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# Distribution Investor Day

6 April 2016

FLETCHER BUILDING DISTRIBUTION



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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. Statistics included in this presentation are sourced from Statistics NZ unless otherwise stated.**



## Agenda

8:00am - 8:30am	<b>Coffee/Registration</b>	
8:30am - 9:15am	<b>CEO Update / Q&amp;A</b>	Mark Adamson – <i>Chief Executive Officer</i> Lee Finney – <i>Chief Transformation Officer</i>
9:15am - 9.30am	<b>Divisional Introduction</b>	Dean Fradgley – <i>Chief Executive, Distribution</i>
9.30am -10:15am	<b>PlaceMakers</b>	Bruce McEwen – <i>General Manager</i>
10:15am - 10:30am	<b>Morning tea</b>	
10:30am - 11.30am	<b>Plumbing distribution: Mico and Tradelink</b>	Bryn Harrison – <i>GM, Mico</i> Alan Ball – <i>GM, Tradelink</i>
11.30am - 12:30pm	<b>Steel distribution - NZ and Australia</b>	Hamish McBeath – <i>GM, Steel Distribution</i> Paul Tudor – <i>GM, Stramit</i>
12:30pm – 1:00pm	<b>Lunch</b>	
1pm	<b>Depart for site visits from rear entrance on Pitt Street</b>	





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# CEO Update

**Mark Adamson**  
CEO



# Structure will support greater focus on business performance

<b>Building Products:</b> Matt Crockett	<b>International:</b> Francisco Irazusta	<b>Distribution:</b> Dean Fradgley	<b>Residential &amp; Land Development:</b> Steve Evans	<b>Construction:</b> Graham Darlow	<b>Chief Transformation Officer:</b> Lee Finney
<ul style="list-style-type: none"> <li>• GBCWinstone (NZ) including Higgins Aggregates</li> <li>• Firth (NZ)</li> <li>• Humes (NZ)</li> <li>• Rocla Pipelines (Aus)</li> <li>• Winstone Wallboards/Tasman Insulation (NZ)</li> <li>• Fletcher Insulation (Aus)</li> <li>• Iplex (NZ &amp; Aus)</li> <li>• Sims Pacific Metals (NZ)</li> <li>• Fletcher Aluminium (NZ)</li> </ul>	<ul style="list-style-type: none"> <li>• Formica Asia</li> <li>• Formica Europe</li> <li>• Formica North America</li> <li>• Laminex (NZ &amp; Aus)</li> <li>• Roof Tile Group (NZ; Africa; Asia; Europe; USA)</li> </ul>	<ul style="list-style-type: none"> <li>• PlaceMakers (NZ)</li> <li>• Mico (NZ)</li> <li>• Tradelink (Aus)</li> <li>• Stramit (Aus)</li> <li>• Tasman Sinkware (Aus);</li> <li>• Steel Distribution;</li> </ul>	<ul style="list-style-type: none"> <li>• Fletcher Living (NZ)</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure (NZ)</li> <li>• Fletcher EQR (NZ)</li> <li>• South Pacific</li> <li>• Higgins Contracting (NZ &amp; Fiji)</li> <li>• Building + Interiors (NZ)</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement</li> <li>• Marketing</li> <li>• Operational Excellence</li> <li>• Transformation</li> </ul>





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# Overview of Distribution

Dean Fradgley  
CE Distribution





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## Objectives for today's Distribution Investor Presentation

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- Present the divisional strategy
- Cover key strategic areas of focus and growth
- Meet the management team



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# FLETCHER BUILDING DISTRIBUTION



## The Distribution portfolio has 11 businesses across New Zealand and Australia which are well recognised within their markets

- Enlarged Distribution covers New Zealand and Australian Distribution business units
- 1st or 2nd in their markets
- Operate within traditional markets
- Well recognised within their industries
- Well established brands
- At different points in their maturity
- Different scales of operation





## Our Distribution division operates across Australia and New Zealand with a diverse portfolio of product businesses



New Zealand's leading building supplies merchant specialising in the trade and B2B segment of the market

**FY15 Revenue:**  
NZ\$1,167m  
**Staff:** 2,400  
**Key customer segments:**

- Group home builders
- SME trade customers
- Commercial




New Zealand's largest specialty plumbing and bathroom merchant supplying trade and retail customers

**FY15 Revenue:**  
NZ\$210m  
**Staff:** 450  
**Key customer segments:**

- Residential and commercial construction
- Repairs and maintenance




Supplies bathroom and plumbing products through a network of 200+ branches across Australia

**FY15 Revenue:**  
A\$730m  
**Staff:** 1,480  
**Key customer segments:**

- Network plumbers
- Commercial construction




New Zealand's leading importer, distributor and processor of steel

**FY15 Revenue:**  
NZ\$440m  
**Staff:** 600  
**Key customer segments:**

- Infrastructure and commercial construction
- Manufacturing and Engineering
- Roofing and cladding roll formers



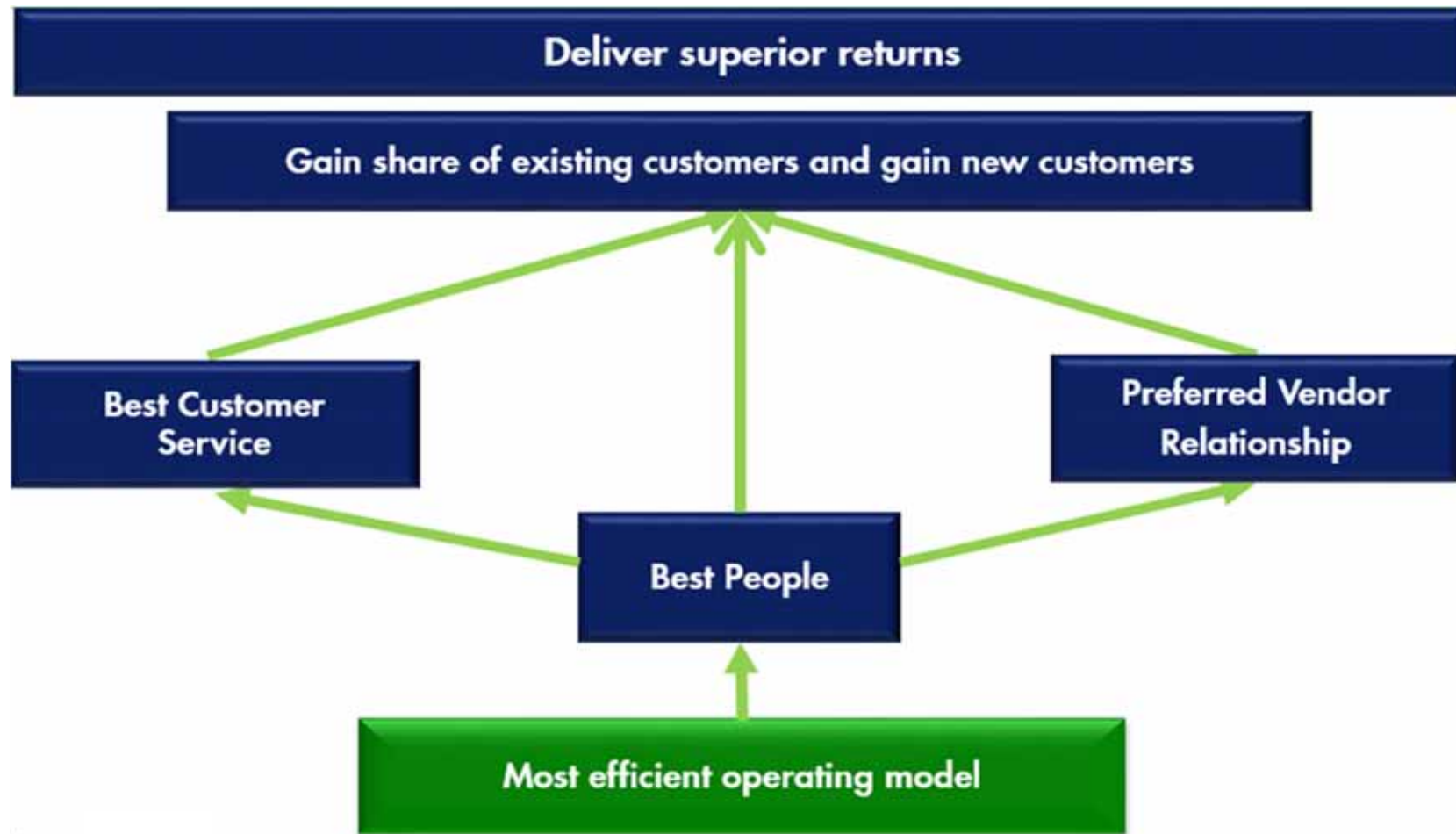

Australia's 2<sup>nd</sup> largest roll former and supplier to the building industry with steel roofing, cladding, rainwater and door systems

**FY15 Revenue:**  
A\$460m  
**Staff :** 850  
**Key customer segments:**

- Installers
- Builders and developers
- Network resellers



# We are in year three of executing the Distribution strategy





## FY15 financial highlights – total division

Revenue

**NZ\$3.2<sub>bn</sub>**

EBIT

**NZ\$148<sub>m</sub>**

▲ 17%

ROFE

**14.1%**

▲ 2.3%

Capital expenditure

**NZ\$54<sub>m</sub>**

▲ 83%

Gross margin realisation

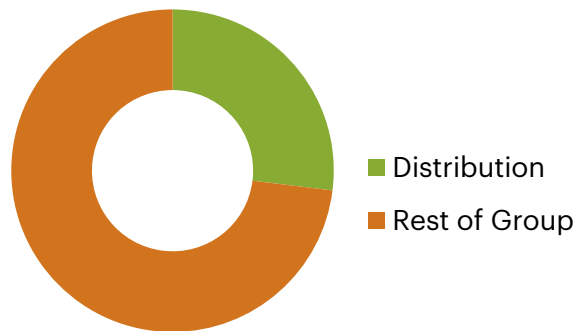
**20%**

▲ 18%

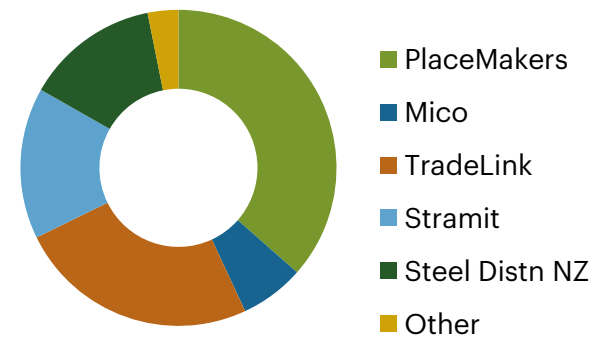


# Distribution is a key component of the Group's financial performance

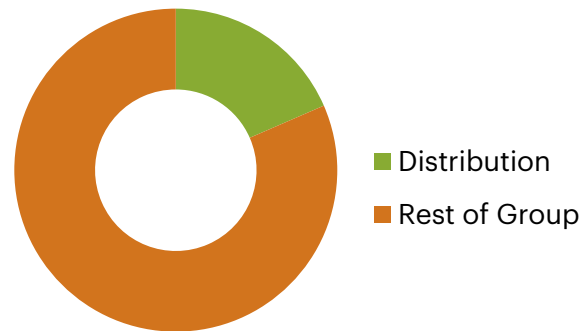
### FY15 Revenue



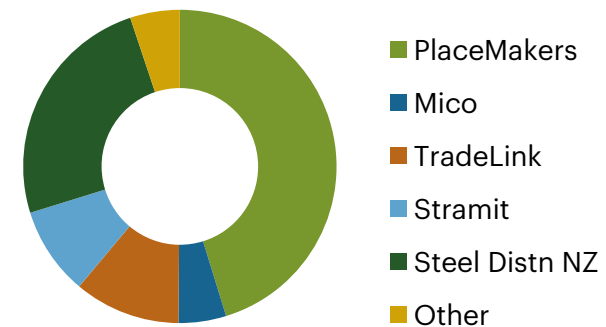
### FY15 Revenue



### FY15 EBIT



### FY15 EBIT

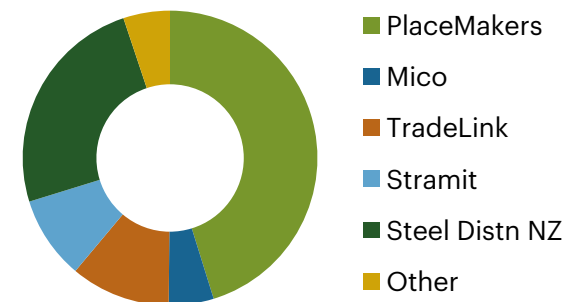




## Distribution has momentum and has delivered robust organic profit by executing its customer leading strategy

- Strong revenue and double-digit year on year EBIT growth in New Zealand
- Accelerated performance in PlaceMakers, successful turnaround in Mico and sustainable manufacturing improvements in Pacific Coil Coaters
- Benefits of a differentiated customer value proposition and customer service promise tangibly linked to profit improvement
- NZ business units are key earning centres for the division. Learnings are being deployed in Australia
- Australian portfolio has scale that needs to be leveraged
- Average EBIT to free cash conversion of 100%
- Capex / funding light business

FY15 EBIT



**Demonstrated delivery in turnarounds and transformational growth in New Zealand Distribution, which has momentum in a competitive and buoyant market. We are now deploying this into Australia**



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## Distribution has the potential to unlock more shareholder value through the economic cycle

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### Critical areas

**Profitable market share**

**Organic growth**

**Execution in Australia**

### How

- Buy better / sell better
- Gross margin realisation
- Efficiency and synergy
  
- Core category penetration
- Shop within a shop concept
- Omni channel
- Regional network performance
  
- Service and growth potential in Australia
- Export learnings and best practice from New Zealand strategies





# The Distribution business units differentiate themselves within their markets

### Our Customer Service Promise

We want PlaceMakers to be the easiest place for customers to do business.

**To deliver to site in full & on time or we refund the delivery fee**

To make sure we know what is most important for our customers, we asked them about their wants and needs.

**Why?**  
Because we want our customers to know we are serious about service and are prepared to stand behind what we say.

In response to our customers' feedback, we have also made a number of business improvements to enable us to deliver against our promise.

One of our customers' key wants was to receive product in Full, On Time, and in Spec - DIFOTIS.

To ensure we are exceeding customer expectations, we actively measure how each of our branches performs against each aspect of our Customer Service Promise.

We want to provide even greater clarity around our DIFOTIS because we know getting the product in full, on time and in spec is important for our customers.

A sample of branches for DIFOTIS last month was:

1. Hamilton 99.4%
2. Wairarapa 98.8%
3. Dunedin 98.4%
4. Otago 97.3%
5. Kerikeri 97.1%
6. Whangarei 96.9%
7. Waikato 93.2%
8. Whangaroa 93.4%
9. Auckland 92.2%
10. Christchurch 91.8%

We want PlaceMakers to be the easiest place for customers to do business.

- 250 core trade items always in stock
- Over 100,000 products available
- 1 hour order & pick up service
- To answer your call within 30 seconds or we'll call you back within the hour
- Accurate invoicing – no surprises
- To deliver to site in full & on time or we refund the delivery fee
- To deliver your frame & truss order within the agreed time or we pay you \$200 per day

*"We guarantee it."*

- 500 core products always in stock or lunch is on us\*
- You pay what we quote or we'll credit you \$10
- Trained & knowledgeable staff
- Click & collect within 30 minutes or lunch is on us\*
- Delivery of your order on time\*
- Industry leading warranties on our exclusive products

- LEAD TIME**  
5 days or we pay you \$1K.
- DELIVERY**  
On time & in full or we pay the delivery fee.
- STOCKED RANGE**  
Core range available in selected branches across New Zealand.
- TECHNICAL SUPPORT**  
All queries acknowledged same day.
- SERVICE/SALES**  
We answer your call in 3 rings or we'll call you back in 30 minutes.
- SPECIALS**  
Short/bespoke runs available.
- WARRANTY**: Product guarantee. We make it right for you!

CONDITIONS APPLY. FIND OUT MORE IN-STORE.

- 500+ EVERYDAY ESSENTIALS IN STOCK, ALWAYS**  
*If not, we'll give you a \$50 credit*
- ORDERS READY FOR PICK UP IN 30 MINS OR DELIVERED WITHIN 2 HRS**  
*If not, we'll give you a \$50 credit*
- WE WON'T BE BEATEN ON PRICE ON OUR 500+ EVERYDAY ESSENTIALS**  
*We'll match any price on an identical product*
- SAME DAY TURNAROUND ON EVERYDAY QUOTES**  
*If not, we'll give you a \$50 credit*
- QUALITY PRODUCTS BACKED BY MANUFACTURER WARRANTIES**  
*We only stock the good stuff*
- WE KNOW OUR STUFF AND UNDERSTAND YOUR BUSINESS**  
*So you get the right product for your job*

Trade customers only. T&Cs apply. See in branch or [www.tradelink.com.au/promises-for-trade](http://www.tradelink.com.au/promises-for-trade)



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## Strategic review and areas of focus for the future

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**2015 strategic review by external consultants focussed on the following three areas:**

### Commercial

- Leveraging FB's newly created Asian sourcing office
- Promoting own exclusive branded ranges and specifications (Raymor / Adesso in Mico and Tradelink, for example)
- Grow core customers and SOW – e.g. GHBs and Network Plumbers sectors

### Operations

- FB operational excellence deployed in Pacific Coil Coaters and Stramit
- Single Trans-Tasman 'Distribution' focus
- Performance focus across branches and BUs to deliver YOY improvements. An obsession in execution

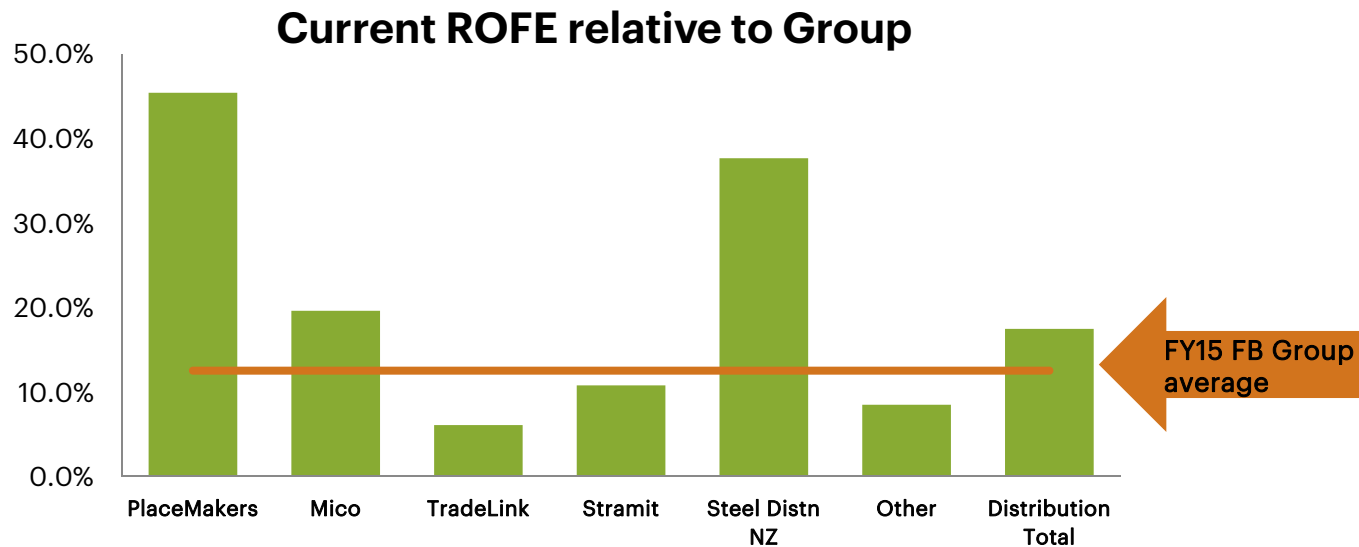
### Cost

- Successful co-location and business combinations leveraging group scale and synergies
- Cost containment relative to growth, through the cycle



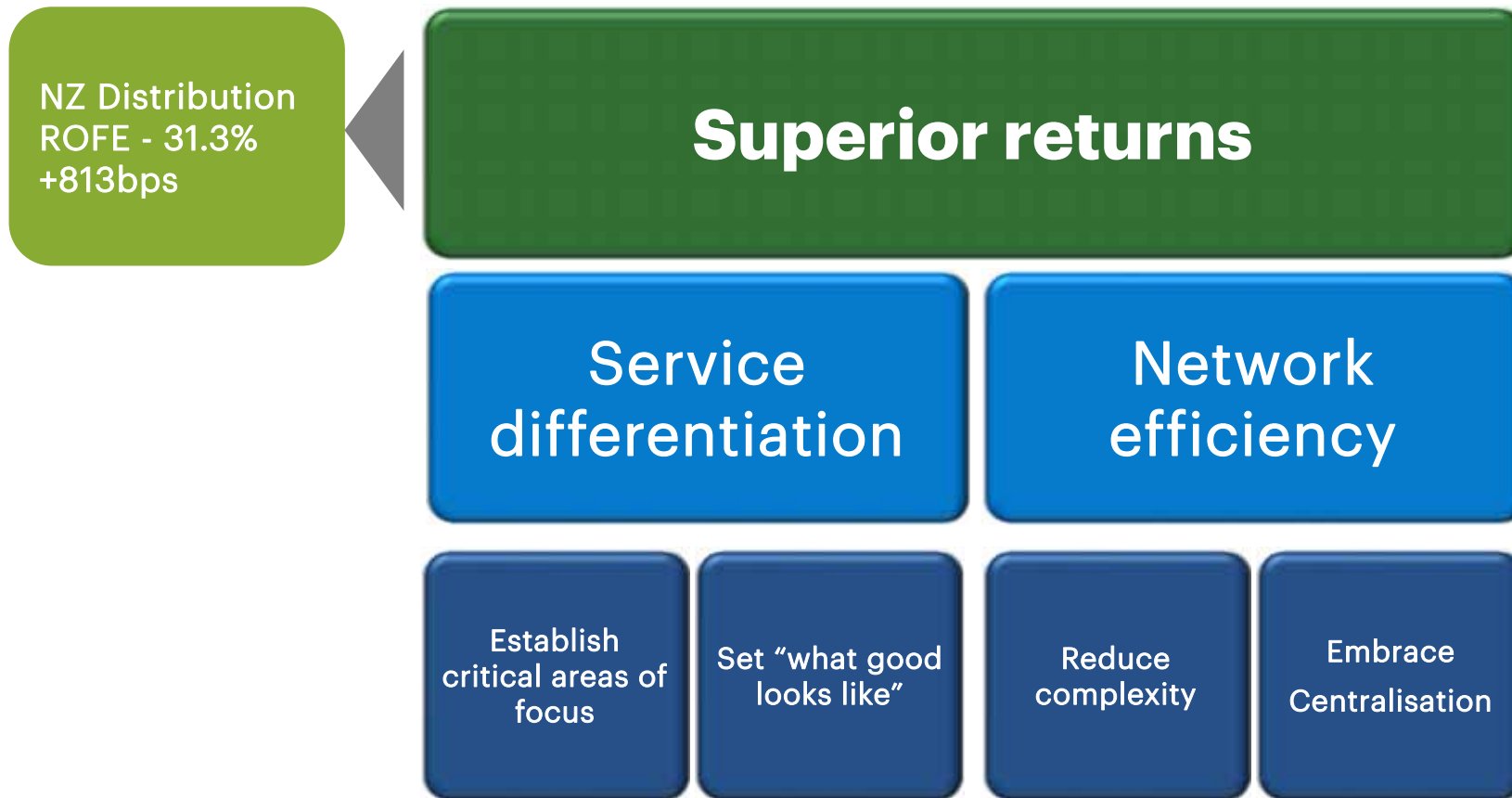
## Distribution has momentum and line of sight to continue to grow returns and shareholder value

- Clear and simple divisional strategy that is common across all its businesses
- Demonstrable delivery in New Zealand over the last two years
- New Zealand success and learnings now being applied to Australian business units
- Our focus is clear – growing profitably with an obsessive focus on execution
- Distribution are clear enablers of overall Fletcher Building growth and value creation, key drivers of group ROFE

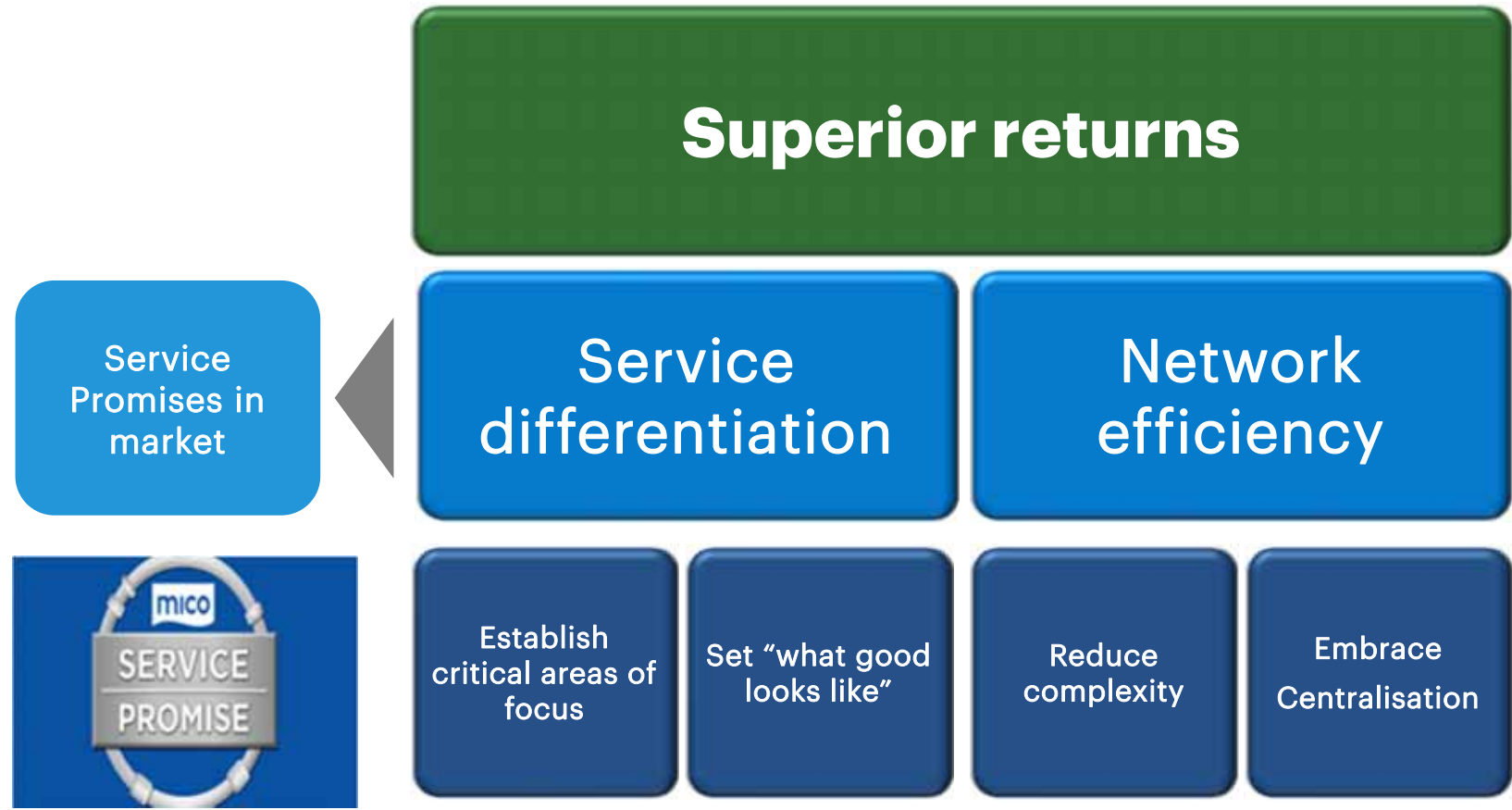




## Summary: continued progress within Distribution – growing earnings through strong execution



# Summary: continued progress within Distribution – growing earnings through strong execution



# Summary: continued progress within Distribution – growing earnings through strong execution

**Superior returns**



**Service differentiation**

**Network efficiency**



- Delivered 8 New Zealand co-located sites
- Planned program to do more

Establish critical areas of focus

Set "what good looks like"

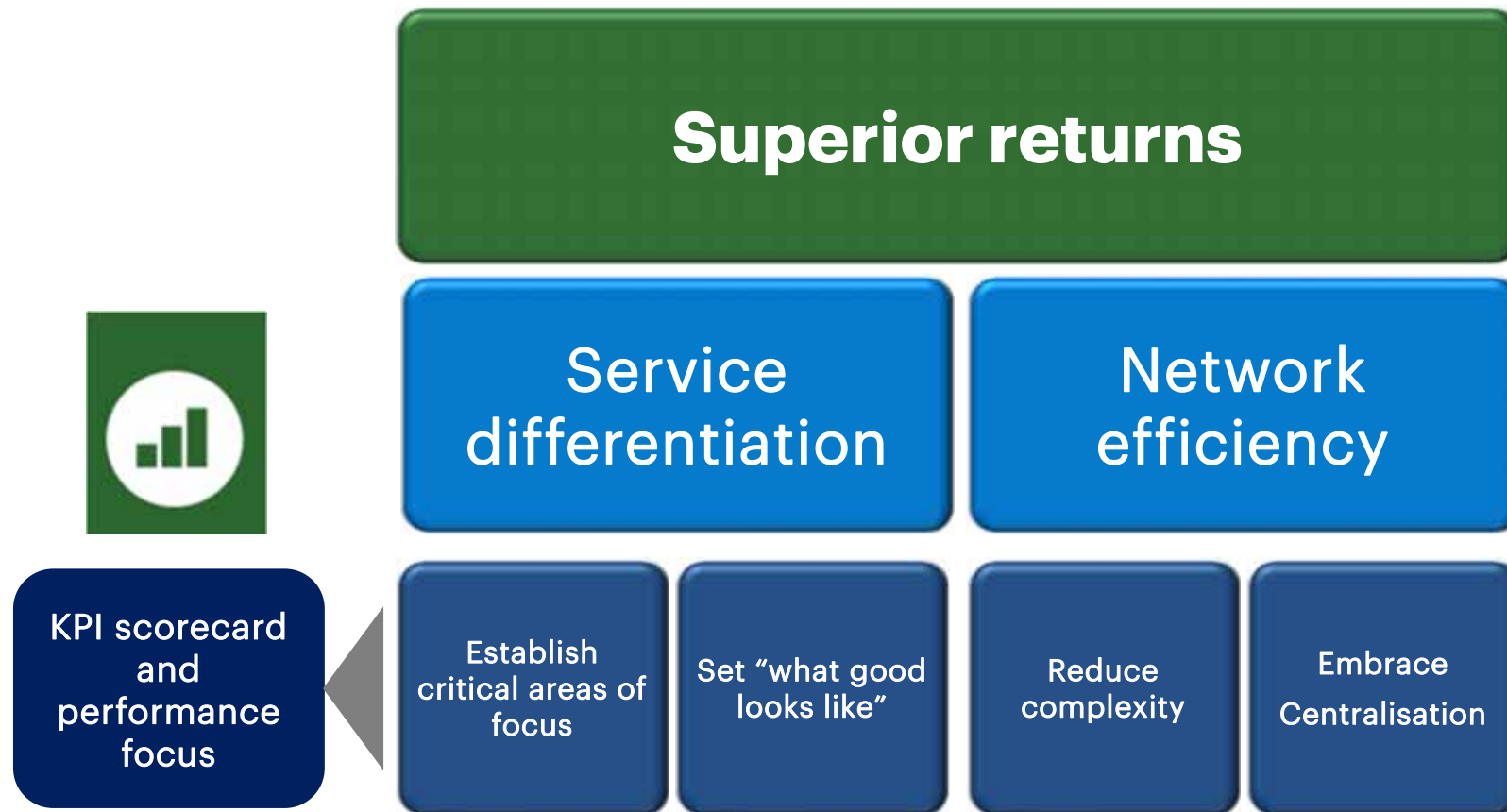
Reduce complexity

Embrace Centralisation

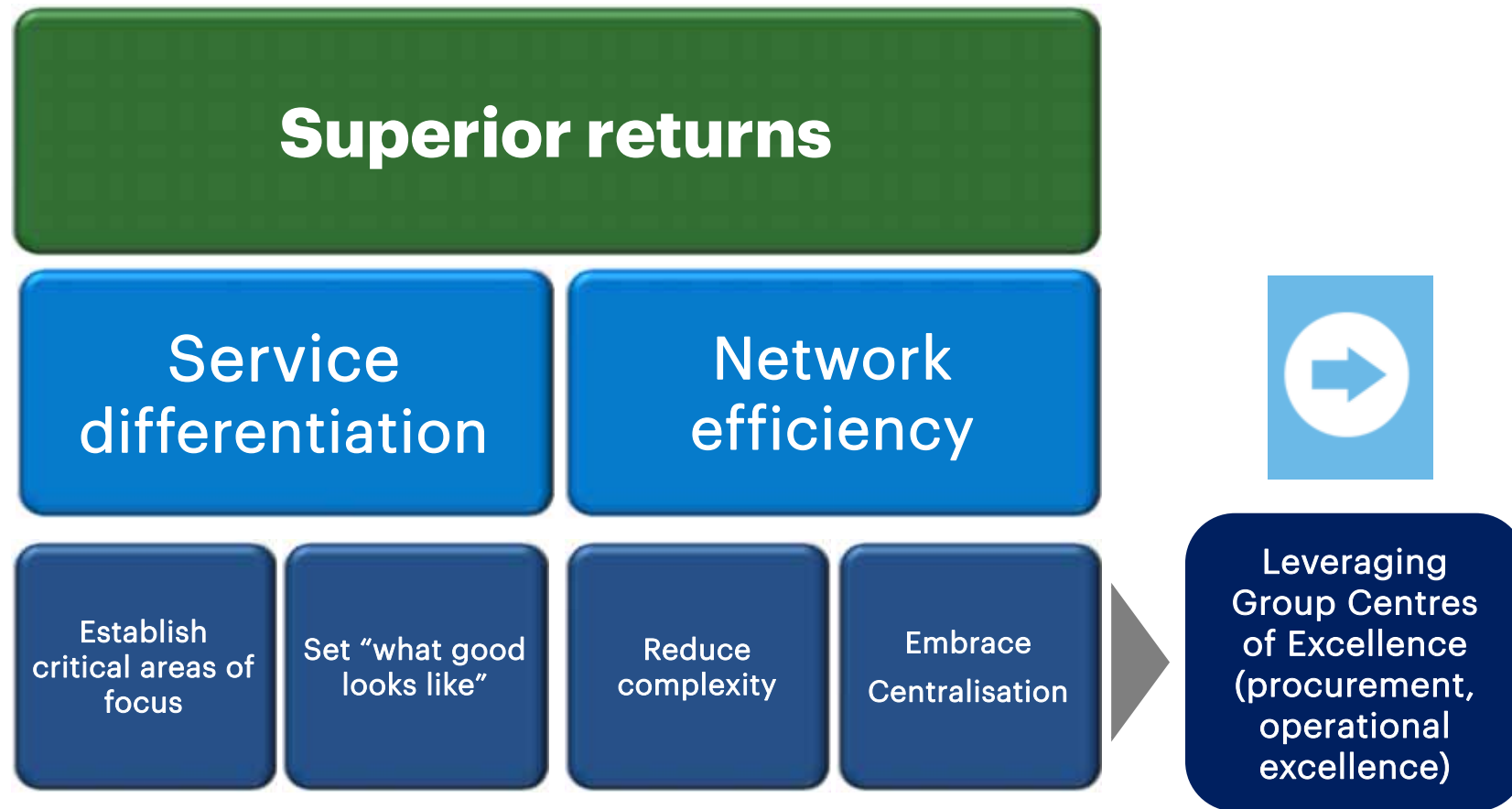




# Summary: continued progress within Distribution – growing earnings through strong execution



## Summary: continued progress within Distribution – growing earnings through strong execution





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# PlaceMakers

**Bruce McEwen**  
**GM PlaceMakers**





## PlaceMakers on a page



### People

- 2,400 employees, 70%+ employee engagement
- Performance focused operators / management team
- Differentiated model



### Customers

- Relentless focus on service
- No.1 market share position
- New loyalty scheme covering wider SME market



### Efficiency

- Record low cost to serve
- Centralising back-office functions
- Consolidation in Frame and Truss timber manufacturing



### Profitable growth

- Record turnover in H1 FY16
- FY15 ROFE 41% – 25% CAGR from FY13 baseline
- Average operating cash to EBIT - > 100% EBIT retention



## FY15 KPI highlights from PlaceMakers improvements include double digit year-on-year EBIT growth

EBIT

**\$66.8m**

▲ 26% YoY

Revenue

**\$1,167m**

▲ 8% YoY

Gross margin realisation

**25%**

▲ 17% YoY

ROFE

**41%**

▲ 13% YoY

Net operating profit retained\*

**\$20m to \$53m**

\* Off FY13 baseline

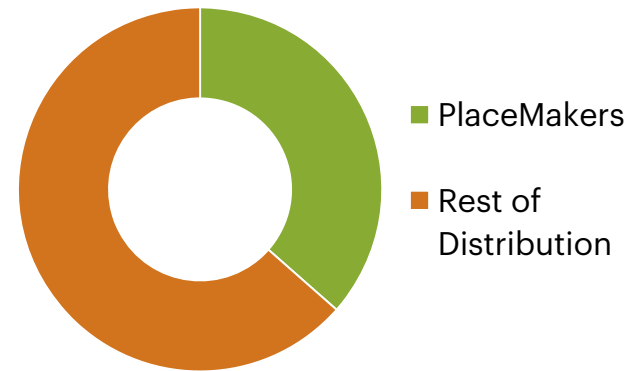


# PlaceMakers is the core revenue and profit engine of the Distribution division

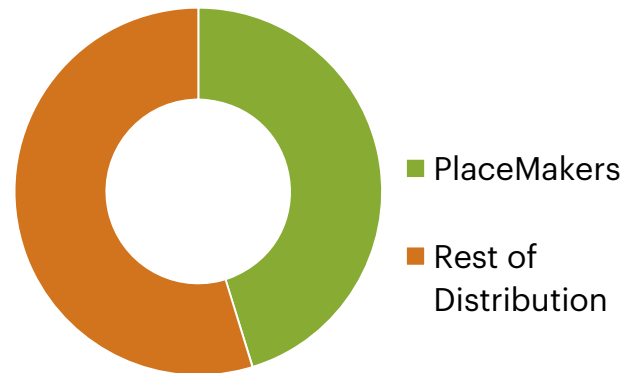
FY15 revenue of \$1,167m  
PlaceMakers generates  
36% of the division's  
revenue....

...and 45% of the division's  
EBIT

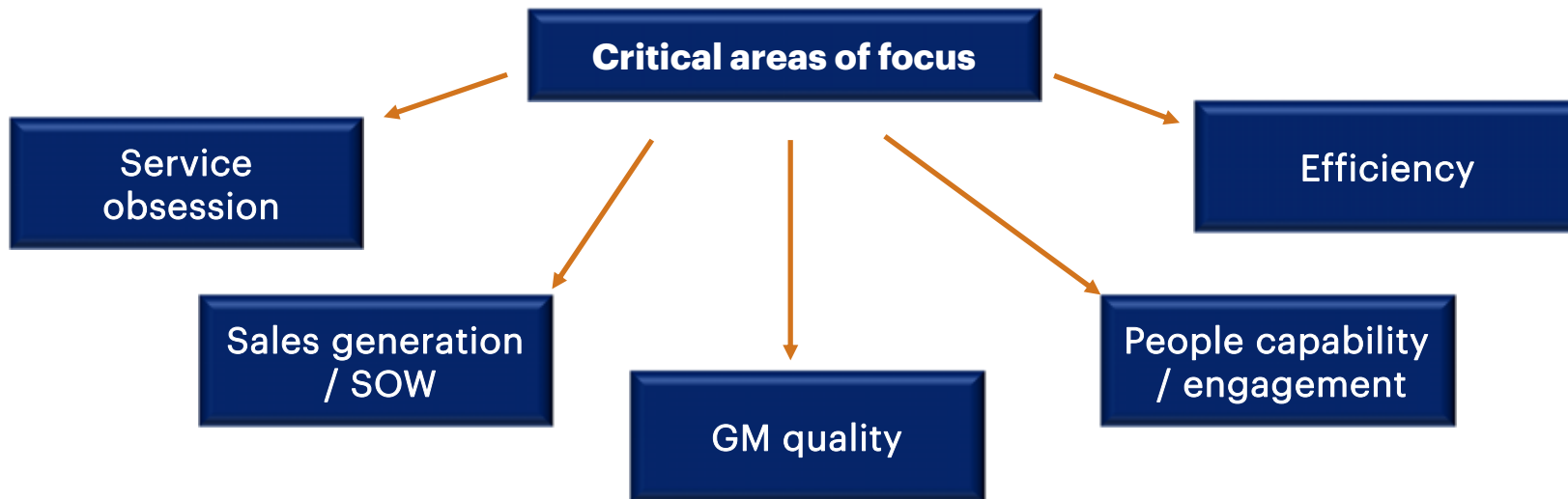
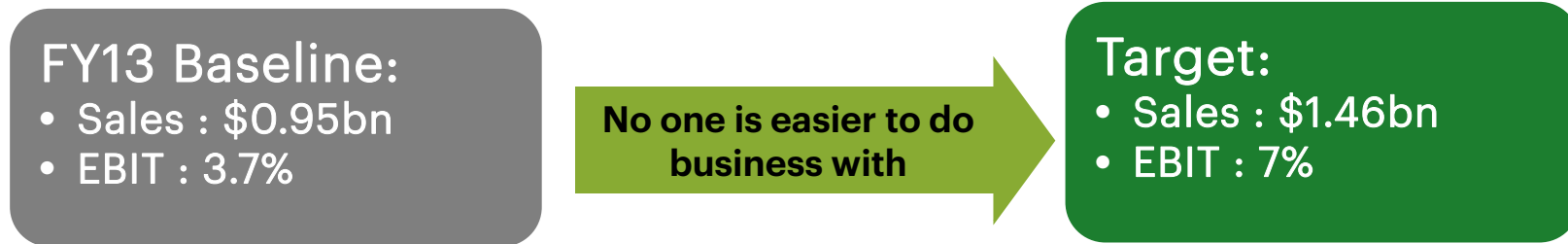
FY15 Revenue



FY15 EBIT

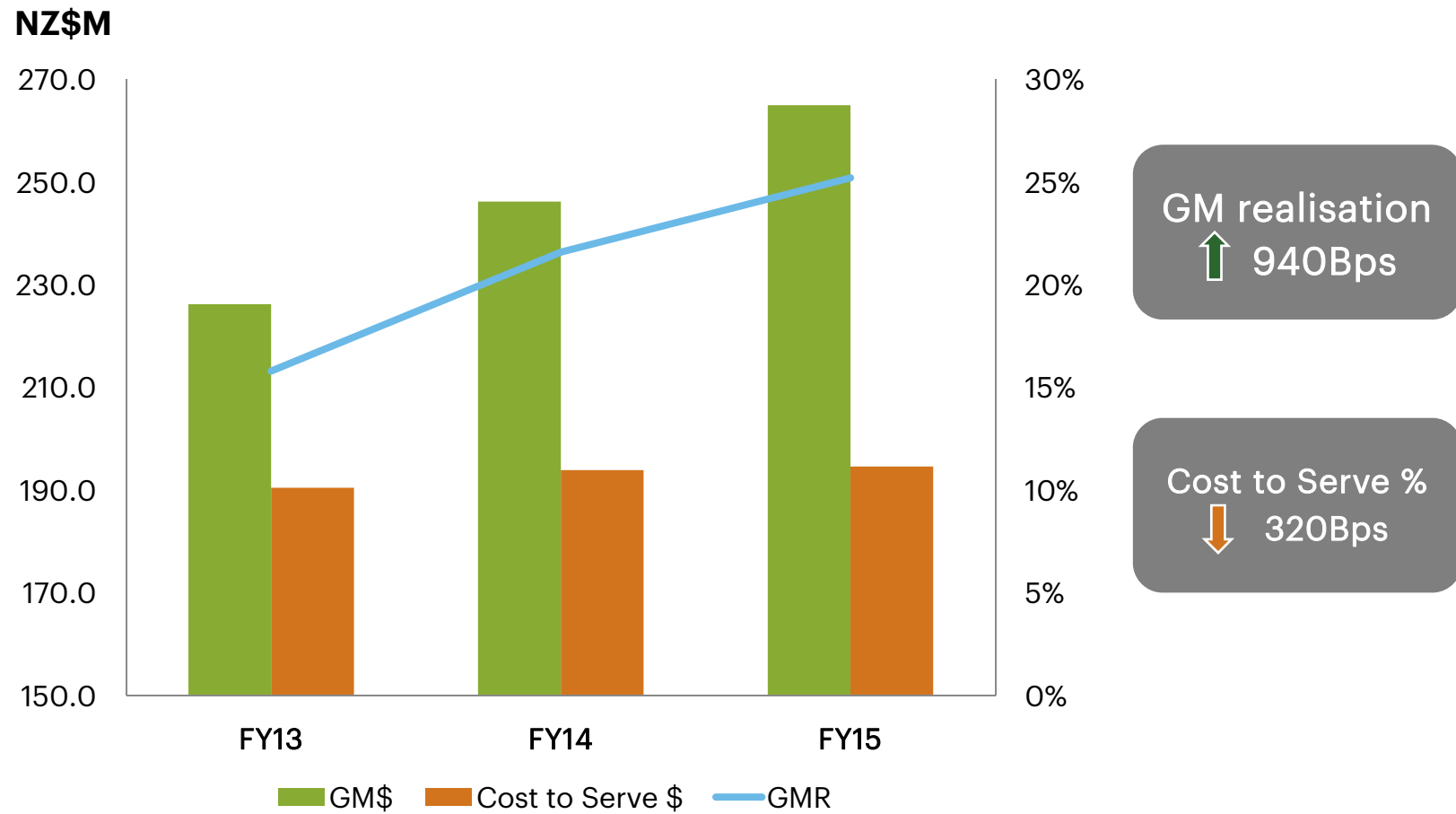


## Our critical areas of focus to deliver on our strategy





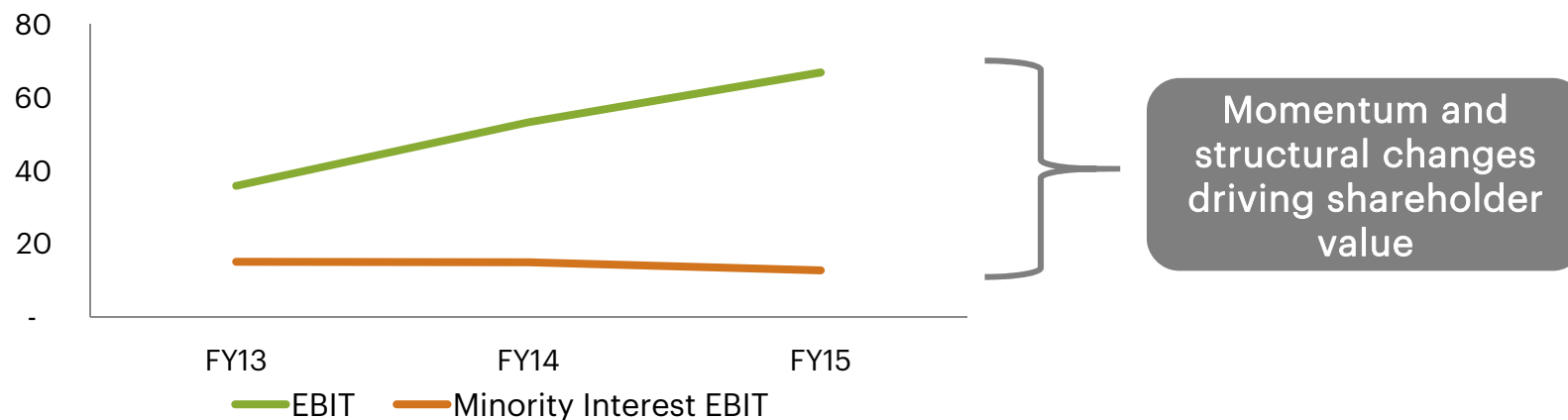
# PlaceMakers is focused on efficiency to drive gross margin realisation improvements



## Improved trading performance accentuated by the joint venture model change enhancing NOP retention

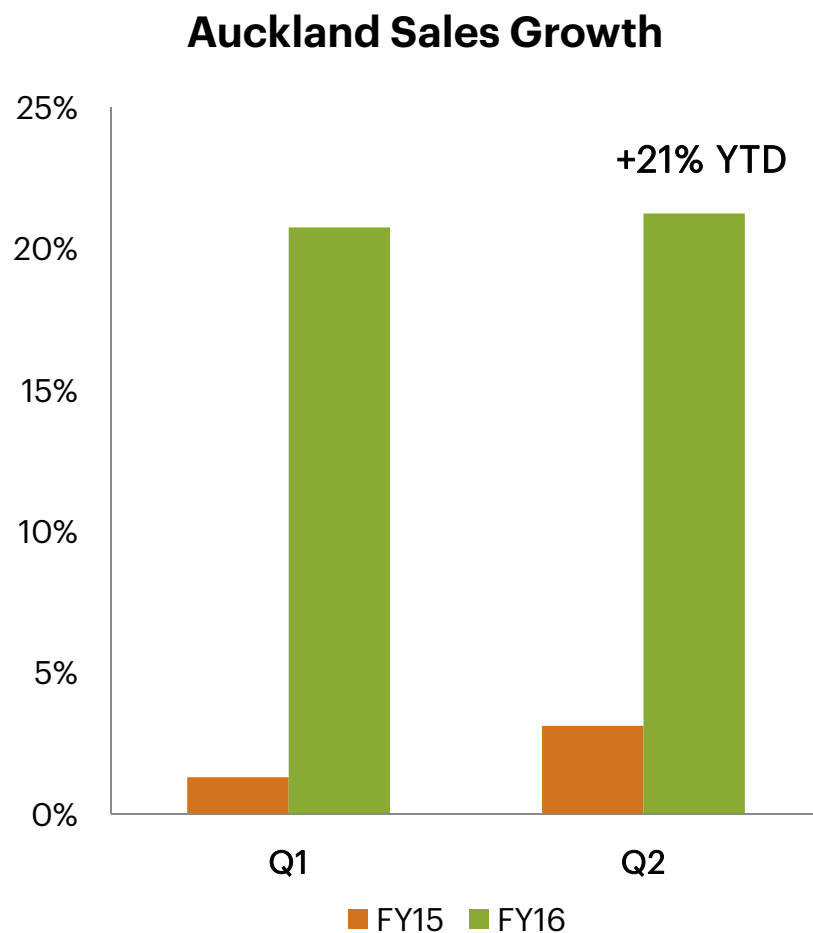
- PlaceMakers has over 60 locations, with 53% of revenue relating to joint ventures owned with local operators
- Changed the joint venture model, reducing joint venture equity, increasing term and giving surety of direction
- Joint venture contracts now targeted on critical areas of focus and delivering superior returns
- Improved EBIT growth and net operating profit (NOP) retained drives shareholder value

NZ\$M



## H1 FY16 sales growth of +10% driven by strong growth in Auckland supported by regional growth

- Strategic focus on improving Auckland market share
- Changed business model in Auckland - was fragmented and difficult to compete
- One year later YOY growth +21%



# Sales generation in core categories remains critical area of focus

## Category Opportunities

**FRAME & TRUSS**  
A subdivision of \$10,000 + GST from Fletcher

**Timber**

**Building Products**

**Specialist Timber Solutions**

**Accessories**



**Paint**



**Plumbing**



**Kitchens**



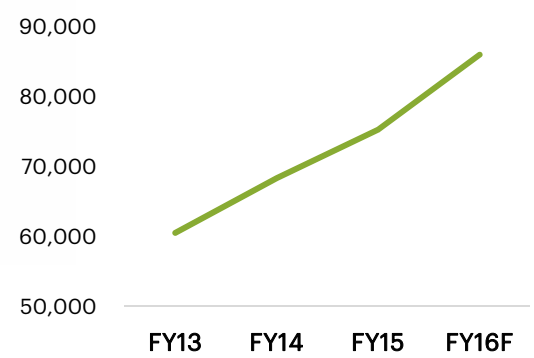
**Bathrooms**

Largest timber frame and truss manufacturer in New Zealand

Frame and Truss sales continue to grow profitably - \$115m p.a. growing at 13%

Network consolidation into 8 sites

**Frame and Truss - Cubic Metres produced**





# Share of wallet focus is a key enabler for growth in white space categories

## Category Opportunities



Timber



Building Products



Paint



Plumbing



Specialist Timber Solutions



Accessories



Kitchens



Bathrooms



Share of wallet focus leveraging sales of finishing products, i.e. kitchens now a \$25m business

GHB market share provides platform for further category extensions



# Targeted share of wallet campaigns take market share and increase pull-through of Fletcher Building products



Leverage frame and truss capability for market share

Pull-through benefits for Fletcher Building

Creates higher margin finishing products sale

...PlaceMakers has generated over \$70m in competitive wins



## Famous for differentiated service model and bringing this to life





# We are obsessed with service and are the only national distributor in our sector that publishes its service performance



**A sample of results, based on having all 250 core trade items in stock, from last month:**

1.	New Plymouth	99.89 %
2.	Thames	99.72 %
3.	Dunedin	99.67 %
4.	Wanaka	99.61 %
5.	Blenheim	99.65 %
6.	Kerikeri	99.52 %
7.	Wellington	99.49 %
8.	Auckland	98.55 %
9.	Hamilton	98.00 %
10.	Christchurch	97.98 %

## SCORE BOARD

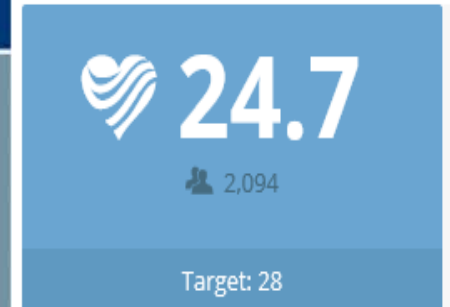
DATE  
**24 / 03**

	Core products stock level	99.6	%
	Telephony - Answering your call in 30 seconds	81.1	%
	Accurate invoicing	99.7	%
	Delivery accuracy	94.9	%

**PRODUCT NEWS** Record 1st Half Sales

**GENERAL** NPS ↑ AGAIN

## Net Promoter Score



From 21 → 24.7





# We are measuring balanced performance across key metrics to maximise sustainable returns

CUSTOMER				
Net Promoter Score			36.5%	28%
Telephony Service Promise			86%	85
Pricing Credit as % Invoice	0.16%	0.36%	0.23%	0.36%
RED DOT %	99.6%	100.0%	98.2%	100.0%
<b>Customer Performance Score</b>	<b>20.00</b>	<b>20</b>	<b>18.00</b>	<b>20</b>
EMPLOYEE				
Safety Observations				
Staff Turnover (12 Months %)			25.9%	27.0%
Absence (12 Months %)			1.3%	1.4%
Employee Expense/Sales %	7.5%	8.0%	7.3%	7.4%
<b>Employee Performance Score</b>	<b>15.00</b>	<b>15</b>	<b>15.00</b>	<b>15</b>
OPERATIONS				
DIFOTIS			94%	95%
% Purchase from Primary Supplier	86.9%	95.0%	84.8%	95.0%
* Sales Per FTE (000)	66.0	59.0	424.1	424.6
* System Margin Per FTE (000)	14.1	12.9	91.2	92.7
<b>Operations Performance Score</b>	<b>14.00</b>	<b>15</b>	<b>8.00</b>	<b>15</b>
FINANCIAL				
Debtor Collection %	87.1%	85.0%	85.5%	85.0%
Stockturn - Inventory Days			33.5	32.7
* Shrinkage %	-0.3%	0.2%	-0.1%	0.2%
* Freight Recovery %	41.4%	111.7%	116.9%	111.7%
Sales \$ (000)	1,674.6	111.8%	10,392.0	108.3%
Final GM \$ (000)	419.3	367.7	2585.8	2360.2
* Final GM %	25.0%	24.5%	24.9%	24.6%
Controllable Costs % of Net Sales	10.7%	11.9%	11.0%	11.1%
* EBIT \$ (000)	195.8	144.1	1185.8	1023.8
EBIT %	11.7%	9.6%	11.4%	10.7%
<b>Financial Performance Score</b>	<b>44.44</b>	<b>50</b>	<b>49.00</b>	<b>50</b>
<b>Overall Branch Performance Score</b>	<b>93</b>	<b>100</b>	<b>90</b>	<b>100</b>

Active branch metric management

Significant improvement in overall branch performance



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## In summary – customer leading behaviour is driving shareholder returns

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- Service differentiation driving results and shareholder value
- Most profitable building supplies merchant in New Zealand
- ROFE – CAGR 25%
- Gross margin realisation up from 16% to 24%
- Record engagement and trading levels
- Positive momentum and line of sight to deliver on strategic plan

**Customer Leading.**



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# Mico

**Bryn Harrison**  
GM Mico





## Mico on a page



### People

- 450 employees with record employee engagement
- 66 branches nationwide – corporate ownership model



### Customers

- Largest plumbing merchant in New Zealand
- Differentiated service offer
- Winning in back of wall and growing in bathrooms
- Taking profitable share



### Efficiency

- Co-location programme across Fletcher Building sites
- Implementing a successful branch footprint in lowest property cost to sales ratio



### Profitable growth

- Record turnover in Q4 of calendar 2015
- On track to be ROFE accretive ~25% vs negative in FY13
- Target ROFE of 30%+





## Over the last two years Mico has achieved an organic turnaround led and delivered by our people



**Improved operating metrics on all fronts:**

- Customer – momentum
- Efficiency – leveraging wider divisional and group resources
- Growth – focus on profitable growth
- People – turnaround in engagement and people talent

Note: \* Trading EBIT before one-offs



## Key FY15 highlights from the Mico turnaround include:

EBIT

**\$3.5<sub>m</sub>**

▲ \$5.1m

Revenue

**\$210<sub>m</sub>**

ROFE

**7.8%**

▲ 11.2%

Cost to Serve

**26.6%**

▼ 1.6% improvement

Branches co-located

**8 branches**

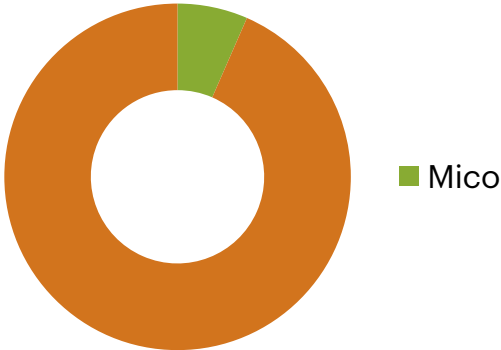
▲ +6 branches



**Mico accounts for 5% of the Distribution division's result, but is a positive internally led turnaround story over the last two years**

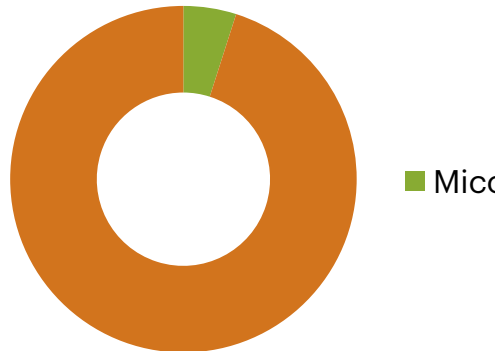
Mico accounts for 7% of the Division's turnover.....

FY15 Revenue

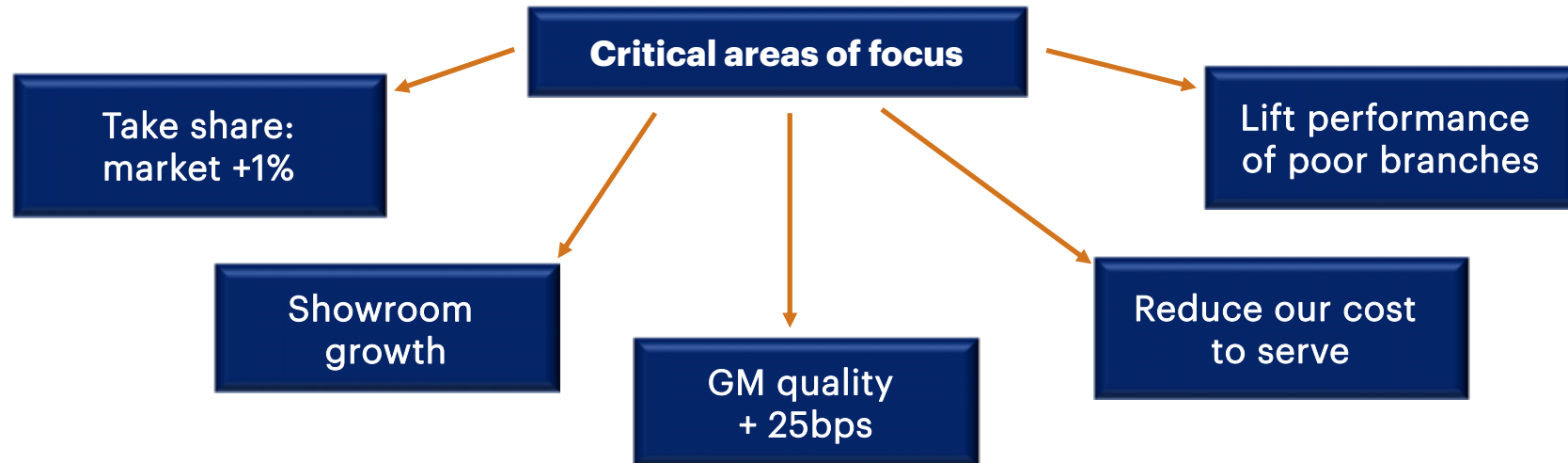
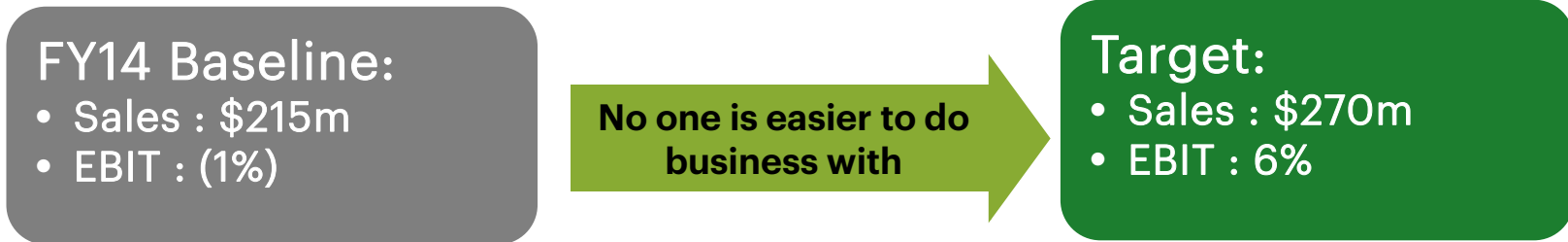


...and 5% of the Division's EBIT

FY15 EBIT



# Our critical areas of focus to deliver on our game plan





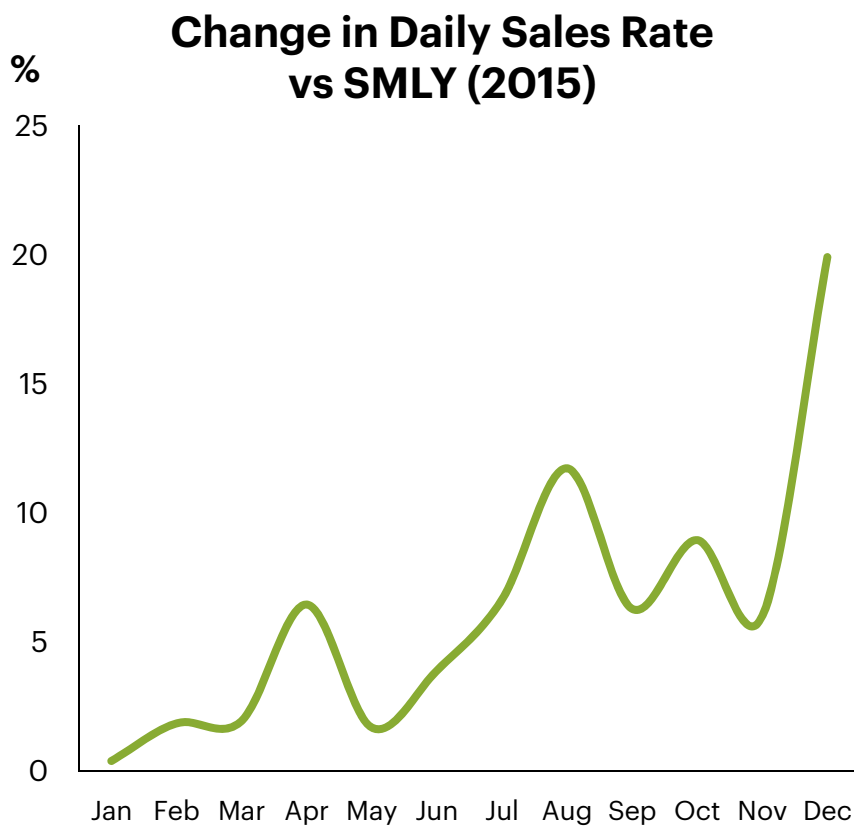
## Mico is the industry leader, differentiating itself with an industry first customer service promise



- Launched in June 2015
- Provides a tangible and defensible commitment to service for trade customers
- Yet to be followed by other industry participants



# Tangible link with service promise and financial performance



The service promise has improved customer satisfaction

Net Promoter Score  
Oct 2014: **12**

Net Promoter Score  
Mar 2016: **34**

↑  
**Service promise launch**



## Mico's strength was in BOW. We have grown FOW/ bathrooms and increased marketing activity for an improved balance




- Exclusive sponsorship and supply of bathroom fixtures to "The Block NZ 2015"
- Driven increase in footfall and showroom sales growth
- Drove increase in share in critical Auckland market
- New exclusive product ranges launched in tapware, vanities, sanitary ware at opening price points
- Enabler of critical focus on sales generation and share of wallet growth

### Sales vs prior year FYTD Feb-16

Showroom products	+10%	▲
Exclusive Product Sales	+12%	▲
Auckland Showroom	+28%	▲



## Reducing the cost to serve has been key for Mico and will continue to be through the economic cycle

				
	FY14 YTD	FY15 YTD	FY16 YTD	Target
GM%	26.4%	27.5%	27.9%	29%
Cost to Serve	28.4%	26.8%	24.7%	22%
→ People	16.4%	15.1%	13.6%	13.5%
→ Property	5.4%*	5.5%*	4.9%	3.5%
→ Other	7.4%	6.8%	6.2%	5%
EBIT	(2.7%)*	0.6%*	3.2%	6-7%

\* Adjusted for National Office, lease income no longer received





## Property cost reduction allows Mico to be profitable through the cycle



PlaceMakers Mico Palmerston North



Mico Kumeu



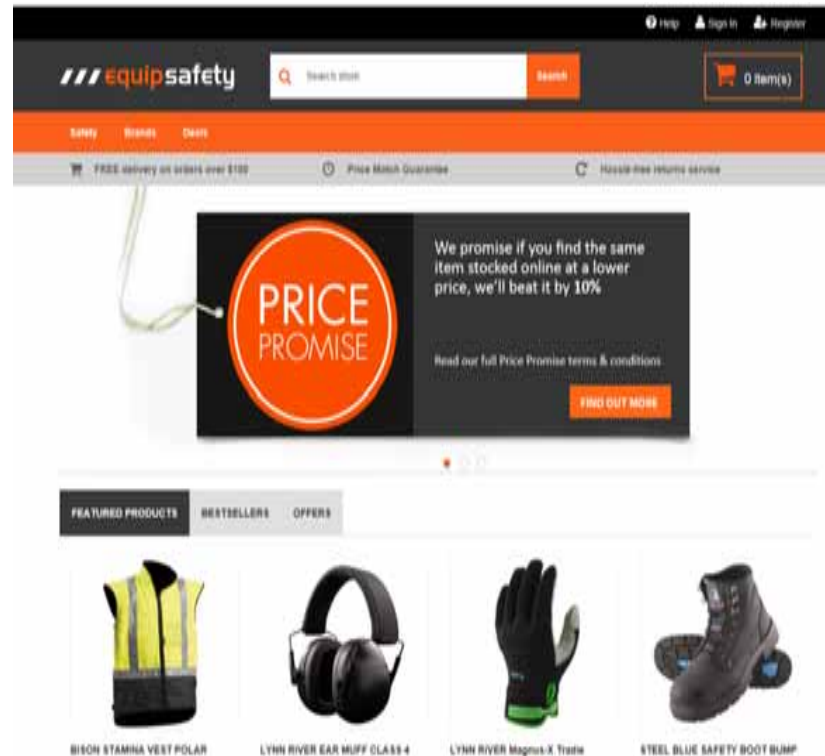
Humes Mico Timaru

- Property cost focus enables profit through the cycle, as well as market share gain through additional points of presence
- Two key strategies:
  - Co-location with Fletcher Building business units (PlaceMakers, Humes Pipelines)
  - Small-format sites (Kumeu)
- Total property cost savings delivered since FY14 c.\$2.2m p.a.
- FY19 target run rate savings of a further \$2m p.a.



## Growing global trend for trade supplies purchased online

- New e-commerce platform launched for bolt-on categories and further sales generation
- Equipsafety.co.nz website built over the last 6 months to enable another channel route to market
- Leading advancement into separate distribution channel to market
- Enables Mico to expand into adjacent categories and grow share
- Initial focus on work-wear and safety products, further categories to be added



## In summary – in-house turnaround and customer focus driving increased shareholder value

- ROFE on track for 20%+ (+12% YOY)
- Customer focused service promise underpinning sales and EBIT growth
- Investing for sales generation – new branches, e-commerce and marketing
- Drive efficiency through leveraging Fletcher Building assets
- Positive employee engagement and trading levels
- Delivered turnaround with more opportunities for earnings and topline growth



The graphic features the Mico logo at the top, followed by a grey banner with the text 'SERVICE PROMISE'. Below this are six white boxes with blue borders, each containing an icon and a promise:

- ✓ 500 core products always in stock or lunch is on us\*
- 🎯 You pay what we quote or we'll credit you \$10
- 👍 Trained & knowledgeable staff
- 🕒 Click & collect within 30 minutes or lunch is on us\*
- 🚚 Delivery of your order on time\*
- 🏆 Industry leading warranties on our exclusive products

\*Conditions apply. Find out more in-store.





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Fletcher Building Distribution Investor Day Presentation 2016

# Tradelink

Alan Ball  
GM Tradelink





## Tradelink on a page



### People

- 1,600 employees
- Performance focused operators and management team
- Focus on training and development for sustainable growth
- Experienced distribution senior leadership team



### Customers

- Number 2 in market with 18% share
- Densification of network providing additional locations to service market
- Executing a differentiated customer service promise in Australia



### Efficiency

- Reducing operational cost
- Rightsizing branch network



### Profitable growth

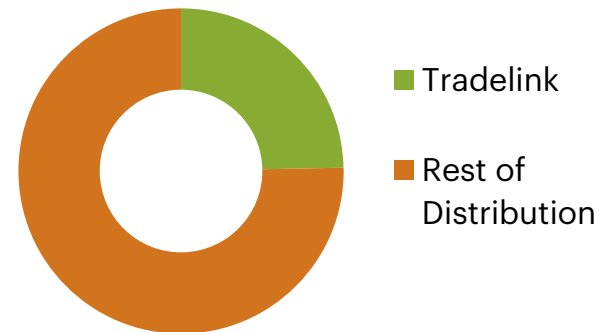
- 20 new locations per annum for next three years
- Expansion of product categories to complement range
- Destination showrooms to capture regional demographics



# Tradelink provides the division with a platform to enable future earnings growth

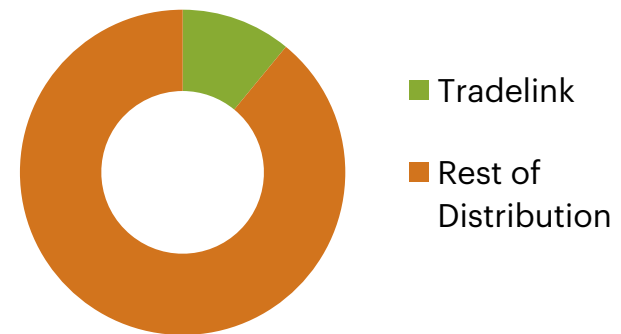
Tradelink delivers 25% of the Division's revenue...

FY15 Revenue



...and is management's number one priority to deliver sustainable earnings growth

FY15 EBIT



## FY15 financial summary:

EBIT

**A\$15<sub>m</sub>**

▲ 31%

Gross margin

**28.7%**

▲ 1.4%

Revenue

**A\$732<sub>m</sub>**

▲ 3%

ROFE

**4%**

▲ 18%

FY16 annualised labour savings

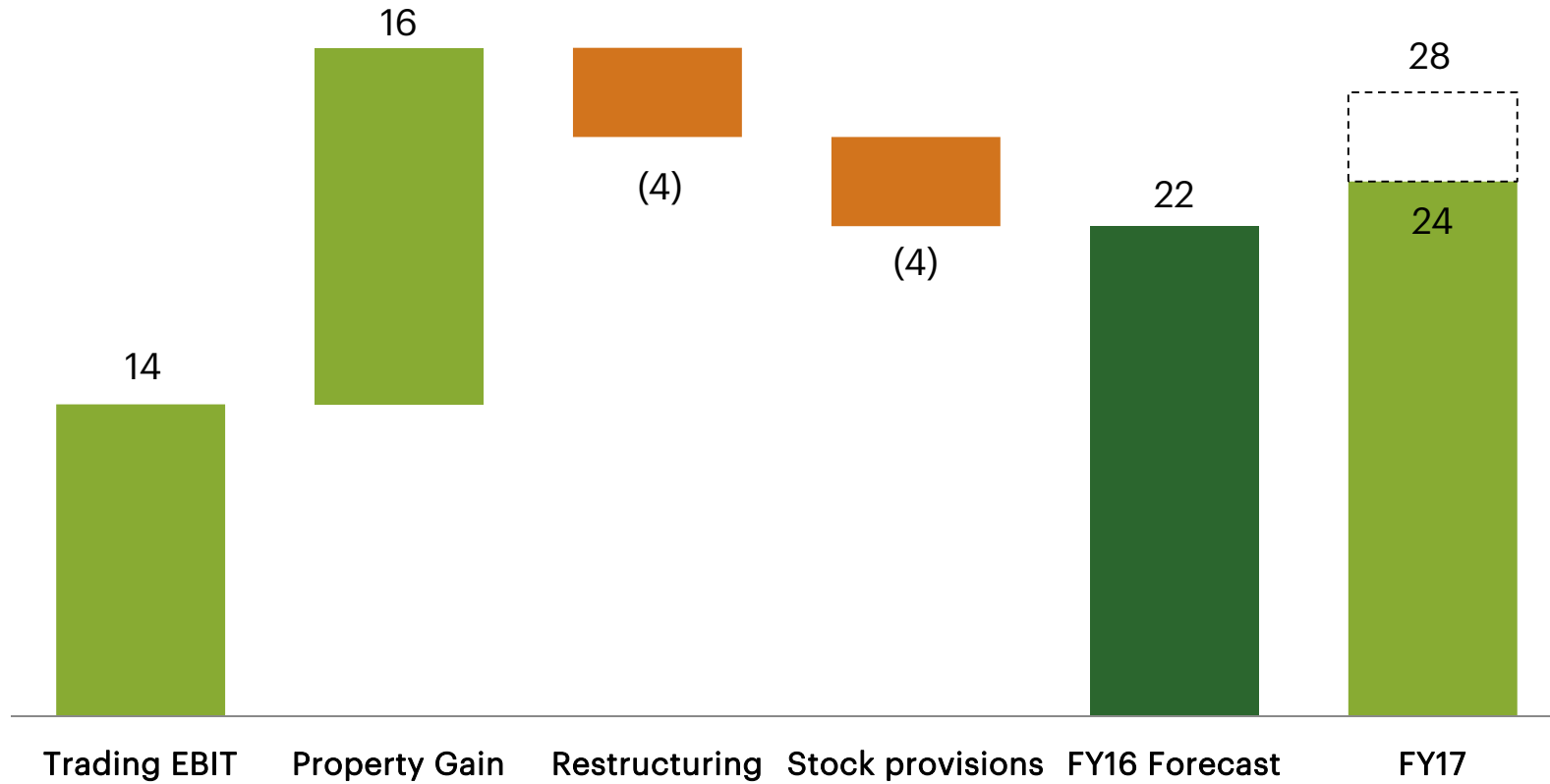
**A\$10<sub>m</sub>**



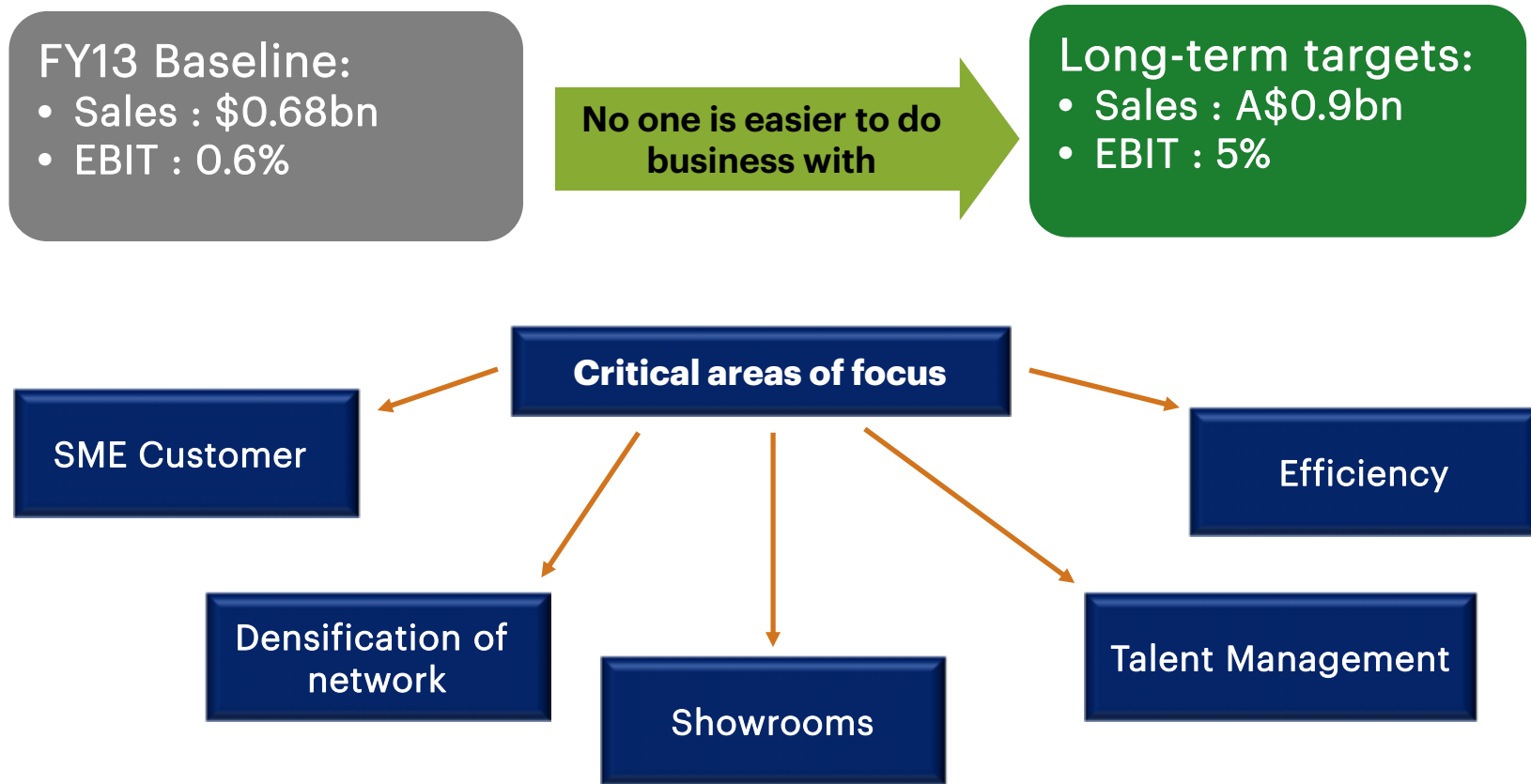
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## Tradelink is forecasting A\$22m of EBIT for FY16 with a range of A\$24 to A\$28m expected for FY17

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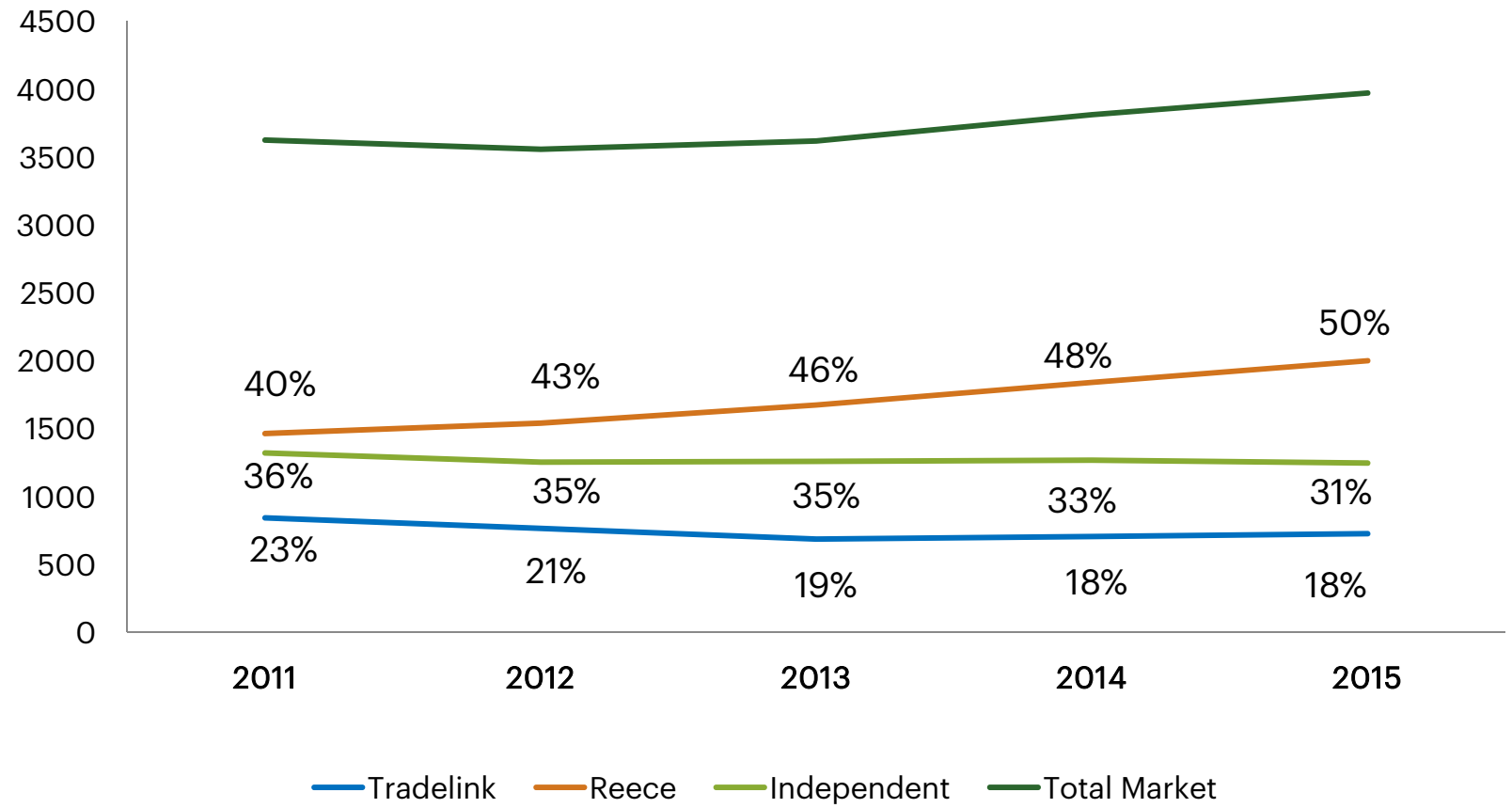
## Our critical areas of focus to deliver on our plan





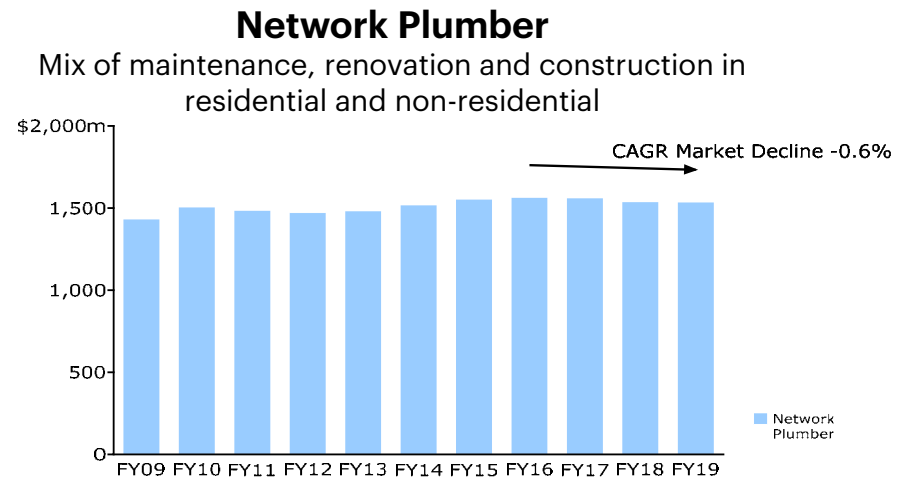
# The Australian plumbing market remains an attractive industry served by two dominant players and independents

Market Size and share



## Tradelink is in year two of executing the 'winning in plumbing' strategy, with accelerated focus on network plumber (SME)

	From	To
Network plumber	20%	27%
Projects	25%	27%
Retail	11%	13%
<b>Total</b>	<b>18%</b>	<b>23%</b>



- Historically focused on large projects, which are volatile
- In line with Tradelink’s strategy, focus now on network plumber for long-term stability through the cycle
- Lower cost to serve through higher collection (50%) and lower property costs as a % sales
- Aligning business and sales team to core growth segments






## Clear customer segmentation and alignment delivering market share growth

	Trade	Trade+	Trade+ Project	Project
# Branches 2016	107	61	17	18
# Branches 2019	<b>165</b>	<b>61</b>	<b>17</b>	<b>20</b>
Annual Sales	\$1m - \$5m	\$2m - \$8m	\$3m - \$10m	\$6m+
Branch Size	400 - 600	700 - 1,200	1,200+	1,200+
People	3+	5+	9+	9+
Famous For	SME Plumber	SME Plumber/Retail	SME Plumber/Retail /Network Builder	House Builder and Commercial Plumber
	<ul style="list-style-type: none"> <li>• Plumbing core range</li> <li>• Spares</li> </ul>	<ul style="list-style-type: none"> <li>• Plumbing core range</li> <li>• Spares</li> <li>• Showroom</li> <li>• HVAC</li> <li>• Gas</li> <li>• Civil</li> </ul>	<ul style="list-style-type: none"> <li>• Plumbing core range</li> <li>• Spares</li> <li>• Showroom</li> <li>• HVAC</li> <li>• Gas</li> <li>• Civil</li> </ul>	<ul style="list-style-type: none"> <li>• Plumbing core range</li> <li>• Destination Showroom</li> <li>• HVAC</li> <li>• Gas</li> <li>• Civil</li> </ul>



# A program of branch expansion has commenced based on the 'winning in plumbing' trial. 60 new branches planned in next three years

Trial - 2014	Amended - 2015	Implement - 2016
Based on 700-800 sqm concept		400-500 sqm
 <p><b>Branch of the Future</b></p> <ul style="list-style-type: none"><li>• 80% of stock open to view/pick</li><li>• Circular standing counter</li><li>• 'Break out' area for refreshments and meetings</li><li>• 1-to-1 and self service</li></ul>	 <p><b>Winning in Plumbing (ACT Trial)</b></p> <ul style="list-style-type: none"><li>• Fast moving pick up stock open to view/pick</li><li>• 'Designer' standing counter</li><li>• 'Break out' area for refreshments and informal meetings</li><li>• 1-to-1 and self service</li></ul>	 <p><b>Trade SME only</b></p> <ul style="list-style-type: none"><li>• Proven model</li><li>• Small Merch area</li><li>• Basic counter with stools</li><li>• 1-to-1 service</li><li>• Better presentation of fast moving consumables and common hand/power tools</li></ul>



## In line with our strategy, we need to invest for growth over the next three years, leveraging low cost format options

- Having learned from the ACT pilot, we plan to spend A\$10m over the next three years to expand our footprint by 60 branches
- Payback to be under two years
- Branches will be consistent, leveraging the national brand and consistent range and product classifications
- We will also densify the metro areas with tactical regional openings where appropriate
- Current planned branches are:

	FY 2017	FY 2018	FY 2019	Total
Queensland	7	8	8	23
NSW	8	9	9	26
SA	2	1	1	4
WA	1	1	1	3
NT	1	0	0	1
Vic / Tas / ACT	1	1	1	3



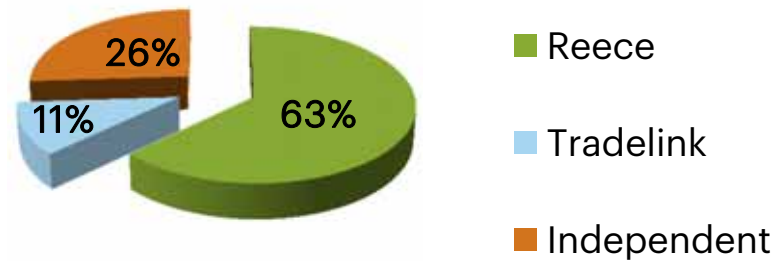


## To regain share, Tradelink will refurbish its showroom network prioritising dormant branches following best practice from Mico



Bundaberg branch -  
A\$45k investment  
Sales up 7%

### Showroom Share FY15



A\$1.5m investment  
A\$10m Sales Increment  
Payback in 7 months  
2% Market Share gain



---

## Management are focusing on people engagement and talent development to accelerate strategy execution

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### Blue Room

- Facilitates feedback and action
- Driving ownership accountability and change



### Induction

- Facilitates culture and values learning
- Driving customer service and personal brand



### Learning & Development

- Facilitates loyalty and opportunity
- Driving Better Every Day performance and engagement

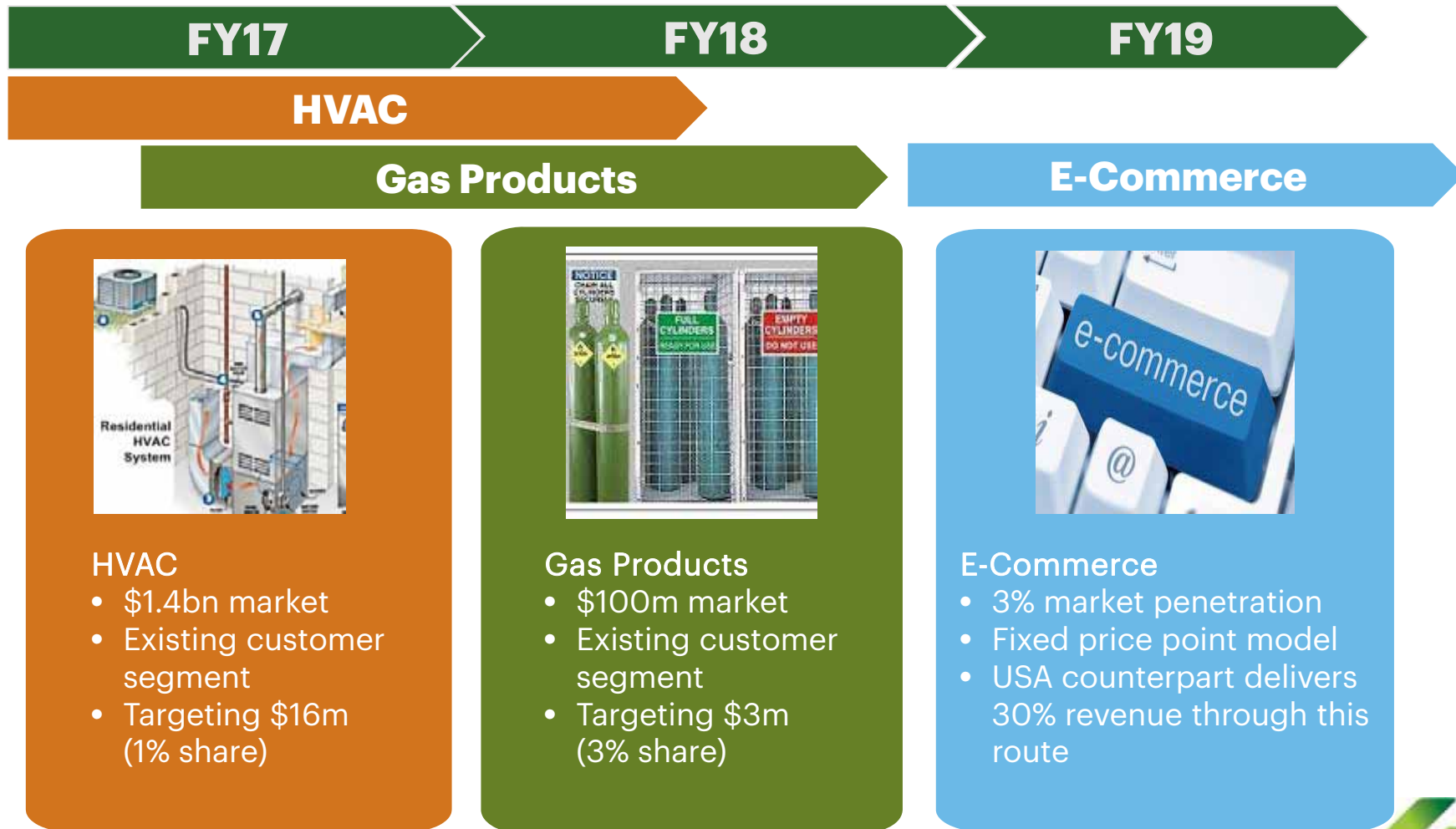


### Women in Plumbing

- Facilitates diversity and flexibility
- Driving performance and engagement



**Whilst core growth remains a priority, Tradelink will enter white space, margin accretive categories. E-Commerce expansion offers further growth in the longer term**



**In summary - management focus remains on the execution of the 'winning in plumbing' strategy and greater execution in three specific areas**





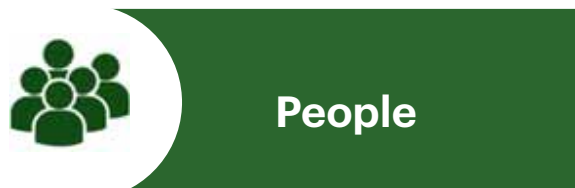
# NZ Steel Distribution

**Hamish McBeath**  
GM NZ Steel Distribution





## NZ Steel Distribution on a page



- 600 employees across four business units
- 32 branches nationwide – 8 co-locations



- All BUs are 1<sup>st</sup> or 2<sup>nd</sup> in market
- Executing a differentiated model driving volume and record order book



- \$3m of synergies realised over last 2 years
- Network efficiencies have reduced distribution costs and improved service offer
- Capital investment in Fletcher Reinforcing and Pacific Coil Coaters reducing operating costs



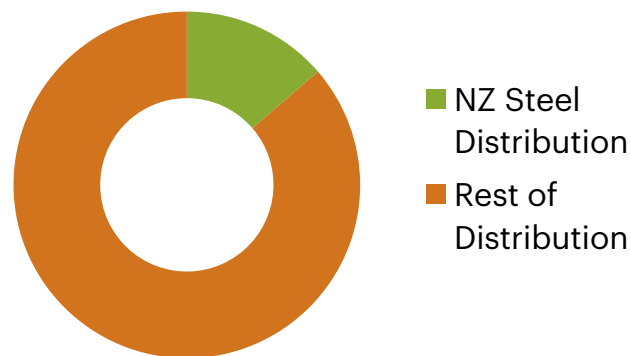
- Pacific Coil Coaters record domestic volumes and 3% growth in market share
- Peak sales run rate for Easysteel
- Long-term sales pipeline boosted by customer order book at Fletcher Construction



# NZ Steel Distribution is a key enabler of the overall division's EBIT outcome

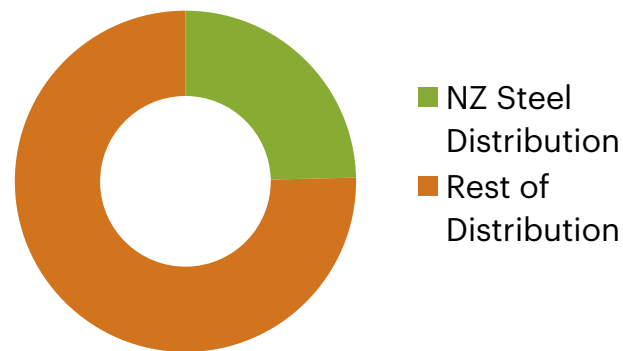
NZ Steel distribution delivers 14% of the Division's revenue...

FY15 Revenue

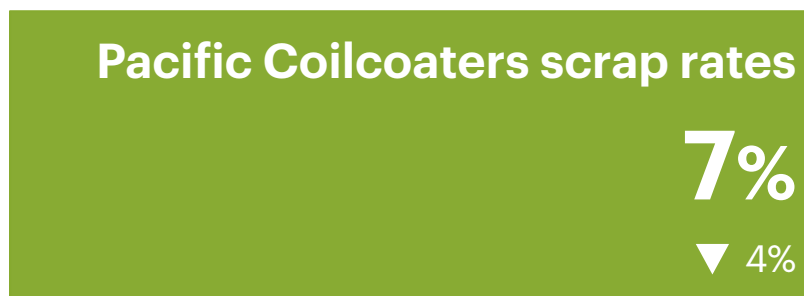
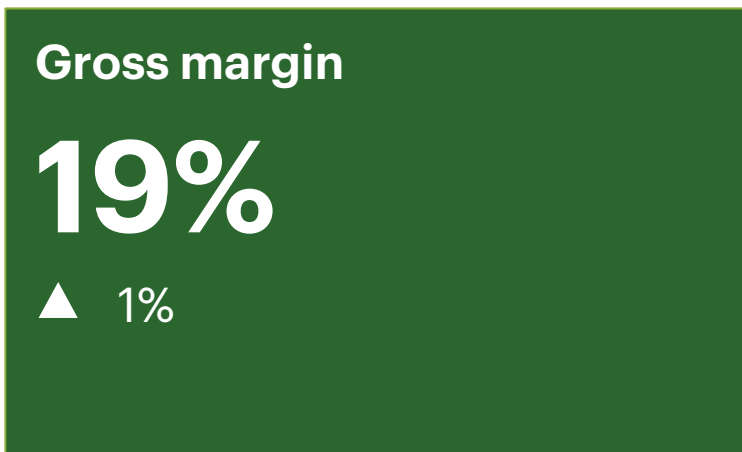


...and 25% of the Division's EBIT returns

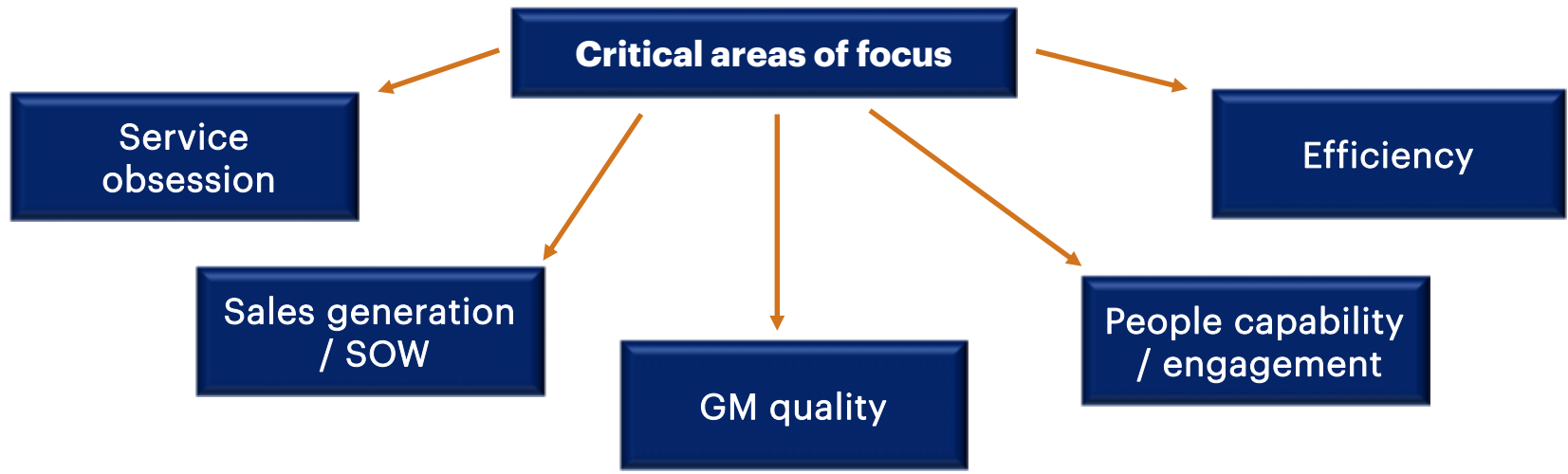
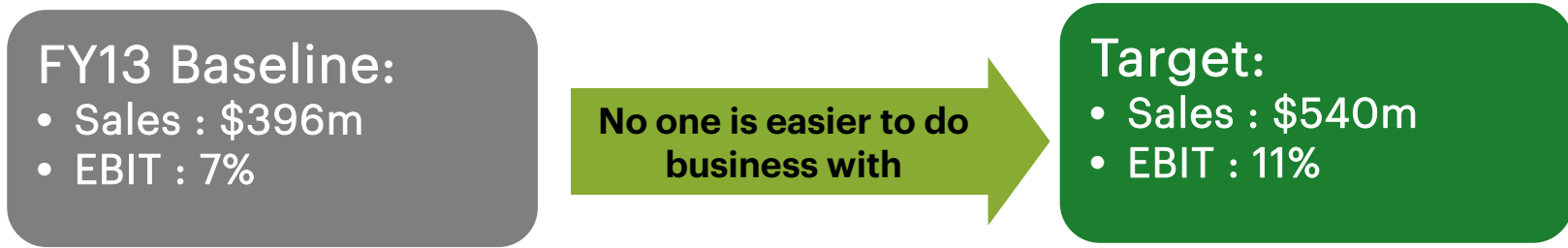
FY15 EBIT



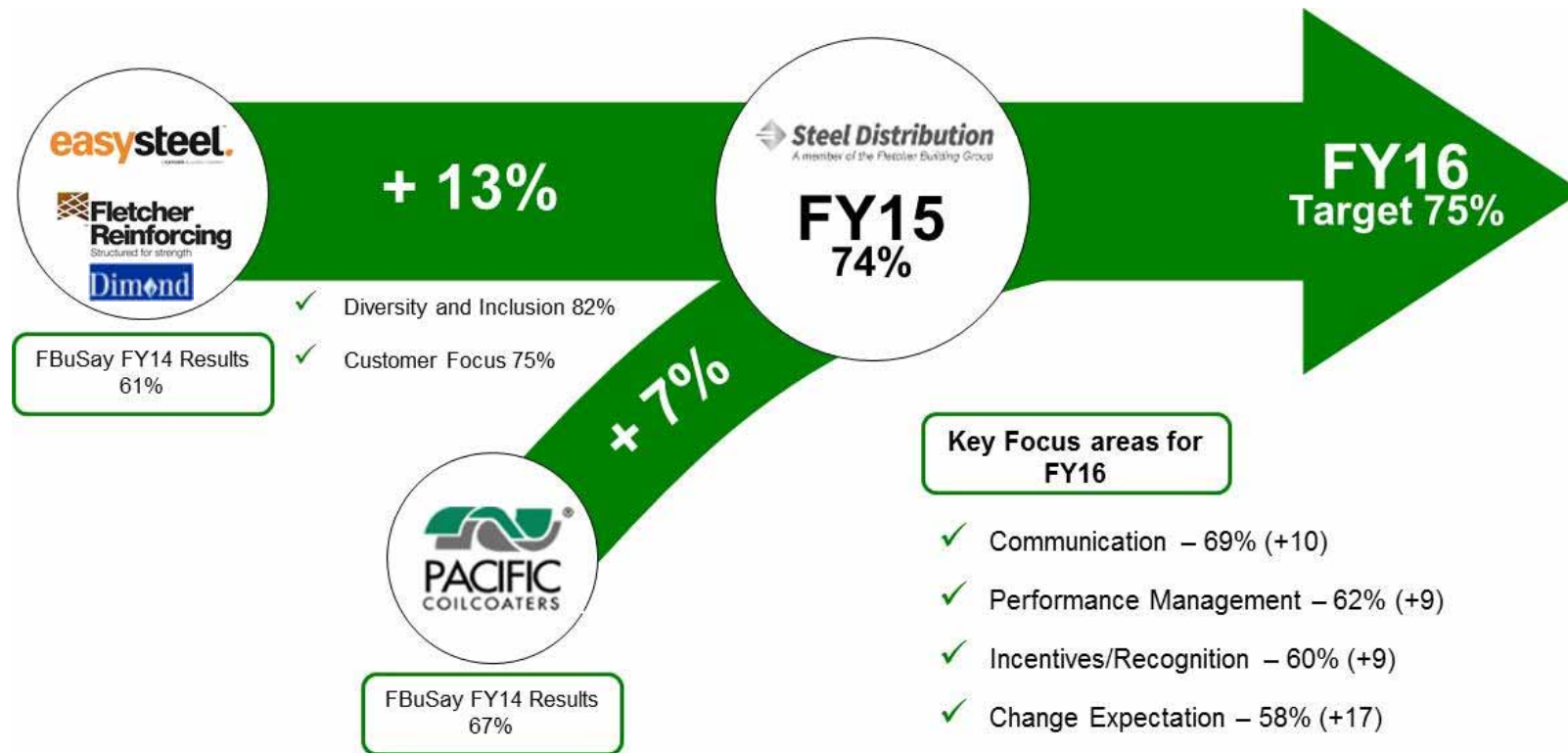
## FY15 KPI highlights from NZ Steel Distribution include:



# Our critical areas of focus to deliver on our game plan



# Leadership delivering the core engagement drivers upon integration





# Differentiating our service offer

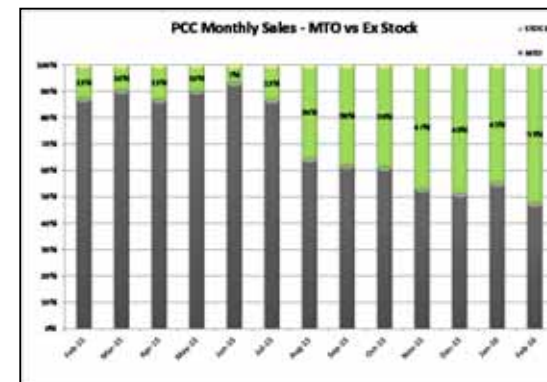


- Launched main colours 48 hours, Make to order 5 days - Industry Benchmark 7-9 days
- Simplified product offer – Good, Better, Best
- Increased technical support resource to ensure customer has support in product selection
- Utilising Easysteel network to provide regional stock locations
- Providing app-based tools and online solutions for customers
- Penalty based service promise



### Service Promise

- ✓ We will always recommend the most suitable product for your application
- 🕒 We will respond to quote enquiries & warranty applications within 6 working hours
- 🕒 We will acknowledge warranty claims and technical enquiries within 6 working hours
- 🚚 We will always hold stock of our most popular ZinaCore & MagnaFlow items for dispatch within 2 working days or we will give you a \$500 voucher or credit on your next order\*
- 🚚 All AlumiGard orders under 400m in our most popular sizes and colours will be dispatched within 2 working days or we will give you a \$500 voucher or credit on your next order\*
- 🕒 All non-stocked standard ZinaCore and MagnaFlow items will be dispatched within 5 working days
- 👍 If the product you receive doesn't meet our required standards, we will put it right



Outcomes have been record demand, 3% share growth, positive customer outcomes



# Each business within NZ Steel Distribution's portfolio has three key areas of focus that will deliver sustainable profit



## Despite challenging raw materials pricing New Zealand Steel Distribution still delivers profitable growth



The current iron ore pricing will have negatively impacted many industry participants. At these prices there is increased risk from steel suppliers who may not be able to trade through the current cycle



---

## **In summary – BUs are well positioned for growth through the cycle and enhancing a differentiated model**

---

- NZ Steel Distribution is a positive contributor to the overall Fletcher Building Group earnings
- Focused on customer, synergies, manufacturing excellence and managed costs
- Sustained improvements in international steel commodity pricing will have further positive impacts on trading results
- Positive employee engagement and lifted trading levels
- Momentum with further opportunities to deliver incremental shareholder value through growth, synergies and potential bolt-on opportunities



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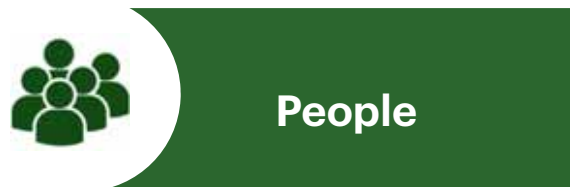
# Stramit

Paul Tudor  
GM Stramit





## Stramit on a Page – Australia's 2<sup>nd</sup> largest roll former



- 850 skilled employees across 20 locations
- New GM and experienced management team
- Continued focus on engagement, capability and accountability



- No. 2 market share position
- High brand equity and national coverage
- Immediate focus on creating a sustainable value proposition within a competitive market



- \$2.2m of annualised overhead savings achieved in H1
- \$2.7m of annualised manufacturing efficiencies achieved in H1
- Continued focus on simplification



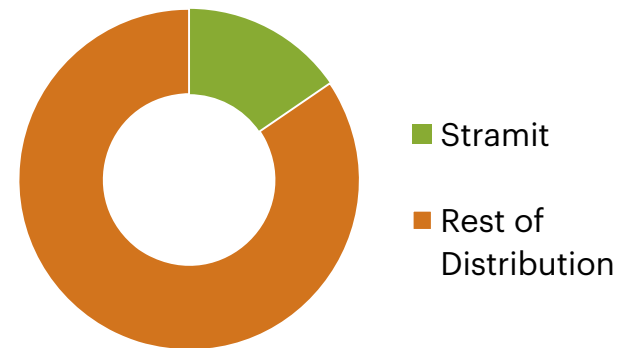
- FY15 ROFE of 8% with an improving run-rate
- Targeted ROFE of 20% by FY18
- FY16 H1 EBIT up 134% with strategy to deliver improved returns



# Stramit provides 15% of the Distribution division's revenue and has scale to provide further organic top-line and earnings growth

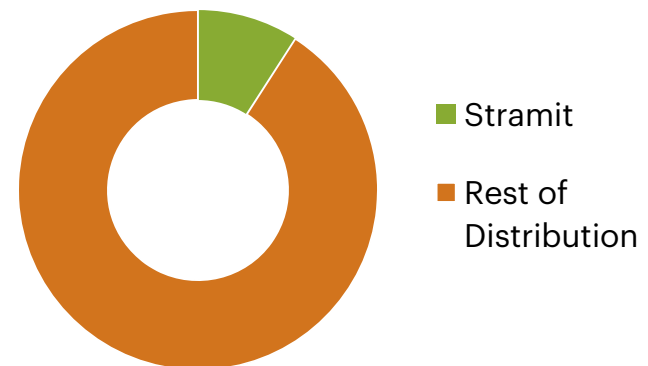
Stramit delivers 15% of the Division's revenue...

FY15 Revenue



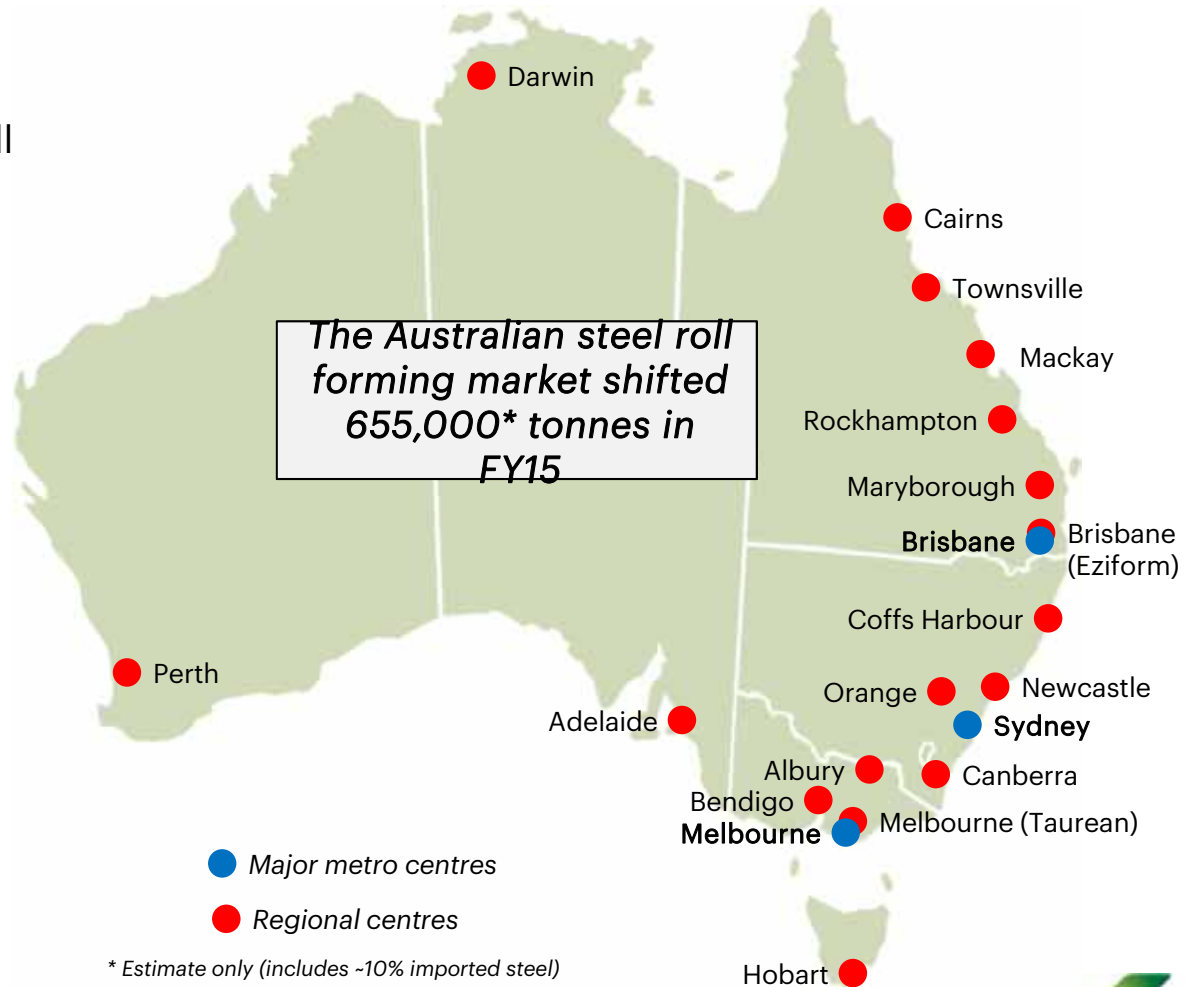
...and 9% of the Division's EBIT

FY15 EBIT






## 2<sup>nd</sup> in market with a focus on profitable organic growth

- \$459m in sales in FY15
- Australia's 2nd largest steel roll former, supplying roofing, cladding, rainwater and roller door systems
- Operating 20 distribution facilities across the country – scale and momentum to return EBIT to pre-GFC levels
- Five companies are estimated to account for approx. 85% of the Australian steel roll forming market\*
  - Lysaght / Fielders ~30%
  - **Stramit ~20%**
  - Metroll / Roofmart ~15%
  - Steeline Franchises ~10%
  - Stratco ~10%

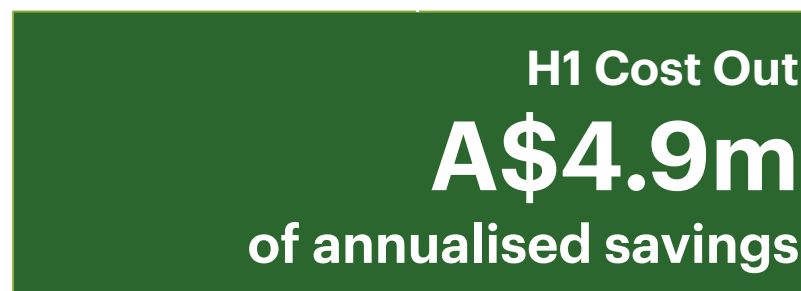
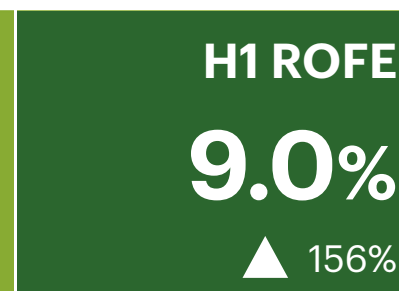
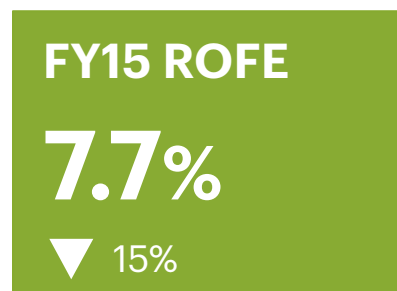
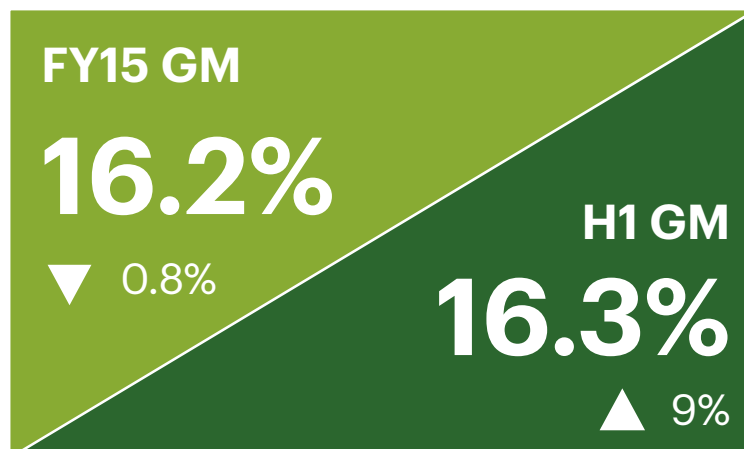
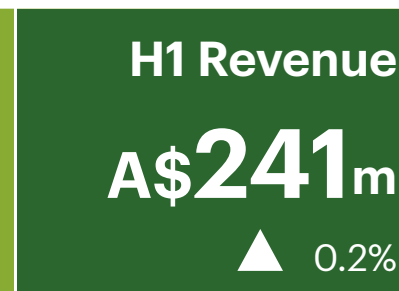
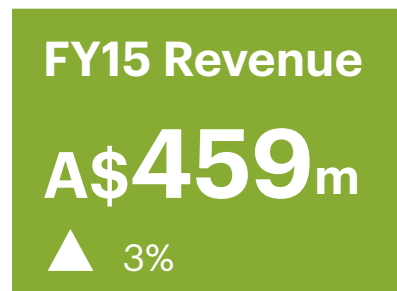
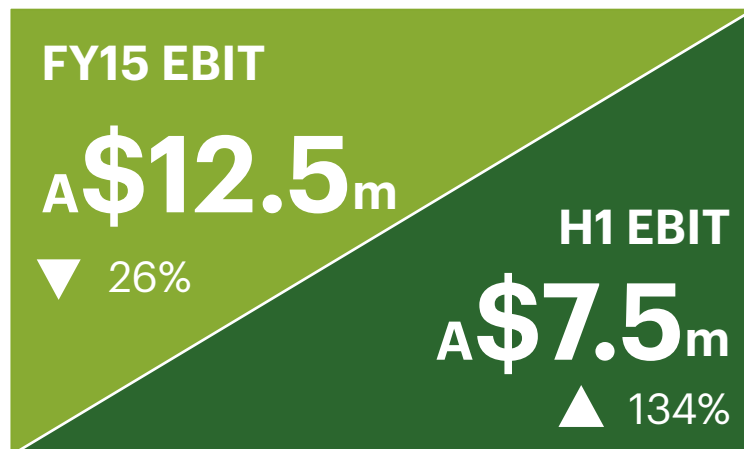


## Stramit supports 5,800 customers across three key markets

Markets	Customers	Products	Brands
<b>Residential</b>  % FY15 Sales: 52%	<b>3,700 customers:</b> • Installers • Distributors	<ul style="list-style-type: none"> <li>• Roofing</li> <li>• Cladding</li> <li>• Rainwater</li> <li>• Doors</li> </ul>	  
<b>Commercial</b>  % FY15 Sales: 24%	<b>1,200 customers:</b> • Installers • Fabricators • Form workers		
<b>Sheds</b>  % FY15 Sales: 24%	<b>900 customers:</b> • Franchisees • Distributors • Independents		

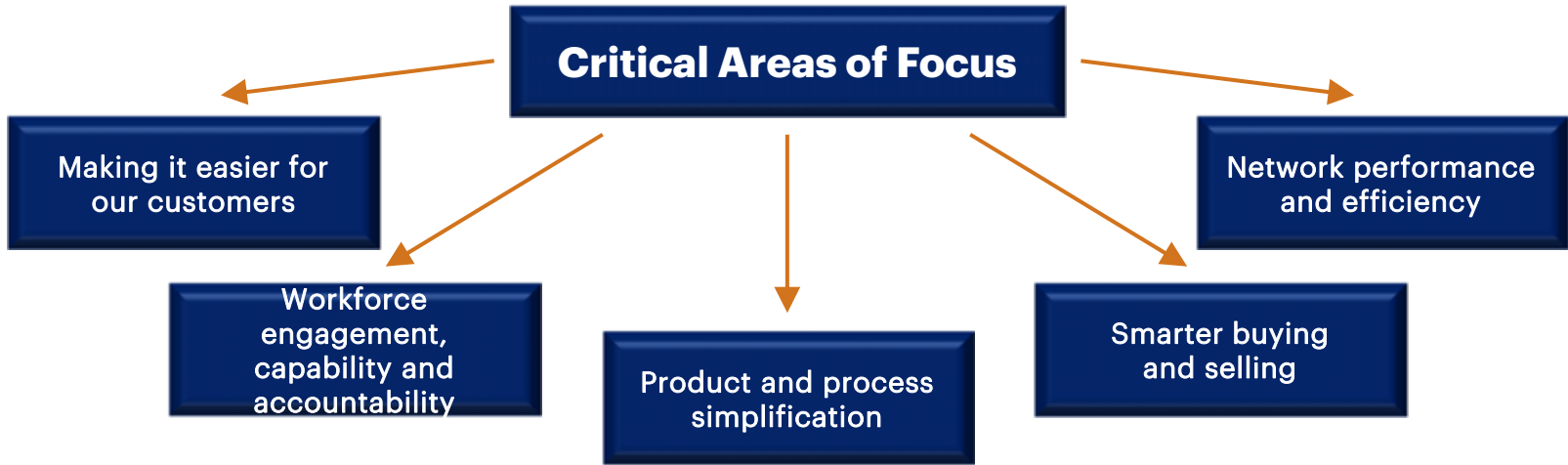
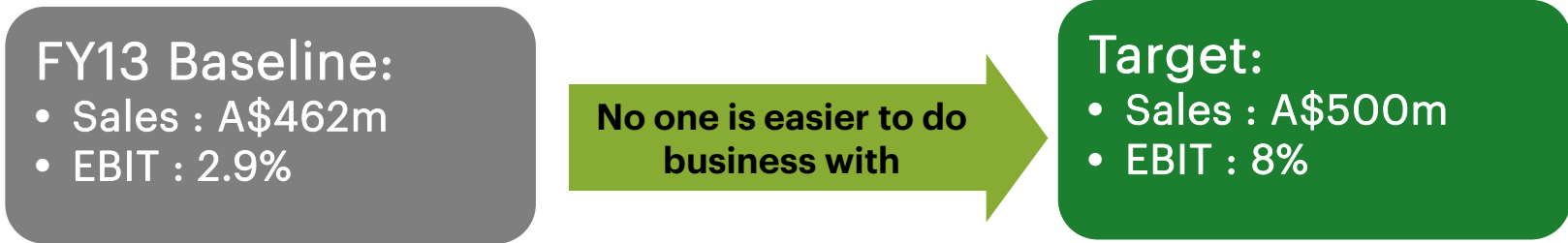


## Financial insights for FY15 and H1 FY16





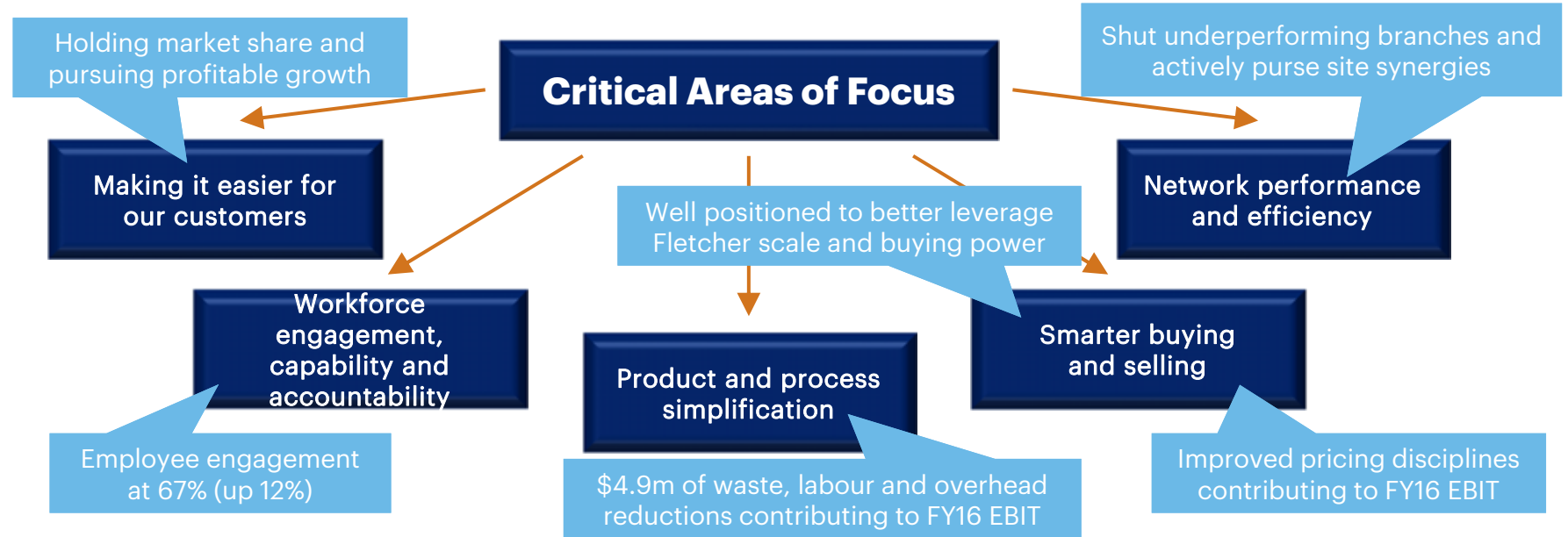
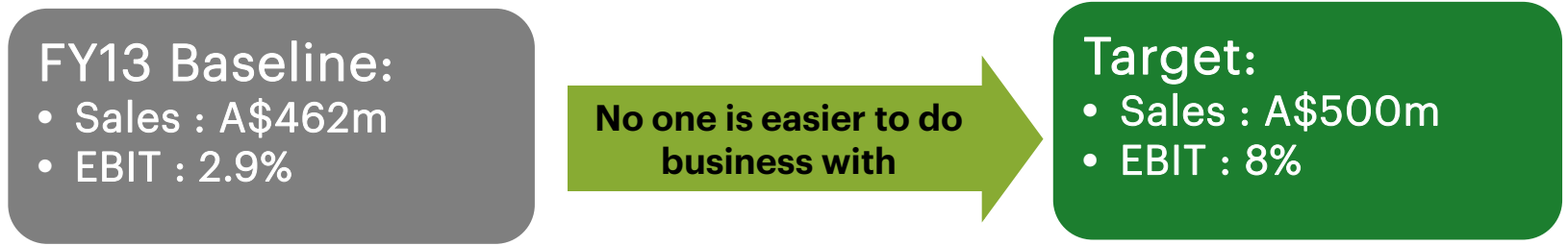
# Our critical areas of focus to improve shareholder returns



**We're moving forward, at pace, with an owner's mindset**



# Our critical areas of focus to improve shareholder returns



**We're moving forward, at pace, with an owner's mindset**



## We're on track heading into FY17 to deliver improved returns and a differentiated model

	FY16	FY17	FY18
	Profit improvement	Customer obsession	Accelerated organic growth
Shareholder outcomes	<ul style="list-style-type: none"> <li>Reduce our overheads and operating costs</li> </ul>	<ul style="list-style-type: none"> <li>Significantly improve net margins</li> <li>Simplify our SKUs</li> <li>Rebuild and de-risk supply relationships</li> </ul>	<ul style="list-style-type: none"> <li>Optimise the network</li> <li>Pursue profitable topline growth</li> <li>Sweat the assets</li> </ul>
Customer outcomes	<ul style="list-style-type: none"> <li>Listen to our customers and refresh our value proposition</li> </ul>	<ul style="list-style-type: none"> <li>Make it easier for our customers</li> <li>Deliver on our customer promise</li> </ul>	<ul style="list-style-type: none"> <li>Grow profitable SOW and market share</li> <li>Deliver product / service innovation</li> </ul>
Employee outcomes	<ul style="list-style-type: none"> <li>Simplify our management structure</li> </ul>	<ul style="list-style-type: none"> <li>Simplify sales and customer service</li> <li>Strengthen regional and functional teams</li> </ul>	<ul style="list-style-type: none"> <li>Embed a high performance culture</li> <li>Prioritise succession and sustainability</li> </ul>

**We're currently here!!**



---

## **In summary – we're increasing our profitability and building a strong customer focussed business**

---

- Successfully removed \$4.9m of annualised cost during H1
- On track to deliver an EBIT result that is a marked improvement on FY15
- Preparing to launch a promise that will align our workforce to what truly matters to our customers
- Transforming our sales and customer service capabilities – smarter selling
- Working to improve supplier performance and reduce costs – smarter buying
- Obsessed with significantly (and rapidly) improving EBIT and ROFE





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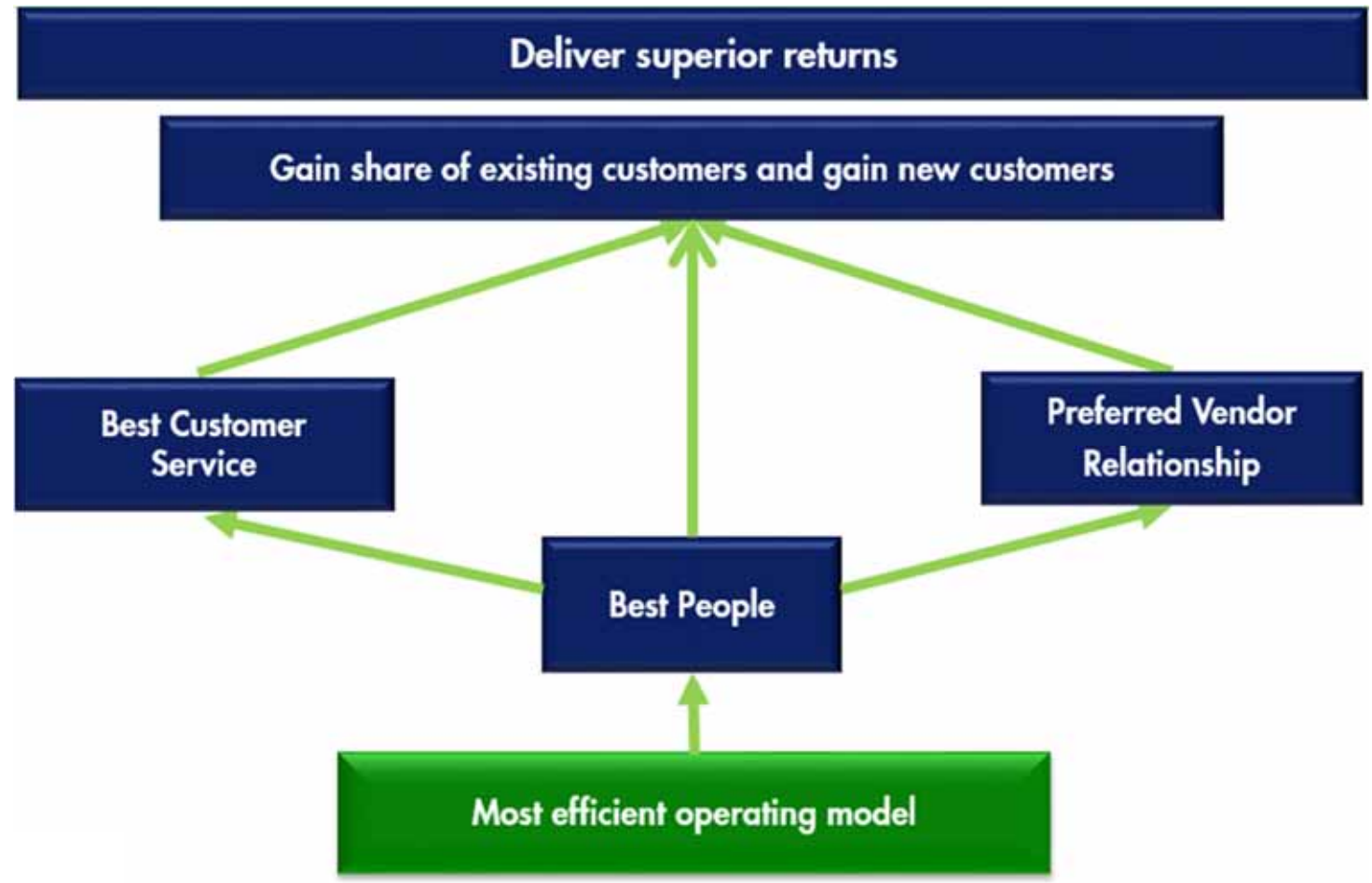
Fletcher Building Distribution Investor Day Presentation 2016

# Distribution Division





# Our strategy is clear and is delivering strong returns in New Zealand. Now being applied in Australia



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## Summary: continued progress within Distribution – growing earnings through strong execution

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