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GUD Holdings Limited today announced a net profit of \$8.4 million for the first half ended December 2000, a 15 percent increase from the previous first half. What were the key drivers of the result?

CEO Ian Campbell

A major driver was the filtration division, where the benefits are starting to flow from our investment in production automation. Earnings from our Davey pump business were down from last year's record, which reflected pre-GST demand. But that was offset by a lower tax payment.

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Tax was \$4.2 million versus \$5.4 million previously. Why was it lower and what is the likely tax rate in the future?

CEO Ian Campbell

First, the corporate tax rate dropped to 34 percent this year from 36 percent last year. Second, our tax booked last year was inflated by a one-off charge of nearly \$600,000 on the effect of the change in the tax rate.

This year our tax rate should be in the 33 to 34 percent range. At the end of the year, we'll have to adjust our balance sheet to the new 30 percent tax rate effective from next financial year. There'll be a one-off charge for that, but thereafter we would expect to pay close to the prima facie rate.

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A surprise in the result was a return to fully franked dividends. What is the outlook for franking?

CEO Ian Campbell

Our earnings are better than anticipated and with the PAYG tax system dragging forward our income tax payments, franking credits are being released.

As the continuing business is structured today, we'll have sufficient franking credits available to continue 100 percent franking.

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Earnings per share in the first half increased 16 percent to 12.3 cents per share and the dividend payment was steady at 7.5 cents. Why didn't you increase the dividend?

CEO Ian Campbell

Last year we paid out nearly 90 percent of profit because we wanted to maintain our dividend. The first half's 60 percent payment reflects our intention to bring down the payout ratio to a more prudent level as part of our capital management programme.

Our capital management started with implementing Cash Value Added principles in each of our businesses and this has had positive results in terms of our borrowings and investments. We've also determined that for a business our size, we have too many shares in the market. Our recent off-market buy-back and the planned on-market buy-back will take 10 percent of our shares out of the market and improve earnings per share.

The combination of buy-backs and franked dividends should make GUD an attractive stock. Assuming a full-year dividend of 15 cents a share, we're giving a fully franked yield of close to 9 percent on the current share price.

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A week ago, you announced your intention to buy back up to 9 percent of issued capital. What impact will the buy-back have on future earnings per share?

CEO Ian Campbell

It will be roughly equal to the rate at which we buy back. If it's 9 percent we buy back, earnings per share will increase by 9 percent. While we'll have additional borrowings to service the buy-back, we'll also have savings in terms of a lower overall dividend payment.

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Will you be able to continue to reduce debt given the dividend payment and buy-back plans?

CEO Ian Campbell

Yes. We can further refine our supply chain management and our stocks and debtors. Ours is a seasonal business, so it's difficult to tell from the half year, but even after the buy-back and dividend, total debt should be around \$60 million,

down from \$68.0 million at the end of June 2000 and \$80.7 million the year before that.

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The first-half result included \$1.8 million of non-recurring items. Can you detail these?

CEO Ian Campbell

The items relate chiefly to business closures: of our agricultural implements distribution business, which was run out of Sunbeam, and of our heavy-duty filtration business, which was rolled into the new Ryco facility in Sunshine with some products going to our New Zealand plant.

The heavy-duty filtration closure cost us around \$600,000 and the closure of agriculture, including redundancies and some asset write-offs, cost us close to \$1 million.

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The pump division dropped 33 percent in EBITA to \$2.4 million from \$3.6 million. Can this fall be entirely attributed to the slowdown in building industry demand?

CEO Ian Campbell

It was caused by a combination of events. As the major supplier of spa bath pumps to the OEM industry, we suffered when building activity fell. More important was the post-GST effect. We'd had strong pre-GST demand in the last couple of months of the last financial year. But in the first quarter of this year, Davey's sales slumped.

At the same time, the weak Australian dollar forced up the prices of imports such as engines for firefighter pumps and the small pumps that complement our manufactured range. Also, the product mix changed. We didn't sell as many of our higher-margin pumps as we did last year.

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Did exports within the pump division continue to grow?

CEO Ian Campbell

Yes, but growth was not as strong as the previous six months. Our offices in the Middle East are active. We've continued to enter new markets and we've opened an office in Chicago in the US.

We don't expect exports to grow exponentially. A lot of work is required to break into the larger markets but we remain committed to exports.

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What is the outlook for the pump division?

CEO Ian Campbell

Sales in Australia have begun to recover. December saw an increase in activity compared with the prior five months. And January has started strongly.

Longer term, we continue to see exports driving the growth of the business. Our objective has been to achieve \$40 million in export sales and to that end, we'll shortly relocate to premises more suitable for producing export products. Our pump business will continue to be exposed to seasonal factors in Australia, but developing exports should make the business more predictable.

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The filtration division increased EBITA 37 percent to \$4.4 million from \$3.2 million due to improved production within the Melbourne manufacturing facility. Can you continue to improve production efficiencies?

CEO Ian Campbell

Yes. We're now looking at reducing the duplication of items manufactured by our New Zealand and Melbourne plants, streamlining production and reducing set-up times. Packaging equipment, which will be installed in May, should also improve productivity further.

We also have in place a number of programmes for refining internal productivity.

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Will these efficiencies feed through to better financial returns for the group or will they mean you are just better able to cope with lower prices in the market place?

CEO Ian Campbell

We expect to improve our financial returns. We have a loyal customer base for the Ryco brand and believe our customers expect to pay a premium for quality.

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The Lock Focus division posted a 6 percent rise in EBITA to \$1.2 million. How did it avoid being hit by lower building industry demand?

CEO Ian Campbell

The lower demand only began to affect Lock Focus in November and December. And it didn't hit across the board, just in window locks and associated hardware. Our garage door lock business remained strong.

We've introduced new products, including a range of fire-rated safes, and we've made significant productivity improvements in our manufacturing processes. So we've been able to offset some of the negatives coming out of the building industry.

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The Sunbeam Victa division posted a 1 percent decline in EBITA to \$9 million from \$9.1 million. Was this disappointing given Victa lawnmower sales were strong due to positive seasonal conditions?

CEO Ian Campbell

It was disappointing but as I mentioned earlier, we spent close to \$1 million above the line in closing out the agricultural implements business. That won't be a recurring item.

We had strong appliance sales in Australia and were able to keep our margins up by increasing price to recover costs.

The New Zealand business faced a tough environment in terms of both sales and margin, but had a strong result. Our rural business, Sunbeam Shearing, had a difficult six months and that took some of the gloss off the achievements of the appliance and mower business.

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What is the outlook for sales of your consumer products in Australia?

CEO Ian Campbell

We've had strong support from our major retail customers, some of whom are on record as saying they're not doing as well as expected. Thankfully, the shelf appliances and small appliance sector has held up well, so we have reason to think that should continue.

We have new ranges of products where we've quickly achieved market leadership. We're confident that demand for Sunbeam products will continue to grow as we introduce innovative products, supported by active advertising.

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Have the negative effects of the lower Australian dollar passed in terms of how they have impacted on GUD?

CEO Ian Campbell

The speed of the decline in the value of the dollar had an impact on us early this financial year. Our hedge programme is now in line with the current value of the dollar, so there is no negative impact at present.

We were most affected by competitors who were prepared to absorb the cost increase, which we weren't. So where we were looking for price increases, they were holding their prices and that had an impact on our trading performance.

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How do you see the profit outlook for the full year?

CEO Ian Campbell

We're well positioned to have a better year than last year. We believe better earnings are achievable and are working hard within each of our businesses to that end. We've got new product programmes driving our sales. We've got the disciplines required to manage our balance sheet. We're confident we can continue to improve shareholder value.

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

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