

GALE PACIFIC LIMITED

(ASX: GAP)

ASX and Media Release

24 February 2020

GALE Pacific well positioned for growth despite challenging trading conditions in MENA and an unforeseen provision impacting 1H FY20

- Group net revenue of \$62.3 million (down 8.1% on H1 FY19);
- ANZ net revenue up 5.9% on H1 FY19; growth in retail driven by new ranging and improving sell out performance, offsetting the adverse impact of challenging weather and environmental conditions;
- Americas net revenue down 27.4% on H1 FY19 due to stock build associated with a major new business win in prior comparable period; retail environment improving towards the end of the half;
- Eurasia net revenue up 10.6% on H1 FY19 driven by successful conversion of large-scale commercial projects, new ranging and expansion to new markets;
- MENA sales down 17.0% on H1 FY19 due to government spend being directed to other projects over the period and tightening of Gale Pacific credit policy in the region;
- Operating cash flow negative in the H1 FY20; expected to return positive for the full year FY20;
- Dividend Policy remains unchanged; No interim dividend declared in H1 FY20;
- Capital Management Policy remains unchanged.

GALE Pacific Limited (ASX: GAP) announces a Net Loss after Tax of \$2.6 million for the half year to 31 December 2019.

Results for the half year to	31 December 2019 A\$ million	31 December 2018 A\$ million	Change %
Net Revenue	62.3	67.8	(8.1)
EBITDA	3.4	5.2	(33.3)
EBIT	(2.5)	2.2	N/A
Net Profit/Loss after Tax (NPAT)	(2.6)	1.5	N/A
Net cash used in operating activities	(3.6)	(7.2)	49.6
Net debt	(23.6)	(24.7)	4.5
Basic earnings per share (cents)	(0.95)	0.51	N/A
Interim dividend per share (unfranked) (cents)	0	1.0	N/A

Commenting on the results, Chief Executive Officer, John Paul Marcantonio said: “There were some challenges for us in the front half of this year as previously announced and as reflected in our results. Challenging trading conditions in the MENA region, the need to take an unforeseen significant provision for an incentive arrangement with a major customer and the impact of import tariffs imposed by the United States on goods manufactured in China all had a material impact on the half.

“Despite these challenges, many of our growth initiatives are driving positive outcomes. Our underlying consumer business is healthy and growing, with sell-out rates at many of our major customers above market and category averages in both Australia and the United States. We have won additional, significant new ranging in the front half of this year in our core consumer shade category in Australia and the initial sell-through results are very encouraging. We have also secured additional ranging with major customers in the United States and will launch new products and expanded placement in the back half of this year. We are developing and launching new, unique, innovative commercial fabrics that will come to market in the second half, an example being our new ranges of flame-retardant architectural shade fabrics.

“Though faced with near-term challenges, we remain committed to transforming Gale Pacific into a more profitable and more quickly growing Company. We are proud of the hard work our team has undertaken thus far and we are squarely focused on driving transformation as we enter the back half of the year. We remain very encouraged by the near and medium-term opportunities for our business and remain committed to realising the potential for our Company.”

STRATEGY

Chief Executive Officer, John Paul Marcantonio said “our core strategy of building Gale Pacific into a more quickly growing, world-class, global fabrics technology business remains unchanged. We have a great opportunity in front of us in many markets around the world by leveraging our core competencies to a greater degree.

“Despite the near-term challenges, our underlying business is healthy. We are winning new consumers and commercial partners in many regions of the world. The new products that we are launching are unique to Gale Pacific and offer benefits to our partners that are needed and valued. The global launch of our new flame-retardant architectural shade fabrics range is evidence of this strategy in action. We are investing in new selling resources to accelerate adoption of these new products with end users, architects, designers, specifiers, fabricators and distributors.

“We have strong, lasting partnerships with many of the world’s largest retailers and we are earning new opportunities for growth through additional distribution of new and existing products. Consumer demand for our products is increasing and sell-through rates at many of our partners are significantly above market and category averages. We are working diligently to become a preferred partner of choice to drive category growth with our customers both in-store and online.

“Our strategy to accelerate growth in the Americas region for both consumer and commercial categories also remains unchanged. The size of the market and the overall growth potential in the near and medium term is highly attractive despite the near-term challenges. We’ll look to more quickly grow both our consumer and commercial businesses in this market over the coming years.

“We’ll work to build on the growth in our Australia/New Zealand region in both the consumer and commercial sectors of our business. We’ll grow our consumer categories by earning additional ranging through the introduction of new products and by driving increased sell-through with our partner retail customers. Launching new, differentiated commercial fabrics and accelerating the trial and adoption of those products is central to the growth strategy for our commercial business in the region.

We’ll closely monitor and manage near-term challenges in MENA, and we will look to drive greater growth in our commercial fabrics business in Eurasia by driving conversions in large scale projects and by expanding our business into new markets.”

RESULTS BY REGION

Americas

Results for the half year to	31 December 2019 A\$ million	31 December 2018 A\$ million	Change (%)
Net Revenue	17.5	24.0	(27.4)
EBITDA	(1.1)	1.8	N/A

The underlying business in the region is performing well. However, the financial result was impacted by a combination of cost pressure associated with import tariffs on parts of our portfolio and, for the previous period, the stock build associated with a major customer win.

The macroeconomic environment has generally been supportive with consumer confidence in January reaching its highest level since August 2019. As a result, Gale Pacific saw sell through growth across core retail categories with its major customers and the lead indicators are positive for the second half of the financial year.

Gale Pacific added incremental placements across the market in the first half of the year and have secured commitments for additional ranging in key customers that will ship in the second half. In addition to brick & mortar placements the Company saw above market increases in sell-through across most of its eCommerce partners in its core categories, an important sign of underlying business health.

The commercial fabrics business is a focus and Gale Pacific is investing in the region to accelerate the growth in this sector. The Company is investing in selling and marketing resources to drive usage of and preference for its market leading architectural fabric ranges. Gale Pacific has developed and is launching a new, market leading flame-retardant architectural fabric range to help both Gale and their commercial partners drive market growth over the coming periods. Accelerating trial and adoption of innovative new products as they come to market is central to the growth strategy in the region.

Import tariffs imposed by the United States on goods manufactured in China continue to impact profitability in the region. Pleasingly, there have been some reductions in the tariff levels in place on a portion of Gale Pacific's product portfolio and other previously announced new tariffs have been deferred by the United States at this time. As trading terms between the US & China evolve, the Company is employing several mitigation strategies including pricing, supply chain efficiency initiatives and growth-related customer initiatives to offset these added costs. Despite the tariff headwinds, Gale Pacific continues to invest in line with the strategy to build a much larger and more quickly growing business in the Americas.

Australia/New Zealand

Results for the half year to	31 December 2019 A\$ million	31 December 2018 A\$ million	Change (%)
Net Revenue	36.8	34.7	5.9
EBITDA	4.0	2.8	40.5

Gale Pacific's consumer business performed well in ANZ during the half despite challenging weather and environmental conditions. The Company was successful in winning additional ranging in core consumer categories and delivering improved year on year sell-out performance. To continue the growth path and improve the overall product mix within its consumer categories, the Company will continue to introduce innovative new products with our partner retailers over the coming periods.

Profitability in the region was adversely impacted by an unforeseen, substantial provision to cover an incentive arrangement with a major customer. The arrangement does not apply to prior periods but will have a material impact on FY20.

Activity in the overall commercial coated fabrics business has continued to be challenging with extended drought conditions impacting this segment over this and prior periods. Portions of Gale Pacific's coated fabrics portfolio, used in water containment and water management applications, continued to grow despite these challenges. Pleasingly, the Company was successful in securing a conversion with a major new customer in this segment of the market which will begin in H2 FY20. The Company is actively developing new ranges of coated fabrics featuring new to world functional benefits in core applications that will be coming to market over the coming periods.

Middle East/North Africa

Results for the full year to	31 December 2019 A\$ million	31 December 2018 A\$ million	Change (%)
Net Revenue	5.8	7.0	(17.0)
EBITDA	1.5	2.0	(24.0)

Trade in the Middle East was impacted by adverse macro conditions and overall instability in the region, with government funding channelled to investments outside of Gale's core categories. As indicated in the trading update released on 24 January, the result was also impacted by the Company's decision to tighten credit policy in the region.

The MENA region continues to be an attractive and important market for Gale Pacific & the Company remains supportive of its partners in the region while these trading conditions exist. In line with the global strategy, the Company will launch new, innovative commercial fabrics ranges in the back half of this financial year with the goal of stimulating growth with our partners.

Eurasia

Results for the full year to	31 December 2019 A\$ million	31 December 2018 A\$ million	Change (%)
Net Revenue	2.3	2.1	10.6
EBITDA	0.6	0.4	73.1

Sales growth of 10.6% and EBITDA expansion of 73% was attributable to continued focus on higher margin commercial fabrics ranges in the region.

The Company was successful in securing large-scale shade & asset protection projects, expanding into new markets with new distribution partners and adding additional ranging with exiting core customers. Gale Pacific will continue to invest in regional growth initiatives in line with the global strategy of expanding usage for its core commercial fabrics ranges. The Company will also focus on securing new commercial project placements and on increasing distribution for both its core fabrics & innovative, new commercial fabric ranges.

BALANCE SHEET AND CASH GENERATION

Net cash flows used in operating activities for the H1 FY20 was (\$3.6) million versus (\$4.8) million for the corresponding period in FY19 (adjusting the 31 December 2018 balance for the new lease accounting standard introduced this financial year). As per prior years, the Company expects to generate positive cash flows from operating activities in the second half, due to the seasonal nature of its business and the Northern Hemisphere summer.

Net debt as at 31 December 2019 was \$23.6 million versus \$24.7 million as at 31 December 2018, which included \$2.0 million of payments for share buy backs versus \$0.6 million for the corresponding period. The expected higher operating cash flows in the second half of the financial year compared to the first half will reduce the net debt level balance by 30 June 2020.

Working capital as at 31 December 2019 was \$67.9 million versus \$72.9 million as at 31 December 2018 (\$63.6 million as at 30 June 2019).

RECONCILIATION TO PROFIT / (LOSS) BEFORE INCOME TAX

The reconciliation of consolidated Profit/(loss) before income tax benefit to EBIT and EBITDA is as follows:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
<u>Profit/(loss) before income tax benefit to EBIT</u>		
Profit/(loss) before income tax benefit	(3,570)	1,342
<u>Adjusted for:</u>		
Finance costs	(1,090)	(907)
Earnings before Interest and Tax (EBIT)	<u>(2,480)</u>	<u>2,249</u>
	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
<u>Profit/(loss) before income tax benefit to EBITDA</u>		
Profit/(loss) before income tax benefit	(3,570)	1,342
<u>Adjusted for:</u>		
Depreciation and amortisation expense	(5,924)	(2,912)
Finance costs	(1,090)	(907)
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u>3,444</u>	<u>5,161</u>

The above profit / loss 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 results is consistent with this guidance.

OUTLOOK

As with previous years, profit delivery for the Company will be skewed to the second half of FY20. Unlike previous years, however, there are several major macro factors that will significantly influence both the second half and the full year result for Gale Pacific. These include developments in the trade climate between the United States & China, challenging trading conditions and overall tensions in the MENA region and the impact of the COVID-19 outbreak.

We are experiencing disruption to our supply chain in China as a result of the COVID-19 outbreak. Though we have resumed operations at our facilities in China as of 15 February 2020 we are experiencing a slower, and more costly, return to normal working conditions than anticipated due primarily to labor and transportation capacity constraints. We expect this challenging operational environment to persist for a meaningful portion of H2 FY20. Our team is working collaboratively with our supply partners to safely bring operations back to full capacity as quickly as possible to minimize customer service interruption.

The health and well-being of our team is our top priority. We are taking all possible measures to ensure the safety of our team members and those of our partners as we work to normalize operations in the region. Our thoughts are with the people and communities that have been affected by this disease.

Despite these near-term challenges we are energized about the future of Gale Pacific. We are working diligently to offset these near-term headwinds and transform Gale Pacific into a more quickly growing, world-class, global fabrics technology business. Underlying demand in much of the business is strong and overall business health is positive. Many of our initiatives are yielding positive outcomes.

However, given the scale and significance of these unprecedented market conditions, we expect both H2 FY20 and full year FY20 profit to remain positive but to be lower than FY19.

Authorised by the Gale Pacific Board of Directors.

INVESTOR AND ANALYST CALL

An investor and analyst call will be held on 24 February at 11:00am (AEDT). Please register for the call through the following link:

<https://s1.c-conf.com/DiamondPass/10003682-invite.html>

Alternatively, at the time of the call investors can dial +61 2 9007 3187 and provide the conference ID 10003682 to the operator.

ABOUT GALE PACIFIC

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

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

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