



GALE PACIFIC LIMITED

(ASX: GAP)

ASX and Media Release

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2016 ANNUAL GENERAL MEETING – GROUP MANAGING DIRECTOR'S ADDRESS TO SHAREHOLDERS

Over the last two years our business has been undertaking a considerable transformation.

Our goal has been to turn GALE Pacific into a faster-growing, more profitable, and more global business.

Our Plan

Our plan is simple.

- Be very clear on who we are and what we are good at.
- Focus on a smaller number of markets to build stronger, faster-growing businesses in those geographies.
- Invest more in our core categories and technologies, and progressively exit products we consider outside our area of expertise, are immaterial and or unprofitable.
- Work more collaboratively with our customers and a smaller number of strategic suppliers – forming deeper, longer-term partnerships.
- Invest more in research and development so that we're delivering real innovation to our customers and consumers.
- Become a service-orientated supply partner to our customers, agile enough to take advantage of growth opportunities.
- Work as a true global business, recognising regional differences, yet making the most of synergies, to minimise duplication and waste.

Throughout the year we continued to execute our plan and implemented a lot of positive change. We were also successful in delivering strong financial results.

Operating Results

Net profit after tax increased 98% to \$10.2 million. Strong operating cash flow of \$17.8 million enabled the Company to reduce net debt to \$8.2 million, our lowest debt levels since 2013. These improvements were driven by strong sales growth and continued improvements in supply chain and global inventory management.

Revenue Growth

Revenue growth of 17% was driven by performance in core product categories in Australia/New Zealand, and the Americas region.

Pleasingly, the growth was achieved despite challenging economic conditions in the Middle East, supply chain congestion in the USA, and ongoing non-core product exits.

Other Operational Achievements

In addition to the financial performance we are pleased with many other operational achievements.

- Growth in both retail and commercial sector businesses
- Improved inventory turns
- Supplier rationalisation and trading terms improvements
- Transport and labour savings
- New leadership appointments in Australia/New Zealand, and the Americas, in line with our strategy to accelerate growth in core markets
- New leadership at our China manufacturing operations, to lead our efforts to reduce cost and improve service and quality
- New ranging wins in key product categories; and
- New products launched in our important commercial fabrics portfolio.

What has been most pleasing about our company's transformation is that we have been able to achieve these things along with the less visible, but equally important, enhancements in systems and process that will provide a strengthened foundation for the future.

We now move into a different phase of our transformation.

Whilst there is still much for us to do, the fundamentals of a very good business are now in place.

The Next Phase

Transforming our China manufacturing facility

At our plant in China we produce a range of knitted and woven fabrics, and value-added products including shade fabrics, shade sails, window shades and architectural fabrics. Our goal is to reduce costs and improve quality and service. To achieve this, we will reduce complexity in the plant, build more flexibility into our production equipment, improve our procurement and exit non-core manufacturing processes.

We have a big opportunity in China to strengthen our manufacturing platform. We are very focused on this objective. We expect it will take two to three years to get our facility to the standard we seek with progressive rewards expected along the way.

Accelerating our growth in the Americas region

In the next six months we will build plans to create a manufacturing and logistics infrastructure to support faster growth. Having already appointed new leadership we will build team capability and invest to grow. We will expand our retail presence and create a plan for commercial sector growth.

Investing in Middle East North Africa sales resources

Despite current economic challenges in the region the Middle East remains highly attractive to us. We will commence investing in additional sales resources to capitalise on the opportunity and continue to develop new architectural shade fabrics for large-scale shade applications. We don't expect the returns for this investment to be immediate but the underlying characteristics of this region, including extreme heat and continuing construction investment, create considerable opportunity.

Delivering genuine innovation across core categories

We are starting to see the outputs of our efforts in research and development. We have built a network of capable technical partners which are helping to bring our ideas to reality. This is our future. Throughout the year we successfully launched the first of our truly innovative programs for many years.

The new Commercial Heavy 430 architectural shade fabric was designed specifically for large-scale tension structures. This fabric has very good dimensional stability, meaning that it stretches the same amount in both directions; something very hard to achieve in a knitted fabric, yet with great benefits for architects and engineers. The fabric has an attractive combination of strength, weight, stretch, UV protection and life. It is the first genuine innovation in shade fabric for some time.

We also launched a new grain cover fabric made from recycled grain cover materials. Upon harvesting, grain is often stored in large bunkers designed to protect the grain from weather, birds and rodents. At the end of life, usually three years, these grain covers are disposed of, via landfill.

GALE's new Landmark Recycled fabric is a genuine breakthrough – the first and only fabric made from recycled grain covers. For large grain handlers this development solves a considerable disposal issue and we expect it to lead to sizeable growth opportunities in Australia.

These new products are genuine breakthroughs and the kind of innovations we are striving for across our product categories.

Continuing to sharpen our portfolio and market choices

This year we will accelerate our exit from product categories we consider to be non-core. We will do this on a staged basis, managing these exits professionally for impacted customers and suppliers, and minimising any possible negative financial impact.

Exiting these non-core products and categories will assist us to achieve further supply chain and inventory improvements and will enable us to focus and invest more in our base businesses.

In addition to accelerating our growth in the USA and Middle East, we will continue to focus our selling efforts on a smaller number of geographic regions and channels, based on market insights.

Investing in marketing

If we're going to make our brands matter to consumers, and our customers, we must invest in marketing. During the year we will continue our global transition to the new branding framework and invest in building more global digital platforms to engage with our consumers more fully.

Our Outlook

In Australia and New Zealand, we expect to achieve solid commercial sector growth during the coming year.

On the retail side, turbulence in the home improvement sector caused by the closure of Masters, and the associated inventory liquidation, has created more challenging conditions.

In the 2015/16 year we were successful in securing considerable new retail ranging in Australia and the pipe fill of this new product will not be repeated this year. As a result, retail sector growth in Australia / New Zealand will be more difficult to achieve this year.

In the Americas region we are excited about the potential and anticipate annual growth in this market. In the early months of the first half we have seen weaker market conditions due to lower consumer confidence. As a consequence, major retailers reduced their late season ordering and inventories. We expect these conditions to be short-term, impacting our first half results, but our ranging confirmations for next season give us confidence we will see a solid recovery in the second half.

In the Middle East North Africa region, we expect to continue to feel pressure due to weak regional economies. We will focus our efforts on growing market share and entering attractive new markets.

We expect to see ongoing efficiency improvements in our China manufacturing operations and input costs are expected to remain relatively flat in the short term. We will see the benefits of our supplier consolidation efforts across the year.

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We implemented a strategy to build inventory earlier for the USA season in order to improve service and flatten production at our China facility. This is expected to lead to higher inventory at 31 December, but translate to lower manufacturing and supply chain costs overall.

Overall, we anticipate a modest increase in revenue and profitability in the first half and, considering the inherent seasonality of our business, we expect our second half performance to be considerably stronger than our first, consistent with prior years.

Close

I would like to conclude by thanking our customers for their support as we have undertaken considerable change.

Our employees at all levels have made a significant contribution in delivering a strong year of profitable growth at GALE. I would like to thank each of them sincerely for their efforts. I'm proud of what we have achieved together in a short time and hope they share the same pride, and the same excitement, as I do about what lies ahead.

And, finally, I would like to thank you, our shareholders, for your continued support of GALE Pacific. Thank you.

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