20 May 2019
STU / NZX ANNOUNCEMENT

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STEEL & TUBE UPDATED TRADING AND GUIDANCE FOR FY19

- Positive momentum being seen from focus on customer service and turnaround strategies.
- Steel & Tube has grown market share with year on year volumes and sales continuing to improve, however pricing pressure and product mix are impacting second half margins.
- FY18 Normalised EBIT[1] has been restated and reduced by approximately $4m following further analysis of FY18 inventory write-offs. This lowers the original FY19 forecast EBIT from $25m to approximately $21m.
- Taking market conditions, trading performance and the inventory adjustment into account, the company now expects FY19 EBIT to be between $15.5m to $17.5m. This is an increase of approximately 20% to 35% on the restated FY18 Normalised EBIT (excluding Plastics) of $13m.
- Steel & Tube's Board is confident in the medium to long term outlook for the company and anticipates paying a final FY19 dividend in line with its dividend policy.

Steel & Tube Holdings Limited (NZX: STU) is today providing an update on trading and guidance for the financial year ending 30 June 2019 (FY19).

The company continues to focus on customer service and its turnaround strategies, and positive momentum is being generated from the Strive business transformation programme. Benefits are being realised from a range of initiatives including property consolidation, the internalising of the warehousing function, salesforce excellence, freight optimisation, restructuring and efficiency initiatives. Further value adding Strive initiatives are being planned as the company develops its budgets for the next financial year.

While Steel & Tube has grown market share, volumes and sales, the margin pressures noted in the first half results have continued into the second half of the financial year. As well as competitive pressure, product mix has weighed on margins, with market contraction and lower prices in some high value categories.

Operating cost discipline has continued and it is expected that a reduction versus the prior year will be achieved despite absorbing the full year impact of increased rental costs from sale-lease backs, general cost inflation and the impact of NZIFRS 9 requirements.

Implementation issues following the go-live of the ERP IT system in FY18 have now been rectified and real benefits are being seen. One of these is enhanced data collection and analysis across the business which is delivering more comprehensive management information. New information has identified that approximately $4m of the significant inventory write-offs taken in FY18 were related to that year's production process and should have been included in the assessment of cost of goods sold in FY18 normalised earnings.

This has resulted in a review and restatement of FY18 Normalised EBIT from $17m to $13m. This restatement concerns normalised earnings only and there is no change to the GAAP reported results

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[1] Normalised EBIT is EBIT excluding non-trading adjustments. Further details on FY18 Normalised EBIT is included in Steel & Tube's FY18 annual report.

for FY18. FY18 Normalised EBIT was a baseline metric from which the FY19 forecast was built. Had the inventory information been available when the original FY19 forecast was prepared, the FY19 forecast EBIT of $25m would have been approximately $4m lower to $21m.

Taking into account market conditions, trading performance and the inventory adjustment, Steel & Tube now expects FY19 EBIT to be between $15.5m to $17.5m. Steel & Tube's audited results are expected to be released to NZX in late August.

Steel & Tube anticipates paying a final FY19 dividend in line with its dividend policy. The company retains comfortable headroom over its key bank facility covenants and has strong support from its banking syndicate.

Steel & Tube continues to improve its service delivery and offering to customers and is benefiting from the significant investment being made into quality and safety systems. The foundations of the business are strong, with a committed workforce and further strengthening of the management team in 2H FY19. The Board is confident in the medium to long term outlook for the company.

Steel & Tube's Chair, Susan Paterson, commented: "We continue to re-build this iconic New Zealand company and have made positive progress, with EBIT expected to improve by about 20% to 35% on FY18. We see opportunities to further grow the value of Steel & Tube and our focus remains on achieving financial rewards for our shareholders and to ensure our customers have a strong national supply chain partner, providing all New Zealanders with good value, high quality products."

$Millions	**FY18**[2]	**FY18 Restated**[3]	**FY19 Forecast**[4]
Normalised EBIT	17.6	13.6	
Less Plastics	(0.6)	(0.6)	
Normalised EBIT excl Plastics	17.0	13.0	
FY19 EBIT Forecast	~$25m	~$21m	~$15.5 to $17.5m

ENDS

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[2] Reported FY18 Normalised EBIT included an adjustment for $8.7m of stock write-offs following wall to wall stocktakes in May 2018.
[3] Restated FY18 Normalised EBIT reduces the adjustment of stock write-offs by ~$4m.
[4] Steel & Tube is also expecting to realise gains from the sale of assets from its Plastics business of approximately $0.5 million. This is not included in the above FY19 Forecast.

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