GUD Holdings Limited

Chairman's Address

63rd Annual General Meeting

Tuesday, 27 October 2020
*Virtual Meeting*

Chaired from

GUD Holdings Limited Head Office

29 Taras Avenue

Altona North Victoria 3025

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

I will firstly speak about the importance of **Safety** at GUD.

I would then like to address the **Long-Term Strategy**; the positioning of the portfolio of the Group, the efforts that are being made to ensure sustainability of the business, identifying and managing risk, and the development of our people.

I will then touch on the **Financial Performance** of GUD in the 2019-20 financial year which can best be described as a solid performance, in particularly difficult and variable trading conditions late in the second half.

I will also address you on **Board developments**.

Finally, following a review of aspects of the operations and financial position of the Company from our Managing Director, Graeme Whickman, I will provide commentary on the **Outlook** for the current financial year.

## 1. <u>Safety</u>

Turning to Safety.

Safety is a key priority for GUD.

Throughout the year, the Directors and Management of GUD maintained a strong safety focus and continued to develop and implement initiatives intended to drive a strong level of engagement, ownership and accountability for health and safety.

As a Board, we remained vigilant and encouraged Management efforts to maintain the physical and mental welfare of our employees, particularly throughout the latter part of the year when COVID-19 became a significant factor.

Early in the year, prior to the arrival of the COVID-19 pandemic, your Board visited two major operational facilities. In conjunction with holding 'town hall' meetings with all available staff, Directors conducted site safety walks. These opportunities allow Board members to get closer to the operations, understand the cultural aspects and hear from staff members on a range of matters and views held in the workplaces. We will be looking to re-engage in these visits when permitted under government restrictions.

Across all of GUD, we saw a reduction in the Lost Time Injury Frequency Rate (LTIFR) (cases declined from 5 to 4) but an increase in the Medically Treated Injury Frequency Rate (MTIFR) (cases increased from 4 to 6). Pleasingly our Lost Time Injury Frequency rate of 2.7 is now less than half of the Safe Work Australia warehousing and distribution industry sector benchmark rate of 8.6.

## 2. Long Term Strategy and Sustainability

### *Portfolio*

Turning now to Strategy.

The GUD business portfolio is centred on the core automotive and water businesses. We continue to grow organically and to seek acquisition opportunities.

GUD has a position of strength in the Automotive Aftermarket business.

Whilst a slow-down in new vehicle sales has been experienced in recent years, exacerbated by the impacts of COVID-19, the Automotive Aftermarket has shown some resilience. Your Board considers it an inherently attractive industry for the following reasons:

1. Firstly, the addressable market (the 5-year-old plus car parc) is around 15 million vehicles and is expected to grow at around 1 - 2% per annum.

2. Secondly, a shift in the car parc composition complements our product portfolio, in particular, the growing composition of SUVs and pick-ups within the car parc plays to strengths in businesses such as BWI and DBA.

3. Thirdly, inter-business synergies exist within the automotive business due to operational commonalities

4. Fourthly, the ability to grow through acquisitions. GUD has the internal resources, and financial strength to undertake further complementary acquisitions.

GUD also recognises the long-term future challenge and opportunity in terms of electric and autonomous vehicles.

GUD currently generates less than 45% of its automotive revenue from products discrete to Internal Combustion Engine ("ICE") vehicles and can see a strong and evolving aftermarket within the future EV landscape.

It remains the case that each of GUD's larger automotive businesses continues to enjoy a strong and unique market position. In recent brand surveys, many of our market-leading brands are in the top quartile of their respective segments – combined with a healthy track record of both product and service innovation.

The year also saw much activity around building a foundation within Davey for profitable mid-term growth. While revenue grew modestly, the EBIT was impacted through new product development costs, restructuring and the significant impact of government lock downs and factory load recovery variance.

Davey's farm trials of Modular Water Treatment products ("MWT") continue. In addition, MWT sales have been secured in new applications such as hospital and hospitality and other agricultural applications. Further, Davey sold out its entire allocation in Europe of its new Nipper chlorinator and delivered the launch of the Tank Sense product.

Davey remains committed to its strategic plan. Management efforts are focussed around the strategic pillars of supply chain optimisation, commercialisation of product innovation, diversifying channels to market and improving people and culture outcomes as they roll out their strategy.

The Board and Management have been deeply engaged in individual business unit strategy reviews throughout the year. We are satisfied with the current business portfolio and we remain willing to make logical automotive acquisitions.

***Risk***

FY20 represented the second year since we created a separate Board committee to focus on Risk and Compliance. This year's risk reviews added to the foundation work of the prior year and saw fine tuning of risk assessments and greater familiarity with the Alyne risk management tool.

The COVID-19 pandemic provided an opportunity to test whether the risk mapping, reviews and action plans which had been prepared in the prior year were realistic, complete and effective. This proved to be the case in the face of the COVID-19 pandemic which saw significant customer demand, supply chain and cyber security risks occurring in an overlapping time frame.

While we did not foresee the exact nature of the COVID-19 event, the risk mitigation, business continuity and crisis management plans, complemented by the COVID-19 response framework and defence actions, responded appropriately. While levels of disruption were relatively high at times, the Company did not experience an unacceptable trading or liquidity position.

Consequently, there has not been a need to make any fundamental changes to risk themes, key risks or key mitigating action plans.

***Innovation***

GUD is committed to innovation.

Our award-winning innovation program taps into the creativity of our people to deliver better customer experiences.

Each business has its own innovation and product development framework, one that is tailored to its specific needs. Several group-wide initiatives tie these individual programs together under a collective banner dedicated to collaboration and shared learning.

In 2020, GUD businesses have kept the innovation mindset strong and launched many new products. GUD products and businesses have won awards for design and innovation. Most recently, two of our businesses, Ryco Filters and Brown and Watson International (known for its Narva and Projecta products) were awarded 5th and 8th places respectively in the AFR Boss Most Innovative Companies of the year (Manufacturing and Consumer Goods); a continuation of awards GUD achieved in 2018 and 2019.

***People***

Turning now to People.

Our highly engaged employees enable us to deliver positive outcomes to our stakeholders.

Our focus over many years has been to ensure that our culture fosters a high-performing and engaged workforce within each of our businesses. Increasingly, we bring together employees to cross-pollinate ideas and share learnings.

Diversity is seen as a key driver of innovation and company performance. The Board is active in setting and guiding the culture of GUD. The recruitment of a Chief People Officer in May 2019 led to greater emphasis on diversity and inclusion, talent development and to realising the full potential of the human capital of GUD.

This year, we enhanced our diversity and inclusion strategy, covering the period to 2022. Our aim is to strengthen the open culture of each business by ensuring inclusiveness and encourage the contribution of all employees by leveraging differences that exist.

Training and development are critical elements of our workforce planning. We support development by training our employees within the workplace as well as supporting them to undertake further education. This year saw us launch our inaugural Leadership Development Program and make online open-access self-directed learning available to all employees.

Each year we conduct an employee engagement survey. Six of the seventeen areas measured showed further increase against 2019 results. Pleasingly, the overall employee engagement score improved from 75% to 77%, placing the organisation in the global top $25^{th}$ percentile. On a question whether employees believe that the Company is committed to equal opportunity for all employees, in 2020, there was a 70% favourable response to this question, up from 60% in 2019.

***Sustainability***

This year, GUD published its second Sustainability Review, focussing on environment, social and governance aspects. GUD's Board sees this review as an opportunity to outline the impact GUD has on the environment, its people and the communities we operate in, as well as identifying and discussing some of the longer-term sustainability consequences for the Company.

The topics addressed included health and safety, product safety and quality, compliance, innovation, equality, human capital, sustainable procurement, water management and climate change.

Whilst GUD businesses have historically had close relationships with their suppliers, the introduction of GUD's comprehensive Ethical Sourcing Code (going beyond the requirements of the Modern Slavery legislation), has increased the level of contact, cooperation and accountability.

Our Environmental, Sustainability and Governance efforts are comprehensively set out in the Sustainability Review.

## 3. Financial Performance

Turning to Financial Performance.

The 2020 financial year was a year of two parts, solid performance in the first half impacted by the arrival of COVID-19.

In hindsight, the year demonstrated the relative resilience of GUD's businesses and the industries in which we trade. Our businesses continue to deliver branded products which are needed on a day to day basis by customers to keep their vehicles on the roads, or water pumping in their homes, farms and businesses.

The Board firmly believes GUD remains well positioned in the medium to long-term. We strengthened our focus on the operational fitness of our businesses and continued with innovation efforts and new product introduction. Critically, we did not reduce these expenditures even when COVID-19 required cash conservation.

Revenue for the year increased 1% to $438 million despite second half COVID-19 volume impacts.

The Company received about $3 million in FY20 from government JobKeeper and like subsidies.

On a like-for-like basis, excluding AASB 16 impacts, underlying NPAT was down 16% to $50.9 million.

The reported basic earnings per share on a pre-AASB 16 basis of 53 cps was down from the prior year's result of 69 cps.

Our balance sheet remained strong with gearing, being net debt against net debt and equity, of approximately 34%, and robust interest cover. Pre-tax cash conversion of 98% was achieved for the period; well ahead of internal targets.

In line with the desire to position the Company for growth opportunities, the Board reactivated the Dividend Reinvestment Plan for the final dividend and it is pleasing to note some 24% of shares participated in the DRP.

The total dividend for FY20 was 37 cents per share consisting of an interim dividend of 25 cents per share and a final dividend of 12 cents per share. Both dividends were fully franked and represent a 67% payout of full year underlying NPAT. This compares with total dividends of 56 cents per share in the previous financial year. The lower final dividend reflected uncertainty around prevailing trading conditions. We retain significant franking credits in order to continue to provide, into the future, a traditionally high payout ratio of fully franked dividends. The Board considers such prudence appropriate.

## 4. Your Board

Turning to Board matters.

In March 2020, we welcomed to our Board Ms Jennifer Douglas. With considerable experience in communications and technology, Jen is a non-executive director on two other listed companies and serves the community in not-for-profit roles. The appointment of Ms Douglas followed a comprehensive search process assisted by a global recruitment firm. We look forward to shareholders approving her election at this Annual General Meeting.

Your Board are a tight, cohesive Board, of four non-executive directors plus the Managing Director; and one that interacts constructively with Management.

An externally facilitated Board effectiveness and performance evaluation, concluded in late 2019, confirmed that the Board was performing effectively and representing shareholders well. The same external consultant advised recently on the succession to Chairman.

Your Board remains aware that certain skills and experience could be added to enhance performance. We have commenced a process to appoint another member in the next 6 – 12 months.

On a personal matter, my election as Chairman has made me consider my commitments. I have put a plan in place to relinquish a number of Board positions in an orderly manner. The execution of my plan has begun and will continue over the coming months.

My commitment and diligence in carrying out my professional responsibilities will continue to be at the highest level going forward.

In conclusion, there is no doubt that we have a relatively resilient portfolio of businesses with organic and acquisition growth potential and which should continue to perform solidly in the current financial year.

Before addressing that particular topic on Outlook, I invite GUD's Managing Director, Graeme Whickman, to provide you with some more perspectives on the financial, people and operational performance. But just before we do, I'd like to share this one minute video that shows how our team at Ryco are using hi tech 3D scanning of engine bays to rapidly prototype new products via 3D printing.

Graeme….Thank you, Graeme.

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

## 5. <u>Outlook</u>

At this time, GUD would normally provide insights and thoughts on the coming year, with a view on expected industry trends and company prospects. The current COVID-19 situation and the ever-changing social and economic landscape gives us less certainty as to the backdrop we operate within.

As you have heard from Graeme's trading update, as well as in our ASX release on Thursday 15 October, GUD has started FY21 in a positive manner. While GUD notes the Q1 results highlight the potential to deliver a solid first half, the uncertainties due to the nature of the COVID-19 situation make it inappropriate to provide half year or full year earnings guidance.

That said, GUD remains well positioned for the medium to long term horizon. The Automotive division maintains strong brands, products and customer service in support of a large and proliferated car parc which is strongly defensive. The Water division continues to increase its customer intimacy and product line up as pumping and treating water remains an important societal challenge.

The short-term prospects for GUD are still relatively positive, and this has proven out in the resilience exhibited late in FY20 and the rebound in revenues seen in the first quarter of FY21. This seems to be true of the automotive aftermarket, particularly as you consider the potential industry level tailwinds such as domestic tourism increasing, average fleet age increasing, more used car volumes and less public transport usage, although we need to be clear that things can change daily, the situation remains fairly volatile, and we are not forecasting a return to pre-COVID-19 normality in the near future.

In the event the core markets of Australia and NZ don't enter a prolonged series of lockdown levels, then we would expect vehicle service and repair to still be needed. It should not be overlooked that other structurally attractive drivers of the aftermarket industry were also at play pre-COVID-19. The overall car parc growth of the 5 year plus vehicles, more SUVs and Pick-ups, increased diesel engines and the ongoing proliferation of the vehicle car parc with clearer customer access to the independent workshops through the right of repair legislation, have not changed through this period.

Davey continues with the rollout of its strategic vision. We experienced improvements in the first half of the year, although clearly impacted in the latter part. We expect the plan to continue and will not relent on the 4 key strategy execution pillars of People and Culture, Supply Optimisation, Product Innovation and Channels to Market. Our view has remained unchanged as Davey progresses over the next 24 months and pulls through the potential value of the water segment.

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 quality returns sustainably.

In closing, I thank the Board, Management and Staff of GUD for all of their efforts in what has been a most challenging year.

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