24 February 2020
STU / NZX ANNOUNCEMENT

STRONGER IN EVERYWAY

STU 1H20 INTERIM RESULTS TO 31 DECEMBER 2019

- For the six months to 31 December 2019, including NZ IFRS 16 adjustments, Steel & Tube has reported a result in line with January 2020 guidance, with sales revenue of $232.0m, EBIT (including non-trading adjustments) of $(33.4)m and a NPAT of $(37.0)m.
- The result includes $39.1m in non-trading adjustments including $2m restructuring and relocation costs and a non-cash goodwill impairment of $37.1m as previously advised. Excluding non-trading adjustments, normalised EBIT was $5.7m.
- As previously advised:
  - Adverse market conditions continued to impact on sales revenue and volumes, with EBIT also impacted by $2m of Project Strive execution costs and $1.8m of doubtful debt provisioning and write-offs.
  - Progress has been made in controllable areas, including operating cost reductions despite a higher cost environment, margin management and working capital discipline.
  - Cash flow has remained robust despite the decrease in earnings, enabling a further reduction in net debt.
  - Post balance date on 30 January 2020, Steel & Tube unconditionally agreed to sell a surplus Christchurch property for approximately $5.8m.
- An improved second half (cf 1H20) is expected with benefits from cost efficiencies and overhead reductions, Project Strive initiatives and the commencement of significant new contracts.
- The Board has declared a fully imputed interim dividend of 1.5 cents per share.
- Further information is available in Steel & Tube's 1H20 results presentation and Interim Financial Statements released to the market on 24 February 2020.

$millions	**1H19 Actual**	**1H20 Pre-NZ IFRS 16**	**NZ IFRS 16 adjustments**	**1H20 Actual**
Revenue	258.2	232.0	-	232.0
EBIT	9.8	(36.0)	2.6	(33.4)
Non-trading adjustments*	(0.1)	(39.1)	-	(39.1)
Normalised EBIT (excluding non-trading adjustments)	9.7	3.1	2.6	5.7
NPAT/NLAT	5.6	(36.8)	(0.2)	(37.0)
Dividend (cents per share)	3.5	1.5	-	1.5
Shareholder Equity	255.8	213.1	(10.0)	203.1
Net Debt	16.0	10.9	-	10.9
Net operating cash flow	11.1	10.5	6.6	17.1

**Non-trading adjustments are $2.0m of restructuring and relocation costs and $37.1m non-cash impairment of goodwill.*

Steel & Tube Holdings Limited (NZX: STU) has today announced its results for the six months to 31 December 2019 (1H20). The result is in line with the guidance provided on 31 January 2020.

Including NZ IFRS 16 adjustments, the company has reported sales revenue of $232.0m, EBIT (including non-trading adjustments) of $(33.4)m and a NPAT of $(37.0)m. The result includes $39.1m in non-trading adjustments including $2m in Project Strive restructuring and relocation costs and a non-cash goodwill impairment of $37.1m[i], as previously advised. Excluding these non-trading adjustments, normalised EBIT was $5.7m.

Steel & Tube adopted NZ IFRS 16 Leases with effect from 1 July 2019. The impact of this new accounting standard was to increase reported EBIT by $2.6m and to reduce NPAT by $0.2m in 1H20[1].

[1] For more information on the impact of NZ IFRS 16, see Steel & Tube's 1H20 Investor Presentation and 1H20 Interim Financial Statements.

In line with Steel & Tube's dividend policy, the Board has declared a fully imputed interim dividend of 1.5 cents per share.

As previously advised Steel & Tube has maintained market share and margins, however reduced vertical construction work and contraction in the stainless steel market have impacted on sales revenue and volumes in the first half, which were down 10% on the prior comparative period (1H20: $232.0m; 1H19: $258.2m).

1H20 EBIT was primarily impacted by lower sales activity, $2m Project Strive execution costs and $1.8m of doubtful debt provisions and write-offs (1H19: $1.0m write-back) mainly due to the unexpected liquidation of a major customer.

The business operating model continues to be reviewed to ensure it is fit for purpose, with a focus on ensuring it can fully meet customer needs, whilst reducing costs to serve. This work is ongoing, however, actions taken in the first half of the financial year are expected to deliver a further reduction in operating costs in the second half of the year.

Steel & Tube's balance sheet remains strong, driven by better working capital management. The increase in debt write-offs and provisioning related to a small number of customers. Stewardship of debt collection has minimised credit exposures overall and improved underlying operating cash flow. Capital spending has remained in line with depreciation and amortisation and has been largely focussed on Steel & Tube's digital ambitions, growth and safety initiatives.

Operating cash flow was robust at $10.5m (excluding the impact of NZ IFRS 16) (1H19: $11.1m), and helped achieve a further reduction in net debt during the period to $10.9m as at 31 December 2019, down from $15.0m as at 30 June 2019. On settlement, the proceeds from the sale of the Christchurch property will be used to further reduce debt.

Project Strive business transformation initiatives, including ongoing investment into digital technologies, continue to drive long term benefits for the company. Highlights in the first half include a further reduction in the property footprint from 35 to 31 locations, additional cost efficiencies, the launch of the first phase of digital initiatives and further development of Steel & Tube's network strategy.

CEO of Steel & Tube, Mark Malpass, commented: "While the decline in industry activity is beyond Steel & Tube's control, we have focussed on improving underlying operating costs, margins and working capital. Cash flow has remained robust and we reduced net debt.

"Our priority is on customer service and streamlining the business to deliver profitable growth. We are seeing signs of improving business confidence including the recent Government announcement to increase infrastructure investment, which should lead to increased market activity. An improved second half performance is expected as we benefit from Project Strive and commencement of significant new contracts."

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[i] As previously advised on 31 January 2020, the Board has reviewed the carrying value of goodwill as required by accounting standards, including consideration of the current difference between Steel & Tube's market capitalisation (based on market share price) and the carrying value of its assets. Whilst the Board does not consider the adverse trading conditions experienced in 1H20 to be indicative of the medium to long term trading expectations, the reduced profitability in 1H20 has had an impact on the assessment of impairment. At this time and in accordance with accounting standards, the Board has concluded that the carrying value of goodwill is impaired. The impairment is non-cash in nature.