



GUD Holdings Limited

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25 October 2018

Manager, Company Announcements
ASX Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

Dear Sir

GUD Holdings Limited – Annual General Meeting

Please find attached the text of the Chairman's Address to Shareholders to be delivered at the Annual General Meeting of GUD Holdings Limited at 10.00 am today.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Malcolm G Tyler', with a long horizontal flourish extending to the right.

Malcolm G Tyler
Company Secretary

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GUD Holdings Limited

Chairman's Address

61st Annual General Meeting

Thursday, 25 October 2018

RACV Club

501 Bourke Street, Melbourne

Ladies and gentlemen, my address to you today covers five key topics.

I will firstly speak about the recent retirement of Jonathan Ling and appointment of Graeme Whickman, as Managing Director effective 1 October 2018.

I will then speak to the importance of Safety at GUD.

I would then like to address the Long-Term Strategy and portfolio of the group, and the efforts that are being made to ensure sustainability of the business, and development of our people.

I will then touch on the Financial Performance of GUD in the 2017-18 financial year which continued the portfolio re-positioning, but also bore the fruits of activity in earlier years.

Finally, following a review of aspects of the operations and financial position of the Company from Chief Financial Officer, Martin Fraser, and some words of introduction from our recently commenced Managing Director, Graeme Whickman, I will provide commentary on the Outlook for the current financial year.

Ladies and Gentlemen, as many of you will know, your former Chairman, Mr Ross Herron sadly passed away in November last year. Ross lead GUD through some challenging times and made many contributions to GUD and its people over his 13 years on the Board. I wanted to take this opportunity to acknowledge Ross.

1. Retirement and Appointment of Managing Director

More recently, Jonathan Ling retired as Managing Director as at 30 September 2018. Over the past five years, Jonathan, with the help of the Board and the Management team, lead the transformation of GUD from a diversified group of companies with a broad portfolio of product lines and brands to a company focused primarily on the automotive aftermarket and water products.

In this time GUD has delivered shareholders growing dividends and an appreciating share price, both supported by increased underlying earnings and a focused, more sustainable business portfolio.

The Board reiterates its thanks to Jonathan Ling for his excellent contribution to GUD over the last five years and wishes him well in his retirement.

After a very extensive external and internal search, in July the Board announced the appointment of Mr Graeme Whickman to the role of Managing Director and Chief Executive Officer. Graeme commenced on 1 October 2018.

As former president and chief executive officer of Ford Australia and New Zealand, Graeme is a global executive with a deep knowledge and understanding of the automotive industry and its customers, the challenges it faces and the opportunities that it offers.

The Board and the executive management team welcome Graeme and look forward to continued success in the Company's business operations.

2. Safety

Safety is a key priority for GUD. Safety performance improved in FY18. In our Operating and Financial Review, we published safety statistics and a five-year comparison. Given the level of acquisition and disposal activity, some shareholders asked what the comparative results would have been, if FY17 (the year prior) had excluded Dexion and Oates – the two businesses sold in FY18. In our FY18 Operating and Financial Review we reported FY18 Total Recordable Injury Frequency Rate (TRIFR) as 4.4 (compared to 9.6 for FY17). By omitting Dexion and Oates from the FY17 results, the FY17 statistic for TRIFR would have been 8.2.

Similarly, in respect of Lost Time Injury Frequency Rate (LTIFR) we reported FY18 as 2.9 (compared to 5.8 for FY17). By omitting Dexion and Oates from the FY17 results, the FY17 LTIFR statistic would have been 4.1.

Thus, some of the improvement in FY18 was due to the absence of Dexion and Oates, but much of the improvement reflects the ongoing programmes and initiatives to enhance safety culture, including management leadership, teamwork and individual accountability as well as the ongoing implementation of the occupational health and safety management system. This includes programmes such as the Annual Safety Excellence Awards, a comprehensive programme of regular inspections of business sites, importantly now including smaller or branch sites, and the thorough investigation of incidents to identify root causes, and the analysis of near miss statistics.

3. Long Term strategy and sustainability

Portfolio

As we noted this time last year, our portfolio was reshaped to be a more predictable portfolio of businesses, with substantial growth potential. The year 2017-18 was characterised by further fine tuning of GUD's portfolio.

We have deepened GUD's presence in the automotive aftermarket segments, whilst reducing non-automotive activities, except for our Davey Water business where we see growth potential.

The key portfolio activities were the acquisition of the AA Gaskets business in Australia and New Zealand in December 2017, and the sale of the Oates cleaning products business in January 2018.

A further automotive acquisition, Disc Brakes Australia (DBA) was announced late in the year, with the transaction completing on 2 July 2018.

The disposal of Oates followed recent years' divestments of Sunbeam, Dexion and Lock Focus. Prior to financial year 2018, GUD acquired BWI, Griffiths Equipment and IM Group.

This has positioned GUD as a predominantly automotive aftermarket business, which GUD believes is an inherently attractive industry for the following reasons:

1. The market is growing, underpinned by population growth, and is expected to grow at around 2% per annum.
2. Market share growth and customer opportunities exist for our Branded products to grow organically.

3. Inter-business synergies exist within the automotive business due to operational commonalities, including common customers, common suppliers and similarities in respective supply chains.
4. The ability to grow through acquisitions. As we have demonstrated, attractive acquisition opportunities are present. GUD has the internal resources, and financial strength to undertake further complementary acquisitions.

Our Davey Water business reported a 1% decline in sales revenue to \$101.1 million in FY18, due mainly to weaker export demand. It grew underlying EBIT slightly over the prior year. Many corrective cost actions were taken to achieve this result.

The Board remains firmly supportive of Davey, which has an innovation agenda focussed on the commercialisation of some strong product development initiatives and addressing the need to establish a pattern of sustainable revenue and profit growth.

Risk

During the last year GUD has significantly revamped its risk management approach, including dedicating a Board sub-committee to Risk and Compliance, chaired by Anne Templeman-Jones. The output of the risk management framework was included in the Operating and Financial Review in the FY18 financial statements.

Over the last few years we have been exploring ways of future proofing the business activities of GUD. This started with the acquisition of Brown and Watson International (BWI), a business very squarely focussed on the automotive aftermarket, but servicing a broad market.

As at today, 52% of GUD's automotive aftermarket sales are non-internal combustion engine specific.

Cyber Security

Recognising the importance of effective cyber security practices, GUD has decided to dedicate significant resources to Information Technology (IT) risk management over the past year. These efforts have been focused on both preventative and proactive initiatives, including but not limited to staff training and the development of a mid-term IT platform road map. Having completed a due diligence exercise on its IT systems, we are happy to report that the Company did not identify or receive any substantiated complaints concerning breaches of privacy during the 2018 financial year.

Innovation

In today's global and increasingly competitive markets it is incumbent on our businesses to understand changes in the needs of our consumers and customers and to respond to these changing needs with revamped, transformed or completely new products and services.

Last year, we outlined GUD's approach to innovation and gave insights into some of the developments which have emerged. Our Operating and Financial Review for FY18 highlighted a number of exciting product innovations, including the Davey Microlene Farm solution, designed to assure clean water for farmers, especially dairy farmers, delivering acknowledged productivity gains, and the Ryco O2 Rush performance air filters.

Our CFO, Martin Fraser, will elaborate further details in his address.

This year we held, in conjunction with the Annual Safety Excellence Awards, the inaugural Innovation Awards to engender a sharing of information throughout the Group and a spirit of friendly competitiveness amongst our staff to be recognised for introducing compelling innovative products and services.

Employee Engagement and Satisfaction

Across each of the GUD companies, we strive to create a culture of professionalism, excellence, high performance, integrity and innovation. We want our workplaces and employees to embody these values.

During the year, GUD conducted a further broad-based employee engagement [and enablement] survey, to gain insights into what employees across the GUD Group think about the workplace, our leaders and the working environment.

Based on the outcomes of the latest survey, as a Group, GUD is now in the top quartile of Kenexa (IBM) companies globally on many measures for employee engagement.

GUD businesses also offer an employee assistance program, provided on a confidential basis by an independent third party. As part of this program, employees are encouraged to discuss and address work-related or personal matters they may require assistance with. In addition to our safety efforts, in FY18 GUD businesses also engaged an external provider to help increase awareness and understanding amongst employees in managing anxiety, depression and mental health. These efforts are aimed at assisting our people by creating a supportive environment in which they can grow and achieve their professional and personal goals.

Environment, Sustainability and Governance disclosure (ESG)

GUD is committed to improving its environmental footprint and as such, where appropriate, GUD businesses have become signatories to the Australian Packaging Covenant Organisation (APCO) and report annually on cardboard and plastic recycling, and work with suppliers and customers to reduce packaging materials. In 2017, BWI received an award from APCO in the category of Hardware and Homewares.

In relation to Environment, Sustainability and Governance, GUD has commenced working with an external firm to assist it to better gather and collate relevant material in order that GUD can present to all stakeholders a comprehensive picture of its efforts. In so saying, shareholders can expect improved levels of transparency and reporting in the next year.

4. Financial Performance

The financial performance of the Group in financial year 2017-18 was pleasing, delivering a strong underlying business performance, a strong year-end financial position and rewards for shareholders in the form of continued growth in dividends and continued appreciating share price.

Following the sale of the Oates business, in which a total gain on sale of \$51.5 million was reported in the year, the Group reported a net profit after tax of \$101.8 million.

This compares with the prior year's result of a net loss after tax of \$7.3 million, a period in which the result was materially affected by losses associated with the sales of the Dexion and Lock Focus businesses.

Underlying net profit after tax from continuing operations, which include the Automotive businesses and Davey, improved by 20% on the prior year to \$55.2 million.

Underlying Earnings Before Interest and Tax (underlying EBIT) from the continuing businesses improved by 12% to \$83.5 million, driven by strong growth of the Automotive businesses, a slight increase in underlying EBIT at Davey, and a small increase in corporate overhead.

As a result of the strong overall performance of the businesses we were able lift the dividend for the fourth consecutive year to 52 cents per share fully franked, a 13% increase on the prior year distribution of 46 cents.

Over the longer term, GUD shareholders have shared in these benefits. At the end of the 2014-15 financial year, GUD's share price stood at \$6.22, and the Company paid total dividends of 36 cents per share. At the end of the 2017-18 financial year, GUD's share price stood at \$14.16, and the Company paid total dividends of 52 cents per share.

There is no doubt that we now have a more predictable portfolio of businesses with substantial growth potential and which should perform well in the current financial year. Before addressing that particular topic, I invite GUD's Chief Financial Officer, Martin Fraser, to provide you with some more perspectives on the financial and operational performance, and he will introduce our new Managing Director, Mr Graeme Whickman, who will address you briefly.

Thank you, Martin and Graeme.

Prior to addressing the various items in the business of the meeting I will provide the customary outlook for the current financial year.

Before that, however, I want to clarify GUD's position in relation to political donations. The Company is committed to acting in compliance with the highest standards of corporate conduct in discharging its obligations and responsibilities. GUD has had a long-standing policy of not making political donations and this policy remains current. The policy is stated in our Code of Conduct, which can be accessed on the Company's website and it prohibits any expenditure of GUD's funds for political purposes.

5. Outlook

Now for the current year's outlook.

Underlying financial performance in 2018-19 is expected to improve on the level generated in 2017-18.

The Automotive business is expected to continue its momentum with both organic and acquisition growth.

Ryco Filters will continue with its long-standing workshop conquest program, in which end users are converted to using the market-leading Ryco brand of air, fuel and oil filters. With its recent focus on growth opportunities such as in the heavy-duty segment, the conquest activity is also covering light truck workshops and service centres.

Each year, Ryco introduces hundreds of new filters to ensure that the brand's range maintains currency with the changing nature of the automotive markets in Australia and New Zealand. In 2018-19, Ryco is well on the way to delivering on its plans to introduce around 300 new filters in support of this objective.

For the recently acquired IMG, AAG and Disc Brakes Australia the year 2018-19 will involve the introduction and implementation of GUD's management philosophies and structures, which will bear fruit in the coming years.

The Wesfil business, which services the independent reseller market segment in the automotive aftermarket with a range of service parts based around a core filtration offer, is expected to continue its steady growth trajectory as it introduces new parts in response to customer demand. Wesfil also benefits from its branch in Arndell Park in Western Sydney, opened in February 2018.

BWI has become a substantial contributor to GUD's financial position and performance. This has come about through customer focus and new product introductions. New product activity is in progress for the current financial year, while the business expects to reap the full year benefit from the products that were introduced part way through the previous year. BWI expects to launch the 2019 Narva catalogue in February 2019.

It is anticipated that Davey will show an improvement in the coming year from new products recently released to the market and ongoing operating cost reductions.

Our businesses are close to our end-users and customers, framing new products and services through a deep understanding of real customer needs. Through this we are uniquely placed to grow organically and to deliver high quality returns sustainably.

GUD remains well positioned to deliver continued strong returns for shareholders.

Thank you for your continuing interest in, and support for, GUD. It is now time to conduct the business of the meeting.
