steel&tube
STRONGER TOGETHER

HY23 Results Presentation

For the six months ended 31 December 2022

Half year in review

- Solid demand for steel despite easing in activity across most sectors, infrastructure continues to strengthen; 1H23 volumes decreased slightly although still ahead of 1H five-year average
- Supply chain constraints easing and international freight costs reducing towards end of 1H23
- Inflationary cost increases, higher interest rate environment, tight labour market
- Ongoing impact from Covid, particularly affecting absenteeism
- Focus has been on strengthening the balance sheet to support the business through the economic cycle – reduction in net debt, inventory positions reduced, strong cashflows, cost inflation management

Strong trading performance and resilient 1H23 results

Record revenue paired with strong earnings

Revenue **$315.3m** +11.7%	Volume **80,491t** -2.8%	Normalised EBITDA **$31.6m** -0.6%	EBITDA **$30.5m** -4.4%
Normalised EBIT **$21.5m** -4.4%	EBIT **$20.3m** -10.2%	NPAT **$11.8m** -17.5%	ROFE **13.8%** FY22: 14.6%

- Customer demand driving revenue
- Year-on-year uplift in gross margin dollars
- Costs tightly managed
- 1H23 interim dividend: 4 cents per share, 100% imputed

Earnings Before Interest and Tax (EBIT), Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), Net Profit After Tax (NPAT)
ROFE: Return on Funds Employed, calculated as Normalised EBIT over Average Funds Employed (Debt (including Lease Liability) + Equity)

Current market challenges and how we respond to them

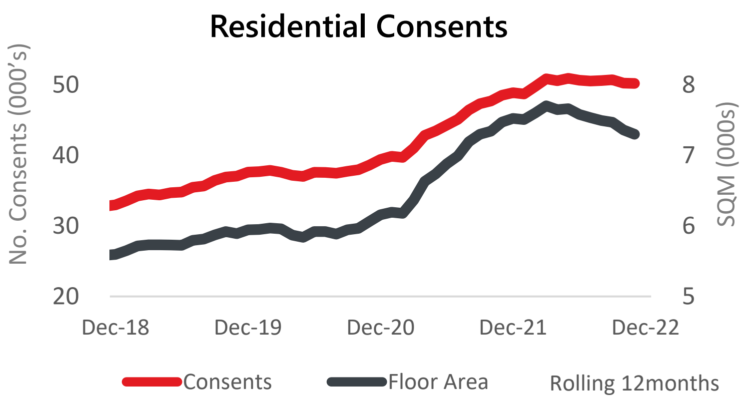
Market Challenges	OUR RESPONSES
	FY23
Commodity price volatility, some easing	• Continued investment in the right inventory • Easing supply chain allowing reduced inventory cover • Selling down lower margin inventory • Focus on margin capture on existing inventory
Supply chain constraints	• Face-to-face engagement with overseas suppliers • Further operational optimisation
Tight labour market	• Introduction of Steel & Tube Coaching and other programmes • Leadership Contract training to all Senior Managers • Continued focus on Wellbeing workshops including financial, mental and physical health • Expanded investment in Māori Cadetship Programme • Further investment in staff training • All staff at or above the Living Wage from 31 December 2022
Inflation	• Actively targeting cost inflation
Cashflow management	• Focus on debtor collections • Continuing to review debtor and creditor terms

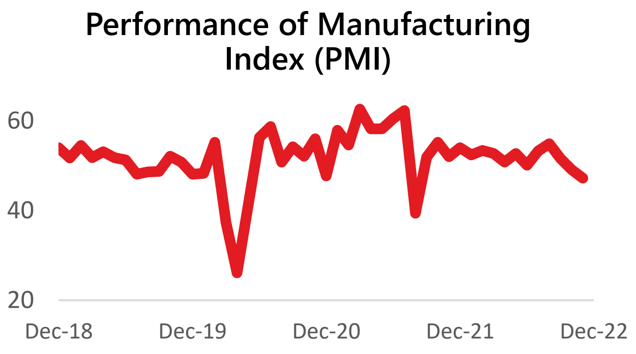
Steel Pricing and Procurement

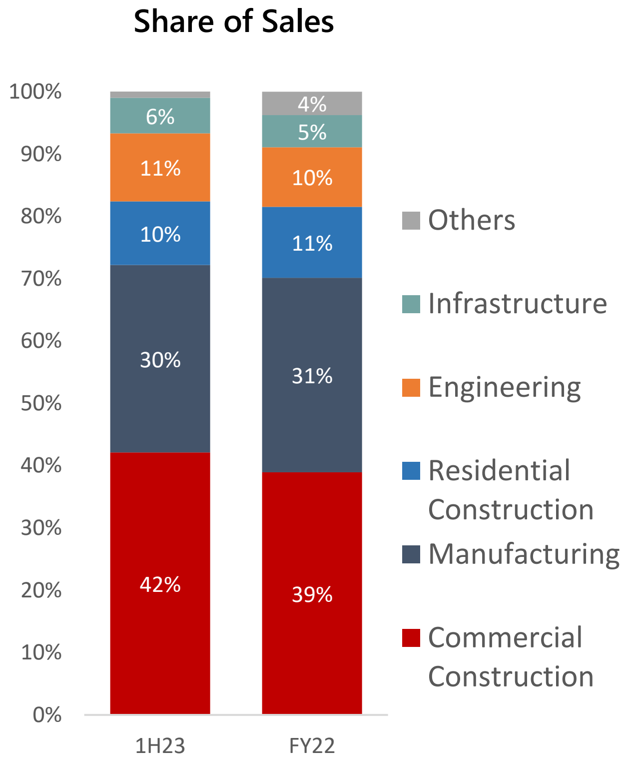
- **Global demand moving to more normal growth trajectory:** global demand for steel, particularly in China, has cooled, however is expected to return to a more normal growth trajectory as China relaxes Covid restrictions and invests in economic stimulus
- **Peak prices have moderated:** for mills, the need to fill capacity has seen peak prices recede during the half although in December and January international prices firmed on a NZ dollars basis
- **Price volatility reducing:** product availability is no longer an immediate concern and some of the price volatility has been reduced
- **Steel pricing has stabilised above pre-Covid levels** and pricing remains competitive

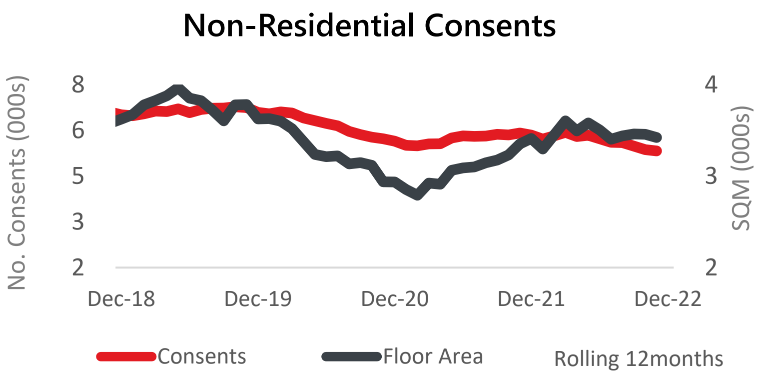
Demand for steel continues despite challenging macro trends

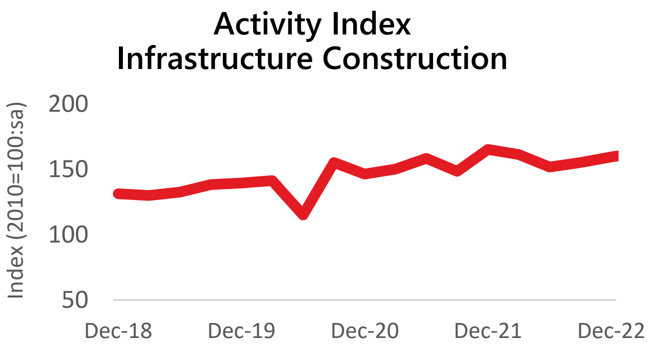
Economic headwinds expected to lead to some moderation in activity in late FY23











Steel & Tube is a diversified business with limited exposure to any one sector

Source: Statistics New Zealand, BNZ – BusinessNZ PMI, Statistic NZ, NZIER

Significant value from 'strengthen and grow' strategies

- Clear strategic focus on continuing to strengthen the core and investing in high value products, services and sectors for growth
- Recent growth investment into new products and services – fasteners, aluminium, plate processing, fire and water reticulation products
- Continuing value from digital strategy and initiatives
- Programmatic M&A remains key part of growth strategy

Building a sustainable business

Long term business sustainability supported by balance sheet strength through the economic cycle with capacity for growth investment

Continued commitment to Quality, Health and Safety with ongoing independent inspection systems

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Continuing strength in key metrics

Customer Satisfaction
NPS 40 (1H22: 38)

Employee Safety Measure
eTRIFR 1.10 (1H22: 1.27)

Employee Engagement
Employee NPS 35 (1H22: 29)

Net Promoter Score (NPS): Measure of customer/employee satisfaction
Customer NPS industry average is 32 (1H22 restated based on a 3-month rolling basis to be consistent with 1H23)
Employee NPS industry average is 18
Employee Total Recordable Injury Frequency Rate (eTRIFR): Employee safety measure

Delivered strong 1H23 results

Group financial summary

- Inventory reducing as supply chain headwinds ease; inventory turns remained consistent
- Effective margin management with some reduction as excess inventory moved at reduced margin and input costs increase
- Opex increases held in line with inflation
- Strong cashflows supporting reduction in net debt
- 1H23 dividend 4cps fully imputed – equivalent to 1H22 dividend of 5.5cps which was unimputed (for NZ tax payers)

$m	1H23	1H22	Var%
Revenue	315.3	282.2	11.7%
Volume (Ktonnes)	80.5	82.8	(2.8%)
EBITDA	30.5	31.9	(4.4%)
Normalised EBITDA*	31.6	31.8	(0.6%)
EBIT	20.3	22.6	(10.2%)
Normalised EBIT*	21.5	22.5	(4.4%)
NPAT	11.8	14.3	(17.5%)
Net operating cash flow	41.1	(9.6)	528.1%
Dividend (cents per share)	4.0 Imputed	5.5 Unimputed	-

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** 1H23 and 1H22 Normalised EBITDA and Normalised EBIT have been adjusted to exclude non-trading adjustments. Further details included in appendix to this presentation.*

Repositioned the business for more challenging economic cycle while investing in growth

Group Balance Sheet Summary

- Reduction in inventory as supply chain issues ease
- Freeing up cash as inventory position reduced
- Disciplined management of working capital
- Reduction in debt with substantial bank facility in place to fund growth
- Strong cashflows supporting strategic initiatives
- Delivered double-digit ROFE
- Continued reduction in net debt in January to $25.9m

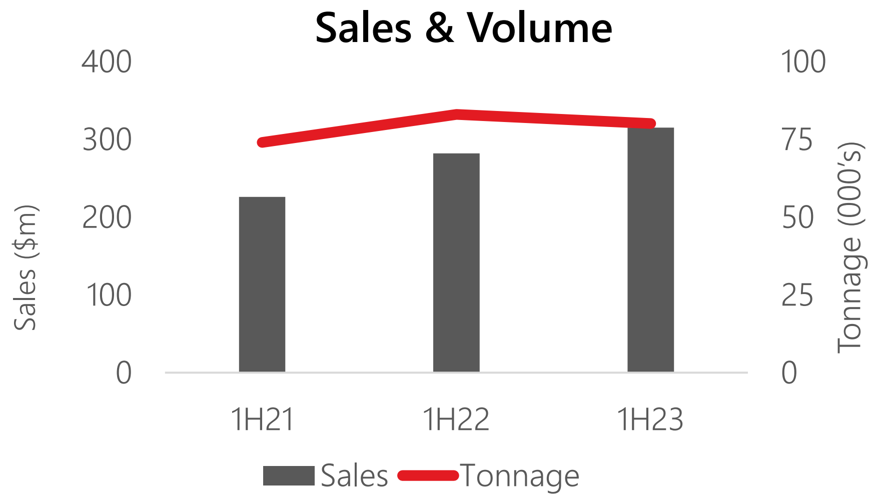
$m	1H23	FY22	1H22
Trade and other receivables	78.9	103.3	89.6
Inventories	175.0	192.5	152.9
Trade and other payables	(62.9)	(89.0)	(85.8)
Working Capital	**191.0**	**206.8**	**156.8**
Total Facility	100.0	100.0	50.0
Borrowings	(40.0)	(51.0)	(2.0)
Available Facility / Undrawn	**60.0**	**49.0**	**48.0**
Cash and cash equivalents	7.5	8.0	3.2
Borrowings	(40.0)	(51.0)	(2.0)
Net Cash/Debt	**(32.5)**	**(43.0)**	**1.2**
Net Tangible Assets (NTA)	**196.0**	**202.2**	**194.1**
ROFE (%)	**13.8%**	**14.6%**	**11.7%**

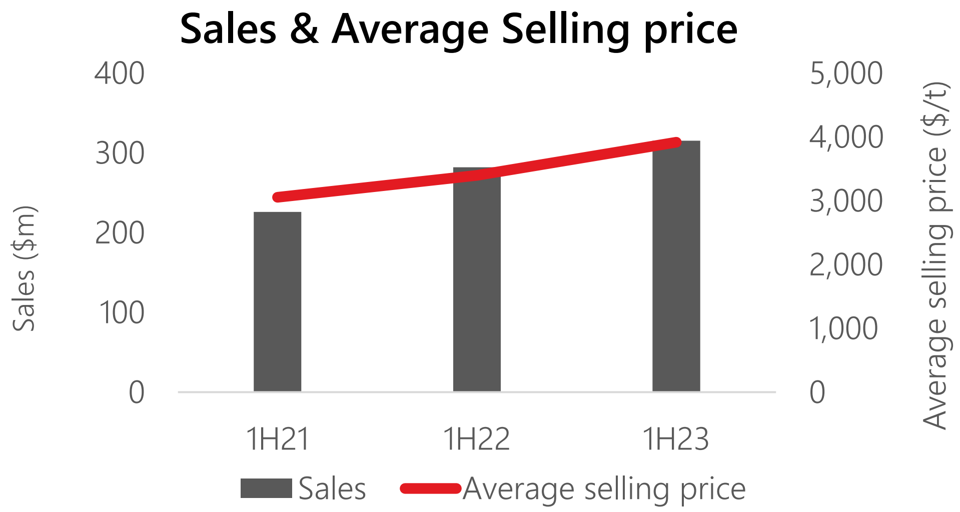
Record revenue

Momentum driven by strong focus on our customers, trading disciplines and positive market conditions

Revenue $315.3m: Up $33.1m, +11.7%
Continuing sales momentum, despite market conditions

Volume 80.5Ktonnes: Down 2.3Kt, -2.8%
Sustained customer demand for comprehensive range of products





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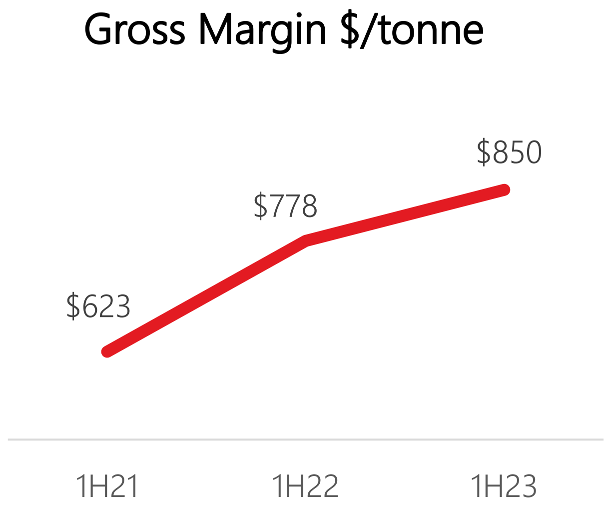
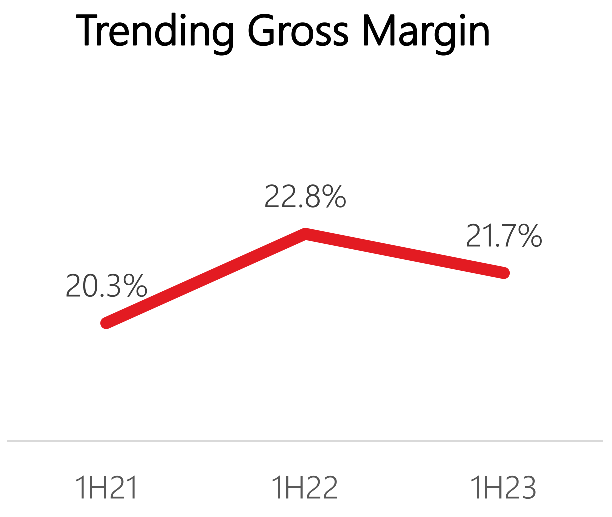
Improvement in Gross Margin $/tonne

Year-on-year growth in Gross Margin $/tonne

- Some margin reduction as excess inventory was reduced
- Focus on fast moving inventory ensures minimal margin squeeze as prices eased
- Increased input costs – operating expenses held in line with inflation
- Strategic focus on higher margin products, services and sectors

Gross margin includes freight, direct and sub-contract labour





Business Performance

Increases across both divisions

Distribution – high volume business

- Solid performance despite market conditions
- Benefiting from inventory management, pricing and supply chain disciplines
- Expect margins to improve longer term

Distribution	1H23	1H22
% of Group revenue	60.8%	64.4%
Revenue	$191.6m	$181.7m
Gross Margin	22.5%	24.8%

Infrastructure – processing products before sale

- Business driven by tight margin and cost management
- Risk reduction – focus on supply only projects
- Transitioned to projects where capability can be leveraged; solid pipeline of work from new tenders; some large projects delayed into 2H23

Infrastructure	1H23	1H22
% of Group revenue	39.2%	35.6%
Revenue	$123.7m	$100.5m
Gross Margin	19.6%	18.3%

Gross margin includes freight, direct and sub-contract labour

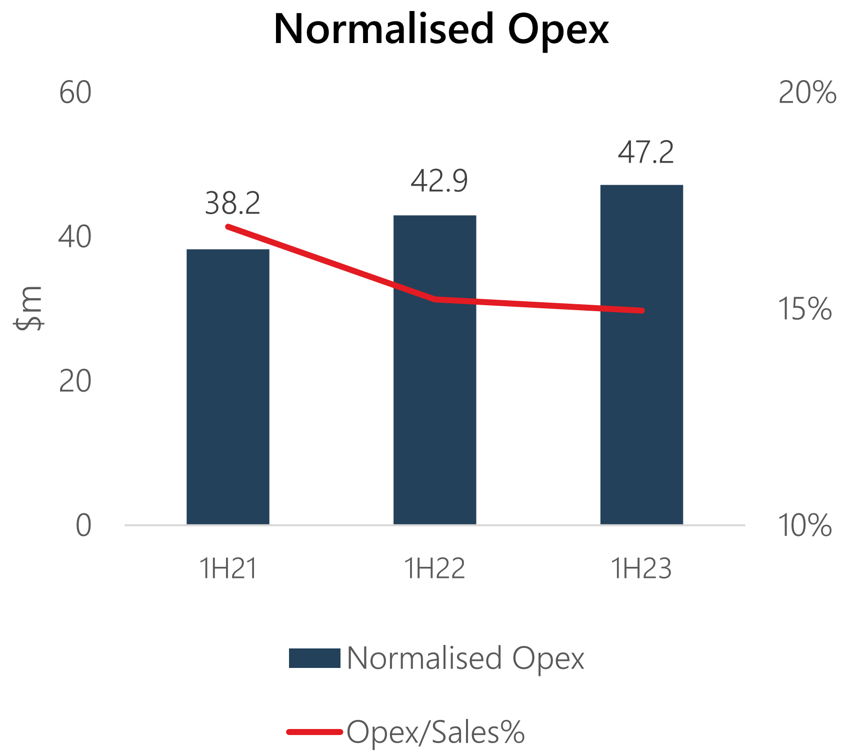
Normalised operating expenses

Ongoing focus on operating expenditure

- Normalised operational costs as a percentage of sales continues to decline
- Continued efficiencies have resulted in network leverage and led to a reduction in carbon emissions

Increase in 1H23 normalised operating expenses of $4.3m

- Inflationary pressure – wage/salary and property
- Increased depreciation – mostly growth related



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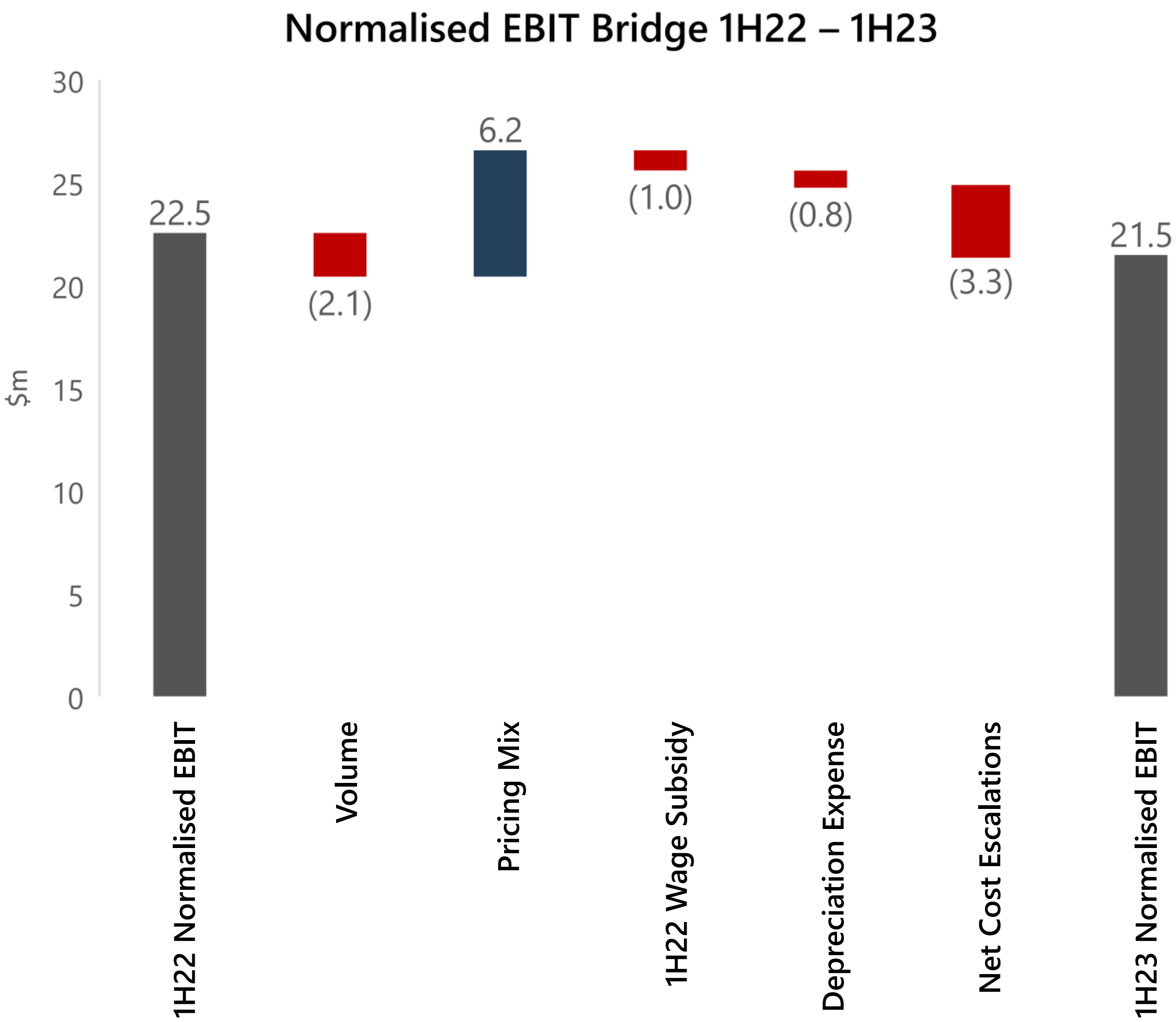
Normalised Opex excludes Holiday Pay provisions/reversal, as well as non-trading adjustments previously reported

Pricing benefits offset by inflationary pressures

- Focus on higher value products, ensuring inventory availability for key clients
- Improved pricing disciplines, leveraging digital capabilities and analytics
- 1H23 Normalised EBIT $21.5m; reported EBIT $20.3m

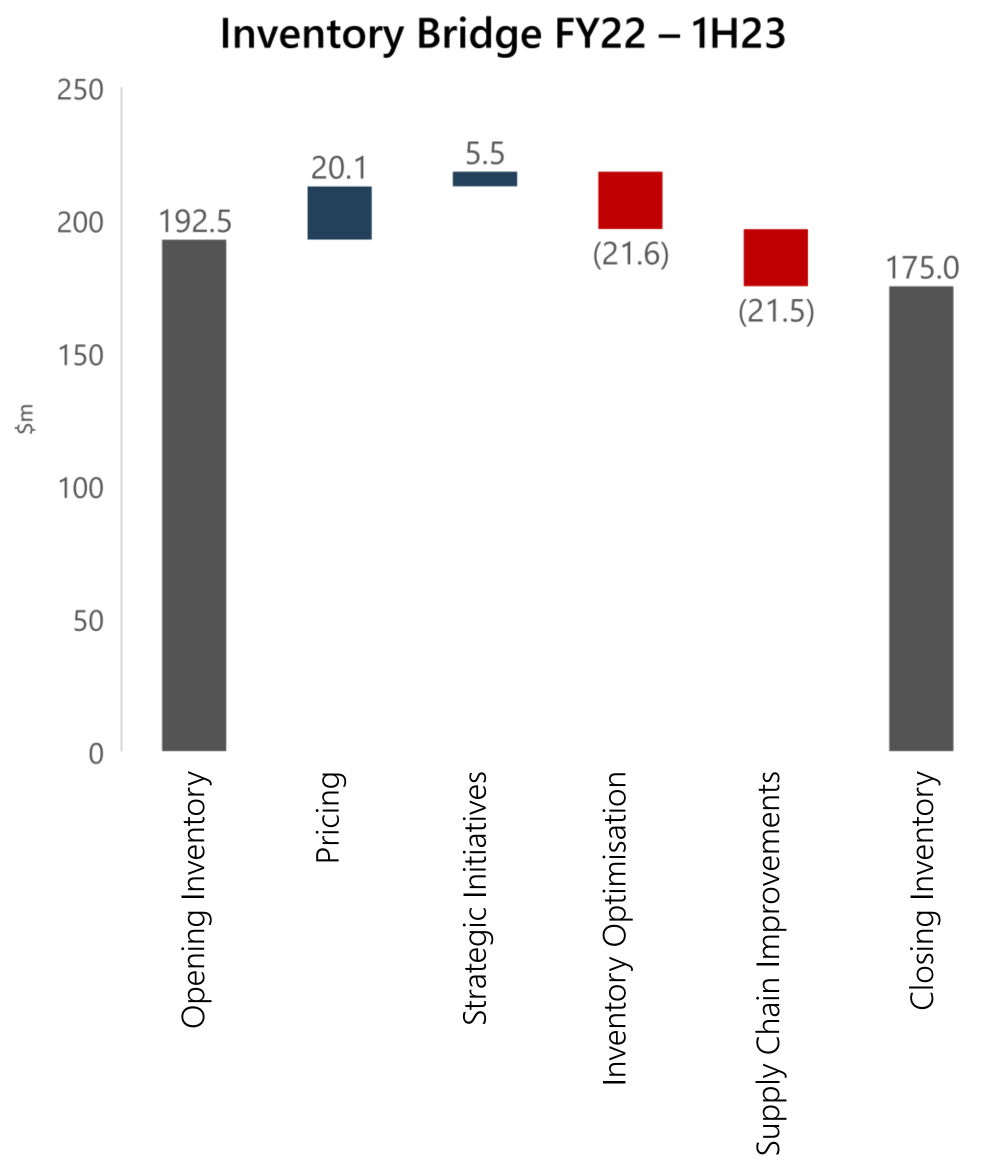


Normalised EBIT has been adjusted to exclude non-trading adjustments. Further details included in appendix to this presentation.

Inventory management

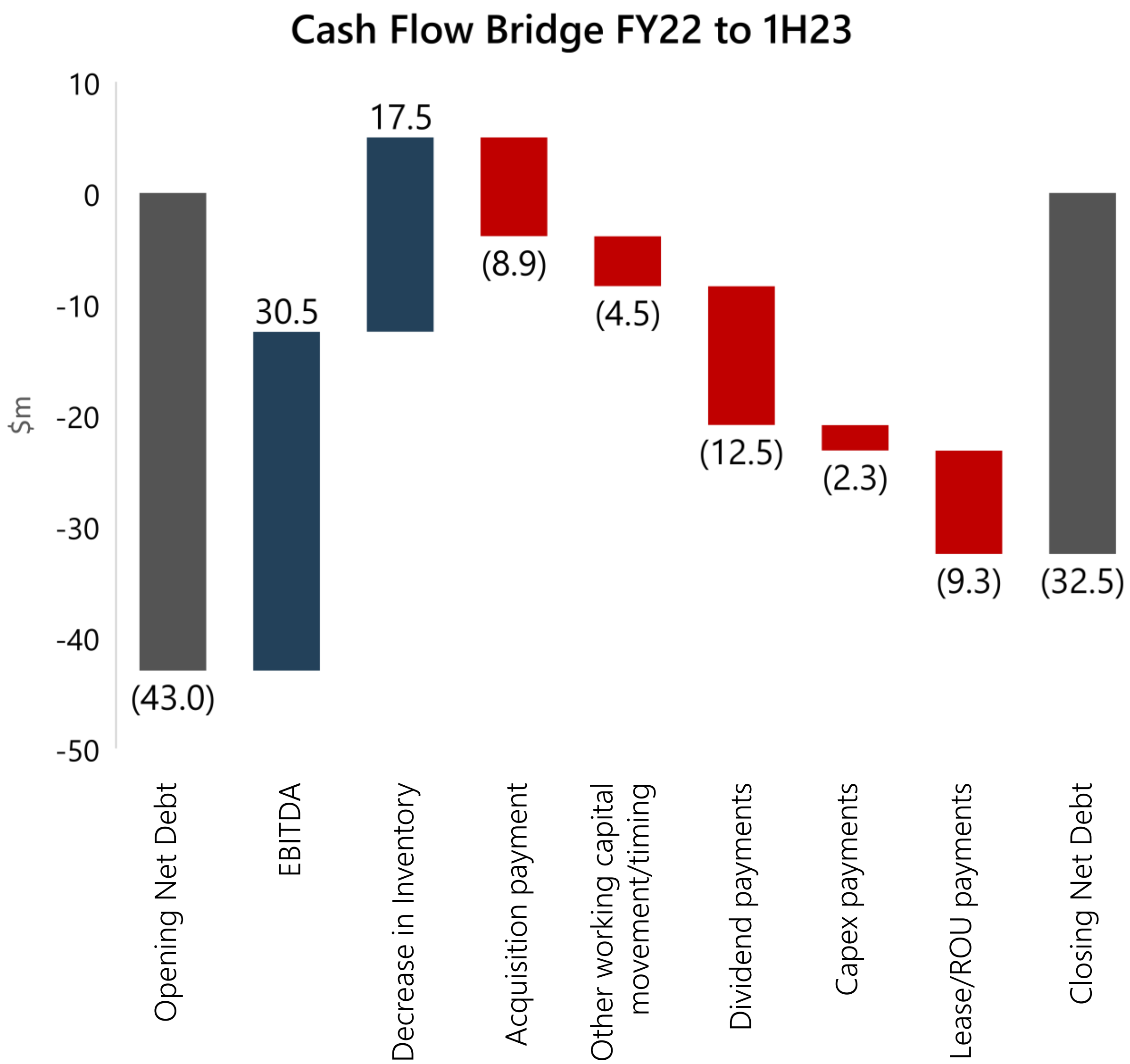
Managing inventory levels carefully to ensure best use of working capital

- Inventory levels increased in FY22 in response to supply chain issues and to ensure product availability for key customers
- Higher inventory positions now being reduced - 25% reduction in volumes (tonnes) on hand during 1H23
- Unit prices remain at elevated levels
- Inventory turns (unit and tonnes) have remained consistent with prior periods
- Use of detailed analytical tools to ensure investments are made in higher margin products
- Focus on reducing lower margin products



Cashflow

- Strong cash inflows reflecting increased revenues
- Decrease in inventory on hand as supply constrains ease
- Dividends of $12.5m paid during 1H23



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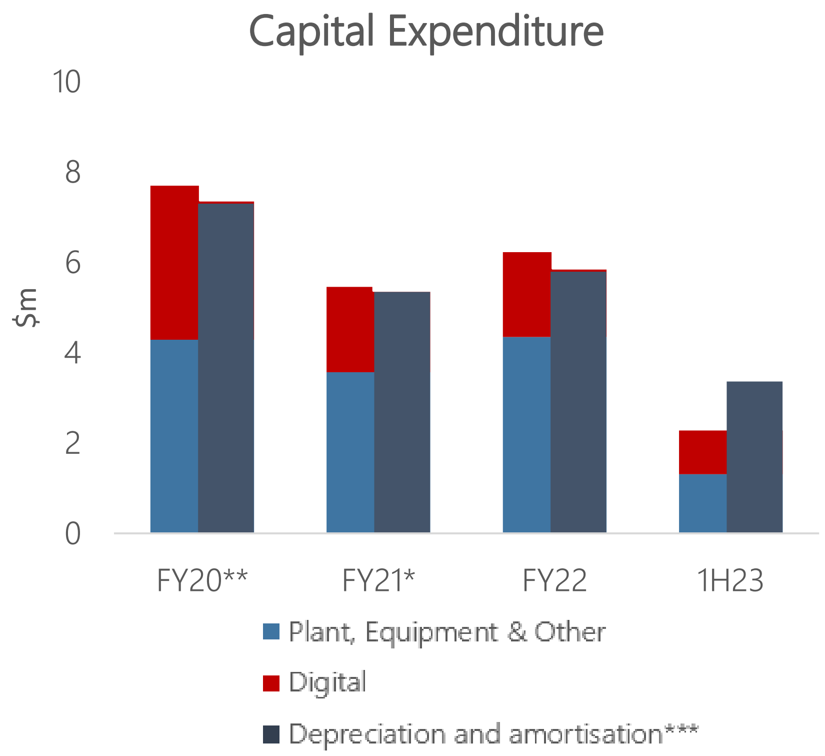
Capital Expenditure

Careful management of funds in current environment

- 1H23 capex of $2.3m (1H22: $2.6m)
- Capital spend reduced below depreciation levels
- Priority capital allocation to projects supporting digital (43%) and business improvement/growth (57%)

Planned Investment for FY23

- Investment in processing equipment and other growth opportunities
- Continued investment in digital technology
- Increased cashflow will support capital investment programme



FY21 capex has been restated for the impact of a change in accounting policy in relation to the accounting for Software as a Service arrangements ("SaaS")
*** FY20 capex has not been restated for the impact of SaaS*
****Depreciation and amortisation excludes right-of-use asset depreciation*

Moving Forward

Strategic focus

Growth focused on strengthening the core and building higher value products, services and sectors to drive gross margin improvement – benefits expected from FY24 onwards

OUR PURPOSE: To make life easier for our customers needing steel solutions

STRATEGIC GOALS

CUSTOMER
Preferred supplier for steel solutions and products

GROWTH
Increase value through organic growth and programmatic smaller M&A

SHAREHOLDER
Deliver increasing value and returns for our shareholders

OUR STRATEGY

BUILDING ON MOMENTUM TO CREATE A MARKET LEADING BUSINESS

Building on strong foundation to strengthen the core

Growth in high value products, services and sectors

OUR FOCUS AREAS

Providing a one-stop-shop for the most essential steel products – from foundation to roof and everywhere in between

Doing everything we can to make it easy for our customers to do business with us

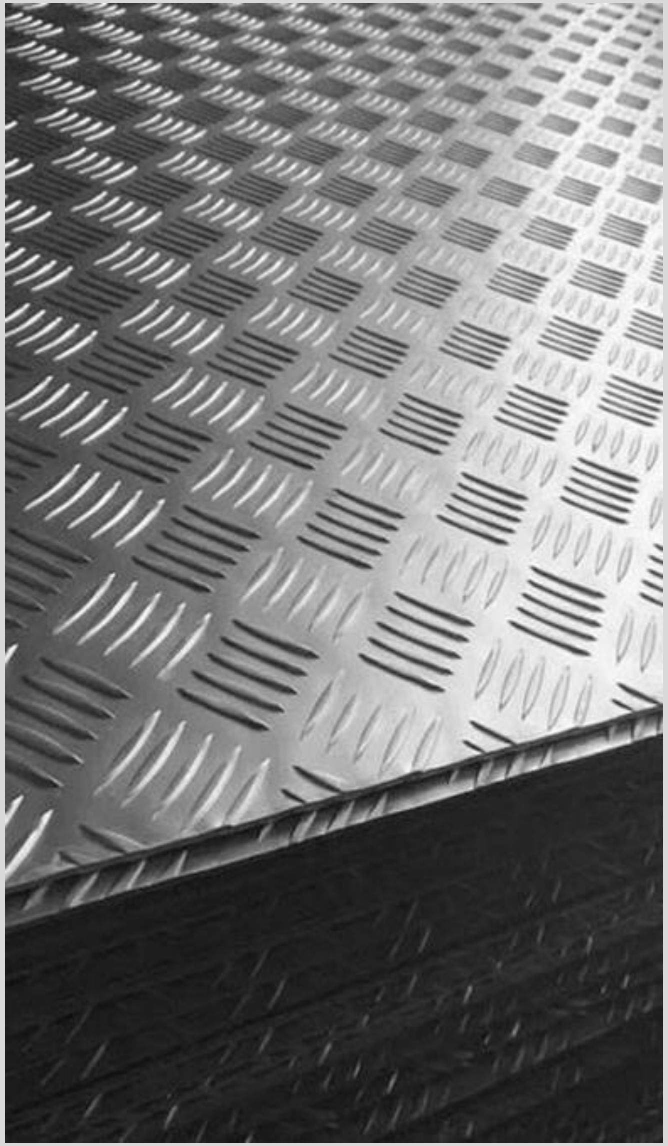
Using technology and great thinking to pull it all together and enable a better business

Always looking for ways to work smarter

Building one great team right across Steel & Tube

Strategic pathway: current state

	Strategic Initiative	Early stage	Hitting its stride	Full benefit
Continue to strengthen the core	Continue to build best-in-class customer experience		✓	
	Leverage opportunities to cross sell a wide range of products and services		✓	
	Drive gross margin $/tonne through dynamic pricing and product procurement		✓	
	Ongoing focus on operating model – warehouse operations, digitising supply chains and customer facing channels		✓	
High value products, services and sectors	Continue to diversify customer segments and build scale in high value sectors	✓		
	Expand plate processing offer and capability		✓	
	Expand steel framing	✓		
	Build niche market share through Kiwi Pipe & Fittings		✓	
	Build high value product range via acquisition of Fasteners NZ			✓
	Accelerate shift to digital sales		✓	



New growth investment

Aluminium offering

- Steel & Tube has entered the aluminium market in a selected range of high demand products largely servicing existing customers
- Focus on high value products
- Aligned to Steel & Tube’s capabilities and completes our steel and metals offer to customers
- Diversification provides scale, customer share of wallet growth and is immediately earnings accretive
- Initial entry is focused on a tight core range, targeting existing customer base
- Launch stock delivered in February with further stock purchases arriving through the remainder of the year

Recent growth initiatives: Reporting back

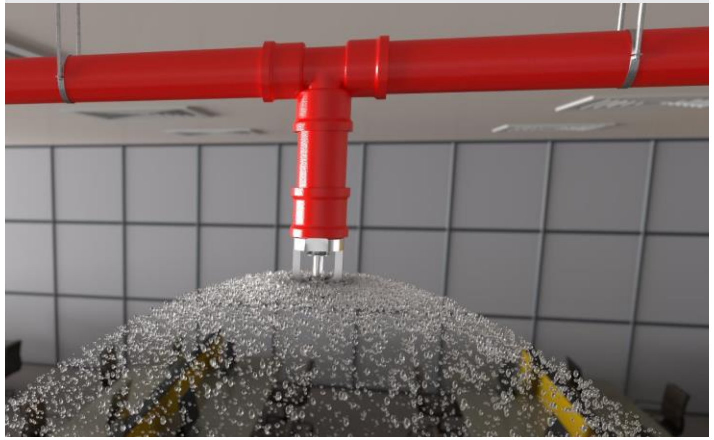
STRENGTHENING THE CORE

Plate Processing

- New high specification Plate Processing & Press Brake installed
- Earnings momentum building with further expansion plans in progress

PROGRAMMATIC M&A

Kiwi Pipe & Fittings



- Integration in line with expectations with business operating on Steel & Tube systems
- Solid forward workload in the pipeline

Fasteners NZ

- Continued growth in customers and earnings
- New product range extensions supporting growth

2H23 Market Outlook

Challenging macro trends expected to continue; following prolonged 'super cycle', steel demand is now expected to moderate

Trading conditions:

- Challenging macro trends expected to continue – inflation and higher interest rates, tight labour market and the ongoing impact from Covid
- Following prolonged 'super cycle', steel demand is now expected to moderate; easing activity already occurring in residential construction
- Steel pricing stabilising above pre-Covid levels during 1H although in December and January international prices have firmed in NZ dollars

2H23 Business Outlook

Steel & Tube is well positioned to respond to the changing environment and to take advantage of new market and product opportunities

Business Outlook:

- Wet weather has impacted demand in January and February, particularly in construction and infrastructure
- We remain focussed on our customers and have a healthy pipeline of infrastructure and commercial projects in place; manufacturing remains steady
- Strong balance sheet and cashflows to support growth initiatives; focus remains on gross margin $/tonne and actively managing costs
- Business growth to continue through organic expansion and programmatic smaller M&A
- Further strategic initiatives expected to be reflected in results from FY24 onwards

Discussion

Non-GAAP Financial

Period ended 31 December	EBITDA		EBIT	
$000s	1H23	1H22	1H23	1H22
Reported	**30,482**	**31,935**	**20,344**	**22,636**
Loss on de-recognition of finance lease receivable	181	-	181	-
IFRS 16 impairment reversal	(113)	(374)	(113)	(374)
Release of holiday pay provision	-	(854)	-	(854)
Software as a Service (SaaS) upfront expenditure	1,068	1,140	1,068	1,140
Normalised	**31,618**	**31,847**	**21,480**	**22,548**

Non-GAAP financial information: Steel & Tube uses several non-GAAP measures when discussing financial performance. These include Normalised EBITDA, 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 1H23 (6 months) include transactions considered to be non-trading in either their nature or size. Unusual transactions can be as a result of specific events or circumstances or major acquisitions, disposals or divestments that are not expected to occur frequently. Excluding these transactions from normalised earnings can assist users in forming a view of the underlying performance of the Group. The above reconciliation is intended to assist readers to understand how the earnings reported in the periods ended 31 December 2022 (6 months) and 31 December 2021 (6 months) reconcile to normalised earnings. Non-trading adjustments of $(1.1) million are included in the 1H23 (6 months) results.

Glossary of Terms

EBIT: Earnings / (Loss) before the deduction of interest and tax. This is calculated as profit for the year before net interest costs and tax

EBITDA: Earnings / (Loss) before the deduction of interest, tax, depreciation and amortisation. This is calculated as profit for the year before net interest costs, tax, depreciation and amortisation

ROFE: Return on Funds Employed. This is calculated as Normalised EBIT over Average Funds Employed (Debt (including Lease Liability) + Equity)

eNPS: Employee Net Promoter Score – assists in measuring employee satisfaction and loyalty within the organization

NPS: Net Promoter Score – assists in measuring customer satisfaction and loyalty

Normalised EBIT/EBITDA: This means EBIT and EBITDA excluding non-trading adjustments and unusual transactions

eTRIFR: Employee Total Recordable Injury Frequency Rate – an important metric to assess safety performance

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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