NEW ZEALAND C&ESG RESEARCH
17 JUNE 2025

Governing New Zealand Listed Companies
Navigating Shifting Winds

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We have observed several major share price declines among prominent New Zealand companies over recent years. These events have prompted us to pause and reflect on the contributing factors, and to consider whether early warning signs may have been overlooked. While external forces—such as macroeconomic conditions or industry disruptions—play a significant role, these instances also raise important questions about how well positioned boards are to navigate complexity and change. With the benefit of hindsight, we examine five New Zealand case studies to identify common themes and governance insights that may help shareholders and boards better recognise early indicators of risk.

New Zealand companies generally align well with corporate governance best practices. **However, effective governance extends beyond board structure.** Boards must balance independence, diverse skills, and strategic focus to manage capital and navigate change. A key responsibility is ensuring a strong management team, supported by clear and timely information. Boards must also anticipate structural shifts—such as regulatory changes, business cycles, or rapidly evolving technologies. When this balance is lost, poor outcomes can follow.

We reviewed the drivers behind the share price declines of Fletcher Building (FBU), Ryman Healthcare (RYM), SkyCity (SKC), Synlait Milk (SML), and The Warehouse Group (WHS). Our analysis revealed recurring red flags that may act as early warning signs for shareholders, including:

- **Cash conversion & capital discipline:** All cases showed weak financial discipline—overpaid dividends, rising debt, or growth spending without clear returns, often disconnected from the business cycle.
- **Financial restatements & impairments:** FBU, RYM, SML, and WHS made major restatements or write-downs, signalling overvaluations or misjudged expectations.
- **Accounting practice changes:** RYM and SML moved to more conservative accounting treatments.
- **Auditor tenure >10 years:** RYM, SKC, and WHS have long-standing audit relationships. While this provides institutional knowledge, it may reduce auditor independence or normalise incremental risk over time.
- **Lack of board self-review:** FBU, RYM, and SML do not conduct annual board assessments. Regular reviews support accountability, improvement, and stronger governance.

We encourage investors to assess boards for **delayed responses to structural change, weak controls and stakeholder engagement, and growth at the expense of core performance**. We also recommend **evaluating board effectiveness**, looking for evidence of constructive debate, robust review processes, and engaged, independent directors. **These findings prompt us to introduce new metrics in the governance section of our C&ESG Ratings methodology.**

Common threads emerge

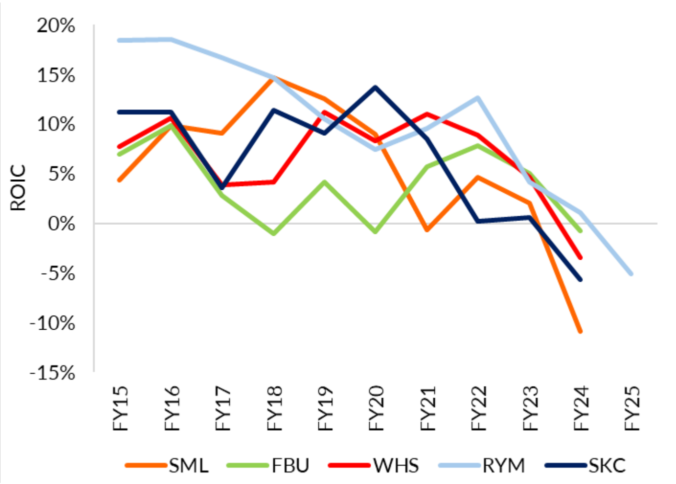
Common quantitative indicators include:

- Cash conversions; evidence of poor capital allocation.
- Financial restatements or large impairments.
- Changes in accounting principles.
- Auditor tenure >10 years.
- Lack of an annual self-review by boards.

Common qualitative indicators include:

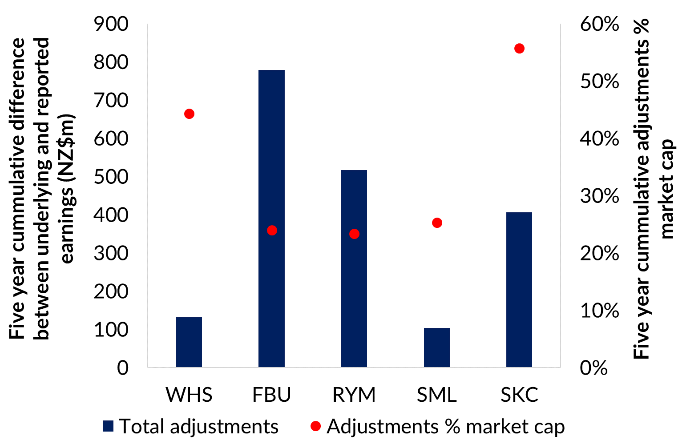
- Slow recognition of, and response to, structural change.
- Gaps in board skills/indications of limited internal challenge.
- Growth at the expense of core business performance.
- Weak internal controls, reporting systems, and stakeholder engagement.

Figure 1. Reported return on invested capital



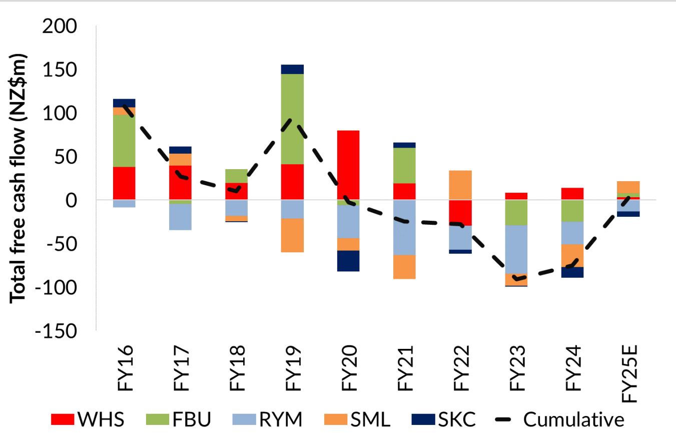
Source: Forsyth Barr analysis

Figure 2. Five-year cumulative earnings adjustments versus current market cap



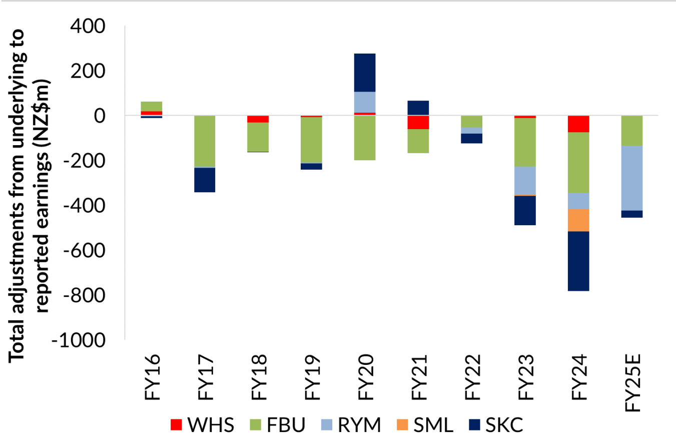
Source: Forsyth Barr analysis

Figure 3. Negative free cash flow



Source: Forsyth Barr analysis

Figure 4. When adjustments are made to reported earnings



Source: Forsyth Barr analysis

Figure 5. Changes in accounting principles

RYM

RYM restated certain balances in its financial statements for 30 September 2023 and 31 March 2024, adjusting retained earnings and other equity components to reflect a more accurate financial position.

SML

SML introduced an accounting change in 2024, revising its inventory overhead allocation method. This non-cash adjustment reduced net profit after tax by NZ$8.4m for the half-year to 31 January 2024, as part of broader restructuring that also included asset impairments and strategic reviews of underperforming operations.

Source: Forsyth Barr analysis

Figure 6. Governance metrics worthy of investor scrutiny

Boards not undertaking annual self-reviews

3/5 of the Boards of the case studies do not undertake an annual self-review: FBU, RYM, SML.

Long relationships with auditors

3/5 of the case studies had the same auditor for >10 years: RYM* (24 years), SKC (28 years), WHS (19 years). **RYM has since changed its auditor.*

Source: Forsyth Barr analysis

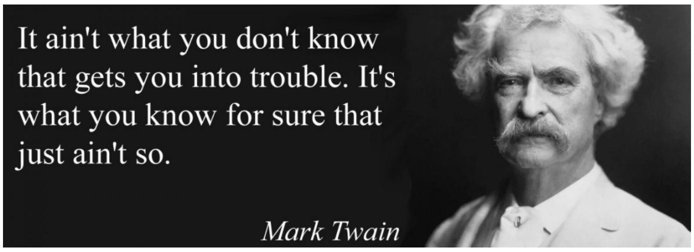
Taking note of warning signals

It is rarely straightforward to pinpoint a single cause when a company experiences a major share price decline. Each situation is shaped by a unique combination of factors, many of which fall outside the board's direct control. Broader macroeconomic conditions, shifting market dynamics, regulatory and technological change, or industry-specific disruptions can all have a significant impact. In some cases, value erosion may stem from strategic decisions made years earlier, the consequences of which only become clear over time. In others, it may result from the unexpected convergence of external pressures and internal vulnerabilities. These complexities make it challenging to assign responsibility, underscoring the importance of a nuanced understanding of governance, risk, and long-term oversight. Despite this, some common themes have emerged that we believe warrant investor attention.

Figure 7. Summary of challenges faced by the companies in the case studies

Company	Summary of challenges
FBU	FBU has had a torrid decade. Competitive pressures and self-inflicted issues—particularly in the construction division and Australian businesses—have resulted in persistent earnings downgrades, ongoing cash outflows, and stubbornly high net debt (despite an equity raise in FY18 to cover construction losses). FBU sought to address this by selling its international operations, refocusing the business on its core New Zealand and Australian markets, and significantly de-gearing the balance sheet. However, a significant lift in earnings during the pandemic construction boom saw FBU's balance sheet re-gear (acquisitions, growth capex, share buybacks, and dividends) at the top of the cycle, predicated on activity and margin assumptions that proved to be optimistic. Multiple earnings downgrades, the re-emergence of construction project provisioning, and issues with Iplex pipes in Western Australia saw the balance sheet brought into question as debt rose further, earnings expectations declined, and free cashflow remained negative. This latest series of issues culminated in 2024 with the mass resignation of directors and senior management, followed by a discounted capital raise.
RYM	At its FY24 result, RYM's new management and board lifted the veil on more than a decade of opaque accounting practices and half-truths. The new team recognised the poor cash recovery of capex, removed its focus on non-audited revenue, reduced opex capitalised to the balance sheet, and wrote down selected balance sheet assets. RYM needed a clear break with the past. The entirely new management team—and largely a new board—unencumbered by the past, set out a credible path forward, focusing on all the right things. But after significant value depletion for shareholders, the path forward proved worse than feared. In February 2025, RYM announced its second major capital raise to repair the balance sheet—this time triggered partly by a meaningful drop-off in sales. The following FY25 results included further impairments and substantial further changes to accounting principles, including restatements of previous results. Almost two years after the board refresh, and with a new auditor, RYM now believes it has the right settings, incentives, and principles to move forward.
SKC	SKC's share price has faced significant pressure over the past two years due to a combination of financial and operational challenges, alongside regulatory scrutiny. In Australia, the company agreed to a civil penalty of A$73m related to anti-money laundering breaches at its Adelaide casino. In New Zealand, SKC agreed with the Department of Internal Affairs to pay a NZ$4m fine for breaches of the Anti-Money Laundering and Countering Financing of Terrorism Act. Furthermore, SKC's Auckland casino was forced to close for five days due to breaches of host responsibility requirements, following an investigation into a gambler's significant losses.
SML	SML has had a tough few years, and 2024 continued the trend. Reported NPAT loss was -NZ$182m, including a NZ$115m impairment of its North Island assets, while normalised NPAT was a loss of -NZ$60m. Net debt was elevated versus FY23 (up +33%). In August last year, it announced a ~NZ$218m equity raise, primarily to repay its retail bonds (NZ$180m), which matured on 17 December 2024. While we acknowledge the raise was necessary to stop the company from going into liquidation, it was heavily dilutive for minority shareholders who were unable to participate. Management and the board have changed significantly, and the early signs in the turnaround have been positive, with a robust 1H25 result. However, the lack of strategic direction on Pokeno and the risks around losing volumes from The a2 Milk Company (ATM) remain.
WHS	WHS's share price has been under significant pressure recently. While recent challenges can be attributed to a soft consumer spending environment in New Zealand, in our view, the impact was amplified by multiple strategic missteps that have eroded investor confidence and allowed market share losses and EBIT margin declines to continue unchecked for over two decades. The company's 'ecosystem strategy', which included ventures like TheMarket.com, was just the latest iteration of WHS diverting its focus away from its core retail operations (others including the Australia expansion, Warehouse Finance, and Torpedo7). In FY24, the company reported its first-ever annual reported loss of $54.2m (underlying profit of $21m), in contrast to the previous year's $29.8m profit. A major contributor to this loss was the sale of the underperforming Torpedo7 business for just $1, resulting in a $60m writedown.

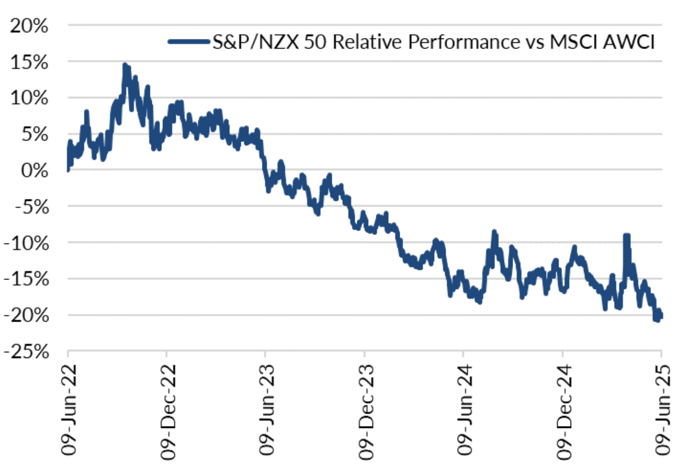
Source: Forsyth Barr analysis



Looking beyond traditional best practice corporate governance...

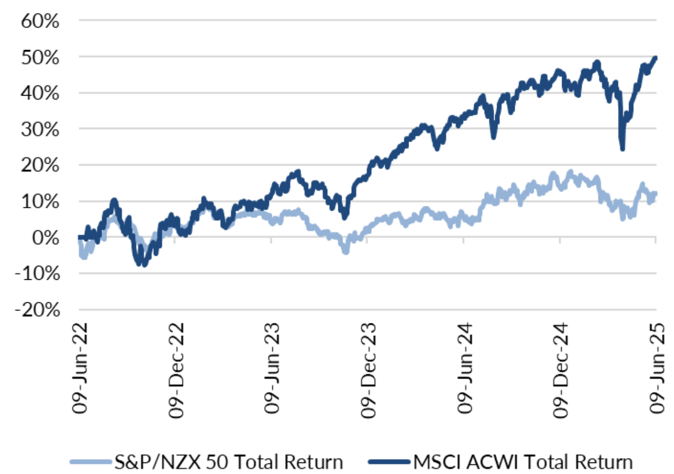
The NZ market has had a tough time in recent years. The knock-on impacts of the COVID years—including rising interest rates—have been part of the reason. But even beyond these rare and unpredictable events, some of New Zealand's most prominent companies have experienced significant share price declines. This has prompted us to pause and reflect on what has gone wrong, why, and what good governance means for New Zealand companies.

Figure 8. Relative performance of NZX vs MSCI ACWI



Source: Refinitiv, Forsyth Barr analysis

Figure 9. Aggregate price change for NZX and MSCI ACWI



Source: Refinitiv, Forsyth Barr analysis

The relationship between good corporate governance and a company's financial success is well documented. Well-defined and widely accepted governance practices help ensure that a board of directors meets regularly, retains control of the business, and has a clear division of responsibilities. They also support robust, streamlined, and consistent risk management policies, practices, and systems. Strong and effective corporate governance fosters a culture of integrity. Fundamentally, it aims to increase accountability across all individuals and teams within a company, working to prevent mistakes before they occur.

Generally, New Zealand companies perform well on traditional corporate governance metrics. We note that each of the five companies *broadly* meet current best practice across most indicators. This prompted us to consider how we can evolve our understanding of what makes an effective board.

A board is only as good as the decisions it makes. Its overarching role is to provide governance, oversight, and strategic direction to ensure the company is managed in the best interests of its shareholders and other stakeholders, including employees, customers, and the community. A board is ultimately accountable for a company's success. A key decision is that of the CEO and senior leadership.

It's not easy being a board member—and even less so, the Chair. Many of the issues faced by the case study companies were externally driven, and even with hindsight, it is debatable how much of the fallout could have been avoided. In recent years, the range of issues boards are expected to oversee has expanded—to include cybersecurity risk management, the impact of artificial intelligence on business strategy, geopolitical scenario planning, and climate-related disclosures. The need for directors with diverse expertise and perspectives has never been greater. However, there must also be continued focus on appointing directors with seasoned business acumen and well-rounded core skills. Structuring an effective board is a balancing act. Its composition should be grounded in a long-term view of the company's strategic goals—and the skills and experience needed to guide management towards achieving them.

Effective governance goes beyond board structure. Boards must balance independence, diverse skills, and strategic focus to navigate change and manage capital wisely. They must also anticipate structural shifts—such as regulatory changes, business cycles, or rapidly evolving technologies—and ensure strong information flows with management. When this balance breaks down, poor outcomes can follow.

Figure 10. In 2024, the case studies generally met traditional best practice corporate governance

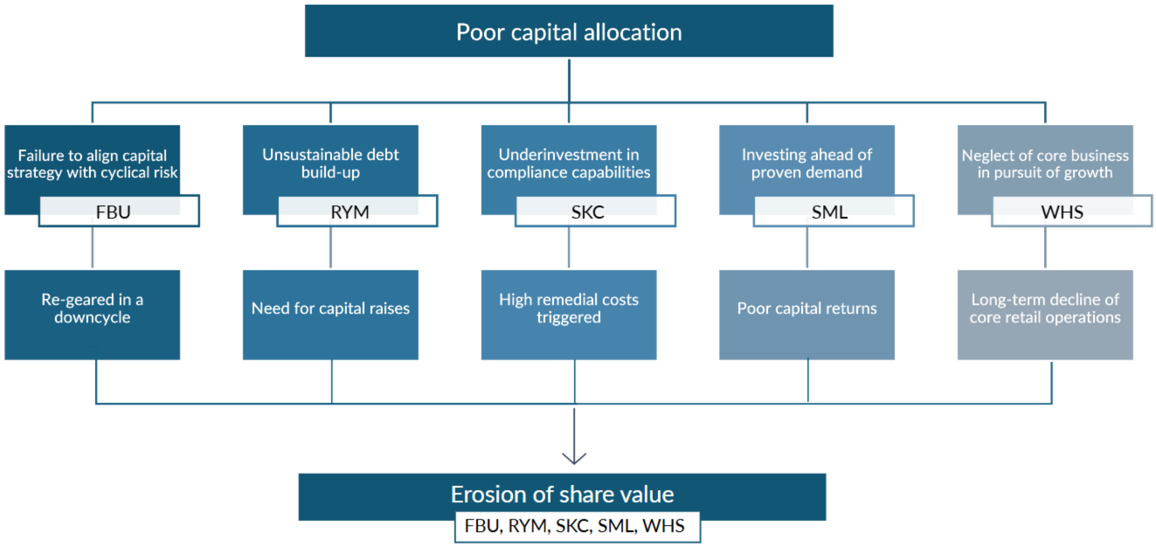
Example corporate governance indicator	Defined best practice	FBU	RYM	SKC	SML	WHS
Board comprises majority independent members	Generally, Board committees should be majority independent (global best practice) to gain true separation between management and governance. Independent directors bring 'outside' thinking that can enable a business to grow and develop a valuable long-term strategy.	✓	✓	✓	x	✓
Separate CEO and Chair	The Board is responsible for employing the CEO of the company and approving the business strategy. There should be a clear understanding of the division of responsibilities between the Board and the executive. No one individual should have unfettered powers of decision.	✓	✓	✓	✓	✓
Board affiliations	This measure helps us assess whether individual board members have the time to commit to the company. It is one way to assess board quality. Internationally, a maximum of four board affiliations is the standard. However, given the particular characteristics of the New Zealand market, we are of the view that NZ directors should sit on a maximum of three boards only.	✓	✓	3.7	✓	5
Number of board members	Small Boards may not have the diversity and depth of experience of larger Boards. Boards that are too large may affect individual participation. Governance Today suggests 8–10 members as the optimal number. Given the size of New Zealand companies, we are of the view that 6–9 members is optimal.	✓	✓	✓	✓	✓
Skills matrix	A skills matrix is one effective tool to demonstrate to shareholders how skills across the Boardroom link to the oversight of company operations and strategy.	✓	✓	✓	✓	✓
Policy for maintaining a well-balanced board	Board members represent the company, share its vision, and complement any weaknesses within the board. Diversity of thought and experience, objectivity, and detailed knowledge of the company's business activities are all essential to making informed decisions. Directors should bring different skills to increase the 'human wealth' of the company.	✓	✓	✓	x	✓
Audit committee members are non-executives	The audit committee's role includes oversight of financial reporting, monitoring of accounting policies, oversight of external auditors, regulatory compliance, and discussion of risk management policies with management. Given this, the committee should maintain independence from the firm—this can be achieved by having non-executive members. The NZ Corporate Governance Forum guidelines suggest that all members of the audit committee should be non-executive.	✓	x	✓	✓	✓
Gender diversity	Gender diversity on boards is important as it brings a broader range of perspectives, experiences, and expertise to decision-making processes, leading to better corporate governance and performance. Also, it promotes gender equality and provides opportunities for talented individuals, contributing to a more inclusive and equitable society.	✓	✓	✓	x	✓

Source: Forsyth Barr analysis, as at 30/11/24

While reflecting on what went wrong and why, we identified some common themes across the case studies, distilling them into key indicators that may serve as early warning signals for shareholders, including:

1. **Cash conversion & capital discipline:** All cases (FBU, RYM, SML, SKC, WHS) showed signs of weak financial discipline: FBU failed to align capital strategy with cyclical risk, maintaining elevated gearing; RYM allowed debt to build to unsustainable levels, resulting in capital raises; SKC overinvested in low-returning physical assets and underinvested in compliance capabilities, triggering high remedial costs; SML invested ahead of proven demand with poor returns at Pokeno; WHS allocated capital to ventures that underperformed while core retail weakened.
2. **Financial restatements & impairments:** RYM, SML, and WHS made major restatements or write-downs, signalling prior overvaluations or misjudged expectations (e.g. RYM's NZ$400m valuation reversal; SML's NZ$115m impairment on North Island assets; WHS's $60m Torpedo7 impairment).
3. **Changes in accounting principles:** Two of the case studies (RYM and SML) made significant changes to their accounting practices. RYM made material shifts after years of opaque practices, including capitalising corporate overheads and using non-transparent definitions of earnings and cash flow. SML revised its inventory costing approach. Both reflect a transition from aggressive to more conservative accounting treatments.
4. **Auditor tenure >10 years:** Three of the case studies had the same auditor for more than 10 years: RYM (24 years), SKC (28 years), and WHS (19 years). *We note RYM has since changed its auditor.* While long-standing audit relationships can offer valuable institutional knowledge, they may also reduce auditor independence or normalise incremental risk over time. To address this, the NZ Corporate Governance Forum recommends active consideration of audit firm rotation every 10 years. This supports auditor independence and ensures robust financial reporting and oversight.
5. **Lack of an annual self-review by boards:** Three of the boards of the case studies do not conduct an annual self-review: FBU, RYM, and SML. Undertaking an annual self-review process is important for the board as it promotes continuous improvement, identifies areas for development, and enhances decision-making and governance practices. It fosters accountability, continuous improvement, and stronger governance.

Figure 11. Drivers of poor cash management and capital allocation



Source: Forsyth Barr analysis

We also identified the following common themes across the case studies:

1. **Slow recognition of, and response to, structural change by the board (FBU, RYM, SKC, SML, WHS)** was a consistent issue across these companies. Shifts in regulation, business cycles, long-term structural trends, customer behaviour, input costs, and technology were often visible, yet management responses were delayed or non-existent—perhaps shaped by recency bias or an overreliance on past success.
2. **Gaps in board skills and indications of limited internal challenge (FBU, RYM, SKC, WHS)** appear to have contributed to poor decision-making. Some boards may have lacked the depth of experience or domain expertise needed to critically assess strategy, while others showed signs of insufficient independence or cohesion to provide meaningful oversight.
3. **Growth at the expense of core business performance (FBU, RYM, SML, WHS)** emerged as a clear misstep. These companies prioritised new ventures or expansion strategies while neglecting foundational operations, resulting in weakened core segments and diminished long-term value. This was not a failure of ambition, but of strategic focus.
4. **Weak internal controls, reporting systems, and stakeholder engagement (FBU, RYM, SKC, SML)** further undermined governance effectiveness. Poor information flows from management to the board, inconsistent metrics, limited transparency, and defensive communication practices eroded trust and delayed necessary course corrections.

Figure 12. Common governance issues across the case studies

Theme	Findings
Slow recognition of, and response to, structural change	■ FBU was slow to adapt its capital structure and oversight despite cyclical headwinds. ■ RYM did not respond quickly enough to structural shifts in property prices, development costs, and care economics. ■ SKC reacted late to increasing anti-money laundering (AML) and other regulatory pressures. ■ SML failed to recognise shifting Chinese demographics and assumed ATM would take more market share and at a faster rate, despite it being off a higher base. ■ WHS was slow to address long-term core retail decline.
Gaps in board skills and indications of limited internal challenge	■ FBU's governance lacked the depth to navigate operational complexity. ■ RYM's board lacked financial oversight, contributing to poor capital tracking. ■ SKC's risk management framework was inadequate to mitigate key regulatory risks. ■ WHS lacked board independence to test long-term strategy.
Growth at the expense of core business performance	■ RYM focused on building new villages while its existing villages generated little cash flow. ■ SML was overly reliant on one customer and built capacity that wasn't needed. ■ WHS diverted focus from Red Sheds to offshore and (some) digital ventures.
Weak internal controls, reporting systems, and stakeholder engagement	■ FBU's one-size-fits-all reporting failed to reflect risk at distinct business-unit levels. ■ RYM used opaque accounting metrics and resisted external challenge. ■ SKC underinvested in compliance infrastructure. ■ SML lacked clear market communication during leadership instability.

Source: Forsyth Barr analysis

Assessing board effectiveness

In our review of the case studies, we kept returning to the challenge of how to better assess the effectiveness of boards. The International Corporate Governance Network (ICGN) Global Governance Principles offer some guidance under Principle 1: Board role and responsibilities, encouraging boards to 'conduct[ing] an objective evaluation of the board chair, board as a whole, committees and individual directors on an annual basis, including an external review at least once every three years'. The NZX Code, in Recommendation 2.7, states that the board should have a procedure to regularly assess director, board, and committee performance.

Figure 13. Current 'guided' good practice for driving board effectiveness

Theme	ICGN (International Corporate Governance Network)	FMA (Financial Markets Authority NZ)	NZX Corporate Governance Code	NZCGF (NZ Corporate Governance Forum)
Evidence of healthy debate and challenge	▪ The chair should foster a culture of openness where a range of views are expressed and board discussions are well-facilitated (Principle 2.3). ▪ A diverse and well-composed board supports effective challenge and strategic decision-making (Principle 3). ▪ Directors must hold management to account and contribute meaningfully to discussions (Principle 1.5).	▪ Board chairs are formally responsible for fostering a constructive governance culture, promoting cooperation and informed decision-making (Guideline 2.5).	▪ The board should have an independent chair who encourages contributions from all directors and constructive relationships (Recommendation 2.9).	▪ Boards should have a majority of independent non-executive directors who are motivated and equipped to provide independent scrutiny of the company's activities (Additional Forum Guidelines).
Mechanisms for board evaluations	▪ Boards should conduct annual evaluations of their performance, including committees and individual directors, with external reviews suggested every three years (Principle 3.3). The evaluation process and any key outcomes should be disclosed where relevant.	▪ Boards should have rigorous formal processes for evaluating their performance, and that of board committees, individual directors, and the chair. This could include a formal, regular review of the chair (Guideline 2.10).	▪ The board should have a procedure to regularly assess director, board and committee performance (Recommendation 2.7). Reviews should consider training needs (Recommendation 2.6) and may involve external facilitators.	▪ Board evaluations should inform ongoing succession planning. The process should identify future skill gaps to avoid capability loss (Additional Forum Guidelines).
Board member participation and independent judgment	▪ Directors should be well-prepared, update their skills, and actively engage in board work, including constructively challenging management (Principle 1.5). ▪ Boards should have a majority of independent directors to ensure objectivity (Principle 2.2). ▪ Non-executive directors should meet independently at least annually, without the chair (Principle 2.7).	▪ Boards benefit from a balance of executive and independent non-executive directors. Independence of mind is essential for sound governance (Guideline 2.2).	▪ A majority of the board should be independent to support objective decision-making and effective oversight (Recommendation 2.8).	▪ Boards should maintain majority independence. Directors should be prepared to exercise independent judgment and constructively challenge proposals (Additional Forum Guidelines).

Source: Forsyth Barr analysis

Shareholders can take this further and start to assess board effectiveness by asking the following questions:

1. **Is the board forward-looking and adaptable?** Slow responses to structural change often reflect a board anchored to legacy assumptions. Investors should look for signs that the board is attuned to long-term trends and willing to challenge the status quo. This includes how the company talks about disruption, invests in capability, and integrates scenario planning into its strategic process.
2. **Is capital being allocated with discipline and transparency?** Poor capital allocation—especially during times of stress—often signals weak board challenge or misaligned incentives. Investors should interrogate whether dividends are supported by free cash flow, whether large investments have clearly defined return metrics, and how capital decisions are explained to the market. Patterns of 'growth capex' exclusion or earnings adjustments warrant close scrutiny.
3. **Does the board have the right mix of skills and voices to effectively respond in times of challenge?** A diverse board is about having the right expertise to challenge complex decisions. Investors should assess whether the board includes sector-specific experience, strong financial acumen, and a proven ability to navigate change. Investor days, AGM Q&As, director interviews, and board refreshment trends can provide valuable signals.
4. **Is the core business being protected and strengthened?** Chasing growth at the expense of core performance often erodes long-term value. Investors should examine whether the company's strategy remains grounded in its competitive strengths. Persistent underinvestment in the core or excessive diversification efforts may signal a board that has lost focus.
5. **Is the board demonstrating accountability and engagement?** Poor communication with stakeholders—particularly during periods of underperformance—is a red flag. Investors should look for boards that are transparent, consistent, and willing to engage constructively with analysts and shareholders. Defensive posture, vague guidance, or selective disclosure may indicate deeper governance issues. Shareholders could demand that boards undertake a rigorous and external review of their performance (as a collective body), the Chair, the company secretary (where applicable), board committees, and individual directors prior to being proposed for election. Shareholders should also seek disclosure of the review process and findings and, as far as reasonably possible, be made aware of any material issues arising from the conclusions and/or actions taken.
6. **How is the board ensuring the CEO and executive team are effectively leading the company?** Beyond remuneration, consistent delivery against strategic, operational and financial targets provides an objective measure of performance. Shareholders could look for evidence of how the board is proactively guiding, challenging and supporting the CEO and executive team.

Actions for shareholders

1. **Engage directly and ask the hard questions.** Proactive engagement is key. Ask management and the board about capital allocation decisions, the rationale behind strategy, and how risk is being managed. Don't settle for surface-level answers; probe for clarity on returns, accountability, and alignment with long-term value.
2. **Scrutinise board composition and capital discipline.** Look beyond independence labels. Assess whether the board has the right mix of industry, financial, and risk expertise to challenge management. Pay close attention to dividend policies, debt levels, and investment assumptions, as these are often the first signs of poor governance.
3. **Use voting power and capital allocation to hold boards accountable.** Vote against directors where governance concerns persist. Support board refreshment when needed. Allocate capital to companies that demonstrate strategic clarity, transparency, and strong oversight, and reduce exposure where boards fail to act in the long-term interests of shareholders and other relevant stakeholders.

Case studies

Every company is different, and many moving parts contribute to success. Sometimes, key factors are within a company's control; other times, they are not. These case studies examine what went wrong, the warning signals now obvious with hindsight, the lessons learned, and the changes some companies have made as they work to get back on track. We also identify common warning signals that warrant additional investor attention.

We acknowledge that we could have written case studies on a much longer list of companies. However, we have drawn the line at five. Please refer to Appendix 1 for insight into the criteria we applied to select the companies used for case studies.

The common threads that emerged as indicators of risk are evident in other companies, particularly those operating within the same industry. Many of the issues seen at RYM can, to a lesser degree, be observed in the other two listed aged care companies, Summerset (SUM) and Oceania Healthcare (OCA): poor and deteriorating underlying cash generation resulting in higher debt levels, particularly in relation to cash generation.

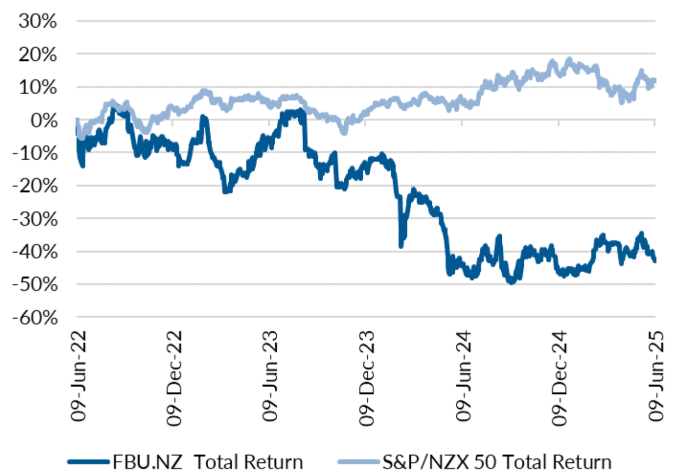
Within retail, KMD Brands (KMD) has experienced very weak shareholder returns, has suspended its dividend, and reported a loss in FY24. Spark (SPK) has paid out more in dividends than it has generated in cash for several years; compared to more cyclical stocks, its profitability has held up well, but three or four consecutive profit downgrades for a telecom company indicates that it either has poor internal controls or has repeatedly misjudged industry change—pointing to potential governance issues.

The uncharacteristically large writedowns at Heartland Group (HGH)—in particular, the significant collective provisions this late in the cycle—could also be an indication of poor governance and/or internal controls. Tourism Holdings (THL) appears to have repeatedly underestimated the cyclical downturn in RV demand and has had to walk away from its FY26 aspirational earnings goal.

Case study 1: Fletcher Building (FBU)

FBU has had a torrid decade. Competitive pressures and self-inflicted issues—particularly in the construction division and Australian businesses—have resulted in persistent earnings downgrades, ongoing cash outflows, and stubbornly high net debt (despite an equity raise in FY18 to cover construction losses). FBU sought to address this by selling its international operations, refocusing the business on its core New Zealand and Australian markets, and significantly de-gearing the balance sheet. However, a significant lift in earnings during the pandemic construction boom saw FBU's balance sheet re-gear (acquisitions, growth capex, share buybacks, and dividends) at the top of the cycle, predicated on activity and margin assumptions that proved to be optimistic. Multiple earnings downgrades, the re-emergence of construction project provisioning, and issues with Iplex pipes in Western Australia saw the balance sheet brought into question as debt rose further, earnings expectations declined, and free cashflow remained negative. This latest series of issues culminated in 2024 with the mass resignation of directors and senior management, followed by a discounted capital raise.

Figure 14. Share price against the NZX: FBU



Source: Forsyth Barr analysis

Figure 15. Forsyth Barr's C&ESG Ratings: FBU

FBU	2022	2023	2024
C&ESG Ratings	A-	B+▼	B▼
Category	Leader	Fast Follower▼	Fast Follower
Rank	6/57	19/58▼	29/61▼
Governance Rank	3/57	25/57▼	52/61▼

Source: Forsyth Barr analysis

What went wrong?

Inadequate internal systems and one-size-fits-all reporting failed to reflect the complexity of a group made up of 20+ distinct businesses, each with its own risk profile and critical success factors. A hierarchical, centralised structure with multiple layers of management impeded information flow—particularly around structural changes within the markets its businesses operate in and construction project management. Management incentives were also misaligned—failing to accurately reflect the varying risks of each business division and the potential cyclical downside. FBU increased gearing significantly through acquisitions, share buybacks, and growth capex as the cycle started to turn downward. A number of poor capital allocation decisions were made that did not reflect the cyclical nature of the business (EBITDA fell -35% from FY23–25E). In particular, FBU's target gearing range was based on a multiple of earnings (1–2x EBITDA) and did not adjust for different stages of the construction cycle, allowing the business to over-gear at the top of the cycle.

With hindsight, what were the warning signals?

Management shifted focus to growth before historical construction problems were fully addressed. After de-gearing the balance sheet via a large asset sale, debt was quickly rebuilt. Dividends were paid despite FBU being free cash flow negative. Management expressed confidence in margin stability during a downturn, even as the business underperformed. Forward expectations were consistently framed using 'mid-cycle' scenarios for activity and margins that appeared optimistic relative to historical norms. The use of significant items and provisioning (*c.*NZ$190m/year for the past 10 years) resulted in a persistent gap between adjusted and reported earnings.

What did we learn?

Managing a business as complex as FBU requires a detail-oriented management team with the skills, systems, and bandwidth to process large volumes of diverse information. Reporting must evolve to reflect business complexity, and decision-making needs to be supported by stronger systems of information flow (FBU's ERP rebuild is currently paused). In addition, business models and capital structures must be built with the full cycle in mind. Trough scenarios—not just mid-cycle scenarios—need to guide risk management, gearing levels, and investment decisions. Incentive structures must be redesigned to better reflect cash returns, capital employed, and the distinct risks of each division.

In summary, we identified the following main governance issues (not an exhaustive list):

- Slow recognition of, and response to, structural change by the board
- Poor capital allocation decisions
- Gaps in board skills and indications of limited internal challenge
- Weak internal controls, reporting systems, and stakeholder engagement
- Growth at the expense of core business performance.

What has changed?

FBU has recently undergone a board and management refresh. The CEO, CFO, and Chair have been replaced, and the majority of board members are new. The new management team has stabilised the balance sheet with a capital raise and is undertaking a strategic review of operations with the aim of improving underlying profitability and shareholder returns.

Figure 16. FBU board and management changes

Name	Role	Appointment date
Tony Dragicevich	Board	Aug-24
Andrew Reding	CEO	Sep-24
Will Wright	CFO	Nov-24
Peter Crowley	Chair	Feb-25
Jacqui Coombes	Board	Apr-25
James Miller	Board	Jun-25

Source: Forsyth Barr analysis

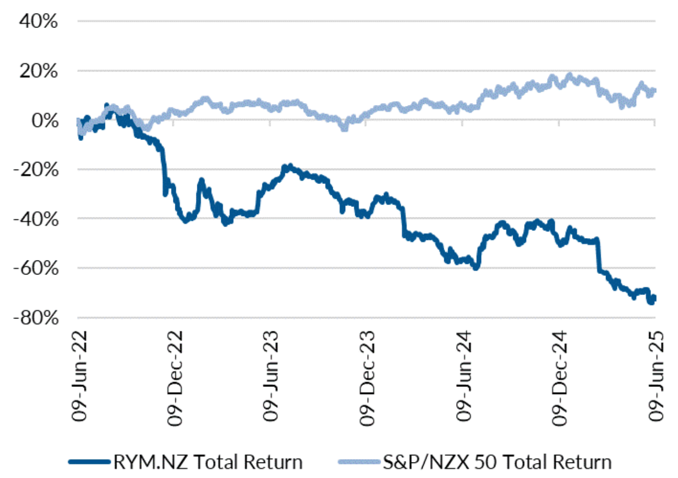
Our view looking ahead

This has been a long downcycle for construction activity; we are now 48 months from FBU's pandemic share price peak. Interest rates are being cut and forward indicators are improving, suggesting some improvement is on the horizon. The pace of recovery remains a key question—particularly given some sectors, like non-residential (*c.*25% of demand), may not have yet bottomed. Ongoing uncertainty around WA pipes costs, the NZICC (including litigation), and other small claims remains an overhang. On the positive side, new management is taking action: costs are being reduced, divisional structures reorganised, and loss-making businesses closed. We believe its strategic review needs to focus on operational excellence, with changes to staff incentives and culture that will take time to show results. Management has spoken to a fixed dollar value target for debt, which we believe will be loosely aligned to 1x trough EBITDA (*c.*NZ$750m, assuming FY25 is the trough). To reach this target, FBU will still need to de-gear (FY25E net debt is *c.*NZ$1.3b), which may potentially include non-core asset sales (construction), a reduction in funds employed in the residential division, and the sale of commercial land. But there are also capital calls for contracted residential land purchases, plant upgrades (Laminex and insulation), and working capital when the cycle turns. In summary, this is not a quick turnaround. Looking through near-term cyclically low earnings, FBU trades at a two-year forward PE multiple broadly in line with the long-run average. NEUTRAL.

Case study 2: Ryman Healthcare (RYM)

At its FY24 result, RYM's new management and board lifted the veil on more than a decade of opaque accounting practices and half-truths. The new team recognised the poor cash recovery of capex, removed the focus on non-audited revenue, reduced opex capitalised to the balance sheet, and wrote down selected balance sheet assets. RYM needed a clear break with the past. The entirely new management team—and largely new board—unencumbered by legacy decisions, set out a credible path forward, focusing on all the right things. But after significant value depletion for shareholders, the path forward proved worse than feared. In February 2025, RYM announced its second major capital raise to repair the balance sheet—this time triggered partly by a meaningful drop-off in sales. The following FY25 results included further impairments and substantial changes to accounting principles, including restatements of previous results. Almost two years after the board refresh, and with a new auditor, RYM now believes it has the right settings, incentives, and principles to move forward.

Figure 17. Share price against the NZX: RYM



Source: Forsyth Barr analysis

Figure 18. Forsyth Barr's C&ESG Ratings: RYM

RYM	2022	2023	2024
C&ESG Ratings	B-	C+▼	B-▲
Category	Fast Follower	Explorer▼	Fast Follower▲
Rank	36/57	47/58▼	39/61▲
Governance Rank	18/57	46/58▼	41/61▲

Source: Forsyth Barr analysis

What went wrong

Ryman's debt built up to an unsustainable level, culminating in two capital raises within two years to restore balance sheet resilience. Previously healthy levels of cash recycling deteriorated from 100% to around 60%–70% with new builds. The care business—heavily reliant on government funding—was exposed to sustained wage and input cost inflation without commensurate increases in revenue. Compounding these internal pressures were sharp external headwinds: interest rates rose from 2%–3% to around 7%, residential property values declined by ~15% (the steepest correction in decades), and the post-COVID cost environment proved persistently elevated. In short, the company did not respond to significant structural headwinds.

With hindsight, what were the warning signs?

Falling property prices were accompanied by deteriorating cash generation from both the care business and development. In 2017, the CFO succeed the former CEO which reinforced the prevailing direction of travel and approach. Cash flow reporting remained opaque, and there was a disconnect between reported earnings and actual cash generation—even after adjusting for development. In addition, the management team was reluctant to respond meaningfully to criticism of strategy and weak cash generation. There were also signs of aggressive accounting practices, including capitalising corporate overheads to long-term developments and using opaque definitions of underlying earnings and operating cash flow—though not all of this was externally transparent.

What did we learn?

There are risks in relying on government funding when the cost base is not directly linked to it. Even where leverage is tied to development activity, elevated gearing introduces significant risk if cash generation deteriorates. Valuations that depend heavily on management discretion can prove misleading. Long periods of rising property prices—such as the 30-year run leading into this period—can breed complacency in management. When challenges arise in businesses with long-life assets, recovery and course correction can take a very long time.

In summary, we identified the following main governance issues (not an exhaustive list):

- Slow recognition of, and response to, structural change by the board

- Poor capital allocation decisions
- Gaps in board skills and indications of limited internal challenge
- Weak internal controls, reporting systems, and stakeholder engagement
- Growth at the expense of core business performance.

What has changed?

RYM has changed its focus from underlying earnings to IFRS profits before tax and fair value (FV) gains, as well as genuine free cash flow. With the focus on IFRS earnings and near/medium-term cash flow has come a markedly reduced focus on new developments, which contribute to neither. RYM has also changed numerous accounting principles to be more conservative: (1) sales recognition has moved from contract signing to settlement; (2) delivery of new units as a percentage of completion has moved to full delivery; and (3) the proportion of operating expenses capitalised has been significantly reduced. These changes have materially reduced RYM's earnings, both historical and forecasted. A meaningful proportion of this reflects recognition that past results were overstated, but a proportion also relates to genuine business deterioration—particularly in sales—as management has focused on correcting past mistakes rather than building for the future. Over the last 24 months, RYM has also changed its entire management team and the majority of its board.

Our view looking ahead

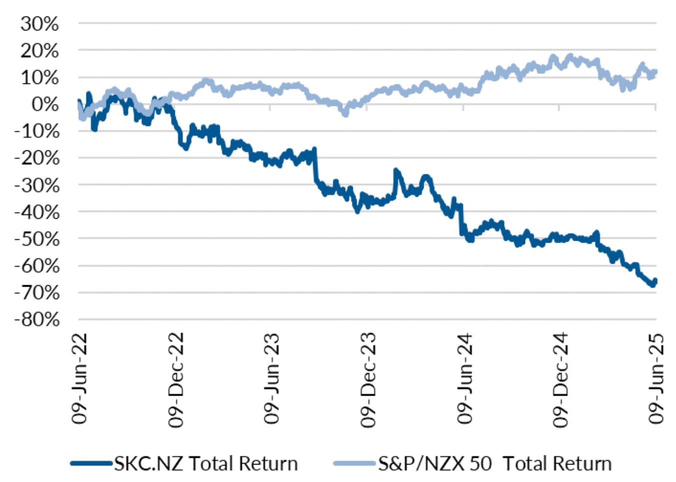
The success of RYM until about five years ago was not an illusion. With the benefit of hindsight, RYM wasn't quite as successful as it appeared—but debt was under control, units were being delivered, and it had built up a large portfolio of high-quality assets without requiring capital from investors, thanks to the advantages of its customer-provided capital model. With the right settings and good corporate governance, can RYM get its mojo back? To some degree, we believe so. But it will be a long journey from here. Some of the major tailwinds that contributed to RYM's success are unlikely to return. The interconnected benefits of falling interest rates and rapidly rising house prices masked poor underlying cash generation. We don't expect these tailwinds to repeat. Relatively strong care profitability has suffered a major setback as government funding has not kept up with cost inflation. We expect some improvement, but a path back to past EBITDA margins is hard to envisage. RYM's dramatic break with the past risks throwing out the baby with the bathwater. Aged care and retirement living are long-dated assets. Decisions made today will have implications 10–20 years into the future. We are on the fence with regard to RYM's path ahead and are NEUTRAL rated.

Case study 3: SkyCity Entertainment Group (SKC)

SKC has faced significant pressure over the past few years from a combination of regulatory and operational challenges. While we recognise cyclical challenges have been a factor, we also acknowledge that governance failings have been significant. SKC has faced regulatory scrutiny in both New Zealand and Australia due to documented and long-running compliance failings. In Australia, where the wider casino sector has been under significant regulatory pressure, SKC agreed to a civil penalty of A$67m related to anti-money laundering breaches at its Adelaide casino, and remains subject to the outcome of the South Australian government's Consumer and Business Services (CBS) suitability review. In New Zealand, the Department of Internal Affairs fined SKC NZ$4m in September 2024 for violations of the Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT). Furthermore, SKC's Auckland casino was forced to close for five days due to breaches of host responsibility requirements, following an investigation into a gambler's significant losses.

Over the long term, SKC has also been a poor allocator of capital. Its acquisitions of two casinos in Australia (Adelaide and Darwin) have destroyed shareholder value, given a long history of sub-WACC returns. More recent investments—such as the ~A$300m Adelaide precinct development—have also failed to meet cost of capital hurdles.

Figure 19. Share price against the NZX: SKC



Source: Forsyth Barr analysis

Figure 20. Forsyth Barr's C&ESG Ratings: SKC

SKC	2022	2023	2024
C&ESG Ratings	B+	B-▼	C▼
Category	Fast Follower	Fast Follower	Explorer▼
Rank	17/57	37/58▼	54/61▼
Governance Rank	27/57	50/58▼	59/61▼

Source: Forsyth Barr analysis

What went wrong?

SKC operates in a regulated industry with strict anti-money laundering (AML) and host responsibility obligations. Management has acknowledged that it has historically underperformed in these areas. This has resulted in significant financial (fines), operational (increased compliance costs), and social (broader scrutiny on SKC's social licence to operate) costs for the broader group. These challenges are not isolated to SKC but reflect a broader industry theme across the Australasian casino sector—particularly in Australia. Various high-profile investigations, by both media and regulators, have triggered sector-wide scrutiny, driving calls for more robust oversight and significantly elevating compliance expectations for all major operators.

Figure 21. Recent financial penalties for Australasian casino operators

Date	Casino operator	Fines	Issued by	For
May-22	Crown	A$80m	VGCCC	Improper disclosure
Sep-22	Star Entertainment Group	A$100m	NICC	Multiple failings
Nov-22	Crown Resorts	A$120m	VGCCC	Multiple failings
Dec-22	Star Entertainment Group	A$100m	QLD A-G	Multiple failings
Apr-23	Crown Resorts	A$30m	VGCCC	Allowing gambling on credit
Jul-23	Crown Resorts	A$450m	AUSTRAC	AML/CFT breaches
May-24	SkyCity	NZ$4m	DIA	AML/CFT breaches
Jun-24	SkyCity	A$67m	AUSTRAC	AML/CFT breaches
Sep-24	SkyCity	5-day suspension of Sky City Auckland	DIA	Responsible Host obligations
Oct-24	Star Entertainment Group	A$15m	NICC	Multiple failings
May-25	SkyCity	*A$75m	CBS	Multiple failings
Jun-25	Star Entertainment Group	**A$150m	AUSTRAC	AML failings

Source: Various, Forsyth Barr analysis *SkyCity CBS review with a potential A$75m fine **Star Entertainment Group has a A$150m provision for its AUSTRAC fines

With hindsight, what were the warning signs?

In July 2019, an episode of the television programme *60 Minutes* aired a major investigative report exposing serious issues in the Australian casino industry, with a particular focus on Crown Casino. The investigation, conducted in collaboration with *The Age* and *The Sydney Morning Herald*, revealed extensive evidence of corporate misconduct. Following the broadcast, the Bergin Inquiry was established by the NSW Independent Liquor and Gaming Authority in August 2019. Moreover, the Australian Transaction Reports and Analysis Centre (AUSTRAC—the Australian financial crimes watchdog) launched an industry-wide compliance campaign in September 2019, focusing on anti-money laundering (AML) and counter-terrorism financing (CTF) obligations. These early probes into Australian casinos—and the broader public scrutiny of business practices—should have triggered SKC to review and upgrade its compliance practices.

What did we learn?

A culture of governance and compliance is important. It's not simply about meeting minimum regulatory standards, but about the board and management's ability to anticipate emerging trends and take a proactive approach. While this may lead to higher regulatory costs in the short term, proactive risk mitigation is less damaging than a reactive stance that waits for enforcement action. The long-term financial and reputational impacts of regulatory breaches can be more costly—and ultimately more destructive—to shareholder value.

In summary, we identified the following main governance issues (not an exhaustive list):

- Slow recognition of, and response to, structural change by the board
- Weak internal controls, reporting systems, and stakeholder engagement
- Risk management failures: (1) not recognising and mitigating key regulatory risks; (2) slow recognition of, and response to, an emerging industry regulatory theme by the board
- Historic poor allocation of capital given underperforming investments
- Gaps in board skills and indications of limited internal challenge.

What has changed?

SKC has been taking a more proactive approach to risk mitigation and its regulatory obligations. Unfortunately, these come at a cost, with significant investment being made into its regulatory capabilities—including both human capital and technology (cashless gaming, facial recognition, etc.). SKC has also undergone a board and management refresh as part of its broader compliance and risk management improvements, summarised in the table below.

For example, the agreed risk transformation programme at SkyCity Adelaide will cost the group NZ$60m over three years. Given the nature of SKC's operations, strong governance and a proactive approach to regulatory obligations are necessary to protect its financial and social interests, and to support consistent shareholder returns.

Figure 22. Board and management changes

Name	Role	Appointment Date
Julian Cook	Executive Chairman	Board: Jun-21, Chair: Jan-22
David Attenborough	Non-Executive Director	Mar-23
Kate Hughes	Non-Executive Director	Sep-22
Glenn Davis	Non-Executive Director	Sep-22
Donna Cooper	Non-Executive Director	Sep-23
Chad Barton	Non-Executive Director	Jun-21
Jason Walbridge	Chief Executive Officer	Jul-24
Peter Fredricson	Chief Financial Officer	Aug-24
Carolyn Kidd	Chief Risk Officer	Apr-23

Source: Forsyth Barr analysis

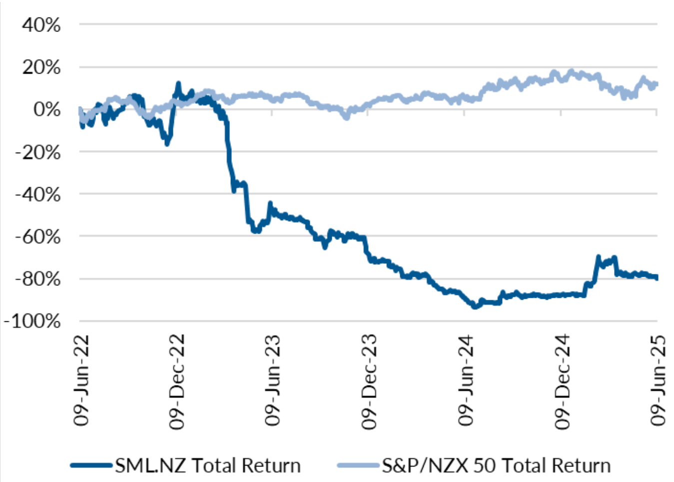
Our view looking ahead

Looking ahead, the challenges for SKC are both cyclical and structural—and we do not see a near-term resolution for either. The additional focus and capital spent on compliance and regulation is necessary but costly, and the market will need to recognise that SKC is likely to become a lower-returning business than it has been historically. Further regulatory scrutiny, the impact of carded gaming, and the impending CBS review—along with the associated pecuniary penalty—mean the near-term newsflow is likely to remain negative, underpinning our UNDERPERFORM rating.

Case study 4: Synlait Milk (SML)

SML has had a tough few years. FY24 results reported an NPAT loss of -NZ$182m, including a NZ$115m impairment of its North Island assets, while normalised NPAT was a loss of -NZ$60m. Net debt was elevated versus FY23 (up +33%). Divisionally, the weakness versus FY23 was particularly acute in its Ingredients and Advanced Nutrition segments, reflecting gross margin headwinds—exacerbated by the material earnings drag from its North Island assets. In August last year, SML announced a ~NZ$218m equity raise, primarily to repay its retail bonds (NZ$180m) which matured on 17 December 2024. While we acknowledge the raise was necessary to prevent the company from entering liquidation, it was heavily dilutive for minority shareholders who were unable to participate.

Figure 23. Share price against the NZX: SML



Source: Forsyth Barr analysis

Figure 24. Forsyth Barr's C&ESG Ratings: SML

SML	2022	2023	2024
C&ESG Ratings	B	B	C+▼
Category	Fast Follower	Fast Follower	Explorer▼
Rank	28/57	31/58▼	45/61▼
Governance Rank	36/57	7/58▲	26/61▼

Source: Forsyth Barr analysis

What went wrong

SML's primary challenge has been poor capital allocation—most notably the investment in its Pokeno facility, which remains significantly loss-making. Compounding this was a lack of customer diversification, with an overreliance on The a2 Milk Company (ATM). We have some sympathy for SML's struggles: its initial strategy a decade ago was to serve a number of multinational customers across its Advanced Nutrition segment. That was until ATM's demand exploded, and SML quickly acted operationally to service these volumes through increased capacity. The Pokeno expansion was, in part, to service the growth of ATM, which ultimately hasn't been needed. That said, the lack of rigour around capital allocation was concerning.

The board appeared relatively dismissive of the risks around ATM's growth (both market share and macro impacts), noting: (1) that China's female child-bearing population had been declining since the early 2010s; and (2) that ATM's implied market share today to fill Pokeno would need to be ~15%–20% (it is ~6% today and was ~2% when SML purchased the land at Pokeno in February 2018). The lack of financial exposure for ATM, relative to the risks SML was taking, is also a point of concern.

These issues have contributed to considerable executive and board turnover, compounding poor investor transparency. In 2023, SML's founder and former CEO, John Penno, returned as interim CEO during a period of crisis—despite being board chair at the time—raising governance concerns around independence and accountability.

With hindsight, what were the warning signs?

SML pursued aggressive capital expenditure without sufficiently demonstrated demand, and the board could have applied greater scrutiny to returns—especially given the debt-funded nature of its expansion. The company's dependence on ATM left it exposed. Persistent earnings downgrades signalled weaknesses in forecasting and planning. Additionally, frequent management changes and a lack of effective communication with the market further eroded confidence in the company's governance and leadership.

What did we learn?

The struggles emphasise the critical focus a board must have on capital allocation and risk management. SML pursued growth aggressively with a 'build it and they will come' attitude and a focus primarily on one customer; return on capital has materially deteriorated as a result. Clear, timely, and credible communication was lacking through this challenging period but has improved more recently under George Adams (current chair). This marks a positive step forward for SML's governance.

In summary, we identified the following main governance issues (not an exhaustive list):

- Slow recognition of, and response to, structural change by the board
- Poor capital allocation decisions
- Growth at the expense of core business performance
- Weak internal controls, reporting systems, and stakeholder engagement.

What has changed?

A lot has changed within SML over the past two to three years. (1) Significant recapitalisation (direct placement). Bright Dairy is now a ~65% shareholder and The a2 Milk Company (ATM) is a ~20% shareholder. ATM's shareholding was unchanged through the recapitalisation, but Bright's increased significantly from ~39%. (2) The board has changed too, with George Adams now chair (there were a number of changes between January 2022 and George's commencement in May 2024)—communication has become significantly more transparent, which has been a pleasing development. (3) Management has undergone a complete reshuffle, with prior CEO Grant Watson being replaced by Richard Wyeth (commenced 19 May), and new CFO Andy Liu commencing in August 2024. (4) From 2015–2021 there were no changes to SML's board. Since 2022, all independent directors have changed (including the chair multiple times), and there have been five changes among Bright Dairy directors.

Below we outline the changes to SML's CEO, board chair, and board over the past decade. SML has also had five different CFOs since early 2020, although this includes one short period with an acting CFO in mid-2024.

Figure 25. SML CEO timelines

CEO	Tenure
Dr John Penno	Founding-August 2018
Leon Clement	August 2018-April 2021
Dr John Penno (interim)	May 2021-January 2022
Grant Watson	January 2022-October 2024
Tim Carter (interim)	October 2024-May 2025
Richard Wyeth	May 2025-Present

Source: Forsyth Barr analysis

Figure 26. SML Board Chair timelines

Board Chair	Tenure
Graeme Milne	March 2006-January 2022
Dr John Penno	January 2022-December 2022
Simon Robertson	December 2022-October 2023
Paul McGilvary (interim)	October 2023-May 2024
George Adams	May 2024-Present

Source: Forsyth Barr analysis

Figure 27. SML Board changes over the past decade

Year	Bright Dairy directors	Independent directors	Change
2015	4	3	n/a
2016	4	3	n/a
2017	4	3	n/a
2018	4	3	n/a
2019	4	3	n/a
2020	4	3	n/a
2021	4	3	n/a
2022	4	3	Chair, two other independent directors, and two Bright directors
2023	4	3	Chair in late 2023
2024	4	3	Chair and three Bright directors
2025	4	3	n/a

Source: Forsyth Barr analysis

What hasn't necessarily changed is Bright Dairy's effective control. We think it is important to recognise that prior to the recent recapitalisation, Bright Dairy had the special right to appoint four directors to the SML board, with at least one required to ordinarily reside in New Zealand. These rights were part of SML's constitution and gave Bright Dairy effective board control, even before holding a majority of the shares. The constitution was allowed as part of an NZX waiver. Now, Bright Dairy has the same rights that accrue to any majority shareholder of an NZX-listed company—but this is largely unchanged versus the prior constitution.

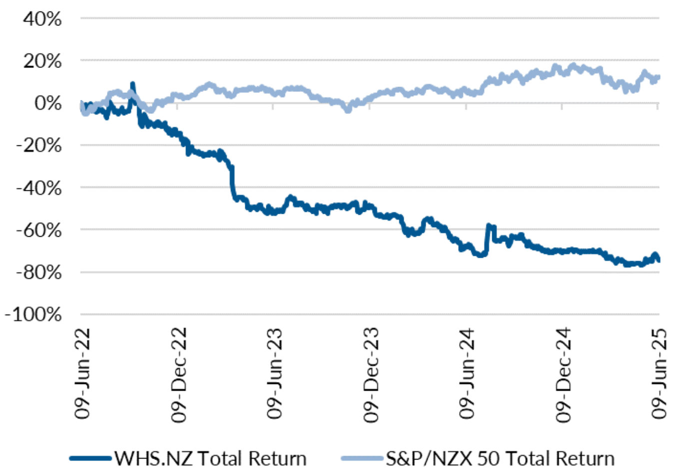
Our view looking ahead

From an operational point of view, there have been no significant changes—SML still owns Pokeno, and earnings remain concentrated with ATM—but early signs in the turnaround have been positive. Looking ahead, we believe more execution is needed to reduce the still-elevated debt levels, diversify the customer base, and provide clearer strategic direction on the future of Pokeno. The risk of losing the lucrative ATM volumes (most likely English Label only) is the key reason for our UNDERPERFORM rating. The outcome of ATM's supply chain acquisition strategy will be the key catalyst—up or down—for the share price, and will provide SML with greater clarity on managing the future direction of the business.

Case study 5: The Warehouse Group (WHS)

WHS's share price has been under significant pressure recently. While recent challenges can be attributed to a soft consumer spending environment in New Zealand, in our view, the impact was amplified by multiple strategic missteps that have eroded investor confidence and allowed market share losses and EBIT margin declines to continue unchecked for over two decades. The company's 'ecosystem strategy', which included ventures like TheMarket.com, was just the latest iteration of WHS diverting its focus away from core retail operations—others included the Australia expansion, Warehouse Finance, and Torpedo7. In FY24, the company reported its first-ever annual reported loss of $54.2 million (underlying profit of $21 million), in contrast to the previous year's $29.8 million profit. A major contributor to this loss was the sale of the underperforming Torpedo7 business for just $1, resulting in a $60 million writedown.

Figure 28. Share price against the NZX: WHS



Source: Forsyth Barr analysis

Figure 29. Forsyth Barr's C&ESG Ratings: WHS

WHS	2022	2023	2024
C&ESG Ratings	B+	B-▼	B+▲
Category	Fast Follower	Fast Follower	Fast Follower
Rank	15/57	40/58▼	23/61▲
Governance Rank	15/57	56/58▼	44/61▲

Source: Forsyth Barr analysis

What went wrong

WHS has a track record of capital misallocation, particularly as its core store-based growth model matured. Its three main brands—The Warehouse (Red Sheds), Warehouse Stationery (Blue Sheds), and Noel Leeming—have long been staples in New Zealand retail and historically delivered adequate returns. However, as store rollouts slowed, the board pursued alternative avenues for growth, including an unsuccessful expansion into Australia, financial services through Warehouse Finance, the acquisition of Torpedo7, and an eCommerce push via TheMarket.com. Rather than consolidating and strengthening its core competitive positions, WHS allocated significant capital toward multiple inorganic ventures—many of which failed to deliver—ultimately undermining long-term shareholder value.

With hindsight, what were the warning signs?

WHS spent years trying to replace the growth lost as its store expansion model matured. The lack of focus on its core business was evidenced by 20 years of market share losses and declining EBIT margins in its Red Sheds business. Over time, the board continued to misallocate capital elsewhere, pursuing offshore ventures and digital initiatives that failed to deliver.

What did we learn?

Chasing growth through non-core ventures can come at the cost of long-term value. A disciplined focus on core businesses, operational efficiency, and defending market share would likely have delivered better outcomes than pursuing inorganic growth for growth's sake. In a mature retail business, sustainable returns come from strengthening what you do best, not from expanding too far beyond core business competencies. A modest growth focus would have moderated the risk while providing insights and lessons from expansion.

WHS has returned its focus to core businesses, shutting down underperforming operations. The key questions are whether structural issues were left to fester too long—giving competitors too much opportunity to take market share—and whether the renewed focus on core operations has come too late in the piece.

In summary, we identified the following main governance issues (not an exhaustive list):

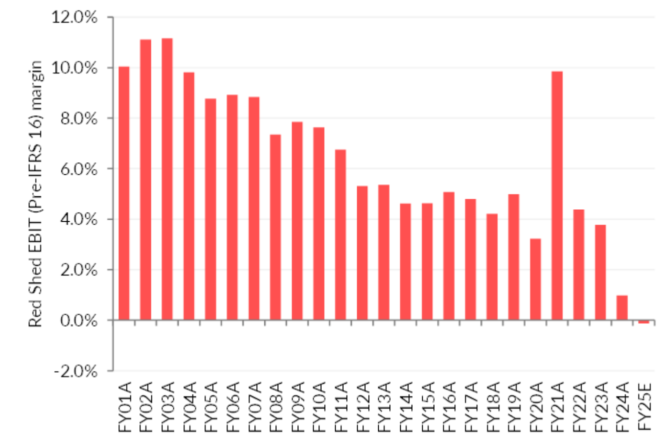
- Slow recognition of, and response to, structural change by the board

- Poor capital allocation decisions
- Gaps in board skills and indications of limited internal challenge
- Growth at the expense of core business performance.

What has changed?

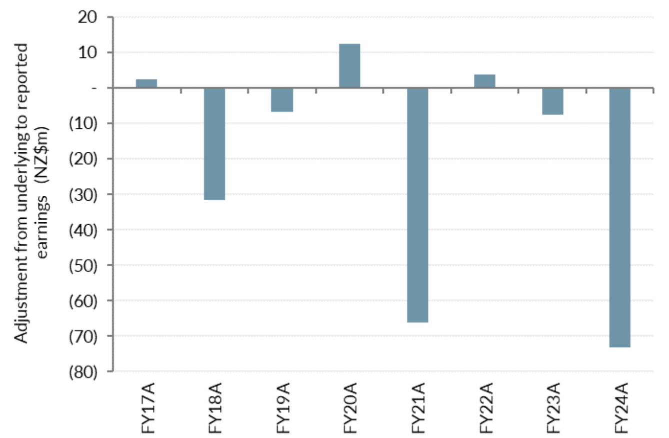
WHS has returned its focus to its core businesses, shutting down two underperforming operations in the last two years. While a positive step, WHS is trying to refocus the business at a time when domestic consumer spending is under pressure—making this transition more challenging. The question for WHS now is whether it let structural issues fester too long, and whether its renewed focus on core businesses has come after too much structural damage has already been done.

Figure 30. Red Shed EBIT margin



Source: WHS, Forsyth Barr analysis

Figure 31. Adjustment from underlying to reported earnings



Source: WHS, Forsyth Barr analysis

Our view looking ahead

The weak consumer backdrop has had a significant negative impact on WHS. However, the decline in performance of the Red Shed has been evident for longer than just the past few years. Over the last 20 years, the Red Shed has deteriorated from delivering *c.*10% EBIT margins to our expectation of a broadly breakeven year in FY25. The cycle will turn, and margins should improve—but the long-term trend is of greater concern. At this stage, we do not have confidence that WHS will be able to turn around its margin trajectory, and we maintain our UNDERPERFORM rating.

International corporate governance challenges

New Zealand isn't the only country facing governance challenges.

Australia

Looking across the Tasman, there have been several notable corporate governance failures among listed Australian companies in recent times. Poor governance and ineffective management of stakeholder relationships have resulted in significant damage to company reputation, stakeholder trust, and—in some cases—an erosion of shareholder value.

Figure 32. Recent Australian governance issues

Company	Ticker	Key Governance Issues
ANZ	ANZ.AX	▪ Hit with $1 billion capital overlay by regulators ▪ Weak management of non-financial risks, especially operational and compliance controls
Mineral Resources	MIN.AX	▪ CEO Chris Ellison had undisclosed interests in contracting firms ▪ Raised serious concerns over board independence and conflict of interest oversight
Qantas	QAN.AX	▪ Governance scandals including selling tickets for flights already cancelled ▪ Legal action and reputational damage
Star Entertainment	SGR.AX	▪ Found unfit to hold casino licences ▪ Failures in anti-money laundering compliance, board oversight, and dealings with high-risk gamblers
WiseTech Global	WTC.AX	▪ Allegations against CEO Richard White for bullying, toxic workplace culture, and inappropriate relationships with junior staff ▪ Board oversight concerns
Woolworths Group	WOW.AX	▪ Taken to court by ACCC for underpaying over 1,000 Victorian staff ▪ $1.27 million fine imposed for wage underpayments

Source: Forsyth Barr analysis

These cases reflect common themes: poor transparency—particularly around transactions with undisclosed conflicts of interest; and a lack of urgency in addressing governance issues. In many instances, boards failed to adequately oversee executive behaviour or mitigate key business risks, and consequently have paid the price—in regulatory fines, reputational damage, loss of stakeholder trust, and, in some cases, a reduction in share value.

International

Big names overseas have also made headlines with various corporate governance failings—highlighting poor risk management of both internal and external conflicts—with recurring themes of poor capital allocation, over-dominant CEOs, and weak board independence, oversight, and accountability.

Figure 33. Recent international governance issues

Company	Ticker	Key Governance Issues
Boeing	NYSE: BA	▪ Erosion of engineering culture post-merger ▪ Serious safety failures and weak board oversight ▪ Over dominant CEO; lack of technical challenge ▪ Delayed accountability after fatal crashes
Credit Suisse	SWX: CSGN (delisted 2023)	▪ Chronic risk management failures (Archegos, Greensill) ▪ Board failed to challenge dominant executives ▪ Weak compliance culture and oversight ▪ Collapse after cumulative reputational damage
Siemens Energy	XETRA: ENR.DE	▪ Poor due diligence on Siemens Gamesa acquisition ▪ Integration risks ignored ▪ Multi-billion write-downs and state bailout ▪ Weak board challenge and accountability
Walt Disney	NYSE: DIS	▪ Failed CEO succession planning ▪ Overreliance on Bob Iger ▪ Weak strategic challenge on streaming and acquisitions ▪ Political missteps and reputational risk
Nike	NYSE: NKE	▪ Overcentralised leadership under CEO Donahoe ▪ Board lacked retail/product expertise ▪ Founder control limited accountability ▪ Strategic pivot misfired (DTC overreach)
Tesla	NASDAQ: TSLA	▪ Excessive CEO power and weak board independence ▪ Board agreement to excessive CEO pay; $56B pay package voided in court ▪ Brand risk associated with controversial, high-profile CEO ▪ Weak ESG practices
Nestlé	SWX: NESN	▪ Weak challenge to healthcare-led strategy ▪ Overpaying for acquisitions and subsequent weak execution ▪ Inadequate focus on operational excellence in core business ▪ Slow ESG progress and transparency issues

Source: Forsyth Barr analysis

Appendix

Appendix 1: How we chose the case studies

The criteria for selecting case studies were as follows:

1. Starting universe: NZX 50 constituents over the last three years, ranked by three-year total return; focused on the bottom 10 companies.
2. Focused on those that were loss-making in FY24.
3. Focused on those with the greatest number of material balance sheet repairs, major asset write-downs, and elevated debt levels.
4. Consideration given to companies ranked as a Leader in Forsyth Barr's 2024 C&ESG Ratings of New Zealand companies.
5. Final selection: Fletcher Building (FBU), Ryman Healthcare (RYM), SkyCity (SKC), Synlait Milk (SML), and The Warehouse Group (WHS).

Figure 34. How we chose the case studies

Company	Code	3-year Total Shareholder Return	FY24 Loss Making	Capital Raise	Asset/ Business Sale	Dividend Suspension	FY24 Major Write-downs	Current Elevated Debt	# of Yes	Forsyth Barr 2024 C&ESG Category	Include in Case Studies
				Meaningful balance sheet repair undertaken in last 3 years							
Synlait Milk	SML	-79.0%	Yes	Yes	Yes	Yes	Yes	Yes	6	Explorer	Include
Fletcher Building	FBU	-19.1%	Yes	Yes	Yes	Yes	Yes	Yes	6	Fast Follower	Include
Ryman Healthcare	RYM	-69.7%	Yes	Yes	Yes	Yes	Yes		5	Fast Follower	Include
SkyCity	SKC	-62.7%	Yes		Yes	Yes	Yes	Yes	5	Explorer	Include
The Warehouse Group	WHS	-70.2%	Yes		Yes	Yes	Yes		4	Fast Follower	Include
Oceania Healthcare	OCA	-32.1%			Yes	Yes		Yes	3	Leader	Exclude
KMD Brands	KMD	-69.1%	Yes			Yes			2	Leader	Exclude
Heartland Group	HGH	-42.9%		Yes			Yes		2	Fast Follower	Exclude
Spark	SPK	-33.6%						Yes	1	Leader	Exclude
Serko	SKO	-17.1%	Yes						1	Fast Follower	Exclude

Source: Forsyth Barr analysis; List includes only those companies which Forsyth Barr covers with its equity research; As at 16 June 2025.
We note that if the data was as at Fri 13 June 2025, one trading day earlier, Tourism Holdings would be in the table in place of Serko.

Appendix 2: Principles of good corporate governance

Figure 35. Effective leadership and oversight continues to be anchored by a few core principles

Principle	NZX (2023) – Description	FMA (2023) – Description
1. Ethical Standards	The board should maintain high ethical standards and ensure company-wide ethical conduct.	Directors and executives set the tone for ethical behavior, integrity, and responsibility.
2. Board Composition & Performance	The board should be structured to add value through independence, diversity, and performance review.	Boards should have a balance of skills, experience, and perspectives. Regular reviews are essential.
3. Board Committees	Boards should use committees to enhance efficiency and manage conflicts of interest.	Committees (audit, risk, remuneration) should support governance effectiveness and transparency.
4. Reporting and Disclosure	The board should demand transparent and balanced disclosure of all material matters.	Clear, accurate, and timely reporting builds trust with investors and stakeholders.
5. Remuneration	Remuneration should promote alignment with company goals and long-term shareholder value.	Remuneration should be fair, responsible, and aligned with long-term performance and strategy.
6. Risk Management	Boards should regularly assess and disclose risks, with appropriate controls in place.	Boards should oversee a proactive risk framework, addressing both current and emerging risks.
7. Auditors	Boards should ensure the integrity of external reporting and the independence of the audit process.	Independent, high-quality auditing supports confidence in financial and non-financial reporting.
8. Stakeholder Engagement	Boards should respect shareholder rights and foster effective shareholder relations and participation.	Companies should engage meaningfully with both shareholders and broader stakeholders (e.g. iwi, employees).

Source: Forsyth Barr analysis

The New Zealand Corporate Governance Forum (www.nzcgf.org.nz) has extended the FMA guidelines in order to provide more detailed guidance for companies and investors in the listed company environment.

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