

**MARKET RELEASE**

22 August 2019

**Cavalier Provides Market Update**

- Confirms it is on track to achieve May 2019 guidance of normalised NPAT of \$1.9m<sup>1</sup>.
- Less than \$18m in net debt at the end of June 2019 and ongoing support of its banking partner.
- Most recent valuations assess the worth of Cavalier's land and buildings at more than \$30m.
- Accelerated the strategic review to develop and implement an innovative and transformative business model focused around wool.
- Assessed the carrying value of goodwill, plant and equipment and decided that certain assets should be impaired based on the likely future strategic direction of the company and the uncertain market conditions impacting their underlying carrying value.
- Cavalier also notes that future cashflows are based on forecasts that are sensitive to changes in volumes and margins and that compliance with obligations and future going concern are subject to material uncertainty if those forecasts are not met.
- The Board is confident in the financial sustainability of the company, is implementing a number of initiatives to address potential uncertainty and the company has sufficient assets to settle Group debt should the need arise.

Cavalier Corporation Limited (NZX:CAV) has today provided further guidance on its expected results for the 12 months ended 30 June 2019 (FY19).

The company confirms that it is on track to achieve its May 2019 guidance of normalised Net Profit After Tax (NPAT) of \$1.9m.

As previously advised, the soft market and challenging trading conditions continued through the second half of the year. In particular, sales of low margin synthetic carpet are declining while growth is being seen in high end wool carpets. This is benefitting Cavalier whose expertise is in high quality wool carpets and sales of its premium Cavalier Bremworth Collection are continuing to grow.

Cavalier is at an early stage in developing a new strategic direction that will result in a significant change to the operations of the company. As part of this, the company is in discussions with a respected industry participant regarding a collaboration that will build on Cavalier's capabilities and make a transformative change into a design-led, wool focused company. This has been contemplated for some time and details will be communicated to the market in the near future.

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<sup>1</sup> Normalised Net Profit After Tax excludes the non-cash write down of \$11.9m on Cavalier's carrying value of its 27.5% shareholding in Cavalier Wool Holdings (CWH) following its sales at the end of September 2018 and impairment of goodwill and fixed assets of between \$6.0m and \$9.0m after tax.

After considering the implications of the strategic change and assessing the book value of non-current assets based on future cashflows, Directors have made the decision to write-down or impair the value of goodwill and various plant and equipment. The write down is non-cash and does not impact the underlying profitability of the company.

Directors also note that that the Board considers the Group to be a going concern and believes it will be able to meet its contractual obligations. This going concern relies on future forecasts which are sensitive to sales volumes and margins and subject to material uncertainty if these forecasts are not met.

The Board is confident in Cavalier's financial sustainability and the company has the support of its banking partner. Recent valuations assess the worth of Cavalier's land and buildings at more than \$30m and the company has less than \$18m in net debt. The Board is implementing a number of initiatives to address potential uncertainty and the company has sufficient assets to settle Group debt should the need arise.

Cavalier has a number of initiatives in place to support its wool focus, and is working closely with major retail customers, particularly in Australia, to expand its distribution network and range. Driving efficiencies is a focus and structural cost initiatives have been implemented in both Australia and New Zealand, with the positive impact of the Australian change management programme earlier this year now being seen. This resulted in a more customer focussed and agile sales team which has led to a number of new customer wins in the commercial space, particularly with specifiers for large building projects.

Chairman of Cavalier, Alan Clarke, said: "Cavalier's reputation for quality, brand recognition, new product innovation and more than 50 years' expertise in the wool flooring market are our strengths and the company's future. We have over 1,000 retailer partners across New Zealand and Australia who stock and sell our carpets and we are growing our presence in North America."

"Over the last six months we have accelerated our strategic review and widened our view of the opportunities that exist for strong wools. Cavalier's CEO, Paul Alston and long-standing Director, John Rae, recently attended a Stanford University Primary Industry programme in the USA. This provided access to some of the brightest strategic minds in business in both New Zealand and the Stanford business school and considerable practical and intellectual resources. We are excited about the potential for our company and will keep shareholders informed as we finalise our future strategic direction."

Cavalier will provide further details on its FY19 results and FY20 progress to date in its results announcement on 27 August 2019.

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