CAVALIER
CORPORATION

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FINANCIAL PERFORMANCE

The Directors of Cavalier Corporation announce an audited after tax profit for the year to 30 June 2014 of $5.8 million, compared with a $3.0 million after tax profit in 2013. While this represents a 91% increase in tax-paid profit on the previous year, the Directors believe that it is more appropriate to be comparing the current year's profit with the previous year's normalised result (that is, reported profit excluding restructuring costs).

The Group has not made the distinction between reported profit and normalised profit in the current year because it did not incur any restructuring costs during the year. This is to be contrasted with 2013, when it incurred $3.6 million of net restructuring costs after tax, relating mainly to the consolidation of tufting at its main tufting site in Papatoetoe.

As a consequence and on a like-for-like basis, excluding the $3.6 million of net restructuring costs from the 2013 tax-paid result, the current year's $5.8m profit can be compared with a normalised 2013 profit of $6.6 million, a 13% decrease.

The 13% decrease in normalised tax-paid result is disappointing and is due largely to the extent to which the Group's share of profit of 50%-owned Cavalier Wool Holdings (CWH) had dropped. Despite the challenging operating conditions, particularly for the carpet business in Australia, and the strong NZD, the Group managed to record improved earnings for the carpet and felted yarn operations, while achieving a profit in line with the previous year for its wool acquisition business.

The Directors note that the $5.8 million tax-paid profit is at the upper end of the revised earnings guidance range of between $5 million and $6 million after tax given to the market in June 2014.

FINANCIAL PERFORMANCE Year ended 30 June 2014	2014 $000	2013 $000	Change
Revenue	**$200,642**	**$201,739**	**-1%**
Earnings before interest and tax (Normalised) [1]	8,760	5,814	51%
Interest	(3,484)	(3,740)	-7%
Share of equity-accounted investee profit (tax-paid)	2,044	5,013	-59%
Profit before tax (Normalised) [1]	7,320	7,087	3%
Income tax	(1,530)	(463)	230%
Profit after tax (Normalised) [1]	**5,790**	**6,624**	**-13%**
Restructuring costs (net of tax)	-	(3,594)	-100%
Profit after tax (Reported)	**$5,790**	**$3,030**	**91%**
Earnings per share (cents) (Normalised) [1]	8.5	9.7	-12%
Earnings per share (cents) (Reported)	8.5	4.4	93%

Notes:

[1] Normalised is a non–GAAP (Generally Accepted Accounting Practice) measure. A reconciliation between reported and normalised has been included in the note accompanying this report.

FINANCIAL POSITION

The Group's assets as at 30 June 2014 totalled $198.1 million, an increase of $1.4 million on the previous year. This increase can be attributed to inventories to support Cavalier's continuing expansion into synthetic and felted carpets, partly offset by reductions in cash reserves and fixed assets, the latter as a result of reduced capital spends and the impact of the strong NZD on translation of Australian fixed assets.

Group net interest-bearing debt at year-end was $58.8 million, $5.6 million up on the previous year's $53.2 million. As a result, net interest-bearing debt to equity has increased from 36:64 the previous year to 39:61 at balance date.

Shareholders' equity as at 30 June 2014 of $93 million is $1 million down on 2013, with the reduction due to tax-paid profit just falling short of the movement in the foreign currency translation reserve and the dividend paid during the year.

CASH FLOWS

Cash inflows from operating activities were $615,000 for the year. These can be compared with $11.7 million for the previous comparable period, with the marked turnaround attributable mainly to the increase in inventories referred to earlier and restructuring costs spent, offset by improved profits.

A net $2.2 million was spent on capital projects and $4.1 million was paid out as dividends during the year.

As a result, net interest-bearing debt for the year was up $5.6 million, with $2.6 million coming from increased borrowings and $3 million from a reduction in cash reserves.

SEGMENT REVIEWS

Carpet Business

Our carpet business specialises in broadloom carpets and carpet tiles, with New Zealand and Australia its main markets and a small, but increasing, volume sold in the rest of the world.

Carpet revenue for 2014 is $164 million, down 3% on the previous year's $169 million – with volume largely unchanged and the reduction in revenue mainly due to the stronger NZD on Australian sales.

The segment result of $8.4 million is $2 million/31% up on the $6.4 million normalised (that is, excluding restructuring costs) segment result recorded in 2013, mainly as a result of the efficiency gains from the consolidation of tufting undertaken during the year.

As a consequence, segment result as a percentage of revenue was 5.2% for the year, compared with 3.8% normalised for the previous year.

<u>New Zealand market</u>

The New Zealand carpet market has continued to improve on the back of the strengthening New Zealand economy, and carpet sales are marginally up on the previous year. Margins have also lifted, as have profits.

However, the lower-priced segment of the New Zealand market remains very competitive.

The Habitat Collection, Cavalier's mid-to-top end synthetic carpet offerings, has progressed well, and volumes have exceeded expectations. We are anticipating further sales growth in these synthetic carpets as more products are introduced into the market.

The growth in high-end felted wool carpets, while off a small base, has also been encouraging, and we are expecting further growth in this area.

Australian market

Operating conditions in Australia have remained very challenging, reflecting to a large extent the weaker underlying fundamentals in the Australian economy.

Volumes and margins have been under pressure, particularly for the mid-to-lower end of the market as a result of the intense price-based competition prevailing. The strong NZD:AUD has also had a negative impact on Australian revenue and margins, as have stock clearances arising from the actions taken to rationalise our product portfolio.

On a more pleasing note, sales of Habitat Collection synthetic products, which we introduced in July 2013, have gone well and volumes sold are above initial targets, with further growth expected.

Business improvement initiatives

The consolidation of tufting that was announced towards the end of the 2013 financial year was completed in early 2014, with all tufting now centralised at the Group's main tufting facility in Papatoetoe.

The Habitat Collection range of synthetic carpets that was launched in March 2013 in New Zealand, and July 2013 in Australia, has been well-received, with sales having exceeded our initial targets on both sides of the Tasman. New product introductions currently underway are expected to underpin further growth in Habitat Collection sales.

The simplification of our brand offerings was completed during the year, with Cavalier Bremworth representing the mid-to-high end and Norman Ellison Carpets the mid-to-lower end. Steps to rationalise our product offerings are also well-advanced.

Wool Business

Our wool business comprises the Elco Direct wool acquisition operation and our 50% interest in commission wool scourer, CWH. Both these operations service the wool industry at large as well as our own broadloom carpet operation.

Wool acquisition

2014 was another solid year for Elco Direct, with both profit and volume sold almost identical to the previous year. Revenue was, however, 22% up on the previous year as a result of the higher wool price prevailing during 2014.

Wool scouring

The Group's share of tax-paid earnings of CWH for the current year is $2 million, a 59% drop on the previous year's record of $5 million.

The drop in CWH profitability can be attributed mainly to the dramatic reduction in wool grease price, which has fallen by almost 61% since the beginning of 2013, and a reduction in the volume of wool available for scouring.

Much of the reduction in wool grease price can be traced to a disease affecting the shrimp industry in Asia, where wool grease is a major ingredient in the manufacturer of shrimp feed. With the disease now under control, demand is anticipated to recover, and we are expecting wool grease price to gradually increase in the next financial year.

Wool scouring in New Zealand continues to be adversely affected by excess scouring capacity, with sheep numbers, and therefore wool available for scouring, continuing to decline. CWH has previously considered the merits of, and remains committed to, further rationalisation of the industry in order to ensure that wool scouring in New Zealand remains competitive.

The Directors will advise shareholders should there be any material developments.

Yarn Business

The yarn business comprises Radford Yarn Technologies (Radford), a supplier of premium felted woollen yarns for the Cavalier Bremworth broadloom carpet operation and for high-end broadloom carpet and rug manufacturers in the USA and Europe.

Radford had a much-improved 2014, with sales and volumes significantly better than the previous year mainly as a result of the increased demand for felted yarns by the Cavalier Bremworth broadloom carpet business as it worked to increase its sales of felted carpet.

OUTLOOK

The 2014 tax-paid profit of $5.8 million is down 13% on the previous year's $6.6 million normalised and well below original projections signalled to shareholders. Difficult trading conditions in Australia and the strong NZD adversely affected what would otherwise have been a much-improved result for the broadloom carpet business. At the same time, it was always going to be a challenge for CWH to match the previous year's record results because of the dramatic fall in wool grease prices.

Our 2015 budget is showing a modest increase in earnings on the $5.8 million tax-paid for 2014.

Upsides include a full year's benefits from the consolidation of tufting which we completed in 2014, continuing growth in synthetic and felted carpet sales, launch of new products that had been scheduled for 2015, growth in rest of world markets and lift in wool grease prices.

Downsides include the impact of continuing increase in wool price on woollen carpet margins, continuing soft market conditions in Australia for both residential and commercial carpets and continuing strong NZD adversely affecting the conversion of our AUD-denominated sales into NZD.

As it is still too early in the financial year to be providing shareholders with a meaningful earnings guidance for 2015, the Directors will give some indication of the full year outlook at the Annual Meeting of shareholders on 25 November 2014.

DIVIDENDS

As a result of the recent earnings downgrade and the weaker-than-expected earnings, and after careful consideration of cash flow and capital requirements, the Board has decided that no final dividend will be payable for the 2014 financial year.

The Board will keep the dividend policy under active review and provide shareholders with an update at the Annual Meeting.

ACKNOWLEDGEMENTS

We take this opportunity to publicly record our appreciation of the efforts of all staff throughout the Group for their efforts, dedication and commitment throughout the year.

For and on behalf of the Board of Directors

Colin McKenzie
Managing Director
22 August 2014

For more information regarding this announcement, please contact Colin McKenzie on 09 277 1138 (during office hours) or 027 292 4080 (outside office hours).