

## CASE STUDY

# Turning around years of poor performance

Fleetwood (ASX:FWD) operates across three divisions: Building Solutions, Accommodation Solutions and Recreational Vehicle (RV) Solutions.



## THE OPPORTUNITY

After riding the WA mining boom from the turn of the century, FWD suffered a large fall from grace after commodity prices peaked in 2011 – with earnings falling 85% over the next five years. The Board and management were poorly regarded, having squandered the benefits of the mining boom, overseen a multitude of operational missteps and consistently failing to deliver on promises.

In 2015, the company de-levered its balance sheet by selling its worker accommodation Osprey Village to the WA government, and moved into supplying manufactured accommodation for the retirement sector. Sandon Capital could see the nascent signs of a turnaround, albeit one that would require a significant upskilling in the Board and management to execute.

FWD was perceived as a mining services company with a number of stranded assets that would fail to deliver consistent profits. The Board and management team, which had a record of over-promising and under-delivering, were viewed negatively and, as is typical with fallen angels, the market had moved on and there was very little institutional interest in the company.

Sandon Capital saw the potential for a turnaround in FWD's performance with a change in governance and a strategic shift in operations and capital management. Specifically, it needed the right Board composition to: support a focus on becoming a manufactured accommodation specialist; sell or close business units unable to earn acceptable returns through the cycle; and make significant changes to capital management.

By becoming a substantial shareholder, Sandon Capital believed it could influence this strategic change to unlock the company's intrinsic value.

## THE ACTIVIST CAMPAIGN

Sandon Capital campaigned for Board and management changes, the sale of non-core assets, and improved management and governance.

To prompt action, in 2016 Sandon Capital went public and published analysis showing poor operational performance, a lack of strategic focus and making recommendations for change. The analysis and commentary were followed by a number of private engagements with the Board.

The publicity helped galvanised action with shareholders. Initial Board changes were achieved in 2017 with a number of directors stepping down including the Chairman. Management, however, remained entrenched despite continued poor performance.

Following the proposals set out by Sandon Capital, FWD sold off underperforming business units, albeit far too slowly. The Bocar/Flexiglass automotive

accessories business was finally sold in February 2018, along with the caravan manufacturing business in August 2018, along with. This took much longer than it should have, and significant capital was burnt in a futile exercise to turn around these non-core assets prior to their sale.

Continued underperformance finally resulted in more shareholders concurring with Sandon Capital's analysis and ongoing activism. Substantive changes to the Board and management occurred in late 2020/early 2021 when the CEO/MD resigned and the Chairman retired. Sandon Capital supported their replacements.

The new management of FWD recognises the challenges and opportunities it faces. FWD is now on a firm footing, with a strong balance sheet, a refreshed and capable Board and management team and a plethora of internal and external initiatives to drive growth.

## SUMMARY

**By pursuing a careful and patient campaign, Sandon Capital achieved the changes it sought, namely:**

- **Board renewal, with a new and dynamic Chairman taking the helm.**
- **A new talented and experienced CEO now leads a completely refreshed executive team.**
- **Underperforming non-core assets were sold and an optimisation and growth plan for the company's core businesses is now in place and underway.**

## INVESTMENT STATUS

Sandon Capital remains a shareholder of FWD.

## CURRENT VIEW

*FWD is the largest position in portfolios managed by Sandon Capital and is one of the investments we are most excited about. Whilst the market is focused on the short-term impact of pandemic driven lockdowns on FWD, we believe there are a number of large and long duration opportunities that could see many years of earnings growth ahead.*

*The Board now has widespread shareholder support, and mooted operational improvements have the potential to yield significant improvements in financial performance and be supported by strong economic tailwinds.*

Thinking of investing?  
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