Question and Answer

Operator

[Operator Instructions] Your first question comes from Jason Steed of JPMorgan.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Just a couple of questions. Perhaps, to start with this year and some of the commentary for each of the divisions. As you said out in the MD&A, there are a series of areas where cost reduction and efficiency has been pointed to as a factor in the improvement in earnings or in maintaining earnings. I'm just interested in understanding exactly what you have taken out this year in terms of cost, and indeed, whether that relates in any way to FBUnite and what the offsetting factors might have been in terms of costs?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Sure. I mean in terms of costs, there are probably 2 strings of work. There's FBUnite, which is a more programmatic. It's branded, it's long-term, it's cultural, as well as economic. And then there is the usual, just fighting in the marketplace for earnings, where we've selectively taken out headcount, a lot of it on the back of previous restructuring in the Laminates & Panels business that I instigated about 18 months ago. So I think in terms of the headline divisions that have benefited most from those more tactical cost reductions, it is the Laminates & Panels business division. I think most divisions, towards the end of the year, particularly in Australia have realized that it's going to be tougher. So they've also started to instigate, it's more down and dirty if you like, cost reduction and cost out programs. They will impact more FY '14 than '15. I think in terms of the cost of doing those, there were costs involved in the release of some of our people, and some of the restructuring programs. But there are also one-off benefits that we gained that's -- when we looked at it, just about netted each other off.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. And so no figure in particular around what you manage to take out in FY '13, through these various programs?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Not really. I mean, every single business unit, we have 70 of them, has done something. We haven't aggregated that number together, if I was honest. In terms of support, I would guess at a number of roundabout the $20 million to $30 million. It is substantial. It really do help support that number and get us within the guidance.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. And then a question on the CBD rebuild. I know when we sort of heard at your Strategy Day back in May. There's a lot of emphasis on the timing. And I know you mentioned that there has been progress in terms of the CBD rebuild in Canterbury. Is there any sense whether or not that is going to sort of straddle the residential rebuild such that you don't sort of get into this period of an earnings hold or is it too difficult to tell at this stage?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I think it's too difficult to tell, but May was what, 4 months ago. And as of yet, we still are not in the active tendering process. So I think my nervousness has probably increased. In terms of the EQR, the residential work, we currently employ nearly 900 people. Now there is a hard and fast stop in December next year when that work will be completed. So we will need to find homes, or release those people. So it is hoped that those people will be able to be redeployed in the CBD rebuild. But we're now 15, 16 months away from that point. And it will be good if in the next couple of months, we could start to see some more definitive action, albeit as I said, I think certainly the funding issue between local and central government now seems to be resolved.

Operator

Next question comes from Andrew Scott of CIMB.

Andrew Geoffrey Scott
CIMB Research

Two questions, if I can. First one is similar to Jason's second question. Just another potential earnings GAAP comes from the -- coming to an end as the Stonefields project are rolling into other residential projects. I know you've referenced that you've secured some new sites. Can you just give us an idea on your confidence that we'll have a bit of a seamless transition on those earnings?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Sure. I think, if we deal with them 2 separately, I think in terms of the residential situation, I wouldn't say Stonefields is unique, but there was a quite fortuitous confluence of events. We bought the land back in 2001. It's a particularly large site. It's particularly well situated near the CBD. And we are enjoying somewhat of a housing recovery here in Auckland. So we had a perfect storm and a very positive one. We are looking to build more residential properties in and around Auckland initially. We have secured a golf course. We have the old Three Kings Corey that we potentially can redevelop. And we've been working with the engineers and designers in terms of how we can redevelop that quicker. It was put to me that it wouldn't be for 5 or 6 years, and I began to lose interest. The guys now think that they can start to redevelop that within the next 2 years. So they have a very strong target to try and mitigate the eventual completion of Stonefields. I don't think I'll use your word seamless, but it certainly won't be a hard landing. We'll have plenty of other earnings coming from residential the next couple of years to mitigate Stonefields' cessation. I think in terms of the CBD rebuild, I'll just repeat what I said. It's beyond my control to a certain extent. There's some really good jobs out there that I think would be very much have a hand in, but we just need to see those tenders start to come through.

Operator

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

Kar Yue Yeo
Jarden Limited, Research Division

A couple of questions, please. One, on the constructions earnings contribution within your construction division. How has that moved compared to last year? And secondly, in terms of CapEx and OpEx that you're likely -- you think you're likely to incur on the FBUnite in 2014?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Sure. I think in terms of the first question, it always interests me that people see us as a construction company, which is understandable, given our history. But actually, if you look at the earnings and you exclude what we've just disclosed i.e. the residential house build on the EQR, we generated less than $20 million from construction in New Zealand this year against a number of $569 million. That number is pretty much flat on previous years. We will see an uptick this year, just from the general improvement in the economy. But it will still be a relatively small number in the context of Fletcher Building as a whole, which I think is -- and marked really by the advance of the last 10 years, our geographic expansion, our expansion in Laminates & Panels, et cetera. In terms of the cost, going forward, the numbers are going to be in the tens of millions, roundabout $20 million, $25 million this year in terms of OpEx and CapEx to support the benefits of the transformation program. Which is why, as I said, in terms of '14, it's unlikely to yield particularly large EBIT improvements.

Operator

And the next question comes from Andrew Johnston of CLSA.

Andrew Ian Johnston
CLSA Limited, Research Division

A couple of questions. You've previously talked about the timing of the earnings coming out of the Canterbury rebuild. In fact, you've finished the work on residential earlier than expected. But you previously mentioned that there's potentially a gap between when those earnings dropped off and when the earnings from the civil and CBD rebuild picked up. How are you seeing that now? And what does that mean for FY '14?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I think in terms of FY '14, we'll continue strongly throughout that year. There are still 42,000 houses to be repaired. So we've got a strong stream of work in Christchurch right through FY '14. So I don't think we'll see anything go backwards in that year. I think in terms of '15, that's probably more where my nervousness lies. We'll see a reasonable first half. But this isn't a project that will actually go slowly. We will complete the last house one day and then that will be it. Now we'll move into the more -- some of the public sector works, insurance company work. But it will just be nowhere near the order of magnitude of the EQR, EQC work. And that's why I emphasize the importance of by then seeing some earnings stream coming through from the CBD rebuild. And I'll just repeat what I said, we're all excited about the prognosis. It's just a matter of timing.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay. And just on to the Australian housing market. We're starting to see single-family housing in Australia pickup, albeit pretty slowly. Your outlook is for volumes in Australia to be flat. Is that a function of where you're positioned in the Australian market? Or is it more your view that we actually won't see -- in the end, we actually won't see much improvement in single-family? Just a bit more clarity on that, Mark.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes. I don't think we'll see much improvement in single-family in the first half of the year. Obviously, there's a fairly important event happening shortly with the election or work to see where that brings. So I think it's difficult to answer your question because the stats within Australia are so radically different in terms of their current economic situation and drivers, and our positions in them are radically different as well. We'll have businesses that have an 80% share in 1 state and a 10% share in another. So it's very difficult to get a one-size-fits-all answer, other than to say our businesses that are exposed in Western Australia are suffering because of the downturn in mining, similarly in Northern Queensland. I think there's some really good signs of improvement and we're enjoying them in New South Wales, albeit Victoria is very quiet, and we have a big presence in all of our business units in Victoria.

Operator

The next question comes from Stephen Hudson of Macquarie Securities.

Stephen Hudson
Macquarie Research

Most of my questions have been covered up. But Mark, I just wondered if you could characterize trading coming into the first quarter of '14? I know we've obviously only had a couple of months, but just how it's traveled versus the fourth quarter of last year. You touched on, I think Tradelink for being one of the only businesses that have showed PCP revenue increases. I just wondered if you could kind of run through some of other businesses and give us an idea of momentum coming into the new year. And then just a couple of questions for Nick. It looks as if in the second half, there was around about a $11 million gain on sale, and a $5 million provision write-back, so about $16 million. But I think as you pointed out, all of your restructuring charges are being taken above the line. So I just wondered if that was pretty much a wash for the half? And then if you could also give us the Fletcher residential EBIT number, and just clarify your comment maybe on dividend and what the board is contemplating in terms of reviewing the dividend policy, that will be useful.

Nicholas J. Olson
Former Group Finance Director

Yes, sure, Stephen. I'll just cover here the amounts you talk about are very much a wash. So that should put your mind at ease, and we have taken all the cost above the line. And do you want -- shall I cover the distribution policy? Coming on to a company and I'm the new guy here, obviously, the company has been through the global financial crisis. It's come through that really with flying colors because they had such conceived and well structured liability structure. But I think we've got a project to do. I think, actually, just figure out exactly what our stance should be in terms of shareholders distributions, uses of free cash. And also, I think we can, in time, be much clearer on our liability structure targets. We have quite big ranges. Those ranges were a reflection of, not only the cyclical nature of the business, but also the global financial crisis. So we think that just needs to be refreshed and we need to do that with a very strong base of information on what we believe the outlook for the businesses will be over the next 3 to 5 years.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

In terms of your first...

Stephen Hudson
Macquarie Research

Just elaborating on that. Would the upshot of that likely be a change in the target payout ratio? I think you've sort of -- or Mark has talked about sort of 60% over time. Is that likely to change at all?

Nicholas J. Olson
Former Group Finance Director

No, I don't believe that would be a change in the overall structure.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Certainly the first 6 weeks, Stephen...

Stephen Hudson
Macquarie Research

Actually the last, obviously, was on Fletcher residential as well?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, I'll cover that one off. In terms of the first 6 weeks first. Again, similar to the position the New Zealand economy and our businesses here have continued through the year end July and the first half of August, pretty strongly. In terms of Australia, we've seen increased competition in various markets. There is a lot of capacity overhang and the economy is quiet. So the Aussies continue to struggle, and the Kiwis continue to make half, you like is a high-level situation. What was your final question on Tradelink, Stephen?

Stephen Hudson

Macquarie Research

No, no. It was just related back to your comment on Tradelink, but I think that was one of the few businesses that you've seen year-over-year revenue improvement. So I know they probably don't. So Mark, would you -- I mean, you talked about sort of -- or alluded to a fairly flat result coming into the first half for Australia. Do you think there's sort of an equal risk that could actually be a decline? Or where do you see the balance the rest -- from what you can see?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Well I think some of the more recently planned restructuring activity, we never cease looking to improve the efficiency of the business, is conscious of the need to mitigate the downside and potentially add to the upside. So I'd like to think that we've seen the worst of the downside and that the Aussie economy will, at worst, be flat. And that certainly our position within the Australian economy will be flat at worst.

Operator

Next question comes from Michael Ward of Commonwealth Bank.

Michael Ward
Commonwealth Bank of Australia, Research Division

Just a quick one. You made a number of references in your release to pricing competition. Can you just give some more specific examples of that?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Sure. I mean, if we look here in New Zealand, we have an import parity model for most of our products, cement, plasterboard, insulation. The New Zealand exchange rate is particularly high. It has brought in people from offshore. I won't mention the names, but there are people from North America, Australia, from Europe. At the moment, that really does keep a lid on our ability to get price. I think historically, the business has been able to recover price and paid for some of the inflation. At the moment, we're paying for inflation with operational efficiency improvements and cost out activity, because there really is quite a hard ceiling on price. And that is right across the business and right across the product portfolio. Similar situation, albeit to a lesser extent in Australia, where we've seen a slight decline in the currency there.

Michael Ward
Commonwealth Bank of Australia, Research Division

Mark, can you give some specific or where -- in which product is the pricing pressure or the ceiling the strongest?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Plasterboard, insulation, cement -- sorry, I should have said concrete.

Michael Ward
Commonwealth Bank of Australia, Research Division

Okay. Just also, the EQR work coming forward for the 12 months, is that your decision or is that a decision from the government? And what's behind that?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Look, we're a crown agent and really we do what the government wants us to do within the bounds of what's technically and physically possible. If you think about you haven't had your house for the last 2 years and you're facing another 3, you understand the government's desire to get people back in their homes. So they came to us and said look, I know it's a tough ask, but we really would like it 12 months earlier. We would sharpen our pencil and we think we can do it. So it really is driven by them. It just moves the earnings dial forward really, it doesn't change our earnings profile in total.

Operator

We have a follow-up question from Andrew Scott from CIMB.

Andrew Geoffrey Scott
CIMB Research

I got cut off before I get to ask my second one previously. Just quickly, Mark, infrastructure products, just seemed a bit anomalous. I think you had low single digit, I think it was 4% and 6% for cement in aggregate in terms of volume growth in New Zealand and 19% for ready mix concrete. Just interested in what's driving the significant shift between those components?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, I think there's elements of the North Island, South Island sort of access in terms of what's driving that demand. I think there's also a stance to a good performance from our ready mix guys. They've taken share. They've got a new strategy in place. It's allowed them to do that. And I also think there's a timing element. I wouldn't expect that gap to persist. We've actually seen in the last few months the Golden Bear business start to see stronger percentage increases. So I think it was a timing issue for about 6 months, where the gap opened up, but those will get more in line in the next 12 months.

Operator

Next questions comes from Andy Bowley from 45 Star.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

I think that's Forsyth Barr. Quick question around Tradelink. Can you talk or give us a bit more insight into the branch improvement program, both in the context of what you're doing and also what the costs involved are and how that will impact the EBIT over the next 12 months?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, certainly. I think we've probably been guilty with Tradelink of looking for some really clever magic bullet strategy. And really what we've done is gone back to the drawing board and realized that, oh, we are a plumber's merchant. When a guy turns up at 6:30 and he's youth [ph], he wants his valve or his flange, maybe he wants a cup of coffee, he wants a smiley face and he wants somebody that knows what they're talking about. So fundamentally, it sounds really big and exciting strategy. It's more a series of tactical implementation exercises. There are 6 broad pillars around retraining and refreshing the staff, improving the environment of the branches, improving the stock holding, the availability, and our sales penetration and marketing techniques. And in terms of cost, most of those are free. Just being better is free, having the inventory is a little bit working capital, but not much. The really big one potentially, and this is a 10-year story, is around the refresh of the branches. They are -- have been massively underinvested and they are very, very tired. That could be a $100 million story, albeit that will be over 10 years, and it will be done on a selective basis. We were likely to close some branches. But I think if we can get this business right, and it's a really good market in Australia and there's lots of money to be made, we potentially could see actually more branches at the end of a 5-year period rather than less.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

So if we're looking 12 months forward, clearly that was a big driver of the decline in Australian earnings, particularly the second half, what can we expect in terms of trailing earnings?

Mark Duncan Adamson

Former CEO, MD & Non-Independent Executive Director

If the Australian economic situation doesn't worsen, and I would expect Tradelink earnings to improve, I think some of things we're doing will not necessarily drive one-off costs that will mitigate those earnings. I think we'll see those earnings coming through. It will be modest, it will not be gangbusters. It's going to take us 2 to 3 years to get that business back to where it needed to be. But that will start this year. We'll not have a hiatus. We will see earnings improvement this year.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Good stuff. Now, second question and reasonably broad, can you talk about the Auckland plan in the context of how you see it developing and then the implication for your business?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

To be honest, I'm not a great expert. I spent more time outside of Auckland than I've done in it recently. But clearly, it's a major advance in terms of some of the restrictions and some of the things that are driving fairly significant house price appreciation here in Auckland, which I'm personally, greatly appreciative given I bought a house this time last year. But it's not great for the economy as a whole. So I think the things that will improve are the planning processes, and they're going to try and speed up those planning processes, release more land, potentially invest in infrastructure. Anybody that lives in Auckland will know between the hours of 3 and 6, it's a nightmare to get around. And I do think we need to start building further outside of Auckland. And as I said, an expansion of our residential business is really front and center of one of our strategies. So this has come at a really good time for us and we'll looking to take advantage of that, as those improvements are made.

Operator

Next question comes from James Rutledge from Morgan Stanley.

James R. Rutledge
Morgan Stanley, Research Division

Just firstly, just to clarify on earlier comments on the CapEx numbers of Fiscal '14. Is it $25 million from FBUnite that's included in that CapEx guidance?

Nicholas J. Olson
Former Group Finance Director

Yes. All the -- now I don't think we talked about CapEx and OpEx fiercely and the $25 million. And secondly, the figure is inclusive of everything, except -- and we've excluded M&A activity, both acquisitions and divestments actually from that number. So we actually have a clean -- clean view to the market. So $250 million to $300 million for all CapEx in the organization.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I think the question around my comment on the $25 million, I think it's roughly 50-50 from memory between CapEx and OpEx to fuel FBUnite and the CapEx is included in Nick's overall CapEx number.

James R. Rutledge
Morgan Stanley, Research Division

Right. And just on the unallocated other line within EBIT. Your third spot increasing substantially over the full year. Just wondering what we should be thinking about the forecast from that in fiscal '14?

Nicholas J. Olson
Former Group Finance Director

On corporate costs?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

We would sustainably run a corporate cost number in the past it ran about a $20-ish million mark. I think that belied the true scale of it to be honest because cross charges tended to take the top off that. But we'll call it $20 million, for arguments sake. We're driving that number to about $32 million in the next fiscal year. And that's supporting...

Nicholas J. Olson
Former Group Finance Director

Just this year.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, this fiscal year.

Nicholas J. Olson
Former Group Finance Director

FY '13.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes. And we see that's sustainably at roundabout the $39 million, $40 million mark, going forward. That will not be transitionary, that's the new Fletcher Building and that's the new active center that will drive some these improvements.

James R. Rutledge
Morgan Stanley, Research Division

And just finally on the EQR work. Just wondering if you can give the earnings contributions from that work in fiscal '13?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Do you have that, Nick?

Nicholas J. Olson
Former Group Finance Director

No I don't, sorry.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

I think from memory, it was roundabout $25 million. New Zealand EBIT.

James R. Rutledge
Morgan Stanley, Research Division

Okay. So basically in line with last year?

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Yes, it was similar. And is likely to be -- you get into a house, so it's likely to be similar this year going forward.

Operator

We have a follow-up question from Kar Yue Yeo from First New Zealand National.

Kar Yue Yeo
Jarden Limited, Research Division

Our question has been answered.

Operator

There are no further questions at this time.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

Great. I think we'll now take questions within the room.

Unknown Analyst

Yes, Mark, going forward, let's assume the group increases sales by 10%. What would that do to the bottom line of $323 million? Are we going to see major drop down or overhead is keeping pace for the sales increase? And then the other question, you can answer the same time, is once we do get on our feet, can we make sure there are policies in place there so shareholders don't have to suffer a major restructuring again? Because I think the restructuring here has been a bit slow.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

No, certainly. I think my entire career has been about organizing a strong efficient cost base from which you can leverage sales. So it's number one modus operandi for us to get our cost bases right. This has been really evidenced buying from Mico [ph] in North America. We've seen earnings grow from fairly big losses to a profit this year of $40 million, on very little extra sales. And when those sales do come through as the U.S. economy continues to improve, an awful lot of that drops to the bottom line. So the overall philosophy behind a lot of this transformation is about getting the lean and efficient cost space, so that when sales do come, they drop straight through the bottom line. So we will not grow overheads. We've got enough capacity in the business, both in terms of managerial capacity and plant capacity to support the increases in the markets. There may be some small additions as we've just discussed around the more active center to manage a lot of this. But I think that's money well spent, when you consider the $100 million sustainable return we think we'll get in the long-term. I think another objective I kind of set myself with the board, was no shocks, no surprises. We've tried to look at that this year when we looked at the balance sheet, review with the auditors in terms of what we write down, what we don't. And we have a big long list of businesses that are on the cusp, do we write them down? Do we not? And our objective, Nick and I, in 3 years time that order making is a very short order making. There's nothing on that list. Either because we bought well, we fixed the business or we sold the business. So I think our objectives and yours are very much aligned.

Any more?

Unknown Attendee

You've obviously talked about restructuring. A lot of people have been moved around, perhaps left, others joined. How is the team spirit, you think, taking all these changes? Because it can be difficult when you do the things like you've done.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director

No, you're very right. And sometimes, I'm accused of being quite reticent when it comes to courting headcount numbers. I don't do so because I'm trying to manage expectation. I do so because they're our people and we may have to release them. I don't want them waking up in the morning seeing massive banner headlines of numbers. The reality is, that efficiency is a proxy for a headcount reduction in some respect. We're very hopeful that with some of the new products and channels we're getting into with the recovery and the New Zealand economy particularly, they will be more redeployed and will be released. I think we put a huge amount of effort around FBUnite, the branding, the selling, the marketing of that internally to try and take the people with us. You might notice I'm a little hoarse. I seem to spend all my days just presenting and explaining, taking 19,000 people globally with us because this is a global program. And from my perspective, the soundings I get from within the business are that people are fairly bullish. That's obviously held by the fact that the economy here is doing well and people have made their bonuses this year, that never hurts. But from my perspective, my first year, I'm really delighted with the support I've got with some really great people in this business and they seem to be really up for it. Okay. At that point, I think I'll close the meeting. I will apologize to Forsyth Barr for that misstep. But thank you all for your attendance, and enjoy the rest of your day.