Rubicon Annual Shareholders' Meeting – 5 December 2013

Luke Moriarty – CEO's address

Good morning ladies and gentlemen.

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

In short, fiscal 2013 was a recovery year for Tenon. In macro-terms, it became clear during the year, that the US housing market – which represents more than 90% of Tenon's revenue base – had begun the early stages of a full recovery. You can see this if we compare 2013 with 2012, for new home construction data, where –

- ⇨ US housing starts increased more than 25% year-on-year
- ⇨ Construction permits rose 17%
- ⇨ Sales of new homes increased 26%, and prices were up 11%
- ⇨ New home inventory fell to only 4.3 months of supply
- ⇨ And home builder confidence reached levels not seen since 2006 (as this next chart shows)

And a similarly positive story for existing homes also prevailed –

- ⇨ Home prices were up 12%, year-on-year
- ⇨ Sales volume increased 15%
- ⇨ Inventory of existing homes for sale fell to 5 months of supply (where 6 months represents a balanced market)
- ⇨ And the pending sales index ended the year 11% higher than it started

Although still very early in the cycle recovery, this lift in activity began to show through in Tenon's financial results in 2013, with –

- ⇨ Revenue, at US$364 million, being US$30 million up on the prior year
- ⇨ Revenue from Tenon's new home builder customers in the US was up 25%
- ⇨ Net Earnings were in line with market guidance previously provided
- ⇨ And the most commonly cited comparable company earnings figure - EBITDA[1] (i.e. operating earnings before depreciation, interest and tax) - improved from a loss of US$3 million (including restructuring costs) to a profit of US$5 million

This initial phase of the US housing recovery has given Tenon the confidence to target a doubling of its 2013 EBITDA in the current fiscal 2014 year. And yesterday Tenon announced that it is well on the way to achieving this goal - expecting its **first six months** EBITDA result for fiscal 2014 to equal the EBITDA it recorded for the **full 12 months** period in fiscal 2013.

Of course, this is only the beginning for Tenon, as the market recovery has a long way to go yet. To this point, this slide shows the historical path of <u>new house construction</u> in the US, and the considerable gap that exists from today's activity level to what is generally considered to be mid-cycle.

And this chart only refers to the <u>new</u> housing market – Tenon's larger exposure is actually to the <u>DIY market</u>. And this segment has only just begun to turn positive in terms of retail store comps, so the future upside to Tenon there is considerable.

If you are wondering the extent to which Tenon can participate in the US housing recovery, 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 this 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, 142,000 new homes have been permitted in the State of Texas over the past 12 months, which is more than <u>7 times</u> the total number of new house permits issued in all of New Zealand over the same period. And the Texas market is just one example of the opportunity for Tenon in the large, recovering US market.

As the map shows, Tenon is well-positioned for the recovery. In addition to establishing this in-market positioning, Tenon has been actively working to a well-established growth model, as shown in this graphic. During the down-cycle the Company has taken 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. Tenon now supplies into the leading pro-builder chains in the regions in which it operates
- ⇨ In the retail market, Tenon now full-services 750 Lowe's stores - 35% more than it did when it entered the last cycle, and it has 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 its distribution revenues in the US now comes from products that it did not have in the last cycle
- ⇨ This year, Tenon also put in place a new US$70 million syndicated bank facility, which will provide it the necessary working capital funding needed to take full advantage of the recovering market. This 5-year facility does not expire until September 2018.

While to date, the gains made from these initiatives have been "masked" by the extent of the market downturn that has occurred … they will become obvious as the market progresses towards a mid-cycle recovery path. In this regard, Tenon believes that mid-cycle EBITDA of more than US$40 million is achievable (at a NZ:US exchange rate of 70 cents, and at historic margin levels).

Some of this earnings promise has been reflected in the recent Tenon share price, which as you can see from this chart, has more than doubled off its low at the beginning of the year. If we index this share price data, and extend it up to today, then it looks like this. And if we then compare Tenon's performance with an index of other players in the US home building sector, you can see Tenon has out-performed the pack. This is obviously very pleasing.

However, despite this performance we still do believe that the current Tenon share price is still below fair value for the company at this point in the cyclical recovery … particularly based on market comparables and equity analyst reports, which put it at well in excess of NZ$2.00 per share on a trading basis, compared with its current share price of NZ$1.45 per share. Yesterday, Tenon announced three initiatives to address this value-gap – a shareholder plan and share buyback to address liquidity in small trading volumes; a stated intention to deliver cash returns to shareholders beginning in calendar 2014 (assuming the market, and Tenon's earnings, recover in line with Tenon's internal forecasts); and the investigation of ways to increase Tenon's exposure to the US equity market, including assessing the merits of a dual NZ-US listing in order to generate further interest in the stock.

This subject is obviously very important to Rubicon shareholders, as any increment in Tenon's share price should flow directly through to the Rubicon share price. We are confident that the current value upside gap can be closed, and further Tenon share price momentum achieved. We will be reporting to you on progress with this objective next year.

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 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 opportunity is large.

So how is ArborGen faring in its goal?

This chart, which was included in shareholders' Annual Review document, shows where ArborGen is heading to with its (non-GE) loblolly pine genetics in the large US market. As you can see, the company is only now beginning to enter the dark green "wedge" of higher value genetics, and this in turn is only now beginning to be reflected in ArborGen's financials.

In this respect, a review of fiscal 2013 shows –

- ⇨ ArborGen sold 273 million seedlings in its core US and Australasian markets – up (approx) 10% on 2012
- ⇨ Revenue increased (approx) 14%, to US$30 million
- ⇨ And ArborGen's Commercial Sales Operations reported profit before taxation of US$8 million
- ⇨ Sales of advanced loblolly pine volumes in the US increased by more than 80% …
- ⇨ With 29 million MCP and varietal pine seedlings sold, representing just under 14% of the total. This compare favourably with 2012 figures of 16 million and 8% respectively

So, ArborGen is firmly on track to meet its objectives in its core US market, and <u>for 2014, an aspirational target of increasing US advanced pine seedlings by **50%** over 2013 levels, has now been set.</u>

Of course, in order to achieve these projected sales, ArborGen needs to be appropriately resourced. In this regard, every aspect of the required sales effort has now either been built or revamped - from the way product development generates and organises data to support the sales efforts, through to the preparation of the collateral material and value analysis required to address the market opportunity. In the last year, three key sales and marketing executives were added, who jointly have over 50 years of forestry experience in product development, wood quality, and reforestation. Richard Eisenstadt has been appointed as ArborGen's new CFO. Richard has more than 30 years in life sciences and emerging technologies, and importantly, has prior IPO experience in the US market. And finally, to ensure ArborGen has the working capital needed to access market opportunities, both its NZ and US bank lines, totalling US$30 million, have been extended out to the second half of calendar 2015.

During the year, ArborGen completed a comprehensive review of its science programme, and I would like to take a few minutes now to explain the outcomes, by using our loblolly pine example one more time.

Open pollinated seedlings, OP, represent the industry standard, and in terms of value per acre we can set that at 1x in this chart. Mass control pollinated seedlings, or "MCP" as we usually refer to it, can deliver twice the per acre value that OP seedlings do. And Varietals can deliver 3x the value per acre. Genetically engineered products, or "GE" for short, will be several steps higher again in their value increment.

Each of these three variants shaded in the darker green in this diagram, employs advanced biotechnology in some form or another – whether it be the DNA engineering that is involved in producing GE products, the somatic embryogenesis process used to identically multiply many millions of Varietals, or the cryopreservation chambers that store the genetic tissue used in ArborGen's MCP seedlings.

While each of these three categories is derived through the application of biotechnology techniques, it is only the GE products that require regulatory approval. In contrast, MCP and Varietal products can go to market as soon as they are customer-ready, as they do not require approval from any regulatory authority. This is a significant advantage in terms of the reduced time and cost it takes to introduce successive generations of new genetics.

What the science review carried out this past year concluded is that, through the application of dramatically more powerful computing technology and advanced genomic selection processes now available, to ArborGen's bioinformatics database, advanced breeding data can be generated with much greater accuracy and certainty than ever before. The net effect of this is, that in future, ArborGen will be able to increase the value of its MCP and Varietal offerings even further, through better matching of parental genetics, whilst largely eliminating the need for extensive trials in order to prove that value to its customers.

As the genetic value of these non-regulated biotech products increases, the gap to GE products will narrow. Or as shown in this chart, MCP and Varietals will move up in value, and nearer in time – closing the genetic value gap to GE products.

So, in the future, you can expect to see ArborGen expend a relatively greater share of its resources – people and dollars – on these two product categories. The acquisition (18 months ago) and integration of CellFor's varietal technology is a good example of this. GE products will be limited to those truly blockbuster traits where the targeted outcome cannot be achieved another way, and where the end-value of the product justifies the time, cost, and regulatory approvals required. Regardless, advanced biotechnology will continue to play a central role in all of ArborGen's advanced product development moving forward.

I have shown you this next chart before – it outlines the waterfall of opportunities and value for ArborGen. Today we have only talked about this one circled bar, loblolly pine in the US. Before I finish, I would like to touch on one more – Brazil.

Brazil has a vibrant forestry market. More than 800 million eucalyptus and 100 million loblolly pine trees are planted there each year, the vast majority as plantation forests. It is a key target market for ArborGen's GE eucalyptus products, and ArborGen has active product development relationships with the leading forestry players there. Next year, will be ArborGen's first year of seedling production and sales in Brazil – a move well ahead of schedule. Over the next 24 months ArborGen intends to manufacture and sell 5-10 million eucalyptus varietals in Brazil – and then to expand vigorously once this initial position is proven. ArborGen also has plans, well-advanced, to take its industry-leading US pine position into Brazil – something we hope to be able to announce to you in much greater detail next year.

(ArborGen's fiscal) 2014 will be a critical year – a year where inclusive of all R&D expenditure on the development of its future products, ArborGen is targeting to turn EBITDA positive. A year, where it has set itself the aspirational target of increasing its advanced product sales in the US by up to 50%, and a year where it will commence seedling production and sales in the large step-out market of Brazil. At the same time, entry into Europe is being actively evaluated, as is further expansion in the Australasian market. It will be a very busy year.

Finally today, my usual concluding remarks on value.

And I really can't say it any other way – the current Rubicon share price is a poor reflection of the long term value of our underlying investments. You need only look at the Edison analyst report issued in September, which places a mid-point trading value of NZ$2.30 per share on Tenon, and a much higher price in a change of control transaction. This compares with Tenon's current share price of NZ$1.45 today. Edison placed a US$660 million value on ArborGen – US$360 million for the Core business and another US$300 million for growth opportunities. This compares with the US$285 million ArborGen trades at in the Rubicon share price today.

One of the reasons for this value-gap is the illiquidity of Rubicon shares. Our top 5 holders (plus Board and management) own around 80% of our issued shares – and they generally do not trade their shares because they believe in Rubicon's future value. This means that the company's "free float" is extremely small.

Another reason, is that the market is waiting for "events" to occur to support the underlying value that we see. This is extremely frustrating, as we don't, for example, feel the need to sell Tenon just to prove to the market its value – we know what it is worth. **However, where value events do align with our strategy for the underlying business, then that is a different matter. An IPO of ArborGen is a good example of this.**

… And this is probably an appropriate time for me to hand back to my Chairman to discuss that topic further with you.

Thank you very much.

FORWARD-LOOKING STATEMENTS

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 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 conditions may differ materially from those expressed or implied by such statements.

NON-GAAP MEASURES

[1] EBITDA stands for Earnings before Interest, Tax, and Depreciation and Amortisations. EBITDA is a non-GAAP measure, not recognised within IFRS. As it is not uniformly defined or utilized this measure may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with IFRS.

Tenon and Rubicon use EBITDA when discussing Tenon's financial performance because we / they believe the measure provides useful comparative earnings information and because it is used internally to evaluate performance. EBITDA is also a widely used earnings measure used in the investment community, particularly by equity analysts when focusing on comparable company performance, as the measure removes distortions caused by differences in asset age and depreciation policies. For fiscal 2013, Tenon's EBITDA reconciliation to its IFRS reported earnings measure of Net Profit / (Loss) after Taxation was as follows -
Net Profit / (Loss) after taxation of US$(3) million – income taxation benefit of US$ nil + Financing costs of US$4 million + depreciation and amortisations of US$4 million = EBITDA US$5 million.