

26 October 2022

Company Announcements Office  
Australian Securities Exchange  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**CHAIRMAN'S ADDRESS AND CEO'S ADDRESS  
TO CODAN LIMITED HYBRID ANNUAL GENERAL MEETING  
WEDNESDAY 26 OCTOBER 2022, 11AM ADELAIDE TIME**

In accordance with Listing Rule 3.13.3, attached is a copy of the Chairman's Address and CEO's Address to be delivered today at the 2022 Annual General Meeting.

On behalf of the Board



Michael Barton  
Company Secretary

This announcement was authorised by the Board of Directors.

Codan is a technology company that develops robust technology solutions to solve customers' communications, safety, security and productivity problems in some of the harshest environments around the world.

**FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-**

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**CODAN'S 2022 ANNUAL GENERAL MEETING  
CHAIRMAN'S ADDRESS AND CEO'S ADDRESS**

**CHAIRMAN'S ADDRESS**

Good morning ladies and gentlemen. Welcome to the 2022 Codan AGM. We have received a number of written questions from shareholders which I will answer during the course of the meeting.

Since I have been Chair, we have prioritised consistent growth in sales and profitability. The growth in profit over the 3 years from 2018 to 2020 (\$40m to \$46m to \$64m) was an excellent achievement, but our results were dominated by the contribution from Minelab. The deployment of capital to acquire DTC and Zetron in FY21 was a sensible decision to diversify the Codan business and to access new growth markets. These successful acquisitions however were somewhat overshadowed by the continuing impacts of COVID-19 across all business units - some positive and some negative. There were also other adverse events such as the withdrawal of troops from Afghanistan and the war in the Ukraine.

To elaborate, in FY21 in Minelab we had the competing forces of component supply shortages, country lock downs in many parts of the world, supply chain disruptions resulting in increased shipping costs, unprecedented demand for gold machines in Africa as well as significant government stimulus in developed nations benefiting sales. Minelab's sales increased 38% in FY21, while unsatisfied demand at the end of the year washed into early FY22.

In FY21, Codan reported \$97M NPAT, an increase of 56% over the previous year and ended the year with minimal working capital. The fact that we were able to exceed this level of profitability in FY22 was an excellent achievement assisted by contributions from Zetron and DTC.

The reality is that both FY21 and FY22 were significantly impacted by COVID, albeit with differing results. Specifically, our inventories materially shifted, taking us from a position of minimal working capital in FY21 to elevated levels of inventory in FY22 in light of supply chain uncertainties. Secondly, a reduced cost base was also observed due to the inability of our sales and business development teams to travel. The real question then became, "What does a return to normality look like?". This takes us to FY23.

We are very pleased that our newly acquired DTC and Zetron businesses are performing above expectation although as advised when we released our FY22 results in August, we are having to rebuild markets in Minelab, which will take time. Africa is an important market for Minelab, but right now large sections are closed for a variety of reasons, mainly geo-political. We also have the ongoing impact of the war in Ukraine.

When we prepared our budgets for FY23, we anticipated sales in Africa would slowly recover, but this has not yet occurred. While we have not lost market share, we are having to work extremely hard to stimulate demand. Elsewhere, in our traditional HF markets, developing world economies are still recovering from the financial impact of COVID.

Importantly, FY23 is a year for us to refocus the entire business, positioning it to return to a pattern of consistent growth in profitability. While we won't achieve the same level of profitability this year as we did in FY21 & FY22, we believe it is still too early to provide a full year forecast. Notwithstanding this, the entire board and executive remain committed to drive the business to maximise profit and cashflow results. In this regard, there will be a particular focus on increasing the profitability of our Communications business.

In terms of long-term sustainability, we have a much-stronger business today than at this time last year primarily due to diversification. With the exception of African gold, all other sectors of the business are performing well in a more challenging global economic environment. We have a strong new product release plan in Minelab and some exciting developments in DTC and Zetron, including accessing new market segments through small, logical acquisitions.

Shortly I will ask Alf to reflect on his first 10 months at Codan. Alf has been a very good appointment to the role of Managing Director. Alf is fact and data driven, he is disciplined, methodical and has a very strong focus on profitable growth. Alf will reflect on FY22 before spending some time on the FY23 trading outlook, an important focus for us all.

Before handing over to Alf, I would also like to acknowledge the efforts of Donald McGurk and Peter Leahy.

Donald did a fantastic job for Codan over an extended period. In his role as Managing Director, he rode both the highs and lows over the years, but always maintained a consistent, firm but fair, approach with a great ability to take quick, positive action as and when required. I have a great relationship with Donald and very much enjoyed working with him. On behalf of the Board, I wish Donald and Sally all the best of the future.

Peter Leahy joined the Codan board just after he retired as head of army. Peter has been a strong, reliable board member who has always spoken his mind and has provided us with invaluable insights into the workings of government and the military in Australia and internationally. On behalf of the Board, I wish Peter and Lee all the best for the future.

Peter's retirement is part of the planned refresh of the Codan Board, which will include my own retirement sometime this financial year following the appointment of 2 new board members, one at least of which will be a female. Graeme Barclay will succeed me as Chair. Graeme has great energy and a proven track record of developing technology focused international businesses. I am very confident that Graeme and Alf will take Codan to the next level.

Thank you for your interest and investment in Codan.

Please now welcome your Managing Director, Alf Ianniello, for his market update and address.

## **CEO'S ADDRESS**

Thank you, David. I would like to start off with providing a brief overview of the business before moving onto the formal part of the presentation. The business today is a very different business compared to 18 months ago. We have continued to diversify the business not only at a geographical level, but also at a segment level. We have over 700 employees globally, with offices located in our key growth markets being North America and Europe. We are building a stronger Codan and we will continue the evolution to grow and diversify your business with more predictable revenues.

Now I would like to comment on the 2022 financial year and the current state of the business, before handing over to our business unit executives to talk through some of the key wins and initiatives happening within their divisions.

During FY22, the group increased sales by 16%, with the communications division being the main driver of growth, more than offsetting the reduced FY22 Minelab result when compared to an abnormally strong FY21. Profitability of \$100M was another robust statutory net profit result and re-confirms our focus on achieving strong NPAT margins.

DTC and Zetron were acquired on a combined forward EBITDA estimate of \$22M. The final EBITDA result was \$34M, an exceptional achievement and evidence of our ability to integrate new acquisitions. The Communications division, in its entirety, made a significant contribution to Group EBITDA, an encouraging step change versus prior years – one which we believe will continue.

We declared a fully franked dividend of 15.0 cents per share, following on from the 13.0 cent per share fully franked interim dividend. This resulted in a total dividend of 28.0 cents for the full year, an increase of 4% over FY21.

It's pleasing to see our current diversification strategy is working, as we continually seek to achieve more balanced and predictable revenues across the Codan group. The acquisitions of DTC and Zetron have diversified Codan's sales with the Communications division increasing from 23% to 48% of group sales in FY22.

Communications sales are generally more stable and predictable, as we have long term relationships with Governments and other large commercial entities. This has driven a pipeline of sales opportunities which will convert into a strong orderbook, predominantly in developed world markets.

Minelab's segment profit margin percentage is exceptional, achieving 46% during FY22, setting a very high bar for Communications. However, as the Communications business continues to grow their sales, we would expect segment profit margins achieved in FY22 of 21% to increase, as the business will benefit from operating leverage. Our longer-term objective is for the Communications segment profit margin to reach 30%. This may take some time; however, we are confident in both the near and long-term growth prospects of our Communications division.

Codan has continued to execute on its strategy to diversify revenues and profits, not only at a business segment level but also across different geographies. As many will be aware, Africa has been Codan's single largest market in previous years and while Africa continues to remain a very important market for us, it's also been a less stable and more unpredictable market.

In order to reduce risk and address our strategic goal of generating more predictable revenues, it is extremely important for us to reduce our relative dependence on Africa. While we will remain committed to maximising and growing sales within Africa, our goal is to also expand sales into other geographical regions – many of which are more stable and predictable markets. On that basis, it's pleasing to note our Rest of World (RoW) sales for the Minelab and Communications businesses, into markets such as North America, Europe, Latin America and Asia Pacific represented over 70% of FY22 revenues.

The performance of our metal detection business, Minelab, is best considered through a discussion on the African gold detecting market and then the Rest of World metal detection business.

The African gold detecting market has been the largest market for Minelab historically, with sales peaking at \$185 million in FY21, before declining to \$125 million in FY22. There were several factors contributing to this reduction in sales.

Firstly, FY21 was an exceptional year with an unprecedented level of demand for our products due to an influx of artisanal gold miners as many other industries were impacted by COVID. The exceptional levels of demand for gold detectors in FY21 and early FY22, which was driven by COVID has proven unsustainable. With the ability to now travel more freely, our people have only recently been able to go back into the field and have learned that there are a number of factors impacting sales into Africa.

Beyond COVID, geopolitical and macroeconomic challenges remain across Africa, and it is only now clear that there is an overhang of product in the market following the very significant volumes of detectors purchased in FY21 and FY22.

Sudan, our single largest market in Africa has been materially impacted by a military coup. The previous democratically-elected government actively encouraged artisanal gold mining as a means of driving employment and building wealth within regional communities. Now, under military rule, some gold mining regions are being controlled by military forces and remain off limits to artisanal miners. This was a key reason for the reduction of our sales in FY22 and this market has further declined in FY23 along with broader weakness seen throughout Africa.

Our planning and budgeting for this year anticipated a gradual improvement in sales into Africa in the first 6 months of this financial year. Following a recent in-depth market by market analysis after our people travelled to all regions, we have now formed the view that sales will remain depressed for FY23.

While our sales into Africa are currently lower, I want to assure shareholders that management are working hard to rebuild and maximise our sales of gold detectors into this market. Peter will talk a little later about our plans and opportunities in Africa.

Encouragingly, Minelab's rest of world sales – excluding Africa – has been a fantastic growth story, with sales growing at 14% CAGR from FY18 to FY22, despite the cessation of Russian sales. The breadth of products being sold (including gold, coin and treasure and land mine detectors) as well as growth in key geographic markets in North America, Central and Latin America, Australia, Europe and Asia means these sales are generally more predictable and stable compared to our African market.

Minelab has a strong track record of successfully entering new geographic markets and we are confident that our ongoing engineering capability and innovation will support the continued release of leading-edge products. Having not released a high-end coin and treasure detector for over 10 years, it is with much excitement that during FY23 Minelab will launch several new coin and treasure detectors.

Like many businesses we are operating under challenging market conditions, with geopolitical issues, a high inflationary environment and an increasing risk of global recession. The risk of declining sentiment may impact sales in the short term and management continues to monitor this risk closely. Despite these headwinds our Rest of World metal detection business continues to perform well, maintaining gains made in FY22 and we expect the first half of FY23 to be in line with the prior year after normalising for the ceased Russian market.

The company expects sales for Minelab to be in the region of \$75 to \$80 million in the first half of FY23, compared to \$138 million in the prior corresponding period. The reduction primarily relates to the disrupted nature of the African market, normalisation of sales as we transition to living with COVID, the previously disclosed ~\$15 million of additional FY22 sales not repeated in FY23 as well as ceased FY22 Russian sales of \$7 million. Based on this level of sales in the first half of FY23, we would expect Minelab to report a segment profit in the range of 30% for the first half. In light of the reduced level of sales, management is re-basing operating costs to maximise future segment profit margins.

Turning to Communications, this business performed strongly in FY22 and I am pleased that this has continued into FY23. We believe our Communications businesses represent a significant future growth engine for Codan and expect our results for the first half of FY23 to have sales in the range of \$123 to 135 million, which represents a 5 to 15% increase on the prior corresponding period. With respect to the large communications project announced at this time last year, there is currently some uncertainty relating to the timing of shipments. Orders remain in place and we are confident that all product will ship over time.

It's our expectation that both the Zetron and Tactical communications businesses will contribute to FY23 growth. Through the acquisitions of DTC and Zetron, we have increased our value offering to customers and we are now a full communications solutions provider. We have also successfully restructured and invested in the front end of our Communications business, with dedicated resources now aggressively targeting sales opportunities in each of our key growth markets. Our strategy to invest in product development, coupled with us being able to leverage our new and existing distribution channels, means that we are confident that Communications is well positioned for success into the future as evidenced by the orderbook growing by circa 10% since 30 June 2022.

With the growth in sales, we are expecting to lift the segment profit margin for our Communications business from 21% in FY22 to 25% over FY23, as the business will benefit from operating leverage.

To summarise our first half FY23 outlook:

- A number of macroeconomic and geopolitical factors have significantly impacted Minelab African sales;
- Minelab's Rest of the World sales are proving resilient and in line with a normalised FY22; lastly
- Communications will deliver strong growth in both sales and segment profit.

Divisional profit forecasts to December 2022 were considered in detail by the Board late yesterday. We are expecting a first half net profit after tax in the range of \$25 to \$30 million, given the uncertainty relating to the timing of shipments on our large communications project as well as the lack of visibility in a number of African markets, we believe this is an appropriate range.

The results for the second half of FY22 are expected to be stronger than the first half.

Cash generation in the first half of FY23 has been impacted as our sales into Africa have reduced. Sales into Africa are generally made on a cash before delivery basis. We also have a major \$5 million capital expenditure program underway to relocate our Zetron businesses which will minimise future rental costs. We expect to close the first half of FY23 with net debt in the order of \$70 million. Over the second half of FY23 we expect to return to the positive cash generation that Codan is known for and therefore drive down our net debt position.

During my first 10 months in the role, I have taken the time to learn the business but also identify how to make Codan, which is already a great business, become a stronger Codan. I have worked with our businesses and senior leadership teams to define key metrics and targets that will be measured and delivered against.

The metrics and targets are two-fold. First, we are very focused on maximising sales and profitability across all business segments. Secondly, cash generation has been prioritised, ensuring that we have the appropriate working capital requirements across all businesses.

Each business has defined KPI's, which are reviewed monthly and have detailed plans to achieve these targets. Ultimately, these metrics will help achieve the following outcomes:

- A more diverse earnings base across our businesses;
- More repeatable and predictable revenue streams;
- Reduce Codan's relative reliance on Africa;
- Grow segment profit margins across the Communications business; and
- Further strengthen the balance sheet and maintain flexibility.

Finally, on behalf of the Board, I would like to acknowledge the significant efforts of our people and thank them for their contribution in helping Codan achieve our FY22 results. I would now like to pass back to David.