Question and Answer

Operator

The first question comes from Emily Behncke of Deutsche Bank.

Emily Behncke

Good morning, Jonathan and Bill. Just a couple of questions, if I may. In terms of the Laminex business, I was just wondering if you could give us a little bit of a sense of in terms of what's happened recently. Obviously demand's fallen and what's changed in that business after -- mainly that a strategic review is necessary? And Jonathan, you also mentioned that you expect to be able to deliver that business back to satisfactory returns, I'm just wondering what kind of returns you would consider to be satisfactory?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Well let's start from the back end of that, Emily. The satisfactory return is a 15% return or EBIT on funds, which has always been our benchmark. And I think Laminex has achieved that 2 of the years prior to the recessionary period. And I think where we are at the moment is that it's been doubly impacted by the falling residential markets in Australia. Commonly when new housing falls, alterations and additions picks up a little bit and Laminex is very strong in the alterations and additions market. But in this particular decline, alterations and additions has fallen in the same way as residential house markets have. I think we're taking a view at the moment. We've now had very tough markets essentially since 2008. We're now in 2012. I think we need to plan for the worst and hope for the best. But you know, life could be tough for a period of time. And I think we've taken the decision in Laminex that we have to actually get the breakeven points down. So that it's in better shape for a tougher outlook going forward. And to do that, I think the approach that we will take is that we've got a very attractive core high pressure laminate and decorated board business. But over the last decade, there has been a number of, if you like, non-core additional product segments added to the business and these -- we're reviewing with the view to rationalizing over the next 6 months.

Emily Behncke

And it's one of the options that you might consider during a similar thing that you need in New Zealand in importing products from Asia? Would that bring your breakeven points down?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

No, I do think so. I think where the focus this time around is that. The restructuring we did in 2009 was around the manufacturing capacity and that was, remember, the closure of the Perth MDF plant, the Auckland particle board plant on top of the fire that we have on the Taupo [ph] MDF plant in New Zealand. Now this one is more about the commercial operations, the distribution network and some of the, if you like, bolt-in product segments that the business has for which the returns are unacceptable.

Emily Behncke

Okay then. And just finally on the Insulation view, when do you think you might be in a position to make some comments around the costs and likely timing of that?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I think it's going to be 2 to 3 months. But certainly before the end of the second half.

Operator

The next question comes from Rob Mercer from Forsyth Barr.

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

Just in terms of Crane, could you just go through the seasonality of that business because -- pre-Christmas, I understood that the seasonality was biased to the second half? And also, just in terms of the cost savings that you've taken, how did the profit look in terms of gross profit? In terms of the improvement for the underlying gross profit change in that half?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Okay. Well, first of all, if I start off with the corporate costs at acquisition, we actually said we will deliver around $20 million of corporate costs annually. And in essence, that is all on track. The corporate office of Crane has been shut down. The head office has moved into our head office in Chatswood and the numbers in the corporate office have reduced from 30-odd to 4. In addition to that, there was some procurement savings and things that would start off now but continue on for a couple of years, and again that's all on track. So we have delivered that and we're very comfortable with that. If I then move to the Iplex business, and I'm not sure, this might where they come in on seasonality comes from. The big difference in Iplex was that we have won $180 million of pipe supply for 2 coal seam gas contracts in Queensland. That supply started in a small way in about September for the first contract and late November for the second. We're also building, as Bill mentioned earlier, a new factory in Toowoomba, in Southeast Queensland, and that really comes on stream in a full way for the first time in our second half and we'll get the maximum efficiencies in the first half of 2013 with the new factory. And so that has quite a large swing impact in terms of the earnings in Iplex. Having said that in Iplex, it's fair to say, that they have also suffered in the home building area. That has been very depressed like the other residential businesses. But we are starting to see a pickup in the commercial and industrial aspects. Water irrigation markets are starting to pick up and the telecommunications area for pipes is also starting to pick up. And you might recall that acquisition time, we've said that we bought the business on the basis that we thought between coal seam gas, water and telcos that we thought we could achieve GDP -- I'm sorry, we could have achieve revenue growth better than GDP growth, and that's appearing to be true. In terms of Tradelink, there are a couple of things there. They have been affected significantly by the downturn in the Australian residential markets. There's quite a lot of structuring going on within Tradelink, and we are expecting a better second half from them, albeit they will stay under pressure from the depressed Australian market. In CDNZ, a lot of restructurings also going on there. I talked a little bit about those in terms of 3 brands to 2, but also separating out the Quarries and Mico businesses as running -- as independent businesses more on our decentralized model, and would expect an improvement in their performance albeit the markets also there reasonably tough. But overall, we've got a reasonably positive outlook for Crane. I forgot what the last question was?

Willem Jan Roest
Former Chief Financial Officer

I think if you look at it on a like-for-like basis, you'd say that overall the Crane was the period-for-period would be down slightly. The reason I took this up because of the benefits we've brought to it. I think that was the thrust of your question, I think.

Robert William Mercer
Forsyth Barr Group Ltd., Research Division

Yes. And putting some numbers around that a bit, it's been great. I think just in terms of working capital, you've touched on that, Bill. When you look at the numbers reported, it does seem that the payables are a lot lower than they have been previously? So you should see quite a decrease in working capital that should decline further over the remaining of the 6 months, do you think?

Willem Jan Roest
Former Chief Financial Officer

This shows an increase at the half year. We've seen most of that increase deteriorate or disappear in January. And we'd be hoping to come breakeven or less by the year-end. That'd be our goal.

Operator

Next question comes from Jason Steed of JPMorgan.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

A couple of questions. I might start with the guidance, just trying to dig a little deeper particularly into the second half because at least on our reading, the first half was broadly as you indicated back in October, in fact maybe just a touch better. So it appears to us that the decline is much more in the second half, in fact, it looks about 21% downgrade to the second half as implied by the October numbers. Maybe you could just give some detail and elaborate and what that is? Can you break it down between Canterbury and the timing there, and which businesses in particular are driving that because it's a very big number in the context of what you said in October?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Okay. I guess where we are and in terms when putting that guidance in perspective, what we're essentially saying is possibly a second half that is similar to the first half and this is all pre-unusuals. $159 million to then the guidance of $310 million to $340 million. Having said that, I think the first half surprised us being tougher than -- proving to be tougher than what we had anticipated. And our guess is a real possibility in the second half. Having said that, at the end of the presentation, I mentioned a number of things that I thought would help in the second half. In Christchurch, New Zealand residential, et cetera. I think the big difference for us is that Christchurch rebuild is taking a long time, longer than we thought to actually really start to gain momentum. The earthquakes on -- over Christmas and some major ones from December 23 to early January is going to create further delays in the rebuild, particularly of the infrastructure side in Christchurch. And I think also asked another event to make the resolving of some of the insurance issues just that little bit more complex. The New Zealand residential even though it looks like it's going to pickup, I think the recovery is going to be a lot less than what we thought back in October and November. A little bit unsure of that, but I think, given our recent experience where public lending caution rather than anything else. And I think the other side to it is that Australia has been a lot tougher and still declining and a lot more than what we had anticipated. Does that answer the question Jason?

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Yes. I think what surprised us is the expense of the difference for the second half of looking like, I mean certainly on the previous guidance given October, it was going to be over $200 million. And now, it looks like it's going to be $160 million to $165 million if you take the midpoint of your guidance. So I think that gap -- it's obviously a substantial gap. I can understand absolutely that macro conditions are weaker but we're just trying to pin down really what proportion of that, say, $40 million is related to Canterbury, because that's delay issue, whereas other aspects might actually be a softening issue. So that's the one we're trying to get to the bottom of.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Sorry. There is a delay. When we won Waterview back in November, we had assumed that the work would have to start to get underway fairly quickly. That is not going to start until 2013. And it's not so much from the construction point of view. It's the infill from the soil, the clean fill that comes out into our quarries through to concrete and steel is where the real impact for the company comes from once that starts.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. And just a couple of more. Second being on building products, just the funds employed is down nearly $100 million. Presuming that's not all the sale of Tasman Access Floors, can you shed some light on that?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

No, no. Tasman Access Floors was quite small. It was due to the translation between the Aussie dollar and the New Zealand. And also, have you taken a little bit of a working capital -- and I'm not quite sure we're looking at the numbers but you might recall, you just might want to go and check, we did have some write-downs of goodwill in the Insulation Australia business last year.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

We didn't see it this year in the context of the move but perhaps you can come back to us with a bit more detail on that?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

But the Access Floors was small.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. And just a final question on the Crane slides, there's no return on funds employed or funds employed status. Is that, maybe that's somewhere else in the documents released. Do you intend to present that because obviously that's a critical target and benchmark is getting your return on funds employed up in that business. So perhaps if you could just give us the numbers there and explain perhaps why they're not on the presentation?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

There's no reason why they're not there. The funds employed are about NZD $1.3 billion. So we'll update that. I'm looking at Philip now. We'll update that and make sure that we get that out there.

Operator

The next question comes from Kar Yue Yeo of First New Zealand Capital.

Kar Yue Yeo
Jarden Limited, Research Division

Jonathan and Bill, question in relation to firstly Insulation, if you can comment on the carrying value of your stock and potential for write-down and secondly, in relation to the coated steel product the source of pricing pressure that you're currently seeing?

Willem Jan Roest
Former Chief Financial Officer

Just on the stock, Kar Yue at June 2011, we provided something like $70 million for write-downs in Insulation and $24 million of that was write-down of service and inventories. And $39 million was a goodwill write-down. And I think, on the stock side, where our stock value is probably correct and that the disposal cost might be a few million higher but I don't think it's significant in this overall scheme of things.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

The issue we have within the Insulation business right now is plant utilization. We have the, as you are aware, the Sydney Rooty Hill plant mothballed at the moment, and we have the Dandenong plant running at less than 50% capacity. And resolving some of those issues in getting the fixed cost base down will be a crucial issue. Having said that, the industrial side of that business is performing a lot better. Going to the second question on our own coated steel, the biggest issue here is in the Stramit business in Australia and one of the things we've seen, as I mentioned earlier in terms of both has consents and alterations and additions, the demand and seems and alterations and additions, the demand of share for this has come down dramatically. So they're suffering again, some pretty significant falls in the residential market. And at the moment, we're not seeing any signs of any uplift.

Operator

The next question comes from Daniel Porter of Nomura.

Daniel Porter
Nomura Securities Co. Ltd., Research Division

I'm just following on from Kar Yue's insulation question. Can you just talk a little bit about the entry of Canaif [ph] into Australia? What they're doing with their imported products, how that is impacting pricing? And then do you think in terms of that Aus manufacturing, do you think you can moved to a more imported base model for that division?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

If I just to tackle one at a time, in terms of Canaif [ph], as a function of the or as a result of the Australian government subsidies scheme, there are a number of importers now in Australia, all with the whole heap of stock, including Canaif [ph]. But it's also a number of the supply and fit companies were importing in their own right. So the stock overhang is not just about CSR and Fletcher Building. It's also about a raft of small importers including Canaif [ph]. And of course, as you'd expect with that situation, there was a huge amount of pressure on prices and margins. In terms of going to an import model, it depends on your view of the Australian dollar. You will remember that the Australian dollar has appreciated by -- depends on where your start point was, but by somewhere between 30% and 50%, which is actually has made it in the current climate, very attractive to import and hard to actually manufacture. And if you -- if the $1.08 or $1.04 better than Australian dollar, the U.S. dollar were to be a permanent structural shift, then it changes the outlook for that business significantly. And we'll take that into consideration as we look at it over the next 2 or 3 months.

Daniel Porter
Nomura Securities Co. Ltd., Research Division

Okay, okay. Secondly, just on Christchurch, just hearing that some of the insurance payments to householders are being held up and some of the insurance payments on quick meeting rebuilds expectations in terms of cost. Is there some sort of central agency that's handling some of these disputes or is that really left up to the individual householder to sort out with their insurance company?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

That's not really commit a comment on. As I understand it, it really is for the claimant to deal with the insurance company on an individual basis. It's very complex. There are multiple events. And I think, each claim is an individual negotiation, and I don't see any other way around it.

Daniel Porter
Nomura Securities Co. Ltd., Research Division

Okay, okay. And then just looking forward to sort of 12 months time, just looking forward to where consensus is sort of forecasting. What are some of the key milestones that we will need to be looking for to see this number achieved?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I think probably from a New Zealand perspective, if you look at things like the pent-up demand for housing in Auckland, rental yields, rental inflation, all indicate to -- a lot of pressure on the supply side of housing with demand increasing, and I think that outlook looks pretty good. But if you look at the de-leveraging that's happening, the consumer, the lack of confidence, the low levels of increased bank loans in the country, then the consumers are not just spending right now. So I don't know what's going to happen in the second half, really let alone 12 months out. So I don't know. And in Australia, it's just how to tell where it will go. And in Australia, you'd have to have 2 scenarios: One is with resources continuing at the high level and the other is having a little bit of a blip. And I think you get a very different outcome depending on which scenario you believe.

Operator

The next question comes from Andrew Scott of the Royal Bank of Scotland.

Andrew Geoffrey Scott
RBS Strategy

Just take a couple for me. First of all, can you just let us know, I couldn't see it anywhere in the documentation. Were there any land sales or property acquiring new sales including those of this period? I couldn't see anywhere in the documentation.

Willem Jan Roest
Former Chief Financial Officer

Nothing of significance. It might have been $1 million or something like that but nothing major.

Andrew Geoffrey Scott
RBS Strategy

Sorry, I was struggling to hear that. Can you start it again for me, please?

Willem Jan Roest
Former Chief Financial Officer

There was nothing of significance. There might have been about $1 million, I think, in residual sales but that was that all.

Andrew Geoffrey Scott
RBS Strategy

Perfect. Thanks. And then just on the sort of comments around the $43 million of cash outflow for land settlements. Can you just tell us a bit about that? I think it was residential land. So is this sort of tying into Jonathan's comments that you're getting more positive on the -- I presume in the Auckland sort of the residential market or am I reading too much into that?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I think you're reading too much. We bought a number of residential lands to put a foot on delayed terms and this is just the settlement of some of those delayed terms, so that we probably would have bought that land probably 2 or 3 years ago.

Operator

The next question comes from Michael Ward of the Commonwealth Bank.

Michael Ward
Commonwealth Bank of Australia, Research Division

Just quickly, you've talked about the restructuring costs in the Laminex and Panels business. You've taken some in the first half and you're talking about $40 million to $50 million in the second half. Can you just give us a sense of what type of payback you're expecting on that spend?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Usually it's pretty good. I think the reality is in redundancies. It will be around a year of payback and some of the other aspects is the shutting down on parts of the business that don't make any money. So probably not quite as much as that. So and I think, in very broad terms, you split it a third, a third, a third, and you can work it out for me.

Michael Ward
Commonwealth Bank of Australia, Research Division

Right. And when should we be expecting that over -- sort of all kicking in from 2013?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Most of it, yes. And the reason that I hesitated a little bit is that most of the activity will be done this year, but some of it will go on -- a better way to answer the question, the activity of restructuring a program will go on for most of calendar 2012.

Michael Ward
Commonwealth Bank of Australia, Research Division

Right. And those numbers that you've given us, is it all cash?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

No.

Willem Jan Roest
Former Chief Financial Officer

There are probably 50-50 cash and noncash.

Operator

[Operator Instructions]

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

We might move to questions from the room?

Unknown Analyst

You made a comment that the infrastructure activity was in a little bit of a lull in the second half. Based on your order book and I guess more broadly, do you feel it's going to recover materially into next year?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

I think the lull is really just the gap between the completion of some big projects like the Manukau Crossing, Vic Park Tunnel and the starting of Waterview, is our big issue. Again, the only caveat that I think I will put on it is the pace at which some of the new projects will proceed determined by funding as much as anything else. As I mentioned earlier, the backlog is as good as it's ever been. And on top of the already strong backlog, we've got the Wiri Prison that we'll probably know an answer in the next few weeks, and the number of other projects that had been tendered. So the actual work in the pipeline actually looks good. And if there were no constraints on the build, we would see quite a strong surge in that construction levels from June, first half of the next financial year onwards. Having said that, funny times, a lot of it is government work have and will depend on, I guess, the right of progress. So, and I think sort of a bit of a wishy-washy answer, but I think the outlook in construction beyond during 2012 actually looks pretty good.

Unknown Analyst

I just had a question on Christchurch. I guess, just coming back to this insurance issues and unlocking that puzzle. Is there any suggestion from your sources that this government may look to intervene in those insurance markets and actually get activity rolling if we do suffer from sort of continuing aftershocks. Secondly, on Christchurch I think EQR has it running it around $500 million per annum in terms of work. So I think you generate something like about a 4% net margin on that. Are you actually booking at that rates into your accounts? And then thirdly, maybe one for Bill, does it -- it looks to about a $28 million provision release on one of the slides? I just wondered if you can flesh out that?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

First, I'll start off with the government and insurance. I'm not close enough to know. I know the government is very aware of the issues that are down there. But boy, are they complicated. And so, I'm not close enough to really be answer that question. In terms of EQR, it's actually running at a higher rate than $500 million probably now, and that will grow as we move into the second half and the margin is 3.5%. And we are booking it now. Or we are booking it as we go. We book it as we invoice it, because it is just a pure project management fee.

Stephen Hudson
Macquarie Research

And provisions?

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited

Mr. Hudson, the -- I think the movement is actually better than living period to period. And we have numbers of provisions that we set up and pay out. They go from short-term incentives through to tightness provisions. And so that will just be the utilization of provisions that have been set up in prior periods. And rights for the businesses, construction, residential, all that businesses have some sort of provisions or some sort of contingencies. So there's nothing adverse on that.

Jonathan Peter Ling
Former Director and Executive Director of Fletcher Building Finance Limited
There are no further questions? All right, we might close the session and thank you, all, for coming.