

THE MONOPOLIES COMMISSION 891

**The Rank Organisation Limited**  
and  
**The De La Rue Company Limited**

a report on the proposed acquisition of the  
De La Rue Company Limited  
and  
**General observations on mergers**

*Presented to Parliament in pursuance of section 9 of the  
Monopolies and Restrictive Practices (Inquiry and Control) Act 1948  
(as applied by section 6(5) of the Monopolies and Mergers Act 1965)*

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† Note by the Board of Trade. Mr. Smith has ceased to be a member of the Commission since the report was signed.



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## Introduction

1. On 28th January 1969 the Board of Trade, under the powers given them by section 6(7) of the Monopolies and Mergers Act 1965, referred to the Commission for investigation and report the matter of the proposal of The Rank Organisation Ltd to acquire The De La Rue Company Ltd. We were required to make our report within four months of the date of the reference, the text of which is reproduced in Appendix 1. The Board of Trade did not exercise their powers, under section 6(11) of the Act, to stay the proposed acquisition until we had made our report.

2. On 28th January 1969 the Chairman (in accordance with the provisions of section 1 of, and paragraph 9 of Schedule 1 to, the 1965 Act) directed that the functions of the Commission in relation to the investigation under this reference should be discharged through a group consisting of eight members of the Commission.

3. At the time when the reference was made it appeared to the Board of Trade that arrangements were in progress or in contemplation which, if carried into effect, would result in section 6(1)(a) and (b) of the 1965 Act being satisfied as stated in the reference. Section 6(7) of the Act requires the Commission in such a case to proceed "in relation to the prospective and (if events so require) the actual results of the arrangements proposed or made as they might proceed in relation to the results of arrangements made immediately before the reference".

4. Under section 6(2) of the 1965 Act we are required to investigate and report on the facts, that is whether sections 6(1)(a) and (b) of the Act are satisfied and, if we find that they are, to report whether the acquisition operates or may be expected to operate against the public interest. If we so find, we are to consider whether any and if so what action should be taken to remedy or prevent any resulting mischiefs and, if we think fit, we may include in our report a recommendation as to such action.

5. In investigating and reporting on the facts we were not to consider whether the provisions of section 6(1)(b)(i) were satisfied and we were not, therefore, required to consider (in this context) the two companies' shares of the markets in which they operate.

6. When the inquiry began public notices were inserted in *The Times* and the *Financial Times* inviting evidence on the reference. We have held six hearings in all; two each with representatives of the two companies; one with the Deputy Master of the Royal Mint; and one with a representative of American Cyanamid Company. One of our members, accompanied by Sir Hugh Tett, who agreed to serve as our consultant for this purpose, visited The Rank Organisation Ltd and The De La Rue Company Ltd to inquire into their management organisation. Written evidence was sought from firms and trade associations in the various industries in which the two companies are engaged, and from the appropriate

trade unions. Much of the oral and written evidence was of a commercially confidential nature and our report contains only such information as we consider necessary for an understanding of our conclusions.

7. We should like to place on record our thanks to all those who helped us in our inquiry, particularly The Rank Organisation Ltd, and The De La Rue Company Ltd, upon both of which we have made heavy demands for factual evidence and facilities of various kinds, as well as seeking their viewpoints on many issues.



## The Proposals of The Rank Organisation Ltd to acquire The De La Rue Company Ltd

8. On 19th November 1968, Mr. John Davis, the Chairman of The Rank Organisation Ltd (hereafter referred to as Rank), informed the Deputy Chairman of The De La Rue Company Ltd (hereafter referred to as De La Rue), in the absence of the latter's Chairman, Mr. A. G. Norman, that he had decided to make a bid for De La Rue. In consequence, meetings between Mr. Davis and Mr. Norman, and other representatives of the two companies, were held on 26th and 28th November 1968. Rank's objective at these meetings was to secure the support of the De La Rue Board for the former's intended bid for acquisition of De La Rue. At the second of these two meetings, Mr. Norman informed Mr. Davis of the unanimous decision of the De La Rue Board that it was unable to offer its co-operation in negotiating any acquisition by Rank. Following the second meeting and in view of the De La Rue share price having risen on 27th November and again on the 28th, De La Rue felt obliged, under the City Take-Over Code, to issue a Press Release making public knowledge the approach it had had from Rank, stating that no discussions were taking place, and that no bid had been made. On 4th December, Mr. Davis telephoned Mr. Norman, who repeated that his Board was unwilling to negotiate. On 5th December, Mr. Davis reported the position to the Board of Rank and that Board then authorised a bid and discussed an initial price for the De La Rue shares. On the same day Mr. Davis wrote to Mr. Norman to inform him that Rank intended making offers for the whole of the issued share capital of De La Rue on the following terms:

*Ordinary Shares.* For every three Ordinary Shares of 10s. in De La Rue, there would be offered one 'A' Ordinary Share of 5s. and £4 nominal of  $7\frac{1}{4}$  per cent Convertible Unsecured Loan Stock 1988-93 in Rank.

*Preference Stock.* For each Preference Stock Unit of £1 there would be offered 11s. nominal of 8 per cent Unsecured Loan Stock 1988-93 in Rank, or 11s. in cash.\*

9. The formal offers were to be subject to all the normal and usual conditions and in particular to acceptance by the holders of not less than 90 per cent of each class of share (or such lesser percentages as Rank might determine) and to the passing at an Extraordinary General Meeting of Rank's shareholders of a resolution for an appropriate increase in the authorised 'A' Ordinary Share Capital in Rank. On the basis of ruling market prices for Rank holdings, the offer was said to place a value of about 57s. on each Ordinary Share in De La Rue. The impending offer was announced in the Press on 6th December, and on the following day De La Rue issued a Press Release advising its shareholders not to accept it. On 19th December the offer was formally conveyed to the

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\* Section 6 of Kleinwort, Benson's Offer of 19th December 1968 shows Rank's 'A' Ordinary Shares of 5s. each as having a middle market quotation of 88s. 9d. on 17th December 1968.

In Section 1 of Appendix E to the Offer it is stated that on making the appropriate application in the years 1971 or 1972, holders of the Convertible Loan Stock will be entitled to receive the following number of 'A' Ordinary Shares for every £300 stock converted:

50 'A' Ordinary Shares on conversion in 1971  
42 'A' Ordinary Shares on conversion in 1972

De La Rue shareholders by Kleinwort, Benson Ltd, acting on behalf of Rank. On 30th December, De La Rue's Board wrote to its shareholders formally advising them against acceptance and detailing its reasons for tendering that advice. The closing date set for acceptance of Rank's offer was 9th January 1969, and on that day Kleinwort, Benson Ltd, sent a further letter to the De La Rue's shareholders increasing the offer for the Ordinary Shares to the following:

For every 20 Ordinary Shares of 10s. each in De La Rue there were offered eight 'A' Ordinary Shares of 5s. each in Rank and £33 nominal of 7½ per cent Convertible Unsecured Loan Stock 1988-93 in Rank.

10. The terms of the offer for Preference Stock were not revised (save that, as in the case of the Ordinary Shares, the closing date for acceptance was deferred to 17th January 1969 or such later date as Rank might determine being not later than 28th February 1969). The revised offer was said to place a value of 70s. 8d. on each Ordinary Share in De La Rue at ruling market prices. In a letter of 13th January to shareholders, De La Rue's Directors once more advised them not to accept. On 28th January, consequent upon the issue of the Board of Trade's order of that date referring the proposed acquisition to us Rank announced that it was allowing its offer to lapse, and that when our findings were known it would review the position.

## CHAPTER 2

### The Rank Organisation Ltd

11. The Organisation is about 38th in order of size among British companies measured by capital employed,\* and employs over 50,000 people, including some 11,000 overseas. It is a public company with an issued share capital of nominal value of £29.6m made up of £12.6m Preference Shares and £17.0m Ordinary Shares. The latter are divided into Ordinary (voting) Shares and 'A' (non-voting) Ordinary Shares. 53 per cent of the Ordinary (voting) Shares is owned by Odeon Cinema Holdings Ltd. The consolidated balance sheet values of the assets of the Group at 29th June 1968, totalled £261m including fixed assets, £146m; current assets, £87m; goodwill, patents and trade marks, £10m; others £18m (including taxation on unrealised inter-group profits). According to the published accounts, capital employed at 29th June 1968 was £202.2m. Group turnover during 1967-68 amounted to about £204m, on which a profit of £35.8m was made (after charging all costs, including depreciation and interest, but before taxation).

12. The 1967-68 turnover figures are broken down in the Organisation's published accounts as follows:

	£'m
Rank Xerox Ltd	84.4
The Rank Organisation Ltd (other than Rank Xerox):	
Film exhibition, home and overseas	37.3

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\* "The Times 500"—leading companies in Britain and overseas.

Film production and distribution	...	...	...	...	10.6
Film studios and laboratories	...	...	...	...	5.3
Manufacturing	...	...	...	...	29.7
Audio visual	...	...	...	...	8.8
Bowling, dancing and bingo	...	...	...	...	9.8
Hotels and motorports	...	...	...	...	8.9
Television rental, relay and retail	...	...	...	...	7.9
Sundries	...	...	...	...	1.8
Total	...	...	...	...	204.5

13. The operating companies carry out their day-to-day functions as members of Divisions, 15 in all, each headed by a managing director; the parent board is headed by Mr. John Davis, who is also Chairman of, with one exception, all divisional boards.

14. Rank had its origins in the film industry. Lord Rank (then Mr. J. Arthur Rank) entered that industry in 1934 and acquired interests in its production and distribution sectors. Convinced that British films were of great importance to the British economy, and believing in the ability of the British industry to produce films which would be competitive in world markets he felt, nevertheless, that British film production could only achieve lasting success in an industry free from American domination and that such freedom could be gained only by the creation of a vertically integrated organisation, combining the production, distribution and exhibition of British films. Thus in 1941 he acquired control of the Odeon Theatre Group and of Gaumont British Picture Corporation Limited. Both had interests in cinema exhibition, owning some 300 cinemas each. Gaumont British also had a large number of subsidiary companies and other interests, covering a wide field, e.g., film equipment companies of various kinds, film production companies, studios, lens and instrument manufacture, and television and radio manufacture. At the beginning of the 1950s the greater part of the assets of the Group was still committed to the film industry and supporting services. However, it was recognised that the world-wide phenomenon of a decline in cinema-going, associated in particular with the growth of television, and destined to end the cinema's monopoly of screen entertainment, had begun. Broadly, Rank has sought to meet this challenge in three ways. First, while retaining its commitment to the film industry, which had provided the original reason for its existence, its cinema interests were rationalised so that they could continue to operate efficiently and profitably. Secondly, it broadened the scope of its activities in other entertainment fields to match new tastes. Thus, in the entertainment field it added, for example, bowling alleys, bingo halls and ice-rinks, and expanded its activities in dancing. It also entered the fields of catering, banqueting, motorway services and the hotel business, the latter both in the UK and abroad. Thirdly, it developed its manufacturing activities both to meet growing demand in the leisure field (cameras, projectors, television sets and radios) and to provide industry with a wide range of electronic equipment and precision measuring instruments. This reorientation of policy was reflected in the building up over the years, partly by acquisition, of the following businesses and their absorption into divisions of The Rank Organisation Ltd. (Detailed lists of subsidiaries and activities will be found in Appendices 2 and 4.)

### **Rank Precision Industries Division**

15. Gaumont British had among its subsidiaries British Acoustic Films Ltd, which manufactured sound equipment for cinemas and also manufactured and marketed 8mm and 16mm projectors and cameras under arrangements with the Bell & Howell Company, a major American manufacturer of such goods. Taylor, Taylor & Hobson Ltd, a subsidiary of British Acoustic Films Ltd, was an internationally known company manufacturing precision measuring instruments and specialised lenses. A further subsidiary of Gaumont British was Cinema-Television Ltd, trading as Cintel, engaged in the development and manufacture of electronic equipment, cathode-ray tubes and cinema large-screen television. Yet another subsidiary of Gaumont British was G.B-Kalee Ltd which among other activities marketed general cinema supplies. In 1947 British Optical & Precision Engineers Ltd was formed as a public company, and was subsequently re-named Rank Precision Industries Ltd. It acquired the businesses of British Acoustic Films Ltd and G.B-Kalee Ltd and at the same time acquired the rest of the share capital of Taylor, Taylor & Hobson Ltd (i.e. that portion not already held by British Acoustic Films Ltd). At the same time it acquired control of the business of A. Kershaw & Sons Ltd (manufacturers of cinema projectors) and also became responsible for manufacturing and marketing internationally (excluding the American continent) a part of Bell & Howell's range of cameras and projectors. In the course of time its activities outside the scientific instruments side of the business so formed were transferred to the Rank Audio Visual Division (see paragraph 17). The scientific instrument business of Rank Precision Industries Ltd was substantially expanded over the years on a world-wide basis, and the range of its products was increased. In 1964, The Pullin Group Ltd was acquired, and, in 1968, Hilger & Watts Ltd. About that time Rank also made a bid for the Cambridge Instrument Co. Ltd, but this failed following the intervention of the Industrial Reorganisation Corporation, after which Cambridge merged with George Kent Ltd. As part of the reorganisation following the acquisition of Hilger & Watts Ltd, Rank's interests in broadcast equipment of a tele-ciné nature, cathode-ray tubes and other electronic equipment (which had been developed from the activities of Cintel) were brought into sub-divisions of the Rank Precision Industries Division.

### **Bush Murphy Division**

16. The control of Bush Radio Ltd, an associated company of Gaumont British, was acquired by Rank in 1945. In 1962, Murphy Radio Ltd, which was then in difficulties, was acquired and its production integrated with that of Bush. Both the Bush and Murphy trade names were retained, and Bush and Murphy products are now sold in competition by separate sales forces, operating under a single sales management. The acquisition of Murphy Radio brought Rank further into the field of electronics (as did also the industrial inspection service of Solus-Schall Ltd which is now carried on within the Rank Precision Industries Division).

### **Audio Visual Division**

17. This Division was formed in 1960 to bring together for more convenient administration a number of activities which had already been carried on for a number of years. As the name of the Division implies, its activities have a

common thread in that they are all connected in one way or another with the communication of sight and sound, whether in the studio, cinema, theatre or home. Thus the range of goods and services supplied by the Division includes seating, floor coverings, curtains and screens for cinemas and studios, projectors for films and slides, still and movie cameras, lighting for studios, cinemas and theatres, other studio equipment, hi-fi sound reproduction equipment, the hiring of films and amateur film processing. These goods and services are supplied to trade customers as well as to users in the home. In the case of the studio and cinema equipment businesses, Rank built them up and extended their range partly by internal expansion and partly by the acquisition of Andrew Smith Harkness Ltd and Strand Electric Holdings Ltd, in 1952 and 1968 respectively. The Bell & Howell photographic business (see paragraph 15 above) was acquired with Gaumont British in 1941, and to those marketing arrangements there were later added similar marketing arrangements for other makes of cameras. The Division has become the major distributor of leading Japanese products, including such internationally known brands as Pentax, Mamiya, Konica and Nikon. The addition in 1958 of Wharfedale Ltd (now known as Rank-Wharfedale Ltd), manufacturers of high-fidelity loud-speakers, was regarded as a natural development. The acquisition of H. J. Leak & Co. Ltd in January 1969 is regarded as having supplemented Wharfedale's range of products with two other main components of hi-fi equipment, namely, tuners and amplifiers. The Top Rank Film Processing business was established in the 1950s, and the Organisation has since acquired A.C. Vallance Ltd, a processing business, based in the North of England, said to have given added geographical coverage.

#### **Educational Activities**

18. A film library was acquired with Gaumont British in 1941. This was regarded as giving Rank a stake in the educational field, to be exploited by developing a range of products, such as language laboratories, in the communications and educational field. Rank has also entered into an equal partnership with Responsive Environments Corporation of America to operate a company known as Rank-R.E.C. Ltd. It is considered that this will carry Rank further into the educational field by the marketing of a special range of responsive environmental products.

#### **Rank Xerox Limited**

19. The xerographic machine was the product and invention of the Xerox Corporation of America. In 1956 the Corporation and Rank set up a new company, Rank Xerox Limited, to undertake the manufacture and marketing of xerographic products under licence from the American company, in all territories in the world except North America. Rank Xerox Limited sub-contracted the manufacture of xerographic products to The Rank Organisation Ltd. In the case of Japan, it was deemed that conditions required the establishment of local manufacture, and, in 1962, the production and selling of xerographic products in the Japanese market was accordingly undertaken by Fuji-Xerox, a company owned 50 per cent by Rank Xerox Limited and 50 per cent by a Japanese corporation. In 1963, Rank Xerox Limited released to Xerox Corporation its rights for South America, in consideration of a royalty and the allotment to Rank of a block of Xerox stock. In 1965, at the request of

Xerox Corporation, the manufacturing activities were transferred from Rank to Rank Xerox Limited. Rank Xerox Limited, and its subsidiaries now market xerographic products in 60 countries, i.e., in all major markets of the world except the Americas and Japan. Xerox Corporation undertakes all the research and development in the field of xerography; Rank keeps Xerox Corporation informed of market trends and consumer preferences.

20. Rank Xerox Limited, although jointly owned by Rank and Xerox Corporation of America, operates as a Division of The Rank Organisation Ltd. The issued share capital at the 29th June 1968 was:

	Class of Shares			
	A	B	C	D
The Rank Organisation Ltd and				
Gaumont British Ltd ... ..		£3,427,013		£1,687,937
Rank Precision Industries Ltd ... ..		£3,427,012		£1,687,937
Xerox Corporation ... ..	£6,854,025		£6,751,749	
	£6,854,025	£6,854,025	£6,751,749	£3,375,874

The profits from Rank Xerox Limited are split equally between the holders of 'A' and 'B' shares up to a sum equal to half of the 'A' and 'B' share capital, which is called the 'Datum Line'. At June last, this datum line stood at £6,854,025. The balance of profits is allocated two-thirds to Xerox Corporation—the holders of the 'C' shares, and one-third to Rank—the holders of the 'D' shares.

21. We questioned Rank about the fact that ultimate control of The Rank Organisation Ltd rests with Film Development & Research Ltd, a company whose directors are able to prevent it falling into any hands of which they do not approve, under an arrangement, reproduced in Appendix 6, which is intended to ensure that control of the Organisation remains in British hands. In reply, Rank told us that the Board of Film Development & Research Ltd comprised nine persons, and that there were ten Trustees of the J. Arthur Rank Charity and nine Trustees of The 1961 Rank Group Charity, the two Charities referred to in the Appendix. Only three of the individuals in question, namely Lord Rank, Mr. Davis and Mr. F. Keighley, were also Directors of Rank. Rank assured us that the Trustees of the Charities and the Directors of Film Development & Research Ltd have never sought, and never would seek, to bring any pressure to bear on Rank's Board in any matters of policy except in so far as they had some bearing on the main object of maintaining United Kingdom control of Rank. Policy decisions of Rank's Board would require the support of a majority of its members. As at present constituted, twelve out of the eighteen members of that Board (including the President, Lord Rank) are non-executive, and are individuals of high calibre and wide experience who make their presence felt. Further, Rank holds that it would not be practicable for the Board to seek to press through a major policy decision in the face of opposition from powerful institutional shareholders, and that Rank's shares could not enjoy their present high standing as an investment if the institutions lacked confidence in its policies.

### Profits

22. We obtained from Rank an analysis of its trading results for a period of ten years up to June 1968 covering the whole of the period during which the

Xerox activities have been developing. A summary of profits, in relation to capital employed, during the five years to June 1968, is set out in Appendix 7, under the headings of "Xerox" and "non-Xerox" activities, with the latter further divided into manufacturing and non-manufacturing activities. In the period covered it was the Xerox activities which provided the growth and the increasing profitability; the profits from these activities made up more than half of Rank's consolidated profit by the year 1964-65 and reached nearly four-fifths of that total by the year 1967-68.

### CHAPTER 3

## The De La Rue Company Ltd

23. The De La Rue Company Ltd is about 186th in order of size among British companies, measured by capital employed,\* and employs 10,100 people including 3,060 overseas. It is a public company with an issued capital of nominal value £6.67m, of which £6.17m is in the form of Ordinary Shares and £0.5m in Preference Shares. The consolidated balance sheet values of the assets of the Group at 31st March 1968, totalled £39.2m, including fixed assets, £15.5m; current assets, £20.8m; goodwill, £1.8m; investments, £1.1m. According to the published accounts, capital employed at 31st March 1968 was £27.3m. Group turnover in 1967-68 amounted to £42.4m, on which a profit of £3.66m was made (after charging all costs including depreciation and interest, but before taxation).

24. The 1967-68 turnover can be analysed as follows:

	£m
Formica International Ltd ... ..	22.2
Thomas De La Rue International Ltd ... ..	10.5
Potterton International Ltd ... ..	9.7
Total ... ..	42.4

25. The principal activities of the operating subsidiaries (detailed lists of which will be found in Appendices 3 and 5) are:

**Formica International Ltd.** This subsidiary contains a number of further subsidiaries engaged in the production of FORMICA, used in decorative form for table tops and wall coverings, etc., and, in insulating form, in the electrical and electronics industries, i.e., industrial laminates. 40 per cent of this subsidiary is owned by American Cyanamid Company, of New Jersey.

**Thomas De La Rue International Ltd.** This subsidiary company contains a number of further subsidiaries engaged in the manufacture of banknotes and other security documents, printing, currency counting machinery and money dispensers for use out of banking hours. It also contains Security Express Ltd, a subsidiary which is engaged in the security transfer of valuables, and has a 50 per cent interest in an associate company engaged in the design and sale of banknote printing machinery.

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\* "The Times 500"—leading companies in Britain and overseas.

**Potterton International Ltd.** This subsidiary group manufactures boilers of several kinds including automatic gas- and oil-fired boilers, storage heaters, warm air units, and other heating appliances.

26. De La Rue, it told us, began in 1813 and eventually became securely established as printers of high-quality playing cards,\* postage stamps and banknotes. The business of Thomas De La Rue & Co. Ltd was first registered at the end of the nineteenth century, and since then has grown by acquisition and diversification and at present operates as a holding company. Although between the two World Wars the banknote business grew rapidly and became the biggest profit earner in the Company, it was apparent by 1930 that an increasing number of countries were setting up their own national printing works, a trend which in time was thought likely to reduce considerably the opportunities for the commercial banknote printer. This trend developed more slowly than was feared at the time, but had two consequences, De La Rue's expansion into activities other than banknote printing and later into joint banknote enterprises with Local Governments, and into the design and supply of banknote printing machinery.

27. Against this background it became the policy of the Company to find new ideas still in their infancy which could be developed into prosperous businesses. One of these was the development of a plastic moulding business, which had been originally acquired in 1915, to produce decorative and industrial laminates. Towards the end of the Second World War the Company decided to investigate the business potential of modern domestic hot water and heating systems. A research establishment began work in 1944 and soon afterwards Thomas Potterton Limited, a small manufacturer of gas-fired central-heating boilers, was acquired. In 1946 a foundry was bought and the production of boilers was increased, although progress was slow in the difficult economic conditions of the immediate post-war years.

28. Thus by the end of the 1940s De La Rue had developed the framework of its current business—the traditional security printing side, the plastic laminates business and that of central heating. The following features of the subsequent history of the Company are relevant to our inquiry.

29. In 1946 a licence was obtained from the Formica Corporation of Cincinnati, USA, for the manufacture and sale of decorative and industrial laminates. Sub-licences were granted by De La Rue in exchange for royalties in the major European markets, France, Spain, Germany and Italy, other markets being served by exports from the UK. In 1957 a joint company, now known as Formica International Limited, was formed in the UK with American Cyanamid which had acquired the business of the former licensor, Formica Corporation. De La Rue holds 60 per cent of the share capital and American Cyanamid has 40 per cent. The FORMICA trade mark was assigned in perpetuity to Formica International in the eastern hemisphere, and a Technical Exchange Agreement was made between American Cyanamid and Formica International under which the technical co-operation begun with Formica Corporation in 1946 was extended to include the wider resources available to Cyanamid. The decorative laminate business expanded rapidly overseas and subsidiary manufacturing

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\* The playing card business was finally disposed of in 1968.



companies were set up in France (1950), Australia (1956), Germany and New Zealand (1959), and Spain and India (1962).

30. Two privately-owned chipboard companies were acquired in the UK in 1963 as an adjunct to the production of decorative laminates, with the objective of gaining a greater foothold in the furniture and construction industry and in order to provide core material to which decorative laminates could be bonded.

31. The security printing business extended its activities into Europe, North and South America. Moreover, in 1949 at the request of the Government of Pakistan, De La Rue formed a company jointly with that Government to establish a printing works in Pakistan for the printing and supply of local currency. In 1963 a banknote printing plant was established in Nigeria, jointly with the Government of that country, for the production of local currency, on similar lines to the printing works established in Pakistan. In Britain, De La Rue's activities were expanded into the carrying of cash and valuables through the establishment of Security Express Limited, in conjunction with American Express Inc, which later sold its interest to De La Rue. Currency counting machines were developed during this period.

32. In the late 1950s De La Rue became involved in the development of printing inks and printing technology for use in connection with the automatic handling of security printed documents. This research was initially related to cheque handling which required the development of magnetic inks to suit data-processing systems. Most of this work was done with Compagnie des Machines Bull of Paris, with which close relationships were formed. This in turn resulted in the formation in 1959 of a jointly owned marketing company in the UK for the sale of data-processing equipment manufactured by the French company which, up to that time, had made no attempt to market in the UK. During 1965 General Electric Company of USA acquired control of Compagnie des Machines Bull. The following year negotiations were concluded whereby the American Company also acquired the controlling interest in the computer marketing company in the UK leaving De La Rue with a holding of 25 per cent in the UK company, now known as GEIS Ltd.

33. During 1965 an Agreement was reached with Mr. G. Giori, a leading designer of banknote printing machinery, with headquarters in Switzerland, to establish a company, De La Rue Giori S.A., owned equally by him and De La Rue for the design and sale of machinery for purposes of banknote printing. The manufacture of machinery is sub-contracted.

34. Since 1964 De La Rue has acted as agent for the Royal Mint on a commission basis in the sale of coinage to overseas governments. The basis of this arrangement is that De La Rue, by virtue of its well-established position in the sale of banknotes to those governments, is particularly well placed to sell coinage also. It is a matter of public record (see De La Rue's evidence to the Estimates Committee, in May 1968, in the course of that Committee's inquiry into the workings of the Royal Mint) that business amounting to £7,029,000 was secured for the Mint under the agency arrangement up to the time of the Estimates Committee's inquiry.

35. We obtained from De La Rue figures showing the results of the group's trading for the ten years 1958-59 to 1967-68 together with estimated figures for 1968-69 and a forecast for 1969-70. During the period 1958-59 to 1967-68 the turnover more than trebled and until 1962-63 the percentage of profit in relation to capital employed was satisfactory but thereafter until 1967-68 the group suffered a recession and the profit/capital employed ratio was less favourable. This was to some extent due to unsuccessful ventures overseas and strong competition in the United Kingdom. In 1966 measures were taken to eliminate unprofitable activities and in 1967-68 turnover which in the previous year had fallen, showed some recovery accompanied by a more adequate return on capital. In Appendix 8 we set out details of the profits, capital employed and return thereon for the five years ended 31st March 1968. The estimates for 1968-69 and the forecast for 1969-70 foreshadow further substantial improvements both in turnover and profits in relation to capital employed. As to overseas markets De La Rue is and has for some time past been actively engaged therein. In 1958-59 about 31 per cent of the group's turnover consisted of direct exports from the United Kingdom and a further 24 per cent of sales by overseas subsidiaries making a total overseas trade of 55 per cent of turnover. By 1967-68 direct exports had fallen to about 15 per cent but sales by overseas subsidiaries had risen to about 38 per cent of turnover. Thus the proportion of overseas trade remained at about the same relatively high level of over 50 per cent as in 1958-59.

#### CHAPTER 4

### **The Arguments For and Against the Acquisition**

36. As is made clear in Chapter 1 the proposals for the acquisition of De La Rue by Rank have been resisted at all stages by De La Rue's Board. Not surprisingly, therefore, the evidence given before us by the two companies has often reflected contrary views. These views, which are set out in this Chapter, have been taken into account and our conclusions in respect thereof are set out in Chapter 6.

37. Rank has told us that it has needed to find fields of activity outside the shrinking film industry in which it had its origin. In view of the relatively small size of the United Kingdom market it has sought to find products or services, marketable internationally, for the marketing of which it claims that its skills and experience qualify it well. In theory Rank could expand in both of its two existing main areas, viz., leisure services and the marketing of manufactured goods. In practice it considers that expansion in the field of leisure services is not advisable either in the home market, because of market uncertainties, or overseas, because of the industry's need for a large labour force together with the wide differences which it claims exist from place to place in the type of service demanded. Thus, in its view, the marketing of manufactured goods offers the best prospects for success.

38. This recognition has found its fullest expression in its marketing of office copying equipment in partnership with Xerox Corporation of America through the jointly-owned subsidiary, Rank Xerox Ltd. But this very success has brought its own difficulties; because, although Rank has broadly maintained its profits in its non-Xerox activities (see Appendix 7) the sheer extent of the Xerox success has given rise to unfavourable comparison. Rank believes that American corporations would regard the lack of balance between Xerox and non-Xerox activities as a weakness, and that Rank would lose important opportunities of partnership in the field of international marketing if the balance were not redressed. This is regarded by Rank as all the more important because partnerships of that kind give access to programmes of research and development in the USA which operate on a scale that United Kingdom concerns cannot match.

39. However, Rank considers that no single product or group of products is likely to produce growth of the Rank Xerox magnitude and so restore the balance. It is necessary in its view to boost non-Xerox activities *in the aggregate* to build up its international status. Therefore it considers that it needs to acquire businesses with products and sales connections already established in many countries, behind which could be placed the weight of its international experience. Businesses acquired would not necessarily be restricted to its existing fields of interest; those in other fields might be acquired, provided that it had some knowledge of the business, and acquired the business with the existing management.

40. The bid for the acquisition of De La Rue is regarded by Rank as a means of completely fulfilling the purpose outlined above. De La Rue appears to Rank to be a promising company which has not taken advantage of its opportunities and whose products could more effectively be exploited by the application of Rank's particular skills and expertise. In Rank's own words, "in making a bid for De La Rue, The Rank Organisation sought to acquire with its existing management a company which would at one stroke give it a ready-made base for world-wide expansion in appropriate new fields, in which it could exploit its special international skills to the full. De La Rue is not the only company whose acquisition would fulfil that purpose, but we judge it to be one which fits in particularly well with the talents and background of The Rank Organisation . . .".

41. For its part, De La Rue claims to be unable to find any justification for Rank's claim to be able to bring superior marketing techniques to bear on the activities of De La Rue's companies. De La Rue stated in evidence that Rank's non-Xerox activities had been very disappointing for many years and showed little sign of improvement in the near future. Further, growing competition and new technology in the photocopying field threatened the future of Rank Xerox, Rank's main profit earner. It therefore seemed to De La Rue that the purpose of the Rank offer was to buy De La Rue profits and prospects, for an equity stake less than they warranted, as a means of maintaining the rating of the Rank shares on the Stock Exchange.

42. Rank has given us its views of the expected consequences of the acquisition. They envisage that a United Kingdom group of international strength in a number of different fields will be created. For example, the international activities of one of De La Rue's subsidiaries, Formica International Ltd, would augment those of a number of Rank's existing subsidiaries, such as Rank

Xerox Ltd, Rank Precision Industries Ltd, and Hilger & Watts Ltd. The acquisition would represent a first step in the building up, on the basis of the existing De La Rue security business, Security Express Ltd, of an international group in the area of security services. A better balance of activities following the merger would result, lending weight in dealings with American partners and in securing new partners. Benefits would accrue to Formica International Ltd and to Security Express Ltd, from Rank's marketing know-how and expertise. A more aggressive selling approach together with a close working relationship with American Cyanamid Company would yield benefits in the laminates business and in allied fields. Better results would be obtained from another of De La Rue's subsidiaries, Potterton International Ltd, in the central heating business, by the application of the analytical skills of Rank's management. There would be an increase in scope for De La Rue's executives in the wider field created as a result of the acquisition, while enhanced international opportunities for recruitment of men of good calibre would follow as a natural consequence. Some Head Office expenses would be saved by absorption of the various administrative functions into corresponding departments of Rank. The main impact of acquisition would be in overseas markets and not in the United Kingdom. In sum, to use Rank's own words, "The significant consequence to be hoped for is the creation of a stronger group deploying the combined management and marketing resources and services of the two merged companies. The merger would thus increase the contribution made to the foreign earnings of the United Kingdom . . .". Rank drew our attention to the consideration that while the enlarged group resulting from the acquisition would still not be one of the twenty largest companies in the United Kingdom, any company which competed in international markets needed to be big to stand up to the competition of large foreign rivals.

43. De La Rue, on the other hand, considers that its absorption by Rank would be most detrimental to its business. In its own words, "Rank's total lack of experience and understanding of all aspects of this business combined with the complete dissimilarity and in some respects even incompatibility (e.g., bank-note printing and the entertainment industry) of the activities of the two groups must lead to a decrease in the efficiency of De La Rue".

44. Many of the points outlined above have been developed more fully during the course of our inquiry through oral and written evidence and the main lines of argument are set out in the following paragraphs.

#### **Technical resources**

45. Rank believes that its highly developed Research and Development disciplines (i.e. the procedures, checks and processes which it operates both in the critical appraisal and evaluation of research and development projects and to ensure maximum benefit from such projects) could be applied with benefit to the De La Rue businesses. It told us that the criterion by which it judges proposed Research and Development expenditure is the expected long-term yield therefrom and not the quantum of the expenditure as such. It also believes that its Research and Development Committee, which exercises overall guidance and direction, could be of very substantial benefit to the activities of De La Rue. This Committee consists of appropriately qualified people drawn from the upper strata of the divisions of Rank together with scientists from Rank's

laboratories and with independent members drawn from the wider world of science. In the field of laminates Rank is confident that it could extract more benefits from the technical exchange arrangements between Formica International Ltd, and American Cyanamid Company (see paragraph 29) than the De La Rue subsidiary has so far achieved. In this Rank would hope to work closely with the American company, not only in the marketing of laminates but also in the field of allied products not currently within the scope of the existing agreement. It bases this hope on its experience of operating in partnership, particularly with American concerns; on inconclusive but friendly contacts it claims to have had with representatives of the American company; on a belief that Cyanamid is not entirely satisfied with De La Rue's performance in the marketing of laminates; and finally on the belief that since Cyanamid has a large stake in Formica International Ltd, the American company would work to safeguard it, motivated by reasonable self-interest.

46. De La Rue's argument is that the employment of technical resources would be affected for the worse if the acquisition proceeded. Not only does Rank have nothing to offer, in De La Rue's view, but damage would be sustained at several specific points. The first and most important of these (in the field of technical resources) is the technical exchange arrangements between American Cyanamid Company and Formica International Ltd referred to above. De La Rue's argument here is that it has built up a position of confidence with Cyanamid which would be at risk in the event of Rank, as an unknown quantity in the laminates industry, acquiring control. This risk would be intensified if any members of the management of Formica International Ltd, who have individually won the confidence of their opposite members in American Cyanamid Company, were to resign their appointments rather than work for Rank—a contingency which De La Rue believes is likely and which is dealt with in paragraphs 58 and 60. Thus De La Rue takes the view that in the event of acquisition of control by Rank the existing agreement between American Cyanamid Company and Formica International Ltd, which contains a provision for its automatic termination in such circumstances, would either not be renewed or would only be negotiated on terms less favourable to Rank. This could mean the loss, to some extent at least, of valuable technical information passing within the compass of the existing agreement; but De La Rue claims that there would also be lost much information now passing outside the terms of the agreement, arising from the position of mutual trust which has been built up over the years and which obtains at present.

47. We have done our best to ascertain American Cyanamid Company's own attitude, which is clearly of the greatest importance in this particular issue. Prior to the reference of the acquisition proposals to us, Cyanamid had gone on record with a statement which was communicated by De La Rue to its shareholders in a letter dated 30th December 1968 as follows:

“Based on information presently available to American Cyanamid Company we see no advantage to us and our 40 per cent interest in Formica International Ltd, which is 60 per cent owned by The De La Rue Company Ltd, in the proposed acquisition of De La Rue by The Rank Organisation Ltd.”

Since then evidence has been given before us by a representative of Cyanamid, Mr. J. J. Bassett, one of the Cyanamid Directors on the Board of Formica

International Ltd. However, despite Cyanamid's ready co-operation throughout this inquiry, the hearing only served to confirm what we had already learned through correspondence, viz., that while Cyanamid has no preconceived notions about Rank's abilities, it would need to form an assessment thereof before taking decisions about renegotiation of the technical exchange agreement. The headings under which such an assessment would be undertaken were described to us but it would be pointless to list them here since the moment for making the assessment has evidently not yet arrived. Mr. Bassett confirmed that much information of mutual interest did pass outside the terms of the Agreement, arising from mutual respect and goodwill between the executives concerned.

48. De La Rue claims that its relationship with Mr. G. Giori (see paragraph 33) would also suffer. The resources at stake here consist of technical knowledge and expertise said to be necessary to ensure that De La Rue's own equipment in its UK factory is kept fully modernised by access to Mr. Giori's research into the design and production of banknote printing machinery. De La Rue fears that Rank's total lack of experience in the field of banknote printing would weigh heavily in Mr. Giori's commercial judgment. It took De La Rue several years of patient work, we were told, to secure his full confidence in the company as a commercial partner—a confidence which is now fostered by the trust which exists between Mr. Giori and individual members of the De La Rue management. Since, as De La Rue explained to us, Mr. Giori is a leading designer, and the Swiss jointly-owned business is a world leader in design and sale of banknote printing machinery, any rupture of this relationship would cause substantial damage. The estimated cost to De La Rue of the dissolution of the partnership with Mr. Giori in the immediate ensuing years would be as high as £650,000 per annum representing the costs of developing and establishing an alternative organisation within the De La Rue group, together with the loss of dividends flowing to De La Rue from the present association.

49. Finally, De La Rue is concerned also about the effect of acquisition on its relationship with General Electric Company of America through its minority shareholding in GEIS Ltd, in which the American company has a majority holding (see paragraph 32). De La Rue regards GEIS Ltd as a source of technical knowledge in the field of sophisticated management information systems. But the American company might well, in De La Rue's view, regard Rank as a competitor by virtue of the latter's association, through Rank Xerox Ltd, with Xerox Corporation of America in the field of computer peripherals. This concern is said to have been heightened by Xerox's reported bid for Scientific Data Systems, another American company operating in that field.

### **Marketing**

50. Rank's claim as to marketing expertise was developed as follows. Rank is a marketing orientated management and the success of Rank Xerox Ltd is given as an example, whereas, in Rank's view, De La Rue would appear to have missed marketing opportunities in the fields of decorative laminates and gas-fired central heating. Rank claims to be imbued with an attitude which recognises that customers will only buy what they want and which thinks in terms of getting customers and keeping them; an approach which, it is held, affects research, development, design, manufacture, selling and after-sales service,

stemming from the very top echelons of management. Rank regards the dissimilarity of De La Rue's and its own products as a superficial and irrelevant consideration; and believes to be fundamental the following common factors:

- (i) Both companies market manufactured goods in many foreign countries.
- (ii) Both do so in partnership with foreign business interests.
- (iii) The products of each Group can be marketed in all countries on a broadly similar basis.

51. Rank alleges a failure on the part of domestic producers of decorative laminates (including Formica International Ltd) to stem a six-fold rise in imports since 1962. Rank also contrasts an alleged fall in the turnover of De La Rue's subsidiary, Potterton International Ltd, over the last few years, with an explosive growth of deliveries by producers of gas-fired central-heating systems in the UK in the same period. Further, Rank refers to a fall from 51 per cent in 1964 to 32 per cent in 1967 (of units delivered) in Potterton's share of the gas boiler market in the United Kingdom and contends that, in the field of warm air systems, the fastest growing area in gas-fired central heating, Potterton entered the market only in 1965 and still had less than 1 per cent of this market in 1967.

52. De La Rue, for its part, regards as untenable the suggestion that skills acquired in distributing and exhibiting films and in selling office photocopying equipment are of the least use or relevance in the marketing of laminates, which serve quite different purposes and markets. It claims that Formica International Ltd has maintained its leadership in what are now fiercely competitive markets (against over 100 competitors), without any of the patent protection enjoyed by Rank Xerox Ltd, by the superiority of its marketing techniques, including a high degree of specialised knowledge of its particular markets rather than by what it regards as the acknowledged superior quality of its products. It sees a wide difference between Rank's skills, distribution methods and outlets and those of Formica International Ltd, and it holds that the main difficulty in the United Kingdom laminates market has been a flood of lower quality Italian imports at low prices. It states that Formica International's marketing policy has involved a considerable degree of profit consciousness, in the shareholders' interests, and that it has sought ways and means of meeting the challenge of imports while not losing sight of those interests. Therefore, rather than adopt a policy of crippling price reductions, Formica International Ltd decided to produce and market a second brand of decorative laminate. De La Rue has produced figures to show that after an admitted fall, its share of the United Kingdom laminates market (taking imports into account) rose from 36 per cent (by volume) in the year 1967-68 to 38 per cent in 1968-69 as the flood of imports began to be stemmed.

53. On the subject of heating appliances De La Rue acknowledges a fall from 56 per cent in 1964 to 22 per cent in 1968 in Potterton's share of the domestic appliance market, in numbers, though not in value, of appliances sold, that market itself being greatly expanded. De La Rue points to two factors which it considers should be taken into account in drawing any inferences from that fall. The first of these is that Potterton was a pioneer in the gas and oil heating business, and as the market increased and new entrants arrived from 1965 onwards, a decrease in market share had to be expected. The other is that originally Potterton was principally involved in supplying products of a quality

and design geared to the needs of the middle and top end of the market, whereas the major market expansion in recent years has been in the lower end of the market. On the latter point De La Rue has told us that in 1968 Potterton modified its marketing policy to take account of the growth in council housing and the provision of smaller houses, but that the benefits of this policy decision have not yet had time to become fully effective.

54. De La Rue is also greatly concerned that the security printing side of its business (operating under its subsidiary Thomas De La Rue International Ltd) will suffer adverse effects from the mere fact that Rank is an unknown quantity in the field of banknote printing in particular and of security document printing in general. It regards its relationship with its banknote customers, who are, in general, Central Banks throughout the world, as a very special and delicate one. Since in any country decisions to make new issues of banknotes are bound up with fundamental national policy, De La Rue becomes privy to highly secret information which demands absolute trust on the customer's part, a confidence which in De La Rue's case has only been obtained by years of patient work and in the face of the obvious fact that to its customers it is a foreigner. De La Rue also says that at a time when in several countries there are plans to set up, sooner or later, national banknote printing presses such plans are likely to be accelerated by the disquiet of the national authorities at having to deal with a successor company which they might well regard as unacceptable merely because they have no experience of its ability and discretion in the particular field of banknote printing.

55. Rank believes that this problem will not arise, because it considers that there could be no rational ground for any security printing customer of De La Rue being less willing to place business with De La Rue merely because that company was owned by Rank. The composition of Rank's Board should, it believes, inspire confidence among customers for security printing, and it would be Rank's intention to retain the existing security printing management. While recognising that there is a possibility that one or more members of the security printing management might decline to continue as employees of Rank, it considers, for the reasons given in paragraph 59, that there is no likelihood of this possibility eventuating to such an extent as to upset the running of the business. (This question is discussed at greater length in paragraphs 58-60.)

56. We have made such enquiries as were possible in countries where De La Rue has business in the field of banknote printing, and have also consulted the Bank of England. The replies which we have received are substantially to the effect that De La Rue's reputation in these countries is so well established that the adverse effects of the proposed acquisition would not be more than marginal, particularly if the De La Rue name were retained. These replies were given on the basis of the information available and our informants presumably did not contemplate the likelihood of the loss of key management personnel and its effects on the volume of trade.

### **Managerial resources**

57. Rank's intention, as stated to us in evidence, would be to administer The De La Rue Company Ltd as a division of The Rank Organisation Ltd participating in the free interchange of ideas and information enjoyed by existing



divisions of the Organisation and benefiting from the availability of Rank's "Central Services". The existing structure of De La Rue would be maintained. Rank's Chairman, Mr. John Davis, would become Chairman of the new division, and one or more Directors from Rank's parent board would join the De La Rue divisional board. Rank regards the De La Rue management as imaginative and courageous, but lacking a secure sense of direction. It claims to have no pre-conceived ideas as to the relative quality of the De La Rue management at any level and would judge it entirely on performance as it found it. Rank does, however, claim that since one of the expected benefits of the acquisition would be international growth on a wide front, full scope would be assured for management talents existing in both sides of the combined organisation. Further, it claims that these enlarged opportunities would facilitate the continued recruitment of men of talent, thus enhancing the combined abilities of a team already of high calibre.

58. De La Rue argues that the managerial resources of the existing company would be damaged by the acquisition. It asserts that management methods and personnel policies in Rank are such as to be unacceptable to a significant proportion of members of top management in the various businesses of De La Rue, and that these people would decline to accept continued employment in the acquired Company, in some cases leaving immediately.

59. Rank's view is that fears of this kind should be discounted as coming from declared opponents of the merger, and as probably springing from feelings of insecurity rather than a firm intention to leave; that to leave because of the acquisition would show an extraordinary disregard for self-interest and for the interests of De La Rue's workpeople, or both; that many executives would have service contracts which they would be legally bound to honour; that many, particularly with specialised skills (of e.g. security printing) would find it difficult to secure other jobs because of age; and because the mutual sense of integrity and loyalty to staff between management and workpeople would prevent a significant loss of executives. Rank claims that in the case of earlier acquisitions, despite initial opposition to the bid from one management, it has lost no executives other than through normal causes.

60. Of the three members of the De La Rue Board who alone have formal service contracts, the Chairman and the Managing Director told us that they would seek release from those contracts and would not wish to continue in the service of the merged company if the Rank bid succeeded. They referred also to an independent survey of opinion (the results of which we have seen) amongst De La Rue's top management carried out by De La Rue's Solicitors soon after the Rank offer was made and before it was referred to us. This survey, conducted under the conditions of a secret ballot, shows that a substantial number of senior key executives would not wish to accept employment for the long-term future in Rank if that Company's bid for De La Rue were to succeed. De La Rue states that the loss of key men, none of whom has a formal service contract, would be severely damaging. Most of them are fairly young, and their abilities and accomplishments (e.g. senior scientific staff in Formica International Ltd) are such that it would be easy for them to secure rewarding appointments elsewhere.

61. In the course of our inquiry we have learned that Rank's Chairman, Mr. John Davis, as well as being Chief Executive is also Chairman, with one exception, of all Divisional Boards—some fifteen in all—and also of a number of committees. We have therefore inquired into the possibilities both of the strain to which any one man holding such responsibilities might be subjected if they were further augmented, and of Rank having reached a point in its development when the framework of management, the degree of delegation, and methods of decision-taking should be reviewed to ascertain whether the limits of responsibility have been reached.

62. On the first point, Mr. Davis's view is that new acquisitions of the kind proposed do not come as a strain to himself or his Deputy, Mr. Graham R. Dowson, because in practice no new activity is ever undertaken until existing ones are already running smoothly. Also, the control of the Organisation is geared, he told us, through the Managing Directors of the Divisions, who relieve central management of much of the strain, and whose responsibilities are increasing. On the second point Rank's view is that while there is a limit to the extent to which control can be exercised efficiently and responsibly from a single central point, that limit had not yet been reached in the case of The Rank Organisation Ltd, and that it is not within sight of being reached because, far from having an increasing number of boards and committees to cope with, the Organisation has in fact over the years succeeded in reducing the number and thus in cutting down the time spent in board meetings. This has been achieved by keeping the management structure under continual review and bringing together under single management control, as opportunities have arisen, activities previously carried on under separate managements. Rank also takes the view that in any large organisation all basic decisions are in the long run approved by the Chief Executive. In any case, we were told, all divisions of the Organisation are subjected to a management audit once in three years.

### **Financial resources**

63. In De La Rue's Report and Accounts for the year ended 31st March 1967, the Chairman's Review contained the following statement:

“The consistent policy of the Board has been to strive to maintain a high rate of growth accompanied by the profits which would permit such a policy to be sustained. These aims resulted in the rapid expansion of existing businesses and, simultaneously, a search for new areas of activity promising long-term profit and growth. As a result of these policies new businesses were started within the orbit of the main operating companies and major investments were made in the fields of computer marketing and of thermo-electricity. Expansion on this scale could only be sustained if the profit and cash generation of the established businesses also expanded rapidly. Unfortunately in the short term, profits from the older businesses did not live up to expectations because of the growth of world-wide competition and the period between the start-up of new businesses and emergent profitability proved to be much longer than planned. Two years ago, therefore, the Board decided upon a programme of retrenchment which began to make itself felt in the year 1965-66 . . .”

64. Rank regards the above statement as clearly indicating that De La Rue has been hampered in its expansionist aims by a lack of funds for more investment. Rank has drawn our attention to a number of instances which, it claims, show that De La Rue has withdrawn from profitable or potentially profitable

activities, particularly abroad, either because of a shortage of cash, or because of inability to withstand an initial period of loss or low profitability, or because of inability to invest sufficiently in a given activity. It is claimed that De La Rue has been too dependent on cash flow for new investment, and has had to sacrifice long-term considerations for short-term ones. Rank contrasts its own financial strength, and says that by reason of that strength it is in a position to invest heavily in new ventures where necessary, and to withstand an initial period of low profitability where by so doing a new venture can be brought to profitable fruition in the long term. Rank cites, as evidence of its high financial standing, its own ability to borrow large sums of money at extremely short notice. Rank also claims that the financial disciplines which it applies to enable it to make sound commercial judgments in respect of all new investment, whether of a capital or revenue nature, could be applied to De La Rue's businesses, so as to cause the resources of those businesses to be more efficiently employed.

65. De La Rue holds that it is fully able to finance its own operations and expansion and that in assessing the significance of the withdrawals referred to above it should be taken into account that the activities from which it withdrew appeared likely to take so many years to become viable that it would have been unwise to proceed with them anyway. De La Rue claims that its cash flow in the immediate future is likely to be sufficient to provide for normal replacements of fixed assets and to make a contribution towards the cost of some expansion. It claims also that its ability to raise additional permanent finance has already been demonstrated by the successful "rights" issue to existing shareholders which raised nearly £2½m in May 1968. Furthermore, it has made available evidence to support its claim that it is within its scope to make a further substantial rights issue when required and that in the meantime adequate bank overdraft facilities are available.

66. Rank also regards its ability to raise finance overseas as enhancing its international competitive strength and has furnished details of its credit lines in overseas countries. De La Rue has provided similar information.

#### **Balance of payments**

67. Rank claims that there would be a positive contribution to the balance of payments as a result of its superior overseas marketing ability. This would be achieved in a number of ways. First, Rank would be able to increase the volume of De La Rue's sales of existing products in foreign markets. Secondly, it would be able to extend the range of De La Rue's products beyond what De La Rue could itself achieve. Thirdly, it would tackle the matter of import substitution of laminates more speedily and effectively than De La Rue would do independently. Fourthly, it would terminate loss-making foreign ventures from which a sufficient longer-run return was not to be expected. Fifthly, it would persevere with such further investment as might be necessary in foreign ventures likely to produce a satisfactory longer-run return, in circumstances in which De La Rue might be unable to do so. Finally, it could finance the expansion of De La Rue's foreign activities by means of borrowing abroad, where De La Rue itself could not do so.

68. De La Rue's view of the effect on the balance of payments is based on its belief that there would be an immediate decline in the foreign earnings of its

security printing business (see paragraph 54) and a slower but no less inevitable decline in the earnings of the laminates business. De La Rue has produced for our inspection figures based on the inflow represented by exports of goods, royalties, dividends, technical fees, etc., and the outflow represented by payments, dividends to American Cyanamid Company and capital in the form of loans and shares. These figures exclude the cost of imported raw materials and of machinery on the grounds that such goods are only imported if it is impossible to obtain them more economically or efficiently in the United Kingdom. The effect on the figures of De La Rue's withdrawals from unprofitable activities is also excluded. All in all, De La Rue estimates that the annual net inflow to this country over the five years 1965-69 has averaged £7½m and is expected to increase to £9½m in 1970. (Exports of coinage by the Royal Mint under De La Rue's agency arrangement are not included here.) Against that inflow, it has estimated that the effect of the proposed acquisition by Rank would be an eventual annual reduction of somewhere between £3.3m to £5.3m according to the extent to which unfavourable consequences, e.g. immediate loss of business, loss of dividends, and acceleration of the eventual establishment of national banknote printing presses by overseas governments, were to materialise. The foregoing estimate takes no account of any loss of potential dividends from De La Rue Giori S.A. if that association were to break up. (See paragraphs 33 and 48.)

### **Productivity**

69. Rank and De La Rue both produced evidence as to their labour productivity performance in recent years. In each case the evidence appeared to show that the company had a better performance than the national average for manufacturing industry.

## **CHAPTER 5**

### **The Industrial Background**

70. Both Rank and De La Rue carry on a wide range of diverse activities and there is virtually no overlap between their product ranges at any point. Lists of their various activities are to be found at Appendices 4 and 5.

71. In evidence Rank stated that it would not go *de novo* into any of the markets in which De La Rue is engaged because in each case there is an established market with entrenched market leaders. While Rank independently might enter a completely new field, as it had done in the case of fibre optics, it would need a base from which to work in the case of an established market. In the laminates industry, Formica International Ltd would provide the base. In the field of security services the base would be provided by Security Express Ltd.

72. We found that there was no evidence that De La Rue was likely to enter independently any of the markets in which Rank is engaged.

73. The industries which could be affected by the proposed acquisition would be the four main activities in which De La Rue is engaged, viz., security printing, security services, decorative and industrial laminates, and central heating. The immediate and ultimate effects would be determined by Rank's own policy in

relation to conditions as it found them in each of those activities following the proposed acquisition. Rank told us in evidence that its primary motive in endeavouring to acquire De La Rue was its interest in Formica International Ltd and particularly in the latter's well-established activities in overseas markets for decorative laminates. Rank also told us that while it regarded De La Rue's security printing operations as a good "solid business" it would not have tried to acquire De La Rue for this alone since it did not see the necessary prospects for expansion in that particular industry. Neither would Rank originally have gone into the acquisition for the sake of either the central heating activities or the security services business of De La Rue, although, as it learned more about these activities after the initial acquisition bid had been made, it began to form the view that there were prospects in these industries which it had not originally appreciated. We discussed with Rank the possibility that after the proposed acquisition it might wish to dispose of one or other of these businesses; it appeared, however, from what Rank told us, that it would not be in any position to express firm opinions as to these possibilities before it had had a chance to examine them from the inside. It seemed likely, however, that Rank would allow the security printing business to continue its operations undisturbed in view of its sound basis and prestige.

74. There is a high degree of concentration in the security printing industry in the United Kingdom and particularly in that of banknote printing. We were informed that apart from De La Rue itself there is only one other substantial banknote printer, a subsidiary of an American company. De La Rue also told us that whilst an assessment of the total banknote market is difficult to make it is satisfied that taking one year with another it has 75 per cent of the world market.

75. In the case of security services, the degree of concentration in the industry also appeared to be high. De La Rue's Security Express Ltd, with approximately 1,000 employees, appeared to be the smallest of the three main companies in this field, providing for armoured car cash transport, the guarding of buildings, installations and factories, and so on.

76. In the field of decorative plastic laminates the degree of concentration in the industry is much less than that of the two industries just referred to. In the United Kingdom, FORMICA laminates, the products of De La Rue's subsidiary, Formica International Ltd, face two main competitive products (Waverite and Arborite) and there are also at least four other producers. Further, a notable feature of this market appears to be the scale of imports into the United Kingdom. We were informed for example that in 1967 these amounted to 37 per cent of the total of consumption, representing imports mainly from Italy but also from Sweden, Norway, Germany and Israel. In this field Formica Ltd now has a second brand of decorative laminate to compete with the lower-priced imported products, particularly those from Italy. We were informed that a total of approximately 5 million square feet of this second brand material was sold in the year 1968.

77. In the central heating industry there are over 100 companies offering a wide variety of solid-fuel, gas-fired, oil-fired and electrical central heating appliances. We were informed that the number of installers of these appliances runs into thousands. The appliances market appeared to be dominated by approximately a dozen firms.

## CHAPTER 6

### Conclusions

#### The facts

78. Our reference requires us in the first place to report whether arrangements in progress or contemplation for a merger of The Rank Organisation Ltd and The De La Rue Company Ltd, if carried out, will result in section 6(1)(a) and (b) of the Monopolies and Mergers Act 1965 being satisfied.

79. Section 6(1)(a) would be satisfied if enterprises carried on in the United Kingdom by or under the control of The De La Rue Company Ltd ceased to be distinct from enterprises carried on by or under the control of The Rank Organisation Ltd. A formal offer by Rank for the share capital, ordinary and preference, of De La Rue was announced on 6th December 1968, followed by an increased offer which, however, had not been accepted when the matter was referred to this Commission. Following the reference Rank allowed its offer to lapse stating that it would review the position when the findings of the Commission became known. Thus at the time of our report the proposed merger has not taken place. If, however, a formal offer were made to, and accepted by, the shareholders of De La Rue, Rank and De La Rue would cease to be distinct enterprises. Having regard to section 6(7) of the 1965 Act, therefore, section 6(1)(a) is satisfied.

80. Section 6(1)(b) may be satisfied on either of two conditions, but since our reference requires us not to consider whether the provisions of section 6(1)(b)(i) are satisfied we have only to consider those of section 6(1)(b)(ii), that is to say whether the value of the assets taken over exceeds £5m. As shown in paragraph 23 the assets of De La Rue and its subsidiaries amounted at 31st March 1968 to £39·2m. Section 6(1)(b) is, therefore, also satisfied.

#### The public interest

81. We have next to consider whether, if the proposed merger takes place, the fact of the two enterprises having ceased, in the circumstances of the case, to be distinct enterprises, operates or may be expected to operate against the public interest and in doing so to take into account all matters which appear in the particular circumstances to be relevant.

82. There is one general point which we wish to make here. Appraisal of the public interest in the effect of mergers can include their effect both on competition and on efficiency. The argument was put to us in the present case that if we could find no adverse effects on competition, the market, that is to say the stock market, and not the Commission, was the best judge of efficiency. If the shareholders of the firm being bid for accepted the offer, then by implication, they took the view that the bidding firm would use the assets of the other more efficiently and their judgement on this point should be regarded by the Commission as conclusive. We reject this argument. In the first place, and this is specially true of a contested merger, the Commission may, and probably will, have more information than the market on which to base an assessment of the likely outcome. In the second place we have to reckon with the fact that shareholders faced with an offer are more likely to be concerned with its financial

implications for themselves (including tax considerations) than with the efficiency with which resources are to be used. Shareholders who are offered equity shares in the acquiring company are concerned with the price they could realise for these shares and with the profit prospects of the acquiring company (after the merger) and thus the future price of its shares. It is only in so far as these profit prospects influence the shareholder's decision, and then only in so far as such prospects may be affected by the consequences of the merger for the efficiency with which the resources of the acquired company are used, that he will have an interest in assessing these consequences. The importance of this consideration for the shareholder depends, broadly, upon the size of the acquired company relatively to that of the acquiring company. Further, the consideration is likely to be less important where the shareholders of the acquired company are offered fixed-income securities; and it is irrelevant where they are offered cash. The connection, therefore, between the shareholders' assessment of a take-over offer and their assessment of the effects of the take-over on efficiency is not as direct or straightforward as the argument suggests, and may indeed be tenuous, remote or even non-existent, according to the particular circumstances. We conclude that the stock market's reaction cannot, therefore, be relied on to reflect the efficiency aspects of a take-over.

83. In reaching our conclusions, while we have taken note of the fact that the constitution of Rank is such that effective control does not and cannot rest with its equity shareholders we have not been influenced in our decision by this fact or by its possible implications.

### **Competition**

84. We considered the effects which the merger might have on the state of competition in the industries involved. Neither of the companies is making goods which compete with any of the products of the other (see Appendices 4 and 5) and the merger would not, therefore, lead directly to increased concentration in any of those industries.

85. *Prima facie*, an acquisition by a large company may have some deterrent effect on persons or companies who might otherwise consider entering an industry in which the acquired company is operating. The presence and strength of the deterrence depends on a number of circumstances including the state of competition in the industry. Of De La Rue's operations, those of banknote printing and to a lesser extent security services are in highly concentrated industries with substantial barriers to entry. We do not think that the merger would affect the difficulties facing new entrants. Laminate manufacturing, allowing for foreign competition, and gas- and oil-fired boiler manufacturing are reasonably competitive industries. We do not think the merger would have any significantly adverse effects on entry into these industries.

86. Where the acquiring company is already diversified, and especially in the case of one which, like Rank, regards its marketing skills as widely applicable, it would seem to represent a potential competitor in a wide range of industries. Rank, however, has told us (see paragraph 73) that it would not have embarked on this merger in order to acquire any of the De La Rue businesses other than Formica. Moreover, in explaining its growth policy to us, Rank has made it plain (see paragraph 39) that in looking at businesses for acquisition the nature

of the product as such is not regarded as of first importance. It would be unrealistic, therefore, to regard Rank as a potential entrant even into the laminate manufacturing industry should the present merger be disallowed. We have no evidence that De La Rue is a potential entrant into any of the industries in which Rank operates at present.

87. There must, we think, be a possibility that, in the event of the merger taking place, some of Rank's enterprises, for example hotels and places of entertainment, would become tied users of laminates and that the security business would be required to purchase Rank's closed-circuit television equipment and fibre optical equipment. In view of the very small quantities involved we feel justified in disregarding the anti-competitive effects. It is possible, on the other hand, that Rank might be able to promote competition in the security services industry, a possible development which it described to us (see paragraph 42).

#### Use of resources

88. We considered the likely effects of the merger on the use of resources, whether there might be gains or losses in efficiency, under a number of headings. Before setting out our conclusions, however, we must take note of special circumstances affecting the nature of the evidence put before us on these matters. This being a contested take-over Rank has had to reach its conclusions about De La Rue with the assistance only of such information about the latter's affairs as De La Rue itself has made public and of its own enquiries. These enquiries have had to be made into fields in which Rank has no first-hand knowledge or experience. Further, where the outcome of the merger in particular matters is uncertain, it would not be unnatural for De La Rue, which is resisting the merger, to take a pessimistic view of the possibilities.

89. *Technical.* Rank makes no claim to bring any specific technical resources to the De La Rue business except in the field of security services in which Rank's expertise in closed-circuit television and in fibre optics is applicable. Nevertheless, Rank thinks that the disciplines employed in its own research and development activities together with the general advice given by its Research and Development Committee (see paragraph 45) would be of benefit to De La Rue. This is possible but there is no way of evaluating such a claim.

90. Much of the specialised technical information used in De La Rue's Fornica business comes from the American Cyanamid Company (see paragraph 46). In addition to having the views of De La Rue on this matter we have also heard what the American company was prepared to say (see paragraph 47). We are satisfied that the actual flow of information, while based upon the technical exchange agreement between the two companies, has been built up to its present level by confidence and trust established over the years by personal contacts, especially those between the scientists employed by the two companies.

91. So far as the formal technical exchange agreement is concerned we think it most unlikely that Rank would be able to obtain more from American Cyanamid than De La Rue (see paragraph 45), and that even to obtain as much, a price in terms of giving the American company a bigger share in the joint business might have to be paid.



92. On the valuable working relationship which determines the actual flow of information, while in the longer term there is no obvious reason why Rank should not be able to achieve a similar understanding with American Cyanamid to that now enjoyed by De La Rue, there is likely to be a period of interruption before this can happen. This period might continue for some time and meanwhile damage would be suffered by De La Rue's Formica business, and opportunities for specific developments might have been lost.

93. Somewhat similar considerations obtain in the matter of De La Rue's relations with Mr. Giori (see paragraph 48). At best these would be no better after a take-over by Rank than those at present enjoyed by De La Rue. But we cannot dismiss the possibility that a valuable source of technical information would be lost as the result of a disruption of confidence based on personal relations.

94. Where relations with both American Cyanamid and Mr. Giori are concerned the most important single factor involved is the retention of De La Rue's senior management and we have more to say about this in paragraph 98 below.

95. *Marketing.* Rank's claim to be more competent in marketing and to possess a better organisation for carrying it out is its main ground for believing that the merger would lead to an increase in De La Rue's efficiency (see paragraph 50). In support of this claim it has quoted its own performance and its opinion that De La Rue has failed to take advantage of what appear to Rank to be market conditions favouring an expansion of sales of decorative laminates and gas-fired boilers (see paragraph 51).

96. We accept that Rank's management is thoroughly market-orientated and that it has a good organisation for marketing its present products both in the United Kingdom and overseas. Although we think that in assuming that De La Rue has failed to exploit market opportunities in decorative laminates Rank has overlooked the keenness of foreign competition in this field, we cannot exclude the possibility that Rank might be able, in the longer term, to market certain of De La Rue's products more efficiently. From such possible improvement, however, we exclude the banknote printing business. De La Rue has expressed to us it fears that this business would suffer serious damage simply by reason of its being taken over by Rank (see paragraph 54). If this were the only consideration then we would feel that De La Rue's fears were exaggerated and that provided the De La Rue name and management were retained no significant damage would be likely to follow. We accept, however, De La Rue's contention that confidence and trust established over the years by close personal contact at top level is all-important to the success of the business and it is on this account as we explain below under "Management" that we think there is a real risk of loss of business as a result of personnel changes.

97. We note that Rank believes it necessary to strengthen its non-Xerox activities so as to improve its prospects of further partnerships with US companies in the field of international marketing. Whatever significance this argument may have for the public interest its validity in this case clearly depends on the merger with De La Rue being a successful one and on this our views are set out in paragraphs 103–106 below. In any case we see no reason why Rank

should not have other opportunities of strengthening its non-Xerox activities, whether by acquisition or by internal growth.

98. *Management.* We gave some consideration to the structure and methods of management in the two companies but found no clear indications suggesting either advantage or disadvantage following a merger. Of much greater importance in our view is the likely reaction of the De La Rue management, as individuals, to being taken over by Rank. We are satisfied that the merger would have serious adverse effects on the present, and in our view efficient, management of De La Rue in the sense that there is near certainty (see paragraph 60) that several key persons would leave and others, even if they remained, would suffer loss of morale. Because of the different character of the two businesses Rank could not from its own resources make up for loss of management personnel in De La Rue. While in due course replacements would no doubt be found, in the transition period there could be severe loss of efficiency the effects of which could persist for a long time. There is also a serious risk of loss of business, including foreign business and business opportunities, since, as we have already pointed out in paragraphs 92 and 93 above, in certain important fields the retention, and increase, of business depends upon the establishment and maintenance of confidence based on personal relations, and the likely loss of key personnel could mean an immediate loss.

99. *Financial.* Rank claims that De La Rue's past performance in some fields has been adversely affected by shortage of funds (see paragraphs 63-64) whereas their own stronger financial position would enable them to take a longer view and carry new activities through their initial period of loss. We accept that Rank is better placed in this respect but we have no evidence, and Rank admits that it has none, that De La Rue is or is likely to be handicapped in this way in carrying out any desirable developments in its business.

100. *Productivity.* From the details with which they have provided us (see paragraph 69) both companies appear to have had a better performance in respect of increasing labour productivity than the national average for manufacturing industry. Whatever light this information may throw on the efficiency of each company in its own fields of production, it does not otherwise help us to draw any conclusions about the likely effects of the merger on efficiency.

#### **Balance of payments**

101. Since there is a strong export aspect to both businesses, their claims with respect to the likely effects of the merger on the balance of payments reflect fairly closely their views on the consequences in general. Rank has stressed the benefits which it would expect to flow from what it regards as its superior overseas marketing ability and organisation. De La Rue has concentrated on the potential damage to its export business and other earnings and overseas operations in ways which we have already examined.

102. We, too, find it difficult to reach a conclusion about the balance of payments effects which can be usefully distinguished from our more general assessment of the prospects and risks attached to this merger which we bring together in the following paragraphs.

### Conclusions

103. To summarise our views about the proposed merger, we think there is a serious risk that the efficiency and trading volume of De La Rue will be adversely affected. If De La Rue were relatively unimportant in its various fields of operation the recognition of this serious risk would not necessarily involve the public interest. But several of De La Rue's operations are in fields in which it is the leading company, or one of the leading companies, with overseas competitors, so that any loss of efficiency would correspondingly harm the public interest including the balance of payments.

104. While we cannot exclude the possibility that if other things were left unchanged by the merger the marketing orientation of Rank's management might lead to greater efficiency, this effect is in our judgment outweighed by the real risk (bordering on near-certainty in some matters) of loss of efficiency, with damaging long-term implications, together with real risk of loss of important business, and business opportunities. These losses would be difficult or impossible to make up later.

105. In any contested take-over, the bidder must be less well-informed about the target company than if the take-over is amicable. Having received submissions from both companies and had the benefit of hearing their representatives we have formed the opinion that the merger would bring with it a real and serious risk of damage to the efficiency of De La Rue's business through its effects on management personnel and consequently on overseas trading connections. While we appreciate that Rank believes it could raise the efficiency and profitability of De La Rue, and while we can recognise the broad grounds on which it bases this belief, we think that it has under-estimated the difficulties with which it would be faced and the risks it would run.

106. Accordingly, our conclusion is that the fact of enterprises carried on in the United Kingdom by or under the control of The De La Rue Company Ltd ceasing, in the circumstances of the case, to be distinct from enterprises carried on by or under the control of The Rank Organisation Ltd operates, and may be expected to operate, against the public interest. We are unable to recommend any action which would remedy or prevent the mischiefs which might result if the merger were permitted. We therefore recommend that the merger should not be permitted.

### "General observations on mergers"

107. Before signing our report we draw attention to the Annex\* under the above title which is attached to this report. We completed this Annex in the course of our enquiry and we hope that it will be of interest to the Board of Trade and others concerned with merger developments in this country.

ASHTON ROSKILL (*Chairman*)

ROGER FALK

R. G. OPIE

E. L. RICHARDS

S. A. ROBINSON

J. M. A. SMITH

L. H. WILLIAMS

B. S. YAMEY

E. L. PHILLIPS (*Secretary*)

15th May 1969

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\* The terms of this Annex are the same as those of the Annex attached to the Commission's report on the proposed merger of Unilever Ltd and Allied Breweries Ltd.

APPENDIX 1

**Reference to the Monopolies Commission under section 6  
of the Monopolies and Mergers Act 1965**

1. Whereas it appears to the Board of Trade that arrangements are in progress or contemplation for the merger of The Rank Organisation Ltd and The De La Rue Company Ltd being arrangements which, if carried into effect, will result in section 6(1)(a) and (b) of the Monopolies and Mergers Act 1965 being satisfied in that:

- (i) enterprises carried on by or under the control of The De La Rue Company Ltd will cease to be distinct from enterprises carried on by or under the control of The Rank Organisation Ltd;
- (ii) assets of a value exceeding £5,000,000 will be taken over.

Now, therefore, the Board of Trade in pursuance of the powers conferred upon them by section 6(7) of the said Act hereby refer this matter to the Monopolies Commission for investigation and report.

2. The Commission when investigating and reporting upon the facts shall not consider whether the provisions of section (6)(1)(b)(i) are satisfied.

3. The Commission shall report upon this matter within four months from the date of this reference.

Dated 28th January 1969.

F. W. GLAVES-SMITH  
*An Under Secretary of the Board of Trade*

**The Rank Organisation Ltd:  
Its Subsidiaries and Associated Companies**

**Principal Subsidiary Companies**

Gaumont British Ltd	...	...	...	...	United Kingdom
Hilger & Watts Ltd	...	...	...	...	United Kingdom
A. Kershaw & Sons, Ltd	...	...	...	...	United Kingdom
H. J. Leak & Co. Ltd	...	...	...	...	United Kingdom
Odeon Associated Theatres Ltd	...	...	...	...	United Kingdom
Odeon (Ireland) Ltd	...	...	...	...	Eire
Odeon Properties Ltd	...	...	...	...	United Kingdom
Odeon Theatres (Canada) Ltd	...	...	...	...	Canada
Rank Advertising Films Ltd	...	...	...	...	United Kingdom
Rank Bush Murphy Ltd	...	...	...	...	United Kingdom
Rank Film Distributors Ltd	...	...	...	...	United Kingdom
Rank Film Processing Ltd	...	...	...	...	United Kingdom
Rank Hotels Ltd	...	...	...	...	United Kingdom
Rank Leisure Services Ltd	...	...	...	...	United Kingdom
Rank Precision Industries Ltd	...	...	...	...	United Kingdom
Rank Precision Industries Holdings Ltd	...	...	...	...	United Kingdom
Rank Television and General Trust Ltd	...	...	...	...	United Kingdom
Rank Xerox Ltd	...	...	...	...	United Kingdom*
Strand Electric Holdings Ltd	...	...	...	...	United Kingdom

**Principal Associated Companies**

Cathay Organisation (Malaya) Sdn Berhad	...	...	Malaya
Ceylon Theatres Ltd	...	...	Ceylon
The Greater Union Organisation Pty Ltd	...	...	Australia
Matubel NV	...	...	Holland
Union Investments Ltd and associated companies	...	...	New Zealand
Mulchandani Electrical and Radio Industries Ltd	...	...	India
Murphy India Ltd	...	...	India
Rank Estates Ltd	...	...	United Kingdom
Rank Property Development Ltd	...	...	United Kingdom
Southern Television Ltd	...	...	United Kingdom
Fuji Xerox Company Ltd	...	...	Japan
Xerox Corporation	...	...	USA

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\* Rank Xerox Ltd, and its subsidiaries operate in Britain, Europe, Asia, Africa and Australasia, and in Japan through a 50 per cent owned associated company.

APPENDIX 3

**The De La Rue Company Ltd:  
Its Subsidiaries and Associated Companies**

**1. The De La Rue Finance Company Ltd**

**2. Thomas De La Rue International Ltd**

Thomas De La Rue and Company Ltd	...	...	...	...	...	United Kingdom
Thomas De La Rue Engineering Ltd	...	...	...	...	...	United Kingdom
De La Rue Cylinders Ltd	...	...	...	...	...	United Kingdom
Security Express Ltd	...	...	...	...	...	United Kingdom
Courier Express Ltd	...	...	...	...	...	United Kingdom
De La Rue Instruments Ltd	...	...	...	...	...	United Kingdom
Federated Banknote Printing Company Ltd	...	...	...	...	...	United Kingdom
Thomas De La Rue SA Industrias Gráficas	...	...	...	...	...	Brazil
Thomas De La Rue de Colombia, SA	...	...	...	...	...	Colombia
De La Rue Transportadora de Valores, SA	...	...	...	...	...	Colombia
Internacional de Publicaciones, SA	...	...	...	...	...	Colombia
Thomas De La Rue Inc.	...	...	...	...	...	USA
Thomas De La Rue, AG	...	...	...	...	...	Switzerland
De La Rue (Bahamas) Ltd	...	...	...	...	...	Bahamas

**Associated Companies**

G.E.I.S. Ltd	...	...	...	...	...	United Kingdom
De La Rue Giori, SA	...	...	...	...	...	Switzerland
Security Engineering Ltd	...	...	...	...	...	Bahamas
Pakistan Security Printing Corporation Ltd	...	...	...	...	...	Pakistan
Nigerian Security Printing and Minting Company Ltd	...	...	...	...	...	Nigeria

**3. Formica International Ltd**

Formica Ltd	...	...	...	...	...	United Kingdom
Formica Wood Products Ltd	...	...	...	...	...	United Kingdom
Tyne Board Company Ltd	...	...	...	...	...	United Kingdom
British Plimber Ltd	...	...	...	...	...	United Kingdom
Consort Laminates Ltd	...	...	...	...	...	United Kingdom
S.A. Formica	...	...	...	...	...	France
Formica GmbH	...	...	...	...	...	Germany
S.A. Formica Belgium NV	...	...	...	...	...	Belgium
Formica Española SA	...	...	...	...	...	Spain
Formica Nederland NV	...	...	...	...	...	Holland
Formica Plastics AG	...	...	...	...	...	Switzerland
Formica (NZ) Ltd	...	...	...	...	...	New Zealand
Formica Plastics Pty Ltd	...	...	...	...	...	Australia
SA des Produits Industriels Formica	...	...	...	...	...	France
Formica India Ltd...	...	...	...	...	...	India

**4. Potterton International Ltd**

Thomas Potterton I.td	...	...	...	...	...	United Kingdom
Potterton Europe Ltd	...	...	...	...	...	United Kingdom

Enviwarm Ltd	...	...	...	...	...	United Kingdom
Potterton Overseas Holdings Ltd	...	...	...	...	...	United Kingdom
Abair Potterton SA	...	...	...	...	...	Belgium
Potterton Pty Ltd	...	...	...	...	...	Australia
<b>5. Frigistor Holdings Ltd</b>						
De La Rue Frigistor Ltd	...	...	...	...	...	United Kingdom
De La Rue Frigistor SA	...	...	...	...	...	Switzerland

## APPENDIX 4

**The Activities of The Rank Organisation Ltd****f Advertising Films Division**

Distribution of commercials in over 800 cinemas and bingo clubs in the United Kingdom.

Production of cinema and television commercials.

Production of sponsored, industrial, training and educational films.

Illuminated poster sites for advertisers in Top Rank Clubs and certain independent clubs.

**Audio Visual Division****Rank Audio Visual**

Automatic theatre projection and house control systems (for cinemas, hotels and industry).

Rank Aldis Epivisor.

Rank Aldis 16-mm portable sound projectors.

Rank Aldis tutor slide and film strip projectors.

Rank Language Laboratory.

Technicolour 8-mm loop film projectors.

Salesmen training kits.

**Rank Film Library**

Audio visual language courses on tape and film.

Distribution of 16-mm educational, training, sponsored and entertainment films; 8-mm concept films and 35-mm film strips.

**Rank Photographic (includes Top Rank Film Processing)**

Asahi Pentax 35-mm single lens reflex still camera system.

Asahi Pentax binoculars.

Rank Aldis Super 8-mm cameras and projectors.

Rank Aldis 126 Instamatic still cameras.

Rank Aldis slide projectors and accessories.

Rank Aldis photographic accessories.

Processing and printing of still films.

**Rank Strand Electric**

Television and theatre lighting.

Optica projectors.

Lighting control units.

Colour filters.

Electrical contracting.

Lighting hire.

Television scenery.

Strip lighting and animated devices.

Chalk boards, including automatic remote control chalk board/screen units.

Cinemeccanica professional film projection and sound equipment.

Closed-circuit television systems and video tape recording equipment.

Communication systems for educational, security and entertainment.

Floor coverings, curtains and draperies.

Hortsen 16-mm professional projection equipment.

Secundalux secondary lighting equipment.

Sound reinforcement equipment.

Stage equipment.

Seating for lecture halls, theatres, churches and stadia.

**Rank Studio Equipment**

Arriflex 16-mm and 35-mm motion picture and television cameras (UK only).

Film and television camera mounting equipment.

Front projection equipment.

Laboratory processing and printing equipment.

Rank Taylor Hobson motion picture lenses (UK only).

U.D.C. systems and crash recorders.

Westrex sound recording and reproduction equipment.

Projection equipment.

Ianairo studio lighting equipment.

Broncolor studio flash equipment.

**H. J. Leak & Co. Ltd**

High-fidelity amplifiers.

High-fidelity tuners.

High-fidelity loud speaker systems.

**Pullin Photographic**

Konica 35-mm still cameras.

Nikon 35-mm single lens reflex still camera system.

Bauer Super 8-mm cine cameras and projectors.

Nikon binoculars.

Nikon Super 8-mm cameras.

Rank Hylite slide projectors.

Elektra photographic accessories.

Mamiya 2¼-in square and 35-mm single lens reflex still cameras and professional equipment.

Da-Lite screens.

Commercial and industrial still camera lenses.

**Andrew Smith Harkness Ltd**

Screens and screen frames.



**Rank Wharfedale****Loudspeakers:**

- High-fidelity stereo units.
- High-fidelity cabinet models.
- Extension speakers.
- Public address units and systems.
- High-quality speakers for original equipment manufacturers.

**High-fidelity components including:**

- Stereo amplifiers and tuners.
- Amplifiers and tuners by Akai.
- Speakers by Akai.
- Tape recorders by Akai.
- Turntable assemblies.
- Public address amplifiers.
- Portable public address equipment.

**Bush Murphy Division**

- Colour and monochrome television receivers.
- Radios.
- Radiograms.
- Record players.
- Tape recorders.
- Unit stereo equipment.

**Celluloid Products Division**

- Film stripping and recovery.

**Data Systems Division**

- Servicing of Xeronic high-speed computer output printers.

**Film Processing Division**

- Comprehensive laboratory processing services for all motion picture film, colour and black and white, in the 35-mm, 16-mm and 8-mm gauges, including:

- Production processing and rushes printing of major studio features and television series, cinema and television commercials, industrial films and tele-recordings.

- Special effects, opticals and the Rank Travelling Matte process.

- Sound recording, dubbing and transfer studios.

- Release printing of 35-mm and 16-mm copies for cinema distribution at home and overseas, and for television transmission.

- Printing of 8-mm home entertainment film, printing and cassetting of 8-mm educational film loops, and printing of 35-mm film strips.

**Film Production Division**

- Production of feature films, television film series and commercials at Pinewood Studios.

- Available at Pinewood for outside producers:

- Five film stages covering 158,900 sq.ft. Outdoor "lot" of 72 acres, 50 departments with 1,000 skilled technicians and craftsmen, covering all aspects of film production.

### **Hotels Division**

Hotels: 17 hotels, both “city-centre”—designed for the businessman and traveller—and holiday hotels in the United Kingdom and Europe.

### **Leisure Services Division**

Bingo: operation of 56 full-time Top Rank Clubs, in addition to part-time situations.

Bowling centres: 18 centres throughout the United Kingdom.

Catering: operation of restaurants, banqueting suites, licensed bars and buffets.

Dance clubs: 10 Top Rank “Rendezvous” for dancing.

Ice rinks: two indoor rinks.

Live shows: presentation of live entertainment, ranging from popular music to opera and ballet, at theatres throughout the country.

Motorports: four service areas on Britain’s motorways, offering fuel and catering facilities.

Suites and ballrooms: 18, for banquets, conferences and dancing.

Theatres: exhibition of films at 272 theatres in Britain.

(The Rank Organisation also controls or operates in partnership over 660 theatres overseas.)

### **Odeon Northern Ireland Division**

Exhibition of films at 15 theatres in Northern Ireland.

Presentation of live shows.

### **Overseas Film Distribution Division**

An international film selling organisation, serving many British, American and European producers, in addition to The Rank Organisation.

### **Rank Precision Industries Division**

#### **Metrology**

Talyrond roundness measuring instruments.

Talysurf & Surtronic surface texture measuring instruments.

Talystep step-height measuring instruments.

Talylin straightness measuring instruments.

Universal profile projectors.

Microptic theodolites.

Quickset, Autaset, Microptic & Cowley levels.

Photogrammetric instruments.

Seismometers.

Micro-alignment telescopes.

Auto-collimators, visual and photo-electric.

Clinometers, levels and Talyvel electronic level angular digitizers.

Digital linear transducers.

Length measuring instruments.

Scales and readers.

Talymin comparator gauges.

Photo-electric and Talyden microscopes.

Interferometers.

Television grids.

**Analytical**

Absorptiometers.  
 Spectrum comparators.  
 Infra-red gas analysers.  
 Heat treatment atmosphere-control equipment.  
 Interferometers.  
 Photographic spectrographs.  
 Automatic spectrometers.  
 Atomspek spectrophotometers.  
 Infra-red spectrophotometers.  
 Uvispek spectrophotometers.  
 X-ray diffractometers.  
 X-ray fluorescence spectrometers.  
 Portable isotope analysers.

**Broadcast****CINTEL**

35-mm and 16-mm colour or monochrome film scanners.  
 Two-position colour or monochrome slide scanner.  
 60- and 30-position colour slide scanner.  
 Tariff processing equipment.  
 Single-wire control systems.  
 Encoders and decoders.  
 Camera-type colour telecine.

**TELECOMMUNICATIONS**

Mitre, H.F. patrol radio, F.M. pack radio set.  
 Homer/transponder beacon.  
 High-precision tactical Navaid.  
 Insulation and pulsed flash tester.  
 Crosshatch and dot pattern generator.  
 I.F. sweep and marker generator.

**STANLEY COX MEDICAL EQUIPMENT**

Faradic, galvanic and sinusoidal apparatus.  
 Ultrasonic equipment.  
 Ultra short-wave therapy equipment.  
 Microwave apparatus.  
 Ultra-violet, infra-red and radiant heat equipment.  
 Wax baths.  
 Remedial, massage and gymnastic equipment.  
 Cardioscope.  
 Surgical diathermy.

**TAYLOR HOBSON**

Cooke speed panchro lenses for motion picture production.  
 Monital lenses for closed-circuit television and 16-mm motion pictures.  
 Varotal zoom lenses and Sental controls for broadcast television production.  
 Ortal and Vidital fixed focal length lenses.  
 Kinetel industrial lenses.

## **Industrial**

### **ALDIS**

Aldis slide projectors.

### **KERSHAW**

Fibre optics, coherent and non-coherent, fibrosopes.

Industrial optics.

Engraving machines and cutters.

Precision engineered components.

Government optical systems.

Opto/mechanical systems.

Taylor Hobson process and aerial lenses.

Apotal process lenses.

### **WRAY OPTICAL**

Process and industrial lenses.

Copying lenses.

Amateur photographic lenses.

Binoculars.

Binocular magnifiers.

Projectors.

### **MICROWAVE INSTRUMENTS**

Microwave test equipment.

Microwave teaching and demonstration apparatus.

Waveguide components.

Moisture measuring equipment.

Radar test gear.

Aluminium waveguide systems for aircraft.

Government contracts.

### **HILGER ELECTRONICS**

Nuclear particle track measuring systems.

Mass spectrometer digitising systems.

Scientific measuring equipment and systems.

Radio and optical telescope control systems.

Diffraction control systems.

Microcircuit drawing engines.

Microdensitometers.

Automatic Starplate measuring machines.

### **RANK ELECTRONIC TUBES**

Special Cathode-ray Tubes:

High brightness head-up display tubes.

Matricon alpha-numeric display tubes.

Monocon high definition tabular display tubes.

High resolution tubes.

Multi-gun tubes for thermographic displays.

Scanning tubes.

Airborne display and recording tubes.

Radar tubes.

Instrument tubes.

Custom-built display tubes.

Photo-electric cells for switching and photometry.  
Physics demonstration tubes for educational uses.

#### **RANK PULLIN CONTROLS**

Government contracts.  
D.C. motors.  
Gyro stabilisation equipment.  
Sonar equipment.  
Small precision gearboxes.  
Portable metal detectors.  
Industrial metal detectors.  
Aldis lamps.

#### **SOLUS SCHALL**

Comprehensive pipeline service including provision of Engineers' Welding, Coating and Reinstatement Inspectors.  
Engineering inspection of materials, high-pressure pipe and pre-stressed concrete.  
Heavy fabrication inspection including shot blasting and painting.  
Laboratory and on-site non-destructive testing services, including X- and gamma-radiography, ultrasonic, magnetic particle and dye penetrant techniques.  
Leak detection.  
Cathodic protection services, including survey, design, supply of materials, installation and commissioning of schemes and maintenance.  
Comprehensive diving service.  
Holiday detectors.

#### **Rank-R.E.C. Limited**

Development and marketing of advanced learning systems in the field of educational technology, throughout the world with the exception of the Americas and certain Far East territories.  
Edison Responsive Environment Learning System (the "Talking Typewriter").  
The "Talking Page" and the "Edison Disc".  
The "Voice Mirror".  
Instruction course material.

#### **Rank Xerox Limited**

Manufacture and marketing of xerographic equipment for high-speed document copying throughout the world with the exception of the Americas.  
914 copier, 813 copier, 3600 copier/duplicator, 720 copier/duplicator, 420 copier/duplicator, 660 copier/duplicator.  
Computer forms printer for reproducing computer output.  
Copyflo printer for high-volume copying and for reproduction of engineering drawings, etc., from microfilm.  
1824 printer for reproducing from microfilm.  
System 600 for reproducing from microfilm.  
1860 printer for reproducing engineering drawings.  
Model 1385 equipment for making offset litho printing masters.

### **UK Film Distribution Division**

Distribution of British, American and other foreign films, in addition to Rank Organisation productions, throughout the United Kingdom and Republic of Ireland, Malta and Gibraltar.

### **Southern Television Limited**

The Rank Organisation has a 37·5 per cent interest in Southern Television.

## **APPENDIX 5**

### **The Activities of The De La Rue Company Ltd**

#### **Thomas De La Rue International Group**

Banknotes, postage stamps, cheques, share certificates, bonds, security print, financial print, systems print, banknote paper and card counting machines, currency changing machines, banknote authenticating machines, minting machinery, automatic banking encashment machines, security transportation of cash and valuables; wage packet filling; guarding, patrolling and security advisory services.

#### **Formica International Group**

Decorative and industrial laminates, wood chipboard, engraving material, golf accessories, thermoplastic packaging, building systems and components incorporating other FORMICA products, adhesives, PVC piping, sheets and blocks.

#### **Potterton International Group**

Boilers for either or both hot-water supply and central heating, central heating radiators, warm-air units, boiler and heating system programme controllers, combined hot-water and central heating system controllers, fan-assisted air heaters for incorporating in hot-water circuits, "Electricaire" night-storage heating appliances and systems, gas burners.

#### **De La Rue Frigistor Group**

Scientific instruments for measurement and control, thermocouple ice-point reference chambers and systems, instruments for determining the mobility of oils, accelerated weathering instruments, instruments for determining the hydrogen content of metals.

## APPENDIX 6

**The Ownership and Control of The Rank Organisation Ltd**

The authorised and issued share capital of The Rank Organisation is at present as follows:

	<i>Authorised</i>	<i>Issued</i>
	£	£
£1 6¼% Cumulative Preference ...	10,000,000	9,996,014
£1 8% Second Cumulative Preference	3,000,000	2,601,787
5s. Ordinary ... ..	4,000,000	3,787,966
5s. 'A' Ordinary ... ..	17,750,000	13,218,239
	£34,750,000	£29,604,006

Only the 5s. Ordinary Shares carry votes, and 53 per cent of the Ordinary Shares (8,026,040 out of 15,151,864) are beneficially owned by Odeon Cinema Holdings Limited (OCH), which is itself controlled by Film Development & Research Limited (FDR) through the latter's control of Group Holdings Limited. Thus the ultimate control of The Rank Organisation resides with FDR.

The circumstances in which FDR was incorporated are set out in the following extract from Appendix 6 of the Commission's Report on the Supply of Films for Exhibition in Cinemas:

"In order to ensure that the control of the Group should remain in British hands, particularly in the event of the death of Lord Rank, another company, Film Development and Research Limited (FDR), was incorporated as a company limited by guarantee; to this company Lord Rank and his wife transferred their controlling interest in Group Holdings, so that FDR then became the company controlling the Group. Under the Articles of Association FDR the number of members of the company is limited to fifty, the Directors have full discretion as to the admission of any person as a member, and membership is not transferable or transmissible. In the company's Memorandum of Association the first stated object for which the company is established is:

To encourage and assist the production of such cinematograph films by persons engaged in the British Industry . . . as shall be deemed by the Directors of the Company to be or to be likely to be in the national interest or to be calculated to enhance the reputation of the United Kingdom, its manufacturers or its way of life in countries overseas, and to encourage and assist the distribution and exhibition of any such cinematograph films.

In addition to transferring their control of Group Holdings to FDR, Lord Rank and his wife transferred shares carrying the greater part of the income from Group Holdings to a charitable trust known as the J. Arthur Rank Charity which is concerned with the promotion of the Christian religion, the promotion of education, and 'any other charitable objects or purposes'. All the Directors of FDR, of Group Holdings and of OCH are trustees of the J. Arthur Rank Charity.

In 1955 the name of Odeon Theatres Limited was changed to The Rank Organisation Limited. In 1958 United Artists' 50 per cent interest in the equity of OCH was acquired by a subsidiary of Group Holdings called FD&R Holdings Limited and in 1961 the Twentieth Century-Fox interest in Metropolis and Bradford was acquired by The Rank Organisation Limited. Thus the American interest and influence in The Rank Organisation was eliminated.

The present position is that, American interest having been eliminated, the ultimate control of The Rank Organisation rests with FDR, which is able, by virtue of its Articles of Association, to ensure that its membership, and therefore control, are at the discretion of its Directors. FDR's control of The Rank Organisation is actually exercised as follows:





## The Rank Organisation Ltd

### Xerox and non-Xerox activities profits and capital employed

	1964	Year ended June			1968
		1965	1966	1967	
	£ millions				
<b>1. The Rank Organisation Ltd (including Xerox activities)</b>					
Profit (1) ... ..	11.8	15.9	23.9	29.6	42.4
Capital (2) ... ..	87.5	113.4	139.9	162.2	180.4
Return on capital ...	13.5%	14.0%	17.1%	18.2%	23.5%
<b>2. Xerox activities only</b>					
Profit ... ..	3.4	8.2	16.6	21.9	33.4
Capital ... ..	16.3	32.2	51.4	70.5	85.8
Return on capital ...	20.7%	25.6%	32.4%	31.1%	38.9%
<b>3. Non-Xerox activities only</b>					
Profit ... ..	8.4	7.7	7.3	7.7	9.0
Capital ... ..	71.2	81.2	88.5	91.7	94.6
Return on capital ...	11.8%	9.4%	8.2%	8.4%	9.5%
<b>4. Manufacturing activities included in 3 (3)</b>					
Profit ... ..	1.7	0.5	0.5	1.9	3.6
Capital ... ..	14.6	16.6	16.9	17.6	19.1
Return on capital ...	11.4%	2.7%	3.1%	10.8%	18.7%
<b>5. Non-manufacturing activities included in 3 (4)</b>					
Profit ... ..	6.7	7.2	6.8	5.8	5.4
Capital ... ..	56.6	64.6	71.6	74.1	75.5
Return on capital ...	11.9%	11.1%	9.5%	7.8%	7.2%

#### NOTES

- (1) Profit is struck before charging about £0.5 million of unallocated central costs in each year, and before charging interest and taxation.
- (2) Capital represents tangible assets: goodwill having been excluded. Fixed assets are included at historic cost less depreciation.
- (3) The Bush Murphy (radio and television manufacturing and electronics) division incurred losses in the three years ended June 1967, principally in the electronics activities.
- (4) The non-manufacturing section comprises mainly leisure activities (including the film industry, bowls, bingo, suites and dancing) and hotels and motorports. Throughout the five-year period, which Rank regards as one of development in so far as hotels and motorports are concerned, losses were incurred in those two businesses. In the years 1966, 1967 and 1968, those losses were substantial.
- (5) Manufacturing activities include radio, television, precision instruments and film processing. Non-manufacturing activities include hotels, catering, bowling, television rental and retail, and the film industry.

APPENDIX 8

**The De La Rue Company Ltd**

**Profits and Capital Employed 1963-64 to 1967-68 (See Note 3)**

	1963-64			1964-65			1965-66		
	<i>Profit</i>	<i>Capital Employed</i>	<i>Profit as a percentage of Capital Employed</i>	<i>Profit</i>	<i>Capital Employed</i>	<i>Profit as a percentage of Capital Employed</i>	<i>Profit</i>	<i>Capital Employed</i>	<i>Profit as a percentage of Capital Employed</i>
	£'000	£'000	%	£'000	£'000	%	£'000	£'000	%
De La Rue ... ..	644	8,490	7.6	821	10,846	7.6	1,004	7,096	14.1
Potterton ... ..	636	2,493	25.5	306	3,936	7.8	533	4,456	12.0
Formica ... ..	1,847	11,975	15.4	2,662	13,974	19.0	2,402	15,584	15.4
	3,127	22,958	—	3,789	28,756	—	3,939	27,136	—
Head Office Administration, Financial Charges (see Note 1), etc. ... ..	[529]	—	—	[636]	—	—	[693]	—	—
Head Office, Financial Charges, etc.— Capital Employed (see Note 2) ... ..	—	1,340	—	—	1,770	—	—	2,451	—
<b>GROUP</b> ... ..	<b>£2,598</b>	<b>£24,298</b>	<b>10.7</b>	<b>£3,153</b>	<b>£30,526</b>	<b>10.3</b>	<b>£3,246</b>	<b>£29,587</b>	<b>11.0</b>
		1966-67			1967-68				
De La Rue ... ..	1,342	6,601	20.3	1,473	6,741	21.9			
Potterton ... ..	10	3,722	0.3	338	3,827	8.8			
Formica ... ..	1,942	15,316	12.7	2,480	16,029	15.5			
	3,294	25,639	—	4,291	26,597	—			
Head Office Administration, Financial Charges (see Note 1), etc. ... ..	[693]	—	—	[629]	—	—			
Head Office, Financial Charges, etc.— Capital Employed (see Note 2) ... ..	—	2,010	—	—	1,359	—			
<b>GROUP</b> ... ..	<b>£2,601</b>	<b>£27,649</b>	<b>9.4</b>	<b>£3,662</b>	<b>£27,956</b>	<b>13.1</b>			

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*Note 1* This item includes all the administration costs of the De La Rue Co. Ltd, together with interest paid and rentals (*less* depreciation) received by the De La Rue Finance Co. Ltd in connection with the renting of computers. No further transactions were entered into after April 1966 but rentals and interest charges continue to accrue.

*Note 2* This consists mainly of capital employed in connection with computer rentals together with Head Office Premises, etc., and adjustments on consolidation.

*Note 3* In 1966 the Group carried out a revaluation of certain property but the effect of this in capital employed has been excluded. All fixed assets are included at written down historical cost.

## Annex

## General Observations on Mergers

## Introduction

1. The merger proposal to which this Report relates has been referred to us at a time when there is considerable controversy about the part being played by merger activity in the economic and social life of the country and apprehensions are being expressed both about the immediate effects of this activity and about its longer term consequences. The existence of this controversy suggested to us that new or insufficiently appreciated aspects of mergers might be coming to light which would need to be borne in mind in examining particular merger proposals. In the course of our inquiry we have therefore given some thought to the main economic and financial issues to which recent public discussion has drawn attention. We record the outcome of this consideration in the following observations, which include sections on recent developments in the United States (paragraphs 2 and 3), recent merger activity in the United Kingdom (paragraphs 4 to 10), "conglomerate" and other classes of mergers (paragraphs 11 to 18), the effects of different classes of merger on competitive conditions and efficiency (paragraphs 19 to 24), the aggregate effects of mergers (paragraphs 25 to 33), and conclusions (paragraphs 34 to 36).

## Recent developments in the United States

2. We begin with a brief reference to recent developments in the United States because these have played a large part in the present critical questioning of merger activities here. In doing so we wish to emphasise that it would be dangerous to conclude that developments in the United States are likely to be reflected here. The relevant conditions in the United States, in particular the scale of the economy and of companies' operations, the effect of the anti-trust laws, fiscal legislation, rules for securities trading and the nature of investment activity, are all very different from those obtaining in this country.

3. The following table shows how the number and scope of large mergers in the United States has increased in recent years:

**Acquisition of "large" manufacturing and mining firms  
(i.e. those with assets of \$10m or more)**

					Number of acquisitions	Total assets of acquired firms (millions)
1966	...	...	...	...	101	\$4,100
1967	...	...	...	...	169	\$8,222
1968	...	...	...	...	192	\$12,616

Source: Federal Trade Commission, *Current Trends in Merger Activity, 1968*, March 1969.

Moreover, whereas in 1964 "conglomerate"\* mergers accounted for 68 per cent of the number and 64 per cent of the assets of all recorded large acquisitions, in

\* The Bureau of Economics of the US Federal Trade Commission classifies mergers in three categories: horizontal, vertical and conglomerate. Conglomerate mergers are further classified into three categories: product extension, market extension and other. "The product extension and market extension categories represent acquisitions in which the acquired and acquiring firms are discernibly related in a production and marketing sense. The 'other' category represents combinations in which such relationships are not discernible. It is this type of merger which has assumed increasing significance. In 1968 43 per cent of all large acquired assets fell in the 'other' category."—Bureau of Economics, Federal Trade Commission, *Current Trends in Merger Activity, 1968 Statistical Report*, March 1969, p. 3.

1968 these figures rose to 84 and 89 per cent respectively. The rapid increase in the number of mergers and in the total size of assets acquired, the change in the character of mergers, the extent to which large companies are being taken over against the wishes of their managements, and the methods of financing mergers, have all contributed to a growing anxiety in the United States.

### Recent merger activity in the United Kingdom

#### (i) *Numbers of acquisitions and size of consideration involved*

4. We have obtained from the Board of Trade figures relating to acquisitions by "large"\* companies covering the five years 1964-68, which show:

- (a) the consideration given by acquiring companies to the shareholders of acquired companies, and
- (b) the numbers of companies acquired.

These figures have been obtained from the Board of Trade who have informed us that the consideration figures are based on market value, but where this is not available, as, for instance in the case of some non-quoted companies, the valuation is based on the value of the net assets acquired, if known, and if not on the nominal value of the shares of the acquired company. The figures are as follows:

Year (Note <sup>1</sup> )	Number of companies acquired (Note <sup>2</sup> )	Total consideration £m	Average consideration £m
1964 ... ..	939	502	0.5
1965 ... ..	995	507	0.5
1966 ... ..	805	447	0.6
1967 (Note <sup>3</sup> )	661	781	1.2
1968 ... ..	598	1,653	2.8

#### NOTES:

1. The figures for the years 1964-67 are derived from the accounts of acquiring companies whose financial years ended within the twelve months to 5th April following the end of the calendar year. The figures for the year 1968 relate to acceptances notified during the calendar year.
2. The acquisitions listed refer to mergers of the type where A acquired B. Mergers of the type where A and B were acquired by a newly-formed C have been excluded: in 1968 there were five such mergers and the total of the combined considerations (i.e. of the consideration paid in each case by C to shareholders of A and B) was £535m.
3. The figures for the year 1967 are incomplete; it is expected that the final figure for total consideration will be about £830m.

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\* 'Large' companies are all those companies which:

- (a) had net assets of £0.5m or more in 1964 or annual income of £50,000 or more in 1964 (for a definition of "net assets" see the footnote to paragraph 8),
- (b) the Board of Trade regard as engaged mainly in the United Kingdom in manufacturing, distribution, construction, transport and certain other services (but excluding banks, financial institutions and some other activities),
- (c) had a quotation on a federated stock exchange in 1964 (exceptionally a few non-quoted companies were included in 1968).

Although acquisitions are included in the figures only where the acquiring companies conform with these criteria, the acquired companies include non-quoted and overseas companies, and companies of less than the minimum size at (a).

The table shows that the numbers of acquisitions have decreased annually since 1965. The increase in total and average consideration after 1966 needs to be interpreted with care, particularly as regards the increase between 1967 and 1968, both because of the qualifications mentioned in the notes to the table and because of the change in the average value of equity stocks, which, having remained fairly steady from the middle of 1965 until the middle of 1967, rose rapidly thereafter and by the end of 1968 was about 55 per cent above the mid-1967 level.\* Nevertheless, even after making allowances for these factors, it is clear that there has been a continuing and substantial increase in the scale of acquisition activities since 1966, whether measured by reference to the total consideration or the average consideration per acquisition.

5. We have questioned how far this increase in the average value of consideration is due to the impact of a very few large mergers and how far it reflects a general change in the size distribution of companies affected by mergers. The only year for which we have direct information on this question is 1968, when it is known that about half of the total consideration was accounted for by seven very large mergers. However, between 1964 and 1968 the annual number of acquisitions of non-quoted companies was roughly halved, while that of quoted companies was roughly doubled (see Part A of Appendix 1, where the information in the table in paragraph 4 is shown separately for quoted and non-quoted companies). Since non-quoted companies tend to be much smaller than quoted companies, these figures suggest that over the five-year period the size distribution of companies acquired has been changing, more large and fewer small companies being acquired by merger in the later years.

(ii) *Reduction in number of companies and transfer of assets as the result of mergers*

6. We have made a survey of certain changes in United Kingdom manufacturing industry as the results of mergers in the period of eight years 1961 to 1968. The scope of this survey is described in the footnote below.† As will be seen, it differs in certain respects from that of the survey discussed in paragraphs 4 and 5 above (see footnote to paragraph 4 and note 2 to the table in that paragraph). It is estimated that the companies whose figures have been included in the survey held not less than 80 per cent of the total net assets of all manufacturing companies in the United Kingdom in the eight years to end-1968. The population of companies in the survey has remained unchanged apart from disappearances resulting from mergers and no companies which first became large enough to meet the size qualification after the beginning of 1961 have been brought in; from an examination of the relevant figures concerning such companies it is our opinion that their inclusion would not have a significant effect on the conclusions which may be drawn from the collected data. Companies which were nationalised in the period 1961–68 have been left out.

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\* Total market values of the equity stocks quoted on the London Stock Exchange of commercial and industrial companies (including brewery companies) were £16,751m at 30th June 1967 and £25,900m at 31st December 1968—"Interest and Dividends upon Securities quoted on the Stock Exchange", London, 1968.

† The survey used in paragraphs 6 to 10 relates only to manufacturing companies and thus excludes companies engaged in distribution, construction, transport and certain other services. It includes all manufacturing companies which:

- (i) had net assets of more than £0.5m at the beginning of 1961,
- (ii) the Board of Trade regard as engaged mainly in the United Kingdom,
- (iii) had a quotation on a federated stock exchange at the beginning of 1961.

Mergers of the type where A and B were acquired by a newly-formed C have been included as if the larger (in net assets) of A and B had acquired the smaller.

7. At the beginning of 1961, the population of the companies in the survey was 1,312; at the end of 1968 the figure was 908, a reduction of 404 or 31 per cent. In Appendix 3 we show for each industrial classification\* the numbers of companies in the survey at the beginning and end of the period. The highest percentage reduction occurred in the drinks industry (52 per cent); in 11 of the 17 manufacturing classes, reductions ranged from 23 per cent to 40 per cent; in four of the classes the range was 13 per cent to 20 per cent; there was no reduction in leather and fur (in terms of net assets the smallest of the 17 classes).

8. The book value of the net assets† of the companies in our survey acquired by other quoted companies in the eight years was about £2,750m, equivalent to about one-fifth of the net assets (averaged over the eight-year period) of the companies whose figures were used in our survey. The data show a marked tendency for the net assets transferred as a result of mergers to increase; thus the net assets transferred in the years 1966, 1967 and 1968 as percentages of the average total net assets in those years were approximately 1½ per cent, 3¾ per cent and 6½ per cent.

(iii) *Concentration of net assets*

9. At the end of 1968 the 28 largest (in terms of net assets) companies in the survey held 50 per cent of the total net assets of the 908 companies whose figures were included. At the beginning of 1961 the 28 largest companies at that time (not in all cases the same companies as in 1968) held 39 per cent of the total net assets of the 1312 companies then in the survey. In Appendix 3 the 28 companies are arranged by industrial classification and a comparison between 1961 and 1968 is given for each classification on the same basis as for the total. Changes in the concentration of ownership of industrial assets are, of course, derived from expansion of existing facilities within the unit as well as from “without” by acquisition of other units. From the information at our disposal it was not possible to distinguish between the effects of these two sources.

(iv) *Diversification*

10. Of the 404 firms taken over (see paragraph 7) 145 were companies taken over by others not in the same industrial classification. Some of these take-overs would have represented vertical mergers and without a detailed knowledge of the activities of the companies concerned it is not possible to say how many of the 145 mergers represented diversification into substantially different types of business.

**“Conglomerate” and other classes of merger**

11. The word “conglomerate” can cause confusion since it is used with different meanings by different people. It seems desirable, therefore, to explain these different meanings and to make clear how we ourselves use the term.

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\* In paragraphs 7, 9 and 10, and Appendix 3, companies are classified by their main activities in accordance with the 14 manufacturing Standard Industrial Classification Orders (second edition 1958), one of which has been sub-divided into three classes, and one into two classes.

† Net assets are defined as the book value of the sum of total fixed assets (net of accumulated depreciation) plus total current assets less total current liabilities and provisions, except provisions for future tax. The fixed assets of some of the companies were revalued during the period but it has not been possible to adjust for this.

12. The word “conglomerate” seems to have first come into use in the United States in discussions about industrial organisation when it was used as an adjective with the noun “merger” for the purpose of denoting mergers that were neither horizontal nor vertical (i.e. with the meaning ascribed to it by the Bureau of Economics of the Federal Trade Commission—see footnote to paragraph 3). Gradually it became associated with the word “firm”—a “conglomerate firm” (soon abbreviated simply to “a conglomerate”) being one that operated in a number of apparently unrelated fields. Usually the term also implies that the diversification took place through acquisition since, for a variety of reasons, it is often much easier for a company to enter a new field which has little relationship to its current activities by acquiring another company already in the field than for it to do so by establishing new manufacturing capacity. For example, it may be very difficult for a company to get a foothold in the manufacture of new products which are technologically unrelated to its existing products unless it can acquire an existing company with the requisite technology. Or even if the new products are related to its existing production, it may nonetheless be much easier and cheaper for the company to break into new markets through the acquisition of companies with the requisite marketing experience or outlets than to attempt to enter the market independently.

13. More recently in the United States other connotations have accrued to the terms “conglomerate merger” and “conglomerate firm”, arising from certain special characteristics of the recent merger boom in that country, namely a sharp rise in the number of acquisitions of companies whose business is completely unrelated to that of the acquiring companies and in the number of acquisitions financed by the issue of paper other than ordinary shares, and the emergence of companies growing at extremely rapid rates through successive unrelated acquisitions financed by the issue of such paper. As a result, the term “conglomerate merger” is now often used, at any rate in the United States, to describe acquisitions by this type of company, and it contains the additional implication that the company itself could have an unsound organisation and financial structure. It is when used in this sense that the term is clearly pejorative, whether applied to the type of acquisition or to the company constructed in this manner.

14. Because these pejorative connotations adhere to the word, we are not entirely happy with its use, but there seems no convenient alternative to describe mergers that are neither predominantly vertical nor horizontal. In this Annex, therefore, the word “conglomerate” is used in this entirely neutral sense: horizontal mergers are mergers between companies that sell the same products (or products which can be easily substituted for each other); vertical mergers are mergers between companies of which one is an actual or potential supplier of the other; conglomerate mergers are mergers between companies that do not produce similar products and where neither is an actual or potential supplier of the other. We do not use the term “conglomerate” to describe the characteristics of a company.

15. In application to particular cases these broad working definitions need further refinement, since many companies are considerably diversified and consequently a predominantly vertical merger may have horizontal or conglomerate elements, a horizontal merger may be in part conglomerate, possibly with vertical features as well, or a conglomerate merger may have vertical or

horizontal aspects. Even in a conglomerate merger there could be common elements apart from finance or management—the merging companies might, for instance, be operating in the same technological field or supplying complementary products or at any rate selling to markets within the same general class or in the same overseas areas.

16. Conglomerate mergers vary in their origins. In the decade or so after the last war some companies undertook conglomerate mergers in order to reinvest their assets after their main activities had been nationalised. Some of these companies invested in widely varying fields and became “industrial holding companies” where the main link between the component parts was management and/or financial control. A fashion for the creation of such companies grew up and the companies concerned met with varying degrees of success. Recently, there has been something of a revival of this fashion and a few widely diversified companies have been built up in the last few years on a succession of conglomerate mergers. Few of these companies have much weight or power in the economy at present compared with the large companies based entirely or mainly on one sector of industry.

17. Conglomerate mergers often result from the attempts of companies traditionally active in one field to diversify into another. Motives for such attempts vary. For example, companies may be operating in fields where the opportunities of further expansion are limited by the nature of the market, or in geographical areas rendered, or thought likely to be rendered, insecure for political reasons. Some companies feel that in a rapidly changing world it is in any case prudent to spread their risks by diversification.

18. There are reasons for expecting a continued tendency for companies to undertake conglomerate mergers. First, where a company wishes to expand by acquisition, it will find a greater range of companies available if it does not confine itself to companies in direct competition with it or in a seller-buyer relationship. Secondly, the development of new techniques of management in recent years makes more feasible a rapid expansion not only of the company, but also of the range of activities encompassed in it, than was formerly the case. In other words, it is now easier to overcome the diseconomies of a rapid expansion of managerial functions so that the danger of a serious fall in managerial efficiency becomes less of an obstacle to a conglomerate merger than it may formerly have been, although managerial efficiency does not necessarily increase in the process.

#### **Effects of different classes of merger on competitive conditions and efficiency**

19. Although, as already explained, the classification of mergers in paragraph 14 above rarely applies in practice in a clear-cut way, and although the motives for mergers vary, the definitions are nevertheless useful because in some important respects the implications of mergers for the public interest tend to differ according to the extent to which the merger belongs to one class or the other. We discuss these implications in the following paragraphs of this section.

20. The first and immediate effect of any acquisition is the elimination of an independent decision-making unit in the economy by absorption into a larger framework. When companies stand in a vertical or horizontal relationship to



each other, the absorption of one by the other may give rise to specific types of anti-competitive consequences. A horizontal merger between two previously competing companies creates a convergence of interest where there was previously a divergence of interest, and the monopolistic power of the resulting decision-making unit may be increased, with possible detriment to the consuming public, and hence to the public interest. A vertical merger between companies may bar other potential suppliers from competing for a particular outlet and other outlets from access to a particular source of supply, and this may be against the public interest where it leads to a significant part of a given market being effectively removed from competitive influence. At the same time, precisely because there was a direct commercial or industrial relationship between the companies in the case of horizontal or vertical mergers, the changed structure of control over operations and any economies of scale resulting from the merger may improve the efficiency with which the relevant operations are conducted. Hence, the overall effect of such mergers may be assessed with reference to their effects on competition on the one hand and on efficiency on the other. For both sorts of assessment a considerable body of experience exists and criteria have been developed.

21. Mergers between companies which do not have either a horizontal or vertical relationship with each other to any important extent have a different significance, their effects on competition, if any, are different, and their "industrial logic" is different. A "pure" conglomerate merger, that is, one in which there are neither horizontal nor vertical elements as defined above, cannot be assessed with respect to its effects on competitive markets in the same way as the other types of merger. It can however be assessed with respect to its expected effects on the efficiency with which resources will be used. In horizontal and vertical mergers the gains likely to flow from increases in efficiency may be found great enough to offset some losses resulting from an impairment of competition and the merger may accordingly be regarded as compatible with the public interest. Conversely, in conglomerate mergers, losses in efficiency may in some cases be found sufficiently likely and substantial, even in the absence of anti-competitive consequences, to cause the merger to be regarded as contrary to the public interest. It is proper that in both cases the efficiency with which the country's resources are likely to be used should be considered.

22. Typical efficiencies which a conglomerate merger can produce are in the field of management and finance (though there may sometimes be other efficiencies as well, e.g. in research and development or in marketing expertise). These may be more difficult to identify than other types of efficiency flowing from mergers but they can be equally real. Some companies which are active in acquiring diverse interests claim that their purchase of other companies produce considerable benefits to the economy by replacing bad management with good, ensuring that unprofitable units will be disposed of and providing finance for units needing it for fruitful development but previously unable to obtain it on such favourable terms. Conglomerate mergers may well have these useful effects. But, as is explained elsewhere (see paragraph 31) it may also be worth a company's while to acquire another company for the sake of its current profits or its assets alone and without any particular plan for improving the use of its resources. In such cases the effect of a conglomerate merger may well be to reduce efficiency.

23. Though direct anti-competitive effects are normally less likely to be operative in the case of conglomerate mergers than in other types of merger, it may happen that in a particular conglomerate merger some overlap of interests will create a restriction of competition in one sector of the field covered by the merger; and this possibility must increase as the number of independent companies in the economy is reduced by the merger process in general. Moreover the purchase of a company in one sector by one not previously operating in that sector could produce anti-competitive effects in other ways; the likelihood of this happening will depend on the circumstances of the case. For instance, if a member of an actively competitive sector of industry were bought by a powerful outside company the merged firm might succeed in getting itself accepted as price leader in that sector and use its leadership to promote less competitive price policies. And the entry of a company into another sector by acquisition would, of course, reduce by one the number of potential competitors in that sector, in so far as the acquiring company might otherwise have entered the field direct. In other cases, however, entry by acquisition might increase competition (e.g. where, as explained in paragraph 12, circumstances are such that no one is likely to make a "direct" entry into the field); the new owner might invigorate an inefficient or unaggressive company and make it a more capable and active competitor.

24. A rapid increase in the number of conglomerate mergers might well stimulate the efforts of management in various sectors of industry to improve their efficiency with a view to securing their companies against acquisition. To this extent such an increase would be advantageous. It must be recognised however that the need to ward off recurring threats of take-over can divert management from its task of ensuring the efficient running of the business. Moreover, development of conglomerate mergers on a wide scale might inhibit changes which might have been more conducive to the structural efficiency of the industries concerned.

### **Aggregate effects of mergers**

#### **(i) *Structural***

25. The aggregate effects of mergers on the economy as a whole are an important aspect of the public interest particularly at a time when the scope of merger activity is increasing. Mergers bring about changes in the structure of the management and control of industry, and it is important to examine whether these changes are likely to promote the efficiency of the economy (including that of its international operations). In this connection it is necessary to consider the implications of the growing absolute size of companies; and of an increasing absolute concentration of ownership and control in industry in the sense that a given number of the largest companies account for a progressively increasing share of the private sector.

26. The absolute size of British companies does not, for the present at least, seem to raise any important issues for the public interest. Although there is no conclusive evidence that very large companies are more efficient than medium-sized companies, there is equally no conclusive evidence that they are less so. At the same time it must be recognised that in some industries, at least, the scale of operations necessary to compete effectively in international markets does require very large capital resources and perhaps also a strong domestic market; in

others economic scale is available equally to medium-sized and large companies and competent managements are to be found in all sizes of company.

27. The importance of international competition, both in the domestic market as well as abroad, makes it difficult to interpret the significance of the size of British companies. "Large" is a relative term, and large British companies, though big in relation to the British economy, are not for the most part big in relation to the international companies with which many of them compete, and in particular to large American corporations. For this reason the absolute size of companies is perhaps not so important as is concentration in the economy, and, in particular, the process by which increasing concentration occurs.

28. In considering absolute concentration it is necessary to bear in mind the implications for the growth and efficiency of the economy of the absorption of efficient and vigorously growing medium-sized companies into larger units. In a growing economy, the large companies can continue to grow without the necessity for destroying by acquisition the independence of efficient smaller companies. Assessment of the likely effect on both efficiency and growth of any acquisition that eliminates an independent company which is operating efficiently and showing vigorous growth or the clear prospects of such growth is of obvious importance. This importance is underlined by studies of the relation between the growth and efficiency of companies and of the types of problem that arise when a large number of unrelated activities are concentrated under a single management in a very large company (thus necessitating elaborate and sophisticated management "systems") and by the lack of evidence that size as such leads to greater efficiency. In this connection it needs to be borne in mind that even when a company has first-class management, and through its acquisitions increases efficiency over a wider area, the effect may not be permanent. Management quality changes and there is a risk of its deterioration, particularly when it depends on the enterprise and ability of a dynamic chief executive and there is no equally able successor in sight.

(ii) *Financial*

29. We have been concerned with the possible financial effects of current merger developments. Appendix 2 shows that mergers are being increasingly financed by the issue of equity or loan stock (often convertible into equity at a later date) rather than by the payment of cash. There are various reasons for this, e.g. shortage of cash, and the impact of high interest rates and the capital gains tax. This development is particularly true of the larger mergers. Thus Part B of Appendix 1 shows that in 1968 those mergers involving consideration of more than £50m were effected entirely with "paper" (shares and loan stock); those where the consideration amounted to more than £10m but not exceeding £50m were effected almost entirely with "paper"; but those where the consideration was not more than £10m were effected as to 41 per cent in cash.

30. Since equity, or loan stock convertible into equity, is now the main currency for acquisition, the higher the market value of a company's shares the better placed it will be to buy other companies. A high market value placed on a company's shares reflects in the main the market's belief in the likelihood of high and increasing earnings per share. Thus future expectations play a large part in the financing of mergers. If these expectations prove to be exaggerated,

it is possible that this, combined with the increase in company debt arising from the issue of loan stock in part-payment for acquisitions, could eventually lead to a situation in which the collapse of one or more large companies could have a serious effect on confidence in general and thus on the flow of resources into investment. We asked a number of people who seemed likely to be able to give us informed advice on this subject for their personal view of the extent of this danger and we took note of the published views of others. Several of those who replied to our enquiry stressed the difference between conditions in this country and in the United States and there were few who felt that in present conditions there was any real danger of the methods used for financing mergers leading to a serious collapse of the security market here and to a breakdown of confidence in investment in companies generally.

31. There was, however, a considerable degree of unanimity about the need for more financial information to be made available in connection with mergers. In particular, attention was drawn to the fact that after a company had acquired another company the increase in reported earnings arising from the acquisition itself could to some extent mask an absence of earnings arising from real growth in the profits of either company. This could lead to a false appreciation of the results of the merger (in so far as earnings per share could increase, although the total profits of the two companies could remain the same or even fall\*) and an over-valuation of the shares of the company concerned, which in some cases might facilitate further acquisitions. Moreover, the ability to switch resources from one section of a diversified company to another could be used to conceal weaknesses in particular sectors. Most of those who replied to our letter felt that, in so far as there was a risk of shareholders being misled in these or other ways, it could and should be minimised by the disclosure of more detailed financial information by companies, particularly about the results of the various sectors of their activities.

32. We regard this question of information as important and all the more so in view of the number of points on which at present detailed information need not be made available. We accept the view that in the present state of affairs the increase to date in the scope of merger activity is unlikely to lead to any general collapse of confidence. Nevertheless, this increase could continue and even accelerate and we cannot wholly dismiss the eventual risk of such a collapse. This makes it advisable that shareholders should be given fuller and more accurate information, so as to make it easier for them to interpret both the prospects of mergers and their results. Quite apart from this, mergers now play so important a part in the reorganisation of British industry that it seems to us desirable, on general grounds, that more should be known about their effects and in particular about the use which has been made of the assets which have changed hands. Moreover, the need to provide more detailed information might

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\* This can be illustrated by the following fictitious example in which "earnings" means earnings available for ordinary dividend. If (a) the earnings of each of two companies are equal, (b) each is earning 5s. per ordinary share, (c) the P/E ratio of the bidding company is 30: 1 and that of the bid-for company 15: 1, and (d) the bidding company makes the acquisition by exchange of one of its shares for every two of the bid-for company, then the earnings of the combined companies would be doubled but the total of issued shares would be increased by only 50 per cent. After the merger the acquiring company's earnings per share would be increased from 5s. per share to 6s. 8d. per share. Even if as the result of the merger the combined earnings fell by 20 per cent the acquiring company's earnings per share would still be higher than pre-merger earnings per share.

deter companies from going ahead with mergers designed merely or largely to buy the assets and/or profits of the acquired company cheaply and without reasonable expectations, on the basis of positive plans, that they can use the acquired assets more effectively. For all these reasons we think it would be in the public interest if more information were given by companies about the reasons for acquisitions, their real cost and, subsequently, the growth and earnings of the acquiring company and each of its major divisions or acquisitions.

33. This question is not, of course, directly relevant to our report nor have we had the opportunity to examine it exhaustively. It would not be proper for us, therefore, to make any firm recommendation on the requirements needed to ensure the provision of more information by companies about merger proposals and their consequences. Nevertheless, we have given some thought to possible requirements and in Appendix 4 we list some suggestions for consideration by the authorities more directly concerned with these matters. We have worked out certain of these tentative suggestions in some detail, so as to make them a more useful basis for further consideration. We do not claim that the suggested requirements necessarily cover the whole of the relevant ground and, as explained in the appendix itself, we assume that provision would be made for *ad hoc* exemption from the requirements in cases where this was thought appropriate by the Board of Trade. We realise that the availability of this additional information could make it easier for acquisitive firms to identify firms capable of being taken over but, in so far as this is undesirable, it is a risk which in our opinion should be accepted.

## Conclusions

34. Certain general conclusions emerge from the foregoing. The total consideration for acquisitions by merger increased markedly in 1967 and again in 1968. The number of companies (as defined in the first footnote to paragraph 4) acquired annually has declined over the last three years, but their size distribution appears to have changed, more large and fewer small companies now being the target of acquisitions. Between 1961 and 1968 mergers have reduced the number of manufacturing companies (as defined in the footnote to paragraph 6) by nearly one-third, and the total of the net assets transferred in these mergers is equivalent to about one-fifth of the total net assets of all the companies.

35. There is no reason to think that this merger activity has so far led to the growth of companies whose absolute size is such as to raise important questions for the public interest. It is however leading to the continued absorption of medium-sized companies not necessarily accompanied by gains in efficiency. Conglomerate mergers are less likely to have anti-competitive effects than other sorts of mergers. Their likely or prospective effects on efficiency are in the nature of the case less easy to identify and to demonstrate but they are nonetheless important to assess. Mergers are now being increasingly financed by the issue of company paper. There is no evidence that this is likely to lead to a dangerous situation in present circumstances but it might do so in future.

36. The scope of merger activity is growing so rapidly that it seems highly desirable to ensure the availability of more information about mergers and their effects. We have set out in paragraphs 32 and 33 our views on the desirability of companies themselves supplying more information. It is for the Board of Trade and others to consider to what extent the supply of this information should be made obligatory. The Board might in any case wish to consider how far assurances about the disclosure of such information should be sought from companies desiring to merge. We also hope that in the future the Board may find it possible to collect and publish more statistical and general information about mergers including the form and extent of any diversification involved.

APPENDIX 1 TO ANNEX  
(Referred to in paragraph 5 of the Annex)

ACQUISITIONS BY "LARGE" COMPANIES <sup>(1)</sup>

Part A: Analysis of acquired companies into  
"Non-quoted" and "Quoted"

	1964 <sup>(2)</sup>	1965 <sup>(2)</sup>	1966 <sup>(2)</sup>	1967 <sup>(2, 3)</sup>	1968 <sup>(4)</sup>
Number of companies acquired					
Non-quoted ... ..	868	920	727	577	458
Quoted ... ..	71	75	78	84	140
Total ... ..	939	995	805	661	598
Total consideration—£m					
Non-quoted ... ..	240	160	117	151	137
Quoted ... ..	262	347	330	630	1,516
Total ... ..	502	507	447	781	1,653
Average consideration—£m					
Non-quoted ... ..	0.3	0.2	0.2	0.3	0.3
Quoted ... ..	3.7	4.6	4.2	7.5	10.8
All acquisitions ...	0.5	0.5	0.6	1.2	2.8

## Part B: Summary of mergers in 1968, by value of consideration

	Acquir- ing Com- panies No.	Acquir- ed Com- panies No.	Consideration			Proportions	
			Total £m	Cash £m	Shares/ Loans/ £m	Cash %	Shares/ Loans %
<b>Acquisitions of UK companies</b>							
<i>Consideration over £50m</i>							
British Leyland Motors ...		2	455	—	455	—	100
GEC/EE ... ..		1	277	—	277	—	100
Thorn/Radio Rentals ...		1	186	—	186	—	100
Allied/Showerings ... ..		1	100	—	100	—	100
Land Securities/City Centre		1	72	—	72	—	100
Rank Hovis McD/Cerebos		1	60	—	60	—	100
Total over £50m ... ..		7	1,150	—	1,150	—	100
<i>Consideration over £10m up to £50m</i>							
Total over £10m ... ..		35	1,718	20	1,698	1	99
Consideration up to £10m ...		572	551	227	324	41	59
Total UK acquisitions... ..	469	607	2,269	247	2,022	11	89
<b>Acquisition of overseas companies</b>							
Consideration up to £10m ...	29	31	44	34	10	78	22
TOTAL ACQUISITIONS	498	638	2,313	281	2,032	12	88

### Part C: 1968—Reconciliation of Parts A and B

	Acquired companies	Total consideration £m
Acquisitions—as Part A ... ..	598	1,653
Add 5 mergers involving the formation of new holding companies ... ..	10	535
Add property companies (including over- seas companies acquired) ... ..	30	125
	<hr/>	<hr/>
All mergers—as Part B ... ..	638	2,313
	<hr/> <hr/>	<hr/> <hr/>

#### NOTES

- “Large” companies are those companies which:
  - in 1964 had net assets of £0.5m or more, or annual income of £50,000 or more,
  - the Board of Trade regard as engaged mainly in the United Kingdom in manufacturing, distribution, construction, transport and certain other services (but excluding bank and financial institutions and some other activities),
  - had a quotation on a federated stock exchange in 1964 (exceptionally a few non-quoted companies were included in 1968).

Acquisitions of property companies and mergers involving the formation of new holding companies are included in Part B but not in Part A—see reconciliation in Part C.
- The figures for the years 1964–67 are derived from the accounts of acquiring companies whose financial years ended within the twelve months to 5th April following the end of the calendar year.
- The figures for the year 1967 are incomplete. It is expected that the final figure for total consideration will be about £830m.
- The figures for the year 1968 relate to acceptances notified during the calendar year.



APPENDIX 2 TO ANNEX  
(Referred to in paragraph 29 of the Annex)

**Analysis of the consideration given by "Large" acquiring companies  
to shareholders of acquired companies**

			1964	1965	1966	1967	1968
					£ millions		
Total consideration	...	...	502	507	447	781	1,653
In cash	...	...	304	243	183	260	271
By shares and loans	...	...	198	264	264	521	1,382
Ordinary shares	...	...	164	206	201	338	1,145
Preference shares	...	...	14	10	2	8	4
Loan stock	...	...	20	48	61	175	233
					Percentages		
Total consideration	...	...	100	100	100	100	100
In cash	...	...	60	48	41	33	16
By shares and loans	...	...	40	52	59	67	84
Ordinary shares	...	...	33	41	45	43	70
Preference shares	...	...	3	2	NEG	1	NEG
Loan stock	...	...	4	9	14	23	14

NOTE:

The information in this Appendix relates to the acquiring companies analysed in Part A of Appendix 1.

APPENDIX 3 TO ANNEX  
(Referred to in paragraphs 7 and 9 of the Annex)

**SURVEY OF REDUCTION IN NUMBERS OF COMPANIES <sup>(i)</sup> AND CONCENTRATION OF NET ASSETS  
AS THE RESULT OF MERGERS  
1961-68**

**General explanation of the tables below**

At the beginning of 1961, the population of companies in the survey was 1,312; at the end of 1968 the figure was 908, a reduction of 404, or 31 per cent. At the end of 1968 about half the total net assets of the companies in the survey were held by the 28 largest companies (in terms of net assets). At the beginning of 1961 the 28 largest companies (not necessarily the same companies as in 1968) held 39 per cent of the net assets. The numbers of companies in the survey in each of the 17 industrial classifications at the beginning of 1961 and the end of 1968 are shown in columns 1 and 2 respectively. Column 3 shows for each industrial classification the number of companies in the total of 28 which were in that classification at the end of 1968. Column 4 shows the percentage of total net assets in each classification held by companies in column 3 at the end of 1968. Column 5 shows the percentage of total net assets in each classification at the beginning of 1961 held by the same number of largest companies in that classification as in column 3 (not necessarily the same companies as in column 3).

								<b>Part A <sup>(ii)</sup></b>		<b>Part B</b>		
								<b>Numbers of companies at beginning of 1961 and end of 1968</b>		<b>Net assets held by largest companies as percentages of total net assets in Class</b>		
								Beginning	End	Number of	End <sup>(iii)</sup>	Beginning
								1961	1968	companies	1968	1961
								(Column 1)	(Column 2)	(Column 3)	(Column 4)	(Column 5)
											%	%
<b>Totals</b>	...	...	...	...	...	...	...	1,312	908	28		
											%	%
<b>Analysis by Industrial Classification</b>												
(based on Standard Classification Orders, revised edition 1958)												
Food	...	...	...	...	...	...	...	63	39	2	30	23
Drink	...	...	...	...	...	...	...	106	51	5	68	41
Tobacco	...	...	...	...	...	...	...	8	7	1	71	61

Chemicals and Allied Industries	...	...	...	...	69	45	4	79	75
Metal Manufacture	...	...	...	...	70	56	1	31	33
Non-electrical Engineering	...	...	...	...	198	138	1 (iv)	10	15
Electrical Engineering	...	...	...	...	87	63	2	46	28
Shipbuilding and Marine	...	...	...	...	22	17	—	—	—
Vehicles	...	...	...	...	61	41	3	63	39
Metal Goods not elsewhere specified	...	...	...	...	98	80	1 (iv)	35	37
Textiles	...	...	...	...	192	128	2	44	30
Leather, Leather Goods, and Fur	...	...	...	...	11	11	—	—	—
Clothing and Footwear	...	...	...	...	63	42	1	50	28
Bricks, Pottery, Glass, Cement, etc.	...	...	...	...	73	44	1	24	26
Timber, Furniture, etc.	...	...	...	...	40	34	—	—	—
Paper, Printing and Publishing	...	...	...	...	99	72	3	49	41
Other Manufacturing Industries	...	...	...	...	52	40	1	50	44

19 NOTES (i) The information relates to acquiring and acquired companies which:

- (a) had a quotation on a federated stock exchange,
- (b) were regarded by the Board of Trade as engaged mainly in the United Kingdom,
- (c) had net assets of £0.5m or more at the beginning of 1961.

Mergers of the type where A and B were acquired by newly-formed C have been included as if the larger (in net assets) of A and B had acquired the smaller.

- (ii) The population of companies in this Part remained unchanged throughout the eight-year period, apart from disappearances resulting from mergers; no companies which first became large enough to meet the size qualification after the beginning of 1961 have been brought in.
- (iii) Full information about net assets at end 1968 was not available. The percentages in this column have, therefore, been calculated by reference to net assets at end 1967 adjusted for mergers which took place in 1968. Some of the companies revalued their fixed assets during the period 1961–68; these revaluations have doubtless had some effect on the data given in Part B but their effect has not been determined.
- (iv) Each of the two companies transferred part of its assets to the British Steel Corporation during this period. The identity of the company did not change in either case.

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APPENDIX 4 TO ANNEX  
(Referred to in paragraph 33 of the Annex)

**Suggested information for disclosure by companies**

1. The following is the list of suggestions for further consideration as mentioned in paragraph 33 of the Annex. We recognise that any requirements implementing the suggestions in paragraphs 4, 5, 6, 9 and 10 below should be subject to certain minimum size criteria\* and that any requirements implementing those in paragraphs 2, 3, 4 and 5 below should be subject to *ad hoc* exemption by way of discretionary powers vested in the Board of Trade. In paragraphs 2, 3, 4 and 5 we refer to “prescribed classes of business” for which we suggest that separate information should be given. We have in mind here that the classes might be prescribed by the Board of Trade, broadly on the basis of the Standard Industrial Classification Orders, though in our opinion it would be desirable that there should be some further breakdown of the Orders in this context, e.g. Order III should be treated as if it were three separate classes, namely food, drink and tobacco.

**A. INFORMATION TO BE GIVEN IN STATUTORY ACCOUNTS AND DIRECTORS’ REPORTS**

2. Section 17 of the Companies Act 1967 makes certain provisions regarding information to be given in the directors’ report. In brief the directors’ report must contain the turnover and profit (or loss) figures for each class of activity which in their opinion differs substantially from other activities. This provision has been variously interpreted by companies. It is suggested that companies should make separate turnover and profit (or loss) analyses for each prescribed class of business.

3. We further suggest that for each prescribed class of business the profit on capital employed should also be shown either in the directors’ report or in the form of notes to the Annual Accounts, with an explanation of the basis of apportionment.

4. A company which has acquired another concern† should publish either in the directors’ report or as notes to the accounts the following information in respect of the financial year in which the concern was acquired:

- (a) the turnover, profit and capital employed for the concern’s last financial year during the whole of which it was owned otherwise than by the acquiring company,
- (b) the concern’s turnover and profit for the period between the close of its last financial year and the date of acquisition and
- (c) (i) where the acquiring company’s activities are in a different prescribed class of business from those of the acquired concern, the concern’s turnover and profit for the period from date of acquisition to the close of the acquiring company’s financial year and the concern’s capital employed at the close of that year,

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\* It might be necessary to relate the criterion not only to a company’s individual acquisitions (or disposals) but, where necessary, to its total acquisitions (or disposals) in any one year.

† This includes another limited company, a part or parts of another limited company, a partnership and a sole partnership.

- (ii) where the acquiring company's activities are in the same prescribed class of business as those of the acquired concern, as much information as possible about the development and results of the concern's activities after acquisition.

5. The acquiring company should also publish in the directors' report and accounts covering each financial year in a period of at least three financial years following that in which the concern was acquired:

- (a) the information described in paragraph 4 (a) above and
- (b) (i) where the acquiring company's activities are in a different prescribed class of business from those of the acquired concern, the concern's turnover, profit and capital employed for the financial year covered by the directors' report and accounts and for each of the preceding years in the period,
- (ii) where the acquiring companies' activities are in the same prescribed class of business as those of the acquired concern, as much information as possible about the development and results of the concern's activities in the financial year covered by the directors' report and accounts and in each of the preceding years in the period.

6. A sale of a subsidiary by a parent or holding company, or the sale of an integral part or parts of a company should be fully reported (including disclosure of the estimated profits arising on the sale) and its (their) treatment in the accounts. If in the five years following the acquisition of another concern\* the acquiring company disposes of any of the fixed assets (other than those disposed of in the ordinary course of business) the acquiring company should report the profit(s) (or losses) arising on the disposal of those fixed assets.

7. In their annual reports and accounts companies frequently provide histories of turnover, profits and capital employed. These histories should be suitably annotated to show the effect of acquisitions and disposals of businesses.

8. Section 56 of the Companies Act 1948 provides that when shares are issued at a premium, a share premium account must be created and that once an account has been created the amount standing to its credit can only be reduced or eliminated by the application of the provisions of the Act relating to the reduction of share capital. However the Company Law Committee which was appointed to advise upon and recommend amendments to the Companies Act 1948 appeared to have some doubt about the interpretation of Section 56 in relation to a share exchange transaction and one of their recommendations in relation to Section 56 of the Companies Act 1948 was as follows:

“to provide that a share premium arises whenever a company receives value for and in excess of the amount credited as paid up on shares of a par value issued in exchange and that such excess must be credited to the share premium account (where shares of no par value are issued, the total consideration received should be credited to the 'stated capital account')”.

No amendment has been made to the Companies Act on the lines recommended and at present it appears to be the normal practice for a company, when it acquires another by issue of shares, to set off premiums arising on the issue of

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\* For definition see footnote to paragraph 4.

shares against “goodwill” (i.e. the difference between the acquired company’s book value of “free”<sup>\*</sup> assets and the value determined by reference to the “offer” value). Where however a company is acquired for cash, the difference has either to be shown as “goodwill” in the acquiring company’s books and records or set off against reserves and undistributed profits available for dividend. We think that the methods used to record acquisitions should be consistent and that if consistency is achieved on the lines recommended by the Company Law Committee it will ensure that a more complete and accurate picture of share-exchange acquisitions is given in future. We suggest, therefore, that where shares are issued as consideration for acquisition the procedure to be followed in respect of share premium account and balancing items on the assets side should be the same as when acquisitions are made for cash. This suggestion is intended also to apply where the merger is sanctioned by the Court under a scheme of arrangement under Section 206 of the Companies Act 1948.

## **B. INFORMATION TO BE INCLUDED IN ADVERTISEMENTS GIVING FIGURES OF TRADING RESULTS**

9. Many companies advertise abridged versions of their trading results in newspapers and journals. Often these advertisements are confined to comparative figures of turnover and profits with the latter expressed in terms of the former. These advertisements can be misleading where part of the increases in turnover and changes in profits have arisen from acquisitions. We suggest that companies should show separately the changes due to acquisitions. We suggest also that total group profits should be expressed in terms of total group capital employed, for which the basis of computation should be consistent from year to year.

## **C. INFORMATION TO BE SUPPLIED BY BIDDING AND BID-FOR COMPANIES RELATIVE TO PROPOSED MERGERS**

10. It is suggested that a company should give its members, at the time a bid for another company is made, certain information about the bid as it affects the members’ interests. It seems desirable that where the consideration, at market values, offered to members of the bid-for company is equivalent to more than a certain percentage of the current market capitalisation of the issued share capital of the bidding company, the following information should be supplied to the bidding company’s shareholders.

- (i) The number of shares of each class to be issued relative to the issued share capital of each class.
- (ii) Where convertible loan stock forms part of the consideration, the nominal value of the loan stock and the conversion terms.
- (iii) The effect, calculated by reference to the offer terms and to the amalgamation of the relevant data in the latest available accounts of the two companies (see 11 and 12 below), which the bid, if successful, would have on (a) the earnings per ordinary share of the bidding company, (b) the ratio of “free”<sup>\*</sup> assets per ordinary share and (c) the ratio of “free” tangible assets per ordinary share.

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<sup>\*</sup> “Free” assets are defined as those which represent the equity interests in a company.

11. We suggest that where appropriate a bidding company should include in its "offer" document, in addition to extracts from audited accounts, a summary of its interim accounts made up to a date not more than three months earlier than the date on the "offer" document and accompanied by a summary of the results for the same period in the preceding financial year.

12. Where the directors of a bid-for company recommend the members of the company to accept a bid, they should provide for them the same information in respect of their company as that which it is suggested in the preceding paragraph should be provided in respect of the bidding company. Audited accounts should however be made available where a bid is made more than six months after the terminal date of the bid-for company's financial year. We further suggest that the directors of the bid-for company should provide members of the bid-for company with (a) an up-to-date valuation of the company's fixed assets (an independent, professional valuation would be preferred), (b) a statement of the effect which the change in valuation would have on the figures in the latest available financial accounts, and (c) a detailed explanation of the methods used for valuing stocks and work-in-progress.

