



MARKET RELEASE

29 August 2022

Bremworth announces FY22 results and continuing profit improvement

- Financial and strategic progress ahead of transformation plan
- EBITDA of \$4.9m with 44% increase in normalised EBITDA ¹
- Net Profit After Tax (NPAT) up 29% to \$2.2 million, with 325% increase in normalised NPAT ¹
- FY22 focus on structural improvements driving operational efficiencies and benefits
- Continued brand evolution with focus on premium residential consumer
- Growing demand for rugs
- Strong growth from Elco Direct wool buying business with increase in revenue and average sell price
- Robust balance sheet providing a strong platform to continue executing the strategy

\$millions (audited)	FY22	FY21	% change
Total revenue	95.5	111.6	-14%
Wool carpet and rugs revenue	73.0	73.1	-
Gross margin %	31.1%	28.1%	11%
EBITDA	4.9	4.7	4%
EBITDA (Normalised) ¹	4.9	3.4	44%
NPAT	2.2	1.7	29%
NPAT (Normalised) ¹	1.7	0.4	325%

Carpet and rug manufacturer, Bremworth Limited (NZX: BRW) has today announced its audited results for the 12 months ended 30 June 2022 (FY22), which has seen Bremworth emerge from a “transformational” year with a 29% increase in NPAT to \$2.2m and a continued commitment to grow demand for New Zealand wool.

Consumer interest in wool carpet continues to grow and Bremworth remains a preferred brand.

Pleasingly, sales in New Zealand are growing strongly in response to advertising and brand campaigns, while Australian sales reflect a strategic shift away from the high volume, low margin commercial sector to allow the business to focus its capacity on producing and selling premium high value products for the residential market. Revenues are expected to increase from FY23 as the transformation programme gathers momentum and sales of higher margin, higher value woollen carpets increase.

¹ EBITDA is earnings before interest, tax, depreciation and amortisation and is a non-GAAP measure. FY21 normalised EBITDA and normalised NPAT excluded net gain on sale and leaseback of property of \$2.6m and restructuring costs of \$(1.3)m whereas FY22 normalised NPAT includes a normalised tax charge of \$0.5m.

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A focus over FY22 on structural change to make the business more robust and efficient has helped to deliver sustainable and profitable returns. Manufacturing improvements have increased efficiency and provided capacity to bring new products to market. In addition, product SKUs have been reduced by 30% to simplify the product offer. The full benefits of these changes will become more apparent in FY23.

The company's digital strategy continues to take shape with online rug sales delivering strong growth year-on-year. Website traffic also increased, up 60% year-on-year and the brand also saw double digit growth in social media followers.

Sustainability

Sustainability remains a core focus for the company, and Bremworth has committed to two decarbonisation projects.

The first initiative is a \$2.5m project at the Napier carpet yarn spinning plant to reduce its reliance on natural gas process heat through process heat optimisation and transitioning to electric high temperature heat pump technology. This project is being 38% co-funded under various funding programmes, including the GIDI (Government Investment in Decarbonising Industry) Fund administered by the Energy Efficiency and Conservation Authority (EECA). This initiative is expected to continue into FY23 and FY24.

The second decarbonisation initiative at the Whanganui carpet yarn spinning plant, which is also being co-funded by EECA, will see a gas-fired dryer replaced with an alternative radio frequency dryer for use in felted yarn production. This project is expected to cost \$0.4m, with the EECA co-funding agreed at 40%, and will run over FY23 and FY24.

These are in addition to Bremworth's ongoing \$4.9m research-based sustainability programme. Co-funding of up to 40% has been received for this programme from the Ministry of Primary Industries.

In FY22, total manufacturing carbon emissions reduced by 5% vs FY21, and a digital twin model of manufacturing has been developed to support sustainable manufacturing direction and decisions. This modelling enables Bremworth to utilise technology to predict and reduce water and energy use as well as waste.

The company has also launched its Rug Innovation Programme, which allows it to rapidly experiment with, develop and test sustainable manufacturing and design options for rugs, with the long-term aim of rolling successful initiatives out across its carpets. As part of this, Bremworth has recently developed a fully compostable prototype rug that can be repurposed into other products or safely returned to the earth at the end of its life.

Bremworth was honoured to win the Innovation and Collaboration Project Award at the recent Primary Industries New Zealand Awards in recognition of its science-based and research-led sustainability programme.

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Financial Results

Results for the year were pleasing, particularly given the impact of COVID-19 in 1H22, and the general economic slowdown and longer residential building timeline due to key material shortages in 2H22. On a comparative basis, the prior year also included a one-off benefit from the sell down of synthetic carpets as well as wage subsidies brought forward from FY20, and a release of inventory provisions.

Total revenue for FY22 was \$95.5m, down 14% on the prior year which benefitted from the sell down of synthetic inventory. Wool carpet and rugs revenue of \$73.0m was in line with the prior year, and comprised 100% of Bremworth's FY22 carpet and rug sales, compared to 79% in FY21. The flat year-on-year sales were mainly due to the exit from the low value commercial sector in Australia in FY22.

Revenue from the wool buying business, Elco Direct, was up by 20% to \$19.2m, with the average selling price also increasing due to growing demand for quality, strong wool.

Operating expenses were down by 10% year-on-year as result of the cost-out programme, with the full benefits partially offset by inflationary pressure on labour, material, and freight/shipping costs. Gross margin improved on the prior year, supported by improved selling prices and product mix across all markets, as well as operational efficiencies and disciplined cost and price management.

FY22 Normalised EBITDA was \$4.9m, an increase of 44% on the prior year (excluding non-trading adjustments in FY21).

The company reported a continuing improvement in net profit after tax, up from \$1.7m to \$2.2m in FY22, with a strong 325% increase in normalised NPAT, up from \$0.4m to \$1.7m.

The cash position remains strong and was \$14.9m at balance date, down from \$22.5m as the company continues to invest in its five-year transformation plan.

While tight control over working capital continues, operating cashflow of \$(2.9)m reflects a significant investment in woollen carpet inventory to support FY23 sales growth.

Capital expenditure totalled \$2.9m in FY22, with almost 55% of that capital expenditure invested in plant improvements to enable higher output and drive manufacturing efficiency.

After much deliberation, the Board has declared no dividend as the business needs to continue to invest for the future.

Outlook

As previously advised as part of the five-year plan, the priorities for FY21 to FY23 are to reset the business, commence the new strategy and navigate the economic recovery post-COVID.

The benefits of the structural changes implemented in FY22 are expected to start being seen in FY23 and the company remains focused on increasing sales and driving margin improvements.

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Strong revenue growth is expected across Australasia as educated consumers begin to move away from synthetic carpets which are essentially plastic, and move to more natural, high performing wool alternatives. With wool estimated to represent approximately 15% of the carpet market, there is an enormous opportunity to rebuild wool's share.

Strong residential construction is expected to continue and Bremworth's healthy inventory position means it is well positioned to deliver highly desirable carpets and rugs for both new builds and existing homes

Chair of Bremworth, George Adams, said: "The move by Bremworth to shift to 100% New Zealand wool fibres has led a movement in the flooring industry towards natural materials. The structural transformation undertaken in the last year is one of the essential planks of our strategy to profitably grow our business. We are heading into the new financial year with a stronger operating platform, continued consumer demand and a focus on driving sales of our beautiful Bremworth carpets and rugs. We look forward to adding value for our shareholders, staff, and consumers."

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