

## Tenon Annual Shareholders' Meeting – Thursday 14 December 2011

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### Luke Moriarty – Chairman's address

So, as Tony has outlined, Tenon is now in strong strategic shape – a result of activity that has encompassed -

- **Acquisitive growth**, which saw the purchases of the leading millwork distribution operator in the large Texas market - Southwest Mouldings - and in Ornamental, a leading position in the Canadian and US decorative mouldings markets
- Strong **organic growth**, which, amongst other metrics has seen -
  - Our full-service retail activities now reach 40% more stores than they did in the previous cycle peak in 2006
  - The launch of a portfolio of new innovative products, which now account for almost 20% of our current distribution revenue dollars – and this figure does not of course include the next stage of our outdoor program which Tony has just mentioned
  - Initial growth outside of our core North American markets – into China, which now represents 15% of sales out of our large clearwood manufacturing site in Taupo
- Aggressive **debt reduction**, which has seen us repay USD55 million in debt - to get us down to our targeted mid-USD30 million level;
- And (of course) **operational improvement** – which has reduced costs by USD20 million per annum across the business, whilst at the same time improving total operational performance.

And the successful implementation of all these initiatives has been reflected in Tenon's superior relative performance throughout the current down-cycle. So, for example, against its peer group Tenon has displayed the strongest revenue and gross margin performance, and it has (currency adjusted) been the only one to outperform the S&P 500 over the past three years – i.e. the period over which the housing down-turn has had its deepest effect.

While our earnings in the short-term are likely to continue to be held hostage to poor US macro-housing conditions and low industry demand, it is obvious that when the 'dust finally settles, there are some strong positive fundamentals that will support a long-term recovery in the US housing market – which in turn will drive a much higher earnings performance. These fundamentals include:-

- Housing affordability at 40-year highs
- New home inventories at 40-year lows
- Mortgage rates at 40-year lows
- Robust population growth in line with long-term trends
- Housing starts per head of population at 60-year lows
- An aging housing stock, with the median house age greater than 35 years, and
- New construction activity at well below underlying long-term demand of 1.6-1.7 million homes.

So, although some “market-clearing” activity must occur first, we should be confident that the recovery will happen.

Now, while this will be great when it occurs, we are not going to be just sitting around waiting for this cyclical recovery to present itself ... so, as Tony outlined, the next phase of Tenon’ strategy will be to build value by: –

- Growing new businesses outside of the core North American market – into Australia, New Zealand, China and Japan, where beach-head projects are already underway; and by
- Participating in industry restructuring and consolidation activity - in the US and here in NZ

Clearly, the Company’s strategic positioning puts us in excellent shape to participate in industry consolidation, and we are now hopeful that this activity will at last begin to crystallise in Tenon’s segment. Tenon can and should play a key role, with –

- An industry leading position entrenched
- Strong customer and channel relationships in place
- ‘Best in class’ service capabilities established, and
- Long-term debt funding secured for another 5 years

Although we cannot unilaterally control the timing of these deals, we do intend to see Tenon fully participate in them as they arise. If well-executed, such activity has the potential to be significantly value creating at this point in the cycle, by offering a welcome **nearer-term** value lift. Tenon’s **longer-term** value uplift is, of course, already very much ‘programmed in’ - a result of the organic growth initiatives that have been put in place over the past 5 years.

Thank you.

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

*There are statements in this document that are “forward-looking statements”. As these 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.*