

ASX Announcement

23 August 2023

FY23 Financial Results

Attached for release is Reece Limited's FY23 results for the 12 month period ended 30 June 2023.

For further information contact:

Siobhan Weaver

Investor Relations

E: siobhan.weaver@reece.com.au

T: 0477 480 813

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.

FY23 Results Announcement

Financial Highlights:

- Sales revenue up 16% to \$8,840 million
- Normalised EBITDA¹ up 16% to \$975 million
- Adjusted EBIT up 19% to \$668 million
- Adjusted NPAT² up 11% to \$405 million
- Adjusted EPS up 11% to 63 cents
- Final dividend of 17 cents per share, fully franked, up 13%

Reece Limited (“Reece Group”; ASX: REH) today announces its financial results for the full year ended 30 June 2023 (FY23).

Peter Wilson, Group CEO, said: “FY23 has been another strong year for Reece, despite a moderation in inflation and reduction in demand from peak levels over the past few years. As ever, we focused on delivering our customer promise and our vision to be our trade’s most valuable partner.”

“Looking ahead, our markets are clearly softening and customer demand trends are mixed. Our assumption is that inflation will moderate further and volumes will continue to decline. In this setting we will maintain our disciplined approach to managing costs while investing to build a stronger business through the cycle. We are able to take a very long-term view and will maintain our focus on executing our strategy to 2030 and beyond.”

Financial Summary ³	FY23 (\$m)	FY22 (\$m)	Variance
Sales revenue	8,840	7,654	Up 16%
Normalised EBITDA ¹	975	838	Up 16%
EBIT	654	578	Up 13%
Adjusted EBIT ⁴	668	562	Up 19%
NPAT	388	392	Down 1%
Adjusted NPAT ²	405	363	Up 11%
Adjusted EPS ⁵	63 cents	56 cents	Up 11%
Final dividend (per share)	17 cents	15 cents	Up 13%
Total dividend (per share)	25 cents	22.5 cents	Up 11%

¹ Normalised EBITDA is EBITDA adjusted to exclude impairment of \$29m (2022: \$Nil) and business acquisition costs of \$1m (2022: \$2m)

² 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)

³ All figures in this statement are in Australian dollars unless otherwise stated

⁴ 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)

⁵ Adjusted EPS is calculated based on adjusted NPAT divided by the weighted average number of shares on issue

Review of operations:

Reece delivered a strong result in a softening economic environment in FY23. Sales revenue increased by 16% to \$8,840m, with constant currency⁶ sales up 11% on the previous period. Sales growth in all regions was positively influenced by product inflation compared with the prior year, whilst demand moderated. Normalised EBITDA¹ increased 16% to \$975m, and Adjusted EBIT was up 19% to \$668m.

In the context of inflationary impacts on our costs of doing business, we focused on disciplined cost management, allowing us to maintain a normalised EBITDA margin of 11%. Statutory NPAT of \$388m was down 1%, impacted by a \$29m goodwill impairment for our Metalflex business in the first half of FY23. Adjusted NPAT² for FY23 increased 11% to \$405m.

Cash flow from operating activities increased by 246% to \$766m and operating cash conversion⁷ was improved at 79%. Free cashflow⁸ also increased by 350% in FY23 to \$690m. As global supply chains began to stabilise, we focused on normalising inventory levels whilst maintaining in-stock metrics, reducing our net working capital to sales ratio to 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 ratio⁹ of 0.9x (2022: 1.2x). The reduction in working capital led to an increase in return on capital employed¹⁰ to 15.3% in FY23 (2022: 13.3%).

ANZ Region

In the Australia and New Zealand (ANZ) region, sales revenue increased by 10% to \$3,853m, with estimated average product inflation of 9%. Normalised EBITDA¹ was up 9% to \$573m. EBIT grew 3% to \$408m impacted by the \$29m goodwill impairment of Metalflex.

During the year we continued to drive the delivery of our customer promise, taking the opportunity to refresh our focus on core programs including selling and trading skills, creating future leaders and continuous improvement initiatives. We also continued to invest in our branch network, delivering 21 refurbishments and adding a net 10 new branches. We concluded the period with 655 branches in the region.

US Region

In the US region, sales revenue increased by 21% to \$4,987m. In US dollar terms, sales were up 12% to \$3,342m, with estimated average product inflation of 14%. Normalised EBITDA¹ increased by 29% to \$401m and EBIT grew 36% to \$246m.

Operationally, we focused on developing our team, delivering our customer promise and executing on our network expansion and upgrades. We made significant progress developing our leaders and upskilling our team through our customised learning and development programs, including expanding 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.

⁶ Constant currency basis applies the same US foreign exchange rate of 0.7231 from FY22 to eliminate the effect of fluctuations when calculating comparative percentage from FY22 to FY23

⁷ Operating cash conversion is net cash from operating activities (as reported in the Consolidated Statement of Cash Flows in the Annual Report) as a percentage of normalised EBITDA

⁸ Free cash flow is normalised EBITDA less net movements in working capital, income tax paid and lease payments

⁹ Net leverage ratio is net borrowings over 12-month rolling EBITDA, calculated on a pre-AASB16 Leases basis

¹⁰ Return on capital employed (ROCE) is adjusted EBIT as a percentage of shareholders equity plus net debt

In our network we focused on expanding our footprint and uplifting standards across our existing network, rolling out 15 new branches, undertaking 10 refurbishments and completing the transition to the Reece brand in California. In March 2023, we completed a small bolt-on acquisition of an air conditioning wholesaler in Texas with a network of 12 branches, which added refrigeration to our US HVAC business. Combined, we added 27 new branches to the network, for a total of 231 branches at the end of the period.

Dividend

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.

Investor and analyst webcast:

Reece Group will hold an analyst and investor webcast today, Wednesday 23 August 2023, at 9:30am (AEST). To join the webcast, register via the following link: <https://webcast.openbriefing.com/reh-fyr-2023/>