STEEL AND TUBE ANNUAL MEETING

25 September 2019

CHAIR AND CEO SPEECHES

1. WELCOME

Tēnā koutou, tēnā koutou, tēnā koutou katoa.

Good afternoon and welcome. I'm Susan Paterson, the Chair of your company.

Thank you for coming along to our annual meeting today. This is the first time we have held our meeting in Christchurch and we are delighted to be here. We are continuing to hold our Meetings in different regions each year, giving us a chance to meet more of our shareholders. We are also planning roadshows to other regions during the year.

I'd also like to welcome our shareholders viewing this meeting online.

Today you'll have an opportunity to hear from myself and Mark Malpass, our CEO, on our strategy and our progress against this.

Following the presentations, we are happy to take questions from shareholders, relating to the presentations.

Please note that the only persons entitled to speak at the meeting are shareholders, proxy holders or corporate representatives of a shareholder.

We will then move to the resolutions contained in the Notice of Meeting. Voting on all resolutions will be by way of a poll and will take place at the end of the meeting, once all the resolutions have been proposed and discussed.

We will then be happy to take any general questions from shareholders, proxy holders or corporate representatives in regards to our Company and operations.

At the close of the meeting, I invite you all to stay and share some light refreshments with the management team and your Board.

2. BOARD

Your Board and management team has undergone a significant refresh in the past two years, with four new Directors, a new CEO and CFO, and a strengthened leadership team.

A quick introduction to the people with me today - from my left, we have Mark Malpass, our CEO, Anne Urlwin, who is Chair of our Audit and Risk committee; Steve Reindler, who is chair of our Governance and Remuneration Committee; Rosemary Warnock, who is chair of our Quality, Health, Safety and Environmental Committee; and Chris Ellis as well as John Beveridge. Finally, we have Greg Smith, our Chief Financial Officer.

John is the only new face at the Board table today. He was appointed to the Board in August and will be standing for election by shareholders. The Board unanimously supports his election. You will have an opportunity to hear from him later.

As noted in the Notice of Meeting, Rosemary is retiring from the Board at the end of this meeting. I would like to take this opportunity to acknowledge her significant and very valued contributions to the Steel & Tube Board. Rosemary has provided excellent guidance through her role as Chair of the Health, Safety and Environment Committee and Steel & Tube's health and safety performance has improved significantly under her stewardship. She has also provided valuable insights from the Australian market.

Chris Ellis will be taking over as chair of the Committee; he has significant experience in this discipline and is on the Board of WorkSafe. As an existing Committee member, he will be able to provide continuity.

Also in the room are a number of Managers, staff and advisers. Welcome to you all.

I am incredibly proud of the calibre of the people we have in our company today. While there are easier assignments on offer, we continue to attract outstanding talent, people who see the potential of our company, as we do.

Directors and our staff are more than happy to talk to shareholders after the meeting – please feel free to seek them out and have a chat.

3. ALIGNMENT OF BOARD SKILLS AND STRATEGY

Your Directors are well qualified and have complementary skills that enable them to contribute value to the Board and your company.

We have identified four areas which we believe are key to the success of our business turnaround – sales and marketing, business turnaround, digitisation and supply chain. We seek to align the skillset of the Board with these directional requirements.

4. BOARD SKILLS MATRIX

A recent review of the Board skills matrix has identified the strengths of our Board and areas where additional skills would be of value. In line with this, John Beveridge was recently appointed to the Board, bringing with him expertise in marketing, supply chain and logistics.

Importantly, every one of our Directors has either worked in the industries we operate in or supply, or is involved in directorships in the sector.

5. CHAIR'S PRESENTATION

We are committed to developing a sustainable business that creates value for our customers, employees, shareholders and communities, now and into the future.

6. FY17 TO FY19 STRATEGIC PROGRESS

Our business and strategy has changed a lot in the past two years, so I'd like to do a quick review of where we have come from and the progress we have made.

Two years ago, our company was at the tail end of a significant acquisition programme, debt was high and there were historical issues with inventories and deterioration of heritage businesses. The new AX ERP implementation was proving more challenging than expected and this was impacting trading. In addition, due to the changing environment for irrigation, the outlook for the Plastics business was bleak.

At the start of 2017, the Board refresh started with both Mark and I appointed, followed by Chris and Steve in October. Mark stepped down from the Board later in the year to take on the role of CEO.

In FY18, we undertook a detailed, company-wide review to identify the strengths and issues, both within and external to our business. This led to the development of our Strive turnaround programme and a re-set at the end of the financial year – stock write downs, suspension of the dividend, a capital raising to reduce debt and strengthen the balance sheet, the exit from the Plastics business and an organisational restructure.

We started the FY19 year in a much stronger position and have made good progress on the areas that we can control, with $10m in benefit generated by Project Strive. While we did not achieve the result we were seeking, we delivered on commitments such as revenue growth, operating cost efficiencies and improved working capital management. Our results were a significant turn around on FY18, however, we are conscious there is still a lot of work to be done to get to where we want to be.

We still receive questions about the Fletcher unsolicited approach last year so I'd like to take a moment to review this.

It's worth remembering that this was a non-binding, indicative offer only.

While the Board felt that this was below our view of Steel & Tube's valuation and we did not share Fletcher Building's confidence on obtaining Commerce Commission clearance, nonetheless, after Fletcher's increased the indicative offer price, we resolved to engage an independent expert to do a valuation. Fletcher Building then decided to withdraw their offer. Your Board was committed to maximising shareholder interests and constructively engaged with Fletchers.

At that time, Bluescope, the owner of Pacific Steel and NZ Steel in New Zealand and a large supplier to Steel & Tube, acquired a 15.8% shareholding. Bluescope are supportive of our company and our strategy and have publicly said they have no intention of taking over Steel & Tube.

I also want to provide a brief update on the Commerce Commission case in relation to steel mesh.

Firstly, a reminder that the charges were brought under the Fair Trading Act for historic misrepresentations. The charges did not relate to the performance characteristics of the steel mesh. Both the Ministry of Business, Innovation & Employment and the Structural Engineering Society of NZ have made public statements that homeowners should not be concerned about the safety of the steel mesh.

In 2018 the District Court fined Steel & Tube $1.885m under the Fair Trading Act. Both Steel & Tube and the Commerce Commission appealed the District Court fine and in August this year, the High Court increased the company's fine to $2.009 million.

Steel & Tube has carefully reviewed the High Court decision and has appealed as the company believes that the Court erred in setting the fine and that the fine is excessive. The company's appeal follows a decision by the Commerce Commission to also appeal.

As stressed previously, we are disappointed with the Courts' decisions to date, and continue to stand by our products. Since the date of these historic breaches prior to April 2016, the Board has been refreshed, significant management change has occurred and we have invested in and focussed on strengthening the company's quality and testing systems. The High Court fine will have no impact on our current or future financial results.

We are mindful of share price performance over the past few years. All your Directors as well as many staff in the business have shares in the company so we are naturally closely aligned with your interests. Mark agreed with the Board that his CEO salary would remain flat for the year ending June 30 2019, and the long term incentive component has been increased from 30% to 40% to better align with shareholder interests.

7. HIGHLY COMPETITIVE MARKET

The main reason we didn't achieve our results expectations in FY19 was margin pressure. There were several reasons for this. Firstly we saw a contraction in some higher value markets, such as Stainless Steel where the market has contracted 14% year on year, with most of this in the second half of FY19. Pleasingly we lifted our Stainless share to 40%.

We have also seen a softening in larger projects, impacting on structural steels. The industry body, Steel Construction NZ, estimates available capacity for steel fabricators will be 41% for the year ending June 2020.

Lastly, increasing competitive price pressure, particularly in the distribution side of the business, along with rising steel and input costs, such as freight costs, are impacting on margins. The steel market is highly competitive and while pricing plays a part in ensuring a competitive market, we have seen this pushed to the limit by other industry players over the past eight months.

A recent media article by Jenny Ruth includes commentary by an industry analyst inferring that Fletcher Building's steel sector EBIT of $33m is 80% related to Pacific Coil Coaters - this would mean they made just $6.6m EBIT across the remainder of their steel division.

We are very conscious of ensuring a return that our shareholders would see as acceptable and we will not chase volume at the expense of margins. Our focus is on improving margins by concentrating on the factors within our control such as operational and manufacturing efficiencies, reducing operating costs and the significant reduction in debt last year.

Price is clearly an important part of the value proposition to our customers, but just as importantly, we are gaining new business through our value proposition, technical support, service offer and word of mouth recommendations.

8. DEVELOPING A SUSTAINABLE BUSINESS

Steel & Tube plays an important role in New Zealand's economy, providing essential steel solutions across a range of sectors and ensuring a competitive and viable marketplace.

We are focused on lifting quality and using technology to make the sector more efficient.

We provide local jobs and employment for more than 1000 employees, pay taxes which benefit wider communities and support work and training programmes which assist students and our staff.

While cost efficiencies are a priority, we recognise the valuable contribution our people make and wages were increased in line with inflation this year, with the vast majority of our people receiving remuneration beyond the living wage.

This year we have started work to formalise our commitments into a sustainability framework with defined measures and objectives.

We have undertaken a materiality analysis and identified 10 areas which are fundamental to ensuring a sustainable future for our company. These cover Environmental, Social and Governance practices and have been aligned to our four strategic pillars.

Our next steps are to create a clear sustainability reporting framework and define targets and metrics based on these material areas.

9. SAFETY AND QUALITY

Quality, health and safety remain a priority and we are making good progress against our objectives.

Quality systems have been further enhanced including achievement of ISO 9001:2015 certification and good progress with independent audits across our international steel mill suppliers by Lloyd's Register.

We are continuously improving processes and policies around health and safety; and over $1.3 million has been invested into machine guarding and training across our manufacturing sites.

Of note, the employee Total Recordable Injury Frequency Rate fell to 1.5 in FY19, significantly below industry benchmarks.

10. STRUCTURAL STEEL DISTRIBUTOR CHARTER

One of our more recent quality initiatives has been achieving Charter certification in August this year.

The Charter represents a mark of excellence for local structural steel distributors and Steel & Tube was one of the first to achieve this.

To attain certification, distributors must operate a Quality Management System and satisfy an audit checklist. This links nicely to the work we have done gaining ISO certification and other quality assurance initiatives.

11. MOVING AHEAD WITH A STRONGER BUSINESS

We are moving ahead with a leaner organisation, a stronger balance sheet and a strengthened leadership team.

Steel & Tube remains an important part of New Zealand's economy, providing customers with choice and access to specialised products and technical knowledge. We sell approximately $500 million in steel products and solutions to 15,000 customers annually and our stable of best-in-class businesses are some of this country's leading steel suppliers.

An enormous amount of work has gone into turning our business around and we have returned to profitability with growing sales. Project Strive will deliver further benefits in FY20 as we focus on cost efficiencies, reducing business complexity and streamlining the supply chain.

Quality, health and safety will continue to underpin all we do.

I would like to thank all the people at Steel & Tube for their exceptional efforts and for continually delivering their best. Their hard work is the reason for the positive turn around we are now seeing in our company.

Shareholder interests are front of mind for the Board. We remain committed to delivering value for your investment in Steel & Tube by building a long term and valuable investment with share price growth and dividend payments.

I will now hand over to Mark to talk in more detail about our strategy and business transformation.

12. MANAGEMENT PRESENTATION

Thank you Susan. And thank you to everyone who has made the time to come along or join the meeting online today.

13. STRONG MANAGEMENT TEAM

A priority over the last year has been to strengthen our leadership team and the outcome is a group of talented executives who are passionate about the company and have the expertise and knowledge to help us achieve our goals.

Marc Hainen was appointed in November 2017 to head up our Distribution business and Darryn Ross and David McGregor have both been appointed this year to run our Infrastructure businesses, which we have restructured into two areas.

Greg joined the company as CFO in October 2017 and has supported me as we have rebuilt our financial platform.

Damian joined the company in 2016 and his role has expanded as we've increased our focus on quality, health, safety and the environment.

Claire, Mike and Anna were all additions to the team this year; Anna moved into the GM People & Culture role, Claire GM Strategy and Mike became Chief Digital Officer.

All members of our leadership team are here today and I encourage you to chat to them after the meeting.

14. OUR BUSINESS: DIVISIONS

Our business is structured into two divisions.

In distribution, products are sourced from preferred steel mills and distributed through our national network of branches. This is a lower margin and higher volume business, and it was the hardest hit by the market segment contraction and pricing pressure.

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.

15. FY19 PERFORMANCE IMPACTED BY CHALLENGING TRADING CONDITIONS IN 2H19

Our focus for FY19 was on strengthening our underlying business through our Project Strive initiatives and driving an improving performance.

First half performance was in line with our expectations, with increased sales, reduced opex and building momentum from the Strive programme.

As we had advised, we were expecting an uplift in the second half as benefits from Strive initiatives started to flow through.

However, a marked change in market and trading conditions in the second half impacted on our gross margin performance, offsetting the gains we were making. The impacts have mainly been seen in the Distribution businesses.

Some of our higher value sectors have seen market size contraction, particularly stainless steel. Pricing pressure was significant throughout the second half of FY19, and business confidence has softened.

This resulted in sales revenue reducing and margins reducing slightly, rather than improving as we expected, impacting on our profit. Our strategy and business goals for this year have been developed to address these issues and I'll talk about them shortly.

On a normalised basis, FY19 revenues were up 5%, operating costs were reduced by 4%, EBIT improved 22% and NPAT increased 74%. We returned to strong cashflow generation and net debt was reduced significantly to $15m. The Board declared a fully imputed final FY19 dividend of 1.5 cents per share, taking full year dividends to 5.0 cents per share.

16. DISTRIBUTION

We have a number of large projects, either completed or underway, which are benefitting the distribution business. External warehousing has been brought inhouse, we're continuing to consolidate our network, we're making good gains with labour efficiencies, freight savings and waste reduction and we're expanding our customer base as service levels have improved.

The focus for FY20 is on further streamlining and simplifying business operations whilst embedding an improved service model and better leveraging cross selling opportunities that ensure customer needs are met.

17. INFRASTRUCTURE

In Infrastructure, key initiatives have focused on operational and manufacturing efficiencies and improving margins – we're seeing improved productivity, decreased costs and margin improvements, and are picking up new projects, as a result of our specialist knowledge and expertise.

The focus for FY20 is on continuing to drive manufacturing efficiencies, growing new product offerings and leveraging our strong quality and safety performance to demonstrate the value customers get when buying from us.

18. PROJECT STRIVE: HIGHLIGHTS IN FY19

Our Project Strive programme is driving a lot of positive change in our company. I'd like to take a moment to talk about a couple of projects in particular.

19. INTEGRATION OF SITES AND ACQUISITIONS

Integration of previously purchased businesses and restructuring has seen our property footprint streamlined, with businesses co-located onto the same sites and improved utilisation of existing capacity.

Our network has reduced from 48 sites in January 2018 to 35 sites at the end of June 2019, with further network optimisation underway. In fact we're at 33 sites today.

This is providing operational and supply chain efficiencies as well as improving our ability to offer a more comprehensive customer service while maintaining regional services and presence.

20. OPERATIONAL AND SUPPLY CHAIN EXCELLENCE IN DISTRIBUTION

We have established a more efficient and cost-effective supply chain in our Distribution division, including logistics and freight savings.

As well as the integration and consolidation of existing facilities, we have exited third party warehousing arrangements. This change has resulted in savings of $2.2m over the prior year.

The network optimisation has seen cost efficiencies through reduced labour and better sharing of inter-branch resources.

21. OPERATIONAL AND SUPPLY CHAIN EXCELLENCE IN INFRASTRUCTURE

We have also made efficiency gains in infrastructure.

A focus on manufacturing efficiencies, in particular machine utilisation and work-flow processes, has seen FY19 direct labour costs per tonne reduced by 31%.

Another initiative was around driving freight efficiencies, with an 88% improvement in benefits achieved compared to the FY18 baseline.

22. NEW BUSINESS GROWTH

We are participating in a number of large projects on the back of a growing reputation for delivery and operational performance, quality and customer service.

Over the past year, our people have installed steel solutions at the top of the mountain as part of the new Sky Waka Gondola on Mt Ruapehu; in the $790 million Westfield shopping centre development in Newmarket in Auckland; and underground as part of the City Rail Link project in Auckland.

These are just a few of the new business wins and projects we have worked on in the past year, and we have a strong pipeline of new work.

23. OUR PEOPLE

Before I move to our Strategy and Goals, it's important to highlight that over the past twelve months we have continued our focus on building a strong diverse workforce, representing and embracing different cultures, educational backgrounds, sector experience and gender.

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, celebrating diversity in our workforce, and supporting the health, safety and wellbeing of our people.

Our workforce is made up with people who represent 26 different ethnicities and our predominant cultures are NZ European, Filipino, Pacific Island, Maori and South African. We take pride in the diversity of our workforce and will be looking at more ways to celebrate this.

Pleasingly we have continued to increase the number of women holding key, highly visible roles across the business. We have increased the number of women in Business Development and Sales roles from 17% to 22% and Executive representation from 14% to 20%, while the number of women in our lower level warehousing roles has decreased from 6% to 4%.

We have also supported the 'Mates in Construction' initiative which is focussed on improving men's mental health in the construction sector. We continue to offer First Foundation Scholarships. In 2020, we will be participating in the Sector Workforce Engagement Programme for school leavers and we also offer a wide range of staff skills training and development.

24. STRATEGY AND GOALS FOR FY20

Our goal remains to be the leader in buying, selling, processing and placing steel products in NZ.

25. OPPORTUNITIES AND CHALLENGES

We are actively monitoring ongoing competitive pressures, a more challenging construction outlook, business confidence and global steel prices and input costs.

However, we see a number of opportunities for our business:

- Steel remains a preferred building material and we are seeing an increase of its use in buildings due to its versatility, construction speed and efficiency, life cycle benefits and seismic performance.
- Multi-unit dwellings are an increasing share in the residential sector.
- Increased central and local government funded infrastructure, housing and development projects.
- Increased intensity of steel in buildings including seismic reinforcement.
- And opportunities for us to cross sell complimentary product offerings.

Our pursuit of customer excellence will help ensure we remain a relevant and attractive option for customers.

26. STRATEGIC PILLARS AND GOALS

Our four pillars remain at the foundation of our strategy.

These are the areas which we believe are essential to creating a great business – safety & quality, operational & supply chain excellence, a strong customer focus; and our people.

Improving margin performance and delivering profitable growth are the priorities for management this year.

We have identified three key goals which are of primary importance and have a range of initiatives planned for each.

27. DELIVER ON OUR CUSTOMER SERVICE PROMISE

Our first goal is to deliver on our customer service promise.

This means continually looking for ways to add value, supporting our customers' needs and delivering on time, every time.

Our sales and logistics teams play a big role in achieving these goals … as does data. The AX ERP system is now providing access to a wealth of data from within our businesses and we are able to use this in a myriad of ways to improve our customer offer.

Customers are increasingly demanding easier, faster and more effective ways of doing business and digitisation is a key priority for us. Technology is a big enabler, allowing us to improve sales effectiveness and lower our cost to service our customers. Mike Hendry's appointment to the new role of Chief Digital Office is the first step towards this and he has been tasked with accelerating our digital ambitions.

We will also be looking to better leverage cross selling opportunities, providing our customers with a wider range of our products and solutions.

28. FURTHER RESTRUCTURE THE BUSINESS MODEL

Having an excellent operations and supply chain is essential to achieving our goals.

This means suppliers providing us with high quality products at good prices. And it means working efficiently in our warehouses to get products out to the customer on time and to minimise waste.

The majority of our Project Strive initiatives are focused in this area.

We have already made good progress with Strive, with $10m of benefits generated last year. Further benefits are expected to flow on from these in FY20, particularly from bringing the warehousing in-house, freight savings, sales improvements and labour productivity.

We will continue to focus on rationalising inventory, ensuring core products are readily available, removing products that don't meet the required returns or for which there is low demand.

We'll be fine tuning demand forecasting systems and planning to make sure we have the right inventory available, in the right place, at the right time and price.

We have implemented bar-code scanning across the Reinforcing business and have successfully piloted it in Distribution Palmerston North. We are now planning a roll-out across all our sites. This will improve efficiency, traceability, and inventory management.

The network optimisation will continue, with businesses being co-located onto the same sites. This is providing operational and supply chain efficiencies as well as improving our ability to offer a more comprehensive customer service while maintaining regional services and presence. We are reviewing options for the sale of the three remaining owned properties, one of which is surplus to requirements. We anticipate that two of the properties will be sold this financial year.

Other initiatives are focused around growing sales, further waste reduction and labour efficiencies, machinery optimisation and procurement savings.

29. IMPROVE BUSINESS PROCESS AND CONTROLS

Our third goal is to improve business process and controls.

Again, this will build on data from the AX ERP system. We are incorporating analytics to improve price management and gross margin performance.

Our digital focus is also on automating more of our systems, such as financial processes.

And we are currently upskilling branch staff to allow them to effectively drive product margin improvements and production efficiencies within their branches.

30. OUTLOOK

Moving onto our outlook for FY20.

31. MARKET SEGMENTS

One of Steel & Tube's strengths is the diversity of our revenue across different sectors – rural, manufacturing and construction. This means we are not overly exposed to any particular sector and can benefit from a wider range of growth opportunities.

Around 50% of our sales are generated from the construction and infrastructure sectors, while the other 50% is from manufacturing, retail and wholesale.

Construction remains an important revenue area for us, however, given issues being faced by other suppliers to the industry, we are carefully managing our risk and exposure through robust tender reviews. Board review and approval is required for larger projects or where exceptions to standard terms are required.

32. SECTOR DYNAMICS

As Susan noted, the construction and infrastructure sectors are highly competitive and while demand is high, risk sharing and profitability is an issue.

Residential consents remain healthy, however, we are seeing some weakening sentiment in the construction sector, as well as ongoing pricing pressure which we will continue to monitor.

Residential building is forecast to be around 63% of all construction activity in 2024, levelling out from 2020 at around $26b per year.

Meanwhile, non-residential building value is forecast to peak in 2021 at $9b before falling 20% to $7.2b in 2024.

The infrastructure pipeline is promising and is forecast to overtake non-residential, reaching $8.3b by 2024 and accounting for 20% of all construction activity.

We have identified a number of new infrastructure opportunities for our business, particularly in the energy, water and marine industries.

In manufacturing, we are seeing softening demand and confidence domestically, however, lower interest rates and labour market constraints are likely to incentivise investment.

While demand in the rural sector is stable, the dynamics are changing, with a move from dairy conversions to ongoing maintenance programmes and other opportunities.

We continue to monitor market conditions closely and have identified a number of initiatives to respond to changing sector dynamics.

33. FY20 OUTLOOK

Our business is now stronger, leaner and more efficient. Costs are down, we are operating more efficiently and we are growing profitable business.

It is too early to give guidance. We expect a continuation of current adverse market trends, coupled with softening business confidence, and ongoing competitive intensity across majority of sectors in which S&T operates.

However, we remain confident in our strategy and progress. As you have heard, we have many actions underway to continue strengthening and improving our business.

Our long term outlook target remains to generate $30m to $35m EBIT[1], however current market headwinds mean this will take longer to achieve than the original three year plan.

34. OUR STRENGTHS

We are very focused on building a business that is fit for the future.

One of our greatest assets is the talented and dedicated people working at Steel & Tube.

We have more than 1,000 people spread across 33 sites and we are putting more resource into engaging with them, investing in training and programmes to unleash their potential and making them part of our drive for excellence.

We have a strong and loyal customer base and a strategy that is focused around meeting their needs.

Our group is built on strong brands and businesses, many of which are best in class.

We are working hard to improve our business and deliver value to shareholders and we remain confident in our long term prospects as a leader in the steel industry in New Zealand.

Thank you.

ENDS