STEEL & TUBE 2020 ANNUAL SHAREHOLDERS' MEETING

CHAIR'S PRESENTATION: SUSAN PATERSON

The industry in which we operate is highly competitive and fragmented. Steel & Tube remains one of New Zealand's largest and most comprehensive providers of steel products and solutions.

To safeguard our future, we must continue to innovate and improve, to ensure that Steel & Tube is seen as the first choice for consumers wanting expert advice and quality products and solutions.

We also need to make sure that we are operating as efficiently as possible, maximising our margins and, as a result, delivering value to our shareholders.

FY17 To FY20 Strategic Progress

For the past three years, we have been on a journey to reset our company, to make it stronger, more efficient and better performing. Key projects have included the streamlining of our network of branches, the introduction of an extensive quality programme and improvements to our operations and supply chain, particularly around freight and inventory management.

We have also been investing in technology and the digitisation of our business. The steel sector has historically been a 'bricks and mortar' industry and we are at the forefront of transforming the industry. We are embracing technology with digital initiatives including a new ecommerce platform, webshops, a chatbot and more, to make it easy for our customers to do business with us.

Our capital base has been strengthened significantly, with borrowings reduced to $10 million at FY20 year end. Operating cashflow has grown strongly and was up $5 million year on year.

One outstanding issue relating to the period prior to April 2016 is the Commerce Commission case in relation to the Fair Trading Act and steel mesh which remains ongoing. The latest appeal was heard in August and we are now waiting for the Court's decision. We are disappointed with the Commission's decision to appeal the High Court's decision, and we continue to stand by our products. The breaches of the Fair Trading Act were unintentional and the Board and management at the time immediately rectified testing procedures and documentation when advised of the issue.

COVID-19

The work we have done over the past years has made us a stronger, more efficient and leaner business…and provided us with greater resilience for something that none of us foresaw – a global pandemic which has created enormous challenges for governments, businesses and people around the globe.

The Level 4 lockdown saw all sites closed except where needed to supply essential services. The priorities for the Board were the safety of our people and customers, and contingency planning, including financial modelling under various scenarios. We took a prudent approach to capital management and we cancelled the interim dividend payment. We also engaged with our banking syndicate, agreeing waivers of existing bank covenants for 30 June and 31 December 2020, and temporary revised covenants for the remainder of FY21, which we expect to comfortably meet.

Like most businesses, Steel & Tube has not come through the pandemic environment unscathed, with COVID-19 accelerating an already softening trading environment. The level 4 lockdown occurred during a traditionally high earnings period for our business and sales were down approximately 50% over March and April, compared to the same time last year. During this period, management took the opportunity to progress strategic initiatives, including accelerating the organisation restructure, advancing our digital strategy and further staff training.

Trading since we emerged from lockdown has been better than anticipated, and is close to prior year. In part this has been due to pent up demand, however, we have also seen positive signs of economic activity with a number of new projects and longer term contracts, offsetting some project cancellations.

However, the volatility of the COVID environment has been demonstrated again recently, and the recent level 3 restrictions in Auckland has impacted a number of our customers, with a flow on effect on some parts of our business.

I would like to acknowledge and thank our staff, suppliers, customers and other stakeholders for their support during this period. In particular, I was humbled by the commitment and efforts of the Steel & Tube team, who quickly adapted to the new working environment and continued to give it their all during a time of significant disruption to their jobs and their daily lives.

FY20 Snapshot

The results for the FY20 year reflect what had been a softening economic environment and the material impact of COVID-19 on trading as well as the work being done to make our business fit for purpose.

As reported in our results announcement on 28 August, the 2020 financial year saw us recognise non-trading impairments and adjustments of $58 million, which together with the softer earnings, led to a reported loss of $60m for the year.

Whilst economic conditions are expected to remain challenging throughout our 2021 financial year, I am pleased to report we have a stronger balance sheet, are delivering robust operating cashflows and we are seeing benefits from the significant structural improvements made over the last two years.

Excluding the non-trading items, our normalised earnings were just above breakeven. Cash management continues to remain a critical focus for the business.

Given the uncertainty and volatility of the COVID-19 environment, the Board made the difficult decisions to cancel the interim dividend and not declare a final dividend. We understand shareholders will be disappointed in this but believe that the preservation of cash at this time is the most appropriate action to take in the best interests of the company.

Equally, shareholders will be frustrated in Steel & Tube's share price, as are the Board. We recognise we need to deliver improved financial performance, which we are committed to doing.

Game On

Significant work has been done by management and the Board to position our company for the future and ensure we have the best organisational structure to navigate the new COVID-19 environment.

Positioned For Future Growth

We are positioning our company to be customer focused and sales led. With the start of the FY21 financial year, we have put in place a clear strategy to guide our actions going forward.

Our vision is to be a successful company delivering an acceptable return to our shareholders, and seen as the best in the sector, the preferred choice for steel products and solutions and a trusted partner for our customers.

We aspire to sector leading employee engagement and to offer a rewarding place to work. However, we are conscious that, like most other businesses in this post-COVID environment, there will still be challenges on the road ahead.

We continue to build on the good work that has been done to create a strong organisational platform. Cost efficiencies, inventory management and working capital disciplines remain a priority.

Innovation and digitisation are key enablers to help us achieve our goals. This has been an important area of investment and we have accelerated our plans to create a digitally smart and efficient business as part of our strategy.

Finally, we continue to invest in our staff, to develop their talents, recognise their efforts and contributions, celebrate and support diversity, encourage flexibility and empower them to add more customer value.

We have also continued to support our communities, with scholarships and mentoring programmes that support people's ambitions.

I would now like to hand you over to our CEO, Mark Malpass, to talk about our future pathway and strategy in more detail.

CEO'S PRESENTATION: MARK MALPASS

Management Team

Steel & Tube is led by a talented group of executives, all of whom have extensive experience in their respective areas and are passionate about our company and its potential.

Division Review

Our business is structured into two divisions.

In distribution, products are sourced from preferred steel mills and distributed through our national network of branches.

In infrastructure, products are typically made to order on a project basis and often include onsite installation services, either performed by us or contractors.

We have strong brands and businesses in each of our divisions.

Both our divisions – Distribution and Infrastructure – were materially impacted by the COVID shutdown but are recovering well.

The distribution business is higher volume and lower margin and has been impacted by the market segment contraction in vertical construction and pricing pressure we have seen over the past two years. Pleasingly, Project Strive initiatives have made significant improvements to our cost base, we have held market share, and pre-COVID revenues and margins had improved.

In Infrastructure we have continued to win significant project work with our quality and service offering. Our composite floor decking team, supported by our market leading ComFlor products, is a strong market offering, albeit the softening in vertical construction has impacted on revenues in the financial year 2020. Our Roll Forming business is a key supplier of roofing products and has recently won long term supply contracts with Kainga Ora. Our reinforcing business also continues to build a solid pipeline of project work, although we continue to balance risk/reward in this sector.

Sector Exposure

The current environment demonstrates the benefits of diversification across a number of different sectors.

Each of these sectors has been affected differently by the trading conditions in the financial year 2020.

Construction is about half of our sales exposure and comprises non-residential or commercial, residential and infrastructure; manufacturing 38% and Retail / wholesale approximately 10%.

Market Conditions

The market has been challenging, with COVID-19 impacting sectors in different ways.

You can see on the top left non-residential has been cooling off for a while driven by slowing vertical construction. That said, there's an increase in value of non-residential consents but a fairly significant decrease in square meters. On the top right you can see crane activity, which is a good indicator for commercial construction activity, declined for the first time since 2017. Our CFDL/Comflor businesses and Structural Steel are particularly exposed to this sector.

Residential consents, in the bottom left, is still very strong – annualised 37,614 consents as at end June, and we haven't really seen the expected cooling off yet.

You can see the BNZ Performance of Manufacturing Index or PMI on the bottom right. This climbed post COVID-19 lockdown, hitting 58.8 in July and effectively catching up on the lost ground, but dropped to 50.7 in August.

So, it's been a mixed bag. The vertical construction softening has hurt but we are now seeing good growth in infrastructure, civil work, and water management.

FY20 At A Glance

Overall, our results for the FY20 year reflect the impact of COVID-19 in the second half of the year, with the level 4 lockdown and progressive return to business occurring during a traditionally high earning period for the business in April and May. This followed the first half year impacts of reduced vertical construction activity, the softer stainless steel market and ongoing competitive pricing pressures.

The result included non-trading adjustments of $58.1m, which included non-cash goodwill and other impairments of $51.9m and $5.5m in restructuring and rationalisation costs.

Revenue for the 12 months was $417.9m, with normalised EBIT (excluding non-trading adjustments) of $0.4m. On a like for like basis with the prior year, excluding NZ IFRS 16 adjustments[1], normalised EBIT was a loss of $(5.2)m. The company reported a Net Loss After Tax of $(60.0)m.

Operating cashflows were robust, with $39.6m for the year. Borrowings were reduced to $10m, reflecting working capital and capital management discipline, and have further reduced to be zero at 31 August.

Despite the challenging second half, our balance sheet is strong, and we had cash of $17.4m as at 30 June 2020, which continues to improve.

Post-balance date, we completed the sale of a surplus Gisborne property with net proceeds of $1.4m applied to further reducing borrowings.

Margins were showing improvement pre-COVID, however, have reduced post-COVID driven by competitive pricing pressures and product mix, although more recently have improved through the first quarter of this financial year. Our priority is to continue to rapidly improve gross margin performance. All our sales people are now incentivised on gross margin dollar quarterly improvements to ensure everyone in the team is aligned with our objectives. The leaner organisational structure and digital investment will also help in this area.

Operating costs have been held flat versus prior year in real terms as cost efficiencies offset inflationary pressures and an increase in provisions for bad and doubtful debts.

Strategic Response To The New Normal

As Susan has said, over the past two years we have done a lot of work to create a stronger financial platform, a more efficient and leaner business and to lead the way in digitisation and technology in the steel industry.

While economic forecasts for the various sectors are mixed, all indicators currently suggest there will be a decline in overall economic activity. We are continuing to adapt our business to ensure we are best positioned to not only survive but to strengthen our competitive position over this time.

Network Strategy

To ensure our business is fit for purpose, we have accelerated a restructuring of our operating platform, including branch consolidations. Importantly we have retained a local sales and service presence, while creating a leaner business.

This has seen our network reduce from 50 sites in late 2017 to 26 sites as of end-September. We have also reduced our lease costs over the period by $3m per annum.

We have also recently closed our Wellington corporate office and have transitioned the finance team to Auckland.

Benefits From Organisation Restructure

In line with the network restructuring, we made the difficult decision to resize our workforce, which sadly has meant a permanent reduction of 150 to 200 people - approximately 20% of our workforce.

[1] STU adopted NZ IFRS 16 Leases on 1 July 2019. The adoption of this standard results in the reclassification of operating lease expenses to depreciation and financing costs resulting in an increase to EBIT and operating cash flow and a decrease in NPAT. Pre-NZ IFRS 16 financial information is provided to assist with comparison to FY19 reported results.

As at the end of September we had 874 full time equivalent employees and we expect this to further reduce to 830 by 31 December, with a further 30 depending on sales levels.

New ways of working are being progressed, particularly around digital initiatives. These are not just making it easy for our customers to do business with us, but are also enabling a lower cost to serve and better pricing governance and controls, which is an essential part of our focus on improving margins.

Aligning Our Business With Our Customer

Customer satisfaction is fundamental to our success. By becoming the preferred supplier for steel products and solutions in New Zealand, we will grow our share of the market which will in turn drive our revenue.

We are continually looking for ways to add value to our customers. This includes providing products and services to meet our customers' needs, delivering seamless customer service and leveraging our technical expertise. Of importance is our ability to deliver in full, on time and in specification (DIFOTIS). Our sales and logistics teams play a big role in achieving these goals, as does data.

We measure customer satisfaction using a Net Promoter Score and this has consistently improved since we first started collecting data in 2018.

Leading The Way In Technology And Digitisation

Technology is a key enabler, allowing us to improve sales effectiveness and lower our cost to serve to our customers. We believe this will provide us with a competitive edge and improved financial outcomes. We continue to move quickly to try out new ideas and innovate, such as our chatbot, Stanley, and online customer portal.

We are building a market leading digital capability, which will improve our customers' experience and increase our share of wallet.

One example is our Chatbot Stanley. Stanley is designed to assist visitors to our website when they are searching for products, locations, opening hours and other useful Steel & Tube information.

We also continued to refine and expand BIM-Spec, our Building Information Modelling platform. This is online technical content about our products that makes it easier for construction and design professionals to work with us and helps streamline workflow and estimation information. This has significantly increased the efficiency of our detailing process, whereby we create workshop drawings that can be used by our staff to create specific items. This is an important sector that is rapidly digitising and we are focused on ensuring we meet customer needs.

Webshops

Recently we launched our Webshops. Our customers can now order 24 x 7 across our entire product range – 47,000 products to be precise. The Webshops provide our customers with a 'one stop shop' for all their customer service needs, with the ability to retrieve order details, shipments, invoices and quotes from a single location. We have been very pleased with the adoption rate with approximately 1,000 customers signing up in the first few weeks and thousands more being invited to register through a targeted direct marketing campaign. Even at these early stages it is obvious that this service is something our customers see a lot of value in.

Customer Experience Centre and Digital Analytics

The overarching goals of our Customer Experience Strategy are to deliver a market leading customer experience and reduce our cost to serve.

We have recently implemented our Customer Experience Centre with state of the art telecommunication and contact centre technologies. This is a single place where all our customer interactions come together – be it face to face, via phone, email or on-line.

We understand how important it is to get the right products, at the right time, and at the right price, and our new advanced customer analytics platform is providing deep insights into our customers' buying patterns and profiles. These insights have helped to establish our CX centres, align our sales and service channels around the needs and profile of our customers and are highlighting the market segments and niches where we have an opportunity to grow and maximise margin.

As an example, our Pricing Optimisation Programme provides us with visibility of price performance by customer, transactions and product. Over time, this will allow us to automate our responses to changing market and competitive conditions.

Another example is a new Test Certificate platform that builds on our already industry leading Product Traceability practices. Providing test certificates is currently a very manual process. This new platform will eventually automate all elements of the customer's test certificate requirements, improving convenience and reliability of service to our customers and further reducing our cost to serve.

While it is early days, we believe we can drive better outcomes for our customers and shareholders by embracing the use of these technologies.

Our Winning Team

Our people are the backbone of our company and our social policies are focused around improving access to education, employment, development and training for our staff as well as students in low decile schools. We also celebrate the diversity in our workforce, which is represented across 18 different ethnicities, and support the health, safety and wellbeing of our people.

Pleasingly, we have continued to increase the number of women across the business, creating a stronger and more diverse talent pipeline. Significantly, the number of female reports to General Managers increased from 29% to 36% in FY20.

We continue to support the First Foundation with scholarships to nominated family members of our staff to support them through tertiary study, and in 2020, we also participated in the Sector Workforce Engagement Programme for school leavers.

We offer a wide range of staff skills training and development, with increased levels of technical product training occurring during FY20 and an average training spend per employee of $260.

In this year's Employee Engagement survey, our Engagement score was 7.3 out of 10, which was above the benchmark for our industry and the survey was completed during a time when we were restructuring. Other highlights include being in the top 5% of all companies in our industry for Caring Management Support and in the top 10% for peer relationships at work.

Mates in Construction

The statistics overwhelmingly show that the construction industry needs to do more to create workplaces where it's okay to raise your hand, talk about your problems and feel supported.

Steel & Tube is a founding sponsor of NZ Mates in Construction, a partnership with the objective of improving health and wellbeing for those in the industry. During the COVID-19 lockdown, we shared the MATES Toolbox Talk videos and resources with all our employees, and since re-opening, more than 150 manufacturing and labouring employees have undertaken MATES Induction Training programme – which creates better awareness of the risk of suicide and provides ways to support employees needing help. We are also commencing an advanced programme so that every site has designated employees who have received specialist training to identify and provide support and advice to those most at risk of suicide.

We've committed to this because we've seen how effective the programme is at starting conversations and creating awareness in all sections of our workforce.

Commitment To Safety and Quality

The health and safety of our employees remains our number one priority. We continue to actively engage with staff across the business and our total recordable injury frequency rate has significantly improved over the last five years.

In the recent employee engagement survey there were two key health and safety questions which provide a good indicator of safety culture. In response to "is this organisation committed to providing a safe working environment?" Steel & Tube scored 8.8 out of 10… and 8.6 out of 10 for the second question "the person I report to demonstrates commitment to my safety in the workplace".

We have completed ISO quality certification for the majority of our businesses with the remainder expected to be completed during the current financial year. This demonstrates our commitment to meeting our customer and stakeholder's needs and expectations through quality and continual improvement.

We have also contracted Lloyds Register to perform an assessment of our key international and domestic suppliers, with 19 mills across the region audited since the programme commenced in 2018.

We continue to take steps to further improve and lead the way in quality, with audits and certification from key organisations in the sector.

Creating a Sustainable Business

We remain committed to creating a sustainable business, one that delivers value for all our stakeholders as well reducing the environmental impact of our activities.

In line with this, over the last year we have advanced our approach to ESG – environmental, social and governance principles – which we believe will enhance our company and support our growth.

We have identified areas that matter for the long term sustainability of our business and set Key Performance Indicators (KPIs) for each. These key topics have been aligned with our four strategic pillars which we believe are essential for the long term sustainability of our company and support our social licence to operate.

We believe a strong ESG proposition will benefit not only the communities within which we operate but, importantly, our business by supporting revenue growth, cost efficiencies, reduced regulatory and legal interventions, an uplift in employee productivity and optimisation of our investments and assets.

We take our responsibilities and commitment to our staff, our shareholders, our suppliers and customers seriously and every member of our Steel & Tube team has a responsibility to uphold our values and be accountable for their actions.

Moving Forward

In late 2017, we embarked on an extensive company-wide reset to drive long-term sustainable earnings improvement and rebuild shareholder value. Through our Project Strive programme, we have laid a stronger foundation and we are moving forward with a clear strategy that will guide our actions over the next three years.

New Strategy

As we move forward, we have identified five pathways, each focused on an area of the business that is critical to our success. Our goal is to be seen as the best in the sector, the preferred choice for steel products and solutions and a trusted partner for our customers, as well as a rewarding place to work, while delivering an acceptable return to our shareholders.

Our Strategic Pathways

Our customers remain at the fore of all we do and our focus is on providing new and better ways to deliver information, expertise, purchasing options and communication channels that make it easy for them to do business with us.

In line with this, we will leverage our breadth of expertise and wide-range of quality products and strong brands which meet the needs of our customers from the 'ground up'.

Equally important is ensuring we have an efficient and productive business that delivers value to all our stakeholders, including our shareholders. While a significant amount of work has been completed to deliver operational and supply chain excellence, we continue to improve operational disciplines and excellence in customer service.

Innovation, digitisation and technology are key enablers for our strategy and will remain an important investment area for us. Our work in this area has accelerated with the onset of COVID-19, with a pipeline of future initiatives underway.

'Stronger Together' embodies our strategy to effectively bring our staff and business units together in pursuit of a common purpose – and aligns our services, expertise and products to provide the best possible support to our customers and partners.

Sector Outlook

Just under 40% of our sales are in residential and non-residential construction.

Residential near-term demand remains strong, supported by tight supply, low mortgage rates, and strong first home and returning expat buyer interest. Residential and business investment is expected to contract as the pipeline contracts and confidence thins.

Non-residential demand continues to soften with an increasing number of projects being delayed or cancelled. However, Government, Council and private developments are expected to help offset this reduction.

Infrastructure remains promising with large infrastructure projects ongoing and a potential pipeline of "shovel ready" projects. The Government has increased funding for infrastructure projects by $3b, on top of the $12b increase announced in January, and this should benefit the sector.

Food manufacturers and agriculture sectors are expected to fare better as necessities are in high demand locally and abroad. NZ's focus on more resilient local supply chains and increased domestic manufacturing may help offset some of the export led decline.

Trading Update

Trading in Q1 FY21 has been stronger than anticipated to date. This recovery reflects a level of resilience in the economy at present, supported by the Government's wage subsidy scheme.

Construction activity continues to be impacted by softer vertical building activity, however we are seeing continued strength in residential activity, civil and other works.

Our priority focus remains on gross margin dollar management and therefore balancing risk/reward.

FY21 Outlook

The economic environment remains uncertain with the continuing slowdown in some areas due to reduced business confidence post-COVID, and pre-election uncertainty.

While trading has been solid for us in July and the first quarter of this financial year, we expect there will be some deterioration in economic conditions later in the year and into 2H FY21. The latest restrictions in Auckland and around New Zealand are a continuing reminder of the volatility and unpredictability of the COVID environment. With this uncertainty and expectations of an economic recession, we are taking a careful and prudent approach to the management of our business.

Our strategy sets out a pathway that builds on our competitive advantage. We start the new financial year with a strong balance sheet and a leaner cost structure. Our investment in digital technology continues and is supporting our move to a service model that combines ease of access and customer service. Steel & Tube is well positioned to weather a range of forecast economic scenarios and, importantly, to take advantage of the opportunities ahead of us.

Thank you.

ENDS