THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

CHAMPIONS TROPHY CASE COMPETITION 2008

FLETCHER BUILDING GROUP

30th January 2008

Pictured: Owen G Glen Building, The University of Auckland Business School
Source: The University of Auckland Business School

Case prepared by Mr. Sunny Gu, under the supervision of Mr. Brendon Potter, Director of Student Development, The University of Auckland Business School. This case has been prepared solely for the Champions Trophy Case Competition, and references a fictional consulting situation with no direct input from the case company. All data in this case has been obtained from publicly available sources. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

FletcherBuilding

Benjamin Banker

From: Benjamin Banker
Sent: Wednesday, 30 January 2008 8:52
To: * Fletcher Building Project Teams
CC: David Dollar; John Jobs; Peter Partner; Warren Wallstreet
Subject: Fletcher Building Strategy Presentation

Team,

Our first client, Fletcher Building, is unlike any other in Australasia. Fletcher Building is not only a building materials manufacturer, but also a construction company and a distribution business. It produces everything from commodities to high value niche products. The new University of Auckland Business School, for example, was built by Fletcher Construction with materials supplied by Fletcher Building.

For most of its life, Fletcher Building has been a division of Fletcher Challenge, but was listed as a stand-alone company in 2001 when the parent group was split apart. Today, it is *the* leader in the NZ building industry, one of the most successful NZ based corporates, and one of the largest companies in Australasia, having more than doubled its revenue and increased its EBIT by more than seven times within a span of seven years. In the relatively consolidated Australasian market, Fletcher Building has managed to outperform its Australian competitors.

Ex-CEO Ralph Waters credits much of this success to the quality and depth of the management team. During his departing speech, he praised the executive board as one that makes “good quality decisions”, having the judgement to go outside the company and the country for a CEO when that was needed, and being farsighted and brave enough to reject a private offer for the company of over $2.80 when the shares were trading at under $2 in late 2000. In 2007, the shares averaged $11.78.

Jonathan Ling, CEO since September 2006, has a big challenge on his hands to continue this growth. He has said that the strategies his predecessor put in place will remain:

- Earnings Reliability: to decrease volatility in earnings.
- Internal Growth: support core businesses and invest for organic growth.
- External Growth: acquire businesses to strengthen existing operations and increase product and geographical diversity.

Jonathan has asked us to analyse the company, and provide recommendations on the strategic level. He is also interested in what you have to say about internal growth.

Please prepare a presentation to Jonathan and the board of no more than ten minutes to talk about your analysis and strategic recommendations. Also, be prepared for a ten-minute question and answer session. Information gathered by our research team is attached to this email.

Regards,

Benjamin Banker,
Senior Vice President
SYG Consulting Group

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

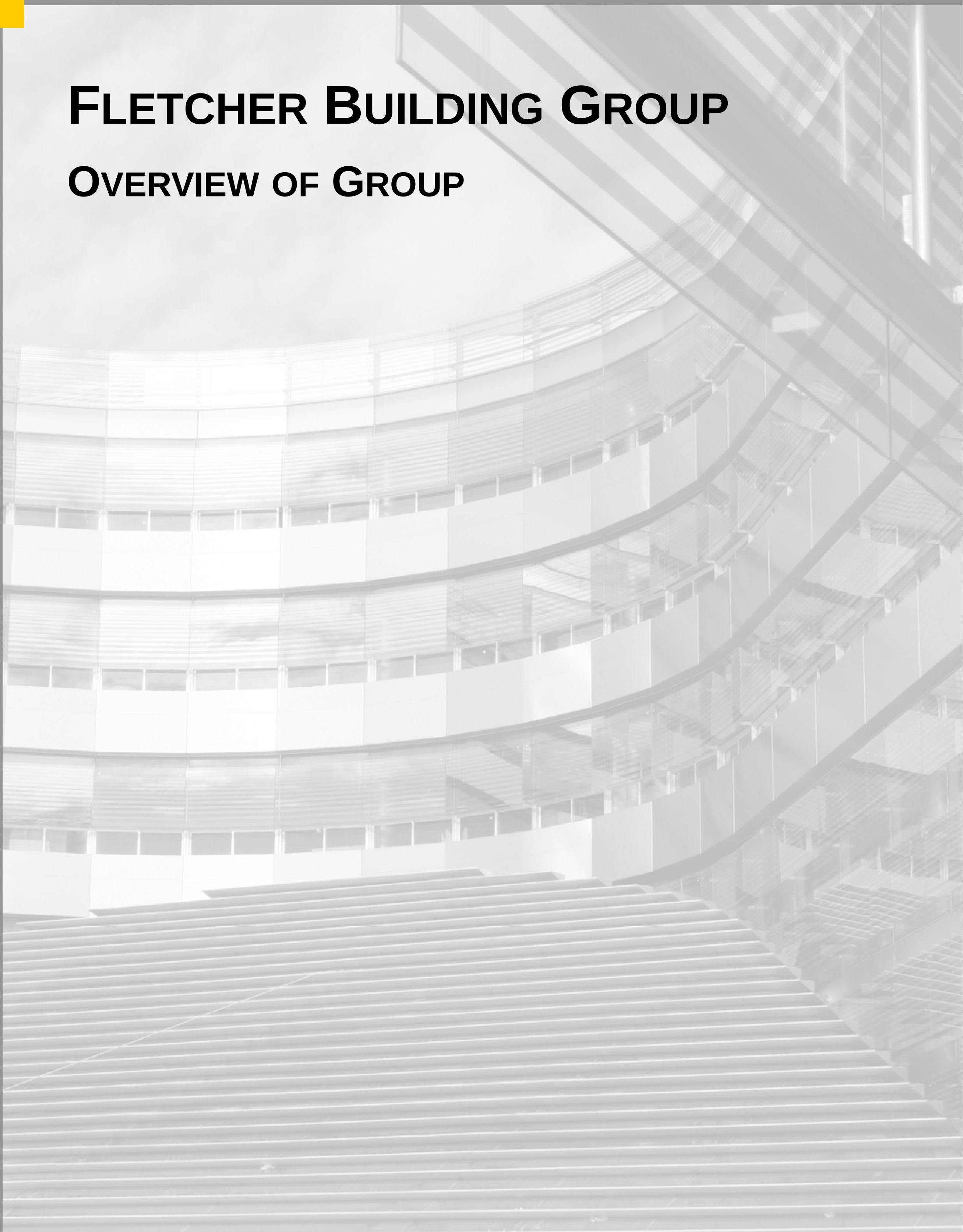
Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

CHAMPIONS TROPHY CASE COMPETITION 2008

FLETCHER BUILDING GROUP

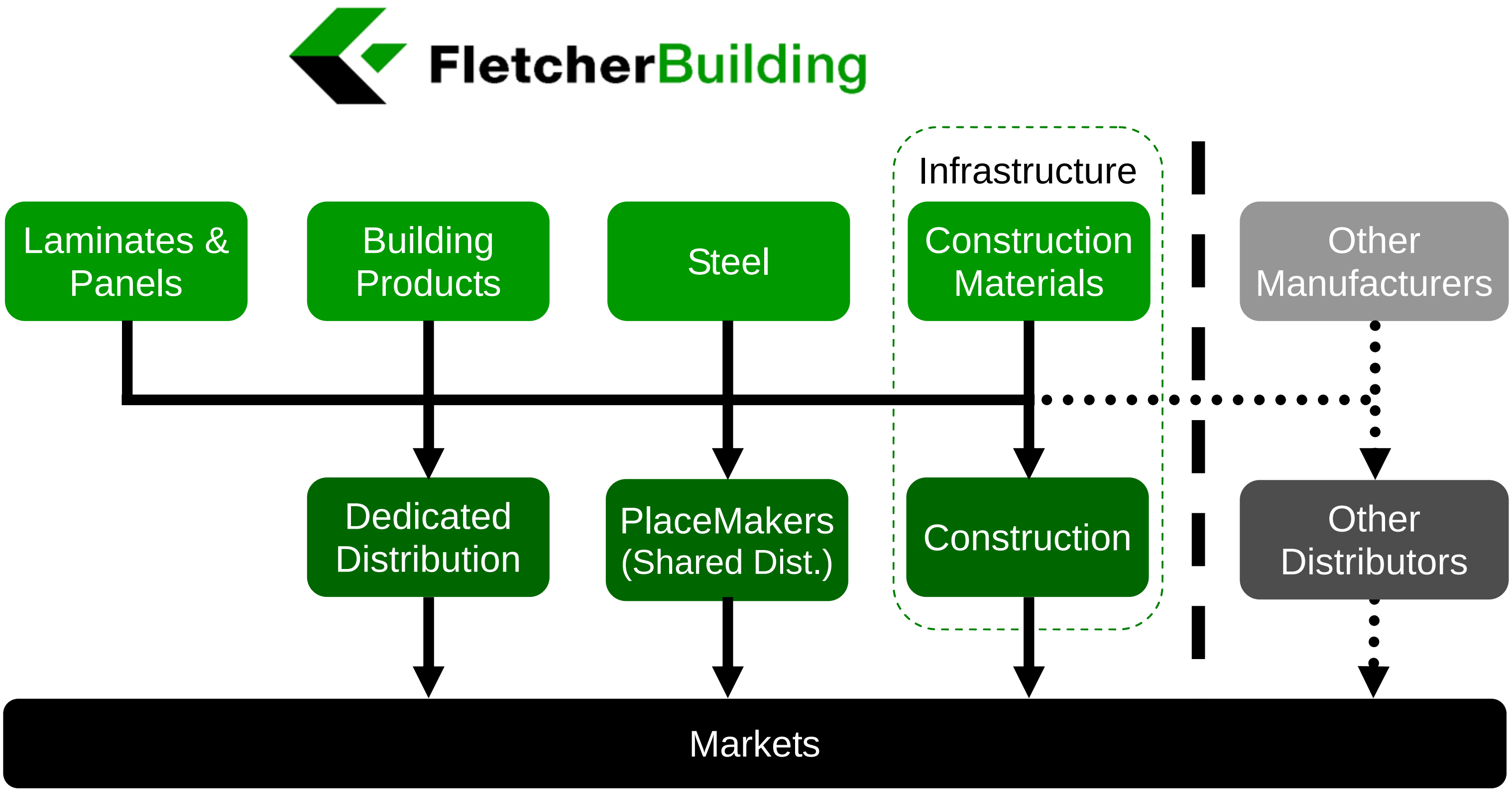
OVERVIEW OF GROUP



FletcherBuilding

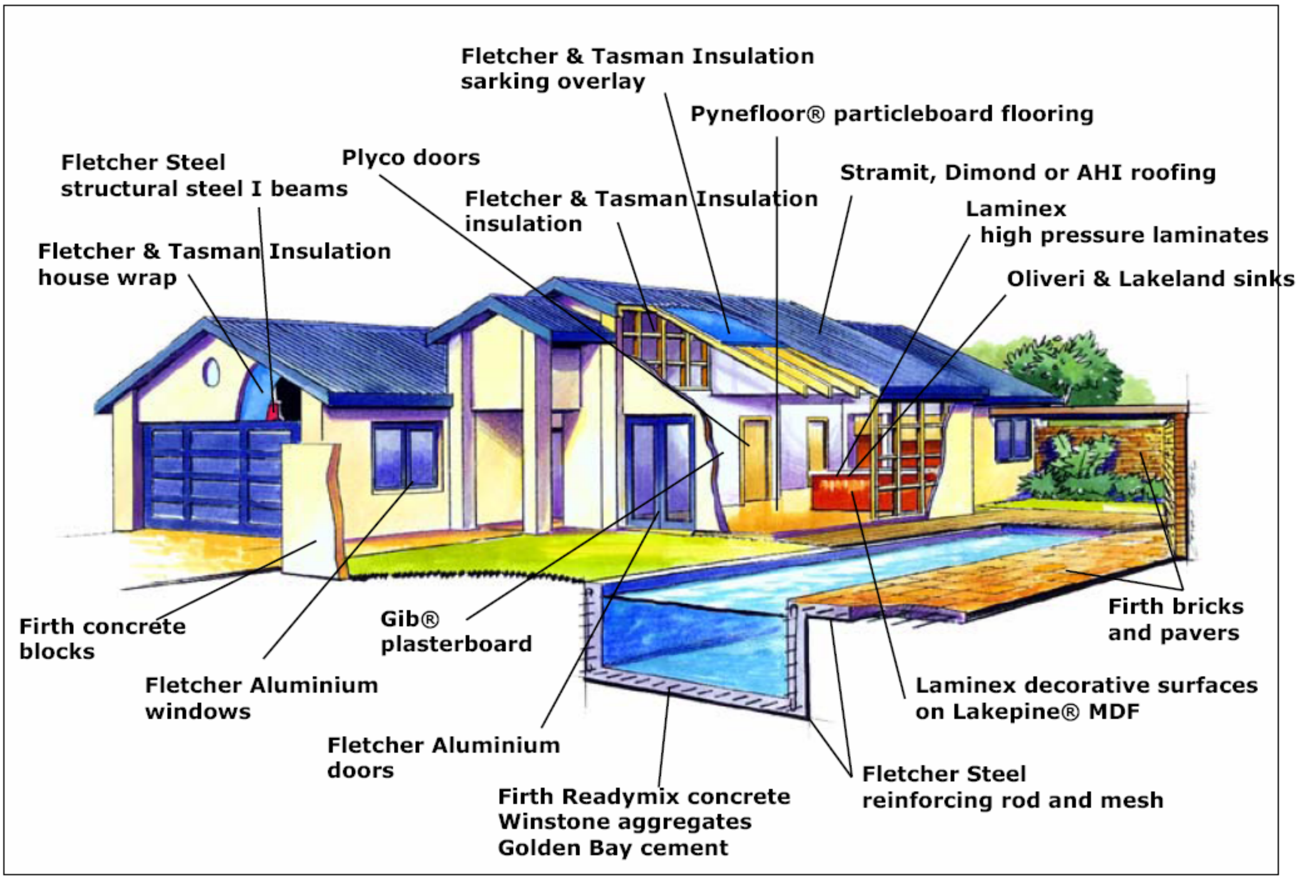
The following has been obtained from the Fletcher Building website.

Fletcher Building: Value Chain



Source: Fletcher Building Presentation March 2007 (modified by case writer)

Fletcher Building: Selected Products



Source: Fletcher Building Presentation March 2007

FLETCHER BUILDING: PRINCIPAL OPERATING DIVISIONS

FletcherBuilding

	Outline	Competitive Strengths	Market Positions
Building Products	The division has a range of New Zealand and Australian businesses involved in the manufacture and distribution of plasterboard, glasswool insulation, roof tiles, sinkware and ceiling, wall and flooring systems.	• A major producer of insulation products in Australasia • The world's largest producer of steel roof tiles • Respected brands • Trading skills and customer relationships in Asia • Broad distribution network • Ability to supply a large range of products within competitive lead times	• Winstone Wallboards Ltd: 94% of NZ market • Fletcher Aluminium: #2 in NZ • Tasman Insulation NZ/Fletcher Insulation: #1 in Australasia with 60% Australia, 80% NZ glass wool market • AHI Roofing/Decra Roofing Systems: #1 in Australasia (also facility in California) • Tasman Sinkware: #2 in Australasia • Tasman Access Floors: #1 in Australasia
Steel	The Steel businesses comprise of steel manufacturing, processing and distribution. Pacific Steel manufactures steel bar and rod products in Auckland, New Zealand. The other businesses carry out further value-added manufacturing, and merchandising of steel related products, wire products, metal, roofing, structural building products, coil coating and galvanising.	• NZ's only producer of long steel products • NZ's only integrated producer of wire and wire products • Vertically integrated supply chain from scrap to finished product • National footprint for both Australian and New Zealand roll-forming operations.	• SPM: 50% ownership (scrap metal) • Pacific Steel/Pacific Wire: sole producer of long products in NZ • Fletcher Reinforcing: 250,000 EAF steel mill (rod, bar & wire) • Dimond/Stramit: 30% Australia and NZ rollforming market • Pacific Coilcoaters: 50% of flat steel painting in NZ • Fletcher Easysteel/CSP: General steel distribution
Infrastructure	The Infrastructure division is a vertically integrated business consisting of a construction materials business which supplies aggregates, cement, ready-mix concrete and a range of manufactured products in New Zealand. The division is a major supplier of concrete pipeline products and aggregate sands throughout Australia. It is the largest construction contractor (Fletcher Construction) and residential builder (Fletcher Homes) in New Zealand.	• Location and size of aggregate deposits • Cement and limestone resource • World-class dry process cement plant • Nationwide distribution networks • Unrivalled experience at managing large scale construction projects in New Zealand	• Golden Bay Cement: 50% of NZ cement market • Firth: 33% of NZ ready mixed concrete market • Winstone Aggregates: 25% of NZ aggregates market • Humes/Rocla Pipeline Products: 60% of NZ + 35% of Australia concrete pipe market • Rocla Quarry Products: 30% of NSW and 80% of WA sand market • NZ’s leading construction company o Commercial (buildings) o Engineering (infrastructure) o South Pacific (general) o Residential (NZ largest home builder)

FLETCHER BUILDING: PRINCIPAL OPERATING DIVISIONS

FletcherBuilding

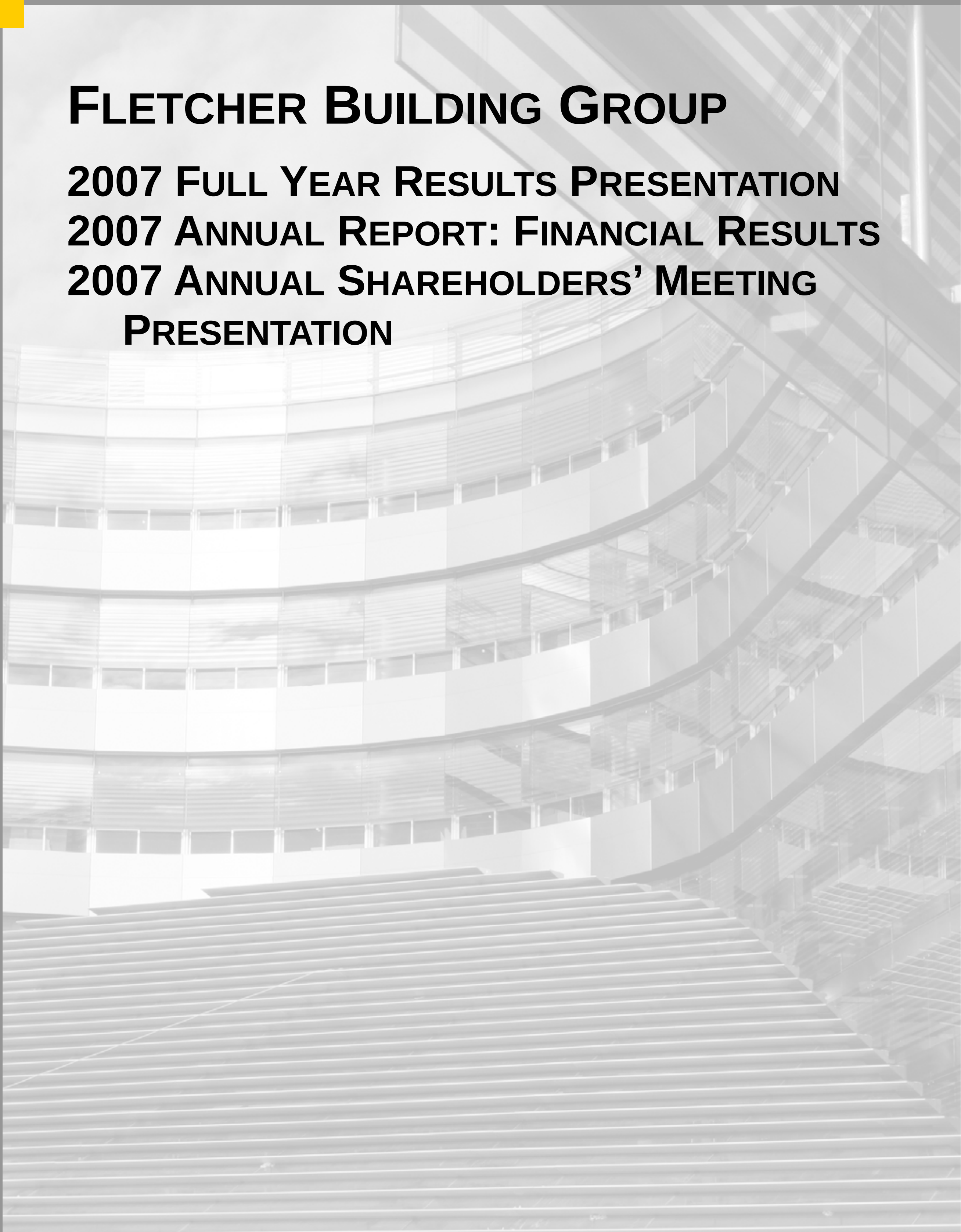
	Outline	Competitive Strengths	Market Positions
Laminates & Panels	The division comprises the Laminex Group which is Australasia's leading manufacturer, marketer and distributor of decorative surface high- and low-pressure laminates (HPL and LPL). It also manufactures and sells particleboard and medium density fibreboard. The recently acquired Formica Corporation will become part of this division.	• Vertically integrated business with cost efficient and well located manufacturing plants capable of supplying a large range of products in competitive lead times • The only nationwide distribution network which is particularly strong in regional areas • The supplier of respected and strong brands particularly Laminex and Formica brand products • A large sales force with a strong service focus providing merchandising and product support as well as a strong customer base for export	• The Laminex Group o HPL (2 mills): #1 in Australasia o Decorated Board: #1 in Australasia o MDF (2 mills): #2 in Australasia o Particle Board (2 mills): #2 in Australasia o Hardboard (1 mill): #2 in Australasia o Over 50 owned distributed outlets across Australasia • Formica Corporation o Asia (12 distribution centres): #1 in Thailand, Taiwan, Hong Kong, China o Europe (12 distribution centres): #1 in UK, Spain, Scandinavia o North America (9 distribution centres): #2 in HPL market, top 3 players > 90% share
Distribution	The Distribution division predominately operates under the PlaceMakers brand with outlets throughout New Zealand selling building materials and related products to trade and DIY customers. It also provides a distribution channel for a number of other Fletcher Building companies.	• Strong brands • National coverage • Economies of scale • Franchise structure	• 59 PlaceMakers stores in NZ • 36% of building materials market • Joint Venture rather than franchise • Trade focus – 80% of sales • #1 in segment

Source: Fletcher Building website
Source: Fletcher Building Annual Report 2007
Source: Fletcher Building Presentation March 2007

Champions Trophy Case Competition

Fletcher Building Group

2007 Full Year Results Presentation
2007 Annual Report: Financial Results
2007 Annual Shareholders' Meeting Presentation



Note: NZD$1 = USD$0.77 = AUD$0.88 as at December 2007

The following has been obtained from the Fletcher Building website.

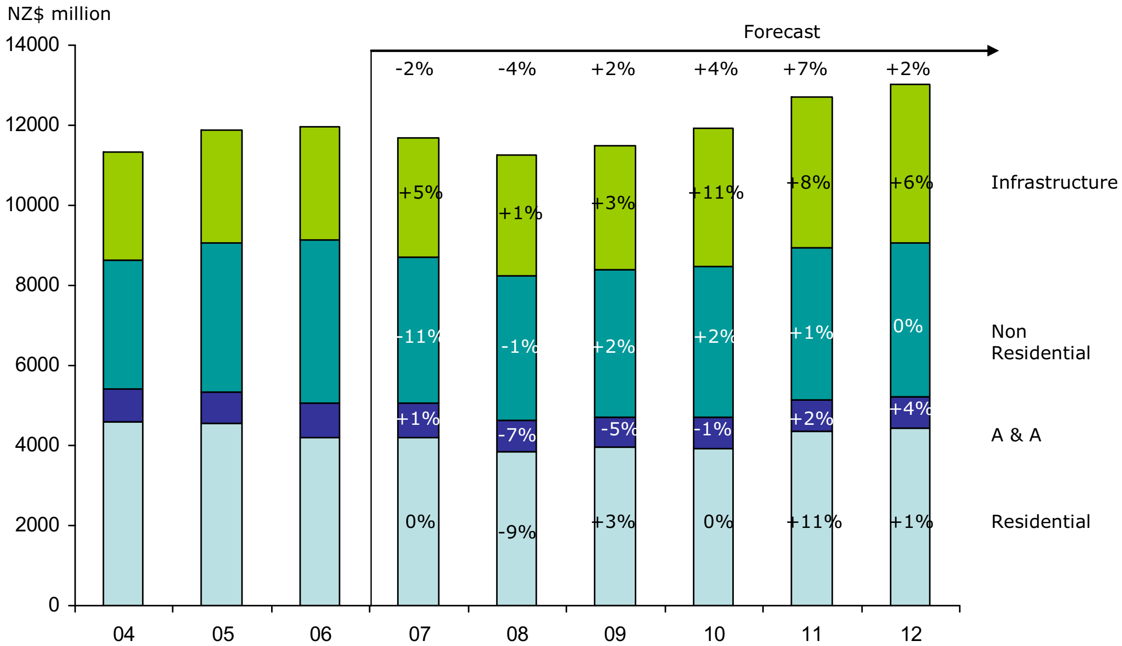
Fletcher Building Limited
Annual Results 2007

8 August 2007

Strategic Agenda

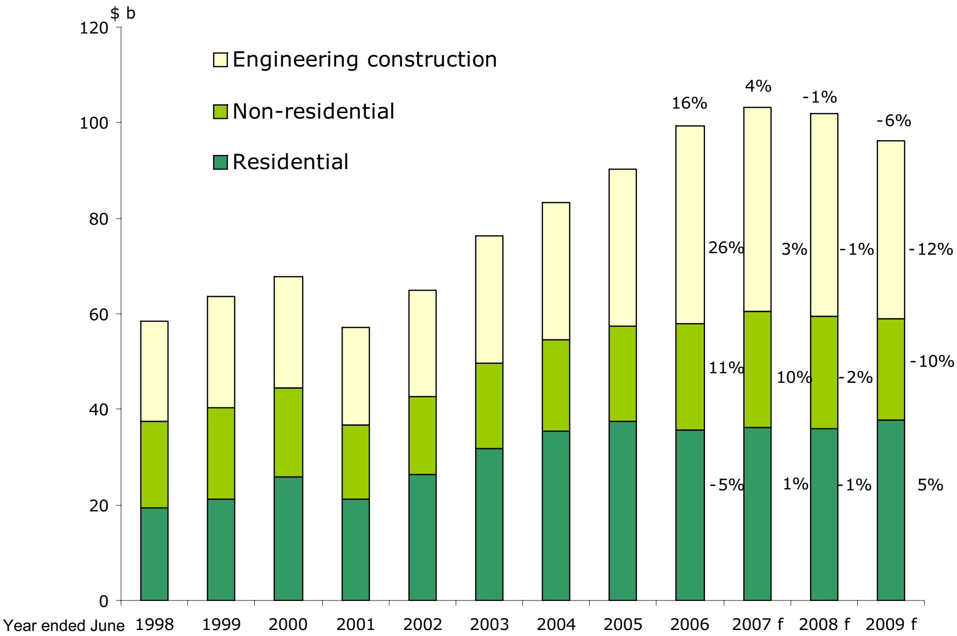
- Earnings Reliability
- Internal Growth
- External Growth

New Zealand
Volume of Work Commenced



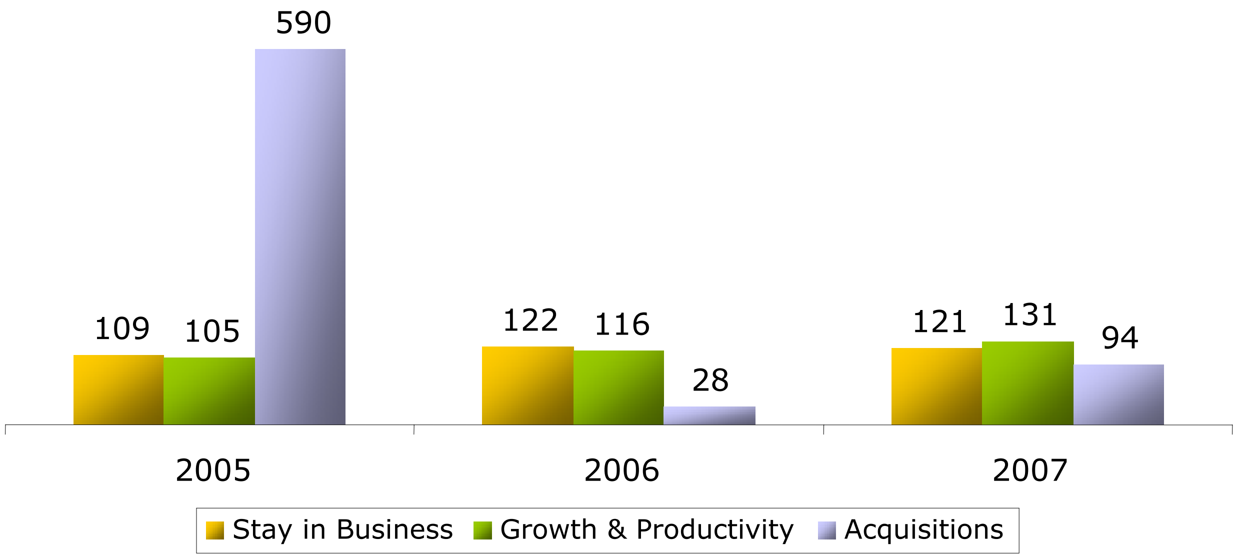
Source : Infometrics in constant 1995/96 prices (July 07)

Australia
Volume of Work Commenced



Source : BIS Shrapnel Building in Australia Update in constant 2004/05 prices (June 07)

Internal Growth



Internal Growth Opportunities

- Significant capex spend continues.
- Projects include:
  - Particleboard capacity upgrade in NZ and Australia
  - Resin JV
  - Kitchen componentry
  - Australian quarry expansion
  - Wespine capacity upgrade
  - Steel mill transformer and capacity upgrade
  - Insulation new furnace and capacity upgrade in NZ
  - New Laminex distribution centre in WA
  - European roof tile plant

External Growth Opportunities

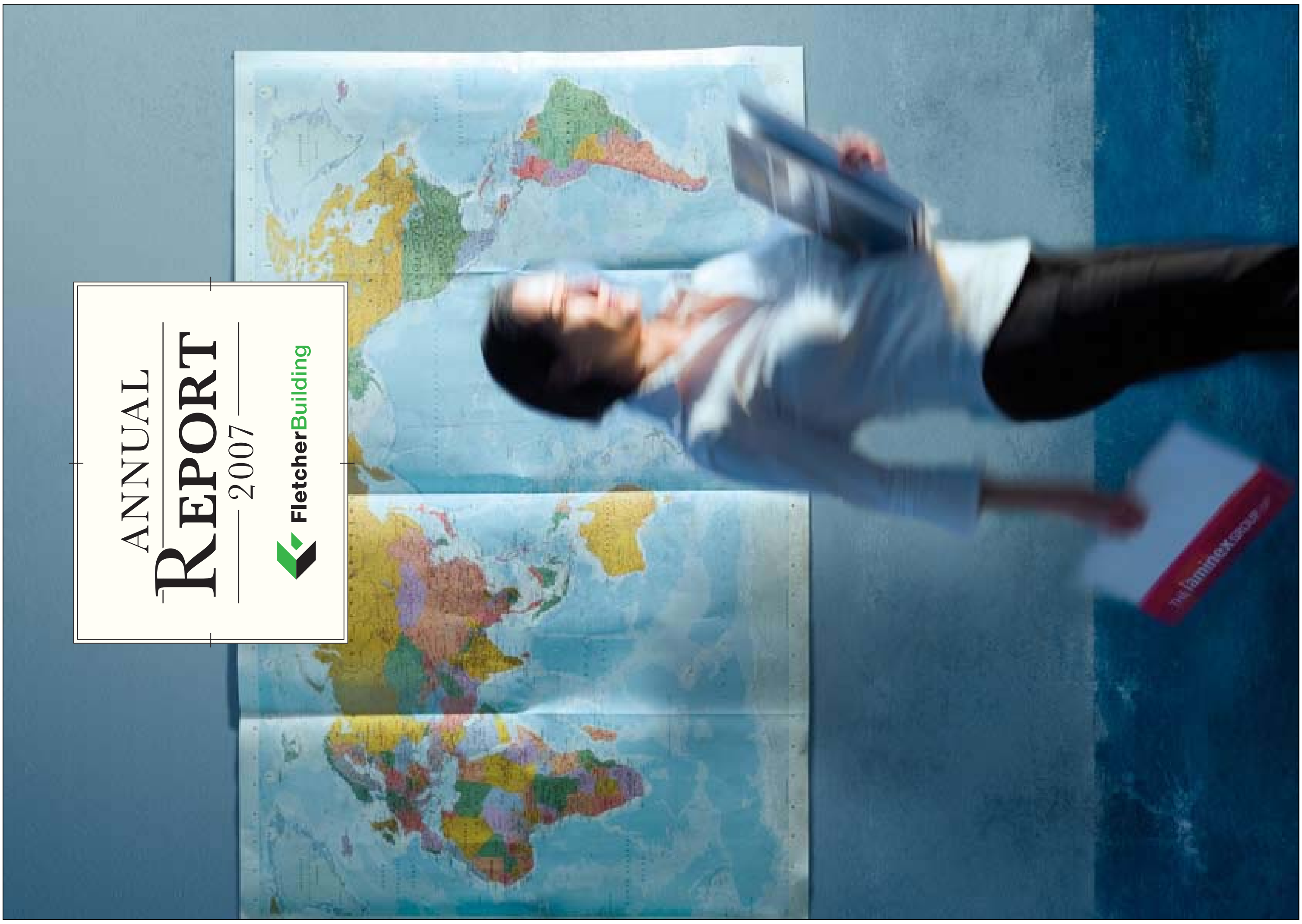
- ❑ Fletcher Building acquired Formica Corporation from private equity investors, Cerberus Partners and Oaktree Capital.
- ❑ Formica is a leading global high pressure laminates ("HPL") manufacturer comprising three geographical business units
  - Asia
  - Europe
  - North America

External Growth Opportunities (cont.)

- ❑ Purchase price US$700m (NZ$913m), with additional contingent payments up to a total of US$50m (NZ$65m) based on Formica completing an agreed restructuring plan.
- ❑ Meets all aspects of Fletcher Building's well established acquisition criteria.
- ❑ The Formica brand name is recognised globally as the leader in HPL – Fletcher Building acquired Australian and NZ rights to the Formica brand with the Laminex acquisition in 2002.

Outlook

- Residential markets in Australia and New Zealand continue to soften.
- Non-residential and infrastructure flat at best.
- Formica Europe and Asia continue to be strong and U.S. weak.
- Volatile currency.
- Satisfactory result expected.



Earnings Statement ~ *For the year ended 30 June 2007*

	Notes	Fletcher Building Group Year Ended June 2007 NZ$M	Fletcher Building Group Year Ended June 2006 NZ$M	Fletcher Building Limited Year Ended June 2007 NZ$M	Fletcher Building Limited Year Ended June 2006 NZ$M
Sales		**5,926**	5,520		
Cost of goods sold		**(4,446)**	(4,099)		
Gross margin		**1,480**	1,421		
Selling and marketing expenses		**(428)**	(403)		
Administration expenses		**(396)**	(372)		
Share of profits of associates	20	**28**	29		
Other investment income	32			252	257
Other gains/(losses)		**15**	1		
Unusual items	3	**5**			
Amortisation of intangibles	19	**(1)**	(1)		
Operating earnings (EBIT)	3	**703**	675	252	257
Funding costs	5	**(87)**	(88)	(99)	(98)
Earnings before taxation		**616**	587	153	159
Taxation expense	6	**(113)**	(189)	18	19
Earnings after taxation		**503**	398	171	178
Earnings attributable to minority interests		**(19)**	(19)		
Net earnings attributable to the shareholders		**484**	379	171	178
Net earnings per share (cents)	8				
Basic		**101.9**	81.3		
Basic (excluding unusuals)		**84.0**	81.3		
Diluted		**99.8**	78.6		
Weighted average number of shares outstanding (millions of shares)	8				
Basic		**475**	466		
Diluted		**505**	509		
Dividends declared per share (cents)		**45.0**	40.0		

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Balance Sheet ~ *As at 30 June 2007*

	Notes	Fletcher Building Group June 2007 NZ$M	Fletcher Building Group June 2006 NZ$M	Fletcher Building Limited June 2007 NZ$M	Fletcher Building Limited June 2006 NZ$M
Assets					
Current assets:					
Cash and liquid deposits	14	**332**	49	278	1
Current tax asset	24	**19**	34	17	19
Debtors	15	**978**	913	92	22
Stocks	16	**745**	703		
Total current assets		**2,074**	1,699	387	42
Non-current assets:					
Fixed assets	17	**1,515**	1,569		
Goodwill	18	**393**	347		
Intangibles	19	**236**	250		
Investments in associates	20	**123**	113		
Investments – other	20	**18**	16	2,923	2,868
Deferred taxation asset	24	**74**	105	4	
Advances to subsidiaries	32			469	424
Total non-current assets		**2,359**	2,400	3,396	3,292
Total assets		**4,433**	4,099	3,783	3,334
Liabilities					
Current liabilities:					
Short-term loans		**4**	21	3	21
Provisions	21	**54**	59	2	2
Creditors and accruals	22	**818**	876	62	71
Contracts	23	**137**	103		
Capital notes	25	**113**	88		88
Term debt	26	**61**	60	(4)	
Advances from subsidiaries	32			2,262	2,038
Total current liabilities		**1,187**	1,207	2,325	2,220
Non-current liabilities:					
Provisions	21	**10**	12		
Creditors and accruals	22	**61**	63		
Deferred taxation liability	24	**71**	76		1
Capital notes	25	**236**	311	200	162
Term debt	26	**572**	630		10
Total non-current liabilities		**950**	1,092	200	173
Total liabilities		**2,137**	2,299	2,525	2,393
Equity					
Reported capital	10	**1,325**	970	1,333	976
Revenue reserves	11, 12	**961**	679	(69)	(38)
Other reserves	11, 12	**(35)**	107	(6)	3
Shareholders' funds		**2,251**	1,756	1,258	941
Minority equity	13	**45**	44		
Total equity		**2,296**	1,800	1,258	941
Total liabilities and equity		**4,433**	4,099	3,783	3,334

The accompanying notes form part of and are to be read in conjunction with these financial statements.

On behalf of the Board, 8 August 2007

Roderick Deane *Chairman of Directors* **Jonathan Ling** *Managing Director*

Segmental information

	Building Products NZ$M	Steel NZ$M	Distribution NZ$M	Infrastructure NZ$M	Laminates & Panels NZ$M	Other NZ$M	Total Group NZ$M
Industry segments							
Year Ended 30 June 2007							
Sales – gross	**808**	**1,204**	**1,081**	**2,039**	**1,130**	**7**	**6,269**
Sales – inter-segment	**(111)**	**(43)**	**(17)**	**(95)**	**(72)**	**(5)**	**(343)**
Sales – external	**697**	**1,161**	**1,064**	**1,944**	**1,058**	**2**	**5,926**
Operating earnings (EBIT)	**135**	**71**	**80**	**271**	**151**	**(5)**	**703**
Unusual items included in EBIT above	**(6)**	**(9)**			**20**		**5**
Equity earnings included in EBIT above	**(1)**	**16**		**4**	**9**		**28**
Total assets	**687**	**689**	**271**	**1,183**	**981**	**622**	**4,433**
Investments in associates included in assets	**3**	**24**		**27**	**69**		**123**
Total liabilities	**144**	**184**	**151**	**447**	**175**	**1,036**	**2,137**
Capital expenditure including acquisitions	**101**	**36**	**33**	**110**	**35**	**31**	**346**
Depreciation expense	**20**	**22**	**8**	**60**	**44**	**1**	**155**
Year Ended 30 June 2006							
Sales – gross	706	1,132	968	1,919	1,089	8	5,822
Sales – inter-segment	(77)	(50)	(12)	(96)	(62)	(5)	(302)
Sales – external	629	1,082	956	1,823	1,027	3	5,520
Operating earnings (EBIT)	142	93	75	255	116	(6)	675
Equity earnings included in EBIT above		15		4	10		29
Total assets	646	670	243	1,243	1,108	189	4,099
Investments in associates included in assets	3	11		30	69		113
Total liabilities	136	205	143	457	187	1,171	2,299
Capital expenditure including acquisitions	28	23	17	128	69	1	266
Depreciation expense	19	19	8	57	40		143

Segmental information continued

	Australia NZ$M	New Zealand NZ$M	Other NZ$M	Group NZ$M
Geographic segments				
Year Ended 30 June 2007				
Sales – external	**2,020**	**3,657**	**249**	**5,926**
Operating earnings (EBIT)	**220**	**466**	**17**	**703**
Unusual items included in EBIT above	**(3)**	**8**		**5**
Equity earnings included in EBIT above	**11**	**16**	**1**	**28**
Total assets	**1,747**	**2,561**	**125**	**4,433**
Investments in associates included in assets	**80**	**40**	**3**	**123**
Total liabilities	**637**	**1,443**	**57**	**2,137**
Capital expenditure including acquisitions	**80**	**260**	**6**	**346**
Depreciation expense	**61**	**90**	**4**	**155**
Year Ended 30 June 2006				
Sales – external	1,859	3,389	272	5,520
Operating earnings (EBIT)	211	436	28	675
Equity earnings included in EBIT above	11	17	1	29
Total assets	1,916	2,010	173	4,099
Investments in associates included in assets	81	29	3	113
Total liabilities	715	1,506	78	2,299
Capital expenditure including acquisitions	72	181	13	266
Depreciation expense	55	82	6	143

Annual Shareholders' Meeting
13 November 2007

Strategic direction

- Further growth through acquisition likely
- Greater international presence
- Invested $2.6 billion in acquisitions in past 5 years
- Acquisition opportunities from private equity still available as businesses complete their turnaround phase

Our acquisition criteria

- Complementary business
- Leading market position
- Favourable industry structure
- Strong management
- Attractive acquisition parameters for early positive financial impact

FletcherBuilding

Infrastructure

- Sales up 7% to $1.94 billion
- Operating earnings up 6% to $271 million
- Sixth consecutive year of sales and earnings growth
- New Zealand demand weaker overall
- New South Wales particularly soft
- ... but all key businesses lifted operating earnings

FletcherBuilding

Infrastructure

- Increased prices and reduced overheads for cement and aggregates
- Strong demand for pipes
- Quarry products higher, except in NSW
- Higher prices and margins in residential
- Further strong growth in general construction
  - backlog $775 million, rising to over $1 billion today
- Capital investment of $110 million

FletcherBuilding

Distribution

- Sales up 11% to $1.06 billion
- Operating earnings up 7% to $80 million
- Store development programme
  - five new PlaceMakers
  - six stores expanded/upgraded
  - distribution facility in Auckland
- Capital investment of $18 million
- Acquisitions – three Maddren Timber stores and others in Mangawhai Heads, Cromwell and Stratford

FletcherBuilding

Building Products

- Sales up 11% to $697 million
- Operating earnings down 1% to $141 million
- Good performance in the conditions
  - flat new residential market in NZ
  - decline on east coast of Australia
  - strong $NZ

FletcherBuilding

Building Products

- Plasterboard sales up 4%, with steady earnings
- Insulation down
  - 29% in Australia in soft residential markets
  - 13% in NZ with higher costs and import pressures
- Strong growth in metal roof tiles
- Strong performances in sinkware and floors
- Forman Group performed well post-acquisition
- $36 million of capital projects

FletcherBuilding

Steel

- Sales up 7% to $1.2 billion
- Operating earnings down 14% to $80 million
- First year as a separate division – split from Building Products from 1 July 2006
- Tough year, with major increases in scrap metal prices

Steel

- Long steel
  - Scrap metal prices up 27% to record levels
  - Import competition toughened by high $NZ
- Rollforming
  - Steady earnings despite tough trading environment
- Merchandising
  - Strong performance and sales growth
- Acquisitions – Eziform Sheetmetals and Fair Dinkum Homes and Sheds
- Capital investment $36 million

Laminates & Panels

- Sales up 3% to $1.06 billion
- Operating earnings up 13% to $131 million
- Australia
  - sales growth offset by margin pressure… but cost control leading to increased earnings
  - difficult year for Wespine joint venture
- New Zealand
  - sales reduced by fire at Taupo MDF plant
  - … but earnings up on sales and distribution initiatives

FletcherBuilding

Laminates & Panels

- Capital investment of $35 million
- Kumeu plant upgrade increased production 17%
- Environmental & production gains at Dardanup
- Work commenced on
  - heat energy plant at Gympie MDF
  - distribution centre in Perth
- New products – veneers and wet area surfaces
- 20% holding in Mataura MDF, with option to 50%
- Closure of Penrose plant

FletcherBuilding

THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL
CHAMPIONS TROPHY CASE COMPETITION 2008

FLETCHER BUILDING GROUP

SELECTED PRESS ARTICLES

FletcherBuilding

The following has been obtained from the press as indicated.

FLETCHER'S IN BIG LEAGUE

684 words
24 May 2007
Dominion Post
1
English

GARETH VAUGHAN

FLETCHER BUILDING is growing by a fifth and becoming a global building materials player with a Chinese presence through the $1 billion uncontested acquisition of America's Formica Corporation.

Chief executive Jonathan Ling says the deal makes Fletcher the world's No 1 manufacturer of laminate surfacing materials.

Formica focuses on commercial products for shops, hospitals, schools and hotels, rather than kitchen and bathroom sinks and benchtops. It complements Fletcher's Laminex business, which already owns the Formica brand in New Zealand and Australia.

"Formica provides Fletcher with the opportunity to establish a truly global laminates platform and significantly increase the geographic diversity of our earnings exposure," Mr Ling said yesterday.

Fletcher is buying the Cincinnati- based Formica off private equity funds Cerberus Capital Management and Oaktree Capital Management for US$700 million (NZ$959 million).

An additional US$50 million payment depends on Formica successfully restructuring in North America by June 2008.

Fletcher is funding the deal through a $308 million placement of 26 million shares and $742 million in bank loans.

Formica's US$737 million 2006 revenue adds 18 per cent to Fletcher's $5.5 billion.

The deal boosts Fletcher's earnings per share by 7 per cent and cuts the percentage of revenue it makes in New Zealand to 53 per cent from 61 per cent.

Investors and analysts were impressed. "I think it's an outstanding transaction," said Craig Brown, Walker Capital Management principal.

"It gives them a number of new footholds in [geographic] markets that they're not in now."

A base price of $11.85 was set for the share placement, which is being underwritten by Cerberus' adviser Goldman Sachs JBWere and Fletcher's adviser Deutsche Bank.

Estimates last night were that the book build would close at between $12.50 and $12.60 per share, 5 cents below Fletchers $12.65 Tuesday closing price.

The share placement was expected to be about three-and-a-half times oversubscribed.

Fletcher shares, placed in trading halt yesterday, are up $1.25 this month despite Tuesday's 20c fall to $12.65. Trading resumes at 10am this morning.

Formica's profitable 30-year-old Asian business was a key attraction. It has factories in Taipei, Thailand and a brand-new one in Shanghai.

"From the point of view of global competitiveness and product, not only for China but also for bringing down into Australia and New Zealand and going to North America, it gives Formica and Laminex the lowest cost base in the world," Mr Ling said.

It is Fletcher's biggest acquisition, topping its $754 million buy of Australia's Laminex in 2002, since it was spun out of Fletcher Challenge in 2001. It is Mr Ling's first big buy since he took Fletcher's helm from Ralph

Waters in September.

The deal should be settled on July 2. Mr Ling does not expect any issues with American regulators.

Key members of Formica's management team will stay on. Formica's 2008 earnings should be US$94 million, before cost savings when they combine. Some $13 million in savings are expected in 2008 and $24 million in 2009.

Mr Ling said talks began with Formica three years ago when he was Laminex's chief executive. Fletcher entered an exclusive bidding process just before Christmas. The key was convincing Formica's owners that the Kiwi firm was Formica's natural owner with more cost savings than other potential buyers.

"We haven't been forced to pay an excessive price and we're very comfortable that we'll be able to deliver the [promised] earnings enhancements over the next few years," Mr Ling said.

Formica and Laminex were sister companies in BTR Nylex in the 1990s. BTR was broken up with Formica sold to North American private equity and Laminex to Australian interests. "This has been a terrific opportunity to bring them back together again," he said.

Fletcher closes in on $20m Hungary deal

by Anne Gibson
557 words
12 November 2007
New Zealand Herald
English

5.4ha land sign-up is the first step in setting up a tile plant in Central Europe.

Chris Ellis, one of Fletcher Building's divisional chiefs, heads to Hungary on Saturday to sign a deal on 5.4ha on which the company will build a $20 million metal roof tile manufacturing plant.

Fletcher is developing the plant at Varpalota in Hungary's western area, a highly industrialised zone between Budapest and the boarder with Slovenia.

Varpalota was a mining area during the socialist era, but the mines have been closed and now the Government wants to encourage new business there.

Fletcher chief executive Jonathan Ling announced in August that his company would establish the new plant, expanding its metal roofing manufacturing bases in Auckland, Malaysia and Corona, in Southern California.

Ellis said a Hungarian regional development authority had drawn Fletcher to establish the plant in that area via incentives which were highly attractive.

``We're working with the Hungarian Investment and Trade Development Agency, which is a support institution to the Ministry of Economy and Transport. The agency is providing the industrial subdivision, roading, power and infrastructure but we're building the factory. We're also working with the Varpalota Council, buying the land at a concessionary price and there are incentives for employing people in that area too.''

When the plant begins production in 2009, it will employ about 100 people from Varpalota and initially produce six million roof tiles annually. The plant will be developed alongside an aluminium smelter and other manufacturers and Ellis said a drawcard had been good industrial services to the area, a dependable electricity supply, large labour pool, competitive pay rates and the regional development incentives.

Fletcher will close its metal roofing tile warehouse in Britain when the Hungarian plant is finished.

Ellis said Tony O'Brien, AHI Roofing's European manager, based in Britain, has just moved to Slovenia but might go to Budapest to manage construction of the plant.

Fletcher had initially considered developing in Slovenia but found better opportunities in Hungary. It also initially examined licensing deals but found building was the best option.

``We looked at that Eastern European location because that's the centre of the market and we want to minimise our freight costs. It really came down to two choices: either Slovenia or Hungary but our perception was that Slovenia is ahead of Hungary in terms of industrial development, which could lead to labour shortages and higher prices for industrial land.''

When the plant is commissioned, steel will at first be pressed in Auckland then shipped to Hungary for finishing with paint and chip coating at the plant. But Ellis said Fletcher would soon source metal on the international market for the European operation and build a brake press in Hungary.

Fletcher's AHI Roofing plant in Glen Innes is the world's largest metal roofing tile manufacturer, Ellis said, making about 12 million tiles annually. Establishing the new plant in Europe will reduce freight costs and give the company access to the lucrative Eastern European bloc where the product is in high demand. Fletcher distributes roof tiles branded Decra in the United States and Gerard in Europe.

Fletcher's annual meeting is at 10am tomorrow at the Langham Hotel in Auckland.

Fletcher expects net annual earnings to hit $460m

615 words
13 November 2007
Australian Associated Press Financial News Wire
English

FLETCHER SYDNEY, Nov 13 AAP - Fletcher Building Ltd is banking on Australasian infrastructure work to drive earnings in the current financial year, as it expects to make nearly $NZ460 million ($A391.34 million) in annual earnings for fiscal 2008.

Fletcher says earnings are already ahead of last year, but its North American operations will not be immune to the impacts of the weak US housing market and some parts of the business are being hammered by the high New Zealand dollar.

"Operating performance for Fletcher Building remains strong, and net earnings for the first four months are ahead of those at the same stage last year both with and without the inclusion of Formica's results," chairman Roderick Deane told shareholders at the company's annual general meeting today.

"The consensus of most analysts forecasts is for net earnings after tax and before unusual items to be in a range of $NZ450 million ($A382.83 million) - $NZ460 million ($A391.34 million)."

At the annual general meeting in Auckland today, the chairman of the New Zealand-based building materials company said in New Zealand, where the company made about half its revenue, there was an anticipated fall in the number of houses being built.

But there was also a backlog of housing work, unsatisfied demand for renovations and strong levels of demand for commercial construction and infrastructure.

"It is encouraging that our New Zealand construction backlog is at record levels of over $NZ1 billion ($A850.74 million)," Dr Deane said.

In Australia, non-residential building markets were generally flat and infrastructure would offer the greatest boost to the bottom line.

"Infrastructure markets are expected to remain relatively steady with public infrastructure investment being a key driver," he said.

However, one of the greatest challenges for Fletcher in the year ahead would be battling the weak housing market in the US, which has been triggered by the credit problems linked to sub prime mortgages.

This comes after Fletcher Building announced in May the purchase of United States-based Formica Corporation for $US700 million ($NZ977m) from private equity firms.

The Ohio-based global manufacturer and distributor of decorative surfacing products has businesses in Asia, Europe and North America.

"The markets Formica serves in Europe and Asia are in good health, but the well-publicised weakness in the United States continues," Dr Deane said.

Dr Deane said there would be some board changes ahead to bring in new talent and ideas and to meet good governance practice.

He also expected the company have a greater international presence in time.

"Future success will depend on how well we continue to identify and execute opportunities.

"We have in the last five years invested $NZ2.6 billion ($A2.21 billion) buying four major businesses from private equity. "We see that trend continuing.

"While the tightening financial market is no doubt constraining some current private equity activity, we still envisage ongoing opportunities into the medium term from this avenue, and others."

Dr Deane said the company was interested in buying strong branded, market leading businesses that fitted with existing operations.

With strong management, it was also required that a newly acquired business would have an early positive impact on the bottom line.

The company's chief executive, Jonathan Ling said the high New Zealand dollar had an adverse effect on earnings, hurting the building products and steel businesses, and the company last month axed jobs after declining returns sparked the closure of the Penrose softboard and hardboard business.

Fletcher Building's net profit for the year was $NZ484 million ($A431.78 million), up from $NZ379 million ($A336.48 million) the previous year.

Macquarie downgrades Fletcher

by Anne Gibson
528 words
15 November 2007
New Zealand Herald
English

Cautious tone at builder's AGM pointer to worry over housing downturn: analyst

Weakening housing data and the cautious tone of this week's annual meeting has prompted one analyst to downgrade the share price outlook for construction giant Fletcher Building.

Stephen Hudson, analyst at Macquarie Research Equities, said he had lowered his 12-month price target from $13.30 to $12.40 due to the tone of Tuesday's annual meeting and worrying house sales data.

Fletcher, with a market capitalisation of $5.8 billion, closed at $11.68 yesterday, down on a year high of $13.42.

Hudson wrote in his report to clients that the tone at the AGM could be a reflection of recent macro-economic data rather than any weakness in Fletcher's operating performance. But he said that meeting's tone could also be reflective of weakening house sales data.

Fletcher's $1 billion acquisition of United States-headquartered Formica earlier this year was struck at the New Zealand dollar trading at a certain rate, but this had fluctuated and there could be integration issues at Formica in the US, he wrote.

``They have subsumed two plants into a single plant and are running behind on scrap rates/labour rates,'' he wrote.

He also questioned the financial basis for Fletcher's earnings projections.

``Fletcher has guided net profit after tax to a range of $450 million to $460 million, in line with the majority of analyst forecasts,'' he said. Macquarie would have preferred the company to couch guidance on earnings before interest and tax (ebit) terms, partly because of the refinancing and tax issues associated with the Formica purchase, Hudson wrote. Fletcher appeared to be comfortable with ebit at its assessed market level of $806 million, he wrote.

He questioned what would happen to Fletcher if residential dwelling permits fell from about 25,000 annually to about 22,000 consents.

``Given the poor showing in New Zealand house sales activity through winter and the reasonable correlation between sales and consents, it is worth looking at what Fletcher's earnings might look like under a more severe residential downturn scenario,'' Hudson wrote.

However, he did note the company's robust trading performance this year, the construction backlog rising from $700 million to $1 billion and overall confidence from the Formica purchase.

Blair Cooper at Citigroup noted that the Formica rationalisation was taking longer than expected. But he remains confident that a targeted $34 million expected from restructuring benefits after this purchase can be delivered next year and in 2009. Although residential construction was slowing, he noted Fletcher management expected any downturn in this sector to be offset by unsatisfied demand for non-residential construction which was running at record levels.

But this work was not guaranteed and could dry up.

Emily Behncke and Sally Clarke of Deutsche Bank wrote in their report that they continued to favour Fletcher over rival Boral and said Fletcher was trading at a 21 per cent discount on a price-earnings basis to Boral. Tuesday's meeting added little new information since the full-year result announced in August, they said.

Fletcher keen on Carter assets but not with Boral

by Anne Gibson and Reuters
291 words
22 November 2007
New Zealand Herald
English

Fletcher Building could be interested in buying parts of Carter Holt Harvey but its chief executive yesterday ruled out a complete bid for the $2 billion of assets up for grabs.

Fletcher CEO Jonathan Ling said confidentiality issues around the sale of Carter Holt's assets barred him from saying much about the deal.

But his firm is understood to be interested in only some parts of Carter Holt and is not considering a joint venture bid with giant Australian manufacturer Boral.

Carter Holt owner Graeme Hart is selling wood-based building items manufacturer and marketer Wood Products New Zealand, which has 12 manufacturing sites, Wood Products Australia, which has six, New Zealand's Carters building materials chain and Interion, which markets and sells furniture, joinery and construction products.

Ling said he was watching reports yesterday that Boral had asked Australia's competition regulator to look into competition aspects of a potential acquisition of the Carter Holt assets.

Indicative offers for the assets, in what is expected to be a $2 billion-plus deal, were due last week.

Boral added that its board had yet to consider or approve any proposal in regard to Carter Holt.

Fletcher is seen to be more likely to bid for some retail parts of Carter Holt, particularly some highly profitable Carters building supply stores.

Fletcher is understood to be attempting to avoid any potential anti- competition moves which could mean it would increase its monopoly positions in certain business sectors if it bid for all of the Carter assets.

Hart's Rank Group has told Carter Holt staff it wants to complete a sale by the end of the year.

THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL
CHAMPIONS TROPHY CASE COMPETITION 2008

FLETCHER BUILDING GROUP

INDUSTRY OVERVIEWS

The following has been obtained from Datamonitor.

FletcherBuilding

GLOBAL BUILDING INDUSTRY / MARKET OVERVIEWS

BUILDING PRODUCTS[1]		
Year	US$ billion	% Growth
2001	681.2	
2002	669.2	-1.80%
2003	663.4	-0.90%
2004	709.0	6.90%
2005	742.4	4.70%
2006*	765.6	3.10%
2007*	789.3	3.10%
2008*	812.7	3.00%
2009*	835.3	2.80%
2010*	858.0	2.70%
Category		% Share
Concrete Products		29.50%
Metal Products		22.40%
Timber & Joinery		12.30%
Clay Products		3.40%
Other		32.40%
Total		100.0%
Geographic		% Share
Asia-Pacific		35.10%
US		28.30%
Europe		25.80%
Rest of the World		10.80%
Total		100.0%

CONSTRUCTION MATERIALS[2]		
Year	US$ billion	% Growth
2002	404.8	
2003	423.8	4.70%
2004	439.4	3.70%
2005	461.4	5.00%
2006	485.1	5.10%
2007*	508.9	4.90%
2008*	533.9	4.90%
2009*	558.9	4.70%
2010*	584.5	4.60%
2011*	609.5	4.30%
Category		% Share
Brick		29.70%
Cement		27.30%
Crushed Stone		26.00%
Sand & Gravel		17.00%
Total		100.0%
Geographic		% Share
Asia-Pacific		61.90%
Europe		19.20%
Rest of the World		10.20%
US		8.60%
Total		100.0%

STEEL[3]		
Year	US$ billion / million tonnes	% Growth US$ / % Growth tonne
2001	176.4 / 718.1	
2002	210.3 / 763.5	19.20% / 6.30%
2003	272.0 / 820.7	29.40% / 7.50%
2004	411.4 / 889.9	51.20% / 8.40%
2005	450.2 / 935.9	9.40% / 5.20%
2006*	437.6 / 1002.5	-2.80% / 7.10%
2007*	427.0 / 1054.5	2.40% / 5.20%
2008*	425.0 / 1097.2	-0.50% / 4.10%
2009*	429.1 / 1136.0	1.00% / 3.50%
2010*	445.6 / 1172.4	3.90% / 3.20%
Geographic		% Share
Asia-Pacific		57.20%
Europe		25.50%
Americas		17.30%
Total		100.0%

[1] Global Building Products: Calculated according to revenues to manufacturers of building components and home improvement products. Fletcher Building's **Building Products** and **Laminates & Panels** divisions are categorised here.

[2] Global Construction Materials: Consists of all manufacturers of sand, gravel, aggregates, cement, concrete and bricks. Other finished or semi-finished building materials are classified in the building products market. Fletcher Building's **Infrastructure Construction Materials** division (i.e. excluding Fletcher Building's Construction businesses) is categorised here.

[3] Global Steel: Consists of the production of crude steel. Fletcher Building's **Steel** division is categorised here. Note that steel is primarily used in buildings, automobiles, and various appliances. The figures above include all steel producers and are not restricted to buildings steels.

Source: Datamonitor
Source: Case Writer

Global Building Industry / Market Overviews

Construction and Engineering[4]		
Year	US$ billion	% Growth
2002	1655.7	
2003	1658.1	-0.50%
2004	1697.3	2.40%
2005	1758.5	3.60%
2006	1860.8	5.80%
2007*	1964.1	5.60%
2008*	2070.7	5.40%
2009*	2175.6	5.10%
2010*	2284.6	5.00%
2011*	2395.9	4.90%
Category		% Share
Civil Engineering		50.60%
Non-Residential		49.40%
Total		100.0%
Geographic		% Share
Americas		35.10%
Europe		32.90%
Asia-Pacific		32.00%
Total		100.0%

Homebuilding[5]		
Year	US$ billion	% Growth
2002	1283.9	
2003	1405.0	9.40%
2004	1550.4	10.40%
2005	1682.1	8.50%
2006	1701.4	1.20%
2007*	1709.1	0.40%
2008*	1760.7	3.00%
2009*	1834.6	4.20%
2010*	1917.3	4.50%
2011*	2006.9	4.70%
Category		% Share
Private		82.20%
Public		17.80%
Total		100.0%
Geographic		% Share
Americas		39.20%
Asia-Pacific		33.60%
Europe		27.20%
Total		100.0%

Home Improvement Retail[6]		
Year	US$ billion	% Growth
2002	932.5	
2003	946.7	1.50%
2004	999.4	5.60%
2005	1073.9	7.50%
2006	1153.0	7.40%
2007*	1237.2	7.30%
2008*	1326.4	7.20%
2009*	1420.3	7.10%
2010*	1519.3	7.00%
2011*	1620.3	6.70%
Category		% Share
Building Products		68.20%
DIY (Do-It-Yourself)		31.80%
Total		100.0%
Geographic		% Share
Asia-Pacific		32.00%
United States		29.40%
Europe		28.50%
Rest of the World		10.00%
Total		100.0%

[4] Global Construction and Engineering: Composed of civil engineering (non-buildings) companies and large scale contractors, but excludes companies involved in homebuilding. **Fletcher Construction** (under Fletcher Infrastructure) is found here. Fletcher Construction and Fletcher Homes form Fletcher Building's Construction businesses.

[5] Global Homebuilding: Residential construction, such as apartment blocks, housing estates and individual home developments, as well as prefabricated houses and semi-fixed manufactured homes. **Fletcher Homes** (under Fletcher Infrastructure) is found here. Fletcher Construction and Fletcher Homes form Fletcher Building's Construction businesses.

[6] Global Home Improvement Retail: Retail of DIY equipment and materials, and building materials. Fletcher Building's **PlaceMakers** (shared distribution channel) is in this market.

Source: Datamonitor
Source: Case Writer

GLOBAL BUILDING INDUSTRY / MARKET OVERVIEWS

BUILDING PRODUCTS	CONSTRUCTION MATERIALS	STEEL
<u>Industry Composition</u> • Several large players. • Highly fragmented (top 4 players have < 15% market share). • Significant consolidation activity. <u>Product Characteristics</u> • Commoditised products used in all major construction projects. • Production processes intensive in raw materials and energy. Firms facing increasing costs. • Low price per unit weight. High transport costs. <u>Industry Characteristics</u> • Economies of scale important for commoditised products. • High barriers to entry due to high fixed costs. • Moderate costs of compliance to environmental regulations. <u>Industry Developments</u> • Large companies are diversifying geographically to regions of high demand. • Growth of DIY has led to surge in demand for timber products. • Increasing raw materials costs offset by increasing volumes and prices. • Significant R&D to produce more technologically advanced products.	<u>Industry Composition</u> • Highly fragmented (top 5 players have 15% market share, all cement producers). • Significant consolidation and M&A activity. <u>Product Characteristics</u> • Highly commoditised products. <u>Industry Characteristics</u> • Relatively open to entrants. <u>Industry Developments</u> • Growth of DIY has led to surge in demand for timber (substitute) products. • High economic growth in developing countries has fuelled demand in Asia and Eastern Europe. The Chinese government has allocated US$400b pa to increase urban density. Also, India is undergoing a period of infrastructure improvements, while there is significant residential construction activity in Eastern Europe. • Continued cost reduction and production efficiency programmes. New manufacturing facilities and increased capacities to remove supply chain uncertainty and improve consumer confidence. • Players are diversifying operations away from mature markets. • R&D activity to improve growth opportunities in a commoditised industry.	<u>Industry Composition</u> • Highly fragmented (top 3 players have < 20% market share). • Significant consolidation and M&A activity. <u>Product Characteristics</u> • Commoditised basic products. • Products used in all major non-residential construction activities. <u>Industry Characteristics</u> • Consolidation activity in the market to increase economies of scale and efficiency. <u>Industry Developments</u> • High demand for steel in markets with high growth in civil engineering and non-residential buildings activity.

Source: Datamonitor
Source: Case Writer

GLOBAL BUILDING INDUSTRY / MARKET OVERVIEWS

CONSTRUCTION AND ENGINEERING	HOMEBUILDING	HOME IMPROVEMENT RETAIL
<u>Industry Composition</u> • Some large players in all markets. • All markets fragmented as it is possible to be profitable at both large and small scales. <u>Product Characteristics</u> • Buyers will often embark on a greenfield (new) or refurbishment. Substitute threat low. • Buyers typically invite firms to tender for contracts to their specifications. Price is a significant factor, but long term maintenance costs and efficiency are also important. Personal taste and brand loyalty hold little importance. <u>Industry Characteristics</u> • Low costs to entry and exit due to ability to rent equipment and hire temporary labour. • Suppliers have moderate power. Suppliers of commoditised products are few and large, but differentiate only on price. Suppliers of specialised services (e.g. electrical install) are plentiful and small, so have little supplier power. • Moderate buyer power. Buyers typically few and large. No switching costs. High price inelasticity of demand. Non-discretionary purchases. Buyers have little practical knowledge. • High level of price competition. • Entry driven by growth rate of markets, level of regulation (usually high and complex), foreign investment policies, and historical track records.	<u>Industry Composition</u> • Some large players in all markets. • All markets fragmented as it is possible to be profitable at both large and small scales. <u>Product Characteristics</u> • Sale of existing housing is a significant substitute. • Renting (substitute) is particularly popular in developing countries. • Buyers exhibit a high level of caution and deliberation when making a purchase. <u>Industry Characteristics</u> • Low costs to entry and exit due to ability to rent equipment and hire temporary labour. • Suppliers have moderate power. Suppliers of commoditised products are few and large, but differentiate only on price. Suppliers of specialised services (e.g. electrical install) are plentiful and small, so have little supplier power. • Buyers are faced with many choices for builders and have little preference for specific developers.	<u>Industry Composition</u> • Highly fragmented (top 4 players have < 14% market share). <u>Product Characteristics</u> • Retail of DIY building materials, building products, and construction materials. • Provision of basic services. • Increasing product differentiation. <u>Industry Characteristics</u> • Intensely competitive sector. • M&A activity to consolidate positions. <u>Industry Developments</u> • Expansion of retail space. • Geographical expansion, particularly into Asia-Pacific and Eastern Europe. • Increasing growth in online retail. • Private label credit cards to increase revenue.

Source: Datamonitor
Source: Case Writer