INTERIM REPORT

SIX MONTHS ENDED 31 DECEMBER 2015

(Released 16 February 2016)

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). 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, particularly in North America. Fluctuations in industrial output, commercial and residential construction activity, capital availability, housing turnover and pricing, levels of repairs, 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. Other risks include competitor product development and demand and pricing and customer concentration risk. As a result of the foregoing, actual results and conclusions may differ materially from those expressed or implied by such statements.

All references in this document to $ or "dollars" are references to United States dollars unless otherwise stated.

Tenon's financial year is 30 June.

Six Months' Highlights – 31 December 2015

Financial and Operational

- **Revenue[4] of $210 million recorded, up 5%** (cpp[8] $200 million excl forest & log sales[4])

- **Net profit after tax trebled to $6 million** (cpp $2 million)

- **Gross margin % expanded to 26%** (cpp 25% adjusted for forest and log sales)

- **EBITDA[5] of $12 million was achieved in the period,** prior to c$1.8 million of project costs relating to the Strategic Review and FX losses (up 70%+ on the cpp, on a comparable basis). After inclusion of these costs, EBITDA was $10 million

- **Operational initiatives were advanced –**
  - **c$7 million NZ manufacturing capital projects well advanced -**
    - The optimising edger was commissioned in August / September '15, and is achieving above target conversions
    - The ripline project is on plan to be commissioned in March '16
    - Financial metrics of each project are very favourable
      - Projects have less than 24 months payback
      - Full benefit of optimising edger to be realised upon ripline commissioning
  - **Texas warehouse consolidation on track -**
    - 367,000 sq ft building to be completed in Dallas (TX) in April '16
    - Logistics, efficiency and rental gains to generate $1+ million pa EBITDA uplift
  - **New advanced procurement and forecasting system (Data Profits) now in place**
  - **New business won -**
    - New and extended National Home Centre product programmes won (e.g. hardwood boards)
  - **Territories expanded** -
    - Pro-dealer regional expansion implemented (e.g. Louisiana and New York)

- **Closing debt (net of cash) of $53 million** (June'15 $58 million), reflecting -
  - Cash flow generated from operations, net of –
    - Expenditure on the Taupo manufacturing projects
    - The November'15 dividend payment
    - Working capital growth to meet the recovering US housing market
  - FY '16 closing debt level projected to be ≈ $50 million[3]

Outlook

- **EBITDA and Net Earnings targeted to materially improve**[3]
  - Earnings objective is for EBITDA (excluding any FX hedging losses, project costs, and (if any) Australia restructuring provisioning – refer *Shareholder Letter*) in the second half of the current FY'16[6] fiscal year to exceed this first six months reported result. This is consistent with our previously stated fiscal 2016 EBITDA target of in excess of US$20 million (subject to same adjustments above)
  - Mid-cycle[7] EBITDA guidance of in excess of US$50 million

Shareholder Value

- **Tenon share price increased 34%**[1]
  - Outperformed the NZX50 index which was up only 5%, and also the ASX50 and Dow Jones indices which were down -12% and -9% respectively

- **Dividend payments commenced for both Interim and Final fiscal year periods**
  - NZ5.00 cps final dividend in respect of fiscal '15 was paid in November '15
  - Interim dividend announced <u>today</u> in respect of the six months 31 December
    - NZ 5.75 cps [2] – an increased payment rate per share
    - To be paid on 4th April '16
    - Dividend record date of 29th March '16 (5pm)
  - Future dividend rates yet to be determined[3]
  - Future payments will also be subject to the outcome of Strategic Review

- **Strategic Review**
  - To determine best risk-adjusted value path forward for Tenon shareholders
  - Deutsche Craigs and Deutsche Bank have been appointed as exclusive advisors
  - Announcement on outcome of Review is expected in Q2 of this calendar year

Shareholder Letter

Dear Shareholder,

The two highlight pages that precede this letter succinctly summarise the first six months of Tenon's 30 June 2016 fiscal year. The short story is that the Interim period saw a continuation of the early recovery in Tenon's earnings, driven by a series of macro and company-specific factors, including –

- On-going growth in the US economy
- Continued recovery in the broader US housing market
- A strengthening of the US$:NZ$ exchange rate, closer to long-run equilibrium
- Commissioning of the first of two capital upgrades at our NZ manufacturing plant
- Implementation of core improvement initiatives (e.g. NA procurement)
- Winning new business in our National Home Centre business
- Territorial expansion in our Pro-dealer activities

Net Earnings after Tax trebled (compared with the cpp), and we recorded a 70%+ increase in EBITDA[5] (excluding project costs and FX hedging contract losses). Whilst this was all very pleasing, it is only an early indication of what is yet to come in terms of future upside. You will know that we have already indicated to the market that our **target for the current fiscal year is to produce EBITDA[5] in excess of US$20 million[3]** (excluding project costs and FX hedging contract losses), and our first-half result puts us well on track to comfortably meet this goal.

It should be noted that Woolworths announced last month that the Masters home improvement chain in Australia (a JV with Lowe's) is likely to either be wound down or sold. Tenon provides product and services to Masters, however that business is non-material to Tenon's earnings. As any exit from the business may require some (again, likely non-material) restructuring expense depending upon the outcome, this possibility is an additional rider to the EBITDA guidance range noted above.

Our fiscal 2016 result will include the benefit of operational initiatives for only part of the year (e.g. the Taupo capital upgrade projects and related earnings benefits are only phased in as they are commissioned across the year), the new national home centre business won is only commencing now, and the benefit of the recently strengthening USD will similarly only have been progressively realised across the fiscal year. Accordingly, **the EBITDA 'run rate' for Tenon should be somewhat higher than the fiscal 2016 EBITDA level reported.**

With that in mind, we have also previously publicly stated that we see our **mid-cycle[7] EBITDA capability as being in excess of US$50 million[3]**, and we remain very comfortable with that statement, particularly given Tenon's presence in both the DIY / retail and new housing segments of the US market, and the organic growth and earnings upside each offers us.

Last August we announced the commencement of dividend payments, and we paid our first dividend of NZ5.0 cps (in November) in respect of the financial year ended 30 June 2015. Today we are now **announcing an interim dividend in respect of our fiscal 2016 year. At NZ 5.75cps, this interim dividend represents a 15% increase on last year's final dividend**, and is evidence of the confidence we have in the Company's future earnings profile. This dividend will be paid on 4th April 2016, to Tenon shareholders on the share register as at 5pm, 29th March 2016.

During the period we announced that a **Strategic Review** of Tenon would be undertaken, with the assistance of Deutsche Craigs and Deutsche Bank as our exclusive advisors. The purpose of this Review is to determine the most appropriate risk-adjusted value path forward for Tenon shareholders. We are not yet at a point where we can formally announce any conclusions on this process, however we can say that it remains on track for an announcement in Q2 of this calendar year.

Looking ahead, we remain focused on –

- Meeting our immediate fiscal 2016 earnings targets
- Extracting the full benefit of the operational initiatives we are implementing (e.g. Texas warehouse consolidation)
- Commissioning the ripline upgrade at our Taupo manufacturing site
- Pursuing organic growth (i.e. expanding the breadth and geographic reach of our North American distribution activities)

We are confident we can successfully execute on each of these activity streams.

Whilst lower global activity and the potential for interest rate rises in the US remain as broader macro risks that have the potential to disrupt, we see these as being short-term and transitory risks only – i.e. we still see continued recovery in the US housing market in 2016 as the most likely outcome.

Finally, on behalf of Board and management I would like to thank all our stakeholders for their continued support – as always, it is very much appreciated.

Sincerely,

Luke Moriarty
Chairman

16 February, 2016

Footnotes –

[1] This is for the period from 1 July '15 through to the writing of this report, adjusting for the November dividend.

[2] Imputation credits will not be attached to the dividend, due to Tenon's current non-tax paying position in New Zealand.

[3] Future actual earnings, cash flow, net debt and dividend payment outcomes will be dependent upon continued US housing market recovery, interest rates, NZ$:US$ cross rate, and the Strategic Review (amongst other drivers, many of which are beyond Tenon's control). In particular, the guidance noted herein assumes no adverse changes in either macro-market conditions or the NZ$:US$ cross rate.

[4] Revenue historically includes the sale of logs at the NZ (Taupo) manufacturing site under back-to-back forest stumpage arrangements. As planned, these arrangements terminated during the 2015 fiscal year. Whilst additive to revenue, these log sales were carried out at zero margin and did not contribute to Net Earnings. The log sales number included in revenue in the six months to 31 December '15 was $nil, which compares with $6 million recorded in the cpp, and $nil in the immediately prior six month period to 30 June '15. Revenue also includes the sale of residual forest assets (from time to time) that the Group holds. The revenue from the sale of forests in the six months to 31 December '15 was $nil, which compares with $3 million recorded in the cpp, and $nil million in the six month period to 30 June '15. Revenue excluding both forest and back-to-back stumpage sales was $210 million for the six months to 31 December '15, $200 million in the cpp, and $197 million in the immediately prior six-month period to 30 June '15.

[5] EBITDA (i.e. Earnings before Interest, Taxation, Depreciation and Amortisations) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance, because that number removes distortions caused by differences in asset ages, depreciation policies, and debt:equity structures. Refer also to Note 5 of our 31 December 2015 Condensed Interim Financial Statements. Tenon's EBITDA is calculated as Net Profit after Taxation of $6 million (cpp $2 million), plus Tax Expense of $1 million (cpp $nil), plus Financing Costs of $2 million (cpp $2 million), plus depreciation and amortisations of $1 million (cpp $2 million).

[6] Tenon's fiscal year is 30 June, so FY'16 refers to the 12 months ending 30 June 2016.

[7] Tenon defines mid-cycle as 1.6 million housing starts, NZ$:US$0.6500, projected FY'16 gross margin % held flat, benefit of current Taupo optimisation capex, and limited organic growth.

[8] cpp refers to the corresponding prior period – i.e. the comparable six-month period to 31 December 2014.