Philips delivering bland taste at Greencore

NO DOUBT there were high hopes in Greencore that the new CEO, Dalton Philips, would be able to revolutionise the company. It certainly hasn't worked out that way and the latest figures are far from reassuring. Moreover, it is hard to see where Philips even wants to take the UK sandwich giant.

Dalton Philips

Philips was appointed boss in spring 2022, before his starring role in the Dublin Airport debacle when the north Dublin facility proved woefully incapable of dealing with the numbers of post-pandemic passengers hungry for international travel.

The DAA chief executive had overseen the redundancy of around half of the airport's staff at a cost of €100m, when the smart move would have been to temporarily lay off workers until the numbers began to creep up in 2021. The result was total chaos at Dublin Airport on May 28, 2022, when the operation had to be effectively shut down, with 10,000 would-be passengers stranded outside.

Matters were not helped by the revelation that Philips had used the special executive lounge that day to fly to Dubai. This service allows minted passengers to avoid security queues and delivers its customers by car to the aircraft.

Whether he would have still landed the Greencore job post-debacle if that gig had not been already nailed down is impossible to judge. Philips was appointed by chairman Gary Kennedy, ex-AIB finance director and chairman of Goodbody stockbrokers.

The timing of Philips's appointment did give the new man a six-month lead-in time before he actually took up the role of Greencore CEO in September 2022. Nevertheless, he has failed to shine there since.

Philips was thus *in situ* for the whole of Greencore's last fiscal year, which ran to the end September 2023. On the surface, his report for those 12 months looks reasonable, with sales up 10% to £1.9bn and operating profit up 6% to £76m.

Trading margins, however, did fall 20 basis points to 4%.

Disappointingly, the new CEO did not bother to compare last year's results with Greencore's last normal pre-Covid trading year to September 2019. For the record, in the 12 months to September 2019 the group actually recorded lower sales of £1.45bn so, on that front at least, Philips has not done badly at all. Revenue, however, is rarely a reliable indicator of performance.

At the far more significant bottom line, the 2023 figures are desperately disappointing, with last year's £76m operating profit comparing poorly with the £106m turned in in 2019.

GREENCORE GROUP

As a consequence, the trading margin collapsed from 7.3% to 4%, while pre-tax profits were down 37% from £92m to £58m. Moreover, at the crucial earnings-per-share level, earnings almost halved from 16p in 2019 to 9.3p last year. This is simply a dreadful result.

Philips does boast an impressive-looking track record, having worked for the Jardine Matheson conglomerate, the giant American Walmart group, the dominant Canadian Lablow supermarket chain, Brown Thomas, Boston Consultancy and, before joining DAA, the William Morrison supermarket group, the fourth largest in the UK.

In its last full year under Philips, to January 2015, Morrison's profits just on halved to £440m, forcing the group into an impairment provision of £1.3bn and a pre-tax loss of just on £800m. The then chairman of Morrison advised shareholders that the situation "required a change in leadership".

(Philips's successor as CEO, David Potts, took over in March 2015 and said he would "set about injecting new pace into the turnaround" and, remarkably, identified £1bn of savings to be made by restructuring its head office and rationalising the group's retail chain. Potts's record in recent years, however, has not impressed.)

After Kennedy announced Philips as the new Greencore boss, he noted: "There are many things about Dalton that impress me. He has a strong track record of leading dynamic consumer-related businesses and he has an outstanding knowledge of the grocery sector. He is an excellent leader, very effective communicator and has a great awareness of all stakeholder interests". (Last year, however, Kennedy resigned as chairman, a month before his death at the age of 65 after a short illness. He was replaced as Greencore chair by Leslie Van de Walle.)

During his five-year stint in Dublin Airport, Philips made several structural changes, in particular "consolidating" food and beverage concessions into larger tender packages "in order to be more proactive in the strategic management of this important element of passenger experience".

In 2020, he completely reversed the policy that had been adopted by DAA to avoid the airport having a dominant food and beverage operator, which had been the case in the late 2000s. Nevertheless, he gave SSP 24 additional food and beverage outlets, both airside and landside in the airport, to give it a dominant position. Coincidentally, after Paddy Coveney jumped ship from Greencore in 2022, he became CEO of SSP.

NEW ROLE

Other Philips legacies at DAA include the building of a second €500m runway (as part of a costly €2bn development plan), the budget for which did not include the €200m cost of building a tunnel underneath the new runway. Given the 32 million passenger cap imposed by Fingal County Council, the whole expensive expansion project looks impossible to justify in the absence of assurances that the cap would be lifted.

When taking on his new role in Greencore, Philips said: "I already knew about the fantastic work that Gary Kennedy, Emma Hynes and Kevin Moore were doing in leading the business

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I-Res results would have swung outcome

Eddie Byrne

JUST WHEN the Vision Capital Corp (VCC) boss Jeffrey Olin was on the verge of pulling off a coup at the EGM for I-Res Reit in February (see *The Phoenix* 9/2/24) and would presumably have won out at the upcoming AGM on May 2, he surprisingly got cold feet. Instead of putting up his five board nominees and voting off the bulk of the existing board – a task clearly eased by the exit of CEO Margaret Sweeney and chairman Declan Moylan – Olin agreed to a compromise outcome. But although he did seek to have three of his nominees imposed, the I-Res board called his bluff, particularly in relation to the very well-informed Colin Lauder (ex head of research at Goodbody), and the result has been a green light for just two VCC suits – Dick Nesbitt (ex Canadian Imperial Bank of Commerce) and proxy adviser Amy Freedman. This represents a hell of a result for the I-Res board, who were on a very sticky wicket, given the figures then in the pipeline.

In timing the requisition for the EGM for February 16 last, the board of I-Res, under outgoing chairman Moylan and outgoing CEO Sweeney, pulled off quite the manoeuvre. The board would have been aware that there was really bad news coming down the tracks but this did not break before the high-stakes EGM.

Only a week later, on February 23, that the company confirmed a pre-tax loss of €114.5m and a reduction in the critical net asset value per share of a totally unexpected 12%, with this falling from 160c at the end of 2022 to 131.7c as of December 2023.

The I-Res board had a three-month window to time the holding of the EGM and they could have easily scheduled it to have taken place after the results were announced or, indeed, brought forward the results, given the critical nature of the information.

In such a scenario, it is hard to see how Olin and his activist VCC outfit (which held 5% and was supported by I-Res's original founders and fellow Canadian property investors, Capreit, which then sat on a chunky 18.7%) would not have won the day.

As it was, the dissidents secured 40.91% of the vote to remove Moylan, 40.05% to remove Sweeney, 46.8% to remove CFO Brian Fagan, 40.83% to remove Joan Geraghty and 40.57% to remove Tom Kavanagh.

The turnout was huge, with 73.97% of the total issued capital actually voting on the day – a level that is two or three times what would be normally expected.

Clearly, the I-Res board did a fantastic job at securing shareholder support, something it would surely have found significantly more challenging if the 2023 results had been known in advance of the vote.

With the AGM now deferred to May 10, it is likely that the event would have proved something of a bloodbath. There is certainly no advantage for shareholders in having been kept in the dark about the 2023 results.

Indeed, the figures underwrite Olin's criticism of the I-Res board and its management for lack of focus, inefficiency, excessive executive directors' salaries and excessive costs generally, as well as poor property estate management.

Moneybags has regularly pointed to the evident flaws in I-Res, in particular the odd appointment of Sweeney as CEO in November 2017. Coming from having previously managed Dublin Airport and with no background in property management, it is hard to see what exactly marked her out. Capreit was already *in situ* and overseeing the I-Res business under contract for a generous fee – and not just managing the group's near-4,000 apartment portfolio but initiating all the acquisitions.

Although the Capreit contract was only terminated in January 2022, Moylan strongly praised his CEO for her achievements, highlighting in particular the acquisition of the 850-apartment Marathon portfolio in June 2019 for €285m. This was actually an acquisition that was identified, initiated and managed by Capreit.

The fact that Sweeney was being paid a remarkably generous €1m pa salary at the time was one indication of the failings of the board when it comes to value for money. She handed in her notice before Christmas, with the contract therefore set to expire at the end of this month, immediately before the AGM. Moylan exits the following month.

It is even harder to accept Moylan's assertion that the I-Res management is best placed to "lead the future of the company and has taken strategic decisions over the last number of years which have delivered value, protection and enhancement for shareholders".

The whole point of terminating the Capreit contract was the nature of the relationship, which benefited the Canadians to a huge extent. Not only were all the running costs of the I-Res operation incurred by Capreit covered but, on top of this, there was a fee of 3% of total rental income plus 1.5% of the gross value of the portfolio. This worked out at a €6.6m pa bonanza, without any performance requirement attached.

INEFFICIENCY

Moreover, in the last full year under Capreit management (2021), the total operating and administration costs of running the I-Res, including the Capreit fee, was €27m. With Sweeney in full control, the total operating and administration costs came to €30.5m last year – ie more than 10% higher and evidence of significant inefficiency and a bloated cost structure.

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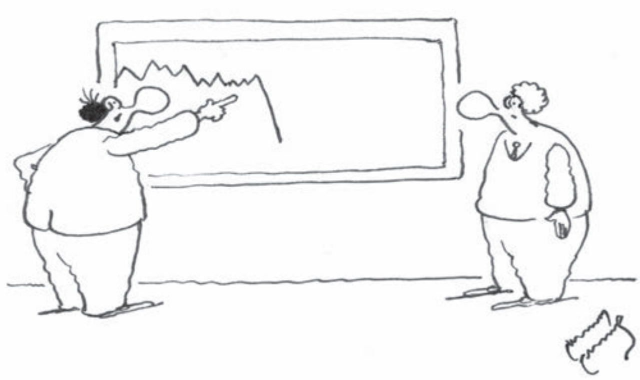

"Isn't that about when I hired you, Dingle?"

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since Paddy Coveney stepped down in March but what I was less aware of was the strength and depth of the team at absolutely every level of the company."

Despite the plámás, however, none of these execs are still with the group, with Philips having appointed Lee Finney as COO just one month into his reign.

Greencore remains one of the biggest sandwich manufacturers in the world, producing 779 million sandwiches last year, as well as 132 million chilled ready meals and 45 million chilled soups. The giant operation only operates in the UK market, however.

STRATEGY

In the 2023 annual report, Philips says of Greencore's strategy: "We are one of the UK's leading convenience food producers. We have built this position through long-term partnerships with major UK retailers in attractive product categories." This is hardly a statement of strategy.

He continues: "Our strategy is focused on accelerating financial return and delivering growth." Again this is not a strategy but rather a description of normal trading.

Strategy relates to having a vision for the future with plans of up to 25 years but Philips, despite his Harvard MBA, does not appear to understand what strategy is or maybe has decided that it is most beneficial to simply let the company drift along on its current path.

At least former CEO Coveney had a strategy to turn Greencore into "the leading international manufacturer of convenience food" and went about implementing his strategy with the $750m takeover of Peacock Foods in the US. But this ended up looking more like an attempt to make sense of the $100m the group had already spent building up operations across the Atlantic, where it boasted sales of £223m in 2016 but losses of £2m pa.

Even with the Peacock acquisition, Greencore achieved US sales in 2016 of only $881m and trading profits of $33m, representing trading margins of 3.7% – only half that achieved at the time in the UK.

Selling out of the US only two years after buying Peacock just about got the group out intact but, having already sold off its leading convenience food business in Belgium and its huge European malting business, Coveney left Greencore a pale shadow of its former self, trading only in the UK.

On the basis that Coveney

Leslie Van de Walle

knew what he was doing when invading the US market, investors pushed Greencore's shares (now quoted only in London) up to just on £3 in 2016. They fell to a low of 60p in December 2022 but have since recovered to £1.32, at which price they are trading on a price/earnings multiple of 14.4.

The update on the first quarter of 2024 has not given shareholders much to get excited about, with *pro forma* revenue not even flat when compared to the first quarter of the previous fiscal year. For those investors who rate Philips and believe he will get Greencore generating the margins it was delivering in 2019, this would require almost doubling current trading profits to £140m. That scenario would put the shares on a prospective p/e of 8 and almost certainly drive the share price up significantly.

For those with less faith in Philips and who expect him to simply muddle along without any discernible stated strategy, the shares will not be going anywhere any time soon.

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Sweeney should surely have been able to manage the whole operation at the same rate as Capreit did, excluding its chunky €6.3m fee. This means the costs should have come in at €20.5m rather than the €30.5m.

In his annual review, however, Moylan says Sweeney "made an outstanding impact and has been an exceptional CEO since assuming the role in 2017. It has been a pleasure working alongside her. Margaret leaves the business well positioned for the future."

He also asserts, since the termination of the Capreit contract: "We have strategically invested in the creation of our virtually integrated operating platform."

The results suggest that this has had no positive impact.

One of the striking disclosures in the 2023 accounts concerns what was understood to have been the €20m (approx) sale of the big Rockbrook site in Sandyford, which directly adjoins I-Res's residential presence in the Beacon South Quarter, where the company has 691 apartments. This sale had been rightly criticised by Olin as "representing the sale of one of the crown jewels in I-Res".

The annual report, however, discloses that the actual net proceeds from the sale was just €14.6m. This means that Sweeney sold off this site with planning permission for 428 apartments in early 2022 for a figure that equates to only €34,000 per apartment site, when the going rate in Sandyford was €200,000 per site.

OVERDUE STEP

Sweeney was at the time seeking to raise a decent chunk of capital through disposals and, given the covenant constraints placed on Reits in relation to the maximum debt permissible relative to net assets, she would not have been in a position to develop out the valuable Rockbrook site.

What she should have done, of course, was offload other less valuable I-Res assets that would not have resulted in missing out on a €75m profit down the road.

In Sandyford, such a strategy would have resulted in the group owning over 1,000 apartments there at some stage. It is much easier to let, manage and supervise a big concentration of apartments in an area like this. It would have made more sense to sell the total of 50 apartments owned in Cork.

Jeffrey Olin

The appointment of Eddie Byrne as the new CEO last month does, at least, look like an overdue step in the right direction. Unlike Sweeney, he brings with him property expertise, having been joint MD of Quintan Developers, which landed planning permission for 5,000 houses during his reign, of which 1,500 have been built.

Byrne was previously MD of Hudson Advisors, which advise overseas property investors in Ireland. Before that he was chief portfolio officer of the big Dutch Propertize group focused on Belgium and the Netherlands. He could possibly shake things up and inject some dynamic portfolio management thinking into how I-Res is run, but it may be too late.

Capreit wants to get out at almost any price, having sold down its shareholding from 18.7% to 11% over the last three months when I-Res's shares were down to €1. Setanta too has reduced its stake from 5% to 4%, but there are also a slew of new investors who have been picking up this stock in advance of the AGM.

If VCC had secured control, there would have been real movement. With the shares currently trading at a 30% discount to net asset value, there really was only one way they could go.

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