CHAIRMAN'S ADDRESS – TENON'S 2014 ASM

So let's begin with a review of the past year.

In summary, 2014 represented the start of the US housing market recovery – and in that respect, it was a good year for Tenon.

Financially –

⇒ We recorded revenue of US$396 million, up US$32 million on the prior year
  - ⇒ Our revenue from pro-dealer customers (who service the new house construction market) was up more than 15% year-on-year
  - ⇒ Revenue from our US DIY (or retail) customers was up 5%
  - ⇒ And revenue from Europe and Australia increased US$4 million

⇒ We returned to 'bottom line' profitability - after the very long cyclical downturn

⇒ And our EBITDA[1] result more than doubled – up 120% to US$11 million, exceeding market guidance

⇒ And we put in place a new 5-year, $70 million syndicated debt financing Facility, with participation from our previous syndicate members, including the BNZ here in New Zealand. As this new Facility offers us 30% greater debt capacity than previously, it will allow us to advance through the cyclical recovery in the US housing market on a much stronger financial footing.

Strategically –

⇒ We entered into a new business arrangement with Masters Home Improvement in Australia. Masters is a joint venture between Woolworths and Lowe's, which currently has 50 large format stores across the country, and an aspiration to grow this store count at a rate of 10-15 stores per year for the next several years. We have been asked to bring our 'best-in-class' North American service model into the categories we deal with in this business. Product will be supplied primarily from our large clearwood remanufacturing plant at Taupo and from our hardwood manufacturing operation in Victoria.

⇒ In order to meet the increased demands from a recovering US market as well as from our expanding Australasian and European presence, we announced a US$5 million sawmill optimisation upgrade at our Taupo site.

This upgrade will maximise the amount of clearwood we can recover from a given log. This improved recovery will allow Taupo to increase the volume of high-value products that it can produce, from the same volume of log into the sawmill – thereby increasing revenue with no increase in fibre cost. The additional products produced will be clear boards and mouldings – the highest value clear products we manufacture, and which are increasingly in short supply relative to the growing market demand.

Today we are announcing yet a further upgrade to the site – the addition of a US$2 million grade scanner and optimising cross-cut saw – to improve the recovery rates of the highly demanded clear board products.

These two projects together are expected to add some US$3-$3.5 million[2] per annum in additional EBITDA to our results once fully operational by the end of the next calendar year. It is very pleasing that Tenon's financial position now allows us to proceed with these types of value adding capital projects.

⇒ A complete **operational review** of our North American manufacturing and distribution operations is currently being undertaken. This is a fundamental 'nuts and bolts' review, with the goals being –

  - ⇒ To identify new opportunities for growth, and
  - ⇒ To improve profitability in our existing activities, whilst at the same time improving the service level we provide to our key customers.

Easy to say, hard to do - but we do believe there are some very real prizes here for Tenon, which can be quickly converted into value.

The improved financial performance we have recently reported, combined with the announcement of the two capital and operational review projects I have just mentioned, have begun to be reflected in our share price. As this next chart shows, the Tenon share price has increased 57% since June last year, and 34% over the past 12 months. This TSR performance far exceeds that of the New Zealand and US stock exchange indices over the same periods – the green bars on this chart represents the NZX50 for the two periods, the yellow bars are the ASX50, and the red bars the US Dow Jones industrial average. You can take your pick here – Tenon (in blue) has clearly been the strongest performer.

So, needless to say we are very happy with the progress Tenon has made over the past year … and we believe there is still much more to come. And we can say that because we are still only very early into the US housing cycle recovery. You can see that in this next chart, which graphs housing starts over the last 60 years.

As the chart shows, the US has only now just recovered, to what would have been the very bottom of previous housing cycles. This brings out two relevant points –

⇒ First, that this past cycle has been the longest and deepest housing recession that the US industry has ever seen (inclusive of the 1930s recession) – and the depth and length of that downcycle have resulted in a level of 'pent-up' housing demand that will need to be satisfied in future years. This demand will be supported further by strong US household formation and population data, and an ageing housing stock.

⇒ And second, although Tenon more than doubled its earnings in the past fiscal year, there is clearly considerable earnings upside to come before the company reaches anywhere near 'mid-cycle' new home construction conditions.

And of course this chart only refers to the new housing market – Tenon has equal exposure to the D-I-Y retail market. And that segment has only just begun to turn positive in terms of retail store unit sales, so the future upside to Tenon there is also significant.

So quite apart from any organic growth initiatives we put in place, cyclical recovery alone should drive strong earnings growth in each of these underlying business streams. And in terms of organic growth, we are continuing along our path of –

- ⇒ Driving market share growth
- ⇒ Expanding our product range
- ⇒ Improving our mix of manufactured product
- ⇒ Extracting operational efficiency gains
- ⇒ … and increasing our exposure to the pro-dealer segment

All these initiatives, together with the gains that fall directly to the bottom line as we leverage our fixed cost distribution platform with greater volume (as the cycle recovers), give us the comfort to repeat our upgraded mid-cycle EBITDA[1] guidance[3] of US$45 million per annum. And putting that into context, this past year's EBITDA[1] result for Tenon represents less than a quarter of the earnings potential of the Company at mid-cycle.

And of course, this earnings potential excludes the upside that might come from acquisitive growth. As the US industry recovers, merger & acquisition activity will expand, and the opportunity for synergistic transactional growth will similarly increase. Tenon is well positioned to participate in this activity.

By way of example (and I am borrowing here a little from previous materials we have discussed), this map shows in red, the US States that Tenon currently sells into – be it to the professional builder or the retail markets (the grey dots here represent the Lowe's store locations in the US).

These red shaded States account for approximately 60% of all new housing permits issued in the US in the last year. To put some numbers to this – if you were to take Tenon's core market of Texas (where Southwest Mouldings has a leading industry position), just the Houston and Dallas areas of Texas alone have permitted more new homes this year than the entire State of California. And to localise this for this audience today, 162,000 new homes have been permitted in the State of Texas alone over the past 12 months, which is approximately 7 times the total number of new house permits issued in all of New Zealand over the same period. And Texas is just one example of the size of the opportunity for Tenon in the large, recovering US market.

In addition to establishing this strong in-market positioning, during the down-cycle we also took the opportunity to –

- ⇨ Double the size of our revenue base in the new home construction market, by expanding our customer base in the large professional builder chains. We now supply into the leading pro-builder chains in regions in which we operate.

- ⇨ In the retail market, we now full-services approximately 750 Lowe's stores - 35% more than we did when we entered the last cycle, and we have twice won the prestigious Lowe's Vendor of the Year award for its industry-leading product and service delivery. Tenon's products are now sold into more than 2,500 large format home centre stores across the US, and more than 20% of the Company's distribution revenues in the US now come from products that we did not have in the last cycle.

In terms of strategic positioning, this next chart says it all – Tenon is a clear leader in the spaces in which it operates. For all these reasons, growth by merger and / or acquisition remains firmly on our agenda.

Let me conclude now, by simply saying - your Company is in good health. 2014 was a good start, and there is much more to come for shareholders.

Thank you Ladies and gentlemen, that brings my review to a close.

Footnotes -

[1] We used EBITDA when discussing financial performance. EBITDA (i.e. Earnings before interest, taxation, depreciation and amortisation) is a non-GAAP financial measure that is not recognised within IFRS. As it is not uniformly define or utilised this measure may not be comparable with similarly title measures used by other companies. Non-GAAP financial measures should not be viewed in isolation or considered as a substitute for measures reported in accordance with IFRS. Management believes that EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparable company performance purposes, as the measure removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures. EBITDA can be derived from our Consolidated Income Statement (Refer our 2014 Annual Report) by taking Net Profit / Loss after Taxation of US$2 million (2013, US$-3m), and adding back Income Tax Expense of US$1 million (2013, US$ nil), Financing Costs of US$4 million (2013, US$4m), and depreciation & amortisations of US$4 million (2013, US$4m) = US$11 million (2013, US$5m).

[2] Assumes operating to equipment manufacturer's stated efficiencies, full sales of additional volumes, a NZD:USD < 80 cents, and the current product mix.

[3] Assumes NZ$:US$ cross rate of 70 cents, housing starts of 1.65 million, retail unit comps of 5% pa, and historic operating margins.

[4] 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). As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. 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, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, remodelling and additions to existing homes, new housing starts, relative exchange rates, interest rates, and profitability of customers, can each have a substantial impact on Tenon's results of operations and financial condition. Other risks include competitor product development and demand and pricing and customer concentration risk. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.