

## PROPERTY EARNINGS UNDERPIN RECORD UNDERLYING EARNINGS<sup>1</sup>

FULL YEAR	2018 <sup>2</sup>	2019	Variance %
<b>Total Revenue (\$M)</b> <i>Continuing operations</i>	785	919	↑ 17%
<b>Underlying EBITDA (\$M)</b>	311	346	↑ 12%
<b>Underlying EBIT (\$M)</b>	282	310	↑ 10%
<b>Underlying NPAT (\$M)</b>	226	234	↑ 4%
<b>Statutory NPAT (\$M)</b> <i>Inc. Significant Items</i>	175	155	↓ 12%
<b>Underlying EPS (cents)</b>	151	156	↑ 4%
<b>Final Dividend (cents)</b>	36	38	↑ 6%
<b>Full Year Dividend (cents)</b>	54	57	↑ 6%

### Record Underlying NPAT \$234 million, up 4%. Statutory NPAT \$155 million, down 12%.

Brickworks (ASX: BKW) today announced a record underlying Net Profit After Tax (NPAT) from continuing operations of \$234 million, up 4% on the prior year.

After including discontinued operations and the impact of significant items, Statutory NPAT was down 12% to \$155 million. This includes \$19 million in costs related to WHSP significant items in the second half.

Underlying earnings before interest, tax and depreciation (EBITDA) from continuing operations was \$346 million, up 12% on the prior year, and after depreciation, EBIT was \$310 million, up 10%.

Brickworks Chairman Mr. Robert Millner said: “The strength of the company’s diversification strategy underpinned the result. A significant increase in Property earnings and the initial contribution from our newly acquired brick making operations in North America, more than offset a decline in Investments and the impact of a cyclical downturn on Building Products Australia earnings.”

“As well as delivering record underlying earnings, the Company continues to build considerable asset value for shareholders. During the year, the inferred net tangible asset backing<sup>3</sup> of the Group increased by \$86 million to over \$3.3 billion, and over the past decade it has more than doubled,” he said.

Directors have declared a fully franked final dividend of 38 cents per share, an increase of 2 cents, or 6% on the prior year. The record date for the final dividend is 7 November 2019, with payment on 27 November 2019.

### Prime industrial property assets fuel growth

The Property result was a highlight in 2019, delivering a record EBIT of \$158 million, the seventh consecutive year of growth. This result was driven by a significant increase in the value of Brickworks’ industrial property portfolio, held within a 50/50 joint venture property trust with the Goodman Group (Property Trust).

Brickworks Managing Director, Mr. Lindsay Partridge said: “We are experiencing ongoing compression of capitalisation rates in the industrial property sector in response to investor demand and falling long term

<sup>1</sup> All underlying profit and earnings measures exclude significant items and results from discontinued operations, unless otherwise stated

<sup>2</sup> Restated, on a consistent basis with FY2019, to account for discontinued operations

<sup>3</sup> Inferred asset backing consists of the market value of WSHP shareholding, BKW share of net Property Trust assets, Building Products net tangible assets, development land at book value, less net debt

bond yields. This is generating a significant increase in the value of our prime industrial property assets. The increased demand reflects a wider structural change across the economy, as companies modernise their supply chains in response to consumer preferences, such as on-line shopping.”

This was highlighted in January, when a pre-commitment for the highest value facility ever developed by the Property Trust was secured. This 66,000m<sup>2</sup> facility, up to 34 metres high, is underpinned by a 20-year lease to the Coles Group and will have an anticipated value of more than \$300 million at completion.

The Property Trust has expanded significantly over the last 10 years and now has over \$1.7 billion worth of assets in Sydney and Brisbane.

Mr. Partridge said: “After a decade of methodical investment and development within the Property Trust, we are very pleased with the progress that has been achieved. Since its’ inception in 2008, Brickworks net asset value has increased at 18% per annum, generating significant value for shareholders.”

### **North American expansion proceeding well**

In November 2018 Brickworks acquired North American brickmaker Glen-Gery, marking the Company’s first major overseas investment, a significant milestone for the Group. This acquisition was followed by the bolt-on acquisition of Sioux City Brick in August 2019.

Mr. Partridge said: “These acquisitions followed a thorough strategic review, which identified the North American brick industry as a highly attractive long-term growth opportunity for Brickworks.”

“Our Company has established a competitive advantage within the brick industry that can be applied in the United States. We have unrivalled technical expertise, strong relationships with key suppliers and partners, and a unique market strategy focussed on style and premium product positioning. Most importantly, as I have travelled around our operations, I have been encouraged by the level of skill and motivation across the workforce.”

“In addition, due to the fragmented nature of the North American brick market, there is an opportunity to participate in the ongoing industry rationalisation that is underway, increasing plant utilisation and improving production efficiency. More generally, the United States has supportive policy settings for business, abundant cheap energy and a strong construction activity outlook, all of which support our investment.”

The Building Products North America contribution for financial year 2019 incorporates around 8 months of operation and includes extended shutdown periods during the winter months. Sales revenue for this period was AU\$121 million, and EBITDA was just over AU\$12 million.

### **Building Products Australia resilient**

Building Products Australia recorded an EBITDA from continuing operations of \$88 million in 2019, down 18% on the prior year.

Mr. Partridge said: “Despite the lower earnings, operational performance across most divisions was encouraging, given the headwinds associated with declining market activity and significantly higher energy prices, which added \$12 million in costs compared to the prior year.”

“On the east coast, earnings in Austral Bricks and Bristle Roofing proved resilient, particularly in Victoria. Meanwhile, in Western Australia, market conditions remain extremely difficult. In response, brick production was reduced to control inventory levels, resulting in higher unit costs and lower earnings,” he said.

Austral Masonry earnings were lower, due primarily to its high exposure to multi-residential construction, where declines in building activity have been the most severe.

Austral Precast delivered an improved result, experiencing an increase in demand, despite the market decline. This follows a surge in interest, and a distinct shift towards accredited and trusted building products, supplied by reputable companies, following a number of well publicised wall cladding and structural failures during the year.

These failures have placed pressure on building certifiers to act diligently, due to the difficulty in obtaining adequate, if any, insurance.

## **Regulatory change needed to restore confidence**

Building failures in Australia and overseas have shone a spotlight on non-conforming materials and poor construction practices within the construction industry.

Mr. Partridge said: “Unfortunately, these failures do not come as a surprise. Over the past decade, I have never seen a combination of such poor-quality building products and sub-standard construction practices, and this is placing consumers at serious risk.”

“This situation is clearly unacceptable, and at Brickworks we have represented our concerns to all levels of government, in support of the calls for tighter controls and increased compliance within the industry.”

Mr. Partridge said that in the interests of consumer safety, there were three straight forward changes to building regulations that should be implemented immediately.

“First, all buildings constructed using lightweight permanent formwork should be inspected by x-ray or other legitimate method, prior to a certificate of occupation being issued. This will identify air voids caused by inadequate concrete filling, hidden behind the non-structural skin. These voids can severely impact structural integrity and fire resistance.”

“Second, some products such as fibre cement are not required to be tested (granted special exemptions) within the National Construction Code, for use in applications where non-combustible materials are required. If we are serious about fire safety, these exemptions should be removed. Most commonly used fibre cement sheeting disintegrates in a fire. External cladding on high-rise buildings should not include aluminium composite panels, fibre cement or any other product that fails AS5113.2016.”

“Third, all exterior cladding on residential houses should be made from non-combustible, fire resistant building materials. When families buy a new home, they are making the biggest investment of their lives. Products such as polystyrene panels have no place being used as an external cladding material. Consumers have the right to know what materials are used to build their homes.”

“At Brickworks, we take pride in the timeless appeal and durability of our products, all of which are stringently tested, fully accredited and compliant. Unlike some materials, bricks do not rot, rust, fade, fuel flames, or disintegrate in a fire.”

“Bricks produced by our Company are guaranteed for 100 years, and many installed almost 100 years ago still remain in service today. Those same bricks will go on to outlive most lightweight materials currently being installed,” Mr. Partridge added.

## **Sale of WHSP shares**

EBIT from Investments was down 16% to \$104 million in 2019, with WHSP earnings adversely impacted by a significant decrease in the contribution from Round Oak Minerals. Cash dividends totalling \$56 million were received from WHSP during the year.

In November and December 2018, Brickworks sold 7.9 million WHSP shares, at a weighted average price of \$26.37 per share (\$19.49 net of tax), delivering total cash proceeds of \$208 million. This was the first sale of WHSP shares by Brickworks since the initial investment in 1969.

Mr. Partridge said: “This sale was made at an opportune time, providing funding for our expansion into the United States, and when the WHSP share price was at near record levels.”

“The return delivered on this investment illustrates Brickworks’ patient and prudent long-term investment approach. Including dividends received, this parcel of shares has delivered a return of around 14% compounded annually for 49 years<sup>4</sup>,” he added.

Brickworks retains 94.3 million shares in WHSP, equivalent to a 39.4% interest (previously 42.7% prior to the share sale).

## **Outlook**

Commenting on the outlook, Mr. Partridge said: “Within Building Products Australia, whilst orders and sales are currently steady in most divisions, a soft first half is anticipated. In the second half, we expect the market to strengthen, based on the current level of home builder sales. In addition, our transition to

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<sup>4</sup> Total return assumes re-investment of dividends and other special shareholder distributions

the wholesale gas market on 1 January 2020 will reduce costs and finally provide some relief from rising energy costs.”

“In North America, the recent acquisition of Sioux City Brick further strengthens our leadership position in the architecturally focussed Midwest and Northeast regions of the United States. Looking further ahead, we are encouraged by both organic as well as acquisition-based growth opportunities. Through a prudent and targeted investment approach, and application of our operational expertise, we are confident that attractive returns will be achieved from our ongoing investment in this region,” Mr. Partridge said.

Turning to Property, Mr. Partridge said: “Activity within the Trust remains strong, with developments at Oakdale South expected to drive growth in rent and asset value over the next few years. Pending final development approval, Oakdale West will then provide the Property Trust with significant further growth for a decade.”

The sale of 10 hectares at Oakdale East into the Trust is the only sale anticipated for financial year 2020 and is expected to complete in the second half. As always, Property earnings will depend on the timing of development activity and land sale transactions, and the extent of any revaluations.

WHSP is expected to deliver a stable and growing stream of earnings and dividends over the long term.

### **Results briefing**

Chairman Robert Millner and Managing Director Lindsay Partridge will present Brickworks’ results at a briefing today at 12.15pm, for a 12.30pm start, at the Brickworks Sydney Design Studio, Ground Floor, 2 Barrack Street, Sydney.

The briefing will be webcast live on the following link:

<https://www.streamgate.co/brickworks/>

**Brickworks Limited** was listed on the Australian Securities Exchange in 1962 and has paid a dividend every year since then. It has four divisions - Building Products Australia, Building Products North America, Property, and Investments. Building Products Australia includes the country’s largest bricks producer Austral Bricks, and other leading brands Austral Masonry, Bristle Roofing and Austral Precast. Building Products North America includes Glen-Gery, the leading brick producer in the northeast of the United States. Property maximises the value of surplus land from building products sites and includes a 50/50% Joint Venture Industrial Property Trust with Goodman. Investments include a 39.4% holding in Washington H. Soul Pattinson & Company.

BRICKWORKS LIMITED (ASX CODE: BKW) [www.brickworks.com.au](http://www.brickworks.com.au)

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**\$919m**  
Group Revenue  
↑ 17%

### Overview of Underlying EBITDA

<b>Building Products Australia</b> EBITDA \$88m ↓ 18%	<b>Building Products North America</b> EBITDA \$12m
<b>Investments</b> EBITDA \$104m ↓ 16%	<b>Property</b> EBITDA \$158m ↑ 68%
<b>TOTAL EBITDA</b> \$346m ↑ 12%	
<b>TOTAL EBIT</b> \$310m ↑ 10%	

### Building Products Australia

\$755m revenue

Revenue by State

Commencements by State

**\$234m**  
Underlying profit  
↑ 4%

BKW 1 year total shareholder return  
**11.2%**

BKW 3 year total shareholder return  
**7.4% p.a**

**9,848**  
Shareholders

**\$155m**  
Statutory Profit  
↓ 12%

**\$253m**  
Net debt

Gearing  
**12%**

**156 cents**  
Underlying earnings per share  
↑ 4%

**38 cents**  
Final ordinary dividend  
↑ 6%

Record date 7 November  
Payment date 27 November

**57 cents**  
Total full year dividend  
↑ 6%

### Building Products North America

\$121m revenue (~8 months)

Revenue by end market

Revenue by region

**\$2,142m**  
Market value of WHSP shareholding

**\$633m**  
Property Trust net asset value