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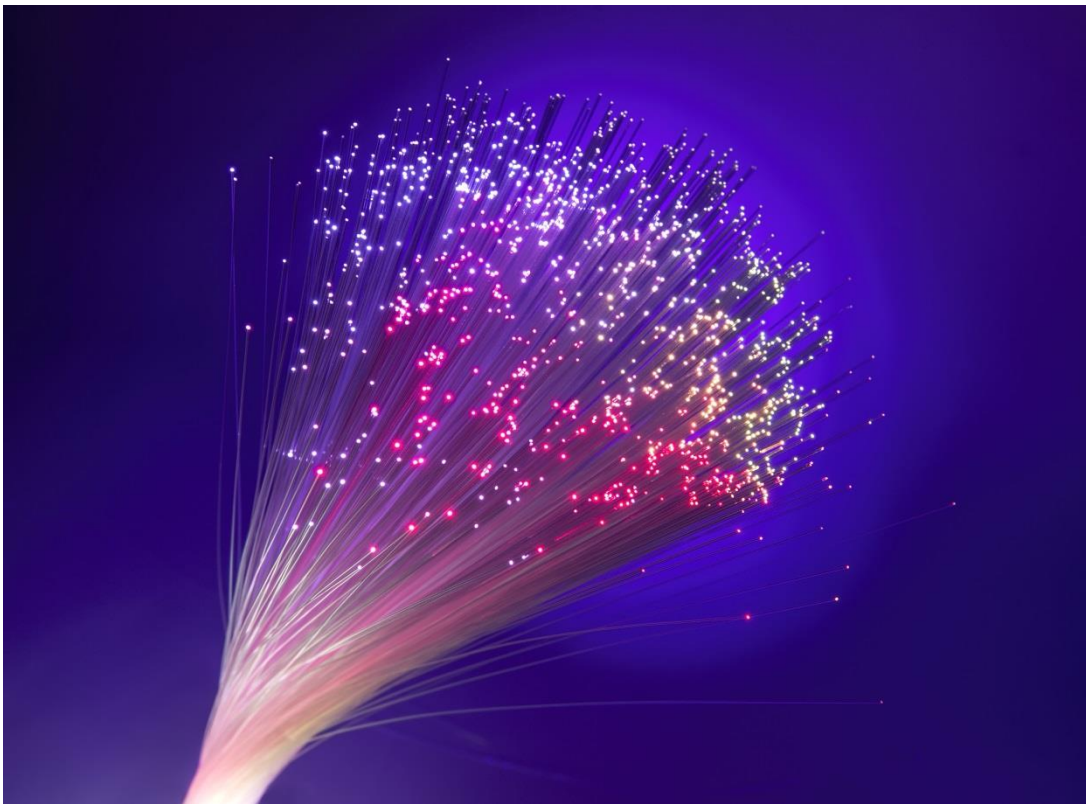
Assessment of Ofgem's Rate of Return Methodology for DCC

A Report for Smart DCC Limited



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Review of Ofgem's Rate of Return Methodology

This report sets out a high-level review of Ofgem's rate of return (RoR) methodology and is structured as follows.

- Background.
- Discussion on Smart DCC Limited's (DCC) expected rate of return at the time of licence award and its potential implications for the duration of the licence.
- Key changes in DCC's activities since licence award and its potential implication for DCC's rate of return.
- Review of Ofgem's benchmarking exercise and additional high-level research on potential comparators.
- Key conclusions.

Background

DCC was awarded the Smart Meter Communication Licence by DECC in September 2013 to establish and manage the data and communications infrastructure for smart meters in Great Britain (GB). DCC is regulated under an ex-post price control regulatory framework by Ofgem with costs being assessed after they have been incurred.

The licence award to DCC was the outcome of a competitive tendering process. Capita, DCC's parent company, bid to earn a 15% margin on all internal costs which was successfully accepted - this margin was applied to estimated internal costs to determine the baseline margin (BM) values set out in the licence. Further discussion on DCC's expected rate of return at the time of licence award and its implications are set out in the next section.

There is a provision in the licence for DCC to propose adjustments to the baseline margin values which would be subject to review by Ofgem. In July 2015, DCC submitted a proposal for adjustment to baseline margin values to take account of additional volumes of activities, changes in timescales and changes to risks in managing additional contracts. In its proposal, DCC applied for a 15% margin to be applied to additional costs associated with the variations described above – the 15% margin is consistent with the margin applied to similar costs at the time of licence award.

Ofgem reviewed DCC's proposal and issued a public consultation document which sets out the allowed costs to be recovered and is consulting on the rate of return to apply to those costs. Two potential options are set out: a margin of 10% or 15% to be applied to costs, with the 10% margin being based on their benchmarking analysis.

In this context, DCC has commissioned Deloitte to review Ofgem's rate of return methodology.

DCC's expected rate of return at the time of licence award

The 15% margin has been determined through a competitive tendering process that was managed by DECC. There was 'competition for the market' and Capita was successful in that process.

This margin was applied to estimated internal costs over the lifetime of the licence (2013/14 to 2025/26) at the licence award stage. Therefore, this margin reflects DCC's expected rate of return over the full duration of the licence for undertaking activities set out in the licence, i.e. it captures the return that the DCC would be expected to earn on average.

At the time of bidding for the 15% margin, DCC noted that their expectation was that appropriate additional internal costs[1] could be recovered subject to price control, and that the baseline margin adjustment mechanism would be available to recover the associated additional margin at the same rate. In this respect, the licence states that the regulator will take account of "the basis on which the values attributed to that [Baseline Margin] term were agreed during the Licence Application Process with respect to the Licensee's expected rate of return on its activities over time".[2]

As the 15% margin represents the competitively determined expected rate of return on DCC's activities during the licence term, it may be expected that the same margin is applied to appropriate additional costs being incurred by DCC over the duration of the licence (2013 – 2025) to undertake activities in the regular course of business.

At the time of licence award, if the baseline margin adjustment mechanism did not intend to take account of a company's average expected rate of return over time, the company would have to factor that additional risk (i.e. not earning the relevant return on additional costs) into its bid. This may have possibly led to higher margin levels during the competitive tendering process.

Changes in DCC's activities since licence award

It has only been two years since the licence was awarded to DCC. During this period, the volume and complexity of activities has increased significantly due to changes in external factors which were outside DCC's control and which the DCC did not envisage at the time of licence award, in particular, the development of the Smart Energy Code (SEC) and GB Companion Specifications (GBCS) took longer than planned and required multiple iterations. Ofgem has also recognised the "increased risks and complexity"[3] that the DCC is facing now. DCC has noted that these changes have increased delivery risk which may have financial implications due to late delivery against agreed implementation milestones.[4]

If a company had expected an increased risk of programme delivery at the bid stage, this may have led the company to bid for a higher required margin to compensate for increased risk. Further details which demonstrate the complexity of DCC's additional activities and its impact on delivery risk are set out in DCC's July 2015 submission to Ofgem.[5]

Forecast costs

DCC has indicated that the complexity of activities and associated risk is expected to continue in the foreseeable future. This may lead to variations in costs from forecasts at the time of licence award, similar to the experience of the last two years. If a margin of lower than 15% is applied to these additional allowed costs which are driven by factors outside DCC's control, it would lead to a dilution in the average rate of return that the DCC may expect to earn over the lifetime of the licence. This dilution in return would appear difficult to justify if DCC is undertaking higher risk activities. This would also create regulatory uncertainty with potential implications for the financial sustainability of the business.

Review of Ofgem's benchmarking analysis

DCC's business model and service offering is new and unique as the smart metering programme is the first-of-a-kind in GB and globally. Therefore, the profile of activities and associated risks, and the political and regulatory framework is expected to be quite different from comparators in the market.

[1] Subject to meeting defined criteria in the licence and being accepted by Ofgem.
[2] A10 (b), Part B, Appendix 2, Smart Meter Communication Licence, 23 September 2013.
[3] Executive Summary, DCC Price Control Consultation: Regulatory Year 2014/15, page 4.
[4] This may also affect DCC's ability to meet requirements under the operational performance regime, however, this regime still needs to be fully developed.
[5] Proposal for Relevant Adjustment to Baseline Margin Values, DCC Notice, 31 July 2015.

As there are no identical or very similar comparators, the assessment of Ofgem's benchmarking analysis in this section, followed by additional high-level analysis based on further research[6], is intended to give a broad indication of the margin ranges earned by potentially suitable comparators (discussed below) and how it compares to DCC's 15% margin. This is based on using actual margins as an indication of expected margins – due to variability in margins over time, the range of annual margins across the last few years[7] has been considered.[8]

Ofgem, in arriving at a margin benchmark, considered different types of companies in various sectors which were potentially similar to DCC in some aspects of their business models.

Some of these comparator groups appear more suitable than others for comparison to DCC taking into account a range of key factors affecting risk, which are set out below:

- *the nature of the core business:* whether DCC's core activities are similar to comparators (e.g. delivering IT systems, managing complex contracts)
- *asset intensity:* whether comparators are asset-light or have high asset intensities (e.g. owning and operating physical infrastructure)
- *new versus established business models/products/services:* whether comparators are providing tried-and-tested products or need to continuously innovate to provide new products or services;
- *pace of change in the industry:* how quickly is the market landscape changing which comparators are faced with (e.g. evolving consumer preferences or requirements, changes in technology)
- *the regulatory environment:* whether the regulatory structure is new or established; and
- *the political environment:* whether comparators are faced with risks due to changes in political goals and objectives.

As DCC is providing a new service with changing requirements, it is important to consider in particular the pace of change and innovation faced by companies in different comparator groups.

An indicative assessment of suitability of comparators which have been proposed by Ofgem is set out in the table below, followed by a supporting discussion.[9]

[6] This research has been limited by time and data availability, and is intended to provide a general indication of margins for companies for which information was found in the public domain. The list of comparators included is not intended to be comprehensive.
[7] Subject to data availability.
[8] There is limited information in the public domain on expected margins of companies.
[9] Ofgem's benchmarking analysis does not include the list of companies considered within each comparator group. Therefore, the indicative analysis below has been informed by high-level descriptions for each comparator group provided by Ofgem and assumptions about the potential types of companies in those groups.

Table 1: Suitability assessment of Ofgem's proposed comparator groups

Types of comparators in Ofgem's analysis[10]	Margin range	Suitability assessment
'Service providers operating a network, such as rail service operators and asset-light telecoms service providers'	-3 - 16%	🔴 **Rail service operators[11]** This does not appear to be a suitable comparator group relative to others. While comparators and DCC are asset-light, DCC is different in a few key aspects: DCC is delivering a first-of-a-kind service and facing rapid changes in requirements while comparators have established business models, DCC faces a new regulatory environment and political uncertainty which is less likely to be the case for comparators with a predictable regulatory environment. 🟡 **Asset-light telecoms service providers** In a few key aspects, the risks may be similar which make this a more suitable comparator group relative to others. While comparators operate in a different industry, are unregulated and face market risks, the rapidly changing market faced by these companies is broadly similar to DCC's rapidly changing landscape. Comparators face major technological changes and are continuously innovating to develop new product offerings to respond to consumer preferences. DCC's service offering is new and untested, being first-of-a-kind, and needs to innovate to respond to changing requirements. In addition, DCC also faces significant political and regulatory risks - changes in UK Government's priorities and a new regulatory structure.
'IT systems providers in the energy sector'	6 - 10%	🟡 This group has some similarities to DCC but there are some key differences which suggest that DCC is likely to have a higher risk profile. Comparators operate in the same industry, the nature of business is partly similar, are asset-light and have "regulated charges or face limited competition"[12]. However, comparators are possibly facilitating "energy market processes"[13] that have been in place for a number of years and are therefore unlikely to be faced with a first-of-a-kind IT development and a rapidly changing landscape as is the case for DCC. DCC also faces a new regulatory environment and political risks.
'Contract management companies'	-1.5 - 6%	🔴 Relative to others, this does not appear to be a suitable comparator group. DCC's scope of activities is wider than a typical contract management company and is likely to be more complex as a new service is being delivered. DCC's rapidly evolving requirements entail a higher risk to achieving programme delivery with financial implications for late delivery, which would probably apply to a lesser exent to comparators. DCC also faces a new regulatory environment and political risks.
'Regulated retail companies in other sectors such as water, transport operations, and telecommunications'	1 - 10%	🔴 This does not appear to be a suitable comparator group relative to others. Similar to DCC, comparators are asset-light but there are some key differences. DCC's service, business model and regulatory set-up is new and different while comparators are probably operating with relatively established business models in predictable regulatory environments.
Key for suitability of comparator groups Identical or very similar to DCC Potentially comparable to DCC Not comparable to DCC		

Source: Deloitte analysis based on Ofgem's benchmarking analysis. Note: The understanding is that the margins in the table above represent EBIDTA margins calculated by Ofgem.

[10] Classifications as set out in Ofgem's benchmarking analysis.
[11] Rail service operators do not operate the rail network. The rail network is operated by Network Rail.
[12] Section 6.26, DCC Price Control Consultation: Regulatory Year 2014/15, page 4, page 37.
[13] Ibid

In assessing comparators, their suitability relative to DCC across a range of key factors has been considered.[14] An indicative qualitative assessment is set out below.

Figure 1: Qualitative assessment of Ofgem's comparator groups against a range of factors relative to DCC

Key for suitability of comparator groups

	Identical or very similar to DCC
	Potentially comparable to DCC
	Not comparable to DCC

Assessment of Ofgem's comparator groups

	Rail service operators	Asset-light telecoms service providers	IT systems providers in the energy sector	Contract management companies	Regulated retail companies
Overall comparability					
Nature of core business					
Asset-light					
New and innovative business models					
Rapidly changing landscape					
Regulatory uncertainty					
Political uncertainty					

Source: Deloitte analysis.

The assessment above shows that given DCC's unique position, there are no identical or very similar comparators. Comparators in the following groups - 'IT systems providers in the energy sector' and 'Contract management companies' - undertake some activities which are similar to a part of DCC's business, and tend to be asset-light. However, DCC notes that its scope of activities is much wider than a typical contract management company (e.g. managing a wide range of stakeholders and a multitude of contracts, requiring significant technology and regulatory design support to ensure the solution is fit-for-purpose) which appears to make it a relatively less suitable comparator group to IT system providers. Further discussion on each comparator group is set out below.

Rail service operators

Rail service operators are broadly similar to DCC in terms of being asset-light and having pass-through costs. However, this comparator group is quite different from DCC in a few key aspects and therefore does not appear to be a suitable comparator to DCC. These factors are discussed below.

- Rail service operators have established business models to provide transport services to consumers and have been operating under a broadly stable market structure since privatisation in the 1990s. DCC, on the other hand, is a first-of-a-kind business which has been set up to deliver a new service and is faced with changes at a rapid pace as witnessed during the last two years, with such changes likely to continue in the future.
- DCC also faces a new regulatory environment as the regulatory structure has been set up recently which creates risks and uncertainties about its implementation and evolution over time in response to challenges faced. In particular, it is an ex-post price control framework which creates uncertainties with respect to future cost disallowances. In contrast, rail service operators have been operating under a relatively predictable regulatory environment with established precedents, including regulation of some fares while others are unregulated.
- DCC also faces political uncertainty with respect to the existing/future UK Government requiring changes to how the smart metering programme is delivered to fit within its wider political goals, particularly given its first-of-a-kind nature, the scale of costs and its implications for consumers. Rail service operators are probably not faced with similar levels of political uncertainty due to established market and regulatory structures being in place.
- DCC operates in a different industry.

[14] Among the factors considered, it is possible that each factor does not carry the same weighting in determining suitability. This is a qualitative assessment to determine overall comparability taking into account a combination of these factors.

Due to these reasons, DCC appears to have a different risk profile relative to comparators in this group.

Asset-light telecoms service providers

DCC operates in a different industry and is regulated while comparators in this group are unregulated and face markets risks. However, there are some key aspects that are broadly similar which make this a closer comparator relative to others to determine the range of margins earned and compare it to DCC's 15% margin. These factors are set out below.

- Similar to DCC, comparators tend to be asset-light.
- Telecoms service providers face a rapidly changing market – major technological changes (e.g. move from copper- to fibre-based broadband, 3G to 4G mobile technology), new product offerings in response to changing consumer preferences (e.g. moving from dual-play to triple- and quad-play offerings)[15], evolving competition among different types of companies and changes to regulation under which service providers access the telecoms network.
- DCC also faces a rapidly changing landscape due to the continuously evolving and changing nature of requirements to deliver the smart metering programme, as witnessed during the last two years with such changes likely to continue in the future. DCC's service offering is new and untested and needs to innovate to respond to changing requirements. Therefore, although DCC is operating under a price control regulatory framework, it faces a wide range of uncertainties and risks which could have a significant impact on service delivery. There are also political and regulatory risks (e.g. future cost disallowances).

Thus, the profile of some key risks is broadly similar between telecoms service providers and DCC.

Ofgem's analysis does not include the list of comparators considered. Given the relative suitability of this comparator group, additional high-level research on telecoms service providers, which may or may not be included in Ofgem's analysis, has been undertaken to assess the range of margins earned. This research indicates that the margins have a wide range from less than 10% to as high as 40% (see Table 2 below). For example, according to the 2015 Sunday Times' TechTrack 100 research report, OneCom, an independent business telecommunications provider delivering fixed line, mobile, unified communications and connectivity solutions in the UK, earned an operating profit margin of 32%. In 2015, TalkTalk which offers pay TV, telecommunications, internet access and mobile network services in the UK saw an increase in its full year EBITDA margin from 12.3% to 13.6% (FY13: 17.4%). In the same year, TalkTalk acquired Blinkbox, the provider of multi-device, multi-platform video content, to enhance the features of its TV product offerings, which is indicative of the company responding to changing consumer preferences. TalkTalk has noted that it aims to deliver a medium-term EBITDA margin target of 25% by FY17.

DCC's 15% margin is within the range of margins earned by companies in this comparator group, and appears to be on the lower end of the range. Given this and that the 15% margin was determined through 'competition for the market', it may be expected for DCC to earn a 15% margin.

IT systems providers in the energy sector

Comparators in this group are similar in some respects to DCC, as set out below:

- operate in the same industry as DCC;
- the nature of their business is similar to a part of DCC's business, i.e. managing the build and delivery of IT systems and infrastructure;
- companies tend to be asset-light; and
- Ofgem has noted that companies in this group have "regulated charges or face limited competition"[16] which is similar to DCC being a monopoly and facing regulation.

[15] Dual-play: fixed line and broadband, Triple-play: dual-play plus TV, Quad-play: triple-play plus mobile.
[16] Section 6.26, DCC Price Control Consultation: Regulatory Year 2014/15, page 4, page 37.

However, there are some key differences which suggest that DCC is likely to have a higher risk profile relative to these comparators.

- The first-of-a-kind development of a smart metering IT system by DCC which involves significant engagement with multiple stakeholders (e.g. energy suppliers, government, regulator) and requires management of a multitude of contracts is likely to entail a higher risk profile relative to comparators. While Ofgem has not provided the list of comparators considered in this group, Ofgem notes that these companies "facilitate energy market processes"[17] and it is possible that these processes have already been in place for a reasonable number of years which would limit the risk associated with delivering these activities relative to DCC.
- It is less likely that comparators would be faced with a rapidly changing landscape[18] as has been the case for DCC which entails a higher risk profile for DCC to deliver the programme.
- DCC faces a new regulatory environment which creates more uncertainties relative to comparators who are possibly operating in a relatively more established regulatory environment.
- Similarly, DCC faces political risk which is less likely to be faced by competitors.

Thus, it appears that the margin range of 6-10% for 'IT systems providers in the energy sector' may not capture the higher risks which would be faced by DCC.

Ofgem has considered IT systems providers faced with regulation or limited competition in the energy sector only. Given the wide range of uncertainties and risks being faced by DCC, it also appears useful to consider IT service providers across different industries as these comparators would be faced with market and competitive risks. The intent of considering these is to determine the range of margins earned and compare it to DCC's 15% margin.

Additional high-level research on IT service providers across different industries indicates that the margin range tends to vary significantly, ranging from as low as 6% to as high as 43% (see Table 2 below), and DCC's 15% margin is within that range. For example, EDM Group, an information management services company that provides document digitisation services, has seen an average return of 16.7% between 2011 and 2015.[19] In January 2016, it secured £100 million in new funding. EDM has seen its annual turnover grow from £23 million in 2011/ 2012 to £70 million in 2014/ 2015. Earnings are forecast to grow further in 2016/ 2017 with record demand from existing and new clients.[20] Equal Experts, a software developer of custom software, large-scale digital platforms and mobile apps serving clients such as O2, HMRC, Telefonica, has earned an EBITDA margin of 13.53% in the last 3 years.[21]

Contract management companies

DCC has some similarities to this comparator group: their business is similar to a part of DCC's business (i.e. managing contracts) and tends to be asset-light. However, it is likely that DCC has a higher risk profile due to the following reasons:

- DCC's scope of activities is wider than a typical contract management company, as DCC is a first-of-a-kind business managing a wide range of stakeholders and a multitude of contracts with complex interdependencies. In contrast, the comparator group may include companies that are less likely to be involved in delivering such a new and complex service.
- DCC noted that it needs to provide significant technology and regulatory design support to ensure that the solution is fit-for-purpose, thus providing value-add to the overall delivery of the solution. This may apply to a lesser extent to comparators.

[17] Ibid
[18] Assuming that activities undertaken by these companies are largely not first-of-a-kind.
[19] Calculated average return, Mint UK
[20] http://edmgroup.com/edm-group-secures-100-million-funding-to-deliver-international-digital-transformation-acquisitions-and-organic-growth/#.VpeRu_mLTIU
[21] Calculated average return, Mint UK

- DCC's rapidly evolving requirements entail a higher risk to achieving timely programme delivery which has financial implications in case of late delivery against agreed milestones. Comparators would probably be faced with this risk to a lesser extent due to relatively more well-defined requirements.
- Although comparators are probably unregulated and face market risks while DCC is regulated, DCC still faces a wide range of uncertainties and risks which could have a significant impact on service delivery, including regulatory and political uncertainties.

Therefore, it appears that the margin range of -1.5% to 6% does not reflect the risks being faced by DCC.

Regulated retail companies

Comparators in this group may be similar to DCC in terms of being asset-light and regulated, however, there are some key differences which suggest that these companies may not reflect the nature of DCC's business. Thus, it may not be a suitable comparator group. These differences are discussed below.

- Comparators have probably operated in a predictable regulatory environment for a number of years with established precedents, processes and mechanisms to address issues and challenges in their respective sectors. This is in contrast to DCC's new regulatory environment (e.g. regulatory requirements related to SEC/GBCS still need to be finalised). DCC is also faced with political uncertainty which is likely to affect comparators to a lesser extent.
- It is likely that comparators have established business models to provide products and services. This is unlike DCC's new service offering which is also subject to rapidly evolving changes.

Therefore, it appears that the margin range of 1-10% in Ofgem's analysis does not take account of the risks and uncertainties faced by DCC.

Other comparators

There may be other comparators which are similar to DCC in terms of being monopolies and regulated under a price control framework. This includes the following sectors in GB: wholesale water, electricity/gas transmission and distribution, rail infrastructure and telecoms infrastructure. However, these sectors are less likely to be suitable comparators to DCC due to the following key differences:

- Companies in these sectors tend to have high asset intensities, owning and operating the infrastructure network which is fundamentally different from DCC's asset light business.
- Comparators are mostly regulated under ex-ante frameworks although there are some mechanisms for ex-post reviews with respect to some uncertainties within those frameworks. The regulatory structure has also probably been in place for a number of years. This contrasts with DCC's ex-post price control framework which is quite new. Political uncertainty may also be higher for DCC.
- Comparators are likely to have relatively more established business models which is unlike DCC's situation. Comparators also operate on a going-concern basis while DCC has a pre-defined licence period.

Therefore, these comparators appear to be quite different from DCC and do not reflect DCC's higher risk profile.

The table below sets out margins for a selection of companies/types of companies which have been discussed above, based on additional high-level research.

Table 2: Profit margins of different companies/types of companies

Name/Type of Company	Description of Business	Margin	Margin description
Telecoms service providers			
TalkTalk	Pay television, telecommunications, internet access and mobile network services	Actual – 12% to 17%; Target – 25%	EBITDA margin, 2013 to 2015, Target for 2017, TalkTalk website
Core Group	International calling, sim distribution, telecom contract services and maintenance facilities for train operators	17%	Operating profit margin, TechTrack Report, 2015
OneCom	Independent business telecommunications provider	32% to 40%	EBITDA margin, 2012 to 2014, Mint UK
Light MVNO	Mobile virtual network operator (MVNO)	15% to 20%	EBITDA margin, "Virtually mobile: What drives MVNO success", McKinsey & Company, 2014
Service Provider	MVNO	10% to 15%	
Branded Reseller	MVNO	Less than 10%	
TechTrack 100 profitable companies' average	TechTrack 100 profitable companies' average	13%	Average profit margin
IT service providers			
Callcredit Information Group	Consumer data analyst across various sectors, such as financial services, retail and utilities, public sector, telecoms, insurance etc.	21% to 30%	EBITDA margin, 2010 to 2014, Mint UK
Endava UK	IT services provider to various industries	10% to 12%	EBITDA margin, 2010 to 2014, Mint UK
World Pay	Payment processor	10%	EBITDA margin, 2013
Macdonald Humfrey	Technology systems developer	6% to 30%	EBITDA margin, 2010 to 2014, Mint UK
Fidessa	Trading, investment and information solutions for the financial sector	26% to 29%	EBITDA margin, 2010 to 2014, Mint UK
EDM Group	Information management services	13% to 21%	EBITDA margin, 2011 to 2015, Mint UK
Equal Experts	Software developer catering to various industries	13% to 17%	EBITDA margin, 2013 to 2015, Mint UK
CHP Consulting	Software platform provider for asset and automotive finance companies	16% to 43%	EBITDA margin, 2010 to 2014, Mint UK
Northgate Information Solutions	A provider of specialist software and outsourcing services for human resources and payroll	7% to 15%	EBITDA margin, 2010 to 2014, Mint UK
Capita PLC	International business process outsourcing and professional services company	13% to 17%	EBITDA margin, 2010 to 2014, Mint UK

Source: Deloitte analysis based on sources set out in the last column of the table.

Key conclusions

DCC's activities pertain to establishing and managing the first-of-a-kind IT system for smart metering in GB. DCC's scope of activities is wider than a typical contract management company or an IT systems provider. Thus, DCC's business is delivering a new and unique service with a wide range of uncertainties to its operations.

This can be evidenced from the experience of the last two years – the landscape within which DCC operates has changed considerably since licence award and is expected to continue changing in the foreseeable future. The volume and complexity of different activities that DCC has undertaken has increased substantially which was not envisaged at the time of licence award. As a result of these changes, the risks with respect to the delivery of the programme have increased which may have financial implications in case of late delivery against agreed milestones. In that case, it may be expected that the 15% margin is applied to additional costs incurred, particularly given that this margin

was determined through ‘competition for the market’ at the licence bid stage. Furthermore, DCC’s view is that the risks to programme delivery will continue in the foreseeable future, and in that case, it would appear difficult to justify a margin of lower than 15% margin to future additional costs.

The review of Ofgem’s benchmarking analysis coupled with additional high-level analysis indicates that DCC does not have comparators which are identical or very similar to its business. This is due to its unique position in delivering a first-of-a-kind IT system. Thus, the most relevant market test for DCC is ‘competition for the market’ which happened very recently and established the 15% margin.

Among Ofgem’s comparator groups, asset-light telecoms service providers and IT systems providers in the energy sector appear more suitable relative to others. Further research into companies in these groups, including IT companies across different industries, indicates that the range of margins is quite wide with a number of comparators earning margins higher than DCC’s 15% margin, hence it may be expected that DCC earns a 15% margin.