



# ASX RELEASE

26 August 2019

## Boral agrees value-creating plasterboard transaction with Knauf

Boral Limited ("Boral" ASX: BLD) has today announced that it has entered into an agreement with Gebr Knauf KG ("Knauf") to form an expanded 50:50 plasterboard joint venture (JV) in Asia and for Boral to return to 100% ownership of USG Boral Australia & New Zealand (NZ). Completion of the transaction is subject to typical conditions precedent, including regulatory approvals.

### TRANSACTION HIGHLIGHTS

- **Expanded joint venture in Asia – USG Boral Asia JV<sup>1</sup>** – delivers greater scale and improved geographic reach in Asia, attractive growth opportunities including enhanced technology support and expected synergies of US\$30 million pa in year 4
- Boral takes **100% ownership of USG Boral Australia & NZ** at a multiple of 5.7 times FY2019 EBITDA, which is **immediately earnings accretive**, with a call option granted to Knauf to return to 50% ownership, subject to regulatory approval
- **~3-5% EPS accretion** on pro-forma FY2019 basis, before synergies
- **Boral's total net investment is US\$441 million** being US\$200 million to buy remaining 50% of USG Boral Australia & NZ and Boral's 50% share of the USG Boral JV's investment in Knauf Asia Plasterboard after divesting the Middle East business, being US\$241 million
- **Boral's direct funding requirement of US\$335 million** (after the USG Boral JV self-funds a proportion of the investment<sup>2</sup>) will be met through **debt and proceeds from recent divestments**
- Boral's current **investment grade credit ratings** are expected to be **maintained** with a target pro-forma net debt to EBITDA ratio of 2.5 times or less.

### TRANSACTION OVERVIEW

#### USG Boral Asia JV:

**The USG Boral JV will acquire Knauf Asia Plasterboard**, which includes China and South East Asia, **for US\$532.5 million**, and will **sell the Middle East business to Knauf for US\$50 million**, resulting in an expanded USG Boral Asia JV<sup>1</sup>, subject to regulatory approvals.

- The JV will provide US\$262 million<sup>2</sup> to partially fund the US\$532.5 million acquisition, while Boral and Knauf will each contribute US\$135 million to equally fund the balance.
- Boral and Knauf will have 50:50 ownership of the expanded USG Boral Asia JV at completion.

#### USG Boral Australia & NZ:

**Boral will acquire Knauf's 50% stake in USG Boral Australia & NZ** for an acquisition price of **US\$200 million**, returning Boral to 100% ownership, subject to regulatory approval.

- Boral has agreed to grant Knauf a call option<sup>3</sup> to purchase 50% of the business within five years. The grant and exercise of the call option will be subject to Australian and New Zealand regulatory approvals.
- Boral will retain the entire free cash flow generated by the business under Boral's 100% ownership.

<sup>1</sup> The Asia territory includes China, India, South Korea, South East Asia

<sup>2</sup> The USG Boral JV will use US\$50 million proceeds from Middle East sale, up to US\$200 million of debt plus cash to partially fund the investment

<sup>3</sup> Knauf has a call option to buy 50% share of USG Boral Australia & NZ for US\$200 million (with potential adjustments primarily in relation to Knauf paying 50% of growth capital expenditure invested into the business under Boral's ownership) within five years, subject to regulatory approval.

## The investment is underpinned by a strong strategic rationale

- **This is a compelling investment for Boral's shareholders and is in line with Boral's strategy to invest in the plasterboard business, which is a low capital-intensive business with an attractive long-term growth profile.**
  - ✓ Boral has a strong track record of success in the plasterboard business; since formation of the joint venture between USG and Boral in FY2014, Boral's EBITDA from USG Boral has grown by a CAGR of 11% pa.
  - ✓ Asia remains a highly attractive, long-term growth region for USG Boral including through product innovation and greater plasterboard penetration in emerging markets, having achieved volume growth of ~7% per annum in Asia over the past 12 years.
- **Bringing the world's #1 in plasterboard – Knauf/USG – together with USG Boral's enviable position in Asia, creates significant value and a strengthened growth platform.**
  - ✓ With a 30-year history in Asia, USG Boral comes into the expanded joint venture with an outstanding manufacturing and distribution footprint in 9 countries across Asia with 562 million m<sup>2</sup> of highly utilised plasterboard manufacturing capacity.
  - ✓ Knauf Asia Plasterboard has 220 million m<sup>2</sup> of plasterboard capacity across various geographies in Asia including a highly profitable China business, which has become the brand of choice in the high-end niche plasterboard segments in that country over 20 years. It also has emerging and well-invested businesses in Thailand, Philippines, Indonesia and Vietnam.
  - ✓ The expanded USG Boral Asia JV is a ~US\$900 million revenue business, delivering further scale and a highly complementary manufacturing and distribution network. It will have improved geographic reach in Asia and opportunities to reduce freight costs and substantially improve utilisation across its combined 782 million m<sup>2</sup> of plasterboard manufacturing capacity.
  - ✓ The expanded USG Boral Asia JV will have enhanced ability to grow through world-leading innovation and product development with continued access to USG technologies and strengthened by Knauf's additional research and development and operational capabilities.
- **Owning 100% of USG Boral Australia & NZ will be value-creating for Boral's shareholders.**
  - ✓ USG Boral Australia & NZ is a high-performing business, generating strong cash flows and underpinned by Sheetrock® technology – the brand-leader in Australia.
  - ✓ Boral will continue to have access to USG's intellectual property<sup>1</sup> and support from USG and the USG Boral Asia JV. The business in Australia will continue to trade as USG Boral and will continue to sell the successful Sheetrock® products in Australia and New Zealand. We expect a seamless transition.
  - ✓ The call option that Boral has agreed to grant Knauf does not provide Knauf any rights with respect to management of the business, nor earnings while the business is under Boral's 100% ownership.

## Attractive financial metrics and returns for Boral while maintaining a strong balance sheet

- **Boral's total investment of US\$441 million<sup>2</sup> in USG Boral Australia & NZ and in the USG Boral Asia JV, delivers positive EPS accretion**
  - ✓ The transaction delivers ~3-5% EPS accretion on a pro-forma FY2019 basis, before synergies.
  - ✓ USG Boral management expects synergies of ~US\$30 million per annum in 4 years of acquiring Knauf Asia Plasterboard to form the enlarged JV, driven by streamlined SG&A costs, manufacturing plant optimisation and lower freight costs.

---

<sup>1</sup> A single, low percentage royalty-based fee (of <0.5% of relevant revenues) has been agreed. This fee includes Boral retaining exclusive access in Australia and NZ to USG's Sheetrock® technology currently employed in USG Boral until 2024 and non-exclusive access beyond 2024; and exclusive access to USG's mark II Sheetrock® technology (EcoSmart) until 2024 and non-exclusive access beyond 2024; and other R&D and breakthrough technologies.

<sup>2</sup> Boral's US\$441 million net investment represents US\$200 million to acquire the remaining 50% of USG Boral Australia & NZ, plus Boral's US\$241 million share of investment in USG Boral Asia to acquire Knauf Asia Plasterboard, after divesting the Middle East business to Knauf.

- **Acquisition prices reflect ongoing earnings streams and asset values**

- ✓ Boral's acquisition price of US\$200 million for Knauf's 50% stake in USG Boral Australia & NZ represents an EBITDA multiple of ~5.7 times<sup>1</sup>, recognising the slower growing mature position of the business and the current Australian residential construction cycle.
- ✓ USG Boral's acquisition price of US\$532.5 million for Knauf Asia Plasterboard represents:
  - A FY2019 Adjusted EBITDA multiple of ~10.2 times<sup>2</sup> (before synergies) for its profitable China business, which is materially contributing to earnings and is well-positioned in a strong growth market; and
  - asset values in the more recently established South East Asia countries, where earnings contributions are not yet material.

- **Boral's balance sheet remains strong**

- ✓ Boral's funding requirement of US\$335 million will be met through cash and debt – including proceeds from recent divestments (Denver Construction Materials, US Block and Midland Brick).
- ✓ Boral's credit metrics continue to support credit ratings of BBB and Baa2, which are expected to be maintained. Net debt / EBITDA is anticipated to be 2.5 times or lower, and Gearing (Net Debt / (Net Debt + Equity)) of 30%, reducing over time.

**Mike Kane, Boral's CEO & Managing Director, said:**

*"After fully assessing a broad range of alternatives relating to our USG Boral joint venture, we are very pleased to announce this agreement with Knauf.*

*"The transaction is in line with Boral's strategy to invest in low capital-intensive, high growth businesses.*

*"The expanded joint venture in Asia will be a world-class operation, bringing together Knauf – now the world's largest plasterboard manufacturer - and USG Boral in Asia, which has an enviable position in the fastest growing plasterboard region in the world.*

*"Returning to full ownership of our plasterboard business in Australia & New Zealand gives Boral increased exposure to a well-positioned, high performing business that generates strong cash flows, recognising that Knauf may choose to exercise its call option within five years.*

*"The deal will be funded through debt and proceeds from asset sales, and will be earnings accretive in the first year, even before synergies."*

**Kathryn Fagg, Boral's Chairman, said:**

*"Our approach to considering the strategic options for USG Boral has been to create value for our shareholders in a way that is aligned with our strategy – and in a way that helps to ensure our balance sheet remains strong.*

*"After considerable and detailed due diligence, the Board believes that this transaction is compelling for Boral and our shareholders. It is well-aligned with our strategy and the plasterboard assets of Knauf in Asia are highly complementary with USG Boral's business in the region.*

*"We have maintained a disciplined approach to structuring and funding the transaction, and we are confident that value is created in both the short- and longer-term."*

## **Implications for Boral's earnings outlook and reporting**

- The transactions are subject to typical closing conditions, including regulatory approvals, and are **expected to be completed around the end of the calendar year 2019.**
- Once the transaction completes, Boral will combine its share of equity accounted earnings from the expanded USG Boral Asia JV, with fully consolidated earnings from USG Boral Australia & NZ. Together these will be reported under the USG Boral Plasterboard division.
- Boral's transaction costs will be ~A\$20 million in FY2020 and 50% share of one-off implementation costs are estimated to be ~US\$10 million over 3 years; these costs will be reported as significant items.

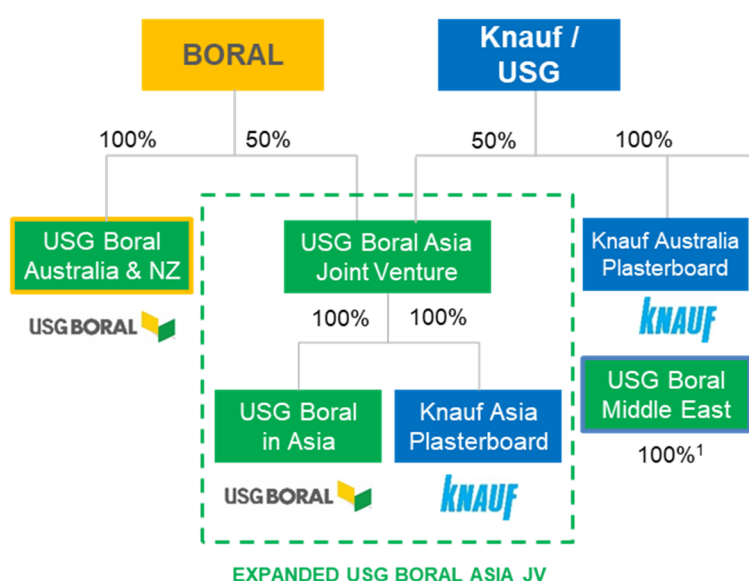
<sup>1</sup> Based on USD/AUD exchange rate of \$0.7145 on 30 June 2019

<sup>2</sup> Represents China EBITDA only

## Key Joint Venture Terms

Provision	Description
MANAGEMENT	<ul style="list-style-type: none"> <li>CEO will be Frederic de Rougemont, appointed by Boral.</li> <li>CFO will be appointed by Knauf/USG.</li> </ul>
GOVERNANCE	<ul style="list-style-type: none"> <li>Chair will be Ros Ng, appointed by Boral.</li> <li>Chair will be appointed by Boral until 31 Dec 2021 then right to appoint chair will rotate every 2 years.</li> <li>Board will continue to consist of equal nominee directors from Boral and Knauf/USG for as long as they hold 50:50 interests.</li> </ul>
STRUCTURE	<ul style="list-style-type: none"> <li>Knauf's China and South East Asia plasterboard assets to be contributed into the new joint venture.</li> <li>USG Boral's Middle East assets to be sold to Knauf.</li> <li>Knauf/USG 50% interest in USG Boral Australia &amp; New Zealand (NZ) to be sold to Boral.</li> <li>Knauf has the option to buy back its 50% interest in USG Boral Australia &amp; NZ in the future.</li> </ul>
FUNDING	<ul style="list-style-type: none"> <li>Joint venture expected to continue to be self funding with ability to borrow in its own right, subject to joint venture board approval.</li> <li>Targeted dividend distribution of 50% of net profit after tax, before amortisation &amp; significant items.</li> </ul>
INTELLECTUAL PROPERTY	<ul style="list-style-type: none"> <li>Joint venture granted exclusive rights in the Territory to Knauf IP, USG IP and Boral's Poly-Ash Technology, including improvements and developments, to use for a broad range of products.</li> <li>A single, low percentage royalty-based fee (of &lt;1% of relevant revenues) has been agreed. This fee includes USG Boral retaining exclusive access in the Territory to USG's Sheetrock® technology currently employed in USG Boral, USG's mark II Sheetrock® technology (EcoSmart), and other R&amp;D and breakthrough technologies from USG and Knauf.</li> <li>Extensive support services in respect of intellectual property to be provided.</li> </ul>
DISTRIBUTION / SUPPLY RIGHTS	<ul style="list-style-type: none"> <li>Distribution and supply rights for a range of products to be granted in various territories to facilitate continuity of existing channels of distribution and supply, on terms equivalent to those currently in existence for those products.</li> <li>New distribution arrangements in relation to ceiling tiles and insulation products.</li> </ul>
NON-COMPETE	<ul style="list-style-type: none"> <li>Joint venture parties will not compete with the joint venture in the defined Territory.</li> <li>Party who exits the joint venture will not compete until the later of the third anniversary of their exit, or 10 years from commencement of the joint venture.</li> </ul>
TRANSFER OF INTEREST / CHANGE OF CONTROL	<ul style="list-style-type: none"> <li>7 year standstill on transfer of interest in joint venture.</li> <li>Pre-emptive rights including right of first offer, last right to buy and tag-along right for non-selling party.</li> <li>Change of control, which applies to any entity in the chain of ownership, including the parent companies, triggers a call option for the other party at fair market value.</li> </ul>

## Structure



1. Represents 100% ownership of USG Boral's current ownership of the Middle East / Oman entities

**Boral Limited Investor Relations:** Kylie FitzGerald +61 401 895 894 or [kylie.fitzgerald@boral.com.au](mailto:kylie.fitzgerald@boral.com.au)

Boral Limited ABN 13 008 421 761 – Level 18, 15 Blue Street, North Sydney, NSW, 2060 - [www.boral.com](http://www.boral.com)



# Strengthening our USG Boral growth platform: Boral and Knauf to form an expanded plasterboard JV in Asia while Boral returns to 100% ownership in Australia & NZ

26 August 2019

## Delivering on our strategy

Strategically aligned, value-creating opportunities

**Boral's strategy is to invest in low capital-intensive, higher growth businesses**

- Plasterboard is a business Boral knows well and has been growing for more than 30 years
- Plasterboard is a low capital intensive business with an attractive growth profile underpinned by growth through product penetration and innovation
- The transaction strengthens Boral's long-term growth platform in Asia



**Expanded JV in Asia with Knauf creates significant value, strengthening USG Boral's position in Asia, while exiting the Middle East**

- Since Knauf's merger with USG, Knauf is now the world leader in plasterboard with an established, profitable position in China and emerging positions in South East Asia
- USG Boral has an enviable position across Asia with an extensive, highly utilised manufacturing and distribution footprint
- Highly complementary geographic, business maturity and capacity positions, with approximately US\$30m pa of synergies expected in year 4



**Owning 100% of USG Boral Australia & NZ will be immediately value accretive for Boral's shareholders**

- USG Boral Australia & NZ is a high-performing business, generating strong cash flows and underpinned by Sheetrock® technology – the brand leader in Australia
- Boral maintains access to USG's research & development and intellectual property, including the USG Boral and Sheetrock® brands, facilitating a seamless transition
- Boral has granted Knauf a call option to purchase 50% of USB Boral Aus/NZ within five years
- Boral retains entire free cash flow generated under Boral's 100% ownership



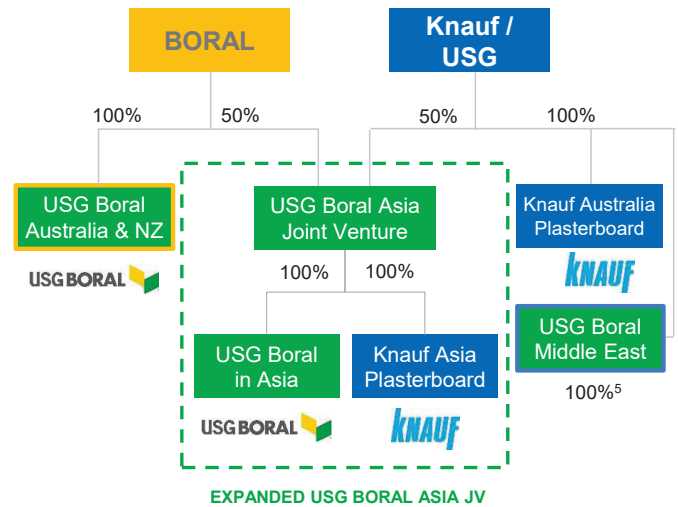
**Attractive financial returns with prudent funding structure**

- ~3-5% EPS accretion on pro-forma FY2019 basis, before synergies
- Boral's total net investment is US\$441m and with the USG Boral JV self-funding a proportion through debt & cash, Boral's funding requirement is US\$335m, to be met through debt and proceeds from divestments
- Boral's credit ratings of BBB and Baa+ expected to be maintained within prudent levels including: Net debt / EBITDA of 2.5 times or less and gearing (Net debt / (ND + E)) of ~30%



# Transaction summary

## STRUCTURE



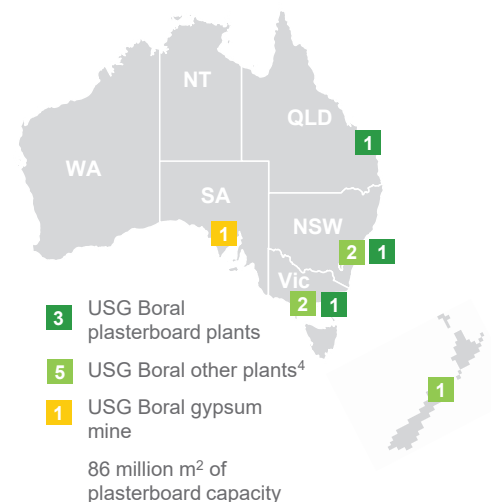
- Boral's **US\$441 million investment** represents US\$200 million to buy remaining 50% of USG Boral Australia & NZ and Boral's 50% share of the USG Boral JV's investment in Knauf Asia Plasterboard after divesting the Middle East business, being US\$241 million
- Boral's **direct funding requirement of US\$335 million** (after the USG Boral JV self-funds a proportion of the investment<sup>1</sup>) to be through **debt** and **proceeds from divestments**
- USG Boral JV acquires Knauf Asia Plasterboard** for US\$532.5 million
  - represents a multiple of ~10.2 times FY2019 EBITDA<sup>2</sup> for profitable China business in growth markets & asset values in emerging SE Asia
- Boral returns to 100% ownership of USG Boral Australia & NZ for US\$200 million** representing a **multiple of 5.7 times<sup>3</sup>** FY2019 EBITDA
  - call option granted to Knauf to return to 50% ownership within 5 years, subject to regulatory approval<sup>4</sup>
- ~3-5% EPS accretion** on pro-forma FY2019 basis, before synergies
- Synergies of ~US\$30 million p.a.** expected in year 4

- The USG Boral JV will self-fund US\$262m of the \$532.5m investment (using US\$50m proceeds from Middle East sale, up to US\$200m of debt, plus cash). The balance of US\$270m will be equally funded by Knauf and Boral – being US\$135m each. Boral's direct total funding of US\$335m is US\$200m to buy 50% of USG Boral Australia & NZ plus Boral's US\$135m share of funding for the USG Boral JV to acquire Knauf Asia Plasterboard
- Represents Adjusted EBITDA for China business only, before synergies
- Based on USD/AUD exchange rate of \$0.7145 on 30 June 2019
- Knauf has a call option to buy 50% share of USG Boral Australia & NZ for US\$200m (with potential adjustments primarily in relation to Knauf paying 50% of growth capital expenditure invested into the business under Boral's ownership) within five years. The grant and exercise of this call option will be subject to Australian and NZ regulatory approvals.
- Represents 100% ownership of USG Boral's current ownership of the Middle East / Oman entities

3

# Owning 100% of USG Boral Australia & NZ will be value-creating for Boral's shareholders

- ✓ **US\$200 million investment**, FY2019 EBITDA multiple ~5.7 times<sup>1</sup>
- ✓ Additional **A\$576 million of reported revenue for Boral**, based on FY2019, and with **EBITDA margins >16%**, **significant EBITDA uplift**
- ✓ USG Boral Australia & NZ is a **high-performing business**, generating **strong cash flows**, underpinned by leading **Sheetrock® technology**
- ✓ Continued access to **USG's intellectual property<sup>2</sup>** and support from USG and USG Boral
- ✓ **Continue to trade as USG Boral** and **sell the successful Sheetrock®** in Australia and New Zealand – we expect a **seamless transition**
- ✓ **Boral has agreed to grant Knauf a call option<sup>3</sup>** to purchase 50% of the business within five years, subject to regulatory approval
- ✓ **Boral retains entire free cash flow** under Boral's 100% ownership



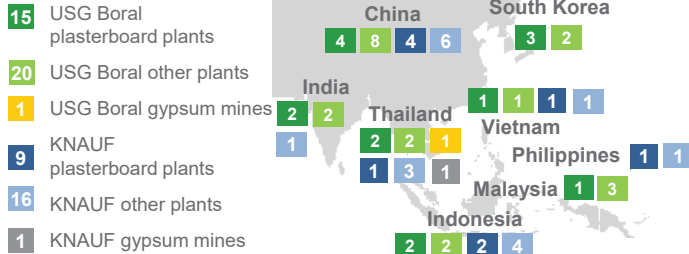
- Based on USD/AUD exchange rate of \$0.7145 on 30 June 2019
- A single, low percentage royalty-based fee (of <0.5% of relevant revenues) has been agreed. This fee includes Boral retaining exclusive access in Australia and NZ to USG's Sheetrock® technology currently employed in USG Boral until 2024 and non-exclusive access beyond 2024; and exclusive access to USG's mark II Sheetrock® technology (EcoSmart) until 2024 and non-exclusive access beyond 2024, and other R&D and breakthrough technologies.
- Knauf has a call option to buy 50% share for US\$200 million (with potential adjustments primarily in relation to Knauf paying 50% of growth capital expenditure invested into the business under Boral's ownership) within five years. The grant and exercise of the call option will be subject to Australian and NZ regulatory approvals.
- Other plants include metal products, cornice production and joint compounds.

4

# The expanded USG Boral Asia JV brings together two highly complementary businesses

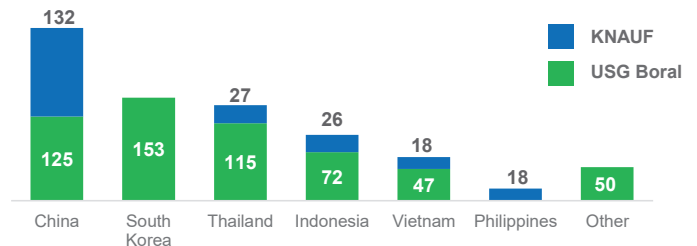
## Operating footprint<sup>1</sup>

(number of operating sites)



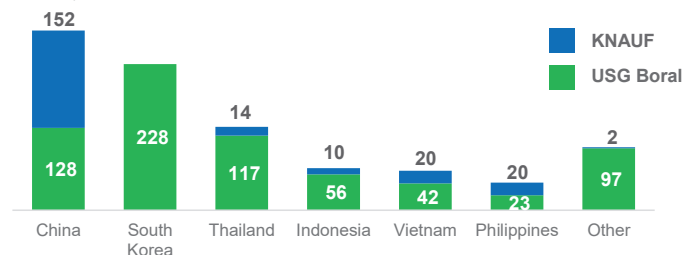
## Plasterboard manufacturing capacity<sup>2</sup>, million square metres

USG Boral's 562m m<sup>2</sup> plus Knauf's 220m m<sup>2</sup> creates 782m m<sup>2</sup>



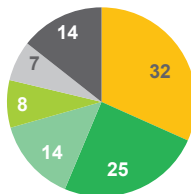
## FY2019 pro-forma revenue, US\$ million

~US\$900 million revenue business



## Expanded USG Boral Asia JV FY2019 pro-forma revenue, %

- China
- South Korea
- Thailand
- Indonesia
- Vietnam
- Other



- Other plants include USG Boral JV owned mineral fibre ceiling tile, metal ceiling grid, metal products, joint compounds, mineral wool and cornice production
- Includes new capacity coming on line in USG Boral Vietnam and India, and Knauf's new capacity in the Philippines

# USG Boral will be very well positioned in each geography, able to improve asset utilisation and leverage distribution



<b>China</b>	<ul style="list-style-type: none"> <li>Strong position selling high-quality plasterboard in central East Coast and West</li> </ul>	<ul style="list-style-type: none"> <li>High quality brand positioning for ~20+ years driven by strong German technology perception</li> <li>Strong presence in higher GDP and higher margin regions in Northern and Southern East Coast</li> </ul>
<b>Vietnam</b>	<ul style="list-style-type: none"> <li>Strong industry and distribution position, particularly in South Vietnam</li> </ul>	<ul style="list-style-type: none"> <li>Strong position in the North with an established manufacturing plant in North Vietnam</li> </ul>
<b>Philippines</b>	<ul style="list-style-type: none"> <li>Strong market position under import model</li> </ul>	<ul style="list-style-type: none"> <li>Improving position – only player with local manufacturing</li> </ul>
<b>Thailand</b>	<ul style="list-style-type: none"> <li>Elephant brand recognised as premium brand</li> <li>Leading distributor is shareholder in USGB</li> </ul>	<ul style="list-style-type: none"> <li>Viewed in the market as a recognised, reliable brand</li> <li>Recently acquired natural gypsum mine</li> </ul>
<b>Indonesia</b>	<ul style="list-style-type: none"> <li>Jayaboard brand recognised as premium brand</li> <li>Strong distribution network</li> </ul>	<ul style="list-style-type: none"> <li>Well recognised brand in the market</li> <li>Purchase of Indal in FY2017</li> </ul>
<b>South Korea</b>	<ul style="list-style-type: none"> <li>Strong and profitable business in mature market</li> </ul>	<ul style="list-style-type: none"> <li>No presence in South Korea</li> </ul>

## Expanded USG Boral JV in Asia is expected to create substantial value

- ✓ **Synergies of around US\$30 million pa in year 4, to be progressively delivered**
  - SG&A cost savings
  - manufacturing plant optimisations, leading to lower fixed plant costs and freight costs
  - procurement benefits
- ✓ **Additional manufacturing capacity**
  - highly complementary asset positions
  - USG Boral average utilisation >75% in FY2019<sup>1</sup>
  - utilisation of combined network, including upgrades<sup>2</sup> will be ~65-70%, delaying future capital requirements
- ✓ **Multi-tier branding opportunities**
- ✓ **Enhanced ability to grow through world-leading innovation and product development**
  - continued access to USG technologies and IP
  - strengthened by Knauf's additional R&D and operational capabilities

1. Excludes new capacity coming on line in USG Boral Vietnam and India in FY2020

2. Includes new capacity coming on line in USG Boral Vietnam and India in FY2020 and Knauf's new capacity in the Philippines

7

## Pro-forma earnings and reporting implications

### USG Boral Plasterboard division's underlying results

A\$ million	FY2019 ACTUAL	FY2019 Pro-forma
<b>Revenue</b>		
100% of current JV	1,606	
100% of expanded JV + Australia NZ		1,849
<b>EBITDA<sup>1</sup></b>		
100% of current JV	252	
100% of expanded JV + Australia NZ		286

### Boral's results for USG Boral Plasterboard division

A\$ million	FY2019 ACTUAL	FY2019 Pro-forma
<b>Revenue</b>	-	576
<b>EBITDA<sup>1</sup></b>	57	127 <sup>2</sup>
<b>EBIT<sup>1</sup></b>	57	106

### BORAL'S REPORTING IMPLICATIONS

- Share of equity earnings from expanded USG Boral Asia JV and fully consolidated earnings from USG Boral Australia & NZ, to be combined and reported under USG Boral Plasterboard division
- ROFE will be reported with share of JV equity earnings adjusted to an equivalent EBIT basis
- ~3-5% EPS accretive on pro-forma FY2019 basis
- Boral's transaction costs ~A\$20 million in FY2020 and 50% share of one-off implementation costs estimated at ~US\$10 million over 3 years – to be reported as significant items
- Synergies of US\$30 million pa expected in year 4 to be progressively delivered

**Before synergies, Boral's funding costs and purchase price accounting (PPA) adjustments**

1. EBITDA and EBIT adjusted for one-offs and excluding significant items
2. A\$127m of EBITDA consists of A\$105m of EBITDA from USG Boral Australia & NZ (this includes a full year of the revised IP cost), and A\$22m of post tax equity income from the USG Boral Asia JV (this includes a full year of the revised IP cost and a full year of the increased interest cost due USG Boral Asia JV borrowing up to US\$200m of debt).

8



# Enterprise value and funding requirement summary

## Valuation

US\$ million	ENTERPRISE VALUE
USG Boral JV Asia to BUY Knauf Asia Plasterboard	\$532.5m
USG Boral JV Asia to SELL Middle East business to Knauf	\$50m
Net investment in USG Boral Asia JV	\$482.5m
50% share attributed to Boral	\$241m
Boral to BUY other 50% of USG Boral Australia & NZ	\$200m
<b>BORAL'S TOTAL SHARE OF INVESTMENT</b>	<b>\$441m</b>

## Funding

US\$ million	
<b>A</b> Purchase Price for Knauf Asia Plasterboard	\$532.5m
New JV debt raised	\$200m
JV cash used	\$12m
Sale of Middle East business to Knauf	\$50m
<b>B</b> Self funding from USG Boral Asia JV	\$262m
Remaining funding required (A-B)	\$270m
<b>C</b> Boral's 50% Share	\$135m
<b>D</b> Boral to BUY other 50% of USG Boral Australia & NZ	\$200m
<b>BORAL'S DIRECT FUNDING REQUIREMENT (C+D)</b>	<b>\$335m</b>

Boral to fund through debt and proceeds from recent divestments

# Key joint venture agreement terms

## MANAGEMENT

- CEO will be Frederic de Rougemont, appointed by Boral.
- CFO will be appointed by Knauf/USG.

## GOVERNANCE

- Chair will be Ros Ng, appointed by Boral.
- Chair will be appointed by Boral until 31 December 2021 then the right to appoint the chair will rotate every 2 years.
- Board will continue to consist of equal nominee directors from Boral and Knauf/USG for as long as they hold 50:50 interests.

## STRUCTURE

- Knauf's China and South East Asia plasterboard assets to be contributed into the new joint venture.
- USG Boral's Middle East assets to be sold to Knauf.
- Knauf/USG 50% interest in USG Boral Australia & New Zealand to be sold to Boral.
- Knauf has the option to buy back its 50% interest in USG Boral Australia & New Zealand in the future.

## FUNDING

- Joint venture expected to continue to be self funding with ability to borrow in its own right, subject to joint venture board approval.
- Targeted dividend distribution of 50% of the net profit after tax, before amortisation and significant items.

Continued next page

## Key joint venture agreement terms (continued)

### INTELLECTUAL PROPERTY

- Joint venture granted exclusive rights in the Territory to Knauf IP, USG IP and Boral's Poly-Ash Technology, including improvements and developments, to use for a broad range of products.
- A single, low percentage royalty-based fee (of <1% of relevant revenues) has been agreed. This fee includes USG Boral retaining exclusive access in the Territory to USG's Sheetrock® technology currently employed in USG Boral, USG's mark II Sheetrock® technology (EcoSmart), and other R&D and breakthrough technologies from USG and Knauf.
- Extensive support services in respect of intellectual property to be provided.

### DISTRIBUTION/ SUPPLY RIGHTS

- Distribution and supply rights for a range of products to be granted in various territories to facilitate continuity of existing channels of distribution and supply, on terms equivalent to those currently in existence for those products.
- New distribution arrangements in relation to ceiling tiles and insulation products.

### NON-COMPETE

- Joint venture parties will not compete with the joint venture in the defined Territory.
- Party who exits the joint venture will not compete until the later of the third anniversary of their exit, or 10 years from commencement of the joint venture.

### TRANSFER OF INTEREST / CHANGE OF CONTROL

- 7 year standstill on transfer of interest in joint venture.
- Pre-emptive rights including right of first offer, last right to buy and tag-along right for non-selling party.
- Change of control, which applies to any entity in the chain of ownership, including the parent companies, triggers a call option for the other party at fair market value.

## Overview of Knauf

- Founded in 1932, Knauf is a 100% family owned company that commands globally leading positions in gypsum, insulation, ceilings and packaging solutions.
- Operations span from Europe, North and South America, Asia, Africa to Australia.
- With the help of more than 35,000 entrepreneurs at 300 locations, Knauf expects to generate a revenue in excess of US\$10b in 2019.
- Knauf is the market leader for safe, healthy and comfortable design of living spaces. Its products and systems for buildings are innovative, environmentally-friendly, energy-efficient, fairly-priced and sustainable.

### KEY EVENTS OF KNAUF GYPSUM IN ASIA AND AUSTRALIA

1997	Started first operations in China with commissioning of boardline in Wuhu
1998	Commissioned first boardline in Indonesia (Cikampek)
2000	Extended footprint in China with acquisition in Tianjin and commissioning of boardline in Dongguan
2011	Entered market in Australia with acquisition of Lafarge Australia
2013	Commissioned forth plant in China with plant in Taicang
2015	Additional gypsum activities established in Indonesia through acquisition in Gresik
2016	Started plasterboard plant in Haiphong, Vietnam
2017	Constructed first plasterboard plant in the Philippines (Batangas)
2019	Acquired USG Corporation and became shareholder of USG Boral Joint Venture

# Disclaimer



The material contained in this document is a presentation of information about the Group's activities current at the date of the presentation, 26 August 2019. It is provided in summary form and does not purport to be complete. It should be read in conjunction with the Group's periodic reporting and other announcements lodged with the Australian Securities Exchange (ASX).

To the extent that this document may contain forward-looking statements, such statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this release.

This document is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor.

