Friday 27 October 2023

FLETCHER BUILDING LIMITED 2023
Annual Shareholders' Meeting
Chief Executive Officer's Address

FY23 - continuing operational improvements across the base business

The Fletcher Building base businesses are performing well. We are nicely positioned to navigate the softer markets over the next year or so, and then to grow again from there.

As Bruce has covered the recent results in some detail, I will just make a few points on the 2023 financial year. Our overall EBIT margin (excluding significant items) increased to 9.4%, and pleasingly the Australian division delivered 6% margins. Our progress in achieving a world class safety culture and performance levels continues, and it is nice to see this being reflected in lower injury rates across all our businesses.

We remain confident there is more financial performance upside in the medium term, but this will be driven by getting our people fully engaged, genuinely passionate about what we do, and really focused on our customers.

Against this backdrop it was pleasing to see improvements across both our customer and people metrics through the year. A particular "call out" was the engagement score of our top 300 leaders - this now sits at an industry leading eNPS score of 50. This sets us up well to achieve the further overall performance improvements we are looking for into the future.

We are investing for growth

We continue to take a longer-term view and are actively investing in a significant number of growth opportunities. As we have flagged previously, we have now committed around $800 million of capital to these opportunities.

We show on the slide a few examples of the investments we are making in New Zealand. These are across the timber, insulation, automation in frame & truss and in the broader circular economy.

We expect these investments to hit their full earnings run rate in the 2027 financial year, and to deliver over $120 million per annum of extra profits to the bottom line from then on.

Outlook on Construction legacy

Pleasingly, we are on track to finish physical works on the final three construction legacy projects through the 2024 calendar year.

The Puhoi to Warkworth motorway was opened in June this year. The final works will be completed in the second quarter of 2024, and then it will be a matter of working through the major claims on the project with Waka Kotahi.

We have now completed and handed over all the carpark levels on the Convention Centre. We expect the hotel to be complete in December, and the balance of the project by the end of 2024.

As we noted in August 2023, there continues to be some cost risk to manage as we complete these projects. We also need to secure claims and insurance recoveries, and manage any wash up issues that may arise, to hold our current provisions. Resolution of the claims and recoveries, particularly on the NZICC and Puhoi to Warkworth projects, is likely to take until FY25-FY26. On Wellington Airport carparks, we are working with the Airport to determine an agreed remediation, but any costs we decide to take in that regard are not covered by present provisions.

Outlook on Western Australia plumbing issues

There are no material updates on the detailed presentation I gave on the Western Australian plumbing issues two weeks ago. For those of you that did not see this and are interested in it, the full presentation and webcast are available on the Fletcher Building website in the online investor centre.

As Bruce outlined, we continue to use the A$15 million interim fund put in place earlier this year to allow us to support the industry and homeowners while causation of the plumbing failures is better understood. We also continue to work with the industry and regulators to develop an effective solution.

Our evidence, which is a combination of extensive testing of the pipes and a comprehensive review of leaks occurring in the home, points to installation as the failure.

Repair scenarios built on this evidence suggest an overall industry cost to repair these leaks of between A$50 million to A$100 million.

At this stage we have not made any provisions to contribute to this repair bill.

FY24 trading update

Starting with our New Zealand Materials and Distribution businesses, I will now talk to the trading conditions we are seeing so far this financial year.

The Infrastructure and Non-Residential sectors remain robust, but the Residential sector volumes are around 5% softer than our prior guidance. This puts them down around 25% from the peak we saw in late 2021. Our market shares are stable, and we are seeing solid pricing in our materials businesses, but strong price competition in the merchant distribution channel. As such, our profits for these businesses are tracking slightly behind our previous expectations.

In Australia, the division is trading well. We expect profits in the first half of this year to be broadly in line with last year, despite a softer market.

Encouragingly, we are seeing “green shoots” in the residential house sale market in our Residential and Development division. So far this year, house sales are tracking well (averaging 20-25 per week), and house prices have stabilised and are now starting to trend up slightly. If this momentum in sales continues, there could be upside to our prior 700-800 unit sales target for the financial year. We continue to expect profit margins to be slightly below 15% through the year, and profits to be weighted to the second half due to the profile of settlements. This market trend is a positive for our NZ Materials and Distributions businesses, as increased activity across the residential end market will ultimately flow into the volumes across these businesses.

In Construction the work outlook in the market remains very solid, and our order book remains strong. But a slower start to key projects will see our profits weighted to the second half of this financial year.

FY24 underlying trading cash flows robust & balance sheet well positioned

The outlook for our trading cashflows continues to look robust, and our balance sheet remains well positioned.

As previously guided, we expect leverage to move to the upper end of our 1 to 2 times range, which still has material head room to our banking covenants. We have $2.8 billion of debt facilities in place, and this ensures we will maintain healthy levels of liquidity through this year and beyond. And we now have a Moody's credit rating in place at Baa2 (stable).

Fletcher Building is well positioned for the medium term

All these things leave us well positioned for the future:

- We are getting close to having the legacy construction projects in our rear-view mirror;
- We are well positioned to perform through the cycle, and then drive both further performance improvements and upside volumes when the cycle turns;
- We are very advanced on our $800 million of committed growth projects, which we are confident will be delivered well and set us up for significant extra earnings in the next 2 to 3 years; and
- There remain plenty of other growth opportunities, which we can take advantage of once we have a firmer sense of when the cycle is returning to growth.

We have clear aspirations for our performance on non-financial measures

Our improvement aspirations extend beyond just the economics of the business, we also have ambitious targets across our non-financial outcomes.

As we look forward:

- We are earnestly working towards being injury free as an organization;
- We want to continue to lead our sector in sustainability - by decarbonising ahead of the competition, having the most sustainable products, and being heavily involved in the circular economy;
- We want to provide products and services to our customers that are at global best in class levels; and
- We want to have a diverse, talented and highly engaged workforce that just love being a part of Fletcher Building.

We are well advanced across all of the key areas that will make Fletcher Building a great company, and will provide exciting outcomes for Fletcher Building's people, customers and shareholders.

Tena koutou, Tena koutou, Tena koutou katoa.

Ends

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