



# Distribution

Investor Presentation

October 2009

John Beveridge, Chief Executive - Distribution

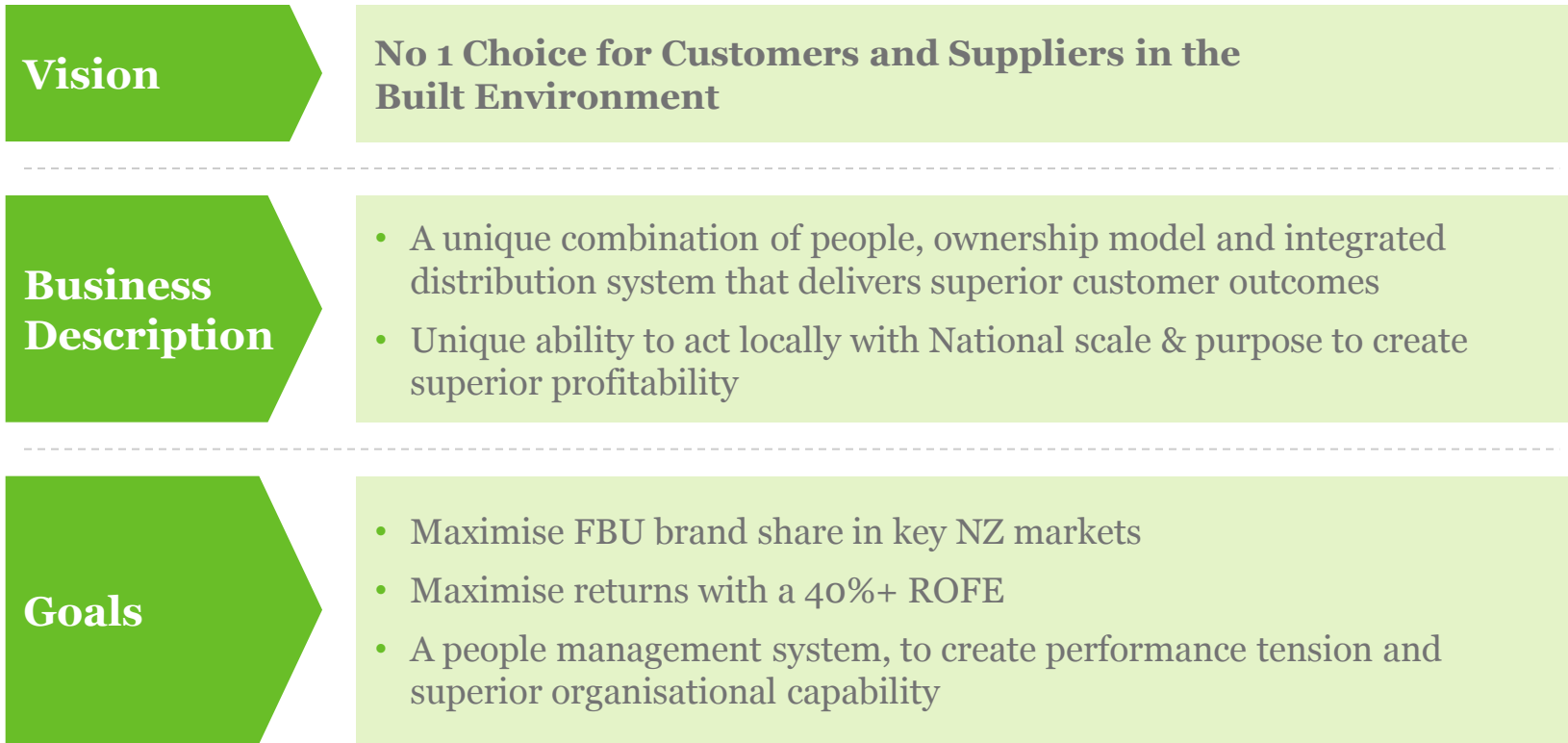


## Disclaimer

This presentation contains not only a review of operations, 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. Media releases, management commentary and analysts presentations, including those relating to the August 2009 full year results announcement, are all available on the company's website and contain additional information about matters which could cause Fletcher Building's performance to differ from any forward looking statements in this presentation. Please read this presentation in the wider context of material previously published by Fletcher Building.



# Fletcher Distribution's overarching goal is to maximise FBU's return on investment along the value chain



## Mission

- Operate national pricing models, supply chain and procurement to meet customer needs without reducing local entrepreneurship
- Have superior capability and resilience through a flexible cost structure to compete in all key segments
- Move to a zero harm workplace environment by reducing injury rates by 30% per annum

## Brand Promise

- Know How Can Do
- Trade account customer driven with complimentary DIY/retail offer
- Right price, product, place, people
- Your success in building & DIY projects

## Values

- Zero Harm – getting home safe everyday
- Know How – industry knowledge & learning
- Can Do – getting the job done right
- Teamwork – working together to deliver superior results
- Success – winning feels good
- Commitment – deliver on promises made



## Joint Venture model gives competitive advantage

- The combination of ownership structure, operator skill and FBU scale provides a strong and enduring business model
- High Calibre of people running the stores as JV's
  - Attracted by the returns and ownership opportunity in joint venture with NZ's leading listed company
- Equity investment and associated risk
  - Generally a 20% requirement of working capital and fixed assets
  - Local 'skin in the game' leveraged by JV partnership with Fletcher Building
  - This allows operators access to capital and terms only available to large players
- Excellent returns
  - Good returns even at the bottom of the cycle



## JVO gives Competitive advantage

- Able to attract and retain good staff
  - Many key people in stores have equity share and aspire to JV ownership
  - The industry's best talent is attracted
- Excellent customer relationships – especially with trade
  - Affinity with SME peers in the building trades
- Excellent ability to respond and contribute to the local community
  - “Act locally but think nationally”



# Succession Planning and Talent Attraction underway

**PlaceMakers** joint venture programme  
Know how. Can do.

## Do you measure up?

Home | The Opportunity | **Ideal Profile** | FAQ | Self Assessment | Location Summaries | Print | Contact Us

### Frequently Asked Questions

- How is the level of a Joint Venture investment calculated?**

The investment required to enter into a Joint Venture franchise is related to the size and operating assets of the selected branch, and starts at around \$400,000 for a smaller business.

Details will be discussed after mutual interest is established, and are subject to a confidentiality agreement.

[Go to top](#)
- Do I need the necessary funds up-front?**
- Is entry only available into a joint venture store?**
- What is the fee structure? Is there an entry fee?**
- How is an Operator's return / earnings calculated?**
- Do I have the independence to run my Joint Venture as I see fit?**
- Do I get training?**
- Do I get business support?**
- How are purchasing and invoicing managed?**

### Assessment Test

Taking this test will help you assess for yourself if this challenging and rewarding role is something you might like to apply for.

**TAKE THE TEST**

### Operator Insights

Meet some successful PlaceMakers Joint Venture operators.

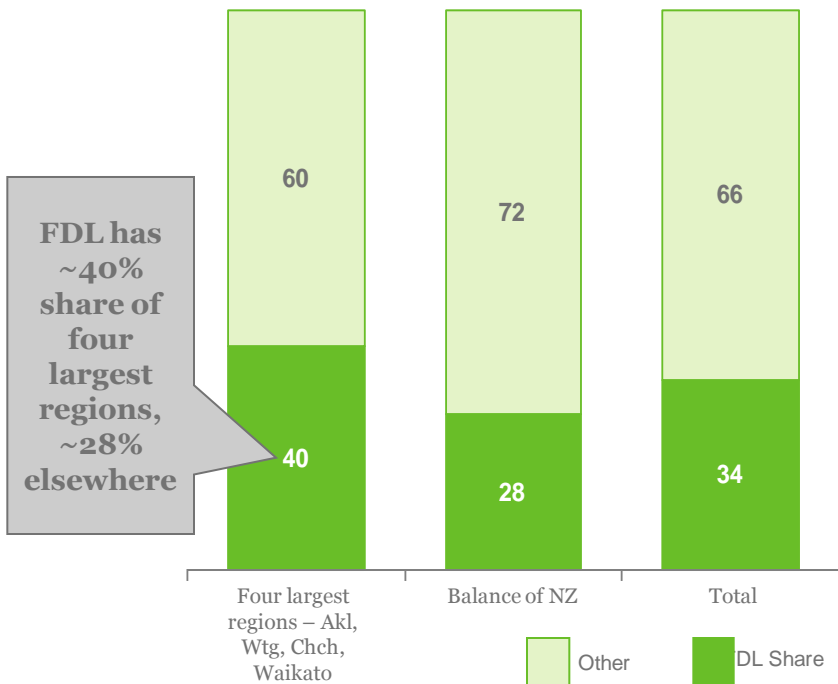
[CLICK HERE TO WATCH VIDEOS](#)

<http://www.doyoumeasureup.co.nz/>

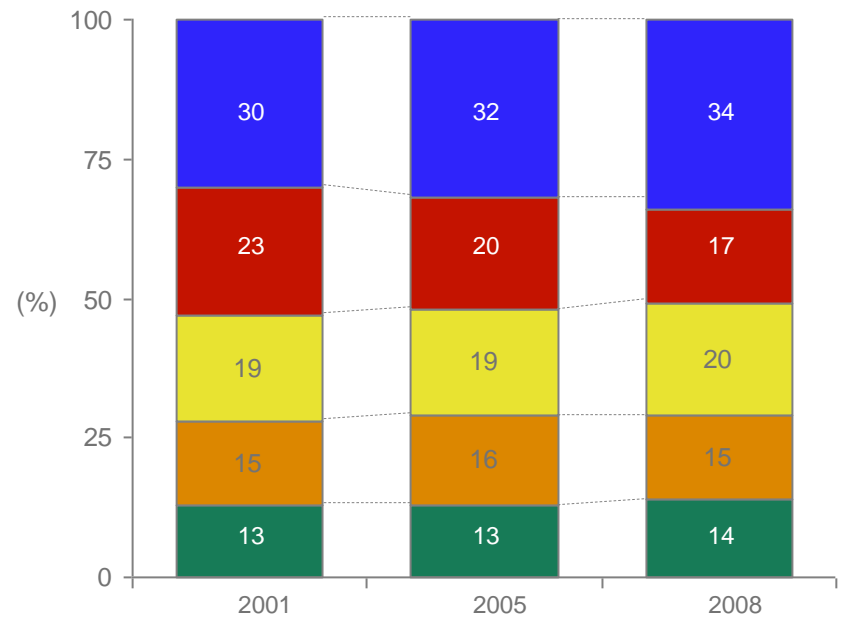


PlaceMakers trade focused model is well proven and been resilient in the downturn

Share of total building materials (%)\*



Revenue share of top five NZ builders merchant players: 2001–08\*



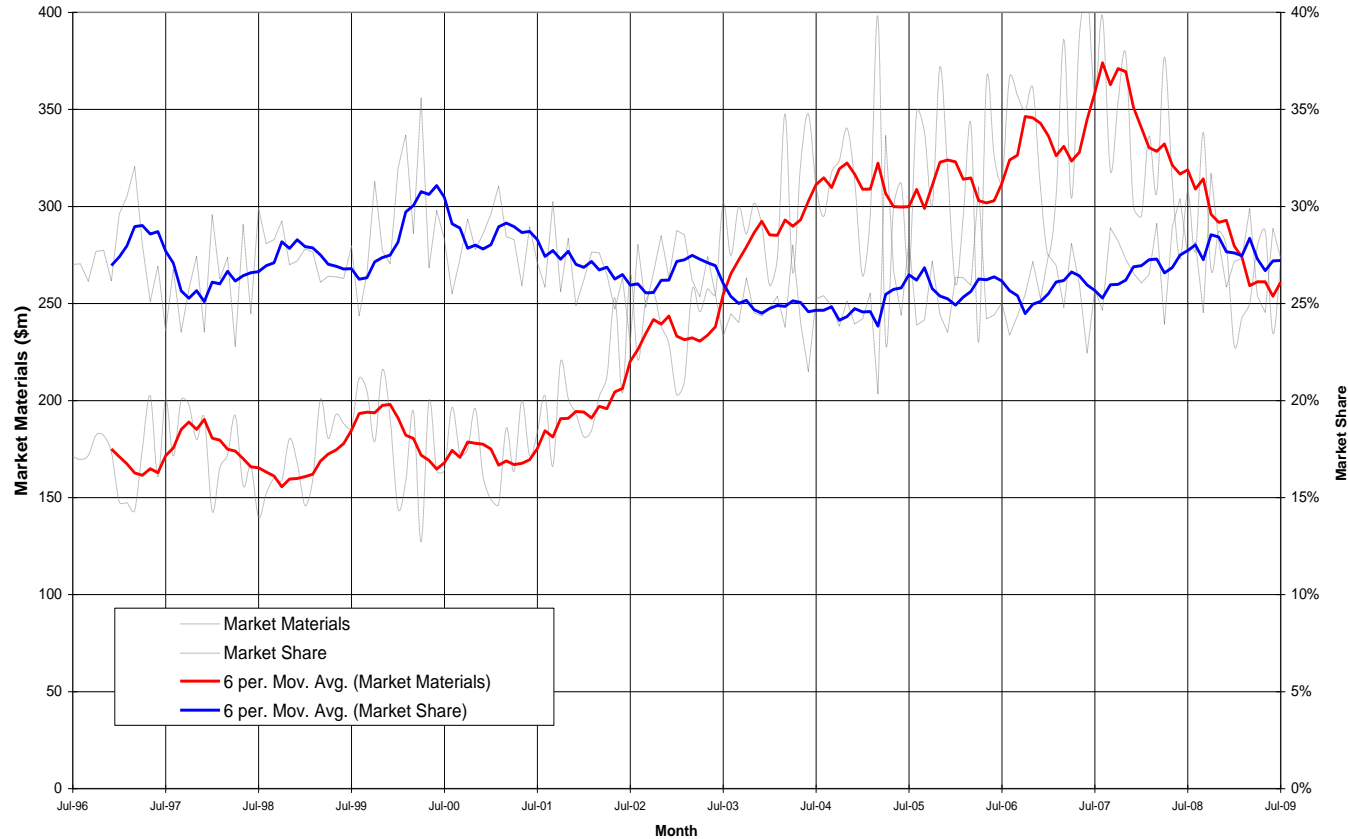
\* Source: Internal FDL and FBL Management Data





# FDL - not experienced full extent of market drop off in past two years

## Trade Market Share vs. Total Market Materials

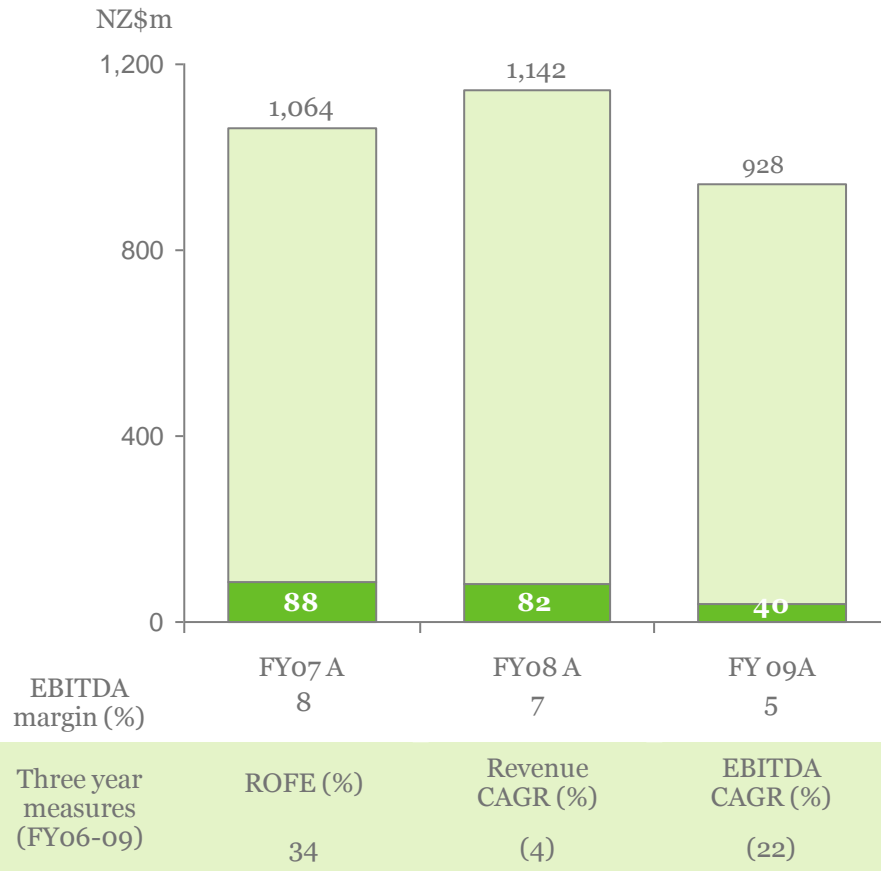


- Local operator focus has allowed the right adjustments to be made and lessened impact of recession
- Local relationships focussed on small – mid sized builders which has outperformed group builder segment



# However revenue and EBITDA under pressure as market slows in competitive industry

## Distribution Revenue and EBITDA: FY07-09



**FDL has experienced revenue growth and gains in trade market share, but EBITDA margins have suffered**

**Financials highly dependent upon the number of residential starts, which were 39% down in FY09**

**Landscape more competitive, with the introduction of retail focused big boxes.**



## Well positioned when market revives

- Over the course of F09
  - Staff numbers down 18%
  - Costs down 10%
  - Inventory and debtors down \$41m – 18%
  - Cash flow \$28m - despite EBITDA decline
- Facility upgrade plans are in process for consideration
  - Albany, Oamaru, Warkworth, Pakuranga
- Two major Frame and Truss plants in operation to give benefit of scale and process
- Process improvement in train
  - Estimating and detailing
  - Job and delivery management systems
- Model store systems being reviewed



## PlaceMakers strategic focus is clear - on the trade and complimentary retail offer

- Prior to 2005, the competitive landscape was less aggressive – only 13 big boxes in NZ
- This enabled PlaceMakers to complement its trade focus strategies with a secondary market of the serious DIY retail customer
- Since 2005 an additional 28 big boxes have been built. Our trade business model has been resilient and able to retain share
- Activity based costing analysis has revealed that our pursuit of the broad retail market has seen an escalation of cost
- Our retail growth has driven revenue without a commensurate lift in EBIT – 50% from 10 stores
- Therefore our strategy is to return to a focus on the trade and serious DIY customer
  - a series of operational initiatives in place to support this strategic focus
  - the 10 key retail stores will be invested in order to maintain scale and existing revenues
  - marketing spend will be targeted in support of the 10 key stores
  - outsourcing of marketing National Office costs reflects change in focus



# Focus on two core customer segments: The trade and the serious DIY

## Primary segment: Trade Customers

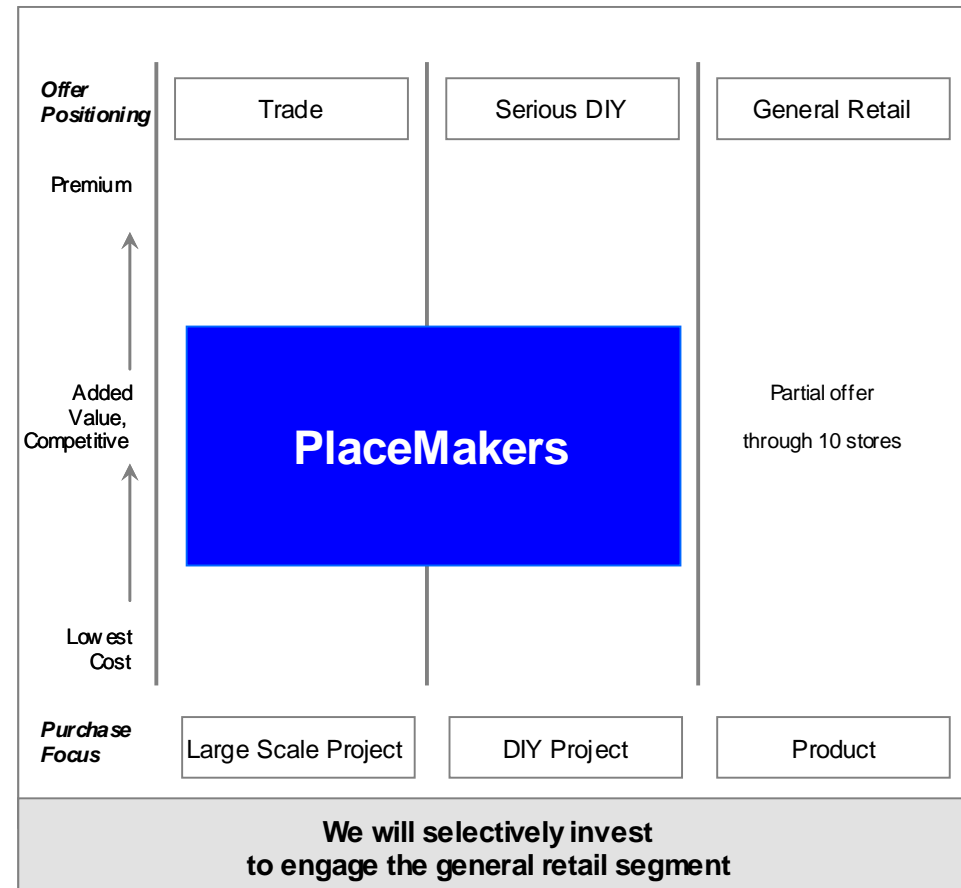
- The trade customer will get first consideration
  - Commercial
  - Group home builder
  - Residential
  - Sub contractors

Our fundamental operating question should always be:

- “How does this enhance our business with the Trade?”

## Secondary segment: Serious DIY Customers

- The DIY retail customer that enjoys the trade environment and is a member of the Know How card loyalty program
- For both core segments our **Brand Promise** through Know How Can Do will deliver the right price, product, place and people
- Our trade account customer driven focus with complimentary DIY/Retail offer will ensure customer success in building and DIY projects



# The Know How Card – key DIY tool



HOME ABOUT US HOW TO PROJECTS TRADE SPECIALS RETAIL SPECIALS SERVICES PRODUCTS FIND US KNOW HOW CARD



## KNOW HOW CARD

### NZ'S BEST DIY TOOL

Earn 10% of your total purchases back in bonus vouchers. A Know How Card is incredibly handy when you're serious about DIY, and becoming a Know How Card holder is quick and easy.

[READ MORE](#)



**PlaceMakers**  
Know how. Can do.  
**KNOW HOW CARD**  
MEMBER LOGIN

Member Number

Password

**LOGIN**

[First time login help](#)  
[Forgotten your password?](#)

**SIGN UP FOR A KNOW HOW CARD**

- Start earning 10% BONUS VOUCHERS from your next purchase.
- Advice and help with your projects.

## PUT A KNOW HOW CARD TO WORK

### EARN 10% OF YOUR TOTAL PURCHASES BACK IN BONUS VOUCHERS



#### THE MORE YOU SPEND THE BIGGER YOUR BONUS

The more you spend at PlaceMakers over a 12 month period from July to June, the better off you'll be. And don't worry about the maths... we'll keep track for you.

It pays to use your Know How Card for every project. Simply present us your card when you're buying what you need, and you'll earn 10% Bonus Vouchers on your purchases.\* Job-by-job your hard work adds up to more Bonus Vouchers, with no limit to how big your bonus can be! So make sure you use your Know How Card every time you shop at PlaceMakers.



**KNOW HOW CARD BENEFITS**  
CLICK HERE TO FIND OUT MORE



**KNOW HOW IT WORKS**  
CLICK HERE TO FIND OUT MORE

**FREE LOAN TRAILERS FOR KNOW HOW CARD HOLDERS**

First \$100 spend



\$10 Bonus Voucher

Next \$150 spend



\$15 Bonus Voucher

Next \$250 spend

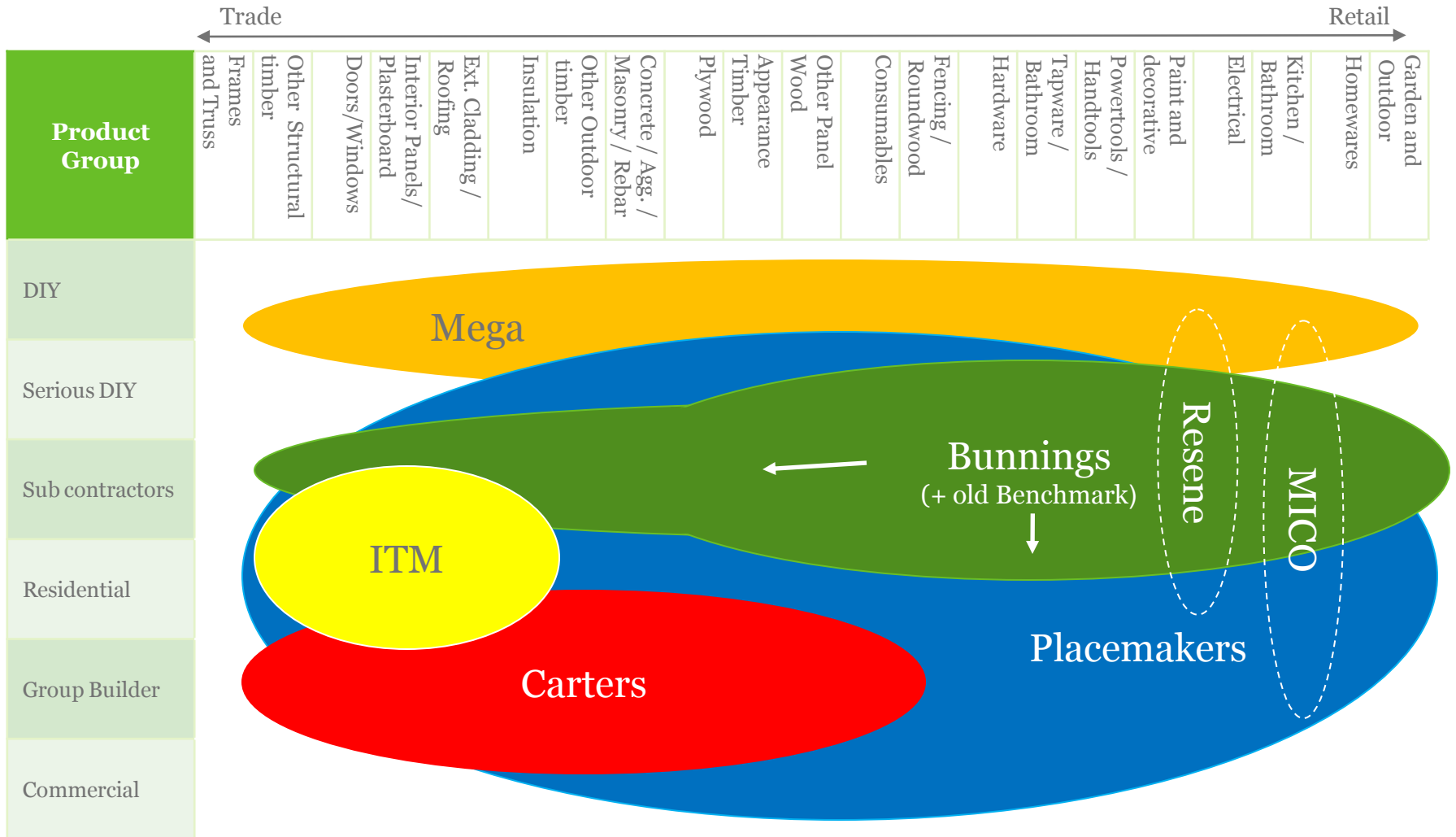


\$25 Bonus Voucher

For every \$250 spend over \$500 you will receive a \$25 Bonus Voucher



# Market segment and product analysis relative to competitors and resilient in the downturn

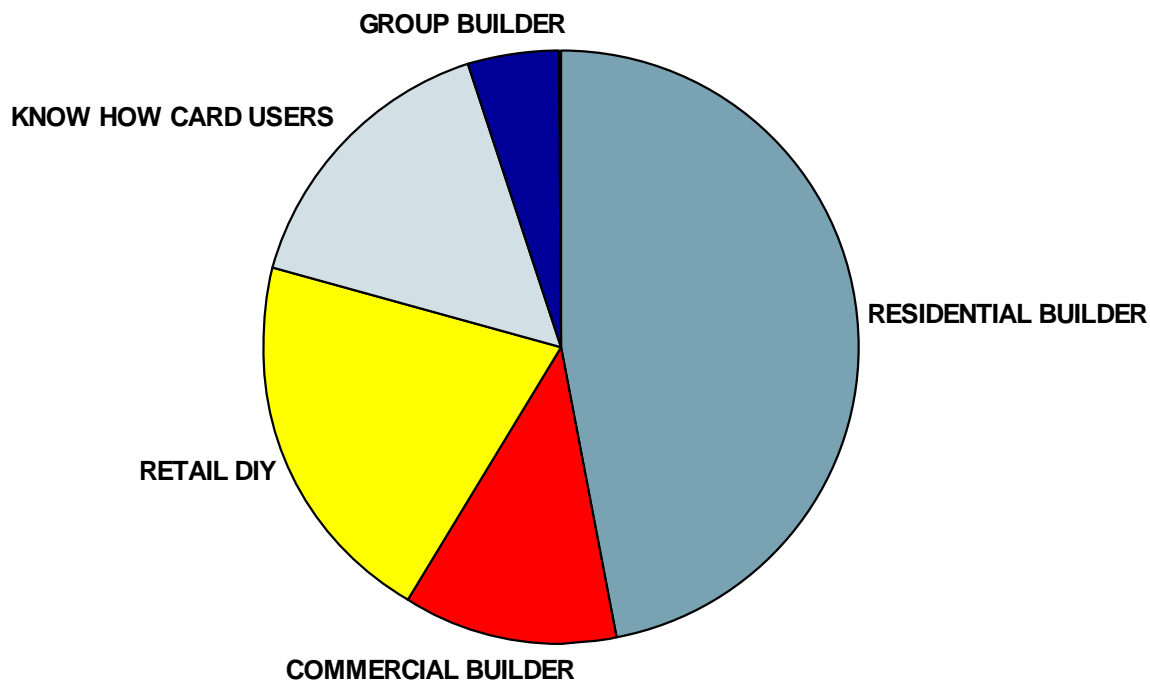


- PlaceMakers positioning covers the key trade and serious DIY customer segments across the product categories that matter



# Customer segments support the Trade Focus –

Percentage of total gross margin dollars  
(before rebates) by customer type



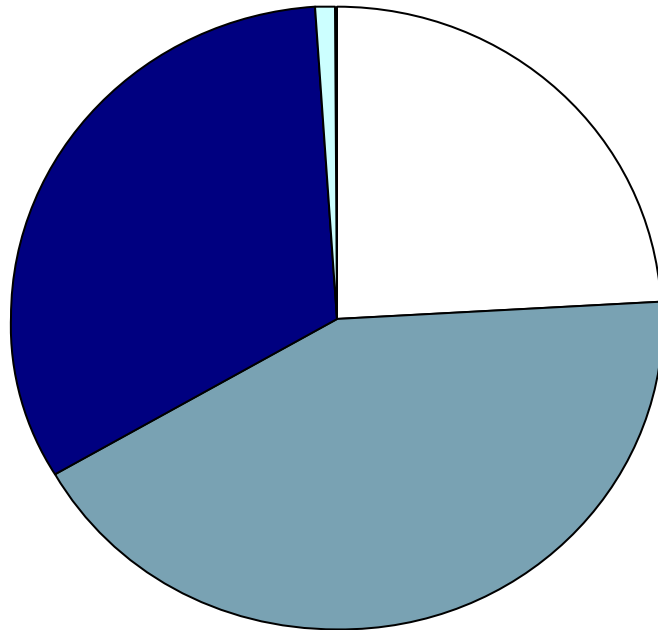
- The spread of margin dollars generated by the segments indicate their relative size and importance



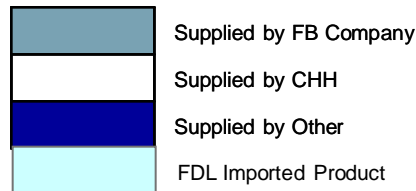


# Further opportunity to leverage scale

Percentage of Total Revenue by Category



- Opportunity to leverage scale in the supply chain as the biggest trade player.
- The value of PlaceMakers in distributing Fletcher Building product and supporting key industry suppliers is also apparent



# A series of operational initiatives in place to support this strategic focus 18

	<b>Enablers</b>	<b>Initiatives</b>
<p><b>Goals</b></p> <ul style="list-style-type: none"> <li>• Maximise FBU brand share in key NZ markets</li> <li>• Maximise returns with a 40%+ ROFE</li> <li>• A people management system, to create performance tension and superior organisational capability</li> </ul>	<p>① <b>People:</b> Attract, Develop, and Retain the Industry's Best Sales Talent</p>	<ul style="list-style-type: none"> <li>• Establish training for branch sales staff               <ul style="list-style-type: none"> <li>– Staff training</li> <li>– Product training</li> </ul> </li> <li>• Invest in JVO development and recruitment</li> </ul>
	<p>② <b>Price:</b> Competitive, Trade, DIY, Pricing</p>	<ul style="list-style-type: none"> <li>• Leverage FDL scale in procurement and logistics</li> <li>• Buy best in the industry – no exceptions</li> <li>• Improve margin via increased trade pricing disciplines</li> </ul>
	<p>③ <b>Promotions:</b> Communicate Primarily to Trade, Serious DIY and KHC Members</p>	<ul style="list-style-type: none"> <li>• Invest in direct marketing communication to our core customer segments               <ul style="list-style-type: none"> <li>– Trade account customers</li> <li>– Know How card account holders</li> <li>– Sub contractors</li> </ul> </li> </ul>
	<p>④ <b>Product:</b> “Trade Quality” Ranged to Trade and Serious DIY</p>	<ul style="list-style-type: none"> <li>• Range only trade authentic brands, product and services</li> <li>• Import trade creditable products</li> <li>• Disciplined store product presentations to a national standard</li> </ul>
	<p>⑤ <b>Store/Channels:</b> Centred on Trade Authenticity First, Then to Serious DIY</p>	<ul style="list-style-type: none"> <li>• Develop branches to meet local demands in key markets</li> <li>• Ring fence the ten branches which contribute 50% of the cash sales               <ul style="list-style-type: none"> <li>– Support localised ranging of product</li> </ul> </li> </ul>



# Manufacturing – a core strategy

- Frame and Truss manufacturing
  - 10% of sales
  - Key enabler of total trade offer
- Key activities over past year
  - Consolidation of facilities to more efficient plants – reduction from 22 to 14
  - Profitability has seen a two fold increase
  - Market share increases from estimated 25% to 30%<sup>(1)</sup>

(1) Source Nail plate suppliers and internal data



# Manufacturing – a core strategy

- Clear objectives
  - Cooperative regional JV and FDL ownership models to be introduced
  - Technical selling skills training
  - Ongoing rationalisation for scale and efficiency
- Improvements underway in detailing and estimating process. A key aspect to deliver:
  - Superior customer advantage
  - Value added selling
  - Margin Improvement



## Distribution summary

- FDL model has stood up well in recession
- Focus on Trade / DIY reinforced
- Better execution at lower cost
- Improve & target customer offer to selected segments
- Know How – Can Do is our core promise

