

Shareholders Association Says Fletcher Directors Must Seek a New Mandate

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The New Zealand Shareholders Association (NZSA) said today that in light of the construction division debacle, Fletcher directors had no choice but to seek a new mandate at the upcoming AGM. Association CEO, Michael Midgley said that the disaster was inevitable once former CEO, Mark Adamson's began insisting on winning large construction contracts almost regardless of price.

Midgley said the culture evidenced by Adamson's comments in AFR in December 2013, his recent email to senior executives and high staff turnover in some parts of the company had exacerbated the issues and may have suppressed or filtered the information flow to the board. We wonder whether it was a coincidence that the latest write down came to light while the CEO was on leave, said Midgley.

The removal of many experienced senior managers and the reliance on construction work being almost entirely subcontracted has created problems and imbalances that may take years to fully address. These were entirely foreseeable and NZSA raised cultural issues with the board in 2016.

On 24 March 2017, shortly after the \$110m downgrade, NZSA took credible information directly to Chair, Sir Ralph Norris, indicating that the actual loss was in the order of \$230m. We also named some other projects that were in difficulty. Sadly, what we said to the company then and since has come to pass, said Midgley.

Just days before the most recent downgrade, NZSA had met Adamson and other executives, but the increasing concerns we had were never communicated to the Chairman. The former CEO's response that the problems preceded his appointment five years ago, and that he had since put proper provisions and high quality staff in place are hard to accept given that he personally signed a number of the larger contracts. Even if true, it demonstrates that the response was far too little and far too late, said Midgley.

The board keep telling us that the construction division is a small part of the company, but it has created an around \$2b hole which impacts not only on shareholders, but also KiwiSavers and many other managed funds investors. As the face of Fletchers, the construction division's success or failure also colours the whole perception of Fletchers. NZSA is very concerned about comments made to us by senior outside sources regarding a loss of confidence in the ability of Fletchers to deliver, and what impact this might have said Mr Midgley.

Right until last week, the Fletcher board was uncommunicative to the broader shareholder base and kept faith with Mr Adamson's abilities. The recent disclosures are clear evidence that governance was not as robust as it should have been. The difficulty remains that Fletchers is committed to a big forward workload and there is no certainty that more issues will not arise. Fortunately, the company has a strong balance sheet even with the two additional Australian subsidiaries also being written down, it will recover over time.



NZSA is calling for a fresh start with any new CEO appointment having a more inclusive approach. The board also needs to get on with appointing a director with relevant construction skills.

To assist with this process, NZSA is asking every director to put themselves up for re-election at the next AGM. We would expect them to articulate their vision and plans for change directly to shareholders at the meeting. If given a mandate, the board both individually and jointly will then be clearly accountable to shareholders from here on.

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