

HGL Ltd
Annual General Meeting
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Chairman's address

Level 2
68-72 Waterloo Road
Macquarie Park
NSW 2113 Australia
www.hgl.com.au
P +612 8667 4660
F +612 8667 4669

HGL Limited
abn 25 009 657 961



I am pleased to provide you with an update of the Group. This will include an overview of the Group's strategic direction, and key points relating to HGL's financial performance for the 2016 financial year.

Our Chief Executive Henrik Thorup will follow, taking you through an overview of how we have progressed with the implementation of our strategic plans, and share operational highlights and priorities for the 2017 financial year.

Both Henrik and I will take questions from shareholders at the end of Henrik's address.

It has been another positive year for HGL with the company continuing towards achieving our stated strategic objectives.

Operational performance improved in 2016, delivering a second consecutive year of growth in revenue and earnings.

Despite the broader economy and trading environment remaining subdued, we successfully achieved overall profitable revenue growth, which was a primary goal.

Total Group revenue, including Mountcastle, increased by 5% to \$68 million in 2016, whilst reported sales revenue of the wholly owned companies was \$52.2 million, in line with the prior period.

JSB Lighting, Mountcastle, Bianta and SPOS increased combined revenues by \$5.3 million or 11.2%.

Two businesses did not achieve an increase in revenue, with BLC Cosmetics and Leutenegger declining by \$2.4m. Despite the revenue contraction, both companies achieved higher EBIT contributions through improved gross margin levels and reduced operating expenses.

**SUPPLYING
MARKET
LEADING
BRANDED
PRODUCTS**

Other key financial results for 2016 were:

- An increase in underlying profit of 15% on prior year to \$3 million.
- An increase in statutory profit of 15.9% to \$4.3 million on prior year after the inclusion of \$1.5 million of non-underlying items.
- Net cash at balance date of \$3.8 million. The current banking facility limit remains at \$2.8 million.
- The board declared a fully franked final dividend of 1.5 cents per share, which was paid on 24 January 2017. Total dividends for the year were 2.5 cents, up 1 cent on the previous year.
- The HGL head office restructure, completed in 2015, generated savings of \$0.6 million in this financial year.

We continue to reposition and rebuild the operational foundations in our underperforming businesses, whilst further enhancing the capabilities of our higher performing businesses.

HGL recognises that brands owned containing intellectual property (IP) are valuable assets. Therefore, the development of our IP is a key strategic objective. Currently 30% of total sales in HGL are generated with own IP products, and this is rising with new product development plans being implemented.

Our talented management teams and employees continue to deliver encouraging results with the Group now fully focused on growth and development of business capabilities.

We continue to invest in employee training programs, knowing the importance of staff engagement and work place welfare in delivering sustained business improvement.

I take this opportunity to formally thank our employees for their efforts and contribution throughout the year.

The Board remains confident about the strategic direction set out in the Growth, Profit & Sustainability Strategy Plan and management's capacity to execute it.

We plan to supplement the current organic growth with strategic bolt on acquisitions to achieve a larger scale Group with expanded market opportunities and further operational synergies.

The HGL acquisition strategy targets selected future growth industries, where HGL can leverage its experience, such as Building Products, Personal Care, Homewares, Retail Marketing and the Medical Devices market.

Our acquisition criteria includes investing in larger strategic companies with sales revenue exceeding \$25 million, and a target return on investment of 20%. We envisage funding for acquisitions to be through a combination of own funds, borrowings and capital management.

The Board, after considering recommendations from independent consultants, has implemented an executive incentive scheme designed to retain senior management, and reward shareholder value creation measured by Earnings per Share and Return on Funds Employed.

Participants will include the CEO and executives by invitation, who will be rewarded through a combination of short and long term cash incentives awarded for achieving annual performance hurdles. Half of the incentive earned is deferred over the following two years and has a clawback option.

The Biante model car business achieved an 8% increase in revenue, selling in excess of 45,000 units to motoring enthusiasts, supercar fans and classic car collectors in Australia.

Biante will release a Bathurst 1000 winner in 2017, following Tekno Racing Team's win in October last year. Biante is Tekno's official model car partner, and this is expected to be a highly successful model car for Biante.

Our health and beauty business, BLC Cosmetics, doubled its EBIT compared to last year, refocusing its business development strategy to concentrate on core brands with the strongest sales prospects.

BLC Cosmetics is partnering with our biggest brand, Thalgo, to develop tailored marketing campaigns to the Australian salon and spa markets.

During the year, exclusive distribution rights to premium Italian skincare brand, Comfort Zone, were secured. A new General Manager with 20 years industry experience was appointed in October 2016.

Our commercial lighting business, JSB Lighting, continued its strong performance achieving revenue growth of 11.4% to \$22 million on the back of significant revenue growth in 2015.

The company successfully delivered on its core objective to expand market share, targeting major capital cities in Australia and New Zealand, employing additional sales executives and opening new sales offices in Auckland and Christchurch.

In contemporary crafts, Leutenegger is concentrating on driving growth through the delivery of Australian content and own design product ranges.

The company has secured several new business development projects, and delivered a new merchandising solution for needlecraft products in Spotlight stores around the country. Exclusive rights to the Florence Broadhurst craft fabrics and a number of renowned Australian quilt fabric designers have also been secured.

Nido Interiors is a homewares start-up venture, which designs and promotes soft furnishing products under its own One-Duck-Two brand, alongside other private label brands to major homewares retailers, online sites and department stores. The business has received a significant uplift in forward orders and is expected to be profitable in the second half of 2017.

The SPOS Group, offering retail marketing solutions in Australia and New Zealand, achieved sales revenue of \$10 million, which was in line with the prior period. The company continues to execute its refocused business strategy, with off-the-shelf product sales now accounting for over 70% of total revenue.

SPOS Group has cemented its market position in grocery and retail channels with new project wins in Coles and Aldi supermarkets in Australia and The Warehouse in New Zealand. The subsidiary in New Zealand is expanding its pipeline of work and is expected to contribute incremental revenue growth in 2017. SPOS continues to manage margin pressures for 2017.

Mountcastle is a 50% owned uniform company, which continued its strong growth performance increasing sales revenue by 21% to \$15.9 million. The company increased its market share in both the private and public school uniform market with The School Locker partnership contributing to add significant uplift in public school uniform sales.

Mountcastle is expanding its manufacturing capacity to manage the increased sales volumes and has established a new manufacturing facility in Vietnam.

Under the leadership of Henrik Thorup and his management team, the Group continues to make solid progress with the ongoing transformation of HGL.

The Board is confident that strategies are in place for each business unit to deliver improved results, that will position the Group for stronger, sustainable revenue growth enhancing earnings and shareholder returns.

The Board acknowledges that local economic conditions remain uncertain, and the unpredictability of global markets is creating volatility in the value of the Australian dollar against foreign currencies.

Despite these challenges, I am pleased to report that HGL continues to gain momentum, delivering 10% revenue growth in the first quarter of 2017 compared to the prior year.

On the back of improved sales performance and healthy gross margins, the Group has achieved an uplift in Underlying EBIT compared to the same period last year.

Cash flows from operations in the first quarter are positive.

For shareholders, we were delighted to declare fully franked dividends of 2.5 cents per share for the year, which corresponds to a 67% dividend increase compared to last year and is in line with the improvement in underlying earnings per share.

Now that the company has returned to profitability, the Board is reconsidering the introduction of the on-market buyback scheme that was last conducted in 2011. We envisage any such buy back to be a number no greater than the volume of shares issued under the Dividend Reinvestment Plan.

As part of the continuing capital management of the Company, particularly with a view that acquisitions are being sought, the Board will consider the associated financing requirements. We believe the Company will have continued support from our existing lenders, and any funding shortfall may include a capital offering to existing shareholders, or an underwritten retail offer.

We appointed Cheryl Hayman as a Non-Executive Director, effective 1 December 2016. Cheryl brings extensive strategic and marketing experience. This appointment was flagged at the last AGM and followed an extensive independent search.

On behalf of the Company I would like to thank HGL's customers, shareholders, partners and suppliers for their continued support over the past twelve months.

On behalf of the board, I thank Henrik Thorup and his management team for their contribution and dedication to the continued success of the Group.

I would also like to thank my fellow Directors for their contribution throughout the year.