Australian Shareholders' Association Limited
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GUD policy address to avoid second strike

Company/ASX Code	GUD Holdings/GUD
AGM time and date	10am on Thursday, 26 October 2023
Location	RACV Club Bourke St Melbourne and online
Registry	Computershare
Type of meeting	Hybrid
Monitor	Claudio Esposito
Pre-AGM Meeting	Yes with Chair Graeme Billings, Chair of Remuneration Committee David Robinson & Company Secretary Anne Mustow

Monitor Shareholding: The individual involved in the preparation of this voting intention has no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
2a	Re-election of Mr David Robinson	For
2b	Re-election of Jennifer Douglas	For
3	Adoption of Remuneration Report	For
4	Approval of LTI grant to Managing Director	For
5	Renewal of the proportional takeover provisions	For
6	Contingent spill resolution	Against

2. Summary of Issues and Voting Intentions for AGM

Last year GUD received a first strike against its remuneration report due to proxy advisor dissatisfaction for several elements within the remuneration report that was perceived as unclear regarding the short-term incentive structure and the triggers that allowed payment. There was also a perception that the board needed to exercise discretion in payment of the STI in light of the share price downgrade during the capital raising for the acquisitions of APG and Vison X in 2022. The company response to the strike is covered in the annual report at page 38. At the pre-AGM meeting, ASA asked whether GUD had discussed the matters with the proxy advisor and what were the outcomes.

3. Matters Considered

Accounts and reports

GUD has recorded full year of profit from its two most recent major acquisitions, APG and Vision X.

Revenues increased by 25% to $1.037b in FY23 and the absence of the prior year expenses such as taxes, marketing, logistical costs and losses from discontinued operations led to a 359% lift in Net Profit after Tax (NPAT) to $97.9m (FY22 $27.3m.) Other acquisitions also made some contribution to GUD's revenues such as Christine Products (acquired 2022, Twisted Throttle and Southern Country FY2023)

GUD's Cash management has improved with reduced inventory and improved delivery times of merchandise. This has also improved their debt level which decreased by around 15%. GUD have stated that supply chains continue to remain somewhat difficult, contributing to some existing backlog but are confident of continued sales as supply slowly improves. GUD have suggested that this is the likely reason for the recent share price appreciation since the end of the financial year.

Financial performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	97.9	27.3	61.0	43.7	59.6
UPAT ($m)	124	88.9	64.0	48.2	60.9
Share price ($)	8.82	7.99	11.99	11.51	10.01
Dividend (cents)	39.0	39.0	57.0	37.0	56.0
Simple TSR (%)	15.26	(31)	9	19	(26)
EPS (cents)	74	22.9	67.0	50.4	68.9
CEO total remuneration, actual ($m)	1.19	2.06	1.80	1.21	1.11*

Governance and culture

GUD's remuneration had been under scrutiny over the last twelve months beginning when they received a strike over their remuneration report last financial year. A large proxy advisor had taken issue to parts of the Short Term Incentive (STI) and Long Term Incentive (LTI) components that in their view, unfairly awarded the CEO. The CEO had earned an STI of 123% target (Target is equal to 40% of Fixed Remuneration) despite an earnings downgrade of around 5%, announced earlier in the year. The downgrade was due to constrained supply chain issues which affected the performance of newly acquired business APG.

Since the STI metrics do not include performance from acquisitions in the year acquired, the STI was paid given strong organic performance of the existing businesses. The proxy advisor stated that investors should be able to clearly see the relationship between STI hurdles and company performance if they are to vote on such matters and that the performance of an acquisition should be made to affect the STI in some way. It is not stated what those targets are in the annual report however GUD do not publish Cash Value Added (CVA) hurdles and have not done so for seven years. CVA measures company financial performance or cash retained by GUD and compares it to the weighted average cost of capital.

The LTI metrics are a composite of earning per share (EPS), Total Shareholder Return (TSR) and an ESG metric. Proxy advisors believed that the EPS target was below market expectations of 8-10%, adopted by analysts, a figure that was significantly higher than the 4-8% forecasted by GUD.

The ESG metric was 'non-Internal combustion engine[1]' revenue (Non-ICE revenue). GUDs Non-ICE revenue component was around 69% and could climb to 74% with acquisitions. At 79% Non-ICE revenue, pro-rata vesting would occur at 45% and reach 100% once Non-ICE revenue reached 81%. The target is not believed to be challenging enough by the proxy advisor.

In response to the proxy advisor's voting recommendations, GUD had delayed the payment of the deferred equity (until the share price had exceeded the price of GUD's shares prior to the APG capital raising which saw the share price go down). This seems like a non-event given that deferred equity by its very nature is deferred anyway. GUD state that the addition of EPS and the Non-ICE revenue resolves the sole reliance of using TSR. ASA concurs with the change.

Also, GUDs EPS forecasts was derived from 'car parc' (the number of cars on the road) and new car sales. The forecasted growth of both over the next five years was 1.8% and -2.10% respectively. Given these growth figures and inflationary pressures currently within the economy, GUD believe an EPS growth of 4-8% is sufficiently challenging. ASA is not fully convinced that this growth forecast is reasonable.

Key events

In FY22, GUD received a first strike for its remuneration report. This year after having revised and improved its remuneration structure we will be expecting a better outcome. GUD's fifth item on their Notice of Meeting will be the 'Conditional Spill' resolution. If the remuneration report receives another 'against' vote of 25% or more, shareholders will have to vote on whether they wish to have a board Spill which effectively calls to remove all current board members unless they are newly appointed and yet to be voted in. ASA prefers not to take that path due to its highly disruptive consequences.

GUD have also entered an agreement to sell Davey (water pump business) after 27 years. Davey have experienced a decline in business demand in some key areas this year which saw their revenues decrease by 5%. They experienced similar performance in FY22 due to a $55m write down and outdated inventory and subsequently replaced the MD. GUD's long term vision is to become a purely 'automotive play' so it made sense to divest Davey when the opportunity arose.

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[1] Refers to all revenue outside the engine related category. Sales from electric vehicle battery reconditioning would be considered non-ICE. An oil pump or fuel filter would not be part of Non-ICE category.

Key board or senior management changes

This year, there have been no key board or senior management changes

Sustainability/ESG

GUD have incorporated ESG into their remuneration plans to help drive outcomes, have structured acquisitions to capture a growing market of electric vehicles and non-internal combustion engine businesses. GUD also have an in-depth safety infrastructure and practices and continue to foster a culture of safety as evidenced comprehensively in the annual report. They have focussed on: ethical sourcing from their suppliers, revenues that are not generated from ICE vehicles and safety and safety (injury rates per year). The sustainability report is comprehensive and detailed, with ESG is embedded into all levels of the management hierarchy, including in their remuneration structure.

ASA focus issues

As indicated previously, GUD have engaged in fair capital raising programs in the recent past, allowing retail shareholders to subscribe to prorated share issue however they fell short when not offering trading rights in FY22.

GUD also do not have a minimum shareholding policy. ASA outlined our policy of requiring a year's worth of base salary in shares after three years employment, and while they understand our point of view, they won't make it policy. GUD encourage a shareholding but do not mandate it. Their view is that it's the choice of the executives whether they accumulate a significant shareholding, and the fact that they so voluntarily without a policy is evidence that they want 'skin in the game'. The CEO as well as some directors have accumulated a shareholding using GUDs share purchase program.

We also pointed out that GUDs board skills matrix lacked granularity and included skills that were not particularly relevant or practical. We gave them an example of a skills matrix that was in line with our policy standard and we're hoping to see an improvement in FY24. We also requested that the skills matrix be included for convenience in the annual report and not the company's governance statement.

4. Rationale for Voting Intentions

Resolution 2a - Re-election of Ms Jennifer Douglas as non-executive directors of the company (For)

Ms Jennifer Douglas was appointed in 2021. She is a qualified lawyer specialising in intellectual property and has experience within a variety of different industries. Ms Douglas doesn't appear to have worked in any single area for a prolonged period. She has served in the banking, telco, insurance, sport and medical research fields and currently has around 60% of the minimum shareholding requirement as per ASA policy guidelines. We understand that this figure will grow in the coming years. We consider Ms Douglas's workload to be significant but not overloaded , and has not changed from prior years. Ms Douglas has a useful breadth of experience that would benefit GUD.

Resolution 2b - Re-election of Mr David Robinson as non-executive directors of the company (For)

Mr Robinson was appointed in 2011 and was appointed with several specific and complimentary skills directly suited to GUD's market. Prior to GUD, Mr Robinson worked in the automotive sector for 22 years before joining Robert Bosch as their president. Having worked in key roles of marketing, sales and manufacturing, we believe David is well suited to his role as NED.

He has a meaningful shareholding exceeding the minimum requirement of one years' worth of fees and has no other directorships. Mr Robinson will be in his twelfth year at GUD which will now deem him to be non-independent, as per ASA guidelines. His understanding of the company is a strength for GUD.

Resolution 3 - Remuneration Report (For)

This financial year neither the STI or LTI had been paid to the CEO as the EBITA target had not been achieved nor was the TSR requirement met (measured over three years, unlike the figure in our table above, which is a simple one year one). The annual report stated that the EBITA underlying earnings was $191m which fell below target. This figure also represents 46% above FY22. While the actual target was not disclosed, with the acquisitions now in play, the board had set a challenging FY23 STI target. Other additional changes that had taken this year was a 4% pay rise to the board and executive management along with all employees, which is both reasonable and fair.

For FY24, the STI metric for measuring performance will be the EBITA and Net Working Capital which measures profitability and operational cash management and is primarily a focus on management's frugality. These metrics replaced Cash Value Added (CVA) which measured the company's profitability and compared it to the companies weighted average cost of capital (combined average cost of debt and cost of equity).

We support the change here as EBITA is still a measure of profitability as was CVA and NWC allows the company to make better choices with cash versus company expenses which both make their way to the bottom line when done well. A safety component (injury rate), Employee engagement and ethical sourcing) was also added. GUD's safety rate had gone down from FY22 (8.0) to 7.7 in FY23. With a target of 11.46 and a stretch of 5.5, GUD clearly achieved their target.

GUD stated that their research had shown a direct correlation between employee engagement and company performance. This was not clearly expressed in their annual report, so we had advised that this would be a useful addition in future. It does however have a correlation with employee retention. Employee engagement needs to rank in the upper quartiles of global benchmarking. GUD received a score of 72% which places them in average category and thus triggered no reward. Encouragingly the participation rate of the survey improved dramatically from 66% in FY22 to 80% in FY23 (acquisitions excluded).

Similarly, ethical sourcing required a target of 85% of suppliers being vetted for 'Ethical Sourcing'. With only 77% of business suppliers vetted, GUD fell short of their 85% target (90% stretch). No payout had been awarded under these two categories.

GUD have also included a financial gateway in order that both financial and non-financial targets to vest. The STI target is equal to $598,000 or 55% Total Fixed Remuneration. Of this, 72.7% will be in cash and 27.3% in equity. The target must be reached for entire STI package to be awarded. This financial year Mr Whickman had not achieved his STI CVA target forgoing $430,900 ($652,000 Max target) and his non-financial target of $163,220 ($326,441 Max target)

The long-term remuneration is equal to 50% Total Fixed Remuneration and a maximum of 80% all paid in equity rights. The Long-term incentive will no longer be measured by RTSR (40%) alone. It now comprises EPS (40%) and a sustainability measure (20%) (Non-Internal Combustion Revenue). The TSR target is set at 50th percentile and stretches to 75th percentile. The volume of equity that vests begins at 45% at target and continues pro-rata til the 75th percentile. Greater than 75th percentile will trigger full vesting.

EPS target begins at 4% with 45% vesting and up to ≥ 8% triggering full vesting. The sustainability metric measures the percentage of non-ICE revenue. At present GUD are at 69%.

The LTI period measures over three years and allocates equity on face value which is in line with ASA policy. GUD have multiple measures within their STI and LTI plans as opposed to previous years, they have a holding lock over a 12-month period on their STI and an RTSR within the LTI plan that will only reward executives if it is positive. This means that even if GUD perform better than their peers, they don't get paid if shareholder value hasn't increased within that three-year period. A financial gateway needs to be achieved in both STI and LTI plans for the entire plan to be awarded.

Resolution 4 - Approval of LTI grant to Managing Director (For)

The board seeks shareholder approval to grant Mr Whickman total of 104,662 Rights for the next three-year performance period. These are calculated by dividing the target, namely 80% of his fixed salary of $ 1,131,664m by the 30 June 2023 volume weighted average price (VWAP) of $8.65. They vest under three tranches, 40% for achieving an rTSR against a comparator group (with a hurdle requiring positive absolute TSR), 40% against an EPS target, and 20% against an environmental sustainability target, defined as a revenue share of products not designed for internal combustion engines. This is both innovative, with challenging targets and is aligned with ASA guidelines, so we will vote for this grant. This is one of the first explicit and significant ESG components of an awards plan that we have seen in an industry which contributes much to global warming.

Resolution 5 - Renewal of proportional takeover approval provisions (For)

GUD seek to renew this provision that comes due every three years which stops outside companies from registering their transfer of shares in an attempt to take over the company without the explicit approval of shareholders. The provision must be approved by shareholders every three years to remain valid.

Resolution 6 - Contingent resolution – conditional spill resolution (Against)

In FY 22 GUD received an against vote of 42%. In 2011 corporation law was amended and introduced a rule that states that a vote of 25% or more for the remuneration report is considered a 'strike' and that two consecutive strikes over two years must go to a conditional spill resolution as indicated in Item 6 above. If GUD receive 25% or more 'against' votes for the remuneration report at this coming AGM, shareholders will be asked to vote whether to 'spill' the board. Votes higher than 50% for resolution 6 will trigger a spill of the board and will see all current directors removed from the board. The board members will only be officially removed after a spill meeting is held, no later than three months after the AGM.

Given the disruption such a spill would cause the business of GUD, we think this course is not in the interests of shareholders and will vote against it, in the event of a second strike.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* **$m**	**%** of Total	Max. Opportunity **$m**	**%** of Total
Total Fixed Remuneration	1.13	54.0	1.13	40%
STI - Cash	0.451	21.6	0.678	24%
STI - Equity	0.170	8.1	0.339	12%
LTI	0.340	16.3	0.680	24%
Total	2.09	100.0	2.827	100%

The amounts in the table above are the 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. Some remuneration framework set a maximum opportunity amount, but not all.