Fletcher Building announces expected HY23 Results, updates FY23 earnings guidance

Auckland, 13 February 2023: Fletcher Building today announced its expected results for the first half of FY23, which will be released on 15 February 2023, and updated earnings guidance for the full-year FY23. The half-year result remains subject to final approval by the Board and will be announced in full on Wednesday 15 February.

- Revenue of $4,284 million, up 5% from $4,064 million in HY22
- EBIT before significant items of $360 million, up 8% from $332 million in HY22
- EBIT margin of 8.4%, up from 8.2% in HY22
- Net Profit After Tax of $92 million (including $150 million flagged construction provisions), 46% lower than $171 million in HY22
- Cash outflows driven largely by flagged land and housing stock rebuild following drawdown in FY21-22 partly offset by good trading cash flows from materials and distribution divisions
- FY23 EBIT before significant items forecast to be $800 million to $855 million as a result of adverse weather impacts in New Zealand in January and February
- The Board expects to declare an interim dividend, which will be announced on 15 February 2023

Fletcher Building chief executive Ross Taylor said: "Our half year performance reflects the momentum we have achieved from executing our strategy, focusing on our customers and delivering sustainable growth, all against the backdrop of a dynamic operating climate.

"Group revenue was solid overall at $4,284 million, up 5% on the first half of FY22. Group Earnings Before Interest and Taxes (EBIT) before significant items was $360 million, up 8% from $332 million in the prior period. Group EBIT margin, excluding significant items, improved to 8.4% from 8.2%, and Net Earnings attributable to shareholders was $92 million (including $150 million flagged construction provisions) compared to $171 million in the prior period.

"Cash flows from operating activities for the Group were an outflow of $203 million, compared to an inflow of $157 million in HY22. This was driven largely by the expected rebuild of land and housing stock following a significant drawdown in FY21 and FY22. Return on Funds Employed was 17.8% (compared to 18.7% in HY22), remaining ahead of our 15% target.

"Performance across our materials and distribution divisions led the Group's revenue, EBIT and margin improvements in HY23. Sales volumes on both sides of the Tasman were generally in line with, or slightly below, the second half of FY22, and there was an easing of previous supply chain and COVID-19 related challenges. Input cost inflation remained elevated, however strong pricing disciplines led to good recovery of these cost increases. Combined with efficiency initiatives and a focus on margin accretive market segments, this resulted in the materials and distribution divisions improving EBIT by $83 million to $339 million while the EBIT margin improved 150 basis points to 8.9%. Pleasingly, our Australian division delivered an improved EBIT margin in the half-year of 5.3%.

"The uplift in earnings in our materials and distribution divisions was partly offset by lower earnings in the Residential and Development division, which delivered EBIT of $49 million compared to $112 million in the prior period. This was due to lower New Zealand housing sales following two years of strong growth, as well as Industrial Development earnings returning to the usual run-rate with $16 million EBIT in HY23 compared to $47 million EBIT in HY22. The Construction division returned to first half EBIT profitability, albeit was impacted by an additional provision on the New Zealand International Convention Centre (NZICC), announced in December.

"While the underlying performance of the business is strong, trading in New Zealand in January-February has been heavily impacted by the adverse weather events. As such, we are now forecasting FY23 EBIT before significant items in the range of $800 million to $855 million, with market activity and house sales in the remainder of the year expected to be the key driver of our result.

"We expect the softening of residential markets to continue into FY24 in both New Zealand and Australia. This lower activity is likely to reduce volumes in our materials and distribution businesses by circa 10% to 15% compared to what we have seen in the first half of the current year. And it is likely to mean that house sales in our NZ Residential development business are at similar levels in FY24 to what we expect to deliver this year. Commercial and infrastructure markets are expected to be more robust. As we look ahead to FY24, we are actively managing variable costs, overheads and capital to ensure we hold margins close to the current FY23 levels and keep our balance sheet and cashflows healthy.

"With a well-capitalised balance sheet, we are well-advanced on our programme of circa $700 million of growth investments over FY23 to FY26. This will contribute circa $25 million EBIT in FY24 and full run-rate earnings by FY27 as further investments mature. These projects are primarily organic and are in logical adjacencies in our New Zealand businesses, including investments in: wood panels, structural timber, insulation, steel, frame and truss, and concrete circular solutions. These strategic investments are based on mid-cycle activity levels and are targeting ROFEs at or above 15%.

"Finally, I want to acknowledge the great efforts of all our Fletcher Building people, particularly those who sprang into to action following recent and ongoing significant weather events in the North Island of New Zealand. Our teams quickly mobilised and did an outstanding job repairing vital infrastructure and securing our sites, in very challenging conditions. Through their efforts, they have made a real difference for our customers, people and communities who have been impacted by the flooding."

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