21 March 2024

Half Year 2024 Report

REVIEW OF **OPERATIONS**

Authorised for release by the Board of Brickworks Limited

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Uplift in Building Products Earnings, Dividend Increased

	1H2023 $m	1H2024 $m	Change[1]
Revenue			
Building Products Australia	364	323	(11%)
Building Products North America	220	224	2%
Total revenue	**584**	**547**	**(6%)**
Underlying EBITDA			
Building Products Australia	50	52	5%
Building Products North America	14	21	43%
Property	453	(178)	(139%)
Investments	100	76	(24%)
Group expenses	(10)	(11)	(12%)
Total Underlying EBITDA	**607**	**(40)**	**(107%)**
Total Underlying EBIT	**569**	**(84)**	**(115%)**
Finance costs	(23)	(39)	(67%)
Income tax	(136)	87	164%
Underlying NPAT[2] - Continuing Operations	**410**	**(37)**	**(109%)**
Significant items and discontinued operations (net of tax)	(56)	(15)	NA
Statutory NPAT	**354**	**(52)**	**(115%)**
Per share earnings[3] and dividends			
Underlying earnings per share (cents)	305	(27)	(109%)
Basic earnings per share (cents)	264	(39)	(115%)
Interim ordinary dividend per share (cents)	23	24	4%
Net tangible assets per share ($) (vs 31 July 2023)	19.96	19.34	(3%)

[1] All percentage changes are based on $ figures to the nearest thousand (not millions as shown in table).
[2] This is an alternative measure of earnings that excludes significant items, which are separately disclosed in the consolidated financial statements.
[3] The prior period earnings per share measures have been restated to reflect an adjustment to the weighted average number of shares (to remove the reciprocal interest with Soul Patts and the weighted average number of treasury shares)

Financial

Overview

- **Statutory NPAT** down 115% to a loss of $52 million and **Underlying NPAT (Continuing Operations)** down 109% to a loss of $37 million
- Earnings adversely impacted by **property sales and non-cash property revaluations**, with a loss of $249 million recorded in 1H24, compared to a profit of $376 million in 1H23
- **Building Products Australia** EBITDA up 5% to $52 million
- **Building Products North America** EBITDA up 43% to $21 million
- **Property** EBITDA ex revaluations and sales of $72 million, down 6%. Value of Property Trust assets $1.953 billion
- **Investments** EBITDA down 24% to $76 million. Value of listed investments up $140 million to $3.261 billion
- **Net debt** down to $615 million; gearing 18%
- **Interim dividend** of 24 cents fully franked, up 1 cent or 4%

Earnings Analysis

Brickworks Limited (ASX: BKW) ("Brickworks" or the "Company") posted a Statutory Net Loss After Tax of $52 million for the half year ended 31 January 2024. The Underlying Loss After Tax from continuing operations was $37 million.

Earnings were adversely impacted by a non-cash property devaluation of $233 million (vs. $114 million gain in 1H23) and a $16 million loss on property sales (vs. $263 million profit in 1H23).

Group Earnings Before Interest, Tax, Depreciation and Amortisation ('**EBITDA**')[4] was a loss of $40 million in the first half, compared to a gain of $607 million in the prior corresponding period. Excluding the impact of the property revaluations and property sales, EBITDA was $210 million, down 9%, due primarily to a lower contribution from Investments.

Underlying EBITDA ($million)	1H2023	1H2024	Change	Change %
Building Products Australia	50	**52**	2	5%
Building Products North America	14	**21**	6	43%
Property – ex revaluations / sales	76	**72**	(4)	(6%)
Investments	100	**76**	(24)	(24%)
Group Expenses	(10)	**(11)**	(1)	(12%)
Underlying EBITDA ex property revaluations / sales	**231**	**210**	**(21)**	**(9%)**
Property revaluations	114	**(233)**	(347)	(305%)
Property sales	263	**(16)**	(279)	(106%)
Underlying EBITDA – Continuing Operations	**607**	**(40)**	**(647)**	**(107%)**

[4] All references to EBIT or EBITDA exclude discontinued operations, unless otherwise stated

On sales revenue of $323 million (down 11%), **Building Products Australia** EBITDA was $52 million, up 5% on the previous corresponding period. Margins improved as a result of ongoing rationalisation of the portfolio to focus on higher performing business units, overhead cost reductions, price increases and productivity improvements across most operations.

On relatively steady revenue of $224 million, **Building Products North America** delivered a 43% increase in EBITDA, to $21 million. Higher prices, a general easing of inflationary pressures and improved plant utilisation following a five-year plant rationalisation program have all supported an increase in margins.

Excluding revaluations and land sales, **Property** EBITDA was $72 million, down by 6%. A continued increase in net rental income was offset by a decline in development profits within the Industrial JV Property Trust[5], as the Oakdale West Estate nears completion.

A non-cash devaluation of $233 million was recorded on Property Trust[6] assets, following the independent valuation process completed in December 2023. This loss reflects an increase in capitalisation rates across the portfolio to 5.1% (4.1% at July 2023) and follows $615 million in revaluation gains being delivered in the prior five years as capitalisation rates compressed. In addition, a loss of $16 million was booked following the sale of the M7 Hub Estate.

At the end of the period, Brickworks' share of the net asset value within its Property Trusts was $1.953 billion (vs. $2.274 billion at 31 July 2023), taking into account the development profits, impact of revaluations and the M7 Hub Estate sale.

Investments EBITDA was $76 million, down 24%, driven mainly by a decline in the contribution from New Hope Corporation to Washington H. Soul Pattinson & Company ("Soul Patts") (ASX: SOL) earnings. The market value of Brickworks' 26.1% shareholding in Soul Patts was $3.244 billion at 31 January 2024, up by $137 million compared to 31 July 2023. Brickworks also holds a 16.5% stake in FBR Limited (ASX: FBR), with a market value of $16 million at the end of the period.

An underlying **income tax** benefit of $87 million was recorded, due primarily to a deferred tax benefit associated with the property devaluation and utilising unrecognised capital tax losses, following the M7 Hub Estate sale.

Net **borrowing costs** were $39 million, up from $23 million in the prior corresponding period, due to a higher average interest rate on debt and additional leases.

Significant items decreased NPAT by $15 million for the period, comprising:

- Restructuring and site closure costs of $6 million (net of tax), primarily relating to employee severance payments associated with restructuring activities within Building Products.
- Plant commissioning costs of $6 million (net of tax), associated with the new Horsley Park brick plant.
- A non-cash impairment of $3 million (net of tax) based on AASB 136. This primarily relates to the closure of the Landmark Stone plant in North America and the Wacol rooftile plant in Australia.
- A $10 million cost arising from the net impact of the income tax expense in respect of the equity accounted Soul Patts profit, offset by the impact of fully franked Soul Patts dividend income, adjusted for the movements in the franking account and the circular dividend impact.
- A $14 million benefit in relation to significant items from Investments.

[5] The Industrial JV Trust is a 50/50% partnership between Brickworks and Goodman

[6] The Property Trusts include the Industrial JV Trust and a 50.1% share of the Brickworks Manufacturing Trust

- Other costs of $4 million (net of tax), primarily in relation to acquisition, legal and IT costs.

Significant Items ($m)	**Gross**	**Tax**	**Net**
Restructuring and site closure costs	(8)	2	(6)
Plant commissioning costs	(8)	2	(6)
Impairment of non-current assets	(4)	1	(3)
Income tax from the carrying value of SOL	-	(10)	(10)
Significant items relating to Investments	14	-	14
Other costs	(6)	2	(4)
Total (Continuing Operations)	**(12)**	**(2)**	**(15)**

Discontinued operations contributed an after-tax loss of $1 million for the period. This primarily relates to closure costs within Austral Precast.

Statutory Earnings Per Share ('EPS') was a loss of 39 cents, and Underlying EPS from continuing operations was a loss of 27 cents.

Cash Flow

Total **cash flow from operating activities** was $54 million, up 16% from $46 million. Although higher than the previous corresponding period, cash generation was adversely impacted by plant commissioning and restructuring costs, higher borrowing costs and an increase in working capital.

Capital expenditure was $37 million during the period, with the Company nearing the end of a significant investment program. Major projects included the construction of a new brick plant at Horsley Park in New South Wales and upgrade works at the Rocky Ridge (Maryland) and Adel (Iowa) plants in North America.

Balance Sheet

During the half **total shareholders' equity** was down $86 million to $3.475 billion, primarily reflecting the statutory loss and impact of dividends paid to shareholders.

Net tangible assets ('NTA') per share was $19.34 at 31 January 2024, down from $19.96 at 31 July 2023.

Total interest-bearing debt was $748 million at the end of the period. After including cash on hand, **net debt** was $615 million, a decrease of $37 million during the half. **Gearing** (net debt to equity) remained relatively steady at 18%, with the lower debt level offset by the decreased asset base.

Net working capital was $341 million at 31 January 2024, including finished goods inventory of $277 million. Although finished goods units were relatively steady during the half, the value was up $13 million, due to higher unit costs.

Dividends

Directors have declared a fully franked interim **dividend** of 24 cents per share for the half year ended 31 January 2024, up 4% from 23 cents. The record date for the interim dividend will be 10 April 2024, with payment on 1 May 2024.

Sustainability

Our People

Full-time equivalent employee numbers were 1,886 at 31 January 2024, comprising 985 based in Australia and 901 in North America.

Brickworks continues to focus on inclusion and diversity. Gender diversity has significantly improved, with 31% of the executive leadership team in Australia being female. This compares to 7% in 2015. Across the global workforce, the proportion of female employees (in total) and at the senior executive level are 23% and 25% respectively.

Brickworks is also active in the community and has a long-standing partnership with the Children's Cancer Institute, having made direct and indirect contributions of over $4.8 million since 2002.

Safety

The Company continues to make steady progress on improving workplace safety. The total recordable injury rate (injuries per million hours worked) for the first half was 10.8, up slightly from the record low rate of 10.0 achieved in financial year 2023.

Across our operations there were three lost time injuries during the half – one in Australia and two in North America.

Over the longer term, a sustained decrease in injuries has been achieved, through disciplined implementation of safety management systems and procedures, together with behavioural leadership and safety training programs.

Environmental

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.

The Company is 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, there has been an 18% energy efficiency improvement since our first acquisition in 2019.

To drive further improvement, in the first half Brickworks announced 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.

At Horsley Park, the Company has built the most energy efficient brick plant in the country, with the new facility replacing two plants that were both more than 45 years old. A development application for a biogas facility at the new brick plant has been submitted, in collaboration with Delorean (ASX: DEL).

Within Property, Brickworks together with its joint venture partner Goodman (ASX: GMG), aim to be world leaders in sustainable industrial property design and development. At the latest development at Oakdale West, all buildings have sustainable design 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.

Property

Overview of Property Result

$million	1H2023	1H2024	Change
Rental Income (100%)	*70*	*81*	*17%*
Borrowing & Other Costs	*(21)*	*(31)*	*(47%)*
Net Trust Income (100%)	*49*	*51*	*4%*
Net Trust Income (BKW 50%)	24	25	4%
Development Profit	54	48	(10%)
Admin / Other	(2)	(2)	-
EBIT Ex Revals, Sales	**76**	**72**	**(6%)**
Revaluations	114	(233)	(305%)
Property Trust Sales	-	(16)	NA
Brickworks Land Sales	263	-	NA
Property EBIT	**453**	**(178)**	**(139%)**

Property delivered an EBIT (& EBITDA) loss of $178 million for the first half, compared to a profit of $453 million in the prior corresponding period.

The loss was primarily due to the non-cash revaluation of properties, following an independent valuation process completed in December 2023. This process resulted in the average capitalisation rate across the portfolio increasing to 5.1%, up from 4.1% at July 2023.

The increase in capitalisation rate reflects broad-based dislocation across the property sector, in response to economic volatility, rising interest rates and tighter credit conditions. This has resulted in a change in external valuation methods. With limited property transactions taking place in the market, traditional valuation methods based on comparable sales have been replaced by methods focussed on discounted cashflow (taking into account increasing interest rates) and initial yield. Under this methodology, the valuation outcome across the portfolio varied significantly by property, with long lease assets that are unable to realise the immediate benefit of increased market rent, being significantly impacted.

The increase in capitalisation rates in the first half, followed several years of strong revaluation gains, underpinned by longer term structural demand drivers such as the transition to online shopping.

In December, Brickworks announced the sale of its 50% interest in the “M7 Hub”, one of the Estates held by the Industrial JV Trust. The M7 Hub comprises three multi-unit industrial properties, located near the M7 motorway on Old Wallgrove Road, Eastern Creek (NSW). The units were sold to JV partner, Goodman Group.

The sale delivered $117 million in gross proceeds and resulted in a $16 million loss due to the sale value being below the 31 July 2023 book value. The transaction was able to be executed quickly, tax efficiently and with limited transaction costs. All sale proceeds were distributed to Brickworks.

The M7 Hub was one of the first sites developed within the Industrial JV Trust and is the smallest of the fully developed Estates. When all facilities were fully completed in 2012, Brickworks’ 50% interest in the M7 Hub was worth $46 million. The sale price represents a 154% increase since that time. The sale provided an opportunity to release funds, following a period of heavy investment across the Group, including to enable the release of significant additional development land at Oakdale East.

Excluding the impact of the devaluations and property sales, Property EBIT was $72 million, down by 6% on a like-for-like basis with the prior corresponding period.

Strong demand, caused by structural trends across the economy and a lack of appropriately zoned and approved land, is driving unprecedented growth in market rent for industrial property in Western Sydney. Compared to the previous corresponding period, rental income within the Property Trusts was up 17% to $81 million (100% share). Higher interest rates resulted in a significant increase in borrowing costs. After including borrowing and other costs, net trust income was $51 million (100% share). Brickworks' 50% share of this income was $25 million, up 4% on the prior corresponding period.

During the first half, development activity within the Industrial JV Trust was focussed on the Oakdale West Estate, including facilities for Maersk and EBOS, as well as two speculative units. Progress on these facilities resulted in a development profit of $48 million being recorded.

Property administration expenses totalled $2 million, in line with the prior half. These expenses include holding costs, such as rates and taxes on properties awaiting development.

Property Trust Assets

Estate	Developed Assets				
	Asset Value ($m)	Rent ($m p.a.)	WALE[7] (yrs)	Cap. Rate	GLA[8] (m^2)
Interlink Park (NSW)	649	25	3.3	5.2%	192,200
Oakdale Central (NSW)	830	33	4.0	5.0%	245,200
Oakdale East 1 (NSW)	169	6	8.8	5.0%	35,900
Oakdale South (NSW)	610	23	5.0	5.2%	177,100
Rochedale (QLD)	316	17	9.1	5.5%	126,100
Oakdale West (NSW)	1,290	49	13.0	4.7%	251,800
Industrial JV Trust Total	**3,863**	**154**	**7.9**	**5.0%**	**1,028,300**
BKW Manufacturing Trust	389	18	14.8	6.0%	NA
Total	**4,252**	**172**	**8.6**	**5.1%**	**NA**

As at 31 January 2024, the total value of developed assets held within the two Property Trusts was $4.3 billion. The annualised rent generated from these assets is $172 million and the weighted average lease expiry is 8.6 years (7.9 years for the Industrial JV Trust). The average capitalisation rate across the portfolio is 5.1%, and there is currently one vacancy in the portfolio (a recently completed facility at Oakdale West).

Including $971 million worth of land to be developed, the total value of assets held within both Property Trusts was $5.2 billion at the end of the period. Borrowings of $1.3 billion are held within the Industrial JV Trust, giving a total net asset value of $3.9 billion. Brickworks' 50% share of net asset value is almost $2.0 billion, down by $321 million during the half.

Gearing within the trusts was 25% at the end of the period, up from 21% at 31 July 2023. This comprises gearing of 27% within the Industrial JV Trust (well below the covenant of 60%), and no

[7] Weighted average lease expiry (by income)
[8] Gross Lettable Area

debt within the Brickworks Manufacturing Trust. The gearing within the Industrial JV Trust increased following the sale of the M7 Hub Estate, with the sale proceeds being distributed to Brickworks and existing debt maintained within the Trust. Additional borrowings were also used to fund the ongoing development activity at Oakdale West.

$million	Jul 2023	Jan 2024	Change
Developed assets	4,908	4,252	(13%)
Land under development	878	971	11%
Total Property Trust assets	**5,786**	**5,223**	**(10%)**
Borrowings	(1,239)	(1,319)	(6%)
Net Property Trust assets	**4,547**	**3,904**	**(14%)**
Brickworks 50% share	**2,274**	**1,953**	**(14%)**
Gearing on leased assets[9]	21%	25%	19%

[9] Borrowings / total trust assets

Investments

Investments consists of Brickworks' shareholdings in Soul Patts (ASX: SOL) and FBR (ASX: FBR), in addition to interest income on cash holdings. The EBIT from Investments was $76 million in the half year ended 31 January 2024, down 24% on the prior corresponding period.

Washington H. Soul Pattinson Limited ('Soul Patts')

Brickworks holds 94.3 million shares in Soul Patts (representing a 26.1% ownership stake), with the initial investment dating back to 1968. This shareholding is an important source of earnings and cash flow diversification for the Company and has been a key contributor to Brickworks' success for more than five decades.

Soul Patts holds a diversified investment portfolio of investments, and significant stakes in a number of listed companies including Brickworks, TPG Telecom and New Hope Corporation.

The market value of Brickworks' shareholding in Soul Patts was $3.244 billion at 31 January 2024, up $137 million for the half.

Soul Patts has delivered strong returns to Brickworks, with 20-year total shareholder return of 12.4% per annum (to 31 January 2024), 3.5% per annum ahead of the All-Ordinaries Accumulation Index. Shareholder returns comfortably exceed the benchmark over most time periods.

The investment in Soul Patts returned an underlying contribution of $76 million for the half year ended 31 January 2024, down from $101 million in the previous corresponding period.

During the period cash dividends of $48 million were received from Soul Patts, down 13% on the previous corresponding period. The prior period included a special dividend of $14 million. Excluding this, cash proceeds from normal dividends were up by 17%.

FBR Limited ('FBR')

Brickworks made an initial seed investment in FBR Limited in 2006 and over the past two years has made additional investments to increase its stake. This included an acquisition of 76.3 million shares during the first half. At the end of the period, Brickworks held 731.7 million shares, representing a 16.5% shareholding.

FBR has commenced the commercialisation process for a bricklaying robot that has the potential to build walls faster than traditional methods, and with much reduced labour. With an ongoing shortage of bricklayers, exacerbated by the current tight labour market, there is a strong market opportunity for this technology. As the largest brick maker in the country, Brickworks has much to benefit from the success of FBR.

At the end of the period, the market value of Brickworks stake in FBR was $16 million.

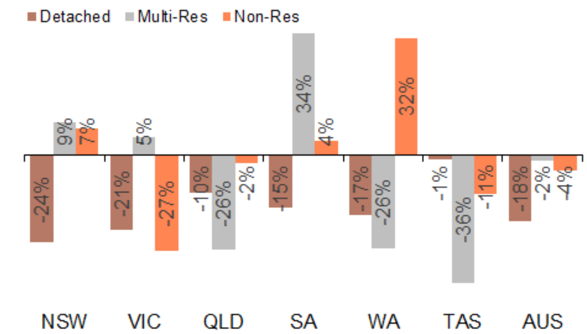
Building Products

Australia

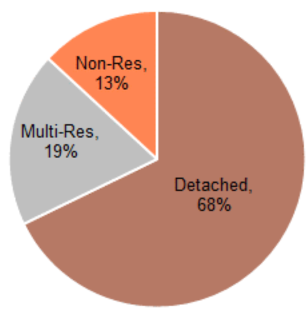
Market Conditions

Building Activity by State[10]

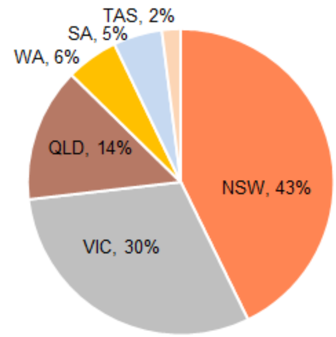
6 months to Dec 23 vs 6 months to Dec 22



Sales by Segment



Sales by Region



Residential commencements continued to decline during the first half of the 2024 financial year, in response to higher interest rates and a reducing backlog of work from the HomeBuilder program.

Nationally, detached house commencements were down 18% on the prior corresponding period, with declines of 10% or more across all of the major states. Although the decline in commencements has been significant over the past 12-18 months, there has been a healthy pipeline of projects under construction in most states throughout the first half. Over the past two years, building timelines have been extended due to supply chain delays and labour constraints. As a result, the usage of bricks and roof tiles on-site is now typically lagging commencements by six months or more.

Nationally, multi-residential commencements have stabilised, following several years of decline. Current activity levels in this sector are around the weakest since 2012. Activity in this segment is variable across each state, with moderate increases in New South Wales and Victoria, offset by significant declines in Queensland and Western Australia.

Non-residential building activity has varied significantly across the country. During the first half there was increased activity in Western Australia (up 32%) and New South Wales (up 7%), offset by declines in Victoria (down 27%) and Queensland (down 2%).

[10] Detached House and Multi-residential Commencements. Non-residential value of work done. Source: BIS Oxford Economics Australian Building Forecasts, Nov 2023. Figures shown are for the 6 months ended in December. Data shown for NSW also includes ACT, to align with Brickworks sales regions.

Overview of Result

Revenue for the half year ended 31 January 2024 was down 11% to $323 million. Excluding the impact of closed operations in Western Australia, revenue was down 9%. The decrease was broad based, with sales volume adversely impacted by the lower building activity in key markets.

EBIT from continuing operations was $23 million, down 11% on the prior corresponding period. Excluding depreciation and amortisation, EBITDA was up by 5% to $52 million, resulting in an EBITDA margin of 16%.

$million	1H2023	1H2024	Change
Revenue	**364**	**323**	(11%)
EBITDA	**50**	**52**	5%
EBIT	**25**	**23**	(11%)
EBITDA margin	**14%**	**16%**	18%

Improved margins were the result of the implementation of price increases and productivity improvements across most operations. In addition, the closure of brick operations in Western Australia (in FY23) largely eliminated the significant losses associated with these operations.

The exit of brick manufacturing in Western Australia followed the closure of Austral Precast and sale of Auswest Timbers in recent years, as the business focusses on portfolio optimisation, to concentrate in areas of greatest competitive advantage and long-term prospects.

Following this period of rationalisation, a range of additional initiatives were implemented during the first half to further streamline operations. This included the consolidation of Austral Bricks and Austral Masonry into one operating division, a restructure of Bristile Roofing and a rationalisation of divisional support functions.

In total, these initiatives are expected to deliver annualised savings of $15 million, through a reduction in headcount of approximately 100 staff. Other benefits will also include increased cross-selling opportunities, streamlining of processes and supply chain optimisation.

Nationally, the new **Austral Bricks and Masonry** business unit (including Advanced Cladding Systems and the Company's 33% interest in Southern Cross Cement) incurred an 11% decrease in sales revenue, to $280 million for the half. Revenue in Western Australia was significantly lower, due to the exit from brick operations in that region. Of the other states, Queensland suffered the largest revenue decline, with sales adversely impacted by the significant decrease in multi-residential building activity.

In response to the subdued market conditions, the Company has taken the opportunity to carry out maintenance activities ahead of the anticipated strong demand through the rest of the decade. To this end, over the Christmas and New Year period the Rochedale plant in Queensland and the Longford plant in Tasmania were taken offline for scheduled maintenance work. The Longford plant did not return to service until mid-February, with works at this facility taking longer than anticipated, due to the age and condition of the kiln.

The Wollert West plant in Victoria will be taken offline during March and April for a long overdue kiln casing repair, having been in continuous service for over a decade since commissioning. Plant 1 at Horsley Park in New South Wales will also be taken offline during the second half for regular maintenance.

Commissioning works progressed at the new Plant 2 (Horsley Park) during the first half. The plant is meeting expectations and is now operating at around 95% of design capacity. First quality product recovery on most product lines has exceeded 99%, with only a small number of products yet to be trialled. Pleasingly, fuel efficiency and unit labour costs are already the best of any plant across the Group.

Further productivity gains were made at the new Oakdale East masonry plant in Sydney during the first half. This facility incorporates the latest block-making technology, and includes an associated value-added facility, to create products such as polished pavers and split face retaining walls. In order to take full advantage of the new plant capabilities, product development efforts have been ramped up, with a number of exciting new products under development.

Advanced Cladding Systems has been established to focus on commercialising thin brick cladding systems, a product category that is experiencing growing demand, particularly in high-rise commercial and multi-residential segments. Since launching in FY2023, the response from customers has been positive, with strong sales momentum and customer enquiry being achieved in the first half.

Southern Cross Cement delivered another strong result, and continues to provide quality, cost-effective cement to Brickworks operations in Brisbane, as well as to other joint venture shareholders.

Bristile Roofing (including Capital Battens) earnings were ahead of the prior corresponding period, on an 11% decrease in revenue to $43 million. The decline in revenue was primarily attributable to business down-sizing initiatives, with a shutdown of the Wacol roof tile plant in Queensland, during September.

The Wacol facility has historically supplied the Queensland and New South Wales markets. These markets will now be supplied from the Dandenong plant in Victoria, which has spare capacity to absorb additional volume.

As part of the business simplification, the New South Wales and Queensland markets will be serviced exclusively through a “supply only” model. In Victoria, by far the largest roof tile market in the country, the additional installation service will continue to be offered by Bristile.

With a more streamlined business model, significant reduction in fixed overhead costs, production utilisation increased and a focus on the lower cost Dandenong facility, the business is well-placed to improve performance.

Sales revenue and earnings from imported terracotta tiles increased compared to the prior corresponding period, and Capital Battens delivered relatively steady performance.

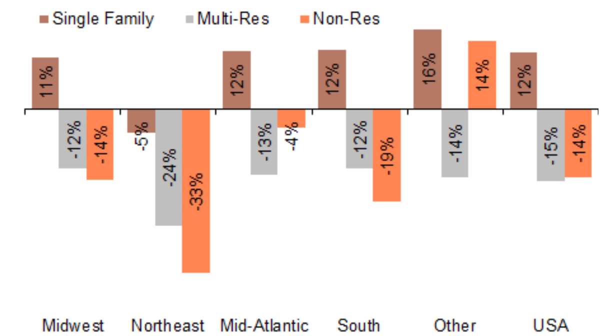
Building Products

North America

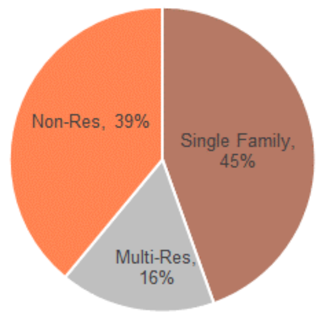
Market Conditions

Building Activity by Region[11]

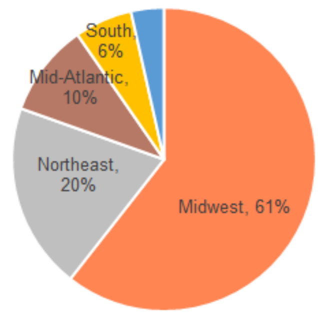
6 months to Dec 23 vs 6 months to Dec 22



Sales by Segment



Sales by Region



Building activity in the United States has been mixed during the period, varying significantly by region and segment.

Across the country, the total value of building activity commenced for the 6 months to December 2023 was down 8% compared to the prior corresponding period. A 12% increase in the single-family segment was offset by a 15% reduction in multi-residential and a 14% decline in non-residential commencements.

After a period of gradual recovery following the pandemic, building activity in the non-residential sector has softened, leaving a large pipeline of work in design phase but not yet contracted. Within the non-residential segment there are some pockets of strength, such as education and healthcare facilities, with local governments developing necessary infrastructure to support growing populations.

The sustained higher interest rates have resulted in an increase in single family commencements. This is due to existing home inventory not coming to market (with homeowners reluctant to refinance into new homes at higher interest rates), forcing new home buyers to seek newly constructed homes.

Building Products North America's key regional exposure is in the Midwest, Northeast and Mid-Atlantic. Combined, these three regions make up around 90% of total sales revenue. Building activity in the Midwest and Mid-Atlantic regions has been relatively strong over the past six months, compared to the lagging Northeast.

[11] Single Family and Multi-residential Commencements. Non-residential value of work done. Source: Dodge Data & Analytics.

Overview of Result[12]

Bricks sales volume in North America was lower during the period, due primarily to a significant reduction in sales to the oversupplied Texas home builder market. Sales volume to the core commercial sector grew by 5% from the prior corresponding period, and sales to the single-family residential segment (outside Texas) were relatively steady.

Despite the lower sales volume, revenue of $224 million for the half was broadly in line with the prior corresponding period, due to a combination of price increases, a mix shift towards higher value products, and strong sales growth through the vertically integrated retail division.

$million	1H2023	1H2024	Change
Revenue ($US)	**148**	**146**	(1%)
EBITDA ($US)	**10**	**14**	39%
EBIT ($US)	**1**	**4**	299%
Revenue ($AU)	**220**	**224**	2%
EBITDA ($AU)	**14**	**21**	43%
EBIT ($AU)	**1**	**6**	312%
EBITDA margin	**7%**	**9%**	41%

EBITDA for the half was up 43% to $21 million and EBIT was also up significantly, to $6 million.

Margins are recovering, following the implementation of strong price increases in response to significant cost pressures across the supply chain over the past 18 months. These cost pressures have been most acute in relation to labour, with unit labour costs up 16% on the prior corresponding period. Excluding the impact in relation to labour, cash manufacturing costs were held steady, with increases in maintenance and equipment leases offset by savings across a range of other cost items.

The business made strong progress on key strategic priorities over the period, with the five-year brick plant rationalisation program now complete. In addition to the rationalisation of brick plants, the Landmark stone plant was closed in December. This sub-scale and highly manual operation produced a complimentary product range to bricks, but with increased labour costs is no longer viable.

In total, 9 plants have been closed over the past five years, as the business has integrated new bolt-on acquisitions. While disruptive throughout the implementation phase, the end result of this process is a more efficient plant network and a more focussed capital investment program. The rationalisation program has resulted in an increase in brick plant utilisation to 75% (from 46%) a significant reduction in the average age of kilns and a 29% headcount reduction across the business.

Another key benefit of the rationalised production fleet is the reduced need for plant shutdowns over the winter months, with only the Hanley plant (in Pennsylvania) and Iberia Plant (in Ohio) taken offline during this period.

In the first half a dryer upgrade was completed at the Mid-Atlantic plant. With strong demand for the unique moulded product from this plant, it is expected to return to full production in the second half.

The Rocky Ridge plant in Maryland is currently being re-commissioned and will produce a range of moulded bricks specifically tailored for the UK market. In addition, the plant will produce US modular brick, which will support an increase in demand for this product on the east coast, as well

[12] An average exchange rate of 1AUD=0.65 USD has been used to convert earnings in 1H24 (1AUD=0.67 USD in 1H23)

as a premium long format brick, which is also growing in popularity. The long format brick will be unmatched in the US market, with no domestic equivalent.

At Pittsburgh, production of thin brick and a new range of pavers is proceeding well, with these product groups attracting strong customer interest and offering significant growth potential.

Investment in packaging automation is planned at the Adel plant (in Iowa) during the next six months. This investment will improve production efficiency and reduce labour costs.

Following numerous acquisitions, the retail distribution network now comprises 26 locations. All stores have been unified under one brand, “Brickworks Supply”, with locations, market strategy and product range fully aligned.

Outlook

Property

Property Trusts

The Industrial JV Trust continues to experience strong lease enquiry for large-sized industrial facilities. Structural trends are driving customers to seek well-located facilities and sophisticated supply chain solutions, with consumers increasingly demanding faster and more flexible delivery of goods.

In addition, supply of suitable land is scarce, particularly in Western Sydney. The tightness in the Sydney market is reflected in a near 0% vacancy rate across the Property Trusts. Supply challenges across the industry are also being exacerbated by increasing construction and financing costs, and a range of planning and approvals issues.

All these factors have driven up rent for prime industrial property in western Sydney by 55% in the past two years[13]. The current passing rent within the Industrial JV Trust of \$147/m^2 is now around 35% below the estimated market rent.

The Industrial JV Trust is well placed to meet the strong demand and benefit from the higher market rents. Oakdale West is expected to be fully developed by the end of the current financial year, with 78,200m^2 of new facilities already committed to tenants, leaving just 60,500m^2 available for rent. Once Oakdale West is completed, the Oakdale East Stage 2 precinct will then be one of the only large-scale “shovel ready” industrial development sites in Western Sydney. Brickworks pro-actively brought-forward the release of this estate, by consolidating brick manufacturing at Horsley Park in recent years.

At Oakdale East Stage 2, the initial 58,000m^2 pre-committed facility is forecast to be completed by mid-2025. Strong demand for serviced land capable of accommodating facilities over 30,000m^2 provides the opportunity to develop the remaining 193,000m^2 of gross lettable area within four to five years.

Once this estate is complete, total market rent potential from the Property Trust assets is expected to be around \$340 million (100% share, based on average market rent[14] of \$225/m^2), up from the passing rent of \$172 million on currently leased facilities. The uplift on new developments will be achieved as developments are completed at Oakdale West and Oakdale East Stage 2. The uplift on existing facilities will be progressively realised over a longer period upon lease renewals and reviews. Around 35% of current leases have rent increase caps, and this is likely to extend the time period to achieve full market rent on those facilities.

This rental growth will require no further capital from Brickworks, with the value of our land contribution at Oakdale East being matched by development funding by Goodman. In addition, the low gearing levels within the Industrial JV Trust will allow debt funding as required.

The long-term prospects of the Property Trust are very strong, with structural trends towards e-commerce and the digital economy to continue to drive demand for prime industrial facilities. As always, short-term Property earnings will depend on the timing of development activity and land sale transactions, and the extent of any revaluations.

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[13] JLL Research
[14] Colliers Research. As at June 2023.

Brickworks 100% owned land

The largest additional parcel of land for potential development is at Craigieburn in Victoria, directly south of the Wollert factory site. Industrial development may be possible at this site over the medium term, subject to approvals. With an expected yield of around 600,000m^2 of GLA, if sold into the Industrial JV Trust, this site will extend the development pipeline well beyond the next five years.

In conjunction with Goodman Group, due diligence has been ongoing into the industrial development of 77 hectares of land at the Mid-Atlantic site in Pennsylvania. The site, located close to the I-78 motorway linking New York to Washington D.C., is currently zoned industrial. Applications to facilitate the development of a 185,000m^2 estate have been lodged with local authorities, with approvals expected before the end of 2024.

Building Products Australia

With new housing approvals currently at cyclical low levels and the HomeBuilder construction pipeline now largely exhausted, sales activity is expected to continue to soften over the remainder of the current financial year.

The impact of reduced sales will be offset by the restructuring initiatives implemented in the first half, with approximately $1.2 million per month in cost savings being fully realised from February 2024.

Price increases, a general easing of cost pressures and productivity improvements will also support margins, despite the impact of reduced plant utilisation on production costs.

Looking beyond the short-term market weakness, Australia appears to be on the cusp of a significant building boom, with record immigration levels and population growth 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.

The federal government's target of 1.2 million new dwellings over the period 2024-28 equates to 240,000 per year, well above historical levels. Although it is unlikely that these targets will be met, unless steps are taken to remove constraints within the building approval process, Brickworks is expecting strong demand for building products over the next decade.

Ahead of this, the current slowdown has provided an opportunity to sequentially take plants offline to complete maintenance work and manage stock levels. In recent years, the Company has also made significant investment in facilities, with the new Horsley Park Plant 2 in New South Wales following consolidation in Victoria and major upgrades at our brick plants in Queensland and South Australia.

In addition, the new masonry plant in New South Wales is now fully complete, and the concrete sleeper plant in Brisbane, which was located on a leased site, has been relocated to the Yatala facility (owned by the Brickworks Manufacturing Trust).

Following recent plant investments, and maintenance works during the current year, there will be limited new investment required in our plant footprint over the medium term, and the current fleet of plants will be in excellent condition to meet the anticipated demand over the balance of the decade.

Building Products North America

In North America, market conditions across the single-family residential segment have rebounded over the past six months, particularly in the key Midwest region, where the business has the largest exposure to this segment, through an extensive vertically integrated retail network. In addition to the uptick in housing construction, a strong pipeline of commercial projects is expected to underpin demand over the next 12-18 months, with the business experiencing an increase in product specifications through design studios and architectural sales teams.

The severe labour shortages and inflationary pressures felt over the past three years appear to be easing. Manufacturing costs will also benefit from a more stable plant footprint, following the completion of the plant rationalisation plan, which will culminate with the re-activation of the Rocky Ridge plant in Maryland within the next twelve months.

Like in Australia, capital spend will be significantly reduced in the years ahead, with the rationalised and upgraded plant footprint well-placed to meet the forecast growth in demand.

Over the long term, Brickworks' North American operations are expected to deliver increased earnings, with the Company continuing to implement its proven market strategy centred around style and premium product positioning.

Investments

Soul Patts is expected to continue to deliver a stable and growing stream of earnings and dividends over the long term.