

## **CAVALIER ANNUAL MEETING OF SHAREHOLDERS**

### **CHAIR AND CEO SPEECHES**

23 December 2020

### **CHAIR'S PRESENTATION**

#### **GEORGE ADAMS**

We are at an exciting and important time in Cavalier's history as we transform to an all-wool and natural fibres business model.

This is the culmination of 18 months of significant work by the Board and management as we reviewed our business, operations, trends in the market and the potential opportunities for our company.

#### **STRATEGY DEVELOPMENT: KEY EVENTS**

We commenced the strategy review late in the FY18 financial year, and in the first half of the FY19 we started our journey back towards wool carpets.

We took this another step forward in August 2019, when we announced a collaboration with The New Zealand Merino Company to assist us in moving to a design led business, focused around our beautifully crafted wool carpets.

We then built on this foundation, finalising our transformation strategy in 2020 and committing to a natural fibre, sustainable future. This was unveiled to shareholders in July this year, slightly later than anticipated due to the impact of COVID-19.

Concurrently, the Board had also been assessing options to fund the transformation of Cavalier, and in September we announced the sale and leaseback of our Auckland property, which was subsequently approved by shareholders at a special meeting. I will talk more on this transaction shortly.

Our final step this year in our journey has been the unveiling of the new Bremworth brand identity. This springboards off the heritage of the Bremworth brand while looking to the future, and building on the values set by our founders more than six decades ago that have made Bremworth New Zealand's most trusted carpet brand.

#### **OUR GROWTH STRATEGY**

Our goal is to become a global leader in designing and creating desirable, safe, sustainable and high performing natural interior solutions. We plan to do this by investing in four main areas:

Firstly, growing the wool flooring market

Secondly, growing Cavalier's share of that market

Thirdly, expanding our presence with more retailers, new ranges and products with different price points, more investment into our online presence, reaching out to new consumer groups and utilising the voices of influencers and opinion leaders to support our brand.

And finally, looking at other opportunities to leverage our strengths and capabilities and expand our market, including potential partnerships with other like-minded organisations.

## **FUNDING CAVALIER'S TRANSFORMATION**

We believe repositioning Cavalier to a purpose-led organisation, building on our heritage of beautifully designed woollen flooring, is the optimal pathway for future growth. However, it will take time and investment to facilitate our transformation.

In terms of capital raising, the Board took extensive external independent advice on the options available to us including the sale and leaseback of property, debt funding, strategic equity partner participation, and an equity raise.

On the basis of that advice, and with our desire to maintain value for our existing shareholders, we have progressed with the sale and leaseback of our Auckland property in the first instance as this represents the most effective way of accessing capital at this time. Cavalier is fortunate to have significant holdings of land and buildings and the ability to unlock and redeploy some of this capital to support our strategy for change.

Disappointingly, the original transaction, which shareholders approved at the special meeting in September, was terminated after the purchaser failed to settle by the due date. There was significant interest in the property and shortly after, we entered into a new sale and purchase agreement on more favourable terms, including a higher sale price. A deposit has been paid and we expect settlement following receipt of shareholder approval at today's meeting. To avoid the cost and disruption of a second special meeting, today's annual meeting was delayed to allow shareholders to vote on this important resolution in a timely manner.

This is a positive step forward for the Company. While we have sufficient headroom in the near term to continue the execution of our strategy, the property sale provides us with additional support and funding over the next few years until we begin to realise the financial benefits of our transformation.

We will also consider other options to provide capital if needed, to allow us to fully execute our transformation strategy. However, and as advised in the Notice of Meeting, we are not considering a sale and leaseback of Cavalier's other properties at this stage.

The Board remains very focused on total shareholder value, with annual dividends an integral part of shareholder value creation.

We are fully committed to the resumption of payment of annual dividends once the company is in a financial position to do so. To pay a dividend now would not be in the best interests of the company and would likely leave us in a difficult position, jeopardising our ability to successfully complete our proposed transformation. It is important that we be given time to build a new and profitable business that will deliver returns to shareholders long into the future. I want to assure you that the board will keep this matter under constant review and fully understands shareholders' desire to see Cavalier returned to a dividend-paying investment.

## OUR FINANCIAL JOURNEY

Five-year modelling of Cavalier's future financial performance and the investment needed to bring about the transformation has been undertaken by management and external advisers.

In summary:

- Total sales revenue for FY21 will reduce as we exit our synthetics business and as a consequence of COVID-19 impacting on the business;
- Investment costs, including restructuring of our operations, will be incurred as we adjust our manufacturing and sales base to reflect the new sales focus;
- Marketing spend and people costs will increase significantly as we invest in a number of initiatives to enhance our market presence and ensure our strategy is successfully communicated, understood and implemented – because we will not grow if we do not invest;
- As our strategy bears fruit and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, this will be reflected in cavalier's financial performance, with growing revenues expected from FY23 and FY24 onwards as we build woollen carpet sales and as the economy recovers from covid-19;
- The full benefits from the transformation are expected from FY25 onwards.

The short-term outlook for FY21 remains uncertain, although economists are expecting a global uplift in the second half of 2021 as vaccines are rolled out. Cavalier will see the benefits of the synthetics sell down in the sales results for the first half of the year, however, sales in the second half will reduce as our exit from synthetics is completed. Investment costs will also increase in the second half as we commence marketing, invest in new skill sets and reset our manufacturing and sales base.

## A STRONG FOUNDATION FOR THE FUTURE

Cavalier has an exciting future ahead of it, with a carefully considered strategy that takes advantage of Cavalier's strengths and consumer trends, we have zero debt, funding from the sale of the property and people with significant expertise, industry knowledge and skills.

We are at a defining moment in our history and we look forward to a future where we can not only deliver value to our shareholders, but also make a genuine difference to the wellbeing of people and the planet, while providing the design and performance attributes customers care about.

I will now pass you over to Paul Alston, Cavalier's CEO.

**CEO'S PRESENTATION  
PAUL ALSTON**

**WE ARE BREMWORTH**

With more than 60 years of heritage, Bremworth is one of the most respected flooring brands in the market and is recognised as a champion for quality New Zealand wool carpets.

We have been leading the way in wool carpet, designing and manufacturing beautifully crafted premium carpets and rugs made from the finest New Zealand wool.

We are now evolving, building on our strengths to deliver desirable, safe, sustainable and high performing natural interior solutions.

We are becoming a purpose led business, incorporating eco-conscious decisions in all we do. And we are using design led thinking to deliver long lasting and desirable solutions that meet our customers' needs.

**FY20 YEAR IN REVIEW**

FY20 will be remembered for how people, communities and businesses responded to the challenges of COVID-19. For us here at Cavalier, it is also the year we set a new direction for our business, with a vision to become a global leader in designing and creating desirable, safe, sustainable and high performing natural interior solutions.

Following the softening trading conditions in the first half of the year, trading was further impacted by the COVID-19 pandemic from March.

We restructured our Australian operations during the year, and have also started to reset our manufacturing operations in New Zealand to align with our new strategy and right size the business as a result of exiting plastic manufacturing.

We continued to innovate and launch new products, building on our premium wool rug offer, launching carpets with unique design features and rolling out our Lifestyle range, to provide customers with further choice.

This also provided the platform for us to expand our retailer distribution network, maintaining exclusivity for our unique ranges under the Bremworth Collection and Aspire collections, while increasing distribution through our Lifestyle range.

**COVID-19 RESPONSE**

As we started 2020, little did we know that a global pandemic was quickly going to spread around the world and materially impact our business and our people.

The health and welfare of our staff quickly became our primary focus, and we formulated a comprehensive plan to protect our staff while continuing to operate our business.

During the New Zealand lockdown from late March to late April 2020, all our manufacturing sites were closed under level 4, re-opening under Level 3 using 'bubble shifts' where shift teams were completely separated from each other. This ensured that if one member in a team became ill, the second 'bubble' was protected and could keep working safely.

Retail sales in New Zealand effectively ceased during this time, however, we managed to operate to a limited capacity in Australia. Cost measures and other actions were taken to protect the business, however, we were able to continue to pay all salaried and waged staff throughout the lockdown period with support from the Government's wage subsidy. Post lock-down we planned for the worst, and pulled back production, anticipating tough times.

The post-COVID recovery was much better than expected and reasons for this were:

- Partly pent up demand;
- There is a portion of people spending on their homes and renovations in lieu of overseas travel;
- Retailers have been stocking up on our synthetic carpets ahead of our exit from this sector; and
- We have also seen increasing sales of wool and higher value products.

On behalf of the Board and management team, we would like to acknowledge and thank all our people for their support and efforts, both during the lockdown and as we scaled up activity to meet pent up demand post lockdown.

## **FY20 RESULTS SNAPSHOT**

Our FY20 financial results were reflective of the softening trading conditions, the impact of COVID-19 and the re-setting of the Company as we commenced our transformation.

Revenue of \$118.0m was down 13% on prior year, with sales reduced significantly in April and May as a result of the COVID-19 lockdown.

The revenue impact was mainly felt in New Zealand where annual sales volumes were down 17% on the prior year, with Australia finishing the year down just 5%.

Normalised EBITDA was \$2.3m, excluding non-trading adjustments of \$(11.2)m pre-tax which were primarily related to the strategic transformation and re-set. These are non-cash adjustments and have no effect on the underlying operations or trading of the business. There is a challenge with impairment assumptions especially with a market capitalisation considerably less than the net asset value of the Company. The directors agreed to take the conservative position of writing-down assets (including deferred tax assets) as the transformation changes the risk profile of the Company and returning to acceptable profitability is a few years away.

Operating cash flows were strong at \$6.8m, mainly due to the release of cash as we commenced our transition away from synthetics and ceased buying synthetic yarn inventory.

We reported a statutory net loss after tax of \$(21.5)m. Excluding the non-cash, non-trading adjustments and derecognition of deferred tax assets, the normalised net loss was \$(3.5)m.

Net debt reduced to \$14.5m as at 30 June 2020 and at the end of November I am pleased to report that all our debt has been fully repaid and we are in positive territory. This is due to stronger than expected trading in the new financial year and the accelerated sell down of remaining synthetic stocks.

## **WE'RE ON A MISSION**

We have now taken the first steps on our journey to deliver a range of home experiences built with people, the planet and growth in mind. We believe the changes we are making today, will prepare us for an exciting future.

## **OUR VISION AND WHAT DEFINES US**

We believe that by embracing nature we can make a genuine difference to the wellbeing of people and the planet and deliver the design and performance attributes customers care about.

## **OUR FOCUS**

Our company is undergoing a significant change as we transition to a purpose led natural fibres business model.

Our focus is on creating a better place in the world, transitioning out of synthetics, building on our heritage and executing initiatives as part of our growth strategy.

## **OUR PROGRESS TO DATE**

We are already making good progress under our four strategic pathways.

### **Grow the Wool Flooring Market**

We are going to promote the true worth of wool and natural fibres and to reignite and grow consumer demand for natural and sustainable products. Changing consumer behaviour and telling the wool story is important for growth.

Over the past six months, there has been increasing momentum in this area, driven by Cavalier and by other like-minded organisations and people wanting to promote and utilise the significant benefits of New Zealand strong wool. Cavalier has featured on numerous radio shows, newspaper articles and on TVNZ's Sunday programme as well as across social media platforms.

We are seeing consumers become more aware of the link between synthetic carpets and plastics and more choosing natural wool products for their homes. There is definitely more rhetoric supporting wool and natural fibres and I can only see this momentum increasing – we are at the crest of a wave.

### **We are growing our share of the market**

We are positioning Bremworth as the first choice for these consumers. We have unveiled our new Bremworth brand identity and will be investing considerably more into marketing (something we have underinvested in in recent years).

The rollout of new products and ranges is providing consumers with more choice, with our Lifestyle range priced at more competitive levels, targeting medium range synthetic carpets. There is a view in the market that wool costs more than synthetics and this is just not the case. Affordability is important for wool as we seek to bring consumers back into the natural fibre fold.

### **Expand our Presence**

We are expanding our presence, with more stores in New Zealand and Australia now with access to Bremworth products.

These retailers are primarily in Australia, which is a much larger market particularly for wool carpet, however, we have also expanded our New Zealand distribution as well.

### **Innovation and future thinking**

We will continue to innovate and investigate opportunities for adjacent interior solutions products, as well as being open to different ways of making our products accessible to consumers.

## **THE RIGHT PLATFORM FOR OUR BUSINESS**

We believe our transformation to wool and natural fibres is the right one for our business and our planet, however, it does mean changes to how our business operates.

The exit from synthetics reduces tufting by 50% of current production in the Auckland Manufacturing plant. Conversely we will be investing in our yarn plants in Napier and Whanganui to build woollen yarn capacity.

We are also investing further in leadership capability, the establishment of a new sustainability team, and increasing marketing capability.

## **OUR SUSTAINABLE FUTURE**

Becoming a more sustainable business is at the heart of our transformation. This is not just because our customers are becoming increasingly aware of the impact their decisions have on the environment, but because we believe it is the right thing to do.

The average kiwi home carpeted in synthetic carpet is the equivalent of around 22,000 plastic bags in weight. Our exit from synthetics, will result in 2.5 million less kilos of synthetic fibre consumption per year.

And while our wool carpets comprise approximately 87% natural, we want to do better and are investing in scientific research to identify solutions to make our products 100% sustainable. That includes all parts of the carpet from the backing to the glue that holds it to the carpet, through to the dyes and the manufacturing process.

We are also actively removing single use plastics from the business, and will continue to seek new ways to reduce, recycle, and remove plastic from our products, our business and our daily lives.

To assist with our sustainability journey, we are in discussions with the Ministry of Primary Industries about a possible co-investment project with MPI's Sustainable Food and Fibre Futures investment programme. We hope to announce progress on this in the first quarter of next year.

## **1H21 TRADING UPDATE AND GUIDANCE**

Despite some further COVID restrictions, our sales volumes have been much stronger than expected in the financial year to date.

New Zealand, in particular, has been performing better than anticipated in the new financial year from 1 July.

The further we move into our transformation, the less meaningful volume comparisons become, as we exit out of synthetic ranges. Therefore focussing on wool becomes the more appropriate measure.

For the five months to the end of November, total New Zealand wool volumes are up 10% on last year and wool sales revenue is up 24%.

In Australia, while woollen carpet sales volumes were down about 10%, the associated sales revenue was only down 2.0%. The volume reduction in Australia is due in part to stock shortages caused by shipping delays and port strikes, as well as recent COVID-19 restrictions in Victoria affecting retail trading. Initiatives in Australia have resulted in an expanded retailer network which are expected to help drive a lift in sales once supply starts moving back to normal.

Our sell down of synthetics has progressed faster than we anticipated. This has been the primary driver behind the repayment of all of our debt.

Given the above, for the six months ending 31 December 2020, we expect to report a normalised EBITDA (post IFRS 16 *Leases* and excluding the one-off gains from the sale of the Auckland property and redundancies) for HY21, of between \$4.0m and \$5.0m. This compares to a normalised EBITDA of \$3.0m for the prior comparative period.

If shareholders approve the transaction today, the proceeds from the property sale will be recognised in the interim results, increasing our cash position and providing the funding for our transformation strategy to take effect.

## **2H21 PRIORITIES AND OUTLOOK**

Our priorities for the second half of the year are to finalise and launch a new marketing campaign, leveraging consumer insights to tailor our marketing for different consumer groups. We will continue to rollout our lifestyle ranges and expand our retailer network, primarily in Australia; and will maintain our focus on innovation and the launch of new beautifully designed carpets.

The outlook for the economy remains uncertain, however, there are some indications of positive economic activity. We expect woollen carpet sales volumes for FY21 to be up slightly on the prior year. However, total sales volumes (including synthetic carpets) for FY21 will be less than last year because of the exit from non-wool, and while new initiatives to build woollen carpet sales are implemented.

I would like to acknowledge and thank all our people at Bremworth, for their efforts both during the lockdown and as we scaled up to meet demand. I would also like to thank the directors and the leadership team for your support as we have navigated the challenges of this year, while remaining focused on creating a new future for our business. Your contributions and belief in Bremworth are much appreciated.

Thank you.

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