# MANAGEMENT’S REVIEW

## Main activities

As in previous years, Mascot International A/S’s most important activities are the development, production and sale of workwear and safety footwear.

## Development in the financial year and results for the year

The group’s net sales totalled DKK 870 million compared to DKK 767 million in 2016, which represents an increase of 13.5%.

The profit before tax was DKK 151.6 million in 2017 against DKK 125.3 million in 2016. The decline in gross margin ratio (gross margin as a percentage of turnover) was halted in 2014 after having fallen for four consecutive years, and in 2017 rose by 1.7%, but is still 0.4% lower than in 2010. The reason for the increase compared to 2016 is that Mascot’s new factory in Laos is now fully operational. At the same time, the other factories are more efficient than they used to be, among other things as a result of continuous improvement programmes. Overall, efficiency at the factories has increased more than the increase in gross margin suggests, as negative foreign currency effects and increases in certain commodity prices have not been counterbalanced by similar increases in selling prices.

At the end of 2017, equity was DKK 581.5 million, and solvency was 70.5%. Having continually re-invested its profit in the business, the company is now rock-solid financially, and it is thus able to make long-term investments in growth and increased competitiveness.

In 2017, the company realised a positive cash flow from operating activities of DKK 118.6 million. The bulk of the investments have been made in a new and fully automated warehouse and fixed assets in connection with expansion of the business. This has been done to increase competitiveness, support growth, and to make the company more scalable.

From the above, it is apparent that the expected development outlined in the management report for 2016 was realised in 2017, i.e. a positive development in turnover of between 8% and 16% (13.5%). Earnings were slightly better than expected for 2017.

The development in turnover and profit as well as cash flow in 2017 can be regarded as satisfactory.

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## Outlook

In 2018, the company is budgeting for a positive development in turnover, with expected growth of 10-20%. Despite the constant efficiency improvements as well as the commissioning of the factory in Laos with its lower cost levels, expectations are that the gross profit percentage will remain under pressure, as wages are rising very fast in the countries where we have our production, and it is also difficult to keep a cap on commodity prices. Since these factors are partially offset by a lower USD exchange rate at the time of writing, we decided to revise selling prices upwards, but so that they do not fully reflect the increases in wages and commodity prices.

In terms of earnings, a profit before tax of DKK 160-180 million is anticipated for 2018 as a result of the expected increase in turnover.

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