



**GUD HOLDINGS ANNUAL REVIEW 2016**



GUD Holdings Limited comprises a number of dynamic businesses operating principally in trade and industrial markets in Australia and New Zealand, with a particular focus on the automotive aftermarket. GUD is the owner of one of the Asia-Pacific region's premier brand portfolios with GUD's brands being in market leadership positions in their individual product categories and industries.



## 2016 Highlights

- Reported 20 per cent growth in sales from continuing operations.
- Net profit after tax from continuing operations increased 36 per cent to \$44.4 million.
- Cash flow from operations more than doubled to \$70 million, following intense focus on working capital reduction, especially in the second half.
- Total dividend increased to 43 cents per share fully franked, from 42 cents previously.
- Commenced the integration of Brown & Watson International following its acquisition on 1 July 2015.
- Brown & Watson contributed sales of \$117 million and EBIT of \$31 million in the year.
- Following Brown & Watson acquisition, the automotive business became the dominant contributor to both sales and EBIT in the year.
- Announced sale of GUD's remaining interest in the Sunbeam small appliances business, effective 1 July 2016.
- Continued with Group-wide refocusing activities, including the broadening of the high performance culture and continuation of the innovation initiative.

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## Annual General Meeting

The Annual General Meeting of GUD Holdings Limited will be held at the:

**RACV Club**  
Level 17  
501 Bourke Street, Melbourne  
on Tuesday, 25 October 2016 at 10.00am.

# OPERATING AND FINANCIAL REVIEW



R M Herron Chairman (left)  
J P Ling Managing Director

## Overview

2015/16 was a landmark year in the evolution of GUD. The acquisition of Brown & Watson International Pty Ltd (Brown & Watson) and the announcement of the sale of GUD's remaining interest in the Sunbeam small appliances business marked the most significant shift in the composition of GUD's business activity portfolio since the acquisition of the Sunbeam Victa company in 1996.

In addition to these formative portfolio activities, the businesses in the Group continued to pursue the elements of strategy that have been outlined in previous years' Operating and Financial Reviews. That is, each business continued to focus on the three areas targeted for improvement over recent years:

1. Actioning improvements in cost-to-serve and share of wallet that were identified in the profit by customer and profit by product analyses that were completed in 2013/14. For example, the Davey water products business has implemented an active sales force effectiveness program that continues to deliver savings in excess of \$2 million annually.
2. Continued implementation of the high performance culture at each business unit to lower levels in the respective organisations. Last year the framework was active at the management team level and this has now cascaded down to middle management and supervisor level.

3. Instigating structured and intensive innovation programs across all businesses. This has involved the commencement of a far-reaching innovation capability-building program for which GUD is using the services of Australia's leading innovation consultancy. This program is multi-layered and initially involves around 50 people from various functions in the businesses and follows the establishment of the Product Leadership Council in 2014/15. Following completion of the program in early calendar 2017, GUD will have a robust innovation process, will have the necessary tools and techniques embedded at each business and will have a broad base of people to apply those tools with the aim of conceiving and commercialising pipelines of breakthrough new products and services.

As previously noted, the objective of these three programs is to underpin more stable and satisfactory levels of profitability and economic return through positioning GUD as a portfolio manager of a group of product leadership businesses that are managed for growth.

When coupled with the sizeable portfolio initiatives that were undertaken during the year, these mark the first major steps in framing the structure of the GUD of the future.

## Financial Performance Review

Prior to outlining the primary financial performance results for the 2015/16 financial year, it is important to note that following the announcement of the sale of GUD's interests in the Sunbeam appliance business joint ventures, the accounts for both the current and the previous financial years have been restated to show Sunbeam as a discontinued operation. The remaining businesses have been classified as continuing operations for comparative purposes.

### Revenue

Total revenue in 2015/16 increased over the prior year by 16 per cent to just under \$710 million. The increase of \$98.4 million consisted of the full year contribution from the Brown & Watson business that was acquired on 1 July 2015, sales growth in the other automotive businesses as well as in Davey and Oates, flat revenue in Lock Focus and Sunbeam and a decline of \$37 million at Dexion.

Revenue for the continuing operations increased 20 per cent to \$596 million from \$497 million in the prior year.

The principal factors behind these revenue trends were:

1. The contribution of \$117 million from Brown & Watson. This level exceeded the revenue expectations held at the time of the acquisition and was the result of a number of factors, including a continuation of the new product momentum that existed in the business at purchase and an additional boost to sales in the second half from new products introduced in the 2016/17 Narva brand product catalogue.

# OPERATING AND FINANCIAL REVIEW

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GUD successfully completed the acquisition of Brown & Watson International on 1 July 2015. This acquisition contributed to the growth in sales and EBIT reported in the year and performed well ahead of expectations.

2. Revenue growth in the established Ryco and Wesfil automotive businesses from a combination of entry into new product categories, range extension in existing categories, growth in the workshop user base and implementation of a number of innovative marketing activation programs to support the new products. GUD Automotive's filtration brand Ryco continued to lead the industry with new product activity. During the year, it introduced a range of diesel particulate filters, the first aftermarket offering of this product type in Australia and New Zealand. In addition, it introduced a high performance filter program under the Syntec sub-brand and gained ranging for its Japanese truck filter program in specialist distributors. Ryco continued with its market-leading workshop conversion program over the year, growing its user base substantially. This will be reflected in increasing sales in future years as these workshops and mechanics establish regular usage of Ryco filters. Wesfil continued to add to its product offering with substantial sales growth reported in wiper blades, engine parts, globes and its traditional automotive filters as a consequence.

3 After some years of subdued revenue growth, Davey reported a five per cent growth in revenue to \$108 million in the year. Growth was recorded in Australia and in the European pool products distribution business, the former coming from a combination of a more structured approach to managing key accounts, continuation of the share of wallet element of the sales force effectiveness program and a consumer-directed promotional program implemented at the end of the year. The European business,

which sells swimming pools products to a significant distributor in that region, increased sales by a third over the prior year as a result of broader ranging of Davey's suite of pool products. Davey also reported that its pool products business returned to profitability in 2015/16.

4. The Oates cleaning products business enjoyed a record year of sales to its heartland commercial and industrial distributors, resulting in a two per cent revenue growth in the year. Oates struggled to grow sales in the grocery and hardware sectors due to a combination of factors, including uncertainty over the future of the Masters hardware chain and the increasing focus by supermarkets on lower cost, lower quality product offerings.
5. GUD's smallest business unit, Lock Focus, reported a slight drop in revenue for the year as traditional markets continue to decline, while new product revenue gained momentum.
6. Dexion, a business that supplies warehouse racking and associated systems along with storage equipment for commercial markets, reported a 17 per cent decline in revenue from the prior year, generating \$176 million in sales in 2015/16. Two major factors influenced this result, the first being the reduction in demand for commercial storage products. The second factor was the lack of confirmed new major warehouse racking projects in the Australian market as customers postponed decisions, for a variety of reasons. Conversely, the New Zealand racking business reported a record year with a contribution to revenue coming from a large automated warehouse project that commenced in the latter part of the year.

## Profitability

Following a write-down in the value of GUD's holding in the Dexion business, the Group reported a net loss after tax of \$43 million for the 2015/16 financial year. The write-down, which consisted of impairment of goodwill, brand names, inventory and product development costs, totalled \$75.7 million pre-tax.

An impairment of Dexion was taken following a review of recent trading performance and its near-term outlook. \$19 million of the total Dexion impairment was recognised in the half-year accounts.

In addition, the net result also included a \$1 million impairment of Davey's inventory, a charge that was included in the half-year accounts and an amount of \$10.6 million relating to an earn-out payment to Brown & Watson's previous shareholders, following that business reaching the maximum earn-out hurdle due to its exceptional financial performance in the year.

Underlying net profit after tax from continuing operations, that is, before the impairment and one-off costs and excluding Sunbeam, increased by 36 per cent to \$44.4 million.

Underlying EBIT from continuing operations was \$78.6 million, a 52 per cent increase on the prior year's level. Growth in underlying EBIT at Automotive and Davey contrasted with declines at Dexion, Oates and Lock Focus. The profit growth in the Automotive business came from a combination of the inclusion of Brown & Watson along with higher contributions from both the Ryco and Wesfil businesses.



The primary influences on the profit results from each of the reporting entities were:

1. Automotive – the sales growth, as previously noted, was a major factor behind the profit uplift in Ryco and Wesfil. In addition, the EBIT contribution of \$31 million from Brown & Watson underpinned the overall \$34.4 million EBIT growth in this segment.
2. Whilst revenue growth also contributed to Davey's 27 per cent increase in EBIT, a more significant contribution came from internal efficiency improvements and lower costs. In particular, savings from local freight costs, procurement activities covering both products and services and cost to serve benefits from the sales force effectiveness program all contributed.
3. Disappointingly, Dexion reported an EBIT loss of nearly \$4 million in the year following a profit of over \$5 million in the prior year. This result was due to the lower level of sales, as previously commented on. In addition, lower volumes processed through the Malaysian factory, as a result of the lower demand, led to the factory operating at below break-even levels, with the result that under-recovered overhead costs had a substantial effect on Dexion's profit.

It was anticipated at the interim results announcement that the factory would reach a break-even position over the course of the second half, but this did not eventuate as major projects were postponed. At the same time, Dexion instigated a major drive on reducing inventories, which was particularly successful, and this further reduced demand on the factory.

Despite the profit result, Dexion reported a strong recovery in cash generation, due to increased collections from customers and a sizeable reduction in its inventory level, especially over the second half.

4. Although it registered a growth in revenue Oates reported an 11 per cent decline in EBIT, to \$10.2 million from \$11.5 million previously. The principal reason for this decline was the difficulty in achieving price increases in the grocery and hardware market segments, which were required to offset the higher cost of product due to currency effects. The extremely competitive nature of these sectors, where the focus is on price to gain and retain customers, underlies this difficulty.

The Sunbeam small appliance business, classified as a discontinued operation for these accounts, contributed an underlying EBIT result of \$2.2 million in the year compared with \$7.3 million previously.

#### Foreign Exchange

GUD continues to source inputs or completed products from suppliers based predominately in Asia, usually priced in the foreign currency. As the inputs or products are typically on-sold to customers in Australia or New Zealand in the respective local currencies, movements in foreign currency values have the potential to substantially affect the Group's financial result each year.

To address these potential effects, GUD utilises hedges of up to 90 per cent of the forecast foreign currency net purchases for up to twelve months. In assessing the level and period of forward cover for each business, the typical variability and seasonality of sales and the typical lead times required to review price lists and apply price changes in the markets or channels where the businesses participate are considered.

Following its acquisition by GUD, Brown & Watson adopted the Group's approach to foreign exchange management during the year.

Currency hedging over the past year continued to be addressed predominately through forward exchange contracts, wherein the exchange rate is defined at the time of entering the contract.

In most cases, the businesses were successful in achieving price rises in response to weakening currencies. In addition, most businesses have put in place, or are finalising, price rises to take effect early in the 2016/17 financial year in light of current exchange rates and anticipated domestic cost inflation. However, in the case of Dexion, weakening steel prices largely offset the currency impacts, reducing the level of price increases sought from the market.

#### Dividends

The total dividend for the 2015/16 year was 43 cents per share consisting of an interim dividend of 20 cents per share and a final dividend of 23 cents per share. Both dividends were fully franked.

This compares with total dividends of 42 cents per share in the previous financial year.

The Dividend Reinvestment Plan remains suspended due to GUD's continuing strong financial position.



# OPERATING AND FINANCIAL REVIEW

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## Cash Generation and Capital Management

A Group-wide initiative focusing on inventories and debtor collections resulted in cash flow more than doubling to \$70 million from \$30 million in the prior year, with a strong pick up in the second half.

Debtors increased over the prior year, in part due to the robust sales performance in the last months of the year. In spite of the growth, the Group's value of bad debts did not escalate and remains immaterial.

With the exception of Brown & Watson, concerted efforts were made to reduce net working capital in the current financial year. In the case of Dexion, attention was focused on improving the work-in-progress financed by customer down-payments and progress payments, whereas in other businesses action plans centred on inventory reduction.

Brown & Watson's priority was on improving fulfilment rates and ensuring sufficient inventory was on hand to support the launch of new product lines, which were introduced with the release of the 2016/17 Narva catalogue.

The major capital commitment for the year was the purchase of Brown & Watson, which involved an initial payment of \$187.2 million on 1 July 2015 and true-up payments totalling \$10.8 million during the year. A final tranche of \$20.0 million will be paid to the prior owners of Brown & Watson during the first quarter of the 2016/17 financial year, representing an earn-out, which was linked to the year's financial performance.

In addition, \$35.4 million was received on 1 July 2016 as a payment for the sale of the Company's remaining interest in the Sunbeam business. A final small adjusting settlement is expected to be concluded in the first quarter of the 2016/17 financial year.

As a consequence of the Brown & Watson purchase, the Company's debt position swung from a net cash position of \$0.6 million at the end of the prior year (which included cash received of \$105 million from an equity raising) to a net debt position of \$168 million at 30 June 2016. Net debt reduced post balance date after receipt of the payment for Sunbeam.

## External Financing

A new five-year debt financing facility agreement for a total of \$300 million commenced on 1 July 2015 to support both the ongoing operations and the purchase of Brown & Watson. This facility involves Westpac, NAB and the Commonwealth Bank.

The facility comprises two parts. The first is a five-year core debt facility of \$185 million, while the second is a \$115 million acquisition-related debt facility, which will reduce to \$62.5 million over the life of the loan.

The total facility capacity at the end of 2015/16 was \$295 million and this will fall to \$282.5 million at the end of 2016/17. It will reduce by a further \$15 million each year thereafter until it expires on 1 July 2020 at a value of \$247.5 million.

Elsewhere, minor additional facilities remain in place to support the working capital requirements of GUD's Asian subsidiaries.

## Strategy Review

GUD's primary objective is to generate long-term shareholder returns above the cost of capital, while maximising the value of its unique portfolio of market leading brands.

Strategy development and execution is focused at the segment level. GUD's businesses operate with a significant degree of autonomy. There is very little overlap between the businesses in respect of markets and customers served, hence the focus.

This individual business approach is overlaid with strategic portfolio analysis, which addresses the structure of the GUD Group in relation to the types of activities the Company should be active in to meet the long-term objective.

The business unit and Group strategies are prepared and reviewed by the Board annually. The approach taken considers the competitive position of each business through assessing its market position, management capabilities and business culture, business fitness and scalability opportunities.

In addition, the attractiveness of each industry sector is evaluated along with the long-term financial performance of each business unit. The latter analysis includes sales and profit trends along with shareholder return history.

This approach provides a framework for assessing an activity and business unit's prospects, from which the future portfolio structure is developed.

From the strategy work completed in recent years a more clearly defined criteria for GUD's portfolio structure has emerged. The overarching guidelines that frame the portfolio structure now and into the future are:

- Industrial, trade or commercial customer base.
- Business to business sales profile.
- Strong brands – either number 1 or number 2 in the category.
- Product leadership in niche markets with a strong innovation track record.
- Sustainable and attractive returns.
- Predominantly an Australian and New Zealand footprint.

At the individual business unit level the elements that frame the strategy are:

1. Investing in innovative product development to deliver breakthrough new products that address specific customer needs, through either distinctive product features, lower product costs and/or improved functional performance.
2. Investing in GUD's brands through the full spectrum of marketing activities and programs to maintain leading positions with each brand's selected audience.
3. Improving product and supply chain costs and efficiencies to enable each business to remain internationally competitive in its sector.
4. Improving efficiency and product unit costs in operations where GUD retains a manufacturing capability.
5. Actively managing the business portfolio to optimise shareholder returns.

Actions taken on these elements of strategy during the 2015/16 financial year are detailed in the following sections.

### Innovation and New Product Development

Innovation and new product development has been a fundamental component of activity across GUD's businesses for many years. However, with increasing globalisation and growing disintermediation the need to continue innovating to provide the users of, and customers for, the Group's various products with new features and benefits has become more paramount.

Without new products and services, GUD's ability to compete over time will erode and the requirement, therefore, to accelerate the introduction of these through a well-defined innovation process is urgent.

To that end, and with the objective of creating a consistent innovation approach and culture, a comprehensive innovation capability-building program commenced during the 2015/16 year. This year-long structured program involves capability-building across a group of people from a broad spectrum of disciplines in each business.

The aim of the program is to embed a common innovation process, based broadly around principles that are complementary with design thinking concepts and that are resolutely focused on the existing or potential customer or user. From this, each business has been tasked with developing a pipeline of breakthrough new products or services for introduction in the current and coming years.

The ability to create new solutions to existing customer problems is critical for future sales growth, for margin protection and for maintaining the relevance of GUD and its brands with its disparate and complex customer bases.

The program is about making innovation, and the unique approach to it, a way of doing business for GUD in coming years.

Concurrent with the major innovation initiative, all businesses in the GUD Group have been active in introducing new or upgraded products to their respective marketplaces.

In particular, the Ryco automotive filtration business has completed an exceptionally active year for new product introductions.

Ryco has led the market with the launch of diesel particulate filters. These filters are now commonly found in the exhaust systems of diesel vehicles and, to date, there has not been an aftermarket offering of this type of product. With diesel vehicles growing in popularity, the requirement for these filters as replacement parts is emerging, and Ryco is now well positioned to service that market need.

There is also a niche market for performance filters for a small number of vehicle types owned by high performance vehicle enthusiasts. Through identifying new filtration media, Ryco was able to develop and introduce the SYNTEC™ high efficiency oil filter that meets the specific requirements of this market segment. The launch of this filtration program, through one of Australia's leading retailers of automotive parts, was exceptionally successful as the range sold through at volumes well above initial estimates.

Whilst engaged in these new product activities, the Ryco business has also maintained its customary range extension program aimed at maintaining the relevance of its filtration offering to the changing nature of the vehicle population in Australia and New Zealand. This has included the introduction of filters specifically for Japanese-branded small trucks, an introduction that was complemented with a dedicated range catalogue to assist in part identification at the workshop and parts distributor levels.

Ryco's sister brand, Goss, in the engine management market segment, has been equally active in expanding its range to include new technology ignition coils and complete replacement fuel pump modules. At the same time, its traditional range of fuel pumps has been expanded to meet changing market needs.

The newly acquired Brown & Watson business has been equally busy with new product introductions, especially those associated with the release of the 2016/17 Narva product catalogue. The introduction of an updated catalogue is a major event on the marketing calendar for Brown & Watson as the catalogue is typically the vehicle for a myriad of new product introductions. This was the case with the February 2016 release of the catalogue, which included around 500 new items across various product types, including driving and fog lamps, emergency lighting, globes, fuses, cables, switches and LED truck and trailer lighting.

In addition to the new product launches Brown & Watson upgraded many existing product lines and made performance improvements to many more.

The net result of this activity has been a sizeable uplift in sales following the catalogue's release. Brown & Watson has scheduled to follow up the recent Narva catalogue launch with one covering its battery and power products brand, Projecta, in the 2016/17 financial year.

Following a period of significant investment in new product development, Davey introduced a number of innovative products to its various markets during the year. These include, in August 2015, the ProMaster® series swimming pool pump, offering users super quiet performance and substantial energy savings over competitive products.

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# OPERATING AND FINANCIAL REVIEW

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The sale of GUD's remaining interest in Sunbeam ends a 20-year participation in the small appliance industry. Through this sale, GUD's base of activities becomes more weighted to trade and industrial markets. Sunbeam now resides with its natural global owner.



This was followed in September with the introduction of the Promatic® MKII chlorinator, incorporating unique self-cleaning features. The next month Davey's Torrium2 'Plug-and-Play' pump controller was released, and this was followed by the EcoSalt Redox sanitisation system for swimming pools in November and with the multi-fit SureFlo pool pump in December.

In calendar 2016, product release activity continued, principally aimed at the pool and spa market segments with products which have been incrementally improved on previous models.

Davey's innovation focus now turns to identifying and developing the product development opportunities for future breakthroughs across its other market segments, specifically household water pressure systems and farm and irrigation pumps and associated equipment, using the innovation process and tools introduced in the broader GUD innovation initiative.

Consistent with its sister companies in the GUD Group, the Oates cleaning products business also has a dynamic new product program. During 2015/16, this resulted in Oates releasing a range of gardening tools with a unique unbreakable flexible head and introducing a range of packaged single use wipes designed for specific cleaning tasks.

Following new product introduction activity in recent years, Oates is benefiting from considerable sales growth in the modular janitors cart product range and from its unique Decitex microfiber mopping system.

A number of new product opportunities remain in development at Oates, the majority of which are focused on the professional cleaning market, the market where Oates remains the market leader in its category and where it has exceptionally strong brand equity.

Sunbeam continued to leverage its relationship with the US-based Jarden appliances business by sourcing relevant products from the Jarden portfolio to introduce to consumers in both Australia and New Zealand. Following the previous year's introduction of Oster brand blender products, Sunbeam accessed a range of UK-designed toasters and kettles from Jarden and introduced these in April 2016 as the London Collection.

Sunbeam has been the leader in the electric blanket market in Australia and New Zealand over many years. In support of its leadership position, the brand continues to innovate and in the year under review the Sleep Express range of blankets was introduced. These incorporate patented Boost technology that provides rapid heating of the blanket compared with standard offerings.

In addition, in recent years, Sunbeam has collaborated with the internationally recognised Australian designer Marc Newson, with the result that a range of stylish high-end kettles and toasters were released mid-way through the year under the Sunbeam by Marc Newson label.

## Investing in Brands

GUD's portfolio consists of a number of businesses that own and operate the leading brands within each of their respective markets. Brands provide a unique connection to consumers and users, and effective brand management has long been a fundamental platform and skill base required to ensure long-term financial success for each business.

In addition to product-related activities, which have been outlined in the preceding section, each year the businesses embark on a number of brand communication and support programs aimed at reinforcing brand equity with existing users or building brand recognition and experience with new users or consumers.

In addition, the diverse nature of GUD's business portfolio opens up opportunities for cross-brand promotions; for example, offering products from one of the brand stables as rewards or prizes in another's marketing programs.

The addition of Brown & Watson to GUD has resulted in strong collaboration between it and the Ryco business across a number of marketing activities, especially where there are common customers.

For example, a joint promotion was developed for implementation at one of the largest common customers in the automotive aftermarket trade channels, involving both the Narva and Ryco brands and staff and managers at the customer's branch network. This initiative, which resulted in customer personnel winning a trip to China, was recognised as being one of the most successful joint brand promotions held with that customer.





Further, similar activities around unique joint promotions are being actioned in 2016/17.

Cabin air filters is an emerging growth segments for Ryco and Wesfil. This market is under-developed compared with the standard engine oil and air filter markets and opportunities exist to use differentiated products to drive awareness and unit growth. To that end, during the year the Ryco business developed and implemented a marketing campaign around a new range of cabin air filters that remove fine particles from air entering an automobile's cabin.

The comprehensive 'Breathe Easier' campaign focused on the Ryco MicroShield filters incorporated trade and consumer advertising, social and digital media activities, a consumer and trade promotion and trade-directed educational content.

The combination of these elements reinforced Ryco's position as the leading aftermarket filtration brand in Australia and New Zealand, as well as providing a substantial payback as represented by the sales unit growth of nearly 40 per cent compared with the prior year.

To support its new product development programs Sunbeam maintained a high level of activity on digital and social media platforms. As a consequence, Sunbeam continues to lead the small appliance category on engagement across the various platforms.

### Supply Chain Efficiency

With GUD having little residual involvement in manufacturing activities, a major component of the cost structure of the various businesses in the Group is supply chain cost – the cost of sourcing products, transporting and storing them and ultimately delivering them to customers across the various regions where the businesses are active.

Traditionally, the approach to these costs has been to let each business manage their own supply chain, essentially because there is very little overlap between the businesses in relation to the customers served and the physical nature of the products handled.

One exception to this has been the procurement of ocean freight services, which has been managed on a Group-wide basis for the best part of a decade. By combining the requirement for shipping product from origin to market, GUD has benefited from its scale in achieving market-competitive ocean freight rates along with committed allocations on vessels.

In recent years, this approach has changed in that opportunities to streamline these costs between the businesses, outside of ocean freight, are now being more actively pursued. To that end, a cross-business Supply Chain Council was established in the 2015/16 year with the aim of identifying these opportunities and to benchmark critical supply chain performance measures to ensure that efficiencies are being secured by understanding best practice across GUD.

The formation of the Supply Chain Council resulted in the following benefits accruing in the year under review:

- A reduction in Davey's cost of freight, generating savings of over \$1 million annually.
- Creation of a group buying arrangement for trans-Nullarbor freight generating savings of \$150,000 annually.
- Leveraging GUD's freight rates in the acquired Brown & Watson business saving that operation around 20 per cent of its freight costs.
- Closed Davey's Townsville warehouse delivering considerable savings with no detrimental effect on customer service levels.

Although progress has been made, there are additional opportunities for further savings to be achieved. Perhaps the most potential lies in consolidating shipments at the point of origin and shipping directly to the relevant market. This avoids the additional costs of handling product through a national distribution centre and re-freighting to the ultimate point of demand. Apart from the cost benefits that this provides, shipping to the destination that is closer to the customer should result in improved customer service levels.

### Manufacturing Efficiency

GUD maintains a manufacturing presence at three of its business units – Davey, Dexion and Lock Focus. All other businesses source their products from third party suppliers, the majority of which are located offshore, with a large number of these in China.

Davey essentially assembles products at its Scoresby factory in Melbourne's south eastern suburbs, from sourced components. Close by, Lock Focus engages in die casting, metal stamping and assembly processes to make its range of locks and associated products.

# OPERATING AND FINANCIAL REVIEW

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Dexion has the most substantial manufacturing footprint of any business in the GUD Group. Dexion operates factories in Malaysia and China to supply its market-facing functions in Australia, New Zealand, South East Asia, China and the Middle East.

The Malaysian factory has undergone a substantial upgrade and reconfiguration in recent years as a result of the combination of investment in a new roll forming line and the relocation of the previous plant and equipment from the now closed Kings Park factory in Sydney's west.

The focus for manufacturing efficiency improvement in the 2015/16 year has necessarily been at the Malaysian site and has centred on optimising the operation of the plant relocated from Sydney.

To some degree, this process has been hindered by the relatively low volume requirement that has been placed on the factory due to lower demand for racking products in the Australian market. Simultaneously, the new Jumbo line, which was installed in mid-2014 has experienced demand growth for the product range that it produces, although substantial capacity remains untapped at present.

The installation of automated container loading equipment has improved both the efficiency of despatch operations, as well as reducing the workplace health and safety risks associated with these activities.

A major factor that has hindered Dexion's manufacturing efficiency improvement has been the lack of a robust sales and operational planning process in the business. This is now rectified, and a robust forecasting process is in place for the 2016/17 year.

The Malaysian factory has not performed to the levels expected at the time of the major investment and the relocation of the equipment from Sydney. Progress has been made and there is no doubt that Dexion's cost to convert is significantly lower in Malaysia than it was in Sydney.

This positions the Dexion business well for the future. The expected improvement in volume throughout in the coming year coupled with the robust demand planning regime and the improvements that will come from the experience of running the reconfigured factory should result in a lower break-even point and an improved delivery performance from this crucial manufacturing facility.

## Portfolio Management

During the 2015/16 year, GUD undertook two significant activities that were aimed at framing GUD's business portfolio structure for the future.

Specifically these activities were:

- The acquisition of Brown & Watson on 1 July 2015.
- The announcement that GUD is selling its remaining shareholding in the Sunbeam appliances joint venture effective from 1 July 2016.

The Brown & Watson acquisition was detailed in last year's Operating and Financial Review and its contribution to GUD's financial performance in 2015/16 was outlined earlier in the Financial Performance Review section of this report.

At the time of the acquisition, GUD flagged that a number of specific initiatives would be actioned at Brown & Watson; these having been implemented across all other GUD businesses in recent years.

To guide this activity and to provide the business with leadership following the retirement of its longstanding Managing Director and part-owner, Steve Waterham, Bob Pattison transferred from his previous role heading GUD's Ryco business.

In the 12 months that Brown & Watson has been in GUD ownership, the business has adopted most of the major elements of GUD's performance culture, namely:

- Commencing a profitability analysis by customer and by product to identify areas for improvement around cost-to-serve, product cost improvement and pricing opportunities.
- Implementing the high performance framework at the management team level. At Brown & Watson, this has also been taken to sales management and representative level with extremely positive results.
- Introducing the GUD-wide innovation program to embed structured and customer-focused innovation activities, with the aim of having a pipeline of breakthrough new products ready for market introduction in 12–24 months' time.

Simultaneous to the introduction of these programs, a number of activities have occurred which have been aimed at improving Brown & Watson's cost position by inclusion in GUD purchasing arrangements. The business is now included in such arrangements for insurance, domestic freight and container freight with benefits accruing from these.

Apart from continuing its strong financial performance, the focus now for the management team is to develop and implement a growth strategy for the next five years. The business is fortunate in that it is active in a myriad of market segments and has opportunities to grow organically in most of these. In addition, rapid technological change in many of its product segment, particularly lighting and batteries, provide further avenues for sales growth and margin expansion.

The current task is to identify which of these offers the best potential for growth and to act on those in conjunction with the established activities around product leadership and innovation.



Top left: Lock Focus  
Top right: Brown & Watson  
Right: Dexion  
Below: Davey  
Left: Oates





# OPERATING AND FINANCIAL REVIEW

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The evidence to date is that Brown & Watson has been a sensible acquisition for GUD. It complements the Group's established activities in the automotive aftermarket, while providing access to other market segments that offer good growth potential. The business is targeting a sustainable eight per cent per annum sales growth and a 30 per cent EBIT to sales benchmark. At these levels, this business will be a major contributor to value growth in GUD.

In April 2016, GUD announced that it had entered into an agreement with Jarden Consumer Solutions (JCS) of the USA to sell its remaining interest in the Sunbeam appliances business.

Previously GUD had entered into joint venture arrangements with JCS in October 2014 whereby it sold a 49 per cent shareholding in Sunbeam Australia and New Zealand to JCS and acquired a 49 per cent stake in Jarden's Asian sales and marketing operations.

The objective of the joint venture arrangement was to provide Sunbeam with some much-needed scale and to enable Sunbeam to benefit from access to Jarden's broader product range and to provide product purchasing benefits through accessing JCS's supplier network and procurement capabilities.

While operating in the joint venture mode, it became apparent quite rapidly that it was to Sunbeam's long-term benefit that it become a fully owned subsidiary of JCS sooner rather than later.

The exit from the small appliance industry, which has rapidly globalised and left Sunbeam strategically disadvantaged as a result, comes after an involvement spanning 20 years, following GUD's acquisition of Sunbeam Victa Corporation in 1996.

JCS is an electrical appliance business with an international footprint. It owns the Sunbeam brand globally, with the exception of Australia and New Zealand, where it has been owned by GUD, and is the natural owner of Sunbeam Australia and New Zealand.

GUD's original intention was to sell its shareholdings in the joint ventures at a later date, but circumstances changed such that an earlier exit was the best avenue to take for GUD's shareholders.

GUD received cash of \$35.4 million from the sale of its remaining interest in the two joint ventures. The completion date for the transaction was 1 July 2016. The proceeds will be applied to reducing GUD's borrowings.

Following the divestment of Sunbeam, GUD's activity base covers the automotive aftermarket, water products, cleaning products, warehouse and commercial storage products and systems, and security products.

The portfolio remains under regular review, and there is likely to be further changes to the structure of the portfolio in coming years. These will be done to fulfil the strategic objectives already stated, along with the intention to position GUD as the owner of three or four larger businesses each with sales of between \$200 million and \$400 million, enjoying international scale. To achieve this position, the businesses in the portfolio will need to be scalable and complementary businesses will be acquired as opportunities arise.

## Corporate Social Responsibility

### People, Safety and Culture

This year, GUD continued with its broad-based employee satisfaction survey designed to understand how people across the businesses perceive a number of cultural and management effectiveness dimensions.

As previously detailed, the Company made significant changes to its business portfolio and within the businesses themselves, with the objective of achieving the best portfolio mix of high performing businesses. With these changes, it continues to be important to understand how people cope with change and how communication around the changes mitigates personal concerns. The responses to the survey shape the communication of plans and objectives of the Board and senior management.

High performance is becoming embedded in the culture of the businesses, as programs have been conducted in each of the last three years. The approach offers individuals who have much to contribute an opportunity to demonstrate their abilities and gain recognition for their achievements. GUD is cultivating the leaders of tomorrow's business.

Many cross-business projects and teams have been established in the last few years, driving a greater understanding of the businesses, their risks and opportunities, and creating an environment for sharing of knowledge and solutions. One example is the Information Technology Council, which brings together the relevant professionals from the businesses for the purpose of understanding and harmonising the approach to the many technology issues facing the business and jointly developing cohesive and comprehensive policies.



A safety culture survey was not conducted during the year, as it was considered the previous survey gave clear guidance on what needs to be focused on. The priority has been to enhance safety leadership through a number of initiatives. The businesses have introduced programs and initiatives to enhance safety culture, where management effectively leads with safety and increases employee participation and trust. Additionally, businesses are developing safety campaigns to encourage staff to be more aware of their surroundings and engage in safety conversations if a potential issue is identified.

During the year, GUD introduced its Safety Excellence Awards to promote, encourage, recognise and reward businesses, teams and individuals who place a high value on accident prevention and promotion of safety in the workplace. The inaugural Safety Excellence Awards were held in August 2015. The winners were the Dexion Manufacturing business in China, the warehouse team at Davey Water Products (Melbourne) and George Jabbour in the warehouse at E D Oates in New South Wales.

The Awards are being run again this year and strong submissions have been received from a number of the businesses competing to be the best and safest in the GUD Group.

Along with the rewards and encouragement, GUD is also providing comprehensive training in a number of areas complementary to the essential basic safety training. Recent programs have covered incident investigation and reporting, the objective being to properly investigate and understand the local factors that contribute to an incident and the latent hazards within the system and organisation, not just focusing on the errors and violations of operational personnel.

Throughout the Group, trained investigators form teams to carry out these investigations, and apply their ability to transfer the knowledge gained across the businesses.

GUD has for many years run a comprehensive program of annual inspections of business sites by trained personnel from other businesses within the Group. This has worked well; however, this year investment has been made in more training for a larger pool of internal auditors. Additionally, the internal audit checklist has been refreshed and renewed. This system allows the transfer of knowledge and experience across businesses and teams within the GUD Group.

The results from the increased emphasis on safety across the businesses are evident in the following table.

Measure	2012/13	2013/14	2014/15	2015/16
Total Recordable Injury Frequency Rate	16.8	14.3	8.2	<b>7.1</b>
Lost Time Injury Frequency Rate	3.7	5.6	1.8	<b>4.5</b>
Days Lost per 100 Employees Per Year*	25.4	27.8	17.1	<b>47.0</b>

\* This measure for 2015/16 is significantly impacted by two long-term cases where the injury occurred in a prior year; if those numbers were omitted the rate would be 12.3.

The application of the AON Hewitt-assisted evaluation continued in the year and informed the grading of each role within the businesses. This allows the Group to ensure equality and fairness in proposing and recommending salary and career decisions for all GUD employees. It also forms the basis of ensuring sustainability into the future; in particular, in areas such as recruiting, career and succession planning,

development planning and workforce planning. The objective is to grow the pool of talent available to the Group and ensure that personnel with the right skills and experience are best utilised.

GUD businesses offer an employee assistance program, provided on a confidential basis by an independent third party. Employees and managers are encouraged to make use of this assistance whether the matter is work-related or personal.

Diversity, in particular gender diversity, is at the forefront of Board and management thinking. GUD's formal report on diversity is included in the Corporate Governance Statement, which is available on the website at <http://www.gud.com.au/corporate-governance>. A copy of GUD's diversity policy is also available at the same location.

## Sustainability

GUD manages its businesses to be responsive, ethical, open and accountable, promoting a relationship of respect and trust by and with shareholders, customers, government and community, and employees.

During the year, GUD undertook a study across its businesses to identify sustainability risks. With the assistance of KPMG, the study identified sustainability risks of varying degrees found across the businesses in product quality, labour, supply reliability, health and safety, and the environment.

Each business was presented with the finding of the study as they applied across the Group, and to the individual business, and was asked to provide a response as to how it was addressing each of those risks.

# OPERATING AND FINANCIAL REVIEW

continued



The responses demonstrate that some businesses are better prepared and more progressed in the identification, analysis and consideration and planning and implementing a response to these risks. For instance, a number of GUD businesses have for many years included in their contracts with overseas suppliers requirements in relation to ethical labour practices. This now applies to all GUD businesses. Some businesses are going further and auditing their suppliers against these commitments.

A second example is the treatment of waste. Where appropriate, businesses are signatories to the Australian Packaging Covenant and have undertaken an assessment of the areas where packaging can be minimised or re-used and have made commitments accordingly. All businesses are conscious of their impact on the environment and seek to minimise that impact by implementing cost-effective changes to practices. Initiatives, such as ethical sourcing, responsible packaging, lower energy consumption, hazardous chemical reduction, waste recycling and storm water harvesting, are ongoing programs in the Group.

Ethical conduct in business is a key pillar of GUD's sustainability. GUD has had a Code of Conduct for many years, including provisions for the protection of 'whistle-blowers'. The Code of Conduct has been strengthened in recent years, with broad-based training of staff in areas of privacy, bribery and corruption risks, harassment and bullying, anti-competitive conduct and consumer protection.

GUD's businesses have relatively minor impact on climate change through greenhouse gas emissions and energy consumption. GUD's operations in total continue to be well beneath the reportable thresholds established by the National Greenhouse and Energy Reporting Act.

## Risk Review

It is the policy of GUD Holdings Limited to ensure that there is a systematic process to identify, analyse, assess, manage and monitor risk throughout the Group. During the year, this expanded to include the acquired Brown & Watson business.

An evaluation of all organisational risks at business level is performed twice annually for presentation to the Board for review. In addition, there are established policies and processes in relation to specific risks, such as workplace health and safety and financial risk management.

The twice annual business unit risk assessments are performed utilising a standard framework that is designed to ensure that strategic, operational, legal, reputational, product quality, brand and technological risks are identified, assessed, managed and monitored.

The risk management framework highlights those risks that are classified as 'extreme' or 'high' and these become the priorities for mitigation actions. These risks are material business risks that could adversely affect achievement of GUD's strategy outlined in the 'Strategy' section above and financial prospects described in the 'Outlook' section.

The risks identified as 'extreme' have not materially changed in the past year; these are detailed below.

- Brand reputation risk due to poor product quality from external suppliers. GUD relies heavily on external manufacturers to supply products that comply with GUD's brand quality standards. Any decline in quality could cause major reputational damage and a consequent degradation in brand equity.

- Consolidation of the customer base. Further consolidation of corporate ownership of the customers served by GUD's businesses could potentially lead to pressures to negotiate less favourable trading terms for GUD and to demands for additional promotional allowances and other margin-reducing activities.

Whilst having reduced in perceived risk from 'extreme' to 'high' GUD still considers supply chain risk, which includes supplier failure and the inability to receive products sourced from offshore suppliers, to be a threat. GUD is heavily dependent on offshore suppliers for a substantial proportion of its product range. Oates, Sunbeam and the Automotive businesses import their full product needs, while Davey, Dexion and Lock Focus produce product as well as source from external suppliers.

There are a number of individual risks that could be categorised under this subject, including supplier financial failure and country risk through sourcing and shipping predominantly from one location. Monitoring and mitigation activities continue to reduce and manage the severity of these risks.

Emerging risks include cyber risk and bribery and corruption. During the year, the Company assessed these risks and established policies and processes, including training of staff, to mitigate them.



## Foreign Exchange Risk

Foreign currency fluctuations have been identified as material business risks that could adversely affect achievement of GUD's strategy outlined in the 'Strategy' section above and financial prospects described in the following section headed 'Outlook'.

The nature of this risk has not fundamentally changed over the 2015/16 year.

The significant foreign exchange exposures affecting GUD's businesses arise from purchases of goods in foreign currencies that are translated back to the functional currency of the relevant subsidiary. This has increased somewhat with the relocation of Dexion manufacturing from Australia to Malaysia and the acquisition of Brown & Watson. In the case of Davey, exports from Australia provide a partial natural hedge against the purchases of imported components.

Foreign exchange exposures will continue to be managed from a perspective of reducing the effects of volatility on the value of the foreign currency cash flows of the business.

The GUD Group's foreign exchange policy requires significant purchases in foreign currencies to be hedged using either foreign exchange contracts, options or collars.

A Financial Risk Management Committee, consisting of finance staff from the subsidiaries and managers from the holding company, meets monthly in order to monitor foreign currency exposures.

## Outlook

Despite the absence of a contribution from the Sunbeam business, which was sold on 1 July 2016, as previously reported, underlying financial performance in 2016/17 is expected to improve on the level generated in 2015/16.

This improvement is expected to come about as a result of a number of initiatives and programs, many of which have been outlined earlier in this Operating and Financial Review.

Specifically, contributions are expected from the innovation projects commenced early in the financial year, following completion of the capability-building phase of the innovation initiative. Innovation missions are being progressed through GUD's innovation process at Davey, Ryco and Oates, these being the first to complete the program. This will be followed by projects being commissioned at Brown & Watson, Lock Focus and Dexion.

For GUD's established businesses that have been through substantial reconfigurations over time, transitioning from manufacturing-intensive operations to design, develop, source and sell businesses, the ability to develop and introduce innovative products and services that meet real customer needs is critical to future success.

The focus for these businesses, which span all with the exception of Dexion, is weighted to this activity.

In Dexion, while new products and services are important, the main tasks are around internal process improvements, manufacturing efficiency progression in the Malaysian factory and rebuilding Dexion's position in the local market. These actions are aimed at building a solid internal foundation to grow the business in future years. Simultaneously, the strategic options available for Dexion are being considered.

Brown & Watson joined the GUD Group on 1 July 2015 and made a substantial contribution to financial performance in the 2015/16 year. The business is part way through implementing GUD's policies, processes and procedures and further progress on these will occur in the current year.

In addition to any additional benefits that may flow from this, Brown & Watson should deliver profit growth as a result of a full-year contribution from the new products introduced in the 2016/17 Narva catalogue and a contribution from new Projecta brand products to be introduced with that brand's new catalogue early in the 2017 calendar year.

GUD Automotive, the foundation business in the GUD Group, is expected to continue with the market momentum it generated in 2015/16, by focusing on optimising the benefits from its recent new product introductions, including its push into the heavy duty market segments and its launch of diesel particulate filters. In addition, its market-leading customer acquisition program will contribute to market share growth as more workshops convert to using the Ryco brand as their first choice automotive filter.

Davey's financial performance has turned the corner after some years of stagnation. A less volatile trading performance should come about following Davey's management team renewal and its changed approach to key account management. Davey is well advanced with its major innovation projects and these should make a contribution to financial performance as the year progresses.

The 2016/17 year represents one in which GUD is not as exposed to consumer purchasing patterns and trends as it has been in the past. Sunbeam was the business with a significant exposure to the consumer market, and although Oates retains business to consumers through hardware and grocery channels, its most important market is the commercial cleaning sector.

GUD is transitioning to managing a group of business with trade and industrial customers as the core of the customer base. The brands remaining in the Group's portfolio are all leaders in their respective markets to this customer profile. This transition is aimed at building a solid portfolio of consistently performing businesses that aren't subject to the variability of consumer markets. By being close to customer and framing product and service development around real customer needs, GUD's businesses are uniquely placed to organically grow and to deliver sustainable, high-quality returns.

# SUMMARY OF OPERATIONS

## Automotive



### Products

#### Automotive parts and accessories, including:

- Automotive oil, air, fuel, emission and cabin air filters
- Heavy duty and agricultural filters
- Wiper blades
- Replacement brake parts
- Fuel pumps
- Ignition coils and oxygen sensors
- Automotive lighting and electrical accessories
- Battery maintenance and battery power products

### Main markets and customer types

#### Australia and New Zealand

- Automotive parts trade distributors, retailers and independent resellers
- Manufacturers of trucks, trailers, caravans, buses and other automotive body builders

### Significant events

- Significant new product introduction activity in Ryco, including Syntec high performance filters, diesel particulate filters and a Japanese truck heavy duty filter program
- Goss added rotation sensors to its engine management range, while expanding its existing fuel pump, ignition coil and emission sensor programs
- New product activity at Wesfil, including range broadening in filtration, wiper products and engine parts
- Brown & Watson published the 2016 Narva catalogue, which included nearly 500 new products
- Strong financial performance in the established businesses was complemented by the inclusion of the financial contribution from Brown & Watson

The acquisition of Brown & Watson gives GUD an unsurpassed footprint in the automotive aftermarket in Australia and New Zealand. GUD's automotive brands – Ryco, Wesfil, Goss, Narva and Projecta – are all well-established and highly regarded in their respective markets. The balance of the GUD portfolio comprises a number of leading businesses in water products, cleaning products, security and storage solutions.

## Davey



### Products

#### Water pumps and associated products:

- Domestic water pressure systems
- Rainwater harvesting products
- Swimming pool pumps, filters, salt chlorinators, UV disinfection and cleaners
- Spa pumps and controllers
- Water treatment products and systems
- Domestic fire protection
- Farm and irrigation water supply systems

### Main markets and customer types

#### Australia, New Zealand, Europe and 40 other international markets

- Water specialists, rural merchants, pool builders, pool shops, spa manufacturers, tank manufacturers and international distributors

### Significant events

- Internal efficiency improvements underpinned a 27 per cent uplift in underlying EBIT, following a five per cent growth in sales
- Sales growth was driven by more effective key account management in Australia and increased ranging of pool products in Europe
- Davey's swimming pool business returned to profitability in the year

## Oates



### Products

#### Janitorial and household cleaning products and chemicals

- Mops and buckets
- Brooms and brushes
- Cloths and wipes
- Janitorial trolleys
- Specialty cleaning chemicals

### Main markets and customer types

#### Australia and New Zealand

- Supermarkets, hardware outlets and industrial/commercial cleaning products distributors

### Significant events

- Record sales performance in commercial and industrial market sectors
- Innovation program gaining momentum



# SUMMARY OF OPERATIONS continued

## Dexion



### Products

#### Industrial and commercial storage products and systems

- Industrial warehouse pallet racking and associated systems and equipment
- Commercial storage products and systems

#### Main markets and customer types

##### Australia, New Zealand, South East Asia, China and the Middle East

- Operators of industrial warehouses, franchised Dexion Supply Centres, architects and interior designers

#### Significant events

- Commercial business unit integrated with the balance of Dexion
- Strong cash generation, despite poor profit performance
- New CEO appointed October 2015 resulting in the commencement of a number of internal improvement programs
- Business returned to profitability in last three months of the financial year
- Record performance in the New Zealand industrial business with a major contribution from a large, automated warehouse project

## Lock Focus



### Products

#### Locking systems and other security products for:

- Garage doors and sheds
- Caravans, utes and other vehicles
- Doors and windows

#### Main markets and customer types

##### Australia and New Zealand

#### Significant events

- Substantial new product investments to trigger improvement in the 2016/17 financial year

# BOARD OF DIRECTORS

The names of the Directors who held office during the financial year and details of their qualifications, experience and special responsibilities are as follows:



Left to right:  
**Ross Herron**  
**Anne Templeman-Jones**  
**Peter Hay**  
**Mark Smith**  
**Graeme Billings**  
**David Robinson**  
**Jonathan Ling**



## **R M Herron\*** FCA FAICD

Appointed Non-Executive Director on 17 June 2004. Appointed Chairman on 1 January 2012.

Mr Herron has been a Chartered Accountant since 1973. He is a former Deputy Chairman of Coopers & Lybrand (now PricewaterhouseCoopers) and retired as a partner of PricewaterhouseCoopers in December 2002.

He is also a Non-Executive Director of Select Harvests Limited (since January 2005), Insurance Manufacturers Australia Ltd and Kinetic Superannuation Fund. Mr Herron is Immediate Past President and former Chairman of the Royal Automobile Club of Victoria (RACV) Ltd (retired December 2014).

## **A L Templeman-Jones\*** BComm MRM EMBA CA FAICD

Appointed Non-Executive Director on 1 August 2015.

Ms Templeman-Jones is currently a Non-Executive Director of APN News & Media Limited, where she serves as Chair of the Audit and Risk Committee and a Non-Executive Director of Cuscal Limited, where she is Chair of the Risk Committee. She is also Non-Executive Director of Pioneer Credit Limited.

Ms Templeman-Jones has considerable experience in institutional and commercial banking, wealth management and insurance, having previously held a number of senior executive roles within Westpac and ANZ.

## **P A F Hay\*** LLB FAICD (Retired 1 August 2015)

Appointed Non-Executive Director on 26 May 2009. Appointed Chairman of the Remuneration Committee on 22 June 2010. Mr Hay retired from the Board on 1 August 2015.

Mr Hay is currently Chairman of Newcrest Limited (appointed January 2014) and Chairman of Vicinity Centres Limited (appointed June 2015).

Mr Hay is a Director of the Australian Institute of Company Directors Ltd (appointed November 2012) and is a member of the Australian Government Takeovers Panel (since May 2009).

Mr Hay is a former Director of Alumina Limited (retired December 2013), Australia and New Zealand Banking Group Limited (retired April 2014) and Myer Holdings Limited (retired July 2014).

## **M G Smith\*** Dip. Business (Marketing) FAMI CPM FAIM FAICD

Appointed Non-Executive Director on 26 May 2009.

Mr Smith is Non-Executive Director and Chairman of Patties Foods Limited (since April 2013). He is a former Non-Executive Director of Toll Holdings Limited (retired May 2015), and a former Chairman of Food Holdings Limited (retired August 2011).

Mr Smith was Managing Director of Cadbury Schweppes Australia and New Zealand (2003 to 2007) and a member of the Asia Pacific Regional Board. Over a 16-year career with the Cadbury Schweppes group he held senior management positions in Australia, the UK and North America. Prior to joining Cadbury Schweppes Mr Smith's career included senior management roles with Unilever and Uncle Toby's.

## **G A Billings\*** BCom FCA MAICD

Appointed Non-Executive Director on 20 December 2011. Appointed Chairman of Audit, Risk and Compliance Committee on 1 January 2012.

Mr Billings retired from PricewaterhouseCoopers in 2011 after 34 years, where he was head of the Melbourne Assurance practice as well as heading the firm's Australian and Global Industrial Products business.

Mr Billings was appointed Chairman of Korvest Limited in September 2014 and a Non-Executive Director of Clover Corporation Limited on 20 May 2013. He was appointed Chairman of Azure Healthcare Ltd on 21 October 2015.

## **D D Robinson\*** BSc MSc

Appointed Non-Executive Director on 20 December 2011.

Mr Robinson spent the past 22 years prior to joining the Board with global automotive parts, general industrial and consumer products manufacturer and marketing company Robert Bosch GmbH.

In that time he has worked in the USA, Germany and Australia and had responsibility for sales, marketing, engineering, manufacturing, accounting and personnel. He was President of Robert Bosch Australia and Robert Bosch New Zealand.

## **J P Ling** BEng MBA FAICD

Appointed Managing Director and Chief Executive Officer on 1 August 2013. Mr Ling was appointed as a Non-Executive Director of Pact Group Holdings Ltd on 28 April 2014.

Mr Ling was previously CEO and Managing Director of Fletcher Building Limited (2006 to 2012). He has extensive management experience in competitive manufacturing businesses through his senior roles with Fletcher Building and prior roles with Pacifica, Visy and Nylex.

Mr Ling is a former Non-Executive Director of Pacific Brands Limited (retired February 2014).

\* All Non-Executive Directors are independent.

# EXECUTIVES



Left to right:  
**Martin Fraser**  
**Malcolm Tyler**  
**David Draycott**  
**David Birch**  
**Tim Richards**  
**Terry Cooper**  
**Davey Worley**  
**Geoff Charnley**  
**Bob Pattison**  
**Guy Nicholls**



## Corporate Executives

**M Fraser** B Bus, EMBA, GAICD, FCA  
Chief Financial Officer

Mr Fraser's early career was with Coopers & Lybrand in Australia, followed by over 25 years in senior finance and operational roles in Asia and Europe with McIntosh Hamson Hoare Govett, Jardine Matheson Ltd and the Schindler Group.

**M Tyler** LLB BCom (Hons) MBA AGIA  
Company Secretary

Mr Tyler is an associate of Governance Institute Australia, a former partner with Freehills and general counsel with Southcorp Limited. He has held a legal practicing certificate in Victoria for 30 years.

**D Draycott** Dip. Bus. Studies,  
Grad. Dip. Accounting

### General Manager Strategy & Planning

Mr Draycott joined GUD in June 1997 as Corporate Development Manager.

Prior to GUD he was with Bunge Australia in both operational and corporate roles, latterly as General Manager, Sunicrust Clayton Bakery. Mr Draycott commenced his career with Metal Box UK and then spent time in the marketing research profession at A C Nielsen.

## ED Oates

**D Birch** Dip. Bus. Studies (UK)  
Chief Executive Officer

Mr Birch's early career began in the UK with Matchbox, the world toy brand, followed by an international role in the computer games and console industry. That role led to a move to Australia with the Playcorp Group. Subsequent senior management roles with HWI in Melbourne were held prior to joining Oates in 2006.

## Dexion Group

**T Richards** B Business  
(Accounting), CPA  
Chief Executive Officer

Mr Richards joined Dexion in October 2015. Prior to Dexion he was CEO, Building Product Division of Fletcher Building in New Zealand, and has held senior executive and management roles with Fletcher Building Australia, Stramit and Boral.

## Wesfil

**T Cooper**  
Managing Director

Mr Cooper has been the Managing Director of Wesfil since selling the business to the GUD Group in 1996. He has been actively involved in the automotive aftermarket industry for over 30 years and has been instrumental in driving the growth of Wesfil since it became part of GUD.

## Davey Water Products

**D Worley** BCom, EMBA, GAICD  
Chief Executive Officer

Mr Worley joined GUD in May 2014 following 11 years at Fletcher Building in senior executive positions, including CE Fletcher Distribution, CE Laminex Group and CE Crane Group and prior to that held senior operational roles primarily in manufacturing and distribution industries.

## Lock Focus

**G Charnley** BE (Mechanical Hons)  
Chief Executive Officer

Mr Charnley has been with GUD since 2009. He previously worked at Mobil Oil, Amcor and Huyck Wangner in engineering, operations and general management roles. He has extensive experience in Asia involving customer contact, product sourcing and establishing manufacturing plants with companies creating technical products and solutions.

## Brown & Watson International

**B Pattison** BB (Mkt) CPM AMI  
Chief Executive Officer

Mr Pattison joined GUD as CEO of GUD Automotive in 2004. He has a wealth of experience in the automotive industry having held senior sales, marketing, and general management roles with Ford, International Harvester, Nissan and Calsonic. In 2013 he was appointed President of the Australian Automotive Aftermarket Association. On 1 July 2015 he was appointed CEO of the newly acquired Brown & Watson International.

## GUD Automotive

**G Nicholls** Grad. Dip. BA, Dip.  
Sales & Marketing

### Chief Executive Officer

Mr Nicholls has spent 25 years in the automotive industry, including Sales Management roles in the automotive aftermarket for Federal-Mogul and Disk Brakes Australia. He joined GUD in 2008 in the role of National Sales Manager and assumed the role of Chief Executive Officer in July 2015.



# FINANCIAL SUMMARY AND RATIOS

Financial Summary and Ratios		2012	2013	2014	2015	2016
<b>Sales and Profitability<sup>1</sup></b>						
Sales Revenue	\$m	609.1	596.5	591.6	497.1	<b>595.5</b>
Underlying EBIT	\$m	70.3	56.4	49.0	51.6	<b>78.6</b>
Underlying NPAT	\$m	44.1	37.4	31.0	32.7	<b>44.4</b>
Acquisition, integration, restructuring and impairment costs	\$m	(1.1)	(7.7)	(19.0)	(1.7)	<b>(87.3)</b>
Net Profit Before Tax <sup>2</sup>	\$m	123.7	43.5	23.7	42.8	<b>(23.3)</b>
Net Profit After Tax	\$m	92.8	31.5	17.7	31.1	<b>(40.9)</b>
<b>Cash Flow</b>						
Cash flow from Operating Activities	\$m	56.9	51.5	29.6	34.1	<b>70.2</b>
<b>Financial Position</b>						
Current Assets	\$m	218.6	213.3	234.4	307.6	<b>343.4</b>
Current Liabilities	\$m	119.9	94.9	116.8	135.7	<b>168.7</b>
Net Debt	\$m	17.4	64.9	98.4	(0.6)	<b>168.0</b>
Net Tangible Assets	\$m	100.9	68.7	41.6	188.3	<b>44.8</b>
Total Equity	\$m	273.7	239.1	209.3	356.2	<b>274.6</b>
<b>Per Share Performance</b>						
Underlying Earnings Per Share <sup>1</sup>	cps	62.9	52.5	43.5	45.2	<b>52.0</b>
Earnings Per Share <sup>1</sup>	cps	132.3	44.2	24.8	43.0	<b>(48.0)</b>
Interim dividend	cps	30.0	26.0	18.0	20.0	<b>20.0</b>
Final dividend	cps	35.0	26.0	18.0	22.0	<b>23.0</b>
Special interim dividend	cps		10.0			
Special final dividend	cps	35.0	10.0			
Dividend per share	cps	100.0	72.0	36.0	42.0	<b>43.0</b>
Amount franked	%	100	100	100	100	<b>100</b>
Payout Ratio	%	103	99	83	93	<b>83.0</b>
Total shareholder return <sup>3</sup>	%	5.4	(22.7)	12.9	48.6	<b>7.9</b>
<b>Share Statistics (at 30 June each year)</b>						
Total Shares on Issue	m	70.8	71.3	70.9	85.1	<b>85.3</b>
Closing Price	\$	8.60	5.99	6.22	8.84	<b>9.11</b>
Market Capitalisation	\$m	608.9	427.3	441.2	752.1	<b>777.3</b>
<b>Key Ratios</b>						
Underlying EBIT/Sales <sup>1</sup>	%	11.5	9.5	8.3	10.4	<b>13.2</b>
Return on Capital Employed <sup>1,4</sup>	%	15.1	12.2	10.1	9.2	<b>10.0</b>
Return on Equity <sup>1</sup>	%	16.1	15.6	14.8	9.2	<b>16.2</b>
Return on Assets <sup>1</sup>	%	10.8	9.4	7.4	6.3	<b>7.2</b>
Net Debt/Total Capital	%	6.0	21.3	32.0	(0.2)	<b>38.0</b>
Net Debt/Market Capitalisation	%	2.9	15.2	22.3	(0.1)	<b>21.6</b>
Working Capital/Sales <sup>1,5</sup>	%	15	17	17	26.6	<b>22.7</b>
Capital Expenditure/D&A <sup>1,6</sup>	%	113	102	114	173.6	<b>90.9</b>
Interest Cover – times		7.7	10.8	7.7	7.2	<b>6.4</b>

1. Based on earnings from continuing operations from 1 July 2014.

2. Before share of equity accounted investees and non-controlling interests.

3. Total shareholder return equals share price movement over the year plus dividends received, divided by the opening share price.

4. Capital employed = equity + net debt.

5. Based on working capital from continuing operations from 1 July 2015.

6. Based on capital expenditure from continuing operations from 1 July 2014.

# CORPORATE DIRECTORY

## Directors

R M Herron, Chairman  
J P Ling, Managing Director  
M G Smith  
G A Billings  
A L Templeman-Jones  
D D Robinson

## Chief Financial Officer

M A Fraser

## Company Secretary

M G Tyler

## GUD Holdings Limited

29 Taras Avenue  
Altona North Victoria 3025 Australia  
Telephone: +61 3 9243 3311  
Facsimile: +61 3 9243 3300  
Email: gudhold@gud.com.au  
www.gud.com.au

## Auditors

KPMG  
Chartered Accountants

## Share Register

Computershare Investor Services  
Pty Limited  
Enquiries within Australia: 1300 850 505  
Enquiries outside Australia:  
+ 61 3 9415 4000  
Investor Enquiries facsimile number:  
+ 61 3 9473 2500  
Yarra Falls, 452 Johnston Street,  
Abbotsford, Victoria 3067 Australia  
Postal address: GPO Box 2975  
Melbourne Vic 3001  
www.investorcentre.com/contact  
www.investorcentre.com

## Davey Water Products Pty Ltd

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Facsimile: +61 3 9753 4100  
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www.davey.com.au

## Davey Water Products (NZ)

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## E D Oates Proprietary Limited

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## GUD Automotive (NZ)

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Facsimile: +64 9 828 2244  
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## Wesfil Australia Pty Ltd

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## Brown & Watson International Pty Ltd

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## Lock Focus Pty Ltd

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## Dexion (Australia) Pty Ltd

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Chief Executive Officer  
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## Dexion Australia

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## Dexion South East Asia

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Facsimile: +60 3 5511 1699  
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# FINANCIAL CALENDAR

## 2016

### September

Payment of final dividend – 2 September  
Annual Report and Notice of AGM mailed  
to shareholders – mid-September

### October

Annual General Meeting – 25 October

## 2017

### Late January

Announcement of results for the  
half-year ending 31 December 2016  
Announcement of dividend

### February/March

Record date for interim dividend  
Payment of interim dividend

### June

End of Company's 2016/17 financial year

### Late July

Preliminary announcement of results  
for 2016/17 financial year

*Timing of events can be subject to change.*



