SKELLERUP HOLDINGS LIMITED
L3 205 Great South Road, Auckland 1051
PO Box 74526, Greenlane, Auckland 1546

Telephone +64 9 523 8240
Email ea@skellerupgroup.com

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Skellerup delivers robust result in challenging markets

Skellerup overcame challenging markets to deliver record earnings before interest and tax (EBIT) of $72.7 million, a one per cent increase over the previous record result.

Highlights for the year ending 30 June 2024

- Revenue of $330.6 million, down 1% on the prior comparative period (pcp)
- EBIT of $72.7 million, a record result, up 1% on the pcp
    - Industrial Division's EBIT of $46.9 million, a record result, up 9% on the pcp
    - Agri Division's EBIT of $30.7 million, down 10% on the pcp
- Underlying net profit after tax (NPAT) of $50.0 million, down 2% on the pcp
- NPAT of $46.9 million, after deducting a non-recurring, non-cash tax charge required for the change in legislation in New Zealand to remove tax depreciation deductions on buildings
- Operating cash flow of $70.8 million, a record result, up 31% on the pcp
- Net debt of $15.4 million, down 43% on the pcp
- Final dividend of 15.5 cents per share (cps) (50% imputed), bringing the total FY24 dividend to 24.0 cps (50% imputed) for the full year, up 9% on the pcp

Group
CEO Graham Leaming said the Skellerup team had delivered robust results, amid challenging global economic conditions. "Operating earnings and cash flow were both record results, reflecting the strength and breadth of our business model, quality of customers and the focus and contribution of our global team. FY24 EBIT was $72.7 million, a one per cent improvement on last year's record result and FY24 operating cash flow of $70.8 million was up 31 per cent on last year."

Leaming added, "Revenue and earnings growth from new and existing products in industrial applications more than offset a lower result from products we sell into Agri applications. We maintained an unwavering focus on meeting customer needs, continuous improvement in our facilities and managing costs while investing in development and capability for new products and future growth."

Higher interest rates and an increased tax rate caused Underlying NPAT to fall by two per cent from the prior year's record to $50.0 million. Skellerup also recorded a non-recurring, non-cash tax charge required for the change in legislation in New Zealand to remove tax depreciation deductions on buildings. This one-off charge reduced NPAT to $46.9 million.

Industrial Division
The Industrial Division's EBIT was $46.9 million, a record result and up nine per cent on the pcp. Revenue was $226.2 million, up four per cent on the pcp. Increased sales into wastewater, hygiene, roofing and construction applications, particularly in the US market, were key drivers of the fourth consecutive record result in FY24.

Leaming noted, "Our Industrial Division generates more than 85 per cent of its revenue from international markets. A highlight in FY24 was one of our customers successfully launching a new hand sanitiser product. Our team delivered the pump assembly, integral to the operation of this product. It was exciting to see their work rewarded and generate significant sales for Skellerup. More broadly, our strategy of targeting a range of demanding applications continues to be proven with a robust year across the Division. In addition to growth in wastewater, roofing and construction applications, we enjoyed increased sales into potable water and appliance applications following customer destocking in the prior year. The exception in FY24 was our high-performance U-DEK® marine foam, where a global slowdown in demand exacerbated by our customers holding relatively high levels of inventory caused a sharp reduction in our sales in international markets. Pleasingly we saw an increase in the final quarter of FY24."

Agri Division
Agri Division EBIT was $30.7 million, down 10 per cent on the pcp. Revenue was $105.3 million, also down 10 per cent on the pcp. Destocking by international dairy customers, the timing of demand in the New Zealand dairy market and lower footwear sales in the second half of the year impacted on the result.

Leaming explained, "Our Agri Division remains a world leader in the design and manufacture of essential consumables for the global dairy industry and the design and manufacture of rubber footwear for farming and speciality applications including electricity, fire and forestry. As the COVID- and supply-chain-related disruptions of the preceding two years abated, we were negatively impacted by international dairy customers reducing inventory levels and restructuring costs of $0.8 million in the first half of FY24. As anticipated, the second half saw an increase and return to normal ordering patterns from international customers. In New Zealand, sales in the fourth quarter of FY24 were lower than expected as farmers milked longer, delaying maintenance. Footwear sales into international markets grew, but sales in New Zealand in the second half were lower than expected, impacted by tougher economic and more benign weather conditions than experienced in the pcp. While the market situation created a tough year for Skellerup, we focused on and achieved productivity gains and tightly controlled costs to help reduce the impact of lower revenue on EBIT."

Investment and Growth
We are well positioned and resourced for future growth. During FY24 we have made important investments in equipment, people and facilities.

To meet immediate and future customer requirements and production needs, we built a medical-grade cleanroom at our liquid silicone rubber manufacturing facility in the US, and we installed collaborative robots and new presses in the US, China and Europe. We have continued to invest in advanced equipment in New Zealand to improve productivity and refine the standardisation and therefore mobility of production capability. In October we will relocate one of our US distribution facilities to a larger, better located site to meet the growth we have achieved and expect to continue to achieve in this market.

We have strengthened our product development teams. In Christchurch, our team is critical to our global Agri business. We have been gradually building to enhance the inhouse capability to both design and fabricate products and tooling for original equipment manufacturers (OEMs) and branded markets as well as ensuring we can integrate new equipment and improved processes into our operations. In Auckland, our team has been central to the growth in the US market over the past decade. We have upgraded our facility and laboratory to support growth in engineered elastomer, plastics and liquid silicone applications.

Leaming commented, "The consistent thread across our Group is our unwavering focus to understand customer needs and use our deep expertise in material science and our capability to combine different materials, rapidly build and deliver prototypes, and to manufacture precision products in a scalable way. We also continue to invest in our systems to provide us with the information we need and ensure we are agile and make good, fast decisions to create new opportunities to grow Skellerup's business."

Financial Position and Dividend

Chair John Strowger noted the FY24 result was a very favourable outcome given the global economic environment and a testament to the contribution of the global team.

"We are not immune to the economic cycles, but our business model and results demonstrate we navigate them well. As previously noted, the intellectual capability of our people is as much an asset of the Group as the bricks and mortar which are reported on our balance sheet. We have lasting relationships, and this long-held trust helps create new prospects. Customers value the deep expertise we consistently deliver, providing a steady pipeline of opportunities for growth."

Strowger also highlighted the robust financial position of the business. "Record operating cash flow means we have further reduced what was already a low level of debt. We continue to consider this a distinct advantage, ensuring we make the right decisions for the business in the medium term rather than compromising due to external constraints. It enables us to distribute a healthy proportion of our earnings to shareholders too. The Directors are very pleased to announce a final dividend of 15.5 cents per share, imputed to 50 per cent, which takes the full-year dividend to 24.0 cents per share, a nine per cent increase on the prior year. The final dividend will be paid on 18 October 2024 with a record date of 04 October 2024."

For further information, please contact:

Graham Leaming
Chief Executive Officer
021 271 9206

Tim Runnalls
Chief Financial Officer
027 807 5080