

CAVALIER GUIDANCE FOR FIRST HALF OF THE FY20 FINANCIAL YEAR

27 November 2019

Cavalier Corporation Limited (NZX: CAV) has today provided guidance for the first half of the FY20 financial year (1H20).

The challenging trading conditions noted early in 2019 are continuing and sales, particularly of low margin synthetic carpets, continue to be affected, with total volumes down by approximately 10% year on year. Anecdotal feedback is that other suppliers are also experiencing the same challenges. Demand for Cavalier's premium wool carpets continues to grow and whilst these are a small part of total sales, they provide a significant contribution to group profits.

Given the above, 1H20 revenue is expected to be between \$61m to \$64m (1H19: \$70.0m) and EBITDA is expected to be in the range of \$1.2m to \$1.9m (1H19: \$4.6m). Included in forecast EBITDA is an approximate \$1m benefit from the adoption of the new accounting standard for leases (IFRS 16) and transformation costs of approximately \$0.8m associated with the development and implementation of Cavalier's new business model, as the company transitions into a design-led, wool focused business. Cavalier expects a net loss after tax of between \$(1.1) million and \$(1.6) million for the six-month period (1H19: \$(10.0)m¹).

Prudent capital management remains a key focus and debt has reduced by more than 70% since FY14, from \$58.8m down to \$17.0m as at the end of October this year. Inventories have also reduced by \$21.2m over that same time period.

Chair of Cavalier, Alan Clarke, commented: "There is absolutely no question that Cavalier must change to stay relevant and position for growth in today's world. While investment, patience and time is required to effect this transformation and secure the future growth of Cavalier, we believe it will add long term value to our company and for our shareholders."

Cavalier is planning to capture the growing consumer demand for more natural, sustainable and healthier products. It is leveraging its strengths to meet customer demand for high quality, sustainable products and build its presence in the woollen flooring market, particularly in premium woollen carpets.

The global flooring and carpet market is worth an estimated US\$380 billion and is expected to grow to US\$450 billion by 2025. Approximately 40% of this is for soft floor coverings, providing an estimated market sector size of US\$180 billion by 2025. While hard flooring may have grown in popularity, carpet still represents about 40% to 50% of flooring surface in homes and remains the single biggest flooring category.

¹ 1H19 NLAT included the non-cash write down of \$12.0m on Cavalier's carrying value of its 27.5% in Cavalier Wool Holdings (CWH), following its sale at the end of September 2018.

Synthetic carpets are presently the first choice for many consumers, however demand is dropping, not just in New Zealand but worldwide. Meanwhile, demand for high quality, textured woollen carpets is increasing. The industry continues to consolidate, as does the retailer base, however, there is growing recognition of the value of specialist manufacturers such as Cavalier

CEO of Cavalier, Paul Alston, said: “The industry is evolving and we believe innovation will drive a revitalisation of the carpet sector. Cavalier’s opportunity lies in promoting the benefits of wool and crafting beautiful carpets that are fashionable and highly desirable for customers, and which will drive better performance for the company.

“One of Cavalier’s main strengths is our brand. We believe we can build on this to cement and grow our position in the high value, wool and natural fibre carpet sector. We are the leader in the wool carpet sector in NZ and, while we are still a small player, our market share in Australia is growing and represents our most accessible near term growth opportunity. We have also identified other market opportunities in the US, Canada and Asia.”

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