



## **GLOBE INTERNATIONAL LIMITED**

**2019 AGM**

**24 OCTOBER 2019**

### **CHAIRMAN'S ADDRESS**

Welcome to the 2019 AGM

As Matt Hill will explain in greater detail in his address, Globe achieved a solid financial result in FY19 despite facing substantial external headwinds and the need to continually evolve and refresh the brand portfolio within the business.

Globe does not expect that these external headwinds will diminish during FY20, or indeed for the foreseeable future. The global economic environment is extremely fragile and there are no signs of any significant upturn on the horizon.

The company is also going through a period of transition and change and it will continue to evolve and develop over the next few years. However, Globe remains fundamentally the same business with which both shareholders and management have been familiar over the past 30 years.

All of these changes have been made because Globe recognised a few years ago the need to re-invigorate its brand portfolio; disposing of brands which were not performing satisfactorily and acquiring and developing new brands which will be the drivers of future growth. Those new brands include Salty Crew, FXD Workwear and the Impala Rollerskates.

Even the core Globe brand, which is at the heart of the Group's traditional skateboarding footwear and apparel programs has been renovated and re-focused during FY19 and this will continue in FY20.

The sale of the Dwindle Distribution business in the USA provides Globe with an excellent opportunity to re-develop and re-focus the United States business and the Group anticipates that it will make better progress in the USA with a leaner and more focused portfolio of brands, including Salty Crew, FXD, Impala and the traditional Globe branded products.

Overall the Group expects to earn revenues similar to those which were earned in FY19 despite the fact that the Dwindle Distribution revenues will not be received in FY20.

The Group's FY20 EBIT will likely be negatively impacted by a number of global factors which are putting downward pressure on profitability. Matt will address these topics in his address. The Group will continue to focus all of its resources and energy on improved revenue and profit performance throughout FY20.

I thank my fellow board members and the founders of Globe, Peter and Steve Hill, for their tireless work for the company. I also thank Globe's CEO Matt Hill and all of the management and employees of Globe for their energy, diligence and commitment in the interests of the Group as a whole.

Globe's shareholders can be confident that the Group remains in the best hands and that every endeavour is being made on every working day to ensure the Group's long term success and profitability. Thank you for attending the 2019 Annual General Meeting.

## **CEO'S ADDRESS**

Hello Everyone,

Globe International achieved a stable financial result in the 2019 financial year despite facing many external headwinds in the broader operating environment and the need to make internal brand changes within the company. These factors have continued into the current financial year and are likely to make the upcoming twelve months more difficult than the past few years. Nonetheless, these are challenges most companies in our world face, and we remain optimistic about the ongoing prospects and strengths of the company to combat such obstacles. We have a strong revamped brand mix and ability to grow; in short we are focused on new business growth while diligently aiming to maintain the general financial robustness of our company and the authenticity of our heritage brands in more uncertain times.

We have talked a great deal over the past few years of our ability to evolve and change our brand mix to changing market demands and operating environments. In fact this is the most defining feature of our model as a multi branded, and distribution channel business over the past thirty plus years. Never has this skill set been more needed than at this point in time in the broader retail environment. We are seeing retail platforms change, consumer purchasing behaviours transformed and global trade markets shifting away from the norms of the last few decades. At Globe International we continue to use our experience in these matters to adapt with regard to our brand mix, brand management and operating platforms to remain a viable and prosperous brand house.

To that end, in the 2019 financial year it was pleasing to further push forward with our new emerging brands such as Salty Crew apparel, FXD workwear and Impala rollerskates. Meanwhile, our core heritage Globe brand with its skateboards, footwear and apparel programs was overhauled and refocused to have a more appropriate scale of operations and product. The fact we are growing brands and launching new brands while not losing sight of our core history is evidence of our ongoing abilities to continue this evolution but remain true to our cultural foundations.

Furthermore in 2019 we became increasingly focused on ensuring our newer brands are well structured to operate under an omni-channel distribution model, being relevant to both brick and mortar traditional retail but also relevant to e-commerce in its many different forms.

By year end we saw strong growth in our strategic brands for the future, driving net sales up for the financial year of \$158.7 million, up 8% or \$11.5 million higher than the prior year in reported currency. Despite downward pressure on margins, EBITDA of \$9.1M and NPAT of \$8.2M remained stable and were down only modestly at 5% and 3% respectively in comparison to 2018. This resulted in dividends being paid in relation to the 2019 financial year of 13 cents per share, an increase of 18% over the 2018 year. These financial results were achieved while at the same time Globe made the investments required in new brands and managed the sharp and unavoidable downward pressure on margins from a depreciating Australian dollar and Euro against the US dollar.

Specific highlights for the year included the ongoing success of the Australian division posting its 8<sup>th</sup> consecutive sales growth year in 2019 and maintaining solid profitability despite downward margin pressure. Australia, which of the three operating divisions embarked on brand overhaul first, has

become the template for the change underway in North America and Europe to have more diverse and relevant brand and product category mixes for the markets in which we operate.

In North America, a major initiative was undertaken in 2019 to divest the Dwindle distribution business. This transforms the possibilities for this regional division to go from a predominately skateboard hardgoods business to a more balanced mix of skateboard and other hardgoods, footwear and apparel in the future. To that end the impressive growth for Salty Crew in 2019 and continued focus on this brand as the division's key strategic initiative are evidence the region is moving in the right direction. Furthermore during the year FXD workwear was introduced to the USA market and has been well received by some of the most influential premium independent retailers for workwear in the country.

The European division in 2019 managed to deliver only a roughly flat financial performance for the year in constant currency terms. While it is good to see this division stabilizing after some large declines, there is an expectation there to improve performance and prospects via growth of the newer brands in the global brand stable. Diversifying brand revenues will be key to improving performance in Europe over time. Furthermore the region needs to develop brands that can operate more effectively in a more at once omni-channel distribution model beyond the traditional wholesale indent brick and mortar distribution retail model which has been the norm for many years in Europe.

Branded highlights in 2019 included the ongoing excellent growth of Salty Crew in the three operating regions, as well as the successful expansion of Salty Crew into new international markets such as Canada and Japan. FXD apparel continued to lead the Australian market and as mentioned made a solid launch in the USA. Impala rollerskates, an exciting female focused branded initiative outperformed all expectations and is a leading brand with true digital DNA from inception, exceling in digital marketing and engagement with its consumer base. This is a skill set to be increasingly developed within the company and Impala is leading the way in this initiative. Globe branded skateboard hardgoods also showed solid growth toward the end of the financial year. This is key to the company, as Globe being our single largest hardgoods skateboard brand prior to the Dwindle distribution divestment, is now more than ever our key strategic play in the skateboard hardgoods market, to which we remain as committed as ever.

## Financial Year 2020

Turning to the current 2020 financial year, our first quarter has delivered on our strategic and financial plans. We finalized the divestment of our North American based Dwindle Distribution business in August, and delivered a quarter of trade that saw our newer brands continue to grow, and group profitability maintained. In addition, inventory returned to more manageable levels by the end of the quarter, after the excess inventory situation experienced during the second half of the 2019 financial year.

With the Dwindle business sold, North America now has an excellent platform to invest in its future growth engines such as Salty Crew, FXD, Impala and Globe hardgoods. Australia is expected to continue to be the profit engine of the company in 2020, but faces ongoing challenges with a changing retail market as well as downward pressure on margins from the strong US dollar. European performance has flattened and must develop our new brands in order to grow and improve performance.

It is imperative over the next few years that the contribution to bottom-line from both the European and North American divisions improves in order for Globe International to move to the next level of profitability.

For the remainder of the financial year we expect group revenues to approximate the prior year, despite the removal of the Dwindle Distribution revenues from the group. This is a direct result of our growing newer brands, particularly in North America. However, while sales are stable and there will be a profit from the sale of Dwindle Distribution, group EBIT is expected to be negatively impacted by a number of factors putting downward pressure on profitability in this financial year. In the first half of this financial year we have unavoidable downward margin pressure from the sudden introduction of tariffs in the USA and from the strong USD negatively impacting EU and Australian margins. In addition, we expect to have one off extraordinary costs in the year that will impact profitability such as branded investments, new product developments and legal costs connected to branded IP protection disputes.

Based on what we know today, we estimate that EBIT in the 2020 financial year will be slightly lower than the previous year. We expect to have greater visibility on this outlook early next calendar year, and will provide an update when our half year financial results are released in February. It should be noted that if additional appreciation of the USD were to occur, or even greater tariffs were introduced in the USA on a short time frame, we would experience more negative impact on profitability in this financial year than is currently forecast. With regard to net profit after tax, we expect our effective tax rate to increase to around 30% in the 2020 financial year, as a result of accounting for income tax losses which are now expected to be fully utilized in the next 1- 2 years. As such, while current outlooks indicate the EBIT will be slightly lower than 2019, NPAT is expected to be further down due to the increase in income tax expense.

Overall, at Globe International we are extremely positive about the internal structural and branded changes we have executed over the past twelve months and continue to make on an ongoing basis. We have improved the proportions of newer brands to heritage brands, we are operating in a better mix of bricks and mortar and digital retail outlets with this new brand mix than in prior years, and we are focused on a series of young brands with significant revenue headroom with high global revenue ceilings still to be reached. However, we are operating in tumultuous retail times and uncertainty in global trade markets. We look to constantly maintain a balance and a culture of investing in our future while absorbing any negative factors into our operations, and then mitigating and changing to combat those factors.

In closing, I would like to thank the staff, the management team and the Board for their ongoing support and enthusiasm for our brands and company given the daily fast moving challenges we face in the current environment. It's an attitude that is greatly appreciated and key to how we keep moving the company brands forward and continue to endeavour to deliver strong shareholder returns and build long term shareholder value.