

## AGM TRADING UPDATE

- **Underlying NPAT of \$508 million in FY23 and full year dividend 65 cents (fully franked)**
- **Strong rental growth forecast for the Industrial JV Trust**
- **Economic volatility and limited industry transactions trigger revaluation across all Property Trust assets - Approx. 10% valuation decline anticipated in 1H24**
- **Building Products margins improved across Australia and North America**
- **Australia potentially on the cusp of a significant building boom**

### **FY23 underlying NPAT of \$508 million, dividends increased for 10th consecutive year**

In September 2023, Brickworks Limited (ASX: BKW) ('Brickworks' or the 'Company') announced underlying Net Profit After Tax (NPAT) of \$508 million for financial year 2023 ('FY23'). After including significant items and discontinued operations, the statutory NPAT was \$395 million.

An increased FY23 final dividend of 42 cents per share (fully franked) is payable to shareholders tomorrow, bringing total full year dividends to 65 cents per share (fully franked). This represents the 10<sup>th</sup> consecutive year that dividends have been increased.

**Chairman of Brickworks, Mr. Robert Millner said:** "The FY23 result again demonstrates the resilience of our diversified business model, and the ability to deliver strong earnings across all parts of the business cycle.

This year, we have witnessed a shift towards restrictive monetary policy from central banks across the world, with a sharp increase in interest rates. Throughout the year, we have also navigated a range of other challenges, such as significant inflationary pressures, widespread labour shortages, as well as raw materials and spare parts supply issues.

Against this backdrop, we have continued to focus on a disciplined execution of our strategy, to deliver long term value for shareholders."

### **Strong rental growth forecast for the Industrial JV Trust, however economic volatility and limited industry transactions trigger revaluation across portfolio**

At the end of FY23, Brickworks held a total of almost \$2.3 billion in net assets across two Joint Venture Property Trusts with Goodman Group. This comprises a 50% share in the Industrial JV Trust and a 50.1% share in the Brickworks Manufacturing Trust. During the decade-long period of easing monetary policy that started in late 2011, cap rates across the portfolio have halved, resulting in almost \$1.4 billion in revaluation and development profits during that time.

**Brickworks Managing Director, Mr. Lindsay Partridge said:** "We are continuing to experience robust demand for medium and large sized prime industrial property. This is highlighted by the recent lease pre-commitment we executed for an initial 57,400m<sup>2</sup> distribution facility at our Oakdale East Stage 2 precinct in Western Sydney.

Driven by the strong demand, limited supply and escalating construction costs, there has been a 48% increase in market rent for prime industrial facilities in Western Sydney over the past 12 months<sup>1</sup>. As such, we anticipate significant rental growth within the Industrial JV Trust in the coming years as new developments are completed and rent reviews are undertaken. Eventually, we expect this significant increase in market rent to be reflected in property valuations.

<sup>1</sup> Colliers Research. 12 months to June 2023.

However, the property market is currently experiencing significant dislocation in response to economic volatility, rising interest rates and tighter credit conditions and this is driving a change in external valuation methods. Traditional methods are based on comparable industry transactions, however with limited property sales taking place in the market, these have been replaced by methods focussed on discounted cashflow (taking into account increasing risk-free interest rates) and initial yield. Under this methodology, the valuation impact will vary significantly by property, with long lease assets or those unable to realise full market rent due to caps, being significantly impacted.

Based on the lease characteristics of our portfolio, we anticipate an increase in the average cap rate across our portfolio to around 5.2% in 1H24. After factoring in the strong market rental growth and new development completions, this would result in a reduction in total net asset value of our Property Trust assets of approximately 10%. Further updates will be provided once the valuation process is complete, in late December 2023.

Longer term, we believe the valuation of our assets will be supported by the structural tailwinds driving demand for prime industrial property. Furthermore, with the higher price of land and rapidly increasing development and construction costs, the market is now valuing many properties at below replacement cost.”

## Building Products margins improved across Australia and North America

Across Building Products, resilient sales and improved margins have resulted in first quarter FY24 EBITDA<sup>2</sup> being ahead of the prior corresponding period in both Australia and North America.

**Mr. Partridge said:** “Although we continue to see a decline in new housing approvals, there remains a large volume of work under construction. For the first quarter, sales revenue was flat in Australia and slightly higher in North America, compared to the prior corresponding period.

Margins have improved as a result of price rises and a general easing in cost pressures. In Australia we are also benefiting from a more focussed portfolio, following the exit of underperforming business units in recent years. Meanwhile, in North America, we are seeing efficiency benefits from the extensive plant rationalisation activities completed in recent years.

Despite this positive start to the year, order intake is softening and we expect conditions to become more challenging for the remainder of FY24, as the existing pipeline of work is progressively built out.

Looking beyond the short-term weakness, Australia appears to be on the cusp of a significant building boom, with record immigration levels exacerbating an already chronic housing undersupply issue. This has emerged as a key government priority, driving ambitious building targets and long-overdue reforms to facilitate increased housing supply. We expect this to drive strong demand for our building products over the next decade.

Ahead of this, the slowdown in coming months will give us an opportunity to sequentially take plants offline to complete maintenance work and manage stock levels. That said, it will be necessary to continue operations at some plants such as Bowral, where we currently have an order backlog of around 16 weeks production.

In North America, a strong pipeline of commercial projects and an uptick in housing construction is expected to underpin demand. As always, stock levels will be carefully managed during the winter period, with planned shutdowns across the plant network.”

## Strong progress on sustainability strategy

Brickworks sustainability strategy focusses on opportunities to make buildings and cities safe, resilient, and sustainable. It sets a clear pathway to achieving this, with 16 measurable targets and commitments across three pillars: Responsible Business, Environment, Our People and Community.

**Mr. Partridge said:** “We are achieving strong progress across many aspects of sustainability. In Australia, carbon emissions have followed a general downward trend, with a 46% decrease compared to the base year, 2006. In North America, we have achieved an 18% energy efficiency improvement since our first acquisition in 2019.”

Whilst we are proud of the progress we have made, we are pleased to announce we have developed a new carbon target: to achieve a 15% reduction in Scope 1 and 2 greenhouse gas emissions by 2030, from a 2022 baseline, across our combined Australian and North American operations.

This new target is complemented by continued investment into developing feasible renewable biomethane opportunities and our sustainable product innovation strategies.

In our Property business, we aim to be world leaders in sustainable industrial property design and development. This is demonstrated by our latest developments at Oakdale West, where all buildings have sustainable design

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<sup>2</sup> Underlying earnings before interest, tax, depreciation and amortisation (unaudited)

initiatives incorporated including drought-resistant landscaping, rainwater harvesting, electric vehicle charging stations and 5% of parking dedicated to electric vehicles, LED lighting and recycling facilities”.

## Group Outlook

**Mr Partridge said:** “Although macroeconomic conditions may cause some short-term challenges across our portfolio, each of our businesses have a strong long-term outlook.

Within Property, structural trends towards e-commerce and the digital economy will continue to drive demand for our prime industrial facilities for many years to come.

Having completed a major investment program and rationalised our operations over the past five years, our Building Products business is well placed to meet the demands of the expected building boom over the next decade.

Meanwhile, WHSP is expected to continue to deliver a stable and growing stream of earnings and dividends over the long-term.”

## Annual General Meeting

The Brickworks Annual General Meeting will be held today at midday, at the Establishment Hotel Ballroom, Level 2, 252 George Street, Sydney. The meeting will be webcast live on the following link:

<https://www.streamgate.co/brickworks/>

## 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, Property, and Investments.

Building Products Australia includes Austral Bricks, the country’s largest bricks producer, and other leading brands such as Austral Masonry and Bristile Roofing. Building Products North America is the leading brick producer in the Northeast, Midwest and Mid-Atlantic regions of the United States and includes the flagship brand of Glen-Gery.

On surplus land, Brickworks has developed extensive industrial property assets in conjunction with Joint Venture partner, Goodman Group. These facilities help our customers to meet the supply chain needs of the growing digital economy. Brickworks has more recently created a second trust, also with Goodman Group, which houses a portfolio of Building Products Australia’s operational sites.

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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