



GUD HOLDINGS LIMITED
ANNUAL REVIEW 2019



GUD HOLDINGS LIMITED COMPRISES TWO ACTIVITY AREAS – AUTOMOTIVE AFTERMARKET AND WATER PRODUCTS, WITH ITS PRINCIPAL GEOGRAPHIC MARKETS BEING AUSTRALIA AND NEW ZEALAND

In all categories in which GUD's businesses compete, the Groups' brands hold market leadership positions. In the automotive aftermarket, GUD owns an unrivalled stable of brands, including Ryco, Wesfil, Narva, Projecta, DBA, Injectronics, Goss and Permaseal, and in water products, the highly respected Davey brand.

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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 Thursday, 24 October 2019 at 10.00am.

FROM THE CHAIRMAN



GUD remains well positioned in the medium to long-term

On behalf of the Directors of GUD Holdings, I am pleased to present the Annual Review for the 2019 financial year. The following Operational and Financial review outlines in detail the performance of the GUD Group's businesses in the year.

In addition, a separate Annual Report including full financial statements and Remuneration Report has been filed with the ASX and is available online at www.gud.com.au.

Throughout the year the Directors and Executive management carefully reviewed the safety practices and actions across GUD. As a Board we remain vigilant on safety and were satisfied with progress from the continued efforts in making the workplace safe for our employees and other related stakeholders.

In October 2018 we welcomed the arrival of our new CEO, Graeme Whickman. As a former President and CEO of Ford Australia and NZ, Graeme is a global executive with a deep knowledge and understanding of the automotive industry and has quickly gone to work on the challenges and opportunities in the GUD businesses.

Although we witnessed a slower market in the 2019 financial year GUD still delivered solid sales and EBIT growth, with increased dividends to our shareholders and maintained a healthy balance sheet. The Board firmly believes GUD remains well positioned in the medium to long-term. Importantly many of our businesses deliver branded products which are needed on a day to day basis by customers to keep their vehicles on the roads, or water pumping in their homes and businesses.

Of note, we have been further strengthening our strategic planning efforts, and we believe this is critical at a time when the economic landscape is challenging in the markets we serve. The Board expects management to drive the operational delivery in the short term and also ensure we are focused on clear business unit strategies for the medium to long-term.

The Board remains committed to the portfolio of companies within GUD. Where prudent, we intend to grow the portfolio in the automotive aftermarket area. We remain disciplined in our approach to acquisition, at a time when many opportunities exist. Our shareholders can expect further acquisitions in the coming years as the aftermarket industry continues to consolidate.

On behalf of your Directors I thank all staff for their effort, contribution and achievements over the year. I also thank shareholders for their ongoing support.

Mark G Smith
Chairman

FROM THE MANAGING DIRECTOR



We aspire to always be a respected employer and valuable supplier to our customers

Thank you to the employees of each GUD business, I recognise the hard work of each team member. As the Chairman has already noted we completed the year without any major safety related issues and the management team remain committed to repeat this in the 2020 financial year.

The financial results for GUD were solid in the face of some challenging external factors. GUD revenue grew by 9% and underlying NPAT at 10% and both our Automotive and Water divisions experienced top and bottom line growth. The Automotive results were the best experienced at GUD historically however, we recognise more work is needed on the balance of contribution from acquired and organic activities.

As detailed our balance sheet remains strong with a debt increase reflecting in part the purchase of DBA at the beginning of the 2019 financial year. The balance sheet position also supports further acquisitions in the automotive aftermarket, where our appetite is still strong.

Since joining GUD I have been working to ensure each business unit has embarked on a strategic refresh. This is based on the 'play to win' framework and is designed to identify incremental growth levers, beyond what have been deployed in recent years.

GUD management have been working hard to strengthen our business foundation in 5 keys areas; Customer relationships, Supplier surety, Product and People Planning and Operational Efficiency. This sits alongside our efforts to sharpen our strategic direction in core, growth and acquisition.

In automotive, the aftermarket supports a strong and proliferated vehicle Carparc. GUD's companies possess many market leading brands and generally rank in the number 1 or 2 position in the category. This strong brand and product position is supported by industry leading customer service and we are proud to have received a multitude of Supplier of the Year, and customer recognition awards in 2019. We are also pleased to have secured multi-year supply agreements with those same major customers.

We are proud of the employee satisfaction levels in 2019, in the top 30% globally. Recently, we employed our first ever Chief People Officer to drive stronger leadership development and ensure our talent pipeline can cater for future GUD leadership succession, and more near term, the needs of any future acquired business.

In 2019 GUD businesses have kept the innovation mindset strong and launched many new products such as TankSense remote tank monitoring, RYCO Crankcase filtration and Nipper chlorinators. We don't expect this tempo to change as we further strengthen the product creation process throughout GUD.

GUD continues to work with our extended stakeholders, and this year our ESG efforts are detailed more comprehensively in the Annual Review.

In summary, we aspire to always be a respected employer and valuable supplier to our customers. The management group are focused on delivery in the short term while working hard to strengthen and future proof the performance of GUD.

Graeme Whickman
Managing Director
and Chief Executive Officer

YEAR IN REVIEW

2019 HIGHLIGHTS

GUD's business portfolio remained focused on its automotive and water segments during the 2018/19 year.

AA Gaskets had its first full year under GUD's ownership following seven months ownership in the prior year and Disc Brakes Australia had a full year of GUD ownership after being acquired on 2 July 2018.



9% uplift in revenue from continuing operations including organic and acquired growth



Net debt up from \$92.5 million to \$132.7 following acquisition and working capital increases



13% increase in reported operating profit from continuing operations before interest and tax



Acquired and commenced the integration of Disc Brakes Australia on 2 July 2018



Reported profit from operations after tax of \$59.6 million from continuing operations previously \$50.5 million



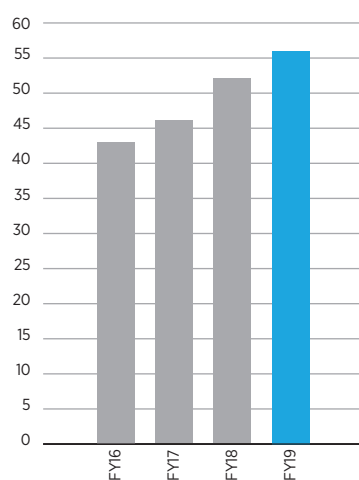
Substantial financial capacity to support organic and acquired growth



Dividend increased to 56 cents per share from 52 cents previously

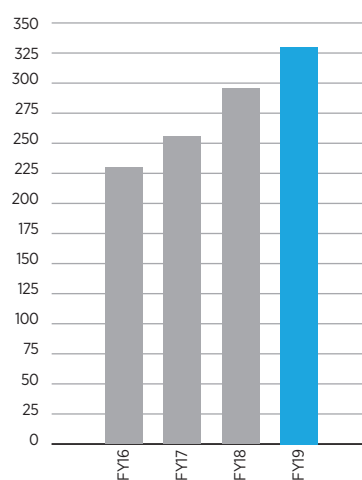
Total Dividends
56 cents per share

cents per share



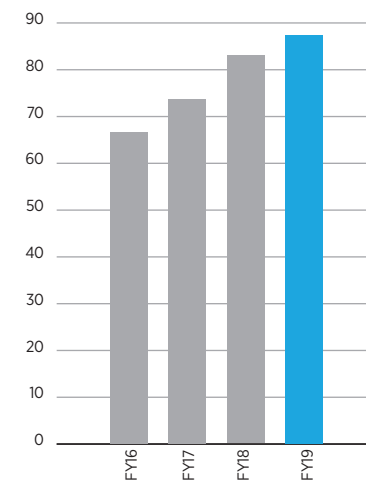
Automotive Revenue
\$330.0 million

\$ million



Automotive Underlying EBIT
\$87.4 million

\$ million



SUMMARY OF OPERATIONS



OUR AUTOMOTIVE BRANDS

GUD's Automotive business comprises a number of leading aftermarket brands. The strong brand portfolio includes its long-standing brands Ryco, Wesfil and Goss along with Narva and Projecta and various more recently acquired brands.



Products

Automotive parts and accessories, including:

- Oil, air, fuel particle and cabin air filters
- Heavy-duty and agricultural filters
- Wiper blades
- Spark plugs
- Fuel pumps
- Ignition coils and oxygen sensors
- Engine management parts
- Automotive gaskets
- Lighting products and electrical accessories
- Battery maintenance and battery power products
- Standard and performance disc rotors and brake pads
- Accessories, including cleaning products, chemicals, window tint and car detailing products
- Repair and remanufacturing of vehicle and engine electronic control units

Main markets and customer types

Australia, New Zealand, Europe and USA:

- Automotive parts trade distributors, retailers, automotive specialists and independent resellers
- Manufacturers of trucks and truck bodies, trailers, off-road and sports utility vehicles, caravans, buses and other automotive and heavy-duty body or original equipment fitment fabricators
- Engine rebuilders

SIGNIFICANT EVENTS

- Further new product introductions in Ryco, Narva and Projecta brands
- Entered long term lease for a combined “Automotive” distribution centre in New Zealand
- Continuation of Ryco Conquest program converting workshops to Ryco brand
- Continued organic revenue and EBIT growth supplemented by Disc Brakes Australia acquisition
- Acquired and witnessed strong export and domestic growth in Disc Brakes Australia’s first year under GUD ownership





OUR WATER BRAND

The Davey business is Australia's leading supplier of a comprehensive range of water-related products with applications in domestic, farm and community markets. Davey manufactures and sources its comprehensive product range which is actively marketed in Australia, New Zealand and long-established export destinations, including the Middle East, Africa, Asia, the USA and the Pacific.

DAVEY

Products

Water pumps and associated equipment:

- Domestic water pressure systems
- Rain water harvesting products
- Swimming pool pumps, filters, salt water chlorinators and UV disinfection
- Spa pumps and controllers
- Domestic fire protection
- Farm and irrigation water supply systems
- Water quality improvement products and systems
- Water system monitoring and management products

Main markets and customer types

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

- Water specialists
- Rural and plumbing merchants
- Pool builders and special retailers
- Water tank manufacturers
- International distributors



SIGNIFICANT EVENTS

- Launch of several new innovative products, including TankSense
- Moved FireFighter range to contract manufacture to lower fixed costs and total product cost
- Commenced on-farm technical evaluation trials of Microlene Dairy with one of the region's leading milk processors
- Pivoted modular water treatment into new categories such as industrial and health applications



OPERATING AND FINANCIAL REVIEW

1. Overview

In 2018/19, GUD's performance was solid in the face of some challenging business conditions. Overall, GUD delivered just over 9% revenue growth with an underlying EBIT growth from Continuing Operations of 6%, and NPAT improvement of 13% excluding a beneficial tax provision release. As you examine the results in more detail, you will notice the automotive divisional results set an all-time record of Revenue, Underlying EBIT and NPAT. Separately our Water segment grew modestly, however this should be set against a down domestic market in the broader Pool, Spa and Home Water Pressure systems industry.

As a consequence, the overall basic earnings per share reached a record high of 69 cps. This was reflected in the final dividend payment to our shareholders, who in respect of this financial year received a record high 56 cps (excluding special dividends), which was 8% higher than the previous financial year.

Our balance sheet remained strong with gearing, being net debt against net debt and equity, of approximately 32%, robust interest cover and available banking lines well in excess of \$80 million, which can fully support future bolt-on acquisitions.

2018/19 was characterised as a year where the confluence of economic and industry challenges constrained the larger automotive gains seen in previous years. Although robust growth was achieved it must also be recognised this was led largely by the acquired businesses with a modest contribution from our continuing businesses.

As the year progressed it became clearer that further opportunities exist for operational efficiencies across our businesses and must be pursued in the short to medium term to mitigate any continuing adverse business conditions.

Whilst a slow-down in the new vehicles sales has been reported, the Automotive Aftermarket is still a positive and defensible position for GUD to operate within. The 5-year-old plus Car parc is in excess of 15 million vehicles and the growing composition of SUVs and pick-ups within the Car parc plays to some of the strengths of businesses such as BWI and DBA.

GUD recognises the long-term future change in terms of Electric and Autonomous vehicles. As part of the recent national debate on electric vehicles, GUD modelled the potential adoption rates leading up to 2030. We concluded the addressable market of 5-year-old plus vehicles with internal combustion engines (ICE) would remain largely consistent with today's 15 million units, as new vehicles continue to flow into this cohort range. GUD already generates less than 50% of its automotive revenue from products discrete to ICE vehicles and can see a strong and evolving aftermarket within the future EV landscape.

Importantly, GUD maintained a strong safety focus during the year and continued to develop and implement initiatives intended to drive a strong level of engagement, ownership and accountability for health and safety. Across all of GUD, we saw a small lift in the lost time injury frequency rate (LTIFR). This was due to an increase of one lost time injury case (LTI) over the four experienced in 2018. Positively, the GUD LTIFR rate is less than half of the Safe Work Australia industry benchmark rate. Naturally our attention remains focused on further improvements with the rollout of a safety reporting application (Vault), increased safety and wellbeing education and the outstanding participation in the GUD safety and innovation awards. Additional detail is contained in our Sustainability Review.

We are proud of the latest employee satisfaction survey outcomes. We remain committed in our desire to improve; similar to safety, we don't feel the job is ever complete. The survey outcome in the key measure of 'employee engagement' rated GUD in the top 30% of the global IBM Kenexa's Normative Benchmarks and Survey Content.

As well as seeing employee outcomes as critical, we also know how customers view us is an important indicator of future success. We were proud to continue to receive customer accolades in 2018/19 with Ryco being awarded 'Exceptional Service to Store Network Award' at Repco, 'Outstanding Customer Solutions Award' at Supercheap Auto, BWI being awarded PACCAR Parts Supplier of the Year and Kenworth Supplier of the Year (Category B), Wesfil being awarded Auto One Queensland Supplier of the Year and, finally Davey being awarded Taylex's Supplier of the year.

The portfolio is now centred on the core automotive and water businesses. Unlike the last two years, the current year did not see further business portfolio disposals and now we have a core portfolio which we will grow both organically and by acquisition. We completed the previously announced acquisition of Disc Brakes Australia on 2 July 2018. In the remainder of the year, we have explored and evaluated other acquisitions without finding opportunities at prices which would deliver compelling value for GUD shareholders. The acquisition appetite hasn't changed, nor has the funding availability or consolidation opportunities. Management remain committed to automotive acquisitions, however, we will not choose to secure new businesses without a clear integration and margin uplift pathway.

With the commencement of a new Managing Director and CEO on 1 October 2018, we outlined a focus on five key topic areas to further strengthen the business foundation. We have achieved progress on all five areas being:



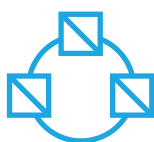
Customer relationships – we have recently agreed multi-year preferred supplier agreements across select automotive categories with two of our critical automotive customer reseller groups securing considerable revenue streams for the next three years. We also deepened our working relationship with original equipment companies Toyota and PACCAR and developed new customers and channels in select export markets.



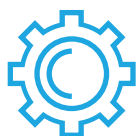
Supplier engagement – with the rapidly growing automotive aftermarket component sector in China and a weakening Australian dollar, we worked with a number of critical suppliers to confirm sourcing security, in many cases achieving prospective cost reductions to help defray currency impacts. We are also co-operating with one major China-based supplier who is building a new factory in Vietnam to ensure supply capacity.



People cycle planning – we are working diligently to develop future leaders for our current businesses and future acquisitions and ensure we have the right balance and focus at the executive leadership level. The early results are evident in a number of moves including our first leader of automotive Acquisition and Strategy, the appointment of our first Group Logistics Manager, the appointment of our first Chief People Officer, the promotion of the former Innovation Officer to run Ryco Filters, and the elevation of the leaders of Ryco Filters, IM Group, AA Gaskets and Disc Brakes Australia to report directly to the Managing Director and Chief Executive Officer. The previous position of the Ryco Group CEO has been disbanded effective 1 July 2019, and the number of Key Management Personnel has reduced but the Executive Leadership Team has been expanded. The changes see a broader range of skills, more Executive Leadership Team capacity, and a flatter and more responsive structure.



Product cycle planning – we have complemented the existing innovation focus with a broader engagement on the renewal or broadening of existing products. This has seen some exciting new products come to market such as Davey's Tank Sense product which remotely monitors water levels or Ryco's Catch Can which removes partially burnt fuel or other contaminants which would otherwise be recycled through the engine, thus minimising potential engine damage and expensive repairs. Towards the end of the year, our innovation pipeline was also acknowledged by two government grants matching the expenditure on innovative initiatives on a dollar for dollar basis. More details of the recent innovation activities and outputs are outlined in the separate Sustainability Review.



Operational Efficiency – in light of an ever demanding competitive and customer landscape, the need for increased operational efficiencies is clear. The need to further leverage the wider GUD group of businesses is before us and we see potential to achieve cost savings through leveraging greater commonality and scale. To this end, we have reallocated and appointed a key finance and operational leader in support of the operational efficiency taskforce and further business transformation projects. We believe this can be achieved, however not at the expense of customer service and satisfaction.

Each of GUD's larger automotive businesses continues to enjoy a strong and unique market position, with market-leading brands enjoying high brand equity and a healthy track record of both product and service innovation and pricing power. That said, Ryco Filters has seen a long-standing global competitor try to secure market share through expanded distribution and price reductions which is setting a pricing ceiling in the near term for filtration. This is not the first time we have seen a global brand try to penetrate the market, and we have a clear defensive plan to ensure Ryco's position in the market place is not materially impacted, as we did when we faced a similar challenge several years ago.

Two of the smaller acquisitions have experienced some notable headwinds as one of the major resellers launched house brand products which has created volume challenges for IM Group and AA Gaskets. We have consequently revised our business acquisition evaluation and integration criteria, and this has been applied successfully when acquiring Disc Brakes Australia.

The recent acquisition of Disc Brakes Australia (DBA) has been a welcome addition to the growing automotive portfolio. DBA have delivered an excellent year and exceeded our collective expectations. DBA's performance is a result of both domestic and international sales. The latter now sees DBA products being sold in Europe, the Middle East, USA and other smaller countries around the world. In addition, DBA was delighted to receive the Australian Automotive Aftermarket Association's (AAAA) Silver Award for Exporter of the Year.

Our brands continue to be demanded by end users; in recent brand surveys, we saw many of our brands in the top quartile of their respective segments. This is supported by a strong pull model, where in some businesses, an active field force visits many thousands of workshops per annum to educate workshops and conquest competing brands.

The year also saw much activity around building a foundation within Davey for profitable mid-term growth. We are encouraged with the early progress at Davey. While Revenue and EBIT growth was modest, the EBIT result contained a significant amount incurred in the commercialisation and market introduction of new products, signifying that we have been reinvesting for future growth.

We have started to observe some early green shoots of the Davey product creation outcomes. Davey has now been successful in securing farm trials of Modular Water Treatment products (MWT) at one of the world's biggest dairy cooperatives, sold out its entire allocation in Europe of its new Nipper chlorinator and delivered the launch of the Tank Sense product.

Davey remains committed to its recently approved strategic plan and now is in execution mode. This focuses management efforts around the strategic priorities of design for manufacture, supply chain optimisation, commercialisation of product innovation, diversifying channels to market and improving people and culture outcomes.

2. Financial Performance Review

Prior to commenting on financial performance for 2018/19, it is important to note that there were no business portfolio sales in the year. The accounts for the previous financial year report the Oates contribution for that year under discontinued operations and GUD's remaining automotive and Davey businesses are classified as continuing operations.

Revenue

Total group revenue from continuing operations increased 9% on the prior year's level. The Automotive businesses reported revenue growth of 12% of which 1% was organic and 11% through acquisition. Davey's revenue grew by 3%, all organic.

The primary features of the continuing revenue trends in the year are detailed below.

1. A full year of revenue contribution came from AAG compared with seven month's revenue in the prior year. Disc Brakes Australia, which was acquired on 2 July 2018, contributed a full twelve months of revenue.
2. All businesses except Davey, implemented price increases in 2018/19 to offset the higher cost of products from offshore suppliers.
3. There were also some specific initiatives taken to expand each automotive business unit's revenue, including:
 - Ryco introduced crankcase ventilator catch cans to catch potentially damaging particulates for modern diesel vehicles and continued to broaden its range. Ryco continued with its successful customer acquisition program which aims to convert service garages to using the market-leading Ryco brand of automotive filters.
 - AAG continued to expand its product offering, including into light duty truck applications.
 - Wesfil continued to broaden the product range it offers to its independent reseller customers.
 - BWI released the three-yearly Narva catalogue featuring over 700 new products, although demand was limited as resellers applied caution in committing to inventory or actively ran down their inventory levels prior to year-end.

4. Davey reported a 3% increase in sales revenue to \$104.1 million in 2018-19 driven by several factors including:

- A successful launch of their Nipper salt water chlorinator range in Europe. Davey is now working on further product expansion in that category.
- Field trials of its Modular Water Treatment equipment with a major dairy cooperative and meanwhile found new applications for the product technology including hospitality, industrial, and commercial applications – also actively exploring Modular Water Treatment technology in potable water applications.
- Pleasingly, growth was seen in all key geographic regions.

Profitability

The Group reported a net profit after tax of \$59.6 million. This compares with the prior year's result of a net profit after tax of \$101.8 million which included a contribution from the Oates business of \$51.4 million of which \$51.5 million was the gain on the sale of the Oates business. Excluding the Oates impact in FY18, reported net profit in FY19 increased by \$9.1 million or 18%. The taxation expense benefited from the release of a tax provision of \$2.5 million which had been held over pending the final clarification of potential capital gains liabilities in relation to the sale of the various businesses in recent years – excluding that release, net profit increased by 13%. The result included Davey one-off costs of \$0.6 million after tax primarily related to outsourcing the Fire Fighter range production to reduce both assembly costs and production overhead recovery variability.

Underlying net profit after tax from the continuing operations, which include the automotive businesses and Davey, improved by 10% on the prior year to \$60.9 million, or 6% excluding the tax provision release.

Underlying Earnings Before Interest and Tax (underlying EBIT) from the continuing businesses improved by 6% to \$88.9 million driven from organic growth of both the Davey and the automotive businesses and the acquisition of Disc Brakes Australia.

CASE STUDY

LIGHTING THE WAY WITH ADVANCED OPTICS

A single LED uses less energy than a halogen bulb to create the same amount of light. But if you replace one halogen bulb with many LEDs, the total system places greater, not lower, demands on the vehicle's electrical system. This causes performance and longevity issues and significantly increases cost.



Narva's specialist lighting engineers set out to keep cost down and performance up with the Ultima 175 and 225 Enhanced Optic LED driving lights. The products combine enhanced 'Optic Drive' technology with the latest in CREE® XHP LEDs to capture and harness the light output, precisely focusing it for maximum volume and penetration where it's needed most. Innovative design features such as an anti-fog heatsink make the lights perfectly suitable for icy weather conditions and export to North America and Scandinavia.

The Ultima driving lights earned a 2019 best-in-class Good Design Award and praise from the judging panel: 'These lights have outstanding performance and their visual language allows them to complement any modern vehicle or bull bars. The real innovation is how the lights were designed for manufacture to keep production costs down making the product affordable and competitive. Overall, a robust piece of design and engineering that has been perfectly executed – Well done.'

The primary factors affecting the profitability of each of the reporting entities are detailed below:

1. The 12% revenue uplift in Automotive came from a combination of organic growth of 1% and 11% from acquisitions. The headwinds noted earlier for IM Group and AA Gaskets masked the growth in the Ryco and Wesfil businesses. Disc Brakes Australia also exceeded expectations adding to the acquired growth contribution. Overall, Automotive Underlying EBIT grew by 5% over the prior year.
2. Davey reported a 3% growth in underlying EBIT driven by organic sales growth of 3%. This met expectations given the resources committed concurrently to bringing some of Davey's new product offerings through commercialisation and market introduction.

Dividends

The total dividend for 2018/19 was 56 cents per share consisting of an interim dividend of 25 cents per share and a final dividend of 31 cents per share. Both dividends were fully franked. This compares with total dividends of 52 cents per share in the previous financial year and is an increase of 8%.

The Dividend Reinvestment Plan remains suspended.

Cash Generation and Capital Management

Cash flow from operating activities was \$44.5 million, down from \$59.4 million in the prior year, including an increase of \$11.6 million in tax payments. On a pre-tax basis, the Operating cash flow was \$71.7 million, representing a cash conversion of 78% compared to the 2017/18 result of \$75.0 million or 86%. The lower cash conversion was driven by higher inventory levels across several businesses to support growth and reflected the impact of a number of resellers either destocking or holding back on orders and, finally also a level of pre-production of Davey fire fighters to give time for the contract manufacturer to ramp up production.

Net debt was \$132.7 million, an increase of \$40.3 million including acquisition and investment related payments of \$23.1 million net of cash acquired.

Net working capital as at 30 June 2019 increased by \$30.4 million over prior year levels of which \$7.9 million was related to the net working capital acquired through the Disc Brakes Australia

acquisition. The businesses continued to address several themes in relation to managing net working capital in 2018/19, including:

- Further rebalancing inventory levels in Automotive and Davey by reducing the level of slower moving inventory while ensuring the businesses were well positioned to support new product introductions.
- Further supporting sales growth, especially in the automotive businesses, and, where necessary, extending debtor days to selected resellers in exchange for broader ranging and sell-through support.
- Further improving BWI's supplier terms, where historically a lower percentage of suppliers have provided payment terms we are generally accustomed to receive.

As noted earlier, at a financial level the Group continued to demonstrate both organic and acquired growth in revenues and profitability. We continued to produce robust cash flows although inventory levels finished well above last year's level. Cash conversion finished at 78% in line with internal targets.

Net 2018/19 cash outflows associated with acquisition and investments included:

- The purchase of Disc Brakes Australia \$21.2 million.
- An IM Group earn-out of \$1.6 million in respect of the 2017/18 business performance which was the first of three earn-out measurement periods. The business failed to trigger a similar potential earn out for 2018/19 and is carried over to the potential 2019/20 result.
- A further non-controlling interest investment in Liftango of \$0.3 million where we exercised our rights in a further equity raising round.

External Financing

The Company is now four years into a five-year debt financing facility of \$245.0 million involving Westpac, National Australia Bank and the Commonwealth Bank which expires on 1 July 2020. This comprises a core tranche of \$185 million and an acquisition tranche of \$60 million. The facility provides capacity for logical bolt-on acquisitions through the balance of the financing facility. We will commence a refinancing exercise during the first quarter of 2019-20 and expect a commercially favourable outcome.

CASE STUDY



CLEANING UP CAR CARE

A leading supplier of automotive aftermarket products for over 30 years, Wesfil takes great pride in delivering efficient, reliable and friendly customer service. And it is through the personal relationship with its customers, that the company can identify new product development opportunities beyond filtration.

The newly launched Cooper Kleen range of DIY cleaning and restoration products is one such example. Wesfil conducted in-depth market research to identify niche application areas where existing products failed to meet customer expectations in terms of price and performance. In close collaboration with its extensive network of supply partners, Wesfil was able to quickly assemble and distribute a complete assortment for mechanics and car enthusiasts alike. The range combines packaging innovation like the grab-a-rag microfibre dispenser with advanced headlamp restoration that takes the hassle, and cost, out of making headlight lenses good as new.

Customer demand for Cooper Kleen has exceeded expectations as Wesfil continues to expand the range. In addition, it has encouraged the company to create further non-filtration offers like Tri-Power platinum spark plugs and Exelwipe high-performance windscreen wipers. These initiatives are born out of and further cement Wesfil's close customer relationships and reputation for premium customer service.

3. Strategy Review

Overview

The Board and Management have been engaged in a portfolio and individual business unit strategy review in the second half of the year, including an overseas study tour to Israel to better understand the innovation approach applied by companies and better understand the potential commercial application of technologies in both the Water and Automotive segments. The review concluded that we remain comfortable with the current business portfolio and remain willing to make logical automotive acquisitions.

At an individual business level, we continue to apply the GUD high-performance approach for strategy execution. In 2019 we

have introduced the Roger Martin ‘where to play and how to win’ framework to guide strategy development and are working with the Ignition Institute to embed the associated strategy framework tools and approach in the businesses. This is critical as we reinforce the need to ‘futureproof’ our individual businesses.

Earlier we detailed our view on strengthening five business foundations. As this gains traction we are committed to sharpening our strategic direction, at the GUD group-wide, individual business unit and future acquisition efforts, focussing on three pillars being:

Core: Group Wide Initiatives



- Multi-year preferred supplier agreements in select automotive categories implemented commencing 2019/20.
- Quality and logistics councils introduced to leverage scale and skills.
- Internal management resources pivoting to address operational and leverage efficiencies in logistics and information technology.
- Increased emphasis on achieving supplier cost downs.
- First shared logistics facility opening in Auckland, first quarter 2019/20; will build capability which could be applied elsewhere.

Growth: Individual Business Unit Strategies



- Individual business unit competitive strategies.
- Addressing new organic growth pathways, including a broader focus on exports.
- Strengthened resources dedicated to innovation and product development, under our new Chief Innovation Officer.

Acquisition: Portfolio and Category Plans

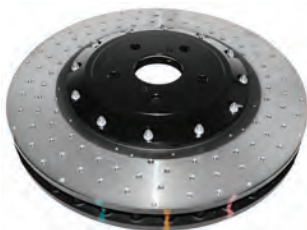


- Applying new acquisition criteria and decision thresholds including returns above the cost of capital beyond initial integration.
- Internally, developing a pool of potential managers for acquired businesses under the leadership of our new Chief People Officer.
- Securing customers but not at the expense of customer and channel diversification.
- Sufficient automotive acquisition and strategy capacity under the leadership of our acquisition and strategy KMP.

We believe these key areas provide a good level of opportunity for further top and bottom-line growth. These are not overnight solutions and require a steady and thoughtful approach across the next 12 to 36 months. Importantly we have reallocated resource, utilised cost-efficient external expertise and commenced harvesting the wider group management team to drive our ambitious plan with good speed.

CASE STUDY

LIGHTWEIGHTING DISC BRAKE ROTORS



A disc brake uses calipers to squeeze pairs of pads against a disc or ‘rotor’ to create friction. In turn, this slows the rotation of the axle to decelerate or stop a vehicle. The heavier the vehicle, the larger-diameter rotor required. With increases in diameter, rotor performance starts to suffer and added rotor weight reduces vehicle fuel efficiency.

To tackle these challenges, the R&D team at DBA is working on the next generation of patent-pending rotor design. The disc rotor will be a lightweight, high-performance rotor which will be attached to an aluminium centre. The design of the rotor is expected to reduce brake operating temperatures and reduce wear while improving fuel efficiency through lower rotating mass on each axle. Standard SUV brakes weigh approximately 16 kg each. DBA’s patent-pending disc brake rotors are anticipated to come in at 10-11 kg, reducing overall car weight and fuel consumption as a result.

DBA has been awarded a \$107,100 grant to support this project under the Automotive Innovation Lab Access Grants Program. DBA expects to commercialise this innovative solution in Australia and its export markets alike. With the sustained popularity of SUV’s and emergence of electric vehicles with weighty batteries, the number of heavy vehicles that would benefit from a performance rotor continues to increase.

4. Risk Review

Overview

2018/19 represented the first full year since the Board created a separate Board committee to focus on Risk and Compliance. Under the inaugural Committee Chair, a thorough review of risk appetite and the tools used to identify, analyse, assess, manage and monitor risk throughout the Group was undertaken during the year. As a result, the Group introduced a new cloud based interactive Risk Management tool using the software platform Alyne. The platform acts as a key risk register, tracks whether risks potentially breach the risk appetite guidelines, whether compensating controls are in place to mitigate the net risk to an acceptable level, acts as an action plan register, and accommodates recording and following actual risk events.

A broad range of risk areas is covered within Alyne, including risk areas such as customer risk, production and supply chain, reputation risk, IT and infrastructure risk, and financial risk. As in the past, an evaluation of all organisational risks at business unit level is performed regularly for presentation to the Board Risk and Compliance Committee for review but is now aided by the Alyne tool.

In addition, there are established policies and processes in relation to specific risks, such as information technology, workplace health and safety, bullying and harassment, ethical sourcing, anti-competitive behaviour and financial risk management.

The table below details some of the identified risks and mitigating actions. The list is representative of the increasing risk management themes and efforts in GUD.

Risk Themes	Key Risks	Examples of Mitigating Actions
Customer	Over reliance on single customers, or new entrants routes to market, or potential disruptive existing customer behaviour	Maintain a portfolio of compelling products, broad range of customers, and continually assess both new entrants or new routes to market for GUD and respond accordingly
Production and Supply Chain	Over reliance on suppliers resulting on a loss in supply with potential sales impacts	Multiple parallel sourcing for critical items, utilisation of a broad range of suppliers, supplier quality control processes and Quality and Supplier Council
Reputation	Loss of confidence by end user customers or other stakeholders triggered by an event which falls short of community or stakeholder expectations	Policies, education and compliance monitoring for work health and safety, anti trust, ethical sourcing, bullying and harassment, amongst others
Disruptive Technology	Product technical obsolescence such as electric vehicles, new technologies such as autonomous vehicles and digital disruption impacting market and product segments	Product cycle plans, reduce over time the share of internal combustion engine component sales, and build capabilities in new segments and technologies
Financial	Variability of financial markets impacting the value of foreign currency to nominated assets and liabilities, profits, or sustainability of debt financing	An effective financial risk management committee, long-term debt financing agreements, foreign currency instruments and interest swap agreements
People and Culture	Loss of key personnel due to retirement or departure of key resources	People cycle planning, employee engagement surveys and action plans, learning and development growth plans
Legal & Compliance	Failure to comply with product or regulatory compliance requirements leading to fines or product recalls	Maintenance of product compliance certifications, standards and processes, internal policy management reviews and updates, management of regulatory policies (e.g. privacy) and market reporting requirements
Safety	Employee and contractor workplace health and safety incidents leading to injuries or death	Regular safety risks assessments and audits, management of safety events or incidents using Vault, safety KPI's
Information Technology and Cyber	Continuity of business or loss or reputation or other assets through physical loss or cyber penetration	Security access controls, security monitoring, business continuity management, disaster recovery processes and off site back up facilities

GUD Management acknowledges that risk environments are not static and need to be monitored with appropriate responses to risk mitigating processes and action plans. GUD maintains a series of governance and compliance forums, focused on proactive and reactive risk mitigation initiatives. These forums include:

- Regular risk reviews conducted with Business Unit Executive and Leadership team during the Monthly Business Reviews
- Reviews of financial risks tabled with Business Unit finance leaders in the monthly Financial Risk Management forums
- Technology and cyber risks reviewed regularly and monitored via the IT Council meetings

- Workplace and safety risks and action plans reviewed during monthly WHS Steering Committee meetings
- Quality and Supplier Council with charter to monitor and mitigate emerging and longer-term supply and quality challenges

The key risk themes, key risks and mitigating actions are also periodically tabled with the Board Risk and Compliance Committee.

5. Outlook

GUD remains well positioned for the medium to long-term horizon. The automotive division maintains strong brands, products and customer service in support of a large and proliferated Car parc which GUD believes is strongly defensible. We are also pleased with recent multi-year preferred supplier agreements and will work to provide strong partnership outcomes as we move forward.

Davey has a clear strategic vision which has been well communicated to all the critical stakeholders and will execute its plan with urgency. We expect to see continuing green shoots as Davey progresses over the next 24 months and pulls through the potential value of the water segment.

In 2019/20 we expect further revenue growth in both the automotive and water businesses, although economic sentiment and recent demand suggests growth will be modest. With persistent domestic input inflation and a far weaker dollar, in several businesses input cost inflation will exceed the price uplift we believe will be responsible in 2019/20 without triggering a reseller or end user customer backlash, especially with Ryco filtration due to a new entrant as noted previously.

We will not reduce our innovation, new product development or acquisition activity to compensate, as we remain committed to ensuring we have the right mid-term foundations in place for long-term growth and shareholder value.

In this environment, and, while organic growth is expected from the automotive and Davey businesses, Underlying EBIT growth for 2019/20 is expected to be modest and operational efficiency, including achieving supplier cost downs, will be a key compensating work stream. Therefore, and prior to applying the new accounting standard (AASB 16) regarding leases, we expect modest Underlying EBIT growth in 2019/20 and continuing solid returns to shareholders.

CASE STUDY

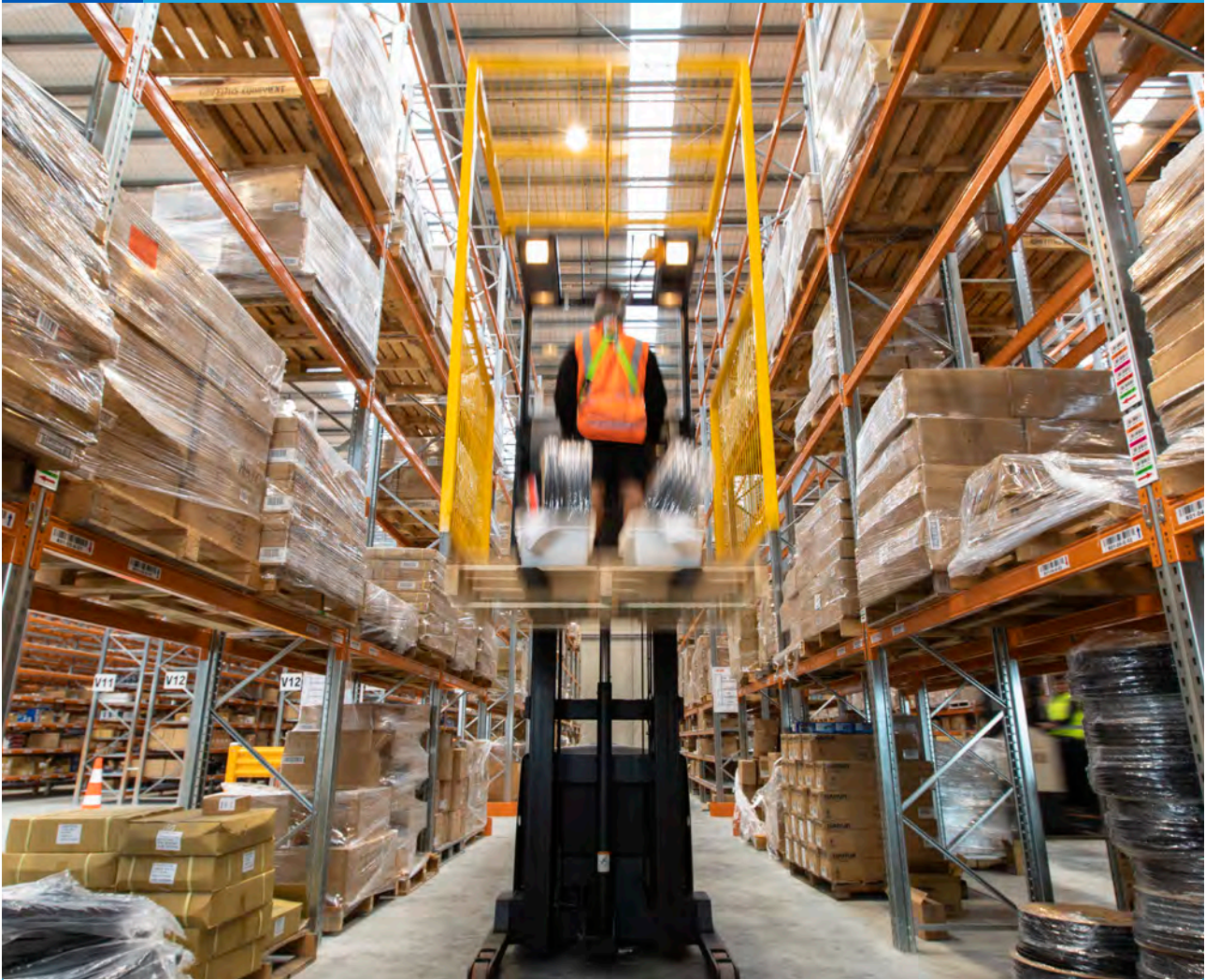


VIRTUAL REALITY DRIVING EXPERIENCE

There is a greater range of choice in the vehicle lighting market than ever before. Technology is rapidly evolving, improving, changing. Between HID, LED, driving lights, lightbars, worklamps, spread beam, pencil beam, hybrid beam, lux, lumens ... how could anyone possibly have a clear idea what to look for, what to buy?

The team at Narva, a leader in automotive lighting and electrical equipment, decided to rise to the challenge. What if, the team thought, you could see how different lights illuminate the road, walk around and see it from every angle, the spread, the distance, the fill of a light setup ... all while the sun is out and daylight shines bright. In other words, how can we help customers be sure of what they need, if they cannot see how it works?

A cross-functional team of innovation, marketing and product experts decided to leverage recent improvements in 360-degree video and virtual reality for the solution. Now customers can get an immersive, realistic experiences of how different types of driving lights perform in different terrain settings. Through the Oculus Go VR headset or the company's web app, people can switch between light settings as they drive virtually on a highway, dirt road, or 4WD track. This enables them to finally make an informed decision by seeing and experiencing the lights at work. Thousands of people have enjoyed the Narva VR experience at trade shows, in-store demos and via the Narva website.



SETTING UP NEW ZEALAND'S AUTOMOTIVE HUB

GUD has established one of the largest automotive logistics hubs in New Zealand. The Mt Wellington facility will be home to the group's automotive brands. With over 6,000 square metres of warehousing space and an additional 600 square metres for offices and customer service, the facility comfortably houses existing brands and has capacity to accommodate growth and future automotive acquisitions.

GUD's New Zealand automotive portfolio currently includes Griffiths Equipment, DBA, Ryco Filters, Narva, Projecta, Permaseal and Goss. With many leading brands serving the same customers, yet operating out of separate logistics facilities, the case for consolidation is clear. A world-leading warehouse management system will allow GUD to pick orders for all brands and deliver to common customers at the same time. All the while, distinct ERP integrations and dedicated teams allow each GUD business to operate independently. Not only will this save costs for each GUD business, it also reduces the number of deliveries for many customers and creates an unparalleled customer service experience.

Safety is paramount in all GUD operations. The purpose-designed and built facility makes use of the latest technology and workflow management techniques to ensure the safety and wellbeing of employees. The facility commenced operations in August 2019.



SUSTAINABILITY REVIEW



HIGHLIGHTS



IN TAKING A HOLISTIC VIEW

of the sustainability of GUD's business over the longer term, we conducted our first materiality assessment seeking to ensure that our sustainability disclosures remain relevant to the business and stakeholders.



DEVELOPED AN ETHICAL SOURCING CODE

and implemented this in partnership with our suppliers.



SAFETY WAS RATED VERY HIGHLY BY EMPLOYEES

We received a score that was above the global 75th percentile in our annual employee engagement survey.

9TH

GUD WAS AWARDED 9TH MOST INNOVATIVE COMPANY

in the 2018 Australian Financial Review Most Innovative Companies List.

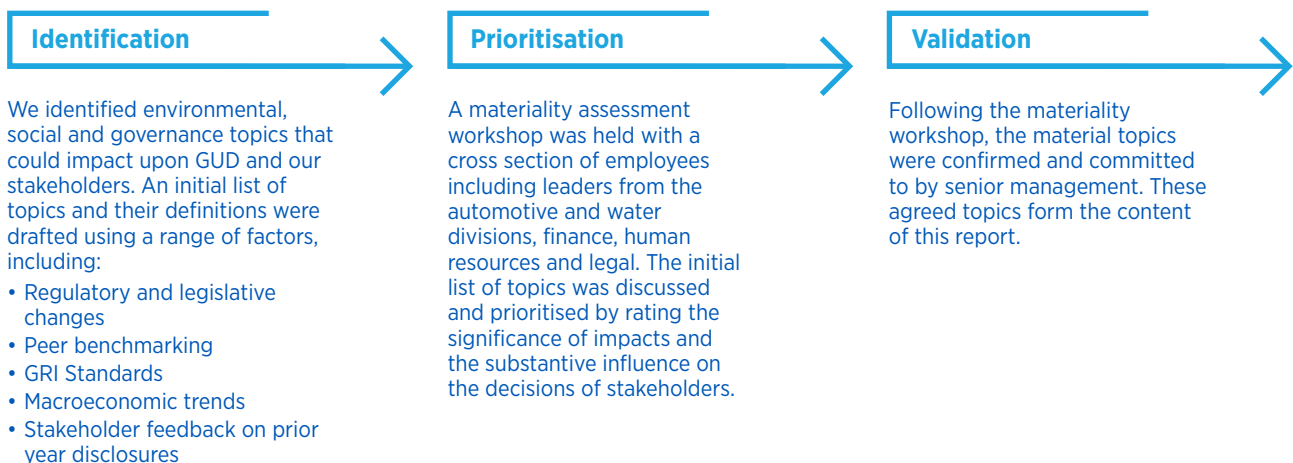
About this Review

This Review covers GUD's sustainability performance for the year ended 30 June 2019 across our Australian and New Zealand operations. Selected Global Reporting Initiative (GRI) Standards were leveraged to inform the content and scope of the report, and accordingly this report is a GRI-referenced claim. GUD intends to continuously improve its disclosures utilising the GRI Standards to improve the comparability of our reporting.

GUD's Board commissioned Management to prepare this Sustainability Review and sees this review as an opportunity to outline and showcase the impact GUD has on the environment, its people and the communities we operate in, as well as identifying and discussing some of the longer-term sustainability consequences for the Company.

Focussing on the topics that matter

This year, we undertook our first materiality assessment to identify, prioritise and validate the topics that matter most to our stakeholders and our businesses. As a holding company, GUD comprises of a range of businesses that produce diverse products. We recognise that some of our businesses are more advanced than others in terms of their sustainability practices however, as an overarching entity we set minimum standards and expect all businesses to achieve these.



Our material topics	Definitions
Health and Safety	Embedding a positive health and safety culture in the workplace.
Product Safety and Quality	Ensuring our products are designed and manufactured to be safe and of a high quality for their intended use.
Compliance and Competitive Behaviour	Complying with relevant legal requirements and regulations including ensuring that our practices are consistent with the values and policies of the Group and do not limit competition against the law.
Innovation	Change that adds value – focussing on new ideas and processes that create value for our customers.
Equality and Non-Discrimination	Promoting equality and non-discrimination across our employees and wider stakeholders.
Human Capital and Labour Management	Investing in people and culture strategies to improve employee satisfaction and retention.
Sustainable Procurement	Considering legal, environmental and social factors when making procurement decisions.
Water Management	Managing the impacts of our water use.



'Each of you should recognise and understand the responsibility and actions needed in the pursuit of safety for yourself, your co-workers and anyone who comes into our workplaces. You have my commitment and support to take the right actions to enable a safe working environment, regardless of any business consequence.'

Graeme Whickman, Managing Director and CEO

Health and Safety

At GUD, our culture is driven by a strong level of engagement, ownership and accountability for health and safety. This year we reinforced the importance of safety leadership, enhanced business safety plans including key performance indicators, introduced a new reporting tool and recorded a wider array of metrics to improve the comparability of our safety performance.

Safety is driven by our leaders

Whilst health and safety is everyone's responsibility, ultimate responsibility for health and safety resides with the Managing Director and Board of Directors. Health and safety is the lead item on every Board and Executive Leadership Group meeting and forms part of the standing agenda. The Group Executive and the Board conduct regular safety walks and receive a monthly report which covers a range of leading and lagging indicators including training initiatives, audits completed, corrective action plans implemented, number of work injuries, near misses and number of other incidents.

Over the last year our expectations with respect to safety leadership, and our commitment to safe and healthy workplaces, was further reinforced when we commissioned an externally recognised Health and Safety expert to train personnel in leadership roles, including all supervisors and above, concerning leaders' responsibility with respect to safety.

Our health and safety management system

All workers and workplaces at GUD are covered by our workplace health and safety management system. Our management system aligns to the ISO Standard 9001, meets the legislative requirements in Australia and New Zealand; and has been regularly updated to reflect the shifting business context. Key elements prescribed in our health and safety management system and implemented in our business activities include:

- Each of our businesses have safety business plans in place where key performance indicators, responsible persons and timelines have been committed to in order to improve safety performance.
- Employees are involved in the safety decision making process through communication, consultation and training. All businesses have health and safety committees comprising representatives of management and workers, and individual sites or departments hold regular tool-box meetings to ensure safety is top of mind.
- The GUD group maintains each business' risk registers and job safety analyses. To inform this process, requirements for conducting risk assessments are contained within management system.
- Key personnel are trained on safety leadership, internal auditing and incident investigation.

Our health and safety management system continued

- In financial year 2018/19, we introduced Vault, an online reporting system for workplace incidents and accidents. Employees may report directly using an app, by their supervisors or via a member of their workplace health and safety committee.
- Where there is an incident or other safety related concern, our safety escalation process enables an individual to report a safety concern initially to his/her immediate supervisor, but if unresolved to progressively report to higher levels of management.
- Internal audits are conducted by trained personnel from within the businesses, on a rotational basis and provide opportunity for an evaluation of the effectiveness of the health and safety management system. A comprehensive internal audit schedule is in place. All businesses have emergency preparedness procedures which are audited as part of the GUD internal audit programme, and tested every six months. The provision of feedback is shared with the business being audited and with other businesses as a learning opportunity. In addition, GUD has a WHS Steering Committee for the purposes of sharing of information and learnings across the Group and recommending initiatives.
- Businesses are encouraged to introduce proactive programmes focused on engaging the complete workforce. These have seen the adoption of exercise programmes, smoking cessation and a focus on healthy eating.
- Focusing beyond the core elements of a health and safety management system to ensure that wider wellbeing, including mental health is included as a key area of focus.
- Offering an employee assistance programme, provided on a confidential basis by an independent third-party. Employees are encouraged to make use of this assistance whether the matter is work-related or personal.
- Engaging an external provider (for example, Beyond Blue) in sessions designed to increase awareness and understanding amongst employees, in areas of anxiety, depression and mental health, training in Mental Health First Aid, the benefits of a mentally healthy workplace and the external resources available.

How we performed

GRI Indicator 403-9	FY19		FY18	
	Number	Rate/1,000,000 hours worked	Number	Rate/1,000,000 hours worked
For employees				
Fatalities as a result of work-related injury	0	0	0	0
High consequence work-related injuries (excluding fatalities) – in this category we include Lost Time Injuries (LTIs)	5	3.4	4	2.9
Recordable work-related injuries – in this category we include LTIs (from above) plus Medically Treated Injuries	9	6.0	7	5.1
Main types of work-related injuries	Manual handling, slips, trips and falls		Manual handling, slips, trips and falls	
Number of hours worked	1,489,008		1,372,811	
For all workers who are not employees but whose work and/or workplace is controlled by the organisation (Contractors)				
Fatalities as a result of work-related injury	0	0	0	0
High consequence work-related injuries (excluding fatalities)	0	0	0	0
Recordable work-related injuries	0	0	0	0
Main types of work-related injuries	N/A		N/A	
Number of hours worked	50,893		24,938	
Work-related hazards				
<p>The work-related hazards that pose a risk of high consequence injury, including actions taken or underway to eliminate these hazards and minimise risks using the hierarchy of controls.</p>		<p>FY19</p> <p>We have developed controls which respond to identified high risk workplace hazards in areas including:</p> <ul style="list-style-type: none"> • Forklift operations • Driving • Materials falling from heights • Individuals falling from heights • Electrical safety • Manual Handling 		

Celebrating our achievements

In August this year GUD will be holding its 5th annual Safety and Innovation Excellence Awards. The number and quality of the nominations for these awards continues to grow. The awards are an opportunity to recognise and celebrate individuals and teams from across the businesses who have demonstrated key attributes in safety leadership.

The Safety winners at the 2018 Awards were:

- Provin Reddy from AA Gaskets who demonstrated a commitment to safety by calmly, responsibly and pro-actively enforcing site traffic management rules with a third-party truck driver;
- The team at Wesfil for launching an innovative approach to ensuring safety and effectiveness of operations, warding off complacency, developing an understanding of others' tasks and identifying opportunities for improvement;
- Through a commitment to safety and innovation IMG was able to eliminate manual handling and worker exposure to hazardous chemicals in its remanufacturing process.

Product Safety and Quality

Ensuring safe, reliable products are being designed and manufactured to meet our customers' needs is one of our key priorities. All our products are developed and tested against stringent quality control and assurance processes. Because of the diversity of our products, product safety and quality processes are managed at a local business unit level which are expected to ensure compliance with applicable ISO standards.

GUD's Quality & Supplier Council was recently established by Management to consider best practices and bring thought leadership to the Group in all aspects of product safety and quality, ethical sourcing, supplier governance, supplier risk management and sustainability. Cross-business improvement initiatives are identified to enhance the organisation system, supply chain processes, suppliers' capabilities and the knowledge of Council members in these aspects.

Our products are generally supplied to distribution agents, who then on-sell these products to retailers including workshops and trade dealers where the products are ultimately sold to the end customer. Whilst our approach to understanding customer satisfaction varies, we have close relationships with our retailers to ensure customer needs are being met.

Compliance and Competitive Behaviour

The Board and senior management are committed to embedding compliance and competitive behaviour processes across the Group. To support this, our people, governance structures and management systems help us ensure this is part of the way we work.

For many years, online training on competitive behaviour has been undertaken by employees as a part of the suite of on-line training offered to employees. The training exposes employees to the law, creates awareness around this topic and articulates how this impacts how we deal with competitors, suppliers and customers.

We take this seriously and understand that mismanagement may result in regulatory, financial as well as reputational impacts. In the past year, we have had no legal actions; hence our GRI Indicator 206-1 is zero.

Innovation

GUD is committed to innovation. Our award-winning innovation program delivers a relentless focus on the customer. We tap into the creativity of our people to deliver better customer experiences. From the smallest tweak to an existing process to brand-new business units that disrupt markets, innovation is instrumental in future-proofing our businesses.

Each business has its own innovation and product development framework, one that is tailored to its specific needs. Several group-wide initiatives tie these individual programs together under a collective banner dedicated to collaboration and shared learning. For example, teams of cross-functional innovation specialists, known as Innovation Champions internally, have all been trained in the same customer-focused methodologies such as design thinking and lean start-up. The Innovation Community of Practice ties Innovation Champions from across all businesses together. It promotes collaboration and sharing of new and emerging insights. Equally, at the leadership level, GUD's Innovation Council offers a forum for our senior team to drive innovation strategy and culture.

We have partnerships with external parties including academic institutions, industry bodies, innovation labs, start-ups and specialist agencies. This includes: Planet Innovation, Myriota, Australian Automotive Aftermarket Association, Movus, University of Auckland and Callaghan Innovation.



Davey TankSense monitors and predicts tank water levels based on household usage and weather forecasts.

Innovation continued

GUD businesses conduct customer research and brand surveys, to assess the reliability, value and recognition of GUD brands. We ask our customers questions to understand how we can improve our products and customer service. When a new product is being developed, we test and experiment the idea with the customers to gauge behaviour and improve our products accordingly.

We recognise and celebrate innovation. Innovation is key to our annual Safety and Innovation Excellence Awards. Business units nominate candidates at the individual, team and business level who have exemplified innovation throughout the year. Winners are announced at the Awards night. In addition to formal recognition, winners are awarded prize money to dedicate to furthering their innovation skills or dedicate to innovation projects of their choice.

CASE STUDY



CRANKING UP THE CATCH CAN

Ryco Filters is the leading brand for premium aftermarket filtration. The Company takes pride in putting the customer at the heart when delivering a comprehensive range of products that meet or exceed genuine performance. So, when the team at Ryco Filters turned its visor to crankcase ventilation, they talked to mechanics first.

What they learned in the field, set them up for engineering success. Whilst crankcase filtration systems are not new, existing products were missing the mark—especially in the growing 4x4 diesel market. By observing mechanics at work and through customer conversations, the team identified the mix of features that workshops were looking for: easy to install, can be fitted to a large range of modern engines, effectively filters contaminants, works reliably with emissions systems, and offers internal capacity large enough to last the service interval.

Following in-depth review of technical papers and standards, the team created a new technical standard and specialised laboratory test to objectively measure and benchmark the system. Engineers took 3D-printed samples to mechanics to test ease and versatility of fitment, iterating designs along the way. As the product was co-designed with mechanics to Ryco's premium performance standards, it was no surprise that market feedback has been overwhelmingly positive. There is now strong demand to expand the Catch Can with customized fitment kits for specific vehicles along with a smaller unit for small vehicles.

CASE STUDY



BRINGING SMARTS TO THE POOL

Our Davey Water business was nominated for a 2019 Safety and Innovation Excellence Award for work on the Nipper and Lifeguard Project.

Nipper is a clever and compact chlorinator which uses Davey's intelligent controls to keep pool water swim-ready, all year long. The team at Davey worked closely with end users and distribution partners to develop the next generation of chlorinators, all the while reducing product cost by one third and halving product development lead times. Designed in Australia, the ergonomic Nipper is easy to install, energy efficient, and has fully customisable chlorine outputs irrespective of the type of salt used. The product was first launched to the European market with great success.

Building on the traction of Nipper and further market research, Davey continues to progress the pipeline of pool products. The Lifeguard product will complement the Nipper chlorinator by automating the chemical control of residential pools. The WiFi-enabled chemical control unit will be launched with a companion mobile app that enables remote monitoring and control. Roy Morgan research reveals that in Australia alone, nearly 2.7 million people live in a house with a swimming pool. Nipper and Lifeguard will be available in Australia and all Davey regions worldwide.

Equality and Non-Discrimination

We promote equal opportunity and strive to provide an equitable, inclusive and diverse work environment. In line with our Code of Conduct, this includes providing employees with a workplace free from any kind of discrimination, harassment or intimidation.

We commit to promoting fair and equal treatment in employment that does not discriminate on the basis of age, politics, ethnic background, family responsibilities, gender, physical appearance, irrelevant criminal record, marital status, pregnancy or potential pregnancy, race, religious beliefs or activity, social origin, physical or mental disability, trade union membership or activity, sexual

preference or personal association with a person who is identified with any of the above. Our Equal Employment Opportunity Policy highlights this and is intended to set a shared understanding amongst all employees, temporary staff, independent contractors, volunteers and work experience personnel of expectations in regard to acceptable and appropriate behaviour within the workplace.

We are proud to disclose that there have been no incidents of discrimination reported this year; hence our GRI Indicator 406-1 is zero. Where there is an incident, we will deal with this in line with best practice investigation procedures.

Human Capital and Labour Management

Our highly engaged employees enable us to deliver positive outcomes to our stakeholders. GUD's core values are the principles which the Company and individuals live by, and which guide our decisions.

OUR VALUES

Customer Focus

Our customers are important in our priorities; we aim to meet customers' needs.

Professionalism and Respect

We encourage constructive, candid and open communications. We are accessible. We always treat our people with fairness and equality. We trust our colleagues.

Highest Standards of Integrity

We always act honestly. We say what we mean.

High Performance and Business Success

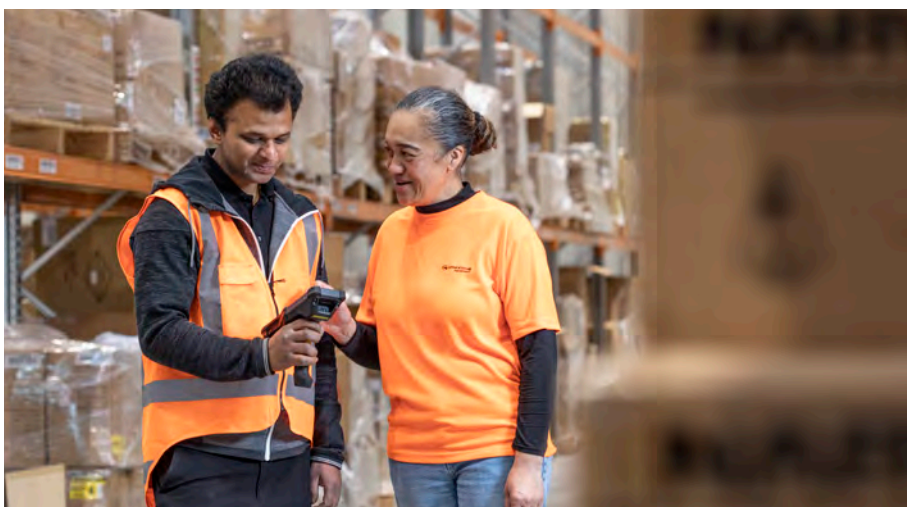
Business success secures our future. Our profits permit us to invest for long-term customer satisfaction, a rewarding future for our people, and a return to the shareholders. We have a bias for action, and for achieving results.

Innovation and Continual Improvement

We seek new ways of doing things, taking risks where necessary in pursuing new opportunities.

Teamwork

We acknowledge our interdependence. We give recognition for a job well done.



GUD's New Zealand automotive logistics hub uses the latest in warehousing technology to ensure an outstanding customer service.

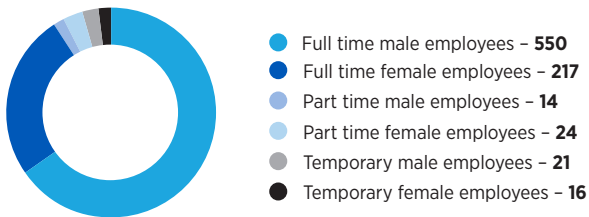
Human Capital and Labour Management continued

Our focus over many years has been to ensure that our culture fosters a high-performing and engaged workforce within each of our businesses. Increasingly we are taking strides to bring together all employees to cross pollinate ideas and share learnings. This helps bring a focus to teamwork when developing new products and bringing them to existing and new channels.

Our workforce is made up of a range of full time, part time and temporary employees.

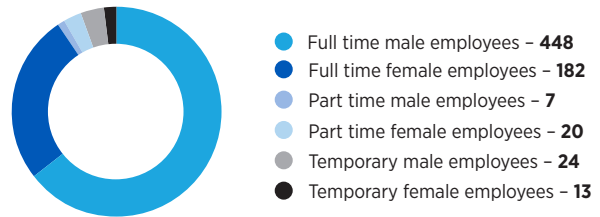
FY19

Employees by gender and employment type

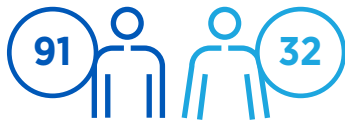


FY18*

Employees by gender and employment type*



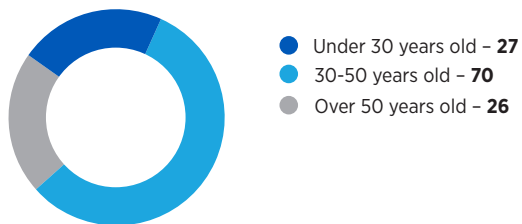
Employee new starters by gender



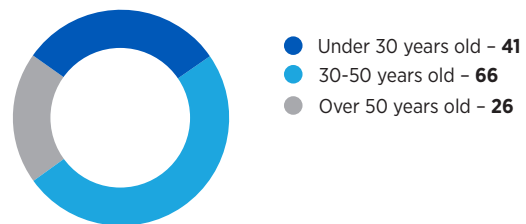
Employee new starters by gender*



Employee new starters by age group



Employee new starters by age group*



Employee new starters by region



Employee new starters by region*



*GUD acquired AA Gaskets in November 2017 and DBA in July 2018; therefore AA Gaskets and DBA employees have not been included in FY18 data.

Diversity is seen as a key driver of innovation and Company performance. In the next year, we will develop and implement a diversity and inclusion program that strengthens the businesses' open culture by ensuring inclusiveness, and the contribution of all employees by leveraging differences that exist.

Training and development is a critical element of our workforce planning. We support development by training our employees within the workplace as well as supporting them to undertake further education. Courses delivered this year have included topics such as safety, first aid, forklift, fire extinguisher, mobile equipment, contractor management, evacuation, manual handling and mental health. This year, we continued to deliver our high-performance environmental systems program to tier two managers and below across our business.

We strive to provide our employees with market competitive pay rates. Annual salary reviews are conducted, and multi-tiered annual bonuses are paid across the workforce. There are five collective agreements in place across the Group. Effective relationships exist between employees, unions and the organisation; and all agreements due for renewal have successfully been renegotiated with the following agreements being in place:

- Davey Water Products Enterprise Agreement dated 2017 (Production Agreement) – expires 30 June 2020
- Davey Water Products Warehouse Enterprise Bargaining Agreement dated 2017 – expires 30 June 2020
- Ryco Filters Australia Enterprise Bargaining Agreement 2018 – expires 31 March 2021
- Ryco Filters NZ Employees Collective Agreement – expires 30 April 2020
- AA Gaskets Enterprise Bargaining Agreement 2018 – expires 30 June 2020

We conduct an annual employee engagement survey across the business. Seven of the 17 areas measured showed further increase against 2018 results. Safety is rated very highly by employees with the score rating above the global 75th percentile.

The recruitment of a Chief People Officer in May 2019 will give focus to greater emphasis to talent development and to realising the full potential of the human capital of GUD. Looking forward, we will focus on implementing the following programmes over the upcoming year:

- Talent and succession plans for critical roles and key talent.
- Learning and development plans to strengthen the effectiveness of leadership and leadership teams across the businesses.
- Deployment of a Speak Up Policy in pursuit of an open culture where all employees feel able to, and do, raise concerns where they exist.

Sustainable Procurement

GUD is committed to sourcing products in a responsible manner and supporting our suppliers improve their social and environmental practices. GUD's businesses source products and services from a range of locations. Whilst 43% of our products are supplied locally in Australia, we source from other locations including Europe, New Zealand, Taiwan and China. Sourcing products from these regions creates shared economic benefits as well as allowing our businesses to provide affordable products to consumers.

We worked to develop our Ethical Sourcing Policy and Ethical Sourcing Code throughout the year, and this was approved by the Risk and Compliance Committee in December 2018. The policy articulates the minimum standards suppliers should adhere to when conducting business with GUD to ensure that products and services are sourced in a responsible and consistent manner. Our aspiration is to share our knowledge and business practices with our suppliers in an endeavour to improve the lives of workers within our supplier base as well as quality of the product. The Ethical Sourcing Code covers guidance and minimum expectations with respect to slavery practices, labour standards, health and safety, discrimination, the environment and business ethics, and is available on the GUD website.

This year, we sent a supplier self-assessment checklist to our tier one suppliers to understand their level of compliance with the minimum standards within the Ethical Sourcing Code. We are receiving responses from suppliers and are assessing their alignment with our Code. For suppliers that may not meet our requirements, we intend to investigate the key gaps and, more importantly, work with them to improve their practices.

The suppliers who have conducted their operations in accordance with the Code are categorised as 'gold' suppliers in our system and when making procurement decisions they are automatically identified as preferred suppliers.

With the introduction of Modern Slavery legislation in late 2018, GUD has taken steps to integrate initiatives to understand the risk and mitigate the impacts of modern slavery. We are expecting to publish our first Modern Slavery Statement in November 2020.



Training and development is a critical element of our workforce planning. We support development by training our employees within the workplace as well as supporting them to undertake further education.

Water Management

We understand the challenge of water scarcity in Australian context, and through our Davey Water Products business have the capability to impact this in a positive way. To inform our product development process, we commissioned research to understand consumer attitudes toward water management and how these fit with their lives of consumers. Stemming from this, we know that water management is important to a broad cross section of our customers because of limited supply, particularly in remote areas of Australia. Water management for our customers is about knowing how much water is being used and to protect water supply through detecting leaks.

We have a number of water-saving products in our range and are continuously investing in new opportunities that seek to meet the challenges faced by our customers.

This year we also worked on understanding our water footprint across our 30 sites in Australia and New Zealand. We are working with our business units to develop a consistent method of data collation for monitoring and reporting purposes. Across our sites we endeavour to use Davey Water Products to provide water-saving initiatives.

CASE STUDY



MONSOON IQ

The Monsoon IQ booster system uses variable speed drives on Davey Pumps to control and cascade supply to match changing water demands. The system reaches full optimisation when connected to the cloud allowing access and peace of mind from anywhere in the world. The Monsoon IQ Cloud allows the consumer to remotely control, optimise and monitor the system from any connected device.

Davey's Monsoon IQ intelligent pump set was recently fitted at De Bortoli Wines, Yarra Valley. The vineyard has 13 irrigation dams across 11 pumping systems. This has allowed De Bortoli Wines to precisely match water needs to specific areas of a vineyard and detect temperature changes and faults. The remote monitoring capability makes this easier to check flow and pressure at any time, to maximise water efficiency.

CASE STUDY



RAINBANK

The RainBank system is an automatic controller for rainwater harvesting. RainBank controls the water supply for toilet and laundry applications by automatically selecting the water source. Rainwater is given priority with mains water supplied seamlessly as a back up for when the tank is empty or in the event of a power outage. RainBank can save up to 40% of a household's mains water use, helping to conserve this precious resource and lower water bills.

BOARD OF DIRECTORS



M G Smith*

Dip. Business (Marketing)
FAMI CPM FIML FAICD

Appointed Non-Executive Director on 26 May 2009 and Chairman

Mr Smith is currently a Non-Executive Director and Chairman of Australian Pharmaceutical Industries Limited (appointed 6 September 2017). He is a former Non-Executive Director and Chairman of Patties Foods Limited (retired September 2016), a former Non-Executive Director of Toll Holdings Limited (retired May 2015), and a former Non-Executive Director and 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.



A L Templeman-Jones*

BCom MRM EMBA
CA FAICD

Appointed Non-Executive Director on 1 August 2015, and Chair of the Risk and Compliance Committee

Ms Templeman-Jones is currently a Non-Executive Director of Commonwealth Bank of Australia (appointed 5 March 2018), a Non-Executive Director of Worley Parsons Limited (appointed 1 November 2017) and a Non-Executive Director of The Citadel Group Limited (appointed 8 September 2017), where she is Chair of the Audit, Risk and Compliance Committee. Anne previously served as a Non-Executive Director of HT & E Limited (formerly APN News & Media Limited) (retired May 2018), Cuscal Limited (retired March 2018), Pioneer Credit Limited (retired November 2016), Notre Dame University (retired December 2016) and HBF Health Limited (retired October 2014).

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



G A Billings*

BCom FCA MAICD

Appointed Non-Executive Director on 20 December 2011, and Chair of the Audit Committee

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 is currently a Non-Executive Director of Korvest Limited (appointed May 2013) and became Chairman of that company in September 2014, a Non-Executive Director and Chairman of Azure Healthcare Ltd (appointed 21 October 2015), a Non-Executive Director of Clover Corporation Limited (appointed 20 May 2013) where he is Chair of the Audit Committee, and a Non-Executive Director of DomaCom Limited (appointed 23 February 2015) where he is Chair of the Audit Committee.



D D Robinson*

BSc MSc

Appointed Non-Executive Director on 20 December 2011, and Chair of the Remuneration Committee

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.

Managing Director and Chief Executive Officer



G Whickman

B Bus MAICD

Appointed Managing Director and Chief Executive Officer on 1 October 2018.

Mr Whickman was previously President and Chief Executive Officer of Ford Australia and New Zealand (2015 – 2018). He had a 20-year career with Ford with senior executive roles in Asia Pacific, Europe and North America.

Company Secretary



M G Tyler

LLB BCom (Hons) MBA
AGIA MAICD

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 33 years.

* All Non-Executive Directors are independent.

EXECUTIVES



Corporate Executive

Martin Fraser*
Chief Financial Officer



Corporate Executive

Bart Moonen
Chief Innovation Officer



Corporate Executive

Barbara Harrison
Chief People Officer



Corporate Executive

Bob Pattison
General Manager
Automotive Acquisition
& Strategy



Davey Water Products

David Worley
Chief Executive Officer



**Brown & Watson
International**

George Davies
Chief Executive Officer



Wesfil

Terry Cooper
Managing Director



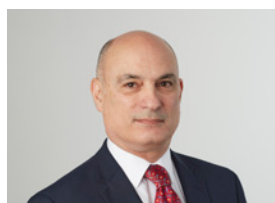
RYCO Filters

Stuart Chandler
Executive General Manager



**Innovative Mechatronics
Group**

Gino Ricciuti
Executive General Manager



Disc Brakes Australia

Gideon Segal
Executive General Manager



AA Gaskets

Carl Wels
General Manager



Griffiths Equipment

Peter Griffiths
General Manager

*Mr Fraser was appointed an additional Company Secretary in December 2017, but does not perform that role.

FINANCIAL SUMMARY AND RATIOS

Financial Summary & Ratios		2015	2016	2017	2018	2019
Sales & Profitability¹						
Sales Revenue	\$m	497.1	595.5	426.3	396.7	434.1
Underlying EBIT	\$m	51.6	78.6	83.6	83.5	88.9
Underlying NPAT	\$m	32.7	44.4	51.9	55.2	60.9
Acquisition, integration, restructuring and impairment costs	\$m	(1.7)	(87.3)	(0.3)	(6.6)	(1.9)
Net Profit Before Tax ²	\$m	42.8	(23.3)	72.7	70.2	80.2
Net Profit After Tax	\$m	31.1	(40.9)	51.5	50.5	59.6
Reported NPAT	\$m	33.2	(43.0)	(7.3)	101.8	59.6
Cash Flow						
Cash flow from Operating Activities	\$m	34.1	70.2	45.4	59.4	44.5
Financial Position						
Current Assets	\$m	307.6	343.4	202.6	243.7	250.9
Current Liabilities	\$m	135.7	168.7	100.9	86.5	86.2
Net Debt	\$m	(0.6)	167.8	160.8	92.5	132.7
Net Tangible Assets	\$m	188.3	44.8	(36.6)	30.5	28.9
Total Equity	\$m	356.2	274.6	200.9	265.3	278.6
Per Share Performance						
Underlying Basic Earnings Per Share ¹	cps	45.2	52.0	60.5	64.1	70.4
Basic Earnings Per Share ¹	cps	43.0	(48.0)	60.1	58.6	68.9
Interim & Final Dividend	cps	42	43	46	52	56
Special dividends	cps					
Total dividend per share	cps	42	43	46	52	56
% Franked		100%	100%	100%	100%	100%
Payout Ratio		93%	83%	76%	81%	80%
Total shareholder return ³		48%	8%	46%	13%	(26%)
Share Statistics (at 30 June each year)						
Total Shares on Issue	m	85.1	85.3	85.7	86.1	86.5
Closing Share Price	\$	8.84	9.11	12.91	14.16	10.01
Market Capitalisation	\$m	752.1	777.3	1,106.3	1,219.2	865.7
Key Ratios						
Underlying EBIT/Sales ¹		10.4%	13.2%	19.6%	21.0%	20.5%
Return on Capital Employed ^{1,4}		9.2%	10.0%	14.3%	15.4%	14.8%
Return on Equity ¹		9.2%	16.2%	25.8%	20.8%	21.8%
Return on Assets ¹		7.4%	7.2%	11.3%	11.0%	12.2%
Net Debt/Total Capital		(0.2%)	37.9%	44.5%	25.9%	32.3%
Net Debt/Market Capitalisation		(0.1%)	21.6%	14.5%	7.6%	15.3%
Working Capital/Sales ^{1,5}		22%	22.7%	27%	40%	38%
Capital Expenditure/Depreciation & Amortisation ^{1,6}		88%	90.9%	58%	97%	191%
Interest Cover – times		7.2	6.1	8.4	11.5	12.8

1. Based on earnings from continuing operations, as reported.

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 equals equity plus net debt.

5. Based on working capital from continuing operations, as reported.

6. Based on capital expenditure from continuing operations, as reported.

CORPORATE DIRECTORY

Directors

Mark G Smith, Chairman
Graeme Whickman, MD/CEO
Graeme A Billings
Anne L Templeman-Jones
David D Robinson

Chief Financial Officer

Martin A Fraser

Company Secretary

Malcolm G Tyler

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Chartered Accountants

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Pty Limited
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FINANCIAL CALENDAR 2019/20

2019

August

Payment of final dividend – 30 August

September

Annual Report and Notice of AGM
mailed to shareholders – mid September

October

Annual General Meeting – 24 October

2020

Late January

Announcement of results for the
six months ending 31 December 2019

Announcement of dividend

February/March

Record date for interim dividend

Payment of interim dividend

June

End of Company's 2019/20 financial year

Late July

Preliminary announcement of results
for 2019/20 financial year

Timing of events can be subject to change

