

MARKET RELEASE

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Cavalier Reports Increased Profit for First Half FY21

Cavalier Corporation Limited (NZX: CAV) has reported a strong year on year uplift in profitability as it benefits from higher woollen carpet sales, the sell down of its synthetic carpet stock as it exits the non-wool sector and the gain from the Auckland property sale and leaseback.

Profit after tax increased strongly to \$4.3m, up \$5.5m on the prior year, with a \$3.0m improvement in underlying business performance and a \$2.5m net gain on the sale and leaseback of the Auckland property.

Results were at the upper end of the guidance range provided in December 2020 with normalised EBITDA up 61% on the previous comparable period to \$4.8m¹ (guidance of \$4.0m to \$5.0m).

Revenue was down slightly (6%) year on year to \$60.3m. Australian carpet sales volumes were impacted by supply chain disruption and COVID lockdowns, however, are expected to improve as supply chain disruptions and pandemic effects reduce. Elco Direct, Cavalier's wool buying business, was also impacted by subdued offshore demand for New Zealand wool and while volumes were up 12%, the average selling price was well down.

Following the Auckland property sale and with the bulk of synthetic carpet stock sold, all borrowings were repaid, with the Company holding a significant cash surplus of \$26.3m as at 31 December 2020. Prudent capital management remains a priority as the Company invests into resetting the business, commencing the new strategy and navigating the economic recovery post-COVID. No interim dividend has been declared.

Cavalier has commenced its transformation strategy to become a global leader in designing and creating desirable, safe, sustainable and high performing natural interior solutions. In line with this, the Company is exiting the non-wool sector and has right sized the organisational structure to meet future manufacturing needs. Shareholder approval on the sale and leaseback of the Auckland property in December 2020 has provided the financial resources to continue executing transformation plans, with other capital raising options to be considered, if required.

Key initiatives in 1H21 included the launch of the new Bremworth brand for Cavalier's carpet business; the rollout of the Lifestyle (affordable wool) collection ranges and other uniquely designed products, providing greater choice for consumers; and an expansion of the retailer distribution networks in both New Zealand and Australia.

¹ Normalised EBITDA excludes non-trading adjustments of \$1.4m, comprising net gain on sale and leaseback of property of \$2.5m and restructuring costs of \$(1.1)m, with a reconciliation of normalised to GAAP results set out on page 24 of the accompanying 1H21 report.

Bremworth

CEO of Cavalier, Paul Alston, commented: “It has been an encouraging six months for Cavalier with New Zealand trading recovering strongly post the April COVID lockdowns and increasing sales of higher margin, more sustainable woollen carpets. Australia offers a significant growth opportunity with a market five to six times the size of New Zealand, and it will be a primary focus for our team.

“We have a strong pathway forward with a carefully considered strategy that takes advantage of Cavalier’s strengths and consumer trends, zero debt, a right sized organisational footprint and funding in place to execute our five-year plan to increasing value and profitability. We are excited about our future as we continue our journey towards becoming a more sustainable, design-led, wool and natural materials interior solutions business.”

Outlook

Cavalier will continue to implement its strategy in the second half of FY21 (2H21) and priorities are in line with Cavalier’s growth strategy:

- Launch of the new Bremworth marketing campaign
- Continue to rollout Bremworth Lifestyle (affordable wool) collection ranges
- Continue to expand our retailer networks, particularly in Australia
- Maintain focus on innovation and the launch of new beautifully designed carpets
- Operational improvements including initiatives to reduce the cost base and mitigate supply chain disruptions.

The new Bremworth marketing campaign will be launched in 2H21 with a corresponding increase in marketing spend. The launch of the campaign will be timed to coincide with increasing stock levels in Australia as supply chain constraints are resolved. As previously announced, there will be a lag between the FY21 investment in marketing and growth in sales.

While it is still too early, and the operating environment remains uncertain, for the Directors to be providing shareholders with an earnings guidance for FY21, shareholders should note that earnings for the rest of this financial year will not track what the Group has achieved in 1H21.

This is partly due to the increased marketing spends in 2H21 as we invest in the transformation as outlined earlier. At the same time, volumes in 2H21 will be significantly down on 1H21, with the bulk of the synthetic carpet stock having already been sold in 1H21 and sale of woollen carpet in Australia likely continuing to be impacted by disruptions to the supply chain.

Bremworth

This is consistent with what the Directors have previously advised:

- Total sales revenue for FY21 will reduce as Cavalier exits its non-wool carpet business and as a consequence of COVID-19
- Investment costs, including restructuring of its operations, will be incurred as the business adjusts its manufacturing and sales base to reflect a wool only focus, with these costs also inclusive of new retail display stands to expand market presence
- Marketing spends and people costs will increase as Cavalier will be investing in a number of initiatives to enhance its market presence and ensure its strategy is successfully communicated
- As Cavalier's strategy bears fruit and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, this will be reflected in Cavalier's financial performance, with growing revenues expected from FY23 and FY24 onwards as the business builds woollen carpet sales and as the economy recovers from COVID-19
- The full benefits from the transformation are expected from FY25 onwards.

There are indications of positive economic growth in both New Zealand and Australia which will benefit Bremworth retail sales. New Zealand woollen carpet sales volumes for FY21 are expected to be well up on prior year, with Australian woollen carpet sales volumes also expected to improve when current disruptions to the supply chain are resolved. Recent initiatives, particularly in Australia, to expand the retailer networks, are expected to help drive a lift in sales once supply improves.

Cavalier has a strong platform from which to continue its transformation journey, with a clear strategy, zero debt, a right sized organisational footprint and an experienced team.

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