

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



GUD Holdings Limited  
245 Sunshine Road  
Sunshine  
Victoria, 3020



---

**Date of lodgement:** 08-Aug-2000

**Title:** Open Briefing. GUD Holdings. CEO on Future Growth

**corporatefile.com.au**

GUD Holdings Limited today reported a 9.8 percent fall in pre-tax profit to \$17.5 million. Where must you improve in the 2001 year?

**CEO Ian Campbell**

As a group, I believe we've turned the corner. We now have management programs which are reducing costs and improving productivity. We're beginning to use our capital more effectively and consciously addressing "make/buy" decisions in every business.

Improvements across the group in 2001 will depend on management implementation.

Looking at divisions, obvious improvement is required in Filtration. Solving problems within the automated production process has been slower than planned but we registered genuine progress in May and June which gives cause for optimism.

**corporatefile.com.au**

Specifically what is the outlook for 2001?

**CEO Ian Campbell**

The outlook is for a better year than we've had this year. We're far more confident about our ability to deliver profits from the Filtration business than we've been in recent years. We're also confident that Sunbeam is now in better shape in terms of its internal management of supply chain and sourcing.

Our Lock business will continue to do well and our Pump business has been restructured to take advantage of the significant opportunities in export markets.

**corporatefile.com.au**

You talk about 'make or buy' decisions. What do you assess?

**CEO Ian Campbell**

It's a simple economic choice between importing or manufacturing in Australia. In many areas of our business it is more sensible to import from strategic partners than incur the costs of production set-up for short run, low volume products.

**corporatefile.com.au**

Last year you introduced the Cash Value Added (CVA) measurement of performance. As a result, what improvements have occurred?

**CEO Ian Campbell**

The whole organisation has embraced the CVA measurement. It's part of the new GUD culture.

We've been able to improve a number of our financial ratios, particularly our cash flow from operations which increased 121 percent to \$29.9 million. Our net debt has also fallen 16 percent from \$80.6 to \$67.9 million and our gearing has improved to 35 percent.

We've been able to reduce inventories in every business. Total inventories at balance date were down \$11.4 million to \$68.5 million and there is further scope for reduction as we reach our stock turn targets.

**corporatefile.com.au**

GUD short-term borrowings were down from \$28.7 million to \$4.6 million and long-term debt was up from \$52 million to \$63 million. Why such a dramatic change in the mix and what impact will this have in the future?

**CEO Ian Campbell**

We restructured the mix of debt after establishing a core debt facility. Overall we have a better structure and we've made the group less vulnerable to any spike in short-term interest rates.

**corporatefile.com.au**

How did the lower Australian dollar impact on GUD?

**CEO Ian Campbell**

We're a significant importer of product in nearly all divisions and the lower dollar increased our costs. With the competitive marketplace, margins were squeezed. On the positive side, exports out of Davey pumps benefited from the lower dollar. Imports exceed exports across the group.

**corporatefile.com.au**

Have you been able to increase prices to compensate for the impact of the lower dollar on costs?

**CEO Ian Campbell**

Partially. From July 1 most Sunbeam products have increased 6.5 percent. The economic increase has been accepted by all our customers. Similar increases have occurred in Victa and in Davey pumps due to the higher cost of imported engines. The price increases will help offset the higher cost of imported product in the first quarter results.

**corporatefile.com.au**

What percentage of your product mix would that represent?

**CEO Ian Campbell**

Around 80 percent for Sunbeam and about 25 percent for Victa.

**corporatefile.com.au**

What was the impact of the GST introduction?

**CEO Ian Campbell**

It was mixed. Certainly there was a negative impact on the Sunbeam appliance business. Our major retail customers closed their books in June. In the Filtration business many of the resellers and wholesalers de-stocked throughout June.

The Pumps business was boosted pre the GST as many of the pumps sold, particularly in the agricultural area, were sales-tax exempt. The impact was neutral in the Lock business.

**corporatefile.com.au**

What progress has been made in the group-wide procurement program?

**CEO Ian Campbell**

The last time we spoke we had identified about \$220 million of spend across the group. Since then we've identified six key categories representing about \$70 million of spend.

We've appointed a strategic sourcing manager with the sole responsibility of delivering savings from that spend and targets have been embedded into our 2001 budget.

We've recently let contracts in metal castings. Within the next month we will have let contracts on steel, packaging, freight, plastics and rubber sourcing.

**corporatefile.com.au**

What cost savings do you expect?

**CEO Ian Campbell**

We've taken a conservative view and included \$3.5 million into our 2001 budget. That figure recognises a phasing in of new contract prices.

**corporatefile.com.au**

Problems have plagued the Melbourne-based oil-filter production plant for nearly 3 years. What was achieved last year?

**CEO Ian Campbell**

Last year the results were disappointing. We've changed management and addressed the shortcomings of the plant layout and functionality.

In May and June we were producing at a 40 percent better rate than last year. But we're coming from a low base and we target a further 40 percent increase in daily output this year, which would take us to 80 percent of where we want to be. We'll make significant gains in 2001, and I anticipate further gains in 2002.

**corporatefile.com.au**

Why were Filtration division sales lower in the latest year and what is the outlook for demand in the current year?

**CEO Ian Campbell**

Sales dropped by 8 percent in direct response to a decline in orders from major after-market wholesalers, as industry mergers flowed through to inventory rationalisation.

**corporatefile.com.au**

Have demand conditions improved?

**CEO Ian Campbell**

Yes. We would typically look to sell one million filters a month and we've certainly achieved that in July.

**corporatefile.com.au**

EBITA margins in the Filtration division edged down from 8.9 to 8.3 percent. What is achievable given the improvements in production and the demand environment?

**CEO Ian Campbell**

I've said 10 percent previously. I still believe that 10 percent is an achievable target.

**corporatefile.com.au**

Sunbeam and Victa are leading brands, but EBITA margins were relatively low, edging down from 6.9 to 6.3 percent. What are you doing to reduce costs?

**CEO Ian Campbell**

Climatically it was a less favourable season for Victa and that was the prime reason for the lower profit contribution from mowers.

In terms of cost reduction, savings should emerge from the relocation of iron manufacturing from Campsie in Sydney to China. These irons are designed by Sunbeam and manufactured in China for Sunbeam. The switch is already enhancing margins.

We're also attacking costs within our supply chain. We are now consolidating some shipments out of China. Benefits will flow longer term.

**corporatefile.com.au**

Are you developing any new products to grow sales within the Sunbeam and Victa brands?

**CEO Ian Campbell**

This season Victa has launched a new range of 4 stroke mowers powered by Briggs and Stratton engines. We've also just released a new two-stroke model which is 25 percent more powerful than its predecessor. This upgraded product will help cement Victa's leading position.

Sunbeam is launching a new range of home-health products.

**corporatefile.com.au**

EBITA margins in the Pumps division increased from 8.8 to 10.1 percent, with divisional earnings up 25 percent and sales up 10 percent. What is the strategy to sustain growth?

**CEO Ian Campbell**

New product launches (particularly for the pool and spa markets) and competitive pricing will underpin growth in Australia and New Zealand. We also need to establish the business in key offshore markets.

Our internal target is to grow our exports by 20 percent p.a. compound over the next 5 years and we would expect exports to become 40 percent of our business by that time.

**corporatefile.com.au**

What did exports grow by in the latest year?

**CEO Ian Campbell**

22 percent.

**corporatefile.com.au**

Do you need to invest in new plant and equipment to manage that sort of growth within the Pumps division?

**CEO Ian Campbell**

We are currently undertaking a feasibility study on relocating our Davey pumps manufacturing and warehouse facility to a Greenfields site. Productivity would improve given a better factory layout which would also enable us to handle more shipping containers for exports.

We're not necessarily intending to spend or invest a lot of money. Within Davey we've begun to outsource some activities. For example, we now have an agreement with a motor manufacturer to supply large electric motors. These were previously manufactured in-house.

In future we're more likely to form alliances with strategic supply partners rather than invest in manufacturing. We hope to keep costs down, reduce the investment and grow the business.

Our Davey brand of pumps and water systems is a leader and we're well placed to take advantage.

**corporatefile.com.au**

The Security Products division increased EBITA margins from 16.4 to 20 percent with divisional earnings up 29 percent and sales up 6 percent. Are profits now vulnerable to the expected downturn in building activity?

**CEO Ian Campbell**

The Security business is not dependent on the building cycle.

We sell a range of product to Original Equipment Manufacturers in different market segments such as metal and wooden furniture, security doors, commercial and domestic windows, caravans and garage doors. Sales to Asia are also growing due to the region's economic rebound.

There will be some impact from the anticipated downturn in the building industry, but it will be negligible.

**corporatefile.com.au**

Earnings per share for the year was 16.9 cents versus 18.9 cents. Why did you hold the dividend steady at 15 cents?

**CEO Ian Campbell**

The dividend was maintained despite the lower profit because the business is in a much stronger position to pay dividends due to the 121 percent increase in cash flow and the reduction in debt.

GUD generates significant cash flow. Non-cash charges such as depreciation and amortisation exceeded \$10 million in the latest year.

Although the pay-out ratio is high at 88 percent a steady dividend payment is appropriate given our improved financial strength.

**corporatefile.com.au**

You announced that shareholders can choose to participate in a buy-back rather than take the final dividend of 7.5 cents. Why did you introduce this option?

**CEO Ian Campbell**

We are conscious that many shareholders have different tax priorities and a buy-back may be preferable to an unfranked cash dividend for some.

This is another step in our capital management program.

Last year we suspended our Dividend Re Investment Plan.

Later this year we would like to introduce a more broad-based share buy-back plan, but this will depend on further success in implementing our strategies to improve the financial strength of GUD.

**corporatefile.com.au**

Thank you Ian, we look forward to the next Open Briefing with GUD Holdings.

---

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)