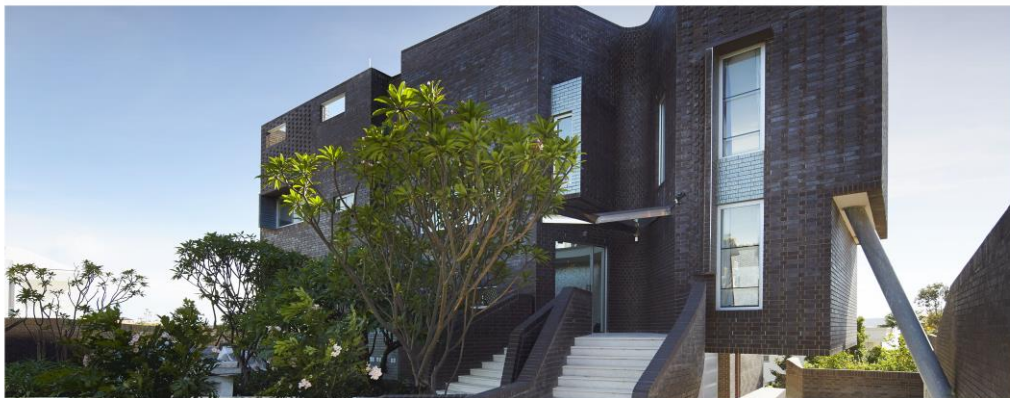


# AUSTRALIAN RESIDENTIAL CONFERENCE

18<sup>th</sup> April 2018

*Mr. Robert Bakewell, CFO*



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## PRESENTATION OUTLINE

- Brickworks overview
- Building Products overview
- Housing market perspectives
- Summary and outlook
- Questions



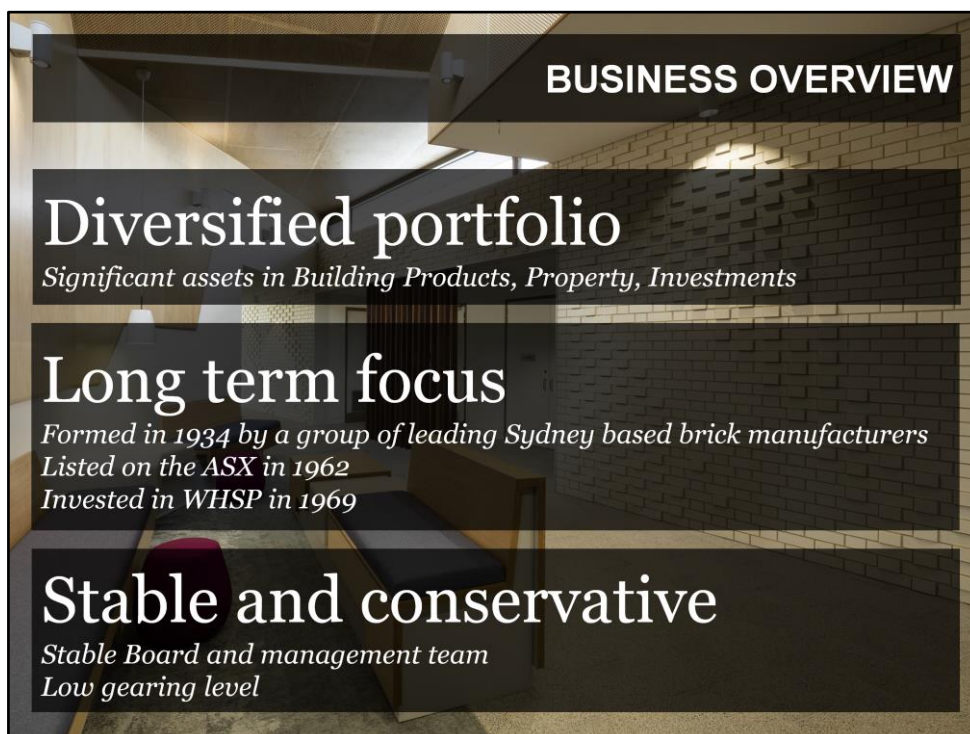
*[Picture: Brickworks Sydney Design Studio]*

Good Afternoon Ladies and Gentlemen.

Today I will provide an overview of Brickworks and in particular, our Building Products division.

Following this I will provide some perspectives of the Australian housing market and our Building Products strategy.

I will 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	Property	Investments
<ul style="list-style-type: none"> <li>Austral Bricks</li> <li>Bristle Roofing</li> <li>Austral Masonry</li> <li>Austral Precast</li> <li>Auswest Timbers</li> </ul>	<ul style="list-style-type: none"> <li>Development of non operational land</li> <li>50% share of \$1.5 billion Industrial Property Trust</li> </ul>	<ul style="list-style-type: none"> <li>42.7% share of WHSP (ASX: SOL, market cap \$4.2 billion, as at 31 Jan 18)</li> </ul>
<ul style="list-style-type: none"> <li>Net tangible assets of <b>\$665 million</b></li> </ul>	<ul style="list-style-type: none"> <li>Development land + BKW share of net Property Trust assets <b>\$539 million<sup>1</sup></b></li> </ul>	<ul style="list-style-type: none"> <li>Market value of BKW share <b>\$1,762 million</b> (at 31 Jan 18)</li> </ul>
<ul style="list-style-type: none"> <li>Inferred net tangible assets = \$2.6 billion<sup>2</sup></li> <li>Market capitalisation = \$2.3 billion</li> </ul>		
<p>1. The only site currently held for development is at Craigieburn in Victoria, at a book value of \$28 million</p> <p>2. \$665m (BP net tangible assets) + \$539m (Property) + \$1,762m (Investments market value at 31 Jan 18) – \$318m (net debt)</p>		

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

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, an ASX200 company with market capitalisation of \$4.2 billion as at the 31<sup>st</sup> of January 2018, 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 \$2.3 billion is well supported by the inferred net tangible asset backing of the Group, equating to around \$2.6 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.

Before moving on, I note that our operations allow unique insights into both the residential property market, through Building Products and the industrial property market, particularly in Sydney, through the Property Trust.





Looking at our most recent financial results, for the six months to the end of January 2018.

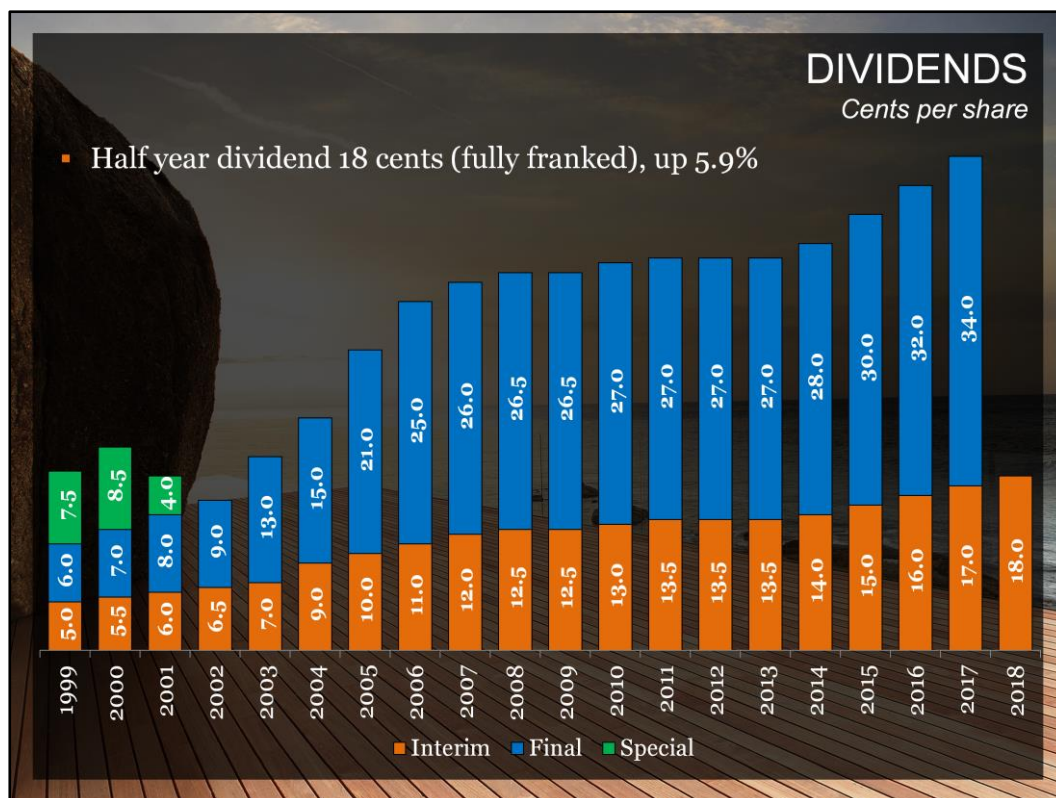
Increased earnings within Building Products, the Property Trust and Investments resulted in a total EBITDA of \$157 million for the half.

A record underlying profit of \$116 million was achieved, up 4% on the corresponding period last year.

This translates to normal earnings per share of 78 cents per share.

After including the impact of significant items, statutory NPAT for the period was \$97 million, down 7%.

Total shareholders equity was up by around \$50 million and now exceeds \$2 billion. Net tangible assets per share was up 2% to \$12.03 per share.



The Directors increased the interim dividend by 1 cent per share to 18 cents fully franked.

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 6 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.

## LONG TERM SHAREHOLDER VALUE CREATION

*Value of \$1000 invested in 1967*

- Total return 12.6% p.a. since 1967
- \$1,000 invested 50 yrs ago is now worth \$417K



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 1967 would now be worth around \$417,000 today.

## BUILDING PRODUCTS OVERVIEW

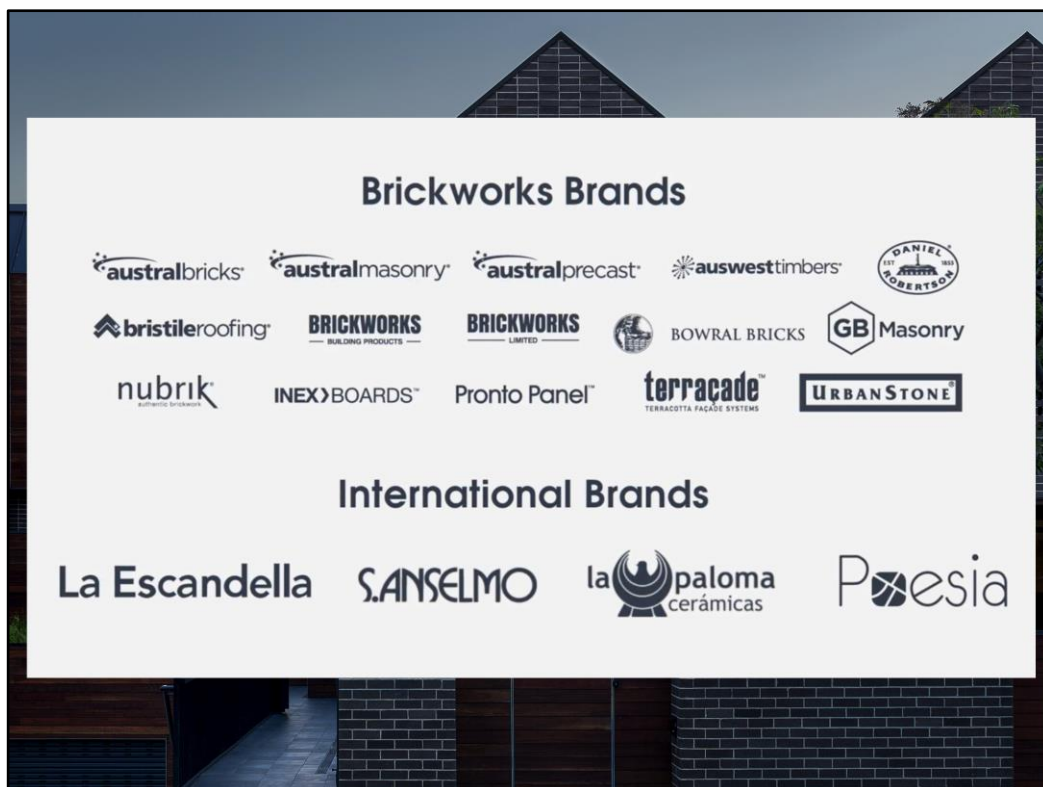


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*[Picture: QLD University of Technology. Featuring Natural Stone by UrbanStone]*

Turning now to Building Products, which is the focus of today's presentation.

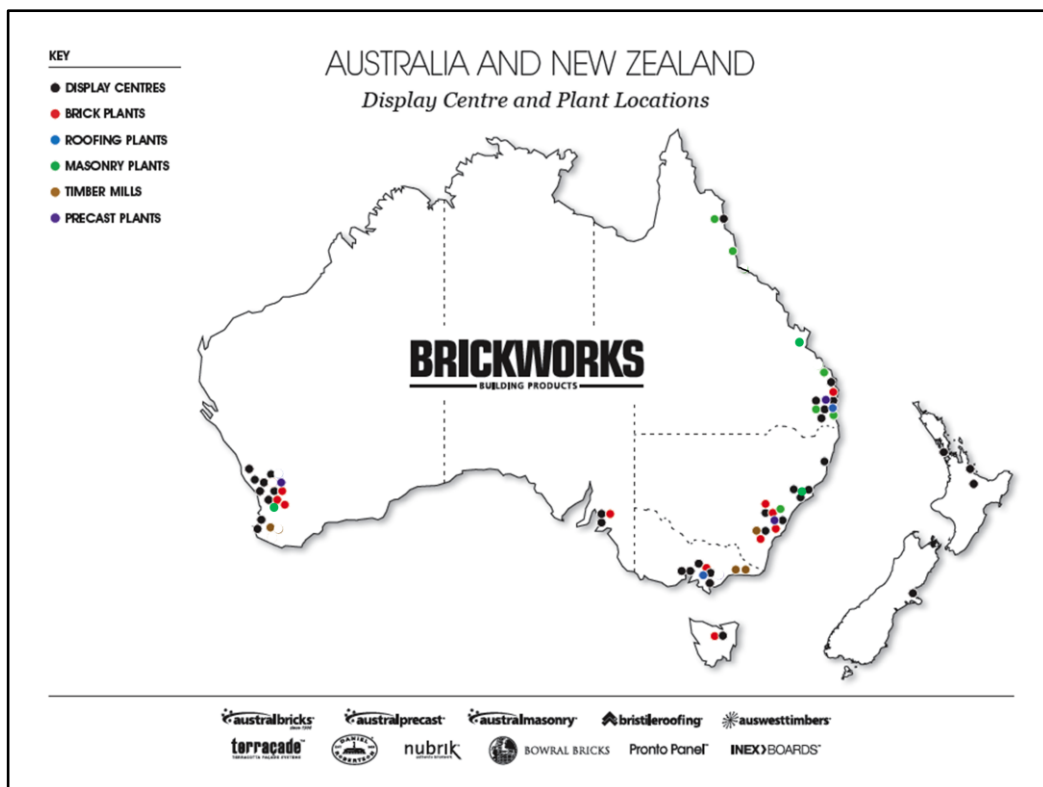




As I mentioned, the Building Products Group includes a wide range of well known brands.

Products are manufactured locally under brands such as Austral Bricks and Bristile Roofing.

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 imported niche products.



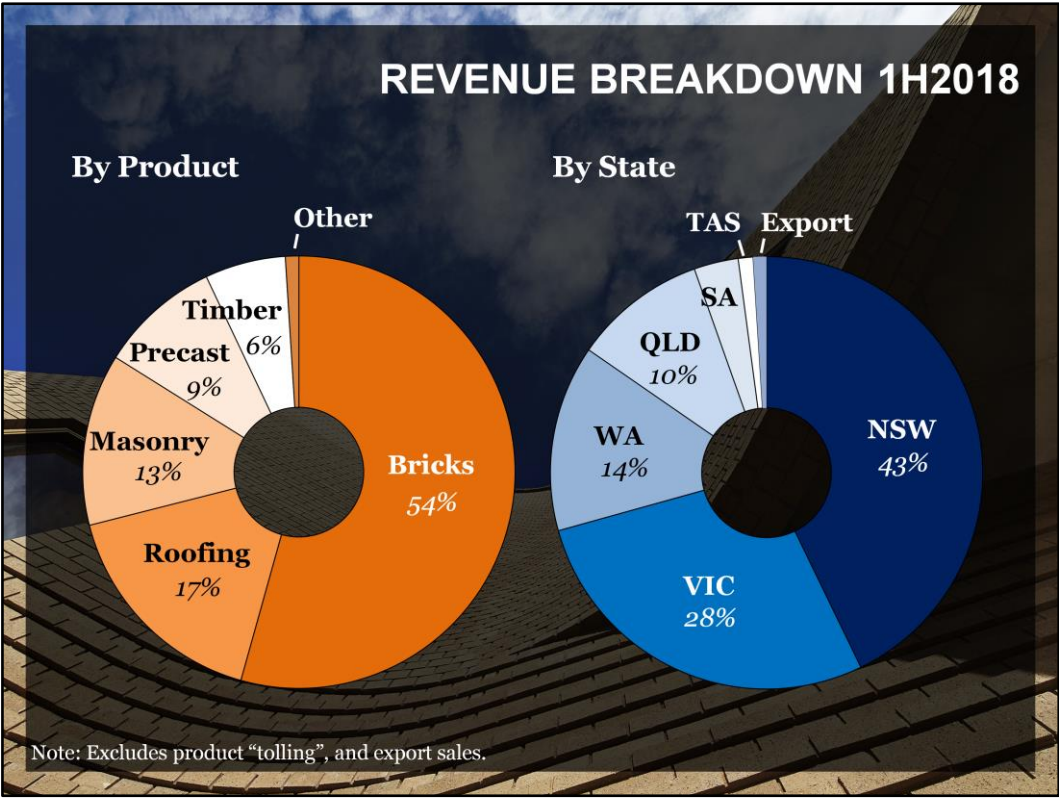
The slide on the screen shows our vast network of plant locations and display centres across the country.

In total the Building Products Group now comprises 31 manufacturing sites.

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 invested in CBD design studios in all major capital cities in recent times and I will talk more about these later.



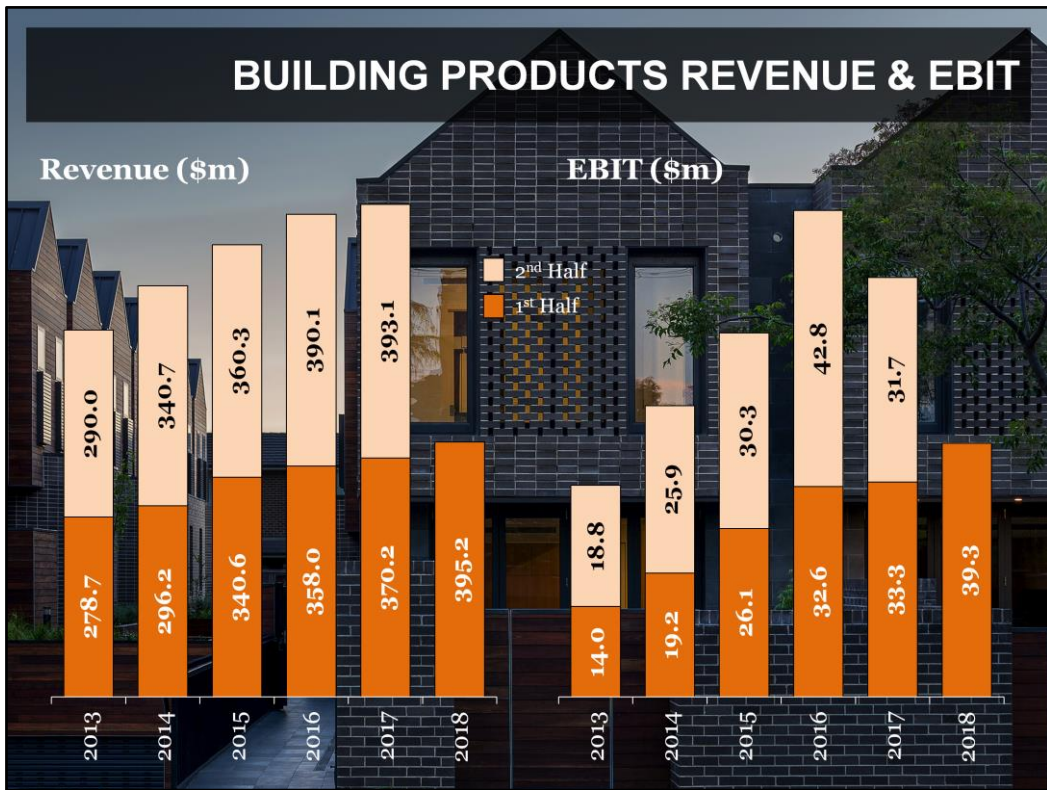
The Building Products Group has grown from a two state brick manufacturer with operations in New South Wales and Queensland, to a diversified national building products business.

We are a strong national company, with leading positions in all states and our exposure is diversified by geography and market segment.

Bricks remains the backbone of the Group, accounting for around half of the total revenue. We have also established strong positions in roofing, masonry, precast concrete and timber.

The Building Products Group is now geographically diversified, with significant operations in all major states.

Our revenue split now closely reflects building activity across the country.



Total revenue for the first six months of financial year 2018 was almost \$400 million, up 7% on the previous corresponding period.

Since the cyclical low point in 2013, Building Products first half EBIT has almost tripled, from \$14 million in 2013 to \$39 million in 2018.

During this time conditions have improved significantly.

Housing construction is strong, and even though trends have shifted towards multi residential construction, as I will discuss shortly, the level of detached housing construction is now above historical averages.

In addition, much work has been done to balance industry capacity and supply.

Pricing and margins have improved in most markets, and significant capital has also been invested to deliver improved production efficiencies and lower costs.



## HOUSING MARKET PERSPECTIVES

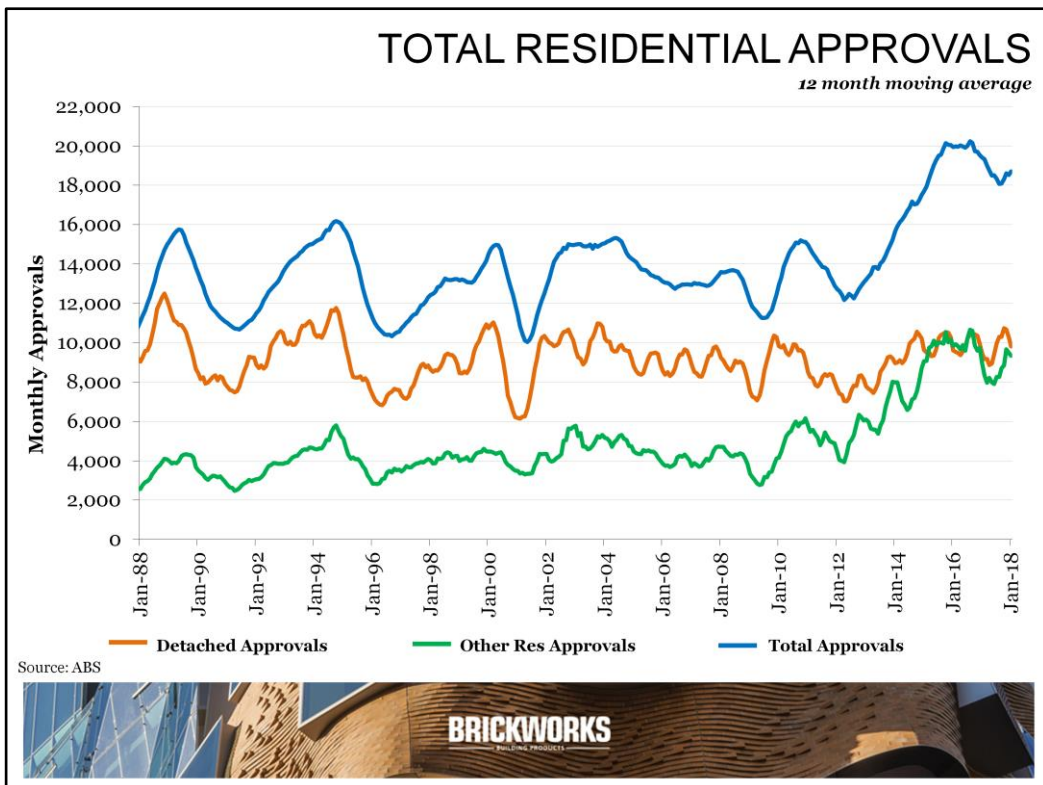


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*[Picture: Carr Place. Permatint, by Austral Precast]*

I will now provide some perspectives on market conditions as we see them.

As I noted, our participation in a wide range of products, servicing a range of different markets and geographies across the country allows us a unique insight into the residential housing market.

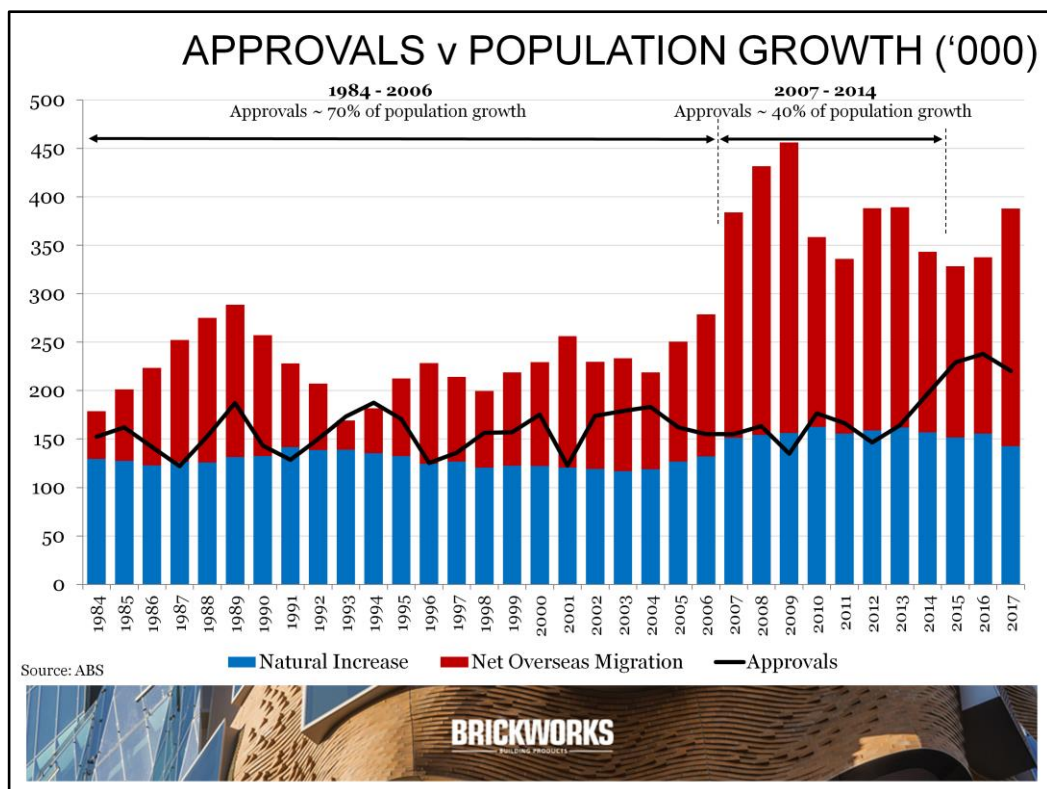


The chart on screen shows monthly Australian residential approvals for the past 30 years. The orange line shows detached houses, the green line shows other residential and the blue line shows the total.

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. This is driving the significant uplift in other residential approvals, as shown by the green line.

The convergence of the green and orange lines show that other residential approvals now make up around 50% of total approvals.

The growth in detached housing from near record lows in 2012 has been more modest and remains below prior peaks. 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.



So what is driving the increased level of residential development activity?

It is interesting to consider the impact of Australia's population growth, a key contributor to housing demand.

In the period 1984-2006 average approvals were 156,000 per annum vs average population growth of 228,000 people per year. This population growth includes natural increases of approximately 128,000 people per year and average net overseas migration of 100,000 people.

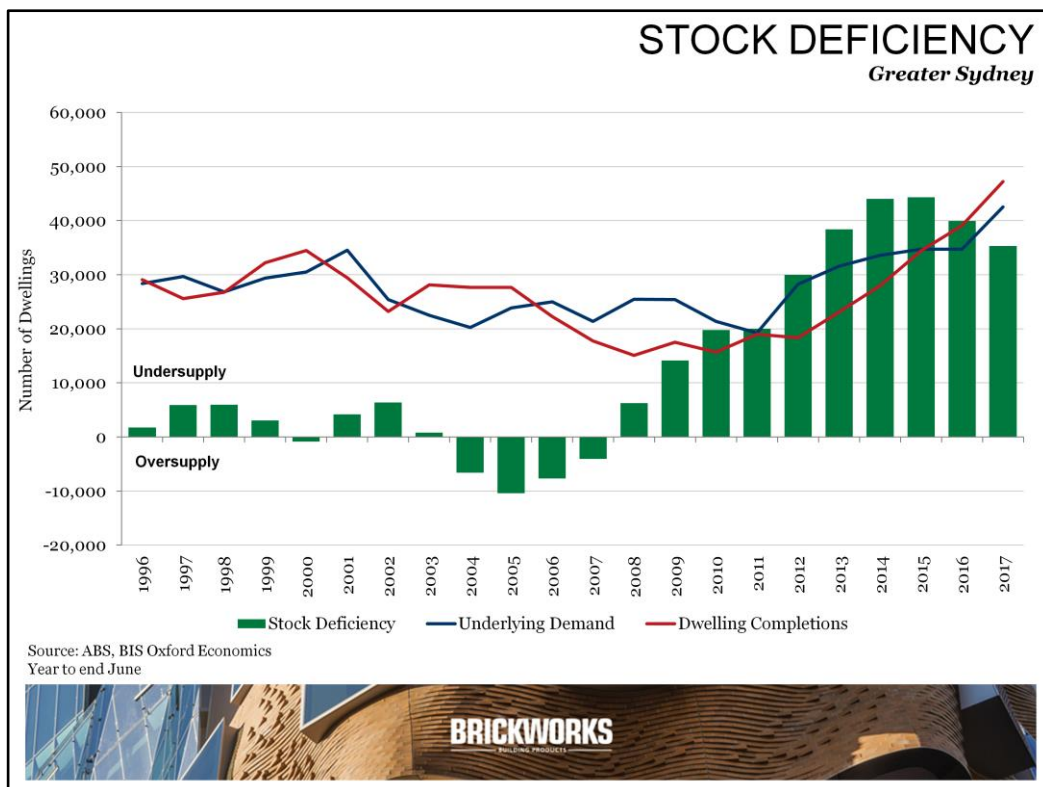
As shown on the chart, during this period the number of building approvals was typically around 70% of total population growth in Australia.

Since 2006 population growth in Australia has increased significantly, due primarily to the annual rate of net overseas migration more than doubling.

In the last decade, Australia's population growth has increased to an average of around 380,000 people per year.

During the period 2007 to 2014, residential approvals failed to respond to this increasing population growth. As a result approvals during this period dropped to around 40% of annual population growth.

It is only in the last 3 years that approvals have responded to the higher population growth, and it is interesting to note that if approvals returned to 70% of population growth, this would equate to 22,000 approvals per month, approximately 10 to 15% higher than current levels.



Unsurprisingly, BIS Oxford Economics research suggests that the increase in population growth has coincided with a build up of significant housing stock deficiency in some markets.

For example, the green bars on the chart show an estimate of the housing stock deficiency in the greater Sydney region.

This shows that demand and supply was relatively in balance up until around 2007. In the subsequent five year period the increase in underlying demand, due in part to population growth, was not met with an increase in building. As a result a stock deficiency of over 40,000 dwellings was created.

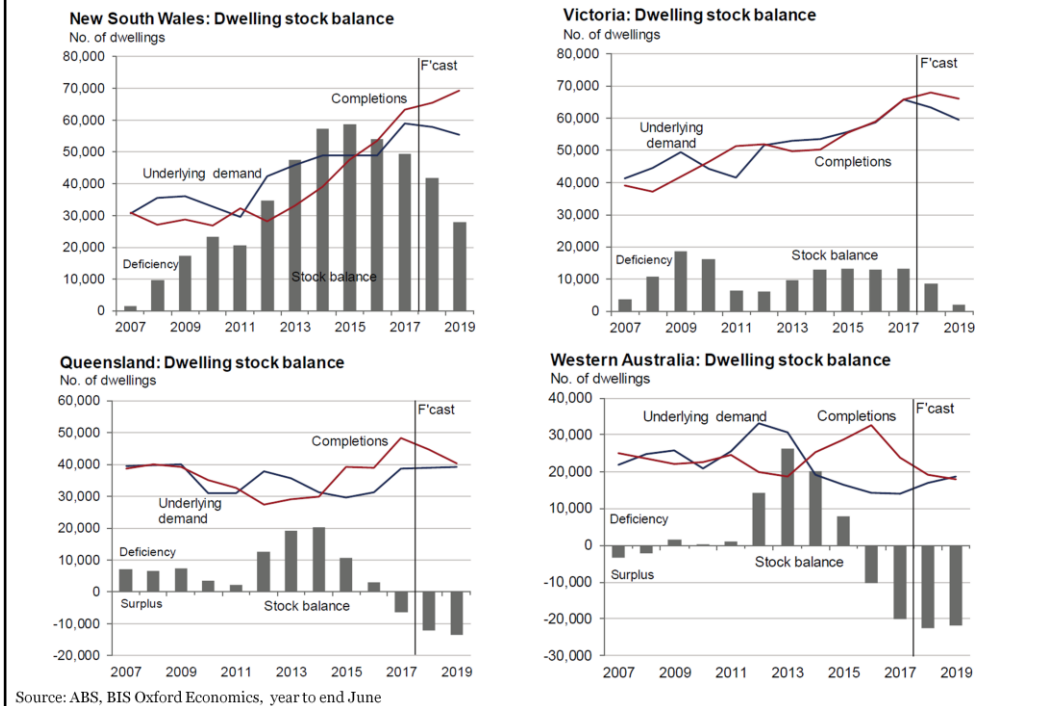
Even with the higher rates of building in recent years, BIS Oxford Economics research suggests that a significant stock deficiency still exists in this market.

This is reflected in anecdotal feedback we have received from builders and our own order bank, which show a long pipeline of work remains in Sydney.

Whether the stock deficiency is fully built out will depend on a range of factors, such as the pace of land release, household formation trends, housing affordability relative to other markets, and the ability of the building industry to meet demand.



## HOUSING STOCK BALANCE BY STATE



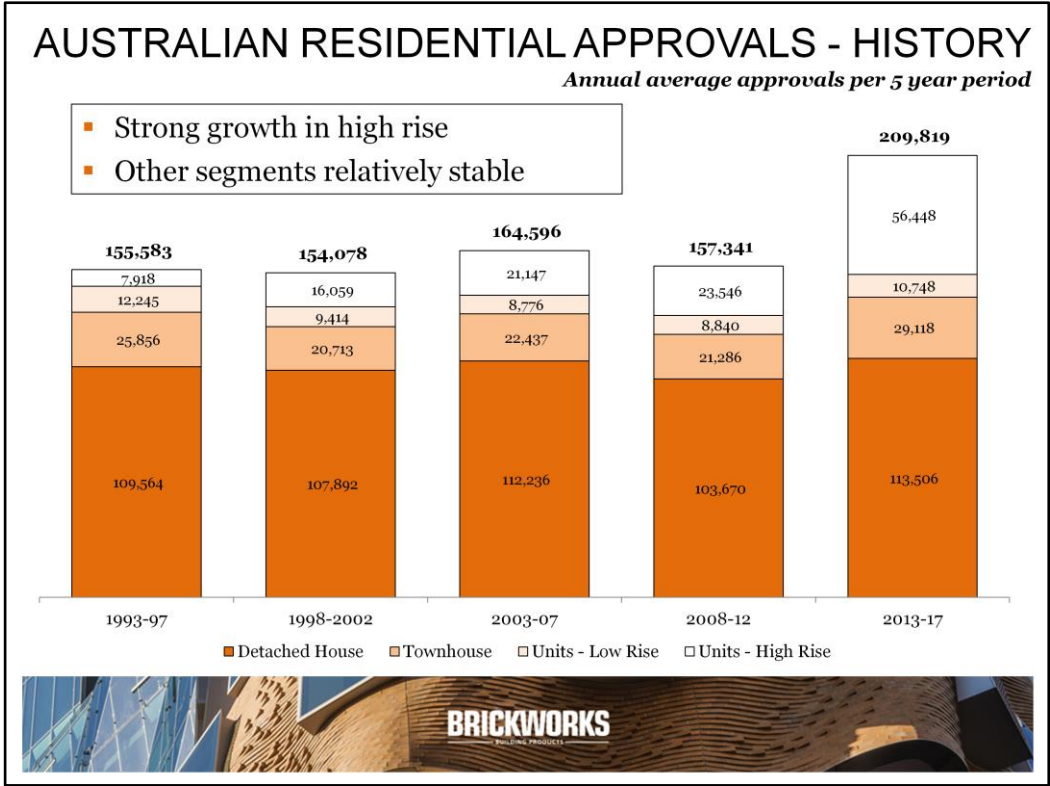
Looking at the same analysis from BIS Oxford Economics on a state by state basis shows that the dwelling stock deficiency is most pronounced in New South Wales.

In this state, the analysis estimates a deficiency of almost 50,000 at June 2017.

A deficiency also exists in Victoria, albeit to a lesser extent.

Meanwhile a slight oversupply exists in Queensland.

As I will discuss further in a moment, conditions in Western Australia are in stark contrast to the eastern states. The analysis shows that underlying housing demand has halved since 2013, resulting in a surplus of housing stock in this market.



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.

Detached housing remains the most common dwelling type, making up 54% of all approvals over the past five years.

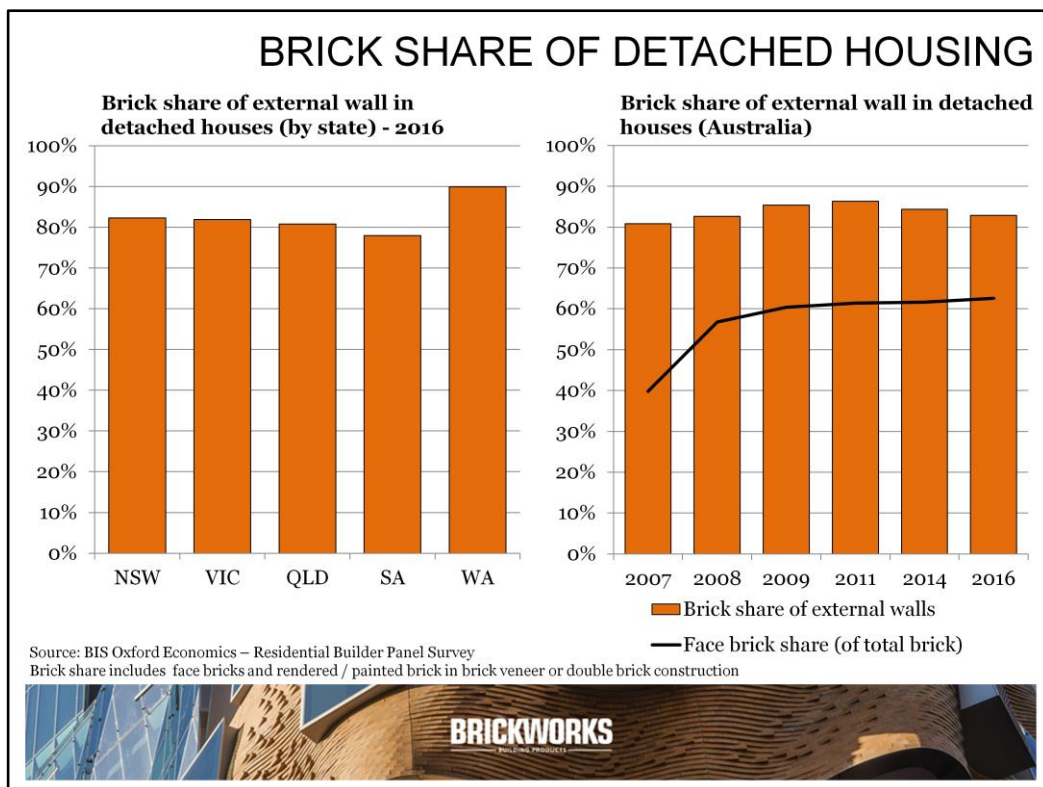


Despite the ongoing competition from alternative products, Brickworks is well placed to benefit from the increased level of high rise construction, in particular through Austral Precast, Austral Masonry and Austral Bricks

The company has made significant investments to increase penetration into this market. This investment includes the roll-out of capital city design studios across the country. These studios have hosted hundreds of events and attracted thousands of customers, architects and other key influencers. They have now become a focal point for the local architectural and design community. 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.

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. Construction will soon commence on a new studio on Collins Street in Melbourne that is expected to be officially opened later in 2018.



Turning to 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.

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

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

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.



- Bristile Solar launched in August 2017
- Offers home owners a full energy management system, through an exclusive supply agreement with Sonnen



Bristile Roofing is also primarily exposed to detached housing.

Over the past decade, metal roofing has increased share compared to tiles in Australia.

As a result Bristile has expanded its focus and now offers a full range of roofing solutions that provide growth opportunities in the years ahead. Following the acquisition of a number of metal roofing and fascia and gutter installers over the past 2 years, metal sales now make up 16% of total Bristile Roofing revenue.

Consistent with this full-service strategy, Bristile Solar was launched in August 2017, offering premium solar roof-tiles for existing homes or new residential builds. These solar roof-tiles are offered in the same profiles as Bristile tiles and offer customers a more attractive alternative to traditional bolt-on systems.

Through an exclusive agreement in place with Sonnen, the world's largest producer of battery and solar energy storage systems, Bristile Solar is able to offer home owners a full energy management system. Sonnen have recently announced plans to establish a manufacturing facility in South Australia to service the Australian market.

Market feedback since the launch has been strong, with a significant initial contract with a major builder already secured. With the package being offered in conjunction with Bristile tiles, we expect Bristile Solar to attract new customers and support increased roof tile sales volume.



I have already mentioned the contrast in conditions across the country.

The chart on screen shows detached housing approvals data, but broken down to show the east coast states vs Western Australia.

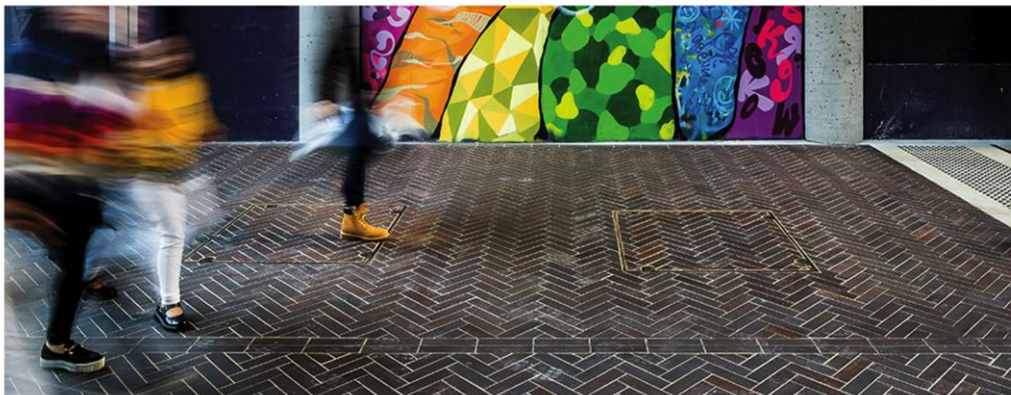
This shows a clear divide across the country with strong and sustained growth on the east coast contrasting with a sharp decline in Western Australia.

Historically, the Western Australian housing cycle has moved approximately in line with the east coast. However the chart clearly shows that this relationship has broken down dramatically over the past two years, with Western Australia being significantly impacted by the downturn in the mining, causing negative net migration. Detached housing approvals in Western Australia are now at their lowest level for over 15 years. This has created very challenging conditions for operations in that state.

With the medium term outlook in Western Australia remaining challenging, we have taken a proactive approach to right-sizing our operations to match demand. During financial year 2017 we undertook significant re-structuring of our Western Australian operations, closing 4 plants permanently and mothballing 2 others across Austral Bricks, Bristle Roofing and Auswest Timbers.

As a result we are now in a much improved position, with a lower cost base and operating capacity in line with the expected demand.

## SUMMARY AND BUILDING PRODUCTS OUTLOOK



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*[Picture: Kensington St, Sydney. Featuring Hamlet Blue Pavers by Austral Bricks]*

## SUMMARY & BUILDING PRODUCTS OUTLOOK

- Residential approvals are near record highs, however there is a clear east vs west divide
- A housing stock deficiency exists in NSW and Victoria, and a long pipeline of work remains in place in these states
- Brickworks is well placed to benefit from growth in high rise construction
- Bricks remains the preferred material in Australian detached housing
- The short to medium term outlook remains strong (despite increasing energy costs)

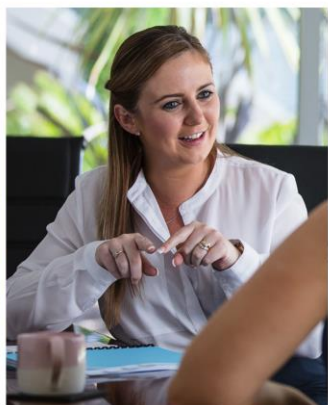
Summarising some key housing market themes as we see it.

- Residential approvals are near record highs, however there is a clear east vs west divide
- A housing stock deficiency exists in NSW and Victoria, and a long pipeline of work remains in place in these states
- Brickworks is well placed to benefit from growth in high rise construction
- Bricks remains the preferred material in Australian detached housing

Overall the short to medium term outlook for Building Products remains strong, with price increases already implemented, the strong order book on the east coast, and the restructuring initiatives undertaken in the west expected to underpin 2018 earnings, despite the significant impost of higher energy costs in the second half.



## THANKYOU & QUESTIONS



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I will now take any questions.

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