

GALE PACIFIC LIMITED

(ASX: GAP)

ASX and Media Release

19 August 2019

GALE Pacific continues to execute on its strategy with strong performance in Americas and Eurasia, offset by subdued ANZ and MENA

- Group net revenue of \$149.2 million (up 0.3% on FY18)
- Americas net revenue of A\$71.0 million (up 17% on FY18) with expanded distribution (additional stores and product listings)
- Eurasia net revenue up 12% on FY18 driven by improved product mix and expanded distribution
- ANZ net revenue down 16% on FY18 with ongoing drought conditions and weakness in the Australian retail market
- MENA region sales flat on FY18 due to weaker sales in Saudi Arabia and the UAE, offset by strong growth in other countries
- Strong operating cash flow of \$15.3 million, representing 167% of net profit after tax
- Dividend of 1.0 cent per share (unfranked) bringing total payout for FY19 to 2.0 cents

GALE Pacific Limited (ASX: GAP) announces a Net Profit after Tax of \$9.2 million for the financial year to 30 June 2019.

Directors have declared a final dividend of 1.0 cent per share (unfranked), payable on 8 October 2019 to shareholders on the register at 24 September 2019. The share buyback remains in place.

Results for the full year to	30 June 2019 A\$ million	30 June 2018 A\$ million	Change %
Net Revenue	149.2	148.8	0
EBITDA	19.3	19.9	(3)
EBIT	13.1	14.0	(6)
Net Profit after Tax (NPAT)	9.2	9.8	(6)
Net cash provided by operating activities	15.3	8.9	72
Net cash/(debt)	(10.9)	(6.7)	(62)
Basic earnings per share (cents)	3.21	3.35	(4)
Final dividend per share (unfranked) (cents)	1.0	1.0	-

Commenting on the results, Group Managing Director, Nick Pritchard said: “It is disappointing we did not achieve earnings growth, however we are pleased with the progress we have made over the last twelve months in executing our strategy. The USA business has begun to deliver strong results following a period of investment and we executed our new programs and managed the growth well. We are beginning to see returns on our investments in research and development with the launch of key new products. During the year we delivered numerous key projects, including the commissioning of our new coating line, as well as important efficiency projects. We experienced tough conditions in the Middle East, particularly in Saudi Arabia and the UAE; and in Australia worsening drought conditions, severely impacted our agricultural business; and in retail conditions were softer.

Despite the challenges in some regions, we continued to invest in line with our strategy”.

RESULTS BY REGION

Americas

Results for the full year to	30 June 2019 A\$ million	30 June 2018 A\$ million	Change (%)
Net Revenue	71.0	60.5	17
EBITDA	13.8	12.5	11

FY19 was a successful year with strong growth in the Retail/eCommerce channel primarily driven by the expanded programs with major home centre customers. Additional store distribution was achieved, as well as additional products within those stores. These expanded programs were well executed, and our new warehouse facility in California helped to ensure strong service performance throughout the year. Our ability to deliver high volumes of product, in short delivery windows, has considerably improved, providing confidence in our ability to support future growth.

Retail product sales-out performance with major customers was strong. We now have product distribution in more than 4,000 stores nationally.

Our strategy of expanding our largely window shade business to a broader range of shade products (shadecloth, shade sails and portable shade items) continues. We are being given increased opportunities to present these programs to retail and eCommerce accounts.

With respect to import tariffs due to the USA/China trade war, some product categories were affected during the year, with the new threat of higher tariffs on other parts of our range. We are addressing this by a combination of pricing and manufacturing efficiency initiatives.

Australia/New Zealand

Results for the full year to	30 June 2019 A\$ million	30 June 2018 A\$ million	Change (%)
Net Revenue	58.0	68.8	(16)
EBITDA	2.8	5.4	(49)

Sales performance was impacted by weaker conditions within the retail sector and led to a reduction of inventory within the stores of our largest customer. The result was also impacted by exiting further non-core categories, including insect screening and frames. These are commoditised products, fall outside our core competence and focus, and are misaligned with our strategy.

Sales out performance was weaker overall, although strong sales out growth in key shade categories was pleasing.

The commercial sector business was impacted by worsening drought conditions. The eastern seaboard grain harvests, from where the bulk of our grain cover business is driven, was particularly impacted.

Harvest yields across Queensland and New South Wales were reported as being down nearly 70% on the prior year which had been down substantially on the year before.

Considering the severe drought conditions, our strategy included focusing on water retention fabrics (dam liners, water tank liners and evaporation covers) as efforts to collect and retain water intensified. New fabrics were introduced and selling efforts were increased. Growth in these products was achieved, but this was not enough to offset the further decline in grain cover products.

Costs were carefully managed with a focus on rightsizing the business and managing expenses to match sales.

Middle East/North Africa

Results for the full year to	30 June 2019 A\$ million	30 June 2018 A\$ million	Change (%)
Net Revenue	12.9	13.0	(0)
EBITDA	4.0	4.4	(10)

The region's economic challenges continued with Saudi Arabia and the United Arab Emirates particularly impacted. Some large-scale projects continued but the day to day business in these key markets declined. Strong growth was achieved in secondary markets including Kuwait, Qatar, Oman and India, but was not enough to offset the decline in Saudi Arabia, where sales fell by more than 30% on the prior year.

During the year we saw further evidence of slower payments from customers, leading to the adoption of an increasingly cautious approach to the issuing of credit. This approach impacted sales, though we believe this strategy to be prudent whilst weakened economic conditions persist. We continue to consider the risk of bad debts to be minimal.

Eurasia

Results for the full year to	30 June 2019 A\$ million	30 June 2018 A\$ million	Change (%)
Net Revenue	7.4	6.6	12
EBITDA	2.3	1.6	45

Sales growth of 12% drove EBITDA growth of 45%, due largely to the continued strategic move away from unbranded, lower margin retail products to branded, higher margin commercial products.

New distribution partners were appointed in Asia, and in the UK, in line with the strategy to expand distribution in this small, but profitable region.

MANUFACTURING PERFORMANCE

Performance at our China manufacturing operations was strong with further productivity, quality and service improvements. Key to this performance was the completion of important projects including the consolidation of two manufacturing sites into one, the establishment of a new and improved warehouse facility, the refurbishment of the employee accommodation facility, and the introduction of various automation initiatives to improve labour efficiency.

The investment brought previously idle, or underutilised, equipment back into production and achieved faster start-ups of new products than in previous years.

In Australia, the new extrusion coating/laminating line was commissioned and is now in production. The new line more than doubles production capacity and, with complementary capability to our existing line, enables matching of product to the most suitable production line. We are pleased with the project management supporting this new line and the effective commissioning provides further evidence of our ability to manage large-scale, complex projects.

BALANCE SHEET AND CASH GENERATION

Strong operating cash flow of \$15.3 million was up \$6.4 million (72%) on prior year and represents 167% of net profit after tax.

The improvement versus last year was primarily driven by inventory movements. Inventory increased slightly year on year, attributable to currency movements, with underlying inventory values lower than the prior corresponding period.

The reduction in trade and other receivables was primarily driven by the execution of our plan in the Americas. This allowed the business to deliver stock to our major retail customers earlier in the spring/summer season, driving growth and improving our cash collections in FY2019. Trade Payables decreased year on year due to lower imports in ANZ and bringing forward production in China to support the Americas growth strategy.

Net debt of \$10.9 million at 30 June 2019 is up A\$4.2 million on pcp driven primarily by the investment in the new Australian coating line.

SEGMENT REPORTING

As reported with the interim result in February, GALE Pacific Limited has initiated an activity-based allocation method of reporting. Intersegment sales/margin and central costs have been allocated to external revenue generating segments where the final economic benefit is derived. This enhanced method of reporting is being used by the Group Managing Director, who is identified as the Chief Operating Decision Maker ('CODM'), to target product costing, product line profitability analysis, customer profitability analysis, and service pricing structures.

From July 1st, 2018 the Group is organised into five operating segments identified by external revenue generating geographic locations. These operating segments will be based on the internal reports that are reviewed and used by the CODM in assessing performance and in determining the allocation of resources.

Under the improved reporting regime, the FY2019 comparative FY2018 fully allocated segments have been restated.

STRATEGY

Key elements of GALE Pacific's 2020 plan include:

- **Americas Region** – continued focus on building out the DIY shade category with retail and eCommerce customers, expanding our range beyond window shades to a broader range of DIY shade products. Increasing the number of distribution points, increasing the number of products ranged with existing customers, and building consumer awareness of our brands and products.
- **Growing the Commercial Business Globally** – maximise the selling opportunity created by our new products, together with the additional manufacturing capacity for coated fabrics, by expanding into new geographic markets and new selling channels. Increase the geographic and channel diversity to have a reduced reliance upon the seasonal grain business.
- **Australia & New Zealand Retail Business** – grow our core products through retail and eCommerce channels via additional product ranging, new products, and working closely with our customers on their multi-channel distribution strategies.
- **Product Innovation** – continue to deliver meaningful innovation in core product categories. There continue to be many exciting developments underway and commercialisation of some of these programs is expected in FY20.
- **Operational Efficiencies** – continue to drive operational efficiencies including quality improvements, waste reduction, improved labour utilisation, and improved service, at all facilities.

OUTLOOK

We remain confident in our strategy of focusing on growing our core, delivering product innovation, targeted geographic expansion, and driving efficiencies in our global operations.

In FY2020 we will continue to focus on these initiatives, expecting to make further progress on each of our strategies, especially in the area of new product innovation which will benefit all markets. We have now entered the market trial and testing phases of some of the key projects and are excited about their global potential.

Macroeconomic conditions are expected to remain challenging driven by international trade uncertainties, an unstable Middle East region, and a flat domestic economy. Despite these factors we remain optimistic of being able to continue to deliver on our strategy.

In line with prior years we anticipate a weaker first half performance, a result of increased tariffs on products entering the USA, the seasonality within our business, and the northern hemisphere business being more profitable than our southern hemisphere business.

With the installation of the new coating line, and the completion of most of the transformational works at our China manufacturing plant, our major capital investment projects are now complete. We expect capital investment to revert to more normal, lower levels in FY20, with continuing strong cash generation.

DIVIDENDS

Date dividend is payable	8 October 2019
Record date for determining entitlement to the dividend	24 September 2019

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.

Contact:

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APPENDIX 4E

PERIOD ENDING 30 JUNE 2019

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 2019
Previous Corresponding Period is the Financial Year Ended:	30 June 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

		%	\$'000	To	\$'000
Revenues from continuing activities:	Up	0.3	406		149,217
Profit from continuing activities after tax attributable to members:	Down	6.2	(609)		9,198
Net profit for the period attributable to members:	Down	6.2	(609)		9,198
Please refer to the accompanying Directors' announcement to the Australian Securities Exchange for further commentary.					

DIVIDENDS

	Amount Per Security	Percentage Franked
Final Dividend for the year ending 30 June 2018 (paid 4th Oct 2018)	1 cent	0%
Interim Dividend for the 6 months ended 31 Dec 2018 (paid 9th April 2019)	1 cent	0%
Final Dividend for the year ending 30 June 2019:	1 cent	0%

Date final dividend for year ending 30 June 2019 is payable:	8 th October 2019
Record date for determining entitlements to the dividend:	24 th September 2019
Trading ex-dividend:	23 rd September 2019

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

APPENDIX 4E

PERIOD ENDING 30 JUNE 2019

AMOUNTS PER SECURITY

	Amount Per Security	Ordinary Security Val.
Final Dividend for the year ending 30 June 2018 (paid 4th Oct 2018)	1 cent	\$2,872,000
Interim Dividend for the 6 months ended 31 Dec 2018 (paid 9th April 2019)	1 cent	\$2,850,000

The above table refers to the dividends paid to members during the financial year ended 30 June 2019.

NET TANGIBLE ASSET PER SECURITY

	As at 30 June 2019	As at 30 June 2018
Net tangible asset per ordinary security:	28.99 cents	27.80 cents

EARNINGS PER SHARE

	Year Ending 30 June 2019	Year Ending 30 June 2018
Basic Earnings Per Share	3.21 cents	3.35 cents
Diluted Earnings Per Share	3.16 cents	3.29 cents

APPENDIX 4E

PERIOD ENDING 30 JUNE 2019

EARNINGS PER SECURITY (EPS)

	2018 / 2019	2017 / 2018
Earnings used in the calculations of basic and diluted earnings per share:	9,198,000	9,807,000
Weighted average number of ordinary shares used in the calculation of basic earnings per share:	286,763,316	293,054,259
Performance rights on issue:		
Weighted average number of performance rights issued in prior years:	3,547,682	3,758,910
Weighted average number of performance rights issued during the year:	1,217,326	1,156,055
Weighted average number of performance rights lapsed during the year:	-	(198,444)
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:	291,528,324	297,770,780

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 2019 Annual Report.