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The ever-onwards decline of Fletcher Building

Janet Wilson | ***February 17, 2024***

A 2020 file photo of the fire-damaged international convention centre near Sky City in Auckland, which has proved an albatross around Fletcher Building's corporate neck.
CHRIS MCKEEN / STUFF

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OPINION: If Fletcher Building's dire half-year results symbolise anything, it's that the company is that rare corporate beast; a construction sector monopoly that continues its ever-onwards decline, a decline cloaked in obfuscation.

Shareholders knew last week that the company had made yet another $165 million write-down for the NZ International Convention Centre and $15m to solve structural issues with Wellington Airport carpark. What they weren't made aware of until Wednesday's results, was the $120m net half-year loss and a $122m non-cash impairment and write-down on its Australian plumbing Tradelink business.

Departing CEO Ross Taylor can complain about weakened markets and convention centre legacy losses all he wants, but the results he achieved echo that of his predecessor Mark Adamson. Both were paid millions more than their peer CEOs and both have been in charge as the company's fortunes have plunged.

When Adamson exited after five-years as CEO in 2017 the company had slipped from first ranking on the NZX to fifth. He had been paid a combined total of $24 million for his troubles. Taylor has overseen that decline from fifth to, as of February 16, 15th on the NZX50. No doubt when he makes his way back to Sydney next September, the $17.2 million he's earned over the past three years, not to forget the clause in his contract which guarantees him another year's salary, will assuage any sense of failure.

Prominent amongst those failures is the question of who is liable to pay for Fletcher's Iplex exploding water pipes fitted into more than 1300 homes in Perth, Western Australia between 2017 and 2022.

Fletcher Building chief executive Ross Taylor, who has given notice of his departure from the company after yet another troubling result and significant loss.
SUPPLIED / THE PRESS

Under the WA building code, pipes are fitted in ceilings, not underfloor as they are in Aotearoa. This has caused ceilings to collapse and water to leak in to electrical fittings in hundreds of homes. Two state inquiries into the issue are underway while Ross Taylor continues an it's-them-not-us defence of blaming poor installation and workmanship.

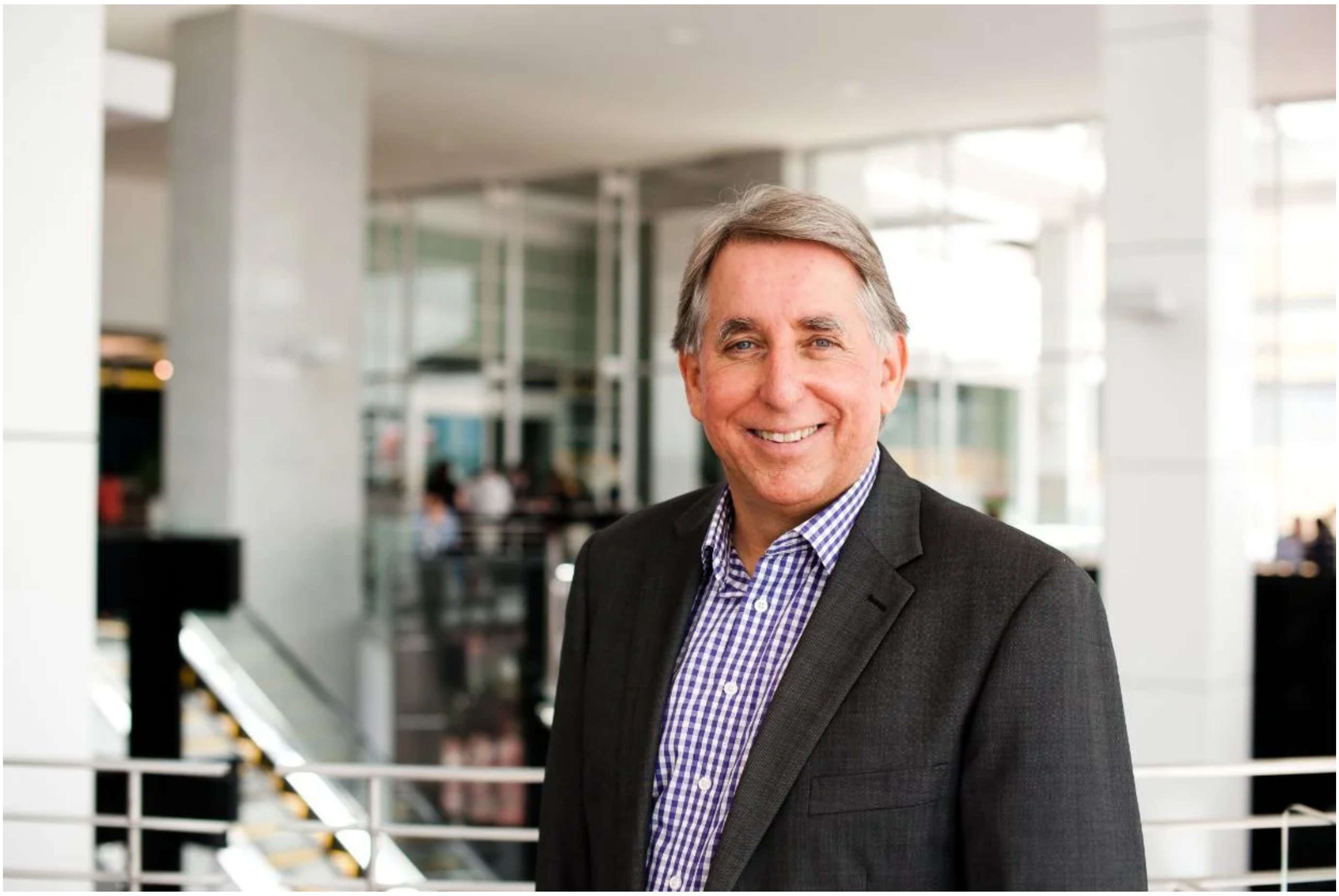
Fletcher Building has set aside a reported $15m to resolve the issue, while others' estimates of the potential cost range from $387.5m up to a staggering $1.95 billion.

But if there's been a run of failure through Fletcher's recent CEOs, it has also been mirrored at governance level. Chairman Bruce Hassall might have enjoyed success as a PwC partner and on the boards of Fonterra, BNZ and Farmers, but he has overseen a 35% loss in shareholder value since he became Fletcher's chair in 2017. His departure announced on Wednesday was an eerie history-repeats moment, coming six years to the day after his predecessor, Sir Ralph Norris, stepped down.

Their departures were marked with both claiming accountability, amid trading halts and projected losses.

No wonder then that the Shareholders' Association is calling not just for the CEO's and chair's departures, but for board changes as well. When five of the present board's seven members were appointed in 2018 and heralded as the fix-it solution to Fletcher's problems, most of them didn't have construction experience. Five-and-a-half years later they're still there and arguably have become part of the problem.

They've overseen a share price that's gone from just under $7 to around th $4 mark as of writing, all while receiving fees well above the NZX average.



Bruce Hassall in his days as PwC chairman; his time heading the Fletcher Building board has ended after the company's latest stumbles.
SUPPLIED / SUNDAY STAR TIMES

Like their CEO, they may have inherited the ongoing calamity that is the convention centre, but where were their risk management skills when the Iplex pipes were being installed? How could they have overseen a $122m write-down of an Aussie plumbing company, a feat that deems it essentially worthless now it's up for sale?

Fletcher Building's contention that its value as a vertically integrated business, an oligopoly, is its greatest strength, has become its greatest weakness. That weakness is best exemplified by its 95% dominance of the Gib board market and its utter failure in 2022 to supply that market. It meant builders were forced to buy Gib for more than six times its retail price while Fletcher was accused of giving preferential treatment to its own builders.

The company's unparalleled dominance in construction, from building companies to supplying cement and concrete, to insulation and building materials, should have been enough to ensure that its share price of more than $12 just over 15 years ago, just rose and rose and rose. It didn't because the qualities necessary to get the company to that position – overweening aspiration – have soured into entrenched corporate hubris.

The kind of hubris that manifests itself in a corporate heavyweight which refused to pay back its $68 million wage subsidy in 2020, despite lifting its profit margins. Back then, Fletcher's market cap was $4.3 billion; today it's closer to $2.3 billion.

Those figures alone are the strongest arguments for breaking up Fletcher Building as the Shareholders' Association suggested to them less than six months ago. Years of write-downs and a board that seemingly refuses to come to grips with its risk profile have seen to that.

Decades of market dominance are now threatened by the company's arrogance and lack of true competence.

- **The Post**