



100% New Zealand Grower Owned



Wools of New Zealand Shareholder Update No. 99, 25 July 2018

FROM THE CHIEF EXECUTIVE



Rosstan Mazey
Chief Executive

Future Proofing our Business

It is fitting that in this edition, our 100th grower newsletter, we focus on how we are getting the message into the wider market.

WNZ has covered a lot of ground in the almost six years since our capital raise in 2012/13. Work has been focused on building brand awareness and forging relationships throughout the value chain on behalf of our grower shareholders. The foundation remains on building long term value in our wool.

That translates to connecting with global brands; presenting the Wools of New Zealand story to influencers, existing and prospective customers. In the UK, our WNZ team spends a significant part of each business day talking to and working with customers, prospects and influencers.

Our competitive story is that we are an authentic provider of wool fibre grown by people committed to excellence in quality, land management and animal husbandry. We are able to quantify this

integrity with our link to Oritain science and our ability to innovate with products like Glacial XT.

Last month Steven Parsons, our UK based business development manager, presented at two key events, the Non-woven Network conference and Carpet Recycling UK (CRUK), both focused on innovation and sustainability. The non-woven network is a network of companies that take wool into many end uses from mattresses to medical textiles and filtration systems. CRUK, funded by major flooring brands, has been hugely successful, diverting 42% of the 400,000T of carpet waste produced in the UK annually from landfill.



Steven Parsons, WNZ Brand and Business Development Manager, UK

Our message is seen as extremely important to the European textile companies and brands that attend. It is particularly relevant at present in light of legislation aimed at forcing European businesses to develop circular economy products. We are seeing Government

intervention in New Zealand also, for example in the phasing out of single use plastic bags over the next year.

In that space agencies such as Greenpeace and Peta have been enormously influential and have retailers very actively looking for transparency of materials to farmers under a code of practice that covers environmental management and animal welfare. Products are being removed from shelves if they cannot prove their credentials.

Microplastics are a mounting concern. There is clear evidence to show the vacuuming of a synthetic carpet contributes to micro fibres in the environment.

Wool is emerging definitively as a superior eco-product in this respect. Supporting that, a recent University of Leeds study of textile fibres in the ocean yielded zero wool.

The great news is Wools of New Zealand are plugging into successful brands that are willing to invest in more sustainable ways of doing business. We have an audience in Europe with brands that really want to be part of the Wools of New Zealand story and connect their consumers with an ethical fibre.

Forward Contracts

Developing relationships with targeted customers has also led to the development of a number of forward contracts, an important part of providing price certainty for our growers' businesses and in attracting and strengthening relationships with customers. We've responded by negotiating and offering contracts where growers can lock in forward pricing options. Our ability to negotiate these favourable contracts, including our ongoing lambswool and second shear contracts, is underpinned by delivery of wool on spec, on time and to required volumes.

2019 Lambswool 2-Year Forward Contract

Our 2-year 2019 Lambswool Forward Contract remains open. I would urge you to review the specs and pricing on offer and act now to lock in your returns.

Specifications

- Length: 2-3" (50-75mm)
- Micron: 28-31.5
- Colour: 2.0 max
- VM: 0.2 max

Price

Year 1:

- Tier 1 - \$5.50/kg clean (28-30 mic; 0.0 VM; 0.0-1.0 Y-Z)
- Tier 2 - \$5.25/kg clean (30.1-31.0 mic; or 0.1 VM; or 1.1-1.5 Y-Z)
- Tier 3 - \$5.00/kg clean (31.1-31.5 mic; or 0.2 VM; or 1.6-2.0 Y-Z)

Year 2:

- Tier 1 - \$5.65/kg clean (28-30 mic; 0.0 VM; 0.0-1.0 Y-Z)
- Tier 2 - \$5.45/kg clean (30.1-31.0 mic; or 0.1 VM; or 1.1-1.5 Y-Z)
- Tier 3 - \$5.25/kg clean (31.1-31.5 mic; or 0.2 VM; or 1.6-2.0 Y-Z)

Delivery

- Yr 1 - September 2018 - June 2019
- Yr 2 - September 2019 - April 2020
- Payment
- 50% 60 days after wool accepted into contract
- 50% 180 days after wool accepted into contract

***Please note that second shear contracts are now filled**

Comment on the Second Shear Market

Shearing rate increases of up to 25% this year has again thrown the spotlight on our wool margins. While costs obviously remain a real factor for growers, particularly when they are so significant, the majority of growers understand the health, wool quality and yield benefits of six or eight month shearing patterns and how it fits within the overall management of their farming operation.

An important consideration is the demand for second shear wool in the 2-3" and 2-4" range, from European spinners in particular. Second shear wool values in this category are holding or even improving for quality good colour wool versus full fleece (3-5" or 4-6"), so the pricing between the two types of wool is actually narrowing, as evidenced by the two-year cycle graph

below. It's currently at around 12% differential compared to more than 20% for full fleece (4-6") as recently as last season.



Ultimately, our focus is to reward growers for producing fit for purpose wool that the market demands. The market requires the specific attributes of second shear wool and we've responded by offering contracts where growers can lock in forward pricing options, ahead of the market average.

STAPLE 2018/19

As part of our regular annual business planning process we have updated a number of our tools of trade, including our spec book and D2S process. We have also developed a new STAPLE wool production indicator. You should be receiving these over the coming weeks.

Finally, I attach two articles of direct relevance to wool growers, from Rural News in case you missed them, including a comment from WNZ grower Derrick Millton as to restructuring of the wool industry and comments from our Chair on the recent Government led wool summit.

- Changes must be industry led - click [here](#)
- Wool industry needs restructuring - click [here](#)

Regards
Rosstan

Contact Us

Please contact your regional Grower Liaison (GL) directly if you wish to discuss anything.

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