23 May 2018
STU / NZX ANNOUNCEMENT

STEEL & TUBE REVISED GUIDANCE FOR FY18

- Steel & Tube Holdings Limited has updated its guidance for the financial year to 30 June 2018 and now expects normalised EBIT of approximately $16 million, excluding non-trading costs and impairments of up to $54 million. This will result in an EBIT loss of approximately $(38) million.
- The revised guidance follows an extensive company-wide review of the business by the refreshed Board and Management team in conjunction with the previously announced change programme.
- The review has resulted in the planned exit from and associated impairment of S&T's plastics business; a further write down of inventory values; a likely impairment of intangible assets; rationalisation of Distribution and Reinforcing operations; and completion of further organisational restructuring.
- In addition, as previously advised, the company has been significantly impacted by issues relating to the implementation of its new ERP system.
- The trading environment remains highly competitive.
- As a result of the write downs and impairments, the forecast earnings for FY18 are expected to result in a breach of one or more covenants in the Group's senior debt facilities. Management is seeking a waiver from its banking partners for any covenant breach.
- The Board is confident that the change programme and restructuring undertaken will drive sustainable improvements in earnings and deliver benefits from FY19 onwards.

STRONGER IN EVERYWAY

FY18 Results to Reflect Impact of Change Programme and Business Review

Steel & Tube Holdings Limited (NZX: STU) has today provided an update on earnings guidance for the FY18 financial year ending 30 June 2018.

Steel & Tube had previously expected to deliver FY18 Earnings Before Interest and Tax (EBIT) consistent with the prior year of $31.0 million excluding non-trading costs. For the half year to 31 December 2017, Steel & Tube reported EBIT of $6.7 million including non-trading costs of $8.1 million.

Since this time, and in conjunction with the previously announced change programme targeting improved business performance, the company has undertaken an extensive review of business operations. This has resulted in a decision to exit Steel & Tube's plastics business; a further write down of inventory values; a likely impairment of intangible assets; rationalisation of Distribution and Reinforcing operations; and completion of further organisational restructuring.

In addition, the company has been significantly impacted by further issues related to the implementation of a new ERP system that went live on 2 October 2017, which represent approximately two-thirds of the year on year change in normalised EBIT.

The trading environment remains highly competitive however, Steel & Tube's pricing strategy is having a positive impact.

As a result of the factors above, the Company now expects normalised EBIT of approximately $16 million, excluding non-trading costs and impairments of up to $54 million. This will result in an EBIT loss of approximately $(38) million.

A decision on the payment of a final dividend for FY18 will be made in line with the Company's dividend policy, when the financial result is finalised.

Chair of Steel & Tube, Susan Paterson said: "As noted at the half year, we have initiated a change programme and are restructuring the company to drive sustainable improvements in earnings. As part of the business review, a number of legacy issues have now been identified and resolved. The new Management team has completed significant restructuring over the last six months and, while today's announcement is disappointing, the Board is confident the business is now well placed to move forward. We have put the past behind us and are focussed on growing our business as a leading provider of steel products and solutions in New Zealand."

The commentary below provides further details.

Exit from S&T Plastics

Steel & Tube Plastics specialises in plastic piping for on-farm irrigation and has been a key supplier to a number of large scale irrigation projects. Management have undertaken a detailed review of this business. With the downturn in the irrigation market, along with a need for further capital investment, it has been determined that exit from this business and sale of its assets will provide the best outcome for shareholders. Management are expecting a net write-down of up to $12 million, being the difference between the carrying value of net assets and their expected realisable value and estimated closure costs.

Implementation of ERP system and Business Rationalisation

While the new ERP system is now operational, issues with its implementation across the group have been far greater than expected. This has hampered business operations and resulted in lost business. The company has worked closely with its IT suppliers to rectify issues and, while the Board and Management are disappointed in the execution of this project, they are confident that this new platform is the right one to take the company forward.

The roll-forming and core distribution businesses, in particular, have been impacted by the ERP implementation issues.

Pleasingly, sales volumes have started to improve in the affected businesses.

A key component of the change programme has been a decision to rationalise locations and service customers through core operating hubs. This will enable the company to provide a competitive service offering to customers with improved service standards. The short-term costs of this and impaired lease provisions will be recognised in FY18.

Asset Write-down and Impairment

The new ERP system has allowed for improved visibility and disciplines around inventory management, and the company is actively working to strengthen inventory management practices and better align inventory with customer requirements. Following a detailed review of inventory on hand, including extensive stock takes and a further assessment of aged inventory, management has confirmed a further write down of approximately $18 million is required.

Management have also undertaken a preliminary review of the carrying value of intangible assets and consider that an impairment of up to $10 million is likely.

Chief Executive Officer, Mark Malpass, said: "The impact of resolving legacy issues and resetting the company has been greater than anticipated. However, with the ERP system now operational and, alongside the restructuring carried out over the last six months, we are turning the corner. We have a well considered change programme underway that has the customer and our supply chain performance at the heart of our initiatives. We are starting to see improvement and are confident we are on the path to rebuilding Steel & Tube as a leading provider of steel products and solutions in New Zealand."

As a result of the write downs and impairments, the forecast earnings for FY18 are expected to result in a breach of one or more covenants in the Group's senior debt facilities. Management is seeking a waiver from its banking partners for any covenant breach.

As previously advised, it is expected that any financial penalty relating from the current Commerce Commission court case will be covered by Steel & Tube's insurance.

Further details will be provided when Steel & Tube releases its FY18 financial results on 31 August 2018.

ENDS

Conference Call

Steel & Tube CEO Mark Malpass and CFO Greg Smith, will host a teleconference call for investors and analysts at 11.00am NZ time today to provide more detail on this announcement. Dial in details are set out below.

Passcode: 9774848

New Zealand	Tollfree/Freephone	0800 423 970
New Zealand	Local	+64 (0) 9 9133 622
Australia	Tollfree/Freephone	1 800 573 793

For further information please contact:

Mark Malpass
Steel & Tube CEO
Tel: + 64 27 7770327
Mark.malpass@steelandtube.co.nz

Greg Smith
Steel & Tube CFO
Tel: +64 21 755 803
greg.smith@steelandtube.co.nz

Jackie Ellis
Media and communications
Tel: +64 27 246 2505
jackie@ellisandco.co.nz