

ASX and Media Release

16 August 2018

GALE Pacific delivers to top end of guidance with FY18 PBT \$12.5m

GALE Pacific Limited (ASX: GAP) is pleased to announce its financial results for the full year ended 30 June 2018 (FY18).

FY18 RESULTS SUMMARY:

- Profit before tax of \$12.5m at the top end of the guidance range
- Strong operational performance despite raw material cost and significant negative currency impacts
- Expanding USA sales presence
- Major projects in the USA and China implemented seamlessly
- Core product focus delivering cost savings
- Low levels of net debt despite investments, higher inventory and share buyback
- Final dividend 1.0 cps (unfranked), 2.0 cps for the FY18

Directors have declared a final dividend of 1.0 cent per share (unfranked), payable on 4 October 2018 to shareholders on the register at 27 September 2018, taking total dividends for FY18 to 2.0 cents per share (unfranked).

Commenting on the FY18 results, Group Managing Director, Nick Pritchard said: We managed to achieve many important milestones over the year and make continued progress in the execution of our strategy to transform into a faster growing, more profitable, innovative global fabrics technology business. This has been achieved despite being confronted with several significant economic and market conditions”.

“We have confidence that our team, infrastructure and new product pipeline position the company well for growth”, added Mr Pritchard.

Results for the twelve months to	30 June 2018 A\$ million	30 June 2017 A\$ million	Change %
Revenue from continuing businesses	160.5	162.0	(1)
Underlying EBITDA	19.9	21.4	(7)
Underlying EBIT	14.0	15.1	(7)
Underlying profit before tax	12.5	13.5	(8)
Underlying profit after tax	9.8	10.1	(3)
Statutory revenue	160.5	175.3	(8)
Statutory profit before tax	12.5	(4.9)	357
Statutory profit after tax	9.8	(8.0)	222
Net cash provided by operating activities	8.9	19.7	(55)
Net cash / (debt)	(6.7)	1.3	(615)
Underlying basic earnings per share (cents)	3.35	3.39	(1)
Final dividend per share (unfranked) (cents)	1.00	1.00	-
Dividends per share (unfranked) (cents)	2.00	2.00	-

Revenue from continuing businesses declined 1% with underlying EBITDA falling 7% for the twelve months to June 2018. EBITDA margins improved in the second half; a result of improved sales mix, tight cost control, and cost out initiatives following the exit of non-core businesses.

GALE Pacific has substantially rationalised the company's product portfolio and brands, enabling a greater investment in the Coolaroo and GALE product brands. Warehouses have been rationalised, all global facilities upgraded, IT, safety and other systems strengthened. These investments have created production capacity and support the company's aspirational growth plans.

In December 2017 GALE Pacific opened a new, larger, USA warehouse to support its growth ambitions in this market; and in July 2018 the company went live with a new ERP system in China, considerably strengthening processes and improving performance visibility. All regions are now operating on a single IT platform. These major projects were executed without service interruption.

Throughout the year GALE Pacific experienced raw material price increases that materially impacted product costs. Key raw materials costs increased by more than 20%, with the primary product input, resin, reaching a ten-year high in Australian dollar terms. Further, unfavourable currency movements negatively impacted the China manufacturing cost base.

Other challenges included hurricanes in Texas and Florida, a weak Australian grain harvest, recessionary conditions in the Middle East, and unseasonal cool weather at the start of the USA season. The company managed to the conditions, increasing prices where possible, and implementing strategies that generated cost reductions and service improvements; whilst continuing to invest in the important areas, in line with supporting future growth.

RESULTS BY REGION

Australia/New Zealand

Results for the twelve months to	30 June 2018 A\$ million	30 June 2017 A\$ million	Change %
Revenue from continuing businesses	75.4	79.1	(5)
Statutory revenue	75.4	92.4	(18)
Underlying EBITDA	4.2	2.9	45
Underlying PBT	3.5	1.9	82

The Australia/New Zealand region delivered a strong profit increase, driven principally by retail sales in the core shade and screening categories growing 7%, operating margins increasing; a result of improved product mix following the exit of non-core products, and strategic initiatives to right size the cost base following their exit.

Commercial sales declined overall due to the weak grain season, though continued growth in non-grain related categories attests to the strength and performance of the underlying business.

Americas

Results for the twelve months to	30 June 2018 A\$ million	30 June 2017 A\$ million	Change %
Revenue	64.3	62.0	4
EBITDA	6.1	6.5	(6)
PBT	3.7	4.4	(15)

The Americas business increased sales 6% in local currency terms, with strong sales-out performance achieved across the major retailers, including a contribution from the largest e-commerce account. During the year the business was awarded a significant new ranging win at a large home improvement channel customer. Rollout of this expanded new program commenced in June 2018 and is scheduled to be completed by the end of the calendar year.

Performance during the period was negatively affected by the impact of hurricanes at the end of the 2017 northern hemisphere summer which impacted replenishment orders in key selling states, whilst unseasonal cool weather at the beginning of the 2018 summer season saw subdued early sales out, conservative customer inventory management and sizeable late-season order cancellations, by some major retailers. These factors, along with increases in raw material costs, contributed to a margin contraction in the period. That being said, we are optimistic about the sell-through being achieved as the summer season has progressed and are encouraged by the environment for raw material costs stabilising in recent weeks.

Middle East/North Africa

Results for the twelve months to	30 June 2018 A\$ million	30 June 2017 A\$ million	Change %
Revenue	12.7	12.8	(1)
EBITDA	2.7	2.5	8
PBT	2.4	2.3	5

At constant currency the Middle East North Africa region increased revenue by 2%, with operating margin improvement due to product mix changes, and lower quality and supply chain related costs. Throughout the year we saw increasing support for the newly launched Commercial Heavy architectural shade fabric, designed specifically for larger structures, as well as ongoing growth in our core commercial fabric ranges.

Market conditions in the region remain restrained resulting from interruptions in planned government stimulus initiatives that drove project delays and lower cash flows. The business maintained a conservative posture as it relates to market conditions.

China Manufacturing & Eurasia

Results for the twelve months to	30 June 2018 A\$ million	30 June 2017 A\$ million	Change %
Revenue	8.1	8.2	(1)
Intersegment Sales (eliminated when consolidating group results)	52.6	49.8	6
EBITDA	4.8	11.5	(58)
PBT	1.4	8.0	(82)

Despite higher volumes and intersegment sales, adverse price movements in key raw materials, and an unfavourable appreciation in the Chinese Renminbi against the Australian and US dollars, contributed to lower profit performance.

Whilst the business is continuing to deliver lower labour and overhead costs driven by core process efficiencies, improved IT systems, and stronger procurement, the sudden movement in raw materials and currency drove short-term margin reduction.

SEGMENT REPORTING

The Company is undertaking a project to modify and improve the nature of its segment reporting for shareholders. This task is being undertaken to provide greater insight and information regarding the Company's operating segments, which the Board believes will assist shareholders in understanding the key drivers of business profitability.

BALANCE SHEET AND CASH GENERATION

Operating cash flow for the period closed the year at just under \$9 million which was \$11 million lower than the prior corresponding period. Increases in group inventory and receivables were the key contributor to the result.

The inventory result was impacted by currency, though the primary explanation was due to carryover raw materials and finished product inventory from the weaker than expected grain season in Australia, an unseasonal slow start to the spring/summer seasons and unexpected USA retail customer destocking activities. The delay in USA customer orders also contributed to a higher receivable at balance date. Combined with modest increases in year over year retail sales, and a change in customer mix, this is expected to generate positive cash flows in July and August 2018.

STRATEGY

GALE Pacific is today considerably more focused on its core and is better positioned to grow.

Key elements of GALE Pacific's 2019 plan include:

- **Coating Manufacturing Capacity** – effective commissioning of the new \$8m coating line in early 2019. This new line will support the development of the coated products business and has capabilities that complement the existing line.
- **Product Innovation** – GALE Pacific is focused on new product development in the commercial fabrics area, as well as in core retail shade categories. There are many exciting developments underway with work continuing towards commercialisation of these in the coming periods.
- **Americas Region** – effectively rolling out new programs and gaining expanded ranging with existing and new customers is key to future success. GALE Pacific see a great opportunity to lead the shade category, as well as build a larger commercial fabrics business.
- **China Manufacturing Operations** – consolidating two existing manufacturing facilities into a single site, to drive further efficiency and quality improvements.

OUTLOOK

Whilst the Company does not expect trading conditions to change materially, it is encouraged by the positioning of the business in its key markets. It is optimistic about the activity levels in the back-end of the USA summer season, it is well positioned ahead of the Australian summer season, and with the installation of the new coating line on track along with a number of other exciting product innovations, the Company is well positioned to deliver on its growth aspirations.

DIVIDENDS

For clarity, the below table details timing in relation to the recently announced final dividend.

Date dividend is payable	4 October 2018
Record date for determining entitlements to the dividend	27 September 2018

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 and home improvement channels. They are stocked in many of the world's largest retailers and have strong online distribution.

Contact:

Matt Parker, Chief Financial Officer (03) 9518 3312
 Nick Pritchard, Group Managing Director (03) 9518 3312

Investors:

Adrian Mulcahy, Executive Director, Market Eye 0438 630 422

APPENDIX 4E

PERIOD ENDING 30 JUNE 2018

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 2018
Previous Corresponding Period is the Financial Year Ended:	30 June 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		%	\$'000	To	\$'000
Revenues from continuing activities:	Down	(8.3)	(14,810)		160,456
Underlying Profit from continuing activities after tax attributable to members:	Down	(2.7)	(272)		9,806
Profit from continuing activities after tax attributable to members:	Up	221.9	17,850		9,806
Net profit for the period attributable to members:	Up	221.9	17,850		9,806
Please refer to the accompanying Directors' announcement to the Australian Securities Exchange for further commentary.					

Please refer to page 13 of the annual report for reconciliation from underlying earnings to statutory earnings.

DIVIDENDS

	Amount Per Security	Percentage Franked
Final Dividend for the year ending 30 June 2017 (paid 2 October 2017)	1 cent	0%
Interim Dividend for the 6 month ended 31 Dec 2017 (paid 3 April 2018)	1 cent	0%
Final Dividend for the year ending 30 June 2018:	1 cent	0%
Date final dividend for year ending 30 June 2018 is payable:	4 October 2018	
Record date for determining entitlements to the dividend:	27 September 2018	

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

APPENDIX 4E

PERIOD ENDING 30 JUNE 2018

AMOUNTS PER SECURITY

	Amount Per Security	Ordinary Security Val.
Final Dividend for the year ending 30 June 2017 (paid 2 October 2017)	1 cent	\$2,968,000
Interim Dividend for the 6 month ended 31 Dec 2017 (paid 3 April 2018)	1 cent	\$2,888,000

The above table refers to the dividends paid to members during the financial year ended 30 June 2018.

NET TANGIBLE ASSET PER SECURITY

	As at 30 June 2018	As at 30 June 2017
Net tangible asset per ordinary security:	27.80 cents	25.6 cents

EARNINGS PER SHARE

	Year Ending 30 June 2018	Year Ending 30 June 2017
Underlying Basic Earnings Per Share	3.35 cents	3.39 cents
Basic Earnings Per Share	3.35 cents	(2.71) cents
Diluted Earnings Per Share	3.29 cents	(2.71) cents

Please refer to page 13 of the annual report for reconciliation from underlying earnings to statutory earnings.

APPENDIX 4E

PERIOD ENDING 30 JUNE 2018

EARNINGS PER SECURITY (EPS)

	2017 / 2018	2016 / 2017
Earnings used in the calculations of basic and diluted earnings per share:	9,806,000	(8,044,000)
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	297,162,696	297,162,696
Performance rights on issue:		-
Weighted average number of performance rights issued in prior years:	3,758,910	-
Weighted average number of performance rights issued during the year:	1,156,055	-
Weighted average number of performance rights vested during the year	998,892	-
Weighted average number of performance rights lapsed during the year:	(198,444)	-
Weighted average number of shares bought Back during the year	(5,107,329)	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:	297,770,780	297,162,696

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 2018 Annual Report.