Thursday 28 November 2019

FLETCHER BUILDING LIMITED

2019 Annual Shareholders' Meeting

Chair's Address

FY2019 Results at a glance

I would now like to recap our high level financial performance for the FY19 year on slide 5. Overall we delivered a solid result. We returned to profits, ended the year with a strong balance sheet and importantly we reinstated dividends.

Revenue for the year was $9.3 billion. Net Earnings were $164 million. These were impacted by $234 million of significant items and there were two main components to these: $140 million of write offs associated with the sale of our international businesses - Formica and RTG; and around $78 million of costs associated with the intervention and reset of the Australian businesses.

EBIT was $631 million and was within our guidance range. The prior year included the B+I losses and after adjusting for this, profits were lower this year. The main drivers for this came from three areas: the divestment of the SIMS and Dongwa businesses late in FY18; the impact of competitor activity in the Steel sector; and the lower earnings from our Australian division as the impacts of the Residential slow down, input costs and mixed operational performance hit our businesses. These were partly but not completely offset by a better result from Formica and lower corporate costs.

A key priority in FY19 was to materially strengthen the Group's balance sheet and provide a robust platform for the execution of the go-forward strategy. Largely as a result of the highly successful Formica divestment, our Group net debt decreased from $1.3 billion at June 2018 to $325 million at June 2019.

Overall this provides a really strong foundation for growth. The Group will continue to maintain a prudent approach to balance sheet management as we execute the strategy. Meanwhile our return on funds at 11.8% was lower than we target, and this was mainly a reflection of the underperformance of our Australia businesses. Finally on this slide, cash flows from operations were $153 million and reflected a strong second half performance.

Returns to shareholders: dividend reinstated, share buyback underway

Turning now to shareholder returns. We are pleased to have reinstated dividends this financial year. The Board paid a total dividend of 23 cents per share for the year. This was comprised of a final dividend of 15 cents and an interim 8 cent dividend. Our dividend policy remains unchanged, which is to pay out 50-75% of net profit (before significant items), having regard to available cash flows in the period.

In sizing the dividend for the year, the Board considered the Group's strong financial position, the efficiency of returns to shareholders, and weighted the dividend to the final payment due to the timing of receipt of the Formica proceeds. The Group does not currently have tax credits available and so the dividends were unimputed and unfranked. The Dividend Reinvestment Plan was also not operative.

In September this year we commenced our on-market share buyback. The completion of the Formica transaction this year materially de-levered the Group's balance sheet. We are retiring all debt where it is sensible to do so, and we will only allocate capital to investment opportunities that make strategic sense. After careful consideration, we decided that there was incremental capital available to be distributed with the most optimal way being via a share buyback. This will deliver value to shareholders and drive accretion in earnings per share.

The Group intends to redistribute up to $300 million to shareholders through this programme. So far, we are making excellent progress in the programme, with a total value of $106 million of shares already acquired.

FY2019 performance – continuing operations

Slide 7 covers the 'go forward' business net of the divested businesses. In the New Zealand based divisions total revenues were $5.4 billion, up 3%. EBIT was $532 million versus a loss of $97 million the prior year, which included the B+I losses.

In Australia, we had a tough year. While revenue was maintained, earnings halved. The sharp decline in the residential market resulted in much greater competitor intensity across the businesses, which limited the ability to achieve any significant price increases through the year. Margins were further impacted by increased input costs.

Against this backdrop we made a decisive intervention to materially reset the cost base as well as continuing to selectively invest where opportunities present themselves. Lifting the performance of our Australian business is a key area of focus of Management and the Board.

FY2019 balanced scorecard

Before speaking to slide 8, I wish to express my sincere condolences on behalf of the Fletcher Building Board and the entire company, to the families and friends of the five men we tragically lost during the year.

The death of one of our people is by far the worst thing that can be experienced as a Chair, Director, Executive member, or for anyone working in the business. But it pales in comparison to what is experienced by those who knew these men best. To the families, friends and colleagues of Andrew, Chandra, Dave, Haki and Soul, I cannot express enough our deepest sympathies.

As a result of these events we have looked even harder at our safety programme, Protect. The Board and Executive have resolved to carry out a business-wide reset of safety across the entire Fletcher Building business. This has already commenced and is known as the Protect Reset. This programme of work has the full support and oversight of the Board and Executive, and is of the highest priority.

Turning now to the detail on slide 8, and our balanced scorecard. This scorecard outlines the non-financial metrics that are most important to our business and by which we will judge our performance. Starting from the top left, safety is the most critical of them all. As I have outlined, we have a considerable programme of work through the Protect Reset to undertake in FY20 and beyond. The only safety performance we will ever be happy with is zero-harm. Pleasingly our employee engagement is continuing to rise and now sits at 71%, in line with our peers. Our medium-term target is to get this to best practice and above 80%. Our Carbon emission intensity reduced. And we continue to see ongoing improvement in our Customer net promoter scores. We want to drive these to best in class levels across all our businesses over the medium term.

Sustainability Strategy

Turning to slide 9, I would now like to share with you our new Sustainability Strategy. This is a critical component of how we will deliver long-term, and sustainable growth to our shareholders.

Our sustainability strategy focuses on six key priorities. We agreed these priorities by looking at what is most important to our business and to our stakeholders, such as our customers and communities, as well as where we can have the most impact as a business.

Starting on your left is people and communities. This is where our Protect Reset sits, as well as the initiatives we have underway to improve diversity and inclusion in our businesses, develop our people, and build strong relationships with our communities. By the end of this financial year we will have a comprehensive gender pay parity plan in place.

Next we have a focus on improving the transparency of our environmental, social and governance reporting, including the implementation of integrated reporting in the coming years. Becoming the leader in making sustainable building products is critically important and will see us pursue sustainability product certifications across our portfolio. This will not only reduce the environmental impact of our products, but give them a competitive advantage in the marketplace.

The careful management of our resources and emissions is our next key priority. We understand the important role business plays in supporting the efforts of Governments and communities to reduce the impacts of climate change. For our part, we have committed to science-based targets for reducing our carbon emissions. In addition to this, we have set reduction targets for water use and waste.

Next, we will partner with our supply chain to improve reporting and deliver more sustainable outcomes. We will continue our work against modern slavery and to improve human rights in our supply chain. And last but not least, we will ensure we are building healthy homes and sustainable infrastructure – including meeting a consistent sustainability standard for our construction projects.

The improvements we are making on sustainability have recently been recognised with Fletcher Building being included in the Dow Jones Sustainability Australia index for the first time. We want our business to thrive and we are committed to playing our part in a sustainable future and we believe this will create long term value for you, our shareholders.

Governance

Looking now at Governance on Slide 10. The Board was reset in September last year. We are all extremely proud of Fletcher Building and its long history and I am pleased with the momentum and progress we made through this year. We worked through a solid agenda with some highlights which included:

- Strengthened governance, including revitalised delegated financial authorities, the implementation of commercial golden rules and a policy refresh.
- Comprehensive induction of the new Board and the re-organisation and composition of board committees.
- Adoption of the new NZX listing rules and roll out of Board and management training on the new regime. Today we have a special resolution on the new constitution which will align with the new listing rules.
- And as I have already mentioned, the systematic review of the company's approach to health and safety

Of particular importance for the Board has been building on constructive relationships with our stakeholders - including industry, government, financial markets participants and customers. The role Fletcher Building plays in the market is an important one and it is critical to our success that we ensure our relationships across all stakeholders are strong.

During the year we appointed Peter Crowley to the Board. Peter is standing for election today and will have the opportunity to address the meeting shortly. Peter brings with him a wealth of leadership, commercial and operational experience from leading Australian building product companies that will further enhance the industry experience of the Board, and importantly, deep experience of the Australian market. Fletcher Building's strategy includes a significant agenda in Australia and Peter's extensive building products and local market knowledge will be an asset to the Board and the Company as we progress the turnaround of our businesses there.

As a Board, we are confident we have the range of skills, experience, expertise and diversity of thought to support Fletcher Building's strategy and to appropriately govern the Company. You can be assured that we have appropriate governance and oversight of the operations of the Group.

Ihumātao

I would now like to make some comments on our development at Ihumātao. The development has been widely discussed in the media and by various parties, and so I would firstly like to take this opportunity to clarify a few matters. We bought the land for development in good faith. It is private land and had been operated and developed as farmland since the 1860s, and then subsequently zoned for housing development by the Auckland Council.

We consulted with iwi, and worked to create an empathetic development solution, which gifted back a third of the land to provide an additional buffer between our development and the adjacent historic reserve, and to protect areas of historical significance. We also committed to provide affordable housing for iwi.

The development has been exhaustively tested through the Courts and all objections have been unsuccessful, and our development approved. So while we fully understand and respect the fact that there are diverse views on this topic, we have acted both ethically, legally and sensitively during the development process.

That aside, when the Prime Minister asked us to pause the development to allow discussions between Government and iwi to take place, we agreed to do this. Our development has now been paused for almost four months because we want to support a mutually satisfactory outcome.

Our discussions with Government are continuing, and we have been advised that the Government is hopeful of achieving a resolution by the end of the calendar year.

NZICC fire

Separately, I'd like to make a comment regarding the fire at the NZICC. Ross will speak to the detail, but I would like to convey my sincere thanks on behalf of the Board to the fire and emergency services teams for their tireless work bringing the fire under control and keeping the Auckland CBD safe. We wish to acknowledge their considerable efforts, and those of our customer SkyCity and our people working on the project, during what was a very difficult period for everyone involved.

We are committed to completing this project and opening the convention centre for the benefit of all New Zealanders.

Delivering the strategy

Turning now to slide 12, which lays out the timeline of the strategy we established to focus Fletcher Building and lead it to growth. When I spoke to you at last year's Annual Meeting, we were six months into that new strategy, and we had already put in place a Board reset to support this new strategic direction.

There were three broad stages in front of us, the first stage of which we concentrated on in FY19 noted by the grey shaded box. FY19 was about focussing and stabilising the business and putting in place the strong foundations we need to move into growth. It was about staying focused on the core NZ operations, stabilising Construction and getting it back to profits, setting the Australia Division up for turnaround and getting the non-core businesses, which created geographic complexity, sold. Pleasingly we achieved all of this.

This has set us up for FY20 and beyond, where our focus has shifted to performance. Ross will give more detail on how we are thinking about the year ahead shortly and the actions we are taking to drive performance. And then beyond FY20, the final stage is focusing on achieving above market growth.

The success of Fletcher Building is our focus as a Board, but it is not lost on us that it is also critically important to the 17,000 people we employ across New Zealand, Australia and the South Pacific; our Governments, who we partner on incredibly important projects in housing and infrastructure; the communities in which we operate; the suppliers and contractors who rely on us; and our customers – without which we wouldn't have a business to start with.

The Board looks forward to continuing to work with all our stakeholders as we pursue our vision of becoming the undisputed leader in New Zealand and Australian building solutions, with products and distribution at our core.

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