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Lodgement of Open Briefing.

GUD Holdings Limited
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Title : Open Briefing. GUD Holdings. CEO on 46% Div Rise and Profit

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GUD Holdings Limited today announced a record six month profit of $13.3 million for the first half ended December 2002 versus a loss of $3.9 million in the previous corresponding period and a 46 percent rise in the interim dividend to 11 cents from 7.5 cents. Is the dividend increase sustainable?

CEO Ian Campbell
Our EPS in the latest six months was up 47 percent to 24 cents, excluding individually significant items, so we can comfortably pay this level of dividend especially given our relatively low debt level. Our interest cover in the latest period was 11.7 times. Also, all businesses are in very good shape and group CVA is tracking ahead of last year and above the cost of capital.

The 46 percent rise in our interim dividend follows a 20 percent rise in last year's final dividend and reflects the strong turnaround in profitability. Longer term, we're hoping to generate consistent dividend growth.

corporatefile.com.au
What dividend payout ratio is appropriate for GUD?

CEO Ian Campbell
We don't intend to lock ourselves into a specific ratio. We wish to remain flexible and will look to maximise shareholder returns in a range of ways. Our share buy back for instance, has assisted the growth in our EPS. Since introducing the scheme we have purchased about 6.7 million shares at an average price of $2.18,

well below the current price. We've also saved $1.8 million in dividend payments on cancelled shares.

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In the latest six months, profit after excluding individually significant items was up 40 percent to $14.7 million. A provision of $2 million ($1.4 million after tax) for environmental remediation at Campsie reduced reported profit to $13.3 million. What was the key driver behind the profit rise?

CEO Ian Campbell
Product innovation and lower operating costs reflecting recent restructuring efforts underpinned operating profit increases in all divisions. Group EBIT was up 33 percent to $23.2 million from $17.4 million and group EBIT margin increased to 11.7 per cent from 9 percent.

Sunbeam Victa made the biggest gain, lifting EBIT to $11.5 million from $8.6 million despite lower sales following the sale of Sunbeam rural. The decision to relocate Sunbeam and Victa from the inefficient Campsie site is producing cost savings and EBIT improvements above budget. Sunbeam Victa's EBIT margin rose to 11 percent from 8 percent.

The division performed strongly despite a lower contribution from Victa due to the adverse effects of the drought.

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Can you detail the fall in contribution from Victa?

CEO Ian Campbell
No. We don't report Victa profit. But, Victa is not all bad news. The exit from Campsie has reduced Victa's fixed costs and its new supply arrangements, new factory and better distribution logistics should ensure its EBIT contribution exceeds previous levels as normal seasonal conditions return. I expect only upside from Victa.

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In recent years, particularly 2000 and 2001, the Sunbeam Victa division has reported much lower profit in the second half year versus the first half. Do you anticipate this trend to continue?

CEO Ian Campbell
There is some seasonality in Sunbeam Victa's results due to the climate's impact on mower and electric blanket sales and due to the importance of Christmas and Mother's Day sales. But the variance from first to second half shouldn't be dramatic. The bigger than normal variance in 2000 and 2001 was partly due to costs associated with business improvement.

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Group net debt was steady at just above $50 million versus the same time last year but it was up versus the June 2002 level of $38 million. Similarly operating cash flow decreased about $13 million. Why?

CEO Ian Campbell
The increase in net debt and the lower cash flow were driven by similar factors.

During the last six months we've paid out about $5 million associated with the Campsie closure and debtors have risen due to stronger sales and longer trading terms. Inventory is also a little higher due to the timing of the 2003 Chinese New Year and the need to be well stocked ahead of Mother's Day.

Net debt will decline significantly, as is the norm, in the second half and is expected to be lower at June versus last year. Similarly, cash flow will improve by year end.

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Interest costs were down to $2 million from $3 million. Why was the decline so substantial?

CEO Ian Campbell
Average debt levels were below last year and interest costs were lower following the expiration of some older facilities.

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What impact will the recent Australian dollar strength have on profit?

CEO Ian Campbell
In aggregate, GUD benefits when the Aussie dollar trends higher as imports outweigh exports and product manufactured locally. On a divisional basis, Sunbeam is a major beneficiary but there could be some pressure on Ryco in the filtration business.

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The Ryco/Wesfil division increased EBIT 11 percent to $7.1million from $6.4 million in the latest six months. The EBIT margin was steady at 16 percent. Can you sustain these returns?

CEO Ian Campbell
We expect so. The Aussie dollar won't be a huge factor as Ryco is less price sensitive than other brands due to its reputation for quality and Wesfil, as an importer, should offset any negatives. Most importantly, the business continues to benefit from the extensive restructuring we undertook in previous years.

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Davey EBIT increased 49 percent to a record $3.9 million from $2.6 million and EBIT margins rose to 10 percent from 8 percent. To what extent can Davey sustain these gains given it has been a beneficiary of the drought due to stronger demand for pumps?

CEO Ian Campbell
Davey is benefiting from productivity improvements in its new factory, from new products and from its drive into European and US markets. It has ongoing growth potential if management meets expectations.

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What is the outlook for the full year ending June 2003?

CEO Ian Campbell
We expect to post a record reported profit for the full year. Management is focused on achieving CVA returns above the cost of capital and is well ahead of target. I'd expect that to lead to double-digit profit growth and further dividend improvement.

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Are you still seeking to grow via acquisition?

CEO Ian Campbell
Yes, but only if the right opportunity emerges and nothing has met our selection criteria to date.

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Thank you Ian.

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