

BRICKWORKS

LIMITED

MEDIA RELEASE

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INTERNATIONAL EXPANSION TO DELIVER DIVERSIFICATION AND GROWTH

Brickworks Limited (ASX: BKW) will hold its 85th Annual General Meeting today, following a successful year in 2019, marked by a number of significant achievements, including international expansion to the United States.

Chairman Mr. Robert Millner said: “In the last twelve months we have made a strategic investment in North America, and in doing so have created a fourth significant division within the Group. Our North American brick operations are now of sufficient size and scale to make a meaningful contribution to Group earnings, whilst also providing diversification and strong prospects for growth”.

“Brickworks provides investors with exposure to a diversified portfolio of attractive businesses, with a long-term record of value creation and dividend growth,” he said.

In September, the Company announced record underlying earnings from continuing operations of \$234 million for financial year 2019 and declared a final dividend of 38 cents per share, bringing the full year dividend to 57 cents, fully franked. The final dividend is payable to shareholders tomorrow.

Building Products North America – Market Leading Position Established

Earlier this month, Brickworks announced the acquisition of assets from Redland Brick. This marks the Company’s third US brick acquisition, following the purchase of Sioux City Brick in August and Glen-Gery in November last year.

Once the Redland Brick acquisition is completed, expected to occur in February 2020, Building Products North America will have significant scale, including more than 1,000 employees, 12 operating brick plants, 1 manufactured stone plant, and an extensive network of company owned retail outlets and resellers. The business is expected to generate annual revenue of around AU\$290 million, on sales volume of circa 400 million bricks.

Brickworks Managing Director Mr. Lindsay Partridge said: “We have quickly established a strong position, with market share leadership in key states across the architecturally focussed Northeast, Midwest and Mid-Atlantic regions.”

“We are pleased with the performance of the US business over the past 12 months, with our initial targets being achieved, and a range of growth initiatives being progressively implemented. The integration of Sioux City Brick is now largely complete. This includes the planned closure of the Redfield plant, with volume transferred to nearby Adel, allowing significant manufacturing efficiencies to be achieved,” he said.

The next priority for the business will be the effective integration of the Redland operations, and delivering already identified cost reduction initiatives. “The acquisition provides a quicker and more cost-

effective route to achieving a modern network of highly utilised manufacturing plants, compared to building new plant,” Mr. Partridge said.

“From a market perspective, the outlook for our North American operations is positive, with favourable government policy, strong employment, abundant cheap energy and low interest rates supporting a stable housing market. Meanwhile, non-residential building activity, representing around 50% of total sales volume, is steadily increasing,” he added.

Building Products Australia

Building Products Australia earnings were lower in the first quarter, with reduced sales volume in line with the softer market conditions.

Mr. Partridge said: “The first half of the current financial year is expected to be the low-point for earnings, with high energy costs and difficult market conditions in Western Australia exacerbating the slowdown on the east coast. In response to these market conditions, we have taken the opportunity to undertake maintenance and capital upgrades at many facilities, as we prepare for increased demand in the coming years. These temporary plant shutdowns will have a further impact on first half earnings.”

Despite the difficult first half, Mr. Partridge said: “We are encouraged by order intake levels, which have been progressively increasing over the past four months. If this trend continues, the current downturn is likely to be the shortest I have experienced in the past 30 years. With market fundamentals strong, there is growing evidence that the decline in activity has been caused by the temporary lending restrictions imposed by our banks, in response to the Royal Commission.”

Mr. Partridge also noted that the transition to wholesale gas supply on the east coast, to take effect from January 2020, will deliver significant cost savings for the business. “Having secured confirmation of AEMO registration, we are anticipating a cost reduction of \$8-10 million on an annualised basis once the new arrangements are in place. This provides further confidence of improved earnings in the second half, compared to the first half”, he said.

During the first quarter, commissioning commenced at the Southern Cross Cement terminal, a Joint Venture import facility located in Brisbane. In addition, Brickworks sold its Auswest Timbers hardwood operations in Western Australia and Victoria and renamed the remaining softwood timber operation “Capital Battens”. Mr. Partridge said: “We have refined our portfolio over the past 12 months to focus on core businesses that we believe can deliver strong and sustainable returns on invested capital over the long term.”

Continued development of prime industrial land

Record earnings were recorded by Property in financial year 2019, 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”).

Since the end of the financial year, development activity within the Property Trust continues to be strong, with the completion of two further developments anticipated in the first half. This will drive further growth in asset value and rental income, with each of these properties tenanted on long-term leases.

Mr. Partridge said: “The completion of new developments at Oakdale South, and the sale of 10 hectares at Oakdale East into the Property Trust will underpin the Property result in financial year 2020. In addition, it is possible that further revaluation profits will be recognised during the year, based on continued capitalisation rate compression for prime industrial property across the industry.”

“Looking further ahead, the development approval at Oakdale West, secured in September, will provide the Property Trust with significant further growth for up to a decade,” he said.

“The strong demand for our industrial land reflects structural changes across the industry, as companies modernise their supply chains in response to consumer preferences, such as on-line shopping. Well-located industrial facilities, close to consumers are increasing in value, as they are now a critical component in the supply chain solution of the new economy,” he added.

Group Outlook

Brickworks is in a strong position, with conservative debt levels and a diversified portfolio of attractive assets that provides stability of earnings and consistent dividend and asset growth.

The outlook across the divisions varies. Mr Partridge said: "Our North American acquisitions have come at an opportune time and will provide a new and significant earnings contribution as the building industry in Australia moves through the current downturn."

"Another strong year is expected for Property, and WHSP is expected to deliver a stable and growing stream of earnings and dividends over the long term," he added.

Annual General Meeting

The Brickworks Annual General Meeting will be held today at midday, at the Establishment Hotel Ballroom, Level 2, 252 George Street, Sydney. The meeting 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.

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