

# ANALYST PRESENTATION & SITE TOUR

Rochedale, 19th June 2018



**BRICKWORKS**  
LIMITED

## AGENDA

- **Introduction and Brickworks Overview**  
*Mr. Lindsay Partridge*
- **Austral Bricks Australia**  
*Mr. Mark Ellenor*
- **Property**  
*Ms. Megan Kublins*
- **Q and A**
- **Site Tour - Rochedale**



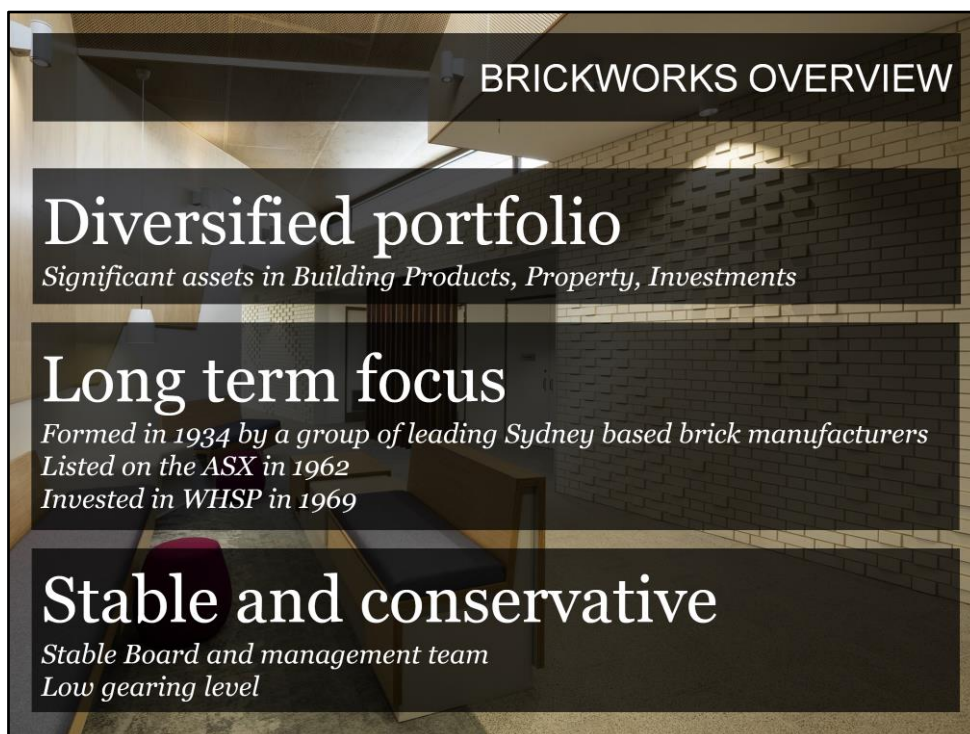
Good Afternoon Ladies and Gentlemen, and welcome to Rochedale for our site tour and presentation. We are delighted to have you here at our facilities.

Today I will provide a brief introduction and overview of Brickworks.

Following this I will hand over to our Group General Manager, Bricks and Roofing, Mr. Mark Ellenor, who will provide a detailed overview of our Austral Bricks division.

Following that, Ms. Megan Kublins, Executive General Manager Property and Development will review our Property division.

We will then be happy to take any questions at the conclusion of the presentation.



Brickworks' has a diversified corporate structure that has provided stability of earnings and steady asset growth over the long term.

There are three main parts to the Brickworks business model, with the company having significant assets in:

- Building Products;
- Property; and
- Investments.

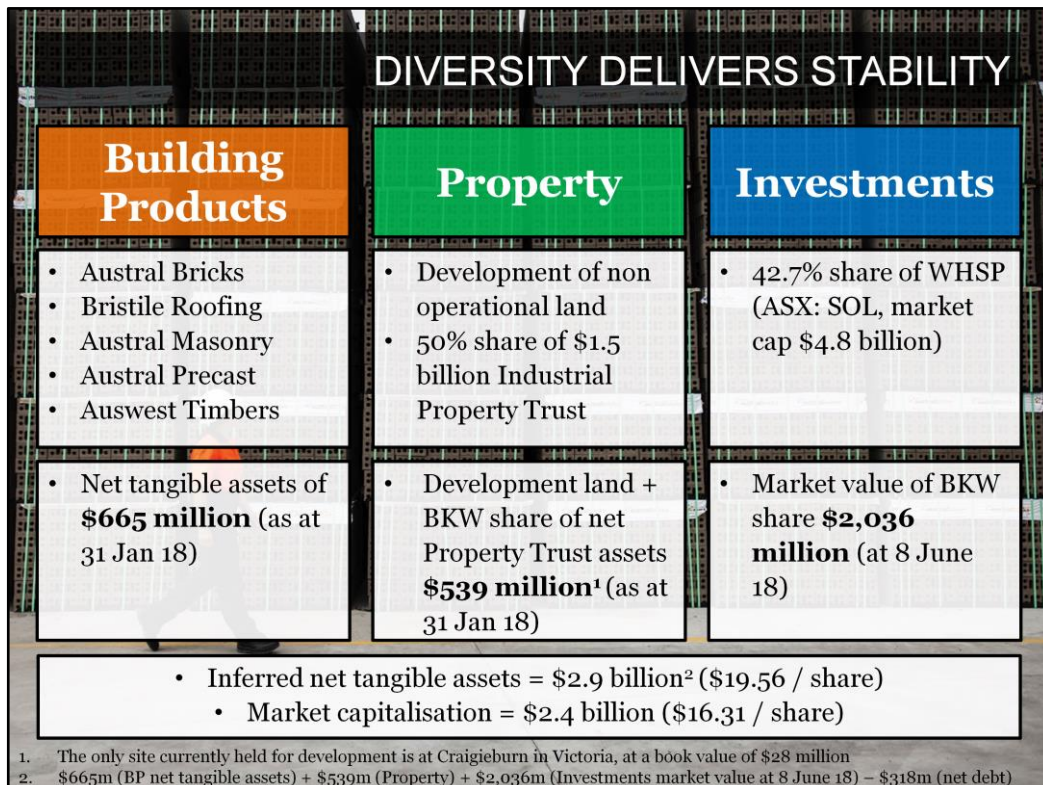
As a diversified business, we are less exposed to market volatility and are well placed to ride out the low points of business cycles.

We take a long-term view of our operations. Brickworks was formed in 1934 by a group of leading Sydney based brick manufacturers and has grown over time to become the largest and most successful brick maker in the country.

Brickworks was listed on the ASX in 1962 and in 1969 made a significant investment in Washington H. Soul Pattinson that remains in place today.

We make investment decisions not for the short term, but across cycles, ensuring we are in the strongest possible position to continue to grow and succeed in the future.

The company is stable and conservative, with a low gearing level, a prudent approach to capital management, and a stable Board and management team.



Building Products consists of leading brands such as Austral Bricks, Bristle Roofing, Austral Masonry, Austral Precast and Auswest Timbers, and had total net tangible assets of \$665 million at 31 January 2018.

The Property business exists to maximise the value of land that is surplus to the Building Products business, and includes a 50% share in an Industrial Property Trust with the Goodman Group. At January, total Trust assets were over \$1.5 billion.

The 42.7% interest in Washington H. Soul Pattinson, (now an ASX200 company) with market capitalisation of \$4.8 billion as at the 8<sup>th</sup> of June, provides a stable and diversified earnings stream that has created significant value for Brickworks over the long term.

The company's market capitalisation of around \$2.4 billion is well supported by the inferred net tangible asset backing of the Group, equating to around \$2.9 billion. This includes Building Products net tangible assets, Brickworks' share of net Property Trust assets, the book value of land held for development, and the market value of WHSP shares, offset by Group debt.

Including the \$216 million goodwill held within Building Products, total inferred assets are \$3.1 billion.



## LONG TERM SHAREHOLDER VALUE CREATION

*Value of \$1000 invested in 1968*

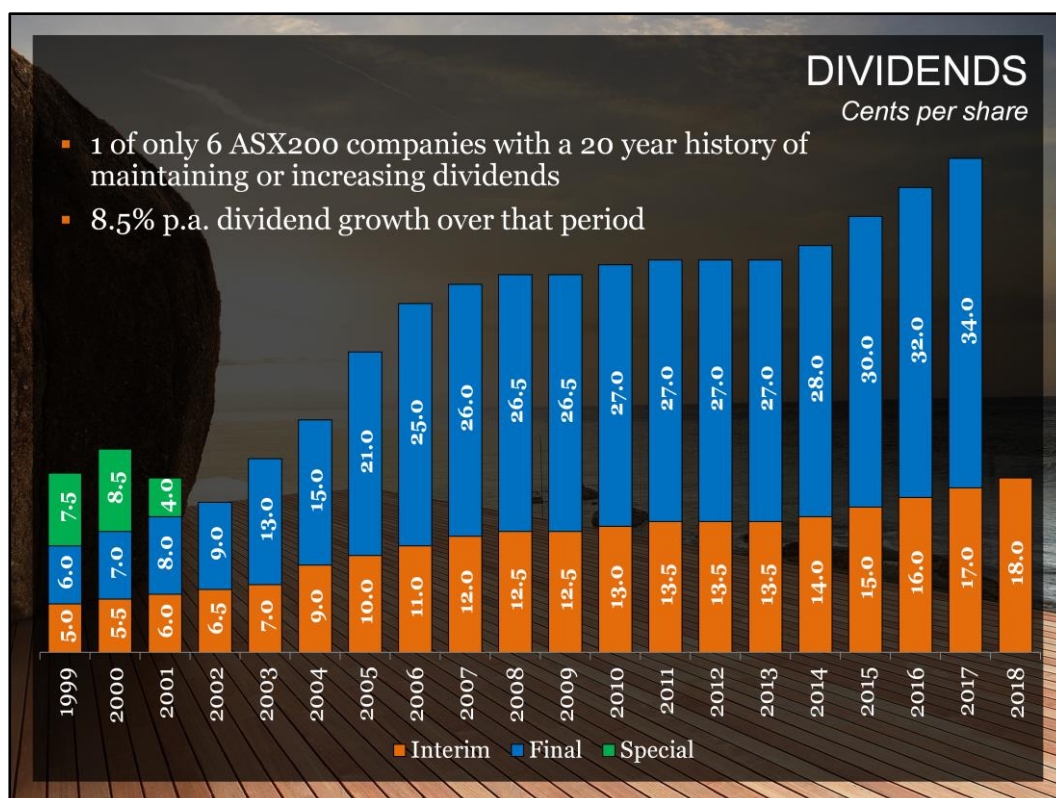
- Total return 12.6% p.a. since 1968 (50 years)
- \$1,000 invested 50 yrs ago is now worth \$385K



Looking at shareholder returns now.

Over the past 50 years Brickworks has delivered average shareholder returns of almost 13% per annum.

This means that \$1,000 invested in Brickworks 50 years ago in 1968 would now be worth around \$385,000 today.



The chart on the screen shows our dividend history going back 20 years. We recognise the importance of dividends to our shareholders and are proud of our strong and stable dividend history. We are one of only six current ASX200 companies who have a 20 year history of maintaining or increasing normal dividends to shareholders.

In fact since listing on the ASX in 1962, we have only reduced dividends once, in 1975.

Over the past 20 years dividends have increased by 8.5% per annum.



Before handing over, I will talk briefly about our strategy.

We believe in making beautiful products that last forever.

Our Building Products strategy consists of three key pillars: strengthening our core business, building new growth businesses and sustaining our strong culture.

In order to strengthen our core business, we are focused on:

- Operations excellence, including securing the lowest cost manufacturing position;
- Consolidating and growing our positions in each market;
- Developing industry leading customer relationships; and
- Being the leader in style and product development.

We are also focused on building growth businesses through:

- Investing in affiliated businesses, including investigation of overseas acquisition opportunities in our core businesses;
- Distributing market leading building products; and
- Creating better building solutions to meet our customers needs.

Mark will provide more detail and examples shortly about how we are implementing this strategy within Austral Bricks.

**\$49 million**

Average capital investment in plant and equipment over the past 5 years

**\$27 million**

Investment in innovation, research and development

**\$22 million**

Investment in marketing and promotion



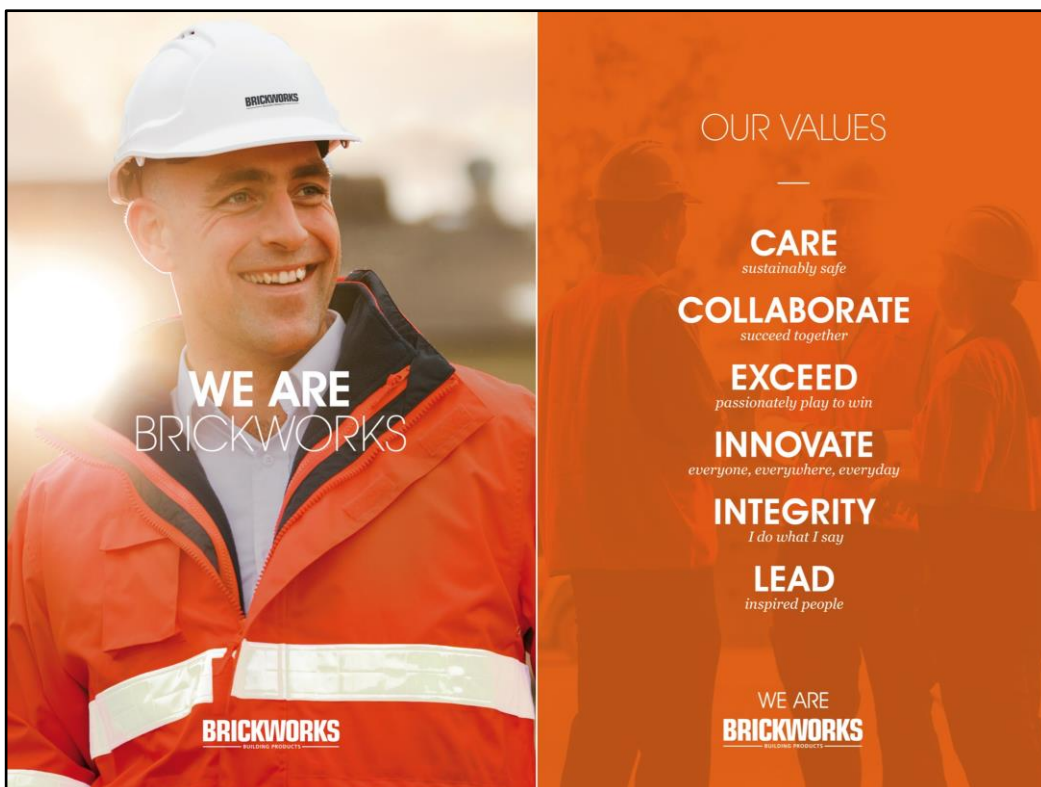
I would like to briefly mention the investment we are making across the Group in support of our strategy.

Over the past five years we have invested almost \$50 million per annum in capital to upgrade our plant and equipment around the country. This demonstrates our commitment to our strategy of operations excellence and our willingness to invest for the long term. Mark will talk later about some of the successful capital projects we have undertaken within Austral Bricks.

During financial year 2017 we invested around \$27 million in innovation, research and development projects across the Group. This investment includes dedicated R&D staff that support our businesses to continually launch exciting new products, and also drive our development of new building solutions.

We are also investing in our brands. Our marketing spend of around \$22 million per year includes major brand campaigns on prime time television and our investment in capital city design studios that host in excess of 250 events per year. All marketing spend is driven by the objective of promoting Brickworks as the industry leader in style and fashion.





I'd also like to expand on the third key pillar of our strategy - our people.

Brickworks is proud of its' dynamic, hard working, "can-do" culture that has evolved over many years as the company has grown from a two state brick manufacturer to an ASX200 company.

We recognise that this culture is a key differentiator from competitors and a fundamental component of our success. Sustaining this strong culture and embedding it across the organisation is critical, and forms an integral part of our strategy.

We now have a short video presentation entitled "We are Brickworks".

WE ARE BRICKWORKS - VIDEO

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## INTRODUCING TODAY'S PRESENTERS



**Mr. Mark Ellenor**

*Group General Manager – Bricks and Roofing*



**Ms. Megan Kublins**

*Executive General Manager – Property and Development*

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I would now like to introduce today's speakers.

Mark Ellenor has been with Brickworks for almost 20 years. He was recently appointed Group General Manager Bricks and Roofing, following his promotion to Group General Manager Austral Bricks in April last year. He started with Austral Bricks in the graduate program in 1999 and progressed rapidly through management. He was promoted to General Manager Eureka Tiles in 2006 then General Manager Austral Bricks NSW in 2009.

Megan Kublins has also been with Brickworks for close to 20 years, and was appointed Executive General Manager Property and Development in 2006. She manages all of Brickworks property assets, including over 3,500 hectares of land. She is also responsible for the growth and management of the Goodman/Brickworks JV, which was established and then grown under her direction.

I will now hand over to Mark who will provide a detailed overview of Austral Bricks.

# AUSTRAL BRICKS AUSTRALIA

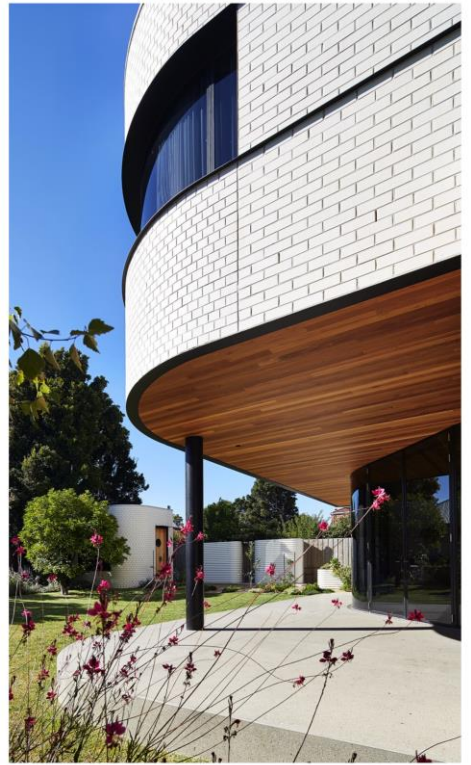
*Mr. Mark Ellenor, Group General Manager Bricks and Roofing*





## PRESENTATION OUTLINE

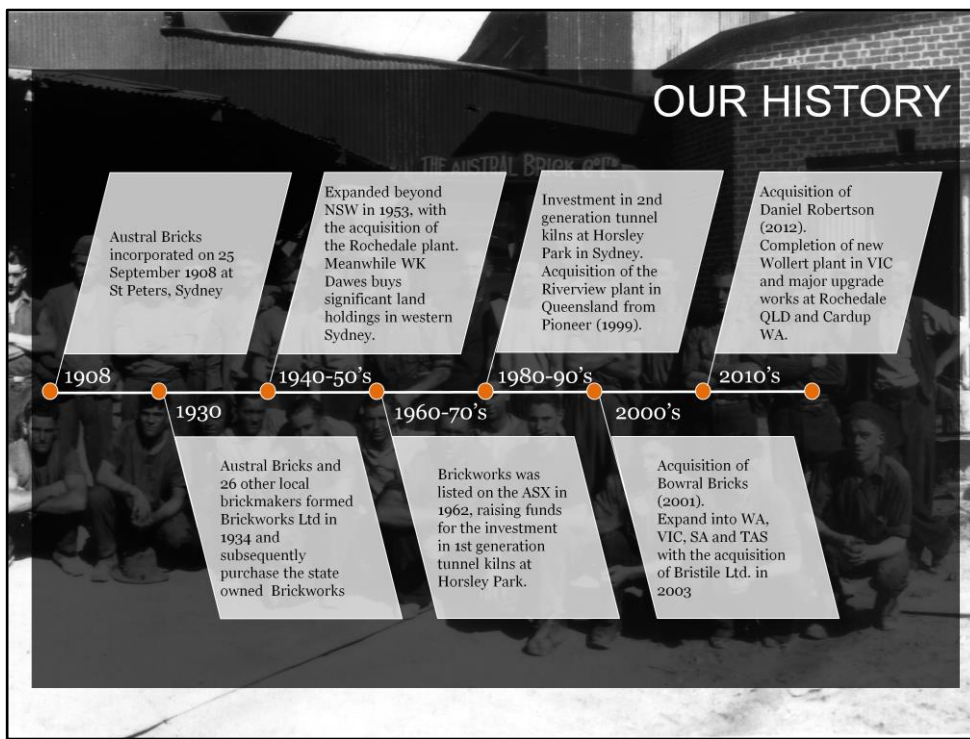
- Austral Bricks overview
- Market conditions & trends
- Financial performance
- Strategy



Thankyou Lindsay and good afternoon Ladies and Gentlemen.

As Lindsay mentioned, I will provide a detailed overview of Austral Bricks operations. I will cover a range of topics including:

- A brief history of Austral Bricks
- Current market conditions and trends impacting brick usage
- Financial performance of Austral Bricks
- More detail on our strategy



Austral Bricks can trace it's history back to 1908 when it was incorporated at St Peters in Sydney. At that time it was one of many local brick manufacturers, servicing the local Sydney market.

In 1934, Austral Bricks was among a group of 26 brickmakers who formed Brickworks Limited, and subsequently purchased the local state owned brick yard.

In 1953 the company expanded beyond New South Wales, with the acquisition of the Rochedale plant in Brisbane, where we are today. Meanwhile, the company was also investing in vast tracts of land in Sydney's west at Horsley Park, for future brick sites.

In 1962 the company listed on the stock exchange as Brickworks Limited, raising funds for the investment in 1<sup>st</sup> generation tunnel kilns at Horsley Park.

Further growth followed in the 1980s and 90s with the investment in 2<sup>nd</sup> generation tunnel kilns and further expansion in Queensland through the acquisition of the Riverview plant.

In 2003, the acquisition of Bristle Limited, created Australia's largest brick company, with operations in all states. This position has been further strengthened over the past decade through continued investment in state of the art production facilities, as I will discuss shortly.

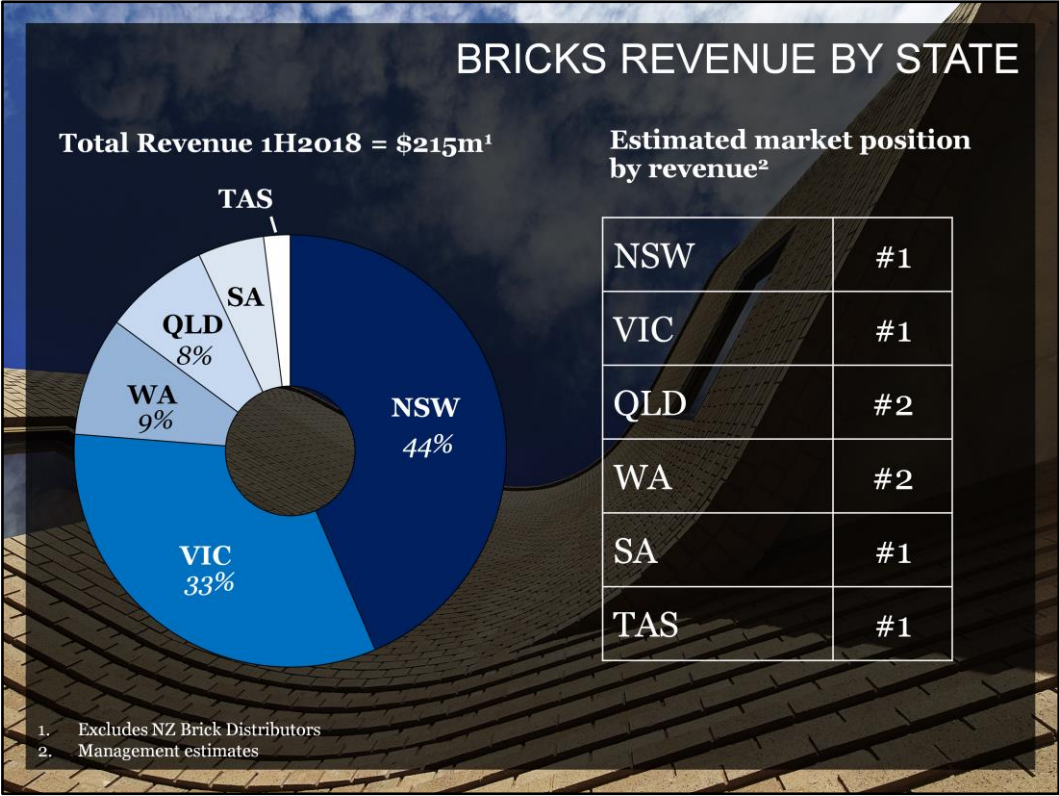


Shown on screen are a small selection of historic photos that celebrate Austral Bricks proud history.

The photo at the bottom of the screen shows Austral Bricks workers gathering outside the engineers room at the St Peters brick plant in circa 1935.

At the top left is a view of the old down draught kilns, also at St Peters in 1946.

The image at the top right shows a team of setters unloading a dome kiln prior to forklifts, at the Eastwood plant.



As I mentioned, Austral Bricks is now well established across the country. In most states, Austral Bricks holds the leading market position.

With building activity extremely strong in New South Wales and Victoria, these states make up over 75% of Austral Bricks revenue. This share has increased significantly in recent years, with the upturn in these states coinciding with a downturn in Western Australia.



#### LOCAL MANUFACTURE



BOWRAL BRICKS



#### JOINT VENTURE



#### INTERNATIONAL BRANDS

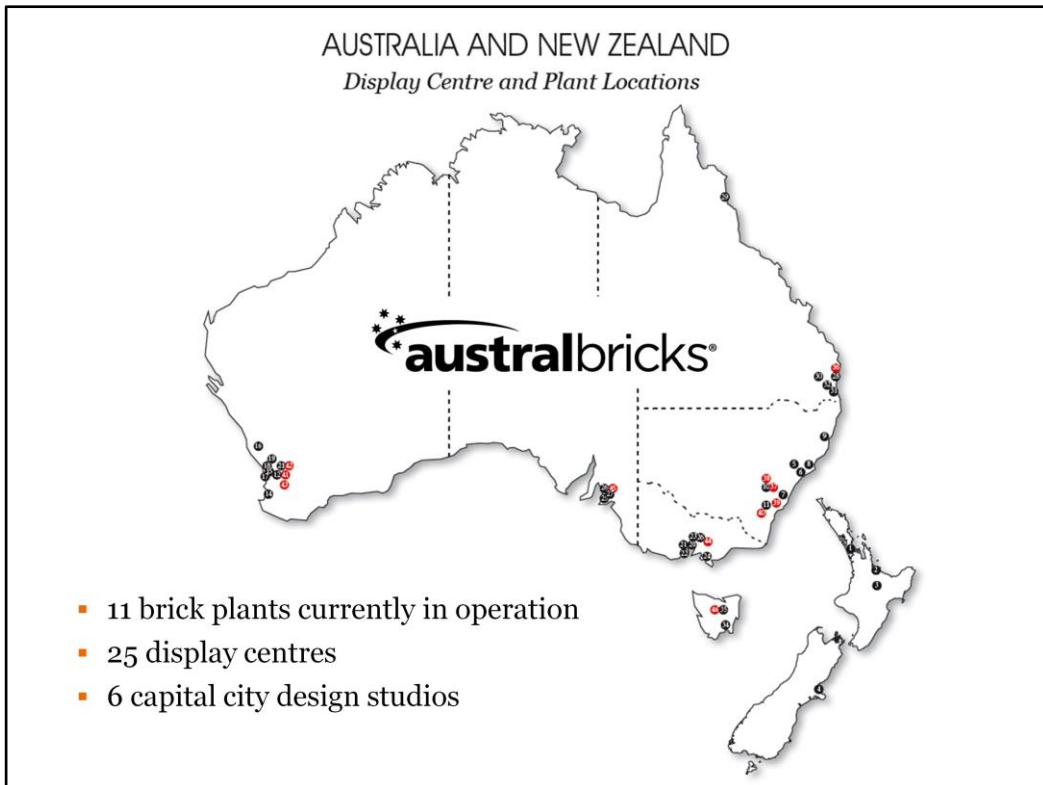


As I mentioned earlier, the flagship Austral Bricks brand was formed in 1908 and is Australia's strongest and most recognisable brick brand.

Other locally manufactured brands include Bowral Bricks, Daniel Robertson and Nubrik, each providing a differentiated product range and premium brand positioning.

Bricks are also exported to other countries, most notably to New Zealand where they are sold through our 50/50 Joint Venture with CSR, New Zealand Brick Distributors. The majority of bricks exported to New Zealand are manufactured here at the Rochedale plant.

In addition, we have exclusive supply agreements in place with leading international companies such as S. Anselmo, La Paloma and Poesia, to offer a specialised range of niche products.



The slide on the screen shows Austral Bricks' vast network of plant locations and display centres across the country.

In total Austral Bricks comprises 11 manufacturing sites currently in operation.

We are committed to providing our customers with the best and most convenient displays, and continue to develop and upgrade our facilities.

In total, the Building Products Group has around 25 display centres across the country. This is complimented by an extensive reseller network that includes well over 100 displays.

Brickworks has also invested in CBD design studios in all major capital cities and I will talk more about these later.

# Australia's #1 brickmaker

**650**  
employees

Australia's only national brick co.

Plants in every state  
Australia's largest network of displays and resellers

**Award winning**

Products featured in numerous iconic  
and award winning projects

**11 plants**

Currently in operation

**700 million** bricks produced per annum

That is enough bricks for ~**70,000 houses**

We are Australia's only national brick company. As you just saw, we have plants in every state and the country's largest network of studios, displays and resellers.

Our products consistently feature in iconic and award winning projects, and I will show some of these later.

We have 650 staff and we produce 700 million bricks per year.

With a typical house having approximately 8,000 to 12,000 bricks, that's enough bricks to build around 70,000 houses.

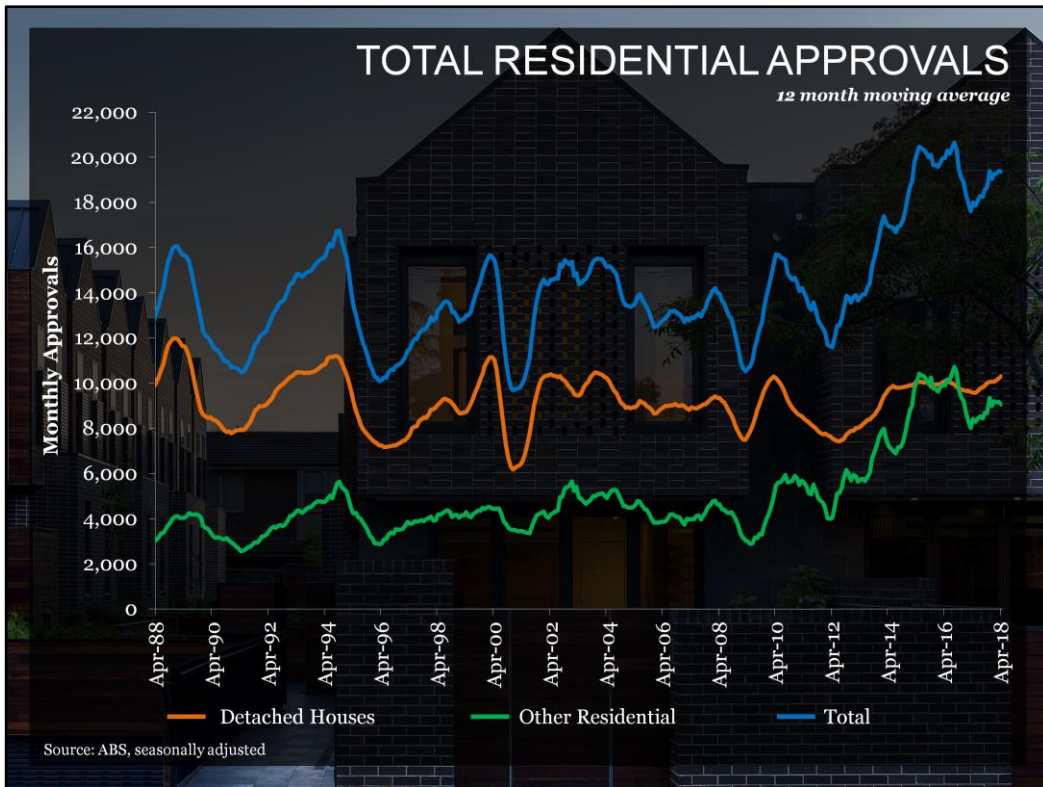
From humble beginnings more than a century ago, we can confidently claim that Austral Bricks has established itself as Australia's number 1 brickmaker.

## MARKET CONDITIONS & TRENDS



Turning now to market conditions and trends that are impacting the brick market in Australia.

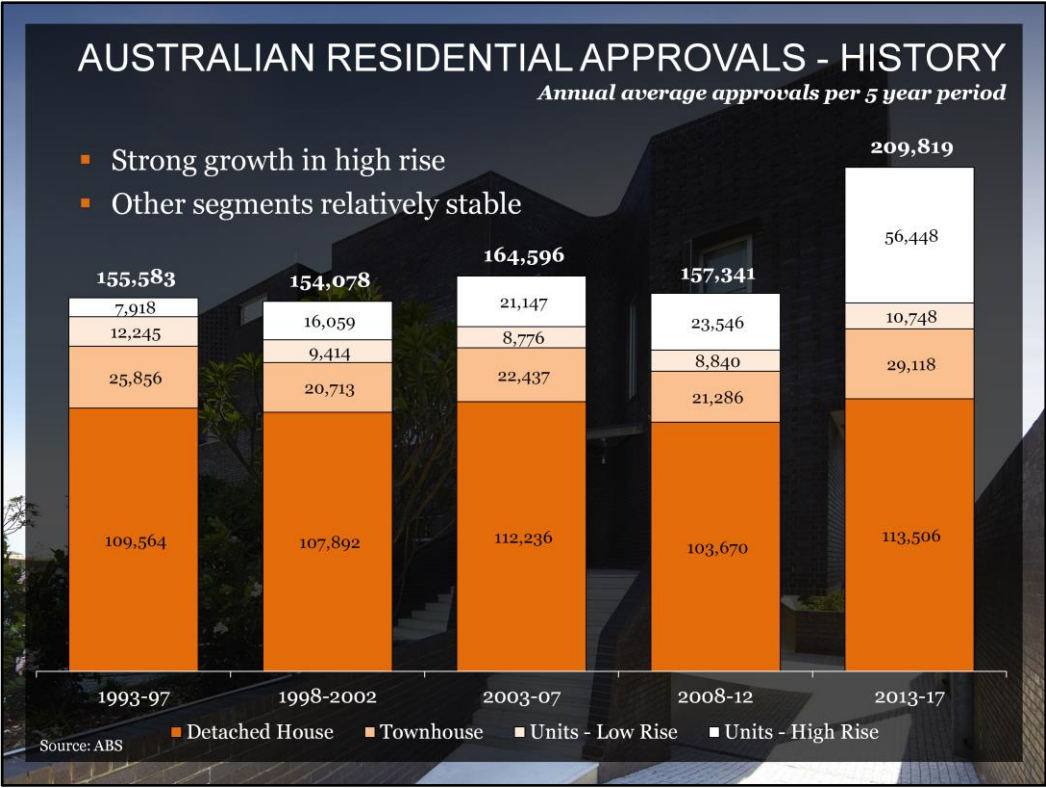




The chart on screen shows monthly Australian residential approvals for the past 30 years. The orange line shows detached houses, the green line shows other residential and the blue line shows the total.

As can be seen by the blue line, overall residential approvals hit record levels around 12-24 months ago, and still remain elevated by historical standards. The sharp increase in approvals since 2012 has been driven primarily by high rise residential developments in the major capital cities, and I will talk more about this in a moment.

The growth in detached housing from near record lows in 2012 has been more modest. However it is important to note that detached housing activity has remained at elevated levels for an extended period of time compared to historical cycles.



Looking now at the breakdown of residential approvals more closely.

The chart on screen shows the average annual approvals by housing type over the past 25 years. Each column represents a 5 year period.

This chart clearly shows that growth over the past 25 years, and in particular the past 5 years, has been driven primarily by high rise developments of 4 storeys or more.

In the period 1993 to 1997, there were around 8,000 high rise approvals per year, making up 5% of all approvals. For the five years to the end of 2017, high rise approvals had increased to 56,000 per year, making up 27% of total approvals.

This growth in high rise is a feature of all major capital cities across the country, supported by government policies that promote infill developments and higher density living close to transportation hubs.

Detached housing, townhouses and low rise unit developments have remained relatively stable over the past 25 years.

Despite the growth in high rise, detached housing remains the most common dwelling type, making up 54% of all approvals over the past five years.

## MARKET CONDITIONS - SUMMARY

- Multi-residential approvals remain elevated but are now passed the peak
- Detached house approvals remain strong, driven by the major east coast states
- However there are signs of softening conditions ahead:
  - Auction clearance rates across the country are at the lowest level since 2013
  - Industry forecasts from HIA and BIS Oxford Economics predict a decline in detached house commencements in FY2019
  - Home builders are reporting a decline in sales volume in Sydney since the start of 2018
  - Increasing time on the market prior to sale, across many regions
- Industry forecasts indicate non residential building will continue to grow in the medium term

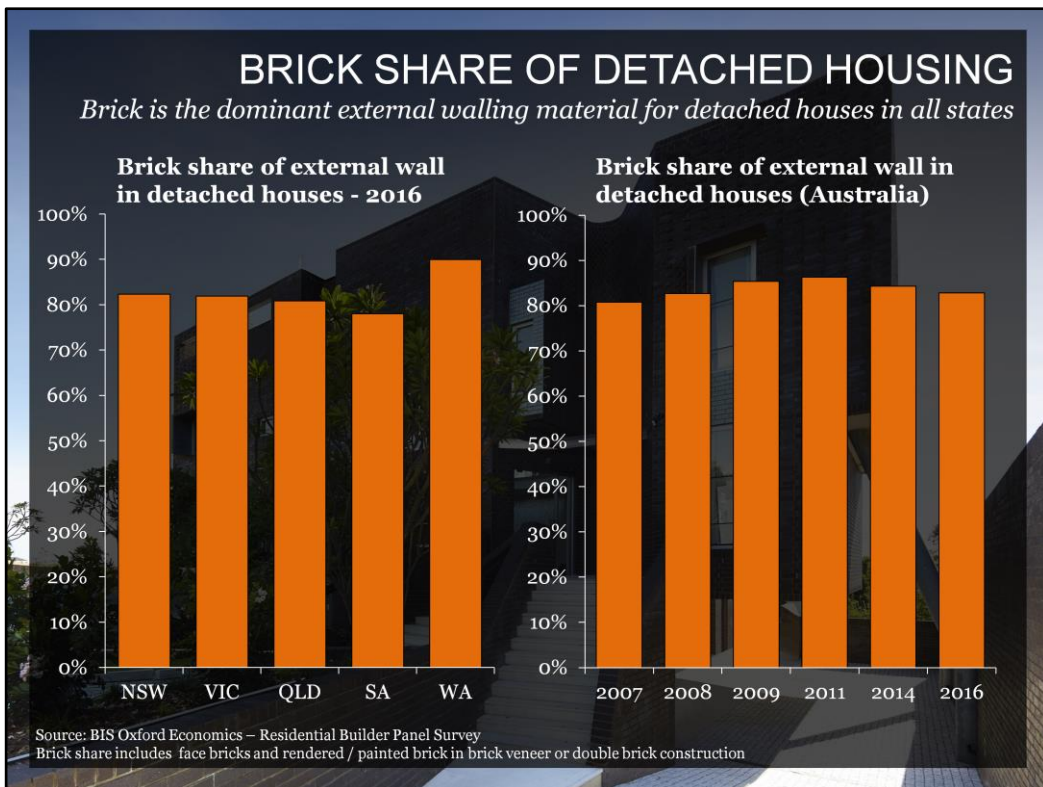
So in terms of market conditions, approvals data shows that:

- Multi-residential construction remains at elevated levels but appears to be passed the peak
- Detached housing remains relatively stable at near record levels.

Despite this positive approvals data, there are a number of early signs of softening conditions ahead. For example:

- Auction clearance rates across the country are at the lowest level since 2013. In New South Wales clearance rates have dropped to less than 60% in recent months.
- Independent Industry forecasts from HIA and BIS Oxford Economics predict a decline in detached house commencements in FY2019
- This is supported by our conversations with home builders. For example some builders are reporting a 20% decline in sales volume in Sydney since the start of 2018
- Increasing time on the market prior to sale for properties across many regions

In terms of non residential building, another important factor for brick demand, we expect conditions to remain strong in the medium term, underpinned by government spending on infrastructure and commercial projects.



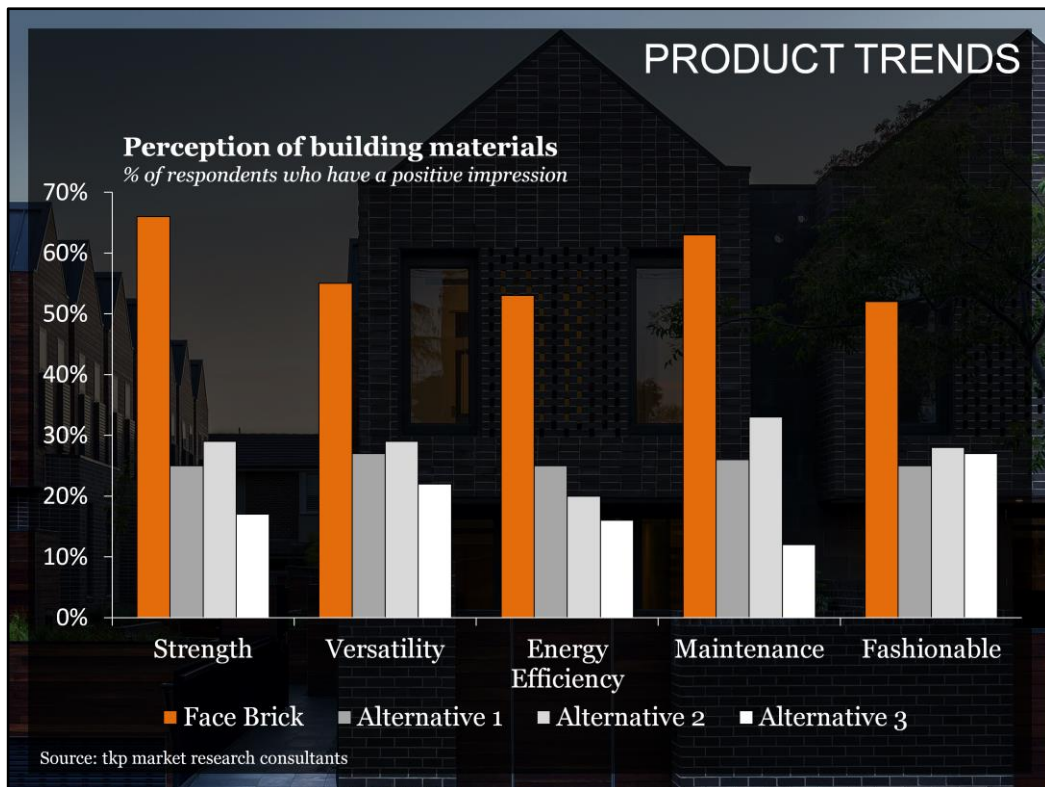
Looking now at materials trends in the industry, and starting with detached housing, which as I said, remains the largest segment of the residential housing market.

Surveys of builders across the country, as completed by BIS Oxford Economics, show that bricks remains by far the most popular building material in external walling across all major states.

According to the survey, brick share of external walling in detached housing is around 80% or more in each state.

In the most recent survey, bricks national share of external walls in detached houses is estimated at 83%, and has remained relatively stable over the past decade.



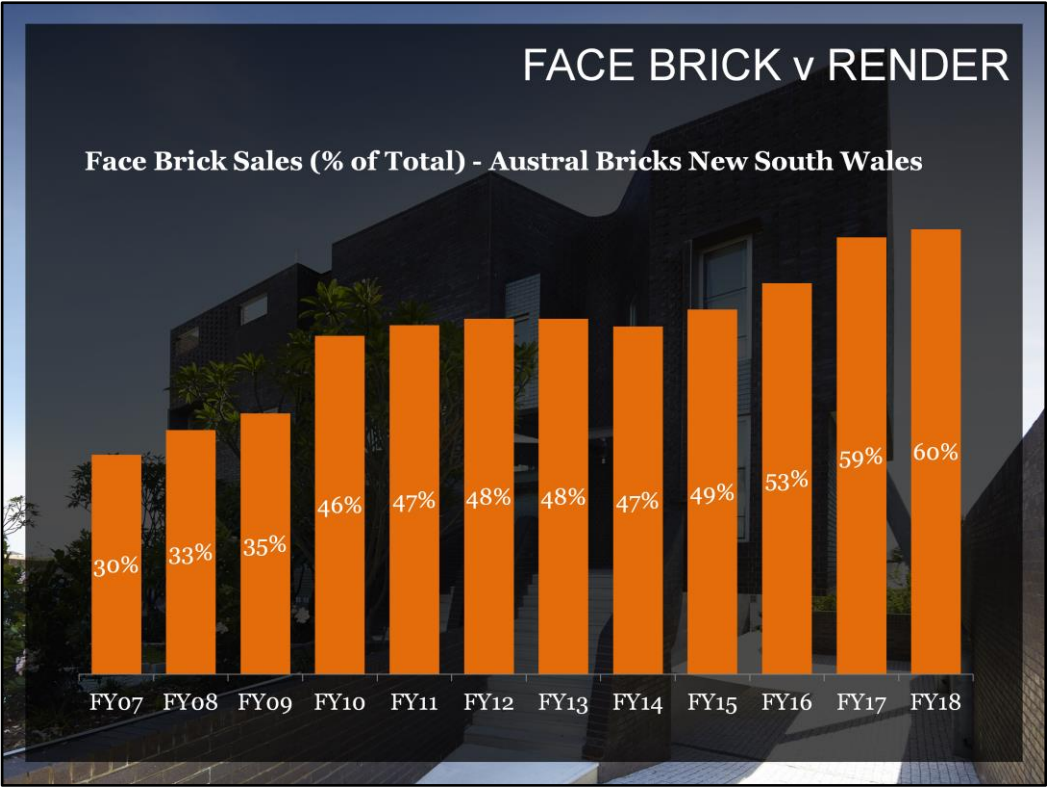


The popularity of brick is driven by a range of positive characteristics. Not only is bricks the most cost effective external cladding choice, it also has a proven track record of reliability and durability, and is the most familiar and accepted construction process.

Our own market research indicates that builders value a range of positive features of bricks relative to other external cladding alternatives in detached housing.

These features include:

- Strength;
- Versatility;
- Energy efficiency;
- Maintenance; and
- Aesthetics.



Importantly for Brickworks, in some states there continues to be a trend towards face brick compared to rendered or painted brick finishes.

For example, as shown on screen, in New South Wales, face brick sales now make up around 60% of total Austral Bricks sales, compared to around 30% a decade ago.

This trend reflects Brickworks strategy to continually develop innovative new products and promote face brick as a stylish, differentiated product compared to a rendered look finish.

Face brick products attract higher margins compared to bricks sold for rendering.

In other states such as Queensland, face bricks are less common due in part to the popularity of monotone, or rendered look finishes.

## PRODUCT TRENDS – OTHER RES & COMMERCIAL

- A wide range of different building types and styles:
  - Townhouses and duplexes
  - Low rise apartments
  - High rise apartments
- There is a wide range of traditional and emerging materials
- Composite look façade is common, with a mix of materials
- Bricks supplemented by other Brickworks products such as precast, masonry, lightweight
- Bricks has had success in recent times in securing specifications in high rise

Looking now at other building types.

As shown earlier, other residential developments may come in a variety of forms such as :

- Townhouses and duplexes
- Low rise apartments
- High rise apartments

Townhouses and duplexes have similar material use to detached houses.

As developments move into higher rise construction, a wider range of traditional and emerging materials are more common.

The use of composite look façades is common, incorporating a mix of materials. This often includes bricks in combination with other products such as precast, masonry and lightweight systems.

## PRODUCT TRENDS – OTHER RES & COMMERCIAL

**austral**masonry®

**austral**precast®

**Pronto Panel**™

**INEX**▶**BOARDS**™

**terracade**™  
TERRACOTTA FAÇADE SYSTEMS

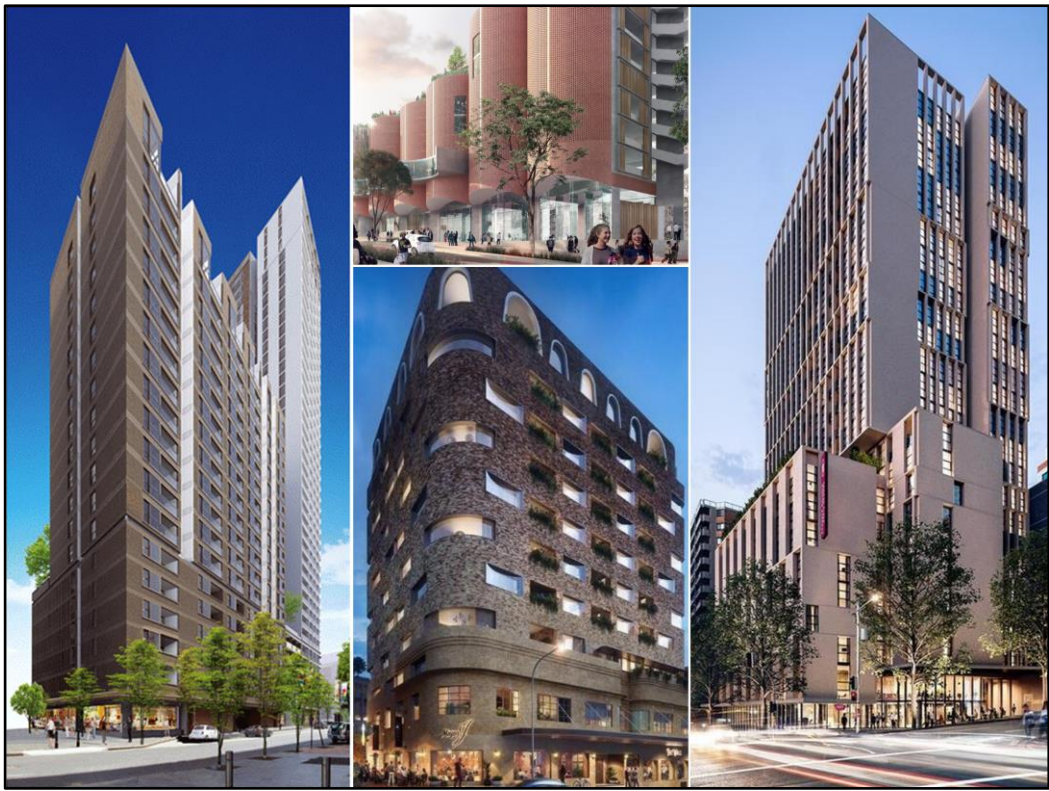


Two typical examples of these low to mid rise “composite look” developments are shown on the screen.

In these type of developments, Austral Bricks products are often used in conjunction with other Brickworks products such as:

- Austral Masonry;
- Austral Precast;
- Our lightweight products, Pronto Panel and INEX Board; and
- Our teracotta façade system, Terracade.





Looking also at high rise construction, Austral Bricks has had great success in recent years in benefitting from the growth in this segment.

We have made significant investments to increase the penetration of bricks into this market. This investment includes the roll-out of capital city design studios across the country, product development, and a focus on building improved relationships with architects and engineers. This strategy is supporting the increased use of face brick in high rise residential and commercial developments.

Shown on the left of screen is the 24 storey Lend Lease development at Darling Quarter in Sydney, currently under construction. This project incorporates around 800,000 premium bricks from our Punchbowl and Bowral factories. On the right of screen is a 26 storey mixed use tower in Sussex Street, also in Sydney. This project has been specified in Simmental Silver bricks from Bowral.

## KEY INDUSTRY THEMES

### **Detached Housing**

- Brick remains by far the most popular material for external walling in detached housing
- Brick is perceived to have a number of advantages over other materials
- Exposed face brick is increasing in popularity compared to a rendered brick finish in some markets

### **Commercial and other residential**

- Strong growth in high rise and medium density construction
- A wide range of materials are used in these segments
- Specifications for the use of bricks in commercial and mid-high rise construction is increasing

So, summarising some key industry themes in relation to brick usage across various building types.

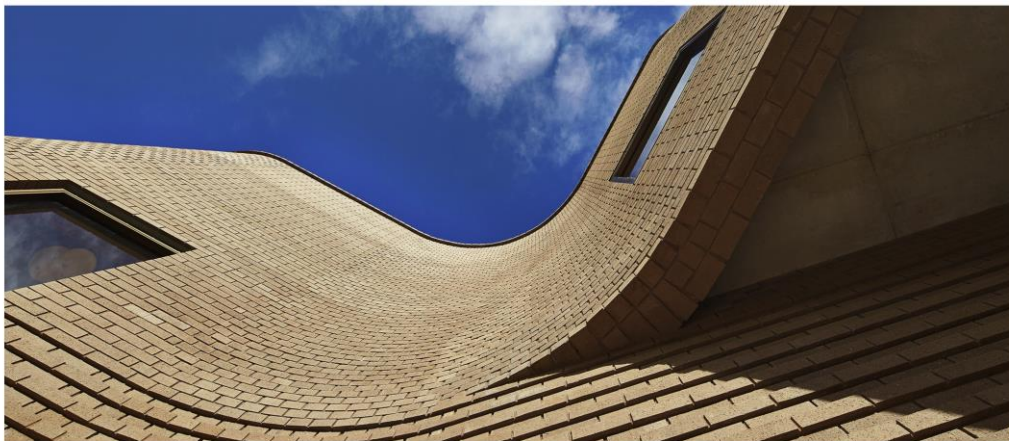
In detached housing:

- Brick remains by far the most popular material for external walling
- Brick is perceived to have a number of advantages over other materials
- Exposed face brick is increasing in popularity compared to a rendered brick finish in some markets

In commercial and other residential developments:

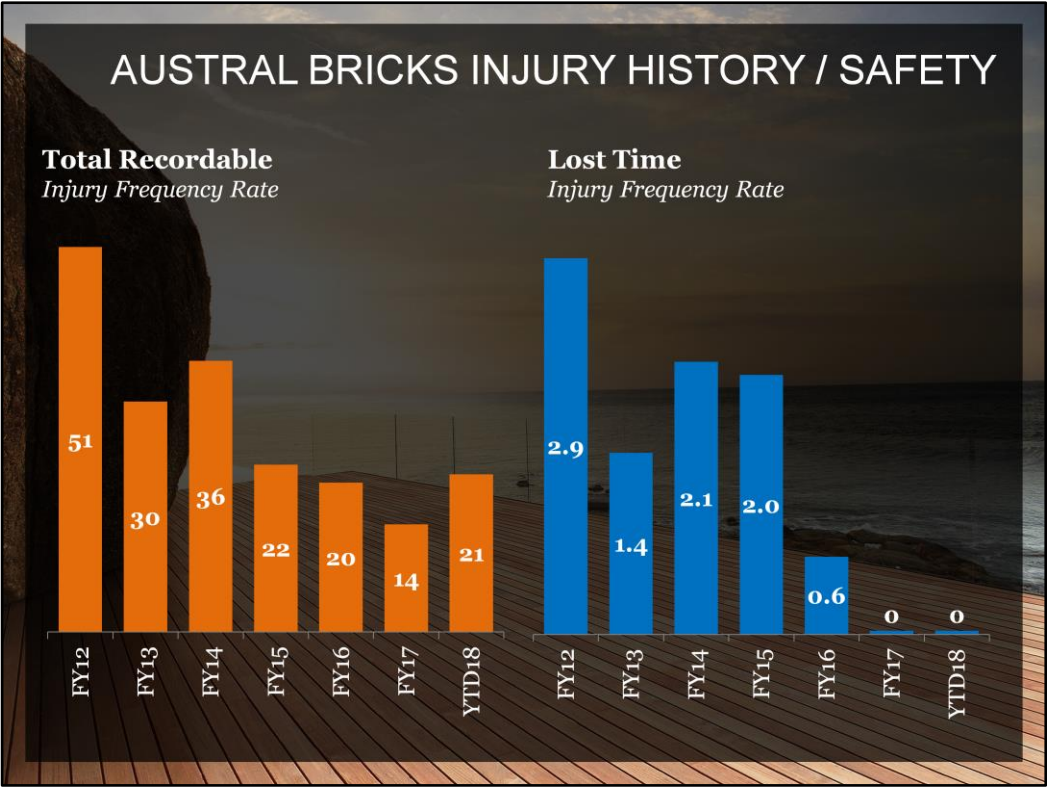
- A wide range of materials are used, often in combination to create a “composite” look finish
- Specifications for the use of bricks in commercial and mid-high rise construction is increasing, supported by a significant investment by Brickworks in this segment

## PERFORMANCE



Turning now to Austral Bricks performance.





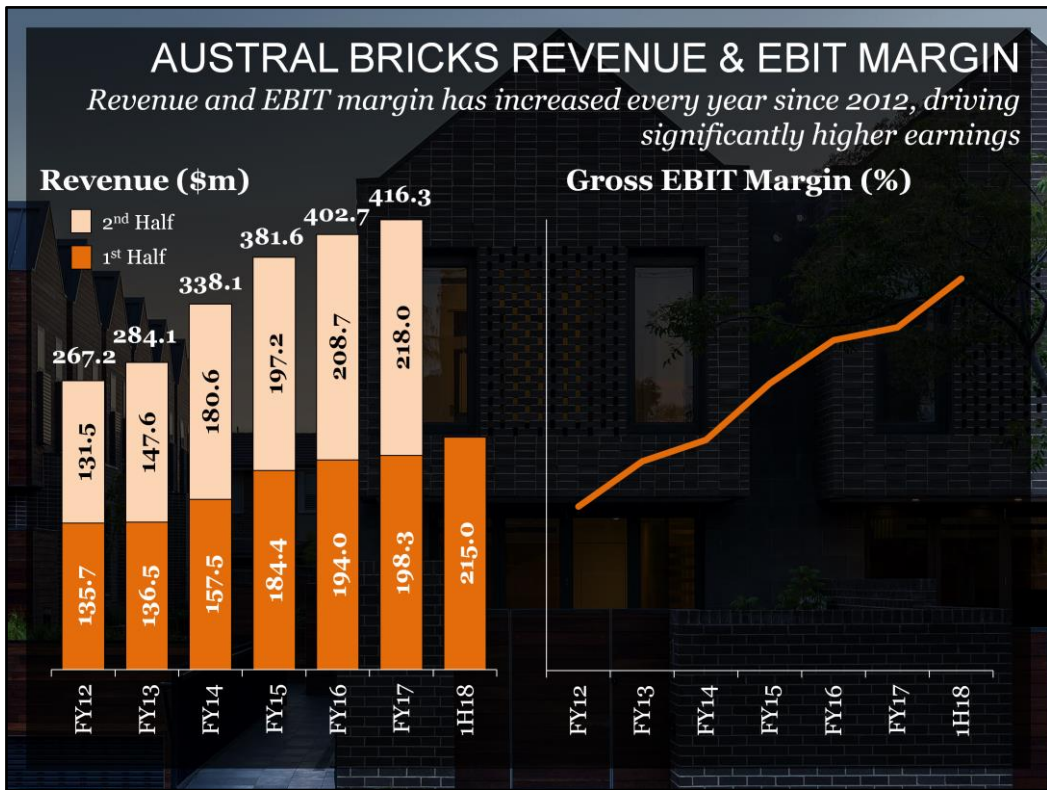
Starting with safety.

The Total Reportable Injury Frequency Rate, as shown on the left hand chart has decreased significantly over the past five years. Back in 2012, 51 employees required medical treatment per million hours worked. This has reduced to 14 people in our last financial year, and 21 people based on the current year to date.

Whilst we have made steady improvements, we are still some way short of reaching our target TRIFR score of 10, and further still from our ultimate goal of achieving a workplace free from injuries.

I am pleased to say that we have not recorded a lost time work injury since financial year 2016.





Turning now to our financial performance.

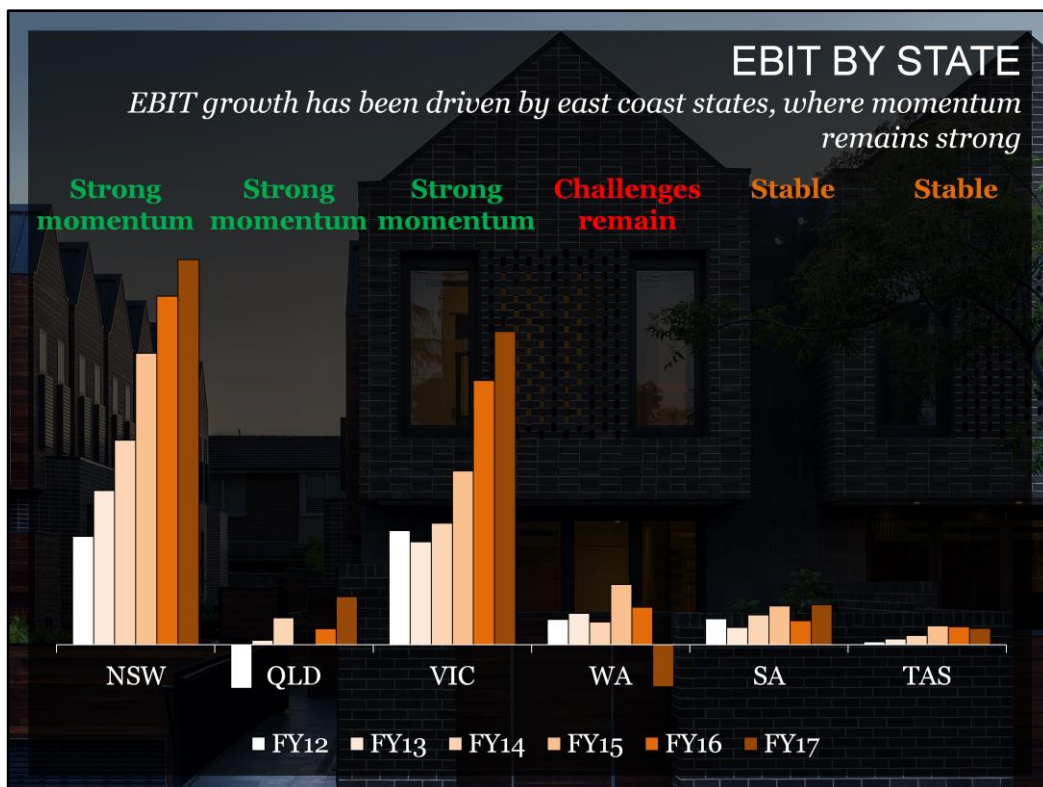
Looking back to 2012, conditions at that time were the most challenging in over a decade due to:

- Housing construction being severely depressed;
- Overcapacity in the industry;
- Unsustainably low pricing; and
- Input price pressures.

Since that time, conditions have improved significantly. Full year revenue of \$416 million in financial year 2017 was 56% higher than 2012. Revenue increased again in the first half of 2018, up a further 9% on the prior period.

Margins are also much improved and are now more than double those achieved 5 years ago. Pricing has improved in most states, and together with improved manufacturing efficiencies, this has supported margin improvement, despite the continued cost pressures being faced.

Clearly the improved revenue and margins has translated to strong year on year earnings growth for Austral Bricks over a number of years.



The chart on screen shows a state by state summary of EBIT growth since 2012.

Strong earnings momentum has been achieved in our two largest markets, New South Wales and Victoria.

Queensland earnings have turned-around following the upgrade works completed here at Rochedale, and the business is now well placed to build on this in future years.

Challenges remain in Western Australia. However despite the difficult conditions we reported a positive EBITDA result for the first half of 2018, following the upgrades to the Cardup plant and closure of Malaga.

South Australia and Tasmania continue to produce stable and reliable earnings.

## STRATEGY



Turning now to our strategy.



Lindsay has already provided an overview of the Building Products strategy.

I would like to spend some time explaining how Austral Bricks is implementing the “Strengthen the Core” component of the strategy through a range of initiatives and how this has been fundamental to achieving our strong earnings growth in recent years.

## OPERATIONS EXCELLENCE - PRICING

*Average selling price increases of 6-8% have been achieved in most states since FY2012*

- Strategic focus
  - Dedicated pricing resources hired to implement pricing strategy, monitor compliance and identify new opportunities
- Disciplined and consistent approach to price rises
  - Annual price increases
  - Timing consistent across the country
- Aligned with customers
  - Long notice periods provided to support customer requirements
  - Product upselling incentives

Firstly, taking a closer look at what we have achieved in pricing.

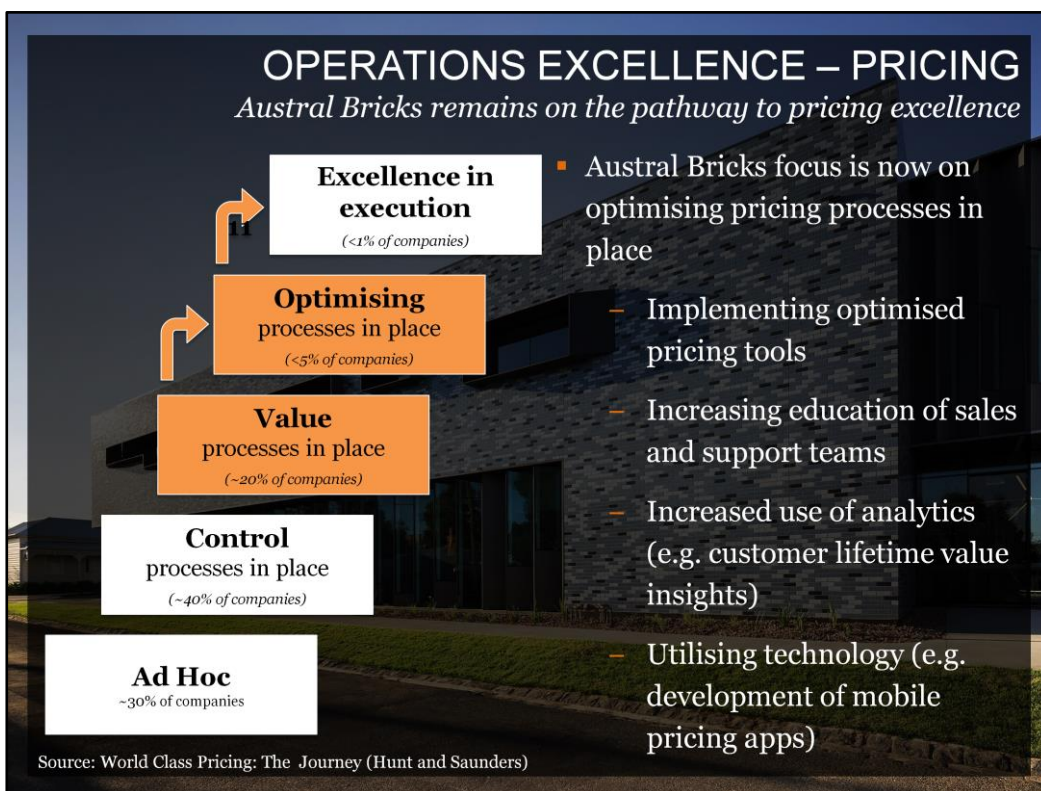
Since 2012, when brick pricing was at unsustainably low levels, pricing has become a major strategic focus for Austral Bricks. This includes appointing dedicated pricing resources to implement the pricing strategy, monitor compliance and identify new opportunities.

We now have 6 Pricing Managers within Austral Bricks, led by a triple degree mathematician.

We have become disciplined and consistent in our approach to price rises, with annual price increases implemented across the entire country at the same time.

We are now applying more sophisticated pricing techniques, including working with our customers to align outcomes, with product upselling incentives and long notice periods provided to support their business requirements.





Whilst we have come a long way, we recognise we have not yet finished our pricing journey.

Austral Bricks focus is now on optimising pricing processes in place by:

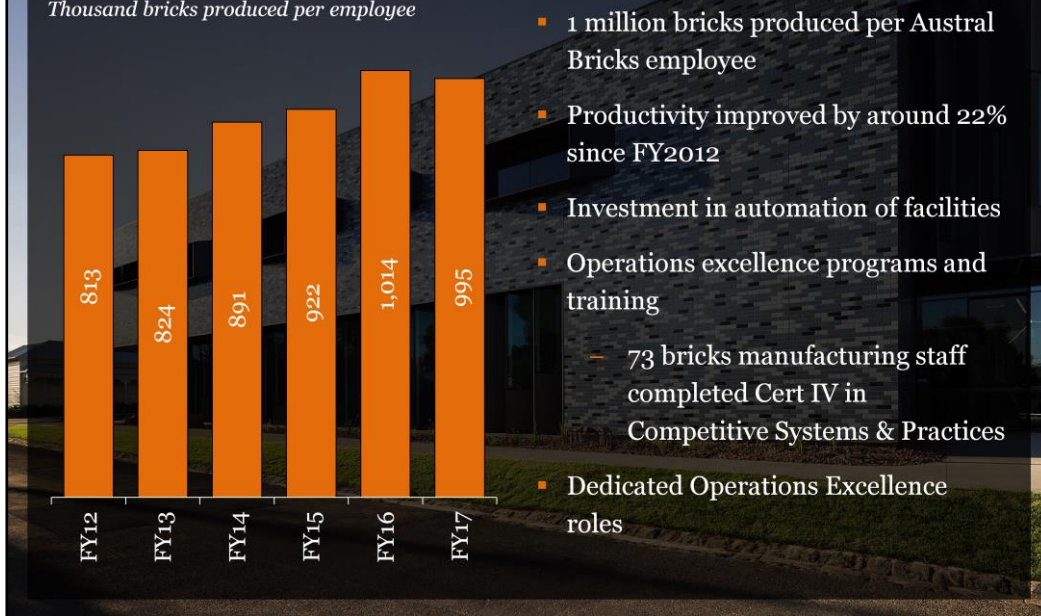
- Implementing optimised pricing tools;
- Increasing education of sales and support teams;
- Increased use of analytics such as customer lifetime value insights; and
- Utilising technology, including the development of mobile pricing apps.

## OPERATIONS EXCELLENCE – LOWEST COST

*Austral Bricks productivity has improved through a range of initiatives*

### Austral Bricks Productivity

*Thousand bricks produced per employee*



Turning to operations excellence in manufacturing.

We are constantly looking at how we can improve our manufacturing processes to boost productivity.

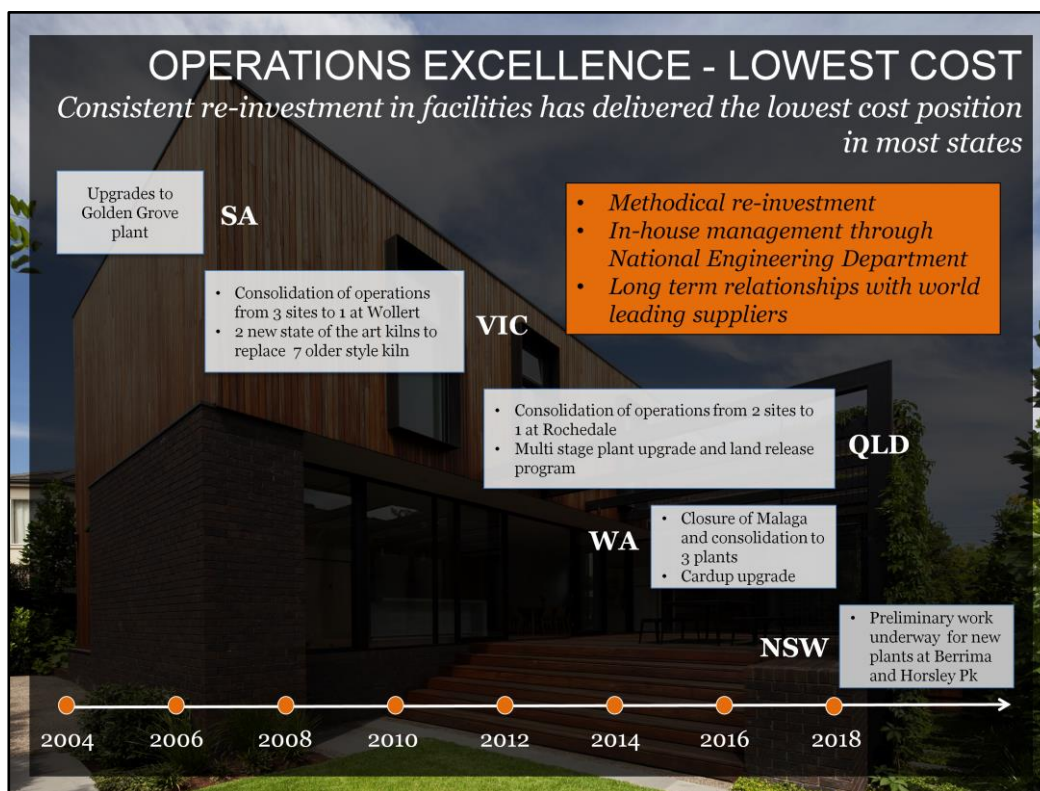
Our productivity has increased by over 20% since 2012, as measured by bricks produced per employee.

We are now consistently producing around 1 million bricks per Austral Bricks employee, up from 813,000 five years ago.

This improvement is driven by a range of factors such as:

- Investment in automation of facilities, which I will discuss further in a moment;
- Operations excellence programs and training. For example, 73 bricks manufacturing staff have completed Cert IV TAFE courses in Competitive Systems & Practices; and
- An investment in dedicated operations excellence roles across the business.

The slight drop in productivity last financial year is due primarily to increased resources at Bowral in order to meet customer demand for premium bricks from that facility.



Austral Bricks is committed to investing in manufacturing facilities to achieve its stated strategic objective of being the lowest cost manufacturer in each market.

Over the past decade, we have methodically re-invested in our plants across the country to ensure our facilities are well maintained and progressively updated as required.

During that time, we have completed major projects in Victoria, Queensland and Western Australia.

In Victoria, we have consolidated operations from 3 sites to 1, in the process replacing 7 older style kilns with 2 state of the art kilns at Wollert.

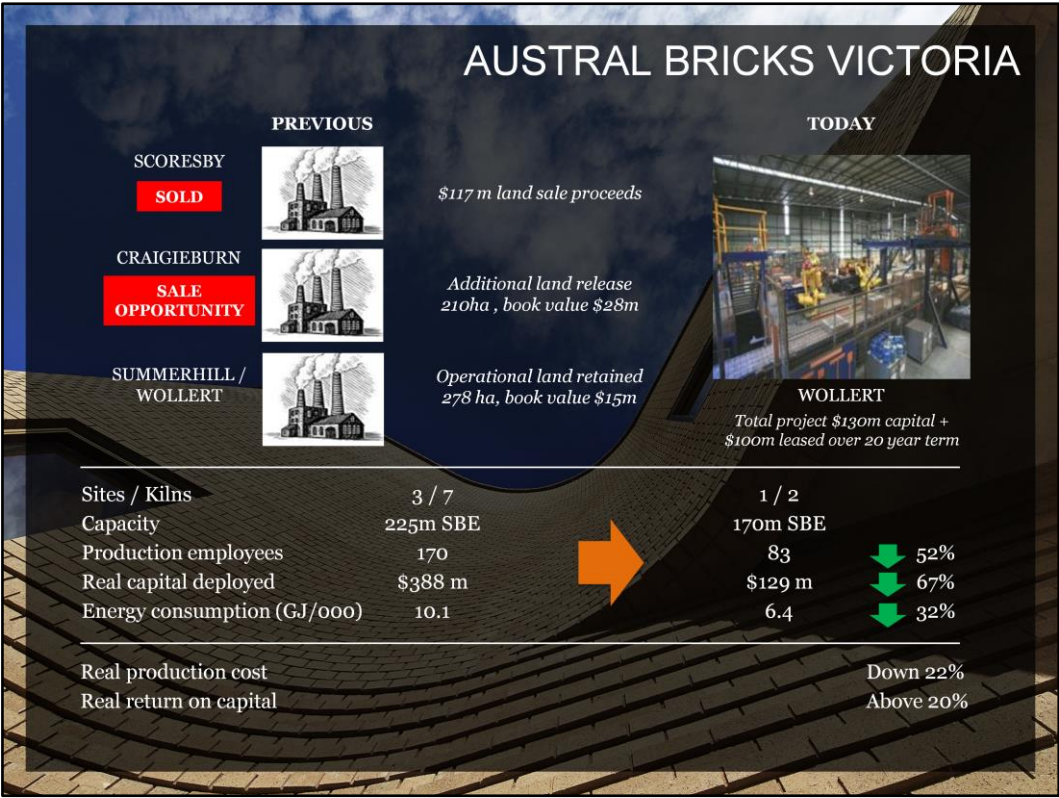
Here at Rochedale, a multi phase upgrade program has now been completed, consolidating operations from 2 sites to 1.

In Western Australia we have upgraded the Cardup plant, allowing the sale of Malaga.

Our focus is now turning to New South Wales, where there has been limited major capital expenditure for over twenty years. Preliminary design work has commenced on a new facility at Brickworks industrial estate at New Berrima to replace the Bowral facility, an energy intensive plant with some parts having been in operation since the 1920's.

Also under consideration is the future operational footprint within the Horsley Park precinct, where Austral Bricks currently has 3 plants in operation. Planning and capital works in this precinct will be phased over a number of years.





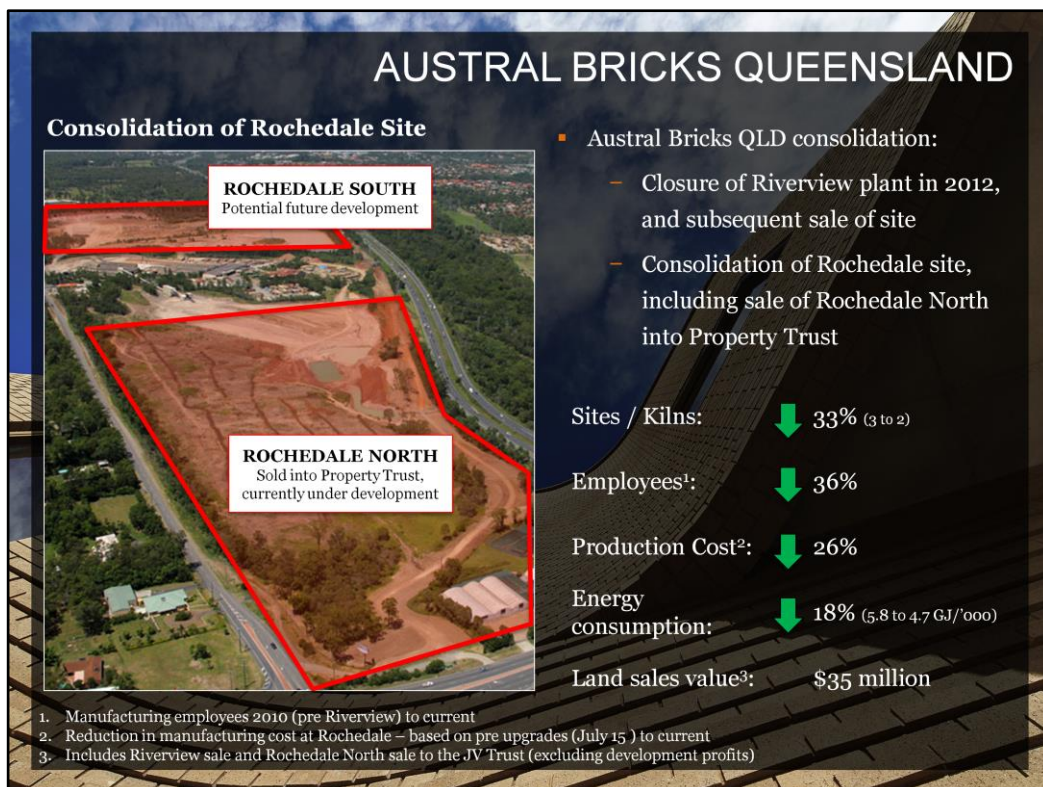
As outlined in the previous slide, the capital investment program has been ongoing for many years. As part of this program we are focussed also on improving the return on funds through active asset management, particularly in relation to optimal land usage.

This incorporates both active management of operational land and the release of surplus land to the property Group for development.

Looking at Victoria in more detail, the upgraded facility at Wollert not only represented an evolution in brick manufacturing facilities and operational productivity, but also a leap forward in environmental performance.

Importantly it also resulted in a significant reduction in the level of real capital employed in this business as we released valuable land at Scoresby, which delivered \$117 million in sale proceeds, and at Craigieburn, which provides an additional sale opportunity in future.





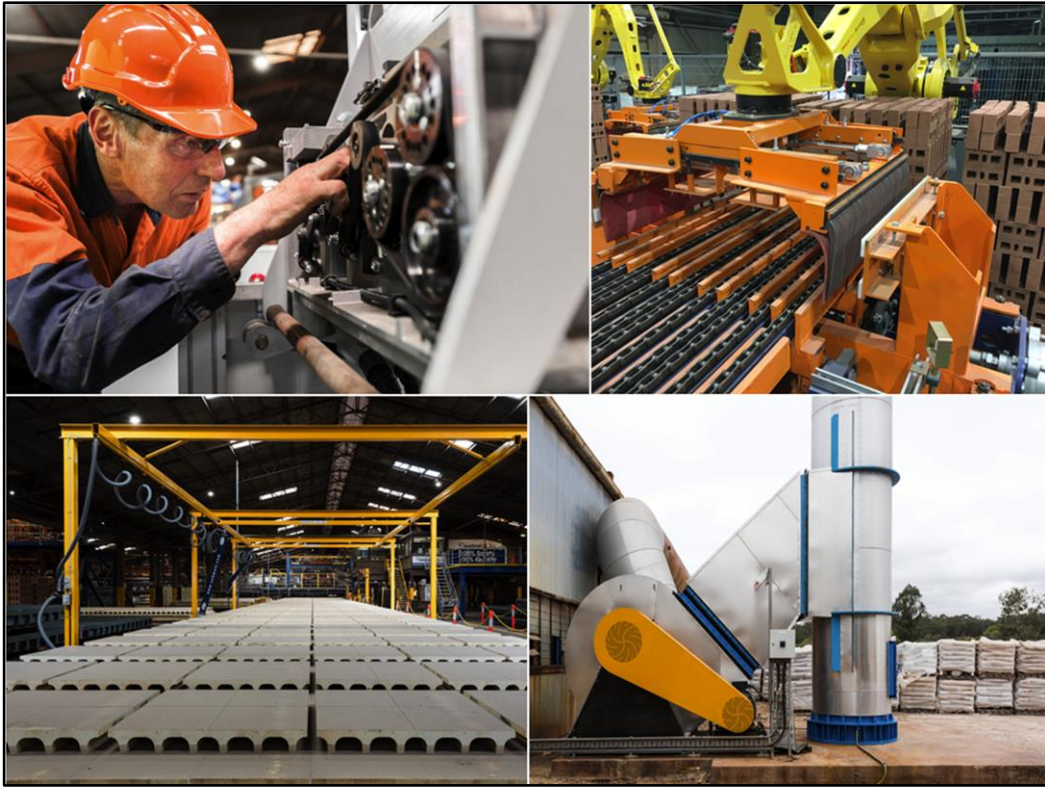
A similar consolidation strategy has been completed in Queensland.

Some features of the Queensland restructure include:

- A reduction in operating sites and kilns, following the closure of Riverview in 2012;
- A reduction in manufacturing employees by 36%;
- A reduction in the production cost at Rochedale of 26%; and
- An 18% reduction in energy consumption per brick produced

Importantly, the consolidation also allowed Brickworks to release valuable land for sale.

In total, \$35 million was realised through land sales, comprising the sale of Riverview and the sale of Rochedale North to the JV Trust. Further profits have been delivered in the JV Trust following the completion of developments at Rochedale.




The recent work at Rochedale has included the installation of a new packaging line and the re-commissioning of the second kiln, which was previously mothballed. These upgrades complete a multi-year refit program to significantly improve product quality and lower unit production costs.

In terms of scale, quality and efficiency, this plant now ranks amongst the best worldwide.

Following the upgrades, the first kiln remains available for production, resulting in the total capacity in Queensland returning to historical levels and providing valuable “swing capacity” for periods of peak demand across the East Coast.

The Rochedale project, like all major capital projects within Austral Bricks, was managed in house through our national engineering department. This department includes project management and technical specialists who are experts in their field.

## AUSTRAL BRICKS WESTERN AUSTRALIA



- Austral Bricks WA consolidation:
  - Closure of Malaga plant in 2017, and subsequent sale of site for \$19.2 million
  - Upgrade to Cardup plant
  - Mothball Armadale plant
- Delivers higher return on invested capital within Austral Bricks and cash proceeds from land sale

Sites / Kilns:	↓ 25% (4 to 3)
Employees <sup>1</sup> :	↓ 30%
Production Cost <sup>2</sup> :	↓ 25%
Cash proceeds from land <sup>3</sup> :	\$19 million

1. Manufacturing employees 2016 (pre re-structure) to current

2. Malaga manufacturing cost (2016) vs current Cardup manufacturing cost, adjusted for volume

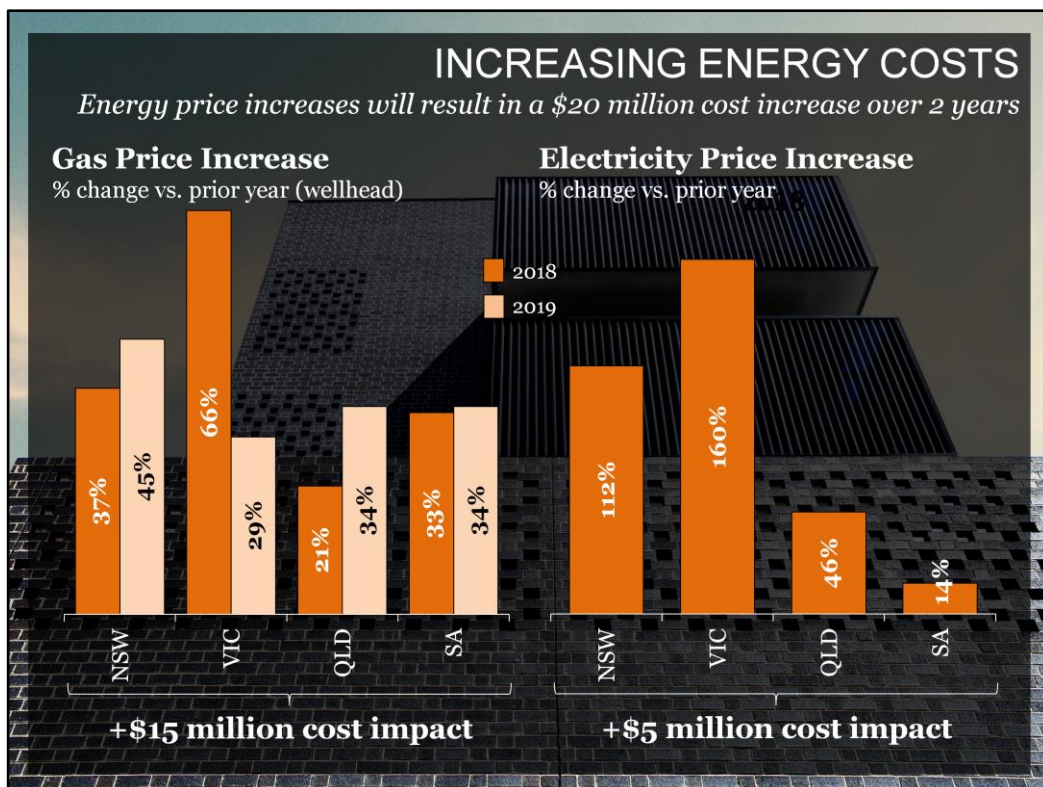
A similar strategy is also being pursued in Western Australia, with extensive restructuring and plant rationalisation initiatives completed last year.

Following the closure of the high cost Malaga plant, production has now been transferred to the upgraded Cardup plant.

The Armadale brick plant has also been closed indefinitely. With conditions not expected to improve in the foreseeable future, production at Bellevue and Cardup is sufficient to meet current market demand.

Having sold the Malaga site in July for \$19.2 million, the business is now operating with much fewer manufacturing staff, lower production costs and delivering a higher return on capital invested.





Re-investing in more efficient plant and equipment has been crucial to minimise the impact of energy cost increases.

As we have previously announced to the market, new energy contracts on the East Coast at significantly higher prices came into force on 1 January 2018.

As shown on the charts, wellhead gas price increases ranged from 21% in Queensland to 66% in Victoria. Electricity price increases were even greater, being up by 160% in Victoria and 112% in New South Wales.

Further gas price increases will take effect on 1 January 2019.

Over two years the total cost impost associated with these energy cost increases will total \$20 million.

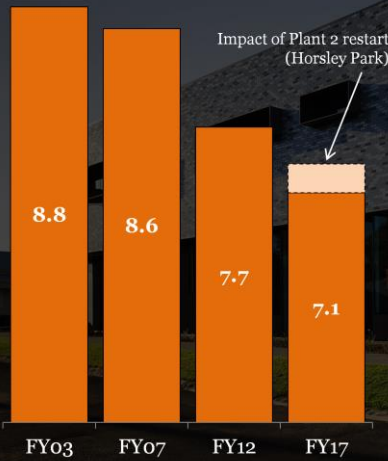
Brick price increases have covered the 1 January 2018 energy price increases.



## OPERATIONS EXCELLENCE – ENERGY

*Austral Bricks has significantly reduced energy consumption over the past decade*

### Energy Consumption GJ/000' bricks produced



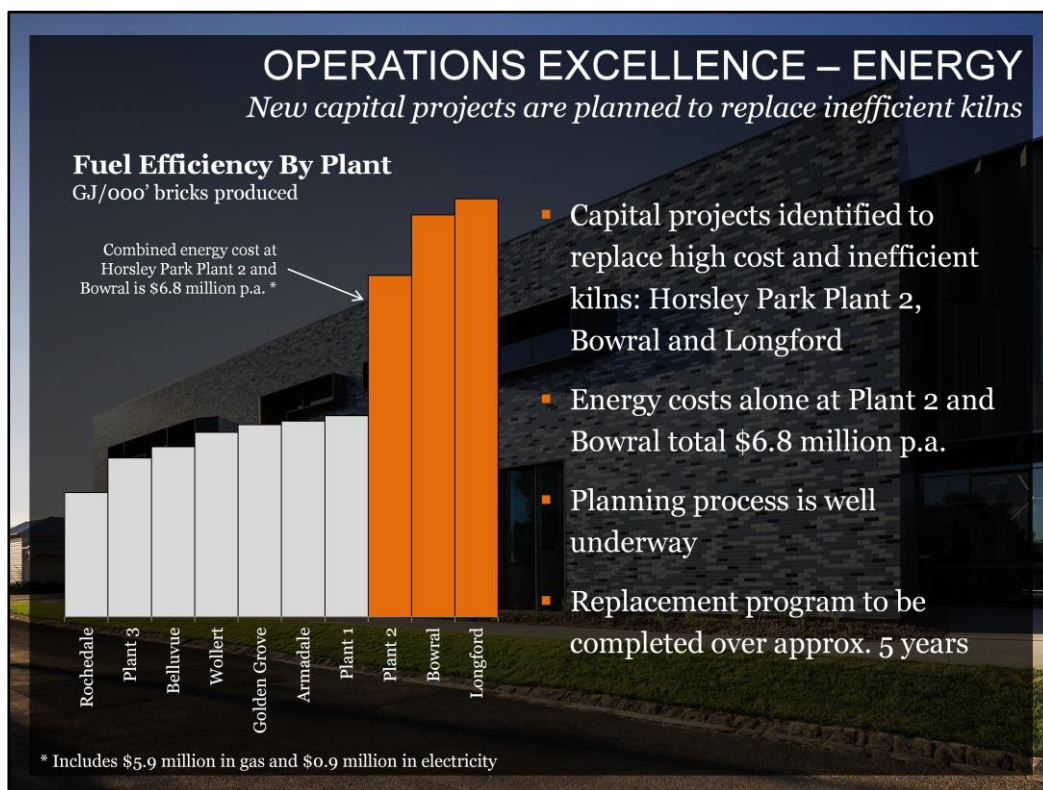
- Energy consumption (per brick produced) reduced by 19% since FY2003 (ex Plant 2 impact)
- Investment in state of the art, energy efficient kilns (e.g. Wollert, Rochedale)
- Transition to clean renewable fuels (such as landfill gas)
- Product re-design initiatives to reduce energy consumption
- Australia's first carbon neutral brick

We continue to invest in a range of cost mitigation strategies to minimise any further flow on price increases to our customers.

These initiatives include:

- Further investment in new fuel-efficient kilns;
- The transition to clean renewable fuels such as landfill gas, where possible; and
- Product redesign initiatives to reduce energy consumption.

As shown on the slide, these initiatives have resulted in a 20% reduction in energy consumption per brick produced over the past decade, excluding the impact of the restart of the high energy consumption Plant 2 at Horsley Park.



As I mentioned a moment ago, the focus for capital investment is now on New South Wales, and in particular the replacement of Bowral and Plant 2. In addition, upgrade works are planned for the Longford facility in Tasmania.

As shown on the chart, these plants are highly energy intensive compared to other plants across the country.

The total energy cost at Plant 2 and Bowral was \$6.8 million in financial year 2017, and will increase significantly as a result of the current energy price increases. Therefore the potential energy cost savings alone on any new plant investment will substantially underpin the investment business case.



## BUILD GREAT CUSTOMER RELATIONSHIPS

*Austral Bricks has developed industry leading customer relationships*

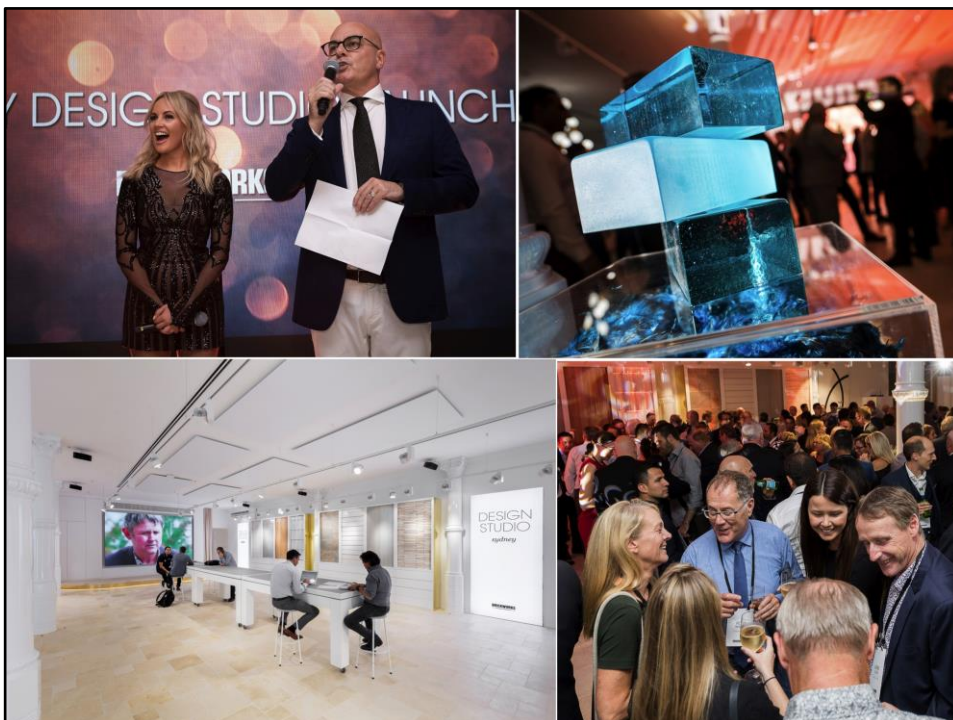
- Dedicated sales teams that cover all market segments
- Industry leading customer incentive program to promote loyalty
- “Awesome” customer service includes:
  - Free colour consultations and expert advice
  - Easy to use online tools
  - Next day deliveries
- Design studio events
  - International architecture speaker series
  - Architectural and engineering industry association functions
  - Product launches

Another key strategic objective for Austral Bricks is to build great customer relationships. We strive to develop long term loyalty and mutually beneficial partnerships with our customers.

This objective is achieved through:

- Dedicated and long-serving sales teams that cover all geographies and market segments;
- An industry leading customer incentive program; and
- Delivering “awesome” customer service , with initiatives such as:
  - Free colour consultations;
  - Access to online tools; and
  - Next day product deliveries.





Our investment in design studios is another demonstration of our commitment to building industry leading customer relationships.

These studios, located in each major capital city across the country, are utilised to host events, attracting thousands of customers, architects and other key influencers. They have now become a focal point for the local architectural and design community in each city.

In Sydney, a new design studio was launched in March, with an expanded showroom and event space to cater for the growing demand for speaking events and industry functions.

This strategy continues to deliver results. As I showed earlier, we are seeing increased penetration of Brickworks' products in several key markets such as high rise and commercial developments.



## STYLE & PRODUCT LEADERSHIP

**250**

Design studio events in the last 12 months

**40% p.a.**

growth in sales of imported products over the past 4 years

**12 million**

Imported premium bricks sold p.a.

**Brand awareness**

Increased significantly in the past 3 years

**1,841**

Selections through colour consultations

**23**

Horbury Hunt award winning projects since 2010

In total our design studios have hosted more than 250 events over the past 12 months, including product launches for some of our premium imported products.

Importing specialised products from around the world allows us to offer our customers a wider range of options, and forms part of our style and product leadership strategy.

We have distribution agreements with leading international brands including:

- S. Anslemo handmade bricks from Italy;
- La Paloma premium face bricks from Spain; and
- Poesia ultra premium glass bricks from Italy.

Our sales of premium imported bricks have increased at 40% per annum over the past 4 years and now amount to 12 million bricks per year.

As Lindsay mentioned earlier, we have made a significant investment in style over a number of years, including a successful television branding campaign. We have also formed collaborative partnerships with other leading fashion brands such as Vogue and Belle.



Our product leadership is perhaps best demonstrated by the award winning and iconic projects that feature our products.

For example, shown on screen is the Dr Chau Chuk building at the University of Technology Sydney.

This building, designed by Frank Gehry, utilised over 380,000 specially designed Limousin Gold dry press bricks produced at Bowral.

This building has received many awards since construction was completed in 2015, including:

- The 2016 Property Council of Australia Innovation & Excellence Awards: Woods Bagot Award for Best Public Building
- The 2015 Master Builders Association National Excellence in Construction Awards: National Public Buildings Award – Over \$50 Million.
- The 2015 Horbury Hunt Commercial Award for the best commercial brick building in Australia.



Another iconic and award winning project is the Australian Embassy project in Bangkok.

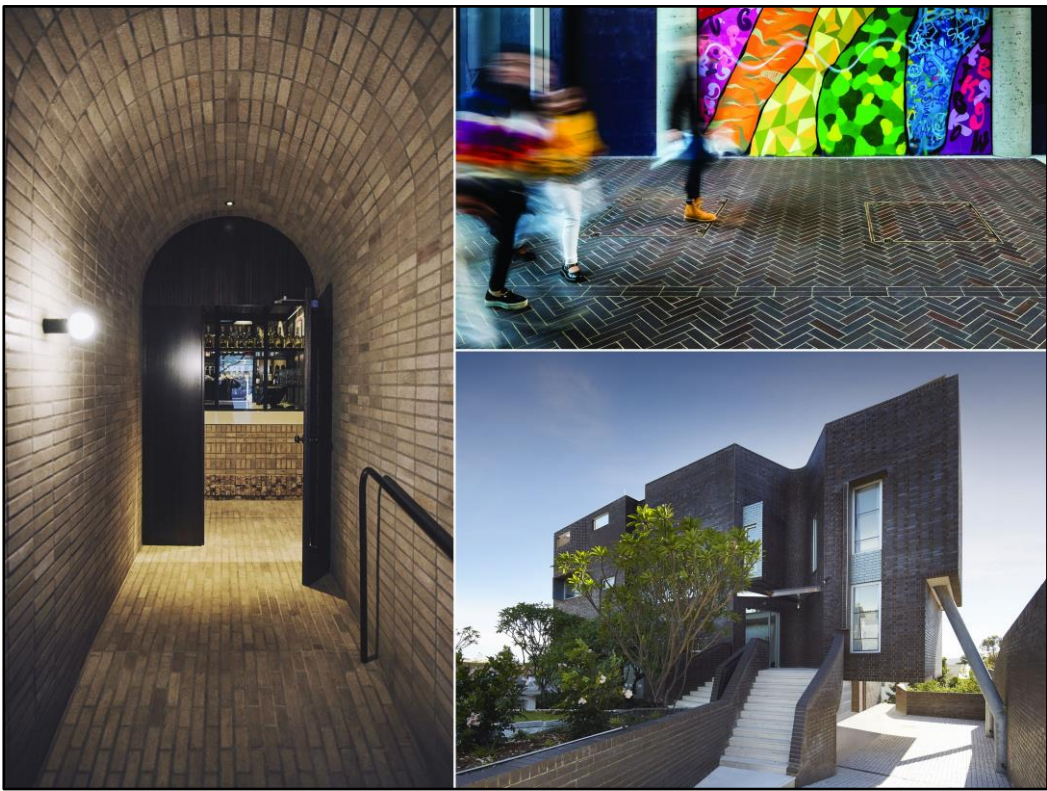
A new colour called Embassy Red was developed by Austral Bricks, in conjunction with the architect for this project.

Various shapes were required including 6 different radial bricks and a transition brick to enable the curved façade.

In total 420,000 bricks were shipped to Bangkok for the project, which took two years to build following a five year design process.

The new building was officially opened in August 2017 by the Foreign Minister Julie Bishop.





Since 2010, Brickworks products have featured in 23 of 37 Horbury Hunt award winning projects. These awards recognise excellence in the use of bricks and other building products in architectural design, and each year feature projects in categories such as residential, commercial and landscaping.

A number of these projects are shown on screen. On the bottom right is Horbury Hunt Residential and Grand Prix Prize Winner, Applecross House in Perth, featuring the “Elements” range of bricks.

On the left of screen is Horbury Hunt Commercial Prize Winner, Antica Pizzeria, featuring Bowral Bricks, and at the top right is Landscape Prize Winner, Kensington Street Sydney, featuring Hamlet Blue pavers, also by Bowral Bricks.

To wrap up my presentation I will now show a short video that explains more about our style journey at Brickworks.

Following the video, Megan will talk through our Property operations.



THIS IS BRICKWORKS - VIDEO

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## PROPERTY

*Ms. Megan Kublins, Executive General Manager Property and Development*



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Thankyou Mark and welcome again to Rochedale.

This site now includes a 23 hectare world class logistics park to the North on what was a former quarry.

As Mark pointed out, this is a great example of how Brickworks is making our property assets work harder and turning surplus land into an asset that provides ongoing returns to the business.



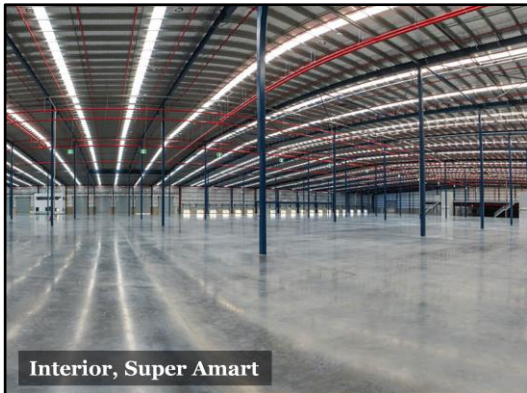
The picture on screen shows the Rochedale site back in 2013, before development commenced.

Since that time a significant amount of development work has been undertaken at the “Rochedale North” estate which is the area at the bottom of the picture, below the manufacturing plant.



An artist's impression of the site shows the completed Super Amart and Beaumont Tiles facilities in the middle, and the future development of the remainder of "Rochedale North".





Interior, Super Amart



Spec Developments under construction

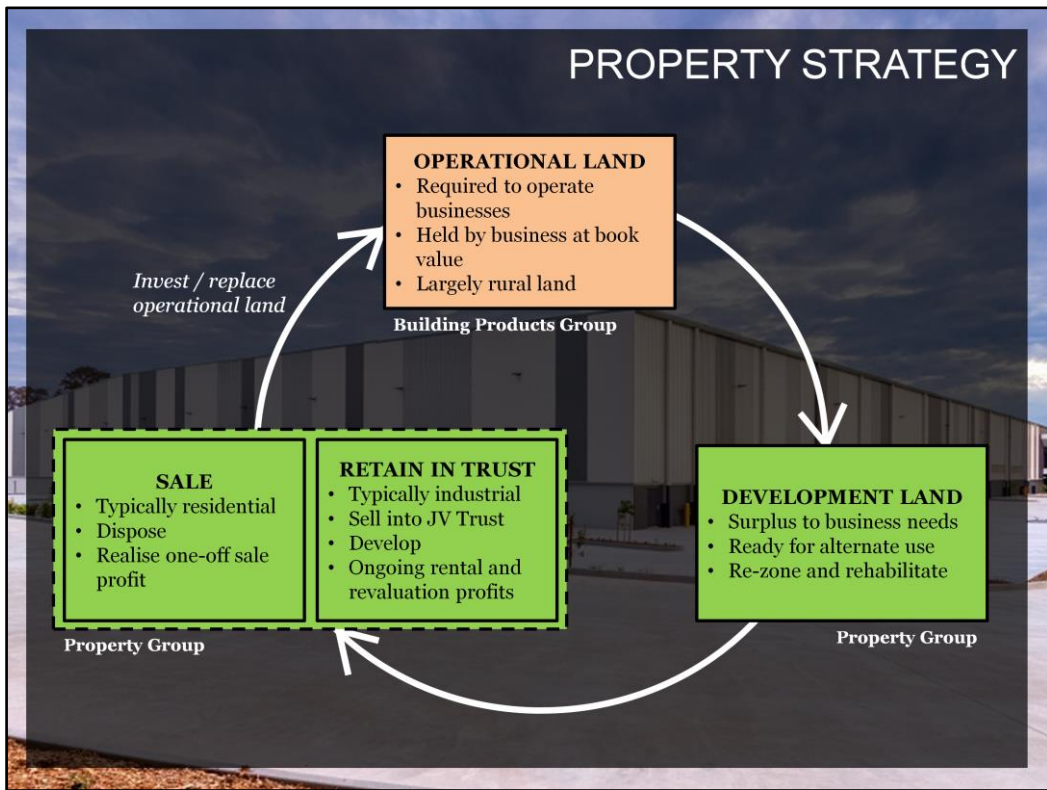


Super Amart, completed August 2017



Beaumont Tiles, completed March 2016

Facilities completed to date include Beaumont Tiles, a three unit estate occupied by Franklyn Blinds, JFC and Morton Hire, and Super Amart.



The Property Group aims to maximise the value of surplus assets from Building Products.

Operational land that becomes surplus to the business needs is transferred to the Property Group as “development land” where it is assessed for optimum land use.

In some cases land is rezoned residential or industrial and sold.

Alternatively industrial land is transferred into our 50/50 Joint Venture Property Trust with the Goodman Group. The Trust then develops the land, creating a stable and growing annuity style income stream.

Once development is completed within the JV Trust, assets may be sold if and when appropriate and when capitalisation rates justify.

## PROFIT GENERATION FROM PROPERTY

### Steadily growing rental and revaluations



### Irregular but significant sales and development profits

#### ▪ Net Trust Income

- Rental proceeds less Trust interest payments and other operating costs
- Steadily increasing as additional assets are developed and rented

#### ▪ Revaluation of Trust Assets

- Change in fair market value of Trust assets, generally assessed annually
- Driven higher by increasing income if cap rates remain stable...
- ...however changing cap rates may cause significant movements

#### ▪ BKW Asset Sales

- One-off profit generation delivered by sales of BKW owned property to third parties

#### ▪ Trust Asset Sales

- One-off profit generation delivered by sales of Property Trust owned property to third parties

#### ▪ Trust Development Profit

- Completion of developments in the Trust, resulting in revaluations

The Property Group generates earnings through steadily growing rent and revaluations delivered by the Property Trust, and via more lumpy and irregular land sales and development profits.

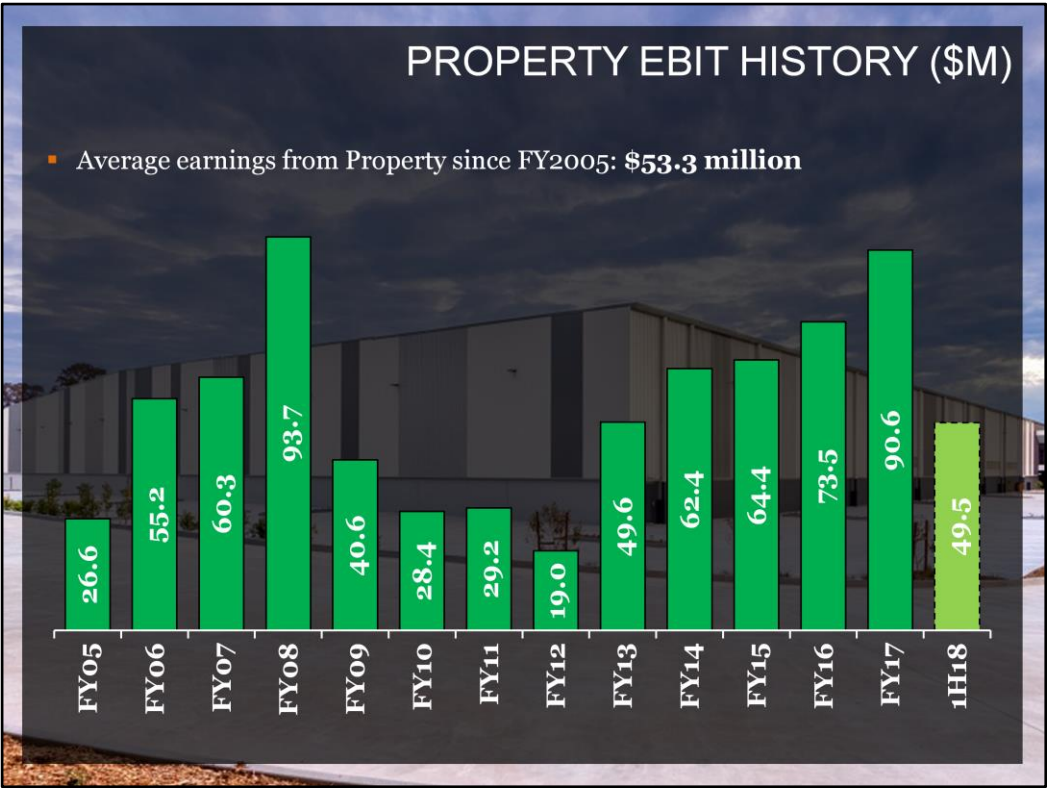
As an example, here at Rochedale the property was rezoned and rehabilitated by Brickworks.

It was then sold into the Trust to deliver a one-off profit on sale.

Additional development profits have been subsequently delivered following the completion of facilities.

Once development is complete, the facilities become income producing assets.

Completed assets within the JV Trust may be sold if and when appropriate and when capitalisation rates justify.



Whilst earnings may be lumpy, the Property Group has delivered average earnings of \$53million per annum since 2005.

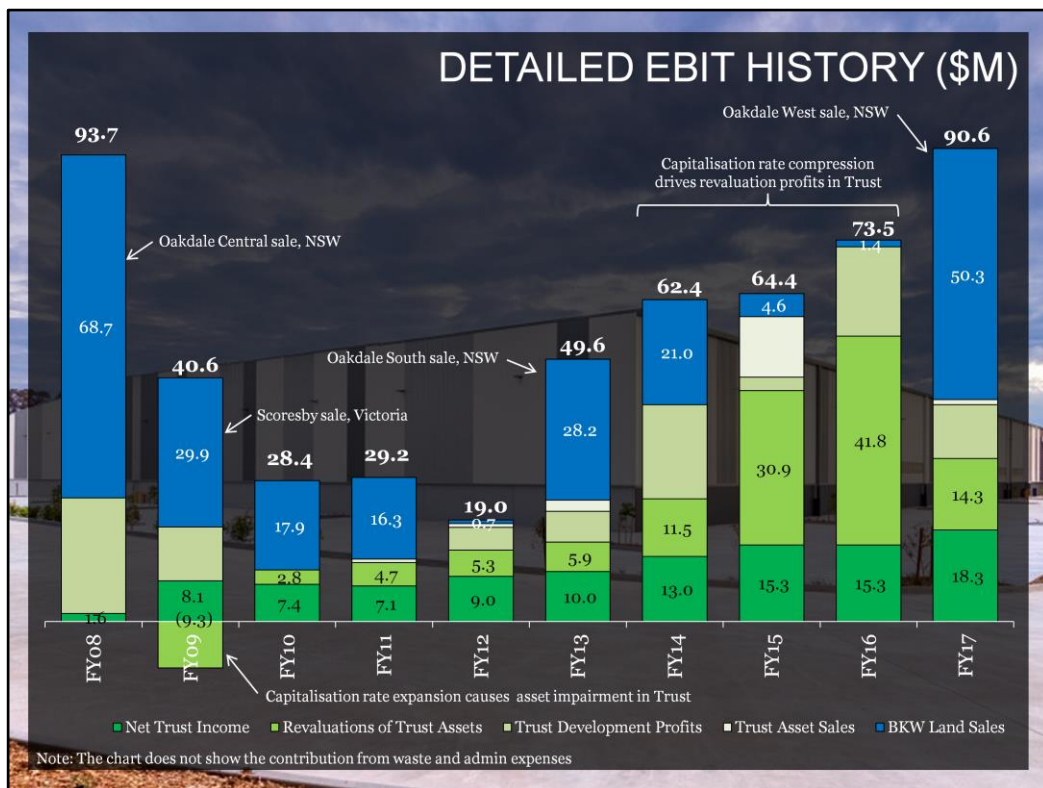
In the last full year, Property delivering an EBIT of \$91 million and recording a fifth consecutive year of earnings growth.

The sale of Oakdale West was a significant milestone, generating a profit of \$50 million for the Company.

This sale, into our 50/50 Joint Venture Property Trust with the Goodman Group, also secures a strong future development pipeline for the Trust.

In the most recent half year, Property delivered an EBIT of \$50 million. This was largely due to a development profit with the Trust that was realised following the completion of three development projects.





This slide provides detail on the break up of the Property EBIT. The green shows the Trust income and revaluations, which have been growing steadily since 2008.

Revaluation profits within the Trust have been very strong since financial year 2015 due to capitalisation rate compression.

The blue shows the land sales, which are significant when they occur but less regular in nature due to the time it takes to re-position assets.

## JOINT VENTURE PROPERTY TRUST

- The Property Trust was established in 2006 and is a 50/50 joint venture between Brickworks and the Goodman Industrial Trust
  - BKW provide land for development at fair market value
  - Goodman fund development costs
  - Balancing payments as required to ensure equitable contributions from both parties
- Mutually beneficial partnership
  - BKW benefit from Goodman's unrivalled development expertise in Industrial property
  - Goodman get access to a long pipeline of prime Industrial land, ready for development

The JV Property Trust, established in 2006, has provided significant returns to Brickworks.

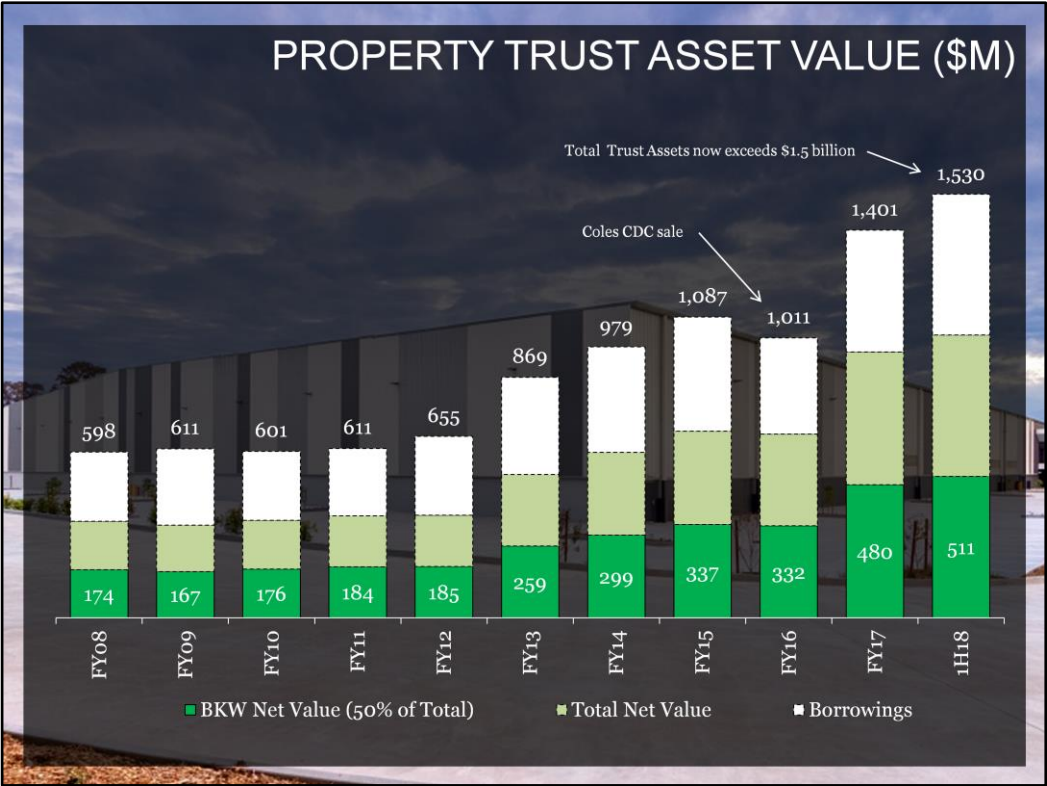
It is a 50/50 Joint Venture between Brickworks and Goodman, a mutually beneficial partnership, with Brickworks benefiting from Goodman industrial property expertise and Goodman gaining access to prime land.

The JV Trust structure is based on BKW selling land into the Trust at market value and Goodman funding development, to the value of the land.

## PROPERTY TRUST INVESTMENT APPROACH

- Focussed on Industrial Property in major Australian cities (significant asset weighting to western Sydney)
- Target debt level 30-50% (currently 39%)
- Interest rate hedging within 50-90% range (currently 60%)
- Focussed on asset growth through continued development, however will make strategic sales if / when appropriate. For example:
  - Sale of Coles CDC facility for \$253 million in July 2015
  - Sale of 30ha of land at Oakdale South for \$100 million (executed in 2016) to fund further development of this site

The JV has a conservative and adaptive investment approach. Our gearing is currently at 39% and we often make strategic sales when appropriate, with proceeds re-invested to keep the gearing low.



We are focused on continuing to build asset value in the Property Trust, and have re-invested cash proceeds received from land sales in recent years to support development activity. This has seen total assets within the Trust increase to \$1.5 billion at the end of January – a significant achievement given its inception just over 10 years ago.

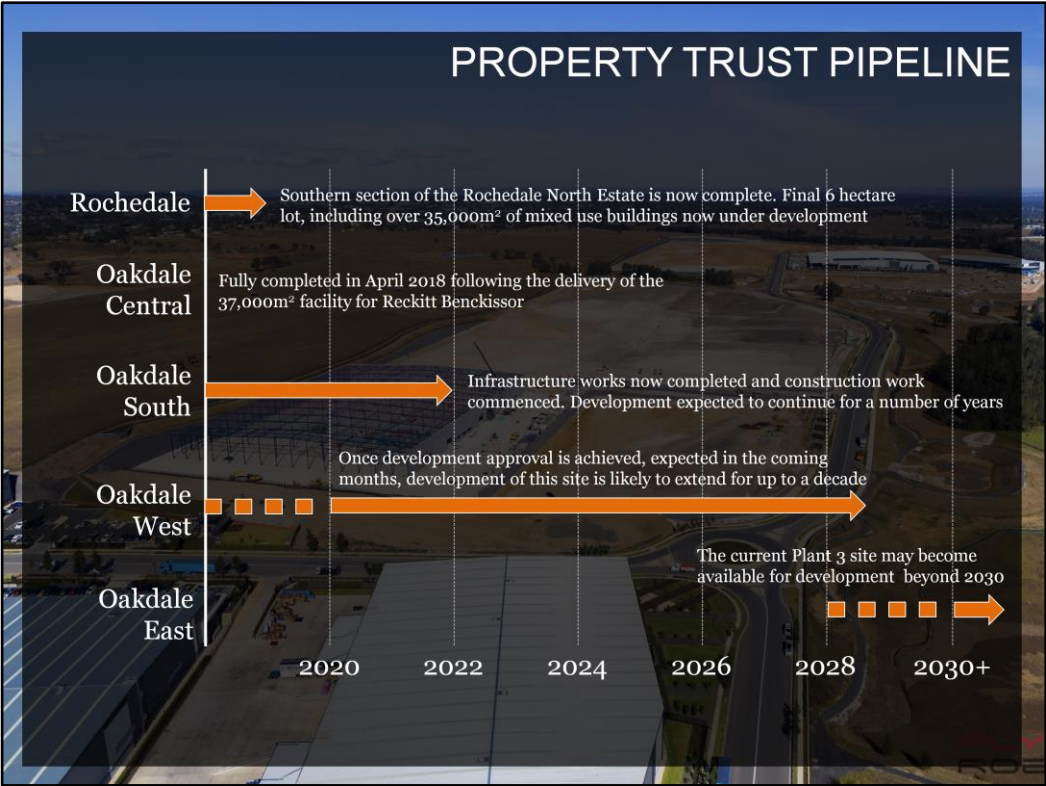
After taking into account debt, Brickworks share of net asset value was \$511 million at the end of January.



Estate	Tenant / Asset	Asset Value	GLA (m <sup>2</sup> )	Gross Rental (\$m p.a.)	WALE (yrs)	Cap. Rate
M7 Hub	Capicure	33	16,809	2.4	3.5	6.0%
	Southridge	48	24,357	3.0	1.9	6.0%
	Reedy Creek	45	22,959	2.9	3.0	6.0%
	<b>Sub Total</b>	<b>127</b>	<b>64,125</b>	<b>8.3</b>	<b>2.7</b>	<b>6.0%</b>
Interlink Park	Linfox	103	51,323	6.7	3.5	6.0%
	Ubeeco	23	10,865	1.4	1.0	6.3%
	Kimberly Clark	92	45,853	5.4	5.3	6.0%
	Woolworths	103	52,888	6.4	5.3	6.0%
	Jeminex	62	31,278	4.0	2.6	6.3%
	<b>Sub Total</b>	<b>383</b>	<b>192,207</b>	<b>23.9</b>	<b>4.1</b>	<b>6.1%</b>
Oakdale	DHL Transport	29	10,390	1.7	3.0	5.8%
	DHL J & J	50	26,161	3.0	8.3	5.8%
	DHL Canon	40	20,170	2.4	2.3	5.8%
	DHL #4	61	31,745	3.7	2.6	5.8%
	DHL 2B	60	31,060	3.6	8.2	5.8%
	DHL - 1C	49	27,030	3.0	8.2	5.8%
	3A - 2 unit estate	14	7,400	1.0	7.0	5.8%
	3C - Petbarn	63	31,500	3.7	7.0	5.8%
	Lot 4	28	13,290	1.7	4.4	5.8%
	3D - DSV	17	8,275	1.0	9.4	5.8%
	<b>Sub Total</b>	<b>411</b>	<b>207,021</b>	<b>24.8</b>	<b>6.0</b>	<b>5.8%</b>
Rochedale	JFC/ Franklyn	40	21,658	2.5	5.4	6.3%
	SuperAmart	85	50,585	4.9	20.0	5.5%
	Lot 4 - Spec	16	10,481	1.2	7.0	6.0%
	Beaumont Tiles	25	12,912	1.6	10.6	6.3%
	<b>Sub Total</b>	<b>166</b>	<b>95,636</b>	<b>10.2</b>	<b>13.4</b>	<b>5.9%</b>
<b>Total Developed Assets</b>		<b>1,087</b>	<b>558,989</b>	<b>67.2</b>	<b>6.0</b>	<b>5.9%</b>
Development Assets		444				
<b>Total Assets</b>		<b>1,530</b>				

Note: Data as at 31 January, 2018

This slide provides more detail on the individual Trust assets as at 31 January 2018.



The JV Trust has a strong pipeline of land, which will be developed over the coming years.

The sale of Oakdale West into the JV Trust in 2016 has secured development for over 10 years with the first tenants expected to move in around 2021.

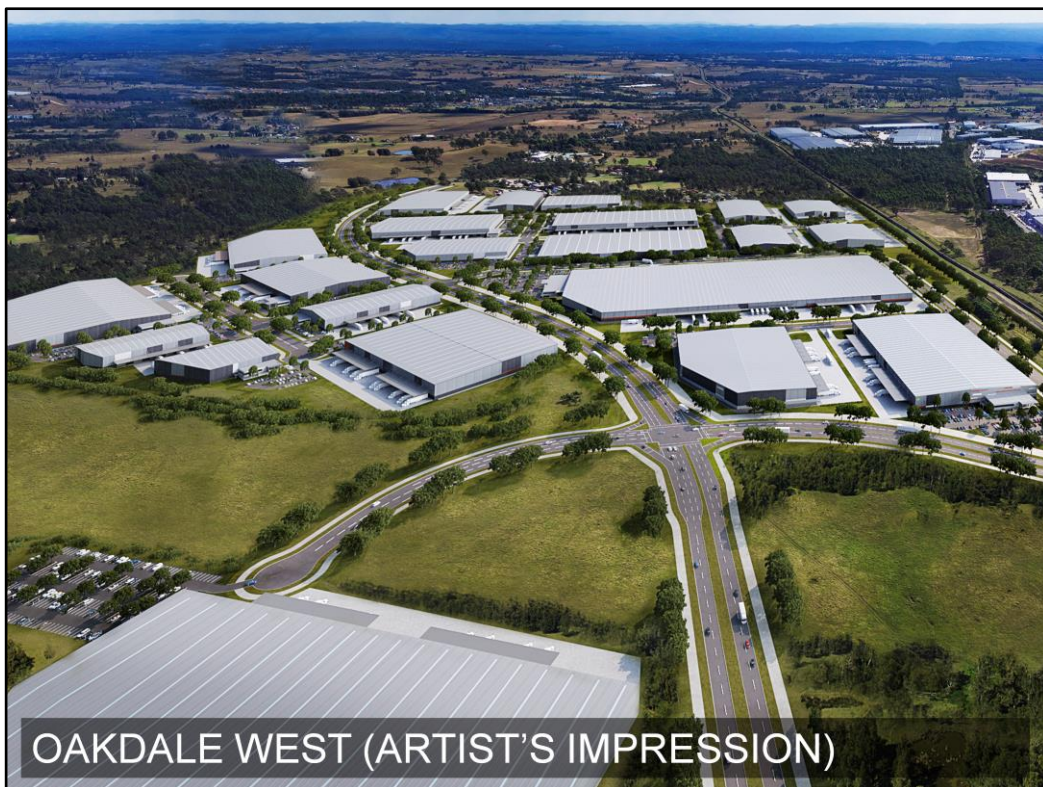


Development is currently focused on Oakdale South. Three facilities totalling 33,000m<sup>2</sup> are currently under construction and due for completion in late 2018.

33 hectares of land in this estate is being sold to Costco, Toyota, Sigma and Nolan Transport.

All of these sales will complete in the coming months.





A development application for Oakdale West was lodged in late 2017 and is under assessment.

Infrastructure works are planned to commence in mid 2019 allowing construction on facilities to start from mid 2020.



## PUNCHBOWL SITE



- 9 hectare site at 62 Belmore Road, Punchbowl
- Strategic sale opportunity for Brickworks
- Call option provides buyer with option to purchase at \$41 million
- 2 hectare specialised brick plant to be leased back to Austral Bricks (10 years + 10 year option)

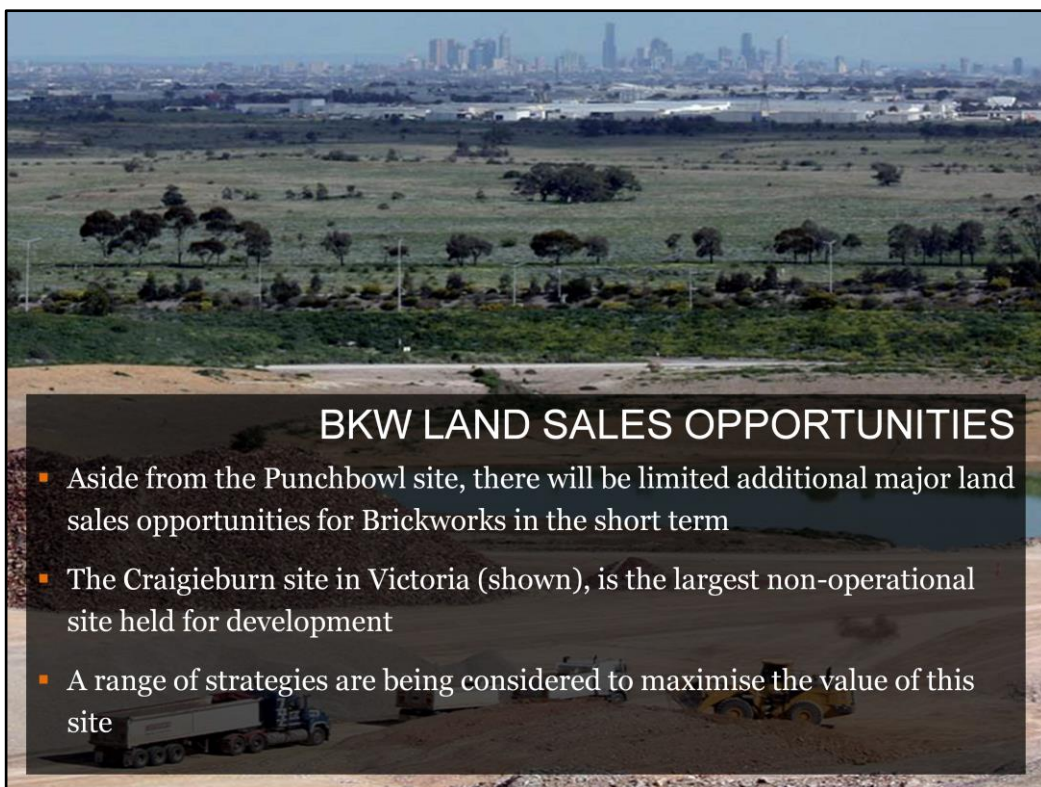
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The Property Division is also focused on opportunities for suitable land sales outside of the Property Trust.

The sale of the Punchbowl site for \$41million, via a Call Option, was recently announced with completion likely in October 2018.

The total book value and costs associated with this sale are approximately \$10 million.

The sale includes a leaseback to Austral Bricks for 10 years, with an additional 10 year option.



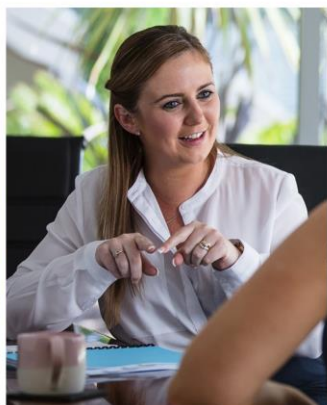
Aside from the Punchbowl site, there will be limited additional major sale opportunities in the short term.

Craigieburn is the largest non-operational site and will be the focus for the coming years.

Looking further ahead, the current Plant 3 site at Horsley Park represents a significant land development opportunity. Whilst we expect brick manufacturing operations to continue for another 20 years or so, it is anticipated that eventually this site will be developed by the Property Trust.

More broadly, land sales are continually explored, to ensure all assets are maximised by the business.

## THANKYOU & QUESTIONS



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