ASX/MEDIA RELEASE

Gale Pacific Limited
(ASX: GAP)

21 February 2023

GALE DELIVERS +25% EBITDA GROWTH IN 1H FY23, STEADY OUTLOOK

- 1H EBITDA **$7.9 million, up 25%** to pcp
- 1H EBIT **$2.1 million, up 40%** to pcp
- 1H PBT **$0.6 million, down 13%** to pcp
- Interim dividend 1.0 cps; 100% franked

GALE Pacific Limited today announced results in line with guidance for the first half of the 2023 financial year (**1H FY23**). EBITDA (earnings before interest, tax, depreciation, and amortisation) was $7.9 million, an increase of 25% compared to the first half of the 2022 financial year (**1H FY22**), with improved earnings in both the company's largest regions, the Americas and Australia and New Zealand.

Profit before tax was $0.6 million compared with $0.7 million in 1H FY22 on revenue of $92.6 million (1H F22: $95.9 million). Sales growth in the Americas, where first half revenue was a record for the region, was outweighed by lower sales in Australia and New Zealand due to cool, and historically wet weather across the east coast of Australia throughout the half.

The directors have declared an interim dividend of 1.0 cent per share, 100% franked, payable on 1 June 2023 to shareholders on the register at 31 March 2023.

RESULTS FOR 1H FY23	1H FY23 A$ million	1H FY22 A$ million	Change %
Revenue	**92.6**	95.9	(3)
EBITDA	**7.9**	6.3	25
EBIT	**2.1**	1.5	40
Profit before tax	**0.6**	0.7	(13)
Net profit after tax	**0.1**	(0.2)	>100
Basic EPS (cents)	**0.03**	(0.08)	>100
Interim dividend (cents per share)	**1.0 100% franked**	1.0 50% franked	n/a

John Paul Marcantonio, Chief Executive Officer and Managing Director, said: ‘We continued the positive momentum from the 2022 financial year into the first half of the 2023 financial year, being the result of strategic elements outlined in our **G**rowth **A**cceleration **P**lan.

‘The trend toward normalisation in global supply chains was a welcome change as international shipping capacity increased and container shipping costs declined in the second quarter, a trend that has continued into the second half. This stabilisation has allowed us to reduce manufacturing and sourcing lead times and begin to lower the elevated inventory in which we invested to ensure consistent service to our global customers in the volatile operating environment of the last two years.

‘We have begun to see early signs of input cost decreases in some material categories although labour rates remain elevated. These cost benefits will take some time to appear in our results as we sell through elevated on-hand inventories in our selling regions at higher costs and we further balance operating capacity and costs with forecast demand during the second half.

‘The first half result was constrained by historically wet and unseasonably cool weather across the eastern half of Australia, which negatively impacted both our consumer and commercial businesses in our second largest market. Despite this, we delivered double-digit earnings increases driven by our pricing programs, lower international shipping costs and operating cost discipline.

‘Our team handled well the continued challenges of the COVID-19 pandemic in the first half. Despite restrictions imposed by Zero-COVID policy in China, which mandated a 10-day shutdown of our China manufacturing and distribution operations in October and disrupted our suppliers’ operations, we maintained consistent service to our customers.

‘Our business is benefiting from the strengthening of our team as we relocated our Americas headquarters to Charlotte, North Carolina in the first half. Charlotte is a well-established and quickly growing commercial centre that is home to several key customers, is known as a global hub for technical fabrics and textiles, gives us access to a highly skilled talent pool and has established and efficient supply chain infrastructure. Our team will move into a newly renovated, purpose-built office in March, where we will work to deliver our growth plans for the Americas and the Company as a whole.

‘We have built a high-performance operating culture and a leadership team capable of delivering our strategic growth plans and scaling GALE Pacific into a much larger global business. We have invested in people and resources, particularly strengthening marketing and sales in the United States, to deliver on the business expansion opportunities in our largest growth market. GALE Pacific is quickly becoming a destination for top talent to develop their careers, one of the key pillars of our growth strategy.

‘We’ve recently consolidated our Middle East and North Africa (MENA) and Eurasia selling regions in a single operating and reporting entity, Developing Markets. This will simplify our business structure and allow GALE Pacific to accelerate growth in new and developing markets, with a common approach; a repeatable, efficient operating model; and a streamlined management structure.

‘We have also continued to invest in operating infrastructure to efficiently scale the company over the coming years. Our global ERP upgrade to cloud-based Microsoft Dynamics 365 is progressing according to plan with an anticipated go-live in late calendar 2023. We have also secured long-term lease agreements for our facilities in Australia (Braeside manufacturing) and the United States (Fontana distribution); these long-term strategic investments have had a short-term impact on profit but will enable long-term growth in our core categories and markets.

‘The opportunity to grow the company well into the future is in front of us. We have a clear, concise global growth strategy and a capable, committed, and collaborative team in place. I would like to thank our global team members for their dedication to improving our business while we work together to build GALE Pacific into a faster growing, world-class global fabrics technology business over the coming years.’

REGIONAL RESULTS

AMERICAS

RESULTS FOR 1H FY23	1H FY23 A$ million	1H FY22 A$ million	Change %
Revenue	**37.6**	32.9	14
EBITDA	**1.3**	(0.3)	>100

First half revenue of $37.6 million was a record for GALE in the Americas region and followed record second half revenue in 2H FY22. This increase helped drive EBITDA expansion and a return to first half profitability in the Americas. The company benefited from invoice price increases aimed at offsetting input cost inflation; costs for container shipping from China to the United States remained elevated in quarter one with meaningful cost deflation in quarter two.

GALE's customers in the Americas broadly destocked on-hand inventory levels in the first half as compared to prior periods due to the overall improvement in global supply chains; mandated, company-wide inventory reduction initiatives; and moderate declines in unit sell-through compared to both the first and second halves of FY22. In addition, many customers increased retail prices to offset input cost inflation, often well beyond GALE's invoice pricing.

Despite these headwinds, the company delivered record revenue while furthering both distribution expansion and household penetration initiatives across the region, securing key commitments for a strong start to the coming northern hemisphere summer selling season.

GALE continued to invest in its strategic growth plan in the region by expanding team capability and capacity and building a strengthened, best-in-class marketing and selling team, while maintaining overall headcount during the transition of its office to Charlotte, North Carolina.

AUSTRALIA / NEW ZEALAND

RESULTS FOR 1H FY23	1H FY23 A$ million	1H FY22 A$ million	Change %
Revenue	**50.2**	57.0	(12)
EBITDA	**8.1**	7.0	15

Revenue of $50.2 million, a decline of 12% compared to 1H FY22, was driven primarily by unseasonably cool and historically wet weather across the east coast of Australia. This had a negative impact across both consumer and commercial end-markets by constraining retail sell-through and demand for the company's coated products used in grain handling and food storage and transportation.

The primary drivers for the expansion in earnings were the normalisation of global supply chains, affording largely unconstrained international shipping capacity into Australia at comparatively lower costs, and the company's invoice price increases to offset input cost inflation.

Sell-through rates for GALE's market-leading range of Coolaroo® branded shade solutions declined in the first half as compared to 1H FY22, impacted by both weather conditions and normalisation of consumer demand post-COVID. Despite these headwinds, the company was successful in bringing new shading products to market, maintaining or gaining shelf share across core consumer categories and expanding distribution across the eCommerce channel in Australia.

DEVELOPING MARKETS

RESULTS FOR 1H FY23	1H FY23 A$ million	1H FY22 A$ million	Change %
Revenue	**4.8**	6.0	(20)
EBITDA	**1.2**	1.3	(6)

Revenue for the first half was $4.8 million, a decline of 20% compared to 1H FY22, driven primarily by regulating consumer demand in Japan post-COVID and the company's strengthened credit policies and collection discipline across Middle East markets.

A material reduction in both overall and long-dated debtors was achieved in the Middle East through increasingly stringent credit management and debt collection activities.

Demand for the company's leading range of commercial architectural shade fabrics used in large-scale, professional shading applications was relatively stable across markets in the first half. A new range of shade fabrics introduced at the end of the half is expected to drive further market share growth in the second half and beyond.

BALANCE SHEET AND CASH FLOW

Net cash from operating activities at 31 December 2022 was $(11.7) million, down from $(6.3) million in 1H FY22 due to elevated global inventory. This was attributable to lower than anticipated demand in Australia due to poor weather in the first half, building inventory for the coming summer selling season in the Americas, and continued inefficiency in global supply chains in the first quarter.

Net debt at 31 December 2022 was $24.7 million, up from $12.8 million at 31 December 2021 due to higher working capital. This was driven primarily by the additional investment in inventory to ensure consistent service to customers, especially in the key United States market while global supply chains began to stabilise, and lower than planned demand in Australia.

Capital expenditure for FY23 is expected to be approximately $10 million, up from $4.8 million in FY22, with $4.8 million estimated for GALE Pacific's ERP system upgrade to cloud-based Microsoft Dynamics 365.

OUTLOOK

The company anticipates continued stabilisation of global supply chains in the second half, with excess shipping capacity enabling comparatively low international container rates. Additionally, GALE will further reduce manufacturing and procurement lead times and lower global inventories previously required to maintain service throughout the volatile operating period of the last two years.

Due to macro-economic factors, including the continued rising interest rate environment, GALE anticipates that consumer behaviour will further normalise, with some declines in year-on-year unit sell-through anticipated, offset by invoice price increases and additional market share gains in the United States in the second half. In Australia, the company expects marginal declines in year-over year sell-through in the retail channel as consumer spending further normalizes post-COVID and lower than anticipated demand across commercial end markets in the second half.

As a result of reduced comparative demand and the company's draw down of currently on-hand inventories, GALE has deployed efficiency measures to appropriately match production capacity and labour to align with forecast manufacturing requirements.

GALE will continue to invest in line with its **G**rowth **A**cceleration **P**lan in the second half to further build the company into a faster growing, world-class, global fabric technology business while maintaining disciplined variable and structural cost efficiency measures.

As a result of these factors, the company now anticipates second half and full year FY23 revenue and profit before tax to be lower than that foreshadowed at the Annual General Meeting in November 2022. FY23 revenue and profit before tax are anticipated to be comparable to the second half and full year of FY22.

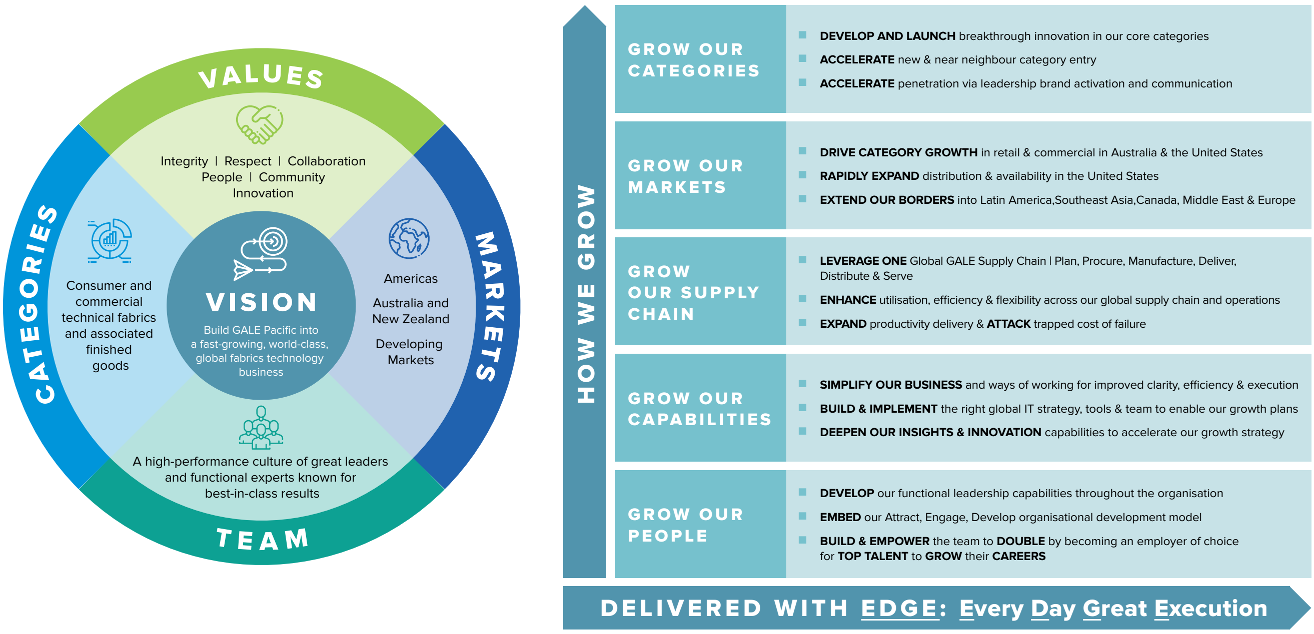
COMPANY STRATEGY

GALE Pacific's core strategy is to build the company into a faster-growing, world-class, global fabrics technology business by driving product innovation, leading category growth, improving operations and expanding into new markets.

Building on its market-leading, vertically integrated knitted and coated fabrics core competencies, the company will invest in accelerating further growth in its anchor markets of the United States and Australia and building its business across new and developing markets.

GALE Pacific's **G**rowth **A**cceleration **P**lan sets the framework to grow the company more quickly by focusing and aligning all GALE's efforts, investments and teams on growing its categories, markets, supply chain, capabilities and people.

GALE PACIFIC GROWTH ACCELERATION PLAN



Authorised by the GALE Pacific Board of Directors.

INVESTOR AND ANALYST WEBINAR

A webinar briefing for analysts and investors will be held by CEO John Paul Marcantonio and CFO Sheryl Smith on Tuesday 21 February 2023 at 11.00am Australian Eastern Daylight Time.

An accompanying presentation will be made available via the ASX announcements platform prior to the call.

Attendees are required to register beforehand. After registering, a confirmation email will be sent containing information on how to join the webinar.

To register, please go to:

→ **GAP 1H FY23 WEBINAR REGISTRATION**

The webinar will include an opportunity for attendees to ask questions. Alternatively, investors can submit questions prior to the webinar via investor.relations@galepacific.com.

ABOUT GALE PACIFIC

GALE Pacific is a market-leading manufacturer of technical fabrics used for consumer and commercial applications around the world. Founded in Melbourne, Australia in 1951, today GALE has operations in Australia, New Zealand, the United States, China and Dubai and employs more than 600 people worldwide. GALE's products are sold across Australia, New Zealand, Asia, the Americas, Europe, the Middle East and a growing number of additional markets.

GALE's products are recognised around the world for their innovative technology, quality, durability and reliability. The company's consumer products, marketed under the Coolaroo® brand, include outdoor roller shades, shade sails, shade and garden fabrics, shade structures and pet products. They can be found at market-leading major retailers, both in-store and online, around the world.

The Company's commercial products, marketed under the GALE Pacific Commercial® brand, include knitted, coated, and advanced polymer fabrics used in a growing number of applications across the agricultural, horticultural, aquacultural, architectural, construction, mining, and packaging industries.

GALE's core strategy is to accelerate its growth as a world-class global fabrics technology business through product innovation, category expansion, expanded distribution in existing and new markets and improved operational efficiency and flexibility.

GALE Pacific Limited's shares are listed on the Australian Securities Exchange (code: GAP).

CONTACT

John Paul Marcantonio
Chief Executive Officer & Managing Director
+61 3 9518 3333
investor.relations@galepacific.com

Adrian Mulcahy
Investor Relations
+61 438 630 422
adrian.mulcahy@marketeye.com.au

Antonino Blancato
Media Relations
+61 410 448 577
a.blancato@fcr.com.au