

**SYMPOSIUM ON THE INTERNATIONAL DIMENSION IN CORPORATE  
MERGERS AND ACQUISITIONS: CRH plc INVESTMENT STRATEGY –  
AN OVERVIEW**

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*(read before the Society, 2 March, 1989)*

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**INTRODUCTION**

Your President invited me to speak on CRH's investment strategy, with particular emphases on external acquisitions and equity participations, domestic diversification and export operations. I am happy to share with you the evolution of our strategy.

CRH resulted from a merger between Irish Cement and Roadstone in 1970. Post the merger there have been three phases in its development strategy.

**FIRST PHASE**

After the merger had settled down it was recognised that market shares in our main products in Ireland could, or should not grow, as they were already too large and not sustainable. Diversification at home and investment overseas were seen as the logical routes for main further growth.

A task force was set up at head office to lead the home diversification effort, concentrating on trying to attract joint venture partners into Ireland.

With regard to overseas, a small project unit was set up in the UK. This consisted of one man reporting to Henry Lund, who was Managing Director of Forticrete, a Liverpool concrete products company which was then the only operation outside Ireland. This had been acquired in 1961 as an outlet for stone from Slane quarry. The brief was to target the UK and European concrete product sectors.

**Diversification at Home**

On the home diversification front, the task force was successful in attracting in the Rio Tinto Zinc Corporation as partners in the building of a metal cladding plant, which displaced imports as well as servicing export markets which RTZ provided. Imperial Chemical Industries joined us in our industrial explosives venture, contributing expertise and the Northern Ireland market for the plant in Enfield.

## Overseas

Van Neerbos, Roadstone's agent in Holland for Arklow stone for many years, was acquired for £2 million. The family wished to sell because of under-capitalisation and widespread ownership. It had builders merchants depots, concrete products, a small manufacturing division and a DIY store. However, markets nosedived following the 1973 Oil Crisis and especially in Holland, which was put on the Arab black list. We had to send in senior operational and financial management from Ireland, and it took two years and a lot of effort to get back to acceptable profits. This turn-around by management was absolutely critical. If Van Neerbos had failed it would have severely dented our will and ability to invest further overseas.

The turn-around restored confidence and it was now 1976 and time to have a fundamental review.

## SECOND PHASE

A very structured and detailed analysis was undertaken to decide investment priorities.

In 1975 the position was:

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	Percentage	
	Home	Overseas
Sales	74	26
Trading Profit	95	5

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At this time we were forecasting good profit growth in Ireland, which in turn, of course, implied strong related capital expenditure and working capital investment. It became obvious that we could have practically all our eggs in one small basket. And it was clear that our shareholders and bankers would be reluctant to provide the vast sums required because of the concentration in one cyclical industry, in one small economy. In turn, of course, it would hold dangers for employment.

While we were very conscious of the increasing risks the further one moved from one's own business and one's own home base, we had to spread our bets.

The strategy adopted was:

- First, to make sufficient investment in the home construction related businesses, cement plant, quarries, etc., to be highly efficient;
- Secondly, to diversify further at home. We already had some non-construction interests through, for example, Kemek and Southern Chemicals;
- Third, to invest in familiar business sectors overseas, particularly by seeking investments in the UK and the US and by growing Van Neerbos and Forticrete.

The target we adopted was to obtain one-third of our trading profit from overseas by the mid 1980s. How did this work out?

### **Home Construction**

On the home construction related end, we spent £40 million between 1976 and 1978 on an extension of the Platin cement plant. We upgraded our quarries, block and other related plants and in 1979 commenced a new £100 million cement plant at Limerick.

### **Diversification at Home**

With regard to diversification at home, we examined numerous possibilities and implemented a number; for example, seawater magnesia. The Drogheda cement plant was obsolete following an extension to the Platin plant and with the new technology we would have some 150 people redundant at Drogheda. It was essential therefore to get a replacement industry and we screened about 20 different projects. The availability of very pure limestone, seawater and the cement site and equipment made a seawater magnesia plant possible. The identification of a partner who said they would take up to 40% of the output of the plant made it a runner. Commenced in 1978 the plant, Premier Periclase (PPL), was completed in 1980 at a cost of £40 million on a 50-50 basis with Hepworth Ceramic Holdings of the UK. Hepworth tired of the start-up losses and we acquired their stake in 1983.

The plant manufactures one of the top world-quality refractory materials. Its output is 100% export, at present to 15 countries. PPL, which is highly energy intensive, has just been converted to natural gas, making it one of the few 100% export manufacturing industries in Ireland with 100% indigenous labour, materials and energy.

We also diversified at home in Southern Chemicals where we acquired full ownership in 1978. The investment programme here included new packaging products such as polystyrene moulded packaging, which is mainly used in the export industries, particularly the electronic end; insulation products for the home and export markets; and chemical lime.

We examined the off-shore areas and decided that our best bet was to get involved in the spin-off activities. We picked oil-well cement and pipe coating as the most appropriate areas for us. John A. Wood, our Southern subsidiary, completed the weight and enamel coating of the 39 miles of pipe for the Kinsale Head gas field.

### **Overseas**

In 1976 extended visits and numerous contacts with banks and brokers in the UK and the US brought no results. We learnt that a full time presence on the ground was necessary to show the seriousness of our intent, so Don Godson moved to the US fulltime and Brian Hill to the UK.

Don's perseverance was eventually rewarded when he identified Amcor, a concrete block and pipe manufacturer with plants in Utah, Idaho and Colorado. This was acquired in 1978 for \$12 million. Further acquisitions in the US followed, in 1979 with the acquisition of El Paso Concrete, a Colorado Springs pre-cast manufacturer and in 1980 with the acquisition of Carder Concrete, a leading concrete pipe manufacturer in Colorado and Wyoming.

Van Neerbos, by introducing us to builders merchandising and D:Y, broadened our range of familiar businesses and Brian Hill's search in the UK led to the acquisition of J. & W. Henderson, our only public company acquisition, which is Scotland's largest builders merchants.

We acquired 40% of the Northern Ireland based T.B.F. Thompson group in 1979, and the balance of the company in 1981. In the meantime, Forticrete in the UK and Van Neerbos in Holland were expanding their locations and products.

### **THIRD PHASE**

As 1981 approached it appeared to us that the whole ball game had changed. Phase two of our development strategy was based on the assumption of good profit growth in Ireland. However, now there were ominous signs, such as:

- the results of the second oil shock;
- the excessive Government borrowings, which had to have a day of reckoning;
- and, the slowing down of the CAP gravy train (farming, our largest industry, was a very big user of our products).

It was clear that the profit outlook for Ireland was now gloomy for the near term and that for safety sake we should, in particular, accelerate expansion of our overseas activities. The strategy adopted was much as in Phase Two, but with different emphases:

- to invest sufficient in the home construction related businesses to be a low cost producer to meet the growing home and possible future foreign competition;
- to diversify further at home, but to invest mainly in export or import substitution projects;
- to seek sizeable balanced investment in the construction industry in the UK, Mainland Europe and the US and to further grow Van Neerbos and Forticrete.

How did all of this work out?

### **Home Construction Related**

The new Limerick cement plant was completed in 1983 within its time and cost budgets. Platin Cement works was converted to coal burning a cost of £10 million, while Roadstone modernised and rationalised its plants.

### **Diversification at Home**

Southern Chemicals commenced production of food trays and egg boxes and displaced imports as well as achieving sizeable export markets. Irish Cement commenced production of oil-well cement for the off-shore exploration industry while Irish Clay Industries, now called Ormonde Brick, was acquired and its production capacity significantly expanded for export markets.

### **Overseas**

In the UK Forticrete sought a roof product to compliment its masonry and acquired Abrahams, a manufacturer of up-market concrete roof slate. We acquired substantial property in the Thames Estuary before the boom started and greenfielded roof tile, asphalt and readymix plants. We also have our own wharfage on our property through which we import substantial tonnage of stone from Ireland for our own use and for sale to third parties. CRH builders merchants are now the second largest heavy-side merchants with sales of STG £150 million.

In Holland, Van Neerbos is now one of the major builders merchants and DIY operators. It acquired Heras, perhaps the largest boundary and security fencing company in Europe, while further expanding its concrete interests.

Our largest acquisition in Europe took place in Spain in late 1987 with the purchase of Catalan Concrete Group, a major materials supplier headquartered in Barcelona. Its 49 plants in Catalonia act as a vertically integrated operation while it has 11 readymix plants elsewhere in Spain.

In the US sales under management currently approach \$500 million per annum covering aggregates, asphalt, concrete block and pipe, precast and roof tiles. These arise from 110 locations spread over 23 states and result from both acquisition and greenfield operations.

## EXPORTS

A lot of effort has been devoted in recent years to expanding exports, both for employment and profit motives. They were £41 million in 1988, up from £5 million in 1980.

The products exported include cement, seawater magnesia, industrial explosives, roof tiles, stone, food trays, moulded packaging, egg boxes, insulation materials, slates, pressure pipes and clay brick.

The growth in exports is due in large part to joint-venturing at home and investment abroad.

In the case of Premier Periclase, while Hepworth is no longer a shareholder, it is still a good customer. And, as a result of participating in management buy outs we obtained long-term contracts for a significant portion of Premier's output from North American Refractories Company of the US and Radex of Austria and Germany, two very substantial refractory materials producers.

Forming a joint company with Imperial Chemical Industries and a French explosives company (ECP) gave Irish Industrial Explosives the Northern Ireland market, as well as other export orders.

Roadstone's stone exports to Holland were safeguarded by the acquisition of Van Neerbos; and considerably expanded by our investment in Gravesend and Northfleet; while both Roadstone's and Breton's brick and pre-cast exports have substantially benefited from our investment in builders merchants and DIY in Europe.

Irish Cement exports to Northern Ireland were considerably helped by the investment in T.B.F. Thompson, which is a large cement user, and to the UK by our investment there in builders merchants; while Breton found new markets in Northern Ireland and the UK through Farrans Construction.

Southern Chemicals and Ormonde Brick are also selling their products through our merchandising depots.

## BALANCE

It has been a fundamental element of our development strategy that we seek stable growth through country, regional, product and sectoral balance.

For example, the distribution of Sales and Trading Profit by region in 1987 was:

	Percentage	
	Sales	Trading Profit
Ireland	21.4	26.5
Britain & Northern Ireland	36.1	23.6
Mainland Europe	20.0	14.1
United States	22.5	35.8
	100.0	100.0

Each new development, of course, changes the balance, but our spread does give us a good degree of stability.

## INVESTMENT COST

From the beginning of the Phase Two in 1976 up to now the Group has invested roughly £700 million in acquisitions and capital expenditure, of which approximately 45% was spent in Ireland and 55% overseas.

## FUNDING OF THE INVESTMENT

As shown below, the £385 million (approximately) of overseas investment in the period 1976 - 1988 was very substantially funded by overseas debt and overseas profits and less than one half of one percent by Irish profits.

Overseas Investment Funded by:

	IREM	Percentage
Foreign Debt	194	50
Overseas Profits	100	26
CRH shares to Vendors	90	23
Irish Profits	1	

## IMPACT OF INVESTMENT STRATEGY ON RETURNS

Overseas trading profit reached 75% in 1987 up from 5% in 1975. However, sadly influenced by the fact that the return on most of our Irish investments has been very poor in recent years due to the substantial decline in our industry volumes. The half of the Group's Capital which is employed overseas produced nearly 3/4 of the Trading Profit in 1987.

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1975	Percentage	1987
<b>SALES</b>		
74	Ireland	21
26	Overseas	79
<b>TRADING PROFIT</b>		
95	Ireland	26
5	Overseas	74
<b>CAPITAL EMPLOYED</b>		
89	Ireland	46
11	Overseas	54

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### CONCLUSION

Our relative success in our diversification at home, our exports and overseas activities has bailed us out in recent years, encouraging our shareholders to put up more equity and our bankers to extend substantial loans for the £300 million pounds of capital invested in Ireland, comforted by the spread of our operations. The profits generated abroad substantially helped us to weather the early years of the Limerick investment, the early heavy loss making years of the Premier Periclase investment and substantial rationalisation costs in our home operations.

We are repatriating substantial and growing sums from our overseas investments. Management fees alone paid each year to Dublin are now approaching £3 million.



And last, but by no means least, we find that our foreign operations are excellent training and development grounds for our people.

## DISCUSSION

**John Brady S.J.:** As an initial reaction, I would like to comment on Mr. Hayes' paper. The story of international development that he has recounted is most impressive. I wonder, however, if preoccupation of the senior executives of CRH with overseas developments might lead to opportunities for diversification in Ireland being overlooked. For example, there is great scope for afforestation in Ireland and it is a business closely related to the supply of materials for the construction industry. It might reasonably be thought that CRH would diversify into this area but it has not done so.

**Reply by J.J. Teeling:** I am not entirely sure of the questions and I am afraid that I did not know the names of the questioners.

**Q.1** Why did not firms invest in Ireland instead of overseas?  
Opportunities in areas such as forestry etc.

**Answer:**

The Irish and international experience is that firms which diversify into unrelated acquisitions, the so-called conglomerates, have a poor track record. Many such firms have failed while others have divested acquisitions.

**Q.2** Is there any real benefit other than to speculators, in these new financial packages? Do they not encourage short-termism.

**Answer:**

Leveraged buy outs, junk bonds and the rest of the terminology applied to the new financial techniques apply a mystique to the transactions and give them popular appeal. It is true to say that huge fortunes have and are being made. Greed too has played a part. These factors mask two vital points:

- a. Evidence shows that over time many professional management teams have become entrenched and view the future of the ventures they manage from their own viewpoint and not those of the owners. I could name such companies in Ireland. The availability of new sources of finance makes these firms vulnerable to a takeover. This threat either galvanises management or becomes a reality as firms are taken over. Either way efficiency improves;
- b. The availability of finance has led to the greatest restructuring of US business since the merger boom of the 1896-1904 period. Deadwood is

being swept away and assets made to generate a return. Some of the effects appear to be:

- a drop in concentration ratios as firms downsize and/or spin off divisions,
- substantial increases in productivity,
- limited impact on employment.

A similar pattern might emerge in Ireland.

**Q's 3,4 & 5:** There were then a group of three questions which I grouped together. These questions basically asked

- a. why did Irish firms go abroad and not invest at home?
- b. did we not have enough firms existing in Ireland to provide a basis for growth?
- c. were management skills not transferable to other ventures?

**Answers:**

- a. The lack of an adequate home market is a critical weakness for Irish companies. This, combined with an island location, isolates Irish businesses. In order to survive and to obtain economies of scale not only in production but also in marketing, control and other business functions, companies must go abroad. It is quicker and often cheaper to buy access to overseas markets than to attempt to create a market presence. The availability of finance eases the problem for small Irish companies and gives them the resources to compete in the market.
- b. Small firms generally do not grow. Research evidence in numerous countries show barriers at employment levels of 8 – 10 and again around 20 and yet again at 50. The number of firms growing past 50 in terms of employment is less than 1 in 100. To compound the problem in Ireland almost no native company has grown to be a true multinational exporter. The only one, Waterford Crystal, has been saved from collapse by a UK acquisition. An economic strategy of organic growth has no hope of success.
- c. Is management not transferable.

Apparently not. Individual managers can sometimes change from one industry to another but successful management teams have had conspicuous failures in attempting to perform in diverse industries. Modern theory indicates a "Stick to

the Knitting Strategy". Ireland's future cannot rely on using our few successful managers to run a multiplicity of ventures.

**Q.6** Kieran Kennedy worried about employment.

Mergers, takeovers and leveraged buy outs tend to occur in mature industries. All available evidence shows that mature companies and industries shed jobs instead of creating jobs. Very often efficiency improvements came at the expense of employment. However, current evidence suggests that LBO's do not cause employment to decline any faster than it otherwise would.

Employment in Ireland is very unlikely to grow in the older manufacturing firms. What is needed is an environment which leads to the setting up of many new firms. Employment grows in such firms. The US and UK are creating huge numbers of jobs in new firms often in the service sector.

By the mid 90s the full effect of full employment in the UK and continental Europe will combine with declining numbers entering the Irish labour force and an improvement in economic activity to make a huge dent in our unemployment problems. But big companies have no role to play here.

Late question again related to the Telesis report which encouraged Irish firms to invest in Ireland.

Most people welcomed the Telesis report. Many of the recommendations made intuitive sense but in this area the analysis and conclusions were wrong.

Companies have a mission and a set of skills with which to achieve this mission. Very often the skills are managerial/organisational – the ability to marshal resources to produce efficiently and profitably. It is nice to think that these skills are transferable. Research has shown that they are not.

The most successful Irish firms are those which have stuck to the knitting. They have used their firm specific skills to expand by market and/or related product.

Firms and management which confuse their mission, make mistakes and can become vulnerable to takeover and dismemberment.