Considerations on Supervisory Board Candidates for Wienerberger
30 May 2018

1) **<u>Alleged conflicts of interest</u>**
Wienerberger has told certain stakeholders involved that they chose to not even contact Messrs De Leener and Buck-Emden in preparation for the candidate selection process as both allegedly had conflicts of interest preventing them from serving as independent directors.

These allegations are misleading and unfounded.

a) **Pierre-Marie De Leener**

***<u>Allegation</u>*:** Wienerberger claims Mr De Leener is under a non-compete obligation with Braas Monier/Standard Industries and hence not fit to be a supervisory board candidate.

***<u>Facts</u>*:** when we initially contacted Mr De Leener regarding his potential candidacy, he made clear from the beginning that he was under a non-compete agreement until March 2018. Therefore, the non-compete obligation is no longer in place.
It is also unclear to us how Wienerberger can assert to know about such a non-compete clause given that it is part of a confidential contract between Mr De Leener and Braas Monier/Standard Industries. Although we were not provided with the contract, Mr De Leener, who is liable in case of a breach of his contractual obligations, signed a declaration of independence which should be trusted.
A simple check by Wienerberger would have clarified the situation given that only Mr De Leener is legally allowed to share the terms of his contractual obligations towards Braas Monier/Standard Industries.
Furthermore, we expect Wienerberger's proposed candidate Mr Steiner has a similar contractual arrangement following his departure from Xella. Wienerberger must be experienced in checking these matters.

b) **Jan Buck-Emden**

***<u>Allegation</u>*:** Wienerberger claims Mr Buck-Emden's role as CEO of hagebau would represent a conflict of interest as he would have access to confidential information he could exploit to the detriment of Wienerberger.

***<u>Facts</u>*:** we understand from Mr Buck-Emden that Wienerberger represents less than 3% of hagebau's revenue, and the commercial relationship between the two is limited to a few regions/products.
Mr Buck-Emden was fully transparent about the hagebau situation in the declaration of independence he sent to Wienerberger. Similarly to Mr De Leener, he is liable for his declaration of independence and Wienerberger could easily have clarified the matter with him.

2) **<u>Messrs De Leener and Buck-Emden can add value to Wienerberger</u>**
Given that Wienerberger has not spoken to the candidates we proposed for the supervisory board, we deem it important to explain in greater detail why we believe each candidate will help the company in many relevant aspects.

a) **Pierre-Marie De Leener**
Mr De Leener has extensive industry experience in the management and supervision of both public and private companies. He has spent considerable time in the construction materials sector, having served as CEO of SigmaKalon (architectural coatings) and chairman of Braas Monier (roof tiles). He also held senior executive roles at Trinseo and PPG Industries where he was exposed to the plastics, coatings and specialty chemicals sectors, areas pertinent to Wienerberger's plastic pipes business.
More importantly, his career is characterised by significant accomplishments in value creation. At SigmaKalon, EBITDA - capex doubled under his five-year leadership. Under his

chairmanship, Braas-Monier increased the EBITDA margin from 13.0% in 2013 to 15.9% in 2016. Despite its significant structural disadvantage to Wienerberger due to the higher share of low-margin concrete tiles (c. 2/3 vs. nearly zero), Braas Monier achieved margins in line with those of Wienerberger's roof business.

b) Jan Buck-Emden

As the former CEO of Wienerberger's key competitor in the wall segment, Mr Buck-Emden has highly relevant experience in and knowledge of Wienerberger's end-markets, competitive positioning, and strengths and weaknesses.
He is one of the leading experts in the areas of distribution, product innovation and branding in the light construction materials sector. We believe these are all areas where Wienerberger has significant shortcomings and would benefit strongly from his expertise.
More importantly, Xella has continuously outperformed Wienerberger in terms of growth and margins. Based on publicly available information for the years 2013 to Q3 2016, Xella's wall segment[1] outgrew Wienerberger's wall segment by about 1% per year while margins were 3.3% to 6.8% higher.

3) <u>Mr Jourquin is an aged candidate with a poor value creation track record</u>

Although we have not yet been given the chance to meet Wienerberger's candidates, we have performed research and reference checks to form an educated view on them.
While Mr Steiner comes out very strong, we have significant concerns around Mr Jourquin.

Firstly, he will turn 70 on 26th June 2018 (i.e. less than two weeks after the AGM).
Per Wienerberger's articles of association, unless the personnel and nomination committee grants an age limit waver, supervisory members commit to resigning upon completion of their 70th year of life with effect as of the end of the following AGM.
It is plausible to believe the personnel and nomination committee and Mr Jourquin have already agreed upon him serving the whole term.
This would imply that three out of eight supervisory board members will be over 70 as the personnel and nomination committee has already given the age limit waver to two other supervisory board members: Messrs Johnson and Rasinger. That is, the application of a provision meant to be called under special circumstances would become a norm.

Secondly, we call into question what Mr Jourquin's experience and knowledge have contributed to Wienerberger in the last four years. One of the key performance indicators used by Wienerberger to assess its projects is CFROI, which must be at least 11.5%. The acquisition of Pipelife that took place in 2012 is no exception and should be judged on the same metric.
To this end, we have looked at the CFROI for the pipes business since the acquisition of the 50% stake in Pipelife owned by Solvay, which was Wienerberger's partner in the Pipelife joint-venture since 1989.
Having paid an implied enterprise value of €528m with cumulative divisional capex of €211m between 2013 and 2017, the gross capital employed totalled €739m. However, as 2017 EBITDA was a meagre €64m, CFROI was less than 9%, a far cry from the minimum target of 11.5%.
That is, 2017 EBITDA was lower than the €70m run-rate EBITDA Wienerberger management expected at the time of the Pipelife transaction and the EBITDA margin dropped substantially in the same period, lagging behind peers' by over 500 basis points in 2017 and 300 basis points on average during Mr Jourquin's tenure on Wienerberger's supervisory board.
Data does not lie: during Mr Joarquin's four-year tenure on Wienerberger's strategy and audit committees, the performance of the pipes business was dismal.

[1] Xella's building materials division. Figures based on reports for bondholders and conversations with industry experts.

Wienerberger claims Mr Jourquin was their expert for the plastic pipes business on the supervisory board. His CV and career do not suggest this is the case: as a Solvay lifer and former CEO, he might well be an expert in chemicals and pharma. However, Solvay ran the plastic pipes business through a joint-venture with Wienerberger from 1989 until 2012.
It is very hard to believe Mr Jourquin has particular insights into the business beyond the plastic purchasing side, especially considered that Pipelife was a non-core business for Solvay.
In 2011, i.e. the year before Solvay sold its 50% stake to Wienerberger, Pipelife generated ~€800m revenue and ~€70m EBITDA; pro-rating for Solvay's 50% stake, we'd get to ~€35m EBITDA out of ~€2bn EBITDA for the whole group, i.e. Pipelife accounted for <2.5% of Solvay's 2011 EBITDA.

Historical EBITDA and capex for Wienerberger's pipes business

Figures in €m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBITDA	80	90	70	59	55	69	78	96	91	98	89	64
Margin %	*10.2%*	*10.3%*	*7.8%*	*8.4%*	*7.7%*	*8.6%*	*9.1%*	*9.9%*	*9.4%*	*10.0%*	*9.5%*	*6.6%*
Capex	NA	NA	NA	NA	NA	NA	NA	30	35	39	54	53

Note: EBITDA from 2011 onwards includes the contribution from Steinzeug-Keramo, a ceramic pipes business that Wienerberger acquired in 2011.

CFROI of pipes business since acquisition of Pipelife

Implied equity valuation *(A)*	324
Special dividend to Solvay *(B)*	10
Net debt *(C)*	194
Implied EV/EBITDA	*6.8x*
2013-17 cumulative capex *(D)*	211
Gross capital employed *(A+B+C+D)*	**739**
CFROI *(2017 EBITDA/gross capital employed)*	**8.7%**

Note: EV/EBITDA calculated based on 2012 EBITDA. Net debt refers to the financial liabilities Wienerberger took on with the acquisition of the 50% stake in Pipelife from Solvay.

Pipes margins v peers since Mr Jourquin joined supervisory board

EBITDA margin	2014	2015	2016	2017	Mid-term target
Uponor	9.7%	10.5%	10.2%	11.5%	>13%
Aliaxis	11.8%	12.9%	12.0%	13.3%	na
Georg Fischer	12.9%	13.6%	14.3%	14.6%	14.4%
Tessenderlo	9.7%	9.4%	9.5%	8.0%	na
Peer average	**11.0%**	**11.6%**	**11.5%**	**11.9%**	**13.7%**
Wienerberger - Pipes	**9.4%**	**10.0%**	**9.5%**	**6.6%**	**12.0%**

Note: comparison to the EBITDA margins of Georg Fischer and Tessenderlo based solely on the reported figures for Georg Fischer's piping systems division and Tessenderlo's industrial solutions segment. Mid-term target EBITDA margins for Uponor and Georg Fischer based on the announced mid-points of their target EBIT margin ranges, to which the average D&A/revenue has been added to have comparable figures to Wienerberger's mid-term target EBITDA margin.

Thirdly, Mr Jourquin does not seem to be committed to Wienerberger. During his four-year tenure as a supervisory board member he never bought a single Wienerberger share.
As a CEO and chairman of Solvay, he sold Solvay's stake in Pipelife for an implied forward multiple of 6.8x EV/EBITDA (see table above).
Although at a first glance such a multiple does not look too high, we note that Wienerberger's competitors Georg Fischer and Tessenderlo were trading at less than 5x EV/EBITDA at the time of the Pipelife transaction.
Such a significant premium for a 50% stake in a joint-venture is unusual.

Finally, to have a sense of how Mr Jourquin was perceived by the investor community, we have looked at the total return Solvay shareholders would have made had they invested in the stock when he took the helm and sold when he stepped down[2]: +27% in six years, equal to about 4%

[2] Namely, 8 May 2006 - 10 May 2012. Total return assumes dividends be reinvested in the stock (source: Bloomberg).

return per year.

Solvay's annualised return compares to BASF's +14%, Victrex's +13%, and Arkema's +13% across the same time horizon.
Solvay's sluggish returns under Mr Jourquin's leadership demonstrate an even worse performance of the chemicals businesses when considering that in 2009 Solvay sold its pharmaceuticals business and received €4.5bn gross proceeds from the transaction, equal to over 70% of pre-announcement market cap.
These findings make us sceptical of Mr Jourquin's ability to help grow shareholder value at Wienerberger.