



Half Year Report 2020 Summary



Dear Shareholder

For the past two years, your Board and Management team have been focused on improving Steel & Tube. Our efforts remain focused on our four strategic pillars.

- › **Commitment to safety and quality**
- › **Putting the customer at the heart of our business**
- › **Operational and supply chain excellence**
- › **Supporting a winning team**

This work has been carried out in an environment of declining market activity and ongoing competitive pricing pressures. While these difficult market conditions have been impacting on our financial performance, we are making good progress in the areas which we can control and our business is now stronger and more efficient.

In this Half Year review you can read about some of the initiatives we have been undertaking over the past six months.

1H20 PERFORMANCE

REVENUE
\$232.0M

FURTHER REDUCTION
IN NET DEBT TO \$10.9M

EBIT \$(33.4)M
NORMALISED EBIT \$5.7M¹
Pre-IFRS 16 \$3.1M²

NPAT \$(37.0)M
Pre-IFRS 16 \$(36.8)M²

ROBUST OPERATING
CASHFLOW \$17.1M
Pre-IFRS 16 \$10.5M²

INTERIM DIVIDEND
1.5 CENTS

The challenging market conditions have continued to impact on our sales and volumes, offsetting the gains we are delivering from our Project Strive initiatives. The primary impact has come from volume decreases in the vertical construction sector and the contraction of the stainless steel market.

Project Strive business transformation initiatives, including ongoing investment into digital technologies, continue to drive long term benefits for the company. Highlights in the first half include a further reduction in the operational property footprint from 48 in January 2018 to 31 locations today, additional cost efficiencies, the launch of the first phase of digital initiatives and further development of our network strategy.

Market share has been maintained and, despite the decrease in revenue, margins have also been maintained. The continued focus on cost management has seen underlying operating costs reduced by \$2.8m or 5.7%. We have improved productivity with our headcount changed from 1,100 to under 1,000. Property and freight costs have also reduced with a more efficient network. These benefits were partially offset in 1H20 due to restructuring & relocation costs related to the streamlining of our network; and an increase in doubtful debt provisioning and write-offs, predominantly due to the sudden liquidation of a major customer.

We have also been focused on inventory management, in particular increasing the levels of core stock availability and reducing the number of inventory items by rationalising low demand or older products.

Ensuring a strong balance sheet remains a priority for the Board. A disciplined approach to working capital and improving collection rates has benefitted underlying operating cashflow, and this has supported a further reduction in net debt from \$15m to \$10.9m.

The Board remains confident in management's transformation plans and has maintained the dividend at 1.5 cents per share.

OUTLOOK

We are seeing signs of improving business confidence including the recent Government announcement to increase infrastructure investment, which should lead to increased market activity. We continue to take actions to improve the business and are well positioned to benefit from any market uplift or easing in competitive pressure.

A significant amount of new work has recently been secured by Steel & Tube, which will commence in the second half. This includes additional work on the Metro Sports Centre in Christchurch; the Napier 6 Wharf; the Mangere Bridge rebuild in Auckland, and early work on a large rail project.

The COVID-19 virus has the potential to impact on site operations, customer demand and the timing of projects and some of our suppliers. To date there has been no significant impact on the business and we have plans to take mitigating actions where possible. The situation will continue to be monitored.

Whilst the potential impact of COVID-19 is unknown, an improved second half performance is expected as we benefit from Project Strive and commencement of significant new contracts.

To view Steel & Tube's Interim Results announcement, Financial Statements and Investor Presentation, please go to www.steelandtube.co.nz/investor/media



Susan Paterson
Chair



Mark Malpass
Chief Executive Officer

1. Normalised EBIT excludes \$39.1m in non-trading adjustments being \$(2.0)m restructuring and relocation costs and a non-cash goodwill impairment of \$(37.1)m

2. Adoption of NZ IFRS 16 Leases increased EBIT by \$2.6m and Operating Cashflow by \$6.6m and reduced NPAT by \$0.2m in 1H20

PROGRESS HIGHLIGHTS

CONTINUING COMMITMENT TO QUALITY, HEALTH, SAFETY AND SUSTAINABILITY

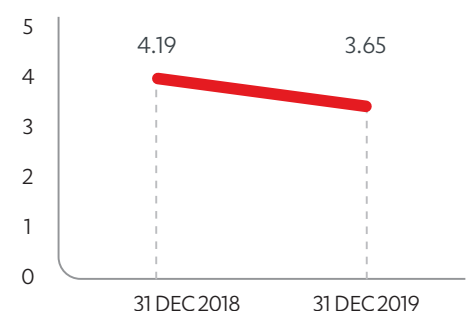
QUALITY

- › Lloyd's Register independent steel mill audits ongoing
- › Random sampling and independent testing underway
- › Automation of test certificate process underway
- › ESG framework and Key Performance Indicators under development

SAFETY

- › National review of site Standard Operating Procedures and supporting Job Safety Analysis
- › Life Saver Breach compliance and enforcement
- › Safety awareness campaign 'Stand in the Gap' attended by employees and contractors
- › Critical Risks Panels established, led by Lead Team

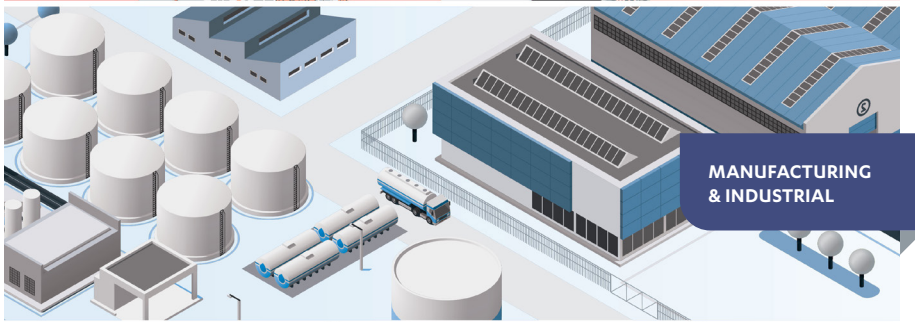
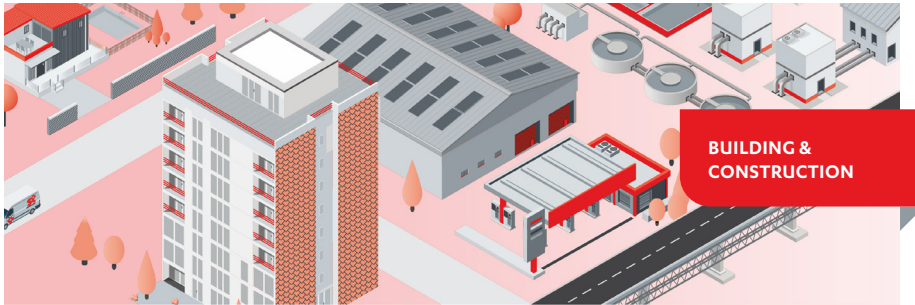
TOTAL RECORDABLE EMPLOYEE INJURY FREQUENCY RATE



PROGRESS HIGHLIGHTS

DELIVER ON CUSTOMER SERVICE PROMISE

- › Successfully launched Chatbot ‘Stanley’, allowing customers to query and receive answers about orders and shipments
- › Launched “Group Product Guide” to drive awareness and sales across our broad range of products
- › Currently conducting customer trials with a new range of engagement technologies that will fundamentally improve customer experience, buying and service through digital technologies.
- › Continuing to build on customer delivery performance and satisfaction



CREATION OF GROUP PRODUCT GUIDE

Steel & Tube has released a new group product guide – **FROM THE GROUND UP** – which provides an introduction into our wide range of products.

Focused around Steel & Tube’s three key markets – Building & Construction, Manufacturing & Industrial, and Rural – the new guide provides an overview of the range of products relevant to each sector. It is being marketed to architects, engineers, specifiers, builders and others, with the aim of promoting Steel & Tube’s one-stop-shop for steel requirements.

INTRODUCING STANLEY THE CHATBOT

Digital technologies are behind some of our important transformation work, helping to enhance our customer experience, streamline the backend of many of our processes using digital forms and workflows, and support our quality, health and safety initiatives.

Stanley is Steel & Tube’s new Chatbot, and is now live on our website as a trainee, learning about our business and providing information 24/7 in response to basic customer queries. For example, customers can ask Stanley about their order status, or they can find out about opening hours, branch locations or make general product enquiries. Since first launching in late December, Stanley has answered more than 1,500 customer enquiries.



PROGRESS HIGHLIGHTS

OPERATIONS AND SUPPLY CHAIN EXCELLENCE

➤ Focussed on Distribution division turnaround:

- Improved freight, procurement, direct labour efficiency, maintained product margins
- Redefined branch product footprints ensuring right inventory in the right locations
- Successful trial of barcode scanning technology, leveraging the investment in the ERP IT system

➤ Continued property footprint reduction by exiting / consolidating a further four operational sites in 1H20, whilst maintaining regional presence (31 sites vs 48 in January 2018)

STORE REVAMPS A WIN-WIN FOR CUSTOMERS & STAFF

One of the STRIVE initiatives this year is to increase store-in-store sales of fortress fasteners within the S&T Distribution network. In line with this, several stores, including our Napier and Rotorua stores, have been revamped with updated signage and a new retail layout. In particular, the Fortress range has been expanded and been given increased brand presence inside and outside the trade shops. Customer feedback has been great and these stores are already starting to see a lift in fastenings and other tradeshop sales.



STEEL & TUBE NETWORK OPTIMISATION



PROGRESS HIGHLIGHTS

SUPPORTING A WINNING TEAM

➤ Continued investment into training and development

- Launch of S&T Area Leadership programme – focus on sales, commercial skills and leading digital change
- Offered Workplace Literacy & Numeracy programmes to staff, to support those with English as a second language, and to provide more advanced Business English skills for team leaders

➤ Creation of new incentive scheme for sales teams and customer service employees

➤ Partnership in the MBIE Sector Workforce Engagement Programme, providing training and employment opportunities for school leavers and building New Zealand's construction skills

➤ Improved internal communication tools for all employees

➤ Productivity improving - headcount changed from 1,100 to under 1,000

LITERACY & NUMERACY PROGRAMME

Twelve staff across three sites in Auckland recently took the opportunity to take part in a Workplace Literacy programme offered by Steel & Tube.

The programme is for 2 hours each week over 20 weeks during work time. Staff get to increase their understanding of numeracy and literacy which is beneficial for them, both in the workplace, in their homes and communities. This helps staff feel more confident in reading, writing, following H&S instructions, asking questions to their managers, and being able to listen, communicate and contribute in team forums.

Two programmes have been run, one focused at a supervisor/ team leader level, and the other for those for whom English is their second language. These are proving very popular and beneficial for our staff.

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