

SHAREHOLDER NEWSLETTER

June 2023

COMPANY UPDATE

DEAR SHAREHOLDER KIA ORA, TĒNĀ KOUTOU

The 2023 year to date has certainly presented challenges, from the weather events that impacted people, businesses and communities, through to the macro-economic trends including ongoing inflationary pressures and skilled labour shortages.

Our thoughts go to all those affected by the flooding and Cyclone Gabrielle. The rebuild will take years and cost billions but we hope that the outcome will be a more resilient built environment, that can withstand extreme weather events.

In this edition of our regular newsletter, we are pleased to share with you stories from our business and initiatives underway to drive value for our company.

2H23 TRADING UPDATE

Steel & Tube is now in its 70th year of trading and we have a track record of effectively navigating changes through economic cycles.

We recently provided an update on trading for the 10 months of the financial year to date, and full year earnings guidance for the 12 months ending 30 June 2023.

The company continues to perform well against the backdrop of tightening economic conditions and weather events. Residential construction has softened, however robust demand and undersupply of housing underpin long term growth in this sector. Commercial construction and manufacturing remain steady. A positive trajectory is forecast for infrastructure. Steel & Tube's diversified strategy remains of value, limiting exposure to any one sector.

Revenues have continued to grow driven by elevated international pricing, with higher input prices and cost pressures impacting margins. While we are expecting volumes to be 10% to 15% lower in the second half of the financial year compared to the first half year, we have a resilient platform exhibited by significant reductions in debt and inventory positions, and solid underlying cash generation.

Steel & Tube is well positioned to respond to the more challenging economic cycle and to take advantage of new market and product opportunities, and the rebuilding programme

We are actively managing the current market challenges and we see the medium to long term outlook as positive for our company. Steel & Tube has a strong balance sheet and substantial bank facilities in place to fund growth and to take advantage of opportunities.

We are focussed on strengthening the core business platform as well as investing in higher value products and services. These new strategic initiatives now account for 7.5% of Distribution earnings, with one example being the recent expansion of Steel & Tube's aluminium offer which is proving popular.

There are significant opportunities for our business, across both Infrastructure and Distribution. We have a healthy pipeline of work in place across a diverse range of industries and are well positioned to support the Cyclone and floods rebuild.



Susan Paterson Chair



Mark Malpass Chief Executive Officer

STEEL & TUBE'S UNAUDITED 10-MONTH PERFORMANCE TO END-APRIL

\$MILLIONS	FY23 10 MONTHS	FY22 10 MONTHS	FY21 10 MONTHS
Revenue	489.0	479.3	384.6
EBITDA	40.8	53.6	29.5
Normalised EBITDA	41.7	54.0	28.6
EBIT	23.6	37.9	14.8
Normalised EBIT	24.5	38.3	13.8
NPAT	12.4	24.1	7.4
Operating Cash flow	77.9	(38.1)	20.5
Dividends paid	19.1	14.6	2.0
Inventory	152.2	200.9	108.3
Net (Debt)/Cash	(9.2)	(43.5)	19.7

FY23 EARNINGS GUIDANCE

Given the recessionary operating environment and lower volumes, Steel & Tube is forecasting FY23 normalised EBIT of between \$28m and \$32m and normalised EBITDA of between

\$48m and \$52m.¹ We are undertaking a comprehensive cost out programme focusing on \$5m of operating costs in FY24. As a result, we expect that FY24 operating costs will be flat to FY23. You can read the full announcement on our website [here](#).

¹ Normalised EBITDA and Normalised EBIT have been adjusted to exclude non-trading adjustments of approx. \$0.9m primarily relating to Software as a Service costs.

NZX VIRTUAL INVESTOR EVENT

Steel & Tube was pleased to recently present as part of the first NZX Virtual Investor Event of 2023. This was an opportunity for us to provide more information on our company, our growth strategy and the opportunities for our business.

You can view the webcast [here](#).

The presentation is available for viewing on Steel & Tube's website [here](#).

CYCLONE AND FLOODING REBUILD

The Government has estimated the cyclone and flooding rebuild costs at between \$9 billion and \$14.5 billion, with half of that related to public infrastructure - bridges, roads, rail links, power substations and the like. In addition, there is an estimated need for around 4,000 new houses plus repair work to damaged residential properties.

Steel is an essential construction material, as demonstrated in the Canterbury rebuild, and Steel & Tube has the capability and capacity, as well as the expertise to deliver innovative solutions to assist with rebuilding vital assets.

Following the Cyclone, Steel & Tube's local sales team have been helping out impacted businesses and farmers with discounted fencing products which has supported a number of customers, including the defence force.

STEEL OFFERS A NUMBER OF ADVANTAGES IN A FUTURE WHERE CLIMATE CHANGE AND EXTREME WEATHER EVENTS ARE LIKELY TO BECOME MORE COMMON

- Steel is a lightweight but strong product that provides durability, and is 100% recyclable and reusable
- As demonstrated with the Canterbury rebuild, steel is an optimal choice of construction material – builds faster with less disruption, flexible, extends building life, minimal waste, optimal thermal performance
- Steel is infinitely recyclable, durable, non-toxic and inert



OUR STRATEGY IN ACTION



INVESTING IN HIGH VALUE PRODUCTS, SERVICES AND SECTORS

HIGH DEMAND ALUMINIUM PRODUCTS NOW ON OFFER FROM STEEL & TUBE

Our strategy to invest in higher value products, services and sectors is focussed on extending what we can offer to our customers. This includes adjacent materials and value-added services. While our primary focus is on organic growth, we also continue to consider opportunities via programmatic smaller M&A in adjacent sectors.

Our most recent initiative has been our entry into the aluminium market from February 2023. This is targeted towards a select range of high demand, high value products, largely servicing existing customers. This product diversification provides scale, customer share of wallet growth and was immediately earnings accretive. Although this is a new product range, we have been able to leverage our existing sales and operating model to minimise costs.

Customer feedback has been very pleasing, with sales of some products exceeding expectations. We have already received additional shipments and are holding stock in multiple locations to meet local demand. Given the popularity of this new offer, we are now investigating options to further expand the range.

STRENGTHENING THE CORE

NEW PLUMDEK ROLL FORMER MACHINE IN CHRISTCHURCH

With the help of a new roll former machine, Steel & Tube can now supply trademarked roofing profiles direct from our production facility in Christchurch. The machine specialises in thicker material Plumdek®

roofing products in 0.40mm and 0.55mm profiles. This new machine is in addition to those already in place in Tauranga and Auckland, providing Steel & Tube's roofing customers with better access and service across New Zealand.

Plumbdek® is one of many roofing profiles on offer at Steel & Tube. The five-ribbed trapezoidal design offers great looks, economy and exceptional performance, in a range of material options and colours.

WHAT MATTERS

PROVIDING STRONG CAREER PATHWAYS

One of Steel & Tube's unique advantages is our ability to develop talent through access to multiple career paths across 27 locations nationwide.

During the past three months we've celebrated a number of internal promotions and career changes – 15 members of our team have been successful in promotions which have seen them move into exciting career development roles across the company, and at the same Steel & Tube has saved valuable time and cost associated with external recruitment.

Most of those promotions have occurred in our operations teams, but we're shining the light on our finance team where two of our employees have just stepped into key roles.

Jasmine Kok (right)

Jasmine Kok started with us as a Senior Financial Accountant in 2020. In July 2022 she was promoted to the role of Finance Manager with increased responsibility within the business and team leadership, and then this year – as part of our career and succession planning processes – she stepped into the role of Group Financial Controller reporting to the Chief Financial Officer. In addition to gaining hands-on exposure to new work and projects across the organisation, Jasmine has been attending the Global Women – Activate Leaders Programme to gain additional leadership training and exposure to a broader network of female leaders.

Sam Teal (left)

Also within the finance team, Sam Teal has recently been promoted to Finance Business Partner for our Rollforming Business – providing finance leadership support for our Roofing, Comflor and Coil Processing Businesses. Sam started with us in 2021 as a Corporate Accountant, and was promoted in 2022 to Finance Analyst before his most recent appointment. The knowledge of our business, team and processes has proven to be highly valuable in enabling both members to hit the ground running in their new roles.





SUPPORTING OUR COMMUNITIES



CUE Haven is the vision of Aucklanders Thomas & Mahrukh Stazyk, who bought the 24-plus hectare property and created a native nature reserve for the community to use and enjoy into perpetuity. CUE stands for Cultivating Understanding and Enlightenment. Since 2008, over 4,500 volunteers have planted over 170,000 native trees and built over 3.5 km of walking tracks.

In 2020, the CUE Haven Community Trust built a viewing platform – Te Rite o Taranaki - overlooking the Kaipara Harbour. Fortress was pleased to be one of several business to donate materials for the construction.

The viewing platform was designed as a thesis by a Masters in architecture student at Unitec and is an amazing work of architectural and engineering design which will last for several generations. The carvings are by a Unitec architecture student and tell the story of CUE Haven and the viewing platform project. Areas have been levelled out for seating and there are benches for visitors to relax after their long climb up hill to the viewing platform.





DRIVING CHANGE

OUR LONG TERM AIM IS TO OPERATE OUR BUSINESS IN A WAY THAT IS FINANCIALLY REWARDING FOR OUR SHAREHOLDERS & POSITIVE FOR OUR PEOPLE, OUR CUSTOMERS, OUR COMMUNITIES & THE ENVIRONMENT.



We were pleased to recently introduce our first EV vehicle to our fleet in Christchurch. The BYD Atto 3 is efficient and safe and stylish and, with a range of 345km, will be ideal for use in the wider Christchurch area. This pool vehicle will be available to all teams needing to move around Christchurch and will also help reduce the current reliance on rental vehicles for out of town staff.

With around 250 cars and light commercials (utes and vans) in Steel & Tube's fleet, this is the first in a longer term transition to electrical and alternative fuel vehicles.

STEEL & TUBE'S SUSTAINABILITY MANAGER RUNNER UP IN PRESTIGIOUS AWARDS

Trent Brash was recently named as runner up in the HERA industry awards. Held every two years, recipients are selected by their peers, making the acknowledgement even more meaningful. The Next Gen Leadership Award celebrates people who get things done.



CASE STUDY: USING STEEL



STEEL & TUBE HELPS BRING NEW LIFE TO OLD BACH

When purchasing a dilapidated cottage on Christchurch's Marine Parade, directors of JD Homes, Jesse and Marcella De Wys, knew that refurbishment would have its challenges.

The couple's vision was to rework the small cottage into a classic Kiwi bach. Starting at the top, the couple have replaced the rusted corrugated iron roof with Plumbdek® by Steel & Tube, providing a modern look without losing the building's essential character. The house was then clad in a mix of Plumbdek and timber weatherboards, with the grey of the steel combining with the pop of yellow painted boards.

In deciding to rebuild what was a nearly ruined house, Jesse and Marcella were also making a statement about sustainability to support a low-emission industry. Extending the life of a structure enables more value to be extracted from the resources invested to build, operate and maintain it.

This made steel roofing an obvious choice. Steel is one of the world's most essential and sustainable building products – permanent,

forever reusable and the most recycled substance on the planet, with up to 85% of steel from New Zealand demolition sites returned to steel mills for recycling.

The result is a bright, playful and sustainable seaside retreat, fondly named the 'Splash Hut'.

'We've made a splash with the new materials and colours,' says Jesse. 'And while it's a small hut, it gives us everything we need for a modern-day dwelling.'



STRONGER TOGETHER THANK YOU

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