



# Fixing and reshaping Boral to deliver long-term value

Mike Kane, CEO & Managing Director, Boral Limited  
Macquarie Australia Conference, 7-8 May 2014



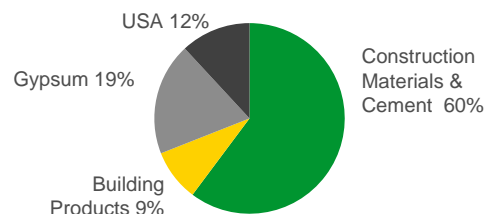
## Business overview



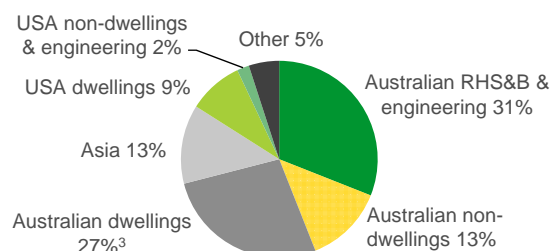
- Boral is an international building and construction materials group with operations in Australia, the USA and Asia
- A\$4.4b market cap<sup>1</sup>
- S&P/ASX 100 company
- Operations across 13 countries<sup>2</sup>
- ~12,000 employees<sup>2</sup>

### 1H FY2014<sup>4</sup> Revenue

#### by division



#### by end-market



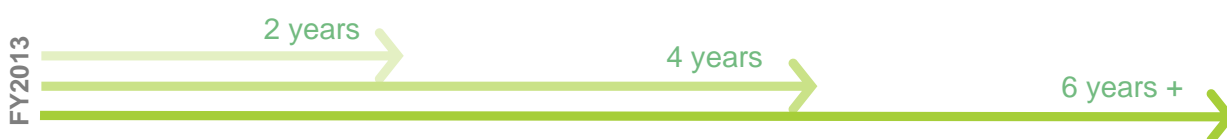
1. As at 5 May 2014  
 2. Includes USG Boral joint venture operations. As at 28 February 2014  
 3. Comprised of ~12% from detached housing, ~6% from multi-dwellings and ~9% from alterations and additions  
 4. For the half year ended 31 December 2013; revenue of A\$2.8b for continuing operations only

# Boral's Fix, Execute, Transform program



Our goal is to transform Boral into a global building and construction materials company that is known for its **world-leading safety performance, innovative product platform and superior returns on shareholders' funds**

## **FIX** **EXECUTE** **TRANSFORM**



Fixing things that are holding us back

Improving the way we operate to be more efficient, disciplined and profitable

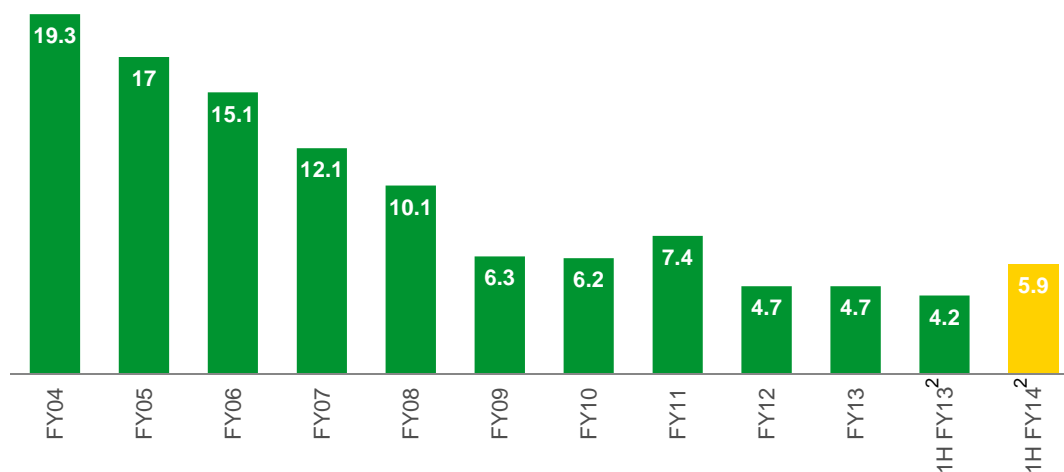
Transforming Boral for performance excellence and sustainable growth through innovation

# Focus is on improving ROFE to 15% over the long-term



## EBIT to average funds employed (ROFE<sup>1</sup>)

%



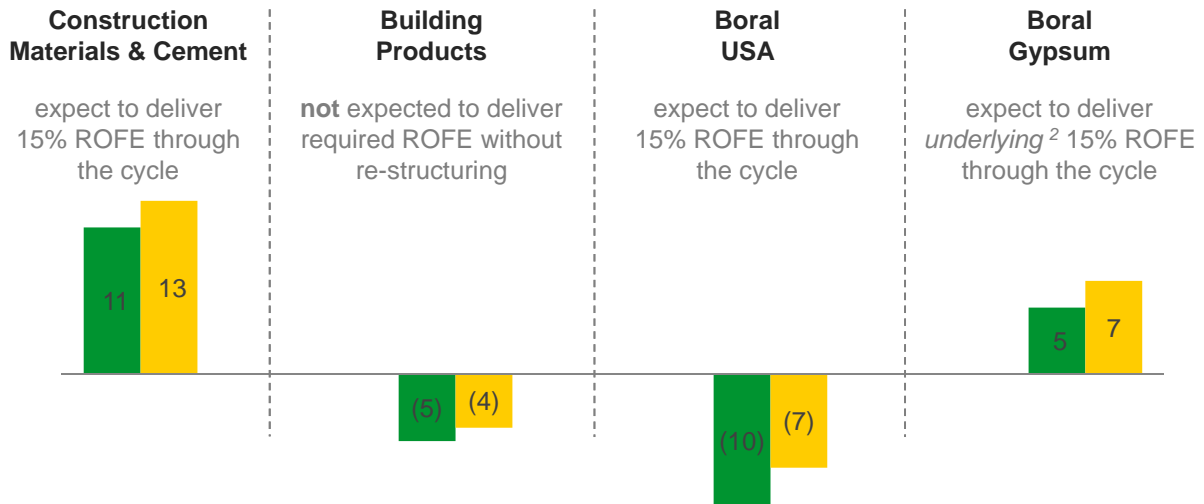
1. Excludes significant items  
 2. 1H FY2013 and 1H FY2014 on a moving annual total (MAT) basis

# Focus is on improving ROFE to 15% over the long-term



## EBIT return on funds employed (ROFE)<sup>1</sup>, %

■ 1H13 ■ 1H14

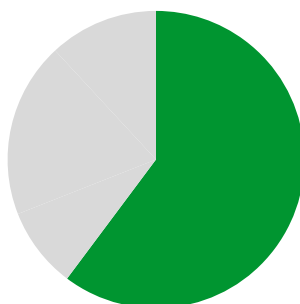


1. Moving Annual Total EBIT return on divisional funds employed (segment assets less segment liabilities). EBIT excludes significant items.  
2. Gypsum reported ROFE for Boral will be lower due to equity accounting impacts of reporting post tax EBIT due to commencement of the USG Boral joint venture.

# Construction Materials & Cement



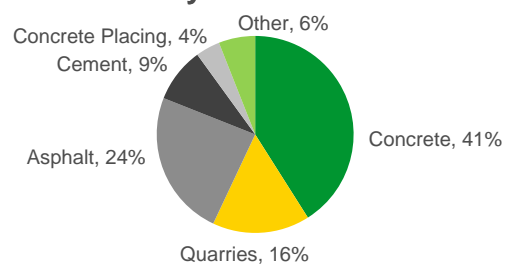
## 1H FY2014<sup>1</sup> Revenue



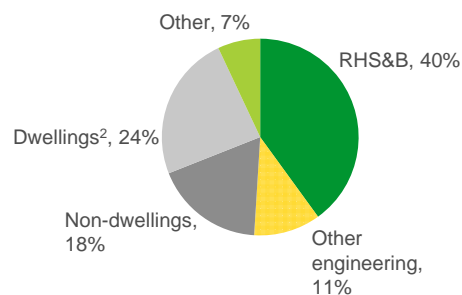
Construction Materials & Cement, 60%



## by business



## by end-market in Australia



- ~\$3.4b annualised revenue (60% of Group)
- Leading integrated, resource and market positions
- ~5,080 employees

1. For the half year ended 31 December 2013 for continuing operations only  
2. Comprised of ~8% from detached housing, ~7% from multi-dwellings and ~9% from alterations & additions

# Solid progress has been made in Construction Materials & Cement



**FIX**



**EXECUTE**



**TRANSFORM**

FY2013

2 years

4 years

6 years +

- ✓ Fit for purpose **integrated organisational structure**
- ✓ Better management of **contractor costs**
- ✓ Wise **deployment of capex** – SIB capex will increase as growth capex reduces with completion of Peppertree investment
- People **engagement** and **safety** first
- Excellence in **major projects**
- Focus on **pricing** to recover costs plus margin enhancement
- Leverage **Peppertree** investment
- Use **business partnerships**
- Transforming to import cement model – **closed Waurin Ponds clinker** manufacturing; ceased production at **Berrima Colliery**; **reviewing** clinker production at **Maldon**
- Product **innovation** eg. **Envisia®**

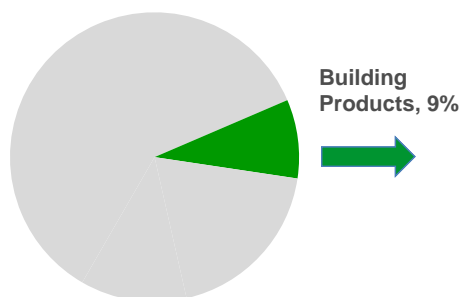


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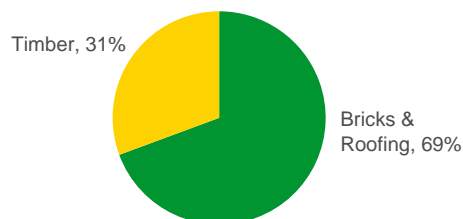
## Building Products



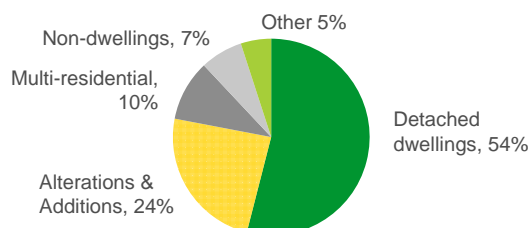
### 1H FY2014<sup>1</sup> Revenue



### by business



### by end-market in Australia



- ~\$0.5b annualised revenue (9% of Group)
- Significant restructuring taken place with further structural changes needed to deliver required returns
- ~1,280 employees

1. For the half year ended 31 December 2013 for continuing operations only



# Building Products is delivering on its immediate FIX priorities



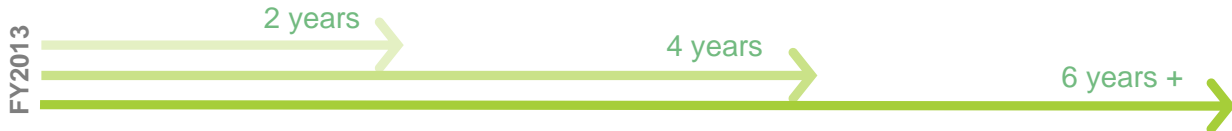
**FIX**



**EXECUTE**



**TRANSFORM**



- ✓ **Streamlined** organisation to remove centralised overhead structures
- ✓ **Portfolio** realignment – exited Masonry, Windows, Woodchips, Plywood businesses

- People **engagement** and **safety** first
- **Boral Production System** in place and capacity **utilisation** up
- **Smaller production footprint** to deliver better returns
- Optimise **Timber supply chain**

- **Lowering fixed cost** exposures (global bricks review underway)
- **East Coast Bricks JV with CSR** proposed
- Seeking solutions for **underperforming businesses**

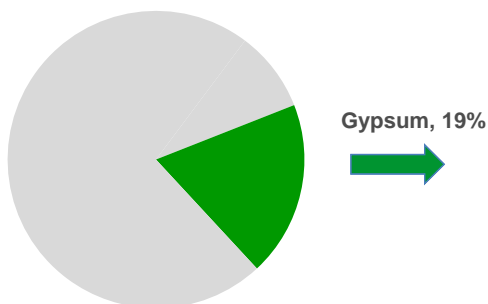


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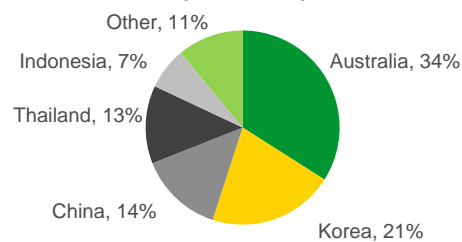
## Boral Gypsum



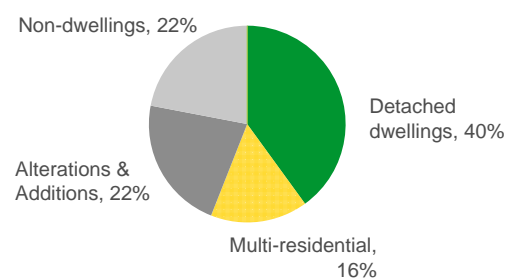
### 1H FY2014<sup>1</sup> Revenue



### by country



### Australian business - by end-market



- ~\$1.1b annualised revenue (19% of Group)
- USG Boral JV completed end of Feb-14, 50% share of business going forward
- ~3,100 employees

1. For the half year ended 31 December 2013 for continuing operations only

# Boral Gypsum positioned well to TRANSFORM



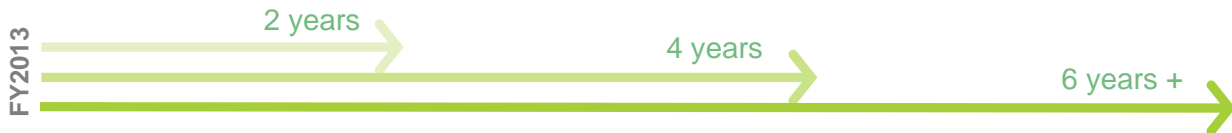
**FIX**



**EXECUTE**



**TRANSFORM**



- ✓ Asia and Australian operations combined to create **focused division**
- ✓ Secured **access to world-class IP** and future **technology** development
- ✓ **Constrained further capital investment** until utilisation lifts

- People **engagement** and **safety** first
- Capacity **utilisation** improving
- **Roll-out new technologies**
- Deliver **cost synergies**
- Deliver **revenue synergies** through adjacent products

- USG BORAL JV to deliver sustainable **growth** through **innovation** and **adjacent products**

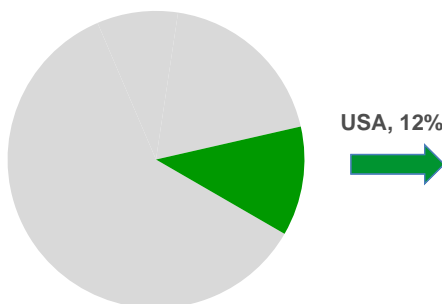


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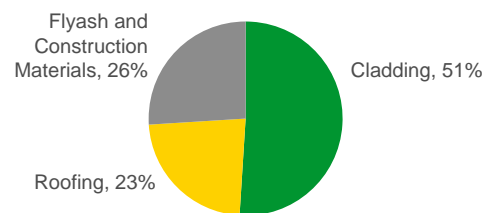
## Boral USA



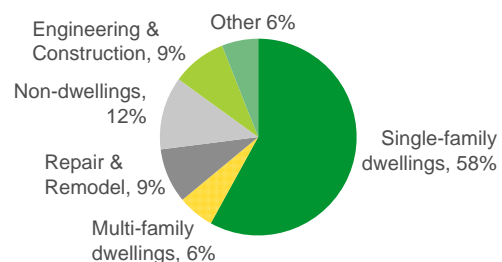
### 1H FY2014<sup>1</sup> Revenue



### by business



### by end-market in the USA



- ~\$0.7b annualised revenue (12% of Group)
- Leading market positions, significant opportunity for market-led growth
- ~2,280 employees

1. For the half year ended 31 December 2013 for continuing operations only

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# Boral USA is positioned well for EXECUTION excellence as market continues recovery



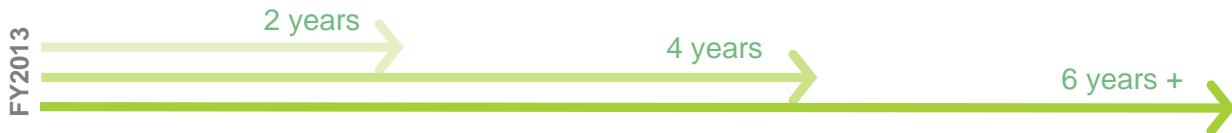
**FIX**



**EXECUTE**



**TRANSFORM**



- ✓ **Streamlined** organisation
- ✓ **Rationalised capacity** removing older, higher cost plants
- ✓ **Portfolio realignment** – acquisition of 50% of concrete roof tiles, expanded into Stone, divested Oklahoma construction materials

- **People engagement and safety** first
- **Smaller production footprint** plus **Boral Production System**
- **Diversify** end market exposures – eg. Trim, Versetta, Commercial
- **Leverage distribution** – stucco, components, other resale

- **Lowering fixed cost** exposures through the cycle (global bricks review underway)
- **Innovation** through lightweight, composite/polymer based building products
- Boral's **geographic balance** will **improve** through US market recovery



# Overall, solid progress is being made across the Group



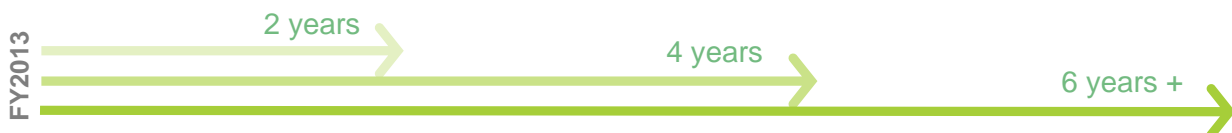
**FIX**



**EXECUTE**



**TRANSFORM**



Fixing things that are holding us back

- ✓ **Streamlined** organisation
- ✓ **\$150m costs** out by FY2015
- ✓ **Cash up and capex** down
- ✓ **Net debt** from ~\$1.5b to ~\$0.9b
- ✓ **Portfolio** realignment

Improving the way we operate to be more efficient, disciplined and profitable

- ✓ **People engagement and safety** first
- ✓ **Levers of change** – LEAN, Sales & Marketing, Innovation
- ✓ **Capacity utilisation** up
- ✓ **Responding** to external challenges

Transforming Boral for performance excellence and sustainable growth through innovation

- ✓ **Product innovation**
- ✓ **Gypsum technology** platform secured
- ✓ **Lowering fixed cost** exposures

# Outlook for FY2014

At the half year results announcement we said.....



**Expected skew of earnings to first half compared to second half of FY2014 due to:** higher major project volumes and dry weather conditions in the first half; the impact of moving from a 100%-owned Gypsum division to a 50% joint venture interest in the second half; and significantly lower property earnings in the second half relative to prior years.

<b>Construction Materials &amp; Cement</b>	<ul style="list-style-type: none"> <li>• <b>Underlying performance expected to improve</b> in FY2014 but will be offset by significant reduction in Property earnings</li> <li>• Underlying earnings<sup>1</sup> in 2H FY2014 anticipated to be up on the prior year but down from 1H FY2014 due to seasonality and lower large project volumes</li> </ul>
<b>Building Products</b>	<ul style="list-style-type: none"> <li>• Expect to deliver <b>small profit in FY2014</b> driven by sustained cost improvement and stronger market demand with 2H FY2014 seasonally weaker than 1H FY2014</li> </ul>
<b>Boral Gypsum</b>	<ul style="list-style-type: none"> <li>• Expect <b>underlying earnings growth</b> in Australia and Asia in FY2014 but in 2H FY2014 growth will be largely offset by joint venture integration costs</li> <li>• Lower 2H FY2014 contribution based on two months trading earnings and four months 50% equity accounted contribution following completion of JV</li> </ul>
<b>Boral USA</b>	<ul style="list-style-type: none"> <li>• Expect <b>improved result</b> in 2H FY2014 with break through to profitability in 4Q FY2014 assuming housing starts annualised run rate &gt;1.1m for 4Q FY2014</li> </ul>

1. Underlying earnings defined as excluding Property earnings

# Additional factors to consider

Based on what we have seen so far in the second half of the year.....



<b>Construction Materials &amp; Cement</b>	<ul style="list-style-type: none"> <li>• Some delays in major project revenues eg. <b>fire at Barangaroo, Gateway ramp up</b></li> <li>• Ongoing unlawful <b>secondary boycotts by CFMEU</b> in Melbourne market</li> <li>• <b>Difficult pricing environment</b> in some markets</li> <li>• <b>Rain has returned</b> to Eastern States, supporting 1H earnings skew</li> <li>• <b>Asphalt margins</b> remain under pressure</li> </ul>
<b>Building Products</b>	<ul style="list-style-type: none"> <li>• Continuing to benefit from restructuring activities but ongoing <b>lag in translating benefits of higher housing activity</b></li> </ul>
<b>Boral Gypsum</b>	<ul style="list-style-type: none"> <li>• <b>USG Boral JV commenced</b> 1 March 2014</li> <li>• <b>Roll-out plans on schedule</b> with good team engagement</li> <li>• Integration <b>plans and costs in line with expectation</b></li> </ul>
<b>Boral USA</b>	<ul style="list-style-type: none"> <li>• <b>Extreme winter weather conditions in Mar 2014 quarter</b></li> <li>• Rate of housing <b>recovery is slower than anticipated</b></li> </ul>

**Expected skew of earnings to first half compared to second half of FY2014 clearly remains**



# Longer-term Strategic Direction



Construction Materials & Cement	<ul style="list-style-type: none"><li>• <b>Protect</b> and <b>strengthen</b> leading integrated positions</li><li>• Grow <b>major project capability</b> for long-term value</li></ul>
Building Products	<ul style="list-style-type: none"><li>• Harvest assets to <b>maximise returns</b></li><li>• <b>Further restructuring</b> required to deliver acceptable returns</li></ul>
Boral Gypsum	<ul style="list-style-type: none"><li>• <b>Deliver</b> USG Boral <b>synergies</b></li><li>• Long-term <b>growth platform</b> leveraging market growth, increasing product penetration, innovation and adjacent products</li></ul>
Boral USA	<ul style="list-style-type: none"><li>• Significant growth through <b>market recovery</b></li><li>• <b>Portfolio refinement</b> as cycle strengthens</li></ul>
GROUP	<ul style="list-style-type: none"><li>• Relentless focus on <b>costs, margins &amp; cash</b> generation</li><li>• Maintain <b>strong balance sheet</b></li><li>• Targeting <b>15% ROFE</b> through cycle</li></ul>