

SKL FY24 ASM CEO Address

Thank you, John.

Introduction

This is the thirteenth Skellerup Annual Meeting I have attended. I remember the first, as it was just before I started with the Company. I was in the audience as an interested observer, at least I thought that was the case, until Sir Selwyn Cushing offered me the opportunity to comment on a shareholder question on foreign exchange. A good early test from Sir Selwyn, and now a few years later I am very pleased to speak to you for the first time as CEO of a Company that is in robust shape with a track record of strong earnings growth.

Today I will give you a summary of our business and strategy, recap on FY24 results, discuss current markets, our future and introduce you to some of the people critical to delivering future success.

Our Business

At a broad level there are four key elements of how we do business at Skellerup. On their own they are not unique but collectively we think they provide us with a competitive advantage:

- the applications we focus on;
- our approach to markets and customers;
- our business model and allocation of capital; and
- our business structure.

Sometimes Skellerup gets labelled as difficult to understand. We do not have a single hero product, or range, or customer upon which our success depends. We design and manufacture products for a wide range of applications (as shown on the screen and as you can see from the product displays).

This is not an accident; it is a deliberate strategy and enables us to exploit our deep technical expertise for maximum value.

While we consciously target a wide range of applications, we are not chasing every rainbow. We are focused on opportunities where we can create and capture value by applying our expertise for the design and manufacture of precision, high performance and conformance applications. In addition to developing and moulding complex parts, we integrate discrete parts and materials into products to reduce complexity, risk and cost for customers. Put simply we thrive on designing and manufacturing technically demanding products for demanding applications.

We are a global business. 80% of our revenue is derived from international markets. We have people and facilities in NZ, Australia, China, Europe, the UK and the USA. The US has been a market of particular focus due to the size of the opportunities and breadth of customers needing the technology we offer. Over the past 7 years, US revenue has more than doubled and we now have six facilities from which we manufacture and/or distribute product. Europe (including the UK), Australasia and Asia continue to be important markets for growth.

We have a consistent customer focused approach to development whether we are designing and making products for original equipment manufacturing (OEM) customers (for example components for tapware or equipment manufacturers) or branded products for industrial and consumer applications (examples include products for roofing applications and our rubber footwear).

We invest our resources in opportunities our customers are committed to. Practically that means us working to clearly understand the need and the value of our offering and ensuring conviction from the customer tangibly represented by a financial contribution to the development cost, and/or an irrevocable commitment for product.

Our global business is set up to be innovative, responsive and competitive. As noted earlier we have on the ground presence in the key markets of our customers. It is very difficult to grow without this. These teams of varying sizes are supported by development centers of which our largest are in NZ but we also have smaller teams across the world. Our manufacturing capability is a combination of our facilities in NZ, Europe, China and the US and contract manufacturing partners most notably in Vietnam. The combination of customer commitment to development that I spoke of earlier and manufacturing partners means our capital and development expenditure is relatively low, reduces the risk of projects failing and allows us to optimise allocation of financial and human capital.

We organise the Skellerup Group into business units (within two Divisions – Industrial and Agri). These business units generally align with a location and application focus. The leaders of these business units are accountable for growth and performance, and this is matched with authority that enables them to make decisions where customer requirements, supplier choices, resources and people needs are best understood. These business units draw and effectively contract with the expertise provided by our development centers. This structure has been and will continue to be a key plank to deliver growth and enables robust, regular evaluation and prioritizing of strategic initiatives and decisions around larger investments or commitments in capability (equipment and people).

Of course, the success of a proven model does not guarantee future success. We are and will make changes.

We are increasing collaboration across the Group. This does not detract from focus, rather it is a case-by-case assessment of where the most suitable skills are for the best opportunities. The recent development and launch of our Thriver Teat for dairy calves led by the Agri Development Team also used the expertise of our Industrial Development Team in Auckland.

We are also alert to the opportunity to better leverage the presence and knowledge of a Skellerup business in any location to service the needs of other Skellerup businesses, a less siloed approach than we have adopted in the past. An easy step is distribution, but opportunities also exist for manufacturing and converting.

FY24

The key elements of our business strategy and structure have helped reduce the impact of economic cycles on our business, and this is evidenced by the consistent growth in our earnings and cash flow over a prolonged period (as demonstrated in the graphs on this slide).

Focusing on FY24 and to repeat an over-used sporting analogy, it was a game of two halves. Higher-than-anticipated levels of customer destocking caused a lower-than-expected first half result, but this was offset by a strong second half across the Group, with the aggregate outcome EBIT of \$72.7 million, up \$1.0 million on the prior year and an eighth successive year of EBIT growth.

Non-recurring, non-cash tax charges related to the removal of tax depreciation on buildings was the primary driver in reducing net profit after tax (NPAT) below the previous year's record to \$46.9 million.

Another critical metric for Skellerup and any company is cash flow and in particular operating cash flow. In FY24, our operating cash flow was \$70.8 million, also a record result. The improvement in EBIT was complemented by continued good management of receivables and a planned reduction in inventory. We have a track record of strong operating cash flow enabling eight years of successive dividend growth, alongside investing capital to grow our business and keeping net debt at very low levels.

FY25

Looking now to FY25. We have had a strong start, with revenue and EBIT both ahead of the prior comparative period. Demand across our Industrial Division, with the exception of roofing and construction products in Australia has been strong. For the Agri Division, demand for dairy rubberware in international markets is much improved on a weak prior year comparative but partially offset by slower sales of rubber footwear impacted primarily by the NZ economic environment.

The nature of our business means we do not have long order books to provide certainty beyond the very near term. Global uncertainties persist and during previous US election cycles we have observed slower demand in the months immediately preceding the election day. Taking all these factors into account our best estimate at this stage is for FY25 EBIT in a range of \$52 million to \$57 million, as reported to the NZX earlier today.

Future

Looking longer term, how might Skellerup look in the future, say three years from now. Achieving higher revenue and earnings is a given and I have touched on items such as greater internal collaboration and leveraging existing operations but there are two further areas I would like to highlight.

The first is greater in-market presence. In recent years we have talked about the importance of this to ensure profitable market access and strengthen customer relationships.

We have made very good progress with developing a more advanced, standardised and efficient manufacturing capability for dairy rubberware products. We will soon have the capability and optionality to deploy this in-market, at a time we consider optimal, to best meet ours and our customers' needs.

In early 2025, we will open a facility in the Netherlands to meet growing demand for high-performance foam products for marine applications in Europe. We will deploy a proven business model which includes kit conversion, currently deployed in NZ and Australia.

The second area of change is likely to be a larger share of our revenue being derived from more integrated, or value-add products that combine components to deliver a more valuable proposition for customers.

Our vacuum system solutions are a fantastic example where we have continued to integrate additional elements, making our customers task of installation on a truck much faster and more cost effective, and increasing the value captured per unit of sale to Skellerup. We continue to see opportunities to build on this with the most recent integration being the inclusion of a water pump.

Another example in our Industrial Division is a foam dispensing pump for a global hygiene customer which incorporates 11 discrete components manufactured and assembled by us. Sales for this grew considerably in FY24. In the Agri business, we have recently launched a milking liner pre-loaded in a single use recyclable shell which greatly reduces the time required for the exchange of liners in the milking shed. Our team are working to take this a step further with a single use recyclable milking cluster.

All of these examples have a common theme – reducing complexity and cost for our customers – genuine value-add for them and value capture for us. We have other similar opportunities with customers that we are working on.

Our Team

I have discussed our business strategy and structure, recent results, the immediate outlook and the future. Our achievements and future ambition draw on the skill, tenacity and contribution of many people who are represented by a small but important group today that I will introduce now.

<introduce personnel>

These are some of the people who have been and will continue to be important contributors to Skellerup's success. I am excited about the ambition we share, and the collective skill, courage and capability to initiate and embrace change, to improve and grow our business. Please take the opportunity to chat to them if you have not already done so before the meeting.

Close

To close, whilst they know it, I express my appreciation to our Board for the commercial direction and perspective they bring. Their availability, engagement and experience are invaluable, ensuring robust debate and sound decisions to deliver the best outcomes for our future sustained success.

And a final thanks to all in attendance today, both in person and virtual. We appreciate your interest and investment in Skellerup. We are committed to continuing to apply ourselves to deliver critical products for customers and deliver excellent returns for you.