

# UBS Investment Research

## GUD Holdings Limited

### Water woes

#### ■ FY08 adj NPAT broadly in line - \$41.9m (vs UBSe \$43.0m)

GUD reported FY08 NPAT of \$41.9m (vs UBSe \$43.0m) adjusting for restructuring charges + gains on Victa sale. Total EBIT growth of 14.4% was at the high end of 10-15% guidance. Tight working cap control saw FY08 op cashflow up 46% vs pcp, final div was 38cps vs UBSe 35c. F/x gains masked significant cost inflation in FY08; with macro headwinds and uncertainty surrounding a rebound in water earnings mgmt have conservatively guided to flat u/l EBIT growth in FY09.

#### ■ FY09e EBIT trimmed by 6%, NPAT cut by 9%

We have cut our FY09e EBIT by 6% to \$63.9m (vs \$63.5m in FY08 ex Victa) based on 2.5% consumer products revenue growth. Higher interest cost cuts NPAT by 9% however we expect cash generation should flow through to a generous payout ratio.

#### ■ F/x helped this year, will FY09 be so lucky?

With softening demand in the near term, we would argue 12x FY09e earnings isn't standout cheap in a de-rated emerging companies universe. We are confident actions taken by management for Oates and Monarch will flow through to margins but cost inflation and tough competition could take a significant proportion of the gains. We retain our Neutral rating but highlight a meaningful acquisition could be the potential catalyst for re-rating.

#### ■ Valuation- price target cut to \$8.50

Our price target is derived via sum of the parts. After trimming our estimates our price target is lowered to \$8.50.

Highlights (A\$m)	06/07	06/08	06/09E	06/10E	06/11E
Revenues	524.0	535.1	484.9	500.8	516.2
EBIT (UBS)	60.2	68.9	63.9	67.6	70.3
Net Income (UBS)	35.9	41.9	40.5	42.9	44.8
EPS (UBS, A\$)	0.60	0.70	0.68	0.72	0.75
Net DPS (UBS, A\$)	0.61	0.65	0.70	0.74	0.78

Profitability & Valuation	5-yr hist av.	06/08	06/09E	06/10E	06/11E
EBIT margin %	13.9	12.9	13.2	13.5	13.6
ROIC (EBIT) %	34.1	31.7	33.5	37.5	38.8
EV/EBITDA (core) x	6.8	8.5	7.5	7.2	6.7
PE (UBS) x	11.0	14.3	12.3	11.6	11.1
Net dividend yield %	6.7	6.5	8.5	8.9	9.4

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of A\$8.28 on 24 Jul 2008 17:14 EST

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## Global Equity Research

Australia

Auto Parts

12-month rating **Neutral**  
**Unchanged**

12m price target **A\$8.50/US\$8.14**  
**Prior: A\$9.50/US\$9.09**

Price **A\$8.28/US\$7.93**

RIC: GUD.AX BBG: GUD AU

24 July 2008

#### Trading data (local/US\$)

52-wk range	A\$11.50-7.44/US\$10.30-7.12
Market cap.	A\$0.48bn/US\$0.46bn
Shares o/s	57.8m (ORD)
Free float	100%
Avg. daily volume ('000)	208
Avg. daily value (A\$m)	1.8

#### Balance sheet data 06/09E

Shareholders' equity	A\$0.12bn
P/BV (UBS)	3.9x
Net Cash (debt)	(A\$0.06bn)

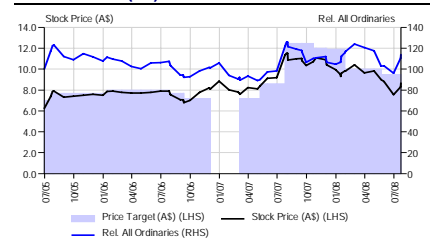
#### Forecast returns

Forecast price appreciation	+2.7%
Forecast dividend yield	12.6%
Forecast stock return	+15.3%
Market return assumption	11.8%
Forecast excess return	+3.5%

#### EPS (UBS, A\$)

	06/09E		Cons.	06/08
	From	To		Actual
H1E	-	-	-	0.39
H2E	-	-	-	0.31
06/09E	0.75	0.68	0.74	
06/10E	0.77	0.72	0.77	

#### Performance (A\$)



Source: UBS

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

This report has been prepared by UBS Securities Australia Ltd

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9.**

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# 1H08 Result Review

Strong cashflow, consumer top line looks vulnerable

GUD reported FY08 NPAT of \$41.9m (UBSe \$43.0m) stripping out a \$1.4m gain on the sale of Victa and restructuring costs associated with Oates. On a continuing basis (stripping out Victa), revenue fell by 0.5% for the year vs pcp to \$469m with NPAT pre exceptionals up 3.4% to \$38.2m vs pcp.

Final dividend of 38c was ahead of our 35c estimate.

Key positives include:

- **Good cashflow growth:** operating cashflow increased by 46% vs pcp to \$58.2m, largely the result of tighter working capital control. Cash conversion improved significantly, from 55% of EBITDA converted into operating cashflow in FY07 to 71% in FY08. Working capital can't be tightened forever but it reflects well on mgmt while restructuring is continuing.
- **Select margin improvement:** Automotive and Security margins remain firm, with f/x supporting group gross margins for the year; 40.1% for FY08 vs 38.4% in pcp (ex Victa).
- **Market share gains:** Oates and Sunbeam continue to improve market share. Automotive volume should also receive a boost from the SuperCheap supply deal starting in August.
- **Capital management:** GUD is in a strong position for potential acquisitions or further capital management. Net debt fell 9% to \$86m (72% net debt/equity). Management are active in turning over their portfolio of brands, but we expect small deals to be shunned in preference for significant targets. In the current environment conservatism is likely to remain the flavour of the day, we don't expect any imminent acquisition news. We do expect however the board to continue their focus on dividend growth with guidance likely to be given at the interim.

**Any negatives?** Water products remain the standout. Davey EBIT grew yoy and has met expectations but Monarch and the pool/spa operations have been a material drag on earnings. Water products revenue fell from -3.7% growth in 1H08 to -11.8% in 2H08, with EBIT margins down from 11.6% to 7.8% first half vs second half.

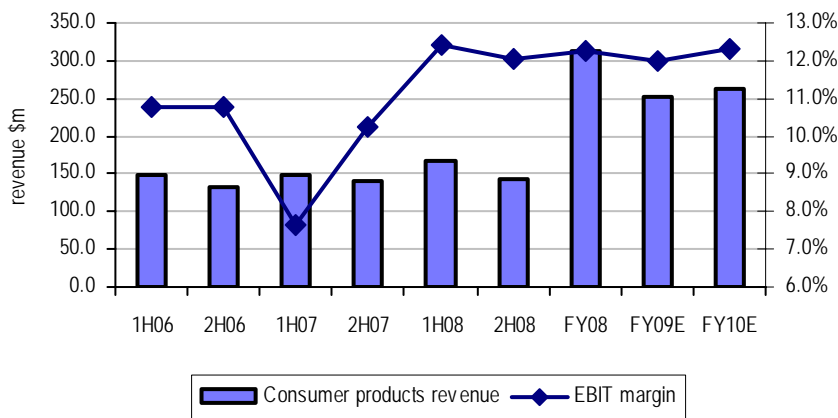
F/x gains also largely hid **cost inflation pressures** for FY07. Commodity prices in general and oil costs in particular are feeding through to plastics and transport expenses. GUD can attempt to pass on costs, but with increasing competition for most brands retaining market share is a challenge.

**Conservative guidance:** Management have guided to flat EBIT growth in FY09 (\$63.5m adj for Victa), highlighting macro headwind hitting demand (particularly in consumer) and cost pressures offsetting growth in Water EBIT post restructuring. We have trimmed our underlying growth to 1% for FY09 vs our previous 8.6% growth forecasts (ex Victa).

## Result Overview by division:

- **Consumer products:** Oates and Sunbeam posted strong growth in FY08, with both brands increasing market share and Oates in particular benefiting from the outsourcing programme initiated in prior periods. Stripping out Victa, Consumer EBIT rose from \$16.3m in 1H08 to \$16.6m in the second half of the year.
- We assume margins are slightly down in FY09 vs pcp, from 12.3% to 12.0%, as gains from the Oates outsourcing programme are given up by tighter competition and higher cost inflation effecting other product lines including Sunbeam. We forecast revenue growth to fall from 3.4% in 2H08 to 2.5% in FY09, recovering into FY10 with 3.5% growth.

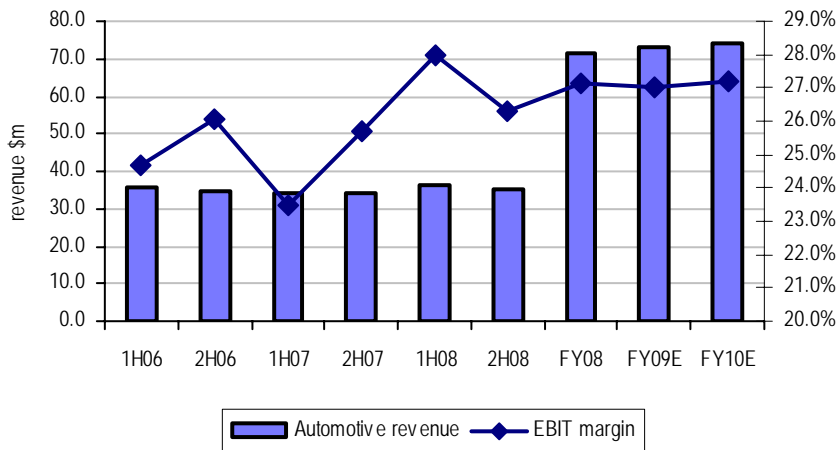
Chart 1: Consumer products margin – impacted by Victa sale



Source: company data, UBS

- **Automotive products:** Revenue growth at key brands such as Ryco and Wesfil slowed in 2H08 (2.5% pcp growth vs 6.0% in 1H08) however margins remained strong, with FY08 EBIT margins boosted through the closure of local sourcing plants.
- The SuperCheap distribution deal should support growth into FY08; we forecast 2.0% top line growth moderating to 1.5% in FY09 as sector growth continues to slow.

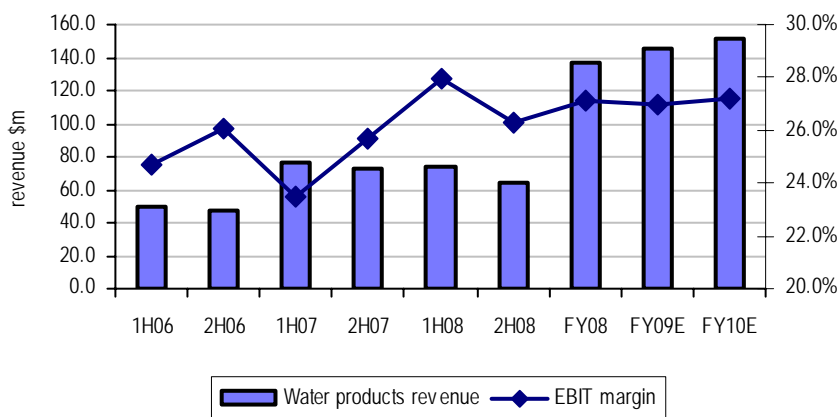
Chart 2: Automotive products margin



Source: company data, UBS

- Water products:** Traditionally GUD’s strongest division in terms of barriers to entry and IP (particularly the Davey brand), water products revenue decline accelerated into 2H08 due to continued problems with swimming pool/spa segments. Restructuring in Water continues, with restructuring costs associated with ending contracts/lease expensed rather than taken as an exceptional for closure of the Perth manufacturing facilities and centralising R&D.
- Davey remains on budget and will continue to benefit from consumer focus on water efficiency and utility cost inflation through its RainBank products. We forecast EBIT to bounce back to \$15.3m in FY09 vs \$13.5m in FY08 and \$19.1m in FY07.

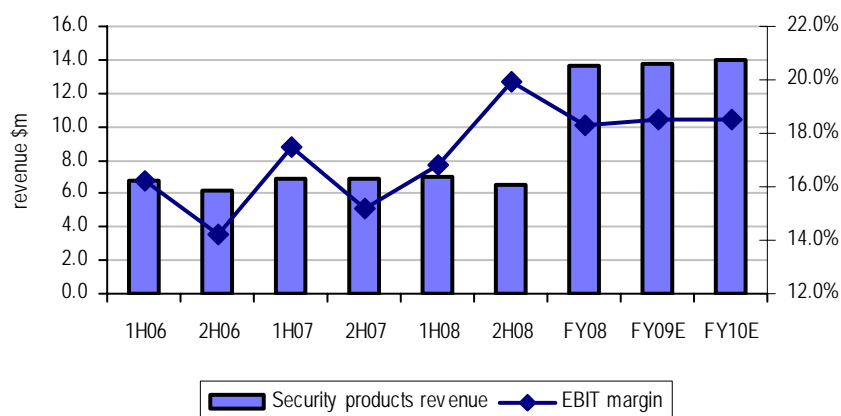
Chart 3: Water products margin



Source: company data, UBS

- Security products:** GUD’s smallest division, Security products continues to see good growth with EBIT up 10% for the year. Margins almost returned to FY05 levels in 2H08, up from 16.8% in 1H08 to 19.9% in 2H08. We forecast 18.5% EBIT margin in FY09.

Chart 4: Security products margin



Source: company data, UBS

Chart 5: GUD - FY08 results summary

(A\$m)	2007		2008		2008	
	F	F	(%)	F	(%)	
	F 07A	F 08A	change	UBS F 08E	change	
Revenues	524.0	535.1	2.1	546.3	(2.1)	
EBITDA	73.0	81.5	11.7	83.1	(1.9)	
Depreciation & Amortisation	(12.9)	(12.6)	1.8	(13.4)	6.2	
Other Income	0.0	0.0	na	0.0	na	
EBIT	60.2	68.9	14.6	69.6	(1.0)	
Net Interest Expense	(9.0)	(9.5)	(5.7)	(8.6)	(9.6)	
Earnings Before Tax	51.2	59.5	16.1	61.1	(2.7)	
Tax Expense	(14.1)	(15.0)	(6.6)	(15.5)	3.4	
Minority Interest and Equity Associate NPAT	0.0	0.0	na	0.0	na	
<b>Net Profit (pre-abnormals)</b>	<b>35.9</b>	<b>41.9</b>	<b>16.7</b>	<b>43.0</b>	<b>(2.6)</b>	
Reported NPAT	33.6	37.4	11.2	37.1	0.9	
Reported EPS (cents)	56.2	62.6	11.5	62.2	0.6	
Normalised EPS (cents)	60.0	70.2	17.0	72.3	(2.9)	
EBITDA margin (%)	13.9	15.2	9.4	15.2	-	
EBIT margin (%)	11.5	12.9	12.2	12.7	-	
Interest cover (EBIT/Net Interest)	6.7	7.3	8.4	8.1	-	
Tax rate (%)	(27.5)	(25.2)	8.2	(25.4)	-	

Source: UBS estimates

## Change in earnings

- Our key changes to earnings are summarised below. Of note, we have upped our interest expense to \$6.6m for FY09 with a higher interest charge of 8.9%. We also assume strong growth in dividends rather than an acceleration of the buyback programme given franking credits of \$22.0m.

Table 1: GUD – Change in earnings estimates

	New	Prev.	%	New	Prev.	%
(A\$m, except per share)	2009E	2009E	Change	2010E	2010E	Change
Revenues	484.9	497.0	-2.4%	500.8	510.4	-1.9%
EBITDA	73.9	80.7	-8.4%	77.4	81.7	-5.2%
EBIT	63.9	68.1	-6.1%	67.6	69.7	-3.0%
Net interest expense	(6.6)	(4.7)	40.5%	(6.9)	(3.9)	73.8%
PBT	57.4	63.4	-9.5%	60.8	65.7	-7.6%
Tax Expense	(16.9)	(18.7)	-9.5%	(17.9)	(19.4)	-7.6%
Minority Int. & Equity Ass.	0.0	0.0	-	0.0	0.0	-
Net Profit (pre-abnormals)	40.5	44.7	-9.5%	42.9	46.4	-7.6%
Abnormals after tax	0.0	0.0	-	0.0	0.0	-
Reported NPAT	40.5	44.7	-9.5%	42.9	46.4	-7.6%
EPS (pre-abnormals)	70.5	75.5	-6.7%	75.3	78.3	-3.9%

Source: UBS estimates

## Valuation & Rating

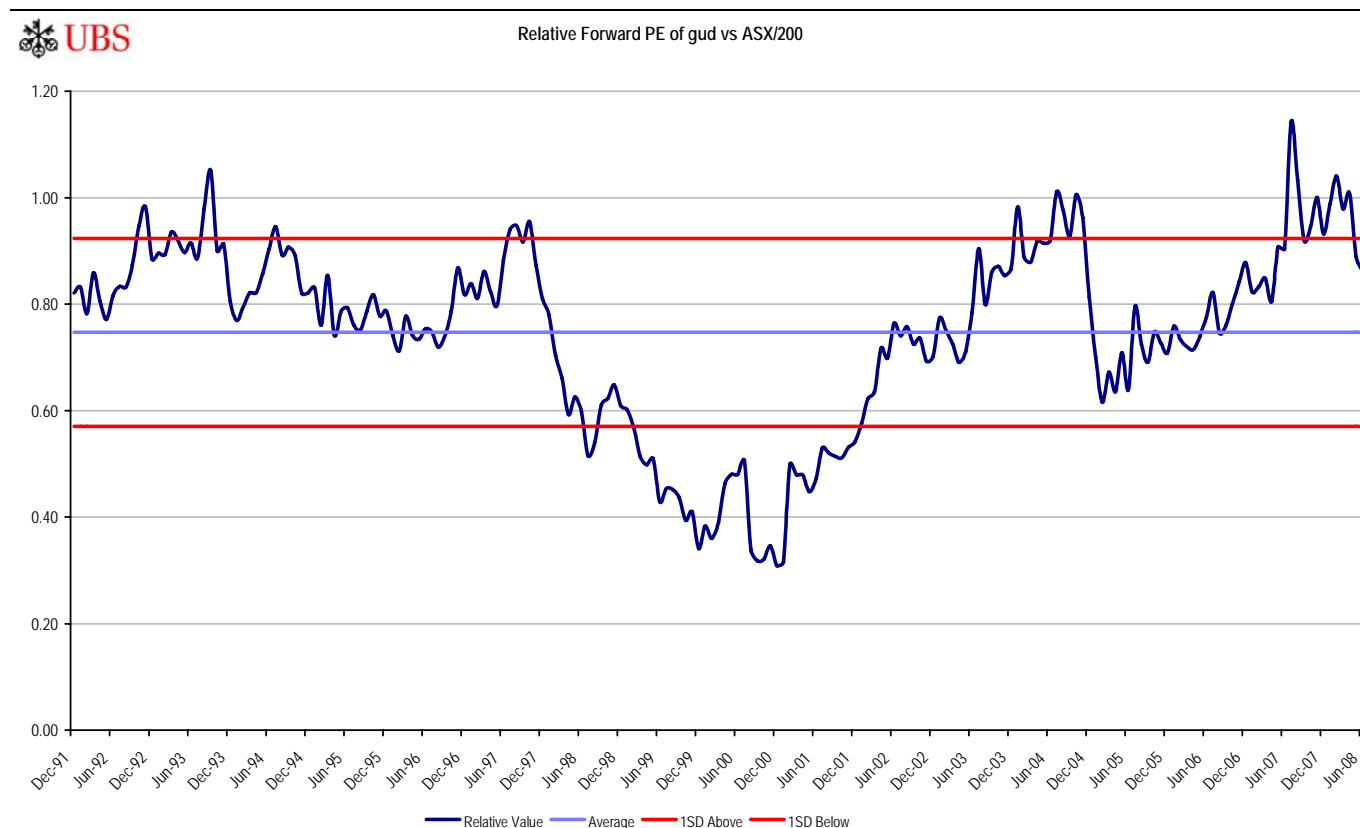
- We view GUD as a well run suite of brands but consumer sentiment, commodity driven input inflation and intensifying competition can't be ignored. Housing starts, credit growth and retail spending are key drivers – monthly data on each is nothing less than concerning in Australia and substantially worse in NZ. The Victa deal and Monarch restructuring show management continue to take action to refine their portfolio of brands, however a significant acquisition could be the next potential catalyst for a re-rating in the current environment. With macro headwinds showing little sign of abatement we retain our Neutral rating.
- Our sum of the parts valuation looks at each division in turn, with EBIT multiples contrasting the strong longer term growth outlook of water products vs the near term risk in more cyclical divisions such as consumer products. Trimming our estimates our price target is lowered to \$8.50. We see 8x EBIT for the consumer products division as generous at this point in the cycle but we are yet to see all of the benefit from recent Oates restructuring.
- As a cross check our DCF valuation gives a range of \$9.59-\$10.30 using a WACC of 9.3% (beta 1.2, risk free rate of 6.5% and 50% long term debt/equity). We use explicit forecasts to 2012, a 2.5% growth rate to 2015 and a 2% terminal growth rate thereafter.

Table 2: Sum of the parts valuation - GUD

	FY09e EBIT \$m	EBIT Multiple x	Value (\$m)	Comment
Consumer Products	30.3	8.0	243	Domestic consumer products comps (ALS, GWA, HWI)
Automotive	19.7	8.5	168	Repcos takeover multiple
Water Products	15.3	10.0	153	Average of global water products comps
Security Products	2.5	8.5	22	Mkt multiple
Unallocated	-3.9	5	-20	
Firm Value	63.9	8.8	565.6	
Investments			0	
Less Debt (\$m)			-81.6	
Equity Valuation			484.0	
Total Diluted Ord Shares (m)			57.0	
SOP: Value per Share			8.49	

Source: UBS estimates

Chart 6: GUD – forward PE relative to ASX200



Source: UBS estimates

# GUD Holdings (GUD.AX)

## MARKET INFORMATION

<b>Rating:</b>	<b>Neutral</b>
Price (as of 24-Jul-08): (A\$)	8.28
<b>Price Target (12 months): (A\$)</b>	<b>8.50</b>
Shares outstanding: (m)	57.8
Market Capital (A\$ m):	478.9
Avg. daily turnover (A\$ m):	1.8
Year end:	June
Website:	www.gud.com.au
Major Shareholders:	Perpetual, Invesco

## INVESTMENT SUMMARY

(A\$ m)	2008	2009E	2010E	2011E
Net profit [reported]	37.4	40.5	42.9	44.8
Net profit [adjusted]	41.9	40.5	42.9	44.8
EPS [reported]	0.63	0.70	0.75	0.79
<b>EPS [adjusted, diluted]</b>	<b>0.70</b>	<b>0.68</b>	<b>0.72</b>	<b>0.75</b>
EPS Growth (%)	16.7	(3.5)	5.9	4.4
<b>PER [adjusted]* (x)</b>	<b>14.3</b>	<b>12.3</b>	<b>11.6</b>	<b>11.1</b>
Dividend	0.65	0.70	0.74	0.78
Payout ratio, [EPS adj.] (%)	93	99	98	99
<b>Dividend Yield [Net]* (%)</b>	<b>6.5</b>	<b>8.5</b>	<b>8.9</b>	<b>9.4</b>
Shares [period-avg, basic] (m)	59.9	57.8	57.8	57.8
Book value per share	2.07	2.12	2.12	2.13
Price to Book* (x)	4.8	3.9	3.9	3.9
Equity Free Cash Flow Yield (%)	9.3	9.7	8.6	9.1
Franning (%)	100	100	100	100

## PROFIT AND LOSS

(A\$ m)	2008	2009E	2010E	2011E
Revenue	535.1	484.9	500.8	516.2
<b>EBITDA [adjusted]</b>	<b>81.5</b>	<b>73.9</b>	<b>77.4</b>	<b>80.9</b>
Depreciation & Amortisation	(12.6)	(10.0)	(9.8)	(10.6)
<b>EBIT [adjusted]</b>	<b>68.9</b>	<b>63.9</b>	<b>67.6</b>	<b>70.3</b>
Net interest	(9.5)	(6.6)	(6.9)	(6.9)
Income from associates	0.0	0.0	0.0	0.0
Other non-operating items	0.0	0.0	0.0	0.0
<b>Profit before tax [adj]</b>	<b>59.5</b>	<b>57.4</b>	<b>60.8</b>	<b>63.5</b>
Tax on pre-abnormal profit	(17.5)	(16.9)	(17.9)	(18.7)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
<b>Net Profit [adjusted]</b>	<b>41.9</b>	<b>40.5</b>	<b>42.9</b>	<b>44.8</b>
Abnormal Gain/(Loss) after Tax	(4.6)	0.0	0.0	0.0
<b>Net Profit [reported]</b>	<b>37.4</b>	<b>40.5</b>	<b>42.9</b>	<b>44.8</b>

## BALANCE SHEET

(A\$ m)	2008	2009E	2010E	2011E
Cash & equivalents	33.1	17.7	17.7	17.7
Accounts receivable	65.9	62.5	64.6	66.5
Inventory	81.4	85.8	88.7	91.4
Fixed assets	20.2	15.2	18.5	21.3
Intangibles	92.2	80.0	74.6	69.2
Investments	4.7	4.7	4.7	4.7
Other assets	4.7	4.7	4.7	4.7
<b>Total Assets</b>	<b>302.3</b>	<b>270.7</b>	<b>273.4</b>	<b>275.5</b>
Accounts payable	45.1	50.5	52.1	53.5
Short & long term debt	119.3	81.6	82.1	82.4
Provisions & other	17.8	17.8	17.8	17.8
Preferred securities	0.0	0.0	0.0	0.0
<b>Total liabs &amp; pref shares</b>	<b>182.2</b>	<b>149.9</b>	<b>152.0</b>	<b>153.7</b>
Minorities	0.0	0.0	0.0	0.0
Common equity	120.1	120.7	120.9	121.2
<b>Total liabilities &amp; equity</b>	<b>302.3</b>	<b>270.7</b>	<b>272.9</b>	<b>275.0</b>
<b>Net cash / (debt)</b>	<b>(86.2)</b>	<b>(63.9)</b>	<b>(64.4)</b>	<b>(64.7)</b>

## CASH FLOW

(A\$ m)	2008	2009E	2010E	2011E
Operating income [EBIT, UBS]	68.9	63.9	67.6	70.3
Depreciation & Amortisation	12.6	10.0	9.8	10.6
Net change in working capital	(0.6)	4.4	(3.3)	(3.3)
Other (operating)	0.0	0.0	0.0	0.0
<b>Pre-tax op cash flow</b>	<b>80.9</b>	<b>78.3</b>	<b>74.1</b>	<b>77.6</b>
Interest (paid) / received	(9.5)	(6.6)	(6.9)	(6.9)
Tax paid	(13.3)	(16.9)	(17.9)	(18.7)
Other	0.0	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>58.2</b>	<b>54.9</b>	<b>49.3</b>	<b>52.0</b>
Capital expenditure	(8.0)	(6.8)	(6.8)	(6.8)
<b>Free cash flow</b>	<b>50.2</b>	<b>48.1</b>	<b>42.5</b>	<b>45.3</b>
Net (acquisitions) / disposals	11.4	15.5	(7.7)	(7.9)
Dividends paid (Common)	(38.4)	(39.8)	(42.1)	(44.4)
Shares issued/(repurchased)	0.0	0.0	0.0	0.0

## COMPANY DESCRIPTION

GUD Holdings (GUD) owns and manages a diverse group of businesses selling branded manufactured products in Australia and New Zealand. GUD operates several of Australia's most established and well-recognised consumer and industrial brands, including Sunbeam appliances, Ryco filters, Davey pumps and Oates cleaning accessories. GUD was formed in 1940 and first listed in 1959.

## KEY RATIOS

	2008	2009E	2010E	2011E
<b>Profitability (%)</b>				
Revenue growth	2.1	(9.4)	3.3	3.1
EBITDA margin	15.2	15.2	15.5	15.7
EBIT margin	12.9	13.2	13.5	13.6
Effective tax rate	28.6	29.5	29.5	29.5
Return on Inv Cap (post-tax)	22.4	23.6	26.4	27.3
Return on Equity	32.3	33.6	35.5	37.0
<b>Capital Structure</b>				
Net Debt / EBITDA (x)	1.1	1.0	1.0	0.8
Net Debt / Common equity (%)	71.8	52.9	53.3	53.3
Net Debt / Core EV* (x)	0.1	0.1	0.1	0.1
Capex / Depreciation (x)	0.6	0.7	0.7	0.6
EBIT / Net Interest (x)	7.3	9.7	9.9	10.2

## PROFIT AND LOSS (HALF YEAR)

(A\$ m)	1H 08	2H 08	1H 09E	2H 09E
Revenue	285.8	249.1	0.0	484.9
<b>EBITDA [adjusted]</b>	<b>44.8</b>	<b>36.7</b>	<b>0.0</b>	<b>73.9</b>
Depreciation & Amortisation	(6.5)	(6.1)	0.0	(10.0)
<b>EBIT [adjusted]</b>	<b>38.3</b>	<b>30.6</b>	<b>0.0</b>	<b>63.9</b>
Net interest	(4.7)	(4.5)	0.0	(6.6)
Income from associates	0.0	0.0	0.0	0.0
Other non-operating items	0.0	0.0	0.0	0.0
<b>Profit before tax [adj]</b>	<b>33.6</b>	<b>26.1</b>	<b>0.0</b>	<b>57.4</b>
Tax on pre-abnormal profit	(10.2)	(7.4)	0.0	(16.9)
Minority Interests	0.0	0.0	0.0	0.0
Dividends (preferred)	0.0	0.0	0.0	0.0
<b>Net Profit [adjusted]</b>	<b>23.5</b>	<b>18.7</b>	<b>19.4</b>	<b>21.0</b>
Abnormal Gain/(Loss) after Tax	(5.9)	0.0	0.0	0.0
<b>Net Profit [reported]</b>	<b>17.5</b>	<b>18.7</b>	<b>19.4</b>	<b>21.0</b>

## ENTERPRISE VALUE\*

(A\$ m)	2008	2009E	2010E	2011E
Market capital	601.4	478.9	478.9	478.9
Net debt / (cash) [avg]	90.4	75.0	75.0	64.5
Estimated share buy backs	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Pension provisions	0.0	0.0	0.0	0.0
<b>Total Enterprise Value</b>	<b>691.8</b>	<b>553.9</b>	<b>553.9</b>	<b>543.4</b>
(Non-core assets)	0.0	0.0	0.0	(4.7)
<b>Core Enterprise Value</b>	<b>691.8</b>	<b>553.9</b>	<b>553.9</b>	<b>538.7</b>
<b>Core EV Ratios</b>				
EV / Sales	1.3	1.1	1.1	1.0
EV / EBITDA	8.5	7.5	7.2	6.7
EV / EBIT	10.0	8.7	8.2	7.7
EV / OpFCF [post-tax]	9.3	7.7	8.2	7.6
EV / Invested Capital	3.2	2.9	3.1	3.0

## DIVISIONAL BREAKDOWN

(A\$ m)	2008	2009E	2010E	2011E
<b>Total Revenue</b>	<b>535.1</b>	<b>484.9</b>	<b>500.8</b>	<b>516.2</b>
Sunbeam Victa	312.5	252.6	261.5	270.6
Ryco Wesfil	71.5	72.9	74.0	74.7
Davey Pumps	137.4	145.6	151.4	156.7
Lock Focus	13.6	13.7	13.9	14.1
<b>EBIT</b>	<b>68.9</b>	<b>63.9</b>	<b>67.6</b>	<b>70.3</b>
Sunbeam Victa	38.3	30.3	32.2	33.8
Ryco Wesfil	19.4	19.7	20.1	20.6
Davey Pumps	13.5	15.3	16.7	17.2
Lock Focus	2.5	2.5	2.6	2.6
Adjustment	(4.8)	(3.9)	(3.9)	(3.9)

Source: UBS estimates, \* Historical valuations are based on an average share price for the period. Current & future valuations are based on a share price of A\$8.28 on 24-Jul-2008

## ■ GUD Holdings Limited

GUD Holdings (GUD) owns and manages a diverse group of businesses selling branded manufactured products in Australia and New Zealand. GUD operates several of Australia's most established and well-recognised consumer and industrial brands, including Sunbeam appliances, Ryco filters, Davey pumps and Oates cleaning accessories. GUD was formed in 1940 and first listed in 1959.

## ■ Statement of Risk

We believe the key risks include a downturn in spending on homewares in Australia, adverse currency movements, and variations in the cost of raw materials.

## ■ Analyst Certification

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	57%	38%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	8%	29%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	31%
Sell	Sell	less than 1%	38%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 June 2008.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**EXCEPTIONS AND SPECIAL CASES**

**UK and European Investment Fund ratings and definitions are :**

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

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**Company Disclosures**

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
GUD Holdings Limited <sup>13</sup>	GUD.AX	Suspended	N/A	A\$8.68	23 Jul 2008

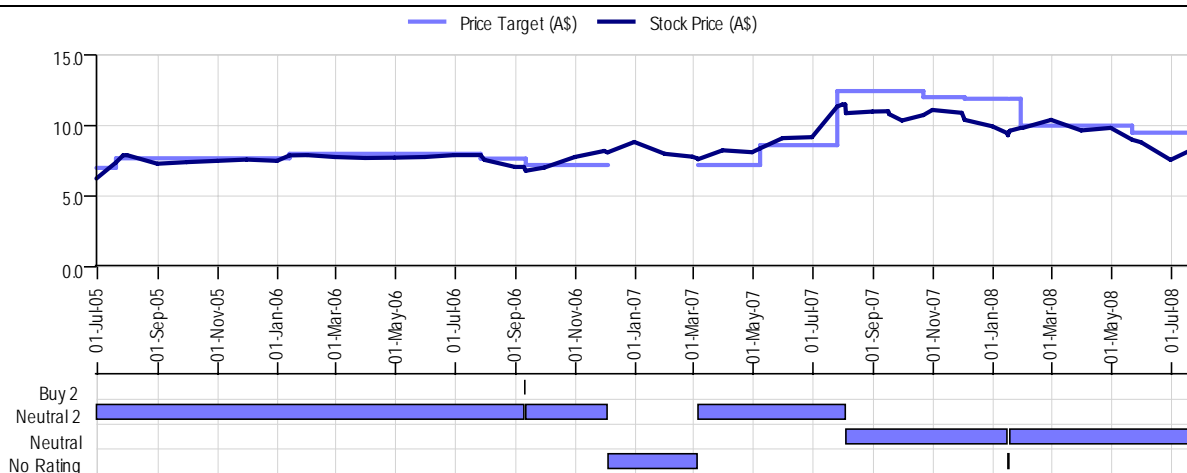
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

- 13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

**GUD Holdings Limited (A\$)**



Source: UBS; as of 23 Jul 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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