GLOBE

COMPANY ANNOUNCEMENT

GLOBE INTERNATIONAL LIMITED

RESULTS FOR THE YEAR ENDED 30 JUNE 2022

MELBOURNE, 26 AUGUST 2022: Globe International Limited (the Group), designer, producer and distributor in the board sports, street fashion, outdoor and work-wear markets, today announced its results for the year ended 30 June 2022. The Group reported a small increase in sales and solid profitability despite challenging economic conditions putting downward pressure on both margins and consumer demand, particularly in the latter part of the financial year. The key business metrics for the year were as follows:

- Reported net sales for the year of $274.5 million were 3% higher than the prior comparative period (pcp).
- Earnings before interest and tax (EBIT) were $27.5 million, representing 10% of net sales.
- Net profit after tax (NPAT) was $18.6 million.
- Cash-flows used in operations were $5.2 million, driven by a change in business mix, catch-up taxation payments and inventory build.
- The fully franked final dividend of 16 cents per ordinary share takes full year dividends to 32 cents, which is flat on dividends paid in relation to the 2021 financial year.

Matt Hill said, "I'm proud of the result we have delivered this year, given all the various challenges that have been thrown at us. Sales were at a record level, and we have delivered a 10% EBIT return on sales which supports the return of 32-cents in dividends to shareholders, both of which were significantly higher than in the 10 years prior to 2021. After the extraordinary highs experienced throughout FY21, with record profits driven by all brands and a high proportion of online sales, we were prepared for some earnings normalization during the 2022 financial year. As it turned out, there was more negative pressure on profit margins than we had expected due mainly to continued global logistics issues and the macro-economic impact of rising interest rates and inflation. Despite this, we have delivered a strong result due to the strength and diversity of our segment leading brands, which are showing resilience and new levels of scale even with the challenging macro conditions."

Net sales of $274.5 million grew by 3% during the year in reported current terms, and 2% in constant currency terms. Sales growth was driven by the Group's major apparel and footwear brands, but this was largely offset by a reduction in sales of the Group's hardgoods brands. Despite the decline in the momentum of the hardgoods brands, they continue to trade profitably, and sales are significantly higher than they were prior to the pandemic. From a regional perspective, the North American business drove the increase in sales, delivering a 9% increase over the prior year in local currency terms. Meanwhile the more established Australian business experienced a 3% decline in sales, partially impacted by extended lockdowns in the first half of the financial year. European sales also declined by 3% in local currency terms, due to the contraction of the hardgoods market.

The $27.5 million EBIT reported for the year generated a return of 10% on net sales, compared to 17.5% in the previous corresponding year. Some decline in profitability was anticipated as it related to the normalization of the sales mix and an increase in the cost base to support the step-up in the size of the business that occurred during 2021. However, there were additional factors that were not anticipated. This included major shipping delays in Q1 leading to cancelled orders, the softening of the hardgoods market from Q2, rising inflation and interest rates starting to take a toll on margins and softening consumer demand throughout H2, the strength of the US Dollar, and the excessive cost of moving goods around the world.

Looking ahead, Matt Hill said, "In the last quarter of the financial year we noticed a change in consumer behaviour as rising interest rates and inflationary pressures started to impact discretionary spending. We expect that this will lead to downward pressure on our sales trajectory into the next financial year, but we will continue to look for opportunities to grow and supplement our existing brands to maintain the scale we have achieved over the last 2 years. In addition, we will continue to do what we can to mitigate the impacts of inflationary pressure on our bottom line."

The Group's cash position, net of working capital borrowings, was $7.6 million at 30 June 2022, compared to $36.1 million at the start of the financial year, representing a net utilization of cash of $28.5 million during the year. The net cash on hand at the start of the financial year was built with the intention to fund $14.9 million in planned dividends and $6.9 million of capital expenditure, net of the proceeds from the property loan. This capital expenditure was largely one-off in nature, comprising the acquisition of a property near the Australian headquarters which will provide additional warehouse and retail space, and the fit-out of the new North America headquarters. In addition to these financing and investing activities, the Group utilized $5.2m in operating cash flows. This included some catch-up in taxation payments relating to the 2021 financial year, and a $19.8 million increase in working capital. The working capital build was largely due to the $18.4 million increase in inventory, most of which is due to excess hardgoods inventory. Steps were taken to right size the inventory holdings during the fourth quarter of the financial year, and further action is planned for the first half of the 2023 financial year. The correction of the excess inventory is planned in a way that preserves brands and supports the continued solid market for our hardgoods brands. In addition to this expected working capital improvement, in the 2023 financial year, capital expenditure is expected to return to normalized levels following the one-off items in 2022.

Since the end of the financial year, the Directors have determined that a fully franked final dividend of 16 cents per share will be paid to shareholders on 23 September 2022. This takes the full year dividends to 32 cents, which is flat on the dividends paid in relation to the 2021 financial year.

Matt Hill advised, "The Board determined the final dividend having regard to overall earnings and cash generation over the last two financial years. This is after 2021 dividends were cautiously paid at just 40% of NPAT, having regard to ongoing uncertainty in the market and the significant operating and capital expenditure cash outflows expected in 2022. Over 2 years, the NPAT pay-out ratio is 56%. For the 2023 financial year, dividends will be determined based on the performance for the FY23 year alone. Therefore, full year dividends should be expected to be lower than dividends paid in relation to the 2022 financial year, which were the equal highest dividends ever paid by the Company."

Authorised for release by the Board of Globe International Limited.

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