ShareChat Investor Interview Questions & Answers

1. *In your speech at last year's annual general meeting you said that "Fletcher Building has more than met the expectation I had for it, when I made the decision to accept this role." What kind of expectations did you have and in what areas have they been exceeded?*

   From the available public information, I expected Fletcher Building's problems to be greater than I found them to be. For example, from the outside it looked like South America and steel manufacturing may require urgent closure to stem the losses, whereas in fact, both businesses had scope to return quickly to being at least cash positive, or even EBIT positive. I also underestimated the underlying strengths of Fletcher Building's major profit earners.

2. *When you took over as CEO of Fletcher Building you were looking for a challenge. Has this been a challenge for you? Are you glad you took the job?*

   I do not recall ever saying I was looking for a challenge, but with my past experience of being asked to manage operations that were, for whatever reason, underperforming, I did think any new role that might be proposed to me was likely to again be a turnaround task.

   It has not been a difficult task to return Fletcher Building to better results because the underlying business was very sound and there was a core of competent managers. What was lacking was a unity of purpose. There was no buy-in to some of the major corporate initiatives underway like centralisation of many functions. I did not agree with these plans either, so we quickly dismantled them. That assisted the large reduction in head office numbers. There was a collective sigh of relief across the organisation and I was thus off to a positive start. Beyond that, we have made staff become self-sufficient rather than contracting out their responsibilities; accountable, not to the extent that there is a culture of fear, but certainly some "healthy worry" about underperformance; and we have lifted morale across the company through better performance, better share price, and the ensuing good press.

   I have absolutely no regrets about taking this job, both from a company point of view and as regards living in Auckland as opposed to Sydney.

3. *I read an article that described you as "among the most advanced technology thinkers in Australian industry." In what ways do you see your expertise and experience in technology benefiting a company like Fletcher Building?*

In my previous company, we installed a complex SAP enterprise system across all of the steel group. It was a A$35m project. Unlike many other such implementations that either failed or encountered extreme difficulties, it had a very successful roll out. This put the business ahead of the major competitors – until they approved a joint takeover bid for Email and now Smorgon and OneSteel have access to, and are using that system. The comment in "The Australian" newspaper to which you refer was in an article acknowledging the vision and success of the project.

That project was never my vision, but at head office we played an important role in reducing the scope of the project from what was proposed to a manageable size and were directly involved in constant monitoring of the costs and timeliness of the project build and implementation.

I am no IT guru and would not be proposing detailed IT plans for Fletcher Building businesses. My contribution is on the one hand to question whether the current systems are appropriate to maintain our leadership positions while on the other hand ensuring no business over invests on any new IT proposal. While not supporting a single centralised IT solution for Fletcher Building, I would expect future investments to be with a preferred IT software base that would see, over time, most businesses using the same system rather than today's wide range of systems.

4. *With Fletcher Building now a separate stand-alone entity, do you have more freedom to take the company places than what your predecessors had?*

You may be surprised at my answer but no, definitely not. When part of the huge Fletcher Challenge Group, it was understandable that the directors may have had to limit time spent on small, in relative terms, investments for Fletcher Building. Today, with a Board dedicated solely to Fletcher Building, similar investments would face far greater scrutiny. However, good proposals will still prevail, and I do not feel constrained, but that increased scrutiny will mean fewer mistakes than in the past.

5. *Last year the company was hit by expensive power costs, particularly for the steel-making business. What kind of contracts have you been able to put in place for the current year to ensure such costs are kept to a reasonable level?*

Fletcher Building is more than 80% hedged for 2002 power requirements at sensible prices.

6. *What are the chances of maybe an alliance with Clough in Australia? It would be a good company to get involved with, with big contracts every few months.*

   Nil. We have just exited construction/contracting in Australia.

7. *Under the FCL regime, PlaceMakers was a minuscule part of the empire but under Fletcher Building it becomes a significant component. As a shareholder I find it somewhat galling that 50% of the profit is "given away" to the Joint Venture Partners who I understand enjoy fabulous returns for little risk. I am aware of the rhetoric that the owner operator is driving the results, but I suspect that most of it either market or head office driven. Are you considering any changes to this scheme in the short to medium term?*

   PlaceMakers was historically a vital channel to market for Fletcher Building manufactured products like wallboards, bagged cement, wood panels etc. However, it used to lose lots of money. Then the present model was copied from Canada and with joint venture partners running the stores, the important distribution channel was maintained but it was also modestly profitable.

   Now it is time to go the next step. We should see PlaceMakers as a profit centre in its own right – not just a necessary channel to market for our products – and ensure we get a satisfactory return. Last year PlaceMakers made $20m before interest and tax of which Fletcher Building kept $6m and the partners $14m. This was unfair given that FB carries more than 50% of the investment. I believe an achievable first target is for a total profit of around $30m and at least 50% of that for Fletcher Building. A longer term target of $40m and at least 60% for Fletcher Building is also realistic.

   Having a JV partner is an excellent arrangement that in most instances I would not wish to change, but the balance is not right and that is being progressively addressed. Bunnings in Australia demonstrate that wholly owned stores can be very successful so we should not fear owning some of our major stores 100%, but equally our best stores are the best because they have the best store operators as partners and I would prefer to have them retain some equity to losing them.

8. *I am getting confused about what businesses you are planning to sell and which ones you are keeping. Can you enlighten me about this restructuring process and what guidelines are being used in the decision-making process?*

   We have some businesses which we should exit if and when an opportunity arises. The criteria for determining whether a business should be sold varies – it could be size, scale or industry structure. Consistent poor returns usually means one of those matters is an issue. We have no fixed rule that will determine "ins" and "outs" and nor do we wish to publicly name core and non-core businesses beyond those already named e.g. South America.

   Our overwhelming priority is operational improvement rather than asset sales.

9. *What percentage of the building products distribution market do you consider you now have by owning both PlaceMakers and The Building Depot?*
   It depends on the definition of the "market", but probably around 30-35%.

10. *What's going on with the steel business? I thought you were going to sell it but now it looks like you will hang onto it for a while.*
    We would consider selling the steel manufacturing business if there was an appropriately priced offer, but realistically there are not many potential acquirers and no offers. The business was $8m cash positive for the half and providing we can maintain or improve on that, the wait for the appropriate deal will not be painful.

11. *Will the company make a profit on the sale of the Australian co-generation assets planned to be sold off in the second half and if so can you give a ballpark estimate of the figure?*
    As the equity investment was written down to zero, it will not be hard to make a profit. The subsidiary still has some debt and after that is paid off, I would expect there would be a meaningful profit but to be more specific would not help the proposed competitive sale process. Elsewhere I have clarified that we propose to sell this calendar year.

12. *In your interim result it seemed that increased insurance costs had a considerable impact on costs. Could you explain the situation in a bit more detail, including what effect this could have on profit in the short and medium term?*
    Fletcher Challenge was large enough to self insure many risks. The previous arrangements required Fletcher Building to carry the first $50m of any claim. This was disclosed in the separation memorandum. On joining Fletcher Building I was somewhat alarmed at carrying this level of risk in a company of Fletcher Building's size. We have put in place insurance arrangements more typical for a company of our size where our excesses range from nothing to about $5 million in our worst case.

    Obviously, taking such cover meant a big increase in premiums, especially as we were out for quotes at September 11 and all insurers thereafter reassessed risks and premiums. It has cost us an extra $5-6 million pa and will do going forward but the Fletcher Building Board agrees this is a more appropriate risk profile.

13. *What is your general strategic plan for the business – is it to grow revenues or increase profitability by focusing on reducing costs and increasing efficiencies and therefore margins?*
    Growing revenues and profits of existing businesses is an operational requirement. At the strategic level, the issues are about which businesses we should own, identifying risks existing businesses face, and understanding what new opportunities there are for Fletcher Building, either as extensions of existing businesses or new complementary businesses.

    I am not a fan of global growth targets that then force the company to make acquisitions to achieve them. Our primary goal will be to have reliable earnings that better our cost of capital. For the recent half year we exceeded 12% return on equity and 15% return on total funds employed. The guide, or constraint, on what we do going forward will be a requirement to achieve improvement in both of these key return measures.

14. *Which divisions of Fletcher Building do you consider are running at close to maximum efficiency and which ones have the most scope for improvement?*
    Most business always have scope to do better. We get all General Managers together after each half's results and those who should be doing much better are left in no doubt about that. Excellent performers are also acknowledged. Beyond that, I do not wish to be public with a list of ticks and crosses on businesses, but if you read the comments in the result announcements, the "disappointing" results were identified. Disappointing also implies that it could and should do better.

15. *If the construction business in New Zealand is running so well at the moment, according to the latest results, why couldn't the same skills have been applied to better benefit in Australia rather than selling the business there?*
    The Australian construction business sale was not because of poor performance. The business was well managed and it was running well. However, the risks in construction are high and the risk/reward ratio was inappropriate in Australia.

    In New Zealand, the construction business is part of the Fletcher Building value chain. On major projects it uses large quantities of Fletcher Building produced cement, aggregates, steel and other products. The Australian business uses no Fletcher Building products. Also, with a much larger volume of business in New Zealand, and at better margins than available in Australia, the construction business here is more able to absorb a mishap, which is always a risk in a construction business.

16. *I just read in Wired magazine about a company that is incorporating recycled plastic into asphalt – costing 10% more but lasting 25% longer. Is there any similar kind of 'green' research underway at your company? Is the company considering providing triple bottom line reporting?*

    We are very involved with alternative concrete and gypsum technologies. We have supplied cement with light weight aggregates and we are researching geopolymers for inclusion in cement. We have also been developing wood fibre reinforced gypsum wallboards for some years in conjunction with US Gypsum. In wood panels we have developed a high density fibre board that can be machined like metal, and a medium density board with colour right through the board material, making it ready to sand and finish without a veneer.

    Innovation and product development are important and are being measured, but we have no present plans to provide triple bottom line reporting.

17. *What work has your company been doing to quantify how it will be affected financially by the implementation of the Kyoto Protocol? Have you come up with any kind of figures yet?*

    Fletcher Building has had a company-wide specialist task force working on Kyoto Protocol issues for some years. There is a thorough understanding of how much energy we use, what savings could be made and the potential financial impacts on Fletcher Building. What there is not a thorough understanding of is what the Government policy will be. All indications are that New Zealand will be ahead of its competitors in applying costs to energy using manufacturers but we are still guessing as to what these costs will be and how they will apply. Thus, Fletcher Building presently has a major investment for Golden Bay Cement on hold pending clarification of what carbon tax arrangements will apply.

    It is paradoxical that the Government last week released statements aspiring to above OECD average growth, while also preparing to subject the small manufacturing industry in New Zealand to costs not applicable to its trading competitors.