GUD Holdings Limited

Chairman's Address

60th Annual General Meeting

Thursday 26th October 2017

RACV Club

501 Bourke Street, Melbourne

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

I will firstly speak about the major repositioning of GUD's portfolio of activities, on which substantial progress was made during the 2016-17 financial year.

I will then comment on the financial performance of GUD in that year in light of these changes.

Finally, following a review of operations from Managing Director, Jonathan Ling, I will provide commentary on the outlook for the current financial year.

First, our portfolio repositioning.

As noted in the recently published Annual Report and Annual Review, the 2016-17 year was characterised by further noteworthy portfolio activities and followed the pivotal changes we made to our structure in the prior year.

We started the 2016-17 year by completing the divestment of our remaining interests in the Sunbeam appliance business joint ventures, the rationale for which I outlined in some detail at this meeting last year.

During the year we also sold the small Lock Focus security business, this sale occurring in November 2016 and we disposed of the Dexion warehouse racking and systems business in June 2017.

Staying with the divestment of these businesses for the moment, I will outline briefly the reasoning behind each action and the consequences in relation to its impact on the year's results.

First, Lock Focus, which was acquired by GUD in the early 1990s.

Lock Focus has been a steady but relatively small contributor to GUD's financial performance over the twenty-three years it was in our portfolio. In recent years, its sales and profitability had started to trend down as its traditional customer base – original equipment manufacturers – either closed local factories or relocated offshore.

Therefore, we had little opportunity to scale or grow the business to the levels necessary for it to be a material contributor to GUD's fortunes. Essentially, it was too small with little quantum upside for it to remain relevant in our portfolio.

Another niche business in the Australian security industry, Safecorp Group Limited, acquired Lock Focus effective on 1st December 2016.

Dexion was a much larger and more complex transaction. As you will know we applied considerable effort to turning around Dexion in the six years since acquiring it in September 2010. This entailed investment in new equipment, which was installed in the Malaysian factory, considerable restructuring costs associated with closing factories in Australia and relocating equipment to Malaysia and significant investments in internal restructuring and system improvements.

Despite these activities and the efforts of many talented people, it became apparent that achievement of the return levels required by GUD's investors was still too far into the future. Hence the decision was taken in mid-2016 to exit this activity and the divestment program commenced.

This concluded in late May 2017 when we announced that Dexion had been sold to the industry participant Tech-Link Storage Engineering of Singapore with an effective sale date of 1st June 2017.

During 2016-17 Dexion reported sales of $142 million and contributed an underlying EBIT loss of nearly $3 million to that year's result.

In total, the loss on sale we reported, due to these transactions, for the 2016-17 year for both Lock Focus and Dexion was $50.7 million after tax. We collected cash consideration of just over $17 million in the year as a result of these sales.

More positively, during that year we made two further investments in activities tied to the more stable and predictable automotive aftermarket industry, the industry that now generates the majority of GUD's sales and profitability.

The first acquisition was Griffiths Equipment in New Zealand, a business that was associated with Brown and Watson International. You will recall that we acquired Brown and Watson at the start of the 2015-16 year and it has, through its quantum and quality of financial performance, effectively allowed us to substantively reshape our activity base.

Griffiths Equipment is a New Zealand based business, operating in automotive accessories markets, and it had previously distributed Brown and Watson's Narva and Projecta brands in its home market. Since owning Brown and Watson it became apparent that there were substantial benefits in GUD also owning Griffiths Equipment.

Griffiths has been active in New Zealand since 1960, selling a broad range of automotive accessories to customers common to GUD's automotive businesses. It owns brand such as Wildcat, Antech and TypeS, as well as distributing brands on behalf of other principals. It has a small presence in the Australian aftermarket and has the potential to grow substantially here with Brown and Watson's support. The total annual sales at the time of the acquisition were around $8 million.

The transaction was completed on 1st October 2016 for a total consideration of just over $9 million, of which $1.8 million was contingent consideration relating to business performance in the first twelve months of GUD's ownership. This amount will be paid out in full as all targets agreed have been met.

In the nine months that Griffiths contributed to financial results in 2016-17 it reported sales of $6.1 million and EBIT of $1.7 million.

Late in the financial year we invested further in the automotive space by acquiring Innovative Mechatronics Group - IMG - a company that complements our established Ryco operation.

IMG competes with our Goss brand of fuel pumps and engine management spare parts, through its RAE brand, but also brings additional products and services to our portfolio to strengthen our market position.

Interestingly, IMG is active in electronic vehicle components through the replacement and remanufacturing of parts such as engine control units. This activity provides a useful window for us into technologies that are becoming increasingly important as the nature of vehicles change from being powered by internal combustion engines.

The total estimated value of the IMG acquisition is $10.2 million, of which nearly $4 million is contingent on financial performance over the next three years.

I take this opportunity to welcome the staff, suppliers and customers of both Griffiths Equipment and IM Group into the GUD fold. The Board retains an intense interest in reviewing the progress of, and contributions from, Griffiths and IM Group, in the years ahead.

Following these activities we continue to assess our portfolio and we especially remain on the lookout for further acquisitions in the automotive aftermarket.

Turning now to our financial performance in 2016-17. Due to the changes to our portfolio of interests, our accounts have had to be re-stated to show discontinued and continuing operations.

The discontinued category includes Sunbeam, Lock Focus and Dexion, while the continuing operations' numbers include the contributions from the newly acquired businesses I have just described, along with our established automotive businesses and our non-automotive interests, Davey and Oates.

For the purposes of the following comments and observations, I will focus on the continuing operations as they are the businesses which will provide the profits and cash flow in the current financial year.

Sales increased by 4% in the 2017 financial year, although this number screens the fact that the core automotive businesses reported sales growth of 11%. Oates and Davey both suffered revenue declines.

The growth in automotive was not only a result of the contribution from the two acquired businesses but also the consequence of organic growth in the established businesses.

Specifically, the following factors were instrumental in generating this organic growth.

First, the Ryco filtration business continued to grow its user base through its unique customer acquisition program. By converting workshops to using the Ryco brand of filters, Ryco provides pull-through of its product range for its major distributors.

In addition, a number of innovative products were introduced by Ryco over the year, the details of which Jonathan Ling will describe in his address in a few minutes' time.

Our other filtration and automotive parts business, Wesfil, introduced a range of spark plugs to its independent reseller customer base late in 2016, thereby further expanding its product offering and providing new avenues to grow sales.

Brown and Watson continued on its impressive growth trajectory, benefiting from the full year effect of new Narva brand products launched in the prior year. Additionally, new Projecta brand battery and associated power products were launched at the 2017 Australian Automotive Aftermarket Association trade show and contributed solidly in the last quarter of the year.

Brown and Watson also identified a number of niche market segments which provide it with further sales growth opportunities and actions on these are occurring in the current year with pleasing results.

Countering this impressive performance in the automotive businesses, Davey and Oates both reported revenue declines for different reasons.

The Australian water products market was soft during the year, due to unseasonal wet weather, and, while we are confident that Davey maintained market share, the overall market situation led to a decline in sales across most major application segments.

At Oates, the revenue performance was linked to two specific customer-related issues. The first was the closure of the Masters hardware chain and the loss of sales to this customer, while the second was Oates cessation of supply to the Woolworths supermarket chain, the latter becoming effective late in the first half of the financial year. Pleasingly, sales growth in Oates' heartland market – the independent industrial and commercial cleaning distributor segment – was reported over the year and this came after a record result in the prior financial year.

In relation to profitability, at a net profit level we reported a loss of $7.3 million for the year, following a loss of $43 million in the prior year. In both cases these losses were the result of contributions from those operations that we quit, including a write-off of uncollectable doubtful debts.

On the continuing businesses, the result for the year was a profit after tax of $51.5 million, an uplift of 45% on the prior year's level.

Essentially the factors driving this like-for-like improvement include the contributions from the acquired businesses and the profit effect of the sales growth across the automotive businesses, for the reasons I have just outlined.

Both Oates and Davey reported declines in EBIT due, principally, to the sales declines previously described.

In summary, I think it is fair to state that we have some robustness and predictability around the performances from our automotive activities, while we have some variability in Oates and Davey. This variability is being addressed through various actions in the current financial year at both of these businesses.

As a result of the strong overall performance of the continuing businesses we were able lift the dividend for the full year to 46 cents per share fully franked from 43 cents previously.

Whilst this level of dividend is tracking lower than the level paid through the 2009-2012 period, we have moderated the payout ratio since reshaping GUD's business portfolio. This allows us to invest in growing the businesses we now own and that growth is being reflected in an improving share price.

Our financial position remains strong as evidenced by the reduction in net debt, lower interest costs over the year and higher interest cover.

The performance and outcomes I have just described are outlined in more detail in the Operating and Financial Review, which form the bulk of the content in the Annual Review and Annual Report, to which I refer shareholders if more explanation is required.

The last two years have been momentous for GUD and I think you can see the benefits from the changes made to our business structure.

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 Managing Director, Jonathan Ling, to provide you with some more perspectives on the businesses.

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Thank you, Jonathan, for providing that comprehensive perspective on our group-wide innovation initiative.

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. 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.

Now for the current year's outlook.

As noted in my earlier address we have done much to tackle the issues of unpredictability and uncertainty around our year to year financial results, through the portfolio changes we have made. Moreover, programs such as our innovation initiatives provide an underpinning for growth in new market segments, with new products and services that provide both future growth opportunities and insulate the business from stagnation in established, mature markets.

In reviewing each business's strategies and action plans for the current year it is clear that many of the items that led to success in 2016-17 are continuing and should provide further sales and market share growth.

On top of this we have the full year contributions from the acquisitions completed in the previous financial year as well as from the new products and services we are introducing, emanating from our innovation programs.

In that context, we are expecting to report an EBIT result for the year, on a like-for-like basis, in the range of $90 to $94 million. Trading in the first quarter has been solid and is in line with this guidance.

Our portfolio is now dominated by activities tied to the automotive aftermarket and this has led to financial performance that is more consistent and predictable.

Our businesses are becoming increasingly close to our users and customers and are 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.

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

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