SKELLERUP

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

SKL FY24 ASM Chair Address

It is a pleasure to stand here once again in front of you and discuss another successful year for Skellerup.

Briefly – the numbers.

2024 financial year delivered a record EBIT for the Group of $72.7 million. Underlying NPAT came in at $50.0 million, admittedly just under 2023's record of $50.9 million, as a consequence of an increased tax burden and higher interest charges that shareholders will be very aware of.

And Skellerup's balance sheet continues to be very strong – we enjoyed record cash flow in FY24 of $70.8 million, a staggering 31 per cent up on last year. As a consequence, net debt is $15.4 million, 43 per cent down on last year.

The cumulative effect of all of this is that we have been able to pay a record total aggregate dividend for FY24 of 24.0 cents per share - 94 per cent of FY24 underlying tax paid earnings.

I said last year that records will be increasingly hard to beat, but the team has again, and this is clearly an excellent result in what are challenging market conditions in New Zealand, and indeed globally.

So that's the headline metrics, and in theory I could stop there. Another successful year. But there was quite a bit behind the numbers, in 2024.

Anyone who's followed Skellerup for a while knows we see ourselves as the quiet achievers - incremental growth, rather than bold quantum leaps which usually in my experience carry significant additional risks and can, just as quickly as they appear, reverse (or worse).

We got a bit more change than normal, this year.

The obvious change for the Group in FY24 was the shift at the top. After 14 years of exceptional performance and delivery of year-on-year record results, David Mair advised of his intention to leave Skellerup in February 2024.

The Board is, and shareholders ought to be, extremely grateful to David for his long and enduring contribution to the Group.

To repeat a few of the comments I made at the time of announcement of his departure (but which I think bear repeating in this forum, the first time I've had a chance to do so publicly, as opposed to via NZX announcements)

David has been an outstanding CEO. Over the almost 14-year period he has been in the role, Skellerup's reported EBIT has increased by more than 400%. [Behind me are 2 graphs describing EBIT and EPS growth over the term of David's tenure of this company]. Shareholders have been well rewarded by David's expertise, leadership and relentless drive for growth and improvement.

Customer-focused development, continuous operational improvement and careful allocation of financial and human capital are key elements David has instilled into Skellerup. David brings a laser intensity focus to everything he does in business, as anyone who has worked with him will attest. He challenges…everybody.

His success has rightly been recognised over recent years, and whilst I have previously remarked that our growth and performance are through the contribution of many, they have been expertly enabled and led by David.

So – thank you David.

David has agreed to remain on the Board, post his departure as CEO. Former CEO's on boards is not a model that works for every Company, but it will work for us. David has an invaluable deep institutional knowledge of Skellerup, its products, people and customers, which we were anxious to retain, while also ensuring his successor can bring his own perspectives to bear on the business (and continue the legacy, at the same time).

The inevitability of David's departure was of course anticipated by the Board, and both he and the Board have been focussed on ensuring we had a strong successor, in the form of Graham Leaming. Graham has been with us for a number of years and is a known quantity to the Board – as we are to him.

The transition from David to Graham, while in a sense momentous, has been seamless – the business genuinely has not missed a beat. And, I am already appreciating the subtle changes in perspective which Graham brings to the business.

The ease of transition has been a credit to both David and Graham.

At the same time, a group of talented and somewhat younger business leaders are emerging from within the Group. Looking at the depth of the bench we have real confidence that the future of Skellerup is very bright, in the medium and long term. Graham will introduce you to some of them, shortly.

I talked in my address to you last year of some of the supply chain management issues which we encountered in FY23 – uneven ordering patterns, and customer nervousness about the robustness of our supply chain. This has been the case this year too - sure, you can get containers out of New Zealand now, but we've all read about the Suez Canal. We are a long way from some of our key markets, and mitigation of this takes careful management.

To add to this, the world is becoming more isolationist. I do not need to tell shareholders about the direction of travel in respect of tariffs in North America (for a number of years now, our largest market by a significant margin). While most of our products are not subjected to punitive tariffs on entry into that market, the bottom line is that our business has sustained incremental (and increasing due to sales growth) tariffs rising to $3 million per annum into that market in FY24. We have been able to do that without compromising profitability. However, there can be no guarantee that this situation will continue.

In light of and to mitigate these factors, the Board has tasked senior management to investigate "in market manufacture" possibilities; some early initiatives have already been taken but there is significant potential to do a lot more. Graham will speak further about this shortly.

This will be an important change for the Group over the next few years. As with anything Skellerup does, we will be considered in our initiatives in this area. We will be looking to put a toe in the water – but although we will be cautious, the Board is absolutely clear that this is something that needs to be pursued.

Another part of the solution – which will address perceived supply chain fragility at least, if not the tariff position – will be to carry higher levels of stock in market.

Whatever the solution here, it seems inevitable that a higher level of working capital Investment will be necessary – and this will likely subject the business to additional cost. We will look to do this in a way which does not suddenly subject the business to significant additional costs which might jeopardise a continuation of the record performances that we aspire to, and which capital markets have come to expect. However, we also do need to ensure that the businesses is rightly configured for the long term. There is some need for reconciliation between those two slightly competing statements.

This year for the first time we have provided substantial Climate -Related Disclosure Reporting.

Being cognisant of the impact our activities have on the environment, treating our people well and working with parties who carry the same perspective is frankly nothing new. It has been integral to sustainably growing profitability as Skellerup has for many years. The development of our first climate statements has been a significant body of work that our team started working on early and has helped us better understand the risks and opportunities for Skellerup arising from the impact of climate change - and further inform the investment of our financial and human capital to design and manufacture products that our customers need and reduce the intensity of greenhouse gas emissions we consume in their creation.

In Graham's report, you will find the customary (for Skellerup) remarks about customer focused developments, and the integration of Skellerup manufactured components into OEM products with the consequence enduring and "hard to shift" relationships.

There is a temptation for the eyes to glaze over when reading these messages, but they remain as vital and jealously protected for us today as they were when David first conveyed these messages a number of years ago. These business practices are integral - and vital - to many things that we do. We do not take our relationships with customers lightly.

I touched briefly earlier on our low levels of debt. As I've said previously, we would be keen to find business acquisition opportunities which work for us in adjacent industries or markets, but until we do our dividend policy of distributing earnings to shareholders - the owners - will continue.

A number of market commentators have now noticed the strong historical earnings record which Skellerup has enjoyed, and the stability of earnings we've experienced. It is true that we do enjoy the stability which a diversity of product range and market geographies (suppliers and customers) can produce. However, there are no easy wins, and repeat business is never taken for granted.

The point here is that it takes considerable effort to maintain results, let alone to move steadily forward. It is a testimony to the senior leadership team and all our people that we continue to move resolutely upstream, despite the strength of the current against us, which has obviously not abated in recent years.

As always, I'd like to record the Board's appreciation to management and all of our people, for their contributions during the FY24. The continuation of success is not assumed, but shareholders can be assured that we will strive for bigger and greater things again in FY25. I also hope to be able to report to you in a year's time on some progress against some of what I've discussed above.

In the meantime, I thank you for your continued interest and support for this business, it's people and this Board.