



# ANNUAL SHAREHOLDERS' MEETING

---

25 October 2018

**st** steel&tube  
STRONGER IN EVERYWAY

# BOARD



**Susan Paterson**  
Independent Chair  
Appointed Jan 2017



**Christopher Ellis**  
Independent Director,  
Appointed Oct 2017



**Steve Reindler**  
Independent Director  
Appointed Oct 2017



**Rosemary Warnock**  
Independent Director,  
Appointed Sept 2010



**Anne Urlwin**  
Independent Director  
Appointed June 2013

# Chair's Presentation

---

Susan Paterson



# FLETCHER BUILDING (FBU) OFFER

- Your Board was very responsive to FBU's non-binding offers, and absolutely focussed on the interests of shareholders as a whole
- We viewed \$1.90 per share as below fair value but close enough to engage an independent expert
- FBU chose not to await the independent expert valuation report

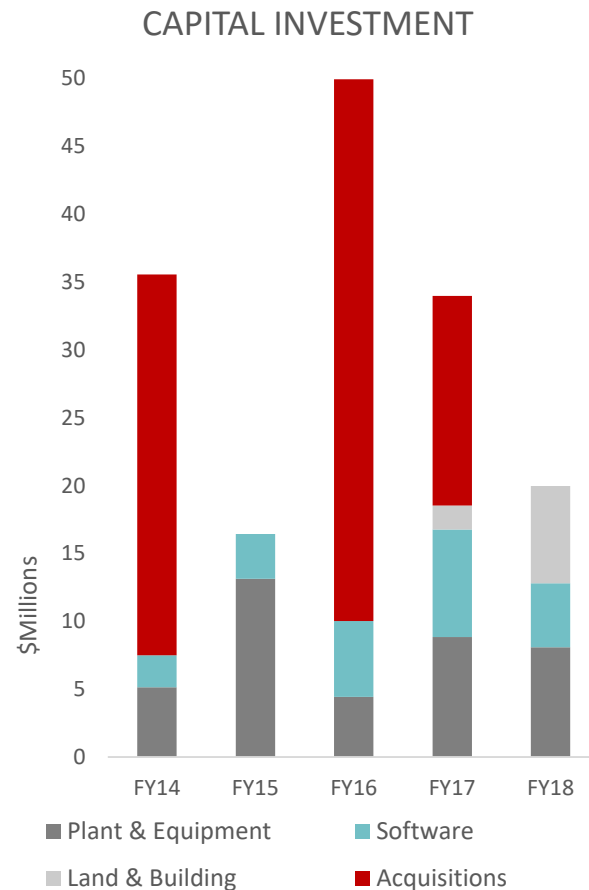
## KEY REASONS FOR BOARD DECISIONS:

**OPPORTUNISTIC TIMING:** Following a period of historical underperformance; significant impact of October 2017 ERP system change; \$54m write down and impairments to reset the business and a \$81m discounted capital raise to reset debt (paid for ~\$80m in previously purchased acquisitions)

**DEAL EXECUTION UNCLEAR WITH POTENTIAL RISK BEING CARRIED BY STU SHAREHOLDERS:** No guarantee of Commerce Commission (CC) approval; likely to be significant delays impacting value and time value of money; risk of CC declining and FBU walking away whilst Steel & Tube (STU) shareholders suffered impacts

**STU TURNAROUND UNDERWAY AND BENEFITS ONLY JUST STARTING TO BE REALISED:** Pre GFC and before recent acquisitions STU EBIT \$40-60m EBIT p.a. Business on track towards \$25m EBIT in FY19. Achieving \$35-40m EBIT by FY21 is realistic. These targets along with conservative assumptions value your shares at \$1.95- \$2.36 per share

# IMPACT OF HISTORICAL ISSUES GREATER THAN EXPECTED



\$Millions	FY17	FY18
Inventories	143.1	116.0
Debtors	93.5	99.2
Trade and other Creditors	(54.4)	(49.9)
<b>Working Capital</b>	<b>182.2</b>	<b>165.4</b>
Cash and cash equivalents	6.5	5.6
Property, plant and equipment	102.6	52.7
Intangibles	66.8	57.4
Other	0.2	14.6
<b>Total Assets</b>	<b>412.7</b>	<b>345.5</b>
Borrowings	133.4	109.9
Other	12.9	13.1
<b>Total Liabilities</b>	<b>200.6</b>	<b>172.9</b>
<b>Shareholders Equity</b>	<b>212.1</b>	<b>172.6</b>
Net Debt: Net Debt + Equity	37.4%	37.7%
Net Debt: EBITDA <sub>(1)</sub>	3.3	4.6

- Significant difficulties with ERP implementation impacting trading
- Scale of legacy issues clean-up was significant
- \$24m inventory write-downs
- Plastics business future prospects bleak
- Goodwill impairment impacted by poor performance of heritage businesses
- Capital structure weakened necessitating capital raise



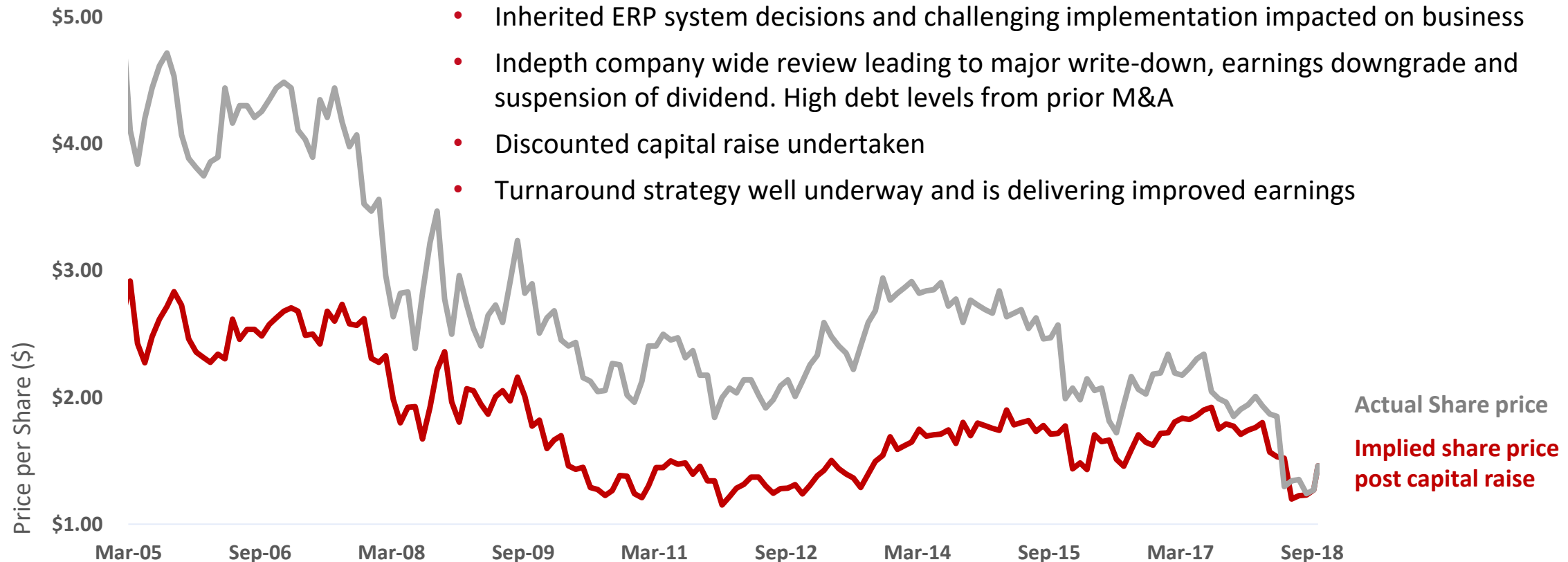
1) FY18 Normalised EBITDA is adjusted for a full year's impact of the additional operating leases in relation to the sale of Stonedon Drive and Blenheim Road

# REBUILDING SHAREHOLDER VALUE IS TOP OF MIND

Long term share price performance: March 2005 to YTD

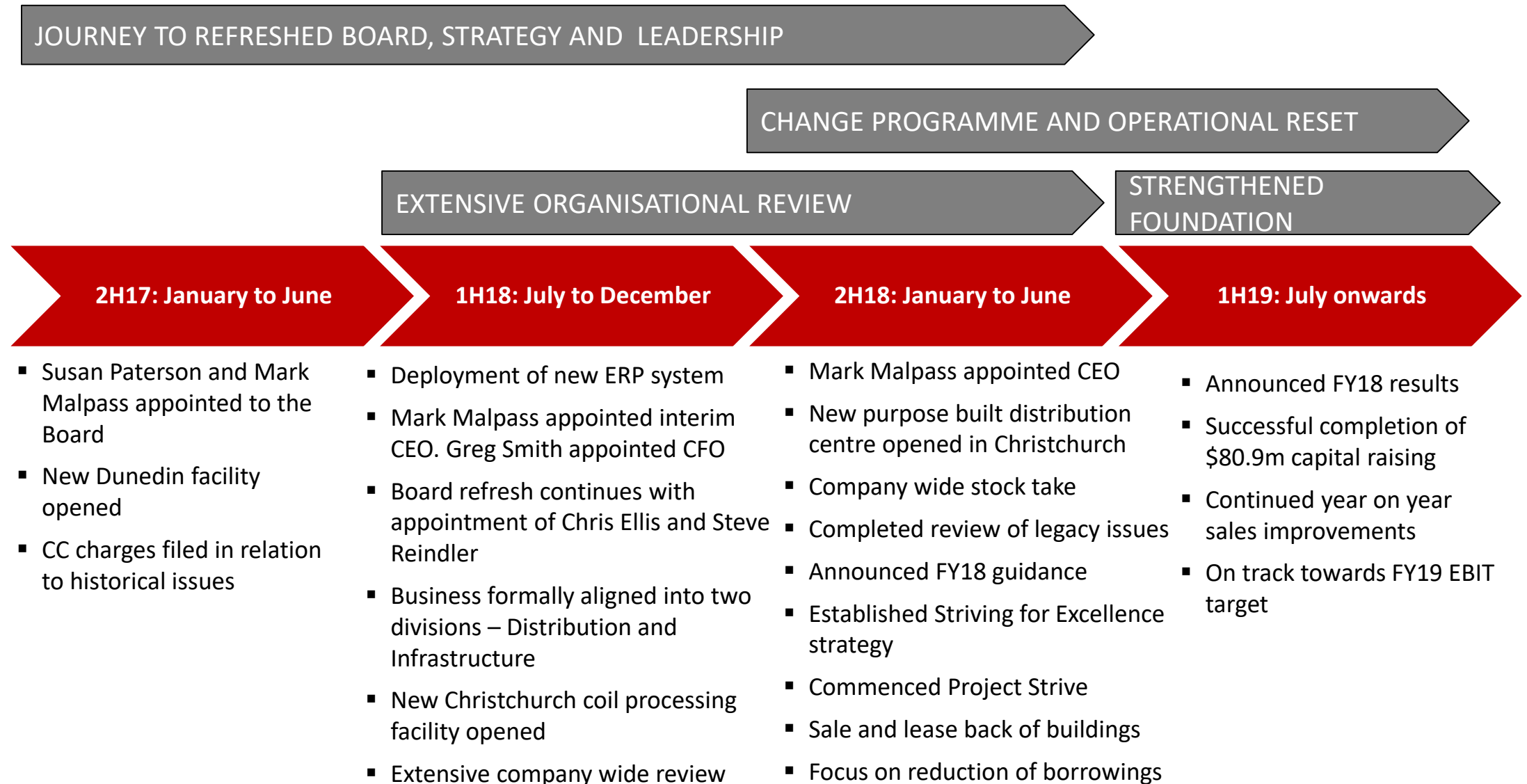
## Significant financial restructuring required over the last 12 months to reset the business:

- Sophisticated investors recognised historical issues with increasing debt, inventories and core business deterioration – little share price growth since GFC
- Inherited ERP system decisions and challenging implementation impacted on business
- In depth company wide review leading to major write-down, earnings downgrade and suspension of dividend. High debt levels from prior M&A
- Discounted capital raise undertaken
- Turnaround strategy well underway and is delivering improved earnings



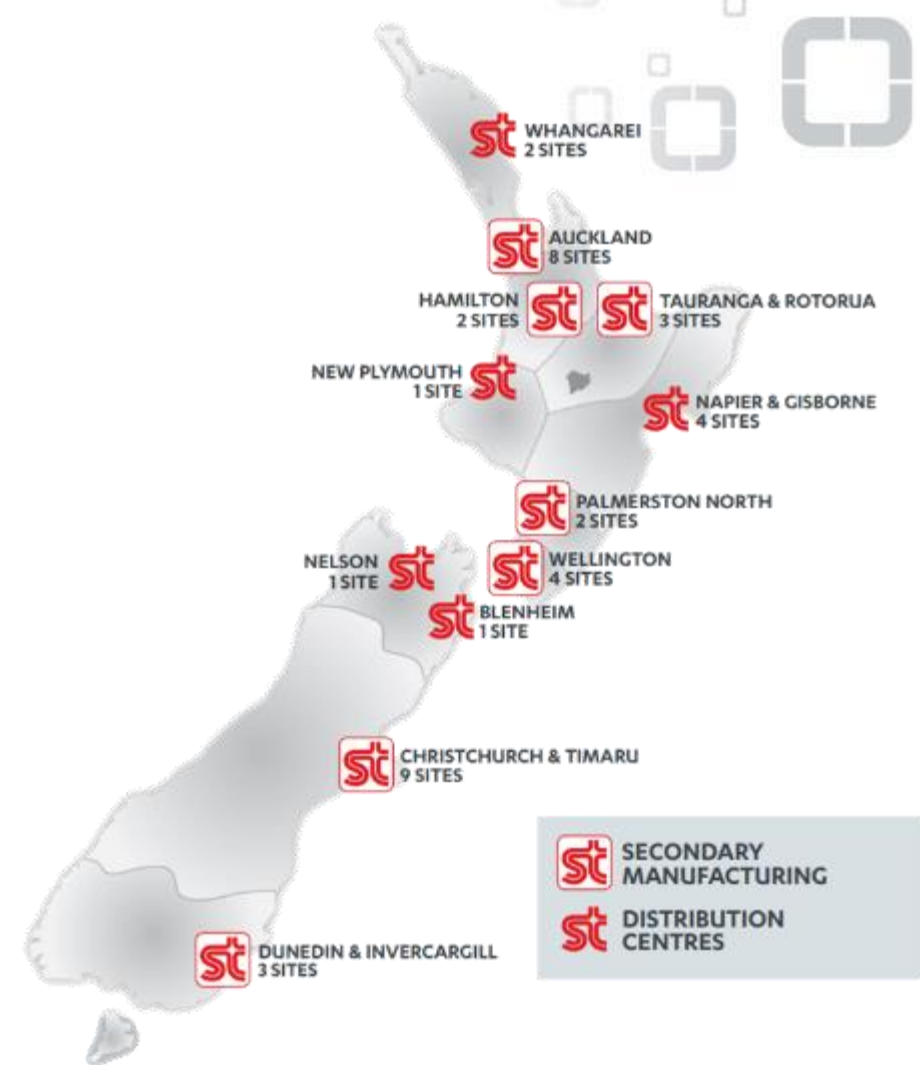
# RE-SETTING OUR BUSINESS

Late-2017: Embarked on an extensive company-wide reset to drive long-term sustainable earnings improvement



# STEEL & TUBE IS...

- One of New Zealand's leading providers of steel solutions, and a proud New Zealand company, with over 65 years of trading history
- We offer New Zealand's most comprehensive range of steel products, services and solutions
- Our stable of best-in-class businesses are some of this country's leading steel suppliers



**58,000 PRODUCT LINES**

A nationwide footprint with  
**40 SITES** from Whangarei to Invercargill

**SOLUTIONS DRIVEN** organisation with more than 65 years of industry experience

Working with more than  
**15,000 ACTIVE CUSTOMERS** every year

**~\$500 MILLION** in sales

**~1,000 PEOPLE** in the Steel & Tube team



# A STRONGER FUTURE

- Positive economic growth trends across majority of sectors in which S&T operates
- Strong foundation from which to build our company
- Financial flexibility to undertake business transformation initiatives and achieve our goals
- Pleasing progress being seen with early benefits from Project Strive initiatives and improving sales results
- On track to achieve FY19 guidance of \$25 million in earnings before interest and tax
- Strong New Zealand company, adding value to NZ economy



# Management Presentation

---

Mark Malpass



# FY18 FINANCIAL SUMMARY



- Revenues impacted by issues with ERP system implementation affecting customer service
- \$53.8m of non-trading impacts from legacy issues recognised in FY18 following detailed review
- Normalised EBIT slightly ahead of earnings guidance of \$16.0m
- No FY18 final dividend – plan to resume FY19 interim in line with Dividend Policy
- Change programme underway and benefits are being recognised

	<b>FY18</b>	<b>FY17</b>
<b>Revenue</b>	\$495.8m	\$511.4m
<b>EBIT</b>	\$(36.2)m	\$31.6m
<b>Normalised EBIT</b>	\$16.5m	\$31.2m
<b>NPAT</b>	\$(32.0)m	\$20.0m
<b>Normalised NPAT</b>	\$7.8m	\$19.7m
<b>Final Dividend</b>	-	7 cps

# OUR BUSINESS: DIVISIONS



## DISTRIBUTION

Products are sourced from preferred steel mills and distributed through Steel & Tube's national network of branches

**FY18:** ~58% of revenue



STEEL



RURAL PRODUCTS



PIPING SYSTEMS



FASTENINGS



CHAIN & RIGGING



STAINLESS STEEL

## INFRASTRUCTURE

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

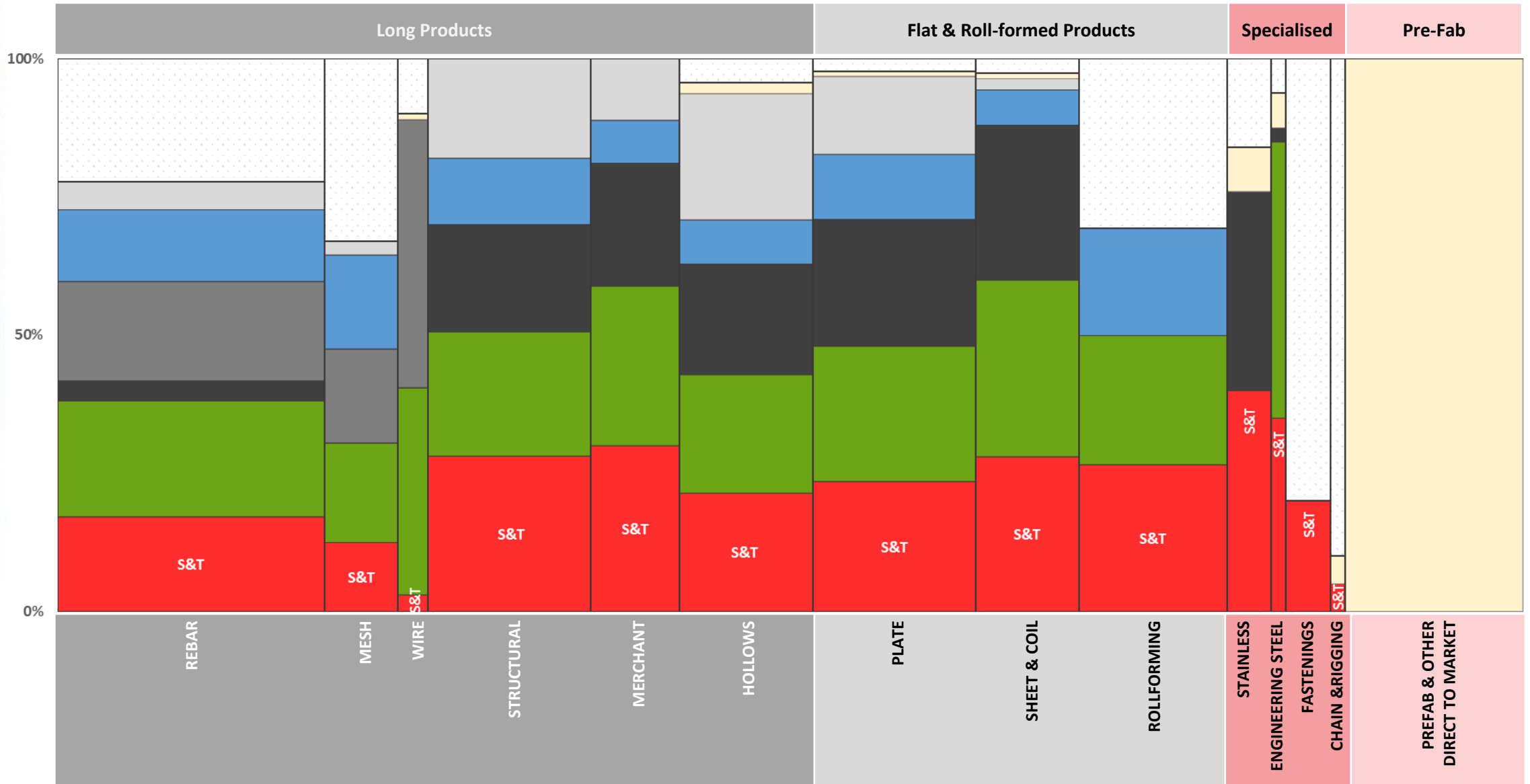
**FY18:** ~42% of revenue

<i>Roll-forming</i>	<p>ROOFING</p>	<p>COIL PROCESSING</p>	
	<p>PURLINS</p>	<p>COMFLOR®</p>	
	<i>REO / CFDL</i>	<p>REINFORCING</p>	<p>CFDL</p>





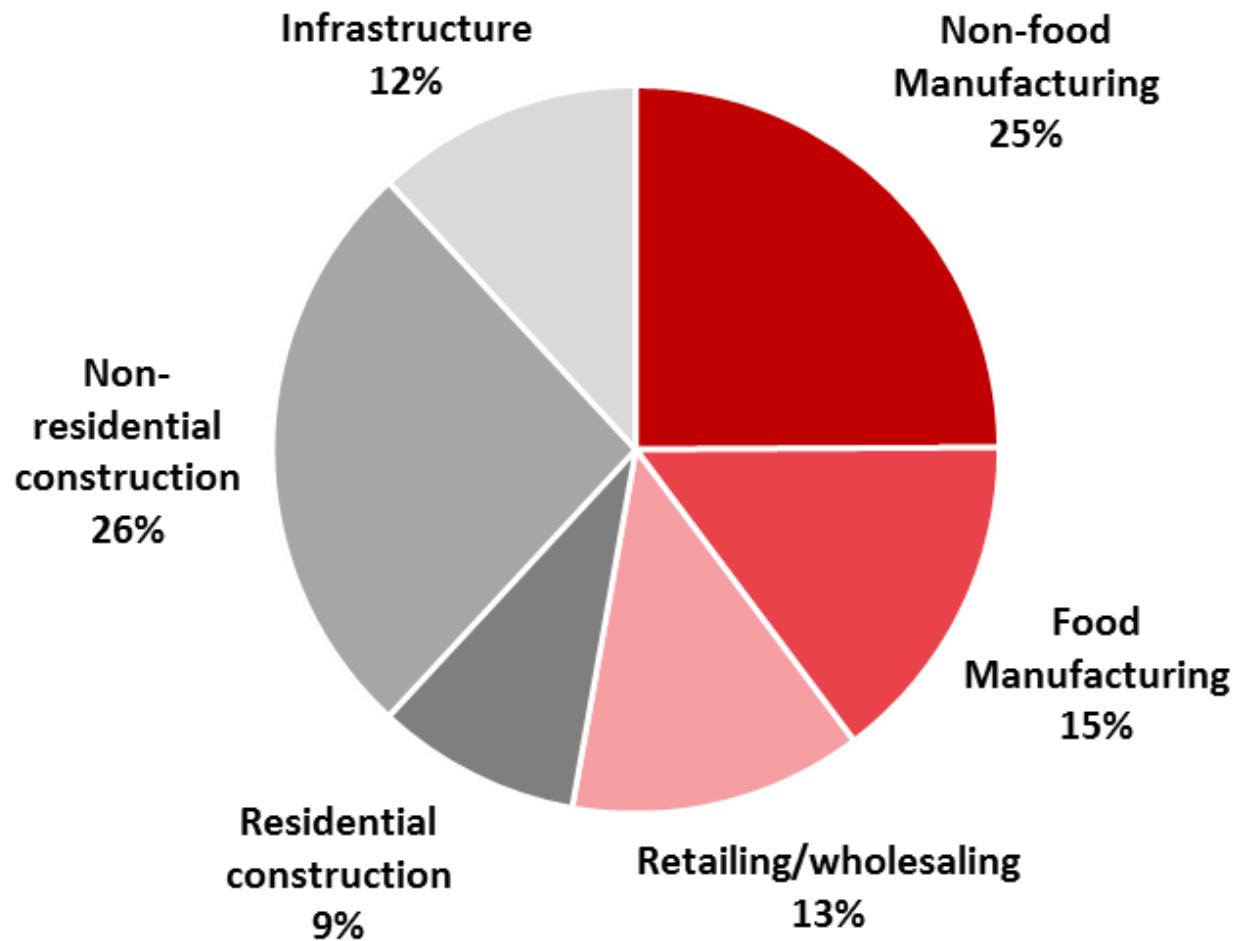
# INDUSTRY LANDSCAPE AND MARKET SHARES <sup>(1)</sup>



1) Market share for S&T and other suppliers based on best estimates of Steel & Tube Management from available industry data as at 30 September 2018. These are approximate only and provided in good faith

# SECTOR EXPOSURE

Well balanced across construction, manufacturing and rural sectors



Sales data, based on June 2018 YTD figures

## Construction

- Exposure to infrastructure, commercial (non-residential) and residential construction
- A highly competitive market experiencing high demand
- Construction expected to drive reinforcing, piping, roll-forming and structural steel revenue

## Manufacturing

- The manufacturing sector expected to remain stable with significant opportunities in the food subsector
- Demand expected to drive growth in plates, coils, sections and fasteners

## Rural sector

- Driving demand for stainless steels

# OUR OPPORTUNITY

## Growth in customer sectors is driving demand

- Multi-unit dwellings are an increasing share in the residential sector
- Increased central and local government funded infrastructure, housing and development projects

## Steel is a preferred building material

- Increased intensity of steel in buildings
- Construction speed and efficiency
- More cost effective through its life
- Proven performance in seismic events



# OUR STRENGTHS

- Strong Board and Management with deep industry experience
- Passionate and engaged workforce
- Loyal and extensive customer base
- Well considered and articulated strategy
- In-depth understanding of our business and opportunities
- Breadth and depth of our distribution network and product offering
- Industry leading businesses
- Innovative approach to business and customer solution
- Leveraging of technology

Our goal is to be the leader in buying, selling, processing and placing steel products in New Zealand





# OUR STRATEGY FOR PROFITABLE GROWTH



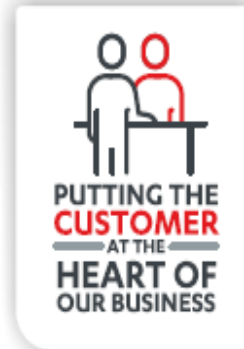
## STRIVING FOR EXCELLENCE

- › SAFE AND HEALTHY WORK ENVIRONMENT
- › QUALITY PROCESSES
- › QUALITY PRODUCTS
- › CONTINUAL IMPROVEMENT



- › LEVERAGE OUR PROCUREMENT AND SUPPLY CHAIN SCALE
- › EXCELLENT INVENTORY MANAGEMENT
- › EMPLOY DATA ANALYTICS TO BETTER SERVICE OUR CUSTOMERS
- › DRIVE EFFICIENCIES

- › PRODUCTS AND SERVICES TO MEET CUSTOMER NEEDS
- › LEVERAGE OUR TECHNICAL EXPERTISE
- › DELIVERY ON TIME AND ON SPEC



- › DEVELOP LEADERS
- › EVERYONE MATTERS
- › RECOGNISE PERSONAL AND TEAM CONTRIBUTIONS
- › PROVIDE A REWARDING WORKPLACE

## OUR GOAL

TO BE THE LEADER IN BUYING, SELLING, PROCESSING AND PLACING STEEL PRODUCTS IN NEW ZEALAND

# Our Strategy in Action

---

“Striving for Excellence”



# COMMITMENT TO SAFETY AND QUALITY

- Safe and healthy work environment
- Quality processes and products
- Continual improvement

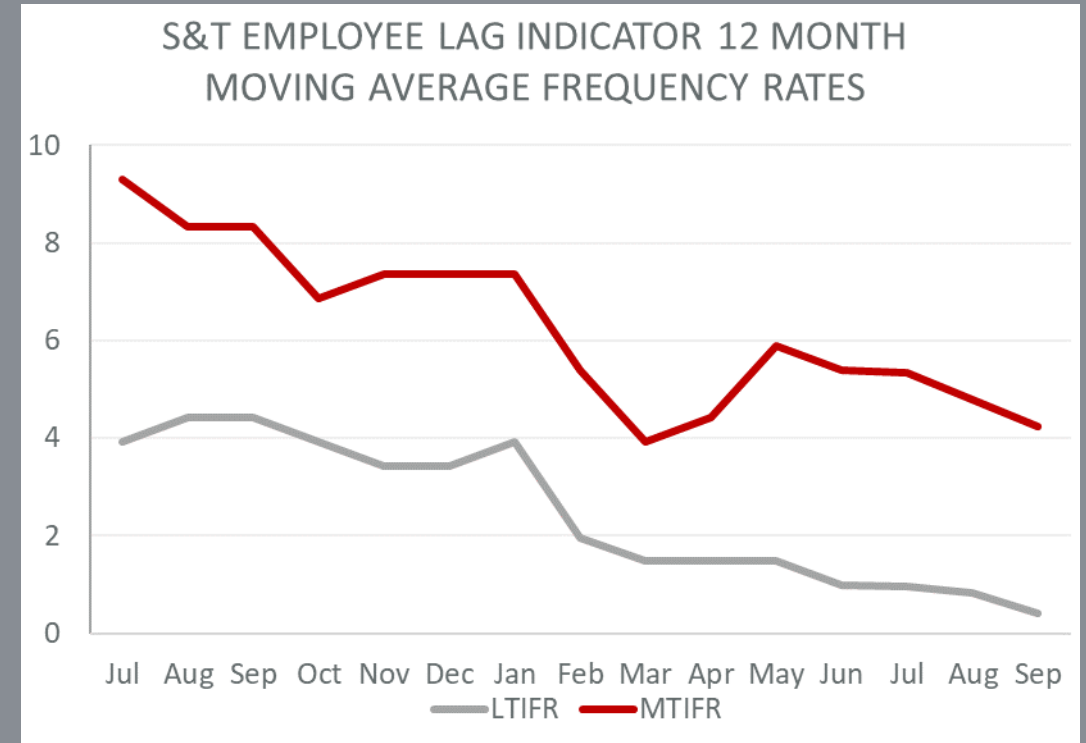
## HEALTH & SAFETY, QUALITY FOCUS

- Board Quality, Health, Safety and Environment Committee and Management sub-committees
- Comprehensive reporting covering risk management, lead and lag indicator performance, and incident and non-conformance reviews

## CONTINUING IMPROVEMENT IN SAFETY INDICATORS

### FY18 lag indicator improvements continue into FY19

- Strong employee engagement
- Worksafe based programme on the power of speaking up
- Robust return to work programme following end of year break



# FOCUS ON QUALITY

## KEY QUALITY INITIATIVES IN FY19

- Dedicated QHS&E team
- Group-wide update to ISO 9001:2015
- Third party audits of steel mills
- Traceability enhancements including barcode scanning



# PUTTING THE CUSTOMER AT THE HEART OF THE BUSINESS

- Products and services to meet customer needs
- Leverage our technical expertise
- Delivery in full, on time and in specification

## KEY INITIATIVES IN FY19

- Sales account alignment, management and sales excellence programme
- Improvement in delivery performance
- Investment into product innovation
- Customer loyalty and value growth
- Call centre activation
- Ecommerce and digital platforms

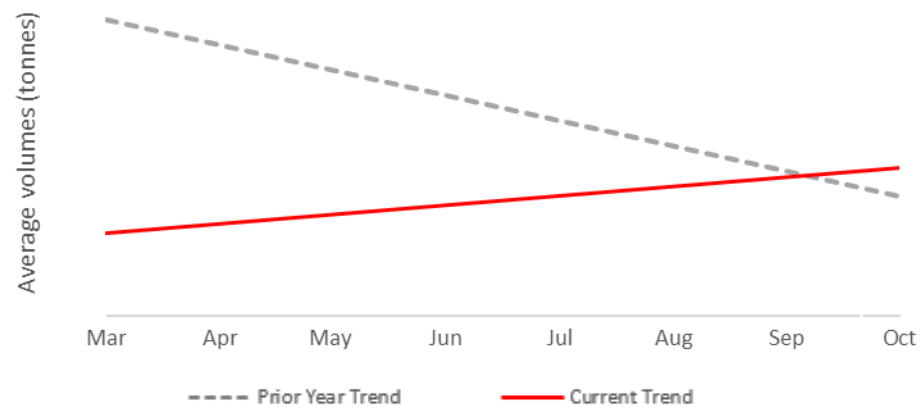




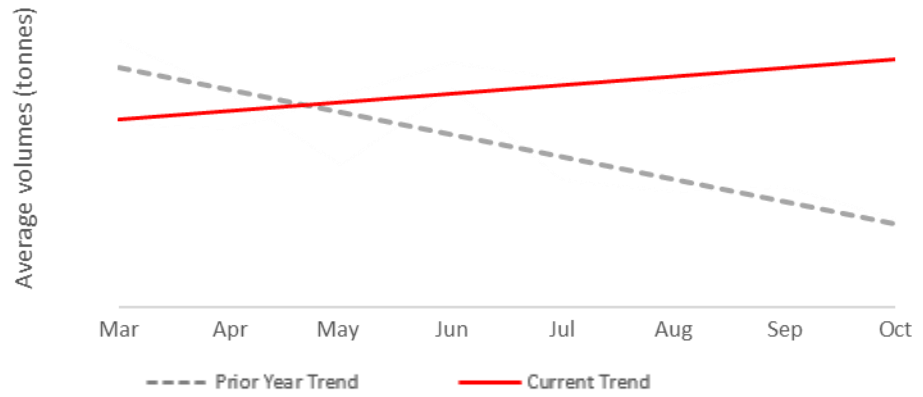
# POSITIVE IMPACT OF INITIATIVES NOW BEING SEEN

Positive results now being seen from the implementation of the change programme with increases in both average daily volumes and average daily sales, and improving market share in key categories

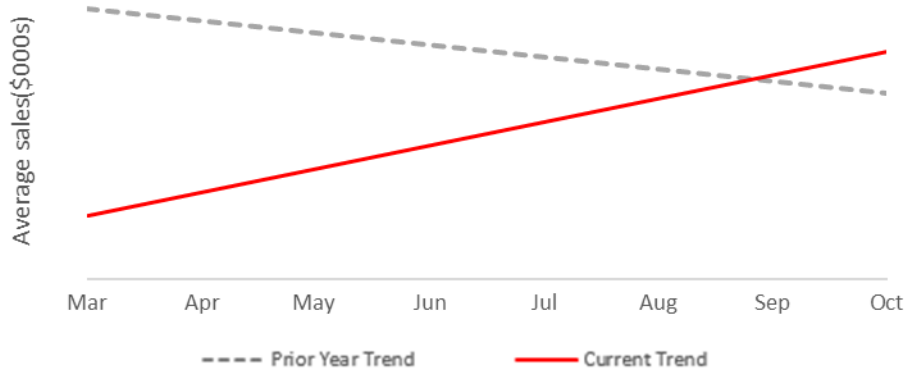
### DISTRIBUTION VOLUMES



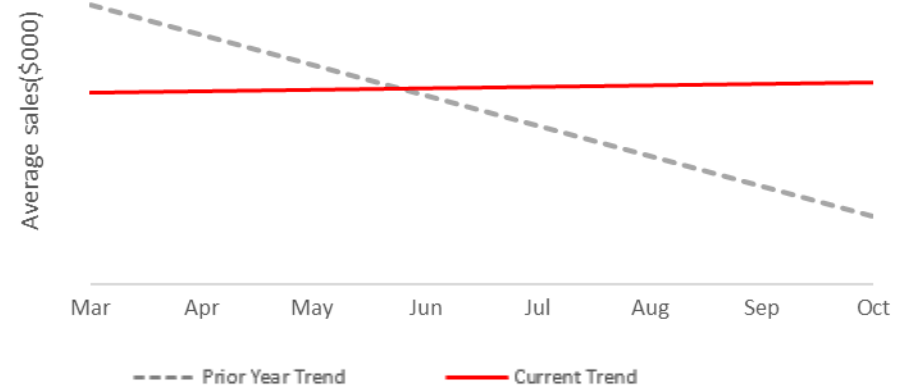
### INFRASTRUCTURE VOLUMES



### DISTRIBUTION SALES



### INFRASTRUCTURE SALES



# INNOVATION IS IMPORTANT TO SUCCESS

## BIM SPEC

- One stop portal for Building Information Models (BIM) and 2D and 3D content across the Steel & Tube product range
- Easy to use digital platform for design professionals to access our technical content



## COMFLOR SR

- Flat soffit designed and tested to the highest standard
- Ideal for multi-storey residential sector with a thinner slab depth, enhanced fire resistance and improved acoustic performance
- Seamless integration with ComFlor 60 and ComFlor 80 profile





## OPERATIONAL AND SUPPLY CHAIN EXCELLENCE

- Leverage our procurement and supply chain scale
- Manufacturing excellence
- Excellence in inventory management
- Employ data analytics to better service our customers
- Delivering operational efficiencies

### KEY INITIATIVES IN FY19

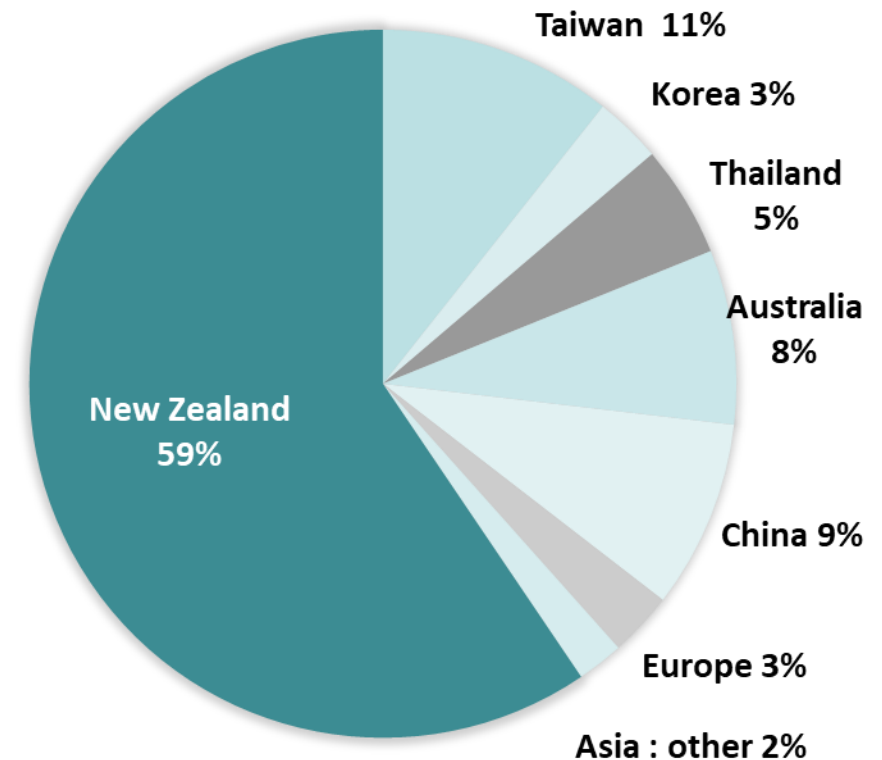
- Supply chain improvements
- New inventory recording procedures
- Operational excellence and efficiency
- Freight efficiencies
- Facility footprint consolidation
- Leverage procurement scale



# SUPPLY CHAIN EXCELLENCE

- **Inventory segmentation:** Resulting in improvements in A-line stock availability from 83% to 93%; targeting 98%
- **Dedicated sales and operations planning team**
- **Sales and operations planning (S&OP) system:** Better matching customer demand with supply. Implemented Q1 FY19
- **Inventory and procurement optimisation:** Strategic sourcing to leverage procurement scale and reduce sourcing costs

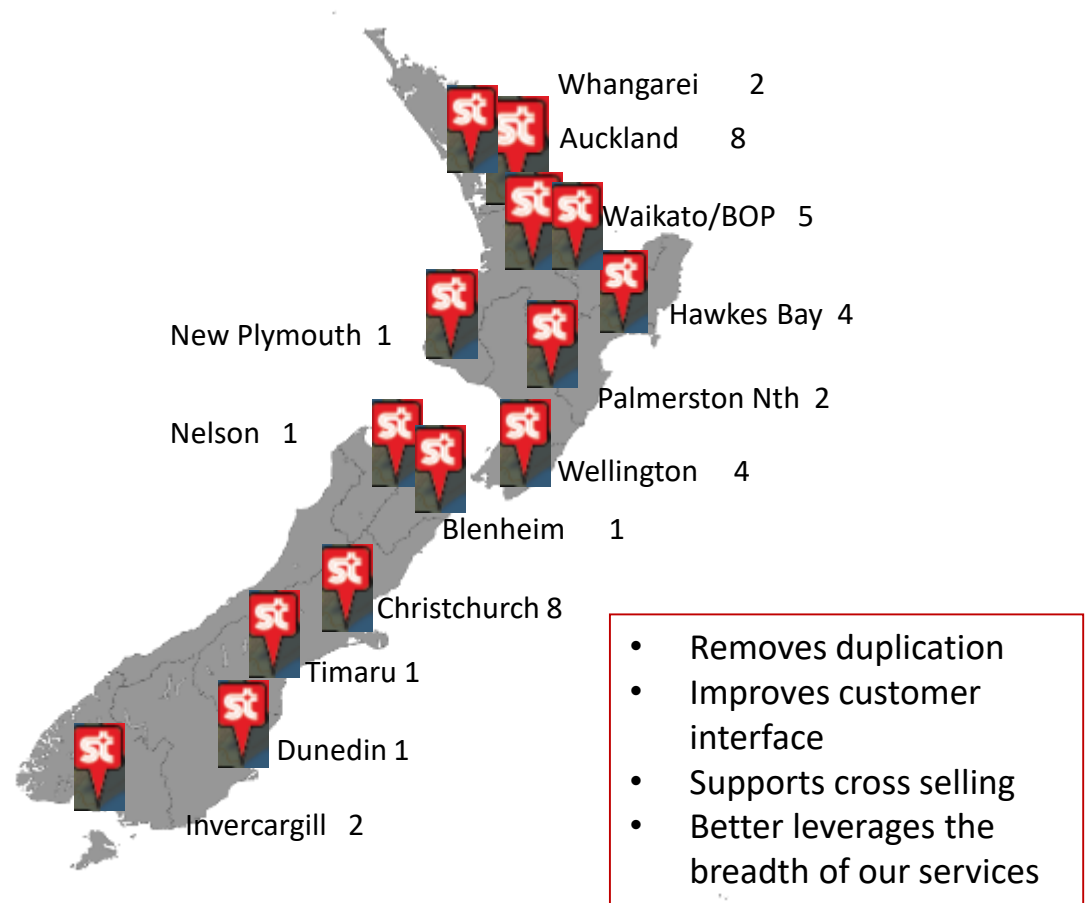
STEEL AND TUBE PURCHASING SPEND BY COUNTRY



# OPTIMISING OUR FOOTPRINT

- Integration of previously acquired businesses delivering synergy benefits
- Heritage Steel & Tube Stainless combined with the acquired Stainless business
- Acquired and existing Fasteners businesses also combined
- Consolidation of facilities from 50 to 40 locations; further integrations ongoing, delivering efficiencies while retaining focus on customer service and product range
- Rollout of 'hub and spoke' reinforcing steel model
- Integration of external warehousing into Steel & Tube's own facilities
- Optimisation and reduction of freight costs and tender routes
- Sale and lease back of two buildings

**Significant rationalisation in Steel & Tube site numbers while retaining regional footprints - from 50 to 40 sites with more to come**

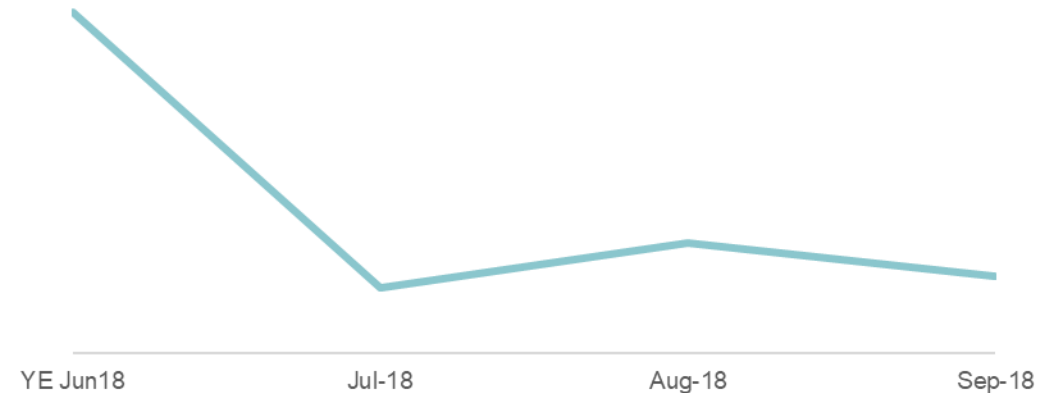


# MANUFACTURING EXCELLENCE

- Implementing a Lean 5s programme across the manufacturing businesses
  - Reinforcing and Roll-forming
- Involves Key Performance Targets and systems tracking of machine efficiency and productivity
- Already delivering significant improvements in uptime efficiency
- Also leveraging technology through capacity planning and scheduling

## Initiatives leading to significant reduction in wage costs

Example: Auckland Workshop Wages & Temp Cost per tonne to Manufacture





## SUPPORTING A WINNING TEAM

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

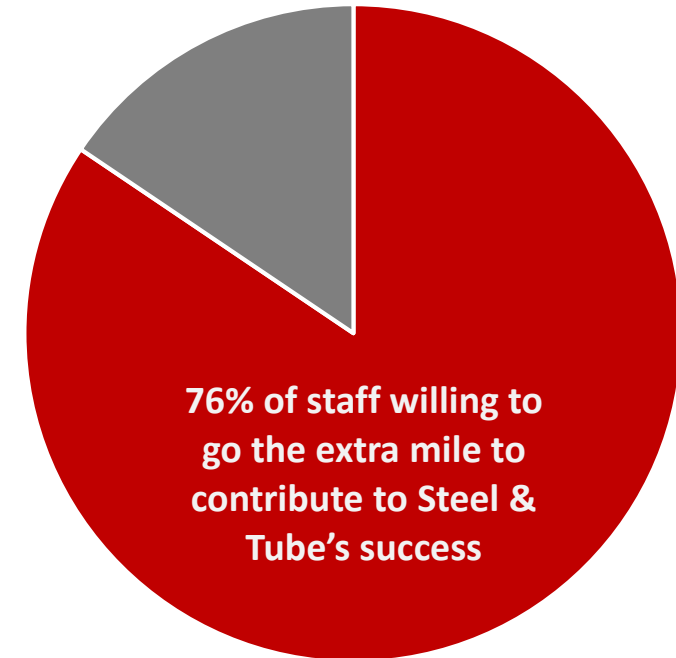
### KEY STRATEGIES IN FY19

- Employee engagement
- Leadership development
- Sales training
- Annual Excellence Awards
- Continue to support First Foundation

# ANNUAL STAFF SURVEY RESULTS

- High participation by staff across company divisions and locations
- 76% willing to go the extra mile to contribute to the company's success
- Company Strengths: people, teamwork, employee knowledge and loyalty
- Strong recognition Health and Safety is a top company priority
- Staff workshops across the company to establish company-wide initiatives

## High levels of staff engagement





# STRONG MANAGEMENT TEAM

## OPERATIONAL MANAGEMENT



**Mark Malpass**  
CEO



**Marc Hainen**  
GM Distribution



**Steve Kubala**  
GM Roll Forming



**Andrew Roche**  
Reinforcing Manager



**Mohammed Afroz**  
CFDL Manager

## BUSINESS MANAGEMENT



**Greg Smith**  
CFO



**Miki Cooke**  
National Supply Chain  
Manager



**Dave Clegg**  
GM People & Culture



**Damian Miller**  
Quality, HS&E  
Manager

# Trading Update and Outlook

---



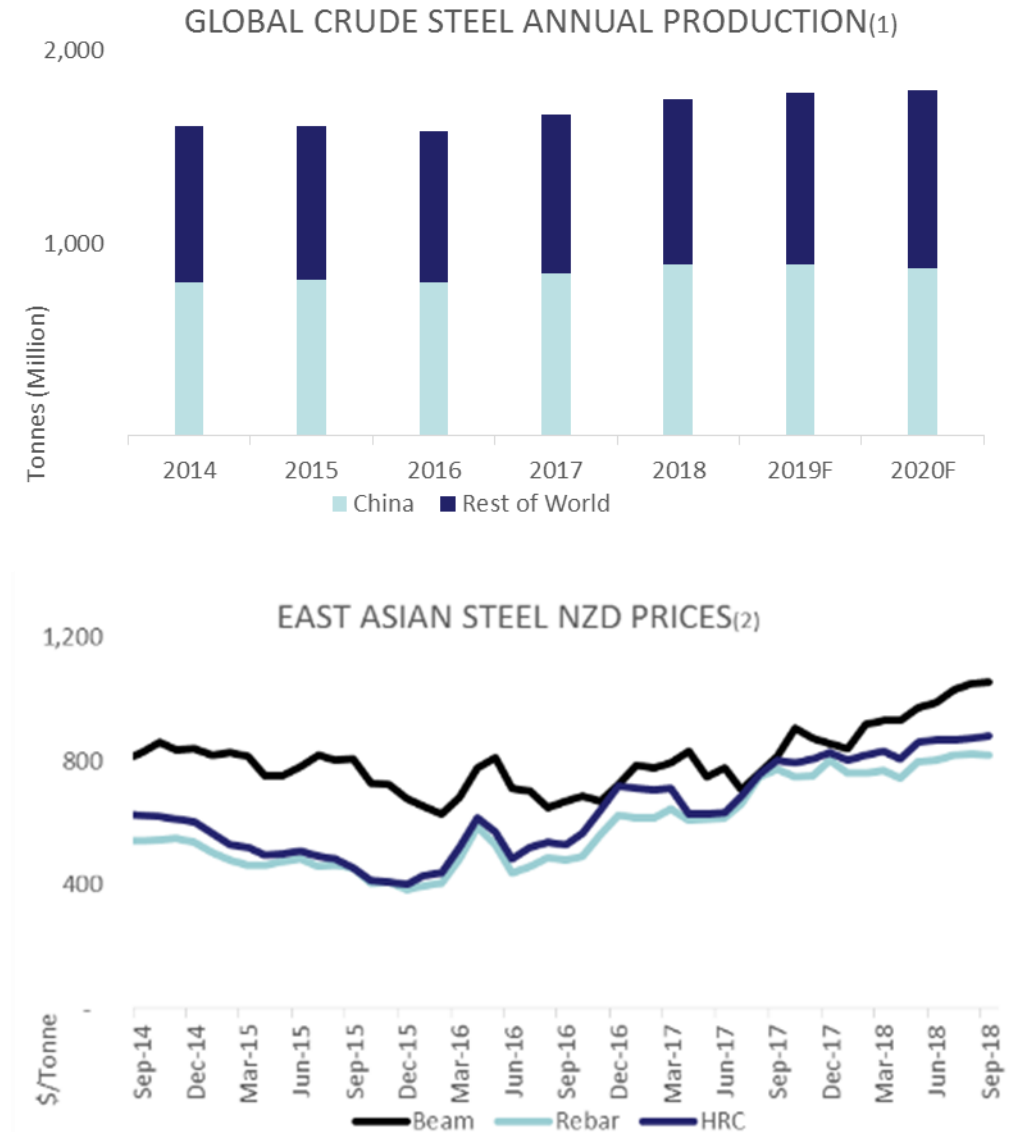
# OPERATING ENVIRONMENT

## Global Steel Market Trend

- Global crude steel production increased by 2.6% to 1.748b tonnes over the last year
- China's increased output of 2.7% over the year which was mainly consumed domestically
- East Asian steel prices continued the upward trend but flattened out in the second half of the year, although softening New Zealand dollar putting pressure on domestic prices

## Year to Date:

- Demand for steel continues to grow in line with global growth forecasts
- Steel prices on a rising trend
- NZD:USD weakened in past year



1) Source: World Steel Association, August 2018

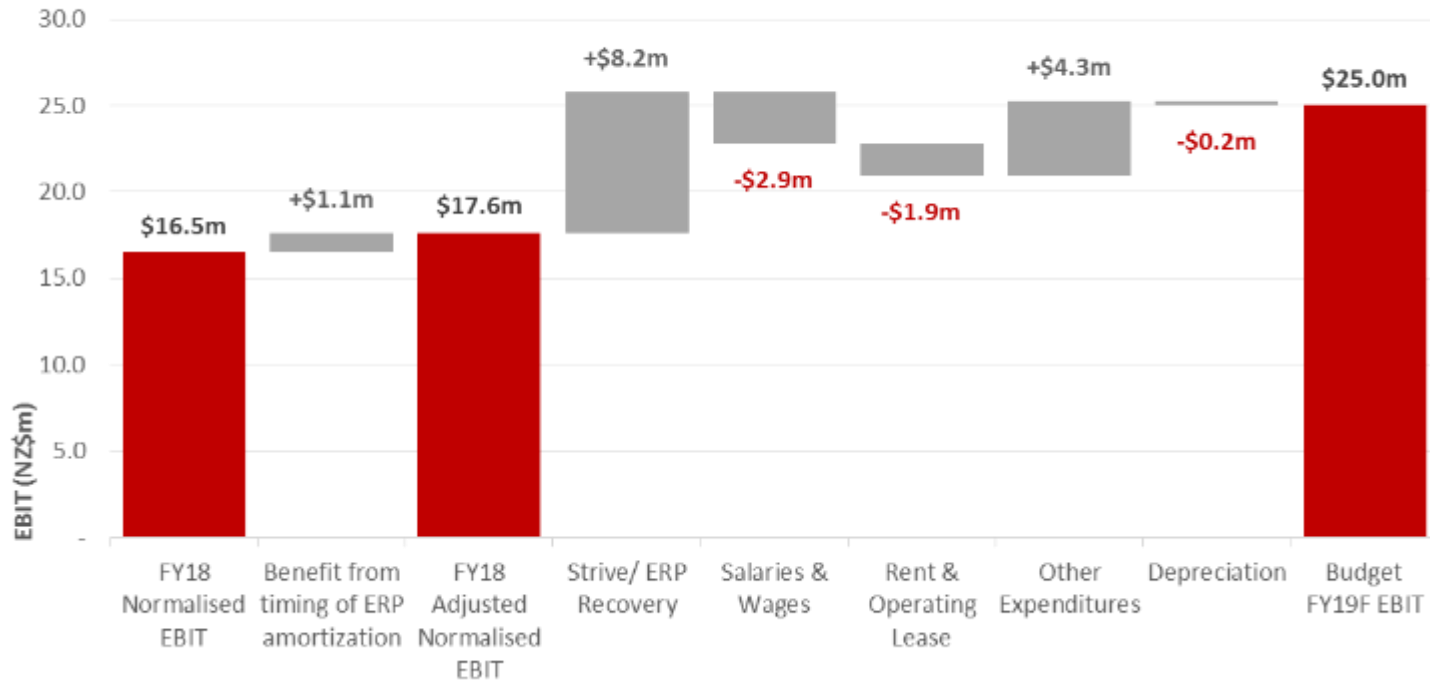
2) Source: S&P Global Platts, September 2018 with USD/NZD conversion



# FY19 GUIDANCE

No change in guidance, FY19 earnings before interest and tax of \$25m

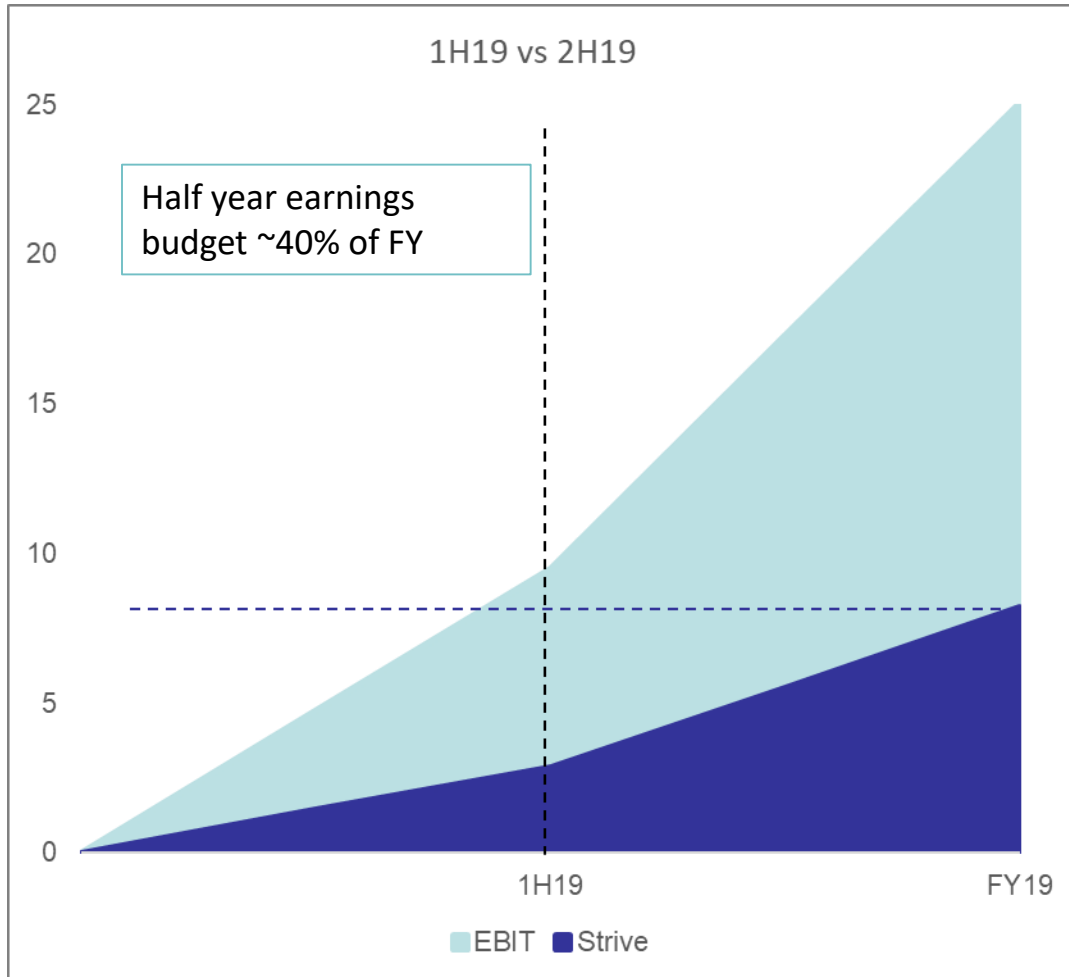
## EBIT BRIDGE FROM FY18 TO FY19F



- Legacy issues behind us and major financial restructuring completed
- Beginning journey to significantly improved operating and financial performance
- Recent increases in volumes are encouraging as ERP stabilised and focus has shifted to servicing customers
- Structural changes through Strive programme gaining momentum
- Operating cost reductions forecast to realign with sales
- Safety and quality disciplines underpinning supply chain and operational excellence



# HALF YEAR OUTLOOK



Half year earnings budget ~40% of FY

FY19 EBIT target of \$25m

\$8.2 million contribution from Strive initiatives and ERP recovery

- Majority of earnings improvements driven by the Strive programme
- Benefit of improvement actions expected to flow through subsequent years
- 1Q on track with budget to achieve FY19 guidance
- Strive programme driving earnings YTD



Shareholder  
Discussion

---



Resolutions

---

# RESOLUTIONS



RESOLUTION 1: That the Directors be authorised to fix the fees and expenses of PricewaterhouseCoopers as the Company's auditor.

RESOLUTION 2: That Susan Paterson, who retires by rotation and is eligible for re-election, be re-elected as a Director of the Company.

RESOLUTION 3: That Anne Urlwin, who retires by rotation and is eligible for re-election, be re-elected as a Director of the Company.



Other Business  
Close of Meeting

---

# DISCLAIMER

This presentation has been prepared by Steel & Tube Limited (“STU”). The information in this presentation is of a general nature only. It is not a complete description of STU.

This presentation is not a recommendation or offer of financial products for subscription, purchase or sale, or an invitation or solicitation for such offers.

This presentation is not intended as investment, financial or other advice and must not be relied on by any prospective investor. It does not take into account any particular prospective investor’s objectives, financial situation, circumstances or needs, and does not purport to contain all the information that a prospective investor may require. Any person who is considering an investment in STU securities should obtain independent professional advice prior to making an investment decision, and should make any investment decision having regard to that person’s own objectives, financial situation, circumstances and needs.

Past performance information contained in this presentation should not be relied upon (and is not) an indication of future performance. This presentation may also contain forward looking statements with respect to the financial condition, results of operations and business, and business strategy of STU. Information about the future, by its nature, involves inherent risks and uncertainties. Accordingly, nothing in this presentation is a promise or representation as to the future or a promise or representation that an transaction or outcome referred to in this presentation will proceed or occur on the basis described in this presentation.

Statements or assumptions in this presentation as to future matters may prove to be incorrect.

A number of financial measures are used in this presentation and should not be considered in isolation from, or as a substitute for, the information provided in STU’s financial statements available at [www.steelandtube.co.nz](http://www.steelandtube.co.nz).

STU and its related companies and their respective directors, employees and representatives make no representation or warranty of any nature (including as to accuracy or completeness) in respect of this presentation and will have no liability (including for negligence) for any errors in or omissions from, or for any loss (whether foreseeable or not) arising in connection with the use of or reliance on, information in this presentation.



**steel&tube**