PROFIT FOR THE NEW ZEALAND MERINO COMPANY LIMITED (NZMC) DESPITE MARKET CHALLENGES

YEAR ENDED 30 JUNE 2023

Highlights

- EBIT[1] $4.3 million, down 38%
- Trading EBIT[2] $6.4 million, down 15%
- NPAT $1.7 million, down 61%
- Bales Sold 147,000, up 9%

Summary

The 2023 financial year has presented greater challenges than recent years for the NZMC Group. Global economic conditions and inflationary pressures have impacted negatively on demand and resulted in a significant lift in the Group's cost base.

Despite this expected outcome, trading EBIT (before share-based arrangements and one-off costs) has remained within budgeted levels. A very pleasing result in a challenging operating environment.

The Group's ZQRX initiative, underpinned by the highest standards of ethical production and regenerative agricultural practices, continues to differentiate our offering in the market.

Business Performance

The NZMC Group has recorded earnings before interest and tax (EBIT) of $4.3 million, at the lower end of updated market guidance and a decrease of 38% on the previous years' record result.

EBIT includes provisions and expenses of $1.3 million relating to share-based arrangements (including non-cash expenses), and one-off costs of $0.8 million associated with the transition of the Chief Executive, if these are excluded underlying Trading EBIT was $6.4 million, a decrease of 15% on the previous year, in line with expectations. Over the past five years, the business has delivered a compound annual growth rate (CAGR) in Trading EBIT of 13.5%.

Interest costs for the year have been significant at $1.2 million, driven by increased periods of stock holdings in line with shifts in brand partner requirements and the resulting deferral of some deliveries, as well as a substantial lift in interest rates. This deferral of deliveries has also impacted negatively on our operating cash flows for the year.

On a net profit after tax basis, the result is $1.7 million, a decrease of 61% on the previous year.

This result represents a post-tax return on year-end shareholder equity for the year of 5.3%.

Bales sold volumes for the year increased by 11,000 bales or 9%, with growth in both fine wool and strong wool volumes. Fine wool volumes increased by 6,000 bales or 8% to 85,000 bales, while strong wool volumes increased by 5,000 bales or 10% to 62,000 bales.

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[1] EBIT is profit before income tax with net finance costs added back

[2] Trading EBIT is EBIT with share-based arrangements costs and one-off CEO transition costs added back

In response to softening market demand for fine wool, we deliberately slowed our grower procurement activities in the last quarter to ensure that we retain an alignment between supply and demand. We expect this to continue for at least the first half of the new financial year. Strong wool bale volumes were impacted by the after-effects of Cyclone Gabrielle which resulted in a large number of bales being held up due to shearing, transport and logistics delays.

On the back of our bale volumes total operating revenue was $171 million a 13% reduction on the previous year reflecting softer market prices. Gross profit was $21.6 million, a reduction of 4%. It was pleasing to record an improvement in our gross profit percentage during the year.

The capital raise undertaken in the 2021 financial year and the strong results of recent years continue to underpin the Group's financial strength.

Year-end equity as a percentage of total assets is a healthy 55%, down slightly on the 61% recorded in the prior year due to the high inventory/accounts receivable levels resulting from the slowdown in market demand.

Dividend

With the impact the current market conditions are having on the business the board has determined that it is not prudent to pay a dividend at this time.

Share Trading

Trading of NZMC shares on the Unlisted Securities Exchange (USX) continues to be subdued.

During the year 66,000 shares were traded with shares trading in a range of $5.00 to $6.75, with a weighted average share price for the year of $6.12. The closing price on 30 June 2023 was $5.59. This volume compares to 107,000 shares traded on the USX in the previous financial year.

A key focus in the 2024 financial year will be on improving the liquidity of NZMC shares.

Outside of the USX trading, outgoing Chief Executive John Brakenridge and his wife Sarah sold the 538,000 shares they held in NZMC to AWN Rural Pty Limited (AWN), resulting in AWN holding a 10.1% shareholding in the business.

Outlook for 2023/24

Our expectation is that the slowdown in consumer, and therefore brand partner, demand will continue to be seen in the 2023/24 financial year and this will impact on our growth expectations.

Additionally, as with most businesses at the moment we are experiencing very significant cost increases. We are very focused on mitigating as much of these impacts as possible.

Offsetting this however the business recorded a number of one-off costs in the 2022/23 financial year that will not be repeated in the 2023/24 financial year.

Our expectation is for earnings at an EBIT level in the 2023/24 financial year to be in the range of $4.5 to $5.1 million.

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