

FLETCHER BUILDING LIMITED

## NEWS RELEASE

### FY17 TRADING UPDATE AND DEPARTURE OF CEO MARK ADAMSON

- **Fletcher Building announces expected earnings for the financial year ended 30 June 2017**
- **Operating earnings expected to be approximately \$525 million, down from previous guidance of \$610-\$650 million**
- **Likely impairment up to \$220 million relating to Iplex Australia and Tradelink business units**
- **Departure of Chief Executive Officer (CEO) and Managing Director Mark Adamson**
- **Appointment of Francisco Irazusta as interim CEO, effective Monday 24 July 2017**

**Auckland, July 20 2017:** Fletcher Building has today announced it expects operating earnings before interest, tax and significant items ('EBIT') to be approximately \$525 million for the year ended 30 June 2017.

Trading in the Building Products, International, Distribution and Residential and Land Development divisions, as well as three of the four business units in the Construction division (Infrastructure, Higgins and South Pacific), are in line with the Company's expectations, previously provided at the time of the interim results on 22 February 2017.

However, as work on major projects in the Building + Interiors ('B+I') business unit has progressed, it has become apparent that losses in B+I will exceed those previously estimated. The deterioration is due to:

- A major project subject to previous write-downs, which has required an increase in project resourcing and therefore cost as it nears completion;
- A second major project where construction timelines and the likely completion date have been extended;
- Reduced profit expectations on a number of smaller projects in the remainder of the B+I portfolio.

Fletcher Building Chairman Sir Ralph Norris said: "It is very disappointing to see further losses being reported in our B+I business, particularly when the vast majority of the remaining Fletcher Building business units have performed so well during the year. I know our people in B+I are working incredibly hard to deliver a number of projects for our clients and I would like to acknowledge their efforts."

In addition, consistent with standard practice at the end of each financial period, Fletcher Building has undertaken a review of the Balance Sheet carrying values of its business units. This review has indicated that the value of two business units, Iplex Australia and Tradelink, are likely to be subject to an impairment charge of approximately \$220 million, when the company finalises its financial statements in August. An impairment of this nature would be reported below the EBIT line and have no impact on cash earnings.

An impairment charge of \$220 million would represent approximately 3% of the group's total assets as at 30 June 2017. The amount of asset impairment is indicative at this stage and is subject to finalisation of the year-end audit.



“With regards to the impairment of Iplex Australia and Tradelink, while we do see progress in these business units the Board felt it was prudent to recognise that the near to medium term estimates of profitability in each business are not aligned with current carrying values,” continued Sir Ralph.

The Board also announced the departure of Chief Executive Officer (CEO) and Managing Director, Mark Adamson.

Sir Ralph Norris said: “The Board believes it is the right time for Mark to leave the Company, to allow a new CEO to lead Fletcher Building through this period and into the next phase of its strategy. The Board would like to thank Mark for his work and we wish him the best in his future endeavours.”

Mark Adamson said: “I am disappointed to finish my tenure on the back of a challenging result in the Construction Division, however I am proud of what has been achieved over the last five years – most notably the turnaround of Formica, double-digit earnings growth in Distribution, our acquisition of Higgins and the significant progress in our residential development division.”

The Board has appointed Francisco Irazusta interim CEO effective Monday 24 July 2017.

“Francisco joined Fletcher Building in March 2015 and is currently Chief Executive of the International Division. Prior to joining the Company he held senior leadership positions with a number of building products companies in North America and Europe and will provide stable leadership for the business during this transition, with the support of myself and the Board,” finished Sir Ralph.

The Board will now commence a process to appoint a new CEO.

## **Q&A**

### **What are the two major projects and when will they be completed?**

For reasons of client confidentiality, we will not name the projects. One of the projects is close to completion, and the other is targeting completion in FY19.

### **Are the two major projects, and associated issues, the same as those referenced in the 20 March update?**

Yes. The most significant issues remain complexity in design, subcontractor management and building program delivery, which has led to an extension of project timelines and increase in project resource requirements and costs, relative to original budgets.

### **How can you be sure this new provision will capture all potential future losses?**

One of the major projects is close to completion, which provides greater certainty over the ultimate cost. A review of remaining projects has been completed, and the construction timelines and the likely completion date extended on a second major project.

### **Why are you booking such a large provision now?**

Under accounting rules, profit on a construction contract is recognised progressively through the life of the project, whereas when it is probable that a contract will incur a loss, the expected loss must be recognised immediately as an expense.

### **What has been done to address the issues in B+I since the last update?**

In addition to the initiatives outlined in our March update, the Construction Division is benefiting from the leadership and robust management expertise of Chief Executive Michele Kernahan and B+I has a newly appointed General Manager, David Kennedy, who brings with him 30 years’ experience in the construction industry across multiple markets.

**Is there a future for B+I in the Fletcher Building portfolio?**

We continue to believe that there is a future for the B+I business in the Fletcher Building portfolio, but it is likely to be a more focused business, targeting key clients and sectors.

**Why are you taking an impairment on the value of Iplex Australia and Tradelink now?**

Management has revised its expectations as to the business units' sustainable mid-cycle earnings as well as the length of time required to make necessary earnings improvement. Management still believes both these businesses have the potential for long-term earnings growth.

**Has there also been deterioration in other areas of the business since the half-year results announcement?**

Trading in the Building Products, International, Distribution and Residential and Land Development divisions, as well as three of the four business units in the Construction division (Infrastructure, Higgins and South Pacific) are in line with the Company's expectations, previously provided at the time of the interim results on 22 February 2017.

**Does the update also impact the outlook for FY18?**

The update has no material impact on the Company's outlook for FY18.

**What will Mark receive upon departure?**

Mark will receive his contractual entitlements. All of his share options will lapse and he will forfeit all shares in the Company's long term incentive scheme. No short term incentive will be paid in respect of FY17.

**Does this downgrade to earnings guidance pose a risk to your banking or debt covenants?**

Despite the further reduction in forecast cash-flows from these additional B+I losses in FY17, the Company remains well within its banking covenants, and expects to continue to do so. Based on the updated guidance range, we expect the ratio of Net Debt to Net Debt plus Equity to be around 36% at the end of FY2017, and the ratio of Net Debt to EBITDA to be approximately 2.7 times.

**What impact does this have on the full year dividend?**

Any decision regarding the dividend payment will be made at the time the Board approves the annual audited results.

**Teleconference**

Fletcher Building Chairman Sir Ralph Norris will host a teleconference call for investors and analysts at **11.00am NZ time today** (9.00am Australian Eastern time) to provide more detail on this announcement. Dial in details are set out below.

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***Ends***

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