

BRICKWORKS ACHIEVES RECORD HALF-YEAR EARNINGS

- Record half-year statutory NPAT of \$581 million
- Share of Property Trust value increased by a further \$349 million to \$1,260 million
- Building Products Australia EBIT up 66%, strong underlying demand
- IBC acquisition drives revenue growth in North America, however margin pressures impact earnings
- Interim dividend 22 cents per share, 46-year record of maintaining or increasing dividends
- Intention to launch a new Operational Property Trust, housing Building Products manufacturing sites, in partnership with Goodman

Six Months Ended January (\$million)	1H21	1H22	Change
Total Revenue	432	535	24%
Underlying EBITDA	163	488	200%
Underlying EBIT	127	450	254%
Underlying NPAT	90	330	269%
Statutory NPAT <i>(including significant items and discontinued operations)</i>	71	581	720%
Underlying EPS (cents)	59	218	266%
Statutory EPS (cents)	47	383	710%
Interim dividend (cents)	21	22	5%

Record half-year statutory NPAT of \$581 million, dividend increased

Brickworks Limited (ASX: BKW) (“Brickworks” or the “Company”) today announced statutory Net Profit After Tax (NPAT) of \$581 million for the half-year ended 31 January 2022, up 720% from the prior corresponding period. The statutory result was boosted by a significant one-off profit in relation to the deemed disposal of Washington H Soul Pattinson (ASX: SOL, “WHSP”) shares upon its merger with Milton during the half. Excluding this impact, and other significant items, the underlying NPAT was \$330 million, up 269%.

Underlying earnings before interest, tax and depreciation (EBITDA) from continuing operations was \$488 million, up 200% on the prior corresponding period, and after depreciation, EBIT was \$450 million, up 254%.

The earnings contribution from Property was a standout, with the Group’s portfolio of industrial property in western Sydney and Brisbane experiencing a strong uplift in valuation in response to burgeoning demand for prime logistics and warehousing space. Building Products Australia also delivered a significant increase in earnings, despite pandemic related restrictions in key markets at the start of the period.

Directors declared a fully franked interim dividend of 22 cents per share, an increase of 1 cent on the prior corresponding period. The record date for the interim dividend is 12 April 2022, with payment on 3 May 2022.

Property Trust value up a further \$349 million to \$1,260 million

Property delivered another stellar result in the first half, generating EBIT of \$358 million, due primarily to earnings from the 50/50 joint venture property trust with the Goodman Group (“Property Trust”).

Property Trust assets were revalued during the period, resulting in a profit of \$228 million, due to a significant increase in the market value of the portfolio. Development profit of \$115 million was also recorded, following the completion of new facilities, including the state-of-the-art Amazon warehouse at Oakdale West. As developments are completed, rental income continues to grow, and net trust income for the half was \$17 million, up 7% on the prior corresponding period.

Total assets held within the Property Trust now stand at \$3,494 million. After including debt, Brickworks’ share of net assets was \$1,260 million at the end of the half, up by another \$349 million over the six-month period. Gearing within the Property Trust was down to 28% at the end of the period.

Brickworks Managing Director, Mr. Lindsay Partridge said: “We have seen strong demand and sustained growth in the value of our Property Trust over a number of years. The pandemic has only fuelled this growth, by accelerating industry trends towards online shopping and increasing the importance of well-located distribution hubs and sophisticated supply chain solutions.”

“These trends are reflected in our independent revaluation process, that has resulted in average capitalisation rate compression of 50 basis points to 3.6%, across the leased assets within the Property Trust.”

Building Products Australia EBIT up 66%, strong underlying demand

Building Products Australia EBIT was up 66% to \$27 million for the first half, and EBITDA was \$54 million. Early in the period, sales in the key markets of Sydney and Melbourne were impacted by construction restrictions in relation to the pandemic. However, when these restrictions were lifted, both markets recovered well, with sales momentum increasing steadily during the period. Margins were higher due to improved production efficiencies and price increases across most business units, despite supply chain difficulties and inflationary cost pressures in some areas.

Mr. Partridge said: “The performance of Austral Bricks was particularly strong, with revenue and earnings higher in all east coast states. Brick sales have been supported by a long backlog of detached housing projects steadily moving through the construction pipeline.”

“Performance was strongest in Queensland, where a significant uptick in building activity, market share growth and lower manufacturing costs all contributed to the improved result.”

“Although sales have improved significantly in Western Australia, operations in this state remain loss-making and continue to be a drag on overall performance. The current situation is unsustainable, and we will be forced to review our position in this market, unless sales margins improve substantially during the remainder of the current upturn.”

Within Concrete Products, improved earnings in Austral Precast were offset by declines in Austral Masonry and Southern Cross Cement. Meanwhile, Bristle Roofing earnings were steady compared to the previous corresponding period, with this business impacted by trade shortages that have effectively placed a cap on industry-wide installation capacity.

Mr Partridge said: “The stimulus-induced surge in demand, and pandemic related issues are placing pressure on some parts of the supply chain. We have been impacted by issues such as a shortage of roof tilers across the east coast and a lack of available transport in Perth.”

“These supply chain issues have been exacerbated by pandemic related construction restrictions and absenteeism, resulting in on-site construction timetables extending significantly.”

Mr. Partridge said: “Throughout the pandemic, Building Products Australia has maintained a significant capital investment program, to enhance our competitive position in key markets. The construction of our \$75 million masonry plant in Sydney reached practical completion in July, and the commissioning process is now largely complete.”

“We are also building the most advanced brick plant in the world, at Horsley Park. The completion of this plant within the next 12 months will allow brick operations in western Sydney to be consolidated on one site and release valuable land at Oakdale East. In January, we purchased 121 hectares of clay lands at Bringelly, effectively replacing the clay resource at Oakdale East and ensuring that brick operations are not adversely impacted by the release of land for property development.”

IBC acquisition drives revenue growth in North America, however margin pressures impact earnings¹

In North America, sales revenue of \$187 million in the first half was significantly higher than the prior corresponding period, driven by the acquisition of Illinois Brick Co (“IBC”) in August, and an increase in sales to the southern residential market, primarily in Texas. However, EBIT was down 70% to \$1 million, and EBITDA was down marginally to \$12 million.

Pandemic related challenges continued to impact the business, with repeated interruptions to manufacturing operations across the country, as both the Delta and Omicron strains impacted workforce availability. More broadly, labour constraints across the industry are resulting in higher wage rates to attract and retain staff.

Margins were also impacted by other cost pressures across the supply chain, including a significant increase in transportation costs amid driver shortages and truck availability issues.

Mr. Partridge said: “Despite the challenges faced in the first half, the business has made strong progress on key strategic priorities over the period. Following the acquisition of IBC, the integration of their 17 showrooms and distribution yards has been smooth, and the first half contribution from these stores has been in line with expectations.”

“Our vertical integration strategy has continued, with the acquisition of Capital Brick last month. Capital Brick is a leading distributor of brick and masonry products, with a single outlet in the Washington D.C. metropolitan area, and a key architectural customer of Glen-Gery. Following the acquisitions of IBC and Capital Brick, Glen-Gery’s company-owned distribution network has expanded to 27 locations.”

“Plant rationalisation and upgrades have continued, with the closure of the York site and the completion of extensive upgrades to the Hanley plant. In November, the “G21” launch event was held, with the release of an expansive catalogue of new products, including several exciting new ranges from the Hanley plant.”

“A new design studio in central New York City was officially opened earlier this month. Together with the Philadelphia and Baltimore studios, these facilities will further enhance Glen-Gery’s strong reputation for premium products and competitive position in the high-value architectural segment.”

Group Outlook

Mr Partridge said: “Brickworks is in a strong position, with a diversified portfolio of attractive assets. The increasing scale of our operations means we are on track to record over \$1 billion in annual Group revenue, for the first time.”

“Development activity within the Property Trust is continuing at an unprecedented scale. This includes the construction of new facilities to meet lease pre-commitments across our Estates in Sydney and Brisbane. Together with additional land for development at the existing Estates, and the potential for further sales of land into the Trust, a significant uplift in rental income and asset value is forecast over the coming years.”

“Within Building Products Australia, the start of the second half has been impacted by severe wet weather and flooding along the east coast. This has resulted in reduced construction activity in key markets such as Sydney and Brisbane. However, underlying demand remains strong, and we are hopeful that all states will experience an elevated period of activity for the remainder of the second half. Once the current backlog of stimulus-induced housing work is completed, recent building approvals data suggests that a period of softer demand is likely.”

“In North America, ongoing margin pressures are expected to persist in the second half. However, earnings will benefit from prior period plant rationalisation and upgrade works, our investment in sales and marketing initiatives and the additional contribution from the IBC and Capital Brick acquisitions.”

“WHSP is expected to deliver a stable and growing stream of earnings and dividends over the long term.”

“Of course, the outbreak of war in Ukraine has created increased uncertainty that has the potential to significantly impact all of our businesses in a variety of ways. These impacts may include the price and availability of energy, upward pressure on inflation and interest rates and a decline in consumer confidence. Further strain on international supply chains is already evident, with shipping rates increasing back to levels not seen since the worst of the pandemic.”

¹ North American earnings are shown in \$AU, based on an exchange rate of 1AUD=0.73USD

Intention to launch a new Operational Property Trust, in partnership with Goodman

Over the past 12 months, the Company has been exploring opportunities to realise value from its portfolio of operational land and is now in advanced discussions in relation to a potential transaction that would include the launch of a new Joint Venture Property Trust in partnership with Goodman, comprising a portfolio of properties tenanted by Building Products (“Operational Property Trust”).

An initial portfolio of 15 Building Products’ properties, with a total gross value of around \$415 million, has been identified for inclusion in the first stage of the jointly owned Operational Property Trust (“Initial Stage”). The sale and lease back of these manufacturing sites will deliver gross cash proceeds of around \$200 million and an estimated pre-tax profit of \$260-280 million following the valuation uplift on entry into the Operational Property Trust. Around \$90 million of this pre-tax profit is expected to be recognised on completion of the transaction².

Beyond the potential upfront pre-tax profit, the proposed transaction is not forecast to have a material impact on Brickworks ongoing earnings. This takes into account any additional rent to be paid by Building Products, any rent received by Brickworks from its’ share in the Operational Property Trust, and lower interest and equipment lease costs (with any cash proceeds from the proposed transaction to be used to repay a combination of debt and equipment leases).

After the Initial Stage, additional properties with a similar value are earmarked for inclusion in the Operational Property Trust in the coming years, following further due diligence in relation to development potential.

Mr Partridge said: “The partial sale of a selection of our manufacturing sites will enable Brickworks to secure cash proceeds and recognise profit from the significant underlying land value of these sites. Over the longer term, the partnership with Goodman will support further value creation, with some properties having the potential for development and greater utilisation.”

“Completing this transaction will allow Brickworks to have two distinct Property Trust structures with Goodman - one that predominantly holds Building Products manufacturing plants, and the other focussed on world class industrial and logistics facilities for third party customers.”

There is no assurance that any binding agreement will be reached or that the proposed transaction will occur. Further information about the proposed transaction is contained in the Company’s Half Year 2022 Report as released to ASX today.

Results briefing

Managing Director Lindsay Partridge and Chief Financial Officer Robert Bakewell will present Brickworks’ results via webcast at 12.30pm today. The briefing will be webcast live on the following link: <https://www.streamgate.co/brickworks/>

Questions may be asked by following the prompts on screen.

² In accordance with Australian Accounting Standards, the remainder of this profit will be recognised over the life of the initial lease term of the underlying properties within the portfolio. These initial lease terms are expected to be up to 20 years.

About Brickworks (ASX: BKW)

Brickworks has been building the Australian dream for over a century. Today, Brickworks is more than Australia's largest and most trusted brick manufacturer. It comprises a diversified portfolio of attractive assets, offering shareholders stability and long-term growth. The Company has a proud track record, having paid a dividend every year since listing on the ASX in 1962. Brickworks comprises four divisions – Building Products Australia, Building Products North America, Industrial Property, and Investments.

Building Products Australia includes Austral Bricks, the country's largest bricks producer, and other leading brands such as Austral Masonry, Austral Precast and Bristle Roofing. Building Products North America is the leading brick producer in the north-east of the United States and includes the flagship brand of Glen-Gery.

On surplus land assets, Brickworks has developed extensive industry property assets in conjunction with Joint Venture partner the Goodman Group. These facilities help our customers to meet the supply chain needs of the growing digital economy.

Brickworks also has a long-standing investment in Washington H. Soul Pattinson, a diversified investment house and ASX100 company. This investment has delivered outstanding returns for the Company and provides stability and growing cash dividends.

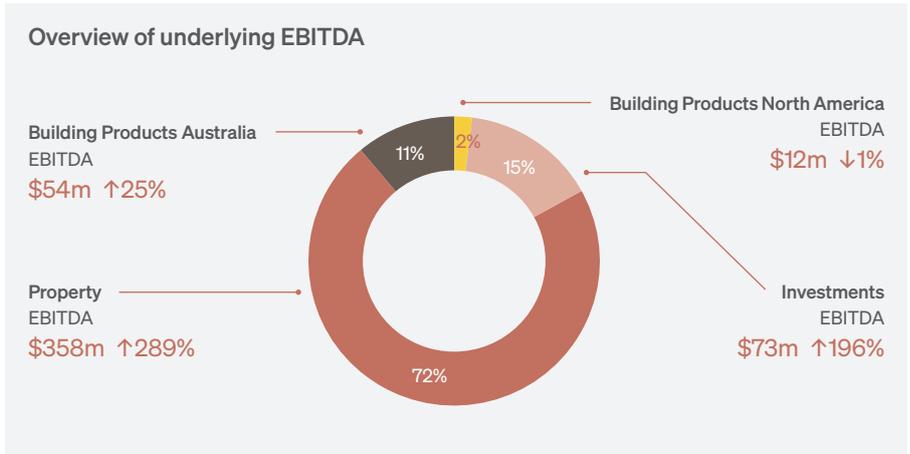
The Brickworks Board has authorised the release of this announcement to the market.

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\$535m
Group Revenue
↑ 24%

\$488m
Total EBITDA
↑ 200%



Building Products Australia

\$348m revenue
1,153 employees
28 manufacturing sites
7.6 safety (TRIFR)

Building Products North America

\$187m revenue
1,087 employees
11 manufacturing sites
18.7 safety (TRIFR)

\$330m Underlying profit ↑ 269%

\$581m Statutory profit ↑ 720%

\$626m Net debt 21% Gearing

\$2,576m Market value of WHSP shareholding as at 31 January

\$1,260m Property Trust net asset value

\$1,077m Building Products net tangible assets

\$4,287m Total inferred asset value including net debt

218 cents Underlying earnings per share ↑ 266%

22 cents Interim ordinary dividend ↑ 5%

record date 12 April
payment date 3 May

10% p.a. BKW total shareholder return over 20 years as at 31 January

23,805 Shareholders as at 31 January

All underlying profit and earnings measures exclude significant items and discontinued operations