23 August 2019
STU / NZX ANNOUNCEMENT

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STEEL & TUBE FY19 RESULTS

For the twelve months ended 30 June 2019

- Gross margin performance adversely affected by market and trading conditions; initiatives underway expected to drive improvement in FY20.
- Good progress made and benefits being delivered by Project Strive, with increased revenue, a reduction in operating costs and a reduction in net debt.
- Reported revenue of $498.1m, EBIT of $16.8m and NPAT of $10.4m.
- Consistent with May 2019 guidance and on a normalised basis (excluding Plastics and FY18 non-trading adjustments[1]), EBIT improved 22% to $16.0m and NPAT increased 74% to $9.9m.
- Board has declared a fully imputed final dividend of 1.5 cents per share.
- Continuing strong performance in safety and quality.
- The focus for FY20 is on continuation of initiatives to improve earnings.

$m	FY19	FY18	% change
Revenue	498.1	495.8	0.5%
Normalised Revenue	497.1	473.5	5%
EBIT	16.8	(36.2)	
Normalised EBIT	16.0	13.1	22%
NPAT	10.4	(32.1)	
Normalised NPAT	9.9	5.7	74%
Dividend (cents per share)	5.0	3.8*	
Assets	326.2	345.5	
Net Debt	15.0	104.4	
Net Operating Cashflow	21.3	1.3	

*For comparability, the FY18 dividend per share has been adjusted to reflect the revised number of shares on issue following the capital raise concluded in September 2018.

Commentary

Steel & Tube Holdings Limited (NZX: STU) made good progress on its business turnaround programme in FY19, although positive gains were offset by lower than expected gross margin performance due to market contraction in some high value categories and a highly competitive market.

Revenues were $498.1m, earnings before interest and tax (EBIT) was $16.8m and net profit after tax (NPAT) was $10.4m.

On a normalised basis (excluding Plastics and FY18 non-trading adjustments), EBIT improved 22% to $16.0m and profit increased 74% to $9.9m.

The Project Strive turnaround programme delivered a $10m benefit in FY19 contributing to a 5% improvement in revenues and a 4% reduction in operating costs (on a normalised basis). A new operating structure has been established including a strengthened leadership team. Good progress has also been made improving safety performance and quality systems. The employee total recordable injury frequency rate (TRIFR) of 1.5 was well below industry benchmarks.

The 5% normalised revenue gain was a result of new business growth and a combination of improved delivery performance and customer service.

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[1] Normalised Revenue, EBIT and Normalised NPAT exclude non-trading adjustments including write downs, impairments, business rationalisation and costs associated with business restructuring in FY18 $(49.8)m and in FY19 and FY18 excludes S&T Plastics which S&T decided to exit in 2018.

Operating costs were down 4% year on year on a normalised basis, with significant structural efficiencies achieved and more being targeted. Key drivers included benefits from network optimisation, labour and other cost efficiencies. Some short term cost impacts were absorbed from Strive initiatives which will deliver long term benefits and value.

Gross margin performance was below expectations with revenue gains and cost efficiencies not enough to offset the impact of market contraction and competitive price pressures. Price competition was significant throughout the second half of FY19, business confidence has softened and some higher value sectors have contracted (stainless market particularly). The impact has mainly been seen in the Distribution businesses.

A disciplined approach to managing working capital resulted in improved inventory availability across the business whilst reducing inventory holdings, and improving debt collection rates led to a reduction in overdue debt balances. The company significantly improved cash generation with net operating cash flow of $21.3m.

Prudent capital expenditure of $7.2m was slightly below depreciation & amortisation and focused on productivity improvements.

Net debt reduced from $104m to $15m due to a combination of the $78.8m net proceeds from the capital raise, improved operating cash flows, tighter working capital management and prudent capital expenditure. The company has a strong balance sheet providing the financial strength to execute strategies and manage business trading cycles.

While Directors are cognisant of the work still to be done, the Board remains confident in the company's strategic progress and has declared a fully imputed final FY19 dividend of 1.5 cps, taking total FY19 dividends to 5.0 cps.

CEO Mark Malpass said: "Steel & Tube has a number of strengths, including our national network providing a metropolitan and regional presence, a broad product range, technical capability, operational integrity and high standards of safety and quality. Our pursuit of customer excellence will help to ensure we remain a relevant and attractive option for customers. Margin performance has been challenging and, while there are external factors that are difficult to influence, the initiatives being undertaken are expected to deliver an improvement in both business divisions. We are very focused on building a business that is fit for the future and, while this is taking longer than originally anticipated, we remain confident in our long term prospects as a leader in the steel industry in New Zealand."

Divisional Review

Overall, the Distribution division's FY19 performance was ahead of prior year, with revenue of $287.7m and EBIT of $2.9m. Volumes increased driven by improving product availability, deliveries and sales team focus, and despite aggressive price pressures from several key competitors. However, the division has been the hardest hit by the trading and market conditions, with stainless steels, in particular, suffering from a significant market contraction. Overall costs reduced significantly with the exit from third party warehousing, site integrations and optimisation of staffing levels. A focus on cash has also resulted in improved debtor days and total inventory levels.

The Infrastructure division reported pleasing improvements in revenue and EBIT, to $209.4m and $11.9m respectively. Freight savings and improved labour productivity helped drive the improved results, although margins continued to be under pressure. Revenues also benefited from building a strong and growing reputation for delivery and investments such as the introduction of a new composite floor decking profile.

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Outlook

The tighter market conditions and competitive landscape are expected to prevail in FY20 and the company is adapting to ensure the business model is fit for purpose.

The Project Strive turnaround programme will continue to focus on additional cost efficiencies by reducing business complexity and streamlining the supply chain. Competitive advantage is expected to be built through maximising cross-selling opportunities, margin management and leveraging the AX ERP system to support customers with digital solutions. Benefits will include improved product availability, service and delivery times for customers, and lower inventory and logistics costs for the business.

The product and asset footprint will continue to be improved and the company is reviewing options for the sale of remaining owned properties which are surplus to requirements. Costs associated with Strive initiatives will be realised in the first half results, however, will benefit the full year results.

Chair Susan Paterson commented: "While there is more to be done, Steel & Tube made good progress during FY19, with management delivering on controllable commitments, particularly revenue growth, operating cost reductions and working capital discipline. Improving margin performance is a priority for management this year.

"We have a strong balance sheet and the investments and work already done will be of benefit to us in FY20. The underlying value inherent in our business was reflected in the non-binding indicative offer to buy the company in September 2018, which the Board considered did not reflect full value and had been advised that regulatory hurdles would be unlikely to be overcome.

"Steel & Tube remains an important part of New Zealand's economy, providing customers with choice and access to specialised products and technical knowledge. We remain absolutely focused on improving the return on investment and delivering value to our shareholders."

ENDS

For further information please contact:

Mark Malpass
Steel & Tube CEO
Tel: +64 27 777 0327
Email: mark.malpass@steelandtube.co.nz

Greg Smith
Steel & Tube CFO
Tel: +64 21 755 803
Email: greg.smith@steelandtube.co.nz

For media assistance, please contact: Jackie Ellis, +64 27 246 2505 jackie@ellisandco.co.nz