

**Fletcher Building**

Annual Results Presentation 2016

# Annual Results to 30 June 2016

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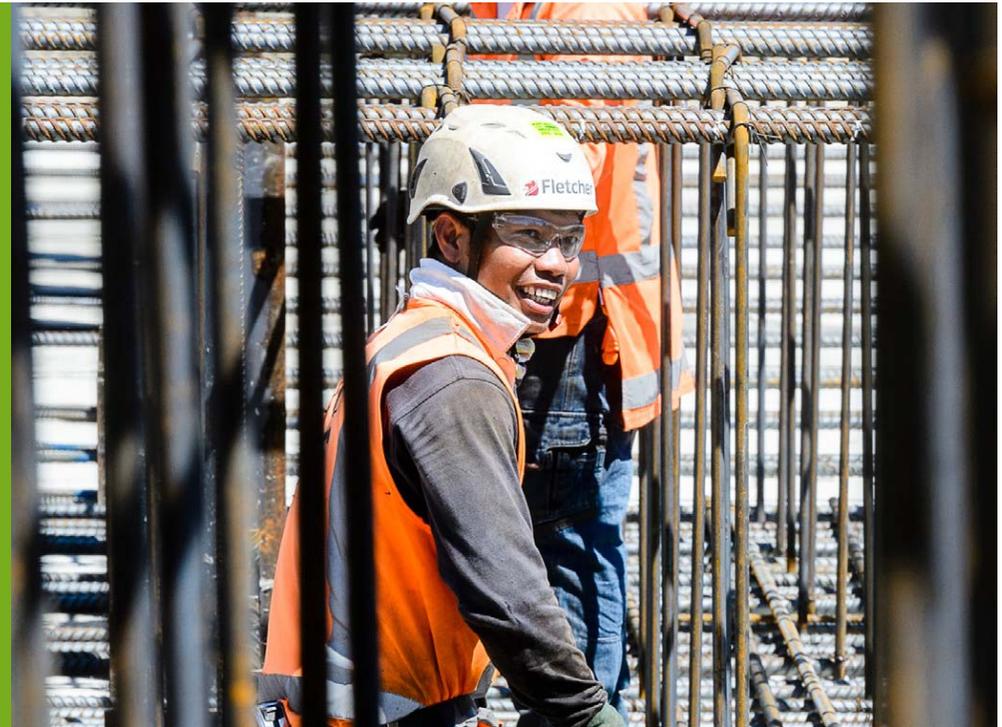
**MARK ADAMSON**

— Chief Executive Officer

**GERRY BOLLMAN**

— Chief Financial Officer

17 August 2016



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## Disclaimer

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This Annual Results presentation dated 17 August 2016 provides additional comment on the management commentary of the same date. As such, it should be read in conjunction with, and subject to, the explanations and views of future outlook on market conditions, earnings and activities given in that commentary.



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# Agenda

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**Results Overview**

**Geographic & Sectoral Analysis**

**Divisional Performances**

**Financial Results**

**Strategy Update**

**Outlook**

**Appendix**



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# Results Overview



## Results overview

Net earnings

**\$462<sub>m</sub>**

▲ 71%

Operating earnings

**\$719<sub>m</sub>**

▲ 43%

Revenue

**\$9,004<sub>m</sub>**

▲ 4%

Dividend per share

**39c**

▲ 5%

Earnings per share

**67.0c**

▲ 71%



# Results overview

## 5% increase in net earnings before significant items

NZ\$m (except EPS and DPS)	Reported Results		% change
	June 2015 12 months	June 2016 12 months	
Revenue	8,661	<b>9,004</b>	+4
Operating earnings before significant items	653	<b>682</b>	+4
Significant items	(150)	<b>37</b>	NM
Operating earnings (EBIT)	503	<b>719</b>	+43
Net earnings before significant items	399	<b>418</b>	+5
Net earnings	270	<b>462</b>	+71
Earnings per share before significant items (EPS – cents)	58.0	<b>60.6</b>	+4
Dividend declared per share (DPS – cents)	37.0	<b>39.0</b>	+5



# Highlights New Zealand

## Volume growth driven by strong New Zealand cycle:

- Cement +6%
- Concrete +7%
- Plasterboard +11%

## EBIT & Revenue:

Distribution - strong revenue & EBIT<sup>1</sup> performance

- PlaceMakers revenue +10%
- Mico revenue +12%
- Steel Distribution EBIT +22%

NZ Residential EBIT: +12%

Construction revenue: +29%



1. Before significant items



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# Highlights Australia

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## EBIT<sup>1</sup>:

- EBIT from Australian business +29%
- Stramit: EBIT +43%
- Fletcher Insulation: EBIT +150%



## Iplex:

Return to profitability in second half of FY16, significant year-on-year performance improvement

## Tradelink:

Store rollout strategy underway with compelling cost/return economics



1. Before significant items



# Results overview

## Revenue

Revenue

**\$9,004m**

▲ 4%



- Reported revenue \$343m or 4% higher than FY15

### REVENUE GROWTH RATES

*Geographic segments*

	Reported	Local Currency
New Zealand	8%	8%
Australia	-3%	-4%
Rest of World	5%	-9%



# Results overview

## Operating earnings

Operating earnings

**\$719m**

▲ 43%

Operating earnings

**\$682m**

*before significant items*

▲ 4%

- Operating earnings before significant items up 4%
- Within guidance range of \$650m - \$690m
- Reported operating earnings (EBIT) up 43%

### SIGNIFICANT ITEMS

Business acquisition/disposal income	\$85m
Site closures	(\$16m)
Business impairment	(\$26m)
Other	(\$6m)
<b>Total</b>	<b>\$37m</b>



# Results overview

## Net earnings

Net earnings

**\$462m**

▲ 71%

Net earnings

**\$418m**

*before significant items*

▲ 5%

- Net earnings before significant items were up 5% to \$418m

### EARNINGS PER SHARE

Earnings per share	67.0 cents	+71%
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Earnings per share <i>(before significant items)</i>	60.6 cents	+4%
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# Results overview

## Dividend

Dividend per share

**39<sub>c</sub>**

▲ 5%



- Final dividend fully imputed for NZ taxation purposes
- Dividend Reinvestment Plan will be operative for this dividend

### DIVIDEND

Final dividend per share	20 cents
Total dividend for the year	39 cents

- Both interim and final dividend are expected to be fully imputed from FY17 to FY19



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## Results overview

# Cash flow from operations

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Cashflow from operations

**\$660m**

▲ 15%



- Cash flow from operations \$660m an increase of \$85m from FY15 (\$575m)
- Increase is due to:
  - Growth in EBIT
  - Reduction in inventory and improved debtor management
  - \$81m working capital release from Pacific Steel closure
- Offset partly by increased cash investment in residential land & developments



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# Geographic & Sectoral Analysis

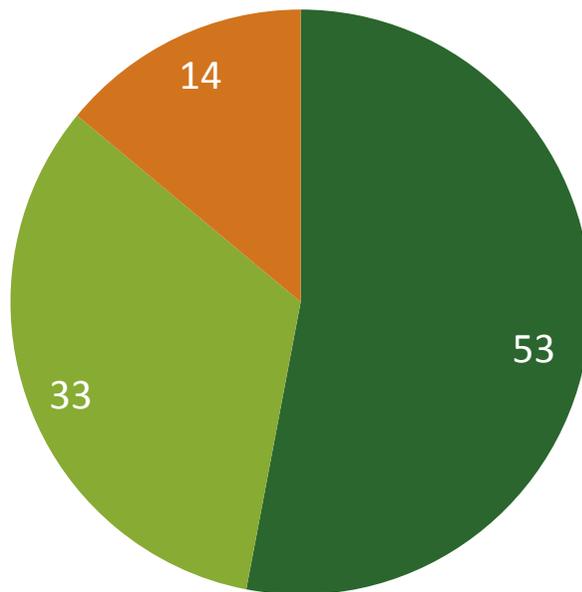


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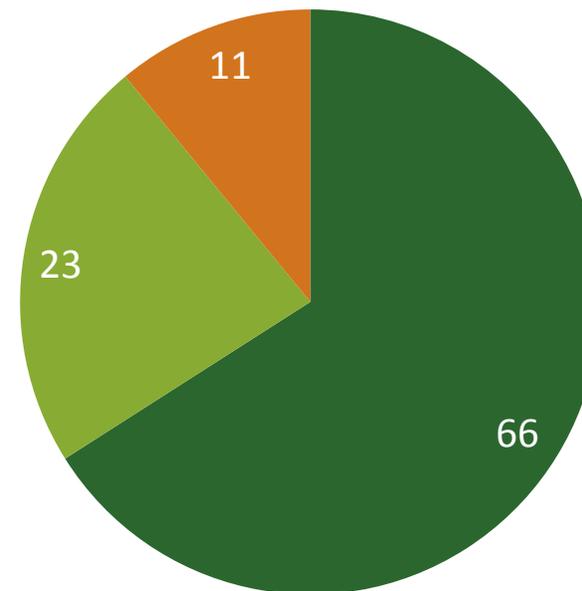
# Stronger performance from Australia reflected in increased EBIT contribution

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**External Revenue**  
(12 months to 30 June 2016)



**EBIT<sup>1</sup>**  
(12 months to 30 June 2016)



■ New Zealand   ■ Australia   ■ Rest of World

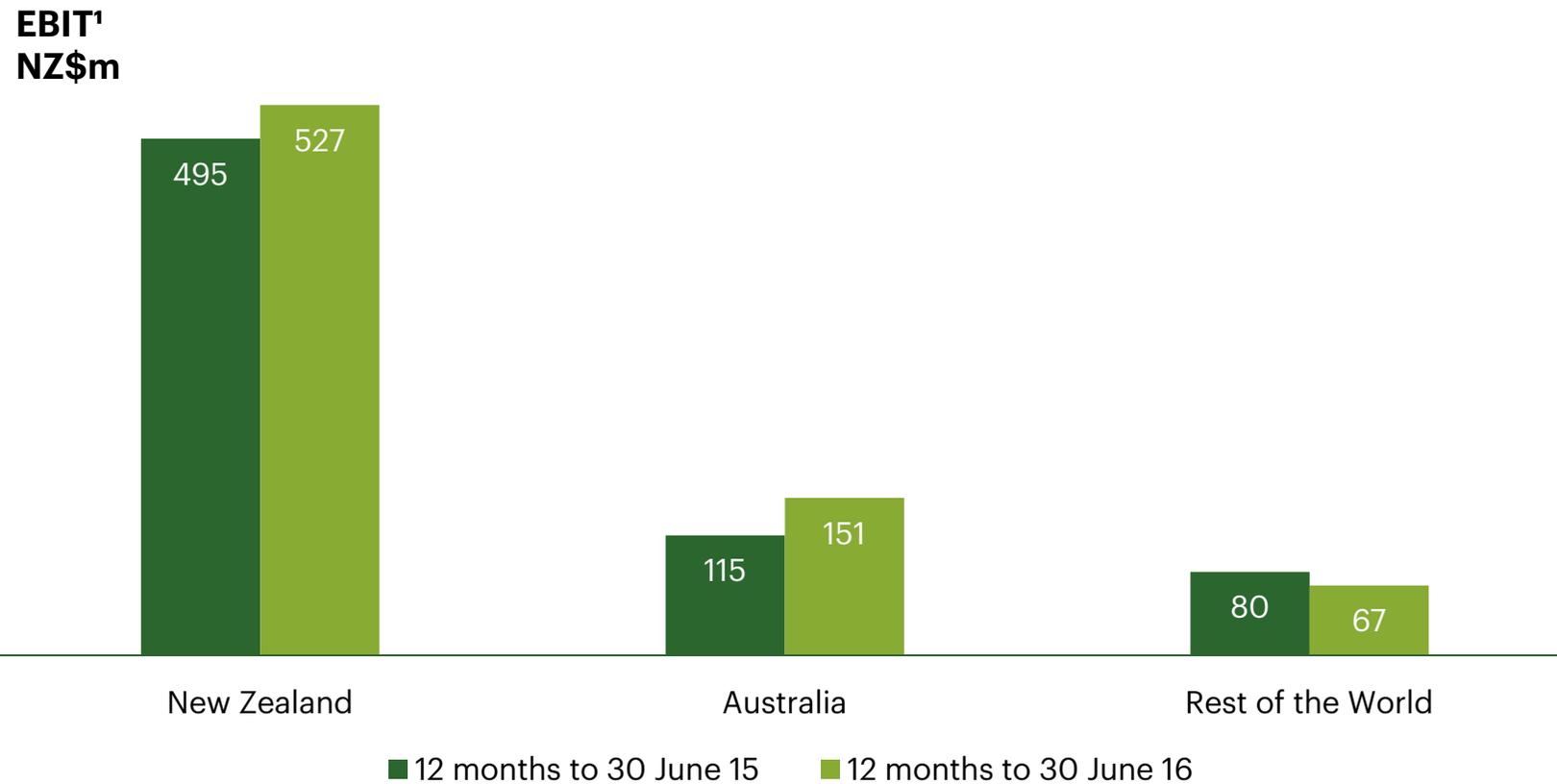
1. Before significant items



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## New Zealand operating earnings up in Distribution, Construction, and Residential divisions

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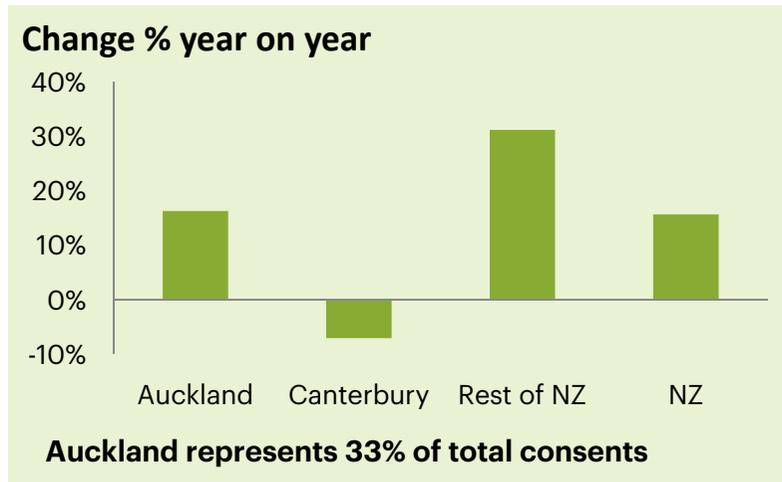
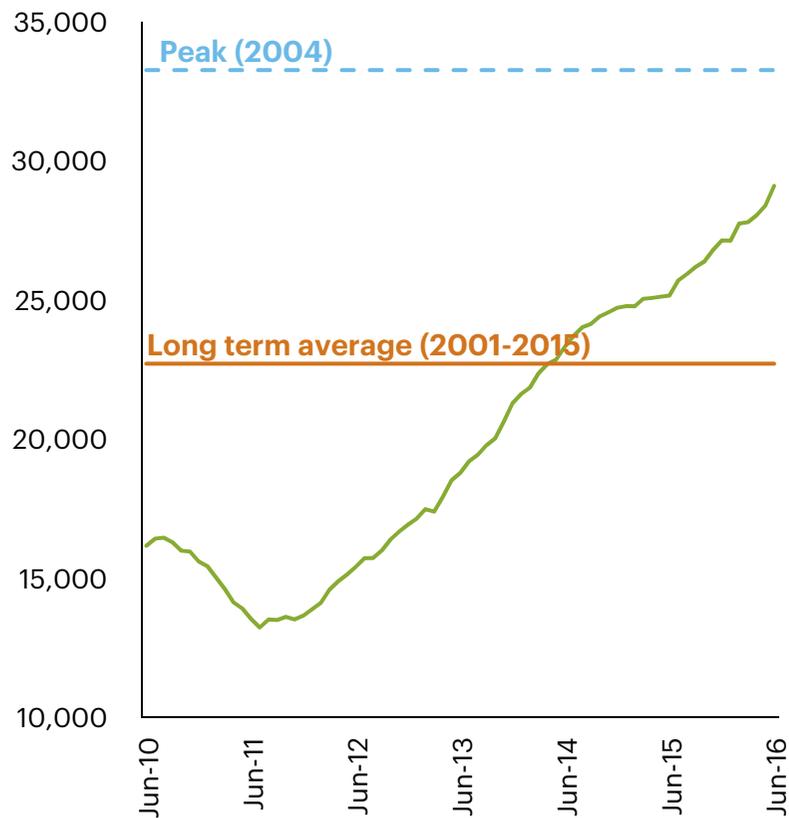


1. Before significant items and excluding corporate costs



# New Zealand residential consents up 16% total work put in place up 9%

## Total residential consents<sup>1</sup>

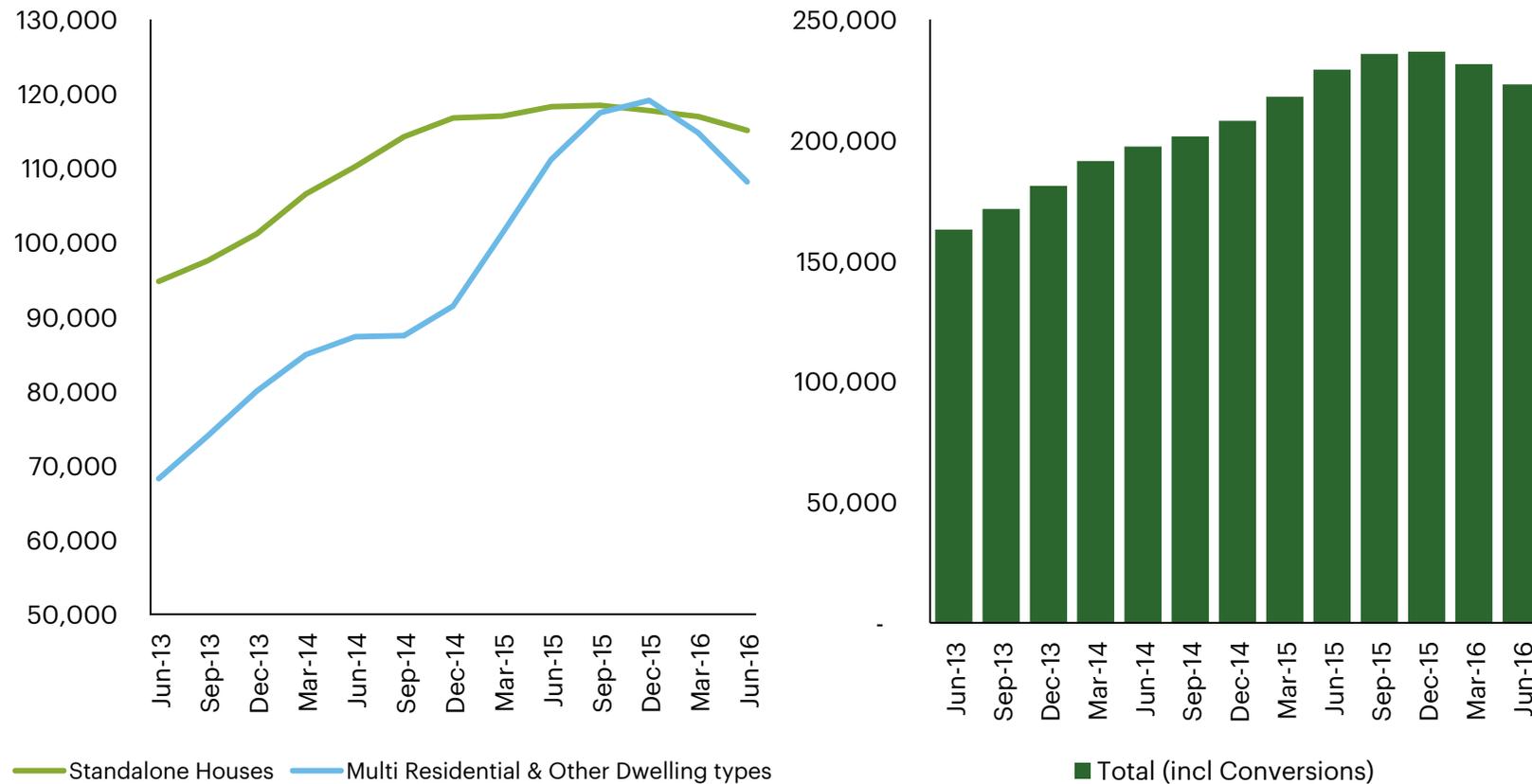


Source: Statistics NZ, Infometrics  
1 - Twelve months rolling



# Australian residential consents peaked in December, recent decline mainly in multi-residential

## Total residential approvals



Source: Australian bureau of statistics, BIS Shrapnel  
1 - Twelve months rolling





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# Divisional Performances

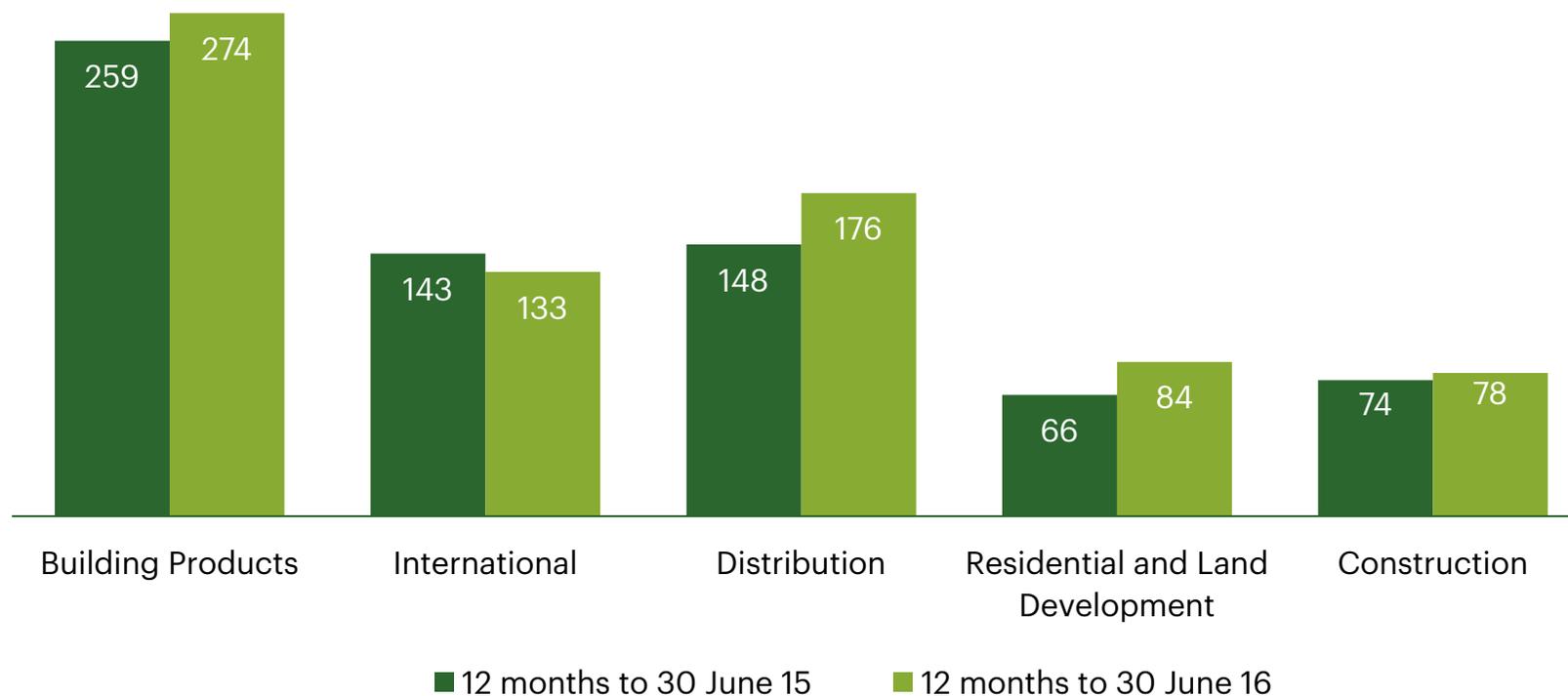


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# Divisional operating earnings overview

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**EBIT<sup>1</sup>**  
**NZ\$m**



1. Before significant items



# Building Products Result

NZ\$m	Jun 2015 12 months	Jun 2016 12 months	% change
Gross Revenue	2,656	<b>2,449</b>	-8
External Revenue	2,184	<b>1,969</b>	-10
EBITDA <sup>1</sup>	356	<b>354</b>	-1
EBIT <sup>1</sup>	259	<b>274</b>	+6
<i>Concrete Pipes &amp; Products</i>	79	<b>59</b>	-25
<i>Cement &amp; Aggregates</i>	90	<b>87</b>	-3
<i>Building Materials</i>	77	<b>93</b>	+21
<i>Plastic Pipes</i>	-8	<b>14</b>	NM
<i>Joint Ventures &amp; Other</i>	21	<b>21</b>	-
Funds Employed	1,877	<b>1,581</b>	-16
EBITDA <sup>1</sup> /gross revenue %	13.4	<b>14.5</b>	
EBIT <sup>1</sup> /gross revenue %	9.8	<b>11.2</b>	
ROFE %	13.8	<b>17.3</b>	

1. Before significant items

## Concrete Pipes & Products

Ready-mix concrete volumes +7%

Concrete Pipe volumes -8% in New Zealand

Rocla concrete product revenues -4% in Australia

## Cement & Aggregates

Underlying operating earnings +11%

New Zealand cement volumes +6%

## Building Materials

Plasterboard volumes +11%

Insulation earnings doubled across New Zealand and Australia

## Plastic Pipes

Significant improvement in Iplex Australia – profitable in 2H16



# International Result

NZ\$m	Jun 2015 12 months	Jun 2016 12 months	% change
Gross Revenue	2,007	<b>2,128</b>	+6
External Revenue	1,978	<b>2,106</b>	+6
EBITDA <sup>1</sup>	203	<b>200</b>	-1
EBIT <sup>1</sup>	143	<b>133</b>	-7
<i>Formica</i>	68	<b>62</b>	-9
<i>Laminex</i>	81	<b>80</b>	-1
<i>Roof Tile Group</i>	14	<b>14</b>	-
Funds Employed	2,098	<b>1,902</b>	-9
EBITDA <sup>1</sup> /gross revenue %	10.1	<b>9.4</b>	
EBIT <sup>1</sup> /gross revenue %	7.1	<b>6.3</b>	
ROFE %	6.8	<b>7.0</b>	

1. Before significant items

2. Local currency

## Formica

4% revenue growth in North America<sup>2</sup>

Asia revenue growth of 2-6% in key markets, operating earnings up strongly

Europe: restructuring in UK operations, 2H16 breakeven EBIT versus 1H16 loss

## Laminex

Revenue growth in New Zealand (+8%) and Australia (+2%)

Underlying EBIT growth:

- New Zealand +13%
- Australia +3%

## Roof Tile Group

Sales volumes improved in North America (+1%), Asia (+3%) and New Zealand (+12%)



# Distribution Result

NZ\$m	Jun 2015 12 months	Jun 2016 12 months	% change
Gross Revenue	3,081	<b>3,184</b>	+3
External Revenue	2,958	<b>3,026</b>	+2
EBITDA <sup>1</sup>	180	<b>205</b>	+14
EBIT <sup>1</sup>	148	<b>176</b>	+19
<i>NZ Building Supplies</i>	75	<b>85</b>	+13
<i>NZ Steel Distribution</i>	36	<b>44</b>	+22
<i>AU Building Supplies</i>	23	<b>27</b>	+17
<i>AU Steel Distribution</i>	14	<b>20</b>	+43
Funds Employed	1,046	<b>1,001</b>	-4
EBITDA <sup>1</sup> /gross revenue %	5.8	<b>6.4</b>	
EBIT <sup>1</sup> /gross revenue %	4.8	<b>5.5</b>	
ROFE %	14.1	<b>17.6</b>	

## New Zealand Building Supplies

Operating earnings +13%

PlaceMakers revenue growth +10%

Mico revenue growth +12%

## New Zealand Steel Distribution

Operating earnings +22%

Volume growth at Pacific Coilcoaters & Easysteel

## Australia Building Supplies

2% decrease in Tradelink revenue following strategic reset

Tradelink continues to focus on its core trade plumber customers

20 new stores planned in FY17

## Australia Steel Distribution

Operating earnings +43%

Significant operational improvements in Stramit

1. Before significant items



# Residential and Land Development Result

NZ\$m	Jun 2015 12 months	Jun 2016 12 months	% change
Gross Revenue	238	<b>343</b>	+44
External Revenue	238	<b>343</b>	+44
EBITDA	66	<b>84</b>	+27
EBIT	66	<b>84</b>	+27
<i>NZ Residential</i>	66	<b>74</b>	+12
<i>Land Development</i>	0	<b>10</b>	NM
Funds Employed	211	<b>355</b>	+68
EBITDA/gross revenue %	27.7	<b>24.5</b>	
EBIT/gross revenue %	27.7	<b>24.5</b>	
ROFE %	31.3	<b>23.7</b>	

## NZ Residential

Accelerated build programme in Auckland offset Stonefields impact

Strong sales volumes & margins from existing and new developments

Significant progress in securing land for future development over the next few years

## Land Development

Expect to earn \$25m+ per annum over the next 5 years from land developed for resale



# Construction Result

NZ\$m	Jun 2015 12 months	Jun 2016 12 months	% change
Gross Revenue	1,342	<b>1,648</b>	+23
External Revenue	1,299	<b>1,560</b>	+20
EBITDA <sup>1</sup>	81	<b>86</b>	+6
EBIT <sup>1</sup>	74	<b>78</b>	+5
<i>Construction NZ<sup>2</sup></i>	51	<b>58</b>	+14
<i>Construction South Pacific</i>	23	<b>20</b>	-13
Funds Employed	-54	<b>-18</b>	+67
EBITDA <sup>1</sup> /gross revenue %	6.0	<b>5.2</b>	
EBIT <sup>1</sup> /gross revenue %	5.5	<b>4.7</b>	

1. Before significant items

2. Includes Fletcher EQR

## New Zealand Construction

Strong NZ Construction growth, partly offset by lower Fletcher EQR & South Pacific earnings

Total contracted work awarded but not completed was \$2.7 billion as at 30 June 2016, up from \$2.4 billion in prior year

New contracts awarded include:

- NZ International Convention Centre
- Commercial Bay development in downtown Auckland
- Auckland International Airport terminal upgrade

Announced as preferred bidder as part of Northern Express Group consortium for Puhoi to Warkworth motorway extension

Higgins acquisition completed on 29 July 2016

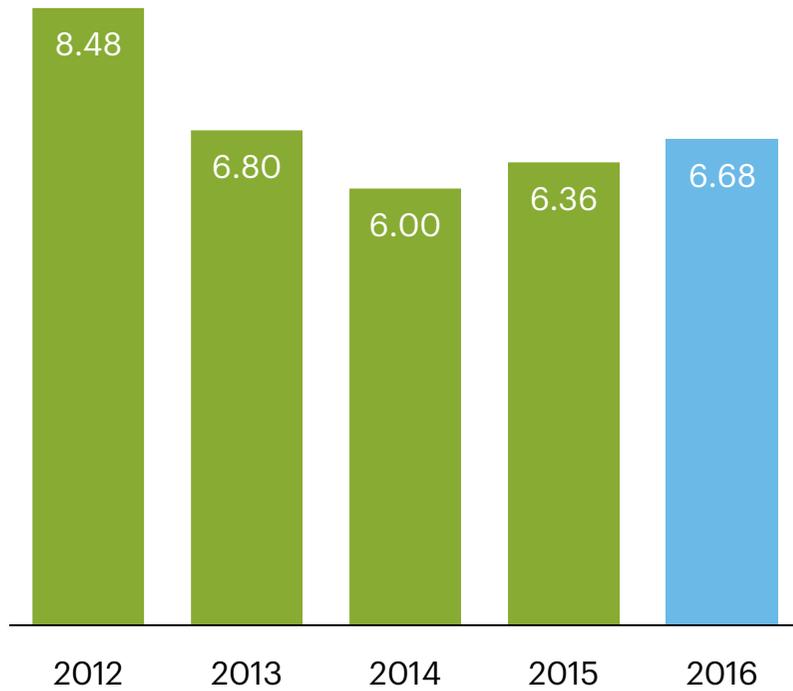


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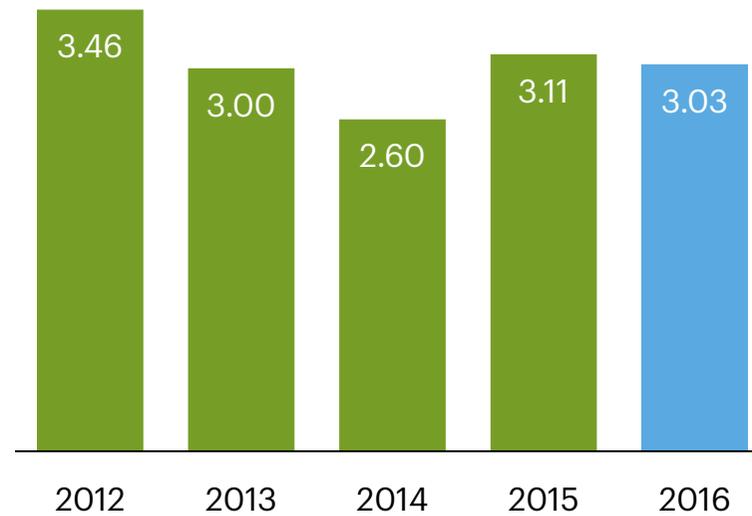
# Health and safety performance

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**Total recordable injury frequency rate\***



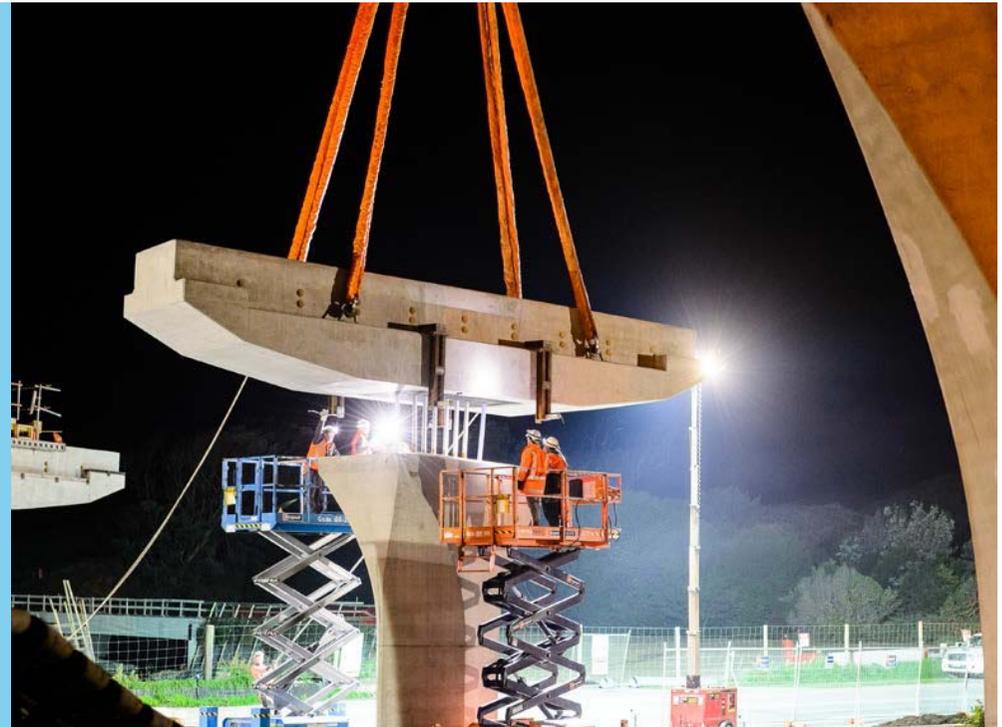
**Lost time injury frequency rate**



\* Total injuries per million employee and contractor hours



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# Financial Results



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## FY16 EBIT result included other gains and losses

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NZ\$m	June 2015 12 months	June 2016 12 months
Property sales	20	<b>28</b>
Restructuring costs	(8)	<b>(20)</b>
Other one-off costs (net)	(4)	<b>(6)</b>
<b>Other gains and losses</b>	8	<b>2</b>



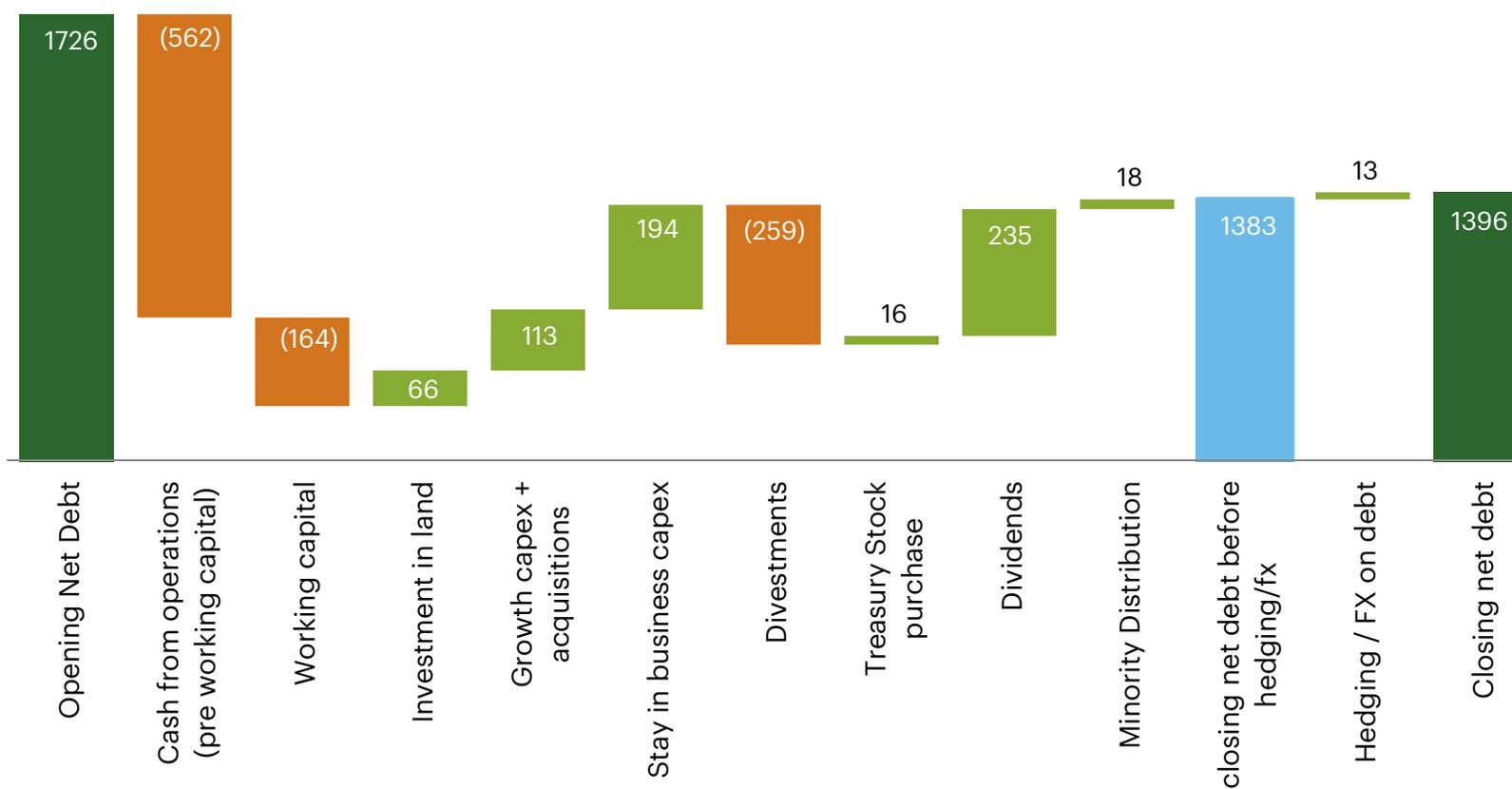
# Operating cash flow

NZ\$m	June 2015 12 months	June 2016 12 months	% change
<b>Operating earnings before significant items</b>	653	<b>682</b>	+4
Depreciation and amortisation	201	<b>194</b>	-3
Less cash tax paid	(72)	<b>(97)</b>	+35
Less interest paid	(124)	<b>(118)</b>	-5
Provisions, significant items and other	(42)	<b>(99)</b>	+136
<b>Results from operations before working capital adjustments</b>	616	<b>562</b>	-9
Land and developments	(58)	<b>(66)</b>	+14
Other working capital movements	17	<b>164</b>	NM
<b>Cash flows from operating activities</b>	575	<b>660</b>	+15



# Net debt lower at year end due to strong operating cash flow & sale of Rocla Quarry Products

NZ\$m



# Capital expenditure in FY17 expected to be in the range of \$275m to \$325m

NZ\$m



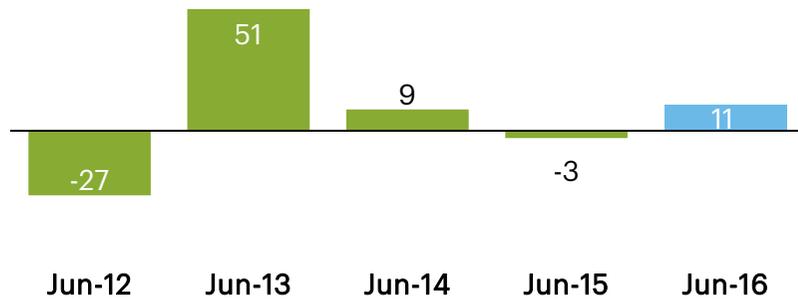
NZ\$m	June 2015 12 months	June 2016 12 months	% change
Stay-in-business	173	<b>194</b>	+12
Growth	105	<b>106</b>	+1
<b>Total Capex</b>	278	<b>300</b>	+8
Acquisitions	4	<b>7</b>	+75
Depreciation/ Amortisation	201	<b>194</b>	-3

- Depreciation & Amortisation forecast to be \$238 million

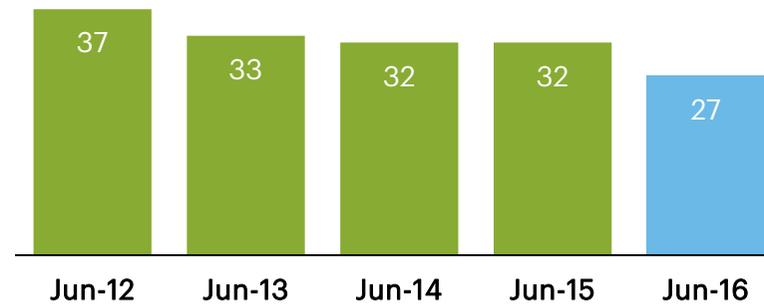


# Key ratios

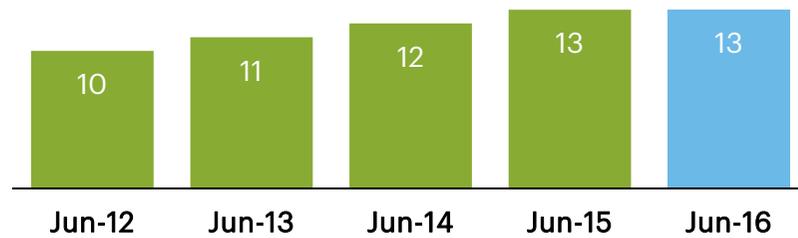
**Total Shareholder Return (TSR)  
Percentage**



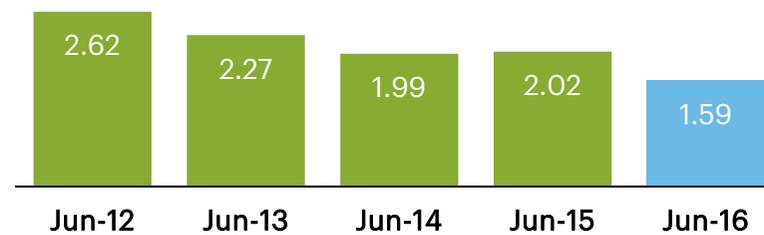
**Debt/Debt Plus Equity  
Percentage**



**Return on Average Funds  
Percentage<sup>1</sup>**



**Net Debt/EBITDA  
Times**

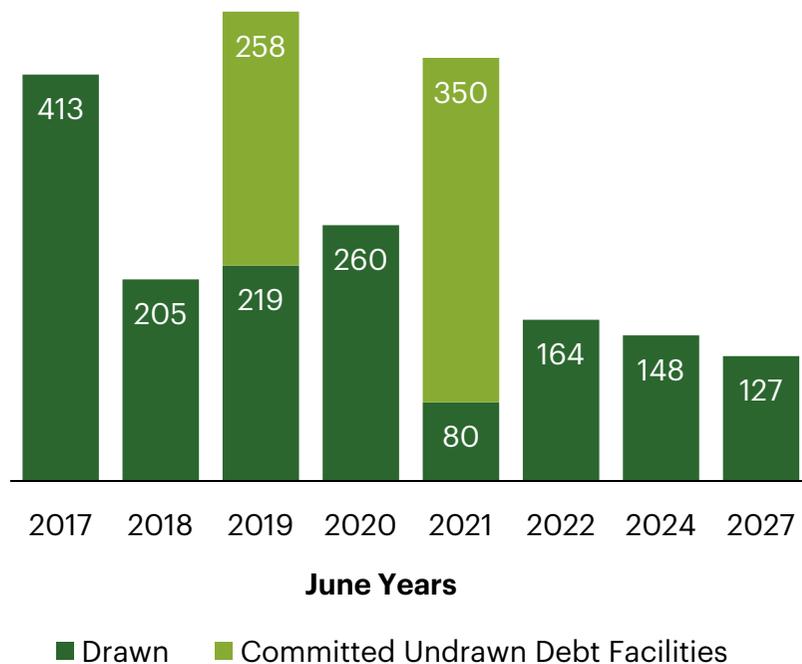


1. Earnings before interest, tax and significant items / average funds



# Debt profile

## Funding and Maturity Profile June 2016



Undrawn credit lines of \$608m and cash of \$356m

Average maturity of debt is 3.5 years

Approximately 61% of all borrowings have fixed interest rates

Average interest rate on debt is 5.4%

Mix of currency (hedged)

- NZ\$ 32%
- AU\$ 47%
- US\$ 14%
- Other 7%



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# Capital management settings

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**Fletcher Building will continue to target strong 'BBB' credit characteristics**

**Gearing:**

- Target of Net Debt to Net Debt + Equity (including Capital Notes) of 30-40%
- As at 30 June 2016: 27.3%

**Leverage:**

- Target Net Debt to EBITDA of 2.0 to 2.5 times
- As at 30 June 2016: 1.59 times

**It is intended that the group will not be materially outside target Gearing and Leverage ranges on a long run basis**

- Gearing and leverage metrics returned to within target range following completion of Higgins acquisition

**Target dividend pay-out ratio is 50% to 75% of net earnings (before significant items)**



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# Revised dividend tax crediting policy

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## Existing Policy:

- To frank Australian tax credits, or alternatively impute with New Zealand tax credits, to the extent franking or imputation credits are available for distribution

## New Policy:

- Fully impute both interim and final dividends with New Zealand tax credits
- Fully frank the final dividend with Australian tax credits, where possible

## Outlook:

- Expect to fully impute interim and final dividends in FY17, FY18 and FY19
- Unlikely to be in the position to fully frank FY17 final dividend



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# Strategy Update



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# Strategy summary

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**Target organic growth**

- Residential: New Zealand
- Construction: New Zealand and South Pacific
- Distribution: New Zealand and Australia
- Manufacturing: Growth through innovative products & services



**Deliver sustained uplift in performance of all businesses, leverage centres of excellence established with FBUnit**



**Lift the performance of underperforming businesses**



**Build people capability, grow leadership base and develop talent pipeline**



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# Portfolio rationalisation completed

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## Rocla Quarry Products sale completed in January 2016

- Total consideration NZ\$212m
- Gain on sale of NZ\$85m

## Joint Venture between Fletcher Aluminium and Nalco commenced on 30 June 2016

## Purchase of Higgins road construction and maintenance business completed 29 July 2016

- Purchase price NZ\$303m
- Includes NZ quarry assets



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# Accelerate leverages capability that was developed under the FBUnite programme

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- Accelerate builds on the work done in the 'Art of the Possible' bottom up analysis and 'Top down' validation
- Harnesses the power of the centralised functions and centres of excellence
- Co-ordinated through Group Transformation Office and tracked consistently across all businesses with a weekly cadence



# Accelerate opportunity set was identified across the following categories

	% OF TOTAL IDENTIFIED OPPORTUNITY
<b>Commercial ("Sell")</b>	20%
<b>Cost</b>	
- External spend ("Source")	42%
- Overhead ("Staff")	16%
<b>Manufacturing</b>	
- Manufacturing ("Make")	15%
- Distribution and Construction ("Deliver")	7%
<b>DIVISIONS</b>	
Building Products	37%
International	20%
Distribution	26%
Construction & Residential	13%
Corporate	4%
<b>Total</b>	<b>100%</b>



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# Chief Transformation Officer role created to coordinate and drive activities

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## People

- Transformation Office drives, governs and supports the Accelerate programme, supported by divisional and/or BU transformation roles



## Systems

- Online tool captures initiatives across the group that will deliver gross incremental benefit



## Cadence

- Weekly cadence cycle ensures focus on accountability, commerciality and execution





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# Outlook



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# Outlook FY17

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## New Zealand

- Residential consents expected to peak in FY18, but lag could mean peak activity occurs after this
- Non-residential activity forecast to remain steady at elevated levels
- Infrastructure work undertaken expected to continue to grow

## Australia

- Residential activity expected to gradually decline following peak in 2016
- Little growth forecast in non-residential activity

## Rest of World

- Asia: moderating growth in China, modest growth in Taiwan and SE Asian markets
- North America: relatively low growth, USA higher growth than Canada
- Europe: mixed outlook for Continental Europe, UK expect to grow modestly



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## Financial Outlook FY17

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**Operating Earnings (EBIT) expected to be in the range of \$720m to \$760m**

**Earnings from Higgins acquisition should offset the impact of discontinued operations:**

- Pacific Steel
- Rocla Quarry Products
- Fletcher EQR

**Corporate costs expected to be in line with FY16**

**Depreciation forecast to be \$238m versus \$194m in FY16**

**First half EBIT forecast to be higher than prior corresponding period**





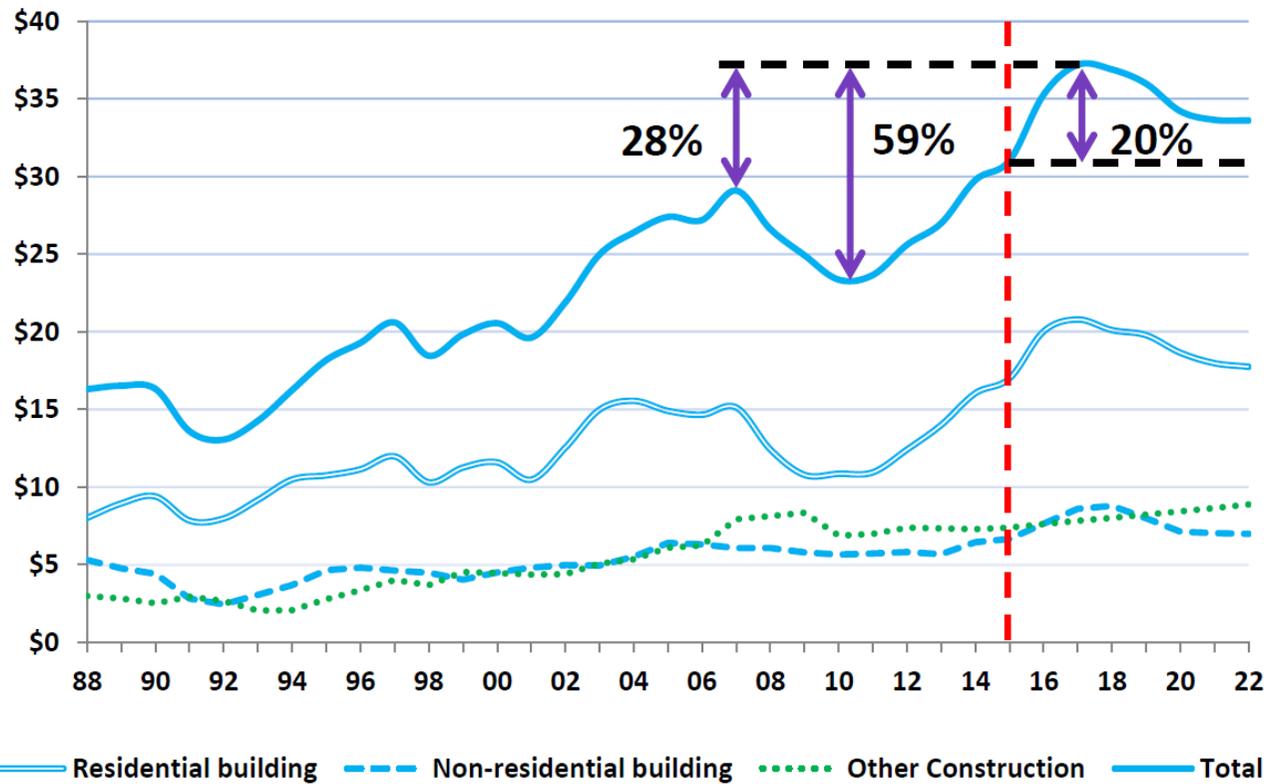
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# Q&A



# Appendix: New Zealand construction market has a strong outlook

**Value of all construction (historic and forecast)**  
**NZ\$bn**



Source: Statistics NZ/BRANZ/Pacifecon



## Appendix: Sectoral exposure

### Exposures based on revenues

Geographical Exposure by Sector <sup>1</sup>	Residential (New/A&A)*	Commercial	Infrastructure	Other
New Zealand	44%	30%	12%	14%
Australia	55%	22%	11%	12%
Rest of World	44%	50%	0%	6%
<b>Total Manufacturing</b>	49%	31%	9%	11%
New Zealand	79%	18%	0%	3%
Australia	55%	45%	0%	0%
<b>Total Distribution</b>	70%	28%	0%	2%
New Zealand	19%	49%	32%	0%
Rest of World	0%	50%	50%	0%
<b>Total Construction</b>	17%	50%	33%	0%

1. Excludes business sold or closed during the year

\* A&A – Additions and Alterations



## Appendix: Building consent data

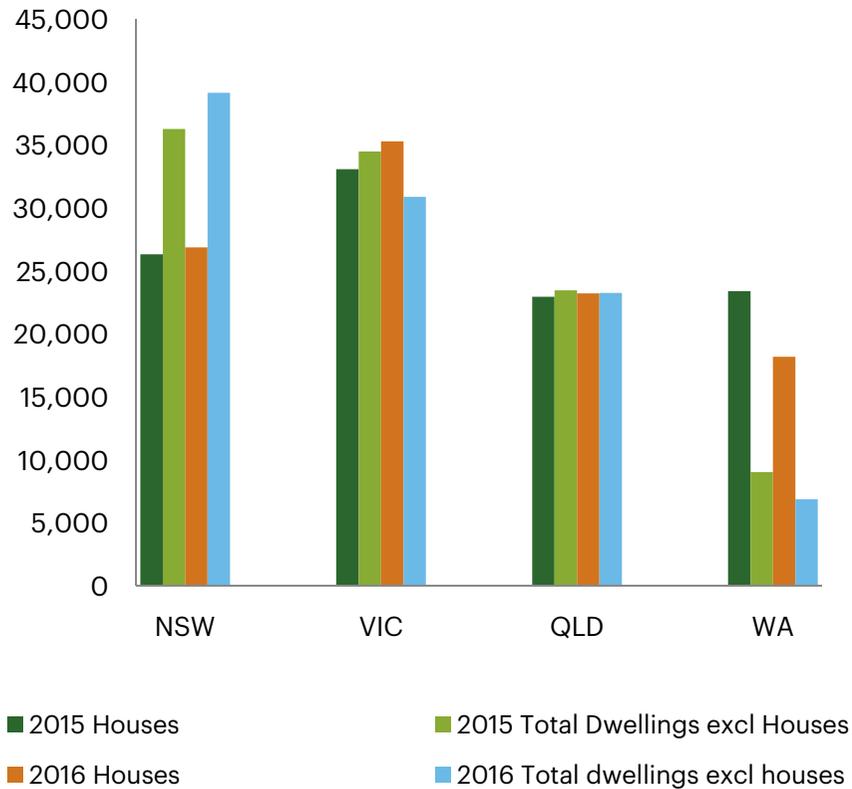
	June 2014 12 months	June 2015 12 months	June 2016 12 months	16/15 % Mvmt	
<b>New Zealand</b>					
Residential Consents	23,316	25,154	<b>29,097</b>	+16	
Res WPIP (\$m)	8,661	9,907	<b>11,244</b>	+13	
Non Res WPIP (\$m)	5,187	6,057	<b>6,572</b>	+9	
Infrastructure WPIP (\$m)	6,535	6,873	<b>7,017</b>	+2	
<b>Australia</b>					
<i>Source: Infometrics</i>					
Residential Consents	- Standalone houses	110,198	118,278	<b>115,110</b>	-3
	- Multi residential and other dwelling types	87,333	111,157	<b>108,176</b>	-3
	- Total	<b>197,531</b>	<b>229,435</b>	<b>223,286</b>	-3
Non Res WPIP (A\$bn)		35.5	36.1	<b>35.8</b>	-1
Infrastructure WPIP (A\$bn)		125.6	108.1	<b>91.7</b>	-15
<b>US (Billions of US\$) Calendar Years</b>					
<i>Source: ABS</i>					
Residential Consents (US\$bn)		371	417	<b>441</b>	+6
Non Res WPIP (US\$bn)		380	432	<b>454</b>	+5
Infrastructure WPIP (US\$bn)		234	237	<b>246</b>	+4

Source: HIS Global Insight



# Appendix: Strongest growth in NSW; Western Australia experience a significant decline in approvals

**Change in housing approvals – by state**  
12 months ended 30 June 2016 vs 2015



	June 2015 12 months	June 2016 12 months	% change
Stand-alone	118,278	115,110	-3
Multi + other Residential	111,157	108,176	-3
<b>Total</b>	<b>229,435</b>	<b>223,286</b>	<b>-3</b>



Source: HIS Global Insight



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## Appendix: Formica geographical earnings

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EBIT (NZ\$m) <sup>1</sup>	June 2015 12 months	June 2016 12 months	% change
North America	49	<b>56</b>	+14
Asia	19	<b>23</b>	+21
Europe	0	<b>-17</b>	N/M
Formica EBIT <sup>1</sup>	68	<b>62</b>	-9

1. EBIT: Operating earnings before interest, tax and significant items



# Appendix: Group Structure

<b>Building Products:</b> Matt Crockett	<b>International:</b> Francisco Irazusta	<b>Distribution:</b> Dean Fradgley	<b>Residential &amp; Land Development:</b> Steve Evans	<b>Construction:</b> Graham Darlow
<ul style="list-style-type: none"> <li>• GBCWinstone (NZ) including Higgins Aggregates</li> <li>• Firth (NZ)</li> <li>• Humes (NZ)</li> <li>• Rocla Pipelines (Aus)</li> <li>• Winstone Wallboards/Tasman Insulation (NZ)</li> <li>• Fletcher Insulation (Aus)</li> <li>• Iplex (NZ &amp; Aus)</li> <li>• Sims Pacific Metals (NZ)</li> <li>• FANALCO (NZ)</li> </ul>	<ul style="list-style-type: none"> <li>• Formica Asia</li> <li>• Formica Europe</li> <li>• Formica North America</li> <li>• Laminex (NZ &amp; Aus)</li> <li>• Roof Tile Group (NZ; Africa; Asia; Europe; USA)</li> </ul>	<ul style="list-style-type: none"> <li>• PlaceMakers (NZ)</li> <li>• Mico (NZ)</li> <li>• EasySteel (NZ)</li> <li>• Pacific Coilcoaters (NZ)</li> <li>• Fletcher Reinforcing (NZ)</li> <li>• Tradelink (Aus)</li> <li>• Stramit (Aus)</li> <li>• Tasman Sinkware (Aus)</li> </ul>	<ul style="list-style-type: none"> <li>• Fletcher Living (NZ)</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure (NZ)</li> <li>• Fletcher EQR (NZ)</li> <li>• South Pacific</li> <li>• Higgins Contracting (NZ &amp; Fiji)</li> <li>• Building + Interiors (NZ)</li> </ul>
<p><b>Supported by Fletcher Building Corporate Services:</b></p> <p>People and Communications – Kate Daly, Chief People and Communications Officer</p> <p>Strategy and Finance – Gerry Bollman, Chief Financial Officer</p> <p>Group Technology – John Bell, Chief Information Officer</p> <p>Governance and Property – Charles Bolt, Company Secretary and General Counsel</p> <p>Procurement, Marketing, Operations Excellence and Transformation - Lee Finney, Chief Transformation Officer</p>				

