

2019

# Preliminary Final Report

REECE LIMITED  
(ABN 49 004 313 133)  
AND CONTROLLED ENTITIES

FINANCIAL INFORMATION  
FOR THE YEAR ENDED 30 JUNE 2019

PROVIDED TO THE ASX  
UNDER LISTING RULE 4.3A

**reece**  
group™

## Preliminary Final Report

Reece Limited  
(ABN 49 004 313 133)

### 1. Reporting period

Report for the financial year ended 30 June 2019

Previous corresponding period is the financial year ended 30 June 2018

### 2. Results for announcement to the market

|                                                                                                                           |      |           | \$A'000   |
|---------------------------------------------------------------------------------------------------------------------------|------|-----------|-----------|
| Revenues from ordinary activities                                                                                         | Up   | 103.2% to | 5,463,787 |
| Earnings before interest, tax, depreciation, amortisation and business acquisition costs and fair value inventory un-wind | Up   | 38.0% to  | 521,950   |
| Profit before tax excluding business acquisition costs and fair value inventory un-wind                                   | Up   | 4.7% to   | 334,522   |
| Profit from ordinary activities after tax attributable to members                                                         | Down | 10.0% to  | 202,100   |
| Total Comprehensive income for the period attributable to members                                                         | Down | 2.2% to   | 223,808   |

  

| Dividends                                                | Amount per security | Franked amount per security |
|----------------------------------------------------------|---------------------|-----------------------------|
| Interim dividend                                         | 6.0 cents           | 6.0 cents                   |
| Final dividend                                           | 14.25 cents         | 14.25 cents                 |
| Record date for determining entitlements to the dividend |                     | 9 October 2019              |

## 3. Statement of Comprehensive Income

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

| Revenue                                                               | 2019<br>(\$000's) | 2018<br>(\$000's) |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Sales Revenue                                                         | 5,463,787         | 2,688,576         |
| Other income                                                          | 8,026             | 2,780             |
|                                                                       | 5,471,813         | 2,691,356         |
| <b>Less: Expenses</b>                                                 |                   |                   |
| Cost of sales                                                         | 3,926,427         | 1,799,481         |
| Employee benefits expense                                             | 635,587           | 299,730           |
| Depreciation and amortisation                                         | 128,072           | 53,847            |
| Business acquisition costs                                            | 28,516            | -                 |
| Other expenses                                                        | 396,831           | 213,822           |
|                                                                       | 5,115,433         | 2,366,880         |
| <b>Operating profit</b>                                               | 356,380           | 324,476           |
| Finance income                                                        | 23,948            | -                 |
| Finance cost                                                          | (83,304)          | (5,035)           |
| <b>Profit before income tax expense</b>                               | 297,024           | 319,441           |
| Income tax expense                                                    | 94,924            | 94,821            |
| <b>Net profit for the year</b>                                        | 202,100           | 224,620           |
| <b>Other Comprehensive Income</b>                                     |                   |                   |
| <b>Items that may be reclassified subsequently to profit or loss:</b> |                   |                   |
| Exchange differences on translation of foreign operations, net of tax | 82,839            | (1,204)           |
| Change in fair value of effective cash flow hedges, net of tax        | (61,131)          | 5,328             |
| <b>Total comprehensive income</b>                                     | <b>223,808</b>    | <b>228,744</b>    |
| Basic earnings per share                                              | 36 cents          | 45 cents          |
| Diluted earnings per share                                            | 36 cents          | 45 cents          |

## 4. Statement of Financial Position

**CONSOLIDATED BALANCE SHEET**

as at 30 June 2019

|                                      | 2019<br>(\$000's) | 2018<br>(\$000's) |
|--------------------------------------|-------------------|-------------------|
| <b>Current assets</b>                |                   |                   |
| Cash and cash equivalents            | 127,707           | 539,891           |
| Trade and other receivables          | 875,324           | 405,733           |
| Inventories                          | 955,711           | 540,564           |
| Derivative financial instruments     | 2,209             | 4,479             |
| <b>Total current assets</b>          | <b>1,960,951</b>  | <b>1,490,667</b>  |
| <b>Non-current assets</b>            |                   |                   |
| Property, plant and equipment        | 664,009           | 568,714           |
| Intangible assets                    | 1,772,166         | 225,741           |
| Deferred tax assets                  | 39,263            | 39,125            |
| Derivative financial instruments     | 37,721            | -                 |
| <b>Total non-current assets</b>      | <b>2,513,159</b>  | <b>833,580</b>    |
| <b>Total assets</b>                  | <b>4,474,110</b>  | <b>2,324,247</b>  |
| <b>Current liabilities</b>           |                   |                   |
| Trade and other payables             | 699,893           | 369,557           |
| Interest bearing liabilities         | 16,256            | -                 |
| Current tax payable                  | 1,555             | 7,624             |
| Provisions                           | 66,808            | 60,013            |
| Derivative financial instruments     | 8,680             | -                 |
| <b>Total current liabilities</b>     | <b>793,192</b>    | <b>437,194</b>    |
| <b>Non-Current Liabilities</b>       |                   |                   |
| Long-term payables                   | 29,335            | 2,212             |
| Interest bearing liabilities         | 1,593,041         | -                 |
| Deferred tax liability               | 43,777            | -                 |
| Provisions                           | 5,008             | 4,003             |
| Derivative financial instruments     | 18,177            | -                 |
| <b>Total non-current liabilities</b> | <b>1,689,338</b>  | <b>6,215</b>      |
| <b>Total liabilities</b>             | <b>2,482,530</b>  | <b>443,409</b>    |
| <b>Net assets</b>                    | <b>1,991,580</b>  | <b>1,880,838</b>  |
| <b>Equity</b>                        |                   |                   |
| Contributed equity                   | 604,849           | 604,349           |
| Reserves                             | 29,580            | 7,872             |
| Retained earnings                    | 1,357,151         | 1,268,617         |
| <b>Total equity</b>                  | <b>1,991,580</b>  | <b>1,880,838</b>  |

## 5. Statement of Changes in Equity

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

|                                                                       | Contributed<br>equity<br>(\$000's) | Reserves<br>(\$000's) | Retained<br>earnings<br>(\$000's) | Total Equity<br>(\$000's) |
|-----------------------------------------------------------------------|------------------------------------|-----------------------|-----------------------------------|---------------------------|
| <b>Balance as at 1 July 2017</b>                                      | 9,960                              | 3,748                 | 1,144,593                         | 1,158,301                 |
| Profit for the year                                                   | -                                  | -                     | 224,620                           | 224,620                   |
| Exchange differences on translation of foreign operations, net of tax | -                                  | (1,204)               | -                                 | (1,204)                   |
| Change in fair value of effective cash flow hedges, net of tax        | -                                  | 5,328                 | -                                 | 5,328                     |
| Total comprehensive income for the year                               | -                                  | 4,124                 | 224,620                           | 228,744                   |
| Transactions with owners in their capacity as owners:                 |                                    |                       |                                   |                           |
| Additional contributed equity                                         | 594,389                            | -                     | -                                 | 594,389                   |
| Dividends paid                                                        | -                                  | -                     | (100,596)                         | (100,596)                 |
| Total transactions with owners in their capacity as owners:           | 594,389                            | -                     | (100,596)                         | 493,793                   |
| <b>Balance as at 30 June 2018</b>                                     | 604,349                            | 7,872                 | 1,268,617                         | 1,880,838                 |
| <b>Balance as at 1 July 2018</b>                                      | 604,349                            | 7,872                 | 1,268,617                         | 1,880,838                 |
| Profit for the year                                                   | -                                  | -                     | 202,100                           | 202,100                   |
| Exchange differences on translation of foreign operations, net of tax | -                                  | 82,839                | -                                 | 82,839                    |
| Change in fair value of effective cash flow hedges, net of tax        | -                                  | (61,131)              | -                                 | (61,131)                  |
| Total comprehensive income for the year                               | -                                  | 21,708                | 202,100                           | 223,808                   |
| Transactions with owners in their capacity as owners:                 |                                    |                       |                                   |                           |
| Additional contributed equity                                         | -                                  | -                     | -                                 | -                         |
| Dividends paid                                                        | -                                  | -                     | (113,566)                         | (113,566)                 |
| Total transactions with owners in their capacity as owners:           | -                                  | -                     | (113,566)                         | (113,566)                 |
| Other movements                                                       | 500                                | -                     | -                                 | 500                       |
| <b>Balance as at 30 June 2019</b>                                     | 604,849                            | 29,580                | 1,357,151                         | 1,991,580                 |

## 6. Statement of Cash Flows

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

|                                                         | Consolidated Entity |                  |
|---------------------------------------------------------|---------------------|------------------|
|                                                         | 2019<br>(\$000s)    | 2018<br>(\$000s) |
| <b>Cash flow from operating activities</b>              |                     |                  |
| Receipts from customers                                 | 5,446,191           | 2,926,274        |
| Payments to suppliers and employees                     | (5,018,635)         | (2,633,037)      |
| Interest received                                       | 1,637               | 1,987            |
| Finance costs                                           | (82,376)            | (5,753)          |
| Income tax paid                                         | (92,351)            | (108,546)        |
| <b>Net cash provided by operating activities</b>        | <b>254,466</b>      | <b>180,925</b>   |
| <b>Cash flow from investing activities</b>              |                     |                  |
| Purchase of property, plant and equipment               | (99,199)            | (88,244)         |
| Proceeds from sale of property, plant and equipment     | 10,382              | 5,662            |
| Purchase of intangibles                                 | (5,329)             | -                |
| Purchase of controlled entities, net of cash acquired   | (2,001,442)         | (54,050)         |
| <b>Net cash used in investing activities</b>            | <b>(2,095,588)</b>  | <b>(136,632)</b> |
| <b>Cash flow from financing activities</b>              |                     |                  |
| Proceeds from borrowings                                | 1,771,568           | 182,000          |
| Repayments of borrowings                                | (230,938)           | (282,000)        |
| Proceeds from capital raising                           | -                   | 594,389          |
| Dividends paid                                          | (113,566)           | (100,596)        |
| <b>Net cash provided by financing activities</b>        | <b>1,427,064</b>    | <b>393,793</b>   |
| Net (decrease)/ Increase in cash and cash equivalents   | (414,058)           | 438,086          |
| Net foreign exchange translation difference             | 1,874               | -                |
| Cash and cash equivalents at the beginning of the year  | 539,891             | 101,805          |
| <b>Cash and cash equivalents at the end of the year</b> | <b>127,707</b>      | <b>539,891</b>   |

## 7. MORSCO acquisition

Effective 2 July 2018, Reece Limited acquired 100% of Patriot Supply Holdings, Inc and its controlled entities (MORSCO) a leading US distributor of plumbing, waterworks, heating and cooling (HVAC) products. MORSCO operates 175 branches in 16 states in the Sun-Belt region of North America. The acquisition of MORSCO, provides a platform to diversify and grow Reece's operations into the US market.

From the date of acquisition, MORSCO contributed revenue of \$2,598m and net profit after tax of \$25.4m to the Group's results.

## 8. Dividends

|                                            | Date of payment | Total amount of dividend \$ |
|--------------------------------------------|-----------------|-----------------------------|
| Interim dividend – year ended 30 June 2019 | 28 March 2019   | 33,649,371                  |
| Final dividend – year ended 30 June 2019   | 30 October 2019 | 79,917,257                  |

| Amount per ordinary security |               | Amount per security | Franked amount per security   |
|------------------------------|---------------|---------------------|-------------------------------|
| Final dividend:              | Current year  | 14.25 cents         | 14.25 cents (at 30% tax rate) |
|                              | Previous year | 14.25 cents         | 14.25 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         | 20.25 cents    | 20.25 cents     |

## 9. Statement of retained earnings

|                                                         | Consolidated Entity |                   |
|---------------------------------------------------------|---------------------|-------------------|
|                                                         | 2019<br>(\$000's)   | 2018<br>(\$000's) |
| Balance at beginning of year                            | 1,268,617           | 1,144,593         |
| Net profit attributable to members of the parent entity | 202,100             | 224,620           |
| Dividends paid                                          | (113,566)           | (100,596)         |
| Balance at end of year                                  | 1,357,151           | 1,268,617         |

## 10. Net tangible assets per security

|                                                  | Current period | Previous corresponding period |
|--------------------------------------------------|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | 40 cents       | 288 cents                     |

- 11.** The financial information provided in the Appendix 4E has been prepared in accordance with Australian Accounting Standards.

## **12. Commentary on the results for the period**

For the year ending 30 June 2019, sales revenue increased by 103% to \$5,464m (2018: \$2,689m), driven by the acquisition of MORSCO, and record sales revenue in ANZ. Profit before tax was down 7% to \$297.0m (2018: \$319.4m) and net profit after tax was \$202.1m, a decrease of 10% on the previous year (2018: \$224.6m). The reduction was impacted by the recognition of business acquisition costs, fair value inventory un-wind, recognition of the amortisation for the US investment and a slowdown in the Australian economy.

In July 2018, the Reece Group completed the acquisition of MORSCO, funded through a debt and equity raising. MORSCO is a leading US-based plumbing, HVAC and waterworks distribution business servicing customers in 16 states in North America. Integration continues to track as planned with a focus on strategy and culture.

Reece has continued to use its strong customer relationships and investment in technology to listen, understand and act on customer needs, leading to the development of new products in plumbing HVAC and waterworks. Additionally, the Company released the latest version of maX. Developed exclusively for Reece account customers, maX provides online access to product pricing, allowing users to build product lists, manage accounts and generate customer quotes and orders.

Creating customers for life is a core value for the Reece Group and the Company has continued to listen to customer feedback and use these insights to improve products and services. The Reece Group has continued to invest in its insight gathering and innovation capability ensuring it will continue to meet and exceed customer expectations into the future through its innovation centre, NEXT.

During the year, the Reece Group has continued to invest in the core business. The cost of doing business excluding depreciation and amortisation increased by 101% to \$1.032m (2018: \$513.6m) due to the acquisition in the US and NZ and the continued investment in people and technology. Employee benefits expense was up 112% to \$635.6m (2018: \$299.7m). This reflects the continued investment in people, related to our acquisition-led growth and investment to develop our technology and service offering. Operating costs have continued to be well managed when taking into account the current economic environment and continued focus on investing in technology and innovation.

Following recent business acquisitions, the Reece Group has grown its international logistics and supply chain network. This logistics capability will continue to support the growing branch network in Australia, New Zealand and the United States. Inventory levels increased to \$955.7m, up 77% on the previous year (2018: \$540.6m), driven by the acquisitions and the introduction of new products and improved service levels. The Group continues to work closely with suppliers to manage and mitigate risk to the supply chain capabilities of the group. Net working capital continues to be a focus for the business with net working capital ratio decreasing from 21.6% to 20.7% at 30 June 2019.

The \$600m equity raising completed in May 2018 and debt raised through the US Term Loan B market was utilised to fund the acquisition of MORSCO. The debt is hedged for interest rate and foreign currency risk. The net debt position at 30 June 2019 was \$1,469m including the impact of derivative instruments. The leverage ratio (net debt divided by normalised EBITDA) decreased from 2.9 at 31 December 2018 to 2.8 at 30 June 2019. Operating cash flow increased from \$181m to \$255m during the year.

Property plant and equipment increased by 17% to \$664.0m (2018: \$568.7m) as a result of the investment in the branch network and assets acquired as part of the acquisitions in MORSCO and New Zealand. The Reece Group in Australia will continue to focus on investing in people, products, technology and customer service. In the US, the focus is on developing the long-term strategy and culture and positioning the US business to take full advantage of the growth opportunities in the Sun-Belt region. The Reece Group is embracing innovation to drive change to deliver world-class, insight-led digital transformation across the business.

The Board has declared a final dividend of 14.25 cents per share fully franked. The final dividend will be paid on 30 October 2019 with the record date for entitlement of 9 October 2019. Total dividends paid and to be paid relating to the year ended 30 June 2019 will be 20.25 cents per share (2018: 20.25 cents per share), flat on the previous year.

### 13. The audit has been completed

The financial report is not subject to audit dispute or qualification.

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#### The annual general meeting will be held as follows:

|                                                        |                                                                                        |
|--------------------------------------------------------|----------------------------------------------------------------------------------------|
| Place                                                  | Mayfair Ballroom<br>Grand Hyatt Melbourne<br>123 Collins Street<br>Melbourne, Victoria |
| Time                                                   | 2.00 pm                                                                                |
| Date                                                   | 30 October 2019                                                                        |
| Approximate date the annual report will be distributed | 23 September 2019                                                                      |

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G W Street  
Company Secretary

28 August 2019