LUKE MORIARTY'S CHAIRMAN'S ADDRESS – TENON'S 2016 ASM
18 November 2016

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

I can confirm that a quorum is present and the Meeting is duly constituted.

Let me begin by introducing you the Company representatives here today. On my far left are independent Directors Mark Eglinton and Rodger Fisher … and next to Rodger is Stephen Kasnet, who is a representative of our major shareholder Rubicon Limited. George Karaplis, is unable to be with us today as his mother is extremely unwell, and he sends his apologies to this meeting.

From management, in the front row here, we also have our CFO from the US Adam White, our Financial Controller Jane Paice, our Legal Counsel Paul Gillard, and our VP of Operational Improvement and Growth Sharon Ludher-Chandra.

The order of business for today's Meeting is as shown on this slide.

As you will understand, the substance of the Meeting is really set out in the first two resolutions under "C" in this Agenda … being your consideration of the sale of our North American distribution business and the pro-rata return of surplus capital to all Tenon shareholders. In order to give some context to those resolutions I will briefly discuss *"where we have been, and how we have got to where we are today"* … and then you will have the opportunity to comment on that. Then, given I am a representative of Rubicon, which will of course be a significant beneficiary of the proposed capital return, I will hand over to our independent directors to steer the meeting through these two substantive Resolutions. And Mark Eglinton has kindly volunteered to do that for us today.

So, by way of background context, what's been going on at Tenon?

For the past 24 months our principal efforts have been to restructure the Company to better position it strategically, in order to lift the financial performance of both our North American and NZ-based operations, now, and in the future. In summary, this activity has seen us –

- Restructure our North American distribution activities, aligning our management structures around our two key customer channels – to refine management focus;
- We consolidated warehouse facilities - to improve service delivery and reduce overhead;
- We implemented a new integrated demand planning, forecasting, and product procurement system – to ensure in-stock performance whilst reducing absolute inventory levels;
- Our vendor base was widened and our product requirements refined – in order to optimise our cost of procurement and expand margin;
- Our geographical foot print in North America was expanded - to take advantage of a recovering US housing market;
- We broadened our product portfolio – to entrench ourselves as a leading distributor of millwork products in the US;
- We won new business in the National Home Centre market – to expand the scale of our retail model;
- We optimised our in-house manufacturing capability – in order to develop unique, short lead-time products;

- We completed major capital upgrades at our Taupo Clearwood operations – to increase the recovery of clear fibre, improve efficiencies, and produce more of our highest-value clear products; and
- We expanded our Clearwood sales into the European wood modification markets.

All of that effort has resulted in materially improved financial performance. And you can see this improvement clearly when you look at the financial metrics shown on this table, over the last two years. The recent performance lift is quite evident.

Unfortunately, in our view, the Tenon share price hadn't been recognising the performance potential of the Company, despite our best efforts to communicate that. So last year we put in place two further initiatives, to lift value, and close the then share price: value gap. Those additional initiatives, which were implemented after the 2015 results announcement, were -

- The commencement of regular dividend payments; and
- The undertaking of a Strategic Review of the total Tenon business

Unquestionably, these have had a very positive impact on share price … **such that much of the value gap we saw last year has since been eliminated**. To put some numbers to that comment, let me show you a couple of slides that succinctly bring the point home.

This slide addresses the performance of Tenon's share price in US dollar terms – which of course is our functional currency, the currency which we report in, and against which we measure our performance. When we announced the value initiatives last year, our share price was around NZ$2:00 per share. In US dollars at the time, this equated to US$1.30 per share. Since then, we have paid out 3 dividends totalling NZ17.25 cps, which is equivalent to US$.08 cents per share (net of tax). And the share price today is NZ$2.60 per share, which at current FX rates is around US$1.85 per share. So when you add all that up, the total return to shareholders since we announced the commencement of dividends and the Strategic Review last year, has been in excess of 50%.

This next slide compares Tenon's performance in US dollars with some of the well-known US-listed entities operating in our sector. As you can see, Tenon has outperformed them all, by quite a margin, both on an individual stock basis … and on a combined sub-sector basis. And even if you look at the comparison on an overall stock market index basis, the same conclusion holds - Tenon has comfortably out-performed the pack. Here you can see that Tenon is a "star" when compared with the performances of the NZX50, the ASX50, and the major US market indices.

So, the bottom line is that we have been very pleased with the Company's financial and share price performance over the past 15 months, and with the closing of much of the value-gap that existed a year ago when we began down this path.

Now the next phase of this story is obviously the Strategic Review processes for each of our US distribution and Clearwood manufacturing businesses. But before we move on to discuss those Reviews, this is a good point for me to stop, and ask if there are any questions on anything that I have said so far in terms of the Company's performance to date?

Ok … we will now move on to the Strategic Review process, and the two substantive matters for the day – Resolutions 1 and 2. And as I indicated earlier on, I'm going to ask Mark Eglinton to take over now as chair for this next section of this meeting.

Mark …

Thanks Luke and welcome everyone.

Resolution 1 relates to the proposed sale of Tenon USA to Blue Wolf. The business that is for sale is Tenon's US operating business, which is a portfolio of three US based distribution and manufacturing operations that collectively serve the North American moulding and millwork market. Those three operations - and I will use language you will be familiar with from our Annual Report documents – are: Empire, Southwest Mouldings, and Ornamental Products. Each of these is 100% owned by NACS USA Inc, and the transaction in front of us today is for the sale of 100% of the shares in NACS USA Inc.

The Tenon USA platform was built through a series of acquisitions in the early and mid 2000's. The original intent of the strategy was to build a distribution platform that could "pull" more NZ sourced clear wood products into the US market. Since then, the Tenon USA and Clearwood businesses have each developed far beyond this original intent, with each building distribution capability well beyond that which was envisaged 20 years ago … to such an extent that, although supply of clear boards products from Tenon's Clearwood operations for on-sale to Lowe's is still critically important to both Clearwood and Tenon USA, that can be easily addressed with a product supply agreement between the two businesses. And the reality now, is that Tenon USA's purchases from Clearwood's Taupo operation now represent less than 10% of its total product purchases, and Taupo's sales to Tenon USA represent less than 20% of its total sales. So, clearly, each business has very successfully developed their own distribution models, independent of each other – apart from a 5-year supply agreement for selected high-value clear products that is in place between the two businesses.

You will be well aware of the Strategic Review process the Company has been running for the past 12 months, so I won't canvas that again with you today ... other than to say that from the outset, we engaged Deutsche Bank, a highly regarded international investment bank with presence in the US, Europe and Australasia, to run the process on our behalf. We did this to ensure the rigour and proper governance of the process was in place, so that we could stand in front of you today and 'hand on heart' say we are comfortable with the completeness of the Review.

The process has yielded a Tenon USA proposed sales price of US$110 million, which is equivalent to a 7.3X EBITDA multiple on our fiscal '16 earnings. This falls within Grant Samuel's assessment of fair value of 7.2X to 8.4X EBITDA, as is outlined in their report. We acknowledge that the sale value is towards the lower end of that range, but its important that you understand that Deutsche Banks conducted an exhaustive sales process, yielding competing offers for the US business that were within a tight range of only 2% of the proposed sale value. So it is fair to say the 'market has spoken.'

In determining their value range, Grant Samuel explicitly took into consideration that;

- Tenon USA is a relatively small and specialised building products distributor by USA standards
- It has an extremely high degree of customers concentration with Lowes, and reducing this risk will require significant ongoing investment outside of this retail channel over the next 5 years
- Tenon USA operates in a highly competitive US market and earnings are very sensitive to any changes in market pricing
- Tenon USA has a very specialised service and product offering, and the management skills required to run it are unique. This limits any potential "bolt on" synergies for a larger industry player.

Grant Samuel also considered actual transaction values in comparable deals, and determined that this range was consistent with those transactions when adjusted for the above factors.

It's important to us that you know the Board also considered alternatives to an outright sale, and these are discussed fully in the Chairman's letter and the Grant Samuel Report. Unfortunately, none of those could address the fundamental value issues facing the Company – the basic illiquidity of the stock (over 80% is tied up in three hands that do not trade) and US-specific nature of the underlying story, which jointly have meant it has been extremely difficult to generate NZ-based equity research and institutional ownership. Accordingly, we determined that if a sales process could achieve a value supported by an Independent

Report as being fair, then we would bring it to shareholder to let you decide. And that is how we have got here today.

The Board and the independent Directors, consider that the Blue Wolf proposal is a good one for shareholders, and encourage you to support Resolution 1.

Resolution 1 – Proposed Transaction – Ordinary Resolution

Under NZX Main Board Listing Rule 9.1, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the sale of the US Operating Business (inclusive of the Supply Agreement) on the terms set out in the Sale Agreement, for a price of approximately US$110 million, as described in the Explanatory Memorandum, be approved.

See Explanatory Note 1.
Do we have any questions on this resolution before I ask you to vote?
Thank you.
Please mark your ballot papers and hold them for now.

Turning now to Resolution 2 the capital return.

If the Proposed Tenon USA sale Transaction proceeds, all of Tenon's net debt will be repaid. Tenon's remaining business will then be its Clearwood business. This business is not part of the Tenon USA sale, but is subject to its own on-going Strategic Review. Clearwood continues to perform very well. It earned US$11.5 million in EBITDA in our last fiscal year, it has strong cash flow, and limited capex requirements. Clearwood also now has separate banking arrangements in place (subject to the sale of Tenon USA) to the tune of US$25 million in total facilities.

Accordingly, the Board has determined that given the change in scale of Tenon's ongoing business and Clearwood's limited ongoing capital requirements, the net sale proceeds (after repayment of all debt) from the Proposed Transaction will be surplus capital.

Accordingly the company proposes to undertake a pro rata return of capital to shareholders of approximately US $ 71.3million, representing US $1.10 per existing Tenon share (or NZ $ 1.55 per existing Tenon share at an exchange rate of .71 cents).

This return of capital will be undertaken by way of a cancellation of Tenon shares under a scheme of arrangement to be approved by shareholders as resolution 2 today. Under the scheme of arrangement Tenon will cancel one out of two ordinary shares held by each shareholder and pay US$2.20 for every ordinary share cancelled. If approved today the capital return will be made in one payment in late December, following receipt of the final order by the High Court, which is conditional on your approval today.

Given the size of the Capital Return and Rubicon's 60% shareholding in Tenon, the non independent directors did not vote on the Capital Return. However the Independent Directors unanimously recommend the Capital Return to shareholders.

So, moving to Resolution 2 outlined on page 6 of the Notice of meeting.

Pursuant to an order of the High Court of New Zealand made at Auckland on 21 October 2016, to consider and, if thought fit, pass the following resolution as a special resolution:

<u>That, subject to Resolution 1 being passed,</u> *the arrangement relating to the return of capital to the Company's shareholders, as described in the Explanatory Memorandum and the Arrangement Plan, under which the Company will return approximately US$71.3 million of capital to shareholders, be approved.*

Do we have any questions on this resolution before I ask you to vote?
Thank you.
Again, please mark your ballot papers and hold them for now.

And I will now hand you back to Luke to take us through the remainder of the meeting.

Thank you Mark.

Now, we move on to Resolution 3a, which relates to the re-election of Mark Kenneth Eglinton as a Director. Mark's Bio is outlined in detail in the Notice of Meeting, so I will not repeat that today. The Board's Nomination's Committee unanimously supports Mark's nomination. I'm assuming you've heard more than enough from Mark already this morning, so I won't ask him to speak again now.

<u>I will however move Resolution 3a</u>: To re-elect Mark Kenneth Eglinton as a director to the Board of the Company, and ask the meeting if there any questions on this resolution? Can you please mark your voting papers accordingly.

<u>Now to Resolution 3b:</u> To re-elect Stephen Garfield Kasnet as a director to the Board of the Company. Steve's Bio is also outlined in detail in the Notice of Meeting, and the Board's Nomination's Committee unanimously supports his nomination. Steve, would you like to address the meeting in support of your re-election please?

Thank you Steve - Are there any questions on this resolution? Can you please mark your voting papers accordingly.

The final Resolution is a standard resolution in New Zealand public company annual meetings, relating to the Auditor's remuneration. The proposed ordinary resolution is required to authorise the Directors to fix the auditor's remuneration pursuant to section 207S of the Companies Act.

Accordingly, <u>I now move resolution 4</u>: That the Directors be authorised to fix the auditor's remuneration for the ensuing year.

Are there any questions on this resolution? Can you mark your voting papers accordingly?

That completes the formal business today. If you hold up your voting papers they will be collected now.

Thank you ladies and gentlemen - the formal results will be announced to the NZX later today upon final tallying.

Before we close the meeting today, I did want to remind you that this is the last time that Rodger Fisher will be appearing at a Tenon shareholders' meeting. Rodger has been a highly-valued member of the Board since the Company' inception and listing in 2001. He actively participated in the restructuring of Tenon in the early 2000 from largely a forest owning entity to the wood distribution and manufacturing business you see today. He also participated in the highs and lows of the US housing cycle and the Global Financial crisis, and he made an extremely valuable contribution to this Company throughout. In fairness, I should say that, over this period, Rodger hasn't always been an easy character to get along with – he can at times be quite prickly - but interestingly, that characteristic has deserted him lately, around the same time he welcomed his first grandchild into the world. And that event is the reason he is leaving Tenon – to take more time to concentrate on the thing that is most important to him – i.e. his family. Rodger, thank you for your enormous contribution over many years – this meeting and your colleagues wish you all the best for your future.

Ok – with that said, on behalf of the Board and management team I would like to thank you now for your attendance today, and also for your support over this past year – it is very much appreciated. If you are available to stay for a while now and have tea and coffee with us, we would be delighted to do so.

I now declare the Meeting formally closed.

Thank you.

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.