

**Attention ASX Company Announcements Platform.  
Lodgement of Open Briefing.**



GUD Holdings Limited  
245 Sunshine Road  
Sunshine  
Victoria, 3020



---

**Date of lodgement:** 28-Feb-2000

**Title:** Open Briefing. GUD Holdings. CEO on Profit and Outlook

---

**corporatefile.com.au**

GUD Holdings Limited recently reported a steady half year net profit of \$7.8 million for the six months to December 1999. You have stabilised the businesses but did all divisions add to shareholder wealth under your recently introduced Cash Value Added (CVA) management measure?

**CEO Ian Campbell**

Not all divisions achieved expectations.

Our CVA measure requires each business to return an after-tax cash profit after deducting a capital charge on the funds employed. We use a nominal cost of capital of 10 percent which is higher than our actual cost of funds.

Some divisions were significantly above that level. The Pumps division has responded very positively to our management initiatives and was well above last year's level. Locks, Sunbeam and Victa were slightly below the 10 percent benchmark. Returns within the Filtration division were mixed. New Zealand performed well as did Wesfil in Sydney. But the Filtration division overall was held back by the Melbourne operation which still suffers from the sub-optimal performance of the automated production line.

**corporatefile.com.au**

Given you operate in some tough markets, is it realistic to expect positive CVA contributions in the current climate from your four divisions?

**CEO Ian Campbell**

Absolutely realistic. The Balance Sheet side of the equation has room for improvement. On the profit side in the Filtration business there is a considerable way to go. Significant improvements in Locks and Pumps will be harder to achieve.

**corporatefile.com.au**

Has the introduction of the CVA principles triggered a more focused management approach within GUD?

**CEO Ian Campbell**

Yes. All the divisional managers and their direct reports have incentives tied to CVA budgets. It's a new concept for this company which has previously measured itself and rewarded executives on an ebit to sales basis without regard for the balance sheet. So yes, it has been very positive in all divisions.

**corporatefile.com.au**

Will management be held accountable if acceptable returns are not achieved?

**CEO Ian Campbell**

Yes, they will.

**corporatefile.com.au**

What key appointments have you made to bolster management since you arrived just over a year ago?

**CEO Ian Campbell**

A new Financial Controller has been appointed in every division. The quality of the function has been upgraded. We have a new CFO for the group who is a very focused and cost-conscious executive. We've also made some significant senior appointments in operational areas, particularly in the Filtration and Pump businesses. New sales and marketing staff have been appointed in both Sunbeam Appliances and Pumps.

**corporatefile.com.au**

Your strategy to date has been to achieve operational improvements across all divisions while also refocusing the portfolio through sales of non-core businesses and surplus assets. Debt is down 12 percent in the latest half year. Is this the first sign of progress?

**CEO Ian Campbell**

Yes, I believe it is. The debt reduction is a direct result of a more focused approach to inventory and debtor management. We have achieved tighter control of working capital. We have a group-wide focus on further debt reduction.

**corporatefile.com.au**

In the latest six months, cash flow improved from a negative \$16.9 million to a positive \$6.1 million. Can this trend be repeated, enabling you to further reduce debt from operating cash flows?

**CEO Ian Campbell**

Cash flow will remain positive but maintaining that quantum of improvement is unrealistic. The negative cash flow in the December 1998 half-year was largely a result of significant capital expenditures and redundancy payments following staff reductions.

**corporatefile.com.au**

Do you have any significant capital expenditure commitments that will restrain the pace of debt reduction?

**CEO Ian Campbell**

No. We've implemented a group-wide policy of restraining capex to below depreciation levels. This is prudent, given significant capital expenditures have gone into the business in the last 2-3 years, particularly in Sunbeam, Victa and Filtration.

**corporatefile.com.au**

What about major redundancy payments?

**CEO Ian Campbell**

We will continue to restructure where possible but we are not initiating any unplanned redundancies in any of the businesses this year.

**corporatefile.com.au**

Are you reducing debt because you are unsatisfied with your interest cover of 4.9 times, or for other reasons?

**CEO Ian Campbell**

We are reducing debt as a result of better financial management. Our interest cover of nearly 5 times is sufficient. But if we can get debt down, returns to shareholders will improve. Lower debt will also enable us to pursue some small value-added acquisitions.

**corporatefile.com.au**

Your current share price is depressed and trading on a PE of 7 times and a yield of 10 percent unfranked. Is a share buy back possible?

**CEO Ian Campbell**

Once we've reduced debt further, we will review the merits of a share buy back. At that time we will also review the benefits of acquisitions and investment in growing our current businesses. Lower debt will open up all these possibilities.

**corporatefile.com.au**

Proceeds from asset sales totalled only \$2.1 million in the last 6 months. Do you anticipate much bigger contributions to cash flow from asset sales over the next year or so?

**CEO Ian Campbell**

We plan to sell two properties which will provide about \$2 million. There are also a couple of smaller activities we may divest. Asset sales totalling \$4-5 million over 12 months are targeted.

**corporatefile.com.au**

You currently operate in four divisions - Consumer and Rural, Filtration Products, Pumps and Water Pressure Systems, and Security Products. From which division do you expect the most significant operational improvements?

**CEO Ian Campbell**

The Filtration business. Automation began two years ago and productivity from the investment remains disappointing. We would expect to see a significant operational improvement over the next 12 months.

**corporatefile.com.au**

Successfully automating the Filtration plant has taken much longer than previously expected. Why are you confident we will see significant improvement this year?

**CEO Ian Campbell**

We have restructured our operations, management and systems to achieve this.

**corporatefile.com.au**

EBIT margins in the Filtration division increased from 7.3 percent to 8.6 percent in the December half but they were 13 percent back in 1997. What's achievable in the medium to longer term?

**CEO Ian Campbell**

Since the days of 13 percent, the pricing and market structures have changed. Imports have become far more prevalent. I anticipate 10 percent being a good, sustainable profit return for Filtration.

**corporatefile.com.au**

Total sales were down 4 percent to \$179.5 million suggesting growth is hard to achieve in your businesses. Which division has the best potential for organic growth?

**CEO Ian Campbell**

The Pumps division is the engine for growth. It has potential across the Asia-Pacific region, particularly in the agricultural area.

**corporatefile.com.au**

EBIT margins in the Pumps division have steadily improved in recent years, up from 7 to 8 percent range in '96/97 to 11.8 percent in the latest half. What new markets and opportunities are opening up?

**CEO Ian Campbell**

We currently export to 40 countries and new markets are opening in the Middle East, Africa and China.

**corporatefile.com.au**

Your Consumer and Rural division, which boasts the well-known Sunbeam and Victa brands, improved EBITA margins slightly to 8.5 percent on sales which were down 3 percent. In the previous December period, sales were boosted by the Victorian gas and the New South Wales water crises making comparative growth hard to achieve. What initiatives have been implemented to increase sales in the coming 12 months?

**CEO Ian Campbell**

We have a continual program of product innovation. Our electric-blanket business can grow significantly as we expand out of Australasia into selective export markets. And in Victa we see an opportunity to increase our market share through a new product line up.

**corporatefile.com.au**

Have you improved your efficiency in supplying the market?

**CEO Ian Campbell**

Yes. One of the real areas of improvement has been in our total supply-chain management of product, particularly that sourced from offshore under the Sunbeam brand. In the year to June 1999, the supply-chain management was sub-optimal.

In the December 1999 half year, we won the Big W 'Supplier of the Year' award which reflects our improved supply-chain performance.

**corporatefile.com.au**

Can you forecast the GST's impact on Sunbeam and Victa sales?

**CEO Ian Campbell**

Not really. We anticipate a mixture of responses. We would expect GST to be neutral on our appliance business because there is currently 12.5 percent sales tax payable and that will be replaced by a 10 percent GST.

In the Victa range, there is currently a 22.5 percent sales tax which will be replaced by a 10 percent GST. There is a risk of reduced sales in the last quarter. Traditionally, Victa is weak in the final quarter for seasonal reasons.

**corporatefile.com.au**

Security Products is your smallest division and managed a 65 percent EBITA increase on flat sales. EBITA margins rose from 10.3 percent to 16.2 percent. What was done in this division to improve returns?

**CEO Ian Campbell**

There were three key initiatives. The first was to close an unprofitable assembly facility in Bangkok, Thailand. It was not economical, particularly with the downturn in Asia. Secondly, we lifted productivity significantly following a period of rationalisation. And thirdly, we were more selective about who we supplied - which is partially reflected in reduced sales but also in better quality earnings.

**corporatefile.com.au**

What unrealised benefits exist within your divisional structure?

**CEO Ian Campbell**

We've implemented a strategic sourcing program across the group. We spend \$220 million annually and we're looking for significant savings by employing cross-divisional and cross-functional teams to negotiate better overall buying prices for goods and services.

**corporatefile.com.au**

In the current climate, can GUD improve on recent results?

**CEO Ian Campbell**

Absolutely. By division, there are different programs and projects in place to achieve stronger top line (sales) growth. Coupled with productivity improvements, tighter financial management and a more focused asset portfolio, results should improve.

---

For previous Open Briefings by GUD Holdings visit [www.corporatefile.com.au](http://www.corporatefile.com.au)

For further information on GUD Holdings Limited visit [www.gud.com.au](http://www.gud.com.au)