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ASX/MEDIA RELEASE

GWA delivers disciplined financial result

Continued cost discipline helps mitigate challenging market conditions

- Normalised[1] Group EBIT from Continuing Operations[2] down 8% to $71.8m
- Normalised[1] NPAT from Continuing Operations[2] down 12% to $44.9 million
- Reported[3] Net Profit After Tax for the period was $43.9 million
- Final dividend 3.5 cents per share, full-year dividend 11.5 cents, fully-franked
- Solid balance sheet maintained with strong cashflow conversion and no significant near-term refinancing commitments

GWA Group Limited, a leading supplier of fixtures and fittings to Australian and New Zealand households and commercial premises, today announced its full year results for the year ended 30 June 2020.

Normalised[1] Group Earnings Before Interest and Tax (EBIT) from Continuing Operations[2] declined by 8 per cent to $71.8 million. Total revenue increased by 4 per cent to $398.7 million while Normalised[1] Net Profit After Tax from Continuing Operations[2] declined by 12 per cent to $44.9 million.

GWA's Reported[3] Net Profit After Tax (NPAT) for the year was $43.9 million compared to $94.0 million for the prior year. Reported NPAT for the prior year includes profit from the sale of the Door & Access Systems' business of $50.8 million.

The Company's strong financial position enabled the Board to determine a final dividend of 3.5 cents per share, bringing the full-year dividend to 11.5 cents per share, fully-franked.

The record date for entitlement to receive the final dividend will be 9 September 2020 with the dividend being paid on 16 October 2020. The DRP will be offered for the final dividend at a 1.5 per cent discount[4].

Results Commentary

CEO and Managing Director, Tim Salt, said: "In a very challenging year, with significant uncertainty and a strong focus on the health and wellbeing of our people, GWA delivered a disciplined result in FY20.

"Our top line was significantly impacted by lower construction activity, merchant destocking in the first half, and the impact of the COVID-19 pandemic and lower than expected merchant restocking in the last quarter of the year.

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[1] Normalised is before $(1.0)m in significant items (after tax) relating to integration costs associated with the acquisition of Methven (FY19: $(7.6)m)
[2] Continuing Operations include the revenue and earnings contribution from Methven from the effective date of acquisition, 10 April 2019, but exclude the Door & Access Systems' business which was sold on 3 July 2018
[3] Reported result includes $(1.0)m significant items (after tax) relating to integration costs associated with the acquisition of Methven. FY19 Reported result includes $50.8 million after tax profit from the sale of the Door & Access Systems and $(7.6)m in significant items (after tax) relating to transaction and integration costs associated with the acquisition of Methven
[4] 1.5% discount to the volume weighted average market price (VWAP)

"Our continued focus on operational and cost discipline across the business resulted in a resilient EBIT margin[5] of 18.0 per cent compared to 18.5 per cent in the prior year.

"While markets were challenging and compounded by the unforeseen impact of COVID-19, our focus continues to be on controlling those elements within our control.

"That included the successful integration of Methven into the Group which remains on track with our sales teams fully integrated and synergies achieved ahead of schedule with A$3m savings delivered in FY20.

"Our $9-12m cost out programme also remains on schedule with $5.0 million savings in FY20 while we also implemented further short-term cost reductions which delivered an additional $10.5 million of savings.

"Meanwhile, we continued to implement our growth strategy. Our relationships with trade partners continue to improve through joint business planning and core range extensions for Caroma, Clark and Methven brands and enable us to respond to changing consumer buying dynamics.

"We continue to drive growth in commercial segments through increased collaboration with our customers to capture segment opportunities including aged care and commercial renovation and replacement," he said.

These initiatives have resulted in GWA maintaining its market share in the Australian market.

Impact and response to COVID-19

Mr Salt said the COVID-19 pandemic impacted the Company, primarily in the final quarter of the year.

"In response, our primary focus has been to ensure the ongoing health and safety of our employees, the financial sustainability of our business while maintaining investment on our strategic growth agenda.

"We activated business continuity plans internally and with our suppliers to minimise disruption to the business and our customers. During the pandemic GWA has been able to maintain continuity of supply.

GWA estimates that COVID-19 impacted Group revenue by approximately $22.2 million and Group EBIT by approximately $8.6 million in FY20.

"We will continue to closely monitor and adjust our business operations as required and in accordance with the latest Government and regulatory health and safety advice," he said.

Strong financial position maintained

GWA's balance sheet metrics remain strong, enabling the company to manage through the current challenging conditions and remain well positioned as markets improve.

Net debt as at 30 June 2020 was $144.8 million which was broadly in line with the prior year's total of $141.9 million. The Group has total bank facilities of $283 million with no significant near-term refinancing commitments.

Meanwhile, GWA continues to generate strong operating cashflow with a cash conversion ratio of 96 per cent for the year.

[5] EBIT Margin includes the earnings contribution from Methven for the full year of 2019 but excludes the Door & Access Systems' business which was sold on 3 July 2018

Outlook

Mr Salt said that trading in July has been slightly ahead of the same period in the prior year. However, trading is expected to remain very challenging in FY21 due to weak construction market conditions further exacerbated by the uncertainty surrounding the effects of COVID-19 across all regions and as highlighted by the rapidly evolving situation in Victoria.

"Lead indicators point to a reduction in GWA's addressable market for FY21, driven predominantly by the residential new build segment; with the decline in residential renovation and replacement segment expected to be less pronounced. While the Commercial renovation and replacement / new build activity is expected to moderate, our forward order book remains solid and higher than the corresponding period last year."

Mr Salt said GWA would continue to execute its customer and consumer initiatives to generate share growth.

"These initiatives include agreed business plans with primary merchant customers targeting specific product and segment categories and ongoing collaboration with key secondary customers in core segments such as aged care.

"We will leverage the market-leading Caroma and Methven brands with new product development and range launches in sanitaryware, tap and showerware to build further consumer engagement in core categories.

"We will continue to drive further growth of our intelligent bathroom system, Caroma Smart Command®, both in Australia / New Zealand and also in international markets. We will continue to leverage Methven's presence in the United Kingdom and Asia," he said.

GWA expects to provide a further update on trading at the Company's Annual General Meeting on 30 October 2020.

This announcement has been authorised for release to the ASX by the GWA Board of Directors.

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