Question and Answer

Operator

Thank you. Are we taking questions from the phone, sir?

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

Yes. I think we will.

Operator

[Operator Instructions] And the first question comes from the line of Michael Ward from Commonwealth Bank.

Michael Ward
Commonwealth Bank of Australia, Research Division

Just quickly, you talked a lot about the currency effect on the revenue line, I understand that. But if you look at the New Zealand sort of business and the revenues there, they're only up 5%. That seems quite sort of inconsistent with the strength of the overall market in New Zealand. Can you just -- is there something that I'm missing here? Can you make a comment as to whether or not you think 5% is -- was that a bit disappointing?

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

No. I think it's reasonably complex in terms of New Zealand. Our Construction business is a fairly big part of that. The backlog I've talked about has grown from just over $1 billion to $1.8 billion almost in the last 6 months. So we still had a fairly, historically, low level of demand coming through that Construction business, and that's a really a big part of our business here. If you look at some of the other parts of our business that are particularly exposed to residential, like PlaceMakers, Firth cement and the Wallboards, they've all increased double digits, in excess of 20%. So I think, it's more a case of when you aggregate that down, there were some of our businesses that were a drag on that, but an understandable drag because of the lag effect. But those business that should have benefited from the improved economic situation, very much did. And in some cases, ahead of it, given -- some of them actually gained market share.

Michael Ward
Commonwealth Bank of Australia, Research Division

Okay. So there was nothing sinister in terms of pricing or negative sort of pricing effect?

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

No. I mean, look, it's fair to say that margin in Australia and New Zealand are difficult to get, we have inflation. Pricing may not have been as easy to get as we've had in the past, but we haven't had particular price erosion, maybe insulation in New Zealand is one example where that has occurred. But by and large, price has been fairly neutral. And most of those businesses, as I said, that should have benefited from the New Zealand story very much have done so.

Michael Ward
Commonwealth Bank of Australia, Research Division

Okay. And would it be fair to assume then, Mark, given the sort of the lag effects that you talked about, that revenue growth in New Zealand should be stronger in '15 than you saw in '14?

Mark Duncan Adamson

Former CEO, MD & Non-Independent Executive Director

Yes. Very definitely. Aside from those issues I alluded to towards the end of the presentation, EQR, Stonefields, et cetera, we've got plans to grow revenue right across our business units in New Zealand. And particularly those, such as construction, that will now start to book revenue and the earnings from the construction jobs we've won in the last 12 to 18 months

Operator

The next question comes from the line of Simon Thackray from Citi.

Simon Thackray
Citigroup Inc, Research Division

I'm just going to follow on from Michael's question, actually. Just on the pricing outcome, you mentioned, Mark, price neutral for -- across most of the portfolio, with the exception of New Zealand insulation, are you talking price neutral in real or nominal terms? I'm just trying to understand the impact of inflation on the earnings in the half?

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

In terms of the impact, historically, I would probably say that, by and large, we have failed to keep up with inflation. No, not massively, but we have had minor margin pressure in most of those business units. In insulation, it was particularly acute because of some channel issues and some large contractual issues that we're trying to resolve. But by and large, our price increases have marginally failed to keep up with inflation. And that's clearly something we need to address through the cost-out programs and some of the programs we'll be rolling out around pricing, cost-to-serve, et cetera. But the margins have been under pressure.

Simon Thackray
Citigroup Inc, Research Division

Okay. That's helpful. And while we're on insulation, in Australia, can we just talk about what happened in the fourth quarter in terms of the competitive landscape and behavior within the channel, given that the ABS reported 4.2% nominal price growth for insulation, which I think resulted in real price growth, at least reported real price growth in insulation of 1.2% in the final quarters. Could you just give us a bit of color around what's happening in domestic insulation?

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

Yes. Certainly. I mean, obviously, things have been moving fairly quickly in terms of our behavior, our response and getting ahead of these issues, not to mention the issues themselves. And if you look across the year in Australia and break it into 4 quarters, each quarter was better than the last in terms of our response. And insulation was one of those areas where we enjoyed a price increase which had effect in the full fourth quarter, as you said. So we've actually started in terms of market share in insulation, probably 1 -- 2 or 3 percentage points back in the second half, and we've got real price growth in that area, with a price increase we put in around about April, I think it was. So I would concur with that data.

Simon Thackray
Citigroup Inc, Research Division

And in terms of competitive behavior, it's been more, can I use the word rational, in terms of the way the various players have approached the market?

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

Yes. I think it has -- I think in terms of the 2 traditional incumbent players, it's been fairly rational. The new entrants in the form of Knauf that brings product in from North America. I think, obviously, the

North American market has recovered and they have less pressure in some respects to fill their factory in California, some of the exchange rate movements increases in logistics costs. I think their initial behavior that could be characterized as just getting a foothold and behaving in a way that secures that initial slug of market share to underpin their business. I'd like to think that was through now. And whilst there are now 3 players in the market, as opposed to 2 a few years ago, it does seem it will become more rational.

Simon Thackray
Citigroup Inc, Research Division

The that's very helpful. And if I can turn to up for a moment, Mark, to CapEx. The graph for CapEx in FY '15 has a quite a step-up, I think, in terms of the expected CapEx. It doesn't really break down the component parts. But could you give us a little bit of color on the lease, and I'm sorry if I missed it early, but I think it's on Slide 35, the CapEx expectations go up $275 million to $325 million. What makes up the gap between $275 million to $325 million, and maybe a little color about the [indiscernible].

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

Well, I'll tell you what, as is my one, I'll do the color, and Nick can do the facts. And in terms of the color, we actually just had a management presentation of these results this morning. And what I've said to people is, a big complex business portfolio like this will always need to spend CapEx on stay-in-business, on safety, on environment, and that will underpin a large proportion of that number. In addition to that, however, it's going to be harder in the organization to get capital going forward. That's not to say it won't be there for good projects, but those projects will be good and we have certain parameters that we would judge them on. In addition to that, I think we're going to pivot our expenditure away from what can be considered historically the more engineering items, plant and machinery, and more into some of the IT and digital space. So I think as a theme it's -- CapEx is going to be going to harder to get, and it's more digital and IT, and less the hard engineering and plant assets. But I think, Nick can give you a breakdown of that.

Nicholas J. Olson
Former Group Finance Director

Yes. I think, the way we think about is, generally, this organization will spend about the level of depreciation. We think depreciation next year will be circa $220 million to $230 million. And on top of that, though, we have incremental IT spend as we start to consolidate our ERP systems and prepare for a digital world. That will be in the range of $60 million to $75 million of additional spend. We also have some CapEx, which will be allocated to the redevelopment of the Penrose site. And in addition, we have actually seen some pressure on CapEx for growth, particularly in the New Zealand market, where, for instance, we need to invest in more concrete trucks, as one example. So all of that takes us into that range of $275 million to $325 million.

Simon Thackray
Citigroup Inc, Research Division

That's terrifically helpful. And it might actually lead to the question about the redevelopment of Penrose. Did I hear that correctly, that is redevelopment of your own head office? So you're buying the land to redevelop it, is that the...

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

Yes. The intention is -- we did the reverse in 2009. We traditionally did own on it, and we did a sale and leaseback as -- partly as a response to the GFC. We're now in a position where the building is not of the standard that we would ideally like. The elevators work occasionally, the aircon doesn't and the roof leaks. So we're now in a position where we bought it, the intention is to redevelop it, do the spend that is necessary, part of which was our obligation under the old lease anyway. Then once we've finished developing the campus, we would sell it again and lease it back. We think we can do that from an OpEx point of view neutrally, because we have people in the business scattered to the four winds within

Auckland. And one of the advantages of this program is that we will exit all of those leases scattered around Auckland, and we will focus all of our business units here on the campus in Penrose. So we will get everybody under one roof. It promotes the whole strategy around stronger together FBUnite, and we'll be able to do that from an OpEx neutral point of view.

Simon Thackray
Citigroup Inc, Research Division

That's terrific, Mark. Is there some timing on that, in terms of when you get that benefit of the multi-site consolidation? And I guess, you might have a specific figure for the CapEx, therefore, for Penrose?

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

Yes. Nick, I'll probably -- again, I'll do the color. I think our objective would be to try and be totally completed within the 18 to 24 months. I think the benefits of this, the cultural benefits are so large, I really am keen to get the project completed. I think in terms of the transaction, we could do the sale or leaseback at any point during that time. We don't have to wait for completion, as long as we have a program of work and a potential investor has a line of sight to that. And I think, really, it will be down to Nick and the capital team to determine when that is. Nick?

Nicholas J. Olson
Former Group Finance Director

Yes. Look, and just to touch on that, the building cost was just over $40 million, we expect to invest a total of about another $40 million. $15 million of that is CapEx, and the rest will hold in inventory pending exit from the building. I think the key here is we need to get the campus functionally perfect before we actually move it on. So we can't really put a date on it at this stage.

Simon Thackray
Citigroup Inc, Research Division

No, that's fine. That's fine. And just one very quick follow-up question, Mark, on Australia and the pipes business, I mean, in particular, talking to the infrastructure exposure. I understand the slowdown in mining and resources, there's a pretty healthy pipeline of roadworks, certainly ahead of us, New South Wales in particular, but also elsewhere. Where do you sort of forecast the timing for the pickup in your infrastructure exposure in pipes, in Australia?

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

Well, split it between plastic and concrete. Obviously, in Iplex, one of the big success stories of the last 3, 4 years has been our penetration in the coal seam gas fields of Queensland, where we enjoy something like 2/3 of market share of that business. There is a line of sight to extension of fields, new fields, and we think those revenue streams will continue. The margins are a little bit sharper this time, as more competitors of our products that have resonance in that market, but we think we can hold our own there. I think the biggest earnings shortfall in Australia, really, has been the exposure of the Rocla business to the infrastructure slowdown. We had a really good ROFE business there for many years in Rocla producing pipes, poles and sleepers. And certainly, in terms of the sleepers and poles business, it's been pretty quiet in the last 18 months. We took that opportunity to do a lot of restructuring, a lot of headcount reduction. It's leading the way in terms of manufacturing excellence. And we now have a line of sight to some really quite nice infrastructure projects. As you may know, I've been working on the B20 process with my Australian colleagues. And I've been able to get a good line of sight as to what the states and the federal government is spending. So whilst the hiatus has been painful for us, we think next year and probably the year beyond, we will start to see a recovery in that business.

Simon Thackray
Citigroup Inc, Research Division

Is that probably more back ended in '15, more meaningful in '16?

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

That's right. I mean as we sit today, I can't see it fundamentally impacting the first half of the year that we're in. That's more around the benefits of the self-help, if you like, but it will start to come through in the second half of the current fiscal and beyond.

Operator

The next question comes from the line of Andrew Scott from CIMB.

Andrew Geoffrey Scott
CIMB Research

And Mark, you mentioned your Christchurch, and that you were just down there. Look, you've done a good job over the last 12 months talking about, I guess, the earnings gap as the EQR work rolls off. Can you maybe give us an update on how you see the build backup of earnings coming out of Christchurch over the next 6, 12, 18 months? That's part one of that. And then, secondly, I think you've talked in the past that your view was that all-in Christchurch earnings, in terms of impact across all your businesses, would probably get back to a level in line with where we've been maybe over the last 6 months or the last part of this year? Is that still the case or do you think maybe that's a bit conservative and you'll actually see a better contribution as the CBD rebuild kicks off?

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

Yes. Just to put some numbers around that, Andrew. Over the last 2 years, we've enjoyed earnings from the EQR stream of work, which is the residential house repair business, of just over $20 million. And as a rough rule of thumb, it's quite difficult to trace, but we think of that in terms of doubling with the pull through and the profit on the pull through from our product businesses. So that's for argument's sake, say, $40 million is being generated through that program in Canterbury. If you look at some of the infrastructure work, the first job that we have, one is the Justice Ministry, that's about a $250 million project from memory. We probably will be lucky to book earnings on that in this year. We normally look to have at least 20% of the work completed before we book earnings. But those margins are a lot keener in terms of the big civil infrastructure work at roundabout 3% to 4%. So it's a big job. It's a landmark project in Canterbury, and we will probably generate $7-ish million of EBIT on that, which is only 1/3 of what we were generating from the EQR. So I'd like to characterize our commentary in recent years, not as conservative but as factual. I think we will need 3 Justice Ministries, a Justice Ministry, a hospital and a casino to make up for the work and the EBIT that the EQR program generated. I think it will take a while. The hospital is being tended as we speak with it due to a decision at the end of Quarter 1 calendar year next year. There's a line of sight to other projects. So I still think we can get back to that level of earnings, but I do think we will have a dip for 12 to 18 months.

Andrew Geoffrey Scott
CIMB Research

Great. And just in North America with Formica, revenues up about 4% -- sorry, volumes up about 4%, revenues seemed to lag a little bit, not a huge amount. Is there -- is that pricing, is it maybe a step-up in the competitive landscape there or it's just a little bit of mix playing out?

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

It's mix. Really, I think the competitive landscape it reasonably rational. We still have the 3-player market, one is in private equity. And we've been talking to those guys, they are going through restructuring. Wilsonart, the big competitor is also in private equity, and they're doing their restructuring. I think, it's the first time in 20 years that Formica is a stable player in that market, enjoying the benefit of Fletcher ownership. So it really is mix. The mix is deliberate. We have traditionally been strong in the commercial sector, but haven't really penetrated the office furniture market, which in North America is huge and was dominated by Wilsonart. We have started doing some major contracts in office furniture, but they're at significantly lower margins. And that really impacts that mix that you've spotted there.

Operator

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

Emily Smith
Deutsche Bank AG, Research Division

A few questions for me. 58% of your EBIT relates to New Zealand this year, as you mentioned. I'm just wondering where you think that should be sort of on a medium-term basis?

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

Well, I would like -- effectively, what's opened up that gap, Emily, is a strong performance in New Zealand and a relatively weak one in Australia. I think, I'd like the trend continuing that New Zealand is strong, but Australia is also strong. I think if you look at, in detail, what potentially Laminex can do with the programs there working on the Rocla situation that we've just discussed, the Tradelink turnaround, I think, if we can get all businesses Trans-Tasman running well with reasonable economies, it's probably a 50-50 story there, or maybe 45-45 with the rest of the world piece as well. But it should be equal weighting is my takeaway.

Emily Smith
Deutsche Bank AG, Research Division

Okay. Great. And the Australian revenue growth, was there was a -- well, revenue declined around 6% in Aussie dollars. Excluding that impact from pipes, would you say that your revenue would have been roughly flat or how should we look at that to sort of try and get a more normalized number?

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

I think, the increase -- it should have shown a small increase. We've seen increases in Laminex. We've seen increases -- significant increases. We're now looking monthly at the Tradelink numbers that are 6% up month-on-month from the same month last year. So we've just really need to continue those trends in the businesses that reacted quicker. Obviously, I went into Laminex 2.5 years ago now, and Tradelink was a strong focus for us. We brought, laterally, the focus and the same intensity around those other businesses. So I'll expect those businesses to show revenue increases right throughout the next 12 months when compared to the previous period.

Emily Smith
Deutsche Bank AG, Research Division

Okay. And just looking at the Australian business, given, I guess, as you mentioned before, a significant amount of the growth is probably going to come from the turnaround in some of those businesses. Your lag in Australia in terms of residential would be sort of 3 to 6 months, I would assume. So would it be fair to say, you made a comment earlier that you would expect the revenue growth to be -- to exceed last year -- FY -- sorry, expect FY '15 revenue growth in New Zealand to exceed FY '14. Is it the same in Australia, I would presume?

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

Yes. It is. I think what we've got is 2 things on the improvement curve: We've got the economy and we've got our own internal turnaround measures. I think when those compound, you should expect to see each half better than the previous half.

Emily Smith
Deutsche Bank AG, Research Division

Okay. And then, I guess, sort of taking that, would you also expect EBIT growth to exceed revenue growth?

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

I think in percentage terms, when you consider the nature of the businesses, just how much fixed cost there is, in the same way that we saw a disproportionate fall in EBIT as the revenue went off, in the likes of Rocla, you would sincerely expect to see a disproportionate increase, particularly given that we've lowered the breakeven points with all the cost reduction programs.

Emily Smith
Deutsche Bank AG, Research Division

Excellent. And just finally, M&A, I'm just wondering if you can make a comment around M&A activity currently and Fletcher Building's view about participating in there?

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

Yes. I think in terms of strategy, which leads M&A, I think we've done a lot of work behind the scenes, we don't tend to talk about it too much with the board around strategy, and we're coalescing around a reasonably crisp strategy of investment. And Nick's already talked about our investment in residential land and we're backing the Construction division. The Distribution division, Tradelink, PlaceMakers and Mico, went from being somewhat on the naughty step. It's a business we really now like. We think there's a line of sight, a really good recovery in Tradelink, and we're prepared to invest in that. I think the M&A might be characterized by strategic medium to small investments around those areas. We're anxious not to play in any industry consolidation necessarily, because normally the people that lead with their dollars in industry consolidation lose.

Emily Smith
Deutsche Bank AG, Research Division

Sure. And you don't have any plans or you're not thinking about any of your businesses now after a strategic review has being non-core?

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

There are a few small ones, yes. And some of those are actually out in the market, not dissimilar to the Hudson, the Pac Steel sort of thing. But most of the big core chunky assets are part of the future going forward.

Operator

The next question comes from the line of Jason Steed from JPMorgan.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Mark, just trying to unpick, I guess, your guidance commentary, I understand that -- understandably at this time of year you don't provide anything definitive. But I think if we look at your reset base of $583 million on Slide 42, and then compare that to where consensus stands at $688 million, we're looking at $105 million of EBIT improvement. Now presumably, there might still be Pac Steel and Hudson in some numbers. But I just wanted to get your sense of whether or not you think these growth points that you've been referring to in various of your answers, is sufficient to see the business get anywhere near that level in the context of your reset starting point?

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

Sure. I think, Jason, you won't be surprised to hear I won't refer to guidance. To be perfectly honest, at this stage, I think you guys are going to work diligently in the next few weeks, no doubt, to form a view. And we may look at guidance then and we'll bake that into our consideration at the ASM. I think the $580-ish million number, the rebase number following the exit of Pac Steel, et cetera, the Stonefields story, EQR, is a reasonable base to go from. That having been said, I think we have enough juice in the programs and in the economic prognosis to see us deliver a number that improves on this year's EBIT number. I think beyond that, I would prefer to do a bit more work and default to our guidance statement at the ASM.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. Got you. Okay, Mark. Maybe I could ask a slightly different question. I'm trying to get to the same answer, but with maybe -- you can provide a bit more color around this. When you look at your return on funds employed, obviously, a clear improvement, which is good to see. I mean, historically, you've been at much higher levels than where you are now. Do you see a scenario in which the business could get back to 14%, 15% ROFE, or is that really constrained by some of these points around pricing, cost inflation, et cetera, that you've referred to of late and also recently?

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

Yes. The target is still to return to those levels of ROFE, the healthy ROFEs from an attraction of capital and a growth in investment point of view. But look, let's be honest. It's going to be a lot harder in this cycle, as good as it is from a volume point of view to get there than it was, possibly, in the last cycle. There are a lot more competitors in the marketplace. I think people's access to information through the advance of digital, which we're looking to leverage to the positive, in the short term, is negative. When it comes to price, people are far more aware than they might have been in the past. And then there is the inextricable rise of inflation in this part of the world, particularly that we're having to fight through our program. So I think we're going to have to work a lot harder than we have in the past and be a lot smarter. But there's no reason why we shouldn't believe there is a line of sight to return to those levels, particularly if we've got this sort of economic health in Australia that we've seen in New Zealand.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. Got you. Maybe, just a final one, just a point of clarity on, again, to Slide 42. Stonefields and EQR, together you're adjusting out about $24 million there. Am I correct in recalling that the annual run rate when both of those were sort of at full speed, as it were, was around about the $60 million to $65 million, Mark, or am I double counting something there?

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

No. You're dead right, Jason. It was about -- just over $60 million. So I think, what we've looked at is run rates and we've tried to peg them to the fiscal years. So there is still some Stonefields activity, there is still some EQR activity. I was down there this week and we've repaired 400 houses this week. So what we're seeing here on this chart is the earnings coming off during the year, and there will be a further impact on the following fiscal year that aggregates in total to that $60 million.

Jason Harley Steed
JP Morgan Chase & Co, Research Division

Okay. So probably another $30 million to $40 million next year type thing, being offset by some of the infrastructure work.

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

Yes.

Operator

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

Andrew Ian Johnston
CLSA Limited, Research Division

Just talking about the commentary around the guidance, and I'm just following on from Jason's question. Your -- in Slide 40, you talked about the benefits of $25 million from FBUnite, and you've indicated that you should be able to get at least that this year or more. You've got that partly offset by $10 million of increase to operating costs and $12 million of CapEx. I'm just trying to understand how that $12 million of CapEx offsets against an earnings benefit?

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

I think we're speaking more from the cash point of view. Obviously, rudimentary understanding of economics, cash -- our capital doesn't affect OpEx. So it was more a commentary around the cash impact. I think you can take that CapEx out in terms of the EBIT impact, if you like. And I'd like to reiterate we put $25 million in there. I'd be disappointed if it was just $25 million. We do have ahead of steam up on that program now, I'd be looking for a touch more than that.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay. And I thought I'd read -- I might have made a mistake, but I thought I'd read somewhere about a $10 million impact of price increase, or is that the same, really, what you're talking about or is that similar to the operating -- increased operating costs? Or did I misread the comment about price increases?

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

I'm not aware of that one. I think, price in terms of -- us pricing to our customers is an extremely complex piece. It wouldn't be dealt under FBUnite. FBUnite currently has limited impact on price.

Andrew Ian Johnston
CLSA Limited, Research Division

No. No. But I'm thinking the benefit of FBUnite, is any of that is impacted by -- and you did discuss earlier about this -- the issues of trying to get real pricing, any real price increase at all. And so just -- okay, I may have misread that. So then just -- so then if we start for that $583 million, there's 2 impacts to get to whatever FY '15 will be, and one is FBUnite and then the other is whatever EBIT growth is. And underlying EBIT growth for '14 was 15%. And is there anything to think that, that underlying EBIT growth should not be within that range in FY '15?

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

I think it's difficult to give an aggregate number for such a complex portfolio in terms of business and geography. But just -- I'll give the color I usually give, which is, I think the New Zealand story will be strong, but the rate of increase, the acceleration of EBIT, if you like, will probably slow. As I said, 23,000 to 24,000 housing starts looks about the peak. We hope that continues for a couple of years. I think you'll probably see better percentage improvements in Australia as that economy recovers and our internal initiatives continue. And I think you'll see, probably, similar improvements in the rest of the world business. Quite how that aggregates arithmetically, I can't tell you. But we should see some particularly strong increases, hopefully, from Australia.

Andrew Ian Johnston
CLSA Limited, Research Division

Okay. Terrific. I'm sure my model will spit out exactly the right answer, Mark.

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

Always does, Andrew.

Andrew Ian Johnston
CLSA Limited, Research Division

I wish. Mark, just on Tradelink. Good to see some improvement coming through there. Are you prepared to give any sort of guidance or any sort of indication about where you think that business will track in terms of margins as that continues to improve over the next couple of years?

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

Yes. Yes. I can talk to that. We have -- we've grown market share. We had a business there that would traditionally have had over 30% market share, it dropped to about 18%. We probably built that back to the tune of a couple of percent. A lot of wins, particularly in the independent state-based competitors. Obviously, Reece continues to be a strong competitor and player. We've totally restructured the merchandising supply chain and buying function. We've brought in some really good people, I have to say, and we're getting some massive margin improvements through that. Massive in the tune of 2%. And 2% doesn't sound a lot, but in terms of trade distribution, that really is significant. So in terms of what that means to EBIT, and interestingly you'll have referenced that I don't mention costs, it wasn't the cost story. I think there had, in some cases, too little costs. So we've built a little back -- a bit of competency back into that organization. We expect this year to show another strong performance. I probably won't commit just yet to a date in terms of a fiscal year, but there's no reason that business couldn't be a $40 million to $50 million EBIT business, from what was effectively breakeven heading towards loss 18 months ago.

Operator

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

James R. Rutledge
Morgan Stanley, Research Division

Just a point of clarity on the restructuring benefits for fiscal '15. Just stepping back in first half of '14, I think you called out $20 million of costs, which was then, I think, are going to be neutral in fiscal '14. And then you've said this morning that it was actually a benefit, a net benefit, I suppose, of $15 million, is that right?

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

I'll let -- Nick has the details of that. You can talk to that, Nick?

Nicholas J. Olson
Former Group Finance Director

At the half year, we called out $20 million of restructuring costs. We actually backed some of those out, because we didn't complete the consolidation of some sites that we had intended to do. So that cost for the year is actually $16 million. Largely neutral in the year, so we speak to take the headcount benefit of that forward into FY '15.

James R. Rutledge
Morgan Stanley, Research Division

Okay. And sorry, how does that compare with the $15 million that you've reported to that?

Nicholas J. Olson
Former Group Finance Director

In terms of FBUnite?

James R. Rutledge
Morgan Stanley, Research Division

Yes.

Nicholas J. Olson
Former Group Finance Director

Headcount is actually independent of those FBUnite's savings.

James R. Rutledge
Morgan Stanley, Research Division

Right. Okay. And so that $16 million, being net neutral for the full year, so a benefit of $16 million in the second half. If I was then to annualize that for fiscal '15, then you're talking at least $30 million of savings from that, I suppose, are you then spending more than you're saving in fiscal '15? Is that what's implied?

Nicholas J. Olson
Former Group Finance Director

Look, I think I'll answer the question a slightly different way. I think when you look at that mix of cost, you've also got to take in wage inflation across the group. And that will, obviously, offset those benefits. So this -- I think that's what you need to keep in mind is not only are we actually gaining some benefits from these -- from restructuring, but also we have to try and offset the costs of wage inflation over time.

James R. Rutledge
Morgan Stanley, Research Division

Okay. And just, generally, going back to the view on the New Zealand housing cycle, I think, Mark, you indicated you think 23,000 to 24,000 is kind of where we peak out. I mean, if you look at the most -- at the latest consents data on an annualized basis, the most recent months were probably already around that rate. Is your view that kind of we flatline from here? And just can you talk to how that then impacts your business? Is that kind of a 6-month lag or a little longer than that?

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

Well, I always caveat answers to questions like that with the fact that I've got no crystal ball, and I'm certainly no economic guru. I think what will potentially put a break on it, is not so much the demand. There does seem to be a fairly strong demand, which gives us the confidence to say that we think we will have this level of economic activity for a while. I think it's the availability of land, it's the availability of people and materials, particularly in the South Island Canterbury region, which is why we're kind of painting the ceiling of 24,000. Now it might be higher, it might be 25,000. I find it hard to get it -- see if getting back to the 30,000 of 2004 or '05, because it's simply down to land constraint, consent, et cetera. I know through our own residential development, the degree of difficulty we have had in identifying land, contracting, developing, consenting, et cetera. So I think in terms of the lag, it depends. It's probably 12 to 18 months, when I think about our own personal experiences with our residential development.

James R. Rutledge
Morgan Stanley, Research Division

Okay. And so in terms of then, perhaps, the volume impact of the New Zealand housing cycle on your earnings, you'd be probably looking at a peak volume contribution in kind of first half '16?

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

Yes. That's -- you've probably pinned it, dead right.

James R. Rutledge

Morgan Stanley, Research Division

Okay. And sorry, just -- Nick, back on the restructuring. Can you just talk to the phasing of first half, second half benefits for fiscal '15?

Nicholas J. Olson
Former Group Finance Director

No. I'd prefer not to actually. I think it will be included with that -- obviously, in our EBIT guidance, but the -- in FY '14, if I take it by way of example, all the restructuring was completed largely in the first quarter, and we reported that cost at the half. But remember, it's also -- it's a combination of both headcount and savings and lease costs for properties.

Operator

The next question comes from the line of Kar Yue Yeo from FirstNZ Capital.

Kar Yue Yeo
Jarden Limited, Research Division

A couple of questions, please. Firstly, this is in relation to Slide 15 of your presentation, where you reflected on the Australian EBIT. If you contrast those year-on-year movement, you basically have had a 25% turnaround in the year-on-year growth rates from 1H to 2H. Before factoring in the $25 million further increase that you anticipate to come through in FY '15, presumably, a significant portion of that relates to Australia. If you ignore that for a moment, to what extent do you think that 25% turnaround could be sustained into FY '15?

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

I think the components of it will change, I think I mentioned to Jason earlier. But there's no reason why the continued improved economy -- FBUnite is program that we may well, in terms of its branding, kill in a couple of years' time. But the benefits of that will continue ad infinitum; procurement, property. We're really finding our straps now with the manufacturing excellence program that we are convinced will deliver significant dollars. And just the general focus on headcount and overhead costs. And then, finally, our business model evolves as it looks to address the new competitive environment. So there's no reason why that shouldn't, to answer your question, continue at a similar pace into this fiscal year.

Kar Yue Yeo
Jarden Limited, Research Division

Okay. Great. I have a second and final question, this is for Nick. Nick, could you provide some commentary as to how much room there is for further increase in the level of imputation, as well as franking credits, based on the current $0.36 dividend a year?

Nicholas J. Olson
Former Group Finance Director

Sure. In terms of imputation credit, obviously, our New Zealand earnings are very strong, so we continue to expect that we can fully impute dividends going forward, every second dividend. From a franking credit perspective, I think it's actually a line ball call about whether we will be out to frank 50% of the first half dividend. It very much depends on the performance of the Australian businesses in the first half.

Operator

The next question comes from the line of Stephen Hudson from Macquarie.

Stephen Hudson
Macquarie Research

Just one further question on the EBIT bridge for continuing operations. Can I just clarify a comment you made earlier that the step-down from those sort of 4 or 3, really, factors for '16 will be a further $20 million, $25 million on top of the $41 million, to sort of get to that kind of $65 million step-down? And also, whether or not -- it doesn't look as if obviously you've included the materials pull through for EQR. I think you are sort of saying that would be an extra $20 million. So are we essentially talking about a sort of $80 million to $85 million step-down from '14 for '16?

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

The answer to your first question, I'll be brief for once, is yes. It is the $60 million that I've discussed with Jason, so that's an incremental step-down. But to address the other question around conservatism, no, I don't think it is $80 million. I do think there are activities in Christchurch beyond just the EQR program. There's an independent third party housebuilding. One of the biggest housebuilders in Canterbury is now down in Christchurch in the form of Mike Greer. Their business continues strong, as does a lot of independent businesses. So I think we'll lose Q1, we'll lose the pull through from that. But it's likely that the pull through will switch to the independent homebuilders. And we've actually took some land positions down there, some small land positions, I hasten to add, and we will pull through some of the product through. So I think the product pull through is a neutral situation. And I think, in time, the loss of the EQR demand will be made up by the improved infrastructure spend down there, to the extent we're able to win some more large contracts.

Stephen Hudson
Macquarie Research

Okay. That's useful. Maybe, a question for Nick, just on CapEx. Should we sort of factor in kind of a more normalized CapEx number, Nick, for '16 sort of something closer to depreciation? Or will some of those projects over and above depreciation kind of wash through into that year as well?

Nicholas J. Olson
Former Group Finance Director

Yes. Look, I'll try and give you a slightly longer view. The modernization of ERP systems and moving to a modern digital environment is probably going to mean an incremental CapEx, for the next 3 years, is $50 million to $75 million above depreciation, and then it will tail off over the next couple of years. And I think, the note of caution I would give you, too, is obviously that IT spend is going to generate slightly higher depreciation in those LTEs as well.

Stephen Hudson
Macquarie Research

And then sort of on things like additional concrete trucks and all of that sort of thing, you're not expecting kind of catch-up CapEx there to wash through?

Nicholas J. Olson
Former Group Finance Director

No. Look, I think, actually, I'm pretty comfortable about that comment about stay-in-business and normal growth CapEx being captured within depreciation over the next 2 to 3 years.

Stephen Hudson
Macquarie Research

Okay. That's useful. And then just a final question, Mark, sorry. I'm just interested in Laminates & Panels result. It is surprisingly strong from my perspective, given what I saw what's going on in Australia. Can you just step us through kind of which segments of that business are performing, particularly over in Australia from a volume point of view? And also give us an idea, I guess, in terms of what you've got in the market for price increases across most of the divisions -- sorry, across all of the divisions including Laminex.

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

Okay. I think, we try not to belabor it too much, and most of the currency we've discussed to date has just been a translation impact, it's not a real commercial economic impact. Laminex did actually suffer an economic impact of currency, as well as the Aussie dollar dropped, in that it sources an awful lot of products, resin and paper, principally, in U.S. dollars. So within that number, there is a $7 million real commercial hit from currency. So that number would've been even better without it. There are a number reasons for that. I took out 350 to 400 people when I was in charge of that business 3 years ago. The people in that business did a great job to continue in that business, with a lot fewer heads. The benefits of that just keep on coming. And I think we talked the last cycle about reenergizing that business in terms of its commercial offer towards more commercial. In addition, it was residential focus, and started to see some of its products gain some traction in the commercial area, with good margins. And we enjoy good margins in those sectors. And they've recently put a price increase, and I think, probably, a couple of percent at least should stick. In terms of price increases, overall, traditionally, at this point in the cycle, it is a fairly positive pricing environment. I wouldn't describe it as a negative price environment, but I wouldn't say it was positive neither. I think we're focusing our attention on price, we will go for price. I think we will be able to use price very definitely to improve in our historical ability to eat inflation. I wouldn't expect margin to compress further, but I wouldn't necessarily see prices a way of moving EBIT forward neither.

Stephen Hudson
Macquarie Research

Okay. I mean, just a little bit more specific though, can you give us an idea what -- we were obviously seeing, according to one of your competitors, sort of cement prices for, for instance, in New Zealand by a couple of percent per annum now for the last couple of years. And I think you've recently commented that you wouldn't foresee a situation where you'll be able to increase prices in nominal terms for some time. Are you now sort of starting to see utilization levels that could actually support price increases this year, and for instance, cement? And also, plasterboard. I'm just interested in your view, the competitive dynamics swing around there, but obviously Knauf pulling out recently of Auckland; are you starting to sort of see some light at the end of the tunnel here?

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

Yes. It's very difficult to answer your question, Steve. And I've got 63 business units in 27 different major countries, so -- and everyone has a different pricing strategy. And probably, below that, there's a pricing strategy by customer, by product segment. And not all of them -- the days of the vanilla price rise letter are over. This is about pricing structure and strategy. I think, therefore, to just focus on the 2 examples you raised, which is cement and plasterboard. Plasterboard has its legendary 92% market share. It's maintained that despite the competition coming principally from Knauf. We saw Knauf close its distribution center in Auckland recently. But that's not to say you can suddenly get price, because we already have a massive price umbrella over some of the competition and we justify that rightly on the basis of our service offer, our product superiority, et cetera. But it's not to say we can get arrogant and start moving price. I talked to our guys in the plasterboard business recently, and they're looking to put a price rise in that, at best, will cover the inflation in the business. So I don't expect price advance there. And even in cement, one of the interesting impacts of the future strategy with regard to cement with Holcim's exit, is that if they set up an import strategy, the capacity in the market is infinite. As soon as you got a supply chain to Asia, as we've seen with the insulation business in Australia, it's a real moot point in terms of what the capacity utilization is in their country, because it's a world we look at now. So I don't see necessarily that there's an ability to increase price above inflation in cement neither.

Operator

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

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Nick, first question is on the residential market in New Zealand and really exploring your comments that you've made already in terms of the peak of the cycle. I can kind of comprehend, from the point of view of where consents are currently, that Christchurch appears quite peaky. But really interested in your thoughts on the Auckland market, not least in terms of one of your smaller competitors in this market reaching a broader building products space, suggesting that the Auckland market is now kind of easing in terms of growth rates?

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

Well, you're right to point out that underlying that 24,000 number that we focused on, there are a lot of puts and takes. I think, in general, the provincial cities and regions are showing some growth, but not spectacular. The growth in Christchurch is spectacular. But if you talk to a lot of the economists, et cetera, they would suggest that, that is a 24-month situation, as people look to get back into decent homes. And that, that would return to normal within the next 24 to 36 months. Normal is 30% of where we are today, so we will have to factor that in. Auckland, therefore, will continue to take the strain. I think we have seen the Auckland pricing story subdue somewhat in the last 6 months. But I think it really does depend on the individual business. And I think in terms of our Fletcher Residential business we're looking to expand, we have recently acquired land in both North of Auckland, West and South of Auckland. And we'll see that story continue to develop as the conurbation of Auckland extends beyond its traditional boundaries. The strong demand principally driven by migration. So I think there are some short-term blips in terms of price, in terms of demand. But I just think if you just look through those blips to the next 24 months, 36 months, we're reasonably confident on our Auckland positions.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Would you say, Mark, that you're less bullish about the residential cycle in New Zealand now than you were 6 months ago?

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

I'm less bullish around its growth, certainly, because it was coming from the best of 12,000 to 24,000, it's doubled. It isn’t going to double again. So I think that comment shouldn't be misconstrued. I don't think it's going to grow at the same rate. That's not the end of the world. If it stays at this rate with what we have in terms of our internal initiatives, that can underpin a fairly significant performance in the New Zealand portfolio going forward.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

Okay. Second question, just around FBUnite. I mean, you talked about the $25 million incremental benefits, the EBIT for fiscal '15. I assume that's net of OpEx. And clearly, CapEx is a different figure, but can you talk about OpEx and CapEx in relation to the incremental benefits coming through?

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

Yes. Certainly. I mean, take CapEx to the side, I think we're not really delineating -- and increasingly, as we really drive the FBUnite philosophies, and as I said, that branding has a shelf life. It really is just about running a world-class business in all sectors of the business, whether it's procurement, whether it's sales, we've talked about pricing. So I think in terms of CapEx, I think Nick's answered the question in aggregate about the CapEx situation, specifically, the FBUnite program as it exists today. There are 2 elements to the OpEx piece. There is the sustainable build of a capability above and beyond what we had. And I think we've quoted that as an ongoing $10 million increase in the overhead cost that existed 2 to 3 years ago. That will not be $20 million increase. We are where we are, that is a sustainable $10 million capability increase. I think the other part is the effect of restructuring in some of the short-term costs that we charged to the profit and loss accounts, are affecting some of these changes. This year, won't be as big as last year. The first half of last year, we had significant capability spend and significant restructuring spend. There will be some in the first half, principally, of this year, not as much. And to be honest, we're still working that number up. But you should expect more of that $25 million to come through than it would have done, say, this time next year.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

But that, just to clarify, that is a net figure, that $25 million?

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

It is. It is indeed.

Andrew James Bowley
Forsyth Barr Group Ltd., Research Division

And can just, lastly, on FBUnite, give us some sense of where the run rate is at -- where we are today?

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

I think if you were to -- let's get through the first quarter and say that is typical of the year. I would -- and take out all the one-offs and restructuring costs, et cetera, you're probably at a run rate of about $50 million. So we're probably halfway there in terms of executing against the target. And the rate of increase in that is probably -- we're at the peak of that now. We should really start to see those benefits for the next 24 months come through. And then we'll have a tail of about, I guess, $15 million that will be delivered in the year beyond FY '16.

Operator

And our final question comes from the line of Michael Ward from Commonwealth Bank.

Michael Ward
Commonwealth Bank of Australia, Research Division

Two questions. You talked about EQR, say, finishing about 70,000 homes. I thought that the regional target was 90,000, can you sort of talk to what happened to those 20,000 homes that don't actually get fixed? Is there -- I guess, what I'm ultimately asking, is there a chance that the program might be extended beyond the end of this year, just to sort of mop up that tail?

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

Yes. That's a good question, Mike. I think, the number has ebbed and flowed. It was originally 70,000, it moved to 90,000. I think at the peak, roundabout this time last year, we were quoting 90,000. And we have a target to complete that within this calendar year. I think what's happened is we've worked EQR and EQC, have worked in conjunction and looked at exactly what is feasible to complete. And they have pegged the number of, I think, it's 69,000, I've rounded it up to 70,000. So what is the 20,000 difference? That's predominantly those houses that, either will be settled through insurance. There is a degree of difficulty because of shared tenancy agreement, et cetera, et cetera. Now those issues aren't going to go away. There will still be 20,000 that need repairing. It won't, however, be repaired under this program. We have offered to do so. We've offered to extend the program. And I think the feeling probably rightly was it's particularly difficult. The run rate would slow because every single one of that 20,000 houses has a back story. And the back story is one of liquefaction, shared ownership, insurance complexities. So they will be left to the market to deal with. Now we will partake in that market, but we will get our normal share of that and we won't get the program benefits of getting all of it that we had with the 70,000.

Michael Ward
Commonwealth Bank of Australia, Research Division

Right. Okay. And sorry, just a final question, for Nick, really, was the tax rate that you might think for FY '15. I know they jumped a bit in FY '14 from low-20s up to 24%. Where should we think it might be going forward?

Nicholas J. Olson
Former Group Finance Director

I think, a safe bet, would be to say between 25% and 26% for FY '15

Mark Duncan Adamson
Former CEO, MD & Non-Independent Executive Director
Okay. I think that concludes the questions. Thanks, everybody.