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Fletcher Building

Tuesday 19 October 2021

FLETCHER BUILDING LIMITED

2021 Annual Shareholders' Meeting

Chief Executive Officer's Address

FY21 performance delivered, well-positioned for further performance improvements and growth

On this first slide, we show a high-level view of the plan we have been working to in Fletcher Building for the last three years. Pleasingly we continue to remain on track with very solid performance outcomes being achieved across all areas of our business last year.

Importantly, and as Bruce noted, this performance is showing up in our bottom-line results.

We are in great shape to build from this position and drive, both further operational improvements, and above market sales growth over the coming years.

FY21 - growth in margins, cash flows and returns

Moving to the next slide and before I get into the detail, you will see on this slide that we've provided three years of comparison numbers. We have done this as we felt the FY19 year was a more meaningful comparator year than FY20 – as you will recall the FY20 year was significantly impacted by COVID restrictions on our business, particularly in NZ.

Turning now to the slide and working across it from left to right. Our profitability, (or EBIT margins on revenue) continued to improve and were 8.2% for the year. Notably, our trading cash flows were very strong at $929 million. I would point out however that we expect cash flows to be lower this year as we replenish our housing stock in the Residential development business, and inventories generally.

And finally on this slide, our Return on Funds Employed (or ROFE) was 18.6% for the year. This was a solid result, and well ahead of our base target of 15%.

Strong balance sheet, supporting capital returns and investment

This slide shows that at the end of FY21 our balance sheet was very strongly positioned with net debt levels sitting at $173 million, and liquidity sitting at $1.6 billion.

This balance sheet strength allows us to support the share buyback, our new wallboards plant, the necessary inventory rebuild after a busy year, the completion of the construction legacy

projects and still maintain a strong balance sheet. We forecast that after all of this, that debt levels will sit slightly below the bottom of our range.

Importantly this provides us with ample capacity to drive targeted growth investments which I will outline shortly.

Strategic goals focused on continuing to drive operational performance and top line growth

Our sights are now firmly set on ensuring that we continue to both improve our operational performance and grow the top line from here. This slide summarizes on one page where our focus is going to support this, and our aspiration to be "The leader across NZ and Australia in Building Products and Solutions."

There are 5 key areas we are focused on,

1. We have a belief all injuries are preventable, we want to get everyone home safely, each and every day.
2. We want to see each business absolutely focused on its customers making sure the solutions, and services that they are offering to them, are better than what anyone else in the market can achieve.
3. We need to be ever vigilant that we have our costs under control against both local and global competition. To achieve this we will relentlessly benchmark, evolve, and invest to ensure we maintain this position.
4. We want the economic performance of each of our businesses, to be in the top quartile of similar businesses globally, not just our local competition.
5. And finally, we need to take advantage of both; our relative scale in New Zealand and Australia, and our distance from the larger Northern Hemisphere markets. This allows us to innovate, and drive sustainability, as a fast follower, and, to disrupt our home markets and ourselves before others do. This done well, should allow us to readily achieve above market growth in our revenues.

Clear path to c.10% EBIT margin in FY23

As we look ahead we are confident we can continue to deliver against the plans we laid out three years ago. We remain on track to get our overall EBIT margins to around 10% by FY23. This improvement will be achieved from four key areas.

Firstly: By lifting margins in Australia into the 5-7% range. This will build on our present momentum, and come from continued improvements in our operating disciplines, and the delivery of the numerous growth initiatives we already have underway

Secondly: By lifting Construction margins to above 3%. With our forward order book now being reset to a lower risk profile and higher margins, our people skills and systems improved, and the nil margin legacy work broadly completing through FY22. We are confident our overall margins from construction will move above 3% into FY23.

Thirdly: We will continue to drive margin expansion across the NZ core businesses. We still have further runway in front of these businesses for both; ongoing operational improvements, and product adjacencies that will support further margin expansion into the future.

And finally: We will get a natural profitability uptick at the group level, as we grow our Residential house sale volumes in the coming years.

Driving medium-term growth with investments within our base numbers

Beyond the operational and margin improvements I just outlined, we also are focused on driving our top line growth.

Across the Divisions our growth efforts are focused across many areas and include; new localities, new products, existing products we can grow through refreshes, customer services we can expand, and growing our ecommerce sales volumes and channels.

Just by way of example, our digital sales run rate across Fletcher Building now sits at around $450 million per annum. This is up from virtually nil, 2 years ago.

At the group level, we have a team focused on scanning the world looking for relevant innovations and start-up companies that are doing things that we can potentially commercialise in our markets. This team also assists our businesses bring their new ideas to maturity. Importantly we are also accelerating the upgrade of our backbone systems to support the strong growth we are seeing in digital, data and all things ecommerce.

To ensure we maintain this growth focus and momentum we have earmarked around $50 million to $100 million of our base capex spend, and around $30 million to $40 million of our base overhead spend each year to support this.

A strong emerging pipeline of larger growth opportunities

Beyond what I would call “base business” growth, we are also looking at a growing pipeline of larger and more material opportunities.

Examples of these are shown here on the slide and include:

1. Plans that will see our residential housing business grow by around 550 housing units per annum over the next 3 years.
2. Scaling up, our offsite housing manufacturing business Clever Core and this has two benefits; we get a material new business in its own right, and by being able to build our houses faster we will use less annual working capital per house, and effectively make the capital we have in this business “work harder”.
3. In Concrete, we will introduce pozzolans (ground volcanic rock) into our standard concrete mixes. This does several things; it lets us reduce the embedded carbon in our concrete by around a further 30%, and then, with greener concrete than our competition, we expect to win extra market share, and it also allows us to grow concrete volumes without scaling up our Portland cement plant.

4. And in Australia, we are looking to disrupt the kitchen cabinetry market with our Haven Kitchen's offer, and we have now opened our first stores in Melbourne. Its proposition for kitchen installers is that they can get a full high-quality kitchen in one day. This compares very favourably with the traditional 6 week lead times across the industry now.

Importantly we expect to progressively add to this list, as other opportunities we are working on mature, therefore adding to the strong confidence we have around our growth prospects into the future.

Strong residential and infrastructure markets, stable commercial

Looking now at our markets. I would characterise both our New Zealand and Australian markets as looking solid into the medium term.

The NZ market continues to see strong residential consenting levels and high planned levels of government infrastructure spend. That said, ongoing supply chain and labour constraints mean that the New Zealand construction sector is currently at, or near capacity. This dynamic means that consent and project commitments will not flow directly into work volumes and is likely to have the impact of extending the higher levels of building activity through FY22 and beyond.

In Australia, the outlook for residential remains resilient, particularly across the detached housing and renovations subsectors, while the Commercial and key civil sectors seem to be stabilising at current levels. Like NZ, the Australia government is committed to infrastructure spend into the future.

COVID-19 impact on FY22

I now want to briefly touch on the impacts we are seeing from COVID so far this year.

In New Zealand through August and September, we were forced to close almost all of our business operations across the full country for two weeks, and in the Auckland region for five weeks.

Throughout the lockdowns, all our staff were fully remunerated and their health and wellbeing was supported through various programs and initiatives.

Trading either side of these lockdowns has been very solid, and at levels above the prior year, and provided New Zealand stays at these present lockdown levels or better, we would expect the trading conditions to remain above last year.

In Australia we are predominately East Coast focused, and lockdowns of some shape or form have been a feature of the FY22 year to date. The net effect of these lockdowns has been to slightly subdue trading levels across most of our businesses.

However, as both NSW and Victoria start to open up with increasing vaccination levels, we expect trading to improve quickly and to levels above last year.

I wanted to call out the efforts of our team across Australia and NZ, they have had to deal with the demands and complexities of the differing approaches taken by each state and government this year, and through this have kept our business running effectively and our customers well serviced.

Outlook

To finish, I would like to provide a few outlook comments. With strong vaccination levels in both New Zealand and Australia we are increasingly confident we will see less impacts on our business from full or partial COVID lockdowns.

This should then allow the present strong trading conditions to flow uninterrupted through our businesses for the balance of FY22 and beyond.

Our operating disciplines and business settings are in good shape, which leaves us well positioned in this environment to drive ongoing performance improvements and growth.

We continue to target EBIT margins of around 10% by FY23 and while our first half margins this year will be impacted by the various COVID lockdowns we have had to deal with, we are confident that the second half margins will show good progress towards achieving our 10% FY23 target.

In closing, I'd like to thank our employees, suppliers and customers for their dedication through the last 12 months. And I also want to thank you our shareholders, for your ongoing support.

Tena koutou, Tena koutou, Tena koutou katoa.

ENDS