CAVALIER
CORPORATION

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Directors' Report

For the six months ended 31 December 2015

FINANCIAL PERFORMANCE

Six months ended 31 December **Unaudited**	**2015** **$000s**	2014 $000s	% change
Revenue	**$98,422**	$103,722	**-5%**
EBIT (Normalised) [1]	**4,268**	2,181	**96%**
Net interest expense	**-1,961**	-1,919	**2%**
Share of equity-accounted investee profit (Normalised after tax) [1]	**985**	138	**614%**
Profit before tax (Normalised) [1]	**3,292**	400	**723%**
Income tax	**-876**	-73	**1100%**
Profit after tax (Normalised) [1]	**2,416**	327	**639%**
Restructuring costs	**-936**	-295	
Gain on disposal of property, plant and equipment	**2,035**	0	
Profit after tax (GAAP)	**$3,515**	$32	
Earnings per share (cents) (Normalised) [1]	**3.5**	0.0	
Earnings per share (cents) (GAAP)	**5.1**	0.0	

[1] Normalised is a non-GAAP (Generally Accepted Accounting Practice) measure that provides what the Directors believe to be a more meaningful view of the underlying financial performance of the Group. A reconciliation between GAAP and normalised earnings together with further commentary on the disclosure of non-GAAP financial information are set out at pages 21 and 22 of the half year report.

The Directors of Cavalier Corporation Limited announce a profit after tax of $3.5 million for the six months ended 31 December 2015, compared with $32,000 in the same period last year. Revenue dropped $5.3 million/5% as a result of the sale of the tile business, offset by increases in revenue in broadloom, wool and yarn.

On a normalised basis (which excludes the one-off gain from the sale of the Sydney premises and restructuring costs), profit after tax is $2.4 million compared with $0.3m in the same period last year.

Both the carpet and wool businesses were ahead of last year, with the improved performance by carpet due largely to the sale of the loss-making tile division in August 2015.

The Directors note that underlying conditions - particularly, the continuing high wool price and NZD:AUD exchange rate - remain challenging.

FINANCIAL POSITION

During the first six months, there was a significant improvement in the financial position of Cavalier. As reported last year and at the Annual Meeting, trading results were not able to support the level of bank debt the company was carrying and priority was given to debt reduction. As a result, net bank debt has reduced by a significant $26.3 million (45%) from the same time last year ($21.2 million in the last six months).

Equity as at 31 December 2015 was $70.3 million and represented 49% of the total assets of the Group, compared with $91.9 million and 47% respectively in 2014.

The decision to write-down the value of assets that were considered impaired (most relating to the carpet business) at June is why total equity is much less than it was a year ago.

Total assets reduced by $26.0 million in the last six months, reflecting the sale of the Sydney premises and the exit from the tile business.

CASH FLOWS

Net cash flows from operating activities for the first six months were $5.7 million, compared with $12,000 last year, largely as a result of the cash released from working capital following the sale of the tile business.

During the period, there was a modest $892,000 of capital expenditure compared with $1.7 million in the previous comparable period.

Cash generated in the six months were applied towards the repayment of bank debt.

SEGMENT REVIEWS

Carpet Business
With the sale of our carpet tile manufacturing operation in Australia in August 2015, the carpet business now comprises broadloom carpets sold mainly in New Zealand and Australia and with a small volume to other international markets.

For the six months ended December 2015, the carpet business produced a total revenue of $78.6 million, 12% down on the previous comparable period's $88.8 million. This is due to reduced revenue from the sale of the tile business, offset by broadloom gains.

The carpet business result before depreciation and extraordinary items (asset sales and restructuring costs) at $5.5 million is a $572,000/12% improvement on a year ago.

The broadloom business had a slow first quarter, but finished the second on a much stronger note with total sales volume 3% up on the previous year. We achieved volume improvements from the prior year in all segments of the market except for the highly competitive entry-level sector in Australia. In the second quarter, we made the decision to lift prices to reflect rising costs of wool, synthetic yarns and other imported raw materials (due in part to the increased strength of the USD).

In addition to price increases, the restructuring that was undertaken earlier in the year has started to generate cost savings and increased profitability.

In the last six months, we have:

- Exited the non-performing Australian tile manufacturing business
- Outsourced Australian warehousing and logistics and sold the Sydney premises
- Appointed a new International General Manager for the rest of world market (outside of New Zealand and Australia)
- Restructured the administration and sales functions in New Zealand

For the next six months, we anticipate:

- Appointment of a new Australian General Manager
- Introduction of a fully integrated sales, marketing and product development programme
- Introduction of new innovative products to the broadloom business
- Further productivity gains

Wool Business

The wool business comprises our wool buying business, Elco Direct, and a 50% interest in commission woolscourer, Cavalier Wool Holdings Limited (CWH).

Elco Direct has been a consistent performer over the last few years and had a very good six months. Both volume and margins are up on the same period last year. Elco Direct profit at $790,000 is a $376,000/91% improvement on the $414,000 produced in the previous comparable six months.

CWH's half year result is also an improvement on last year and Cavalier's share of tax-paid earnings, at $724,000, is significantly up on the $157,000 loss made a year ago.

CWH's volume increased on the previous comparable period and wool grease prices also showed some improvement, although still well below the highs experienced a couple of years ago. The result would have been better if it were not for the costs it has had to incur with the lengthy Commerce Commission and appeal process associated with its proposed scouring business merger with New Zealand Wool Services International Limited. The High Court appeal is set for early April and we will keep shareholders informed of developments.

Yarn Business

The Radford Yarn business is our Christchurch based manufacturer of premium felted wool yarns for the carpet business and rug manufacturers in North America and Europe.

In the last couple of years, there has been good demand for felted products given its unique qualities. Volume and revenue are both up on the previous year at slightly better margins, resulting in a profit of $542,000, compared with $386,000 last year - a 40% improvement.

EARNINGS OUTLOOK

At the Annual Meeting in November, we gave shareholders a normalised profit after tax guidance in the range of $3.0 to $5.0 million.

Looking forward to the end of the year, we expect some pressure on the New Zealand economy with softening commodity prices and a dip in market confidence. The Australian market remains tough, particularly in the price-driven commodity end of the market, and we do not see that improving in the short term.

Wool grease prices have dipped slightly in the last couple of months which may impact CWH's profitability.

However, given the solid first half result, we now expect normalised profit after tax to be at the upper end of the $3.0 to 5.0 million range for the year ending 30 June 2016.

DIVIDENDS

As indicated at the Annual Meeting, as soon as we are in a position to confirm a sustained improvement in the underlying performance of our core business and have our debt firmly under control, we will resume dividend payments. While the results in the first six months indicate we are on the right track, the Board is not declaring an interim dividend payment at this stage.

For and on behalf of the Board of Directors

Paul Alston
Chief Executive Officer
19 February 2016

For more information regarding this announcement, please contact Paul Alston, CEO, on 09 277 1135 or 021 918 033 (outside office hours).