

ASX and Media Release

(ASX : GAP)

19 February 2018

GALE Pacific H1 PBT \$1.7m, strong H2 outlook

- Profit before tax of \$1.7m in line with guidance
- Net debt \$11.4m (17% under pcg)
- Interim dividend 1.0 cps (unfranked)
- Well positioned to deliver strong second half earnings

GALE Pacific Limited (ASX : GAP) today announced a profit before tax of \$1.7 million for the six months to 31 December 2017.

Net debt at 31 December 2017 was \$11.4 million, 17% under 31 December 2016.

Directors have declared an unchanged interim dividend of 1.0 cent per share unfranked, payable on 9 April 2018 to shareholders on the register at 26 March 2018.

Results for the six months to	31 December 2017 A\$ million	31 December 2016 A\$ million	Change %
Revenue	70.2	82.6	(15)
Revenue excluding glass business	70.2	74.9	(6)
EBITDA	5.4	7.9	(32)
EBIT	2.4	4.7	(49)
Profit before tax	1.7	3.9	(56)
Profit after tax	2.1	3.4	(38)
Net Debt	11.4	13.7	17
Earnings per share (cents)	0.70	1.13	(38)
Interim dividend - unfranked (cents)	1.0	1.0	-

Group Managing Director, Nick Pritchard said: "We are pleased with our achievements during the first half of the financial year despite some one-off events that impacted our results. As foreshadowed at the Annual General Meeting in October, a weaker grain harvest resulted in lower sales of coated commercial fabrics, and hurricanes Harvey and Irma affected end of season stock replenishment in the USA.

Of the Company's key strategic initiatives we could control, we managed those well. Our new warehouse in California became operational in December, providing us with a facility which enhances/ complements the growth plan in the USA; and further investment in sales and marketing resources in North America resulted in important new product ranging wins that will manifest in the second half and beyond. In Australia, sales of our core retail products were encouraging following a positive summer sell-through; and there was a recovery in the Middle East/North Africa region, with strong sales and earnings growth. Continued investment in our manufacturing operations in China led to improved efficiency and service.

"Overall, the progress achieved with our strategy to transform GALE Pacific into a more focused, innovative and service-driven technical fabrics business, has positioned the Company to report strong earnings for the second half and beyond.

"Our strong balance sheet supports ongoing investment in areas that will drive future growth and efficiency."

RESULTS BY REGION

Australia/New Zealand

Results for the six months to	31 December 2017 A\$ million	31 December 2016 A\$ million	Change %
Revenue	43.4	56.8	(24)
Revenue excluding glass business	43.4	49.1	(12)
EBITDA	3.0	4.0	(26)
PBT	2.5	3.5	(28)

Retail sector revenue from core categories was up 5% compared with the previous corresponding period (pcp), bolstered by new product initiatives. Sales to the end consumer were particularly strong with good growth in the shade product categories. Continued focus on core products improved margins, helped by cost reductions at the company's plant in China, and in freight.

Commercial sector revenue was 36% below pcp, due to the lower grain harvest in most states which reduced demand for GALE Pacific's coated fabrics. Despite this headwind in the first half, the company is confident of the outlook for its custom coating products. It is also well advanced in developing new customer and product opportunities ahead of the new coating line at Braeside, Victoria, equipment which is scheduled for commissioning towards the end of calendar 2018.

The ANZ business' fixed costs were reduced by 9%, reflecting continuing efforts to improve productivity and reduce costs following the exit of non-core products.

Americas

Results for the six months to	31 December 2017 A\$ million	31 December 2016 A\$ million	Change %
Revenue	17.0	17.2	(1)
EBITDA	(1.4)	(1.0)	(33)
PBT	(2.5)	(2.0)	(27)

The Americas business grew revenue by 3% above pcp on a constant currency basis, despite the impact of hurricanes on late-summer sales in key markets. The business is seasonal, with over 70% of sales in the second half.

During the half, the business moved into its new, larger warehouse in California and is well prepared to service new product ranging wins with key retail partners that have been secured by the expanded sales and marketing team. These include distribution of Coolaroo window shade products through all Lowe's stores across North America. Further growth opportunities have been identified with a number of our USA-based customers, and, to ensure we are best-placed to deliver, our inventory levels reflect the efforts to be ready for the Americas peak season.

Middle East/North Africa

Results for the six months to	31 December 2017 A\$ million	31 December 2016 A\$ million	Change %
Revenue	7.3	6.1	21
EBITDA	1.4	0.8	75
PBT	1.3	0.8	73

Sales of all core commercial products increased and margins were higher, and despite overall market conditions remaining subdued in H1, the Company believes there are considerable ongoing opportunities in the region for architectural shade fabrics. Market penetration of GALE Pacific's new Commercial Heavy architectural shade cloth increased and customer feedback is positive.

Eurasia

Results for the six months to	31 December 2017 A\$ million	31 December 2016 A\$ million	Change %
Revenue	2.4	2.5	(7)

Sales in the company's fledgling European commercial business increased by 50% and good growth opportunities have been identified in southern European countries where the need for architectural shade cloth is greatest. Exiting low-volume and low-margin retail products in Asian markets reduced revenue, but margins have improved significantly as the business is pivoted towards commercial products.

NOTE: Eurasia EBITDA is included in the China Manufacturing Operations' result.

China Manufacturing Operations

Results for the six months to	31 December 2017 A\$ million	31 December 2016 A\$ million	Change %
EBITDA	1.0	5.1	(79)
PBT	(0.6)	3.0	(121)

Projects to upgrade the company's China manufacturing operations are reducing manufacturing costs and improving service. In line with the company's strategy to leverage technology to improve operational efficiency, implementation of the group IT system is well underway, with user acceptance testing currently taking place and 'go live' planned for mid-2018. All group operations will then be live on one global ERP platform.

NOTE: EBITDA for China Manufacturing Operations includes contributions from Eurasia and inter-company trading.

CASH GENERATION AND WORKING CAPITAL

As in previous years, the group's working capital increased during the period, reflecting preparations for the seasonally stronger second half, in particular in the USA.

The planned increase in USA inventory was the key contributor to the operating cash flow result for the first half. Strong cash generation is expected for the full year due to anticipated sales growth in the Americas region.

STRATEGIC GROWTH INITIATIVES AND CAPITAL MANAGEMENT

The company continues to focus on strategic opportunities across all aspects of the group, with principal investments addressing expanded coated fabrics capacity and capability at the Braeside, Victoria manufacturing site, in increasing and improving warehousing and distribution in California, and in IT and manufacturing upgrades in China.

The Company's on-market share buyback remains in place and active as an available capital management initiative. The company has acquired 9.3 million shares at an average price of \$0.36 per share since May 2017.

OUR GROWTH STRATEGY

Key elements of the strategy:

- Accelerate growth of the Americas business, focusing on shade and screening products, while expanding the commercial products business.
- In Australia and New Zealand, extend market-leading shading and screening business in the retail sector and build a larger commercial business, underpinned by new coating line investment.
- In the Middle East and Eurasia, focus on both commercial and retail shading products and develop a coated fabrics business as production capacity increases.
- Continue to invest in differentiated technologies and technical partnerships to develop innovative products to meet customers' needs.

DIVIDENDS

For clarity, below table is timing in relation to recently announced interim dividend.

Date dividend is payable	9 April 2018
Record date for determining entitlements to the dividend	26 March 2018
Trading ex dividend	23 March 2018
The Company's Dividend Reinvestment Plan was suspended in September 2006 and the Directors have determined that the plan is to remain suspended.	

OUTLOOK

Second half earnings will benefit from new business secured in the Americas region and, consistent with previous years, will be substantially above the first half. As a result, pre-tax profit for the full year is anticipated to be slightly above FY2017's underlying pre-tax profit of \$13.5 million.

Operating cash generation is expected to be strong in the second half.

ABOUT GALE PACIFIC

GALE Pacific is a world leader in specialised textiles, and associated products, and is recognised in its markets as an innovator and long-term producer of premium quality products.

The company's products are marketed across commercial and retail sectors, with distribution into agricultural, horticultural, mining, construction and home improvement channels. They are stocked in many of the world's largest retailers and also have strong online distribution.

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