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25 October 2016

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 and the Managing Director's Address to be delivered at the Annual General Meeting of GUD Holdings Limited at 10.00am today.

Yours faithfully

Malcolm G Tyler
Company Secretary

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GUD Holdings Limited

Chairman's Address

59th Annual General Meeting

Tuesday 25th October 2016

RACV Club

501 Bourke Street, Melbourne

Ladies and gentlemen, my address to you at today's meeting will cover three key topics. The first of these is the customary overview of financial performance for the last completed financial year – that ending 30th June 2016. The Annual Report and Annual Review covering that year were recently mailed to you or, if you have chosen, their availability electronically has been advised to you.

The second item I will cover relates to our business portfolio and the changes we have made to it since we gathered here at this time last year. Finally, following a review of operations from Managing Director, Jonathan Ling, I will provide some commentary on the outlook for the current financial year.

However, prior to addressing all these issues I wanted to provide a perspective on workplace health and safety at GUD, as this remains an overarching management matter to which significant attention is directed on a daily basis.

Our recent priority in relation to safety has been to improve safety performance through the introduction of a number of new programs and initiatives. These have included increasing employee engagement, improving the safety culture at each business unit and site and developing safety campaigns encouraging staff to be more aware of their surroundings and the immediate resolution of identified safety risks.

GUD established a Safety Excellence Awards program in the 2014-15 financial year and continued with this in the 2015-16 year. The Awards are directed at promoting, encouraging, recognising and rewarding businesses, teams and individuals who have placed a high emphasis on accident prevention and have promoted a safety culture in the workplace.

While significant progress has been made it has recently been recognised that the GUD group's primary safety risks now reside in remote sites and with employees whose role requires a significant time spent on the road. It is fair to state that while the culture and safety performance has improved at all major sites within GUD this hasn't translated fully to our more distant operations, such as interstate offices and warehouses. This is being actively addressed in the current financial year.

In relation to mobile worker safety we are actively managing driver performance through the installation of telematics systems in all tool of trade vehicles supplied to mobile staff to enable them to do their jobs. This allows poor driving behaviour, which elevates the safety risk, to be identified and rectified and effectively places the same safety culture into the mobile office as it does the traditional office.

While GUD operates across industries that are not as inherently risky as, for example mining or construction, we recognise that providing a safe workplace for our employees and contractors is essential and our safety programs are structured around improving safety performance year-on-year.

Pleasingly, this unyielding focus on workplace safety is reflected in the high ratings achieved on the safety questions included in the group's annual employee engagement survey. More importantly, our safety performance improved in the 2015-16 year as evidenced by the group's total injury frequency rate, as measured by the total number of recordable injuries per million hours worked, more than halving over the last two years to 7.1 injuries.

I will now turn to outlining the primary factors underpinning the financial results we reported in late July for the year ending 30th June 2016.

Whilst the headline result was a loss of $43 million, this clouds the underlying operating result which was boosted by the full year inclusion of Brown & Watson, further outstanding returns from the established Ryco and Wesfil automotive businesses and a substantial uplift in profitability at Davey.

Underlying net profit after tax from the continuing businesses in GUD's stable, increased by 36% to $44.4 million. It is important to note that with the impending sale of GUD's remaining interests in the Sunbeam joint ventures, the financial results for Sunbeam have been removed from comparisons of performance with the prior year.

It is important that you have an appreciation for the decision to write down the value of GUD's investment in the Dexion business by a total $75.7 million pre-tax. This impairment was taken following a review of Dexion's trading performance, particularly in the second half, and its then near term outlook. Some of this was recognised at the time of our first half results announcement but as conditions for Dexion didn't materially improve in the second half further impairments were necessary.

Included in this non-cash write down was just over $59 million of goodwill, $10 million in brand name values, $4 million in inventory and $2 million in capitalised product development costs. I will comment shortly on Dexion's trading performance in the year and the factors behind these write-downs.

In addition to the Dexion impairment two other one-off items affected financial performance after the operating line. The first of these was related to the payment of the maximum earn-out for the previous shareholders of Brown &Watson, following its exceptional financial performance in the year. $10.6 million, representing half of the earn out, was taken as a one-off expense

The last item included in the one-off costs for the year was an impairment of Davey's inventory, valued at $1 million, which was included with the first half's results.

However, underlying earnings before interest and tax for the continuing businesses improved by 52% to just under $79 million, with growth in Automotive and Davey offsetting declines in Oates, Dexion and Lock Focus.

By business the major points to note around FY16's trading performance were as follows.

Profit growth in the established Ryco and Wesfil automotive businesses was impressive and was generated by strong sales growth. This came from a combination of introducing new product categories, range extension in existing categories, growth in the user base and the activation of a number of innovative marketing programs to support the new product activities.

Additionally, financial performance in the Automotive segment of GUD was boosted by the inclusion of Brown & Watson's trading for the full year. Sales and profit from Brown & Watson exceeded all expectations and resulted in the maximum earn out being paid, as already noted.

Davey's 27% improvement in earnings before interest and tax came from a combination of sales growth and internal efficiency improvements. These improvements included substantial savings being generated on domestic freight and further contributions from Davey's leading sales force effectiveness program, centred on improving share of wallet with established customers and on reducing the cost to serve across the customer base.

Disappointingly, Dexion reported a loss of nearly $4 million following a $5 million profit in the prior year. This result came from a combination of lower sales especially in the Australian warehouse racking market. This lower demand led to reduced throughout at the Dexion's Malaysian factory, causing the factory to operate at below break-even volumes. Whilst it was expected that factory volumes would improve in the second half this didn't occur, as demand remained relatively soft and Dexion implemented an inventory reduction program to release cash, further affecting factory performance.

Despite this sub-par operating performance, the one positive to come from Dexion was its improvement in cash generation, coming from a combination of the inventory reduction and from increased collections from customers, especially in the second half.

While reporting a growth in revenue, profitability at Oates declined 11% on the prior year. The main reason for this decline was the difficulty in obtaining price increases in the retail channel, including supermarket and hardware customers, to offset the higher cost of product stemming from the devaluation of the Australian dollar. Both the grocery and hardware sectors remain extremely competitive and under significant pressure, as the demise of Masters reflects. These pressures fall back on suppliers in many instances, as the primary focus of retailers is on price to gain and retain retail customers.

To wrap up my commentary on the year I want to focus on cash generation. A significant improvement in cash generation was recorded in the year following a structured program, that was directed at working capital reduction, being deployed across all businesses. Operating cash generated improved to $70 million from $30 million previously with higher receipts from customers and lower inventories being the primary drivers of this improvement. Much of the gain occurred in the second half and the focus on cash generation remains strong into the current financial year.

All of these factors allowed us to increase the total dividend paid for the year to 43 cents per share from 42 cents previously.

In addition, the actions we have taken to reposition GUD, through both portfolio changes, which I will address shortly, and business improvement, have been well accepted by the market, as reflected by the share price moving from below $10 at the time of the annual results announcement to around $11 per share recently.

Prior to inviting Jonathan Ling to provide you with a review of operations I wanted to talk about GUD's portfolio.

As you are aware we have made significant changes to the portfolio in recent times with the acquisition of Brown & Watson on 1st July 2015 followed by the sale of our remaining interests in the Sunbeam joint ventures, a year later.

The rationale for quitting the small appliance business has been well documented and I can advise that the Sunbeam sale transaction is now fully settled following completion of all acquisition adjustment accounts in September.

The wash up of the Sunbeam sale is that we will have a gain on the book value of the assets of around $2.5 million, which will be recognised in the current year's results.

Sunbeam is now with its natural owner – Jarden Consumer Solutions - the owner of the Sunbeam brand internationally. This ownership gives Sunbeam access to world scale product development capabilities and internationally competitive product sourcing arrangements, something it couldn't achieve in GUD's ownership.

It is interesting to reflect on Sunbeam's history in GUD. We acquired the business in 1996 when GUD bought Sunbeam Victa Corporation and, following a much needed reinvigoration of the product range, Sunbeam was the market leader in Australia with around 24% market share.

At that time, early in the 21st Century, Sunbeam was the major contributor to GUD's profitability. But the external environment changed rapidly following the global financial crisis with many competitors entering the Australian appliance market, seeking growth as their local markets were stagnating. Simultaneously, the retail trade underwent significant upheaval with traditional operators such as Retravision disappearing under the competitive onslaught from mass merchants, in particular.

Consequently, Sunbeam lost market share and its earnings profile became unstable. The brand remains a major force in the industry and, from the last information we had access to, was still the single largest brand in the Australian market, but with a much lower market share.

These are important lessons for our remaining businesses and are topics we discuss at our annual strategy day. The Sunbeam story illustrates how rapidly competitive conditions and the external environment can change in these days of globalisation and digitisation. The speed of these changes can, as seen with Sunbeam, have a dramatic impact on a business's ability to generate financial returns that are consistent with shareholders' expectations.

The other significant change to GUD's portfolio in the 2015-16 year was the acquisition of Brown & Watson. I spoke at length in this forum last year on the reasoning behind our interest in this business. It is pleasing to be able to state that the contribution from Brown & Watson in its first year of GUD ownership significantly exceeded our initial expectations.

The new product momentum in the business continued following the acquisition, and led to strong sales growth on the prior year. Sales were further boosted by new product introductions associated with Narva catalogue publication in February 2016, a pattern that is typical in this segment of the industry.

Brown & Watson's integration into GUD's purchasing arrangements commenced, resulting in an EBIT boost from better buying of ocean freight, local freight and insurance. In addition the bringing of Brown & Watson into GUD management systems and philosophies commenced with activities around profitability analysis, high performance culture and innovation.

Opportunities to leverage customer-focused marketing and sales activities with the Ryco business, in particular, were also identified and actioned, to the benefit of both businesses.

The early indications are that this acquisition will be value creating for GUD. Brown & Watson was a well-managed business, with a strong track record of performance coming from having market leading brands with a strong record of innovation. The results to date confirm our view that the automotive aftermarket is an attractive industry in which to have a presence. Consequently, we are seeking other significant opportunities in that sector.

Finally, I wanted to mention Dexion. We flagged at the annual results announcement that we are reviewing all strategic options for this business, including divestment. Whilst I have nothing to report on that front I can reassure you that we are extremely active in progressing the financial turnaround of this business. This won't come overnight but the management team has a well-documented action plan of improvement initiatives that is reviewed on a weekly basis and that is being worked through methodically.

That concludes my commentary on the results and the portfolio matters. Prior to speaking about the current year's outlook, I invite GUD's Managing Director, Jonathan Ling, to provide you with some more perspectives on his and the business units' current challenges.

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Thank you, Jonathan, for providing that operational overview, including further details on our group-wide innovation initiative.

Prior to turning to the business of the meeting I wanted to talk about the outlook for the current financial year.

Traditionally GUD has been quite reliant on performance in the first half to underpin the full year's result, but with the sale of Sunbeam and the expansion of our activities in the automotive aftermarket this is no longer the case.

Davey exhibits some spring seasonality while Brown & Watson has a slight seasonal inclination to winter, due to its comprehensive range of lighting products. In the context of the GUD group overall the effect of these influences is relatively minor.

Following completion of the first quarter's trading, just over three weeks ago, I am pleased to convey that the automotive businesses in the portfolio are continuing to exhibit the sales and profit growth momentum that was evident in the previous financial year.

Davey's performance over the same period has been constrained by the extremely wet and cool weather conditions that existed across Australia over late winter and into spring. Indeed, many parts of the country experienced the wettest September on record and, in this context, it is not surprising that demand for farm pumps and swimming pool products has not been as high as expected. However, we remain confident, given the programs Davey has in place, that this business will recover over the balance of the year.

Our Oates cleaning products business remains under margin pressure due to its difficulty in securing price increases in the retail segment of its business, as we have flagged previously, while Dexion is on target to deliver a close to break-even result in the current year.

In considering all these varying performances and the factors that we think will shape financial performance in this year we expect to be able to report a full year level of earnings before interest and tax of around $85 million.

Thank you for your continued interest in, and support of, GUD. We will now turn to conducting the business of the meeting.

GUD Holdings Limited

Managing Director's Address

59th Annual General Meeting

Tuesday 25th October 2016

RACV Club

501 Bourke Street, Melbourne

Thank you Chairman, and good morning ladies and gentlemen.

Since joining GUD just over three years ago I have spoken to you about the business and culture improvement initiatives that we have introduced. I won't elaborate on these today as, effectively, two of the three have been embedded in the businesses and are now just part of the way GUD's businesses operate. These two are the customer and product profitability understanding and the high performance culture program.

The third of these, the innovation initiative, remains our primary challenge.

Innovation has become a bit of a buzz word recently, especially following the Prime Minister's reference to it over the course of the last year and the associated programs that the Federal Government has put in place to support innovation activities in industry.

We recognised, long before the current national focus, that revenue growth was quickly becoming the main field we needed to focus on to drive profit growth in all our businesses.

In recent years we have completed all of the major restructuring that was required to be done across all businesses, to ensure their long-term survival from a cost position perspective. Any future gains in cost position are likely to be incremental, rather than sizeable.

Therefore, logically, our attention needs to turn to growing our revenues and gross profit margins to ensure that GUD as whole grows in accordance with the expectations of shareholders.

This is not to say that we are ignoring cost savings opportunities. Indeed, in the last year we have established a Supply Chain Council consisting of the principal manager from each business responsible for this operational function. The role of the Council is to ensure each business operates at best practice across a number of supply chain measures and that common cost-reducing opportunities are identified, explored and actioned where appropriate.

Remaining cost competitive, therefore, continues to be a primary area of focus and discussion, especially at our annual budget sessions and at our strategy meeting. Cost competitiveness spans product cost, supply chain cost and the cost of doing business through sales forces, customer service support, administrative function and marketing and branding.

To grow the revenue base of our businesses we need to consider how we can grow with existing customers, that is improve our share of wallet, and how we can gain new customers through having unique products or services or a superior value proposition with our current products and services.

New products and services are a key to growth in both situations and, essentially, this means that we need to have a dedicated stream of activity devoted to conceptualising and developing new product and services in all businesses.

To that end we embarked upon a major initiative centred on building innovation capability across the group following the establishment of a Product Leadership Council in mid-2015. A comprehensive program of content delivery allied with practical and relevant customer-focused activities has occurred over the course of the last eight months.

Through these activities, which have been led by a prominent innovation consultancy, we have established a common innovation process across all businesses and have built capability for the businesses to navigate through innovation missions.

In addition, we now have a structured, but not bureaucratic, methodology for dealing with ideas that people raise in the everyday course of events on ways to improve products or processes.

Our innovation journey is still in its early phases but I expect noticeable progress to occur over the next few months on the six principal innovation missions that we have launched at the Davey, Ryco and Oates businesses.

One aspect of the process we have learnt is the need to progress innovation missions rapidly. Businesses don't have the luxury these days of product development programs lasting years. We have already seen how quickly markets and competitive conditions can change in the electrical appliances sector and the need to be quick and nimble is absolutely paramount.

By the time we meet again next year I should be in position to provide you with some real life examples of products or services we have introduced in the course of the year as a consequence of our innovation activities. I would hope that I could make comment on sales growth being partially triggered by new products or services, as it is quite apparent in our current business that sales growth is the key to success, as I will now describe.

The outstanding contribution to our 2015-16 results from our established portfolio of businesses was undoubtedly Ryco and Wesfil.

Although operating in a market where there is some natural growth due to the increasing number of vehicles on the road, top line growth in the Automotive business has, in recent times, consistently outstripped market growth.

There are two main factors responsible for this performance - new product introductions and new customer acquisitions. By new customer acquisitions I mean bringing new independent automotive workshops into the user base for GUD automotive filtration products. For the Ryco business the effect of this has been sizeable.

But new products have also played a major role in growing sales and profits. Again to use Ryco as an example its introduction in recent years of diesel particulate filters, Japanese truck filters, Syntec high performance filters and an expanded range of cabin air filters have all had a significant impact on sales and have been the principal driver of the business's double digit profit expansion.

Similarly, the Wesfil business has opportunistically added product ranges to its offering in response to market demand and at a time when its traditional customer base has been shrinking due to industry consolidation, Wesfil has similarly generated improved returns.

Both these businesses are lean operations with little room for major cost cutting, so the focus has to be on growing sales.

The Chairman has mentioned the contribution to Brown & Watson's performance from new products, especially those introduced to the market with February 2016's publication of the updated Narva brand catalogue. This business will follow up this activity with the publication of the 2017 Projecta brand catalogue early in the new-year, with the expectation that this event will also provide a substantial boost to sales.

To further maximise our potential with Brown & Watson we recently announced that we have acquired the New Zealand distributor for Narva and Projecta. This business, Griffiths Equipment, distributes a diverse range of products and accessories in the automotive space. It became a subsidiary of GUD on 1st October this year. Griffiths Equipment has sales of around $8 million and is expected to contribute $2 million in profit on an annualised basis.

Although a relatively small acquisition, Griffiths Equipment strengthens GUD's presence in the New Zealand market. Over time this acquisition enables us to look at combining operationally our automotive interests in that market with the aim of reducing the cost to serve and of improving customer service.

Prior to handing back to the Chairman I should make some mention of noteworthy activities in the other businesses.

As you will have seen with our annual results Davey reported a pleasing growth in profit due principally to cost savings, although sales growth of 5% was achieved. There is still some way to go with Davey in relation to an optimal cost structure but strategically it needs to develop new products and services to be able to compete and survive in the long term. Davey is probably the most advanced of our businesses in progressing a number of innovation missions and I am confident that one or two of these will result in noteworthy new product introductions over the balance of the current financial year.

As noted earlier the Oates business has had difficulty in recovering product cost increases in its retail market segments and many customers in these segments are moving to dominate the cleaning products category with own label products. The focus for Oates, which is also a lean business in relation to its cost structure, is to pursue new products and services in the professional cleaning markets. Not only are these markets where the products are used extensively and frequently, but they offer the added attraction that innovation can have a substantial economic benefit through cost reduction or efficiencies.

Innovation at Oates is centred on opportunities in this market.

I won't comment much on Dexion as the primary focus there is the financial turnaround, as the Chairman has reported. Once we have a competitive and sustainable cost position the focus can alter to revenue growth, but that is some way off at present.

Finally, Lock Focus, our smallest business, but over time one of our most inventive. This business has the privileged position of selling to original equipment manufacturers and hence it solves real customer problems on a daily basis. In recent years it has been engaged in a number of breakthrough concepts for its customers, none of which have reached their full potential to date.

However, in recent months one particular product has been introduced in the garage door market and this is now building substantial sales momentum. Lock Focus only needs this and one or two of the other major projects it is currently working on with customers to achieve the initial sales targets and it will have entered a new era of growth.

To wrap up GUD is now positioned to almost exclusively dedicate its resources to growth through pursuing innovation avenues in every business. The need to spend large sums of capital on major restructuring projects is effectively gone.

The businesses now have the skills, the capabilities and the resources to pursue product and service innovation in a 21st century context. We need to cement this culture into our way of doing business, listen to and engage with customers in the process and be creative in exploring the large opportunities that present themselves through our understanding of changing customer needs.

To conclude, our focus has turned to growing through expanding our sales. Acquisitions are obviously another avenue to support this and we continue to assess potential candidates both when they are presented to us and as a result of internal initiatives.

The challenge of developing and commercialising breakthrough new products and services is not easy but each of the businesses have embraced it and all are aware of the consequences if we are not successful in this respect.

I will now hand back to the Chairman to speak to you on the outlook for the current financial year and to conduct the business of the meeting. Thank you.