

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

Presentation to NZ Shareholders Assn

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 will change over time

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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

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 ...

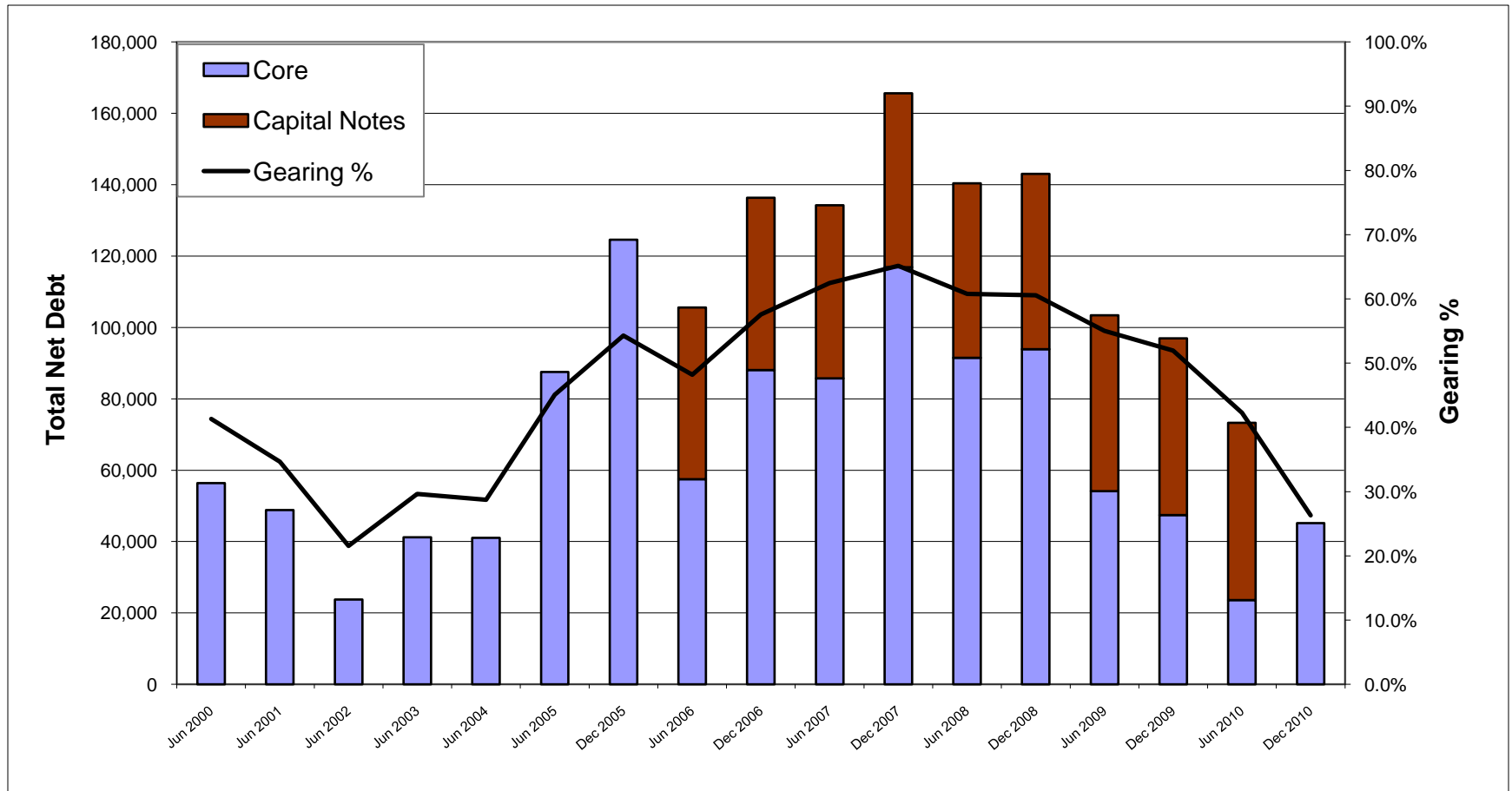
but ...

- 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

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



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 assets
 - set more appropriate dividend policy – around 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

What did the survival phase achieve?

- balance sheet reform
 - total net debt reduced by > \$110m in 3 years – a stunning achievement!
 - largely driven through working capital reduction
 - contribution from smaller asset sales, capital raising, profits
 - greater awareness of (and respect for) debt
- continued bank support and subsequent capital notes flexibility
- avoided potential forced break-up of the Hellaby portfolio
- transformed operational performance and culture - subsidiaries much leaner
- grudging respect from commentators for reducing debt the hard way

What were the big wins?

- significant culture change across group – a new way of working
 - passive → active; ownership and accountability
- better 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
 - genuinely interested in subsidiary operations, performance and leaders
- a robust strategic framework has been developed
- investor confidence - market takes us seriously again

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

Hellaby today



Hellaby today

- NZX listed investment holding company
- diversified range of NZ / Australian industrial, distribution, retail businesses
- portfolio in four divisions - Automotive, Equipment, Packaging, Footwear
- hands-on owner of assets – no longer a passive investor
- ‘buy, build, harvest’ investment philosophy
- long-term holder of assets; variable ownership horizon
- key focus is to generate total shareholder returns superior to NZX50

Hellaby today

- small, lean corporate office of 7 staff (2,300 employees across group)
- decentralise leadership and performance accountabilities to our companies
- new corporate leadership team since mid 2007 has successfully turned around Hellaby performance
 - streamlined the investment portfolio
 - reformed the balance sheet and gearing
 - developed tight financial and operational disciplines across subsidiaries
 - restored investor confidence

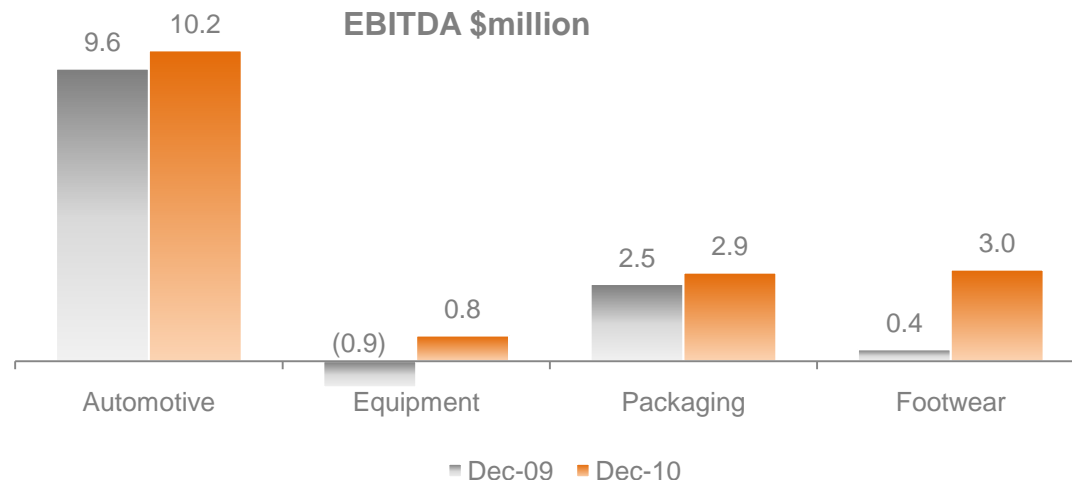
HY2011 performance highlights

- restructuring initiatives are bearing fruit
- strong profit improvement, despite flat sales (+2.0% on pcp)¹ in tough economy
- EBITDA up 51% to \$14.6 million (pcp \$9.7 million)
- NPAT up 138% to \$5.5 million (pcp \$2.3 million)
- total net debt down 53% to \$45.2 million (\$96.9 million at 31 December 2009)
- \$9.0 million free cashflow generated (pcp \$9.8 million)
- successful capital restructuring (\$28.4 million equity raising; \$50 million capital notes repaid)
- investor confidence continues to improve in line with performance

¹ pcp = previous corresponding period

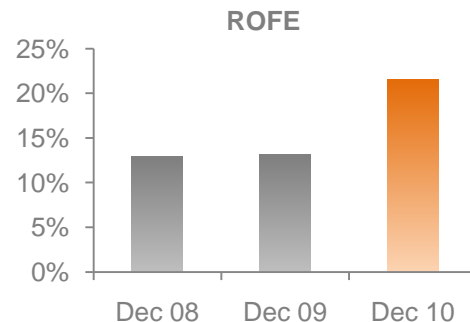
Earnings ahead in all divisions

- all divisions improved earnings despite impact of recession
- Equipment and Footwear results especially pleasing given tough operating environment in those sectors
- all subsidiaries have become leaner as a result of restructuring and working capital reform
- key priority has been to further improve profitability of Equipment and Footwear divisions



Performance objectives and achievements

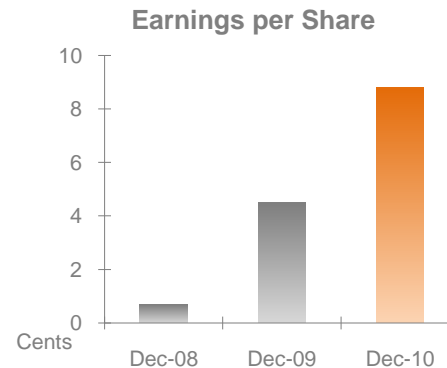
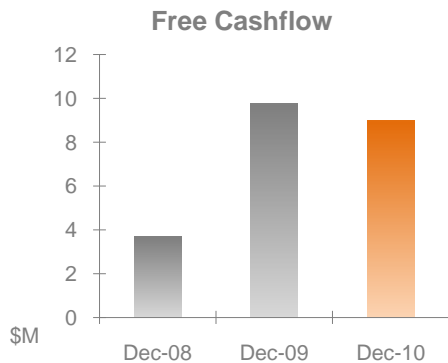
- Hellaby has developed minimum acceptable performance standards and clear internal targets
- primary goal is **value creation** to generate attractive long-term shareholder value
- achieve > 20% **ROFE** (return on funds employed)
 - group 21.6% ROFE for the period (calculated on a rolling 12 months) which exceeds ROFE target for first time in years



ROFE or return on average funds employed = trading EBIT as a percentage of average working capital plus fixed assets. Working capital includes inventory, debtors and creditors

Performance objectives and achievements

- strong **free cashflow** generation
- consistent **earnings per share (EPS)** improvement
 - 8.8 cents (fully diluted for 2010 rights issue)

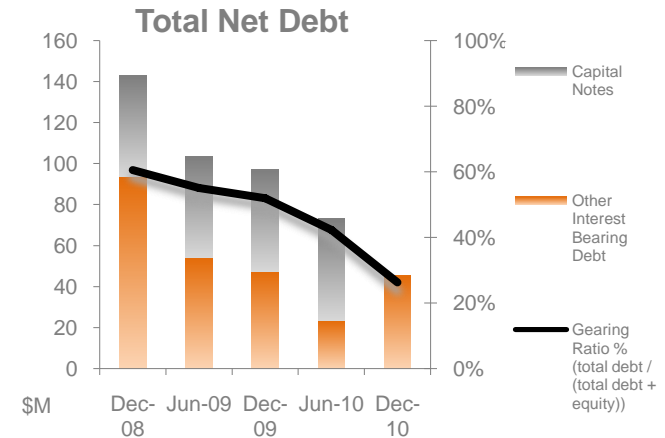


Free cashflow = cashflow from operations, less net operational capex

Performance objectives and achievements

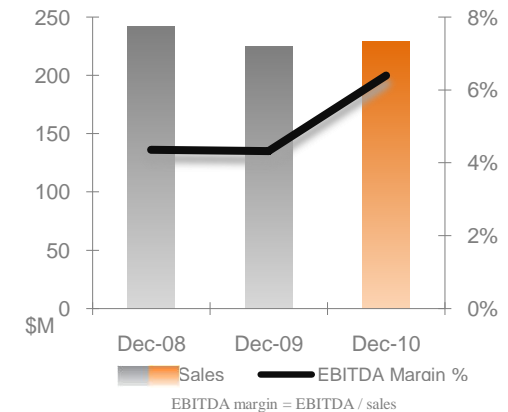
- < 45% **gearing** (total debt / total debt and equity) target
 - dramatic debt reduction over three years
 - significant working capital reform
 - \$50 million capital notes repaid early
 - 26.3% gearing at 31 December 2010

- consistent **EBITDA margin** (EBITDA / sales) improvement
 - margins still too low in Equipment and Footwear
 - group EBITDA margin 6.4% for period
 - targeting >7.0% EBITDA margin as next milestone



Total net debt = interest bearing debt including core bank debt, trade loans and capital notes

Sales & EBITDA Margin



Performance objectives and achievements

- consistently generate **total shareholder returns** superior to NZX50



- consistent **dividend payments** per company's dividend policy of around 50% NPAT
 - 4 cents per share, interim dividend, fully imputed

Strategy

- improve earnings reliability
- ‘buy, build and harvest’ investment strategy, with preference for long-term ownership
- target organic growth opportunities across subsidiaries
- pursue bolt-on acquisitions which enhance shareholder value
- future investment most likely in automotive, industrial, and distribution sectors
 - likely to target ‘unglamorous but profitable’ niches
- key goal is long-term value creation – portfolio will evolve over time

Outlook

- fundamental issue remains the flat economy and corresponding impact on sales
- group is well positioned for continued performance improvement
 - particularly cautious about trading conditions for Equipment and Footwear divisions
 - business impact of 22 February Christchurch earthquake unclear at this stage
- businesses so lean that higher sales demand should disproportionately drive profit
- priorities for 2011 calendar year:
 - further improve profitability of Equipment and Footwear subsidiaries
 - drive organic growth in Automotive and Packaging subsidiaries
 - further improve group margins
 - consistently improve investor confidence and shareholder returns
- now seeking acquisitions, but prepared to wait for right opportunities

Small Shareholder Plan (“SSP”)

- SSP aims to improve company’s share liquidity and efficiency of share register
 - large proportion of shareholders hold small parcels of shares
- SSP targets 4,450 NZ shareholders (60% by number) with 2,000 or less shares
 - eligible shareholders may ‘top up’ or sell all their shares (or do nothing)
 - company pays brokerage and registry costs
- SSP should reduce admin cost of long small shareholder tail
- closing date is 31 March 2011 (forms returned to Computershare)

Conclusion

- have addressed critical performance issues over past three years
- now in good shape to take advantage of opportunities that may come our way
- our businesses now so lean that better sales demand should swell profits
- still looking to improve earnings quality and return on investment
- economic conditions remain very flat
- we remain cautious about the trading conditions for our subsidiaries
 - profitability traditionally weighted to second half year period
- however Hellaby is highly leveraged to an economic recovery
- can now concentrate on developing platform for long-term value creation

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