Stocks & Shares

Moneybag$

DCC's share price undervalues company

IT IS hard to fully grasp CEO Donal Murphy's conversion last November to stripping DCC down to its energy division by dumping the other divisions (a strategy Moneybags has been recommending for over 20 years) and "transforming to a leading multi-energy business with a clear and resilient strategy". Although there are question marks over this energy strategy, the current share price does not reflect the real underlying value to shareholders.

Donal Murphy

Given that DCC's energy division is dependent on fossil fuels – ie distributing oil and gas – Murphy could hardly have chosen a more difficult time to make this decision. According to company chairman Mark Breuer, the strategy will result in "a simpler, leaner and more focused business with a clear and resilient strategy".

Actually, it makes DCC's life far more difficult in light of the EU's interim plan to reduce net greenhouse gas emissions by at least 55% by 2030 and to achieve net zero emissions by 2050.

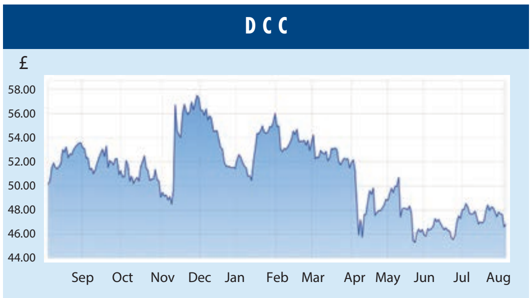
Despite this challenging environment, Murphy still plans to "double our 2022 energy profits to £830m by 2030" – by helping customers to migrate to cleaner energy products – while also increasing DCC's fossil fuel liquified petroleum gas (LPG) business by 50% over the next five years.

It is worth highlighting that the direction of travel has been clear in DCC ever since Tommy Breen was installed as CEO back in 2008. The board carried out a strategy review at the time and, although not finding any need for change, Breen eventually began to dramatically rationalise the conglomerate, more than halving the number of divisions to the current three by the time he retired in May 2017.

But when Murphy arrived, he began reversing the strategy by expanding the healthcare and technology divisions through acquisitions, notably the £500m purchase of a US audiovisual equipment distributor, reflecting his commitment to building up the group's two weaker divisions.

Breuer was hand in hand with his CEO and, in his May 2024 annual review, he stated that his "group-wide priorities are directly reflected in a market-focused strategy for each of the group's three divisions. DCC Energy, DCC Healthcare and DCC Technology each have a clear set of strategic objectives and the resources in place to achieve them."

Overseeing a U-turn just five months later, in November 2024, came as quite a shock (maybe to Breuer too) and it suggests that he



and his board are not laying down a strategy for Murphy to follow but rather the other way around.

It is hard to know what changed Murphy's outlook but falling profits in the healthcare and technology divisions would have concentrated the mind.

There has also been no clear coherent strategy relating to these divisions, which were made up of a hotchpotch of acquisitions. DCC Healthcare, for example, has a facility in Wales producing gels for third parties while the company also distributes medical devices and produces nutritional supplements.

The division's sales in the year to the end of March 2024 rose 5% to £859m but operating profits fell 7% to £72m, resulting in trading margins down from 9.5% to 8.4%.

There was a further fall in earnings in the first half of the financial year to September 24, so shareholders are fortunate that Murphy managed to sell the healthcare division for such a good price – at an enterprise value of £1.05bn.

But for some reason brokers had been claiming that DCC could have secured a much higher figure, with Goodbody suggesting the whacky sum of £1.6bn. After stripping out some liabilities, the net proceeds being paid by Investindustrial Advisors Ltd will be £815m when the deal closes as expected next September, with a further £130m payable in two years.

And there is clearly greater concern over the sale of the technology division. Sales fell 12% in the two years to the end of March 2025 to £4.65bn, with operating profits down a chunky 23% to £82m, to return trading margins of a tiny 1.8%.

DCC confirmed that it has exited its 'infotech' operations in France, the Middle East and Scandinavia, but without any awkward details revealed. In his financial review, however, finance director Kevin Lucey (now COO) advised that the Exertis France consumer product business and Exertis Iberia were sold in April 2025, which resulted in a so-called non-cash impairment loss of £52.2m. This is less than reassuring.

Last month, a further announcement regarding DCC Technology related to the disposal of the Irish and UK infotech businesses to Aurelius, for what looks like a knockdown enterprise value of £100m. After adjusting for working capital of £156m, "the net cash proceeds to DCC of the transaction are not material".

This leaves only the North American audiovisual distribution business, which appears to be delivering sales of around £2bn but the level of profitability is a mystery, with the business going through a restructuring process.

DCC has two big fossil fuel distribution businesses, with the performance of the LPG side last separately disclosed in 2022, when operating profits of £238m were returned. The heating oil distribution business earned a profit that year of £169m.

These days Murphy is allowed to combine these two very different businesses into one division, which is usually a tactic to leave shareholders in the dark. It cannot now be stated which operation is the more significant.

Murphy does say that LPG is less polluting than oil, so part of DCC's contribution to the EU's net-zero target is to increase its LPG business by 50% over the next five years, while also helping customers to diversify into solar panels. The idea is that "DCC Energy will be focusing on the 2030 objectives of doubling profits while significantly reducing our customers' carbon omissions". This has a

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FD Technologies sale looks like the deal of the decade

IT LOOKS like the CEO of FD Technologies (FDT – previously First Derivatives), Seamus Keating, pulled a rabbit out of the hat when flogging off the KX analytics database engine – the last remaining business inside FDT – for a remarkable €655m. The shareholders must be a relieved bunch.

Seamus Keating

Approval was obtained on July 17, despite an 8.8% vote against the scheme at the preceding EGM. But the fact is that this looks like a hell of a deal given that the KX operation was burning cash at a ferocious rate.

In the financial year to the end of February last, Keating opted to capitalise £21m in R&D spending, which prevented the company reporting a loss of €50m for the 12 months.

On a turnover of £80m, such a deficit would be very hard to swallow and it is scary to imagine what could have happened if Keating had continued to run FDT for too much longer. No doubt, the buyers of the KX business, Kairos Bidco (backed by private equity house TA Associates), know what they are doing but FDT shareholders will be over the moon at the arrival of this generous purchaser.

The real credit for FDT goes, of course, to company founder Brian Conlon. He managed to build one of the most successful information technology companies in the country before his premature death in July 2019, when FDT was valued on the market at €2bn.

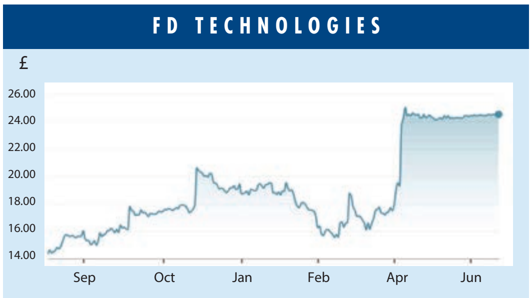
Moreover, the success was in one of the most esoteric spheres of the financial world, delivering software platforms for the compliance and supervision services of derivatives trading floors. Given the scale of damage done by derivatives trading in the likes of Baring's Bank and AIB's First Bank subsidiary in Maryland, it is easy to understand why compliance and supervision is so essential.

It took Conlon six years to get to the stage where he managed to float off on the AIM market, raising €1.3m at the equivalent share price of 60c and going on to capture the 20 biggest financial derivative traders globally, including Goldman Sachs, JP Morgan and Citibank.

With a few acquisitions, like the €100m spent on the KX data management platform, Conlon built up a staff of 2,500 in 15 offices around the world, retaining his home town of Newry as the head office.

The growing band of investors in FDT did remarkably well over the years, with the company growing to a market cap of €2bn and the shares hitting a peak of €50 before Conlon died in 2019 – not far off 100 times the 2002 float price. This remarkable achievement remained relatively unheralded here.

Realistically, there was nobody who could have filled Conlon's shoes in the role of CEO, given his insight into the arcane financial derivatives world and proven ability to manage and incentivise FDT's staff. In his last full financial year in charge, the company delivered sales up 17% to £217m with operating profits rocketing 27% to a record £19m, delivering trading margins of 8.8%.



FDT shares are no longer trading

There was no succession plan in place at FDT, with Keating brought on board in January 2020, six months after Conlon's death, by which stage the company had already begun to drift. Although the accountant had at least some exposure to the software world, having worked for Logica a decade earlier, he had no exposure to financial derivatives trading and the kind of compliance software platforms that Conlon had developed.

The result was even worse than might have been predicted. Keating did push up sales somewhat to £238m in 2021 but profitability collapsed 40% to £11m. In 2022, sales were up again to £263m but operating profits dropped a further 19% to £9m.

In the year to the end of February 2023, FDT managed to turn in a pre-tax loss of £1m, with the negative momentum continuing the following financial year, when losses hit £8m. On top of this the new CFO, Ryan Preston (ex-INM/Mediahuis), delivered the bad news of a tax charge of £5m, to push net losses up to £13m.

It is not clear exactly when Keating and chairwoman Donna Troy decided to throw in the towel but splitting the group into three separate divisions was an obvious strategy to enable FDT to be sold off bit by bit.

The marketing technology division, MRP, which dropped £8m in the year to February 2023, was offloaded in March last year in a paper deal with CONTENTgine in return for a minority 49% shareholding, while there was also a £21m impairment provision on the disposal.

The sale of the original core First Derivatives operation in December 2024 to EPAM Systems Inc for £230m was a much better deal, although shareholders were presumably disappointed that instead of this money being distributed to them as advised, Keating used just over half of this (£120m) for a formal tender stock buy-in, although at the equivalent €21.50 the price was an awful lot better than the March 2024 low of €11.90.

It is perhaps surprising, given FDT's difficult trading situation, that New York hedge fund Ionic Capital Management, run by Bart Baum and Daniel Stone, built up a 21% stake in 2024, which it increased to 29.2% by the end of this January. Clearly, the boys recog-

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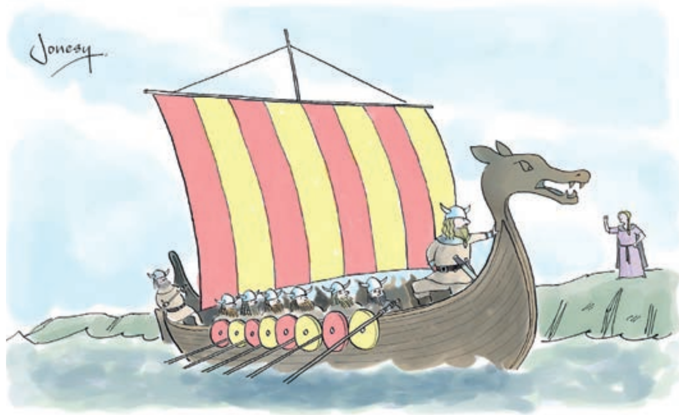

"Don't forget to pillage something for the kids"

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ring of 'mission impossible'.

The doubling of profits, however, relates to the £407m fossil fuel trading profit turned in in 2022 and a target of £830m by 2030. Given that last year the energy division turned in an operating profit of £536m, the current target is to push up profits by 55% over the next five years, which does not look quite so daunting.

LPG STRATEGY

It is odd, given that DCC is planning for 50% growth in LPG over five years, that it started this process by flogging off its leading LPG position in Hong Kong, which was highly profitable.

Along with the decision not to provide any breakdown of the LPG sales and heating oil sales, DCC's divisional performance review does not contain details of revenue, with only volume sales disclosed.

It is necessary to analyse the financial statements to get the turnover of the whole energy division, which amounts to £13.4bn. This reveals that the division is delivering only a 4% trading margin. No doubt Breuer's board prefers to highlight volume sales that last year were the equivalent of 10.9 billion litres, up 2.3%. On the other hand, revenue fell 6%.

DCC is the largest heating oil distributor in the UK, Ireland, Denmark and Austria, while also the largest LPG distributor in Norway, Sweden and the Netherlands, and the second largest in France, Ireland and the UK.

The group was a late entrant into the US energy market, initially targeting only LPG, with the purchase in 2018 of a small operator in Illinois. Even though it has picked up other firms since, the group currently boasts double-digit market shares only in Kansas, Tennessee and Kentucky.

Clearly, there are major opportunities to pick up small operators across the US to really expand there. Given that DCC has net debt of over £1bn, however, and is planning to distribute virtually all of the net £815m from the sale of DCC Healthcare, there is no plan to go big across the Atlantic.

The group has 1,173 petrol stations in Europe but has no clear strategy for these stations. Most of the unmanned outlets are located in the UK, Sweden and France, while the manned stations are mainly in Denmark, Norway and Luxembourg, with 200 of these upgraded in the last four years to include convenience stores.

The strategy remains a mystery. In Ireland, for example, DCC took over Tesco's manned petrol stations under the Certa brand but immediately closed all of the attached retail shops.

DCC can only cut its dependence on fossil fuels by diving into renewables and Murphy has decided that solar panels are the best route. He has been buying small solar panel installation firms since May 2021, with the first two being Solewa and Soltea in France.

Since then, DCC has added solar panel supply and insulation companies in the UK, the Netherlands and Norway. Last year Murphy paid out a significant £90m for Next Energy, a UK solar panel installer, also adding Wirsol in Germany, as well as Acteam ENR and Habitat, both in France.

The strategy is to offer existing LPG customers commercial renewable energy propositions, based mainly on solar panels and backed up where appropriate with heat pumps and solar batteries.

Mark Breuer

Whether this can ever make up for profit DCC foregoes on its fossil fuel business is unclear but Murphy is presumably convinced the strategy will deliver.

Analysing the accounts, it turns out that DCC's revenue fell 10.5% in the year to March 2024 and, even on a restated basis, was down a further 5% last year to £18bn.

The adjusted operating profit was up 4% on the preceding year to £683m but, stripping out the healthcare business, DCC now claims, on an adjusted basis, that the operating profit last year was up 3% to £618m and earnings per share increased 3% to £4.70.

Taking into account the billion pound-plus sale of the healthcare business and the likely poor sales outcome for the technology business, investors are clearly not happy with DCC. The shares at £46.60 are now down almost 38% on the 2017 peak.

With DCC effectively stagnant for the last few years, it is perhaps still surprising that the company is trading on a price-earnings multiple of only 10.2 – little more than half the UK market average of 18. It is now capitalised at only £4.56bn, over a £1bn drop off in the last 12 months and £2.7bn down over the last eight years.

In these circumstances, it is hard to justify Murphy trousering a 31% increase in his remuneration package last year to no less than €4.3m. Likewise, Lucey saw the reward for his work as CFO last year jump 44% to €2.5m year. Nevertheless, at last month's AGM only 3.2% of shareholders voted against Murphy, while a more significant 9.8% voted against Breuer.

Despite the poor recent record and the real challenge of shifting a business almost wholly dependent on fossil fuels to renewables, with an £800m payout to shareholders due in September, the shares look seriously undervalued.

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nised that, despite the losses, there were some star assets in FDT.

Of the £110m left for the First Derivative disposal, £32m was used to pay off residual borrowings and fund the remaining data analytics platform business, KX, whose software platforms manage and analyse historical structured and unstructured data on any scale – a really interesting and exploding business area.

R&D SPEND

Conlon had originally acquired a controlling stake in KX Systems in October 2014 as he used the platforms in his compliance and supervision software in FDT itself. A decade after the purchase, it would have surprised observers that KX is still losing money. Moreover, in the 13 months to the end of December last, Keating spent £70m on research and development in a company where shareholders no doubt believed the software platform was a mature one.

Worryingly, he capitalised £54m of this £70m R&D spend, which can only be described as a high-risk strategy. On a sales base of £80m in the financial year to the end of February 2025, Keating managed to spend £30m on R&D. Remarkably, he also increased administration expenses by 38% to a whopping £50m, as well as lashing out £33m on sales and marketing.

Of the £30m R&D spend, a hefty £21m was capitalised but the company still turned in a pre-tax loss of £29m. If the R&D was taken as a cost, the loss would have hit £50m.

Donna Troy

Yet Keating *et al* have managed to land a huge £655m for FDT shareholders, working out at nearly €28 a share – a significant premium to the price they traded at before the offer period. Pulling off this deal would have impressed even Brian Conlon.

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