



2016 Annual update

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Janie Elrick, CFO
August 2016



Disclaimer

This presentation, August 2016, provides additional comment on Steel & Tube's financial results announcement for the period ending 30 June 2016. It should be read in conjunction with the documents attached to that announcement, which highlight future outlook expectations of earnings, activities and market conditions.


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Financial Highlights

- ✓ Revenue: \$516m – up \$14m or 3%
- ✓ Profit before Tax: Headline \$33.2m – up \$3.4m or 11%
Underlying \$26.9m – down \$2.9m or 10%
- ✓ EBIT Underlying \$30.5m – down \$2.8m or 8%
- ✓ Net operating cash flow: \$25.1m – up \$1.2m
- ✓ Net tangible assets / share \$1.47 – down 12c
- ✓ Net debt \$95.6m – up \$27.9m
- ✓ Dividend / share 13.5c – up 3.5c

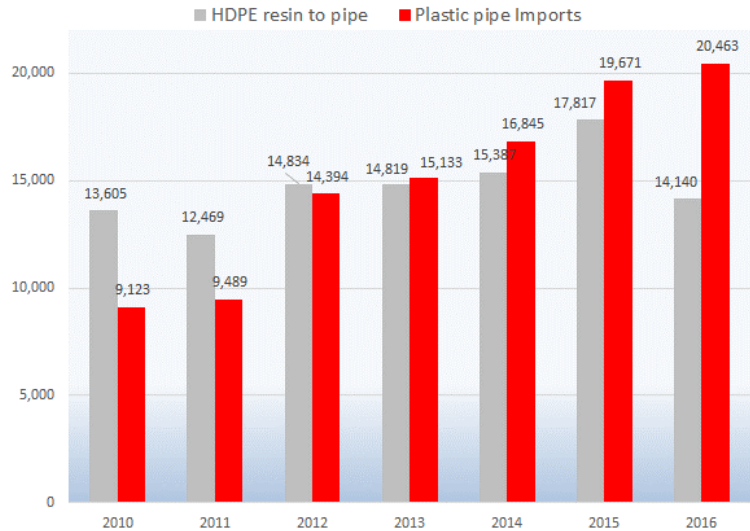
Highlights

- ✓ Underlying results at the top end of guidance but impacted by continuing low steel prices eroding margins
- ✓ Overall volumes consistent with market volumes
- ✓ Bowden Rd property sale improved headline results
- ✓ Cash flows healthy with good controls on inventory and debtors
- ✓ Delivered new Coil & Purlin facility, improved ICT communications as part of the \$30m investment plan
- ✓ S&T Stainless meeting expectations
- ✓ MSL fastenings business acquired 3 August 2015
- ✓ Aquaduct plastic pipe manufacturing and Bosch Irrigation Systems acquired in September 2015

Highlights – Aquaduct Opportunities

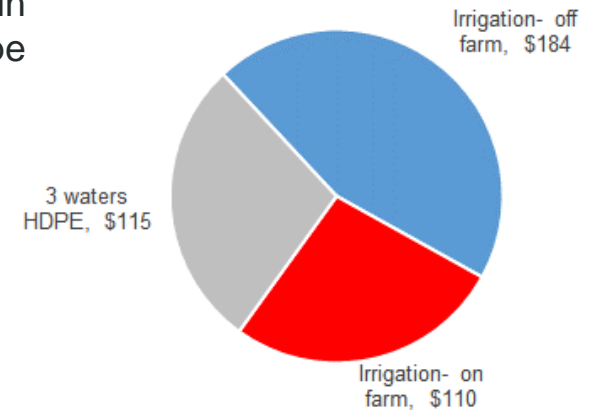


Plastic pipe consumption tonnes- YE June



Steady increase in overall plastic pipe market

Water related annual NZ relevant market~ \$400 m



- Distressed assets, business rebuilding
- Revenue \$3.6m, EBIT \$(0.2m), F17 \$10m
- Further opportunities in large projects 24 months
 - Project 1 – \$40-\$50m
 - Project 2 – \$25-\$30m
 - Project 3 – \$25-\$30m
 - Several others \$120m-\$150m

- Competitive advantage is
 - Lower installation cost
 - Significant reduction in project timeframes
- Increased internal capability as we rebuild the management team and focus



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Highlights – MSL & Stainless

MSL

No. 1 in the market

Revenue \$31m, EBIT \$5m (11 months)

Growth – One Company customer synergies

Procurement – combined purchasing power

Inventory synergies – reduction in NZ based buying

Inventory consolidation – working capital release

Cost sharing – in back-office

Retained – MSL service offering and expertise

Stainless

No. 1 in the market

Growth – One Company customer synergies

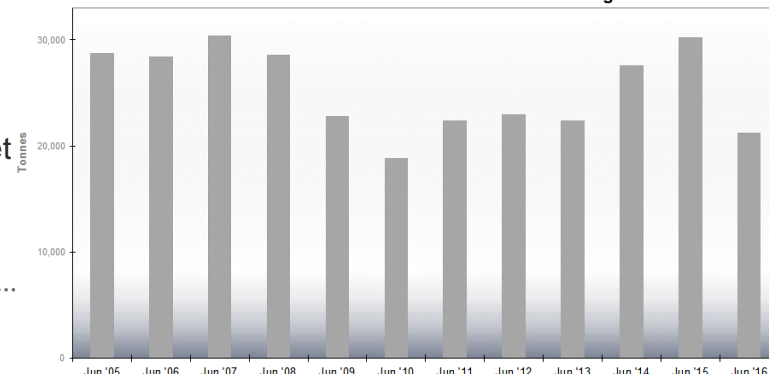
Comflor – strong growth due to construction activity

Inventory synergies higher than expectations

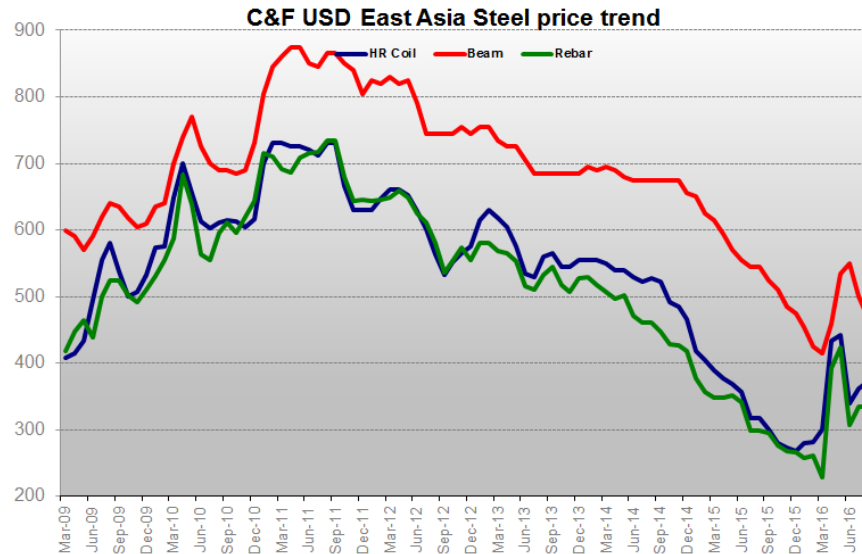
Procurement – consolidated with off-shore suppliers removing reliance on NZ based resellers

Stainless market impacted by slow-down in Dairy

Stainless Steel Products Market for Year ending



Key Challenges in F16



Most substantial impact on F16 results is continuing low steel prices

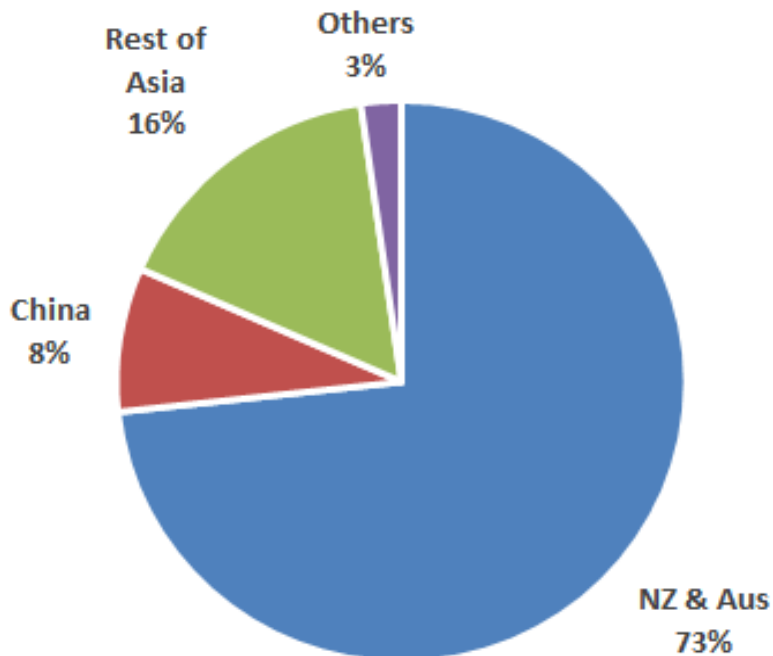
- Significant Chinese excess capacity, 112m tonnes steel exported, this is expected to continue through 2016
- Lowest steel prices in 13 years. Globally recovered in 2nd half, but impact on NZ market will be seen in F17

- Confident our products are compliant and our processes work
 - Non-conformance rate 0.78%, pcp 0.25%
 - Holmes solution logo – resolved, awaiting Commerce Commission
 - Threaded Rod – Radio NZ got it wrong and issued correction
 - Mesh – dual tested product, confidence in our testing regime, significant ambiguity in the standards, leading to variable interpretations, MBIE issuing new guidelines, awaiting Commerce Commission
 - Pile Casing – Huntly by-pass, project specific issues, resolved with JV

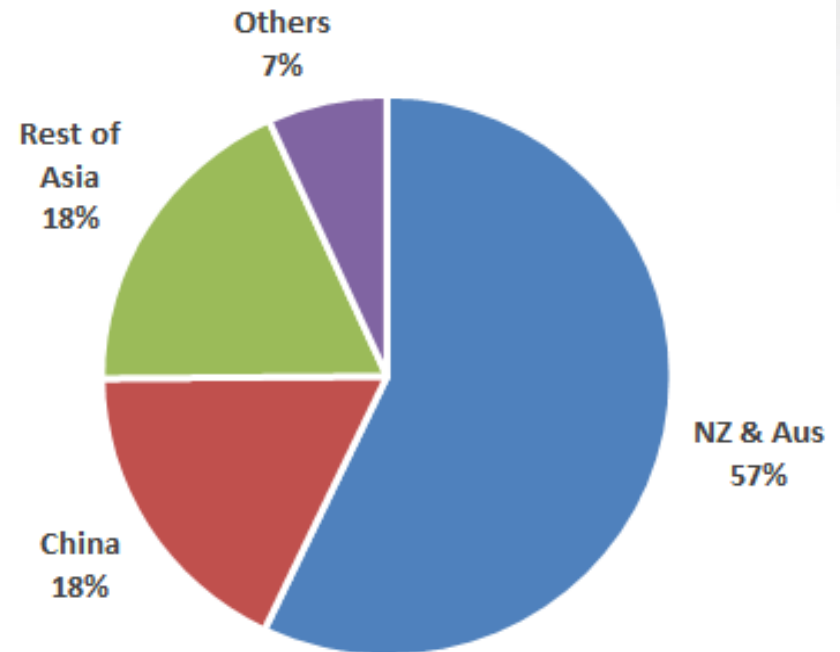
High Quality Procurement



S&T source of steel



Other's source of steel



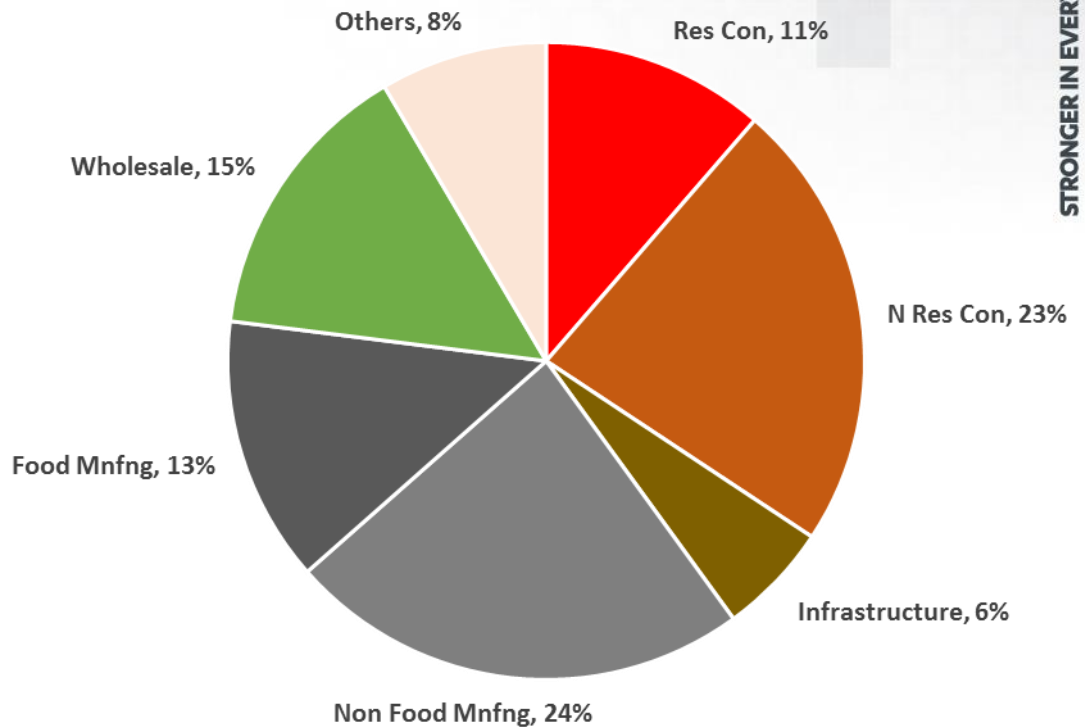
- Compare to other distributors:
 - We support the local NZ/Aust steel industry
 - We rely less on China product
- Long term quality conformance is better than 99.7%. F16 99.2%



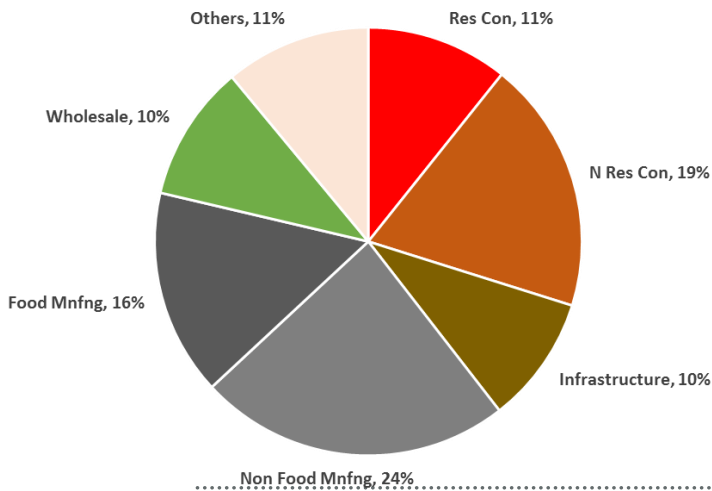
Sector Exposures

Diversification across sectors, significant exposure to high growth construction sector

Group sector exposure by proportion FY 15-16



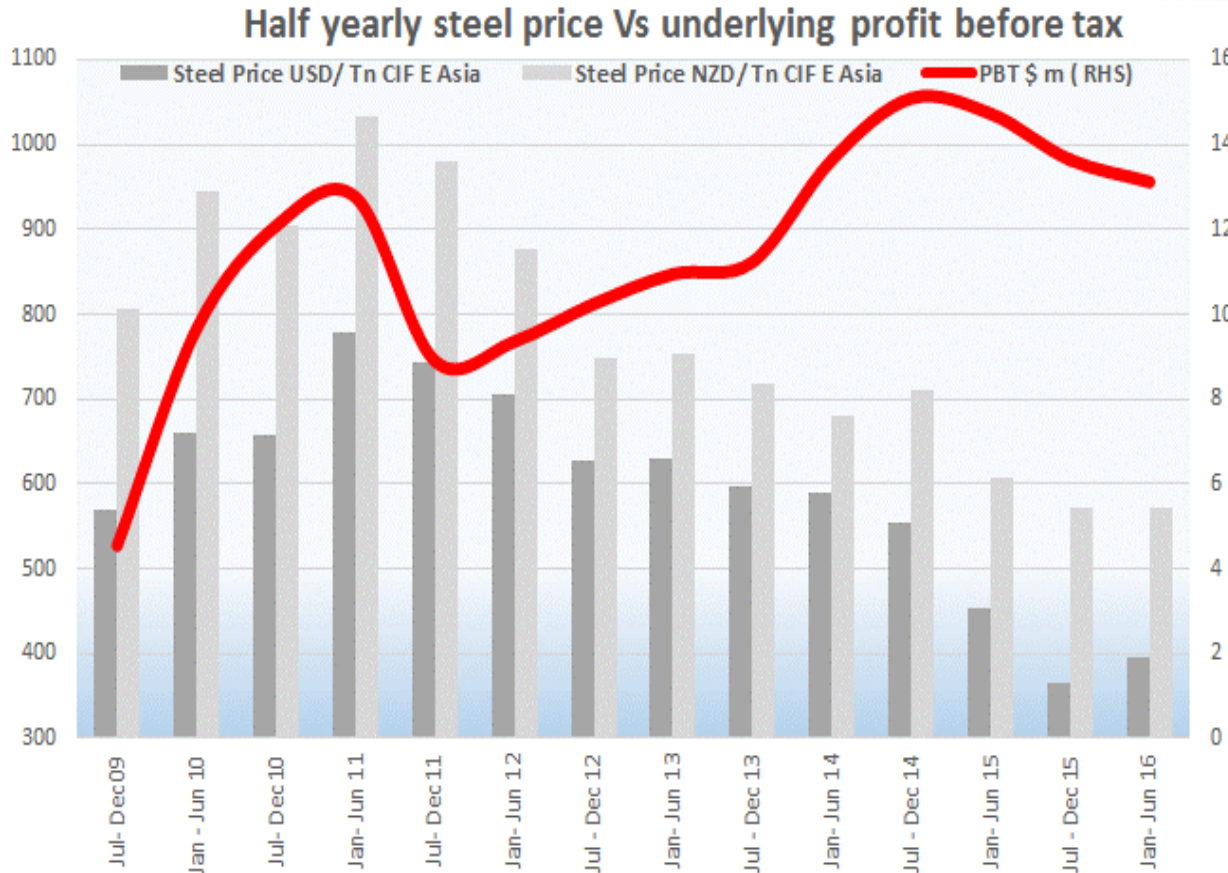
Group sector exposure by proportion FY 14-15



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Strong performance, despite falling steel prices



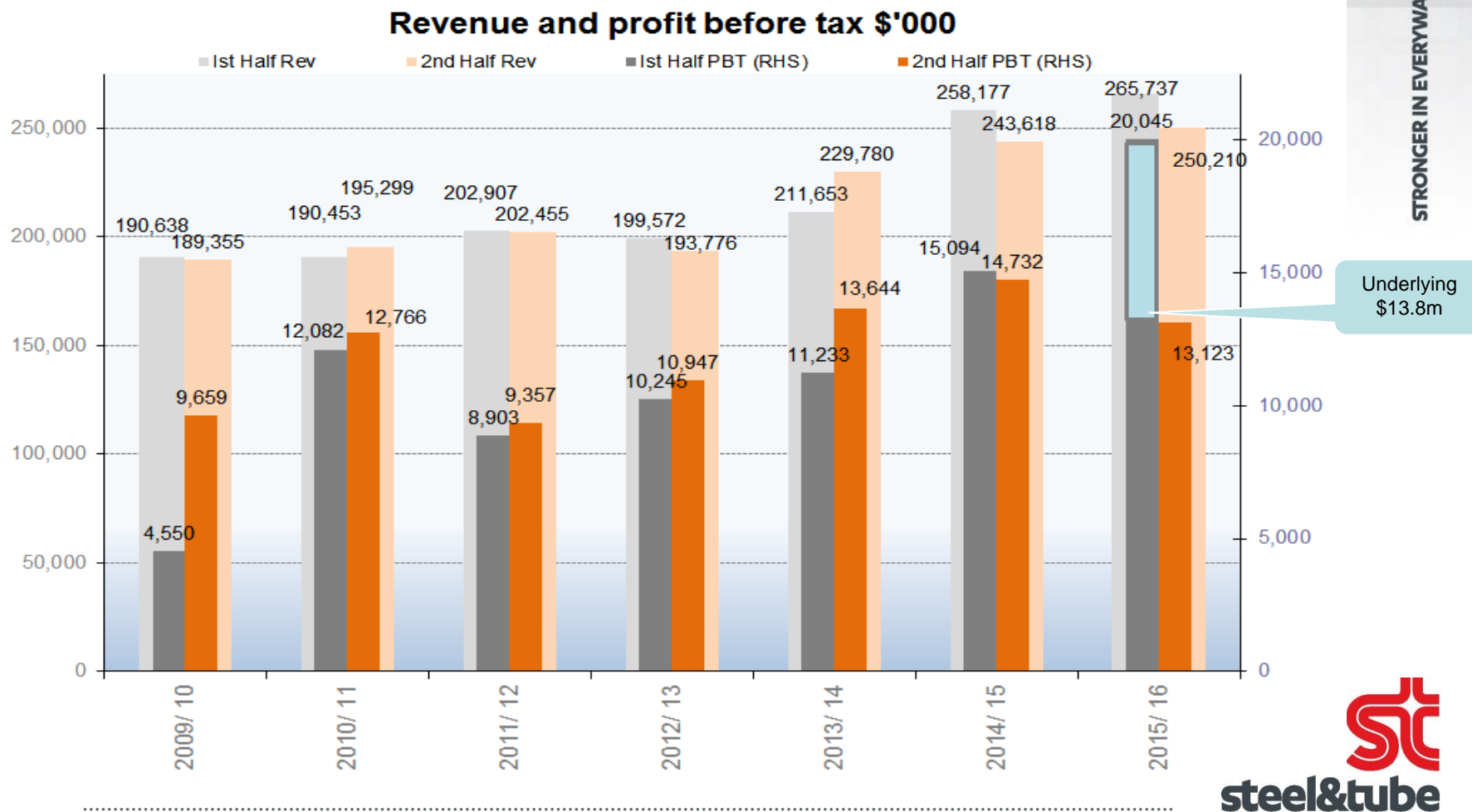
- Falling steel prices since 2011, have been offset by improved business performance
- Steeper decline in prices over 2015 has impacted faster than the business improvements

Business Performance

In-line with top end of previous guidance



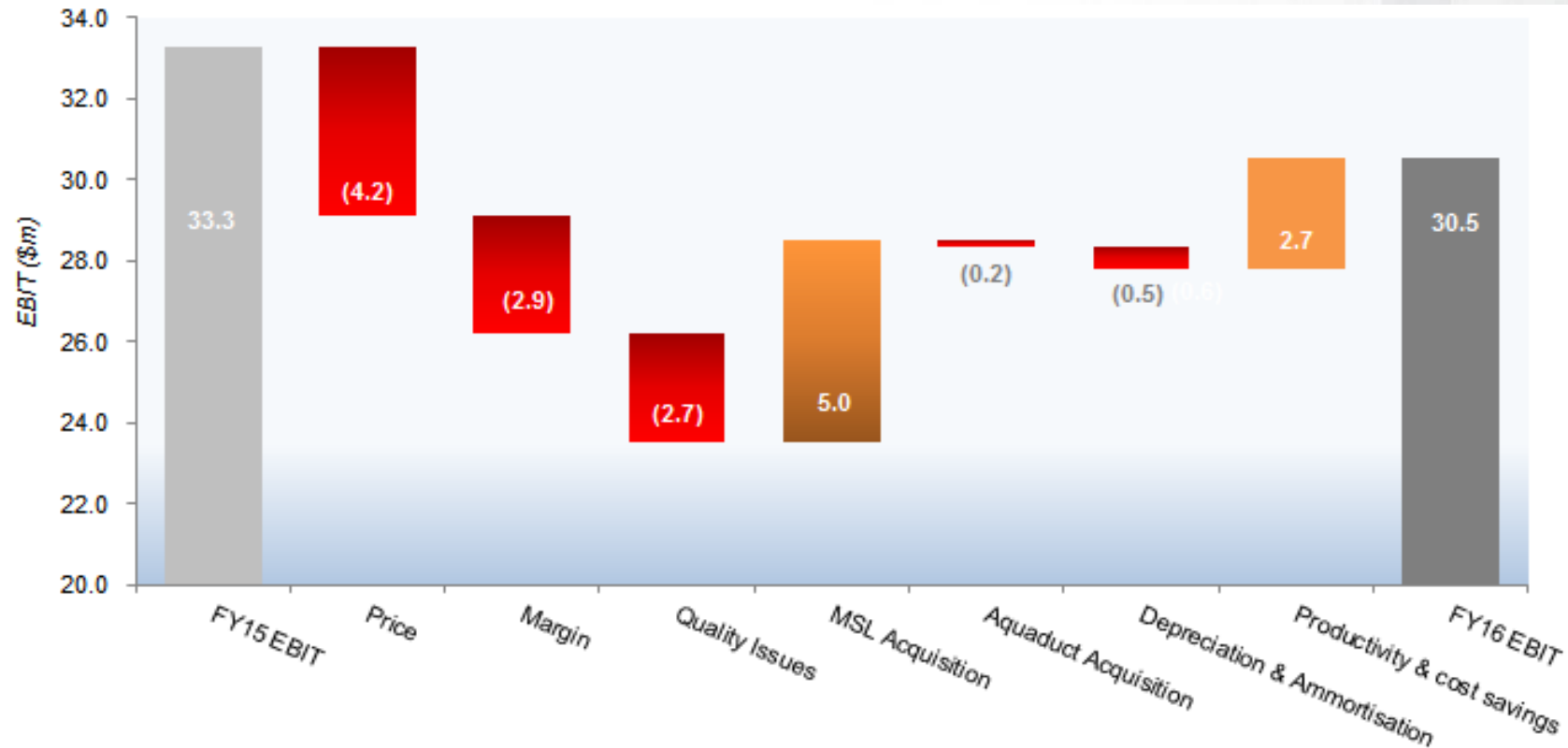
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Business Performance – Key EBIT Contributors

Strong gains in productivity and cost savings

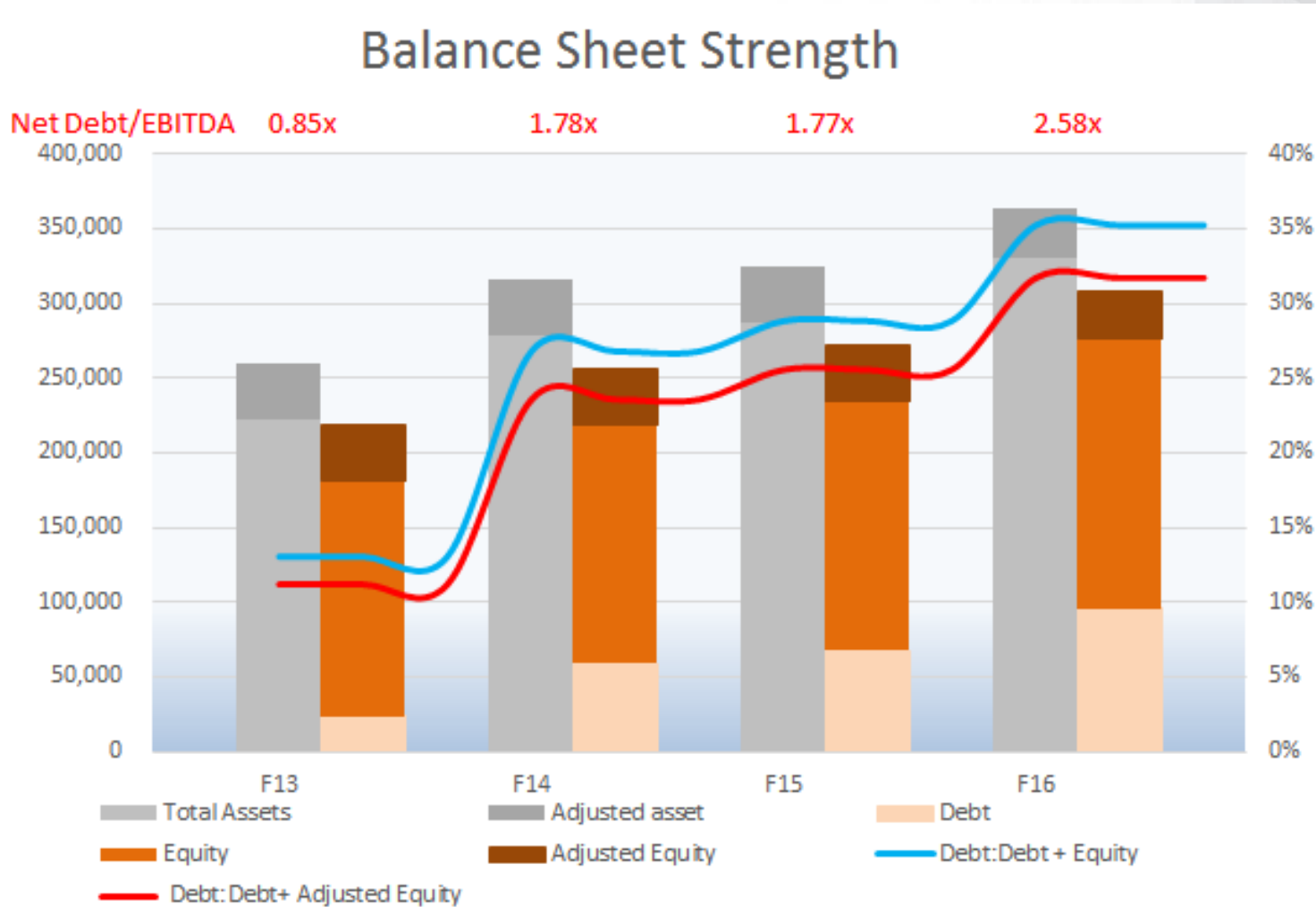


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Balance Sheet Strength

Debt: Debt + Equity circa 35%, 30% with adjusted assets

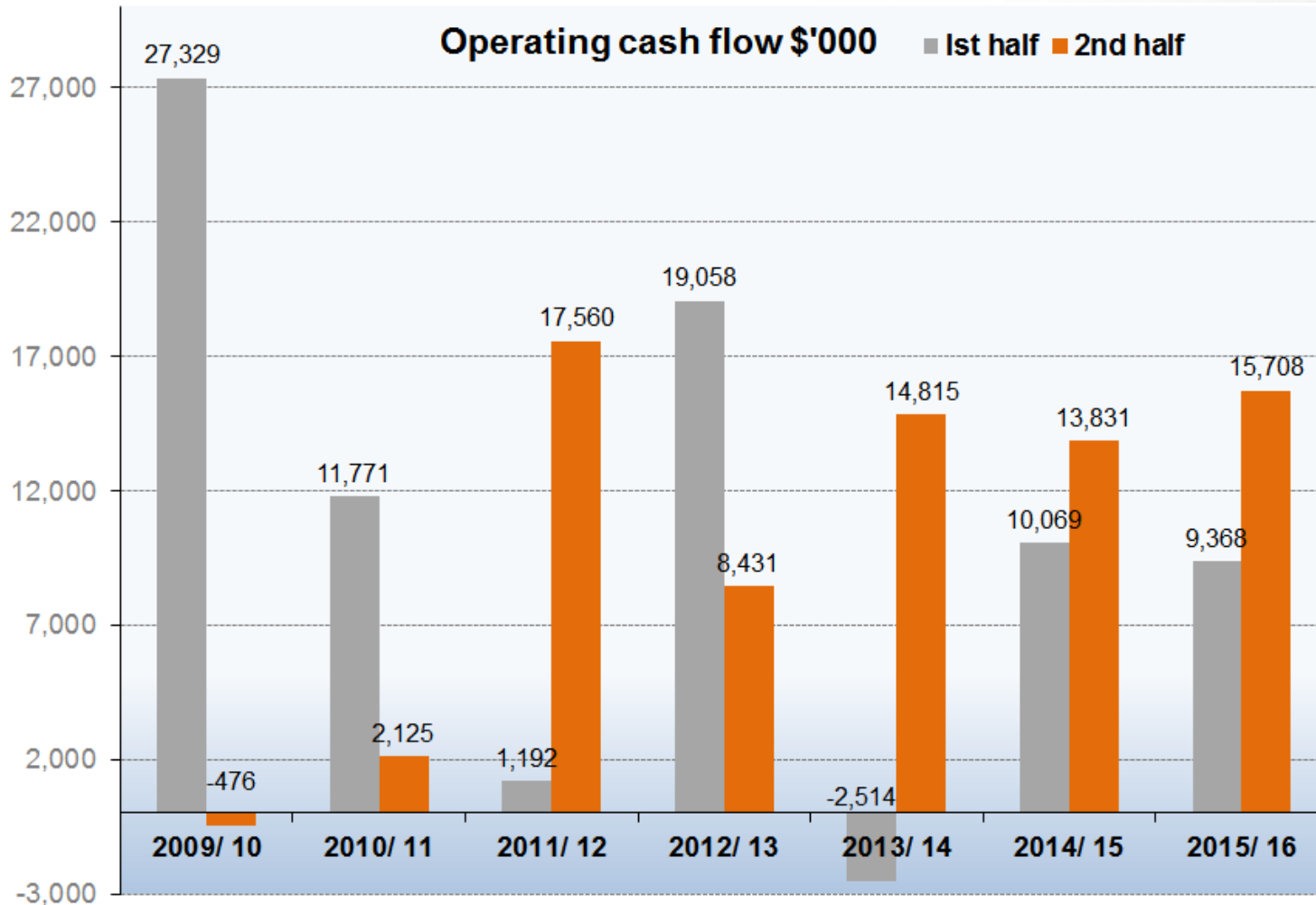
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Business Performance

Operating cash remains strong

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Outlook

Strategy refreshed

Previous Strategy

One Company, facility consolidation, inventory management, acquisition to support market position

Renewed Strategy 2016

Volatile steel prices likely to remain

- Reposition underlying cost structures

Acquisitions & Growth

- Enhance capability and reach

Many commodity products

- Integrated value propositions

Technology

- Leverage e-commerce across supply chain

Outlook

Improving performance



Global Markets

- World steel demand remains soft, with oversupply in both raw materials and finished steel, encouraged by price increases in early 2016, iron ore firming, and steel pricing following
- China commitment to remove excess/aged capacity

Local Markets

- The New Zealand economy, appears remarkably resilient, particularly our key sectors – construction & manufacturing
- The rural sector has re-aligned to new dairy payout, optimism returning, other rural sectors positive

Operating Performance

- Focus on delivering the renewed strategy and initiatives
- Aquaduct potential to be realised
- Synergies from MSL to continue to be delivered
- Almost 10% price increase 1 July 2016, early days but promising
- \$30m capex investment strategy – \$8m yet to go

Financial Outlook

With increased prices in F17, and one-off costs minimised we expect significantly higher earnings in F17



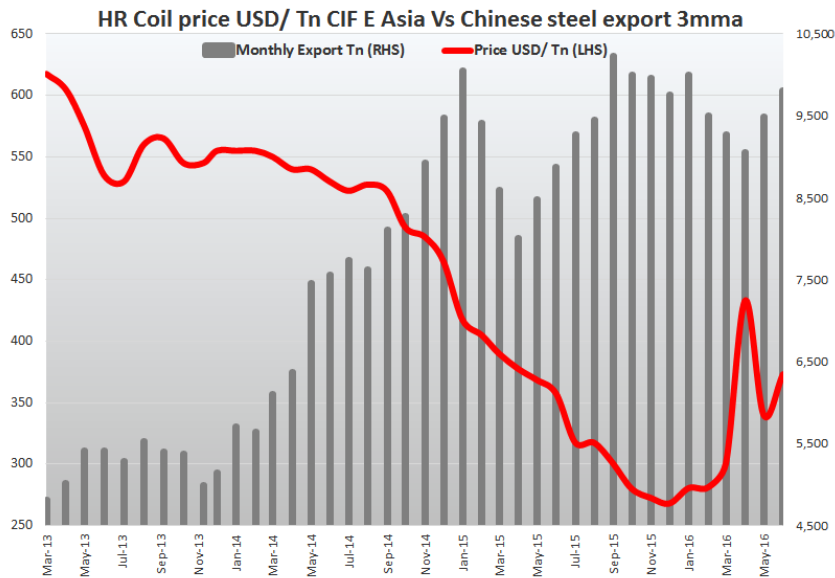
Thank you



Global Markets

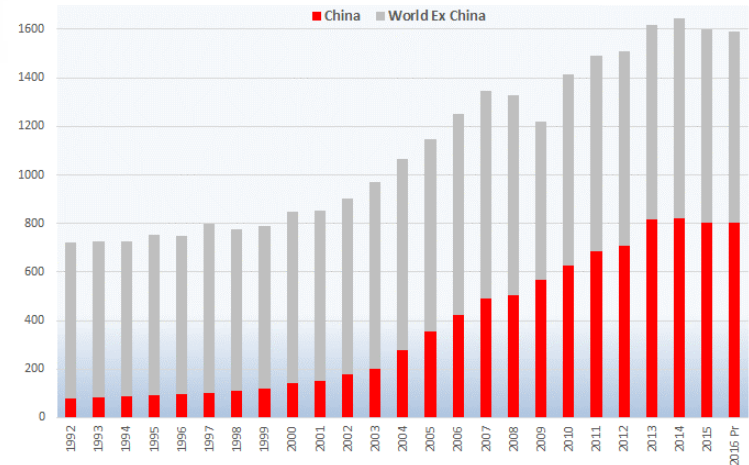
Steel production

- Global steel output has dropped slightly during 2015 compared to PCP. This trend seems to continue into 2016
- This shrinkage included most countries including, very significantly, China
- The major exception was India



Source: World Steel Association & SBB

World crude steel annual production MT



- Demand for construction steel has dropped in China much more than the small drop in production
- This overhang of production is being exported at an ever increasing rate
- The resultant dumping, currently running at 10 m tonnes per month has adversely impacted international steel prices

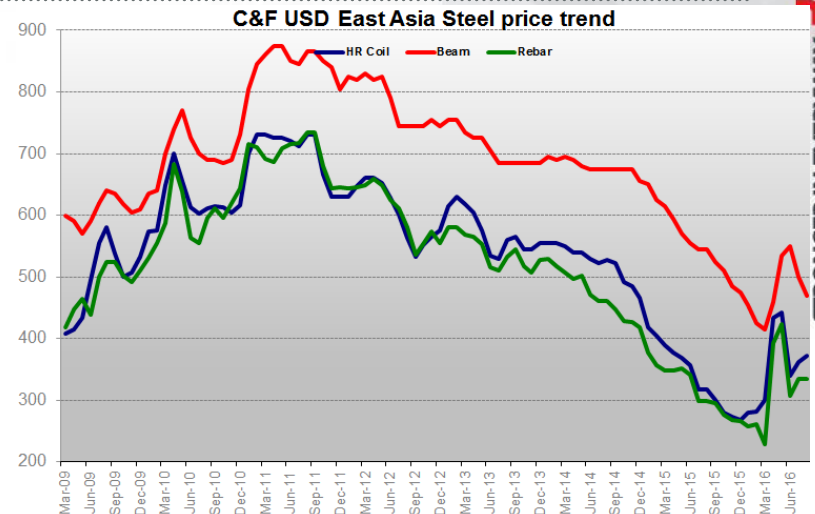
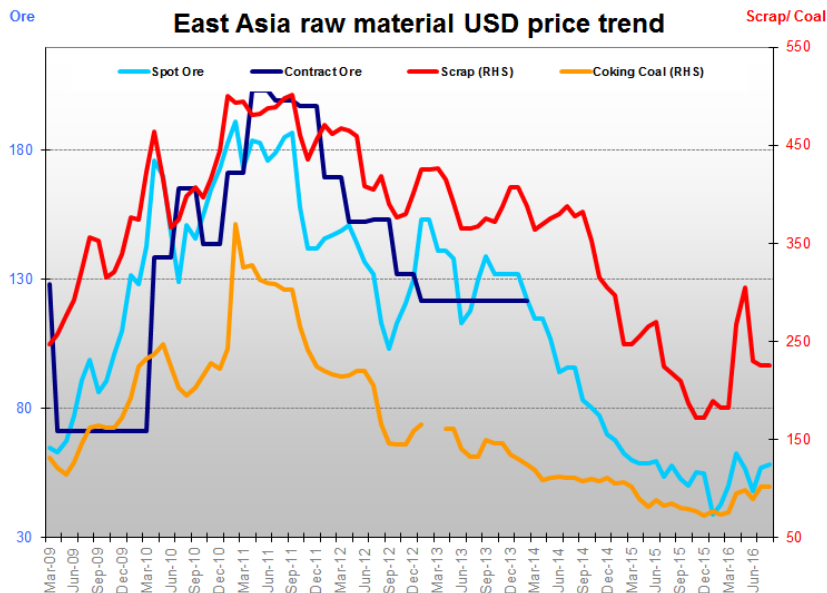
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Global Markets

Steel and raw material price movement

- Additional iron ore production continues to come on line increasing capacity
- Raw material prices hit their lowest level for 10 year at the financial year mid-point
- Rebounded quite strongly in early 2016 and current forecasts indicate prices in the mid \$50s



- Finished steel price declines accelerated through 2015
- Lowest finished steel prices for 13 years at the midpoint as Chinese exports reached 112 million tonnes for 2015
- Despite fundamentals, prices raised sharply in the first quarter of 2016
- Prices eased but have started to firm again

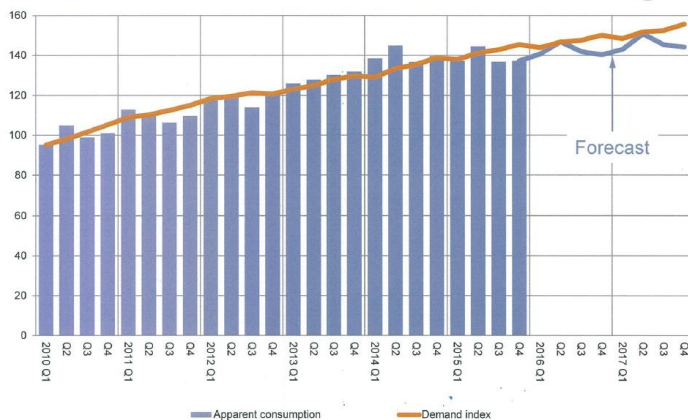
Global Markets

Stainless steel prices and production

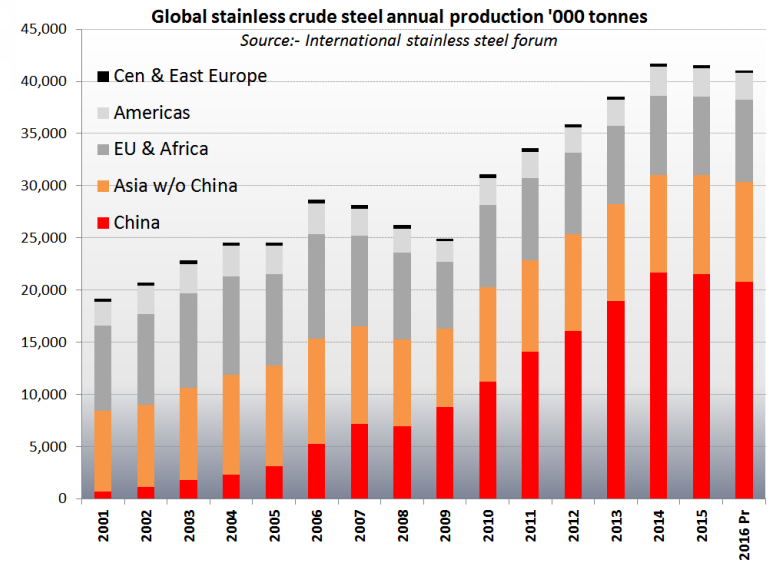
- Production declined marginally in 2015 and current trends indicate a drop in 2016
- China is the leading producer and is following the global trend
- Demand forecast is positive despite the current downtrend
- Prices correlate closely with nickel prices which remain volatile trending down

Global consolidation

Stainless steel all products consumption and demand index development [2010=100]

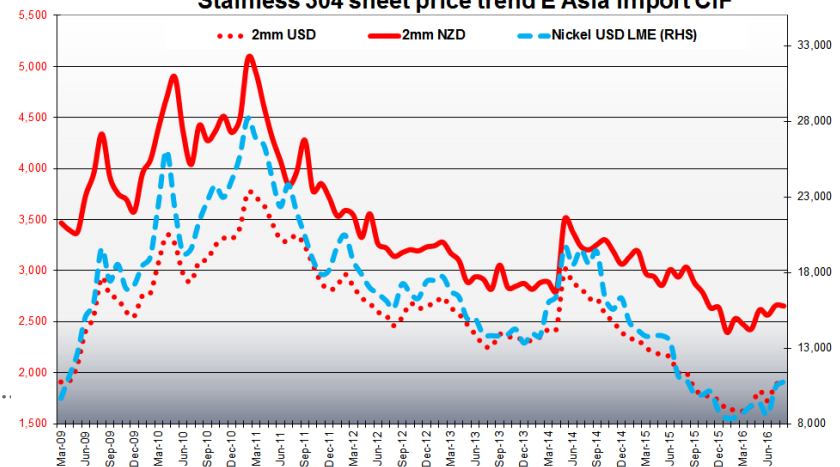


Source: Steel Business Briefings and International Stainless Steel Forum



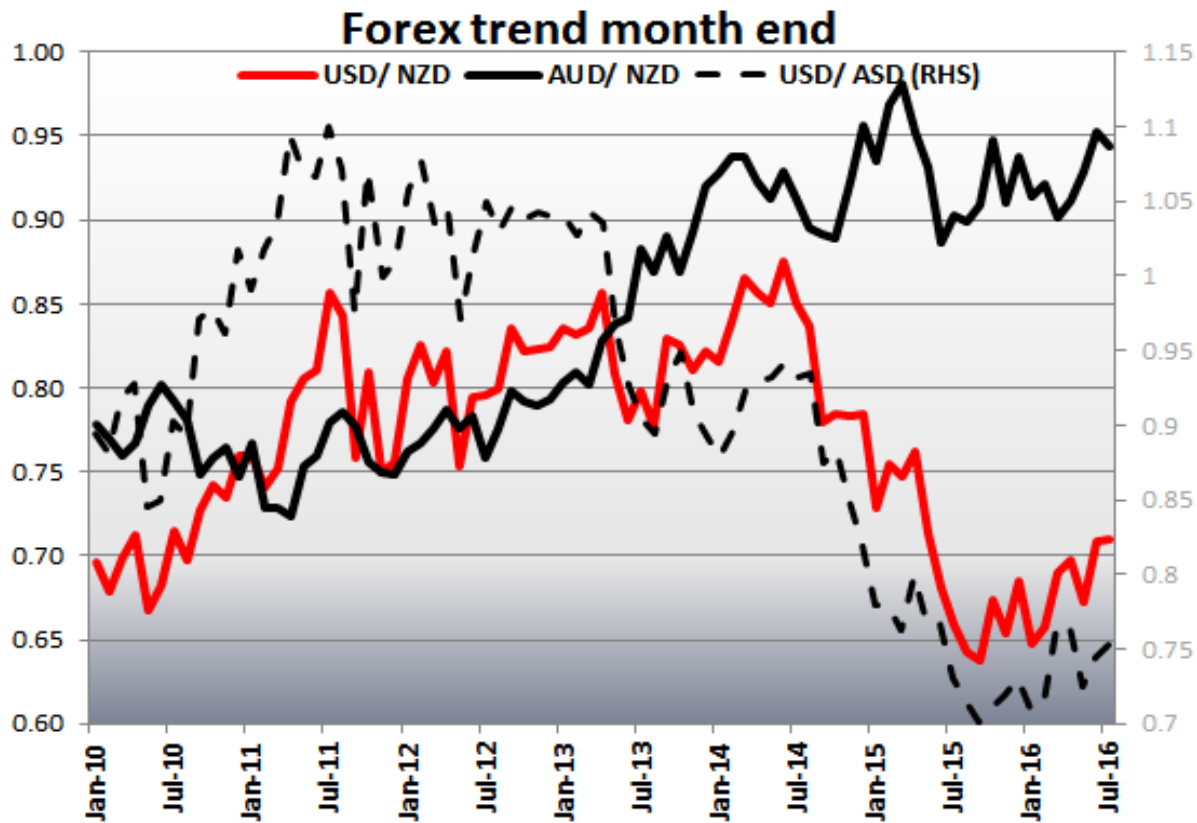
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Stainless 304 sheet price trend E Asia Import CIF



Global Markets

Exchange rates

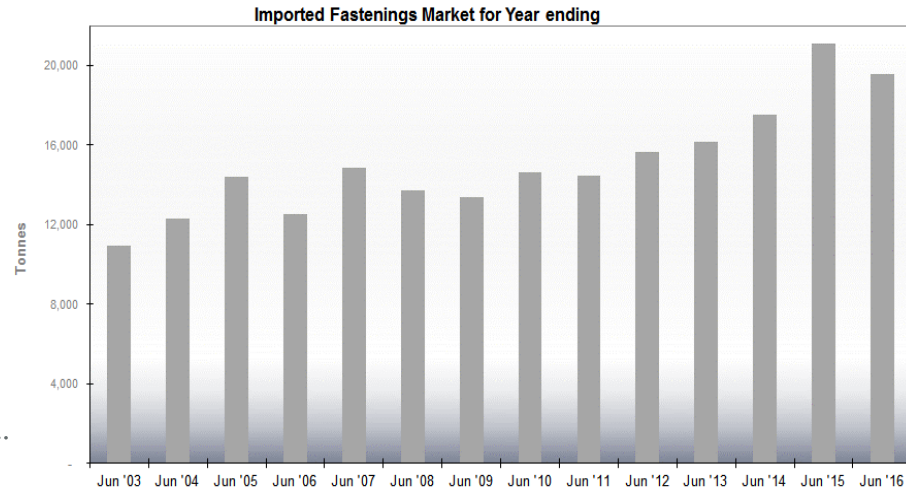
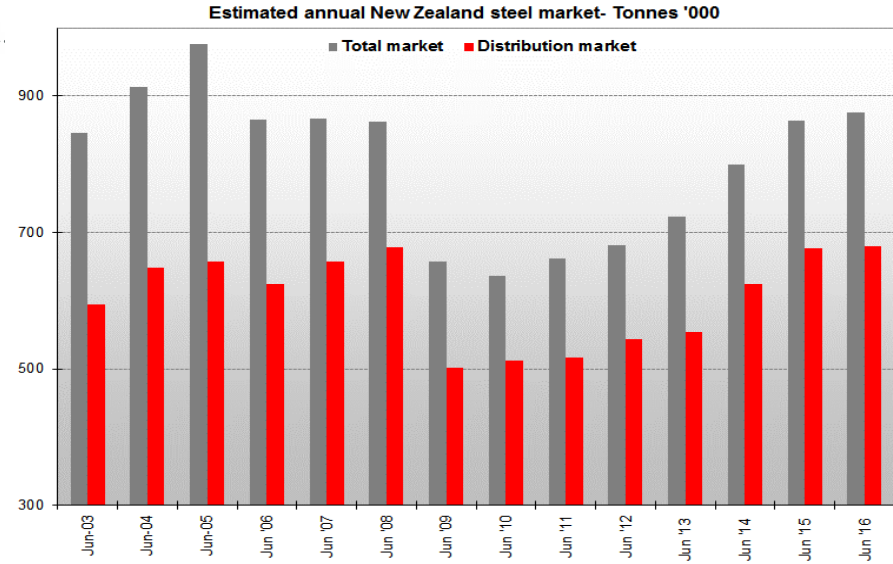
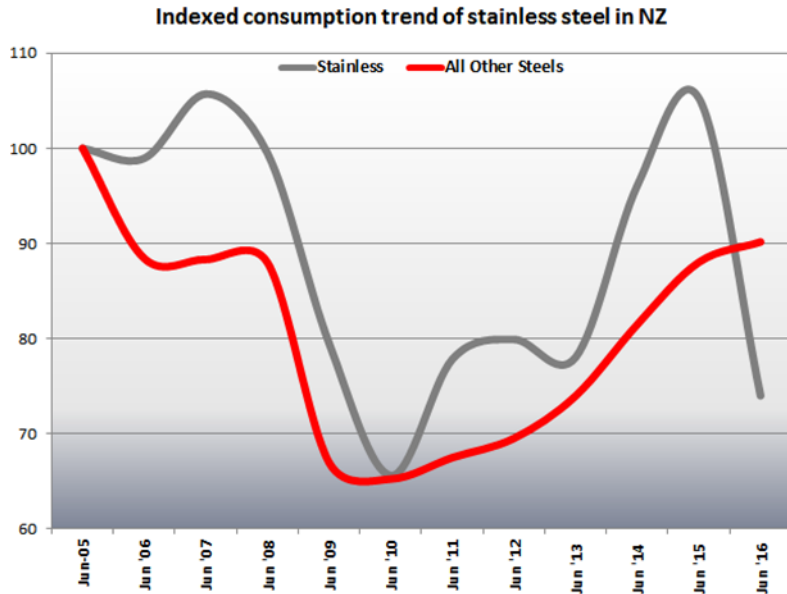


- The NZD has appreciated in recent months against key currencies
- Helped temper the volatility in global steel prices in 2016
- Remains elevated against the AUD

New Zealand Markets

Material volumes

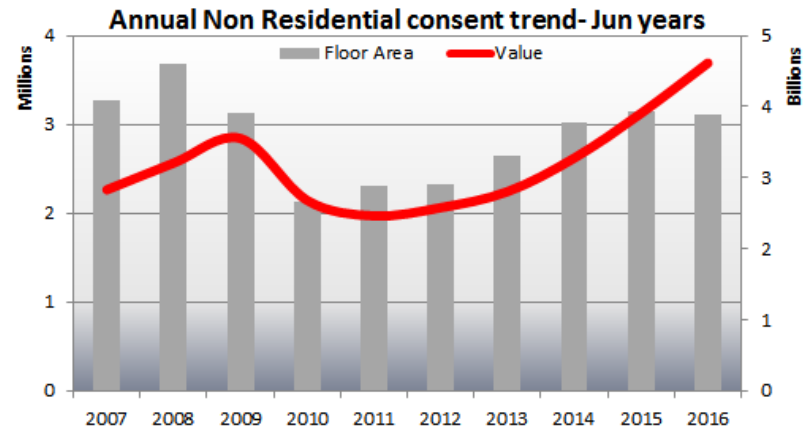
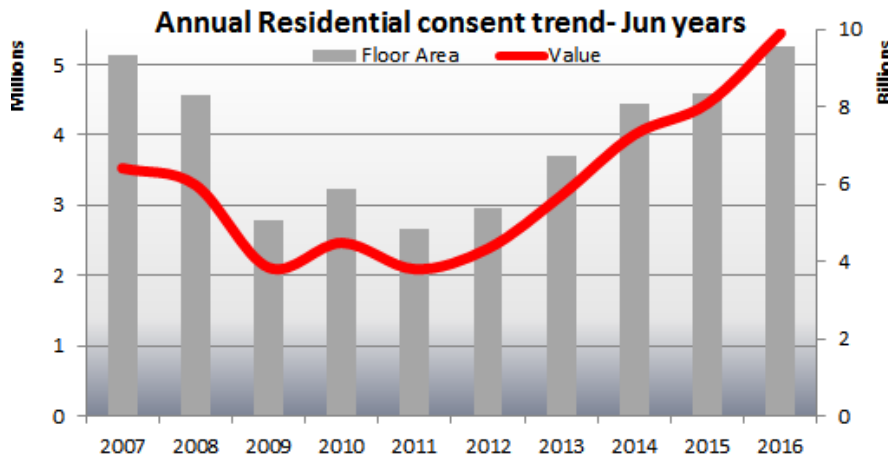
- Total steel demand is steady year on year
- Construction aligned products continue to grow
- Stainless steel demand remains impacted by limited dairy investments
- Fastenings market has held steady and less vulnerable to volatility



New Zealand Markets

Key sector trends – building consents (\$m & square meters)

- Year to June 2016 **Non Residential** building consent floor area reduced by 1% compared to PCP
- This was due to a static growth at Canterbury but Auckland grew by 20%
- Although the current \$ values are 63% higher, floor areas are 5% below 2007 levels



- Year to June 2016 **Residential** consent floor areas increased by 15% compared to PCP
- This was driven by a 18% increase in Auckland region, more than off-setting an 11% drop in Canterbury
- Although the current \$ values are 54% higher, floor areas are only 3% higher than 2007



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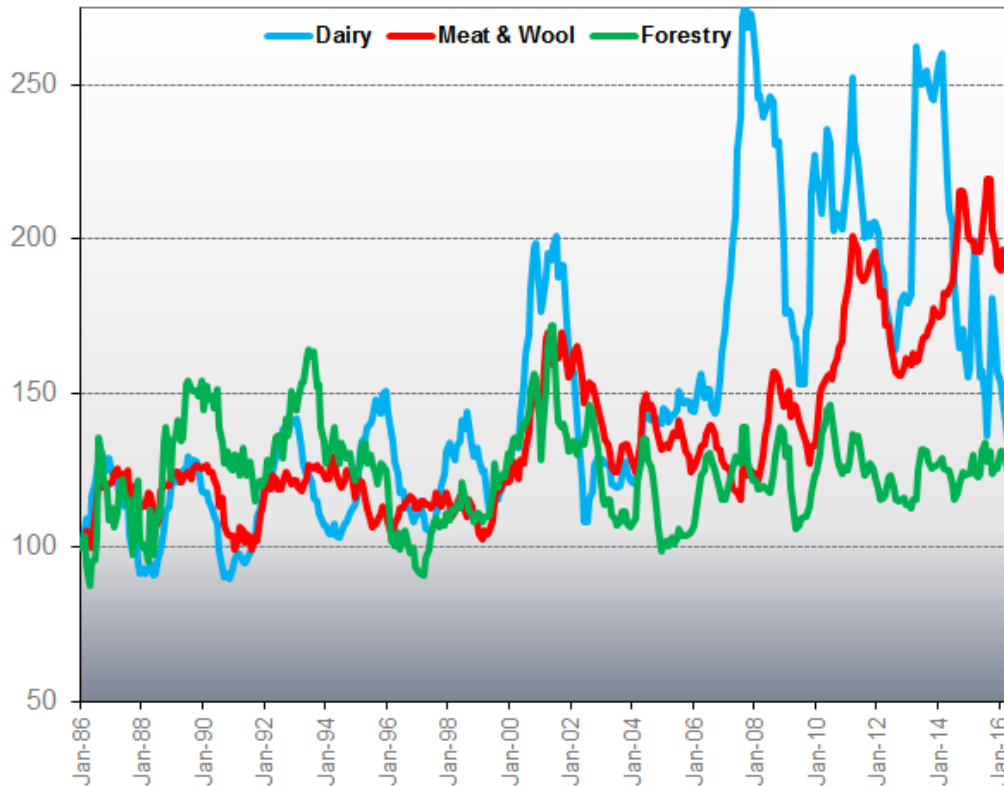


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New Zealand Markets

Key sector trends – rural

NZD Commodity Price Index-Jan 1986 base

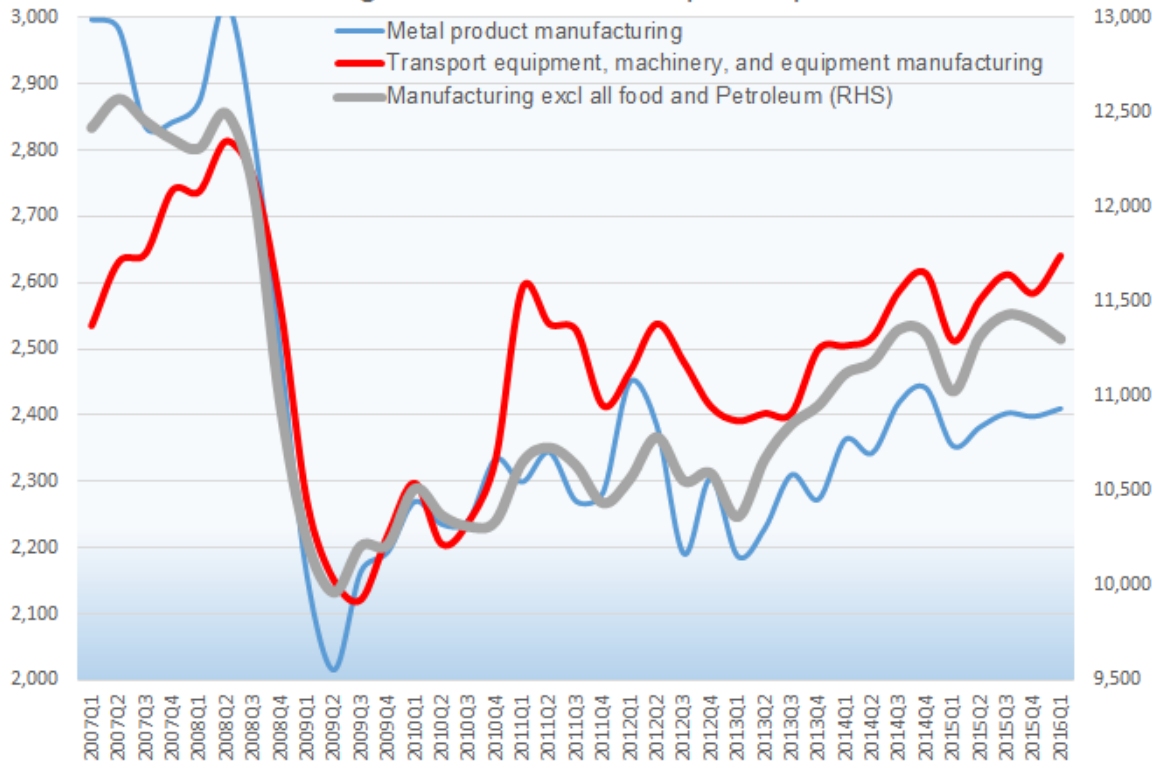


- With international dairy prices in free fall, pay-out for the 2016-17 season has been reduced to \$4.25 excluding dividend
- The drop in prices have been attributed to poor demand from oil producing regions, uncertainties in emerging markets, slow recovery in China for milk and excess supply from the EU following embargo by Russia
- The reduced pay-out is likely to be below the direct cost of many of the dairy operators which is estimated above \$5/ Kg
- Meat and wool prices while volatile, seems to be on an upward trend and a space to watch

New Zealand Markets

Key sector trends – manufacturing (\$m)

Manufacturing sales at constant Sep 2010 prices \$ m sa



- Generally volatile, but solid growth from non food and petroleum sectors
- Equipment and machinery manufacturers are at pre GFC levels
- Metal producers remain subdued
- Export markets for manufactured goods remain resilient in Australia and USA

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