CHIEF EXECUTIVE OFFICER'S ADDRESS – 22 NOVEMBER 2016 ANNUAL MEETING OF SHAREHOLDERS

Operations

With the sale of our Australian tile making operation, Ontera, the Group's operations in the 15/16 financial year comprised:

- Broadloom carpets – sold under the Cavalier Bremworth and Norman Ellison brands;
- The Elco Direct wool procurement business;
- The Radford felted yarn operation, and
- A 50% interest in Cavalier Wool Holdings, a commission wool scouring business

In my address today, I will cover:

- 2016 performance;
- Some of the key macro factors that impact our business;
- The areas that we have been focussing on over the last few months; and
- The investments we have been making for the future

2016 performance

$million	**2016**	**2015**	**Change**
Sales	190.4	215.7	(12%)
Less tile operation sales	(7.8)	(42.0)	
Sales excluding tile operation	**182.6**	**173.7**	**5%**
Normalised profit after tax (non-GAAP)	**6.3**	**1.2**	**5.1m**
Abnormal items	(3.2)	(26.9)	
Reported profit/(loss)	**3.1**	**(25.7)**	

This table summarises the 2016 and 2015 performance.

Sales

Excluding Ontera, sales performance showed a pleasing 5% increase. Ontera was loss-making for Cavalier and the sale enabled us to exit and free up cash from working capital.

Sales improvement reflects a price increase in the carpet business during the first half of last year and higher wool prices through our wool buying business.

Profit

We refer to both normalised profit and reported profit to assist shareholders in understanding our underlying trading results.

Normalised profit at $6.3 million is a $5.1 million improvement on the previous year.

This improvement in **normalised profit** from the prior year demonstrates the advances made by exiting the loss-making Ontera business, and also cost reduction and efficiency gains through re-organising the sales and administration functions, together with our core business revenue growth.

These were early steps in the transformation set out in the new strategy we adopted in mid 2015 – a set of steps designed to return the company to acceptable levels of profitability in the medium term.

Abnormal items during the year comprised impairment of assets and costs from restructuring and a one-off gain on the sale of our Sydney warehouse, all these being key elements of the strategic plan.

Our **reported profit** shows a very significant improvement from the prior year. As you can see from the table, the large write-downs of non-performing and impaired assets in 2015 were the major contributor to this.

Debt

Pleasingly we reduced bank debt by $17.4 million in the 15/16 financial year.

I indicated at last year's Annual Meeting that a stepped reduction in debt was essential and as a result this was a major focus for the business this year. For a number of years Cavalier's debt levels have inhibited its ability to reinvest back into the business. Debt reduction was therefore critical to giving us the headroom needed to create future growth.

The reduction in debt was achieved by the sale of Ontera, the sale of the Sydney warehouse and good dividend returns from CWH.

Carpet business

I am pleased to report an overall improvement in broadloom business performance.

Sales volume was largely unchanged in total year-on-year – NZ sales were up 7% reflecting the buoyant NZ ecomony, however the opposite was true in the very competitive Australian market.

The restructuring of administration and sales functions in NZ meant we operated on a lower cost base for most of the financial year.

Elco Direct

Elco Direct, our wool procurement business, had another solid year following on from the strong performance of two previous years. For most of the year the wool market was strong with demand from both Asia and Europe. However, in the last few months of the year, China significantly reduced the wool it had been buying and Brexit caused a slump in European demand. Unfortunately this environment has continued into this financial year.

Elco has an excellent reputation in the market. This reputation is largely due to the efforts of the long standing General Manager, Ron Cooper. Sadly, Ron died suddenly during the year, just before he was due to retire and his passing was a difficult time for those who worked closely with him. We are fortunate to have a capable replacement in Shane Eades, an existing member of the team who Ron had been preparing for promotion.

Cavalier Wool Holdings

Cavalier Wool Holdings (the wool scouring business in which we have a 50% interest) or CWH for short had a reasonable year with our share of normalised profits increasing 31%. CWH results are impacted by the price of wool grease, a by-product of the scouring process. Current wool grease prices are still at the lower end of the value cycle so we can expect higher prices in the future – the timing of which remains uncertain.

I reported at the last Annual Meeting that the proposed merger of CWH and New Zealand Wool Services International was approved by the Commerce Commission but was subject to an appeal to the High Court. Since then, the High Court has ruled in our favour and we now await the decision of the Court of Appeal. This has been a lengthy and ongoing process, however we remain confident of a positive outcome.

<u>Macro factors</u>

I think it's important to provide some market context and highlight the macro-economic factors that impact the business.

Firstly the **wool price**. Wool prices have a big impact on the profitability of woollen carpet production, as it makes up a large part of the cost.

Currently the wool market has declined with the fall off in demand from China and Europe that I mentioned earlier. The result of this drop-off in demand is that wool prices have dropped by close to 25% in the last five months, a fall of around $1.30 per kg clean.

This is positive for woollen carpet production and, if it is a sustained decrease, we will see benefit in the 17/18 year given that there's about a six month lag between the purchase of wool and selling of carpet. Conversely the high wool price that prevailed in previous year is adversely impacting current profitability.

The speed and severity of the wool price decrease will also be a short term negative for our wool procurement business as is always the case in a falling market where supply exceeds demand.

The **NZ/AU dollar exchange rate**, something we discuss at every Annual Meeting, has a major impact on our profits from Australian sales.

The long term average cross rate is about 0.85. Currently, the cross rate is around 0.94 and at times in the recent past has been nearly at parity. Every one cent represents about $600k in pre-tax profit. This is something largely out of our control over the long run, although like other exporters we do have a hedging policy that can partially reduce and delay the effect of the peaks and troughs. The message is that a high rate reduces our profit and that a reduction in the rate back towards the long term average has good upside potential for us.

The **NZ/US dollar exchange rate** is something we are likely to discuss more often going forward. This exchange rate is becoming more important to us as an increasing quantity of our carpet volume moves towards synthetic products where we import yarn and pay in USD.

Currently the NZD is high against the USD which means the cost of synthetic raw materials is quite favourable. Of course, this also increases the competition from importers.

Consumer confidence ratings and the state of the housing market are leading indicators that impact the business.

The New Zealand housing market has been running hot, with a shortage of housing and many construction projects underway or in the pipeline. We have seen some good growth in 15/16 but note the failure of some high profile developments to get bank funding recently and the positioning statements from the major banks that credit is going to be harder to come by.

In contrast, consumer confidence in Australia has been and remains lower with the housing market less buoyant – this difference in confidence and activity is a contributing factor in the adverse currency rates between the two countries.

Areas of focus

I'd like to provide an update on the areas of focus identified at the last Annual Meeting.

New products – in the last few months we have launched two new synthetic ranges and one new wool range. The synthetic products, called Siren and Valour, have unique fibre stories around sustainability and durability. These fibres are only available to Cavalier and have taken over a year to develop with innovative yarn suppliers – you may have seen some advertisements on TV and recent media coverage. In addition to the new synthetic products we also launched a new wool range called Jive. This is part of our on-going development of new products, more of which will be launched in the New Year. Carpet ranges have a limited life cycle so regular development and innovation is essential to maintain and improve market positioning.

Branding – We have invested strongly in our hero brand Cavalier Bremworth and worked to reposition it in the market place as more of a lifestyle brand in order to better resonate with our core target market. Our new television commercials and unique fashion magazine features really bring the new World of Difference positioning to life.

We are also investing heavily in cutting edge displays stands to ensure we stand out in the retail environment and support retail staff to drive the recommendation of Cavalier Bremworth.

The market feedback on both our innovative new product line up and marketing has been positive. On top of this Cavalier Bremworth has also been named New Zealand's most trusted carpet brand in the Readers Digest Trusted Brands Survey for the fourth year running.

Productivity and efficiency – to improve efficiency and productivity of our manufacturing operations we have introduced Kaizen, a continuous improvement philosophy, to our Auckland factory with plans to extend this into Wanganui and Napier.

In addition, and as publicised in the media, we made the difficult decision to close our Wanganui and Christchurch spinning operations, consolidating our woollen yarn spinning activities in Napier and moving our felting line to Wanganui. This was a business critical decision that will deliver significant savings over time.

Carpet tiles - It was our intention to introduce an imported carpet tile to our product portfolio following the sale of the Ontera tile business. Substantial trials were performed and costings evaluated, but at this stage we have been unable to come up with a suitable quality product that is commercially viable. This is still a work in progress however we will not invest in anything that is not going to stack up from a commercial point of view.

Product simplification – Cavalier has had an overly complicated product portfolio.

A number of non-performing products have already been deleted with more to come in the next few months. This is part of our on-going focus on becoming a less complex and more efficient business.

IT infrastructure – I reported last year that our IT infrastructure is increasingly unfit for purpose and requires updating. Some small projects are underway as part of a plan to completely update our operating systems. Upgrading the IT infrastructure is necessary to support the transformation of our business and the cost of change is significant, so we will complete various stages of the project as finances allow.

Future investment

Alongside our everyday focus of delivering outstanding products and service to our customers, investment in futureproofing Cavalier is the imperative for management.

Spinning consolidation - as mentioned earlier, the alignment of capacity through the consolidation of spinning will give us substantial on-going savings. While we provided for some of the direct costs of restructuring at the end of the last financial year (such as redundancies), we expected a short-term impact on efficiency during the transition phase. This is due to requiring duplicated resources while two plants wind down and Napier winds up. There is a lot of additional machinery maintenance being undertaken during the new set up, a great time to do such work. Training and process improvement is also a significant investment for our future.

These are up-front costs that will negatively impact company profitability in the short term. It is a credit to the team that they have managed the scope and complexity of this change without disrupting the flow of yarn to the tufting plant. These costs in the transition phase are higher than we first estimated but they *do not change* the overall economics of the decision which remains the right one for the company to have made. The full benefits of the consolidation will be realised in 17/18.

Productivity improvements – with the full team now employed at Napier we can turn our attention to ongoing productivity improvements and we have stretch targets in place which we are working towards.

Branding and advertising – we have invested heavily in refreshing our branding, creative marketing, advertising, in-store displays and promoting our new products. We have also updated our website and retailer facing Business-to-Business ordering system. These costs are additional to what we would spend in a normal year. These are upfront costs with the benefits to flow through next year and into the future.

Health and safety - Increased focus on health and safety started some time ago. We have been working through our entire business to ensure we meet and exceed the requirements of the Health & Safety at Work Act. The Board have taken a strong leadership role in this regard to support the management team in developing the right internal culture towards worker safety. We have seen significant effort on the part of a number of our managers and, with expert outside assistance, we have implemented many updated procedures and invested capital to ensure our people go “Safe Home Every Day”.

Ladies and gentlemen - having achieved a significant reduction in the level of borrowings through asset sales, we have started to re-invest in the business by making significant structural change and now have a solid platform from which to build and increase profitability.

These changes come with some short term pain. Our current half year and full year results will be impacted by these investments at a cost level, but are needed for the positive long term gain and sustainability of Cavalier Corporation. Significant benefits will be realised in subsequent financial years as a consequence.

I remain firm to my commitment to return the business to acceptable profitability.

Thank you.

CHAIRMAN'S ADDRESS – 22 NOVEMBER 2016 ANNUAL MEETING OF SHAREHOLDERS

The year to June 2016 was a good one with significant progress made against our strategic plan and one which resulted in a greatly improved and solid profit performance. I'd like to acknowledge the work of the Board, executive team and Cavalier staff for making this a reality.

Board composition

Last year's Annual Meeting saw the election of three new directors. They've been on the Board for nearly 18 months since their original appointment at the same time that the Board elected me as chairman.

The Board, myself in particular, appreciated the support of Graeme Hawkins to get the new team up to speed. He retired from the Board at the end of March this year and today we formally record our gratitude to Graeme for his insight, experience and contribution to Cavalier over many years.

Turnover of this number of directors is rarely seen and I am pleased to report the team is working well together and with management, as we continue to chart our course forward.

I said it last year and will say it again, there is no substitute for the wisdom that comes with long term experience as a director or through being involved in a specific industry for a long period of time, in this respect Grant keeps us all grounded. Thank you.

Since my appointment as chairman, the Board has developed a director succession plan and at this stage we are likely to be increasing the number of directors to six at some point next year. I have also instituted a process by which the directors reconfirm the chairman position every year as part of our Board performance assessment process.

Given the small size of the Board, re-election can come around quickly. As you can see from the agenda, both John and I are standing for re-election as directors and we will speak to you shortly to seek your support.

What have we achieved

Looking back to what I said last year, how have we done? My last words to you were that "there was still a lot to do" to achieve a turnaround. I'm pleased to be able to report 'good progress' by way of an update on that message but will temper that by re-inforcing that there still remains 'work to do'.

We did deliver on our commitment to improve profits in 15/16 financial year with an outcome exceeding the guidance given at the last Annual Meeting - $6.3 million compared to the early range of $3-$5 million. The main reasons for our overperformace was a stronger close out to the year for our carpet business and a better result from wool procurement and CWH.

We said we would use the flexibility gained by reducing debt to invest in our long term future – we have done that by carrying out the next two major steps in our long term strategy. Paul has told you about these; our spinning rationalisation and brand marketing.

Future performance

The third goal stated a year ago was to achieve acceptable profitability in the 16/17 year.

While we will not achieve that in the full year reported results, we do see that we will get to an acceptable run rate during calendar year 2017. In other words, we are seeing our plans take a little longer than we hoped to come to fruition and cost somewhat more.

We recently announced a range of $3-$5 million normalised earnings for 16/17. I understand this will have disappointed you.

One of the main drivers of this reduction is the essential step up in marketing that does not immediately result in sales and margin improvement. This has a large cost implication in the first half of this financial year. While we expected this to be spent, the launch and sampling has happened later than we planned, with the knock on effect of deferring expected sales improvement.

This is particularly the case in Australia, where we took time to find the right candidate to fill our General Manager role and determined to defer the brand and product launch in Australia for that reason.

There are compelling reasons to invest heavily in our brand at the expense of short-term profitability because we do not see our future at the low end of the market which is crowded with cheap imports and with little margin to be made. Our future is in getting the right products to the right target markets. Cavalier Bremworth has continued to score highly in research but has had very little investment over a number of years.

Other drivers less favourable than in 15/16 are the wool price and AUD exchange rate, continuing to affect our Australian earnings. The wool price effect takes about 6-8 months to flow through into our results so the current falling price is good news for the future.

Some abnormal costs are expected to be reported as a result of the additional costs incurred while running down production in Wanganui and Christchurch, and building capacity in Napier. While we previously underestimated the transition cost, even if we had estimated it perfectly, it would not have changed our decision to consolidate – so essential were the changes that needed to be made.

On this point I would like to pause to acknowledge the staff that we made redundant as part of this process – some who had been with us for many years. It was a difficult undertaking for all involved but an essential one to ensure the ongoing stability and success of Cavalier. The whole team pulled together to make this happen with our existing team members at Napier particularly focused on getting the facility and new people up and running.

The depressed wool market (discussed earlier by Paul) will have an impact on CWH, at least on its first half results, as wool merchants and farmers hold on to stocks waiting for demand to pick up and prices to increase. At this stage the impact on CWH profitability is expected to be mostly timing as the wool will eventually have to be scoured.

Longer term

Our target level for acceptable profitability is unchanged and considerably higher than the 15/16 result of $6.3 million normalised profit after tax. As already mentioned, what has changed from last year is the time taken to get there. Let me highlight some key numbers for you to bear in mind.

A lower wool price, if sustained, will feed through into our results sooner or later. A $1 reduction per kg of clean wool improves our results by around $3.0 million pre-tax per annum.

The NZ/AU dollar rate is forecast by experts to go more our way in the future. A 5c reduction is worth around $3.0 million pre-tax per annum.

The wool price and exchange rates will always be a factor in our business. However, the savings from the spinning consolidation and productivity improvements are very significant. They are in the order of $4-$5 million pre-tax per annum. This will ensure that we can reduce the impact of the macro-economic factors as we grow sales as a result of strengthening our brands and product range.

Fellow shareholders, the Board and management remain dedicated to delivering acceptable levels of profitability while maintaining a sustainable level of debt. As soon as we are in a position to confirm an ongoing improvement in underlying performance with our debt firmly under control, we will resume dividend payments.

This should in turn lead to a welcome improvement in the share price.

Thank you