



# ANNUAL SHAREHOLDERS' MEETING

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25 September 2019

**st** steel&tube  
STRONGER IN EVERYWAY



# BOARD



**Susan Paterson**  
Independent Chair  
Appointed Jan 2017



**Christopher Ellis**  
Independent Director,  
Appointed Oct 2017



**Steve Reindler**  
Independent Director  
Appointed Oct 2017



**Rosemary Warnock**  
Independent Director,  
Appointed Sept 2010  
Retiring at 2019 ASM



**Anne Urlwin**  
Independent Director  
Appointed June 2013



**John Beveridge**  
Independent Director  
Appointed August 2019

# ALIGNMENT OF BOARD SKILLS AND STRATEGY



**Steel & Tube anticipates that there will be four key focus areas in the organisation over the next two year horizon as it continues its business turn around. The Board seeks to align its skillset with these future directional requirements.**

## 1. SALES/MARKETING

Market segmentation, brand value proposition, strategic pricing



## 2. DIGITAL

Risk Management of implementation of customer digital platforms, extraction of value from organisational systems.



## 3. TURNAROUND FOCUS

Ongoing strategic decision making on optimal business models, cost management controls and asset optimisation



## 4. SUPPLY CHAIN

Large scale distribution, modern warehousing and freight and logistics optimisation.





# BOARD SKILLS MATRIX

	STRONG	MODERATE
Governance		
Commercial		
Financial Acumen (F&A)		
M&A		
HSQET and associated systems		
Business Turnaround		
Steel Industry		
Manufacturing		
Construction/ Infrastructure		
Logistics, Supply Chain & Procurement		
Sales Marketing and Brand		
Digital Technology and Change		
People, Culture and ER		

- Susan Paterson
- Steve Reindler
- Anne Urlwin
- Chris Ellis
- John Beveridge

**Strong:** Could chair a subcommittee of an NZX 50 listed company in this field

**Moderate:** Valuable committee member or contribution to the Board from past experience in the area



# Chair's Presentation

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Susan Paterson



# FY17 TO FY19 STRATEGIC PROGRESS



**Late-2017: Embarked on an extensive company-wide reset to drive long-term sustainable earnings improvement and rebuild shareholder value.**



# HIGHLY COMPETITIVE MARKET



## **Pricing wars: Nobody wins**

- Steel & Tube does not chase volume at the expense of margins.
- Focus on controlling the controllables to improve margins.
- Important to ensure an acceptable return on investment.
- New customers being gained through value proposition, service offer and word of mouth recommendations.

# DEVELOPING A SUSTAINABLE BUSINESS



**Our goal is to develop a sustainable business, which is committed to creating value for our customers, employees, shareholders and communities.**

## **COMMITMENT TO SAFETY & QUALITY**

- Occupational Health & Safety
- High quality products and services

## **OPERATIONAL & SUPPLY CHAIN EXCELLENCE**

- Financial performance and governance
- Material efficiency and recycling
- Energy and carbon

## **SUPPORTING A WINNING TEAM**

- Talent attraction and retention
- People development and labour practices
- Culture of wellbeing

## **CUSTOMER AT THE HEART OF THE BUSINESS**

- Product life cycle performance
- Customer satisfaction
- Moving towards digital solutions



# CONTINUING COMMITMENT TO QUALITY & SAFETY

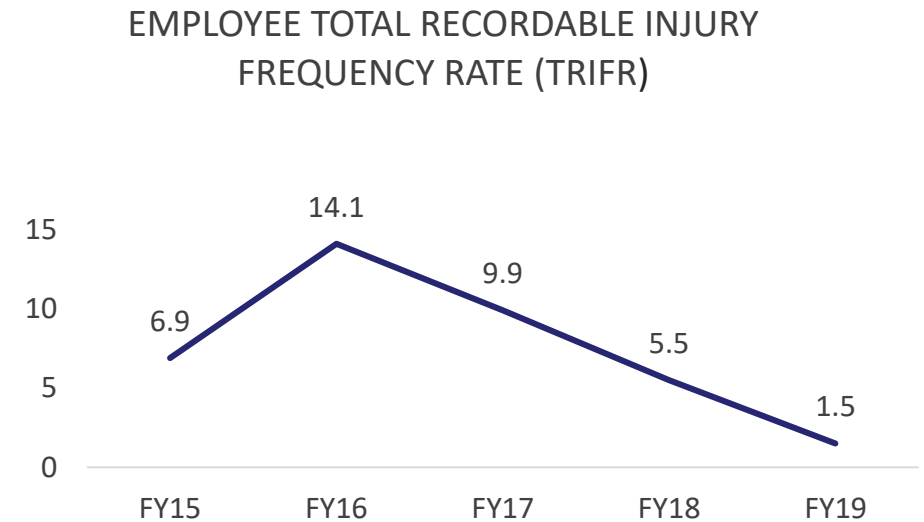


## Quality:

- Telarc ISO 9001:2015 quality certification
- Steel Construction NZ (SCNZ) charter certification
- Lloyd's Register independent steel mill audits
- Monthly traceability audits
- Training
- Certified QHSE staff

## Safety, Health, Environment:

- Focus on management of critical risks
- Continuing improvement - Employee TRIFR down to 1.5
- Significant investment in machine guarding



# STRUCTURAL STEEL DISTRIBUTOR CHARTER

**The Structural Steel Distributor Charter is the latest quality assurance initiative led by the structural steel industry.**

- Ensures that structural steel supplied to the local steel construction sector are sourced using best-practice procurement
- Represents a mark of excellence for structural steel distributors in New Zealand



# MOVING AHEAD WITH A STRONGER BUSINESS

- One of New Zealand's leading providers of steel solutions and a proud New Zealand company, with over 65 years of trading history
- We offer New Zealand's most comprehensive range of steel products, services and solutions
- Our stable of best-in-class businesses are some of this country's leading steel suppliers
- Business back to profitability with growing sales, improved business processes and structural efficiencies
- Strong balance sheet and well positioned to manage economic cycles
- Continuing strong performance in quality, health & safety

**Steel & Tube is now leaner, stronger and more efficient.**





# Management Presentation

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Mark Malpass





# STRONG MANAGEMENT TEAM

## OPERATIONAL MANAGEMENT



**Mark Malpass**  
CEO



**Marc Hainen**  
GM Distribution



**Darryn Ross**  
GM Roll Forming



**David McGregor**  
GM Reinforcing & Wire

## BUSINESS MANAGEMENT



**Greg Smith**  
CFO



**Claire Radley**  
GM Strategy



**Anna Morris**  
GM People & Culture



**Damian Miller**  
GM Quality, Health,  
Safety, Environment



**Mike Hendry**  
Chief Digital Officer





# OUR BUSINESS: DIVISIONS



## DISTRIBUTION

Products are sourced from preferred steel mills and distributed through Steel & Tube's national network of branches

**FY19:** ~58% of group revenue and 18% of group EBIT



STEEL



RURAL PRODUCTS



PIPING SYSTEMS



FASTENINGS



CHAIN & RIGGING



STAINLESS STEEL

## INFRASTRUCTURE

Products are processed before sale and typically on a contract or project basis, including onsite installation services

**FY19:** ~42% of group revenue and 82% of group EBIT

<i>Roll-forming</i>	 ROOFING	 COIL PROCESSING	
	 PURLINS	 COMFLOR®	
	<i>REO / CFDL</i>	 REINFORCING	 CFDL





# FY19 CHALLENGING MARKET, HOWEVER GOOD PROGRESS ON BUSINESS TURNAROUND



**Challenging trading environment** with market contraction in some sectors and price pressures in 2H19

**Good strategic progress:** \$10m in value from Project Strive, structural improvements will deliver long term value, 4% reduction in operating costs

**Strengthened balance sheet:** Prudent capex/disciplined working capital management

**Engaged & focused organisation:** Commitment to H&S, strengthened leadership and organisational structure, exited Plastics

**RESULTS IMPACTED BY 2H19 GROSS MARGIN PERFORMANCE**

**STRONG CASHFLOW GENERATION \$21.3M**

**NORMALISED REVENUE<sup>1</sup> \$497.1M +5%**

**REDUCTION IN NET DEBT TO \$15M**

**NORMALISED EBIT<sup>1</sup> \$16M +22%**

**FY19 FINAL DIVIDEND 1.5 CENTS**

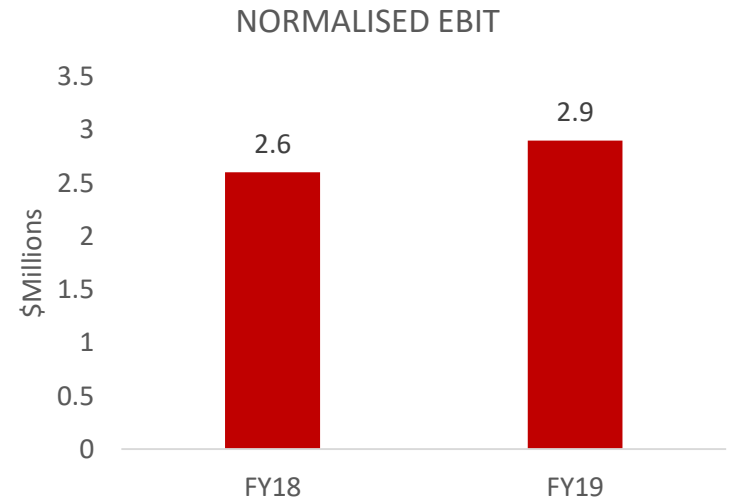
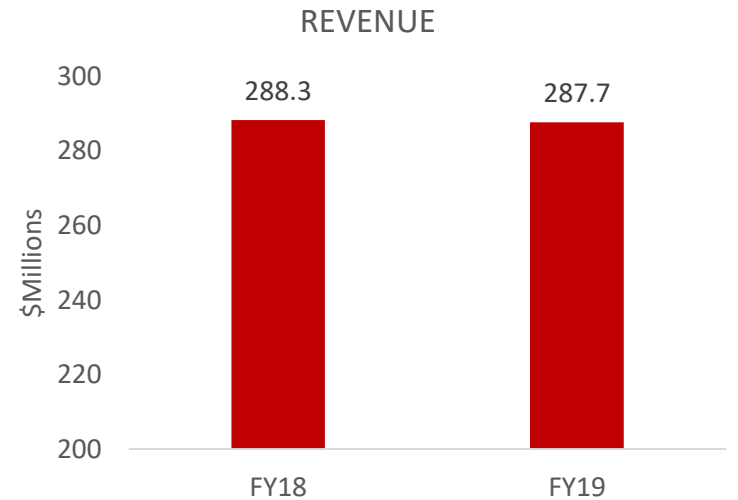
**NORMALISED NPAT<sup>1</sup> \$9.9M +74%**

**TOTAL FY19 DIVIDEND 5 CENTS**

1) See Slide 39 and 40 for definitions of financial terms and reconciliation of normalised results

# DISTRIBUTION

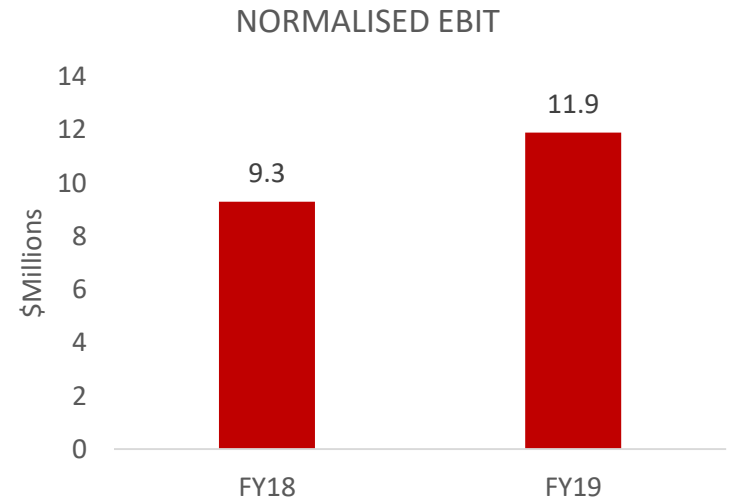
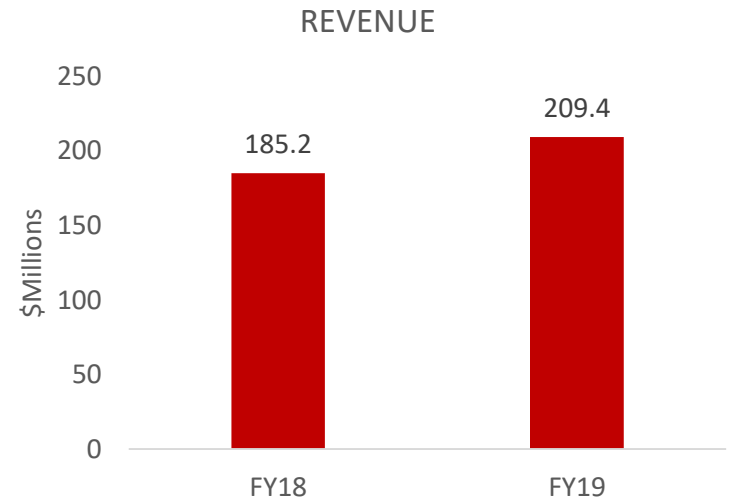
- Lower margin, higher volume business – hardest hit by segment contraction in some segments and pricing pressure
- Focus on cost management and efficiencies is delivering benefit
- Results an improvement on prior year – 11.5% improvement in normalised EBIT
- \$6.7m in benefits from Project Strive initiatives



1) See Slide 39 and 40 for definitions and reconciliation of normalised results  
2) FY18N EBIT has been adjusted to be consistent with the current year presentation

# INFRASTRUCTURE

- Higher margin business, with sales tailored to customers' requirements
- Focused on efficiencies and continuous improvement of customer service and offer
- Pleasing improvements in revenue and EBIT
- \$3.3m benefit from Project Strive initiatives



1) See Slide 39 and 40 for definitions and reconciliation of normalised results  
2) FY18N EBIT has been adjusted to be consistent with the current year presentation



# PROJECT STRIVE

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## HIGHLIGHTS IN FY19



# INTEGRATION OF SITES AND ACQUISITIONS

Sites reduced from 48 to 35, optimising product range and resources with further network optimisation planned, whilst maintaining regional presence and services

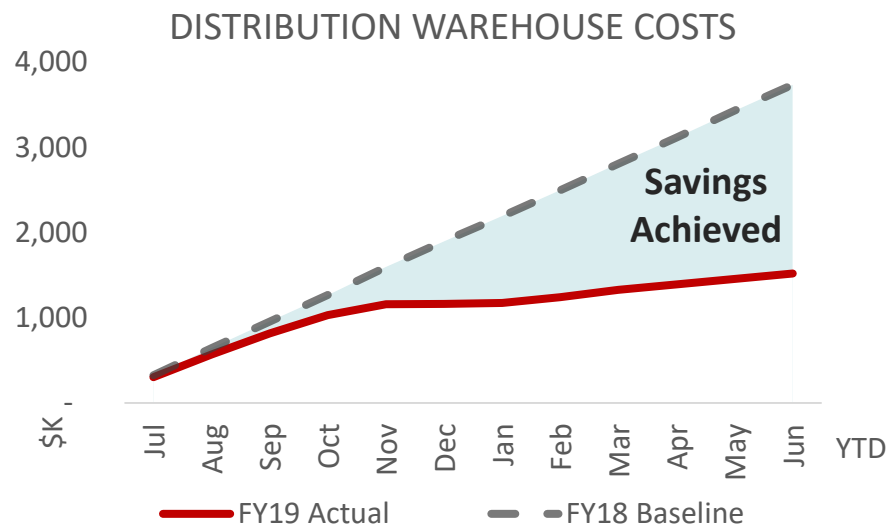




# OPERATIONAL & SUPPLY CHAIN EXCELLENCE: DISTRIBUTION

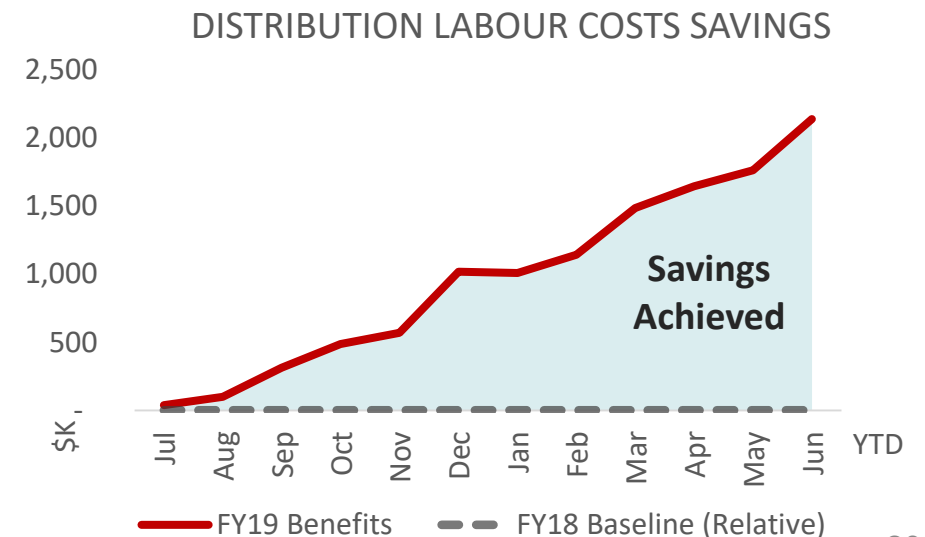
## Warehousing brought in-house from November 2018

- Over 12,000 product lines
- \$2.2m of savings compared to FY18
- Further efficiencies being investigated
- Annualised benefits expected from FY20



## Labour cost efficiencies and integration of acquisitions

- Integration of acquisitions
- Reducing duplication of sites and labour
- Sharing of inter-branch resources
- Improving operational capacity

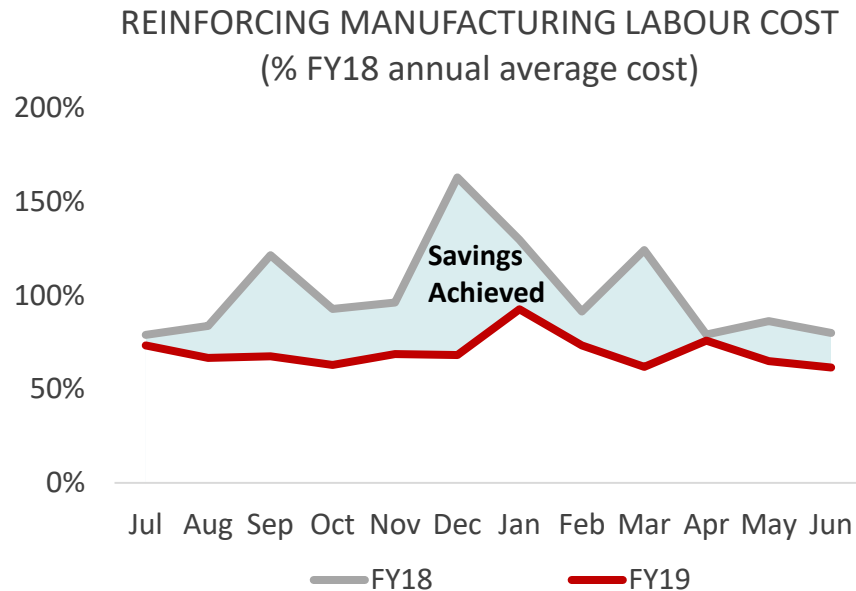




# OPERATIONAL & SUPPLY CHAIN EXCELLENCE: INFRASTRUCTURE

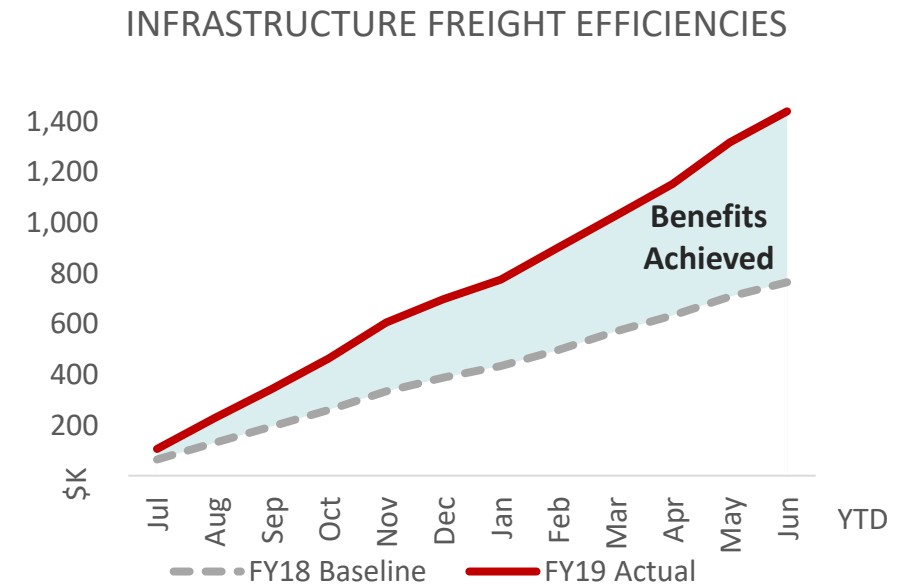
## Manufacturing efficiencies in reinforcing

- Management processes driving machine efficiencies
- Direct labour costs/tonne reduced by 31% year on year
- Consolidation of manufacturing sites



## Freight efficiencies

- Improved freight recoveries in the Rollforming business
- 88% improvement in benefits achieved relative to the FY18 baseline



# NEW BUSINESS GROWTH

**We are participating in a number of large projects, on the back of a growing reputation for quality, customer service, delivery and operational performance.**



Installation of Comflor as part of the new Sky Waka gondola on Mt Ruapehu



Installation of Comflor in Westfield development in Newmarket, Auckland



Installation of epoxy coated reinforcing in the City Rail Link project in Auckland

Other projects include supplying the New Zealand International Convention Centre, Commercial Bay, and the Puhoi to Warkworth and Transmission Gully motorway projects.



# OUR PEOPLE

**Steel & Tube continues its focus on building a strong diverse workforce, representing and embracing different cultures, educational backgrounds, sector experience and gender.**

First Foundation Scholarships to academically talented family members of Steel & Tube employees

We take pride in diversity and are looking at more ways to celebrate this

Supporting the 'Mates in Construction' initiative

Our workforce is made up of 26 different ethnicities

Participating in the Sector Workforce Engagement Programme in 2020

Females in Business Development and Sales roles increased from 17% to 22%;  
Females in Executive roles increased from 14% to 20%



# STRATEGY AND GOALS FOR FY20

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# OPPORTUNITIES AND CHALLENGES

**FY20 business goals are focused on responding to margin and competitive pressures and maximising opportunities**

## Challenges

- Ongoing competitive pressures
- Construction outlook more challenging impacting business confidence
- Global steel prices and input costs

## Opportunities

- Steel remains a preferred building material
- Multi-unit dwellings are an increasing share in the residential sector
- Increased central and local government funded infrastructure, housing and development projects
- Increased intensity of steel in buildings including seismic reinforcement
- Leveraging cross-selling of complimentary product offerings

# STRATEGIC PILLARS AND GOALS

OUR GOAL IS TO BE THE LEADER IN BUYING, SELLING, PROCESSING AND PLACING STEEL PRODUCTS IN NZ

## BUSINESS GOALS

DELIVER ON OUR CUSTOMER SERVICE PROMISE

FURTHER RESTRUCTURE OUR BUSINESS MODEL TO REDUCE SUPPLY CHAIN & BUSINESS COMPLEXITY

IMPROVE BUSINESS PROCESS & CONTROLS

## STRATEGIC PILLARS



- SAFE AND HEALTHY WORK ENVIRONMENT
- QUALITY PROCESSES
- QUALITY PRODUCTS
- CONTINUAL IMPROVEMENT



- PRODUCTS AND SERVICES TO MEET CUSTOMERS' NEEDS
- LEVERAGE OUR TECHNICAL EXPERTISE
- DELIVERY ON TIME AND ON SPEC



- LEVERAGE OUR PROCUREMENT AND SUPPLY CHAIN SCALE
- EXCELLENT INVENTORY MANAGEMENT
- EMPLOY DATA ANALYTICS TO BETTER SERVICE CUSTOMERS
- DRIVE EFFICIENCIES



- DEVELOP LEADERS
- EVERYONE MATTERS
- RECOGNISE PERSONAL AND TEAM CONTRIBUTIONS
- PROVIDE A REWARDING WORKPLACE

# DELIVER ON CUSTOMER SERVICE PROMISE



- **REFINE CUSTOMER SEGMENTATION** to better support our customers' needs
- **IMPROVE SALES EFFECTIVENESS** through solution bundling and identification of cross category opportunities
- **DEVELOP DIGITAL STRATEGY** to further simplify and enhance the customer experience
- **CUSTOMER DELIVERY:** Continue business-wide focus on delivering products in full, on time and in spec

# FURTHER RESTRUCTURE BUSINESS MODEL TO REDUCE SUPPLY CHAIN AND BUSINESS COMPLEXITY



- **CONTINUE PRODUCT RATIONALISATION**, including repricing and removing products that don't meet required returns
- **REALIGN SUPPLY CHAIN CAPABILITY TO THE BUSINESS UNITS** to ensure decision making is closest to the customer
- **OPTIMISE PROPERTY FOOTPRINT AND FREIGHT NETWORK** to both deliver on our customer service promise and minimise cost
- **FINE TUNE DEMAND FORECAST AND SALES AND OPERATION PLANNING PROCESSES** to maximise inventory availability
- **INVENTORY MANAGEMENT**: Ensure products are handled efficiently and held for the minimum amount of time – from mills, shipping, freight to warehouse, warehousing and freight to customer



# IMPROVE BUSINESS PROCESS AND CONTROLS



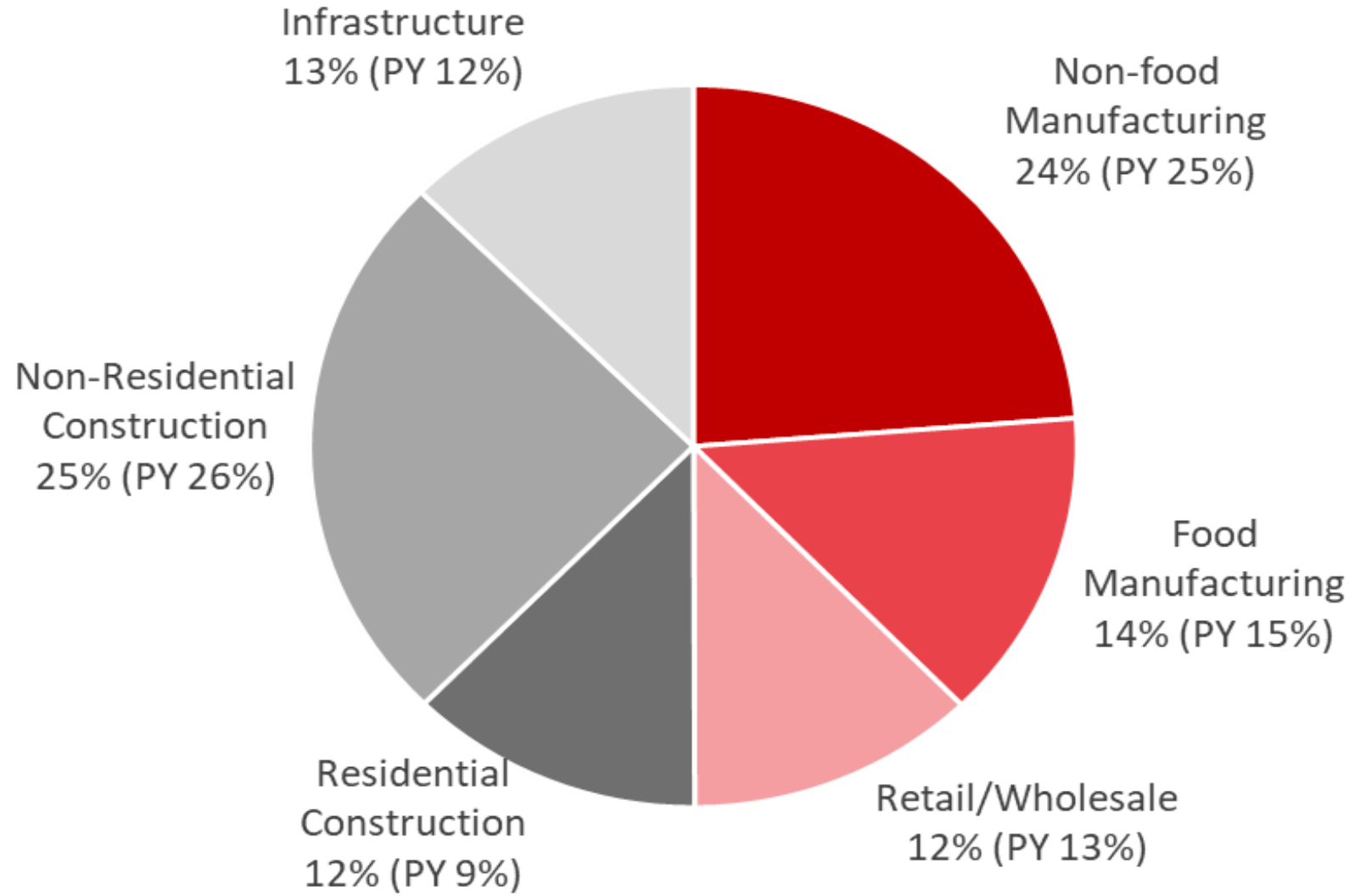
- **IMPROVE PRICE MANAGEMENT** by incorporating analytics
- **INCREASE PRODUCT MARGIN** through point of sale controls and training , and ongoing production efficiency initiatives
- **ACTIVE WEEKLY MONITORING OF GROSS MARGIN PERFORMANCE** by senior management
- **AUTOMATION**: Continue automation of financial processes
- **IT AND TECHNOLOGY**: Capture benefits from our IT investments

# FY20 OUTLOOK

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# STEEL & TUBE MARKET SEGMENTS



Based on sales data for FY19



# SECTOR DYNAMICS

## Construction

- Competitive market, high demand - risk sharing and profitability an issue
  - Residential consents to increase, particularly of multi-unit dwellings
  - Non-residential building to peak over next two years
- 

## Infrastructure

- Large infrastructure projects ongoing and promising pipeline
- 

## Manufacturing

- Softening demand and confidence domestically
  - Lower interest rates and labour market constraints likely to incentivise investment
- 

## Rural

- Changing dynamics with move from dairy conversion to maintenance programmes and other opportunities
- Stable outlook

**Steel & Tube has identified a number of initiatives to better respond to changing sector dynamics.**

# FY20 OUTLOOK



## **Priority is margin improvement and streamlining business leading to profitable growth**

- Expect continuation of current adverse market trends, coupled with softening business confidence and ongoing competitive intensity across majority of sectors in which S&T operates.
- Benefits expected from further value adding Strive initiatives which are in progress, along with additional flow through benefits from FY19 initiatives.
- Competitive advantage to be built through maximising cross-selling opportunities, margin management and leveraging the AX ERP system to support customers with digital solutions.
- S&T remains confident of achieving the long term outlook of \$30m to \$35m EBIT<sup>1</sup>, however current market headwinds mean this will take longer to achieve than the original three year plan.

<sup>1</sup> Long term forecast outlined as part of September 2018 capital raise was impacted by restatement of FY18 Normalised EBIT, which was revised down by \$4m in May 2019

# OUR STRENGTHS

- Strong Board and Management with deep industry experience
- Passionate and engaged workforce
- Loyal and extensive customer base
- Well considered and articulated strategy
- In-depth understanding of our business and opportunities
- Breadth and depth of our distribution network and product offering
- Industry leading businesses
- Innovative approach to business and customer solution
- Leveraging of technology

**Our goal is to be the leader in buying, selling, processing and placing steel products in New Zealand**





A photograph of a large stack of square metal pipes, likely galvanized steel, in a warehouse or industrial setting. The pipes are arranged in neat rows, and their surfaces are heavily corroded with rust, particularly at the ends. The background is slightly blurred, showing more of the stack and some greenery outside. A semi-transparent grey circle is overlaid on the right side of the image, containing the text.

# Shareholder Discussion

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# Resolutions

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# RESOLUTIONS



## RESOLUTION 1: AUDITOR'S REMUNERATION:

That the Directors be authorised to fix the fees and expenses of PricewaterhouseCoopers as the Company's auditor.

## RESOLUTION 2: ELECTION OF JOHN BEVERIDGE

That John Beveridge, who was appointed as a Director by the Board during the year, be elected as a Director of the Company.

## RESOLUTION 3: AMENDMENT OF THE COMPANY'S CONSTITUTION

That the Company's Constitution be amended in the form and manner described in the Explanatory Notes, with effect from the close of the Annual Meeting.

# PROXIES



<b>RESOLUTION</b>	<b>FOR</b>	<b>AGAINST</b>	<b>PROXY DISCRETION</b>
Auditors' fees and expenses	50,953,468	419,238	4,203,782
Election of John Beveridge	51,234,402	314,854	4,029,232
Amendment of the Company's Constitution	51,020,713	172,761	4,322,080

Total proxies received in respect of 55,576,488 shares representing 33.49% of total shares on issue.





# Other Business Close of Meeting

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# NON-GAAP FINANCIAL INFORMATION

**Non-GAAP financial information:** Steel & Tube uses several non-GAAP measures when discussing financial performance. These include Normalised EBIT and Working Capital. Management believes that these measures provide useful information on the underlying performance of Steel & Tube's business. They may be used internally to evaluate performance, analyse trends and allocate resources. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

**Non-trading adjustments/Unusual transactions:** The financial results for FY18 included a number of unusual transactions, considered to be non-trading in either their nature or size. These transactions were excluded from normalised earnings. The following reconciliation is intended to assist readers understand how the earnings reported in the Financial Statements for the year ended 30 June 2019 and 30 June 2018 reconcile to normalised earnings. Non-trading adjustments of \$0.8 million and \$(49.3) million were included in the FY19 and FY18 results respectively. Steel & Tube's unaudited reconciliation of non-GAAP measures to GAAP measures for the financial year ended 30 June 2019 is detailed in the following table.

<b>RECONCILIATION OF GAAP TO NON GAAP MEASURES</b>	<b>June</b>	<b>June</b>
Year ended 30 June 2019	<b>2019</b>	<b>2018</b>
	<b>\$000</b>	<b>\$000</b>
<b>GAAP: Earnings/(Loss) before interest and tax (EBIT)</b>	<b>16,795</b>	<b>(36,187)</b>
<i>Add back unusual transactions (non-trading adjustments):</i>		
Inventory write-downs and write-offs *	-	20,056
Costs of exit from S & T Plastics	-	10,849
Impairment of Intangible assets (Note C2)	-	12,127
Business rationalisation (Note E2)	-	2,727
Organisational restructuring (Note E2)	-	3,317
Other unusual costs	-	762
S & T Plastics EBIT (no longer contributing to trading EBIT)	(773)	(558)
<b>Normalised EBIT - Non - GAAP</b>	<b>16,022</b>	<b>13,093</b>

\*FY18 Inventory write-downs and write-offs have been reduced by approximately \$3.9m following further information becoming available during FY19, which identified that \$3.9m of the FY18 write-off related to that year's production process. Further detail is contained in Steel & Tube's updated trading guidance for FY19 as notified to the NZX on 20 May 2019.



# GLOSSARY OF TERMS



**EBIT:** This means Earnings/ (Loss) before the deduction of interest and tax and is calculated as profit for the year before net interest costs and tax. FY18 EBIT was impacted by a number of non-trading adjustments totalling \$(49.3) million, details of which are included in S&T's Annual Report. Management have also excluded non-trading gains from the disposal of S&T Plastics assets in FY19.

**Non-trading adjustments include:**

- **FY18 Business rationalisation:** Includes business change costs incurred to rationalise Steel & Tube's property footprint including onerous leases, rationalisation and re-organisation of manufacturing operations and delivery logistics operations, and costs incurred in reviewing and streamlining operations.
- **FY18 Organisational restructuring:** Includes the costs incurred to improve capabilities, remove duplication and inefficiencies and capture synergies from acquisitions.
- **FY18 Other Unusual Costs:** Include significant doubtful debt and contract disputes provisions, offset by a net gain on sale of properties and settlement of acquisition earn out payments.
- **FY18 and FY19 S&T Plastics:** S&T announced it was exiting its Plastics business in May 2018 and wrote-down the value of assets. The financial results of this business has been excluded from FY18 and FY19, which has also excluded a small gain realised from disposal of assets.

**Normalised EBIT:** This means EBIT after normalisation adjustments.

**Normalised Net Profit after Tax (NPAT):** This means NPAT after normalisation adjustments net of tax.

**Working Capital:** This means the net position after current liabilities are deducted from current assets. The major individual components of working capital for the Group are Inventories, Trade and other receivables and Trade and other payables. How the Group manages these has an impact on operating cash flow and borrowings.



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**steel&tube**