

**ASX Announcement**

29 October 2020

# 2020 AGM – Address to Shareholders

## Proudly essential for 100 years

Reece Limited (“Reece Group”; ASX: REH) today provides a transcript of the Chair, Deputy Chair, Group CEO & Managing Director and Group CFO’s address to shareholders at today’s Annual General Meeting.

**Alan Wilson, Chair:**

On 11 March 2020, on World Plumbing Day, we celebrated Reece’s 100th birthday with our customers and people. Just a few days later the Coronavirus started to impact how we trade and work. I have been extremely proud of the way our people have adapted and continue to do what we do best, supporting our staff and customers in their essential work.

In our centenary year, despite the challenges of the last quarter, I’m pleased to share that Reece achieved another record year. Sales revenue was up 10% on the prior year to \$6 billion. Normalised Earnings Before Interest, Tax, Depreciation and Amortisation was up 25% to \$650 million with Normalised Net Profit After Tax up 13% to \$229 million.

In Australia and New Zealand sales were up 1% to \$2.9 billion in a more challenging environment. In the US we are pleased with the sales revenue results, up 20% to \$3.1 billion which includes nine months of contribution from Todd Pipe which we acquired during the year.

In April we announced the suspension of dividends. Due to our record performance in 2020, yesterday we paid a final dividend of 6 cents per share. This brings the total dividends paid, for the full year, to 12 cents per share all fully franked.

**Peter Wilson, Group CEO & Managing Director:**

Thank you Chair, and Happy 80th Birthday for yesterday.

Good afternoon everyone.

2020 has been a historic year for many reasons; we celebrated our 100-year anniversary, we faced challenges from Bushfires in Australia to a global health pandemic and subsequent economic downturn.

And we are again very proud to have delivered a record result in a year of crisis.

Today I will begin with an overview of the year and will then hand over to our new Group CFO, Andrew Cowlishaw, who will take you through our financial results. I will then finish with our business highlights and an update of the first quarter.

So first, our overview.

The image on screen is from a campaign that was launched in the US in 1920, after the Spanish flu pandemic impacted the world. This event cemented society's understanding of the importance of sanitation and the essential role plumbers played in preventing disease. It was the same year Reece was established. Building our business around the plumber.

100 years later, we are now facing a similar situation, and Reece will continue to play a crucial role in supporting this essential service. We often say that doctors and scientists help cure disease, but plumbers prevent it.

This is now more important than ever as the plumber provides society with sanitation, clean water, hot water, heating, cooling, and drainage. We're committed to supporting our customers and the role they play in society. We always have. And we always will.

Everything we do at Reece is inspired by our purpose – to improve the lives of our customers and people by striving for greatness every day.

Our purpose comes to life in the way our people live our values, and during these times of great change and uncertainty, we've been guided by our purpose and values like never before.

We approach everything we do with this lens, and it greatly benefits our long-term approach across the business. Over time this has enabled us to create a unique culture, helping us to stay resilient and adaptive. There has been no greater test of our culture and business than the year of 2020.

From the bushfires in January, to the impact of the pandemic and subsequent economic crisis. No other year has tested our business model and strong culture like this year. Despite this, I'm pleased to say that by having a clear long-term vision, along with an adaptive and resilient business model, we have managed to deliver a record set of results.

On the 11th of March, World Plumbing Day, we celebrated our 100th year. The centenary has been particularly significant for the Wilson family, having been the major shareholder since 1969.

The Wilson family has not sold a single share in that time and participated significantly in the recent equity raises. To celebrate the 100-year milestone, we took the opportunity in our branches across Australia and New Zealand to thank our loyal customers and people for making Reece what it is today.

It was fantastic to see our communities come together to recognise what makes Reece great – our people, the depth of our relationships, our expertise, and the ability to adapt to our customers changing needs.

Little did we know, that the week after our 100th year celebration, COVID-19 would have such a big impact on our business. Throughout 2020 we have continued to focus on our vision for Reece - which is underpinned by two regional strategies.

This year we cemented this approach by creating two separate leadership teams to implement our vision. In Australia and New Zealand, our focus is on the acceleration of our digital strategy across the region. In the US, our focus is on driving long-term growth in the Sun-Belt region. While we have a long-term vision, and two regional strategies, when COVID-19 started to impact our business we developed an adaptive approach.

We created a clear plan, "To protect and preserve our business today, while looking ahead to accelerate our strategy for the long term". To protect our business today, we acted early to look after our people and support our customers.

In March, our head office teams moved to remote working. Across our store network, we were one of the first businesses to implement social distancing barriers and we encouraged our customers to order online and utilise our contact free delivery and pick up service. We were keen to keep our stores open as our customers needed us more than ever before, and we believe our approach has contributed to growing sales within the challenging environment. As COVID-19 spread, we did everything we could to keep our people safe and doors open. We worked closely with governments to ensure they understood we were an essential service. We quickly adapted to lockdown measures in New Zealand, Australia and different states across America. We educated our customers on how to apply the restrictions so they could continue to deliver essential services and keep their people, and the community, safe.

And finally, our \$647m equity raise has allowed us to fortify the business and manage risk during the uncertainty. We had to be ambidextrous in our approach – protecting our business today, while establishing the foundations to accelerate beyond COVID-19 and deliver on our long-term strategy.

At Reece, we've always focussed on ensuring we have the right people, and capability, to lead our business. In Australia and New Zealand, this means creating the right digital approach to adapt to the changing needs of our customers, which has steadily increased during the pandemic. In the US, our focus is to build the foundations for growth in the Sun-Belt region. Both teams make decisions for the long-term, and like we've always done, find opportunity in tough times.

At Reece, our people are at the heart of our business. Due to the current environment, we wanted to ensure we heard how they were doing. In August we ran an engagement survey across Australia, New Zealand and the US. I'm so pleased to share our overall employee engagement score is 82 – 8 points above the global benchmark. This is a great indicator that our people are feeling supported and believe they can achieve their best by working at Reece.

**Andrew Cowlshaw, Group CFO:**

Thanks Peter.

I am pleased to share that Reece has had another record year despite the challenging environment. All financial information will be in Australian dollars unless otherwise clarified.

For Financial Year 2020, sales revenue for the Group was up 10% to \$6 billion Australian Dollars.

If we look at our results, excluding the impact of AASB 16, normalised EBITDA was up 3% to \$537m and Net Profit After Tax was up 19% to \$240m.

Our leverage ratio of 1.4x has decreased from 2.8x at 30 June 2019 which is the outcome of:

- \$647 million raised in the April equity raise;
- Strong operating cash flow for the year; and
- Improvements in net working capital.

In April we announced the suspension of dividends. However due to our record performance in FY20, we've decided that paying a final dividend is appropriate – and yesterday we paid a final dividend of 6 cents per share - bringing the total dividends paid, for the full year, to 12 cents per share. While this is a lower payout ratio, it gives the business flexibility for the future.

Performance in the ANZ region has been impacted by people spending more time at home, whilst in the US, performance has been positively impacted by our branches remaining open while other wholesalers were closed.

In Australia and New Zealand sales were up 1% to \$2.9 billion dollars, in a more challenging market, and we believe we continue to gain market share.

In the United States, our revenue grew 20% to \$3.1 billion dollars, translating to a 13% increase on a constant currency basis. We're pleased with the US revenue results, benefitting from our presence in the ever growing Sun-Belt region and our continued focus on the customer, particularly in the past 6 months as the environment has changed significantly. Todd Pipe, in California, has contributed \$111 million US dollars since the acquisition completed on 1 October 2019.

As referred to earlier, the year finished with sales growth of 10% which was a solid result in challenging market conditions. On a like for like constant currency basis H1 FY20 sales revenue growth was up 5.0% percent over the previous corresponding period. On the same comparative basis, we are pleased with sales revenue in the second half of FY20 being up 3.0% percent over H2 FY19.

EBITDA margins have remained consistent from the half year, which met expectations.

Whilst restrictions from COVID-19 impacted our markets to varying degrees in the second half, like for like sales revenue was up on prior year. As mentioned previously, for the first half of FY20 ANZ segment sales were flat. We were pleased to show sales growth in the second half of FY20 with COVID-19 restrictions impacting Australian and New Zealand markets from March.

ANZ EBITDA margins were broadly flat, but negatively impacted by marginally higher cost of doing business and stage 4 restrictions impacting New Zealand in Q3. In New Zealand, we were eligible for the Government wage subsidy which was immaterial, and we have not accessed any government support in Australia. In both Australia and New Zealand rental concessions we received were immaterial.

MORSCO performed in line with expectations which included nine months contribution from the Todd Pipe acquisition. Sales revenue of \$3.1 billion was up 20% on FY19 and up 7% on like for like constant currency basis. Normalised EBITDA of \$174 million was up 16% on FY19. A favourable AUD/USD exchange rate dynamic was experienced for FY20.

COVID-19 implications have impacted our US operations from March, through lockdowns in certain states, short-term branch closures and increased cost of doing business. We were eligible for the US payroll tax moratorium which had no impact on our P&L. MORSCO's Normalised EBITDA margins for FY20 were 5.6%, down 20 basis points.

I'll now hand you back to Peter to take you through our business highlights.

**Peter Wilson, Group CEO & Managing Director:**

Thanks Andrew.

Now, moving to business highlights. I will talk you through the two main areas of activity for FY20.

Firstly, digitising the customer experience in ANZ, and, secondly, continuing to build the foundations for growth in the US.

Let's look at how we progressed with digitising the customer experience in ANZ in FY20.

The impact of COVID-19 has allowed us to accelerate the adoption of digital tools by our customers and introduce new services to help them effectively run their business. One example is our virtual consultation approach. Builders, architects, designers and consumers have all benefitted from this tool, which became particularly important through Stage 4 restrictions in Victoria.

This year we've seen a 68% increase in online sales, and have continued to work on integrating maX, (our eCommerce solution) with our customers accounting and job management packages. Online sales for the fourth quarter were up 89% on the prior year – reflecting the changing environment. A trend we expect to continue into the future. A trend that we are well prepared for. One of the services we have brought to life this year has been PowerUp.

PowerUp is a digital platform providing our customers access to online training, helping them build capability for their teams and their business. This year Superseed, our ventures arm, invested in FieldPulse, an online job management platform that helps tradespeople manage their business more effectively. FieldPulse has been launched as a service offering across both our regions, enabling our customers to use digital tools to run their business more efficiently, while integrating with other platforms they use, including maX.

While we're focussed on digitising our business across ANZ - we continue to invest in our branch network, ensuring we are where our customers need us. In the past 12 months, we've opened ten stores, and closed 5 – moving with our customers changing demands, and broadening access to our strategic business units. One of our new stores is the new Bathroom Life format at St Leonards in Sydney. The Bathroom Life showroom is a great example of how we have taken customer insight, coupled with innovative thinking, to bring the best in-store experience to our customers.

The new store approach is already leading to deeper customer conversations, while offering the best in choice and design. The Design Lab allows our customers to receive a one on one consultation, customise their product selection and create a 3D plan to visualise the final design of their bathroom, before they commit to purchase. The new store layout also showcases many more working products on display, including: Showers, basin mixers, kitchen mixers, smart toilets. It's all about experiencing the products. One area worth mentioning is the New Shower Lab – where customers can book in and trial shower products and thermostatic mixers in a private shower room. This allows a more customised experience in store.

Now let's look at how we have continued to build the foundations for growth in the US.

When MORSCO first became part of the Reece Group, the US leadership team independently chose to adopt the Reece values, as they felt they accurately reflect their own aspirations. The recent employee engagement survey in the US has told us that our people have embraced these values, and are using them to guide greater teamwork, collaboration and customer service. We want to take a purpose and values led approach, and these results show that this is starting to work.

From getting the culture right, we have now started to look at building an improved and more consistent customer experience. Understanding our customers and the local market they operate in, is key to our approach. We've started to introduce service standards across the network and have experimented with new store layouts. We've also started to introduce our continuous improvement approach – empowering our people to play their part in enhancing our business to be more efficient, effective and productive.

Consistent with our long-term approach, we took time to evaluate our technology and digital offering in the US. We made the decision to rebuild our eCommerce platform and hire a new Chief Information Officer. Our aim is to create a world class digital solution in the US, like what maX has provided in Australia. As we learn more about the US market we look to consolidate in some areas and broaden in



others. In the last 12 months we opened 10 new branches, closed 7 and added 6 through the Todd Pipe acquisition - leading to a total increase of 9 branches across the Sun-Belt. The Todd Pipe team has settled in well and has helped us grow our understanding of the Californian market.

With the business highlights explained, now let's look at what the future may hold and the broader macro trends that will impact our business.

There is no doubt we are going through a period of great economic uncertainty – which we expect to continue for some time. To understand the environment, we look at population growth and employment levels to determine long-term trends, and we look at interest rates and government stimulus to predict short-term activity.

In Australia, we are now officially in a recession although with restrictions easing, we are seeing activity increase - largely stimulated by government incentives and low interest rates. With borders closed, population growth – a key driver for new housing, has fallen sharply since March. And we don't expect overseas migration to return to pre-COVID levels until 2024. Dwelling approvals are expected to fall by 5% in FY21. This represents a 30% decline since 2018.

With more people spending time at home, we will continue to see an increase in demand for alterations and additions, helping to balance the short-term impact of the housing downturn. With less people in the office, coupled with a decline of inner-city investment, non-residential commencements are expected to decline in FY21.

If we turn to New Zealand, it has also entered into recession despite returning to near pre-lockdown approval numbers for new dwellings.

As the US comes into the winter months, the environment continues to be extremely challenging. On the economic front, the federal reserve has signalled that interest rates would remain near zero, until at least 2023. Looking at building trends, we will continue to see a shift from multi-family to single family dwellings. Single housing starts are expected to grow 10% to more than one million in the next calendar year, although multi-family housing starts will fall below 2014 levels. The increase in housing activity is expected to be offset by weakness in the non-residential sector. Water supply outlook remains positive, with incremental growth expected to continue. What is clear, is that across all our markets, while our services continue to be in demand, the outlook is extremely challenging.

While there are many unknowns, we're focussing on what we can control, and believe our resilient and diversified model will help us to navigate the uncertainty.

Now let's look at the first quarter sales for FY21.

Sales revenue for the first quarter has been positive, reflecting momentum from FY20. We have continued to see growth in both regions which has exceeded our initial expectations. ANZ sales revenue was up 6.9%. MORSCO sales revenue was up 8.6% on a constant currency basis. Allowing for the strengthening of the AUD against the USD, Group sales revenue was up 4.4% for the first quarter.

It's important to note that we do not see the first quarter's performance as illustrative of the remainder of the financial year due to significant uncertainty and negative economic indicators across our regions.

Trading conditions in the US are softening as we speak as the COVID-19 cases escalate and as we are being forced to close more stores.

To finish today, 2020, our centenary year, will be remembered as the year we delivered record results during a year of crisis. Reece has been here for 100 years, we have lived through world wars, recessions, the good times and the bad. We have shown that we are a resilient business and have a history of emerging from downturns in a stronger position. This year is no exception and as we look forward, we remain committed to our vision.

As an essential service we will rely on our adaptive and resilient business model to protect and preserve our business today, whilst creating a position of strength to accelerate our long-term strategy.

Thank you very much, I will hand back to the Chair.

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This announcement has been authorised by Chantelle Duffy, Company Secretary at the direction of the Board of Directors.

**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 8,000 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 [www.receegroup.com.au](http://www.receegroup.com.au).