18 February 2019
STU / NZX ANNOUNCEMENT

STRONGER IN EVERYWAY

STEEL & TUBE REPORTS STRONG CONSECUTIVE HALF YEAR UPLIFT

For the six months to 31 December 2018 (1H19)

1H19 Result Summary

- 1H19 EBIT in line with previous earnings guidance of ~40% of full year earnings target
- Significant improvement over the preceding six-month period (2H18) primarily driven by increased sales and reduced operating expenditure
- Reflects building momentum with benefits from Project Strive business transformation initiatives being realised
- Profit up 47% on comparative first half year (1H18) to $5.6m and a significant improvement on 2H18 which included non-trading costs and impairments
- Net debt reduced significantly to $16.0m due to capital raise, improved operating cashflows, tighter working capital management and prudent capital expenditure
- Solid improvement in operating cashflows to $11.1m enabling a return to dividend payments with Board declaring an interim dividend of 3.5 cents per share
- Company has reaffirmed FY19 EBIT guidance of $25m

	FY18		FY19
$millions	**1H18**	**2H18**	**1H19**
Revenue	267.9	227.9	258.2
Normalised Revenue[1]	249.3	224.2	258.2
EBIT[2]	7.5	(43.7)	9.8
Normalised EBIT[3]	13.4	4.5	9.7
NPAT	3.8	(35.9)	5.6
Assets	363.9	345.5	329.9
Net Debt	95.6	104.4	16.0
Net Operating Cashflows	17.7	(16.4)	11.1
TRIFR[4]	7.44	5.46	4.46

Steel & Tube Holdings Limited (NZX: STU) has reported a result in line with expectations, with a substantial improvement over the preceding six-month period (2H18) following the capital restructure and as benefits from business transformation initiatives are realised. The company has reaffirmed its FY19 guidance of $25m in earnings before interest and tax (EBIT).

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[1] Normalised Revenue excludes S&T Plastics which the company has exited.
[2] EBIT is Earnings Before Interest and Tax.
[3] Normalised EBIT excludes non-trading adjustments including write downs, impairments, business rationalisation and restructuring costs and gains on sale of property, as well as contributions from S&T Plastics. Details are reported in Steel & Tube's 1H19 results presentation and in the Non-GAAP Reconciliation in the Notes to the Interim Financial Statements.
[4] TRIFR: Total Recordable Injury Frequency Rate is a key metric for Steel & Tube and is the number of fatalities, lost time injuries, substitute work, and other injuries requiring treatment by a medical professional per million hours worked.

For the six months to 31 December 2018, Steel & Tube reported revenue of $258.2m, EBIT of $9.8m and a net profit after tax (NPAT) of $5.6m.

Excluding S&T Plastics, which the company announced it was exiting in 2H18, and non-trading adjustments, Normalised EBIT of $9.7m was up 116% on 2H18 Normalised EBIT of $4.5m, reflecting the positive turnaround in ongoing business performance. As expected, Normalised EBIT was $3.7m lower compared to 1H18 ($13.4m) as the business continues its recovery from trading issues caused by the new ERP system implementation which went live in October 2017.

The execution of business transformation initiatives is having a positive impact. Sales and volumes have continued the upwards trajectory seen in the last twelve months, on the back of a strong focus on customer needs, improved product availability and delivery performance. The market remains very competitive, keeping pressure on gross margins which have also been dampened by a shift in sales mix in some businesses.

A focus on cost management has seen a pleasing reduction in a number of areas and, excluding S&T Plastics, has led to a 3% decrease in operating expenses as a function of sales compared to 2H18. The cost savings achieved have enabled the business to absorb inflationary and wage and salary cost increases and execute transformation initiatives whilst supporting increasing sales activities, without increasing overall operating expenditure.

The half year period also included further work to leverage value from the investment into the ERP IT platform, the capital restructure, additional organisational restructuring and strengthening of the Leadership Team.

Net debt was $16.0m as at 31 December 2018, due to the repayment of $78.9m of debt following the capital raising concluded in September 2018, repayments from improved operating cashflows, working capital improvements and prudent capital expenditure. Steel & Tube's debt facilities were successfully refinanced in December 2018, ensuring the company has sufficient liquidity to drive the business forward.

Operating cashflow improved to $11.1m. The Directors remain confident in the company's turn-around strategy and, in line with Steel & Tube's capital policy and improving performance, have declared a fully imputed interim dividend of 3.5 cents per share.

Steel & Tube CEO, Mark Malpass, said: "We have made good progress across most areas of the business. Customer experience, stock availability and delivery performance have been a big focus and have resulted in sales improvements.

"Initiatives being undertaken as part of Steel & Tube's Strive business transformation strategy, including optimisation of the property footprint, have yielded approximately $5m EBIT contribution in 1H19. While a combination of competitive pressures and product mix has impacted gross margins in the half year period, we are now seeing a turnaround in our business performance.

"The economic outlook for the various key market segments in which we operate remains positive and product pricing remains firm. The Strive turnaround programme is gaining momentum, morale is strong, sales are up, we are becoming more efficient and are better utilising shareholder funds. There remains work to be done but we are confident we are on the right track."

Chair of Steel & Tube, Susan Paterson, commented: "While it has been a difficult period, we now have a strong foundation with the right strategy, people and systems in place to drive the business forward and deliver earnings growth. We have a clear focus on growth and shareholder value and it is pleasing to see the business is now benefitting from the significant work undertaken in 1H19 to transform and turnaround the organisation. The Board remains confident in the company's positive trajectory and is pleased to reinstate dividend payments for 1H19."

1H19 KEY EVENTS

- Building momentum from 'Project Strive' business transformation initiatives
- Completed $80.9m capital raising resulting in significant reduction in debt, with further reductions post the capital raise including benefits from working capital improvements
- AX ERP system now settled in and providing key insights into the business and supporting customer service
- Refinanced banking facilities
- Responded to non-binding indicative offer from Fletcher Building to acquire the company
- Court decision received on steel mesh case which is currently being appealed by both Steel & Tube and the Commerce Commission
- Strengthened the Leadership team with appointment of new GM People & Culture, GM Strategy (January 2019) and Chief Digital Officer (February 2019)
- Group-wide update to ISO 9001:2015 quality certification and initiation of independent third-party steel mill audits

Benefits from Project Strive initiatives (excluding S&T Plastics):

- Continuing improvement in health and safety (TRIFR improved by 40% on 1H18)
- Turn around in sales and volumes with upward trend continuing (sales +15% and volumes +20% vs 2H18; sales +3% and volumes +11% vs 1H18)
- Reduction in operating expenses as a percentage of sales (-3% vs 2H18)
- Continuing optimisation of Steel & Tube's national network, retaining presence whilst improving efficiency (48 properties down to 40, including the exit from the National Distribution Centre)
- Procurement efficiencies with Sales & Operations Planning function leading to steel purchasing gains and freight improvements

ENDS

Further detail on the 1H19 financial result is provided in the 1H19 Results Presentation which is available on the company website.

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