2012 Annual Shareholders' Meeting

10.30 am Wednesday 20 November 2012

Eden Park
Auckland

Chief Executive Officer's Address

FLETCHER BUILDING LIMITED

Annual Shareholders' Meeting 2012

Good morning ladies and gentlemen, it is a great pleasure to be able to address you for the first time as chief executive.

I took up my new role on the first of October, so having only been in the job for a matter of weeks I very much wanted to simply introduce myself to you and outline the opportunities I see for Fletcher Building in the coming years.

Firstly, let me say that it is an absolute privilege to have been chosen to lead a company with the history and pedigree of Fletcher Building. Whilst I am a newcomer to New Zealand, I am very aware of the long and proud history of Fletcher Building and the role the company has played in New Zealand's development over the past 103 years.

Touching briefly on my background, as you can probably tell from my accent I am British and hail from Newcastle in northern England. Earlier in my career I held a number of senior financial roles across several industries before joining the Formica group in 2000 as chief financial officer. From there I went on to run Formica UK, then Formica Europe, and in 2008 under Fletcher Building ownership, I was appointed to run the whole of Formica. With that promotion, I moved with my wife and two children from the UK to Cincinnati in the US where Formica was headquartered. Last year I was also given responsibility for the Laminex business which operates in Australia and New Zealand.

Initial Impressions

Coming into the job, I have to say I am incredibly excited about the opportunities that I see for Fletcher Building. We've weathered one of the worst downturns in construction activity in New Zealand, North America and Europe over the past four years, and more recently we've seen a sharp downturn in Australia. Despite these difficult conditions, the company today has a great future, with an excellent portfolio of businesses.

Strategy

My immediate challenge will be to structure the business to deliver on the strategies that we have been pursuing over the past few years.

Fletcher Building has had from the outset the strategic imperative of diversifying its revenue base through geographic expansion beyond New Zealand. This has been successfully achieved, with 59 per cent of revenues and 63 per cent of operating earnings in the 2012 financial year generated beyond New Zealand. In the years ahead, we will continue to look for further areas to invest overseas, principally in Australia where we still have a number of gaps in the range of products we manufacture and distribute. Beyond Australia, we will selectively invest to support growth in the Formica business. Our new plant under construction in Juijang, China, the acquisition of the remaining shareholding in Homapal in Germany, and our recently announced expansion in India are good examples of this.

However, the highest priority in the short term is to deliver the full value from the portfolio.

Priorities

Beyond further geographic expansion, I see the challenge being to find ways of growing our earnings regardless of the economic cycle. Given that every business in the group has already gone through several rounds of cost reduction, and given that we have been forced to rationalise our manufacturing footprint in response to dramatic falls in volumes, the question is, where do we go from here?

In the short term I have identified a number of key areas where we will be focusing our efforts with the goal of further lifting our performance.

Creation of Centres of Excellence

The scale and footprint of Fletcher Building gives us the ability to create globally competitive centres of excellence in Procurement, Logistics and Distribution, Manufacturing Excellence, Digital Technologies and Business Services.

Reducing distribution and logistics costs

One area we will be looking to target is in our distribution and logistics costs. Across New Zealand and Australia we have a large distribution footprint and an extensive portfolio of leased and owned properties. We will be exploring opportunities to reduce the costs associated with this network through sharing retail outlets and regional distribution centres, site rationalisation, as well as addressing supporting costs such as logistics. In pursuing this, we understand the importance of maintaining a high level of service to our customers, whilst at the same time seeking to drive process and cost efficiencies around how we deliver to them.

Developing a shared services capability

A second avenue is the exploration of opportunities to develop a shared services capability. I see the potential to improve the efficiency in the way businesses are supported in areas such as finance, human resources, IT and procurement across New Zealand and Australia. A review of these business services functions has already started and the outcome of the review is expected by the end of this calendar year.

Investing in digital capability

A third area of focus will be to accelerate our move into the digital era, opening up new ways to interact with our customers, improve the customer experience and reduce costs at the same time.

Tight management of working capital and capital expenditure

In the coming year we intend to keep a tight focus on both working capital and capital expenditure, in order that we maximise cash returns in the current cycle.

As the chairman has already mentioned, we saw a strong improvement in cash management last year with operating cash flow up 11 per cent. This was driven by tight working capital management. In the current year I believe that we can deliver another strong performance around working capital management, particularly inventories.

Looking at capital expenditure, we have budgeted for total capital expenditure to be around $100 million dollars lower than last year. Stay in business capital expenditure is budgeted at $162 million, and growth capital expenditure is currently planned to be approximately $102 million. This latter item includes our new Formica plant in China and the acquisition of a high pressure laminates business in India which will also form part of the Formica portfolio.

Maintain a strong balance sheet

The balance sheet remains in a strong position, with gearing, that is net debt to net debt plus equity, at 35 per cent. If we meet our cash targets this year then we would expect this to level of gearing to decline modestly over the course of the year.

We have had an active programme this year of extending the maturity profile of our borrowings. We successfully completed new debt issues with durations of between 10 and 15 years, and this has provided us with a spread of maturities out to 2027. In addition, we have today around $800 million of undrawn banking lines and cash available.

Delivering on our commitment to Canterbury

Since being appointed chief executive, I have made a number of visits to Christchurch. With each visit I have been truly amazed at the energy of people in the region and their determination to rebuild their city. I have also been impressed with the way our people from across Fletcher Building have worked together to establish new teams and build the infrastructure and systems to deliver solutions for the people of Canterbury. That they have done so in the face of continued earthquakes and aftershocks has been remarkable.

The response says a lot about the Fletcher Building can-do attitude and what I have observed as the true kiwi spirit. What I see in Christchurch is an amazing opportunity to rebuild a new city that, when completed, will be the envy of every other city in Australasia. Rebuilding Christchurch is a priority for New Zealand, and my commitment is that Fletcher Building will continue to play its part.

Delivering on Health and Safety

One of the business's remarkable achievements in recent years has been the dramatic improvement in Fletcher Building's health and safety record. Strong progress continued in the past year with the total recordable injury frequency rate – the measure of the total injuries per million employee and contractor hours – fell from 10.6 to 8.5. Six years ago this measure was over 60. I am committed to building on this performance, and as an organisation we will continue with a range of initiatives with the goal of further reducing this figure.

Management Changes

Let me now comment on the key appointments to the senior management team that have been made since my appointment.

Gerry Bollman has joined the executive team here in New Zealand from the US, in a new role as Chief Executive - Business Strategy and Performance. Gerry is responsible for Strategy, Operational Excellence, Procurement, Digital Strategy, Mergers & Acquisitions, Divestments, and all aspects of performance management. Gerry and I worked closely together at Formica and he has been integral to the turnaround in Formica. More recently he has spent time working with the Laminex team on their restructuring programs.

Paul Zuckerman has been appointed as my replacement in the role of Chief Executive - Laminates & Panels. Paul was previously Chief Executive of the Steel division, having joined Fletcher Building in this role in 2007. Paul will continue the work that has been underway since the merger of Formica and Laminex last year. This work is driving the units across the globe to collaborate to unlock benefits from procurement, range management, innovation pipeline and best practice sharing.

Following Paul's move, I have taken the opportunity to make further organisational changes to the Steel division.

The long steel and distribution businesses – Pacific Steel, CSP Coating Systems, Fletcher Easysteel and Fletcher Reinforcing – now report to Mark Malpass, chief executive of the Concrete division. This larger division has been renamed Infrastructure Products, reflecting the expanded range of products that it manufactures and distributes.

The coated steel businesses – Stramit Building Products, Dimond, Pacific Coil Coaters and Gliderol –now report to Tim Richards, chief executive of the Building Products division.

The logic behind this change is that the Infrastructure Products division manufactures products that are predominantly used in commercial and civil construction, whereas the Building Products division produce materials commonly used in light commercial and residential construction. In grouping these businesses in this way, we will be looking to leverage existing channels to market and to better serve our customers with total solutions for their needs.

This changed organisation structure will be reflected in the way we report our results going forward, starting with the half year results to be announced in February.

Election to the board

Ladies and gentlemen, before concluding, I would like now to speak to you briefly in support of my election to the board. You have just heard me speak of my priorities as chief executive of Fletcher Building, and of the company's future strategy. I am very committed to driving financial performance and to delivering for our customers. As chief executive officer, I believe it is appropriate that I also remain a director on the board, and I therefore seek your endorsement to be elected as a director of the company.

Thank you very much ladies and gentlemen.