ASX RELEASE

20 November 2024

DGL Group Limited

2024 Annual General Meeting

Chair and CEO Addresses

Chairman's Address

Good morning, it is a pleasure to welcome you to DGL Group Limited's 2024 Annual General Meeting, our 4th since listing on the ASX in May 2021, and DGL's 25th year since the business was founded in 1999.

After my opening remarks, DGL's founder and CEO Simon Henry will discuss our growth strategy, key drivers over the last year, and will highlight our plans and objectives across our growth pillars.

DGL has built a leading position as a provider of specialised chemicals, materials and services to an increasingly diverse range of essential industries across Australia and New Zealand. Our team of over 800 people served over 5,000 customers from 85 sites during the year. We are proud of our reputation for our customer service and safety.

The safety of our people and the environment is our foundation, and we are committed to ensuring that our workplaces uphold the highest standards, so our people can go home safely each day. One measure of our safety performance is our lost-time injury frequency rate. This improved, with a reduction from 14.3 in FY23 to 10.3 in FY24. While this outcome is encouraging, it doesn't reduce our commitment to improve, and we are focused on further enhancements to our systems and process controls, investment in training, and maintaining a safe working environment.

During FY24, DGL demonstrated the resilience and diversity of its operations in challenging and volatile business conditions. The Company delivered a solid result, despite a weaker economic environment, increased cost pressures, ongoing supply chain issues, and volatility in agriculture and commodity pricing.

I generally prefer not to comment on our share price, but I need to acknowledge that it is not where we want it to be. The last 2 years have not been without challenges, and we know the share price decline is a concern for all shareholders. I can assure you that your Board shares these concerns.

We are very focussed on delivering sustainable earnings growth, which we firmly believe will be reflected in a positive share price trajectory. We aim to do this by pursuing our focussed growth strategy, with tighter cost disciplines, and by extracting greater operating efficiencies from integration of acquisitions made by the Company.

We are committed to creating long-term value for our shareholders.

FY24 in Review

FY24 was an important year for DGL. In addition to our focus on safety, we reshaped our senior leadership team and invested in upgrading our finance, management and HR systems as well as establishing new, shared group services to improve efficiency and simplify our operations. We progressed several strategic expansion projects, and took a more selective approach to acquisitions. All designed to deliver stronger and more predictable operating results in future.

FY24 revenue of $466m and EBITDA of $64.6m were steady compared to last year. Gross margins increased 6%, from 37% to 43% in FY24, driven by lower raw material costs, improved product mix and economies of scale. DGL generated $37.3 million cashflow from operations.

Net profit after tax of $14.3m was down 18% on FY23 after adjustment for (non-cash) deferred tax liabilities in FY23. The reduction in profit was mainly due to cost inflation, with pressure on wages, higher interest costs, our increased headcount, and increased competition impacting both price and volume in our Environmental division.

We completed five acquisitions during FY24 which add to our manufacturing and logistics capabilities, and we are being selective with acquisitions going forward, only considering them when we can see both strategic and financial benefits for the group.

We continued our organic investment in several new or expanded manufacturing and water treatment facilities. These investments in plant and systems added to short term costs which impacted on net profit in FY24, but they will benefit future earnings. Simon will expand on this shortly.

We've received several questions relating to dividends. While we understand the value of dividends for some shareholders, our approach since listing has been to reinvest our earnings to grow the business. We are being very selective with acquisitions and investments, but we continue to see attractive opportunities for investment for the long term benefit of the Company and our shareholders.

Our share buy-back program has been on hold. We intend to reinstate the ability to buy back shares, and we'll remain opportunistic and pragmatic as to where we invest our earnings to deliver the best impact on shareholder value.

Board

Regarding the Board, we are continuing our search for an additional independent Director to broaden the Board's skillsets, and to increase independent representation and diversity. We will continue to ensure that the Board has the right mix of skills and experience to lead the Company.

Remuneration

One of the items of business at this meeting is approval of the Company's Employee Incentive Plan. The objective of the Plan is to help attract, motivate and retain employees and to align employees interests with shareholders through direct ownership of shares.

Such plans are common practice for listed companies and the Directors consider DGL is currently at a disadvantage by not having an appropriate plan in place.

Subject to shareholder approval, the Board intends to introduce two programs under the Plan in FY25.

The first is an annual offer to all employees to purchase up to $10,000 worth of shares at a 10% discount to the market value. We think that it is appropriate to offer this modest discount to encourage employees to become joint-owners and to participate in the growth of the Company.

The second is an offer of Performance Rights to the CEO, the Chief Financial Officer and Chief Operating Officer based on 50% of their base salary, where vesting and conversion into shares is dependent on achieving specific hurdles based on both earnings per share and relative share price performance over three years.

The Board has been working hard to ensure that executive pay is appropriate, and is aligned with the objectives of the business. We have benchmarked the plan and the performance hurdles against similar companies, and the Board considers the plan to be conservative relative to market practice. DGL will need to outperform its peers significantly for the Performance Rights to vest in full, which would see all shareholders benefit.

Closing remarks

In closing, DGL remains in strong financial health, and recognising ongoing cost pressures and economic uncertainty, we have a positive outlook for the current financial year. The Group's strong balance sheet and cash generation supports ongoing organic investment for growth, with a very targeted approach to strategic acquisitions that can add value and capabilities to the business.

I would like to thank DGL's dedicated employees and contractors, our leadership team, and my fellow directors for their commitment to the company. To our shareholders, thank you for your support. We value it and we do not take it for granted.

We are working hard to improve our performance and deliver the returns you are looking for.

I'll now hand you over to Simon Henry.

Chief Executive Officer's Address

Thank you Tim, and I thank our shareholders for joining us today.

I founded DGL 25 years ago after identifying the opportunity to provide a full suite of chemical and related services to meet the needs of industry and the community.

DGL has grown to become a leading provider of chemical services from procurement, to formulation, packaging, storage, transport and logistics, and recycling and recovery. All requiring specialised skills, capabilities and licensing.

Our mission, both then and now, is for DGL to become an integral part of the industries we serve. We do this by partnering with our customers, being their trusted service provider, known by our reputation for customer service, compliance and safety.

We work in a highly regulated landscape that operates with good intentions in terms of safety and the environment, but has resulted in increased complexity, with compliance and regulatory overlays that mean new activities in our sector typically now take years, not just months for approval.

This is an impediment to the growth of the industry. But it's also a competitive advantage for DGL – due to the breadth and scale of our activities and the established facilities and operating licences that we now hold. We will continue to expand our portfolio of licences and build our capabilities by internal investment and by acquisitions where it is more efficient.

We specialise in what we do, and we are very focussed in meeting the highest regulatory and environmental standards across our operations.

Since the Company's IPO in 2021, we have:

- grown from 26 to 85 sites;
- increased and diversified our customer base from 1,300 to over 5,000 customers across multiple industries;
- increased staff from 280 to 800;
- grown revenue from $180 million to $466 million; and
- increased our EBITDA from $19 million to $65 million in FY24.

I'll touch on some of the highlights from our divisions over the last year.

Warehousing and Distribution

In FY24, we increased our chemical storage capacity to over 200,000 tonnes, allowing room for growth and extending economies of scale.

We increased our overall storage capacity while consolidating sites to improve operational efficiencies and redeploy capital by selling non-strategic, generic properties.

Manufacturing

We upgraded plant and equipment with larger and more efficient manufacturing capacity, to drive long-term profitability.

We have expanded our crop protection capacity by investing in new extrusion plants and a new manufacturing facility in Queensland to support future growth.

We have further broadened our customer base, diversifying across industries to reduce vulnerability to the impact of weather and other variables. We aim to diversify further to lessen the seasonality of cash flow across the group.

Environmental

Our new liquid waste treatment plant in Unanderra, NSW is still on-track and is awaiting final regulatory signoff.

The plant will once completed substantially increase our capacity to treat liquid waste.

Corporate investments

We've moved our head office to Parramatta, Sydney, the geographical centre of our operations, bringing together key group management and our new shared services team.

We have made a significant investment in developing a centralised service hub at our head office in Parramatta. This is a short-term cost for material longer term benefits.

We've also invested in a group-wide ERP system which is being implemented successfully, and we've centralised our payroll functions. The growth in scale of the business has resulted in a warehouse management system project being no longer fit for our needs. We have ceased this project which will result in a non-recurring write-off in the current half of approximately $1.2m.

These investments contributed to higher costs in FY24, but they establish a lower cost platform to support more efficient future growth.

We slowed our pace of acquisitions in FY24, being very targeted on what we acquire to add to our capabilities, licences and expertise to further our growth strategy. We are only focussed on acquisitions where it would be more expensive or slower to build organically.

In FY24 we acquired:

- Australian Petro Chemical Storage, a major hazardous facility for flammable chemical storage allowing DGL to consolidate its operations and manufacturing of Class 3 flammable chemicals in NSW;
- Enlog Pacific, a specialist logistics business with an expansive customer base allowing DGL to leverage its service offerings into the transport of specialist, highly regulated materials;
- the businesses of Qblend and Flexitech, providing DGL with powder blending capability, broadening our chemical manufacturing and formulation services;
- the business of Katanning Logistics, a freight and warehousing facility south of Perth, expanding our geographic reach; and
- the business and land of Kinnear Transport, a purpose-built multi-class chemical storage facility in Perth.

We've accomplished a lot, and we have more to do.

I'd like to thank everyone at DGL for making our rapid growth possible. The credit goes to our team of 800 – keeping our operations safe, protecting the community and the environment, and I thank them all for their efforts.

Property

We have a pragmatic approach to our property strategy. We like to own and control properties that are critical to our operations due to licences held specific to a property or where we have specialised manufacturing or processing facilities. We are agnostic about owning generic property such as warehouses.

During the current half year we have sold 3 properties (with 2 awaiting settlement), for a total of approximately $18.7m. One property, a warehouse in Wellington, New Zealand was sold at a loss to book value due to depressed property valuations in that market. As a result, we expect to record a non-recurring loss on sale of properties of approximately $2.0m in the first half of this financial year.

I note that in the 3½ years since our IPO, 6 of the 7 properties that we've sold were at a premium to book value, and we have full confidence in the book value of the remaining $142.5m of properties held by the DGL Group.

Outlook

In terms of current trading, we expect to record a modest increase in revenue and gross margin for the half year with underlying EBITDA broadly in line to prior half year. Net Profit (before the non-recurring IT and property writedowns that I've mentioned) is expected to be lower in this half than prior year mainly due to increased depreciation and amortisation. During the period October to February we'll also incur additional costs of over $1m as we transition from our dated and inefficient major NSW warehouse to new more productive premises. We expect to gain efficiency benefits from this reinvestment into our operations. Statutory profit for the half year will be reduced by IT and Property related writedowns.

We are positive about the outlook for the full year, and in our Company's longer term growth prospects.

I'd like to thank our shareholders for your continued support, we are determined to deliver for you.

I invite the Chairman to begin the formal items of business.

This announcement was authorised for release by the Board of DGL Group Limited.

Investor Enquiries

Barbara Furci
info@dglgroup.com
+61 487 962 595

ABOUT DGL GROUP LIMITED

DGL Group Limited (ASX: DGL) is an established, founder-led, end to end chemicals business that provides a complete solution for the sourcing, manufacturing, storage and transport, recycling, and disposal of chemicals and hazardous waste. DGL operates a comprehensive network to deliver a broad range of specialised chemical services to essential industries across Australia and New Zealand.