



Results Announcement for the half year ended 31 December 2017

13 February 2018

Media Release

Transformation in Boral North America and growth in Australia support Boral's significant increase in earnings

Boral Limited (ASX: BLD) today reported a 58% increase in **net profit after tax before amortisation and significant items¹ to \$237 million** for the half year ended 31 December 2017 compared with the prior corresponding period.

The result reflects a full period contribution from the acquired Headwaters businesses in North America together with strong operating results from Boral Australia and the USG Boral joint venture.

Net profit after tax (after significant items) of \$173 million was 13% up on 1H FY2017.

Sales revenue of \$2.9 billion increased 40% on the prior corresponding period, reflecting the Headwaters acquisition and good revenue growth in Boral Australia.

Earnings before interest, tax, depreciation and amortisation (**EBITDA**) before significant items **increased 50% to \$500 million**, compared with the prior corresponding period.

The **significant contribution from Headwaters, including the delivery of US\$18 million of synergies in the first six months**, as well as revenue growth in Boral Australia and USG Boral were highlights of the result.

Net interest of \$50 million and tax of \$52 million increased as a result of acquisitive growth, but the effective tax rate was lower than expected due to increased recognition of tax losses, benefits from the vesting of long term incentive payments and a lower US tax rate.

A **net expense of \$41 million for significant items** for integration costs in relation to Headwaters and a provision for site rehabilitation at the Waurrn Ponds cement operation following its anticipated closure.

An **interim dividend of 12.5 cents per share** was announced and will be paid on 9 March 2018.

Boral's CEO & Managing Director, Mike Kane, said that Boral's transformation of the business, following the acquisition of Headwaters Inc. in the USA, has underpinned significant earnings growth.

"These strong results confirm that our transformation strategy is on track. The Headwaters acquisition has helped transform Boral into a construction materials and building products group with a greater geographic reach and improved prospects for growth.

"It is very clear that we are seeing synchronised global growth benefiting all three divisions.

"Our largest division, Boral Australia, delivered an exceptionally strong result. Higher revenues and earnings were driven by increased spending on infrastructure, in line with our expectations that a large proportion of our work would gradually shift from residential to infrastructure projects, primarily in the eastern states. The business is demonstrating a clear capability to efficiently deliver on more technical, innovative projects in a high demand environment.

"We are very pleased with our transformed North American division, which reported a significant increase in earnings as a result of a full period contribution from the Headwaters businesses.

"We are well on the way to exceed our targeted synergies for the full year, with US\$18 million of synergy benefits banked in the first half, and to exceed US\$100 million in four years.

¹ Profit before amortisation and significant items is a non-IFRS measure reported to provide greater understanding of the Group's underlying business performance. Full details of significant items are contained in Note 16 of the Half Year Financial Report. Non-IFRS information has not been subject to audit or review.

“There is more work to be done in North America, especially in improving some short-term operational issues and continuing to improve the safety record of our new businesses, but overall, these results highlight significantly better growth prospects in North America.

“In our joint venture, USG Boral, we continue to strengthen our competitive advantage through innovation and to see solid underlying growth. Strong growth in Australia, Korea and China were dampened by higher input costs, some one-off costs and softness in Thailand and Indonesia but we are confident of ongoing growth in this business.

“**In terms of safety**, Boral’s LTIFR at 1.1 is at the lowest level in Boral’s history, even with the impact of incorporating Headwaters safety statistics and the Meridian Brick JV. Despite improved safety statistics, we had two tragic vehicle-related incidents at or near our sites during the period. We recognise there is still a lot of work to do to deliver our goal of Zero Harm.”

Referring to the financial results from Boral’s three divisions, Mr Kane reported the following:

- **Boral Australia** delivered a strong 12% lift in EBITDA to \$294 million, with growth in infrastructure and non-residential activity, resilience in the housing market and exceptionally favourable weather underpinning volume and margin gains. The Australian business is performing at very strong levels with EBITDA margins of 16.3% and a 15.4% EBIT return on funds employed (ROFE).
- **USG Boral** delivered \$38 million of post-tax earnings to Boral, and an underlying EBITDA result of \$149 million, which was 1% down on the prior corresponding period. The JV’s result was muted by \$8 million of one-off costs associated with temporary gypsum supply constraints in Australia and an operational reserve adjustment in India. Excluding these impacts, EBITDA was up 5% with growth in Korea and China and continued strength in Australia. The JV delivered EBITDA margins of 18.3% and a ROFE of 11.1%.
- **Boral North America** – delivered a substantial lift in EBITDA to A\$184 million (US\$144 million) from A\$41 million (US\$30 million) reported in the same period last year. The result includes a full period contribution from Headwaters with US\$18 million of synergy benefits for the half year against the FY2018 target of US\$30-\$35 million, which we now expect to exceed. On a proforma basis, EBITDA growth of 4% to US\$144 million was tempered by a series of significant weather events including two hurricanes, as well as temporary plant operational issues, and lower earnings from Meridian Brick. The division reported an EBITDA margin of 16.3% and is well placed to deliver above cost of capital returns over time through full realisation of synergies and market growth.

Commenting on outlook, Mr Kane said Boral expects **continued growth** across all businesses in FY2018, including a significant lift in earnings from Boral North America. In summary:

- **Boral Australia** is **expected to deliver high single-digit EBITDA growth and low double-digit EBIT growth in FY2018, excluding property in both years**. The pre-property result is expected to be skewed towards 1H, with 1H having benefited from exceptionally dry weather on the east coast and more working days. Strong growth in infrastructure and non-residential activity is expected to underpin volume growth in FY2018. We continue to expect the Property EBIT contribution to be at the low end of the five year historical range (\$8-\$46 million).
- **Profits from USG Boral** are **expected to grow at a mid-single digit rate in FY2018**, with strong year-on-year growth expected in 2H. Due to typical seasonality impacts 2H earnings are expected to be lower than 1H, despite one-off cost impacts in 1H. FY2018 earnings growth should be underpinned by strong outcomes in Australia, Korea and China together with continued benefits from growth of Sheetrock®. These should more than offset the impacts of a slower than expected recovery in Thailand and Indonesia, pressures in Vietnam and higher raw material and energy costs.
- **Boral North America** is **expected to deliver a significantly higher EBITDA in FY2018** reflecting the Headwaters acquisition, over US\$35 million of year one synergy benefits and underlying market growth. EBITDA is expected to be **substantially skewed to 2H** as a result of: further delivery of synergies; price growth; a return to normal weather conditions; progress in resolving operational issues; and normal seasonal impacts, which typically result in much higher volumes and activity in Q4.

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