CEO's address

Good morning ladies and gentlemen.

Let me begin today with a discussion of **Tenon.**

And the short summary here, is that it was a good year for Tenon. So, …

⇒ We significantly improved Tenon's **financial performance**. This time last year we said our immediate financial target was to double Tenon's EBITDA for 2014, as compared with the prior year. This goal was achieved, with Tenon exceeding market guidance by reporting a US$11 million EBITDA[1] result for the year - up 120% on the prior year.

⇒ We strengthened Tenon's **balance sheet funding,** by putting in place a new 5-year US$70 million debt facility with continued participation by two of our existing syndicate banks, including the BNZ here in New Zealand. As this facility offers 30% greater debt capacity than Tenon had under its previous facility, it will allow Tenon to advance through the cyclical recovery on a much stronger financial footing.

⇒ We improved Tenon's **strategic positioning** by expanding its Australasian strategy with the announcement of a new business relationship in Australia with the Masters Home Improvement chain. Masters is a new JV between Lowe's and Woolworths. The agreement will see Tenon apply its North American 'best-in-class' service model, to supply and service a full range of moulding and millwork products to all of Masters' current and future stores. Masters currently has 50 large-format home centre stores across Australia, and an aspiration to grow by 10-15 stores per annum over the next several years. Behind me is a photo of the mouldings and boards aisles in the Hawthorn East store in Melbourne, serviced by Tenon.

⇒ **Two large capital projects** at Tenon's large clear-wood manufacturing operation at Taupo were announced – both new technology optimisation upgrades. The main project is designed to maximise the amount of clearwood we can recover from a given log. This increased recovery will allow Taupo to increase the volume of high-value boards and mouldings that it can produce, from the same volume of log into the sawmill – thereby increasing revenue with no increase in fibre cost.

When these two capital projects are completed by the end of next year, they are expected to add some US$3-US$3.5 million[2] in EBITDA per annum to the New Zealand operations, for a one-time capital spend of only US$7 million. We are obviously very pleased that the balance sheet and cash-flow position of Tenon now allows us to proceed with these two positive value-adding projects.

⇒ A complete **operational review** of the 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 that has been reported, combined with the announcement of the two capital and operational review projects I have just mentioned, have begun to be reflected in the Tenon 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 are 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 you can see, 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 obviously considerable earnings upside to come before the company reaches <u>anywhere near</u> mid-cycle new home construction conditions.

And of course this chart only refers to the <u>new housing market</u> – Tenon has equal exposure to the <u>D-I-Y retail market</u>. This 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, Tenon is continuing along the path of –

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

All of these initiatives, together with the gains that fall directly to the bottom line as the company leverages its fixed cost distribution platform with greater volume (as the cycle recovers), have allowed Tenon to upgrade its mid-cycle EBITDA[1] guidance[3] to US$45 million per annum.

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 Tenon also took the opportunity to –

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

⇨ In the retail market, Tenon 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 the agenda.

We will update you on developments as they unfold.

Let’s turn now to **ArborGen.**

As you know, ArborGen is all about driving a ‘step-change’ in global forestry productivity, by significantly lifting the quality of genetics embedded inside the seedlings being planted. Such a step change has been achieved before, in agriculture.

This chart (which we have shown in our Annual Report before) shows, by way of example, the significant yield gains that have been achieved in corn through the adoption of advanced genetics. By way of comparison, the current stage of US pine seedling genetics being planted today would be only around here on this chart … and we believe the forestry market will proceed along a similar path, although to a much quicker time scale than this corn example. As you can see, the potential is large.

So how is ArborGen faring with this opportunity?

The most relevant measures of progress here is the **rate of conversion of ArborGen’s existing customers to its higher value genetic products.**

In this respect, an aspirational goal was set at the beginning of the year, of increasing US advanced genetics sales by up to 50% over 2013 levels. Pleasingly, this aggressive target was met and exceeded, with advanced genetics sales increasing 55% year-on-year. 45 million MCP and varietal seedlings were sold in the US in 2014, which is almost 3 times the number sold only two years earlier. ArborGen has also increased the proportion of its total sales in advanced genetics - up from 8% of all loblolly pine volumes sold in the US in 2012, to 14% in 2013, and to 21% in 2014. Including pine sales in New Zealand, the total sales volumes of advanced genetics pine increased to almost 25% of the total volumes sold.

And because of the higher proportion of total sales in advanced versus traditional genetics, the average selling price (another key metric) increased 15% year-on-year in the US.

So it’s fair to say that ArborGen remained on track in terms of increasing its sales of higher genetic products.

Other initiatives put in place during the year included –

⇒ The **acquisition of the Edendale** operation in the South Island, which further strengthens ArborGen’s New Zealand position. This gives ArborGen the opportunity to supply its advanced genetic products to Edendale’s existing customers, who are currently purchasing around 5 million seedlings per annum.

⇒ ArborGen continued its international **expansion into Brazil**. South America has a vibrant forestry market. Around a billion eucalyptus and loblolly pine trees are planted there each year, with the lion’s share being planted in Brazil.

Brazil is a key target market for ArborGen's GE eucalyptus products, and ArborGen has had a science and commercial team there for over a decade. As a precursor to the introduction of GE products there, ArborGen has now begun the production and sale of (non-GE) eucalyptus seedlings, with the intention of selling 5-10 million varietals within the first 24 months of operation. Although the initiation of production has lagged the original timeline set, the initial unit sales goal remains unchanged, and ArborGen's order book for the current year is sold out. A further announcement on this is anticipated in the first half of next year.

⇒ ArborGen has put in place a range of initiatives in order to **increase its supply of advanced products in the US and to lower production costs.** While ArborGen forecasts that it will have sufficient advanced product supply to meet demand long-term, in the immediate next few years that may not be the case … with market demand likely outstripping ArborGen's ability to supply.

While this is better than it being the other way around, quite clearly the preferred position is that ArborGen be in a position to meet the market volumes demanded of it. So, in order to expand supply, ArborGen is also currently trialling a technology-blend, of traditional propagation and production methods with ArborGen's advanced biotechnology techniques.

⇒ ArborGen has **advanced the application of genomics** in its product development process. The intention is to use genomics technology in combination with ArborGen's bioinformatics platform and extensive genetic library, to ultimately select genetic crosses without the need for <u>many</u> years of trials in the field to determine the best performers.

To test the power of this genomics technology, this past year ArborGen took the <u>known outcomes</u> from its existing trial data, of more than 350 lobllolly pine varietals, and compared them with what the combined genomics & bioinformatics model <u>predicted</u> would occur. The model output not only showed a very strong correlation between predicted and actual outcomes, **but it also precisely determined which would be <u>the</u> top performer.** This is an exciting development tool for ArborGen, with huge potential.

⇒ **New sales targets have been set for <u>2015</u>** – they are to increase last year's 265 million total seedling sales volume by 10%, and ta goal to lift revenue year-on-year by 15-20%.

⇒ These targets will be supported by an increase in **longer-term sales contracts** which are now being put in place. In this respect, ArborGen is aiming to achieve long-term customer contracts that represent some <u>30%</u> of the current year's loblolly pine volumes sold in the US. These contracts - which address future price, volume, and stock type, by customer - are strongly supportive of the continued uptake of ArborGen's advanced genetics.

⇒ ArborGen is maintaining its focus on moving the company to an **EBITDA positive** 'run rate' (inclusive of the expensing of all research and development costs) by the end of calendar '15 (or shortly thereafter). Achieving this will require industry harvesting and replanting levels to increase in line with a recovering US housing market, and also for the company to meet its initial production plan in Brazil.

While all of the initiatives I have just spoken to are central to increasing the financial performance of ArborGen, they are also fundamental to obtaining full value in an IPO. The basic requirement in that respect is quite simple – **for ArborGen to continue to execute against its existing business plan.**

For ArborGen's **core business**, the objectives are to -

- ⇒ Expand unit sales volumes
- ⇒ Lift the adoption rate, and increase the 'y-o-y' sales, of higher value genetics products
- ⇒ Raise the ASP (average selling price per unit)
- ⇒ Increase the % of sales that are 'locked in' under long-term customer sales contracts
- ⇒ Lower unit production costs
- ⇒ … and Expand the internal supply of advanced products

And for ArborGen's **growth opportunities** -

- ⇒ Execute the eucalyptus varietal roll-out in Brazil
- ⇒ Extend into Brazil pine elite seedlings and varietals
- ⇒ Follow-up with GE products
- ⇒ engage in market expansion opportunities in existing markets
- ⇒ … and initiate a 'toe in the water' in China

Of course, these lists all require funding – to meet working capital needs as the business continues to grow, to expand production base to meet increased demand, and to access acquisition opportunities where the strategic benefit is compelling.

As you know, our preferred capital raising path for ArborGen remains an IPO. Rather than this being the defining value event for the company, we see it more as a liquidity and financing event, which would raise the external capital needed for ArborGen to meet its full potential. Greater value recognition would then be expected to occur over time – as growth is realised and as fuller public market disclosures are made by ArborGen directly.

Of course, there is an important trade-off involved here, as we must balance the obvious desire to achieve appropriate value in an IPO with the need to raise capital to fund the company's future growth needs. There can be timing issues that can mean these two goals do not necessarily drive the same outcome. So a critical balancing exercise is required here for shareholders.

Having said that, **our fundamental goal remains to see an IPO of ArborGen occur.**

Ladies and gentlemen - I'm going to stop at this point, and hand the meeting back to Hugh, who will pick up from where I have just left off. After Hugh has made his comments we can deal with questions that we know you will have on this and other topics.

Thank you.

Footnotes -

[1] We use 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. In Tenon's case, it can be derived from its Consolidated Income Statement (Refer Tenon 2014 Annual Report) by taking Tenon's 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 NZD:USD cross rate of 70 cents, housing starts of 1.65 million, retail unit comps of 5% pa, and historic operating margins.

[4] There are statements in this presentation 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 Rubicon, and our Tenon and ArborGen investments, some of which are beyond our control. As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. Tenon's risks and uncertainties include - that its 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, foreign exchange changes, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repair and 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. ArborGen's risks and uncertainties include (in addition to those of Tenon) - the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, customer adoption of advanced seedling products, the success of ArborGen's research and development activities, weather conditions and biological matters. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.