



## **GALE PACIFIC LIMITED**

(ASX: GAP)

### **ASX and Media Release**

30 October 2015

## **2015 ANNUAL GENERAL MEETING – GROUP MANAGING DIRECTOR’S ADDRESS TO SHAREHOLDERS**

Eleven months ago we announced a new strategy for GALE Pacific.

### **Operating Philosophy**

We set a goal of being highly focused - clear on who we were, what we wanted to be and where we were going to operate.

We also set a goal of accelerating our innovation: specifically in our core product categories.

We said we were going to operate as a more collaborative business – working in a greater partnership manner with our suppliers, our customers and across our own business.

We set a goal of being more service-driven – as historical service levels were unsatisfactory and uncompetitive.

And, finally, we said we were going to leverage our global scale; by taking advantage of being a business that operated globally rather than operating as regional silos.

### **Key Strategies**

At the time we also announced five key strategies:

- Make our brands really matter
- Build our execution capability
- Simplify & align the business
- Focus business expansion
- Develop the team for growth

These were important strategies that would help to strengthen the business and position us for accelerated growth.

We are very pleased to be able to report significant progress in the implementation of these strategies.

### **Achievements**

During the year we implemented a new organisation structure to assist us to operate as a true global business.

We created a global supply chain model to support improvements in inventory management and enable us to drive supplier consolidation and trading terms improvements.

We have already started to see the benefits of these initiatives with \$9.5 million of inventory reductions in the second half of last year as well as considerable supplier reductions and more favourable supplier trading terms.

## **Brands**

During the year we made decisions to reduce the number of company brands. Our portfolio of fourteen brands was reduced to five.

Brands with low consumer equity will be exited in the next twelve months with the goal of investing in a smaller number of brands, but making them more meaningful to consumers and customers.

Coolaroo, the company's best known brand, will remain our brand for landscaping and leisure products globally.

EVERTON & ZONE Interiors will remain as the company's other retail brands in Australia & New Zealand – EVERTON for glass products and ZONE Interiors for Window Furnishings and Homewares.

GALE will become the company's brand for commercial fabrics as the GALE name has considerable equity in the commercial sector.

The fifth brand, California Sun Shades, will be used tactically as an online brand for AMAZON.

In addition to clearly defining the brand strategy, brand guidelines were established with each brand reinvigorated with new logos, more inspiring and effective packaging, new and improved websites and more.

## **Product Categories**

As part of our strategy to more clearly define ourselves, and focus on our core business, we made decisions to exit a number of immaterial product categories.

These categories included ergonomic seating and lumbar supports, pet kennels, bath mats, hammocks, folding doors, cable ties and more.

These categories fell outside of our core competence and were adding complexity and cost to our operations.

## **Innovation**

During the year we took steps to accelerate our new product development.

We implemented a more formalised new product development process and built a strong new product pipeline.

We also established important technical alliances that will assist us in creating more innovative new products in the future.

We started to build our consumer insights which will increasingly drive our product development. It is pleasing to be able to report significant new sales as a result of achievements in this area. **Collaboration**

We believe there are enormous benefits to be achieved by creating an organisation that works collaboratively across regions; and also with suppliers and customers.

Our goal is to reduce duplication, take advantage of economies of scale and leverage the good work being done in each of our regions.

We are building a business that makes the most of this and are starting to see the benefits; in sales, cost and service; of working more effectively with our supplier and customer base.

## **Service**

During the year we achieved important increases in key service level metrics, particularly in Australia, and started to build a stronger customer service culture company-wide.

We still have work to do in this area, particularly in our China manufacturing operations, but our journey has started and good progress has been made.

## **Selling Regions**

One of our key strategies is geographic expansion.

We are aiming to accelerate our growth outside of Australia and to achieve that we must operate as a true global business, not as an Australian business selling opportunistically to overseas markets.

To support this strategy we implemented a more localised selling model by dissolving the company's "Other International" division, based in Melbourne, and establishing a new selling region, Eurasia, based in Shanghai.

Global markets were then allocated more appropriately across our four selling regions.

This more localised selling model supports improved service to those markets, at lower cost. Importantly, those markets are now managed by people with knowledge of those regions, speak the local languages and are capable of building effective market entry plans.

## **Digital Strategy**

We are creating a strong, integrated digital platform to engage consumers in each of our product categories.

During the year we launched new Australian brand websites.

A new GALE Pacific corporate website was launched this week.

We have made, and will continue to make, investments here, as we need to position ourselves well to engage with our consumers.

## **Efficiency & Effectiveness**

At the time of launching our new strategy we also announced six projects to unlock our capacity for growth and position the company for success.

Each of these projects was sizeable and expected to take some time to complete.

It is pleasing to be able to report that we have completed three of these projects with good progress on the remaining three.

On 1st July 2015 we changed our transfer pricing model to improve visibility of profitability in the selling regions and raise our China manufacturing facility's focus on quality, efficiency and service.

In the area of new product development our achievements have been pleasing.

We have, and will continue to increase, our investments in research and development.

We have started to be rewarded for our efforts with new product ranging wins in the areas of commercial fabrics, leisure and shade products, and window furnishings.

It will remain an ongoing goal to innovate, however, we have built a strong new product road and are already starting to see the returns for this strategy.

During the year we invested in the upgrade of our Melbourne extrusion coating plant.

This was an important investment in our core manufacturing capability.

The upgrade was successful and is already helping to drive quality improvements and production efficiencies.

Considerable progress was also made on the remaining three projects announced last year.

- Global Supply Chain Model
- International Market and Product Review; and
- I.T.Optimisation

Key achievements here include reductions in Excess and Obsolete inventory, the strengthening of inventory forecasting and planning processes and the successful implementation of the new I.T. system in the Americas region.

Whilst progress has been good, there is still considerable work to do on each project, as expected.

## **Regions**

We have outlined in some detail in our annual report, the operational performance by region.

Today I will speak to the highlights.

### Australasia

Considerable progress has been made in the transformation of the Australasian business and that transformation is now, largely, complete.

The two major projects announced last year, relating to the rebranding of the pool fencing category and the conversion of ZONE Hardware branded blinds were both completed effectively.

The supply chain improvement efforts continued with the number of warehouses further reduced, achievements in service, significant reductions in inventory from the end of December; and reductions in supply chain costs.

Significant new business was also secured in both retail and commercial sectors positioning the business well for accelerated growth.

### Other Regions

Our businesses in the Americas and Middle East North Africa regions continued to perform strongly. We remain positive about the potential of these important markets.

In our newly formed Eurasia region, performance was impacted by lower sales to Japan and Europe but will benefit in the future from new leadership based in the region.

Our China manufacturing operations delivered solid performance in quality and waste reduction yet there remains opportunity to improve service standards and efficiency.

## **Looking Forward**

Looking forward, our key strategies do not change. We will be highly focused, more innovative, collaborative, service-driven and leveraging our scale.

### Make Our Brands Really Matter

We will strive to make our brands really matter – to consumers firstly and, as an outcome, to our customers.

The first of the major brand investments we are making will be in the Coolaroo brand in Australia this summer where, for the first time in many years, we will advertise Coolaroo in a nationwide campaign aimed at building brand awareness.

We will continue to invest in digital marketing.

During the year we will also build our digital capabilities outside of Australia with the goal of a more coordinated and effective global digital platform.

We will also continue to work hard to deliver more innovation – starting with our commercial and retail fabrics – where we aspire to a technical leadership position.

We will do this through a steadily increasing investment in research and development as well as a commitment to building consumer insights across our key product categories.

#### Build Our Execution Capability

In terms of building our execution capability we will continue to optimise our company's information technology platform.

We now have all regions, excluding China, on our ERP platform and will continue to invest to use information technology to drive cost reductions and improve information for better decision-making.

In our China operations our focus will be on exiting non-core manufacturing processes and improving plant utilisation and service.

In procurement and planning our efforts to reduce our supplier numbers, improve our supply terms and strengthen our planning will continue.

#### Simplify & Align the Business

To further simplify and align the business we will continue to reduce the number of warehouses in Australia.

We have also invested in the establishment of a new retail products distribution centre in Melbourne.

The new warehouse will help us to reduce the inefficiency of managing external storage and will enable us to ship all brands on a single pallet for the first time.

We will also continue to align and strengthen our reporting, refine our structure to be more global and continue our efforts to be more service-driven.

#### Focused Business Expansion

In terms of our business expansion there is considerable opportunity.

However, in growing our business geographically, we will be targeted.

We will continue to invest in our core markets of Australasia, the USA and the Middle East.

For new markets we will build our insights so we are less opportunistic about where we sell and become more strategic about market entry.

We will build a plan around Europe and will take our first steps to entering the commercial fabrics market in Japan.

#### Develop the Team for Growth

And, finally, we will continue to develop the team to support growth.

Our efforts to build a performance culture aligned to our business strategy will continue.

We will build our technical capability, investing more heavily in training of our people and also in the creation of technical centres in Australia and China.

#### Values & Safety, Health & Environment

Underpinning these strategies will be our new company values as well as our commitment to safety and the environment.

## Outlook

At last year's Annual General Meeting we advised that we were strongly of the view that the transformation process being undertaken will place the Company in a much stronger strategic position.

We are pleased to report that it has.

In the second half of last year we were successful in delivering a strong financial performance. Solid sales and profit growth, inventory reduction of A\$9.5 million from the end of December, sizeable reductions in debt and solid cash generation were positives.

It is pleasing to be able to report a strong start to FY2016 performance with a first quarter sales increase of 26% year on year.

We expect first half profit before tax (**PBT**) to be between \$2.75 million and \$3.25 million compared to an underlying PBT last year of \$0.7 million; this positive result was driven by strong sales growth, improvements in Australian supply chain costs and other cost reductions.

We do expect the second half to be considerably more profitable than the first due to the seasonality of the business and we anticipate growth over the prior corresponding period. While it is too early to quantify a forecast for second half earnings, we are very encouraged by our performance to date and pleased with the positive momentum that is building in the business.

## Close

I would like to conclude by thanking our investors for their support through a period of considerable change.

I would also like to thank our employees for their contribution as we transform GALE Pacific from a good business to a great business.

Thank you.

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