GALE PACIFIC LIMITED

(ASX: GAP)

ASX and Media Release

25 August 2017

GALE Pacific underlying NPAT $10.1 million

- Strong cash flow delivers net cash of $1.3 million, at June 30 2017 compared to net debt of $(8.2) in the prior corresponding period
- Americas earnings up 39% and further strong growth expected
- Final dividend 1 cps unfranked
- Transformation program largely complete
- Additional coating line to be installed in Melbourne facility
- Non-core glass business exited to focus on core technical textiles business
- Strong inventory and working capital improvement
- Non-cash write-off of goodwill related to exit of non-core businesses

GALE Pacific Limited (ASX: GAP) today announced an underlying profit before tax of $13.5 million for the financial year to 30 June 2017, in line with the previous year.

Strong operating cash flow of $19.7 million, a record for the company and 10% higher than FY2016, aided by tight control of working capital and inventory, reduced debt by 23% ($9 million) compared with the previous year. Net cash at 30 June 2017 was $1.3 million.

Sales revenue was $175.3 million, 1% above the previous year despite significant economic challenges in the Middle East and lower retail sales in Australia due to non-core category exits and difficult retail conditions. Australian retail sales in FY2016 were particularly strong.

Directors have declared a final dividend of 1 cent per share unfranked, bringing full year dividends to 2 cents per share, 14% above FY2016. The record date for the final dividend is 25 September 2017 and the dividend will be paid on 2 October 2017.

The sale of the company's non-core glass business in June 2017 and a review of the carrying value of goodwill resulted in an $18.4 million one off, non-cash write-off of intangibles and other related items. Following these items, the company reported a pre-tax loss of $(4.9) million.

Group Managing Director Nick Pritchard said "The company is now in a good position to execute its growth strategy and we see great potential in all regions. Earnings in the 2017/18 year are expected to be higher than in the 2016/17 year."

RESULTS SUMMARY

	FY2017 A$ million	FY2016 A$ million	Change %
Revenue	**175.3**	**173.2**	**1%**
Underlying EBITDA	21.4	22.3	(4)%
Underlying EBIT	15.1	15.1	-
Underlying profit before tax	13.5	13.5	-
Underlying profit after tax	**10.1**	**10.2**	**(1)%**
Statutory profit before tax	(4.9)	13.5	(136)%
Statutory profit after tax	(8.0)	10.2	(178)%
Net cash provided by operating activities	19.7	17.8	10%
Net cash/(debt)	1.3	(8.2)	116%
Underlying basic earnings per share (cents)	3.39	3.44	(1)%
Final dividend per share (cents)	1.00	1.00	-
Full year dividends per share (cents)	2.00	1.75	14%

Please see page 5 of this media release for reconciliation from underlying earnings to statutory earnings.

COMMENTARY

Group Managing Director Nick Pritchard said: "This result reflects a year when we have made considerable progress with transforming GALE Pacific into a more focused, innovative and service-driven business. The transformation phase is largely complete.

During our transformation, we:

- Created a more efficient facility footprint, closing four facilities and upgrading the others;
- Rationalised our brand portfolio, so we can invest in a smaller number of brands and make them more meaningful to our consumers and customers;
- Upgraded our key manufacturing technologies and computer systems; and
- Exited most non-core products, including our pool fencing, balustrade and mirrors business.

Through exiting non-core products, which typically were lower value and margin, we are now able to focus on our core business of developing, manufacturing and marketing shade solutions and high performance technical textiles.

While undertaking this transformation over the past three years, we have achieved compound annual revenue growth of 8.5% and underlying earnings growth of 10%. With our robust balance sheet, we now are well placed to strengthen our position as a global leader in our core business."

RESULTS BY REGION

Australia/New Zealand

	FY2017 A$ million	FY2016 A$ million	Change %
Revenue	92.4	97.5	(5)%
Underlying EBITDA	2.9	3.6	(18)%
Underlying PBT	1.9	2.6	(25)%

Sales to the commercial channel grew strongly, with increases in most product categories, although these were limited by capacity constraints during the peak period. Further investment in the coating operations improved output and quality, but production remained insufficient to capitalise on the full potential.

To take advantage of growth opportunities in the commercial coated fabrics market, the decision has been taken to invest $8 million in a new, state-of-the-art coating production line. This will be installed at the Melbourne facility and will allow the development of additional domestic and export markets for new and existing products.

In the retail sector, sales declined due to the discontinuation of non-core products and the exit of Masters from the home improvement market, which caused short-term deflation and diverted consumers from GALE Pacific's retail partners. Retailers' sales of the company's products, however, increased. The year's result follows strong performance in FY2016 when there was substantial new business in the portable shade category.

The business continued to improve the efficiency of its supply chain, reduced inventory substantially, increased inventory turns, enhanced service and reduced operational costs.

Americas

	FY2017 A$ million	FY2016 A$ million	Change %
Revenue	62.0	53.6	16%
EBITDA	6.5	4.9	33%
PBT	4.4	3.2	39%

Sales grew strongly in the retail channel, including online. The new retail business secured in the prior year was serviced efficiently and customers' sales were positive. Major retailers extended trials of the company's window shades and shade sails, and trials are being extended to new geographic markets and more products in FY2018.

Following a detailed review of the Americas supply chain and to support growth, a new, larger warehouse has been leased in Fontana, California so customers can be serviced from a single distribution facility. This will become operational in December 2017 and will meet the business' medium-term requirements and enable it to make service and cost improvements.

The opportunity for growth in the Americas is significant, and with the business now focused on the shade category and commercial fabrics, we see considerable potential in both the retail and commercial sectors. To take advantage of this, new leadership was appointed to lead the commercial business expansion in the region from July 2017.

Middle East/North Africa

	FY2017 A$ million	FY2016 A$ million	Change %
Revenue	12.8	15.4	(17)%
EBITDA	2.5	3.2	(22)%
PBT	2.3	3.1	(24)%

Despite the scale of the opportunities in this region, market conditions remained subdued with a number of projects being postponed. The company remains confident in its ability to be successful with these projects and is positive about opportunities in the region; additional sales resources were recruited during the year, and further investment is planned in FY2018.

China Manufacturing & Eurasia

	FY2017 A$ million	FY2016 A$ million	Change %
Revenue	8.2	6.8	21%
Inter-segment sales (eliminated when consolidating group results)	49.8	58.4	(15)%
EBITDA	11.5	12.6	(9)%
PBT	8.0	7.0	13%

Sales in the Eurasia region increased, driven by demand for commercial fabrics. New distributors were appointed in focus markets and low-volume, low-margin retail products were exited.

Facility and plant upgrades continued at the China manufacturing operations, and refurbishment of the extrusion plant was completed, setting a new internal benchmark. Service and delivery performance improved.

As part of the strategy to focus on cost, quality and service, the business invested in building lean manufacturing capability and upgrading other management roles. Further investment in new plant and equipment is planned for FY2018, and the China manufacturing operations will transition to the company's global IT system. The weaving facility will also be closed and the sourcing arrangement with a key weaving supplier will be extended to increase manufacturing efficiency.

BALANCE SHEET AND CASH GENERATION

GALE Pacific's balance sheet is now well positioned to increase investment in the company's core business. Operating cash flow of $19.7 million was a new record for the company, exceeding the prior year record by 10%. Total group inventory declined by 15%, despite unfavourable exchange rate movements, with inventory days reduced by 22 days. The business also improved receivable collections and payment terms with key suppliers which, combined with inventory reductions, drove overall cash conversion improvements. The core business, in particular in the Americas and our commercial sectors in all markets, continue to contribute strong operating cash generation. We continue to see improved productivity in our manufacturing operations in China with improved supplier terms and inventory efficiency.

The company made a non-cash impairment of goodwill and other related items of $18.4 million, which will have no impact on future trading or banking covenants. After non-cash items, after tax (loss) is $(8.0) million. The impairment is one-off and relates largely to historical goodwill dating back to 2012. The businesses affected are considered non-core and do not form part of the company's strategy moving forward.

OUTLOOK

Market conditions in Australia during the forthcoming year are expected to be similar to those experienced in the prior year.

In the Middle East, uncertainty remains, though we anticipate a gradual improvement in market conditions that impacted negatively throughout last year.

In Australia and New Zealand, we will see revenue decline, a result of the exit of the non-core categories, primarily glass products. These exits will not impact profitability. Core product categories are expected to continue to grow and solid customer ranging in the retail shade category has been confirmed.

We expect the Americas region to accelerate its growth trajectory, driven by growth in retail shade sails and window shades. Seasonal commitments from North American retailers look very promising at this early stage.

Major investments will include the new warehouse in the USA, in-store racking to support new ranging that has been secured in the USA, China manufacturing facility upgrades, and new production equipment to support growth. In Australia, we will commence preparations for the new extrusion coating line at the Melbourne facility.

Subject to economic conditions, we expect that 2017/18 earnings will be higher than the 2016/17 underlying equivalent.

In line with previous years, second half earnings are expected to be considerably greater than those of the first half.

RECONCILIATION OF UNDERLYING RESULTS TO STATUTORY RESULTS FOR FY2017

In FY2017, the company made a non-cash, non-recurring write-off of goodwill and other related items of $18.4 million pre-tax and $18.1 million after tax respectively. The following table reconciles the underlying results to the statutory results.

	EBITDA A$ million	EBIT A$ million	Profit before tax A$ million	Profit after tax A$ million	Basic earnings per share
Statutory	3.0	(3.3)	(4.9)	(8.0)	(2.71)
Goodwill write-off and associated costs	18.4	18.4	18.4	18.1	6.1
Underlying	21.4	15.1	13.5	10.1	3.39

Underlying profit, EBITDA and EBIT are the statutory profit, EBITDA and EBIT respectively adjusted for non-cash, non-recurring impairment of goodwill and other related items. The company believes that underlying profit, EBITDA and EBIT provide a better understanding of its financial performance and allow for a more relevant comparison of financial performance between financial periods.

Underlying profit, EBITDA and EBIT are useful as they remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business, thereby facilitating a more representative comparison of financial performance between financial periods.

Underlying profit is presented with reference to the Australian Securities and Investments Commission Regulatory Guide 230 “Disclosing non-IFRS financial information” issued in December 2011. The company’s policy for reporting underlying profit is consistent with this guidance. The directors had the consistency of the application of the policy reviewed by the external auditor.

-Ends

About GALE Pacific

GALE Pacific is a world leader in the development, manufacture, marketing and distribution of shade solutions and high performance technical textiles.

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.

Contacts:

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APPENDIX 4E

PERIOD ENDING 30 JUNE 2017

FULL YEARLY REPORT

Name of Entity:	Gale Pacific Limited
ABN or Equivalent Company Reference:	80 082 263 778
Report for the Year Ended:	30 June 2017
Previous Corresponding Period is the Financial Year Ended:	30 June 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		%	$'000		$'000
Revenues from continuing activities:	Up	1%	2,075	To	175,265
Underlying Profit from continuing activities after tax attributable to members:	Down	(1)%	(149)	To	10,078
Profit from continuing activities after tax attributable to members:	Down	(179)%	(18,270)	To	(8,044)
Net profit for the period attributable to members:	Down	(256)%	(17,308)	To	(10,552)
Please refer to the accompanying Directors' announcement to the Australian Securities Exchange for further commentary.					

Please see refer to page 5 of media release for reconciliation from underlying earnings to statutory earnings.

DIVIDENDS

	Amount Per Security	Percentage Franked
Final Dividend for the year ending 30 June 2016 (paid 3rd Oct 2016)	1.0 cent	0%
Interim Dividend for the 6 month ended 31 Dec 2016 (paid 1 April 2017)	1.0 cent	0%
Final Dividend for the year ending 30 June 2017:	1.0 cent	0%

Date final dividend for year ending 30 June 2017 is payable:	2 October 2017
Record date for determining entitlements to the dividend:	25 September 2017
Trading ex-dividend:	22 September 2017

Please refer to the accompanying Directors' announcement to the Australian Securities Exchange for further commentary.

APPENDIX 4E

PERIOD ENDING 30 JUNE 2017

AMOUNTS PER SECURITY

	Amount Per Security	Ordinary Security Val.
Final Dividend for the year ending 30 June 2016 (paid 3rd Oct 2016)	1.0 cent	$2,972,000
Interim Dividend for the 6 month ended 31 Dec 2016 (paid 1 April 2017)	1.0 cent	$2,975,000

The above table refers to the dividends paid to members during the financial year ended 30 June 2017.

As above, In addition to the above dividends, on the 24 of August 2017 the Directors declared a dividend of 1 cent per share to the holders of fully paid ordinary shares in respect of the year ended 30 June 2017, payable on 2 October 2017 to shareholders on the register at 25 September 2017. The final dividend will be unfranked. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is $2,972,000.

NET TANGIBLE ASSET PER SECURITY

	As at 30 June 2017	As at 30 June 2016
Net tangible asset per ordinary security:	25.6 cents	25.0 cents

EARNINGS PER SHARE

	Year Ending 30 June 2017	Year Ending 30 June 2016
Underlying Basic Earnings Per Share	3.39 cents	3.44 cents
Basic Earnings Per Share	(2.71) cents	3.44 cents
Diluted Earnings Per Share	(2.71) cents	3.40 cents

Please see refer to page 5 of media release for reconciliation from underlying earnings to statutory earnings.

APPENDIX 4E

PERIOD ENDING 30 JUNE 2017

EARNINGS PER SECURITY (EPS)

	2016 / 2017	2015 / 2016
Earnings used in the calculations of basic and diluted earnings per share:	(8,044,000)	10,228,000
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	297,162,696	297,474,396
Performance rights on issue:	-	3,602,405
Weighted average number of performance rights issued in prior years:	-	2,364,138
Weighted average number of performance rights issued during the year:	-	2,188,060
Weighted average number of performance rights vested during the year	-	-
Weighted average number of performance rights lapsed during the year:	-	(784,195)
Share Buy Back	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:	297,162,696	301,242,399

ITEMS TO BE REFERENCED IN THE ACCOMPANYING ANNUAL REPORT

- Consolidated statement of profit and loss and other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows
- Significant accounting policies
- Auditor independence declaration and report
- Any other significant information

OTHER INFORMATION REQUIRED BY LISTING RULE 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the accompanying 2017 Annual Report.