



GWA
Group Limited

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24 October 2014

ASX On-Line
Manager Company Announcements
Australian Securities Exchange

Dear Sir

Chairman's and Managing Director's Address to Shareholders

In accordance with Listing Rule 3.13, we enclose the following documents associated with the *GWA Group Limited Annual General Meeting* to be held at 10:30 am today:

1. Chairman's Address
2. Managing Director's Address

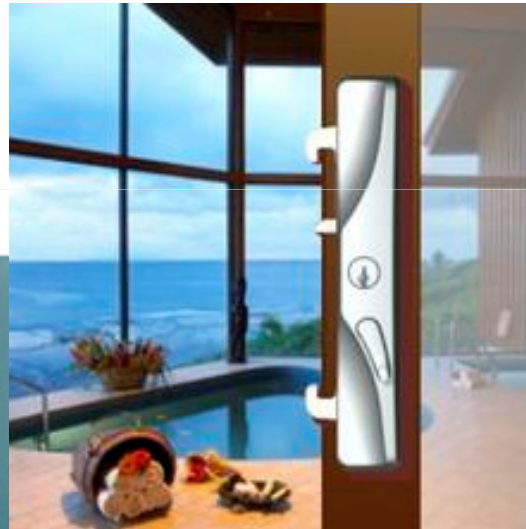
Yours faithfully

R J Thornton
Executive Director





GWA
Group Limited



Vale
Barry Thornton
AM, KSJ, FCA, FAICD, FAIM, FCIS
1939-2014



Presentation to the 22nd Annual General Meeting 24 October 2014

Darryl D McDonough
Chairman



FY14 Performance Overview

- Mixed performance in FY14 with market conditions showing signs of improvement as the FY progressed
- Highlight for FY14 was the improved sales and profitability within Bathrooms & Kitchens
- This was offset by poor performance in the Gliderol business, supplier transition issues in Gainsborough and very competitive market conditions in the Hot Water market which impacted Dux
- Improvement initiatives have been implemented in the Gliderol business and the Gainsborough supply issues are resolved
- Dwelling completion activity reached cyclical lows in FY13 and are steadily recovering supported by a low interest rate environment
- As a lead indicator dwelling approvals are currently at high levels and will eventually flow through to completions which is the stage where GWA products are typically sold
- The Group is in a strong position to take advantage of the higher market activity levels expected in FY15 and beyond



Overview of Financial Results

\$Million	<u>FY 14</u>	<u>FY 13</u>	Change
Sales Revenue	578.0	565.4	2%
Trading EBIT	72.3	66.8	8%
EBIT Margin	12.5%	11.8%	
Trading Profit after Tax	43.8	39.3	11%
Net Profit after Tax Inc Restructuring, Impairment and Significant Items	18.6	32.4	-43%



Strategy

- A major strategic review was completed during FY14 focusing on the future in what is a changing market context
- As a result of that review the Group will focus on its core Bathrooms & Kitchens and Door & Access Systems divisions where the Board sees opportunity for growth and improving shareholder returns
- The operations and organisation structure of the Group is being aligned to support the new strategy
- The Dux and Brivis businesses are non-core and are being divested through a process that is well advanced
- We will exit the manufacturing of vitreous china and plastics in Sydney and Adelaide with product to be sourced from established overseas suppliers. More details in the MD's address

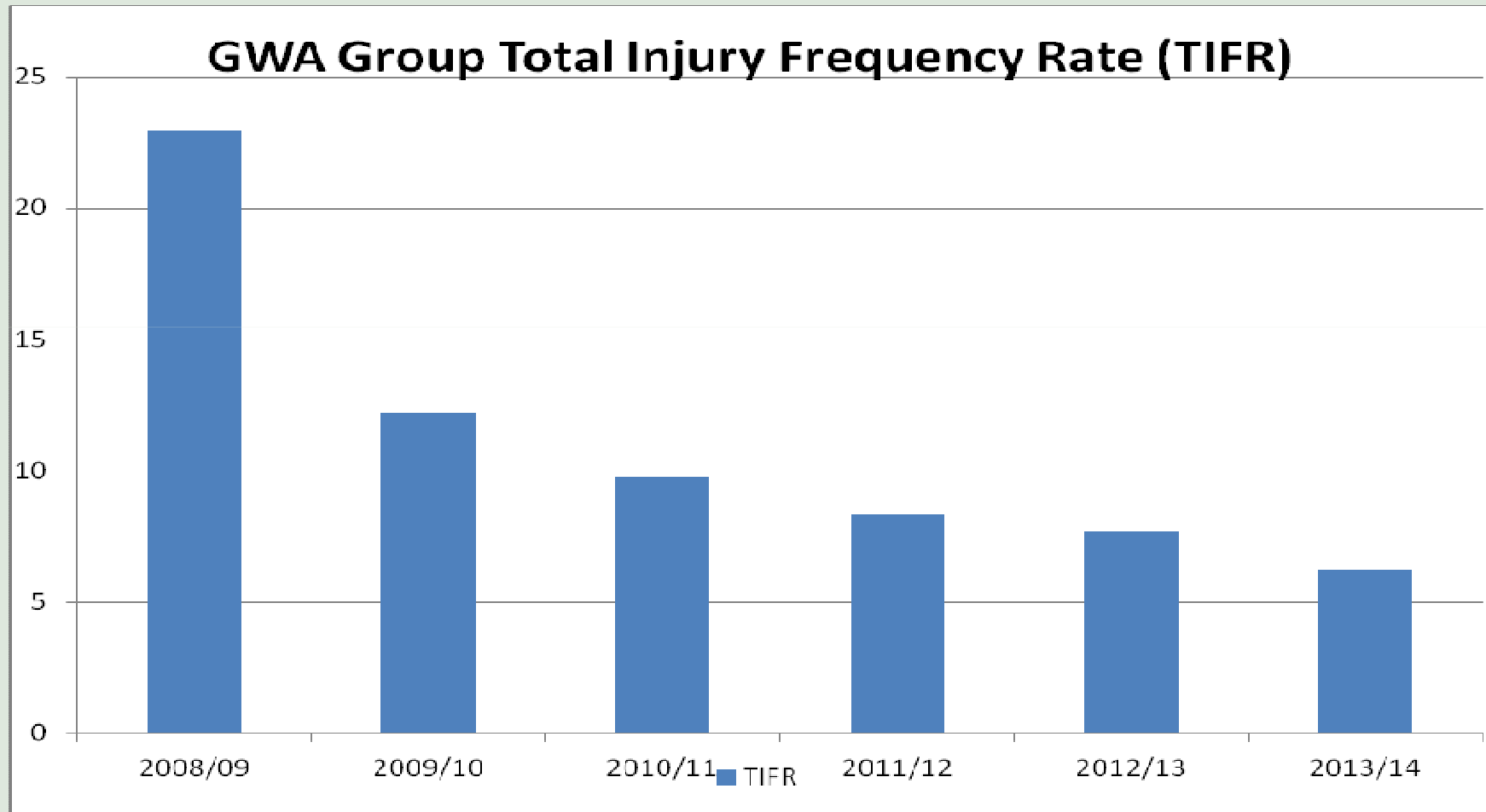


Dividends and Capital Management

- There was an impairment in relation to Gliderol goodwill at the half year and as the Group had insufficient retained earnings an interim dividend was not declared
- A final fully franked dividend of 5.5 cps was paid in early October representing a 91% payout ratio of net profit after tax
- The manufacturing restructure referred to above will adversely impact retained earnings this FY and consequently the Group's ability to pay fully franked dividends in FY15 will be compromised
- Subject to the successful sale of the Wetherill Park site and divestments of Dux and Brivis, the Board will consider options to return proceeds to shareholders whilst maintaining the Group's strong financial metrics



Continued improvement in safety performance





Environment and Sustainability

- The Board is committed to reducing energy, carbon emissions, water and waste across the GWA Group operations
- The Group reports its carbon emissions annually under the Federal Government's NGER Scheme and the reports can be accessed on GWA's website
- The Group's FY14 carbon emissions declined by 4% on the prior financial year
- GWA is proud of the contribution its innovative products make to improvements in water and energy efficiency in residential and commercial premises
- The Group currently invests over 1% of revenue per annum in product innovation to enhance our competitive advantage and this will increase when the new Innovation and Technology Centre is established in Sydney, enhancing the Group's focus on product design and innovation



Executive Remuneration

- The Board Remuneration Committee takes responsibility for executive remuneration matters with the Committee comprised of independent non-executive directors
- The Committee obtains market benchmarking data from an independent external consultant to assist in determining remuneration levels for executives
- The objective is to ensure executive remuneration is fair and sufficient to attract and retain a high quality management team with the required skills and experience
- The Managing Director's fixed remuneration has been frozen since 2011 with the fixed remuneration for other executives in line with market levels



Executive Remuneration (continued)

- Short term incentive profit targets were achieved for Bathrooms & Kitchens and Brivis for FY14 reflecting an improved trading result
- No other corporate or divisional short term incentive financial targets were achieved for FY14
- The Board has approved changes to the Long Term Incentive Plan to address concerns raised by shareholders last year that the performance hurdles were not sufficiently challenging compared to market expectations for the Group's EPS growth
- The changes to the performance hurdles are outlined in the Notice of Meeting and apply to the proposed grants of Performance Rights to the Managing Director and Executive Director being put to shareholders for approval today



Looking Forward

- The Board expects an improved sales and profit performance from the Group in FY15 as the recovery in dwelling activity gathers pace
- We are seeing longer lag times than previous dwelling activity cycles due to the higher proportion of multi residential construction
- The Board believes that the strategy that is being implemented will deliver future growth and profitability and higher shareholder returns
- Thank you



Presentation to the 22nd Annual General Meeting 24 October 2014

Presented by:

Title:

Peter Crowley

Managing Director

- **FY 14 Results**
- **Strategy Implementation**
- **FY 15 First Quarter Performance and Outlook for the Year**

- **FY 14 Results**



Major Successes & Challenges for the Year

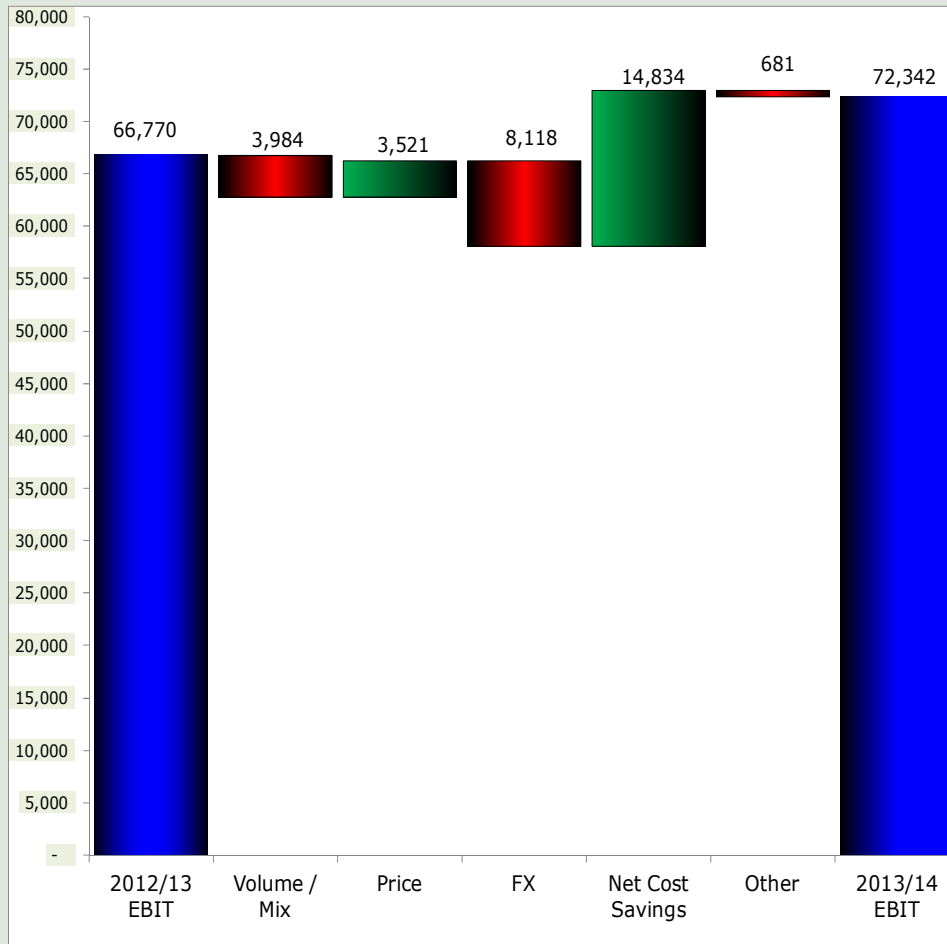
- ✓ Bathrooms & Kitchens (excluding Hot Water) grew strongly with volumes up 5% and revenues up 7% compared to last year
- ✓ Restructure savings above expectations
- ✓ Building activity improving with completions strengthening
- ✓ Strategic review of the Group completed with focus on core assets
- ✓ Net Debt at \$145 million and maintenance of strong financial metrics
- X Underperformance of the Gliderol Garage Door business resulted in an impairment of \$17 million against the carrying value of goodwill – performance issues being addressed
- X Supplier transition in the Gainsborough business created supply issues impacting Trading EBIT – supply issues now resolved
- X Hot Water market challenging



Results – FY 14

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Trading EBIT Waterfall

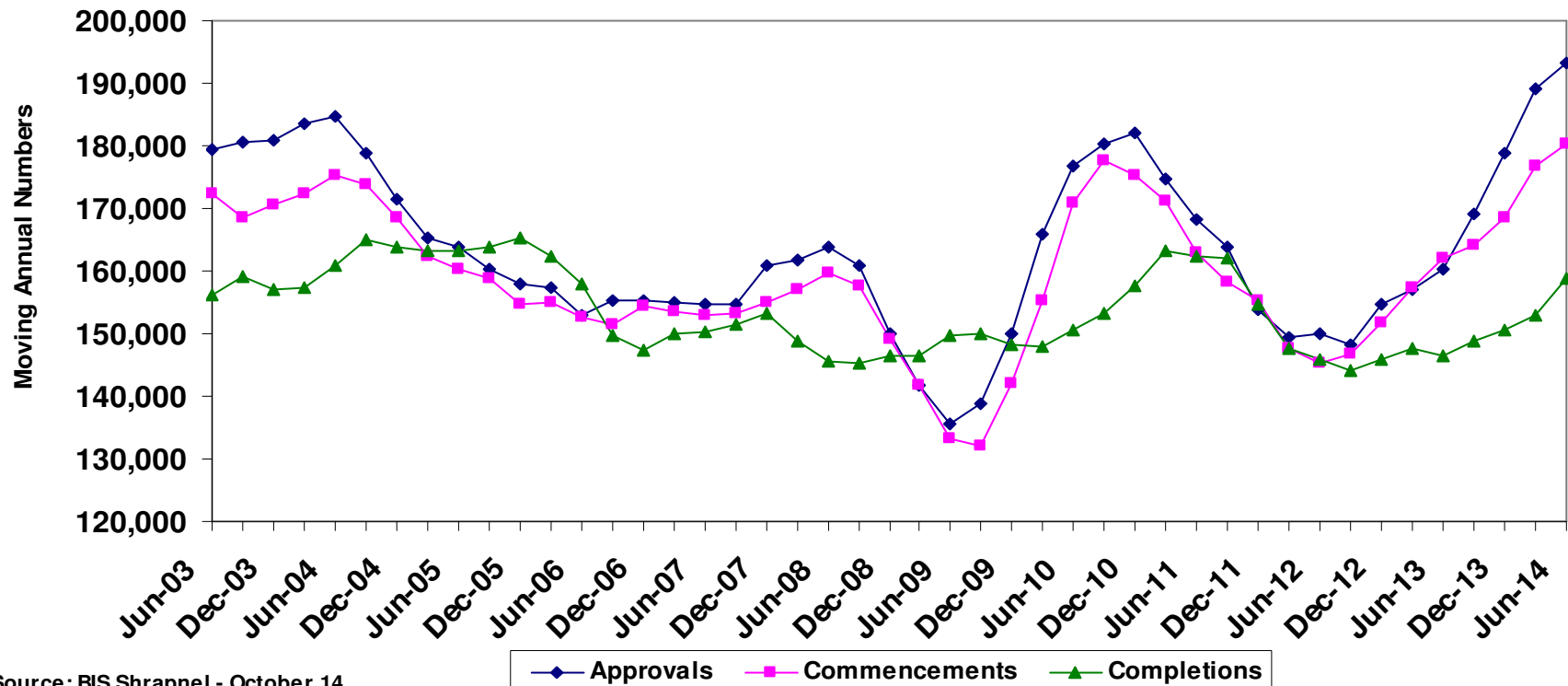


- Volume and mix impacted by lower \$ margin products in Bathrooms & Kitchens and decline in Hot Water and Garage Door volumes together with supply issues in Gainsborough
- Pricing effective in the 2nd half offsetting volume and mix impact
- Net cost savings include benefits from restructure, improved factory recoveries in Bathrooms & Kitchens and one time costs associated with Dux Solar Warranty adjustment and Gainsborough supply issues



Housing Activity Improving and Will Continue Through FY 15

Australia - New Dwelling Activity 12 Month Moving Annual



Source: BIS Shrapnel - October 14



Bathrooms & Kitchen - Strong Performance

\$Million	FY 14	FY 13	% Change
Sales	379.2	367.5	3%
Trading EBIT	75.0	64.5	16%
EBIT%	19.8%	17.6%	
ROFE	17.2%	14.4%	

- Traditional Bathrooms & Kitchens Net Sales up 7% but skewed to lower \$ margin products as medium to high density dwelling activity increases
- Pricing taken to offset impact of FX
- Aggressive market pricing impacted Hot Water margins but volumes increased
- Selling, General & Administration costs down 9%





Heating & Cooling Share Gains in Victorian Market

\$Million	FY 14	FY 13	% Change
Sales	62.8	58.8	7%
Trading EBIT	5.7	6.2	-9%
EBIT%	9.0%	10.6%	
ROFE	12.6%	13.0%	

- Share gained in core categories
- Strong winter season for ducted gas heater sales
- Strong growth in Evaporative Cooler sales up 40% on prior year
- Increased investment in IT and New Product Development





Door & Access Systems Gainsborough Supply Disruption & Gliderol Issues

\$Million	FY 14	FY 13	% Change
Sales	136.6	140.9	-3%
Trading EBIT	3.9	10.9	-64%
EBIT%	2.9%	7.7%	
ROFE	4.4%	10.6%	

- Underlying sales down by 7% adjusting for API which was acquired in October 2012
- Gainsborough EBIT down \$5 million year on year due to supply issues
- Gliderol starting to improve with focus on key market segments and channel partners





Cash Flow Reflects Inventory Build in Core Businesses for Market Improvement

\$Million	<u>FY 14</u>	<u>FY 13</u>
Cash generated from continuing operations	63.5	98.4
Restructuring Cash Flows	-4.3	-13.6
Cash Flow Associated with One Time Significant Items	<u>-5.1</u>	<u>-1.2</u>
Cash generated from Operations	54.1	83.6
Property / asset sales	6.7	2.3
Capital Expenditure	-5.6	-14.7



Financial Metrics Remain Strong

	<u>FY 14</u>	<u>FY 13</u>
Net Debt (\$M)	145.1	162.2
Gearing Ratio (Net Debt / Net Debt Plus Equity)	26%	28%
Leverage Ratio (Net Debt / EBITDA)	1.67	1.92
Debt Maturity Profile at 17 Oct 14 - 17 Oct 2017	225.0	



Fully Franked Dividend of 5.5 cents per Share Impacted by Gliderol Impairment

\$Million	<u>FY 14</u>	<u>FY 13</u>
Trading profit after tax	43.8	39.3
Trading earnings per share	14.3¢	12.9¢
Reported earnings per share	6.1¢	10.6¢
Ordinary Dividend		
▪ Interim	0.0¢	6.0¢
▪ Final	5.5¢	6.0¢
▪ Total (fully franked)	5.5¢	12.0¢

- **Strategy Implementation**



Our Market is Changing

While GWA remains Australia's leading supplier of building fixtures and fittings, our markets are evolving:

- The relationship with our buyers is becoming more equal and also less predictable, through trends such as channel consolidation and digitisation
- Shifts in supply chain are required for us to be more efficient and effective
- Value added by systems and overall supply experience
- Industry boundaries are not what they used to be – innovations from outside of the traditional building and construction spaces are becoming relevant



In Response to Market Changes, We Have Developed a Strong Argument for our Portfolio

Our Mission

- To be Australia's leading supplier of products and solutions to the residential and commercial building markets

What we will do

- We will be efficient and easy to deal with
- We recognise that time is precious to both our external and internal customers and is a source of value and sustainable competitive advantage
- We recognise markets are changing and will deliver products and solutions that save time for tradesmen, builders and across commercial projects
- We will refocus our business units on their target market segments to ensure they have unmatched understanding of customer needs, able to reach and influence the key decision makers in these segments



In Response to Market Changes, We Have Developed a Strong Argument for our Portfolio

What we will do cont...

- We will free up our business units to focus on their markets by leveraging corporate functions which will enable:
 - Increased innovation and market insights
 - Closer customer engagement and information via group information systems
 - Supply chain efficiencies and responsiveness
 - A supportive culture and pipeline of appropriately skilled management and
 - Unmatchable scale
- We will pursue acquisitions which leverage our existing market relationships and scale



Strategy in Action

- We are focusing on our core businesses of Bathrooms & Kitchens and Door & Access Systems where we see strong opportunities for growth
- We are aligning and leveraging the corporate functions to support the core businesses and deliver efficiencies
- We are well advanced in the process of divesting the non-core assets which are the Dux Hot Water and the Brivis Heating & Cooling businesses
- We have determined that manufacturing does not add value nor is it a source of competitive advantage in the Bathrooms & Kitchens business
- We are transitioning sourcing of vitreous china and plastic products to established overseas supply partners
- The Board will review options to return to shareholders the proceeds raised from the sale of Wetherill Park and the divestments whilst maintaining the Group's strong financial metrics



Strategy in Action cont.....

Investing in the business:

- A purpose built Innovation and Technology Centre will be established in Sydney which will include the following functions and capabilities:
 - Design
 - Prototyping
 - Testing
 - Showroom
- The Innovation and Technology Centre is aimed at meeting the needs of the key decision makers and influencers in the professional market segment
- We will invest approximately \$6 million in this facility
- The exit of domestic manufacturing frees up cash that was otherwise spent on maintenance and stay in business capital expenditure to reinvest in developing innovative products and solutions which meet our customers needs

- **FY 15 First Quarter Performance and Outlook for the Year**



FY 15 QTR 1 and Outlook for the Year

- New dwelling commencements at the end of June 2014 have improved by 11% on a 12 month MAT basis
- New dwelling completions at the end of June 2014 have improved 8% on the same period last year and are off a very low base
- We expect completions activity to continue to improve through the second half of FY 15 and beyond
- Low interest rates and rising house prices will support higher renovation activity levels – which are coming off low levels
- Price increases were taken in FY 14 to offset the currency devaluation and further price increases will be taken if the currency continues to devalue



FY 15 QTR 1 and Outlook for the Year cont...

- Group Net Sales for the first quarter FY 15 are 7% better than the corresponding period last year
- Bathrooms & Kitchens (excluding Hot Water) Net Sales are 4% better than the same period last year
- Door & Access Net Sales are 8% better than the same period last year
- Brivis Net Sales are 15% better than the same period last year
- Group Trading EBIT is 4% better than the same period last year impacted by unfavourable overhead recoveries at Wetherill Park driven by lower production volumes. These under recoveries will cease once Wetherill Park closes.
- We expect full year Trading EBIT to be in line with current broker consensus of approximately \$85 million



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