28 August 2020
STU / NZX ANNOUNCEMENT

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STEEL & TUBE FY20 RESULTS ANNOUNCEMENT

Positioned for the new trading environment with a leaner cost structure, a strong balance sheet and a clear strategic plan.

- Results in line with 10 August guidance, with FY20 normalised EBIT (Earnings Before Interest and Tax) of $0.4m excluding non-trading adjustments.
- Non-trading adjustments of $58.1m[1], resulting in a Net Loss After Tax of $(60.0)m.
- Reduction in revenue to $417.9m primarily related to COVID-19 lockdown and restrictions in 2H20, contraction in vertical construction activity, softening in the stainless steel market and competitive pricing pressures.
- Strong net operating cashflow of $39.6m (pre-IFRS 16 $26.6m) due to working capital management and inventory significantly reduced to $101.1m.
- Cash of $17.4m at year end with borrowings reduced to $10.0m.
- Accelerated organisation restructure with network and workforce reduction well underway, creating a leaner and more efficient organisation.
- Economic environment remains uncertain with reduced activity expected. No final dividend declared.

Steel & Tube Holdings Limited (NZX: STU) has today announced a full year result for the 12 months ending 30 June 2020, in line with the guidance provided in its trading update on 10 August 2020.

Revenue for the 12 months was $417.9m, reflecting the impact of COVID-19 in the second half of the year and following the first half year impacts of reduced vertical construction activity, a softening stainless steel market and competitive pricing pressures. The level 4 lockdown and progressive return to business occurred during a traditionally high earning period for the business, with a significant impact in April and May.

In response to the pandemic, Steel & Tube has accelerated its organisation change programme, with 11 branch closures and consolidations, creating a more streamlined and leaner business. This required some difficult decisions with a reduction in the workforce of between 150 - 200 people, with 93 people having already left the organisation at 30 June and the balance to leave during the first half of FY21.

As previously advised, the result includes non-trading adjustments of $58.1m, including non-cash goodwill and other impairments of $51.9m and $5.5m in restructuring and rationalisation costs.

FY20 normalised EBIT (excluding non-trading adjustments) was $0.4m. On a like for like basis with the prior year, excluding NZ IFRS 16[2], normalised EBIT was $(5.2)m. The company reported a Net Loss After Tax of $(60.0)m.

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[1] Normalised EBIT excludes non-trading adjustments of $58.1M, which includes non-cash goodwill impairment and other write-downs due to acceleration of branch network changes, business restructuring and digitisation and the impact of COVID-19.

[2] STU adopted NZ IFRS 16 Leases on 1 July 2019. The adoption of this standard results in the reclassification of operating lease expenses to depreciation and financing costs resulting in an increase to EBIT and operating cash flow and a decrease in NPAT. Pre-NZ IFRS 16 financial information is provided to assist with comparison to FY19 reported results.

Despite the challenging second half, Steel & Tube's balance sheet is strong, with net cash of $7.4m as at 30 June 2020. Operating cashflows were robust, with $39.6m (pre-NZ IFRS 16 $26.6m) for the year ended 30 June 2020 and borrowings reduced to $10m reflecting working capital and capital management discipline. Post-balance date, the company has completed the sale of a surplus Gisborne property with net proceeds of $1.4m applied to further reducing borrowings. Given the uncertain economic outlook and the loss reported for FY20, the Board has determined that no final dividend will be paid.

In addition to waivers of existing bank covenants for 30 June and 31 December 2020, Steel & Tube has also agreed temporary revised covenants with its bank syndicate for the remainder of FY21, which it expects to comfortably meet.

Margins were showing improvement pre-COVID, however, have reduced post-COVID driven by product mix. Management's priority is to improve margins as quickly as possible. The leaner organisational structure and digital investment will help in this area.

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Operating costs have been held flat versus prior year in real terms as cost efficiencies offset inflationary pressures and an increase in provisions for bad and doubtful debts.

CEO of Steel & Tube, Mark Malpass, said: "While our headline result was not as we would have liked due to softening market conditions exacerbated by the impact of COVID-19 as well as non-cash goodwill and business restructuring related impairments, we are pleased at how our company and our people have come through this challenging period.

"The work done over the past two years as part of the Strive programme is now demonstrating its value. Steel & Tube has a stronger financial platform and is a more efficient and leaner business. We have accelerated investment in digital technology to support our move to a service model that combines ease of business and service for customers."

Moving Forward

During the alert level 4 lockdown, Steel & Tube's Board and Management took the opportunity to review and re-focus the Company's strategy. This strategy is focussed on cementing Steel & Tube's position as the leader in the sector, the preferred choice for steel products and solutions and an efficient and profitable business, which delivers value for customers, staff and shareholders.

Innovation and digitisation remain key enablers to help achieve these goals. This has been an important area of investment over the last 12 to 18 months and plans have been accelerated to deliver a digitally smart and efficient business as part of the business strategy.

Mark said: "Customers will continue to need a trusted, supplier and partner to deliver steel solutions which meet their needs. Our geographic sales strength, improved customer service functions, accelerated investment in digital capabilities and ecommerce options for customers are a key source of competitive advantage for our company. In addition, the Government is investing into infrastructure and Steel & Tube has the expertise and the proven experience to deliver steel solutions on these large scale projects.

"We are re-shaping the organisation to be more customer focused and sales led. The results of this are already being seen with increasing customer satisfaction measures and a number of new projects and contracts being won."

More detail on Steel & Tube's FY20 results and strategy are available in the Investor Presentation released with the FY20 results announcement.

Outlook

While trading has recovered to close to prior year since June, there is expected to be some deterioration in economic conditions later in the year and into 2H FY21. With this uncertainty and expectations of an economic recession, Steel & Tube is taking a careful and prudent approach to the management of the business.

Chair of Steel & Tube, Susan Paterson, commented: “We are conscious that, like most other businesses in this post-COVID environment, there will be challenges on the road ahead. We are starting the new financial year with a strong balance sheet, a leaner cost structure and a clear strategy. We are confident that Steel & Tube is well positioned to weather a range of forecast economic scenarios and, importantly, to take advantage of the opportunities ahead of us.”

ENDS

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