

LUKE MORIARTY'S CHAIRMAN'S ADDRESS – TENON'S 2015 ASM

Good morning ladies and gentlemen, and welcome to Tenon's Annual Shareholders' Meeting. It is a pleasure to be with you today.

2015 saw us deliver on a series of milestones designed to strengthen Tenon's strategic positioning, as well as to lift its operational and financial performance moving forward. These included –

- **Expanding our Syndicated Bank financing facility** – increasing its size to US\$75 million, under more favourable borrowing rates, with the elimination of some previously constraining covenants, and with increased flexibility around shareholder payments.
- We **advanced our manufacturing upgrade program** at our world-class clear-wood manufacturing site, in Taupo NZ. This program involves the commissioning of two separate upgrades – the first is designed to increase the recovery of high-value clear wood from each log we cut at the sawmill, and the second is designed to convert that additional lumber into our highest value product – clear boards that we sell into Europe and North America. These two projects combined have a capital cost of more than US\$7 million, and a forecast annual EBITDA¹ gain of over US\$4 million. The first of these projects was commissioned in August, and is now running ahead of target conversions – so we are very happy about that. The second project will be commissioned in February/March, and we are confident it will quickly deliver the targeted gains also.
- We won **new business** in the National Home Centre market (with expanded boards and stair parts programs), we commenced our pro-dealer 'step-out' territory growth, and we strengthened our position in each of these channels.
- We **completed the restructuring of our North American distribution activities**, aligning our management structures around our two key customer channels – i.e. our *national home centre activities* which focus on the DIY customer in the remodelling and renovation market, and our *pro-dealer activities* which focus on the new home construction market.
- As part of this restructuring we undertook a range of **operational improvement initiatives** that will generate significant gains to our future earnings and balance sheet. By way of a few examples, these included –
 - The adoption of an **advanced demand planning and forecasting model**, which will optimise our inventory and working capital needs;
 - We fundamentally changed our **procurement system**, to improve margins as we support our product and service offering to customers;
 - We are currently undertaking a fundamental review our **logistics model**, that will allow us to optimise the performance of our trucking fleet which travels more than 5 million miles each year across the US, servicing more than 4,500 distinct locations each week;

- And in April next year we will be **consolidating our two Texas warehouses** into a single facility. Shown here in concept form (as it is currently under construction), the facility is 'state of art', purpose built for our needs ... and at 370,000 square feet it will be our largest single warehouse location. The consolidation will deliver gains through lower rent and related overheads, improved logistics, and improved customer service and delivery metrics.
- And of course, as we have been doing all of this, **the macro-environment for Tenon has continued to improve** – both US housing activity and the NZ dollar are now presenting themselves as tailwinds rather than headwinds. The current NZ:US\$ cross rate of around 65 cents is a more comfortable zone for us to operate in – a far cry from the outlier period of an 80 cent dollar that we endured for several years. The near term bets are on the US fed raising interest rates and the RBNZ lowering them – one or other, or both, should have a further positive impact on the NZ:US\$ for us. Offsetting this, of course, is the potential for interest rate rises in the US to slow housing activity and demand in the immediate term – but it is unlikely to be anything other than that – i.e. a slowing of short-term growth. Underlying housing and demographic fundamentals continue to support a longer-term recovery in housing activity towards mid-cycle conditions, and that is the basis on which we are positioning Tenon.
- And by way of example of the future activity level upside, this graph shows the gap that exists between current new home construction activity and what is generally accepted² as being the next mid-cycle level. Moving forward, as the market continues to recover, Tenon's earnings profile will reflect the closing of this gap.
- The operational initiatives we have been focusing on this past year have begun to show through in our earnings. Last month we announced our (unaudited) financial result for the first three months of our new fiscal 2016 (June) year, which was EBITDA¹ of \$6 million (after project costs and FX losses of \$1 million). Excluding those costs, this result was more than double the previous year's result for the same quarter and on the same basis ... and it was equivalent to the result for the entire first six months of last year. So the business is now starting to lift its earnings base, and it's fair to say it is operating at a higher 'run rate' than even the first quarter's \$6 million EBITDA reflects.
- All of this has begun to be reflected in our share price – as this graph shows. As you can see, there is no doubt that we have materially out-performed all the major global indices – including the NZX50 here in New Zealand, which is very pleasing. However, on a comparable company trading basis, we believe Tenon has been, and still is, materially undervalued.

Accordingly, the Board has put in place two **shareholder value initiatives** –

- The first is the **commencement of dividend payments**, which began this year with the first payment having been made last month (November). Our expectation is (subject to the outcome of the Strategic Review) for dividends payments to be made twice a year, with the next payment to be in respect of the six months interim result period to 31 December 2015.

- The second initiative is the undertaking of a **Strategic Review**, which we publicly announced a few months ago. The purpose of this Review is to determine the risk-adjusted path most likely to close the share price value gap, and given the financial complexity involved in answering that question, we have employed Deutsche Bank to assist us in this endeavour. As it happened, following the announcement of the Strategic Review process we received ‘in-bound’ interest in Tenon from third parties. We obviously need to investigate that further, in order to determine whether a sales path provides the best outcome for shareholders – and we have asked Deutsche Bank to do just that for us by way of a formal process.

That process is proceeding well, to plan, and although somewhat gruelling for all involved, we believe it will prove to be critical to value recognition for all Tenon shareholders. Given the confidentiality of these types of processes, there is nothing else I can say to you today, but we will obviously have quite a lot more to discuss with shareholders in the New Year. We will keep you updated as events unfold.

And that brings my comments to a close today Ladies and Gentlemen.

1 EBITDA is Earnings before interest, tax, depreciation and amortisations. Although it is a non-GAAP measure, Tenon believes it provides useful information, as it is used internally to evaluate performance and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by the difference in asset age and depreciation policies.

2 Mid-cycle housing starts derived from information and reports publicly released by Forest Economic Advisors, Forisk Consulting, Joint Center for Housing Studies of Harvard University, Goldman Sachs, Deutsche Bank, Freedonia, and from Tenon’s own internal research.