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Unlocking value at Wienerberger

April 2018

Executive summary

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- Wienerberger is uniquely positioned in the European light construction materials market
  - Leading market positions in many of the businesses
  - Successful stabilisation of the group following the financial crisis
  - Very strong growth outlook in many of its end markets
- Substantial improvement potential exists, especially in Wienerberger's Wall and Pipes divisions
  - Wall and Pipes have been lagging key peers both in terms of EBITDA margin, cash conversion and growth
  - Competitors such as Xella, Braas-Monier and Uponor have undertaken more cost efforts to drive their profitability and growth
  - Wienerberger's capital expenditure has been substantial, yet it has not delivered attractive growth
- Wienerberger's historical performance and compensation policy point to targets being set lowly
  - CEO and CFO have been in their roles since 8½ and 11 years respectively, and served on the Management Board and Management Committee before
  - Their contracts were recently extended by 5 and 4 years respectively – without a selection process being run
  - Over the past 4 to 5 years, management has typically received 100% of all potential bonus allocations
- Petrus Advisers demand that Wienerberger's significant improvement potential be exploited
  - First step: comprehensive review of Wienerberger's improvement potential with external support and with strong involvement by the Supervisory Board
- To help the company, Petrus Advisers propose two experts for the 14 June 2018 Supervisory Board elections
  - **Pierre-Marie De Leener**: former CEO of SigmaKalon and Chairman of Braas-Monier
  - **Jan Buck-Emden**: current CEO of hagebau and former CEO of Xella

A roller-coaster equity story: up, down and back to where we started

Source: Bloomberg as per 18 April 2018

10-year share price performance v peers

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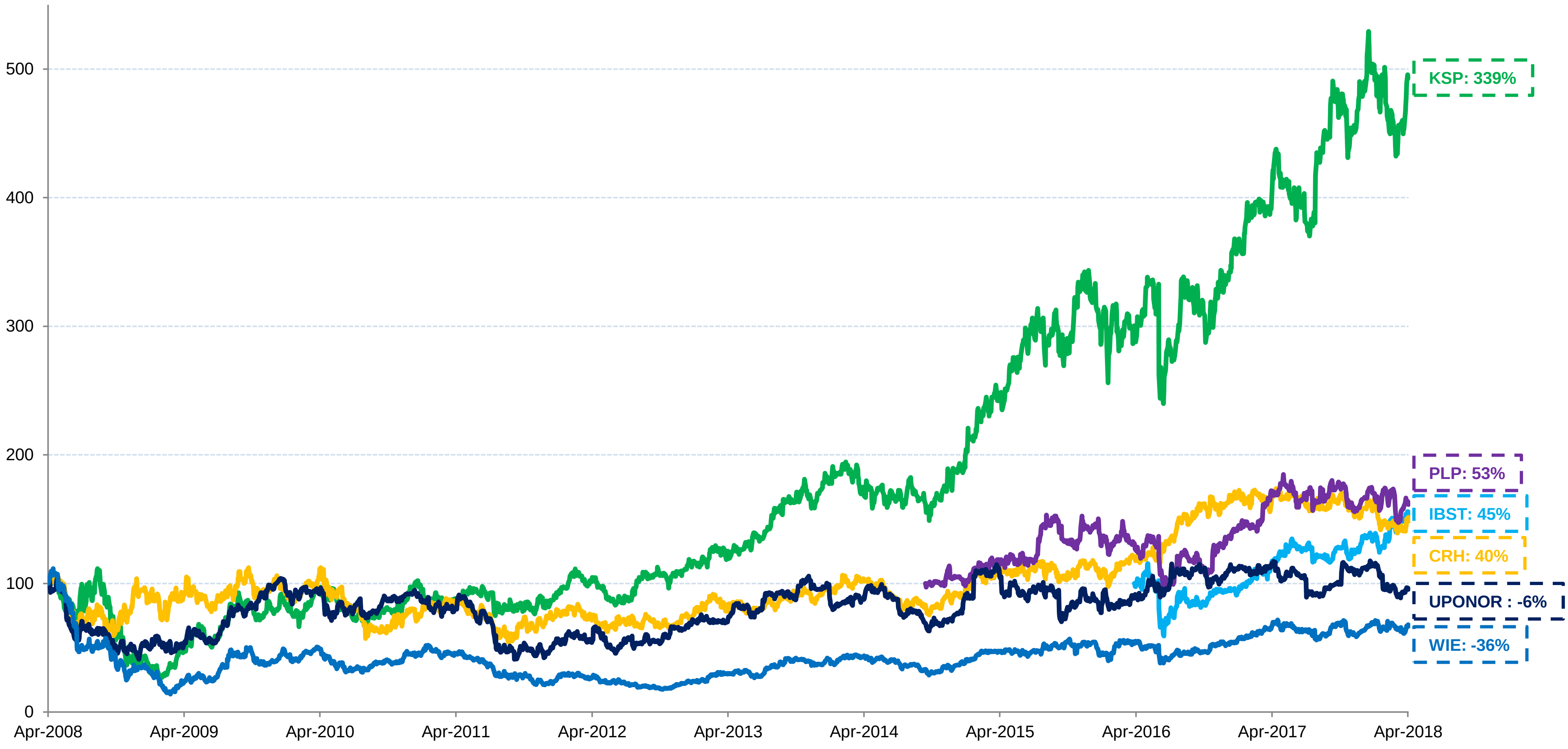
- 10-year performance rebased to 100[1]
- Wienerberger has lagged all its peers in its recovery from the financial crisis



Source: Bloomberg as per 18 April 2018

1) 18 April 2008 = 100.

Revenue growth and EBITDA margin in wall and pipes are substantially lower than peers’

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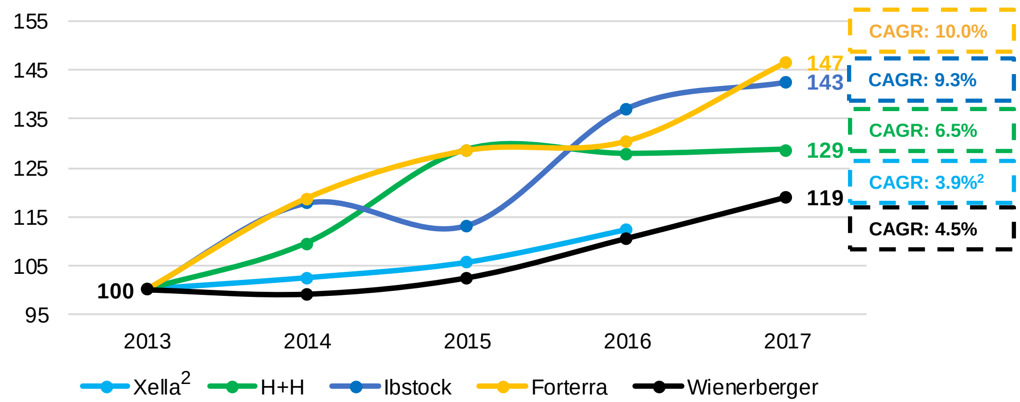
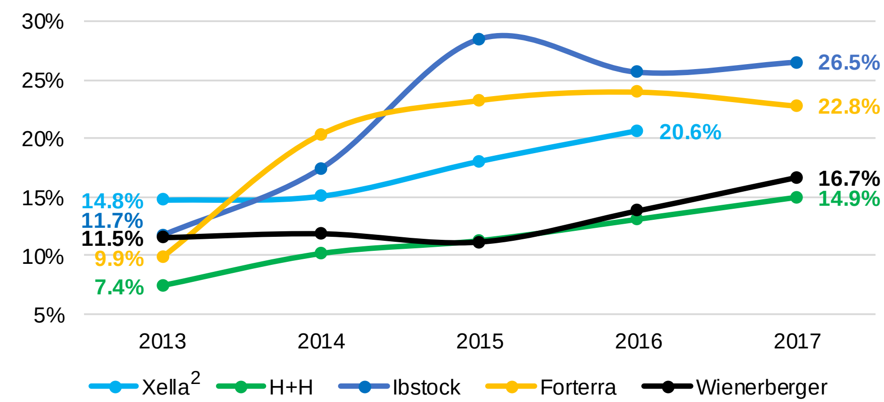
- Wienerberger’s performance in two segments that account for ~58% of revenue and ~46% EBITDA substantially lags behind peers’ with respect to both top-line growth and profitability

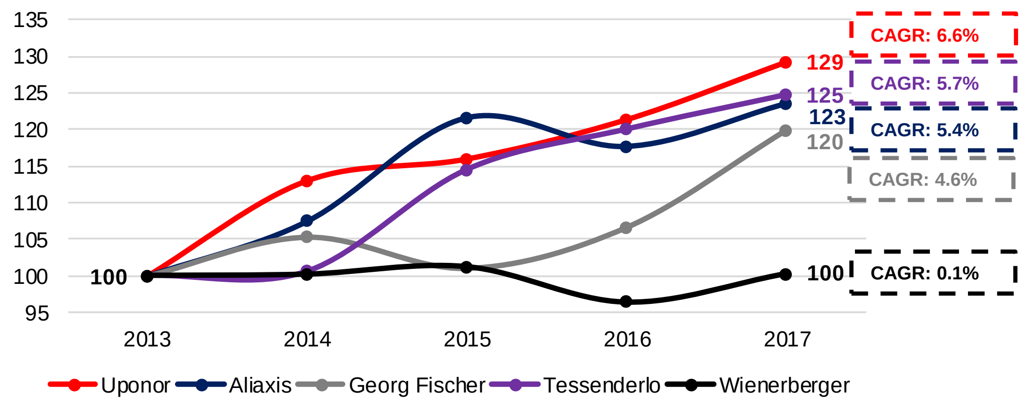
Wall: revenue growth v peers, 2013-17[1]



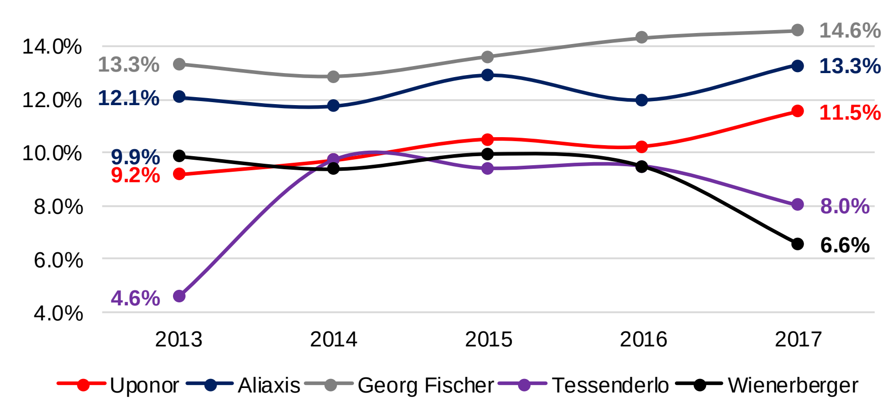
Wall: EBITDA margin v peers, 2013-17[1]



Pipes: revenue growth v peers, 2013-17[1]



Pipes: EBITDA margin v peers, 2013-17[1]



Source: company filings, Petrus Advisers estimates.

1) *For each peer, only the relevant division was taken into consideration (if divisional results were disclosed). For more details, please refer to the footnotes on pages 9 and 10.*

2) *FY 2017 report was not available; Q3 16 LTM figures were used for 2016 as no FY 2016 report was available.*

Benchmarking analysis suggests ample room for profitability improvement in wall and pipes

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- Unlike Wienerberger, Xella and Braas-Monier underwent massive cost reduction programmes to improve their margins

EBITDA margin[1]

	2013	2014	2015	2016	2017	Mid-term target
Wall						
Peers						
Xella[2]	14.8%	15.1%	18.0%	20.6%	na	22.6%[2]
H+H	7.4%	10.2%	11.2%	13.1%	14.9%	15.0%[9]
Ibstock[3]	11.7%	17.4%	28.5%	25.7%	26.5%	na
Forterra[3]	9.9%	20.4%	23.3%	24.0%	22.8%	na
Peer average	**10.9%**	**15.8%**	**20.3%**	**20.8%**	**21.4%**	**18.8%**
Wienerberger - Wall	**11.5%**	**11.9%**	**11.2%**	**13.8%**	**16.7%**	**22.5%**
Wienerberger - Façade	*7.4%*	*10.9%*	*15.6%*	*16.1%*	*14.5%*	*18.0%*
Roof						
Peers						
Braas-Monier[4]	13.0%	16.5%	16.0%	15.9%	na	na
Etex[5]	13.6%	13.8%	13.4%	14.5%	15.0%	na
Peer average	**13.3%**	**15.1%**	**14.7%**	**15.2%**	**15.0%**	**na**
Wienerberger - Roof	**20.9%**	**21.6%**	**18.3%**	**21.6%**	**22.3%**	**25.0%**
Pipes						
Peers						
Uponor	9.2%	9.7%	10.5%	10.2%	11.5%	>13%[10]
Aliaxis	12.1%	11.8%	12.9%	12.0%	13.3%	na
Georg Fischer[6]	13.3%	12.9%	13.6%	14.3%	14.6%	14.4%[11]
Tessenderlo[7]	4.6%	9.7%	9.4%	9.5%	8.0%	na
Peer average	**9.8%**	**11.0%**	**11.6%**	**11.5%**	**11.9%**	**13.7%**
Wienerberger - Pipes	**9.9%**	**9.4%**	**10.0%**	**9.5%**	**6.6%**	**12.0%**
Wienerberger - Group[8]	**9.6%**	**10.9%**	**11.7%**	**13.0%**	**12.6%**	**na**

Improvement potential

Wall: >500bp

Roof: ✓

Pipes: >400bp

Comments

- **EBITDA margin of Wienerberger's clay wall operation has been lagging Xella's**
- The cost reduction programme that Xella started in 2014 and is set to continue until 2020 has significantly widened the gap

- **Braas-Monier undertook a cost savings programme in 2012 and 2013 with ~€89m impact[12]**

- Uponor expects to improve its profitability by up to 300bp in the mid-term, ~240bp of which through a two-year €25m[13] cost savings programme that will reduce the 2015 cost base by 2.7%; 2017 EBITDA margin rose 130bp y/y

Source: company filings, Petrus Advisers estimates

1) EBITDA was adjusted for non-recurring items disclosed by companies. 2) Adjusted EBITDA margin as per reports for bondholders and conversations with former Xella executives. Figures related to the building materials division were adjusted for gains/losses from real estate transfer taxes, warranty claims, non-recurring costs and provisions, EBITDA impact of closure of plants in China and cost related to the Ecoloop technology, monitoring fees and income from associates. Revenue base excludes revenue from discontinued operations. Q3 16 LTM figures were used for 2016 as no FY 2016 report was available. Mid-term target refers to 2020. 3) Serves both wall and roof end-markets, the company does not disclose EBITDA breakdown by end-market. 4) Excludes the chimney and energy systems business. 5) Includes other businesses; façade and roof account for ~40% of revenue. 6) Includes the piping systems division only. 7) Includes the industrial solutions segment only. 8) Excludes EBITDA from sale of non-core real estate assets. 9) Average D&A/revenue has been added to the mid-point of company's target EBIT margin range to get to the implied target EBITDA margin. 10) Average D&A/revenue has been added to company's target EBIT margin to get to the implied target EBITDA margin. 11) Average D&A/revenue has been added to the mid-point of company's target EBIT margin range to get to the implied target EBITDA margin. 12) The programme was undertaken in 2012-13, with the full effects being felt in 2014 (source: pages 7, 94 & 96 of the 2014 prospectus). Exact savings are not disclosed; this figure refers to FTE reductions only and has been estimated using information provided in the prospectus. The full savings are likely higher. 13) Per 2017 Q2 roadshow presentation and 26 Nov 2015 European transformation programme presentation.

Cash conversion in wall and pipes is equally weak while significant capex spending has not resulted in attractive growth rates

- Low profitability combined with significant capex have led to comparatively low cash conversion in wall and pipes
- The high capex has however not resulted in attractive sales growth

Cash conversion[1]

	2013	2014	2015	2016	2017	13-17 sales CAGR
Wall						
Peers						
Xella[2]	59.8%	67.9%	63.8%	68.5%	na	3.9%
H+H	61.6%	69.3%	66.5%	60.6%	54.6%	6.5%
Ibstock[3]	61.3%	93.8%	85.3%	66.0%	50.8%	9.3%
Forterra[3]	86.9%	87.7%	79.3%	87.1%	85.7%	10.0%
Peer average	**67.4%**	**79.7%**	**73.7%**	**70.5%**	**63.7%**	***7.4%***
Wienerberger - Wall	**53.0%**	**57.2%**	**53.4%**	**53.1%**	**65.4%**	***4.5%***
Wienerberger - Façade	*48.2%*	*48.4%*	*65.1%*	*68.1%*	*39.9%*	*7.3%*
Roof						
Peers						
Braas-Monier[4]	68.2%	67.9%	68.5%	66.5%	na	0.7%
Etex[5]	48.9%	52.1%	54.3%	67.1%	56.1%	(2.1%)
Peer average	**58.5%**	**60.0%**	**61.4%**	**66.8%**	**56.1%**	***(0.7%)***
Wienerberger - Roof	**82.5%**	**50.4%**	**75.3%**	**77.1%**	**75.9%**	***8.2%***
Pipes & pavers						
Peers						
Uponor	59.3%	64.1%	54.7%	55.0%	53.1%	6.6%
Aliaxis	54.8%	54.9%	62.6%	70.0%	73.1%	5.4%
Georg Fischer[6]	na	na	na	na	na	4.6%
Tessenderlo[7]	(78.6%)	41.2%	78.0%	48.6%	(12.1%)	5.7%
Peer average	**11.8%**	**53.4%**	**65.1%**	**57.9%**	**38.0%**	***5.6%***
Wienerberger - Pipes	**68.4%**	**61.4%**	**60.0%**	**39.8%**	**17.7%**	**0.1%**
Wienerberger - Group	**60.0%**	**48.6%**	**60.0%**	**55.2%**	**50.3%**	**4.0%**

Improvement potential

- Wall: >10%[8]
- Roof: ✓
- Pipes & pavers: >20%

Comments

- Notwithstanding its lower margin the business requires higher investment than peers
- Significant capex has not delivered high growth either

- The roof business generates satisfactory cash flows

- Cash conversion in pipes has deteriorated to a problematic level

Source: company filings, Petrus Advisers estimates

1) Defined as (adj. EBITDA-capex)/adj. EBITDA. Given that the definition of maintenance capex differs across the universe of companies considered, total reported capex was taken into account to calculate the cash conversion. 2) As per reports for bondholders and conversations with former Xella executives. Figures related to the building materials division were adjusted for gains/losses from real estate transfer taxes, warranty claims, non-recurring costs and provisions, EBITDA impact of closure of plants in China and cost related to the Ecoloop technology, monitoring fees and income from associates. Revenue base excludes revenue from discontinued operations. Sales CAGR only refers to 2013-2016 period. 3) The company does not disclose EBITDA nor capex breakdown by end-market. 4) Excludes the chimney and energy systems business. 5) Includes other businesses; façade and roof account or ~40% of revenue. 6) Includes the piping systems division only. 7) Includes the industrial solutions segment only. 8) Excluding the extraordinary £44m capacity expansion investment undertaken by Ibstock in 2017, the average cash conversion of Wienerberger's peers in 2017 was ~76%.

Management compensation

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- Management's total compensation has grown at a 15-16% CAGR since 2009, well in excess of the 5% CAGR shareholders have seen over the same period
- Over the past 4-5 years, bonus targets have been consistently met, pointing to a culture of setting the bar low
- Cash bonus payments dominate management's incentives with share ownership representing a comparatively small motivation to perform

	2009[1]	2010[1]	2011[1]	2012[1]	2013	2014	2015	2016	2017	'09-17 CAGR
Heimo Scheuch[2]	**1,022,197**	**856,097**	**1,564,386**	**1,031,406**	**2,063,243**	**2,363,890**	**2,628,685**	**2,894,836**	**3,104,713**	**14.9%**
Short-term incentive entitlement[3]	*100%*	*0%*	*60%*	*0%*	*41%*	*69%*	*100%*	*100%*	*100%*	
Mid-term incentive entitlement[4]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*100%*	
Long-term incentive entitlement[5]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*100%*	*100%*	*100%*	*100%*	*100%*	
Willy van Reit[2]	**745,855**	**717,512**	**1,209,038**	**903,440**	**1,623,406**	**1,848,289**	**2,046,493**	**2,244,814**	**2,470,386**	**16.1%**
Short-term incentive entitlement[3]	*100%*	*0%*	*60%*	*0%*	*41%*	*69%*	*100%*	*100%*	*100%*	
Mid-term incentive entitlement[4]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*100%*	
Long-term incentive entitlement[5]	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*100%*	*100%*	*100%*	*100%*	*100%*	
Management compensation as % of dividends paid out	**n.a.**	**n.a.**	**23.6%**	**14.0%**	**26.7%**	**30.5%**	**26.6%**	**22.0%**	**17.7%**	

Source: company filings.

1) *Pension contributions are not separately disclosed in 2009-12, only total pension contributions for the entire management board (consisting of 4 members in 2009-10 and 3 members in 2011-12). It is assumed the pensions are evenly distributed amongst the members, an assumption broadly consistent with the years 2013-16, in which payments to each member are separately disclosed.*
2) *Includes fixed and variable remuneration to which the managing board is entitled, and pension plan contributions. This is the amount the manager has earned in a given year, however not all of it is paid in cash.*
3) *These are paid in cash annually.*
4) *The medium-term incentive is capped at 150% of 2017 fixed remuneration. It was earned over the three years between 2015 – 2017, payable in 2018. At the end of the three-year period, both Heimo Scheuch and Willy van Reit were awarded the maximum possible payout (150%) from this incentive programme.*
5) *Management are entitled to these payments provided they satisfy the delayed payment criteria (i.e. business performance does not fall below the hurdle rate they achieved when the long-term incentives were first awarded).*

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