

## **Bremworth 2023 Annual Shareholder Meeting Speeches**

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### **Slide 3 - Board**

Joining me today are your Directors. I'll ask them each to raise their hand when I introduce them.

Firstly, Dianne Williams... then John Rae ... Paul Izzard .... and Katherine Turner. And there is, of course, also Grant Biel, co-founder of the Bremworth carpet business and the Company's first ever Director Emeritus.

Your directors bring a diversity of skills, experience and thinking to the table, and ensure core competencies are met across critical areas for our company. Also joining us today is our CEO, Greg Smith and our long-serving CFO, Victor Tan, who has recently announced his retirement. A number of our advisers including our auditors are also present. I'd like to thank all the professional firms who have provided valuable advice to Bremworth over the last year.

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### **Slide 4 - Chair's Presentation**

I'd now like to move on to my presentation for today.

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### **Slide 5 - Our vision**

Our vision is to become a global leader in designing and creating desirable, sustainable, safe and high performing natural interiors ... and we remain committed to achieving this goal.

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### **Slide 6 - Resilience through adaptation**

In February of this year, our Napier facility was taken offline by extensive flooding during Cyclone Gabrielle. For context, Napier supplied 100% of our dyed fibre and about 75% of our yarn.

Naturally, the impact of the event was significant and disrupted the supply of yarn and dyed fibre to the Auckland and Whanganui factories.

Without this supply, work at these plants was at times suspended or heavily constrained, until alternative supply could be found, commissioned and brought online.

This event also necessitated a rationalisation of our range which saw the best-selling products prioritised to utilise the limited inputs available.

Our Whanganui plant and team adapted well to the deficit created as a result of the cyclone and increased production by over 50% to help fill the gap. Despite their heroic efforts to fill the gap we still had to find over half of our yarn requirements from elsewhere.

We ensured all our Hawke's Bay staff were paid throughout the disruption and we are appreciative of those who supported us during the cleanup of the factory during this time - as well as those who have commuted each week to operate our licensed dyehouse facility in Christchurch. Sadly though, we were forced to make the Napier team redundant in July as it became clear that re-commissioning the plant would take a long time and we wanted to ensure that the team could get on with their lives in the meantime.

Our leadership team also took on additional responsibilities as they managed new workstreams, health & safety, communication, site stabilisation, insurance and alternative supply of dyed fibre sourced from offshore channels.

In addition to other initiatives, the new product development programme was also heavily disrupted.

Thankfully, the company had advanced risk management plans in place and within a week of the event was able to enact these, with team members flying to visit potential suppliers in Christchurch and overseas.

Our commitment to our quality standards and the use of New Zealand wool remains resolute and we were able to rapidly obtain an export licence to ship our New Zealand wool fibre directly from Elco around the world for processing.

This new international hybrid supply chain that is being developed as a result of the cyclone is expected to remove capacity constraints over time and allow us to grow at an accelerated rate.

Naturally, our focus over the past 9 months has been to replace our yarn supply as efficiently as possible and with that now largely in place, we have also been busy with new products which we look forward to launching in the first half of the calendar year 2024.

I would also like to gratefully acknowledge the support we received from our retail partners during this challenging time.

This event has also driven an immense amount of work for Greg and his team and the board and I are deeply grateful for their efforts to keep our business alive and sustainable during this incredibly difficult time...thank you

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## **Slide 7 - Insurance**

Our priorities since the cyclone have been to return the business to a stable footing and work through the insurance claim in respect of both the damage to the Napier plant and the interruption to our business caused by that damage. This work is ongoing.

As previously communicated, we have business interruption cover in place for 18 months post the Cyclone. Amongst other things, this covers loss of earnings and increased costs of doing business while we get our new supply chain in place.

The larger claim relates to the material damage to the Napier plant, building and stock on hand. As you can see, and as advised in our Annual Report, we are insured for up to \$49.4m for the building, \$116.1m for the plant and \$3.8m for stock on hand.

These values insured for plant and building were arrived at in conjunction with independent consulting engineers. The values for the building and plant are based on reinstatement cost – that is, if we elect to reinstate our Napier site, we can claim our costs of doing so up to these amounts. At this stage we are still in discussions with our insurers as to what work would be undertaken in reinstatement and at what cost.

If we elect not to reinstate the Napier site, we still have a claim for the damage to the buildings and plant but the amount we can claim is yet to be determined. As we have previously advised, it is impracticable to estimate an amount because of the extent of estimation uncertainty around the amounts that would be receivable.

Again, as previously communicated, in working through the insurance claim, we commissioned an independent engineering assessment as to the scope and cost of reinstatement and our insurers have also commissioned and received a partial engineering assessment from its own advisors. The board has also appointed leading claims negotiator BMS Risk Solutions to act for us in closing this matter out as efficiently as possible.

Much as I would like to give you a definitive timeline for the settlement of our claim, I'm sure you understand, that is not possible, but we undertake to keeping you informed of material progress as it happens.

Our objective in all of this is to ensure we preserve optionality, or to keep all of our options available, to maximise value for the business in relation to a possible repair and rebuild of the Napier plant and the extent to which our yarn supply from other sources can play a role. It is possible that the business will end up with surplus capital and to that end, the board has commissioned a Strategic Review.

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### **Slide 8 - Board-led Strategic Review**

As the FY23 results indicate, the quantum of insurance proceeds received to date, as well as potential future payments, will likely significantly alter the company's financial position.

To ensure these proceeds are used effectively and appropriately the Board has committed to a thorough strategic review.

The review has three key objectives to address:

- Firstly, what decisions must be taken to ensure a sustainable, profitable business model in light of the material changes to our supply chain?
- Secondly, once insurance is settled, what are the investment choices that should be considered?
- And finally, how should any surplus funds be efficiently returned to shareholders?

It is important to the board that we consider all options including the opportunities that the new supply chain presents to rebuild our business to a more sustainably profitable future as well as payment of all or part of the insurance proceeds received to shareholders and the possible sale of assets in a manner which would allow for a tax efficient distribution of all funds.

Once the strategic review is completed and our final insurance position is established which, as I earlier noted, may take some time, we will have a defined plan for how these insurance funds will be allocated and for our next steps as a business. I look forward to updating you at that time. Greg will also talk you through our next three-year pathway to growth during his presentation.

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### **Slide 9 - FY23 Highlights**

Despite the impact of the weather event on our operations, we finished FY23 with a \$10.7m net profit after tax, a 379% increase on the previous year.

This was supported by a \$35.5m insurance payout which we have recognised as income under the accounting standards.

Normalised profit after tax was a loss of \$2.8m driven primarily by a softening economy, a significant investment in retail samples and technology and of course the impact of the cyclone on our operations. Notably, normalised EBITDA for the year was break-even.

On the matter of dividends, as is anticipated in the strategic review, it is possible we will end up with surplus funds. Once we fully understand this we will revert to shareholders with details on the next steps and while no dividend has been declared for FY23, our goal is to return to dividends by FY26.

Over to you Greg

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### **Slide 10 - CEO's presentation**

Thank you, George.

Kia ora koutou katoa, good afternoon and thank you for joining us at our Annual Shareholder Meeting.

FY23 year is my second year as Bremworth's CEO and I would like to acknowledge it has also been the most challenging year in our corporate history.

As many of you know, the events we have encountered in recent times have tested our resilience and adaptability. From lawsuits to the global pandemic, and even natural disasters, we have had our share of hurdles.

These events were beyond our control, but I am incredibly proud of how our team has navigated through these turbulent times. Despite the disruptions, we have managed to keep our business intact and continue moving forward.

Our core purpose, which revolves around finding a more sustainable way and utilising wool as a vehicle for change, has remained at the heart of our operations.

I want to express my sincere gratitude to my team for their unwavering dedication and commitment during these challenging times.

Among these I would like to give a special acknowledgment to our retiring CFO Victor Tan. Victor has provided 40 years of professionalism and loyalty to the company. His astute governance and insight are responsible for the level of insurance the company had in place and we are grateful to have had his support throughout his tenure with us and also to retain his expertise as Company Secretary.

I would also like to extend my thanks to our shareholders. Your support and loyalty have been instrumental in helping us weather the storm. We understand that these past few years have been uncertain, and we appreciate your trust in us as we strive to overcome these obstacles.

*PAUSE*

Over the next 20 minutes, I want to take you through the results of this latest year of transformation, starting with our exciting new retail presence.

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### **Slide 11 - Bremworth Experience Store**

In line with our strategy to grow our presence, we have opened the new Bremworth experience and retail store, where you are today.

This is a first for the industry and is part of a trial omnichannel strategy that aims to bring us closer to the end consumer as we look to grow our rug business.

We have well-developed digital platforms which are growing fast, delivering high-margin rug sales. However, research shows that over half of rug buyers purchase in-store and this presents a significant opportunity to expand our share of this market.

We know that rugs are a relatively high-involvement purchase and a high-ticket item - the most expensive we have sold is around \$12,000 for a single rug. It is logical that consumers want to touch and feel the product before they purchase.

We will also support the sale of our carpets through this brick-and-mortar store - connecting customers with selected retail partners who can then quote and install our carpet.

The Home Ideas Centre, soon to be renamed Residium, has 80 lifestyle brands and attracts over 50,000 visitors annually.

Bremworth has exclusivity in the soft flooring category and as you can see has secured a key position at the entrance. Inside the store we have collaborated with other suppliers to showcase the beauty of locally-made natural materials.

We have created an immersive space for consumers to be inspired and interact with the brand. This immersion works both ways and is also designed for Bremworth to better connect with and learn from our customers as we look to refine our offering to them. For those of you online, that can, I invite you to come in and explore the space and meet the team.

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## **Slides 12 & 13 - FY23 Priorities & Progress**

Every year we embark on key focus areas based on a three-year planning horizon.

The first of these is to grow revenue.

While the financials may show a drop in revenue, it is important to note that this result is relatively encouraging given the circumstances.

The first half of FY23 marked the first six-month period of post-pandemic trading. Moving forward on the implementation of our strategic transformation, our carpet revenue grew by 2% on the previous half-year period.

The second half of the year however saw us feel the full weight of Cyclone Gabrielle. The disruption to our business was immediate and had a corresponding impact on our bottom line - with revenue falling by 3% for the full year.

Given the level of impact on our supply chain, along with an economic softening in the markets we trade in, this fall in revenue is smaller than it could have been.

Pleasingly we have been able to maintain strong growth in our high-margin direct to consumer rug business.

As part of our growth programme we committed to making winning products that meet the needs of our customers and contribute to a more sustainable future. The cyclone constrained this new product development in FY23. We are now back on track by incorporating offshore supply meaning this coming year we will introduce five new products - This will have a positive impact on our sales.

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## **Slide 14 - Highlights**

Carpet revenue dropped by 3% in FY22 largely due to Cyclone-related disruptions and a softening economy.

Revenue within our rug business however continues to accelerate and was up 45% on FY22 which, as mentioned previously represents a significant growth opportunity for the company.

As we continue our journey from manufacturer to consumer brand, TRA Consumer Insights research shows Bremworth remains the most preferred brand in NZ- with a preference rating against our main competitors of 34%.

Trust is an essential element of any business and we are proud to be acknowledged as the most trusted carpet brand in NZ for the tenth consecutive year.

We are continuing to invest in our leaders and 63 members of our team are part of our Te Ara Rangatira (which means 'the way that unites people') training and development programme. Leadership has been key to navigating a better future for Bremworth through these difficult times and everyone plays a part in achieving our goals.

A new radio frequency dryer in our Whanganui plant has been implemented to help reduce total carbon emissions.

The international supply chain model is beginning to yield results and has helped get our new product development pipeline back on track.

New supply chains take time to develop. We have travelled the globe to find like-minded partners that share our belief in high quality premium wool yarns and lasting win/win relationships. It's a challenging process but we are making good progress.

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## **Slides 15 & 16 - Financials**

There is lot of information on this slide to absorb.

The key takeaways are:

Revenue and normalised earnings (EBITDA) fell 6% and 104% respectively - off the back of a softening economy, cyclone-related disruption, and increased investment in retail samples and technology.

Net Profit After Tax rose by 379% to \$10.7m however this was boosted by the receipt of \$35.5m of insurance progress payments less cyclone-related costs incurred.

Our cash position of \$39.3m at the end of the year is a significant uplift from the previous year and as George mentioned is expected to grow further as we finalise settlements with our insurers and pending Board decision around the post-cyclone rebuild.

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## **Slide 17 - A Resilient Result**

In the first half of the year our execution was not perfect however we were seeing some year on year revenue growth. This was unable to be maintained in the second half for all the well known reasons mentioned. I'm not happy that we were unable to

achieve growth last year and look forward to showing how these circumstances have set us up for success in coming years.

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### **Slide 18 - Cash Position**

We closed the year with a cash balance of over \$39.3m, a position significantly stronger than the start of the year and thanks to good governance, a strong relationship with our insurers and strategic planning we will build Bremworth back stronger. As the Chair noted in his presentation, once the strategic review is completed, we will be in a position to determine the amount of cash required by the business to pursue new opportunities.

I take this opportunity to advise that we are in the process of receiving a further \$10.0 million progress payment which would largely offset the further insurance-related costs since balance date.

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### **Slides 19 & 20 - The Opportunity for Bremworth**

While Bremworth has faced an extreme level of unwelcome disruption over the past couple of years, the market interest in wool continues to grow.

Whether it is in the fabric of their clothing or the fibres they walk on, consumers are more aware of the downsides of synthetics and consciously choosing more natural products in their homes and their lives.

Wool carpet has a comparatively small share of the New Zealand flooring market at the moment and an even smaller share in Australia.

What this means is the opportunity for us to grow our share is significant and we have the infrastructure, expertise and now greater capacity and cash resources to shift the market in our favour.

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### **Slide 21 - Growth Strategy**

We have a clear growth strategy built on four pillars:

- to grow the wool flooring market
- to grow our share of this market
- to expand our presence; and

- to use design-led innovation to create competitive advantage
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## **Slide 22 - Growth Strategy**

Our growth strategy has remained consistent, but the events of the last nine months have changed our tactical approach to its implementation. This slide demonstrates our pathway to growth over the next three years.

In FY24 we will be focussed on laying the foundations for a new business that is more profitable and sustainable with a lower fixed cost base.

Our strategic vision involves a combination of New Zealand and Australia, along with a mix of local and offshore supply to lower our overall costs and improve our profit margins.

One of the key factors in achieving our objectives is the ability to increase our supply availability. Currently, we sell almost everything we manufacture. Our supply is often pre-sold, leaving no room for further growth. However, as we continue to commercialise our offshore made yarn, we will see a rise in our ability to meet demand, in turn growing volumes. We expect these increased volumes to translate to solid revenue growth in FY25.

This growth is not solely dependent on selling more of our existing products. We will introduce new ranges that will stimulate sales and create excitement in the market.

Furthermore our margins will improve due to lower manufacturing variances as a result of the cyclone.

Growing volume and margin and lowering costs may sound ambitious but the reality is our new mixed supply chain model enables unconstrained supply to meet demand with lower fixed and total costs.

In addition to these factors, we are implementing a cost-out strategy. As we transition into a different business, we will ensure that our expenditure is aligned with the new business model and go to market strategy.

We will continue to invest in our Direct to Consumer rug business. Consumers love our product and our online platform. We also know that Omni-channel businesses enjoy higher brand awareness and margins which is good for us and our wholesale partners.

And finally while the events of this past year have been challenging, we were well prepared. We have introduced a new supply model relatively quickly. There are risks which need careful management however we are learning fast. All in all we are emerging from this year a stronger, leaner and more resilient business.

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### **Slide 23 - Committed to a Bold New Future**

Bremworth has a team of engaged and dedicated people who are focused on the ongoing implementation of our strategy.

We are building a high-performance culture and as the shift to natural fibres becomes more prevalent, Bremworth will leverage its investment in the brand to grow our share of the wool flooring market.

I would like to close today by thanking you, our shareholders, for your commitment to us. Your support is helping Bremworth change the flooring market and support New Zealand's wool sector.