GALE PACIFIC LIMITED

RESULTS FOR HALF YEAR ENDED 31 DECEMBER 2013

Half Year FY14 Summary

	Half Year Dec '13	Half Year Dec '12		Half Year Dec '11
	A$M'S	A$M'S	% Variance	A$M'S
Sales	60.9	55.0	11%	55.1
EBITDA	7.3	8.9	(18%)	9.3
EBIT	4.6	6.4	(28%)	6.2
NPAT	3.5	4.5	(22%)	4.1
Earnings per share - cents	1.16	1.51	(23%)	1.39
Dividends per share - cents	1.30	1.30	-	1.20
Net debt	14.4	9.9	45%	4.4

Half Year Results – Key Points

- Sales increased by 11% compared to previous corresponding period to $60.9 million.
  - Sales revenues grew by 7% in Australasia, 6% in the USA and 17% in the Middle East. Sales by the International business decreased by 20% mainly as a result of a delay of shipments to Japan until the second half.
- EBIT down 28% to $4.6 million, mainly due to underperformance in the Australasian business.
- NPAT down 22% to $3.5 million.

Half Year to December 2013 Results – Key Points

- Diluted earnings per share decrease of 23% to 1.16 cents per share. Return on shareholder funds (NPAT / shareholders funds) reduced to an annualised 8.3% in half year Dec'13 from an annualised 12.2% in half year Dec'12.
- Net Debt of $14.4 million. Gearing ratio 14.5% (Net debt / Net debt plus shareholder funds).
- The company recognises that the performance of the Australasian business is unacceptable and the necessary actions have been taken to address this. All other regions continue to perform strongly.

Half Year Dividend

- The Directors have declared a half year dividend of 1.30 cents per share in line with the interim dividend payment declared and paid for half year to December 2012.

- The dividend of 1.30 cents per share will be franked at 75%.

Regional Business Unit Results

	Australasia (A$'s)	Americas (US$'s)	Middle East (US$'s)	International (US$'s)	China (US$'s)
HYDec'13 Sales	43.8M	8.9M	5.4M	1.2M	18.0M*
	Up 7%	Up 6%	Up 17%	Down 20%	Up 11%
HYDec'13 EBITDA	2.4M	(0.3M)	1.1M	Included in China	3.8M**
	Down 47%	Up 25%	Up 38%	Included in China	Down 12%

* Intercompany Sales
** Commercial Margin on Intercompany Sales

Australasia

- Sales increased 7% to $43.8 million, EBITDA reduced by 47% to $2.4 million.
  - The decline in profitability of the Australasian business has been recognised and a new senior management team was introduced at the beginning of FY14.
  - As a result, a significant organisational restructure was initiated in November to further improve the capability of the organisation.
  - The major restructuring will strengthen and drive improvements in the key business processes of supply chain and sales & marketing. The benefits of this restructuring are starting to be seen but are not expected to be fully realised until FY15.

Australasia

- The closure of the Riva business was completed during the first half within expected costs.
- An investment of $1.2 million was made during the half on new IT systems, both in Australasia and globally. Implementation issues created operational inefficiencies and additional costs were incurred during the first half as a result. These are expected to be overcome during the second half of the year and deliver ongoing benefits during FY15.
- A significant increase in supply chain and other operating costs were incurred in the first half in order to improve customer service levels and finalise the integration of the recently acquired Highgrove business. A new supply chain structure has been implemented, including the hire of a senior supply chain executive along with a number of key direct reports, to increase performance and reduce costs in this area of the business that has been underperforming.

Americas

- Sales increased 6% to US$8.9 million.
  - Strong growth in the sales of Coolaroo branded retail products due to increased seasonal purchase volumes.
  - Invested in additional product management resources to drive product range expansion and future sales growth.
  - Strong sales growth and ranging achieved with most major accounts.

- EBITDA loss of US$0.3 million which is a US$0.1 million improvement on the previous corresponding period. The December half year is the seasonally low sales period for the Northern Hemisphere.

Middle East

- Sales increased 17% to US$5.4 million.
  - Construction activity in the region remains strong.
  - Increased sales in key markets of Saudi Arabia and United Arab Emirates with strong growth in Kuwait.
  - Increased sales and demand for Synthesis Commercial 95 and Waterproof Commercial 95 architectural fabrics.
- EBITDA increased 38% to US$1.1 million.

International Markets

- Sales reduced by US$0.3 million to US$1.2 million.
  - Lower sales to the Japanese market compared to the December 2012 half year due to a delay of shipments into the second half.
  - Further business development resource added in the December 2013 half year to drive growth in the European and Chinese markets.
  - Expanded ranging secured for second half sales to the established Japanese and South African markets.
  - Actively expanding sales into a number of new geographic regions including South America, Europe and China.

China

- EBITDA reduced by US$0.5 million to US$3.8 million due to increased costs not passed on to the regional businesses.
- The plant continues to achieve a high manufacturing performance that contributed to another strong result from the China operation despite a significant number of power outages.
- Continuous focus on improving yields, reducing waste and driving labour efficiencies in the plant will help to offset the negative impacts of higher wage rates and other inflationary increases.
- The business continues to be supported by strong, stable management and technical teams.
- The plant is currently operating at full capacity in some areas and further investments are planned during the second half to support continued sales growth in the global business.

Operating Cash Flow

- Cash used in operations was $4.0 million for the half compared to $1.0 million cash generated in the previous corresponding period.
- The reduction was driven by working capital increases as follows:
  - Higher inventory and debtors levels to support sales growth in the USA and the Middle East.
  - Carry over of inventory due to lower than forecast sales of grain storage fabrics in Australia.
  - Inventory build for a major overseas irrigation project for shipment in early 2014.
  - An increase of Highgrove safety stocks that were at unsustainably low levels at the time of acquisition.

Operating Cash Flow

- Working capital improvement initiatives are in place and operating cash flow is expected to be strongly positive in the second half as in previous years.
- Operating cash flow generation remains a key focus for the business.

Debt Position

- Net debt at 31 December 2013 was $14.4 million, an increase of $4.5 million from the previous corresponding period.

- Net debt increased due to funding increased levels of working capital, capital expenditure of $2.1 million including investing $1.2 million in IT systems, final payment of $0.9 million for the acquisition of Highgrove and paying $4.0 million to shareholders in dividend payments.

- Net debt to equity ratio was 17.0% for the half and interest cover was 9.8 times (EBIT/interest).

Outlook

- The second half for the Group is expected to be stronger than the second half last year.
- Performance of the Australasian business will improve as the actions taken by the new management team start to take effect. The full impact of these will not be realised until FY15.
- Sales in the USA and Middle East businesses will continue to grow strongly during the second half and the outlook for the International business is positive with a strong order book in hand.
- Initiatives are in place to reduce working capital across all regions. Strong sales in the Northern Hemisphere markets will reduce inventories that have been built ahead of the season. Together these are expected to deliver strong positive operating cash flows for the second half.

Outlook

- Gale expects that earnings per share for the full year FY14 will be approximately in line with the prior year and management remain confident in the future growth and profitability of the business.

- Ongoing balance sheet strength provides flexibility in relation to future growth initiatives, including acquisitions which we continue to actively pursue.

Disclaimer

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