

15 February 2024

Skellerup expects FY24 NPAT to be similar to prior year

Skellerup announced today unaudited net profit after tax of \$21.6 million for the six months ended 31 December 2023, a decrease of 6% on the prior comparative period (pcp).

Key points for the six months ending 31 December 2023

- Revenue of \$157.5 million, down 5% on prior comparative period (pcp)
- Earnings before interest and tax (EBIT) of \$31.6 million, down 6% on pcp
 - Industrial Division EBIT of \$22.9 million, a record result up 7% on pcp
 - Agri Division EBIT of \$11.9 million, down 19% on pcp
 - Corporate costs of \$3.1 million, up \$0.6 million on pcp
- Net profit after tax (NPAT) of \$21.6 million, down 6% on pcp
- Operating cash flow of \$36.5 million, a record result up 81% on pcp
- Net debt of \$26.4 million, down \$12.6 million on the prior half year
- Interim dividend of 8.5 cents per share (an increase of 0.5 cps), up 6% on pcp
- FY24 NPAT expected to be similar to the prior year record result.
- David Mair stepping down as CEO on 31 March 2024 (whilst remaining on the Board). Graham Leaming appointed as CEO.

David Mair commented. “The first half of FY24 produced mixed results. Our Industrial Division achieved another record half year result and the fifth consecutive increase in half year earnings. Our Agri Division suffered from an unexpectedly prolonged destocking programme in international markets. Despite the contrasting outcomes, the focus for both Divisions is the same. Our strategy and priority are to work closely with customers, not only to meet their current needs for existing products but also to understand future needs, to ensure our development efforts are customer led. We also continue to standardise and improve processes”.

Industrial Division

Skellerup’s Industrial Division achieved a record EBIT of \$22.9 million, up 7% on pcp. “Growth from increased sales into water (potable and waste), hygiene and mining applications were partially offset by lower sales into leisure and roofing applications. Potable and wastewater products for OEM customers is core business for Skellerup, and we continue to win business with existing and new customers. We achieved expected strong growth in the hygiene market supporting a major customer’s new product launch. Sales for marine foam in international markets were down as expected with customers adjusting inventories reflecting a softer market and our improved lead times. Weaker construction activity in Australia reduced demand for our roofing products, although this was partially offset by growth in North America. Overall margins were up reflecting improvements on existing products and higher margin new products.”

Agri Division

Skellerup’s Agri Division EBIT of \$11.9 million, was down 19% on pcp. Mair noted, “Dairy sales were softer than we anticipated as international customers reduced purchases to lower inventory. With

many of these customers having calendar fiscal years this activity continued right through the first half. Pleasingly, we have experienced a larger than normal uplift following Christmas, and forward orders continue to be strong. We have continued to improve our processes and invest in new and improved equipment to improve productivity and reduce waste. Because of these improvements, investments, and the lower demand, we incurred restructuring costs of NZD 0.6 million in the first half. Footwear sales were solid, despite drier weather in NZ than we experienced in the pcp.”

Cash

A continued focus on gradually reducing inventory closer to levels needed and good management of receivables helped generate a significant increase in operating cash flow to \$36.5 million up 81% on pcp. Consequently, net debt remains low at \$26.4 million well below pcp and slightly below the June 2023 year end position. Mair said “In the prior period, we were still building inventory to mitigate raw material shortages and elongated shipping timeframes. Over the past 12 months we have been gradually reducing levels whilst managing the impact of abrupt changes on our manufacturing partners.”

Outlook

Skellerup updated expectations for FY24. Mair said “Our business remains robust, and we expect some of the first half headwinds of customers reducing inventory used in dairy and leisure applications will abate. The global environment including the impact this is having on ocean transit times continues to make forecasting future results difficult. However, based on our YTD results and our expectations of trading conditions and customer demand for the rest of the year, we expect FY24 NPAT to be similar to the prior year record result. Our strategy of working closely with customers to provide engineered products that assure performance remains our focus to deliver sustainable earnings growth.

Dividend

Chair John Strowger said the first half result, and expectations for the full year, allowed the Board to declare a 6% increase in the interim dividend to 8.5 cents per share, imputed 50% (the same level as in the pcp). The dividend will be paid on 14 March 2024 to shareholders of record at 5pm on 01 March 2024.

“At the ASM in October 2023, I commented that at Skellerup we are in for the long haul noting we have a history of quiet achievement, represented by incremental (and sustainable) rather than flashy growth. The interim dividend reflects the Board’s confidence that Skellerup will continue to perform in this manner.”

Leadership

David Mair will step down as CEO on 31 March 2024. Mair joined the Skellerup Board in November 2006, was appointed as acting CEO in July 2010 before taking on the CEO role on a permanent basis in July 2011. Mair will continue to serve as a director of Skellerup and along with Paul Shearer will lead a special project initiative with management to progress our in-market capabilities.

Graham Leaming has been appointed as CEO to replace Mair. Leaming joined Skellerup as CFO in December 2012. Tim Runnalls (who joined Skellerup as Group Financial Controller in March 2021) has been appointed as CFO, to fill the vacancy arising from Leaming’s appointment.

Reflecting on the change, Strowger noted “David has been an outstanding CEO. Over the almost 14-year period he has been in the role, Skellerup’s annual earnings have grown by more than 400%.

Shareholders have been well rewarded by David's expertise, leadership and relentless drive for growth and improvement. Customer focussed development, continuous operational improvement and careful allocation of financial and human capital are key elements David has instilled into Skellerup. His success has rightly been recognised over recent years, and whilst I have previously remarked that our growth and performance are through the contribution of many, they have been expertly enabled and led by David. With David continuing as a director, Skellerup, and therefore shareholders, will continue to benefit from his skills and knowledge.

We are very pleased to have Graham step up to CEO. Graham joined Skellerup as CFO in December 2012, and is a proven performer, leading a broad range of commercial functions delivering great value for Skellerup over the past 11 years. Together David and Graham have been a formidable team. We are very confident that Graham will be a strong and successful leader for Skellerup backed by a strong team with a passion and capability to continue to deliver great products for customers and sustainable earnings growth for shareholders."

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