

The grafton group project

[Business, Corporate Governance](#)



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Strategic Direction and Corporate level strategy⁴⁴ Corporate Parent⁴⁴ The corporate parent as a Synergy manager⁴⁵

Strategic Drift⁴⁶ International Strategy⁴⁸ Table Pre-Merger⁴⁸ Table Post-Merger⁵⁰ Traditional reasons for Merger failure⁵¹ Through a possible merger Grafton may: ⁵² Strategic Directions⁵³ Market Consolidation⁵⁴ Market Diversity (Related)⁵⁵ International strategy – Travis Perkins and Grafton merger? ⁵⁶ Bibliography⁵⁹ Plagiarism Disclaimer: ⁶⁰ Background of the company: Grafton Group plc is an independent, profit growth oriented company with operations primarily in the UK and also in Ireland. The Group has strong national and regional positions in the merchanting, DIY retailing and mortar markets.

The Group aims to achieve above average returns for shareholders.

Grafton's strategy is to build on strong positions in businesses serving the UK and Irish construction sectors, to develop in related markets, and to grow in businesses with which it is familiar. In Great Britain, Grafton is the fourth largest merchanting business trading from 430 locations comprising 219 Builders Merchanting branches trading principally under the Buildbase and Jackson brands and 211 Plumbers Merchanting branches trading mainly under the Plumbase brand.

EuroMix is the market leader in the UK dry mortar market where it trades from a network of nine manufacturing plants in England and Scotland. In Northern Ireland, MacNaughton Blair is one of the leading builder's merchants in the province where it trades from 20 locations. In the Republic of Ireland, the Group is the largest builders and plumber's merchanting

business trading nationally from 62 branches under the Chadwicks and Heiton Buckley brands. The Group is the market leader in DIY retailing in the Republic of Ireland, trading nationally from 41 stores and is also engaged in the manufacture of mortar, plastics and windows in the

Republic of Ireland. Today, in Ireland, Grafton is the largest builders and plumbers merchants and the clear market leader in DIY retailing. In the UK the Group's merchandising operation is the 4th largest in the market. 2005 turnover was €2.6 billion and Profit after Tax amounted to €166 million.

History of the company: Grafton's origins date back to 1902 and since then the Chadwick family have played a central role in the development of the business. 1909

William Thomas Chadwick establishes his first business called Chadwicks (Dublin) Limited to supply builders merchants and major building contractors with Irish and imported cement and plaster. Today Chadwicks is the 2nd largest builders and plumbers merchandising brand in Ireland, trading from 31 branches nationally. 1930 William Chadwick acquires control of a small firm engaged in the manufacture of concrete blocks and roof tiles, which his company was supplying with cement. In 1931 Concrete Products of Ireland was registered as a private limited company.

Today it is called CPI Limited and is a leading manufacturer of dry mortar in the Irish market. William Chadwick, the Group's founder, dies at the end of the Second World War, leaving the business to his two sons – Terence and Finton Chadwick. 1965 Concrete Products of Ireland becomes a public company and purchases Chadwicks (Dublin) Limited from the Chadwick

family. At the same time Marley Limited increases its holding to 51%. Marley's relationship with Concrete Products of Ireland dates back to the end of the Second World War when Marley acquired a minority shareholding. 1985 Mr. Michael Chadwick is appointed Executive Chairman. 1987 Marley plc decides to concentrate on the manufacture of building materials and as a consequence sold its controlling shareholding in the Group. The Marley shareholding was placed with institutional investors and the Group's management. The Group opens its first DIY retailing store in the Irish market. 1988 The Group changes its name to Grafton Group plc and makes its first UK acquisition, a small heating and plumbing business which gives the Group familiarity with the large UK merchanting market. 1990 The Group acquires MacNaughton Blair a long-established and well-known Belfast-based builders merchants. Also during the year Grafton acquires Joseph Kelly & Son (1994) Limited in Dublin, a builders merchanting business which was to become very well placed to serve the needs of the building trade in the centre of Dublin. 1994 The Group's expands significantly in the UK with the acquisition of Bradley's and Lumley & Hunt plumbing and heating operations. Total sales in Britain and Northern Ireland increase by 53%, representing 21% of Group turnover. 1995 Grafton acquires P. P. S. Mortars – a silo mortar plant based in Glasgow. This business adopts the EuroMix silo mortar business model and technology, which has been successfully developed by CPI, the Group's Irish concrete products business. Today EuroMix is the leading UK mortar manufacturer with eight plants. 1996 The Group continues its strategic development in the UK with its first acquisition of a builder's merchanting business – R. J. Johnson, based in Oxford. 1997

The Group continues to acquire in the UK adding a further 14 locations through six small but significant acquisitions and achieves critical mass in its UK operations. This is the Group's tenth year as an independent public company; a decade of considerable achievement in which sales increased 18% annually and earnings per share grew at an annualised rate of 29%. 1998 UK builders' merchanting operations expand substantially with the acquisition of British Dredging plc, the first time an Irish company acquires a listed UK plc.

This business operates a total of 23 locations incorporating 17 builders' merchants and six plumber's merchants. The builder's merchanting operation is integrated under the Buildbase brand, which was established in 1997 as the trading name for the Group's UK builder's merchanting operation. During that year the Group makes another six acquisitions adding a further 19 locations, including the London based Deben Builders Merchants business with 10 branches and A R Hendricks Limited, a heavy side builders merchant trading from five branches. 1999

The Group continues its bolt-on acquisition programme adding a 16 more locations, through eight acquisitions in the UK. Throughout the nineties the Group continues with the expansion of its Irish merchanting and DIY retailing operations and consolidates its position as market leader in both sectors. 2000/2001 During these years, the Group continues apace with its bolt-on acquisition strategy. A total of 24 acquisitions were made during the period, many single branch operations that add value through infilling the Group's overall network of locations in the UK. 002 This is a record year with a total

of 15 acquisitions adding a further 39 branches to the UK merchanting network. These acquisitions included five small chains: Lakes in Derby, BMB in Barnsley, and PDM in Edinburgh, Aizlewoods in Rotherham and JKS Heating and Plumbing Supplies in Manchester. 2003 The Group undertakes its largest ever acquisition thus far – Jackson Building Centres in England adding 18 branches – and makes another significant acquisition with Plumline, Scotland’s largest independent plumbers merchants with 17 locations.

Overall it was a busy year with a further seven bolt-on acquisitions completed, giving a total of nine acquisitions for 2003. Grafton now has 137 plumbers’ merchanting branches trading under the Plumbase brand and 139 builders’ merchanting branches trading principally under the Buildbase and Jackson brands. 2004 The Group completes its 100th acquisition since 1998, averaging more than one per month. A total of 19 acquisitions are completed during the year, another record year for development. Grafton reaches agreement to acquire Heiton Group plc, subject to regulatory approval. 005 In January Grafton completes the acquisition of Heiton Group plc. This business includes, inter alia, the No. 1 builder’s merchanting operation and the No. 2 DIY retailing brand in Ireland and is a good strategic fit with Grafton’s existing operations and consolidates its position as the leading player in the Irish market. Overall Heiton has over 50 trading locations (six in the UK), an average of 1, 900 employees and a turnover in excess of €500 million. We can see from this chronological list of their history that Grafton Group expanded greatly from the mid 90’s to 2005.

Their growth in the UK market was surged on the back of an economic building boom in Ireland. They now have a much greater market and consumer base to compete in but also face a vastly changed environment.

The Environment PESTEL analysis Political • Taxation policy – corporation tax remains at 12.5% in Ireland. Grafton Group is resident in the state and is liable to Corporation Tax on its worldwide profits. The corporation tax rate in the UK is 21% which is a huge source of competitive advantage for Grafton versus its UK competitors. Government stability – the current Irish government is in place till 2012. The UK is in the build up to a general election which could see a change in the current government and policies. • Government policies towards “green” initiatives – grant towards homeowners to improve insulation, grants for solar panels and etc. Economic

- The UK and Irish economies are in recession leading to a sharp fall in demand. Consumer confidence has fallen and housing related spending has reduced.
- The number of house completions in Ireland is 17,000 units in 2009 which is a fifth of the output during its peak in 2006. Ireland’s stock of empty homes surged 30pc to 345,000 houses in the three years through 2009 as the decade-long property boom collapsed.
- Sterling exchange rate weaknesses could lead to lower reported Group earnings on translation of the results of the UK business into euro at the average rate of exchange for the year.
- Low Interest rates – the cost of loan repayments is low and for the foreseeable future they should remain constant.
- The availability of credit and money is very strict and very few banks are willing to give loans to cash strapped businesses. Unemployment rate in Ireland has increased dramatically, Jan 2008 4.8% versus Jan 2010 13.4%. Unemployment rate in

the UK has increased but not as dramatic, Jan 2008 5% versus Jan 2010 8%.

Sociocultural • Declining employment and incomes for individuals. • Higher personal taxes - introduction of income levy, the doubling of health and PRSI levies. • A nation of savers, People are now saving more than before and consumer spending has decreased as a result. • An increasing age demographic in Ireland who will require a home in the future. Ireland

population by Age 2006 | | Age Group | | Males | | Females | | Persons | | | | 0-14 | | 443, 044 | | 421, 405 | | 864, 449 | | | | 15-24 | | 321, 007 | | 311, 725 | | 632, 732 | | | | 25-44 | | 681, 988 | | 663, 885 | | 1, 345, 873 | | | | 45-64 | | 468, 037 | | 460, 831 | | 928, 868 | | | | 65 years and over | | 207, 095 | 260, 831 | | 467, 926 | | | | Total | | 2, 121, 171 | | 2, 118, 677 | | 4, 239, 848 | | | |

| | | | UK population grows to 61. million | | | | [pic] | | | | | | Technology | | Improvements in technology have led to better supply chain and logistics management. | | Bar-coding of products has improved inventory management. | Environment | | Organisations need to be socially responsible with their business activities; negative publicity can have a detrimental effect on | | consumer's perception. | | A growing consumer awareness of greener behaviour and products associated with having a better impact on the environment. | | Legal | | Health and safety regulations have increased the demand for health and safety products and packaging. | | Key drivers for change | | These are environmental factors that are likely to have a high impact on the success or failure of an organisation. There is a | | huge level of uncertainty in the current environment but an area we have identified as key is the energy efficient sector. The | | government have introduced policies and measures to address climate change. This initiative has arisen from a UN

conference on | | energy for development, which is demanding countries to change their ways for the improvement towards a greener global | | environment. There will be a greater demand from consumers to meet those measures and therefore Grafton must satisfy this growing | | demand with energy saving products. | | | | | | | | The Industry | | Porters Five Forces analysis | | Potential competitors | There is the potential for new entrants in the form of small independent hardware suppliers which are strategically located to entice consumers, ex. A small hardware shop beside the local shopping centre. As we can see from the below graphic many of their outlets are strategically located in and around the big cities as there is a much greater consumer base, ex.

Dublin, London, Birmingham. [pic] There is a huge capital requirement required to compete with the Grafton group brands within Ireland and their closest competitors are B&Q (20% market share) and Hombase (17% market share). The location of DIY retailing outlets is interesting as during the boom many of our local towns have seen the emergence of industrial retail parks. In Navan 4 years ago Woodies located in a newly developed retail park just off the N3, before that there was Chadwick's and a number of small independent outlets in the town. Grafton group have 63% of market share in Ireland, as a result the power of competitive response is very strong in Ireland.

However in the UK they are fourth with 10% of market share with Travis Perkins (15%), Jewson (18%) and Wolseley (19%) and as a result their competitive position is much more demanding as they have 3 competitors

who are in stronger market position. Substitute products/services We believe the only substitute threat is hire companies, they offer equipment and tools to consumers on a rental basis i. e. per hr, day, week and etc. In the current climate price is a key factor in peoples decisions, therefore consumers may opt to hire equipment for tasks rather than spending vast amounts on equipment that might only be used infrequently. Bargaining power of buyers Grafton's consumers are powerful because, • Buyers can switch suppliers at no cost. • Buyers purchase from multiple sellers at once, they opt for suppliers conveniently located to the project. Buyers are shopping round for the best value. Bargaining power of suppliers The Grafton procurement process has improved further with new internal appointments to lead heavy side and light side purchasing. There was an increased focus on reducing the supplier base and developing closer alliances with key suppliers. This has resulted in greater leverage being achieved from the Group's purchasing scale and improved purchasing terms. The volume of products sourced directly through the warehouse facility in Shanghai continued to increase providing a new sourcing option for the Group's businesses to procure quality products at competitive prices.

We can see from the above that the power rests with Grafton; suppliers are keen to meet the demands of their customer as they have a strong foothold in both the UK and Irish marketplace. Rivalry/Competition In Ireland their competitive position is very strong and through consolidation and job cuts they will be better placed than most building supply firms especially the many small independents that are under serious financial strain as the economic property boom which they depended on is long gone. Many

independents face closure and Grafton group and its brands will be best placed to take advantage when the economy recovers over the coming years. Competitive rivals are organisations with similar products and services aimed at the same customer groups.

When we look at one of Grafton's brands Woodies DIY and their offerings, we see that they are competing with many different retailers. They offer a product range which caters for all your interior and exterior requirements, ex. Bag of cement, paint, timber, kettles, toasters, lighting, TVs, etc. They compete in a very fragmented industry but what many people don't realise is Grafton is the parent company and all these separate brands from the consumers perspective competing with one another doesn't matter as all profits go into the one organisation. Grafton is competing with any organisation who offers interior and exterior household products, ex. B&Q, Homebase (part of Home retail group), Argos (part of Home retail group), Power City, Harvey Norman, etc.

From our experiences with Woodies they differentiate themselves from the competition as they offer a complete range of products from their store which means you can get all your needs in the one store. However if you look at the UK operating margin history it was roughly 6/7% over the past ten years versus Irish operating margin history of 11-13%. This means that competition is much stronger in the UK and they must price more competitively in the UK. Opportunities and Threats We can see from the below graphic that their decision to expand its operations in the mid 90s to the UK has been extremely successful with 68% of their turnover coming

from the UK. Grafton must now look to the UK with a population of 61 million versus Ireland 4. 2 million as their primary source for turnover and

opportunity. [pic] Turnover breakdown Ireland Merchating | 370, 167 | 19%

| | DIY Retailing | 247, 784 | 12% | | Manufacturing | 19, 891 | 1% | | Total |

637, 842 | 32% | In the UK their operation consists mainly of builders and

plumbers merchating. THE MARKET ATTRACTIVENESS - BUSINESS POSITION

MATRIX (GE and McKinsey Company Model) | HIGH MARKET

ATTRACTIVENESS | MEDIUM MARKET ATTRACTIVENESS | LOW MARKET

ATTRACTIVENESS | | HIGH BUSINESS | | | | POSITION | | | | MEDIUM

BUSINESS | | | | POSITION | | | | LOW BUSINESS POSITION | | | Invest Grow

= Green Selective Investment = Yellow Harvest/Divest = Red The G. E.

Matrix is an extremely useful tool to assist an organisation in exploring its Business Position based on its competitive position and the attractiveness of the markets under the organisation's consideration Opportunities identified • Demographics - In Ireland 1. 5 million are under the age of 24 and in the UK roughly 15 million are under the age of 30. These people will require a home over the next 5 - 10 yrs and therefore there will be a demand for housing and renovations to suit individual tastes. • Worldwide government energy initiatives - consumers are encouraged to buy more energy efficient products. • Cost reduction - with demand in decline it important that Grafton mange their costs, ex. Supplier costs, staffing, acquisitions etc. Competitors - independents are finding the financial strain to difficult and are been forced to close their operations. Economic recovery will see Grafton best placed in the market. • Markets - economists both here and abroad are saying there is a bottoming out of the recession. This should bring about a stable market

place. • Debtors – if debtors are managed tightly it can have a significant effect on cash flow and bad debts can be reduced to a minimum. • Credit – if debtors aren't paying on time then Grafton need to look at extending credit terms with their suppliers. We think this very possible as the power is very much with Grafton and not the suppliers. Threats identified We believe the biggest threat to Grafton Group is the level of spending available for construction related projects. The demand for building materials continues to fall in Ireland and signs of improvement are slowly beginning to show in the UK. " The construction industry has now declined for the 34th month in a row, but the rate of contraction is slowing, according to the latest Ulster Bank Purchasing Managers' Index. " " Though it's great to see the UK construction sector turn the corner after two years of relentless contraction, it's still very early days," said David Noble, chief executive officer at the Chartered Institute of Purchasing and Supply.

There is now a reliance on the public sector for new work and if they don't provide the funding for new projects then construction suppliers could be in for a difficult few years. Private investment is very unlikely in the current environment with consumer confidence very low and economic conditions unstable. Financial Information Analysis 2009 2008 Revenue€1. 98bn €2. 67bn Adjusted operating profit€26. 2m €118. 6m Operating profit per income statement €4. 9m €99. 2m Profit before tax €13. 6m €64. 1m Free cash flow 171m €212m EBITDA €74. 1m €172. 9m Adjusted earnings per share5. 4c 32. 2c Basic earnings per share 5. 8c 25. 1c Dividend/share purchase 5. 0c 15. 0c Net debt €322m €435m Gearing 35% 50% Analysis of Financial

Reports The following is an analysis of the financial reports of Grafton Group plc.

We will try to illustrate the current financial situation the group is in compared to previous years and also attempt to analysis the outlook for the future. Grafton's presence in the construction and raw materials market means they have been very much affected by the economic downturn, in particular the significant slowdown in the construction market and the housing market in both the UK and Ireland. I will use liquidity, profitability, debt and other ratios deemed appropriate as tools to help analyse and diagnose the financial health of the group. I will use a year on year

comparison in order to determine the direction in which the group is going and identify any trends. Liquidity Ratios Current Ratio (current assets : current liabilities) 20082009 920, 482: €601, 987€891, 364 : €550, 793 1. 53: 11. 62: 1 Acid Test Ratio (Current assets less stock : current liabilities) 20082009 €920482 -€331124 : €601987€891364-€265748 : €550793 1 : 0. 981. 14 : 1 Cash at Bank and Short term deposits (at end of year) 20082009 €301, 984€224, 834 Profitability Ratios Net Profit Margin (€000's) 20082009 €64116 / €2672984€13580 / 1979766 2. 4%0. 68% Net Profit Margin per Segment Merchanting 20082009 €2284, 484 / €121, 921€1686, 933 / €39305 5. 33 %2. 33 % Retailing 20082009 €303, 071 / €11, 790€247, 784 / €3274 3. 89 %1. 3 % Manufacturing 20082009 €95621 / (€3159)€50985 / (€5060) -3. 3%-9. 9% Earnings per share (EPS) 20082009 32. 2c5. 4c

Gearing 20082009 50%35% New borrowings v old borrowings 20082009 €91. 944 : €579, 333€73679 : €536789 1 : 6. 31 : 7. 29 Short term v Long

Termfinance20082009 €119, 874 : €579, 332 €103174 : €536, 789 1 : 4. 831

: 5. 2 Analysis: Liquidity: The group has improved its current ratio year on year from 2008 to 2009, this is mainly due to a decrease in current liabilities. This is an encouraging trend for the group. The acid test ratio also shows improvement from 2008 to 2009, this is both a reflection of the improved current ratio and also the work done to try and reduce inventory holding, and reduce cash flow tied up therein and other associated costs.

Cash flow was enhanced greatly by tighter management of inventory, debtors, disposal of assets (sale of freehold land, exhibiting the importance of having a strong portfolio of assets) The cash at bank and on short term deposit has been increased year on year from 2008 to 2009 by approximately 34% this is quite encouraging especially in the current environment (and not due to borrowings), as the adage goes “ profit is food, cash is oxygen”. It is fair to say the group has slightly improved its liquidity situation and is more able to meet its outgoings as they fall due. Against the economic backdrop it is quite a good performance and evidence the group are handling the downturn well in a strategic sense. Profitability:

Profitability is the biggest challenge facing Grafton due to the economic downturn and slowdown in the construction and housing markets. Net profit fell dramatically from 2008 to 2009 from €64 million to €13. 5 million, this was quite dramatic. Despite being worrying it was not unexpected, with the focus for the year on debt and cost reduction (and reducing capital expenditure and working capital). Merchanting, Retailing and Manufacturing all dropped considerably in profit terms. Margins were also decreased across

all operations. Merchanting still remains the highest source of revenue for Grafton (%85 of group turnover in 2008 and 2009, suggesting strong competencies here).

The loss in manufacturing outweighs the profit made in retailing, it is the profit made in the merchanting division that the real profit pool for Grafton. (divesting in manufacturing division may need to be considered, bar where synergies exist with other divisions, i. e. mortar manufacturing) As a result earnings per share have fallen dramatically from 32. 2c to 5. 4c, Debt: Through measures taken during the year to reduce gearing, Grafton were able to reduce an already modest gearing of 41 % in 2008 to 35 % in 2009. This is an excellent achievement in the circumstances (and exhibits a strong leadership in Strategic choices, direction, and fit). The net debt was reduced by €113. 1 from €435. 6 million in 2008 to €322. 5 million in 2009.

The groups current bank facilities are subject to a minimum net assets requirement (€301, 984 cash at bank end 2009, up from €224, 834 end 2008, leaving the Group in a strong cash position). Return on Investment: Return on investment is down considerably from 2008 to 2009 10. 12% to 2. 19%, as profits dipped quite considerably resulting in the dramatic slump. Again this is worrying but not unexpected as the Group were attempting rationalization and consolidation (strong market share results exhibit some success in this regard) Borrowings: The ratio of new to old finance borrowings and ratio of short term to long term finance borrowing both improve year on year (1: 6. 3 to 1: 7. 29 and 1: 4. 83 to 1: 5. 2 respectively). Again this shows strong evidence of reducing debt and decreased borrowing.

It is fair to say that Grafton is currently in a very challenging operating environment with the downturn in markets seriously affecting their profitability, dividends, and returns. But the Group finds themselves in an improved liquidity position, as well as considerably reducing their gearing, they also greatly increased their cash at bank negating greatly problems with accessing credit.

Share Price Irish Stock Exchange Date: 29/04/2010 | Currency: EUR | Code: GRF_u. I | Current Price | 3.52 | Day High | 3.55 | Bid | 3.50 | | Last Closing Price | 3.50 | Day Low | 3.47 | Ask | 3.4 | | Change | 0.02 | Day Open | 3.47 | Year High | 3.59 | | | Volume | 28,045 | Year Low | 2.30 | Source <http://investor/graftongroupplc.com>

The latest share price info as at 29/4/10 is encouraging as it shows strong recovery from a year low of 2.30 to 3.52 (a year high of 3.59 has been achieved. The highest share price achieved was nearly 23 in early 2007 which illustrates the decline in the industry, and puts the company's current performance into context. The Corporate information. om Wright quality ratings rates Grafton's investment quality as BBD0 which translates as: Liquidity: Excellent Financial Strength: Excellent Profitability: Fair Growth: 0 Source www.corporateinformation.com

Outlook for the Future The UK economy has moved out of recession in late 2009 which is encouraging news for Grafton as 68% of its turnover comes from this source. The amount of new house sales and builds are on the increase from a very low level starting which is very encouraging as the merchanting division is Grafton's real profit pool. The Merchanting market has remained structurally sound despite the downturn and can expect a growth rate above normal trends that Grafton are well positioned to take advantage of.

The Irish economy remains in recession but is expected to return to growth by the middle of the year boosted by global growth and improved export conditions. A weak employment situation, low consumer confidence and tight credit conditions make the market conditions in Ireland even more challenging, coupled with the massive drop in new house builds as housing over supply is still a problem. Further rationalisation measures and/or closures in the Irish operations should be considered. Group turnover stabilised from H1 2009 to H2 2009 which is encouraging. The cost reductions and integration benefits in the Merchanting divisions improved profitability in H2 2009.

The rationalisation achieved and the increased activity expected from the UK new Housing market means that Grafton are well placed to take advantage of the recovering markets this year. Rationalisation measures:

- Employee base reduced in both Ireland and UK
- Cost reduction initiatives progressed with significant results
- 18 locations consolidated or closed and 10 new locations added
- Credit terms from suppliers renegotiated
- Improved inventory management
- Debtors managed tightly with significant cash generation
- Costs rationalized by €80 million in 2009

Plans for 2010:

- Further rationalisation costs will be incurred in 2010
- Wider product range yielding margin growth
- Emphasis on overhead control and working capital management
- Attempt to obtain full benefits of integration

Opportunities 2010:

- Reduced cost base
- Market share gains
- Competitors failing
- Irish Construction close to bottoming out
- Signs of recovery in markets
- Positive Demographics
- Government Renewable energy initiatives

Group Strengths

- Highly cash generative streamlined businesses
- Significant cash deposits

ensures liquidity • No P Banking Covenants -protection from exchange fluctuations now in banking agreements • Strong balance sheet -modest gearing 35% • No material refinancing required before 2011 68% of turnover in UK (increased mortgage lending, & housing sector activity in UK) • Prominent market positions in the UK and Ireland -market share circa 10% and 20% respectively (satisfactory market share performance) • Motivated management teams • Proven strategic record, past experience of managing down cycles • Spread risk • Economies of scope amongst SBU's • Synergies across SBU's • Vertical integration achieving efficiencies in merchandising division • Benefits derived from lower cost base, integration, scale related and Procurement efficiencies • Trading stabilised in second half of 2009 • Trading outlook beginning to improve following period of significant uncertainty • Tight financial control across group

Weaknesses • Poor performance in Ireland operations • General economic downturn • Housing market collapse • Sharp Industry downturn Slowdown in Irish construction & housing industry (brought group turnover down 26% to 1. 98bn • Very slow new housing Market in Ireland • Consumer confidence in Ireland hitting retail sales • Continued contraction expected in Irish economy • Manufacturing operations making a loss • Over reliance on Merchandising operations Strategic Capability “ The ability to perform at the level required to survive and prosper. It is underpinned by the resources and competences of the organisation” Johnson, Scholes & Whittington

It is clear that Grafton have the threshold competences to meet customer's minimum requirements, and also the threshold competences to provide the

same as they continue to exist (and are in a decent position to go forward). But what are Grafton's core competencies, (activities and processes that are difficult for competition to imitate), what are their unique resources (difficult for competition to imitate or obtain). And what are the critical success factors for Grafton's customers (the product features especially valued by customers and therefore the company must excel at). As 85% of Grafton's turnover comes from their merchanting division this is where we will focus.

Some of Grafton's Brands, Sbu's and subsidiaries in Merchanting include:

Ireland: Heiton Buckley Chadwicks Cork Builders providers Telfords Heiton

steel UK: Buildbase Jackson Building Centres Macnaughton Blair Selco

Builders Warehouses Plumbase (plumbing) CPI Euromix (mortar) Critical

Success factors for customers (a sample of but not limited to): Quality

service and products Reliable products services Speed of service National

Distribution Online ordering / catalogue. Product knowledge and advice

available Simple pricing Self service capabilities " One stop shop"

capabilities Wide selection / availability of products hire services Prompt &

accurate delivery of products/services

Strong partnership team working capabilities Trade deals/initiatives (bulk

buying, relationship development) Unique resources (a sample of but not

limited to): Wide network of branches Vertically integrated operations Very

experienced management team Backed by strong corporate parent Financial

resources (over 300 million in cash) Experience of managing previous

downturns Strong Brand equity, profile and Goodwill Ability to leverage

position as largest mortar manufacturer National Distribution Network (Civil

& Lintels) Core Competences (a sample of but not limited to): Corporate parenting Synergy managing Proven vertical integration abilities Cross SBU linkages

Co-ordination of multiple and diverse activities Excellent Financial management First class customer service Mortar manufacturing (no 1 in market) Strong Management at SBU level Strong Value chain Strong Value network Strategic Marketing Autonomy at SBU level Market Development Product development and category management National and local distribution competences The above are some examples of the critical success factors Grafton Group need to excel at for customers, and some of the unique resources and core competences that help them to meet those CSF's. By building those resources and capabilities that help Grafton deliver value for its customers and help obtain competitive advantage.

Corporate Governance What is Corporate Governance? “ Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. ” (Sir Adrian Cadbury, UK, Commission Report: Corporate Governance 1992) Ireland's recent history of corporate governance has been highlighted with the governments bank NAMA, National Asset Management Agency. Builders, bankers and the senior public servants who failed to regulate these sectors are perceived to be getting off scot-free from the

crisis they caused. “ Sean Barrett – Irish Times 2nd September 2009 / Page 14 Brian Lenihan has taken action that is costing taxpayers billions of euro that would have not have been required if Corporate Governance and common sense regulation was adhered to. The bank regulators, a supposed independent body, did not adhere to procedures and turned a “ blind eye” to what was practiced over the last 20 years. “ The state ownership policy should fully recognise the state-owned enterprises’ responsibilities towards stakeholders and request that they report on their relations with stakeholders. Guidelines on Corporate Governance of State-Owned Enterprises, Page 37 (2005) Making the right decisions with all the information without compromising the integrity of the organisation. [pic] Corporate Cartoons, Grinning Planet Grafton Group’s Compliance with the Combined Code The Board is committed to maintaining high standards of Corporate Governance. The Board is accountable to the Company’s shareholders and this statement describes how it applies the principles of good governance set out in the 2006 FRC Combined Code on Corporate Governance which is appended to the Listing Rules of the Irish and London Stock Exchanges. The Board – who reports to whom?

The Board of Directors is made up of nine members at 31 December 2008 comprising the Executive Chairman, three other executive Directors and five non-executive Directors. Mr. Anthony Collins, Deputy Chairman, is Senior Independent Director. The Board believes that it has the skills, knowledge and experience required by the scale, geographic spread and complexity of the Group’s operations. The Board routinely meets seven times a year and additionally as required by time critical business needs. There is also contact

with the Board between meetings as required in order to progress the Group's business. The Board takes the major decisions while allowing management sufficient scope to run the business within a centralised reporting framework.

The Board has a formal schedule of matters specifically reserved for its decision. This covers the key areas of the Group's business including financial statements, budgets, acquisitions, major items of capital expenditure and the strategic development of the Group. The Board's responsibilities also include ensuring that appropriate management, development and succession plans are in place; reviewing the environmental and health and safety performance of the Group; approving the appointment of Directors and the Company Secretary; approving policies relating to Directors' remuneration and severance and ensuring that satisfactory dialogue takes place with shareholders.

The Directors have access to the advice and services of the Company Secretary who is responsible for advising the Board through the Chairman on governance matters. The Company's Articles of Association and Schedule of Matters reserved for the Board for decision provide that the appointment or removal of the Company Secretary is a matter for the full Board. Directors have full and timely access to all relevant information in a form appropriate to enable them to discharge their duties. Reports and papers are circulated to Directors in preparation for Board and committee meetings. The non-executive Directors, together with the executive Directors, also receive

monthly management accounts, various reports and other information to enable them to review the performance of the Group on an ongoing basis.

The Board continues to hold the view that there are compelling commercial benefits to the Group and its shareholders in combining the roles of Chairman and Chief Executive and the holding of the combined roles by Mr. Michael Chadwick. The combination of the roles is balanced from a governance point of view by the strong input of the five independent non-executive Directors on the Board and the Board's committee structure.

Directors' Independence and Board Balance It is Board policy that the Board should include a balance of executive and non-executive Directors such that no individual or small group of individuals can dominate the Board's decision making. Five non-executive Directors, Mr. Anthony E. Collins, Ms. Gillian Bowler, Mr. Richard W. Jewson, Mr. Roderick Ryan and Mr. Peter S.

Wood are considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of their independent judgement. The Board has therefore determined all five Directors to be independent. Mr. Collins was appointed to the Board in 1988 and both Ms. Bowler and Mr. Jewson were appointed to the Board in 1995. The length of their service on the Board exceeds nine years and the 2006 FRC Combined Code provides that an explanation be made to shareholders concerning their continued independence. The Board considers that the integrity and independence of these Directors is beyond doubt. All three Directors are financially independent of the Company and have other significant commercial and professional commitments.

The Company's Articles of Association provide that one third of the Directors retire by rotation each year and that each Director seek re-election at the Annual General Meeting every three years. New Directors are subject to election by shareholders at the next Annual General Meeting following their appointment. It is Board Policy that non-executive Directors are normally appointed for an initial period of three years, which is then reviewed. It is also Board Policy that a non-executive Director who has served on the Board for more than nine years will retire annually and will offer him/ her for re-election in any case where it is proposed to exceed nine years. The overall composition and balance of the Board is kept under review. To allow corporate governance to drop in standards allows too many possible problems arise.

Directors making short term decisions for their own benefit cannot be tolerated and without strong non-Executive Directors organisations have suffered. E. g. Enron, Independent News and Media. Performance of the Board Grafton Group's long standing non Executive Directors have been re-elected at many AGMs which proves the confidence of their value to shareholders. At the beginning of the year their share price of building up to their financial report for 2010. When we were given Grafton Group as our project the share price was €2. 70, week of April 12 it is trading at €3. 40/share, an increase of 25%. Their board are doing a good job and have processes in place that do not allow any maverick activities. They tick all the boxes of operating independently of management.

Insider dealing is not evident, “ interlocking” does not exist similar to Jim Flavin, member of both Fyffes and DCC. The CEO of Woodies and Atlantic Homecare is Ray Coleman. Some would argue the same CEO of both could lead to conflict but as both have different strategies it make business sense for this to be the case. Corporate Social Responsibility – CSR and Ethics “ The Grafton Group recognises the importance of conducting its business in a socially responsible manner. This is demonstrated in the way we deal with our employees, customers, suppliers and the communities in which we do business. The Group considers that corporate social responsibility is an integral element of good business management. Grafton Group Website “ Business only contributes fully to a society if it is efficient, profitable and socially responsible” - Cannon (1992, p. 33) “ Few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can”- Milton Friedman (1962) Grafton Group’s CSR is centred on the following areas. ?

The Environment – Reduction of waste that impacts on environment, affiliation to Irish and UK environmental specialists. e. g. Biffpack in UK ?

Health and Safety – Adherence to best practice for employees, customers and visitors to their stores

Human Resources – Acknowledge the importance of employees to achieve success, reward them accordingly and become number one choice of employment in their field ?

Community – Recognise the responsibility to the communities in which they are located, support local charities e. g. donated tools and equipment to Goal following Haiti earthquake in 2009

Grafton Group, we feel, is what all corporations do – tick

the box of CSR! Very few Financial Reports had any reference to CSR until last 10-20 years. To make them stand out on CSR issues as Ben and Jerry's Ice Cream or The Body Shop do, they would have to incorporate it into their overall business strategy. Would this give them a competitive advantage over their business rival? Would CSR promotion become part of their strategy?

Our view is that a company in the industry it serves will be dictated by their consumers as to how important CSR really is. In Grafton Group's case this will not happen. Their stance on CSR is Laissez Faire to Enlightened Self-Interest. The emphasis is mainly on their shareholder short term orientation i. e. highest profit as possible and adhere to the law at all time. They may worry about how they are perceived such as pension fund investors. They are definitely not a Shaper of Society where they influence society in a better light and not always driven by super profit making e. g. Paul Newman food investment and Niall Mellon Trust. Shareholder and Stakeholder Expectations and Influences

The difference in both shareholder and stakeholder expectations is determined largely on the performance of The Grafton Group, history of performance, market in which it trades, promises made and promises previously delivered on. Since they began trading Grafton Group has consistently made profit and grown which has given shareholders a return on their investment. The collapse of the building trade in Ireland and UK has meant a large fall in share price but due to the market's performance no shareholder could have expected anything else. Bob de Wit and Ron Meyer,

1998 describes the value perspective of shareholders and stakeholders and how, if any, interlink. In summary the difference is that shareholder's perspectives have an ends, i. e. make a profit and value of company increases.

Stakeholder's perspectives have and ends and a means where profit is a want but not at the cost of something that would be considered unethical. The power that a board such as Grafton Group must withstand can determine whether shareholders or stakeholders have more of an influence on decisions than is healthy. " Power is the ability of individuals or groups to persuade, induce, or coerce others into following certain course of action. " Johnson, Scholes and Whittington, P160 If an organisation succumbs to the power of an outside influence their control is diluted. Some people within organisations, by right, have more power than other, e. g. the formal power a CEO enjoys. ? Legitimate Power: Power of the position, CEO ? Reward Power: e. g. Manager deciding who gets overtime Coercive Power: who decides on who gets the bad jobs to perform e. g. " if you do not do this you will not get the other", bullyingstyle ? Expert Power: This is more a personal power that a knowledge based professional may exercise ? Referent Power: This explains the influential power someone can exhort through charisma or personality traits e. g. Richard Branson of Virgin Group Johnson, Scholes and Whittington, P161 It is interesting that the brand power Woodies and Atlantic Homecare enjoy in the home DIY market sector is a symbol of power for both shareholders and stakeholders. Stakeholder mapping is an interesting way to determine the power and level of interest certain groups have in organisations. | | LEVEL of INTEREST | | LOW HIGH | | A | B | | LOW |

Minimal Effort | Keep Informed | | POWER | | | HIGH | | | | C | D | | | Keep Satisfied | Key Players |

The level of interest within Grafton group lies mainly with employees, shareholders and Board of Directors. The Key Players are the Board of Directors and Shareholders as they have a vote as to who by and how the company is run. Stakeholders such as government are low in power and would have a low level of interest. Some of the manufacturing Grafton Group are involved in may require them to be socially responsible to the community in which they are located and must keep them informed of any changes that may affect them. They would have a high level of interest but a low form of power. Culture of Organisations and Grafton Group The culture of organisations is largely shaped by the founding fathers. For example Lever Bros.

Ltd has a long tradition with social responsibility before it was known as CSR. William Heskeath Lever first established Port Sunlight village to improve the living conditions and well-being of employees of the Port Sunlight Soap factory. This created a culture of CSR which is maintained today. Similarly with the Grafton Group, CEO Michael Chadwick, has been with Grafton Group since he was 23 years of age. The culture of the company is largely a result of his business philosophies and strategies. We asked for an interview but we were declined, we asked for a list of questions to be answered if we sent them to his secretary and this too was declined so it is difficult to get an insight into his business philosophy.

The Grafton Group do not apologise for being shareholder oriented in terms of profits in the form of dividends or company value increase. They have not allowed themselves be affected by the current economic climate and do not show any forms of strategic drift. Strategic drift is where organisational strategies develop incrementally on the basis of cultural influences and do not keep up pace with the changing environment in which they trade. Grafton have reacted to the downturn of their business and do not wait for changes to be made as reactionary. Henry Mintzberg has noted that “strategy is a pattern in a stream of decisions”. If decisions are made as a reaction to their environment it can be too late.

Grafton Group’s Board of Directors is long serving and successful, due to this fact they have created a culture of expectancy for shareholders and for themselves to delivery. This behaviour filters through to line managers and front of customer staff (boundary pners) to achieve success. The success of the past and alignment to environmental change has created a winning culture. They have created a theme around their strategy and have not deviated from it. They operate in Ireland and the UK in markets they understand and do not expand outside these industries. This helps succession planning for managers moving from business units to gain more experience keeping within the core competencies of the Grafton Group.

Strategic Direction and Corporate level strategy

Strategic Vision is a detailed future oriented vision of the strategic direction that a company is planning to take going forward, that takes into account the competences and capabilities that it both has and needs to achieve to

achieve its vision. “ A strategic vision is a road-map of a company’s future, providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create” (Thompson & Strickland 2001, P6). According to Johnson, Scholes and Whittington 2008, the “ Exploring Corporate strategy model is made up of the corporate culture, business ethics, CSR, the strategic position, the strategy in action and strategic choices.

Strategic choices encompasses some of the following areas of an organisation • Business Level Choices • International Choices • Evaluation • Innovation • Corporate Level Choices Corporate Parent As we know the Grafton group encompasses many different brands, which is their cash generating and highly profitable business units. Throughout Grafton’s history they have managed to acquire many related business all in an effort to strengthen the group as a whole. Through this vertical integration Grafton have offered themselves many advantages and increased their competitive strength. Grafton’s strategic development has continued to grow with major acquisitions made both in Ireland and the UK such as 1990 – Macnaughton Blair, a Belfast based builders merchant • 1994 – Bradleys and Lumley & Hunt plumbing and heating • 1995 – P. P. S Mortars, silo plant based in Glasgow • 1998 – British Dredging. Grafton were the first ever Irish company to acquire a British plc • 2000-2002 – A total of 39 acquisitions were made, building the groups strength further in Ireland and the UK • 2003 – Jackson Building Centres in England adding 18 branches and plumblin, Scotland’s largest independent plumber merchants. • 2004 – The Grafton group

officially makes its 100th acquisition • 2005 – Grafton acquires Heiton Buckley. (www.graftonplc.com)

As we can see here, Grafton has had a very strong acquisition based strategy to vertically integrate with all the suppliers and related business in an effort to grow in strength and position and to make themselves a real presence in the Irish and UK markets. However it's all well and good to acquire all these other business, but what is the point in having them unless you can use them to your advantage. This is Grafton's role and responsibility as the now corporate parent to all these acquisitions, to turn them from simply business units into strategic business units that will benefit the group as a whole and strategically fit. The corporate parent as a Synergy manager

A corporate Parent identifying factors are a large corporate office with a main emphasis on facilitating cooperation across its SBU's with a continued focus on cost reduction, scale related benefits, closer integration, branch consolidation and brand synergies. As a corporate parent to its SBU's, Grafton group seeks to enhance value across its business units by managing and instilling synergies across its business units. The backward, forward and horizontal integration of its suppliers of raw materials and competitors has afforded Grafton a strategic advantage. In order to promote synergy management across its strategic business units, Grafton group tries to create the synergies by thinking holistically and viewing the SBU's as interlinked with a common purpose between such as; ? DIY retailing - Woodies and Atlantic Homecare ? Manufacturing - CPI Euromix, MFP and Wright windows Merchanting – Heiton Buckley, Chadwicks, Cork builders providers and

Telford The main point to remember is that the business units should benefit from the corporate parent by the co-operation between them that's afforded by the corporate centre Grafton Group. A more streamlined UK merchanting business incorporating the Buildbase, Plumbase and Jacksons brands and specialist merchanting businesses is enabling a deeper integration of the overall business. The new structure will result in significant synergies beyond the rationalisation measures already implemented. These arise particularly in procurement, accounting and other central services.

A single management team is now in place for all brands operating from a single head office location. Costs continue to be more aligned with sales and the management team works closely with the Group Chief Operating Officer in driving cost reduction, branch consolidation and brand synergies while leveraging scale-related benefits. With regard to synergy management the following questions should be answered: ? Is there common purpose between business units - YES ? Does parent try to achieve co-operation between business units - YES ? Provide central services and resources - YES In 2009 one of Grafton's management priorities was " To unlock latent synergies in downturn". (Grafton Financial results 2009 PP) Strategic Drift

This is the tendency for strategies to develop incrementally on the basis of historical and cultural influences but fail to keep pace with a changing environment. (Liam Bolger, lecture notes 2009). Strategic drift is certainly not something that Grafton can be accused of as they react quickly to the economical downturn to keep themselves competitive, especially within the domestic market of Ireland where there core strength lies. Grafton Group has

reduced their overall debt from €584 million (2005) down to €322 million (2009). The majority of this occurred in the last 2 years with a reduction of €228 million or 41% (Grafton Group plc final results 2009) Employee base reduced in both Ireland and UK Cost reduction initiatives progressed with significant results • 18 locations consolidated /closed and 10 new locations added • Credit terms from suppliers renegotiated • Debtors managed tightly with significant cash generation • Costs rationalised in 2009 by €80 million Further plans to manage through 2010: • Further rationalisation costs to be incur