

## REVISED NON-BINDING INDICATIVE OFFER TO ACQUIRE STU RECEIVED

**Steel & Tube's Board advises that it has received a revised non-binding indicative offer from Fletcher Building to acquire Steel & Tube and is arranging to appoint an independent expert**

As advised to the market on 3 October 2018, Steel & Tube Holdings Limited (NZX: STU) had received a non-binding, indicative and confidential offer (NBIO) from Fletcher Building Limited to acquire the company at \$1.70 per share.

The Board did not support the indicative offer, for a number of reasons including:

- The NBIO of \$1.70 per share significantly undervalues Steel & Tube's Board's view of the company's value.
- The proposed acquisition would face challenging issues for clearance under the Commerce Act that would take some time to work through, due to Fletcher Building's vertical presence and significant size in several steel product markets.

### REVISED NON-BINDING INDICATIVE OFFER

Steel & Tube has received a revised NBIO from Fletchers of \$1.90 per share, with provision for a permitted dividend of up to 5 cents per share (imputed to the extent possible) (copy **attached**).

The company's advisers' (First NZ Capital) view on Steel & Tube's intrinsic value is between \$1.95 and \$2.36 per share, excluding the company's share of synergies.

The board remains of the view and has informed Fletcher Building that the company's value exceeds the revised price of \$1.90 per share.

However Steel & Tube advises that in light of the revised offer the Board is commissioning an independent expert report which will take 3-4 weeks, and will further consult its legal and financial advisers about the implications of the revised offer. Fletcher Building has been advised of this (copy **attached**).

Chair of Steel & Tube, Susan Paterson, said: "The revised NBIO from Fletchers does not prevent higher value approaches from other interested parties. The Board will continue to evaluate strategies and actions that deliver the best value to shareholders and is continuing to focus on executing our turn-around strategy."

ENDS

**For further information please contact:**

Mark Malpass  
Steel & Tube CEO  
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Email: [mark.malpass@steelandtube.co.nz](mailto:mark.malpass@steelandtube.co.nz)

15 October 2018



Bruce Hassall, Chair  
Ross Taylor, CEO  
Fletcher Building Limited  
Private Bag 92114  
Auckland

Dear Bruce and Ross

### Revised Fletcher Building Limited NBIO to acquire Steel & Tube Holdings Limited

Thank you for taking the time to meet again on Friday afternoon, and for providing your subsequent letter that evening with a revised non-binding indicative offer (**NBIO**).

The board has met over the weekend in conjunction with Steel & Tube's financial and legal advisers and have given the revised NBIO careful consideration.

The board remains of the view that the company's value exceeds the revised price of \$1.90 per share (plus provision for a permitted dividend of up to 5 cents per share payable at completion). In addition:

1. Our advisers' (First NZ Capital) view on Steel & Tube's intrinsic value is between \$1.95 and \$2.36 per share<sup>1</sup>, excluding the company's share of synergies.
2. The permitted dividend does not adequately compensate shareholders for the extended timeframe realistically required for you to seek your regulatory approvals. The Board intends that Steel & Tube pay imputed interim and final dividends that in total, having regard to our FY18 earnings guidance and our dividend policy, would likely exceed the amount proposed.

The revised offer of \$1.90 per share implies an Enterprise Value (EV) of \$341m and is only an 8.5x multiple of our long term sustainable earnings, assessed as FY21 EBIT of \$40m. Comparatively, excluding the company's share of synergies, our advisers' valuation range is an implied EV of \$346m to \$414m.

While we understand you may have indications of some support from a couple of our institutional shareholders, the board needs to consider the interests of all shareholders taken as a whole, and the execution risks inherent in the revised NBIO.

Chapman Tripp continues to advise that the proposed acquisition would face challenging issues for clearance under the Commerce Act, due to Fletcher's vertical presence and significant size in several steel product markets. A chart detailing our best estimates of current market shares is on our website at [www.steelandtube.co.nz/investor-update](http://www.steelandtube.co.nz/investor-update).

<sup>1</sup> Valuation date as at 31 December 2018. Net debt projected to be \$21.8m at 31 December 2018.

We believe it is premature at this point to respond to you on the other terms contained in your letter given our differences on value and likelihood of the regulatory approvals. However, we would note that the suggested break fee does not adequately compensate Steel & Tube for the execution risk and impact on the business, especially given the good progress with our turn-around strategy.

Therefore, after some deliberation, the board has resolved to commission an independent expert's report on the merits of the NBIO, which will take 3-4 weeks. We will also obtain further financial and legal advice.

We understand that you have recently had further discussions with some of our institutional shareholders. So as to ensure a fully-informed orderly market for all of our shareholders, we plan to release a market update announcement before market-opening on Monday 15 October, advising of the revised NBIO and the Board's decision to seek an independent expert's report and further advice.

Yours sincerely



Susan Paterson  
Chair  
Steel & Tube Holdings Limited



Mark Malpass  
CEO  
Steel & Tube Holdings Limited



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**STRICTLY PRIVATE AND CONFIDENTIAL**

12 October 2018

Susan Paterson  
Chair  
Steel & Tube Holdings Limited  
25 Victoria Street  
Petone

Dear Susan,

**Revised Proposal to acquire Steel & Tube Holdings Limited**

Further to our meeting this afternoon, Fletcher Building Limited ("**Fletcher Building**") is pleased to submit in strict confidence this revised indicative, incomplete and non-binding proposal ("**Revised Proposal**") to acquire all of the shares in Steel & Tube Holdings Limited ("**Steel & Tube**") through a Scheme of Arrangement on the terms outlined in this letter (the "**Proposed Transaction**").

Our revised offer price presents an even more compelling value premium and will generate attractive returns for all Steel & Tube shareholders. Our willingness to re-engage and submit this Revised Proposal demonstrates our commitment to progressing the Proposed Transaction.

Fletcher Building retains its desire to work constructively and positively with you, your Board and executive management team to progress, agree and implement the Proposed Transaction.

We are focused on executing the Proposed Transaction in a timely, low-risk manner. As such, we confirm our Revised Proposal does not require us to undertake due diligence in recognition of potential commercial sensitives and to streamline the process.

**1. Revised Offer Price**

Fletcher Building is proposing a revised offer price of NZ\$1.90 per ordinary share (payable in cash) and a permitted special dividend up to NZ\$0.05 per ordinary share (imputed to the extent possible) and payable on transaction completion reflecting total effective consideration to shareholders of NZ\$1.95 per ordinary share.

We believe that this revised offer price of NZ\$1.90 per ordinary share represents an extremely compelling value proposition for Steel & Tube shareholders:

- 51% premium to the pre announcement 5-day volume weighted average price of Steel & Tube shares on the NZX Main Board of NZ\$1.25;
- 54% premium to the pre announcement one-month volume weighted average price of Steel & Tube shares on the NZX Main Board of NZ\$1.23; and
- 77% premium to the weighted average capital raise price of NZ\$1.07.

Our revised offer price of NZ\$1.90 per ordinary share implies an Enterprise Value ("**EV**") of NZ\$341m<sup>1</sup> and transaction multiple of 13.7x Steel & Tube guidance FY19E EBIT.

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<sup>1</sup> Net debt assumed to be \$26.1m as at 30-Jun-2018.

Our revised offer price and permitted special dividend reflect an increase in value to Steel & Tube shareholders of NZ\$0.25 per share (excluding imputation) from our initial Proposal. This reflects Fletcher Building's commitment to the Proposed Transaction and our desire to resolve any value gap that had existed with the S&T Board and/or its shareholders.

## **2. Other terms of the Revised Proposal**

Fletcher Building accepts Steel & Tube may be sensitive to allowing confidential due diligence, given the businesses have competing operations. In recognition of this, and reflecting our good understanding of the industry and market, our Revised Proposal is still not conditional on Fletcher Building undertaking any confidential due diligence.

A binding proposal by Fletcher Building would be subject to only a limited number of pre-conditions, including:

- A maximum special dividend payable of up to NZ\$0.05 per fully paid ordinary share, imputed to its maximum amount;
- No further equity or dilutive securities being issued by Steel & Tube;
- Execution of Scheme Implementation Agreement ("SIA") at NZ\$1.90 per ordinary share;
- Receipt of all necessary regulatory approvals, including New Zealand Commerce Commission and Overseas Investment Office;
- No material adverse change; and
- Approval by Steel & Tube shareholders of the Proposed Transaction and other customary conditions for an SIA (including no "prescribed occurrences" and no breach of warranties).

As a sign of our commitment to the transaction and confidence on the NZCC outcome, Fletcher Building is prepared to offer a break fee arrangement under the SIA with a fee payable to Steel & Tube of \$3m representing approximately 1% of equity value, to reflect the costs associated with the offer should the Proposed Transaction not reach completion due to NZCC or OIO approval not being obtained;

## **3. Indicative timetable**

Fletcher Building would like to progress discussions with Steel & Tube in a timely manner, and as such, proposes targeting agreement of high level commercial terms of the Proposed Transaction immediately and well ahead of Steel & Tube's AGM on 25 October 2018. This would allow the parties to utilise the AGM window to demonstrate to your shareholders that material steps have been taken to cooperatively progress the Proposed Transaction.

## **4. Confidentiality**

The contents of this letter are strictly confidential to Steel & Tube and should not be disclosed to any person other than Steel & Tube directors and relevant professional advisers without the prior written approval of Fletcher Building. This letter is provided on the understanding and condition that neither the existence of the letter or its substance will be disclosed publicly by or on behalf of Steel & Tube, except with the written permission of Fletcher Building. The Revised Proposal is indicative, incomplete and non-binding (other than this section 4) and this letter does not constitute an offer capable of being put to Steel & Tube shareholders at the current time or in its current form, nor is it a Takeover Notice under the Takeovers Code. Consequently, Fletcher Building and its legal counsel do not consider the provision of this letter or its subject matter is required to be publicly disclosed under the NZX Main Board Listing Rules. This non-disclosure requirement does not prevent any disclosure if required by law or the listing rules of the New Zealand Stock Exchange. Should Steel & Tube determine that it is required by law to disclose the existence of, or any details pertaining to, Fletcher Building's interest, Fletcher Building would appreciate being consulted in advance regarding the timing and terms of the disclosure.

We trust that our Revised Proposal demonstrates both the seriousness of Fletcher Building's intent in the Proposed Transaction as well as its attractiveness to Steel & Tube's shareholders. I reiterate our Board's

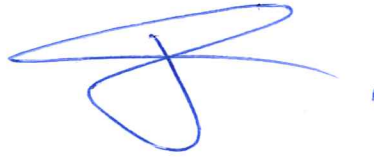
desire to engage on a friendly and collaborative basis with the Steel & Tube Board and look forward to your response.

If you have any further questions, please do not hesitate to contact us.

Yours sincerely,



Bruce Hassall  
Chair  
Fletcher Building Limited



Ross Taylor  
Chief Executive Officer  
Fletcher Building Limited