MY UNREQUITED LOVE FOR DCC

Back in February 2007 I wrote an opinion piece about DCC. Towards the end of that opinion piece I wrote about how I had arranged a meeting with the head of Investor Relations which in the end was also attended by the Chief Financial Officer, Fergal O'Dwyer. That meeting was useful and I want to highlight that both of them gave me the impression that I was being treated in the same way as they would treat a fund manager from a global investment institution with billions under management.

I was a DCC shareholder back then and have remained a shareholder ever since and throughout all those years I never felt the need to go back and meet management in person because they appeared to be doing a good job. I listened to their results announcements, read their annual and interim reports, spoke to my former colleagues about them and I have to say that I always felt that I could have confidence in them. In particular I have always been impressed by the no nonsense approach of Fergal O'Dwyer.

Back in 2007, DCC was primarily a UK and Irish business. Since then they have made a number of acquisitions that has expanded their geographic footprint into continental Europe. Starting in 2009 with a small €14m purchase in Denmark from Shell, they rapidly expanded into a number of European countries.

Naturally enough when a company expands into new countries you worry that the market might be different and mistakes might be made but those early acquisitions seemed to go well. Even when those acquisitions became bigger in size like the 2015 acquisition of Butagaz in France for €464m, I didn't feel uncomfortable. I hoped that DCC really had managed to find companies that had decent management teams in place.

I believe that DCC has always had a good corporate culture and that meritocratic culture would be recognised by the newly acquired teams and that this would generally allow a smooth acquisition process.

Even in late 2017 when they spent $200m acquiring Retail West an Illinois based energy company, I still felt that I could trust their judgement but I must admit that part of me did begin to worry that they might be growing too fast and stretching themselves too far. I suppose over the years I have become nervous about Irish companies making big moves into the American market because I have seen C&C, Greencore and Arytza all struggle with their attempts. I just began to worry that DCC might be stretching management resources a bit thin.

Given that I wasn't that concerned I didn't feel the need to contact DCC. In practical terms this meant I made a mental note to myself that I might try to talk to them at some future date. (I take lots of mental notes to myself and sometimes I have been known to leave things for years and never do anything about it but if an opportunity comes along, I generally grab it.)

Earlier this year on May 15th DCC announced their annual results. As usual I read the announcement and listened to the conference call. Included in the results presentation was a slide with the following information:

Capital Markets Day Thursday, 13 September 2018

• Being held in Butagaz, Rognac (Marseille)

• Focus on the DCC Group and tour of LPG facilities in Rognac

• To register your interest please email: dccinvestorday@powerscourt-group.com

This analyst day would inevitably have presentations given by members of the senior management team as well as including the tour of the Liquid Petroleum Gas (LPG) facilities. My immediate reaction was to say to myself that I should make the effort to attend as it would give me an opportunity to meet more members of the management team than I could possibly meet at head office as well as seeing the production facility. I didn't hang around. I've looked back at my emails and I can see that I sent an email at 10.32 am on the 15th. I even went as far as telling them that I was a shareholder and that a number of my clients were also shareholders because I hoped that this would help if there was a limit on the number of places available.

At 5.50pm that day I received the following email from Jana in the Powerscourt Group: *Thank you Ken – I'll make note of your interest. More details will follow.*

The fact that these emails were sent to and from the Powerscourt Group indicated that DCC had subcontracted out the arrangement of the analyst day but this did not concern me as it suggested DCC were therefore continuing their tradition of being careful with their cost base by avoiding having a bloated in-house public relations / investor relations department.

I put the date in my diary and waited for the details to arrive.

A few weeks later in July the DCC technology division announced the acquisition of Stampede, their first technology company in the North American market. Stampede had revenues of $280m in 2017 so it wasn't a massive purchase but it added to that nagging little doubt as to whether they were stretching their resources too far. It made me feel that it would be even more interesting to go to the analyst day.

Early August arrived and I wasn't concerned that I hadn't heard anything from Powerscourt Group because it was summer holiday time but by mid -August I wanted to start working on booking flights and hotels and I thought that they would surely give me a few weeks to work on arrangements so on August 22nd I sent an email to try to find out what was happening. Five days later on August 27th I received the following: *Hi Ken, Thank you for getting back in touch - I had noted your interest on our invitee list, however we haven't had any cancellations so there is no capacity at this time. I will of course get in contact with you if anything changes and will also let you know that the material will be made available on the website following the site tour for those who didn't attend.*

To say that I was disappointed would be an understatement because at some stage they had obviously decided that I wasn't going to get an invitation but they had not given me the courtesy of letting me know. I don't know who made the decision and I don't know if they knew that I was a shareholder but I do know that it does not send out a great signal to a loyal long-term shareholder. For years I have listened to complaints that shareholders are too short-term and do not act like owners of a business. I have done the opposite, I stuck with them when the share price collapsed in 2008 and I even advised new clients to consider buying after that but I still wasn't given the opportunity to go on the analyst day.

I know I've been well rewarded with the share price doing really well (as can be seen in the chart below) but in order to continue holding DCC I need to be reassured that they are not growing too fast.

After the Capital Markets Day, I decided to have a look at the material that was made available on the website. There was only one slide on the LPG market in America and that just highlighted the extent of the opportunity available. It did not give any information on Retail West. This material on the website was therefore no substitute to being able to go to the Capital Markets Day and having the opportunity to be there to hear the details.

I therefore found myself in a situation where all I had to go on was the original Retail West acquisition announcement from November 17 which gave a limited amount of detail about the company. Here is a section from that announcement:

The acquisition of Retail West will provide DCC with a substantial, high-quality presence in the US with leading market positions in a number of states. The business has an excellent customer base, a strong and well-invested operational infrastructure and an experienced management team.

Headquartered in Illinois, Retail West has been in business for over 70 years and currently employs 390 people. It sells approximately 130,000 tonnes1 of LPG annually from 43 customer service locations and 58 satellite facilities. The business *trades under three prominent regional brands, Hicksgas, Pacer Propane and Propane Central, and a number of smaller, local brands. Retail West has leading market positions in Illinois, Indiana and Kansas and also operates in seven other states across the Mid-West and North-West regions.*

The business has a long-established and loyal base of 65,000 customers. Approximately two thirds of annual volume is sold to residential customers, predominantly for heating purposes, with the balance sold to commercial and agricultural customers in both small and large bulk format.

Retail West has a well-invested asset base of approximately 100 bulk storage facilities and a company-owned distribution fleet of over 150 vehicles. Retail West also owns the majority of tanks on customer premises.

The business has an experienced and long-serving management team who have a strong track record of delivering both organic and acquisition growth. It has operated as a standalone division within NGL and will continue to operate and develop under the leadership of its existing management team, post completion of the acquisition.

Donal Murphy, Chief Executive of DCC plc, said today We very much look forward to welcoming the Retail West management and employees into the DCC Group and working together to grow and develop Retail West into the future".

This original announcement states that the existing management team are remaining in place. Perhaps this should be enough to allay my concerns because DCC management obviously believe that the Retail West management team are good enough.

There was one other slide from the Capital Markets Day presentation that I noticed which does support the idea that DCC buy companies with an existing management team in place and they then manage to keep them in place. Two members of the management team of Butagaz gave a presentation, Chief Executive Emmanuel Trivin and Chief Operations Officer Natache Cambriels and their first slide highlighted that they were both with the company before it was bought by DCC (and they stayed!).

If I had been at the Capital Markets Day it would have been a good opportunity to ask them what it was like moving from being part of Shell to being part of DCC but I just have to accept that I missed out on that opportunity.

To further test the theory that DCC buy companies with management in place and then manage to keep them, I decided to look at the very first LPG acquisition in Europe, the 2012 purchase in the Netherlands of Benegas from BP. The Managing Director is Bauke van Kalsbeek and his Linkedin profile shows that he has been with the company since 2001. This suggests DCC must be doing something right!

Conclusion

I wanted to feel loved by DCC by being given an invitation to their Capital Markets Day. I would have seen this as vindication for my long-term loyalty as a shareholder but I just have to accept that the big institutions get all the love. However they will remain close to my heart because the evidence supports the theory that they are doing a good job. For the time being I'm going to remain a loyal shareholder and I hope in a few years I'll be able to write another opinion piece praising them for becoming a market leader in the American market.