



# TOGETHER, STRONGER

Information for shareholders on the proposed merger of operations between  
Wools of New Zealand and Primary Wool Co-operative-owned CP Wool



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# Key dates

## October 18 - 30 November

w/c Monday 18 October	Voting pack mailed and emailed
	Notice of meetings
Thursday 28 October, 6.30pm	<b>Online meetings:</b> Attendees will be required to register their interest for these zoom events by emailing <a href="mailto:danicia.nixon@woolsnz.com">danicia.nixon@woolsnz.com</a> or calling 03 595 2513 to receive confirmation of dial in details for this call.
Monday 1 November, 6.30pm	
Wednesday 3 November, 12.30pm	
Wednesday 3 November, 5pm	Share registry cut-off for voter eligibility
	Deadline for appointment of proxies
Thursday 4 November, 10am	PWC Special General Meeting (online)
Friday 5 November, 1pm	WNZ Special Meeting (online)
Monday 8 November	Announcement of result
Tuesday 30 November	Approval by the respective Boards for completion of transaction
End of November TBC	PWC AGM





# Introduction

**Dear Wools of New Zealand and Primary Wool Co-operative shareholders,**

We are pleased to provide you with further information on the recommended merging of operations between grower-owned export and marketing company Wools of New Zealand and Primary Wool Co-operative-owned grower services company CP Wool.

On 4th and 5th November, Primary Wool Co-operative and Wools of New Zealand will hold shareholder meetings to vote on the proposal directors are submitting to their respective shareholders. This information pack is to help shareholders make an informed decision.

**The Boards of both companies strongly recommend shareholders vote in favour of the merger transaction.**

## We understand the benefits of consolidation

Many of you have been calling for consolidation in the industry to lift grower returns. We have listened. Now you have the chance to have your say.

The WNZ and PWC boards have been working side-by-side since late last year to answer your calls to develop a strategy to lift strong wool returns. Together, we have developed a clear strategy and we are excited about the opportunity to put it into action.

On 1st August 2021, PWC became 100% owners of CP Wool, purchasing Carrfields' 50% shareholding. This was a necessary first step to pave the way for the transaction we are now recommending to shareholders, involving grower ownership and consolidation of the wool supply chain.

For too long, the sector's focus has been on margin trading raw wool as an ingredient and it has failed to lift grower returns. Our strategy is to create a

dedicated brand champion, selling consumer goods made from strong wool that captures value for our shareholders, in both wool price and share value.

Wools of New Zealand has already embarked on this strategy with the launch of a branded WNZ carpet range through 90 retail stores nationwide in July. Sales have been pleasing.

We have a bold vision, a clear strategy and a capable management team to run the proposed merged business. This proposed merger of operations will streamline the supply chain and lift our market penetration to generate more value for you as growers and shareholders than we could do as two separate entities. This consolidation is integral in driving that strategy and its success.

There are benefits for shareholder-suppliers in both companies.

Wools of New Zealand shareholders will receive improved farmgate service and in-shed support, and more efficient logistics through access to the CP Wool network of stores. Additionally, CP Wool's large bale numbers provide greater market presence to attract sizeable customers.

As suppliers to the new merged business, Primary Wool Co-operative shareholders will benefit from closer links to consumers through the Wools of New Zealand market-focused strategy and relationships.

Together, the combined bale numbers at the wool broking level will generate economies of scale and profitability through increased volume. And finally, overheads related to governance and senior management are spread across a bigger entity. Essentially, we are stronger together, which enables the strategy to come to life to take advantage of market opportunities at a global scale.

## The status quo is not acceptable

We know growers are not happy with status quo returns. Nor are they happy with a fragmented supply chain and limited links to market. If we do nothing, we will be accepting an industry model that has failed previously and will continue to fail to deliver.

Both boards have an aligned vision and plan to address the failed wool industry model and supply chain. This merger significantly increases the likelihood of success through bringing the operations of two grower owned entities into one.

The respective boards have conducted significant analysis and due diligence on each other's businesses over the last 12 months, both boards believe this proposal of an operational merger is in the best interests of our respective shareholders, and also the right thing to do to create a sustainable strong wool sector.

It is our firm view that together we can deliver on the market vision and supply scale required to make a real difference to New Zealand's wool industry. You can play a part in helping kick-start a recovery for your strong wool by supporting this strategy.

## Our recommendation

The directors of Wools of New Zealand and Primary Wool Co-operative unanimously recommend you vote in favour of the proposed merger of the operations of Wools of New Zealand and CP Wool.

Please note this is not a proposal to merge shareholding groups, just operations through creating a Limited Partnership that is 50% jointly owned by WNZ and PWC as the shareholding partners. However, the intention is to bring the two shareholder groups together into one entity in time.

Please find enclosed ballot papers and details of WNZ and PWC meetings. We encourage you to read the information, register for an online meeting and have your say.

Yours sincerely,



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# Context

Strong wool returns have been through two-decades of decline and are at an all-time low. The current state of the industry is dire and unsustainable at current returns.

We cannot sit back and continue to see our great product trade at values that do not cover the rising cost of producing strong wool.

Growers know fragmentation in the industry is detracting from what can be achieved.

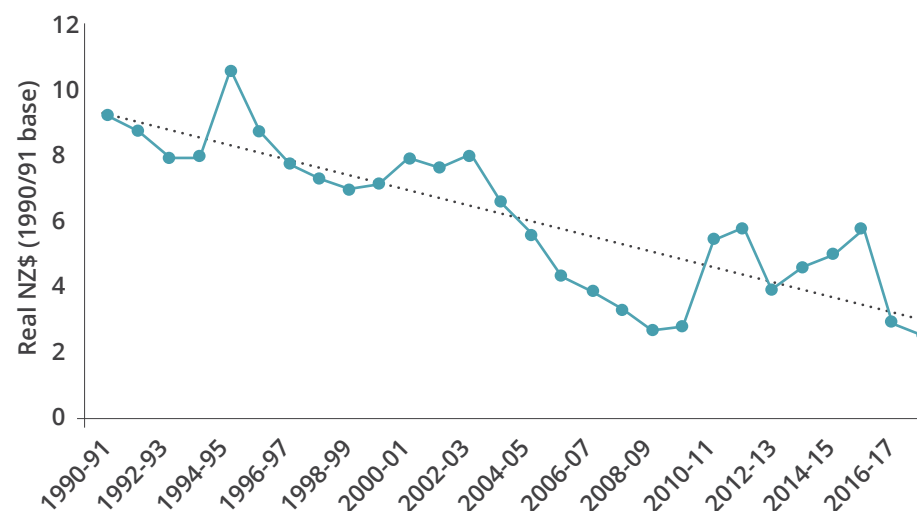
The timing is right. Consumers are becoming increasingly aware of the natural and sustainable qualities of wool as they look toward sustainable solutions for our world.

Wools of New Zealand's efforts to-date demonstrate there are early signs this strategy of meeting the market and creating a consumer-facing strong-wool brand has potential to leverage this consumer trend. WNZ launched the sale of carpet in the NZ market in July and market support has been encouraging with more than 90 Flooring Xtra and independent stores signed up to sell wool carpet.

Primary Wool Co-operative shareholders understand the benefit of exceptional farm-gate service and the value in lower wool handling costs achieved by CP Wool. In August 2021, PWC became 100% owners of CP Wool, purchasing Carrfields 50% shareholding.

Our experience also demonstrates that we need scale, and to be better organised through the supply chain to take the opportunities which are starting to come through, off the back of this growing consumer demand for natural fibre.

Real Wool Revenue Less Shearing Costs per Stock Unit



To sit by as participants in an existing model that fails to deliver for growers is not an option. Importantly, neither organisation believes consolidation on its own is the answer, but the efficiencies and scale it creates will empower the market-focused strategy and move to creating and selling consumer branded products. We know that value is captured closer to the consumer rather than margin trading raw wool as an ingredient.

We strongly believe that the new marketing and operations company created by this merger will improve growers' profitability and restore pride and enthusiasm in their natural and sustainable wool fibre product.





WOOLs  
OF  
NEW ZEALAND



Scale - **1,400 grower shareholders**  
across New Zealand

Now the 100% owner of farmgate services  
company CP Wool

Volume and scale – approximately **170,000 bales** of  
strong wool supplied via CP Wool annually

On-farm service expertise: **68 employees**

### REVENUE

**\$21.3 million**



Scale - **730 grower shareholders**

Transacts **33,000 bales** of strong wool annually

A New Zealand grower-owned supply, sales and  
export marketing company

Skilled sales and marketing focused capabilities:  
**17 employees**

### REVENUE

**\$8.6 million**



# Goal

Increase the demand for wool by creating viable commercial business models that will endure over time.

## Walk with Growers

- › Show Market Leadership
- › Grow Bale Volume to fund growth
- › Most Optimised Logistics Operation
- › Deliver the Best Service.

## Be no more than one step removed from the customer

- › Sell Products not Ingredients
- › Invest in the brand
- › Own the distribution channels to market, not the means of production
- › Capture the value gained at the consumer end of the market.

# Merger strategy

The boards of both Wools of New Zealand and Primary Wool Co-operative agree the vision is to shift from wool as a raw commodity to converting the wool to branded wool products for export and at scale that captures more value for growers.

Our proposal is to achieve this through combining operations and powering up the sales and marketing division that already exists within WNZ.

## **We believe the proposed partnership will**

- bring growers together
- capture more value for wool grower shareholders than if continuing separately
- invest deeper in marketing and sales to deliver New Zealand-branded natural strong wool products that meet consumer demand
- increase in wool going to branded woollen products, and as a consequence, a reduction in the volume going to auction, which will increase wool prices for commodity wool
- consolidate and streamline supply and sales channels
- be a stronger grower voice with government and industry
- reduce duplication in the industry and number of entities involved.

Each entity has quite different strengths, and our due diligence has identified significant synergies.

We will benefit from each other's strengths.

Wools of New Zealand is a wool marketing and export company with strong relationships in export markets and management expertise in taking products to market.

A key asset that WNZ has is the WNZ Fernmark, which is an internationally recognised and respected brand. Using this brand and management expertise, the company recently launched its carpet business.

WNZ undertakes wool procurement involving three staff, with all logistics and handling of the 33,000 bales outsourced to third parties. Approximately one third of the wool procured is exported as branded WNZ wool or products.

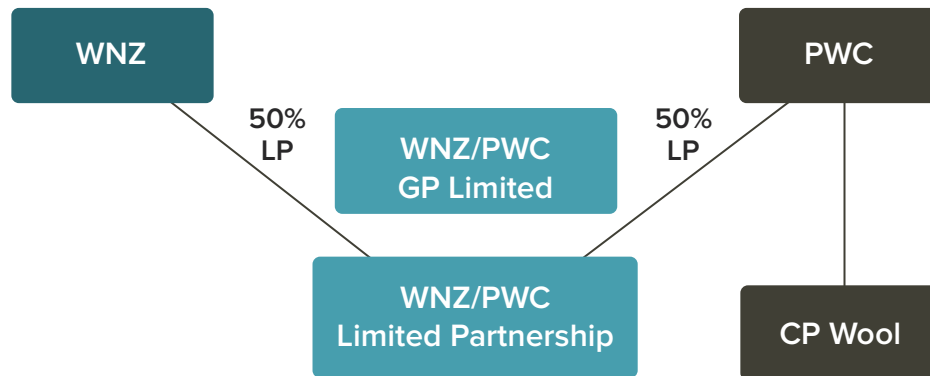
Primary Wool Co-operative, through its 100% ownership of CP Wool, carries out one of the largest wool procurement and logistics operations in NZ. It has a network of stores it leases with a fleet of trucks and wool reps that bring strong relationships with growers and in shed support. Unlike WNZ, CP Wool has no export and marketing footprint. Consequently, there is little duplication nor need to trim staff. Essentially the two companies are complementary.

The combined partnership will link the supply chain from the grower through to the customer or consumer, creating the scale, focus and shared vision to deliver better outcomes for growers and all participants in the value chain.

We can capture the synergies of a larger entity to invest in creating and selling higher value products, ultimately aiming to capture more value for growers. This is an opportunity to rejuvenate a struggling strong wool sector.

# Proposal structure

## Limited Partnership



LP = Limited Partner  
GP = General Partner

The new entity will be renamed Wools of New Zealand LP, and apart from shareholder obligations and statutory reporting, will conduct the business previously carried out by CP Wool and WNZ.

## Governance

The board will consist initially of two grower directors from each entity and three appointed directors with the chair elected from the group at the first board meeting.

### Key elements of the partnership agreement:

- Minimum number of directors will be 4, maximum of 7 to provide flexibility
- 2 shareholder-elected directors from each parent shareholder company
- 3 appointed directors from the existing pool of directors on a 1-year term to ensure we retain institutional knowledge through the transition
- Chair to be elected by the directors at the first meeting.

A plan will be developed to ensure refreshed governance and board capability for the next financial year to ensure the new entity is set up for success. This will be communicated to shareholders. We will also look to expand the Grower Advisory Board to represent both Primary Wool Co-operative and Wools of New Zealand shareholders.





# Financial

## Efficiencies

The operational merger will deliver savings in a range of areas including governance, IT, administration, funding, and other overheads costs. The roles of CEO, CFO and EA will be amalgamated across the operation. In addition, we will review logistics and supplier agreements with the goal of implementing further savings.

## Valuation methodology

Proven valuation methodologies have been used. WNZ was valued based on Net Tangible Assets whereas CP Wool was based on Future Maintainable Earnings. The directors considered that these were the most appropriate ways to value each party. As a result of the valuation process, each entity was valued at \$3.5m. Both sets of directors were comfortable that a 50/50 transaction was appropriate when all factors were considered.

# Shareholder benefits

## What the merger will mean for your shareholding

Wools of New Zealand Shareholder	Primary Wool Co-operative Shareholder
No change in shareholding in WNZ	No change in shareholding in PWC
50% ownership in new operational and marketing entity called Wools of New Zealand LP	50% ownership in new operational and marketing entity called Wools of New Zealand LP
No need to provide additional shareholder capital to fund the initial strategy and merger	No need to provide additional shareholder capital to fund the initial strategy and merger
Wool delivered to former CP Wool stores (to be managed by the new Wools of New Zealand operating entity), generating logistics efficiencies	Wool marketed and sold through WNZ for additional market value, as well as open cry, tender, NFX.
Efficiencies of scale for freight and logistics	Efficiencies of scale for freight and logistics
Greater financial certainty due to expected ongoing CP Wool cashflows	Addition of market-focused staff with global presence and relationships

# Frequently asked questions

## What is happening?

Under the proposed partnership, WNZ and Primary Wool Co-operative (PWC) will remain the shareholding vehicles while a new Limited Partnership entity will own the combined trading business of WNZ and CP Wool. The entity will be called Wools of New Zealand LP. For WNZ and PWC, this proposed merger is a Companies Act Major Transaction so both will need approval by 75% of eligible voters who vote.

## Why are you doing this?

- To combine the scale of our grower base and financial robustness to increase the chance of market returns for both parties
- WNZ is a wool marketing and export company with some procurement and has recently launched its carpet business. CP Wool, owned by PWC, is one of the largest wool procurement and logistics companies. These companies are complementary
- Capture the synergies of a larger entity to invest in creating and selling higher value products, ultimately aiming to capture more value for growers
- Shift from ingredient/commodity trading to higher value owned and branded consumer products. This is an opportunity to rejuvenate a struggling strong wool sector through growers capturing more value closer to the consumer
- Consolidate the industry to focus our combined attention on growth (rather than competing with each other at the farm gate).

## How does this fit with the strategy of both companies?

The merged organisation's vision is for a grower-owned entity to create sustained value for growers through a strategy of taking branded consumer wool products to the world at scale.

## How will one entity improve the prospects for wool?

These two businesses have complementary strengths. A new entity will link the supply chain from the grower through to the customer and consumer. This will create scale, focus, resources and shared vision to deliver better returns for growers.

## I've seen it all before – what's different?

This is the first time in recent history that two grower-owned wool organisations have agreed to form a new entity. There has been a lot of talk across the industry about what should be done - this partnership is us getting on with making a difference to you and our industry. This is a strategy already in action.

## How will this impact the price of wool?

Over the medium term, we believe it will have a significant impact. We calculate that the oversupply of wool from the NZ market is around 40,000 bales (5-10% of the total clip). It is this oversupply that is one of the things we need to resolve - create the demand to soak it up. If we manage to increase consumer demand for 40,000 bales more - we'll shift the price.

Wool's natural and sustainable attributes are being recognised more and more by consumers around the world. Producing wool products that consumers want is the key. Wool carpet is a big part of leveraging that consumer demand.

Combining our resource will also enable us to shift our focus and limited resources into identifying market opportunities where we can grow demand for our branded sustainable fibre to generate greater farmgate returns

## Why have you chosen a Limited Partnership as a structure?

External advisors have recommended a Limited Partnership, which provides real flexibility. An added benefit is that it allows dividends and profits to flow directly to the shareholding companies, untaxed.



### What happens to the staff of both entities? Will there be redundancies?

It is planned that staff of both WNZ and CP Wool will be transferred to the new entity on their existing terms and conditions and a formal consultation process to consult on this will take place after the shareholder vote. There are no plans for any change to staff numbers or redundancies. Our primary focus in this merger is for our sales teams to grow bales and supply and to find opportunities in the market for consumer branded strong wool products.

### Are you going to cut costs?

We believe that by combining our resources, we will be able to remove unnecessary duplication and refocus that resource into the market where we can increase returns for growers. We will of course be looking at where we can streamline operations where possible, but only where it makes sense to do so.

### Will this actually reduce the transaction costs for WNZ shareholders?

Early analysis indicates some promising upside for WNZ shareholders. We need to look at both operating models in more depth though before we communicate any changes. However, we are exploring adopting CP Wool's model across the business, meaning savings for WNZ growers.

The purpose of this merger is not focused on the immediate reduction in operating costs. This is something we'll tackle in the medium term. Short term, we need to focus on building demand and increasing bale numbers. We can't save our way to success.

Transaction cost is also just one component of improving the future for strong wool. We need the resource to enable us to take premium opportunities in the market. This is about the coming together of two complementary organisations to build both supply and demand for wool.

### How will I transact with this new entity?

We will communicate any changes to logistics as we make them. The goal is to make logistics more streamlined and cost efficient.

### I deal with a WNZ and a CP Wool rep – who do I deal with now?

You'll continue to deal with your usual rep.

### Can I buy more shares in PWC?

Yes absolutely. You can purchase shares through PWC once a Product Disclosure Statement is updated.

### Can I sell or buy WNZ shares?

Yes you can. You simply need to find a buyer or seller for them at a price that works for both parties. WNZ maintains a register.

### I'm a shareholder of both entities – what happens to my shares now?

Nothing changes.

### I've applied to have my PWC shares redeemed and they haven't been able to pay me out – what happens to my redemption?

If your application for redemption of your PWC shares has been approved, that approval is unchanged. Combining with Wools of New Zealand should deliver cash to Primary Wool Co-operative to enable your redemption to be paid out. However, this won't happen overnight and we need to wait until it is prudent and possible to pay out redemption requests. Doing so remains a high priority for the co-operative.



### What's the impact on Natural Fibre Exchange (NFX)?

There will be no impact as NFX is a separate entity owned by a different group of shareholders. We still believe it's a valuable platform. Online global trading creates new opportunities for New Zealand strong wool that aren't available through the open cry. We see a strong online trading platform as a future proof solution.

### When will all this be effective from?

If the transaction is approved by shareholders, this merger will be effective from 30 November 2021.

### If this major transaction isn't approved by shareholders, what's plan b? What happens next?

We really believe this is the right step for our organisations, grower shareholders and for our industry. If this isn't approved, the Boards of both organisations will have to regroup and carefully consider our future strategies. Ultimately, we will respect shareholders' wishes.

# What happens next

WNZ and PWC-CP Wool directors and staff are discussing the proposal and what it means for farmers at online meetings before the PWC Special General Meeting on 4th November and a WNZ special meeting on 5th November. Grower shareholders will have an opportunity to vote online or nominate a proxy.

These documents are being sent to shareholders and full information can also be found online.

Growers will be notified of the outcome as soon as possible after the votes have taken place.

Please visit [www.primarywool.co.nz](http://www.primarywool.co.nz) and [www.woolsnz.com](http://www.woolsnz.com) for more information.

## Contact

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