

ASX Announcement

23 August 2023

FY23 Investor Presentation

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

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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.

The Reece logo, consisting of the word "reece" in a white, lowercase, sans-serif font inside a black rounded rectangle.

Works for you.

Full Year Results 2023

12 months ended
30 June 2023

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. Group definitions are included in the appendix and supplementary information at the end of the presentation.

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. Any discrepancies in the calculation of percentage movements in financial amounts from one period to another are due to rounding.

Presenters



Peter Wilson

Group CEO and
Deputy Chair



Andrew Cowlshaw

Group CFO

What we'll share today



01 FY23 Overview



Financial overview

Strong year in softening macro environment

**Sales
Revenue**



up 16%
to \$8.8b

**Normalised
EBITDA¹**



up 16%
to \$975m

**Adjusted
EBIT**



up 19%
to \$668m

**Adjusted
NPAT**



up 11%
to \$405m

**Adjusted
EPS**



up 11%
to 63 cents

ANZ

Sales Revenue up
10% to \$3.9b

US^{*}

Sales Revenue up
12% to \$3.3b USD

Net leverage ratio²

0.9x

FY23 total dividend

25 cents
per share

*US sales revenue up 21% to \$5b AUD
All statutory metrics (EBIT, NPAT and EPS) included on slide 29
All Group definition footnotes included on slide 30

02

Strategy Recap



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 our trade's most valuable partner

Execute Strategic Priorities



Operational Excellence



Accelerating Innovation



Investing for Profitable Growth

Deliver Customer Promise

Customised service

Strategy positions Reece for long term success

1

A trusted brand
with a differentiated
customer proposition

2

Clear track record
Long term experience
managing 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 a
stronger business

6

Well capitalised
strong balance sheet
to support investment

Building a sustainable business

Announced emissions reduction targets October 2022:

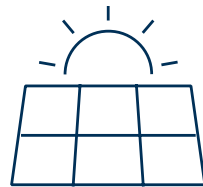
35%

Reduction from FY21 baseline by FY30



Net zero

Scope 1 and 2 emissions by FY40



Sustainability Strategy

1. Sustainable Business
2. Empowered Trade
3. Resilient Communities

Good early progress executing strategy in FY23

- Began executing roadmap for delivering Scope 1 and 2 emissions reduction targets
- Initiated work on TCFD, ISSB and Scope 3
- Conducted ANZ waste audit
- First Reece Foundation projects delivered

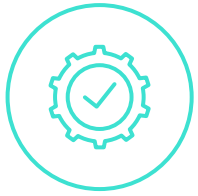
Vision: customers and team feel empowered to create sustainable change

03

Operational Review



Strong operational execution across Group in FY23



Operational Excellence

- Ongoing focus on being brilliant at the fundamentals, continuous improvement initiatives
- Reinvigorating activity that sits behind the delivery of our customer promise
- Attracting talent, developing leaders and embedding US culture an ongoing priority



Accelerating Innovation

- Progressing innovation initiatives; focus on trade of the future
- Ongoing drive to enhance and digitise customer experience
- Lean path to market



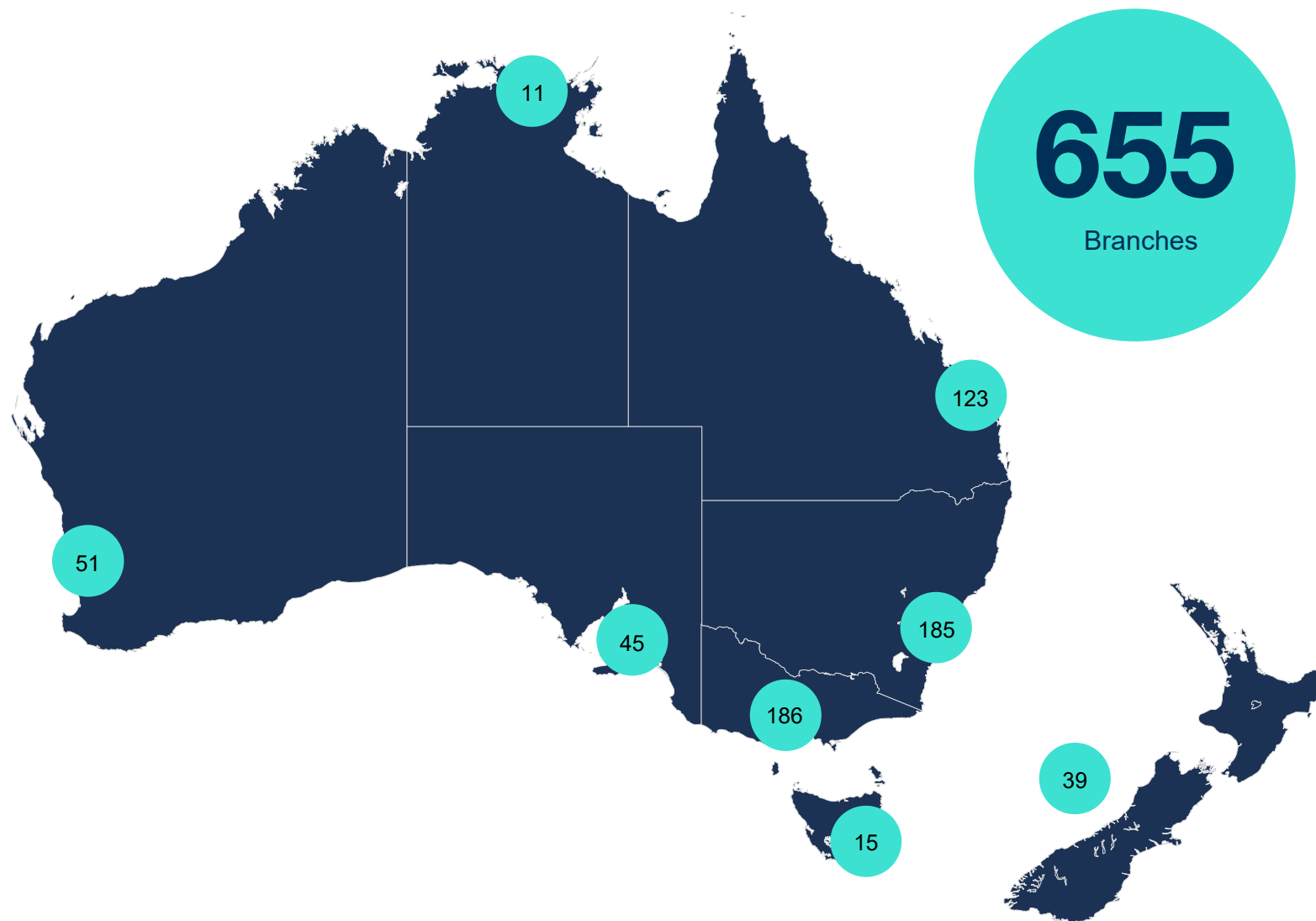
Investing for Profitable Growth

- US store rollout and Reece rebrand progressing at pace
- Bolt-on M&A
- ANZ network upgrades and non-plumbing network expansion

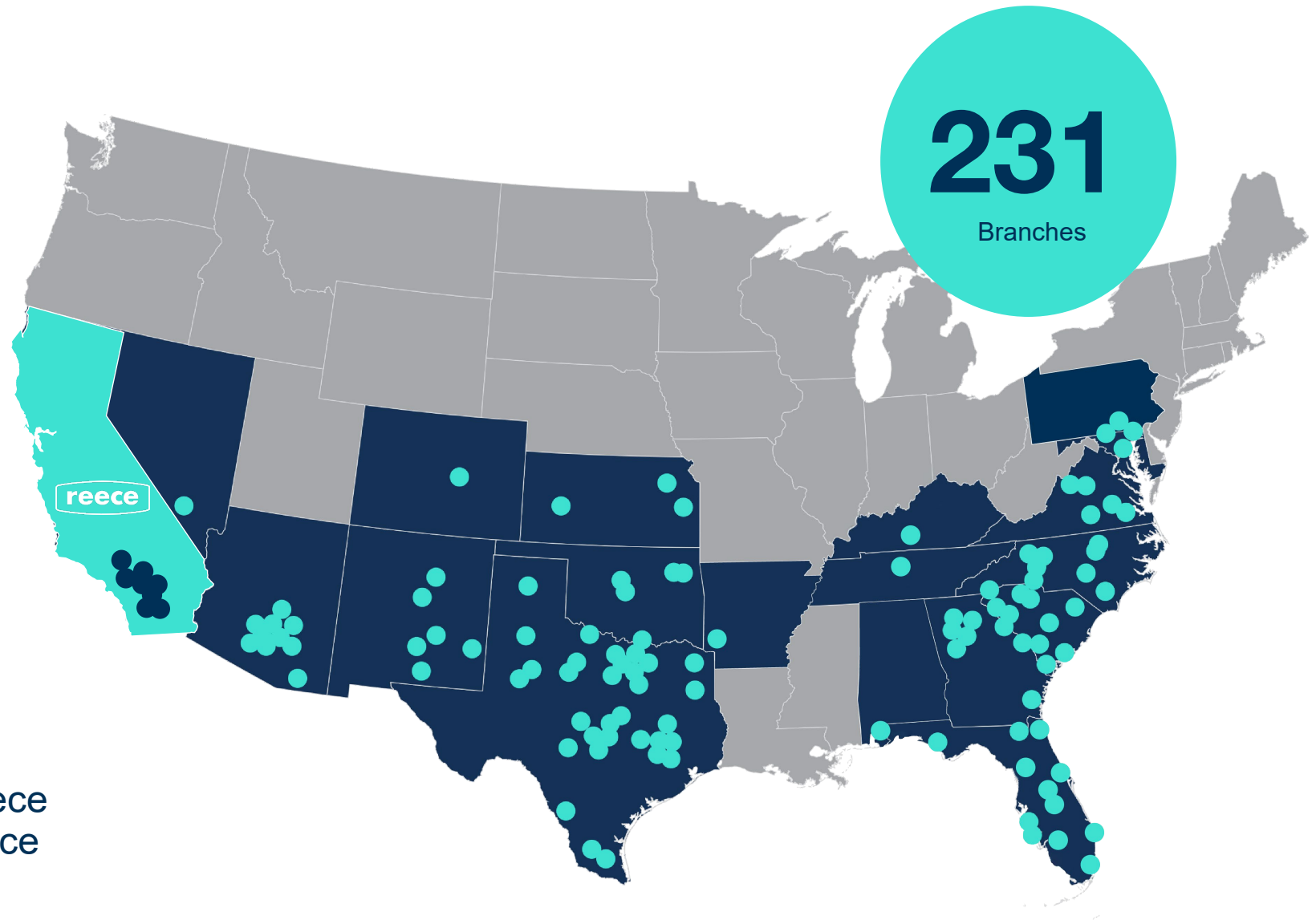
**2030
Vision**

ANZ network of scale

Market leader, leveraging
network density to deliver
customer promise



Building scale in the US



Network +27 branches
15 organic roll-out

Network upgrade and Reece
rebrand progressing at pace

Five years in the US

80%

USD sales revenue growth*



3.1x

EBIT growth**



~35%

branch network growth



~125%

senior branch team growth



~30%

team growth



5

bolt-on acquisitions



reece

commenced brand roll-out



max

launched



2030

Our
Trade's
most
valuable
partner

*Revenue growth calculated from FY19 (first year post-acquisition) to FY23.

**EBIT growth calculated from FY19 to FY23, on a pre-AASB16 basis.

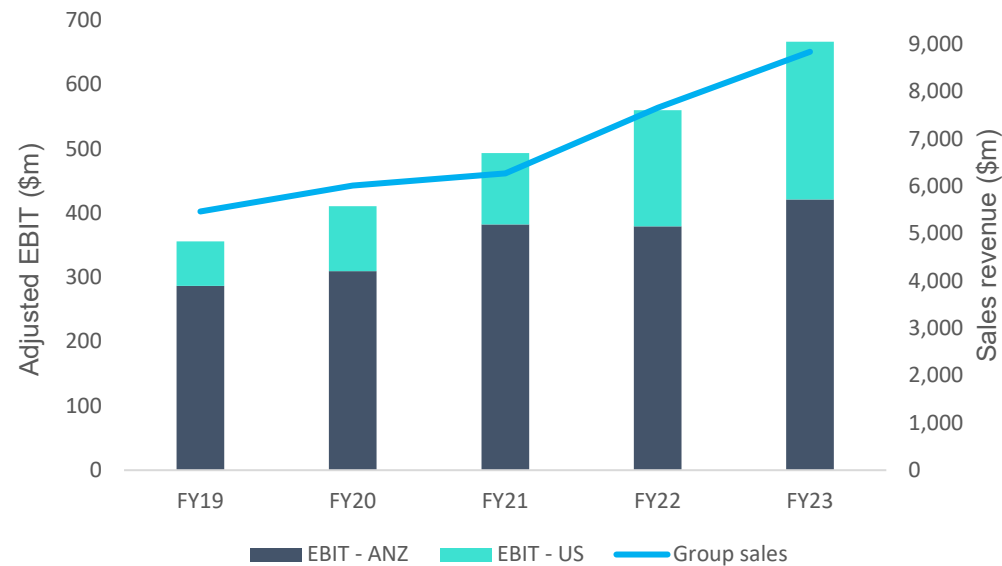
04

Financial Review

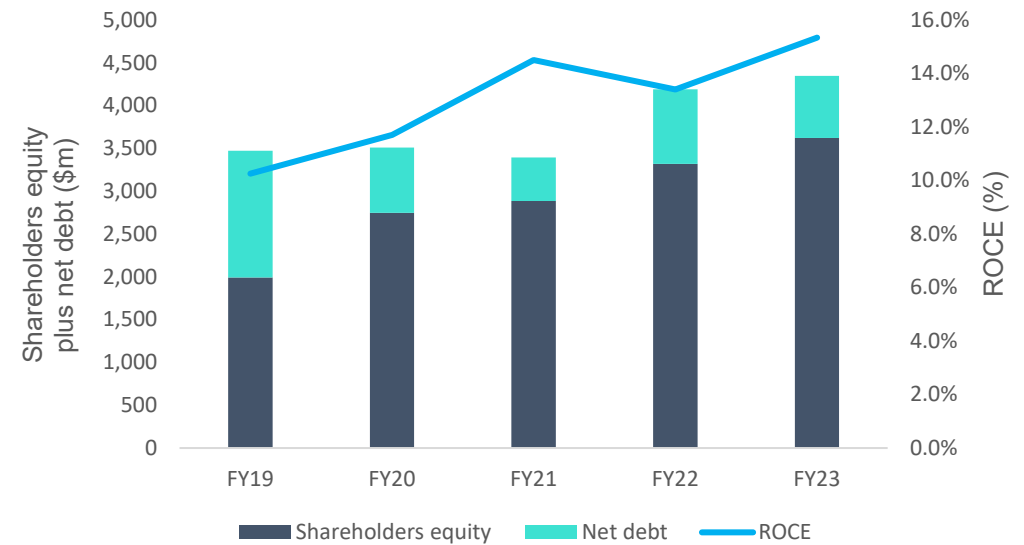


Group performance

Group Adjusted EBIT & Sales



Group ROCE



Return on capital employed ("ROCE") definition included on slide 30

Solid growth in Group sales, EBIT and ROCE while navigating macro challenges

Financial highlights

**Sales
Revenue***



up 16%
to \$8.8b

From \$7.7b

**Normalised
EBITDA¹**



up 16%
to \$975m

From \$838m

**Adjusted
EBIT**



up 19%
to \$668m

From \$562m

**Adjusted
NPAT**



up 11%
to \$405m

From \$363m

**Adjusted
EPS**



up 11%
to 63 cents

Final dividend



17 cents per share,
fully franked

From 15 cents per share

Total dividend



25 cents per share,
fully franked

From 22.5 cents per share

**Normalised
EBITDA¹ margin**



up 7bps
to 11.0%

Net leverage ratio²

down to
0.9x

From 1.2x

*Group sales revenue up 11% on a constant currency basis⁸
All statutory metrics (EBIT, NPAT and EPS) included on slide 29
All Group definition footnotes included on slide 30

ANZ performance

- Sales up 10%
 - FY23 estimated average product inflation 9%, moderating progressively (H2: 7%)
 - H2 volumes up 1% on pcp
- Normalised EBITDA¹ margin compressed 8bps
 - BAC income³ in FY23 \$16m (FY22: \$22m)
- EBIT up 3% impacted by:
 - Goodwill impairment of \$29m
 - Increased CODB in H2
- Adjusted EBIT up 11%

FY23 30 June 2023 (AU\$m)	1HY	2HY	FY23	FY22	Var. %
Sales revenue	1,928	1,925	3,853	3,518	↑ 10%
Normalised EBITDA ¹	293	280	573	526	↑ 9%
Normalised EBITDA ¹ margin	15.2%	14.5%	14.9%	15.0%	↓ 8bps
EBIT	198	210	408	398	↑ 3%
Adjusted EBIT	221	200	421	380	↑ 11%

US performance

- Sales up 12% on USD basis
 - FY23 estimated average product inflation 14%, moderating progressively (H2: 6.6%)
 - H2 volumes down 4% on pcp
 - Favourable foreign currency impact to sales \$365m (on constant currency basis⁸)
- Normalised EBITDA¹ margin up 51bps
- EBIT up 26% on USD basis

USD					
FY23 30 June 2023 (US\$m)	1HY	2HY	FY23	FY22	Var. %
Sales revenue	1,678	1,664	3,342	2,986	↑ 12%
Normalised EBITDA ¹	136	133	269	226	↑ 19%
Normalised EBITDA ¹ margin	8.1%	8.0%	8.1%	7.5%	↑ 51bps
EBIT	85	80	165	131	↑ 26%

AUD					
FY23 30 June 2023 (AU\$m)	1HY	2HY	FY23	FY22	Var. %
Sales revenue	2,500	2,487	4,987	4,136	↑ 21%
Normalised EBITDA ¹	202	199	401	312	↑ 29%
Normalised EBITDA ¹ margin	8.1%	8.0%	8.1%	7.5%	↑ 51bps
EBIT	127	119	246	181	↑ 36%

Cashflow

- Improved operating cash flows
- Net working capital
 - Normalised inventory levels while maintaining in-stock metrics
 - FY23 net working capital to sales 19% (2022: 22%)
- Investment priorities: branch refurbishments, rebrand, new stores, fleet and technology
 - FY23 capex to sales 2.0% (2022: 2.6%)
 - Bolt-on M&A
- FY24 expected interest expense within the range of \$65m - \$75m*
- FY24 expected ~30% effective income tax rate**

FY23 - 30 June 2023 (A\$m)	FY23	FY22
Normalised EBITDA ¹	975	838
Net movements in working capital (incl. FX)	70	(412)
Non-cash items in normalised EBITDA ¹	8	4
Income tax paid	(200)	(144)
Net finance costs	(55)	(42)
Lease interest paid	(32)	(22)
Cash inflow from operations	766	222
Capital expenditure	(177)	(200)
Proceeds from sale of assets	14	12
Dividends paid	(149)	(126)
Cash inflow / (outflow) before acquisitions and repayment of borrowings	454	(92)
Business acquisitions/ investments	(146)	(93)
Net repayment of borrowings (including leases)	(158)	(449)
Net increase / (decrease) in cash	150	(634)
Free cash flow⁴	690	153

*Estimate is indicative only and based on current drawdowns, interest and exchange rates

**Estimate is indicative only and subject to US tax adjustment (LIFO)

Disciplined approach to capital management

- Investment in organic growth
- Bolt-on M&A
- Balance sheet efficiency
- Dividends

FY23 30 June 2023	FY23	FY22
Net leverage ratio ²	0.9x	1.2x
Available liquidity ⁵	\$944m	\$520m
Net debt	\$725m	\$870m
Return on capital employed ⁶	15.3%	13.3%

FY23 30 June 2023 (A\$m)	FY23	FY22
Cash	373	220
Trade and other receivables	1,338	1,368
Inventories	1,505	1,528
Other current assets	3	7
Total current assets	3,219	3,123
PPE and leases	1,586	1,493
Intangible assets	2,021	1,906
Other non-current assets	98	85
Total non-current assets	3,705	3,484
Trade and other payables	1,178	1,216
Other current liabilities	243	244
Total current liabilities	1,421	1,460
Interest bearing liabilities	1,097	1,090
Other non-current liabilities	781	736
Total non-current liabilities	1,878	1,826
Net assets	3,625	3,321
Net tangible assets ratio⁷	↑ 2.41	2.14

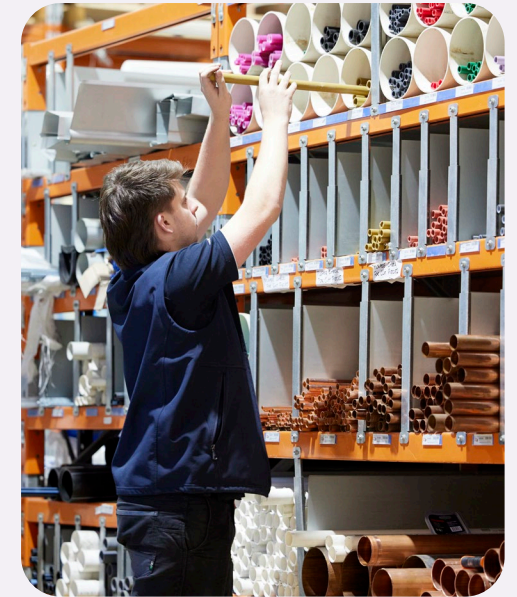
05 Outlook



Environment to continue softening in FY24

Opportunity to re-focus after extraordinary 3-year period of growth

- Expect inflation to continue to moderate
- Uncertain demand environment; our assumption is volumes will continue to decline
 - Demand trend across customer base not yet clear
- Long term fundamentals supporting our markets remain positive
- Reece approach does not change in a downturn; maintain discipline while investing through the cycle
 - Maintain capex at ~2-3% of sales
 - Investment priorities: network (refurbishments, expansion), supply chain



06

Summary



Summary



**Strong
Result**



**Long-term
Focus**



**Investing for
the Future**



**Softening
environment**

reece
group™

Appendix & supplementary information

Key metrics

Reconciliation from Statutory EBIT to Adjusted EBIT

FY23 - 30 June 2023 (A\$m)	FY23	FY22	Var. %
EBIT (statutory)	↑ 654	578	13%
Add back:			
BAC income	(16)	(22)	
Impairment	29	-	
Business acquisition costs	1	2	
Debt refinancing costs	-	4	
Adjusted EBIT	↑ 668	562	19%

Reconciliation from Statutory EBIT to Normalised EBITDA

FY23 - 30 June 2023 (A\$m)	FY23	FY22	Var. %
EBIT (statutory)	↑ 654	578	13%
Add back:			
Depreciation and amortisation	291	258	
Impairment	29	-	
Business acquisition costs	1	2	
Normalised EBITDA	↑ 975	838	16%

Reconciliation from Statutory NPAT to Adjusted NPAT

FY23 - 30 June 2023 (A\$m)	FY23	FY22	Var. %
NPAT (statutory)	↓ 388	392	(1%)
Add back (tax effected):			
US inventory adjustment (LIFO)	(2)	(28)	
BAC income	(11)	(15)	
Impairment	29	-	
Business acquisition costs	1	1	
Debt refinancing costs	-	13	
Adjusted NPAT	↑ 405	363	11%
EPS (statutory)	↓ 60 cents	61 cents	(1%)
Adjusted EPS (based on adjusted NPAT)	↑ 63 cents	56 cents	11%

Income recognised from Boosting Apprenticeship Commencements (BAC) government incentive scheme

(A\$m)	FY23 H2	FY23 H1	FY22 H2	FY22 H1
BAC income recognised	9	7	8	14

No BAC income expected in FY24

Group definitions

1	Normalised EBITDA	EBITDA adjusted to exclude impairment, business acquisition costs and finance costs (as reported in note 2.1 of the Annual Report)
2	Net leverage ratio	Net borrowings over 12-month rolling EBITDA, calculated on a pre-AASB16 <i>Leases</i> basis
3	BAC income	Income from Boosting Apprenticeship Commencements government incentive scheme
4	Free cash flow	Normalised EBITDA ¹ less net movements in working capital, income tax paid and lease payments
5	Available liquidity	Cash plus headroom on the Group's available facilities at period end
6	Return on capital employed	Adjusted EBIT (refer to slide 29 for calculation) as a percentage of shareholders equity plus net debt
7	Net tangible asset ratio	Net assets less intangible assets, over the number of ordinary shares fully paid on issue (as reported in the Appendix 4E)
8	Constant currency basis	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

FX impact on sales

