

21 September 2021

Fletcher Building Limited (FBU)

The company will hold its Annual Shareholders Meeting at **2.00pm Tuesday 19 October 2021**.

It will be an online meeting.

You can join the meeting at.

<https://apps.online.computershare.com/MeetingsShareholderWeb/FindMeeting?Country=NZ>

Company Overview

The company manufactures a wide range of building products from insulation to cement. The company operates businesses from resource extraction, product manufacture and distribution, through to property development and infrastructure construction.

It employs 9,000 people in New Zealand, 5,000 people in Australia and 800 people working on construction in the South Pacific.

Current Strategy

The company's vision is to be the 'leader in New Zealand and Australian building products and solutions'. Their purpose of '*Improving the world around us through smart thinking, simply delivered*', represent three key themes that shape how they operate.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Excellent disclosure
Director share ownership	A	Directors required to own a minimum of 20k shares.
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	No disclosure
Director Independence	G	Good disclosure
Board Composition	A	See comments below.
Director Tenure	G	All Directors are relevantly recent appointments.
ASM Format	G	See comments below
Company Sec independence	G	Generally good disclosure however not disclosed if receives performance-based incentive.

Executive Remuneration: Fletcher Building has revised its remuneration report, within the 2021 Annual Report. While well disclosed, the components of CEO Remuneration are complex.

We note that there is an equity component to the short-term incentive (STI) programme, now subject to deferral of award following a recent review.

There is excellent disclosure around the functional measures (financial, safety, personal) that comprise the STI, their weightings, targets, and level of achievement.

The STI “on-target” award is around 50% of total at-risk pay; NZSA prefers to see a weighting towards long-term incentive (LTI) payments. At an ‘on-target’ rate, the total incentives available represent double the base salary, increasing to nearly triple for outperformance. Our preference is that the total level of available incentives should not be larger than the base salary.

We note that the LTI award is valued at the date granted, rather than the current value of the share rights. We also observe that FBU requires its executives to hold a minimum number of shares, to a value of greater than 50% of base salary.

There is no disclosure as to whether the CEO’s remuneration agreement allows for golden parachutes, handshakes, or retentions payments.

Board Composition: The company discloses a ‘collective’ skills matrix outlining how the Board matches the skills required to govern the company, although ‘individual’ matrix is not disclosed. The company does not participate in the IoD’s “Future Director Programme”; given the scale of FBU, we feel that the company would be in a good position to offer an effective experience to emerging directors.

ASM Format: We note that the Notice of Meeting was issued during the Covid-19 restrictions affecting Auckland. The meeting has been planned as a virtual-only meeting, a decision supported by NZSA in this context. Normally, NZSA favours a hybrid meeting, to maximise shareholder attendance and engagement through both virtual and physical means.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	See comments below

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose whether the Audit Firm is rotated at 10 years. In common with many other NZX-listed companies, it also does not disclose the appointment date of the Audit Firm or the Lead Audit Partner.

NZSA notes that the Key Audit Matters expressed in the audit report do not appear to have changed for a considerable period of time, even though there has been previous significant volatility in earnings in a major division (construction). We recognise this is an issue for the auditor to consider rather than the company.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	G	Good disclosure
Political donations	G	See comment below.

NZSA notes the disclosure that “*all political donations must be approved by the Board*” in the Annual Report, with no such donations approved in FY 2021.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	G	Good disclosure
Capital Raise process	n/a	There was no capital raising

Fletcher Building’s share price rose from \$3.72 to \$7.29 (as of September 13th) over the last 12 months – a 96% return. This compares favourably with the NZX 50 which increased by 11% in the same period. The *Performance Factor* for FBU is 8.88.

Metric	2021	2020	Change
Revenue	\$8,120m	\$7,309m	11%
NPAT	\$305m	-\$196m	n/a
Gross Margin Pct	29%	25%	16%
Inventory Turnover	4.81	4.30	12%
EPS ¹	\$0.371	-\$0.238	n/a

PE Ratio	20	n/a	
Current Ratio	1.59	1.60	-1%
Debt Equity	1.15	1.48	-22%
Operating CF	\$889m	\$410m	117%
NTA Per Share ¹	\$3.12	\$2.91	7%
Dividend Per Share ¹	\$0.30	0.00	n/a

¹ per share figures based off actual shares at balance date (not weighted average)

After numerous years of impairments, losses, and poor performance, Fletcher Building turned the tide and had a stellar year in both metrics and share price appreciation. Highlights include:

- Revenues up 11% to \$8,120m.
- NPAT attributable to the shareholders of \$305m compared with a loss of \$196 in FY20.
- Gross margin improved to 29% from 25%.
- Inventory turnover improved from 4.30 to 4.81.
- FBU delivered EPS of \$0.371 and a dividend of \$0.30. Dividends are not imputed.
- The current ratio is solid at 1.59.
- FBU retired \$459m of long-term debt which ensured the debt/equity ratio improved from 1.48 to 1.15.
- Cashflows from operations improved by 117% to \$889m.
- FBU's NTA per share is \$3.12.

Resolutions

1. To re-elect Rob McDonald as an Independent Director.

Rob McDonald was appointed to the Board 1 September 2018. He is the Chair of Contact Energy, a director of AIA New Zealand Limited and the Chartered Accountants of Australia and New Zealand, and a member of the University of Auckland Council. He was formerly CFO of Air New Zealand.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Doug McKay as an Independent Director.

Doug McKay was appointed to the Board 1 September 2018. He is the Chair of Bank of New Zealand and Eden Park Trust Board and is a director of Genesis Energy Limited, IAG New Zealand Limited and National Australia Bank.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Cathy Quinn as an Independent Director.

Cathy Quinn was appointed to the Board 1 September 2018. She is a director of Fonterra Co-operative Group Limited, Tourism Holdings Limited, and Rangatira Limited. She is Pro-Chancellor of the University of Auckland Council and chairs Fertility Associates Holdings Limited.

We will vote undirected proxies **IN FAVOUR** of this resolution.

4. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **2.00pm Sunday 17 October 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

MAKE YOUR VOTE COUNT!

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA