

IRD Seminar on Corporate Restructuring and Governance May 2007

Case Study: Fletcher Challenge Ltd

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Fletcher Challenge Ltd

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The Great Vision

- New Zealand based
- International orientation
- Resources to customers
- World scale, world class
- Markets/geographies

Shareholder Value

- Objectives: Create and grow value
- Measures: Total shareholder return
Economic value added
Earnings
Capital utilisation
- Conflicts: Size/power
Other interests
Opportunistic versus disciplined

Governance

Some Principles

- Common vision/objectives/strategies
- Monitoring performance
 - Operational delivery/execution
 - Remedying problems
- Chairman/CEO, separation/relationship
- Board/management relationship
- Board structure
 - Size/talents/strength
 - Executive/non-executive
- Incentives/sanctions alignment
- Crisis/change management

The Industrial Icon

- History/family/shareholders
- Culture/management
- Pulp and Paper
- Energy
- Forestry
- Building

Acquisition/Divestment

Illustrations

Offshore

- Jennings, Australia
- UK Paper, UK
- Fletcher Canada
- Steel, China
- South America (Peru, Bolivia)

Onshore

- Tasman Pulp and Paper
- Rural Bank
- Methanex
- Telecom bid
- Central North Island
 - Forest Partnership
(with Brierleys and CITIC)

Lessons

The Track Record I

April 1987 to March 2001

Total shareholder return 0.59% or 0.04% pa
(share price change and reinvested dividends)

Earnings

- Strong growth 1983 – 1989
- Troughed 1992
- Recovered 1994
- Continuous decline 1994 – 1999
- Partial recovery 2001

Economic Value Added (EVA)

- Positive and growing 1982 – 1989
- Negative* 1991 – 2000

(*Two years small positive 1994 and 1995)

The Numbers

Two periods	EVA \$billion
1982 – 1990	+ 2.2
1991 – 2000	- 3.5

Return on equity	
1988	17.2 per cent
2000	4.0 per cent

Note: High earnings variability
Commodity markets
New Zealand versus overseas investments
Management incentives

Board Issues

- Size of Board: 23 to 6
- Chairman/CEO issues
- Executive directors (were 4 out of 12)
- Absence of incentives until mid-1990s
- Then complex/hard to comprehend
- Differing objectives/aspirations
- Inadequate disciplines
- Inability to resolve problems

Resolution

- Letter stocks
- Market pressures
- Shareholder agitation
- Reduced Board size
- Change of CEO and Chairman
- Break up of the group
- Resuscitation of value
- Sale/restructure/separation
- Outcomes

Lessons

- Disciplines/decision making
- Acquisitions/divestments/operations
- Incentives/alignments
- Governance
- Conflict resolution

The Aftermath

- Split into units sold and units listed
- Sold Paper \$5b and Energy \$4.6b
- Listed Fletcher Building, Forests, Rubicon
- FBL the great success story
- Moved from no. 17 to no. 2 on NZX
- Shareholder value growth 40% pa. over 5.5 years

Strategic Agenda

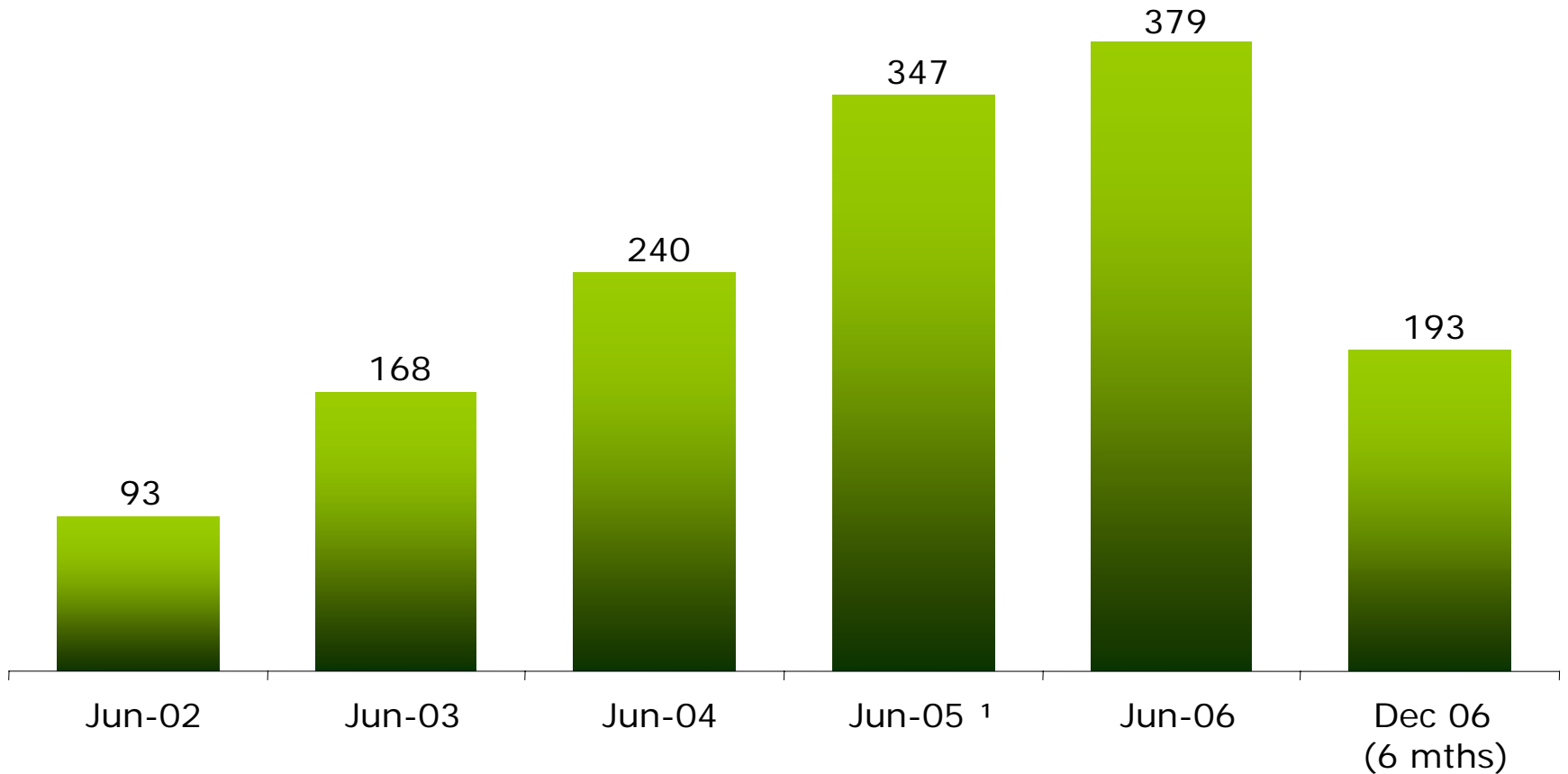
Earnings Reliability

Internal Growth

External Growth

Net Earnings

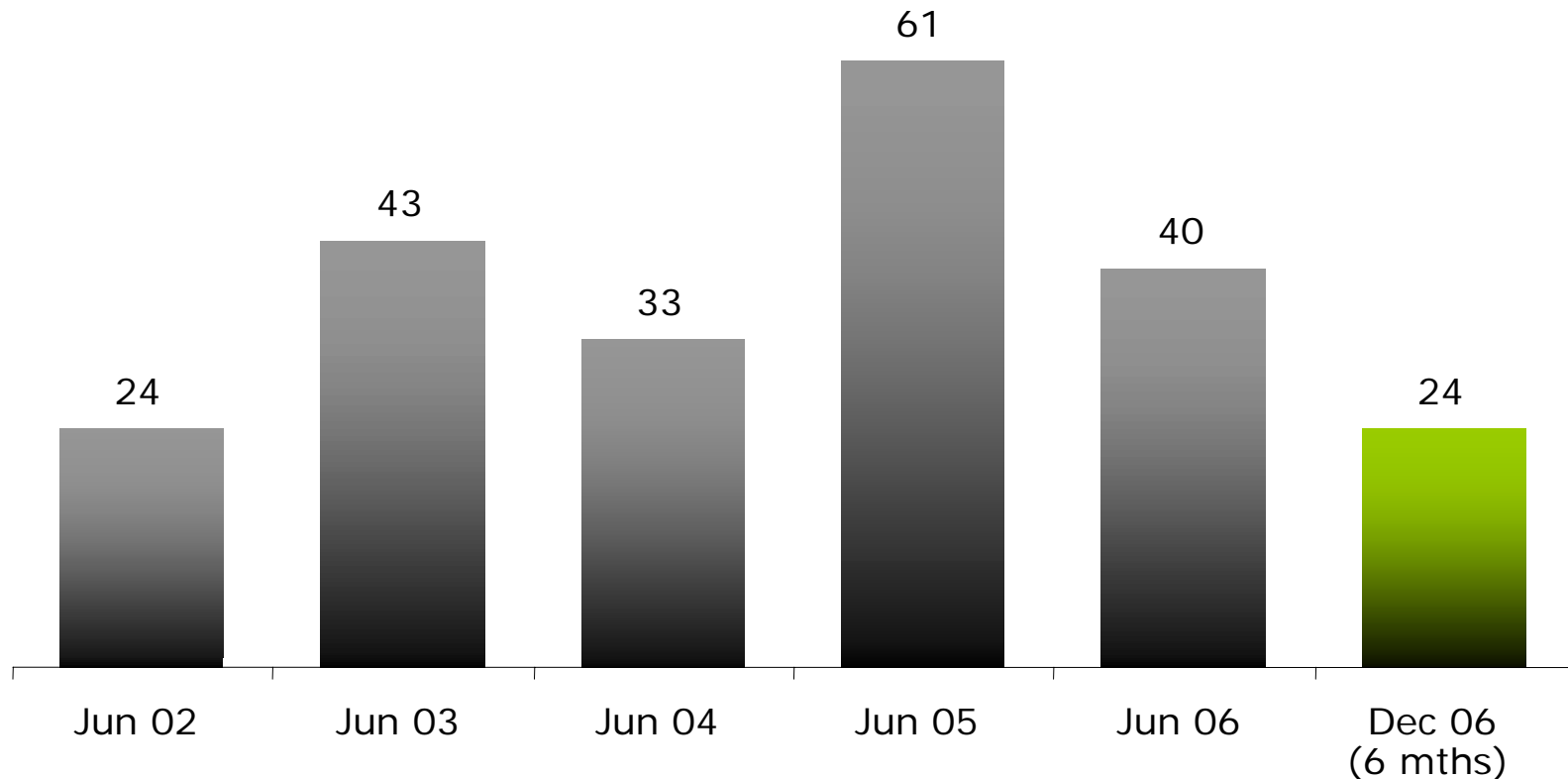
\$million



1. Restated for IFRS

Key Ratios

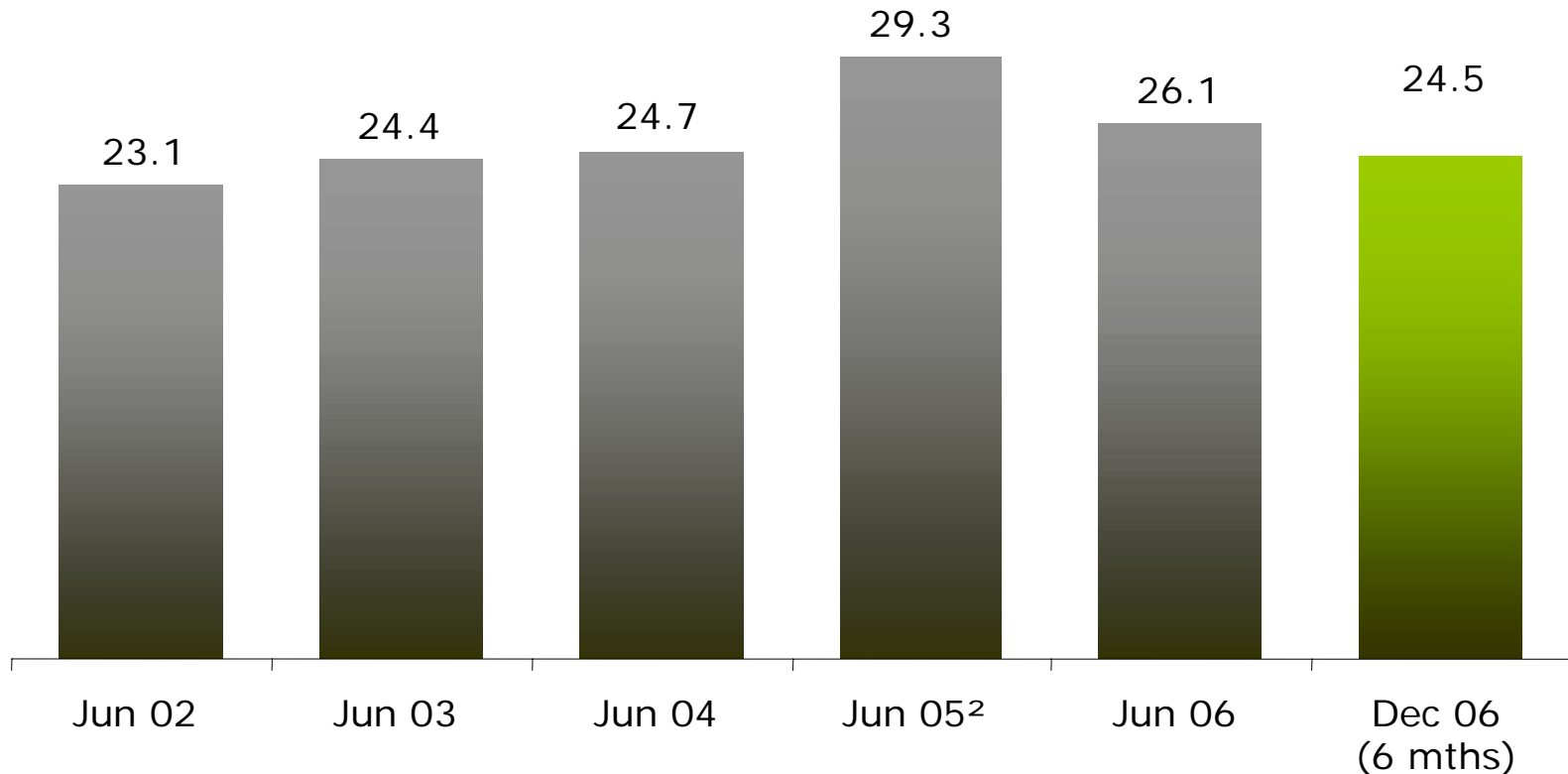
Total Shareholder Return (TSR)¹ Percentage



1. TSR calculated $((\text{Gross Dividend Paid} + \text{Movement in Share Price}) / \text{Opening Share Price})$

Key Ratios

Return on Average Funds¹ Percentage

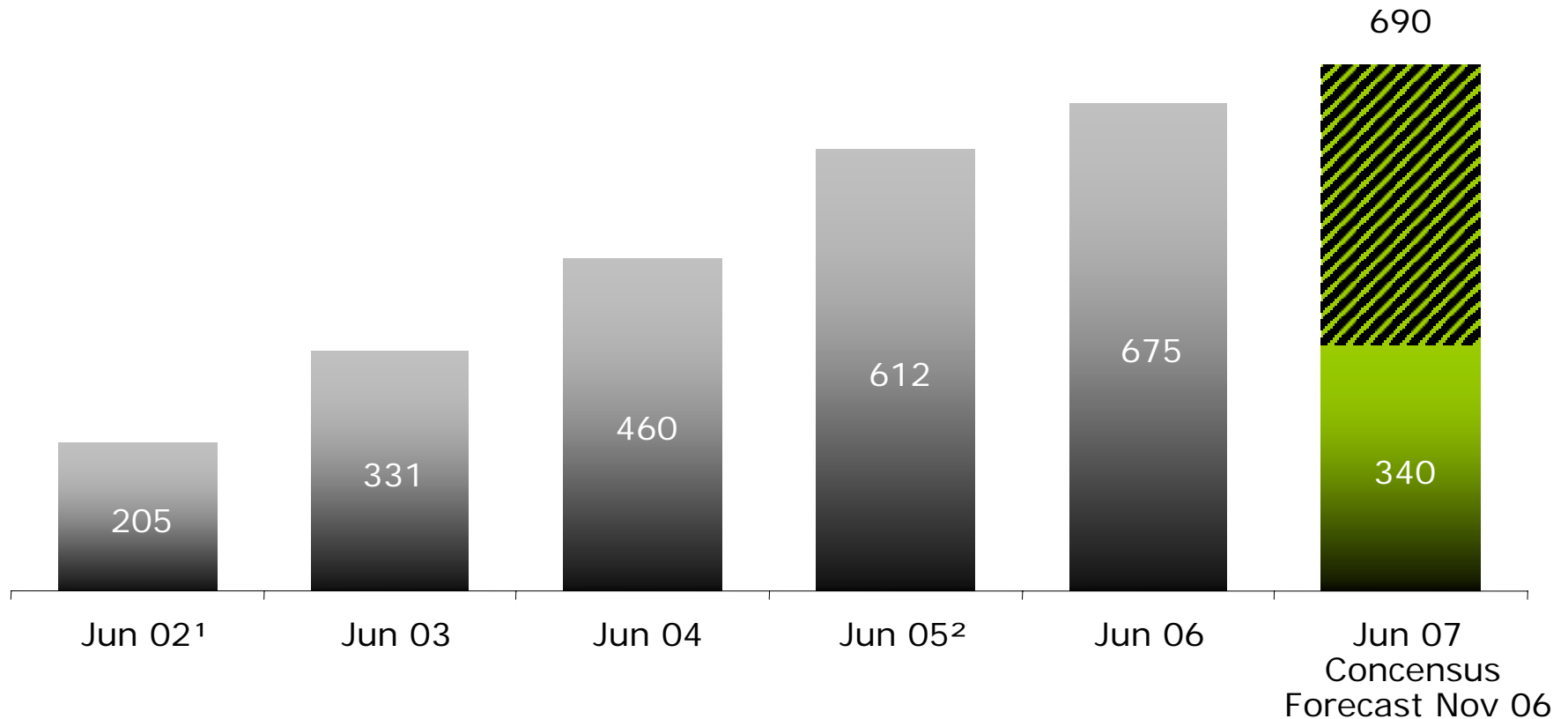


1. $EBIT / (\text{Average net debt} + \text{equity} + \text{capital notes}) - \text{deferred tax asset}$

2. Restated for IFRS

Earnings Forecast

Operating Earnings NZ\$m



1. Pre Unusuals

2. Restated for IFRS