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20 February 2019

Chairman's AGM address

Good morning Ladies and Gentlemen, welcome to the 115th Annual General Meeting of HGL Limited.

It is just past the appointed time of 11:00 am, the Company Secretary has confirmed that a quorum is present; and the proxies have been inspected and all those validly lodged have been accepted. I therefore declare the meeting open.

My name is Peter Miller, I am the Chairman of HGL.

Your other directors are Kevin Eley, who was appointed Chair of the Audit and Risk Committee on 1 May 2018; Cheryl Hayman, who is Chair of the Nomination and Remuneration Committee; and Julian Constable.

Also with me are Henrik Thorup, our Chief Executive Officer, and Iain Thompson, the Company Secretary and Chief Financial Officer.

Sadly absent from the table this year is Dr Frank Wolf. Frank had been re-elected to the HGL board at the last AGM, but passed away on 18 April 2018 after a short battle with cancer. Frank joined HGL's board of directors in 2000 and most recently fulfilled the role of Chair of HGL's Audit Committee.

Over the course of his directorship, Frank's intellect and strong commercial acumen helped steer HGL through challenging times. We were deeply saddened by Frank's passing and continue to miss his presence.

I also welcome Carlo Pasqualini, our signing audit partner from Deloitte, who is present and available to answer questions relevant to the audit and the financial statements.

The Notice of Meeting was mailed to all members on 17 January 2019, and copies are available on the registration table. I propose to take this notice as read, unless there is an objection.

Before handing over to our CEO Henrik Thorup to present his report on the operational performance of HGL and priorities for the 2019 financial year, I will make some brief comments.

Revenue from Continuing Operations plus Mountcastle has shown 4.3% per annum compound growth since 2015 on a like for like basis, and this rate improves to 7.0% when you include the April 2018 acquisition of Pegasus Healthcare.

Underlying Earnings Before Interest and Tax from Continuing Operations increased for the fourth consecutive year, delivering like for like compound growth of 10.6% per annum, or 17.6% per annum when the 6-month contribution from Pegasus is included.

We recognise the importance of delivering shareholder value and the financial performance in the Company enabled the Board to approve a full-year dividend of three cents per share fully franked, up a quarter of a cent on the previous year.

The diversification of our revenue streams from lower growth to high growth sectors positively impacted our operating performance in FY18, however had a negative effect on our statutory financial result.

Pegasus Healthcare was a major addition to the HGL Group in April 2018. This was our first key acquisition, based on our GPS strategy plan to invest in high growth businesses in attractive segments, making a substantial change to our company portfolio.

Pegasus is performing ahead of our business plan and has recently renewed its contract with NSW Health for 5 years with an option to extend for another 5 years. The company is tendering for new supply agreements with multiple hospitals in Sydney, with good prospects based on positive customer feedback during product trials. Pegasus is also making additional infrastructure and resourcing investments with new branch offices opening in Ballina and Newcastle in NSW.

We also benefited from the bolt-on acquisitions of Intralux and POSM, strengthening the growth prospects of SPOS Group and JSB Lighting.

SPOS Group is now a solid contributor to Group results, gathering further momentum with increased profitability from sales growth in FY18 despite tougher retail conditions.

Following severe organisational disruption in JSB Lighting, the company has a new leadership team determined to drive the business forward. The unexpected departure of many experience sales executives caused a slowdown in forward orders, as the renewed sales team re-establishes itself, and there has been a corresponding reduction in short term profitability, however we expect to see a recovery of sales and improved profit

Mountcastle continues to perform strongly, increasing its sales of school wear and corporate wear. The company has appointed a new General Manager to manage the Corporate Wear business, driving new sales initiatives and expanding the corporate wear product offering.

Our five companies: JSB Lighting, SPOS Group, Pegasus Healthcare, BLC Cosmetics and Mountcastle represent our current Continuing Operations and all operate in large markets with solid growth prospects.

During the year we divested Leutenegger, Nido Interiors and Biante.

HGL's business model is to invest in high-returning businesses based on our equity and skills model, of which our CEO will provide more detail on in his presentation.

In today's competitive market place small business owners often operate with restricted capital and management expertise. To remain competitive they require finance to grow their business and similar skill sets compared to larger organisations.

Larger companies typically have all the necessary corporate management expertise internally across a wider organisation or have the capacity to recruit specific skill sets as required.

HGL therefore actively supports our portfolio of smaller wholly or partly-owned companies, providing both Equity and Skills to our businesses, who are independently operated by the respective part-owners and/or management teams.

We continue to support the principle that working in partnerships in equity and skills makes good business sense, whether with our equity partners or appointed senior executives, to ensure aligned interest enabling all stakeholders to prosper.

HGL's key objectives are to build the scale of our existing businesses, to secure bolt-on acquisitions that will deliver operational and revenue synergies, and actively pursue stand-alone acquisitions in conjunction with management.

Our financial results in FY18 achieved improved revenue and earnings contribution from the Continuing Operations, offset at a statutory level by one-off cost and losses from disposal of underperforming assets.

Revenue from Continuing Operations of $43.4 million is a 7.7% increase on the prior corresponding period.

Underlying EBIT from Continuing Operations of $3.9 million is a 8.5% increase on the prior corresponding period.

Statutory Net Profit After Tax was $0.8 million, compared to $2.7 million in financial year 2017, and includes non-underlying costs of $0.9 million and losses from discontinued operations totalling $1.7 million.

Operating cash generation by the continuing businesses was $2.3 million, compared to $1.6 million in the prior corresponding period. Total operating cash generated by the Group in FY18 was $0.9 million, compared to a net outflow of $0.2 million in the prior year.

Our ongoing capital management strategy focusses on maintaining a strong balance sheet and strategic flexibility to part-fund acquisitions.

In FY18, a total of $1.74 million of dividends were declared.

During the year the total number of shares issued under the Dividend Reinvestment Plan was 1.9 million up from 1.7 million in 2017.

Our Cash on Hand at 30 September 2018 of $5.0 million and bank borrowings of $3.1 million provide a Net Cash balance of $2.0 million.

We envisage funding for new acquisitions to be ideally through a combination of our own funds and bank borrowings.

To underpin effective capital management for the benefit of the shareholders, the Company commenced an on-market share buy-back program subsequent to year end. 124,000 shares have been purchased at prevailing market prices.

HGL's gearing levels remain low, with the ratio of bank debt to debt plus equity sitting at 11% at balance date, and an overall net cash (as opposed to a net debt) position.

As previously announced, JSB Lighting initiated proceedings in the Federal Court against Mathew Carey, a former senior sales representative, his associated company BFD Lighting, as well as the former CEO of JSB, Dudley Hewitt, and the former CFO of HGL, Andrew Whittles.

The proceedings related to the respondents' individual and collective conduct in establishing a competing business in circumstances where, it was alleged, they acted in breach of fiduciary duties to JSB, tortious interference with contractual relations, breaches of employment contracts and of duties under the Corporations Act.

HGL agreed to participate in mediation in December 2018 and entered into a deed of settlement and release with the respondents with confidential terms.

Turning now to the year ahead, and the Directors retain a positive view and are confident that the strategic direction set out in the Growth, Profit & Sustainability Strategy Plan and management's capacity to execute it, will yield success.

While the trading conditions are challenging, we are encouraged about the prospects of HGL. The board and management continue to focus on delivering sustainable growth and longer-term shareholder value.

HGL is fully committed to investing further in diversifying and strengthening our market representation with potential step-change acquisitions currently being appraised.

We are actively investigating a number of acquisition targets which, if they were to proceed, will further contribute to our future results.

Now that the rebuilding stage of our strategy is behind us, the Board supports management in securing acquisitions in accordance with our equity and skills model.

Finally, I would like to thank Henrik, the senior executives and management, and in fact the whole team of talented Group employees for their contribution and dedication to the Company and its future.

I would also like to thank my fellow Directors for their efforts over the past year.

For further information
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