

Skellerup Holdings Limited
Annual Shareholders Meeting 29 October 2014
Chairman's Address

Once again a warm welcome to you all. When I sat down to think about what I might say to you this year I reflected back over what is almost 7 years as Chairman of Skellerup. This Company has come a long way, and the job is certainly not over yet as we continually seek to improve and build Skellerup, but the achievement that stands out most for me as I look back relates to a project that we are currently in the midst of. Called Project Viking in recognition of our Scandinavian founders, it is our not-so-insignificant \$30 million investment in a new world-class Dairy Rubberware Development and Manufacturing facility at the Wigram Business Park.

It is a project born out of tragic circumstances in Christchurch. But it is one that I am particularly proud to be part of. This is not only a major commitment to Christchurch – but it is a measure of the quality of our people there and the potential that can stem from having a purpose built site. It will serve our Agri operating division and ensure that we remain at the cutting edge of what we do for both our customers here in New Zealand and also our many, and growing numbers of, international ones as well. Our leading chemists, engineers, technicians and manufacturing teams, I am sure, will thrive in this new environment – working closely to develop new and smart solutions.

With the first sod expected to be turned in November, we are making excellent progress. And with the overall concept and design now agreed, our very experienced contractors Calder Stewart are expected to start actual construction of the 18,900 square metre facility next month. We are still targeting a completion date somewhere around December 2015 – barring no unforeseen circumstances of course.

Thanks to Ngai Tahu people who are responsible for this high quality development of the Wigram Business Park. Also thanks to our Project Viking team, led by the extremely capable Sir Ron Carter. Let me assure you that detailed planning is already underway to ensure a smooth transfer of operations from Woolston to Wigram. Every piece of plant is being mapped to determine when it will be packed, shifted and re-commissioned so that we ensure our customers receive uninterrupted service.

The new facility will have at its core a modern rubber mixing and transport system that is currently being partially assembled at the existing Woolston site. This will help us accelerate the commissioning after it is installed at Wigram.

So as mentioned, this move will certainly be a major milestone event for Skellerup – remember it was 70 years ago that our Woolston operation was first established. Our new Wigram facility will enable a world-class operation delivering efficiency gains that will strengthen and underpin our business for the future.

Now with that off my chest I had better talk to you about the financial year that we are here to discuss! I am sure it will not have been lost on you, our very astute shareholders that our reported Net Profit after Tax (otherwise called NPAT) was an exceptional \$41.1 million for the year ended June 30, 2014. That figure is indeed a record for us – but to represent it as one would be wrong.

In fact our NPAT was positively impacted by a \$20.4 million gain from the settlement of our Canterbury earthquakes insurance claim. Excluding this gain NPAT was \$20.7 million – up 9% on the prior year. Revenue was \$196.6 million, up 4% on the previous year. I would describe this as a ‘credible performance but one that leaves room for improvement’.

Of particular note in our 2014 annual result was the very pleasing performance of our Agri Division. Earnings before interest and tax were \$21.7 million on revenue of \$80.2 million, up 11% on the previous year. The Agri Division benefited from a buoyant New Zealand dairy sector leading to increased sales of liners and tubing, together with increased sales from an expanded footwear range and initial contributions from acquisitions of two small businesses to augment our animal hygiene product offering. Our reputation, range and global scale in this sector means we are well placed to take advantage of the regulatory changes in Europe, that should drive growth as larger, more efficient dairy units replace smaller operations. In China, opportunities will grow as they increasingly look to strengthen food safety standards.

Good progress was made in our Industrial Division in the year under review – however, improvements in returns accrued at a pace slower than we would like. That division reported EBIT of \$13.5 million on revenue of \$116.2 million.

What did that translate into for you our shareholders? Strong cash flow and debt management coupled with confidence in the underlying business enabled us to increase the dividend pay-out for the year – from 8 cents per share to 8.5 cents per share.

For those of you who appreciate balance sheet strength – or put another way; being in a position where a bank would gladly lend you more money – our gearing level remains very conservative. Call me old fashioned but that is the way I like it. Truth be known as at 30 June we had cash reserves of \$16.4 million following full settlement of our insurance claim in Christchurch which means we are generating interest rather than paying it out. That will change as we progress Project Viking.

Conclusion

I am pleased to report your company remains in excellent health but this is not to say that there aren't headwinds that we face. The slump in dairy pay-out may have some impact on how farmers spend their money in the NZ market. As we have seen in the past, while farmers need to replace essential consumables such as dairy liners and tubing, some of this expenditure can be delayed for a short period. However strict food safety requirements ensure that this is a timing issue so we do not expect this impact to be significant. On a broader scale, food safety also opens opportunities for further innovations – which will only be enhanced once our new Wigram site is up and running. Skellerup has created improved, cost-effective products used in international potable water applications that we expect will generate considerable future revenue growth. Clean energy particularly through increasing global demand for natural gas, is another key factor that underpins our business. This demand supports our investment and expected sales growth for our Pumps business and expected sales growth for our valves and diaphragms that are used in applications such as LPG/CNG vehicle fuel systems.

With these factors in view, your Board expects FY15 NPAT to be within a range of \$21 million to \$24.5 million. I note the bottom end of this range is fractionally above the FY14 NPAT exclusive of the net gain we recorded on settlement of the Christchurch Earthquake claims. David Mair will comment further on this guidance in his presentation.

Thank you also for being a fellow shareholder in Skellerup. On that positive note, I thank you for your time and hand over to David.