Friday 27 October 2023

FLETCHER BUILDING LIMITED 2023
Annual Shareholders' Meeting
Chair's Address

FY23 key financial results

On behalf of the Board, I am pleased to report that in FY23 Fletcher Building delivered strong underlying earnings of $798 million, and a strong EBIT margin (excluding significant items) of 9.4%.

This performance was well ahead of the prior year, and was achieved despite a slowing residential market and disruption from severe weather events. We believe that it reflects the significant operational improvements made in the business in recent years.

I acknowledge it was disappointing that we needed to book additional fire-related provisions on the NZ International Convention Centre in the year. These were the main reason for the drop in our Net Earnings After Tax, to $235 million for the year. I will speak further to the legacy construction projects, as well as the Western Australian plumbing matter, later in my address.

On dividend, the Board paid total dividends of 34 cents per share for the financial year. This reflects a solid FY23 earnings result, while also having regard to the expected cash flow impact of the legacy construction projects through FY24.

FY23 key non-financial results

The Board remains committed to driving strong outcomes across a range of ESG measures and continuing to drive a performance culture. As with our financial performance, we also made progress on our key non-financial measures and outcomes during the year.

We continued to make our workplace safer. Protect, our multi-year safety programme, produced further improvements with a TRIFR of 3.1, representing a 12% reduction on last year. This translated to 90% - or 903 of our sites - being injury free.

On sustainability, we continued to make very good progress on reducing our carbon emissions, which are now down 16% from our 2018 base levels.

Service performance to our customers also improved through the year, and our Net Promoter Score increased to an average of 40. This reflects ongoing improvements in on-time deliveries, stock availability, and online offerings.

Importantly, we also saw our overall employee engagement increase to an employee net promoter score of 26. While the improvement was pleasing, this result only places us in the median for global organisations, so we do have more work to do if we are going to achieve global "best in class" levels of 40 and above.

Western Australia Plumbing

Turning to the Western Australia plumbing matter, I would like first to acknowledge the impact and distress on homeowners from the plumbing failures that are occurring.

I wish to assure our shareholders and all our stakeholders that the Board is taking this matter very seriously. We have a dedicated Board committee in place, which provides strong oversight on the developing matters.

The Company's approach has had three aspects:

- First, we have put in place an interim A$15 million fund to support builders and plumbers to repair leaks and any associated damage for homeowners while causation of the plumbing failures is better understood.

- We have undertaken detailed product testing with global experts, and gathered evidence on installation practices from hundreds of homes. To date, we have not found fault with our product, but we have kept, and will keep, an open mind.

- For its part, Fletcher Building is committed to help find an industry solution. A proportionate and evidence-based solution is in everyone's interests, especially those homeowners who have been affected.

Ross will build on this further in his address.

Where did we start from in 2018?

At this point, I would like to reflect on how the Company has evolved over the past six years or so since the current Board was appointed.

In 2018, our underlying businesses in New Zealand had strong market positions, but they had been underinvested and margins were on the decline. A key reason for this was our international business, which was capital-hungry, spread across about 30 countries, and so stretched both our balance sheet and Board and management attention.

Our businesses in Australia were contributing a good proportion of revenue, but close to nil margins. They were reporting into three separate operating divisions, which served to mask their underperformance across many operational dimensions.

Meanwhile, Construction had assembled an order book that was overweight in higher risk, lower margin projects which took up a disproportionate amount of Board and management time as issues arose.

Of further concern was that our non-financial metrics were below par. While we had a safety programme in place, an embedded safety culture did not exist. We had no carbon reduction plans and we were not putting the right focus on our customers or our people.

What has the Board's approach been?

In response to this situation, we took decisive action to firstly stabilise the Company:

- We appointed a new CEO, capable of handling the enormous task ahead.
- We completed a full Board refresh and implemented more rigorous governance protocols.
- We oversaw a capital raise, and moved to divest the International business with the implementation of a new strategy focused on New Zealand and Australia.

In combination, the business was refocused and the balance sheet strengthened.

We successfully achieved much of this through 2018-2019 but we knew we had much more to do beyond that. This included dealing with the legacy issues and repositioning the go forward business, which I will speak on the following slides.

Clean up legacy issues – Construction projects

The legacy construction projects have been a major undertaking. We started with around 80 legacy projects. These had been brought into the Group when it had a different tolerance for risk in winning construction work prior to 2017. There are now three projects left to complete, which Ross will provide detail on.

The Board and management share the frustration of our shareholders that these legacy projects have taken longer, and have cost more to complete, than planned. Ongoing COVID lockdowns and the fire at NZICC added complexity to the tail legacy projects and have made it harder.

We accept that there are remaining risks to manage on these projects. These matters are a major focus for the Board, with regular review of management progress in place.

At the same time, we have also had to focus on building a better construction business for the future, rather than clearing up the past. We made the decision to exit the vertical Building sector. Our teams have made excellent progress on lifting the skills, operating disciplines, and governance across all the construction businesses. The best evidence of the success of this is a rebuilt forward order book, with the right risk profile and margins.

Reposition the go forward business for performance and growth

The final part of the Board's strategy over the past five to six years was to reposition the go-forward business to deliver improved performance and growth.

Combined with the issues in Construction, we had a challenged Australia business which was dragging down our overall margin. We had a set of NZ assets with good market positions but needing both investment and improved operating disciplines.

This slide shows the Group's EBIT (excluding significant items) and margin performance over time.

As we have taken the necessary actions, the operational gains we have made over the past six years have been in a few key areas: cost efficiency, getting sharper on the products and segments where we participate, and ensuring our pricing is both well-controlled and linked to the value we deliver.

In addition, we have been focused on investing for the future. We are close to completing the new $400 million Wallboards plant. This future proofs one of our most valuable assets. And we have a mature programme of mainly organic growth projects underway.

Our strategic focus on the New Zealand and Australian geographies has enabled us to both uncover and execute on these opportunities. Ross will touch on them more in a moment.

Reposition the go forward business for performance and growth

Our approach to non-financial performance has been, in many ways, similar to the financials. In the areas of safety, sustainability, customer and engagement our approach has been to understand what best-in-class performance looks like, and the operating disciplines needed to achieve it. We then hold ourselves to account against these standards.

Pleasingly, progress on these over the past five years has been positive, in particular on safety and sustainability. But we recognise that we now need to get more consistent and move closer to "best in class" across our customer experience, and the capability and engagement of our people.

Where are we now?

To summarise, the past six years have seen a significant turnaround of Fletcher Building.

The Company has been stabilised and we have pursued a consistent strategy focused on our home markets in New Zealand and Australia.

We have completed almost 80 legacy construction projects, and will be through the final three by the end of next year. This does not take away from the Board's disappointment at the additional fire-related provisions on the Convention Centre booked in FY23.

Equally, we are cognisant of the risks that still exist as we complete the final legacy projects, and we are highly focused on managing these, and on the resolving the Western Australia plumbing issues, in a satisfactory way.

Overall, though, over the past six years the financial and non-financial metrics of Fletcher Building have improved significantly. We believe the go-forward business is well-positioned for performance and growth over the medium-term.

I would like to take the opportunity to thank our management team and all of our 15,000 people for their considerable efforts over this period, and particularly over the past year. The Board is very proud of the work that you have done, and continue to do, to improve Fletcher Building and position it well for the long-term.

We also thank our shareholders for your continued support.

Ends

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