General meeting of Gabriel Holding A/S on 14 December 2017

Report of the Board of Directors

by Jørgen Kjær Jacobsen, Chairman of the Board

I look forward to Gabriel Holding's general meeting every year. Again this year, it is a pleasure to provide the report of the Board of Directors, because 2016/17 was yet another year with growth in both revenue and earnings. All that could go well, did go well. Both the original and the upwardly adjusted expectations for the year's development in revenue and earnings were realised.

In 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. This opportunity arose in November last year when we bought the English screen manufacturer Screen Solutions. More on this will follow.

Total growth in group revenue was no less than 26%, generated as a combination of organic growth of 14%, the equivalent of DKK 54.4 million, and growth of 12% from the acquired company, the equivalent of DKK 48.0 million. The positive development we have seen annually since the financial crisis eight years ago is continuing.

We experience our total market as stable and still with a slightly increasing trend. However, in Gabriel we expect that we must create our own growth. The formula is simple: Year by year, Gabriel is increasing its sales activities and product development, entering new geographical markets and making acquisitions if they make sense. We apply the formula accurately and systematically, and it is working.

Gabriel's strategy is focused on two areas.

One is to be the leading supplier to the world's 60 or so biggest makers and distributors of contract furniture. We thereby ensure that we are growing with the largest customers and those who have the most financial muscle to buy the others.

The second is that our supplies cover the links in the value chain from furniture fabrics, which today embraces cutting, sewing, upholstering and assembly of furniture components, and the latest acquisition of sound-absorbing screen solutions which are upholstered with lots of fabrics. We carry out the strategy and it is working.

We had expectations a year ago that we could achieve total growth in revenue of the order of 20% and an increase in profit before tax of 0 to 5% in the 2016/17 financial year. The expectations for profit before tax took into account negative impacts of implementing the acquisition in England in November 2016 and the impact of establishing upholstery production in the USA.

However, those expectations were exceeded in the first six months of the financial year and in the interim report we therefore upwardly adjusted expectations for revenue and profit for 2016/17. As already noted, revenue growth of 26% to DKK 492.8 million and an increase of 10% in profit before tax were realised for the full year.

The operating profit (EBIT) increased by 16% to DKK 45.9 million (DKK 39.4 million) and the operating margin was 9.3% (10.1%).

Profit of DKK 35.3 million (DKK 34.3 million) after tax was negatively affected by the contribution to the profit from the dyeworks Scandye UAB: DKK 3.1 million, against DKK 4.5 million in the previous year. Finance income and costs showed net costs of DKK 2.2 million against net costs of DKK 1.2 million in the previous year. Finally, the realised average tax rate was 22.8% against 20% in the previous year.

Given the circumstances – acquisition of a company and start-up costs for upholstery production in the USA – the Board of Directors finds the development in both revenue and operating earnings fully satisfactory.

It is at least as important to note that the Group's initiatives and investments in a number of key areas were again increased in 2016/17. We are maintaining our growth formula and strategy. I make special mention of the following:

1. In 2016/17, DKK 15.3 million (DKK 9.4 million) was invested in product development. Like last year, the investments in product development stood at 3% of revenue but, due to the increase in revenue, the amount invested increased by 63%. The increases in investments concern development projects and the acquisition of Screen Solutions, which also has a development department.

2. In November 2016, Gabriel bought the screen manufacturer Screen Solutions Ltd, which has production and storage facilities near Brighton. The company also has a showroom in an excellent location in central London. More on Screen Solutions Ltd will follow.

3. Gabriel's new upholstery production near the sales office in Grand Rapids, Michigan, USA, was expanded throughout the 2016/17 financial year. Sales and production have had a good start and staff are being added regularly as required.

4. In October 2016, all of Gabriel's global sales units participated in Europe's largest contract furniture fair, Orgatec, in Cologne. New products were introduced and it became an established fact that Gabriel continues to have a strong brand and influence on the international market for contract furniture.

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

6. In the fourth quarter of the financial year, sales offices were opened in Singapore and Bangkok.

7. An average of 88 employees were employed in sales and product development as against 82 in the previous year. The number at the end of the 2016/17 financial year was 109, which was due to the increase in staff – primarily in North America – by the end of the financial year. Sales and development employees account for 81% of total staff costs, as against 77% last year.

8. Gabriel's distribution centres in England, Detroit and Shanghai are continuously expanded by a selection of Gabriel's product range targeting the individual markets.

Thus there is reason to believe that Gabriel will continue to deliver revenue and earnings growth in the future.

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 being performed – with ever-increasing productivity. The development in revenue potential for Gabriel's 60 or so strategic global customers is also monitored (contract furniture fabrics, upholstery processes, final assembly of contract furniture and sound-absorbing screens and room dividers). The potential was increasing throughout 2016/17 and further strengthened through the purchase of the screen manufacturer Screen Solutions.

Screen Solutions was recognised as one of Europe's leading suppliers of screens, office dividers etc. to the European furniture industry, including most of Gabriel's existing strategic customers.

Before the acquisition, the company also sold directly to major business customers as a user segment, which would have clashed head-on with Gabriel's strategy. A structural change was therefore required after the purchase, and we opted out of this portion of the customer base. This had been anticipated when Gabriel bought the company. On the other hand, Screen Solutions' capacity for sales to Gabriel's strategic customers, many of whom are global manufacturers and distributors of contract furniture, multiplied.

I focus below on the financial results we achieved in 2016/17.

Gabriel published its annual report on 16 November 2017, when it was also published on the company's website. The printed version is now also available.

- Annual report 2016/17
- The CSR Report 2016/17 is available at www.gabriel.dk.

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.

However, we have noted previously, that the Board of Directors is prepared to accept short-term negative impacts on key figures in connection with acquisitions and special sales-promoting investments. As noted, this was the case in the 2016/17 financial year.

As indicated in the slide shown, the key figure for staff costs remained unchanged at DKK 2.5 compared to last year. The group employed an average of 292 sales and development employees and administrative employees during the year, against 238 last year. The number at the end of the year was 291.

The key figure for other external costs was negatively affected by acquisition costs, structural changes in Screen Solutions and the establishment of FurnMaster production in the USA. The key figure therefore fell from DKK 3.3 to DKK 3.1 per DKK 1 in costs.

The total value-adding via the payment of staff costs and other external costs therefore resulted in a fall in operating margin (EBIT margin) from 10.1% to 9.3%.

An increasing EBIT margin is one of the Group's overall financial goals. Because operating profit (EBIT) increased by 16%, we are not complaining about the short-term decrease in EBIT margin.

Activities in FurnMaster increased significantly in 2016/17. This affected our working capital, which increased by DKK 18.9 million, because the FurnMaster activities often mean that Gabriel takes over parts of the customers' inventories. However, the key figure for gross profit relative to working capital is developing positively and now stands at DKK 2.0 per DKK 1 in working capital against DKK 1.9 last year.

SALES PROMOTION

The Key Account Management (KAM) process is a core process in Gabriel involving nearly all employees. Investments in the KAM process have a clear payback period and they 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 2016/17. Again there was an impressive rise in productivity in sales promotion.

The sales manager is constantly seeking new routes to enhanced impact of the initiatives. The year's growth in revenue which comes, by and large, from all markets and all product areas, documents that the KAM process is being executed effectively.

In the current 2017/18 financial year, the plan is to increase the sales organisation in various markets; but the integration of the acquisition, Screen Solutions Ltd, and its utilisation for sales purposes naturally places a new, extra task on the agenda of the existing sales force in the current year.

PRODUCT DEVELOPMENT

Gabriel launched four new core products on to the world market in 2016/17. That was less than our target of eight. We are tolerant of this, as new, innovative products, with attractive revenue potential, are in the pipeline. On this basis, eight to ten launches are expected in the current financial year.

In the category 'product innovation with longer development times,' a global patent was obtained in 2017. The patent is for an engineering-grade technical fibre material for use as insulation and sound-proofing. It has been on the way for many years and was developed in partnership with another Danish company supplying markets other than Gabriel's. End-products must now be developed and it is too early to say anything about their potential and the timing of their launching.

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 30% in 2016/17 against 28% at the same time last year.

Because of Screen Solutions' interesting range of sound-absorbing screens, the purchase of the English company is a good boost to the Group's product range. These products are a supplement to Gabriel's existing range for strategic top customers on all markets and fit that range perfectly. Since this is a form of private label production for our strategic customers, requirements are set for efficient product development and adaptation of the screen products. On the other hand, there is a good possibility that the customers will include these products in their standard ranges, which will mean repeat orders for several years.

You are all welcome to view samples of the new products in Gabriel's showroom on the ground floor after the general meeting.

Gabriel's company structure is well known to most shareholders: The three operating companies, Gabriel A/S, Gabriel Asia Pacific and Gabriel North America, ensure global presence. The Group's core processes operate with an adequate degree of regional adjustment. All operating companies trade under the same vision, with the same strategy and financial targets. The driving force are the well-defined long-standing core processes of Key Account Management, Logistics, Product and Process Innovation and Price Competitiveness.

Gabriel's structure is logical and supports our systematic efforts to obtain growth in both revenue and earnings.

The underlying management disciplines make sure that **customer satisfaction** and **employee satisfaction** are gauged every year. Gabriel's score in these areas remains high.

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 of 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% (29.5%) before tax
- An increase in operating margin (EBIT margin) – down this year to 9.3% from 10.1%
- An average increase in earnings per share of at least 15% (1%) and
- An average increase in revenue of at least 15% (26%).

This year we would have wished to have had an overall target for actual growth in operating profit (EBIT), given that the increase was 16% to DKK 45.9 million.

In the view of the Board of Directors the financial targets were reached to a satisfactory degree, considering the acquisition made, the establishment of a new production site in the USA, the new increase in the sales and product development organisation to maintain organic growth, and given that we were also negatively affected by currency turbulence in the dollar and pound.

THIS TAKES US TO THE PROPERTY PORTFOLIO

We realised a long time ago that developing and running a business park is not a core activity for Gabriel. In March 2016, the Board therefore decided to put the property company Gabriel Ejendomme A/S on the market at the best possible price. The purpose is to strengthen the financial basis for utilising the potential growth possibilities in the core activity through acquisitions and constant expansion of sales promotion and product development.

Many interested investors have come forward and continue to do so. This has not yet led to any actual negotiations, and there are several reasons for this. First, we do not want to sell this gem at any price. Second, the interested contractors have had different ideas of optimal use of the property complex, and realising them often requires adaptation of the local authority's plan. This is possible; but it takes time.

In the meantime we are pleased that the property's existing buildings are fully let and the property thus does not hamper our core activity.

Enough about property for this round.

INCREASING DIVIDENDS AGAIN THIS YEAR

With an equity ratio of almost 56%, a continuing satisfactory cash flow and a continuing undrawn line of credit, the Board of Directors finds it responsible and appropriate to propose an increase in dividend to DKK 7.65 per share, equivalent to a pay-out ratio of 41% compared to 40% in the previous year.

Gabriel's market price developed in inexplicable ways in the 2016/17 financial year. Despite the fact that both quarterly, interim and full-year results lived up to expectations – and were even upwardly adjusted – the price closed at 475 at the end of the financial year compared to 570 at the same time in the previous year. However, around noon today, Gabriel's share price had increased to 520.

Gabriel's directors' and committee remuneration was adjusted in 2016 with effect for the 2016/17 financial year. Regulatory requirements for listed companies and their board members are tightened frequently and the Gabriel Group's geographical area and scope of business are growing considerably. The Board of Directors however proposes an unchanged total directors' remuneration of DKK 1,180,000 for the 2017/18 financial year.

IN CONCLUSION, I SUM UP 2016/17 AS FOLLOWS:

- Gabriel realised **total** growth of **26%**, 14% of which was organic growth and 12% came from the acquisition of Screen Solutions.
- Operating profit (EBIT) increased by 16%.
- Gabriel executed its strategy and performed all planned and increased development and sales activities.
- Gross profit per DKK 1 relative to staff costs per DKK 1 was unchanged.
- Gabriel's revenue and earnings were positively affected by growth on all markets in 2016/17.
- Gabriel's global structure with three axes (America, Europe, Asia) was consolidated.
- Dividend increased by 6% to DKK 7.65 per share.
- Management expects growth of 10-15% in revenue and a similar increase in profit before tax for the 2017/18 financial year.

The fruit tree has again been cared for with a view to ensuring a good new harvest in the current 2017/18 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. Thanks also to our customers, shareholders, auditors, suppliers and other partners.

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 was made an even better company for all of us.

Thank you for your attention.