

**SKL FY23 ASM Chair Address**

Turning now to my address to Shareholders in relation to FY23 highlights.

The obvious highlight is the achievement of another record -breaking net profit of \$50.9 million, on \$333.5 million of revenue.

The slide which Graham has just dialled up behind me details some of the metrics over the last seven years; it's a record we're proud of.

This was founded on the usual pillars you've now heard about many times from us.

We still look to work closely with our customers to identify and develop enduring solutions to their commercial problems.

We are still supplying stay in business componentry to a range of customers in agricultural and broader industrial applications.

We still supply critical componentry to our OEM customers, which – once embedded in their products – is very hard to shift.

None of this ever happens overnight. Winning a customer's confidence for the supply of critical componentry to its business takes time - often, a lot of time. Success can arrive gradually around here, but once it does it tends to be sticky.

This is not to suggest that any of this is taken for granted. It never is. In this world of constant change, stopping is not an option.

We've told you before about the intellectual capability which is our outstanding team – many of whom are sitting in front of me, and whom David will introduce shortly. As I note in my annual report review, the capability of our people is as much an asset of the Group as the bricks and mortar – and (according to some people) leases – which are reported on the balance sheet.

In FY23 the key recurring themes (and challenges) for us were cost escalation, destocking and working capital management.

On cost escalation, input costs including natural and synthetic rubbers – a key manufacturing input for us - continued to escalate, and then were slow to abate.

Freight costs and capacity shortfalls did not uniformly ease off - as an exporter to (and around) the world, Skellerup is a significant purchaser of freight services. We have people dedicated to managing this cost item - at times it feels like we are a logistics company, without a revenue line. I'm pleased to say we are experiencing some relief in this area now, but for most of the year FY23 bore the brunt.

Wage pressure rose in response to inflation pressures, across the Group. We all know about that.

We have looked to pass on these costs increases to our customers, where possible. The record net profit reported might suggest that that's been successful, but it's not as simple as that. As David will explain further, we continually look to refine our manufacturing processes for cost savings through process efficiencies and look for opportunities in product lines with improved margins – we have made progress, but the quest continues!!

Turning to the phenomenon, which is destocking, it turned out that Covid, for our business like many others, delivered a sugar hit of early revenue as our customers – responding to the same freight and logistics challenges we were experiencing throughout the pandemic - brought forward orders to mitigate the risk of shortfall in stock or critical components.

This was particularly obvious in first half of FY23 financial year – in February this year, we reported a first half net profit of \$23 million, which was actually down on the result for the same period in the previous year. So there has been significant catch up going on.

Also, and while we enjoyed the initial uplift in orders brought forward by Covid, it has frankly proved difficult to predict demand going forward. Our experience has been that some pockets of customer demand has been extremely lumpy, and this experience continues.

Of course, we are not immune to the circumstances that motivated customers to pull forward orders. We had to do the same, and so the level of working capital we had to carry increased materially, peaking around the half year for FY 23. We were back to satisfactory levels, after a concerted focus, by year end.

We have kept a rigorous eye – of course - on the Receivables position and stock obsolescence, and are confident we are in a good position, but – it’s something that required heightened attention.

It helped that we are not carrying high levels of debt. This meant we can make decisions in relation to the business that are not influenced or compromised by capital constraints or financial covenants. And we can distribute a high proportion of free cash flow in the form of dividends to shareholders – as we should. After all, you are the owners. The full dividend of 22 cents per share paid in respect of FY23 is a record.

Before I turn briefly to the year ahead (which David will cover in more detail), I’d like to touch briefly on a governance question, which we seem to encounter year after year here at Skellerup – and that is the weighty issue of director independence. As noted in our annual report, your Board considers that status of all directors from a perspective of independence annually having regard to the NZX Corporate Governance Code and Listing Rules. At its essence the rules require a consideration of “factors might interfere with each director’s capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the company and represent the interests of shareholders generally (I’m paraphrasing from the Corporate Governance Code here).

The Code lists factors which may be relevant to this determination. These factors include holding a significant shareholding in the Company, connection with a professional services firm which delivers services to the Company, and directors with a long tenure.

All of these factors have had or do have possible application to the Skellerup board. We have considered these factors having regard to the objective – the point - of these disciplines, which is the ability to exercise independent judgement, and act in the best interests of the company and its shareholders. We have determined that all directors are independent, with the exception of David Mair, of course We are very comfortable that the standards of independence and decision-making integrity are not compromised by that conclusion.

We are however aware of certain commentators and agencies that seem to misread the above factors are determinative of non-independence. For example, if you are a large shareholder, you can’t be independent.

We do reject that line of thought. The concept is (and ought be) a more sophisticated one than that.

I mention this because it is a consideration we seem burdened with every year, and I wanted to record my position on this topic. This is not an academic point; we have proxy solicitation houses

making voting recommendations based on their classifications of independence. For example, and as a consequence of classification as a “non-independent” based on my former role as a partner of our legal service provider, 31% of votes cast in respect of the resolution securing my re-appointment in 2021 were cast against. This despite me having no involvement in (or even awareness of) the provision of these legal services and – fortunately – the quantum of fees paid to my former firm being immaterial, and so translating to nil pecuniary advantage to me.

Your entire board takes a “special interest” in Skellerup - the ethos of the business, and its proud history, really does get under your skin.

Anyway - I feel better now.

Turning to the future, we do see FY24 as more of the same here at Skellerup. Perhaps it has always been this way – flashy initiatives are not for us. But if we could find a good fairly priced symbiotic business in a market where we have growth aspirations (that’s every market, but in particular, the US), we would give it careful consideration.

We are also looking to progress initiatives towards in market manufacturing – with 35% of our FY23 revenues there, the US is the obvious market.

Shareholders can rest assured that none of these initiatives will be pursued without careful thought and planning. Of course, there is nothing imminent here, but I wanted to articulate these goals to force us to review progress in a year’s time (even if there is none).

Another initiative that looms large for your Board in the forthcoming year is ESG reporting requirements, which become mandatory from FY24. We see this as an opportunity to be more transparent about current business practices at Skellerup, and as a catalyst to further change, where the potential for further improvement is identified. The initiatives we are undertaking in this area will challenge the status quo.

And of course, we will continue to forge enduring relationships with our customers in the Skellerup way – business as usual. The bedrock of Skellerup’s success. In that regard, there are product roll outs in significant markets for some of our customers which should underpin revenue growth this year.

Earlier today, we announced to the NZX guidance for the FY24 financial year of NPAT in the range \$50 to \$55 million. In doing so we noted the lower-than-expected sales in the Agri division year to date – that shouldn’t surprise anyone. The Industrial Division is, though, trading in line with expectations. We expect sales growth in both divisions in the balance of 2024 – noting we have 9 months to go. That’s a long time, and the global environment isn’t exactly stable. But this is our considered view of what the business will do, right now. That’s what guidance is supposed to be.

As I noted in the annual report, these year-on-year record years get increasingly hard to beat, and inevitably there will be a year when we do not, but shareholders will I’m sure appreciate that here at Skellerup we are (as has been said before) in this for the long haul. Our history is one of quiet achievement, and incremental (and sustainable) rather than flashy growth, as befits our origins.

I’d like to thank and congratulate the entire team at Skellerup for their contribution to the FY23 record result. We are the beneficiary of a loyal and stable workforce, including in the senior ranks.

It’s a comfortable experience for your board to report these record results to you, but success here genuinely has many parents.

Thank you for your continuing support in Skellerup.