



GUD Holdings Limited

Managing Director's Address

59th Annual General Meeting

Tuesday 25th October 2016

RACV Club

501 Bourke Street, Melbourne

Thank you Chairman, and good morning ladies and gentlemen.

Since joining GUD just over three years ago I have spoken to you about the business and culture improvement initiatives that we have introduced. I won't elaborate on these today as, effectively, two of the three have been embedded in the businesses and are now just part of the way GUD's businesses operate. These two are the customer and product profitability understanding and the high performance culture program.

The third of these, the innovation initiative, remains our primary challenge.

Innovation has become a bit of a buzz word recently, especially following the Prime Minister's reference to it over the course of the last year and the associated programs that the Federal Government has put in place to support innovation activities in industry.

We recognised, long before the current national focus, that revenue growth was quickly becoming the main field we needed to focus on to drive profit growth in all our businesses.

In recent years we have completed all of the major restructuring that was required to be done across all businesses, to ensure their long-term survival from a cost position perspective. Any future gains in cost position are likely to be incremental, rather than sizeable.

Therefore, logically, our attention needs to turn to growing our revenues and gross profit margins to ensure that GUD as whole grows in accordance with the expectations of shareholders.

This is not to say that we are ignoring cost savings opportunities. Indeed, in the last year we have established a Supply Chain Council consisting of the principal manager from each business responsible for this operational function. The role of the Council is to ensure each business operates at best practice across a number of supply chain measures and that common cost-reducing opportunities are identified, explored and actioned where appropriate.

Remaining cost competitive, therefore, continues to be a primary area of focus and discussion, especially at our annual budget sessions and at our strategy meeting. Cost competitiveness spans product cost, supply chain cost and the cost of doing business through sales forces, customer service support, administrative function and marketing and branding.

To grow the revenue base of our businesses we need to consider how we can grow with existing customers, that is improve our share of wallet, and how we can gain new customers through having unique products or services or a superior value proposition with our current products and services.

New products and services are a key to growth in both situations and, essentially, this means that we need to have a dedicated stream of activity devoted to conceptualising and developing new product and services in all businesses.

To that end we embarked upon a major initiative centred on building innovation capability across the group following the establishment of a Product Leadership Council in mid-2015. A comprehensive program of content delivery allied with practical and relevant customer-focused activities has occurred over the course of the last eight months.

Through these activities, which have been led by a prominent innovation consultancy, we have established a common innovation process across all businesses and have built capability for the businesses to navigate through innovation missions.

In addition, we now have a structured, but not bureaucratic, methodology for dealing with ideas that people raise in the everyday course of events on ways to improve products or processes.

Our innovation journey is still in its early phases but I expect noticeable progress to occur over the next few months on the six principal innovation missions that we have launched at the Davey, Ryco and Oates businesses.

One aspect of the process we have learnt is the need to progress innovation missions rapidly. Businesses don't have the luxury these days of product development programs lasting years. We have already seen how quickly markets and competitive conditions can change in the electrical appliances sector and the need to be quick and nimble is absolutely paramount.

By the time we meet again next year I should be in position to provide you with some real life examples of products or services we have introduced in the course of the year as a consequence of our innovation activities. I would hope that I could make comment on sales growth being partially triggered by new products or services, as it is quite apparent in our current business that sales growth is the key to success, as I will now describe.

The outstanding contribution to our 2015-16 results from our established portfolio of businesses was undoubtedly Ryco and Wesfil.

Although operating in a market where there is some natural growth due to the increasing number of vehicles on the road, top line growth in the Automotive business has, in recent times, consistently outstripped market growth.

There are two main factors responsible for this performance - new product introductions and new customer acquisitions. By new customer acquisitions I mean bringing new independent automotive workshops into the user base for GUD automotive filtration products. For the Ryco business the effect of this has been sizeable.

But new products have also played a major role in growing sales and profits. Again to use Ryco as an example its introduction in recent years of diesel particulate filters, Japanese truck filters, Syntec high performance filters and an expanded range of cabin air filters have all had a significant impact on sales and have been the principal driver of the business's double digit profit expansion.

Similarly, the Wesfil business has opportunistically added product ranges to its offering in response to market demand and at a time when its traditional customer base has been shrinking due to industry consolidation, Wesfil has similarly generated improved returns.

Both these businesses are lean operations with little room for major cost cutting, so the focus has to be on growing sales.

The Chairman has mentioned the contribution to Brown & Watson's performance from new products, especially those introduced to the market with February 2016's publication of the updated Narva brand catalogue. This business will follow up this activity with the publication of the 2017 Projecta brand catalogue early in the new-year, with the expectation that this event will also provide a substantial boost to sales.

To further maximise our potential with Brown & Watson we recently announced that we have acquired the New Zealand distributor for Narva and Projecta. This business, Griffiths Equipment, distributes a diverse range of products and accessories in the automotive space. It became a subsidiary of GUD on 1st October this year. Griffiths Equipment has sales of around \$8 million and is expected to contribute \$2 million in profit on an annualised basis.

Although a relatively small acquisition, Griffiths Equipment strengthens GUD's presence in the New Zealand market. Over time this acquisition enables us to look at combining operationally our automotive interests in that market with the aim of reducing the cost to serve and of improving customer service.

Prior to handing back to the Chairman I should make some mention of noteworthy activities in the other businesses.

As you will have seen with our annual results Davey reported a pleasing growth in profit due principally to cost savings, although sales growth of 5% was achieved. There is still some way to go with Davey in relation to an optimal cost structure but strategically it needs to develop new products and services to be able to compete and survive in the long term. Davey is probably the most advanced of our businesses in progressing a number of innovation missions and I am confident that one or two of these will result in noteworthy new product introductions over the balance of the current financial year.

As noted earlier the Oates business has had difficulty in recovering product cost increases in its retail market segments and many customers in these segments are moving to dominate the cleaning products category with own label products. The focus for Oates, which is also a lean business in relation to its cost structure, is to pursue new products and services in the professional cleaning markets. Not only are these markets where the products are used extensively and frequently, but they offer the added attraction that innovation can have a substantial economic benefit through cost reduction or efficiencies.

Innovation at Oates is centred on opportunities in this market.

I won't comment much on Dexion as the primary focus there is the financial turnaround, as the Chairman has reported. Once we have a competitive and sustainable cost position the focus can alter to revenue growth, but that is some way off at present.

Finally, Lock Focus, our smallest business, but over time one of our most inventive. This business has the privileged position of selling to original equipment manufacturers and hence it solves real customer problems on a daily basis. In recent years it has been engaged in a number of breakthrough concepts for its customers, none of which have reached their full potential to date.

However, in recent months one particular product has been introduced in the garage door market and this is now building substantial sales momentum. Lock Focus only needs this and one or two of the other major projects it is currently working on with customers to achieve the initial sales targets and it will have entered a new era of growth.

To wrap up GUD is now positioned to almost exclusively dedicate its resources to growth through pursuing innovation avenues in every business. The need to spend large sums of capital on major restructuring projects is effectively gone.

The businesses now have the skills, the capabilities and the resources to pursue product and service innovation in a 21st century context. We need to cement this culture into our way of doing business, listen to and engage with customers in the process and be creative in exploring the large opportunities that present themselves through our understanding of changing customer needs.

To conclude, our focus has turned to growing through expanding our sales. Acquisitions are obviously another avenue to support this and we continue to assess potential candidates both when they are presented to us and as a result of internal initiatives.

The challenge of developing and commercialising breakthrough new products and services is not easy but each of the businesses have embraced it and all are aware of the consequences if we are not successful in this respect.

I will now hand back to the Chairman to speak to you on the outlook for the current financial year and to conduct the business of the meeting. Thank you.