GUD Holdings Limited

CEO's Address

63rd Annual General Meeting

Tuesday, 27 October 2020

Virtual Meeting

Chaired from

GUD Holdings Ltd Head Office

29 Taras Avenue

Altona North Victoria 3025

Good morning Ladies and Gentlemen, and thank you for the opportunity to address you, our shareholders.

I'm pleased to be able to share with you today commentary on our safety, operating and financial performance, including our responses to the COVID pandemic, with additional comments about our ongoing efforts on business foundations and business unit strategies.

Since I last spoke to you in October 2019; the following twelve months have been challenging for the world human population, for the global economy, for the automotive market and for our businesses.

<u>Safety</u>

Firstly, I'd like to talk about Safety at GUD. It's no coincidence both the Chairman and I are speaking to this subject. It's a key area of focus, not just last year, but every year.

GUD have been careful in ensuring we maintain a safe working environment. This was made increasingly more difficult with the overlay of so many 'off standard' working practices brought about by the COVID situation. We increased the level of attention, engagement and communication across all businesses. Importantly our overall safety statistics did not deteriorate through the 2nd half of the year, when COVID impacted.

Whilst the full year safety metrics deteriorated slightly over last year, we were very pleased with the reduction in high consequence, lost time injuries in the last year. Given these are more significant injuries, and therefore have a more profound and/or long-lasting impact on those injured than those recorded in the medical treatment category.

We also note that in the 2020 Employee Engagement Survey our employees agreed that the Company treated their safety as a priority; with the question on whether the Company is committed to employee safety. This was reflected in 94.2% of our employees responding favourably to that question; a percentage that not only exceeds the Global 75th percentile score of 88.5%, but one that has shown steady increase year-on-year over the last four years, up from 89.3% in 2016.

The Board and Executive Leadership Group conducted regular safety walks prior to COVID and will return to these when permitted. We receive comprehensive monthly reports which cover a range of leading and lagging indicators including training initiatives, audits completed, corrective action plans implemented, number of work injuries, near misses and number of other incidents.

Efforts in the matter of safety are never complete. We challenge ourselves to maintain a 'chronic unease' and have further plans for ongoing health and safety enhancements.

As we entered FY20, Management were clear the year was one of consolidation. We needed to manage significant currency shifts, absorb domestic cost inflation, bed down the new multi-year supply agreements, push hard on supplier cost reductions and deliver appropriate pricing increases. We were working hard to isolate and secure a 'steady state' on the differing financial inputs alongside developing the refreshed Business Unit strategies for future growth and keeping up the acquisition dialogue.

Up until March, GUD's performance was tracking to our expectations. However, it was clearly impacted by the well-documented and challenging COVID realities as we approached Q4. As sobering as the impacts were felt around Australia and the world, we are thankful the actions taken resulted in a relatively respectable and solid financial result.

COVID-19 Response

The impacts of COVID naturally require a special mention. In late March 2020, at the height of the COVID uncertainty around the world, GUD made a statement to the ASX withdrawing earnings guidance. We noted that our COVID task force, established in January, had developed a COVID response framework focusing on people health, operational health, financial health, and stakeholder management.

We were well placed in terms of our risk management response given many of our senior management members' past experience in managing through several black swan events including the Asian Financial Crisis, SAR's and the GFC. Using our COVID response framework our approach was to go early in planning for possible eventualities, with as much emphasis on 'offence' as 'defence' in our minds.

The leadership team and Board viewed the potential COVID impacts to be temporary in nature (6-9-12 months). We also believed that there was no significant longer-term structural shifts in the industries we serve. We identified 20 key defence and offence actions and I will speak to some of these later. This planning and these actions have served the Company well.

Throughout this period, the Executive Leadership Team met regularly, and senior management held special COVID meetings with the Board initially weekly in March, April and May but later within the regular monthly Board meetings.

Let me give you some detail on the COVID related impacts, our responses and mitigating actions within that response framework.

People Health

From late January 2020 and through early March, in response to COVID, the Company implemented air travel bans and heightened hygiene protocols and social distancing measures in the workplace. We activated business continuity plans to support working from home wherever possible, consistent with the Government health directions.

In late March, before JobKeeper was announced, the Company provided employees access to two weeks' special COVID leave. This leave supported those who needed to be isolated but could not work from home, needed to care for family members effected or was an income supplement for those experiencing work hour reductions or government-required lock downs.

Where a business claimed JobKeeper, senior management in that Business and also Group staff management agreed to have their salaries scaled back by between 10% and 15%. The scale back of salaries for Key Management Personnel and Board members was 20%, subject to the same triggers. These scale backs were in place for June and July 2020.

These initiatives reflected a desire to not only address cash conservation but to also, as far as possible, keep our workforce intact, avoid employee financial hardship and maintain a highly engaged workforce for a post-COVID recovery. (Note: There were no redundancies due to COVID)

Throughout this period, significantly greater attention has been paid to the mental health and well-being of our staff. We've heightened the counselling services available, developed and implemented mental health champions in each operation and rolled out well-being seminars across the business.

Operational Health

From the early stages of COVID when supply-side issues were emerging, through to the more recent demand side challenges, we have remained operational despite these issues.

From a supply point of view, through a combination of our pre-existing safety stock levels, a strong collaborative relationship with our suppliers and early supplier engagement, we ensured a high rate of product supply throughout the first six months of the COVID period. In addition to product supply, shipping and logistics also presented a significant challenge which we actively managed through.

We made significant operational changes to accommodate the COVID directions from the varying government agencies. We introduced staggered shifts in warehouses, split shifts in our manufacturing and assembly operations and significant health and safety changes to all workplaces, whether in-situ or in remote places of work. This unparalleled series of changes came at a cost measured in dollars but gave strong assurance on the desired safety outcomes.

Financial Health

Crucial financial modelling was completed throughout this COVID period and confirmed our existing lending facilities were adequate for trading during the COVID period. The Company is in solid financial health.

Financial health efforts also addressed cash conservation actions focussed on typical variable costs within each of our operations. Some businesses qualified for JobKeeper, or its equivalent. The FY20 subsidies amount to $179k for the water business and $2.77million for the automotive businesses.

Stakeholder Management

As part of our desire to be a good partner to our stakeholders through this time, we put in place a strong stakeholder management plan. This was primarily across our supplier, employee, customer, and financier stakeholder bases.

Our level of communication naturally increased in frequency and intensity to ensure clarity of key messages and actions. We're satisfied the work with our stakeholders, ranging from our union partners and employees through to our investors and financiers, was well recognised and proved productive.

Financial results

Let's now turn to our financial results in FY20.

Revenue

The Chairman spoke to the 1% revenue growth which I'll address in more detail. The Automotive businesses reported a slight increase while Davey's revenue grew by 3%.

The result reflects a year of two parts. After tracking well to guidance into the 3rd quarter of the year, we experienced volatility in the sales tempo with COVID impacting underlying demand or the inventory levels held by our resellers.

Profitability

Reported underlying Earnings Before Interest and Tax (underlying EBIT) was $80.7 million, or $80.1 million on a pre-AASB 16 basis compared to the prior year's result of $88.9 million, a decrease of 10%.

The result principally reflects lower end-user demand from partial or total lock downs, coupled with reseller destocking which resulted in negative operating leverage. Cost savings from internal cash conservation efforts and receipt of government COVID wage subsidies were more than offset by higher operating costs under COVID, lower second half factory load utilisation, and a significantly weaker AUD in much of second half of the year, as well as appropriate group provisions considering the economic climate.

Cash Generation and Capital Management

Reported Cash flow from operating activities in FY20 was $65.5 million, up $21.0 million from the $44.5 million reported in FY19. On a pre-AASB 16 basis, which was the basis of the FY19 reported result, cash flow from operating activities was $54.3 million.
Measured on either a reported or pre-AASB 16 basis, cash conversion of 98% was achieved compared to 78% in the prior year.

The cash conversion was well ahead of internal targets for the year due to the timing of supplier purchases in the last quarter. This yielded a higher level of payables than usual at year end, alongside efforts to tightly manage other net working capital elements.

Net debt was $142.17 million, an increase of $9.4 million over the prior year. The increased debt level is primarily from a combination of higher tax payments, a slight increase in capital expenditure to support innovation and renewal, and a loan to a key supplier to assist in building a new plant.

External Financing

In January 2020, the Company completed a refinancing of its debt facilities of $225 million on commercially compelling terms. This involved a core debt facility with Westpac, NAB and Citibank for 4 years totalling $150 million, Short term facilities of $25 million and an 8-year fixed term loan of $50 million with Pricoa.

In response to the COVID situation we also secured additional short-term facilities of $22.5 million commencing July 2020 to capitalise on organic and acquisition opportunities that may present.

<u>Business Foundations</u>

Last year, I outlined a focus on five key topic areas of **Customer Relationships**, **Supplier Engagement**, **People Cycle Planning**, **Product Cycle Planning** and **Operational Efficiency**, all with a view to strengthen our business foundations. The attention has continued, and further improvements have been made.

Customer Relationships – we have leveraged our multi-year preferred supplier agreements, experiencing positive growth in a number of our own brands, seen the take up of new products and in a few cases, seen our customers turn to us for house brand supply and management.

We've added further OEM customers, worked tirelessly through COVID to assist our customers in creative ways and FY20 was also a proud year for Supplier of the Year recognition across BWI, Ryco and Davey.

Supplier Engagement – We continue to work with critical suppliers to confirm sourcing security as a priority. Additionally, our project work on supplier cost reductions became incredibly important and proved to be successful. Utilising our Quality and Supplier Council, we also embarked on the journey to drive better Environmental Social Governance outcomes with our supply base and announced the launch of the GUD Ethical Sourcing supplier program.

This program articulates a bronze, silver and gold level of standard of achievement. The Ethical Sourcing program covers guidance and minimum expectations with respect to slavery practices, labour standards, health and safety, discrimination, the environment and business ethics and is available on the GUD website.

People Cycle Planning – We've been working diligently to develop future leaders for our current businesses and future acquisitions. In December 2019, we launched a talent development program, a first for GUD. This concentrates on emerging leaders across GUD and has two cohorts participating in a two-year program, facilitated by a selection of external leadership and business experts.

GUD remains an inclusive workplace and we launched an enhanced Diversity and Inclusion program with a clear charter and vision of success.

Product Cycle Planning – We continue to bolster our innovation and product creation focus.

Throughout the year, GUD released hundreds of new SKU's. Davey and BWI each had more than 10% of revenue generated by products that didn't exist 24 months ago. Amongst the new launches were Lifeguard, a connected chemical control unit for swim-ready pool water year-round, and Projecta's Intelli-RV range of plug-and-play, smart power management systems.

Narva won a Good Design Award, Projecta took home top honour for the most innovative product at the Australian Auto Aftermarket Awards, and Ryco Filters ranked third in the consumer goods and manufacturing category in the 2019 AFR BOSS Magazine Most Innovative Companies List. Moreover, we were awarded four government grants under the Automotive Innovation Lab Access Grants scheme, matching Research and Development funding of ~$0.5 million.

Operational Fitness – The need for operational efficiencies remained paramount in a year of consolidation. This business foundation was modified to increase its remit to review the broader operational fitness levels of the business units. Part of the fitness work has been to look across the GUD Group to achieve cost savings through leveraging greater commonality and scale. In parallel, the opportunities to improve operational fitness in revenue management, sales, ordering and purchasing (SOP) management and lean operating structures have also been embraced.

Over the last 12 months, we've completed operational fitness actions such as the business restructuring at Davey and embarked on a proof of concept integration between AAG and Ryco.

<u>Strategy</u>

Throughout the year, the Board and Management continued to refresh individual business unit strategy plans.

At an individual business level, we continue to apply the GUD high-performance approach for both operational fitness actions and broad strategy execution. In 2019, we introduced the Roger Martin "where to play and how to win" framework to guide strategy development. This remains critical as we reinforce the need to 'futureproof' our individual businesses.
GUD continues to sharpen its strategic direction, focussing on three pillars of Core, Growth and Acquisition. Think of Core as group-wide initiatives, Growth being at the individual business unit level and finally Acquisition, which of course currently concentrates around the Automotive vertical of our portfolio.

Further progress has been made in each of these pillars.
Our belief is the focus on these 3 key pillars will provide a good level of opportunity for further top and bottom-line growth. These are not overnight solutions and require a steady and thoughtful approach across the short to medium term. Importantly, we

have dedicated resources and continue to leverage the wider Group Management team to pursue results in the Core, Growth and Acquisition workstreams.

Trading Update

In mid-October, we took the opportunity to release a trading update for Q1 FY21.

Back in late July, GUD spoke to the brisk start to the current year's sales with double digit growth in Auto sales compared to the prior year. At that time, we were experiencing a recovery of underlying demand and an unwind of past reseller destocking. At that time, we expected this demand to moderate as reseller re-stocking concluded and pent up end-user demand abated.

Pleasingly though, we continued to experience strong sales performance across both Auto and Water divisions. Group sales in the first quarter grew approximately 14% over the prior year.

Over the first quarter of FY21, government lock-down restrictions have impacted sales in Victoria and to a lesser extent the Auckland region. This was felt more by Auto than Water and offsetting the Victorian and Auckland situations, there was strong demand in geographies where mobility restrictions have been eased.

Due to the Victorian lockdown, Davey was required to idle parts of its manufacturing operations not regarded as being "essential", which impacted our manufacturing efficiency and ability to produce certain product lines.

All said, the businesses still remained resilient and performed ahead of our sales expectations for the first quarter.

Davey has seen a solid start of 10% revenue growth vs prior year. This has been driven by the Australian business buoyed by favourable agricultural conditions and rural demand which has more than offset lower demand from the New Zealand business and profoundly slower sales to tourism-dependant export markets.

The Automotive business has experienced a strong start to FY21 with first quarter sales up nearly 16% over the prior year, these gains experienced across our BU's in a broadly uniform way.

It is however important to note that the temporary nature of the drivers of this growth, and the uncertainty from the economic ramifications of government stimulus efforts, alongside the ongoing public health situation, that the first quarter's sales performance cannot be extrapolated over the remainder of the financial year.

Finally, I'd like to take the time to acknowledge our employees. We've endured a tremendously uncertain time, one that hasn't abated and is not likely too in the near term. I want to say thank you for the hard work and dedication shown by our 808 employees, which hasn't faltered even in the most challenging of times.

Thank you also to the leadership team for displaying great resilience. You've been leading your teams in a way that's been recognised so positively in the employee surveys and ongoing anecdotal employee feedback. I know we have an engaged workforce due to you striking the right balance of the people and business outcomes.

Thank you and I'll now hand back to our Chairman.