



GUD Holdings Limited

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31 January 2020

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

Dear Sir

Half Year Ended 31 December 2019 Results Briefing and Webcast

Attached is the Results Briefing for the Half Year ended 31 December 2019 to shareholders, analysts and brokers, to be presented by Graeme Whickman, Managing Director and CEO and Martin Fraser, CFO of GUD Holdings Limited.

Today at 11.00 am, GUD will be hosting a webcast of its HY20 results briefing. To register and view the webcast, please go to www.gud.com.au/webcasts or click [here](#).

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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Attached

H1 FY20 Financial Result

Graeme Whickman
Managing Director

Martin Fraser
Chief Financial Officer



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H1 FY20 Highlights

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H1 FY20 in line with expectations & tracking to guidance

- Revenue up 3% on PCP
- Underlying EBIT (pre AASB 16) up marginally on PCP
- Automotive pricing, currency and domestic cost inflation playing out expected
- Davey continuing to improve

Improvement in cash flow and balance sheet

- H1 cash conversion reflects management focus
- Dividend in line with PCP
- Refinancing completed January 28

Focused on core business strategy execution

- Renewed terms with several major Auto resellers
- Strong group-wide focus on business operational fitness
- Group NZ Automotive warehouse commenced successfully

Focused on growth strategy execution

- New product introductions and innovation contributed

	Reported	Reported	AASB 16	Pre AASB 16	H1 FY19	Pre AASB 16
\$M	H1 FY20	YoY%	Impact	H1 FY20		YoY%
Revenue	227.1	3.3%	-	227.1	219.8	3.3%
EBITDA	50.1	11.1%	(5.6)	44.5	45.1	-1.4%
EBIT	43.0	-1.1%	(0.5)	42.5	43.5	-2.3%
NPAT	26.6	-9.3%	1.3	27.9	29.3	-4.9%
Non Operating	(1.5)	233.2%	-	(1.5)	(0.4)	233.2%
Underlying EBITDA	51.6	13.3%	(5.6)	46.0	45.5	0.9%
Underlying EBIT	44.5	1.2%	(0.5)	44.0	43.9	0.1%
Underlying NPAT	27.6	-6.8%	1.3	29.0	29.7	-2.4%
Net Operating Cash Flow	26.2	369.1%	(5.7)	20.5	5.6	267.5%
Cash Conversion	84.4%	64.5%	2.0%	82.4%	51.3%	60.5%
EPS (Basic)	30.7	-9.5%	1.5	32.2	33.9	-5.1%
Underlying EPS	31.9	-7.0%	1.5	33.4	34.3	-2.6%
DPS (Interim)	25.0	0.0%	-	25.0	25.0	0.0%

Automotive H1 FY20

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\$M	Reported H1 FY20	Reported YoY%	AASB 16 Impact	Pre AASB 16 H1 FY20	H1 FY19	Pre AASB 16 YoY%
Revenue	173.6	4%	-	173.6	167.6	4%
Underlying EBITDA	48.1	6%	(3.4)	44.7	45.5	-2%
Depreciation & Amortisation	(4.6)		3.2	(1.5)	(1.1)	
Underlying EBIT	43.4	-2%	(0.3)	43.1	44.4	-3%
<i>Underlying EBIT Margin</i>	<i>25%</i>		<i>0%</i>	<i>25%</i>	<i>26%</i>	

Organic revenue growth of 4%, up from 1% in PCP

- Growth in filtration revenues driven by a mix of Ryco and Wesfil volume and Wesfil pricing
- DBA and IMG achieved strong growth due to volume and H1 pricing strategies
- BWI's new Narva catalogue products growing well but BWI broadly flat overall

1% point decline in underlying EBIT pre AASB 16 margin, in line with expectations

- Step change in FX and impact of domestic inflation outpaced H1 price increases
- Recent price increases well accepted by customers, giving confidence in H2

Operating fitness and margin management initiatives on track and in line with plans

- Strong overhead cost control across all automotive business, as well as H2 price rises
- AAG profit improvement plan well defined and underway



Automotive – H1 FY20 Snapshot

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Ryco Filters

- Achieved modest revenue growth over PCP
- Successful transition to combined new NZ Automotive DC in Auckland
- Further progress with new product initiatives, such as vehicle specific combined fuel filter/catch can kits
- Ranked 3rd most innovative company in AFR Innovation Awards (Consumer & Manufacturing goods)
- Supplier cost down initiatives well on track and expected to positively impact H2



Wesfil

- Achieved solid revenue growth over PCP with growth across filtration
- Satisfying traction and growth in new non-filter categories
- Success of second Sydney DC encouraging review of Victoria's single warehouse

IM Group

- Achieved solid revenue growth over PCP
- HoH EBIT improvements driven by organic growth, and margin management initiatives in Remanufacturing and Repairs activities
- Progressing with overhauling customer facing processes in Remanufacturing and Repairs to improve efficiency and substantially reduce client turn around times to better support independent mechanics.

Injectronics



Automotive – H1 FY20 Snapshot

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BWI

- Revenue up slightly:
 - New Narva catalogue sales building nicely with two of three major resellers
 - Caravan segment continues to grow but truck and trailer assembly soft
 - Sales to some resellers impacted by enforcement of BWI credit terms
 - New car sales contraction impacting sales of items typically dealer-fitted at point of registration
- Continuing to invest in new product development and product connectivity.
- Successful transition to combined new NZ Automotive DC in Auckland under Griffiths Equipment
- Overhead and supplier cost management help to offset FX and domestic cost inflation impacts



AA Gaskets

- Turnaround plan underway; synergies achieved by leveraging Ryco through:
 - Logical combination of support activities
 - Re-location of principal facilities to Ryco Filters, including shared logistics
 - Adoption of Ryco IT platforms
- Execution is on track and is driving EBIT growth ahead of sales growth



DBA

- Achieved strong sales growth driven by both domestic and export (mainly USA and Europe) growth
- Continuing to expand product range including DBA brake pad program

Davey H1 FY20

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\$M	Reported H1 FY20	Reported YoY%	AASB 16 Impact	Pre AASB 16 H1 FY20	Pre AASB 16 H1 FY19	Pre AASB 16 YoY%
Revenue	53.5	2%	-	53.5	52.2	2%
Underlying EBITDA	6.6	43%	(1.7)	4.9	4.6	6%
Depreciation & Amortisation	(2.1)		1.5	(0.6)	(0.5)	
Underlying EBIT	4.5	8%	(0.1)	4.4	4.1	7%
<i>Underlying EBIT Margin</i>	<i>8%</i>		<i>0%</i>	<i>8%</i>	<i>8%</i>	

- Revenue growth from Australia and export markets
- Underlying H1 FY20 EBIT up 8%, and 7% on PCP on a pre AASB 16 basis
- Net one-off costs in H1 FY20 of \$1.0m from ANZ restructuring initiatives with benefits to be fully realised in H2
- Key new products such as the Nipper chlorinator and Dyna Drive off to a strong start
- Davey Europe awarded Supplier of the Year from SCP, Davey's largest global customer
- Named a core supplier to Nutrien (merged Landmark, Total Eden, and CRT)
- Modular Water Treatment (MWT) sales broadened beyond initial Dairy focus:
 - Completed key MWT reference installation at Dunedin Hospital
 - Further MWT references in Dental (NZ) and Piggery (AUS) in currently in progress
 - Recent contract wins in Resort (Fiji) and Municipal (NZ) applications





FINANCIALS



Financial Summary- Statutory (reported)

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\$M	H1 FY20	H1 FY19	YoY%	
Revenue	227.1	219.8	3.3%	Revenue growth from mix of price & volume
Operating expenses	(57.8)	(63.8)	-9.3%	\$5.6m uplift from AASB 16
EBITDA	50.1	45.1	11.1%	\$5.1m uplift in depreciation from AASB 16
Depreciation and Amortisation	(7.1)	(1.6)		
EBIT	43.0	43.5	-1.1%	
Underlying EBIT	44.5	43.9	1.2%	Includes AASB 16 FY19 interest expense of \$1.8m
Net Finance Expense	(5.1)	(2.9)		
Profit Before Tax	37.9	40.6	-6.7%	FY19 benefitted from Dexion sale tax provision writeback of \$0.5m
Tax	(11.3)	(11.3)		
Reported NPAT	26.6	29.3	-9.3%	Includes AASB 16 net impact of \$1.3m
EPS & Dividend - cents				
Reported EPS	30.7	33.9	-9.5%	
Underlying EPS	31.9	34.3	-7.0%	
Interim Dividend	25.0	25.0	0.0%	Franked interim dividend of 25 cps

Financial Summary - Pre AASB 16

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\$M	H1 FY20	H1 FY19	YoY%	
Revenue	227.1	219.8	3.3%	Revenue growth from mix of price & volume
Operating expenses	(63.5)	(63.8)	-0.5%	Business fitness effort contribute
EBITDA	44.5	45.1	-1.4%	
Depreciation and Amortisation	(2.0)	(1.6)		FX/price inflation timing
EBIT	42.5	43.5	-2.3%	
Underlying EBIT	44.0	43.9	0.1%	Timing of NWC build
Net Finance Expense	(3.3)	(2.9)		
Profit Before Tax	39.2	40.6	-3.5%	FY19 benefitted from Dexion sale tax provision writeback of \$0.5m
Tax	(11.3)	(11.3)		
Reported NPAT	27.9	29.3	-5.0%	
EPS & Dividend - cents				
Reported EPS	32.2	33.9	-5.1%	
Underlying EPS	33.4	34.3	-2.6%	Franked interim dividend of 25 cps
Interim Dividend	25.0	25.0	0.0%	

Non operating items H1 FY20

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\$M	Automotive	Davey
Davey		
Restructuring costs		1.0
Auto		
Moving costs and onerous lease obligations from moving to a single New Zealand Automotive distribution and office facility	0.4	
Total	0.4	1.0

Working Capital and Free Cash Flow

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- Inventory management focussed on minimum order quantities and safety stock levels
- Continued investment in receivables to support sales growth and renewed long-term major reseller agreements
- Payables normalised in H1 FY20 compared to PCP
- Capex relates primarily to the new facility in NZ and tooling within Davey and BWI

Net Working Capital balances and movement Movements

\$000	FY20 H1	FY19	Movement
Period End Balances			
Organic NWC			
Inventories	108.9	109.0	- 0.0
Receivables	112.1	106.8	5.3
Payables	- 60.6	- 57.6	2.9
NWC	160.4	158.1	2.3

Free Cash Flow (pre AASB 16)

\$M	H1 FY20	H1 FY19
Working capital		
Gross operating cash flow	43.6	23.4
Taxes	(17.4)	(17.8)
Net operating cash flow	26.2	5.6
Net capital expenditure	(3.8)	(2.6)
Free cash flow	22.5	3.0

Cash Conversion

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Solid H1 cash conversion tracking towards guidance

- Strong focus on inventory levels across all businesses
- Full year cash conversion guidance of near 80% reaffirmed

NWC focus to remain in H2 FY20

- Inventory focus remains paramount
- Debtor days will increase in H2 FY20 as some new terms of trade come into place

EBITDA to cash flow conversion (pre AASB 16)

\$M	H1 FY20	H1 FY19	H1 FY18
Operating cash flow *	20.5	5.6	20.6
+ Tax paid	17.4	17.8	13.9
Gross operating cash flow	37.9	23.4	34.5
Underlying EBITDA	46.0	45.5	47.0
Cash flow conversion	82%	51%	73%

EBITDA to cash flow conversion (post AASB 16)

\$M	HY20	HY19	HY18
Operating cash flow *	26.2	5.6	20.6
+ Tax paid	17.4	17.8	13.9
Gross operating cash flow	43.5	23.4	34.5
Underlying EBITDA	51.6	45.5	47.0
Cash flow conversion	84%	51%	73%

* Operating cash flow excludes net finance costs

Capital Management

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Stable dividend

- Fully franked interim dividend of 25cps in line with PCP

Refinancing successfully completed 28 January 2020

- Mix of 1, 4 and 8 year maturity arrangements
- Broadens funding base:
 - Westpac and NAB remain dominant
 - Now includes foreign lenders
- Strong lender interest in expanding facility level if required to support organic or acquired growth subject to formal approval at that time.
- Borrowing documentation accommodates further loans from any or all of the lenders
- Total facility level has been reduced to address the cost of idle loan lines which have not been used during the prior financing period
- Reduced annual funding costs by circa \$0.3m at current debt levels

\$M	As at 31 January 2020		As at 31 December 2019	
	Amount	Maturity	Amount	Maturity
Overdraft and short term loan facilities	25.0	28/01/2021	10.0	1/07/2020
4 year loan facilities	150.0	28/01/2021		
5 year loan facilities			245.0	1/07/2020
8 year fixed term loan	50.0	23/01/2028		
Total facilities	225.0		255.0	
Sourced from:				
Australian based banks	145.0	64%	245.0	100%
Foreign bank with local offices	30.0	13%		0%
Foreign based loan financier	50.0	22%		0%
	225.0		245.0	

Robust Financial Position

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Balance sheet remains robust

- Net debt increased by \$7.5m to \$149.7m versus PCP
- Strong balance sheet metrics:
 - Net Debt/UL EBITDA of 1.6 times
 - UL EBITDA (pre AASB 16) interest cover circa 12 times
- Current borrowings of \$94.9 m reverted to non-current borrowing on 28 January 2020

Gearing Ratios (Pre AASB 16)

\$M	H1 FY20	H1 FY19
Current borrowings	94.9	0.1
Non-current borrowings	75.4	158.1
Cash and cash equivalents	20.6	16.1
Net Debt	149.7	142.2
Underlying EBITDA*	92.9	92.8
Net Debt/EBITDA* (x)	1.6	1.5
Net interest*	7.2	6.4
EBITDA*/Net Interest (x)	12.8	14.4
Gearing ratio (Net Debt/Net Debt + Equity)	34.8%	34.5%

* Rolling 12 months

Impact of New Accounting Standards

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Lease Standard – AASB 16

- Adoption of AASB 16 to commenced in FY20 (1 July 2019)
- No impact on cash, net debt or banking covenants
- Operating leases moved on to the balance sheet:
 - lease assets (right of use assets)
 - lease liabilities (present value of future lease payments)
- Depreciation of the right of use assets and interest on the lease liabilities are now recognised on the income statement over the lease term

Impact of AASB 16 on H1 FY20 financial statements

\$M	H1 FY20	
Income Statement		
Occupancy expenses/rent	-	5.6
EBITDA	+	5.6
Depreciation	+	5.1
EBIT	+	0.5
Finance costs	+	1.8
Profit before tax	-	1.3
Balance Sheet		
Assets*	+	86.5
Liabilities*	+	87.7

* Opening balance sheet restatement (at 1/7/2019):
+ Assets \$88.9m
+ Liabilities \$88.9m



GROUP OUTLOOK



Outlook

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- Focus remains on:
 - Enhancing the Core (operational fitness)
 - Driving Growth (strategic plan), and
 - Acquisitions (Automotive)
- Revenue growth expected to continue in H2
- EBIT headwinds to moderate in H2 with full half benefits from pricing, supplier cost management and overhead control initiatives.
- Reaffirming FY20 Group guidance of modest EBIT growth
- Cash conversion still expected to remain near 80% in FY20



Q&A



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Important notices

This Presentation has been prepared by GUD Holdings Limited (ABN 99 004 400 891) (“GUD” or “Company”).

Summary information

This Presentation contains summary information about GUD and its activities current as at 31 January 2020. The information in the Presentation is of a general nature and does not purport to be complete or comprise all information which a shareholder or potential investor may require in order to determine whether to deal in GUD shares. It should be read in conjunction with GUD’s other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange, which are available at www.asx.com.au.

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Financial data

All dollar values are in Australian dollars (\$) unless stated otherwise.

Past performance

Past performance information, including past share price performance, given in this Presentation is given for illustrative purposes only and should not be relied upon as an indication of future performance.

Future performance

This presentation contains certain “forward-looking statements” including statements regarding our intent, belief or current expectations with respect to the Company’s business and operations, market conditions, results of operations and financial condition, and risk management practices. The words “likely”, “expect”, “aim”, “should”, “could”, “may”, “anticipate”, “predict”, “believe”, “plan” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. This Presentation contains such statements that are subject to risk factors associated with an investment in GUD. GUD believes that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially.