

PROPERTY EARNINGS UNDERPIN RECORD FIRST HALF UNDERLYING NPAT¹

HALF YEAR	1H2019	1H2018 ²	Variance %
Total Revenue (\$M) <i>Continuing operations</i>	442	377	↑ 17%
Underlying EBIT (\$M)	211	145	↑ 46%
Underlying EBITDA (\$M)	227	158	↑ 44%
Underlying NPAT (\$M)	160	117	↑ 37%
Statutory NPAT (\$M) <i>Inc. Significant Items</i>	115	97	↑ 18%
Underlying EPS (cents)	107	78	↑ 37%
Interim Dividend (cents)	19	18	↑ 6%

Brickworks (ASX: BKW) today announced a record **underlying Net Profit After Tax (NPAT)** from continuing operations of \$160 million for the half year ended 31 January 2019, up 37% from the prior corresponding period. The **statutory NPAT** was \$115 million, up 18%, after including discontinued operations and the impact of significant items.

Brickworks Chairman Mr Robert Millner said: “Our strong financial performance during the period again reinforced the benefit of our diversification strategy.”

“We believe Brickworks offers investors compelling value, with the inferred asset backing³ of almost \$27 per share, exceeding the share price by close to 50%. The value of our shareholding in WHSP alone, at \$2.8 billion, is approximately in line with Brickworks’ market capitalisation⁴,” he said.

Underlying earnings from continuous operations were 107 cents per share for the year, up 37% from the prior period.

Directors have declared a fully franked interim **dividend** of 19 cents per share, an increase of 1 cent, or 6% on the corresponding period. The record date for the interim dividend is 9 April 2019, with payment on 30 April 2019.

Investments

EBIT from Investments was steady at \$61 million, and cash dividends totalling \$34 million were received from WHSP for the half year ended 31 January 2019.

During the period, Brickworks sold 7.9 million WHSP shares, at a weighted average price of \$26.37 per share, delivering total cash proceeds of \$208 million.

Brickworks Managing Director, Mr. Lindsay Partridge said: “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, since the initial purchase in 1969⁵.”

Brickworks retains 94.3 million shares in WHSP, equivalent to a 39.4% interest.

¹ All Group underlying profit and earnings measures exclude significant items and results from discontinued operations, unless otherwise stated

² Restated, on a consistent basis with 1H2019, to account for discontinued operations

³ Inferred asset backing consists of the market value of WHSP shareholding, BKW share of net Property Trust assets, Building Products net tangible assets, development land at book value, less net debt.

⁴ Based on BKW and SOL market values at the close of trading on Tuesday 19th March

⁵ Total return assumes re-investment of dividends and other special shareholder distributions

Property

Property EBIT was \$132 million, up 167% on the prior corresponding period. The settlement of the Punchbowl property sale in August, resulted in an EBIT contribution from land sales of \$35 million. In addition, a revaluation profit of \$67 million was recorded within the Property Trust⁶, following a 50-basis point reduction in capitalisation rates across the New South Wales industrial property portfolio.

Brickworks' share of net Property Trust assets is now \$625 million, an increase of \$87 million during the period.

Mr. Partridge said: "We are seeing a significant shift in valuation across the property sector, with industrial focussed stocks trading at a premium. This reflects a structural change within the economy, as companies modernise their supply chains in response to consumer preferences, such as on-line shopping. Well-located industrial facilities are increasingly becoming critical components of the supply chain of the new economy."

"Illustrating this trend, we recently announced a pre-commitment for the highest value facility ever developed by the Property Trust, a 66,000m² facility for the Coles Group, that we expect will have a value of more than \$300 million at completion," Mr. Partridge added.

Building Products Australia

Building Products Australia recorded EBIT from continuing operations of \$26 million in the first half of 2019, down by 35% on the prior corresponding period. Total revenue was steady, at \$375 million, with an increase in Austral Masonry and Austral Precast, offset by lower revenue in Austral Bricks and Bristle Roofing.

Mr. Partridge said: "Margins declined on the prior corresponding period, particularly within Austral Bricks, where price increases were insufficient to recover higher energy costs. In addition, the opportunity was taken during the period to complete necessary maintenance work on several brick kilns that had been operating continuously for up to 8 years."

"Lower sales volume in New South Wales and Western Australia, approximately in line with market activity declines, also impacted earnings within Austral Bricks. During the first 2 months of the financial year, sales volume more broadly was adversely impacted by tightening credit availability that caused widespread project delays," he added.

Following a strategic review, the hardwood operations of Auswest Timbers, based in Greenbushes (Western Australia) and East Gippsland (Victoria), were reclassified as held for sale during the period. Brickworks is now focussed on realising the maximum value possible from these assets, through an orderly exit process, with UBS having been appointed to assist with a sale process. Auswest Timbers softwood operations at Fyshwick (ACT) will be retained as a stand-alone business.

Building Products North America

Brickworks completed the acquisition of Glen-Gery, the leading brick manufacturer in the north-east region of the United States, on 23 November 2018. Sales revenue for the initial period, to 31 January 2019, was \$26 million, ahead of internal forecasts.

Mr. Partridge said: "With a focus on high margin architectural products, Glen-Gery's strategy is aligned with our Australian operations. In support of this strategy, we have already secured exclusive agreements with our European partners for the supply of premium imported products into the US, and we have developed plans for the establishment of a new design studio in Philadelphia."

"We are also investigating a new state of the art plant at the Mid-Atlantic site, in addition to a heavy refit of the existing plant at the same location. This 600-acre site in Pennsylvania is ideally located to service the north-eastern region of the United States, including major cities such as New York, Washington DC, Boston, Philadelphia, Baltimore and Pittsburgh, each with a long heritage of brick construction in commercial and residential buildings. By investing in the country's largest and most efficient single production line, the company will be well placed to service this key region for decades to come," Mr. Partridge added.

⁶ The Joint Venture Industrial Property Trust is a 50/50% partnership between Brickworks and Goodman Industrial Trust

Outlook

Mr. Partridge said the outlook for Brickworks varies by division. “Within Investments, earnings and dividends from WHSP are expected to grow over the long term, albeit the contribution to Brickworks will be impacted by the reduced shareholding,” he said.

“We expect continued strong growth from the Property Trust, which has a significant development pipeline in place, and is benefitting from favourable structural trends supporting demand for our well-located industrial land,” he said.

Meanwhile, short-term headwinds are anticipated within Building Products Australia. “Higher energy prices will add approximately \$12 million to our cost base for the full year, and will adversely impact the full year result. This coincides with a period of softening demand, with a decline in east coast house construction anticipated in the last quarter of financial year 2019, as the existing pipeline is built out.”

Mr. Partridge said he feared for the long-term future of Australian manufacturing. “On the back of the exorbitant energy price increases, caused by a lack of pro-active government policy, any additional imposts placed on business and consumers will threaten the viability of domestic investment. The mooted changes to industrial relations regulation will reduce workplace flexibility, and changes to tax policy will adversely impact housing construction activity. Ultimately, business investment will be driven offshore,” he said.

Highlighting this point, Mr. Partridge said that Brickworks is actively investigating bolt-on acquisition opportunities in the United States. “We consider the United States to be an attractive country to invest, with pro-business policies that support investment, efficient building approval processes and well-established transport infrastructure.”

“Consistent with our strategy, Brickworks will bring a long-term focus to operations in North America, and opportunities will be evaluated with a disciplined and methodical assessment process. It is anticipated that the transition to a highly efficient and fully utilised plant network, incorporating bolt-on acquisitions, plant upgrades and rationalisation of facilities, will take approximately three to five years to complete,” he said.

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-half-yearly-results-2019/>

End

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 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.

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\$375m
Building Products
Australia Revenue
steady

Revenue By State

WA \$37m, QLD \$56m, SA \$12m, NSW (inc ACT) \$151m, VIC \$108m, TAS \$6m, Export \$5m

Revenue by State

State	Revenue
NSW	40%
WA	10%
VIC	29%
QLD	16%
SA	3%
TAS	2%
Export	1%

Commencements by State

State	Commencements
NSW	32%
WA	8%
VIC	29%
QLD	21%
SA	5%
TAS	1%
Other	4%

Overview of Underlying EBITDA

Building Products Aus EBITDA
\$41m ↓ 25%

Property EBITDA
\$132m ↑ 167%

Investments EBITDA
\$61m steady

Total EBITDA
\$227m ↑ 44%

Total EBIT
\$211m ↑ 46%

Building Products Nth America EBITDA not shown (~2 months only)

\$160m
Underlying profit
↑ 37%

1 year total shareholder return
19.8%
(all Ords 0.7%)

15 year total shareholder return
8.6% p.a.
(all Ords 8.5% p.a.)

9,232
Shareholders

\$115m
Statutory profit
↑ 18%

\$242m
Net debt

Gearing
11%

107cents
Underlying earnings per share
↑ 37%

19cents
Interim Ordinary Dividend
↑ 6%

Glen-Gery Operations

Multi res 14%, Other 6%

Revenue by End Market

End Market	Revenue
Non-res	51%
Detached houses	35%
Multi res	14%
Other	6%

Revenue by Region

Region	Revenue
North East	30%
Mild Atlantic	32%
Mild West	32%
Non-res	6%

\$2,481m
Market value of
WHSP shareholding

\$625m
Property Trust
net asset value

All underlying profit and earnings measures exclude significant items and discontinued operations