Fletcher Building Ltd

Residential Investor Day

2 December 2015

Agenda

8:15-8:45am	**Coffee/Registration**	
8:45am-9:30am	**Business Update**	Mark Adamson – *Chief Executive Officer* Gerry Bollman – *Chief Financial Officer*
9:30am-10:30am	**Overview of Residential Business**	Steve Evans – *Chief Operating Officer, Housing*
10:30-10:45am	**Morning tea**	
11:00am	**Depart for site visits**	Proceed to Federal Street

Disclaimer

This presentation contains not only a review of operations, but also some forward looking statements about Fletcher Building and the environment in which the company operates. Because these statements are forward looking, Fletcher Building's actual results could differ materially. Statistics included in this presentation are sourced from Statistics NZ unless otherwise stated.

Business Update

Mark Adamson – Chief Executive Officer
Gerry Bollman – Chief Financial Officer

We have a clear strategy

People

Create a great place to work

- Safety
- Leadership, Capability and Change Agility
- High-Performance Culture

Customers

Deliver what they value

- Digital Leadership
- Pricing & Cost-to-serve
- Innovation and Solutions

Efficiency

Work smarter together

- Operations Excellence
- Procurement & Property
- Shared Services

Profitable growth

Invest where we can win

- Portfolio Simplification
- Strategic Growth Investment
- Disciplined Capital Management

Our strategy is deployed at three levels

1 **Group Portfolio Management**	• Clarity on sources of sustainable competitive advantage • Focus on the greatest value-creating opportunities • Clear view on where to invest, hold and divest
2 **Support from an Active Centre**	• Leveraging scale and skill to create a whole that is greater than the sum of the parts • Support from central functions and centres of excellence
3 **Business Unit Strategy**	• Clarity on how to win in the market • Aligned, focused execution of priority initiatives

FBUnite has established core capabilities

CUSTOMER

Business Units: Customer-Leading Performance

Central Functions

Finance
HR
Legal
ICT
Procurement
Property
Shared Services

Leverage Scale

Common, efficient practices

Accountable to Corporate CE's

Centres Of Excellence

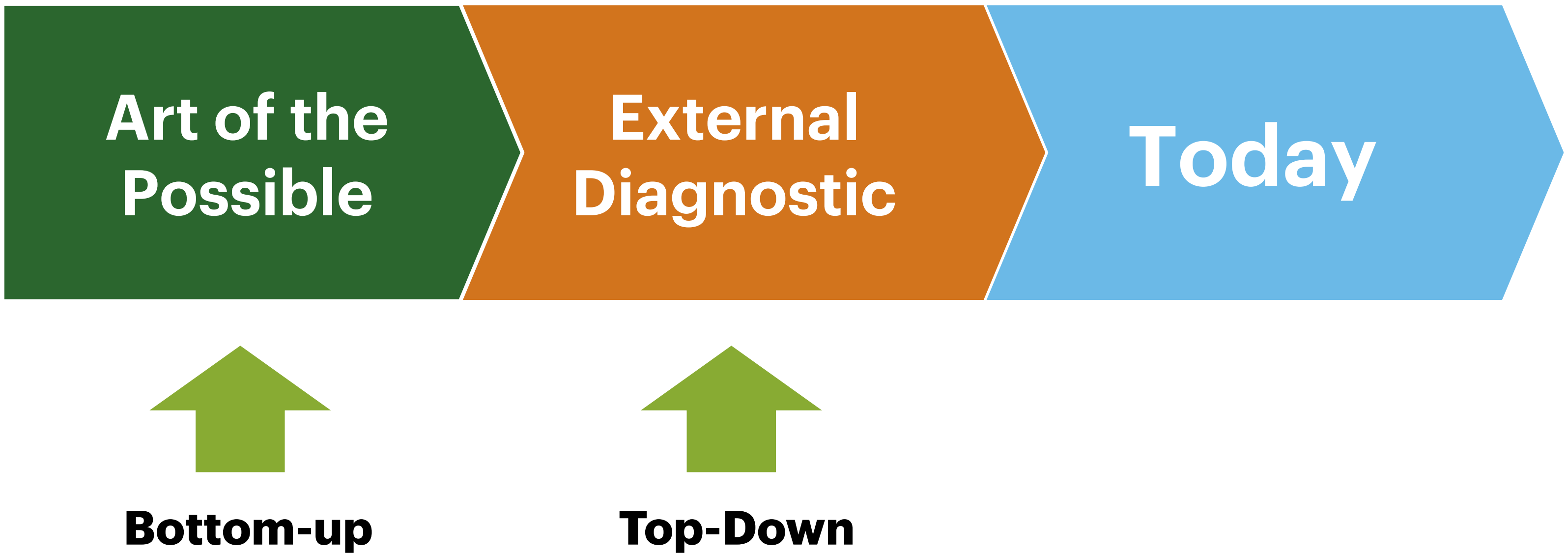
Manufacturing
Supply Chain
Sales and Marketing
Strategy
Health & Safety

Leverage Skill

Enabling improved performance

BU accountability for outcomes

We have undertaken bottom-up and top-down assessments of our future potential



What did we learn from Art of the Possible?

- We see further opportunity to improve our performance
- Most business' see the potential to grow beyond historical peak earnings
- We have confidence that we can deliver this improvement and growth
- Growth to be driven by market share gain, market growth and margin
- Savings to come mainly from operations excellence (covering cost inflation in manufacturing and supply chain)

Outside-in view:

What did the diagnostic say we could achieve?

▶ **Mark Adamson** – Chief Executive Officer
Gerry Bollman – Chief Financial Officer

Top-down review: 3 external teams looked across Fletcher Building

	Commercial	Operations	Cost
Scope	• All commercial levers across the business	• Manufacturing and operational performance	• Procurement, capex, working capital and overhead cost
Approach	• Determine value creation opportunity in B2B and B2C across levers • Assess commercial capability • Review performance in external market	• Focus on opportunity across manufacturing, distribution and construction • Key levers of OEE, front line productivity, supply chain & lean construction	• Review procurement opportunity by lever • Determine working capital potential • Do spans-and-layers and support function bench-marking

We are investing in centralised capability to further drive margin expansion and reduce cost

Opportunity	Levers	Investment
1 Commercial	• Price dispersion and leakage • Mix • Volume • Cost-to-serve	• Sales and Marketing capability
2 Manufacturing and construction	• Manufacturing labour • Construction: lean processes	• Operations excellence in manufacturing and construction
3 Retail and distribution	• Retail labour productivity • Storefront operations excellence	• Ongoing improvements within individual businesses

We are investing in centralised capability to further drive margin expansion and reduce cost

	Opportunity	Levers	Investment
4	**Procurement**	• Top-down processes • Pricing and specifications	• Expanding procurement activities, and low cost country sourcing office
5	**Overheads**	• Central function productivity • Cost per FTE	• Centralised HR, IT and admin functions
6	**Working Capital**	• Accounts payable – standardise terms • Account receivable – standardise terms • Inventory reduction	• Financial shared services

We have senior programme management capability to coordinate and drive activities

People

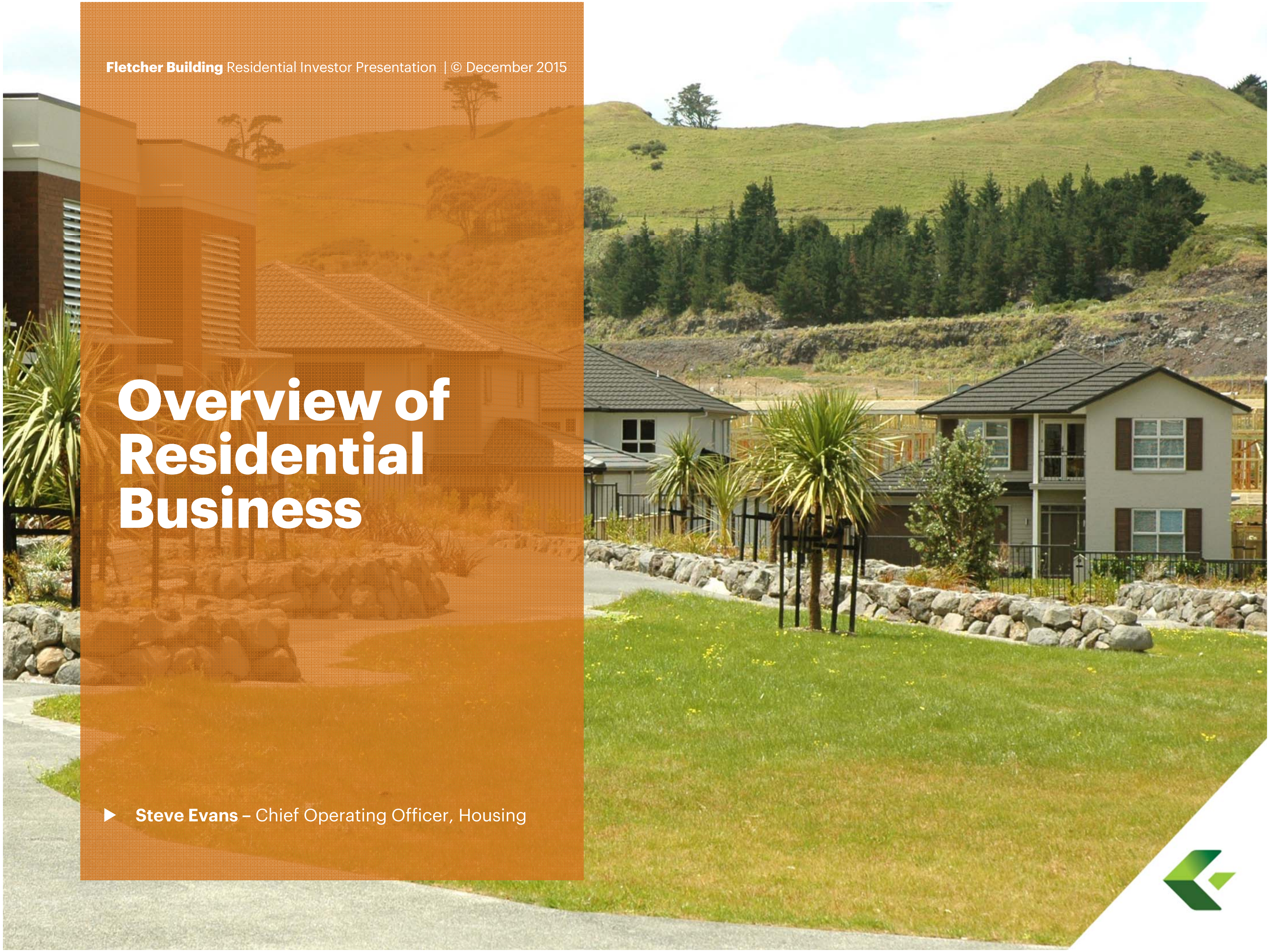
- We're building an agile Transformation Office that will drive, govern and support the Accelerate programme – it will be self–funding

Systems

- We've launched an online tool for capturing initiatives across the group that will deliver gross incremental benefit

Cadence

- We've commenced a weekly cadence cycle to ensure focus on accountability commerciality and execution



Overview of Residential Business

▶ **Steve Evans** – Chief Operating Officer, Housing

Group Strategy: Our growth investment is focused on construction and distribution

Invest for Growth

- **New Zealand construction** - leverage capability in the core
- **Australasian distribution** - growth through omni-channel

Attractive Hold

- **L&P** - unlock earnings potential of leading global business
- **Integrated concrete NZ** - develop supply chain and successor resource
- **Advantaged manufacturing businesses** - protect position, leverage channels & customers, develop product & service innovation, drive efficiency

Prove or Position for Divestment

- **Large underperforming businesses** - return to sustainable profitability, then assess long-term position
- **Non-core and disadvantaged manufacturing businesses** - position for divestment, especially where business is worth more to another

Fletcher Living Business Model Overview

Sourcing Model

Lot Development

- Purchase of finished lots ready for building from developers

Land Development

- Acquiring or using existing FB land / buildings to provide volume for Fletcher Living
- Leverage FB's property portfolio for higher value outcomes

Development Partnerships

- Relationships with public and private land owners to facilitate joint developments.

Product Typologies

Low / Medium Density

- Existing Fletcher Residential product range
- Currently acquiring land positions to deliver increased scale
- Product range increasing in density and will include light-weight apartments

High Density

- Market entry achieved through joint venture with Todd Property at Stonefields
- Three Kings to incorporate higher proportion of apartments
- Auckland market dynamics making apartment delivery an attractive model on specific sites

The Economics of Residential Development

Raw land $80-200 per sqm

Subdivided sections $600 - $800 per sqm

$50k - $100k+ build margin

Plus product pull through = ~30% of the construction cost of each dwelling

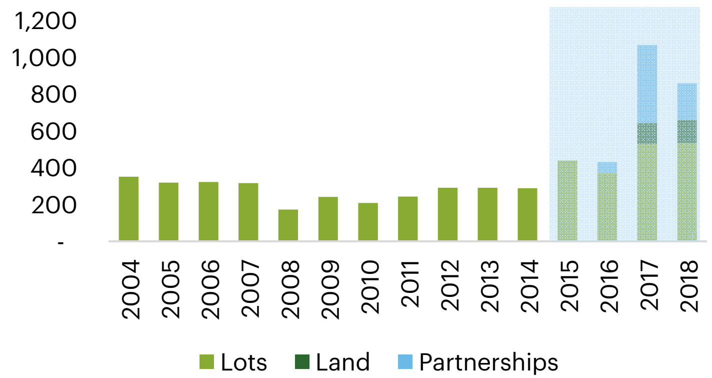
The Economics of Residential Development: Example

Development Model	Land Sourcing Deal origination, deal negotiation and consenting	Land Development Infrastructure development	Build	Sell
Conventional design & Build - retail			How others do it	
Fletcher Living Lots Business		FRL's Influence	FRL's Involvement	
Fletcher Living Land Business	FRL's Involvement			
Fletcher Living Partnerships	FRL's Involvement			
Time	*6 months to years*	*12-24 months*	*6-9 months*	*0-3 months*

Lot development: Buying lots from developers

- Historic business based on bulk purchase of sections from developers with staged delivery
- Attractive lot pricing achieved through:
  - Scale of volume commitment we make
  - Preparedness to contract on a staged delivery basis, allows developer to access funding for infrastructure delivery
  - FB endorsement of the development
- This model has low capital employed as sections are purchased in stages and generally finished houses are sold within 12 months (i.e. before next land delivery).
- However, ability to tailor lot sizes to varying market conditions is limited, and ability to “turn off” projects if market worsens is limited
- Developer makes the land development margin
- Steady state approx. 500 homes / annum

Number of Dwellings Sold



Project	Total Lots	Lots to be Sold Over Forecast Period		
		2016	2017	2018
South-East Region				
Karaka	378	75	75	80
Wattle Cove	26	26	0	0
Ormiston (TPL)	190	0	50	50
Beachlands	258	40	50	60
Anselmi	9	9	0	0
North-West Region				
Greenhithe	63	63	0	0
Penihana	251	0	48	59
Don Buck Road (NAG)	73	0	30	43
Whenuapai	650	0	40	75
Hobsonville Point	45	0	45	0
Stonefields	211	107	39	65
Stonefields JV Apartments	146	0	66	80
Christchurch Area	128	50	65	0
Total	2,708	370	508	512

Land development: Raw land

- FB re-entered land development with the purchase of the Manukau Golf Course in 2013
- Land developments are typically 8 – 10 year build outs over multiple stages
- Acting as the developer of raw land allow FB to:
  - Capture both development and build margins
  - Master-plan communities to provide a balance of uses
  - Greater flexibility over the development approach / timing
- At this stage we are limiting our outright (non-partnership) acquisition of raw land to Auckland
- First earnings from land development likely in FY17 with 28 dwellings at Peninsula Golf Course
  - As we build scale in this business our land holdings will impact ROFE
  - Once the portfolio is built out the overall ROFE will normalise.
- Steady state approx. 500 homes / annum

Pipeline

Project	Total Lots	Lots to be Sold Over Forecast Period		
		2016	2017	2018
Manukau Golf Course	550	0	0	30
Peninsula	350	0	35	60
Eugenia Rise	100	0	15	73
Oruarangi Road	480	0	0	50
Three Kings	1,413	0	34	60
Total	2,893	0	84	273

Partnerships

- The Partnerships' business encompasses relationships with public and private land holders to facilitate development opportunities
- Early successes include Awatea, Welles and Colombo in Christchurch
- Acting in Partnership benefits us :
  - Access to land parcels that we would not otherwise be able to procure
  - Builds mutually beneficial relationships with key stakeholders
  - Typically land payment is only made at completion of sales
- First earnings from Partnerships are expected in FY16 with 59 dwellings from Awatea (Christchurch)
- **Steady state approx. 500 homes / annum**

Pipeline

Project	Total Lots	Lots to be Sold Over Forecast Period		
		2016	2017	2018
Awatea	241	59	182	0
Colombo	69	0	69	0
Wells	114	0	114	0
North and East Frame	1,000	0	60	100
Total	1,424	59	425	100

Value add: Building communities enhances return

The same terrace house sold for 17% more in May 2015 than Dec 2009[1]

[1] *After reversing the market movement of 70.2% over the same period*

Fletcher Residential's competitive advantage: Why we generate higher margin returns

1	**Vertical Integrated**	• Being **vertically integrated** enables us to take a holistic approach to yield management and master planning – We design a development to maximise the total IRR and trade-off development costs, end sales price to the homeowner, build cost, quality and time to complete – We are able to focus on the end communities, not a specific segment in the supply chain • The **scale** benefits of being vertically integrated enable us to internalise costs – e.g. sales staff, project management of master planning
2	**Focused Strategy**	• **Limited Typology** – we focus on a limited number of proven dwelling types. This enables us to focus on building the faster, cheaper and at a higher quality than our competitors • **Auckland Centric** • **Spec Builder** – we don't offer design and build and therefore are not burdened by the associated cost structures
3	**Brand**	• We are renowned for delivering a **high quality product** • We stand by our buildings – **peace of mind** post leaky buildings • High levels of customer satisfaction and **repeat business**
4	**Financial Capacity**	• No requirement for quick solutions or pre-sales • Can take the time to achieve plan changes • Can use the weight of our commitment to do deals with no immediate cash outlay or at attractive rates

Orientation

Regional Update: Auckland

Rodney

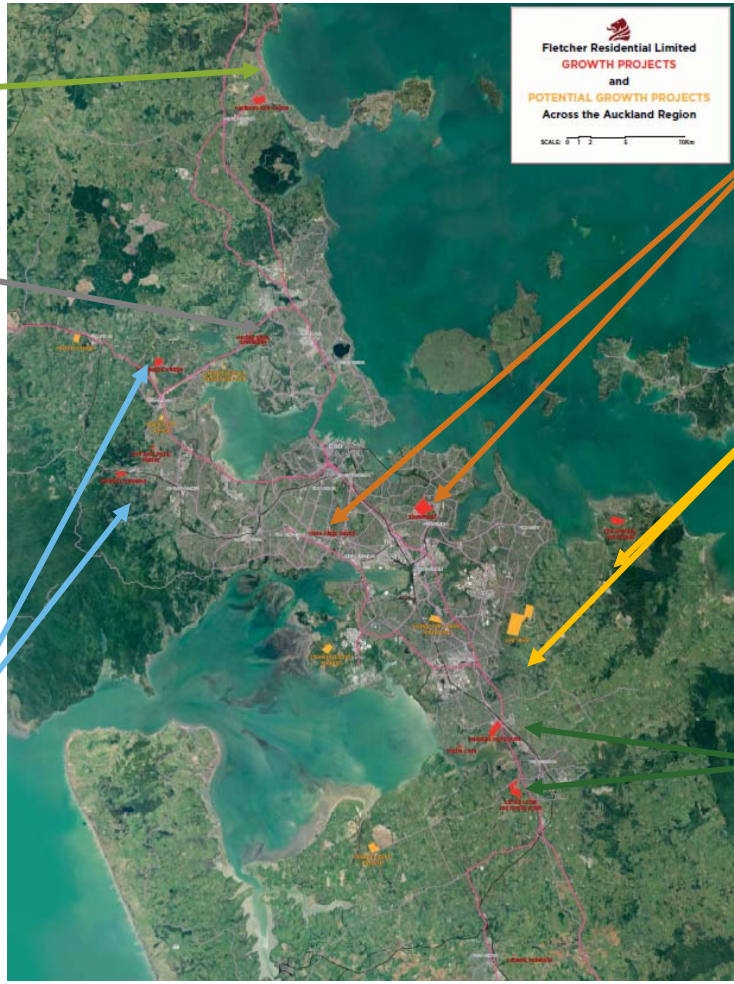
- Peninsula Golf development – earthworks underway

North Shore

- Currently building in Greenhithe
- Difficult contour in North Shore and opportunities on the market are limited

West Auckland

- Increasingly important market
- Penihana and Don Buck positions now building
- Whenuapai started on site
- Hobsonville Point commenced



Central

- Stonefields continuing with apartments and terrace homes
- Three Kings SHA now building

Mid-Auckland / Howick

- Beachlands building underway
- Building underway

South Auckland

- Re-established in Wattle Cove
- Manukau Golf delivering sales from FY18
- Stages 4 & 5 underway in Karaka

Regional update: Canterbury

Welles

- Partnership with MBIE

Awatea

- Partnership with MBIE

Rolleston

- Under construction

East Frame

- Partnership with CERA

Colombo

- Partnership with MBIE*
- Construction started

Halswell

- Under construction

Some of our current developments

3 KINGS

ATLAS QUARTER

AWATEA FIELDS

WAIATA SHORES

350 colombo

AWATEA GREEN

Red Beach

TATUA ON EDEN

Key projects update

Peninsula Golf Course	
Size	22 hectares; Stage 1 85 homes; Stage 2 164 homes
What we brought	$24m; 22 hectares raw land (half of entire course)
Timeframe	3 years
What land owes us per lot (prior to building)	Stage 1 $260k / lot Stage 2 <$260k / lot

Whenuapai	
Size	31 hectares; 650 homes
What we brought	$161m; 650 finished lots
Timeframe	8 years
What land owes us per lot (prior to building)	Stage 1 $133k - $255k / lot

Key projects update

Three Kings	
Size	21.6 hectares; 1,200 to 1,500 dwellings
What we brought	$44m; old quarry site and buildings
Timeframe	10 years
What land owes us per dwelling (prior to building)	TBD

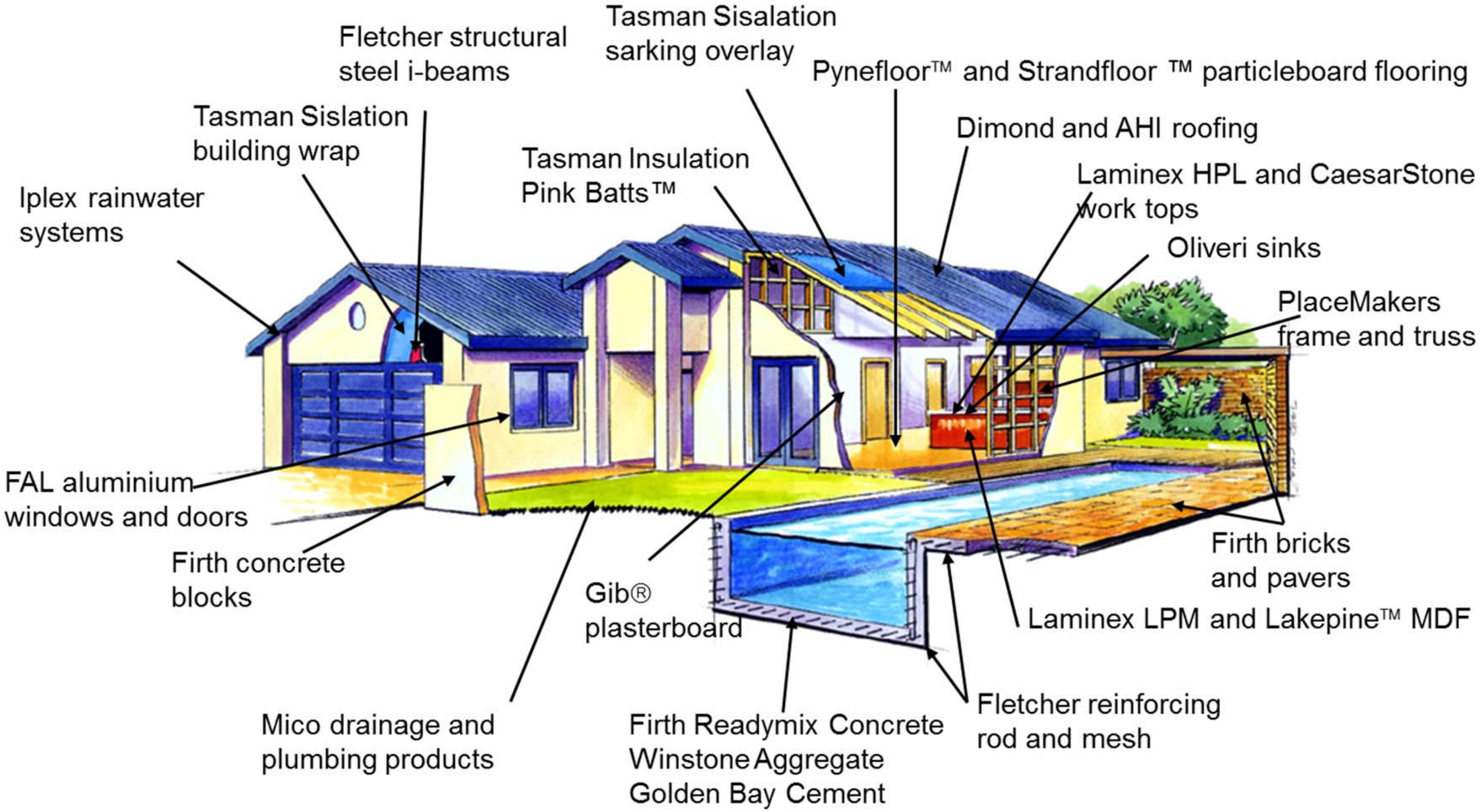
Manukau Golf Course	
Size	47 hectares; 433 consented dwellings (potential to intensify)
What we brought	$43m; 47 hectares of raw land
Timeframe	10 years
What land owes us per lot (prior to building)	Stage 1 $230k / lot.

Key projects update

East Frame	
Size	Area, Number of Homes
What we brought	$, undeveloped land
Timeframe	10 years
Risk Management	• Land settlement contemporaneous with sale • No requirement to start subsequent lot until previous lot sold


Christchurch

The wider benefits for the group



Managing risks

Fletcher Living Risk Management Framework				
	Demand Side		Supply Side	
	Ongoing risk management	Risk management tools in the event of market disruption	Ongoing risk management	Risk management tools in the event of market disruption
Lots	• Presales of product • Using our reputation and scale to negotiate strong terms	• Change ownership model • Discount product to increase volumes • Sell vacant lots	• Careful management of developments to ensure supply is evenly spread	• Slow build rate • Request developers to delay future work stages • Request delayed payment terms
Land	• Careful site selection – right land, in the right location, at the right price • Using our balance sheet and ability to act quickly to negotiate strong terms	• Buying at wholesale rates provides flexibility of margins • Sell lots to group home builders	• Active farm out programme	• Stop or slow the development of the land during a market disruption
Partnerships	• Delayed land payment until sale is made • Negotiation of presales to Iwi/CHPs • Presale programme – both domestic and off shore	• Flexibility in sales margins	• Careful management of developments to ensure supply is evenly spread	• Ability to renegotiate timing of delivery • Ability to sell off lots to other developers/builders

Balance sheet impacts

Current State (Forecast YE 2016):

- Land value (cost price plus land development costs) – $300m (FY15:$251m)
- Work in Progress – $135m (FY15:$42m)
- Land purchases on extended terms – $36m (FY15:$66m)

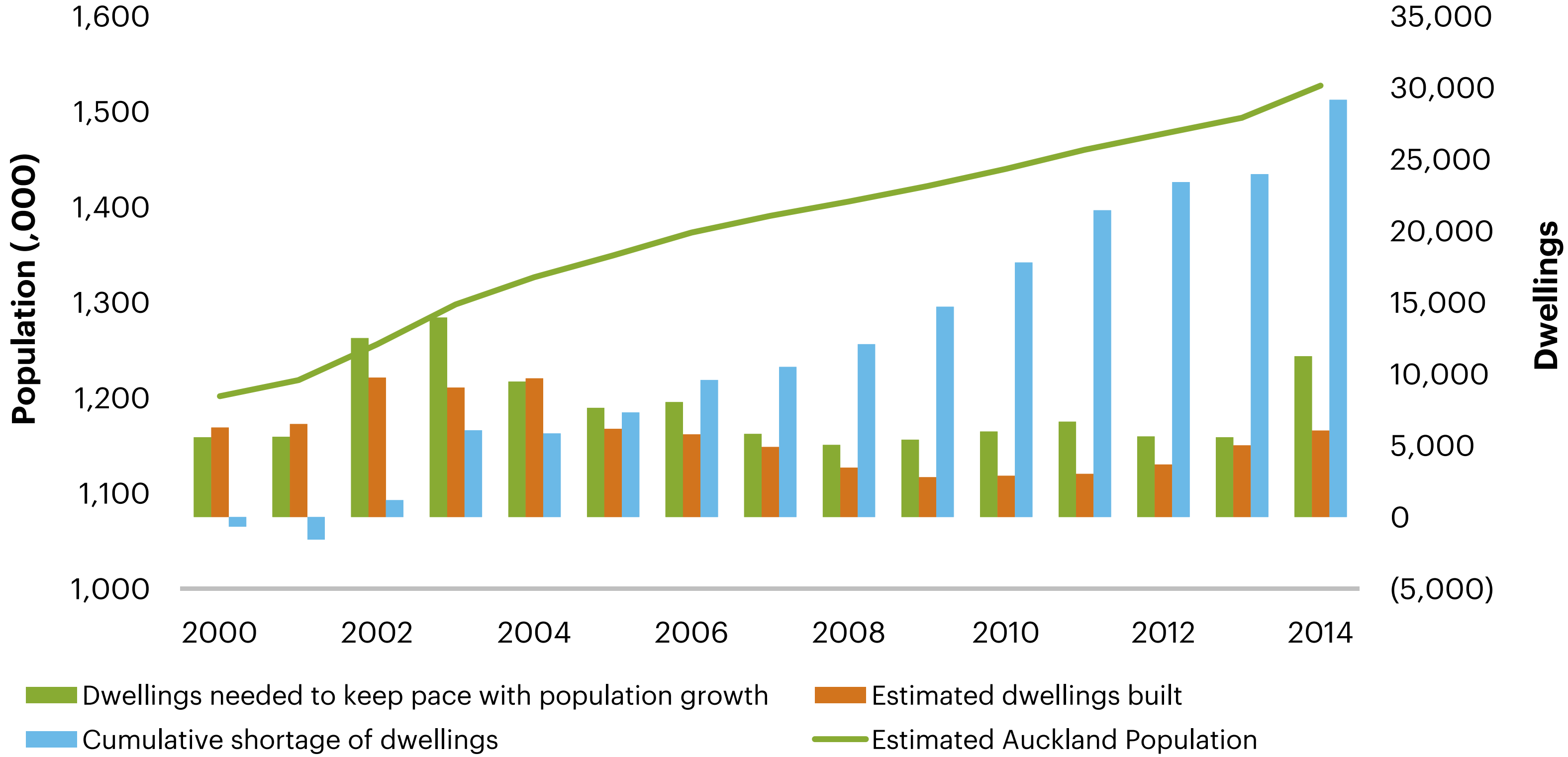
Estimated Steady State (2019):

- Land value (some of this may be on delayed settlement depending on the nature of future deals) – $350m
- Work In Progress (Based on 1,000 low and medium density builds and 500 high density) – $200m depending on the timing of apartment delivery

Appendix: Market Overview

Market Overview: Auckland

There is a structural shortage of housing in Auckland…



On current estimates this will take 10-30 years to reverse

Market Overview: Key drivers in the Auckland property market

Demand Side

Population Growth

- Auckland's population grew by nearly 34,000 people in the year to June 2015
- Although consent issuance of new dwellings in Auckland has continued to increase this has been insufficient to match the surge in population

Interest Rates

- The RBNZ has cut the Official Cash Rate by 75bp since June, taking it back to 2.75%
- Economists expect an additional 25bp cut later this year 2015, taking the OCR to 2.5% by year-end
- Some economists forecasting the OCR to reach 2% over the course of 2016

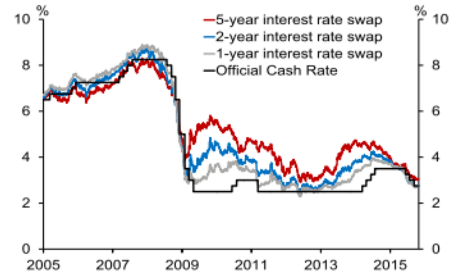
Steady GDP

- NZ GDP grew by 2.5% and 3.2% in the years to March 2014 and 2015 respectively
- GDP growth expected to remain elevated relative to other western economies, despite the decline in dairy prices, due to strong inbound tourism, significant surge in IT exports and a boarding of New Zealand's agricultural base

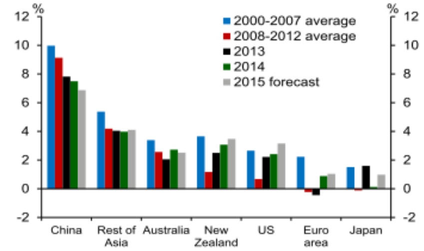
Investor Demand

- Increased investor activity has been an important component of the rise in activity in the Auckland property market
- The share of sales to multiple property owners has increased from 35 percent to 40 percent since mid-2013, mostly due to a higher proportion of sales to investors owning fewer than five properties

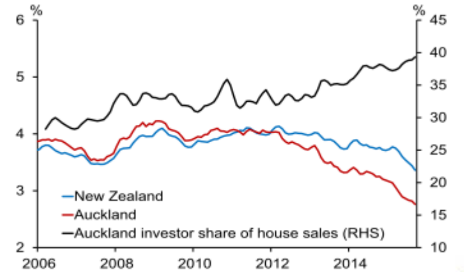
NZD Benchmark Interest Rates



GDP Growth



Rental Yields and Investor Share of Auckland Sales



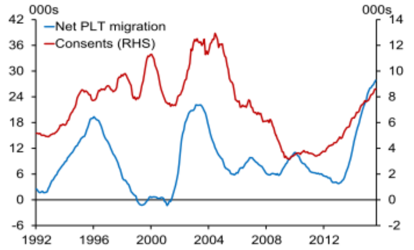
Market Overview: Key drivers in the Auckland property market

Supply Side

Building Consents

- Dwelling consents are above the historical average in both Auckland and Canterbury but remain below the level required to meet demand
- Since the Auckland Housing Accord took effect in October 2013, the annual increase in consented dwellings to the same month in the previous year in Auckland, has averaged 28.5%, peaking in April 2014 when dwelling consents in the year to April 2014 exceeded dwelling consents in the year to April 2013 by almost 41%

Auckland Migration & Consent Issuance



Land Availability

- The Auckland Housing Accord was signed on 3 October 2013 by Housing Minister Dr Nick Smith and Auckland Mayor Len Brown. The Accord is a three year agreement to urgently increase the supply and affordability of housing in Auckland. The Accord sets a target of 9,000 additional residential houses being consented for in the first year, 13,000 in the second year, and 17,000 in the third year
- Nine months into the second year of the Auckland Housing Accord the net number of new dwellings and sections (8,861) is 68% of the target of 13,000 and with just 3 months of the year to go, the target may not be met
- A programme of work is also being conducted by MBIE to identify Crown-owned land in Auckland that is suitable and available for housing development, and to facilitate the construction of dwellings to increase housing supply. MBIE is currently running a procurement process for development partners – Fletcher Living is participating in this process

Policy Responses

- In late 2013, the Reserve Bank introduced a 10% speed limit on all mortgage lending with a loan-to-value ratio (LVR) of greater than 80%. The share of mortgage debt with an LVR of more than 80% has declined from 21% to 14%
- Additional changes to the LVR speed limit came into effect on 1 November, and include new restrictions on Auckland investor lending. Under the new policy, no more than 5% of Auckland investor lending by registered banks can be at an LVR exceeding 70%
- In October the Government introduced a bright line test for the taxing of capital gains on residential property which is sold within two years. They also introduced requirements for foreign buyers to provide an IRD number when purchasing properties

Market Overview: What are the experts saying about Auckland

"Residential construction will need to continue at a high pace for many years. At current rates of building, it appears the shortage of housing is getting worse, not better. Auckland Council estimate that over 10,000 new homes each year will be needed to satisfy future population growth. In essence, it could take many years to work off the current housing shortage." Grant Spencer, Deputy Governor, Reserve Bank of New Zealand, April 2015

"Extra housing supply should, in time, provide affordable accommodation options for Auckland's burgeoning population. Eventually, we would expect the median dwelling price to fall relative to incomes – not necessarily because today's owners have lost their shirts, but because in future the median house will use less land than today's median house." Westpac Institutional Bank, May 2015

"It is hard to see any supply glut occurring in the market any time soon." Nick Tuffley, ASB Chief Economist, May 2015

"Ultimately, however, the crux of the issue seems to be that there are insufficient dwellings to meet the needs of a growing population. Exactly how many is a moving target, but the numbers bandied about are large, with 400,000 additional housing units were identified as needed over the next 30 years in Auckland City Council's Unitary Plan back in 2013, with a target of 39,000 new residential sections and dwelling consents through till the end of September 2016 in the Auckland Housing Accord." ANZ Property Focus, July 2015

"...we can note from the 2013 census that average house occupancy outside of Auckland was 2.58 people. The Auckland occupancy rate was 3. How many extra houses would you need to get Auckland's ratio down to the rest of the country? The answer is 76,000." Tony Alexander, Chief Economist, Bank of New Zealand, April 2015

There is universal agreement from economists on the shortage of supply in the Auckland market and the significant period it will take to address this