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A solid result in very difficult times

Company/ASX Code	GUD Holdings / GUD
AGM date	Tuesday 27 October 2020
Time and location	10am AEDT, virtual meeting at https://web.lumiagm.com/304355206
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	John Whittington assisted by Christine Haydon
Pre AGM Meeting?	Yes with Chair Graeme Billings, Chair of Remuneration, People and Culture Committee David Robinson, and Company Secretary Malcolm Tyler

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

<u>Financial performance</u>

In FY20, GUD total revenue was up 0.9% to $438m with automotive aftermarket revenue flat at $331m and Davey revenue up 3% to $107m. Australian revenue was up 1.7% and New Zealand revenue down by 6%.

Reported net profit after tax (NPAT) for the year was $43.7m, down 27% from last year. Automotive aftermarket NPAT was down 10% and Davey NPAT down 83%.

Cash flow from operations was up 47% (to $65.5m) and free cash flow was up 59%.

Dividend decreased 44% to 37 cents per share however total shareholder return for the year was 21% (15% from the increase in share price and 6% from dividends).

<u>Key events</u>

Other than the Covid-19 pandemic and associated lockdowns there were no significant events during the year.

<u>Key Board or senior management changes</u>

Jennifer Douglas was appointed to the board on 1 March 2020.

Post year end the Chair Mark Smith retired from the Chair and board due to health reasons and subsequently passed away. Graeme Billings was appointed Chair and Anne Templeman-Jones appointed deputy Chair on 1 October.

ASA focus issue

Other than the high workload of the new Chair, Graeme Billings, we think the board is well structured and moderately diverse. We are disappointed about current poor levels of disclosure about the process to recruit new directors and are working with the company to improve.

See below for our comments on remuneration transparency and alignment.

The company seems to have solid risk management protocols in place and seems to have responded well to the Covid "black swan" even.

Communication with shareholders is satisfactory and there has been no equity raising since 2015 when it undertook an institutional placement plus share purchase plan (SPP).

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT ($m)	43.7	59.6	101.8	(7.3)	(43.0)
UPAT ($m)	48.2	60.9	55.2	51.9	44.4
Share price ($)	11.51	10.01	14.16	12.91	9.11
Dividend (cents)	37	56	52	46	43
TSR (%)	21	(26)	13	46	8
EPS (cents)	50.4	68.9	58.6	60.1	(48.0)
CEO total remuneration, actual ($m)	1.045	1.275*	2.456	2.578	1.666

* This represents the combined pay of the previous CEO who received $0.524m actual remuneration for the period 1 July to 30 September 2018 and the new CEO who received $0.750m for the period 1 October 2018 to 30 June 2019.

For FY20, the CEO's total actual remuneration was **11 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	**Election of Jennifer Douglas**
ASA Vote	**For**

Summary of ASA Position

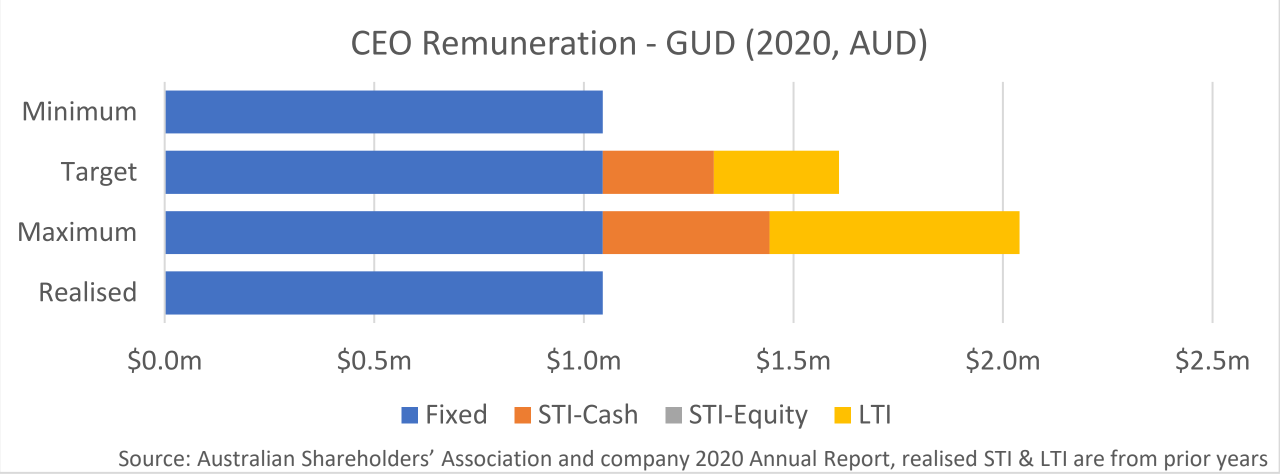
Ms Douglas, a lawyer and more recently an executive in the communication and technology sectors, was appointed to the board on 1 March 2020. She already has a shareholding equivalent to approximately 38% of her expected annual remuneration and is independent.

Ms Douglas is a non-executive director of three listed companies (GUD, Hansen Technologies, and Opticomm) and a non-executive director of three unlisted entities (Essential Energy, St Kilda Football Club, and Peter MacCallum Cancer Foundation). We consider this workload significant but acceptable.

We believe that Ms Douglas is well qualified to contribute to the board, has sufficient "skin in the game" and we support her election.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position



The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

GUD remuneration is part fixed and part variable where the variable component should be considered variable pay rather than a bonus. Performance under target/expectations will result in lower pay, performance above target/expectations will result in higher pay.

The remuneration structure is essentially unchanged from the past four 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 excluding stocks in the mining, materials, and energy industries) and is provided as performance rights which can be converted to shares if the performance hurdle is achieved. The LTI award has an additional hurdle that the absolute TSR must be positive.

A new element of the LTI programme this year is that executives can defer exercise of performance rights that vest. See below under Item 4 for more details.

We believe that disclosure is good and many 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 that STI awards are paid entirely in cash.

The layout of the report is little changed from last year and is fairly concise but contains all the key information.

Last year we did not support the report because there had been little substantive improvement to a report that we believed was "close to the line" the year before. We believe that the deferral of LTI rights, whilst not perfect, is a substantial improvement so will support the report this year.

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

Summary of ASA Position

This is for the issue of a maximum of 53,198 performance rights worth $596,400. This is equivalent to 60% of fixed remuneration and is of the same value as last year.

The shares will vest based on the relative shareholder return of the company compared with the ASX small ordinaries index (excluding mining and resource companies) over the period 1 July 2020 to 30 June 2023. 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.

In a major change from last year, these rights can be exercised at any time in the twelve years following vesting (previously vesting and exercise were concurrent). If exercising of the shares is delayed, then a notional dividend "award" is added based on the value of the dividends paid by the company during the period between when the rights vest and the rights are exercised.

This delayed exercise of rights is claimed to provide tax advantages to Mr Whickman but also is likely to increase his alignment with shareholders.

All rights (vested or unvested) 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, all vested rights will continue to be exercisable and a pro-rata number of unvested rights will be retained and will vest (and be exercisable) only if the above performance hurdles are met.

Whilst we believe the exercise period should only commence in five years' time and we would prefer a flatter vesting schedule (eg 30% vesting at the 50th percentile scaling to 100% vesting at the 85th percentile), we see the implementation of the optional delayed exercise of rights a significant innovation and major improvement which potentially better aligns the award with long term shareholder returns.

We also believe the maximum award is not excessive, the calculation of the award is based on face/market value, it is quite transparent, relatively easy to understand, and is in appropriate proportion to fixed remuneration. We therefore support this award.

Item 5	**Renewal of proportional takeover provisions**
ASA Vote	**For**

Summary of ASA Position

The Corporations Act permits a company to include in its constitution a provision which enable the company to refuse to register a transfer of shares acquired under a proportional takeover bid unless a resolution is first passed by members approving the bid. The resolution prevents companies gaining control cheaply and allows shareholders to decide if the bid should proceed. We intend to support this item.