Wednesday 23 October 2024

FLETCHER BUILDING LIMITED
2024 Annual Shareholders' Meeting
Acting Chair's Address

Tena koutou katoa, and good morning. I am Barbara Chapman, Acting Chair of your Company.

My apologies for not being with you today. As I have Covid - this presentation has been pre-recorded. I shall attend online later in the meeting to answer your questions, but in the meantime I would very much like to thank Peter Crowley for stepping in for me with only a couple of days' notice.

Contextualising the market backdrop

As we reflect on the past financial year, I want to acknowledge that this has been a frustrating and challenging period for our shareholders. The performance of the company, as reflected in its share price and dividend payouts, is not where any of us want it to be, and shareholders have rightly expressed their concerns and disappointments. We share that concern and disappointment.

We are currently experiencing one of the deepest and most prolonged market downturns in recent history, and one that is affecting all of our businesses and industries. Although we had expected a pull back from the FY23 and FY24 activity levels, it is fair to say that the market turned down more quickly, and more deeply, than we, our customers, and our external economics advisors, had anticipated and the impact on our financial performance has been significant.

Fletcher Building is clearly not alone in facing a difficult macro environment. However, we are particularly exposed to residential construction activity levels in our markets - as noted at the bottom of this slide – with more than 50% of our revenue is weighted to residential construction across New Zealand and Australia.

These charts show the material decline of between 30 to 40% in Australia and New Zealand residential sector activity from their respective market peaks to June 2024. To give you a sense of scale, this decline is greater than we experienced in the GFC.

In addition to the volume decline in the residential sector, we're also seeing a marked slowdown in commercial and infrastructure construction in NZ. Based on past building cycles, we might have expected those markets to continue to provide some support at this stage in the cycle, so this is not typical.

Other market factors that we are having to manage include a tough housing market in NZ and ongoing cost inflation.
All of these factors weighed on our financial performance in FY24 and are continuing to put pressure on our business in the first quarter of this financial year.

FY24 key financial results

Against this backdrop, earnings before interest and tax for continuing operations and before significant items, for FY24 was $509 million, down 35% from $785 million in FY23. The Group EBIT margin before significant items from continuing operations softened in FY24 to 6.6%, from 10.2% in FY23.

During the year, we made the decision to divest our Tradelink operations in Australia, and in August 2024 we were pleased to enter into a sale agreement with Metal Manufactures Pty Limited. The transaction completed on 30 September.

After factoring in Tradelink's discontinued operations, we recorded a net loss after tax of $227 million, compared to net earnings of $235 million in FY23. The loss is largely attributed to the Higgins non-cash impairment and write-down, the legacy provisions and the loss from discontinued operations with Tradelink. Our return on funds employed before significant items was 10.0%, compared to 17.1% in FY23.

Given these market conditions, strong cash flow performance and tight control of working capital have been key priorities for us over the past year. Trading cash flows from continuing operations (excluding legacy and significant items) were $784 million, compared to $537 million in FY23. Overall cash flows from operational activities were $398 million, compared to $388 million in FY23.

Given the current market conditions, and in line with our dividend policy and the covenant amendment arrangements agreed with our banks in June, the Board did not declare a final dividend.

Many of you will be interested about our intent around returning to dividend payments. The Board is not in a position to provide any guidance around this today, other than to say that this is a decision that the Board will make as soon as appropriate.

FY24 key non-financial results

Turning now to our non-financial performance metrics.

Importantly, we continue to drive a strong health and safety culture and risk controls in order to keep our people safe. Our injury rates are at top quartile industry levels and 89 percent of our sites were injury-free in FY24. We are working hard on this and remain determined to keep improving.

On sustainability, we continue to make good progress with 22% intensity and 19% absolute CO_2 reductions compared to our baseline 2018 level, indicating that we're on track for 30% lower absolute carbon emissions by 2030. Meanwhile, we diverted 87% of waste from landfill, well exceeding our 70% by FY26 target ahead of time.

For customers, we are delighted to see continuous improvement in our service performance with our Net Promoter Score increasing to 48. NPS can be a challenging measure to improve as it takes time, resources and continuous effort across the entire customer journey, so this is a particularly positive result. Our focus on servicing our customers continues to be critically important as we navigate the difficult environment.

Finally, we also saw our overall employee engagement improve to an employee net promoter score of 35. Throughout the year we have been engaging more with our front-line staff to drive ownership and achievement in business plans as well as driving recognition programmes. We are pleased to see our efforts in this area bearing fruit.

And overall we are tracking very well to achieving our targets across all these metrics.

Risks on WA plumbing and legacy construction projects

In addition to these tough markets, there is no doubt that legacy issues have weighed heavily on the company's financial performance. These issues are complex and have consumed a great deal of our time and resources. However, we have made meaningful progress over the course of the year in relation to the two most significant legacy issues facing the company.

First, we achieved a major milestone in relation to the WA plumbing failure issue, with the announcement in August of an in-principle agreement with the Western Australian Government and homebuilders, known as the Joint Industry Response.

From the outset, Iplex took a leadership role in bringing stakeholders together to address the issue. Our goal has been to understand the issue, try to prevent further leaks, and achieve a timely and pragmatic outcome for affected homeowners.

We believe that the Joint Industry Response, including the Western Australian Government's $30 million contribution, achieves those outcomes. All parties are working hard to reach final agreement. We will not be distracted from that goal by stakeholders with their own agendas. The agreements Iplex is making in the JIR involve cash payments over many years which are within its capacity to pay. In addition, they will be guaranteed by the Fletcher Building Australian group.

Importantly, the Joint Industry Response avoids a product recall which would have been far more costly and disruptive to homeowners, the WA home building industry and our own business.

Meanwhile, our last remaining legacy construction projects remain on track for completion in line with the update we provided at our FY24 results.

We achieved full works completion on the Pūhoi to Warkworth motorway, one of NZ's largest infrastructure projects. We have also made real progress on the New Zealand International Convention Centre project. Through the year, the Construction team completed and handed over the Convention Centre carparks and the Horizon Hotel, and the completion of Convention Centre is still on track for this financial year. The additional provisions required to complete this project have been very disappointing but reflect the incredibly complex and costly process of remediating the site after the fire.

We are looking forward to handing over a truly world class facility and moving on from the considerable pain and distraction this has caused the organisation and our shareholders over the past few years.

Decisive and pre-emptive action taken to strengthen our balance sheet

There has been a fair amount of commentary about our capital raise, so I want to give you the view from the Board on the need for the capital and the process we went through to execute it.

A lot of good work had gone in to negotiating covenant relief with our lenders, reducing costs, conserving cash, tightly managing capex, and divesting half of Higgins in Fiji, and Tradelink. But we could see that the market conditions ahead were very tough, and those steps weren't going to be enough to reduce debt and leverage in line with our target credit metrics.

So we made the call to shore up the balance sheet with an equity raise.

We then had three decisions to make – how much, which structure, and with which lead manager.

Firstly, how much to raise?

$700m was chosen after a detailed sufficiency analysis as the right amount to give us sufficient confidence around the balance sheet but not too much to be lazy. It still requires the company to perform in a difficult market and focus on costs, cash and capex.

Secondly, which structure?

We discussed several different options with our advisers, and the pros and the cons of the different structures.

An Accelerated Non-Renounceable Entitlement Offer – which is a pro-rata rights offer to all eligible existing institutions and retail shareholders - and Placement structure was chosen as the best option to give us certainty that the target amount could be raised effectively in a difficult market context, looking after our existing shareholders, and providing the tightest pricing for a fully underwritten offer.

Our objective was to optimize value for all shareholders, including those who weren't able to, or chose not to, participate.

There are many ways to cut the data to see how the ANREO and Placement structure performed vs a theoretical Accelerated Renounceable Entitlement Offer, but even those shareholders who didn't participate in the ANREO have benefitted from the uplift in the share price which has occurred post-raise. Based on the modelling we have done, that benefit to shareholders who didn't participate is well in excess of the value they may have received from the estimated price of their rights.

And finally, which lead manager?

We chose Jarden as our lead manager for the raise. Jarden had been involved supporting the business on a number of fronts, including our considerations as to the best future structure for our Resi business. They know us well and were not starting from scratch.

We purposefully chose just one lead manager. We took the view that a leak about a capital raise would be very detrimental to the share price, so we wanted to keep it tight.

I have been asked about the costs of the capital raise. Shareholders should rightly challenge such costs as they are large. In this case, our total costs including advisers and other expenses amounted to $22 million.

All capital raises are not equal. Raising capital in a stressed balance sheet context, such as ours, is invariably more expensive to execute than raising capital for capital expansion or growth purposes, because of the different risks involved.

In this case, we had good information on pricing precedents, and also had our own prior experience to draw on. The result was we were able to secure an arrangement that was actually $2m cheaper than when Fletchers raised capital in 2018.

Board and leadership changes

It is disappointing to me that we haven't found a Chair yet.

The delay weighs on the share price, and finding a permanent Chair is a priority for the Board. I can assure you we are working hard to find the best person for the job.

We expect to be able to finalise this process by the first quarter of next calendar year at the latest, following which it's my intention to step down from the board to allow for further board renewal.

There have been a number of disappointments and some highlights during my time on the Board, and a number of very challenging decisions to make since I became acting Chair.

The fire at the convention centre and the plumbing failures in Western Australia have been major disappointments, along with the need to write down Higgins last year. These issues have been complex for the team to manage and weighed heavily on the share price, to the detriment of our very loyal shareholders.

In addition, our heavy exposure to the residential building sectors in both Australia and New Zealand has weighed on the share price in more recent times. That sector has been in the doldrums on both sides of the Tasman for a while and the team are very much focused on cutting our cloth to meet these market conditions through cost cutting, cash generation, and capex conservation initiatives. The cycle will improve, and we will be ready for it.

Needing a capital raise to shore up the balance sheet was also disappointing, but in the circumstances it was the right thing to do, and it was executed well. The share price performance post the raise has been pleasing.

It's my own view that our legacy issues are now largely behind us, and the Company now has the opportunity to build on our current momentum. In that regard, since March we have:

- found an excellent CEO and refreshed the leadership team;
- undertaken a refresh of the Board which, with my departure, will be ongoing;
- de-risked our exposure in Western Australia;
- shored up the balance sheet with a successful capital raise;
- exited Tradelink;

- embarked on a strong cost out programme, taken a laser approach to capex allocation, conserved cash, and commenced a portfolio review to make sure we are in businesses which add real value; and
- of course, we have largely completed the build of the Convention Centre.

It's exciting to see this momentum, and all these things will enable our permanent Chair to be in the best possible position to take the company forward.

ENDS

Authorised by:
Haydn Wong
Company Secretary

For further information please contact:

MEDIA
Christian May
General Manager – Corporate Affairs
+64 21 305 398
Christian.May@fbu.com

INVESTORS AND ANALYSTS
Aleida White
Head of Investor Relations
+64 21 155 8837
Aleida.White@fbu.com