



# Fletcher Building Limited Half Year Results to 31 December 2010

16 February 2011



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## Disclaimer

This annual results presentation dated 16 February 2011 provides additional comment on the media release of the same date. As such, it should be read in conjunction with, and subject to, the explanations and views of future outlook on market conditions, earnings and activities given in that release.



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## Agenda

- Introduction
- Company and Market Overview
- Divisional Performance
- Financial Results
- Strategy
- Outlook



# Company & Market Overview



## Results overview

- Net earnings \$166 million.
- Operating earnings<sup>1</sup> of \$285 million.
- Cashflow from operations \$202 million.
- Revenues up 2% to \$3,468 million:
  - Higher volumes in NZ concrete products and Australian quarry operations.
  - Stronger NZ construction revenues and Fletcher Residential house sales.
  - Laminates & Panels volumes up in Australia and Asia.
- Interim dividend 16 cents per share:
  - Fully franked for Australian tax purposes.
  - Dividend reinvestment plan will not be operative for the interim dividend.

1. *Earnings before interest and tax*



## Residential recovery has stalled, while commercial markets have bottomed out

Building Consents	Dec 2010 12 months	Dec 2009 12 months	Dec 2008 12 months	10/09 %Mvmt
<b>New Zealand</b>				
- Residential Consents	15,602	14,425	18,456	+8
- Non Res WPIP (\$m)	4,728	4,896	5,220	-3
- Infrastructure WPIP (\$m)	6,412	6,269	5,759	+2
<b>Australia</b>				
<i>Source: Infometrics</i>				
- Residential Consents	172,422	146,496	148,155	+18
- Non Res WPIP (A\$Bn)	36.3	32.0	33.9	+13
- Infrastructure WPIP (A\$Bn)	77.2	76.1	70.8	+1
<b>US</b>				
<i>Source: BIS Shrapnel</i>				
- Residential Construction Starts	590,000	567,000	855,000	+4
- Commercial & Industrial (US\$Bn)	48.4	56.5	111.6	-14
- Institutional (US\$Bn)	106.9	111.5	130.6	-5
<i>Source: McGraw Hill</i>				



## Earnings growth driven by modest revenue growth and margin expansion

NZ\$m	Dec 2010 6 months	Dec 2009 6 months	% Change
Sales	3,468	3,393	+2
EBITDA	381	372	+2
EBIT	285	271	+5
Net earnings	166	154	+8
EPS – cps	27.3	25.5	+7
Dividend - cps	16	14	+14



## Earnings Commentary

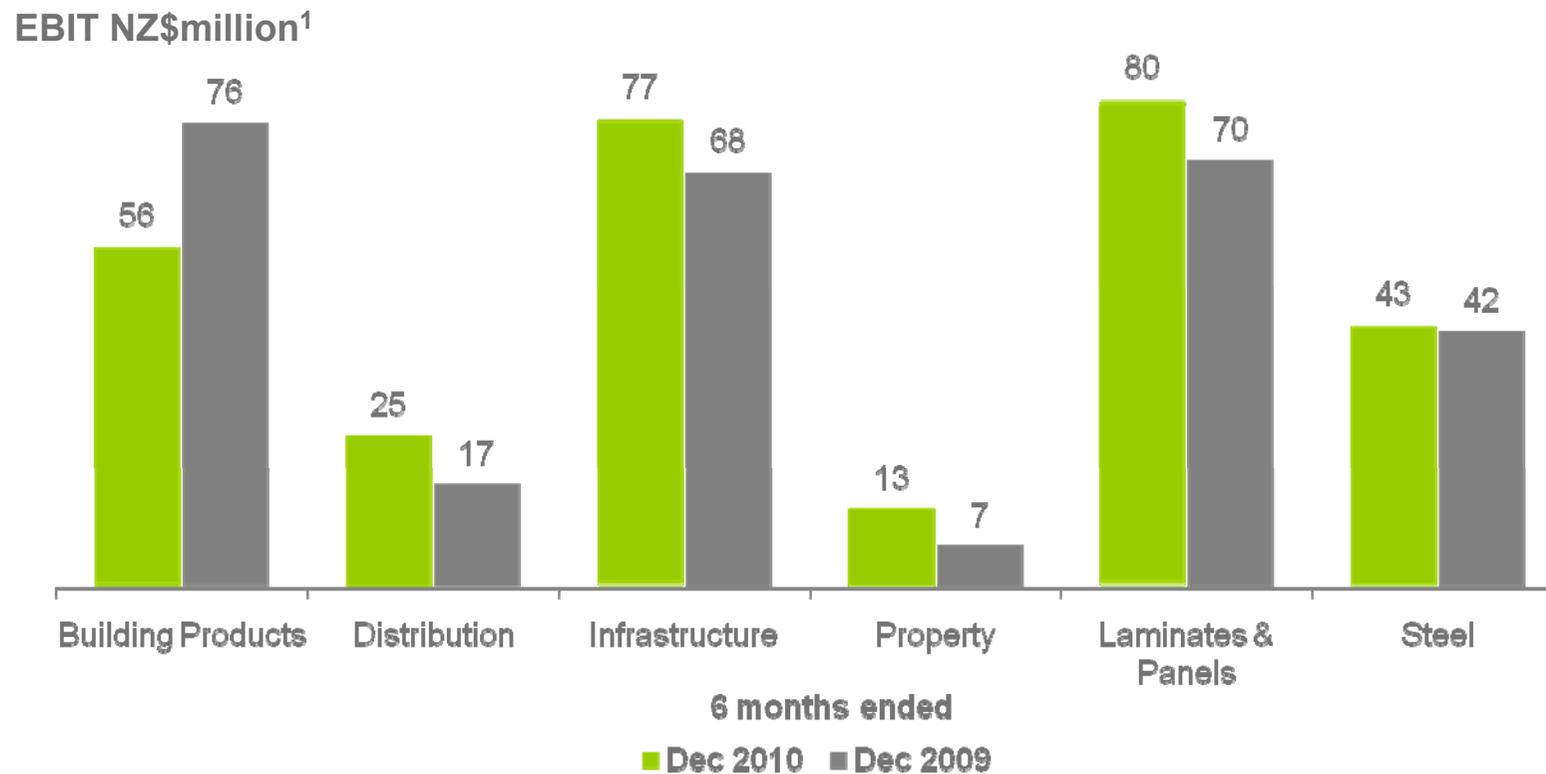
- Mixed trading conditions experienced across the group:
  - NZ housing recovery stalled but strong infrastructure work levels
  - Continued growth in most Australian businesses
  - South East Asia and China strong, North America flat and Europe down
- Continued strong infrastructure spending by NZ and Australian governments.
- Commercial activity levels stabilising.
- Operating cashflow of \$202m down due to:
  - Increased inventory levels
  - Timing of residential land purchase settlements
  - Utilisation of restructuring provisions
  - Reduction in creditors



# Divisional Performance



## Earnings ahead in all divisions except Building Products



1. *Earnings before interest and tax*



## Building Products result

NZ\$m	Dec 10 6 Mths	Dec 09 6 mths	% Δ
Sales	371	436	-15
EBITDA	69	89	-22
EBIT	56	76	-26
Funds Employed	674	641	+5
EBITDA/sales %	18.6	20.4	
EBIT/sales %	15.1	17.4	
ROFE %	16.6	23.7	

- **Insulation** earnings down 51% due to impact of stimulus package withdrawal in Australia.
- **Plasterboard** earnings down due to flat demand and new product investment.
- **Roof Tiles** Volumes up in Africa, Europe and Asia, flat in New Zealand and down in United States.



## Building Products: insulation volumes down significantly in Australia

Gross Sales NZ\$m	Dec 10 6 mths	Dec 09 6 mths	% Δ	Volume Δ	Price Δ	EBITDA Δ
<b>New Zealand</b>						
- Plasterboard	77	89	-13	-	-	↓
- Insulation <sup>1</sup>	91	84	+8	-	↓	↓
- Aluminium	36	32	+13	↑	↑	↑
<b>Australia</b>						
- Insulation	106	174	-39	↓	↓	↓
- Sinkware	18	17	+6	↑	↑	↑
<b>Roof Tiles<sup>2</sup></b>	93	94	-1	↑	-	↓

1. Includes Forman & Tasman Access Floors (which now reports into Forman)

2. Includes NZ, Europe, Japan, Africa, USA



## Distribution result

NZ\$m	Dec 10 6 Mths	Dec 09 6 mths	% Δ
Sales	446	435	+3
EBITDA	29	22	+32
EBIT	25	17	+47
Funds Employed	138	141	-2
EBITDA/sales %	6.5	5.1	
EBIT/sales %	5.6	3.9	
ROFE %	36.2	24.1	

- Sales ahead due to prior year improvement in new housing construction activity
- Continued focus on cost reduction and branch profitability
- Canterbury earthquakes have caused significant business disruption
- DIY activity subdued but sales added by loyalty programme relaunch



## Infrastructure result

NZ\$m	Dec 10 6 mths	Dec 09 6 mths	% Δ
Sales	1,034	974	+6
EBITDA			
- Concrete NZ	50	44	+14
- Concrete Aust.	36	37	-3
- Construction	26	22	+18
- Property	13	7	+86
Total EBITDA	125	110	+14
EBIT	90	75	+20
Funds Employed	1,142	1,047	+9
EBITDA/sales %	12.1	11.3	
EBIT/sales %	8.7	7.7	
ROFE %	15.8	14.3	

### NZ Concrete

- Cement volumes steady
- Softer demand for readymix and masonry products
- Aggregate and pipe volumes up, driven by infrastructure & roading projects

### Australia Concrete

- Quarry volumes up year on year, particularly in Western Australia
- Pipeline demand softer but growth in other products

### Construction

- Infrastructure work load supported by government funded activity
- Current backlog \$885m, additional \$440m of work where FCL preferred contractor



## Infrastructure: lower concrete and related volumes in NZ and Australia

Gross Sales NZ\$m	Dec 10 6 mths	Dec 09 6 mths	% Δ	Volume Δ	Price Δ	EBITDA Δ
<b>New Zealand</b>						
- NZ Concrete	319	310	+3			
• Cement				-	↑	↑
• Readymix				↓	↓	↓
- Construction	524	519	+1	↑	↓	↑
<b>Australia Concrete</b>	199	202	-1	↓	↑	↓



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## Canterbury update

- All of the company's Canterbury based businesses are back up and running
- Trading in Canterbury has been quiet while repairs are assessed and insurance claims are lodged
- Fletcher Construction selected to undertake project management of repairs for the Earthquake Commission (exact number still being assessed but circa 60,000)
  - 8 regional project management hubs established
  - Residential rebuilding activity underway and pace will increase over next 3 months
- Contracting with the Christchurch City Council on \$190 million of infrastructure repairs (joint venture with McConnell Dowell)
- Opportunity for participation in land remediation work



## Laminates & Panels result

NZ\$m	Dec 10 6 mths	Dec 09 6 mths	% Δ
Sales	1,001	965	+4
EBITDA			
- Laminex	77	79	-3
- Formica	36	27	+33
Total EBITDA	113	106	+7
EBIT	80	70	+14
Funds Employed	1,721	1,695	+2
EBITDA/sales %	11.3	11.0	
EBIT/sales %	8.0	7.3	
ROFE %	9.3	8.3	

### Laminex

- Australian volumes higher on new house completions and government-funded schools programme.
- NZ volumes flat year on year.

### Formica

- Strong volume growth in Asia up 15% year on year.
- North America volumes down 3%, Europe down 8%.
- Strong earnings growth from cost reduction initiatives.



## Laminates & Panels: volumes growth in Australia and Asia, offset by flat or weaker volumes in other regions

Gross Sales NZ\$m	Dec 10 6 mths	Dec 09 6 mths	% Δ	Volume Δ	Price Δ	EBITDA Δ
<b>Australia</b>						
- Laminex <sup>1</sup>	501	439	+14	↑	↓	↑
<b>New Zealand</b>						
- Laminex	76	79	-4	↓	↑	↓
<b>Formica</b>						
- Asia	111	101	+10	↑	↑	↑
- Europe	156	192	-19	↓	↑	↑
- Nth America	171	175	-2	↓	↑	↑

1. Domestic volumes, excluding export volumes



## Formica: continued improvement in earnings, due to Asia growth and cost reduction programme

EBIT US\$m	1H11	1H10
Asia	14	12
North America	8	3
Europe	1	-3
Corporate	-6	-5
EBIT \$US	17	7
EBIT (NZ\$)	23	10



## Steel result

NZ\$m	Dec 10 6 Mths	Dec 09 6 mths	% Δ
Sales	616	583	+6
EBITDA	54	54	-
EBIT	43	42	+2
Funds Employed	568	522	+9
EBITDA/sales %	8.8	9.3	
EBIT/sales %	7.0	7.2	
ROFE %	15.1	16.1	

- Long steel earnings impacted by competitive pricing pressures and higher scrap (input) costs.
- Rollforming and coated steel volumes flat due to lower commercial activity but earnings up 26%.
- Strong growth in steel distribution operating earnings, volumes up 16%.



## Steel: long steel margins contracted, strong growth in steel distribution volumes

Gross Sales NZ\$m	Dec 10 6 mths	Dec 09 6 mths	% Δ	Volume Δ	Price Δ	EBITDA Δ
<b>New Zealand</b>						
- Long Steel	124	129	-4	-	↓	↓
- Coated Steel	89	80	+11	-	↑	↑
- Distribution & Services	130	125	+4	↑	↑	↑
<b>Australia</b>						
- Rollforming	340	326	+4	↓	↑	↑



# Financial Results



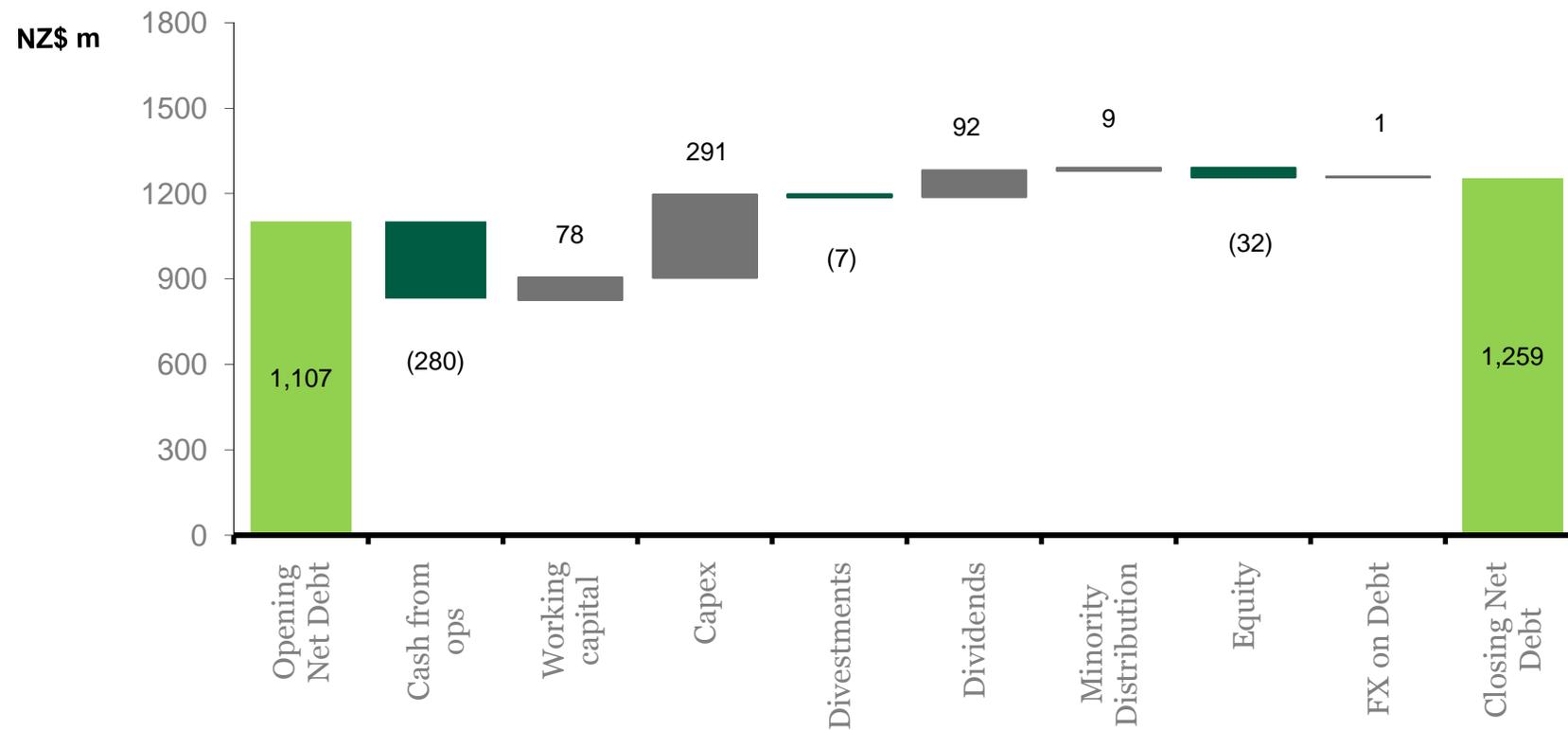
## Net earnings

NZ \$m	Dec 2010 6 months	Dec 2009 6 months	% Δ
EBIT <sup>1</sup>	285	271	+5
Interest	51	52	-2
Tax	63	59	+7
Minority Interests	5	6	-17
Net Earnings	166	154	+8

1. *Earnings before interest and tax*

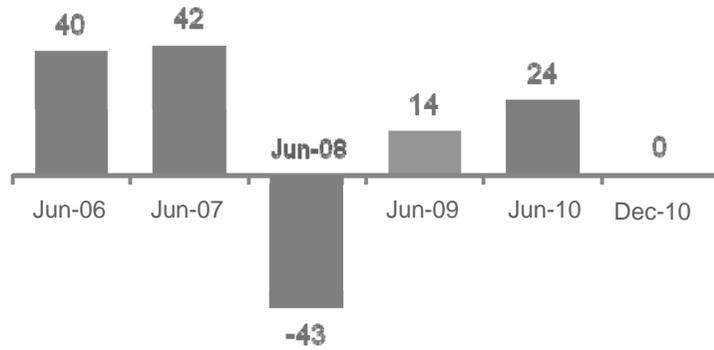


## Net debt levels increased with investment in Crane Group

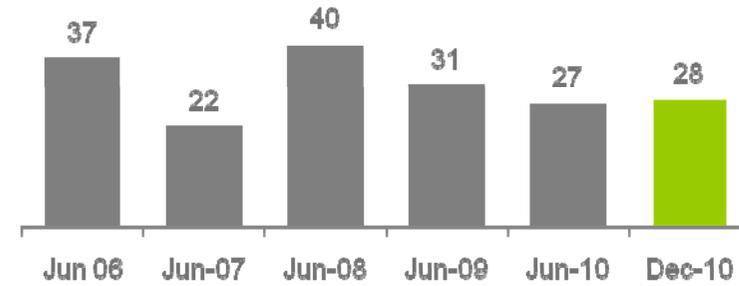


## Key Ratios

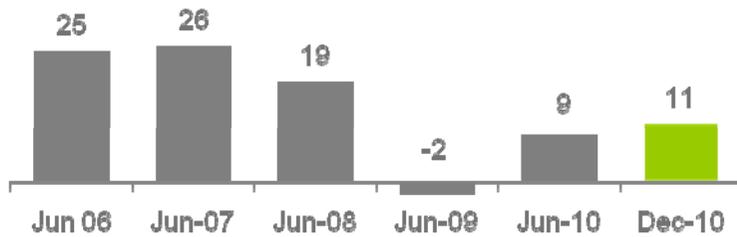
**Total Shareholder Return (TSR) Percentage**



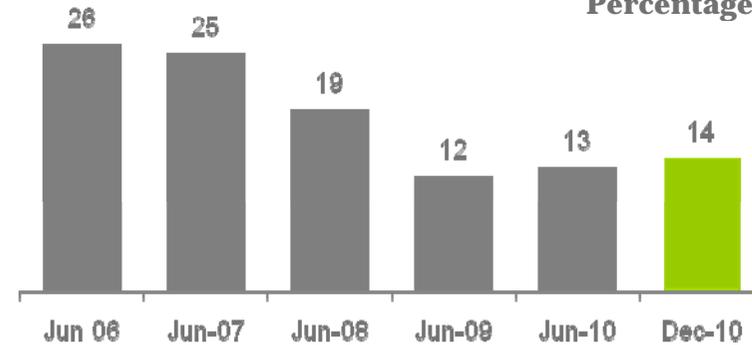
**Debt/Debt Plus Equity Percentage**



**Return on Average Equity Percentage<sup>1</sup>**



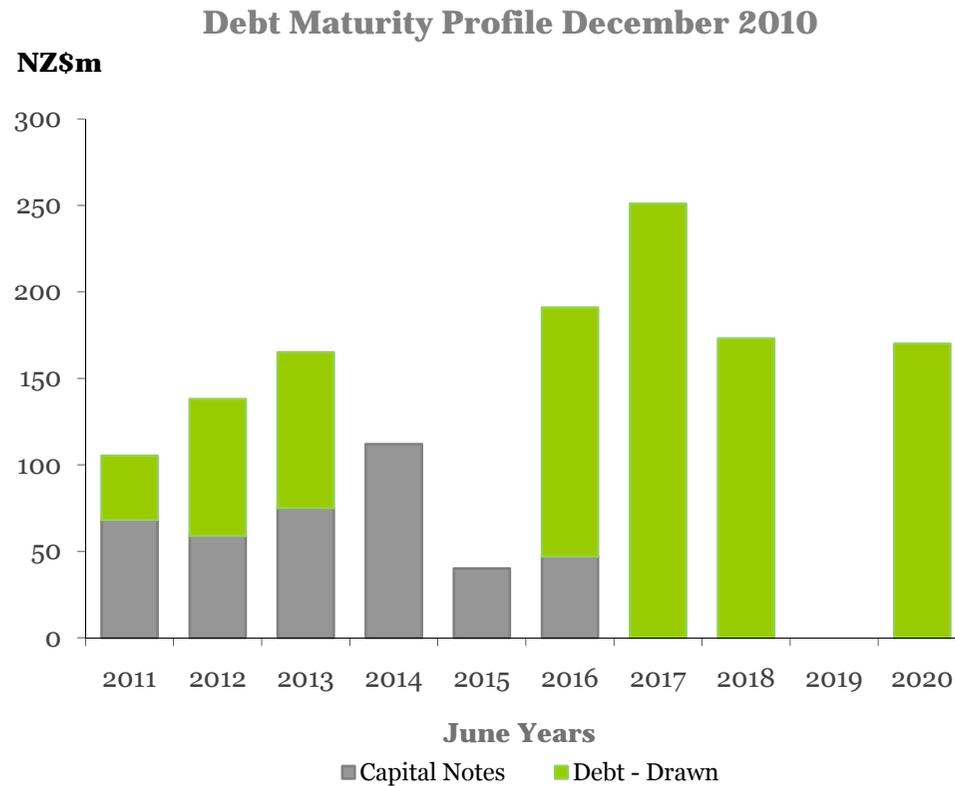
**Return on Average Funds Percentage<sup>2</sup>**



1. Net earnings / average equity  
 2. Earnings before interest, tax, and unusual items / average funds



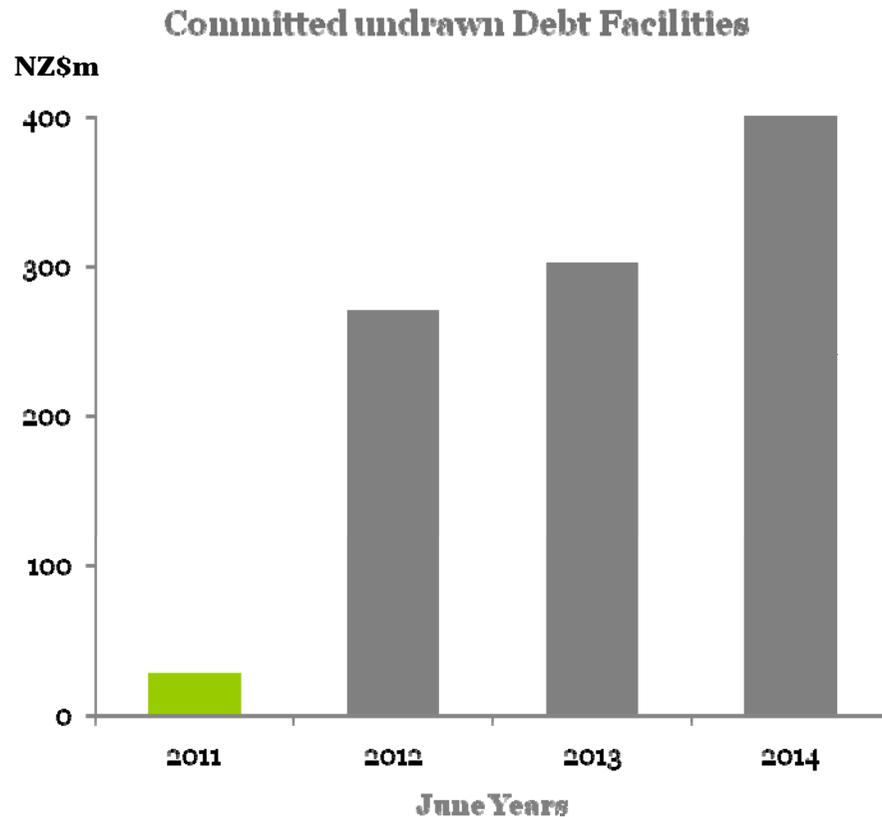
## Debt maturity profile



- Undrawn credit lines of \$1,002 million.
- Average maturity of debt is over 4.5 years.
- Average interest rate on debt is 7.2%.
- 85% of borrowings are at fixed rates.



## Significant undrawn credit facilities in place



- Crane Group acquisition can be met from current debt headroom
- Intention to refinance syndicated debt facility out to 3-5 years
- Further long term debt issuance to extend duration will be considered



# Strategy



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## Strategy

Longer term strategy continues to be:

- improve earnings reliability
- maintain and improve internal capabilities
  - increased focus on growth oriented capex
  - business transformation initiatives
- pursue acquisition opportunities where these meet key investment criteria, with a focus on extending current lines of business.

Our aspirations by geography:

**New Zealand** Maintain and extend domestic businesses, strengthen channels to market.

**Australia** Create the leading Australasian building products and construction materials business by establishing strong market positions.

**International** Develop existing operations into the world's leading laminates and panels business.



# Outlook



## Outlook 2011

Outlook for 2011 financial year continues to be mixed as to the pace of economic recovery, and impacts of Queensland floods and the Canterbury earthquake

### New Zealand:

- Residential building activity not expected to improve in the second half.
- Commercial construction activity appears to have bottomed out.
- Infrastructure spending to dip in 2011 before growing in 2012.
- Canterbury earthquakes repair work will accelerate in the second half.

### Australia:

- Residential building activity may weaken from 2010 levels.
- Commercial likely to remain subdued; infrastructure expected to continue at current levels.
- Potential short term negative impact of Queensland and Victorian floods, some positive contribution likely in 2012.

Asia: continued growth expected in China and South East Asia.

North America and Europe: US expected to recover sooner, Western Europe likely to remain difficult.





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