

What will it take to fix Fletcher Building?



By [Anne Gibson](#)

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Wednesday was St Valentine's Day but perhaps somewhat ominously, it was also Ash Wednesday - the start of the season of Lent. For this country's largest listed construction company, building manufacturer and supplier, that day was more sackcloth than red roses. More than one million New Zealanders own Fletcher Building shares via their KiwiSaver funds, Simplicity (NZ) managing director Sam Stubbs reminded us. So the [loss delivered that day](#) left many people asking: what's wrong with Fletcher Building and how can it be fixed? Should it be broken up into good and bad bits? What does the future hold for it?



Ex-Fletcher CEO Mark Adamson and ex-SkyCity CEO Nigel Morrison in 2015 when work on the NZICC started. These men signed the contract for this huge job. Photo / Getty Images

It wasn't just the \$120 million net loss after tax for 1H24 (previously \$92m profit 1H23] or last week's \$180m write-offs for the NZ International Convention Centre (\$165m) and Wellington International Airport's new carpark building (\$15m). Added to the nastiness was a further unexpected \$122m writedown on its Australian Tradelink, which it intends to sell. And we haven't even started yet on one of the potentially worst things: the [looming Iplex situation in Perth](#), where thousands of homes fitted with pipes made by Fletcher-owned Iplex are bursting, causing ceilings to collapse, people to be injured and what one analyst says could be a \$1.9 billion disaster, although Fletcher blames poor workmanship and installation. No dividend will be paid for the first-half of its financial year. Experienced ex-Lend Lease engineer CEO Ross Taylor and chairman Bruce Hassall [resigned this week](#) but that is not being seen as any panacea for redemption.



Grant Swanepoel of Jarden doesn't think Ross Taylor's departure solves Fletcher's problems.

Jarden analyst Grant Swanepoel is convinced that Taylor going in six months could lead to worse, not better, outcomes. "All they did was inject another level of risk by the CEO leaving. The CEO is not the problem here. It's something else. Why would a new CEO do anything different? Who can manage the downcycle better? The person running it for more than five years or someone new?"

Fletcher Building results	1H24	1H23	Change
Revenue	\$4.24b	\$4.28b	▼ -1%
Ebit before significant items	\$264m	\$360m	▼ -27%
Net profit (loss) after tax	(\$120m)	\$92m	▼ -230m
Dividend	none	18cps	

Six months to December 31 / Herald Network graphic

Swanepoel noted that loss-making legacy projects should be over soon, so the era of Taylor's predecessor Mark Adamson is ending. The leftover problem is the Iplex issue, he notes. No one really knows yet how hard Iplex could hit Fletcher but one thing is known: the West Australian government regulator has ruled out poor workmanship and installation as the cause of the city homes' pipes exploding and leaking, whereas Taylor cites those as the reasons for failure. The two are in conflict. There are also conflicting views over what's wrong with Wellington International Airport's new carpark building. Taylor said this month, speaking to investors after an NZX announcement about the \$180m writedowns: "I want to also briefly update where we're up to at Wellington Airport. We've been in discussions with the airport on potential solutions to the structural quality issues in the carpark through the last six months and while these have not been yet fully agreed, we now consider that we have an appropriate technical solution that can be implemented. Based on this, we have made a \$15 million provision which we expect will be implemented through calendar 2024." But a Wellington Airport spokesman told the *Herald* the issues with the building were not structural. Taylor says one thing. The airport says another. Who's right? Swanepoel also wonders how good communications are within Fletcher: "Is something amiss in Fletcher's inability to read the economy in front of them? They didn't expect the sharp downturn in residential activity. So there's a communication issue within the company which is the cause: leadership not reacting to the change in market fast enough the symptom. The symptom fix is the board changes the CEO every five years. They throw the baby out with the bathwater. Strategically what has he done wrong?" Swanepoel asked of Taylor. "It wasn't mismanagement. It was a market-related downcycle that turned sharper down than he anticipated," Swanepoel said.



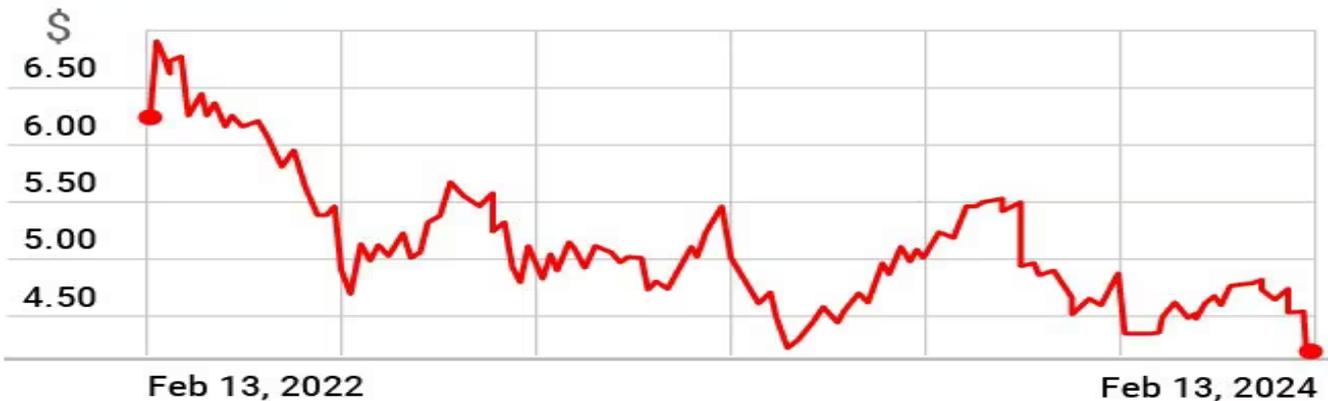
Ex-SkyCity CEO Nigel Morrison with ex-Fletcher Building CEO Mark Adamson at the NZICC in 2015 when work began after they signed contracts to develop the property. Photo / Getty Images

The *Herald* reported in 2015 [how work began then](#) on the NZICC, after contracts were signed by former Fletcher CEO Mark Adamson and former SkyCity CEO Nigel Morrison. At the time, it was meant to be finished in 2019. Even though it wasn't Taylor who agreed to build SkyCity's convention centre, he certainly wears the fallout from the financial disaster it turned out to be for this builder. He inherited this terrible job from the previous boss. A series of NZICC losses have hit Fletcher a number of times. Last August, the *Herald* reported a [\\$301m punch](#), of which \$255m was a loss provision on the NZICC, of which \$150m was [announced in December 2022](#), then further joyful news of [an extra \\$105m provision](#) in early August 2023. Asked last August if he thought that was the end of NZICC losses for Fletcher, Taylor was cautious: "That's what we believe it will be and what we're forecasting. But the risk is never retired until the project is finished." As well, Fletcher faces potential claims over its work on the Puhoi to Warkworth motorway, where it was in a joint venture. Those claims could be around \$200m, of which Fletcher's share could be half. Craigs analysts Cameron Parker and Ryan Li raised many problems with the business including:

- Ongoing uncertainty with the NZICC with around months to run until it is finished
- No agreed solutions for problems with Wellington International Airports' carparks dispute
- Claims on the Puhoi to Warkworth motorway project of around \$200m, of which Fletcher's share could be half
- No visible way forward on its Iplex pipe issues in Western Australia, including any decision from the regulator.

Some think all this means Fletcher should be broken into smaller units. One expert believes monitoring units together and finding a way to get a faster feedback loop about what's happening is what is needed. Certainly, there would be buyers for Laminex and the residential land bank, but who would buy construction, experts ask?

Fletcher Building 24-month NZX performance



Source: NZX / Herald Network graphic

"A house under repair" is how Forsyth Barr's Rohan Koreman-Smit and Paul Koraua headed their analysis on Thursday. Breaking up the business was a concept often pitched, Koreman-Smit acknowledged. "But Ross started to streamline it and concentrate on the core markets. Fletcher is a large collection of building-related businesses that over the

years have proven difficult to work together, going in the right direction at the same time.”

Koreman-Smit also sees construction as finishing its problem projects by the end of this year but says Fletcher’s problems shown in the latest half-year result were mainly from Australia and construction “and maybe they should have sold Tradelink earlier”.



Sam Stubbs of Simplicity remains dissatisfied with Fletcher Building. Photo / Doug Sherring

Stubbs, who called for Hassall and Taylor’s heads, remains dissatisfied. “The other directors should all put themselves up for re-election. There is collective responsibility here, and they are all, supposedly, heavyweight directors able to think and vote for themselves,” he said. They had voted for a plan with serious flaws and to hire and keep a CEO who appeared to have failed: “The buck stops with all of them. This is corporate governance 101. They are the shareholders’ representatives, and they have collectively failed to deliver value to those who pay them,” Stubbs said. None of the analysts said this, but one impression is hard to shake: Taylor’s joviality and extremely good humour the day he resigned. Taylor has a super dry wit and a somewhat self-deprecatory personal style. He seemed to delight in his decision and in some ways backed what Stubbs said: “The buck stops with me.” Just who gets the last laugh remains to be seen. **FLETCHER BUILDING - What is it, who’s running it, what’s its history?**

- Chief executive: engineer Ross Taylor, appointed in November 2017, leaves this August
- Chairman: Bruce Hassall, ex-PwC NZ CEO, appointed to Fletcher 2017, leaves October
- Board members: Martin Brydon, Barbara Chapman, Peter Crowley, Sandra Dodds, Rob McDonald, Doug McKay, Cathy Quinn
- Chief financial officer Bevan McKenzie, appointed 2016, ex-Boston Consulting Group
- Fletcher founded in 1909, current business listed on NZX in March 2001
- Employs 14,900-plus here, in Australia and the South Pacific
- Operations: manufacturing, distribution, retail, home building, construction, infrastructure
- Headquarters: 810 Great South Rd, Penrose.

Anne Gibson has been the *Herald’s* property editor for 24 years, has won many awards, written books and covered property extensively here and overseas.