Fletcher CEO focused on deteriorating Australian operations

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Fletcher Building chief executive Ross Taylor is planning a visit to Australia in September and will likely stay there until after Christmas since most of his family live there.

Taylor has already visited Australia once since the coronavirus crisis hit, enduring quarantine periods on both sides of the Tasman in June, and said he has little choice but to do so again.

Before the pandemic hit, he used to spend about one week in four in Australia on average, he told BusinessDesk.

About a third of Fletcher's revenue and staff are in Australia but the company has a long history of losing money in Australia.

Its latest results show already-poor returns have become even worse.

In the year ended June, the company's Australian sales fell 7.3 percent to $2.8 billion and its earnings before interest and tax in that country sank 57.1 percent to just $33 million from $77 million the previous year.

Boosting margins

Key to Taylor's strategy for turning his company's fortunes around has been trying to boost margins in Australia to match those it achieves in New Zealand.

Back when he first voiced this strategy in June 2018, the aspiration was to lift ebit margins to about 7 percent within three years, little more than about half those the company was achieving in NZ – Taylor joined the company in November 2017.

But the wheels started to fall off almost immediately and in 2019 the goal was pushed out a year.

The latest results show margin in Australia was just 1.2 percent, about half the margin in the previous year, which itself was about half that achieved in 2018 (accounting changes confuse direct comparisons).

Boots on the ground

Taylor appointed Dean Fradgley to take over as Australian chief executive from July 2018, moving him from his previous position heading the NZ distribution business. But he brushes aside any suggestion that his frequent visits to Australia mean he doesn't trust Fradgley to turn the Australian business around.

"I think you do have to be there. It's one thing to sit in your office on Zoom – you've got to walk the floors and see what the factories and facilities feel like," Taylor said, adding that his attitude towards the NZ operations is the same.

"You've got to be out and about. It's quite different from being on Zoom. You get such a different perspective. You can use Zoom for a period, but then you start to get a bit disconnected."

There to stay

Taylor is adamant Fletcher won't be leaving Australia, as some have urged.

While the NZ operations still have some room to grow, their size is a restraint limiting the opportunity here, he said.

Fletcher has "a sizeable footprint" in Australia but a much smaller market share, so it's logical to pursue growth in that market – Taylor has previously estimated the company has about 1 percent of the Australian market.

Keeping in touch with Fletcher's investors is much more easily done by Zoom, especially since Melbourne, like Auckland, is currently in lockdown, Taylor said. About 44 percent of Fletcher's investors are Australian and mostly institutions.

On a conference call with analysts, Taylor said the Laminex and insulation businesses in Australia had performed well. However, businesses including plumbing supplies retailer Tradelink and steel building products company Stramit had been constrained by a lack of large projects.

Once major projects start up again, "we're going to be very much leveraged to the upside," he said.

How long?

That upside may be some time in coming; Taylor is forecasting the Australian market is likely to shrink about 20 percent this year and that the current six months will be better than the second half.

Fletcher had already made the decision to sell the Rocla pipes business before the pandemic hit, but the lockdown had halted the sales process. This process has been restarted – the latest result included a $59 million writedown in Rocla's value – and Fletcher's ongoing exposure to pipes in Australia will be through the Iplex business.

Fletcher wrote down the value of the Iplex and Tradelink businesses by $222 million in its 2017 results, taking accumulated write-offs, restructurings and other losses in Australia since 2001 to well over $500 million.

Grant Swanepoel, an analyst at Jarden, said given the exposure Fletcher has in Australia it isn’t hard to understand why Taylor feels he has to spend so much time there.

About $100 million of the $300 million company-wide permanent cost-savings from its latest wave of restructuring and previously announced 1,500 staff layoffs is coming out of Australia, on top of the $100 million of cost savings in Australia that were supposed to have been completed in the 2020 financial year, Swanepoel sa