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Sees growth in customer-focus and quality products

Company/ASX Code	GWA Group Limited/GWA
AGM date	Friday, 26 October 2018
Time and location	10:30am, Caroma-on-Collins, 39 Collins St, Alexandra, Sydney NSW
Registry	Computershare Investor Services
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Michael Waterhouse & Noel Ambler
Pre AGM Meeting?	Yes, with Chair Mr Darryl McDonough

Item 1	**To receive and consider the Company's Financial Statements and Reports for the financial year ended 30 June 2018**
ASA Vote	No vote required

Summary

(As at FYE)	2018	2017	2016	2015
NPAT ($m)	54.252	53.671	53.681	-16.183
UPAT ($m)	50.139	53.671	51.920	10.361
Share price ($)	3.40	3.15	2.09	2.28
Dividend (cents)	18.0	16.5	16.0	6.0*
TSR (%)	13.7	58.6	-1.3	-13.0*
EPS (cents)	18.9	20.3	19.7	-5.3
CEO total remuneration, actual ($m)	1.502m	1.501m	1.140m	n/a

** TSR: previous year end share price - current year end share price + Dividends + capital return (2015 22.8cps) = TSR for year/ Previous yearend share price (%)*

For ***FY18***, the CEO's total actual remuneration ***is $1.502m***. *This Total actual CEO payout represents **17.5 times** The Australian Bureau of Statistics, annualised Australian Full time Adult Average Weekly Total Earnings of $85,956 pa or $1,653/week* (reported May 2018, http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0).

Performance Overview

In financial year 2018 (FY18), the overall group's total revenue grew 1.5% to $453.2m (FY17: $446.3m). The Bathrooms & Kitchen (B&K) Division revenue grew 2.5% to $359.3m ($350.7m in FY17), while the discontinued Doors & Access Systems Division declined 2% to $93.9m ($95.9m in FY17). The Group declared a statutory net profit after tax (NPAT) of $54.3m showing a 1.1% increase over the previous year's $53.7m. B&K delivered an improved EBIT result of $89.8m over the previous year's 87.6m. The discontinued D&A delivered an EBIT of $6.3m equal to the previous year.

Operational Highlights

During February 2018 GWA's Board committed to divest the Door & Access Systems' business and successfully completed the $107m sale of the business to Allegion (Australia) Pty Ltd on 3 July 2018. The divestment will net GWA a profitable gain of between $45m to $47m. This divestment provides GWA with a single focus to generate growth and improved market share and profitability in the Bathrooms & Kitchens sector across the various construction sectors. The GWA Group aims to better leverage their superior water solutions and brand recognition within the sector over the medium to long term.

In April 2018 GWA's new 30,000 square metre distribution centre in Prestons NSW opened along with an adjacent 2,000 square metre innovation centre to expand research in design and development of new Bathroom and Kitchen products and services. GWA aims to design and develop new products here in Australia for Australian/NZ consumers and conditions.

GWA continued to more collaboratively work and build stronger engagement with primary and secondary customers through joint business planning initiative. It has already proven enhanced product range improvements along with new products and stronger programmes in specific growth segments such as aged care.

GWA relaunched its largest brand, Caroma and repositioned Clark, supported by increased investment in traditional and digital media to engage more effectively with consumers. GWA also opened two flagship stores in Adelaide and Sydney. Initial store visitation metrics have exceeded expectations.

In a first for the market, GWA has commenced the roll out of Caroma Smart Command® - an intelligent bathroom system which includes a set of Bluetooth-enabled, touchless bathroom products that integrate into commercial building management systems to enable the monitoring and management of water. GWA has worked with key customers to test Caroma Smart Command®.

Outlook

For FY19, GWA expects the overall market to remain resilient. The Renovation and Replacements segment, the largest segment accounting for just over half of GWA's revenue, is forecast to remain robust.

While residential construction activity is expected to slow, the pipeline of building work yet to be completed remains at reasonably high levels which continues to support continued demand for GWA's brands into FY19. GWA's commercial forward order book remains solid with several major commercial projects secured, primarily across the eastern states.

Shareholder Viewpoint

From the shareholder viewpoint, equity increased 4% to $333.4m ($302.6m previous year) and remained 62% of GWA's total assets ($536m current year and $518m previous year); statutory earnings delivered 18.9cps allowing for a total year dividend of 18.0cps (a 1cps increase from previous year); total shareholder return (TSR) for the year was 13.7%. Book value (equity per share) increased 4% to $1.26 ($1.21 previous year); the year-end share price of $3.40 represented a 2.7 multiple of book value.

Non-current loans and brose 11.6% from $112m to $125m along with gearing ratio (net debt divided by (net debt + equity) increasing from 20% to 22.7%; GWA's leverage ratio (net debt/EBITDA) grew from 0.9 to 1.1 times.

Long term debt remains around 37% of equity, and net interest cover is 15.84 times. The group seems positioned to grow revenues and profitability with increased customer loyalty.

At 30 June 2018 GWA's total number of shareholders declined from last year's 7,401 owners to 7,275; of these, 6,253 shareholders (85.9% of owners) held 18.8m shares representing 7.5% owner control. In contrast GWA's twenty (20) largest stockholders (0.3% of owners) controlled 209.7m shares (79.6% of the GWA 263.9m shares on issue).

Item 2 a)	**Re-election of Mr Darryl McDonough as a Director**
ASA Vote	**For**

Summary of ASA Position

The current number of shares held by GWA's non-executive directors (NED) is restated in the following table (GWA 2018 annual report, p.29, 31):

NE Directors	Appointment Year	FY 2018 Remuneration	Equivalent # Shares* (valued @$3.10)	Actual Shares Held 2018
D D McDonough (Chair)	2009	$280,000	**90,322**	**150,000**
J F Mulcahy	2010	$130,000	**41,935**	**40,950 N/C**
P A Birtles	2010	$120,000	**38,710**	**38,650**
J M McKellar (election)	2016	$120,000	**38,710**	**+1,000**
S T Goddard (election)	2016	$126,666	**40,860**	**10,000 N/C**
Total NED Board FY2018		**$776,666**	**250,537**	**240,600**

** $3.10 is the annual average share price for the FY18; $3.40 was the year-end closing share price. A lower share price requires purchase of a higher number of shares to achieve equivalent FAR value for ASA Guideline compliance.*

Mr McDonough was appointed NED of GWA Group Limited in 2009 and chairman in October 2013. He is an independent board chair and a member of Nomination and Remuneration and the Audit and Risk Committees. As Past-President of The Australian Institute of Company Directors, Queensland Division and past Director of public companies that include The Bank of Queensland Limited and Super Retail Group Limited.

Mr. McDonough holds 150,000 GWA shares representing more than 60% above his NED annual remuneration.

Item 2 b)	Re-election of Mr Peter Birtles as a Director
ASA Vote	For

Summary of ASA Position

Mr Birtles was appointed a NED of GWA Group Limited in November 2010 and is a member of Audit and Risk Committee. He is a Chartered Accountant and current Managing Director and Chief Executive Officer of Super Retail Group Limited where he was the former Chief Financial Officer. The Board considers Mr Birtles to be independent.

Mr Birtles holds 38.650 GWA shares which is equivalent to one year's remuneration as a NED.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Review of Remuneration structure and levels of incentives

The Board's NED and Executive Remuneration program seeks to entice and retain high-quality experience, knowledge, skills and judgement needed to guide and management achievement of growth and business strategy targets. The Board uses market benchmarking data from EY to compare remuneration with a peer group of companies.

Total fixed remuneration (TFR) of Managing Director and CEO, Tim Salt, at appointment by the Board during FY2016 was aligned to the median of the comparative group. The TFR and remuneration arrangement remained unchanged for a third consecutive year. The board froze all executives' FAR during the FY18 except for one executive who received a 4% increase.

The Board has scheduled a review of executive remuneration for FY19 with the aim of raising the level of key executive personnel's TFR, from the median level to between the median and third quartiles of the 16 companies of comparable size and scope. An independent remuneration consultant is to review the executive remuneration structure along with the fixed and variable components to ensure its alignment with market practice and GWA's remuneration strategy. The outcome of this remuneration framework and structure review will apply for FY20 onwards.

FY19 Incentive Scheme (STI & LTI)

The MD & CEO's long term incentive (LTI) remuneration package for the period 1 July 2018 – 30 June 2021 is summarised as: TFR comprising salary, superannuation and all other benefits of $1,000,000 other than incentive plans; and, maximum short term incentive (STI) & LTI incentive to a total of 110% TFR:

- Participation in GWA's STI plan (assessment date 30 June 2019):
    - STI opportunity of **40% of TFR** on meeting approved key performance indicator (KPI) objectives, with upside allowance for a maximum 50% of TFR for outperformance against these KPIs (includes financial and non-financial measures).
- Participation in GWA's LTI plan (assessment date 30 June 2021):
    - LTI opportunity of **60% of TFR over a 3-year performance period** and subject to achievement of performance hurdle targets of KPIs.

<u>The STI Scheme</u>

The STI is awarded annually and paid in cash after finalisation of the annual audited financial statements, with a 50% holdback of the financial target cash award until the audited financial statement of the following year verifies the amount awarded.

The two financial performance measures are of equal weight and assessed independently are:

- Normalised earnings before interest and tax (EBIT); and
- Return on funds employed (ROFE).

STI targets are reflective of underlying operational trading performance and relate to board approved operational, divisional, and corporate budgets. An 'achievable' (40%) and 'stretch' (50%) financial targets is set for the Managing Director and executive management. In addition, there are non-financial targets for executive management to achieve.

In FY18 the Managing Director & CEO achieved his "stretch" financial performance targets and non-financial targets.

<u>The LTI Scheme (3-year assessment period)</u>

The LTI program offers Performance Rights to receive GWA shares at no cost. The performance rights <u>assessment period is 3-year</u> with the maximum number of performance rights available for vesting being equivalent in value of 50% of TFR at the commencement of the performance period. Each performance right is equivalent to one company share. The calculation of the number of Performance rights available for vesting "value weighted average price" (VWAP) to determine the "Reference share price." The maximum number of performance rights is calculated by dividing 60% of TFR by the Reference share price. Disposal of any vested performance rights is restricted to after 7-years following vesting.

The two financial measures for LTI are equally distributed and assessed independently:

- Return on funds employed (ROFE) (50% LTI).

GWA Group Limited ROFE growth over 3-year performance period	Proportion of Performance Rights to Vest if ROFE hurdle is met
ROFE less than 16% per annum	0%
ROFE equal to 16% per annum	12.5%
ROFE between 16% and 19% per annum	Straight line vesting between 12.5% and 50%
ROFE equal to 19% or higher per annum	50% (i.e. 50% of total grant)

** The ROFE hurdle is calculated as earnings before interest and tax (EBIT) divided by Funds Employed. Funds Employed is calculated as Net Assets less (cash + borrowings).*

- TSR compared to ASX listed companies (50% LTI); and,

TSR of GWA Group Limited relative to TSRs of Comparator Companies*	Proportion of Performance Rights to Vest if TSR hurdle is met
Less than the 50th percentile	0%
50th percentile	12.5%
Between the 50th percentile and75th percentile	Straight line vesting between 12.5% and 50%
75th percentile or higher	50% (i.e. 50% of total grant)

* *<u>The TSR peer group is made up of 19 ASX listed companies</u>: James Hardie Industries PLC, Fletcher Building Ltd, Boral Ltd, Adelaide Brighton Ltd, Dulux Group Ltd, Brickworks Ltd, Super Retail Group Ltd, CSR Ltd, ARB Corp Ltd, Bapcor Ltd, Breville Group Ltd, Asaleo Care Ltd, GUD Holdings Ltd, Cedar Woods Properties Ltd, Villa World Ltd, Decmil Group Ltd, Simonds Group Ltd, Hills Ltd and Fleetwood Corp Ltd.*

The board retains discretion to normalise the EBIT and ROFE measures when significant or abnormal events may distort underlying trading performance and the long-term interests of shareholders and will be reported in the annual report. (In FY18 EBIT and ROFE measures were normalised for $1.9m (pre-tax) transaction costs incurred in the year to 30 June 2018 associated with the disposal of the Door & Access Systems' business.)

Where ASA differs

The only area of disagreement between ASA guidelines and GWA Group's Remuneration scheme is the LTI 3-year assessment period. ASA guidelines seek a 4 or 5-year assessment period.

For the past four years, the board has rejected ASA's request to increase the assessment period from the current 3-years to at least 4 years. During discussions with the Chair this reporting season, ASA suggested the inclusion of assessment period in the scheduled FY19 Remuneration and incentive review. ASA sought investigating and testing all 3- to 5- year assessment periods to empirically determine the most appropriate and effective period to align LTIs with shareholder long-term performance interests.

Results from such an empirical evaluation of the assessment period for best aligning long-term investor interests could avoid further ASA opposition to a 3-year assessment period. Hopefully ASA will see results from the review findings in the 2019 annual report.

Conclusion

Given the board's scheduled review of the current remuneration scheme and the chair's openness to ASA's request to incorporate review of the LTI assessment period, ASA is prepared to recommend approval of the remuneration report as assessment period is the only stumbling block to approving the report for its clarity and transparency.

Item 4	**Approval of 220,000 LTI Performance Rights for CEO/Managing Director Mr. Tim Salt**
ASA Vote	**For**

Summary of ASA Position

Mr Salt's performance rights (to a maximum of 220,000) performance rights for the 3-year assessment period of 1 July 2018 to 30 June 2021 under the LTIP, will be determined based on 60% of his fixed remuneration for FY19 divided by the volume weighted average price of shares in the company calculated over the 20 trading days after the company's annual general meeting on 26 October 2018.

This is in accordance with the rules of GWA's LTIP and, except for the 3-year assessment period, is in alignment with ASA guidelines.

Item 5	**Approval of 45,000 LTI Performance Rights for Executive Director Mr. Richard Thornton**
ASA Vote	**For**

Summary of ASA Position

Mr Thornton's performance rights (to a maximum of 45,000 performance rights) for the performance period from 1 July 2018 to 30 June 2021, will be determined based on 30% of his fixed remuneration for FY18 divided by the volume weighted average price of shares in the Company calculated over the 20 trading days after the company's annual general meeting on 26 October 2018.

This is in accordance with the rules of GWA's LTIP and, except for the 3-year assessment period, is in alignment with ASA Guidelines.

Item 6	**Approve the increase of the maximum aggregate remuneration which may be paid to the non-executive directors in any year from $1,095,000 to $1,350,000.**
ASA Vote	**For**

Summary of ASA Position

The Board seeks shareholder approval to increase NED Board's maximum Total Remuneration from $1.095m (approved in 2004) to $1,350m for the FY 2018/19.

Current Non-Executive Director (NED) remuneration remains frozen as follows:

- Board Chair $280,000 (including superannuation);
- Other non-executive directors $120,000 (including superannuation); and
- Committee Chair $10,000 (including superannuation).

The proposed increase in the aggregate maximum amount allows a greater level of flexibility for payment of appropriate fees and appointment of additional directors as the company implements its superior water solutions growth strategy. The board intends to make further director appointments as part of an active board renewal and succession planning process.

The individual(s) (or their associates) involved in the preparation of this voting intention has no shareholding in this company.