



2017 HY Update

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February 2017



Disclaimer

This presentation, February 2017, provides additional comment on Steel & Tube's financial results announcement for the period ending 31 December 2016. 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 – H1 ending December 2016

- ✓ Revenue: \$254m – down \$11m or 4%
- ✓ Profit before Tax: Underlying \$14.6 m – up \$ 0.5m or 4%
- ✓ EBIT Underlying: \$16.1m – up \$0.3m or 2%
- ✓ Net operating cash flow: \$14.0m – up \$4.7m or 50%
- ✓ Net tangible assets / share: \$1.49c – down \$0.10
- ✓ Net debt: \$114.8m – up \$17.5m
- ✓ Dividend / share: 9 cents/share – consistent


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Overview H1 2017

Improving performance in variable markets



Global Markets

- Global steel prices firming, following significant increases to key input costs; iron ore, coking coal and international freight. Volatility expected to continue
- Excess capacity in both raw materials and finished steel remains with Chinese commitment to remove excess/aged steel making capacity and coal mines
- Anti-dumping legislation continues and Chinese exports reduced by 3%

Local Markets

- NZ volumes 860 tonnes, compared to 980 tonnes in the last construction peak
- Construction buoyant however activity variable
- Manufacturing remains resilient
- The rural sector has indicated renewed investment due to higher dairy payout, optimism returning, other rural sectors positive

Operating Performance Impacts

- Domestic market increasingly more competitive
- S&T's focus aimed at improving margins
- Preparing S&T Plastics for new contract commitments
- Overhead reduction through restructuring
- Ongoing investment to update capabilities including Composite Floor Decks Ltd acquisition

Overview H1 2017

Operating performance



Quarter 1 Price Increase

- Despite global pricing increasing, NZ pricing proving difficult to shift up
- Inconsistent behaviour from competitors
- Reinforcing prices at multi-year lows despite construction activity
- S&T's focus on pricing and margins saw margins increase; 22.7% - 25.4%
- With global steel prices firming, new price increase February 2017

Volumes and Market Share

- Remain on track with strategic targets
- Volumes and share retained in most product categories
- Short term price and margin focus led to some volume impact and loss of share particularly in Reinforcing and commoditised steel products
- Volume loss is primarily in low margin product
- Monitoring closely to achieve optimum outcome

Managing costs

- Business restructuring. H1 costs of \$800k with annualised benefits of \$2.8m
- Costs: resolution of quality issues, litigation and M&A activity \$2m.
- Preparing S&T Plastics for new contract commitments impacted EBIT by \$1.6m

Overview H1 2017

Continued rejuvenation



Building Capability

- Leverage capabilities across all parts of S&T
- Ongoing L&D investment
- Bench strength continues to improve

Facility upgrades

- New Dunedin facility to open February 2017
- Christchurch Distribution facility re-development \$10m, early 2018
- Christchurch Processing facility – Goodman facility, opening late 2017

ERP

- Pilot “go-live” occurred 3 October 2016
- Implementation proceeded as expected, initial issues, but nothing fundamental
- Good feedback for the rest of the business go-live, which is aimed for April-June 2017

Inventory

- Selective procurement at end of H1 in anticipation of price increase
- Stock weeks remain at 13~14, despite higher stock weeks from Stainless and MSL businesses offsetting reductions in other parts of the business
- SKU rationalisation continues ~90,000 to 55,000 (excluding MSL)

CFDL Acquisition

- \$15.9m (incl. \$3m earn-out)
- Expected Annual revenue \$22m, EBIT \$4.5m~\$5m

Overview H1 2017

Acquisitions



S&T Stainless	<ul style="list-style-type: none">• Continues to outperform acquisition expectations• Comflor business reflects growth in construction activity• Stainless & Engineering steels consistent with overall market• Pilot for ERP, insight and learnings for the remainder of the Group
MSL	<ul style="list-style-type: none">• Continues to perform well and will exceed business case revenue in F17• Benefitting from competitor closures
S&T Plastics	<ul style="list-style-type: none">• Longer term strategic investment; reflects significant upgrades required to NZ “water infrastructure”• Focus on preparing the plant for the next tranche of schemes• Remedial activity, higher than expected (H1 impact \$1.6m)• Resourced with experienced plastics capability• Significant commitments awarded for 2017-18 currently at \$27m
CFDL	<ul style="list-style-type: none">• On track to deliver business case earnings• Significant synergies with other parts of S&T business• Annualised revenue ~ \$22-\$23m, EBIT \$4.5-\$5m
Integration savings	<ul style="list-style-type: none">• ERP platform for back-office integration and business enabler• Inventory and warehouse management to be aligned, commencing late 2017• Synergies already achieved: ‘One Company’, supply chain, freight rationalisation, etc.

Overview H1 2017

Product conformance



Commerce Commission & SE 62 Mesh

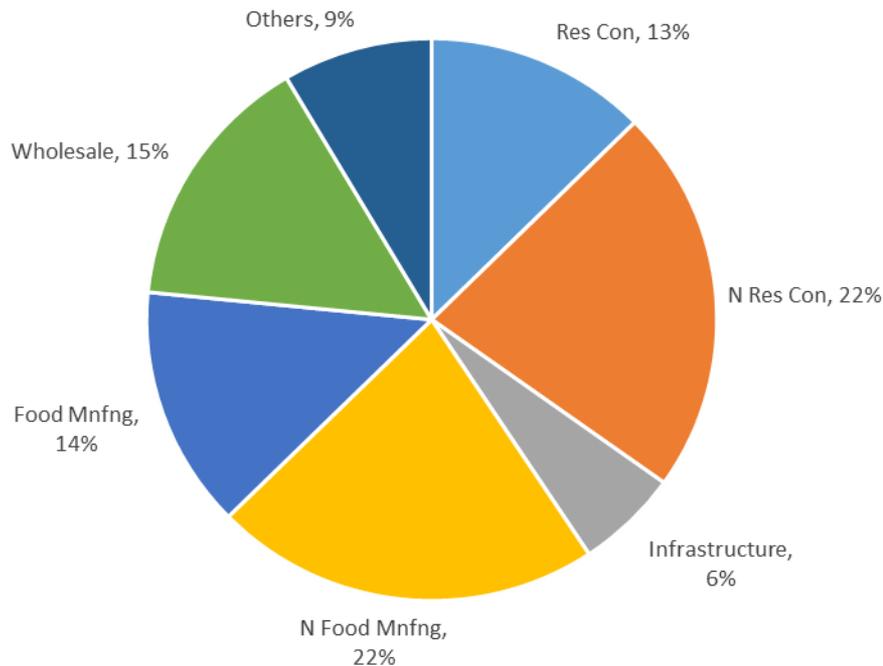
- CC investigation, 3 companies to be prosecuted and 2 others issued warning
- CC intends to prosecute S&T for the inadvertent use of a testing laboratory logo, and for S&T application of the testing methodologies under the standard
- Prosecution does not relate to the performance of the mesh product
- All S&T mesh is now tested by IANZ accredited laboratories
- Class action – no direct contact with promoters

New Zealand Markets

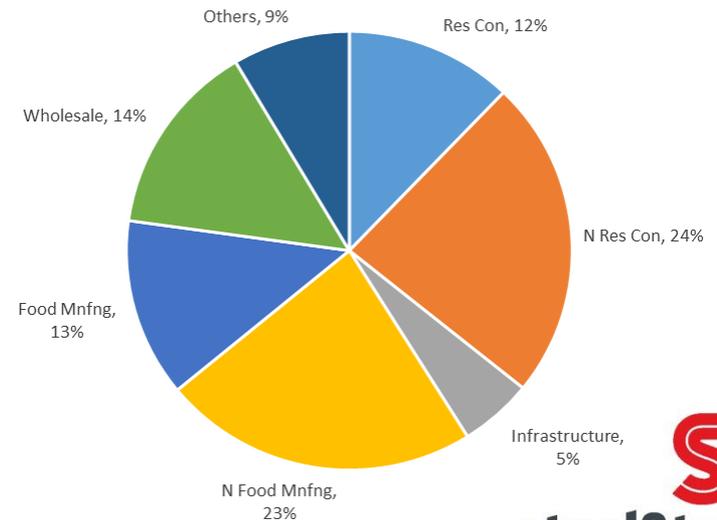
Diversification across sectors, significant presence in buoyant construction sector

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Group sector coverage HYE Dec '16

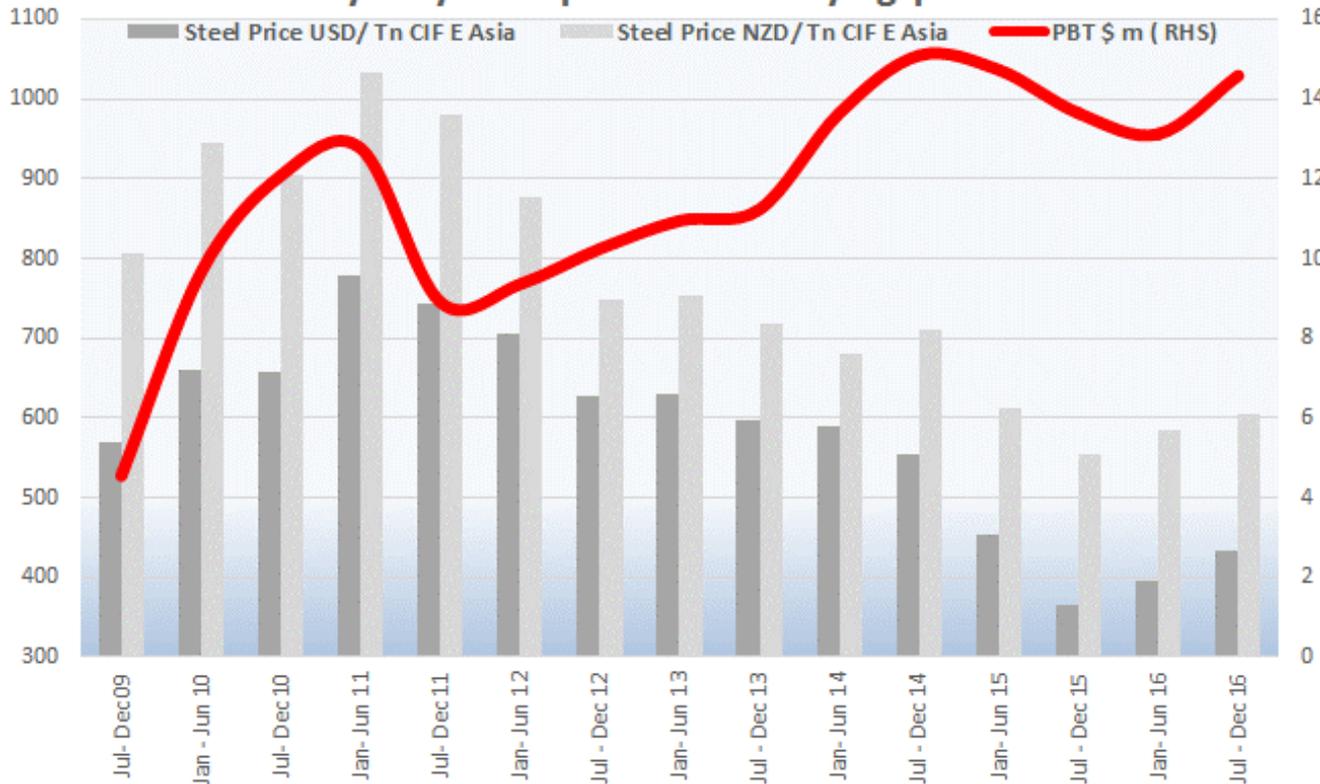


Group sector coverage HYE Dec '15



Strong performance, despite falling steel prices

Half yearly steel price Vs underlying profit before tax

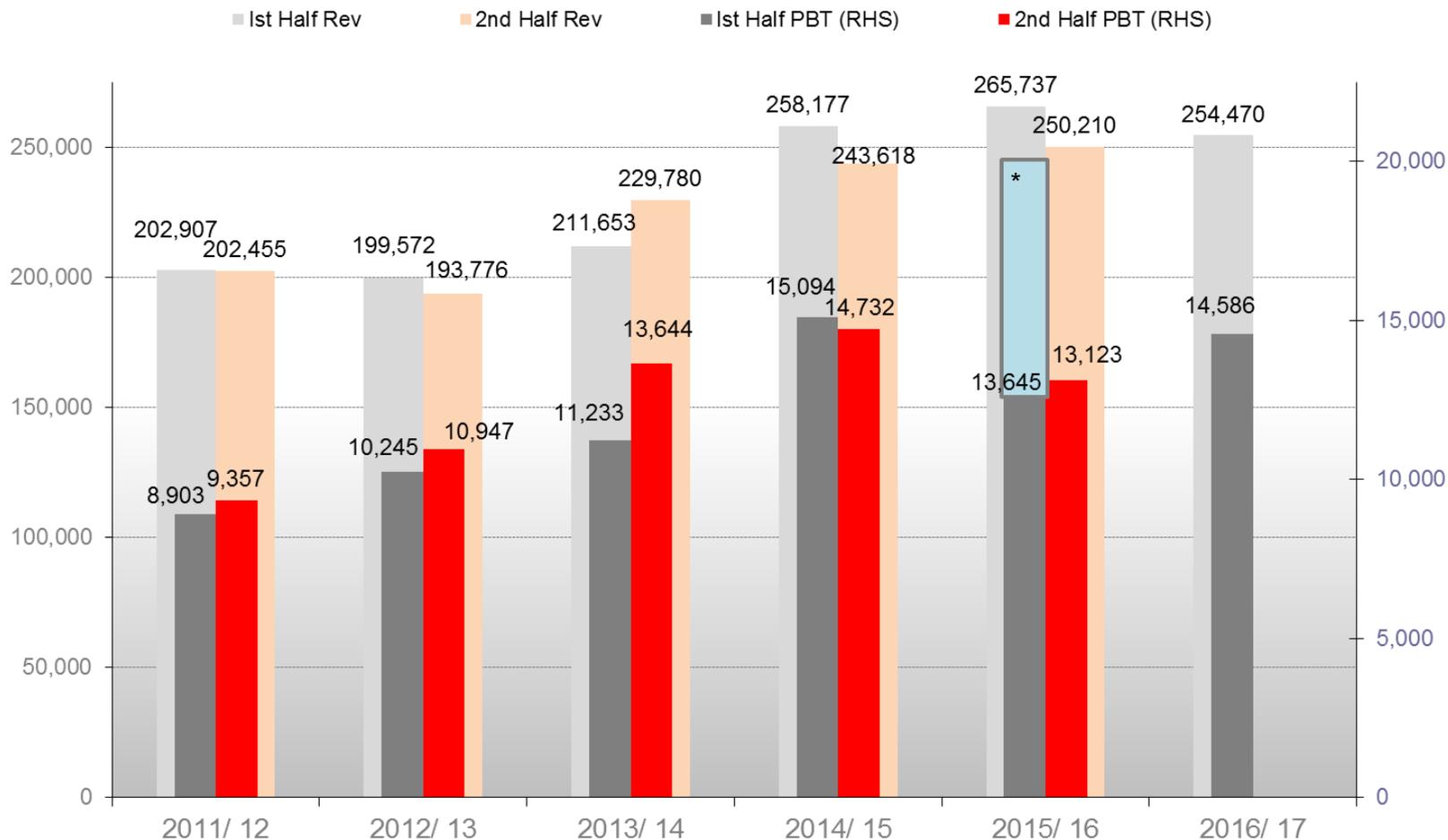


- Falling steel prices since 2011, have been offset by improved business performance
- Steel prices have started to recover paving the way towards improved results in the medium term

Business Performance

In-line with previous guidance

Revenue & Profit before tax
\$'000

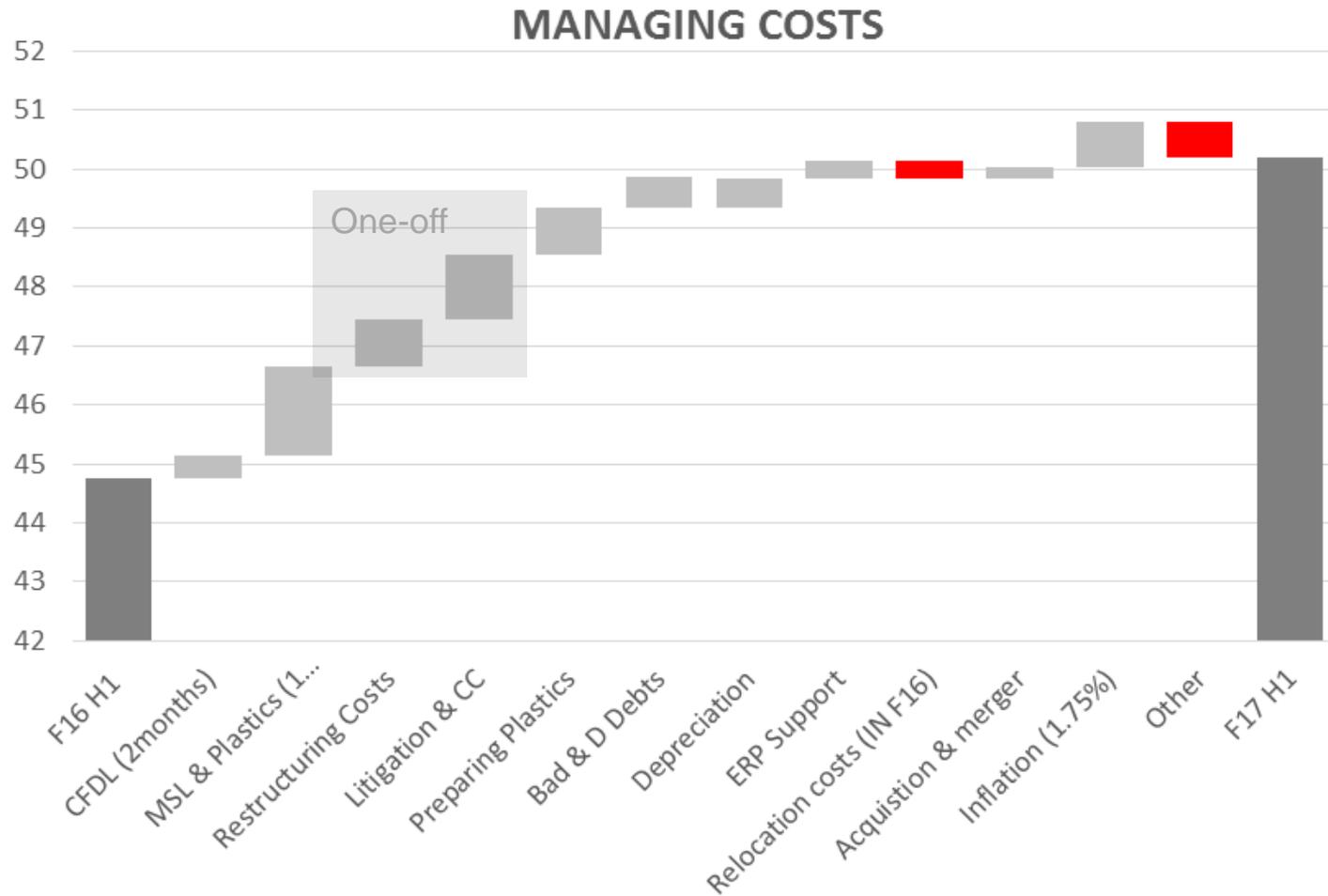


Source: S&T financial reports

* Sale of Bowden Rd \$6.2m

Business Performance

Cost management



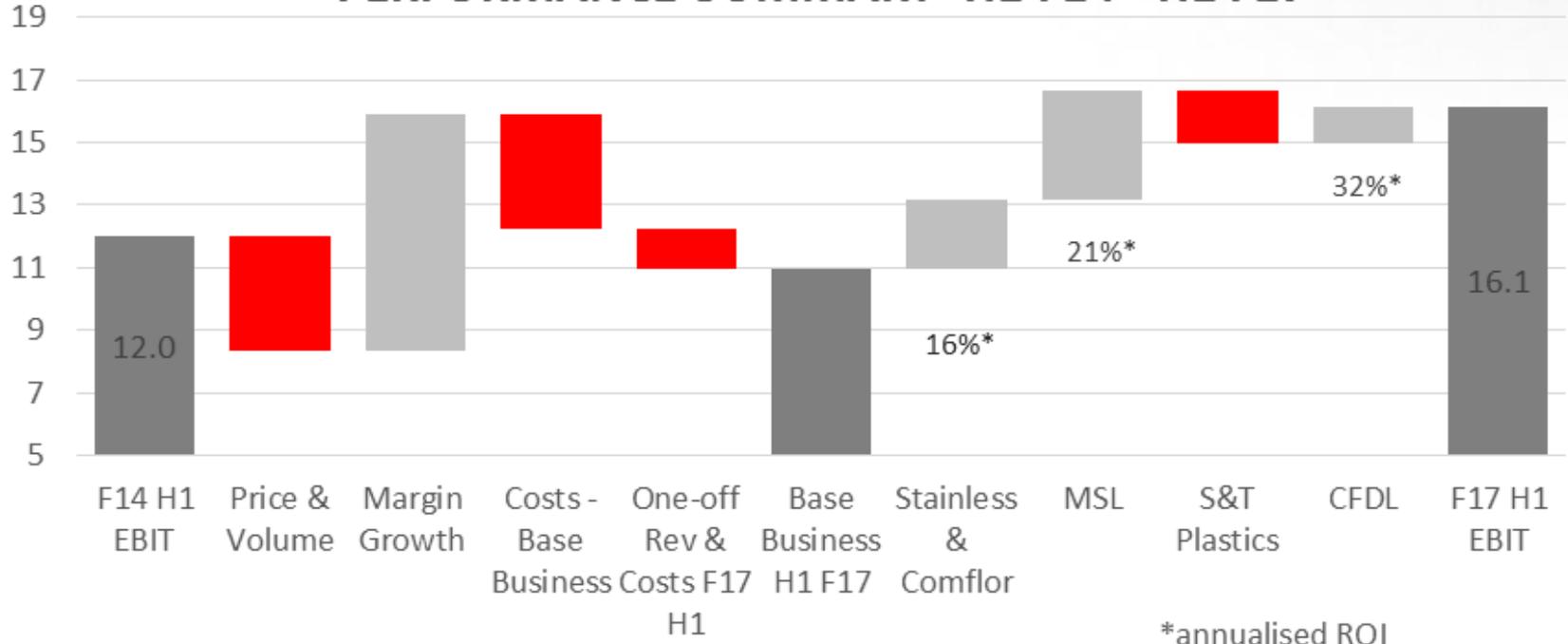

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Business Performance; EBIT comparison

Price impacting base business, acquisitions performing well

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PERFORMANCE SUMMARY H1 F14 - H1 F17



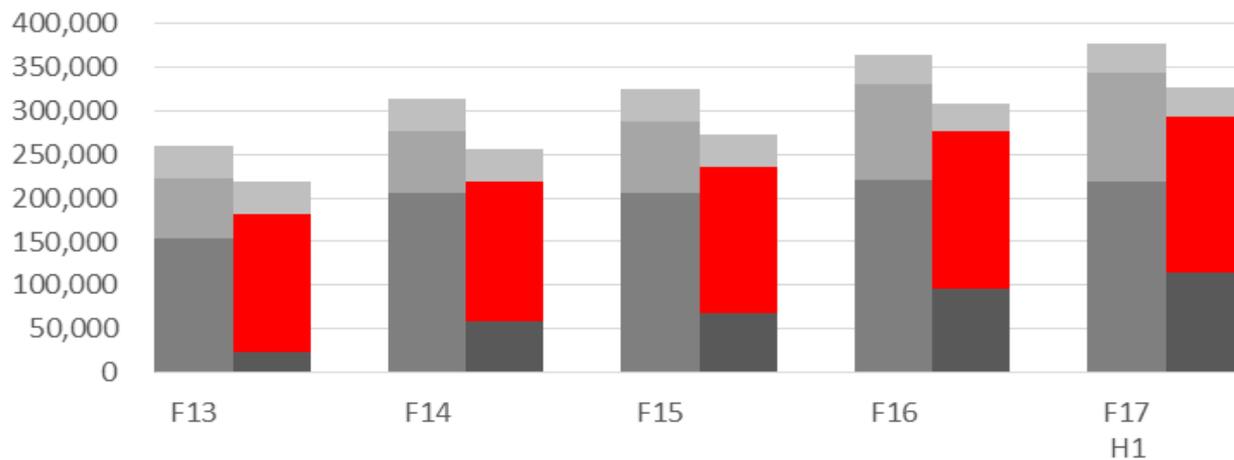
*annualised ROI



Balance Sheet

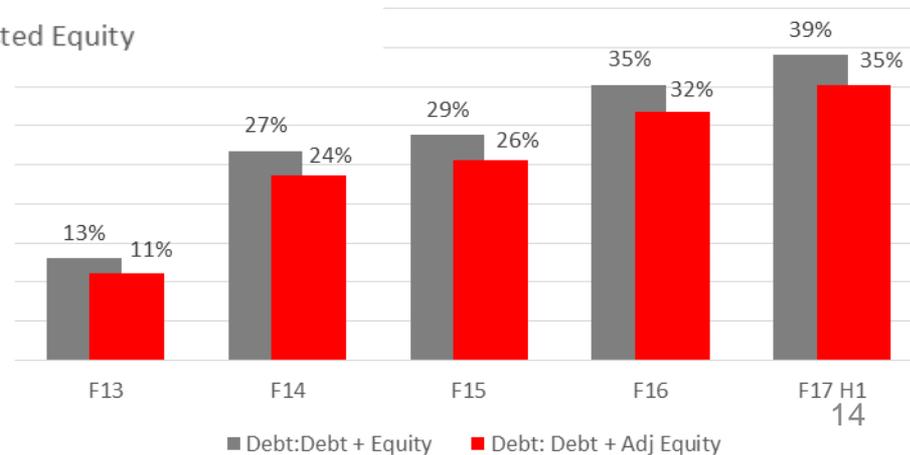
Liquid assets, gearing sound

Liquid Balance Sheet



- Current Assets
- Fixed & Other Assets
- Adjusted asset
- Debt
- Equity
- Adjusted Equity

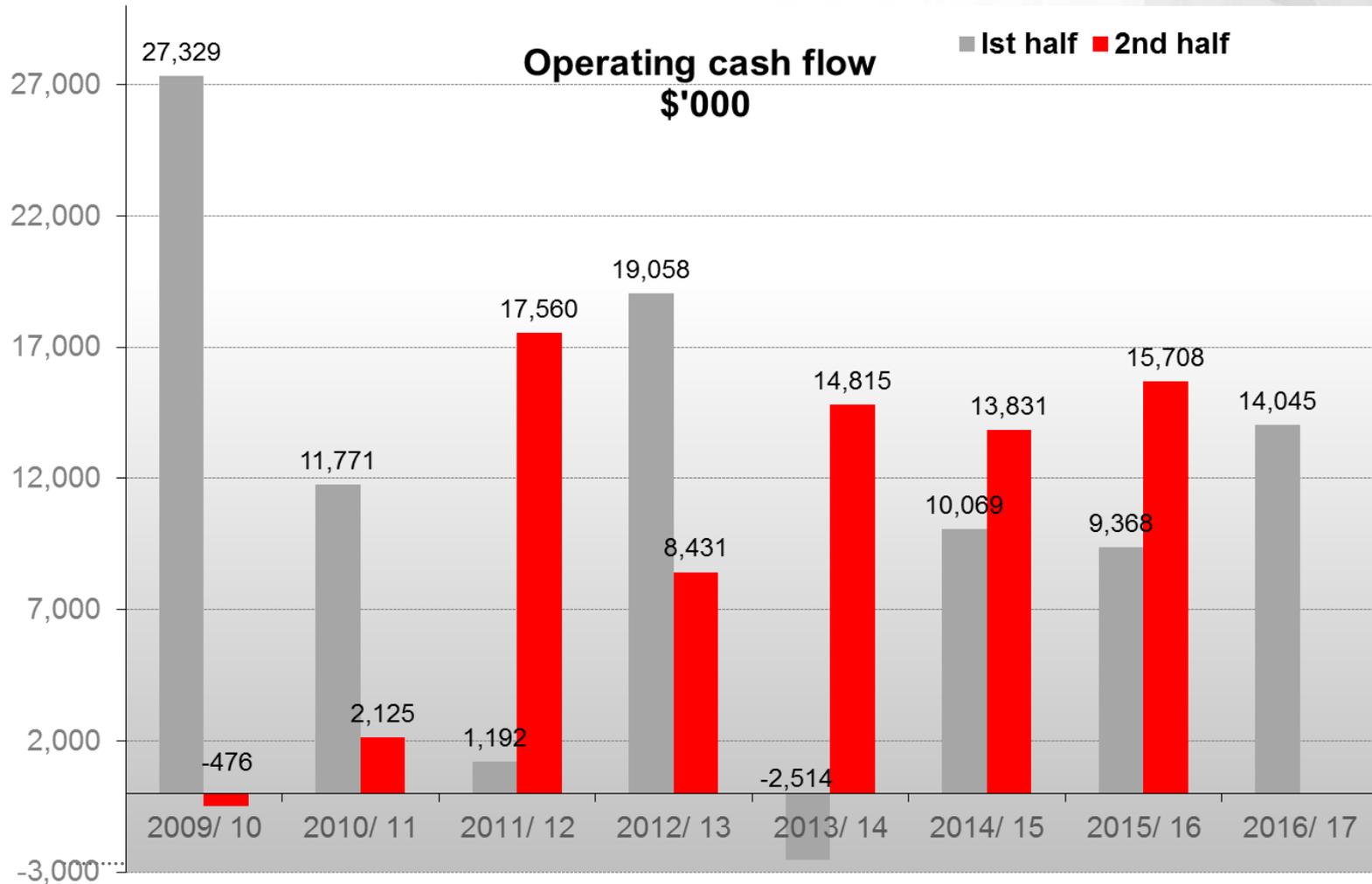
Balance Sheet Strength



- Debt:Debt + Equity
- Debt:Debt + Adj Equity

Business Performance

Operating cash remains strong



Outlook

Improved earnings expected – second half

Significant factors

Global Pricing

- Price increase expected across most product categories February 2017 onwards

S&T Plastics

- Plant prepared to deliver new contracts
- \$27m: \$8m in H2 2017

Costs and Restructuring

- Legal & one-off costs \$1.9m
- \$2.8m annualised savings
- ERP – further rationalisation

CFDL Acquisition

- Full 6 months performance
- Amortisation of customer relationships will impact EBIT \$1.5-\$2.5m

F17 EBIT outlook consistent with F16 EBIT

Outlook

Further out

Significant factors

Global Steel Environment

- Pricing volatility likely to continue for both raw materials and finished steel
- Excess capacity likely to remain despite Chinese efforts to reduce
- Anti-dumping actions to remain

Domestic market

- NZ demand to remain around 860 tonnes
- Stainless volumes to increase
- Competition to remain intense

S&T Strategy

- Strengthen 'One Company' ethos
- Reposition underlying cost structures
- Enhance capability and reach
- Integrated value propositions
- Leverage technology



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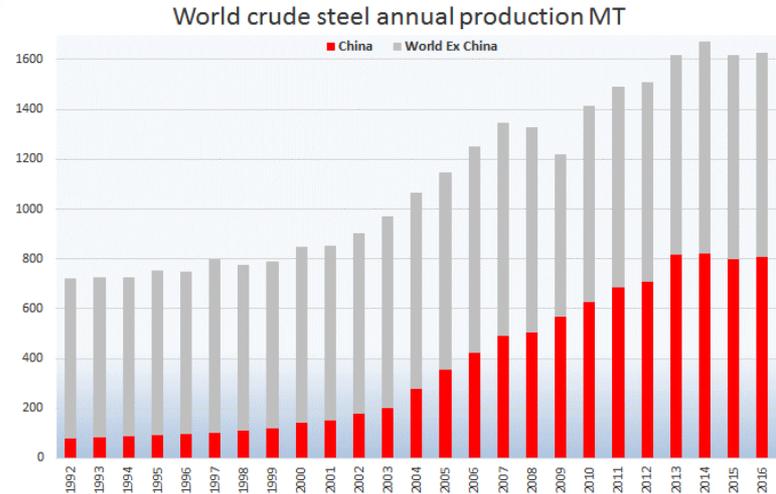
Thank you



Global Markets

Steel production

- Global steel output has dropped by 0.8% during 2016 compared to PCP led by China which dropped 1.2%
- China has shed 45 MT of capacity in 2016 and plan to do more this year
- Indian steel production however grew and is third after Japan

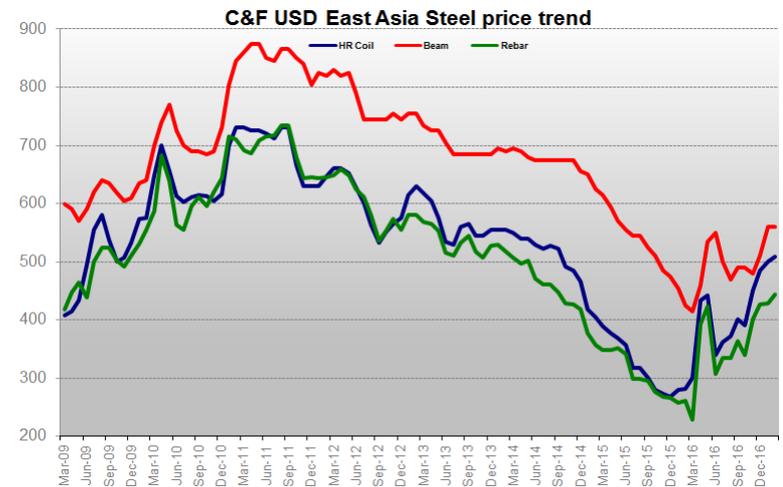
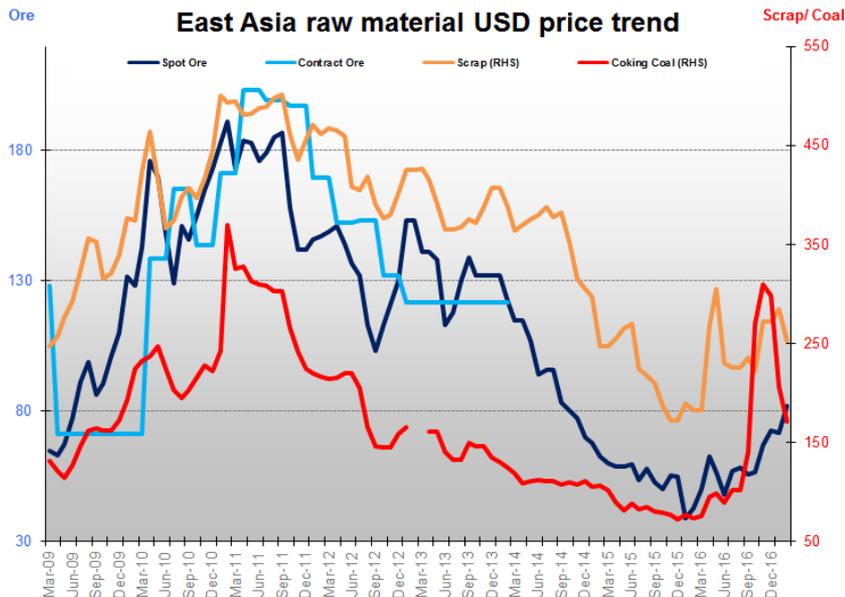


- Domestic demand for steel in China has risen recently with banks easing credit
- Exports out of China has been dropping over the past 6 months
- Steel prices have started to firm across most products and geographical locations

Global Markets

Steel and raw material price movement

- Iron ore prices increased to USD 80/ te in spite of increased capacity in Australia and Brazil. Uneconomic mines closed in China contributed
- Coking coal price spike has eased due to Chinese working days restriction relaxed



- Finished steel prices still firming
- Chinese steel exports have reduced by 3% in 2016
- Expect Chinese steel capacity reduction to continue in the medium term
- India is now the third largest steel producer after Japan and increasingly looking to export

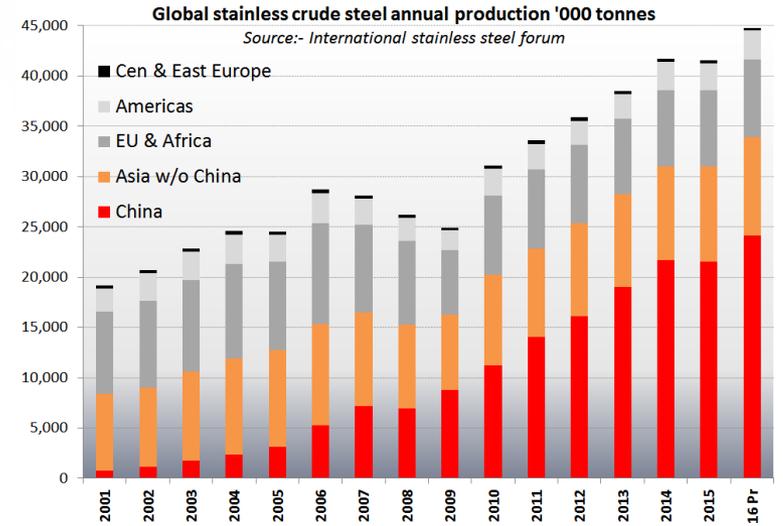
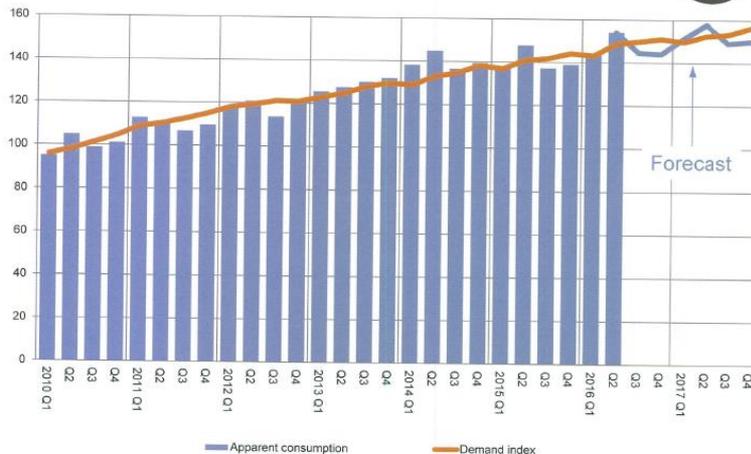
Global Markets

Stainless steel prices and production

- Production declined marginally in 2015 and current trends indicate a drop in 2016
- China is the leading producer and is following the global trend
- Demand forecast is positive despite the current downtrend
- Prices correlate closely with nickel prices which remain volatile

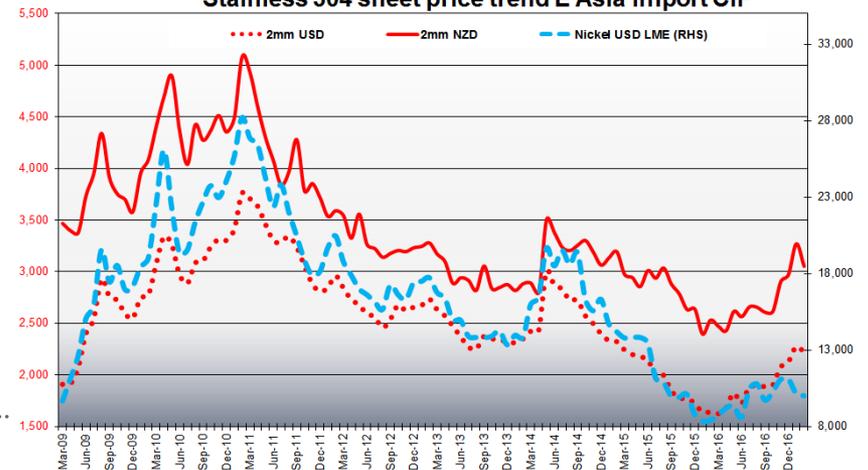
Global consolidation

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



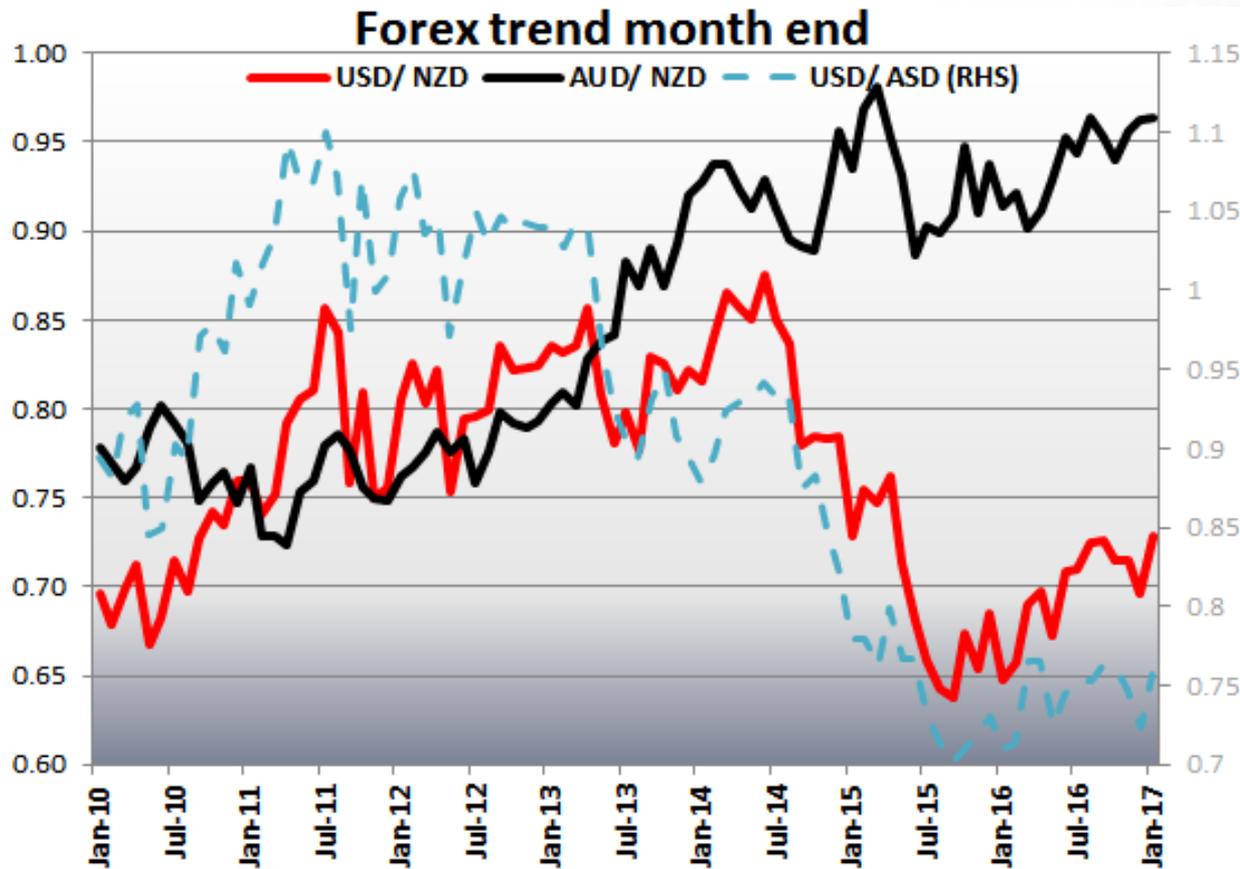
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Stainless 304 sheet price trend E Asia Import CIF



Global Markets

Exchange rates



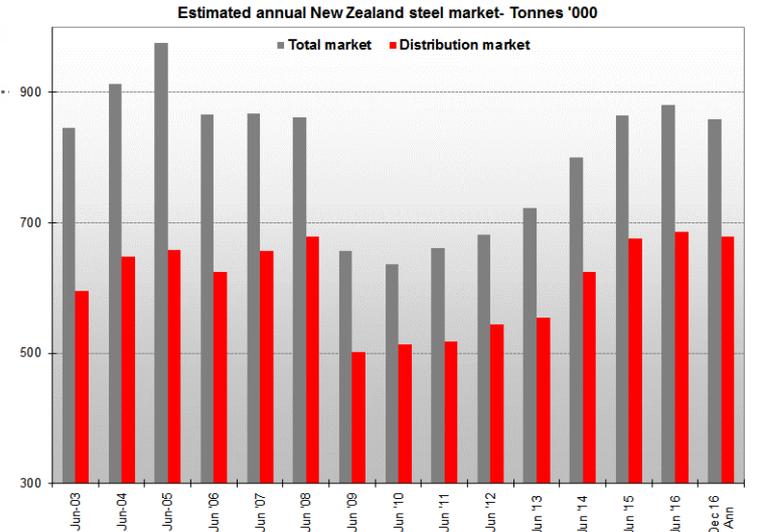
- The NZD has appreciated in recent months against key currencies
- Remains elevated against the AUD

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New Zealand Markets

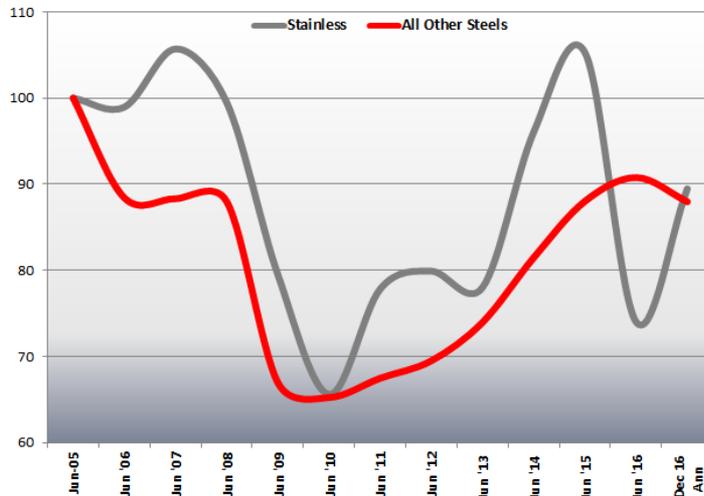
Material volumes

- Total steel demand is marginally down year on year.
- Construction activity supports steel demand
- Stainless steel demand is recovering due to viticulture and improved dairy prices
- Fastenings market growing and less vulnerable to volatility

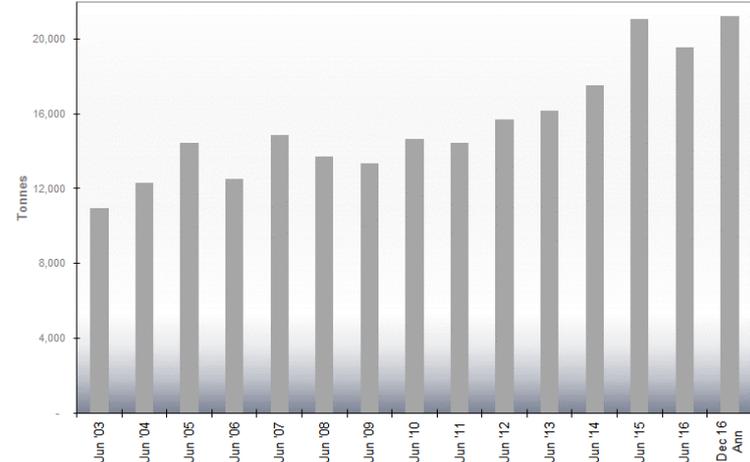


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Indexed consumption trend of stainless steel in NZ



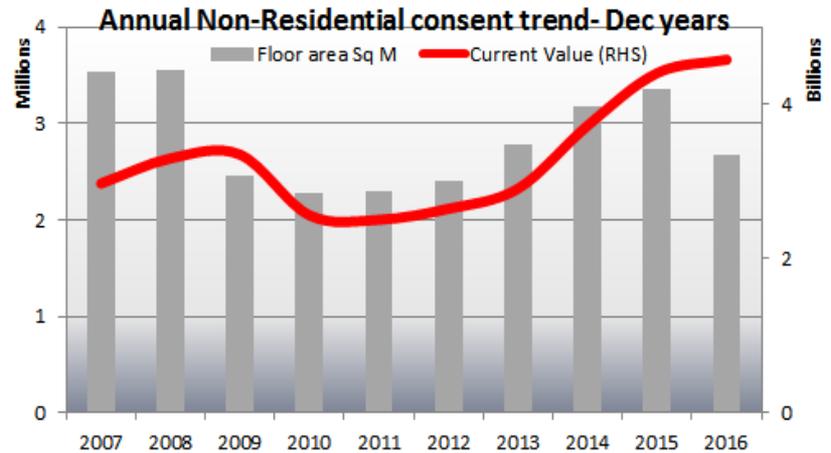
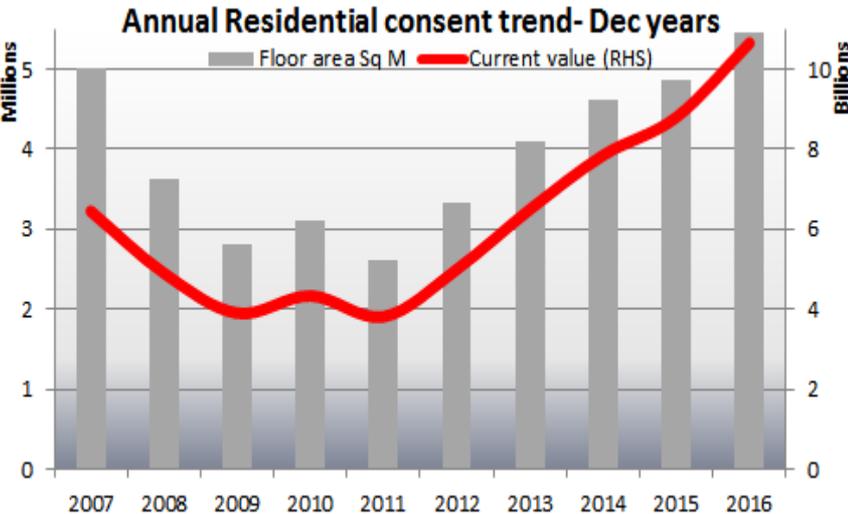
Imported Fastenings Market for Year ending



New Zealand Markets

Key sector trends – building consents

- **Non Residential** building consent by floor area reduced 20% in 2016
- Canterbury reduced by 34%, Auckland by 24% and all other regions by 9%
- Conversely, consents by \$ value shows a growth of 4% nationally



- **Residential** consent by floor area increased by 12% in 2016
- Auckland increased by 11%, more than off-setting a 9% reduction in Canterbury
- All other regions increased by 25%



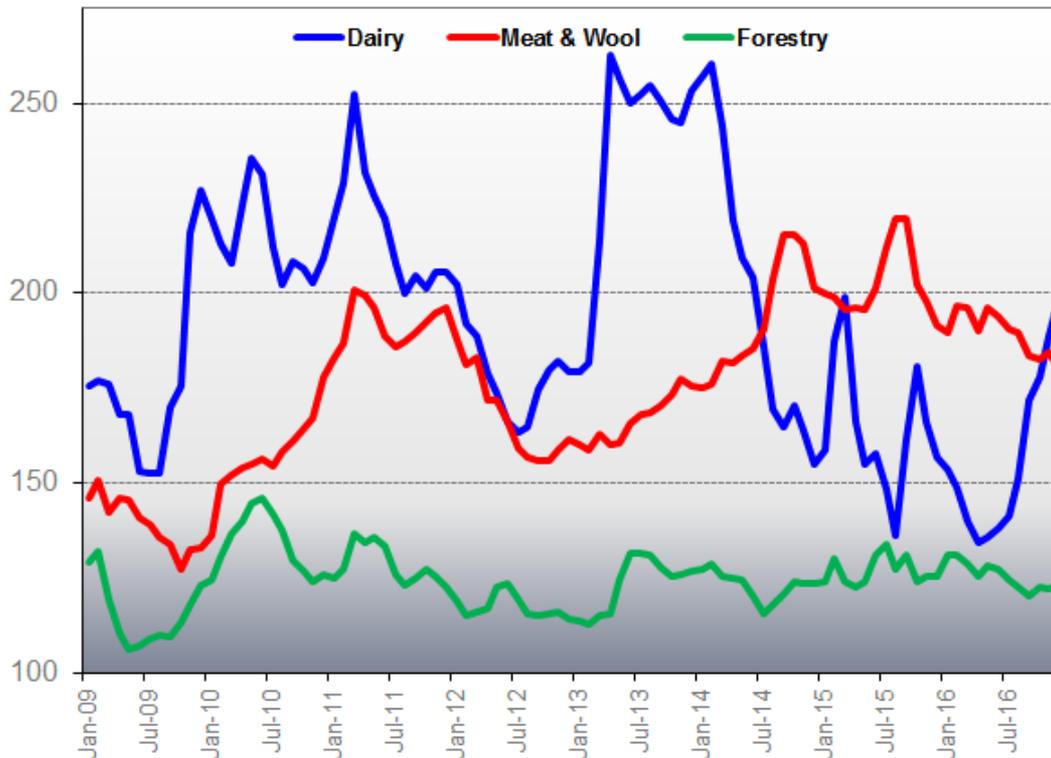
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New Zealand Markets

Key sector trends – rural

NZD commodity price index – January 1986 base

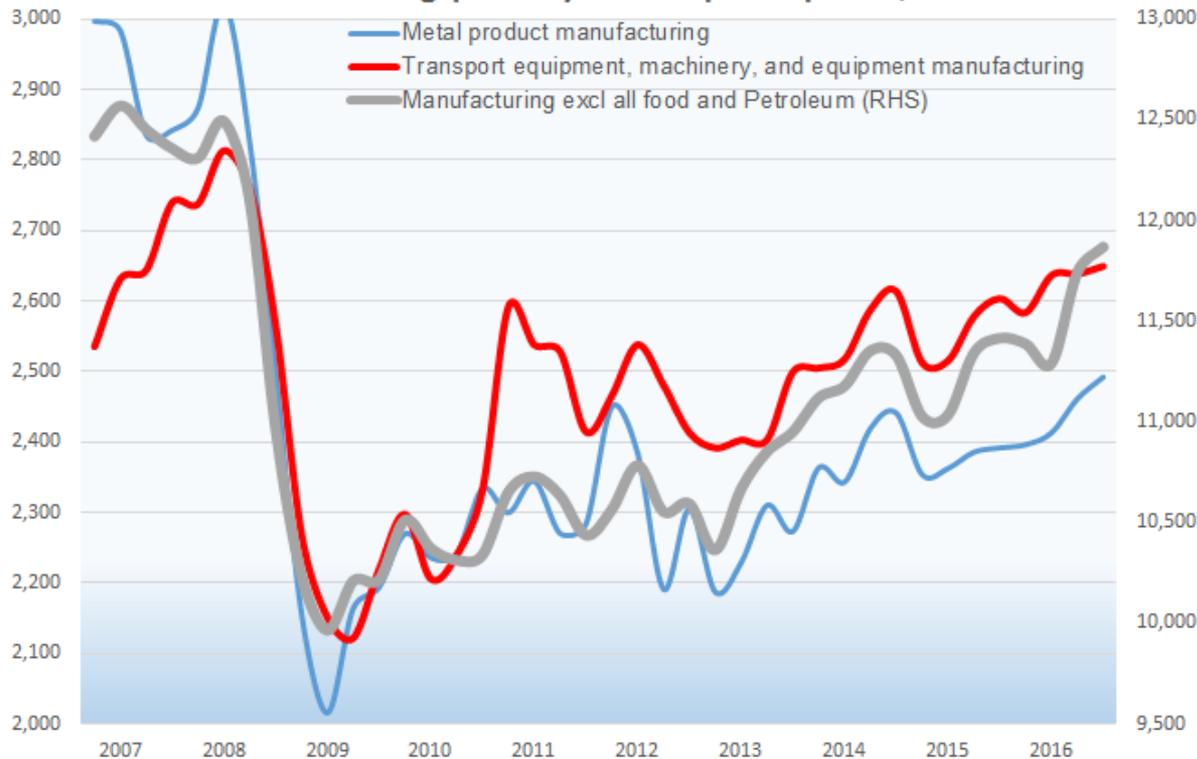


- With international dairy prices firming to 2½ year high, forecast pay-out increased to \$6.55/kgms
- The improvement in prices has been attributed to increased buying demand, particularly China
- The increased pay-out is likely to be above the direct cost of many of the dairy farmers which is estimated at \$5/kgms
- Likelihood of investment returning, impacting stainless demand
- Meat and wool prices while volatile, seems to be more stable

New Zealand Markets

Key sector trends – manufacturing (\$m)

Manufacturing quarterly sales- Sep 2010 prices \$ m sa



- Output continues to firm
- Solid growth from non food and non petroleum sectors
- Equipment and machinery manufacturers nearing pre GFC levels
- Metal producers growing at a slower pace
- Export markets for manufactured goods remain resilient in Australia and USA

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