

General meeting of Gabriel Holding A/S on 14 December 2023**Report of the Board of Directors**

by Jørgen Kjær Jacobsen, Chair

The annual general meeting is a good occasion for our shareholders to visit Gabriel's head office here in Aalborg. This year it is also possible to follow the meeting online from wherever you may be.

I will get straight to the point: We did not meet the expectations for revenue and profit for the 2022/23 financial year that we announced at this time last year.

Since Covid-19, we have faced new geopolitical challenges and rising inflation and interest rates. The order book balance of our FurnMaster production units declined. Because FurnMaster is our furniture fabric customers' outsourcing partner, that part of Gabriel's revenue is sensitive to quick changes in the furniture manufacturers' sourcing decisions. We came from a long period of constant growth in FurnMaster to a period with a sudden need to reduce inventories and production. The natural consequence of this was a negative effect on revenue, productivity and earnings in the FurnMaster production units.

The possibilities of growth in Europe have been constrained by the general economic decline. On this basis, the Group's FurnMaster units realised a major revenue decrease, while the other business units generally outperformed the general market trend.

Revenue development on the North American market was negative in 2022/23, driven by a revenue decrease in the Group's Mexican FurnMaster business. The Group's other units delivered growth in North America, driven by utilisation of a strong customer and product pipeline and the continual increase in sales efforts. The establishment of a showroom in New York contributed to the Group's presence in the USA. The long-term opportunities for growth in North America are still judged to be very attractive indeed for the Group.

For a number of years, the Group has added resources to develop the Asian market, with China as the hub. In China, continued Covid-19 lockdowns and a delayed return to a normal level of activity limited the scope for continued growth. Given this background, several years of continual growth were followed by a marked decrease in revenue in the 2022/23 financial year.

In November 2022, we expected group revenue in the range DKK 1,000 – 1,100 million and EBIT in the range DKK 50 – 60 million for the 2022/23 financial year. These expectations were announced in a period of steadily decreasing visibility of the market trend. We therefore had to stress from the start of the financial year that our expectations were surrounded by an increasing level of uncertainty.

During the year we had to downwardly adjust our expectations – after 6 months, 8 months and 9 months respectively. Thus we did not set our ninth consecutive revenue record.

We delivered group revenue of DKK 931 million in the 2022/23 financial year, a decrease of 13%, while operating profit (EBIT) was DKK 15.9 million, compared to DKK 64.9 million in the previous year. This was certainly not what we expected at the beginning of the year; nor was it in step with our financial targets.

Operating profit before depreciation, amortisation and impairment losses (EBITDA) decreased to DKK 64.3 million (DKK 107.5 million).

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

Gabriel's long-standing development is based on a strong corporate model and organisation which, when the markets are stable, ensure that we can create our own growth. However, the conditions were not right for doing so as the 2022/23 financial year progressed. Something similar is going on in the current 2023/24 financial year, which we see as a year of consolidation, in which we are again making an effort to strengthen the company's competitiveness through resource application, innovation and management systems.

Historically, we have made it safely through times of recession and have developed and strengthened our market position in those periods. The basis for this is primarily a strong corporate model, including two specific areas of our strategy, namely:

- First, to focus on our role as a strong supplier of furniture fabrics and modern industrial upholstery and well-connected 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, the highest competitiveness and the most financial muscle to survive, grow and acquire others.
- Second, to open sales offices – or showrooms – close to our customers and the customers of our customers to support the development and use of Gabriel furniture fabrics in the entire value chain.
- Third, we develop with our customers. As an innovative partner, we find out knowledge and intelligence about the customers of our customers and the current requirements and needs that our strategic customers must meet for their customers.

The strategy is firmly incorporated at Gabriel and permeates the entire Group. And it is working!

Gabriel is now 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 reduced scalability, greater requirements for working capital, etc.

Concrete business-enhancing activities completed in the 2022/23 financial year include:

- Our global presence has been developed over a number of years and now includes a total of 30 showrooms. In 2022/23, six new showrooms were added: in Hamburg, Munich, London, Madrid, Helsinki and New York.
- New technology has been added in production units to increase product range, capacity and productivity.
- DKK 28.1 million (DKK 25.7 million) was invested in product development in 2022/23.
- Eleven new fabrics were launched and four existing products updated.
- FurnMaster and Screen Solutions partnered with strategic customers to develop and produce new products directly for them.
- Strengthened digital initiatives.

Gabriel is maintaining and developing 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. The model is well-known, up to date and accepted and followed by the Group's employees.

The development in revenue potential with Gabriel's 70 or so strategic global customers is monitored closely. 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 potential in the USA and Asia.

Gabriel published its annual report on 16 November 2023 and posted it on the company's website on the same date. We have chosen not to print this year's annual report. This also applies to the sustainability report, which has been digital for a number of years.

The following reports are available online:

- Annual Report 2022/23
- The sustainability report 2022/23 is again 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.

I do recommend that you read the report with its many interesting subjects. I highlight the following:

- This year Gabriel joined the Science Based Targets initiative, under which businesses commit themselves to setting targets for reducing impacts on the climate.
- Gabriel has the most certified product programme in the industry. The most important certifications are the environmental EU Ecolabel and the OEKO-TEX® STANDARD 100 health label.
- Gabriel is carbon neutral and in 2022/23 more than tripled its own production of green electricity to more than 1,300 Mwh per year calculated at the end of the year.
- Gabriel has introduced a circular corporate model in which we take back textile waste from our customers' production and recycle it in new textiles.

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.

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 is currently 20% for the Board of Directors and 0% for the Executive Board.

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

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

This year let us highlight the cybersecurity and digitalisation committee. The committee works both to protect the entire Group from uninvited guests in the IT system and to develop digital tools and processes which support the Group's strategic development.

In Gabriel we have great expectations for the tools of the future. We are following with keen interest the opportunities and challenges of artificial intelligence (AI) and have increased our efforts on social media and business intelligence based on market data etc. AI is a new tool which we are staunchly determined to bring into use in Gabriel. It is considered certain on the one hand that there are gains to be made and on the other that failure to include AI as a natural element across the company's different functions poses a threat to our competitiveness. This possibility has only just arisen.

Productivity

Gross profit decreased to DKK 310.1 million in the financial year (DKK 346.5 million), as a result of the declining revenue and an associated decline in productivity in the FurnMaster units. Total production costs were higher than calculated and not fully covered through adjustments to the selling prices.

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 decreased from 2.3 to 2.0. The reason for this is that, despite effected savings, it was not possible to compensate for the decrease in gross profit realised as a result of the declining revenue. The Group employed an average of 1,242 employees during the year compared to 1,358 last year. At the end of the year, the number was 1,205, of whom 846 work in production, 210 in sales and development and 149 in administration.

The key figure for other external costs decreased to 3.4 compared to 4.0 the year before. Due to inflation etc. savings could not compensate for the decrease in gross profit.

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.

For a number of years, investments have been made in a significant increase in sales resources and presence covering Gabriel's most important markets and cities. Development of the sales structure is an important investment in the growth strategy but involves major costs, of which many are still immature and consequently generate limited short-term return.

The KAM team initiatives are accurately measured relative to key performance indicators. Once again, an excellent, targeted effort led to resounding, increasing success in meeting the goals in 2022/23. Field sales managers, who are primarily operating from the Group's showrooms, ensure that the sales process towards the market's industrial players is followed through by the architects and designers working with specifications further down the value chain.

In Gabriel, we chose to maintain our sales efforts in the past year but, as a result of the revenue decrease, we noted a decrease in productivity and sales efforts for the first time in many years.

Resources were added to a limited extent in the 2022/23 financial year, while utilisation of established structures and tools strengthened the Group's market position. Management believes that the Group's revenue development realised was better than the general market development and is a specific result of many years' constantly increasing initiatives in developing and launching new products and services supplied to the Group's primary customers.

Product development

Gabriel launched eleven new core products on the world market in 2022/23. 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 typically long, as we face different requirements for documentation and different habits.

Our own requirement for the product portfolio is that over 30% of revenue should derive from products launched less than five years ago. In 2022/23, new products accounted for 27% of revenue compared to last year's 33%.

We know that our target is ambitious and challenged in periods when products generating high revenue pass the five-year limit and are consequently excluded from the measurement base.

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

Gabriel's logistics process comprises many functions which together master a complicated value chain. The logistics process is therefore carried out in close interaction with the production, quality and environmental management, key account management and other processes.

Back in the period 1998 to 2008, Gabriel gradually outsourced all production 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, with investments in FurnMaster in Lithuania and Poland, the acquisition of the FurnMaster unit in Mexico and the purchase of our long-standing Lithuanian partner BTC with weaving mill and SampleMaster production. The units are efficient and their managements skilled professionals.

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.

- A return on invested capital (ROIC) of at least 15% (0.4%) before tax
- An increase in operating margin (EBIT margin) – from 6.1% to 1.7%
- An average increase in earnings per share of at least 15% (negative)
- An average increase in revenue of at least 15% (-13%).

The Board of Directors would have preferred to be able to report a development of financial ratios with positive growth figures, but in the circumstances and given the initiatives effected in important key areas, which are considered to have strengthened the company, the Board of Directors finds the results satisfactory.

Dividends

The equity ratio was 40.1% compared to 41% 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

Gabriel's market price closed at 306 at the end of the financial year, compared to 515 at the same time in the previous year. Around noon today, Gabriel's share price was 292.

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

Gabriel's remuneration policy

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 2022/23 as follows:

- Revenue decreased by 13% to DKK 931 million.
- Operating profit (EBITDA) decreased to DKK 64.3 million (DKK 107.5 million).
- Gabriel executed its strategy and implemented all its planned development and sales activities.
- Gabriel's global structure with three axes (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 41% to 306 in the financial year and is now 292.

Expectations for 2023/24

The following expectations for the current 2023/24 financial year were announced in the annual report for 2022/23:

- Management considers that a high level of uncertainty surrounds the expectations for the year, primarily as a result of the continued geopolitical challenges.
- On this basis, management expects revenue of DKK 850 – 900 million, equivalent to an expected revenue decrease of 3-9%.
- Adaption to the Group's cost base will continue, and for the financial year 2023/24 a profit before depreciation and amortisation (EBITDA) of DKK 50-60 million and a primary profit (EBIT) of DKK 0-10 million are expected.
- Finance income and costs will continue to be negative in 2023/24 and a negative result before tax is thus anticipated.
- A positive cash flow is expected.

The Gabriel fruit tree was exposed to strong winds and droughts of varying lengths in the 2022/23 growing season. But the tree stands firm in good soil and is being cared for to maintain its health and ability to bear fruit. The tree has grown and developed and is healthy but, in some years, bears no fruit. The 2022/23 financial year was one such year.

Management believes that the Group's financial targets can be achieved in the coming years as economic conditions return to normal.

I conclude this report of the Board of Directors 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.

Thank you for your attention.