



THE NEW ZEALAND MERINO COMPANY
Quarterly Shareholder Update

02 April 2024

Dear shareholder,

As you may be aware from the recent USX announcement our half-year Earnings Before Interest and Tax (EBIT) is in line with budget expectations, however, we have revised our full-year guidance downward and now expect EBIT in the range of \$1.0 to \$1.6 million, and a Net Profit After Tax (NPAT) of a loss in the range of \$0.4 to \$0.9 million.

The rapid decline in consumer demand from immediate post-Covid highs, along with some of our key customers significantly over-ordering in response to the overinflated consumer consumption during and post-Covid, has been the primary driver for our downgrade.

We foresee the geopolitical and macroeconomic challenges, as well as highly volatile currencies, to persist in the short-medium term. This will continue to weigh on consumer sentiment and demand, especially in early 2024 with some flow-on expected into the next financial year.

Despite the downturn, recently released data from the Material Exchange shows that 86 per cent of brands requested sustainable material options in 2023—a significant jump from 52 per cent in 2022—and we know that the preferred sustainable raw materials demand-supply gap will rise to as much as 133 million tonnes by 2030. Additionally, one-third said that the traceability of raw materials was the most important factor in their decision-making, something we are uniquely placed to deliver.

There are also green shoots from our customers who are reporting reasonable sell-through of product. For many, demand has not slowed and remains in line with pre-Covid levels, it just has not grown at the accelerated rate previously predicted. We are working with our customers to find solutions and expect to be in a very different position once the current over-supply of inventory has worked through the supply chain.

Our brand customers, whether they have been with us for decades or have recently joined the flock, hold immense regard for the quality of our fibre and the benefits of the ZQRX programme. One of our newest customers, Rodd & Gunn, recently signed a three-year, significant volume ZQRX contract for its knitwear jersey range, a strong vote of confidence from a first-time partner. Rodd & Gunn has already seen very good uptake from its retailers and hopes to expand ZQRX wool across some of its other ranges.

International regulations continue to grow at pace, and we have a key role to play in supporting our brands to meet the evolving requirements while helping our growers invest their efforts in the sustainable improvements that will provide the best return.

At a consumer level, increased price sensitivity comes coupled with a reduced willingness

to pay more for sustainably produced products – it has become an expectation not an extra. The baseline standard is continually evolving, changing and becoming more complex, and we must stay on top of the conversation, not only with our stakeholders but directly with consumers.

To that end our team is in the midst of a strategy reset, not to change the things that have made NZM a success so far but to redefine how we position ourselves to best capitalise in the years ahead. We have laid out ambitious goals for our team and investigated multiple options for the way forward. I look forward to sharing the results with you in due course.

Lastly, I must take this opportunity to thank and farewell our Chief Operating/Chief Financial Officer Pete Floris after over 23 years with NZM. Many of you will be familiar with Pete and know of the deep impact he has had on NZM and the contributions he has made in his impressive tenure. This is not goodbye, it's a see you soon as he will be remaining as one of our shareholders and I'm sure he will be a frequent fixture at events.

Regards,

A handwritten signature in black ink, appearing to be 'A. Street', with a large, sweeping flourish extending to the left.

Angus Street
CHIEF EXECUTIVE

www.nzmerino.co.nz