



INVESTOR CONFERENCE CALL

27 October 2020

Sydney

USG Boral

Boral agrees to sell its 50% share in USG Boral to Knauf

Transaction highlights

- Boral to sell its 50% interest in USG Boral for **US\$1.015 billion**
- Represents an attractive multiple of 15.1 x FY2020 normalised EBITDA¹ and ~11.3 x FY2019 EBITDA¹ (based on Boral's 50% share of 2019 EBITDA for JV)
- Profit on sale before tax expected to be ~A\$540 million
- Agreement is binding and subject to typical conditions precedent including in relation to regulatory matters
- Transaction is expected to close in FY2021
- Final cash proceeds from transaction will be applied to reduce net debt and fund growth investment in retained portfolio



1. Excluding significant items and the impact of IFRS leasing standard (AASB 16). FY2020 multiple is based on reported EBITDA for USG Boral of A\$190m 'normalised' to adjust for A\$10m reported COVID related production impacts and converted at FY2020 AUD/USD exchange rate of 0.6703. FY2019 multiple is based on reported EBITDA for USG Boral of A\$252m converted at FY2019 exchange rate of 0.7145.
 2. Other plants include mineral fibre ceiling tile, metal ceiling grid, metal products, joint compounds, bonding compounds, industrial plasters, mineral wool and cornice production
 3. Includes the cornice plant in Australia that will be rebuilt

Portfolio Review

A rigorous internal review across every business and every geography

For **every business in every geography**, our internally-led review assessed:

- Boral's position, strengths and the sectors in which we operate
- Future earnings and growth potential
- What is needed to drive a sustainable competitive advantage and deliver improved performance in short, medium and long-term

The review highlighted there are **significant opportunities for improvement in almost every business we own**



Better serve our customers



Better leverage our assets and operations



Better engage our people



Deliver improved outcomes for shareholders

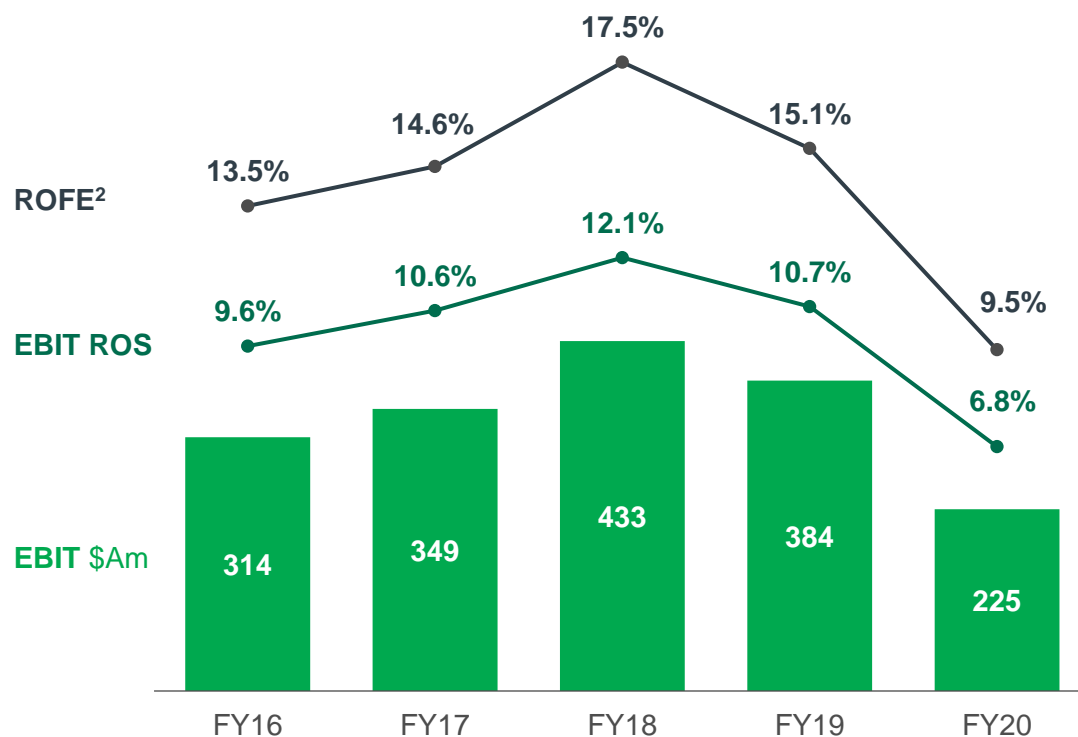
The review findings necessitate a considered and measured approach to how we move forward

Boral Australia

Opportunity to reduce costs and better leverage assets

Profitability metrics¹

FY16-20



Opportunities

Near term

- Become leaner, more nimble, more cost efficient (*plans being fully developed*)
- Strengthen customer focus and accelerate deployment of sustainable product solutions (*underway*)

Medium term

- Adjacent growth opportunities (*opportunities being fully explored*)
- Realise greater value from property portfolio (*opportunities being fully explored*)

1. Excluding significant items and the impact of the new leasing standard (AASB 16). Excludes the contribution from Boral CSR Brick JV divested in November 2016

2. EBIT return on divisional funds employed



Boral Australia

A great business, but more work to do

Strengths

- ✓ Integrated positions in key regions
- ✓ Innovative products
- ✓ Strong brand
- ✓ Solid infrastructure pipeline
- ✓ Recent investments in quarries
- ✓ Good property / integrated land assets

Challenges

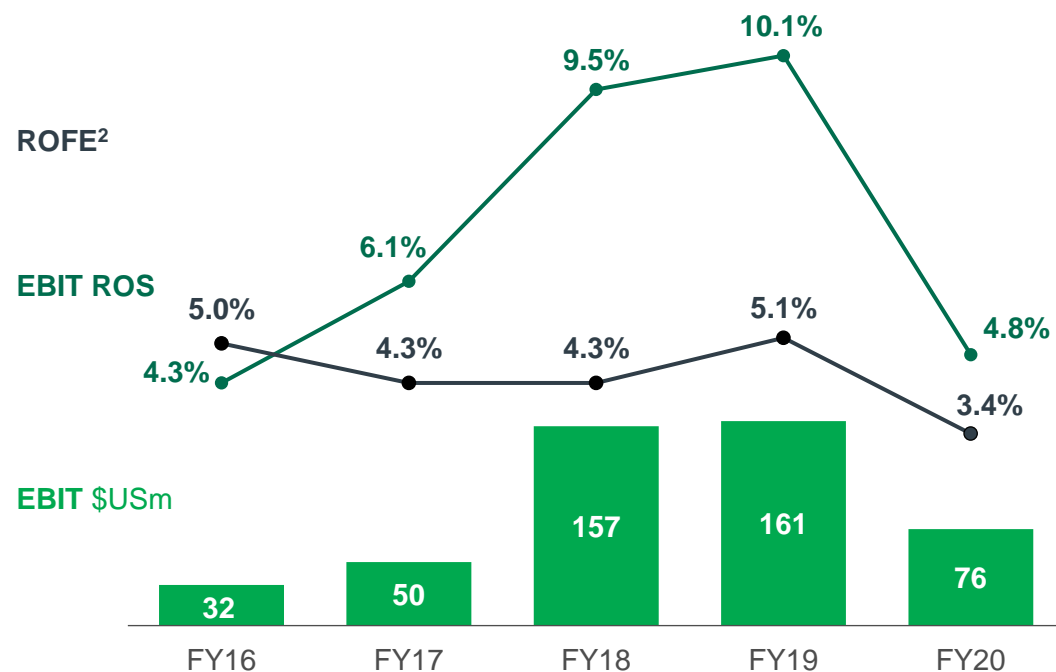
- Cost base higher than it should be
- Increasing competitive pressures – imports, downstream, peak demand
- Strong infrastructure pipeline but projects moving into execution phase have slowed
- Property assets not fully leveraged
- Difficulty executing transformation
- Can deliver much better operating leverage from our assets

Boral North America

Performance has not met expectations

Profitability metrics¹

FY16-20



Opportunities

- Building products initiatives underway to substantially strengthen returns, through:
 - › operational improvements (*underway*)
 - › enhanced go-to-market strategies (*underway*)
 - › product innovation (*accelerating*)
 - › Cross-business opportunities (*pilot programs underway*)
- Exploring third-party interest in building products assets to assess opportunities for value creation
- Fly Ash strategies to secure alternative fly ash supply sources

1. Excluding significant items and the impact of the new leasing standard (AASB 16). FY2018 and FY2019 adjusted for impact of restatement – see note 1d of 2020 financial statements

2. EBIT return on divisional funds employed

Boral North America – Building products

Fundamentally good businesses with significant upside; exploring third-party interest

Strengths

- ✓ Strong brands
- ✓ Good positions in many geographies
- ✓ Diverse portfolio of 4 businesses (LBP, Roofing, Stone, Windows) including growth, mature/harvest & niche products
- ✓ Significant third-party interest in robust US market segments

Challenges

- Sub-optimal integration and strategy development, despite good synergy gains
- Full value of businesses not yet unlocked
- Cross-business opportunities not leveraged
- Recent financial performance unsatisfactory
- COVID-related labour and productivity constraints
- Limited synergies between Australia and North America divisions

Boral North America – Light Building Products

A strong performer through the cycle

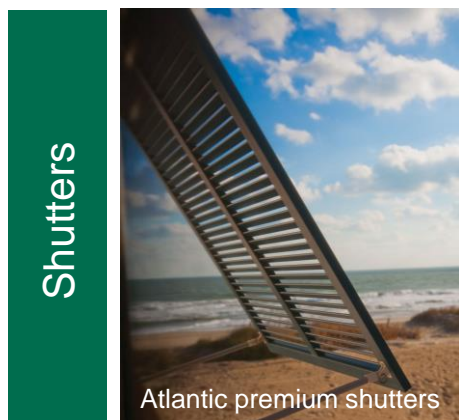


Findings

- ✓ Innovative new product *TruExterior*[®]
- ✓ Growing steadily in attractive premium and ultra-premium categories
- Highly competitive PVC-product category
- Investment required in marketing and customer awareness

Initiatives

- Expanding distribution channels, and engaging in pull through activities
- Introducing new product offerings
- Manufacturing cost input reductions



- ✓ Leading position
- ✓ Mature segment with high profitability
- ✓ Strong performance through the cycle
- Consumer preferences moving away from shutters

- Driving a more focused distributor strategy
- Raw material procurement improvement
- LEAN-driven operational improvement

Boral North America – Roofing

Well positioned in an attractive market momentum

Findings



- ✓ Strong position in concrete tiles
- ✓ High brand awareness and customer engagement
- ✓ Outperforming a growing market
- Operations disruptions in Florida and from COVID
- Limited upside in composite products

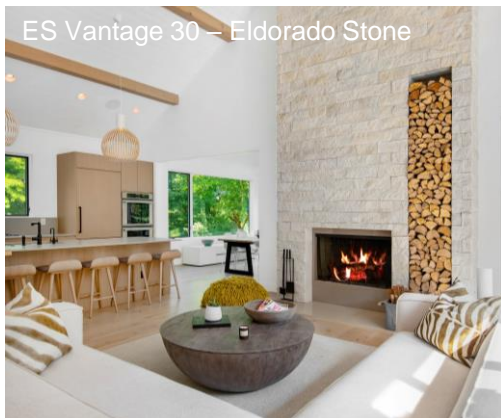
Initiatives

- Pricing improvements based on strong value proposition
- Introduction of new component products including mortar and expanded underlayment offering
- Targeting above sector growth in stone coated steel volumes through sales strategies
- Deliver cost savings through improved operational excellence and cost reduction programs

Boral North America – Stone

Leading brand portfolio with high growth potential

Findings



- ✓ Leading premium brands with high customer awareness
- ✓ Sector growth prospects remain attractive
- ✓ Innovative mechanically fastened panel product – *Versetta* – leading position with better than sector growth
- Lingering post-Headwaters acquisition brand and channel strategy resolution
- Lower investment in product innovation and design trends

Initiatives

- Reset and simplify pricing
- Upskilled salesforce and improved incentive structure
- Designed and implementing SAP/CRM and eCommerce solutions
- Continue large mould conversion capital investment, leading to ~30% cost reductions
- Implemented new product development methodology including voice of customer to capture new ‘on-trend’ products
- In depth innovation road-mapping exercise
- Improved go-to-market strategies to address post-integration channel/brand challenges

Boral North America – Fly Ash

Attractive cash generative business with a leading position

Strengths

- ✓ Attractive cash generative business
- ✓ Leading position with extensive national coverage & customer relationships
- ✓ Strong historical returns on capital
- ✓ Solid contract & customer demand profiles
- ✓ Experienced management team
- ✓ Leading technology suite
- ✓ Significant unmet demand for fresh fly ash

Challenges

- Pressure on royalties
- Medium term decline of coal-fired power stations reducing fresh fly ash supply
- Establishing alternative supply sources with acceptable technical and economic attributes as fresh fly ash declines

Boral North America – Fly Ash

Securing the future of a leading innovator

Initiatives

- Bolstering resources to accelerate strategies to assess and secure alternative sources of supply
- **Harvesting:** Montour plant supplying customers at targeted monthly output equivalent to 100k tpa
- **Imports:** currently importing from Mexico, with continued exploration and testing of import quality and economics from multiple international markets
- **Natural pozzolans:** continued construction at Kirkland mining site in Arizona; continuing technical & research programs around alternate materials
- **Grinding & blending:** robust pipeline of attractive projects



Q1 FY2021 trading update

Still not business as usual; ongoing uncertainty and challenges remain



Boral Group

- Fewer disruptions relative to previous six months but still not business as usual
- **Q1 revenue down 9%** and **EBIT down 5%** on prior comparable period (pcp)¹
- **EBIT margin of 9.5%, compares with ~9% in pcp¹** (and noting Sep-qtr is typically a seasonally stronger period)



Boral North America

- **Q1 USD earnings declined on lower revenue and EBIT margin of ~12%, up slightly on pcp**
- Higher equity earnings from Meridian Brick
- Building products lead times growing; running at capacity due to absenteeism, supply chain disruptions and staffing issues due to COVID
- Fly Ash volumes down 11%



Boral Australia

- **Q1 EBIT broadly steady on lower revenue and EBIT margin of 7.5%, up slightly on pcp**
- **Q1 concrete volumes declined 8%, quarry volumes down 2% and asphalt volumes lower** relative to pcp
- Slowdown of major project work moving into execution phase



USG Boral

- **Q1 underlying revenue lower but EBIT slightly better**
- Cyclical pressures in Australia and South Korea, and soft trading conditions in Thailand but strong uplift in China
- Q1 plasterboard volumes down 7% in Australia and 6% in Asia versus pcp
- **Q1 equity income steady on pcp**

1. Noting that Q1 FY2020 included one-off cost impact of ~\$10 million due to unplanned disruption and remediation works at Peppertree, and unscheduled down time at the Berrima kiln. Adjusting for these one-off impacts in the prior year, Group EBIT in Q1 FY2021 was down ~10% on pcp.



QUESTIONS?

27 October 2020

Sydney



Disclaimer

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