

26/05/2026 - REBUTTAL TO NERA ANALYSIS (included in Godfrey Hirst's submission of 15th May)

Point 5 Figure 1 Godfrey Hirst's payments for property, plant.....

It is surprising that this is redacted as Godfrey Hirst's financial records are public record, being available on the Companies Office website.

Point 9 Bremworth's Cashflows

NERA has conveniently ignored Bremworth's most recent financial results, i.e., for the six months to December 2025.

The six months to December 2025 showed a dramatic reduction in net cash flow from operating activities by approx **90% to \$1.9m from \$21.8m** in the prior comparable period (July – December 2024). (The cash outflow from trading and operations in the same period **reduced to -\$0.8m from -\$7.0m** in the prior comparable period.)

Importantly, the operating loss compared to the prior comparable period was reduced by approx. 90%, from \$ 21.8 m to \$ 1.9 m.

NB This massive reduction in operating loss was achieved even though in those six months Bremworth had to deal with the problems of;

- Very high stocks of seconds rate of carpet made from Indian yarn (reportedly over 25,000 lineal metres of broadloom carpet (over 90,000 sq metres)
- Large quantities of faulty/second-grade Indian yarn
- A significant shortage of first-grade stock in NZ, and a worse stock position in Australia
- The very real drop in confidence from retailers in the quality of Bremworth products caused by the high levels of second-grade carpet and low stock
- A shortage of first-grade samples that colour-managed stock (these are required for retailers to be able to sell Bremworth carpets

We believe that Bremworth would have incurred higher than normal one-off operating costs dealing with rebuilding stock and sample levels to required levels in the July-December 2025 period.

We note that at the end of December 2025, Bremworth advised it had \$34.3m in cash and no debt.

Bremworth has seen a dramatic turnaround in operating cashflow in July – December 2025. What did they do differently?

- **The Napier yarn plant was restored (announced on 24th July 2025)**

[NZX, New Zealand's Exchange - Announcements, Expansion Of Napier Production In Post-cyclone Rebuild](#)

On 12th November 2025 the Bremworth's Chairman noted in his address to the AGM;-

“The reinstatement of the Napier yarn plant is well advanced, with production quality now meeting our standards and supporting improved SKU delivery. This reinstatement is the foundation to unlock the shortening of the supply chain, reduction of inventory hold, yarn quality and consistency improvement, improved cost efficiency and ultimately sales growth.”

- **The management team was progressively replaced, from 10 April 2025 to 19th June 2025, with experienced carpet people. (Various NZX announcements.)**
- **Manufacturing of synthetic carpet was announced on 9th May 2025.**

Bremworth's Chairman noted in his 12th November 2025 address at the AGM;-

“Re-entry into SDN carpet is virtually complete. We now have stock on hand and expect to see sales begin this month. The demand pipeline is well supported by ongoing yarn supply from our partners. The addition of SDN to Bremworth's product portfolio provides us with greater relevance to our retail partners, and ultimately our consumers, as we have a wider range of consumer-relevant products to offer in our range.”

NERA's analysis, by ignoring the most recent publicly available financial results, is effectively last year's newspaper – out-of-date and meaningless if Bremworth's business model has changed and the dramatic improvements from the new business model are sustainable. (NB The new business model is essentially the same as Bremworth's manufacturing peers – Godfrey Hirst, Victoria Carpets, and EC Carpets.

What Caused the Dramatic Turnaround in Bremworth's Operating Cashflow in July-December 2025?

Our analysis done in Mar 2025 (submitted) clearly showed that BRW's costs (as a % of sales) had previously exploded to be much higher than key competitors - Godfrey Hirst, Victoria Carpets, and EC Carpets. These costs were a significant contribution to Bremworth's dreadful cash flow (excluding insurance payouts) for the 2023-2025 financial years.

What do the July-December 2025 financial results show about the dramatic improvement in cashflow?

The Chairman noted in his 12th November 2025 to the AGM;

“Alignment of the cost base is also nearly complete. We are seeing efficiencies in distribution and administration and are beginning to benefit from lower overheads across the business. Sales capability has been rebuilt. Almost all frontline positions are filled, and we are seeing encouraging momentum particularly in New Zealand.”

Analysis of the July -December 2025 financial results is consistent with the Chair’s statements at the November 2025 AGM.

Distribution Costs for July-Dec 2025 were \$6.8m (15.2% of sales). Down from \$8.5m (20.2% of sales) in the previous Dec 2024 period. NB The drop to 15.2% of sales is a big improvement and the lowest % of sales since 2018.

NB This reduction in distribution costs was achieved in a hectic six months for BRW, as they had higher than normal costs associated with resampled retailers and hiring and training new salespeople.

Admin Costs for July-Dec 2025 were \$4.7m (10.5% of sales). Down from \$6.1m (14.4% of sales) in the previous Dec 2024 period and a peak for BRW of 16% in 2024.

The only other cost that stands out is the \$1.472m spent in the six months to December 2025 on the Godfrey Hirst Takeover Scheme. This is on top of the \$444k in the June 2025 period.

Net cash flow from operating activities

The operating loss for the six months in Dec 2024 (peak madness) was \$21.8m. For the Dec 2025 six months, it was down to \$1.9m - a roughly \$20m improvement over a six-month period!

This is a dramatic improvement, and oddly, the board in their 25th Feb 2026 NZX announcement does not comment on this other than *“Trading conditions have remained challenging and the improvement in sales performance the Board had anticipated has not come through, resulting in continued losses and cash outflows during the half.”*

The reductions in admin and distribution costs only total \$3.1m, and we believe the majority of the dramatic cashflow turnaround is because BRW replaced the very expensive, poor-quality Indian with much higher quality yarn and cheaper yarn from Bremworth's restored Napier yarn plant.

Bremworth's chair referred to the Napier yarn plant in his 12th November 2025 address to the AGM;-

*“This has already seen the employment of in excess of 20 staff in Napier as we rebuild the blending operation and the carding lines that were damaged in Cyclone Gabrielle, reinstate the two for one twister and operationalise the confin line **to produce high quality, consistent yarn in New Zealand**. This has also had the benefit of bringing virtually all yarn production back in house, with commensurate **savings** on inventory holding and a significant reduction in supply chain length and time to service, with the added significant benefit of a **remarkable quality improvement** in the yarn produced. Quality has returned to historical levels, with downgrade rates now below long-term averages. This is a **major improvement compared with the 12 percent level seen earlier in the year.**”*

We believe the Commission needs to urgently establish:

- 1) The overall cost to Bremworth of importing expensive, relatively poor-quality yarn from India, and the contribution this made to Bremworth's large negative cash-flow in the 2025 financial year. This should include:
 - a. The higher cost of the imported Indian yarn
 - b. The costs associated with a 12% downgrade rate from Indian yarn
 - c. The costs of compensating customers who had been supplied with off-colour and streaky carpet made from imported Indian yarn
 - d. Personnel and travel costs dealing with the importing of Indian yarn and the rectification of quality problems.
- 2) If the significant reduction in cost from returning to using wool yarn produced in Napier is sustainable
- 3) If Bremworth's cost base can be expected to continue to improve to be on a par with its manufacturing peers – Godfrey Hirst, EC Carpets, and Victoria Carpets
- 4) Why was NERA instructed not to/or chose not to review Bremworth's December 2025 financial statements, and given that the statements show a dramatic improvement – consistent with NZX announcements by Bremworth – why did NERA not qualify their analysis?

The statements, questions asked, and conclusions made in points 10-15 of the NERA report on Bremworth's financial outlook are rendered worthless because NERA has ignored:

- The dramatic improvement in cashflow in the July-Dec 2025 period
- The structural reasons for the improvement

3 Constraint from Imports

“19. In our 5 February 2026 report, we explained that following Bremworth’s reduction in wool carpet output: A. Most of the output gap was filled by wool carpet imports; and B. Far from being able to raise its price for wool carpets, Godfrey Hirst’s wool carpet gross margins have [REDACTED] since 2021.”

It is frustrating that the tables detailing the information to support these assertions are redacted.

Regarding Godfrey Hirst’s gross margins on wool carpets, it is also frustrating not to be able to review the redacted data. We would note that fluctuations in gross margins on wool carpet could have been caused by:

- The share of Godfrey Hirst intercompany sales of wool carpet sold to Godfrey Hirst Australia and other Mohawk entities at margins as low as 5% could have impacted gross margins.
Godfrey Hirst export sales to Godfrey Hirst Australia and Mohawk were
 - \$62.3m in December 2024 year
 - \$58.5m in December 2023 year
- Changes in how the quantum of the management fees paid by Godfrey Hirst to Mohawk owned entities.

Management fees were \$7.9m in December 2024 and \$8.5m in December 2023 year.

3.2 Are there Barriers to Expansion of Wool Carpet Imports?

22. For the latter to be correct in light of the former, there would have to be something materially different about the economics of selling imported wool carpets than selling imported synthetic carpets. In our view, the SOUI does not explain why this would be the case.

23. The SOUI identifies a variety of claimed barriers to expansion for wool carpet. We list these in Table 3 and comment on them, including whether we would expect these claimed barriers to apply asymmetrically to wool and synthetic carpets.

Please refer to our rebuttal of Bremworth’s Feb submission to the Commission, in which we outline the substantial difficulties in importing high-quality, price-competitive broadloom wool carpet. As we detail, the most recent substantive attempt to use wool yarn from supposed cost competitive countries was by Bremworth after Cyclone Gabrielle. This was an unmitigated financial and reputational disaster for Bremworth.

4.2.2 Competition Against Imports

33. “As we noted at [28] of our 15 October 2025 report, analysis by Godfrey Hirst implies its acquisition of Bremworth would enable the merged entity to produce the Bremworth volumes at a materially lower cost, taking advantage of economies of scale and scope.¹⁹ This would better enable the merged entity to **compete against imports**. Over time, we would expect the competitive pressure from imports to result in merger-induced cost savings being passed on to retailers (and ultimately carpet consumers).

The error in this assertion is that there are no effective options for the cost-effective importing of high-quality wool yarn and/or wool carpet.

It is annoying that again, publicly available data, in this case from financial results and the NZ Department of Statistics, is redacted. It is impossible to rebut an invisible argument.