



MARKET RELEASE

29 February 2024

Chair and CEO Commentary Accompanying the 1H24 Results

Dear Shareholders

We are pleased to present Bremworth's FY24 First Half (1H24) report, reflecting on our progress as we enter the final stages of implementing our new hybrid supply model and outlining our strategic initiatives moving forward.

Severe capacity constraints due to the damage to our Napier plant caused by Cyclone Gabrielle have impacted our ability to grow revenue during this half year. The message from our retail partners is that brand-driven demand for our product continues. With the pending near-term return of full production volumes, a strong cash balance and the release of new ranges, a corresponding lift in revenue is anticipated for FY25.

As supply improves, at the quality and quantity required, we will be able to meet existing demand and rebuild our inventory position. This then supports participation in larger commercial developments and the expansion of our in-store presence in over 100 Australian retail stores.

In 1H24, we have focused on reducing administration and distribution costs to better match our reduced revenue while noting that administration costs would have been approximately \$1.0 million less after excluding litigation costs and the costs relating to the Board-led strategic review. Once we have the ability to match supply with demand in each of our markets, we believe that our post-cyclone adaptation will yield a meaningful improvement to our financial results.

Yarn Supply

Since the forced closure of our Napier yarn plant, which supplied 100% of our dyed fibre needs and 70% of our yarn, we have worked hard to establish a fully functioning hybrid supply chain. It is exceptionally difficult. The Napier plant made unique yarns that are hard to recreate anywhere in the world. That said, we have had no choice but to embark on this mitigation strategy. At the end of 2023, we had replaced around 60% of our yarn requirements and expects this to be at around 90% by the end of Q3 FY24 and fully recovered by the end of FY24.

The hybrid supply chain we have created minimises the ongoing yarn supply constraints and revenue losses. A return to yarn production in Napier would offer further security to our supply chain.

Our yarn plant in Whanganui, which produces world-leading specialty yarn, has been fortified by strategic partnerships with both domestic and overseas yarn manufacturers who align with our quality standards, whilst Napier remains offline. These collaborations will enable us to scale production and help insulate our supply chain from potential future shocks.

Chief Operating Officer

We have appointed Nicola Simpson as Chief Operating Officer, with Nicola having overall responsibility for all aspects of supply, planning and manufacturing in order to create alignment and focus across our entire supply chain to ensure our growth targets are achieved.

Insurance

We continue to work closely with our insurers concerning reinstatement at Napier under our material damage policy. Stage 1 of the rebuild, involving the reopening of our dyehouse, has been completed, with dyeing operations now underway. The staged approach to reinstatement of the plant is consistent with our objective of providing security of supply for the future while complementing the hybrid supply chain. The loss of our continuous finishing line at Napier has been particularly hard to find a solution for and is the next stage being considered.

Loss of sales, margin losses and ongoing fixed costs incurred during the indemnity period will form the basis of our business interruption insurance claim.

Investment has also been made in machinery in Whanganui to strengthen our capability to make new products and increase production volumes.

Strategic Review

The Board-led strategic review has highlighted several opportunities across our core markets for management to execute in FY25. These opportunities are expected to drive volume and margin growth across New Zealand and Australia, while also streamlining costs to enhance business focus and profitability. Specifically, we are implementing a new go-to-market strategy in Australia, leveraging new digital platforms to accelerate revenue growth in our direct-to-consumer rug business, and reducing our fixed cost base.

The benefits of these growth and cost reduction strategies are expected to be realised in FY25.

Looking beyond FY25 and with greater certainty in our supply chain emerging, we are poised to embark on a new strategy in export markets. Further details on these new geographies will be announced over time.

Growth

Yarn constraints have significantly impacted volume and revenue growth in 1H24 and will continue to impact FY24 results.

Tufting capacity is anticipated to exceed pre-cyclone levels by Q4 of FY24, as we aim to bolster stock levels to meet demand in both New Zealand and Australia.

Increased demand for New Zealand's strong wool has contributed to the Elco Direct wool-buying business posting pleasing results for the half-year. Our world-first, 10-year, strong wool contracts are also set to contribute to improved long-term outcomes for farmers. We anticipate the Elco Direct business will continue to grow revenue and margin in the second half of FY24.

Outlook

We anticipate a return to full production volumes for the carpet business in Q4 FY24.

Bremworth's uniquely designed new carpet ranges will be released across New Zealand and Australia. These highly anticipated product innovations are expected to be well received by retailers and consumers.

While the weather events of last year forced the rationalisation of some of our ranges, these new releases, our first since the cyclone, are expected to provide a welcome boost to revenue in FY25.

In November 2023, we unveiled our first Bremworth brand experience store which was designed to offer an immersive sanctuary for our consumers - a space that not only inspires creativity but also fosters a seamless flooring selection experience for our customers and a deep connection to the Bremworth brand. This is a first for the industry and is a part of a trial omnichannel strategy that aims to bring us closer to the end consumer as we look to refine our offer and grow our business. While still in its infancy, we have received positive feedback to date and are closely monitoring store performance.

We look forward to providing further guidance in our FY24 annual reporting, reflecting the advancements made in insurance, supply chain management, distribution, and cost efficiencies post Cyclone Gabrielle.

ENDS

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