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GUD Holdings Limited
245 Sunshine Road
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Date of lodgement: 28-Jul-2004

Title: Open Briefing. GUD Holdings. CEO on Record \$35.5m Profit.

Record of interview:

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GUD Holdings Limited today announced a reported net profit of \$35.5 million for the year ended 30 June 2004, up 63 percent from the previous year, and trading EBITA of \$67.1 million, a 41 percent increase from last year. To what extent have you exceeded expectations this year and is this level of profitability sustainable?

CEO Ian Campbell

Each of our businesses has exceeded our expectations, with profits driven by organic growth in a buoyant trading environment, primarily through our brand strength, pricing strategy, success with new products, an improved balance between offshore sourcing and domestic manufacturing and strict cost control measures. Trading conditions remain buoyant and our new product initiatives will continue to generate growth.

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What impact has the strengthening Australian dollar had on profit growth?

CEO Ian Campbell

Our average exchange rate for the year was 69 US cents to the Australian dollar. The currency appreciation contributed 1.5 percent to our EBITA margin of 17.0 percent and that equates to about \$6.0 million out of \$67.1 million EBITA. We'd expect a more neutral margin impact from the Australian dollar this year but it's not something we lose sleep over. We have a conservative hedging policy which

has proven to work for us. What's more in our control are costs, operating efficiencies, new product developments and our brands. That's our focus.

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Sunbeam Victa reported a trading EBITA of \$37.2 million, representing a 63 percent improvement over the previous year. Sunbeam Victa's EBIT to sales margin rose to 15 percent from 10 percent. What have been the factors driving the strong uplift in margin?

CEO Ian Campbell

We attribute the strong uplift in margin principally to success with our new higher value premium products, such as the Sunbeam Café Series, the high-margin innovative Razor lawnmower range, electric blankets, heating and irons, and an improved ability to forecast demand which has resulted in an improvement in stock turnover.

We've improved our capability in the product design area, having established strong relationships with key strategic manufacturers. Our ability to move from concept to finished product in a very short space of time is one of our key success factors.

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Has Victa's profitability fully recovered from drought-impaired levels?

CEO Ian Campbell

Victa has not fully recovered. While water restrictions remain in place in Victoria and New South Wales, Victa still has some way to go to reach its full potential.

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In June, Sunbeam closed the Palmerston North facility in New Zealand and incurred a restructuring cost of A\$3 million pre-tax. What is the strategy behind the closure and what is your expectation with regards to future production costs and contribution from electric blankets?

CEO Ian Campbell

The decision to close the Palmerston North facility in New Zealand and manufacture electric blankets through a joint venture with Imetec and a Chinese manufacturer is largely driven by our aims to lower production costs and access technology, particularly in the area of safety and functionality of electric blankets.

Under our three-way arrangement, the Chinese partner will manufacture electric blankets exclusively for us and Imetec. We believe we will achieve real economies of scale through our Chinese partner whose factory is able to operate all year round. The Palmerston North facility had been driven very much by the seasonal conditions in Australia and New Zealand, which drove large peaks in demand, requiring a lot of casual labour to meet demand during peak times.

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Are you reaping any meaningful royalty income from your offshore suppliers given their access to your designs?

CEO Ian Campbell

We are, and it's factored into our gross margin. We regard it as a contribution to the future development of our design capability, which differentiates us in the market.

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Ryco/Wesfil's trading EBITA of \$18.8 million in fiscal year 2004 represented a 22 percent increase over the previous year. Can you give some insights on the benefits you've gained from the restructuring of the Ryco manufacturing facility and to what extent will these be ongoing?

CEO Ian Campbell

The restructure of Ryco in the first half of the year, which reduced headcount by about 60 people, led to a rebalancing of its product mix in order to reduce margin pressure. A rapid payback from the \$3 million Ryco restructuring was achieved.

Our filtration business has benefited from increasing the proportion of imports in the product mix. We will continue to manage the differential between the imported and locally manufactured products.

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To what extent can GUD continue to drive growth from operational improvements?

CEO Ian Campbell

Much like any business engaged in manufacturing, we are constantly searching for ways to make operational improvements. There is still some scope for improvement and efficiency gains, particularly in areas like our supply chain, such as our sourcing decisions with regards to components and the distribution of some of our products.

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Davey's trading EBITA of \$8.6 million represented a 12 percent improvement during the year. Davey's exports were relatively flat given the Australian dollar's strength. What is the outlook for Davey exports assuming the currency remains at current levels?

CEO Ian Campbell

Davey manufactures 80 percent of its products and faced more import competition given the strength of the Australian dollar. But it was still able to achieve double-digit profit growth during the year, which is a credit to its management team.

In relation to exports, we were prepared to accept a lower level of profitability in key long-term markets like the US so as not to jeopardise the distribution arrangements that we have set up over the last two to three years. The challenge for Davey is to find new ways to reduce costs so that it can compete profitably in the US.

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In April 2004, Davey acquired Spa-Quip. What was the rationale for the acquisition and what returns do you anticipate?

CEO Ian Campbell

We regard Spa-Quip's business as entirely complementary to Davey and believe we can derive strong synergies in distributing Spa-Quip's outdoor spa pool products through Davey's dealer network which will add to our existing range of products in the swimming pool and spa pump area.

We expect growth to be driven by our ability to leverage Davey's export customer base and extend Spa-Quip's product range to Davey's spa bath customers. There are strong benefits to be gained by partially merging operations in Australia and New Zealand.

Spa-Quip generates sales of around \$14 million and EBIT of around \$3 million primarily targeting the Australian market in the spa pool industry. We're expecting stronger returns in future years.

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Why did GUD's working capital to sales ratio increase to 17 percent from 15 percent?

CEO Ian Campbell

We made a strategic decision to increase our stock holding just before the end of the financial year. Our monthly working capital to sales ratio is actually below that of last year, but the year end figure reflects our large electric blanket stock to carry us through the Palmerston North closure to the start of production in China next season.

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What progress have you made in your pursuit of a substantial acquisition?

CEO Ian Campbell

We have looked at a number of possible acquisitions but nothing has yet met our criteria. It's not a simple exercise of buying just anything that might lift EPS in the short term. We are seeking a business that has the capacity to drive shareholder returns over the long-term. We are in a powerful financial position and we'll continue to review opportunities.

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The annual dividend rose 54 percent to 40 cents per share from 26 cents per share. Although a big increase, the payout ratio remains relatively conservative at 58 percent on EPS of 68.6 cents excluding significant items. Can you give any guidance on future dividend policy?

CEO Ian Campbell

We don't have a strict payout ratio policy. Over the last couple of years we've been paying out in the range of 50 to 60 percent. We will continue to focus on improving shareholder returns through a consistent annual dividend growth objective.

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What factors will impact on the extent of profit growth in 2005?

CEO Ian Campbell

We'll continue to focus on our cash value added targets, strengthening our brands, optimising our product mix, and implementing further operational improvements and cost reductions. Our strong performance in fiscal year 2004 has been aided by a buoyant retail trading environment, largely driven by high disposable income, high employment levels in the economy and consumer confidence, which is so far continuing into 2005.

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Thank you Ian.

For further information on GUD Holdings Limited visit www.gud.com.au.

To read previous GUD Holdings Limited Open Briefings, or to receive future Open Briefings by email, please visit www.corporatefile.com.au.