

Bremworth 2022 Annual Meeting Speeches

Chair's Presentation

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

Slide 5 Our vision

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

Slide 6 FY22 Highlights

The results from the 2022 financial year have seen Bremworth finish ahead of its transformation plan with a 44% increase in normalised EBITDA.

Our consumer research has shown us our investment in marketing is helping to build our brand equity and positioning.

The company has shifted its focus away from high volume, low margin commercial projects and into the premium residential consumer market, both domestically and in our export markets.

This movement has contributed to a significant improvement in gross margin over the past year.

Our efforts to improve sustainability at all levels of our operation have seen us recognised with the Primary Industries NZ Award for Innovation & Collaboration.

Our rugs business is performing well with growing demand for our premium product which is sold through our direct-to-consumer channel at high margin.

Consistent with our confidence in our transformation and in the ongoing increased demand for wool carpets & rugs we have continued to invest in yarn plant capacity.

We have introduced new digital twin technology which is helping us to improve production efficiency and reduce waste across our facilities.

And revenue for our wool buying division is up 20%, despite pandemic related disruption.

The results from this year have given us the reassurance that our new business model is sustainable, and we have established a foundation for long term growth.

Slide 7 Our Journey

Financial year 2022 is the second year of an audacious transformational strategy which saw Bremworth move away from the use of synthetic materials and embrace the production of wool carpets.

In addition to removing synthetics from our production processes wherever possible, the first stage of our strategic evolution, which began in 2020 when we announced the transformation has seen us; relaunch the Bremworth brand, right size the organisation, embark on our sustainability journey and redefine Bremworth as a premium design and natural fibre company.

During the second year of this change programme, and under the leadership of Greg Smith our new CEO, Bremworth is defining a clear, purpose-led strategy - which is designed to capitalise on consumer trends towards more natural and sustainable products.

As we invest in building awareness of our evolving brand we are also redefining and optimising our relationships with our retail partners.

We are fully committed to the resumption of payment of annual dividends once the company is in a financial position to do so. For now, we believe it is in the best interests of shareholders to reinvest and build a profitable business that will deliver returns to shareholders long into the future. The board will keep this matter under constant review and fully understands and agrees with shareholders' desire to see Bremworth returned to a dividend-paying investment.

Slide 8 Clear 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

Slide 9 & 10 Operating Environment

Over the past year, the pandemic added further constraints to the manufacturing sector and Bremworth's supply chain particularly trans-Tasman shipping timeframes. We are now seeing capacity return to the logistics industry. These delays likely saw consumers switch to alternatives.

Like other businesses, inflationary pressures have manifested within our labour, materials and freight costs. Our approach to mitigating the impact of these cost pressures has been to insulate ourselves through the development of premium and design led products - where price is less important to the consumer than performance and value. In addition, we took a laser focus on our distribution and administration costs and reduced them by \$3m across Australasia.

And globally, demand for wool and wool prices remain at historically low levels, which make for a more challenging operating environment for our wool buying division.

Slide 11 & 12 The Opportunity for Bremworth

While headwinds created by COVID-19 have constrained the macro-economic operating environment, they have also helped to accelerate trends towards more natural fibres.

Research tells us consumers now favour wool carpet much more strongly than at any time in the past three years.

Price is no longer the dominant driver of purchase decision, and a growing segment of consumers are rethinking their use of plastics and their impact on the environment.

In the short time since Bremworth began its transformation, the company has made significant progress in repositioning the brand and bringing consumers along on our journey towards becoming New Zealand's leading, natural fibre flooring producer.

I am pleased to say Bremworth now has the foundation needed to rebuild wool's share of the flooring market and for the growth of our business.

Over to you Greg.

Slide 13 CEO's presentation

Thank you, George.

Slide 14 FY22 Priorities & Progress

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

The 2022 financial year is my first year as Bremworth's CEO and also marks the second year of Bremworth's transformation towards becoming an all-wool carpet manufacturer.

While life continues to adapt to the Covid pandemic, we are also witnessing a global renaissance, a return to nature and natural fibres, and a recognition of our individual impact on the environment.

There is growing consumer awareness that the environmental cost of plastic is too high.

Bremworth is positioning itself as an advocate at the forefront of long-term change.

As part of this evolution, we are developing products today that can be safely returned to the environment from which they came, and the results from the past year reassure us that our messages are resonating with consumers and the market is increasingly recognising the value that we offer.

Over the next 20 minutes, I want to take you through the results of this latest year of transformation, starting with a change in the consumer we focus on.

Slide 15 Create Demand for Bremworth Branded Product

As George mentioned, during financial year 2022, Bremworth redefined its focus on the premium residential consumer for the following reasons.

Slide 16 Focussed on premium residential market

High volume commercial installations are generally low margin, lumpy and create short term bottlenecks in our supply chain. By focussing on the premium residential end of the market we are able to deliver consistent volume at growing margin.

Slide 17 Insights from our Market Research

Communication with our customers is a critical part of our successful evolution as a brand.

Throughout Australasia, we've been investing in raising awareness of the difference between synthetics and wool.

Our NZ market research, which has tracked changes in attitudes to flooring over the past three years, allows us to measure the effectiveness of our campaigns. The results from the annual study demonstrates we are changing minds and building momentum, which gives us a lot of confidence in the direction we are taking.

The research has found that the perception of wool carpet as having a higher cost, when compared to synthetic alternatives, is becoming less of a barrier for most consumers.

The study also showed Bremworth has the strongest unprompted brand salience and preference within the carpet category.

Preference for the Bremworth carpet brand has increased from 27% to 35% over the past two years.

Bremworth has also been named New Zealand's most trusted carpet brand for the ninth consecutive year.

Slide 18 & 19 Operational Efficiency & Commercial Excellence

Our shift away from high volume, low margin business has had a positive impact on gross profit, with an increase from 28.1% to 31.1% over the past year.

Our CapEx investment has not only made our plants safer but as also increased manufacturing capacity, and we expect to realise further efficiency gains in the coming year as a result.

We have rationalised the number of carpet SKUs by almost a third - allowing us to focus on our best selling and fastest moving product lines and delivering a much better service.

We are now able to make these products available to consumers within two weeks if not immediately which is a significant improvement. As a result, we have higher quality inventory which is a competitive weapon rather than a drag on the balance sheet.

Recognising that strategy and culture are led by people, we invested in a new leadership training programme, which we called Te Ara Rangatira. This supports the ongoing transformation of our core business model and brand vision and purpose.

We have also introduced flexible working which is opening the door to a new segment of employees who may be working around family commitments.

Slide 20 & 21 Supercharge our Digital Strategy

Our direct to consumer business is providing insights, that inform our product development, demonstrate latest trends and in turn help us to better respond to consumer needs.

Our digital rug business is growing fast and while still in its infancy is showing significant promise by providing a low cost customer acquisition and higher margins than our traditional wholesale model. The expansion of this model will be a key focus for Bremworth over the coming year.

Our virtual manufacturing or digital twin technology is helping us to assess the environmental sustainability of our new product lines - before they are launched. It means we will use less energy and less water, create less waste and operate at a higher level of production efficiency.

Slide 22 Prioritise Innovation, Sustainability & Partnerships

Our research tells us Bremworth's drive to be a more environmentally conscious manufacturer is of fundamental importance to a growing segment of homeowners.

The investment in change we are making now is not part of campaign, it is being integrated into the way we operate at all levels and will have long term benefits for the brand and the business.

Slide 23 Prioritise innovation, sustainability & partnerships # 2

This year our science-based sustainability programme was recognised with a PINZ Innovation & Collaboration award.

The manufacturing of carpet is an energy intensive process which we have traditionally powered by gas. Reducing our carbon footprint is an ongoing focus for the business.

Throughout FY22, we reduced our total manufacturing carbon emissions by a further 5%.

Our aim is to reduce total emissions by up to 30% and, with support from ECCA, we are investing \$2.9m in decarbonisation initiatives, introducing new industrial heat pump technology that will decrease our energy costs and improve our production efficiency.

In addition, as part of a multi-million-dollar research and development programme, we have prototyped two rugs which contain no plastic materials, which brings us closer to mass production of fully compostable carpets for the domestic and export markets. The development of a compostable carpet that removes all remaining traces of synthetic materials from the manufacturing process and can be produced at scale would be a game changer for the industry, our environment and for Bremworth.

Slide 24 & 25 Financials

The results from the past financial year show that we are progressing ahead of our strategic transformation plan.

There is lot of information on this slide.

The key takeaways are the structural improvements we've made to drive operational efficiencies and address our cost base. This is highlighted by a 44% increase in normalised EBITDA from \$3.4 million to \$4.9 million and a 325% increase in normalised net profit after tax from \$0.4 million to \$1.7 million. Full year 22 also saw strong growth from Elco Direct, our wool buying business.

With \$14.9m in cash and significant investment in inventory, full year 23 has a strong platform to enable us to continue the execution of our transformation strategy.

Slide 26 and 27 Revenue reflects strategic transformation

Bremworth's revenue in the 2022 financial year was \$95.5 million. This reflects the sell down of our remaining synthetics inventory in the region of \$19m, which accounts for the fall in revenue from 2021.

The \$3.1 million revenue increase in our wool buying division, Elco Direct, is particularly positive given the challenging macro-economic environment. As one of the largest wool buyers in New Zealand, we are well positioned for the future as demand for strong wool improves.

While woollen carpet and rugs revenue has remained unchanged on previous year, there is a lot more to this than meets the eye and I would like to also comment on this.

Our all-natural strategy delivered a strong \$4.4 million/15% revenue growth in New Zealand and \$0.5 million/25% growth in our rest of world business, reflecting the success of our transformation and the traction we are getting.

While revenue was down \$5.0 million/12% in Australia – and the main reason why our woollen carpet and rugs revenue remained the same overall - that was the result of the intentional move away from low-margin high-volume commercial business in that market to focus on premium residential consumers.

With that strategic move completed, we expect revenues to increase from 2023 onwards as the transformation strategy progresses and sales of higher margin wool carpets increases.

Slide 28 Uplift in Gross Margin

Gross margin improved as a result of disciplined cost and price management, operational efficiencies as well as improved sales mix - with the better sales mix coming from strong increases in sales of higher end woollen carpet across all markets due to growing demand for higher end, higher margin, differentiated products and ongoing investment in the Bremworth brand.

Slide 29 Our Earnings and profit are up

Our profit is up, with the Group benefitting from the structural improvements during the year to improve gross profit and reduce operating costs.

As a result, we are one year ahead of our five-year transformation plan, which has enabled us to bring forward our original projection of profitability growth from FY23 to FY22.

Slide 30 Financial position

Bremworth is in a strong financial position. We continue to maintain tight controls of our working capital, we continue to invest in inventory to support growth, and we continue to invest in capital improvements across our plants to enable higher output and drive manufacturing efficiency.

While our cash position reduced from \$22.5 million to \$14.9 million during the year, virtually all of that can be attributed to the investment in inventory to support the growth in sales of our woollen carpets – with Bremworth continuing to fund all of its working capital requirements from its own resources.

We will continue to invest in our long-term future, and in line with this strategy, no dividend has been declared for the year.

Slide 31 Growth Strategy

Our objective has been to grow the wool flooring market. The feedback we are getting from our retail partners is that the tide is turning towards wool. We are seeing more manufacturers enter the wool market and in turn retailers are dedicating more space to wool in response to consumer demand.

Slide 32 & 33 Strongly Positioned for the Future

We are cautiously optimistic about the year ahead. There are two key factors driving this confidence.

The first is improving the availability of product in market. We have increased our allocation of stock in Australia, and we are increasing the speed at which we can deliver it - in some cases this will be next day delivery. Secondly, we are increasing our distribution with an expanded presence in 85 retail outlets across Australia.

In terms of its contribution to gross margin our direct-to-consumer rug business holds the brightest promise, with plans underway to accelerate its growth.

Slide 34 Strategy Execution

Bremworth has a team of passionate people who are dedicated to the implementation of our transformation strategy.

We are building a high-performance organisational culture and as the shift to natural fibres becomes more prominent, Bremworth is in a strong position to capitalise on that.

We have a board that is ambitious and is providing excellent strategic and governance oversight.

I would like to close today by thanking you our shareholders for your continued loyalty. Your ongoing belief in us is helping Bremworth change the flooring market and New Zealand's wool sector for the better.

Slide 35 Shareholder discussion

Thank you Greg. I would now like to invite questions in relation to the FY22 annual report or today's presentations by your Chair and CEO. There will be an opportunity to ask questions about the resolutions once they have been put to shareholders.

As I mentioned earlier, please raise your hand if you have a question and I will ask for one of the roving microphones to be brought to you. We would appreciate it if you could identify yourself before putting the question to the Directors and the CEO.

Slide 36 Resolutions

I would now like to move to the resolutions before the meeting. These were notified in the Notice of Meeting and explanatory notes have been provided.

Voting on each of the resolutions will be by way of poll.

Only shareholders, proxy holders or corporate representatives of a shareholder may vote on today's resolutions.

We will take questions on each resolution as they are put to shareholders.

Slide 37 Resolutions

Re-election of John Rae

The first resolution relates to the re-election of John Rae so I will hand over to John to address the meeting in support of his re-election to the Board.

John Rae to speak.

Thank you, John.

John Rae is retiring by rotation and being eligible is standing for re-election. The Directors unanimously support his re-election.

Are there any questions in regard to John's re-election?

PAUSE/TAKE QUESTIONS

Could shareholders please vote now on the resolution?

Election of Katherine Turner

The second resolution relates to the election of Katherine Turner so I will hand over to Katherine to address the meeting in support of her election to the Board.

Katherine Turner to speak.

Thank you, Katherine.

Katherine, being a Director appointed by the Board, is retiring and being eligible is standing for election. The Directors unanimously support her election.

Are there any questions in regards to Katherine's election?

PAUSE/TAKE QUESTIONS

Could shareholders please vote now on the resolution?

Slide 38 Resolutions

Auditor's remuneration

The third resolution is to record the reappointment of PricewaterhouseCoopers as auditors of the company and to authorise the directors to fix the auditor's remuneration.

Are there any matters for discussion or questions from shareholders on this resolution?

Could shareholders please vote now on the resolution?

That concludes the resolutions for today's meeting.

In a minute, I will declare voting closed. Please ensure that you have cast your vote on all resolutions. I will now pause to allow you time to finalise those votes.

PAUSE

Voting on today's resolutions is now closed, and the scrutineers will now come around to collect your voting forms.

Slide 39 proxies and postal votes

I wish to advise that proxies and postal votes have been received in respect of approximately 11.3 million shares, being approximately 16% of total shares on issue.

The results of the voting will be posted to the NZX and on the Company's website as soon as practicable.

Slide 40 Other business/close of meeting

We now move to any other business from shareholders.

Are there any further questions from shareholders?

Then I call the meeting closed.

I would like to thank our shareholders for your continued support. We are excited about Bremworth's future and look forward to adding value for our shareholders, staff and consumers.

ENDS