

July 4<sup>th</sup> 2011

Report to the Fibre Pool.

As promised, here is a current update as to the state of the fibre received from the 120 growers into Pacific Alpacas fibre pool.

We received 10,423.46 kgs of fibre in total for this batch

We had started with 19 lines of fibre, but because of volumes we have ended up with 11 lines that we are selling that are listed at the end of the report

First adjustment was for unusable, (37.2 kg) and too heavy VM (vegetable matter) (11.7 kg) packaging, bags and rounding and we had 10,029.03 shipped to the scourer

After scouring we had 8,614.90 kg (an average loss of 14.5%) But we have adjusted each line by their respective actual losses

We paid SGS to analyze the fibre by bale. With this analysis we gained “conditioned weight”. Essentially this is additional moisture that the fibre reabsorbs after scouring. We bill customers based on this SGS tested weight and we pay out based on this conditioned weight. This added an average 4.6% in weight to a total saleable weight total of 9,014.9 kgs

Each line has its own conditioned weight. On average for each 1 kg submitted equals 0.8945 kgs net amount that was sold. We could have adjusted the selling price down by this amount – but trying to keep everything transparent we would rather show the total sales price that we received.

We have priced and sold the fibre in US dollars – both to local customers and the export market. The exchange rate that we have used is 82.5 cents – compared with 72 cents 4 months ago another 15% adjustment downwards in return.

I would remind everyone again that this is our first attempt at this. We accepted all fibre and processed all fibre on the expectation we would have one export order. We now have 5 customers, one who has indicated a willingness to take up to 5,000 kg a MONTH.

## **SORTING**

We had a professional fleece sorter and the total cost, along with Sam's \$3,600 was \$10,225.80 / 9,014 kgs is \$1.13 per kg

### *Proposed adjustment for next year:*

We will still accept all fibre. BUT, fibre has to be in two bags. One bag for bellies, necks, and legs (“shorts”) and one bag for “blankets”. We believe that with this additional sorting at

the farm gate we can reduce this cost to \$0.60. If the fleece is not sorted a \$1.15 fee will be applied

## **TESTING**

We paid SGS \$1,854.25 for testing all the fibre. This is \$0.21 per kg.

### *Proposed adjustment for next year:*

We would plan on having this cost each cycle.

## **SCOURING**

We paid a Timaru scourer to scour all the fibre. The cost was \$1.92 a kg on the processed fibre weight. Because we expected to export all the fibre, we scoured everything. I also learned that you pay the scourer on the inbound weight – not the received weight. Because there is no lanolin recovery from the fibre processing, costs are more expensive than wool. Because of the different colors, the set up time for the scourer is more, as they are very concerned with contamination of their white product lines.

### *Proposed adjustment for next year:*

Next time we will scour all but the colored shorts, WH 25. This is the only line we cannot easily place today. This was the line we thought would be difficult to place at the outset. We have two people interested in this line, but trials have to be finalized before we scour this line in the future

## **FREIGHT**

The one area that totally blindsided me was freight. I didn't realize that the only people to make any money from this would be the shearers and the freight company.

The total freight that we paid was \$16,182.88 divided by 9,014.9 is \$1.80 per kg. Of the 10,423 kg shipped in 6,981 kgs were of shipments of 100 kg or more. We did say that if you shipped more than 100 kg we would pay the freight. If we remove the 6,981 kgs from the base – the remaining 3,442 kgs would end up with paying \$4.70 a kg in freight. Making the whole exercise uneconomic for the majority and penalizing the small growers who feel disenfranchised to start with.

It was not just the inbound freight cost. This total included freight to the scourer. Freight from the scourer to domestic customers, and freight to overseas customers. I have not estimated any freight costs for the remaining stock and will have to either absorb those amounts personally or roll them over to the next collection.

Given that this is not a Co-op, is not a company, and is being done on a best endeavors basis, I suggest that the freight be shared equally. I understand that less than a month ago I made the statement that if you paid the freight to us, that we would not be charging freight again.

Given that we have transparent pricing in all aspects of this – I cannot “bury” the additional freight costs in either the selling price or the weights.

It is not ideal, and I am not happy with going back on my earlier statements.

Obviously, as this is a free market capitalistic system, if you disagree with my option or proposal, you do not have to participate going forward, you won't contribute your fibre, and you will pursue other fibre options.

I would hope that as a larger grower you would take this all into consideration.

*Proposed adjustment for next year:*

I do not want in bound freight as a cost center if we do this again. The fibre takes up so much volume that the freight charges for less than press pack amounts make the entire process uneconomic. If you are a large grower and have 100 kg or more – you should be able to press pack bales and arrange for shipping at competitive prices. If you are a small grower, we will arrange to pick up the fibre from your farm gate for \$1.80 per kg. You are welcome to drop the fibre off in Cromwell, or arrange to transport the fibre direct to Pacific Alpacas. This will be deducted from your pay out – so you still do not have to upfront any money.

There will be a freight cost for shipment to the scourer and any delivery costs to customers

**MANAGEMENT**

The ONLY expenses that have been assigned to this business are direct costs. I have not kept track of the huge number of hours or staff time that has been devoted to this over the past 12 months. Neither has Jonathan Heap of Wadsworth Heap. However, I have charged back \$3,600 for Sam's time on the sorting process at the beginning of the year, I have not charged for storage, facilities, equipment, or any other expense.

Having said that, it is our intention, once all the growers have been paid out, that Wadsworth Heap will charge a 5% sales commission for arranging for sales and collection, and my company will charge 5% for administration and management.

## **FINANCIALS**

We have sold, or got commitments for \$77,000 of fibre. We have total stock valued at \$99,000 – about \$5,000 less than the US commitment.

We have received payment for \$22,000 of the fibre as of June 30<sup>th</sup> 2011. We have sales receivable of \$52,000, and we have 6 bales of WH25 in inventory– the colored pieces worth approximately \$22,000. All the unsold fibre is at Timaru Scourers and has been paid for. Starting this Friday we will start accruing storage charges and so will bring the unsold fibre back to Cromwell until final sales are made.

Now that we have all the analysis, costs and calculations completed – I would expect a major distribution the middle of August, 90 days later than we originally projected. Disappointing but given the circumstances I would say it has turned out for the better.

Please note that all the sales figures are GST EXCLUSIVE. We have applied to IRD for a “buyer approved GST invoice”. GST will be ADDED to these sales figures.

I would also take this opportunity to follow up on a couple of other items:

1. Merino Wool. At the recent Nelson AGM we heard the success story of Merino Wool. Last year wool growers were getting \$10NZ a kg and \$14NZ a kg. This year they are getting \$14NZ and \$18NZ a kg for 18 micron fleece. A merino throws off 3.5 – 5 kgs a year in fibre, with maybe 20% oddments. But this is the greasy price BEFORE, freight, scouring, marketing and distribution costs. Note that our AVERAGE pay out is \$11 a kg, and ranges from \$8.00NZ to \$15.25NZ a kg. And we feel that we can do better than this next time and the next time. With our cost reduction strategies. Merino has been going since **1996** and we are the new comers but feel we can market Alpaca fibre to the growers advantage.
2. New Paradigm for Alapaca's. In the global market place we are now competing with the 4,000,000 animals in Peru. South American tops's are selling for \$20 US a kg. We are looking at the benefit of going up the vertical chain to card the fibre to get more value. If you are going to have these animals as more than a hobby and lawn mowers, all your costs should be evaluated. Meaning evaluating all vet bills, shearing costs, feed costs, and maximizing the value of the fibre whatever avenue you pursue.

## **SUMMARY**

In summary, while the process has taken 3 months longer than I would have been happy with, and we have encountered and overcome a number of challenges – I would like to do another collection in the North Island in late September once the majority of the funds have been paid out. We have customers who will take additional fibre – on which we can build.

But ultimately it will be up to you, the grower whether you support this or not. The minimum quantity to make it viable and make it of interest to customers is 10,000 kgs.

Constructive suggestions are welcome.

Any ideas on how to make this viable would be appreciated. While it has been a huge learning experience, I by no means have all of the answers.

We have now qualified to have [www.facebook.com/pacificpacos](http://www.facebook.com/pacificpacos) on a main page - rather than being buried in the bowels of Facebook.

Bin Line	Description	Sales line	Adjusted Weight	Gross Sales Price
<b>Colored Short</b>		<b>WH 25</b>	91.11%	\$ 7.42
<b>CMS 16</b>	<b>&lt;3 inches &lt;30 microns coloured</b>	<b>WH 25</b>	91.11%	\$ 7.42
<b>GCS 17</b>	<b>&lt;3 inches 30+ Microns Coloured</b>	<b>WH 25</b>	91.11%	\$ 7.42
<b>CCL 9</b>	<b>30+ Microns Coloured</b>	<b>WH 26</b>	95.35%	\$ 7.64
<b>BRL 8</b>	<b>20-30 Microns All Browns</b>	<b>WH 27</b>	87.70%	\$ 10.37
<b>BLKL</b>	<b>Black</b>	<b>WH 28</b>	90.98%	\$ 11.73
<b>GL</b>	<b>20-30 Microns Grey</b>	<b>WH 29</b>	89.89%	\$ 12.55
<b>SFCL 9</b>	<b>&lt;20 Microns Coloured</b>	<b>WH 29</b>	89.89%	\$ 12.55
<b>BL 6</b>	<b>20-30 Micron Beige</b>	<b>WH 30</b>	91.57%	\$ 11.24
<b>CWL 4</b>	<b>31+ Micron White</b>	<b>WH 31</b>	81.82%	\$ 8.45
<b>MWL 3</b>	<b>26-30 Micron White</b>	<b>WH 32</b>	90.29%	\$ 11.41
<b>FWS 13</b>	<b>&lt;3 Inches 20-25 Microns White</b>	<b>WH 33</b>	86.25%	\$ 7.20
<b>MWS 14</b>	<b>&lt;3 inches 26+ Micron White</b>	<b>WH 33</b>	86.25%	\$ 7.20
<b>SFWS</b>	<b>&lt;3 inches &lt;20 Microns White</b>	<b>WH 33</b>	86.25%	\$ 7.20
<b>FWL 2</b>	<b>20-25 Micron White</b>	<b>WH 34</b>	83.00%	\$ 13.73
<b>SFWL</b>	<b>&lt;20 microns White</b>	<b>WH 34</b>	83.00%	\$ 13.73
<b>White Short 5</b>		<b>WH 35</b>	97.47%	\$ 7.20
<b>VM Heavy</b>	<b>Vegetable Matter Heavy</b>		0.00%	
<b>Unusable</b>	<b>Unusable</b>		0.00%	
			<b>Average</b>	<b>\$ 9.67</b>