STRONGER IN EVERYWAY

23 February 2018

STU / NZX ANNOUNCEMENT

Steel & Tube Half Year Results to 31 December 2017

- Earnings Before Interest and Tax (EBIT) of $6.7m, in line with November 2017 guidance which forecast that HY18 would be $9 – 10m lower than the prior half year, including a number of significant non-trading costs[i]
- Non-trading costs reflect the short term impact of the change programme, including a working capital review and restructuring activities, with improved earnings expected into FY19 and beyond
- Confirmed interim dividend of 7.0 cents per share
- In line with previous guidance, the Company currently expects FY18 EBIT to be materially consistent with FY17 EBIT, excluding non-trading costs[ii]
- Post-period end: Mark Malpass appointed as CEO, effective from 22 February 2018.

Steel & Tube Holdings Limited (NZX:STU) has announced its interim results for the six months to 31 December 2017 (HY18), reporting a short term decrease in operating earnings as expected, as the Company undertakes a change programme to drive long term sustainable improvements in the Company's earnings and performance.

Steel & Tube's operating earnings are consistent with the guidance provided to the market at the Annual Shareholder Meeting in November 2017. Operating earnings (EBIT) for the six months was $6.7m (HY17: $16.1m). Revenue was up 5% on the prior comparative half year to $267.9m, reflecting the benefit of additional revenue from the acquisition of Composite Floor Decks Limited (CFDL) in 2016 and improved performance by S&T Plastics, partially offset by lower volumes and margin pressures in core distribution and reinforcing businesses.

The half year result includes significant non-trading costs relating to a working capital review and restructuring activities, as previously advised.

Including these non-trading costs, Steel & Tube reported a Net Profit After Tax (NPAT) of $3.8m (HY17: $10.6m). Whilst impairments and restructuring costs are having an unavoidable impact on short term EBIT, improved earnings from the change programme are expected to flow into FY19 and FY20.

Over half of the year on year decrease is related to a $5.5m write down of aged inventory to net realisable value following a substantial review of inventory holdings; with $2.6m in expenses relating to the impact of organisational changes completed in the period ended 31 December 2017. These costs were partially offset by an additional four months of earnings (compared to the prior first half year), totalling $1.9m, from the acquisition of CFDL in 2016.

Excluding these major items, normalised EBIT was $12.9m, compared to $15.6m in the previous first half year.[iii] HY18 earnings also include the impact of increased depreciation and amortisation costs of $1.1m from recent capital investment programme and acquisitions.

The Board is focussed on optimising the balance sheet to ensure that Steel & Tube is well placed to profitably grow and confirms that the company is on track to meet its capital structure targets, on a normalised basis.

Inventories have reduced by approximately $9.6m since June 2017, excluding the provision for write-down, and further reductions are targeted. This reflects a continued focus on supply chain and logistics efficiencies as the Company targets improving the delivery of products to meet customer needs.

Net debt has been reduced by 25% to $95.5m, mainly due to divestment of the Stonedon Drive property and an ongoing focus on improving the Group's working capital position.

Consistent with its dividend policy of a payout ratio of between 60% and 80% of net earnings adjusted for any material non-ordinary items and subject to relevant factors at the time, the Board has declared an interim dividend of 7 cents per share to be paid on 29 March 2018.

Chair of Steel & Tube, Susan Paterson said: "We remain committed to improving the way Steel & Tube operates across all areas of its business, from sourcing and supplying quality products to delivering a high-quality customer experience. The change program is progressing well and, while there may be some further downside earnings potential as the company transitions through a period of significant change and rebuilding, early benefits are beginning to be seen.

"Steel & Tube remains on track to deliver earnings consistent with November 2017 guidance, with FY18 EBIT expected to be materially consistent with FY17 EBIT, excluding non-trading costs."

Operating Review

The company has been aligned into two operating divisions – Distribution and Infrastructure– and these are now reported separately in the segment note in the financial statements.

Distribution focuses on products which are sourced from preferred steel mills and distributed through the company's national network of branches to customers. For the six months, Distribution division revenue was $155.9m with normalised EBIT of $5.8m excluding an adjustment of $3.7m for the impairment of inventory.

As part of the change programme, a major review of the supply chain has commenced with the objective of improving the value add for customers and reducing Steel & Tube's overall delivered cost. Inventory management has been a key focus and is expected to result in lower lease, freight and operating costs into the second half as well as improved availability of core lines for customers. Whilst the market remains highly competitive, price increases are expected to have a positive impact on margins in the second half.

Infrastructure focuses on products which are processed by Steel & Tube before sale and typically on a contract or project basis, including onsite installation services. Infrastructure revenue was $112.0m with normalised EBIT of $10.7m, excluding an adjustment of $1.8m for the impairment of inventory.

While margin compression and unsustainable low bidding are still issues in the sector, management remain focused on improving quality standards and disciplined project management. A number of significant construction projects are underway, and the two previously identified onerous contracts are expected to complete in March and April 2018, in line with the provisions taken in FY17. CFDL and S&T Plastics are both performing well.

Global demand for steel remains high and reduced capacity in China combined with Chinese domestic demand has seen steel exports reduce, and increasing steel prices. These increases had a significant impact on Steel & Tubes margins in September and October 2017 as the highly competitive New Zealand market was slow to respond to these input cost increases. However, most local participants, including Steel & Tube, increased prices in November 2017. While the increased global steel prices impacted on margin in the first half, pleasingly, Steel & Tube remains the number one or two provider in most segments in the steel market.

Chief executive officer, Mark Malpass, said: “We are putting the customer at the centre of all we do and creating a more efficient business. The safety and wellness of our people remains a priority, as does quality management of the products and services we sell. The change programme will ensure Steel & Tube is well positioned for the future and enable us to take advantage of the significant opportunities that are available.”

[ENDS]

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[i] **November 2017 Guidance**: Half-year earnings before interest and tax (“EBIT”) for the 2018 Financial Year will be lower than the prior half year by $9 - 10 million. Half year EBIT is expected to be impacted by working capital review, reorganisation and restructuring activities and increased depreciation and amortisation costs.

[ii] **Non-trading costs** comprise adjustments for the impairment of inventory and restructuring costs.

[iii] **Non-GAAP financial information:** Steel & Tube uses several non-GAAP measures when discussing financial performance. These include Earnings Before Interest and Tax (EBIT), normalised EBIT and working capital. Management believes that these measures provide useful information on the underlying performance of Steel & Tube’s business. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Reconciliations of the non-GAAP measures to GAAP measures, can be found on page 21 of Steel & Tube’s Interim Report that is available on the company’s website.