Tenon Annual Shareholders' Meeting – 4th December 2013

Luke Moriarty – Chairman's address

Ladies and gentlemen, I would now like to take just a few minutes to comment on two other items, which I know will be of interest to you -

- Our earnings outlook for fiscal 2014
- And, our share price performance

In term of earnings, I am happy to report to you today, that barring any unforeseen events, our EBITDA for the first six months of fiscal'14 will **equal** the EBITDA figure we reported for the entire 12 months of fiscal '13.

This is very positive news - we are off to a strong start to the new fiscal year.

And our share price performance over the past 12-18 month has been tracking to a similarly positive path. As this chart shows, the Tenon share price more than doubled over fiscal 2013, off its low at the beginning of the year. If we index this performance, 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 that we have out-performed the pack. This is obviously very pleasing, given the tough industry conditions we have been operating in up until now.

However, despite this positive share price improvement, we are still trading on a lower earnings multiple than US-based companies operating in the same space that we do. This is clearly illustrated by an Edison equity analyst report released only two months ago, which (based on comparables) put the mid-point trading value of Tenon at well in excess of $2.00 per share – i.e. more than 50% higher than our current share price.

As our earnings outlook shows, we are travelling very well, and as Tony explained, our people are doing all that can be done to drive performance and take advantage of the more favourable trading conditions now emerging. So, why do we have a share price value gap today? We believe the reasons are threefold.

First, there is very limited liquidity in Tenon shares, because more than 80% of the share register is owned by three investors who do not trade their Tenon positions – presumably because they see far greater value than is represented in today's share price. This means that the free float of the company is much smaller than would normally be the case, and as a consequence, the Tenon share price can move on very small daily retail trades. To help address this, and to provide liquidity to small shareholders, we are announcing today the Tenon 2,000 Share Plan. This Plan, which will be supported by a small share buyback programme, will offer shareholders with less than 2,000 Tenon shares, the brokerage-free opportunity, to buy additional shares up to that 2,000 shareholding level, and shareholders owning less than 500 shares will be able to sell their shareholding brokerage free should they wish to do so. Shareholders will receive documentation on the details of this Share Plan later this week.

The second reason for the share price-value gap is that we have not been making cash returns (be they capital returns or dividends) to our shareholders. Of course, the reason for that is the unprecedented industry conditions we have been operating in for some time, which have quite simply not allowed us to pay cash out of the company. However, if market conditions and our earnings continue to recover in line with our internal forecasts, and, again assuming no unforeseen events, then we believe we will be in a position to begin making cash returns to our shareholders in 2014, following the completion of our 30 June 2014 fiscal year.

The final reason for the share price value-gap is the fact that 90% of our revenue is derived from the United States, where the bulk of our operations are also located - yet our equity is New Zealand-based, where news of the US housing market and the performance of Tenon's competitors, is sparse to say the least. So, in 2014, we will be looking closely at increasing the Company's equity exposure to the United States – where news flow on our sector is much greater, where comparable company multiples are more favourable, and where we should be able to generate new interest in the stock as a result. There are many ways this can be achieved – and while a dual NZ-US listing is one obvious path that we will be looking at closely, we will also be undertaking a complete company review as to how Tenon can best position itself to create value for shareholders as the current US cyclical recovery progresses. Enhancing share price momentum is top of our minds.

So, in conclusion, all of the activity and initiatives I have just spoken of should underpin your confidence in the company's future. The series of operational and strategic initiatives that we have systematically put in place through the downturn, together with the new US$70 million bank facility established in September, position us well to take advantage of the cyclical recovery in the US housing market that is <u>only now</u> beginning to take hold. And this positioning will be further supported by our continued search for growth opportunities – both organic and acquisitive.

So, as you can probably tell, there will be a lot going on in 2014 – it will be a busy year for the Company, which should translate into a prosperous year for shareholders.

Forward-looking Statements

There are forward-looking statements included in this document. 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). 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. Amongst other things, fluctuations in industrial output, commercial and residential construction activity, changes in availability of capital, changes in housing turnover and pricing, changes in the levels and types of housing repairs and remodelling and additions to existing homes in North America, relative exchange rates, interest rates in each market, profitability of customers, competitor product development, demand and pricing, and customer concentration risk can each have a substantial impact on Tenon's results of operations and financial condition. As a result of the foregoing, actual results and conditions may differ materially from those expressed or implied by such statements. Valuations (company, business and product) are inherently subjective, and Tenon makes no warranty or undertaking as to information included herein, and actual outcomes could differ materially from any value or financial information and assumption included herein. The information contained herein is, subject to the assumptions used, believed to be materially accurate as at the date of this document (or as at the date otherwise noted in this document) but Tenon gives no warranty of accuracy or reliability and take no responsibility for accuracy or reliability. No investment decision should be taken on the basis of information contained herein.