FY20 Results Presentation

For the 12 months ended
30 June 2020

steel&tube
STRONGER IN EVERYWAY

FY20 SNAPSHOT

- Challenging 1H20, with adverse market conditions, particularly reduced vertical construction work and a contraction in the stainless steel market, impacting on sales revenue and volumes.
- COVID-19 pandemic had a significant impact on 2H20 results and more than offset some of the promising market improvements being seen.
- The level 4 lockdown and progressive return to business occurred during a traditionally high earning period for Steel & Tube, with a significant impact in late-March and April. Post lockdown, sales recovered through May, and June was in line with the prior year.
- Acceleration of branch network changes (including site consolidations), business restructuring and digitisation in response to anticipated post COVID-19 market conditions.
- FY20 result includes non-cash goodwill and other asset impairments as well as increased doubtful debts and a provision for backdated holiday pay obligations.
- Strong operating cash flows on the back of continued working capital discipline, with significant inventory reductions.
- Cash of $17.4m at year end with borrowings reduced to $10m.

OUR RESPONSE TO THE COVID-19 PANDEMIC

- Contingency planning and precautionary measures including development of contactless tracing system that was shared within the industry and with customers.
- During L4 lockdown, all sites closed except where needed to supply essential services.
- Customers supported online and through safe business trading.
- Prudent approach to capital management – cancellation of 1H20 dividend payment and no final dividend declared.
- Received Government wage subsidy assistance of $6.6m.
- All non-essential capital and operating spend cancelled or deferred.
- Accelerated organisation restructure to right size the business for the expected longer term downturn in economic activity.
- Considerable COVID-19 impact on financial performance in March and April; sales recovered through May, since June trading close to prior year.

STRATEGIC RESPONSE TO 'NEW NORMAL'

Expect a longer term downturn in economic activity as a result of global COVID-19 pandemic

ACTIONS TAKEN

- Accelerated organisation restructure to right size the business:
  - Network footprint reduced by 8 during the year with a further 3 more to consolidate/close in FY21
  - Workforce reduction of 150 to 200 (20% reduction on pre-COVID-19) by end 1H21
- Careful and prudent working capital management.
- Well positioned with a strong balance sheet and leaner cost structure.
- Accelerated investment in digital technology providing a critical platform and key point of difference for customers.
- Reset customer segmentation and ease of service model including customer centre and technical support.
- Moving forward with clear strategy for FY21 to FY23.

OUTCOMES

Reduction in labour cost in FY21 of approx. $10m (annualised benefit $12-13m).

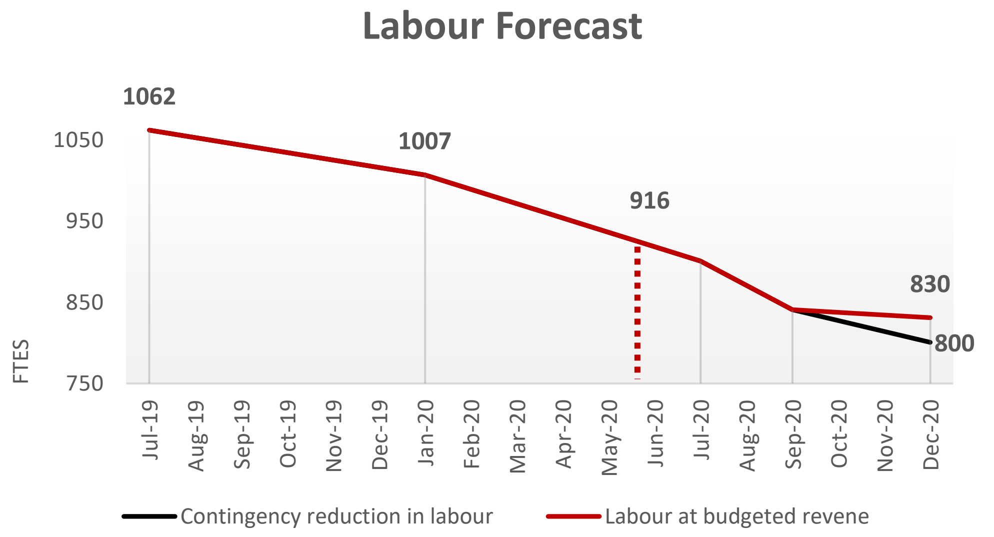
FY20 restructuring, rationalisation and impairment costs of $11.3m* (approx. 44% cash/56% non-cash).

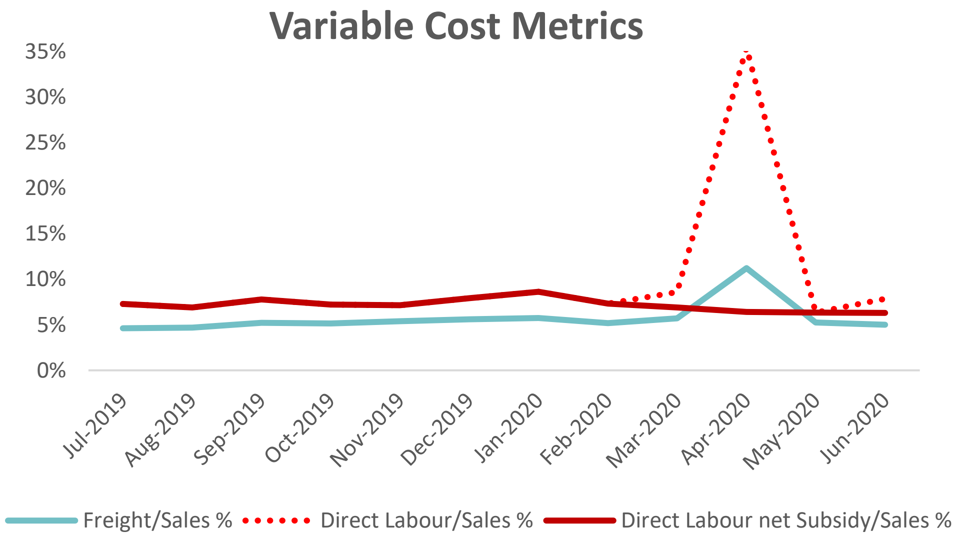
Borrowings to be further reduced from $10m.

**excludes $46.1m impairment on intangibles and $0.7m holiday pay provision*

BENEFITS FROM ORGANISATION RESTRUCTURING

Accelerated restructuring is well progressed and new ways of working including Digital are being implemented enabling a significantly lower cost base





- FTE numbers reduced from 1,062 to 916 at 30 June
- FY21 changes progressing with 86 FTEs (including 45 outsourced) and a further 30 pending sales levels

- Freight and direct labour costs have scaled in line with sales; initiatives continue to target efficiencies

NETWORK STRATEGY

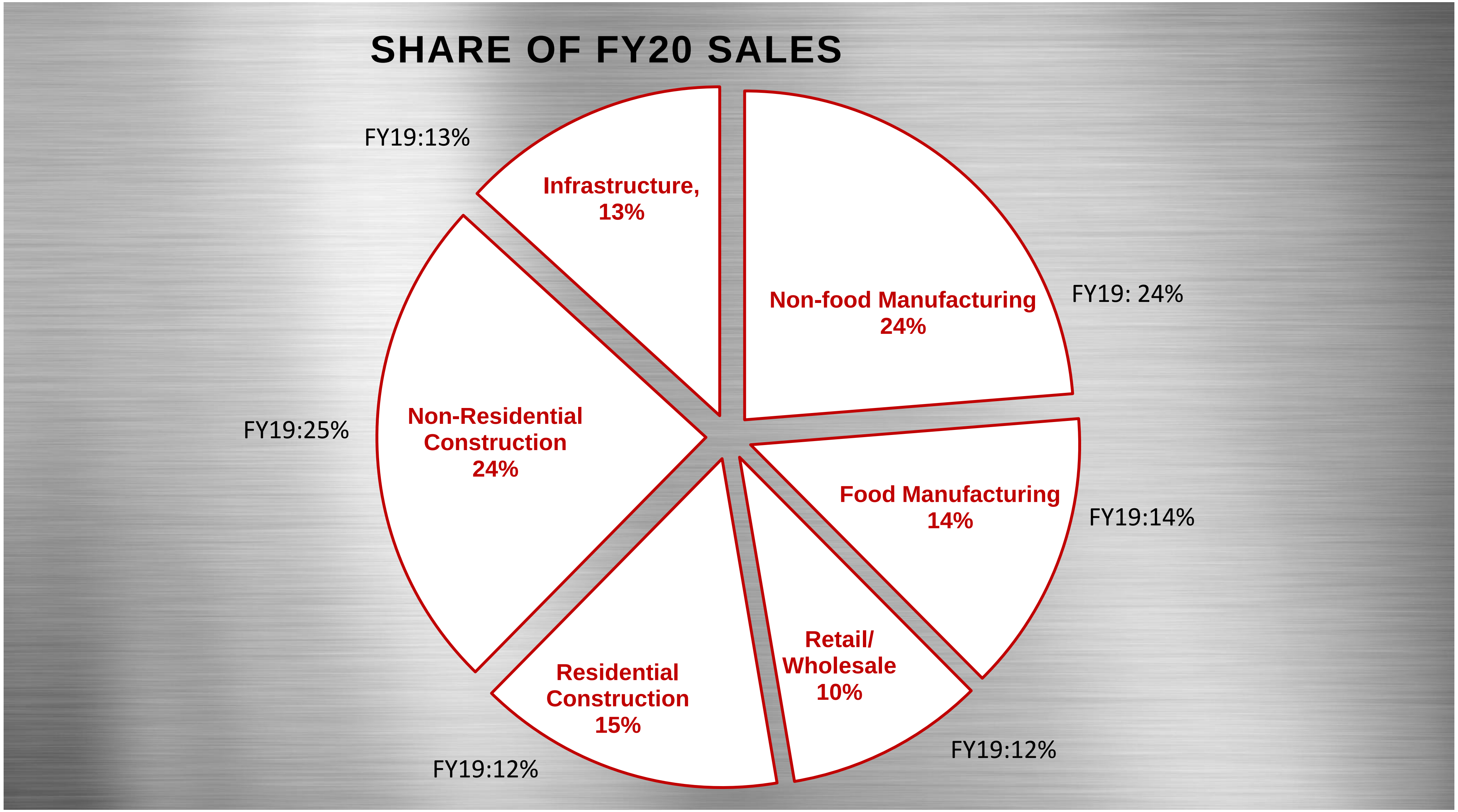
Network consolidation programme coming to an end while maintaining a regional presence and increased product offering

Annual Lease Cost ($m)	$18.4*	$15.6	$15.4**

- *2017 includes sale & lease back of two properties with lease costs of $3.5m per annum, partially offset by reduced interest costs of ~$1.6m per annum.*

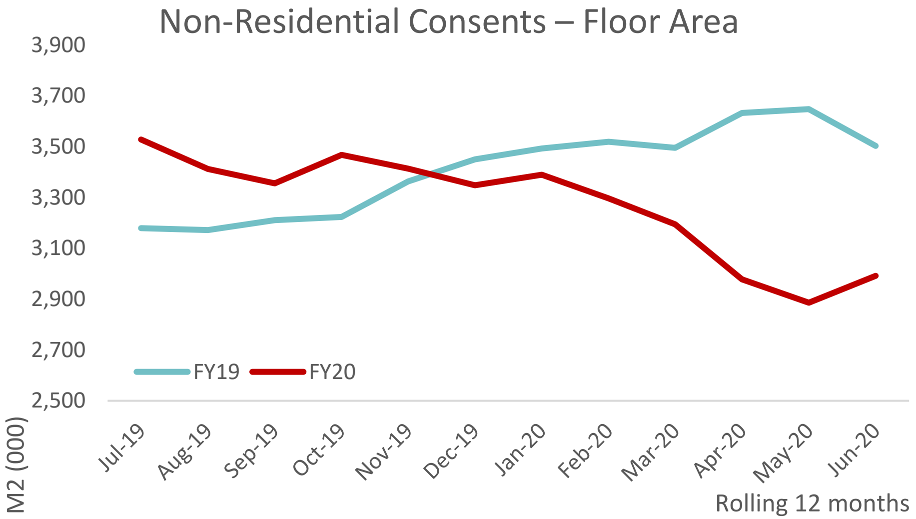
***A further ~$0.7m in lease cost savings could be achieved through securing sub-lease arrangements*

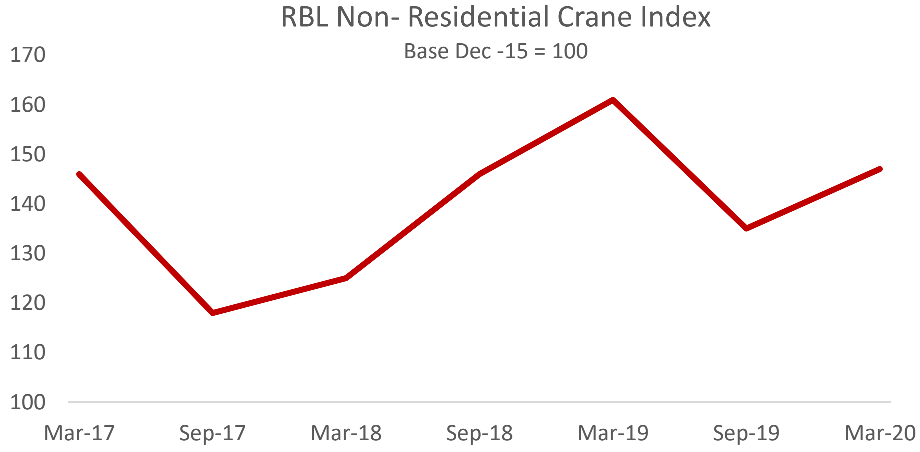
SECTOR EXPOSURE

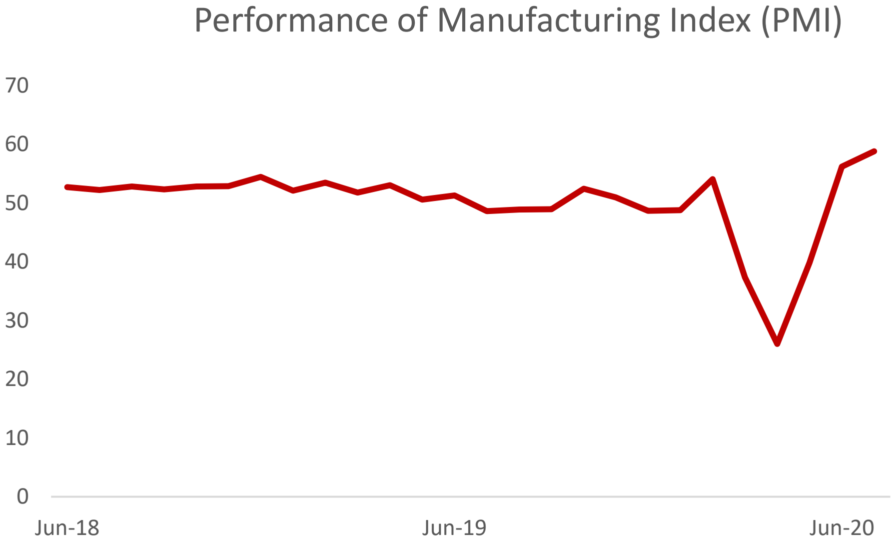


MARKET CONDITIONS

Reduced vertical construction activity and softer stainless market impacted on revenues and margin







Source: Statistics New Zealand, RBL Crane Index, BNZ – BusinessNZ PMI

FY20 GROUP FINANCIAL SUMMARY

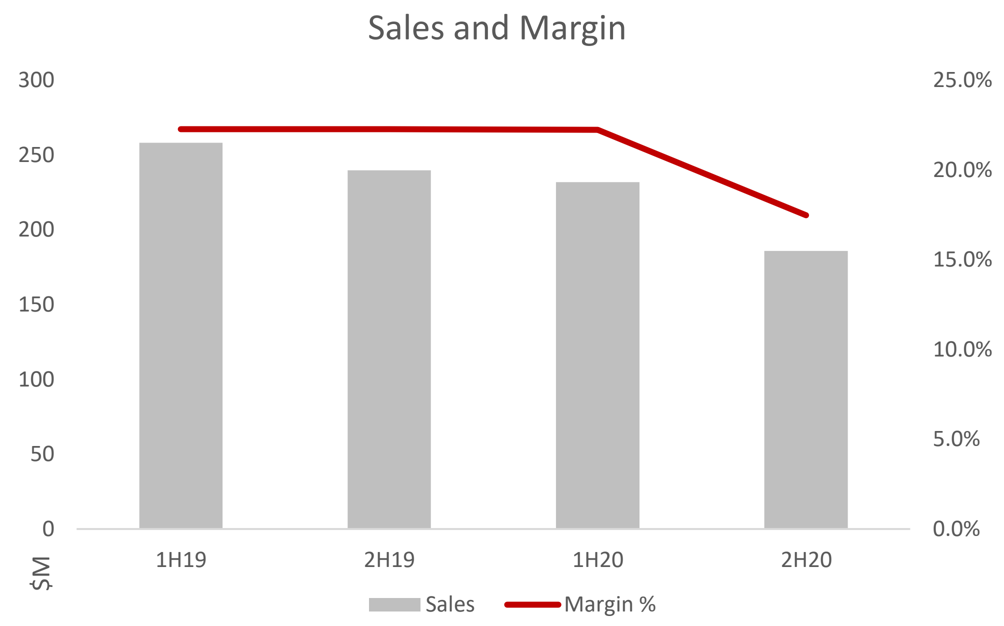
$m	FY20[1]	NZ IFRS 16 adjustments	FY20 Pre-NZ IFRS 16	FY19
Revenue	417.9	-	417.9	498.1
EBIT	(57.7)	(1.3)	(59.0)	16.8
Non-trading adjustments[2]	58.1	-	58.1	(0.8)
Normalised EBIT **(excluding non-trading adjustments)**	**0.4**	**(5.6)**	**(5.2)**	**16.0**
NPAT/(NLAT)	(60.0)	2.8	(57.2)	10.4
Shareholder Equity	181.3	13.2	194.5	253.9
Net Cash / (Debt)	7.4	-	7.4	(15.0)
Net operating cash flow	39.6	(13.0)	26.6	21.3

1. *FY20 includes impact from adoption of new lease accounting standard (IFRS 16)*
2. *Normalised EBIT excludes non-trading adjustments of $58.1M, which includes non-cash goodwill impairment and other write-downs due to acceleration of branch network changes, business restructuring and digitisation and the impact of COVID-19.*

REVENUE & MARGIN

Reduction in revenue primarily related to COVID-19 lockdown and restrictions in 2H20 and contraction in vertical construction activity and stainless steel market which continued throughout the year.

- Improving sales and pipeline in 3Q20 pre-COVID-19.
- COVID-19 lockdown restrictions and progressive return to work heavily impacted revenue and margin.
- Margin impacted by product mix in return to work period post L4 Lockdown.
- Sales recovery post-lockdown, with June trading comparable to pcp.



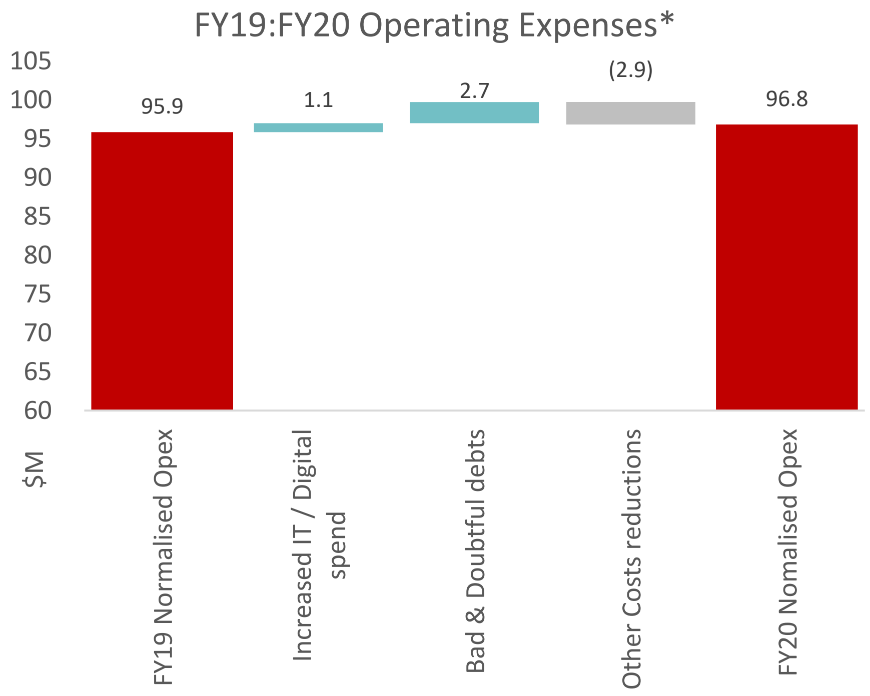
Revenue $m	FY20	FY19	$ change	% change
Distribution	247.9	287.7	(39.7)	(13.8)%
Infrastructure	170.0	209.4	(39.4)	(18.8)%
Group	**417.9**	**498.1**	**(80.2)**	**(16.1)%**

NORMALISED OPERATING EXPENSES

Operating expenses largely in line with prior year, on a normalised basis[1]

- Overall prudent and disciplined management of expenditure continues.
- Operating costs have been held flat versus prior year in real terms.
- Increase in IT and Digital costs of $1.1m to support improved service delivery, and $2.7m increase in provisions for bad and doubtful debts ($0.1m in FY19).
- Mostly offset by $0.7m reduction in employee costs and other efficiencies of $2.2m.
- Excluding doubtful debts, normalised opex was down $1.9m (2%) on the prior year.

$m	FY20	FY20N[1]	FY19N[1]	% Change
OPEX	97.1	96.8	95.9	1.0%



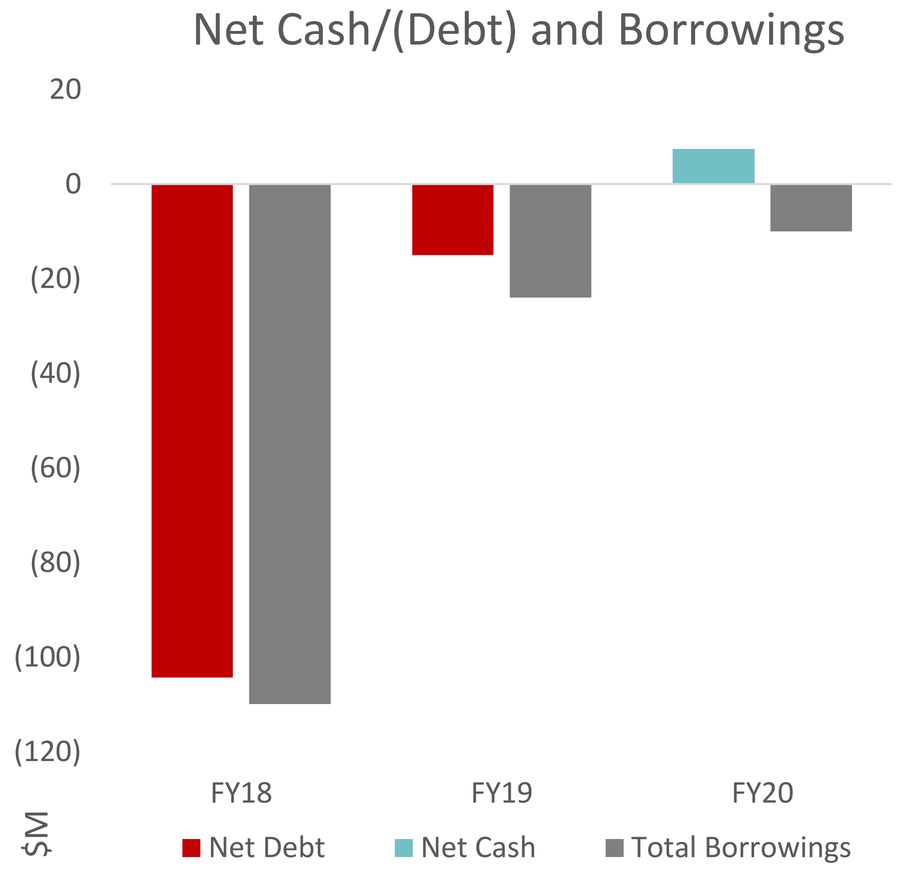
1. Opex figures have been normalised to exclude the impact of NZ IFRS16, as well as 5.7m in non-trading adjustments.
See Slide 29 and 30 for definitions of financial terms and reconciliation of normalised results.

STRONG OPERATING CASH FLOW & NET CASH POSITION

Improved operating cash flow generation

Cashflow $m	FY20	FY19*
Reported net operating cash flow	39.6	21.3
NZ IFRS 16 cash flow reallocations	(13.0)	-
Pre-IFRS16 operating cash flow	26.6	21.3

- Improved operating cash flow of $10.9m year on year (excluding prior year tax benefit and on a pre-IFRS basis). Benefitted from improved working capital management.
- Net debt decreased by $22.4m to end the year in a positive net cash position of $7.4m.
- On track to repay remaining borrowings in FY21.



** Prior year cash flow included the benefit of $5.6m tax refund.*

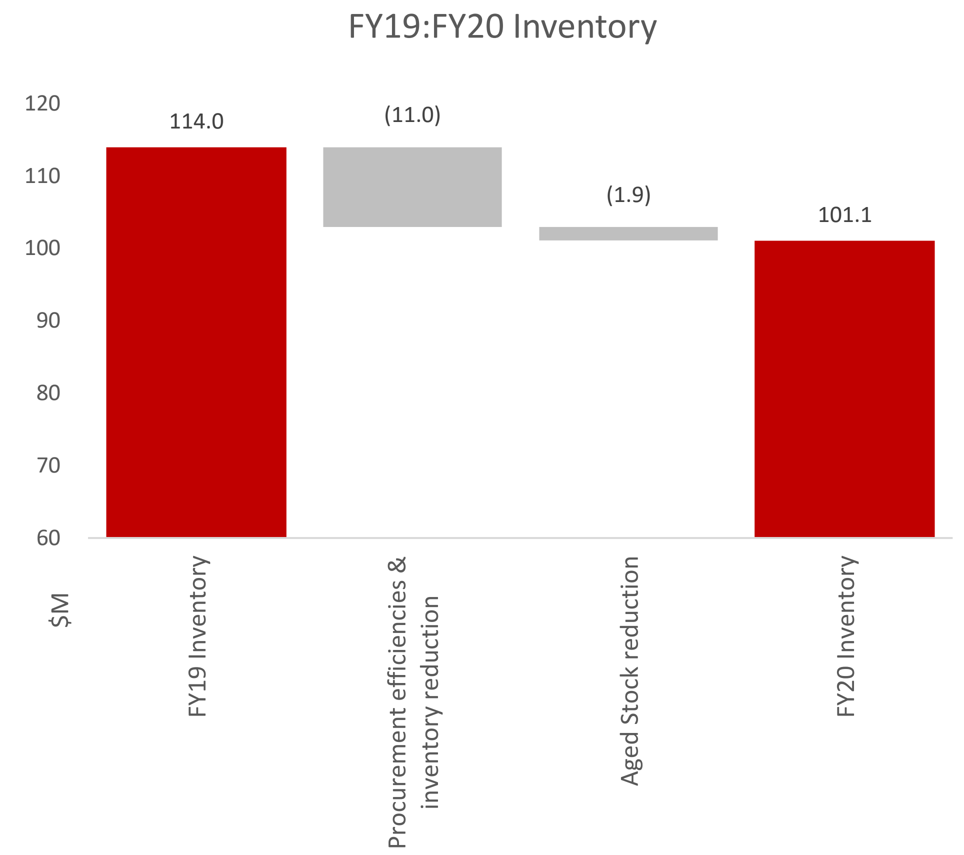
WORKING CAPITAL

Continued focus on working capital management

- On-time debt collection rates have continued the year-on-year improvement trend seen from 2H19.
- Reduction of inventory by $13m to $101m through disciplined procurement and operational efficiencies.

Working Capital KPIs (Averages excl. April 2020)	**FY20**	**FY19**	**FY18** Excl. Plastics
Trade Receivables: DSO	42	48	65
Inventories: DIO	101	107	110
Trade Payables: DPO	31	26	25

DSO: Days Sales Outstanding
DIO: Days Inventory Outstanding
DPO: Days Payable Outstanding



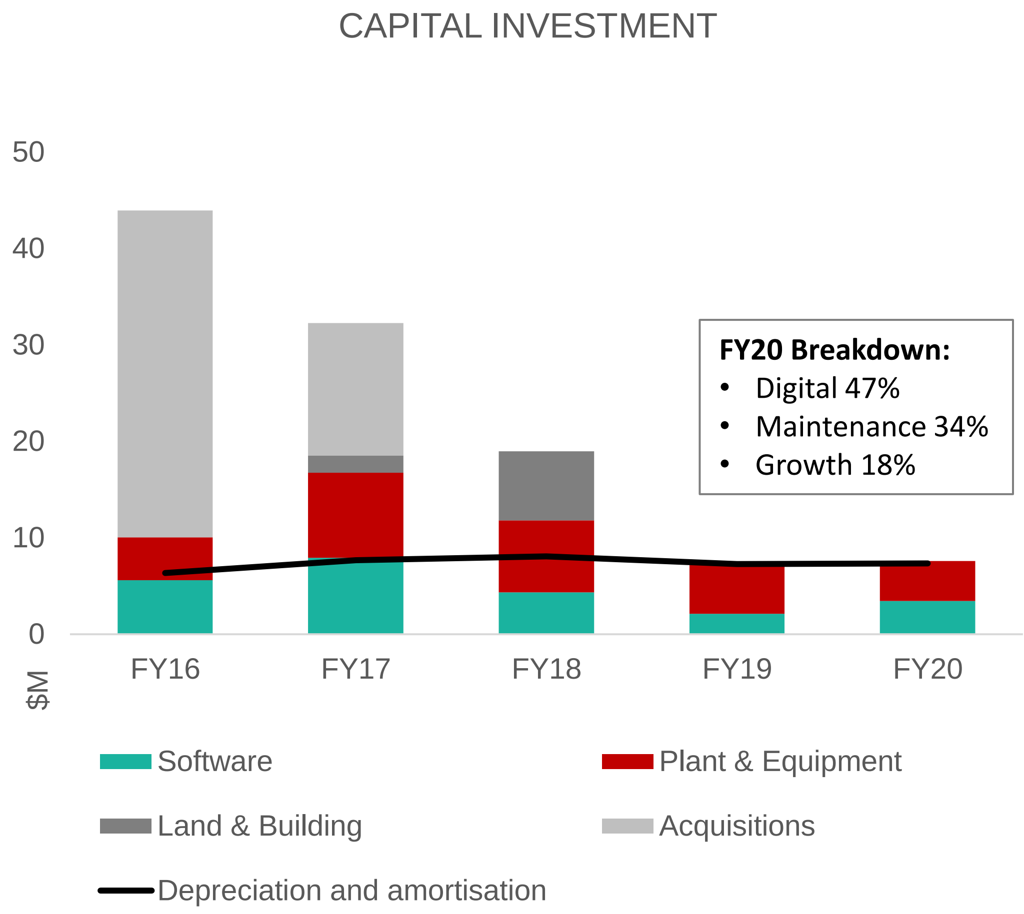
CAPITAL EXPENDITURE

Prudent management of capital expenditure with increased allocation to Digital and Growth projects

- FY20 capex of $7.6m (FY19:$7.2m).
- Capital spend remains in line with D&A.
- Priority capital allocation to projects supporting digital and business improvement/growth.
- Funded through operating cash flow.
- FY21 capex expected to align with D&A.

Digital Spend Projects in FY20:

- Customer Portal and customer segmentation strategy
- Barcode Scanning
- Traceability



BALANCE SHEET

Tight control over balance sheet, with substantial bank funding lines secured

- Working capital improvements strengthening cash flows.
- Reduction in inventory to $101.1m.
- Net cash position of $7.4m as at 30 June 2020.
- Paid down $14m in borrowings in FY20.
- Bank covenant waivers and revised covenants agreed for FY21.

Dividend

- Cancellation of interim dividend due to COVID-19.
- Prudent approach due to uncertain outlook
- In line with policy, no final dividend declared for FY20.

$m	FY20	FY19
Trade and other receivables	92.7	99.9
Inventories	101.1	114.0
Trade and other payables*	(58.9)	(45.6)
Working Capital	**134.9**	**168.3**
Cash and cash equivalents	17.4	9.0
Borrowings	(10.0)	(24.0)
Net Cash/(Debt)	**7.4**	**(15.0)**

**FY20 includes finance lease liabilities of $12.6m recognised under NZ IFRS 16 Lease*

DIVISION REVIEW

OUR BUSINESS - DIVISIONS

DISTRIBUTION

Products sourced from preferred steel mills and distributed through our national network


STEEL


RURAL PRODUCTS


PIPING SYSTEMS


FASTENINGS


CHAIN & RIGGING


STAINLESS STEEL

Hurricane

FORTRESS® FASTENERS

INFRASTRUCTURE

Products processed before sale, typically on a contract or project basis, including onsite installation services

Roll-forming


ROOFING


COIL PROCESSING


PURLINS


COMFLOR®

REO / CFDL


REINFORCING


CFDL

ComFlor™

Studwelders Composite Floor Decks Ltd.

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FY20 DIVISIONAL PERFORMANCE

Both divisions significantly impacted by COVID shutdown

Distribution

- Improvements from Strive initiatives with targeted initiatives lowering cost to serve
- Impacted by contraction in stainless market and softening of vertical construction market
- Growing revenues and margins pre-COVID

Infrastructure

- Significant impact from the softening in vertical construction
- Solid pipeline of infrastructure and civil work
- Continued to win key project work

Distribution $m	FY20	FY19
Revenue	248.0	287.7
Normalised EBIT	(0.2)	2.9
Normalised EBIT Pre-NZIFRS 16	(3.4)	2.9
EBIT	(29.9)	2.9

Infrastructure $m	FY20	FY19
Revenue	170.0	209.4
Normalised EBIT	0.5	11.9
Normalised EBIT Pre-NZIFRS 16	(1.8)	11.9
EBIT	(26.1)	11.9

See slides 29 and 30 for definitions of financial terms and reconciliation of normalised results.

MOVING FORWARD

IT’S GAME ON

FY17 TO FY20 STRATEGIC PROGRESS

Late-2017: Embarked on an extensive company-wide reset to drive long-term sustainable earnings improvement and rebuild shareholder value. Foundation now laid and moving forward.

Moving Forward:
Steel & Tube leadership in the sector and the preferred choice for steel products and solutions across the country

JOURNEY TO REFRESHED BOARD, STRATEGY & LEADERSHIP

EXTENSIVE ORGANISATIONAL REVIEW

PROJECT STRIVE: CHANGE PROGRAMME, OPERATIONAL RESET

STRENGTHENED FOUNDATION, CONTINUAL IMPROVEMENT

2H17
January to June

FY18

FY19

FY20

FY21 to FY23

STRATEGIC PILLARS

Our four pillars are fundamental for our business and underpin all that we do.

COMMITMENT TO QUALITY, HEALTH AND SAFETY

- Safe and healthy work environment
- Quality processes
- Quality products
- Continual improvement
- Focus on sustainability

OPERATIONAL AND SUPPLY CHAIN EXCELLENCE

- Leverage our procurement and supply chain scale
- Excellent inventory management
- Employ data analytics to better service customers
- Drive efficiencies

PUTTING THE CUSTOMER AT THE HEART OF OUR BUSINESS

- Products and services to meet customers' needs
- Leverage our technical expertise
- Delivery on time and on spec

SUPPORTING A WINNING TEAM

- Develop leaders
- Everyone matters
- Recognise personal and team contributions
- Provide a rewarding workplace

MOVING FORWARD

OUR PURPOSE:
To make life easier for our customers needing steel product and service solutions.

OUR VISION:
To provide unparalleled customer service and experience.

OUR GOAL:
To position Steel & Tube as the best in the sector, the preferred choice for steel products and solutions and a trusted partner for our customers.

OUR STRATEGIC PATHWAYS

MAKING IT EASY	Delivering the information, expertise, purchasing options and communication channels that make it easy for our customers
FULL SERVICE PROVIDER	Leveraging our breadth of expertise, quality products and strong brands to deliver a ‘ground up’ solution for our customers.
BETTER WAYS OF WORKING	Continually improving to ensure an efficient and effective operational platform, with strong operational discipline and excellent customer service
INNOVATION AND DIGITISATION	Embracing new technology and continually innovating to deliver on our customer and partner strategies – and drive greater efficiency in our business.
ONE TEAM	Aligning our staff and our businesses behind a common purpose, investing in staff development, recognising and growing their talents and contributions and empowering them to add more customer value

SECTOR OUTLOOK

Construction	• Residential near-term demand strong, supported by tight supply, low mortgage rates, and strong first home and returning expat buyer interest. • Non-residential demand remains soft with many projects being delayed. Residential and business investment expected to contract as pipeline and confidence thins.
Infrastructure	• Large infrastructure projects ongoing and promising pipeline with “shovel ready” projects. • Government $3b increased funding of infrastructure projects on top of $12b increase announced in January, noting uncertainty of timing at this stage.
Manufacturing	• Food manufacturers and agriculture sectors are expected to fair better as necessities are in high demand locally and abroad. • NZ’s focus on more resilient local supply chains and increased domestic manufacturing may help offset some of the export led decline.
Rural	• Changing dynamics with move from dairy conversion to maintenance programmes and other opportunities.

FY21 OUTLOOK

Sector leadership as the preferred choice for steel products and solutions and a trusted partner for our customers

- Post Level 4 shutdown, structural changes embedded.
- Trading in Q1 FY21 has been stronger than anticipated to date.
- Moving ahead with clear strategic plan for next three years.
- Continue to take actions to streamline the business operating model.
- Well positioned with a strong balance sheet and leaner cost structure.
- Accelerating investment in digital technology providing a critical platform to ensure ease of doing business for our customers.
- Cautious approach to future economic environment, careful business stewardship required.
- No guidance for FY21 due to uncertain impacts of COVID-19 on trading.

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QUESTIONS

DEVELOPING A SUSTAINABLE BUSINESS

We believe in a sustainable business, which is committed to creating value for our customers, employees, shareholders and communities

COMMITMENT TO SAFETY & QUALITY

- Occupational Health & Safety
- High quality products and services

OPERATIONAL & SUPPLY CHAIN EXCELLENCE

- Financial performance and governance
- Material efficiency and recycling
- Energy and carbon

SUPPORTING A WINNING TEAM

- Talent attraction and retention
- People development and labour practices
- Culture of wellbeing

CUSTOMER AT THE HEART OF THE BUSINESS

- Customer satisfaction
- Product life cycle performance

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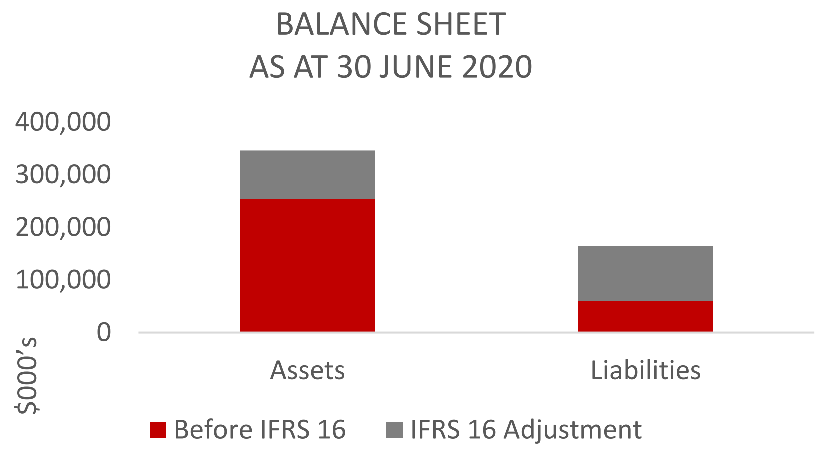
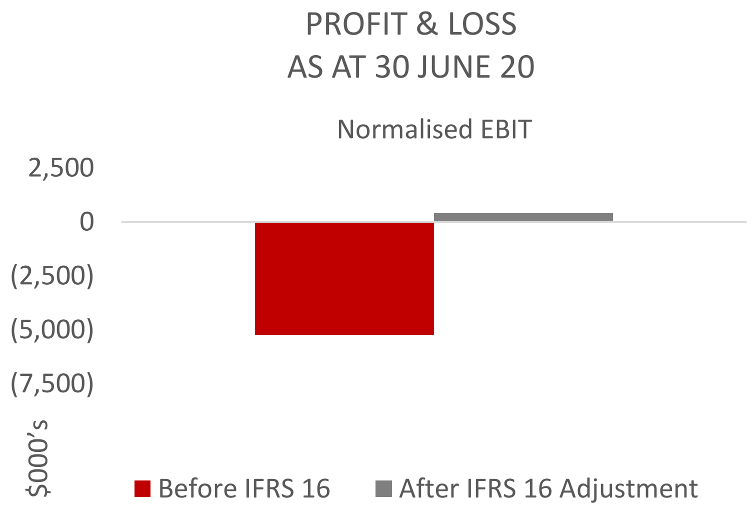
NZ IFRS 16 EFFECTIVE 1 JULY 2019

- Removes the distinction between operating and finance leases, with all leases now on balance sheet
- Results in a shift of operating lease costs, currently reported within other operating expenses, to interest and depreciation
- Impact on cash flows and net earnings over the lease term remains the same, however interest expense is higher in the earlier years of the lease and lower in later years
- Resulted in the recognition of “right of use” assets of $105m and lease liabilities of $121m upon adoption at 1 July 2019
- FY20 resulted in an increase to reported EBIT of $1.3m and a decrease to reported NPAT of $2.8m





NON-GAAP FINANCIAL INFORMATION

Non-GAAP financial information: Steel & Tube uses several non-GAAP measures when discussing financial performance. These include Normalised EBIT and Working Capital. Management believes that these measures provide useful information on the underlying performance of Steel & Tube's business. They may be used internally to evaluate performance, analyse trends and allocate resources. Non- GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Non-trading adjustments/Unusual transactions: The financial results for FY20 include a number of transactions, considered to be non-trading in either their nature or size. Unusual transactions can be as a result of specific events or circumstances or major acquisitions, disposals or divestments that are not expected to occur frequently. Excluding these transactions from normalised earnings can assist users in forming a view of the underlying performance of the Group. The following reconciliation is intended to assist readers to understand how the earnings reported in the Financial Statements for the years ended 30 June 2019 and 30 June 2020 reconcile to normalised earnings. Non-trading adjustments of $58.1 million are included in the FY20 results.

RECONCILIATION OF GAAP TO NON GAAP MEASURES Year ended 30 June 20 $000s	FY20	FY19
GAAP: Earnings/Loss before interest and tax (EBIT)	**(57,694)**	**16,795**
Add back unusual transactions/non-trading adjustments:		
Goodwill impairment	37,071	-
Intangible Asset impairment	9,000	-
Right of Use Lease Asset impairment	4,298	-
Business restructuring costs	3,449	-
Site rationalisation execution costs	2,011	-
Property, Plant and Equipment Impairment	1,508	-
Holiday Pay provision	750	-
S & T Plastics EBIT (no longer contributing to trading EBIT)	-	(773)
Normalised EBIT post NZ IFRS 16	**393**	**16,022**
Impact of NZ IFRS 16	(5,638)	-
Normalised EBIT pre NZ IFRS 16	**(5,245)**	**16,022**

GLOSSARY OF TERMS

COVID-19: The Group's financial results for FY20 have been impacted by the alert level 4 shutdown and progressive return to work due to the pandemic. The Group has identified certain impairments, restructuring and site rationalisation costs that have arisen as a result of the strategic actions in response to COVID-19 (including the forecast economic recession) and that give rise to costs that would not otherwise have been incurred, as non-trading items in the FY20 results. The impact of lost revenues and Government wage subsidy are included in the Group's trading results for FY20.

EBIT: Earnings / (Loss) before the deduction of interest and tax. This is calculated as profit for the year before net interest costs and tax. FY20 EBIT was impacted by a number of non-trading adjustments totalling $(58.1) million, as shown in the table above.

Normalised EBIT: This means EBIT excluding non-trading adjustments and unusual transactions.

NZIFRS 16 Leases: On 1 July 2019, the Group adopted NZIFRS 16 Leases accounting standard. This has resulted in the reclassification of operating lease expenditure to a combination of depreciation and financing costs. FY19 financial results have not been restated for the impact of this new standard and hence Management have provided both post and pre NZIFRS 16 results for FY20 to help with comparison of the results to FY19.

Working Capital: This means the net position after Current liabilities are deducted from Current assets. The major individual components of Working capital for the Group are Inventories, Trade and other receivables and Trade and other payables. How the Group manages these has an impact on operating cash flow and borrowings.

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