

# ACQUISITION OF GLEN-GERY

## INVESTOR PRESENTATION

*23 November, 2018*



*Google Corporate office, Ann Arbor, MI*

**BRICKWORKS**  
BUILDING PRODUCTS

 **Glen-Gery**

## PRESENTATION OUTLINE

- Transaction Overview
- Overview of Glen-Gery
- Strategic Rationale
- Funding & Financials
- Integration
- Summary
- Questions

*Residence Inn, Baltimore, MD*



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Good Morning Ladies and Gentlemen, and thankyou for joining us.

As we informed the market earlier this morning, we are excited to announce the acquisition of Glen-Gery.

This presentation will cover:

- An overview of the Glen-Gery business;
- The strategic rationale for the acquisition;
- Funding & financials; and
- Our integration plan

At the end of the presentation I am happy to take any questions.

## TRANSACTION OVERVIEW



*Apple Store, Brooklyn, NY*

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Firstly I will provide an overview of the transaction.

## TRANSACTION OVERVIEW

### Transaction

- Brickworks has entered into a binding agreement to acquire Glen-Gery Corporation for AU\$151 million<sup>1</sup> (US\$110 million)
- Implied acquisition multiple of 8.4x normalised EBITDA for the 12 months ended 31 August 2018

### Glen-Gery Overview

- Founded in 1890, Glen-Gery is a leading US brick manufacturer
- 10 manufacturing sites, based in the Midwest, Northeast and Mid-Atlantic states
- 65% of sales to non-residential, multi res and paving (architectural)
- Net sales revenue of AU\$162 million (US\$118 million) and normalised EBITDA of AU\$18 million (US\$13 million) for the 12 months ended 31 August 2018

### Strategic Rationale

- Aligned with stated Brickworks strategy
- Exposure to large, attractive market with strong demand drivers
- Ability to value add through operational best practice, and leveraging existing relationships
- Significant long term growth opportunities

1. FX rate of AU\$1.00 = US\$0.73 used to convert all US\$ metrics in this presentation



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Brickworks has entered into a binding agreement to acquire Glen-Gery for AU\$151 million, representing a multiple of 8.4x normalised EBITDA of AU\$18 million.

Glen-Gery is a leading US brick manufacturer founded in 1890.

It comprises 10 manufacturing plants, based in the Midwest, Northeast and Mid-Atlantic states, where it has a market leading position.

Importantly, it has a diversified end market exposure. Of a total AU\$162 million in revenue, approximately 65% of sales are architectural products to the non-residential, multi residential and paving segments.

The acquisition of Glen-Gery is a significant milestone in the history of Brickworks. We believe the transaction is an ideal market entry into the attractive US industry, which has strong demand drivers going forward. Under Brickworks ownership, we have significant ability to add considerable value through sharing operational best practice across Australia and the US, and leveraging existing supplier relationships. Longer term, we see significant growth opportunities.

## TRANSACTION OVERVIEW

### Financial Impact

- Low single digit normalised EPS accretion anticipated based on proforma NPAT in first full year of operation<sup>1</sup>
- No cost or operational synergies have been assumed in the acquisition metrics
- Shareholders will benefit from utilisation of surplus franking credits

### Funding

- US\$ acquisition bridge facility committed (up to AU\$200 million)
- Post acquisition net debt circa AU\$420 million, gearing 19% (net debt / equity)

### Approvals & Timing

- Transaction approved by the board of Brickworks and Istock
- Anticipated completion within the next few days
- Subject to customary closing conditions

1. Excludes one-off transaction costs



Following the transaction, Brickworks expects to deliver low single digit normalised EPS accretion, not including any cost or operational synergies.

The transaction will be funded by a committed US\$ acquisition bridge facility of up to AU\$200 million, and is expected to be completed within the next few days, subject to customary closing conditions.

# OVERVIEW OF GLEN-GERY



Shoal Creek First Watch + Old Chicago Restaurant, Kansas City, MO



Taking a closer look at Glen-Gery.



## OVERVIEW OF GLEN-GERY

- Founded in 1890
- 4<sup>th</sup> largest brick manufacturer in the US
  - Leading market position in key north east states
- 655 employees
- For twelve months to August 2018:
  - Circa 230 million US bricks sold
  - Revenue AU\$162 million (US\$118 million)<sup>1</sup>
  - Normalised EBITDA AU\$18 million (US\$13 million)<sup>1</sup>

1. Accounting policies consistent with Brickworks policies

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*Albert A. Gery (Founder, Glen-Gery)*

Glen-Gery is a company with a long and rich history in brick making, dating back to 1890.

Since that time, it has grown to become the fourth largest brick manufacturer in the US, selling around 230 million US bricks per annum.

It is headquartered in Philadelphia, and has the leading market position in the north east region of the United States.

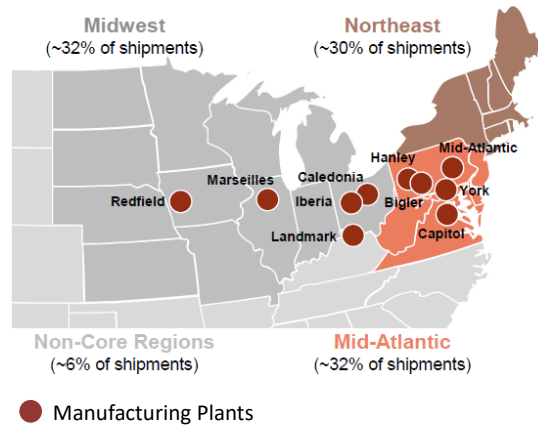
In total, it employs 655 staff, and for the 12 months to August 2018 generated AU\$18 million EBITDA on AU\$162 million revenue.

## OVERVIEW OF GLEN-GERY - OPERATIONS

Glen-Gery is a leading US brick manufacturer, with operations focused primarily in the Midwest, Northeast and Mid-Atlantic states

- 10 manufacturing plants (9 brick + 1 manufactured stone)
- 95% of raw materials controlled through ownership of 29 quarries, located near manufacturing sites
- 10 supply centres (retail and display yards)
- Geographic focus in Midwest, Northeast and Mid-Atlantic states
  - Market leadership position in this region
  - Minimal presence of other “majors”

Map of Glen-Gery Manufacturing Plants



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**Glen-Gery**

Glen-Gery has 10 manufacturing plants;

- 9 of these are brick plants; and
- The other is a manufactured stone plant.

As I mentioned, operations are focussed in the Midwest, Northeast and Mid-Atlantic states.

95% of raw materials controlled through ownership of 29 quarries, located near manufacturing sites.

In addition, it operates 10 supply centres, which are retail and display yards stocking Glen-Gery and third party products.

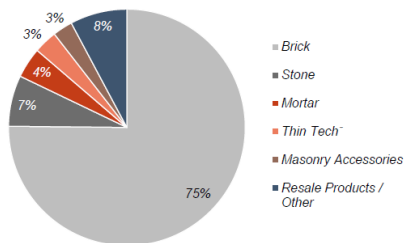


## OVERVIEW OF GLEN-GERY – SALES

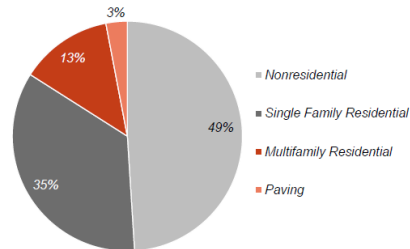
Glen-Gery offers a full product range and has a diversified end market exposure

	Manufactured Offerings					Distributed Offerings				
Representative Products	Extruded	Molded	Handmade			Manufactured Brick / Stone	Mortar	Purchased Stone	Thin Tech®	Masonry Accessories
	Klaycoat	Glazed	Thin Brick							Resale Products / Other
Description	Wide selection of brick and stone offerings available in multiple sizes, shapes, colors and textures					Includes other brick, stone and distribution offerings such as mortar, manufactured stone, natural stone, Thin Tech®, masonry accessories and various resale products				

2017 Net Sales by Product Type



2017 Brick Net Sales by End Market



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Across its' 9 brick plants, Glen-Gery is able to offer a full product range, including a wide selection of extruded bricks and a range of specialty moulded, handmade and glazed bricks.

It also operates a thin brick production line, a product category that is gaining traction in the US, and offered by Glen-Gery as part of their "Thintech" façade system.

In total, brick products, including thin brick systems, make up almost 80% of total sales.

Manufactured stone is produced at the Landmark plant in Kentucky, and comprises around 7% of sales.

Other resale products are also sold through the supply centres.

Glen-Gery has a strong reputation within the industry for premium products. As I mentioned, sales of architectural products into the non-residential, multi-residential and paving segments make up 65% of total sales. The remaining 35% of sales are to the detached housing segment.



A number of projects, showing Glen-Gery products, are shown on screen:

- The top left photo shows the Apple store in Brooklyn, New York;
- The next photo down shows the Madison Avenue Apartments, also in New York;
- At the bottom is the Google corporate office in Ann Arbor, Michigan; and
- The photo on the right shows the Residence Inn, located in Baltimore, Maryland.

## STRATEGIC RATIONALE



*Madison Ave Apartments, New York, NY*

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Turning now to our strategic rationale for the acquisition.

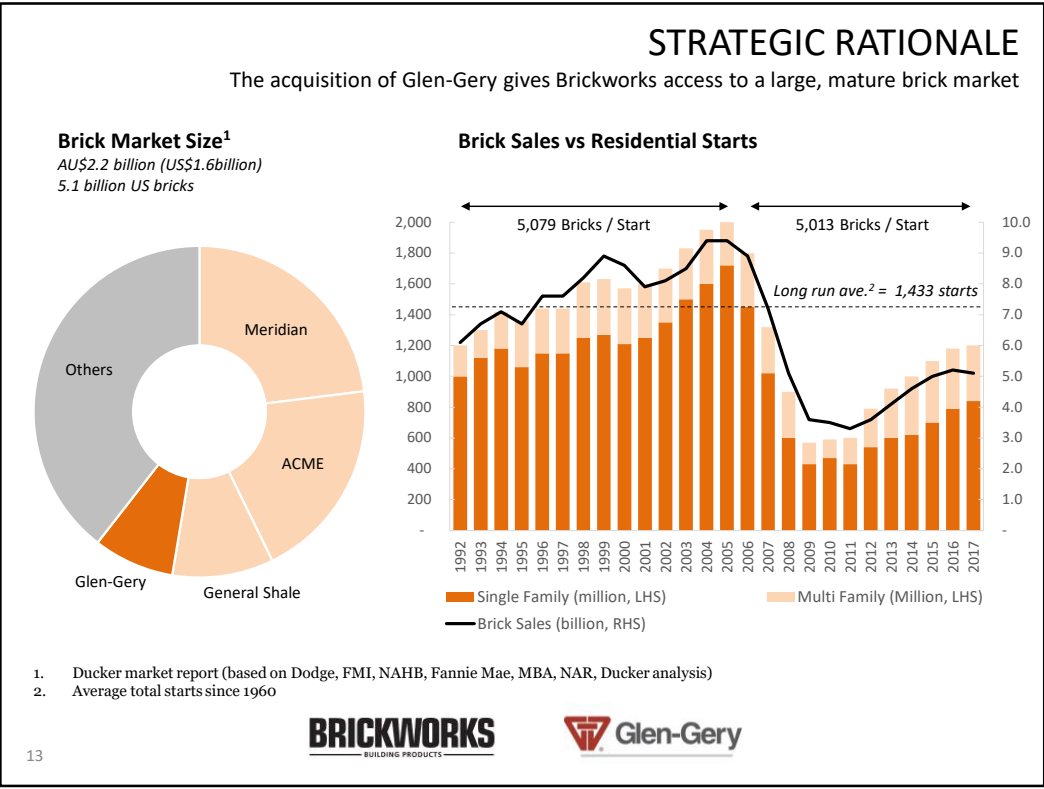


The transaction is consistent with the Building Products strategy, to deliver growth by investing in affiliated businesses.

Brickworks is one of the largest brick makers in the world, and the leading manufacturer in Australia. With limited opportunities now available in Australia, expansion into new markets overseas represents the only meaningful growth opportunity available within bricks, our heritage business, and most profitable product category.

The acquisition also aligns with other key elements of the Building Products strategy.

- It enables sharing of best practice operational excellence across US and Australian operations to improve performance in both countries;
- As I mentioned, Glen-Gery has a reputation for product leadership, and we are focussed on growing our sales of architectural products, where differentiation enables higher margins;
- It allows us to leverage existing relationships with key international suppliers, and distribute their niche and high value products in a new market; and
- It allows us to share intellectual property, to create better building solutions in both the US and Australia. For example, this may include offering Glen-Gery’s “Thintech” product or manufactured stone in Australia, or selected Australian products in the US.



Looking more closely at the US brick market.

Brick usage has strong traditions in the US, and is used widely across a range of applications.

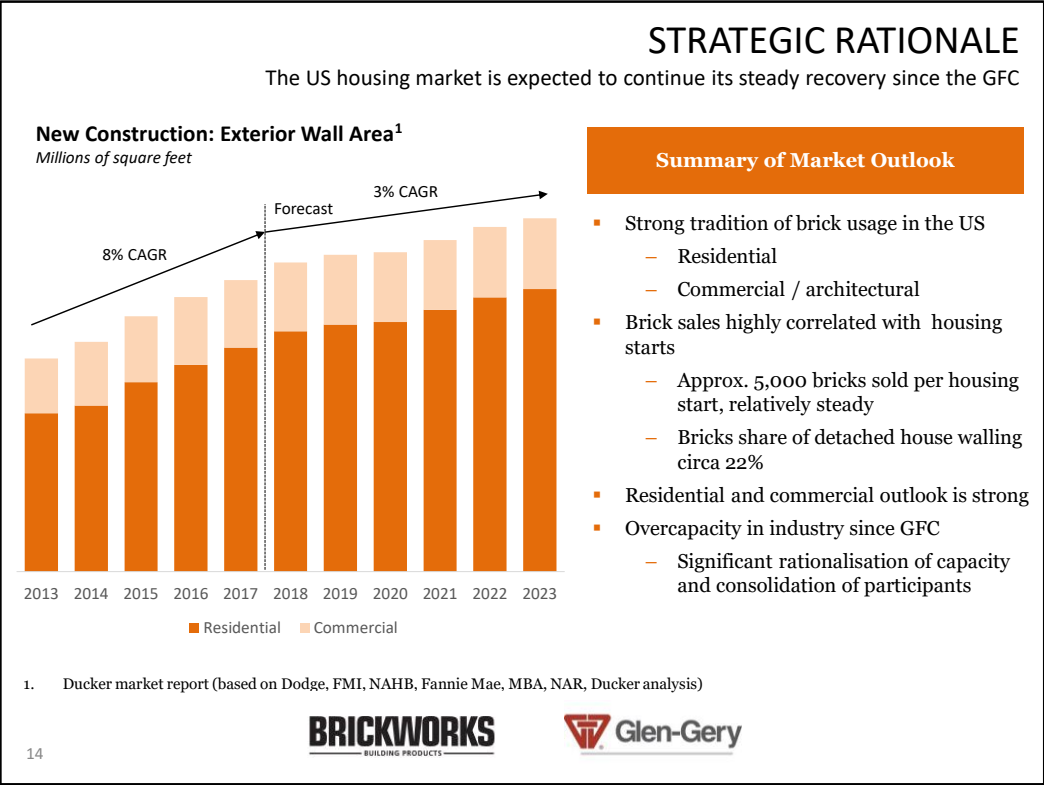
In total, the US brick industry is estimated at AU\$2.2 billion in sales revenue per annum, approximately 3 times the size of the Australian market.

It is highly fragmented, consisting of around 37 separate brick manufacturers. This compares with only 5 in Australia, where the ability for further market rationalisation is limited.

The chart on the right shows residential building starts, with the dark orange columns representing single family homes and the lighter orange columns representing multi-family dwellings. The black line shows brick shipments per start.

There are two important points that are clear from this chart:

1. The post GFC downturn was severe, and although residential building has steadily improved since 2009, the current level of 1.2 million starts remains below the long run average of 1.4 million starts per annum; and
2. Brick usage, in terms of brick sales per residential start, has remained relatively steady, at just over 5,000 bricks per start, for the past 25 years.



External market reports indicate that the outlook for residential and commercial building in the US remains strong, albeit growth is expected to moderate compared to that seen over the past five years.

As I mentioned, the industry is highly fragmented. Despite the increase in brick sales since 2009, overcapacity in the industry remains. As such, the rationalisation of participants and plants that has occurred in recent years is expected to continue for some time, resulting in a positive impact on industry returns.

## STRATEGIC RATIONALE

There is significant opportunity to enhance performance at Glen-Gery

### Glen-Gery vs Austral Bricks – Efficiency Metrics

	Glen-Gery	Austral Bricks NSW	Austral Bricks VIC
Sales volume <sup>1</sup>	152 million AU SBE 230 million US SBE	257 million AU SBE 391 million US SBE	167 million AU SBE 254 million US SBE
Revenue	AU\$162 million US\$118 million	AU\$204 million US\$149 million	AU\$159 million US\$116 million
Brick plants	9	5	1
Employees	655	260	145
Sales volume / employee	351,000 AU SBE	1,504,000 AU SBE	1,752,000 AU SBE
Revenue / employee	AU\$247,000	AU\$785,000	AU\$1,097,000

1. Brick volumes are typically measured by Standard Brick Equivalents (SBE's), based on standard brick dimensions, which vary by country. The standard brick dimensions are larger in Australia than in the U.S.



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The table on screen provides a comparison between Glen-Gery and Austral Bricks operations in New South Wales and Victoria.

Glen-Gery sales volume and revenue is approximately in line with Austral Bricks Victoria. However operations in New South Wales are more comparable, due to the similar product range, that includes a full range of architectural bricks.

As shown, Glen-Gery operate 9 plants, compared to 5 for Austral Bricks New South Wales.

Glen-Gery's 655 employees, compares with 260 at Austral Bricks New South Wales.

This translates to standard efficiency metrics that show:

- Glen-Gery sales volume per employee of 351,000 bricks vs 1,504,000 in NSW; and
- Glen-Gery revenue per employee of \$247,000 vs \$785,000 in NSW.

The efficiency and returns delivered by Austral Bricks lead the industry, and have improved over many years, with consistent investment programs to refit plants and consolidate operations.

We are confident that, through similar targeted investment programs in Glen-Gery plants, there is significant opportunity to enhance operational performance and bridge the considerable efficiency gap between Glen-Gery and Austral Bricks.



## STRATEGIC RATIONALE

The acquisition provides short and long term value creation and growth opportunities

### Short Term / Organic

- Share operational best practice across Australia and the US
- Share products / IP across Australia and the US
- Leverage existing relationships to introduce premium imported products in the US and Australia
- Build on existing premium product positioning with increased marketing and style leadership initiatives
- Pricing and margin management

### Long Term

- Capital investment in plant and equipment
  - Supplier relationships well established (common equipment with Australian operations)
- Plant rationalisation opportunities
- Bolt-on opportunities exist
  - Highly fragmented industry (~37 manufacturers in the US vs 5 in Australia)
  - Market rationalisation underway
  - Disciplined and methodical assessment process
  - Significant cost synergies available in the event of future transactions

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I have already mentioned a number of the other short term opportunities available to create value, through initiatives such as:

- Sharing operational best practice;
- Sharing products and IP; and
- Leveraging existing relationships with international suppliers.

Looking further ahead, the acquisition provides a strategic “beach-head” for long term growth, in a large, attractive market. For example, opportunities to participate in industry rationalisation, where significant synergies will be available to incumbent players, may be expected to arise in future years.

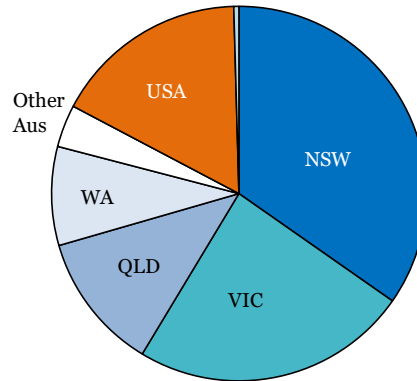
Consistent with our strategy, Brickworks will bring a long term focus to operations in the US, with any future opportunities to be evaluated in due course, with a disciplined and methodical assessment process.

## STRATEGIC RATIONALE - SUMMARY

The acquisition will create an AU\$1 billion Building Products business, with increased geographic diversification

- Brickworks will bring a long term focus
- Initial opportunities to create value through operations and sales best practice, and leveraging relationships
- Strategic platform for growth
  - Initial “beach-head”
  - Future opportunities to be evaluated in due course
- Brings increased geographic diversity
  - Exposure to US and Australian construction cycles
- Continued investment in Australia

**Building Products Pro-Forma Sales**  
*Circa AU\$985 million*



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Following the acquisition, Brickworks will have exposure to the US and Australian construction cycles, bringing increased geographic diversification to sales. As shown on screen, Building Products proforma revenue, including Glen-Gery is almost AU\$1 billion, with around 84% of sales in Australia and the remaining 16% of sales in the US.

Brickworks' remains fully committed to the Australian market, and our expansion into the U.S. will not come at the expense of our existing operations. As I have mentioned, we have established a strong position in Australia, with consistent investment over many years.

This investment in Australian operations will continue, with a focus on New South Wales, where we expect to soon confirm significant investments in a new masonry plant, and a new brick plant. We are also investigating a new dry press facility at Brickworks' industrial estate at New Berrima, to replace the Bowral plant.

## FUNDING & FINANCIALS



*Google Corporate office, Ann Arbor, MI*

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Looking at the financial impact of the transaction.

## FUNDING & FINANCIALS

Funding has been secured through a US\$ acquisition bridge facility

### Acquisition Cash Cost Summary

	\$US million	\$AU million
<b>Headline price</b>	<b>110</b>	<b>151</b>
Cash cost adjustments <sup>1</sup>	(10)	(14)
<b>Cash cost of acquisition</b>	<b>100</b>	<b>137</b>

### Earnings

- Normalised EBITDA of AU\$18 million (US\$13 million) for 12 months to August 2018
- Low single digit normalised EPS accretion anticipated based on proforma NPAT in first full year of operation
- No synergies assumed
- Monthly earnings are significantly impacted by seasonality, due to plant shutdowns and lower sales over winter months

### Balance Sheet

- US\$ acquisition bridge facility committed (up to AU\$200 million)
- Post acquisition net debt circa AU\$420 million, gearing 19% (net debt / equity)

1. Cash cost adjustments primarily relate to pension liabilities to be assumed by Brickworks



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As I mentioned earlier, Glen-Gery generated normalised EBITDA of AU\$18 million for the 12 months to August 2018.

After taking into account depreciation, interest and taxes, Brickworks expects to deliver low single digit normalised EPS accretion in the first full year of operation, not including any cost or operational synergies.

It is important to note that seasonality has a significant impact on the spread of earnings on a month by month basis, due to plant shutdowns and lower sales in winter months. Negative earnings are typical during December and January, offset by the earnings delivered across the balance of the year.

The headline acquisition of price of US\$110 million represents AU\$151 million based on an exchange rate of AU\$1 = US\$0.73. A number of cash costs adjustments, mainly in relation to pension liabilities to be assumed by Brickworks, will result in a cash acquisition cost of AU\$137 million, fully inclusive of working capital.

The transaction will be funded by a committed US dollar acquisition bridge facility, up to the equivalent of AU\$200 million.

Post acquisition net debt is forecast to be around AU\$420 million, resulting in gearing of 19%.

## INTEGRATION



*The Greenwich Hotel, New York, NY*

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 **Glen-Gery**

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Looking now at the integration of Glen-Gery into Brickworks.

## INTEGRATION PLAN

Existing management will be supported by Australian executives to ensure cross pollination of ideas

- Brickworks North American operations to be led by Mark Ellenor (existing GM Austral Bricks and Bristle Roofing Australia)<sup>1</sup>
- Glen-Gery management team, led by Greg Silvestri to remain in current positions
- Grant Douglas appointed Executive Vice President Finance, Brickworks Building Products North America (existing GM Finance, Brickworks)<sup>1</sup>
- Additional support provided by Australian executives deployed in the US to ensure cross pollination of best practice
- Dedicated Special Projects Manager role to support the transition process
  - Alex Payne (former Brickworks CFO)
- Transition services agreement in place with Ibstock for critical IT services



**Mr. Mark Ellenor**  
*President, Brickworks Building Products North America*



**Mr. Greg Silvestri**  
*President, Glen-Gery*



**Mr. Grant Douglas**  
*Executive Vice President Finance, Brickworks Building Products North America*

1. Subject to VISA approval

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It is our intention to maintain business operations as normal, with the existing Glen-Gery executive management team remaining in place, reporting to Mark Ellenor, who will re-locate from Australia to take up the position of President, Brickworks Building Products North America.

Mark has been with Brickworks for almost 20 years, and has successfully led the Australian brick business in recent years.

Mark will work closely with Greg Silvestri, the existing President Glen-Gery, to ensure a smooth transition process and oversee business operations.

Also joining the US team, will be Grant Douglas, in the role of Executive Vice President Finance, Brickworks Building Products North America. Grant joined Brickworks in 2011 from Deloitte, and has extensive international experience in a range of finance roles, including time in the US.

Also assisting in the transition process will be Alex Payne, ex Brickworks CFO, who will take on the short-term role of Special Projects Manager.

I also note that Robert Bakewell, our CFO, has extensive experience in overseeing US based operations in previous roles, and I have spent time living and working in the US earlier in my career.

A transition services agreement is in place with Ibstock for IT services, to ensure critical infrastructure remains in place during the transition process.

# SUMMARY



T.J. Maxx, Canton, MI

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 **Glen-Gery**



## SUMMARY OF ACQUISITION

- ✓ Binding agreement to acquire Glen-Gery for AU\$151 million
- ✓ Glen-Gery is a US brick manufacturer, with a leading position in Midwest, Northeast and Mid-Atlantic states
- ✓ Normalised EBITDA of AU\$18 million, on sales revenue of AU\$162 million
- ✓ 65% of sales to non-residential, multi res and paving (architectural)
- ✓ Exposure to large, attractive market with strong demand drivers
- ✓ Short term value creation through operational expertise and relationships
- ✓ Long term growth driver for Brickworks Building Products
- ✓ Low single digit normalised EPS accretion
- ✓ Funding secured - post acquisition gearing 19%
- ✓ Existing management will be supported by Australian executives
- ✓ Anticipated completion within the next few days

*Note: Seasonality will significantly impact earnings in Dec and Jan*



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So, recapping the details of the acquisition.

- We have entered into a binding agreement to acquire Glen-Gery for AU\$151 million
- Glen-Gery is a US brick manufacturer, with a leading position in Midwest, Northeast and Mid-Atlantic states. It generates EBITDA of AU\$18 million, on sales revenue of around AU\$162 million. It has a high exposure to architectural and premium products.
- The acquisition provides Brickworks with exposure to a large, attractive market with strong demand drivers. In the short term value will be created through applying best practice operational process and leveraging existing supplier relationships. In the longer term, it offers Brickworks a strong platform for growth.
- The transaction is expected to deliver low single digit normalised EPS accretion
- Funding is secured, with post acquisition gearing expected to be around 19%
- Existing management will remain in place, but will report to experienced Brickworks executive, Mark Ellenor, who will relocate to the US

The transaction is expected to be completed within the next few days.

We are confident the future is bright for Glen-Gery, and we are looking forward to working with the existing team to build on the strong foundations already in place, and further enhance business performance.

## QUESTIONS



*Children's Hospital of Philadelphia, Philadelphia, PA*

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I will now take any questions.

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