CANTILLON

INSIDE THE WORLD OF BUSINESS

Elderfield on message, but can 'certainty' bring confidence?

THINK OF it as drawing a very dark line under the matter with an indelible pen. Matthew Elderfield, the Central Bank's head of financial regulation, used a speech at media company Thomson Reuters in London to rule out any loss-sharing with senior bondholders in the four so-called "live" banks – AIB, Bank of Ireland, EBS and Irish Life and Permanent.

The Government would only seek to impose losses on senior bondholders at Anglo Irish Bank if it required more than the existing bill of €29.3 billion, he said.

The bank said last week that it did not expect this bill to rise further, while Elderfield said yesterday that there was no immediate prospect of that number changing. So the Government may never need to bite that particular bullet.

The regulator and the Government are clearly on message in attempting to end the uncertainty around burden-sharing with senior bondholders.

The irony, of course, is that Fine Gael itself helped to create some of that uncertainty by raising the prospect of passing losses onto senior bondholders during the election campaign, only to backtrack once in Government.

Sharing losses with senior bondholders at the lenders that would form the basis of a new banking system was never a prospect as these banks would eventually need to start funding themselves again. Investors may well have chosen not to lend to them again out of spite if there had been a default or a coercive haircut on their senior debt.

Elderfield said in his speech that the markets now have certainty about Government policy on senior bondholders.

John Moran, the senior Department of Finance official leading the Government's bank restructuring plan, said that depositors still had to be convinced that Irish banks were safe places for their money.

The banking crisis has always been about cash, confidence and certainty. Removing concerns about the banks is essential, but after five bailouts and line-drawing attempts, it will take some time to convince investors.

Mountbrook rechristened

THE PROPERTY developer Seán Dunne has changed the name of his Mountbrook Homes holding company to the less euphonious brandname Mavior. There was no response to a request for a comment from the group and googling the word Mavior shed no light as to the origins of the new name. Nor has there been any change to the Mountbrook website.

The Mountbrook group was involved with developments on Sir John Rogerson's Quay in Dublin, the Jurys/Berkeley Court deal in Ballsbridge and the Whitewater Shopping Centre in Newbridge, Co Kildare. Mountbrook Homes has outstanding mortgages from the Bank of Ireland in relation to Sir John Rogerson's Quay and so is presumably dealing with the National Asset Management Agency.

A recent filing to the Companies Office details how Dunne and his co-director Ross Connolly held an extraordinary general meeting in the Mountbrook offices on Merrion Square on March 30th, at which the name change was decided. It was a single-item egm.

There has been no change to the ownership. Two limited companies in the Isle of Man hold the Mavior shares. Mavior itself continues to be an unlisted company. Other companies in the Dunne stable continue to use the Mountbrook name, not least Mountbrook Merrion Road Development Ltd, which is an Isle of Man company incorporated in 2006 that registered here as an external company, using the Merrion Square address, in 2009. It in turn owns Padholme, the unregistered company Dunne used when buying the Jurys/Berkeley Court site in 2005.

PODCAST

Conor Pope presents this week's podcast, published this morning. He speaks to Karl Deeter from Irish Mortgage Brokers about the implications for mortgage-holders of ECB rate rises.

John Collins talks to Irish technology experts in Palo Alto, California.

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Eircom, O_2 sign deal to share networks

Ten-year accord pools site equipment, power supply

CIARÁN HANCOCK
Business Affairs Correspondent

EIRCOM AND O_2 have signed a 10-year deal to create the first mobile network-sharing arrangement in Ireland.

The agreement will result in the two telcos co-operating in areas such as site equipment, power supply, technology and transmission sharing.

The existing sites of both operators will also be consolidated and new sites will be jointly built.

Eircom and O_2 operate from about 3,500 sites around the country. The two companies said there would be no transfer of assets and spectrum would not be shared under the new deal.

O_2 and Tesco Mobile (which operate on the O_2 network) and Meteor and eMobile (run by Eircom) will continue to compete with each other in the mobile market.

Paul Donovan, chief executive of Eircom, described the deal as "passive sharing". A dedicated team, comprising existing network staff from both companies, will be set up to manage the day-to-day build and operation of the distinct networks. Similar arrangements are operated in a number of other European countries. In Britain, O_2 and Vodafone have a network-sharing arrangement.

The deal comes as both companies are finding it difficult to retain customers and maintain revenues in the recession.

Stephen Shurrock, chief executive of Telefonica O_2 Ireland, described the deal as a "commonsense business decision" for both parties.

"There will be joint planning of the network to ensure that we deploy the assets in the most cost-effective way," said Mr Donovan.

According to Mr Shurrock, the deal would provide better coverage for customers of both companies in rural locations and allow for "infill in urban areas".

It will also enable both parties to expand bandwidth capacity to provide for the increase in data usage created by smartphones and tablet computers.

Mr Shurrock said both would consult ComReg and the Competition Authority on the agreement. "We will be working with them now so they can understand what we're proposing."

Neither side would put a figure on the investment or the likely savings. However analysts show savings of up to 30 per cent in network costs have been achieved.

The arrangement is not expected to involve a significant number of job cuts at either company nor will the deal affect Eircom's current roaming agreement with Vodafone.

Eircom roams on the Vodafone network to allow it to provide mobile services on the western seaboard. The deal expires in June 2012. Mr Donovan declined to comment on whether Eircom would seek to renew its deal with Vodafone. The Vodafone deal was "standalone", he said.

Irish Dairy Board chairman Vincent Buckley (left), chief executive Kevin Lane and chief finance officer Cathal Fitzgerald at the presentation yesterday of the board's full-year results for 2010 at Grattan House, Dublin. Photograph: Matt Kavanagh

Sales at Irish Dairy Board up 6% to €1.9bn as surplus declines to €26.9m

SEÁN MacCONNELL
Agriculture Correspondent

THE IRISH Dairy Board increased its sales by 6 per cent to €1.9 billion in 2010 in a year which saw its operating surplus fall to €26.9 million from €40.2 million in 2009.

Announcing its full year results, chief executive Kevin Lane described 2010 as a "transitional year for the business", which operates in more than 80 countries.

The board noted record sales of Kerrygold-branded produce, which increased by 18 per cent in value and 7 per cent in volume.

The payout to co-operative members will amount to €11.7 million: €7.7 in redeemable loan stock and a €4 million year-end bonus.

The board said net assets were up €18.5 million to €402.9 million at the end of the year, and €19.8 million had been invested in its capital development programme.

Mr Lane said the development of the board's strategic plan to reposition the business for the future was ongoing.

"Against the background of a weak global economy, our brands business achieved a record performance," he said. "Overall, the business reports a satisfactory performance in 2010 with the exception of our US speciality distribution business, DPI, where margins, in common with the broader market, contracted sharply."

He said it had been a challenging year, but in the UK the Kerrygold brand had continued to strengthen its premium position.

In Germany, the new Kerrygold Extra butter delivered sales of over €20 million in its first year, he said. BeoMilk, a fat-filled milk powder, was successfully launched in subequatorial Africa.

Mr Lane confirmed the board would be concentrating on building up new markets in Asia, the Middle East and Africa, and would work with other international organisations in joint ventures if the conditions were right.

The Irish Dairy Board, which employs 3,700 people worldwide, has developed a strategic plan to deal with the ending of milk quotas in the EU in 2015 and to implement the 50 per cent export growth in dairy output predicted in the Harvest 2020 report.

Irish banks, Mr Lane said, had not been to the fore in backing the board's new funding structure, which it will bring in when the current facility of €250 million a year for the three years from 2009 to 2012 ends. "It would not be unfair to say they are not as receptive as the international banks in investing."

The balance sheet showed as part of the strategic review that one-off costs incurred last year included a €2.2 million loss when it disposed of French subsidiary Loyez Woessen SA, and an €0.8 million cost when it merged its consumer food business under Adams Foods Ltd in the UK.

Beacon Hospital loses €10m in 10 months

COLM KEENA
Public Affairs Correspondent

THE BEACON Hospital in Sandyford, Dublin, lost €10.1 million in the 10 months ended June 30th, 2010, according to accounts filed recently by the hospital-operating company.

UPMC Beacon Hospital Sandyford Ltd lost €20.6 million in the year to the end of August 2009.

At the end of June 2010, shareholders' funds were in deficit, at -€37.62 million. The company is "not generating sufficient profit to finance its ongoing trading activities", according to the accounts.

"The company is therefore wholly reliant on continued financial support from its parent company to allow it continue to trade and meet its liabilities as they fall due."

The University of Pittsburgh Medical Centre (UPMC) became a majority owner of the hospital-operating company in August 2009 when it invested €25 million.

The hospital, which opened in 2006, opened 31 new beds and an orthopaedic centre and took on an extra 46 staff since the summer of 2010, according to a spokesman.

UPMC owns 66.67 per cent of the company, with the remainder being owned by the Beacon Medical Group, which is in turn owned by Michael Cullen, Patrick Shovlin, Prof Mark Redmond and others. The hospital itself is owned by a number of tax investors.

The US company by way of its Irish subsidiary, UPMC Ireland Ltd, bought into the hospital-operating company by acquiring shares in UPMC Beacon Sandyford Ltd.

While doing so, it increased its original investment of €15 million in the hospital, to more than €40 million. As part of a group restructuring, however, €7.7 million of the investment has been treated as impaired.

During the year to June 2010 the company advanced €19.4 million to the hospital operator. At the end of the period UPMC Ireland Ltd had shareholders' funds of €45.9 million.

The accounts for the hospital-operating company show that turnover over the 10 months to June 30th, 2010, was €47.7 million, up from €42.8 million in the year to August 31st, 2009. It employed 108 management and administration staff and 378 nursing and operative staff. The hospital operator was charged rent of €6.6 million by a fellow group company.

The hospital is leased from a group of tax investors by UPMC Beacon Sandyford Ltd, which in turn leases it to the hospital-operating company.

The €25 million investment in August 2009 was part of a deal that involved bank restructuring, settlements with creditors and a restructuring of the group's activities, according to the accounts.

The company's interests in its dialysis, dermatology, car park and co-location hospital businesses were transferred to a new group headed by the shareholders of Beacon Medical Holdings Ltd.

UPMC Beacon Sandyford Ltd recorded a loss of €5 million in the 10 months to the end of June 2010, according to its latest accounts.

This followed a loss of €3 million in the eight months to the end of August, 2009. The €25 million invested in the Beacon project was used to discharge certain bank debts and other funds due to creditors, and on restructuring costs, according to the accounts.

The accounts state the company must in 2016 acquire the hospital from the tax investors, who have drawn down a loan of €107 million. "The agreement stipulates that the company must facilitate the payment of interest accruing on the tax investor group loan," the accounts state. The liability under the agreement equates to the size of the loan.

E-mails 'said AIB had recourse only to land'

MARY CAROLAN

E-MAILS SENT by solicitors with the LK Shields law firm to the family of businessman Philip Lynch just hours before they signed up to a €25 million loan to buy lands with developer Gerry Conlan in Waterford stated that AIB only wanted recourse to the land, not the family, the Commercial Court heard yesterday.

A partner with LK Shields, Emmet Scully, told Michael McDowell SC, for the family, that the e-mails sent by other solicitors with his firm were based on information given to them by Ronan McLoughlin, a partner in Matheson Ormsby Prentice (MOP) solicitors.

In his evidence, Mr McLoughlin denied he provided information to LK Shields which could have led to the Lynch family being informed the loans were non-recourse.

The information he passed on came from AIB, he said, and was to the effect the bank had deleted a condition in a draft loan facility letter which provided for recourse to Philip Lynch and developer Gerry Conlan for the €25 million.

Mr McLoughlin denied a suggestion he had not told the LK Shields side AIB wanted to delete that clause because of concerns about enforcement issues for the bank.

Mr Justice Michael Peart heard evidence from Mr McLoughlin and has begun hearing evidence from Mr Scully in the action by Mr Lynch, his wife Eileen and their four children – Judith, Philippa, Paul and Therese.

In proceedings against AIB, LK Shields and MOP, the family claims the €25 million loan gives AIB no recourse to them for repayment. AIB insists the loan provides for full recourse to all borrowers and is counter-claiming for €25 million judgment orders against the family.

In cross-examination by John Gleeson for LK Shields, Mr McLoughlin agreed some correspondence sent by him referred to his "clients" as Mr Conlan and Philip Lynch and one letter sent by him referred to his clients as Mr Conlan, Mr Lynch "and others".

He agreed the Lynch side paid half a €50,000 bill sent by MOP relating to Waterford. That was in accordance with the terms of a co-ownership agreement, he said. Mr McLoughlin agreed there was "nothing documented" to indicate LK Shields was contacting AIB concerning the loan facility letter.

Mr Gleeson said there were 11 letters or e-mails between Mr McLoughlin and AIB about the deal in January and February 2007 and Mr McLoughlin himself had told the court of numerous calls between himself and Derek O'Shea of AIB on the matter.

Mr Gleeson suggested notes by Imdaad Suleiman, then a solicitor with LK Shields, of contacts he had with Mr McLoughlin indicated that Mr Suleiman believed Mr McLoughlin was dealing with matters related to the AIB loan facility letter.

Mr Gleeson put those notes to Mr McLoughlin who rejected suggestions he did not tell Mr Suleiman that AIB had, on the evening of February 7th, told him it had enforcement concerns about the condition in the draft loan letter confining recourse to Mr Conlan and Mr Lynch and that, for that reason, had deleted that condition.

US corporate tax a disincentive, says ex-Intel chief

JOHN COLLINS
in Palo Alto, California

THE HIGH corporate tax rate in the US is a disincentive for large US corporations to manufacture there, Dr Craig Barrett, the former chairman and chief executive of Intel told a gathering of Irish technology executives in California on Tuesday.

"Executives have a duty to do their best for their shareholders and, if they generate cash overseas they will invest it overseas rather than pay the penalty of repatriating it," said Dr Barrett.

Dr Barrett, who oversaw much of Intel's $7 billion investment in its Irish manufacturing facility, now acts as chairman of the Irish Technology Leadership Group (ITLG), which held its annual awards dinner in Silicon Valley last night.

Urging the Irish and US governments to embrace innovation as the way to revitalise their economies, Dr Barrett said it was an issue that needed to be debated at a national level.

"Innovation is the future, not getting $75 to screw lug nuts on a set of wheels," said Dr Barrett.

SkillPages, the social network which enables people to find people with skills they need or to sell their own services, won the ITLG/*Irish Times* Technology Company of the Year Award at an event at Stanford University last night.

Intelesens, a Belfast-based developer of wearable monitors for use in the healthcare sector, won the

ITLG/*Irish Times* technology award for SkillPages

Most Promising Technology Award.

SkillPages was founded in 2008 by Iain Mac Donald, who previously headed up telecoms company Perlico, and Michael Gallagher, an experienced telecoms and financial services executive.

Mr Mac Donald said SkillPages now had 570,000 users, having added half a million since the site ended its test period in mid-January.

"We are ahead of our plan to get one million users by December, and we are now estimating we'll have a multiple of that," said Mr Mac Donald. "Our ambition is to grow a significant business out of Ireland that will not be out of place alongside global players like Google, Facebook and LinkedIn."

Last year, SkillPages raised $4 million for international expansion, with funding coming from Mr Mac Donald, businessman Michael Smurfit and veteran technology investor Dr Jim Mountjoy.

Mr Mac Donald said SkillPages, which recently changed its name from Weedle, has had particular success in Singapore, California, Massachusetts and Britain.

Over €10m in profits for Pallas Foods

BARRY O'HALLORAN

PALLAS FOODS, the Limerick-based group sold to US giant Sysco for a reported €200 million, made over €10 million in profits last year.

Pallas, the Republic's biggest food distribution and service group, had sales of €158.2 million in the 12 months ended July 3rd last year, latest figures show.

The figures for the previous year are for nine months ended June 27th, when Pallas had sales of €110.7 million. On a like-for-like basis, the 2010 revenues were up 10 per cent.

Pretax profit trebled on a like-for-like basis to €10.46 million. The group paid over €1.5 million in tax and recorded a profit for the year of €9 million.

The group had net assets of €41.3 million in July last year. It owed creditors €26 million, but the vast bulk of this, €22 million, was due to trade creditors. It had no bank debt and there was a €160,000-plus sum due under a finance lease.

Two years ago, US giant Sysco bought Pallas for an undisclosed sum from its owners, the Geary family. The deal was subsequently valued at €200 million, but the figure was not confirmed.

The Geary family continue to run the business and it now employs 500 people.

Sysco is listed on the New York Stock Exchange and is based in Texas. Pallas was its first acquisition outside the US.

The multinational had sales last year of €37 billion and net profits of €1.18 billion.

Big-brand creative shift a worrying trend for ad industry

SIOBHÁN O'CONNELL

MEDIA & MARKETING

The future looks set to become even more difficult for smaller indigenous agencies

IT'S A SIGN of the times in the world of Irish advertising. Not so long ago, Carlsberg television commercials were created in Ireland with Irish drinkers specifically in mind.

The new Carlsberg "Spaceman" TV ad is a global campaign that has been rolled out in 140 markets at the same time. These days everything is global, with only the media buyers in Ireland making a margin on the advertising spend.

The ongoing shift of big-brand creative from Dublin to London or further afield is a worrying trend for Irish agencies. The ad industry gathered in Dublin last week for an inaugural awards programme organised by trade magazine *Irish Marketing Journal* and The Brainfood Store.

The Agency of the Year and Campaign of the Year awards were won by media buyer Mindshare for its media planning for the Bord Gáis Big Switch campaign.

While pessimism was strictly off the menu as more than 500 ad agency executives and media owners schmoozed, one couldn't help but notice the dearth of indigenous ad agencies.

Mindshare, owned by WPP plc, is one of the big international media groups which dominates the Irish advertising business.

The others are Starcom Mediavest, part of Publicis Media, OMD, part of Omnicom Media Group, and Carat Ireland, part of Aegis. These four companies account for the majority of advertising spend in Ireland by big consumer brands.

Their turnover, largely accounted for by buying media space, declined to €347 million in 2009 from €413 million in 2008. As they seek to protect their market share, they compete fiercely for accounts, offering the sort of deals on price that smaller ad agencies cannot.

Mindshare managing director Bill Kinlay believes the future is going to become more difficult for the smaller players in the sector.

"The business has been consolidating for many years and will continue to do so," he says. "I don't mean to sound negative but I think media has become a business for the bigger groups. It's all about volume these days."

Kinlay says that when a media buyer is trading with RTÉ, TV3 or a newspaper group, ability to access funds and pay bills on time is just as important in the negotiations as actually buying the ads.

"The credit facility that we have gives us the edge over the smaller guys," says Kinlay. "In a lot of pitches, 60 days and 90 days payment terms by the client are par for the course. RTÉ and TV3 only give 30 days' credit, so the media buyer has to be able to fund that business. Cash flow and cash management and having access to credit lines is now a very important part of business."

Volume brings other advantages for large media agencies too, such as being able to negotiate better discounts with media owners. The flip side is that big media buyers sometimes over-promise to clients, especially new ones, the discounts they can secure on space and airtime.

"Media agencies have sold ourselves too cheaply for too long," Kinlay admits. "We have dropped our commissions and fees because we had to do that to win business, but we have gone too far.

"We have to be proud of what we do and stand up for the good work that we do and be properly remunerated for it. We need to stick to our guns on our fees and commissions if we are going to attract the right talent."

Kinlay is critical of some media auditors who are giving clients unrealistic expectations about the price they can pay for advertising.

"The quickest way to push down prices is to put your account out to pitch, but there is a limit to how far things can go. Good media buying is about targeting in a clever and strategic way and then securing the best price.

"There's a difference between reaching the right people at the cheapest price and just any people at the cheapest price."

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