	2,020,888	1,906,340
Deferred tax assets	72,614	63,872
Total non-current assets	**3,705,227**	**3,484,458**
Total assets	**6,924,286**	**6,607,574**
Current liabilities		
Trade and other payables	1,177,897	1,215,975
Lease liabilities	131,360	118,644
Deferred consideration	1,508	1,451
Current tax liability	11,440	30,783
Provisions	98,823	93,208
Total current liabilities	**1,421,028**	**1,460,061**
Non-current liabilities		
Long-term payables	17,545	8,011
Interest-bearing liabilities	1,097,490	1,090,088
Lease liabilities	732,917	694,196
Deferred tax payable	23,818	29,625
Provisions	6,064	4,724
Total non-current liabilities	**1,877,834**	**1,826,644**
Total liabilities	**3,298,862**	**3,286,705**
Net assets	**3,625,424**	**3,320,869**
Equity		
Contributed equity	1,246,918	1,246,918
Reserves	192,294	126,769
Retained earnings	2,186,212	1,947,182
Total equity	**3,625,424**	**3,320,869**

5. Statement of Changes in Equity

for the year ended 30 June 2023

	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**
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**
Balance as at 1 July 2022	**1,246,918**	**126,769**	**1,947,182**	**3,320,869**
Net profit for the year	-	-	387,607	387,607
Exchange differences on translation of foreign operations, net of tax	-	71,288	-	71,288
Change in fair value of effective cash flow hedges, net of tax	-	(3,672)	-	(3,672)
Total comprehensive income for the year, net of tax	**-**	**67,616**	**387,607**	**455,223**
Transactions with owners in their capacity as owners:				
Share-based payments	-	3,187	-	3,187
Shares purchased for employee share trust	-	(5,278)	-	(5,278)
Dividends paid	-	-	(148,577)	(148,577)
Total transactions with owners in their capacity as owners	**-**	**(2,091)**	**(148,577)**	**(150,668)**
Balance as at 30 June 2023	**1,246,918**	**192,294**	**2,186,212**	**3,625,424**

6. Statement of Cash Flows

for the year ended 30 June 2023

	2023 ($000's)	2022 ($000's)
Cash flow from operating activities		
Receipts from customers	9,543,357	7,968,613
Payments to suppliers and employees	(8,490,610)	(7,539,222)
Interest received	6,048	537
Finance costs paid	(60,713)	(42,143)
Interest repayments on leases	(31,600)	(21,689)
Income tax paid	(200,100)	(144,310)
Net cash from operating activities	**766,382**	**221,786**
Cash flow from investing activities		
Purchase of property, plant, and equipment	(151,667)	(184,232)
Proceeds from sale of property, plant, and equipment	13,847	12,180
Payment for intangible assets	(25,811)	(15,874)
Purchase of controlled entities and investments, net of cash acquired	(145,892)	(93,055)
Net cash used in investing activities	**(309,523)**	**(280,981)**
Cash flow from financing activities		
Proceeds from borrowings	144,969	1,076,620
Repayments of borrowings	(174,969)	(1,418,388)
Dividends paid	(148,577)	(125,966)
Principal repayment of leases	(123,261)	(106,928)
Payments for shares purchased for employee share trust	(5,278)	-
Net cash used in in financing activities	**(307,116)**	**(574,662)**
Net increase / decrease in cash and cash equivalents	149,743	(633,857)
Net foreign exchange translation difference	2,480	25,374
Cash and cash equivalents at the beginning of the year	220,483	828,966
Cash and cash equivalents at the end of the year	**372,706**	**220,483**

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 investment at cost	
	2023 (%)	2022 (%)	2023 ($000's)	2022 ($000's)
True Pillars Pty Ltd	40.1	40.1	10,000	5,000
FieldPulse Pty Ltd	26.1	26.1	10,086	9,080

Reece Limited invested an additional $5m equity in its associate True Pillars Pty Ltd in FY23. During the current financial year, The Creative Plane Pty Ltd (a wholly owned subsidiary of Reece Limited) invested $1m in pooled units in a registered managed investment scheme – True Pillars Investment Trust (a wholly owned subsidiary of True Pillars Pty Ltd) (2022: $2.5m). The pooled units have a maturity date of 1 November 2024 and a target return of 6.1% per annum. During the current financial year, The Creative Plane Pty Ltd also loaned True Pillars Investment Trust $2.5m. The business loan is repayable 24 months from lending and attracts 10% interest per annum. These transactions were made on a commercial basis.

9. Dividends

	Date of payment	Total amount of dividend $
Interim dividend – year ended 30 June 2023	5 April 2023	51,678,735
Final dividend – year ended 30 June 2023	25 October 2023	109,817,311

Amount per ordinary security		Amount per security	Franked amount per security
Final dividend:	Current year	17.0 cents	17.0 cents (at 30% tax rate)
	Previous year	15.0 cents	15.0 cents (at 30% tax rate)
Interim dividend:	Current year	8.0 cents	8.0 cents (at 30% tax rate)
	Previous year	7.5 cents	7.5 cents (at 30% tax rate)

Total dividend per security	Current period	Previous period
Ordinary securities	25.0 cents	22.5 cents

10. Statement of retained earnings

	Consolidated Entity	
	2023 ($000's)	2022 ($000's)
Balance at beginning of year	1,947,182	1,680,661
Net profit attributable to members of the parent entity	387,607	392,487
Dividends paid	(148,577)	(125,966)
Balance at end of year	2,186,212	1,947,182

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*)	241 cents	214 cents

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

Sales revenue increased by 16% to $8,840m in FY23 (2022: $7,654m), which was positively impacted by the strength of the US dollar against the Australian dollar. Sales on a constant currency basis[1] were up 11% on the previous period.

Sales growth in all regions was also positively influenced by product inflation compared with the prior year, whilst volumes began to soften during FY23 as demand moderated. Normalised EBITDA[2] increased 16% to $975m (2022: $838m) and Adjusted EBIT[3] was up 19% to $668m (2022: $562m). The Group has experienced inflationary impacts on our costs of doing business; including wage inflation, energy pricing, transport and logistics. Management continued to focus on disciplined cost management, which delivered a normalised EBITDA[2] margin of 11%, consistent with the prior year.

Cash flow from operating activities increased by 245% to $766m (2022: $222m) and operating cash conversion[4] was 79% compared to 26% in FY22. Free cash flow[5] increased by 350% to $690m (2022: $153m). During the COVID-19 pandemic, we worked closely with our suppliers and made a strategic investment in increased inventory which enabled us to avoid material supply chain disruptions for our customers.

Statutory NPAT of $388m (2022: $392m) was down 1%, impacted by the $29m goodwill impairment for the Australian-based Metalflex business, recognised in the first half of FY23. Adjusted NPAT[6] for FY23 increased 11% to $405m (2022: $363m).

In FY23, as global supply chains began to stabilise, the Group focused on normalising inventory levels whilst ensuring we maintained in-stock metrics. The Group's net working capital to sales ratio[7] was 19%, down from 22% in FY22.

Reece closed the year with a strong balance sheet, with net debt down to $725m (2022: $870m) and a net leverage ratio[8] of 0.9x (2022: 1.2x). During the year, the Group focused on the four pillars of our approach to capital management: investment in organic growth, strategic bolt- on acquisitions, balance sheet efficiency and dividends. The reduction in working capital led to an increase in return on capital employed[9] to 15.3% in FY23 (2022: 13.3%).

While the macro-economic environment remains complex, we continued to make progress on enabling our 2030 strategy and our vision to be our trade's most valuable partner. This involved executing on the three pillars of our strategy, namely: operational excellence, accelerating innovation and investing for profitable growth.

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[1] Constant currency basis applies the same US foreign exchange rate of 0.7231 from FY22 to eliminate the effect of fluctuations when calculating comparative sales numbers from FY22 to FY23.

[2] Normalised EBITDA is EBITDA adjusted to exclude impairment of $29m (2022: $Nil) and business acquisition costs of $1m (2022: $2m) (as reported in Note 2.1 to the Financial Report).

[3] Adjusted EBIT is EBIT adjusted to exclude government incentive scheme income (BAC) of $16m (2022: $22m), impairment of $29m (2022: $Nil), business acquisition costs of $1m (2022: $2m) and refinance costs of $Nil (2022: $4m).

[4] Operating cash conversion is net cash from operating activities (as reported in the Consolidated Statement of Cash Flows in the Financial Report) as a percentage of normalised EBITDA.

[5] Free cash flow is normalised EBITDA less net movements in working capital, income tax paid and lease payments.

[6] Adjusted NPAT is NPAT adjusted to exclude US inventory adjustment (LIFO) of $2m (2022: $28m), tax effected government incentive scheme income (BAC) of $16m (2022: $22m), impairment of $29m (2022: $Nil), tax effected business acquisition costs of $1m (2022: $2m) and refinance costs of $Nil (2022: $13m).

[7] Net working capital to sales ratio is the balance of receivables, inventory and payables (as reported in the Consolidated Statement of Financial Position in the Financial Report) as a percentage of sales.

[8] Net leverage ratio is net borrowings over 12-month rolling EBITDA, calculated on a pre-AASB16 *Leases* basis.

[9] Return on capital employed (ROCE) is adjusted EBIT as a percentage of shareholder's equity plus net debt.

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

During FY23 we published our first Sustainability Report, where Reece committed to a 35% reduction in scope 1 and 2 greenhouse gas emissions from our FY21 baseline by FY30, and net zero emissions by FY40. We also continued executing our customer-led sustainability strategy and undertook an internal environmental, social and governance risk analysis project. Finally, we invested in specialist resources to prepare the Group for reporting under future frameworks including the International Sustainability Standards Board (ISSB).

ANZ region

In the Australia and New Zealand (ANZ) region, sales revenue increased by 10% to $3,853m (2022: $3,518m), with estimated average product inflation for FY23 of 9%. Normalised EBITDA[2] was up 9% to $573m (2022: $526m). EBIT grew 3% to $408m (2022: $398m) impacted by a goodwill impairment of $29m in the Metalflex business, recognised during the first half of FY23. The Metalflex business was negatively impacted by market conditions, supply chain constraints and irregular weather conditions.

During the year we continued to focus on delivering our customer promise of customised service, taking the opportunity to refresh our core programs, including selling and trading skills, creating future leaders and identifying continuous improvement initiatives to drive operational efficiency.

We also continued to invest in our branch network, delivering 21 refurbishments and store upgrades and adding a net 10 new branches. Our network footprint in ANZ increased overall to a total of 655 branches as at 30 June 2023 (2022: 645).

US region

In the United States (US) region, sales revenue increased by 21% to $4,987m (2022: $4,136m). This represented an uplift of 12% on a US dollar basis. Estimated average product inflation for FY23 was 14%. Normalised EBITDA[2] increased by 29% to $401m (2022: $312m) and EBIT grew 36% to $246m (2022: $181m).

Operationally, we are focused on developing our team, building and embedding our culture, delivering a localised customer promise whilst executing our multi- faceted network expansion strategy. We have made significant progress developing our leaders and upskilling our team through a range of customised learning and development programs across various levels of the business. In particular, during FY23 we expanded our R U Ready to Lead program for branch managers, which has been an important part of embedding The Reece Way and delivering our customer promise in the US.

In our network we focused on increasing the density and uplifting the standards of our branches. We rolled out 15 new branches during FY23, undertook 10 refurbishments of existing branches and completed the transition of our Californian network to the Reece brand. In March 2023, we completed a small bolt-on acquisition of a refrigeration and air conditioning wholesaler in Texas with a network of 12 branches. Combined, we added 27 new branches to the network, and had a total of 231 branches at the end of the period (2022: 204).

Outlook

Looking ahead, our markets are softening and demand is uncertain. The Group is prepared for inflation to moderate further and volumes to continue to decline. We will maintain a disciplined approach while continuing to focus on executing our 2030 strategy and investing for the long-term. Fundamentals supporting our markets and business remain positive over the long-term.

Dividends

The Board has declared a final dividend of 17 cents per share, fully franked, taking the total dividends in respect of FY23 to 25 cents per share (2022: 22.5 cents per share). The final dividend will be paid on 25 October 2023 with the record date for entitlement of 11 October 2023.

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	10am
Date	26 October 2023

The annual report will be available on 23 August 2023 at group.reece.com/au.

Chantelle Duffy
Company Secretary
23 August 2023