



S&T Annual Meeting 16 November 2017

Chair's Address

Good morning ladies and gentlemen and welcome to today's meeting. My name is Susan Paterson and I am the chair of Steel & Tube.

I am joined today by my fellow directors – Chris Ellis, Steve Reindler, Anne Urlwin, Rosemary Warnock and Dean Pritchard, as well as Interim CEO, Mark Malpass and Interim CFO, Steve Armstrong.

I would also like to welcome representatives from the company's auditors, PricewaterhouseCoopers, our solicitors, Buddle Findlay, and other advisers.

Before we get underway, in the event of any emergency, the alarm bells will ring.

Please remain seated and calm until a warden arrives and leads you out of the exit and down the emergency stairwells to the assembly point.

The designated assembly point is outside the Fujitsu Tower on the northern side of the Hotel.

The Notice of Meeting and the 2017 Annual Report and financial statements have been made available to shareholders, a quorum is present and I therefore declare the meeting open.

Today you will have an opportunity to hear from both myself and from Mark Malpass on Steel & Tube's progress and our aspirations for the future.

There will then be an opportunity for discussion and any questions on our presentations.

We will then move to the formal part of the meeting. We will cover each resolution in turn and invite questions, specific to those resolutions. There are a number of directors up for election or re-election by shareholders today, including myself, and you will have the opportunity to hear from each of us at that time.

Following the resolutions, there will be time for any further questions or discussion.

At the close of the meeting, I hope you will all stay and join us for refreshments.

[Slide: A Modern and Innovative Company]

I joined Steel & Tube year and would like to share with you a few of my thoughts on the company so far.

Steel & Tube has over 60 years' of trading history – not many businesses in New Zealand that can claim that sort of heritage. For a company to have that length of successful commercial operation, it has to be adaptable to change. And one thing is certain – change never stops.

The last five years in particular have seen our company transform. We have implemented new hardware and software platforms, refined our business structure, and grown the service and product offering to our customers.

The highlights have been our acquisitions of the Tata Stainless, MSL Fasteners and CFDL businesses. That said, net of acquisitions, Steel & Tube's core businesses have been under pressure with intensifying competition.

We have worked with the Commerce Commission regarding the mesh labelling and testing issues, however, as this is before the courts we are unable to comment on this further.

We acknowledge that recent company performance has been below the expectations of our shareholders and ourselves. This, and investor market sentiment around our sector, has been reflected in the share price.

The Board and Management take this very seriously, and have spent considerable time putting remedial actions in place to improve our performance.

We are now developing and implementing an improvement programme which we believe will put us back on track to realise our potential. We appreciate your support while we make these necessary changes. We are totally committed to delivering greater value to our shareholders.

[Slide: Delivering For New Zealanders]

Steel & Tube provides product and services that supports the needs of New Zealand's increasing population and economic growth as well as supporting a range of community initiatives. Some examples of this include:

- The Mangere wastewater treatment plant (pictured), which is one of the world's most advanced water treatment facilities. The upgrade for this plant is to cater for an additional 250,000 people as Auckland grows. Steel & Tube supplied 7 kilometres of stainless steel pipework, 400 metres of large bore carbon pipe work along with over 18,000 individual items, including valves, fittings, bolts and gaskets.
- The new Kapiti Expressway has delivered a key section in the 100 kilometre Wellington Northern Corridor, a major upgrade to this 'road of national significance'. Working collaboratively with the construction alliance and NZTA, our innovative technical team helped overcome some challenging supply requirements. Along with 1500 tonnes of cut and bent reinforcing, hundreds of thousands of stirrups were designed and bent by our amazing staff.
- Our sponsorship of the First Foundation continues. We are now in our fifth year and are supporting 7 teenagers from employees families realise their education goals through scholarships providing financial assistance, paid work experience and coaching.

[Slide: Strategy Refresh]

We have refreshed our strategy to maximise the value of the investments made over the past five years.

We have grown, mainly through the acquisition of businesses that have strengthened our customer offer and created market leading positions, opening up new and complementary opportunities for our company. We have expanded our products and services, allowing us to meet more of our customers' needs.

We will continue to focus on initiatives that leverage our scale and size, and the breadth of our product offering.

- Our company ethos - 'One Company' which allows us to collectively present the full suite of our capabilities to customers - is well established and we are now positioned to provide more effective supply chain solutions.

We are exploring ways to add value for our customers to make their businesses more efficient.

- Our national property network has been made fit for purpose, providing better and safer work places for our people and more efficient hubs for our businesses.

We will continue to modernise our facilities, equipment and systems to enhance our customer offer and deliver products cost effectively.

- We have invested in technology with new hardware and software platforms across the Group. These will deliver multiple benefits for both our customers and our business. Technology will be an enabler to make our company more agile, responsive and connected.

Safety, health and quality remain at the forefront of all we do.

[Slide: Strong Board and Leadership Team]

Since joining the Board, I have worked with my colleagues on a number of fronts. One of our first tasks was to complete a competency matrix for the Board. This identified the skills needed to take the company forward, where we were strong and where we had current or pending gaps, given Dean Pritchard's decision to retire at the end of his current term.

We believe we are today, proposing to our shareholders an extremely competent Board, well qualified to enhance our strategic vision, and drive excellence in execution.

Anne Urlwin will remain on the Board – Anne has years of governance experience, is strong financially and commercially and Chairs our Audit & Risk committee. Construction and infrastructure are key markets for Steel & Tube and Anne has deep knowledge of these markets as a chairperson or director of construction and infrastructure companies, including the Naylor Love Construction Group, City Rail Link, Chorus and Summerset.

Rosemary Warnock is standing for re-election. Rosemary has Chief Executive and international supply chain experience from Europe, Australia and Asia. She also brings an understanding of the steel sector through her directorship with Arrium Ltd (OneSteel-Australia) and has a rural background and experience. Rosemary is Principal of Adelante Group which provides mentoring services to senior executives. In addition to providing continuity and institutional knowledge of Steel & Tube, Rosemary's Australian and international market

knowledge, people insights and in-depth Health and Safety expertise add real strength to our Board. Rosemary chairs the Health and Safety Committee.

Steve Reindler was appointed to the Board to add further industry expertise. He has a background in large scale infrastructure and steel manufacturing, with executive positions at Auckland Airport and NZ Steel. An engineer, Steve also brings relevant construction, infrastructure, and supply chain knowledge from directorships with Naylor Love, Meridian, Port of Napier and Stevenson Group.

Chris Ellis further demonstrates the Board's commitment to having New Zealand building products, supply chain and distribution expertise on the Board. After five years as General Manager of first, Fletcher Construction Engineering Division then Winstone Aggregates, Chris spent over four years as chief executive of the Building Products division of Fletcher Building. His current Directorships of Hiway Group and NZ Transport Agency bring understanding of major infrastructure projects. Both Chris and Steve are on the Board of Worksafe NZ, reflecting our total commitment to a healthy and safe workplace for our people.

Finally, myself. Back in the early 90's I took on a special project to raise the performance of the seven steel businesses at Fletcher's, including scrap, manufacturing at Pacific Steel, roofing, pipes, fencing, mesh and finally distribution through the-then Fletcher Steel. I then moved into the role of General Manager at Wiremakers which manufactured and distributed fencing, mesh, and nails – many of Steel & Tube's products of today. Strategic use of information technology is another key area of focus for me – going back to the UK and USA where I worked for a very bright group of consultants out of Massachusetts Institute of Technology, to today where I chair Theta, a team of over 200 consultants adding real value to New Zealand with the smart use of IT. I also bring construction knowledge from my directorships at Goodman Property and Arvida.

I trust this gives you an understanding of the work that has gone into researching and attracting people of the calibre we believe will best serve the interests of you, our shareholders.

After determining the competencies of directors we required, we used the Institute of Directors to give the Board an independent benchmark of our Board fees, as these were last increased by shareholders over 10 years ago. It is in shareholders' best interests that fees are at a level to attract competent directors, given the significant impact on performance good directors can make, and, competent directors do have choices with regards to the Boards they join. While the Board was recommended to increase base fees to between \$80,000 and \$85,000, after consultation with the shareholders association and institutions, we decided that, as returns to shareholders over the past years had not been at a level shareholders deserved, to recommend directors fees \$7,500 below the median of this range, to be set at \$75,000, with the Chair's fees to be \$20,000 below the median of the recommended range.

Your Board is very engaged and putting considerable time into understanding and overseeing the performance and strategy of the company. We meet regularly with members of the executive to understand the opportunities and issues in their areas, to constructively challenge proposals and offer sage wisdom and guidance from our past and current experience in the marketplace.

There are also a number of changes to the leadership team and we are very excited about the new talent coming into the company.

An essential ingredient of good governance is to attract and retain excellent executives. It is important that remuneration is market competitive and aligned to shareholder returns. The Board has undertaken extensive work on this and engaged PWC to benchmark our CEO

remuneration and make recommendations on our Long Term Incentive Scheme. The Board is making changes in both areas, and our new remuneration frameworks will be best practice and more closely aligned with shareholder value creation.

With Steve and Chris new to the Board last month, we are giving them a couple of months to develop their views on what we need in our new permanent CEO. In the meantime Mark Malpass, who was appointed as a director in March this year, has stepped down from the Board and taken on the role of interim CEO.

Mark has had significant executive experience both in NZ and overseas. He worked with ExxonMobil Corporation for over 19 years and was Chief Executive of Fletcher Building's largest division, Infrastructure Products. His time there included transforming their steel distribution businesses. We are not standing still and Mark is putting in place the foundations to greatly enhance the performance of Steel & Tube.

We have also welcomed Greg Smith as CFO, with interim CFO, Steve Armstrong, currently handing over the reins.

We have been fortunate to have Steve's strong experience and leadership skills as our interim CFO since the beginning of July, and thank him for his excellent contribution in the time he has been with us.

Greg joined the Company on 30 October, and is in the audience with us today. A chartered accountant, Greg has financial and senior level leadership experience across the energy, infrastructure, consultancy and telecommunications sectors. He commenced his finance career with KPMG's audit team in Wellington in 1996 and has held senior finance roles with Opus International Consultants and since 2011, as Chief Financial Officer with Wellington Electricity Lines Limited.

I firmly believe that Steel & Tube's refreshed Board and management team have the ability to work well together to deliver value to our customers, staff, the communities in which we work, and shareholders.

I would also like to take this opportunity to acknowledge and thank Dave Taylor for his contribution to Steel & Tube as CEO. Dave was instrumental in modernising Steel & Tube, and acquisitions during his tenure as CEO have strengthened the company, and positioned it to create value moving forward. The Board is grateful for Dave's valuable contribution, and we wish him well in his future endeavours.

Finally, long serving director and former Chair, Dean Pritchard, will be retiring as an Independent Director, with effect from this meeting. Dean has been a director since 2005, and served as Chair from 2005 to 2012. He has brought wide ranging experience and sound judgment to the Board as we worked through a number of critical milestones in developing our 'One Company' strategy and then delivering our refreshed strategy in 2016. Thank you Dean.

[Slide: Delivering Shareholder Value]

An essential focus for the Board is to deliver value for our shareholders.

Our aspiration is to be an excellent, supply chain player of scale in a number of complementary channels, delivering extraordinary value.

We want to be seen as a leading provider and to do this, we need to balance high dividend yields with investing for growth.

We recognise that dividends are important to our shareholders. So to, is share price appreciation driven by profitable growth.

In recent years, borrowings have grown to fund acquisitions and to position the company to create shareholder value. During this period, the company has maintained a consistently high dividend pay-out. We are now focussed on optimising the company's balance sheet to ensure that it is well placed to profitably grow.

Accordingly, we have set out to develop a set of capital structure guidelines, to balance the choices we make around investment, managing financial risk, and paying dividends.

The Board has agreed the following capital structure targets:

- A dividend pay-out ratio target, of between 60% and 80% of 'normalised' net earnings, being net earnings adjusted for any material non-ordinary items, and subject to relevant factors at the time including working capital and opportunities for growth
- Net debt to EBITDA to be less than 2.75 times
- Net debt to net debt + equity to be within the target range of 30-35%

The Board has committed funding lines in place, with its banking partners BNZ and HSBC. After a review of the best use of, and returns on, its capital, we have decided to market the Stonedon Drive property in Auckland, on a sale and lease back arrangement. Proceeds from any divestment will go towards reducing leverage.

By strengthening our balance sheet, and growing earnings, we consider that the total returns to shareholders, being dividends and share price appreciation, will be optimised and, over time, we expect shareholders will realise greater value from their investment in Steel & Tube.

[Slide: Fit for the Future]

Steel & Tube is a diversified company with customers in multiple sectors of the New Zealand economy namely; construction, infrastructure, rural and manufacturing. It operates across most of the New Zealand steel sector - from small item, high value, retail through to specialised steel solutions and large, commodity, structural steel.

Competition is intense in some sectors and a finite pool of resources is leading to cost pressures. However, in this increasingly challenging market, the company has continued to deliver a profitable performance.

We work with more than 23,000 customers every year, and we are committed to delivering them the best possible service and products.

Equally important are the hundreds of great people who work for Steel & Tube. Our focus is on making sure they are safe, and well at work, and building a culture where they are recognised and rewarded for their efforts. I would like to take this opportunity to thank all our people for their contributions in the past year.

The investments made in the last five years have positioned Steel & Tube to build profitable share in key market segments.

Your board and management team are working hard to maximise these investments and deliver value to our shareholders.

We are committed to open, and transparent communications, and we are looking at new opportunities to engage with you, and the investment market, and keep you informed.

Steel & Tube is a Kiwi company through and through. We have been part of the fabric of New Zealand industry for more than 60 years, and we are committed to playing our part in creating a stronger country.

I would now like to hand over to Mark to talk further on our new initiatives, and continuous improvement program.

[Refer to Interim CEO Address]

[Slide: Board's Focus]

Thank you Mark. Before we move onto the business of the meeting, I'd like to summarise the Board's key priorities for the next year.

The capital investment made into acquisitions, and the business, in the past five years has created a strong platform for Steel & Tube. However, we are very aware that the company now needs to realise the significant benefits and value from these.

We are firmly focused on the financial and operational performance of the company, and are fully engaged to support the management team, in delivering exceptional customer service, and returns to our shareholders, with lower overhead and operating costs.

We will finalise the appointment of a permanent CEO.

And finally we will focus on risk management, including a clear understanding, and oversight of, the risks relevant to our business, including a strengthened focus on quality, and continued focus on health and safety.

We recognise our responsibility to keep our shareholders informed. Your Board is committed to transparent communication and engagement, and we welcome feedback and discussion from our shareholders.

[ENDS]

Note this speech was made in conjunction with the AGM PPT presentation. You can view the presentation by clicking on this [link](#)