



GALE PACIFIC LIMITED

(ASX: GAP)

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2017 Annual General Meeting – Group Managing Director’s Address

Our goal is to become a fabrics technology company.

A leader in the development, manufacture and marketing of shade solutions for the retail market, and high performance technical textiles for the commercial sector.

Over the last three years we have been transforming all parts of our business in line with this goal; creating the requisite foundations to support strong and sustainable growth.

We have exited most of the product categories we considered to be non-core, so we could focus on technical textiles where we have globally competitive technology.

We have done this effectively in a carefully staged manner.

The most significant of these was in June 2017 with the exit of the EVERTON glass business, an unprofitable business very different from our core fabrics products.

Our product portfolio is now considerably cleaner and more aligned with our strategy.

We have also rationalised our brand portfolio so we can invest in a smaller number of brands and make them more meaningful to our consumers and customers.

We have upgraded our global marketing materials including packaging, merchandising and web sites, and more effectively aligned these across all regions.

We have rationalised our Australian distribution footprint, closing four warehouses, and upgraded all remaining facilities to a higher standard.

We have invested significantly to improve our China manufacturing operations. Our facilities have been upgraded, we have invested in new plant and equipment to improve capacity, and we have made changes to support improved quality, cost and service.

Other significant transformational achievements include aligning and strengthening IT systems, reducing and cleansing inventory, improving company-wide service, improving safety performance, building team capability, and, importantly, creating a values-based culture.

We have considerably strengthened the company’s balance sheet.

Whilst investing to transform the business, our strong cash generation has enabled us to pay down debt and close 2016/17 in a net cash position.

Whilst we have been undergoing this considerable transformational work, we have achieved compound annual revenue growth of 8.5% and compound annual underlying earnings growth of 10%.

Over the last three years we have been pivoting our business away from non-fabric products to focus on technical fabrics and the products we make from them.

In 2015, fabric products generated 87% of total revenues and 100% of our profits. Non-fabric products represented 13% of our revenues but negative underlying EBITDA of \$1.4 million.

This collection of non-core products created complexity and cost, distracted us from our core categories, and was a drain on profitability.

In 2018, we expect fabric products to generate approximately 96% of revenues and 100% of our profits.

We are moving our business away from less profitable, more commoditised products outside of our core, to products and categories where we have greater expertise, greater profitability, and a more defensible position.

Our core business today is in the development and manufacturing of high performance technical textiles. We have world-leading coating adhesion technology.

Working from a strong understanding of our end consumer, we develop fabrics that have the right combination of weight, strength, life, stretch, adhesion, porosity, feel, and more.

This is what we are good at. This is the area where we want to lead. This is where we will invest.

Creating a stronger, technical fabrics business with increasing innovation across both commercial and retail sectors.

We are intensely focused on turning GALE into a more global business with an increasing percentage of our revenues coming from outside of Australia.

We are particularly focused on building a bigger business in North America. In the Middle East North Africa, and in Eurasia, our strategy is to focus on a smaller number of countries where there is demand for high performance products aligned with our strategy.

We have established a strong infrastructure to support our global growth aspirations.

Our vertically integrated manufacturing operations in China provide a low-cost manufacturing base for our knitted fabrics and our value-added products, including shade fabrics, shade sails and window shades.

Our manufacturing operations in Australia focus on the production of high-performance waterproof fabrics, primarily for the Australian market, though we see tremendous opportunities for these beyond Australia also.

In the USA, we have two small-scale production facilities focused on the assembly of custom window shades; a profitable and fast-growing business right in our core.

We have warehousing and distribution facilities in our key markets, including Australia, New Zealand, the UAE, and USA, and our distribution partners around the world include some of the world's largest retailers.

The Australia and New Zealand business has been, and still is, undergoing the greatest transformation.

On the retail side, our products are distributed through home improvement retailers including Bunnings, Mitre 10 and Home Hardware.

Our product range is considerably more focused now, following the exits of numerous non-core categories, and we are the leader in DIY shade and screening products under the Coolaroo brand.

It is in this shading and screening category that we will invest; with our goal being to create new and innovative shade solutions for the do-it-yourself consumer.

We will also invest in continuing to build the Coolaroo brand in Australia with the goal of Coolaroo becoming THE brand for DIY shade solutions.

On the commercial side of our business, products are distributed through a network of technical fabric wholesalers, and through fabricators/converters which manufacture products from our fabrics and on-sell them to users.

The uses for our fabrics are many, and varied, but include architectural shade, water containment and crop protection.

It is in this area where we also believe we have considerable opportunity for growth.

Our focus will primarily be in the agricultural, architectural and horticultural sectors where there is demand for high performing fabrics and where the cost of product failure is high.

We believe we have a competitive advantage in this space with the combination of an advanced product range and local manufacturing and research and development.

During the coming year we will continue our exits of non-core categories. Our exit of the glass business in June, and other non-core categories, will result in lower revenues, but profit will not be affected.

Core product categories are mostly anticipated to grow, though we are experiencing lower than expected sales of coated commercial fabrics due to a weaker grain harvest compared to the prior year.

We remain confident about the opportunities in the commercial sector and, as previously announced, have committed to investing in a new extrusion coating line to support our new product development goals, and growth aspirations here in Australia, and abroad.

Preparations for the new coating line will commence this year with an expectation that the line will be commissioned in late 2018.

We are very pleased with the progression of our business in the Americas region.

Our business there is primarily focused on the USA and Canada and we foresee tremendous potential in both retail and commercial sectors.

Over the years we have been building our reputation with key home improvement, club, and online retailers.

Our customer portfolio includes some of the world's largest retailers including Amazon, Costco, Walmart, Lowe's and The Home Depot.

Our strategy involves us accelerating our growth in this region, essentially by building the retail shade category with our existing customers.

We see great opportunity to sell more of our existing, and new, products to our present customer base where our penetration rates are currently very low.

Focus products will be window shades and shade sails though we will be striving to build the shade category more broadly.

We have been successful in securing additional product ranging with many retailers this year, including the expanded distribution of our Coolaroo window shade program into all Lowe's stores.

Our commercial fabrics business in the Americas is currently small and comprises almost entirely architectural shade fabric.

Like Australia, we believe the opportunity in this sector to be significant, though we must choose our channels carefully.

We are building plans for the expansion of our commercial business in the USA, and these are likely to include the development of new architectural shade products, as well as focusing on our most unique coated fabrics, where we have a competitive advantage.

Building a larger architectural shade business will continue to be a priority, as we explore opportunities for coated fabrics in advance of our new coating line in late 2018.

The last two months have been difficult in two of our key selling markets, Texas and Florida, as a result of hurricanes Harvey and Irma. These have impacted sales in September and October, though we expect strong growth from our Americas region again in FY2018 driven by retail and online distribution.

Our focus will be on executing and servicing our new ranging wins effectively.

As previously announced we have committed to new, larger warehousing facilities in California, enabling us to more effectively service our growth.

The new warehouse is in the process of being fitted out and is on track for an effective go-live in early December.

We will continue to pursue expanded ranging with our existing customers, as well as selective new distribution.

We are also investing in additional sales and marketing resources to enable us to take advantage of the opportunities this region presents.

Last year we experienced considerable challenges in the Middle East/North Africa region, primarily a result of economic and political factors.

Our business in this region is almost totally comprised of architectural shade fabrics.

During the year we saw reduced numbers of large projects and delayed payments from many customers. We continued our conservative approach to the issuing of credit and chose not to sell to many late paying customers.

Despite the challenges, we continued to invest in additional sales resources, appointing two new sales people.

Late in FY2017 we started to see small signs of market improvement though the region remains somewhat uncertain.

The underlying characteristics of this region continue to be attractive to us and, as such, we will continue to invest here cautiously, though our investments will be restricted to sales resources and inventory.

Our Eurasia region is our smallest, but has been undergoing a transformation of its own. Whilst not as burdened by the same number of non-core product categories as Australia, we have been simplifying the business and exiting unprofitable customers and products.

We have also been pivoting our business from low value, low margin retail products towards higher value, higher margin commercial fabrics.

I am very pleased with the energy of this team and believe there is an opportunity for growth in Eurasia, through a highly targeted approach to customers and categories.

Through the year we commenced business with Bunnings UK/Ireland, distributing a concise range of garden-related products into the Bunnings pilot stores.

We are actively developing new distribution but have narrowed our product range to our core products only.

Our China manufacturing facility continues to undergo a considerable upgrade.

Throughout last year we made various improvements to plant, equipment and amenities, investing in additional capacity to support our growth and improve service, cost, quality and safety.

We will continue those investments in FY2018, concentrating on transitioning our China operations to our global IT system, investing in new equipment, and continuing our site upgrade work.

Last year we delivered stronger performance across most key metrics and this year we will work harder to deliver further cost, service and quality improvements.

We continue to focus our manufacturing so we are only manufacturing the items for which we have best global cost, and where manufacturing gives us a competitive advantage.

Aligned with this strategy, we are in the process of closing our weaving production in China and transferring this to a strategic weaving partner.

Our vertically integrated manufacturing, from the extrusion of our own yarns, knitting, right through to cutting, sewing, assembly and packaging is quite unique and gives us a competitive advantage in the manufacture of our key product categories.

Product innovation is a pillar of our strategy and, over the last three years, we have been progressively increasing our investments in research and development.

In addition to our own internal investments – building testing laboratories, acquiring new equipment and hiring new people – we have been building important new technical alliances with organisations which have expertise and technologies that we can apply to our own products and applications.

We have built closer relationships with universities, testing authorities, key equipment and raw material suppliers, and parties with unique design and development skills we could not support within our own business.

This is starting to translate to meaningful outputs and our energies and investments are being directed at innovation in our core technical fabrics areas, as well as our value-added shade products.

Our growth strategy has not changed substantially from the last few years.

Our goal is to become a fabrics technology company.

A leader in the development, manufacture and marketing of shade solutions for the retail market, and high performance technical textiles for the commercial sector.

Key elements of our growth strategy are to:

Accelerate the development of our Americas business, focusing on shade and screening products, whilst building a bigger commercial products business.

In Australia and New Zealand, we will extend our market-leading shading and screening business in the retail sector and invest to build a larger commercial business underpinned by our investment in a new coating line.

In the Middle East and Eurasia, we will focus on shading products, both commercial and retail, and develop a coated fabrics business as production capacity increases.

And we will continue to invest in differentiated technologies and technical partnerships that support the development of innovative products driven by consumer need.

We have much to do and are excited about the future.

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

Our employees at all levels have made a significant contribution throughout the year. 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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