

Fletcher Building Update May 2017

Working with you

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3 May 2017



Disclaimer

This presentation contains not only a review of results, but also some forward looking statements about Fletcher Building and the environment in which the company operates. Because these statements are forward looking, Fletcher Building's actual results could differ materially. Please read this presentation in the wider context of material previously published by Fletcher Building.



Contents

- **Fletcher Building today**
- **Update on key macro drivers**
- **Trading update**
- **Balance Sheet and key ratios**
- **Strategy**





Fletcher Building today

A global company dual listed on NZX/ASX

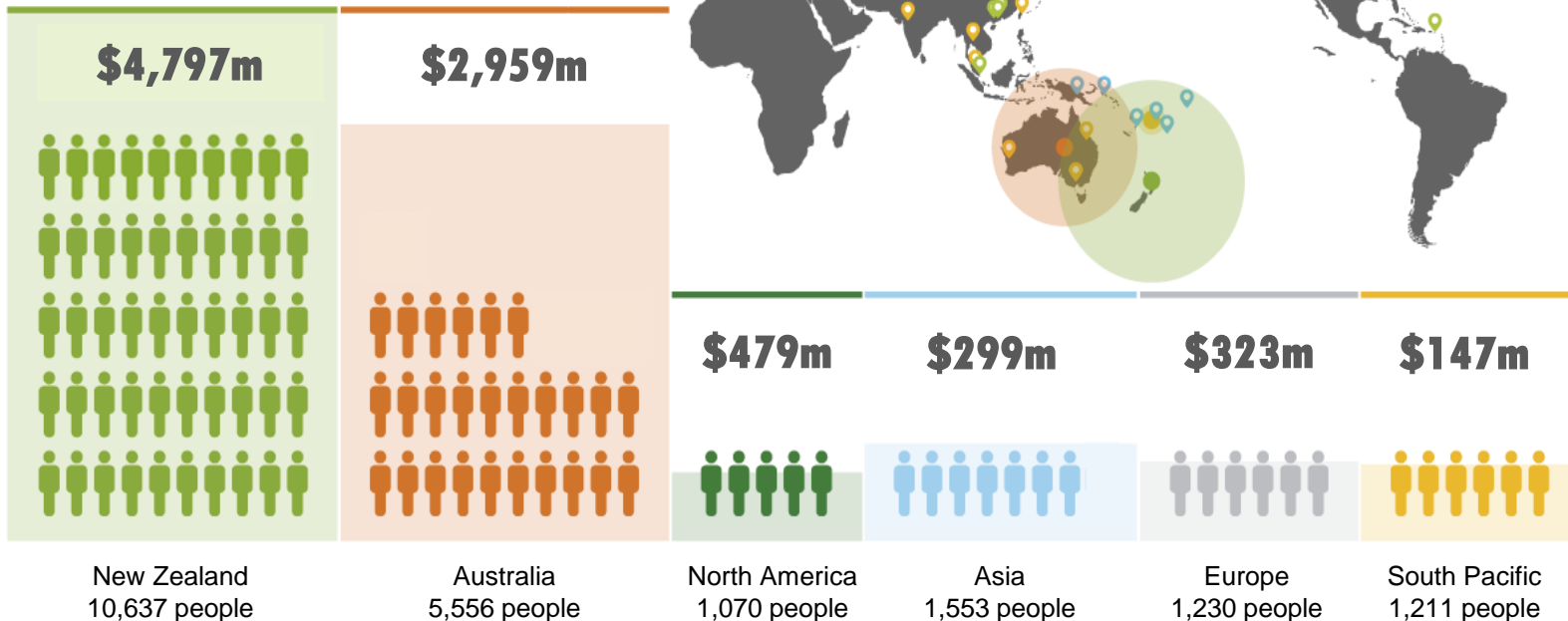
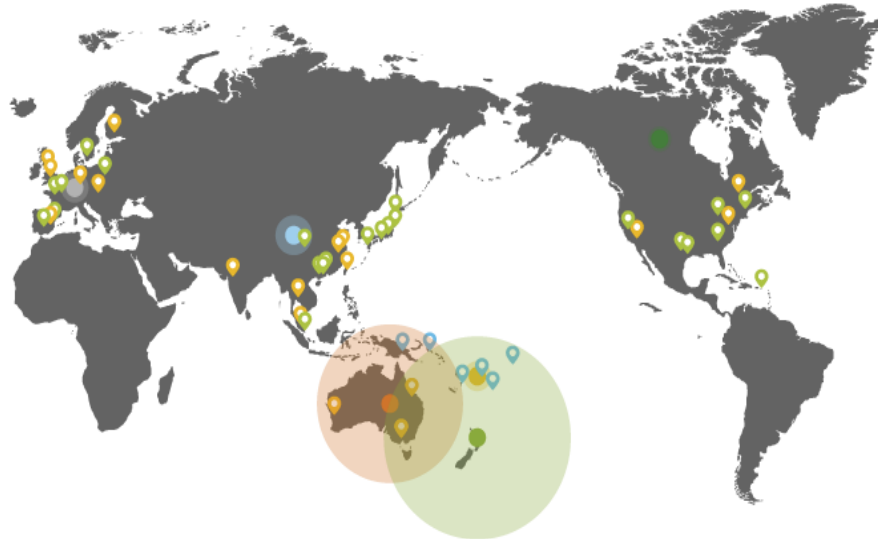
Revenue: \$9.0billion

People: 21,257

 Full time worker equivalent
1 = 1% of total #

 External Revenue
FY16 (\$m)

 Manufacturing sites  Distributions centres  Fletcher Construction South Pacific

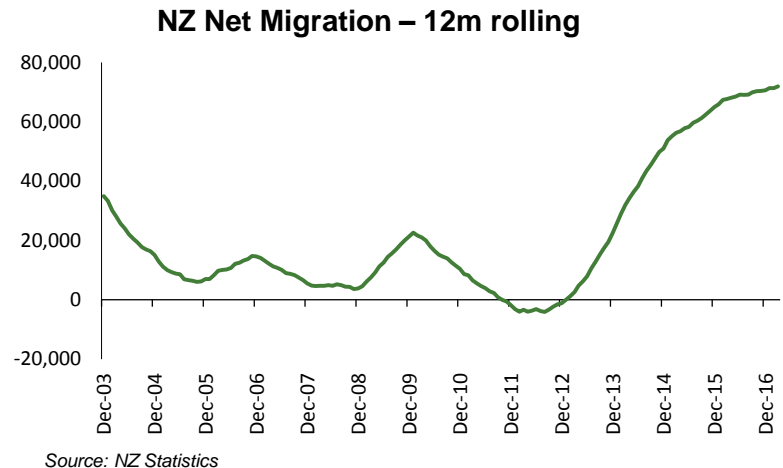
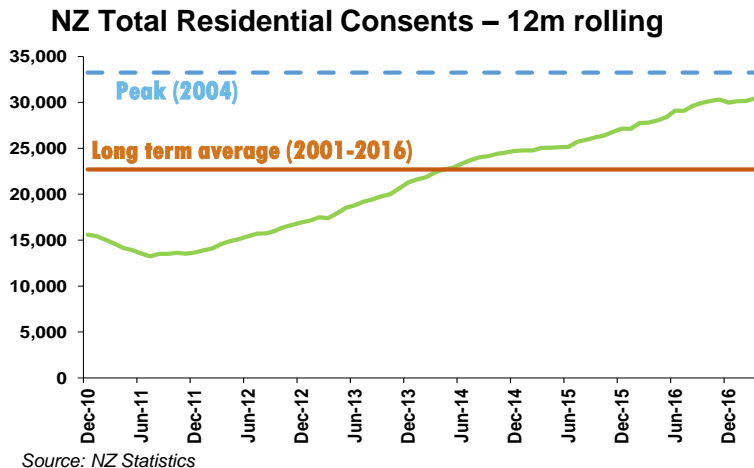
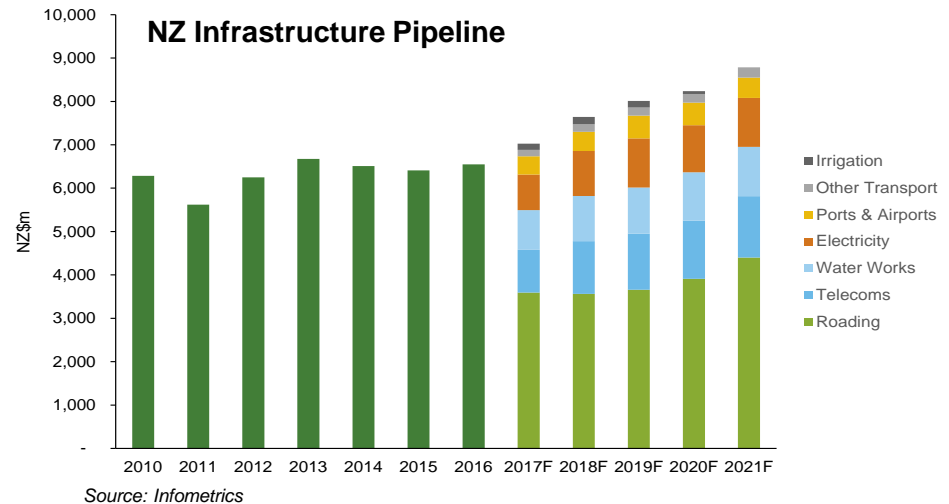


76% of total workers are in Australasia



Update on Key Macro Drivers New Zealand

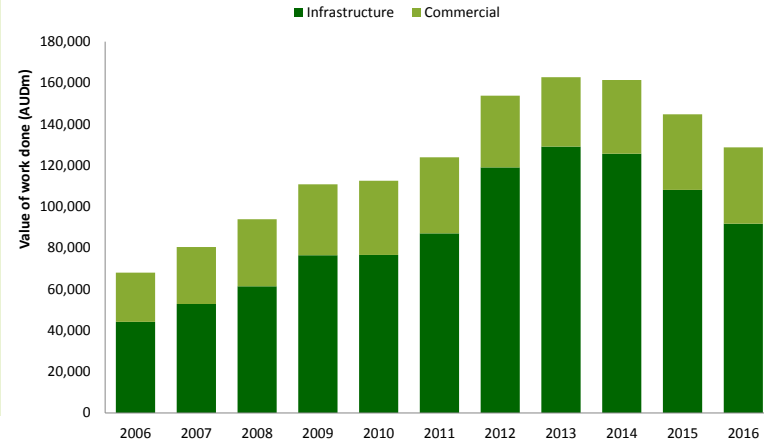
- Residential consents remain at historically elevated levels
- Net migration still strong, supporting housing demand
- Demand growth in all regions except Canterbury (but still above pre-quake levels)
- Infrastructure (and particularly roading) pipeline continues to grow – underpinned by dedicated government funding



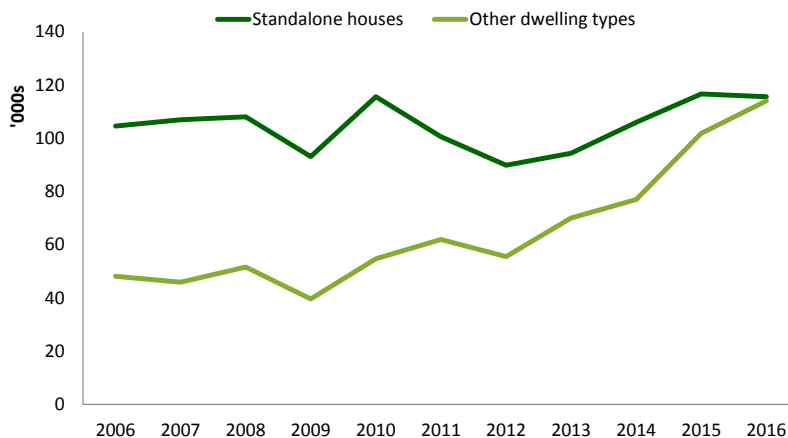
Update on Key Macro Drivers Australia

- Total residential commencements have grown over last four years but mainly due to multi-family dwelling buildings which is now slowing
- Standalone housing activity (FBU's main exposure) reasonably robust, though signs of softening
- Infrastructure activity showing signs of improving
- Sharp decline in WA market in past year c15-20%, now flattening off

Australia Infrastructure and Commercial Work

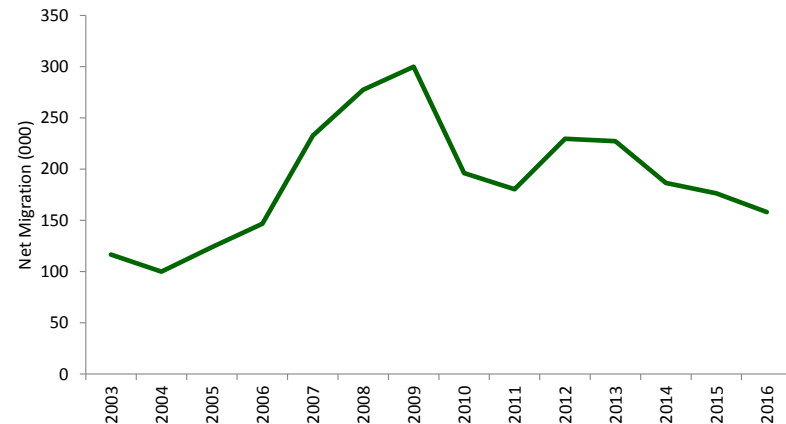


Australia Residential Commencements



Source: BIS Shrapnel

Net migration 12 month rolling



Trading Update

Operating earnings

H1 17 Operating earnings before significant items

\$310m

▲12% year on year

March trading update – operating earnings before significant items

\$610-650m

Forecast FY17 range post Construction update

- Operating earnings before significant items (EBIT) up 12% in H1 17
 - Reflected 20% growth in NZ EBIT (excluding Construction and divested/acquired operations) as core businesses benefitted from elevated activity levels and operational improvement
 - Distribution and International EBIT both +30% yoy
- March 20 update reset EBIT guidance range for FY17 to \$610-650m
 - Incorporates estimate of reduced profitability on two major commercial construction projects
 - Infrastructure, South Pacific and Higgins construction businesses continue to trade well
 - Remainder of Group businesses travelling in line with outlook provided at H1 17 results



Trading Update

Distribution, International, Building Products

Distribution:

- Total EBIT¹ in HY 17 of \$84m +31%
- NZ Steel, NZ Building Supplies and AU Steel Distribution tracking >20% EBIT growth yoy
- Record earnings performances in several NZ business units
- Strong NZ performance reflects elevated levels of building activity and self-help improvements
- Tradelink showing momentum on key initiatives, though hit hard by WA

International:

- Total EBIT¹ in HY17 of \$70m +32%
 - Formica EBIT +113%
 - Laminex EBIT +10%
- Laminex performing well in both NZ and Australia
- All Formica regions seeing positive momentum – growth in local currencies was higher than reported NZD growth
- Formica FY17 EBIT expected to show material year on year improvement

Building Products:

- Total EBIT¹ in HY 17 of \$129m +10% (excl. divestments)
- HY17 volume improvements: Aggregates +24%, Plasterboard +9%, Concrete Pipe +12%, Cement +5%, Ready Mix +4%
- Pricing growth achieved in a number of channels
- Some increases in Australia but performance mixed

1. Before significant items



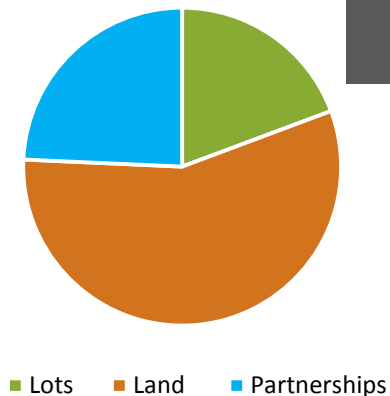
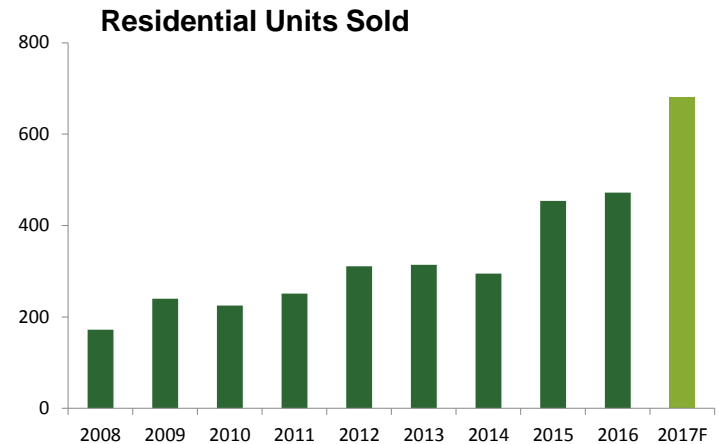
Residential and Land Development Update

NZ Residential

- Continue to scale the business to target:
 - A sustainable run-rate of 1,000+ lots built and delivered per annum
 - Funds employed of c\$600m
- Sales price growth slowing in Auckland, but environment remains supportive of target volumes and margins
- Advantage driven by scaled developments, location, community living and attractive brand proposition
- Land appreciation currently accounts for only c20% of EBIT margin on house sales
- Solid pipeline of sites: c4,000 lots currently on Balance Sheet and conditionality over another c2,000 lots

Land Development

- Targeting an average of c\$25m EBIT per annum over the next 5 years from land developed for resale
- Largely brownfield sites from elsewhere in the portfolio



Source: Company data



Construction

Features of Fletcher Construction Businesses

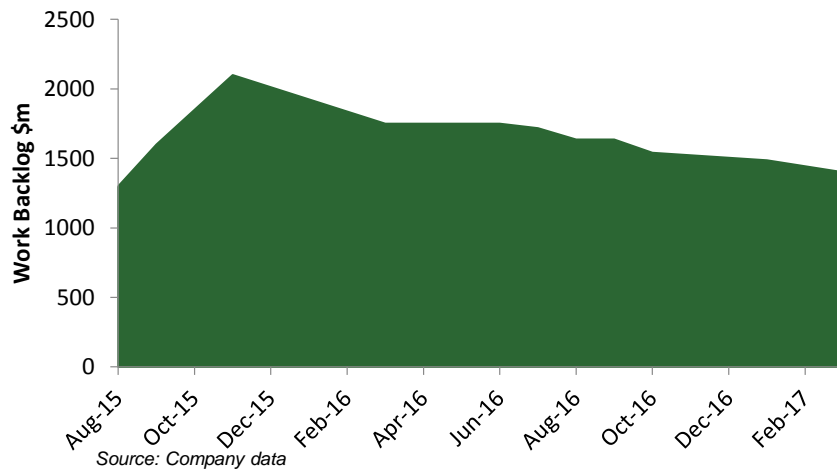
	Focus	Current Backlog ¹	Contracts	Top 5 projects as % of total backlog ¹	Average annual EBIT FY05-16
Infrastructure	Building horizontal structures (roads, bridges, transport lines)	\$911m	Fixed price (c60%) and alliances (c40%)	85%	\$16m
Higgins	Pavement-laying, road maintenance, and asphalt production	\$425m	Largely fixed price	44%	N/A
B&I	Commercial building projects	\$1,401m	Predominantly fixed price or guaranteed maximum price	72%	\$16m
South Pacific	Mainly commercial buildings in Pacific Islands, some infrastructure	\$72m	Largely fixed price	74%	\$9m

1. As at 31 March 2017

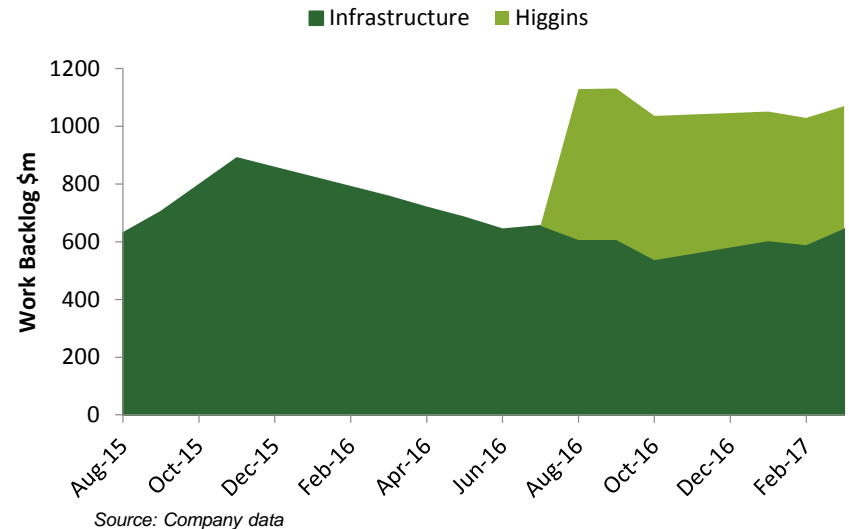


Construction Backlog

B+I Backlog



Infrastructure and Higgins Backlog



Changes in Construction

- New governance processes around bidding for new work
- Review of all major projects across B+I and Infrastructure books
- Greater focus in B+I on target sectors and clients
- New Chief Executive Michele Kernahan appointed in March 2017, supported by new head of Risk & Governance
- New ERP to monitor financial performance



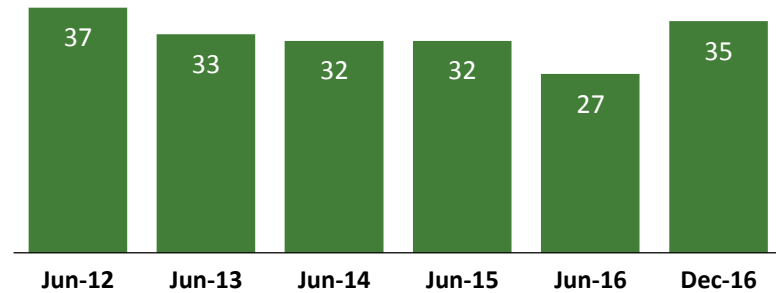
Key ratios

Focus on Balance Sheet strength and ROFE

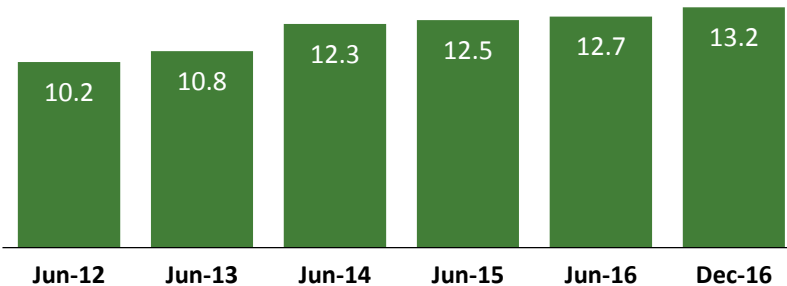
Key ratios

- Projected Net Debt at 30 June 2017 likely to equate to:
 - 34% gearing (Net Debt/Net Debt + Equity)
 - 2.4x Net Debt:EBITDA
- Targeting ROFE of 15% across the group

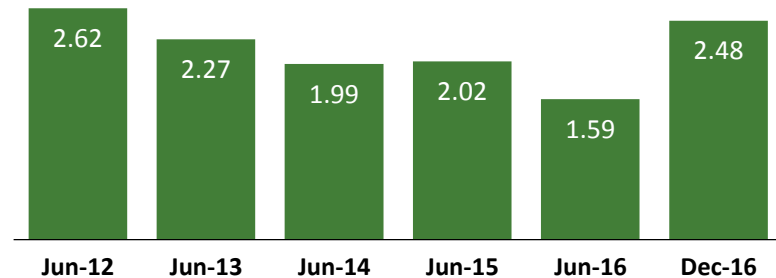
Debt/Debt Plus Equity Percentage



Return on Average Funds (ROFE)¹



Net Debt/EBITDA Times



Source: Company data

1. Earnings before interest, tax and significant items / average funds employed



Strategy Summary



People and performance culture



Turnaround capability



Targeted investments



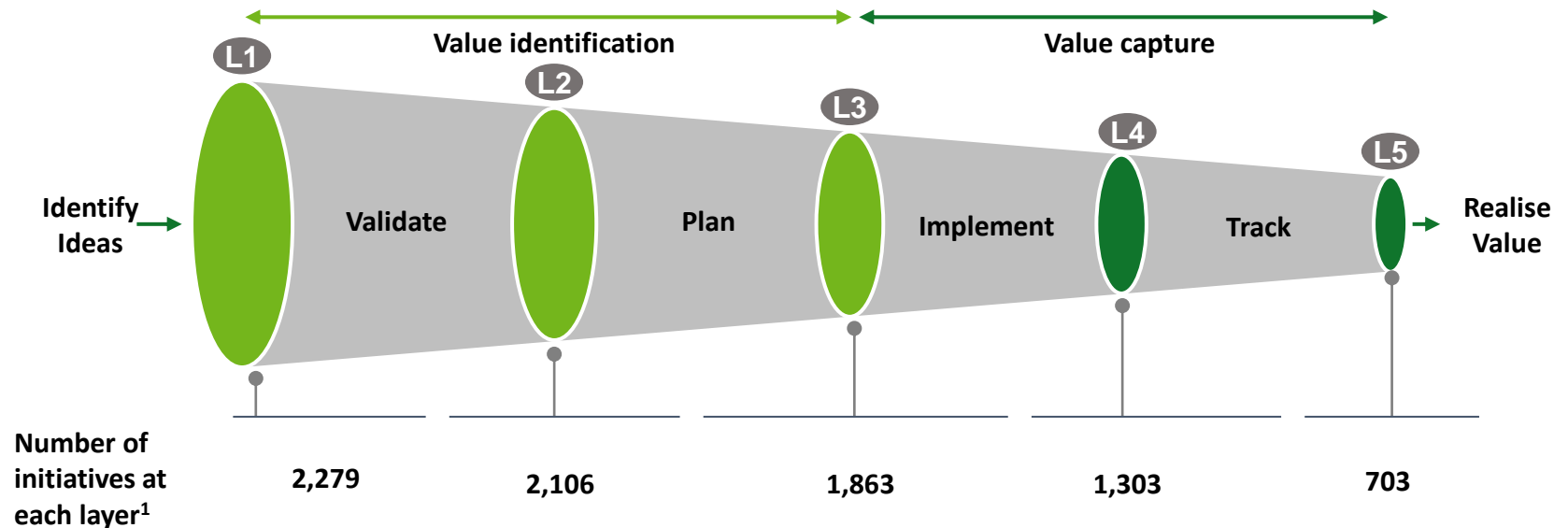
Prudent portfolio management



Focus on shareholder value



Performance culture embedded through Accelerate



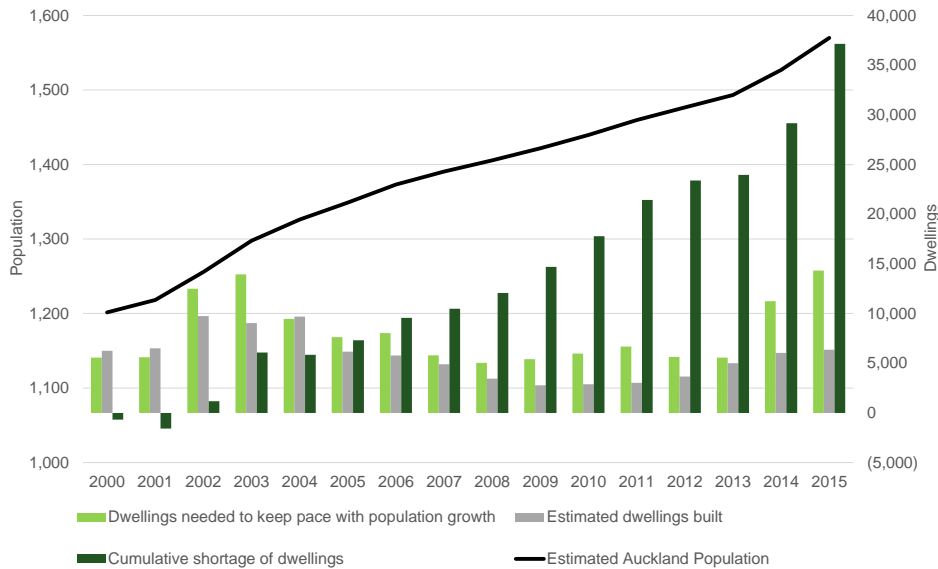
- Embedded cadence
- Balance of revenue, cost and efficiency
- Rigorous tracking of benefits and returns
- Continuous renewal of initiative pipeline
- Annualised benefits realised by end of FY18

1. Total EBIT initiatives as at March 2017

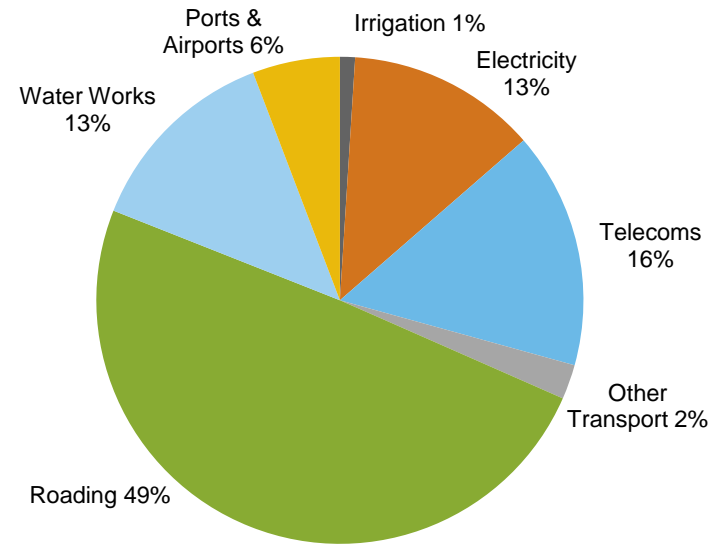


Targeted Investments

Auckland Housing Shortage



NZ Infrastructure 2016-2025



- >\$700m invested in Residential and Higgins
- Additional c. \$100m per annum in fast payback capital projects
- Major investments aligned with structural drivers

Source: Infometrics



Portfolio Management

Significant progress has been made

Invest for Growth

Fletcher Living

HIGGINS

Turnaround capability

iPLEX
Pipelines

mico

FORMICA
North America
Europe

Stramit

Divest and restructure

Rocla
Quarry Products

Crane Copper Tube

FLETCHER ALUMINIUM
PREMIUM SYSTEMS
INNOVATIVE SOLUTIONS

PACIFIC STEEL LTD

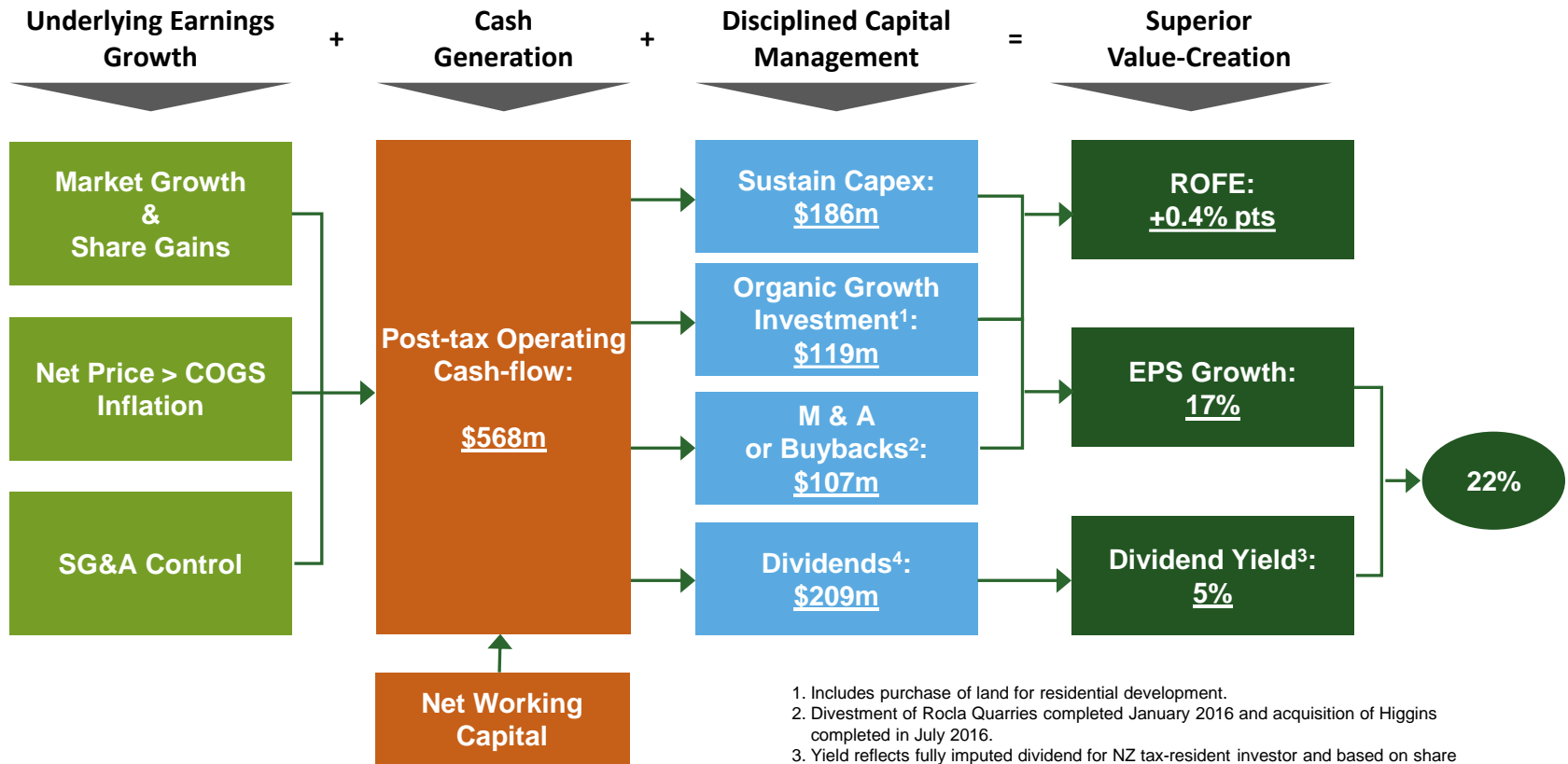
HUDSON
BUILDING SUPPLIES

NALCO



Focus on shareholder value

Results for last 12 month period to 31 December 2016 (ie CY 2016)



1. Includes purchase of land for residential development.
2. Divestment of Rocla Quarries completed January 2016 and acquisition of Higgins completed in July 2016.
3. Yield reflects fully imputed dividend for NZ tax-resident investor and based on share price at 31 December 2015
4. Net of distribution maintained in lieu of shares issued under DRP





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Outlook



Financial Outlook FY17

FY17 operating earnings (EBIT before significant items) expected to be in the range of \$610m to \$650m

- Construction division is expected to report a loss at the EBIT level
- Other divisions are trading in line with expectations and guidance provided at time of H1 17 results

Capex forecast to be \$275-325m versus \$300m in FY16

Depreciation forecast to be \$210-220m versus \$194m in FY16



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Q&A



Appendix: Sectoral exposure

Exposures to markets and by geography

	Residential	Commercial	Infrastructure	Other	Total
New Zealand	24%	19%	12%	4%	59%
Australia	15%	8%	2%	3%	28%
Rest of World	5%	6%	1%	1%	13%
Total Group	44%	34%	16%	7%	100%

1. Exposures are as a % of total external revenue in FY2016 of \$9.0bn



Appendix: Group Structure

Building Products: Matt Crockett	International: Francisco Irazusta	Distribution: Dean Fradgley	Residential & Land Development: Steve Evans	Construction: Michele Kernahan
<ul style="list-style-type: none"> • GBC Winstone (NZ) • Higgins Aggregates • Firth (NZ) • Humes (NZ) • Rocla Pipelines (Aus) • Winstone Insulation (NZ) • Fletcher Insulation • Iplex (NZ & Aus) • Sims Pacific Metals • Altus (NZ) 	<ul style="list-style-type: none"> • Formica Asia • Formica Europe • Formica North America • Laminex NZ • Laminex Australia • Roof Tile Group (NZ; Africa; Asia; Europe; USA) 	<ul style="list-style-type: none"> • PlaceMakers (NZ) • Mico (NZ) • EasySteel (NZ) • Pacific Coilcoaters • Fletcher Reinforcing • Tradelink (Aus) • Stramit (Aus) • Tasman Sinkware 	<ul style="list-style-type: none"> • Fletcher Living (NZ) • Land Development • Property • Innovation 	<ul style="list-style-type: none"> • Infrastructure (NZ) • Fletcher EQR (NZ) • South Pacific • Higgins Contracting • Building + Interiors

Supported by Fletcher Building Corporate Services:

People and Communications – Kate Daly, Chief People and Communications Officer

Strategy, Marketing and Finance – Bevan McKenzie, Chief Financial Officer

Group Technology – John Bell, Chief Information Officer

Governance – Charles Bolt, Company Secretary and General Counsel

Procurement, Shared Services, Operations Excellence and Transformation - Lee Finney, Chief Transformation Officer

