Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Jason Steed from JPMorgan.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

A couple of questions, I guess, as to the restrictions, which makes sense. Just first of all, on Iplex. I appreciate the fact that you put a new GM in place, and there obviously is certainly some work that can be done on that business to improve performance. But it does strike us that a lot of the issues there are driven more by the protagonists in LNG who are coming to the end of their projects, so presumably less plastic pipe requirement. And secondly, they are all targeting significant cost savings anyway, given not only the state of the oil price, but the returns on those projects. So I'd just like to get a better sense of how you think you might restore, first of all, earnings in that business given it's dropped to a loss, and whether or not more of this is structural rather than personnel and business issues. That's the first question. The second question, you seem to have been able to squeeze a lot more out, or you will squeeze more out of Stonefields in the second half, or Fletcher Living maybe outside Stonefields. Seems a very significant shift from where you were just for that particular business line. Could you just provide a bit more color on what exactly that is? And whether it rolls into '16 or not?

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

Yes, certainly, Jason. Taking Iplex, I would like to hide behind coal seam gas and say that was the entire cause of our travails. But the truth is, it isn't. In one sense, that's a positive thing, because I do think there's an awful lot of self-help that we can do. So if I just deal with the 2 issues separately. We referenced in the commentary that the decline was precipitous. Precipitous means we now sell 0 volumes to coal seam gas. Literally, 2 or 3 weeks after the last investor tour, it was confirmed that those volumes would decline to 0 on a foreseeable basis, and I checked, in anticipation of some of these questions today, only yesterday with the coal seam gas guys, and they said they're unlikely to place any orders for the rest of this year. Now if you look at the long term, the gas is still in the ground, and I think it's all about hydrocarbon costs globally. So we are subject to macro trends. But as I sit here today, our Toowoomba factory is idle, and we are supplying 0 volumes. And when we look at the business, we did make good earnings streams off those businesses, probably a little bit more than the management had led us to believe, given how much overhead was being recovered on those volumes within Iplex. So that's a $30 million earnings stream that literally dried up in the space of a week. In terms of how we deal with that, we'll be looking to restrict our manufacturing capacities in that particular area, along with mining as well. Our Western Australia business was heavily predicated on mining, and that's all but dried up. So be looking to do what we can to restrict our overhead recovery issues. But long term, as I said, we're not giving up on coal seam gas. Those contracts have neither been canceled nor come to an end. Indeed, there are more contracts that are out there, albeit delayed. So we will continue to man a presence in a technological product that satisfies those customers. And I believe, in the medium term, there will be earnings streams coming from coal seam gas. However, in the short term, we have a pretty major situation. As you've referenced, we've dipped to a loss. The individual I brought in is being brought in from private equity. I understand her DNA and those of the team that she's brought in, and we will be working with her on a fairly aggressive turnaround plan. Self-help will come from headcount reduction, it will come from better procurement, some manufacturing strategy. And irregardless of coal seam gas, we would look to return that business to profitability, and I think we will return to seeing coal seam gas as an addition to, rather than I think where we slipped to if we were honest, augmenting the base level of profitability. In terms of residential, it is to the...

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Sorry, if I might just quickly on that, is the 0 volume due to -- because you referenced competitive pressures as a factor, is -- I presume, I mean, they still have pipe requirements. So did you lose existing volumes to a competitor? I can't imagine that they're down, all down to 0, in terms of those projects taking plastic pipes out of the -- so was that a competitor loss? [indiscernible]

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

No, absolutely not. I mean, there are basically -- we were the only people until a few years ago that could actually supply this product. We developed the technology. Subsequently, a competitor came in and developed a similar product. The way it was split, or still is, we have 2/3 of the contracts, they have 1/3. So market share is very easy to determine. It is not a linear basis, there are 3 broad organizations that deal in coal seam gas. We have 2, the competitor has one, that hasn't changed. That competitor is similarly constrained by their volume off-tick. It is true that whatever demands they have, and it is minimal, is being sourced from stock. I think I previously mentioned that we did have an awfully large stock overhang about 6 months ago that I anticipated would be a drag on demand. I never quite anticipated the demand would drop to 0, however. So whatever minimal demands they have is being sourced from stock, but we absolutely haven't lost share. In terms of residential, Stonefields, we continue to develop further land banks there, and whilst the unit margin is lower than it was originally, because we're now buying on market, we still enjoy reasonable levels of earnings. But I think you alluded to a strategic change in that Stonefields was somewhat of a one-off for Fletcher's. Fletcher's wasn't really a serious residential developer. And fairly early on in my reign, I recognized that, that was something that was missing in our portfolio. So as Gerry has commented on the cash flow piece, we have invested heavily in a land bank. That doesn't tell the full story, because a lot of the land that we've purchased, we have done so on a contingency basis, sort of a pay-when-we-build basis. So we have a massive land bank now compared to previously. It was just Stonefields, which did have a finite life. I think I alluded to you in the last investor tour that we would have a dip between Stonefields and that land bank coming onstream, because basically, there was nothing there when I inherited the business. The guys we've brought into residential have done a fantastic job, I have to say, and it now looks as if we will not have that dip and that as Stonefields rolls off, we will have a multitude of developments on both the North and South Island that will take the strain in terms of earnings, and indeed, grow earnings beyond the peaks of Stonefields.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

And I guess, so you'd expect that for the [indiscernible] so all those indications in terms of that drop off now, we should actually look forward and assume improvements in that segment of the business for the [indiscernible] future.

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

Indeed.

Operator

Your next question comes from the line of Emily Smith from Deutsche Bank.

Emily Smith
Deutsche Bank AG, Research Division

I'd just -- I wanted to just follow on from Jason's question. Obviously we've discussed Iplex a little bit. I'm just wondering when you think that business will return to profitability. And staying on that Australian theme, what -- I'm just -- I just have a couple of questions around Rocla and what's going there and how long it will take for that business to sort of turn around. And also distribution, Australian distribution, just had a -- wondering how the strategic changes are going there.

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

Yes, we'll start with Iplex, shall we? Initially, any turnaround, and you were around, Emily, for the Formica turnaround and being part of the Tradelink story, and I always celebrate finding the bottom, and I think that's what we've been trying to do in Iplex in the last 3 months since we made the management changes. And those changes have ranged from the top right through the organization, it's not just at the General Manager level. And we're pretty confident we're within a few weeks of finding the bottom and what the true situation, both internally and in the competitor environment, is. That is likely to drive the losses beyond the half year loss to a full year loss for that business. We're very confident, however, there's enough self-help in the following fiscal year to return that business to a level of profitability, clearly nowhere near acceptable. And at this stage, we are reviewing its position in the marketplace. One of the things that has changed since our acquisition was the entry of a further competitor. We now have 3 major players in that market. They brought in new technology that allows them to manufacture the product cheaper than we can with our older assets. And they've took that cost advantage into the marketplace and took significant share from the 2 incumbents. That will have to be addressed, and that's a longer-term fix. But I'm very confident that there's enough self-help, if you like, to return that business to profitability in the next fiscal year, and that's without considering what might come from coal seam gas, which is, as I said to Jason, there is still a stream of work there in the future. We just don't know when it will come back. Moving on...

Emily Smith
Deutsche Bank AG, Research Division

Sorry, just on the -- so you lost $3 million in plastic pipes in the first half. Do you expect that loss to be smaller, bigger in the second half of '15?

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

It will be greater. Rocla's in a different situation. I think we've owned Rocla for a long time now. It has been a good asset, I believe it still is. And it has made very, very good returns for us during the last 10 years since we bought it. The management team there were quick to recognize 6 or 7 years ago the increasing competition in concrete pipe and pivoted, with innovation, to develop a railway sleepers and their transmission poles business, which have served us extremely well with very good margins. They're in a 3-way bind at the moment, that management team, and they've reacted very appropriately. They've took as much cost out as they can. But the fact is there is a big fixed cost base in manufacturing concrete products. And they have both -- oh well, all 3 of their revenue streams, railway sleepers, pipes and transmission poles, at record lows, certainly for the last 10 years. We see a line of sight to improve business, probably in the next 18 months, particularly through the civil infrastructure programs that are much discussed in the halls of government in Australia. We had hoped they would start to show through in the second half of the fiscal year. We now don't believe that will be the case, and we have modified our expectations accordingly. But again, that is a decent business. It's reasonably well-managed in a competitive environment, but nothing that we can't handle. We just need more volume.

Emily Smith
Deutsche Bank AG, Research Division

Okay, great. And the last question was on Australian distribution.

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

Sure. I think we were a touch disappointed in terms of the earnings not revealing themselves because we spent a lot of time on that business, and we are aware of a lot of the great things they're doing and the traction they're getting. I mentioned the same-store sales figure of 4% to 5% increase on last year. If you actually look at it, that was an aggregate from the first of July to December. If you look at the more recent months, it's more like between 7%, 8%, sometimes 10% increase year-on-year in top line, and this was never predicated as a cost reduction turnaround. This had a different flavor to it. It was always about margin and volumes. They have seen margin expand, they've seen market share recover 2%. And as I've said, the more recent trading months have seen sales increase year-on-year by about 8%. So I wouldn't describe this as comfortable. You're always nervous in a turnaround of this size, but everything that they're doing is the right thing, and everything they're doing seems to be finding traction. And I would be looking forward to a lot stronger second half. The first half was impacted by some one-offs, and again, when you do a turnaround, when you rationalize range, you saw this again in Formica a few years ago, there are stock lines that you no longer want to take forward and have to write off and that did impact the first half.

Emily Smith
Deutsche Bank AG, Research Division

And so longer term, the margins in that business, do you think they can get to 5%? Or what are you guys sort of targeting?

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

Yes. We always said that to get to the very impressive levels of Reece [ph] would be a long-term goal for us, but tough in the medium term. And we've talked about 5% in the past and we still have that as our target.

Operator

Your next question comes from the line of Andy Bowley from Forsyth Barr.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

A couple of questions from me. The first around the broader strategy, and thanks for the slides with regards to the work that you've done on the strategy. And I get the basis that you focused on 6 key areas. But could you kind of really give us an idea in terms of where you see the growth opportunities here? And I recognize you've talked at length previously about residential in New Zealand, you referenced that already this morning, Mark. But where else in the business can we see some exciting growth opportunities?

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

If we look at the 2 businesses as Gerry identified as those that are most directly dealing with the customers, which is Distribution and Construction. And we'll segment those in terms of big commercial construction jobs and residential are well belabored, because they have done such a good job, the residential piece, where we think, even through cycles with the management team we now have in place and their awareness of residential developing, that there's a strong earnings stream there. And that will come from private sector development, multi-family development and also in working with government to restore the housing stock here in New Zealand. In terms of commercial construction, there is a macroeconomic tailwind that will help us. But we're also looking at areas of our portfolio that we currently don't operate in, such as roading. We would build the basic structures of a road but we don't actually do the roading itself. And that would potentially lead us into conversations about long-term roading contracts with the annuity of earnings that they bring. So there's a lot of work we're looking at around construction. In terms of Distribution, we've already started to roll out the combined Tradelink Mico store format. That really speaks to how we can better leverage those footprints of PlaceMakers, which are large and very expensive, to just push more products through that our customers demand of us, to be a one-stop shop. We've looked at expanding into things like paint, and other categories are on the table. And similarly, we're going to use the footprint in Australia. Tradelink, which has been on the Northeast step [ph] for a while. As we move that off the Northeast step [ph], we actually see it as a positive contributor. Where again, we can look to push more products that our trade customers need through those outlets to become a one-stop shop. So we're pretty excited about the potential to expand in the distribution piece. I think in terms of Laminate & Panels, there's always an opportunity with global expansion. We are the world's largest Laminate & Panels business, but there are still gaps in our portfolio. We plugged that with some growth opportunities in China, albeit it's difficult to digest that volume as ever with a new plant, but we are very positive in the medium term there. And then I think where we get a little more cautious, Andy, is in the Building Products businesses. It's not to say that there are not good margins to be made there, and as you've seen in our New Zealand numbers, there is some very strong performances from both the heavy and the light sector. But I think any headlong dash for M&A in building product businesses, particularly in Australasia, is unlikely to get a great deal of our focus.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

So in relation to growth CapEx, I think we spent $44 million in this half and we're pointing towards the bottom end of the CapEx range that you've given previously for the full year. What do you expect to be spending on growth CapEx on kind of a go-forward basis beyond this financial year?

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

I think in CapEx, in general, it's another one of the areas that since we've come in, we've wanted to really tighten up on. Spending on dollars is a serious business. And we've put an awful lot of rigor in governance now around capital. It's a lot harder to get and the hurdles that we've said are higher. And that's where the view to keeping capital spend on an annual basis only marginally above depreciation. And a lot of that will be spent on long-term improvements and long overdue improvements in our digital and IT infrastructure. And we see as much as physical assets and kit, investment into digital and IT is probably the larger focus of that growth CapEx. There's an awful lot we can do, particularly through our Distribution businesses, with better IT. I think, Gerry, do you want to comment on the exact levels?

Gerry Bollman
Former Executive Officer

Yes, I guess, what I would add to that is we certainly are looking to put a greater emphasis on the growth capital versus the stay -- the core stay-in-business capital. The IT spend probably gets some -- categorized more as stay-in-business, but I actually think a good chunk of that is about growth because it's building digital capabilities that can enable the expansion of our Distribution business, and really, quite frankly, some of our other businesses as well. But I would also add that as I think about growth CapEx, it's not just in expanding our businesses or acquiring new businesses. It's about growing our EBIT. And so I think there are kind more of an effort to focus, too, on some cost savings initiatives, which can probably be categorized as growth CapEx, because it's not strictly stay-in-business, it's investments that we think can drive improved margins and greater efficiencies. So I think as we look to move the balance from stay-in-business to growth CapEx, I would put some of those type of projects in that category, too.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

But does that mean, Gerry, that overall CapEx levels rise over the medium term as we get more growth?

Gerry Bollman
Former Executive Officer

I wouldn't think that overall CapEx levels would rise, no. I think, as we said, we will likely come in at the bottom end of the range we've indicated. I think we've said consistently that about $40 million to $50 million of that this year, and for the next couple of years, will likely be in the area of IT. And the balance of that, I hope to see split more evenly between stay-in-business and growth. And I think we can keep at that level for the next few years through the IT investment and then potentially reduce beyond that to, as Mark said, something closer to depreciation.

Operator

The next question comes from the line of James Rutledge from Morgan Stanley.

James R. Rutledge
Morgan Stanley, Research Division

Firstly, just on plasterboard pricing in New Zealand, it seems like that was stable for the half. I'm just wondering about how we should be thinking about that on a go-forward basis given that the supply in quarry in New Zealand concluded at the end of last year. Is there more ability to move on price on that product? And secondly, just on Stramit in Australia, I think our earning -- operating earnings fell in that business. Just wondering if you see market path to acceptable returns in that business and over what time frame?

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

Sure, in terms of plasterboard, it is very clear that not just one inquiry, I think there have been 3 inquiries in recent years into that business, has very much played on the management team's mind in terms of pricing. And it's fair to say that as far back as the eye can see, that business has failed to gain a price increase over and above inflation, in no real terms price increases. I think it would be very crass for them to go out within a matter of weeks of the latest inquiry with a price increase, but I have to say that inflation continues through that business, and we would at least look to recover costs with a price increase. I think we need to be far more sophisticated right across the business, not just plasterboard, with price, and we're launching cost-to-serve programs across the business. That was a huge driver of the Formica and Laminex turnaround, whereby you do see margins improved through average unit selling price without necessarily announcing big price rises. And it's about really valuing the services and the products that you give the customer. So I think we'd look to be a bit more sophisticated to gain price rather than just a headline figure. In terms of Stramit, yes, it's true that, that business has struggled in the last, say, 12 months. I think, I alluded to it in the last investor round that we went on. And we now have, again, a similar story, a new general management team in place, who are taking a look at that business. And again, I do think there is self-help that we can get from that business. However, I would issue a word of caution, and I think we have referenced it in some of the media briefings, that a number of our Australasian -- Australian assets are the subject of review with respect to their carrying value. And until we have a clearer line of sight to better earnings from Stramit, Stramit would be included in that list.

James R. Rutledge
Morgan Stanley, Research Division

Okay. I guess, whilst on that, what other businesses would you put in that category?

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

I don't think it will be a great surprise to you to hear that Rocla and Iplex would be in that category. I think on the positive side, Laminex and Tradelink were always the subject of review by the auditors in terms of carrying value. And I think Laminex is rapidly heading towards the outside of that radar. And Tradelink has made some moves as well. It will still be on the radar for a couple of years until we prove out our hypothesis. But I think we've seen a couple of business units move away from the radar. But it's fair to say, both Rocla and Iplex are on that radar now.

James R. Rutledge
Morgan Stanley, Research Division

Okay. And just on your earlier point on plasterboard, I suppose -- do I take those comments in the short term over the next 6 months? Do you think that you can't really achieve price increases that reflect inflation cost pressures?

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

No, I mean, I am still debating with the management team, but my strong suggestion to them was given how little price rise they have had in recent years and given the value of the proposition they take into the marketplace, as is evidenced by their market share in a free market, that they should look to get a price rise, at least of inflation.

Operator

Your next question comes from the line of Kar Yue Yeo from First NZ Capital.

Kar Yue Yeo
Jarden Limited, Research Division

Just a couple of questions from me, please. Firstly, if you can clarify what EQR contribution you had in the first half. Secondly, would it be possible to help us bridge that implied lift in earnings in the second half EBIT to, I guess, at least a minimum of $360 million from the first half EBIT of $290 million. Is that a question of seasonality, as well as fade [ph] in restructuring costs that you may have incurred in the first half as well?

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

Okay, Kar Yue. Let's start with EQR and the earnings in the first half.

Gerry Bollman
Former Executive Officer

For the full year, I have [indiscernible] 16.

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

11 for the first half, but that, obviously, with the program ostensibly ending in April, you won't see that run rate through the second half. You probably look to see, in addition to the math, really, Kar Yue, it's about half of that through the second half at most. We have an agreement with EQC to continue the ramp of that program. I think there were 2,000 repairs that are still out there, and they've asked us to complete those. So there will be some small earnings beyond April. But I think, certainly, by the end of next -- this calendar year, the earnings from that will have ceased.

Gerry Bollman
Former Executive Officer

I think I would just add that I think in the advice we gave from previously was that could see a drop off in earnings of about $9 million. And I think given the tail that we see now, Kar, that, that will probably be maybe closer to $5 million in terms of a drop off versus last year.

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

In terms of your question around bridging, what is very consciously in the mind of the management, a very strong second half, there was an element of seasonality, albeit I have to be honest, that is the 20% of our business that is in the rest of the world. It's not unusual for a Northern Hemisphere business to have a 40-60 split first versus second. And in the past, that wouldn't have been as big an issue, but now North America makes decent earnings, we've got the roof tile position, and for Mico Asia, that will be reasonably significant. And we are looking for New Zealand to accelerate its earnings. They were reasonably impressive in the first half but there was a lot of nation-building, if you like, in the last 2 years, and we'll start to see the benefits of that coming through or continuing to come through the New Zealand businesses. And similarly, with the good stories we have in Australia around Laminex, I've ready referenced to Emily, Tradelink, and even Insulation, we're looking to see increased earnings second half to first. I think the nervousness that we would have as a management team is around, as I referenced, where the bottom is, specifically around the Iplex business. And I think that's the only note of caution I would have.

Kar Yue Yeo
Jarden Limited, Research Division

Got it. Mark, one final follow-up question, please. This is in regards to any hotspots or constraints to your growth in the coming year or 2 or 3 as you see it in New Zealand, where the capacity or resourcing availability could become an issue in terms of work to be put in place and field.

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

Yes, sure. I mean, look, we've been around 106 years, and we've seen a fair few cycles in that time. And particularly, in our construction and residential business, they're very used to managing those cycles and have a reasonable line of sight to them. So if you look at the Construction business, they have been doing a lot of work with EQR. At the peak, we employed nearly 1,000 people down there. And as I've just said, that program does end shortly. So they've been working for many months now to see if we can retain some of those great skills that we pulled together, both from our own employees and the contractor base, to pivot those into the commercial rebuild. So we don't see that as a particular problem. Indeed, 4 years ago, we would have anticipated a big supply shortage of labor during the residential rebuild and we managed to overcome that hump. Similarly, the residential people are winding in extra resources as they ramp-up their proposition from 300 units not so long ago to an aspiration of over 1,000 in the near term. I think in terms of our product supply, all of our product supply businesses currently are sitting on capacity. And I think it's -- there's not a great deal of capital spend that we would have to put in were the volumes to be driven ahead of where they are today.

Gerry Bollman
Former Executive Officer

I think the one business that is running pretty full-out is Golden Bay, but there is still opportunity to shift volume from export to domestic consumption, should the demand be there. So I think that helps as well.

Kar Yue Yeo
Jarden Limited, Research Division

On that point, Gerry, is that like a couple of hundred thousand tons that are currently being sold offshore from New Zealand?

Gerry Bollman
Former Executive Officer

I think, we need...

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

It's about 80,000 from memory. We'll get back to you on the specifics, but just to give you an order of magnitude, as Gerry said, we are getting pretty tight.

Operator

Your next question comes from the line of Simon Thackray from Citigroup.

Simon Thackray
Citigroup Inc, Research Division

A couple of my questions have been answered, but I just want to follow on from Kar Yue to understand this first half, second half split. I've -- perhaps I'm being a little slow on the uptake. You talked about the seasonality of North America, Mark. But as a contributor to overall EBIT, what percentage is that contributing to group EBIT, anyway? And is it big enough to move the needle on that seasonality? And you talked about New Zealand accelerating earnings in the second half. And I'm just -- that really leads into my second question. I'm looking at the other New Zealand businesses outside of Construction, and we're not really seeing the apparent leverage of that Construction business across the New Zealand portfolio from what I can observe, and we've had EBIT margins sort of going backwards. So can you just sort of help me understand how I do bridge second half to first half against that context? And why has the leverage been slow when it comes through from New Zealand?

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

Sure. I think in terms of the Northern Hemisphere question, you're right. I referenced it as a contributor. I'd rather have it than not. But in terms of moving the dial radically, it won't. I think 15% or 16% of our earnings from the rest of the world businesses. I think in terms of the question you raised around leverage, I think some of our assets, particularly the heavy chain of Firth, concrete, et cetera have demonstrated huge leverage. You look at EBIT increases of 30%, 40%, 50%. I think where we haven't had as much leverage, I'll use Tradelink as one example. It's well-documented, the amount of competitive pressure within distribution -- in merchant distribution in New Zealand, where we have all the major players -- sorry, PlaceMakers in New Zealand. But we've done a lot of work around the cost base of that business. We've started to see margins for the first time in 5 years even out and potentially recover with some of the work we're doing around low-cost country sourcing. And as I mentioned to one of the other questions, I think now is the time in the cycle where we need to get a little bit bolder around pricing, and we've had those conversations in and around Christmas with all of our New Zealand businesses, where I think to a certain extent, we lost our mojo a little bit in recent years, and all of those businesses will be looking to gain price and margin in the next 6 months.

Simon Thackray
Citigroup Inc, Research Division

That's very helpful. So I'd expect to see improvement, I guess, in distribution in New Zealand in the second half. Hopefully, we'll see some improvement in Australia as well. Because there was a 40-basis-point decline in EBIT margins. So just in terms of then understanding the contribution that FBUnite makes first half versus second half, and where it was -- where it contributed to EBIT margins in the first half?

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

Yes, we had about $14 million initially, and some of it's lumpy, because it is supplier-based and rebate-based. But it's not dissimilar in the second half. I think it's about $11 million to $12 million in the second half. And that really is right across the piece. A lot of it, as I said, is driven by procurement. A lot of the contracts we are doing now are central, and therefore all of our business units, less the rest of the world, but certainly Australasia, benefit from that. I think the next wave, as we cement the $50 million to date at this full year and beyond will come from manufacturing efficiency savings. And you'll see again, those come through all the plants. We've not been selective. We've put all of our plants on notice and started to roll those programs out through all the manufacturing facilities globally as well.

Operator

The next question comes from the line of Andrew Johnston from CLSA.

Andrew Ian Johnston
CLSA Limited, Research Division

Just a couple of questions here. Just so -- so, Mark, if we go back 6 months and probably before that as well, you seemed far less bullish about New Zealand housing than what you said on today's call. With -- and I just wondered what's changed there with your view about New Zealand housing?

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

I'll be honest. Partly, because I've lived here for 2 years and I've probably got more of a cadence as to how New Zealand works. And secondly, because 18 months, 2 years ago, we were talking about a level of about 15,000, that seemed to be stubbornly sticking at that level. I think what I now observe as a businessman and in a personal capacity is that there is definitely demand for housing. There can be negotiations around the level at 25,000, should it be 30,000, special housing accords, land availability and pricing. But we've already alluded to the net migration figures. There does seem to be a huge bough wave of demand for housing and better quality housing in New Zealand. And the product offer that we've set up, and it's almost a new business unit, because Stonefields was somewhat of a one-off, tries to cater to those segments of the market, because all of those segments will come and go at different phases. So we, as I said, have a multi-family offer that we're now developing. We have the traditional single-family offer, and we have an awful lot of dialogue with government around where we can help on the social sector. So I think a combination of the skillsets and knowledge we've brought in, the range of our product offer and the just fundamental demand for housing in New Zealand makes me more positive. And I actually think it won't result in a sort of boom/bust cycle. I think we are getting towards the peak, partly because of some constraints around land. But I think where I'm positive is that it's liable to be a peak that is sustained longer than possibly usual. And I'm certainly looking out 2 to 3 years, and we're land banking cautiously, but on the basis of a reasonably good prognosis in the next 2 to 3 years.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay. And just on that issue, to what extent, given the impact that economic drivers have on household formation, are you concerned about the flow-through from much lower dairy prices through to the economy and ultimately through to household formation on the back of that?

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

Sure. I think there's no doubt that dairy is a big impact in New Zealand. That's very clear. And I have had dialogue with a number of senior people within Fonterra in the last 12 months on this subject. And they always felt that the declines we experienced last year, they understood them. They are very smart folks. They understand their supply chains and where the product is and where the inventory is, and they were always confident that the price would start to pick up. The last 2 auctions we have seen, I think, the most recent one was 12% or 13% up. And so whilst I think it has stung, the pricing from last year. I think if that is just a short-term phenomenon, and the pricing starts to return, we will see ourselves as an economy through that, because the pricing before that was so good, and a lot of money was made in those times.

Andrew Ian Johnston
CLSA Limited, Research Division

Yes. Okay. And Mark, just on -- I suppose, following on that residential theme, just trying to understand how you manage risk in your residential development business. So on your -- as you agree that we're now above mid-cycle, I suppose, from your perspective, you see that cycle extending longer, but you're moving from developing 300 units to developing 1,000 units. How do you manage the risk, if in fact, we do actually have a size -- a normal cycle that rolls over once we get up towards the 25,000 to 30,000, 35,000 units per annum? How do you see you manage that?

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

I think there's 2 elements to managing that risk, Andrew. And the first is the internal element, which you would do with any business. We used to trumpet the lowering of the breakeven point in Formica North America when we were turning that around. And that's no different in residential. We've got a great business model in Fletcher Residential, in it's, up to date, we employ 45 people. Everybody else is on contract. As we expand and quadruple our volumes, the guys have asked for 60 people. So it's a very scalable business model, and it doesn't have the capacity overhang that some of the big manufacturing businesses do have. I think the next question is around the extent to which we commit to land banking, and that is where we are extremely cautious. So if you look at Christchurch at the moment, the residential consents and builds are way, way above the normal midterm cycle and likely to recover to that level in the short to medium term. And therefore, we've been very conscious of having a line of sight to turn the land around very quickly. We've structured deals in a very creative way in terms of securing lots without necessarily committing or contracting, such that in the event that it does decline, we can put those on ice and come back to them later. And that's why, despite the huge potential pipeline in the next 2 years, the level of capital spend you've seen to date is not that great. So we're being very conscious, both from a land bank perspective and an internal resources perspective, to be very scalable and not commit too much.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay, good. And not a third question, but if I can ask you, Mark, just to clarify the comments on Ipex -- Iplex, sorry. So you said in CSG that there's just 2 competitors, and you have 1/3 -- and you have 2/3, competitor has 1/3. You then went on to say, in an answer to another question, there was a new competitor in Iplex, and I misunderstood that competitor is now taking share. Do I interpret that, that new competitor is outside CSG?

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

Yes, I mean, broadly, the plastic pipe extrusion business splits into PVC and PE, polyethylene. Polyethylene tends to be used in civil engineering, construction, mining and coal seam gas. It has far, far higher technical properties, and therefore barriers to entry are more difficult, and that's where there are 2 players. And when I refer to a 2/3, 1/3 split, I don't necessarily refer to volumes. I don't carry those in my head. It's more, there are 3 organizations involved in coal seam gas, and we have a relationship with 2, the competitor that has a relationship with 1. The new entrant is into the PVC area. It is easier to get into that business. You just buy the machines, contract for the resident and off you go. They are a more recent competitor, and therefore bring with them the newest technology that gives them a fairly significant cost advantage. And that really is the issue with the base business, which coal seam gas, to a certain extent, has masked.

Operator

Your next question comes from the line of Stephen Hudson from Macquarie Securities.

Stephen Hudson
Macquarie Research

Most of my questions have been asked and answered, but just a couple, maybe one for Gerry. I'm just interested in whether or not you've identified any businesses in the manufacturing space that you may actually sell? You sort of alluded to that in your comments. And if you have, whether or not those are meaningful in terms of size, and whether or not you would still roll out FBUnite across those businesses. And then for Mark, I guess, I'm interested just in the Stonefields. I think you disclosed that you've made about $40 million of profit in the fiscal year '14 from Stonefields. How confident are you that you can actually fill that gap? Because my understanding was that those profits sort of dated back to that 2001 sweetheart deal that was done way back. And just a second question, I guess, regarding volumes. In terms of Winstone Wallboard, I think it's a reasonable bellwether for what's happening out there in New Zealand, its volumes were up 8%. I think the Work Put in Place data shows that volumes across residential and commercial in New Zealand were up 17%. So I'm just trying to bridge the gap there between those 2 numbers and maybe find out what you've baked into your guidance in terms of New Zealand volume growth.

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

Sure, and just before Gerry answers that question. It pains to point that you asked 3 questions, Steve, not 2.

Stephen Hudson
Macquarie Research

Yes, and I'm good with numbers.

Mark Duncan Adamson

Former CEO, MD & Non-Independent Executive Director

Yes, I heard that. Go on, Gerry.

Gerry Bollman
Former Executive Officer

All right, Stephen. I -- make a couple comments. I guess, there are definitely a couple of businesses that we view as non-core, either don't particularly integrate well or with our other businesses or leverage our downstream positions, or are just relatively small and not businesses we would put a lot of time and attention into, and therefore we'd look to find another owner for, and I think we've talked about these in the past. It's the -- it has been the Sinkware business in Australia and the aluminum business in New Zealand. Neither one of those would be large-dollar divestments, but we do think, given some of the growth opportunities that Mark has already alluded to, we could redeploy that capital more effectively in other areas. I think beyond that, as part of the review of some of our Australian positions, we are looking at a number of those businesses, and as we look at them to understand what potential they have in the long run, we have to ask the question are we the highest and best owner of those assets or might they be worth more to somebody else? And you take, for example, the quarries business there, a great business for us here, well integrated in the New Zealand heavy-end chain, but sand quarries, in and of themselves in Australia don't really link and integrate with any of our other positions. So one might look at that to see if there would be a higher and better owner of that particular asset. And you look, for example, at Fletcher Insulation, the Tasman Insulation business here, probably has a lot more links to our distribution here, to our residential position, less so in Australia. So that's another one that we certainly have to ask that question and test the market. I think beyond that, it's a watching brief, as I've said. You want to make sure that given alternative sources of -- given alternatives sources of supplier, we -- do we -- is it best for us to continue to own some of those positions, and not, we'll continue to monitor it.

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

I think just to add to Gerry's comments, Stephen, as well, a bit of a personal perspective, it does appear that when Fletcher's come calling with a divestment, we get fire sale prices, and with an acquisition, the multiples are an awful lot higher. So in terms of the divestments, what we have said to the businesses, is if there is a higher and better use in another organization, then we would expect a similar multiple to, if we were acquiring a business, and were that not to be the case, to answer your other question, there's not a halfway a house, you're either in or you're out. And if you're in, you get the full benefits of FBUnite and all the programs.

Stephen Hudson
Macquarie Research

Okay. That's useful. And just a follow-up then though. In terms of those businesses that you might sell, that doesn't stay your hand in terms of FBUnite, you still go ahead and integrate those businesses into the federation?

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

Absolutely. I mean, if I can get a $5 bump in EBIT from a business that attracts a 6x to 7x multiple, that's serious dollars.

Stephen Hudson
Macquarie Research

Okay. And sorry, I'm jamming in, I'm jamming in a lot more questions here. What's your thinking about keeping Laminex a separately disclosed business? I mean, have you got -- does that give us some hints about what your plans are for that business?

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

I wouldn't read too much into that. No, I think, historically, PK likes to still carve out Formica and Laminex. I'm of the view that we should just discuss it as L&P on a regional basis. But the 2 are not dissimilar. So I wouldn't read too much into that. I'll get back to your other 2 questions, Stephen, if I can, Stonefields being the first one. I wasn't around, so I don't know how sweetheart the deal was, but it certainly generated us a lot of EBIT in the last 10 years. We have managed to carve out further deals with the developer for further developments. I was down in the quarry a couple of days ago with the board, looking at the latest apartment blocks. We are looking to increase margins by developing different types of topography, as they call it, terraces and townhouses rather than single-family dwellings. So less moving the price, more moving the margin, because of the nature of what we're building down there. They're being quite clever with that. And I think that will have another 18 months, albeit at a lower rate, by which time, some of the developments that we've acquired more recently will start to show through in earnings. So as I said to a caller previously, the anticipated drop-off for a period in earnings from residential, we now don't think will happen.

Stephen Hudson
Macquarie Research

But you're not saying that you can replace the $40 million Stonefields profits?

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

We think that we'll generate a lot more profits. The profit from Fletcher Residential in the future will be a lot higher than we ever made out of Stonefields, albeit it will be because we're building a lot more houses.

Stephen Hudson
Macquarie Research

Right. Okay.

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

That is one area, as Gerry has said, we own the customer. We're good at it, and we can integrate it with the other businesses, and quite why we didn't have a strategy around that, I don't know. We do now. And we're very confident that, that will grow earnings beyond the peak of Stonefields. And I will answer the Wallboards questions, if I can. You mentioned an 8% increase. Sometimes those year-on-year, 6-month periods do get a bit lumpy with stock builds, et cetera. All I can say is that their market share remains in excess of the 90-odd-percent. So whatever demand is out there for Wallboards in New Zealand, that management team continued to do a fantastic job capturing it. There are obviously different phases of the cycle, so you see probably our heavy-end concrete aggregates and cement businesses are at the leading edge of that cycle and have got higher percentage increases in revenue than some of the lighter building products. There is a hope and a belief that those lighter building products will catch up those levels of increase in the second half.

Stephen Hudson
Macquarie Research

So in terms of the volume assumption that you've baked into your $650 million guidance or thereabout, what sort of rough number should we be working out for sort of residential-commercial combined?

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

If I tell you that Gerry and his team have took 2 weeks to pull a robust guidance number to me and the board yesterday, it is a really complex business, Stephen. One generic answer around increases in the part of a part of a part, I don't think is going to serve anybody well.

Stephen Hudson
Macquarie Research

I guess, the question is whether or not you think the consents, which are growing at 15% to -- Work Put in Place, the Stats New Zealand data is the right number, or whether or not you think a sort of 8% is a more realistic number? Because it does make a big difference to our forecasting.

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

Sure, I think it will -- and this just sounds like a really lame answer, but I think the answer will lie somewhere between. I mean, 15% is something I wouldn't like to commit to, and I'm not aware that our GMs are building into their numbers. But I certainly think it will be better than the 8% we saw, certainly in the light products in the second -- sorry, in the first half.

Operator

Your next question comes from the line of Emily Smith from Deutsche Bank.

Emily Smith
Deutsche Bank AG, Research Division

I'm sorry, I just had a couple of follow-up questions. The New Zealand concrete products business obviously delivered a reasonable result in the first half. Just wondering, there is -- there has been, in that all, in FY '14, there was a pretty significant first half, second half skew there. I'm just wondering if you're expecting a similar split, first half, second half there. And just wondering if you can give us a little bit more color on the price increases that you have announced? And which you would expect to positively impact the second half fiscal '15 results?

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

Okay. I think concrete share in New Zealand, Golden Bay, Firth, Winstone Aggregates, is probably our most stable and well-operating business, and therefore, easier to predict. So I think we're reasonably confident that the really good results we saw in the first half will continue into the second half. They are all butting up against capacity issues. We have spent many millions of dollars on a fleet of new trucks for the Firth ready-mix business. So we're reasonably confident around a very strong second half, at least, as good as the first half there, Emily. In terms of pricing, I mean, it depends on where you are in the world and in the business. Some of our businesses are seeing price pressure, and we'll have to be probably a touch keener. Those are in the minority. I think as I've said before, my view is that we've been a little bit gun-shy on pricing in recent years, and I understand the reasons why. But I think now is the time, as we get our propositions better aligned to the customer, to start to move price through. And the de minimis would be and what we will not accept as we go into the latest budget round, that anybody fails to eat inflation and cost increases with price. And I think with more price sophistication around cost-to-serve, we'd actually look to advance margins with price. To talk about a generic number is impossible. It is unlikely that any of our businesses that would overtly put a price increase letter in as you've seen, maybe in the past. I think that's a bit lazy. I think it will be more on a customer-by-customer, product-by-product basis.

Operator

We have no further questions at this time.

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director
Okay. Thanks, all.