THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

USG - Boral Limited and USG Corporation - Creating a World Leading Joint Venture

EVENT DATE/TIME: OCTOBER 16, 2013 / 11:30PM GMT

OVERVIEW:

USG announced formation of a JV with Boral Limited in Asia, Australasia and Middle East.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Mike Kane *Boral Limited - CEO and Managing Director*

Jim Metcalf *USG Corporation - Chairman, President, and CEO*

Ros Ng *Boral Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Bob Wetenhall *RBC Capital Markets - Analyst*

Jim Barrett *CL King & Associates - Analyst*

Trey Grooms *Stephens Inc. - Analyst*

Stephen Kim *Barclays Capital - Analyst*

Matthew McNee *Goldman Sachs - Analyst*

James Rutledge *Morgan Stanley. - Analyst*

David Leitch *UBS - Analyst*

Michael Ward *Commonwealth Bank of Australia - Analyst*

Andrew Johnston *CLSA Limited - Analyst*

PRESENTATION

Mike Kane *- Boral Limited - CEO and Managing Director*

For those who have been able to join us here in Boral's offices in Sydney, to those on the line in Australia and Asia, and of course, good evening to USG's analysts and investors and to Boral's investors in the USA. I'm Mike Kane, Boral's CEO and Managing Director, and I'm delighted to be standing here alongside USG's Chairman, President, and CEO, Jim Metcalf; announcing the formation of a value-creating plasterboard and ceilings joint venture between Boral and USG in Asia, Australasia, and the Middle East, which is strategically important for both Boral and USG.

A year ago, a small team in Boral began exploring options to address the technology gap in Boral's Asian and Australian gypsum operations. It's not a gap that is causing us immediate disadvantage the marketplace, but it is a gap that, if left unaddressed, would lead Boral gypsum highly vulnerable to global competition and risk the future sustainability of the enviable position we have built in Australia and Asia.

We've considered a range of technology solutions, and I believe this deal is far superior to any other deal possible and certainly to a go-it-alone strategy. I believe that, over time, USG will exploit its technology in the global gypsum market. And, just as USG is the best alternative to Boral, Boral is the best alternative to USG.

Joining forces significantly improves the value proposition for our customers and creates an exceptional competitive advantage because of the superior-performing, higher-strength, lower-weight products; the expanded product portfolio; and the scale of our distribution and manufacturing footprint.

Slide 2 depicts USG's cautionary statements. It's a bit of an eye chart. You all have it in your packs, and you can look at that at your leisure.

Jim and I intend to co-present for around 30 to 40 minutes, with around 20 to 30 minutes at the conclusion for Q&A, both on the phone here and in the room.

During the presentation, we will talk through the transaction and the rationale for the joint venture before Jim will share USG's remarkable technology story. I will talk about the combined footprint of the JV and the markets in which we will operate as well as the synergies that we expect to realize.

Jim will cover the transaction terms and some USG specific issues before I will ask Ros Ng, Boral's CFO, for comment on the balance sheet and P&L implications for Boral. Jim and I will then come back together and open it up for questions. Jim?

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Thank you, Mike. And good morning to our investors here in Sydney. And I'd like to welcome the investors that have joined in on the phone in the States and North America. It's very exciting time for both Boral and USG. As Mike said, we are extremely excited about this joint venture. There's been a lot of work, a lot of due diligence, and I couldn't be more pleased as representing all of the shareholders of USG Corporation of this joint venture.

We think that the USG Boral building products provides the foundation for significant growth opportunities and really positions our two companies to win in the JV territories that we're talking about.

This brings together, as Mike's saying, Boral's leading manufacturing and distribution footprint in Asia and Australia, and USG's strategic assets and our world-leading manufacturing and product technologies, resulting -- which I believe and I'm sure Mike will agree -- in a great combined, best-in-class Company.

The JV will be structured as a 50-50 long-term relationship. And I want to stress a long-term relationship. That includes Boral's operations in Asia and Australia, including interests in GRA and Rondo; and USG's wholly-owned operations in Asia and New Zealand; as well as our joint ventures in China, the Middle East, and Oman.

The JV also has the right to use USG's intellectual property, including our lightweight, high-strength, UltraLight plasterboard technology and other world-leading technologies like joint compound and ceilings.

To achieve the 50% ownership, USG will make an upfront payment of $500 million US cash to Boral. We intend to fund this through $350 million of long-term debt and $150 million from our current balance sheet.

Based on the JV attaining certain performance targets, Boral will also have the opportunity to receive up to an additional $75 million in earn-out payments. We expect that these payments will be funded through the USG share of the JV earnings.

This joint venture, as Mike said, is a result of a comprehensive review that both companies have done, looking at opportunities and options. In the respect of due diligence, we quickly realized that working together is going to create a stronger platform for each Company to achieve long-term growth in this very dynamic part of the world.

This JV is mutually beneficial. We think Boral will benefit from our broad portfolio of building product solutions and having a technology partner that has a very long history of innovation in our product offering, in the way that we produce our products. USG innovative products are patent protected; difficult to re-create; and, more importantly, very, very meaningful to our customers.

The quality improvement and cost savings expected from the deployment of the USG manufacturing processes and our technology enhancements in the Boral plants is going to create a superior, low-cost product offering.

In addition, Boral is going to gain the benefits of a cash release resulting from the transaction, which Mike is going to elaborate in a few minutes.

For USG, we stand to benefit by achieving an immediate, significant presence in some of the largest construction markets and some of the fastest-growing markets in the world. Boral's established market position with customer relationships, landed assets, and distribution channels will enable USG to roll out our technologies throughout the region at a much faster pace and a much lower cost than the alternative options that we investigated.

We fully expect that this JV will be immediately accretive and PV positive, and have anticipated EBITDA offsetting the additional leverage. Additionally, this joint venture will position USG to further deliver on our three strategic initiatives -- strengthening the core, diversifying our earnings, and differentiating through innovation.

As we talk about diversifying our earnings, this is by building critical mass outside of our home market of North America. It also positions us to deliver on our strategic objective of differentiating through innovation. This is by expanding the reach of our world-leading building products technology into select international and emerging markets.

And finally, on strengthening the core business, which is our North American business, it helps us expand our FIBEROCK, DUROCK, and other products that we manufacture in the United States that we plan to sell through this very exciting joint venture.

I want to emphasize that we are confident. We are very confident that we can execute on this JV without sacrificing the commitment that we've made on building on the recovery that we're starting to see in the US market. USG Boral Building Products creates a regional leader with a superior technology advantage, a more robust product portfolio that competition cannot match, and a substantial -- a very substantial footprint.

But also, we are very well aligned from a culture standpoint and a business fit of two companies, and we're both going to benefit our customers. We have the focus of our customers first, culturally from both sides the business. We also expect this joint venture is going to generate meaningful earnings for the Companies in the long-term and return that to our shareholders.

Mike Kane - *Boral Limited - CEO and Managing Director*

As Jim has said, this joint venture creates a world-leading business in Asia, Australasia, and the Middle East. Our combined asset positions, distribution channels, manufacturing technologies, and product IP delivers an immediate and formidable competitive advantage in the region. Working together, we expect to take advantage of our number one or number two market positions, to fully leverage USG's game-changing technologies to ensure we stay ahead of the competition, and realize substantial synergies through the adoption of USG's technologies across Boral's Asian and Australian gypsum operations; and by using Boral's distribution network to offer USG's complementary products.

Working together, we will have an accelerated growth profile in India and the Middle East, and the JV will be well-positioned to pursue and self fund new opportunities.

By bringing together two industry-leading organizations as partners in this business, the joint venture will be better placed to maintain a leadership position.

For those less familiar with Boral or with USG, this next slide provides some high-level context. Boral has a market capitalization of around $3.7 billion and reported revenues last year of over AUD5 billion. We employ over 12,600 employees in Australia, North America, and Asia. Our largest division is construction materials and cement in Australia, generating 60% of the group's revenues last year.

As an aspirational goal, we at Boral would like to see the USA and Asia combined, delivering around 50% of Boral's revenues, which is slightly more than doubling the current contribution.

USG is listed on the New York Stock Exchange and has a current market cap around $3 billion US. Last full-year results, the organization reported $3.2 billion US in revenues. USG employs 8500 people predominantly across the Americas as well as in Asia and the Middle East.

Turning now to slide 8, we have an overview of what each Company is bringing to the joint venture and where we operate -- Boral's assets highlighted in green and USG's in red. It's a bit of an eye chart up here, but your slides -- you should be able to follow along.

Boral currently has plasterboard and manufacturing capacity in eight countries and a sales presence across the region. Boral also has other manufacturing facilities across the region, including a 50% share of Rondo metal products, which is a joint venture with CSR that has a presence in Australia, Malaysia, and India.

Boral also has a joint-venture gypsum mine with CSR in Australia known as GRA. Boral's 50% share in these JVs are included in USG Boral Building Products.

Through our 50% interest in the joint venture in Oman, USG has board manufacturing capacity being installed in the Middle East and has several wholly-owned or jointly-owned, complementary manufacturing plants such as metal grid, ceilings, compounds, manufacturing plants in Saudi Arabia, China, Malaysia, and New Zealand.

USG also has a 55% interest in a gypsum mine in Oman, which is positioned well to supply the expanding Indian and Asian market.

Of course, in addition to these strategic operations, USG is contributing significantly to the joint venture through its technology capability and IP.

I'll hand over to Jim to tell us about USG's R&D capabilities and technology achievements.

Jim Metcalf *- USG Corporation - Chairman, President, and CEO*

I'd like to now talk about the culture that we have at USG on innovation and intellectual property that we have generated over our hundred and 11-year-old history. And, particularly, we've had a focus on this in the past 10 years.

USG is 111-year-old building products Company. We have led every major industry innovation throughout our history, and we are recognized as the industry's leading innovator. In fact, our Company invented plasterboard. The SHEETROCK brand is one of the strongest brands in the industry. But, however, you have to think of us more than a plasterboard Company. And what I like to say, USG, we build shelter -- it's where you live; it's where you work; it's where you play.

We are also a full product solutions provider; we just don't sell or market plasterboard. We're a leading manufacturer of ceilings, joint compound, cement board, and other related products that are used in residential, commercial, and repair and remodel.

We have products for the walls, for the ceilings, for the floors. We have products for the exterior of the building. We are also the US' largest gypsum specialty dealer; so we are in distribution, and we have over 40 years of distribution experience in North America.

Innovation is one of our core values at USG, and we believe, as I said earlier, differentiating through innovation is one of our key pillars of we call our plan to win.

Even throughout the worst downturn that the industry had in North America and the construction industry, really, throughout the world over the last five years, I'd like to refer that we went through a small-d depression in North America in construction. But one thing we did, we remain committed to innovation -- to product innovation. And over the last decade, we've invested over $170 million in research and development, and we've been granted in excess of 2000 patents. 2000 patents in the last 10 years.

Recently, and we don't like to brag but this morning I will, we've received numerous awards for our innovation and the performance of our products. In 2011, our SHEETROCK brand UltraLight Panels was awarded by Global Gypsum, that looks at all of the global gypsum players, as the product of the year. It's not a commodity. The Home Depot, which is one of the largest retailers in the world, awarded USG the Innovator of the Year, an award that is -- just that -- not just building materials. All the products of their hundreds of thousands of SKUs that Home Depot has, this was the most innovative product that they had seen.

In early 2013, USG was recognized by the Patent Board as one of the top innovators in the industrial materials sector. This is based on the strength of our patents and the research intensity of our Company.

A great example of differentiating through innovation is our SHEETROCK brand UltraLight Panels. These panels represent the most significant change since plasterboard was invented -- and remember who invented it. This is a significant change with our patented, proprietary, UltraLight technology that we reengineered the core of the plasterboard. In doing so, it created a product that was 30% lighter; but, more importantly, it was stronger and performed better than competition.

It's not only lighter, it has superior performance capabilities with strength. The score and the snap of the product -- that's where you cut the product; the nice, clean line. But what's really important is the sag resistance of a very light product, which is important in this part of the world that we have the joint venture because of the high-humidity areas.

In fact, our lightweight, high-strength plasterboard is the strongest pound-for-pound plaster product in the world.

Because of our lighter weight, we can also ship more on a truck or in a container. And it benefits the environment, using less water, reducing freight for both the joint venture but also the freight costs for our customers.

And finally, let me talk about our customers. When we started the journey of a lightweight product, we asked our customers what was important to them. Of course, the weight, the performance, and the sag. So we touched our customers. But what it also did, it helped our customers improve their productivity. In some areas of the world, labor rates are higher, some rates they're lower. But it helped our productivity. But what it also did, it helped our customers' margins. Our customers made more money handling the UltraLight product.

The UltraLight product is not just a product. We are viewing our lightweight as a platform. We've taken it across our DUROCK platform, we've taken it to joint treatment. In fact, our joint treatment lightweight is 40% lighter than our classic product. I'd like to refer to our platform similar to a Company that I think we all know and some of us may love, is Apple. They have the platform -- the iPod, the iPad. Our UltraLight platform is similar to what Apple has done with their platform.

But we've also expanded this into areas outside of just regular plasterboard. Our MOLD TOUGH, which is very important in high-humidity areas. We also are DUROCK, our next generation, which is the out -- can be the outside of the building, which is very prevalent in commercial construction.

Due to its superior performance and our customers' ability to improve their margins by using lightweight, high-strength plasterboard, we've seen a very strong and positive market response. I want to touch on three markets where we've introduced UltraLight in the last three years.

First, obviously, in the United States. We've seen volume growth in our shipments since the introduction. And with SHEETROCK brand UltraLight panels, it currently represents more than half of our plasterboard shipments. It's been overwhelming response, and the adoption of a superior plasterboard product is evident in the end-use market, and it provides meaningful upgrades to our customers in a value proposition where we get margin lift.

But let's look at the Mexican market. We're very strong in the emerging market in Mexico, which has similar characteristics of some of the markets in Asia. We've seen positive responses to UltraLight in the Mexican market. In spite of very low labor rates in Mexico, we've been able to position UltraLight as a product, as a premium offering in the market, securing better margins and growing our business in Mexico. Our Mexican customers rave about its performance, and they tell us they are able to improve their profitability by using UltraLight over the competition.

So the Mexican market gives us great confidence in our ability to introduce these new technologies in the emerging markets that we're talking about in this very exciting joint venture. And we fully anticipate the acceptance and adoption of the industry's leading products in developing markets like those in Asia.

The third market is Canada, which has strong parallels to some of the mature markets in Australia and South Korea. And we've seen similar responses in our Canadian market, and the results the feedback have been astronomical. The UltraLight value proposition resonates well with our customers, and they tell us they use the product because they are growing their business. And what this has done for our Canadian customers, it has differentiated them from their competition as well.

We've made our customers stronger with this product offering. But don't take my word for it. We have some quotes up here, and these are actual quotes from customer feedback that we've seen about UltraLight. You can see that it's contractor-preferred because it enables them to improve their productivity regardless of what the labor rates are. You aren't tired at the end of the week carrying something that's lighter.

When we set out to change the product that we invented, we did so with our customers in mind. We listened to our customers, and we responded to them with a game-changing product that takes the word commodity out of their vocabulary.

But, as I said earlier, we are not just a plasterboard Company. We build shelter. One of the key components of this joint venture is the contribution of other USG building products beyond plasterboard. I believe, standing here in front of you today, that one of the key differentiators for the USG Boral Building Products Company is the USG ceilings line. This broadens our product portfolio; this broadens our share of wallet for the joint venture.

Our ceilings business is comprised of acoustical ceilings, tile, and grid. It's typically used in commercial construction to improve the acoustics, the aesthetics, and really the overall performance of the space of a commercial building.

USG Ceilings is number one or number two in each market we serve. We are globally recognized through our brand and the solutions, and it's a product our customers trust. In fact, we invented the Acoustone ceiling tile in 1928. Our ceilings also provide a higher-margin business for USG, and it performed extremely well -- you can do the research -- over the economic downturn over the last five years despite a very choppy commercial market and the unemployment rate being quite high.

We think that further expansion of this high-margin business into the high-growth markets that we're talking about this morning is going to generate excellent results and a wonderful opportunity for this very new, exciting joint venture.

So now I'd like to turn it over to Mike to talk about the JV's combined footprint and a little bit about our market.

Mike Kane - *Boral Limited - CEO and Managing Director*

Thanks, Jim. USG is an extraordinarily innovative Company. They have proven the success of introducing their technology solutions to a number of mature and developing markets. Recognizing that it's hard to grasp how different USG's product offering is compared to other industry participants, we have small samples of USG's ultra lightweight board and Boral's standard plasterboard, which we are passing around here in the room for you to see.

When you get these two products, put one in each hand and you'll get to feel immediately the difference in the weight straight away. But then look at the core of the boards, and it's easy to see why USG's product is much stronger and more sag resistant. I can tell you, I had heard about what USG had done over a year ago. I was impressed by the size and the scope of the weight reduction from what I had heard. But until I held the sample in my hand, and could see the gypsum core and see the difference between their core and a standard core, did I realize that this was a game-changing technology. A truly extraordinary change.

Looking now at slide 15, the map shows the number of Boral manufacturing operations in green squares and USG's in red circles. Boral's strong gypsum position in Australia and leading position across Asia is a product of strategic investment in the business over more than 30 years.

In June 2000, Boral's assets in Asia were combined with those of Lafarge's to join the LBGA joint venture, which continued to grow as a JV through to 2011. Proving to be a very successful vehicle for creating a world-leading gypsum position in some of the highest growth markets in the world, Boral's started the JV with 23% of the assets but within a few years was a 50% partner.

After Lafarge's decision to exit the plasterboard business -- not our decision, but their decision -- Boral acquired its 50% stake in 2011, paving the way for us to enter into this new strategic partnership with USG, which is about leveraging the strong asset positions that we had with their technology.

Following completion of Boral's current capacity expansions in Vietnam and China and USG's new capacity in Oman, the JV will have 633 million square meters of capacity in the region, or 6.8 billion square feet. We estimate that our capacity is one third larger than the combined capacities in the region of the next two global competitors, [Sankoban] and [Kanoff].

The business will have 25 board lines across 19 plants, three gypsum mines, and 37 complementary product manufacturing operations across 12 countries, a truly sizable joint venture. The complementary manufacturing operations include ceiling tile, metal grid, metal stud, cornice, joint compound, and mineral wool.

Excluding China, India, and the UAE, where the JV business has major regional positions, the joint venture has the number one or number two market positions in most countries in which it operates. In fact, it has around 40% or more share across eight countries, where the combined consumption of plasterboard is of the order of 580 million square meters per annum and growing.

In China, we have strong positions around Shanghai, Chungking, and Shandong, and we are focused on maintaining our current market positions. In India, where there are four regional markets, we have growth businesses in the North and in the South, and we are well-positioned to supply growth in India from USG's manufacturing and plasterboard position in Oman.

Excluding China and export markets, the total market size potential for the JV business is currently around 680 million square meters. Korea and Australia are mature plasterboard markets that contributed a little more than half of Boral's gypsum revenue. These two markets will embrace the UltraLight high-performance plasterboard technologies in the same way that the US and Canada have.

Growth in other maturing markets is significant, especially in the (inaudible) countries of Indonesia and Thailand, where -- which are highly populated countries with major urban opportunities.

Accounting for just over 20% of revenues for Boral Gypsum, Indonesia and Thailand are high-growth markets with significant potential for increased plasterboard penetration.

As construction techniques mature, the introduction of higher-performing interior linings products will benefit our customers and set us apart from the competition. In China, we are a niche player with higher quality products relative to the competition. Broadening that high-end product offering in the markets in which we operate in China will allow us to strengthen our position and improve performance.

And finally India, which is a country that is short of natural gypsum supplies. We are very well positioned to grow in the North and the South, including taking gypsum from USG's mine in Oman to supply the Indian market.

Many of the markets in which we operate have strong forecasts of economic growth and are in the early days of urbanization. We see growth opportunities in both commercial and residential sectors and are confident that new technology products in gypsum wallboard will be accepted as the market continues to mature.

Traditionally in maturing plasterboard markets, wallboard products are introduced in commercial applications and used in ceiling applications first. So in many of our developing country markets, there is significant potential to grow in residential construction and to move from just being a ceiling supplier to supplying plasterboard for all four walls.

Asia, which currently accounts for two thirds of Boral's gypsum revenues, is expected to be the world's largest plasterboard market by 2015. Our Asian markets have economic growth forecasts between 4% and 7% per annum over the next five years, and that's before the impact of plasterboard demand lifting due to increased product penetration.

And let's move on to synergies. Beyond growth that will come as a result of economic growth and product penetration, the joint venture is anticipated to deliver significant, synergistic benefits to both Boral and USG. Substantial synergies will come as a result of rolling out USG's gypsum technologies, which provide opportunities to deliver manufacturing and freight cost savings plus revenue enhancements, and as a result of leveraging Boral's distribution platform, which is expected to support revenue gains from adjacent products.

We expect that early synergies will come from the new product lines being introduced in the market, and we expect that synergies will exceed $50 million per annum within three years of the technology rollout throughout the operations.

A little more than one quarter of the synergies are expected to come from cost savings associated with manufacturing and transport, with modest savings to come from eliminating duplication.

One quarter of the benefits are expected from sales of USG's adjacent or complementary products throughout Boral's existing sales channels. And the remaining synergy benefits are expected to come from revenue growth as a result of rolling out the new technology products.

Before I hand over to Jim to comment on the rollout and how we intend to implement the technology upgrades, let me say that we have undertaken extensive due diligence to arrive at the conclusions we are presenting today.

I understand the basis of USG's technology breakthrough -- how it plays on cost and performance, and how USG has creatively gone to market to preserve its share gain and margin gain opportunity and not squander it with a poorly targeted market entry. Lessons from the US, Canada, and Mexico are critical to understanding the sales and marketing opportunity and risk, and we have assessed these closely.

My experience in Silicon Valley with CalStar, a new technology startup, taught me some interesting lessons about new technology to a new market. The great advantage we have here that I didn't have in Silicon Valley, and no startup has, is that this technology has been proven in the North American market in three very distinct markets.

Back to you, Jim.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Thank you, Mike. The implementation of the USG manufacturing process and our technology is expected to be self-funded through cash flows generated by the JV, with a targeted rollout of the manufacturing facility lines phased out over the next 24 months. We intend to deploy UltraLight technology to optimize the value proposition and garner a premium position in very select strategic markets.

In some countries, it will mean the full complement of the UltraLight technologies. In other countries, this means selectively implementing our technologies -- the proven technologies that we have with our classic products that significantly upgrade product performance while best positioning plasterboard in the marketplace.

Regardless if it's UltraLight, or as I like to refer to as our classic products, it's going to represent an upgrade from mixer to take-off that we will provide substantial performance and cost advantages and create a more attractive plasterboard for our customer and be better positioned as a JV on the cost curve.

The technology upgrades that we talk about will require approximately $50 million of CapEx, which is going to include equipment modification, staff training, and a series of other upgrades. We've done it before; we've done it at our plants; this isn't new for us. All these costs are expected to be funded through cash flows generated by the JV.

Now let's take a look at the transaction. The $1.6 billion joint venture includes $1.35 billion for Boral's gypsum assets and $250 million for USG's assets, and are a very important intellectual property. As I mentioned, we will be making a $500 million payment to Boral, and Boral will have the opportunity for additional earn-out payments as we roll out our joint venture.

This transaction also includes a perpetual license in the JV territories for our current plasterboard technologies, ceilings, joint compound, and grid that are currently using the -- in the territory, but also any improvements that we make on our current technologies.

Assuming earn-out targets are achieved, and we fully expect those to be achieved, both parties are contributing $800 million of value to this joint venture.

USG Boral Building Products is designed as a long-term relationship for both companies that are contributing significant assets. And to assure that, we want to have flexibility as a JV, so the support and structure is to achieve the full potential. It's going to have its own management and its own Board of Directors that are represented by leaders, some of which are in the room this morning.

The CEO of the joint venture will be a Boral executive, and we're very proud to have him join us. The CFO, a USG executive. The technical operations will be led by tried-and-true USG executives that have done this before, that have the knowledge, that have been in the plants, that have done it many times. But also, we are going to have a financial and technical committees of the Board to provide additional oversight for this very important venture.

The right to appoint the Chairman of the Board will rotate every two years. And Jenny Scanlan, who sitting here in the front row, from USG will be serving as the JV's first Chairman of the Board.

The remainder of the Board will be comprised of equal nominees from both Boral and USG as long as we hold a 50-50 interest.

The JV is targeted to be self funding, with the ability to borrow on its own right with dividend distribution targeted at 50% of after-tax profit, taken in consideration to growth needs of the joint venture. And we truly expect this joint venture to grow.

As I commented earlier, the JV partnership is also granted exclusive rights to current and future technologies as part of our agreement. But we must implement intellectual property protection controls and use the best available safeguards in countries where there is a high risk of IP loss. We are going to monitor all the IP protection through this very important Board of Directors technology committee.

Again, and I mention this again, this is a long-term relationship, with each Company committed for a minimum of 10 years. The deal also includes very standard termination provisions in certain circumstances as a call option in event of a change of control of either Company and a non-compete should one of the parties exit the JV.

Now I'd like to make a few specific comments before I wrap up. This slide illustrates our projected contribution from the joint venture. The results on this slide are our best estimates for the full 12 months of 2014, which would be prorated, obviously, at the start -- the actual start of our joint venture. As you can see, the net impact of the JV is expected to be immediately accretive, with expected calendar year results -- their earnings between $7 million and $12 million.

We expect the JV will be NPV positive, and we expect to generate returns that significantly exceed the present value of our cash contributions as the synergies are fully realized.

In addition, it will be balance sheet positive, with expected EBITDA offsetting the additional leverage incurred on the balance sheet from long-term debt and a higher cash contribution, and lower debt to EBITDA rating will be secured over time.

We fully expect the combination of Boral's customer relationship, the manufacturing footprint, as well as distribution, coupled with our technology and our strategic assets will yield wonderful results that neither Company, as Mike said in his opening comments, could reach independently.

USG Boral Building Products is designed as a long-term partnership that's going to deliver on USG's strategic pillars, diversifying our earnings, differentiating through innovation, and strengthening our core. This joint venture is an important part of USG's strategy of our plan to win. And I will tell you, we are extremely, extremely excited about the impact that the JV is going to have on our earnings. We are very confident in our ability to execute our proven technology to partner the two cultures, and we believe this is going to be a wonderful joint venture for many, many years to come.

Now I'd like to turn it over to Ros Ng, the CFO of Boral. Ros?

Ros Ng - *Boral Limited - CFO*

Thank you, Jim. I'd like to take a few minutes to comment on the impact of the joint venture on Boral's balance sheet and P&L.

Let me start by saying that the transaction is valued accretive for Boral's shareholders, and it immediately strengthens our balance sheet and positions the gypsum business for strong value-creating growth.

At completion of the joint venture, which is expected to be around January 2014, Boral will receive an upfront $500 million cash payment from USG. Based on the value of $1.35 billion for Boral's gypsum business, and based on Boral's gypsum 2013 EBITDA of AUD125 million, the implied EBITDA multiple paid for our business is around 10.6 times.

On receiving the $500 million upfront cash payment, Boral's net debt will reduce from about $1.4 billion to $900 million, assuming 1-to-1 exchange, reducing our gearing from around 30% to a pro forma of 22% level.

While a majority of the $500 million proceeds will be applied to reducing Boral's debt, we won't, however, be in a position to immediately pay down $500 million of debt on receipt of funds. Initially, we will reduce Boral's bank debt by approximately $250 million and we may also consider capital management initiatives following receipt of funds, subject to market conditions. Following completion, the joint venture will be reflected in Boral's accounts as a 50% equity interest, accounted interest.

Slide 30 shows on the financial year 2013 historical pro forma basis the impact of the transaction, which includes deconsolidating Boral gypsum and equity accounting of Boral post-tax earnings from its 50% interest in the joint venture, which we haven't moved to slide 30.

So as I mentioned, the impact of the transaction will include deconsolidating Boral gypsum and equity accounting of Boral's post-tax earnings from its 50% interest in the joint venture as well as the interest savings resulting from the USG $500 million cash payment. Before taking into account synergy benefits, any cost of integration or the contribution from USG assets, Boral would have reported a $13 million reduction at the impact level in financial year 2013. In financial year 2014, we expect NPAT to be around $15 million lower than it otherwise would have been as a result of moving to equity accounting from January 2014. The $15 million NPATreduction for six months is very similar to a pro forma 12 months with $13 million NPAT.

As we expect Boral earnings for gypsum to be much higher in financial year 2014, especially in the second half, and implementation and integration costs associated with the joint venture are coming through in the first few years. In line with Jim's comments, we expect Boral's 50% interest in the post-tax JV earnings to be around $35 million to $45 million for the first 12 months of trading post completion.

Back to you, Mike.

Mike Kane - *Boral Limited - CEO and Managing Director*

Thank you, Ros. Moving on, let me close by saying that for Boral, this deal has been a technology deal, first and foremost. However, we are gaining considerably more than that.

In summary, this strategic joint venture is designed to deliver sustainable and significant value-creating opportunities for both organizations. Bringing together Boral's strong asset base with USG's enviable world-class technology platform, we are creating an immediate competitive advantage that can't be replicated. The business is positioned for strong growth with average capacity utilization currently below 70%, about 68% to 69% utilization. We have over 200 million square meters or over 2 billion square feet of capacity available to support synergies and market growth. USG's strong technology and technical skills are supplemented by our combined sales and marketing logistics and commercial capabilities. And with strong locally respected brands, we have already commenced work to develop a new business name and brand positioning that leverages the strengths of USG and Boral as well as our local market presence.

We expect to roll out the new business branding and collateral when the joint venture commences operations. This has been a complex deal; really, four deals in one. It's a technology deal acquiring disruptive technology, which fortunately has had a five-year gestation in three key markets in North America to learn from.

Second, it's a sale of assets. It's a divestiture for Boral. Third, it's a purchase of assets. USG's adjacent building products operations. It brings us to a new geography in force in the Middle East, and it sets up -- the fourth part of this deal is a viable joint venture across three continents and 12 countries. Over the coming months, we will be finalizing some of the details and ensuring we have all required third-party consents and any local regulatory approvals. The joint venture will be operational when the transaction is completed, which is expected to occur in January 2014.

Jim and I are now happy to take questions from the floor and from the phone. We will start with questions from the phone, in deference to the fact that in New York it's a little late right now, and then come back to questions from the room. We ask you to please limit your questions to one per person, and if we have time we will come back around for supplementary questions. Can we start with the first question from the phone?

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Bob Wetenhall, RBC Capital Markets.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Congratulations on a transformative acquisition with very sound industrial logic. I was hoping could give us a little bit more granularity in terms of expected top-line growth, given the various geographies. I was hoping I could get a range going forward as well as a margin outlook for the JV in 2014. Thanks so much and congratulations.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

It's great to hear from you, from Sydney, and I appreciate your comments. We are very excited about this part of the world because the growth rates in the key markets that we are talking about are going to be greater than we typically see in North America. So if you look at the growth rates in North America, there are some fast-growing markets that Mike talked about -- Indonesia, Thailand and some of the emerging markets.

Along with that, Bob, you have to look at the adoption rate of plasterboard. In some of the markets, the plasterboard adoption rate is much lower than what we've typically seen in North America. So it's really a one-two punch as high growth in excess of what we're seeing in the States. And Bob, you know we don't give too much guidance on that, if any. But look at the United States, and it's higher than what we are seeing in the United States, but also the adoption rate.

As we said, we are looking at 2014. We are looking between $7 million and $12 million is our range, and pass that we aren't getting any guidance on that. But we are very excited. It's NPV positive, it's accretive, it's balance-sheet positive for you as one of our analysts and your investors. So I think this really put some teeth into our strategy. We've talked to you a lot about what we want to do about diversifying the earnings.

One of the things we didn't have on diversifying our earnings through international growth is enough zeros in some of the businesses that we talked about. So what this does -- it really gives USG some critical mass in the fastest-growing, largest construction markets. In fact, this part of the world is 2 1/2 times larger than the construction market in North America. So bigger market, faster growth, a proven footprint we have with our wonderful partners, with Boral. And Bob, we are very excited that we could put this, as Mike said, this very complicated deal together for you, our shareholders.

Bob Westonhall Thanks. I was actually asking specifically more about the growth profile and the margin for the JV because you guys had a great slide on slide 30, and the suggestion is that the lift-out for Boral has a 9% margin. You had touched on the benefits to bring in the high-margin ultralight technology. So I was wondering if the combination of the new platform would be disruptive technology coming out to Asia, would take that 9% margin and lead to a richer mix going forward.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Well, if that doesn't happen, Bob, Mike and I aren't doing our jobs. So as I've said about some other margins in our business, we are very focused in improving. We have a cost where we are going to come in with, we think, some cost savings at the manufacturing plant. This isn't just about costs; it's the margin lift of ultralight. So we would fully expect that we would outperform those numbers.

Operator

Jim Barrett, CL King and Associates.

Bob Wetenhall - *RBC Capital Markets - Analyst*

Good luck with everything, thanks so much.

Jim Barrett - *CL King & Associates - Analyst*

Congratulations, Mike and Jim. The question I had, if you could provide any color as to how much improvement would we need to see in the historical performance of Boral gypsum for Boral to earn the year three and year five payouts?

Mike Kane - *Boral Limited - CEO and Managing Director*

Well, let me start by saying I think you are on the right track. This, from a Boral perspective, is best viewed from a DCF analysis. This is investment with an expected return. It's -- and in part for us it's a divestment that has an impact on the balance sheet.

We truly expect that, once we have implemented the technology and rolled out this dual offering and differentiated offering in the market, that we can preserve the current share position, hopefully grow that over time, and extract a premium in the marketplace on top of the expected securing of the current position, of Boral's position in all the countries we've talked about.

So it's a defensive and offensive move. We are not going to put a stake in the ground and give you the hard numbers further help. We have given you as much detail as we can at this point. Expect that in the first couple of years, there's an investment required, not just CapEx investment. Jim talked about -- I believe we said $50 million for CapEx, which, if you think about it, is pretty light CapEx across all those board lines. We have 24 board lines.

But then there's an OpEx investment, and that is there is a marketing investment and a collateral materials. We've got to educate the marketplace about what this product is, both -- and we will start heavily in Australia and Korea, two very prime markets for this technology, but quickly be across the ASEAN region in China and India with these products, and frankly we think it will give opportunity for margin expansion.

Jim Barrett - *CL King & Associates - Analyst*

Good, well thank you both very much.

Operator

Trey Grooms, Stephens Incorporated.

Trey Grooms - *Stephens Inc. - Analyst*

Just looking at the distribution and the competition, I guess, both in the markets that you are in, Mike, how do they compare with the US, and how do they differ? In looking at the competition, is it much more fragmented or consolidated than what we look at here? Can you just to touch a little bit on both of those (technical difficulty) there? Thank you.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Yes; I'm going to have Mike talk specifically about the competition. But what I'd like to just highlight, Trey, is this JV is going to be truly different than what we see with competition. For example, you have Armstrong on the ceiling side that does not have plasterboard. You have Knauf that has plasterboard but doesn't have ceilings.

So you look at the total product portfolio, which is a little different than what you would see in the States. We are going to market, as I said earlier, not just with plasterboard -- ceiling tile, joint compound, DUROCK, FIBEROCK, the entire envelope of the building. And this will allow us as a JV to go into these markets with a full range of products instead of a commodity play.

Mike Kane - *Boral Limited - CEO and Managing Director*

Yes, and I want to compliment Jim on that because that's a really important understanding. I'm looking over here at Ross Batstone. Ross -- many of you are wondering, geez, I thought Ross retired. Well, I couldn't let Ross go. I needed Ross to help me -- now you understand. I needed Ross to help me to get to where we are today. We have been working hand-in-glove on this before I had this job. Literally before I was in this job, he and I were talking about what we were going to do with the technology gap that we had to fill. And one of the parts of that conversation that we had had for several years before this was even possible was, what other adjacent products can we bring through this incredible distribution channel that we have created in Asia?

This market in Asia, and I will speak to that one specifically, setting aside the mature markets in Australia and Korea for a moment, but the developing market in Asia is at an extraordinary time in its history. The only parallel to the US market -- you have to go back to the 1920s and even 1930s. Interesting factoid about USG -- in every year in the depression in the 1930s, their markets grew and they were profitable. And the reason was that they had created a new product in 1917, this plasterboard product. And it really didn't rollout in strength until the end of the 1920s. And it continued to grow in wall share and wallet share through the depression. It was a new technology in those days.

Well, we are coming to an Asian market that is not too dissimilar. This is a market that continues to grow. And while it has cycles, okay, and from time to time it flattens out, it never really retreats. And we believe that the complementary products that USG brings in with its ceilings offering, which I'm very familiar with, having run the international ceilings business for USG for a number of years, combined with our footprint, we are creating a channel of distribution and building on that channel of distribution in Asia well beyond what we did when we were limited to just a gypsum offering. So the complementarity here is significant and enormous.

The competition -- and I won't disparage our competitors out there; they are doing the best they can. But the reality is, in terms of scale and scope, we far out-distance them in size. And I'm the beneficiary. I stepped into this role. And Boral handed to me the greatest gypsum platform in Asia. And it took a decade or more to build, and this is Ross's work, laboring in the vineyards out there, creating something that no one else had created.

So our scale and scope is wealthy on Knauf and SikaBond, the only other global majors in that market of significance. And therefore -- and I believe based on our due diligence that USG technology has to offer far surpasses any of the technology that the global majors have to offer. We have done that analysis. We know that to be true. And now we take that technology, which we believe is more than attractive versus the global majors, and we also present it against a variety of small and independent players in the market who, quite frankly, cannot stand up to the quality standards because we are going to raise the bar in terms of quality even higher.

I can't underestimate enough the importance of sag resistance in a market that doesn't close in its commercial buildings before it air conditions them. In the North American market, for example, you close in a building and then you bring in the interior linings products; not so in Asia. And when I was rolling around Asia for USG in the 1990s, I can tell you this was an enormous issue. This issue is all but taken care of as we look at this new technology. The sag resistance of this board is incredible -- not that I'm too enthusiastic about this.

Trey Grooms - *Stephens Inc. - Analyst*

Well, thank you very much. Very helpful and congratulations and good luck.

Operator

Stephen Kim, Barclays.

Stephen Kim - *Barclays Capital - Analyst*

That was very, very informative. Thanks very much for that, that previous response. I wanted to follow up on that a little bit. You have been kind enough to give us some synergy expectations as we look forward. I guess I was curious as to the portion which you believe will come from essentially what seems like market share gains, I'm assuming as a result of this disruptive technology being implemented in Asia.

I was curious as to, when you were trying to figure out what that number might be, what that opportunity might be, did you anticipate or bake into these numbers that the opportunity to gain share was greater than what USG was able to accomplish in North America by virtue of the fact that there's a greater disparity between its technology and the competitors in Asia; or, did you basically apply something similar to what they have achieved in the North American market?

Mike Kane - *Boral Limited - CEO and Managing Director*

I would say, on average, it's line ball. We didn't bake in any aggressive numbers here in terms of hockey sticks around share gain or even aggressive hockey sticks on price gain. We looked at the model, the rollout that they did in the US, and we understood that and we tried not to get away from that.

But as you look at the synergies, the synergies are an incredible part of the story. Ros will tell you, as we sat around looking at this deal, it's all about the synergies. This deal is all about the -- the synergies pay, and then they pay and they pay and pay going forward. Once we have this technology in place, we roll out the two SKUs in the market and they understand the acceptability here. You get the defying gravity moment where you do have the opportunity for share gain and you do have the opportunity for margin improvement and you do have the opportunity for price improvement. Those things seldom happen at the same time. It's seldom, certainly in maturing markets, difficult to rise on all three of those indicators, but we believe that opportunity exists.

The synergies here -- put them in broad buckets. And we tried to break that out in the presentation, but I'll even make it simpler. If you take cost savings and you take freight savings and you take the synergies that will flow from the adjacent products coming through distribution, which I consider basically our operating synergies, those operating synergies are almost half the synergies and, in some cases, a little more than half.

Stephen Kim - *Barclays Capital - Analyst*

I'm sorry; you are completely breaking up. I cannot hear you. We may have a technical issue.

Mike Kane - *Boral Limited - CEO and Managing Director*

Maybe I will speak slower.

Stephen Kim - *Barclays Capital - Analyst*

Can you hear me okay?

Mike Kane - *Boral Limited - CEO and Managing Director*

I can hear you just fine.

Stephen Kim - *Barclays Capital - Analyst*

Wow, that's unfortunate.

Mike Kane - *Boral Limited - CEO and Managing Director*

More than half of the synergies come from cost adjacencies and freight, and the other half of the synergies come from share and price and margin improvement.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Are we still breaking up on your end?

Stephen Kim - *Barclays Capital - Analyst*

Well, you broke up very significantly. I would suspect that most of the folks in New York probably couldn't hear what your response was. But I also don't want to overstay my welcome. So I can follow up with you later on.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

I understand. And I just would like to add, and hopefully we are still clear on the communication. You are talking a lot about ultralight, which is very, very important. As Mike said, there's cost reduction and there's margin improvement.

But what is really important, there are significant parts of this JV that we're going to go in and put in tried and true technology before ultralight. So bringing costs down, running the plants more efficiently. So there's really a lot of singles and doubles in this is well. So it's really important; you just don't focus on the ultralight and comparing what happened in the States, which was very successful. But there are some very basic things that we've done many, many times that on day one we are going to be in working in conjunction with Boral to really run the plants more efficiently and really lower the cost to put us, as I said, in a better position on the cost curve.

Stephen Kim - *Barclays Capital - Analyst*

Okay, great. That's very helpful and I heard all that. So thank you very much for that.

Operator

Matthew McNee, Goldman Sachs.

Matthew McNee - *Goldman Sachs - Analyst*

Just a quick question on the USG Asian business that has essentially been vended in. Can you just give us a few metrics around what the earnings of that business were, what the revenues were? And also, just clarify -- is the new plant in Oman being finished? Is there any more capital to still be spent on that? What's the position there?

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Yes, we don't break out the business in our segment reporting. If you look at those businesses, those are broken out under worldwide ceilings. So if you look at our segment reporting -- but what's important to -- the number I want to bring you back to is the $250 million contribution which included the USG Asian businesses, our joint ventures and our IP. So that $250 million was part of the contribution to the joint venture.

In relation to the plant in Oman, the quarry is completed. We are starting to ship product out of the quarry as we speak. The plant will be commissioned in about 14 months, and that CapEx is outside of the joint venture.

Matthew McNee Okay, and just to clarify, there was a significant IP cost in that $250 million. So the multiples we should be looking at in terms of the earnings are probably pretty high relative to the $250 million?

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

You can do the math on the joint venture earnings, but we aren't quoting any multiples right now.

Matthew McNee - *Goldman Sachs - Analyst*

Okay, no worries, thank you.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

We have one more on the phone, and then we are going to turn it over to the room.

Operator

James Rutledge, Morgan Stanley.

James Rutledge - *Morgan Stanley. - Analyst*

I was just wondering about if you can give any or quantify the integration cost and at what period we should expect those integration costs to come through earnings.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

The integration cost -- well, first of all, from a CapEx, we're planning around $50 million over the next 24 months. And as Mike said, if you divide that in 24, 25 board lines, it's fairly minimal. There will also be some sales and marketing expenses that we're going to be putting into the JV.

We have a 24-month planned rollout, but let me assure you, and Mike and I both agree with this -- year one is going to be very, very important to get the technologies in, to get some singles and doubles. Some facilities will take us a little longer. So we have a very, very tight time frame to get this integrated throughout this wonderful network we have.

Mike Kane - *Boral Limited - CEO and Managing Director*

Expect the lion's share of the CapEx and OpEx in the first 24 months, the first two years of the, venture. Then we should start seeing, by year three, some synergies start to flow through; and certainly, over the next two years after that, the synergies will start to mature.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Back to one of their original questions that I think Jim Barrett had about the earn-out piece, we are very committed collectively to hit those numbers and really both of those tranches of the earn-outs that we talked about. It is something that the management team on both sides is extremely focused on, hitting those numbers, because if we had those numbers we are right in stride of where we want the business to be.

Matthew McNee - *Goldman Sachs - Analyst*

Okay, thanks. And so the 35 to 45 that has been quoted as the 50% share of the JV -- that excludes integration cost, just to be clear?

Mike Kane - *Boral Limited - CEO and Managing Director*

Includes.

Matthew McNee - *Goldman Sachs - Analyst*

Includes?

Mike Kane - *Boral Limited - CEO and Managing Director*

Yes.

James Rutledge - *Morgan Stanley. - Analyst*

Okay, thank you.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Now we are going to turn it over to the room. Thank you for everyone that was on the phone line.

David Leitch - *UBS - Analyst*

David Leitch, UBS. I just wanted to ask about the ultralight technology. I've read about it a lot, but I guess competitors are also introducing and lowering the weight density of their own products. I'm just trying to understand how much of an advantage you have versus the best competing product now and what barriers there are to other guys catching right up with you.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Great question -- the barriers are huge. When we started the invention of ultralight, we had our patent attorney group involved in that process from day one. So we have the respective intellectual property wrapped around this on the different process, as well as trade secrets. So if someone reverse-engineers this, they cannot manufacture it. If you just look at a proof point, we had a little situation with one of our competitors a few years ago, and we had 105 million reasons why they don't want to do that.

The products -- everyone talks about the light -- it's light. That's really important, but that's only part of the story. What we are talking about is the performance. When you are in this part of the world, in high humidity areas, the sag -- in some areas here in the joint venture territories, the product is 16 feet long on the ceilings. It won't sag. It's the paper, it's the core. Think about it; you are taking out 30% of the weight, and it's just a strong, if not stronger.

Our competitors have lowered the weight of some of their products, but they did it by putting heavier paper, by putting additional cost additives. What is wonderful about this product -- it is cost-neutral for us. It doesn't cost us anymore at our manufacturing facilities to make ultralight than it does to make our classic product. So it's lightweight, but it performs better.

We feel that we aren't pleased with just the 1/2-inch product. We have taken it further in the States to have the 5/8 fire code product, which is on commercial buildings in the States. You have to pass the UL fire tests to do that. No competitor has been able to do it, to pass the Underwriters Laboratory fire test. It is a series of over 90 tests that you have to pass because it's all about life safety.

So we feel that, as Mike uses the term disruptive technology, it truly is. We have large customers, and I refer to the Home Depot, that gets additional comp store sales with this product at a higher margin.

What is great about this product -- our customers make more money by handling this product. So competition -- we were pleased because they had to put additional cost in their product. But, for example -- I'm sorry, I'm going to do it in American terms. 1800 pounds for 1/2-inch product per 1000 square feet was typically the 1/2-inch weight. We are running, right now, around 1100 or 1200. The competition has brought their weights down to basically where our classic is. So hopefully that helps.

David Leitch - *UBS - Analyst*

Thank you.

Michael Ward - *Commonwealth Bank of Australia - Analyst*

Michael Ward from the Commonwealth Bank. Just following up on David's question, but can you give us a sense of -- I think there was a slide there that showed your volumes to date are about 50% ultralight. Can you give us a sense of what you think that may grow to in a terminal share type perspective?

THOMSON REUTERS

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Sure. That 50% is primarily just the 1/2-inch product, not even -- we haven't fully rolled out our 5/8 fire code product that I was just talking about. So we are seeing adoption rates each quarter grow. And we still believe in the two-SKU strategy. So you aren't going to see adoption rates at 100% at some point; it's probably going to be somewhere between 50% and 75% once we keep rolling out our platform.

But what's really important is having this two-SKU strategy because we also have the fighting brand, the heavier, the classic product that -- you can have that as a fighting brand where you have to have a competitive situation, and then you have your higher end brand that the customer says, well, you are going to pay a premium, and it gives them a choice.

So I wouldn't expect to see the adoption rate at 100%, but it will continue to grow, particularly when we grow the portfolio outside of just the -- in the 1/2-inch in the States and North America is just the residential product. We are now getting it in the commercial product, which is really important on labor.

And if you look at the labor rates, and they are the same here in Sydney and in Hong Kong and some of the very developed areas in the region, the labor rates on a commercial high-rise building are astronomical. If you look at the commercial rate to put up plasterboard in New York City, it's $105 an hour. In Chicago, it's $75 an hour. So getting a little bit of productivity, whatever number you want to pick, from a commercial contractor, is a huge labor savings. So that adoption rate is going to continue to grow as we roll out our 5/8 fire code product.

Mike Kane - *Boral Limited - CEO and Managing Director*

And you would expect similar situations here in the Australian market.

Michael Ward - *Commonwealth Bank of Australia - Analyst*

But as the translated through to an obvious market share benefit for you in the US?

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Yes.

Michael Ward - *Commonwealth Bank of Australia - Analyst*

Can you give us a sense of what that is?

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

Let me give you a quick example. The Home Depot -- I keep bringing them up, but they are the largest retailer of building products in North America -- called us 12 months ago and said, we would like to convert 150 stores from your competitor to USG. And the reason they did, because they were not getting the comp store sales of the so-called competitive lighter product. And we didn't touch the price; we weren't proactively trying to get that market in 150 stores and what comes along with that. What is really important on this JV, it's just not the conversion of the plasterboard. What came along with that market share was joint compound, ceiling tile, the cement board. So that came along with it.

What we have done with ultralight, which is very, very different than the way we went to market, is not everybody gets ultralight. There are customers that we do not market ultralight to them because they don't carry the full portfolio of our product line.

So we are really big -- and I was raised in the company of -- we call it system selling. So the ultralight -- you really -- in the States, we have created a marketing platform where you have to, as a customer, provide certain things for us as in marketing the ultralight, stocking the ultralight, selling it at a premium. So it is really taking price out of the conversation, and market share came along with it.

Andrew Johnston - *CLSA Limited - Analyst*

Andrew Johnston, CLSA; a question around the price differential of ultralight in the US. If you can talk about what do you think in the US that's driving you to enable -- to give you that -- enable you charge that price premium? And I take it part of it is labor costs, but then applying that to Asia -- and certainly there are some high-cost markets here, but there are some very low cost ones as well.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

The average has been about 10% price premium. We came out of the gate with having the two-SKU strategy at a price premium. And I will be frank; we weren't sure. When we came out with this product, we were in the middle of this, as I would say, a small d depression. And we went around and we talked to customers, and the reason we partnered with the Home Depot is we said we want to try, we want to experiment with the two-SKU strategy. And you are going to market it at a higher price and we are going to see what our -- as I like to say, do the dogs like the dog food?

And it was very successful. So it has been about a 10% premium of price. The way we look at it is, if we need to hit the price to be competitive, we will do it on the other product which, quite frankly, our classic product is lighter than a lot of our competitors', because we have taken weight out of our classic product as well. So this is not about market share and whose is lighter. And the reason I will say -- and put the labor rate aside. Transportation costs are huge, and it has allowed our distributors to put more product on a truck so they use less diesel fuel, so transportation costs.

Another area that it has really -- it has stuck is with the architectural community, because sustainability -- you are using less energy, so there's an environmental play. So whatever customer -- if you are looking at it from an architect, from a sustainability standpoint, a distributor can get more on the truck so they use less diesel fuel -- the contractor, the labor rate. And oh, by the way, it's not just because it's light; it performs better. So it's more complex than just, hey, is it lighter?

Mike Kane - *Boral Limited - CEO and Managing Director*

Let me comment about the translation into our markets. It has yet to be proven exactly how that translation will occur. But there's a high likelihood that it won't be exactly the same as the North American experience. It will vary country to country. We actually believe that there's some key countries, particularly in the ASEAN region, where costs for energy, costs for raw materials are such -- quite different and distinct from the North American market, where there will be more cost savings synergies than Jim has experienced in North America.

We are also -- and we realize the sensitivity of the price equation in the Asian marketplace. This will be the first differentiated wallboard offering to show up in that market in terms of a global major offering. So forget about a lot of the domestic products that have been produced over the years at extremely variable quality, to be kind; just talk about the global majors. Right now, it's a reasonably undifferentiated offering between Boral, SikaBond and Knauf in the marketplace. When we put in, as Jim refers to it, the classic product, which is the first SKU level, it will be immediately improved performance in a lighter weight product. And then we will even have a premium product -- same strong performance at even lighter weight at a premium price. And then we will get to see where we can extract that and where we can't.

Reasonably confident that the experience that Jim has seen in North America will reasonably translate into both our experience in Australia and Korea, and the rest is yet to be proven as we go through this exercise.

Andrew Johnston - *CLSA Limited - Analyst*

So what is actually baked into the $50 million synergies over the next few years?

Mike Kane - *Boral Limited - CEO and Managing Director*

I tried to give that equation before. The guy couldn't hear me. If you essentially look at -- those synergies come in two buckets. They come in cost, they come in freight, they come in adjacent products through the system and more volume throughput. You have to understand that Jim has underutilized assets in the region in terms of capacity utilization. We have underutilized assets in the region in terms of capacity utilization. And that's going to play a role. So that's the first half of the equation.

The second half of the equation has to do with price and share in the marketplace. And we believe that we have built conservative synergy analytics that are imminently deliverable and we are both committed to delivering this.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

What we talk about -- Mike is talking about an underutilized asset. Let me use the example. We have probably the finest ceiling tile manufacturing facility in the world in Beijing. The issue that we've had is we need more throughput. We haven't had the critical mass that this JV gives us to run that plant. We can ship -- we used to ship products from the States to the Far East. Now we have a wonderful plant here. It's the size of two of our largest competitors' plants combined. Phenomenal facility, 36 months old, and that is going to add to this joint venture.

When you think about -- it's not just plasterboard. I know we talk a lot about ultralight and plasterboard and lowering costs, but this truly differentiates the JV from our competition. As I said earlier, coming with the full range of products to the customer instead of, well, we just have plasterboard, or we just have ceiling tile -- it is that full package that's really going to, I think, exceed some of the numbers that we have talked about. I think that everyone is missing this ceiling tile piece. It is huge and there's not a lot of competition out there for us.

Mike Kane - *Boral Limited - CEO and Managing Director*

We'll take one more question.

Unidentified Audience Member

Funny enough, it comes back to the ceiling point, which, just looking at the numbers as you've presented them from a synergy perspective, from an adjacency standpoint, I think it's slide 21, it looks like it's about $12.5 million factored in with other bits and pieces in terms of cement and fiberboard, etc. It doesn't look like a lot in the context of opportunity, Jim, as you describe it.

Is ceiling elsewhere in terms of revenue growth synergies? It seems small in the context of as you've set it out as a significant opportunity. So maybe you could elaborate. Maybe if you could give some numbers that would be great. But around --

---

Mike Kane - *Boral Limited - CEO and Managing Director*

Let me just make one comment. One of the problems with a classic DCF analysis is that you get to a terminal value and then you assume, I don't know, that nothing grows anymore. Well, this is the fastest-growing market for construction materials in the world, and I think a classic DCF analysis is isn't always appropriate on the back end.

We are not trying to throw hockey sticks at you or to confuse ourselves about what we need to do. That ceilings business is a long-term sustainable position for decades to come. And this is the first time where Jim can match up the ceilings presence that he's built in these geographies over the last 15 years with what we've built over the last 15 years. And in one sense, we can start to mimic what Jim has successfully done throughout North America with the combined interior linings business that he has.

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

That's very well said, and I would agree. We wanted to be reasonably conservative and, as Mike said, no hockey sticks. We are here to tell, not sell. And I would say let's let the numbers speak for themselves.

But I think that is one area that -- we talk a lot about plasterboard. I think that's an area that's going to be new for the JV because having the ceilings in the portfolio is going to take, as I said earlier, some training. We are integrating our ceilings experts. We haven't talked a lot about our management team, but Jenny and her team -- we have a small but I like to refer to it as an elite group of warriors here that really had been outgunned that now have this wonderful partnership with Boral that gives us critical mass.

So the numbers that you see are very conservative, but I'm very optimistic that that's a piece of the puzzle that I didn't want the investment community to overlook.

Unidentified Audience Member

Okay, and just a final one that should be quick -- margin on the ceiling product, by and large higher; should we be thinking that?

Jim Metcalf - *USG Corporation - Chairman, President, and CEO*

We have been so pleased, and you can take a look at our financials. It's under worldwide ceilings. Through this commercial depression that we've had really worldwide, and in the United States, commercial opportunity four years in a row was down anywhere between 35% and 40% per year, four years in a row. Ceilings has about an 18-month lag, so when you are looking at numbers, because the ceilings come in very last in commercial construction.

But through that cycle, margins have been extremely strong for our business. Last year, in 2012, our ceilings business had a record operating profit year. Top line was flat/down, but a record operating profit year. Year before, we also had a record. The ROIC is one of the best in our portfolio. And this is through a commercial recession.

So when I said in my prepared comments, the margins in ceilings are much higher and you don't have the peaks and the valleys of pricing of ceilings. Along with that, you look at the competitive environment. You don't have 20 competitors outside of China. There's quite a few competitors there. But if you look at the rest of the region there's really, sometimes in one region, one competitor. So the competitive environment isn't as vicious as it may be with some other commodities.

So a very long answer to your question. The margins are more consistent. And if you just look at the proof in our numbers, it has been very, very positive in the last three years.

Mike Kane - *Boral Limited - CEO and Managing Director*

Thank you very much.
