Company Announcement
21 February 2020

CAVALIER CORPORATION

CAVALIER INTERIM RESULTS FOR THE SIX MONTHS TO 31 DECEMBER 2019

- Results slightly above November 2019 guidance with revenue of $64.4m and a Net Loss After Tax (NLAT) of $(1.2)m. The reported result includes adjustment for NZ IFRS 16 and $0.8m of transformation costs incurred for the period to 31 December 2019.
- Excluding transformation costs, normalised EBITDA of $3.0m and normalised NLAT was $(0.6)m.
- Trading conditions remain soft for carpet, impacting on sales. In addition, softer demand for wool has also affected Elco Direct's revenue although margin has improved.
- Development of Cavalier's transformation strategy is being finalised as the company moves to position itself as a wool-focused, design-led business and capture customer demand for high quality sustainable products.

For the six months to 31 December $millions	1H19	1H20		1H20
	Actual	Prior to IFRS 16	IFRS 16 adjustment	Actual
Revenue	70.0	64.4		64.4
NLAT	(10.0)	(1.0)	(0.2)	(1.2)
Normalised EBITDA	4.6	2.0	1.0	3.0
Normalised NPAT/NLAT	1.9	(0.4)	(0.2)	(0.6)
Net Debt	17.3			17.7
Inventory	50.5			44.7
Equity to total assets	58.0%			53.2%
Leverage (net debt to total capital employed)	27.8%			32.9%
Operating cashflow	2.4			2.0

Cavalier Corporation Limited (NZX: CAV) has today released its unaudited interim results for the six months to 31 December 2019.

The challenging trading conditions have continued and revenue was down 8% compared to the prior comparative period. Both the New Zealand and Australian economies remained soft during the period, with growth deceleration and business uncertainty in both countries.

Pressure continues to be seen in low margin synthetic carpets with increasing competition in a tight market and Cavalier expects this trend to continue. Cavalier is positioning itself in the higher value end of the woollen flooring market and, while a smaller part of the market, sales of Cavalier's premium Bremworth Collection wool carpets continue to grow.

Cavalier has reported a NLAT of $(1.2)m for the six month period (1H19: $(10.0)m)[1]. No interim dividend has been declared.

Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) was $3.0m including a $1.0m benefit from the adoption of NZ IFRS 16 for leases (1H19: $4.6m). Normalised EBITDA excludes $0.8m of transformation costs incurred to 31 December 2019, which are associated with the development of Cavalier's new business model and strategy. Further transformation costs are expected in 2H20 as the company moves to reposition itself as a wool-focused, design-led organisation.

Normalised NLAT, excluding transformation costs, was $(0.6)m (1H19 normalised NPAT: $1.9m).

Prudent capital management remains a priority and debt has reduced by more than 70% since FY14, from $58.8m down to $17.7m as at 31 December 2019. The continuing reduction of debt and strengthening of the balance sheet remains a priority for the Board.

Inventories have also reduced by $22.1m since FY14, with $44.7m of raw materials and finished goods on hand as at 31 December 2019. The reduction of stock levels, particularly of lower value synthetic carpets, remains a focus for management and proceeds will be used to further reduce debt.

Cavalier is currently developing a new strategy as it moves to become a wool-focused, design-led business. In the interim, management remain focused on lifting the performance of the existing business. In particular, initiatives are focused around building sales through in-store presence, supply chain improvements, ongoing product development and innovation, and reducing the cost base.

New Strategy

Cavalier is considered a world leader in the manufacture of quality wool carpet. The company is planning to leverage this expertise and build on its heritage to capture the growing consumer demand for more natural, sustainable and healthier products.

CEO of Cavalier, Paul Alston, said: "We are on the cusp of a societal change, with consumers becoming increasingly aware of the negative impacts of plastics, micro-plastics and synthetic products. As a leader in the manufacture and sale of beautiful, premium wool carpets, Cavalier is well positioned to meet customer demand for natural, sustainable products.

"For years, manufacturers of synthetic carpets have been marketing their products by denigrating wool carpets. We believe it is time to dispel the myths – wool is naturally resilient, hard wearing, fire

[1] 1H20 NLAT included transformation costs of $0.6m (1H19 NLAT included the non-cash write down of $12.0m on Cavalier's carrying value of its 27.5% in Cavalier Wool Holdings (CWH), following its sale at the end of September 2018.)

and stain resistant and easy to clean. Not only that, it is soft, warm, a great insulator and 100% sustainable.

“We are working closely with New Zealand Merino and other advisers to finalise our strategy, which will see Cavalier go back to its roots as a wool-focused, design-led business. We will be building on the strength of our brand to cement and grow our position in the high value wool and natural fibre sector and look forward to taking our place alongside other iconic New Zealand wool brands such as Icebreaker and All Birds. Our opportunity lies not just in New Zealand, but in other markets around the world.”

Cavalier anticipates finalising and launching its new strategy prior to the start of the FY21 financial year (1 July 2020). The focus will be on five critical streams – Marketing & Sales, Operations, Inventory, Adjacencies & Growth Opportunities and Funding.

Chair of Cavalier, Alan Clarke, commented: “The trends being seen in the flooring sector and the results from Cavalier’s existing business, further reinforce the need for Cavalier to change and develop a new strategy for the future. The transformation will see Cavalier positioned for growth in today’s world, meeting the growing customer demand for natural, sustainable products. This change will take patience, investment and time, however, the Board believes this repositioning of Cavalier back to its heritage of beautifully designed woollen flooring is the optimal pathway for future growth.”

Adoption of NZ IFRS 16 for leases

NZ IFRS 16 is the new accounting standard in relation to the treatment of leases. It is important to note that the impact of NZ IFRS 16 is non-cash and is for financial reporting purposes only. NZ IFRS 16 classification has resulted in an increase of $1.0m in EBITDA and a reduction of $0.2m in profit due to increased depreciation and interest expense.

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