Gabriel

General meeting of Gabriel Holding A/S on 10 December 2020

Report of the Board of Directors

by Jørgen Kjær Jacobsen, Chairman

Every year I look forward to presenting Gabriel's report and, despite the circumstances, this year is no exception.

Covid-19 has set the agenda throughout the world and our general meeting reflects its impact. Normally it is an occasion when many shareholders meet the management and employees. There are both a formal programme and opportunities to network and see new products etc. This year will hopefully be the only time it is not possible to gather for the annual general meeting here in Aalborg.

Fortunately, in Gabriel we note that the company has grown bigger and stronger despite the special challenges posed by the pandemic in the second half of the financial year. I would like to elaborate on this in my report.

At Gabriel we have the realistic ambition that the company should grow, both organically and through acquisitions that can add new potential to our core business. The ambition is realistic because we know that we continue to show growth in line with the increasing benefits to our major, strategic customers of working with us. We know that the same customers continue to offer great potential. We are trading with the largest market participants. The largest are growing.

We must be pleased with growth of 3% although this figure is far from the target set. The first six months of the financial statements generated record revenue after growth of 22%, but the outbreak of the Covid-19 pandemic put an effective stop to that development.

Countries under lockdown, curfews and other obstacles meant that the company realised a decline of 22% in the third quarter, without being able to fundamentally influence the situation. In the fourth quarter, lockdowns were replaced by better-functioning economies, but at a lower level than in the previous year. Gabriel therefore realised a 10% decrease in revenue in the fourth quarter.

A cautious assessment is that, in our second half-year, the office furniture industry on our key markets experienced a decline averaging around 30-35%.

The reasons why the situation was not quite as bad for Gabriel are our strong corporate model and strong organisation. When the markets are stable, we create our own growth.

The formula is simple. Year by year, Gabriel increases its sales activities both by appointing new employees and by constantly improving the sales organisation's productivity, which is measured regularly. New products are increasingly being added and Gabriel is seeking to enter new geographical markets – especially in Asia. In addition, acquisitions are a means to achieving the Group's target of average annual growth of at least 15%. Acquisitions, naturally, must make sense in terms of our vision and strategy.

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.

- Second, we also develop with our customers. We are an innovative partner with intelligence and knowledge 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.

We carry out the strategy and it is working.

At the end of the 2018/19 financial year, we had expectations that we could achieve growth in revenue of the order of 10-20% and a 10-15% increase in profit before tax in the 2019/20 financial year, now closed.

With revenue growth of 3% and an approximate halving of profit before tax, we note that our ambitions for the year were not fulfilled. The reason is the Covid-19 pandemic.

Operating profit (EBIT) decreased to DKK 41.9 million, and the operating margin was 5.8% (8.7%).

Profit after tax decreased to DKK 25.0 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 2019/20. I make special mention of the following:

- In 2019/20, DKK 22.1 million (DKK 17.7 million) was invested in product development. Eight (ten) new fabrics were launched and two (two) existing products updated.

  FurnMaster and Screen Solutions developed and produced new products directly for, and in partnership with, strategic customers.

- In December 2019, Gabriel A/S acquired the share capital in the German textile solutions manufacturer, Visiotex GmbH.

  Visiotex is recognised in the industry for innovative textile solutions, in particular a technology which allows a seamless process of design and production of textile solutions with built-in functionality, without any subsequent cutting and sewing. Sales, development and production are now integrated in the Group.

- In February this year, Gabriel took part in the Scandinavian furniture fair in Stockholm and presented new products – including from the acquired company Screen Solutions. The response was definite and positive.

- An average of 126 employees were employed in sales and product development as against 117 in the previous year. Sales and development employees account for 69% of total staff costs, exactly the same as last year.

- Gabriel's global presence expands every year and although we did not tick off any new countries on the world map this year, our sales offices, production facilities and distribution centres were further developed.

Thus there is good reason to believe that Gabriel will continue to deliver revenue and earnings growth in the future. The Group has 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 the short-term market conditions.
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We focus below on the financial results we achieved in 2019/20.

Gabriel published its annual report on 12 November 2020 and posted it on the company's website on the same date. The printed version is now also available.

- Annual Report 2019/20
- The sustainability report 2019/20 is available at www.gabriel.dk.

Gabriel's sustainability report is interesting reading. Among other things, readers can see how many years' efforts have resulted in Gabriel becoming carbon-neutral and how we work towards the UN's Sustainable Development Goals. This year we can also read that Gabriel has put its first solar cell plant into operation in the dye works in Lithuania. Sustainability is an important parameter in Gabriel's DNA – an integrated part of the strategy contributing to Gabriel's continued and strengthened competitiveness.

The substance of Gabriel's statement on gender balance in the management has also developed. The target for the share of the under-represented sex was 25% for the Board of Directors and 30% for the Executive Board. The target was met for the Board of Directors but not the Executive Board. Towards the end of the year, the Board of Directors reassessed the targets for the under-represented sex for all management levels and set them at 50% going forward.

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 composition of the 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.

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

As indicated in the slide shown, this task became difficult as all these key figures developed negatively. The key figure for staff costs decreased to 2.3, compared to 2.5 last year. This is a result of the top priority given to maintaining important structures and even expanding our presence in a few places, in a year when the contribution margin decreased slightly. The Group employed an average of 1,151 employees during the year against 855 last year. At the end of the year, the number was 1,134 (1,151), 885 of whom work in production, 129 in sales and development and 121 in the administration.

The key figure for other external costs increased, as expected, to 3.8 against 3.2 the year before. A combination of savings and reallocations resulting from IFRS 16 is the main reason for the increase.

We maintain our goal of an increasing EBIT margin as one of the Group's overall financial goals. This goal was not achieved in 2019/20. The gross margin decreased from 40.1% to 37.6%, mainly as a result of the acquisition of Grupo RYL in Mexico. If we exclude this acquisition from the calculation, the gross margin was unchanged.

Our vulnerable point is the increase in the working capital. The main reason is that the activities of FurnMaster also increased considerably in 2019/20. This affects the working capital, which, however, only increased by 3% in the year, to DKK 171 million. This should also be seen in the light of the activity level which was a good deal lower in the last six months of the year than in the first half-year.

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 1.6 per DKK 1 in working capital, against DKK 1.7 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 performance indicators – also referred to as KPI goals – specified for the area. Once again, an excellent, targeted effort was made with an increasing and fine fulfilment of the goals in 2019/20. 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 2019/20, the mobility of the Group's employees was restricted. This meant that it was difficult to carry out planned physical visits for a period. A swift changeover to digital meetings supplemented the physical meetings that were actually held so well that the targets planned for the year were met.

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, all of which played a part in the sales process that Covid-19 changed.

In the current 2020/21 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 eight new core products on the world market in 2019/20. There are constantly new products in the various development phases, which are primarily coordinated and aligned with strategic customers. This increases the accuracy and the speed at which new products are launched. The penetration time for new products and components in the market 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 younger than five years. New products accounted for 23% in 2019/20. The main reasons for the shortfall in our target are that two of the Group's main product series reached the age limit for "new" products and that new products launched in the period have not fully taken over a big share of revenue. This is not a sign that dangers are lurking in the short term, but if we do not relatively quickly get back up to the higher target set for new products' share of revenue, it is a yellow flashing light that may also be a sign that the corporate model itself requires fresh thinking. The area requires a constant and systematic effort and full attention at management level, which is what Gabriel's management skilfully provides.

A little about 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% (8.4%) before tax
- An increase in operating margin (EBIT margin) – down this year to 5.8% from 8.7%
- An average increase in earnings per share of at least 15% (-49%), and
- An average increase in revenue of at least 15% (3%)

Although none of the four main targets was 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 44%, a satisfactory cash flow and good capital resources, the Board of Directors finds it responsible and appropriate to propose a dividend of DKK 5.0 per share, equivalent to a pay-out ratio of 38% – almost the same level as in the last few years.

Gabriel's market price closed at 690 at the end of the financial year, compared to 712 at the same time in the previous year. Around noon today, Gabriel's share price was 675.

The remuneration of Gabriel's directors and committee members was last adjusted in 2016 with effect for the 2016/17 financial year. It was unchanged in the 2017/18, 2018/19 and 2019/20 financial years and the Board of Directors also proposes that the remuneration of directors and committee members remains unchanged at around DKK 1.2 million in the 2020/21 financial year.

In conclusion, I sum up 2019/20 as follows:

- The 2019/20 financial year was negatively affected by the Covid-19 pandemic.
- Gabriel realised organic revenue growth of 3%.
- Operating profit (EBIT) decreased by 32%.
- Gabriel executed its strategy and performed 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.
- Dividend of DKK 5.0 per share will be paid.

- Gabriel’s share price decreased by 3% to 690 in the financial year and is now 675.
- Despite the current pandemic and the uncertainty surrounding the speed at which vaccines will be available, management’s expectations for the 2020/21 financial year are revenue of the order of DKK 760-790 million, the equivalent of organic growth of 5-9% in the year, and profit before tax of the order of DKK 50-55 million, the equivalent of an increase of 56-72%.

Although bugs temporarily attacked the shoots of the Gabriel fruit tree and the harvest was smaller this season, the tree stands firm in good soil and a reasonable climate. It has been cared for with a view to ensuring a good new harvest in the current 2020/21 financial year and the years that follow.

Against this background, I offer a big thank you to the Gabriel Group’s employees, managers and 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 pleased with the past year, in which the entire world was challenged by a pandemic, but in which Gabriel again delivered a fine result and invested in the future by increasing its initiatives.

Thank you for your attention.