1H20 Results Presentation

For the six months ended 31 December 2019

steel&tube

STRONGER IN EVERYWAY

1H20 RESULTS SNAPSHOT

REVENUE **$232.0M**	**ROBUST OPERATING CASHFLOW** **$17.1M** **Pre-IFRS 16 $10.5M[2]**
EBIT $(33.4)M **NORMALISED EBIT $5.7M[1]** **Pre-IFRS 16 $3.1M[2]**	**FURTHER REDUCTION IN NET DEBT TO $10.9M**
NPAT $(37.0)M **Pre-IFRS 16 $(36.8)M[2]**	**INTERIM DIVIDEND** **1.5 CENTS**

1) Normalised EBIT excludes $39.1m in non-trading adjustments being $(2.0)m restructuring and relocation costs and a non-cash goodwill impairment of $(37.1)m
2) Adoption of NZ IFRS 16 Leases increased EBIT by $2.6m and Operating Cashflow by $6.6m and reduced NPAT by $0.2m in 1H20

1H20 OVERVIEW

- **Challenging trading environment continued** with 1H20 impacted by a decline in activity in the vertical construction and stainless steel markets
- **Result includes non-trading adjustments** as announced on 31 January 2020: Non-cash impairment of goodwill of $37.1m and Project Strive execution costs of $2.0m. 1H20 EBIT also impacted by $1.8m of doubtful debts relating to a small number of customers
- **Progress has been made in the areas we can control**, including operating cost reductions, margin management and working capital discipline. Cashflow has remained robust despite the decrease in earnings, enabling a further reduction in net debt
- **Overall margin maintained** despite significant pricing pressure
- **Expect better second half** with market confidence improving and as benefits from Project Strive initiatives, commencement of significant new contracts and other proactive measures take effect.

STRATEGIC PILLARS

OUR GOAL IS TO BE THE LEADER IN BUYING, SELLING, PROCESSING AND PLACING STEEL PRODUCTS IN NZ

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

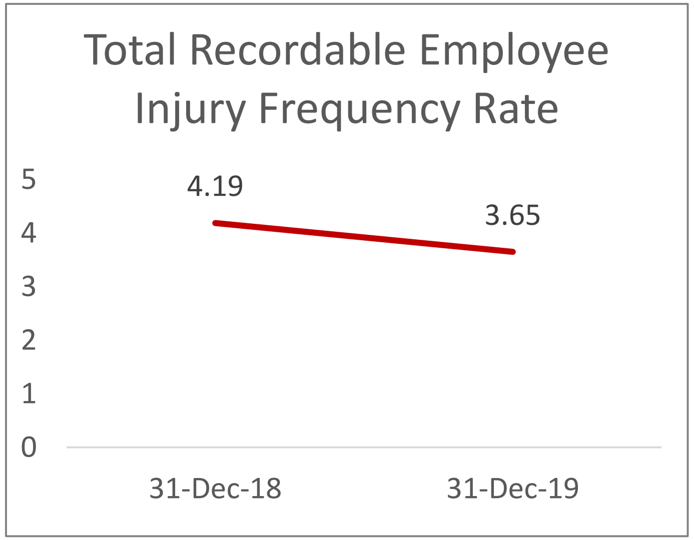
- Products and services to meet customers' needs
- Leverage our technical expertise
- Delivery on time and on spec

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

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

PROGRESS HIGHLIGHTS

CONTINUING COMMITMENT TO QUALITY, HEALTH AND SAFETY



Quality

- Lloyd's Register independent steel mill audits ongoing
- Random sampling and independent testing underway
- Automation of test certificate process underway
- ESG framework and Key Performance Indicators under development

Safety

- National review of site Standard Operating Procedures and supporting Job Safety Analysis
- Life Saver Breach compliance and enforcement
- Safety awareness campaign 'Stand in the Gap' attended by employees and contractors
- Critical Risks Panels established, led by Lead Team

PROGRESS HIGHLIGHTS

DELIVER ON CUSTOMER SERVICE PROMISE

- Successfully launched Chatbot ‘Stanley’, allowing customers to query and receive answers about orders and shipments
- Launched “Group Product Guide” to drive awareness and sales across our broad range of products
- Continuing to build on customer delivery performance and satisfaction
- Currently conducting customer trials with a new range of engagement technologies that will fundamentally improve customer experience, buying and service through digital technologies.
- Significant project wins for Reinforcing and CFDL/Comflor businesses commencing in 2H

PROGRESS HIGHLIGHTS

OPERATIONS AND SUPPLY CHAIN EXCELLENCE

- Focussed on Distribution division turnaround:
  - Improved product margins, procurement, direct labour efficiency and freight
  - Redefined branch product footprints ensuring right inventory in the right locations
  - Successful trial of barcode scanning technology, leveraging the investment in the ERP IT system
- Continued property footprint reduction by exiting / consolidating a further four operational sites in 1H20, whilst maintaining regional presence (31 sites vs 48 in January 2018)

PROGRESS HIGHLIGHTS

SUPPORTING A WINNING TEAM

- Continued investment into training and development
    - Launch of S&T Area Leadership programme – focus on sales, commercial skills and leading digital change
    - Offered Workplace Literacy programmes to staff, to support those with English as a second language, and to provide more advanced Business English skills for team leaders
- Partnership in Sector Workforce Engagement Programme, providing training and employment opportunities for school leavers and building New Zealand's construction skills
- Creation of new incentive scheme for sales teams and customer service employees
- Improved internal communication tools for all employees
- Productivity improving - headcount changed from 1,100 to under 1,000

1H20 GROUP FINANCIAL SUMMARY

$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

*1H20 non-trading adjustments being $2.0m restructuring and relocation costs and a non-cash goodwill impairment of $37.1m (1H19: Plastics business exit $0.1m). Further details included in appendix to this presentation.

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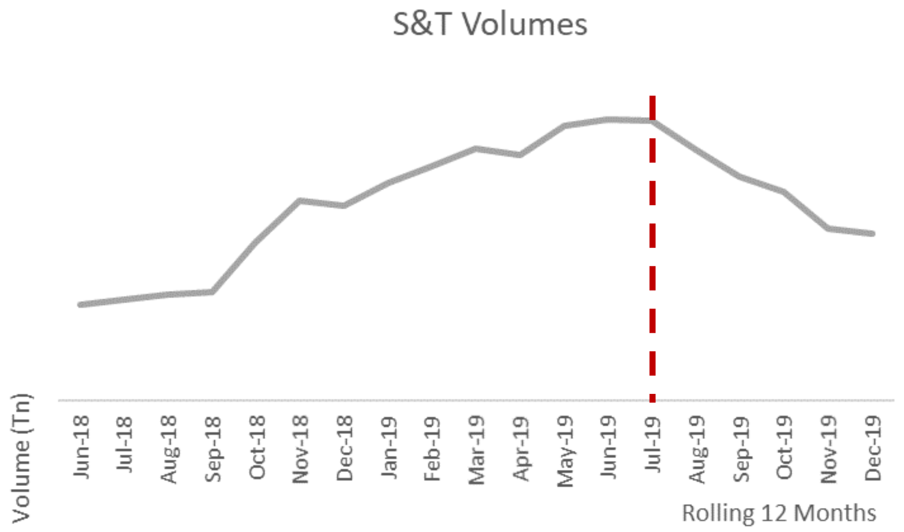
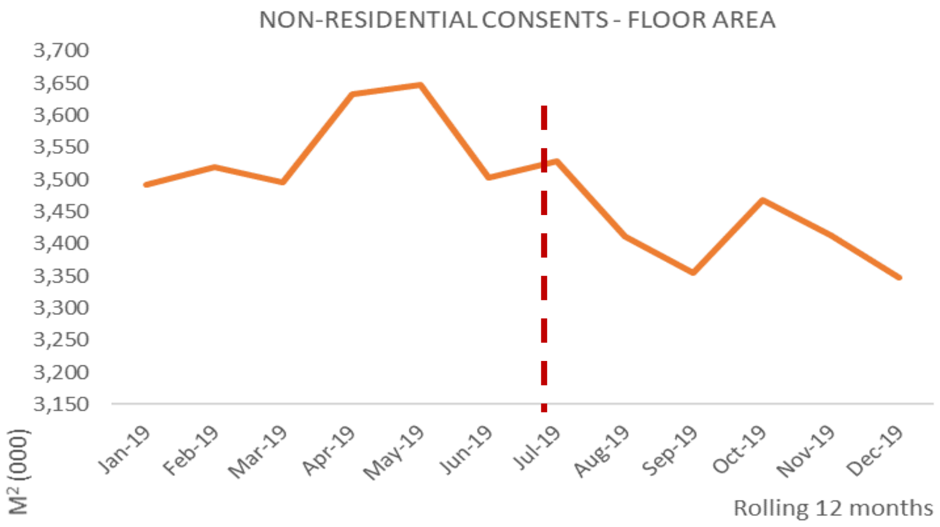
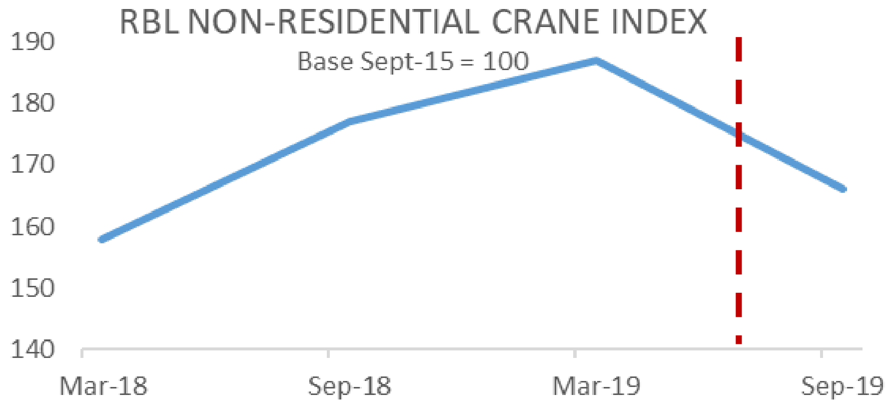
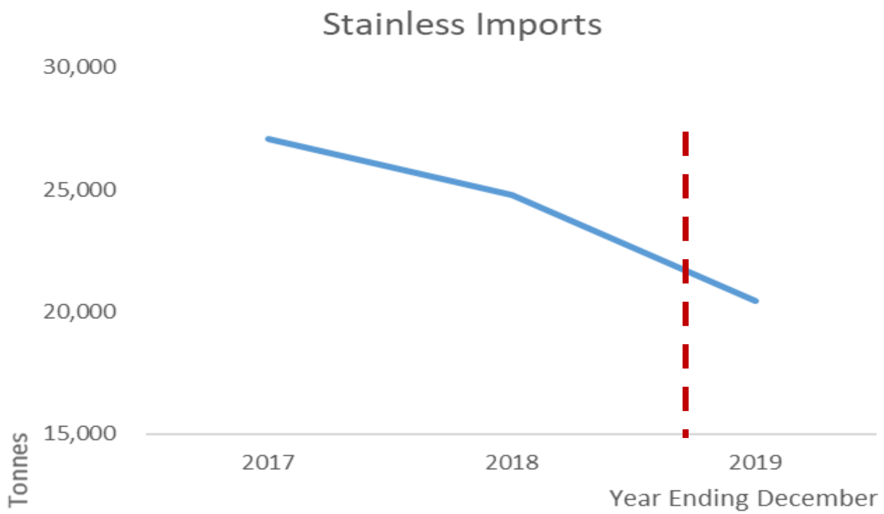
MARKET CONDITIONS

Reduced vertical construction activity and softer stainless market has impacted on Steel & Tube revenues

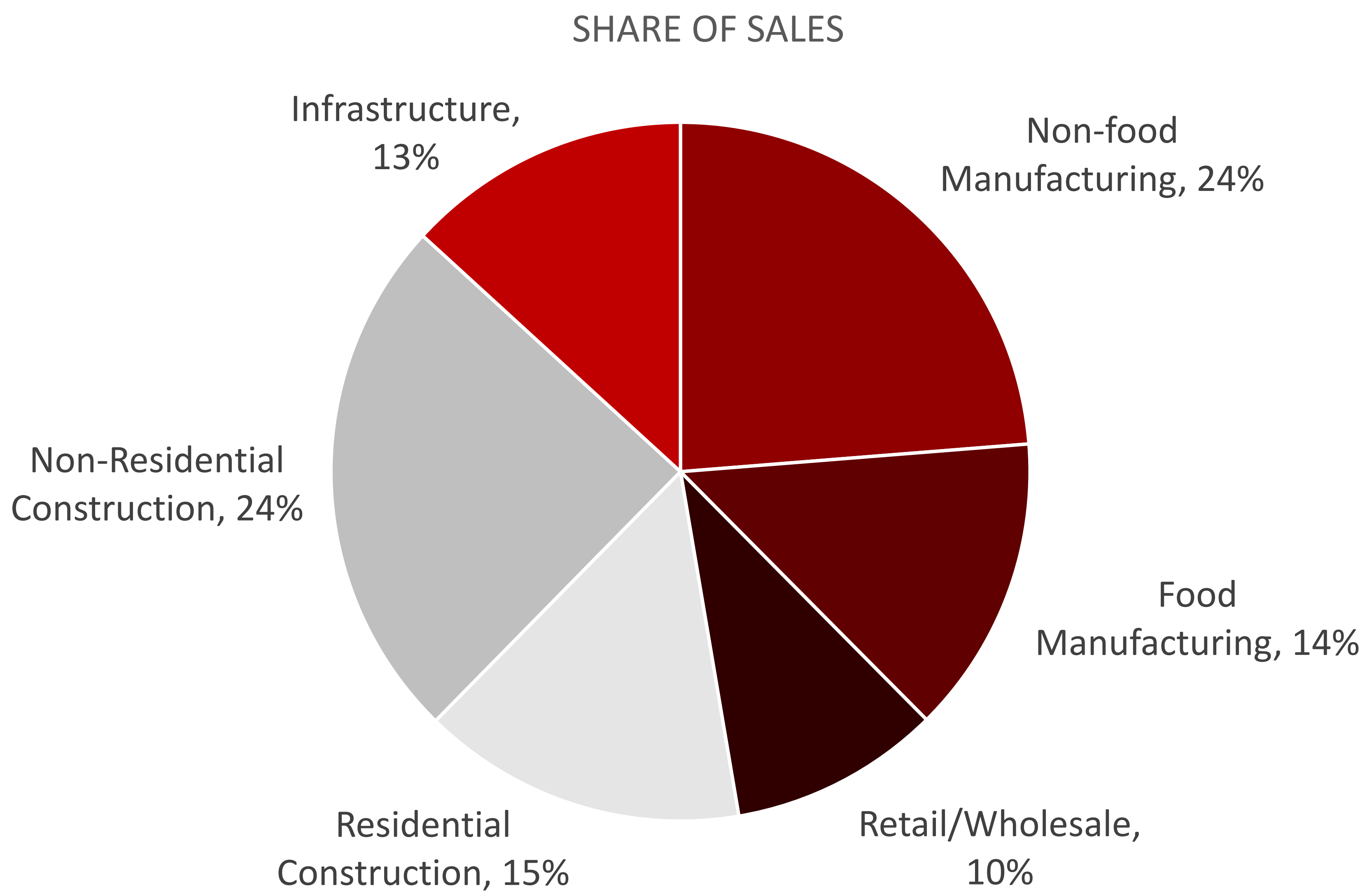






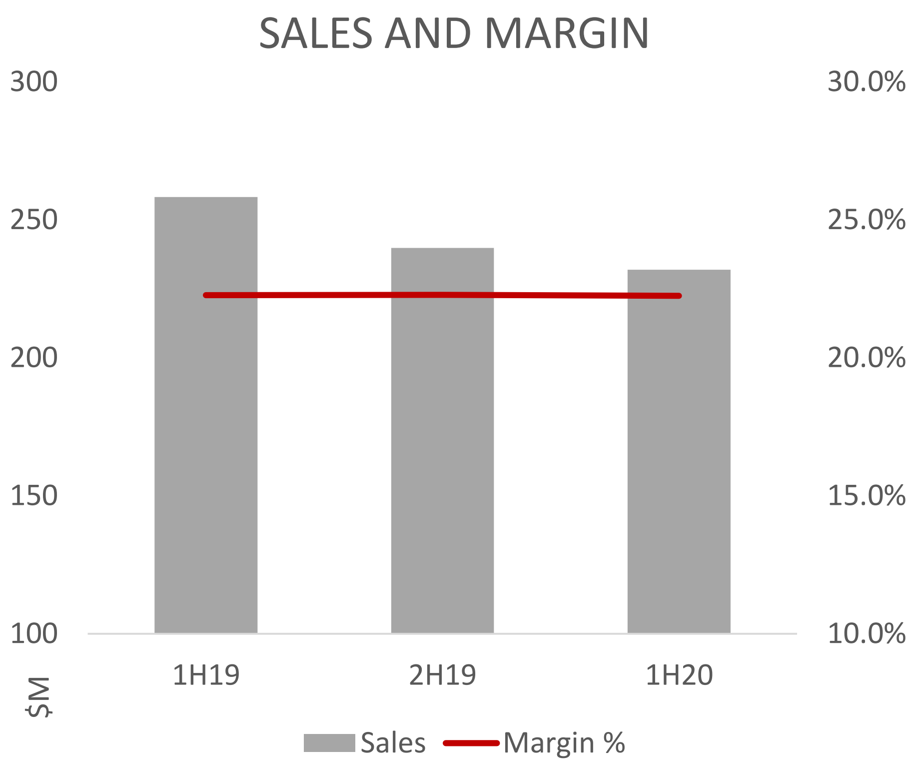


SECTOR EXPOSURE



REVENUE & MARGIN

Reduction in revenue primarily related to contraction in vertical construction activity and stainless steel market. Maintained margin and market share



Revenue $millions	1H20	1H19*	% change
Distribution	135.4	149.8	-9.6%
Infrastructure	96.6	107.4	-10.1%
Group	232.0	257.2	-9.8%

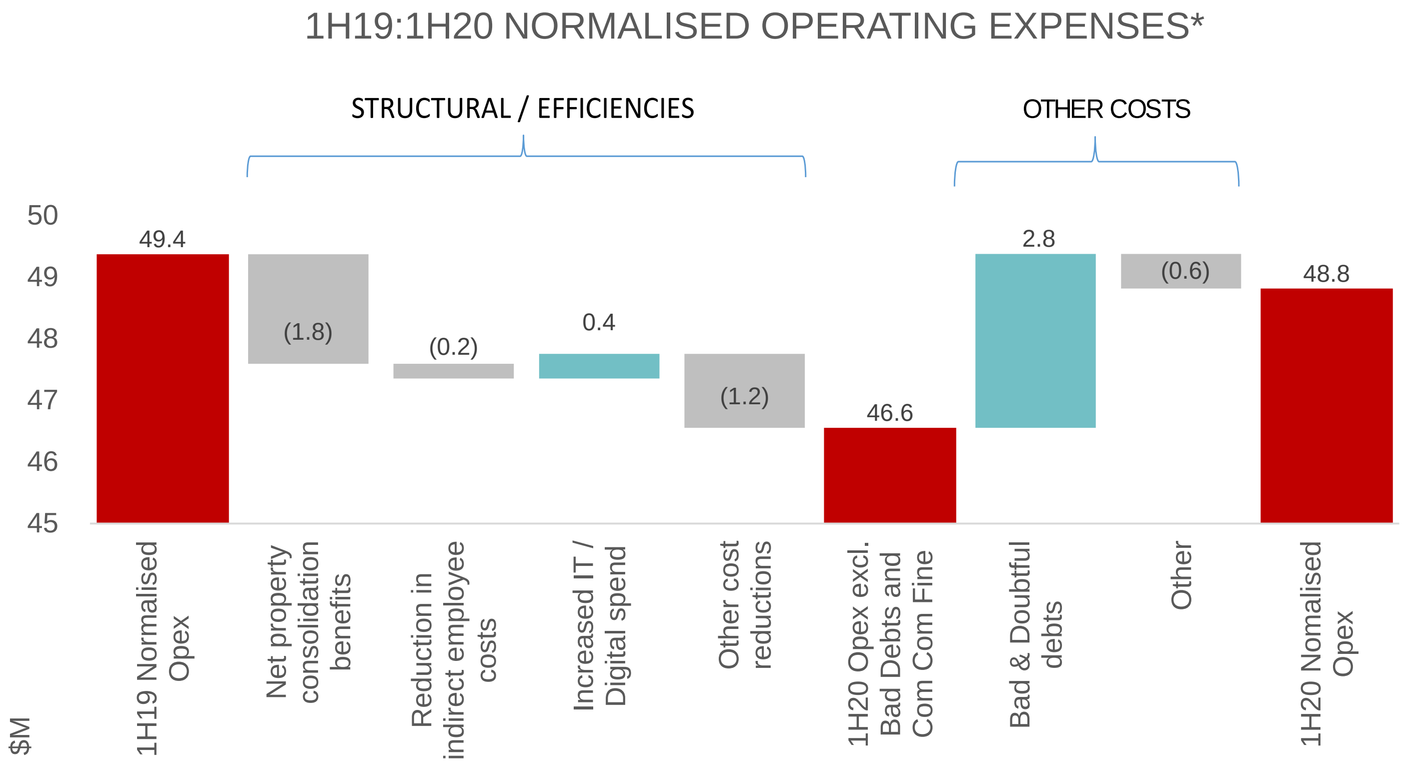
**1H19 excludes S&T Plastics*

- Decline in vertical construction activity impacted both divisions
- Contraction in Stainless market impacted Distribution
- Market share maintained and margins held at approximately 22%

OPERATING EXPENSES

Cost efficiencies continue to be achieved in underlying opex

- $2.8m decrease in underlying opex after normalisation and excluding impact of bad debts
- Property costs down $2.3m, partially offset by $0.5m rent increases
- Employee costs down $0.8m, largely offset by $0.6m wage inflation. Benefits from 1H20 restructuring expected to increase in 2H20



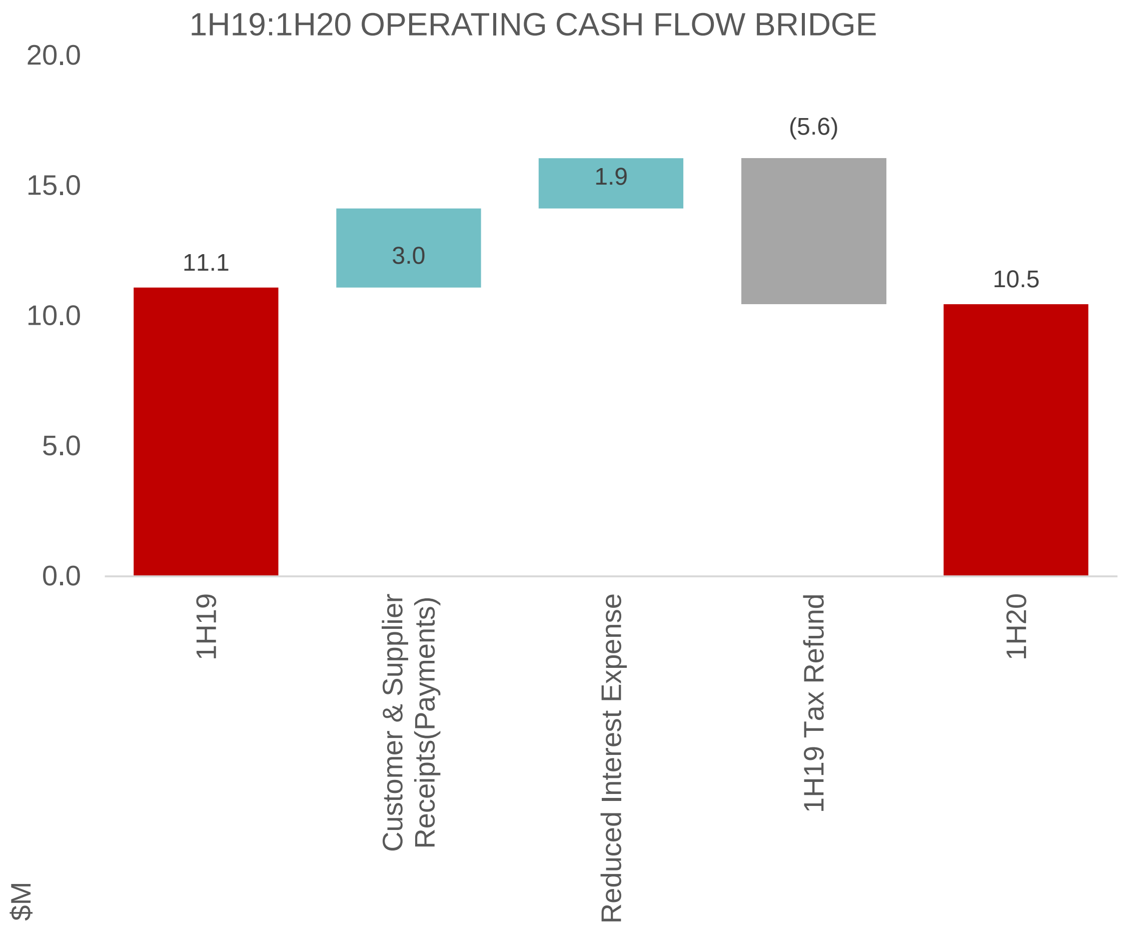
* Opex figures have been normalised to exclude the impact of NZ IFRS 16, as well as $39.1m in non-trading adjustments being $(2.0)m restructuring and relocation costs and a non-cash goodwill impairment of $(37.1)m

OPERATING CASH FLOW

Improved operating cash flow generation

$millions	1H20	1H19
Reported net operating cash flow	17.1	11.1
NZ IFRS 16 cash flow reallocations	(6.6)	-
Pre-NZ IFRS 16 operating cash flow	**10.5**	**11.1**

- Improved operating cash flow of $10.5m on a pre-NZ IFRS 16 basis
- Cashflow has benefitted from improved working capital management
- Reduced interest expense due to refinancing completed in 1H19
- Prior year 1H19 cash flow included the benefit of $5.6m tax refund



WORKING CAPITAL

Continued focus on working capital management

Working Capital KPIs	1H20	1H19	FY19	FY18 Excl. Plastics
Trade Receivables: DSO	43	48	48	65
Inventories: DIO	111	124	107	110
Trade Payables: DPO	30	26	26	26

- Continuing focus on working capital management has resulted in strong operating cash flow generation of $10.5m on a pre-NZ IFRS 16 basis
- Debt collection rates have continued the year-on-year improvement trend seen from 2H19
- Inventory $120.0m (FY19: $114.0m / 1H19: $123.8m) - increase in inventory value during period due to the timing of orders around Chinese New Year to ensure core stock availability, the impact of cost increases and lower sales volumes.

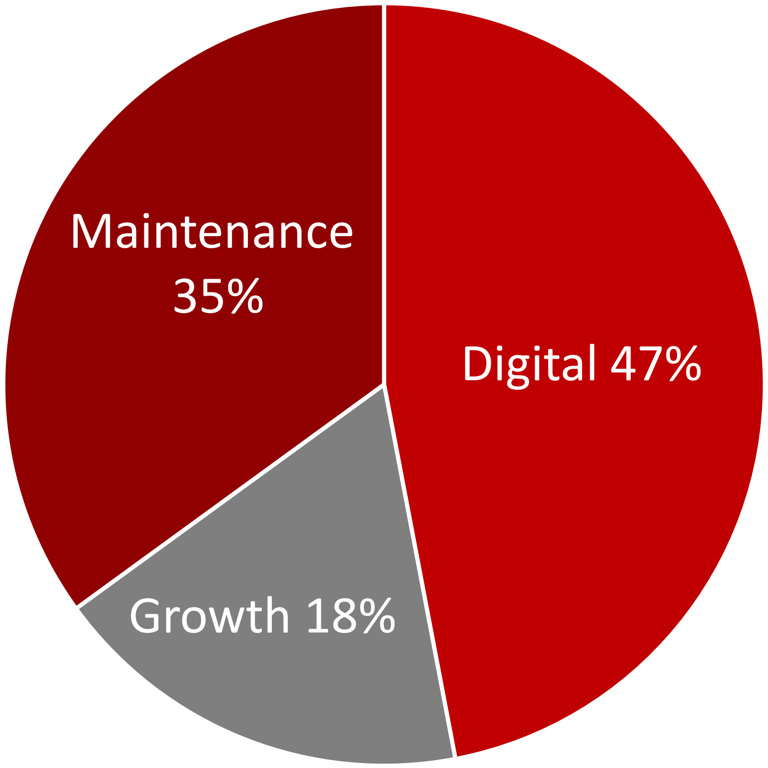
DSO: Days Sales Outstanding DIO: Days Inventory Outstanding DPO: Days Payable Outstanding

CAPITAL EXPENDITURE

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

- $3.9m 1H20 Capex spend (1H19: $2.9m)
- Capital spend remains in line with depreciation and amortisation
- Increased capital allocation to Digital and Growth projects
- Funded through operating cash flow

CAPEX SPEND



BALANCE SHEET

Tight control over balance sheet, with disciplined focus on working capital management

- Working capital improvements strengthening cash flows
- Reduction in net debt to $10.9m from operating cashflows
- Gearing ratio of 5.4%

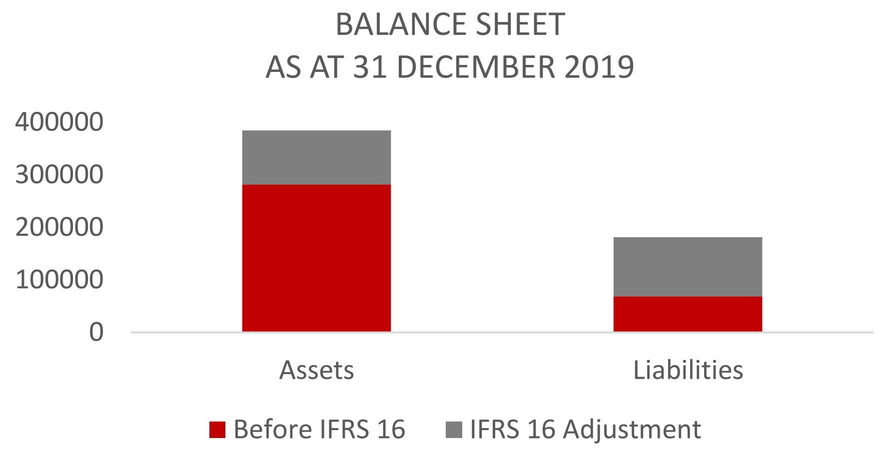
Dividend

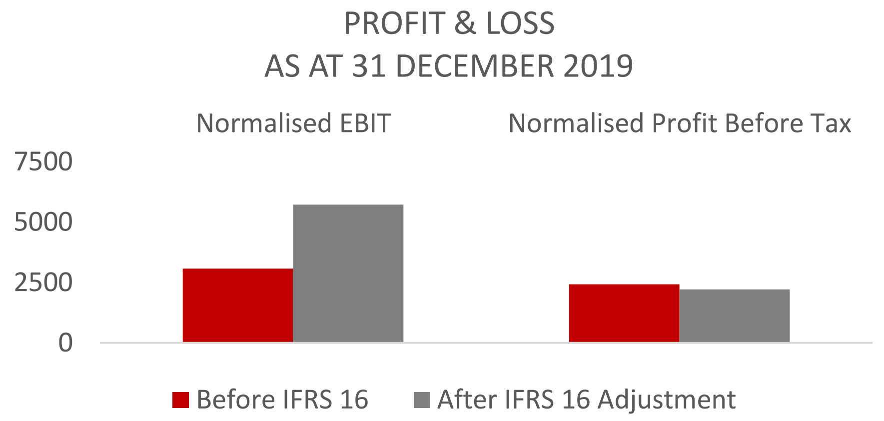
- Board has declared an interim 1H20 dividend of 1.5 cps

$m	1H20	1H19	FY19
Trade and other receivables	74.1	84.1	90.7
Inventories	120.0	123.8	114.0
Trade and other payables	(36.7)	(44.9)	(42.9)
Working Capital	**157.4**	**163.0**	**161.8**
Cash and cash equivalents	13.1	8.0	9.0
Borrowings	(24.0)	(24.0)	(24.0)
Net Debt	**10.9**	**16.0**	**15.0**

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
- 1H20 resulted in an increase to reported EBIT of $2.6m and a decrease to reported NPAT of $0.2m





2H20 TRADING UPDATE

Priority is customer service and streamlining business leading to profitable growth

- No major changes to current market dynamics expected
- Some indications of improving business confidence should lead to increased market activity in 2H20. Major projects secured post balance date are expected to commence in 2H20
- Sales and margin improvements targeted through maximising cross-selling opportunities, pricing disciplines and leveraging the AX ERP system to support customers with digital solutions
- Continue to take actions to streamline the business operating model
- Coronavirus has the potential to impact on site operations, customer demand and the timing of projects and some of Steel & Tube's suppliers. To date there has been no significant impact on the business and the Company has plans to take mitigating actions where possible. This will continue to be monitored.
- Improved second half performance expected (cf 1H20) as Steel & Tube benefits from cost efficiencies and overhead reductions, Project Strive initiatives and the commencement of new contracts

QUESTIONS

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 1H20 include a number of unusual transactions, considered to be non-trading in either their nature or size. These transactions are excluded from normalised earnings. The reconciliation is intended to assist readers understand how the earnings reported in the Financial Statements for the year ended 31 December 2018 and 31 December 2019 reconcile to normalised earnings. Non-trading adjustments of $(0.1) million and $(39.1) million were included in the 1H19 and 1H20 results respectively. Steel & Tube's unaudited reconciliation of non-GAAP measures to GAAP measures for the six month financial period ended 31 December 2019 is detailed in the following table.

RECONCILIATION OF GAAP TO NON GAAP MEASURES Half Year ending 31 December 2019 $000s	IH20	1H19
GAAP: Earnings/(Loss) before interest and tax (EBIT)	(33,370)	9,819
Add back unusual transactions (non-trading adjustments):		
Impairment of Goodwill	37,071	-
Project Strive Execution Costs	2,029	-
S & T Plastics EBIT (no longer contributing to trading EBIT)	-	(144)
Normalised EBIT - Non - GAAP	5,730	9,675

GLOSSARY OF TERMS

EBIT: This means Earnings/ (Loss) before the deduction of interest and tax and is calculated as profit for the year before net interest costs and tax. 1H20 EBIT was impacted by a number of non-trading adjustments totaling $(39.1) million, details of which are included in S&T's Interim Financial Statements.

Non-trading adjustments include:

- **1H20 Impairment of Intangible Assets:** Steel & Tube incurred $37.1m of non-cash Goodwill impairment charges in 1H20 following an assessment of the carrying value against recoverable amount as at 31 December 2019.
- **1H20 Project Strive Execution Costs:** Includes non-trading restructuring and site relocation costs incurred in reviewing and streamlining operations.
- **1H19 S&T Plastics:** Steel & Tube announced it was exiting its Plastics business in May 2018 and wrote-down the value of assets. The financial results of this business has been excluded from 1H19, which has also excluded a small gain realised from disposal of assets.

Normalised EBIT: This means EBIT after normalisation adjustments.

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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