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Skellerup resilient in face of Covid-19

Skellerup has provided a further update on the impact of Covid-19 on its business and guidance on FY20 net profit after tax (NPAT).

We are sure that all shareholders understand that our focus has been first on our people and secondly our customers. Over the past five months we have ensured a safe working environment for our people across the world. Our leaders and teams have worked together extremely well to implement new ways of working including maintaining safe physical distancing. Many of the changes implemented will remain as the new norm for how we work at Skellerup. We are delighted with the resilience, adaptability and commitment of our people to maintain safe operations and meet the needs of customers.

The strength and resilience of our Agri business has been particularly evident. As countries around the world gradually moved into lockdown, we were uncertain what the immediate future would bring. However, demand has remained strong and our facilities in New Zealand (NZ) and the United Kingdom have continued to provide essential food grade consumable products for customers across the world. Put simply Skellerup products are essential to the continued global supply of milk and milk products. Meeting this demand has been challenging, with changes in layouts to operate safely and the changes to shift patterns and staff impacting on our capacity and increasing costs. At our largest facility in Wigram, Christchurch, we have overcome the equivalent of at least two weeks' lost production, faced additional costs and paid staff who were unable to work either because of health issues or age. We are now operating at about 90% of previous maximum capacity, but we have improved productivity more quickly than anticipated to meet demand and consequently we have returned NZD 1.5 million in wage subsidy payments.

Our Industrial business serves a more diverse range of customers and applications and as such has experienced a broader range of impact. The gradual implementation and continuation of lockdowns in some countries caused a slowdown in late March and April for products we sell into applications such as water and wastewater infrastructure. Similarly, the slump in oil and gas prices has caused reduced demand for products used in applications supporting this industry. In NZ the lockdown conditions meant that some of our businesses could only operate at a limited level to supply only those products deemed essential. However, demand in some markets and for some of our products remained strong. During May and June, we have seen a rebound in overall levels of demand as restrictions have eased and activity increased across the world. Our strategy to focus on specialist products for OEM applications in infrastructure, roofing, flow control, health and medical applications places us in a strong continuing position.

The strength and quality of our customer base in both divisions combined with our efforts over the past year to improve payment terms, mean that despite a slight increase in provisioning, our operating cash flow is very strong, our debt low, and our balance sheet robust.

Prior to the Covid-19 outbreak, Skellerup was on track for a record result in FY20. At the end of March 2020 NPAT for the year to date was ahead of the prior comparative period. Having absorbed increased costs of operation and demand interruption in the final quarter we expect to deliver a full year NPAT in excess of NZD 28 million.

We are well placed to invest soundly to generate sustainable earnings growth and strong shareholder returns in the years ahead.

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