Australian Shareholders' Association

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Continuing growth, share price volatility/correction

Company/ASX Code	Reliance Worldwide Corporation Ltd/RWC
AGM date	31 October 2019
Time and location	10 am, Level 18, 600 Bourke St., Melbourne.
Registry	Computershare
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Peter Aird assisted by John Whittington
Pre AGM Meeting?	Yes with Chair Stuart Crosby, Co Sec David Neufeld

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Background

Reliance Worldwide Corporation (RWC) is a “global market leader and manufacturer of water delivery, control and optimisation systems for the modern built environment”. The business started as Reliance Manufacturing Company in 1949 in Brisbane, acquired AW Cash Valve MFG Corp (USA) in 2002, and John Guest (UK) in 2018.

RWC was floated on the ASX in April 2016 after being owned by the Munz family since 1986. The float price of $2.50 was at the top end of the prospectus guidance range and share price rose steadily through 2017/18 to peak at $6.38 in August 2018. A trading update in May 2019 signalled a $20m reduction in the expected earnings before interest tax depreciation and amortisation (EBITDA) range (to $260 - $270m) due to more difficult trading conditions in the second half of the 2019 financial year (FY19). This resulted in the share price dropping from around $4.60 to $3.60. The share price closed at $3.52 on 28 June 2019 and has risen to above $4.00 after the confirmation of FY19 results.

It is noted that the number of retail shareholders (say less than 10,000 shares) has increased from a very small base after the float to over 16,000 now, holding around 6.4% of the stock. The former owners and Chair sold off their remaining shares during the year providing volume, a process agreed at the float. Most of the top 20 holders of RWC shares increased their holding in 2019. The Australian Financial Review reported on 11 August 2019 that major shareholders are “keeping the faith” with “better growth prospects” and a “cheaper valuation”.

Governance and culture

As this is the first year that ASA have monitored this company and it has only been a public company since 2016, comment on Governance and culture is limited. The business web site (recently updated) has a section for Investors that make access to Financial Reports and ASX announcements readily available, has an Overview of the Business, details of the Directors and Senior Leadership team and a section on Corporate Governance.

The published Governance statement includes that their governance framework and practices are consistent with those released by the ASX Corporate Governance Council. The Governance structure and Key policies are also published.

Financial performance

Following the acquisition of the John Guest business, sales increased substantially to $1,104m (up 43%), although the underlying business sales ($782.9m) increased only 5% and EBITDA for that business fell 5% (excluding John Guest). However, the reported net profit after tax (NPAT) rose substantially by 102% to $133m. This resulted in a significant increase in earnings per share (EPS) to 17.0 cents (from 12.3 cents) and dividend of 9.0 cents per share (up from 6.5 cents).

Total Shareholder Return (TSR) was negative 32.6% reflecting the substantial drop in the share price during the year. Whilst the share price only remained over $5 for a few months, it had settled in a range of $4.30 - $5.00 from November to May before the profit down grade announcement on 13 May 2019. Some of this volatility was related to the former owners' sale of their remaining 10% shareholding. As mentioned above, the share price has risen since the confirmation of the FY19 profit.

Key events

The acquisition of John Guest in May 2018 continued to provide synergies although the impact of this acquisition is still continuing as there are still costs and benefits not fully realised (refer underlying profit after tax (UPAT) note below).

Key Board or senior management changes

Following the resignation of Chair Jonathan Munz (former owner/major shareholder) in March 2019, Stuart Crosby was appointed as Chair in April. Mr Munz has not been replaced. The Board is small with four (4) independent Directors (one female) and the CEO. Mr Crosby has indicated that the company continues to seek more Non-Executive Directors (NEDs), particularly with international and/or manufacturing experience, whilst also seeking increased diversity.

Only two of the Senior leadership team (Group CEO and CFO) are included as the key management personnel (KMP) remuneration report and the Senior leadership team is not described in the 2018 Annual Report to indicate whether changes have been made.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**
NPAT (Reported, $m)	133.0	66.0 [1]	65.6	-1.6
UPAT ($m) [2]	152.0	84.6	64.1	-4.9
Share price ($)	3.52	5.36	3.34	3.09
Dividend (cents)	9.0	6.5	6.0	0.0
TSR (%)	-32.6	62.4	10.0	NA
EPS (Reported, cents)	17.0	12.3	12.5	(0.30)
CEO total remuneration, actual ($m)	2.05	2.52	4.15	[3]

[1] Not including contribution from John Guest and associated expenses and financing cost.

[2] Based on reported "Adjusted" NPAT which includes benefits but not all costs/adjustments.

[3] Full Year payments not available, post float amounts reported.

For 2019, the CEO's total actual remuneration was **23 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was $88,145 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	**Re-election of Ross Dobinson as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Dobinson was appointed to the Board on 11 April 2016 and retires in accordance with the Company's Constitution and ASX Listing rules requiring at least one Director be elected/re-elected at each AGM. Being eligible, he offers himself for re-election to the Board.

Mr Dobinson has a background in intellectual property (IP), venture capital and investment banking. He is currently the Managing Director of TSL Group Ltd ("a commercial advisory service for the life sciences sector") and has been a director of a number of ASX listed companies.

Mr Dobinson's skills and experience have been significant in the past history of the company (initial float and John Guest acquisition) but seems less relevant to the Board Skills and Experience described on page 27 of the 2019 annual report. However, it is noted that Mergers and Acquisitions remain a driver in the company's growth plans and the Chair has indicated that his IP knowledge is valued by the Board. Given that his skills and knowledge remain relevant and in recruiting new NED's, a vote for the resolution is appropriate.

Mr Dobinson currently holds shares in the company approximately equivalent to one year's Director's fees.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

CEO	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.05 [a]	65	2.05	48
STI – Cash [b]	0.54	17.5	1.09	26
STI – Equity [b]	0.54	17.5	1.09	26
Total [c]	3.14	100.0%	4.23	100%

Notes:

[a] Paid as $US1.300m cash plus non-monetary benefits and superannuation

[b] short-term incentive (STI) based on EBITDA and personal key performance indicators (KPI). Paid as a percentage of Fixed Remuneration (FAR) in cash. No STI was awarded for the 2019 year.

[c] The Share Based long-term incentive (LTI) payments identified in the Annual Report (p56) reflect accounting expenses for the LTI which covers 5 years until 30/6/2021 and do not vest until 30/6/2022. Values reflect the accounting expense on Fair Value of the grant and assumes full vesting.

The Annual Report only reports payment to Directors, the CEO and CFO (KMP's). The Chair expressed no enthusiasm for wider disclosure of the STI's/LTI's paid to Senior Managers. The Management group are based in the USA and consequently are paid in US$. There is no table of actual payment to the KMP's or Directors.

In FY19, the CEO's FAR cash pay increased from US$1.15m to US$1.30m after review, but is still "well below the mean and median of the benchmark peer group". In addition, the STI opportunity increased from 50% to 60% of FAR, with maximum entitlement increased to 120% of FAR. 50% of the STI is paid as cash and 50% as shares and deferred for 12 months. The STI is subject to clawback. In 2019, the STI conditions were not met. (Adjusted EBITDA excluding John Guest negative 5% to 2018). Apart from small increases in FAR, there were no changes in remuneration for KMP's for FY2020.

The STI is awarded against performance conditions, 2/3 against financial (EBITDA) and 1/3 against Personal KPI's. The EBITDA is scaled from 95% of budget to 120% of budget for

Maximum Entitlement. Individual KPI's are set for each Executive and include a wide range of measures relevant to the Executive's role. These are listed but not further defined in the Remuneration report. ASA suggested that measures such as safety could be published, but the Chairman indicated that the company has yet to set up a uniform system of safety measurement across its regions.

The CEO's LTI award is 4,000,000 share options based on performance until 2021 (5 years after ASX float) and paid after 30/6/2022. The award has a Gateway (continuing employment until 30/6/2022) and two performance conditions. 30% is awarded on the basis that the NPAT for the year to 30/6/2017 of $62.6m as stated in the float Prospectus (condition met). The remaining 70% is paid on the basis of TSR until 30/6/2021 compared to S&P/ASX200 companies excluding mining and energy companies.

No further LTI option grants have been specified since the 2016 award described above, however KMP's and other employees have been granted Rights to Shares in the company as a further LTI. These Rights (to fully paid company shares) were first granted in 2018 (3,295,730 rights) for vesting from 2022 with "vesting conditions including a continuous service period". Following a shareholder vote at the 2018 AGM, rights were also granted to KMP's as well as to other employees in 2019 (3,238,900 rights) vesting in 2023 and 2024. Of these, 1,810,000 are also subject to Performance conditions and are described as Performance Rights. Performance Rights are subject to meeting financial targets (50%) specified for the acquisition of John Guest (EBITDA and synergies) and non-financial conditions (eg cultural integration, European market penetration).

The CFO was offered 680,272 restricted shares on commencement of his employment (recognising incentive forgone from his previous employer) with a vesting condition that he remains with the Group for 5 years for full vesting.

It is noted that while the NED's who were on the board at listing hold shares in the company, the company has no policy promoting significant holdings by NED's. Director Sharon McCrohan, who was appointed during 2018, is the only director yet to purchase RWC shares.

In reviewing the Remuneration Report against ASA's guidelines, it is clear that it meets some guidelines and fails others. For example,

- the report is readable, but the CEO's actual take home is not reported,
- less than 50% of the CEO's pay is at risk unless the maximum STI is paid, but the LTI available is over 5 years and is dominated by TSR with no payment unless performance exceeds the 50th percentile against the comparator group,
- the STI is 2/3 based on defined financial performance, with 50% paid as cash and 50% shares deferred for 12 months, but no gateway hurdle to non-financial measures is apparent (noting that no STI was paid in 2019),
- it is not clear how the CEO's 2019 Rights were calculated without reference to the 2018 AGM resolutions, which indicates the quantum was based on $US4m and volume weighted average price VWAP of the company's share after the 2018 results were announced. The basis for the $US4m is not discussed.

The company suffered a first strike against their Remuneration Report in 2017 (42% against), but the 2018 report passed easily (+99% for). Given that this is our first year of interaction with the company and there have been clear improvements in their reporting, a vote for the Resolution is appropriate this year.

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.