

RECORD PROFIT FOR THE NEW ZEALAND MERINO COMPANY LIMITED (NZMC)

YEAR ENDED 30 JUNE 2022

Highlights

- EBIT¹ \$6.9 million, up 8%
- Trading EBIT² \$7.5 million, up 18%
- NPAT \$4.4 million, up 3%
- Bales Sold 135,000, up 30%

Summary

The NZM Group has completed another very successful financial year with record volumes of bales sold and record earnings.

The catalyst for this has been the foundation laid in the previous financial year where in the face of the threat of Covid-19 we developed our ZQRX initiative to respond to the emerging trend of conscious consumers demanding the adoption of regenerative agricultural practices and the highest standards of ethical production for products they are purchasing.

This positioning has resonated strongly with the market, our brand partners, and our growers and has driven the very good growth in demand seen during the year.

Business Performance

The NZM Group has recorded earnings before interest and tax (ebit) of \$6.9 million, an increase of 8% on the previous year, and an increase of 82% on the PDS prospective financial information. This is now the third consecutive record profit performance for the business. Over the past five years the business has delivered a compound annual growth rate (CAGR) in ebit of 13.3%.

Ebit includes provisions relating to share-based arrangements, if these are excluded underlying trading ebit was \$7.5 million, an increase of 18% on the previous year.

On a net profit after tax basis the result is \$4.4 million, an increase of 3% on the previous year.

This result represents a post-tax return on year-end shareholder equity for the year of 14.2%.

Bales sold volumes for the year increased by 31,000 bales or 30%, with good growth in both fine wool and strong wool volumes. Fine wool volumes increased by 22,000 bales or 39% to 79,000 bales, while strong wool volumes increased by 9,000 bales or 19% to 56,000 bales.

On the back of these sales volumes total operating revenue increased to \$197 million a 44% lift on the previous year. Gross profit increased by 20% to \$22.5 million. The overall reduction in the gross profit percentage in the 2022 financial year is a result of the back-to-back nature of contracts entered into during the year and the prices paid to growers.

During the year the Group procured a significant volume of wool out of Australia and South Africa to support the growth in market demand. In last quarter of the financial year however a ban on shipping South African procured wool to China due to foot and mouth concerns meant we had

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

² Trading EBIT is EBIT with share-based arrangements costs added back

around \$8 million of South African wool that we had to hold in store. This has impacted negatively on our year-end inventory balances and on our operating cash flows for the year.

In recent weeks, the impasse between the South African and Chinese authorities has been resolved and this wool can now again be utilised to fulfil brand partner requirements and shipped to China for processing.

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

Year-end equity as a percentage of total assets is a healthy 61%, down slightly on the 67% recorded in the prior year due to the high inventory levels resulting from the South African situation.

Dividend

Balancing the strong financial performance of the business with the need to invest in our growth initiatives, the board has determined that a dividend of 50% of after-tax profits should be paid to shareholders. This equates to a dividend of 41.6 cents per share.

The dividend will be fully imputed and will be paid on 4 November 2022.

Based on the year-end share price of \$6.87 the dividend represents a yield of 6.1%.

Share Trading

We continue to see moderate volumes of NZM shares being traded on the Unlisted Securities Exchange (USX).

Over the course of the year 107,000 shares were traded with shares trading in a range of \$4.50 to \$6.87. The closing price on 30 June 2022 was \$6.87. This volume compares to 135,000 shares traded in the seven months NZM shares were listed on the USX in the previous financial year.

While this level of activity and pricing is a significant improvement on the pre-USX listing activity, there is still some way to go before shares can be considered fully liquid.

Outlook for 2022/23

Our expectation is that the strong bale growth we have seen in recent years will continue in the 2022/23 financial year and this will impact positively on earnings. This will be enabled through investing further in our ZQRX initiative and in deepening our presence in the Australian procurement market to support this growth.

Offsetting this however are a number of key factors that are expected to impact negatively on earnings, including:

- The cessation of the Sustainable Food and Fibre Futures funding for our strong wool initiatives on 30 June 2022. This provided \$2.2 million of income in the 2021/22 financial year;
- Significant cost increases across the board driven by global inflationary pressures and exacerbated by increased market travel now that international borders have reopened; and
- The level of investment being committed to the ZQRX and Australian initiatives to drive further earnings lifts in out years.

Our expectation therefore is for earnings in the 2022/23 financial year to be a little softer than in the previous financial year with a budgeted ebit in the range of \$5.8 to \$6.4 million.

Annual Meeting

The Annual Meeting of NZMC will be held on Monday 31st October 2022 in Christchurch. Further details on this together with the Annual Meeting material will be distributed to shareholders in coming weeks.

For further information contact:

John Brakenridge
Chief Executive

M: 021 454 607

E: john.brakenridge@nzmerino.co.nz

Key Financial Information – Five Year Trends





