

MARKET RELEASE

23 July 2020

Cavalier Unveils All-Wool and Natural Fibres Strategy

- Cavalier to transform to an all-wool and natural fibres business.
- Funding options are currently being evaluated and will be communicated to shareholders.
- Financial benefits of the transformation strategy and return to profitable growth expected from FY23 onwards, following an initial 12 to 24 months of investment, with full benefits expected from FY25 onwards.
- Trading in June 2020 was stronger than anticipated, particularly in wool sales, following a year on year reduction in sales volumes in March, April and May due to the impact of COVID-19. Bank debt and inventory levels are at historical lows.
- An Investor Presentation has been provided with this announcement and an Investor Call will be held on Friday 24 July at 3.00pm when management will discuss the new strategy.

New Zealand wool and carpet company, Cavalier Corporation Limited (NZX: CAV) has today unveiled a new transformational strategy that firmly positions the company with an all-wool and natural fibres business model.

Cavalier has always believed that wool is the best fibre for carpet and it is considered a global leader in the design and manufacturer of high quality, beautiful woollen flooring and woollen yarn.

Cavalier's vision is to become a leader in designing and creating desirable, sustainable, safe and high performing natural interior solutions. The company will be building on its expertise to grow the business, create desirable products for customers using natural materials and add value for shareholders. While the focus will initially be on woollen carpets and rugs, Cavalier will also be seeking out other adjacencies and partnerships where it can leverage its design and manufacturing capabilities and the value of the Cavalier Bremworth brand to create new product categories.

With support from independent advisers and industry experts, Cavalier has undertaken an in-depth review of its business and opportunities. The company has identified a valuable and growing trend from consumers seeking high quality, natural and sustainable products in their homes and believes it is strongly positioned to meet this demand.

As a believer in and supporter of natural fibres, Cavalier is beginning a journey to create a better place in the world, designing products that are desirable, sustainable, high performing and safe for customers. In line with this, over the next nine to twelve months, the company will be transitioning away from the manufacture and supply of synthetic fibre carpets, which it believes has negative impacts on people's health and the planet, with existing synthetic stocks to be sold down.

Cavalier's growth will be driven by four strategic pathways:

- Grow the wool flooring market
- Grow Cavalier's share of the market
- Expand Cavalier's presence
- Innovation and Future Thinking

Chair of Cavalier, George Adams, said: “The world is changing and we believe the time is right for Cavalier to transform – to build on our heritage, better meet the changing needs of our customers and reduce our impact on the planet. As a result, we are confident we will deliver better returns on investment for our shareholders. While this transformation will take investment and time, Cavalier has the infrastructure, capabilities and expertise to effectively manage the change.

“This is an exciting time for Cavalier and this transformation creates a new future and a better place in the world for our company. Everything we do will be underpinned by our three core values – the creation of high performance, beautifully designed products; a passion for natural materials; and a commitment to create value for all our stakeholders. We believe this repositioning of Cavalier to a purpose-led organisation, building on our heritage of beautifully designed woollen flooring, is the optimal pathway for future growth.”

The financial benefits of the change are expected to be seen with a return to profitable growth from FY23 onwards, following an initial 12 to 24 months of investment as the business is reset and the new strategy is executed and as the economy recovers from COVID-19. The full benefits are expected to be realised from FY25 onwards as Cavalier’s strategy bears fruit.

The company is evaluating a range of opportunities to fund the transformation and has taken extensive external independent advice. This includes the potential sale and leaseback of some or all of Cavalier’s land and buildings. The company would require shareholder approval to allow it to proceed with the sale and leaseback of Cavalier’s properties if it confirms that this is the most appropriate funding option for the new strategy.

Trading Update

As previously advised, March and April trading was impacted as expected by COVID-19 restrictions, particularly in New Zealand. This trend continued into May, however, sales in June in New Zealand were stronger than expected, and ahead of June in the prior year, with wool margins strong. There was less impact in Australia than anticipated although monthly sales were down compared to the prior year.

The company continues to monitor and manage the COVID-19 situation in Australia. Trading in Australia was better than expected in June, however, sales for the first half of July have tracked down in response to the recent lockdowns. Pleasingly, margins remain strong.

Cost control measures, prudent cashflow management and working capital disciplines continue. Bank debt has been reduced to historical lows and was \$14.5 million as at 30 June 2020, with stock levels decreased to around \$35 million, a significant reduction on the same time last year.

Investor Call and Strategy Presentation

Cavalier will hold a Zoom investor call, hosted by Chairman George Adams and CEO Paul Alston, on Friday 24 July 2020, commencing at NZT 3.00pm. See over the page for details.

Meeting Details:

Join Zoom meeting: <https://us02web.zoom.us/j/81462160035>

Meeting ID: 814 6216 0035

Instructions.

1. Please click on the Zoom meeting link above and enter the meeting ID if prompted.
2. If asked to provide the meeting ID it is displayed in the link details above
3. There is no password required to join this meeting
4. Note that both your video and your speakers will be muted by the host.
5. Questions can be submitted in writing by using the Chat facility. Questions will be moderated and relayed to the host by the moderator.

Cavalier recommends that all attendees install the Zoom application to their device or PC beforehand as this offers seamless interaction with the webcast, with better sound and image quality.

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