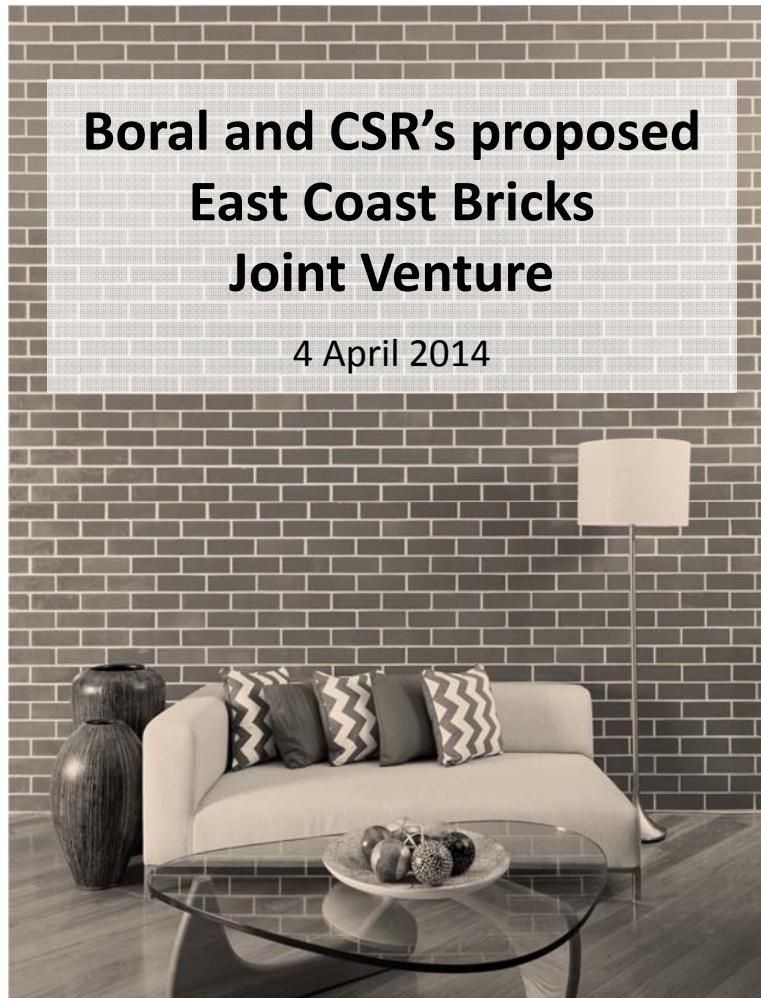


# Boral and CSR's proposed East Coast Bricks Joint Venture

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## Content

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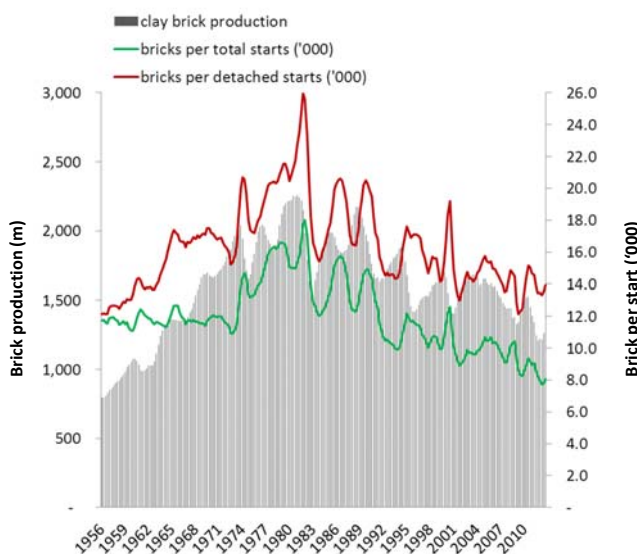
- Background of bricks in Australian cladding industry
- Transaction rationale
- Overview of joint venture structure
- Overview of combined operations
- Summary



# Background of bricks in cladding industry

- Bricks are part of a **broader cladding industry**
- Sustained **structural decline in demand for bricks** over past 30 years
- Total **brick production down 46%** from peak in 1981
- Decline **more pronounced on east coast** of Australia
  - From 1991 to 2012, compound average annual rate of decline was 3% Qld, 3% NSW and 2% Vic<sup>1</sup>
- Since 1981, **brick intensity** (number of bricks per dwelling) has **almost halved**:
  - Down 48% per housing start
  - Down 41% per detached housing start

Australian brick production and bricks per housing start<sup>1</sup>



1. Source: ABS data

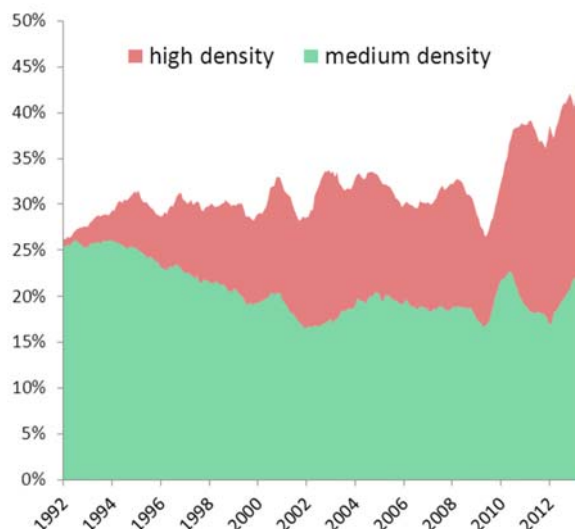


# Structural changes impacting brick demand

## Structural decline due to:

- Change in **dwelling mix away from detached houses** – traditionally more brick intensive
  - High rise dwellings have grown from under 1% to over 20% of total residential construction in last 20 years
  - High rise tends to favour concrete panels and façade solutions
- Changing **construction methods**
  - Near elimination of double brick construction on east coast
  - Second storey construction using minimal brick
  - Frame and cladding systems using a range of products including single brick veneer
- **Emerging trends** toward rendered walls and alternative cladding materials
  - Lighter weight alternatives to brick with faster construction times
  - Lower fixed cost of production

High and medium density as a proportion of approvals (cumulative)<sup>1</sup>



1. Source: ABS data



# Bricks are competing in a broad cladding market

**Clay bricks**



For load bearing external cladding & face brick façades

**Masonry blocks**



Hollow blocks constructed from concrete

**Fibre cement**



Reinforced cement produced as panels or boards

**Concrete panels**



Precast (manufactured off-site) and tilt-up wall panels (cast on-site)

**Composite materials**



Composite polymer based materials imitating natural products

**Timber**



Light weight contemporary construction

**Autoclaved aerated concrete**



AAC products are lightweight, precast building materials

**Other alternative non-load bearing façades:**

- Exterior insulation and finish systems (EIFS)
- Structural Insulated Panel Systems (SIPS)
- Metal walling
- Permanent formwork
- Other façades including aluminium, glass, vinyl and weatherboard



# Trends impacting bricks share of cladding market

Pre-2000

Today



Face brick commonly used on all external cladding



Rendering using common bricks and / or alternative cladding base



Mixed cladding materials with and without face brick



# Transaction rationale

## Strategy

- To create a sustainable competitive bricks business

## Optimise operations

- Short to medium term: **consolidate sales, admin and marketing overheads**
- Develop **more efficient distribution networks, improve service and reduce costs**

## Reinvestment opportunities

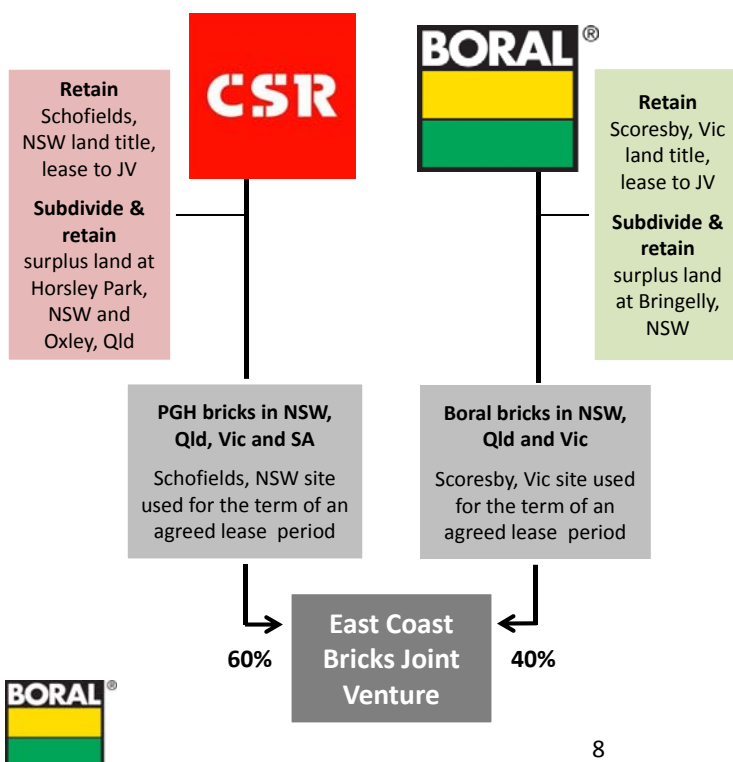
- Longer-term **investment in manufacturing network to enable consolidation** to lower cost, more efficient operating sites
- **Develop certain land assets** without impacting product range and operational capability

## Cost synergies

- **Consolidation of overhead costs** into one management structure
- **Further opportunities** over medium to long term, excl property development
- Cost synergies expected to **position long-term sustainable returns** recovering the cost of capital through the cycle



# Transaction structure



- **Structure reflects relative valuations** of the businesses
  - No cash consideration
- **No immediate plans to close any current brick operating sites**
- Transaction **subject to ACCC review**
- **Change of control**, which applies to any entity in the chain of ownership, including the parent companies, triggers a call option for the other party at fair market value

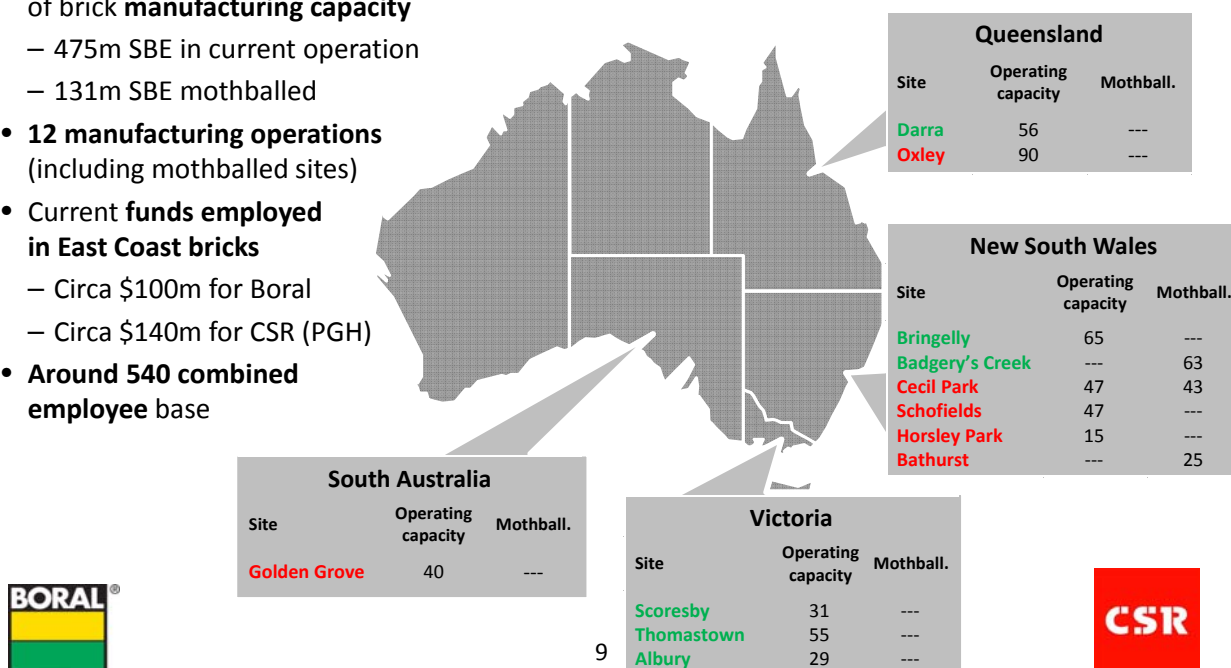


# Joint venture operations

- **Combined annual revenue of ~\$230 m**
- **606 million SBE** (standard brick equivalent) of brick **manufacturing capacity**
  - 475m SBE in current operation
  - 131m SBE mothballed
- **12 manufacturing operations** (including mothballed sites)
- Current **funds employed in East Coast bricks**
  - Circa \$100m for Boral
  - Circa \$140m for CSR (PGH)
- **Around 540 combined employee base**

JV Sites –  
capacity by state (million SBE)

■ Boral sites  
■ CSR sites



## Summary

- **Long term commitment** by Boral and CSR to Australian brick industry
- **Improves economic viability** of operations, ensuring a **more competitive brick business** within a broader cladding market
- **Increased capacity to invest in product development, technical efficiency** and **support for bricklaying trades** and apprentice programs
- Provides opportunity to develop **more efficient freight and distribution networks** to **improve service and lower costs**
- A stronger and more competitive business **provides more opportunities for our people and maintains choice for consumers**



# QUESTIONS



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