

## ASX and Media Release

(ASX : GAP)

16 February 2017

### GALE Pacific H1 PBT up 10%

- Net debt down 32% on pcg
- Interim dividend of 1.0 cps (unfranked)
- Announces on-market share buyback program

GALE Pacific Limited (ASX : GAP) today announced a profit before tax of \$3.9 million for the six months to 31 December 2016, up 10% on the prior corresponding period (pcg) (\$3.5 million). Net profit after tax was \$3.4 million, up 5% on pcg.

Sales were steady at \$82.6 million, reflecting the company's accelerating exit from non-core categories in Australia and New Zealand and subdued demand in the Middle East.

Net debt at 31 December 2016 was \$13.7 million, 32% below 31 December 2015 (\$20.0 million).

Directors have declared an interim dividend of 1.0 cent per share unfranked, payable on 3 April 2017 to shareholders on the register at 20 March 2017 (interim dividend 2015: 0.75 cents unfranked). The Directors have also announced the initiation of an on-market share buyback program.

In recent financial periods, the Company's balance sheet capacity and flexibility has improved. Whilst the focus of the Company continues to be investing in pursuing organic growth opportunities and potential strategic acquisitions, given the strength of the company's balance sheet, and its expectation for continued strong cash generation, the Board believes that having access a share buyback provides additional capital management flexibility.

Results for the six months to	31 December 2016 A\$ million	31 December 2015 A\$ million	Change %
Revenue	82.6	82.4	-
EBITDA	7.9	8.2	(3)
EBIT	4.7	4.5	6
Profit before tax	3.9	3.5	10
Profit after tax	3.4	3.2	5
Net Debt	13.7	20.0	32
Earnings per share (cents)	1.13	1.07	5
Interim dividend – unfranked (cents)	1.0	0.75	33

Group Managing Director, Nick Pritchard said: "We are pleased with what we achieved during the half. Despite challenging conditions in some markets, we delivered a solid financial result and continued to make considerable progress with our strategy to transform GALE Pacific into a more focused, innovative and service-driven business.

"We continued to exit non-core and unprofitable products and categories, while investing in research and development to strengthen our core categories and in marketing to increase demand for our brands. We also continued to transform our China manufacturing operations so they are more efficient and service-driven.

"We restructured our operations in the Americas region to accelerate growth and are investing in additional sales resources to grow our Middle East business.

“Importantly, we continued to reinforce the foundations of our businesses with strong regional and departmental leadership, effective processes, technology improvements and facility upgrades.”

## RESULTS BY REGION

### Australia/New Zealand

Results for the six months to	31 December 2016 A\$ million	31 December 2015 A\$ million	Change %
Revenue	56.8	57.4	(1)
EBITDA	4.0	4.0	-

Commercial sector revenue grew by 24%, driven by increased demand for agricultural and architectural fabrics, as well as new custom-coated products.

Retail sector revenue was down on the pcp, when retail sales increased by 20%, bolstered by significant new product ranging which supported increased stocking by stores. The lower revenue reflected the exit from non-core and unprofitable product categories, as well as challenging market conditions early in the half as Masters liquidated inventory prior to closure.

Supply chain improvements continued across all areas, with the new Melbourne retail distribution centre delivering improved productivity and service. The Brisbane warehouse was relocated, completing the regions warehouse consolidation from nine facilities, plus external storage, to four.

Additional upgrades to the Melbourne manufacturing facility were also completed, improving production speed, efficiency and quality.

### Americas

Results for the six months to	31 December 2016 A\$ million	31 December 2015 A\$ million	Change %
Revenue	17.2	14.1	22
EBITDA	(1.0)	(0.9)	(11)

Strong revenue growth was driven largely by expanded distribution, with new retail ranging for core product categories including shade sails and window shades. Additional product trials were secured with key USA and Canadian retailers, opening opportunities to obtain broader category ranging.

The performance of the Americas business is seasonal, with over 70% of sales in the second half.

During the half there was significant investment to build and transform the organisation, creating new roles and strengthening operations to accelerate growth. Work commenced on identifying the most suitable supply chain model to meet service and efficiency targets.

### Middle East/North Africa

Results for the six months to	31 December 2016 A\$ million	31 December 2015 A\$ million	Change %
Revenue	6.1	8.6	(29)
EBITDA	0.8	1.7	(53)

The difficult conditions experienced for some time deteriorated further during the first half, creating sales and collection challenges that led to a reassessment of the company's short-term growth expectations.

Despite this, the company remains positive about opportunities in the region – specifically for architectural shade fabrics. Additional sales resources were recruited during the period, strengthening the sales team from early 2017.

## Eurasia

Results for the six months to	31 December 2016 A\$ million	31 December 2015 A\$ million	Change %
Revenue	2.5	2.4	8

Sales in Eurasia grew despite the continuing exits from non-core markets and product categories, combined with the strategy to pivot the business from low value, low margin retail products. Sales of commercial fabric grew strongly in both Europe and Asia, which was partially offset by lower retail sales in Europe.

During the half, a first consignment of shading and screening products was shipped to Bunnings in the UK, where they will be trialed in a number of stores.

*The Eurasia EBITDA is included in the China Manufacturing Operations' result.*

## China Manufacturing Operations

Results for the six months to	31 December 2016 A\$ million	31 December 2015 A\$ million	Change %
EBITDA	5.1	4.4	16

Under new leadership, considerable progress was made with upgrading the company's Chinese manufacturing operations, reducing manufacturing costs, and improving capacity and service.

In line with the strategy to invest in information technology, initial steps were taken to prepare for the implementation of the company's IT system. China is the only remaining region to go live on the global ERP platform.

*EBITDA for China includes contributions from Eurasia and inter-company trading.*

## CASH GENERATION AND WORKING CAPITAL

Group working capital increased as a result of manufacturing USA products earlier to reduce manufacturing congestion and capitalise on market growth opportunities. While inventory was higher, this strategy reduced manufacturing costs overall.

The Australia/New Zealand business reduced inventory by \$4.5 million, improved stock turns, and there were further reductions in aged inventory.

The earlier build of USA inventory led to negative operating cash flow for the company during the half. Debtors and creditors, however, improved in all regions and this improvement is expected to flow through to the full year result.

## STRATEGIC GROWTH INITIATIVES AND CAPITAL MANAGEMENT

As a consequence of the improved financial performance over recent periods leading to a significantly strengthened balance sheet, the Company has begun to place additional focus on strategic growth initiatives in its core competencies. As the Company completes the exit of its non-core businesses, the focus on these strategic opportunities, including investments in manufacturing technologies and additional capacity, continues into 2017. Combined with this focus on investment, the Board has determined that also having an on-market share buyback in place, as an additional capital management tool, is appropriate.

## **OUTLOOK**

Whilst it is too early to provide specific earnings guidance for the 2017 financial year, it is anticipated that, consistent with the regional seasonality's in the business, the earnings in the second half of the 2017 financial year will be significantly above the first half. Subject to market conditions across regions, the Board is cautiously optimistic of profit before tax growth in 2017 over 2016.

The Company expects market conditions for the second half to be in line with those experienced in the first half. The Company will look to continue its exit from non-core product categories and that by year end these will be largely complete and the efficiencies of a more streamlined and focused business will be evident.

Cash generation is expected to be strong in the second half and by financial year end the company's net debt levels are expected to be well below last year. This positions the company well for investments in organic growth opportunities and strategic acquisitions.

## **ABOUT GALE PACIFIC**

GALE Pacific is a manufacturer and marketer of commercial and DIY products that protect and enhance environments around the world.

Our products are marketed across commercial and retail sectors, with distribution into agricultural, horticultural, mining, construction and home improvement channels. They are stocked in many of the world's largest retailers and also have strong online distribution.

GALE Pacific is a world leader in specialised textiles and associated products and is recognised in our markets as an innovator and long-term producer of premium quality product

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