

## ASX and Media Release

19<sup>th</sup> February 2019

**GALE Pacific delivers profit before tax for H1 2019 of \$1.3m. This is in line with guidance. Expects EPS to be up for the full year.**

- Group revenue growth of 5% on pcp
- Continued expansion of USA sales presence with revenue growth of 53% on pcp
- ANZ revenue influenced by weather conditions impacting shade products and grain cover sales
- PBT down A\$0.4m on pcp due to currency and raw material inflation flowing through from 2018
- Expect EPS for full year to be higher than pcp; a result of strong 2H sales and profit driven by northern hemisphere businesses and more favourable raw material and cost trends
- New advanced coating line on track for March/April commissioning
- Interim dividend 1.0 cps (unfranked)

GALE Pacific Limited (ASX: GAP) announces a profit before tax of \$1.3 million for the six months to 31 December 2018.

Directors have declared an interim dividend of 1.0 cent per share (unfranked), payable on 9 April 2019 to shareholders on the register at 26 March 2019.

Results for the 6 months to	31 Dec 2018 A\$ million	31 Dec 2017 A\$ million	Change %
Revenue	67.8	64.3	5
EBITDA	5.2	5.4	(4)
EBIT	2.2	2.4	(7)
Profit before tax (PBT)	1.3	1.7	(22)
Profit after tax (NPAT)	1.5	2.1	(29)
Net cash provided by operating activities	(7.2)	(3.5)	(106)
Net cash / (debt)	(24.7)	(11.4)	(117)
Underlying basic earnings per share (cents)	0.51	0.70	(27)
Interim dividend per share (unfranked) (cents)	1.0	1.0	-

Commenting on the results, Group Managing Director, Nick Pritchard said: "We have continued to make significant progress executing our strategy over the last six months. We have focused on building faster-growing businesses outside of Australia and New Zealand, particularly in the USA, further developing our commercial sector businesses globally, delivering product innovation, and continuing to drive operational improvements across the group. Though Australia and New Zealand were below expectations, primarily due to unfavourable raw material costs, subdued retail conditions and a poor grain season; the performance in the USA is particularly pleasing. The rollout of new and expanded product ranges to our major USA customers is well underway and beginning to drive strong outcomes. We have added significant additional stores to the distribution footprint in the USA, further underpinning the development of the shade products category with many of our major customers. Furthermore, early sales out performance has been particularly pleasing."

“We have also been active with our new product development programs. Key new product launches will take place in the second half. The major projects in China, including the foreshadowed manufacturing facility consolidation, have been completed successfully. Our efficiency, and service performance, continue to strengthen. These achievements are positioning us well to generate strong financial outcomes over the coming years.”

## RESULTS BY REGION

### Australia/New Zealand

Results for the 6 months to	31 Dec 2018 A\$ million	31 Dec 2017 A\$ million	Change %
Revenue	34.7	39.5	(12)
EBITDA	2.5	3.7	(32)
PBT	1.4	2.2	(36)

The Australia/New Zealand region recorded weaker sales, with sales down 12% on pcp. This performance was impacted by a weaker retail environment and particularly low volumes of grain protection fabrics due to prolonged drought conditions.

Pleasingly, there was continued growth in the commercial sector in non-grain related categories, highlighting the diverse range of the product portfolio and the strength and performance of the underlying business. It remains a key strategy to further invest and develop the commercial sector business in Australia, and abroad. Supporting this strategy, the commissioning of the new advanced coating line in Melbourne is on track for March/April 2019. This new line will add both capacity and capability to accelerate geographic and channel expansion goals, as well as support the new product program.

### Americas

Results for the 6 months to	31 Dec 2018 A\$ million	31 Dec 2017 A\$ million	Change %
Revenue	24.0	15.7	53
EBITDA	1.4	1.0	50
PBT	(0.8)	(0.7)	(6)

The Americas business was a strong performer in the period recording an increase in sales of 53% on pcp, driven by continued momentum from the rollout of new customer programs.

Strong sales-out performance was achieved across major customers, some of whom represent the largest USA retailers in our product categories. During the period, the Company was also awarded a significant new ranging win with a large home improvement channel customer. This new program will continue to expand in H2 2019.

The business is positioned well for the spring and summer selling seasons and has an opportunity to further expand its presence with current and new customers. Operating expenses increased as additional investment has been made in sales, marketing and logistics to support the USA growth strategy.

### Middle East/North Africa

Results for the 6 months to	31 Dec 2018 A\$ million	31 Dec 2017 A\$ million	Change %
Revenue	7.0	7.4	(6)
EBITDA	2.0	2.2	(8)
PBT	1.8	1.8	(2)

This region is continuing to experience challenging economic conditions. Some of the key markets, including Saudi Arabia and the UAE, have been particularly affected. GALE Pacific continues to be active, but cautious, with conservative cash collection controls in place.

## Eurasia

Results for the 6 months to	31 Dec 2018 A\$ million	31 Dec 2017 A\$ million	Change %
Revenue	2.1	1.7	23
EBITDA	1.0	0.3	292
PBT	0.8	0.2	239

Eurasia region continues to deliver a highly profitable contribution off the back of 23% revenue growth in the period. The strong margin growth was driven by improved customer and product mix.

## MANUFACTURING PERFORMANCE

GALE Pacific's wholly-owned manufacturing facility in China continues its transformation. The business delivered on several projects leading to improvements in quality, service, and overall efficiency. The project to consolidate the manufacturing footprint onto one site was completed on time, and on budget, whilst, in parallel delivering the necessary manufacturing support for new program rollouts in the Americas region, as well as the Australasian summer season.

## BALANCE SHEET AND CASH GENERATION

Operating cash flow for the period at \$(7.2) million compares with \$(3.5) million for the prior corresponding period. Working capital at end December increased on prior year mainly due to higher inventory levels.

The higher inventory levels resulted from the carryover of raw materials and some finished product inventory due to the weaker than expected grain season and the slowdown in the retail sector in Australia in the period. Further, the Americas region held higher inventory levels than the prior period in preparation for the expected sales to retail customers leading up to the northern hemisphere spring and summer. CAPEX spend was higher in the period, a result of investments in the new coating line at Braeside and efficiency projects at the China plant. Net debt at 31 December was \$(24.7) million which was \$(13.3) million higher than the prior corresponding period.

## SEGMENT REPORTING

To continuously improve the transparency of GALE Pacific's segment reporting, in FY 2019 GALE Pacific Limited initiated an activity-based allocation method of reporting. Intersegment sales/margin and central costs have been allocated to external revenue generating segments where the final economic benefit is derived. This enhanced method of reporting is being used by the Group Managing Director who is identified as the Chief Operating Decision Maker ('CODM'), to target product costing, product line profitability analysis, customer profitability analysis, and service pricing structures.

From July 1, 2018, the Group is organised into five operating segments identified by external revenue generating geographic locations. These operating segments will be based on the internal reports that are reviewed and used by the CODM in assessing performance and in determining the allocation of resources.

Under the improved reporting regime beginning July 1 2018 comparative financial period ending December 31 2017 has been restated to the following.

Half Year Ended 31 December 2017	Australasia	Americas	MENA	China Ops/ Eurasia	Corporate /Other	Group
Statutory Segment	\$2,529	\$(2,475)	\$1,316	\$(624)	\$983	\$1,729
Activity Based Allocations	(373)	1,730	482	859	(2,698)	-
Fully Allocated Profit Before Tax	\$2,156	\$(745)	\$1,798	\$234	\$(1,714)	\$1,729

## STRATEGY

GALE Pacific is today considerably more focused on its core and better positioned to grow, having now created the operational infrastructure, new product road, and team, to support our growth agenda.

Key elements of GALE Pacific's 2019 plan include:

- **Americas Region** - effectively executing the rollout of the expanded product ranging with major retailers in the USA, as well as securing new distribution with existing and new customers. GALE Pacific continues to see a great opportunity to lead the shade category, as well as build a larger commercial fabrics business in this region.
- **Coating Manufacturing Capacity** - effectively commissioning the new \$8 million coating line in March/April. This new line will more than double manufacturing capacity and support the commercial sector growth strategy in Australia, and abroad.
- **Manufacturing Operations** - continuing the manufacturing efficiency, quality and service drive at all manufacturing facilities.
- **Product Innovation** - focused on meaningful innovation in core product categories. There continues to be many exciting developments underway and commercialisation of some of these programs is expected in 2H 2019.

## OUTLOOK

Despite the adverse trading conditions in 1H, the Company is encouraged by the reduced commodity cost and currency pressures from 2018. We expect this to translate into improved margins for the selling regions in 2H 2019.

The Company is well positioned for the USA spring and summer selling seasons and is encouraged by the strong sales out performance of products during the USA off-season. Along with several new exciting product innovations due for launch in the second half, GALE Pacific remains confident of being able to deliver EPS growth in FY 2019.

## DIVIDENDS

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

Date dividend is payable	9 April 2019
Record date for determining entitlements to the dividend	26 March 2019

## 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, home improvement and club channels. They are stocked in many of the world's largest retailers and have strong online distribution.

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