



GUD Holdings Limited

Chairman's Address to the  
51<sup>st</sup> Annual General Meeting

Thursday 23<sup>rd</sup> October 2008

RACV Club

501 Bourke Street

Melbourne

In my address this morning I will present an overview of our results for the year ended 30 June 2008. I will discuss the issue of brand management, which is crucial to the future fortunes of the GUD group of businesses, and I'll talk about our approach to growth through new product development and then conclude with our perspective on trading conditions in the current financial year.

The GUD group generated a record operating performance for the 2007/08 year. Although sales increased by only 3%, to 535 million dollars, trading earnings before interest and tax improved 14% to just under 69 million dollars.

On a continuing business basis, that is excluding Victa from both 2006/07 and 2007/08 years, our sales were effectively flat, but trading EBIT increased by 5% to 68.3 million dollars.

The contribution from Victa, in its last full year under GUD ownership, was outstanding. This business benefited from a combination of much improved seasonal conditions in Queensland and New South Wales especially, new products in the range and improved retailer support programs, especially in hardware and mass merchant distribution channels.

It is unfortunate that Victa did not enjoy similar trading conditions in all of the ten years that it was part of GUD, and that the profit result in 2007/08 was more than the aggregate result for the previous four financial years

In his following Review of Operations, Ian Campbell will outline the rationale behind the sale of this business. From an overall GUD perspective the performance in 2007/08 was a standout and we thank the management and staff at Victa for this result and wish them well for their future with Briggs and Stratton.

It is also pleasing to note that, with the exception of Davey Water Products, all businesses enjoyed double digit trading earnings growth in the 2008 financial year. In the Consumer Products business this was the case with Victa both included and excluded.

These results were not achieved without substantial costs pressures, especially from suppliers based in China. The pace of raw material price increases, following rapid inflation in the price of commodities, allied with China-specific cost pressures, produced considerable challenges for each of our businesses. We were fortunate in that the appreciation of the Australian dollar worked to partially offset these inflationary pressures.

Below the trading line we incurred an after tax cost of nearly 6 million dollars associated with the restructuring of the Oates cleaning products business.

Similar to other GUD businesses before it – specifically Sunbeam, Victa and Ryco - Oates was reconfigured from being heavily reliant on product it

manufactured at uncompetitive costs, to a business that focuses on product development and brand marketing, while relying on external suppliers to provide quality, cost competitive products manufactured to Oates' design and specification.

The restructuring charge covered the costs of closing the Oates factories at Reservoir in Victoria and Naval Base, south of Perth. Oates now sources its full range of products from suppliers spread across at least four countries

The strength and quality of the Group operating result in 2007/08 led to a jump in cash value added return from 14.8% to 16.5%. Cash value added is the primary measure of economic return adopted by the GUD group and it remains, on a year-by-year basis, the principal management objective. CVA focuses attention simultaneously on profit generation and management of controllable capital employed items, such as debtors, inventories, creditors and fixed assets.

In relation to the balance sheet we finished the last financial year with a strong cash flow, a decline in net debt and strong liquidity. Our interest cover improved to 7.9 times from 7.3 times on a trading profit basis.

The effect of the record result and the strong balance sheet position was that we exited the 2008 financial year in an extremely healthy financial position,

well placed to confront the uncertain economic environment that has emerged since June 30.

In relation to confronting uncertain times, one of the great strengths of GUD is its unique portfolio of market leading brands. Following the Victa sale our brands are valued on the balance sheet at nearly 38 million dollars, or 14% of our non-cash assets. Brands, if properly managed, provide a degree of insurance against economic hard times, as it is in those conditions that consumers turn to brands they know will perform and are less likely to risk their money on lesser known names.

Recognising the value of brands and their significance for the future economic fortunes of the GUD group, we initiated a group-wide brand management program in mid-2007. The objectives of the program were to implant a common GUD approach to brand management, to have a consistent methodology for managing brands across each business through use of a standard brand plan template and to adopt a common language, company-wide.

The management teams at each of our major branded products businesses – including finance, marketing, sales, product development and senior management – have all experienced this program and have a unified view as to the value and role of brands in the GUD context.

Although the outputs from this program are not yet apparent to our consumers, they soon will be. For example, at Oates the program has initiated a complete review of the way the Oates brand interacts with its sub-brands, that is, the brand architecture has been completely revised. Following this, a contemporary and fresh look has been given to Oates with the recent launch of a new brand logo and packaging style. These are being progressively introduced as old packaging is used up, or on new product introductions.

Oates is supporting this refreshing of its consumer image with targeted media activity on metropolitan radio over the next few months. The management team at Oates is confident that, when combined, these initiatives will lead to improved sales and profits, through better retailer support and improved market share.

At Davey, following the acquisitions of Spa-Quip, Contamination Control and Monarch Pool Systems, the brand management program has accelerated the movement to positioning all components of the water products business under the single Davey branding umbrella. At Davey the program has, like at Oates, led to a more structured approach to the brand architecture, especially in the swimming pool sector of the market where both Davey and Monarch brands were present.

The benefits of this unified approach at Davey are obvious, especially in relation to the costs of marketing materials and the singular brand culture that will pervade the water products business in future.

Not all results of the brand management program will be apparent at the consumer level. Parts of the brand formula that are not obvious to consumers, such as product quality processes, design and development and supplier management, are also on our action lists for enhancement, as the brand is the sum of all the parts of the business matrix, not just the product or the logo. This understanding is now entrenched in each of our businesses and will determine how each addresses the marketing challenges of the future.

On a different, but related topic, I would like to make reference to the importance of new products and product development activities to our future. This has long been one of the key platforms of GUD's activities and remains a critical function in each of our businesses.

The term "new products" does not just signify completely new offerings, it also relates to the adoption of new materials or new technologies across established product ranges, for aesthetic, cost or functional reasons.

The truly new products developed and launched by GUD businesses in recent years include Davey's RainBank, now about to be superseded by the next generation RainBank II. Variations on existing product themes, incorporating

different materials and new designs include Sunbeam's Café Series range of premium domestic appliances and Davey's Torrium pump controller, replacing the older generation Hydrascan.

Without RainBank, Café Series and Torrium, as examples, the financial performance, not to mention brand standing, of their respective businesses would not have been what it has in recent years.

Because we design and develop our own product across all our businesses – we don't generally source product designed and made for other markets and apply our branding to it – we have an on-going obligation, and indeed imperative, to have research and development resources at each business to drive this initiative.

Our total product development costs in the last financial year were just over 11 million dollars, comprising cash costs of 6.3 million and amortisation amounts of 4.8 million dollars. In addition we have 11.8 million dollars of product development costs on the balance sheet which will be amortised over time.

From a financial investment perspective you can appreciate, from these numbers, that our commitment to new product development is unstinting. This commitment will continue, through this year, into next year and beyond as we

seek to continuously innovate to provide sales growth, margin retention or improvement, and market share growth.

The three capabilities that we believe are fundamental to GUD's future are new product development, supply chain optimisation and brand management. I have addressed two of these and Ian Campbell will elaborate on supply chain optimisation in his Review of Operations, following.

Before handing over to Ian I will make some comments on the outlook for the current financial year. I think the way we describe the period we have just experienced can be summed up in one word – volatility.

The wild swings experienced on a day-to-day basis on the world's stockmarkets and in currency exchange rates have been surprising, not that they occurred, but in the unpredictable nature of their daily movements. The fall out from the US sub-prime mortgage crisis was predicted to go through a number of iterations before the situation stabilised, but it has certainly taken some casualties along the way.

How does this impact GUD? Well, the currency volatility certainly makes foreign exchange management an interesting occupation and makes the achievement of budgeted gross margin targets more challenging.

Our approach to foreign exchange management has been disciplined and controlled, in that our aim is to protect the business's financial performance within each financial year, irrespective of movements in the Australian dollar.

The extent to which these external financial pressures impact on consumer sentiment and affect current and future purchasing behaviour is impossible to predict.

However, I can report to you that on a continuing business basis, first quarter sales are in line with the prior year.

Current second quarter indicators are positive in the lead up to Christmas for our consumer businesses. This is also an important selling period for our water and automotive businesses.

We would expect to update shareholders with our full year profit guidance when we announce our interim results on 28 January, 2009.

The other effect of the recent financial market turmoil has been the repricing of assets and the possible emergence of potential acquisition opportunities.

By continuing to focus on solid management principles – growth through new products, tight cost controls and solid balance sheet management – we not only position GUD to deliver solid results in tough trading conditions but we are also well placed to take advantage of those potential opportunities.

Prior to attending to the business of the Meeting, I'll now invite our Managing Director, Ian Campbell, to provide you with a Review of Operations.

Clive K Hall  
Chairman

23 October, 2008