

MARKET RELEASE

24 May 2019

Trading Update and FY19 Earnings Guidance

New Zealand carpet company, Cavalier Corporation Limited (NZX: CAV) is today providing an update on trading performance and earnings for the year ending 30 June 2019 (FY19).

Trading Update

The challenging market conditions noted in February 2019, particularly in Australia, have continued into the second half of the financial year, with slowing demand also being seen in the New Zealand market in recent months. Economic reports note that New Zealand manufacturers are struggling in Australia's current environment and softer carpet sales are being seen by many distributors, particularly of lower quality synthetic carpets.

Cavalier continues to hold market share in both New Zealand and Australia. Demand for the company's top end Bremworth Collection wool carpets continues to grow; while volumes are small, these high quality, higher margin carpets provide a significant contribution to group profits. Demand for lower margin synthetic carpets continues to trend downwards.

Wool prices have continued to be impacted by decreased Chinese demand for coarser carpet wool, adversely affecting sales and margins for Cavalier's wool buying business, Elco Direct.

Management is taking measures to increase both market share and sales. The focus is on growing the trade customer base and improving customer relationships, increasing the distribution footprint and continuing to design and launch new and innovative carpets and rugs. Following the success of Cavalier's instore displays, increased investment has been put into rolling these pop-up 'store within a store' units across the trade customer network. The focus on cost management has continued and the recent restructure of the Australian organisational structure will provide further efficiencies in FY20.

Growth opportunities in Australia are being investigated and resource is also being put into building Cavalier's global presence. Cavalier has identified a number of market opportunities and is in the process of reinforcing and expanding its international presence, particularly in the USA.

FY19 Earnings Guidance

Given the soft market and current trading conditions, Cavalier expects a second half profit performance close to break even and is forecasting a FY19 normalised Net Profit After Tax¹ around the \$1.9 million reported at the half year. 1H19 result included a \$0.6m contribution from the wool scouring business (FY18 \$1.4m contribution). Cavalier's interest in the wool scouring business was sold in September 2018 and provided no further contribution in 2H19.

Chief Executive Officer of Cavalier, Paul Alston, commented: "Current market conditions are challenging and our trading is below where we would like it to be. We remain focused on the areas that will drive our performance and remain positive about our long-term future as a manufacturer and marketer of high end, predominantly wool, carpets."

Introduction of Long-Term Incentive Scheme

The company's management team was restructured during the past year and Cavalier has established a Long-Term Incentive (LTI) Scheme for key executives. The LTI scheme is based on Total Shareholder Returns measured over a three-year period. The Board believes this will further align management and shareholder interest, ensure that long term growth and shareholder value are not compromised in favour of short-term actions, and support the retention of high performing executives in the business.

ENDS

For further information please contact:

Paul Alston
Chief Executive Officer
palston@cavbrem.co.nz
+64 21 918 033
+64 9 277 1135

Jackie Ellis
Media and Investor Relations
Jackie@ellisandco.co.nz
+64 27 246 2505

¹ Normalised Net Profit After Tax excludes the non-cash write down of \$12.0m on Cavalier's carrying value of its 27.5% shareholding in Cavalier Wool Holdings (CWH) following its sales at the end of September 2018.