

Tenon to sell Clearwood – Rubicon to participate in acquisition Consortium



February 14, 2017 - Rubicon's 60% owned subsidiary, Tenon Limited, today announced that it had entered into an Agreement to sell its Clearwood operating business to a group of investors (the **Consortium**) - please refer attached full announcement from Tenon.

The Consortium, a Limited Partnership, comprises a group of private NZ and US investors, and Rubicon. Rubicon will retain a 50% (approximately) interest in the Consortium. Hugh Fletcher, the Chair of the independent committee of the Rubicon Board dealing with the transaction, said: "Rubicon is involved in the Consortium for several reasons. Firstly, to ensure that Tenon's Strategic Review is completed successfully, with an appropriate outcome for all shareholders. Secondly, we have indirectly managed the Clearwood business for a long time and know it well. We are a comfortable owner, but would rather own our Clearwood investment directly through a private vehicle, than via a public entity. In this respect, the structure of the Consortium vehicle is such that it allows full flexibility as to future ownership changes for its investors. Finally, Rubicon's cash position will improve by some US\$10 million as a result of this transaction – from the receipt of our share of the subsequent US\$43 million (second) capital return that Tenon independent directors are proposing, and also through the sell-down to a 50% shareholding position (currently ~60% through Tenon).

The transaction is obviously conditional on Tenon shareholder approval, however all things going to plan it is scheduled to close on 28 April, 2017."

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To: NZX

From: Luke Moriarty

Telephone: 64-9-356 9800

Further information on Rubicon Limited can be viewed at the Rubicon web site, at <http://www.rubicon-nz.com>.

News Release



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Paul Gillard – General Counsel
& Company Secretary, **Tenon Limited**
Telephone: 64-9-368 4193

Information on Tenon Limited can be found at <http://www.tenon.co.nz>.
STOCK EXCHANGE LISTING: NEW ZEALAND (TEN)

Tenon signs Sale & Purchase Agreement over Clearwood business

February 14, 2017 - Tenon today announced that it had entered into a sale and purchase agreement over its NZ-based Clearwood manufacturing and global sales operations (**Clearwood**). The purchaser is Tenon Clearwood LP, which comprises a group of US and NZ private investors, and Rubicon (circa 50%) (the **Consortium**).

The purchase price is US\$55 million payable in cash and is conditional on, amongst other things, shareholders approving the sale at a Special Shareholders' Meeting to be held on 20 March 2017 (refer attached appendix for key terms).

At the same meeting, Tenon will be proposing that (subject to the sale being approved by shareholders) a (second) pro-rata capital return of US\$43 million be made to shareholders on closing. It is also proposed that Tenon will seek de-listing from the NZX Main Board and then for the Company to proceed to undertake a voluntary liquidation and return of all residual surplus funds (currently estimated to be a further US\$5.8 million approximately) to shareholders. The capital return will be conducted by way of a court approved process, as was the case with the capital return following the sale of Tenon's US business operations in December 2016.

The indicative timetable is for transaction closing and payment of the (second) capital return to Tenon shareholders to occur on 28 April, 2017, and for the subsequent liquidation of the Tenon Group to be commenced six months later (once the period for warranty claims under the sale and purchase agreement has expired).

Given Rubicon is a member of the Consortium, the Consortium Offer has been considered and negotiated by a sub-committee of the Tenon Board, comprising only the Tenon Independent Directors (Messrs Eglinton and Walker). The Rubicon Directors on the Tenon Board (Messrs Kasnet, Karaplis, and Moriarty) have had no involvement in the Company's evaluation, consideration, or negotiation of the Consortium Offer and did not vote on any matter in relation to the Offer.

Deutsche-Craigs ran an exhaustive sales process for Tenon, generating expressions of interest from eight parties, domestic and international. Each was fully assessed and the Sub-Committee is comfortable that the Consortium Offer provides the best price, terms and certainty of completion that could have been negotiated with any of those parties.

In assessing these offers, the Sub-Committee took into account an estimated US\$6 million (net of cash) in transaction, wind-up and liquidation costs¹. Approximately half of these costs have been or will be incurred, regardless of whether this sale proceeds, as they relate to the final Blue Wolf transaction closing or to the 'right-sizing' of Tenon under a continuing business scenario, with a management structure appropriate for a smaller, Clearwood-only, Tenon business (a process already underway with the elimination of the Asia-Pacific President and Group CFO roles).

Grant Samuel has been appointed by the Sub-Committee as Independent Advisor to Tenon shareholders (other than Rubicon) on the transaction. Inclusive of costs¹, they have valued Clearwood (under a sale and subsequent liquidation of Tenon), at US\$45.8 – US\$56.3 million, or NZ\$1.99 - NZ\$2.45 per share.

Assuming the above US\$6 million estimated costs and no material Tenon bank debt to be repaid, the total cash to be returned to Tenon shareholders under the sale of Clearwood and the subsequent liquidation of the Tenon Group, will be approximately US\$48.8 million, comprising US\$43 million by way of (second) capital return, with an additional (estimated) US\$5.8 million in a subsequent distribution once Tenon is liquidated.

Grant Samuel was also asked to value Tenon on a continuing basis, assuming no sale of Clearwood. Under that scenario, they assumed that Tenon would re-leverage the Company and make an immediate US\$15 million pro-rata capital return to shareholders and determined that the value on a continuing business basis in a range of NZ\$1.74 – NZ\$2.08 per share. This valuation includes a 15% trading discount for the relative illiquidity of Tenon shares, on-going corporate costs to continue the public entity, as well as US\$3 million of one-off costs to right-size the continuing Tenon business

On 23 December 2016, Tenon announced that it had entered into exclusive negotiations with one party with the intent of concluding a sale and purchase agreement over the Clearwood business. The volume weighted average share price for the 4-month period prior to that announcement was NZ\$2.02 per share, and the share price on the day immediately prior to that announcement was NZ\$2.12. **Given the Consortium Offer, which equates to NZ\$2.12 net of costs (NZ\$2.39 per share before costs) is within Grant Samuel's recommended sale and liquidation range and exceeds the top end of the value range for a continuing Tenon business, and also given an extensive investment bank-led process has been run, Tenon's Independent Directors have accepted the Consortium's Offer and signed the sale and purchase agreement as being in the best interests of Tenon shareholders.**

Tenon said that all documentation (which would include a Notice of Meeting with full explanatory notes and a detailed transaction and shareholder timeline, and a Grant Samuel Report) would be distributed to shareholders in early March.

¹ These costs include advisors' fees relating to the sale, shareholder meeting materials, court fees, the termination of all Tenon corporate staff, 'run-off' insurance, the appointment of liquidators, and the disposal and liquidation of all remaining assets and liabilities

² This valuation is 'current', in that it has been updated for fx rates, current log prices, and related Clearwood earnings movements (refer Tenon release of 3 February 2017).

Tenon Summary of Key Consortium Transaction Terms

1. Business being disposed of

Tenon's NZ-based Clearwood manufacturing and related global distribution operations, comprising the net assets (including working capital) of Tenon Manufacturing Limited and the shares in Taupo Wood Solutions LLC, in a debt free transaction.

2. Consideration

US\$55 million payable in cash. A future cash payment or receipt may occur if net working capital on closing diverges from US\$11 million by more than a US\$250,000 band, in which case the adjustment will be the amount outside the band.

3. Key conditions

The sale is subject to the satisfaction or waiver of certain conditions, including –

- The passing of Tenon shareholder resolutions approving the transaction
- Staff and contract transfers
- No material adverse change occurring in the Clearwood business prior to settlement

The conditions must be satisfied by 3 April 2017 (other than the material adverse change condition which runs to settlement).

If the conditions are satisfied, settlement is set down for 28 April 2017.

4. Potential termination events

In addition to the conditions, the Consortium can also terminate the transaction if –

- The Tenon Board withdraws its recommendation
- Tenon breaches its obligations in relation to non-solicitation of alternative transactions
- There is extensive damage to the Taupo plant after signing.

Tenon can also terminate the transaction if it is entering into an unsolicited alternative transaction as a result of the Tenon Board determining that it is required to do so in order to comply with its fiduciary duties.

Tenon must pay a termination fee of US\$1.65 million if –

- It terminates the Sale and Purchase Agreement in order to enter into an alternative transaction, or
- The Consortium terminates the Sale and Purchase Agreement because the Tenon Board has withdrawn its recommendation of the sale

Tenon must reimburse the Consortium's costs and expenses in the amount of US\$500,000 if Tenon shareholders vote against the sale.

5. Representations and warranties

The Sale and Purchase Agreement contains a typical set of representations and warranties concerning Clearwood. Any and all claims must be brought within six months of closing. Other than for breaches of fundamental representations (e.g. title to assets), all claims under the Sale and Purchase Agreement are capped at an aggregate US\$1 million.

Ends

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 and Rubicon). As a result, 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 New Zealand, Europe, and 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, product demand and pricing, input costs and customer concentration risk.