

**MARKET RELEASE**

22 February 2019

**CAVALIER DELIVERS HALF YEAR RESULT AT TOP END OF GUIDANCE AND NOTES SECOND HALF SOFTNESS**

**For the six months to 31 December 2018**

\$Millions	HY19	HY18	Variance	HY19 Guidance
<b>Revenue</b>	70.0	75.3	(7%)	Revenue down 7%
<b>EBITDA</b>	4.6	4.4	5%	4.2 to 4.7
<b>NPAT</b>	(10.0)	1.0		(9.8) to (10.2)
<b>Normalised NPAT<sup>1</sup></b>	1.9	1.1	68%	1.6 to 2.0
<b>Net Debt</b>	17.3	33.3	(48%)	

New Zealand carpet company, Cavalier Corporation Limited (NZX: CAV), has delivered a half year result at the top end of its guidance as it benefits from a more efficient organisational structure and a strategic focus on high quality, higher margin wool carpets and notes that the first two months of the second half have seen decreasing demand and softer carpet sales, especially in Australia.

As foreshadowed in the guidance, revenue was down 7% on the prior year as softer market conditions impacted on sales, particularly of lower margin synthetic carpets and as an increasing emphasis was placed on marketing high end woollen carpets. Pleasingly, demand for Cavalier's high-end wool carpets is up year on year, with the company reporting one of its highest sales months yet for its high end felted carpets, while lower margin synthetic sales decreased in line with Cavalier's new strategic focus.

Despite lower revenue, EBITDA was up 5% on the prior comparative half year (HY18) to \$4.6m. Higher carpet earnings were offset by reduced earnings from the wool buying business, Elco Direct. Wool prices are being driven down due to decreased Chinese demand for coarser carpet wool and while this is benefitting the carpet business' cost of sales, it is impacting on sales and margins for Cavalier's wool buying business.

Including the non-cash write down of \$12.0m on Cavalier's carrying value of its 27.5% in Cavalier Wool Holdings (CWH), following the sale at the end of September 2018, the company reported a net loss after tax of \$10.0m.

Excluding the non-cash write down, Cavalier delivered a 68% increase in normalised net profit after tax to \$1.9m (HY18: \$1.1m). This included a non-cash contribution from the investment in CWH for three months prior to its sale.

Including proceeds of \$11.8m from the Cavalier Wool Holdings sale as well as other initiatives, net debt reduced to \$17.3m (down 48% year on year) as at 31 December 2018. This resulted in a positive impact on interest expense and normalised net profit after tax.

<sup>1</sup> Normalised NPAT is a non-GAAP measure and excludes the \$12.0m non-cash write down on the sale of the 27.5% in Cavalier Wool Holdings at the end of September 2018.

Operating expenses decreased with further gains being targeted. Increased investment is being made into direct and indirect marketing, as the company promotes its high-end offer both in New Zealand and in existing and new overseas markets, as well as into people to support Cavalier's growth strategy. Gross margin improved to 26% (HY18: 23%).

While no interim dividend has been declared, the company remains committed to the re-introduction of dividends as part of its long term financial strategy.

## **Outlook**

Cavalier CEO, Paul Alston, commented: "Cavalier is in good shape and well positioned to take advantage of the global resurgence in demand for high end woollen flooring. However, market conditions on both sides of the Tasman are becoming increasingly difficult with reduced consumer confidence and lower flooring sales. Confidence in Australia is particularly low and sales are softening. These conditions are expected to continue and will make for a challenging second half of the financial year."

In addition, Cavalier will no longer have investment earnings from CWH which contributed \$1.0m to NPAT in the FY18 second half.

Paul said: "We are building on the success of our Cavalier Bremworth World of Difference positioning and have a number of exciting initiatives underway to build our market share in our home markets of Australia and New Zealand, as well as new opportunities offshore. We will also be releasing a new television campaign in the coming months, further establishing ourselves as marketers of premium wool carpet.

"We will continue to focus on business fundamentals in the second half, including investing in our core business operations, particularly into a new IT system, customer relationships, an expanding global presence, innovative new product development, as well as exploring investment opportunities to grow our market presence.

"While our second half will present some challenges, our direction and our opportunity are clear. Full year guidance for FY19 will be provided once trading patterns results are established."

ENDS

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