

November 11th 2021

Bremworth Limited (BRW)

The company will hold its Annual Shareholders Meeting at **2.00pm Thursday 25 November 2021**.

It will be a virtual meeting. You can join the meeting at

[Find Meeting - Computershare Virtual Meetings](#)

Company Overview

Bremworth had its beginnings 62 years ago in 1959 when Doug Bremer established the Bremworth Carpet Company. In 1967 UEB Industries purchased Bremworth Carpet and in 1972 Grant Biel and Tony Timpson founded Cavalier Corporation which was listed on the NZX in 1984. In 1988 they purchased the Bremworth name, distribution rights and plants.

The company changed its name to from Cavalier to Bremworth in August 2021 as part of a strategy to become a wholly wool carpet and rug company.

In April 2021 the CEO Paul Alston resigned having joined the company as CFO in 2012 and then CEO in 2015. In June 2021 Greg Smith was appointed CEO.

Grant Biel is retiring from the Board at the ASM but will become Director Emeritus an honorary role that he will hold for life.

On 8 October 2021 the company announced that Rachal Walsh had been appointed as an Independent Director. On 22 October 2021 the company announced she had stepped down from this role because of the perceived threat to auditor independence that could arise from her personal relationship with a non-audit partner at PwC.

PwC were appointed Auditor in May 2021 replacing KPMG.

Current Strategy

The strategy is to grow demand for wool carpets and wool rugs.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comments below.
Director share ownership	A	See comments below.
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	R	See comments below.
Director Independence	G	Good disclosure. There are a majority of Independent Directors. We note the recent resignation of Rachel Walsh as a result of potential independence issues.
Board Composition	A	See comments below.
Director Tenure	G	See comments below.
ASM Format	G	Virtual due to Covid restrictions
Company Sec independence	G	Generally good disclosure although not disclosed whether receives a profit-based incentive.

Directors Fees: While disclosure is generally good, we note the retirement allowance to be paid to Grant Biel. This was set in 2007, with the company also disclosing that “retiring allowances would no longer be offered in respect of new Directors appointed to the Board.”

There is no disclosure as to whether share options are available for Directors.

NZSA policy is that neither should be offered, and companies should disclose their position in the interests of transparency.

Director Share Ownership: There is no direct disclosure as to whether directors are compelled to own shares in Bremworth. We do note that the annual report states that “Some of the Directors are shareholders in the company”, implying that some are not and there is therefore no compulsion (a position supported by NZSA).

Executive Remuneration: The CEO is paid a base salary, a short-term incentive (STI) and a long-term incentive (LTI). NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure ‘groups’), weightings, targets and the level of achievement associated with any awards.

We note the clear disclosure of the measure and target associated with the LTI scheme. We note, however, that the assessment period for LTI is less than 3 years.

The maximum opportunity available under the STI scheme is set at 24%. We also prefer an opportunity weighting towards LTI payments; we cannot determine whether this is the case. We note that no payment was made in relation to the LTI scheme for FY21, and that STI was approximately 20% of base salary.

In general, while some details are disclosed, they are insufficient to determine the methodology associated with total CEO remuneration.

Golden parachutes: We note the former CEO received a payment described as “in lieu of notice and inclusive of an ex-gratia payment”. The amount paid was similar to the annual base salary. NZSA does not support ex-gratia payments to departing CEO’s, and prefers clear disclosure of severance arrangements applicable to the CEO.

Board Composition: The company does not disclose a skills matrix to allow an assessment of individual Director’s skill sets and how they relate to the governance of the company.

The company participates in Onboard NZ’s “Board Observer” programme, and has recently appointed Christelle Blanchet-Aissaoui. We are pleased that BRW offers an effective experience to emerging directors and plays a role in ensuring the sustainability of New Zealand’s director capability.

Director Tenure: NZSA looks for evidence of ongoing succession or ‘staggered’ appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We note that Bremworth has a range of appointment dates between 2016-2020, indicating an ongoing focus on governance sustainability.

We note the retirement of Grant Biel, a director since 1992. He has played a pivotal role in the development of Bremworth, and maintains a significant shareholding.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure.
Audit rotation	G	See comments below.

Audit Rotation: The company ensures the Lead Audit Partner is rotated at 5 years and has just appointed PwC as its auditor. The new audit firm and partner were appointed in May 2021. NZSA appreciates clear disclosure of audit partner and firm appointment dates.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	No donations are made.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	There was no dividend paid
Capital Raise process	n/a	There was no capital raising

Bremworth's share price rose from \$0.31 to \$0.76 (as of November 8th) over the last 12 months – a 145% return. This compares favourably with the NZX 50 which increased by 3% in the same period. The Performance Factor for BRW is 27.75.

Metric	2021	2020	Change
Revenue	\$111.6m	\$118.0m	-5%
Gross Profit	\$31.4m	\$22.8m	38%
NPAT	\$1.7m	-21.5m	n/a
Gross Profit Margin	28%	19%	46%
Inventory Turnover	3.08	2.39	29%
EPS ¹	\$0.025	-\$0.312	n/a
PE Ratio	30		
Current Ratio	2.57	1.41	83%
Debt Equity	1.19	1.08	10%
Operating CF	\$16.2m	\$6.8m	139%
NTA Per Share ¹	\$0.52	\$0.49	6%
Dividend Per Share ¹	n/a	n/a	

¹ per share figures based off actual shares at balance date (not weighted average)

In was a transformational year for Bremworth, firstly by way of a name change from Cavalier, secondly by a continuing shift in strategic direction by not supplying synthetic products, and thirdly the sale (and lease back) of its Auckland premises for \$25.5m.

Operating revenues were down by 5% to \$111.6m but pleasingly cost of sales was down significantly and thus gross profit was up by 38% to \$31.4m and the gross profit margin increased substantially from 19% to 28%.

Although BRW delivered a NPBT of \$2.0m (NPAT \$1.7m), included was the net gain of the sale and leaseback of a property to the tune of \$2.6m. This one off is not likely to be repeated. Adjusting for this BRW made a small operational loss in the 2021 year. BRW trade on a high PE of 30.

The financial stability has improved substantially following the sale and lease back of their premises and this has alleviated going concern issues the auditor signalled in the 2020 annual return. The current ratio is 2.57 and BRW have \$22.5m cash at bank. The debt-equity ratio is manageable at 1.19. This is impacted by a large lease liability (\$19.5m) listed as a non-current liability.

Operating cashflows were positive at \$16.2m, however this was flattered by a \$12.0m reduction in inventories. Inventory fell from \$32m to \$20m as at 30 June 2021. Pleasingly inventory turnover increased by 29% from 2.39 to 3.08.

NTA per share is \$0.52 and BRW trade at a 32% premium to their NTA.

For BRW to succeed, operating revenues will need to increase whilst costs will need to be maintained or reduced. Inventory management will be pivotal as will be the marketing of their wool only branding.

Resolutions

1. To re-elect George Adams as an Independent Director.

George Adams was appointed to the Board in June 2018. He was previously Managing Director of Coca-Cola Amatil New Zealand and Fiji, a role he held for 10 years. During this time, he also chaired the New Zealand Food and Grocery Council. Prior to moving to New Zealand in 2003, he was Finance Director of British Telecom Northern Ireland and Group Finance Director of Dublin-based bottling company Molino Beverages.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **2.00pm Tuesday 23 November 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

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Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA