



## **2005 ANNUAL GENERAL MEETING**

**Wednesday 28 September 2005**

**AGL Theatre, Museum of Sydney**

### **Chairman's Address**

#### **Introduction**

Good afternoon ladies and gentlemen and welcome to the 94th Alesco Annual General Meeting.

My name is Sean Wareing and I am your Chairman. I am pleased to be able to present to you a fourth consecutive year of record earnings per share (pre amortisation of intangibles and significant items).

Before commencing proceedings I would like to introduce my fellow Directors. You will see that we have two new faces on the Board this year and I am personally delighted that both Ern Pope and Jim Hall have joined the Board of Alesco and I welcome them to their first Alesco AGM.

From your left the Directors are Barry Jackson, Rob Aitken, David Scanlan, Ern Pope, Jim Hall and our managing director, Kevin Clarke. Also with us today are Justin Ryan the Deputy CEO, the Chief Financial Officer, Alan Fonseca and our Company Secretary, Luci Rafferty.

## Financial performance

Turning to the results for the year, as I said, I am pleased to present a fourth year of record earnings per share (before amortisation of intangibles and significant items) of 62.2 cents per share. This is an increase of 15 per cent compared to last year's 54.2 cents per share. In addition, net profit after tax increased 106 per cent from \$19.9 million last year to \$41.0 million and sales revenue rose to \$633 million up from \$482 million in the previous year.

As reported in my address in this year's Annual Report, our return on funds employed (ROFE) fell from 18.1 per cent to 15.9 per cent over the year and our return on equity (ROE) also fell from 15.5 per cent to 14.0 per cent. These ratios were affected by the acquisition of B&D as we anticipated at the time of the transaction. The acquisition EBITA multiple of 7.5 times implies a return of 13.3 per cent which is above our group cost of capital but is below the return on funds employed for the Group, excluding B&D. Over time, and particularly in light of the restructuring work currently being undertaken at B&D, we expect the B&D return to rise in line with the rest of the group. Excluding the impact of B&D, the balance of Alesco continued a five year trend of steady improvement in return on funds employed and return on equity.

This year, shareholders received fully-franked dividends totalling 45 cents per share for the year, up 36 per cent from last year. This reflects the decision of the Board to increase the payout ratio to a range between 70 per cent and 75 per cent of earnings (pre-amortisation of intangibles and significant items). The final fully franked dividend of 25 cents a share was paid to shareholders on 1 September 2005. Based on our current share price, this implies a fully franked yield in excess of 5.5 per cent.

Today's Alesco is substantially different to that of five years ago. Over the past five years the Board has developed and implemented a strategy of managing a group of businesses which have high market share and recognised industrial brands in specialist, or niche markets. This strategy has meant that we have actively acquired and disposed of businesses to ensure that our investment objectives are met and to ensure that shareholder returns are maximised.

Portfolio management was of particular importance and focus for Alesco in the past financial year. We started the financial year with our largest acquisition to date – the acquisition of the B&D Group for \$230million in June 2004. This was followed by smaller bolt-on acquisitions in the Scientific & Medical division, with the acquisitions of the Jacobs Medical Australia and Sensor Technologies businesses. In February 2005, Alesco acquired, Dominator International Limited, a New Zealand doors and openers business, complementary to the B&D garage door and opener business for a purchase price of NZ\$41.6million. I am pleased to report that these businesses are performing well and meeting our expectations in the first year of ownership.

In December 2004 an opportunity arose for Alesco to sell its automotive division comprising the Ingram and McLeod Accessories businesses to Repco Limited for \$90.5million. The sale was completed at a 2004 EBITA multiple of 9.6 times and has left Alesco's balance sheet relatively ungeared allowing us to focus on other acquisition opportunities.

### **Acquisition**

Earlier today Alesco announced that it has entered into an agreement with RMB Australia Holdings Limited and a number of other vendors to acquire the Concrete Technologies group for a purchase price of \$50million on a cash free/debt free basis.

Concrete Technologies is one of Australia's largest manufacturing, marketing and distribution businesses offering decorative concrete solutions. Its products have application in the residential, commercial and industrial paving and driveway markets, and with its complementary tooling and accessory products, is a one-stop shop for concrete applicators.

Concrete Technologies' strong industrial brands, diverse customer base and high market share meet Alesco's key acquisition criteria and are an ideal fit within Alesco's portfolio of businesses.

The purchase price equates to an EBITA multiple of approximately 7 times on the estimated 2006 financial year earnings. The transaction will be funded entirely by debt

and is expected to be accretive by approximately 2 cents per share to Alesco's 2006 earnings per share (on a pre-amortisation of intangibles basis).

Finally, I am pleased to report that in December 2004, Alesco's continued growth and performance was recognised by the inclusion of Alesco in the S&P ASX200. This is a significant milestone for Alesco and we are proud of this achievement.

On behalf of the Board I would like to thank all shareholders for the support and confidence that has been shown in Alesco over the years and, more particularly, for the continued support for the Company over the past 12 months. We believe that our strategy is working and that we will continue to deliver reasonable returns to our shareholders.

### **New appointment**

As many shareholders' are aware, Kevin Clarke's current contract with the Company expires in July 2006. Kevin has been CEO and Managing Director of Alesco for just over 10 years and, as announced earlier today, he has indicated that he intends to retire at the end of this term and to not seek a renewal of his appointment.

Kevin's influence on Alesco during this ten year period has been immense. Before joining Alesco, Kevin was Managing Director and part owner of Beacon Industries, an industrial valve and instrumentation business which was in a 50-50 joint venture arrangement with Atkins Carlyle (as Alesco was then known). In September 1995, Kevin sold his interest in the joint venture business to Alesco and was appointed Chief Executive Officer and Managing Director of Alesco.

Under Kevin's leadership, Alesco has developed from a commodity industrial based company into a specialized industrial brands company operating in niche markets. Kevin has been instrumental in implementing this strategy which has evolved, particularly over the last five years. In 2001, the Company's market capitalisation was \$90.4million. At May 2005 it had reached \$486.2million and currently stands in excess of \$550million. Earnings per share over the same period has grown from 32.1 cents per share to 62.2 cents per share. Total shareholder returns over a three year period is 120.39 per cent

compared to 49.84 per cent for the S&P ASX Small Ordinaries Accumulation Index and over the five year period 170.94 per cent compared to 63.10 per cent for the S&P ASX Small Ordinaries Accumulation Index.

On a personal note, I would like to say how much I enjoyed working with Kevin and I certainly wish him well for the future.

On behalf of the Board and the Company I thank Kevin for his outstanding achievements over the past 10 years and although Kevin will continue to be with us until July next year, I take this opportunity to extend our best wishes to Kevin on his retirement.

As a result of Kevin's decision, the Board announced earlier today that Mr Justin Ryan, who was appointed Deputy CEO in February 2005, will become Managing Director and Chief Executive on Mr Clarke's retirement. Justin's appointment will take effect on 1 June 2006 which is the commencement of our new financial year, with Mr Clarke remaining with the Company until July 2006. This timing allows for a smooth transition of responsibilities to Mr Ryan. I note, however, that in the meantime Justin will be appointed an executive director and Deputy Managing Director of Alesco effective from 1 October 2005.

Justin joined Alesco in January 2004 and played an integral role in the development and ultimate sale of the Automotive Division to Repco Limited in December 2004. In February 2005 he was appointed to his current role of Deputy CEO with direct responsibility for the Scientific & Medical, Construction & Mining and Kitchen & Laundry Component Divisions as well as chairing the Alesco Shared Services Committee. Prior to joining Alesco, Mr Ryan had a successful career as a senior executive with Catalyst Investment Managers where he led and managed a number of their key investments including B&D Doors, Pacific Brands and Taverner Hotel Group.

The Board is very pleased to be able to select the Company's next chief executive from within the senior ranks of the Alesco Group and on behalf of the Board I would like to congratulate Justin on his appointment.

The Board believes that it has a strong management team in place to continue Alesco's strategy of investing in strong industrial brands operating in niche markets.

Since Kevin will retire before the next AGM, today will mark his final appearance before you the Company's shareholders. In light of this, I think it would be appropriate that we show our appreciation of Kevin by acclamation.

### **Retirement of David Scanlan**

Over the past 12 months there has been a refreshing of the Board with a number of new appointments. These appointments have been made following an extensive review of our succession requirements and have been targeted to meet both our current and future demands and challenges.

As noted at the beginning of the meeting, over the past 12 months we have seen two new directors join the Board of Alesco as independent and non-executive directors: Ern Pope joined the Board on 1 December 2004 and Jim Hall joined more recently on 1 July 2005. Both Directors bring broad commercial and business experience and strong financial skills to the Board and I welcome both men to the Alesco Board. Shareholders will be asked to consider the election of both Mr Pope and Mr Hall later in the meeting and I note that the Board unanimously recommends the resolutions to shareholders.

As part of our periodical refreshing of board membership, in June this year, David Scanlan indicated that he would be retiring at the Annual General Meeting in September and would not be seeking re-election. David has been a Director of Alesco for nine years having served as the Chairman of the Audit and Compliance Committee for the past four years. His decision to retire is a reflection of our policy which provides that non-executive directors are expected to serve approximately three terms or a period of nine years and thereafter would be expected to retire at the next appropriate general meeting.

David has been an important part of Alesco's development during his nine years on the Board and, with Kevin, has overseen significant changes to Alesco over this time. On behalf of the Board and shareholders, I would like to thank David for the valuable contribution he has made to Alesco during this period.

I note that assuming that Jim Hall is re-elected later in the meeting, it is the Board's intention to appoint Mr Hall to the position of Chairman of the Audit and Compliance Committee effective from tomorrow.

### **Outlook**

The economic outlook for Australia in 2006 continues to be positive albeit at a slightly lower level than recent years. In relation to our Building & Renovation activities we have seen a softening in the new homes segment and relatively flat renovations activity but we do expect a soft landing and appear to be operating around the bottom of the cycle in the current period.

I am pleased to report that after the first quarter's trading which has been slightly ahead of budget, we remain on track to improve earnings at a single digit growth rate for the year. The acquisition of Concrete Technologies will improve our earnings by approximately 2 cents per share with the overall result still estimated to be at a single digit level.

### **Resolutions to be put to today's meeting**

I would now like to touch briefly on one of the matters to be put before shareholders today. The last resolution to be considered by shareholders relates to a new requirement under the Corporations Act. You will see that in this year's annual report, we have included a Remuneration Report. Among other things, this Report:

- explains the Board's policy for determining the nature and amount of remuneration of executive directors and senior executives of the Company;
- explains the relationship between the Board's remuneration policy and the Company's performance;
- sets out remuneration details for each Director and the eight most highly remunerated senior executives of the Company; and

- details and explains any performance conditions applicable to the remuneration of executive directors and senior executives of the Company.

Executive remuneration is a topical subject at present and the balance between motivation, retention and reward for executives continues to be a challenge for boards and shareholders alike. The Board believes that in order to implement Alesco's strategy it is important to have the right management team in place and to retain this team. To do this it is necessary for Alesco to meet market expectations in relation to remuneration. The Board works hard to ensure that it achieves the right balance between motivation, performance, reward and retention. Each year it benchmarks the remuneration paid to its executives and employees to ensure that it is at competitive market levels but is also aligned with shareholders interests in relation to Alesco's performance.

The Company submits its Remuneration Report to shareholders for consideration and adoption by way of non-binding resolution this year.

The Board recommends that shareholders vote in favour of this resolution as well as each of the resolutions relating to directors re-election being put forward at today's meeting.

These and the other formal proceedings will be held towards the end of this meeting.

I will now hand over to our Chief Executive, Mr Kevin Clarke, who will provide you with more detail on the activities and developments within the business operations. Following this, Kevin and I are happy to take any questions from you before the formal proceedings of the meeting begin. I also note that our auditors, KPMG, are also present to take questions on the 2005 Financial Report.

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