



2015 FY Update

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August 2015

Disclaimer

This presentation, August 2015, provides additional comment on Steel & Tube's financial results announcement for the period ending 30 June 2015. It should be read in conjunction with the documents attached to that announcement, which highlight future outlook expectations of earnings, activities and market conditions.


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Financial Highlights

- ✓ Revenue: \$502m – up \$61m or 14%
- ✓ After-tax profit: \$21.4m – up \$3.5m or 20%
- ✓ EBIT: \$33.3m – up \$6.5m or 24%
- ✓ Net operating cash flow: \$23.9m – up \$11.6m or 94%
- ✓ Net tangible assets per share: \$1.59/share – up 4c or 2.5%
- ✓ Final dividend: 10c /share

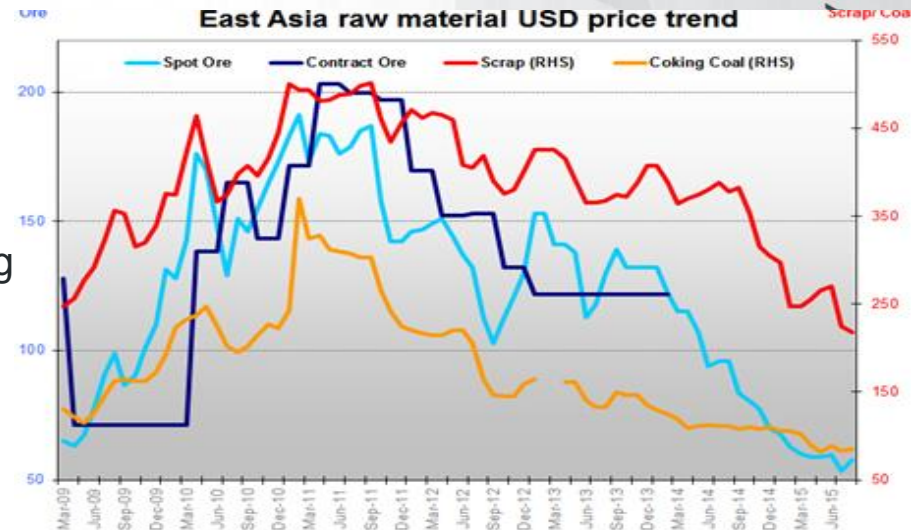
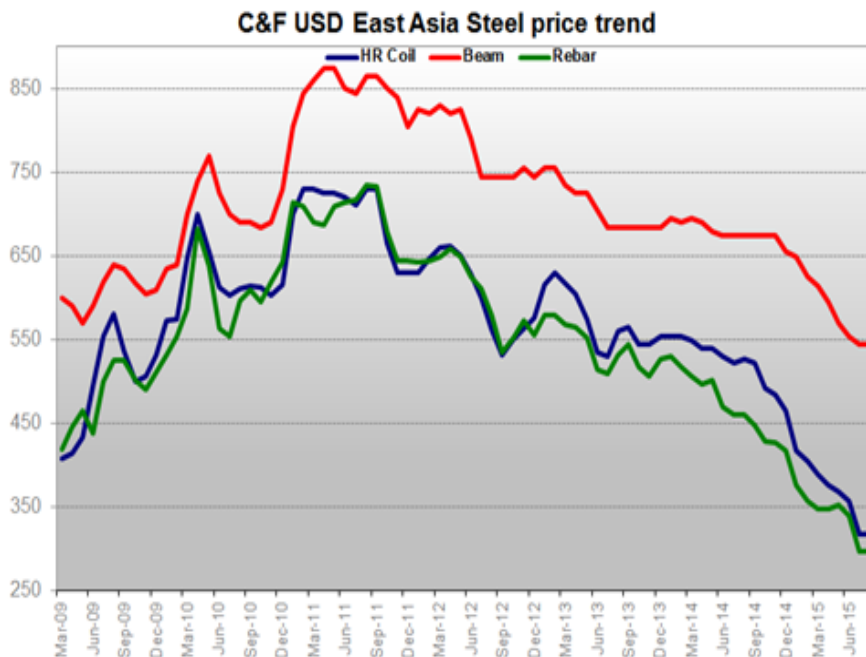
Performance Summary

- ✓ A strong first half aided by robust growth across most sectors
- ✓ In the second half, despite moderating demand and significant softening in Asian finished steel prices, average prices held
- ✓ Strong cash flows with good controls on inventory and debtor management
- ✓ Delivered 3 new facilities, improved ICT communications as part of the \$30m investment plan
- ✓ S&T Stainless meeting expectations
- ✓ MSL fastenings business acquired 3 August 2015

Global markets

Steel and raw material price movement

- Emerging markets, notably China, that led to heavy investment in raw material and steel production capacity have slowed
- Consequently raw material production capacity outweighs demand and ore prices are oscillating around six year lows
- Likely to continue with new Brazilian capacity due on stream next year



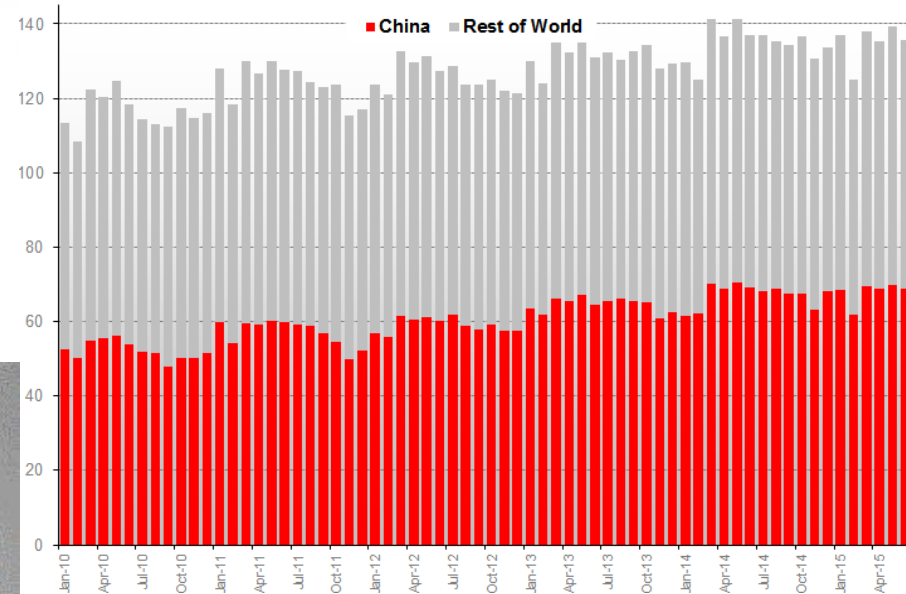
- Significant Chinese steel exports coupled other Asian Mills keen to find volume leads to discounting
- This along with very low raw material costs, has significantly impacted finished steel prices – 10 year lows for Asian finished steel prices
- Negated to some degree by the NZD

Global markets

Steel production

- Global steel output has remained steady with China still accounting for almost half of the world's production
- Chinese output is also steady despite the reduction in demand

Global crude steel monthly production (tonnes million)



Chinese Monthly Steel Imports and Exports



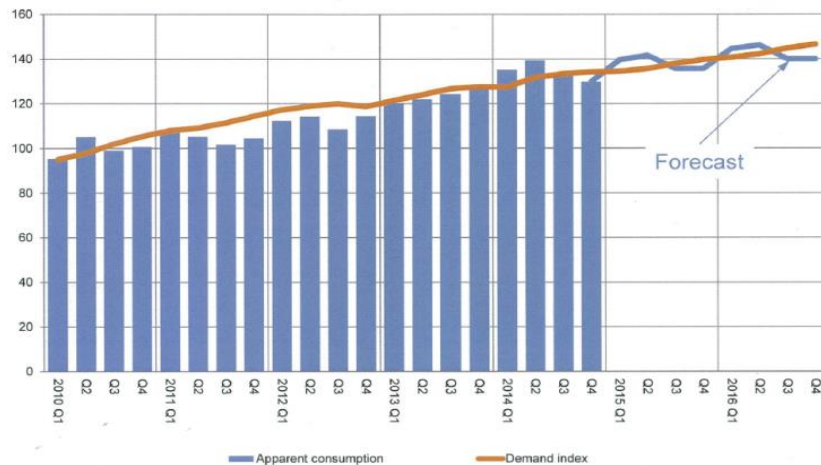
- With soft domestic demand Chinese steel exports increased to 94m tonnes in 2014, an increase of 50% over 2013
- This has continued into 2015 leading to many jurisdictions implementing anti-dumping legislation
- And a key factor in the soft finished steel prices

Global markets

Stainless steel prices and production

- Production continues to steadily increase
- Led by China – a major producer/ exporter/ consumer
- Global demand also steadily increasing
- Prices correlate closely with nickel prices which remain volatile trending down
- Recent fall in prices has been moderated domestically by the NZ dollar

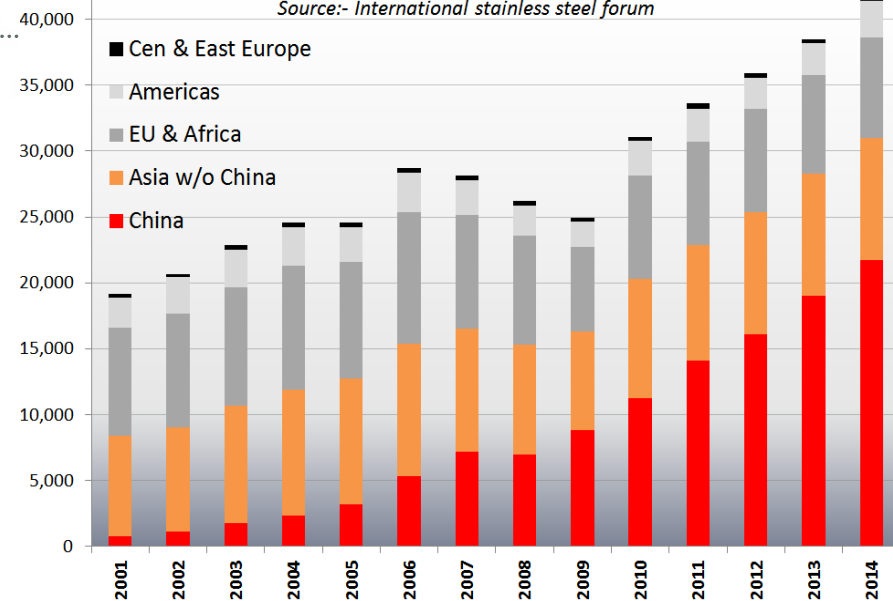
Global consolidation
Stainless steel all products apparent consumption and demand index development [2010=100]



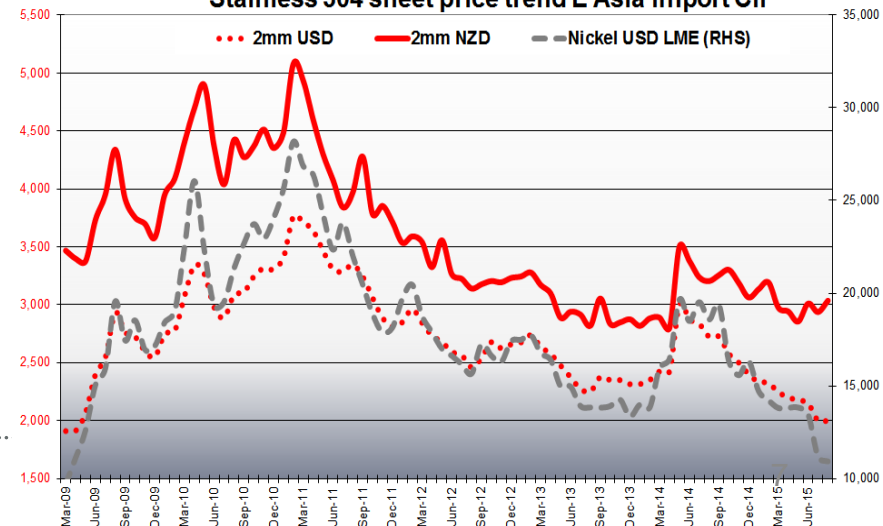
Source: Steel Businesses Briefings and International S - 150528_SACF_Public.pdf
Stainless Steel Forum

Global stainless crude steel annual production '000 tonnes

Source:- International stainless steel forum

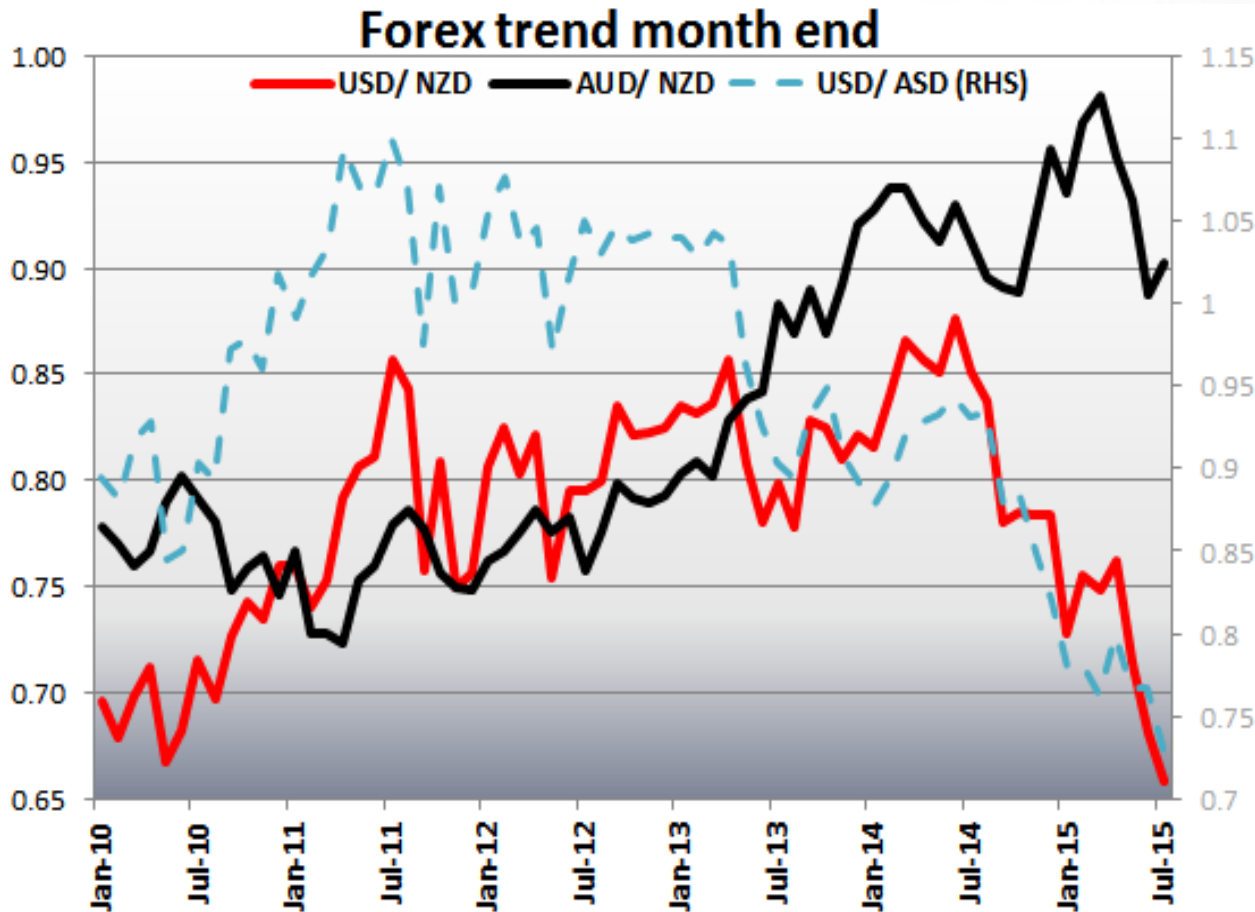


Stainless 304 sheet price trend E Asia Import CIF



Global markets

Exchange rates



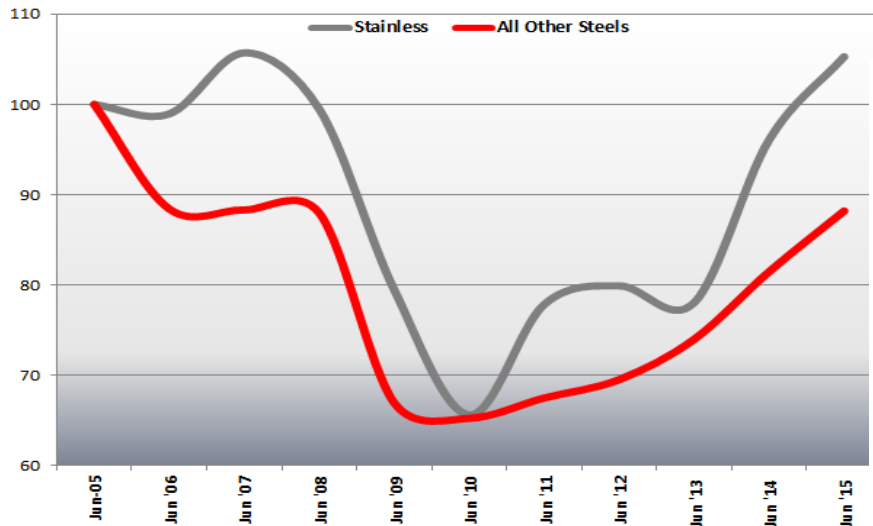
- Significant depreciation in recent months
- This has effectively off-set the softening in finished steel prices
- Compounds the finished products' pricing uncertainty

New Zealand markets

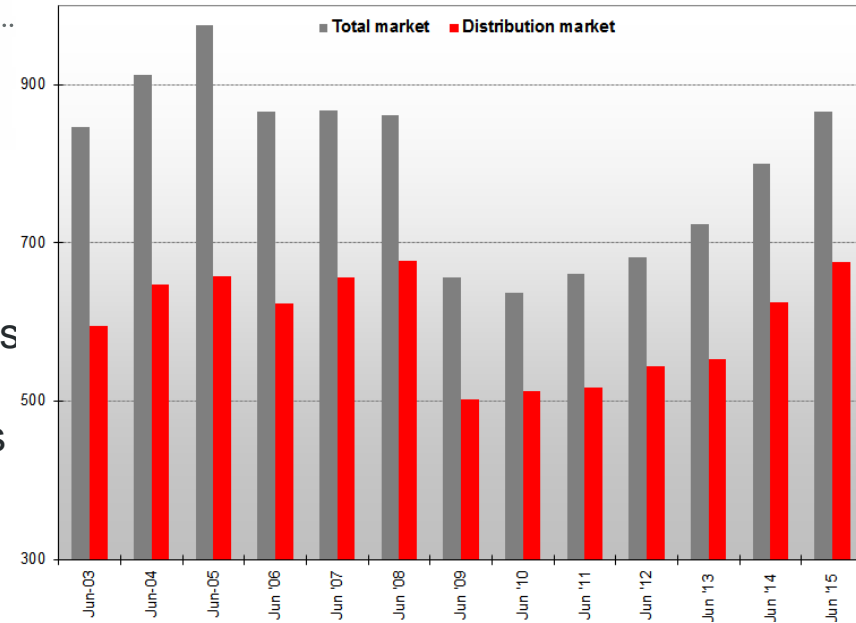
Steel volumes

- Steel demand is steadily increasing led predominantly by construction related-products
- Steel intensity has also increased following earthquake to strengthen structures
- Stainless steel growing faster than carbon steels following post GFC
- Fastenings market also growing and was not as affected by GFC

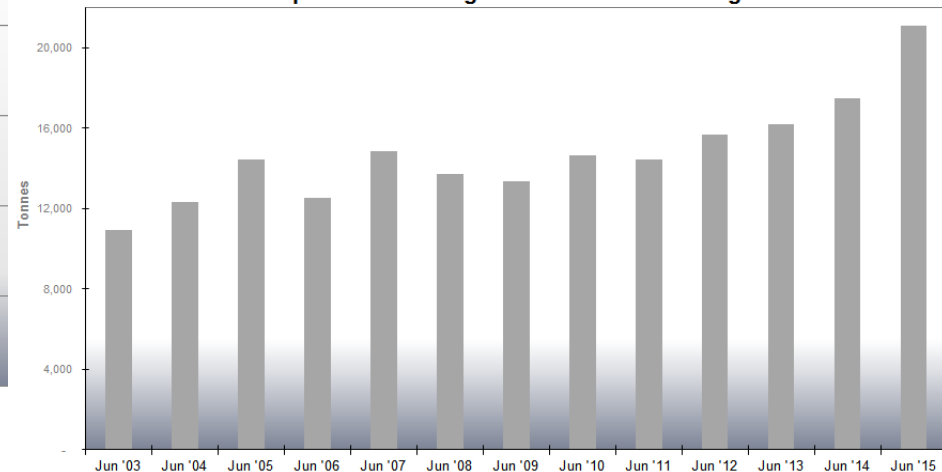
Indexed consumption trend of stainless steel in NZ



Estimated annual New Zealand steel market- Tonnes '000



Imported Fastenings Market for Year ending

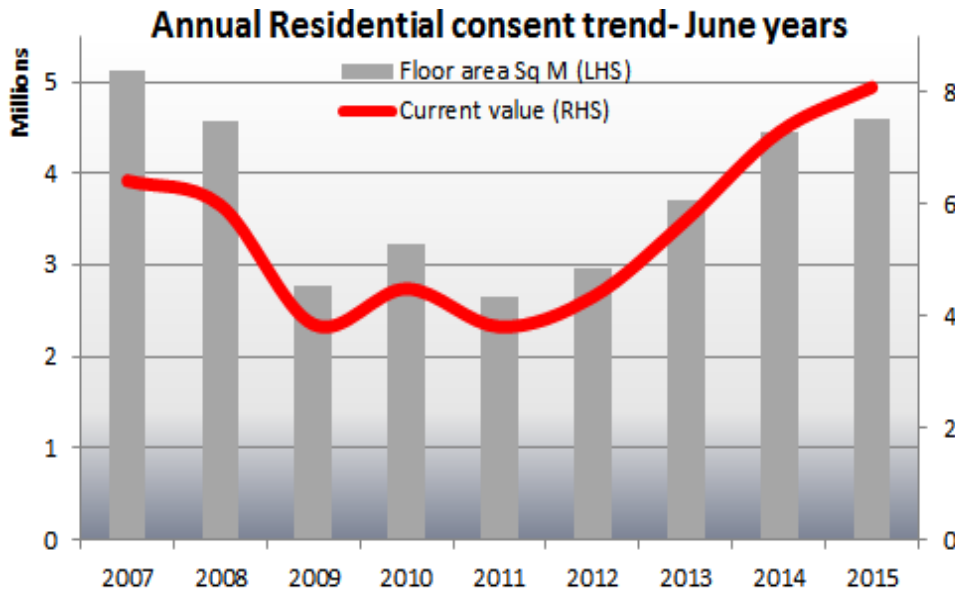
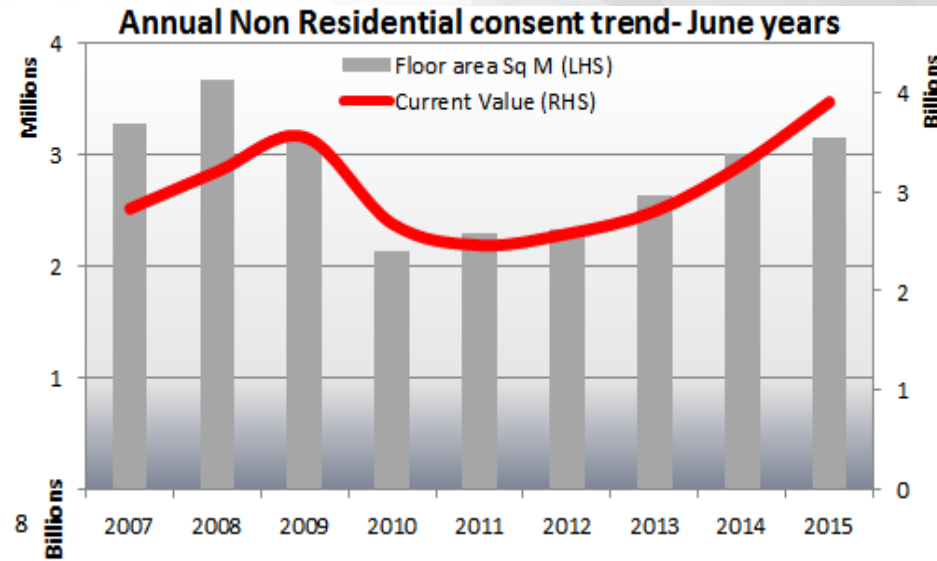


New Zealand markets

Key sector trends – building consents (\$m & square meters)



- Year to June 2015 **Non Residential** building consent values increased by 19% compared to 2013-14
- With respect to square meters the increase was 5%
- Auckland & Christchurch continue to lead the way



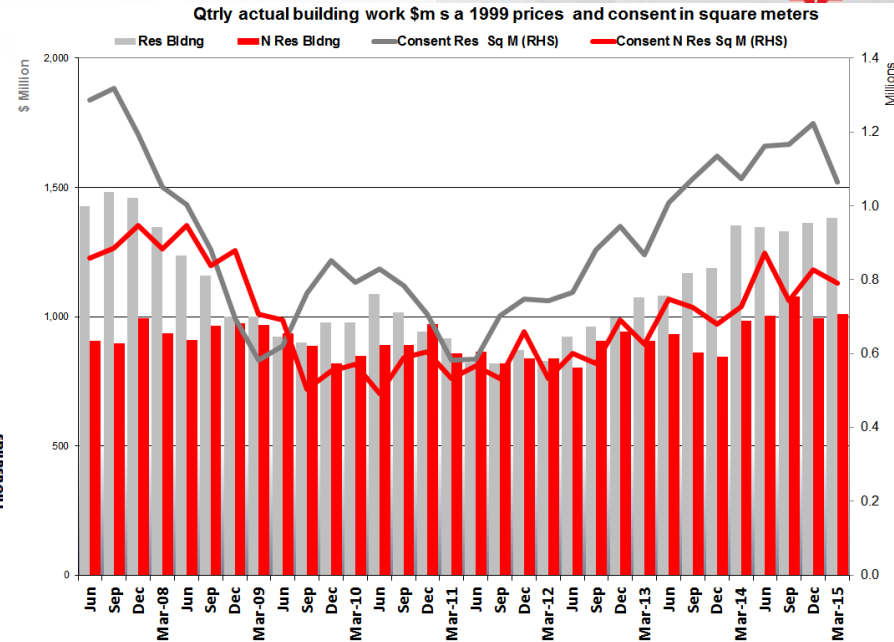
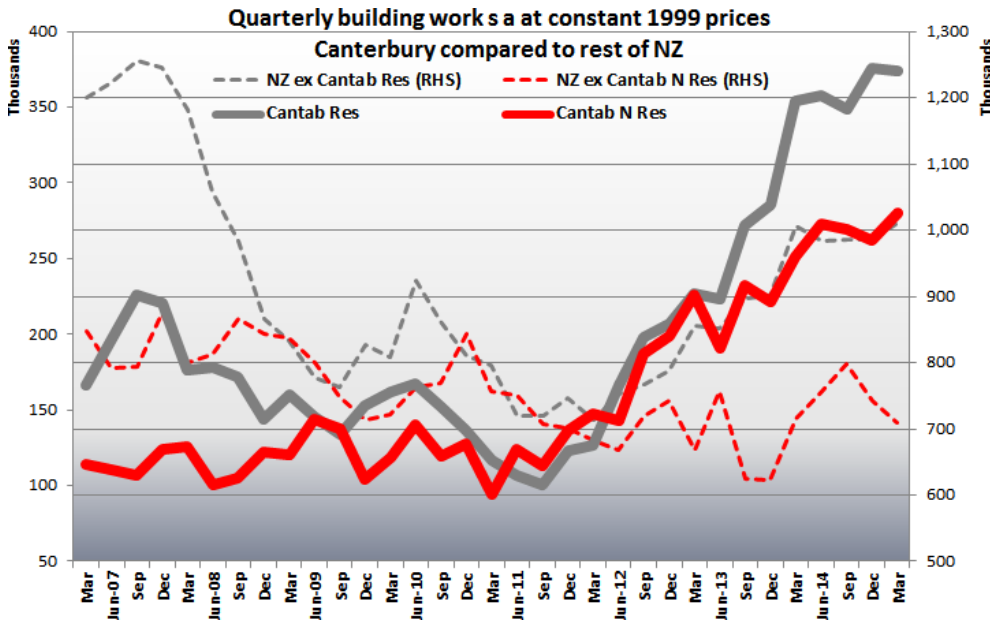
- Year to June 2015 **Residential** consent values increased by 11% compared to 2013-14
- With respect to square meters the increase was 3%
- Christchurch and Auckland again continue to lead



New Zealand markets

Key sector trends – actual building work (\$m quarterly)

- **Non-Residential** work volumes increased by 13% over the year ending March 2015
- Led by Canterbury, which increased by 21%



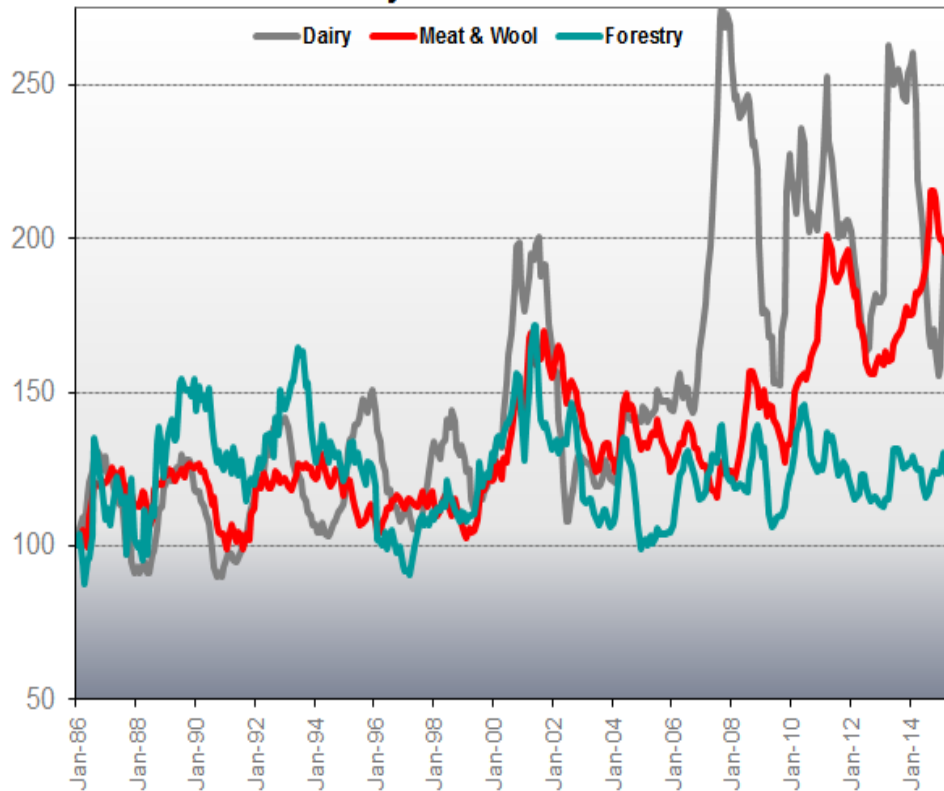
- **Residential** work volumes also increased by 13% during year ending March 2015
- Again led by Canterbury at 28%



New Zealand markets

Key sector trends – rural

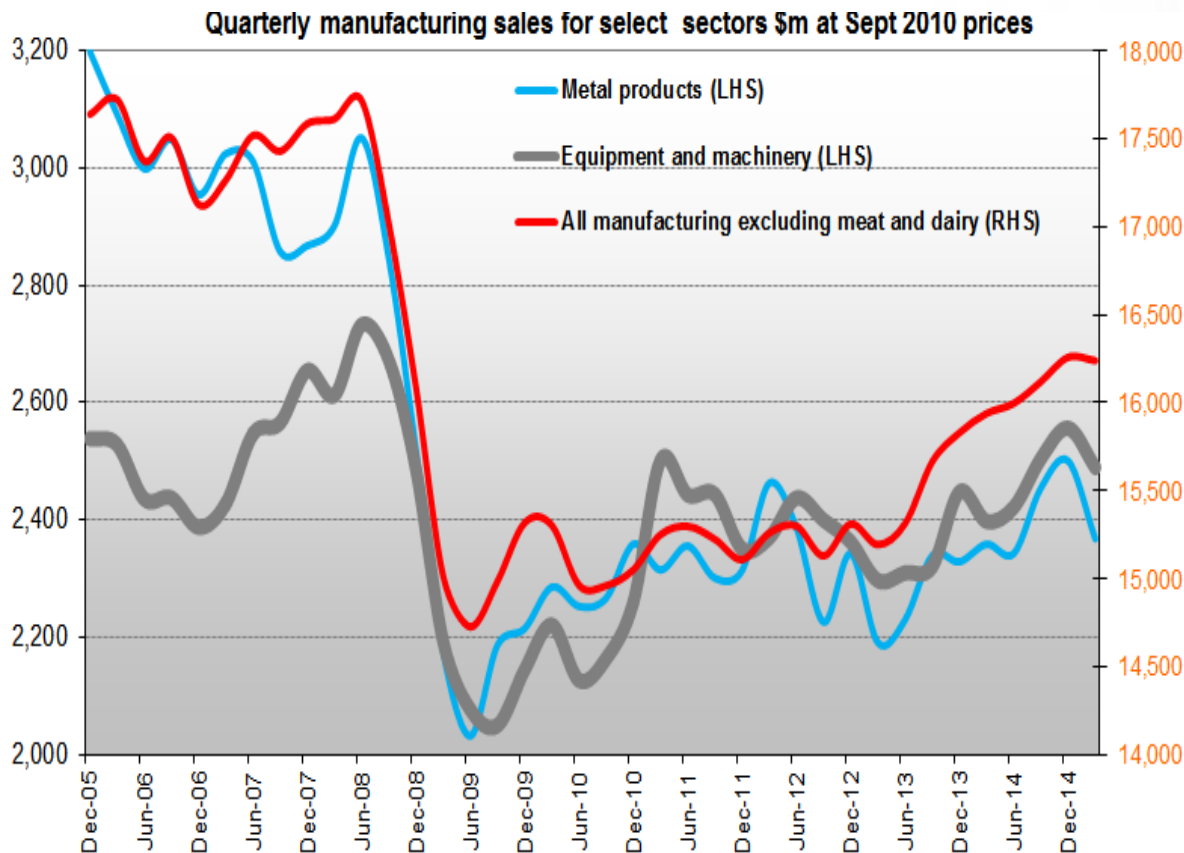
NZD Commodity Price Index-Jan 1986 base



- With international dairy prices in free fall, pay-out for the 2014-15 season was reduced to \$4.40 excluding dividend
- With excess global capacity chasing poor Chinese demand and Russian embargo, It is expected that pay-out during the following year will remain depressed
- The reduced pay-out had a \$6b effect on the rural economy which will start having some effect this year in terms of spending and debt servicing as well as slowdown in dairy processing facilities
- Meat and wool prices while volatile, seems to be on an upward trend and a space to watch

New Zealand markets

Key sector trends – manufacturing (\$m)

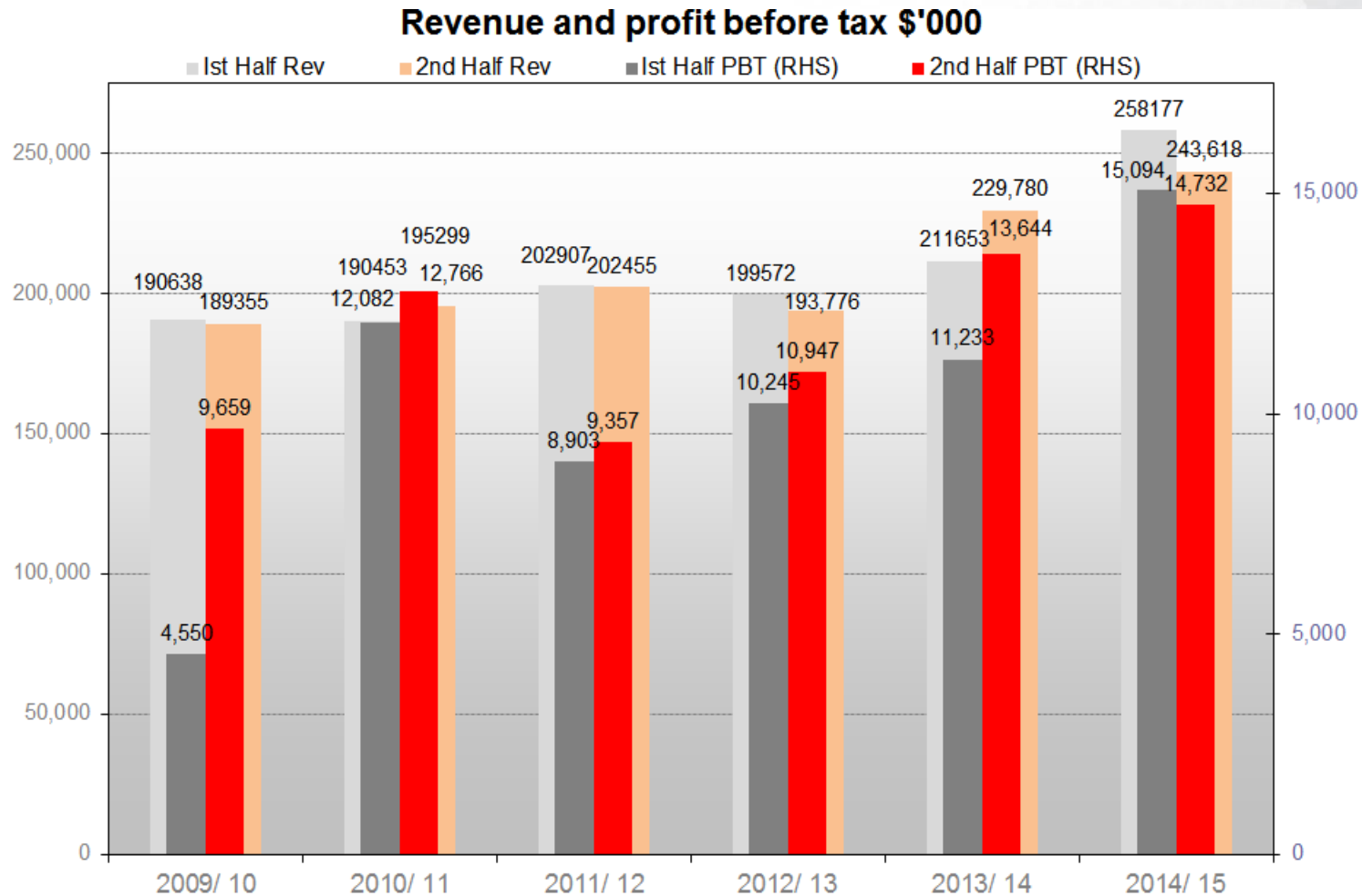


- Generally noticeable volatility from quarter to quarter, however good solid growth thro' the first half
- However activity levels dropped in the second half for both metal, and equipment and machinery manufacturers

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Business performance – revenue and profit

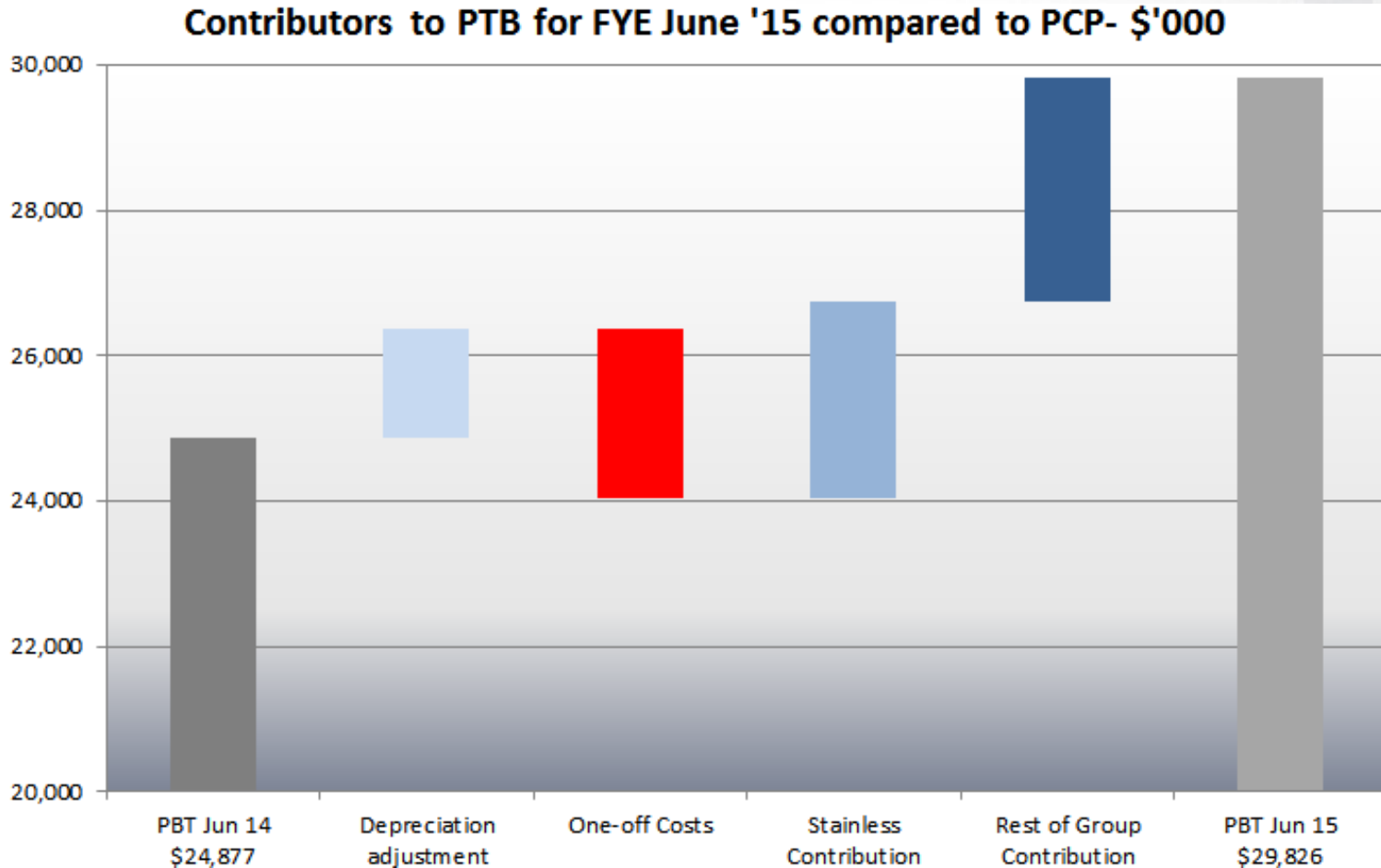
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Business performance – key profit contributors

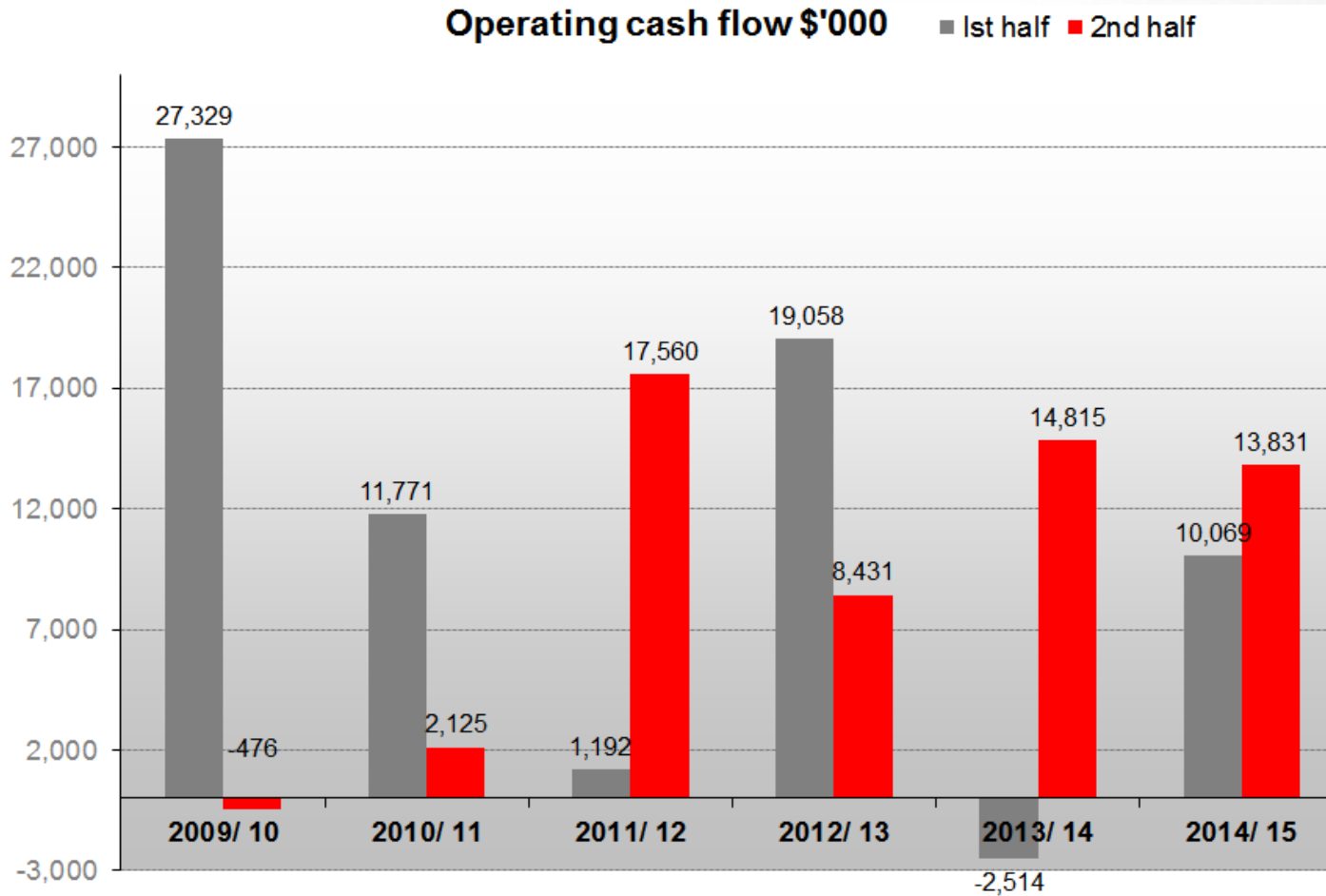
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Business performance – operating cash

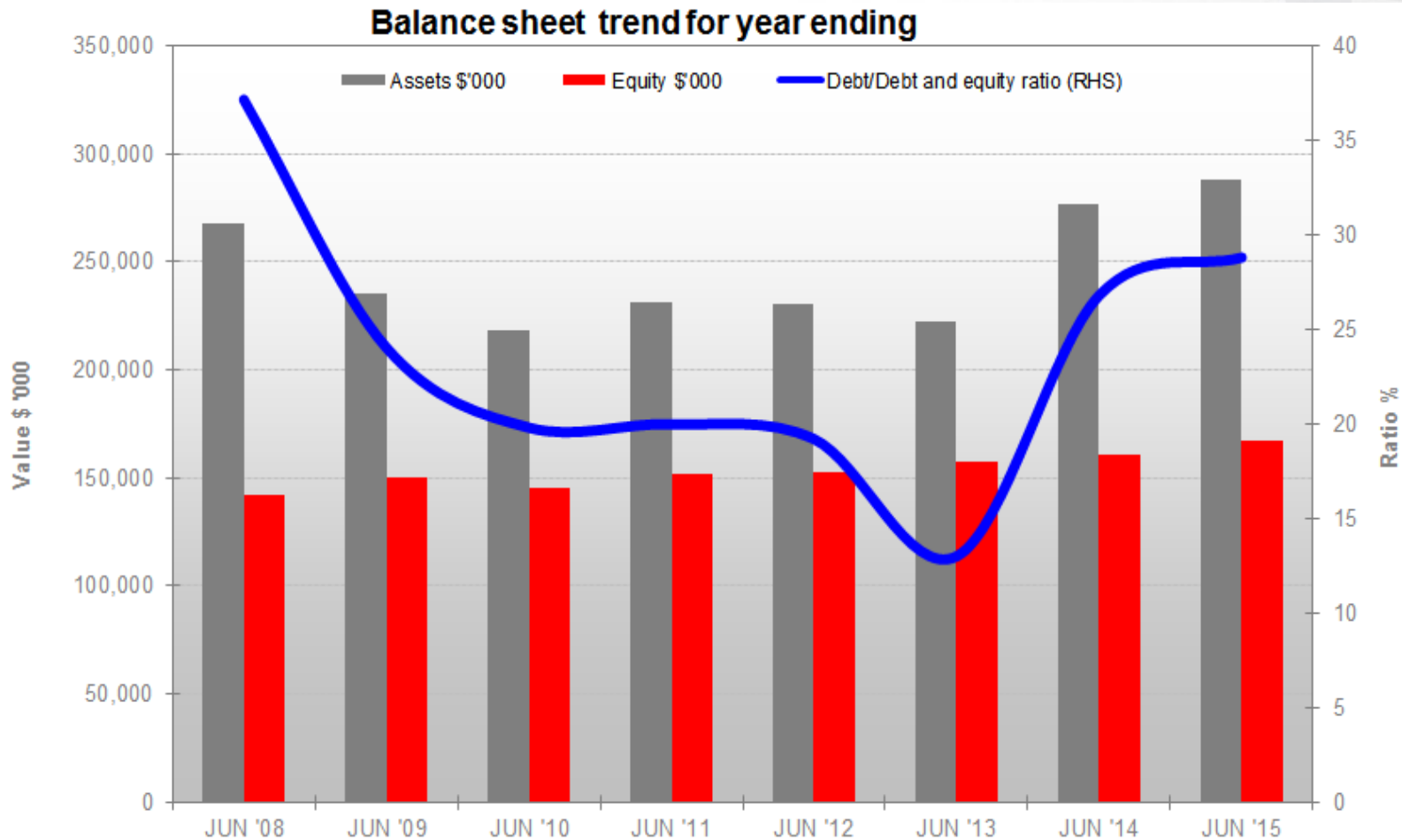
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Business performance – balance sheet and gearing

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Notes to the Financials

- Changes to estimated life of assets:
 - Review of “heavy machinery”
 - Machinery estimated life increased from 10 to 20 years; machinery electronics decreased from 10 to 3 years. Applied prospectively only
 - Financial impact: reduction in depreciation \$1.5m for full year
- \$110m funding facilities in place November 2014, increased to \$154m for MSL acquisition July 2015:
 - BNZ/HSBC \$78.5m two-year rollover; \$74.5m three-year rollover; all non-current
 - Blend of trade finance and cash advance facility
- Lewis Holdings litigation: unfavourable decision for S&T. Quantum hearing 23 June, award not yet determined. Appeal lodged.
- Land & Buildings market value \$60m, carrying value \$23.5m

S&T Stainless evolution

Delivering on the opportunities

- S&T Stainless operates as a separate front-end business but with very close links to the rest of S&T
- Integration has progressed very well and inline with expectations
- Cost and procurement synergies on target. Full delivery dependent on systems integration as previously indicated
- COMFLOR has a strong market presence and continues to benefit from growing construction activity and S&T relationships

Steel & Tube

Business initiatives

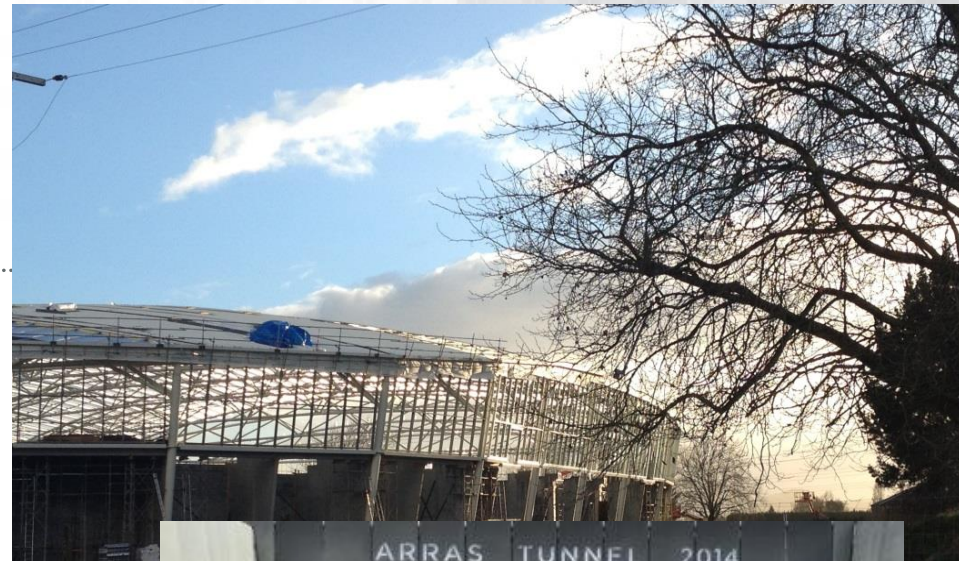
- Ongoing reinvigoration and includes the completion of three new purpose-built facilities
 - **Palmerston North** brings Processing, Distribution and Stainless operations under one roof. Opened November 2014
 - **Savill Drive** will augment processing capability and efficiency. Opened May 2015
 - **Highbrook** Coil Processing and Purlins create a flat rolled coil processing and rollforming 'hub'. Operational July 2015
 - Key ICT projects underway to enhance customer interactions and service
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Steel & Tube

Making New Zealand Stronger

- S&T's One Company offering, technical expertise and innovative solutions contribute to New Zealand's commercial, infrastructure, cultural and leisure projects:
 - **Waikato:** Avantidrome, home of cycling
 - **Wellington:** Arras Tunnel, Pukeahu National War Memorial Park complex
 - **Regional:** Len Lye Arts Centre, New Plymouth
-



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Outlook

- The New Zealand's economy continues to moderate having peaked in 2014 and now facing some challenges, particularly Dairy and aligned industries
- This is impacting overall business sentiment
- World steel demand remains soft and with oversupply in both raw materials and finished steel, prices are likely to remain soft
- A depreciating NZ dollar will continue to help domestically
- S&T remains focussed on delivering the key initiatives that are reshaping the business
- The new acquisition will strengthen and add to S&T's range of products, services and capabilities
- Acquisitions will help offset the impact of the slowing New Zealand economy and the on-going softness in global finished steel prices

MSL

Background

- Began in New Lynn in 1980
 - Eight branches nationwide, each with fully-stocked warehouses:
 - Auckland (Avondale)
 - Albany
 - Hamilton
 - Mt Maunganui
 - Hastings
 - New Plymouth
 - Palmerston North
 - Wellington
 - Christchurch
 - Employs approx. 100 people
 - Fortress brand was introduced in 1997
 - Now a market leader with a reputation for quality and reliability
 - Highly recognisable, strong following within the building industry
 - Stocked by all major hardware retailers
-



MSL

Strengths

- One of New Zealand's largest fastenings businesses
- 10,000 product lines
- Industry knowledge
- Trained sales team
- Nationwide distribution network
- Strong brand
- Merchandising and marketing expertise



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Opportunities

- **Procurement** – combined purchasing power
- **Transport / logistics** – shared costs create value
- **Shared inventory** – cross-selling between businesses
- **One Company** – enhanced ability to source and supply complete project requirements
- **Stand-alone business** – adds competitive strength
- **Best-in-class** – strong brand recognition, excellent product
- **Complementary offerings** – build on existing customer relationships

Thank you

