

General meeting of Gabriel Holding A/S on 15 December 2022**Report of the Board of Directors**

by Jørgen Kjær Jacobsen, Chair

“I look forward to this time of year”. So begins the old Danish story “Peters Jul” (Peter’s Christmas), by Herluf Jensenius and Johan Krohn. At this time of year, I always look forward to presenting Gabriel’s report. This year is no exception and, on behalf of the Board of Directors, I am going to report on the 2021/22 financial year.

This time last year, I told you that 170 years had passed since Kjærs Mølles Fabrikker was founded as a manufacturing company. That was one of many milestones. In terms of milestones, this year is no less significant than last, because the 2021/22 financial year is the first time the Gabriel Group has been able to announce annual revenue above one billion Danish kroner.

Our assessment is that the global markets were stable during the year. Towards the end of the financial year the trend was slightly downward, with a fall in order intake. Generally, we have benefited from a broadly-based, reasonably stable market. Given those circumstances, the Gabriel Group delivers good growth rates.

That said, 32% organic growth exceeded even our most positive expectations for the year. The growth rates in the four quarters of the year were 32%, 37%, 46% and 12% respectively.

In Gabriel, a strong corporate model and organisation create the results. When the markets are stable, we create our own growth.

We stand by this simple formula, which we are happy to repeat. Year by year, Gabriel increases its sales activities. Specifically, we appoint new employees and constantly improve our sales organisation’s productivity, which we measure regularly. New products are continuously being added and Gabriel is seeking to enter new geographical markets.

Our target in Gabriel remains a minimum average annual increase in revenue and earnings of 15%. At intervals, this target necessitates acquisitions compatible with our mission statement, vision, strategy and policies.

We apply the growth formula accurately and systematically and it is working, because Gabriel is highly organised, with very able leaders and employees who execute the planned strategy.

Gabriel’s strategy is twofold:

- First, to be the leading supplier of furniture fabrics to the world’s 70 or so biggest manufacturers and distributors of contract furniture. This ensures that we grow with the largest customers, those with the greatest potential and the most financial muscle to acquire others.

And

- secondly, we develop with our customers. We are an innovative partner with knowledge and intelligence about the customers of our customers and the requirements and needs that must be met for them. Our supplies therefore also extend to the links in the value chain from furniture fabrics onwards. Today this embraces cutting, sewing, upholstering and assembly of furniture components and sound-absorbing screen solutions. Today, the many functions are present on several continents where they are competitive and where we are close to our customers. Gabriel is a global business, with all the complications and opportunities this brings.

Gabriel acts and takes charge in the context of a long value chain from raw materials to semi-finished products and finished components that are used in the end-products: furniture and other upholstered elements. To outsiders this may seem complicated, but logistics, quality and environmental management have been core processes at Gabriel for many years, which means these complex relationships are highly systematic.

We carry out the strategy and it is working.

At the end of the 2020/21 financial year, we expected to achieve revenue of the order of DKK 890-930 million and operating profit of the order of DKK 64-67 million for the 2021/22 financial year now closed.

After the first quarter, we saw that the conversion from potential to realised customer relationships was higher than expected and, on that basis, we upwardly adjusted our expectations for the year to revenue of the order of DKK 930-960 million and EBIT of DKK 67-73 million.

After yet another three months, the situation was the same: our sales development was great and the profit generation very satisfactory. On that basis we again upwardly adjusted our expectations, this time to revenue of the order of DKK 990-1,020 million and EBIT of DKK 73-78 million.

With revenue of DKK 1,065 million, equivalent to revenue growth of 32%, our expectations for revenue were fully met, whereas we have to admit that EBIT of DKK 64.9 million did not fulfil our ambitions for profit. The DKK 64.9 million represents an increase of 12%. Like many other companies in 2022, Gabriel was hit by unexpected increases in the prices of energy, raw materials and much more which were not fully compensated through adjustments to our selling prices. I will return to this subject a little later.

Earnings before depreciation, amortisation and impairment losses (EBITDA) increased to DKK 107.5 million (DKK 96.5 million).

As stated, operating profit (EBIT) increased to DKK 64.9 million. The operating margin was 6.1% (7.2%), while profit before tax increased by 37% to DKK 80.6 million.

Regarding profit before tax, it should be noted that the financial items during the past year resulted in net income of DKK 15.6 million, mainly due to an increasing US dollar exchange rate in the period. This is related to intragroup financing of the American and Mexican subsidiaries. It is fine when the dollar rises, but not when it falls.

From 1 October 2022, parts of the intra-group balances are presented as non-current receivables, which are treated as part of the net investment in the stated subsidiaries. In this way we avoid the big impacts on future income statements of a fluctuating dollar exchange rate. However, in future comparisons between the 2021/22 and 2022/23 financial years, this is expected to have a visible negative net effect on the financial items and on profit before and after tax.

Profit after tax increased to DKK 58.2 million.

The Board of Directors finds the results achieved satisfactory in the circumstances, and we continue to feel confident about the company's financial strength and documented competitiveness.

The Group's initiatives and investments in a number of key areas increased again in 2021/22. I make special mention of the following:

- Our global presence increased through the opening of showrooms in Asia, Europe and the USA.
- The production units were expanded during the year and also made major investments in new technology to increase capacity and productivity.

- In 2021/22, DKK 25.7 million (DKK 23.2 million) was invested in product development. Seven new fabrics were launched and two existing products updated. FurnMaster and Screen Solutions partnered with strategic customers to develop and produce new products directly for them.
- An average of 210 employees were employed in sales and product development as against 186 in the previous year.

These hard data document that the strategy is being executed consistently.

Thus, there is good reason to believe that Gabriel will continue to deliver revenue and earnings growth in the future. The Group has clearly defined and identified potential, the structure, skills and capital required to maintain high growth, and makes the necessary efforts every year.

Gabriel is maintaining its core processes and self-improving management processes. The management and Board of Directors have specific strategic goals and indicators that show whether their set strategy is being achieved. The approach is systematic and keeps the management up to date on whether planned strategic activities are taking place, with ever-increasing productivity.

The development in revenue potential for Gabriel's 70 or so strategic global customers is also monitored. These are customers who use and need contract furniture fabrics, upholstery processes, final assembly of large batches of contract furniture, and sound-absorbing screens and room dividers. The potential has been increasing in the financial year, mainly as a result of a strengthened position on the European market and continued development in the potential in the USA and Asia, despite the challenges posed by short-term market conditions.

We focus below on the financial results we achieved in 2021/22.

Gabriel published its annual report on 17 November 2022 and posted it on the company's website on the same date. The printed version is now also available.

Annual Report 2021/22

The sustainability report 2021/22 is available at www.gabriel.dk as are the other statutory statements.

Gabriel's sustainability report is of great and immediate interest. Read about the company's product development based on the future requirements for circular economy, including long lifetimes, product contents including recycled and recyclable materials and the use of renewable energy. For many years, sustainability has been an important parameter in Gabriel's DNA – an integrated part of the strategy contributing to Gabriel's continued and strengthened competitiveness.

As a listed company, Gabriel is also subject to the recommendations on corporate governance. We see our work on the recommendations as an important ongoing process. We consider them actively and report on them in the statutory statement on corporate governance.

Gabriel's statement on gender balance in the management is integrated into the statement on diversity policy this year. The gender balance in management is unchanged and the ambition is to reach gender balance. The target is simply to reach an equal gender distribution over time. The share of the under-represented gender was 25% for the Board of Directors, 0% for the Executive Board and 31% for middle management.

The Board of Directors and the Executive Board regularly evaluate the expertise required. The Group will continue its efforts to facilitate and foster this development for the purpose of meeting the goal of gender balance at all management levels.

The target of a gender-balanced management is not expected to be met for a long time, as the share of the under-represented gender will only increase when there is a need for change or expansion of the individual management levels.

We carry out a board evaluation every year to ensure we have the necessary expertise and functional internal collaboration, including with the Executive Board. This year the evaluation was facilitated by external consultants.

The main conclusions and results were that the Board of Directors and board committees have continued the positive development in respect of commitment, the required core skills and the sparring from and between board members and committee members, including between the Board of Directors and Executive Board. The evaluation also concluded that the Board of Directors continues to have skills and in-depth industry knowledge which support Gabriel's business-related and strategic goals.

Based on last year's evaluation and subsequent discussions on the Board of Directors, it was decided in 2021 to appoint a cyber-security committee to focus on IT-related business risks and cyber security and on the ongoing verification of the company's preparedness and initiatives. The management subsequently added digitalisation to the board committee's tasks.

The status as at today is that the following board committees are appointed in Gabriel Holding A/S:

- The audit committee
- The governance, remuneration and nomination committee
- The acquisition and property committee
- The cybersecurity and digitalisation committee.

Productivity

Our efforts to effect constant improvements in productivity, measured as the ratio between gross profit and costs, are central to the way in which the company is developing.

The key figure for staff costs was unchanged at 2.3. This is a result of the top priority given to continued business development and expanding our presence in a year when the increase in the contribution margin allowed an increased effort. The Group employed an average of 1,358 employees during the year against 1,163 last year. At the end of the year, the number was 1,351, of whom 984 work in production, 211 in sales and development and 156 in administration.

The key figure for other external costs decreased to 4.0 against 4.3 the year before as a result of inflation in our external costs.

We maintain our goal of increasing EBIT margin as one of the Group's overall financial goals. However, this goal was not reached in 2021/22, when the operating margin decreased to 6.1% (7.2%), because the Group's gross profit decreased to 32.5% against 36.4% last year.

The gross profit for the full financial year is negatively affected by increases in the costs of raw materials, components, carriage and energy which have not been fully compensated through adjustments to the Group's selling prices. Shifts in the Group's product mix and adjustment costs incurred must be added to this.

Throughout the year, management pursued a balanced strategy with ongoing adjustments of selling prices to reflect the substantial cost increases facing the Group. At the same time it was important to respect the long-

term partnerships forged globally by the Group over many years. We have acted with the usual integrity and respect with a view to the long term.

Our vulnerable point is still an increase in working capital. The main reason is that the activities of FurnMaster also increased considerably in 2021/22. This affects the working capital, which increased by 39% in the year to DKK 311 million.

We expected to reduce the working capital percentage in the financial year. However, the many new customer relationships and increases of inventories to ensure delivery capacity in the globally challenged supply chain situation meant that the relative working capital did not improve.

The corporate model in FurnMaster activities means that Gabriel takes over parts of the customers' inventories. The financial ratio for gross profit relative to working capital was DKK 1.1 per DKK 1 in working capital, against DKK 1.3 last year. We are working constantly to improve this situation.

Sales promotion

Key Account Management (KAM) is a core process at Gabriel. Investments in the KAM process have a clear pay-back period and increase the potential in all business units.

The KAM team initiatives are accurately measured relative to the key performance indicators – also referred to as KPI goals – specified for the area. Once again, an excellent, targeted effort led to resounding success in meeting the goals in 2021/22. Again, there was a productivity rise in sales promotion.

The sales manager is constantly seeking new ways of improving the impact of the initiatives, both directly in relation to selected strategic customers and indirectly, in relation to their branches, dealers and specifying levels.

In Europe, the sales work done and the strategic development of the sales presence ensured a highly satisfactory development in sales in the European fabric business. The Group's European sales presence was expanded during the year, including by further developing the sales partnership with the company Ege Carpets. This partnership was initiated with shared showrooms in Copenhagen, Stockholm and Oslo, where textile design solutions are central to professional advice and inspiration. The partnership is expanded continuously and supplements the Group's own establishment strategy, the next steps of which in Europe are a showroom in Madrid and expansion of the presence in London.

In Asia, the current ten offices and showrooms form a strong base for regional development and the sometimes restricted freedom of movement can be overcome through a good local presence. In the USA, the regional head office in Grand Rapids forms a strong base for the Group's development partnerships with the leading American players. The well-established showroom in Chicago will be supplemented by a new showroom in New York at the beginning of the 2022/23 financial year.

The KAM process is being executed effectively in close and systematic interaction with Gabriel's other core processes, i.e. logistics and process and production innovation.

The Group's FurnMaster business unit realised big growth rates and contributed an important share of the revenue growth for the year. In 2022, FurnMaster comprises upholstery units in Lithuania, Poland and Mexico, all of which grew significantly during the past year.

The SampleMaster business unit, which develops, produces and sells sales promotion materials, carried out planned investments in sales, product development and production and realised a satisfactory increase in revenue.

In the current 2022/23 financial year, an increase in the sales organisation and global presence will again be a fundamental parameter in our growth strategy.

Product development

Gabriel launched seven new core products on the world market in 2021/22. New products are constantly entering the various phases of development, which are primarily coordinated and aligned with strategic customers. This increases the accuracy and the speed at which new products are launched. Market penetration time for new products and components is quite long, as we face different requirements for documentation and different habits too.

Our own requirement for the product portfolio is that over 30% of revenue should derive from products launched less than five years ago. New products accounted for 33% of revenue in 2021/22.

After failing to meet the target for a couple of years, it is satisfying to see that the flashing amber light is now off. Our target is ambitious and affected in periods when products generating high revenue pass the five-year limit and have to be compensated for by the newer products.

The area requires a constant and systematic effort and full attention at management level, which is what Gabriel's management skilfully provides.

The logistics process/price competitiveness

As in previous years, logistics and securing strong competitiveness were top priority core processes in the financial year now under review.

Back in the period 1998 to 2008, Gabriel outsourced all processes in the then fully vertical furniture fabric production. In recent years, production has made its comeback to the Group as a concept under the logistics process, in part as a result of the establishment of FurnMaster, the acquisition of the FurnMaster unit in Mexico and the purchase of our long-standing Lithuanian partner BTC.

We have a strong global production set-up and are particularly pleased with it this year because, combined with skilful effort, it has enabled Gabriel to meet the increasing needs. We have also been hit by increasing prices of components, raw materials, chemicals, energy and carriage but have overcome them satisfactorily. This is one of the strengths of the Group's process-oriented method of work.

Key facts from the income statement and statement of financial position

The company's auditor will discuss the most important items in the accounts under the next point on the agenda.

But, first, we should compare the actual results for the year with Gabriel's general financial targets.

Gabriel aims to achieve:

- A return on invested capital (ROIC) of at least 15% (15.3%) before tax
- An increase in operating margin (EBIT margin) – from 7.2% to 6.1%
- An average increase in earnings per share of at least 15% (26%)
- An average increase in revenue of at least 15% (32%).

Although one of the four main targets was not met, the Board of Directors finds the results satisfactory in the circumstances.

This takes us to the property portfolio

For a number of years we have commented on our head office premises here in Aalborg. This year the subject is quickly covered as the sale process is still on hold.

Dividends again this year

With an equity ratio of 41%, a satisfactory cash flow and good capital resources, the Board of Directors finds it responsible and appropriate to propose a dividend of DKK 10.75 per share, equivalent to a payout ratio of 35%.

Gabriel's market price closed at 515 at the end of the financial year, compared to 630 at the same time in the previous year. Around noon today, Gabriel's share price was 535.

In keeping with tradition, the management does not comment publicly on the Group's market price.

Gabriel's remuneration policy was approved at the general meeting in 2020. It sets the overall framework and guidelines for remuneration of the Board of Directors and Executive Board. We continue to believe that, in the given framework, the remuneration policy contributes to Gabriel's business strategy and long-term interests. There have been no deviations or derogations from the framework provided by the policy in the 2021/22 financial year. The remuneration report is presented for a consultative vote today.

Adjustments are proposed to the policy, however, which will be put to a vote later today. As always, the current version is available on the company's website

As a consequence of the change to the policy, an adjustment of **Gabriel's remuneration of the Board of Directors and committees** is proposed, in accordance with the overview accompanying the notice of this general meeting.

In conclusion, I sum up 2020/21 as follows:

- Yet another revenue record and an increase in earnings were achieved in the financial year.
- Gabriel thus realised organic revenue growth of 32%.
- Operating profit (EBIT) increased by 11%.
- Gabriel executed its strategy and implemented all its planned increases in development and sales activities.
- Gabriel's global structure with three axes (America, Europe, Asia) was retained, consolidated and, in a few places, expanded.
- A dividend of DKK 10.75 per share will be paid.
- Gabriel's share price decreased by 18% to 515 in the financial year and is now 535.
- Management believes that revenue and profit in the coming 2022/23 financial year will continue to be challenged by the international political situation, energy supply and inflation and the resulting market and logistics challenges and uncertainties.

- On this basis, management expects revenue of the order of DKK 1,000-1,100 million and operating profit (EBIT) of the order of DKK 50-60 million. Management notes that a higher than normal level of uncertainty, resulting from geopolitical challenges, surrounds the expectations for the year.

The Gabriel fruit tree has grown and stands firm in good soil and a temperate climate.

It has been cared for with a view to ensuring a good new harvest in the current 2022/23 financial year and the years that follow.

Against this background, I offer a big thank you to all employees, managers and the executive board for their hard work. I would also like to thank my colleagues on the Board of Directors for their fine and constructive teamwork.

With these words I conclude the report of the Board of Directors. Once again I am very pleased with the past year, in which Gabriel again delivered a fine result and invested in the future by increasing its initiatives.

Thank you for your attention.