steel&tube
STRONGER TOGETHER

1H22 Results Presentation

For the six months ended 31 December 2021

Agenda

- 1H22 Snapshot
- Operating Environment
- Financial Performance
- Strategic Progress
- Outlook
- Discussion

Presenters

- Mark Malpass, CEO
- Richard Smyth, CFO

1H22 performance

Record revenue and earnings driven by strong sector demand, customer service, operational performance and disciplined supply chain management

Revenue **$282.2m** +24.7%	Volume **82,802t** +12.5%	EBITDA **$31.9m** +87.3%	EBIT **$22.6m** +165.9%	NPAT **$14.3m** +252.7%
Dividend **5.5 cps** 1H21: 1.21 cps	DIFOT **98%** 1H21: 98%	Customer NPS **41** 1H21: 34	TRIFR **1.27** 1H21: 3.35	Employee NPS **29** 1H21: 13

Net Promoter Score (NPS): Measure of customer/employee satisfaction
Employee Total Recordable Injury Frequency Rate (TRIFR): Employee safety measure
Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortisation (EBITDA), Net Profit After Tax (NPAT)
DIFOT: based on deliveries from Distribution Centres
Percent comparatives are to 1H21

Strongly positioned to benefit from market conditions

- Positive economic activity driving increased demand for steel across a range of sectors
- High levels of customer service and operational performance
- Disciplined supply chain management led to improved availability of high demand products
- Use of data analytics to support pricing decisions

Headwinds

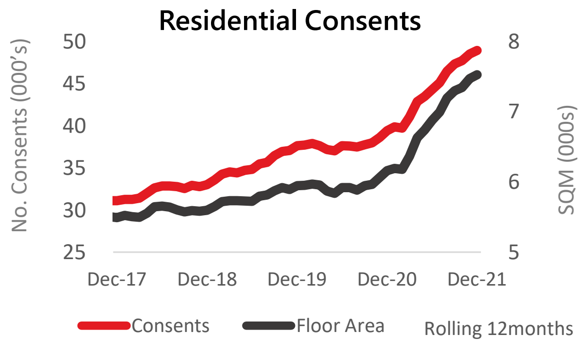
- Global Covid-19 environment
- Significant supply chain disruptions
- Increasing steel pricing and cost pressures
- War on talent - labour constraints, particularly construction

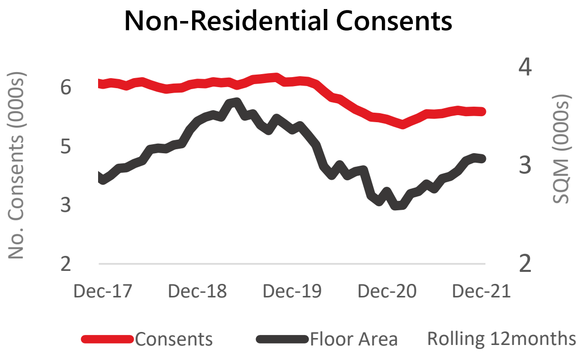
Tailwinds

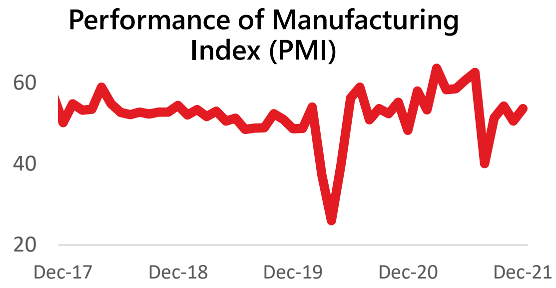
- Steady increase in infrastructure activity
- Commercial activity building
- Manufacturing expanding
- Residential pipeline expected to be maintained short term

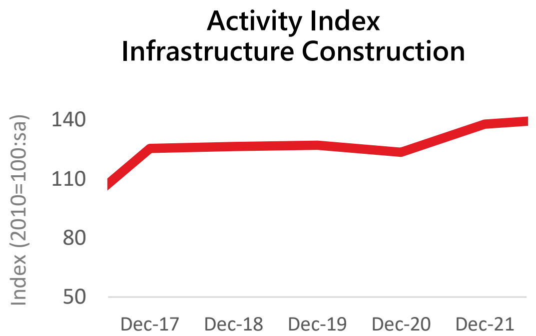
Positive economic activity driving demand for steel

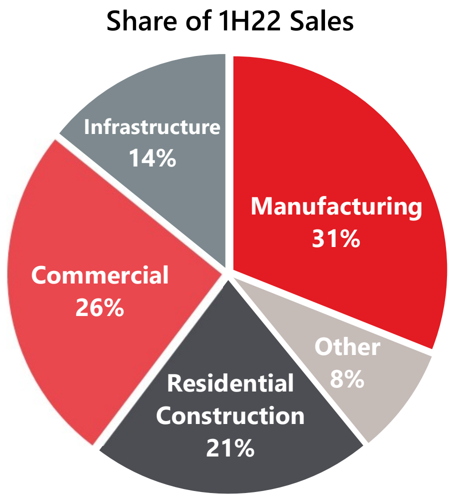
Increased demand across a range of sectors; most trends expected to continue over the medium term











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

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

Significant structural change now embedded and delivering value

Completion of Project Strive

Strong foundation now in place

	1H18 to 1H22
Optimised national network with regional strength	• Sites reduced from 50 to 26 • $2.5m reduction in annual lease costs
Enhanced customer value proposition	• Group-wide Customer Excellence Centre established, e-commerce, omnichannel platform, CRM and customer segmentation, digital strategy
Significant cost reduction and efficiencies now locked in	• Opex reduced by 17.0% • Opex vs sales reduced from 19.3% to 15.2% • FTEs down 17.8% (1,100 to 904 including vacancies)
Robust balance sheet	• Gross debt reduced from $133.4m (June 2017) to $2.0m
Operational excellence	• Distribution Centre Lean systems • Bar code scanning and traceability
Supply chain disciplines	• S&OP and forecasting systems, product traceability, digital tools

1H22 group financial summary

Record half year performance

- Strong volume and revenue uplift
- Structural reduction in operating expenses locked in
- Significant increase in earnings, results at/above top end of guidance
- Investment in high demand inventory utilising strong cash position
- Impact of supply chain congestion on cashflow
- Strong balance sheet with low borrowings
- Interim dividend 5.5 cents per share (unimputed)

$m	1H22	1H21	
Revenue	282.2	226.3	↑
EBITDA	31.9	17.0	↑
Normalised EBITDA*	31.8	16.8	↑
EBIT	22.6	8.5	↑
Normalised EBIT*	22.5	8.3	↑
NPAT	14.3	4.1	↑
Net cash	1.2	23.9	↓
Total dividends (CPS)	5.5	1.2	↑

**1H21 results have been restated for the impact of a change in accounting policy in regards to the accounting for Software as a Service arrangements ("SaaS"). 1H22 and 1H21 Normalised EBITDA and Normalised EBIT have been adjusted to exclude non-trading adjustments. Further details included in appendix to this presentation.*

Revenue

Strong trading momentum pre and post Covid-19 lockdown

Majority of New Zealand businesses and projects shut down for up to five weeks in 1Q22

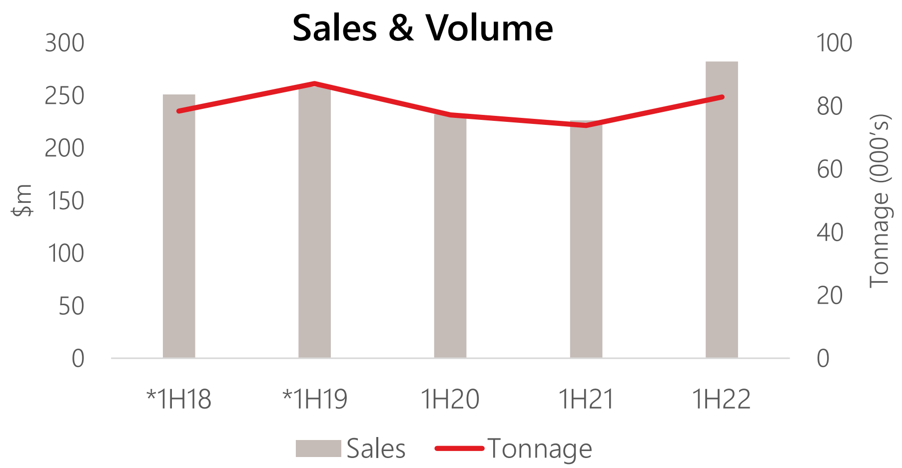
Volume 82,802t, up 9,222t or 12.5% on 1H21
Increasing customer demand for comprehensive range of products

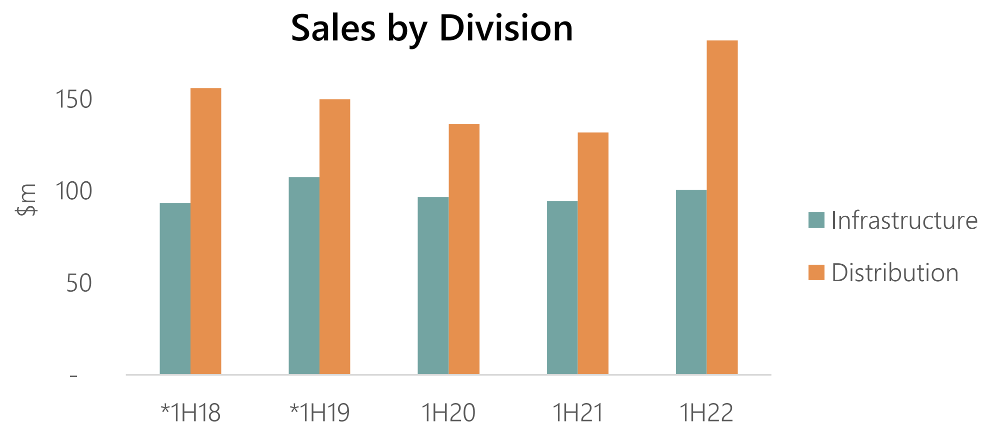
Revenue $282.2m, up $55.9m or 24.7% on 1H21
Continuing sales momentum, despite Covid-19 impact

Division Revenue

Distribution (64.4%): $181.7m

Infrastructure (35.6%): $100.5m



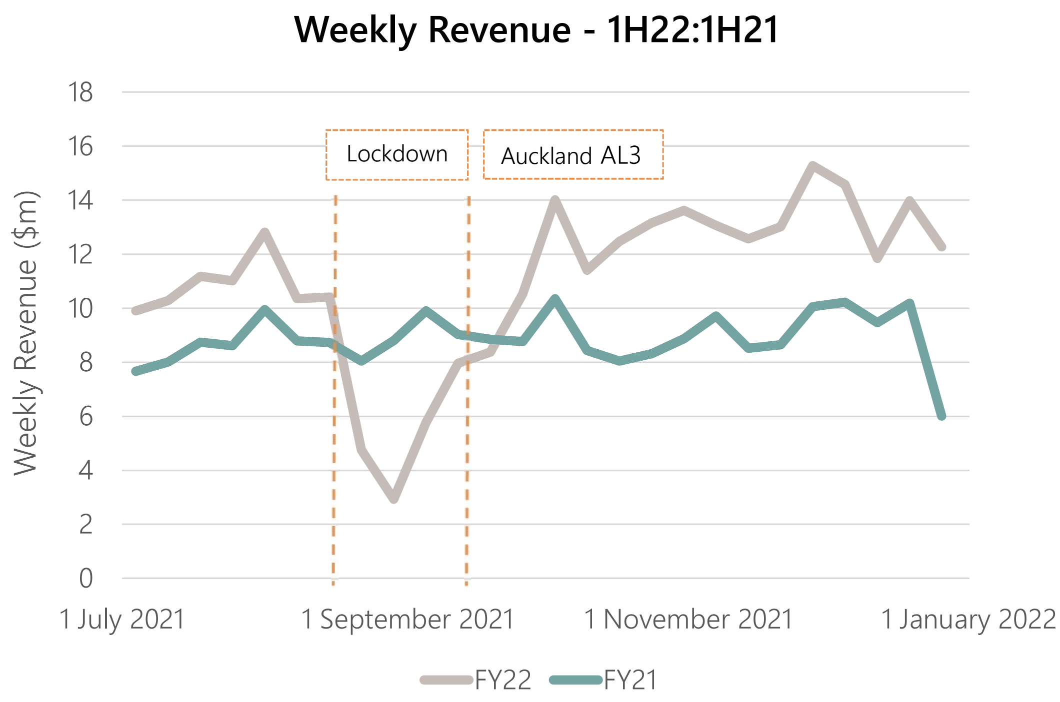


**Excludes divested Plastics business*

Covid-19 management

Careful planning for ongoing Covid-19 environment

- Leadership position on vaccine incentives for staff
- Vaccination mandate implemented
- Vaccine protocols for customers and suppliers visiting sites
- Exclusion zones have been deployed at all sites
- Existing supply of RATs, with placement of future orders
- Approved for Close Contact Exemption Scheme Critical Services Register

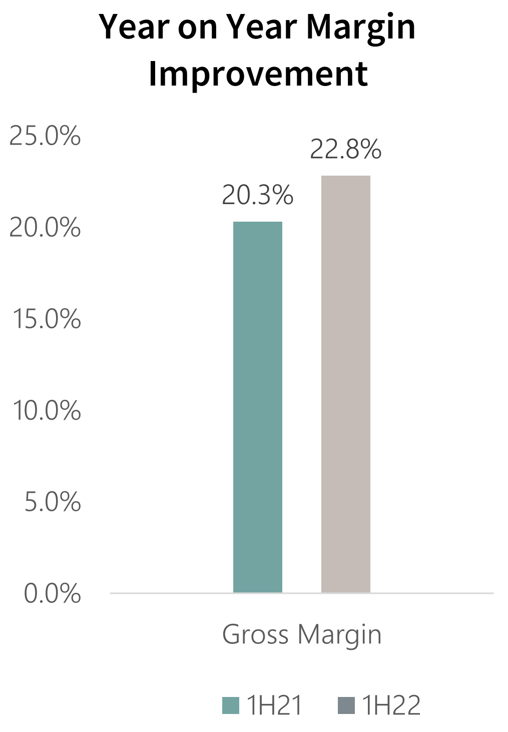


Margin

Focus on gross margin dollar improvement

Gross margin 22.8%

- Data driven pricing decisions resulting in effective price management in a dynamic environment
- Product mix focused on growing market share in attractive sectors which offer higher margins
- Lower variable costs as a percentage of sales reflecting efficiency improvements
- Ongoing focus on cost management



Gross margin includes freight, direct and sub-contract labour

Normalised operating expenses

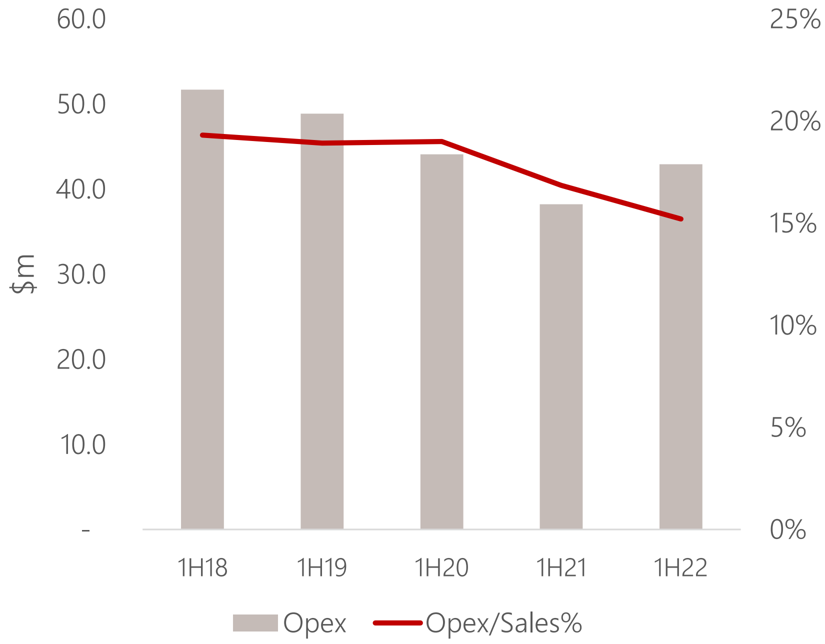
Ongoing relentless focus on operating expenditure

Completion of three year Project Strive programme with significant structural changes delivering long term benefit

- Lower fixed cost base and reductions now locked in
- Operational costs as a percentage of sales continues to decline
- Productivity improvements from a more efficient network have also led to reduced carbon emissions

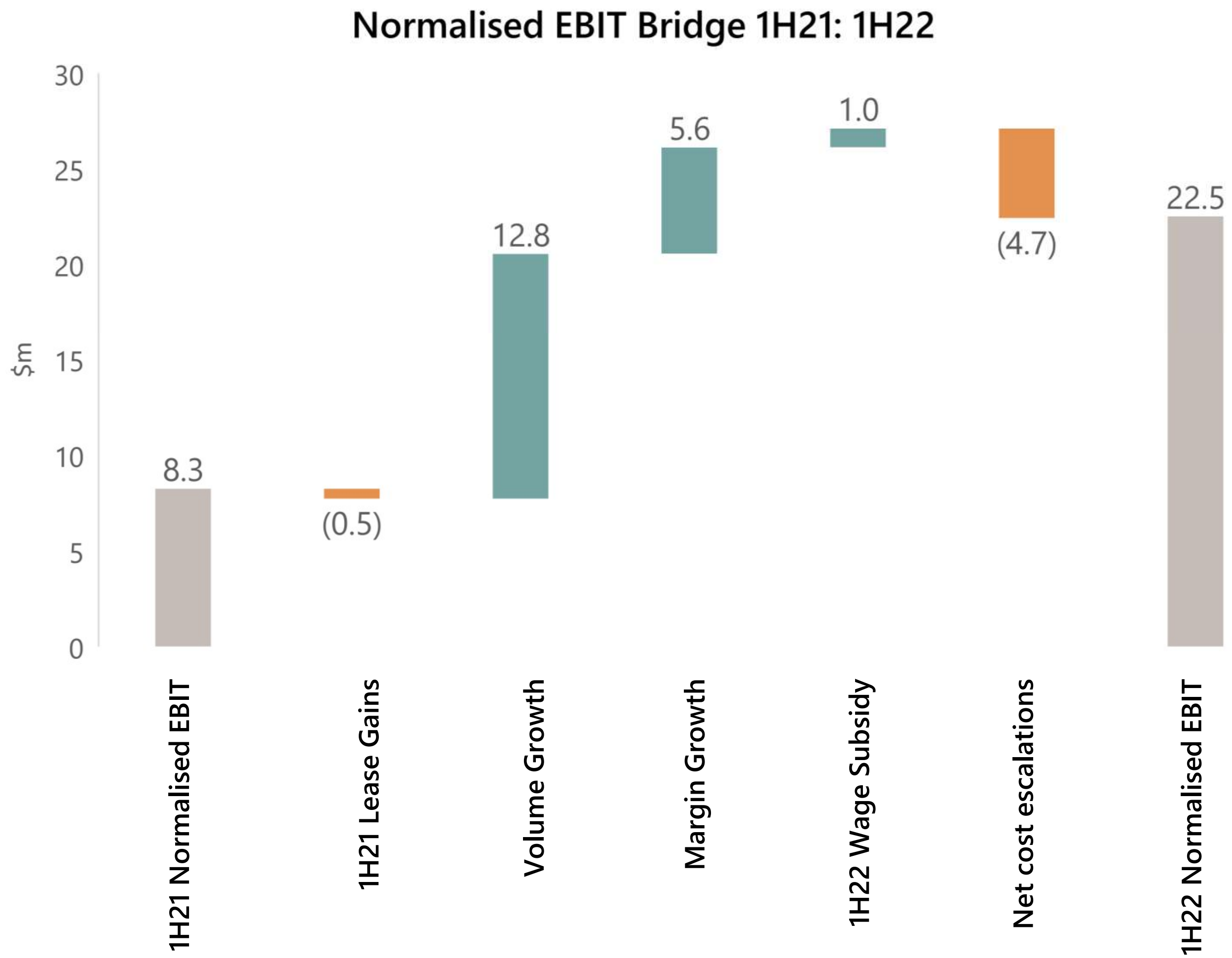
Increase in 1H22 normalised operating expenses of $4.7m

- Inflationary pressure - mostly wage and salary inflation
- Incentive accruals and provisioning



1H22 opex adjusted to exclude the reversal of Holiday Pay Provision of $0.8m

EBIT improvement driven by volume and margin growth



Balance sheet

Well positioned to support growth

Working capital management

- Disciplined approach to working capital management embedded in business
- Utilised strong cash position to invest in critical inventory, supporting our customers and mitigating supply chain headwinds
- Substantial bank facility in place

Interim Dividend: 5.5 cents per share

- Continuation of dividend payments with an interim dividend of 5.5 cents per share (unimputed), in line with Steel & Tube's dividend policy of 60% - 80% of Adjusted Full Year NPAT

$m	1H22	1H21	FY21
Trade and other receivables	89.6	72.1	84.0
Inventories	152.9	98.3	113.5
Trade and other payables	(85.8)	(59.5)	(80.0)
Working Capital	**156.7**	**110.9**	**117.5**
Cash and cash equivalents	3.2	23.9	25.0
Borrowings	(2.0)	-	-
Net Cash	**1.2**	**23.9**	**25.0**

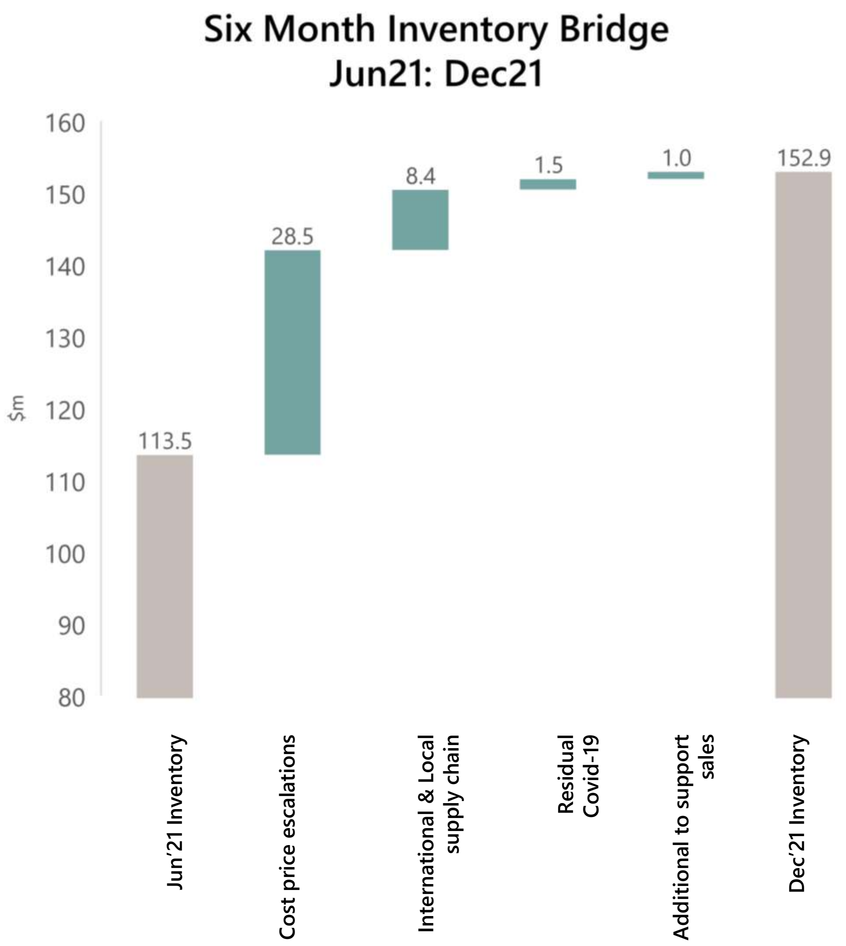
Working Capital KPIs	1H22	1H21	FY21
Trade Receivables: DSO	36	42	38
Inventories: DIO	117	109	101
Trade Payables: DPO	45	35	41

DSO: Days Sales Outstanding; DIO: Days Inventory Outstanding; DPO: Days Payable Outstanding

Inventory management

Inventory management system and laser focus on availability of critical items has resulted in consistent DIFOT for customers

- DIFOT – 98% achieved through targeted product availability and operational improvements
- Supply dynamics have been tight – steel mill customers have been on allocations, increased lead times both locally and from offshore suppliers, and there have been significant cost price escalations
- We have been able to hold inventory unit turns in line with prior periods (excluding Goods In Transit) and have invested in fast turning inventory to support our customers
- Our strong partnerships with shipping and freight forwarding suppliers has helped secure laneways and partially mitigate costs



Inventory Bridge includes Goods in Transit (GIT)

Capital expenditure

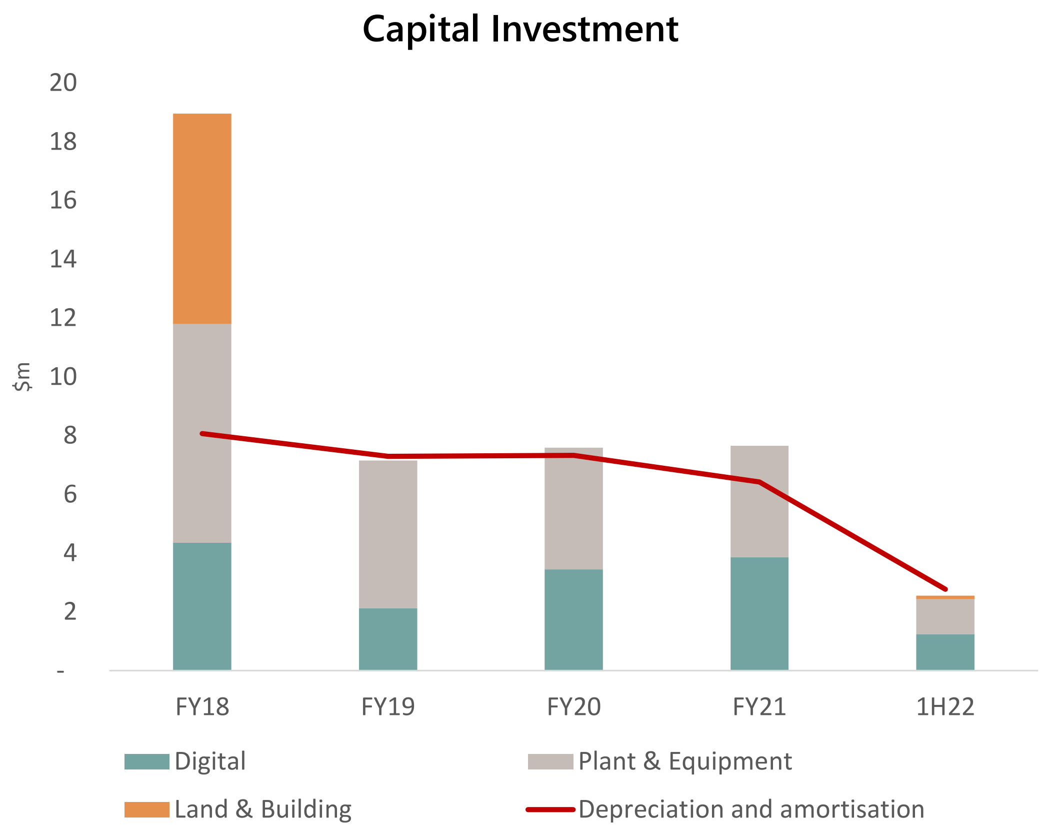
Careful management of funds in current environment

Prudent cash management

- 1H22 capex of $2.6m (1H21 $1.8m*)
- Capex reduced to below depreciation levels during Covid-19 environment
- Continued investment in health and safety

Planned capex into growth opportunities

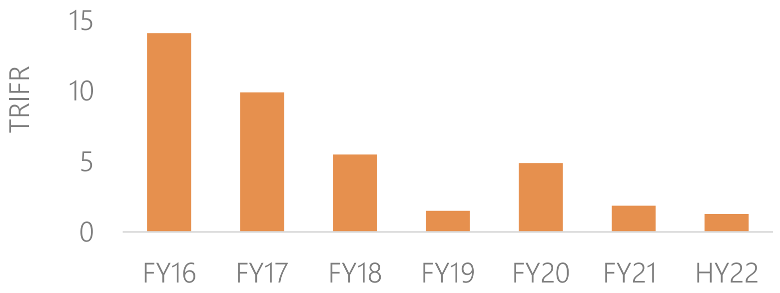
- Increasing investment in added value plate processing capability and Rollforming equipment
- Expanding capability and offer in targeted sectors
- Continued investment in digital strategy



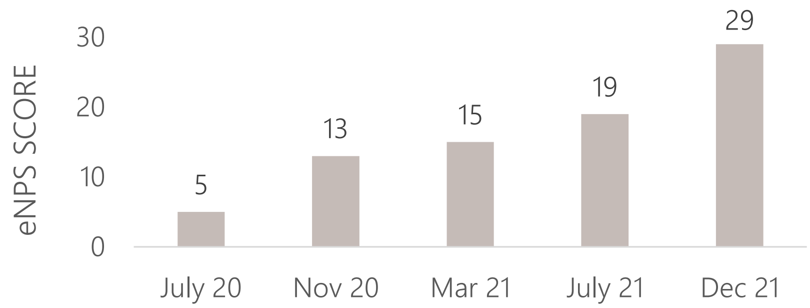
*1H21 has been restated for the impact of a change in accounting policy regarding the accounting for Software as a Service arrangements ("SaaS").

Business scorecard: focus on continual improvement

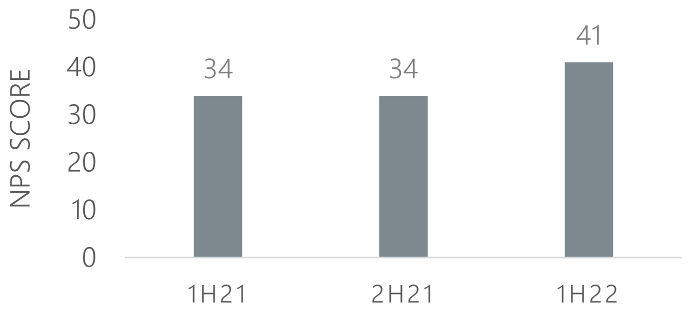
Employee Safety Measure
TRIFR 1.27 Well below industry standards



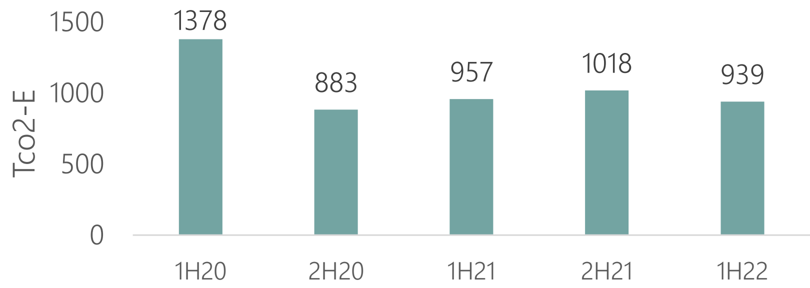
Employee Engagement
Satisfaction Score 7.7/10



Customer satisfaction
NPS of 41 for 1H22



Carbon Reduction
Greenhouse gas emissions 939 tCO2-e



**Reporting in accordance with Greenhouse Gas Protocols and includes all material emissions under Scope 1 and 2, with Scope 3 limited to business travel*

Our purpose

To make life easier for our customers needing steel solutions

- 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
- Always looking for ways to work smarter
- Using technology and great thinking to pull it all together and enable a better business
- Building one great team right across the Steel & Tube business

Strategic focus: investment for growth

Focus on growth opportunities driving gross margin dollar improvement

BUILD ON STRONG BUSINESS FOUNDATION

- Continue to build best-in-class customer experience and digital platform
- Drive gross margin dollars
- Continued operational efficiencies
- Investment into IT and enhanced data analytics
- Leverage opportunities to cross sell wide range of products and services

NEW PRODUCT DEVELOPMENT AND INNOVATION

- Continue to develop differentiated expertise
- Grow targeted high value product ranges
- Work in partnerships with third parties
- Continue investment in marketing and promotion

BUSINESS GROWTH

- Primary focus on organic growth
- Continue to pursue opportunities in close adjacent sectors

Our digital investment

Making our business more competitive and enabling best in class customer experience

Investments in e-commerce, customer experience, analytics, cloud technology and Industry 4 initiatives

Benefits

- Making it easy for our customers
- Reduction in cost to serve
- Improved traceability

1H22

- Launched enhanced pricing and margin management capabilities
- Improved ERP customer management, webshop enhancements
- Growth in e-commerce transactions and value

+209% on 1H21

Online Revenue Growth

+121%

Average order value difference online vs physical

+109% on 1H21

Growth in online customers

Product development and innovation

Identified opportunities in high margin sectors where we can build market share

Expand plate processing capability and offer

- Attractive margins for value-added products
- Growing market sector
- Existing footprint with significant opportunity to expand
- Replacement of obsolete equipment with large, high capacity machinery - commissioning 4Q22

Build share of the steel framed housing market

- Currently supply coil to residential and commercial manufacturing customers for external and internal steel framing - estimated 50% of the market
- Expand to supporting housing developers with fabricated frames and trusses
- Steel framing is infinitely recyclable
- Investment into new machinery supported by high spec software
- Commissioning 4Q22

New product growth

2H22 outlook

Market conditions expected to remain positive

- Commercial consents building and significant increase in tenders coming to the market
- Infrastructure/Government spending continuing to build due to significant prior underinvestment
- Residential activity expected to be maintained in the short term
- Expanding manufacturing sector that has recovered from Covid-19 impacts in August and September
- No significant change in headwinds (supply chain, labour, supplier costs) expected in next six months
- Omicron uncertainty but expect volatility in line with overseas trends; careful planning undertaken to mitigate risk

Significant turnaround complete with benefits locked in, now capturing growth opportunities:

- Business model is delivering operational leverage, digital platform taking hold, positioned to take advantage of identified organic and adjacent opportunities
- Strong market conditions, secured pipeline of contract work, coupled with improved margin disciplines
- Expect continued earnings momentum and dividends, subject to Omicron impact
- Eight less trading days (6%) in 2H22 cf 1H22

Discussion

Non-GAAP Financial

RECONCILIATION OF REPORTED TO NORMALISED	EBITDA		EBIT	
Period ended 31 December		Restated		Restated
$000s	HY22	HY21	HY22	HY21
Reported	**31,935**	**17,049**	**22,636**	**8,512**
Holiday Pay provision release	(854)	-	(854)	-
IFRS16 Impairment Reversal	(374)	(777)	(374)	(777)
Gain on sale of property	-	(512)	-	(512)
SaaS expenses	1,140	1,032	1,140	1,032
Normalised	**31,848**	**16,792**	**22,549**	**8,255**

Non-GAAP financial information: Steel & Tube uses several non-GAAP measures when discussing financial performance. These include 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 1H22 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 Financial Statements for the periods ended 31 December 2021 (1H22) and 31 December 2020 (1H21) reconcile to normalised earnings. Non-trading adjustments of $(0.1) million are included in the 1H22 results.

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