



# FLETCHER BUILDING INVESTOR STRATEGY DAY

22 May 2013

**Mark Adamson**

*Chief Executive Officer*

**Gerry Bollman**

*Chief Executive  
Business Strategy and Performance*



Investor Strategy Day

# MARK ADAMSON CHIEF EXECUTIVE OFFICER



*Golden Bay Cement, Whangarei (NZ)*



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## Disclaimer

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**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 2013 half 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.**

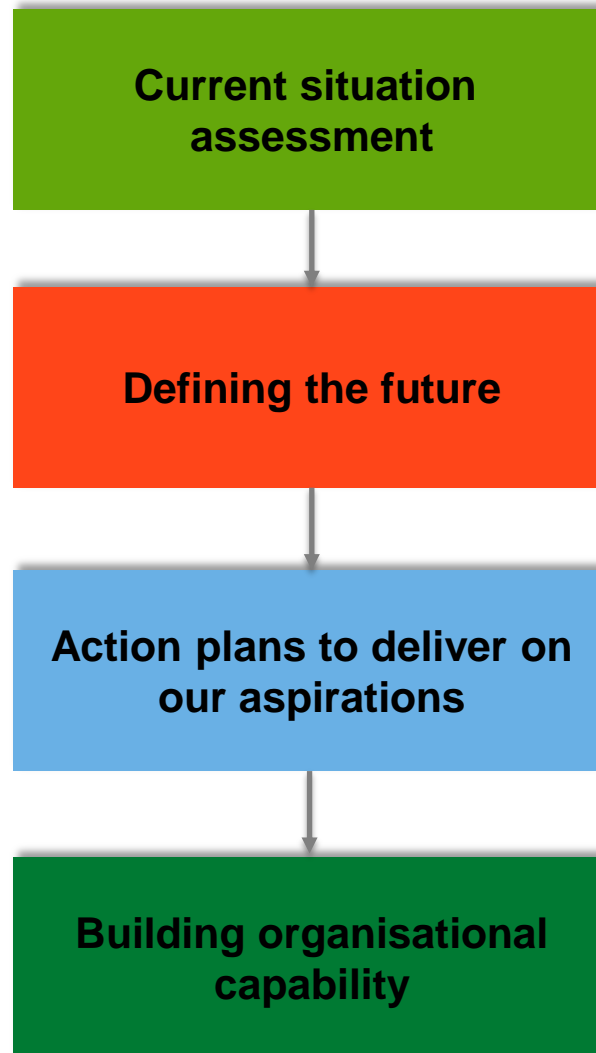


## Aspirations for today

- 1. Update the market on our current thinking on group strategy, and the challenges and opportunities in each of our divisions;**
- 2. Provide a “teach in” for those investors who are new to Fletcher Building, and a “point in time” update of our market positions in our key business units;**
- 3. Showcase the senior executive leadership team**
- 4. Map out our approach to capital management and shareholder returns**



# Presentation overview



## Current situation assessment

### **We have achieved our goal of geographic diversification**

#### **In doing so we have created further challenges:**

- Too many small businesses,
- Complex organisational structure,
- Strategic direction has become harder to articulate

### **There is uncertainty as to how shareholder returns will be delivered:**

- Though growth or dividends/yield, or some combination

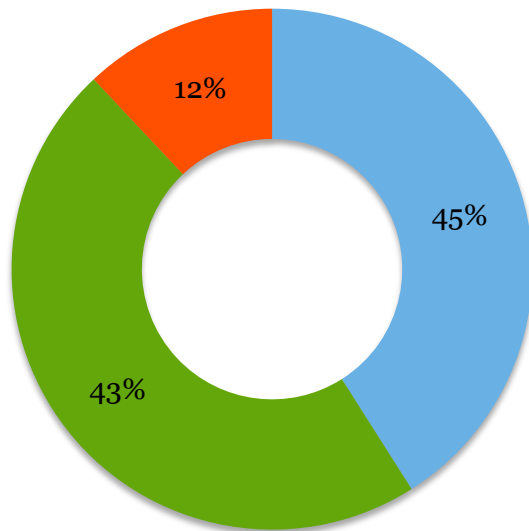
### **The competitive landscape has changed:**

- High A\$ and NZ\$ has increased import competition
- Historically low shipping rates also making imports more viable
- Change in mix of stand-alone versus multi-unit residential construction
- Move to provide total solutions versus product-by-product approach
- Digital technology enabling new low-cost routes to market



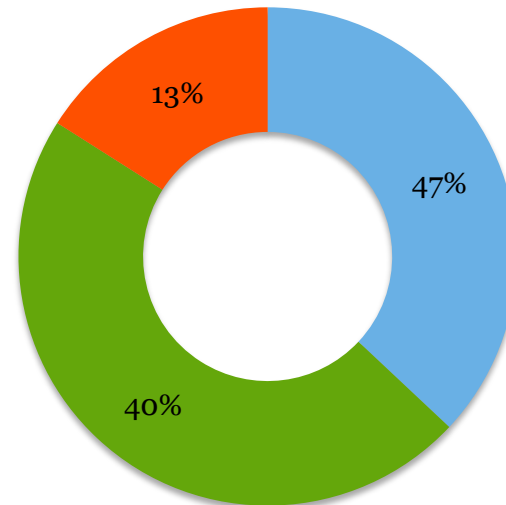
# Geographic diversification has been achieved

**Revenues:**  
(6 months to 31 Dec 2012)



- New Zealand
- Australia
- Rest of World

**EBIT**  
(6 months to 31 Dec 2012)

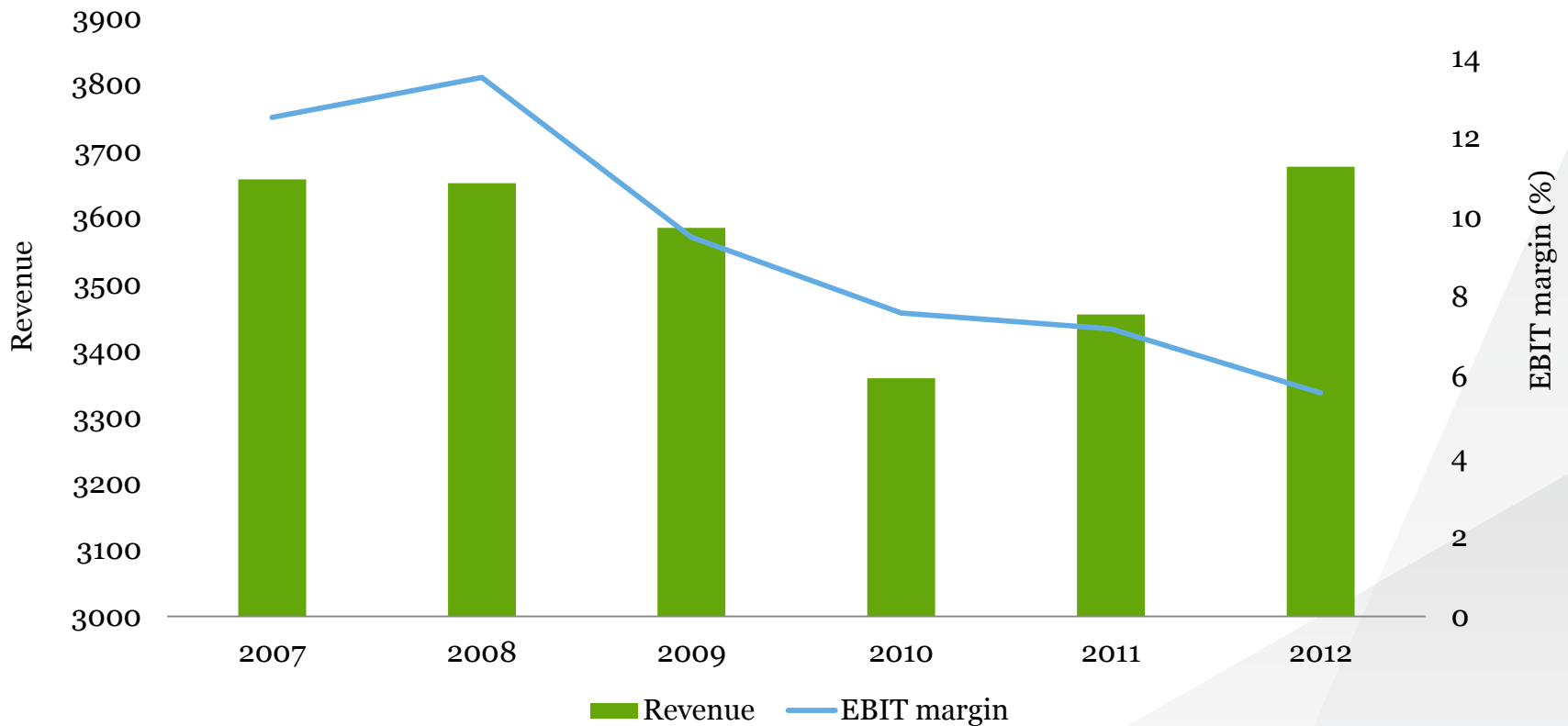


- New Zealand
- Australia
- Rest of World



# New Zealand margins have steadily declined as volumes have reduced

## Revenue vs EBIT margin NZ\$million



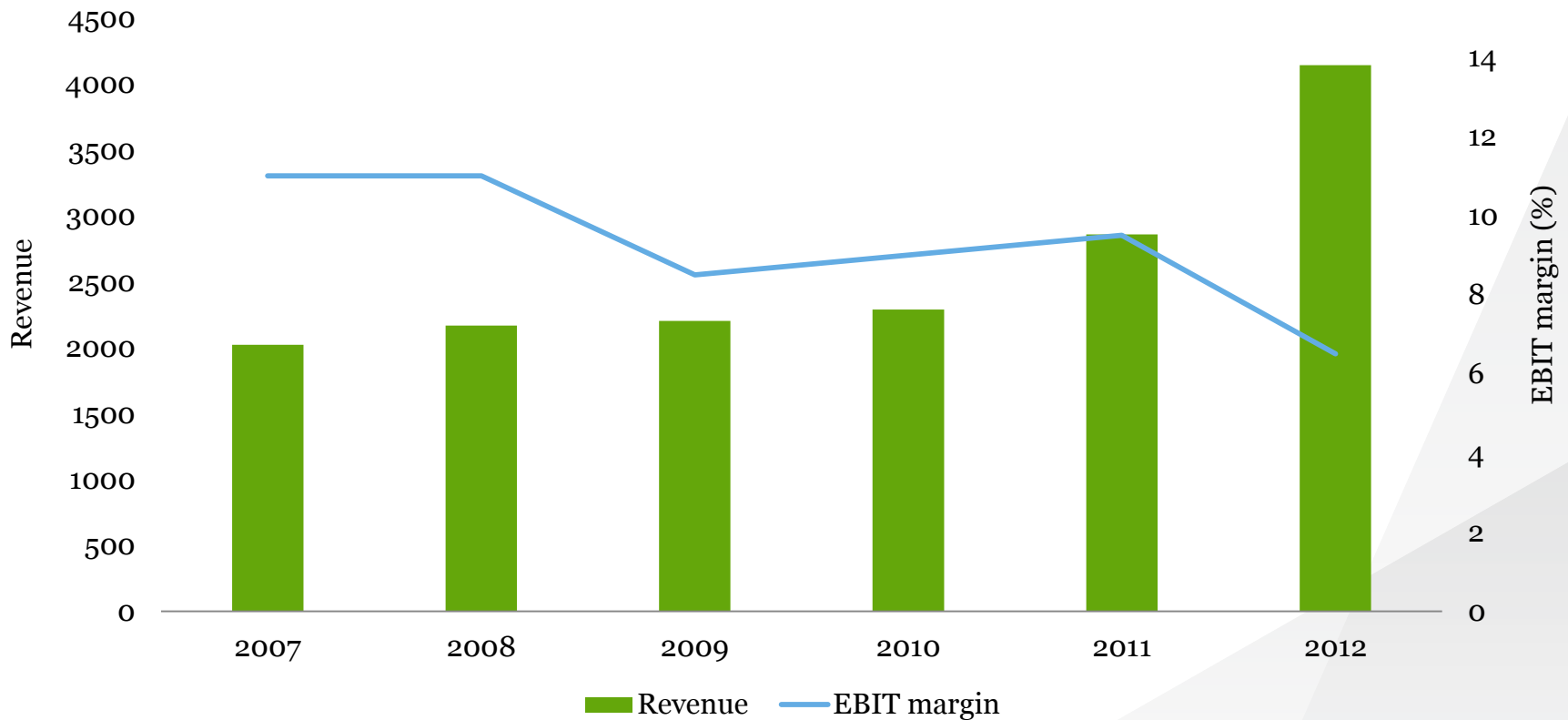
1. Pre-unusual items, restructuring and impairment charges and significant items.





# Australian EBIT margins have fallen in recent times with decline in activity levels

## Revenue vs EBIT margin NZ\$million

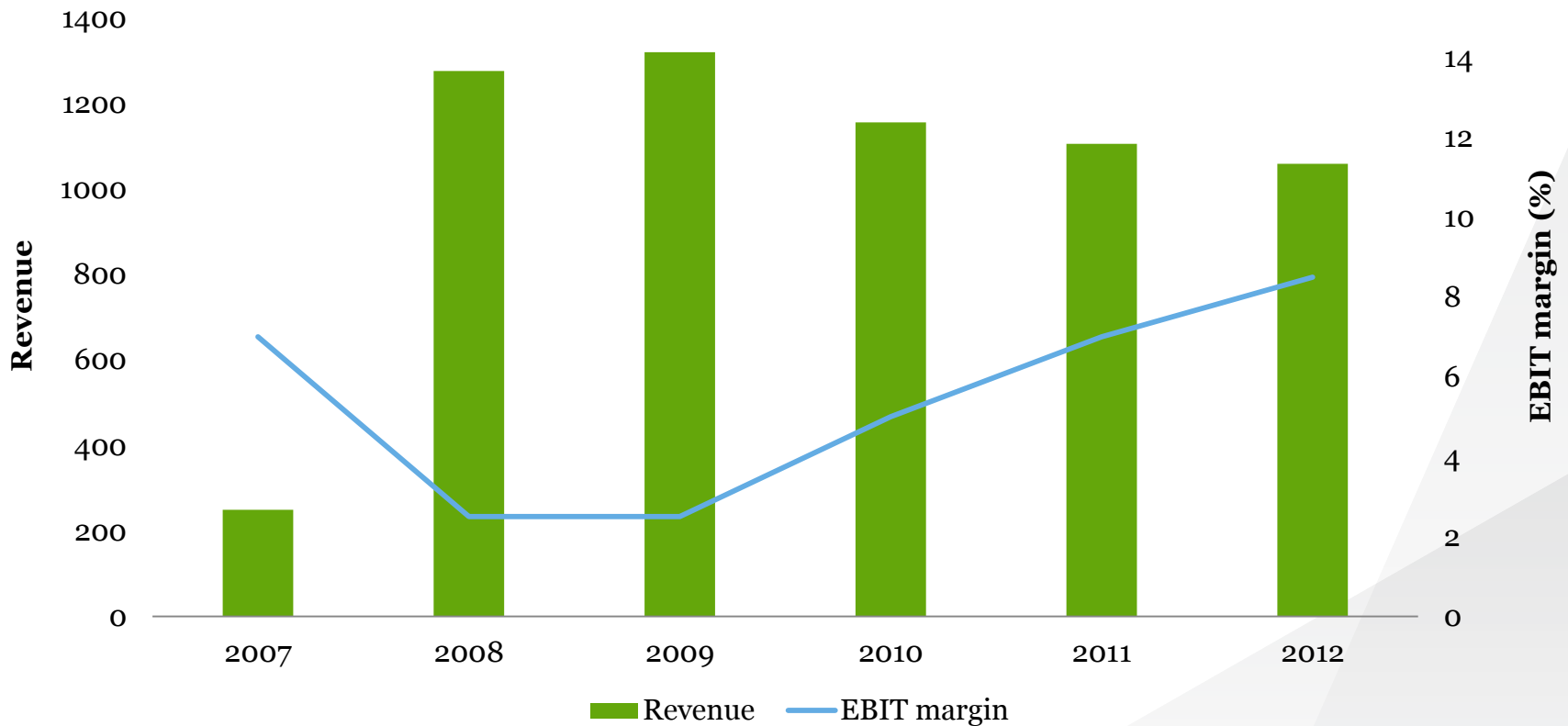


1. Pre-unusual items, restructuring and impairment charges and significant items.



# Beyond Australasia improved margins have been driven by operational efficiency improvements

## Revenue vs EBIT margin NZ\$million



1. Pre-unusual items, restructuring and impairment charges and significant items.

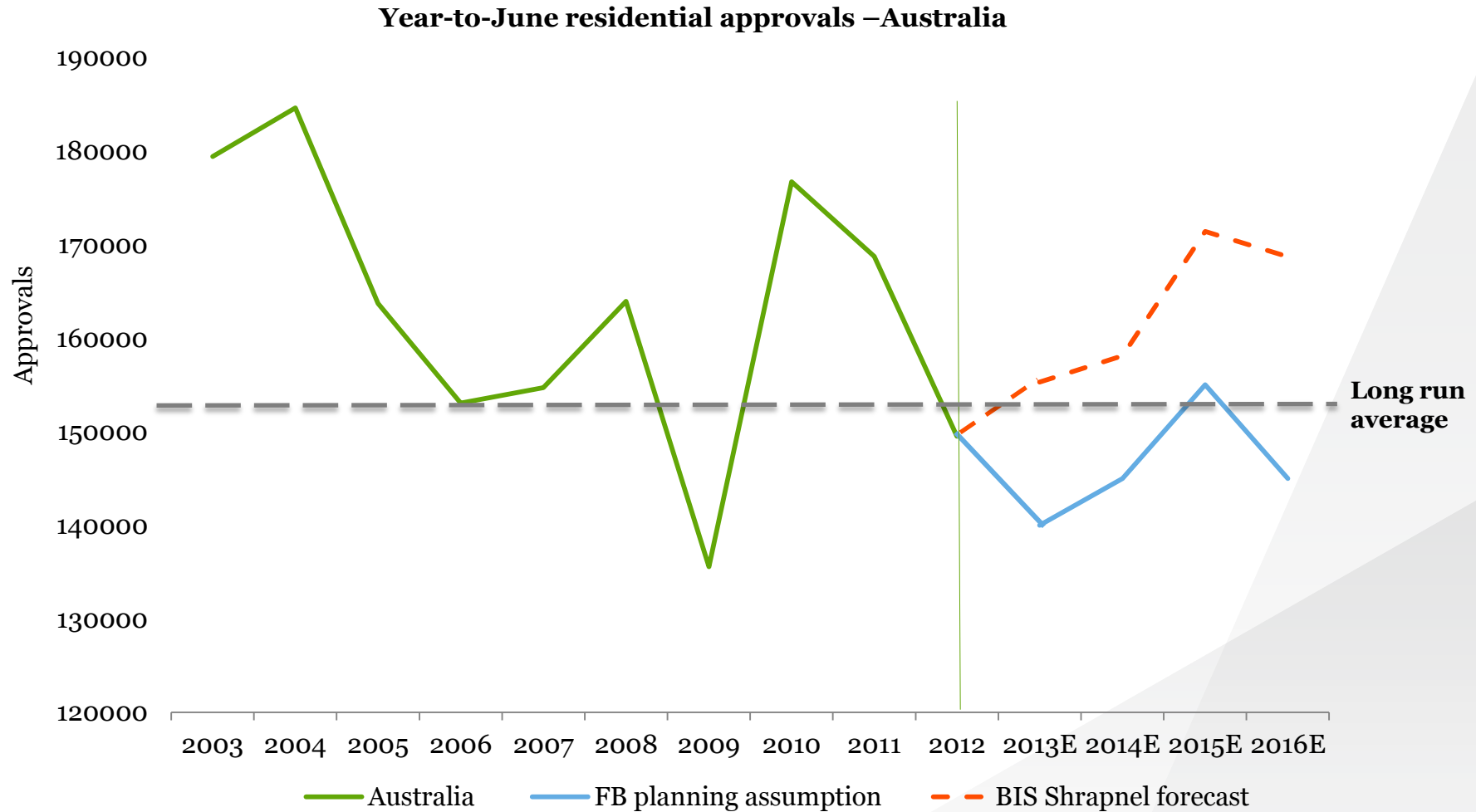


# NZ consents forecast to increase through to FY15

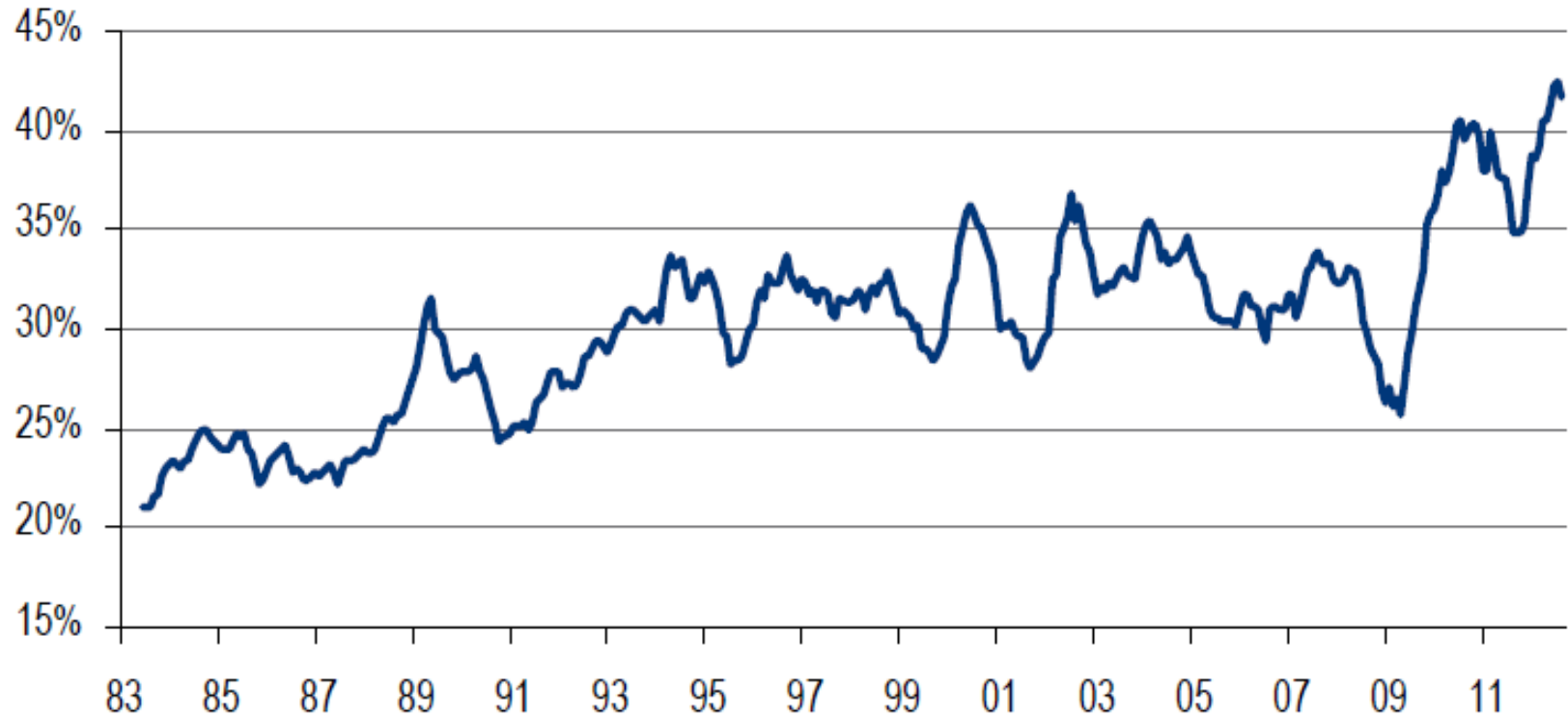
**Year-to-June residential consents – New Zealand**



# Conservative forward assumptions for Australia residential



## In Australia, multi-family approvals as a % of total have steadily increased over time



Source: Merrill Lynch, ABS, Seasonally Adjusted, Monthly

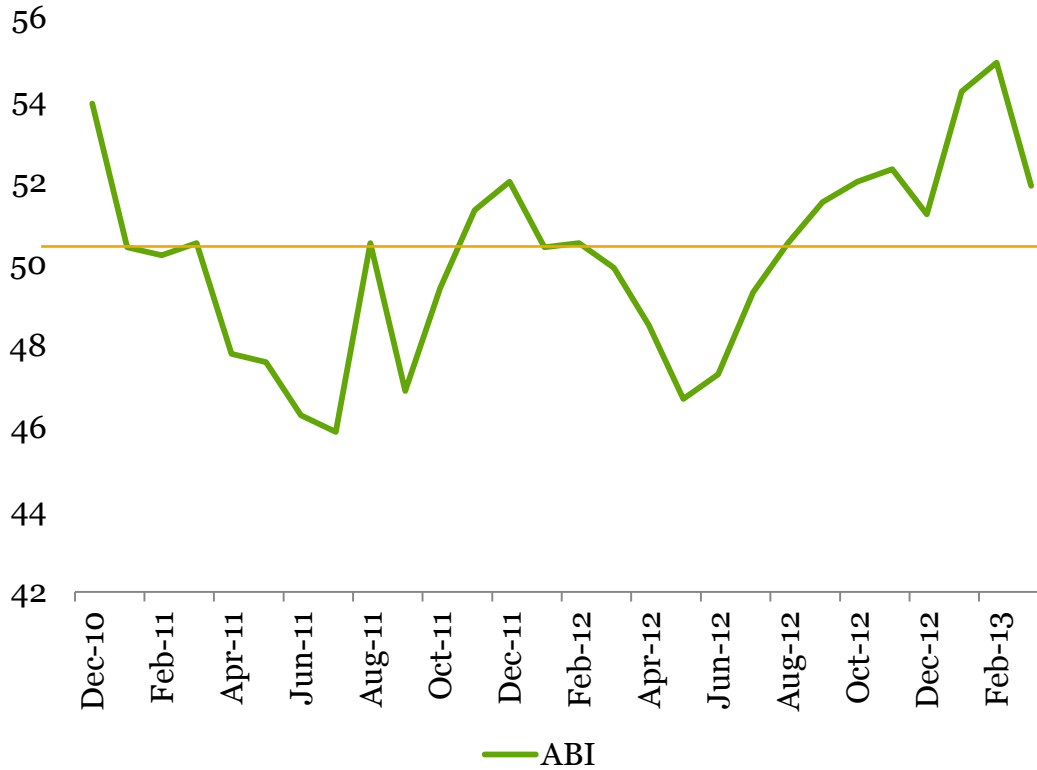




# In the US, Architecture Billing Index has been positive since August 2012, but forecasts for commercial remain negative

## Architecture Billing Index

50 = neutral activity; <50 = negative activity; >50 = positive activity



## Forecast Range

	2013	2014
Commercial	-0.7% to -3.7%	+1.5% to -0.8%
Residential	-11.9% to 23.1%	+9.3% to 20.6%
Residential Remodel	2 to 6%	N/A

50 = neutral activity; <50 = negative activity; >50 = positive activity



## Defining the future

**There is no change to our core business as an integrated manufacturer and distributor of infrastructure and building products, as well as a construction company.**

**However:**

- We are moving from total decentralisation to a hybrid model, with an active corporate centre supporting business units through centres of excellence
- We will leverage group scale to drive efficiencies and best practice

**We see returns being delivered to shareholders through:**

- Earnings growth over time through operating efficiency
- Making businesses more sustainable long term
- Growing management capability
- Increased focus on cash returns



## Defining the future

**Transformational change to build a platform for sustainable growth:**

**From:**

**To:**

Highly decentralised



Decentralised + active centre

Complete autonomy



Centres of Excellence

Growth externally focused



Realignment /organic growth

Cycle drives performance



Performance beyond the cycle

Safety focus improvement



Continuous improvement

Stay in business



Best in Class capability



# Business structure has been simplified around 5 divisional groupings



## Infrastructure Products

- Cement
- Readymix
- Aggregates
- Concrete Products
- Concrete pipes
- Quarries
- Long steel
- Reinforcing bar, mesh and wire
- Iplex pipelines
- Copper tube distribution



## Building Products

### Building Materials Manufacture

- Plasterboard
- Insulation
- Roof tiles
- Coated steel
- Aluminium windows & doors
- Sinkware



## Laminates & Panels

### Laminex

- MDF
- Particleboard
- LPM
- HPL

### Formica

- HPL



## Distribution

### New Zealand

- 57 PlaceMakers branches
- 12 PlaceMakers frame and truss sites
- 63 Mico branches

### Australia

- 223 Tradelink branches
- 17 Hudson Building Supplies branches
- 12 Northern's Plumbing Supplies branches



## Construction

### Construction

- General construction
- Infrastructure projects
- Residential house development



# FBUnite is at the heart of driving improved returns over time



PEOPLE

## Developing a winning culture.

### Organisational development

- Learning Academy
- Leadership
- Performance management
- Talent management
- Global employee engagement

### Intranet

### HRIS



INNOVATION & GROWTH

## Divisional CE's

## Responsive to market changes.

### Future distribution opportunities

### Future growth opportunities

### Digital

- ICT roadmap
- Digital business strategy
- Customer/marketing/CRM



PERFORMANCE EXCELLENCE

## Gerry Bollman

## Optimising operational performance.

### Network optimisation

- Freight/logistics
- Distribution footprint

### Operational excellence

- Manufacturing
- Supply chain
- Health & Safety



EFFICIENCY

## Gerry Bollman

## Creating the lowest possible cost structure.

### Procurement

- Indirect
- Direct
- ICT

### Shared services centre

- Finance – Accounts Payable/  
Accounts Receivable
- HR – Payroll, learning and development
- Desktop support
- Purchasing

### Property

- Portfolio management
- Rationalisation
- Transactions





## **FBUnite is at the heart of driving improved returns over time**

### **Cost out & operational excellence programmes**

#### **New investments around:**

Digital Strategy

Enabling IT investment

#### **Exploration of new distribution models**

#### **Further work around growth options**

#### **OD: Streamlining organisational structure**

### **Total benefits arising from FBUnite expected to be in the range of \$75m-\$100m p.a.**

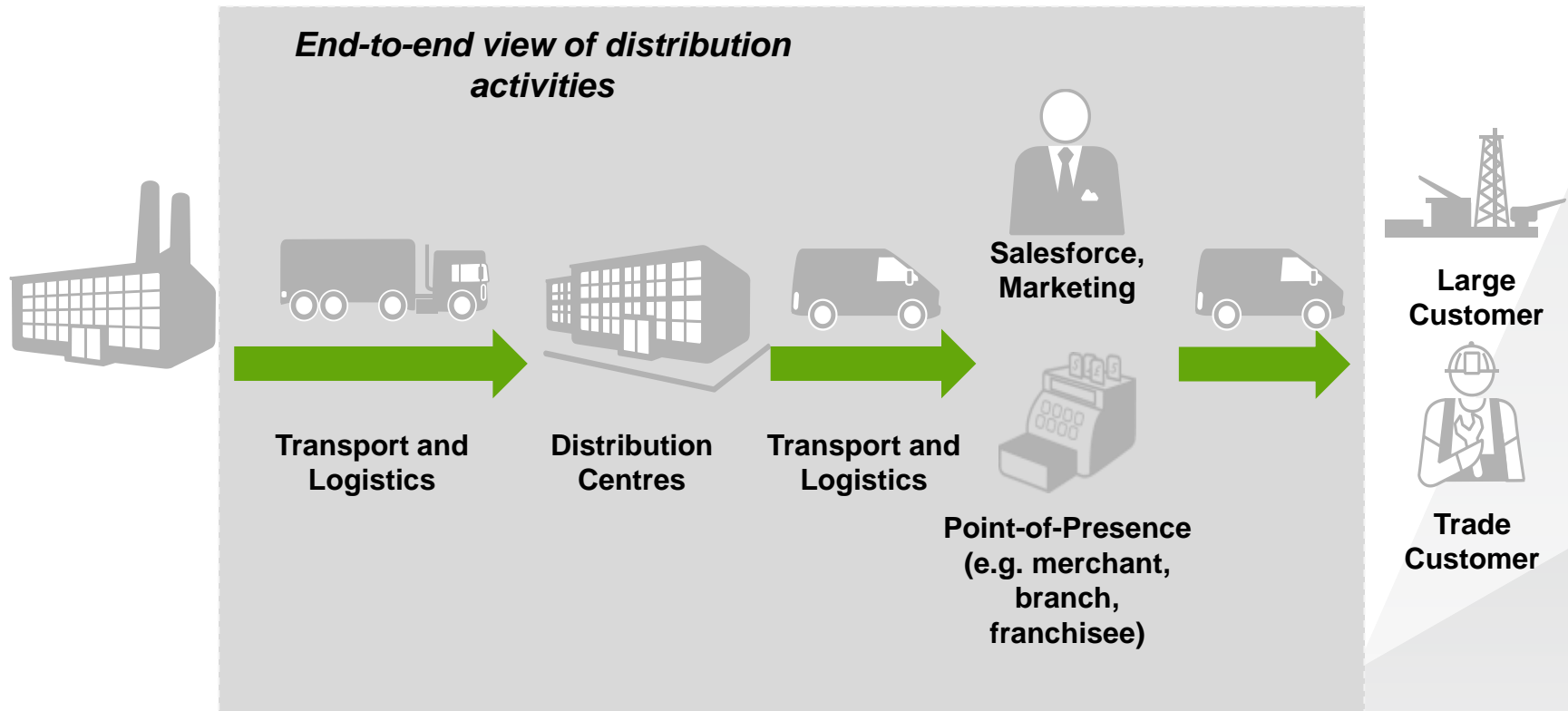
Benefits should become evident in FY15

Capital and operating expenditure will be incurred in FY14 which will offset early benefits

Other pressures (price/margin/volume) may partly offset net EBIT contribution from FBUnite



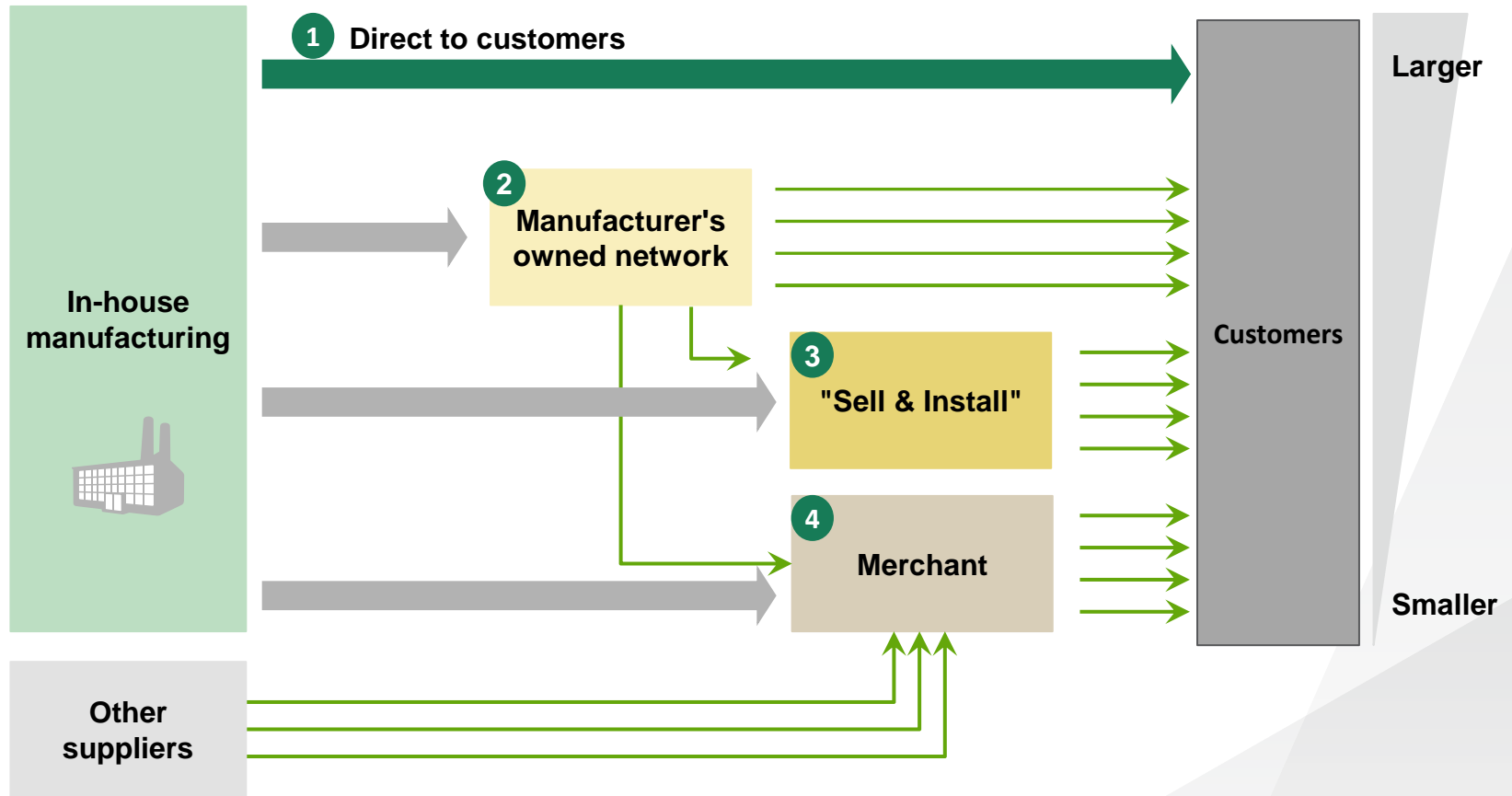
# Distribution strategy review is considering all activities from the factory gate to the end-user



**More expansive view than just merchants, although Fletcher Building may not need to own or control all these activities**



# Four main channels to market observed in NZ and Australian building products industry



Source: Company information; BCG Analysis



# Building organisational capability

## Leadership

- Accelerated learning and development for our Leaders to mitigate the experience gaps and to build the desired level of capability

## Talent

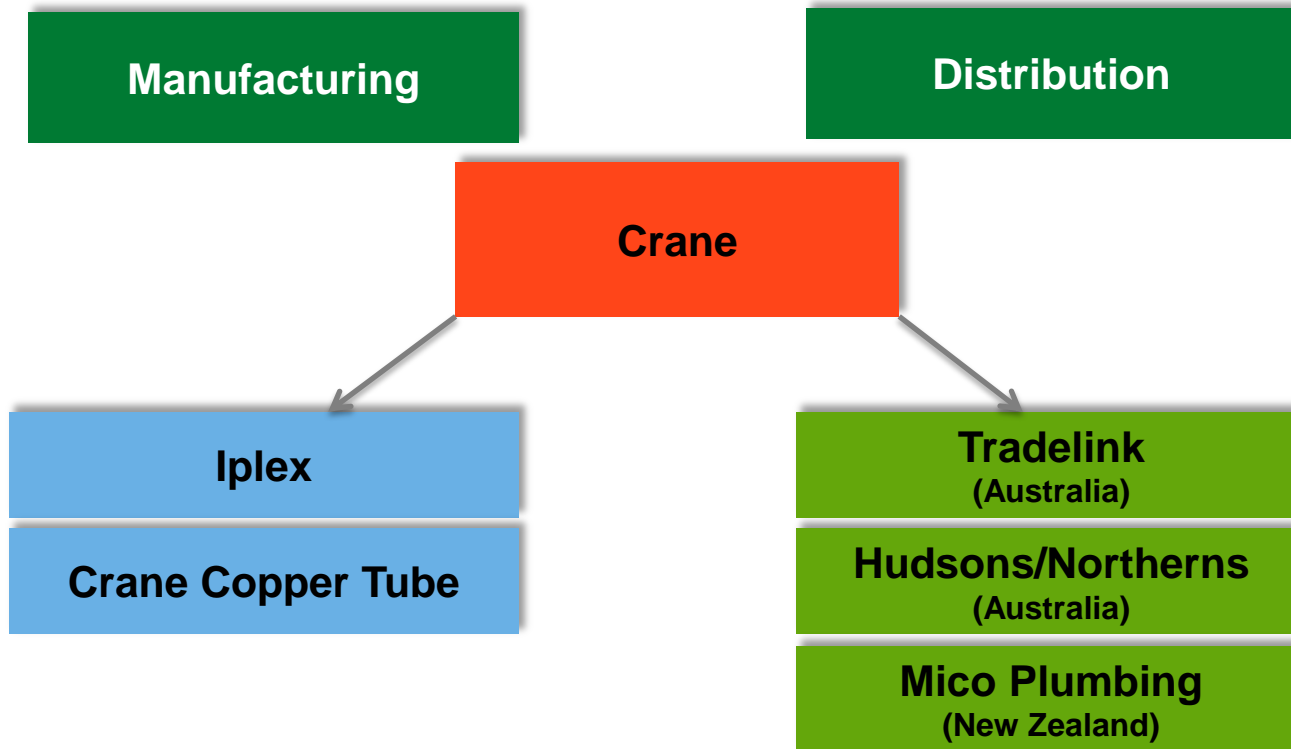
- Increased focus on Leadership succession – identify critical positions, and drive towards having the right people in the right roles

## Culture

- We need a culture that embraces high performance, excellence and winning



# Crane has been split into manufacturing and distribution businesses



**Crane head Office functions have been devolved to individual business units**

**Several businesses divested for book value, post acquisition:**

- Austral Wright Metals
- Mico Metals
- Corys Electrical





# Tradelink: Performance improvement, timing and execution

*Phase 1 (yr 1)*

## Pay the journey

- Improve product availability issue
- Engage sales force
- Address state performance
- Improve promotional execution

**Bend the sales/EBIT curve and lay foundations for growth**

*Phase 2 (yr 2)*

## Growth phase

- Improve customer product offering
- Improve product knowledge
- Improve speed of service

**Take market share**

*Phase 3 (yr 3-5)*

## Growth dynasty

- Compelling brand differentiation and alignment
- Superior training, recruitment and development of people
- Optimised branch network
- Efficient distribution
- New (Gen Y Plumber) technology

**Sustained sales/ EBIT growth**



# Outlook FY2013

## **New Zealand**

- Uplift in housing consents in first half should lift performance of businesses exposed to residential sector in the second half
- Infrastructure projects continue to underpin non-residential activity
- Reconstruction work in Canterbury expected to remain at high levels

## **Australia**

- Downturn in residential and weak commercial construction activity likely to remain in second half
- Cost reduction initiatives will partly mitigate the impact of continued weak underlying trading conditions

**Asia:** Improvement dependent on expected upturn in China

**North America:** Improvement expected in the second half

**Europe:** Depressed conditions likely to continue



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## Financial outlook FY2013

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**Guidance provided at Annual Shareholders Meeting confirmed.**

**Operating earnings for the 2013 financial year are expected to be in the range of \$560 million to \$610 million, inclusive of all restructuring charges.**

**Second half growth expected from momentum seen in New Zealand market.**  
Assumes no further deterioration in Australia or other markets.



Investor Strategy Day

# GERRY BOLLMAN CHIEF EXECUTIVE, BUSINESS STRATEGY & PERFORMANCE



*Golden Bay Cement, Whangarei (NZ)*



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# Presentation Overview

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**Fletcher Building Strategy**

**Role of the Centre**

**Business Unit Strategy**





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# Fletcher Building Overview

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## Fletcher Building: Who Are We

**An integrated manufacturer and distributor of infrastructure and building products, as well as a construction company**

## Fletcher Building: How We Create Value

**Building, acquiring and managing strong asset positions in core markets**

**Building positions in the value chain ranging from the customer upstream to raw material extraction**

**Empowering our business units to build deep customer, product and market knowledge to grow share**

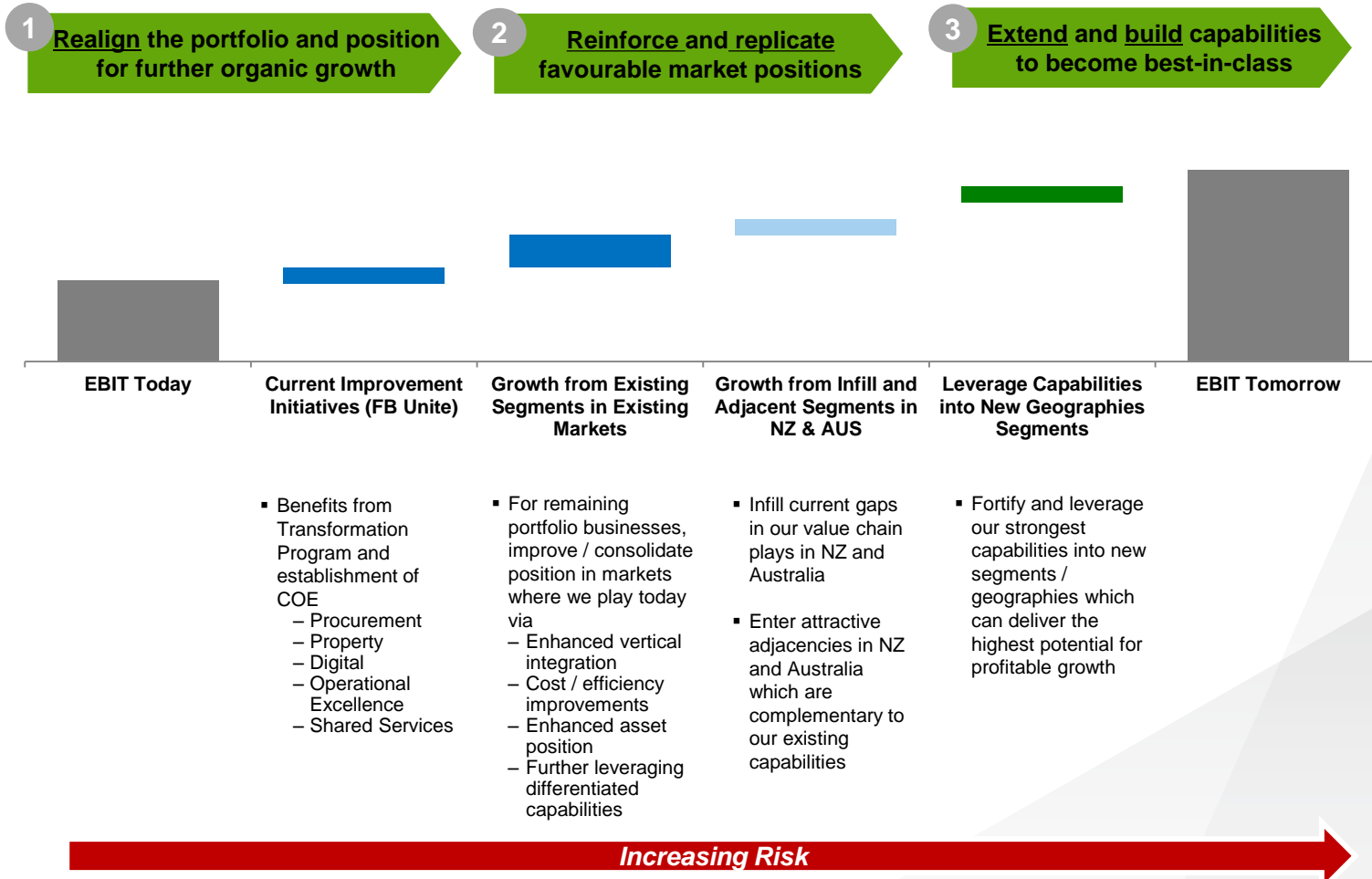
**Leveraging our size and scale to drive efficiencies and invest in world class capabilities**



# Fletcher Building: Where We Look To Grow Earnings

## Growth Strategy Development

ILLUSTRATIVE



## This has implications for...

### **Make-up of the portfolio**

- Don't anticipate any significant M&A activity
- Do see the opportunity to shape the portfolio

### **Investment, both CAPEX and OPEX**

- Investment has to be differentiated and linked to priorities

### **Role of the Centre**

- Improve traditional corporate management activities
- Focus on value creating activities

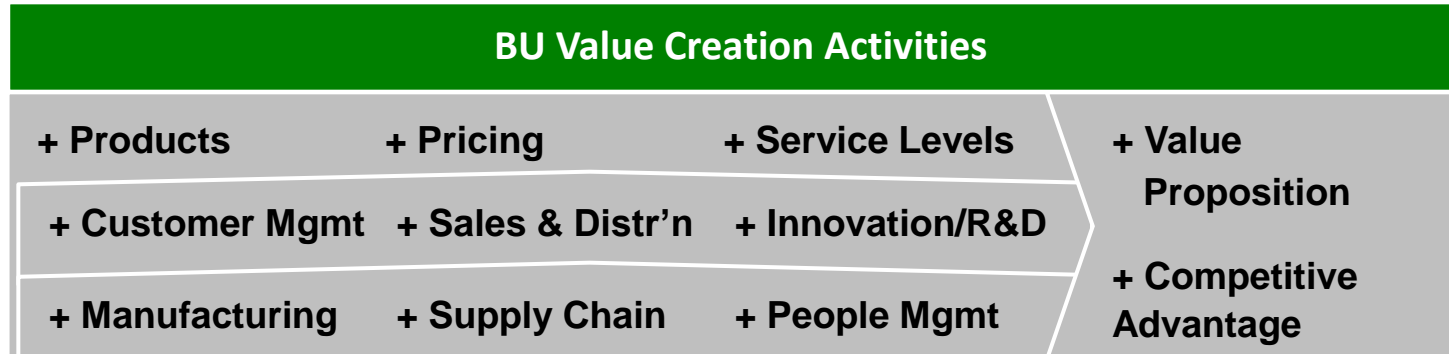
### **Role of the Business Unit**

- Delivering EBIT and ROFE targets today
- Building long term sustainable businesses for the future

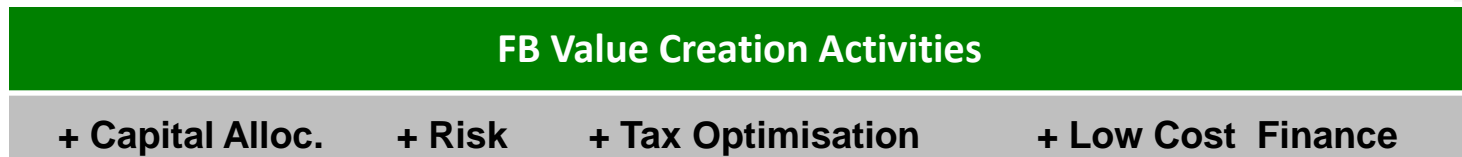


## FB has operated a very decentralised business model with a small corporate centre

Under this model, shareholder value is created almost exclusively through the activities performed by the business units...



...While the Centre performs a limited number of value creating activities...



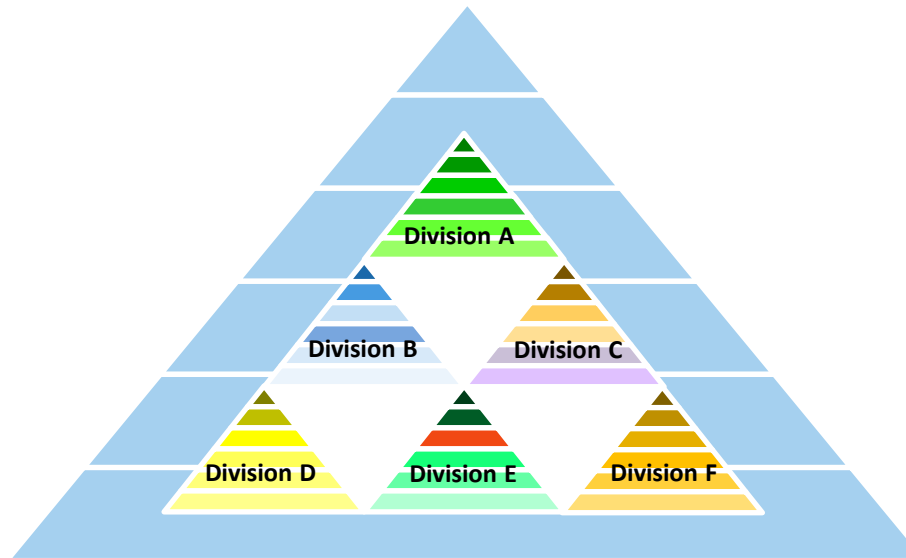
...And undertakes a select number of corporate management functions



# We believe there are significant incremental value creating activities that the Centre can provide

**Our goal should be to grow shareholder value ahead of expectations by optimising our business value and our corporate premium**

Each Business Unit Must Have An Optimized Business Strategy To Create Real Intrinsic Value



At the same time, Fletcher Must Leverage Its Scale & Capabilities to Deliver A Share Price Premium



# An Activist Centre seeks to engage in activities that deliver incremental value in one or more ways

Incremental Growth	Lower Costs	Enhanced Capabilities	Lower Risk	Organisation Development
<ul style="list-style-type: none"><li>• Identification of attractive growth paths</li><li>• Capital allocation</li><li>• Cross BU revenue synergies</li><li>• Strategic insights</li></ul>	<ul style="list-style-type: none"><li>• Group procurement</li><li>• Distribution/logistics efficiencies</li><li>• Property</li><li>• Finance costs</li><li>• Tax optimisation</li></ul>	<ul style="list-style-type: none"><li>• Digital</li><li>• Strategy</li><li>• Marketing</li><li>• Legal</li><li>• Operational excellence</li></ul>	<ul style="list-style-type: none"><li>• Lower BU financial risk through improved profitability (revenue, cost &amp; finance impacts)</li><li>• Enhanced risk management: Tax, legal, regulatory &amp; environmental</li></ul>	<ul style="list-style-type: none"><li>• Recruiting</li><li>• Learning and development</li><li>• Talent mobility</li><li>• Remuneration</li></ul>



# FBUnite: multi-year business transformation programme



PEOPLE

**Developing a winning culture.**

## Organisational development

- Learning Academy
- Leadership
- Performance management
- Talent management
- Global employee engagement

## Intranet

## HRIS



INNOVATION & GROWTH

**Responsive to market changes.**

## Future distribution opportunities

## Future growth opportunities

## Digital

- ICT roadmap
- Digital business strategy
- Customer/marketing/CRM



PERFORMANCE EXCELLENCE

**Optimising operational performance.**

## Network optimisation

- Freight/logistics
- Distribution footprint

## Operational excellence

- Manufacturing
- Supply chain
- Health & Safety



EFFICIENCY

**Creating the lowest possible cost structure.**

## Procurement

- Indirect
- Direct
- ICT

## Shared services centre

- Finance – Accounts Payable/  
Accounts Receivable
- HR – Payroll, learning and development
- Desktop support
- Purchasing

## Property

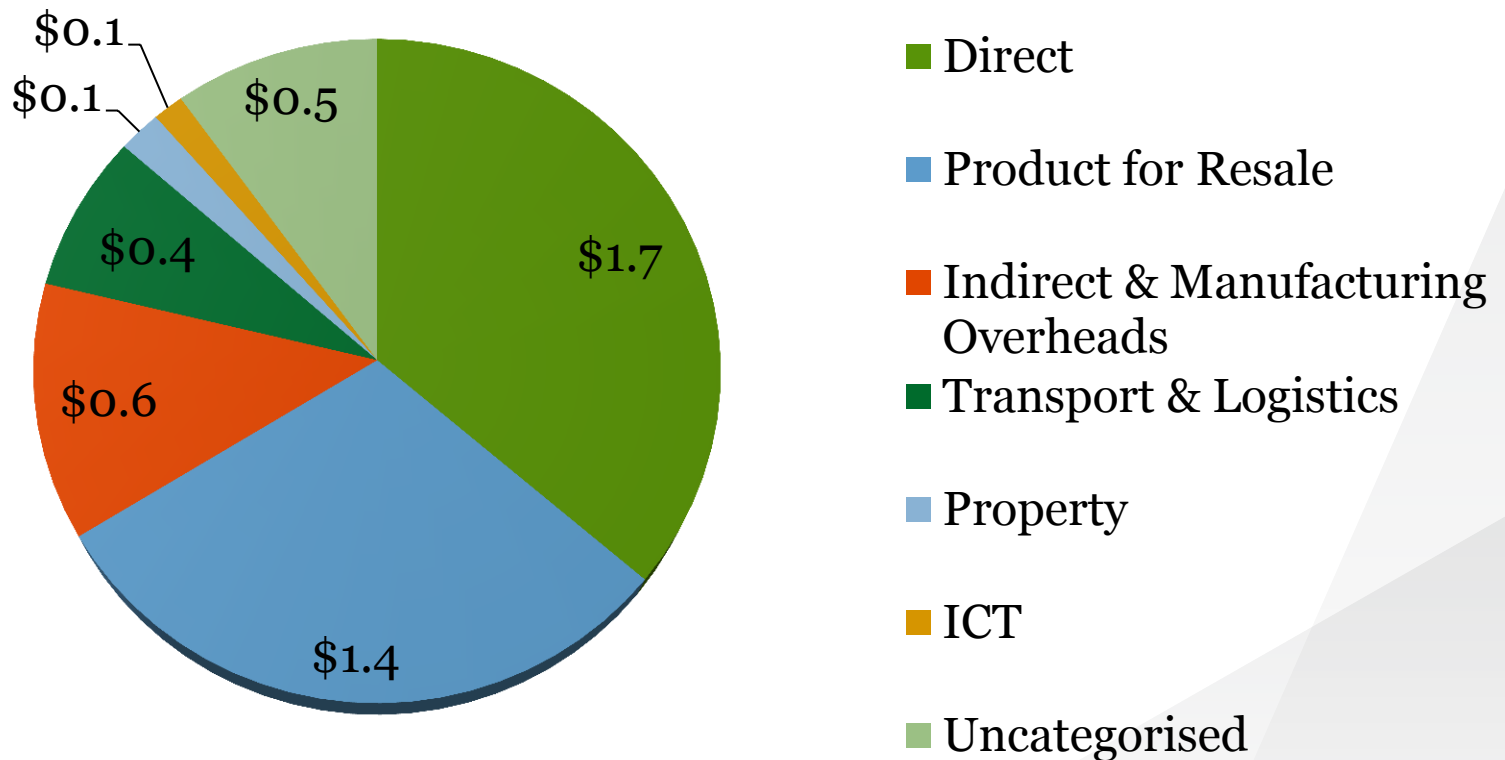
- Portfolio management
- Rationalisation
- Transactions



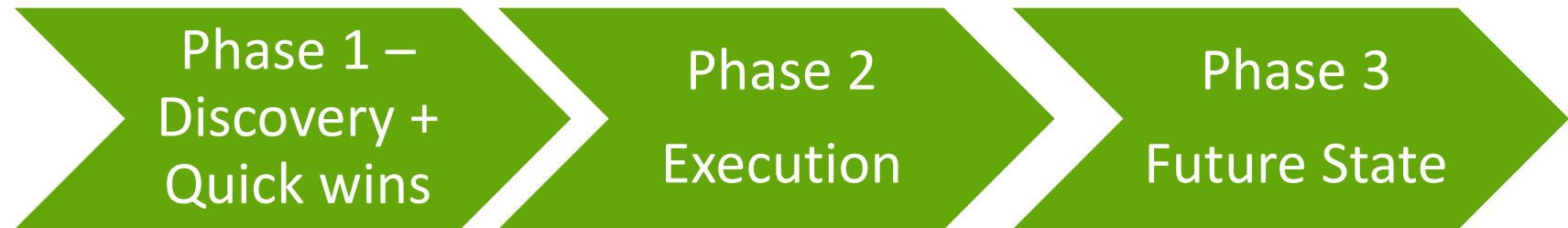


# Group Procurement: Total third party spend in NZ / Australia is NZ\$4.8bn

## FY12 Third Party Spend (NZ\$bn)



# Group Procurement: Phased implementation



- Recruiting the team
- Defining operational model
- Identifying process and governance requirements
- Consolidation and analysis of information
- Strategy build of key indirect categories
- Quick wins on key indirect categories

- Build and develop the team
- Develop communication networks
- Implement policy and governance
- Execution of procurement category strategies
- Measure, manage and report performance

- Continual improvement
- Review, improve, apply
- Consistent focus on reducing cost and increasing value from suppliers



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## Group Procurement: Objectives

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**Increase value and reduce cost**

**A more efficient and effective group-wide Procurement function**

**Move from transactional to strategic procurement**

**Provide opportunities for all suppliers based on capability and capacity**

**Standardised, simplified and efficient procure-to-pay processes**

**Reduced / Rationalised / Optimised**

**Maintain competitive tension and sustainable supplier markets**

**Ensure on-going innovation and collaboration**

**Ensure that we are undertaking responsible Procurement of goods and services – consideration for people, profit and planet**



# Group Procurement: The Hybrid Operational Model

## - Leverage to the Highest Point of Opportunity



Group  
Centre Led – Governance - Policy, Methodology, Process  
Centralised – Goods / Services  
Strategy & Procurement of goods / services or suppliers that are required across Divisions.



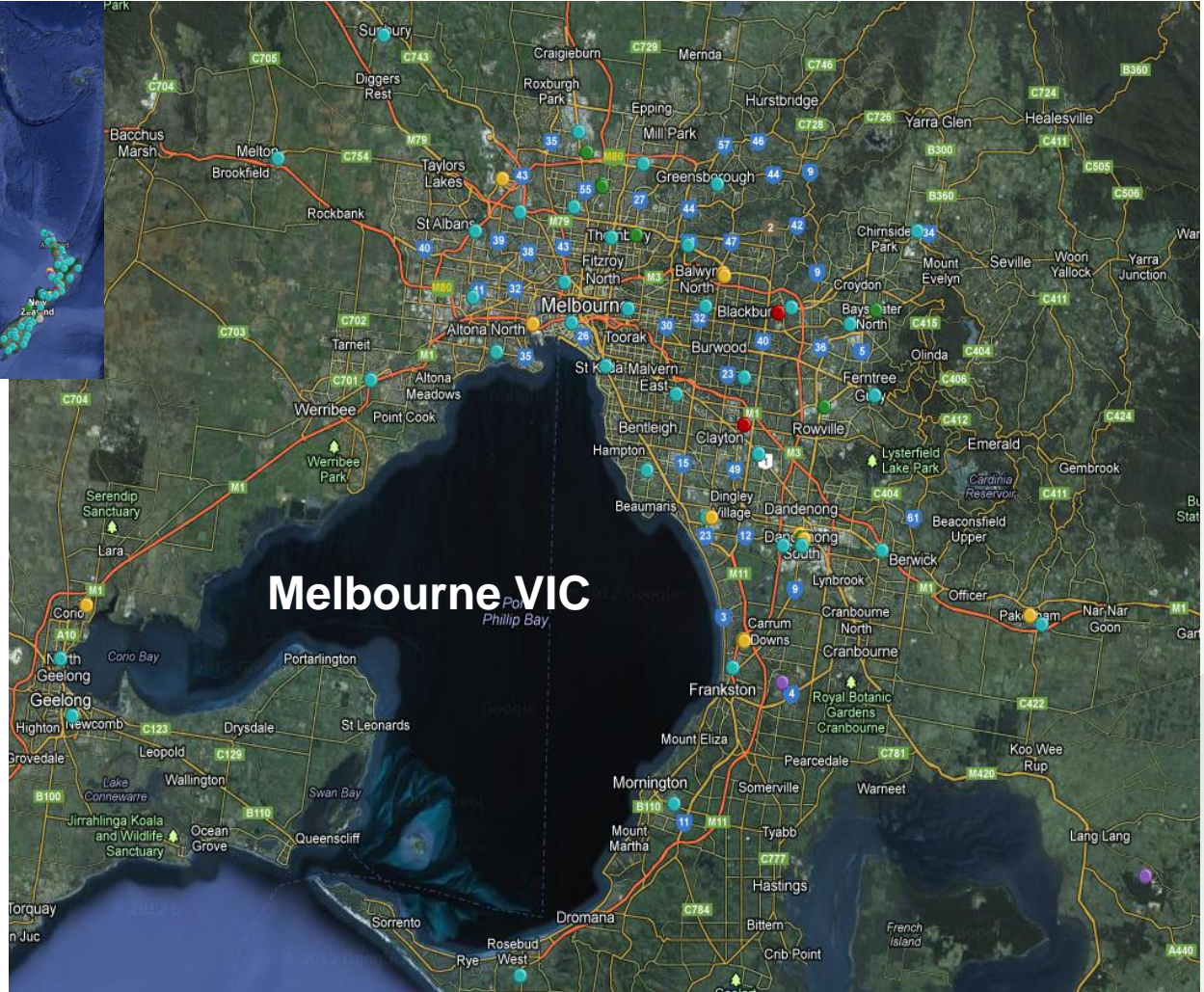
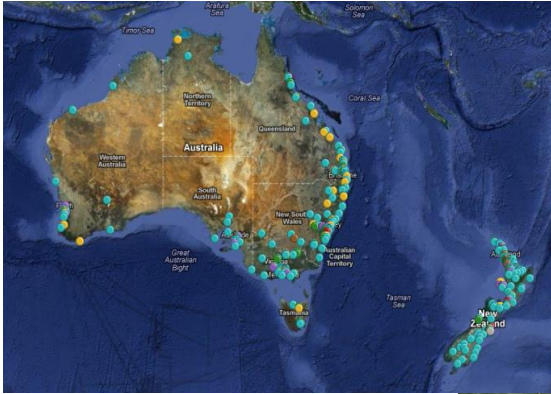
Division Level  
Procurement of goods / services or suppliers that ONLY supply sites within a division and do not have a group wide strategy e.g. Paper – Laminate and Panels, Resin – Laminates and Panels



BU Level  
Procurement of goods / services or suppliers that ONLY supply that individual BU e.g. Specific MRO Requirements, Gypsum  
Purchase Orders raised against contracts



# Fletcher Building property portfolio - “large, vast, underutilised”

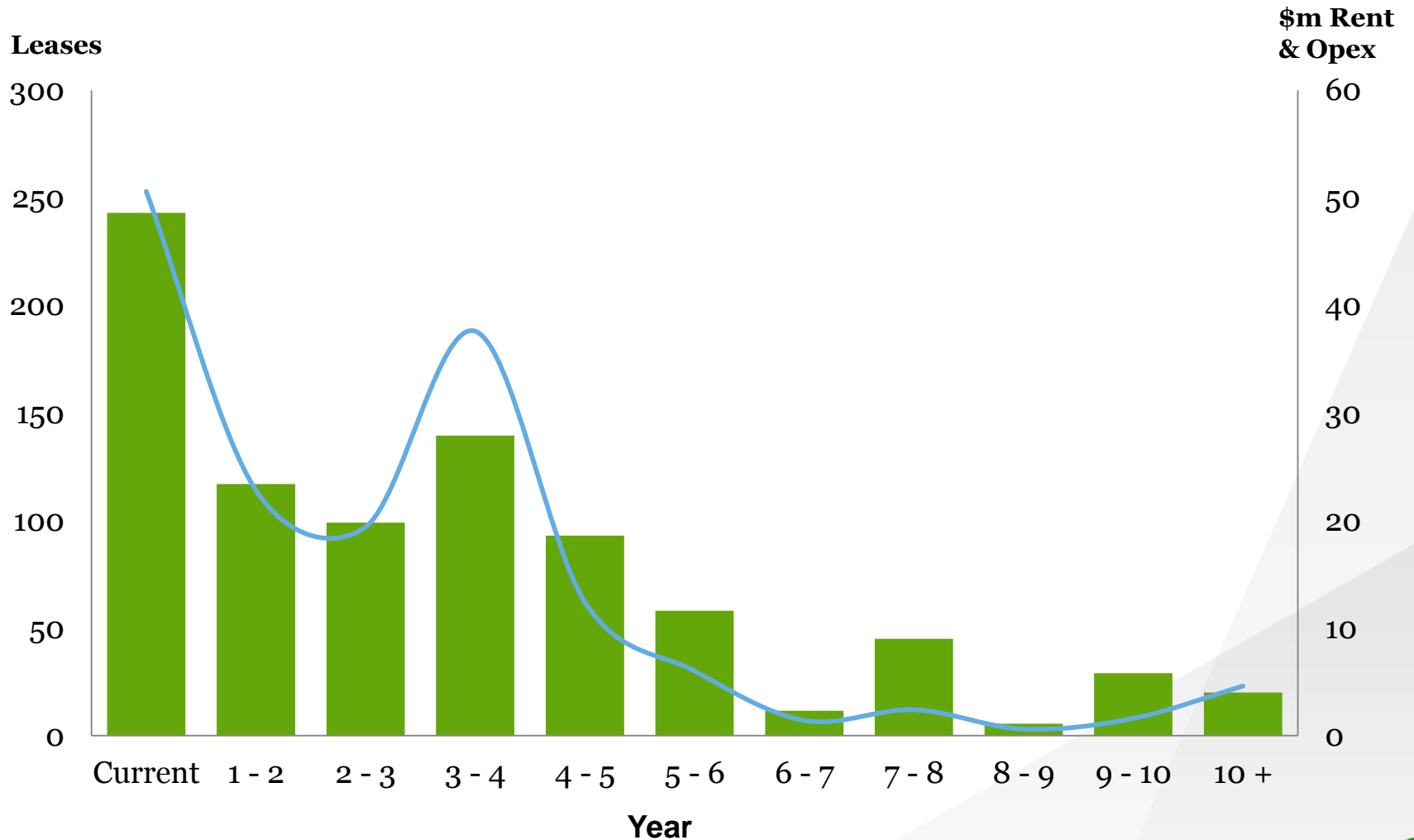


## NZ & Australia

1,000 interests  
2.5m m<sup>2</sup> buildings  
\$200m cost pa  
\$700 m BV



# Property: Lease Expiry Profile – “Opportunity to Change”



# Property: Strategic Improvement Themes

## **Property Rationalisation**

Reduction in Fletcher property footprint through network optimisation and business co-location opportunities

## **Property Transactions**

Maximise value through expert leadership of property disposals, acquisitions, rent reviews etc.

## **Optimise Property Management**

More centralised and capable property team, robust governance, standardised process

## **Property Information System**

Centralised data – management and strategic tool, performance benchmarking



# Operations Excellence: 10 Pillars to Success

## Key assumptions and direction

**Programme will address manufacturing and supply chain (excluding procurement)**

**The '10 Pillars' programme will provide the tools needed to achieve Operations Excellence**

The programme will not be a quick fix.....it will take approximately 3 years

We will work closely with other functions ie, procurement and property management

10 Pillars approach will be applied to manufacturing and warehouse facilities

**Sites will be assessed through 3 levels using 10 different but interrelated aspects**

**The system defines the meaning of excellence in 10 Pillars and links to KPIs (SQCDME)**

**Sites can evaluate their own performance and systematically upgrade**

**Our aim is to benchmark performance and share data through improved IT systems**

Use data to share best practice and support each other

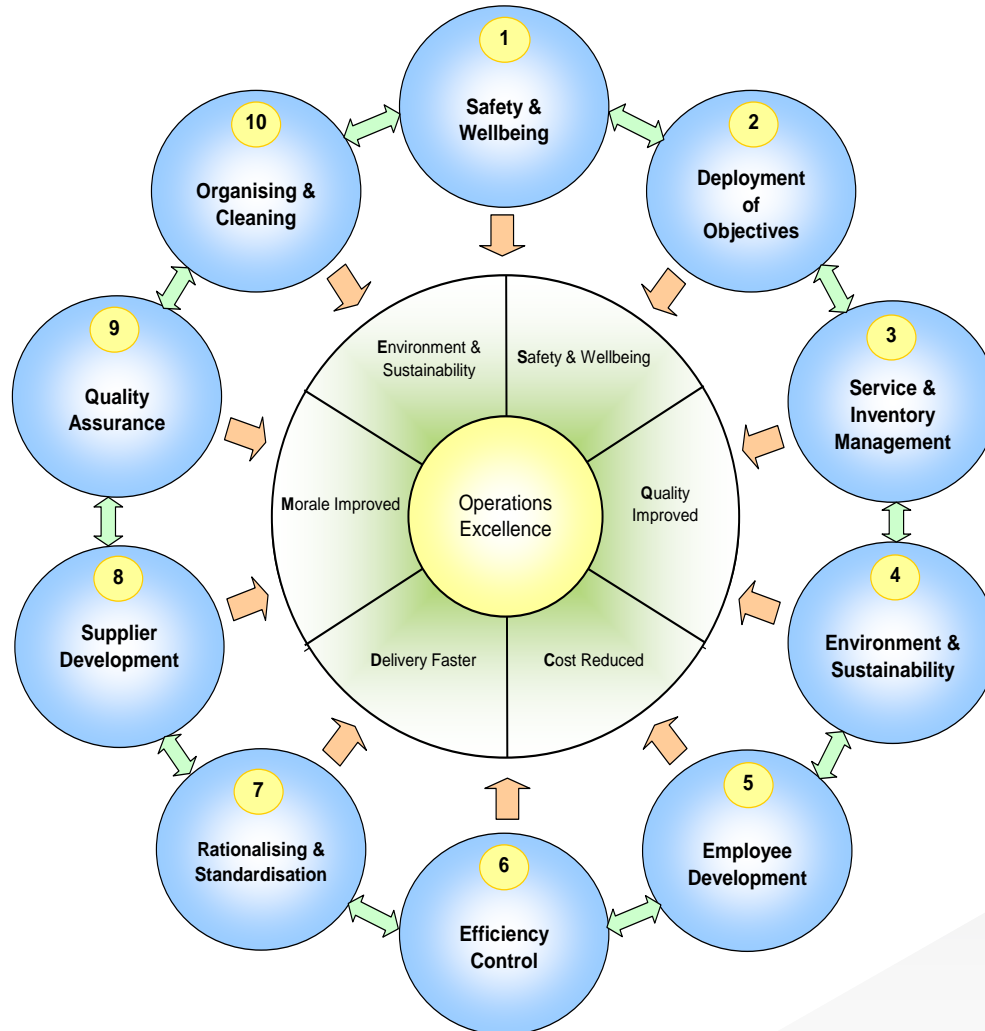
Use experiences to generate the next high performance operations personnel

Create a 'Directory of Knowledge' for operations personnel ie, training materials



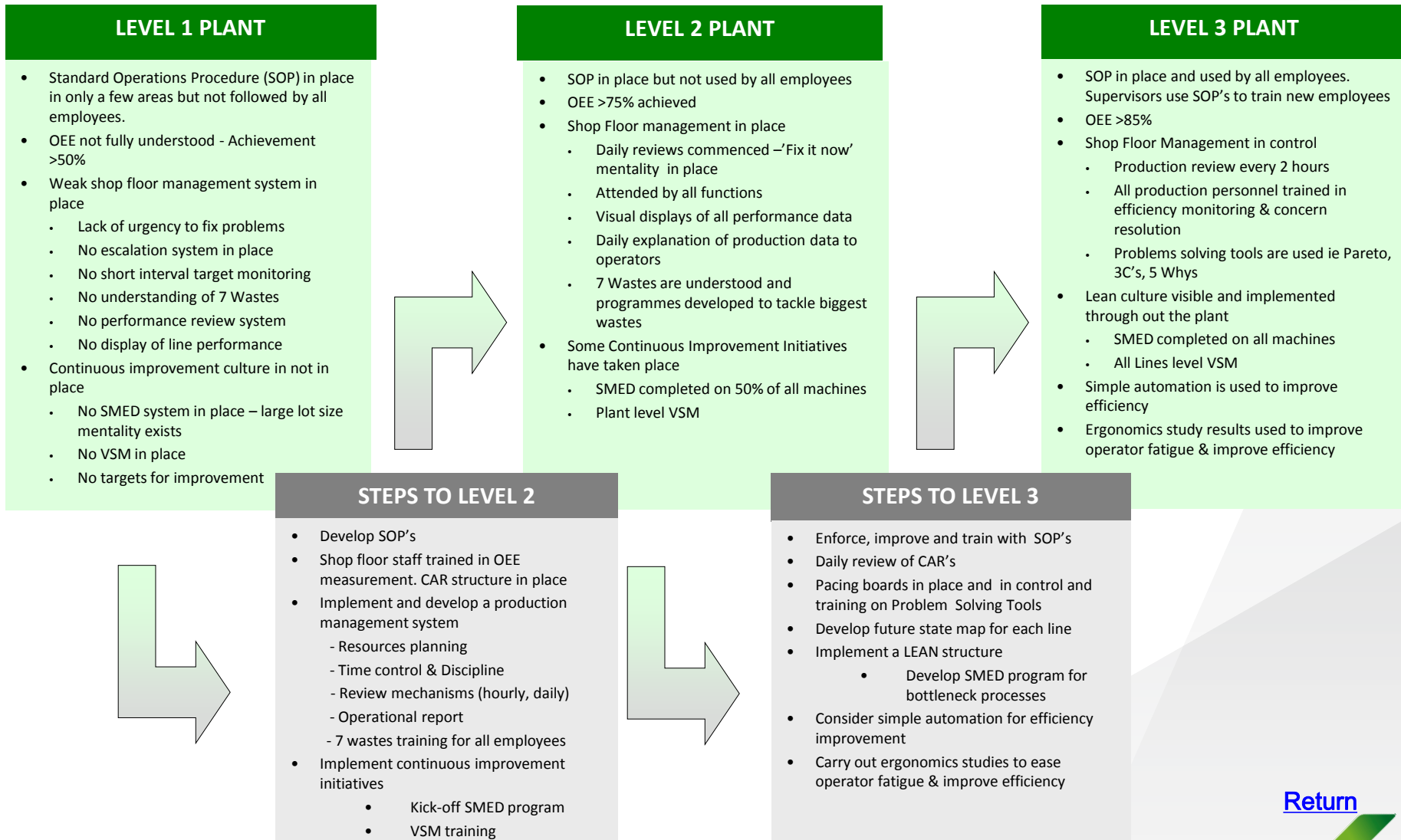


# Operations Excellence programme



# Operations Excellence:

## Example: “Pillar 6- Efficiency control”



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# Operations Excellence: Summary of early observations and opportunities

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## Observations in Manufacturing:

**Employees are passionate about their business**

**Strong product range produced across FB Group**

**Some 'pockets of excellence' exist in some business units**

**No common system or structure for manufacturing improvement**

**No sharing across divisions of best practice**

## Opportunities in Manufacturing:

**Set up a structured manufacturing system across FB Group**

**Cross divisional forums will expand and share best practice**

**Focus on productivity, quality and employee development**

Benefits:

- Labour cost reduction per product
- Lead time improvement and inventory reduction
- Scrap and defect reduction
- EBIT improvement



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# Operations Excellence: Summary of early observations and opportunities

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## Observations in Supply Chain (transport and warehousing):

### **Some excellent examples of best practice:**

Warehouse management

Transport management

### **No cross divisional approach to network optimisation:**

Transport routes and systems are divisional based

No consideration to warehouse consolidation

## Opportunities in Supply Chain Management:

### **Implement '10 Pillar' approach to site improvement**

Efficiency improvement will be generated

Customer quality claims reduced

Inventory reduced

### **Programmes will highlight opportunities for warehouse consolidation**



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## Network optimisation overview

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### **What do we mean by network optimisation:**

Identifying, evaluating and implementing options to move products from the point of manufacture or supply to the customer at the lowest cost, while meeting service requirements.

The options will consider how the network of transport lanes, storage and distribution locations is best configured and used to meet customer demand. Where it makes sense we will recommend changes to transport, warehouses, product handling, business processes and information systems.

Some options can be implemented quickly, such as changes to delivery routes. Other options are more complicated and can take longer, such as consolidating warehouses across business units.



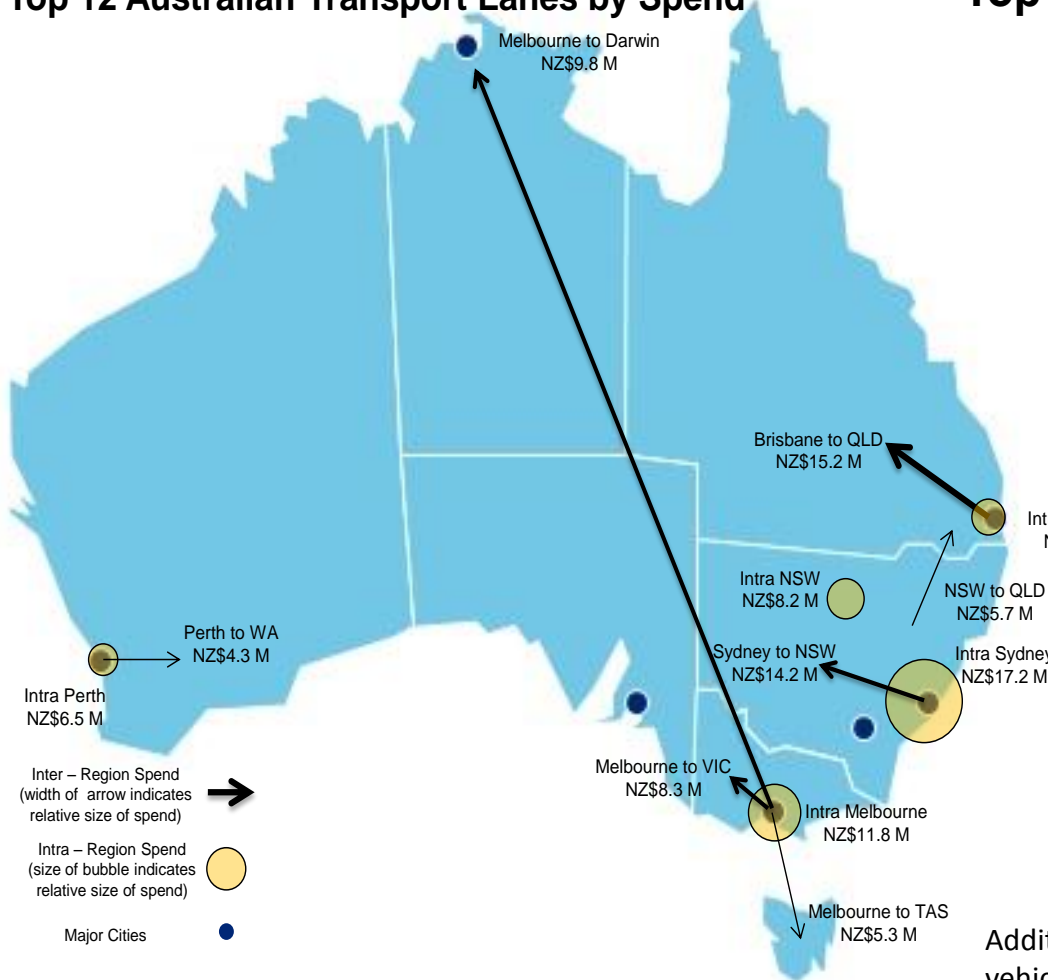
# Network optimisation - What is in (and out) of scope?

In Scope	Joint with Procurement	Out of scope
<ul style="list-style-type: none"> <li>• Inbound transport</li> <li>• Linehaul and multi-modal transport</li> <li>• Customer deliveries</li> <li>• Route optimisation</li> <li>• Load optimisation</li> <li>• Physical footprint (e.g. warehouses)</li> <li>• Cross-business unit opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Equipment standardisation / fleet optimisation (joint with procurement)</li> <li>• Moving owned / leased fleet to third-parties (or vice versa)</li> <li>• Ex works pickup and backhaul initiatives</li> <li>• Systems integration (to provide visibility of demand across BUs)</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier consolidation</li> <li>• Freight recoveries</li> <li>• International freight</li> <li>• Certain highly specialised vehicles (e.g. concrete trucks)</li> <li>• Initiatives already underway within BUs (e.g. Placemakers)</li> <li>• “Micro” scale improvements (sits within operations excellence)</li> </ul>

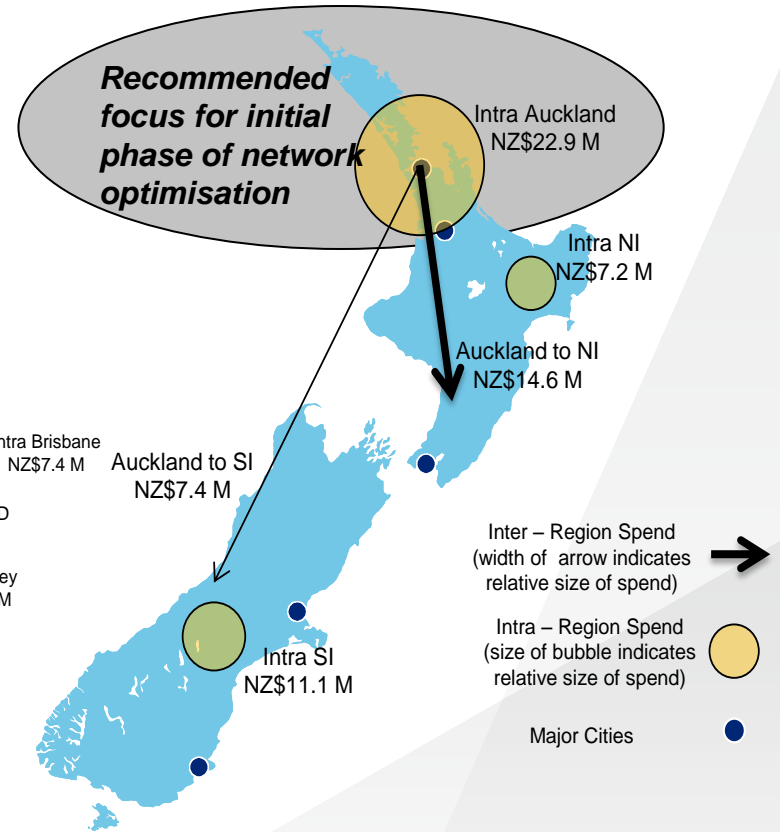


# Overview of regional transport spend

## Top 12 Australian Transport Lanes by Spend



## Top 5 NZ Transport Lanes by Spend

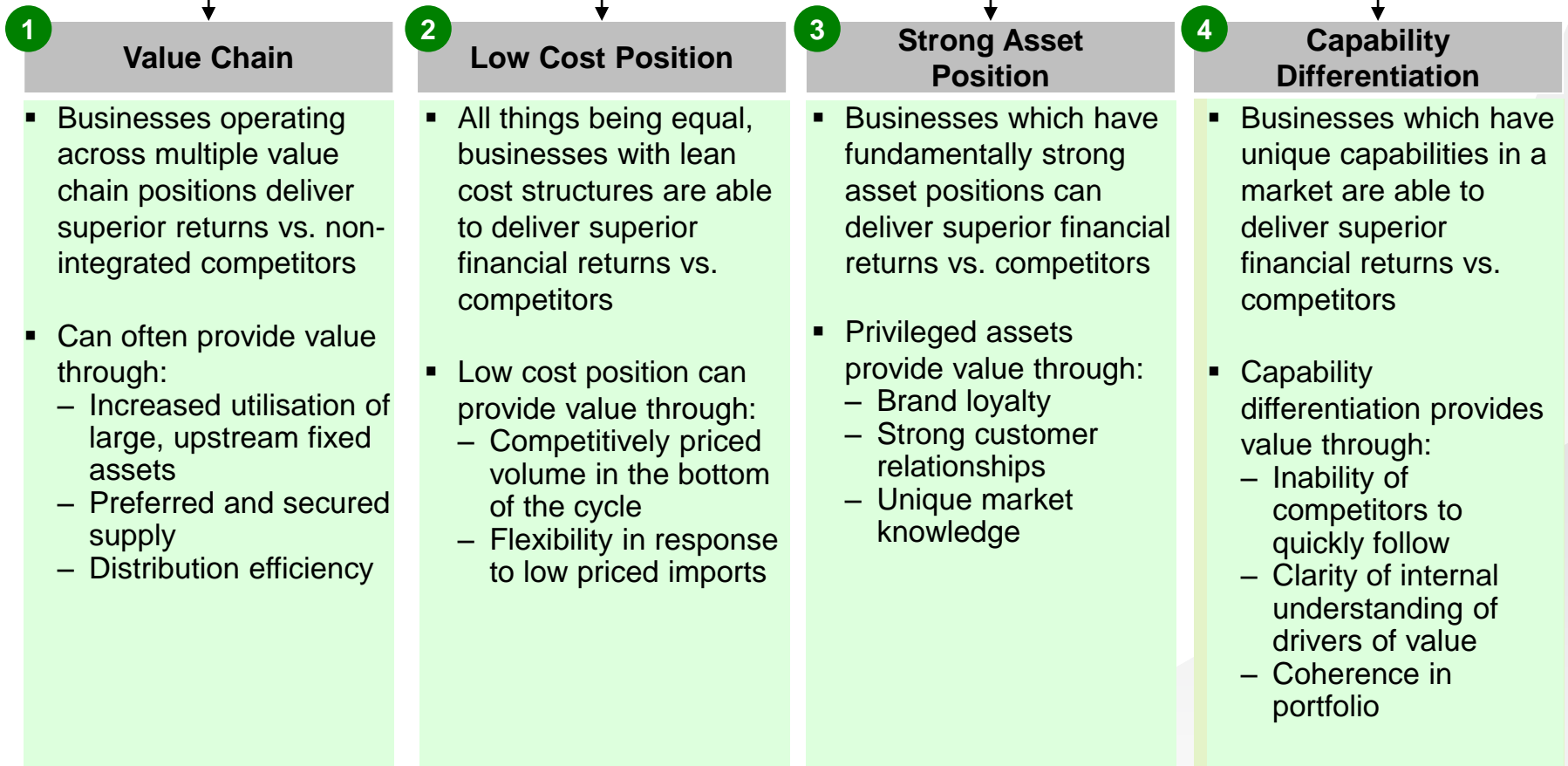


Additionally there are circa 1,400 internally managed vehicles, primarily Tradelink, CDNZ, Laminex Aus and Hudsons, and circa \$100m of property related spend



# We have worked with our businesses to understand historic drivers of value

## Drivers of Financial Performance Relative to Industry





## We are now working to understand how historical strengths can be further leveraged and new sources of value created

### We now understand the sources of our competitive advantage...

- We have driven value primarily through value chain and strong asset positions
- We have few businesses with truly differentiating capabilities (although there are pockets of excellence we can potentially leverage further)
- Our businesses are seldom low cost

### ...this has informed our long term path to sustainable shareholder value creation

- We will prioritise the realignment of our portfolio and exit businesses which exhibit limited coherence with our capability of managing key assets, value chain positions and have limited financial attractiveness
- We will optimise the performance our existing portfolio by fully leveraging the “4 drivers” that deliver above average financial performance
- We will selectively leverage our existing assets and capabilities to reinforce and replicate our favourable market positions
- We will extend and build new differentiating, best-in-class capabilities that will enable us to fortify our long-term competitive positioning

Fletcher Building must now develop and execute the suite of initiatives which will deliver the new growth strategy over the next 3-5 years



# Fletcher Building: Where We Look To Grow Earnings

## Growth Strategy Development

ILLUSTRATIVE

