Beating the Budget blues

Irish Independent - Saturday December 10th, 2011

GRAFTON GROUP PLC

THIS week's transfer of more than 2.6 million shares to family members, just before the Budget day increase in capital gains tax, demonstrates that long-serving Grafton chairman Michael Chadwick has lost none of his legendary shrewdness.

On Tuesday morning, December 6, builders merchant and DIY company Grafton announced to the Stock Exchange that its chairman Michael Chadwick had transferred 2.12 million Grafton shares to his wife Gretchen and another 500,000 shares to his son Stephen. The transfer took place the previous day, December 5, just one day before the Finance Minister raised the capital gains tax rate from 25pc to 30pc in the Budget.

Long-time Michael Chadwick-watchers would not have been surprised. After more than a quarter of a century at the helm of the company he has gained a well-deserved reputation as a canny operator who has ridden the boom-and-bust construction industry cycle as well as anyone and better than most.

Michael Chadwick has been with Grafton Group man and boy. The company, originally known as Chadwicks and later Concrete Products of Ireland (CPI), was founded by his grandfather William Chadwick, who was the Irish agent for Blue Circle cement in 1902; Mr Chadwick first joined the family firm in 1975. He was appointed an executive director four years later before becoming chairman in 1985.

In 1965, the company had gone public and UK building materials company Marley had taken a majority 51pc stake. The so-called "quoted subsidiary" was one of the major features of the Irish Stock Exchange from the 1930s to the 1980s.

Foreign-owned, particularly UK companies, operating in this country often found it expedient to present an "Irish" face during those years. Apart from CPI, other such quoted subsidiaries with either majority or dominant foreign shareholdings included cigarette manufacturer Carrolls, Irish Distillers, Readymix, and tea distributor Lyons.

By the mid-1980s, the day of the quoted subsidiary was passing. In most cases, the dominant shareholder bought out the Irish minority shareholders. Events followed a different course at CPI, with Michael Chadwick buying out Marley in 1987.

His timing, not for the last time, was impeccable. Ireland was in the depths of the mid-1980s recession and the construction industry was on its knees. But just when it seemed there was no hope for the Irish construction sector, the economy began to recover. The impact on Grafton -- as the company was renamed shortly after the buyout -- was dramatic, with sales quintupling and pre-tax profits growing 14-fold in its first decade as an independent company.

Even in the early days of the Celtic Tiger when the Irish construction sector was scaling unprecedented heights every year, Michael Chadwick moved to reduce Grafton's dependence on its home market. From its first UK acquisition in 1988, by 2001 over two-thirds of Grafton's profits and half of its operating (pre-interest) profits were coming from the UK.

Profits

By 2007, the last year before the Irish property bubble burst, the UK was contributing over 60pc of Grafton's sales and 55pc of its operating profits. Grafton's UK operating profits have held up much better than those in Ireland, falling from €142m in 2007 to €68m in 2007, a 52pc drop. Grafton's Irish operating profits fell from €121m to €31m over the same period, a 75pc reduction.

In 1998 Grafton paid £35m (€41m) for UK firm British Dredging, which despite its name was actually a chain of builders and plumbers merchants in the UK. This was the first time that an Irish quoted company had taken over a UK-listed company.

However, it was another UK takeover, that of Jackson Building Centre for €144m in March 2003, which cemented Mr Chadwick's reputation as one of the shrewdest operators in Irish business.

Grafton partially financed the acquisition through a €70m rights issue at €2 per share. Unfortunately, Grafton's institutional gave the Jackson acquisition only a lukewarm welcome, meaning that Mr Chadwick was forced to take up all of his rights and then some. He had the last laugh when just seven months later he was able to sell 2.77 million shares at €5.30 a share, trousering a profit of more than €9m from the transaction.

Mr Chadwick's shrewdness is hidden behind a lugubrious, sometimes even taciturn, manner. Despite having been executive chairman for over a quarter of a century, one who played a key role in the company's transformation from a small Irish builders provider to one of the largest builders merchants and DIY operators on these islands with peak 2007 sales of over €3.2bn and operating profits of €270m, he has generally been content to stay in the background.

He has generally preferred to let the company be represented by Norman Kilroy, managing director for 1990 to 2005, and more recently by Gavin Slark, appointed Grafton chief executive earlier this year when Mr Chadwick became non-executive chairman.

Even more unusually, and much to the chagrin of the directors and senior executives of other Irish quoted companies, Mr Chadwick has waived salary and pension entitlements worth at least €1.3m over the past decade on the grounds that the dividend income on his 21.7 million shares, before this week's transfers, was more than enough to be getting on with.

Mr Chadwick is one of the last representatives of the Dublin Protestant merchant class which dominated large swathes of Irish business until well into the 1970s. Generations of Chadwicks, Bewleys, Odlums, Jamesons, Dockrells, Easons, Arnotts and Heitons were prominent in the banking, insurance, brewing, distilling, grain, coffee, tea and retail businesses.

Unlike the rural landed gentry, this urban merchant class opted for a low-key personal style and a strong work ethic. After independence, they quickly accommodated themselves to the new political order and were courted by governments of both parties.

With the collapse of the Irish construction industry and the downturn across the water still continuing to pummel the group, Grafton expects full-year 2011 operating profits of €52m-€55m. While this will be up on the €50m recorded in 2010, it is still less than a fifth of the operating profits achieved in 2007.

Decline

While Grafton's UK operations are in recovery mode, with annual sales expected to be up by almost 5pc this year, sales are still falling in Ireland, with the company forecasting a further decline of more than 7pc in 2011.

The decline at Grafton's domestic operations isn't Mr Chadwick's only Irish headache. In 2006 he paid a reputed €18m to buy the 80pc of Dun Laoghaire Marina that he didn't already own. One of the best marinas in the country, it was highly profitable in the early years, with plans to double the number of berths being unveiled. Little has been heard of those plans in recent years as the economic collapse has had a devastating impact on discretionary spending. Instead, the word in sailing circles is of boat-owners, no longer able to afford their berth fees, abandoning their craft.

So what does the future hold for Mr Chadwick, now that he has given up the day job? With the family shareholding in Grafton still worth more than €50m, he will be in a better position than most Irish businesspeople to benefit from economic recovery when it eventually comes.

Source : www.independent.ie/business/irish/beating-the-budget-blues-2959860.html