

STEEL & TUBE 2024 ANNUAL SHAREHOLDERS' MEETING

28 November 2024

CHAIR'S ADDRESS

Susan Paterson, Chair

OUR BOARD

I'm pleased to introduce your directors - Steve Reindler, Karen Jordan, Chris Ellis, Andrew Flavell and John Beveridge. Karen and I are both standing for re-election today.

Also at the front of the room, we have Mark Malpass, our CEO, and Richard Smyth, Steel & Tube's Chief Financial Officer.

We consider director succession on a regular basis, taking into account such things as tenure, experience and director workload. The board has a skills matrix and this is a crucial tool in evaluating our board composition, enabling us to align the diverse expertise of our directors with the strategic needs of our company.

We believe that the current directors offer valuable and complementary skill sets. Importantly, Steve, Chris, John and myself have either worked in or held governance positions within the sector, Andrew brings global technology expertise and Karen brings finance and risk experience.

LEADERSHIP TEAM

A key pillar of our success is our exceptional leaders and the wider Steel & Tube team.

Our people continue to work together to deliver for our customers and our business every day. On behalf of the board, I'd like to acknowledge and thank them all for their efforts, as we have navigated a particularly challenging environment.

Our leadership team has expertise and experience across key areas and are passionate and dedicated. A number of them are here today - could you please stand so shareholders know who you are. Please feel free to have a chat with our team after the Meeting.

STRATEGIC GOALS

Over the past eight years, our purpose of making life easier for our customers has driven our strategy. Our goals remain unchanged:

- To position Steel & Tube as the preferred supplier for steel solutions and products;
- To increase the company's valuation by growing our existing offer, and M&A in adjacent sectors; and
- To deliver increasing returns and value for our shareholders.

We remain committed to these goals while also helping transform and modernise the steel industry.

KEY MESSAGE

The strategic decisions we have made over the past few years are positioning our company for success.

We have the resilience and robustness to successfully navigate through the current cycle; the capability and expertise to leverage the increase in demand when it returns; and the balance sheet capacity to take advantage of opportunities, both in the current market and in the future.

FY24 KEY RESULTS

The FY24 year delivered some of the most challenging trading conditions seen in the industry in recent times. Cost inflation continued to rise and demand for steel reduced significantly as businesses cut costs, public spending was put on hold, and large projects were paused.

We focused on controlling what we can control - strengthening customer relationships and maintaining market share, growing higher value products and services, expanding our share of wallet, and managing costs tightly.

CAPITAL MANAGEMENT

Our balance sheet has been successfully positioned, providing strength during these more challenging times and the capacity to invest into strategic opportunities. At the end of October, we had no borrowings, cash of \$16.7m and a \$100m facility to fund growth and other initiatives

In this current cycle, we are carefully managing working capital. Operating cashflows remain strong, with benefits from inventory management and good cash collections in a softened trading environment.

Our balance sheet supports our capital investment programme, which is focused on both maintenance spend as well as strategic investments into new operating equipment, such as new purlins and plate processing machinery.

INVESTOR RETURNS

The dividend payout of 6 cents per share for the FY24 year represented a gross yield for investors of 9.7% including imputation credits and compares well to our peers.

We also established a dividend reinvestment plan, something that our shareholders have asked for, and this was effective for the final dividend.

The board's position is to pay a dividend to shareholders, dependent on the company's financial position and growth prospects.

We think our current share price is good value, given the underlying performance of the group, yield, talent in the business and the strength of our balance sheet.

BUILDING A STRONG BUSINESS

We have continued to take action on creating a strong and enduring business.

Our customer satisfaction scores continue to be at high levels of 42 and above, and remain significantly above the industry average of 32. This is testament to efforts across the business – from our in-depth quality assurance programme, to the breadth of the products and solutions we provide, the expertise of our team and our unwavering commitment to delivering best-in-class customer service. Our strong position as a preferred supplier will serve us well as market conditions improve and demand reignites.

Health and safety are embedded into our culture, and our safety measure was a historical low in FY24. We make a significant investment in safety, both in financial terms and human capital, to ensure that our people are kept safe in what is a high-risk environment.

Digital innovation is important, both to improve our customer offer and to help run our business more effectively. The adoption of modern technology is making us more productive in areas such as online orders, test certificates, and advanced forecasting, procurement and pricing. The number of customers buying online continues to grow with more than 300 logging into our webshop every day. This is becoming an increasingly important revenue channel and we continue to enhance it with new tools and features to make it easier for our customers and provide a better experience.

Technology is also playing an important role in making our operations safer and more efficient. As an example, we're trialling the use of AI software, alongside our existing CCTV camera network, to identify possible risk situations or events and potentially take action to prevent any harm.

Our team remain engaged and committed, with employee satisfaction in the industry top quartile. We are conscious of the cost of living pressures on our people and have initiatives to support them such as financial planning and budgeting workshops, our Back to School financial assistance programme, and our Healthnow Programme which provides support to meet basic family health costs like doctors, dentists and pharmacy bills.

We also continue to invest in training and development opportunities to allow team members to upskill and progress in their careers and move to a level where they can earn a living wage in all parts of our business. We're proud of our diverse team, with groups like our employee-led Kāpuia team leading the way in shaping our commitment to Māori, both for our people and the communities we serve.

Our community support is anchored around helping young people to realise their potential. We offer First Foundation scholarships and support the Rising Foundation to transition high-potential school leavers, in low decile schools in South Auckland, into employment.

As one of New Zealand's largest steel distributors and manufacturers, climate change has the potential to have a transformative impact on the way we do business. Following on from our disclosure last year, this year Steel & Tube reported for the first time under the Aotearoa New Zealand Climate Standards. This report is available on our website.

We are focussed on those things that we can control, from the transport emissions of our fleet to energy use and the reduction of waste produced during manufacturing in our plants. We support a WorkRide scheme to encourage people to cycle to work, have begun installing submetering equipment in key sites to monitor energy use and understand where further efficiencies can be made, and are exploring solar energy options.

The increase in emissions per tonne this year was driven by the expansion of our delivery fleet, which conversely reduces our scope 3 emissions. As scale returns, our emissions per tonne are expected to reduce.

Steel is everywhere in our lives – where we play, live, work, in our transportation networks, our buildings and our infrastructure. It's one of the world's most essential and sustainable building products – permanent, forever reusable and the most recycled substance on the planet. Steel is what makes our cities resilient to the climatic and seismic conditions that are prevalent in New Zealand, yet it contributes only a small percentage to New Zealand's total CO2 emissions.

IN THE BOARDROOM

We're committed to building a strong, sustainable future for Steel & Tube and delivering value for our shareholders. At all times, we ensure that we are operating to the highest ethical and corporate governance standards possible.

Important topics of discussion in our boardroom revolve around risk and resilience, how to better serve our customers and our people, and the growth of our business.

We recently provided an update on trading in the first four months of the FY25 year. There has been continued deterioration in the economy and activity has slowed down across the sector, which is having a sizeable impact on our topline. The absolute priority for your Board is to deliver a return to profit.

We will do this by controlling the controllables and staying the course on our strategy – continuing to strengthen our core and invest in high value products and services.

In the short term, we are continuing to take cost out while ensuring we retain sufficient inventory, resource and capability to allow us to scale up quickly to meet demand when it returns. Management is doing an excellent job managing this balance.

M&A is a key ingredient in our growth and the weak economic conditions are providing opportunities for industry consolidation. Every potential acquisition must go through multiple gateways and is robustly tested before we decide to proceed.

POSITIONED TO BENEFIT AS DEMAND RETURNS

Over the past 70 years, we have proven our ability to successfully navigate through down cycles.

Our dual pathway strategy is delivering tangible results, and this remains the framework for our actions.

Our market share is strong, we have a loyal customer base and we have quality inventory meaning we can provide the products and solutions we know customers will need when their projects start up again.

Our inherent operating leverage will deliver profit expansion as demand returns and our strong balance sheet is providing resilience and supporting growth.

While impacting on trading, current economic conditions are also providing market opportunities. Long term drivers are favourable and Steel & Tube is strongly positioned for when demand expands.

We are confident in our ability to see this cycle through and optimistic about Steel & Tube's future.

On behalf of the board, I would like to thank all our shareholders for your continued support.

CEO MARK MALPASS

ACTIVELY MANAGING MARKET CHALLENGES

At Steel & Tube, we are actively controlling the things we can control, however we're not immune to the significant slowdown that's occurred.

Market conditions remain challenging. High interest rates over the last few years have reduced consumer demand, impacting our customers. Many businesses have put projects on hold and stopped spending; and the Government has cancelled or paused many large infrastructure projects. While the Fast Track bill is a positive step, approvals and funding will take time.

FY25 FOUR MONTH TRADING UPDATE

As Susan has said, the tough economic conditions have continued into the 2025 financial year, and from July to October we saw a deterioration in the market. As other industry participants have pointed out, demand for steel has hit recent lows and margin pressures have also intensified.

As a result of these weaker trading conditions, our year to date revenue and earnings were both very soft. This is obviously disappointing for us and our shareholders.

We do see these conditions as short term. While the timing remains uncertain, we expect to see some improvement from mid-2025 as lower interest rates stimulate demand in the manufacturing sector, and also in the construction sectors coupled with Government projects being activated.

FY25 FOCUS AND PRIORITIES

We are making shorter term adjustments to adapt to the current market challenges, and we're focused on emerging from this cycle as a stronger business. Capturing revenue and driving profitability is the priority across all our teams.

We continue to carefully manage cash and working capital. We have achieved more than \$10m in cost savings over the last two years with these savings more than offsetting inflation. Although we did add 20 Roadex drivers with that acquisition, over the last six months we have continued to streamline and reduce our workforce while, importantly, retaining sufficient 'muscle' in the business to ensure we can move quickly to capture revenue opportunities when demand returns.

We have continued to carefully manage cash and working capital. Active inventory management is an essential ingredient in a trading business and we have an experienced team in this area. Our goals are to ensure we are not overstocked, but conversely that we have enough product - and the right product - to meet customer demand now and when it returns. We're shifting our investment from commodity towards higher value products, as we provide our customers with more and better solutions.

Margin growth has continued through most of the last two years, as we have shifted our product mix towards higher value products, and we have increased our share of wallet and converted more customers to our online platform. However, over the last few months, margins have reduced as competitor activity has intensified.

We're maintaining our market share and have more than 13,500 active customers. We continue to strengthen our customer relationships and work closely with them on future projects to ensure we're a preferred supplier when these commence.

Our M&A strategy is delivering value and our strong balance sheet has the capacity to let us take advantage of opportunities, both in the current market and the future.

BUSINESS STRATEGY

Our growth strategy is delivering value and we are focussed on staying the course.

STRATEGIC PATHWAYS

Our overall strategic objective is to deliver gross margin improvement and we are doing this through two key pathways:

- Strengthening the core involves building on the strong business foundation we have established - making life easier for our customers by delivering best-in-class customer solutions and experiences, operational efficiency and a strong financial performance.
- Strategic growth is about going deeper or wider in high value areas to create value and scale, that is, those products where we have low share but higher margins. It's also about improving our mix of added value versus commodity products.

SELLING MORE PRODUCTS TO EACH CUSTOMER

We have a big opportunity to grow our share of wallet by cross-selling more of our products to existing customers. Often customers will purchase from a number of suppliers - our aim is to be their preferred supplier for a broader range of products.

One way we can do this is by bringing product combinations together - for example, when selling structural steel to a customer there is also the opportunity to couple our broader product range – processed plate, purlins, ComFlor, fasteners, chain & rigging, roofing, mesh, reinforcing bar, and so on.

This makes life easier for customers and significantly increases our share of wallet per customer.

While in the early stages, we have already seen a pleasing increase in the percentage of customers buying 3 or more products.

OPERATING LEVERAGE

The work we have done to improve our operating leverage will expand our profits as volumes return.

Our fixed cost base has been streamlined and we have tight control over variable costs.

This graph shows the significant improvement in earnings that flows as volumes increase – this is our operating leverage. For example, the 2022 financial year was one of our highest volume years - if we had the same operating leverage then as we do now, our earnings would have been 35% higher.

GROWTH FOCUSED ON TWO KEY PATHWAYS

We have a disciplined approach to growth investment with clear criteria that every potential opportunity must pass before being evaluated.

This criteria is a mix of financial and strategic rationale which takes into consideration the fit with our overall business objectives, our ability to operate and add value to the business under Steel & Tube's ownership, cultural fit, as well as various compliance criteria.

Any potential acquisition then has to pass through a series of gates, that starts with committing resources to evaluate, a non-binding offer, due diligence, binding offer, and so on.

GROWTH INVESTMENTS ADDING VALUE

Over the past two years, we have reviewed around 29 companies, with several currently under active consideration.

We've successfully grown the business through smaller M&A and these investments are performing well, particularly Kiwi Pipe & Fittings, Fasteners NZ and our group freight business, along with organic aluminium growth.

We are always on the look out for industry consolidation opportunities.

We are seeing unprecedented opportunities coming forward – some of this is due to founders not having succession plans, but there's no doubt a slow trading environment and a period of high commodity prices has put pressure on working capital and debt levels.

LONG TERM TRENDS ARE FAVOURABLE

While the timing of an economic recovery remains uncertain, there are some positive themes that should lead to improved activity over the next 12 to 18 months.

Interest rate cuts over the coming year are expected to stimulate the manufacturing and construction sectors. There's a massive shortfall in housing, with more than 115,000 new homes needed to fix the current housing crisis. Commercial investment into new buildings will start again as borrowing costs reduce.

Longer term, there is a significant need for maintenance and new infrastructure in roading, health, water, climate resilience and renewable energy. These are all areas where Steel & Tube has specialist expertise, for example, in wind farm construction.

The Government has an important role to play in lifting confidence and activity. While a large number of infrastructure projects have been paused or cancelled, which is having a chilling effect on the construction sector, there are 149 projects which have been selected for immediate referral to the expert panel under the Fast Track bill. It will be good to see these approved and funded, although we acknowledge it will take time before project work actually starts.

READY TO WIN

Our purpose is to make life easier for our customers by delivering best in class customer solutions and experiences. We have taken a number of steps to ensure we are in the optimal position to capture revenue and profit opportunities as demand returns.

We have the scale and expertise to source good quality steel from preferred mills at the right prices, and the ability to deliver effectively and cost efficiently.

The breadth of our product offer remains unmatched and customers are increasingly buying multiple products from across our range. This is a big opportunity for us and we're making good progress.

We are trusted by our customers to provide the products they need. Customer partnerships are key and we have strong and loyal customer relationships with construction, engineering, architectural and manufacturing companies across New Zealand.

We have deep technical knowhow and expertise and work with clients from design through to implementation, advising on the best products and solutions and delivering project efficiencies. This ensures we are there at the start of the project and positions us as the supplier of choice.

We continue to provide high quality products and delivery reliability. We have introduced specialised sales teams, continued to enhance our online channels and recently expanded our 'last-mile' freight fleet. Pleasingly, our DIFOT score (delivered in full on time) remains consistently in the high 90s.

Several of our exec team, including myself, attended EuroBlech, the world's largest trade fair for sheet metal working. We also took the opportunity to visit existing and potential suppliers and similar companies in Europe and the UK.

There is a lot of innovation going on in the steel space, driven by technology and digital. Lean manufacturing is big as companies around the world look to work more efficiently and reduce waste. Automation and AI are helping to increase safety and improve productivity.

While most of these businesses operate on a significantly larger scale than Steel & Tube, it was great to be able to share learnings and knowledge. We've identified some good avenues to further optimise our business and are investigating a number of new product opportunities.

Thank you.