

Fletcher's pipedream nothing but a Crane hangover



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Fri, 20 Oct 2023



Fletcher continues to walk the high wire in Australia. (Image: Getty)

Fletcher Building can't seem to catch a break.

Whenever it appears as though it's got on top of its problems, something springs a leak. In this case, literally.

New Zealand's biggest listed building materials firm first flagged there might be something wrong in its first-half result, noting its Iplex Australia unit received a number of complaints about leaky pipes and that the Western Australian building regulator was probing the issue.

That escalated to a referral to the Australian Competition and Consumer Commission and [Fletcher provisioning for A\\$15 million \(NZ\\$16.2m\) to fix affected homes](#), but last week, Perth-based home builder BGC whipped off the covers on what it claims is an A\$1.8 billion problem in thousands of homes.

Fletcher was blindsided, halting trading of its shares for two whole days while it gathered its own experts to bat away what chief executive Ross Taylor described as a "[self-serving and sensationalist](#)" claim.

Of course, he would say that, in much the same way that BGC's pushing for a full product recall rather than a lengthy litigation process.

The Western Australian company's owners are already locked in a protracted estate battle, having been in and out of the courts since 2014 when billionaire founder Len Buckeridge died, while two potential sales of the building products company have stalled.

The sound of silence

A day after BusinessDesk broke the news of BGC's complaint, the Australian company confirmed it had signed an agreement with Belgium's Etex to sell its plasterboard and fibre cement businesses to the global building materials maker.

Accounts filed with the Australian Securities and Investments Commission show BGC paid dividends of A\$65m in the June 2022 financial year after selling surplus properties, up from the A\$24m it paid in the prior year.

That was despite the tough operating conditions the construction industry was facing, with BGC reporting a loss of A\$41.6m on revenue of A\$1b in the 12 months ended June 30, 2022, compared to a loss of A\$3.3m on revenue of A\$842.9m a year earlier.

Fletcher's riposte put forward a worst-case scenario of \$100m for the industry to repair the affected Perth houses – hefty but far more manageable for the likes of two major firms to cope with.

The order of magnitude between the two figures is extreme and makes you wonder why Fletcher didn't just quit Australia a few years ago when Taylor was running the ruler over everything, and there were no sacred cows to protect.

Because the West Island has never been a happy hunting ground for Fletcher. The margins remain skinny when they're not in the red, and Fletcher has made a habit of overpaying, writing down hundreds of millions of dollars in subsequent years.

Bridge over troubled waters

In the case of its Iplex Australia pipes business, that came in the tail-end of Jonathan Ling's rein as chief executive under the chairmanship of Ralph Waters.

Fletcher picked up Iplex in its \$1b acquisition of ASX-listed Crane Group in 2011, of which it paid almost A\$277m in cash and the rest in Fletcher shares valued at A\$6.07. That issue price ranged between \$9.03 and \$9.42 on the NZ stock exchange (NZX).

The deal was flagged as creating the biggest Australasian building materials company by market capitalisation, adding Crane's A\$790m value to Fletcher's A\$3.7b value for a combined A\$4.11b.

Both building firms were coming off a slowdown through the global financial crisis and had raised money to bolster their balance sheets in 2009, and while Australia was seen as benefiting from a ramp-up in federal government spending, NZ's building sector was grappling with the Canterbury rebuild.

You'd have to wonder whether then-chair Waters could have chosen his words in the 2011 annual report a little more wisely when he said, "the integration of Crane has gone very well" because the following decade has shown it certainly has not.

Crane diversified Fletcher's building materials business in Australia with plastic pipe and plumbing trade distribution and was to be run as a standalone entity within the wider umbrella. Savings on the A\$1b deal were to be in the order of A\$16.6m.

In the clearing stands a boxer

However, Ling's successor, Mark Adamson, had a different view on things, flicking off various ex-Crane units and folding the business into Fletcher's existing divisions.

The Australian ex-Crane businesses consistently struggled over the next decade with regular impairment charges and references to ongoing turnaround strategies, often in stark contrast to how well the likes of Iplex NZ have operated in the Fletcher environment.

It makes sense that Adamson was going to act decisively to address underperforming Australian businesses.

In one of his first earnings calls with analysts, he outlined his amazement at the union practices in Australia and said he thought they needed "a dose of Margaret Thatcher".

However, Adamson was no Iron Lady, and the Australian business continued to languish under his tenure at the top as he went through restructuring after restructuring to try to address a never-ending stream of problems.

He was ultimately ousted over Fletcher's massive blow-outs on construction projects, and Taylor has since steadied the ship in recent years, even to the point of making some headway in Australia with a single boss overseeing a single regional division rather than the previous three units.

Taylor acknowledged the cynicism about the Australian turnaround a few years ago and talked up a bigger game in describing the opportunities.

With most of Fletcher's investment tensions on this side of the Tasman, you'd be forgiven for thinking that perhaps the firm has finally got the message that its future is in Aotearoa rather than the West Island.

And that might see them finally give Australia the flick rather than insisting that this Fletcher's not for turning.
