



## **BRUISED BY THE BIG APPLE, SQUEEZED BY AN ORANGE**

In November 2012 I wrote an opinion piece about C&C describing why I found it difficult to evaluate whether the decision to buy Vermont Hard Cider for €233m was a good one. At the time Stephen Glancey, the CEO stated the following:

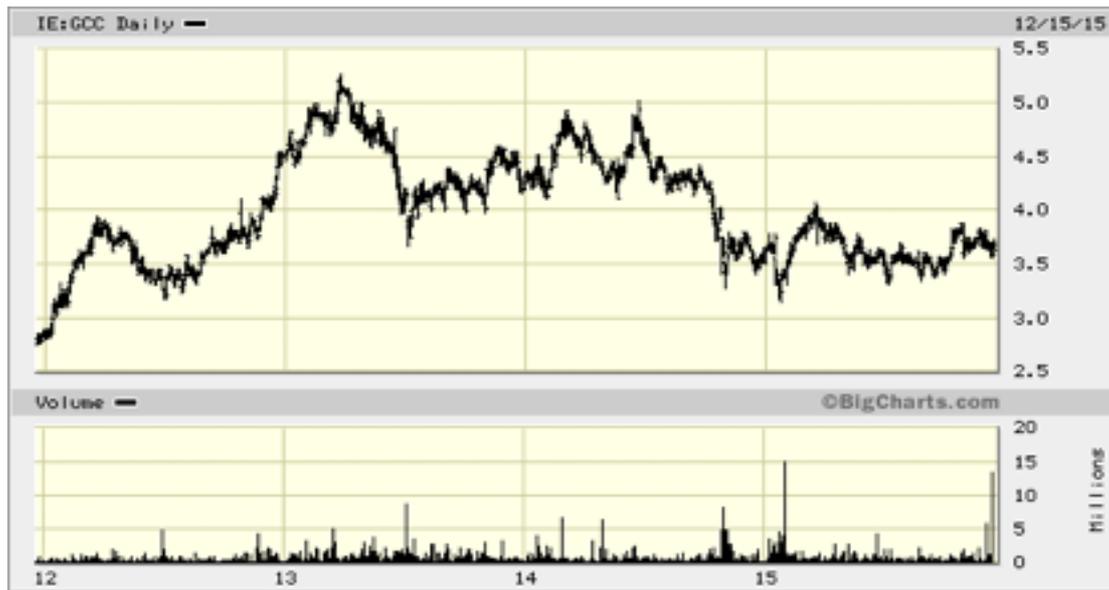
*“C&C is delighted to announce its agreement to acquire the Vermont Hard Cider Company. This transaction **transforms** our international cider business and accelerates our growth prospects. We intend to invest in the company to capitalise on the growth opportunities presented by this business.”*

We now know that this transaction has not “transformed” their international cider business. In their last set of annual accounts they wrote off €150m of the value of the investment and now we are faced with a situation where the option agreement with Pabst Brewing Company means Pabst is most likely to benefit from any significant improvement from here. In other words I am unsure as to whether the total loss will turn out to be less or more than €150m but Pabst having the right to buy the business will prevent any significant upside for C&C shareholders.

Given the scale of this disaster I thought Stephen Glancey might have resigned but so far he has stayed put.

In 2012 I stated that the Irish and Scottish assets owned by C&C underpinned their share price and that was why I was prepared to give management the benefit of the doubt and hold on to my shares. In other words if they were right about Vermont there was significant share price upside but if they were wrong I felt there was limited downside.

C&C 3 year Price chart



After the acquisition it didn't take long for analysts to get worried about Vermont. Almost immediately sales growth virtually disappeared. Excuses were given and the case for long term success was made but the seeds of doubt were sown.

Here is the relevant section from the 2014 annual report:

*In the USA extensive wholesaler consolidation and business integration was successfully concluded during the year. Increased investment and new entrants fuelled high growth in the cider category but C&C volume growth was disappointingly behind the category. However, C&C remains confident in the prospects for its portfolio of authentic cider brands in the US market.*

Having taken on such an enormous challenge I presumed management would become a little less aggressive and focus on making America work but this is a management team that was determined to prove they are go getters.

In October 2014 there was an announcement relating to an initial discussion to buy the English pub group Spirit.

*An acquisition of Spirit, one of the highest quality pub estates in the UK, would **transform** C&C and enhance long-term shareholder value through:*

- *revenue and cost synergy benefits;*
- *a broader range of strategic and operating options for a combined business;*
- *a combination of C&C's highly cash generative business with Spirit which C&C believes will provide capital to optimise performance and drive shareholder value;*
- *a strengthened route to market for C&C's long alcohol drinks brands in the on-trade across England and Wales matching the recognition it enjoys in its other core markets;*
- *a compelling consumer platform for C&C's brands in some of the best locations throughout England & Wales, in particular London; and,*

- *access to improved procurement terms for a combined business.*

This management team sure are fond of trying to “**transform**” the business but this time shareholders made it quite clear that they were not going to go along with the proposal.

Within a year they were at it again:

*C&C has been in discussions with Carlsberg with a view to acquiring Carlsberg’s UK franchise according to a report by Goodbody Stockbrokers. According to Goodbody’s, “A merging of these two businesses would open the potential for significant synergies in terms of the distribution arrangements for C&C / Carlsberg within the UK. It would also increase the likelihood of C&C broadening its base of products further again in the future to increase its relevance within the UK beverage space. While there are no financial details available, we would expect that C&C would be able to fund such an acquisition from its current debt facilities. Although any deal seems to be off the table for now, we believe it could be revisited in the future.”*

On a number of occasions given my concerns I was tempted to sell but I kept coming back to the fact that the franchises in Ireland and Scotland are attractive and this in my opinion underpinned the share price.

The following table highlights the strength of their franchise markets in contrast to the markets management hope to “**transform**”!

	2015			2014		
	Revenue	Net revenue	Operating profit	Revenue	Net revenue	Operating profit
	€m	€m	€m	€m	€m	€m
Ireland	403.2	286.9	59.1	395.1	289.7	58.6
Scotland	332.2	223.6	39.2	238.2	130.2	36.2
C&C Brands	182.0	107.0	10.4	199.7	123.2	15.9
North America	47.5	45.3	1.5	57.8	55.2	10.7
Export	21.6	21.1	4.8	22.1	21.9	5.3

Total before exceptional items	<b>986.5</b>	<b>683.9</b>	<b>115.0</b>	912.9	620. 2	126.7
Exceptional items (note 6)	-	-	<b>(173.4)</b> *	-	-	<b>(20.7)*</b> *
Total	<b>986.5</b>	<b>683.9</b>	<b>(58.4)</b>	912.9	620. 2	106.0

It turns out that I was not the only one thinking this way. Ironically a hedge fund called “Orange” Capital had a similar idea and accumulated a 5% stake. Industry and Business magazine reported the following:

*C&C shareholders are pushing for a strategic overhaul of the company following a sequence of earnings downgrades, a profit warning and a massive write down in the value of its US business.*

*The company behind the Bulmers and Magners cider brands has been under pressure to hold its market share in Ireland and Britain in the face of increased competition from new entrants and the growth in craft beer.*

*US activist investor Orange Capital, which holds a 4.9 per cent stake in the company, has now openly challenged management over the performance, claiming its share price is under-performing sector rivals.*

*There are reports other large shareholders have also contacted management to express their disquiet at the strategy. In a presentation to management, seen by The Irish Times, the New York-based hedge fund demanded a root-and-branch review of C&C’s growth strategy and the immediate disposal of its under-performing US arm.*

Owning C&C has been difficult throughout this period. The opportunity cost of not having the capital invested elsewhere has been high but at least I have not broken Warren Buffett’s first (and second) rule of investing, to not lose money. I just hope that “Orange” will help me get over the pain of “The Big Apple” so for the time being I’m holding on to what is one of my smallest positions.

## THE 51<sup>st</sup> STATE OF EXTREMISTAN

In my last Opinion Piece I mentioned how excited I was to be going to see Nassim Nicolas Taleb at the “Kilkenomics” Festival. Now that the event has happened I just thought I should describe how I got on.

First of all the setting for the talk was stunning. The Church of Ireland, Anglican Cathedral in Kilkenny is an absolute gem. I have passed it many times before but had never entered. It may be an architectural gem but unfortunately the acoustics on the night were poor and I think most people had difficulty hearing everything.

The host for the evening was the writer Gerry Stemberge and although he had obviously read Taleb's books I'm not sure if he had absorbed enough of the content to justify him being the host. I also got the impression that he was a bit nervous because leading a discussion with Taleb is probably a difficult thing to do.

The material covered in the talk covered the major points outlined in his books and even though I have not yet got around to reading "Anti-Fragile" I didn't feel as if I learned anything new.

In my last Opinion Piece I mentioned his description of "Extremistan" and he did talk about this on the night but it is only in recent weeks that it has struck me how Ireland is becoming a mini version of "Extremistan". This thought struck me when I saw all the media attention given to the fact that LinkedIn had just celebrated the fifth anniversary of the establishment of its European headquarters in Dublin. Here is how the IDA public relations machine described the event:

#### **Dublin – 4th December 2015**

*At an event to celebrate its fifth anniversary in Ireland, LinkedIn today announced it now employs 900 people, an increase of 300 over the past twelve months, with more than 100 additional open positions at present. LinkedIn was joined at the event by An Taoiseach Enda Kenny TD.*

*LinkedIn's 900 employees are engaged in sales and marketing, engineering, data insights and analytics, and include a variety of regional leadership roles. The open roles include sales managers, insight analysts, applied scientists, HR managers and finance managers.*

In other words Dublin has another 900 well remunerated employees paying tax, spending money and looking for accommodation and this is on top of the thousands of employees that have been added at Google, Facebook, Twitter, Accenture, etc. Every day there seems to be a new announcement of another multinational creating jobs.

The excitement surrounding all these announcements made me realise that it was a great time for Nassim Nicolas Taleb to have visited Ireland because in my opinion what we are witnessing here is a fantastic example of "Extremistan".

In Ireland we may laugh sometimes at being described as the 51<sup>st</sup> American State, but I think we have to acknowledge that we could be called the 51<sup>st</sup> State of Extremistan!

## **TEN YEARS OF OPINION PIECES**

How time flies! With this opinion piece I celebrate the 10<sup>th</sup> anniversary of my first opinion piece: “Japan has me confused”. Ten years on and some things never change because Japan still has me confused! Who knows if I’ll be any less confused if I’m lucky enough to be still writing about it in another 10 years but I look forward to the intellectual challenge of trying to unpeel that particular onion (and any other onion that I come across!)