



Reece 2021 AGM Report

ASX Code	REH
Meeting Time/Date	2pm, Thursday 28 October 2021
Type of Meeting	Virtual using Lumi technology
Monitor	John Whittington (proxy collector)
Pre-AGM Meeting?	No

Flushed with success

What the Company Does

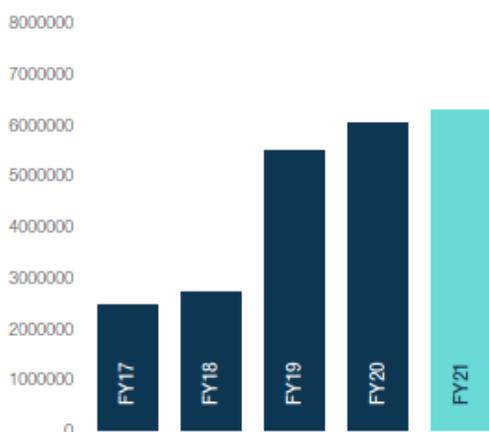
Reece is a distributor of plumbing, bathroom, heating, ventilation, air-conditioning, and refrigeration products in Australia, New Zealand, and, more recently, the sunbelt region of the United States.

The Wilson family own approximately 73% of Reece and the Executive Chair, CEO, and four of six members of the board are members of the extended family. So any other shareholder is basically coming along for the ride that the Wilson family directs. That's not necessarily a bad thing – most Reece shareholders have probably done very well over the past forty years – but shareholders need to be aware of this issue.

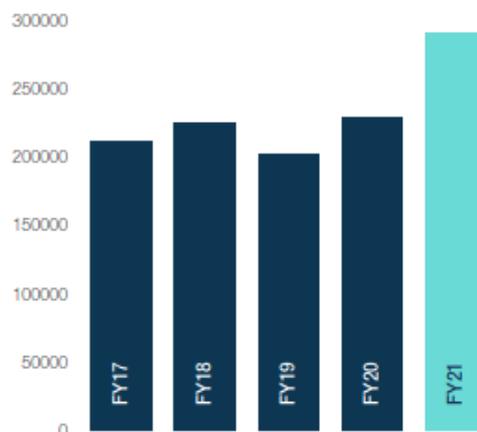
Developments in the Financial Year

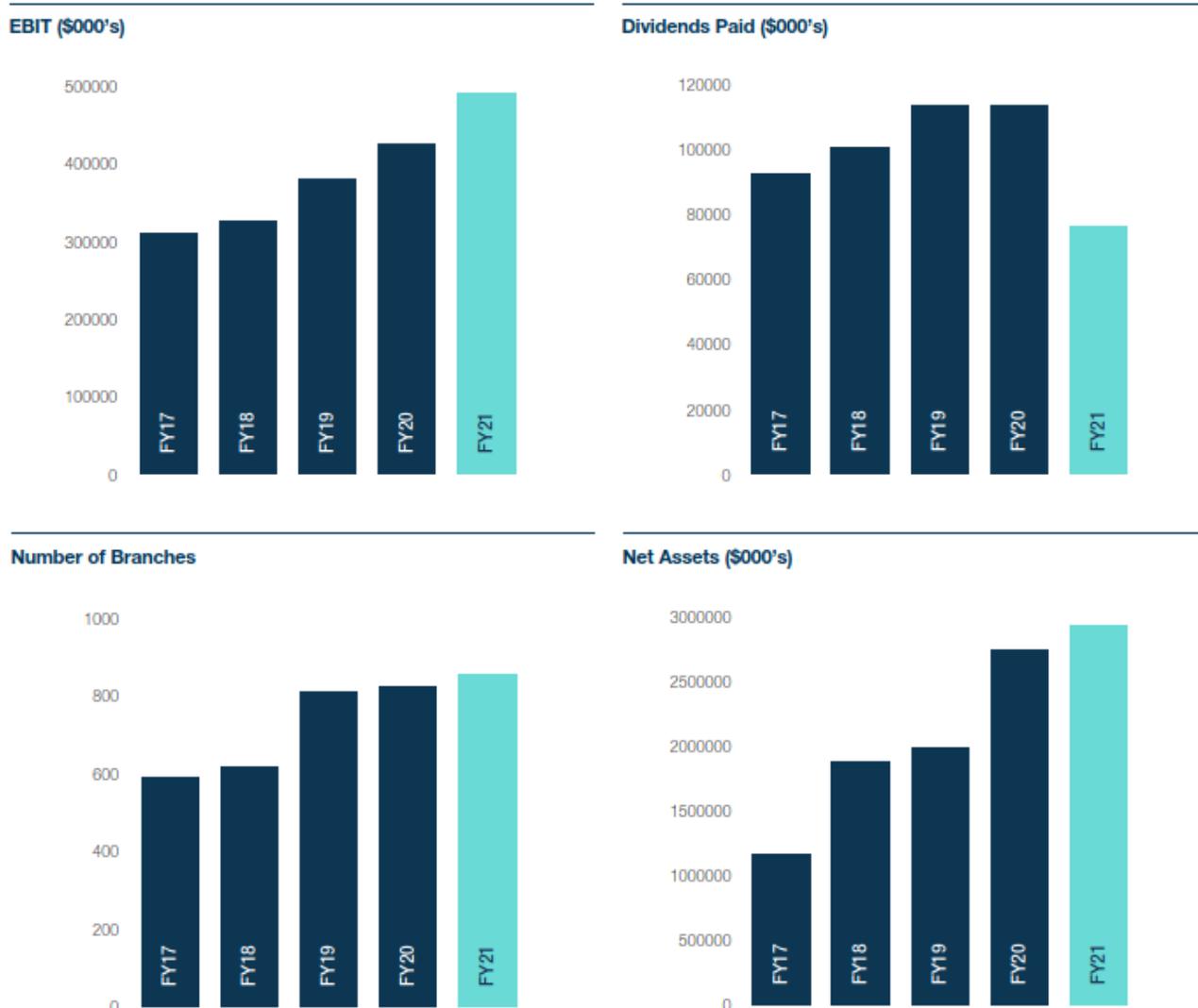
Reece had a solid 2021 financial year (FY21) with all key metrics (see charts below) other than dividends increasing during the year. Importantly, although sales revenue did not increase much (4%), there was much bigger increase in profitability (25%).

Sales Revenue (\$000's)



NPAT (\$000's)





Source: Reece 2021 Annual Report

During the year the company has had to cope with the ongoing uncertainty of the pandemic to the Texas Freeze. As an essential service it has continued to trade throughout.

There was a considerable focus on innovation and digital with the company putting a lot of focus into customers ordering and interacting online which has seen online sales increasing 57% year on year and 25% increase in invoices being processed automatically using Reece’s maX application. In the US, they have saved 70,000 hours working time through automating manual processes.

Summary of Historical ASA Issues with the Company

The ASA has always had some concerns that the board doesn’t have an independent Chair nor a majority of independent directors. However we have traditionally tempered these concerns as the Wilson family own a clear majority of the company and have run it well. We have also in the past had concerns about lack of disclosure in the remuneration report and the quantum of CEO pay. We were very pleased to see that this year remuneration report is one of the best around in terms of clarity and understandability.

Debate and Voting at the AGM

Like last year's Reece AGM, this one was very professionally produced with an independent moderator, plenty of videos, and the Chair, Deputy Chair, and CEO sitting at desk like a TV news or football panel show and text questions being projected onto screen. Other directors were available by video link. It was an impressive performance which put many bigger companies to shame.

After an introduction from the moderator, the Chair, Alan Wilson, gave a brief introduction before handing over to the usual impressive presentation from the CEO, Peter Wilson (his son). Not only did this cover the financial performance of the company but it also spent a lot of time on the overarching Reece strategies, their new head office, their community activities, and the economic outlook for their customer's markets.

In the formal part of the meeting, all the items were covered at once with presentations by the director up for re-election (Andrew Wilson who spoke well) and the Chair of the Remuneration Committee (Tim Poole who also presented well) regarding the long-term incentive plan and grant of performance rights to the CEO. Questions were held back until all of this was completed. This tended to mean that context of many questions were lost as they were separated from the initial presentation and jumbled amongst questions on other topics.

In the question time, the ASA complemented the company on the clarity and understandability of the remuneration report (which has improved substantially in recent years), the increased long-term incentive targets, and, for the first time, the clear communication in the notice of meeting of the number of rights to be issued. We also asked about why trading volumes in Reece have increase substantially in the last year (got included in the ASX100, more analyst coverage, more institutional shareholders) and what type of AGM they propose to hold next year if things are back to normal (waffly "best practice" answer).

Other questions were asked by shareholders covered topics such as if there were any particular states or business which performed particularly well (no, all were good), the effect of lockdowns, can Reece pass on price rises (yes so far), are all Reece staff now vaccinated (yes), will Reece increase the ration of dividends to net profits (no set policy, will determine at the time), what is the payback on their new flash office they are about to move into (whole idea is innovation agenda and to attract talent in a market with labour shortages), and opportunity for government infrastructure programmes.

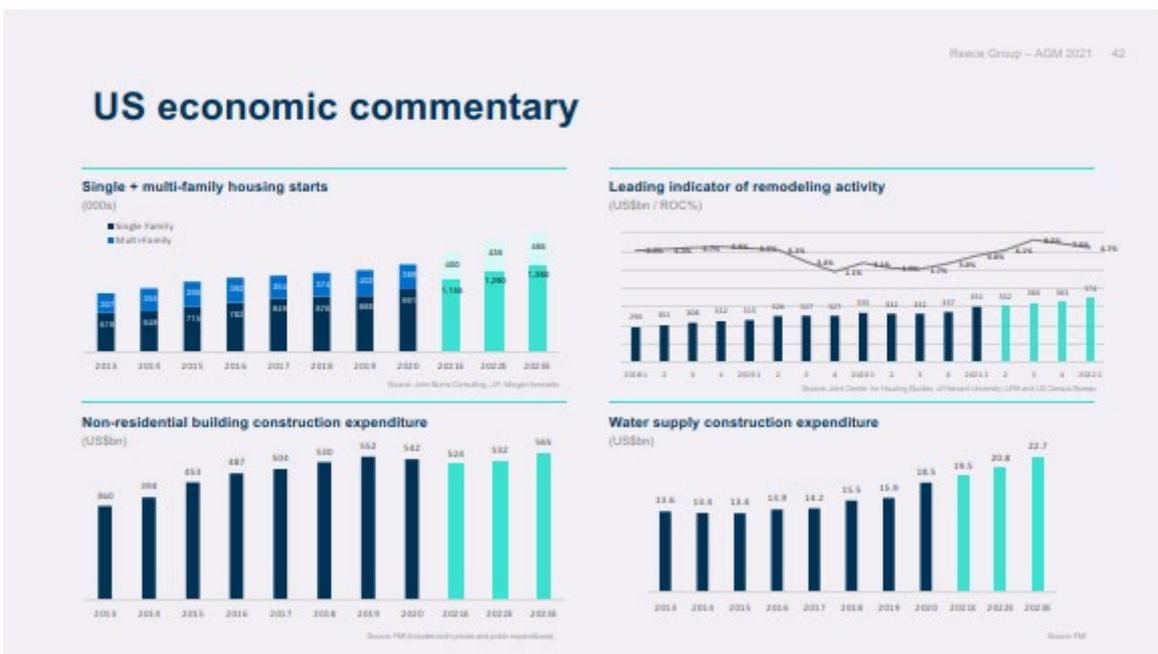
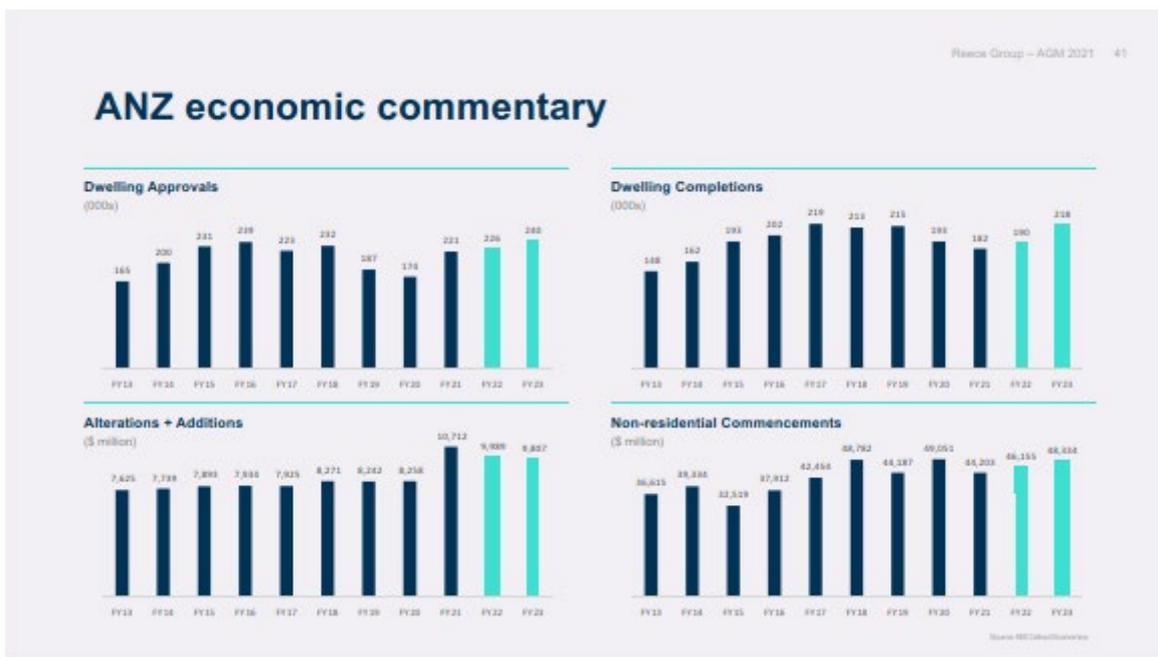
None of the questions were answered by the Chair with the CEO answering most and the Deputy Chair answering a few.

All items were passed with over 95% support and the ASA supporting each item.

The market obviously liked what was said as Reece shares were up over 4% on a day that the market was slightly down.

Outlook Statements from the Company

The company has indicated that whilst there is growth in housing approvals, significant capacity constraints exist in the industry, their customers have never been busier, and labour is in short supply. And there are supply chain issues which are likely to lead to sustained challenges to meet demand. Supply chain constraints and stock shortages are expected to persist and may lead to affordability issues. In summary, the company sees positive short-term indicators in both Australia/New Zealand and the US, but the medium term remains more uncertain. The company will continue to invest in the business including additional expenditure in both OPEX and CAPEX.



Source: Reece 2021 AGM Presentation

Meeting Statistics

Number of Holdings Represented by ASA	36
Number of Shares represented by ASA	408,378
Value of Shares represented by ASA	\$7.7m
Number Attending Meeting	Unknown
Market capitalisation	\$11.65bn
Were proxies voted?	Yes, on a poll