29 August 2018
STU / NZX ANNOUNCEMENT

STEEL & TUBE FY18 FULL YEAR RESULTS

- FY18 results slightly ahead of the guidance given on 23 May 2018, due to an improving trading performance in the last three months of the financial year, early benefits from business transformation initiatives and non-trading adjustments being slightly less than forecast.
- Normalised operating earnings (EBIT) of $16.5 million, excluding $53.8 million of non-trading costs and impairments and a $1.1 million benefit from reduced software amortisation costs due to the delay in implementing the new ERP system.
- Including these items, EBIT was a loss of $(36.2) million, a $1.8 million uplift on guidance.
- Net Loss After Tax of $(32.1) million, in line with expectations.
- Since the half year, legacy issues have been addressed and a company-wide programme has been initiated to drive long term sustainable earnings improvement.
- An $80.9 million capital raising is currently underway to strengthen the balance sheet.
- As previously advised, no final dividend will be paid for FY18.

Steel & Tube Full Year Results for the 12 months ended 30 June 2018

Steel & Tube Holdings Limited (NZX: STU) has announced results slightly ahead of guidance for the year ended 30 June 2018 (FY18), due to an improving trading performance in the last three months of the financial year, early benefits from business transformation initiatives and non-trading impacts being slightly less than forecast.

In late calendar 2017 and following a refresh of the Board and Management, Steel & Tube embarked on an extensive company-wide programme to drive long-term sustainable earnings improvement. As part of this process, a detailed review was undertaken and a number of legacy issues were discovered, materially impacting FY18 expected earnings, as communicated to the market on 23 May 2018.

These issues have now been addressed and the initiatives being implemented as part of Steel & Tube's 'Project Strive' business transformation programme are delivering early results. The improving sales trend seen in the last three months of FY18 has continued into the current financial year.

For the FY18 year, Steel & Tube reported sales revenue of $495.8 million, with slightly lower year on year sales reflecting the short term impact of implementation issues with the new ERP system, alongside highly competitive trading conditions in some businesses.

Operating earnings (EBIT[i]) were a loss of $(36.2) million including non-trading costs and impairments of $(53.8) million.

Excluding non-trading costs, impairments and a $1.1m benefit from reduced software amortisation costs (not included in May 2018 earnings guidance), normalised operating earnings were $16.5 million. A net loss after tax of $(32.1) million was reported for the FY18 year.

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Steel & Tube has initiated an $80.9 million capital raising to strengthen the balance sheet, provide financial flexibility to execute its business transformation initiatives and achieve longer term strategic objectives. The capital raised will be used to pay down debt and, following completion, gearing is expected to be approximately 1.15x normalised EBITDA. The capital structure policy has been reset to operate with net debt of less than 2.0x normalised EBITDA.

While no final dividend will be paid for FY18, the company expects to resume dividend payments in FY19 consistent with its stated policy of paying 60-80% of normalised NPAT.

CEO of Steel & Tube, Mark Malpass, commented: "We are now beginning the journey to significantly improve operating and financial performance. The organisation has been restructured to improve capabilities and efficiency, and capture synergies from acquisitions. In addition, Steel & Tube's property footprint continues to evolve to remove duplication and improve customer service. Following completion of the capital raise, we will have a strengthened balance sheet and will be well positioned to execute our business transformation initiatives."

Distribution

In FY18, the Distribution division generated $288.3 million revenue and normalised operating earnings of $5.9 million. Including non-trading adjustments of $(18.7) million, operating earnings were a loss of $(12.8) million.

Performance was materially impacted by the ERP system implementation issues which affected deliveries and customer service. These issues have now been resolved. The majority of the non-trading adjustments for Distribution related to inventory impairments following extensive stock takes across the group and a detailed review, in addition to business rationalisation costs.

Many of Steel & Tube's 'Project Strive' business transformation initiatives - such as the introduction of Sales and Operations Planning, streamlining of duplicated sites, a focus on efficiencies and improvements in inventory management - will directly benefit the Distribution division in the coming year and are already having a positive effect. The core focus on customer service and delivery performance is driving sales, a number of large project wins in late FY18 are now coming online and further efficiency initiatives are expected to deliver additional savings in FY19.

Infrastructure

The Infrastructure division generated $207.5 million in revenue and normalised operating earnings of $15.2 million. Including non-trading adjustments of $(21.3) million (mainly comprising the impairment on the Plastics business as well as inventory impairments), operating earnings for Infrastructure were a loss of $(6.1) million.

Despite the challenges faced, sales improved versus the prior year. Significant improvements have been made to the Reinforcing business, repositioning it as a leader in quality products and service. The roll-forming businesses also improved during the year as issues with the new ERP implementation were overcome. CFDL retained its strong performance levels and delivered a good result, albeit with some softening in the South Island market. While the Plastics business performed well as existing contracts were completed, the reliance on large projects became apparent, with losses incurred in the second half of the year. As previously advised, a strategic decision has been made to exit this business due to a downturn in the long term outlook for the irrigation market, along with a need for further capital investment in the business.

The focus for the coming year is on building the customer base and delivering further manufacturing and operating efficiencies. Positive wins are already being seen on the majority of projects, along with a significant lift in manufacturing efficiencies.

Outlook

Steel & Tube has a detailed strategic plan in place, driven by four pillars: Safety and Quality, Operational and Supply Chain Excellence; Strong Customer Focus; and Our People. Significant progress is being made on Project Strive business transformation initiatives which will have a positive benefit in the current financial year.

The company has a balanced exposure across the rural, manufacturing and construction sectors, with consistent demand and activity forecast in all sectors over the next few years.

Steel & Tube has provided EBIT guidance for FY19 of at least $25.0 million and expects to achieve a normalised EBIT of $35 million to $40 million in the next three years.

Chair of Steel & Tube, Susan Paterson, said: “The 2018 financial year has been about resolving legacy issues and resetting the business, and Steel & Tube is now in a much stronger position. We remain focused on our goal of being the leading provider of steel products and solutions in New Zealand and are confident we have the right strategy and management team to achieve this goal.”

ENDS

The FY18 results presentation is available for viewing at https://www.nzx.com/companies/STU/announcements.

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[i] Operating earnings is Earnings Before Interest and Tax (EBIT). FY18 normalised operating earnings is EBIT excluding non-trading adjustments of $(53.8)m and a $1.1m benefit from reduced software amortisation costs due to the ERP implementation delay.