



SHAREHOLDER NEWSLETTER

June 2022

COMPANY UPDATE

DEAR SHAREHOLDER KIA ORA, TĒNĀ KOUTOU

We were pleased to host a number of investors and analysts in May and share further information on Steel & Tube, our strategy and our performance. In this newsletter, we have focused on some of the key outtakes from the Management presentations. You can view these presentations in full, along with a video of the day, on our website here <https://steelandtube.co.nz/investor/presentations>.

We were also pleased to provide earnings guidance for the financial year ending 30 June 2022 with FY22 normalised EBIT expected to be not less than \$45m and normalised EBITDA not less than \$64m.¹

The strong performance seen in the first half of the year has continued, with revenue, earnings and profit for the 10 months to the end of April 2022, up significantly on the prior comparative period (see table overleaf).

Revenues have been robust across the business, and we have also benefited from diligent price and margin management and supply chain capability. Sales to customers have been strong, with activity continuing to build in the infrastructure, manufacturing and commercial sectors in particular.

Steel & Tube is a trusted supplier with a focus on maintaining availability of critical products and high levels of service while navigating tight supply dynamics – steel mill customers, including Steel & Tube, continue to be on allocations, lead times have increased both locally and offshore and there have been significant cost price escalations.

We have invested significant cash to increase stock levels of high demand items and ensure availability of critical products for our customers. Using data analytics, our experienced team has been able to hold inventory unit and tonnes turns in line with previous periods (excluding goods in transit). Our strong supplier partnerships have put us in good stead during this time and our customer satisfaction rating (Net Promoter Score) continues to rise.

With structural changes to the business now well embedded and delivering value, we are focused on growth and building a more diversified, resilient business. We remain disciplined in our focus on customers and product mix, targeting products and segments that have allowed us to improve our overall margins. Our tight oversight of debtors and robust systems play an important role in our risk management process.

Throughout the COVID-19 period, Steel & Tube's dedicated front-line team has gone above and beyond to deliver for our customers. We are very proud of Steel & Tube's increasing employee engagement and customer satisfaction scores during this period.

We expect Steel & Tube's strong business performance to be sustained as we continue to strengthen the core business and build on higher value segments.

Thank you for your continued support and interest in Steel & Tube.

Ngā mihi



Susan Paterson Chair



Mark Malpass Chief Executive Officer

¹Normalised EBITDA and Normalised EBIT have been adjusted to exclude non-trading adjustments. A reconciliation of GAAP to non-GAAP measures is included in the appendix to the Investor Day management slides released to the NZX 16 May 2022.

TEN MONTH FINANCIAL UPDATE



\$millions	FY22 10 months	FY21 10 months	
Revenue	479.3	384.6	24.6%
EBITDA	53.6	29.5	81.6%
Normalised EBITDA	54.0	28.6	89.2%
EBIT	37.9	14.8	156.7%
Normalised EBIT	38.3	13.8	177.9%
NPAT	24.1	7.4	226.7%
FY22 Guidance			
Normalised EBIT	Not less than \$45m	\$19.0m	> 137%
Normalised EBITDA	Not less than \$64m	\$37.9m	> 69%

FURTHER FINANCIAL COMMENTARY IS AVAILABLE IN THE CFO UPDATE SECTION OF THE INVESTOR DAY PRESENTATIONS. [CLICK HERE](#)

For the 10 months to end-April 2022, Steel & Tube's revenue was up 25% on the prior comparative period (pcp) to \$479.3m and volumes increased by 8%.

Gross margin continues to improve, driving a significant increase in earnings. EBITDA was up 82% on pcp to \$53.6m, and EBIT increased to \$37.9m, up 157% on pcp.

Normalised EBITDA was up 89% on pcp to \$54.0m, while normalised EBIT was up 178% on pcp to \$38.3m.

OUR STRATEGIC FOCUS

With a strong business platform now in place, we are focused on growth. In particular, our efforts are being concentrated into two key areas – continuing to strengthen our core foundation and growing higher value products and services.

Strengthen the Core

Building on our core involves building on the strong business foundation now in place. That means continuing to build best in class customer experience to ensure we achieve our goal of being New Zealand's preferred supplier of steel products and solutions.

It means leveraging our breadth and scale to cross sell a wider range of products and services, continually driving improvement in gross margin dollar per tonne and delivering operational efficiencies.

- Continue to build best-in-class customer experience
- Leverage opportunities to cross sell wide range of products and services
- Drive gross margin \$/tonne through dynamic pricing and product procurement
- Ongoing focus on operating model – warehouse operations, digitizing supply chains and customer facing channels

High Value Product and Service Growth

Our focus is on investing in new products and services that will extend what we can offer to our customers. This includes adjacent materials and value added services.

We will continue to invest in our digital and IT offering, and accelerate our shift to digital sales, making it easier for our customers and delivering efficiencies for our business.

Diversifying customer segments and building scale and footprint in high value areas is important. While our primary focus is on organic growth, we also continue to consider opportunities in adjacent sectors.

- Improving resilience of earnings through economic cycles
- Growth is targeted towards high value products, diversified materials and value-added services
- Continue to diversify customer segments and build scale and footprint in these areas
- Accelerate shift to digital sales
- Primary focus is organic investment, continue to review direct adjacent sectors



DISTRIBUTION

WITH OVER 10,000 ACTIVE CUSTOMERS, STEEL & TUBE'S DISTRIBUTION BUSINESS HAS DELIVERED AN EXCEPTIONAL PERFORMANCE IN THE YEAR TO DATE, WITH REVENUES UP 37% ON THE PRIOR COMPARATIVE PERIOD.

Together with strong margin growth and the benefits of prior year cost initiatives, earnings have almost quadrupled. Gross margin dollar improvement has been a priority focus and, pleasingly, has increased 65% year to date driven by investment in high demand products, focus on improved margin mix and use of data analytics.

We are well positioned to respond to supply and logistics headwinds.

Our strong, long term relationships with mills, and our No 1 or 2 market position in most segments has helped us ensure supply continuity for our customers. In addition, as one of New Zealand's largest importers on a tonnage basis, we are fortunate to have secured full container allocations across our import laneways, as well cost security, providing additional stability for our customers. We have a highly experienced procurement team with a number having over 20 years' steel procurement experience throughout cycles.

GROWTH TRAJECTORY

- We have a clear focus of investment in high margin products and customer segments
- We are currently commissioning new plate processing equipment in Auckland which will allow us to grow in this higher margin market
- We have also introduced a number of new high value products and have a pipeline of further opportunities to support our continued revenue growth
- Looking forward, our larger customers are generally reporting solid forward workloads with strong infrastructure markets and a steady manufacturing sector, partially offset by the expectation of a softening residential market in the second half of FY23

ROLLFORMING

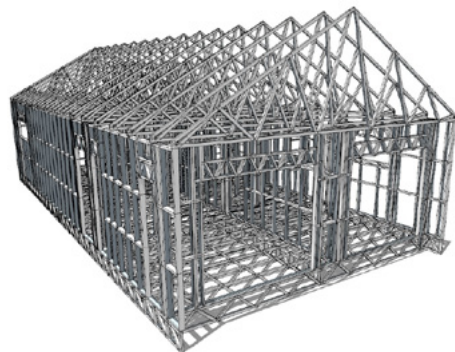
ROLLFORMING COMPRISES FOUR KEY PRODUCT CATEGORIES – ROOFING, SHEETING AND COIL PROCESSING WHICH SERVICES MANUFACTURERS AND SHEET METAL FABRICATORS, PURLINS (SUPPORTING BEAMS FOR ROOFING) & COMFLOR METAL DECKING SYSTEM.

Roofing is the biggest contributor to Steel & Tube's Rollforming business, providing 60% of revenue and delivered to customers from six branches around New Zealand. Steel & Tube is now in its second year of a four year supply agreement with Kainga Ora, supplying 1,600 roofs annually, with these volumes expected to double in FY23.

The Purlins business has experienced strong growth over the past ten months,

with early identification of supply chain constraints and smart procurement planning ensuring stock availability for our customers. Onboarding new, large customers has meant our secured works pipeline is very healthy for FY23. With increased demand, we are investing into new machinery which is expected to increase our share of the market.

Coil processing has seen significant growth due to increased demand for steel framing in both residential and commercial sectors. Steel & Tube currently supplies significant volumes of sheeting and coil for light steel framing and has identified an opportunity to move further into this sector and leverage our relationships with large roofing customers as well as working directly with designers and architects. Two machines will be up and running this quarter and increased volumes may warrant investment into further units over the coming years.



ComFlor is the most specified metal decking systems by structural engineers and has the largest market share in the sector. It uses up to 25% less concrete, can achieve up to four hours of fire rating with excellent acoustic

properties and has specification range from hotels, commercial office building, high rise apartments, hospitals, carparks, pedestrian bridges to high end residential projects.



COMFLOR: SIMPLE AND COLLABORATIVE DESIGN FOR SUMMERSET RETIREMENT VILLAGE

ComFlor was recently chosen by Summerset Retirement Villages' design and construction team for the main building in its new Summerset Palms village in Napier. Steel & Tube's team collaborated early with Summerset and utilised BIM modelling to optimise the design and deliver a seamless construction process. ComFlor 210 was selected for its long spanning capability of 6m- 8.5m, ideal for larger communal spaces, and ComFlor 80 was well suited for the shorter spans in hallway areas.

“I would describe the process of working with Steel & Tube's ComFlor technical team as simple and collaborative. Steel & Tube was able to provide a BIM layout making clash detection and coordination with other services efficient. As a result, the installation of ComFlor was simple as we engaged the Steel & Tube team early in the design process”

says Siobhain Hoskins, Architectural Lead at Summerset Design.

REINFORCING



MAINTAINING A FULL ORDER BOOK OF PREFERRED CUSTOMERS WHILE ADAPTING TO A CHANGING MARKET.

In the current market of constrained labour resources, materials shortages and price escalations, we are engaging with clients early and providing innovative solutions that overcome these challenges. By delivering smart fabrication solutions and efficient installation methods, the Steel & Tube Reinforcing Team is growing an enviable reputation.

We have invested heavily in 3D software to enable modelling of all the reinforcing projects with far greater sophistication than traditional 2D paper drawings. This improves the accuracy of detailing with the ability for the digital model to be integrated directly into our manufacturing system. Digital design and workflow software allows us to share 3D models of reinforcing design with construction companies and structural engineers to identify prefabrication opportunities, avoid clashes with other services and to confirm the installation meets the design brief.

When it comes to any building or infrastructure project, our team is working closely with clients as they move to better managing their

construction labour resource. New solutions and methodologies are being brought to the table through collaboration between the installers, detailers and construction company. In the partnership model, the three parties coordinate early to deliver greater value to the project, client and ultimately the asset owner. This partnership model has been driven in part by the changing market, where access to installation labour has become more challenging and costly. It gives construction companies the opportunity to be more selective when choosing their steel fixers and to manage costs more effectively.

Incorporating 3D design technology and adapting to a new delivery model allows Steel & Tube to deliver greatest value to clients – better products and faster delivery, while giving steel fixers and head contractors the opportunity to make installation more efficient, safer and economic on-site. Gross margins in the Reinforcing business continue to lift, and our forward order book is near full. We have also been able to lift mesh production by 30%, without capital investment.



We have capable, highly experienced, dedicated shift teams that have our machines working of up to 20 hours per day, 6 days per week.

OUR CLIENT BASE IS HIGHLY DIVERSE WITH CUSTOMERS OF EVERY SIZE, SCALE & METAL RELATED ACTIVITY

CUSTOMER VALUE PROPOSITION

As a manufacturing and distribution company, our customers are central to everything we do and we see significant value in delivering a best in class customer experience.

For all of our customers, our goals are simple – to provide the products they want economically with consistent service execution. As a part of this, we are using digital technologies to optimise our customer experience, reduce our cost to serve and increase margin potential. In particular, we are investing in Analytics, E-Commerce and new Sales and Service channels.

Analytics allows us to understand and more accurately offer our customers products and services at the right price. It allows us to be purposeful about initiatives we pursue and what returns we expect. It is influencing everything from pricing to inventory policy, sales and service design through to brand messaging.

Our ecommerce channel is experiencing significant growth in customer adoption and usage. On any given day we have hundreds of registered users searching for products, looking up pricing and placing orders. Our EDI (electronic data interchange) channel has recently been launched and enables system to system communication with our largest customers. Although early days, we are seeing improved order accuracy, more rapid processing and more timely information being feed directly into our customers systems.

CORE SEGMENTS



Construction



Manufacturing



Trades



Rural



Engineering



Merchants & Resellers

Most Valuable Customers in Their Segment

High Potential & Growth Orientated

CUSTOMER TYPES

Small and Medium Enterprises

Resellers & Merchants

Exclusively Project Work

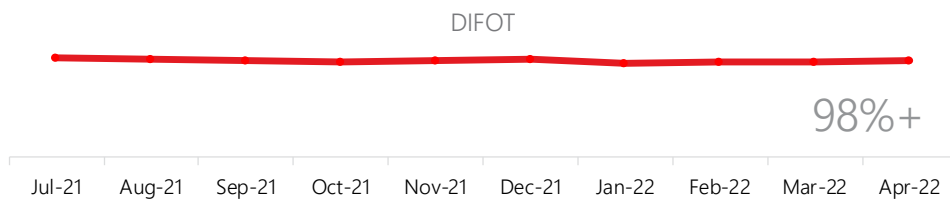
SUPPLY CHAIN & DISTRIBUTION CENTRES

Steel & Tube operates what is called a “backbone network” which means we have major centres / nodes with branches or smaller operations to provide reach and local servicing. This allows us to optimise service performance and inventory investment as well as being able to implement new channels or ways of doing business as we expand our digital offerings.

Our Sales and Operations Planning is focused on matching supply and demand to safely achieve our service promise whilst achieving the most profitable outcome. We see being leaders in this area as a core competence that will set us apart irrespective of market conditions.

There are substantial headwinds in terms of supply lines – increased uncertainty and ongoing disruption whether it be due to the Russia/ Ukraine conflict or ongoing pandemic impacts. This means we must remain vigilant in terms of our planning processes and be even more attuned to global and local developments.

We are proud that during some of the most disruptive times in recent memory, our processes and teams have maintained our service levels. DIFOT (delivered in full on time metric) has not only remained above 98%, but with a very high level of consistency which is of critical importance to our customers and their businesses, particularly during uncertain or volatile times.



Based on our relentless focus on serving our customers and striking the right balance of inventory holding across the last 12 months, we’re well placed to successfully navigate the next 12 to 24 months and build on the results delivered to date.

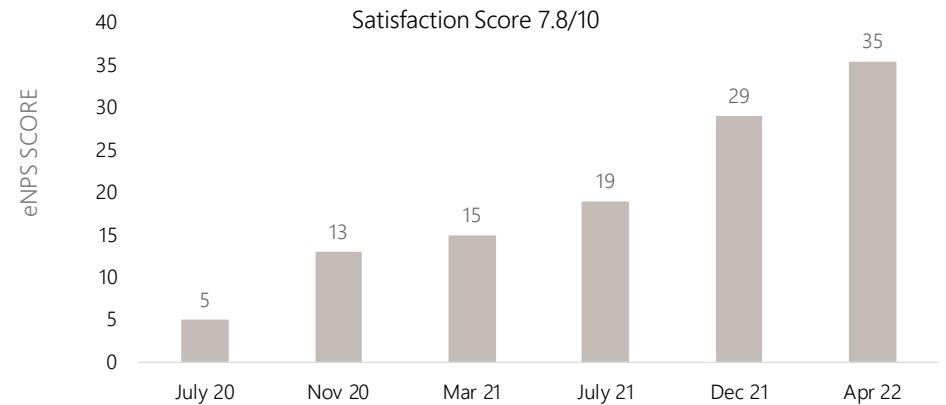
PEOPLE & CULTURE

The Steel & Tube team is made up of 840 people (excluding vacancies), 32 ethnicities, and a great mix of international and local experience.

Over the past four years we’ve been focussed on moving to a labour model with a much smaller core structure that we can flex up and down with activity. We’re now operating at significantly higher outputs with less people but with our same priority focus on safe and manageable workloads.

We track our employee engagement as the best indicator of what’s working for our people and what we need to do differently. Over the past two years we’ve moved our ENPS result from 5 up to 35 (the global top quartile for our industry is 36). It’s our ambition to create a top tier workplace for our people and we’re almost there.

Employee Engagement



OUR PEOPLE

INTRODUCING WAYNE FOULKES, AREA MANAGER -TAURANGA

💬 I love working with our team and helping them expand their knowledge and grow their confidence. Ultimately this makes for a better customer experience as our customers are dealing with knowledgeable and enthusiastic people each time they engage with Steel & Tube. 💬

Wayne Foulkes, Area Manager -Tauranga



After immigrating to New Zealand from South Africa in 2019, Wayne joined Steel & Tube's Roofing division. It was here that Wayne developed a reputation as someone who could be trusted to build a branch in which everyone is committed to delivering for our customers.

Initially based in Wellington, Wayne then moved to Tauranga, where he has focused on building and upskilling the team and developing the branch into a great asset for Steel & Tube and the local Bay region. With over 30 years in the region, many of the Tauranga Roofing branch's customers have long standing relationships with staff and the business.

SUSTAINABILITY

WHEN WE TALK ABOUT SUSTAINABILITY, IT'S NOT JUST ABOUT REDUCING OUR CARBON EMISSIONS, IT'S ALSO ABOUT FOSTERING BUSINESS PRACTICES THAT POSITIVELY IMPACT OUR COMMUNITIES AND PEOPLE.

We have numerous programmes that support and add value for our people and a strong Board that is committed to best practice governance. As representatives of the steel industry, Steel & Tube has been very active during the XRB's Climate-related Disclosures consultations, ensuring that hard-to-abate industries (such as the steel industry) are being supported during the transition to net-zero emissions. We have also provided feedback to MBIE for similar climate-related consultations.

SUSTAINABLE STEEL

Not only does steel support circular economy design principles, but it is also integral to the development of our overall climate change response.

- Steel is in fact, the most recycled material in the world. It is infinitely recyclable, with zero product degradation. The steel in your toaster, might have previously been in a car, and before that, in a plane
- Steel is designed and manufactured to specification, which in turn reduces the amount of on-site construction waste
- It is extremely durable and can improve the lifespan of a structure that it is contained within
- Steel products can help regulate peak temperatures in a building, meaning lower energy use during the 'use' phase of a building's life
- If some steel happened to make its way into the ground, it will not react with nor contaminate the soil or groundwater
- Steel is a necessary material to build our renewable energy infrastructure, supporting the world's transition to lower-or-zero emitting energy sources such as wind power, solar or hydrothermal energy. Quite simply, steel will be part of a low-emission future
- Steel also reinforces and protects against climate changes risks, such as strengthening sea walls to protect against rising sea levels



STRONGER TOGETHER THANK YOU



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www.steelandtube.co.nz/enews

