Tenon Annual Shareholders' Meeting – 4th December 2013

Tony Johnston – Chief Operating Officer's address

Good morning Ladies and Gentleman.

This is my third opportunity to address you the shareholder of Tenon. My objective today is to ensure you are well informed on how your company is performing, what we as management have been doing and why and what we are working towards. This will be a succinct review of the last 12 months.

This year it is an easier story to tell as there is more inherent good news to convey, more tangible positive achievement to point to from our efforts and a more optimistic outlook. The Tenon team has had a very busy year, the busy-good sort as opposed to busy-bad, as it has been mainly about keeping up with the opportunities opening up to us from a growing market, and managing a larger range of products and customers, rather than, as was the case in previous years, finding ways to keep our core capabilities intact in a contracting market while needing to cut capacities and costs. It's not actually any easier of course, it just looks better and feels better when your doing it and is a more motivating and positive experience.

The US housing market is now clearly emerging out of what has been a six-year slump, and Tenon is healthier, fitter and better positioned than it was when we entered the recession. It is exciting to note that we have in this last year continued our transformation into a company with a strong growth story, and the work that we completed on the way through these recent dark days has set us up well for the future. No one can predict the future of course, but we have used this past period of market contraction to improve our fitness and be well prepared for the long awaited US housing market turnaround.

As I advised at last year's shareholder meeting, our recent mission has been to get costs out of our business through greater efficiency, increase our business through organic growth and step changes into new areas, while maintaining our core capability to deliver on our exceptional and proprietary customer service system in the USA.

So let's have a look at some of the financial performance measures for the 2013 financial year -

- Revenues were $364 million, up $30 million, or 9%, on the previous year, $12 million in the first half year-on-year and $18 million in the second half year-on-year, and this is the sort of growth rate we intend to maintain. We started to see a sustained increase in sales into the new home construction market as early as September 2012 and this continued to build momentum as the year progressed. We ended the year with sales to those customers being more than 30% up on the prior year as we gained market share. Sales into the Repair and Remodel customers, where we have a particular strength, and a larger position, didn't start to show signs of increase until the northern spring blossomed around April 2013. Sales year on year therefore in this sector were not materially different from the prior year.
- Our overall gross operating margin of $83 million was up $3 million on fiscal 2012 and gross profit in the second half of the year was 8% higher than in the first half.
- Although we reported an net loss of $3 million for the year, this was down considerably down on the $9 million accounting loss in the previous financial year, in line with market expectations.

- Our EBITDA[1] increased from a loss of $3 million (including restructuring costs) to a profit of $5 million, and the majority of the improvement in earnings evidenced there came through in the second half of the fiscal year and as a direct result of the positive impact on our performance from the commencement of the US housing market recovery that was starting to emerge. In fact all of revenues, gross margins and earnings showed improvement in the year and importantly strengthened through the year.
- We are seeing a continuation of that momentum in the curent fiscal year as the recovery in sales in the repair and remodeling sector are now also emerging.

Although these results are not spectacular in an absolute sense, they do show a reassuring trend compared to the last six years or so. As I noted earlier, we are now solidly into the first phase of the US economic recovery, and barring any unanticipated financial or other shocks we expect to see continuing improvement in our financial results as we move forward – and my Chairman will speak to the outlook shortly.

The benefits of an improving market get imported naturally into Tenon's performance, and will be further amplified by the changes in our business we have been able to successfully introduce.

In the last year we have achieved;

- Further cost out and efficiencies at Taupo from improved volume and value recovery initiatives and lower logistic costs. We have substantially expanded sales of high valued clear wood products from our Taupo plant into Europe and the USA – via both our retail distribution and pro-dealer channels. The whole team at Taupo have done a really good job of reshaping our business there and putting it on a solid platform.
- Cost reductions and efficiency initiatives in our award winning North American distribution operations. The Empire team have improved that business, outperformed their peers on all measures, and most significantly kept their customers, new and existing, satisfied by the highest product and service delivery standards in the industry.
- Production efficiencies from the consolidation of Ornamental's manufacturing operations into one facility in North Carolina USA, by the closure and relocation of the capacity at the Waterloo Canada factory. After a very successful ramp-up of the expanded manufacturing facilities in North Carolina, Ornamental is in fact shaping up to be the noted success of this financial year, achieving a remarkable reinvention and refreshment of their entire business, manufacturing systems through to product innovation.
- Warehouse efficiencies through the relocation of South West Mouldings into a larger and more space-efficient location in Dallas Texas, increasing their turnover and earnings in a very tough and competitive market.
- Gains from further implementation of the Shared Services back office in the USA with consequent cost reductions and efficiency enhancements.

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[1] *EBITDA stands for Earnings before Interest, Tax, and Depreciation and Amortisations. EBITDA is a non-GAAP measure, not recognised within IFRS. As it is not uniformly defined or utilized this measure may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with IFRS. Tenon uses EBITDA when discussing financial performance because we believe the measure provides useful comparative earnings information and because it is used internally to evaluate performance. EBITDA is also a widely used earnings measure used in the investment community, particularly by equity analysts when focusing on comparable company performance, as the measure removes distortions caused by differences in asset age and depreciation policies. For fiscal 2013, Tenon's EBITDA reconciliation to its IFRS reported earnings measure of Net Profit / (Loss) after Taxation was as follows -*
Net Profit / (Loss) after taxation of US$(3) million – income tax benefit of US$ nil + Financing Costs of US$4 million + depreciation and amortisations of US$4 million = EBITDA US$5 million.

- Introduced numerous new product lines at Empire that sell alongside our existing range in store.
- Increased our market share and customer share into the now growing new home construction market; and
- Increased sales in Australia for mouldings architraves and clear boards through our Tenon Australia distribution business. Amongst numerous other developments we are very pleased to have been appointed the Primary Supplier of small mouldings and of clear pine boards to Mitre 10 distribution centres nationally. Although we are still a small player in Australia we are gaining market share at a very satisfactory rate.

We now have the opportunity to realise the rewards from these initiatives as our sales increase from three distinct areas; i) our newly introduced product lines, where we expect new items introduced in last 18 months will represent $24m or 7% of the current financial years sales ii) our expanded market share, specifically with our Professional Dealer customers and iii) the increased demand from the market itself. “Top line” revenue growth, combined with a leaner, more efficient, and lower cost customer delivery model, generating higher margins, is the way we now look at the future.

As you will understand, increasing sales, at improving margins creates a totally different picture than the one we have been looking at for the last six years.

Debt Refinancing

By the end of 2012 calendar, we could see that the underlying demand for our products would significantly increase. If we were to meet this need, and to fund the resultant working capital growth, it became clear that we would need to put in place an expanded debt funding facility.

So, in August this year we signed a new syndicated bank facility led by PNC (as agent bank) with continued participation by two of our existing syndicate banks – BNZ and Comerica. This new five-year $70 million facility provides for 30% greater debt capacity than we had under our previous facility. The facility will not expire until September 2018, and will allow us to advance with strength and confidence through the recovery in the US housing market that we are now experiencing.

Looking Ahead

We have an excellent strategy for value creation in our high-service distribution businesses in the US new housing and retail / DIY markets. And in terms of our large NZ manufacturing and export operation at Taupo, we are excellently positioned as a world-class producer of limited-supply high-value clearwood products. All our markets are now growing, and our performance within each is improving. We have the human resources required to deliver on our strategy and the financial resources to manage the growth we are now beginning to enjoy.

I have spoken in the past about our opportunities to grow our business outside of our core North American markets.

Progress is being achieved against this objective albeit constrained somewhat by our decision to ensure that we have all necessary resources focused on achieving our objectives and meeting our challenges in our core North American market. By way of example, this calendar year we have achieved a quadrupling of our New Zealand Radiata pine clearwood sales into high value wood modification applications in Europe - some of which is travelling the world and finding its way back to NZ, being used in innovative building systems substituting wood back into commercial building (see picture of Carl’s Jnr and KFC outlets at Auckland Airport). Wood modification is one of the very exciting frontiers of wood use with the potential to significantly increase the use of and the global demand for plantation grown softwoods. Tenon is taking an active role in supporting and participating in this development.

So in summary, we have expanded the breadth of our activities – and the extent of this will be seen in our earnings and cash flow as the cycle further recovers and we move forward. Costs have been reduced or removed wherever possible. At the same time we have maintained our total commitment to providing unrivalled service to our customers. We have weathered the storm of the Global Financial Crisis and the simultaneous, sustained, collapse of the North American house construction and repair/remodel markets, all without needing to seek any further capital from our shareholders. Not only have we managed all that, but today our business is stronger, and better positioned strategically, than it was when we were sailing the peak wave of the last cycle. And of course, any market-driven sales growth will be more than proportionately reflected in earnings growth as we leverage and maximise our existing fixed cost infrastructure in the growing market.

I want to voice my appreciation for the tireless efforts of our excellent people in the USA, Canada, Australia and New Zealand, without whose efforts we simply would not find ourselves in this position today. Significant efforts beyond the call of the normal has been requested and delivered from everyone. My thanks to the team.

I have every reason to believe that the company, and its shareholders, will now begin to reap the rewards for these efforts.

Thank you.

Forward-looking Statements

There are forward-looking statements included in this document. As forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to Tenon, its operations, the markets in which it competes and other factors (some of which are beyond the control of Tenon). In particular Tenon's operations and results are significantly influenced by the level of activity in the various sectors of the economies in which it competes. Amongst other things, fluctuations in industrial output, commercial and residential construction activity, changes in availability of capital, changes in housing turnover and pricing, changes in the levels and types of housing repairs and remodelling and additions to existing homes in North America, relative exchange rates, interest rates in each market, profitability of customers, competitor product development, demand and pricing, and customer concentration risk can each have a substantial impact on Tenon's results of operations and financial condition. As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. Valuations (company, business and product) are inherently subjective, and Tenon makes no warranty or undertaking as to information included herein, and actual outcomes could differ materially from any value or financial information and assumption included herein. The information contained herein is, subject to the assumptions used, believed to be materially accurate as at the date of this document (or as at the date otherwise noted in this document) but Tenon gives no warranty of accuracy or reliability and take no responsibility for accuracy or reliability. No investment decision should be taken on the basis of information contained herein.