GALE PACIFIC LIMITED

(ASX: GAP)

ASX and Media Release

25 August 2020

GALE Pacific finishes FY20 with positive H2 momentum

- GALE Pacific experienced a positive shift in business momentum in 2H20 despite significant global challenges posed by COVID-19, international trading conditions and other significant macroeconomic factors;
- Group FY20 revenue of $156.3 million (up 4.8% vs prior year) driven by business expansion in 2H20 in the Americas, Australia/New Zealand & Eurasia regions;
- Group FY20 profit before tax of $4.8million (down $6.4 million vs prior year) influenced by increased input costs associated with the COVID-19 pandemic, higher import tariffs in the US for goods manufactured in China, an unbudgeted customer incentive arrangement and one-time restructuring costs associated with a profit improvement plan in the Australia/New Zealand region;
- Group 2H20 revenue of $94.0 million (up $31.7 million or 50.8% vs 1H20) and (up $12.6 million or 15.6% vs 2H19) driven by improving business conditions in the Americas, Australia/New Zealand & Eurasia regions throughout the fourth quarter;
- Group 2H20 profit before tax of $8.4 million (up $12 million vs 1H20) but (down $(1.5) million vs 2H19) driven by improving business conditions in the Americas, Australia/New Zealand & Eurasia regions throughout the fourth quarter;
- Americas revenue up 3.2% vs prior year driven by accelerated growth throughout 2H20 attributable to successful new product placements, expanded assortments across eCommerce and omni-channel retail partners, and a significant positive shift in consumer purchase behavior in the fourth quarter leading to buoyant trading activities across "do-it-yourself" product ranges;
- ANZ revenue up 11.4% vs prior year driven by new ranging placements and strong consumer demand across core 'do-it-yourself' retail categories, increased demand and new customer conversions across commercial coated fabrics ranges, and strong early season demand for coated fabrics used in grain handling applications;
- GALE implemented a restructuring plan in the ANZ region in June to deliver material profit expansion in FY21 and beyond by lowering structural costs, delivering operational cost efficiencies, better matching capacity to demand, and improving overall organisational capability;
- Eurasia revenue up 8.1% vs prior year driven by conversion of large-scale commercial projects and expansion into new markets and customers despite challenging trading conditions across core markets in 2H20;
- MENA revenue down 18.6% vs prior year due to persistence of challenging regional trading conditions;
- Operating cash flow of $7.2M (down $(8.1) million vs FY19) impacted by an $11 million increase in receivables at year end due to increased sales in the Americas & ANZ regions during the fourth quarter;
- Dividend Policy remains unchanged; final dividend of 1.0 cent per share (unfranked);
- Capital Management Policy remains unchanged.

Results for the half year to	30 June 2020[1] A$ million	30 June 2019 A$ million	Change %
Revenue	156.3	149.2	4.8
EBITDA	18.7	19.3	(3.1)
PBT	4.8	11.2	(57.1)
Net Profit after Tax (NPAT)	3.7	9.2	(59.8)
Operating Cash Flow	7.2	15.3	(52.9)
Net debt	15.3	10.9	(40.4)
Basic earnings per share (cents)	1.34	3.21	(58.3)
Final dividend per share (unfranked) (cents)	1.0	1.0	-

1 - FY20 financial numbers are inclusive of the impact of AASB16

GALE PACIFIC FY20 OVERVIEW

Commenting on the year, Chief Executive Officer and Managing Director, John Paul Marcantonio said: "Global operating conditions have been unprecedented, highly dynamic and historically challenging since late-January. We first prioritised the health and safety of our teams around the world, irrespective of the financial implications. We then prioritised servicing our customers, consumers, and end users once we ensured that we were able to do so safely. It is a testament to the team at GALE Pacific that we have been able to keep our employees healthy, safe and working through the challenges of the last six months."

"The team developed new, more effective and efficient ways of working. We streamlined processes, increased communication, improved collaboration, sped-up decision making, and focused ourselves on driving results. We developed new ways to operate in our facilities and were able to expand capacity as a result. No matter how difficult, we have acted with integrity, empathy, care and respect. Our teams have displayed the highest possible levels of professionalism, resilience and perseverance in the face of extraordinary personal and professional difficulty."

"Fortunately, we were able to implement operational strategies that mitigated portions of the potentially major service risks introduced by the COVID-19 pandemic across the Company's global supply chain and manufacturing facilities in China, Australia, and the United States. As anticipated, our operations in China were directly impacted throughout February and into March due to various challenges posed by COVID-19 but largely returned to full production and improved service capacity by the start of April. Pleasingly, we were also able to further increase production capacity throughout the fourth quarter to meet demand increases across the United States and Australia. We did, however, incur higher than planned input cost inflation for labour, materials, transportation and health and safety practices across the business in the second half and there continues to be cost pressure associated with import tariffs in the United States for goods made in China."

"We witnessed a positive shift in consumer purchasing behaviour that has benefited retail sales in the United States and Australia as we progressed through the back half of the year, especially in the fourth quarter. Our partner retailers in both countries have experienced increased levels of sell-through across "do-it-yourself" product ranges as people have increased spending across home improvement categories. Our brands and products are well positioned for this shift in spending and we've realised additional benefit from securing incremental new ranging both in-store and online. We've also achieved year on year increases in the growth rates across our retail partners that have eCommerce and online selling capabilities, primarily in the United States. We are well positioned across the distribution landscape to take advantage of these trends and have a significant opportunity to further expand our footprint in both markets over the coming years."

"We've continued to invest in our capacity to drive innovation and distribution development initiatives throughout the year despite these challenges. In the back half we executed a global launch of the world's most comprehensive, technically advanced range of flame retardant architectural shade fabrics and the initial response is encouraging. In Australia, we have secured new distribution for our core coated fabrics ranges used in water management applications and demand for our coated fabrics ranges used in agricultural applications has increased as we exited FY20. Both growth initiatives were enabled by our investment in additional coating capacity in our Melbourne facility in prior periods and our focus on driving operational efficiency throughout the back half of this year. We're adding new customers in the Americas and are gaining new placement for existing ranges in line with our strategy to develop that market for the long term."

"Our business across the Eurasia region showed a high level of resilience and we were able to grow both the top and bottom line despite the various challenges we faced throughout the year. Trading continued to be challenging in the MENA region due to macroeconomic conditions that were exacerbated by new challenges posed by the pandemic. The broad market for our products and our business performance in the region were further impacted throughout the back half of the year as a result. In June FY20 we made the difficult decision to implement a restructuring plan in the ANZ region designed to deliver profit expansion in FY21 and beyond by lowering structural costs, delivering operational cost efficiencies, better matching capacity to demand in the region, and improving overall organisational capability."

"Throughout the COVID-19 pandemic our primary concern has been ensuring the health and safety of our employees around the world. We enacted flexible, 'work from home where able' policies ahead of government requirements in all regions and quickly developed and implemented strict, facility specific safety and hygiene protocols across all global locations. All of our distribution and manufacturing facilities continue to operate according to best available practice to maintain healthy and safe workplaces for all stakeholders including team members, suppliers, contractors, customers, and consumers while the company continues its essential business operations."

"Our business and team have proven to be highly resilient and I have faith in our ability to manage this operating environment. We grew revenue year on year in all markets except MENA and remained profitable as a group despite the headwinds, cost inflation and operational challenges. We finished the year with momentum in most markets and I am cautiously optimistic as we head into the new financial year. I am proud of the financial and operational performance that GALE has delivered in FY20 and I am enormously proud to work alongside the team that delivered it."

"I would like to thank the entire GALE Pacific team for their commitment, collaboration, dedication and hard work. We have been able to make progress on our growth strategy during an unprecedented and challenging trading period. The business has proven its strength in FY20, and I am confident that we can continue to make progress against our strategic plan as we head into the new financial year."

RESULTS BY REGION

Americas

Results for the half year to	30 June 2020 A$ million	30 June 2019 A$ million	Change (%)
Revenue	73.3	71.0	3.2
EBITDA	11.8	13.8	(14.5)
PBT	4.2	8.5	(50.6)

Americas revenue grew 3.2% to $73.3 million ($71.0 million in FY19), driven by a significant positive shift in consumer purchasing behavior on the back of COVID-19 related restrictions coupled with incremental distribution and ranging in 2H20. The second half performance, particularly in the fourth quarter, skewed full year revenue to the second half of the financial year at a higher rate than historical averages. Profit acceleration from 1H20 to 2H20 proved promising with sell-out rates for GALE Pacific's core retail product ranges generally stronger than market and category averages at most major customers across brick and mortar, eCommerce, and omni-channel retail partners throughout 2H20.

The Americas region incurred additional cost headwinds in 1H20 that persisted for the entirety of 2H20 associated with increases in import tariffs imposed by the United States for goods manufactured in China. Though the situation with respect to import tariffs stabilized in 2H20, there exists ongoing material impact from the active tariff arrangements. The company was also impacted by cost inflation in material, freight, transportation, labour and with health & safety initiatives as a result of the COVID-19 pandemic. We continue to work on operational efficiency projects to offset these cost headwinds and to reduce the impact of import tariffs. There was also material year over year impact in 1H20 due to the stock build associated with a major customer new business win in 1H19.

Despite these headwinds, GALE's core ranges and new products resonated well with consumers. The company was able to drive material improvement in 2H20 by securing incremental points of distribution across the retail landscape, increasing item counts across the core brick & mortar locations, increasing listings on eCommerce partner sites, and driving increased consumer demand and sell-through across the US market at nearly all retail partners.

Though broad market demand for the commercial fabrics business was adversely impacted by COVID-19 restrictions, the category remains an important part of GALE's growth strategy in the region. The company launched its innovative, market leading range of flame-retardant architectural fabrics in the second half and was able to secure incremental new business as a result. In line with its growth strategy, GALE remains committed to investing to accelerate adoption and preference for its differentiated commercial fabrics ranges in the Americas region.

Finally, and despite these challenges, the company increased its investment in selling, marketing & service infrastructure in 2H20 in line with its strategy to build a larger, quickly growing business in the Americas region and remains committed to doing so over the coming periods.

Australia/New Zealand

Results for the half year to	30 June 2020 A$ million	30 June 2019 A$ million	Change (%)
Revenue	64.6	58.0	11.4
EBITDA	5.4	2.8	92.9
PBT	0.2	1.1	(81.8)

Australia/New Zealand revenues grew 11.4% for the year to $64.6 million ($58.0 million in FY19), driven by a significant positive shift in consumer purchasing behavior on the back of COVID-19 related restrictions in the second half, increased ranging across core retail categories, new distribution for core coated fabrics ranges and increased demand for core coated products used in agricultural, water management, food handling and packaging applications.

Profit before tax performance in FY20 was impacted by cost inflation in freight, transportation, material, labour, and health & safety initiatives as a result of the COVID-19 pandemic, an unbudgeted incentive arrangement with a major customer, and the implementation of a regional restructuring plan. The company received no income from Jobkeeper or any other Government support schemes.

Growth in the retail sector of GALE's ANZ business was driven by the successful introduction and sell-through of a significant number of new retail products in its core consumer categories coupled with the demand increase associated with changes in consumer buying behavior due to COVID-19 restrictions, both of which accelerated second half performance. GALE's core product categories and brands were well positioned as sector spending shifted towards a focus on home improvement and 'do-it-yourself' products, with GALE products able to help drive overall category growth with its retail partners.

The company's commercial fabrics business also performed strongly in both 2H20 and across the entirety of FY20 as a result of new customer conversions and increased demand across several categories of its business. As previously mentioned, the company was successful in acquiring a major new customer in the water management sector which began in 2H20. GALE has also seen increased demand across its non-woven coated products categories used in food handling and packaging applications in the second half of FY20.

Additionally, GALE saw higher levels of early season demand than previously experienced for its leading line of coated fabrics used in grain handling applications. 2H20 purchasing patterns were ahead of typical seasonal trends for the coming grain harvest, which is forecasted to be one of the most productive seasons in several years. While this positively impacted the 2H20 result, the majority the benefit is expected to be realised in 1H21. GALE has been able to capitalise on these demand increases and service partner customers as a result of its investment in additional coating capacity (which came online in 2H19) and a focus on operational excellence initiatives in 2H20.

Finally, GALE implemented a restructuring plan in the ANZ region in June FY20 designed to deliver profit expansion in FY21 and beyond by lowering regional structural costs, delivering operational cost efficiencies, better matching capacity to demand, and improving overall organisational capability to drive profitable business expansion over the coming periods. The company remains committed to the ANZ region and will work diligently to build a more efficient, more profitable and more quickly growing business there.

Middle East/North Africa

Results for the full year to	30 June 2020 A$ million	30 June 2019 A$ million	Change (%)
Revenue	10.5	12.9	(18.6)
EBITDA	2.2	4.0	(45.0)
PBT	1.6	3.5	(54.3)

Difficult trading conditions persisted throughout FY20 and continued to negatively impact revenues and profits in the region. Challenging macroeconomic conditions and overall instability coupled with the impact of the company's decision to tighten credit policy earlier in the year impacted business performance in the region.

Further, the COVID-19 pandemic had a negative impact on GALE's business in the region in 2H20 as challenges posed by the varying degrees of restrictions and market openness across several of GALE's major trading markets caused trading inconsistency.

Changes in provisions for doubtful debts, reflecting these difficult local trading conditions, also had a material impact on profit before tax in 2H20 and FY20. Despite the current difficulties, GALE Pacific continues to support its partners in the region and remains optimistic about returning to growth in the region over the coming periods.

Eurasia

Results for the full year to	30 June 2020 A$ million	30 June 2019 A$ million	Change (%)
Revenue	8.0	7.4	8.1
EBITDA	2.7	2.3	17.4
PBT	2.2	1.8	22.2

Eurasia revenues grew 8.1% for the year to $8.0 million ($7.4 million in FY19) and profit before tax grew 22.2% for the year to $2.2 million ($1.8 million in FY19), driven primarily by awards for large scale new projects in its core architectural shade fabrics ranges and new distribution expansion.

The Eurasia region business performance for 2H20 and FY20 was pleasing considering the range of challenges across both Europe and Asia associated with COVID-19, which negatively affected key trading geographies and partner customers differently and at different times.

In line with its global strategy, the company continues to invest in growth initiatives to expand the usage of GALE's core, differentiated commercial fabrics ranges and to further expand distribution across targeted markets in both Europe and Asia.

BALANCE SHEET AND CASH GENERATION

Net cash flows from operating activities for FY20 were $7.2 million versus $15.3 million for the prior year. The Company expects to generate positive cash flows from operating activities in FY21.

Net debt as at 30 June 2020 was $15.3 million versus $10.9 million as at 30 June 2019, which included $2.0 million of capital used for share buy backs.

OUTLOOK

Commenting on the outlook, Chief Executive Officer and Managing Director, John Paul Marcantonio said: "The health, safety and wellbeing of our team is, and always will be, our top priority. We've enacted health and safety measures in-line with the best available guidance at all locations and we'll continue to develop and evolve our work practices in-line with government policies and leading agency recommendations as they become available.

"At the Company, we continue to execute our core strategy of building GALE Pacific into a faster growing, world-class, global fabrics technology business.

"We are making progress against our business development and expansion agenda in the USA, investing in line with our strategy to build a larger footprint in this critical market. In Australia, we will focus our efforts on driving profitable growth initiatives, delivering operational efficiency and better matching capacity to demand to increase profitability. We'll do this while working to serve encouragingly high levels of demand across our coated fabrics ranges used in agricultural and grain handling applications in 1H21. We continue with our efforts to grow our business in Eurasia and remain committed to working with our partners across the MENA region.

"We will further develop and implement productivity and efficiency initiatives to offset the effects of disruption and cost inflation in our global supply chain as a result of the COVID-19 pandemic and the persistence of import tariffs in the USA for goods manufactured in China.

"Overall, our core global business is largely healthy, stable, profitable and growing.

"We are pleased with the start to FY21, having experienced sustained demand increases in our core consumer and commercial products categories in the USA and Australia. Given the shifts witnessed in consumer and commercial behaviour we are hopeful, but cautious, about the continuance of these largely encouraging trends throughout the entirety of the coming financial year.

"We anticipate that the company will deliver improvement in both revenue and profit before tax in 1H21 compared to 1H20 given the business momentum across retail and commercial sectors in both the United States and Australia as we enter the financial year."

DIVIDEND POLICY

Dividend policy remains unchanged. Directors have declared a final dividend of 1.0 cent per share (unfranked).

Record date for determining entitlement to the dividend	4 September 2020
Date dividend is payable	16 October 2020

CAPITAL MANAGEMENT POLICY

GALE Pacific capital management policy remains unchanged. The company has completed its prior share buy-back program, lodging the final share buy-back notice on 15 April 2020.

This announcement has been authorised by John Paul Marcantonio; Chief Executive Officer and Managing Director of GALE Pacific Limited.

INVESTOR AND ANALYST CALL

An investor and analyst call will be held on 25 August at 10:30am (AEDT). Please register for the call through the following link:

An investor and analyst webcast will be held on 25 August at 10.30am (AEST). Please register for the webcast through the following link:

https://us02web.zoom.us/webinar/register/WN_T2jQrxwKSgiSN9OLxUywjw

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 eCommerce distribution.

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