



**Difficult trading for GWA but maintained continuity of supply through COVID**

<b>Company/ASX Code</b>	GWA group
<b>AGM date</b>	Friday 30 October 2020
<b>Time and location</b>	10am AEST online from QLD via <a href="https://web.lumiagm.com">https://web.lumiagm.com</a>
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Noel Ambler and Shirley Watson
<b>Pre AGM Meeting?</b>	Yes with Chair Darryl McDonough

The individuals involved in the preparation of this voting intention have shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

GWA Group Limited is a leading Australian supplier of building fixtures and fittings to households and commercial premises.

The 2019/20 Financial Year (FY) did not match company expectations and were impacted by Covid-19, and the associated lockdowns.

The group acquired Methven (NZ) in April 2019 a leading supplier of taps and showers. This acquisition has enhanced the existing range of Caroma, Dorf and Clark brands, currently under the GWA umbrella.

**Governance and culture**

The company has faced two challenges in the FY 19/20 with the integration of the Methven acquisition and Covid. These issues have been handled well, with the Methven integration proceeding smoothly.

Further development of the company website to make it more interactive is anticipated to enhance the customer experience and increase sales.

As of writing this report, only one employee has tested positive to Covid, in the UK, and this was not passed on to any other employee.

The company has achieved substantial improvement with the WH&S safety engagement program recording a material decrease in the Total Injury Frequency rate from 6.2 to 0.9. The program enabled employees to directly correspond with management on the importance of safety for work and private

life. Correspondence was acted upon, giving employees direct input into safety issues.

Cost reductions included the board and senior executives taking a 20% pay reduction in the final quarter of 2019/20.

Although difficult times were experienced the board continued to consider shareholders and pay a final dividend.

### **Financial performance**

Key Points:

Net profit after tax (NPAT) from ordinary activities after tax down 53% from \$94.044M to \$43.886M

EBIT from ordinary activities down 41% from \$119.440m to \$70.297M

Total Revenue from ordinary activities up 4% to \$398.7M

Share price down to \$2.77

Declared Dividend of 11.5cents per share

A Dividend Reinvestment Plan (DRP) will be offered to shareholders for the FY20 final dividend at a 1.5 per cent discount.

EBIT from continuing operations down 8%

NPAT from continuing operations up 1%

FY20 performance was negatively impacted by COVID-19 resulting in business interruption and challenging market conditions across all regions, Australia, New Zealand and the United Kingdom.

### **Key events**

The company has handled the COVID 19 crisis. There has not been any other transactions or events of an unusual nature. Revenue was significantly impacted by lower construction activity in the residential new build and renovation and replacement segments,

There were \$5 million in cost savings and a further \$9-12m indicated for FY21.

The company continued to invest in the Australian distribution network and consolidated four key distribution centres in NSW, Qld, Vic and WA. This consolidation has enabled integration of Methven products into GWA systems.

GWA estimates that its Australian addressable market declined by approximately (10) per cent for FY20 compared to FY19.

Trading in the first six weeks of FY21 has been slightly ahead of the same period in the prior year.

GWA's forward order book is higher than at the corresponding period last year, this confidence, has allowed GWA to announce price increases. There is concern that orders have been taken, but some projects pushed out.

#### **Key Board or senior management changes**

There has not been any change to senior management, over the past financial year.

The board after consideration appointed M/s Alison Barrass as a Non Executive director. This appointment added considerable expertise in the integration of Methven as previously the appointee was the Chair of Methven.

#### **ASA focus issue**

Equity increased 7% to \$466m from \$433m previous year.

Total Assets increased 3.8% to \$885m from \$852m

Book Value (Equity Per Share) = \$1.51

Non Current Loans reduced by 16% from \$177m to \$148m

Gearing ratio 28.8%

GWA leverage ratio 1.6 times

Long Term debt 53% of equity

Net Interest cover 8.1

Return on Funds Employed 16.4 per cent.

Payout ratio of reported profit 69 per cent

There appears to be no particular credit risks, Balance Sheet sound; Total Equity is 62% of Total Assets.

There is added \$52M of operating leases to liabilities as now required under AASB16 accounting practice.

At June 30<sup>th</sup> 2020 the total number of shareholders was 7248 holding 263,947,630 shares

GWA is committed to diversity with 42% of the workforce being female.



## Summary

As at FYE	2020	2019	2018	2017	2016
NPAT	43.9m	94.0m	54.2m	53.6m	53.68m
UPAT	44.9m	50.8m	50.13m	53.67m	51.92m
Share price	\$2.77	\$3.42	\$3.40	\$3.15	\$2.09
Dividend (cents)	11.5c	18.5c	18.0c	16.5c	16.0c
TSR %	-15%	6.0%	13.7%	58.6%	-1.3%
EPS (cents)	16.5c	18.5c	18.9c	20.3c	19.7c
CEO total remuneration	\$1.318m	\$1.846m	\$1.502m	\$1.501m	\$1.140m

For 2019/20 the CEO's total actual remuneration was 14 times the Australian Full time adult average weekly earnings in May 2020 (based on May 2020 data from the ABS)

## Summary of ASA position.

### DIRECTORS

D D McDonough, Chairman and Non-Executive Director Only serves on GWA board.

J F Mulcahy, Deputy Chairman and Non-Executive Director. Also Serves on ALS limited and Mirvac group

Director T R Salt, Managing Director and Chief Executive Officer. Only on GWA board

P A Birtles, Non-Executive Director. Also serves on Metcash Limited and Super retail group.

J M McKellar, Non-Executive Director Also serves on Freedom Foods, McPhersons Limited and Automotive Holdings group.

S T Goddard, Non-Executive Director Also serves on Nick Scali, Accent Group and J B Hi-Fi.

A J Barrass, Non-Executive Director Also serves on Spark (NZ) limited

R J Thornton, Executive Director and Company Secretary Only serves on GWA board.

All directors fall within the ASA guidelines as to the number of directorships held. Several directors have served on the board for nine years. The ASA regards any non-executive director who serves 12 years or longer to be not independent.

## Non Executive Directors Interest.

Non Executive Directors	FY 2020 Remuneration \$	Equivalent # Shares Valued at \$2.88*	Actual Shares Held. 2020
D D McDonough, Chairman Appt 2009	266,000	92,322	150,000
J F Mulcahy, Deputy Chairman Appt 2010	123,500	42,881	40,950
P A Birtles Appt 2010	114,000	39,583	38,650
J M McKellar Appt 2016	114,000	38,583	3,054
S T Goddard Appt 2016	123,500	42,881	10,000
A J Barrass Appt 2019	114,000	NIL	NIL
<b>Total NED Board 2020</b>	<b>855,000</b>	<b>256,250</b>	<b>242,654</b>

\*Average price calculated over past year Sept 19 / 20

## Items of Business

Item 1 Re-election of Director - Ms Jane McKellar.

Ms McKellar was appointed a Non-Executive Director of GWA Group Limited on 28 October 2016. She is an experienced Non-Executive Director in both public and private companies in Australia and the USA. After three years on the board Ms McKellar does not hold one years value of shares as per ASA guidelines.

ASA Vote	<b>Undecided</b>
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Item 2 Re-election of Director - Mr Richard Thornton

Mr Thornton was appointed an Executive Director of GWA Group Limited in May 2009. He joined GWA Group Limited in 2002 as Group Taxation Manager and Treasurer and was appointed Company Secretary in 2003. Mr Thornton continued in his role as Company Secretary following his appointment as an Executive Director in 2009. Richard Thornton has already served more than 9 years on the Board.

ASA Vote	<b>For</b>
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### 3 Adoption of the Remuneration Report.

GWA delivered a disciplined result in FY20 in challenging market conditions and with the negative impacts of COVID-19 on revenue and earnings. The Board and executives took a 20% pay reduction in Q4 FY20 to support cost management plans due to COVID-19. The financial reward for executives is aligned with performance and shareholders' interests. No STI's were achieved.

During the year, the changes from the 2019 review of the executive remuneration structure were implemented.

ASA Vote	For
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CEO rem. Framework FY 20	Target *\$M	% of Total	Max Opportunity \$m	% of Total
Fixed remuneration	1.0	40%	1.0	36%
STI -Cash	0.375	15%	0.50	18%
STI -Equity	0.125	5%	0.25	9%
LTI	1.0	40%	1.0	37%
<b>Total</b>	<b>2.5</b>	<b>100.0%</b>	<b>2.75</b>	<b>100%</b>

### Special Business

4 Approval of grant of Performance Rights to Managing Director under the Long Term Incentive Plan.

One-off change to LTI sought by removing ROFE from performance measure retaining TSR as single measure. Under the circumstances the structure and thresholds for granting performance rights seem appropriate.

ASA Vote	For
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5 Approval of grant of Performance Rights to Executive Director under the Long Term Incentive Plan.

The one-off change to LTI sought by removing ROFE from performance measure retaining TSR as single measure also applies to this, and again, under the circumstances the structure and thresholds for granting performance rights seem appropriate.

ASA Vote	For
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## Conclusion.

GWA Executive remuneration has a fixed component and a component that varies with performance. The variable component comprises a short-term incentive (STI) plan which provides rewards for performance over a 1-year period, and a long-term incentive (LTI) plan which provides rewards for performance over a 3-year period. The three year period is not in line with ASA guidelines as four is recommended by the ASA. We have drawn this to the attention of the chairman previously.

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