



ASX RELEASE

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Boral agrees value-creating plasterboard transaction with Knauf

Boral Limited ("Boral" ASX: BLD) has today announced that it has entered into an agreement with Gebr Knauf KG ("Knauf") to form an expanded 50:50 plasterboard joint venture (JV) in Asia and for Boral to return to 100% ownership of USG Boral Australia & New Zealand (NZ). Completion of the transaction is subject to typical conditions precedent, including regulatory approvals.

TRANSACTION HIGHLIGHTS

- **Expanded joint venture in Asia – USG Boral Asia JV¹** – delivers greater scale and improved geographic reach in Asia, attractive growth opportunities including enhanced technology support and expected synergies of US\$30 million pa in year 4
- Boral takes **100% ownership of USG Boral Australia & NZ** at a multiple of 5.7 times FY2019 EBITDA, which is **immediately earnings accretive**, with a call option granted to Knauf to return to 50% ownership, subject to regulatory approval
- **~3-5% EPS accretion** on pro-forma FY2019 basis, before synergies
- **Boral's total net investment is US\$441 million** being US\$200 million to buy remaining 50% of USG Boral Australia & NZ and Boral's 50% share of the USG Boral JV's investment in Knauf Asia Plasterboard after divesting the Middle East business, being US\$241 million
- **Boral's direct funding requirement of US\$335 million** (after the USG Boral JV self-funds a proportion of the investment²) will be met through **debt and proceeds from recent divestments**
- Boral's current **investment grade credit ratings** are expected to be **maintained** with a target pro-forma net debt to EBITDA ratio of 2.5 times or less.

TRANSACTION OVERVIEW

USG Boral Asia JV:

The USG Boral JV will acquire Knauf Asia Plasterboard, which includes China and South East Asia, **for US\$532.5 million**, and will **sell the Middle East business to Knauf for US\$50 million**, resulting in an expanded USG Boral Asia JV¹, subject to regulatory approvals.

- The JV will provide US\$262 million² to partially fund the US\$532.5 million acquisition, while Boral and Knauf will each contribute US\$135 million to equally fund the balance.
- Boral and Knauf will have 50:50 ownership of the expanded USG Boral Asia JV at completion.

USG Boral Australia & NZ:

Boral will acquire Knauf's 50% stake in USG Boral Australia & NZ for an acquisition price of **US\$200 million**, returning Boral to 100% ownership, subject to regulatory approval.

- Boral has agreed to grant Knauf a call option³ to purchase 50% of the business within five years. The grant and exercise of the call option will be subject to Australian and New Zealand regulatory approvals.
- Boral will retain the entire free cash flow generated by the business under Boral's 100% ownership.

¹ The Asia territory includes China, India, South Korea, South East Asia

² The USG Boral JV will use US\$50 million proceeds from Middle East sale, up to US\$200 million of debt plus cash to partially fund the investment

³ Knauf has a call option to buy 50% share of USG Boral Australia & NZ for US\$200 million (with potential adjustments primarily in relation to Knauf paying 50% of growth capital expenditure invested into the business under Boral's ownership) within five years, subject to regulatory approval.

The investment is underpinned by a strong strategic rationale

- **This is a compelling investment for Boral's shareholders and is in line with Boral's strategy to invest in the plasterboard business, which is a low capital-intensive business with an attractive long-term growth profile.**
 - ✓ Boral has a strong track record of success in the plasterboard business; since formation of the joint venture between USG and Boral in FY2014, Boral's EBITDA from USG Boral has grown by a CAGR of 11% pa.
 - ✓ Asia remains a highly attractive, long-term growth region for USG Boral including through product innovation and greater plasterboard penetration in emerging markets, having achieved volume growth of ~7% per annum in Asia over the past 12 years.
- **Bringing the world's #1 in plasterboard – Knauf/USG – together with USG Boral's enviable position in Asia, creates significant value and a strengthened growth platform.**
 - ✓ With a 30-year history in Asia, USG Boral comes into the expanded joint venture with an outstanding manufacturing and distribution footprint in 9 countries across Asia with 562 million m² of highly utilised plasterboard manufacturing capacity.
 - ✓ Knauf Asia Plasterboard has 220 million m² of plasterboard capacity across various geographies in Asia including a highly profitable China business, which has become the brand of choice in the high-end niche plasterboard segments in that country over 20 years. It also has emerging and well-invested businesses in Thailand, Philippines, Indonesia and Vietnam.
 - ✓ The expanded USG Boral Asia JV is a ~US\$900 million revenue business, delivering further scale and a highly complementary manufacturing and distribution network. It will have improved geographic reach in Asia and opportunities to reduce freight costs and substantially improve utilisation across its combined 782 million m² of plasterboard manufacturing capacity.
 - ✓ The expanded USG Boral Asia JV will have enhanced ability to grow through world-leading innovation and product development with continued access to USG technologies and strengthened by Knauf's additional research and development and operational capabilities.
- **Owning 100% of USG Boral Australia & NZ will be value-creating for Boral's shareholders.**
 - ✓ USG Boral Australia & NZ is a high-performing business, generating strong cash flows and underpinned by Sheetrock® technology – the brand-leader in Australia.
 - ✓ Boral will continue to have access to USG's intellectual property¹ and support from USG and the USG Boral Asia JV. The business in Australia will continue to trade as USG Boral and will continue to sell the successful Sheetrock® products in Australia and New Zealand. We expect a seamless transition.
 - ✓ The call option that Boral has agreed to grant Knauf does not provide Knauf any rights with respect to management of the business, nor earnings while the business is under Boral's 100% ownership.

Attractive financial metrics and returns for Boral while maintaining a strong balance sheet

- **Boral's total investment of US\$441 million² in USG Boral Australia & NZ and in the USG Boral Asia JV, delivers positive EPS accretion**
 - ✓ The transaction delivers ~3-5% EPS accretion on a pro-forma FY2019 basis, before synergies.
 - ✓ USG Boral management expects synergies of ~US\$30 million per annum in 4 years of acquiring Knauf Asia Plasterboard to form the enlarged JV, driven by streamlined SG&A costs, manufacturing plant optimisation and lower freight costs.

1 A single, low percentage royalty-based fee (of <0.5% of relevant revenues) has been agreed. This fee includes Boral retaining exclusive access in Australia and NZ to USG's Sheetrock® technology currently employed in USG Boral until 2024 and non-exclusive access beyond 2024; and exclusive access to USG's mark II Sheetrock® technology (EcoSmart) until 2024 and non-exclusive access beyond 2024; and other R&D and breakthrough technologies.

2 Boral's US\$441 million net investment represents US\$200 million to acquire the remaining 50% of USG Boral Australia & NZ, plus Boral's US\$241 million share of investment in USG Boral Asia to acquire Knauf Asia Plasterboard, after divesting the Middle East business to Knauf.

- **Acquisition prices reflect ongoing earnings streams and asset values**
 - ✓ Boral's acquisition price of US\$200 million for Knauf's 50% stake in USG Boral Australia & NZ represents an EBITDA multiple of ~5.7 times¹, recognising the slower growing mature position of the business and the current Australian residential construction cycle.
 - ✓ USG Boral's acquisition price of US\$532.5 million for Knauf Asia Plasterboard represents:
 - A FY2019 Adjusted EBITDA multiple of ~10.2 times² (before synergies) for its profitable China business, which is materially contributing to earnings and is well-positioned in a strong growth market; and
 - asset values in the more recently established South East Asia countries, where earnings contributions are not yet material.
- **Boral's balance sheet remains strong**
 - ✓ Boral's funding requirement of US\$335 million will be met through cash and debt – including proceeds from recent divestments (Denver Construction Materials, US Block and Midland Brick).
 - ✓ Boral's credit metrics continue to support credit ratings of BBB and Baa2, which are expected to be maintained. Net debt / EBITDA is anticipated to be 2.5 times or lower, and Gearing (Net Debt / (Net Debt + Equity)) of 30%, reducing over time.

Mike Kane, Boral's CEO & Managing Director, said:

"After fully assessing a broad range of alternatives relating to our USG Boral joint venture, we are very pleased to announce this agreement with Knauf.

"The transaction is in line with Boral's strategy to invest in low capital-intensive, high growth businesses.

"The expanded joint venture in Asia will be a world-class operation, bringing together Knauf – now the world's largest plasterboard manufacturer - and USG Boral in Asia, which has an enviable position in the fastest growing plasterboard region in the world.

"Returning to full ownership of our plasterboard business in Australia & New Zealand gives Boral increased exposure to a well-positioned, high performing business that generates strong cash flows, recognising that Knauf may choose to exercise its call option within five years.

"The deal will be funded through debt and proceeds from asset sales, and will be earnings accretive in the first year, even before synergies."

Kathryn Fagg, Boral's Chairman, said:

"Our approach to considering the strategic options for USG Boral has been to create value for our shareholders in a way that is aligned with our strategy – and in a way that helps to ensure our balance sheet remains strong.

"After considerable and detailed due diligence, the Board believes that this transaction is compelling for Boral and our shareholders. It is well-aligned with our strategy and the plasterboard assets of Knauf in Asia are highly complementary with USG Boral's business in the region.

"We have maintained a disciplined approach to structuring and funding the transaction, and we are confident that value is created in both the short- and longer-term."

Implications for Boral's earnings outlook and reporting

- The transactions are subject to typical closing conditions, including regulatory approvals, and are **expected to be completed around the end of the calendar year 2019.**
- Once the transaction completes, Boral will combine its share of equity accounted earnings from the expanded USG Boral Asia JV, with fully consolidated earnings from USG Boral Australia & NZ. Together these will be reported under the USG Boral Plasterboard division.
- Boral's transaction costs will be ~A\$20 million in FY2020 and 50% share of one-off implementation costs are estimated to be ~US\$10 million over 3 years; these costs will be reported as significant items.

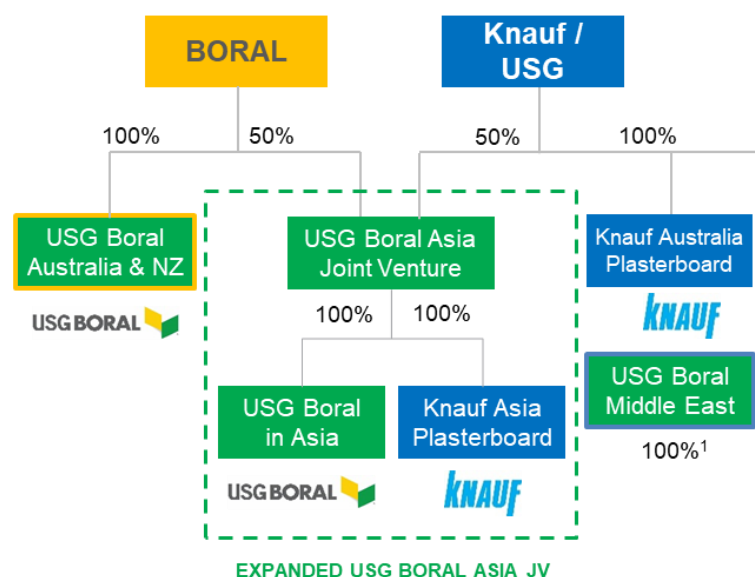
¹ Based on USD/AUD exchange rate of \$0.7145 on 30 June 2019

² Represents China EBITDA only

Key Joint Venture Terms

Provision	Description
MANAGEMENT	<ul style="list-style-type: none"> CEO will be Frederic de Rougemont, appointed by Boral. CFO will be appointed by Knauf/USG.
GOVERNANCE	<ul style="list-style-type: none"> Chair will be Ros Ng, appointed by Boral. Chair will be appointed by Boral until 31 Dec 2021 then right to appoint chair will rotate every 2 years. Board will continue to consist of equal nominee directors from Boral and Knauf/USG for as long as they hold 50:50 interests.
STRUCTURE	<ul style="list-style-type: none"> Knauf's China and South East Asia plasterboard assets to be contributed into the new joint venture. USG Boral's Middle East assets to be sold to Knauf. Knauf/USG 50% interest in USG Boral Australia & New Zealand (NZ) to be sold to Boral. Knauf has the option to buy back its 50% interest in USG Boral Australia & NZ in the future.
FUNDING	<ul style="list-style-type: none"> Joint venture expected to continue to be self funding with ability to borrow in its own right, subject to joint venture board approval. Targeted dividend distribution of 50% of net profit after tax, before amortisation & significant items.
INTELLECTUAL PROPERTY	<ul style="list-style-type: none"> Joint venture granted exclusive rights in the Territory to Knauf IP, USG IP and Boral's Poly-Ash Technology, including improvements and developments, to use for a broad range of products. A single, low percentage royalty-based fee (of <1% of relevant revenues) has been agreed. This fee includes USG Boral retaining exclusive access in the Territory to USG's Sheetrock® technology currently employed in USG Boral, USG's mark II Sheetrock® technology (EcoSmart), and other R&D and breakthrough technologies from USG and Knauf. Extensive support services in respect of intellectual property to be provided.
DISTRIBUTION / SUPPLY RIGHTS	<ul style="list-style-type: none"> Distribution and supply rights for a range of products to be granted in various territories to facilitate continuity of existing channels of distribution and supply, on terms equivalent to those currently in existence for those products. New distribution arrangements in relation to ceiling tiles and insulation products.
NON-COMPETE	<ul style="list-style-type: none"> Joint venture parties will not compete with the joint venture in the defined Territory. Party who exits the joint venture will not compete until the later of the third anniversary of their exit, or 10 years from commencement of the joint venture.
TRANSFER OF INTEREST / CHANGE OF CONTROL	<ul style="list-style-type: none"> 7 year standstill on transfer of interest in joint venture. Pre-emptive rights including right of first offer, last right to buy and tag-along right for non-selling party. 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.

Structure



1. Represents 100% ownership of USG Boral's current ownership of the Middle East / Oman entities

Boral Limited Investor Relations: Kylie FitzGerald +61 401 895 894 or kylie.fitzgerald@boral.com.au

Boral Limited ABN 13 008 421 761 – Level 18, 15 Blue Street, North Sydney, NSW, 2059 - www.boral.com