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GUD Holdings Limited
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Title : Open Briefing. GUD Holdings. CEO on 2002 Profit & Outlook

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GUD Holdings Limited yesterday announced a 79 percent increase in profit before significant items in the year ending June 2002 to \$20.9 million from \$11.6 million. Significant items reduced the reported profit to \$6.4 million. Are the gains in operating profit sustainable?

CEO Ian Campbell

Over the last year our group has performed to my expectations for the first time. The gains have been achieved through operational improvements, new products, much closer attention to inventory and supply chain management. They are definitely sustainable. In fact, we can improve further. We're building a culture of continuous improvement.

Sunbeam, Victa, Ryco and Davey are brand leaders and we now have a corporate structure and management culture that will enable us to sustain returns. Given reasonable economic conditions, we'll grow from this base.

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Do you anticipate any major one-off charges in any GUD businesses in 2003?

CEO Ian Campbell

No. All the major restructuring has been completed. Our future earnings should be properly reflected in reported profits. That trend has already begun. In the six months to June 30 we recorded a net profit of \$10.3 million.

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GUD's current share price is \$3.15 and the shares are on a PE of 9.5 times 2002 EPS of 33.8 cents (excluding significant items). What growth targets have you set for GUD in the year to June 2003?

CEO Ian Campbell

Our basic aim every year is to exceed the CVA target of 10 percent in all businesses. We also expect to increase EPS and the dividend. Those objectives are achievable in the year to June 2003. To date, all GUD businesses have performed strongly in July. What we know is that all our businesses are now well managed and capable of posting improved results.

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In the year just completed, the final dividend increased 20 percent to 9 cents and the annual increased 10 percent to 16.5 cents. What is your dividend policy?

CEO Ian Campbell

Regular dividend increases are an important component of our plan to sustain solid shareholder returns. And we have plenty of scope. The latest annual dividend of 16.5 cents represents a payout ratio of just under 50 percent (excluding significant items). In future periods we'd hope to have additional franking credits. When we increase the dividend we like it to be fully franked.

We'll also continue with our share buyback programme. In the last couple of years, we've purchased 5.7 million shares at an average price of \$1.94. The buyback has been EPS positive.

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GUD reported free cash flow of \$75 million in the latest year, well above normal levels. What were the main drivers behind the surge in cash and what do you expect in the current year?

CEO Ian Campbell

We had \$23 million of cash inflow from the sale of Sunbeam Rural and some properties. We also had a \$17 million reduction in inventories and a \$10 million increase in EBIT. The reduction in inventories helped reduce working capital by just over \$20 million.

In 2003, our cash generation will be lower but it's expected to remain strong. We're expecting another strong EBIT contribution and we'll continue to have a large depreciation and amortisation charge of about \$10 million. Capex will be at normal levels and should remain below depreciation and amortisation.

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The profit announcement said GUD is now in a position to grow via acquisition. What is your acquisition strategy?

CEO Ian Campbell

Firstly, it's important to understand our position of relative financial strength. In the last 12 months, we reduced net debt 48 percent to \$38 million. As a result, our net debt to equity has dropped to 31 percent from 56 percent and our interest cover has risen to 6.6 times from 3.8 times. This opens up our ability to consider acquisition alternatives.

We now have a record of improving businesses and through acquisitions, we can leverage our expertise. Potential financial returns will dictate our strategy. We'll only review opportunities where we see the potential to extract cash value added (CVA) returns exceeding 10 percent and be EPS positive.

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Is future growth dependent on acquisitions?

CEO Ian Campbell

No. Each of our businesses has clear objectives for growth. We're planning range and category expansion in Sunbeam. We'll have 75 new products for this Christmas. Victa will release new model mowers over the next two years, some exclusively for export. Davey also has a well developed growth strategy which will roll-out over the next two to three years.

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In the year to June 2002, GUD's CVA returns increased to 13.1 percent from 9.9 percent. The smallest division, Lock Focus, increased EBIT 50 percent to \$1.8 million but CVA remained below the 10 percent target at 8.8 percent. What is your plan to lift Lock Focus' returns?

CEO Ian Campbell

Lock Focus carries \$11 million acquisition goodwill at cost which makes the 10 percent CVA target a real challenge. On all other ratios, this is an excellent business.

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Sunbeam Victa increased EBIT 45 percent to \$15.9 million. The CVA return was 12.1 percent versus 8.1 percent. What have been the major changes in the Sunbeam Victa business?

CEO Ian Campbell

Victa has implemented a new business model. We now outsource manufactured components and sub-assemblies. Our Victa 2-stroke engine is now manufactured and assembled in South Australia. We assemble and finish the mowers at our new site at Moorebank.

Sunbeam fryware is now sourced from China, product development is based at Botany, the distribution centre has been relocated to Minto and the rural business has been sold. The restructuring plan we announced this time last year has been completed on time and within budget.

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In the first six months to December, Sunbeam Victa EBIT was virtually steady at \$8.8 million but in the second six months to June, EBIT rose to \$7.1 million from \$2.0 million previously. Why was the second half so strong for Sunbeam Victa?

CEO Ian Campbell

Sunbeam Victa sales in the second half were up 10 percent. We traded strongly. After excluding the prior year contribution from the sold Sunbeam Rural business, sales grew 20 percent to \$93 million from \$77 million in the second half. This reflects the success we've had with new products and our position as the number one brand in a buoyant small appliance market. We also benefitted from a relatively late selling season for Victa.

Also, we picked up about \$2 million in extra EBIT from the restructuring. Cost benefits were immediate in parts of the Sunbeam range as we moved to offshore sourcing rather than domestic manufacturing. Our budget expects another \$3 million in restructuring benefits this year.

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To what extent did the sale of Sunbeam Rural boost profit?

CEO Ian Campbell

The profit on the sale of Sunbeam Rural was \$680,000 pre-tax. It represented 4 percent of Sunbeam Victa's EBIT and only 2 percent of group EBIT.

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Davey's CVA return was a healthy 14.7 percent and EBIT grew 24 percent to \$5.6 million from \$4.5 million. But, current EBIT is not dissimilar to the level in 2000 of \$5.5 million. Why has Davey's growth been relatively static, if you take a two-year view, and how can you lift its performance?

CEO Ian Campbell

Davey's performance has traditionally been linked to domestic market conditions. The strength of the rural sector, the weather, growth of the swimming pool and spa markets are major factors driving performance. Our strategy has been to develop our export markets, which will lessen our dependence on the local market. We expect our exports to the US to increase dramatically.

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Ryco/Wesfil increased EBIT 34 percent to \$12.3 million from \$9.2 million. What changes are occurring in the auto after-market industry and how will Ryco/Wesfil need to adapt if it is to sustain strong returns?

CEO Ian Campbell

The major distributors of filtration, the Automotive Parts Group and National Parts are now of similar size. We expect further consolidation will occur. The key brand equity components of quality, range, technical support and channel availability will ensure Ryco and Wesfil will continue as market leaders.

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Thank you Ian.

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