Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Refocus on automotive aftermarket almost completed – now for a new CEO

Company/ASX Code	GUD Holdings/GUD
AGM date	Thursday, 25 October 2018
Time and location	10am, RACV Club, Level 17, 501 Bourke Street, Melbourne
Registry	Computershare
Webcast	No, may be recorded and then a link to the recording will be published online later
Poll or show of hands	Poll on all items (for the first time)
Monitor	John Whittington assisted by Belinda White
Pre-AGM Meeting?	Yes, with Chairman Mark Smith and Company Secretary Malcolm Tyler

Item 1	**Financial Statements and Reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

GUD has been acquiring automotive aftermarket businesses and divesting its non-automotive businesses over the past few years and this year divested the second last of its non-automotive business – Oates cleaning products. It can now be described as a strongly performing automotive aftermarkets distributor (accounting for 70% of revenue and over 100% of profit) with one other division, Davey (pumps), which is likely to be divested in the near future.

GUD's results this year were solid. Whilst total group revenue declined by 7% to $396.7m due to the divestments, revenue from continuing operations increased 11%, mainly due to 15% growth from the automotive businesses. Revenue at Davey was down 1%.

Reported NPAT for the group was $101.8m, up from a $7.3m loss last year and a $43.0m loss the year before. After taking out the $51.5m gain on the sale of Oates, the NPAT for continuing operations was up 11% to $50.5m. This increase was all due to automotive as Davey's profit declined by 68% to $2.0m.

Cash flow from operations was up 31% from last year (to $59.4m) but return on equity for the continuing business decreased 19% to 20.8%.

Dividends increased 14% to 52 cents per share and the total shareholder return for the year was 13.5% (9.7% from the increase in the share price and 3.8% from dividends).

Key events

The AA Gaskets business was acquired in December and the Oates cleaning products business was divested in January. Following year end, Disc Brakes Australia was acquired in July 2018.

Key Board or senior management changes

The CEO retired post year end (30 September 2018) and has been replaced by Graeme Whickman, formerly President and CEO of Ford Australia and New Zealand.

ASA focus issue

Remuneration disclosure and, with the exception of Ms Templeman-Jones, director equity holdings are satisfactory. GUD include a table of actual remuneration in their annual report and long-term incentive awards allocations are based on face value.

We are concerned about board and senior management diversity. To have women comprising only 20% of NEDs and 17% (albeit up from 11% last year) of senior management these days is not a good look.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT ($m)	101.8	(7.3)	(43.0)	33.2
UPAT ($m)	50.5	51.5	(40.9)	31.1
Share price ($)	14.16	12.91	9.11	8.84
Dividend (cents)	52	46	43	42
TSR (%)	13	46	8	49
EPS (cents)	58.6	60.1	(48.0)	43.0
CEO total remuneration, actual ($m)	2.456	2.578	1.666	1.174 (part year)

For the 2018 financial year, the CEO's total actual remuneration was **29 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Item 2.1	**Re-election of David Robinson**
ASA Vote	**For**

Summary of ASA Position

Mr Robinson was appointed to the board in December 2011. He has a shareholding equivalent to 127% of his total remuneration (as at year end) and is independent. He currently does not hold any other ASX listed directorships.

We believe that Mr Robinson is well qualified, is likely to contribute to the board, and we support his election.

Item 2.2	Re-election of Anne Templeman-Jones
ASA Vote	For

Summary of ASA Position

Ms Templeman-Jones was appointed to the board in August 2015, is the only female on the board, and is independent. After three years on the board she only has a shareholding equivalent to 48% of her total remuneration (as at year end) which we find disappointing.

Ms Templeman-Jones is currently a non-executive director of three other ASX listed companies (Commonwealth Bank, Worley Parsons, and The Citadel Group). We do not consider her workload excessive.

We believe that Ms Templeman-Jones is well qualified and is likely to contribute to the board. If it were not for her poor level of GUD shareholding (ie "skin in the game") we would be a strong supporter of her re-election. We will support her re-election but will encourage her to acquire more GUD equity in the near future.

Item 3	Remuneration Report
ASA Vote	For

Summary of ASA Position

With one exception, the remuneration structure is essentially unchanged from the past three years. It has three components – fixed remuneration, short term incentives (STI) and long-term incentives (LTI). The STI provides an annual cash value bonus for achieving or exceeding and agreed cash value added (CVA) target. The CVA target for each business unit and the Group overall is established during the budget process prior to the commencement of the financial year. LTI is based on the Group's total shareholder return (TSR) relative to a comparator group (ASX Small Ordinaries index) and is provided as performance rights which can be converted to shares if the performance hurdle is achieved.

The one change from previous years is that the LTI award has an additional hurdle that the absolute TSR must now be positive. This is something we have been requesting for years and is a significant improvement.

We believe that disclosure is good and certain aspects of the policy are satisfactory. We like CVA as a target for STI bonuses and that they are only be paid where CVA performance exceeds the CVA performance of the prior year and the CVA target of the relevant business unit. However, we are still disappointed with the following areas:

- STI awards are paid entirely in cash
- LTI awards have no holding lock, are based only over three years, and are based on relative TSR based on a generic (ASX Small Ordinaries) index rather than comparable companies or groups

In the past three years we voted against the remuneration report saying “On balance we oppose the motion, but this is close to the line and some improvements next year would enable us to support it in the future.” Given a notable (as requested by us) improvement has been made we intend to support the report this year with the following wording “In recent years we have opposed the report whilst acknowledging it is close to the line. Given the addition of an absolute TSR hurdle to the LTI we want to acknowledge this improvement and will support the report this year. We do note however that the report is still very close to the line and we would expect further improvements before we could support it again in the future.”

Item 4	**Approval of LTI grant to Managing Director Graeme Whickman**
ASA Vote	**For**

Summary of ASA Position

This resolution is for the issue of a maximum of approximately (depending on the market price over September 2018) 30,000 performance rights worth $438,750. This is equivalent to 60% of fixed remuneration.

The shares will vest based on the relative shareholder return of the company compared with the ASX small ordinaries index (excluding mining, materials, and resource industries) over the period 1 October 2018 to 30 June 2021. If the company TSR over this period falls below the 50th percentile of the comparator group, no shares will vest. If the TSR falls between the 50th and 75th percentile then a linear scale will apply from 50% vesting at the 50th percentile up to 100% vesting at the 75th percentile. If the TSR exceeds the 75th percentile then 100% of the shares will vest. ***In addition***, the Company’s absolute TSR must be positive over the performance period for any Performance Rights to vest.

All rights will lapse if Mr Whickman’s employment is terminated for cause and clawback of this award may occur in cases of fraud or misconduct. In the case of resignation, retirement, redundancy, or termination by the Company for convenience, a pro-rata number of rights will be retained and will vest only if the above performance hurdles are met.

This award is not ideal in that it is based on only one hurdle and has a vesting schedule which we find too steep (we would prefer 30% vesting at the 50th percentile scaling to 100% vesting at the 85th percentile) and is over too short a period (we would prefer four or five years). On the other hand, we believe the maximum award is not excessive, the calculation of the award is based on face/market value, it is quite transparent, and is in appropriate proportion to fixed remuneration.

We believe this is a line-ball decision. Our intention is to support this resolution but with a similar proviso to the remuneration report, ie that we expect to see further improvement next year before we would support that report.

Neither John Whittington nor Belinda White have a shareholding in this company.