

CAVALIER SPECIAL MEETING OF SHAREHOLDERS

17 September 2020

CHAIR'S PRESENTATION

Cavalier Bremworth heritage

Cavalier Bremworth is one of the most respected flooring brands in the market and is recognised as a champion for quality New Zealand wool carpets. On top of that, over the past fifty years we have built up significant knowledge about the potential and performance of many different fibres from diverse sources for use in flooring.

In response to consumer demand, synthetic carpets were introduced in the last decade. However, wool carpet was and remains the optimum offering for our customers. Not only is it the best fibre for design, innovation and performance in flooring, it's also natural, biodegradable, renewable and healthier.

A changing world: evolving trends

The world is changing with consumer trends and tastes continually evolving – and in response, we need to change too. Evolving trends and changes in consumer behaviour are seeing us move back to natural and environmentally sustainable materials that we are strongly positioned to respond to, and to benefit from.

In the last few decades, more flooring choices have become available, and we have seen a move to hard flooring (including wooden) and to synthetic carpets, made from plastic fibres, which have been heavily marketed to consumers by large global manufacturers.

While we adapted to those trends by manufacturing our own synthetic carpet ranges, using recyclable materials where possible, we strongly believe that wool is the best option for quality flooring – it's better for people's health, the planet and our business.

The long-term dangers of plastics

Today, the long-term dangers posed by plastics are becoming clear.

It's a global problem and manufacturers need to be part of the solution.

The flooring industry is significantly contributing to plastic production and it's obvious to us that change is needed.

As a company, we cannot ignore that we are currently contributing to the plastic problem by manufacturing and selling synthetic carpets. While we consider recycling to be a positive step towards repurposing plastic that already exists, stopping it at source is the best solution.

Our time is now

We are strongly positioned to benefit from these trends and we believe the time is right for us to change.

It makes sense for us to transform and transition out of synthetic carpet to wool and natural materials, knowing that, in the process, we are committing to improving the wellbeing of our customers and the environment without compromising on design and performance attributes that our customers care about.

Our vision

Our vision is to become a global leader in designing and creating desirable, sustainable, safe and high performing interior products.

And while this transformation will take time and investment, we believe we have the infrastructure, capability and expertise to effectively manage the change.

Assuming you vote in favour of the resolution today, Cavalier will, for the first time in many years, be debt free and armed with a plan and capital to build a new, sustainable business we can all be proud of.

Thank you.

CEO'S PRESENTATION

Our place in the world

We are about to undergo a significant change to the business as we transition to a purpose led natural fibres business model.

This change is necessary for the company's long-term future and a successful transformation will not happen without investment.

We will be:

- Transitioning out of synthetic carpets and focusing on all-wool and natural materials.
- Repositioning our brand and offer to better meet the needs of conscious consumers.
- Continuing to focus on doing what's right – for people and the planet.
Seeking out partnerships and investment with other like-minded brands and products; and
- Delivering better returns on investment for our shareholders as a result.

Cavalier has been historically slow to react to changes in consumer behaviour but we intend to be in front of the pack this time and be a leader in the natural fibre space, something we are good at and a direction we believe the world is headed.

Stop selling synthetics

Towards the end of last year, we stopped ordering synthetic plastic yarns and are currently transitioning out of synthetic stocks – since we announced the move away from synthetics in July this year the sell down of synthetic stock has been faster than we anticipated. This means a significant amount of cash has also been realised to assist with our transition.

Building on our heritage

Cavalier Bremworth has a long-standing history of producing world leading wool carpets. It's what we're known for. Premium quality carpet made from New Zealand wool, right here in New Zealand.

And this is where our focus will remain, creating and marketing valuable, natural interior products that are both sustainable and desirable, here and around the world.

Our growth strategy

To reach our goals over the next few years we need to grow woollen carpet sales progressively in what has been a shrinking soft flooring market. We plan to do this by investing in four main areas:

- Grow the wool flooring market - we will be leading a movement to inspire consumers, to promote the true worth of wool and natural fibres and to reignite and grow consumer demand for natural and sustainable products. Changing consumer behaviour and telling the wool story is important for growth.
- Grow our share of the market - we will be positioning Cavalier Bremworth as the first choice for these consumers. We will refresh our brand look and feel and invest considerably more into marketing (something we have underinvested in in recent years).
- Expand our presence- we will be expanding our presence – more retailers, new ranges and products with different price points, more investment into our online presence, reaching out to new consumer groups and utilising the voices of influencers and opinion leaders to support our brand. We will have more than 300 stores in New Zealand and Australia that will now have access to Cavalier Bremworth products.
- Innovation and future thinking - while woollen carpets and flooring will remain our focal point in the short to medium term, we will also look at other opportunities to leverage our strengths and capabilities and expand our market. We will use science and innovation to create new product categories and will partner with experts and other like-minded organisations.

Reaction has been positive

We announced our strategic intentions last month and the feedback we have received has been overwhelmingly positive. This has been very exciting and it's not just us....in New Zealand and around the world, there is a groundswell of support for natural fibres and materials.

In New Zealand alone in the last few months, we have seen a new vision and action plan launched by the Government-supported Wool Industry Action Group; significant media coverage on the opportunities for wool; extensive social media commentary backing both Cavalier's transition to all wool and natural fibres as well as support for wool in general; and support for the industry from the Government via the Sustainable Food & Fibres Future fund.

I am convinced this is the right direction for the company!

We need to invest in the future and change will be costly – all the funds generated from the sale of the Auckland site will be required to make the change successful.

Our goals and ambitions

Over the next ten years, our vision is to become a purpose-led global leader in designing and creating desirable, sustainable, safe and high performing interior products. We have set ourselves a number of near and medium term goals to guide us on our journey.

Our financial journey

Five-year modelling of Cavalier's future financial performance and the investment needed to bring about the transformation has been undertaken by management and external advisers.

In summary:

- Total sales revenue for FY20 and FY21 will reduce as Cavalier exits its non-wool carpet business and as a consequence of COVID-19;
- Investment costs, including restructuring of our operations, will be incurred as we adjust our manufacturing and sales base to reflect the new sales focus;
- Marketing spend and people costs will increase significantly as we invest in a number of initiatives to enhance our market presence and ensure our strategy is successfully communicated, understood and implemented – because we will not grow if we do not invest;
- As our strategy bears fruit and sales of higher margin, higher value woollen carpets replace and eclipse the previous synthetic carpet sales, this will be reflected in Cavalier's financial performance, with growing revenues expected from FY23 and FY24 onwards as we build woollen carpet sales and as the economy recovers from COVID-19;
- The full benefits from the transformation are expected from FY25 onwards.

Trading update

One thing we didn't count on, when we started defining our new strategy, was that the world would be hit by a pandemic. However, we believe our new positioning and business model will benefit us in this new normal.

Since emerging from lockdown in New Zealand and the restrictions in Australia in May, we have seen stronger sales volumes than what we had been expecting. Partly, this has been led by pent up demand seeing consumers spending money on their homes in lieu of other discretionary spends (for example, overseas travel), as well as sales of synthetic carpets, as retailers have been stocking up ahead of our transition away from these fibres.

New Zealand, in particular, has been performing better than anticipated in the new financial year from 1 July. For the financial year to date, Cavalier's total carpet volumes in New Zealand, including the sell down of synthetics, are up over 7% on the same period last year. Sales revenue is up over 10% due to a better mix of product sold.

During the same period, wool volumes on their own are up 7.5% on last year and sales revenue is up 21% - again highlighting the higher price points associated with wool carpets.

In Australia, while volumes are down about 13%, the associated sales revenue is only down by 6%. In part, this softer performance is a result of the renewed COVID restrictions in Victoria and NSW, where nearly 60% of our active retailers are based; as well as the need to rebuild woollen carpet stocks in Australia following the shutdown of manufacturing in New Zealand.

Over 80% of our sales in Australia are wool. We have started strongly in September and are expecting a lift in this market as COVID restrictions are relaxed.

Our net debt has also decreased significantly, from \$17.7m in December to only \$7.2m at the end of August. This is a major decrease and highlights the stronger than expected trading and faster than expected sell down of remaining synthetic stocks.

The outlook for the economy remains uncertain but all indications are that there will be a downturn in the near term as a result of COVID-19.

We believe the work we are doing to reposition Cavalier will allow us to navigate this environment and build on the consumer trends we are seeing in the marketplace to deliver value for our shareholders.

Thank you.

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