

# Annual Shareholders' Meeting 2010



#### **Forward-Looking Statements**

*There are forward-looking statements included in this presentation. 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. Fluctuations in industrial output, commercial and residential construction activity, changes in availability of capital, declining housing turnover and pricing, declining levels of repairs, remodelling and additions to existing homes in North America, relative exchange rates, interest rates in each market, and profitability of customers, can 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.*

## Proceedings today

- CEO address – 2010 review
- Chairman's comments
- Shareholder questions
- Resolutions
- Refreshments

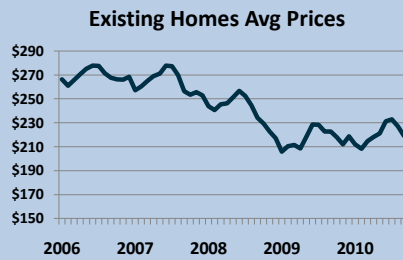
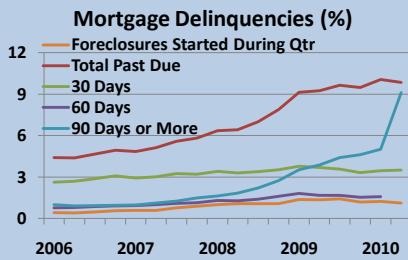
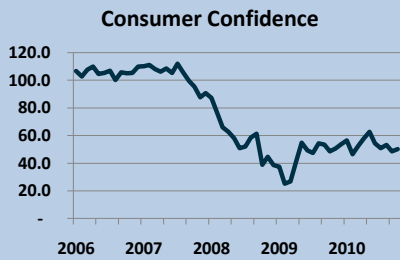
**Tom B Highley**  
Chief Executive Officer



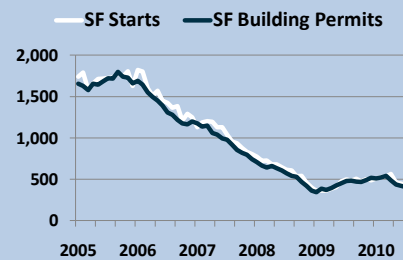
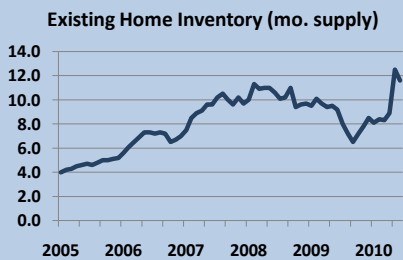
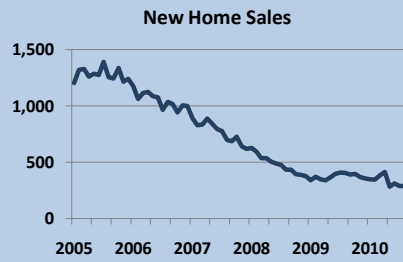
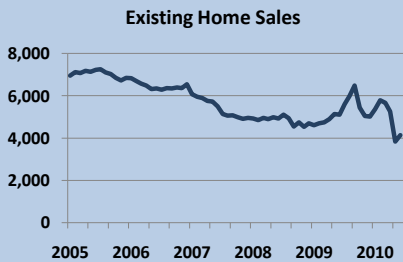
**Operating Conditions**



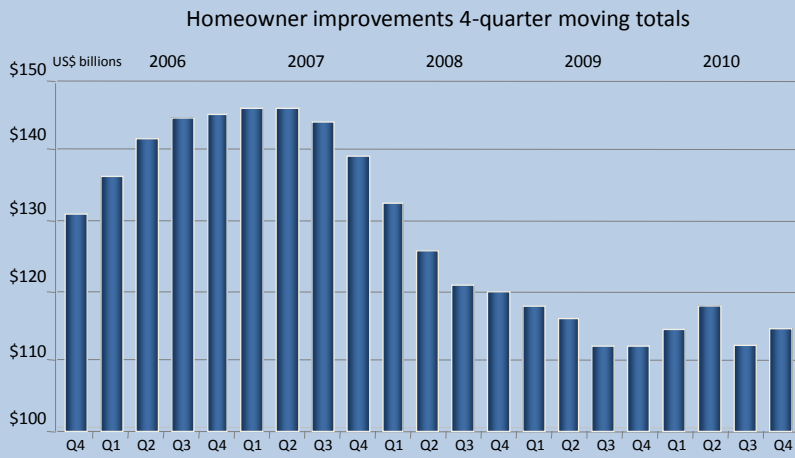
## US key economic indicators



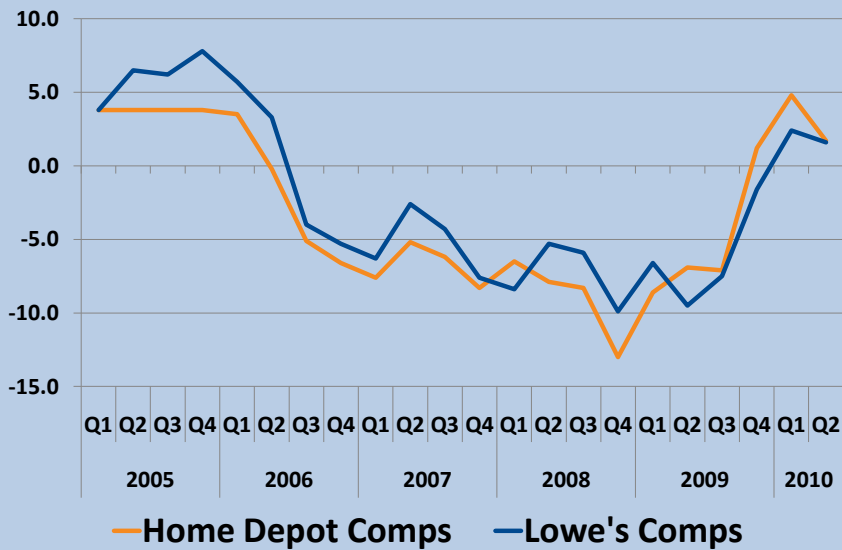
## US housing market



## Leading Indicator of Remodeling Activity (LIRA)

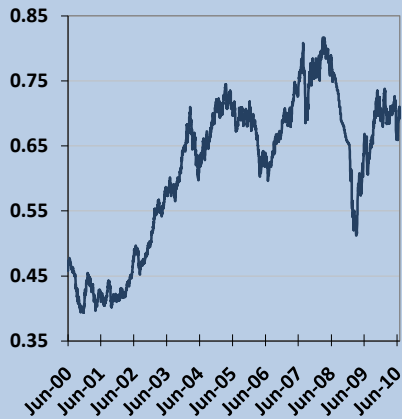


## “Big Box” same-store sales



## 2010 NZD/USD and M&B profitability

NZD/USD Exchange Rate NZD/USD



Moulding & Better Lumber Pricing US\$ mbf



## Key Financial Metrics



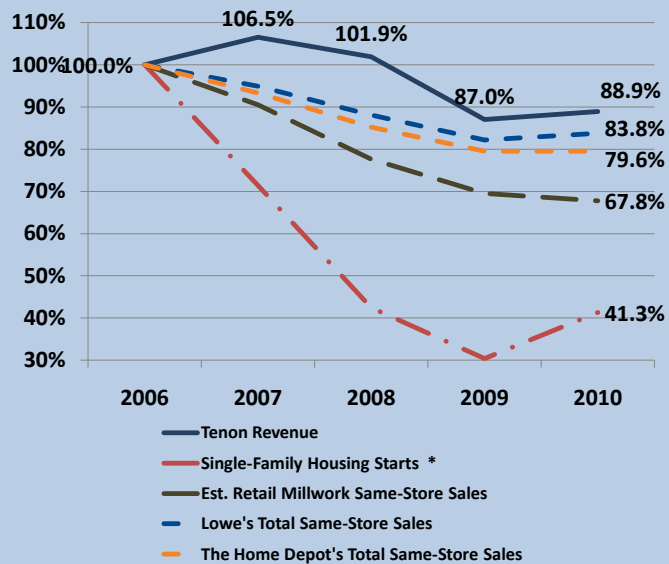
## FY2010 key financial metrics

- Revenue for the year was up 2% to \$329m
- Gross profit as a percent of sales was maintained
- Total gross margin dollars increased by 4.5%.
- EBITDA pre-restructuring costs was up 20% on the previous year, to \$12m
- \$12m of net cash from Continuing Operating Activities was generated
- Working capital levels were maintained at around \$50m, or 16% of revenues
- Interest bearing debt net of cash balances (“net debt”) declined to \$29m

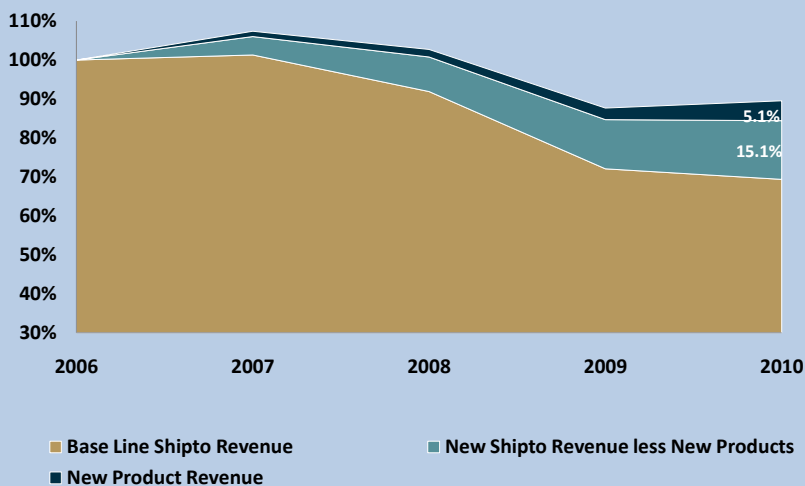
## Comparative Analysis Performance Relative to the Peak (2006)



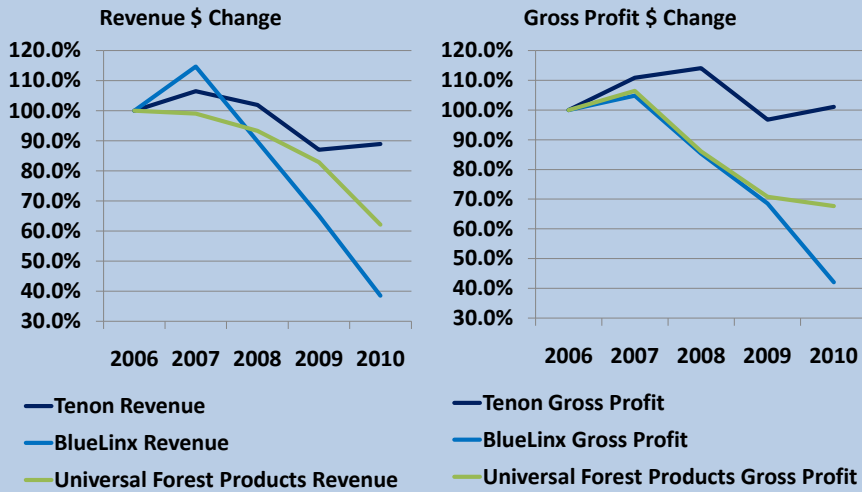
## Revenue change relative to customer comps



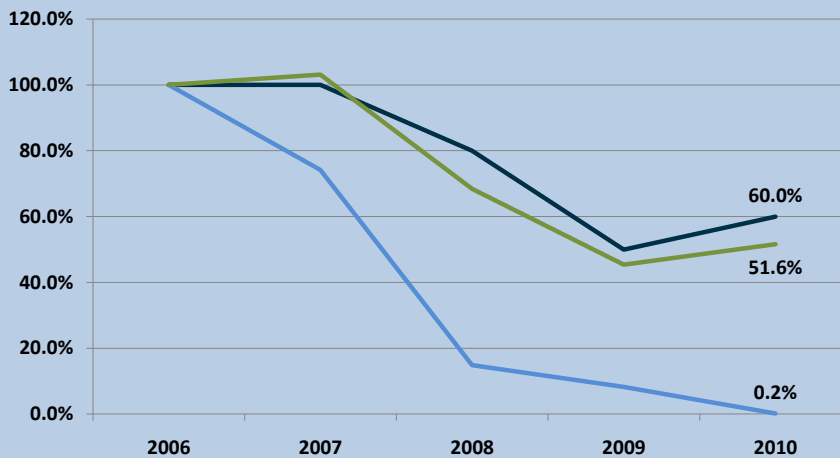
## Tenon revenue from new customer activity



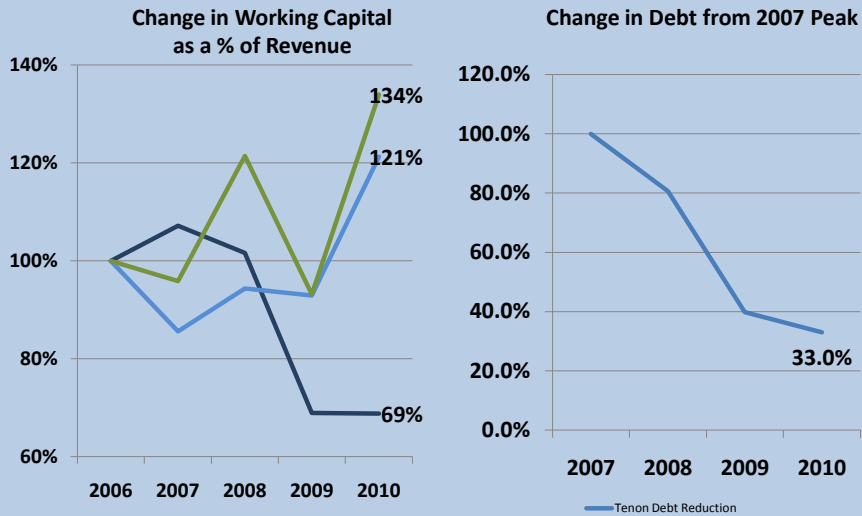
## Revenue and gross profit % of peak



## EBITDA % of peak



## Tenon change in working capital and borrowing levels



## 2010 Strategic Highlights



## 2010 strategic growth

- New customer business
- Growth products performed well in 2010

*Creative Stair Parts*™

 **Royal Mouldings**™  
Great Ideas Taking Shape.

**•FLETCHER•**  
**ARMOUR**  
**WOOD**

**FLIP**  
**FACE**™  
The one cut crown™

**OUTDOOR**  
**LIFESPAN**™  
WOOD SOLUTIONS

NATIONAL TRUST FOR  
**HISTORIC PRESERVATION**®

**RETROTREAD**®

## 2010 strategic business review

- Full strategic review completed
- Resulted in:
  - consolidation of US manufacturing activities
  - closure of distribution facility in Florida
  - closure of Kok's Woodgoods
  - reinforcement of our core operating principles
    - serving the customer and beating the opposition drives all we do
    - profitable growth comes from being different and better
    - we strive to serve our customers better than anyone else can
    - **our two primary measures of success are customer satisfaction and earnings**

## The future

- Business restructuring put in place
  - Industry leadership position has been created
  - Core Operating Principles applied to everything we do
- ⇒ Will ensure Tenon's future success

**Thank you!**



**Luke Moriarty**  
Chairman

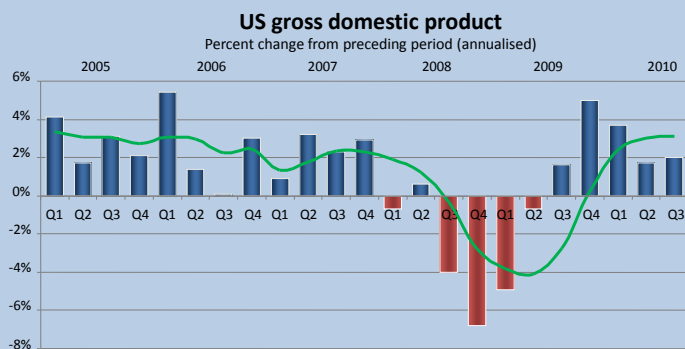


## Chairman's comments

- Operating and earnings environment for fiscal 2011
- Outlook beyond this period
- Share price performance
- Dividends and distributions

## Fiscal 2011 operating environment

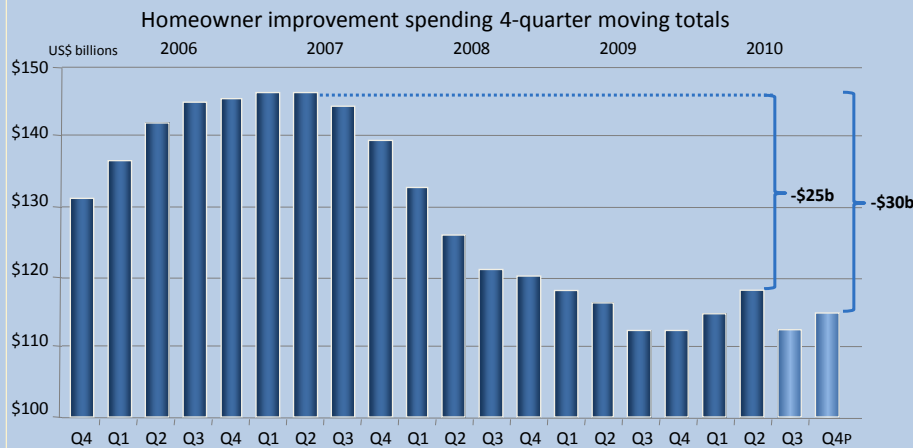
- US economy showing signs of recovery ...



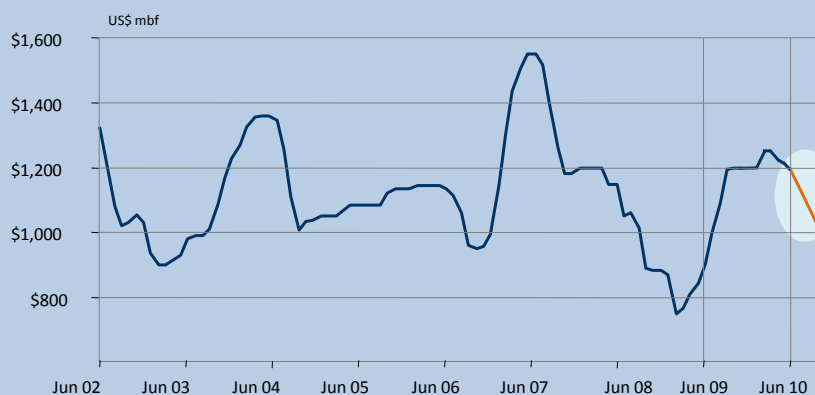
- But fundamental US macro-economic concerns still remain today
  - High unemployment
  - Mortgage delinquencies
  - Home foreclosures
  - Home sales and prices

## Current six month period to December 2010

- More difficult conditions than prevailed in either of:
  - Six months to Dec '09
  - Six months to June '10
- Key drivers much tougher now

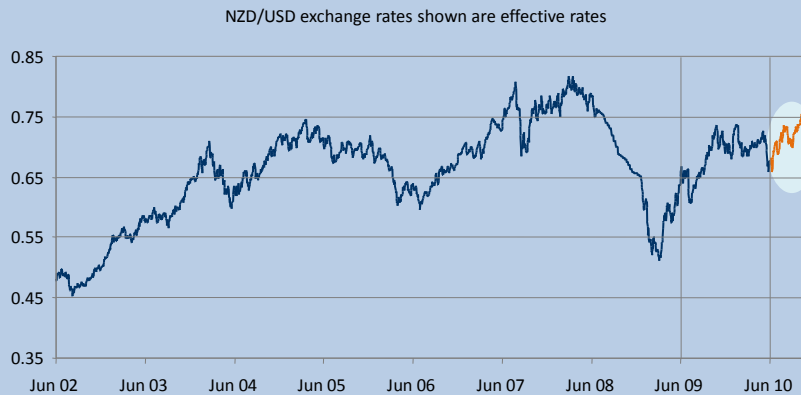


## Moulding & better lumber pricing



- Price ↓ 15%+ since June
- Impact = US\$3m ↓ annualised earnings

## NZD/USD exchange rate



- Impact = US\$5m ↓ annualised earnings
- FX hedging policy has protected us by US\$1m to date

## Fiscal 2011 earnings

⇒ Extremely difficult to forecast fiscal 2011 earnings

- No-one in sector providing earnings guidance
- We won't break the trend today
- Will update you as the year progresses and "visibility" improves

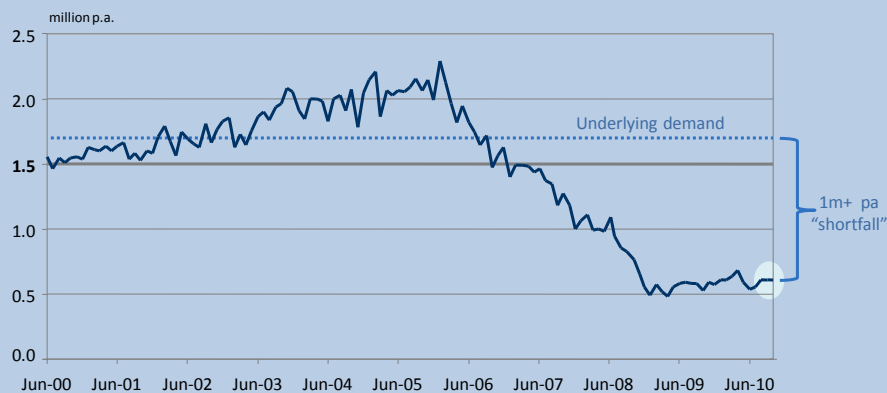


## Looking beyond December 2010

- Positive long-term housing fundamentals
  - US housing affordability at 40-year highs
  - US new home inventories at 40-year lows
  - US mortgage rates at 40-year lows
  - Robust population growth in line with long-term trends
  - Housing starts per head of population at 50 year lows
  - An aging US housing stock, with  $\frac{2}{3}$  at least 25 years +
  - US housing activity well below underlying long-term demand

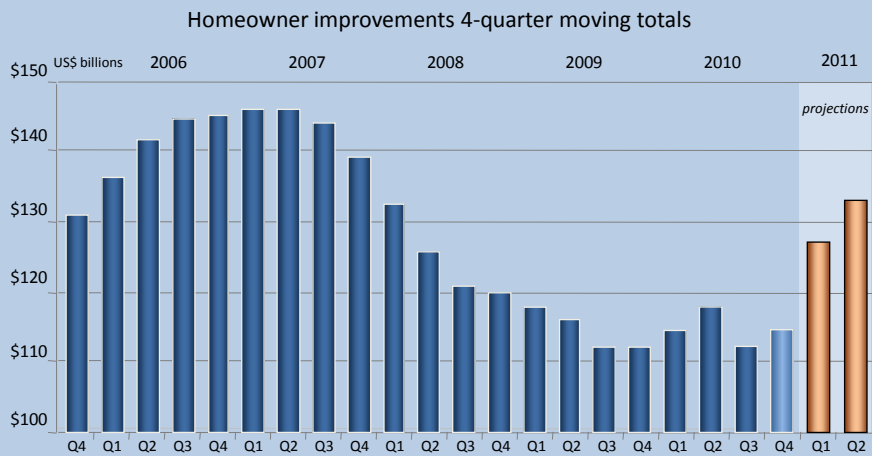


## New housing construction



⇒ Currently 1 million + new home construction **shortfall** on long-term demand level

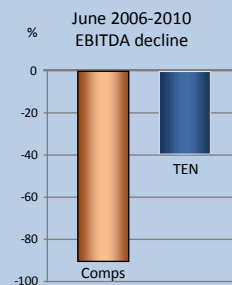
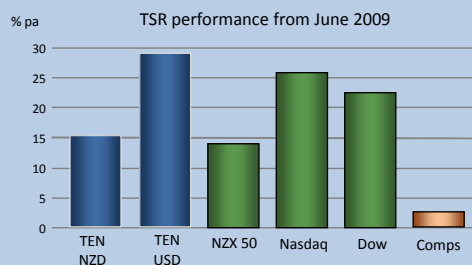
## Leading Indicator of Remodelling Activity (LIRA)



- Recovery in home remodelling spending will drive Tenon's future earnings growth

## Share price performance

- Unprecedented US housing market downturn and global credit crisis
  - Has impacted all share prices in our sector
  - Extremely tough time for all shareholders in this industry
  - Our share price is well off its peak 3-4 years ago
  - ... But so is everyone else's
  - Macro-environment constrains and largely dictates absolute performance
  - ... But we can ensure we outperform others in our sector
  - Relative performance puts us at the head of the pack



## Future share price performance

- Share price growth will be determined by future earnings performance
- We are well placed ...
  - Business restructuring in place
  - Balance sheet de-leveraging programme
  - Strong organic growth achieved over past 3 years
- These gains have been “masked” by extent of housing downturn

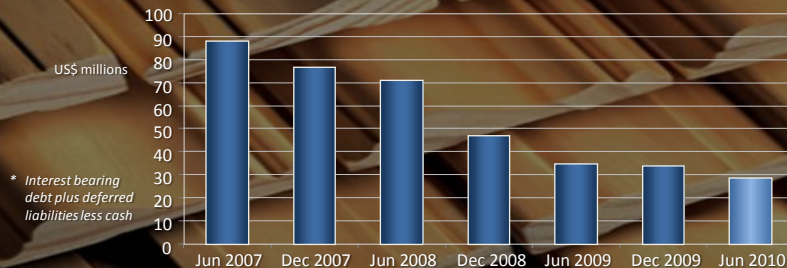


## Benefits of restructuring

- Full-service distribution now services 50% more stores than at cycle peak
  - Entry into outdoor segment initiated
    - 10x the size of our traditional interior mouldings and millwork market
    - Progressing to the next level of this technology
  - Extended reach of our wholesale activities
    - Grown our position in a “down market”
  - Balance sheet debt reduced to less than 1/3 of its peak
  - Have maintained gross margin % at peak cycle margin levels
- ⇒ Tenon's leadership position has been extended during down-cycle
- Require a pick-up in demand to show leverage to cycle upside
  - When this one “uncontrollable” moves in our favour ...
    - Volumes ↑
    - Earnings ↑
    - Share price performance ↑

## Dividends and distributions

- Unprecedented and “brutal” operating environment past 3+ years  
⇒ Unable to make dividend payments through this period
- Focus in this environment has been on:
  - Meeting all our debt covenants
  - Reducing debt\* as quickly as possible
  - Better positioning Tenon for stronger earnings performance in cycle up-swing



- Ensuring we do not need to ask shareholders for new capital
- Non-payment of dividend was essential to meeting these goals
- Unquestionably the correct approach given uncertain conditions  
⇒ In a far better position to reconsider this question in 2011

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## Board composition

- Future composition
  - Critical to have retained existing Board knowledge during down-cycle
  - Plan to “rejuvenate” Board composition
  - Do intend to make US-based director appointment in calendar 2011
  - All appointments will require subsequent shareholder approval
  - Shareholders will be updated on progress
- Today only addressing re-election of existing Directors
  - 5-person Board – majority (3) Independent directors
  - Chair of Audit Committee – Independent
  - Chair of Remuneration Committee – Independent
- Nominations Committee supports resolutions 1a and 1b

## Tenon



## Formal resolutions

### **Resolution 1a**

Michael John Andrews retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election

### **Resolution 1b**

Rodger Herbert Fisher retires by rotation in accordance with the Constitution and, being eligible, offers himself for re-election

### **Resolution 2**

To authorise the directors of the Company to fix the auditor's remuneration for the ensuing year