NEWS
RELEASE

Fletcher Building update on trading and organisation reset

Auckland, 20 May 2020: Fletcher Building today provided an update on trading and measures it is taking to respond to the impact of COVID-19 on the Group, including a proposal to reduce the number of people it employs.

Fletcher Building chief executive Ross Taylor said the impact of the COVID-19 restrictions over the past two months had been significant, especially in New Zealand as a result of the Level 4 lockdown, and that the response of Fletcher Building's people had been exceptional.

"Our New Zealand businesses were closed throughout Level 4, except for small parts of the Distribution and Construction divisions which were asked to provide essential services. We shut down over 400 operating sites at the end of March, quickly and safely thanks to the great work of the whole of our New Zealand team. We restarted our operations on 28 April under Level 3, which was also done safely and effectively through very detailed, site level planning. Again, I've been extremely proud of the dedicated response of our people. We have been taking a phased approach to the restart in New Zealand, working closely with our customers and our suppliers as they too return to work and ramp-up their operations."

Trading update

As outlined in the update provided on 25 March, the Group's businesses had until then traded largely in line with expectations. However, with no revenue across most of our New Zealand operations during the Level 4 lockdown and Australia revenues running at around 90% of pre-COVID-19 expectations, the Group recorded an operating EBIT loss for April (unaudited and prior to significant items) of c$55 million. The result consisted of a c$55 million loss in New Zealand and an approximately breakeven result in Australia. Costs incurred during this period relate mainly to employee costs, with c90% of New Zealand employees placed on the Group's Bridging Pay Programme. This ensured our employees who were not working received at least 80% of their base pay for the first four weeks, and a minimum of 50% for the subsequent four weeks.

Mr Taylor said: "Providing certainty for our employees during this period was a priority and the New Zealand Government's wage subsidy scheme made a significant difference, enabling us to retain our people during that time."

Since the move to Level 3 on 28 April, the New Zealand construction sector has been able to return to work. The ramp up has been gradual, with health and safety and physical distancing protocols creating reduced productivity and additional costs across the business. The Group's New Zealand businesses are currently trading at around 80% of forecasted revenues in May, while Australia continues to trade at around 90% of pre-COVID-19 expectations. The Group's core manufacturing and distribution businesses are expected to record positive EBIT before significant items across May and June, though at lower levels than normal due to the gradual ramp-up in activity and ongoing COVID-19 restrictions. Residential house sales by Fletcher Living, which were not possible under the Level 4 lockdown, have now restarted. There is no change to the construction provisions on legacy projects at this stage, however the Group is currently working through any impacts from project delays and other risks through the lockdown and subsequent periods for all its Construction businesses.

Market outlook

Mr Taylor said that COVID-19 would likely have a significant impact on the Group's markets in both New Zealand and Australia.

"While there is a lot of uncertainty over the economic outlook, we expect COVID-19 will lead to a sharp downturn in FY21 and potentially beyond. Looking to the next financial year, we are planning for an environment that will see a shrinking economy, substantially reduced customer demand across all our businesses and sustained lower levels of productivity.

"In New Zealand, residential consents at the time of the Level 4 lockdown were tracking at all-time highs of around 37,000 per annum. As we look ahead, our base case estimate for residential consents in New Zealand is that they will drop by around 30% to c25,000 in the year to June 2021. We expect New Zealand commercial building activity to be impacted by a reduced project pipeline in the private sector, with our base case factoring in a c15% decline in the value of commercial work put in place in FY21. Meanwhile we expect the New Zealand Government commitment to infrastructure spend to support our businesses exposed to that sector, however we expect work put in place to decrease by c10% in FY21 as new projects take time to ramp-up.

"In Australia, residential approvals prior to COVID-19 had been showing signs of renewed growth from a base of around 150,000. Our base case is that we now expect approvals to fall by a further c15% to c129,000 in FY21. In commercial and infrastructure, we expect a similar dynamic to that of New Zealand with the value of work done declining by similar percentages in both sectors.

"These are our base case estimates for FY21, though we acknowledge that there is a lot of uncertainty over the outlook and that actual activity levels may be materially different. We will be looking hard at the trends in activity over the next few months and will be ready to respond if needed."

Resetting the business for the future

Mr Taylor said that it is imperative that the Group is positioned for the expected market downturn, which has meant making some very difficult decisions including reviewing the number of people it employs.

"Like any business facing much lower revenue ahead, we need to reduce our spending to prepare for these tough times. Our first goal has been to implement cost-saving measures that would allow us to retain as many of our people as possible. These include looking hard at our operational footprint, exiting some offices to make better use of the space we have in places like the Group's Penrose headquarters, making improvements to the efficiency of our supply chains so that we need fewer warehouses and depots, and ceasing some unprofitable product lines. We will also reduce spend in discretionary areas such as external fees, marketing and travel and we will not be paying any short-term incentives across our businesses for FY20. Reductions of 30% to Board and CEO pay will remain in place through to the end of September 2020.

“While we looked at all parts of our business to remove costs, regrettably we believe we will not be able to support the same number of people. We have to make some very difficult decisions which include looking at reducing the number of people we employ by approximately 10%. This will equate to around 1,000 positions across New Zealand. In Australia we are undertaking a comprehensive review of our operations and expect this would result in a workforce reduction in the order of 500. I acknowledge this news will be hard to hear and that this is an unsettling time for all involved. Moving ahead as proposed would mean losing talented and hard-working people from Fletcher Building. Any of our people affected will have made a difference to our company, their teammates and our customers; these decisions are not a reflection of their value or contribution.

“We are beginning consultation with some of our people and unions this week. In New Zealand, we will honour our obligations under the Government Wage Subsidy scheme by retaining our people through the 12-week subsidy period ending 26 June 2020. We are committed to supporting our people as they leave us and will endeavour to do what we can to help them secure their next opportunity. This will include every permanent employee leaving Fletcher Building being paid their redundancy entitlement under the terms of their employment or a payment equivalent to 4 weeks’ base salary, whichever is higher, to recognise and support our people given the exceptional circumstances. We will also be providing a comprehensive range of outplacement and other support services.

“The redundancy and restructuring activities will result in some one-off costs which are yet to be determined but will be disclosed as part of the Group’s FY20 full-year results in August.”

Alongside this, the Group has continued to focus on preserving cash and liquidity through not only the lockdown period but as we look ahead. In addition to the already cancelled interim dividend payment and suspension of the on-market share buyback programme, the Group has revised its capital expenditure outlook. In the fourth quarter of FY20, capex has been reduced by c$60 million, which means total expenditure for FY20 is now expected to be $240 million compared to a pre-COVID-19 expectation of c$300 million. In FY21 the Group expects its core capex envelope to be in a range of $125 million to $150 million, focused on only the most important investments in safety, maintenance and key strategic initiatives. In addition, $50 million will be invested in the new Winstone Wallboards plant in Tauranga in FY21.

As at 30 April the Group’s (unaudited) net debt was c$650 million and the Group’s leverage ratio (net debt/EBITDA) was 0.8 times, compared to a target range of 1.0-2.0 times.[(1)] At 30 April the Group had (unaudited) cash on hand of $970 million and undrawn credit lines of $525 million, providing total liquidity of c$1.5 billion. The average maturity of the Group’s debt facilities is currently 3.7 years.

Mr Taylor concluded that the decisions being taken by the Group are difficult but necessary to ensure a strong future for the Group in New Zealand and Australia. “As a major employer, we need to ensure our business is resilient and can support economic growth in the longer-term, just as we have done for more than 100 years. While this has meant having to make tough decisions, we want to thank all of our people for their valuable contribution to Fletcher Building.”

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[1] Net debt includes impact of the Group’s debt hedging derivatives.

Conference call to be held today

Fletcher Building management will host a briefing for all investors and analysts today at 10:30am NZT / 8:30am AEST to discuss the trading update. Participants can register for the conference by navigating to the following link:
https://s1.c-conf.com/diamondpass/10007043-invite.html

The conference ID is 10007043

Please note that registered participants will receive their dial in number upon registration.

Webcast –You can watch the webcast live at the following link
https://edge.media-server.com/mmc/p/dgtxb98w

#Ends

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Fletcher Building

FY20 Trading update

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20 May 2020

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This presentation provides additional comment on the Trading Update dated 20 May 2020. As such, it should be read in conjunction with and subject to the explanations and views given in that document.

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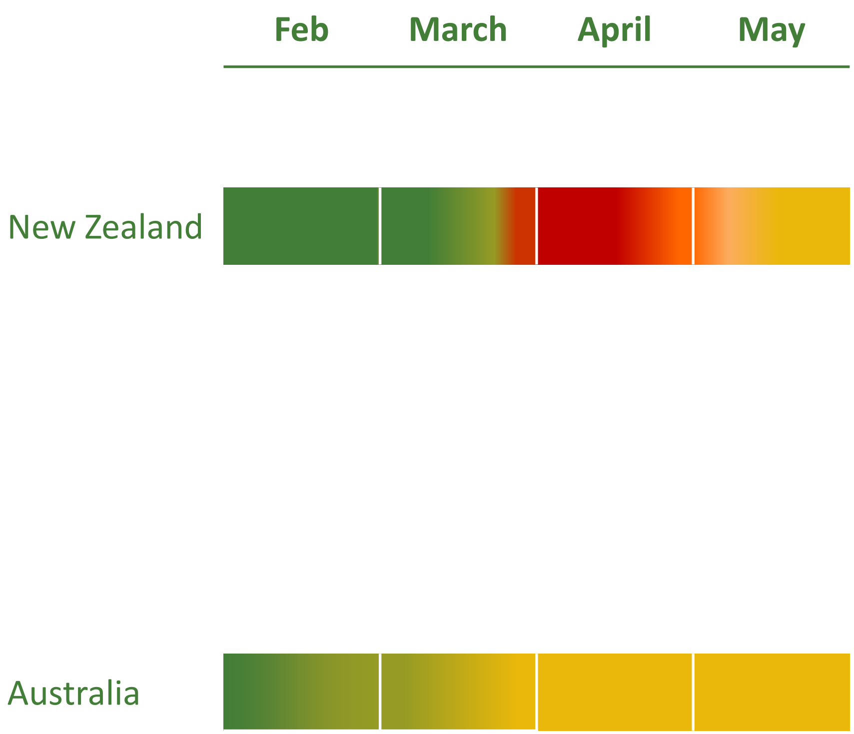
COVID-19 operational impacts



In New Zealand

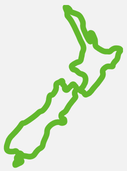
- Full shutdown from 25 March to 27 April (Level 4)
- Impacts linger into May (Level 3 and 2) as both the company and our customers ramp up
- Shut down and ramp up completed safely across 400+ sites
- Social distancing and contact tracing has caused some productivity reductions

In Australia

- Continued to trade across all businesses
- Social distancing and contact tracing has caused some productivity reductions

COVID-19 trading impacts

FBU New Zealand



- Pre-COVID-19 trading to plan / guidance
- Nil revenue for majority of NZ businesses during Level 4 lockdown
- May revenues at c80% of pre-COVID-19 budget; gradual ramp-up as customers return to work and some impacts on productivity under Level 3 and Level 2 restrictions
- Some major construction pipeline projects stopped
- Debtor collections tracking normally at this stage

FBU Australia

- Pre-COVID-19 trading to plan / guidance
- Revenues c90% of pre-COVID-19 budget through April and May
- Rocla / Iplex project pipeline has further deteriorated
- Debtor collections tracking normally at this stage

FY20 trading update
Immediate actions taken to reduce costs and preserve liquidity

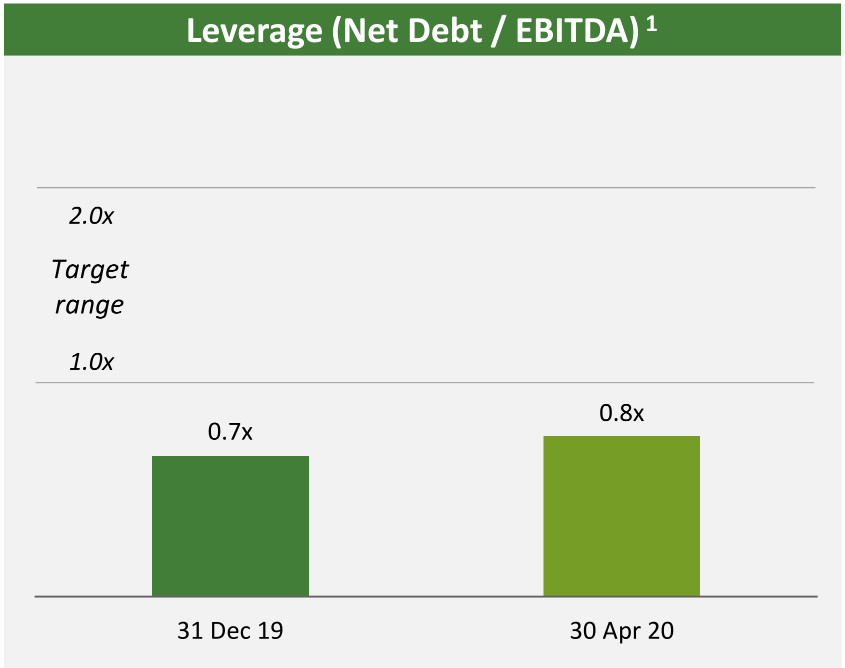
- FY20 interim dividend cancelled
- On-market share buyback programme suspended
- FY20 capex reduced by c$60m - expect FY20 capex to be c$240m vs. pre-COVID-19 expectation of c$300m
- Strong focus on working capital management - daily Group-wide monitoring of cash position and collections
- FBU has continued to meet creditor payment obligations per normal practice
- Cost reductions:
  - c90% of NZ employees placed on Bridging Pay Programme[1] during lockdown. Supported by $68m from NZ Government Wage Subsidy Scheme applied across 12 week period from 25 March. Enabled the Group to provide certainty to its people and avoid redundancies during this period.
  - Negotiated reductions in NZ property and fleet lease costs, and all discretionary spend eg marketing, external fees and travel stopped
  - Board / CEO 30% pay reductions from 25 March to 30 September
  - Execs 30% and GM's 15% pay reductions from 25 March to 17 June
  - No STI bonuses will be paid across our businesses for FY20

[1] Group's Bridging Pay Programme ensured our employees who were not working received at least 80% of their base pay for the first four weeks, and a minimum of 50% for the subsequent four weeks

FY20 trading update
Despite cost savings achieved, 4Q20 earnings materially impacted

- June quarter typically represents 40-45% of FBU's annual earnings due to factors including high seasonal trading and construction activity ahead of winter, large number of house sales completed and receipt of year-end rebates
- New Zealand EBIT significantly impacted by lockdown levels; April loss was c$55 million (unaudited, before significant items) and materially lower than monthly New Zealand cash-burn of c$100 million due to immediate cost reduction measures
- Australia EBIT in April (unaudited, before significant items) was breakeven due to lower trading levels
- No change to Construction provisions on legacy projects at this stage; currently working through any impacts from project delays and other risks in the Construction businesses through the lockdown and subsequent periods
- Working capital unwind and capex reductions resulted in positive Group free cash flow in April, despite c$55 million EBIT loss (before significant items)
- Working capital will rebuild in May as activity returns

FY20 trading update
Balance sheet position remains robust

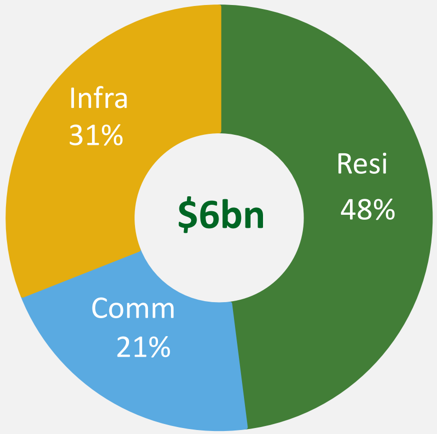


- Net debt (unaudited) was c$650m at end of April
- Leverage of 0.8x, below bottom end of target range
- Liquidity at end April of c$1.5bn, comprised of cash on hand of c$970m and undrawn credit of $525m
- Average maturity of Group debt facilities is 3.7 years

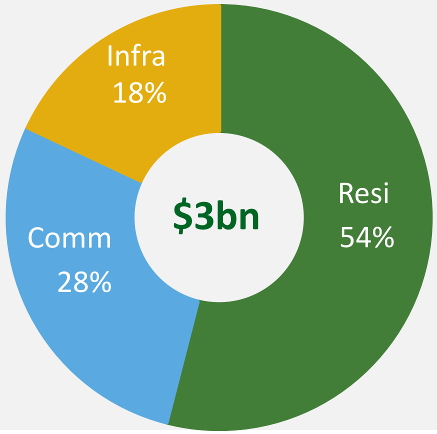
1. Due to material impact of FX movements on balance sheet value of debt in recent months, the Group will use hedged value of debt in its leverage calculation – i.e. Net Debt includes impact of CCIRS derivatives. 31 Dec 19 has accordingly been restated from 0.8x to 0.7x. Historic impact of debt hedging on leverage ratio has been relatively limited (c 0.1x).

Market outlook
Revenue and earnings more weighted to residential market

FBU Gross Revenue by Market NZ (%)



FBU Gross Revenue by Market AU (%)



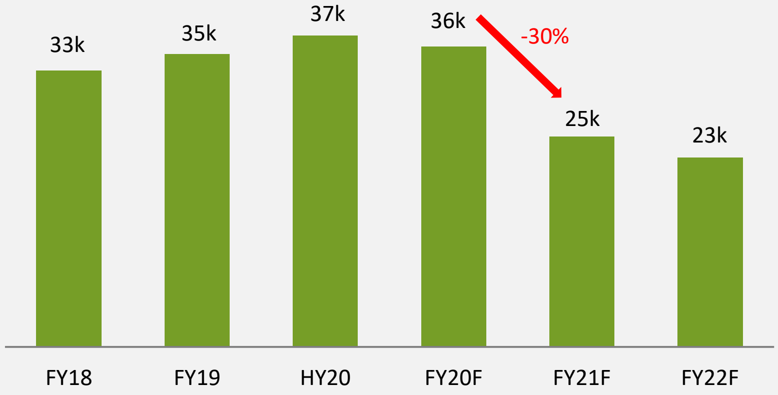
- Building and construction markets are tightly aligned to broader economic activity
- Group revenue is c50% exposed to residential activity, however Group EBIT is more disproportionately weighted to residential activity
- Residential tends to respond most quickly to changes in economic activity
- Forecasts in New Zealand and Australia are pointing to a sharp contraction in GDP, spike in unemployment and reduced private investment. Depth and duration of the downturn are uncertain
- Public investment and fiscal stimulus, immigration policy and credit environment are expected to be the key influences on the downturn

Market outlook

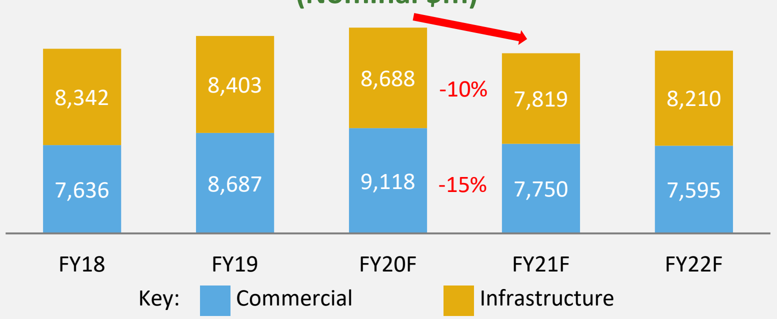
Presently positioning New Zealand businesses for market downturn of c20%

NZ Historical and Forecast

Residential Consents (#)



Value of Commercial and Infrastructure work put in place (Nominal $m)



Residential

- Key driver of FBU NZ's profitability
- FBU base case is for residential consents to decline c30% in FY21 and a further 10% in FY22
- Outlook is uncertain, potential for further downside

Commercial / Non-residential

- FBU base case is for commercial work put in place to decline c15% in FY21, then stabilise in FY22

Infrastructure

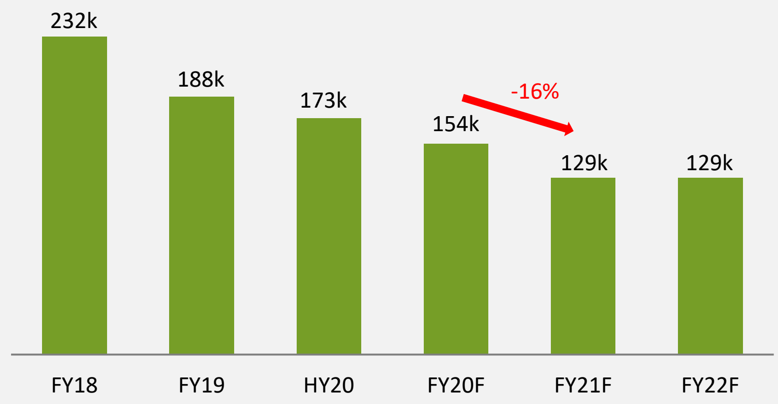
- FBU base case is for infrastructure work put in place to decline c10% then to grow steadily

Source: Infometrics, FB Management Estimates. These are our base case estimates for FY21, though we acknowledge that there is a lot of uncertainty over the outlook and that actual activity levels may be materially different.

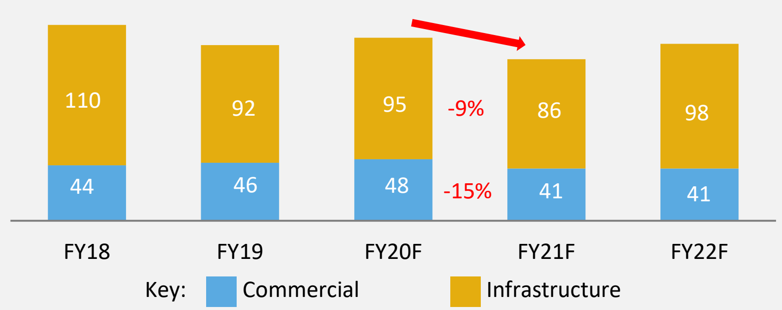
Market outlook
Presently positioning Australia businesses for market downturn of c15%

AU Historical and Forecast

Residential Approvals (#)



Value of Commercial and Infrastructure work done (A$b)



Residential
- Key driver of FBU AU's profitability
- FBU base case is for residential approvals to decline c15% in FY21, then stabilise in FY22
- Outlook is uncertain, potential for further downside

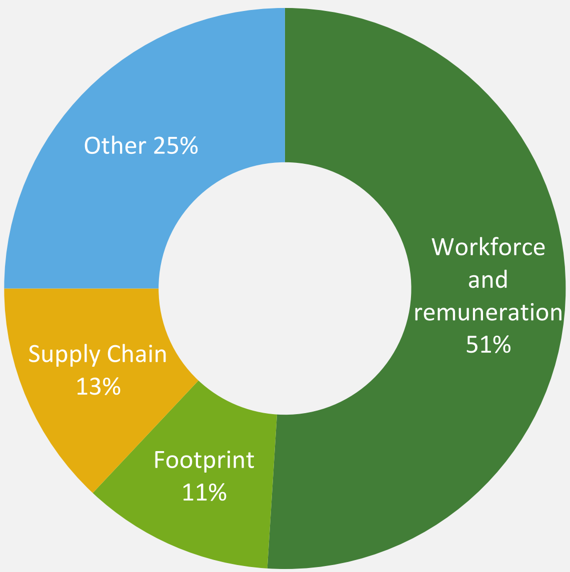
Commercial / Non-residential
- FBU base case is for commercial work put in place to decline c15% in FY21, then stabilise in FY22

Infrastructure
- FBU base case is for infrastructure work put in place to decline c10% then to grow steadily

Source: Bis Oxford, FB Management Estimates. These are our base case estimates for FY21, though we acknowledge that there is a lot of uncertainty over the outlook and that actual activity levels may be materially different.

Resetting our businesses for the future
Significant restructuring programme targeting FY21 cost reduction

FY21 in-year cost-out benefit



Restructuring Costs

Restructuring activities will result in one-off costs which are yet to be finalised and will be disclosed as part of the Group's FY20 full-year results in August

Key Focus Areas

- Operating efficiencies including footprint and supply chain, ceasing unprofitable product lines, fewer warehouses and depots
- Other including spending reduction on external fees, marketing and travel
- Workforce and remuneration

Capex

- Capex reduced to c$125-150m in FY21 (down from run rate of c$300m pa)
- In addition, committed to new Winstone Wallboards plant in Tauranga, with $50m spend in FY21

Resetting our businesses for the future
Our people

- While we looked at all parts of our business to remove costs, regrettably we believe we will not be able to support the same number of people
- Unfortunately, the level of future market activity and the speed it will move to these levels means we need to review the size of our workforce, and as a result we are likely to lose some talented and hard-working people who have made a valuable contribution to Fletcher Building
- We are looking to reduce our people numbers across NZ by approximately 1,000 roles and in Australia by approximately 500 roles. We begin consultation processes with our people this week
- Our obligations under the NZ Government wage subsidy scheme will be honoured. The Group acknowledges the constructive approach of the NZ Government in enabling certainty to be provided to employees during this challenging period
- In recognition of the exceptional circumstances, we will be providing a special one-off payment equivalent to 4 weeks' base pay to permanent team members who are not entitled to redundancy compensation. We will also be providing a range of outplacement and other support services

These actions will ensure that Fletcher Building remains strongly positioned into the future

Actively repositioning our businesses to address new market reality

- Decisive actions taken to keep costs under control and preserve liquidity through lockdown and restart in New Zealand
- Detailed plans made across our businesses to address the lower market outlook in both New Zealand and Australia
- Large programme of "non-people" cost out underway
- Tough decisions to down-size the people side of the organisation, and now commencing consultation
- Will closely monitor actual market activity as the year progresses

Remain strongly positioned to continue to implement our overall strategies

- Fletcher Building is operationally sound and is well positioned to deliver on our aspiration to be the undisputed leader in New Zealand and Australian building solutions – with products and distribution at our core

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Q&A