

DELOITTE/MANAGEMENT MAGAZINE COMPANY OF THE YEAR

# Fletcher Building

## STRATEGIC DIVERSIFICATION

**F**letcher Building nails the big one. After three consecutive years as a finalist for the top company slot, this savvy Kiwi company pips its competitors to the post and takes out the prize for 2006.

It is, say the judges, a very worthy winner. Born out of the largest corporate restructuring this country has ever witnessed, when the Fletcher Challenge Group was dismembered and reassembled, it has been splendidly led for the past five years by Ralph Waters as CEO: a man who was himself acknowledged as our Top 200 Executive of the Year a couple of years ago.

Such was the strength of the company's management team that when Waters last year signalled his intention to move back to his native Australia, there were several high-quality internal candidates for succession. Indeed, the two finalists for the position were both internal and were chosen ahead of several external offshore candidates who were CEOs of existing companies.

New CEO Jonathan Ling has, since the company reported its most recent full year accounts, taken up the reins and clearly intends to steer the business along much the same course set by Waters. And those results are, by any standards, impressive: Record net profits of \$379 million. That's a nine percent hike on the previous year's already healthy returns and ranks Fletcher Building in the number three profit slot on this year's Top 200 list.

It's been done on revenue up 19 percent to \$5.52 billion. More to the point, these strong returns came in the face of appreciably softer demand in several of Fletcher Building's key market segments. For the residential construction markets in New Zealand and Eastern Australia both weakened during the 2005/2006 year. Add to that, the removal this year of the previous year's boost from rapidly increasing steel prices.

All of which makes this year's figures an all the more telling testament to the company's evolving diversification strategy. For several years now Fletcher Building has been plugging away at a three-pronged plan to reshape its future.

First up, and perhaps most prosaically, it hasn't lost sight of the need to protect, nurture and improve its 20 or so existing businesses. Second, it has made a considerable number of incremental acquisitions which it bolted on to existing units within the company. While these are not always the headline-grabbing stuff of big business, its acquisition of Dunedin-based prefabricated benchtop manufacturer O'Brien's in May this year is a good example of Fletcher Building's ability to, in a single stroke, add a potential \$25 million to its annual revenue stream. This company, incidentally, also plugs a previous gap in Fletcher Building's market experience.

Thirdly, and perhaps most spectacularly, Fletcher Building has been steadily setting the wheels in motion to diversify both geographically and in terms of its product mix. This is most keenly seen in the Australian market, where a series of major acquisitions over the past four years have, as Waters puts it, been thoroughly vindicated by this latest healthy set of financial results.

Revenue generated by the newly acquired Australian-based Amatek group of companies, for example, such as Rocla Quarry Products and Rocla Pipelines, has clearly boosted overall revenue for their new owner this time round.

The aim, of course, has always been to reduce the volatility of Fletcher Building's shareprice which had traditionally been so closely associated with the construction industry in New Zealand. And while this link has not been completely severed, the new-look Fletcher Building has clearly succeeded in hugely reducing its shareprice dependence on the fluctuations of the New Zealand building sector.

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Ling signalled in the company's 2005/2006 annual report that while he intends to retain the company's focus on both acquisitions and internal investment, there may be some shift in emphasis when it comes to the nature of those acquisitions in the future. Expect serious consideration to be given to buy-ups outside of Fletcher Building's previous mainstay markets of New Zealand and Australia.

He also indicated a desire to build on the company's performance-oriented culture which includes identifying and strengthening leadership, training and the development of Fletcher Building's people. Since these are some of the traits that have won the company applause over the past few years, and a string of mentions at the Top 200 Awards, it looks as though Fletcher Building will be building on its own successes to date.

## JUDGES' COMMENTS

### **WINNER** FLETCHER BUILDING

Fletcher Building's performance is so consistently good that it's hard to hold the Top 200 Awards without this company featuring somewhere. This company has delivered substantial increases in shareholder value for each of the past five years. And it is splendidly led by a very strong management team.

The cornerstone of its successful strategies? Working really hard to improve current businesses. Small incremental acquisitions bolted on to existing units. And marketplace and product diversification.

Drill down into the figures and you'll find more than a third of Fletcher Building's revenue now comes from across the Tasman. Not bad from a standing start five years ago.

### **FINALIST** FISHER & PAYKEL HEALTHCARE

This year's revenue and profits are bursting with vitality. The 20 percent revenue hike and 14 percent profit spike are driven by the company's growth strategy, its ability to manage international rollouts and an innovative approach to new product development.

This is a smart business with smart products and a considerable grip on its own intellectual property.

Fisher & Paykel Healthcare combines cutting-edge manufacturing with a keen understanding that people come first. It recognises that R&D is the lifeblood of its business.

It's a sharp operator in a sector that will continue to expand as we all grow older. The company's founders would be proud.

### **FINALIST** SKYCITY ENTERTAINMENT GROUP

You can pretty much bet on SkyCity putting in a solid performance. This year is no different with both revenue and profits shooting skywards. Since its foundation 10 years' ago, SkyCity has been very ably led by MD Evan Davies and his strong management team. Together they've built up a steady track record of successful gambles that have more than paid off.

In recent years, this local icon has dramatically consolidated its product position and has started making significant inroads into the Australian market. More recently, it has weathered the challenge of smoking bans, wafting aside any potential downwards pressure on results through strong positioning, good promotional work and excellent execution. Once again, SkyCity has come up trumps.

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