

**John Williamson / Hellaby CEO**  
**‘Hellaby turnaround: Some observations**  
**from the trenches’**

**Presentation to NZ Shareholders Assn**



Hellaby today

## What is Hellaby today?

- NZX – listed investment holding company
- Actively manage a diverse range of NZ and Australian industrial, distribution and retail businesses
- Small lean corporate office (6 of 2,300 staff)
- Decentralise leadership and performance accountabilities to our subsidiaries
- ‘Buy, build and harvest’ investment strategy
- Prefer long-term ownership of our investments
- Consider portfolio diversification to be a strength

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## Current Portfolio

- Automotive parts
- Industrial equipment
- Packaging
- Footwear retail



- Represent diverse cross-section of New Zealand economy... 'NZ Inc'
- All subsidiaries have number one or two market positions in their respective segments
- Portfolio mix could change over time

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## Hellaby investment and turnaround highlights

### Dealt with legacy issues

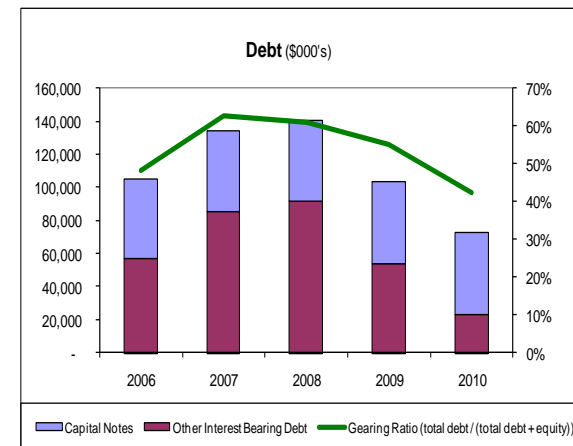
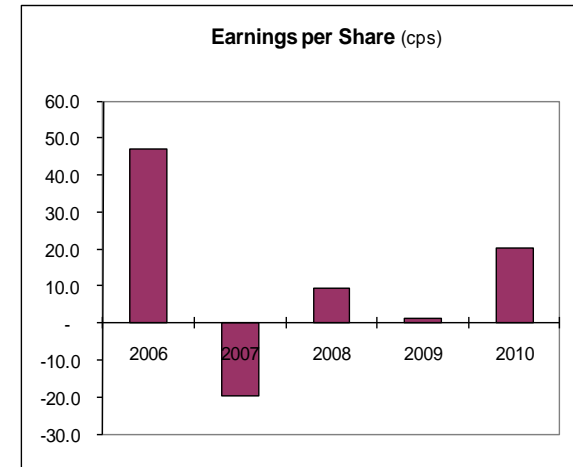
- Substantial reform has occurred over last two years to de-risk balance sheet
- Restructured several subsidiaries
- Clear portfolio strategy now in place
- Focus shifted to growth and well positioned for strong future performance

### Experienced team

- Major culture change across group – ownership, accountability, continuous improvement
- Subsidiary teams strengthened with additional talent – now excellent management teams across group
- Refreshed Board and senior management team

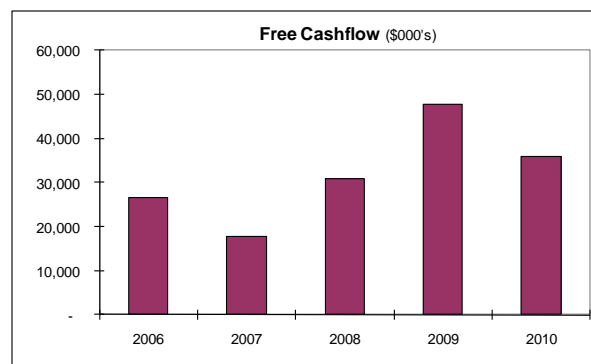
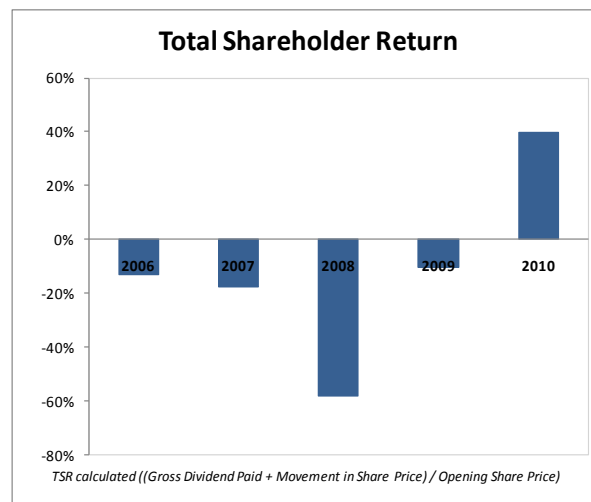
## FY2010 highlights

- Hellaby's operational turnaround is largely complete
- Management has delivered on its debt reduction strategy and achieved impressive working capital reductions - balance sheet is de-risked
- Tightened financial disciplines & streamlined businesses
- Revenue down 4.8%
- EBIT up 11.8% to 20.3 million
- NPAT up by \$9.6 million to \$10.3 million
- \$36 million free cashflow generated
- Sound earnings platform in place leveraged to economic recovery / gradually improving outlook



## FY2010 highlights

- Significantly greater focus on capital management
  - total net debt reduced by 45.4% to \$73.3m in three years since 30 June 2007
  - core bank debt at \$25m, 51% lower than FY2009 and 71% lower than FY2008
  - gearing at 42.3%, below last year's target of <50%, new target <45%
- Do not intend to convert capital notes for shares
  - capital notes to be redeemed for cash or rolled over (or combination thereof)
- 39.5 % total shareholder return
  - dividend payments resumed





# The legacy issues

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## Where we've come from

Situation in 2007:

- No clear portfolio strategy or defined investment approach
- A mountain of debt which was strangling the business
- Commentators and market waiting for us to fail
- Low investor confidence – particularly once dividends disappeared
- A sub-optimal share register
  - Strong cornerstone shareholder, but no institutional investors
  - Retail shareholders expecting a high dividend yield
- Weak governance
  - Low recognition of debt problem
  - Hands-off approach to subsidiary performance

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## Looking back ... 'the good old days' before 2007

- Strong economic growth supported strong Hellaby earnings performance
- Very high (100% NPAT) dividend payouts supported a higher share price
- Reasonably acquisitive period
- Sharemarket 'darling' based on share price and dividend yield, rather than coherent strategy ...

*but ...*

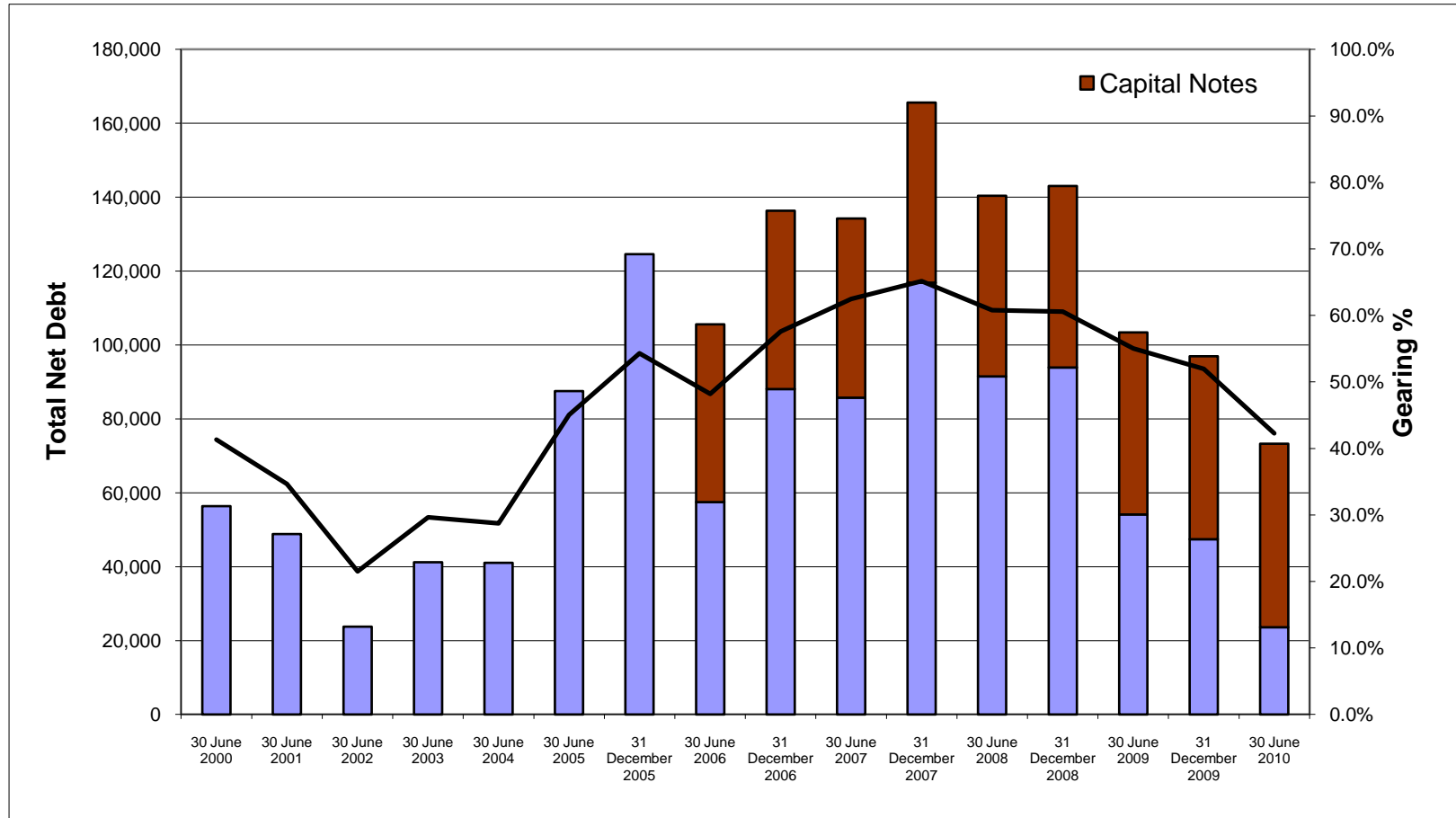
- Passive owner of assets, reasonably arms-length from subsidiaries
- Acquisitions and dividend payout required substantial borrowing
- Many acquisitions lacked a clear strategy or rigorous due diligence

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## What happened next ... Hellaby's debt mountain

- Total net debt increased from \$25m (2002) to \$165m (2007)
- Gearing (debt / debt and equity) increased from 20% to 65%
- Debt was funding low quality outcomes:
  - High dividend payout of \$88m cumulative between 2000-2006
  - BBQ Factory 2004 purchase price and subsequent value destruction \$50m
  - Working capital inefficient across most subsidiaries
- The entire \$50m capital notes was effectively sunk into BBQ Factory acquisition – and funding subsequent trading losses and write-offs
- By 2007 the market knew Hellaby's debt / gearing was a problem, and that BBQ Factory was failing ... Hellaby had lost market credibility
- Peak debt coincided with economic recession and earnings decline

## Debt and gearing





What we did

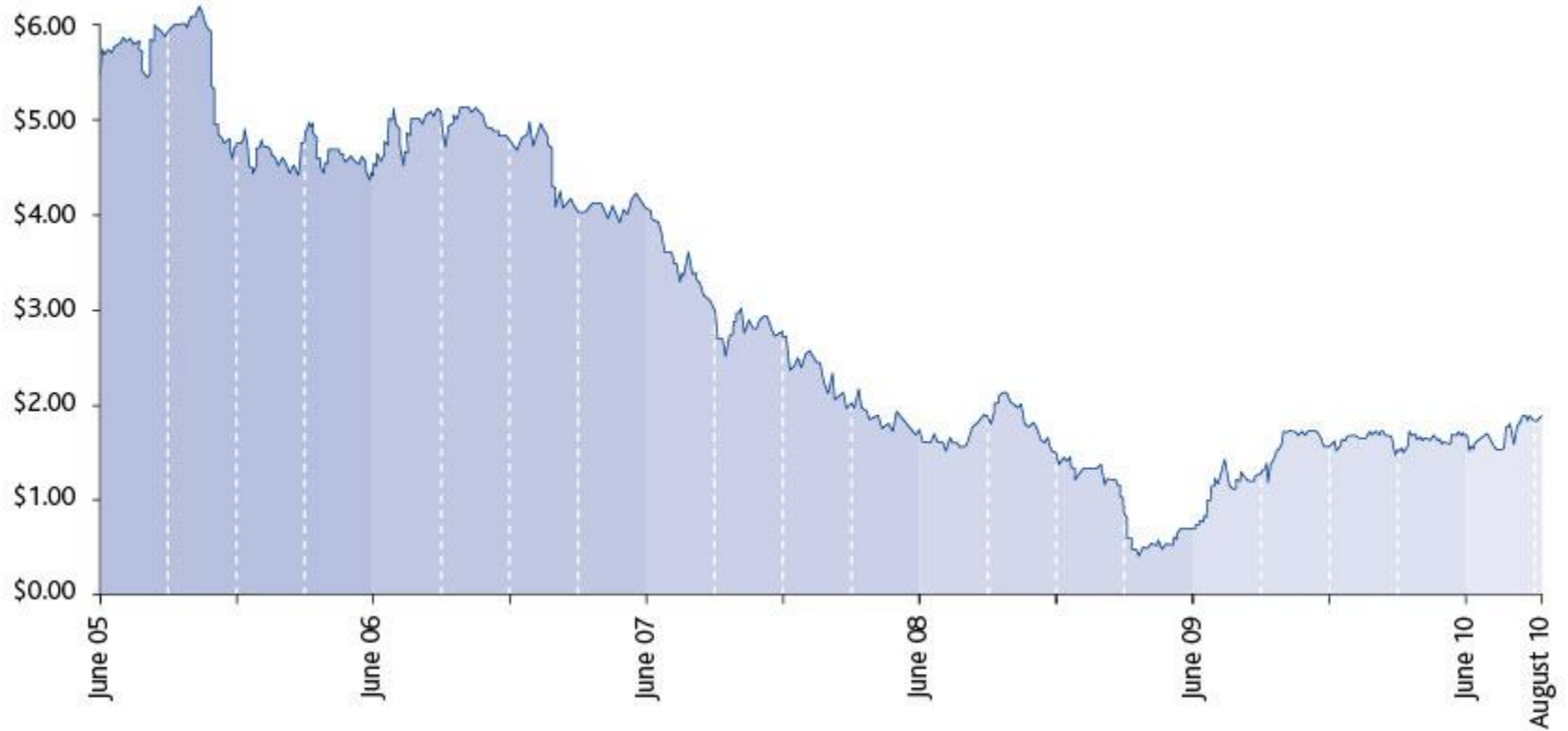
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## Survival mode from mid 2007 ... what did we do?

- Debt reduction - key immediate actions:
  - Working capital reform the most obvious opportunity
  - Focused on free cashflow generation
  - Sale of non-core Levana Textiles and Bombay Petfoods
  - Set more appropriate dividend policy – 50% NPAT
- Operational improvement – more efficient and accountable businesses
  - Behavioural change of Hellaby from passive owner to active manager
    - Closer working relationship with subsidiaries; monthly reviews, KPIs, visibility
    - Significant working capital focus quickened the culture change
    - Strengthened management capability
- Extricated Hellaby from BBQ Factory at a high cost to the company
- Developed a focused, consistent and honest dialogue with key stakeholders

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## Value destruction ... our shrinking market cap



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## What did the survival phase achieve?

- Balance sheet reform
  - Total net debt reduced by > \$90m in 30 months – a stunning achievement!
    - Largely driven through working capital reduction
    - Some contribution from smaller asset sales
  - Greater awareness of (and respect for) debt
- Continued bank support and subsequent capital notes flexibility
- Avoided potential forced break-up of the Hellaby portfolio, or heavily discounted equity raise
- Transformed operational performance and culture - subsidiaries much leaner than before
- Grudging respect from commentators for reducing debt the hard way

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## What were the big wins?

- Significant culture change across group – a new way of working
  - Passive → active; ownership and accountability
- Excellent management teams across our subsidiaries
  - Appointed commercially competent finance management
  - 20 new senior managers across top 50 managers
- An excellent Board
  - 4 of 5 non-executive directors appointed since mid 2008
  - Highly commercial and engaged; all have led businesses
  - Genuinely interested in subsidiary operations, performance and leaders
- A robust strategic framework has been developed
- Investor confidence - market takes us seriously again



Looking forward

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## Broader Hellaby goals for this financial year

- Consistent earnings improvement in each business
- Stabilise AB Equipment performance following restructure
- Rapidly improve Number 1 Shoes performance following restructure
- Target ROFE > 20% (EBIT / working capital and fixed assets) - our key KPI
- Fast-track selected organic growth projects across businesses
- \$28.4 million rights offer for greater financial flexibility
- At least one bolt-on acquisition
- Further improve investor confidence and shareholder returns

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## Our [evolving] longer-term vision

- Strategic framework developing – can now plan company’s future with greater confidence
- Want to be New Zealand’s best-performing investment company
  - Investment partner of choice
  - Active portfolio manager
  - Consistent performance improvement
  - Superior shareholder returns
  - Capital flexibility
- Will increasingly articulate our strategic framework to stakeholders

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## How are we going to get there?

Two broad strategies to achieve our future goals:

- ‘Managing our assets’
  - Actively managing our asset portfolio
  - Optimising subsidiary performance
  - Continued focus on working capital management and free cashflow
  - Buy, build and periodically harvest
- ‘Finding the money’
  - Developing funding avenues and a capital structure which enable us to grow

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## Capital structure

- Capital flexibility will be critical going forward
- Shares currently illiquid; long retail shareholder tail; few institutions / funds
- Current 3 : 7 rights issue will support Hellaby's future growth and enhance financial flexibility
- Adopting a more conservative capital structure – new target gearing <45%
- Capital notes maturity in June 2011 – no longer a concern
- Future long-term funding options for growth
  - bank debt
  - equity raise
  - cash from divestments
  - bonds

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## Culture : Defining our relationship with subsidiaries

- Decentralise leadership and performance accountabilities to subsidiaries
- We expect our subsidiaries to:
  - compete for capital
  - justify projects and expenditure
  - obtain buy-in for strategy and directions
  - have full responsibility for delivering against profitability targets
- Our subsidiaries can expect from Hellaby:
  - an active owner – working together to ensure appropriate returns
  - source of funding for growth
  - strategy partner – helping define and deliver growth / performance improvement
  - mentors – using our experience and knowledge base

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## Investment Strategy

- Clearer portfolio strategy developed over past two years
- ‘Buy, build and harvest’ investment strategy, with preference for long-term ownership
- Consider bolt-on acquisitions as sensible opportunities arise – provided acquisitions increase shareholder value
- Targeting organic growth opportunities with selected subsidiaries
- Investment most likely in automotive, industrial, and distribution sectors
- Challenge (and opportunity) will be to optimise portfolio mix and capital structure to deliver value to investors
- Elldex Packaging roll-up in 2007 indicates how current Hellaby team will act

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## Outlook

- Key issue remains sales demand
  - economic outlook remains subdued across retail, capital equipment and agriculture sectors
- Well positioned for continued recovery in trading performance
  - our businesses now so lean that better sales demand should swell profits
- Priorities for FY2011
  - still looking to improve sustainable earnings and return on investment
  - focus shifts to profitable growth
  - restore investor confidence in Hellaby, and consistently improve shareholder returns
- Growth is now critical
  - Improve profitability of Equipment and Footwear businesses - demand remains flat
  - drive organic growth in Automotive and Packaging subsidiaries
  - will soon have financial flexibility for bolt-on acquisitions

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## What are our key learnings?

- Active portfolio management better than passive, hands-off oversight
- The sharemarket is not always right – nor are banks
- Competent, focused, accountable management team and board is critical
- Focus on what you can fix in a turnaround
- A clear (albeit evolving) plan enables you to be bold
- Prior practical turnaround experience helps immensely
- Deal with under-performing staff and fill gaps with real talent
- Culture change requires constant reinforcement to avoid inertia
- ‘Lazy’ debt is insidious and free cashflow is gold
- Communicate with stakeholders and stay on message
- Beware *hubris* – no one is irreplaceable
- Turnarounds just get you to the starting line ...
- ... building better businesses is more fun – but significantly harder
- Sense of humour helps – but doesn’t generate free cashflow