

Product Disclosure Statement



Offering of Ordinary Shares in The New Zealand Merino Company Limited



**Issued by
The New Zealand Merino Company Limited
23 October 2020**

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this Offer on <https://disclose-register.companiesoffice.govt.nz/>. The New Zealand Merino Company Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.

Lead Manager:







1. Key Information Summary

1.1 What is this?

This is an offer of ordinary shares (**New Shares**) in The New Zealand Merino Company Limited (**NZM**). New Shares give you a stake in the ownership of NZM. You may receive a return if dividends are paid or NZM increases in value and you are able to sell your New Shares at a higher price than you paid for them.

If NZM runs into financial difficulties and is wound up, you will be paid only after all creditors have been paid. You may lose some or all of your investment.

1.2 About NZM Group

NZM is an international marketer and seller of ethical wool. NZM's supply chain operates by sourcing wool from Growers that are culturally aligned with the philosophy and standards behind NZM's key brands of "ZQ" and "ZQ[®]" and elsewhere where there are sound commercial opportunities. These brands, at a high-level, reflect the commitment of both NZM and its Growers to ethical wool, with a growing recognition of regenerative principles that also focus on carbon impact. NZM then sells this ethical wool to its Value Chain Partners for ultimate use by Brand Partners. NZM's Brand Partners are represented in a range of global consumer products markets, most notably apparel, footwear and interior textiles. NZM is also involved in a range of innovation and value-added projects relating to the primary sector. For further information refer to Section 2 (NZM Group and what it does).

1.3 Purpose of this Offer

The purpose of the Offer is to raise capital to:

Amount	Use of Proceeds
Up to \$9.6 million	<ul style="list-style-type: none">increase working capital flexibility and provide working capital debt headroom for anticipated growth, for which the majority of these funds will be used;provide diversification of funding sources to support NZM's growth strategies, including finding value accretive initiatives that broadly support the addition of new supply contracts back to Growers; andstrengthen NZM's balance sheet so its capital structure is better able to react to the impacts and risks to NZM caused by COVID-19 and/or other market disruptions that may arise.
Up to \$2.5 million but at least 20% of the gross proceeds of the Offer	<ul style="list-style-type: none">fund the Share Buy-Back offer made to all Shareholders on the Record Date that have a registered address in New Zealand, who do not participate in the Offer and wish to fully exit their investment in NZM; andfund the potential acquisition of Shares under Minority Buy-Out Rights.
Up to \$0.5 million	<ul style="list-style-type: none">cover Offer costs.

When taken together, the Offer and the Share Buy-Back are also intended to provide for greater alignment between NZM, its Shareholders, Growers and other stakeholders. This is accomplished by giving:

- existing Shareholders the ability to apply for further Shares in the Rights Issue;
- existing Shareholders, particularly former Growers that have retained their Shares but have been unable to sell them due to low Share liquidity, an opportunity to fully exit their investment; and

- NZM the ability to allocate New Shares not taken up in the Rights Issue to Growers, employees and Directors (in each case who are not Shareholders, and in the case of Growers, not controlled by Shareholders), and then, if any New Shares remain, to Strategic Investors.

Participation in the Offer or the Share Buy-Back is not mandatory – you do not need to participate if you do not want to. For further information on the purpose of the Offer and Share Buy-Back, refer to Section 3 (Purpose of the Offer).

1.4 Key terms of the Offer

	Rights Issue	Shortfall Offer	Strategic Investor Offer
Description of securities	Ordinary shares in NZM.		
Issue price	NZ\$3.80 per New Share. No further payments, fees or charges are required to be paid for the New Shares.		
Description and eligibility	<p>A pro rata non-renounceable rights issue of 1 New Share for each Existing Share held by each Shareholder with a registered address in New Zealand at 5pm on the Record Date.</p> <p>Eligible Shareholders who take up their Entitlement in full may also subscribe for any number of additional New Shares at the Issue Price through an Oversubscription Facility. There is no guarantee any New Shares applied for under the Oversubscription Facility will be issued as the Board has full discretion on allocation.</p>	<p>Subject to there being Shortfall Shares from the Rights Issue, the offer of Shortfall Shares is being made to current Growers, employees and Directors, each of whom are not Shareholders (and, in the case of Growers, controlled by Shareholders) and are residents in New Zealand.</p> <p>Such persons may apply for any number of Shortfall Shares above a Minimum Holding, but there is no guarantee that any Shortfall Shares will be issued as the Board has full discretion on allocation.</p>	<p>Subject to there being Remaining Shares from the Shortfall Offer, the offer of Remaining Shares is available only to persons who are Qualified Investors and who the Board considers, at its sole discretion, to be able to assist in the execution of NZM's growth strategy as set out in Section 2.7 of this PDS.</p> <p>Such persons may apply for any number of Remaining Shares above a Minimum Holding, but there is no guarantee that any Remaining Shares will be issued as the Board has complete discretion on allocation and issuance.</p>
Record Date	25 September 2020	N/A	N/A
Offer opens	18 November 2020	18 November 2020	10 December 2020
Offer closes	2 December 2020	2 December 2020	17 December 2020
Settlement and quotation on USX	9 December 2020	9 December 2020	21 December 2020
Minimum application	An Application resulting in a shareholding of at least 250 Shares after the Offer.	250 New Shares.	250 New Shares.
Number of New Shares being offered under the Offer if all Entitlements taken up	The maximum number of New Shares to be issued under the Offer is 3,305,097 (being 50.03% of the total Shares on issue at the completion of the Offer and before the Share Buy-Back), including through the Oversubscription Facility, Shortfall Offer and Strategic Investor Offer.		
Gross proceeds from the Offer	Up to a maximum of \$12.6 million.		
Share Buy-Back	<p>A Share Buy-Back is also being offered to all Shareholders with a registered address in New Zealand, in respect of all of the Shares they hold on the Record Date at \$3.80 per Share. This is a separate offer to the Offer described in this PDS. The full terms of the Share Buy-Back can be accessed in the Share Buy-Back Disclosure Document Offer Register at https://disclose-register.companiesoffice.govt.nz/ (Offer number: OFR12964).</p> <p>If you wish to participate in the Share Buy-Back, you cannot participate in the Offer. However, please note that if you submit an Application Form and an acceptance form under the Share Buy-Back, the Application Form under the Offer will take precedence and the Share Buy-Back acceptance form will be rejected.</p>		
Minority Buy-Out Rights	At its annual meeting on 15 October 2020, Shareholders approved the adoption of the Constitution. Consequently, some Eligible Shareholders may be entitled to Minority Buy-Out Rights. If an Eligible Shareholder decides to exercise their Minority Buy-Out Rights, they cannot participate in the Offer. Details of the Minority Buy-Out Rights were provided to all relevant Shareholders in the notice of annual meeting, dated 25 September 2020.		

1.5 How you can get your money out

NZM does not intend to quote these New Shares on a licensed market in New Zealand but they will be able to be traded on the Unlisted Securities Exchange (**USX**). This means you may be able to sell them on USX if there are interested buyers. You may get less than you invested. The price will depend on the demand for the New Shares.

USX is not a Licensed Financial Product Market. Efficient Market Services Limited, which operates USX, accepts no responsibility for any statement in this PDS.

1.6 Key drivers of returns

Set out below are NZM's five key business streams representing the current and future aspects of NZM Group's business that have, or may have, the most impact on the financial performance of the business and a summary of NZM's key strategies and plans for those aspects of the business:

- Revenue and costs from marketing and selling wool globally – this is NZM's largest focus and greatest source of cost, which has a large seasonal component to it typically peaking in December following shearing. NZM's contract model means that a large proportion of its wool sales revenue (81% for Fine Wool and 68% for Strong Wool in FY2020) are based on direct supply contracts with Brand Partners and Value Chain Partners, supported by back-to-back supply contracts with Growers. NZM's key strategies for increasing this revenue are the ZQ^{RX} initiative, growing Strong Wool market-share, and expanding Fine Wool supply to service growing Brand Partner demand for Fine Wool. While these strategies drive NZM's wool marketing and differentiation, the initiatives underlying them form a significant part of NZM's cost base. These strategies are further explained in sections 2.7(1) to 2.7(3) of the PDS.
- Revenue from fees and charges – NZM applies a series of fees and charges to wool transacted including a Marketing and Innovation Fee and a Production Science Fee. The Marketing and Innovation Fee is a critical source of revenue for funding the costs associated with NZM's market development, differentiation and innovation work. The Production Science Fee finances costs associated with on-farm projects that have an objective of advancing Fine Wool Growers' farming systems. As the strategies noted above are expected to increase total wool sales, there would be a corresponding increase in this category of revenue.
- Trading margins from wool trading opportunities – NZM commonly has short term opportunities for orders that otherwise were not forecasted or contracted by Brand Partners or Value Chain Partners. When these opportunities arise, NZM may source the order requirements from inventory or the open market. Presuming market conditions are favourable relative to the cost at which the wool can be acquired, it is possible to make a margin on such trades. Currently, the quantum of short-term trading opportunities each year has the greatest impact of all revenue streams on NZM's profitability (although as noted in Section 8 the impact of COVID-19 has depressed trading margins). Increasing supply to support increased Brand Partner and Value Chain Partner customer demand is a key element of NZM's strategy for this revenue stream.
- Revenue from external sources and other streams – NZM has had a long-standing focus on securing revenue from external sources to support its growth strategy, and is constantly evaluating new market and product opportunities to leverage its expertise in the wool industry (with a particular focus on consumer products). NZM's Primary Growth Partnership (**PGP**) programme, W3, and consultancy income were the only material sources of external funding in FY2020. The PGP funding will remain in place until the end of FY2022. Funding for W3 provides critical financial support to NZM in pursuing its Strong Wool, biotechnology and ZQ^{RX} strategies and the costs associated with them (see section 2.7(2), (3) and (6) of this PDS for further detail). NZM also explores joint venture partnerships such as 'Silere' with respect to sheep meat and Glerups with respect to wool indoor shoes. NZM's strategies in these areas are set out in section 2.7(5) and 2.7(7) of this PDS.

1.7 Key risks affecting this investment

Investments in shares are risky. You should consider if the degree of uncertainty about NZM Group's future performance and returns is suitable for you. The price of these New Shares should reflect the potential returns and the particular risks of these New Shares. NZM considers that the most significant risk factors that could affect the value of the New Shares are:

- **COVID-19 Risk:** The interrelation between NZM, Growers, Brand Partners and Value Chain Partners is close and significant. The COVID-19 pandemic, adversely impacting each one of them, is likely to have a compounded adverse flow-on effect on NZM's financial performance. This risk continues to develop with the pandemic, but at present the principal effect on NZM, has been trading margin reduction and the need to agree payment delays with Growers. Going forward, amongst other effects, it is possible that Brand Partner contract renewals may be challenging, further payment delays may need to be agreed with Growers, and Grower supply and logistics may be interrupted causing non-compliance with NZM's obligations to Brand Partners.
- **Trading Margin Risk:** NZM trades in wool, and the price and demand for wool will impact its trading margin. NZM expects the adverse impact of COVID-19 on trading margins to be most felt in FY2021, with NZM's financial performance in FY2022 then expected to be closer to pre-COVID-19 levels. The basis for this expectation is that Brand Partners commit to progressively lower wool volumes in successive years of a long-term contract, which should result in their demand being in line with their existing contracted commitments in FY2022. As a result, NZM would be better placed to make a more accurate assessment of the wool volumes that may be used to meet their needs. This together with an improvement in market demand may result in trading margin levels recovering in FY2022, but at potentially lower levels than before COVID-19 as lower prices may be paid, and/or lower volumes required, by Value Chain Partners and Brand Partners, and proportionately more wool being sold at auction where NZM does not earn a trading margin. The uncertainty of the long-term impact of COVID-19 on NZM and its trading partners, may instead result in a reduction in NZM's financial performance in FY2022, including due to possible delays in payment by Brand Partners, with low trading margin revenue and interruptions in Grower supply.
- **Ethical Wool Status Risk:** NZM positions itself with Brand Partners as a supplier of ethical wool from Growers that are culturally aligned with the philosophy and standards behind the ZQ and ZQ[®] brands. If there is a failing in the ZQ supply chain, such as due to an on-farm animal welfare incident, this reputation could be undermined. This could result in Brand Partners and Value Chain Partners using alternative ethical wool providers, adversely impacting NZM's financial performance, including the Premium it can potentially achieve over wool auction prices.
- **Key People Risk:** NZM's senior management team are the primary relationship holders for external business stakeholders and hold a wealth of experience and knowledge. This is significant for NZM as despite contractual arrangements, in practice, NZM's supply commitments with Brand Partners are relationship driven to a large extent. Further, NZM's growth strategy relies in large part on leveraging existing know-how. While there is a low level of staff turnover at the senior level, loss of key personnel could have a material adverse effect on NZM's business continuity and execution of NZM's growth strategy.
- **Customer Concentration Risk:** NZM has traditionally focussed on developing strong relationships with relatively few Brand Partners, with its largest customer accounting for 37% of Fine Wool contracted sales by value and the top 10% of Brand Partners accounting for 42% of total wool sales in FY2020. Therefore, the loss of, reduction in commitments, or change to predominantly short term contracting by key Brand Partners, would have a material adverse effect on NZM's financial performance. This risk is exacerbated by COVID-19 travel restrictions preventing physical meetings with new and existing Brand Partners to build and maintain relationships.

This summary does not cover all of the risks of investing in New Shares. You should also read Section 8 of the PDS (Risks to NZM Group's business and plans) and Section 6 (Key features of ordinary shares in NZM).

1.8 Where you can find NZM's financial information

The financial position and performance of NZM Group are essential to an assessment of this Offer. You should also read Section 7 (NZM Group's Financial Information).

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Letter from the Chairman

On behalf of the Board of The New Zealand Merino Company Limited (**NZM**), I would like to thank you for your interest in subscribing for New Shares in NZM. This Offer is being made following strong support from Shareholders to modernise the NZM constitution and will lay an important platform for future growth, as detailed below.

NZM is one of the world's leading ethical wool companies and through its ZQ and ZQ^{RX} brands sells wool to a global network of Brand Partners and Value Chain Partners. Fundamental to the NZM model is branding, innovation, differentiation, long-term supply contracts and enduring stakeholder relationships.

NZM transacts the majority of New Zealand's Fine Wool, with a small share of the Strong Wool market. In FY2020, NZM also sourced Fine Wool from Australia, South Africa and Argentina.

The key business drivers for the Offer are two-fold: first, diversifying our funding sources to support future growth and working capital flexibility, and secondly strengthening our balance sheet at a time of heightened uncertainty due to COVID-19.

This Offer of New Shares in NZM comprises a 1 for 1 non-renounceable Rights Issue to all existing Shareholders on the Record Date with a registered address in New Zealand, and an offer to new investors of any Shortfall Shares not taken up through the Rights Issue, with priority to Growers that are not shareholders or controlled by shareholders, and then employees and Directors.

NZM is also running a separate Share Buy-Back offer at the same time as this capital raising. The Share Buy-Back is to be funded by the proceeds from the capital raising, and is available to any Shareholders on the Record Date with a registered address in New Zealand who do not participate in the capital raising.

I encourage you to read this document, and NZM's Offer Register entry, carefully and in their entirety before making your decision to invest. This Product Disclosure Statement contains detailed information about the Offer. It sets out information on NZM's business structure, strategy and sources of value. It also sets out the risks to NZM's business and plans.

The Board is confident about the outlook for NZM and on behalf of the Board, I welcome your involvement in this Offer and your support of NZM.

Kate Mitchell

Chairman

The New Zealand Merino Company Limited



2.

NZM Group and what it does

2.1 Overview

NZM is an international marketer and seller of ethical wool. NZM's supply chain operates by sourcing wool from Growers that are culturally aligned with the philosophy and standards behind NZM's key brands of "ZQ" and "ZQ^{RX}" (and elsewhere where there are sound commercial opportunities), and then selling the wool to its Value Chain Partners for ultimate use by Brand Partners. NZM's Brand Partners are represented in a range of global consumer products markets, most notably apparel, footwear and interior textiles. NZM is also involved in a range of innovation and value-added projects relating to the primary sector.

Further details of NZM's business model and plans are set out in sections 2.3 to 2.7 below.

Corporate structure

NZM is the ultimate holding company for the NZM Group. Details of NZM's subsidiary and other entities in which it has a shareholding are set out below together with a brief description of their activities:

Name	Shareholding	Incorporated	Nature of Activities
Alpine Origin Merino Limited	50.0%	New Zealand	Merino meat marketing company
Glerups New Zealand Limited	50.0%	New Zealand	Distributor for Glerups indoor shoes in New Zealand
Keravos Limited	80.0%	New Zealand	Materials engineering

2.2 Our History

A Brief History

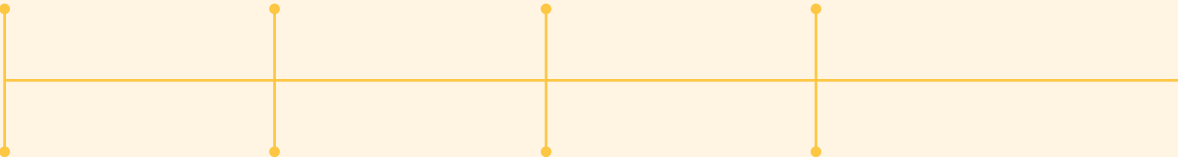
- 1996**

Merino growers sought to establish a brand and markets for their fibre through the 'Merino New Zealand' industry good organisation.
- 2003**

The New Zealand Wool Board is disestablished, and merino growers get a direct shareholding in Merino Grower Investments Limited.
- 2008**

NZM purchased Pyne Gould Guinness's fine wool business and subsequently the finer end of PGG Wrightson's mid-micron business.
- 2011**

Following a share restructure, PGG Wrightson ceased to be a Shareholder in NZM. As a follow-on to that transaction, four of the Senior Managers became Shareholders in the business.



- 2001**

NZM is incorporated, owned 65% by Merino Grower Investments Limited, a company owned by the New Zealand Wool Board, and 35% by Wrightson Limited.
- 2007**

NZM developed ZQ, having identified that consumers would become increasingly attuned to where their products came from and how they were produced.
- 2010**

The New Zealand Government supported the transformation of the New Zealand Sheep Industry by entering a seven-year PGP with NZM, focussed on the fine and mid-micron sheep industry.
- 2012**

Silere alpine origin merino launched.

2016

The W3 seven-year PGP between NZM and the Ministry for Primary Industries commenced, aiming to drive transformational change in the way strong wool is produced and marketed. This initiative led to the development of Keravos.

**2019**

NZM officially opened its new office and launched Studio ZQ, a natural fibre 'centre-of-excellence' that embraces a systematic approach to creativity, innovation and business development.

**2020**

NZM launched ZQ^{RX}, an initiative that seeks to reward the adoption of regenerative principles on-farm by matching these farms with Brand Partners and their consumers.

**2017**

NZM and Icebreaker signed a ten-year contract; the longest ever supply contract for New Zealand merino wool entered into by NZM.

**2019**

NZM won the Supreme Award at the New Zealand International Business Awards. NZM also won the Excellence in Design category and achieved highly commended both in the Excellence in Innovation and Best Large Business categories.

2.3 Key Business Strengths

1) Leadership Position in Ethical Wool

ZQ is one of the world's leading ethical wool brands and, since its launch in 2007, NZM has sought to continuously develop and position ZQ as it responds to and anticipates consumer market trends.

ZQ requires Growers to meet a series of baseline standards for fibre quality, animal welfare, care for the environment and social responsibility. These standards then allow Brand Partners to differentiate their offerings in the market.

Much of the success of the New Zealand Fine Wool industry has been a combined effort driven in part by NZM's strong market leadership and innovation, as well as sustained investment from Growers, Brand Partners and Value Chain Partners. Furthermore, the Fine Wool industry has benefited not only from continued use in applications such as high-end suits, but also from the development of new product categories, particularly active outdoor clothing and footwear. In NZM's view, these relatively new product categories have, in large part, been the outcome of innovative companies, including NZM, collaborating to develop an in-depth understanding of consumer needs.

NZM's business, and the ZQ brand, ultimately cater to the conscious consumers of its Brand Partners who have demonstrated their willingness to be less price sensitive to brands that have a positive impact on society and the environment. This value to Brand Partners drives the ability of ZQ Wool to return higher prices than wool sold through wool auction commodity markets.

The success of ZQ and the Premium it can generate by comparison to competing wool buyers, is also reflected in Grower retention rates with NZM being the largest marketer of Fine Wool in New Zealand. The strength of NZM's brand also affords NZM a leadership position in ethical wool that provides the market positioning needed for its other activities (see sections 2.4, 2.5 and 2.7 below).

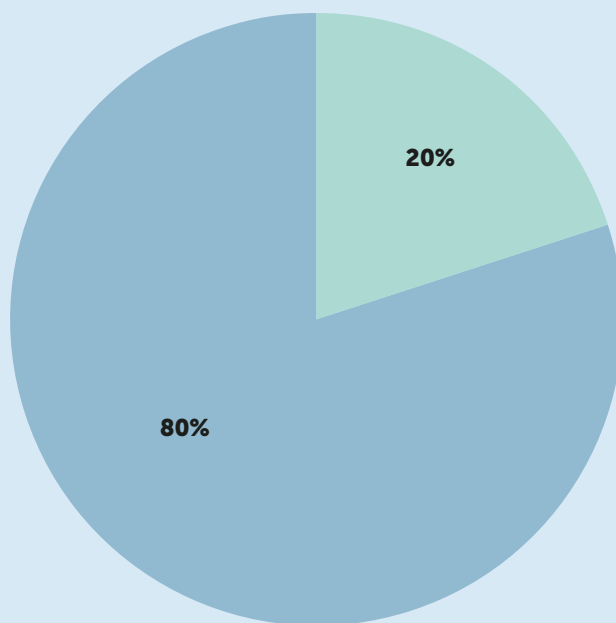
2) Contract Model

To facilitate the free flow of market signals throughout the value chain and promote more predictable wool volumes and prices into the future, NZM's practice is to seek to enter into long-term arrangements with Brand Partners, Value Chain Partners and Growers. In this way, Brand Partner demand is matched up with Grower supply, giving greater certainty to both parties, as well as NZM. Contracts are then entered into with Growers and Value Chain Partners who process the wool for Brand Partners.

Typically, contracts with Brand Partners are for rolling three-year periods (though exceptions exist – such as the ten-year rolling contract with Icebreaker). Brand Partners' commit to lesser volumes in succeeding years under these contracts as a means of factoring in the uncertainty of future demand for their products, which volumes are then 'topped up', if required, to reflect the needs in that year.

On the Grower side, supply contracts require Growers to only sell their wool to, or through, NZM. If Growers produce more wool than is required for contracts they have entered into, they can either hold on to it, or provide it to NZM for sale at wool auction, sale to Brand Partners and Value Chain Partners when 'top-ups' to supply are required or to meet required volumes for other short-term contracts. This in turn gives NZM access to a significant volume of wool, and provides flexibility to meet forecasted Brand Partner and Value Chain Partner demand (although wool can also be purchased by NZM on market at wool auctions).

NZM's contract model has historically enabled greater levels of earnings stability and growth. In NZM's view, this is an important factor in providing greater certainty for continued investment in new product development and innovation. Facilitated through the development of the ZQ wool standard, it has also enabled NZM to provide its Growers with sustainable pricing and Premiums for their wool.



Contract sales as a percentage of total sales in FY2020 by value.



3) People

The talent and experience amassed at NZM has been a driving factor of its success. In the past five years, NZM has grown the number of staff it employs from 34 to 50 FTE's and now has well established teams focussed on procurement, sales, marketing, production science, creative and innovation. There are few other wool brokering businesses globally that have the breadth of expertise comparable to NZM.

NZM has actively sought to deepen its talent pool, so it can pursue its growth strategies (see section 2.7 below) to improve its value proposition to its Growers, Value Chain Partners and Brand Partners, while minimising key person risk (see section 8 below).

"A Canterbury business [NZM] creating a high-value, top-dollar future for merino wool has won the Supreme Award at the New Zealand International Business Awards 2019, leading a stellar list of category winners" – New Zealand Trade and Enterprise.



4) Enduring Stakeholder Relationships

Building and maintaining deep relationships with its stakeholders (being its Growers, Brand Partners and Value Chain Partners) has been a core focus of NZM since its inception. For example, NZM's two most significant Brand Partners, Icebreaker and Smartwool, have been Brand Partners since NZM's formation. The premise behind this focus is that an aligned culture between NZM's stakeholders is beneficial to all parties involved. Working on such strong relationships improves the likelihood of Growers and Brand Partners (and therefore Value Chain Partners) continuing to do business with NZM, supports conflict resolution, and provides greater financial stability to NZM and its stakeholders. Relationships with Brand Partners are also made stronger by working with them to apply the ZQ brand to their products and business practices.

Over the past two seasons, NZM has sourced wool from 487 Growers and has an active relationship with 50 Brand Partners and Value Chain Partners. The Premiums achieved by ZQ for Growers' wool, along with the contract model and the effort going into Grower relationships has allowed NZM to maintain relatively high levels of supply continuity. Equally, NZM's development of the ZQ wool standard and growing relationships with Brand Partners has facilitated more enduring partnerships.

The volatile state of the global economy triggered by COVID-19 has heightened the value of these relationships. Since the breakout of COVID-19, the value of NZM's relationships is demonstrated by only one Brand Partner renegotiating the terms of its contract (while still paying significantly above the current market price) and the broad support received from Growers in accepting delayed payment dates, collectively assisting with the continued sustainability of all stakeholders' businesses.

5) Product and Market Innovation

NZM remains at the forefront of innovation and brand development in the wool industry through the development of the ZQ wool standard which allows Brand Partners to differentiate ethically sourced, sustainable and high-quality wool products. ZQ is also currently undergoing a significant transformation through the introduction of ZQ^{RX}. ZQ^{RX} provides optionality to Growers and Brand Partners to adopt regenerative principles and thinking that reflect improved environmental and social outcomes in wool production. This goes beyond the ethical on-farm practices that have so far characterised ZQ Wool.

In addition, NZM seeks to innovate and expand the potential uses and users of wool. The purpose of these efforts is to build upon the know-how and relationships NZM has already developed in the wool industry to drive additional value for Growers, Brand Partners and therefore the business itself.

As further elaborated in section 2.7 below, Studio ZQ encompasses many of NZM's innovation initiatives which cover consultancy, ZQ Retail and biotechnology. Some of these initiatives have Government funding under a PGP for the W3 programme. At present, the leading example of the ongoing innovation programmes is "Keravos", a novel method that combines wool with a polymer to produce a rigid material that is biodegradable.



6) Favourable Trends to Natural Materials

Increased environmental awareness, in part caused by petrochemical synthetic products, has reawakened consumer demand for natural and sustainable products. Conscious consumers have demonstrated their willingness to be less price sensitive to brands that have a positive impact on society and the environment. Despite synthetic products growing in total sales volume, natural products (including those made of wool), are experiencing growth in premium market niches. This trend is in line with the increasing demand that NZM has observed from Brand Partners in recent years.

The increasing shift back to using natural and environmentally sustainable materials, if sustained, presents an opportunity to further grow the wool industry and continue to innovate with new uses for wool. NZM and its ZQ wool standards are positioned to leverage New Zealand's particular farming systems and the natural and sustainable qualities of its wool to further expand markets by targeting discerning consumers who value these attributes.



ETHICAL



ENVIRONMENTAL
SUSTAINABILITY



TRACEABILITY



CONSISTANT
FIBRE QUALITY



SOCIAL
RESPONSIBILITY



NATURAL
PERFORMANCE



INDEPENDENTLY
AUDITED



NO MULESING



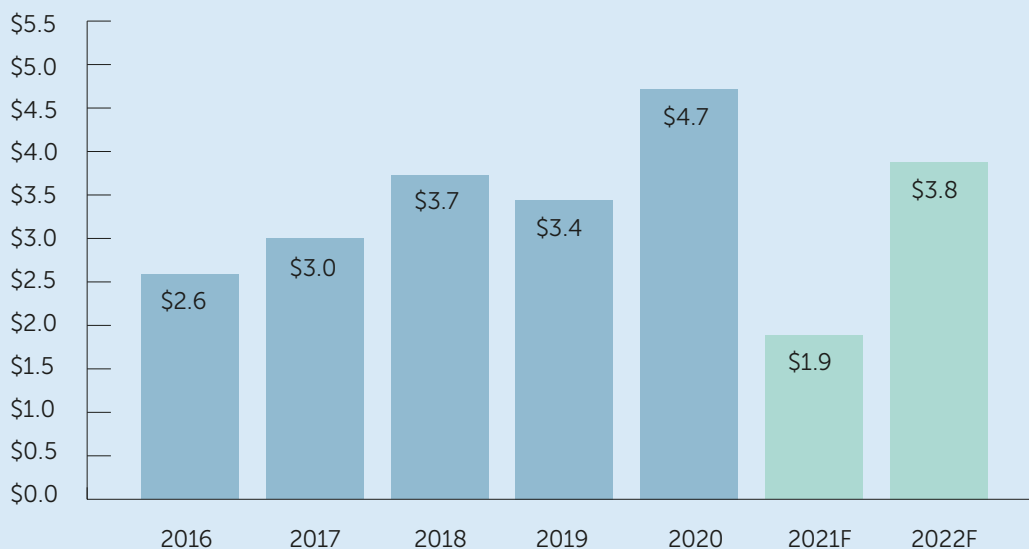
WELLNESS
BENEFITS



7) Efficient Business Model

NZM has a track record of efficiently using its available capital to generate attractive shareholder returns. Over the past five years, NZM has delivered a compounded annual growth in EBIT of 16.1%. The growth rate lowers to 6.7% when considering the seven-year period from FY2016 to FY2022F, where the outcomes for FY2021F and FY2022F are expected to be negatively impacted by COVID-19. The historical growth in earnings has been achieved with relatively low levels of capital in the business, with correspondingly good returns on equity. NZM has achieved post-tax returns on equity in the range of 13.3% to 21.8% over the last five years and is forecasting this to be in the range of 3.9% to 8.2% between FY2021F and FY2022F. The forecast lower return on equity is as a result of the expected impact of COVID-19 on earnings in those years and the increased capital base as a result of this Offer.¹

Actual and forecast EBIT between FY2016 and FY2022F in million dollars.



For further information on NZM's financials see Section 7. We note that earnings before interest and tax ("EBIT") is a non-GAAP profit measure utilised by NZM that is not determined in accordance with GAAP. The Offer Register (<https://disclose-register.companiesoffice.govt.nz/>, offer number OFR12964) contains reconciliations of EBIT to information prepared in accordance with GAAP in the Supplementary Financial Information.

¹ Return on equity is measured as net profit after tax divided by closing equity in the relevant year. See Section 7 and the Supplementary Financial Information on the Offer Register for historical and forecast net profit after tax and equity.

2.4 Our Business Model

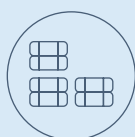
NZM is not involved in wool production, processing, storage or the wool supply chain. Wool is purchased from Growers either through back-to-back contracts, on an arm's length basis or through the auction system. Further, NZM does not currently sell wool direct to consumers. NZM's 'customers' are the next stage Value Chain Partner (e.g. top maker), with whom NZM works closely to sell the processed wool to Brand Partners. However, NZM does seek to have long-term direct contractual commitments with Brand Partners for a certain wool volume and price per year which is then supplied to Value Chain Partners. Where a long-term direct contract is not entered into with a Brand Partner, a commitment for the relevant year only is entered into instead. The connection and commercial arrangements between NZM, Value Chain Partners and Brand Partners are supported by having a deep level of customer understanding.



FARM



FARMING AND
SHEARING



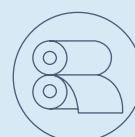
BALES OF FLEECE



CONTRACT



SCOURING



PROCESSING



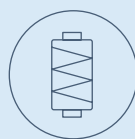
DYEING



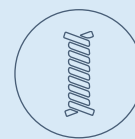
COMBING



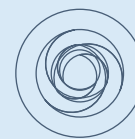
KNITTING



SPINNING



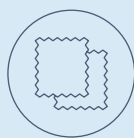
TWISTING



WOOL BUMP



WEAVING



FINAL FABRIC



PACKAGING



FINISHING



DISTRIBUTION



RETAIL

2.5 Our Operations

NZM primarily generates revenue from:

- wool sales derived from procuring wool from Growers and marketing and selling wool to Value Chain Partners and Brand Partners;
- trading margins on variable wool volumes above contracted levels and open market contracts;
- fees and charges earned for services including handling and marketing wool and developing market opportunities;
- other income sources including from external funding (e.g. PGP), industry consulting fees and royalties; and
- other existing business opportunities.

1) Wool Sales

Merino New Zealand (NZM's predecessor organisation) arranged its first long-term supply contract in 1997, a unique model in the wool industry at the time. NZM remains an outlier in the wool industry today, whereby approximately 81% of its Fine Wool transactions by value in FY2020 were based on direct supply contracts. Contract volumes as a proportion of total sales revenue for Strong Wool were at approximately 68% in FY2020. The high level of contracted sales provide stability to NZM's core earnings base.

The core philosophy of NZM's long-term supply contract model is the notion of creating a sustainable price for both the Grower and Brand Partner that rewards market-led practices, as reflected in the ZQ certification. In general terms, this manifests in a Premium price for Growers. By nature of the competitive environment for Brand Partners, the contract wool price is often in part determined with reference to the auction price for wool so that Brand Partners are in a position to maintain a competitive advantage at the consumer-level.

The balance of NZM's wool that is not supplied to Value Chain Partners or Brand Partners is either sold on an arm's length basis under non-branded contracts or through the auction system. In 2004, NZM began selling the majority of its Fine Wool auction sales in Melbourne, as the competition amongst buyers is considered by NZM to be higher there.

In FY2020, approximately 91% of NZM's wool was sourced from New Zealand, where NZM has a grower facing team responsible for procuring much of its wool supply. The remaining wool supply is sourced from overseas (predominantly Australia and South Africa) where NZM has adopted a partnership model, engaging with an established wool broker in each country. The partnership model provides NZM with an immediate market presence at lower

cost than setting up its own operations.

Wool sales represent 90% of NZM's total income in FY2020 and are expected to remain the largest generator of revenue in the foreseeable future.

Given the significance of wool sales to NZM's revenue, its operations and working capital requirements therefore have a large seasonal component to them. Costs are incurred procuring wool from Growers ahead of sales to Brand Partners or Value Chain Partners, at times many months in advance due to New Zealand Merino wool only being available to purchase for a short period of time while Brand Partner demand is constant across the year. This gives rise to seasonal peak funding requirements during the wool shearing season and beyond, typically peaking around December as wool inventories increase. This cost is funded through NZM's seasonal bank funding facility (excluding the impact of COVID-19 – see section 5.2.6 in the PFI for further information). Trade and other receivables peak around January as the large inventory levels held over the peak summer season are subsequently sold.

As NZM's financial year end is 30 June, NZM's net indebtedness is relatively low at the end of the financial year, with drawn borrowings typically peaking in December due to NZM's seasonal working capital requirements as described above. See section 5.2.7 of the PFI for further information on NZM's financing.

See Sections 2.7 and 3 for further information about how the proceeds of the Offer are intended to be applied in relation to NZM's seasonal working capital requirements.

2) Trading Margin

NZM's wool sales via its contract model are fundamental to its ability to create short-term trading margins. As noted in section 2.3, Brand Partners and Value Chain Partners commonly place orders that were not forecasted or contracted with an expedited delivery date. In such cases, NZM sources suitable wool from the auction system or wool held in inventory and this provides NZM with an opportunity to generate a trading margin, presuming market conditions are favourable relative to the cost at which the wool can be acquired. Trading margins are also created from wool that is bought and sold on the open market.

The volatility of the wool commodity market means the variation in short-term trading opportunities is high. However, NZM has consistently demonstrated an ability to create trading margins from short-term trading opportunities, which has the greatest impact of all revenue streams on net profit before tax, as shown in Section 7 and Section 5.2.3 of the PFI.

3) Wool Services

NZM derives revenue from a number of fees and charges that are common to the industry, including those specifically for handling (Consolidated Charge), insurance and fibre testing.

NZM also generates revenue from other fees and charges that are unique to its supply base. The main fee is the Marketing and Innovation Fee. The Marketing and Innovation Fee is calculated based on 4% of the total wool sales value, which is a primary source of revenue to cover the cost associated with NZM's market development, differentiation and innovation work (see section 2.3 above and section 2.7 below).

The Consolidated Charge is a fee on all wool sold, and is currently in the range of \$0.18 per kilogram Greasy to \$0.30 per kilogram Greasy depending on the sales channel. NZM also charges all New Zealand Fine Wool Growers a Production Science Fee of \$0.0525 per kilogram Greasy which finances the costs associated with on-farm initiatives for Fine Wool Growers, such as the CPT programme run on Lincoln University's Mt Grand Station. The CPT allows breeders to benchmark Fine Wool sheep genetics against other New Zealand and Australian studs using EBVs.

NZM has no intention to alter the terms of the fees and charges in the foreseeable future.

4) External Sources

NZM has a history of securing external funding to support its growth strategy. In 2010, NZM obtained its first seven-year PGP programme for the New Zealand Sheep Industry Transformation Project (NZSTX), which had the aim of expanding market opportunities for Fine Wool and supporting the development of a "new fine-wool sheep genotype", among other initiatives.

W3 is NZM's second PGP programme and has a target of delivering Premiums to the New Zealand Strong Wool sector. In FY2021, W3 entered its penultimate year and has \$4.22 million in income remaining to be received. The structure of W3 means that for any qualifying expenditure, 50% is funded by the Ministry for Primary Industries.

Qualifying expenditure includes costs associated with most work programmes related to Strong Wool (e.g. market and product development, extension, etc.) and support for developing ZQ[®], which has a broad benefit across NZM's business and the primary sector. NZM's expectation is that its Strong Wool business unit will be commercially viable following W3 funding expiring in FY2022, reflecting its variable cost structure and improving financial returns from expected increased volumes.

NZM has also secured consulting revenue from the private sector, which is an increasing strategic imperative. In FY2020, NZM was commissioned to complete a major consultancy project for a Brand Partner to create a plan for

how its products could become more receptive to market signals from its customers. Many of the recommendations made as part of the consultancy have been or are intended to be adopted. As at the date of this PDS, NZM has no commitment from third parties to undertake fee-for-service consultancy work.

NZM can provide no guarantee of being able to secure funding from external sources (e.g. Government or private sector) in the future; however, it remains a significant component of its funding intentions.

5) New Business / Product Development

NZM is constantly evaluating new market and product opportunities which will leverage its expertise in the wool industry, with a focus on consumer products. Examples include NZM's joint venture partnerships in AOML and GNZL. In both examples, the market development work is ongoing, and represent two opportunities to generate future growth opportunities.

AOML sells premium Fine Wool sheep meat under the consumer brand Silere. NZM's expansion into sheep meat has been a function of its firm belief that its customer-led model developed in Fine Wool, could be transferable to the commodity-focussed meat industry. In addition, NZM was driven by a desire to provide an improved value proposition to Fine Wool Growers. To-date, NZM's role in AOML has largely been around providing procurement support, by connecting Alliance Group Limited with Growers, and helping develop the brand strategy. NZM intends to increase its support to AOML, aiming to position Silere as a high-value, high-demand meat product.

GNZL is the exclusive distributor for Glerups indoor shoes in New Zealand and NZM is tasked with managing the day-to-day operations of the business. The go-to-market strategy for GNZL was formerly focussed on selling business-to-business, with an increasing effort now being put into selling online direct to consumers, owing to the higher margins and greater brand control via this channel.

2.6 Our Brand Partners

As noted above in section 2.3, sitting behind NZM's contract model are the Brand Partners that ultimately purchase ZQ Wool.

NZM has an extensive range of Brand Partner customers across a number of markets including apparel, footwear and interior textiles. NZM has relationships with at least 50 Value Chain Partners and Brand Partners, who sell their products in most major markets across the world.

Notable Brand Partners in FY2020 include



2.7 Our Growth Strategy and Outlook

As noted above, NZM's ZQ and ZQ^{RX} brands, and the philosophy behind them, are consumer driven brands that seek to obtain a Premium for wool that reflects the demands of conscious consumers. Conscious consumer groups (such as Lifestyles of Health and Sustainability ("LOHAS")) are ones that tend to be less price sensitive to brands that have a positive impact on society and the environment.

As such NZM seeks to contract with Brand Partners that cater to such niche consumers, and to build the ZQ and ZQ^{RX} brands to ultimately meet those end-consumers expectations. This is captured in NZM's mantra of "empowering people to make better decisions and lead our world to a better place".

This targeted approach seeks to unlock value in raw natural materials and is one which NZM believes provides a compelling commercial opportunity that could be replicated across other natural materials businesses. As a result, NZM's growth strategy seeks not just to expand its Fine Wool and Strong Wool businesses, but to build on its existing platform (intellectual property, people, innovation and design) by investing in other natural materials businesses that currently tend to receive lower commodity prices for their products.

NZM's growth strategies are also aimed at increasing the volume and value of Fine Wool and Strong Wool transacted by the business, resulting in NZM's seasonal working capital requirements increasing (see Section 2.5(1) above for more information on the seasonality of NZM's operations). Therefore, as noted in Section 3 of this PDS, a majority of the funds raised are intended to be used in providing greater funding headroom under existing bank facilities in order to support NZM's working capital requirements.

1) Fine Wool

NZM remains the largest marketer of Fine Wool in New Zealand, and its primary growth strategy is to promote ZQ as the preferred option for the world's leading consumer brands who use natural fibres. As noted above, Fine Wool provides NZM with the premium market positioning to leverage on the success of ZQ across the wider NZM business to deliver on its other growth strategies noted below. Trading in Fine Wool is also NZM's main business and the key contributor to its financial performance.

The demand for ethical wool sourced by NZM is growing and NZM expects that this will support an increase in transacted wool volumes. Indicators for demand are the increasing commitments from NZM's existing Brand Partners to sign long-term supply contracts and the apparent market differential in the Melbourne auction for non-mulesed Fine Wool. The ZQ^{RX} initiative (noted below) is also expected to increase the demand for ethical wool and therefore the volumes of wool transacted by NZM.

Further, the Offer is also intended to provide diversification of funding sources to support NZM's strategies. You should read Section 3 of this PDS in full for further information on the other intended uses of the proceeds of the Offer.

In February 2019, NZM established Studio ZQ, a "natural fibre centre of excellence" that embodies design thinking principles to respond to the threats and opportunities facing NZM and its stakeholders. Studio ZQ is an innovation hub that is utilised across many of NZM's growth strategies.

This strategy is more specifically illustrated and described below.



To service this growing demand, NZM remains focussed on increasing its supply base overseas, notably in Australia and South Africa. With a longer-term view, NZM is also supporting New Zealand Growers in transitioning from Strong Wool to finer microns, where the marketability is higher.

NZM will also continue to target existing Fine Wool Growers in New Zealand who do not currently supply NZM; however, it accepts that there will be a proportion of the potential supply base that is not philosophically aligned and therefore not suitable as it cannot comply with ZQ requirements.

Although there are competing wool brokers in New Zealand and overseas, NZM does not expect these competitors will be a significant factor in the success of its growth strategy. This view reflects the Premium NZM is in a position to generate in comparison to the prices paid by its competitors.

2) ZQ^{RX}

NZM launched ZQ in 2007 as an ethical wool standard based on the premise that not all wool is created equal. In the years since, the digital sophistication of consumers, and their awareness of environmental, social and animal welfare performance has increased. Further, as there are other ethical wool standards globally that NZM competes against (and in some cases works with), it is important to keep developing NZM's ethical wool standards.

In recognition of this requirement, NZM has launched ZQ^{RX} as an evolutionary alternative to ZQ which seeks to reward the adoption of regenerative principles and aims to provide consumers, Brand Partners, Value Chain Partners and Growers with the tools to make better decisions. As noted above, the development of NZM's brand and what it represents is a key driver of its financial performance.

Central to ZQ^{RX} is an index that scores each property against 15 indicators covering animals, people and the environment. Growers will still have to meet the ZQ wool standard as a baseline but will be scored on a scale of 1-10 against each of the 15 indicators. The intention is to pool Growers wool that scores similarly on a given indicator (e.g. animal welfare practices) and align it to a Brand Partner that is willing to reward those Growers for their actions.

The initial market focus for ZQ^{RX} will be based on the Grower's carbon footprint, as this remains the primary threat and opportunity for most Brand Partners.

In the eight weeks since launching ZQ^{RX} to Growers, 163 of NZM's existing 487 Growers signed up to the programme. The commitment from Growers demonstrates their intent to ensure continual improvement across all aspects of their farming business.

ZQ^{RX} is expected to improve the marketability of NZM's wool as it reflects market signals received by NZM through its Brand Partners. The uptake of ZQ^{RX} is also expected to result in increased wool volumes being transacted by NZM.

3) Strong Wool

NZM's venture into marketing Strong Wool is predicated on a belief that it can replicate the proven customer-led long-term supply contract model that it has developed in Fine Wool. Furthermore, because Strong Wool represents approximately 85%² of New Zealand's total wool sector by volume and therefore, the magnitude of the opportunity, if executed correctly, is considerable.

Establishing a market for Strong Wool akin to that for Fine Wool is a strategic imperative for NZM. NZM's strategy is based on the notion that conscious consumers (e.g. LOHAS) would pay a Premium for Strong Wool products with sound environmental and social credentials, as with products made from ZQ Fine Wool.

Consistent with its approach in Fine Wool, NZM seeks to drive growth in its Strong Wool supply base based on market signals from consumers as communicated to NZM through Brand Partners. At present, NZM purchases a small amount of the annual Strong Wool production in New Zealand. As such, it is seeking to increase the number of contracting Growers over the coming years in relative proportion to the Brand Partner contract offering.

W3 has been a key enabler for developing NZM's Strong Wool business unit, providing early-stage financial support to accelerate its growth trajectory. NZM's expectation is that its Strong Wool business unit will be commercially viable when W3 funding expires in FY2022, owing to its variable cost structure and improving volumes and financial returns.

4) Consultancy

NZM has had a long-standing focus on value creation for other businesses, leveraging the knowledge that it has gained through dealing with its Brand Partners and association with the likes of the Te Hono Movement and Stanford University. In FY2020, NZM sought to move into complementary areas by offering consultancy services. The benefit of offering consultancy services is threefold; it generates additional revenue, provides NZM with a deeper understanding of other businesses and industries to guide its strategic direction, while also attracting new sales volumes from convergent projects.

5) ZQ Retail

ZQ Retail represents a unique opportunity for NZM to engage directly with end consumers to generate unfiltered insights, develop internal capability in online sales for the benefit of both NZM and its Brand Partners, while also offering a compelling financial opportunity.

NZM made its first expansion into selling finished wool products direct to consumers in late-FY2020 through a joint venture partnership with Glerups, a global brand for woollen indoor shoes. The joint venture partnership is undertaken through GNZL and has a target of selling more than 3,000 pairs of shoes in FY2021. NZM is responsible for managing all operational aspects of the joint venture partnership in New Zealand and is reimbursed for its services.

NZM continues to review opportunities to expand into other consumer products, either directly or through a partnership model. However, no other opportunities have yet materialised.

² Source: Beef + Lamb New Zealand Limited / NZM.

6) Biotechnology

The first innovation out of Studio ZQ was Keravos. Keravos is a novel method that combines wool with a polymer to produce a rigid material that is biodegradable. The Keravos technology is being developed by NZM's newly incorporated subsidiary Keravos Limited, which may in the future seek third party investment (thereby potentially reducing NZM's shareholding disclosed in section 2.1 of this PDS). Over the coming 12-months, Keravos Limited will be supported by NZM in undertaking a comprehensive work programme to test its commercial viability.

Most work programmes associated with Studio ZQ and biotechnology received funding support from W3.

7) Meat

NZM's joint venture partnership with Alliance Group Limited, through AOML, owns the consumer brand Silere. NZM's expansion into sheep meat has been a function of its firm belief that its customer-led model developed in Fine Wool could be transferable to the commodity-focussed meat industry. In addition, NZM was driven by a desire to provide an improved value proposition to Fine Wool Growers.

To-date, NZM's role in AOML has largely been around providing procurement support, by connecting Alliance Group Limited with Growers, as well as helping to develop the brand strategy. NZM intends to increase its support to AOML and aims to position Silere as a high-value, high-demand meat product.

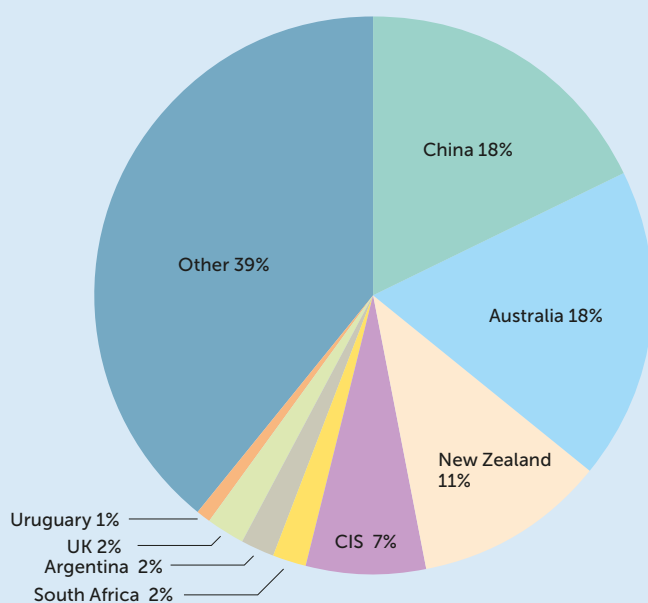


2.8 The Industry We Operate In

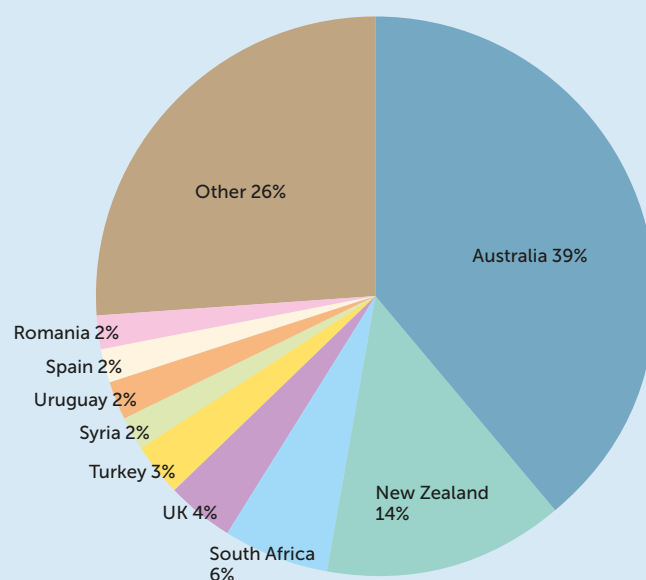
Global Wool Production

In 2019, global wool production (comprising all sheep wool) totalled approximately 2.0 million Greasy tonnes; the graphs below provide a snapshot of the key producing areas. China is currently the largest producer of wool but does not currently export any significant volume. Other major producers of wool include Australia and New Zealand.

World wool production by country in 2019 (Greasy kg)



World exports of wool by country in 2019 (Greasy kg)



Source: International Wool Textile Organisation, 2020.

With limited domestic wool processing facilities, the majority of Australia's and New Zealand's wool is exported. In 2019, Australia exported 308,849 tonnes of wool, making it the largest exporter of wool. New Zealand exported 108,176 tonnes making it the second largest exporter. In FY2020, NZM sourced wool from countries that represented nearly 60% of global wool exports, namely New Zealand, Australia, South Africa and Argentina.

NZM's Position in The New Zealand Wool Industry

NZM remains the largest marketer of Fine Wool in New Zealand, a position that it has held since its inception. There are no known data sources on the market share split of New Zealand wool marketers. As of 1 October 2020, 87% of properties supplying wool to NZM were ZQ certified.



2.9 Directors, Senior Managers and individual relevant parties

Senior Management

John Donald Brakenridge

Chief Executive Officer

John is the founder and CEO of NZM and its predecessor organisations. He has extensive knowledge in international marketing and brand building and was awarded the KPMG Leader: Outstanding Contribution to International Business in the New Zealand International Business Awards in 2013. Under John's leadership, NZM was awarded the Supreme Award at the 2019 New Zealand International Business Awards.

In addition to his world-leading work in the wool industry, John founded the transformational Primary Sector leadership initiative, or 'movement', Te Hono. The collective represents over 80% of New Zealand agribusiness.

John sits on the board of AOML and recently completed an eight-year directorship for Pamu (Landcorp). He was a member of the New Zealand Primary Sector Council.

Peter Floris

Chief Financial Officer / General Manager
Corporate Services

Peter has been with the company since its inception, having joined initially to oversee the transition of the company from a levy-funded marketing organisation to a fully commercial company, and then to drive business growth.

In addition to the finance function, Peter also has responsibilities for strategy, business development and corporate services.

In recent years Peter has twice been a finalist for the New Zealand CFO of the Year award, and in 2018 Peter was awarded a Prime Minister's Business Scholarship to study at the London Business School.

Keith James Ovens

General Manager Commercial

Keith has been involved in the New Zealand wool industry for over forty years and has been with NZM since 2001. With a strong background in classing, marketing and wool technology, Keith manages the trading, contracts and wool allocation for NZM.

In 2010, Keith was the inaugural winner of the Heather Perriam Memorial Award, recognising his services to the merino industry of New Zealand.

Michael (Mike) Hargadon

General Manager Supply, Innovation and Logistics

Mike joined NZM in 2001 bringing with him extensive wool industry experience. Mike has responsibility for supply contracts with growers (both in New Zealand and offshore), logistics and growing the Asian market. Mike also manages the NZM production science programme and oversees the ZQ on Farm team at NZM.

In 2018, Mike was awarded the Heather Perriam Memorial Award for his services to the merino industry in New Zealand.

Stephen (Steve) James Williamson

General Manager Creative / Studio ZQ

Steve leads the Creative and Design team of NZM and Studio ZQ. His role at NZM is to craft stories, customer experiences, and design marketing collateral for global Brand Partners. He oversees product innovation and new category development within Studio ZQ.

In addition to his creative role, Steve helped shape, develop and evolve the Te Hono movement since its inception. Steve formally joined NZM in 2010 but prior to that was involved in NZM creative activities through his own design agency.

Ashlan Paige Campbell

General Manager Strategic Implementation

Ashlan has been with NZM since 2013 and leads the implementation of strategic initiatives, ensuring the company's direction is aligned across the different business units and opportunities are capitalised on. Ashlan works closely with Growers, Value Chain Partners, Brand Partners, other stakeholders and the team of NZM seeking synergies and assisting in value-capture across the chain.

Prior to her current role, Ashlan has had roles in the administration and finance teams and worked closely with the management team as Executive Assistant to the CEO.

David (Dave) Philip Maslen

General Manager Markets and Sustainability

Dave joined NZM in 2006 and with a background in environmental science and has been instrumental in designing and executing the ZQ certification programme. Dave takes primary responsibility for NZM's key international market relationships, including Brand Partners and Value Chain Partners. Dave is also responsible for NZM's research and development, sustainability and ethical production workstreams, and is leading the recently launched ZQ^{RX} programme.

Directors

Kathryn (Kate) Mitchell

Independent Chair

Kate joined the Board in 2017, becoming Chair in October 2020. Up until her appointment as Chair Kate chaired the Board Audit and Risk Committee.

Prior to moving to New Zealand in 2014, Kate spent 20 years working in investment banking in the United Kingdom, with firms such as Merrill Lynch, Goldman Sachs and Deutsche Bank. Kate held a variety of senior client coverage and management roles in the areas of financial risk management, structured financing and investments.

She now co-runs a Christchurch-based consulting business, advising SMEs on succession planning, strategy and governance, as well as holding directorships with a number of companies, including Christchurch International Airport, Heartland Bank, Link Engine Management and FarmRight.

Benjamin (Ben) James Todhunter

Deputy Chair (Grower Appointed Director)

Ben, a Director of NZM since 2014, was also a director of Merino Grower Investments Limited prior to the purchase of PGG Wrightson's shares in NZM. He farms Cleardale Station, a foothills property in the Rakaia Gorge that includes angus cattle and fine wool genetic businesses.

Ben is a member of the Molesworth Steering Committee, a previous chair of the Lincoln University Foundation and is a director of StockX. Previously he chaired both the High Country Accord and High Country Federated Farmers.

Paul Hamish Ensor

Grower Appointed Director

Paul was elected to the Board in 2019 and farms Glenaan Station in the Rakaia Gorge. Paul has been farming merino sheep on his own account for the past 16 years. Prior to farming Paul worked as a management accountant in both the United Kingdom and New Zealand. He currently represents the fourth generation of his family at Glenaan Station.

Paul is a member of the 'Project Action Group' which is engaged to provide governance support for the Wool Industry Working Group initiative set up by Minister Damien O'Connor.

Paul is Chair of the Board Audit and Risk Committee.

William (Bill) Henry Sutherland

Grower Appointed Director

Bill joined the Board in 2016. Bill has been farming Benmore Station in Omarama since 1985 in partnership with his brother. The Sutherlands also farm Ahuriri Downs and Clay Cliffs Stations in addition to supplying genetics through to the New Zealand Fine Wool industry.

Bill is also a director of Omarama Saleyards Company Limited and Benmore Irrigation Company.

Matanuku Kihirini Mahuika

Independent Director

Matanuku has been a Director of NZM since 2014. Matanuku is a lawyer and founding partner of the law firm Kahui Legal. Matanuku has held a wide variety of board roles including being the former deputy chair of Aotearoa Fisheries Limited and the chairman of Sealord Group. He is the current chairman of the Ngati Porou Holding Company and the Eastland Group. He is also a current member of the Callaghan Innovation board.

Matanuku Chairs the Human Resources Committee.

John William Leyland Penno

Independent Director

John was appointed to the Board on 15 October 2020. John co-founded and led the Synlait Group from 2000 until 2018 and continues to contribute to the governance of the company as a board appointed director. John is co-owner and director of Okuora, an active investment business that works with early stage growth companies with a focus on delivering long-term value through sustainable agriculture, future foods and food systems.

John currently chairs The Pure Food Company and Wangapeka River Hops and is on the board of Leaf Foods.

2.10 Substantial shareholdings in NZM

As at the date of this PDS, no Shareholder has a relevant interest in 5% or more of Shares other than as set out in the table below. Further, the Directors and Senior Managers of NZM do not have any relevant interest in Shares other than as set out below.

Name	Legal ownership or other nature of the relevant interest	Ordinary shares in which person has relevant interest as at 2 October 2020		Indicative ownership of NZM following completion of the Offer on basis that the Offer and the Share Buy-Back are fully subscribed*	
		Ordinary shares	%	Ordinary shares	%
John Brakenridge	Registered holder and beneficial owner	214,996	6.51	429,992	7.23
Glenthorne Station Limited	Registered holder	177,000	5.36	354,000	5.95
Peter Floris	Registered holder and beneficial owner	65,390	1.98	130,780	2.20
Mike Hargadon	Registered holder and beneficial owner	46,695	1.41	93,390	1.57
Keith James Ovens	Registered holder and beneficial owner	46,695	1.41	93,390	1.57
Bill Sutherland	Registered holder with Andrew James Sutherland, and beneficial owner	20,000	0.61	60,000	1.01**
Paul Ensor	Holder of more than 20% of the voting shares in Glennaan Station Limited	6,744	0.20	20,000	0.34**
Ben Todhunter	Holder of more than 20% of the voting shares in Cleardale Station Limited	3,953	0.12	30,000	0.50**
Kate Mitchell	Registered holder and beneficial owner	Nil	0	20,000	0.34***
Matanuku Mahuika	Registered holder and beneficial owner	Nil	0	20,000	0.34***
John Leyland Penno	Registered holder and beneficial owner	Nil	0	20,000	0.34***

* It is a legal requirement for NZM to estimate the expected indicative ownership of Directors and Senior Managers in NZM following completion of the Offer and Share Buy-Back. The above table assumes that Directors and Senior Managers take up their Entitlements in full, the Offer is fully subscribed (but not all existing Shareholders take up their Entitlement in full), and 661,019 Shares are cancelled under the Share Buy-Back.

** Bill Sutherland, Paul Ensor and Ben Todhunter currently own Shares. The figures on the table are NZM's best estimate of their Shareholding after the Offer and Share Buy-Back, on the basis that they subscribe for their full Entitlement and, if not all Eligible Shareholders take up their full Entitlement and there are Shortfall Shares available not taken up by Growers without Shares, they are also allocated their subscription under the Oversubscription Facility.

***Kate Mitchell, Matanuku Mahuika and John Leyland Penno do not currently own Shares. These figures are NZM's best estimate of their shareholding after the Offer and Share Buy-Back, on the basis that not all Eligible Shareholders take up their full Entitlement, and priority is given to Growers without Shares on allocating Shortfall Shares.

2.11 Options to acquire securities of NZM

As at the date of this PDS, NZM has not granted any options to issue or acquire Shares. The Board is not currently proposing to adopt an employee incentive scheme at the same time as the Offer is made under this PDS. However, after the Offer is completed, the Board intends to create an employee share option scheme that is expected to be consistent with the previous employee incentive schemes, except that it is not intended to be (at this stage) cash-settled, in order to better align the interests of management and Shareholders.

2.12 Other equity securities of NZM

As at the date of this PDS, NZM only has ordinary shares on issue.

However, under the Constitution, any other class of equity securities of NZM that ranks equally with, or in priority to, the Shares may be issued without a special resolution of the holders of the Shares. NZM has no current intention of issuing any such equity securities in the near future.

2.13 Interests of Directors and Senior Managers

The table below sets out the total remuneration each Director received during FY2020 and expected to be received in FY2021F, as well as the nature of services to which that remuneration relates (other than services provided in a person's capacity as a Director).

Name	Remuneration (FY20)	Remuneration (FY21F)		
	Total	Base Fee	Committee Work	Total
Kate Mitchell	\$47,000	\$68,000	\$2,000 (Outgoing Chair of Audit & Risk)	\$70,000
Ben Todhunter	\$40,000	\$48,000	N/A	\$48,000
Bill Sutherland	\$40,000	\$40,000	N/A	\$40,000
Paul Ensor	\$26,000	\$40,000	\$5,000 (Incoming Chair of Audit & Risk)	\$45,000
Matanuku Mahuika	\$45,000	\$40,000	\$7,000 (Chair of Human Resources)	\$47,000
John Leyland Penno	N/A	\$29,000	N/A	\$29,000
Ross Ivey	\$17,000	N/A	N/A	N/A
Ruth Richardson	\$80,000	\$24,000	N/A	\$24,000
Total	\$295,000	\$288,000	\$14,000	\$302,000

Under the Constitution, the Directors are entitled to be paid their reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings or otherwise in connection with NZM's business. Further, NZM arranges Directors and Officers insurance for the Directors.

In response to the current uncertainty in global economic conditions, the Board has agreed to freeze Directors' fees. Therefore, NZM does not consider the remuneration and benefits of Directors will materially differ for FY2021, other than for Kate Mitchell who became the Chair of the Board, Ben Todhunter who became Deputy Chair of the Board, Paul Ensor who became Chair of the Audit and Risk Committee and John Leyland Penno who became a Director.

The number of employees or former employees whose total remuneration and value of any benefits received, or receivable exceeded \$100,000 in FY2020 between the following bands was:

Band (\$000)	Number
\$100 - \$110	4
\$110 - \$120	4
\$120 - \$130	3
\$130 - \$140	3
\$140 - \$150	2
\$150 - \$160	2
\$160 - \$170	1
\$170 - \$180	1
\$180 - \$190	1
\$340 - \$350	1*
\$400 - \$410	1*
\$470 - \$480	1*
\$560 - \$570	1*
\$580 - \$590	1*
\$1,080 - \$1,090	1*

*Includes an accrual related to the long-term incentive scheme that matured on 30th June 2020 as further explained below.

Certain Directors and Senior Managers of NZM hold or have an interest in Shares as set out in Section 2.10. All of the Senior Managers have entered into employment agreements with NZM. Apart from salary and the incentive plan described below, additional benefits include life insurance and superannuation for some employees.

Share-Based Arrangements

On 30 September 2011, NZM entered into an arrangement with the Chief Executive (John Brakenridge) and three other Senior Managers personnel (Peter Floris, Mike Hargadon and Keith Ovens) whereby Shares were issued to them in consideration for them foregoing their notional dividend / profit share schemes with NZM. These Senior Managers are subject to restrictions which limit the number of Shares able to be sold over time and the price at which these Shares can be sold. As part of these restrictions, and given the limited liquidity in NZM's Shares, the agreement with the management Shareholders allows them to require NZM to buy-back a percentage of the Shares at certain dates in the future at the fair value of those Shares, based on a contractually agreed formula.

During FY2015 the Board approved changes to the share-based arrangement whereby a percentage of the Shares were able to be sold back to NZM on 1 July 2014 or 1 July 2015. During FY2020 there were no buy-backs and cancellation of any Shares held under the arrangement. The following Share-based arrangement was in existence during the current and prior years:

	Number of Shares issued to the relevant Senior Managers	Issue price	Total vested	Percentage able to be sold back to NZM	Minimum shareholding while an employee
30/09/2011	602,342	\$1.48	25%		25%
01/07/2012			35%		35%
01/07/2013			55%		55%
01/07/2014			75%	20%	20%
01/07/2015			95%	30%	20%
01/07/2016			100%	50%	20%
01/07/2017				75%	20%
01/07/2018 onwards				100%	20%

The buy-back value per Share is to be calculated based on the following formula:

Value per Share	Total equity value / Total Shares on issue.
Total Equity Value	Enterprise value less term debt plus surplus cash.
Enterprise Value	Assessed earnings x Earnings multiple.
Assessed Earnings	Average of three years EBIT being: <ul style="list-style-type: none"> • The last two full financial years (audited accounts); and • The budget / re-projected EBIT in year of notice.
Earnings Multiple	5

Any vested Shares are able to be sold on the open market as with other Shareholders.

During FY2020 no payments were made under the arrangement.

Fair Value of Share Based Arrangements

The fair value of Share-based arrangements as at 30 June 2020 is \$1.79 million. This has been calculated based on management's best estimate of the effects of the exercise restrictions, future earnings of NZM and other considerations.

The Share-based arrangements provision has been valued using an earnings multiple of 5 and has been based on forecasted earnings with a 90% likelihood of the option being exercised, and a post-tax discount rate of 13%.

A sensitivity analysis has been completed; a 10% increase in earnings together with a 10-percentage point increase in the likelihood of the option being exercised would increase the fair value of the liability to \$2.04 million. A 10% decrease in earnings together with a 10-percentage point decrease in the likelihood of the option being exercised would decrease the fair value of the liability to \$1.54 million.

Long Term Incentive Scheme

In June 2020, the three-year long-term incentive scheme matured for selected Senior Managers. Since then, the Board has been in ongoing conversations with key Senior Managers to establish a new long-term incentive plan. As noted in section 2.11, after the Offer is completed, the Board will finalise the detail on this matter.

Policies

NZM has a redundancy policy in place which provides employees with redundancy compensation based on their length of employment with NZM.

NZM periodically reviews remuneration and benefits offered to employees to ensure it can compete for talent in the labour markets it operates in. These reviews are supported by independent advice from a third-party provider. Consistent with the remuneration position of the Board, in FY2021F, no general increase in remuneration or benefits will be offered to any employees.

NZM has a bonus scheme in place for all permanent employees that is settled on a cash basis subject to achievement of certain KPIs.

NZM has granted indemnities, as permitted by the Companies Act 1993 and FMC Act, in favour of each of its Directors and officers. NZM also maintains insurance for its Directors and officers.

Related Business Interested of Directors

Certain Directors, including Ben Todhunter, Bill Sutherland, Paul Ensor, Matanuku Mahuika and John Leyland Penno conduct business with NZM in the normal course of their business activities as Growers and/or as Shareholders (either directly or through associated persons). All these transactions are conducted on commercial terms and conditions prevailing in the relevant season. Further, all amounts paid to these persons are consistent with the payments made to third party entities supplying NZM with the equivalent grade, volume and micron of wool.

Template supply agreements which form the basis on which NZM contracts with those persons are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/> (Offer number: OFR12964). Information regarding related party disclosures can also be found in Note 18 of NZM's FY2020 financial statements, which are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/> (Offer number: OFR12964). This includes the names of the various associated persons that conduct business with NZM during FY2020 and the consolidated monetary value of that business by category.

2.14 Other material governance disclosures

Under the Constitution, the Board must have at least six but no more than seven members, which are comprised of:

- three Grower Appointed Directors;
- a minimum of three Independent Directors; and
- provided the above appointments are made, one further Director may be appointed by shareholders (**Additional Director**).

The Grower Appointed Directors may only be nominated by Shareholders that are Growers (as defined in the Constitution), and their appointment must be approved by ordinary resolution of Grower Shareholders. There are no qualifications on who may be nominated as a Grower Appointed Director.

The remaining Directors on the Board may be nominated by any Shareholder, and their appointment approved by ordinary resolution of all Shareholders. However, to the

extent the nomination is for an Independent Director, that nominee cannot be an employee of the NZM Group and cannot have a Disqualifying Relationship as defined under the Constitution. Further, a nomination for an Additional Director will only be valid if NZM would, after such appointment, also have three Grower Appointed Directors and three Independent Directors.

In the event of a casual vacancy, the Board may appoint a Director to fill any such vacancy, but the appointee must retire and stand for re-election at the next annual meeting. All Directors are subject to removal by ordinary resolution of all Shareholders. Further, one third of the Directors are subject to retirement by rotation each year based on which of them have been in office longest. Such Directors may stand for re-election at the annual meeting where they retire. A Director appointed by the Board that is already standing for re-election at the annual meeting is not counted in determining the Directors to retire.



3.

Purpose of the Offer

The purpose of the Offer is to raise capital for the uses that are set out below. The amounts shown in the table assume the Offer is fully subscribed. If the Offer is not fully subscribed, as noted below, 20% of the gross proceeds of

the Offer will still be used to fund the Share Buy-Back and Minority Buy-Out Rights Share acquisitions, with the remainder of the proceeds (after Offer costs) being used in the 'Business uses' category.

Category	Amount	Use of Proceeds
Business uses	Up to \$9.6 million	<p>Majority to fund working capital flexibility and provide working capital debt headroom for anticipated growth. The seasonal nature of NZM's operations means that NZM has high seasonal working capital funding requirements which have increased as NZM has grown. The Offer will provide greater funding headroom under existing bank facilities in order to support NZM's working capital requirements.</p> <p>Provide diversification of funding sources to support NZM's growth strategies explained in Section 2.7. The fundamental purpose of these strategies will be to find value accretive initiatives that broadly support the addition of new supply contracts back to Growers.</p> <p>Strengthen NZM's balance sheet so that its capital structure is better able to react to the impacts and risks to NZM caused by COVID-19 and/or other market disruptions that may arise (see also Section 8).</p>
Share Buy-Back and Minority Buy-Out Rights	Up to \$2.5 million but at least 20% of the gross proceeds of the Offer	<p>To fund the Share Buy-Back made in conjunction with this Offer to Shareholders on the Record Date that have a registered address in New Zealand and do not participate in the Offer. The purpose of the Share Buy-Back is to give Shareholders an opportunity to fully exit their investment and improve NZM's alignment with stakeholders as explained below.</p> <p>To the extent Shareholders are entitled under the Companies Act to exercise Minority Buy-Out Rights, some funds may also be used to acquire Shares that are the subject of a Minority Buy-Out Right. Information on Minority Buy-Out Rights was provided to all relevant Shareholders in the notice of annual meeting, dated 25 September 2020.</p> <p>To the extent that any amount of this funding is not required to fund the Share Buy-Back or Minority Buy-Out Right Share acquisitions, such remainder will be used as contemplated under 'Business uses' above.</p>
Offer Costs	Up to \$0.5 million	To cover advisors' fees for the Offer process.
Total	Up to \$12.6 million	Total gross proceeds of the Offer.

As noted in the Key Information Summary, a Share Buy-Back is also being offered to all Shareholders with a registered address in New Zealand, in respect of all of the Shares they hold on the Record Date at \$3.80 per Share. This is a separate offer to the Offer described in this PDS. The full terms of the Share Buy-Back can be accessed in the Share Buy-Back Disclosure Document Offer Register at <https://disclose-register.companiesoffice.govt.nz/> (Offer number: OFR12964).

Taken as a whole, the Offer and Share Buy-Back are intended to improve alignment between NZM, its Shareholders, and its stakeholders, by allowing current New Zealand Shareholders on the Record Date to either increase their investment in NZM or to fully exit their investment. The Share Buy-Back is particularly targeted at former Growers who have retained their Shares but have been unable to sell them due to low Share liquidity.

The Offer also provides NZM with the ability to introduce new Shareholders through an offer of Shortfall Shares and Remaining Shares not taken up through the Rights Issue.

The Shortfall Shares will be offered under the Shortfall Offer to Growers, NZM employees and Directors, who are not Shareholders (and, in the case of Growers, controlled by Shareholders). Any Remaining Shares may be offered by the Board to strategically aligned investors under the Strategic Investor Offer.

The Board believes that improving alignment between NZM and its Shareholders, its Grower supply base and other key stakeholders will result in NZM being able to better deliver on its strategy.

No minimum amount is required to be raised before the New Shares are issued or transferred, but there is a minimum subscription such that after Application the Applicant has at least 250 Shares. The Offer is not underwritten.

Participation in the Offer is not mandatory – you do not need to participate if you do not want to.

4. Key dates and Offer process

Record Date	25 September 2020
Date of PDS	23 October 2020
Distribution of Entitlement Letters	3 November 2020
Rights Issue and Shortfall Offer open	18 November 2020
Rights Issue and Shortfall Offer close*	2 December 2020
Settlement of Rights Issue and Shortfall Offer and quotation on USX	9 December 2020
Strategic Investor Offer opens	10 December 2020
Strategic Investor Offer closes*	17 December 2020
Settlement of Strategic Investor Offer and quotation on USX	21 December 2020

*If payment is not received by NZM by this date, your Application will not be accepted unless NZM determines otherwise at its sole discretion.

For more information on these dates, see Section 5. This timetable is indicative only and the dates may change. NZM reserves the right to vary or extend any of these dates.

5.

Terms of the Offer

This Offer of New Shares consists of three parts:

- an offer of Shares to existing NZM Shareholders through a pro-rata non-renounceable Rights Issue;
- an offer of any Shortfall Shares not taken up under the Rights Issue to existing Growers, employees of NZM and Directors who are not Shareholders (and, in the case of Growers, not controlled by Shareholders), and are residents in New Zealand; and
- following the Shortfall Offer, any Remaining Shares will be offered to certain investors selected by the Board.

A summary of the Offer's key terms is set out in Section 1.4 of this PDS.

The tables below set out the terms of the three parts of the Offer, including the General Terms which apply to each of the Rights Issue, Shortfall Offer and Strategic Investor Offer. The Constitution sets out the terms of the New Shares. You can find a copy of the Constitution on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/> (Offer number: OFR12964).



Rights Issue

The table below sets out the terms for the Rights Issue and Oversubscription Facility:

Rights Issue Eligibility	The Rights Issue is available to NZM Shareholders on the Record Date with a registered address in New Zealand (Eligible Shareholder).
Structure of the Rights Issue	<p>The Rights Issue is a pro-rata non-renounceable offer of New Shares to Eligible Shareholders. Eligible Shareholders have the right to subscribe for 1 New Share for each Existing Share held on the Record Date at the Issue Price (Entitlement).</p> <p>Eligible Shareholders may elect to take up their Rights in full or apply for fewer New Shares subject to the Minimum Application below.</p> <p>New Shares attributable to Rights which are not taken up by Eligible Shareholders under their Entitlements by the Closing Date, will be offered under the Shortfall Offer (Shortfall Shares).</p> <p>Eligible Shareholders are under no obligation to subscribe for any or all of their Entitlement.</p>
Issue price	\$3.80 per New Share.
Application process	Your Application Form must be received by NZM by 2 December 2020. The Application Form and Section 12 of this PDS set out details of the application process, including how to pay for New Shares.
Key Dates	See Section 4 of this PDS for information about the key dates of the Offer.
Non-renounceable Rights Issue	The Rights Issue is non-renounceable, meaning that Entitlements cannot be sold, transferred or encumbered. Therefore, if an Eligible Shareholder does not take up their full Entitlement under the Rights Issue, the remaining Entitlement will lapse and the New Shares not taken up will be dealt with by the Board at its discretion.
Minimum Application	<p>All Entitlements have been rounded up so that an Eligible Shareholder, after applying for their Entitlement, would have at least 250 Shares on the Settlement Date.</p> <p>Your Application will be rejected if you do not subscribe for a number of New Shares which would, after issuance of the New Shares on the Settlement Date, leave you with at least a Minimum Holding.</p>
Oversubscription Facility	<p>New Shares attributable to Rights which are not taken up by Eligible Shareholders by the Closing Date, will be offered at the Issue Price to Eligible Shareholders that have taken up their Entitlement in full (Oversubscription Facility).</p> <p>Accordingly, if you accept your Entitlement in full, you may also apply for any number of additional New Shares at the Issue Price by filling out the relevant section of your Application Form. However, there is no guarantee that Eligible Shareholders will be allocated any or all of the additional New Shares for which they apply.</p> <p>The Board may, at its sole discretion, allocate New Shares or scale Applications under the Oversubscription Facility in such manner as the Board considers appropriate and in the interests of NZM. The Board's decision on allocation and scaling will be final and binding on all Applicants.</p>
Issuance of New Shares	The issuance of New Shares to successful Applicants under the Rights Issue is scheduled to take place on 9 December 2020. Holding statements are expected to be sent on or about 16 December 2020.
Share Buy-Back and Minority Buy-Out Rights	<p>Eligible Shareholders cannot participate in both the Offer and the separate Share Buy-Back. If an Eligible Shareholder tries to participate in both the Offer and the Share Buy-Back, only their Application under the Offer will be accepted by NZM and their acceptance form under the Share Buy-Back will be rejected.</p> <p>Further details of the Share Buy-Back, including its full terms, can be found in the Share Buy-Back Disclosure Document Offer Register at https://disclose-register.companiesoffice.govt.nz/ (Offer number: OFR12964).</p> <p>Eligible Shareholders may also have Minority Buy-Out Rights. If a Minority Buy-Out Right is exercised by an Eligible Shareholder that Eligible Shareholder will not be able to participate in the Offer and their Application will be rejected.</p>

Shortfall Offer

The table below sets out the terms for the Shortfall Offer:

Contingent offer	If there are no Shortfall Shares, the Shortfall Offer will be deemed to be withdrawn and no Applications in respect of the Shortfall Offer will be accepted. Any Application Monies received in respect of the Shortfall Offer will be refunded in accordance with the General Terms.
Shortfall Offer Eligibility	<p>The offer of Shortfall Shares is available only to persons who are:</p> <ul style="list-style-type: none">• Growers (and if the Board at its sole discretion considers it appropriate to do so, any person or entity affiliated with a Grower); and• employees of NZM and/or Directors, provided that they:• are not Shareholders;• in the case of Growers and their affiliates, are not determined by the Board to be controlled by one or more Shareholders; and• are residents in New Zealand, (together, Unshared Persons).
Entitlements and Minimum Application	<p>Unshared Persons may apply for any number of New Shares under the Shortfall Offer equal to or in excess of a Minimum Holding.</p> <p>There is no guarantee that Unshared Persons will be allocated any or all of the New Shares for which they apply (see "Shortfall Offer Allocation" below).</p>
Application process	Application Forms from Unshared Persons must be received by NZM by 2 December 2020. The Application Form and Section 12 of this PDS set out details of the application process, including how to pay for New Shares.
Shortfall Offer Allocation	Shortfall Shares will be allocated to Unshared Persons in any manner the Board considers, at its sole discretion, appropriate and in the interests of NZM. The Board's decision on allocation will be final and binding on all Applicants.
Key Dates	See Section 4 of this PDS for information about the key dates of the Offer.
Issue price	\$3.80 per Shortfall Share, the same as the Issue Price under the Rights Issue.
Issuance of New Shares	The issuance of New Shares to successful Applicants under the Shortfall Offer is scheduled to take place on 9 December 2020. Holding statements are expected to be sent on or about 16 December 2020.

Strategic Investor Offer

The table below sets out the terms for the Strategic Investor Offer:

Contingent offer	The Strategic Investor Offer is conditional on there being unallocated Shortfall Shares under the Rights Issue and Shortfall Offer (Remaining Shares). If there are no Remaining Shares, the Strategic Investor Offer will be deemed to be withdrawn and no Applications in respect of the Strategic Investor Offer will be accepted. Any Application Monies received in respect of the Strategic Investor Offer will be refunded in accordance with the General Terms.
Strategic Investor Offer Eligibility	The offer of Remaining Shares is available only to persons who are Qualified Investors that the Board invites to participate in the Strategic Investor Offer, whom it considers, at its sole discretion, to be able to assist in the execution of NZM's growth strategy as set out in Section 2.7 of this PDS (Strategic Investors).
Entitlements and Minimum Application	<p>Strategic Investors may apply for any number of New Shares under the Strategic Investor Offer equal to or in excess of a Minimum Holding.</p> <p>There is no guarantee that Strategic Investors will be allocated any or all of the New Shares for which they apply (see "Discretionary Allocation" below).</p>
Discretionary Allocation	Remaining Shares will be allocated to Strategic Investors in any manner the Board sees fit. The Board is under no obligation to issue any or all of the Remaining Shares.
Application process	Application Forms from Strategic Investors must be received by NZM by 17 December 2020, with the exact application process to be determined by the Board as set out in the General Terms below.
Key Dates	See Section 4 of this PDS for information about the key dates of the Offer.
Issue price	\$3.80 per Remaining Share, the same as the Issue Price under the Rights Issue.
Issuance of New Shares	The issuance of New Shares to successful Applicants under the Strategic Investor Offer is scheduled to take place on 21 December 2020. Holding statements are expected to be sent on or about 22 December 2020.



General Terms

The table below sets out general terms of the Offer, applicable to the Rights Issue (including Oversubscription Facility), the Shortfall Offer and the Strategic Investor Offer:

Entitlement Letter	<p>An Application Form to participate in the Offer will be provided to you with a personalised letter (Entitlement Letter) distributed by email or post, which:</p> <ul style="list-style-type: none">• for Eligible Shareholders will set out their Entitlement;• for Unshared Persons will inform them of their eligibility to apply for Shortfall Shares. <p>The Board will seek to contact Strategic Investors to confirm the application process depending on the number of Remaining Shares available. Applications for New Shares by Strategic Investors can only be made in accordance with that process.</p>
Applications	<p>An Application is an irrevocable offer by you to acquire the number of New Shares specified in the Application Form, at the Issue Price, on the terms and conditions set out in this PDS (including any replacement of it), the Offer Register at https://discloseregister.companiesoffice.govt.nz/ (Offer number: OFR12964) and the Application Form. By submitting an Application Form, you irrevocably agree to purchase the New Shares on those terms, notwithstanding any variations or extensions to the relevant Closing Date or other dates which NZM is entitled to so vary or extend.</p> <p>NZM may, at its sole discretion, treat any Application Form as valid, notwithstanding that it does not comply with the requirements above or is irregular. NZM may also, at its sole discretion, rectify any errors in, or omissions from, any Application Form to enable that form to constitute a valid acceptance of the Offer, including inserting or correcting details and filling in any blanks. An Application Form may be treated by NZM as a valid Application whether or not it is received before the relevant Closing Date and may be accepted in respect of the full number of New Shares specified in the Application Form or a lesser amount (subject to the Minimum Application). If the amount of your Application Monies is less than the amount required to purchase the number of New Shares specified on your Application Form by you, you may be taken to have applied for such lesser number of New Shares as for which your cleared Application Monies will pay (subject to the Minimum Application), or your Application Form may be rejected. Acceptance of your Application will give rise to a binding contract.</p> <p>NZM reserves the right to refuse all or any part of any Application without giving a reason and may do so at any time on or before the Settlement Date.</p> <p>Until the issuance of New Shares, Application Monies received will be held in a separate account for the benefit of NZM and the Applicants according to the number of New Shares for which they respectively apply. Any interest on Application Monies will be paid to NZM. The banking of Application Monies does not constitute confirmation of the allotment of any New Shares or the acceptance of an Application.</p> <p>See Section 12 (How to Apply) for more details on the how to participate in the Offer.</p>

Issuance of New Shares	<p>The dates on which New Shares are expected to be issued and holding statements are expected to be sent to all successful Applicants under the Offer are set out in the Rights Issue, Shortfall Offer and Strategic Investor Offer terms above.</p> <p>The issuance of New Shares under the Strategic Investor Offer on the Settlement Date will occur immediately prior to the settlement of the Share Buy-Back later that day.</p> <p>You should ascertain your allocation (if any) before trading in the New Shares. You can do this by contacting the Share Registrar, going on their website: www.linkmarketservices.co.nz, you will require your CSN/Holder Number and Authorisation Code (FIN) for secure access.</p> <p>If you wish to sell your New Shares on USX after confirming your allocation you should contact a USX broker. Holding statements with your allotment details will be despatched as set out in the terms of the Offer above. Where an email address is provided on the Application Form, the holding statement will be despatched electronically to you.</p> <p>If you sell New Shares prior to receiving your holding statement you will do so at your own risk. None of NZM, the Share Registrar, nor any of their respective officers, employees or advisers accepts any liability or responsibility should you or any person attempt to sell or otherwise deal with New Shares before you receive a statement showing the number of New Shares allocated to you (if any).</p>
Discretion relating to the Offer	The Offer may be withdrawn by NZM, in whole or in part, at any time before the relevant issuance of New Shares, at NZM's sole discretion.
Refunds	<p>If the Offer does not proceed, in whole or in part, for any reason, all Application Monies received in relation to the part of the Offer that is withdrawn will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed with all or any part of the Offer.</p> <p>Money received in respect of Applications which are declined in whole or in part (whether as a result of scaling, allocation or otherwise) will be refunded in whole or in part (as the case may be). Refunds will be paid within five Business Days after the issuance of New Shares or after an Application has been declined (as applicable).</p> <p>Refunds will be paid in the manner you elect or have elected any future dividend payments to be paid. Interest will not be paid on any Application Monies refunded to Applicants.</p>
No guarantee	No person guarantees the New Shares offered under this Offer, nor warrants or guarantees the future performance of NZM, the New Shares or any return on investment pursuant to this Offer.
Governing law	This Offer is governed by New Zealand law and you submit to the exclusive jurisdiction of the courts of New Zealand.
International Offering Restrictions	Please see Section 10 (International Offering Restrictions) for information concerning offering restrictions relating to Shares, as well as representations to be given by Offerees

Offer Pricing

The Issue Price for the Offer was determined by the Board as being fair and reasonable to NZM and its Shareholders. In making this assessment the Board took into account several factors, including:

- NZM Group's current and future expected financial performance;
- Recent, albeit highly illiquid, secondary market trading prices for Existing Shares; and
- Independent advice from the Lead Manager as to the valuation of NZM Group (for reference, a summary of that valuation is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/> (Offer number: OFR12964)). The Lead Manager has given its consent to this statement and to the release of their summary report (for reference only and not to be relied upon as financial advice to any Eligible Shareholder, Unshared Person or Strategic Investor).

Rights Issue Dilution

If you are a Shareholder and do not participate in the Rights Issue, your shareholding will be diluted. The level of dilution will depend on the total proceeds raised under the Offer and the number of Shares cancelled under the Share Buy-Back.

Assuming NZM is successful in raising \$12.6 million under the Offer and 20% of this amount is applied to the Share Buy-Back, a Shareholder who does not participate in the Offer will have their shareholding diluted by approximately 44%.

6.

Key features of ordinary shares in NZM

All New Shares issued under the Offer will be fully paid ordinary shares in NZM which rank equally with each other and all other ordinary shares in NZM. The key features of ordinary shares in NZM do not differ from those that apply to ordinary shares in a company generally, except with respect to the appointment of NZM's Directors as explained below.

Under the Constitution, the Board must have at least six but no more than seven members, which are comprised of:

- three Grower Appointed Directors;
- a minimum of three Independent Directors; and
- provided the above appointments are made, one further Director may be appointed by shareholders (**Additional Director**).

The Grower Appointed Directors may only be nominated by Shareholders that are Growers (as defined in the Constitution), and their appointment must be approved by ordinary resolution of Grower Shareholders. There are no qualifications on who may be nominated as a Grower Appointed Director.

The remaining Directors on the Board may be nominated by any Shareholder, and their appointment approved by ordinary resolution of all Shareholders. However, to the extent the nomination is for an Independent Director, that nominee cannot be an employee of the NZM Group and cannot have a Disqualifying Relationship as defined under the Constitution. Further, a nomination for an Additional Director will only be valid if NZM would, after such appointment, also have three Grower Appointed Directors and three Independent Directors.

In the event of a casual vacancy, the Board may appoint a Director to fill any such vacancy, but the appointee must retire and stand for re-election at the next annual meeting. All Directors are subject to removal by ordinary resolution of all Shareholders. Further, one third of the Directors are subject to retirement by rotation each year based on which of them have been in office longest. Such Directors may stand for re-election at the annual meeting where they retire. A Director appointed by the Board that is already standing for re-election at the annual meeting is not counted in determining the Directors to retire.

Dividend Policy

The Board has approved a dividend pay-out policy of 50% of each year's net profit after tax, provided the Board considers there is no better use for the funds. Due to the financial impact of COVID-19 on NZM and the decision to embark on this Offer, no dividend payment was declared following FY2020.

As at the date of this PDS, the Board does not expect to pay any dividends during FY2021F (in relation to FY2020) but intends to pay a dividend for FY2021F (to be paid during FY2022).

Payments of dividends are not guaranteed and are at the discretion of Directors, and dividends (if any) will be declared only after meeting appropriate solvency requirements.

Between FY2018 and FY2020, NZM has declared net and gross dividends per Share (gross dividends include imputation credits) as set out in the table below. See also Section 7 for the total dividends on all equity securities of NZM paid during FY2020, FY2019 and FY2018.

Date Dividend was Declared	Net (Per Share)	Gross (Per Share)
No dividend was declared in FY2020	N/A	N/A
30/08/2019	\$0.330	\$0.489
31/08/2018	\$0.385	\$0.489
22/09/2017	\$0.387	\$0.416



7.

NZM Group's financial information

7.1 Introduction

The table in this section provides key financial information about NZM Group. Full financial statements are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/>, offer number OFR12964. If you do not understand this financial information, you can seek advice from a financial adviser or an accountant.

Historical information presented in this document relate to FY2018 to FY2020. The Supplementary Financial Information and other financial information is also available on the Offer Register.

This PDS contains prospective financial information ("PFI") for FY2021F and FY2022F. The PFI is based on the Directors' assessment of events and conditions existing at the date of this PDS and the accounting policies and assumptions set out in the Supplementary Financial Information which is available on the Offer Register. The FY2021F information includes actual results for July and 11 months of forecast information. While the forecast does not include the actual trading results for August and September, the operating results for this period are known and were materially consistent with the forecasts.

PFI by its nature is inherently uncertain. It is a prediction of future events which cannot be assured. It involves risks and uncertainties, many of which are beyond the control of NZM. The Board believes that the PFI has been prepared with due care and attention, and considers the assumptions, when taken as a whole, to be reasonable at the time of preparing this PDS. Actual results are likely to vary from the information presented and variances may be material, particularly in light of the ongoing and developing effects of COVID-19. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI. You should read the PFI in this PDS in light of the assumptions, and in conjunction with the other information in this PDS (including in particular, the information in Section 8 (Risks to NZM Group's business and plans)).

The financial information in this PDS is presented in New Zealand dollars and is rounded, which may result in some discrepancies between the sum of the components and totals within tables as well as certain percentage calculations.



7.2 Selected Financial Information

The table of Selected Financial Information contains the following types of financial information:

- (a) Statutory historical financial information as reported in NZM financial statements.
- (b) Statutory PFI which presents the PFI on the same basis as that on which NZM intends to report under NZ GAAP in the future.

The historical financial information is extracted from NZM audited financial statements or the Supplementary Financial Information which are available on the Offer Register. This document presents historical financial information of NZM for the financial periods 30 June 2018

(FY2018), 30 June 2019 (FY2019) and 30 June 2020 (FY2020), (collectively the Historical Periods).

The prospective financial information for the financial periods 30 June 2021 (FY2021F) and 30 June 2022 (FY2022F), the principal assumptions on which the PFI is based and reconciliations of certain non-GAAP measures employed by NZM (being contribution margin, EBITDA and EBIT) to information prepared in accordance with GAAP is presented and described in the Supplementary Financial Information available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/>, offer number OFR12964.

\$'000	FY2018	FY2019	FY2020	FY2021F	FY2022F
Revenue	146,598	160,126	137,781	119,263	140,104
Contribution Margin ¹	14,514	15,844	16,714	13,303	15,884
EBITDA ¹	3,933	3,679	5,016	2,360	4,264
EBIT ¹	3,744	3,416	4,659	1,916	3,784
Net Profit after Tax	3,226	2,169	2,839	1,111	2,478
Balance Sheet and Cash Flow Items					
Dividends Paid	1,386	1,613	1,613	0	556
Total Assets ²	22,278	28,774	32,091	43,096	41,066
Cash and Cash Equivalents	2,708	0	275	6,846	9,965
Total Liabilities ²	6,174	12,426	15,742	14,943	10,991
Total Debt	0	2,657	0	0	0
Net Cash Flows from operating activities	4,971	(1,597)	5,064	(2,235)	4,258

1. Contribution margin, earnings before interest and tax ("EBIT") and EBIT before depreciation and amortisation ("EBITDA") are non-GAAP profit measures utilised by NZM not determined in accordance with GAAP. The Offer Register (<https://disclose-register.companiesoffice.govt.nz/>, offer number OFR12964) contains reconciliations of contribution margin, EBIT and EBITDA profit measures to information prepared in accordance with GAAP in the Supplementary Financial Information.

2. NZM adopted NZ IFRS 16 in FY2020. In adopting NZ IFRS 16, NZM has applied the modified retrospective method, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for FY2018 and FY2019 is not restated. The adoption of NZ IFRS 16 does not have a significant impact on NZM's net profit after tax (a decrease of approximately \$0.1m under NZ IFRS 16), EBIT (an increase of approximately \$0.2m) or EBITDA (an increase of approximately \$0.2m). Following adoption of NZ IFRS 16, the presentation of lease payments in the Statement of Cash Flows changed from operating activities to financing activities except for short term and low value leases which are included within operating activities. On transition to NZ IFRS 16 at 1 July 2019, the Company recognised a right-of-use asset \$5.4m (increasing total assets) and a lease liability \$5.5m (increasing total liabilities).

7.3 How We Generate Revenue

NZM generates revenue through a number of different sources which are described in more detail in Section 1.6 (Key drivers of return) and Section 2.5 (Our Operations).

7.4 Overview of Historical Financial Performance

Introduction

This section provides an overview of the historical financial performance of NZM and should be read in conjunction with the table set out in Section 7.2.

The terminology “average wool sales prices” is used in this PDS to refer to the weighted average price per kg, in New Zealand dollars, of the wool sold by NZM which may vary by microns of fibre and quality. In order to simplify presentation of the financial information and describe the drivers of profitability, the weighted average sales price per kg is categorised into Fine Wool and Strong Wool. The weighted average price per kg is affected by the underlying contracted wool prices, the underlying micron of wool sold, auction and spot market prices for uncontracted wool and the mix of sales (contracted / auction and other).

Overview of historical financial performance

FY2019A financial performance relative to FY2018A

Between FY2018 and FY2019, NZM’s total revenue grew 9.2% to \$160.1 million while EBIT declined 8.8%. The key drivers of NZM’s total revenue growth and EBIT decrease in FY2019 included:

- significant increases in average Fine Wool sales prices that was only partially offset by a 9.5% reduction in wool sales volumes. Fine Wool sales prices benefited from an increase which was not observed for Strong Wool;
- overall average wool cost of sales increasing less than the increase in average wool sales prices resulting in an increase in wool trading margins and a contribution margin increase of 9.2%;
- fees and charges increasing 4.0% largely on the back of increased sales revenue;
- other income increasing 13.8% due to the timing of PGP funding and R&D contributions received; and

- earnings growth offset by a 15.0% increase in indirect expenses (the difference between contribution margin and EBITDA) largely reflecting increased spending on marketing.

FY2020A financial performance relative to FY2019A

Between FY2019 and FY2020, NZM’s total revenue decreased 14.0% to \$137.8 million while EBIT increased 36.4%. The key drivers of NZM’s total revenue decline and EBIT increase in FY2020 included:

- a slight decrease in average wool sales prices (both Fine Wool and Strong Wool) compounded by a 7.5% reduction in wool sales volumes as a result of COVID-19 driving decreased wool sales revenue. The decline in sales volume reflects the move by Brand Partners and Value Chain Partners to delay wool purchases (see the “inter-related effect of COVID-19 pandemic” risk in section 8 below for further details);
- average wool cost of sales decreasing more than the decline in average wool sales prices resulting in the trading margin from wool sales increasing 48.8%. This contributed to an increase in contribution margin of 5.5%;
- fees and charges revenue decreasing 3.4% on lower sales revenue and volumes;
- other income decreasing 16.6% due to lower PGP funding agreed for that year and lower R&D contributions given COVID-19 impacts; and
- a decrease in indirect expenses of 3.8%.

7.5 Overview of Prospective Financial Performance

Introduction

This section provides an overview of the prospective financial performance of NZM and should be read in conjunction with the table set out in Section 7.2 and the key drivers of return in Section 1.6.

Set out in the following paragraphs is a brief summary of the principal assumptions on which the PFI in the Selected Financial Information table is based. The PFI also assumes the following in relation to the ongoing impacts of COVID-19:

- there will be no material disruption to NZM's wool season as a result of COVID-19 or any lock-down measures which may limit the ability to obtain wool; and
- there will be no material additional disruption to NZM's operations, Growers, Value Chain Partners or its Brand Partners above what has already been experienced or incorporated into the PFI, particularly beyond FY2021F.

A full description of assumptions and sensitivities relating to the PFI for FY2021F and FY2022F can be obtained on the Offer Register in the Supplementary Financial Information (available at <https://disclose-register.companiesoffice.govt.nz/>, offer number OFR12964).

FY2021F financial performance relative to FY2020A

Between FY2020A and FY2021F, NZM is forecasting total revenue to decrease materially by 13.4% to \$119.3 million while EBIT is forecast to drop by 58.9%. This forecast is driven by current contracted wool sales and expectations for selling excess stock levels at reduced market prices as a consequence of the impact of COVID-19. As noted in Section 8, COVID-19 has resulted in excess wool supply in the market due to a drop in the demand for products that use wool, which has also meant a significant fall in spot market prices for wool.

The key factors that NZM believes will drive this forecast performance are:

- a significant decrease in average Fine Wool sales prices and an increase of overall wool sales volumes of 15.9% driven primarily by forecast additional auction volumes as NZM reduces stock levels and contract purchases as a consequence of the impact of COVID-19, as well as selling more Fine Wool (stronger edge) at auction in Melbourne. The reduction in stock levels follows the reduction in Brand Partner wool demand above their existing committed wool volumes (see the "trading margins remain low and supply interrupted" risk in section 8 below for further details). The forecast additional wool sales volumes at significantly reduced average prices is forecast to result in the total revenue decline of 13.4%;
- concurrent with lower average wool sales prices, the average wool cost of sales is not forecast to reduce as much. This is due to NZM procuring wool at higher prices ahead of the impact of COVID-19 on Brand Partner demand, including wool procured in anticipation of expected sales volumes which did not materialise (see the "inter-related effect of COVID-19

pandemic" risk in section 8 below for further details). Consequently, the overall trading margins on wool sales are forecast to drop by 63.0%. This contributes to a forecast decline in NZM's contribution margin of 20.4%;

- despite wool sales revenue decreasing, fees and charges revenue increases approximately 7.7% due to volume increases;
- other income increasing 13.9% based on a higher level of PGP funding on the back of increased activity in strong wool marketing; and
- a decrease in indirect expenses largely due to reduced travel and in-market activity as a result of COVID-19.

FY2022F financial performance relative to FY2021F

Between FY2021F and FY2022F, NZM is forecasting a resumption of a more typical operating environment without any further significant disruption from COVID-19 other than by already anticipated and reflected in current contracts with Brand Partners and Value Chain Partners. The risks associated with this expectation are set out in section 8 of this PDS (see in particular the "trading margins remain low and supply interrupted" risk).

Total revenue is forecast to increase 17.5% to \$140.1 million while EBIT is forecast to increase 97.5%. The key factors that NZM believes will drive this forecast performance are:

- average wool sales stabilising with overall wool volumes increasing 9.8% contributing to increased total revenue of 17.5%. The forecast increased wool volumes primarily reflect increased auction sales (reflecting Brand Partner demand being in line with existing committed volumes, and therefore greater volumes being sold at auction) and NZM's initiatives to target more Fine Wool (stronger edge) being sold at auction in Melbourne;
- average cost of wool prices stabilising, providing NZM with an opportunity to achieve trading margins on short term contract opportunities at levels more consistent with periods prior to COVID-19. This results in forecast wool trading margins increasing 81.3% and contributes to an increase in contribution margin of 19.4% (however, see the "trading margins remain low and supply interrupted" risk in section 8 of this PDS for details of the risks associated with this expectation);

- fees and charges revenue increasing largely in line with forecast increases in wool sales;
- other income decreasing 13.9% largely as a result of the agreed PGP funding being lower; and
- indirect expenses increasing by 6.2% in anticipation of increased marketing travel and activity.

7.6 Dividends

NZM has not declared a dividend in respect of FY2020 due to the impact of COVID-19 and the decision to embark on this Offer. However, based on current expectations and assuming the Board determines that there is no better alternative use for the funds, NZM expects to declare dividends during FY2021F and FY2022F as follows:

- in respect of FY2021F, \$0.6 million, being 50% of forecast net profit after tax. This dividend is expected to be paid in the FY2022F year.
- in respect of FY2022F, \$1.2 million, being 50% of forecast net profit after tax. This dividend is expected to be paid in FY2023F.

NZM anticipates that the dividends will be fully imputed.

For more information about our dividend policy, including after the forecast period, see Section 6 (Key features of ordinary shares in NZM).

7.7 Offer Register Information

The following additional financial information is available at the Offer Register in the Supplementary Financial Information (available at <https://disclose-register.companiesoffice.govt.nz/>, offer number OFR12964):

Historical financial information

- Audited financial statements for NZM for the periods ending 30 June 2018, 30 June 2019 and 30 June 2020.

Prospective financial information

- Prospective annual financial statements for the period ending 30 June 2021 and 30 June 2022 prepared in accordance with FRS-42;
- The principal assumptions on which the PFI in this Section 7 have been prepared; and

- A sensitivity analysis on the PFI which focusses on wool volumes and prices, being amongst the factors which NZM expects to be most significantly impacted by COVID-19 (see Section 8 below for details of the risks associated with COVID-19) and which would likely have the most impact on the drivers of NZM's returns, particularly NZM's trading margin (see Section 1.6 (Key drivers of return) and Section 2.5 (Our Operations)).

While the sensitivity analysis considers the financial impact of a number of single assumption variables, including volume and price, the potential ongoing impact of COVID-19 is highly uncertain and may have a cumulative impact on the drivers of NZM's future financial performance (including volumes, prices, trading margins and costs), including in combination with any of the other risks noted in Section 8 of the PDS and the Offer Register materialising.

Non-GAAP reconciliations

- Reconciliations between non-GAAP measures referred to in this PDS and financial information prepared in accordance with GAAP.



8.

Risks to NZM Group's business and plans

Inter-Related effect of COVID-19 Pandemic	
Description of the risk and its significance	The interrelation between NZM, Growers, Value Chain Partners and Brand Partners is close and significant. The COVID-19 pandemic, adversely impacting each one of them, is likely to have a compounded adverse flow-on effect on NZM's financial performance.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>As the COVID-19 global pandemic is still ongoing, the full effect of this risk continues to develop. It is unlikely that the risk will disappear or even be fully controllable in the foreseeable future. Therefore, it is difficult to assess its exact nature and magnitude as the effect on NZM will depend also on how Growers, Value Chain Partners, and Brand Partners, withstand the adverse effects of COVID-19. Some examples of adverse effects affecting key stakeholders, and their impact on NZM, are summarised below.</p> <p>With respect to Brand Partners, NZM understands that they have suffered reduced demand for their products. The principal effect of this on NZM has been the reduction of its trading margin, as Brand Partners and Value Chain Partners do not currently require additional wool on which a large portion of this margin is based. Going forward, wool commitments and pricing in upcoming contract renewals may be challenging. NZM has experienced wool purchase delays for existing commitments from Brand Partners, but the total amount of those commitments has been affirmed.</p> <p>With respect to Value Chain Partners (including logistics), there may be an inability to ship wool or products and there may be processing delays in the supply chain. This would cause delays in NZM meeting its delivery obligations to Brand Partners, which could result in delayed payment to NZM or cancelled contracts.</p> <p>With respect to Growers, if the Government were to introduce measures that take effect during a shearing season, NZM's ability to supply Value Chain Partners and Brand Partners may be significantly delayed. Further, persisting delays in payment resulting from Brand Partner delays, may jeopardise NZM's relationship with Growers and their viability, which would impact wool supply to NZM.</p>

Trading margins remain low and supply interrupted	
Description of the risk and its significance	NZM expects the adverse impact of COVID-19 to be most felt in FY2021, with NZM's financial performance in FY2022 then expected to be closer to pre-COVID-19 levels. However, the uncertainty of the long-term impact of COVID-19 on NZM and its trading partners, may instead result in a reduction in NZM's financial performance in FY2022, with low trading margins and interruptions in the supply chain.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>The likelihood of this risk materialising is difficult to assess as it depends on factors outside of NZM's control and on the extent of the impact of COVID-19 on Growers, Value Chain Partners and Brand Partners in the future.</p> <p>At present, wool supply to NZM has continued largely uninterrupted. But Brand Partner demand for their products has fallen, which has adversely impacted NZM's wool trading margin in FY2021 as excess volumes above committed levels are dealt with including by sale through other channels such as wool auctions at a lesser price, and delays in payments to Growers occurred on the back of delayed payment by Brand Partners for wool.</p> <p>NZM expects this adverse impact to be largely contained in FY2021, as key Brand Partners reduce their wool demand by committing to progressively lower supply volumes in successive years of a long-term contract. This approach is taken due to the uncertainty of future demand for a Brand Partner's products and therefore their actual future wool requirements. Consequently, NZM expects Brand Partners to have more certainty of their wool requirements in line with their existing contracted commitments in FY2022. The principal effect of this is that NZM may then acquire wool from Growers matching Brand Partner commitments, and more accurately assess the wool volumes that may be used to generate trading margins elsewhere. This, together with an improvement in market demand, may result in revenue from trading margins recovering in FY2022, but at potentially lower levels than before COVID-19 as lower prices may be paid, and/or lower volumes required, by Value Chain Partners and Brand Partners. Further, as overall Brand Partner demand may be lower than before COVID-19 despite improvements, it is expected that proportionately more wool would be sold at auction where NZM does not earn a trading margin (or under non-branded contracts) and therefore overall revenue would be lower than before COVID-19.</p> <p>If the above impacts on Brand Partners are sustained or intensify, or there is an interruption to Grower supply to NZM, then the expected recovery in FY2022 may not occur. Instead, it may be that financial performance in FY2022 is similar to FY2021, including due to possible delays in payment by Brand Partners, or that it reduces further.</p>
Ethical wool status	
Description of the risk and its significance	NZM positions itself with Brand Partners as a supplier of ethical wool from Growers that are culturally aligned with the philosophy and standards behind the ZQ and ZQ ^{RX} brands. If there is a failing in the ZQ supply chain, this reputation could be undermined. This could result in Brand Partners and Value Chain Partners using alternative ethical wool providers, adversely impacting NZM's financial performance.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>The risk of brand and/or reputational damage is always present, and while it may arise from environmental, political or other causes, it can undermine NZM's ZQ or ZQ^{RX} positioning as an ethical wool supplier.</p> <p>More likely, this risk may arise as a result of an on-farm animal welfare incident through a Grower not complying with the standards sitting behind ZQ and ZQ^{RX} accreditation.</p> <p>If this risk arises Brand Partners may lose confidence in the ZQ and ZQ^{RX} brands and turn to alternative options, given that there are competing ethical wool suppliers in the market. This would reduce NZM's revenue and potentially the Premium it can potentially achieve over wool auction prices. The latter could in turn result in less wool supply being offered to NZM.</p> <p>Given the significance of this risk, NZM works with Growers to mitigate it as it does not produce wool itself. NZM requires Grower compliance with its ZQ Grower Accreditation Manual and the requirements of the ZQ Accreditation Programme. Compliance with these programmes is independently audited every 3 years (and also with spot audit-checks), and auditors can require corrective action if on-farm practices do not comply. NZM also uses the New Zealand Wool Testing Authority to test wool before it is accepted from Growers.</p>

ZQ and ZQ^{RX} brand value	
Description of the risk and its significance	If Brand Partners do not see a valuable distinction between the ethical wool that NZM can supply and that which its competitors supply, Brand Partners (and relevant Value Chain Partners) may use cheaper alternatives resulting in a loss of, or inability to achieve increased, sales volume and/or depressed wool prices for NZM.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>The likelihood of this risk is difficult to assess as it depends on a value assessment made by Brand Partners. However, NZM has a high retention rate on Brand Partner (and therefore Value Chain Partner) contract renewals and has not experienced the loss of a major Brand Partner or a major Brand Partner contract default. For example, NZM's two largest Brand Partners (Icebreaker and Smartwool), and others such as Loro Piana, have worked with NZM since its formation. Newer major Brand Partners have also been supplied by NZM for a prolonged period, e.g. Allbirds has been supplied since 2016 and Reda since 2009.</p> <p>Nonetheless, given that NZM has traditionally focussed on relatively few major Brand Partners (see "Customer Concentration" below), if this risk materialised by a Brand Partner instead contracting with a competitor or acquiring wool at auction after the end of their contract with NZM, it could result in a material loss of sales volume, an inability to achieve increased sales volume as expected from ZQ^{RX}, and/or depressed wool prices for NZM.</p> <p>NZM mitigates this risk by working with Brand Partners to:</p> <ul style="list-style-type: none"> • develop its ethical wool brands in line with their expectations, and then with Growers to implement the new wool standards. An example of this is the launch of ZQ^{RX} earlier this year. In this way, NZM hopes to deliver on market expectations and stay ahead of its competitors, including those that may supply cheaper ethical wool; and • encourage and develop the use of the ZQ and ZQ^{RX} brands in the marketing of Brand Partners' end-consumer products. By associating NZM's brands with Brand Partners' consumer facing products, NZM aims to de-commoditise its ethical wool and differentiate it from competitors to maintain Brand Partner retention and attract new Brand Partners.



Key people risk	
Description of the risk and its significance	NZM's senior management team are the primary relationship holders for external business stakeholders and hold a wealth of experience and knowledge. While there is a low level of staff turnover at the senior level, loss of key personnel could have a material adverse effect on NZM's business continuity and execution of NZM's growth strategy.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>This risk has two aspects, being the relationships between senior management and key Brand Partners and the 'know-how' the key staff members have developed.</p> <p>Despite contractual arrangements, in practice, NZM's supply commitments with Brand Partners are relationship driven to a large extent. So the loss of key staff could make it more difficult to secure annual supply commitment renewals and purchases of wool above committed quantities in a given year (including as to the terms of any such supply). This could impact NZM's business continuity and revenue.</p> <p>The loss of key staff would also mean the loss of know-how critical to continue the development of NZM's brand as a leading procurer of ethical wool. This know-how is also critical to the execution of NZM's growth strategy as it seeks to leverage this know-how (including through its Consultancy and Studio ZQ businesses) to innovate and develop uses and users of wool and to be able to provide a consultancy service to industry partners. The loss of key personnel may slow down these developments and gradually impact NZM's competitiveness.</p> <p>To mitigate these risks, NZM has worked on its succession planning, incentive plans, and spreading key relationships amongst multiple staff members. At a more strategic level NZM is undertaking this capital raising process and the recent constitutional amendments to enable NZM to grow in a competitive global environment and thereby retain staff.</p>
Customer concentration	
Description of the risk and its significance	NZM has traditionally focussed on developing strong relationships with relatively few Brand Partners. Therefore, the loss or change in commitments of key Brand Partners would have a material adverse effect on NZM's financial performance.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>NZM's immediate contractual counterparties are Value Chain Partners that process wool for Brand Partners that have entered into wool supply commitments with NZM. When assessing its customer concentration NZM therefore looks to which Brand Partners are ultimately responsible for wool purchases.</p> <p>In FY2020, over 37% of NZM's contracted Fine Wool sales by value were sold (via Value Chain Partners) to Brand Partners owned by VF Corporation. VF Corporation currently owns Icebreaker and SmartWool, which individually represent NZM's two largest Brand Partners. In addition to Icebreaker and SmartWool, NZM's focus on a select group of Brand Partners means that its top 10% of Brand Partner's accounted for 42% of total wool sales in FY2020. If VF Corporation or other key Brand Partners reduce their commitments to NZM, or decided to contract on a predominantly short term basis, there would be a material loss of revenue and therefore a material adverse effect on NZM's financial performance. This risk is exacerbated due to COVID-19 travel restrictions, as NZM is not able to meet physically with potential new and existing Brand Partners to agree terms or to build and maintain relationships with them.</p> <p>To mitigate this risk, NZM looks to enter into long-term supply contracts with Brand Partners, such as its ten-year contract with Icebreaker. NZM also focuses on maintaining a good relationship with key Brand Partners and on its Brand Partners using the ZQ and ZQ^{RX} brands to market their products, which is currently challenged by COVID-19 travel restrictions.</p> <p>Apart from the above efforts, NZM is looking to grow revenue from Strong Wool, and new and other existing Brand Partners to reduce its reliance on VF Corporation in particular.</p>

Loss of, or inability to secure new, ZQ growers	
Description of the risk and its significance	NZM is supplied by Growers that are culturally aligned with the philosophy and standards behind the ZQ and ZQ ^{RX} accreditation. A significant loss of these Growers (or for any other reason, a reduction in ZQ Wool supply), or an inability to secure new Growers, would result in a reduced ability to satisfy Brand Partner commitments, to meet wool sales volume growth targets, and adversely impact on NZM's financial performance.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>The likelihood of this risk materialising is driven by the value proposition to Growers of supplying NZM, and how NZM's growth is managed so that its 'cultural-fit' with Growers is not undermined.</p> <p>If either of these elements adversely change, NZM may lose existing Growers and may find it harder to attract new Growers, including from overseas where there is a greater prospect of expansion. Over time, this would adversely impact NZM's financial performance as its ability to meet Brand Partner commitments and expand its business would be reduced. For example, NZM's strategies of expanding Fine Wool and Strong Wool supply may not be achieved.</p> <p>To mitigate this risk:</p> <ul style="list-style-type: none"> • NZM is building its value proposition by leveraging its ZQ and ZQ^{RX} brands so that ZQ Wool is in a position to achieve a Premium over wool sold at auction. • NZM's Grower facing team has been expanded to be able to better service and understand the needs of its Growers, and also to communicate NZM's direction and plans to Growers. Alignment with Growers in connection with the recent constitutional amendments and the Offer's purpose has been an important part of NZM's strategy; and • NZM is planning on expanding its Grower base by developing its Strong Wool business so it can more effectively market to Strong Wool Growers, and also by finding new Fine Wool Growers in Australia and South Africa by expanding the ZQ programme there. COVID-19 travel restrictions have made the latter more challenging.

Commodity exposure risk	
Description of the risk and its significance	NZM has open contract and/or wool stock positions to satisfy Brand Partner demand above their contracted commitments which if not met may result in a significant loss due to adverse wool market price movements.
NZM's assessment of the likelihood, nature and potential magnitude of the risk	<p>As NZM's business model is based on having back-to-back contracts with Growers and Brand Partners, its open contract and stock positions are held largely for meeting expected upcoming wool supply commitments, or top-ups to existing Brand Partners.</p> <p>However, as NZM pays more for its wool than market rates because of the Premium it tends to enjoy from Brand Partner contracts, if Brand Partner demand is lower than expected such that top-ups are not needed, or the Brand Partner defaults or is unable to perform a contract, that could leave NZM with a large stock position made up of expensive wool that would need to be disposed of in the commodity market. The larger this price differential the greater the risk and the size of the loss for NZM.</p> <p>Due to the excess supply caused by COVID-19, spot market prices have fallen significantly and there is at present a large gap to contract pricing. Although there are purchasing delays from Brand Partners, commitments have been reaffirmed and NZM has not received any notice of default. However, as noted under the COVID-19 risk, NZM's trading margin has been eroded as top-up demand has not materialised and this may occur again in FY2022 if the risks associated with that year noted in this section of the PDS materialise. Such demand loss can, in turn, cause the commodity exposure risk to materialise for FY2022 as it has done in the current financial year.</p> <p>NZM utilises wool futures to mitigate price-risks on open positions under its contracts.</p>

Further disclosure of risks relating to biosecurity that may increase the risk of the NZM Group's financial position, financial performance or plans can be reviewed on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/> (Offer number: OFR12964), in the document entitled "Other material information relating to the Offering of Ordinary Shares in The New Zealand Merino Company Limited".

9. Tax

Tax can have significant consequences for investments. If you have any queries relating to the tax consequences of the investment, you should obtain professional advice on those consequences.





10.

International offering restrictions

The Rights Issue and Shortfall Offer are only being made to Eligible Shareholders and Unshared Persons resident in New Zealand. The Strategic Investor Offer is being made to Strategic Investors in certain jurisdictions, including New Zealand and Italy.

No person may offer, sell (including resell) or deliver or invite any other person to so offer, sell (including resell) or deliver any Shares or distribute any documents (including the PDS) to any person outside New Zealand, except in accordance with all of the legal requirements of the relevant jurisdiction. This document (and any document on the Offer Register) does not constitute an offer of New Shares in any jurisdiction in which it would be unlawful.

Unless otherwise agreed with NZM, any person or entity subscribing for New Shares in the Offer will, by virtue of such subscription, be deemed to represent and warrant that he, she or it is not in a jurisdiction that does not permit the making of an offer or invitation of the kind contained in the PDS and is not acting for the account or benefit of a person within such a jurisdiction.

To the maximum extent permitted by law, none of NZM, the Lead Manager, the Share Registrar nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Italy

This document has not been, and will not be, registered with or approved by any securities regulator in Italy or elsewhere in the European Union. Accordingly, this

document may not be made available, nor may the New Shares be offered for sale, in Italy except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (the "Prospectus Regulation").

In accordance with Article 1(4) of the Prospectus Regulation, an offer of New Shares in Italy is limited:

- to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation);
- to fewer than 150 natural or legal persons (other than qualified investors); or
- in any other circumstance falling within Article 1(4) of the Prospectus Regulation.

11.

Where you can find more information

Further information relating to NZM and the New Shares is available on the Offer Register (for example, the Constitution, financial statements and PFI). A copy of information on the Offer Register is available on request to the Registrar. The Offer Register can be accessed at <https://disclose-register.companiesoffice.govt.nz/>, Offer number: OFR12964.

Further information relating to NZM is also available on the public register at the Companies Office of the Ministry of Business, Innovation and Employment. This information can be accessed on the Companies Office website at <https://companies-register.companiesoffice.govt.nz/>.

As a company listed on USX, NZM has ongoing disclosure obligations. You can obtain this information free of charge by searching under NZM's stock code "NZMC" on the Unlisted website: <https://www.usx.co.nz/>.



12.

How to apply

You should read this PDS and other available information carefully before applying for New Shares. The method of applying for New Shares is different depending on whether you are an Eligible Shareholder applying for New Shares through the Rights Issue, or a person applying for New Shares through the Shortfall Offer or Strategic Investor Offer.

Please ensure you apply under the relevant instructions below, either Section 12.1 for existing NZM Shareholders or 12.2 for other persons.

If you have any questions on the application process explained below, please contact Link Market Services Limited by email to enquiries@linkmarketservices.co.nz or by phone on +64 9 375 5998.

12.1 How to apply for shares in the Rights Issue

Eligible Shareholders that have opted into electronic communication with the Company will be sent an email outlining their Entitlement and an electronic copy of this PDS, and an Entitlement Number to apply for the Offer online at www.nzmcshareoffer.co.nz. You may also request a hard-copy Rights Issue Application Form further to the instructions in the email.

In order to complete an electronic Rights Issue Application Form to subscribe for New Shares, the Offer website will require NZM Shareholders to:

- Download and read this PDS;
- Confirm that the individual NZM Shareholder's details contained on the Rights Issue Application Form are correct;
- Specify the number of New Shares they wish to apply for, up to their Entitlement; and
- Specify the number (if any) of additional New Shares they wish to apply for under the Oversubscription Facility, if they have applied for their Entitlement in full.

For those Eligible Shareholders that have not opted into electronic communication with the Company, they will be sent a letter outlining their Entitlement and a hardcopy of the PDS and Rights Issue Application Form to their registered address. They can then complete and return a copy of the Rights Issue Application Form, in accordance with the instructions on the Rights Issue Application Form or apply for the Offer online at www.nzmcshareoffer.co.nz.

The Company's preferred method of participation is an online Application as it allows for faster processing of your Application.

Eligible Shareholders that do not wish to take up any of their Entitlement need not take any action and may ignore the Entitlement Letter and Rights Issue Application Form.

12.2 How to apply for Shortfall Shares in the Shortfall Offer

Unshared Persons for whom the Company has an email address will be sent an email outlining their ability to participate in the Shortfall Offer and an electronic copy of this PDS, and an Entitlement Number to apply for the Offer online at www.nzmcshareoffer.co.nz.

In order to complete an electronic Shortfall Offer Application Form to subscribe for New Shares, the Offer website will require Unshared Persons to:

- Download and read this PDS;
- Complete the online Shortfall Offer Application Form; and
- Specify the number of New Shares they wish to apply for.

For those Unshared Persons that the Company does not have an email address, they will be sent a letter outlining their ability to participate in the Shortfall Offer and a hardcopy of the PDS and Shortfall Offer Application Form to their address. They can then complete and return a copy of the Shortfall Offer Application Form, in accordance with the instructions on the Shortfall Offer Application Form or apply for the Offer online at www.nzmcshareoffer.co.nz.

The Company's preferred method of participation is an online Application as it allows for faster processing of your Application.

Unshared Persons that do not wish to participate in the Shortfall Offer need not take any action and may ignore the Entitlement Letter and Shortfall Offer Application Form.

12.3 General

For both of the application methods outlined previously, you must also make full payment for the New Shares and provide any necessary documents required by NZM under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and the Common Reporting Standards/FATCA (if required) prior to the Closing Date.

Your Application must be accompanied by full payment in New Zealand dollars for the total number of New Shares applied for. This can be paid by one-time direct debit, as more fully explained in the Application Form.

Completed Application Forms must be received by NZM no later than 5 p.m. on the relevant Closing Date.

12.4 Privacy Policy

If you apply for New Shares, you will be asked to provide personal information to NZM, the Share Registrar and their respective agents who will collect and hold the personal information provided by you in connection with your Application.

Your personal information will be used:

- for considering, processing and corresponding with you about your Application;
- in connection with your holding of Shares, including sending you information concerning NZM, your Shares and other matters NZM considers may be of interest to you by virtue of your holding of Shares; and
- for conducting an audit or review of the activities contemplated above.

To do these things, NZM or the Share Registrar may disclose your personal information to:

- each other;
- their respective related companies; and
- agents, contractors or third-party service providers (including auditors) to whom they outsource services such as mailing and registry functions. However, all of these parties will be bound by equivalent privacy policies used by NZM and the Share Registrar.

In addition, in paying for New Shares by one-time direct debit, the Share Registrar will communicate with your nominated bank (including providing your personal information) for the purposes of processing your payment.

Failure to provide the required personal information may mean that your Application Form is not able to be processed efficiently, if at all.

Where NZM and the Share Registrar hold personal information about you in such a way that it can be readily retrieved, you have a right to obtain from NZM and the Share Registrar confirmation of whether or not they hold such personal information, and to access and seek correction of that personal information under the Privacy Act 1993 (and from 1 December 2020, the Privacy Act 2020) by contacting NZM and the Share Registrar at their respective addresses shown in Section 13 of this PDS.

You can also access your information on the Share Registrar's website at www.linkmarketservices.co.nz or contacting NZM's Share Registry at enquiries@linkmarketservices.co.nz.



13.

Contact information

Issuer

The New Zealand Merino Company Limited
Level 2, 123 Victoria Street
Christchurch 8013
Email: shares@nzmerino.co.nz
Phone: +64 3 335 0911

Share Registrar

Link Market Services Limited
Level 11, Deloitte Centre, 80 Queen Street
Auckland 1010
Email: enquiries@linkmarketservices.co.nz
Phone: +64 9 375 5998

Legal Advisers to NZM

MinterEllisonRuddWatts
Level 22 PwC Tower
15 Customs Street West, Auckland 1010
Phone: +64 9 353 9700

Lead Manager

Northington Partners Limited
Level 4, 70 Gloucester Street
Christchurch 8013
Phone +64 3 378 2105

14.

Glossary

AOML	Alpine Origin Merino Limited.
Applicant	An Eligible Shareholder, Unshared Person or Strategic Investor that applies for New Shares.
Application	An application to acquire New Shares under the Offer.
Application Form	In respect of Eligible Shareholders and Unshared Persons, means the Application Form provided to them with their Entitlement Letter. In respect of Strategic Investors, NZM will seek to contact them to confirm the application process. Applications for New Shares by Strategic Investors can only be made in accordance with that process.
Application Monies	The monies payable on Application.
Board or Board of Directors	The board of directors of NZM.
Brand Partner	A consumer brand owner that sells products containing wool once owned by NZM.
Business Day	A day on which USX is open for trading.
Closing Date	For the Rights Issue and the Shortfall Offer means 2 December 2020 and for the Strategic Investor Offer means 17 December 2020.
Constitution	The constitution of NZM.
COVID-19	An infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).
CPT	Central Progeny Test site used by breeders to benchmark Fine Wool genetics against other New Zealand and Australian sheep studs.
Director	A director of NZM.
EBIT	Earnings before interest and income tax.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.
EBV	Estimated Breeding Values, being an estimation of a sheep genetic merit for a certain trait.
Eligible Shareholder	Has the same meaning as in Section 5, under "Rights Issue Eligibility".
Entitlement	Has the same meaning as in Section 5, under "Structure of the Rights Issue".
Entitlement Letter	Has the same meaning as in Section 5, under "Entitlement Letter".
Existing Share	Ordinary shares in NZM held by an Eligible Shareholder on the Record Date.
F	The inclusion of F after a reference to a financial period is an indication that it is a forecast period. For example, "FY2021F" means the year ending on 30 June 2021, which is a forecast period.
Fine Wool	Wool from a sheep (either shorn or other method of removal) that is less than 29.0 microns.
FMC Act	Financial Markets Conduct Act 2013.
FMC Regulations	Financial Markets Conduct Regulations 2014.
FY	A financial year ending 30 June.
FTE	Full Time Equivalent.
GAAP	Generally Accepted Accounting Practice.
Glerups	Aktieselskabet Glerups.dk ApS.
Glossary	This glossary of key terms.
GNZL	Glerups New Zealand Limited.
Greasy	The properties bound by wool including lanolin and other wool grease that are removed through the scouring process.
Grower	A person or entity that supplies NZM with Raw Wool.
Grower Appointed Director	A Director that has been appointed by Shareholders that are Growers (as defined under the Constitution) under clause 20.6(a) of the Constitution or by the Board further to clause 20.3(d) of the Constitution.
Independent Director	A Director who is not an Employee (as defined in the Constitution) of the Company and who has no Disqualifying Relationship (as defined in the Constitution).
Issue Price	\$3.80 per New Share.
Minimum Application	In respect of an Application under the Rights Issue, means an Application for such number of New Shares as would leave the Applicant with at least a Minimum Holding after the issuance of New Shares on the Settlement Date. In respect of an Application under the Shortfall Offer or Strategic Investor Offer, means 250 Shares.
Minimum Holding	250 Shares.

Minority Buy-Out Rights	The minority buy-out rights under the Companies Act 1993 described in the notice of annual meeting, dated 25 September 2020.
New Shares	Shares to be issued under the Offer.
NZD or NZ\$ or \$	New Zealand Dollar.
NZM	The New Zealand Merino Company Limited.
NZM Group	NZM, its subsidiaries (as defined under the Companies Act 1993), and, as applicable, Alpine Origin Merino Limited and Glerups New Zealand Limited.
Offer	The offer of ordinary shares under this PDS, whether made under the Rights Issue, Oversubscription Facility, Shortfall Offer or Strategic Investor Offer.
Offer Register	The entry for the Offer in the register of offers of financial products required under the FMC Act and FMC Regulations available at https://disclose-register.companiesoffice.govt.nz/
Oversubscription Facility	The facility described in Section 5, under the Rights Issue terms in the row labelled "Oversubscription Facility".
PDS	This Product Disclosure Statement.
PGP	Primary Growth Partnership.
Premium	The additional transacted or sold value of wool achieved by NZM, compared to non-ZQ Wool of equivalent type and quality sold on the spot market.
Prospective Financial Information or PFI	Forecast financial information for NZM Group for FY2021 and FY2022.
Qualified Investors	Natural persons or Entities (as defined in the FMC Act) who are who are not Shareholders or Unshared Persons, who the Board considers to be an institutional or professional investor under applicable law.
Raw Wool	Wool from a sheep (either shorn or other method of removal) that is either in its Greasy form, or has been scoured or carbonised, but not carded or combed.
Record Date	Means 25 September 2020.
Remaining Share	Has the same meaning as in Section 5, under the Strategic Investor Offer terms in the row labelled "Contingent offer".
Right	A non-renounceable right to subscribe for 1 New Share for each Existing Share at the Issue Price, issued pursuant to the Rights Issue.
Rights Issue	The pro rata non-renounceable offer of New Shares detailed in this PDS, including the Oversubscription Facility.
Settlement Date	The date New Shares are issued to successful Applicants, which for the Rights Issue and the Shortfall Offer means 9 December 2020, and for the Strategic Investor Offer means 21 December 2020.
Shares	Ordinary shares in NZM.
Share Buy-Back	The offer, to be made on or about 18 November 2020, by NZM to Shareholders on the Record Date with a registered address in New Zealand to purchase all of their Shares at the same price as the Issue Price.
Share Registrar	Link Market Services Limited.
Shareholder	Means a person holding Shares.
Shortfall Offer	The offer of Shortfall Shares to Unshared Persons detailed in this PDS.
Shortfall Shares	Has the same meaning as in Section 5, under "Structure of the Rights Issue".
Strategic Investor	Has the same meaning as in Section 5, under "Strategic Investor Offer Eligibility".
Strategic Investor Offer	The offer of Remaining Shares to Strategic Investors detailed in this PDS.
Strong Wool	Wool from a sheep (either shorn or other method of removal) that is greater than 29.1 microns.
Supplementary Financial Information	The document entitled "The New Zealand Merino Company Limited's Prospective Financial Information, a reconciliation of non-GAAP to GAAP information and supplementary financial information" on the Offer Register.
Unlisted or USX	The share trading platform operated by Efficient Market Services Limited.
Unshared Persons	Has the same meaning as in Section 5, under "Shortfall Offer Eligibility".
Value Chain Partner	An entity in the value chain that processes wool once owned by NZM.
W3	W3: Wool Unleashed Primary Growth Partnership with the Ministry for Primary Industries.
ZQ Wool	ZQ Wool means Raw Wool that is grown by Growers in accordance with the ZQ Grower Accreditation Manual and the requirements of the ZQ Accreditation Programme.

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