

BRICKWORKS MANUFACTURING TRUST LAUNCHED RECORD PROPERTY EARNINGS EXPECTED IN FY22

- **Brickworks Manufacturing Trust launched, valued at \$416 million**
- **Industrial JV Trust developments to drive record Property earnings in FY22**
- **Significant development opportunities exist across Brickworks' property portfolio**
- **Building Products Australia and North America earnings higher in FY22**

Launch of \$416 million Brickworks Manufacturing Trust

Brickworks (ASX: BKW) today announced the launch of the Brickworks Manufacturing Trust, a new Joint Venture manufacturing property trust with Goodman Group ("Goodman"). It will initially house a portfolio of 15 manufacturing plants, tenanted by the Company's Australian Building Products businesses.

Brickworks will retain 50.1% ownership of the new trust, with the remaining 49.9% interest sold to Goodman. The 15 operating sites initially housed in the trust in total comprise 496 hectares in land area and have a gross asset value of \$416 million (100% interest).

Each of the sites will be tenanted by Brickworks' operating businesses, such as Austral Bricks, Bristile Roofing, Austral Masonry and Austral Precast, with long duration leases of 5-20 years, which have options to extend. The weighted average lease expiry (WALE) will initially be 16 years.

An overview of the Brickworks Manufacturing Trust is outlined below.

Brickworks Manufacturing Trust – Overview

Ownership:	Brickworks 50.1%, Goodman 49.9%
Properties:	15 manufacturing sites, predominantly zoned industrial
Location (by asset value):	Queensland 38%, Victoria 36%, Western Australia 14%, New South Wales 6%, South Australia 5%, Tasmania 1%
Portfolio Valuation:	Gross asset value \$416 million
Debt and Gearing:	No debt
Tenants:	All tenants are 100% owned Brickworks subsidiaries, including Austral Bricks, Bristile Roofing, Austral Masonry and Austral Precast
Net rent:	Initial net rent \$17.75 million, with annual increases of 2.5% for most properties
Weighted average lease expiry (WALE):	16 years (weighted by income)

The gross value of the Brickworks Manufacturing Trust assets of \$416 million represents a premium of \$280 million to the current book value of those assets (after allowing for various transaction-related costs and provisions). As such, the transaction will trigger a net profit on sale equivalent to this uplift, to be reported by Building Products Australia. In accordance with AASB 16 Leases, around \$90 million of this pre-tax profit will be recorded up front (in 2H2022), with the remainder deferred, and recognised over the life of the property lease term.

The sale of the properties will deliver gross cash proceeds to Brickworks of \$207 million, representing 49.9% of the asset value. After allowing for tax, duty and transaction costs, net proceeds of around \$193 million are anticipated¹, with these proceeds to be used to pay down Group debt.

Brickworks Managing Director Mr. Lindsay Partridge said: “The partial sale and lease back of these properties will deliver significant cash proceeds, allowing Brickworks to realise value for shareholders and capitalise on the strong growth in industrial land values over the past few years.”

“Importantly, the lease terms have been structured to ensure minimal impact to the operational flexibility of our Building Products businesses, which will continue to operate on these sites.”

“The creation of this new property trust to house our manufacturing plants is the next step in our property strategy. Goodman are the undisputed market leaders in industrial property and have been instrumental in driving the growth of our existing Industrial JV Trust. Together, we plan to actively manage the new Brickworks Manufacturing Trust, in which there are several properties that have the potential for additional development and greater utilisation.”

Industrial JV Trust developments to drive record Property earnings in FY22

Brickworks is expected to report record Property earnings in financial year 2022, with Property EBIT likely to be in excess of \$620 million. This compares to Property EBIT of \$253 million in financial year 2021.

Mr. Partridge said: “During the second half of the financial year, we have made strong progress on a number of major developments within the Industrial JV Trust. At Oakdale West, new facilities for Coles, Woolworths, Australia Post and Telstra are all approaching practical completion. In a change of accounting policy, and consistent with our JV partner Goodman, we now recognise developments within the Trust at fair market value, if they are approaching practical completion, at the end of each period.”

“In addition, the Estates at Oakdale South and Rochedale have now been fully built out, following the completion of final developments at these precincts during the second half.”

The development profits to be recorded in the second half are forecast to increase Brickworks’ 50% share of net tangible assets within the Industrial JV Trust to around \$1.5 billion by the end of financial year 2022 (up from \$1.3 billion as at 31 January 2022).

Significant development opportunities exist across Brickworks’ property portfolio

Along with its interest in the Industrial JV Trust and the Brickworks Manufacturing Trust, Brickworks retains around 5,300 hectares of 100%-owned operational and development land across Australia and North America.

Mr. Partridge said: “Among our wholly-owned properties, we have four significant land holdings that may be suitable for sale into our property trust structures over the coming years. Based on independent market valuations, these sites have a combined current “as is” value of \$0.8 billion and a “rezoned” value of \$1.3 billion.”

“These development sites include a 75-hectare parcel of land at **Oakdale East** in New South Wales, and 332 hectares of surplus land at **Craigieburn**, in Victoria. Both sites are earmarked for sale into the Industrial JV Trust in the coming years, subject to approvals.”

“We also hold an 83-hectare property at **Horsley Park** in Sydney, where we are currently building a new brick plant. This property also comprises another well-established brick plant, a quarry and additional surplus land. Subject to rezoning, this site may be suitable for future sale into the Brickworks Manufacturing Trust.”

“In North America, land surrounding our brick plant at **Mid-Atlantic** in Pennsylvania has rezoning and development potential. With the site well suited to industrial development, we are currently exploring options for this site with Goodman.”

Building Products Australia and North America earnings higher in FY22

EBIT from Building Products operations in both Australia and North America are expected to be higher in financial year 2022, compared to the prior year.

Mr. Partridge said: “EBIT from our Australian Building Products business is expected to be in excess of 20% higher than the prior year, not including the additional profit from the sale of properties into the new Brickworks Manufacturing Trust.”

¹ Tax and stamp duty amounts are subject to rulings by the ATO and state government departments

“Demand has been well supported by the large backlog of construction activity in the pipeline. Fortunately, we have not been significantly impacted by the extreme gas and electricity prices, with a fixed price wholesale gas contract in place with Santos on the East Coast, until December 2024².”

“Meanwhile, construction of the new brick plant at Horsley Park has suffered multiple flooding events, shipping delays, a lack of critical parts and significant cost increases of steel and other materials. As such, completion of this project will be delayed by around six months, with commissioning now expected to commence early next calendar year.”

“Turning to North America, we expect EBIT in financial year 2022 to be more than double the prior year, including the impact of a number of quarry sites sold during the second half.”

“Over the past six months we have seen a modest recovery of building activity in our core commercial market across the Northeast and Midwest regions. However, conditions still remain challenging in North America, with an acute labour shortage and inflationary pressures pushing up production costs. Like in Australia, we have long-term fixed price gas contracts across the majority of our plants.”

More detail will be provided at Brickworks’ full year results announcement, on Thursday 22 September.

About Brickworks (ASX: BKW)

Brickworks has been building the Australian dream for over a century. Today, Brickworks is more than Australia’s largest and most trusted brick manufacturer. It comprises a diversified portfolio of attractive assets, offering shareholders stability and long-term growth. The Company has a proud track record, having paid a dividend every year since listing on the ASX in 1962. Brickworks comprises four divisions – Building Products Australia, Building Products North America, Industrial Property, and Investments.

Building Products Australia includes Austral Bricks, the country’s largest bricks producer, and other leading brands such as Austral Masonry, Austral Precast and Bristile Roofing. Building Products North America is the leading brick producer in the north-east of the United States and includes the flagship brand of Glen-Gery.

On surplus land assets, Brickworks has developed extensive industrial property assets in conjunction with Joint Venture partner the Goodman Group. These facilities help our customers to meet the supply chain needs of the growing digital economy.

Brickworks also has a long-standing investment in Washington H. Soul Pattinson, a diversified investment house and ASX100 company. This investment has delivered outstanding returns for the company and provides stability and growing cash dividends.

The Brickworks Board has authorised the release of this announcement to the market.

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² Brickworks wholesale gas contract on the East Coast is subject to annual increases, linked to CPI