

## STEEL & TUBE RESPONSE TO COVID-19

- Steel & Tube Holdings Limited (NZX: STU) has undertaken a review of future market scenarios.
- The impact of COVID-19 and New Zealand Government lock-down restrictions on the economy and sectors STU is exposed to are expected to have a considerable impact on sales in the second half of the financial year (2H20) and beyond.
- STU's geographic sales strength, improved customer service functions and ecommerce options for customers are now enabling further rationalisation of the physical branch network.
- While these changes will deliver long term benefits, it is expected significant redundancies along with other impairment costs will impact 2H20.
- Steel & Tube's balance sheet and debt facilities provide sufficient financial liquidity at this time.

### Response to Alert Level 4 Lock-down

Following the announcement of the New Zealand Government Alert Level 4 lock-down restrictions, a number of measures were put in place to ensure Steel & Tube could quickly respond and recommence operations once permitted.

- The majority of staff were unable to work, with a small team remaining in place to support essential service businesses, and those who could, moved to working from home.
- Steel & Tube has sought and received the Government wage subsidy for staff.
- The Board, CEO and executive team have taken voluntary reductions in remuneration of between 20% (Alert Level 3) and 30% (Alert Level 4), which apply until such time as the alert level is returned to level 2 or below.
- All non-essential capital and operating spend has been cancelled or deferred, and lease costs have been significantly reduced during the shut-down period.

### Business Restructure

The Board and Management have undertaken a review of future scenarios for the various sectors the company supplies, given the impact of COVID-19 and the lock-down restrictions. Economic forecasts for the various sectors are mixed and all indicators currently suggest there will be a decline in economic activity overall. This revised outlook has accelerated a restructure of the company to ensure a cost base that is fit for purpose.

Steel & Tube's geographic sales strength, improved customer service functions, recent investment in digital capabilities and ecommerce options for customers are now enabling further rationalisation of the physical branch network. Importantly, Steel & Tube will continue to supply and service its customers whilst maintaining a strong presence across New Zealand.

Unfortunately, these changes will impact on jobs and result in 150 - 200 redundancies. Discussions have commenced and the company is engaging with staff and union delegates on this process and to provide support to all affected employees.

Steel & Tube's balance sheet and debt facilities provide sufficient financial liquidity at this time. As at 31 March 2020, the company had net debt of below \$3m and bank debt facilities of \$70m. Management

has been in constructive discussions with its banking partners and has sought and received a prospective waiver on future bank covenant tests and approval to extend the term of its working capital facility.

## **Outlook**

Prior to the Alert Level 4 lock-down, sales were improving as expected and Steel & Tube has continued to be successful in securing large project work. COVID-19 and further lock-down related delays will impact sales in the second half of the financial year (ending 30 June 2020) and sales are now expected to be considerably below the prior comparative period, partially offset by cost reduction initiatives.

While the restructuring of the company will result in cost benefits and greater efficiency over the longer term, redundancies, other execution and network impairment costs, and COVID-19 related doubtful debt provisioning will be realised in 2H20.

The Company has deployed industry leading procedures to safely manage operations during the Government's Alert Level 3 restrictions. The majority of Steel & Tube facilities will be open and the company has implemented digital systems to support customers with contactless ordering and delivery of products.

Chief Executive Mark Malpass said "The world is now in a much different place than it was just four weeks ago and we are making structural changes to our business model to ensure Steel & Tube emerges from COVID-19 as a stronger and more resilient company. These decisions have not been made lightly and we believe they are essential to our future as the first choice for steel customers in New Zealand.

"Steel & Tube is well positioned for the anticipated Government infrastructure projects. We continue to lead industry standards, and have secured further customer wins during the lock-down, including a significant Government roofing contract and other large projects are being finalised."

ENDS

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