

MARKET RELEASE

28 September 2020

CAVALIER CORPORATION FULL YEAR RESULTS ANNOUNCEMENT

For the 12 months ended 30 June 2020:

- The key outcome for the year was the announcement of Cavalier's new transformational strategy to become a sustainable, interior solutions business.
- The FY20 preliminary results reflect the re-setting of the organisation as Cavalier commences its pivot, as well as the softening trading conditions noted in 1H20, which were further exacerbated by the COVID-19 pandemic in 2H20.
- Revenue was \$118.0m, down 13% on prior year, due to the softer trading conditions reported in 1H20 and the impact of COVID-19 restrictions and the lockdown in New Zealand in April 2020.
- Statutory NLAT of \$(21.5)m, with normalised NLAT¹ of \$(3.5)m excluding non-trading adjustments.
- Normalised EBITDA¹ was \$2.3m, excluding non-trading adjustments of \$(11.2)m pre-tax primarily related to the strategic change and company re-set.
- Net debt reduced to \$14.5m as at end of June and has further reduced since year-end to \$7.2m as at end-August 2020.
- Since year-end, shareholders have approved the sale and leaseback of the Auckland property which will support the execution of the new strategy.
- FY21 sales volumes to date have been stronger than anticipated with increasing sales of wool carpets.

Cavalier Corporation Limited (NZX: CAV) has today released its unaudited preliminary results for the twelve months to 30 June 2020.

The FY20 results reflect the re-setting of the company as it commences its new strategy and transformation, as well as the softening trading conditions noted in 1H20, which were further exacerbated by the COVID-19 pandemic in 2H20.

¹ Normalised EBITDA and Normalised NLAT are non-GAAP measures. Normalised EBITDA excludes non-trading adjustments of \$11.2m which comprise restructuring costs of \$1.2m and asset write downs of \$10.0m, primarily associated with the re-set of the Cavalier business as it commences its new strategy, and as a result of a conservative valuation of assets more closely aligning market capitalisation and net asset value. Normalised NLAT excludes the above as well as derecognition of deferred tax assets. A reconciliation of GAAP to non-GAAP measures is provided on page 51 in the accompanying unaudited financial statements.

Revenue of \$118.0m was down 13% on prior year, with sales reduced significantly in April and May (compared to the same months in the prior year) as a result of the COVID-19 shutdown. The revenue impact was mainly felt in New Zealand where annual sales volumes were down 17% on the prior year, with Australia finishing the year down just 5%. Since emerging from the lockdown, sales volumes have been stronger than initially anticipated. Partly, this has been led by pent up demand and consumers spending money on their homes in lieu of other discretionary spends, as well as sales of synthetic carpets as retailers have been stocking up ahead of Cavalier's transition away from these fibres.

Normalised earnings before interest, tax, depreciation and amortisation (EBITDA) was \$2.3m, excluding non-trading adjustments of \$(11.2)m pre-tax which were primarily related to Cavalier's strategic transformation and company re-set. These are non-cash adjustments and have no effect on the underlying operations or trading of the business.

While some operating expenses were able to be reduced during the shutdown period, Cavalier has a number of fixed costs which were still incurred during this time. The business was able to continue paying all salaried and waged staff throughout the shutdown period, supported by the Government's wage subsidy of which 46% of the \$2.8m claimed was recognised in the FY20 results. The remaining \$1.5m will be recognised in the current financial year.

Operating cashflows were strong at \$6.8m, mainly due to the release of cash as Cavalier commenced its transition away from synthetics and ceased acquiring synthetic yarn inventory.

The company reported a statutory net loss after tax of \$(21.5)m with profitability impacted by the COVID-19 lockdown, particularly in April and May. Excluding the non-cash, non-trading adjustments and derecognition of deferred tax assets, the normalised NLAT was \$(3.5)m.

Net debt reduced to \$14.5m as at 30 June 2020 and has further reduced to \$7.2m as at 31 August 2020 due to stronger than expected trading in the new financial year and the accelerated sell down of remaining synthetic stocks.

Chair of Cavalier, George Adams, said: "The focus for the last 18 months has been on the development of a solid strategic plan to differentiate Cavalier's positioning and to create a sustainable and prosperous future for the company. Over the next 10 years, Cavalier's vision is to become a global leader in designing and creating desirable, safe, sustainable and high performing natural interior solutions. Swift debt reduction coupled with the sale of the Auckland building has been integral to providing strong financial platform for the company to execute its plan.

"As part of the transformation, there is a challenge with impairment assumptions especially with a market capitalisation considerably less than the net asset value of the company. Directors agreed to take the conservative position of writing-down assets (including deferred tax assets) as the transformation changes the risk profile of the company and returning to acceptable profitability is a few years away."

Outlook

Cavalier has a comprehensive plan to grow value for shareholders through growing the wool flooring market, building demand for Cavalier's woollen carpets and rugs, strengthening its presence in retail channels through expanded distribution and actively seeking other opportunities in the interior solutions sector to leverage the company's strengths and capabilities.

Since year-end, shareholders have approved the sale and leaseback of Cavalier's Auckland property, which will put the company into a debt free position and provide the financial strength to execute its transformational plans at pace.

As previously advised, trading has been stronger than anticipated in the FY21 year to end-August 2020, with New Zealand sales revenues up approximately 10% and Australia down just 6%. That strength has continued into September with sales in both New Zealand and Australia up on the same period last year. Increases in woollen carpet sales have been encouraging, especially in Australia.

As advised, total sales revenue for FY21 is expected to reduce as Cavalier exits its synthetic plastic carpet business, and as a consequence of COVID-19. Investment costs will be incurred as the company's manufacturing and sales base is re-set to reflect the new sales focus; and marketing spend and people costs will increase significantly to support the new strategic direction and enhance Cavalier's market presence.

George Adams said: "Like many businesses around the world, Cavalier has been materially impacted by COVID-19. As we move to a new normal, it reinforces our belief that our transformation to a purpose led, sustainable business model is the right decision for our company and our long-term future.

"Consumers are increasingly moving away from plastics and demanding products that are natural and sustainable. We are ideally placed to respond to this demand, by building on our heritage as a global leader in the manufacture of beautiful woollen flooring to deliver desirable, sustainable, safe and high performing interior products."

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