

General meeting of Gabriel Holding A/S on 29 January 2025

Report of the Board of Directors

by Jørgen Kjær Jacobsen, Chair

Introduction

The annual general meeting is a good occasion for shareholders, management, employees and partners to visit Gabriel's head office here in Aalborg. Close dialogue is particularly important this year.

FurnMaster Mexico – difficult financial reporting and acknowledgement of negative corrections

This year we make an effort to communicate an understanding of the background to the problem and the write-down of Group equity in the 2023/24 financial reporting in the Mexican FurnMaster subsidiary. Procedures to close the accounts involved re-creating and understanding transactions and their influence on financial figures for the years back to 2019/20, when we bought the factory in Mexico.

On 14 November 2024, Gabriel Holding A/S announced that the financial statements for 2023/24 had to be postponed due to challenges with the financial reporting in the Group's Mexican FurnMaster company.

In consequence, detailed verification of the historical financial reporting in the subsidiary was carried out. The verification was made difficult because the people who, historically, had prepared the financial reporting had left the company in August 2024.

The subsequent analyses identified significant errors in previous financial years, which include the valuations of inventories, foreign currency translation and the use of two different administrative systems.

The process required great efforts internally and by the Group's auditors and other external experts and advisers. The common task was to provide information and data to ensure and support accurate financial reporting retrospectively and for the future. In addition, an investigation has been launched, involving additional professional advisers, to establish whether the irregularities were caused by fraudulent activity.

The errors found have been corrected in the financial statements presented for 2023/24. The correction significantly influences the financial statements for the year. The correction negatively affects the fourth quarter of the year and thus the EBIT figure for the year by DKK 7.9 million. Significant corrections have also been made to previous years' figures, which means that the comparative figures were also corrected. Equity for the 2022/23 financial year was thus written down by DKK 39.2 million and for 2021/22 by DKK 11.6 million – a total of DKK 50.8 million.

Never before has Gabriel's annual report been so hard to read and understand as the report submitted to the general meeting today. The Mexico complex is one reason, another

is that the FurnMaster business unit, comprising upholstery factories in Lithuania, Poland and Mexico, were put up for sale during the 2023/24 financial year. As a result, the financial reporting is divided into “continuing operations” and “discontinued operations”. The latter only comprise results for the year after tax for 2023/24 and the comparative year 2022/23. The financial reporting only specifies the continuing operations even though the FurnMaster units have not yet been sold.

We would probably all like to know how the Group’s statement of financial position, particularly equity and debts, will look once FurnMaster has been sold. The question is hypothetical at present and the answer will have to wait until FurnMaster has been sold.

Since the discovery of the large deviations reported in Gabriel’s FurnMaster unit in Mexico, the management, employees, auditors, board committees and, most recently, special advisers have worked around the clock to discover the causes of these unforeseen deviations of shocking magnitude in previous financial years. What is more, the annual reports for the financial years in question were approved with no comments on any special matters.

The progress of determining the causes of the deviations will be discussed under the next point on the agenda together with the annual report. There will also be an opportunity to ask questions.

Let us therefore leave Mexico for a moment and proceed with the rest of the report for the 2023/24 financial year.

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In the annual report covering the 2022/23 financial year, management stated that it expected revenue in the DKK 850 – 900 million range and operating profit (EBIT) in the DKK 0 – 10 million range for the 2023/24 financial year. After four months of the financial year, these expectations were upwardly adjusted to revenue in the DKK 880 – 930 million range and operating profit (EBIT) in the DKK 8 – 15 million range.

Overall, Gabriel’s business operations thus fulfilled expectations by delivering revenue totalling DKK 912 million and operating profit (EBIT) of DKK 10.9 million.

Continuing operations delivered EBITDA of DKK 56.8 million, EBIT of DKK 19.7 million and profit of DKK 4.0 million before tax. The result after tax was a loss of DKK 1.5 million before the negative result of DKK 14.2 million in the discontinued FurnMaster business unit. The end result is a recognised loss of DKK 15.7 million in the 2023/24 financial year. Because of the above-mentioned challenges with the financial reporting in the Mexico business, corrections were made to previous financial years. This is evident from the DKK 261.6 million equity computed at 30.09.2024 for continuing operations. As stated, this figure will be affected by the divestment of the FurnMaster business – as well as by operations in the current 2024/25 financial year.

The other financial figures will also be discussed under the next point on the agenda.

In August 2024, management announced that it will intensify the development of the Gabriel Fabrics and SampleMaster business units to ensure utilisation of the identified global potential – where the Group has its niche and strong competitiveness.

Divestment of FurnMaster

It would be natural to ask: In the 2000s the FurnMaster units were launched as a blue ocean strategy – why sell now? Our starting point then was our strategic customers' value chains. Their upholstery departments in particular were challenged because they lacked critical mass and because proficient upholstery employees were scarce. The obvious thought was that the furniture manufacturers would welcome an offer to buy ready-made, fitted furniture fabrics rather than rolls or small quantities cut to order.

We believed that Gabriel's virtual "one stop shop" would serve as a solution to these furniture manufacturers' challenges. We were right. The customers showed interest in the possibility of receiving ready-made furniture fabrics. In the beginning we delivered fabrics at competitive prices through a business partner in Lithuania.

This worked well in the initial phases, but when the very large contract furniture manufacturers became interested, we had to invest in our own industrial upholstery production to meet the demand for the much bigger volumes. The first investment was in Lithuania, the next in Poland and the last in Mexico in 2019. Over the next few years, FurnMaster developed into a good growth business generating satisfactory returns. But the corporate model meant increasing requirements for working capital and invested capital and higher finance costs in terms of both interest expenses and foreign exchange expenses. These costs have become a financial strain, particularly after the big interest rate increases in 2022, and the large industrial customers are reluctant to share them with us.

Over the years, the large furniture manufacturers increasingly outsourced their upholstery departments. Regrettably, the industry structure also changed and Gabriel's market niche for industrial upholstery turned into high-volume red ocean with keen price competition and low gross margins.

Management expects to complete the divestment of the three production units during the 2024/25 financial year. It is worth noting that the **European** FurnMaster units recorded a limited decrease in revenue but delivered growth in operating profit in 2023/24.

We may ask: What is Plan B if we don't succeed in selling all or parts of FurnMaster? The answer is that we believe we can handle that eventuality. If it ever arises.

The future fabric business

Another obvious question is what we intend to develop the so-called fabric business, which currently comprises the business areas Fabrics, SampleMaster, LaminationMaster, Screen Solution and ShapeKnit. All fabric units supply the market segment where FurnMaster is positioned. The Group's total market segment is positioned in the area of interior design fabrics, primarily for the professional market where products have to meet indispensable requirements from authorities and clients and quality and climate-related requirements

which must be certified and properly documented. These are areas where Gabriel enjoys long-standing recognition for our skills and competitive strength.

For many years, the market for Gabriel's continuing operations has had relatively few suppliers, even globally, and, depending on the distribution channels, suppliers have pricing power. Since our ISO 9001 certification 34 years ago and ISO 14001 environmental management certification 29 years ago, increasing authority requirements such as CSR, CSRD and quality and environmental certification, have been grist to Gabriel's mill. They still are in relation to competitiveness. It is worth noting that a gross margin of 51.4% was realised for the continuing operations in the financial statements for 2023/24. This is the result of execution of core and support processes such as key account management, design and product development, documented quality and environmental management, production and logistics. This cocktail is working.

The international demand for contract furniture

In management's opinion, the international demand for contract furniture in the 2023/24 financial year continued the downward trend from the previous year. The continuing operations nevertheless recorded growth of 6% stated in Danish kroner. This is the positive effect of previous years' continually increasing sales efforts and new product launches, as no additional capacity was added during the financial year. Digital marketing efforts are increasing and hold the potential for productivity increases in future marketing.

The corporate model and strategy are unchanged. Gabriel is growing with the world's 70 biggest manufacturers and distributors of contract furniture in the market niche. This ensures that we grow with the largest customers, those with the greatest potential, the highest competitiveness and the most financial muscle to survive, grow and acquire others.

Key account management is a core process and key account managers are front-runners in executing the strategy, strongly supported by field sales managers, who work on decision-makers in specifier roles (e.g. architects) and the customers' dealer networks. A robust organisation behind the front-runners carries out other core and support processes, not least development and design, digital marketing, logistics and quality and environmental documentation.

The strategy is well-known, accepted and executed throughout the Gabriel Group.

Gabriel is a global business, with all the complications and opportunities this brings. On the positive side, there is great potential for revenue growth, while complications may emerge in the form of geopolitical change, wars, epidemics, interest rates and currencies, changed market structures, customs duty rates etc. The list is long.

Concrete business-enhancing activities completed in the 2023/24 financial year include:

1. Our global presence has been developed over a number of years and now includes a total of 29 showrooms. In 2023/24, showrooms were added in Hamburg, Munich and New York.

2. The key priority in production units was to invest in optimisation of existing technologies to increase capacity and productivity and in the reduction of environmental impacts from production. New technologies for existing equipment have thus significantly reduced energy consumption, e.g. by utilising heat energy from dyeing processes.
3. DKK 6.9 million (DKK 8.9 million) was invested in product development in the continuing operations in 2023/24.

Six new fabrics were launched and three existing products updated. Two of the new fabrics are based on Gabriel's innovative circular "Gabriel Loop" product platform. The products are developed and designed to be recycled and are also produced in a unique collaboration along the value chain, where the customers' textile waste is taken back and spun into yarns and woven into fabrics. You can see one of the products on the screen behind me. The fabric is Amaze Loop and based on the Loop concept. Gabriel Loop won the Danish Design Award 2024 for its innovative concept.

FurnMaster, Screen Solutions and ShapeKnit partnered with strategic customers to develop and produce new products directly for them.

4. The Group's digital initiatives were strengthened in relation to cyber security and the use of digital systems for administrative and marketing purposes.

Let us take a look at trends in the three verticals: Europe, North America and Asia Pacific:

The European market

The European business delivered growth in the 2023/24 financial year. Growth was recorded on almost all geographical markets. The SampleMaster business unit continued its growth with double-digit growth rates on several geographical markets.

The North American market

We have to repeat from earlier reports that the US market is very interesting to Gabriel, but we also have to repeat that winning it is a major challenge and that it is not yet a profitable market. However, Gabriel has proved its competitiveness on the American market through close trading relations with the world's biggest manufacturers of contract furniture with the USA as their inland market.

Gabriel continues its investments in showrooms located in the big cities with big interior design firms which hold great potential in terms of volume and earnings. Gabriel's earnings margins are high in these market segments, but sales costs are also higher.

The long-term opportunities for growth in North America are still judged to be very attractive indeed for the Group. We therefore choose to continue our investments and development of the American market.

Asia Pacific

As in the USA, Gabriel had great potential in the Asia Pacific region. Year by year, we improved our utilisation of this potential in terms of revenue and earnings until the covid-19 pandemic, which had a significant negative effect on the Chinese market until 2023.

The Asian market is still attractive and delivered a small increase in 2023/24. This lends weight to management's expectation that recent years' downward trend is reversing, with positive prospects. Revenue growth again in 2023/24 supports this expectation.

Gabriel has been present in China since 2003 and China is where the Asia Pacific head office is located. Management is aware of the possible geopolitical challenges associated with operating on certain Asian markets and regularly assesses the current situation, potentials, threats and possible future scenarios.

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Gabriel's annual report for 2023/24

Gabriel published its annual report on 8 January 2025, when it was also published on the company's website. The annual report and the sustainability report are published in digital format.

The following reports are available online:

- Annual report 2023/24
- The sustainability report 2023/24 is again available at www.gabriel.dk
- as are the other statutory statements.

Gabriel's sustainability report is of topical interest. In the report you can read about Gabriel's efforts, objectives and activities. The report describes how quality and environmental management has been an integral part of the company's management system for many years.

To meet the sustainability requirements, we must continually fulfil new needs and expectations from customers, authorities and other stakeholders. During the year, Gabriel focused in particular on the implementation of new regulatory requirements including the Corporate Sustainability Reporting Directive (CSRD), and the EU textile strategy for sustainable, circular textiles.

Product innovation is a core process for Gabriel and the report describes how products and associated corporate models are oriented towards circular economy. For example, Gabriel expanded its range of fabric designs based on recycled and recyclable materials during the year. Fabric designs were launched in the Gabriel Loop concept, under which textile waste from production at Gabriel's customers is taken back and recycled in new fabrics. Our customers like the Gabriel Loop products. One of these customers is American Steelcase, the world's biggest manufacturer of contract furniture. During the year, Steelcase used Gabriel Loop in their social media marketing to underline their approach to sustainable products.

Documentation of the environmental impacts of our fabrics was expanded with the publication of product life cycle assessments (LCA), which quantify the individual fabric's impact on a range of environmental parameters including climate, aquatic environment and health.

The report will tell you more about these and many other initiatives of which we highlight the following:

- Gabriel's solutions based on the circular economy principles.
- Gabriel's comprehensive environmental and health documentation, including that 100% of the standard collection retained the OEKO-TEX health label, 82% achieved the EU Ecolabel and 75% were indoor climate-tested.
- Self-generation of solar energy in the Group and Gabriel's part-owned dyeworks increased by 57% during the year to 1,287 MWh following investments.
- Gabriel remained CO₂e-neutral for scope 1 and 2 under the Greenhouse Gas Protocol.

Corporate governance

As a listed company, Gabriel is 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.

Based on previous years' evaluations and subsequent discussions on the Board of Directors, the following **board committees of Gabriel Holding A/S and their chairpersons** will be maintained:

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

Productivity – continuing operations

Gross profit increased to DKK 251.3 million in the financial year (DKK 234.4 million), primarily as a result of the 6% revenue increase and a marginally increasing gross margin.

Productivity, measured as the relationship between gross profit and costs, is an important key figure.

Productivity and consequently the key figure for **staff costs** increased from 1.9 to 2.0 as a result of almost unchanged staff costs. The Group employed an average of 389 employees during the year compared to 396 last year.

The percentage increase in **other external costs** was bigger than for gross profit. Productivity and the key figure for other external costs decreased to 3.5 compared to 3.6 the year before.

Productivity can be measured for both core and support processes. Artificial intelligence (AI) is a new tool expected to make a big difference in productivity improvements in future

– including in Gabriel. It is still early days, but it will be interesting to follow the development and significance of AI in the future.

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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 for continuing operations with Gabriel's general financial targets:

- A return on invested capital (ROIC) of at least 15% (0.9%) before tax
- An increase in operating margin (EBIT margin) – from 2.9% to 4.1%
- An average increase in earnings per share of at least 15% (negative)
- An average increase in revenue of at least 15% (6%)

We appear to be far from meeting the Group's overall financial goals. The Board of Directors and Executive Board are of the opinion that concentrating on the continuing operations in future will have a favourable effect on the Group's growth and earnings opportunities.

DIVIDENDS

The equity ratio was 33.7% compared to 35.6% last year. Given the operating profit for the year and the need to defend liquidity and equity ratio, the Board of Directors recommends that no dividend be paid this year.

Gabriel's market price closed at DKK 270 at the end of the financial year, compared to DKK 306 at the same time in the previous year. Around noon today, Gabriel's share price was 167.

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 2022. 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 2022/23 financial year. The remuneration report is presented for an advisory vote today.

IN CONCLUSION, I SUM UP 2023/24 AS FOLLOWS FOR CONTINUING OPERATIONS:

- Revenue increased by 6% to DKK 483.5 million
- Operating profit (EBITDA) increased to DKK 56.8 million (DKK 46.9 million)
- Gabriel executed its strategy and implemented all its planned development and sales activities

- Gabriel's global structure with three verticals (America, Europe, Asia) was retained, consolidated and, in a few places, expanded
- The Board of Directors does not recommend any payment of dividend this year.
- Gabriel's share price decreased by 13% to DKK 270 in the financial year and is now DKK 167.

The following **expectations for the current 2024/25 financial year** were announced in the annual report for 2023/24:

Management expects that the challenging market conditions affecting the furniture industry will continue in the 2024/25 financial year, primarily as a result of continued geopolitical risks and uncertainty about inflation, currencies and interest rate trends.

A high level of uncertainty affects the expectations for 2024/25 as a result of the above-mentioned risks. On this basis, revenue of DKK 485 – 530 million (0 – 10% growth) and operating profit (EBIT) of DKK 20 – 30 million (DKK 19.7 million) are expected from continuing operations.

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THE FRUIT TREE

The Gabriel fruit tree was exposed to poor growing conditions in the 2023/24 season and the fruit farmer's resulting unwavering determination to preserve the tree's long-term development and fruit-bearing capacity.

This is illustrated on the screen now. The trunk and crown have been pruned back, but the tree stands firm in good soil and is being cared for to maintain its health and ability to bear fruit. And that ability is expected to improve significantly – in the short and longer term.

The tree may well be smaller, but it has the properties and strengths to ensure a good, increasing harvest in the years to come.

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Conclusion

I conclude this report of the Board of Directors for the 2023/24 financial year by offering a big thank you to loyal shareholders, all employees, the management group and the Executive Board for their hard work and the good working relationship. I would also like to thank my colleagues on the Board of Directors for their fine and constructive teamwork throughout the year.

Thank you for your attention.