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# 2019 Annual Shareholders' Meeting

28 November 2019

Fletcher Building Limited  
Annual Shareholders' Meeting 2019



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# Bruce Hassall

Chair

Fletcher Building Limited  
Annual Shareholders' Meeting 2019



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# Directors

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**Martin Brydon**



**Tony Carter**



**Barbara Chapman**



**Peter Crowley**



**Rob McDonald**



**Doug McKay**



**Cathy Quinn**



**Steve Vamos**



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# Meeting agenda

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Chair's address

Chief Executive Officer's address

Voting on Resolutions

General Q&A

Refreshments



## FY2019 results at a glance

<p>Revenue</p> <p><b>\$9,307<sub>m</sub></b></p> <p>FY2018 \$9,471m</p>	<p>Net Earnings/(Loss)</p> <p><b>\$164<sub>m</sub></b></p> <p>FY2018 (\$190m)</p>	<p>EBIT*</p> <p><b>\$631<sub>m</sub></b></p> <p>FY2018 \$50m</p> <p>* Before significant items</p>	<p>EPS*</p> <p><b>43.0<sub>c</sub></b></p> <p>FY2018 (8.1c)</p> <p>* Before significant items</p>
<p>Net debt</p> <p><b>\$325<sub>m</sub></b></p> <p>FY2018 \$1.3b</p>	<p>Leverage ratio</p> <p><b>0.4<sub>x</sub></b></p> <p>FY2018 4.8x</p>	<p>Return on Funds Employed</p> <p><b>11.8%</b></p> <p>FY2018: 0.9%</p>	<p>Cash Flow from operating activities</p> <p><b>\$153<sub>m</sub></b></p> <p>FY2018: 396m</p>



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# Returns to shareholders: dividend reinstated, share buyback underway

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Dividends

23c

FY2018 nil

Share buyback of up to



\$300m

\$106m spent so far

- Dividend policy to pay dividends in the range of 50%-75% of net earnings before significant items and having regard to available cash flow<sup>1</sup>
- Return of capital to shareholders via share buyback is tax effective for shareholders and increases the relative earnings per share



## FY2019 performance – continuing operations

<b>Group</b>	<b>External Revenue</b> <b>\$8,308m</b> FY2018 \$8,211m	<b>EBIT<sup>1,2</sup></b> <b>\$549m</b> FY2018 (\$28m)
 <b>New Zealand Divisions</b>	<b>\$5,375m</b> FY2018 \$5,239m	<b>\$532m</b> FY2018 (\$97m)
 <b>Australia Division</b>	<b>\$2,933m</b> FY2018 \$2,972m	<b>\$57m</b> FY2018 \$114m

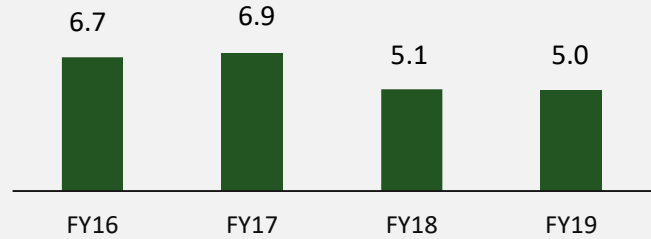


# FY2019 balanced scorecard

## Safety



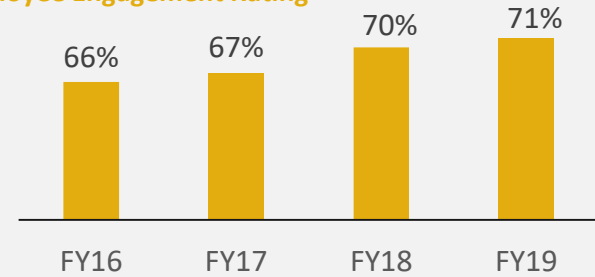
### Total Recordable Injury Frequency Rate <sup>1</sup>



## Engagement



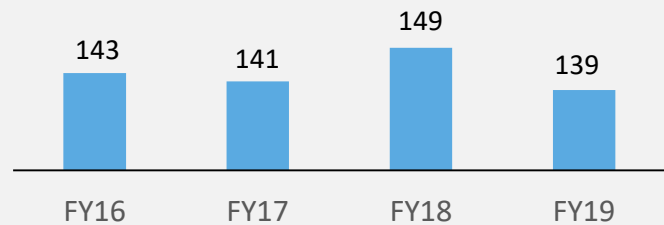
### Employee Engagement Rating



## Sustainability



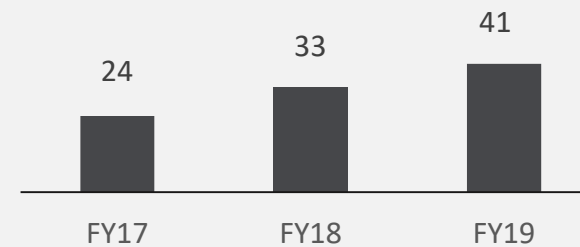
### Carbon Emission Intensity <sup>2</sup>



## Customer



### Net Promoter Score <sup>3</sup>



<sup>1</sup> TRIFR = Total no. of recorded injuries per million man hours worked.

<sup>2</sup> Carbon Emission Intensity = FBU Co2 Tonnes for every \$1m of revenue. Restated per ISO 14064-1, previously overestimated; increase in FY18 is due to Higgins acquisition

<sup>3</sup> Net Promoter Score calculated as % Promoters (9 - 10) minus % Detractors (0 - 6).





# Sustainability strategy



- Significant focus on health and safety through Protect safety reset
- Diversity and inclusion
- Science-based target for reducing our carbon emissions
- Dow Jones Sustainability™ Australia Index inclusion



# Governance

## Board Skills Matrix



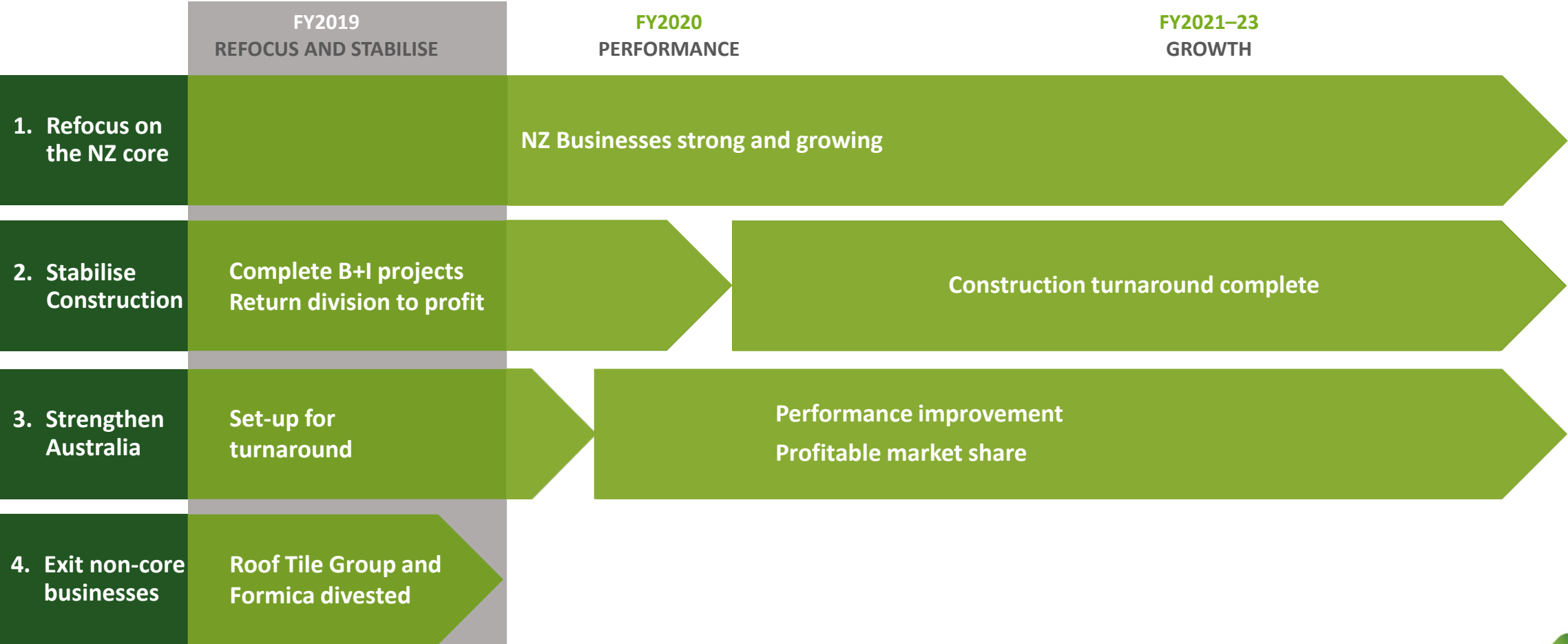
- Strengthened governance, including revitalised delegated financial authorities, implementation of golden rules and policy refresh
- Comprehensive induction of the new Board and the re-organisation and composition of board committees
- Adoption of the new NZX listing rules
- Systematic review of the company's approach to health and safety
- Emphasis on stakeholder relationships
- Strength and depth of skills on Board to effectively govern Fletcher Building Limited
- Board performance review underway



# Ihumātao



# Delivering the strategy



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# Ross Taylor

Chief Executive Officer

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Firmly focused on our future

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***To be the undisputed leader in New Zealand  
and Australian building solutions –  
with products and distribution at our core***



# Positions us well to drive shareholder returns into the future



Focus



Consistency



Leveraged to upside



Strong balance sheet, strong cash flows



Well positioned for macro trends



## FY23 TARGETS

- Revenue growth above background market growth
- Core business margin improvements in NZ and Australia
- Return on Funds Employed (ROFE) >15%

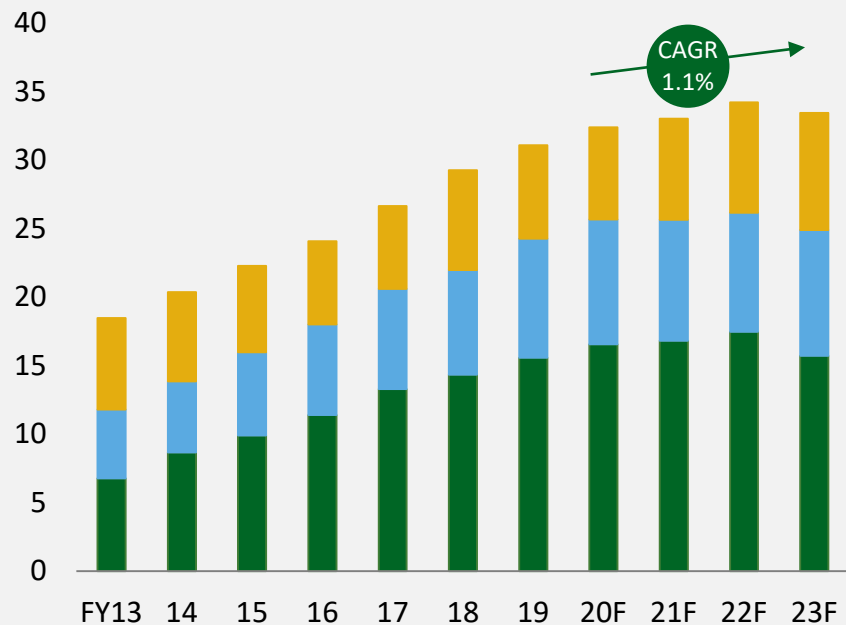


# Medium term market outlook is forecast to be supportive

## New Zealand Market



NZ Historical and Forecast Market Outlook (NZ\$b)<sup>1</sup>



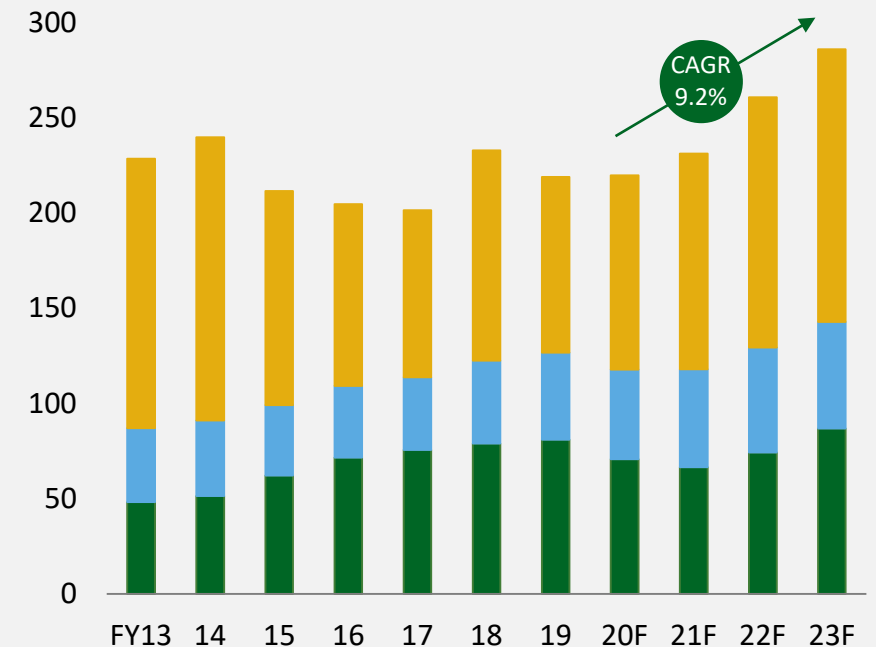
Population growing at 1.2% 20-23 CAGR

CAGR 1.1%

## Australia Market



AU Historical and Forecast Market Outlook (AU\$b)<sup>1</sup>



Population growing at 1.5% 20-23 CAGR

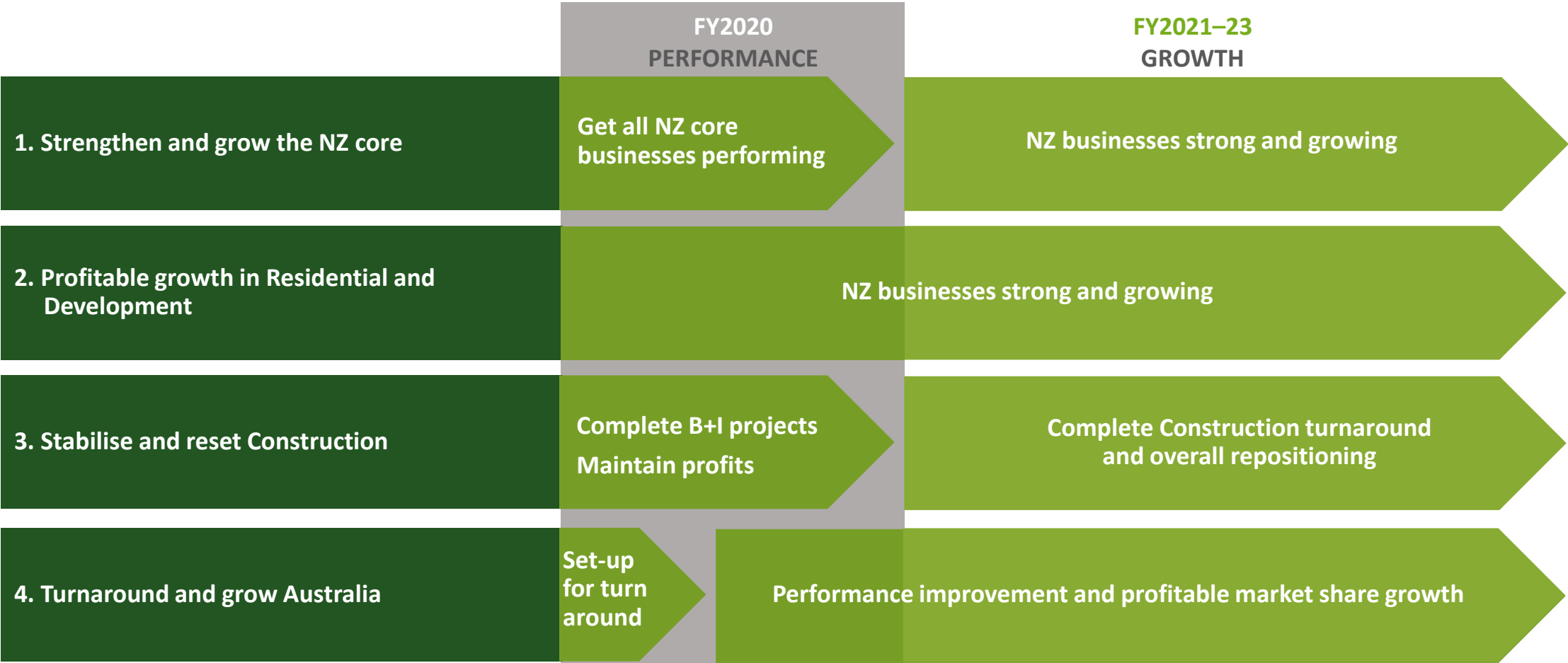
CAGR 9.2%

Key: Residential Non-Residential Infrastructure / Other





# Focus now on driving consistent performance and setting up for growth



# Executive Team well positioned to drive and lift performance

## Operational Heads



**HAMISH  
MCBEATH**  
Chief Executive  
Building Products



**BRUCE  
McEWEN**  
Chief Executive  
Distribution



**IAN  
JONES**  
Chief Executive  
Concrete



**STEVE  
EVANS**  
Chief Executive  
Residential &  
Development



**PETER  
REIDY**  
Chief Executive  
Construction



**DEAN  
FRADGLEY**  
Chief Executive  
Australia

## Functional Heads



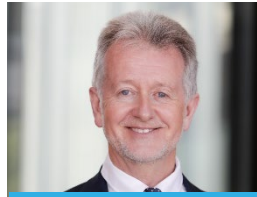
**BEVAN  
McKENZIE**  
Chief Financial  
Officer



**CLAIRE  
CARROLL**  
Chief People &  
Communications  
Officer



**ANDREW  
CLARKE**  
Company Secretary &  
General Council



**DAVID  
MOSS**  
Acting Chief  
Information Officer



**WENDI  
CROFT**  
Chief Health &  
Safety Officer



# NZ core has good market positions, but margins under pressure



**Building  
Products**

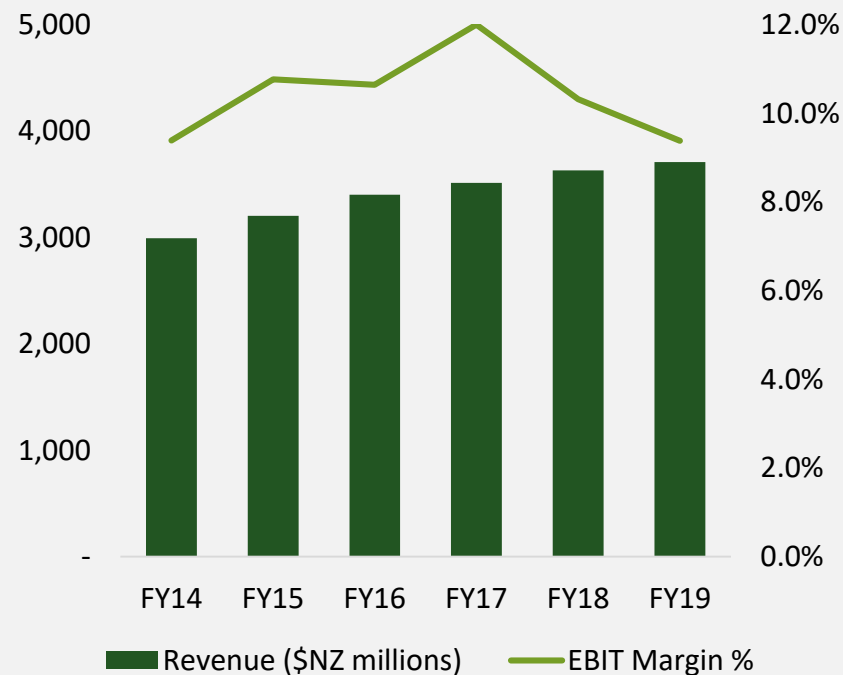


**Distribution**



**Concrete**

## Gross Revenue And Margin FY14-FY19



## Current Position

- #1 or #2 position in all businesses
- Revenue has grown in good market conditions
- Margin compression through input cost pressures and competitive markets
- Limited recent new product innovation or moves into logical adjacencies



# Positioning the NZ core for margin improvement and growth

## Key Focus Areas



## What We Are Doing

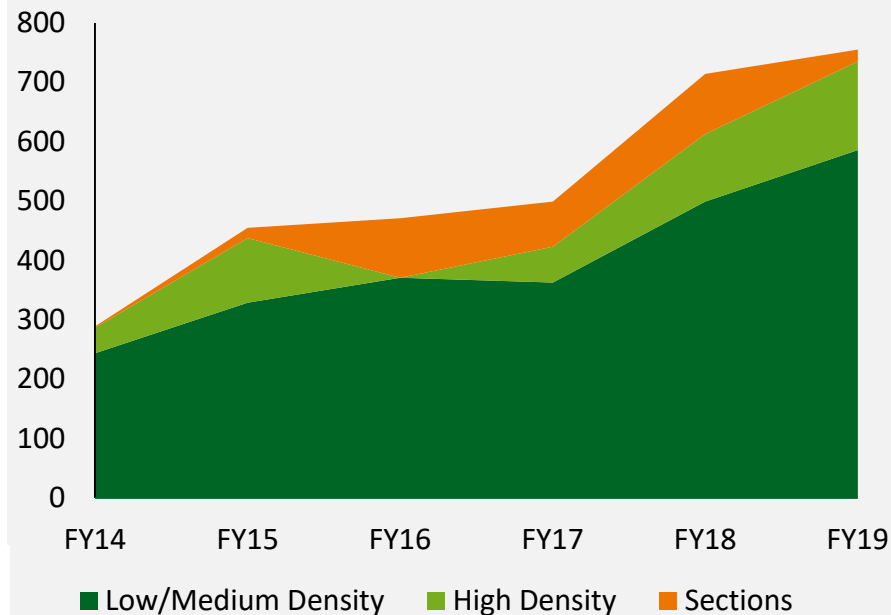


# Highly successful Residential and Development division



## Residential and Development

### Residential Units Sold FY14-FY19



### Current position

- #2 house builder in New Zealand
- New home sales mainly priced \$600-900k
- 755 residential units sold in FY19
- Strong operating disciplines
- Strong customer focus
- c5,000 future lots under control, c5 years' supply



# Ability to scale Residential further

## Key Focus Areas



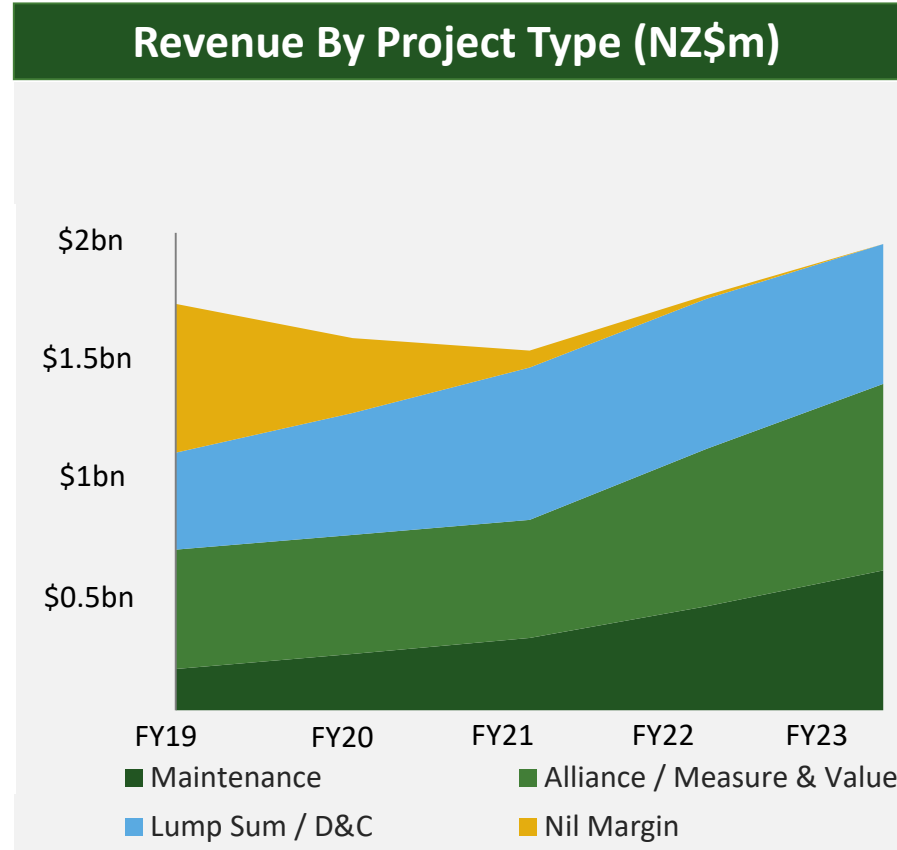
## What We Are Doing



# Pivoting Construction to a more balanced portfolio



## Construction



## Current position

- The leading contractor in NZ and the South Pacific
- c10% market share
- Strong positions in roading, infrastructure
- Focused re-commitment to vertical
- More balanced portfolio in the future:
  - 1/3<sup>rd</sup> Lump Sum / D&C
  - 1/3<sup>rd</sup> Alliance / Measure & Value
  - 1/3<sup>rd</sup> Maintenance



# Growing Construction in profitable sectors

## Key Focus Areas



## What We Are Doing





# Update on NZICC

- Fire at NZICC construction site in October
- All staff and subcontractors on site evacuated safely
- Extremely grateful to the Fire and Emergency teams
- We remain committed to delivering a world-class convention centre for Auckland and New Zealand
- Plan to restart the project as quickly as possible
- Contract Works and Third Party Liability insurances will respond to loss and damage
- Expect to be in a position to provide a further update at half-year results announcement in February 2020

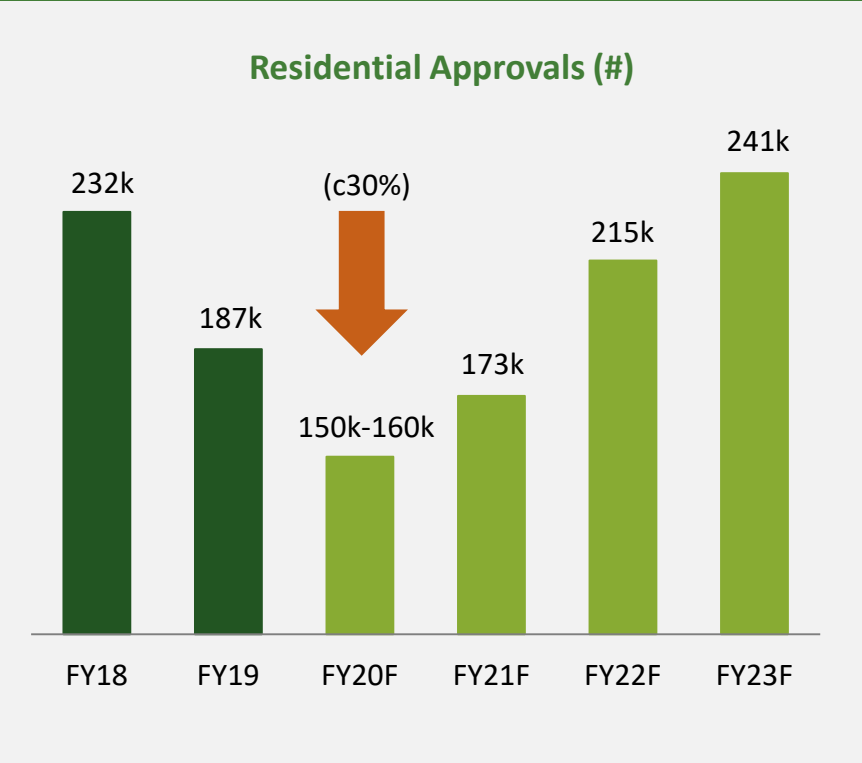


# Intervened in Australia and dealing with market downturn



Australia

## AU Historical and Forecast Market Outlook



## Current Position

- #1 or #2 position in all businesses
- 54% exposed to Residential market
- Decline in Residential market, higher input costs, leading to price /margin pressure
- Decisive intervention to set the business up for performance improvement and growth: clear BU priorities, cost-out programme, targeted growth investment, and talent development
- Continue to target 7% EBIT margin in the medium term



# Australia cost out and growth investment progressing well

## Key Focus Areas



## What We Are Doing



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# Continued focus on our key enablers to drive performance

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**Strong safety culture**



**Engaged and capable people, lean operating model**



**Fit for purpose systems, next generation digital capabilities**



**Disciplined performance improvement and capital allocation**



**Leading innovation and local adaptation anchored in environmental consciousness**



**High level of customer intimacy built through owning channels to key segments**



# Market and trading update – New Zealand

## New Zealand Trading Update



- Core divisions – Building Products, Distribution, Concrete:
  - Finishing trade volumes remain strong, supporting good performance in plasterboard, insulation, laminates
  - Civil, infrastructure and early trade work trending slightly lower, leading to slight easing in demand for concrete and pipes
  - Steel market remains highly competitive
- Residential & Land Development:
  - Strong demand for houses in key \$600k-\$900k segment, prices remain supportive
  - First of two Land Development transactions completed in July, second scheduled to complete in late H1 or early H2
- Construction: Higgins' asphalt works impacted by wet first quarter, no change to B+I provisions based on information currently available

## New Zealand Market FY20 Outlook

- Residential activity to ease slightly off peaks, with continued trend to higher proportion of multi-residential dwellings
- Commercial activity to remain steady
- Infrastructure spend to ease in major roading, with increased spend in road safety, water, and rail



# Market and trading update – Australia

## Australia Trading Update



- Cost-out programme progressing to plan
- Good turnaround momentum in Laminex, Fletcher Insulation
- High competitive intensity placing continued pressure on price and margin in Stramit and Tradelink
- Infrastructure project delays expected to have some near-term impact on Iplex-Rocla in FY20

## Australia Market FY20 Outlook

- Residential contraction expected to bottom in FY20 in line with prior expectations (c150k-160k housing approvals)
- Commercial activity to remain steady
- Infrastructure project activity to remain lumpy, with an expected lift in project commencements in key sectors in calendar 2020



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## FY20 outlook

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- FY20 EBIT before significant items expected to be in the range of \$515 million to \$565 million
  - New Zealand core: earnings solid overall; Steel impacted by ongoing high competitive intensity
  - Residential & Land Development: Residential earnings to grow slightly on prior period; Land Development returns to c\$25m p.a. EBIT run-rate
  - Construction: broadly stable earnings driven mainly by upcoming roading season
  - Australia: earnings weighted to H2 as benefits of cost out programmes ramp up; pipes businesses impacted by lumpy infrastructure project activity



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# Resolutions and Voting

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# Resolutions

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## Ordinary Resolutions

- Resolution 1 – Election of Peter Crowley
- Resolution 2 – Auditor fees and expenses

## Special Resolution

- Resolution 3 – To adopt a new Constitution



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# Appendix

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# Summary of FY20 metrics already communicated



## Land Development

- Land Development earnings to return to medium term average of c \$25m p.a. (c\$30m lower than FY19)



## Australia

- Targeting \$100m gross annual cost-out benefit by FY21; expect c\$15m of this to flow to net EBIT benefit in FY20 and c\$50m in FY21

## Corporate Costs

- Normalised run-rate of c \$55m p.a. (c\$15m higher than FY19)

## Depreciation and Amortisation

- c \$200m<sup>1</sup> (c\$25m higher than FY19)

## IFRS 16

- c\$50m increase in EBIT, c\$15m reduction in NPAT

## Funding Costs

- Funding costs expected to be c\$80-\$90m (excl. lease interest costs under IFRS16)

## Capex

- Expected to be in the range of \$275-\$325m (excl. WWB plant investment)

## Buyback

- Up to \$300m on-market share buyback

## Dividends

- Dividend policy to pay dividends in the range of 50%-75% of net earnings before significant items and having regard to available cash flow



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# Important Information

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This presentation dated 28 November 2019 should be read in conjunction with, and subject to, the explanations and views of future outlook on market conditions, earnings and activities given in the 2019 Annual Report and management commentary published on 21 August 2019.

In certain sections of this presentation the Group has chosen to present certain financial information exclusive of the impact of Significant Items and/or the results of the Building + Interiors (B+I) business unit, consistent with previous market guidance. Where such information is presented, it is clearly described and marked with an appropriate footnote. This allows the readers of this presentation to better understand the underlying operations and performance of the Group.

The Group's financial results, including comparative information, have been presented in accordance with the revised divisional structure announced on 21 June 2018.

