

General meeting of Gabriel Holding A/S on 9 December 2021**Report of the Board of Directors**

by Jørgen Kjær Jacobsen, Chairman

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

On 1 May this year, 170 years had passed since Kjærs Mølles Fabrikker was founded as a manufacturing company. There weren't many such firms in Denmark then, only a few years after absolute monarchy was abolished. In 1985, the trading firm Gabriel and Kjærs Mølles Fabrikker merged, eventually becoming a listed Group with Gabriel Holding A/S as the parent company.

The 170-year anniversary is a milestone that our employees have celebrated in our offices all over the world. We remember with gratitude the contribution of several thousand colleagues, who have preserved and developed their workplace, even in very difficult times. We are all the more delighted that the anniversary was also a record year.

Last year we could not welcome you to the annual general meeting as we usually do, because the year had been far from normal in so many ways. This makes it an even greater pleasure to welcome shareholders to the company's address this year and to give you the reassuring good news of growth in revenue and earnings.

The ongoing pandemic has continued to negatively affect the global markets. It is difficult to put a precise figure on the effect of the market conditions, but there is no doubt the fall is considerable.

In Gabriel we thus note that the company has grown bigger and stronger despite the special challenges posed by the pandemic in 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. Our ambition is realistic because we know that we continue to show growth as our major, strategic customers reap increasing benefits from 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.

In a year with a continuing pandemic we must be pleased with organic growth of 11%. The Group's revenue over the year developed in line with management's overall expectations with a 7% fall in the first half-year and a significant increase in the second half-year. The realised growth in the second half-year was thus 36%. In particular, the record revenue of DKK 223.3 million in the fourth quarter, equivalent to organic growth of no less than 31%, was a highly satisfactory development.

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

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

Our target in Gabriel remains a minimum average annual increase in revenue and earnings of 15%. At intervals, this requires 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.
- Second, we 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. Today, the many functions operate on several continents: where they are competitive and where we are close to customers. Gabriel is a global business, with all the complications and opportunities this involves.

Gabriel acts and takes charge in the context of a long value chain from raw materials to semi-manufactured products and finished components that are used in the final 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 2019/20 financial year, we expected to be able to reach revenue of the order of DKK 760-790 million and profit before tax of the order of DKK 50-55 million for the 2020/21 financial year now closed. Five months into the year, these expectations were upwardly adjusted to revenue at the upper end of the revenue interval and profit before tax of the order of DKK 55-60 million.

With revenue of DKK 810 million, equivalent to 11% growth in revenue, and an increase in the profit before tax of 84% to DKK 59 million, the ambitions for the year were fulfilled.

Earnings before depreciation, amortisation and impairment losses (EBITDA) increased to DKK 96.5 million (DKK 80.3 million). EBITDA in the fourth quarter was DKK 25.6 million (DKK 12.8 million).

Operating profit (EBIT) increased to DKK 58.8 million, and the operating margin was 7.2% (5.8%).

Profit after tax increased to DKK 46.2 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 2020/21. 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 2020/21, DKK 23.2 million (DKK 22.1 million) was invested in product development. Six (eight) new fabrics were launched and two (two) existing products updated. FurnMaster and Screen Solutions partnered with strategic customers to develop and produce new products directly for them.

- An average of 139 employees were employed in sales and product development as against 130 in the previous year. Sales and development employees account for 78% of total staff costs, a considerable increase from last year's 69%.

Thus there is good reason to believe that Gabriel will continue to deliver revenue and earnings growth in the future. The Group has a 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 the short-term market conditions.

We focus below on the financial results we achieved in 2020/21.

Gabriel published its annual report on 16 November 2021 and posted it on the company's website on the same date. The printed version is now also available.

- Annual Report 2020/21
- The sustainability report 2020/21 is available at www.gabriel.dk as are the other statutory statements.

Gabriel's sustainability report is of great and immediate interest. Read about Gabriel as a carbon-neutral company and see how we work towards the UN's Sustainable Development Goals. This year we see the results of Gabriel putting its first solar cell plant into operation in the dye works in Lithuania last year. 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 the work on the recommendations as an important ongoing process. We consider the recommendations 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 composition of management is unchanged, an 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 34% 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. The evaluation this year was based on dialogue and facilitated

inhouse. 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. Next year's evaluation will be facilitated by external consultants.

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.

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 1,163 employees during the year against 1,151 last year. At the end of the year, the number was 1,207, of whom 944 work in production, 139 in sales and development and 124 in administration.

The key figure for other external costs increased, as expected, to 4.3 against 3.8 the year before. A combination of savings and productivity improvements 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 reached in 2020/21 as the operating margin increased to 7.2% (5.8%).

The Group's realised gross margin was 36.4% against 37.6% last year. The main reasons for the decrease are a shift in the balance of the Group's product mix, the direct and indirect consequences of increasing incoming freight costs, and some raw material prices.

Our vulnerable point is the increase in working capital. The main reason is that the activities of FurnMaster also increased considerably in 2020/21. This affects the working capital, which increased by 30% in the year to DKK 224 million and at the end of the financial year was boosted by the record level of activity in the fourth quarter and the considerable increase in the company's order intake.

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 1.3 per DKK 1 in working capital, against DKK 1.6 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 led to resounding success in meeting the goals in 2020/21. 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.

Last year we reported that our sales staff were finding it difficult to carry out their planned physical visits, due to mobility restrictions resulting from the pandemic. This was countered by a swift changeover to digital meetings. Digital meetings supplemented physical attendance so successfully that the targets planned for the year were met. These tools were also used in lockdown periods in 2020/21.

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 2021/22 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 six new core products on the world market in 2020/21. 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 23% of revenue in 2020/21. The main reason for the shortfall in our target is that the target is ambitious. Other reasons are that a couple of products reached the age limit for "new" products in the year before and that new products launched in the period do not yet account for a big share of revenue. The shortfall is not an indicator of impending short-term danger but, without a relatively quick return to meeting the higher target for new products' share of revenue, it may represent an amber warning light 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.

The logistics process/price competitiveness

As in previous years, logistics and securing strong competitiveness were top priority core processes in the financial year just passed.

Back in the period 1998 to 2008, Gabriel outsourced all processes in the then fully vertical furniture fabric production. In recent years, production has returned 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% (13.3%) before tax
- An increase in operating margin (EBIT margin) – from 5.8% to 7.2%
- An average increase in earnings per share of at least 15% (84%)
- An average increase in revenue of at least 15% (11%).

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 44%, a satisfactory cash flow and good capital resources, the Board of Directors finds it responsible and appropriate to propose a dividend of DKK 9.75 per share, equivalent to a pay-out ratio of 40%.

Gabriel's market price closed at 630 at the end of the financial year, compared to 690 at the same time in the previous year. Around noon today, Gabriel's share price was 652.

Gabriel's remuneration policy was approved at the latest general meeting. 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 2020/21 financial year. The remuneration report is presented for a consultative vote for the first time today. The Board of Directors has clarified the policy in 2021, but we judge that no material changes were made, which is why the policy is not being put to the vote at today's general meeting. The fees for committee work have been clarified and a new committee has been added. The policy is available at the website.

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. The increase should be seen in the light of the fees paid by comparable companies, the constantly increasing requirements of the Board of Directors and a desire to be able to continually attract the skills required.

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

- Yet another revenue record and a big leap forward for earnings were achieved in the financial year.
- Gabriel thus realised organic revenue growth of 11%.
- Operating profit (EBIT) increased by 40%.
- 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 9.75 per share will be paid.
- Gabriel's share price decreased by 9% to 630 in the financial year and is now 652.
- Despite the current pandemic and the uncertainty surrounding the speed at which vaccines will be available, management's expectations for the 2021/22 financial year are: revenue of the order of DKK 890-930 million, the equivalent of organic growth of 10-15% in the year; and profit before tax of the order of DKK 64-67 million, also equivalent to an increase of 10-15%.

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 2021/22 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.