Substantial earnings growth, with a strong fourth quarter result from Boral Australia and Boral North America, and above target acquisition synergies

Boral Limited (ASX: BLD) today reported a 47% increase in net profit after tax before amortisation and significant items¹ to $514 million for the year ended 30 June 2018.

The result reflects significant growth from Boral North America with a full year contribution from the acquired Headwaters businesses, together with higher earnings from Boral Australia and a solid result from the USG Boral joint venture.

The highlights include:

- Net profit after tax (after significant items) of $441 million was up 49% on FY2017
- Sales revenue of $5.9 billion increased 34% on the prior year, reflecting the Headwaters acquisition and solid revenue growth in Boral Australia
- Earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items increased 47% year on year to $1.06 billion, compared with last year
- The significant contribution from Headwaters and the delivery of US$39 million of synergies in year 1 against a target of US$35 million
- Strong Australian construction markets and value creating property transactions resulted in 15% EBITDA growth from Boral Australia
- A final dividend of 14.0 cents per share will be paid on 2 October 2018, resulting in a higher full year dividend of 26.5 cents, up 10% on last year.

Boral’s CEO & Managing Director, Mike Kane, said that Boral’s significant earnings growth in FY2018 follows the acquisition of Headwaters Inc. in the USA as well as Boral’s strong leverage to Australia’s booming infrastructure construction market and strong residential markets.

“In recent years we have worked to initially fix and then transform Boral’s portfolio to leverage strong markets in Australia, and capitalise on opportunities to grow in North America and in USG Boral’s markets in Asia, Australasia and the Middle East.

“While our business is not immune to unfavourable weather impacts and operational disruptions, the full year results confirm that our transformation strategy is progressing well, and that Boral can deliver significant earnings with highly attractive margins.

“Boral Australia delivered a 15% lift in EBITDA to $634 million and attractive EBIT returns on funds employed of 17.5%, well above Borals cost of capital.

“We have continued to optimise our networks and grow volumes in Australian east coast markets, where demand is very strong, and we continue to focus on full cost recovery through price and strengthening margins through improvement programs.

¹ Profit before amortisation and significant items is a non-IFRS measure reported to provide greater understanding of the Group’s underlying business performance. Non-IFRS information has not been subject to audit or review. Full details of significant items are contained in Note 7 of the Preliminary Financial Report. In summary, a net expense of $32 million for significant items included Headwaters integration costs, one off costs in Meridian Brick and USG Boral joint ventures, and a provision for site rehabilitation at the Waurn Ponds cement operation following its anticipated closure, partially offset by a $43m benefit largely arising from adjustments to deferred tax balances following changes to US tax legislation.
“**Boral North America** delivered a full year EBITDA of US$284 million, 9% above the proforma combined Boral and Headwaters result last year. Strong fourth quarter EBITDA margins exceeded 20% with full year EBITDA margins of 17%.

“We are confident in the success of our integration of the Headwaters acquisition during the year. First year delivered synergies of US$39 million exceeded our initial US$30-US$35 million target. We have increased our initial year 4 synergy target by 15% to US$115 million, as a result. We have also strengthened our plans to grow our fly ash business by increasing available supply of fly ash over the coming years.

“From **USG Boral**, we received $63 million of equity income. This long-term growth business has delivered impressive and uninterrupted year on year growth since the formation of the JV in 2014, with FY2018 being a consolidation year. Australia, Korea and China delivered strong top line growth in FY2018, offsetting pressures in countries such as Indonesia, Thailand and Vietnam and some unexpected one-off cost impacts. As a result, underlying revenue grew 7%, while EBITDA of $268 million was 6% down on last year.

“USG Boral has delivered over 80% growth in EBITDA since the joint venture was formed in FY2014\(^2\), with EBITDA to sales margins growing from 13.6% to 17% over the same period. The business is expected to return to earnings growth in FY2019.

“We are excited about a range of opportunities for the JV as our discussions with industry players are progressing. Following Knauf’s agreement to acquire USG Corporation, we are currently considering an expanded JV or a return to 100% Boral ownership.

“**Safety** is our priority. Boral’s LTIFR of 1.6, which was broadly steady on 1.5 last year, has consolidated several years of improvement. The result includes an additional 4,500 employees and contractors in our safety statistics with the inclusion of Headwaters and all JVs this year. Previously we only included 50%-owned JVs. Headwaters and Meridian Brick JV operations performed below Boral’s US legacy businesses, however, these businesses delivered a massive reduction in medical cases and lost work days relative to their prior year performance.”

**Commenting on outlook**, Mr Kane said **Boral expects growth across all businesses in FY2019**, including a significant lift in earnings from Boral North America.

“In FY2019, in **Boral Australia** we expect to deliver high single-digit EBITDA growth or more, if we exclude property in both years. If we include our estimated $20 million of earnings from property in FY2019, we expect EBITDA to be at least in line with last year, which is a strong operational outlook given property sales contributed $63 million in FY2018. Volumes from commercial, infrastructure and major projects activity, and margin improvements are expected to more than offset the impacts of a moderating residential construction sector.

“Earnings from **USG Boral** are expected to grow by around 10% or higher in FY2019, coming from improvements in China, Indonesia, Thailand, Vietnam and India. Our largest businesses - Australia and South Korea - are expected to continue to perform at strong levels, albeit residential construction is forecast to moderate in both countries.

“And **Boral North America** is expected to increase EBITDA by around 20% or more in FY2019 reflecting further significant synergies of around US$25 million in FY2019, together with operational improvements and market growth, assuming more normal weather patterns.”

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\(^2\) In AUD; FY2014 EBITDA on a proforma basis