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FLETCHER BUILDING LIMITED

2020 Annual Shareholders' Meeting

Chair's Address

FY2020 a challenging year comprehensively and effectively dealt with

There's no doubt that 2020 has been an extraordinary year. As with all organisations and industries, the COVID-19 pandemic presented some unique challenges for Fletcher Building which we comprehensively and effectively dealt with.

On this slide, we highlight the 3 areas we have been focused on to deal with the impacts of the COVID-19 pandemic.

Firstly, we needed to act swiftly to respond to a full lockdown in New Zealand and partial business restrictions in Australia.

We then needed to get the business positioned, for the market uncertainty of FY21 and beyond.

And finally, we wanted to move quickly on these activities to ensure we remained focused on our overall plans.

I am extremely proud of our Board, Management and our people as we navigated the challenges. We worked very closely and at a rapid tempo to ensure this was managed well.

I want to take this opportunity to say thank you to the people of Fletcher Building for everything they have done to guide our business through this period and to ensure that we are strongly positioned to play a role in the economic recovery.

Responded quickly to NZ shut down and start up and Australia restrictions

This slide highlights our immediate response to the COVID-19 pandemic.

Our focus was on four key areas: ensuring everything we did was done safely, delivering strong customer performance and support, looking after our people and remaining acutely focused on costs, cash and our balance sheet.

Through March and April we needed to respond to a full lockdown in New Zealand, safely shutting down over 400 locations across the country – which was no small feat – and we recorded virtually no revenue during this time. We also adhered to the necessary social distancing and other safety requirements through the partial business restrictions in Australia.

Importantly, we maintained our focus on customer service and performance.

To support the health and wellbeing of our people through this time we quickly put in place a support hub app, implemented multiple channels of communication and we established a financial hardship fund. We also put in place a bridging pay programme for some 90% of NZ employees during lockdown.

The timing of the COVID-19 shutdown coincided with what is traditionally our busiest and most profitable quarter and in particular could not have been worse from the perspective of our Construction business. It occurred in the middle of the earthworks season on the major roading projects and just days before the planned opening of Commercial Bay. The impacts of these factors were the main driver of $150 million increase in provisions across our legacy Infrastructure and B+I projects. While I appreciate the need for additional provisioning is disappointing, I believe FCC is now increasingly well positioned to focus on its future which Ross will cover off in his presentation shortly.

While all these actions were unable to prevent a material earnings impact – we had a $200 million reduction in earnings in Q4 and incurred significant losses for the year overall – our cash and cost management focus resulted in strong operating cash flows and we preserved our strong balance sheet position.

Actions taken to set up for FY21 and beyond despite market uncertainty

Then as we looked ahead, we had to take decisive action to ensure we were effectively set up for FY21 and beyond. This was in view of the overall uncertainty while still maintaining a focus on our plans for Fletcher Building.

We made some tough, but necessary decisions to reduce our cost base which included a reduction in property footprint, rationalisation across our supply chain and logistics and procurement activities.

Regrettably our workforce was reorganised to match the expected market uncertainty. These were not decisions that were taken lightly. In doing this, we understand it had a large impact on many people and we put in place a range of actions to provide as much assistance as we could.

The costs of implementing this, combined with the impairments to the Rocla business in Australia that we are divesting and the repayment of some of our USPP debt, resulted in $276 million of significant items during FY20. We expect a further $90 million in FY21 as final cost out actions are completed.

The Board also exercised discretion in applying 30% pay reductions for Board and CEO for six months. Our Executive team and our General Managers pay was reduced by 30% and 15% respectively from 25 March to 17 June and no bonuses were paid under our STI scheme in FY20.

We also reduced planned capex spend, cancelled our share buy-back programme and we also proactively renegotiated our debt covenants to preserve liquidity. Unfortunately for our shareholders, we did not pay a dividend. Clearly, we left no stone unturned.

I'd like to take the opportunity now to comment briefly on the situation with the land in Ihumātao as I know this has been a topic of interest for many of our shareholders. We have continued to take assurances from the government that a solution that is acceptable to all parties is close. The delay to its resolution was one of the inevitable COVID-19 impacts and we are confident the government, with us will bring this to a conclusion for all parties in the very near future.

FY2020 results at a glance

This slide summarises our financial results, which were materially impacted by COVID-19 in FY20.

Revenue for the year was $7.3 billion, EBIT before significant items was $160 million and we made a net loss of $196 million.

Pleasingly, cash flows from operations were well up on last year and were a solid $410 million.

Overall, despite the earnings impact of COVID-19, we ended the year with a strong balance sheet which is testament to the efforts of Board and Management going into the pandemic but also in effectively managing the crisis.

Liquidity was maintained at $1.6 billion. Our net debt was only $0.5 billion resulting in our 0.9x leverage ratio remaining below the target range.

And as I have mentioned, the Board paid no dividends for the FY20 year due to the issues that resulted from COVID-19 and the ongoing uncertain outlook.

FY2020 balanced scorecard

On this slide, I provide an update on some of the key non-financial metrics on our balanced scorecard. Starting from the top left, we have continued to put a large amount of effort into safety through the year. Of note, our serious injuries reduced from 20 last year, to 8 in FY20.

Sustainability is now front and centre across all our businesses and embedded into how we think about our future. As part of this focus we have committed Fletcher Building to reduce carbon emissions by 30% below our FY18 levels by 2030. This aligns us with aims to limit global warming to below 2 percent.

While employee engagement is good at 71%, we still have work to do to be in the top quartile of companies. We continue to work on improving this and our target is to be at least 80% across all our businesses. Similarly with customers. While our present net promoter scores are OK at 39, we absolutely need to get these to be best in class across all our operations.

We are working on seeing all these measures continue to improve in the period ahead.

Strong Governance through COVID-19 as well as action on safety, culture and performance

The Board operates with the support of Board committees, three of which are noted here.

All directors took an active part in the Protect Reset and the launch of Fletcher Building's new Protect Value. We continued to focus on delivering the strategy and we have been actively listening to shareholder feedback. We understand the concerns held over company performance in recent years and we are continuing to work hard to address that with sustainable actions.

While we have strong collaboration we also bring different viewpoints through age and gender diversity and experience. We are well balanced between Australia and New Zealand and have complementary skills across industry, manufacturing, sales, governance and finance capabilities. Steve Vamos stepped down from the Board during the year and we thank him for his considerable contribution. Steve's departure does leave a vacancy which we have not yet filled. We will continue to appoint directors who bring the right set of skills and experience to the existing Board.

As a priority, our Safety Health, Environment and Sustainability Committee, continued its focus on the business-wide Protect Reset safety programme, driving the leadership, culture and critical risk approach for success. Our site visits are one example of how we are embedding this.

A strong culture has many facets – people engagement, values, purpose, trust, incentives, diversity and inclusion. Our Remuneration Committee has had an unwavering focus on this through COVID-19. They have focused on ensuring our people are well supported. Importantly, we exercised appropriate discretion on remuneration ensuring all stakeholders were treated fairly. The team also provided enhanced remuneration reporting which delivers better transparency.

Our Audit and Risk Committee provided strong oversight on the financial complexities resulting from COVID-19 ensuring that our strong balance sheet remained intact. We also improved disclosure on our risk reporting, driving transparency to all our stakeholders.

Sustainability strategy

The long-term success of Fletcher Building is driven not only in financial terms, but also in supporting good outcomes for all our stakeholders.

Last year I presented the sustainability strategy and we continue to drive our six key priorities as it is critical for delivering long-term and sustainable growth to our shareholders.

In FY20 our initiatives included focusing on reducing the environmental impact of our products. We increased the number of products we manufacture that hold Environmental Product Declarations and Environmental Choice certifications that are recognised within green building standards.

We set group-wide Science-Based Targets for carbon reduction. In December 2019, Fletcher Building became the first building materials and construction company in New Zealand and Australia to attain an independently verified Science-Based Target for carbon emissions reduction.

We published our supplier code of conduct and we published our human rights policy. This includes our commitment to put processes in place to prevent unethical practices in our operations and supply chains and continuing to move to full environmental, social and governance reporting.

Finally on this slide I make reference to the Dow Jones Sustainability Index which is an assessment of the governance, environmental and social performance of our business. As well as retaining the Australia membership that we gained in 2019, we improved our score this year and have just been included in the Asia-Pacific index as well. This is a great achievement.

Summary

FY20 was without doubt a tough year for all our stakeholders and I am very proud of how the team and board members worked together. We responded quickly to the COVID-19 impacts, set the business up for FY21 and we remained focused on our strategy and ambitions. While COVID-19's long term impacts remain unclear, we have Fletcher Building well positioned for whatever lies ahead.

Two weeks ago we provided an update on our four-month trading to the end of October. Ross will talk in more detail about that result shortly but I would comment that we are very pleased to see that strong trading performance as evidence of the success of the strategy being delivered.

We are financially sound with a strong balance sheet, good cash flows and liquidity. The strength and resilience this gives our business has never been more important than in today's uncertain environment.

Finally, with regard to dividends, it is the Board's expectation that the Group will resume dividend payments in FY21. Shareholders will recall that earlier this year, in response to COVID-19, we moved proactively to agree covenant relief with our lenders, which ensured that we had additional protection for our funding lines until the end of 2021. Part of this agreement was that if we paid a dividend during that period then our additional protection would come to an end. This will be a key consideration for the Board in February and means that the payment of an interim dividend for FY21 is unlikely.

As we look ahead to the full-year though, it is the Board's expectation that we will resume payment of a final dividend for FY21. Further, in the event that there is no interim dividend, our expectation is that the final dividend would reflect a full year of dividend payments.

We look forward to resuming these returns to our shareholders.

Before I hand over to Ross, I would like to say thank you again to all our shareholders, for your continued support of Fletcher Building. We appreciate your commitment to the success of our business and I look forward to sharing further details with you on our progress over the coming months.

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