THE MONOPOLIES AND MERGERS COMMISSION

Babcock & Wilcox Limited and Herbert Morris Limited

A Report on the Existing and Proposed Mergers

Presented to Parliament in pursuance of Section 83 of the Fair Trading Act 1973

Ordered by The House of Commons *to be printed* *23rd February, 1977*

LONDON
HER MAJESTY'S STATIONERY OFFICE

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[1]These members formed the group which was responsible for this inquiry (see paragraph 2).

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Introduction

1. On 22 October 1976 the Department of Prices and Consumer Protection sent to the Commission the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that a merger situation qualifying for investigation (as defined in section 64(8) of the Fair Trading Act 1973) has been created in that:

(*a*) enterprises carried on by or under the control of Herbert Morris Limited (a body corporate incorporated in the United Kingdom) have ceased within the six months preceding the date of this reference to be distinct from enterprises carried on by or under the control of Babcock and Wilcox Limited; and

(*b*) the value of the assets taken over exceeds £5 million:

And whereas it further appears to the Secretary of State that arrangements are in progress or in contemplation in relation to the said companies which, if carried into effect, will result in the creation of a further merger situation qualifying for investigation:

Now, therefore, the Secretary of State in exercise of his powers under sections 64, 69(2) and 75 of the said Act hereby refers these matters to the Monopolies and Mergers Commission for investigation and report within a period of three months from the date hereof.

In relation to the question whether a merger situation qualifying for investigation has been created or will be created if arrangements herein referred to are carried into effect the Commission shall exclude from consideration section 64(1)(*a*) of the said Act.

2. On 29 October 1976, the Chairman of the Monopolies and Mergers Commission acting under section 4 of, and paragraph 10 of Schedule 3 to, the Act, directed that the functions of the Commission in relation to the investigation under this reference should be discharged through a group of six members of the Commission, including himself as Chairman of the group. One member of the group, Mrs V M Marshall, resigned before our report was completed as she was unable for medical reasons to take part in the final stages of the work.

3. Notices inviting evidence were inserted in *The Times*, the *Financial Times*, the *Daily Telegraph*, the *Guardian*, *The Economist*, the *Investors Chronicle* and the trade periodicals *Materials Handling News* and *Mechanical Handling*. In addition, written evidence was sought from Babcock & Wilcox Ltd and Herbert Morris Ltd, from two trade associations and six manufacturers in the crane and materials handling industry in which Morris is engaged, from five users of such products, from two financial institutions concerned with Morris, from the Department of Industry, from the Confederation of British Industry and from the Trades Union Congress. We have held five hearings: two each with representatives of Babcock & Wilcox Ltd and of Herbert Morris Ltd and one with the trade unions concerned.

4 We should like to place on record our thanks to all who have helped us in this inquiry, particularly the two companies concerned.

CHAPTER 1

Babcock & Wilcox Limited

History and activities

5. In 1881, the Babcock & Wilcox Company was formed in the USA to exploit several boiler patents and soon afterwards sales offices were opened in London and elsewhere in Europe. In 1891, the American company decided to concentrate its attention on the American market and an independent British company, Babcock & Wilcox Ltd (Babcock), was formed in London, receiving, through a covenant with the American company, the right to use the name 'Babcock & Wilcox' and to exploit the American company's boiler technology throughout the world. Over the years Babcock set up through subsidiary and partly owned companies a network of operations in Germany, France, Belgium, Spain, South Africa, Australia, India, Canada, Japan, Mexico and Brazil, together with other sales offices and licensees. In the course of time, the Babcock interest in some of these overseas companies was sold or diluted. The investments in boiler companies in Canada, Brazil and Germany, have been sold and, at present, Babcock holds minority interests in the French, Spanish, Indian and Japanese companies, leaving the remainder as wholly-owned subsidiaries.

6. Until the mid 1960s, Babcock's activities were mainly concentrated on the company's original products, that is to say watertube boilers for power station, marine and industrial uses, shell boilers and other forms of heat exchangers. From early in the present century, Babcock was involved in crane manufacture, making both dockside cranes and heavy overhead travelling cranes used primarily in power stations. In 1959 the crane business was transferred from Babcock's main engineering factory at Renfrew to a factory at Dalmuir to release space at Renfrew for nuclear boiler manufacture. Following major changes in the number and type of nuclear power stations ordered which affected the demand for heavy overhead cranes, the Dalmuir factory was closed in 1969 and such crane business as remained was returned to Renfrew. By then cranes had become an unprofitable activity for Babcock and manufacture ceased in 1972. Though large scale general engineering facilities are available at Renfrew, including some which could be used in crane making, there now remain no specific crane making facilities or expertise.

7. The only United Kingdom customers for power station boilers are the electricity generating boards. In the 1960s the growth of demand for electricity and expected required generating capacity were, in the light of subsequent events, substantially overestimated. Despite a sharp decline in the flow of new orders followed by the complete cessation of orders for new power stations after 1973, the electricity generating industry now has substantial excess capacity. The present prospects of home orders for boilers are described in the recent Central Policy Review Staff (CPRS) report as 'grim'[1], neither is the outlook for export business very encouraging. Industrialised overseas markets face a similar situation of excess generating capacity and international competition is

[1]Central Policy Review Staff report, *The Future of the United Kingdom Power Plant Manufacturing Industry*, Dec 1976. Among possible long-term measures that this report considers is the merger of the boilermaking activities of Babcock and Clarke Chapman.

keen. In the less developed countries, which have not hitherto been a major market of the British power plant industries, the development of indigenous industries, at least for the manufacture of unspecialised parts, has further inhibited export opportunities since only know-how and specialised parts need be supplied from this country. In face of these demand prospects, a further contraction of the United Kingdom boilermaking industry seems inevitable, though the degree of contraction would depend upon the decisions taken by Government as a result of the CPRS report. In August 1976 Babcock announced a redundancy programme at the Renfrew plant. Babcock anticipates that any reduction in activity at Renfrew would for a period entail substantial costs in redundancies and re-organisation. Against this, however, there would also be the proceeds of the release of working capital. In terms of the effect on cash requirements, Babcock told us that, on the basis of certain assumptions about the future level of orders and activity at Renfrew, it has calculated that there would be a positive cash flow for power engineering in 1977, followed by a negative flow in 1978 which would be fully offset by cash inflow over the years 1979 to 1981.

8. About ten years ago, it became clear to Babcock that dependence upon power station boilers provided an uncertain base for future development. To reduce this dependence, the company decided to expand by diversification. Babcock therefore commenced to acquire other companies whose products either complemented those which Babcock was already making or were in other sectors of the engineering capital goods industry. Babcock looked for companies of this kind which had a sound business with a competent working management, which were not reliant on frontier technology, which had good products well established in the market place and which, if possible, had a reasonable export trade. The first company so acquired was Winget Gloucester Ltd purchased for about £2 million in 1968. The principal later acquisitions have been Blaw Knox Ltd purchased for £4 million in 1969, General Electrical and Mechanical Systems Ltd purchased for £6 million in 1972, Woodall-Duckham Group Ltd purchased for £9 million in 1973 and the American Chain and Cable Company Inc (ACCO) purchased in 1975–76 for $72 million (about £36 million at that time). So far a total of £74 million has been spent on acquisitions of which £48 million was spent abroad. During the same period, disposals of investments in other companies, principally in overseas companies, produced £36 million. The present bid for Herbert Morris Ltd (Morris) at a cost of about £4 million represents another step in this process of diversification and we understand that further acquisitions may also be made where appropriate. Apart from its original United Kingdom interests in boilers and pressure vessels which Babcock has told us is now less than 20 per cent of its world sales, its activities, including those of ACCO (see paragraph 10), also cover process plant contracting; civil and mechanical construction, services and equipment; construction equipment machinery; foundry products; desalination and pollution control plant; electrical and mining machinery; wire products; chains; bulk and unit mechanical handling equipment and systems including cranes, hoists and monorails. Babcock and its subsidiaries now employ about 37,000 people of whom about 23,500 are in the United Kingdom. The record of companies acquired between 1968 and 1973 showed that most increased their sales and profits during the period 1972 to 1975.

9. The purchase of ACCO for $72 million represented by far Babcock's largest acquisition under the diversification programme. The finance was obtained from the major part of the proceeds of the sale for $66 million (about £31 million at that time) of Babcock's interest in Deutsche Babcock & Wilcox AG to the Imperial Government of Iran and by borrowing to the extent of $22 million in the American market. ACCO itself had loans and overdrafts of $66 million at the end of 1975. Of the total of these debts ($88 million), some $64 million has to be repaid or renegotiated by 1982. For 1975, ACCO made a profit before tax of $12·8 million. The trading results of ACCO's United States operations had been poor, most of ACCO's profits having been contributed by its foreign subsidiaries. In 1976, ACCO's profits were higher and Babcock is confident that in future ACCO will prove to be an increasingly profitable acquisition and that the borrowings mentioned will be repaid, renegotiated or rolled-over without difficulty.

10. ACCO is based in the USA. It there produces a wide range of goods which can broadly be described as material handling equipment (including cranes, hoists and conveyors), process control equipment and chain and wire products. ACCO operates principally in North America, Europe and to a lesser extent in South America. The main European interests are the Parsons Chain Company in the United Kingdom and FATA SpA in Italy. The latter company makes stacker cranes, monorail systems and aluminium casting machinery. FATA also has a small British interest. The ACCO products most comparable with those of Morris are the cranes and hoists of its American material handling group and the stacker cranes of FATA.

11. Babcock told us that it became aware of Morris as a possible acquisition as early as 1972 but at that time took no steps in the matter. A substantial block of Morris ordinary shares was then owned by Amalgamated Industrials Ltd (AI) and its associates who in that year made an unsuccessful bid for the remainder of the shares. AI later increased its total holding in Morris to 37·72 per cent of the issued ordinary capital and in November 1975 made a further bid for the rest. The bid, which was resisted by Morris, was referred to the Monopolies and Mergers Commission. The Commission's report[1] published on 26 May 1976 found that the proposed merger would operate against the public interest and recommended that AI and its associates should divest themselves of sufficient Morris shares to reduce their total holding to not more than 10 per cent of the issued ordinary shares. The report also said that, if the shares which AI were to sell were placed on the market, a fresh merger situation might arise if they were bought by another group seeking to control Morris. The merits of any such situation would have to be a matter for separate consideration. At that juncture, however, further uncertainty would be undesirable. It was therefore recommended that divestment should be supervised by the Director General of Fair Trading since it might be that the shares could be disposed of to financial institutions, insurance companies, unit trusts and pension funds without appreciable financial loss to AI. In July 1976 a member of a stockbroking firm indicated to Babcock that a block of shares, representing about 37 per cent of Morris' ordinary share capital was available for purchase.

[1]HC434. HMSO. May 1976

After a further approach by the stockbroker, Babcock decided on 20 September to purchase these shares at a price of 120p each. Babcock then became the owner of the whole of the 37·72 per cent holding previously in the hands of AI. This purchase obliged Babcock to make a bid for the remainder of the Morris shares under the provisions of the City Code on Takeovers and Mergers. Babcock's intention to make the bid was then made known to Morris and it was this bid, opposed by Morris, which led ultimately to the present inquiry. On 30 September Babcock purchased a further 50,000 shares increasing its total holding to 39·24 per cent. On 4 October, Morris commenced an action against Babcock in the US District Court at Baltimore, USA, claiming that in America the proposed merger would conflict with the Clayton Act by 'substantially lessening competition' and with the Sherman Act by 'creating a combination in conspiracy to restrain trade' by excluding Morris. Morris obtained a temporary restraining order from the Court which had the effect of preventing Babcock from acquiring further Morris shares. There was a hearing on 15 and 16 October to decide whether or not the restraining order was to be allowed to continue until the action itself was heard. The Court decided to dissolve the order, because Morris had not been able to show that at that point in time there would be a substantial lessening of competition within America having regard to the size of that market in relation to Morris' existing American sales, and because there was no evidence before the Court that Morris would be excluded from the American market. Babcock was therefore able to publish its offer document on 18 October which it hoped would lead to the acquisition of 100 per cent of Morris' capital. Meanwhile the matter had been considered by the Office of Fair Trading and on 22 October was referred by the Secretary of State to the Monopolies and Mergers Commission.

Management structure

12. Apart from ACCO, Babcock's organisation is divided into five operating groups:

Power and process engineering group
Construction equipment group
Electrical engineering group
General engineering group
International group.

Some of these groups embrace a number of divisions or separate companies. Each division or company has its own managing director or chief executive responsible for the operation of his own unit and each operating group has a group managing director responsible for the group. The operating groups in turn report to the executive committee of Babcock & Wilcox Management Ltd (the management company) which consists of the five executive directors of Babcock and the five operating group managing directors. The committee receives and considers budgets, performance data and other important monitoring matters put to it by individual divisions and companies and reports directly to Babcock's board (main board). ACCO is separately but similarly organised, the various operating groups reporting to ACCO's board which reports through Babcock International Inc of Delaware (Babcock Inc), the company holding ACCO's shares, to Babcock's main board. An outline chart of Babcock's operating group structure is at Appendix 1.

13. The control exercised by the main board operates principally through the agreement and monitoring of annual capital and revenue budgets, the taking of decisions to acquire or dispose of businesses and the raising of capital. Annual budgets and monthly results are prepared by individual units and submitted through divisional and operating group boards to the management company. In the case of capital budgets detailed submissions are required for projects costing more than about £10,000. After co-ordination and agreement by the executive committee of the management company these budgets and reports are passed to Babcock's main board for their consideration and agreement. Proposals to undertake contracts beyond limits usual in the particular business of a group or division must also be approved by the managing director of the main board. Individual units are otherwise left to manage their own day to day affairs. The primary role of Babcock's main board is therefore seen to be financial control, the central raising of finance and the encouragement of close working relations between individual units.

14. We discussed with Babcock the possibility of conflict or competition arising between different parts of its organisation. In general, operating group, divisional and company managing directors are encouraged to get to know each other and to rely, in the first instance, on settling matters between themselves. Groups divisions, and companies are allowed to compete with each other though at present there are no wide areas of product overlap. We understand that so far no serious conflicts of interest have arisen but that, in the event of a conflict which could not be resolved between the individual bodies themselves, the question would have to come before the managing director of the main board.

Financial information

15. Babcock's trading results for the nine years ended 31 December 1975 together with the unaudited interim results published for the six months ended 30 June 1976 are set out in Appendix 2 and are summarised in table 1. Sales and profits adjusted for inflation are also shown using the United Kingdom Retail Price Index but in view of the high proportion of sales by overseas companies this can only give a general indication of the trend of Babcock's

Table 1

	Sales		*Profit before taxation and extraordinary items*		
	Historic figures £ million	*Inflation adjusted** £ million	*Historic figures* £ million	*Inflation adjusted** £ million	*Profits as a percentage of sales* %
1967	80	195	3·3	8·1	4·2
1968	100	233	3·2	7·5	3·2
1969	104	230	2·1	4·6	2·0
1970	111	231	3·1	6·5	2·8
1971	128	244	4·0	7·6	3·1
1972	127	226	5·3	9·5	4·2
1973	202	329	8·2	13·3	4·0
1974	248	348	9·9	13·9	4·0
1975	371	419	17·1	19·3	4·6
6 months to June 1976 (unaudited)	295	295	15·2	15·2	5·1

*We have adjusted the figures to January/June 1976 average price levels but profits have not otherwise been recalculated on either the current cost or current purchasing power basis.

business in real terms. Historic profits are seen as increasing each year after 1969 reaching £17·1 million in 1975. The published half year results for 1976 showed a profit of £15·2 million (half year 1975—£6·2 million) with a forecast that the trading profit for the second half should be of the same order as the first. Appendix 2 also shows the extraordinary items in these years of which the most significant was the surplus on disposals of investments of £22·1 million in 1975—attributable mainly to the sale of the holding in Deutsche Babcock & Wilcox AG for the equivalent of £31 million. A large part of the increase in sales and profits since 1968 represents the size of business of new companies at the time of acquisition. The balance represents growth in these companies since their acquisition and growth in Babcock's original business. Appendix 3 sets out an analysis of turnover and trading profits by operating groups from 1971 onward. It shows the extent of diversification and growth over recent years. The power engineering division and the international group consist largely of Babcock's original business. The other groups, as well as the process plant contracting division which is part of the power engineering group, consist almost entirely of companies acquired as a result of diversification.

16. Total capital employed by Babcock at book values has risen from £45 million in 1966 to £197 million at June 1976; this increase derives largely from borrowings and self-generated funds including the sale of Deutsche Babcock & Wilcox AG which have been applied to the acquisition programme. We have obtained from Babcock figures for capital employed in the operating groups and the total returns thereon. These are shown in table 2.

Table 2

	Average capital employed	*Trading profit before interest and taxation*	*Average return on capital employed*
	£ million	£ million	%
1971	55·0	4·8	8·7
1972	57·5	5·8	10·1
1973	65·9	10·1	15·3
1974	69·4	10·6	15·3
1975	118·0	15·4	13·1
1976 (half year)	181·4	14·0	15·4

Note:
Capital employed does not include trade investments. It is calculated on the historical cost basis and represents fixed assets at book value plus current assets less liabilities other than bank borrowings and loans. The returns on capital have been higher than the average in the construction equipment and general engineering groups and below the average in the United Kingdom power engineering division and the international group.

17. Appendix 4 shows a statement of the source and application of funds for the years 1973, 1974 and 1975. The principal purchases of subsidiaries in 1973 were Woodall-Duckham Group Limited for about £9 million and the minority interest in Claudius Peters AG for £3 million. The disposals of investments in 1975 represent the sale proceeds of Deutsche Babcock & Wilcox AG, part of which was applied to the purchase of ACCO (see paragraph 9). In Appendix 4 the figures for the application of funds reflect neither the additional assets and liabilities of the subsidiaries purchased during each year nor borrowings taken over. These are shown in the note to the Appendix.

18. Published figures of ACCO's sales and profits/(losses) are shown in table 3.

Table 3

	Sales		Profit/(losses) after interest and before taxation	
	1974 $ million	1975 $ million	1974 $ million	1975 $ million
Material handling	114	124	2·0	5·5
Process control	32	31	(1·1)	(2·2)
Industrial products	24	24	0·4	(0·6)
Chain products	81	86	8·2	4·8
Wire products	60	63	3·7	5·3
	311	328	13·2	12·8
Divided into:				
USA operations	207	200	2·8	1·0
Foreign operations	104	128	10·4	11·8
	311	328	13·2	12·8

Note:
For the six months ended 30 June 1976 the ACCO group has published unaudited figures for sales of $172 million and a profit before taxation of $8·9 million. (1975 first six months $160 million and $6·6 million respectively.)

For the purposes of this report we have obtained from Babcock the figures in table 4. This table shows the total turnover for each of the past three years of those ACCO operating divisions whose range of products overlaps to some extent that of Morris.

Table 4

1973 $ million	1974 $ million	1975 $ million
18·7	21·9	24·1

Exports

19. An analysis of turnover by operating groups between United Kingdom companies—home and export—and overseas companies is given in Appendix 5. Whereas, up to the inclusion of ACCO, the overseas companies' sales had been a little over a quarter of Babcock's turnover, it is now nearly a half. As table 5 shows, total export sales by United Kingdom companies have doubled in absolute terms over the period 1971 to June 1976, although they have declined in relation to total sales by these companies. The lack of growth in exports by the Power Engineering Division has been discussed in paragraph 7.

Table 5

	Total UK sales including exports	*Exports*	*Exports as a percentage of sales by UK companies*
	£ million	£ million	%
1971	97·2	26·5	27·3
1972	98·7	25·8	26·1
1973	153·8	32·3	21·0
1974	191·8	33·8	17·6
1975	279·3	46·6	16·7
1976 (6 months)	161·9	26·4	16·3

The variation between power and process engineering and other operating groups can be seen from Appendix 5.

Industrial relations

20. Industrial relations and negotiations with trade unions are regarded as being primarily the responsibility of the individual operating groups and divisions. Babcock's main board does not normally intervene but would expect to be informed of any major development. Methods of payment, whether by measured day work or piecework, are those found to be the most suitable and acceptable by each individual operating unit. Most Babcock establishments are members of the Engineering Employers Federation and conditions and terms of employment satisfy the national agreements between the Federation and the unions. The only serious disputes within recent years were a five weeks stoppage at Renfrew in 1975 and the Isle of Grain strike in 1976. The latter, however, concerned site workers and not factory workers.

21. Babcock has a staff pension scheme. Schemes exist for some hourly paid workers and the situation in relation to pensions for all such workers is being reviewed in the light of recent legislation.

CHAPTER 2

Herbert Morris Limited

The crane and hoist industry

22. Morris is a major United Kingdom manufacturer of electric overhead travelling cranes (both heavy and light duty), electric hoist blocks and other lifting devices. Heavy duty electric overhead travelling cranes are custom built for use in heavy industry, particularly in steelworks, shipyards and ports, whereas light duty cranes are more standard items. The latter, which incorporate many standardised components including hoist blocks, have wider uses. Apart from this application to overhead travelling cranes, hoists are used as components of other types of crane and also independently.

23. In 1975 sales of electric overhead travelling cranes (excluding parts) by United Kingdom manufacturers amounted to some £34·4 million according to Business Monitor Statistics[1]. About 13 per cent of sales have been exported in the last three years while imports have comprised less than 5 per cent of the market[2]. In 1975, sales of hoists by United Kingdom manufacturers (other than hoists incorporated in cranes) and of other lifting devices amounted to £7·7 million. In recent years exports of these products have been about 19 per cent of total sales but imports now represent a large share of the domestic market, as much as 40 per cent for most types of hoist according to estimates supplied by Morris[3]. The main sources of these imports are West Germany, Eastern Europe and to a lesser extent Japan.

24. Growth of the United Kingdom crane and hoist industry has been modest in recent years in real terms. Domestic demand for its products is closely linked to the fortunes of the user industries and more generally demand is sensitive to the level of economic activity. International trade in heavy cranes is limited by the weight of the product relative to its value but in lighter products, particularly hoists and other lifting devices, there is significant international trade. It is in the manufacture of hoists that the greatest opportunities for economies of scale arise, the world's leading manufacturers producing annual outputs substantially larger than the size of the whole United Kingdom market.

25. In a recent report on the mechanical handling equipment industry, of which the crane and hoist industry comprises a significant part[4], the National Economic Development Council commented:

> The level of capital investment in the industry is low and there are signs that it may even be declining in real terms. Whilst large parts of the industry retain their traditionally conservative outlook, there are nevertheless some signs of a greater awareness of the need for change. Surplus capacity exists

[1]Business Monitor Statistics for 1975 covered 93 per cent of the industry.
[2]The Overseas Trade Statistics figure for imports of electric overhead travelling cranes in 1975 appears to be an error. The import proportion in the text has been based on 1973 and 1974.
[3]Overseas Trade Statistics do not distinguish imports of hoists.
[4]The other parts being conveyors, lifts and escalators.

in parts of the industry at present. There is, as a result, positive acceptance of the view that a deliberate marketing and design strategy is necessary[1].

History and activities of Herbert Morris Ltd

26. The Morris business was founded in 1884 by Mr Herbert Morris. Starting with the British agency for a German pulley block of advanced design, Mr Morris devised a range of cranes, hoists and winches for the engineering industry. In 1897 manufacture began at Loughborough which is still the company's headquarters. Morris became a limited company in 1900 and a quoted company in 1939.

27. Herbert Morris Ltd is the major operating company of the Morris group and has the following trading subsidiaries in the United Kingdom:

British MonoRail Ltd (stacker cranes and monorail systems)
Linear Motors Ltd (linear motors and crane control equipment)
Crane Aid Services Ltd (maintenance and repair of any make of lifting equipment).

Morris also has a joint interest with C T Bowring & Co Ltd in Senelco Ltd, a company manufacturing under licence an American anti-shoplifting device. The number of Morris' United Kingdom employees is now about 2,000.

28. Overseas, Morris has subsidiary manufacturing companies in Australia and South Africa and a joint interest with a local participant in Akam Industrial Services Ltd in Iran. Senelco Ltd has overseas subsidiaries in Australia, South Africa and the Republic of Ireland.

29. An outline chart of the present structure is at Appendix 6.

30. In 1970, at a time when Morris' performance had been relatively unsuccessful, an American corporation approached the Morris family, who then owned 40 per cent of the Morris equity, suggesting that the family should sell all or part of their interest. In the event an offer for 30 per cent of the ordinary share capital was made to all shareholders. The offer was accepted by the shareholders and the 30 per cent of Morris' shares passed into the hands of E & H P Smith Ltd (Smith), then the British associate of the American company. In 1972, Smith became a subsidiary of Bryanston Finance Ltd, a British company, and was renamed Amalgamated Industrials Ltd (AI). AI bought further Morris shares in the market, increasing the holding to 37·72 per cent. As related in paragraph 11, AI made a bid for the remainder of the Morris shares in November 1975; this bid became the subject of a previous reference to the Monopolies and Mergers Commission, and the subsequent purchase of these shares by Babcock gave rise to the present inquiry. The present distribution of Morris shares is shown in Appendix 7.

31. In 1969, Mr P W Robinson became chairman of Morris. He was joined in 1970 by Mr E P McTighe who came as marketing director and later became group managing director. New directors responsible for finance, production, marketing and labour relations have been introduced. Plans were put into action for expansion at home and abroad. Loughborough production and

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[1]*NEDC, Industrial Strategy: Mechanical Handling Equipment*, July 1976.

administration were concentrated on a single site, new offices built, products rationalised and production methods modernised, the crane aid maintenance service introduced, the joint enterprise of Senelco established and a programme of re-tooling commenced.

32. Morris is committed to a number of development projects. For electric hoist blocks, there are plans, in the short term, for improvement of the existing Morris range and, in the long term, for development, in association with the National Engineering Laboratory, of new basic designs which Morris believes will be competitive both abroad and in the home market. There are also programmes of development for light duty cranes and for standard components for heavy duty cranes. In addition, there are government assisted projects for research into the uses of linear motors and, in association with the Ship Marine Technology Research Board, into the design of shipyard cranes. Morris' initiative in seeking outside professional advice also extends to market research and industrial relations. Morris co-operates with Loughborough University in the 'Teaching Company' scheme.

33. The management structure has recently been changed. Previously, the Morris board was responsible for day to day operations at Loughborough as well as corporate strategy and the supervision of subsidiary companies. The revised management structure provides for a main board comprising the president of the company (Mr F M Morris), the chairman, the group managing director, the finance director (Mr H D Kellie) and three executive directors. The managing directors of each subsidiary company and the managing director directly responsible for the United Kingdom crane and hoist business (Loughborough and Manchester together) report to the group managing director. Morris believes that this will enable Mr Robinson, Mr McTighe and Mr Kellie to give greater attention to the general supervision and development of the Morris group as a whole and that, because the company is not large, the close liaison between the leading officers of Morris will be maintained.

Exports

34. Morris recognised that it could not expand sufficiently by reliance, in the main, on the heavy crane needs of nationalised industries and public authorities in the home market with occasional overseas sales in traditional export areas. It therefore decided to press export sales in an effort to become an international supplier not only of heavy overhead cranes but of the whole range of Morris products. Particular attention was paid to the growth areas of the Near East and South America and it is in these two areas that joint enterprises with local participants have been set up, one in Iran and the other in Brazil. These enterprises have produced orders for heavy cranes and crane servicing but the Brazilian company has stopped quoting on all heavy cranes where Morris expertise is essential until doubts about the future of Morris raised by the Babcock bid are resolved.

35. For light cranes which are not custom built, Morris has developed the 'crane kit' concept whereby the essential parts are shipped from this country whilst the less specialised girders which are difficult and expensive to transport are supplied locally. We understand that apart from the joint enterprise in

Iran, crane kit agreements have been entered into with participants in Peru, Venezuela, Pakistan, Singapore, Qatar, Dubai, Greece, Belgium, Holland and the Republic of Ireland and that negotiations in five other countries are in train.

36. To compete in the more developed markets in Europe and the USA, Morris has sought existing manufacturers in those areas whose product ranges contained gaps which could conveniently be filled by a Morris product sold under the manufacturer's nameplate. Such projects offer Morris a ready means of distribution through the manufacturer's existing sales network. Arrangements of this kind have been made with two companies in France and one in Western Germany. Following a study which Morris commissioned from outside consultants, negotiations have been opened on a similar basis with ACCO and another leading American hoist manufacturer and with an American company with smelting interests. On the basis that these negotiations will be successful, Morris has been budgeting for an increase in exports to the USA to £0·4 million in 1977 compared with £0·27 million in 1976. In the longer term, Morris sees the American market as a major area for export development.

37. The proposed American hoist arrangements involve negotiations for an agreement with ACCO covering a chain block and with another leading American manufacturer covering electric hoist blocks. The ACCO project was pursued without knowledge of the impending Babcock bid and was broken off when the proposed merger was announced. The electric hoist arrangement with the other manufacturer has also become inactive because of the bid. Both Babcock and Morris agree that this manufacturer, who is a competitor of ACCO, would probably not wish to continue negotiations if Morris became associated with that company through merger with Babcock. Morris believes that the arrangement with this manufacturer would ultimately have produced sales of the proposed new design of hoist block (see paragraph 32) of about £2 million annually.

38. We were informed that the contact with the smelting company in America came about through previous business connections between Mr Robinson of Morris and the majority shareholder of the American company. This company, which is a supplier of plant for continuous smelting as well as having smelting interests of its own, was interested in marketing the light range of Morris cranes on a crane kit basis. Sales to metal smelting works were particularly in mind. It was hoped that this would have led to openings for Morris heavy cranes and Morris hoists as well as to a crane aid maintenance service. Discussions were also in progress for a project to develop a new type of heavy overhead crane for which the American company was to provide the metallurgical expertise and Morris the crane expertise. The negotiations have been suspended pending the outcome of the Babcock bid. Morris thinks that, if merger with Babcock occurred, the connection with the American company would not survive, largely because it has been built on the basis of personal contacts but also because, as far as light cranes are concerned, Babcock could not be expected to permit major competition in America between Morris cranes sold through this channel and ACCO's sales of its own cranes. Morris thinks that the business here in jeopardy involves several hundred blocks and crane kits worth about £1 million annually, the possibility of entering the American market for heavy

cranes in fields where the American company already has access, and the development of the new type of crane.

39. Exports by Morris companies in the United Kingdom for the five financial years ended 31 October 1975 and provisional figures for the 1976 financial year are shown in table 6.

Table 6

	Total UK sales to third parties and overseas subsidiaries	*Export sales including sales to overseas subsidiaries*	*Exports as a percentage of total sales by United Kingdom companies*
	£'000	£'000	%
1971	7,302	1,575	21·6
1972	6,719	1,780	26·5
1973	8,612	2,499	29·0
1974	11,099	3,255	29·3
1975	16,626	4,591	27·6
1976 (unaudited preliminary estimate)	22,800	4,850	21·3

Though export sales have increased, Morris suggests that the decrease in percentage terms since 1974 reflects the expansion in the British crane aid business and the completion early in 1976 of a large home crane contract.

Financial information

40. The audited trading results for the nine years ended 31 October 1975 and the unaudited preliminary estimate for the year ended 31 October 1976 are set out at Appendix 8 and summarised in table 7. Inflation adjusted figures are also shown using the United Kingdom Retail Price Index with the average for the year ended 31 October 1976 as the base. A separate adjustment has not been made for that part of the turnover and the profits which arose in overseas countries subject to different rates of inflation.

Table 7

	Sales		*Profit/(loss) before taxation and extraordinary items*		
Years ended 31 October	*Historic figures*	*Inflation adjusted**	*Historic figures*	*Inflation adjusted**	*Profit/(loss) as percentage of sales*
	£'000	£'000	£'000	£'000	%
1967	6,376	15,796	337	835	5·3
1968	6,545	15,622	373	890	5·7
1969	7,117	16,136	200	453	2·8
1970	7,118	15,164	(44)	(94)	(0·6)
1971	9,085	17,822	395	775	4·3
1972	8,908	16,098	591	1,068	6·6
1973	11,099	18,430	464	770	4·2
1974	14,401	21,007	316	461	2·2
1975	21,281	25,369	1,155	1,377	5·4
1976 (unaudited preliminary estimate)	28,000	28,000	2,100	2,100	7·5

*Figures have been adjusted to 1975–76 average price levels but profits have not otherwise been recalculated on either the current cost or current purchasing power basis.

These results show that after 1972 Morris achieved substantial increases in turnover. Prior to 1975 profits were fluctuating at a comparatively low level. The further improvement in profitability forecast for 1976 reflects amongst other things the anticipated elimination of losses incurred at the company's Manchester works previously run as a separate subsidiary but now managed from Loughborough. The company has announced that, subject to unforeseen circumstances, it is expected that the 1976 level of profit will at least be maintained in the current financial year.

41. Profits/(losses) after interest but before taxation of the various parts of the Morris organisation during the last seven years are set out in table 8.

Table 8

	Profits/(losses) after interest but before tax (years to 31 October)						
	1970 £'000	1971 £'000	1972 £'000	1973 £'000	1974 £'000	1975 £'000	1976 £'000 (unaudited preliminary estimate)
Cranes and hoists	(250)	191	526	264	(5)	531	1,117
British MonoRail Ltd	65	16	55	164	104	145	190
Crane repair and maintenance	49	33	21	3	54	199	325
Linear Motors Ltd	—	(4)	(3)	(2)	24	(12)	(75)
South Africa	88	144	63	137	209	258	445
Australia	—	11	(48)	(87)	(104)	(52)	45
Senelco Ltd (Morris share)	—	—	(18)	(17)	18	78	182
Other items	4	4	(5)	2	16	8	(129)
	(44)	395	591	464	316	1,155	2,100

42. The group trading profit before interest and taxation (see Appendix 8) as a percentage of the average capital employed is shown in table 9.

Table 9

Year to 31 October	*Average capital employed* £'000	*Trading profit before interest and taxation* £'000	*Return on capital employed* %
1972	6,252	680	10·9
1973	6,486	596	9·2
1974	7,939	600	7·6
1975	8,423	1,364	16·2
1976 (preliminary estimate)	9,100	2,137	23·5

Capital employed does not include investments. It is calculated on the historical cost basis and represents fixed assets at book value plus current assets less liabilities other than bank borrowings and term loans. At 31 October 1976 bank overdrafts stood at £1·35 million in the United Kingdom and £0·43 million overseas. Morris also had £0·5 million cash on deposit. In addition the company had borrowed £375,000 by way of term loan repayable by three annual instalments commencing 1 November 1977. Morris' bankers have undertaken to increase this term loan to £1 million to be repaid over four years commencing November 1978 and also to make overdraft facilities of £2·5 million available. Current borrowings are unsecured but the envisaged borrowings are to be on a secured basis.

43. Capital expenditure on fixed assets over the last six years is shown in table 10.

Table 10

Year to 31 October	*Within the UK*	*Overseas*	*Total*
	£'000	£'000	£'000
1971	105	187	292
1972	222	93	315
1973	535	34	569
1974	748	74	822
1975	559	227	786
1976 (provisional)	1,003	107	1,110

Note:
These figures exclude increases in fixed assets arising from newly consolidated subsidiary companies.

Of the capital expenditure in 1974 and 1975, £637,000 related to the building of a new office block on the Loughborough factory site. Capital expenditure on plant and machinery in the United Kingdom had been at a lower level prior to 1976. However, during 1976 Morris spent £703,000 on plant and machinery in the United Kingdom mainly at Loughborough. A further £70,000 was spent on extending the factory buildings so as to increase heavy crane construction capacity. Total capital expenditure during 1976 exceeded the £1 million forecast by Morris in February 1976 as a result of bringing forward expenditure originally scheduled for 1977. For 1977 Morris is budgeting capital expenditure of £1·4 million including £1·3 million in the United Kingdom, of which £1·1 million will be on plant and machinery. An interest relief grant of £300,000 payable between 1977 and 1979 has been approved by the Department of Industry.

44. Statements of source and application of funds for the years 1973 to 1975 and a provisional unaudited statement for 1976 are set out in Appendix 9. In 1975 Morris achieved a reduction of £1·7 million in total borrowings due to the receipt of very high advance and progress payments. The increase in bank borrowings for 1976 largely reflects a reduction in the level of such payments. In 1977 Morris is expecting a further decrease in progress payments but the company maintains that the credit facilities available (see paragraph 42) are more than adequate to service the capital expenditure programme and to meet working capital requirements.

Industrial relations

45. Morris has developed an open style of management and a high degree of consultation with trade unions. The company has obtained the co-operation of the unions in introducing both a degree of job flexibility and a change in the method of wage calculation to one of measured day work with a reduction in the number of skilled rates for wage purposes from sixteen to two. Union representatives are also involved in establishing production times for particular projects and this has enabled the company to quote delivery dates with a greater degree of confidence than might otherwise be the case. Such developments are only possible in an atmosphere of good industrial relations.

46. The Morris pension arrangements extend almost to every adult employee, staff or factory, and are a term of the employees' contracts of service with Morris.

CHAPTER 3

The submission of Babcock & Wilcox Limited

47. The acquisition of Morris is seen by Babcock as being part of, and in keeping with, its strategic diversification plan (see paragraph 8). Within the Babcock organisation, Morris would still function as a separate entity, under its existing management if possible, and the arrangements for corporate control (see paragraph 13) would not hinder the enterprise of Morris' management. Babcock anticipates that for at least the first year after merger, Morris would report directly to the managing director of the main board and not through an operating group. Its position within the corporate structure after that time would then be considered with the management of Morris. There would be no question of transferring work from the Morris factories to Renfrew. There would be disadvantages in splitting crane making operations in this way and the facilities at Renfrew are not suitable for crane making. If the growth of Morris brought a need for expansion of crane and hoist making facilities, these would be provided at a location determined by the Morris management. Preferably this would be at Loughborough where the necessary technological and managerial skills are already available. This would be in line with Babcock's general policy of requiring each operating unit to concentrate on a particular business, preferably on a single site. As members of Babcock, Morris and ACCO could share expertise, research and development in the crane and hoist field to their mutual advantage and Morris would also be in a position to gain from the experience of other Babcock companies in general engineering and electrical techniques. Though admittedly without knowledge of Morris' financial arrangements and 1976 performance figures, Babcock thought that Morris might in the future find it difficult to finance its rapid expansion. There might have been over-reliance by Morris on advance payments and insufficient profit retention. Babcock therefore believed that Morris might benefit, as a Babcock company, from the greater and cheaper sources of finance available to a large organisation particularly if times became hard.

48. On the marketing side, Morris, as part of Babcock, would be able to exploit new overseas markets (eg in Russia and Eastern Europe) through connections already established by other Babcock companies and through association with such companies in major 'package' sales. In America, ACCO would be able to give Morris substantial support which would more than offset the loss of Morris' proposed connection with another hoist manufacturer in America. Though Babcock did not know details of Morris' proposed arrangement with the smelting company in America there seemed no reason that Babcock could see for this to be affected by a merger. In other parts of the world, local representations of ACCO and of Morris are broadly complementary, one being strong in countries where the other is weak, and mutually advantageous sales arrangements could therefore be made. It would also be open to Morris to factor ACCO products in the United Kingdom and Europe. Though there was a product overlap between Morris and ACCO's Italian subsidiary, FATA, in the stacker crane field, Babcock did not think this to be serious and, with the backing of a large organisation, Morris would be in a position to penetrate the European market for these goods.

49. As regards industrial relations Babcock thought that fears about the effects of merger on the future well-being of Morris had been greatly exaggerated. Once merger had occurred and it could be seen that Morris would continue to function as an entity with very little organisational change, any fears would quickly be dispelled.

CHAPTER 4

The submission of Herbert Morris Limited

50. Morris regards itself as a company which is developing rapidly and successfully with borrowing facilities ample for its current and prospective needs. Neither Babcock nor Morris could foresee an expanding domestic market but, instead of seeking expansion as Babcock did through the acquisition of other companies, Morris chose to rely upon development of methods and products and an aggressive export drive. Morris regards itself as more greatly committed to export business than Babcock. Morris feels that the borrowings associated with the purchase of ACCO together with the cost of slimming down the Renfrew boiler factory will occupy Babcock's resources for some time to come and that Morris, with a lower ratio of borrowings to capital, is in the stronger financial position.

51. In Morris' view, Babcock already possesses facilities for crane and hoist manufacture in ACCO as well as a surplus capacity in the general engineering section of the Renfrew factory which could, with modification, be turned to this use as an alternative to expansion at Loughborough. Morris considers that Babcock's corporate management must look to the most effective use of the manufacturing capacity available within the organisation as a whole and that, if merger occurred, Morris as the smallest of these units would be at risk.

52. As a medium sized company with good communication between management and staff, Morris thinks that its management impact is more rapid, direct and effective than would be the case if the company became a part of a much larger organisation and subject to centralised financial control. Since the Morris directors most closely associated with the company's development would leave if merger occurred, this general management disadvantage of merger would be exacerbated.

53. So far as manufacture and sales of heavy cranes are concerned, Morris does not see that either Babcock or ACCO can be of any assistance. ACCO and Morris both produce light cranes, hoists, conveyors and monorail systems resulting in a wide product overlap. Morris considers it indicative of overlap that negotiations for representation by ACCO in America were confined to a single type of chain block (see paragraph 37) and calculates that about half the production of its United Kingdom factories is similar to products of ACCO. If merger occurred, Morris thinks that Babcock's corporate management must consider the duplication of effort and prospective competition between Morris and ACCO. The result would inevitably be a requirement for shared know-how and product and market rationalisation in which Morris, as the smaller firm, would be very much the junior partner. Morris considers this would be an economic disadvantage to the United Kingdom.

54. In the event of merger with Babcock, Morris' proposed link with another American hoist manufacturer would certainly cease and Morris believes that the proposed link with the smelting company in America would disappear also. ACCO alone, with comparable products of its own to sell, would not form

an adequate American outlet. Morris' potential springboard for American business would therefore be lost. Further, whatever other American outlets were cultivated, Morris does not believe that Babcock would ever allow penetration of the American market to proceed to the point of substantial competition with ACCO, bearing in mind Babcock's far greater financial interest in that company. Morris also believes that the connection with the local participant in Brazil would cease because of ACCO's existing interests in that country. In Morris' view, the effect of merger would therefore be virtual exclusion from the North and South American light crane and hoist market with no compensating advantage elsewhere other than that which Morris is already quite able to achieve for itself. Because of the importance of economies of scale in the manufacture of hoist blocks, Morris considers that penetration of the American market is necessary for the success of its hoist block proposals (see paragraph 32) and therefore for the establishment of a viable United Kingdom hoist industry.

55. Merger would bring a loss of personal contact at decision level between management and employees. Trade unions representing Morris employees are opposing the merger (see paragraph 56) and Morris believes that the merger would disrupt the present harmony between management and workforce.

Chapter 5

Evidence of other parties

Employees

56. We saw local representatives of the Transport & General Workers Union, the Association of Professional, Executive, Clerical and Computer Staff and of the Engineering Section and the Technical and Supervisory Section of the Amalgamated Union of Engineering Workers. They were accompanied by an official of the Trades Union Congress. They thought that Babcock could offer no help to Morris in crane-making expertise. The large crane and hoist making facilities of ACCO in America would prejudice full development and continued employment at the Morris factory in Loughborough. Because of lack of orders, Babcock's Renfrew plant has an uncertain future and its difficulties would retard investment in Morris. Despite Babcock's assurance, it was feared that work would be transferred from Loughborough and that the job security of the Loughborough employees would be affected. The funds to be used to purchase Morris could be put to better use in developing Renfrew. Direct communication with management at a decisive level, which is a feature of Morris' labour relations, would be lost in a larger organisation. Morris is visibly a progressive and developing firm and the takeover bid has come at a time when the effort put into the company, by management and workforce, is starting to bear fruit. We also received through the Trades Union Congress a letter from the Engineering Section of the Amalgamated Union of Engineering Workers at Renfrew offering support to Morris employees in their opposition to merger.

Other parties

57. Of the other parties we approached, the following expressed firm opinions.

58. Mattersons Ltd, a manufacturer of cranes and hoists, thought that the merger should be opposed because the presence of ACCO within the Babcock organisation might lead to pressures harmful to the United Kingdom import substitution effort and possibly also to Morris' export sales. Merger might also damage the prospects of collaboration between British manufacturers to increase overall efficiency and exports.

59. Sunderland Shipbuilders Ltd, a user of Morris equipment, expressed concern about the proposed merger, fearing that Morris, a successful supplier of cranes and material handling systems whose directors were able to control everyday events, would lose its identity. The choice of suppliers of vital shipbuilding equipment is becoming more limited and independence would ensure Morris' continuance as a supplier.

60. Of the other users we approached, the National Coal Board thought that the merger would represent a favourable development in the field of engineering manufacture. On the other hand, the British Steel Corporation as a customer of both Babcock and Morris, could see no advantage in a merger which could lead to the gradual diminution of competitive sources of supply.

61. The Department of Industry, whom we also consulted, drew attention to the importance and potential of Morris in the crane making industry and to its success over recent years in increasing its sales and exports and improving its industrial relations. This success was ascribed, in part at least, to a dynamic management team, able to react quickly to market opportunities. The Department's view was that Morris would probably continue to make very satisfactory progress if it were to retain its independence. However, the large block of shares accumulated by AI and now held by Babcock could again give rise to continued uncertainty about the future control of Morris if the Babcock proposed purchase did not proceed and the shares came as a block into other hands. In such circumstances, the Department concluded that a merger with Babcock, which aimed to preserve as much as possible of the existing Morris management capability, could well prove a better outcome than other possibilities.

CHAPTER 6

Conclusions

The merger situation

62. Under the terms of the reference and the provisions of sections 69(1) and 75(2) and (4) of the Fair Trading Act 1973, we are required to investigate and report on the questions:

(i) whether a merger situation has been created;

(ii) whether arrangements are in progress or in contemplation which if carried into effect will result in the creation of a merger situation.

63. The condition set out in section 64(1)(b) is satisfied by the fact that the value of Morris' assets exceeds £5 million. We are required to exclude from consideration the condition under section 64(1)(a) that a merger would create or extend a monopoly situation.

Has a merger situation been created?

64. The Fair Trading Act 1973 provides that a merger situation exists if two or more enterprises have ceased to be distinct enterprises at a time or in circumstances outlined in section 64(4) of the Act. Two or more enterprises are regarded as having ceased to be distinct enterprises if they are brought under common ownership or common control. A person (which includes a body corporate) is regarded as having control of another body corporate or enterprise if he either:

(i) has a controlling interest in it; or,

(ii) not having a controlling interest, is able to control the policy of the enterprise; or,

(iii) not having the ability to control, is able materially to influence that policy.

65. On 20 September 1976 (see paragraph 11) Babcock announced that it had purchased 37·72 per cent of the issued ordinary share capital of Morris and, on 30 September, bought additional shares making a total shareholding of 39·24 per cent. On 1 November 1976 (see Appendix 7) the Morris family and directors held 25·50 per cent; large (over 5,000 shares each) institutional shareholders held 17·82 per cent; other large (over 5,000 shares each) shareholders held 2·74 per cent. To match the Babcock holding, the Morris family and directors would need the support of over 77 per cent of large institutional shareholders or over 66 per cent of all large shareholders. Morris contended that Babcock is able in these circumstances to control the policy of Morris. Babcock accepted that it is able materially to influence it. We do not need to decide whether the circumstances amount to ability to control or, only, ability materially to influence as the latter is sufficient to create a merger situation. We conclude that a merger situation was created by Babcock's purchases of Morris shares in September 1976.

Is a merger situation in progress or in contemplation?

66. Babcock's offer for the remainder of the Morris shares is in abeyance pending the result of the reference to the Commission but Babcock is obliged

by Rule 34 of the City Code to make a further offer if a merger is allowed to proceed. Babcock told us that it regards it as important to increase its holding to 100 per cent. We conclude that arrangements are in contemplation which if carried into effect will result in the creation of a merger situation.

The public interest

67. If we find that a merger situation has been created we are required to investigate and report on the question whether the creation of that situation operates or may be expected to operate against the public interest. We began by considering the criticisms which each party made of the other's financial position and the possible effects of a merger on competition in the United Kingdom. We went on to consider the possible effects on production, research and development, management, industrial relations and exports, bearing in mind (see paragraphs 39 to 43) that Morris has been increasing its sales, exports, profits and return on capital employed, that morale is high and that Morris seems well placed to exploit its recent success.

Financial considerations

68. Babcock suggested (see paragraph 47) that a merger might be financially advisable because Morris might find itself short of cash and unable to finance its development; finance would be easier and cheaper to find for a member of the Babcock organisation; and Babcock would be able to support Morris through hard times which, as an independent company, it might not survive. We had the benefit of later information than was available to Babcock (see paragraph 44 and Appendix 9) and conclude that Morris is able to finance its current activities and development programme within its own borrowing limits. On the information available to us we see no reason why Morris should not be able adequately to finance the development of its business in the foreseeable future. The availability of wider support in hard times is a contingent advantage to any small company acquired by a large organisation but Morris has so far been able to survive without such support. We were informed of the difference between the Babcock and Morris borrowing rates but do not regard these as significant, or likely to become significant, in the context of the sums involved.

69. Morris suggested (see paragraph 50) that a merger would be financially inadvisable because Babcock might be embarrassed by the cost of slimming down its Renfrew factory, and by the need to find funds for ACCO if that company should not prosper, with the result that it would be unable or unwilling to finance the development programme which Morris would pursue as an independent company. We are satisfied that Babcock has given due consideration to these matters. Its borrowing facilities in the United Kingdom appear to be sufficient for foreseeable requirements; and we see no reason to think that Babcock would not be able to provide the finance for the development of Morris. Whether Babcock would be willing to develop Morris in competition with ACCO raises different considerations to which we refer in paragraph 77.

Competition in the United Kingdom

70. Babcock and Morris do not compete in the United Kingdom in the manufacture of cranes or hoists and a merger would therefore have no effect

on supplies of these products to the domestic market. Both companies are manufacturers of monorail systems, although not of identical types, and Morris buys chains from Parsons, an ACCO subsidiary. A merger might have some immediate effect in reducing competition in the first case and might, in the second case, put Morris at an advantage over other crane and hoist makers in the supply of components. The business involved is, however, small, particularly in the case of monorail systems, and no other manufacturer of cranes and hoists expressed any reservations about a merger on either score. We therefore conclude that the effect of a merger on competition in the the United Kingdom is insignificant.

Effects on production, research and development

71. Babcock did not claim that a merger would bring any immediate or tangible benefits to Morris' manufacturing efficiency. Babcock discontinued its own heavy crane business as unprofitable as recently as 1972 (see paragraph 6). Morris (see paragraphs 31, 32, 43 and 45) has embarked on a programme of rationalisation of product design and manufacturing operations at Loughborough and Manchester supported by a programme of capital investment, particularly at Loughbrough, and improved production methods involving job flexibility, and other changes in procedures, negotiated with the trade unions. Babcock proposed no changes in Morris products or methods of production, or in the location of its plants, and claimed no advantages in a merger resulting from economies of scale or improved efficiency. Babcock firmly denied, on the other hand, that it had any intention, as Morris feared, of disrupting production at Loughborough by transferring existing work to Renfrew and said that the existence of unused capacity at Renfrew would not prevent an extension of the Loughborough plant if this could otherwise be justified. Babcock's general policy (see paragraph 47) is to require its subsidiaries to devote themselves to particular businesses on integrated, preferably single, sites to facilitate concentration of effort. We accepted Babcock's statement that it could see no good reason, from its own commercial point of view, for departing from its general policy in the particular case of Morris.

72. While claiming no immediate benefit to Morris' production efficiency in the event of a merger, Babcock suggested (see paragraph 47) that Morris would benefit from access to the technological expertise of the other Babcock companies and Babcock's research and development capability. We were impressed by the steps which Morris has taken (see paragraph 32) to gain access to technology and research and development facilities, outside its own experience, through co-operation with such bodies as the National Engineering Laboratory, and to integrate its technical development with its marketing needs as it sees them. However, we do not doubt that Babcock would have something to offer on the technological side and this might constitute a possible advantage of a merger.

Effects on management

73. The Babcock system of corporate management (see paragraph 13) subjects subsidiary companies to the discipline of Head Office scrutiny of operational budgets, capital spending programmes and proposals for the

acceptance of large contractual commitments. There is nothing unusual in such a system; and the Babcock arrangements, as described to us, appear to apply no more onerous a control than could reasonably be expected of a holding company exercising a positive corporate function. We do not believe that such a system necessarily stifles initiative or inevitably results in a lower standard of performance than the subsidiary companies might have achieved had they remained independent. The subsequent financial results of the companies acquired by Babcock from 1968 onwards (see paragraph 8) show that, collectively, these companies have not been unsuccessful as members of the Babcock organisation. Babcock believes that some would have done worse, or might not have survived, if they had not been acquired. In the inevitable absence of comparative figures, this cannot be proved or disproved but we do not question the general proposition that central support can, in suitable cases, provide a foundation for the successful management of subsidiaries.

74. In this case, however, we see material risk that Morris would be less effectively managed if Babcock were to acquire it. In our view Morris' success thus far has to a considerable extent depended on the independent and quick reacting management style characteristic of Mr Robinson and Mr McTighe and of its other executives. The company has built up a strong management team which exercises intimate control over all aspects of the business and is readily accessible to take immediate, and final, decisions. Morris believes that such a method of operation requires a small organisation and that the need to work through the chain of command in a large organisation would inhibit its methods and enervate its performance. We see a substantial risk in this case that these fears would prove correct. The Morris top management has played a critical part in the successful expansion of the company and, in particular, of its export trade. Its chairman sees no place for himself in Babcock and its managing director told us that he would regard responsibility for Morris as a Babcock subsidiary as offering a lower order of responsibility than he at present discharges and would find this unacceptable. It is plain therefore that the merger would at the very least place at risk the continued existence of the present Morris management team. The need for adaptation to the Babcock system of corporate supervision and control, at an important stage in the development of the Morris business, and the loss, if it took place, of the services of key individuals, would have a disturbing effect, in the short-term, on the Morris management and this would be aggravated by uncertainty (see paragraph 47) as to the place which would eventually be found for Morris in the Babcock structure. Such uncertainty and disturbance would in this case divert energy and management time from the continued pursuit of Morris' hitherto successful policies. We have no reason to believe that these costs of adaptation would be offset in the long run by any managerial advantages arising from absorption into Babcock's corporate structure.

Industrial relations

75. Good industrial relations are an aspect of good management and we therefore considered to what extent continuation of the good relations which Morris has established is dependent upon continuing independence and the retention of its top management. Babcock's industrial relations policy (see paragraph 20) is to make each subsidiary responsible for negotiating appropriate

arrangements with its own employees. We accept Babcock's assurance that a merger would lead to no interference with the Morris system which has won the confidence and co-operation of the workforce. We appreciate the sincerity of the Morris employees' opposition to a merger and we accept that the first reaction might well be disappointment and suspicion. We think, however, that it would be possible to dispel this and we see no reason to think that a merger need necessarily do any lasting damage to Morris' effectiveness in this field. Morris suggested that Babcock had been less successful in industrial relations than it had itself but we found no evidence to support this.

Exports

76. Morris' export performance, (see paragraph 39) measured as the percentage of its sales represented by exports, is above the average for its sector of the crane and hoist industry. A major feature of its export effort has been the development of the crane kit concept and the negotiation of distribution and 'own nameplate' arrangements with overseas manufacturers (see paragraphs 35 and 36). The current level of exports is not large in absolute terms but Morris expects a significant increase in its exports particularly if its development work on new products, eg in the electric wire rope hoist field (see paragraph 32) is successful. A further increase in its export business is, indeed, essential if Morris is to achieve the level of sales necessary to enable it to manufacture its lighter products on a scale sufficient to be competitive with overseas suppliers. At present these companies have such an advantage that imports have captured as much as 40 per cent of the domestic market for some products (see paragraph 23).

77. We have given careful consideration to Babcock's argument (see paragraph 48) that Morris' export effort would be strengthened were it to become part of the Babcock group. We do not doubt that Babcock might, in principle, be able to promote Morris cranes, eg in major 'turnkey' projects for which Babcock is responsible. We also accept that Babcock's wider representation around the world would confer some benefit on Morris. But we think that any such benefits would be outweighed by two disadvantages. First, if we are right in our conclusion (see paragraph 74) as to the disturbing effects of a merger on the Morris management, there must be some risk that the initiatives which have built up Morris exports so far would be blunted. We were impressed by the degree of personal involvement in the company's export effort of Morris' chairman and managing director, as well as of their marketing colleagues, as illustrated by the negotiations with the smelting company in America (see paragraph 38). The crane and hoist markets are keenly competitive internationally and, without such unreserved commitment, export success is less likely. We do not suggest that Babcock is, or would be, indifferent to exporting but we do doubt whether the Morris approach to export marketing would be as successful in the bigger Babcock organisation. Our second concern is with the ACCO/Morris product overlap (see paragraph 53). Babcock argued that there would be advantages to Morris (and to the public interest) from association with ACCO in the Babcock group. Although Babcock has no specific plans for the integration of the two businesses, it did consider (see paragraph 48) that Morris might benefit, first, from the addition of certain ACCO products to its own range for sale in Europe and, secondly, by the promotion by ACCO of Morris products in

markets in North America. There was no concrete evidence, however, to suggest that the Morris product line would usefully be supplemented by ACCO products which are not at present sold in Europe. As to sales of Morris products in North America, we doubt whether any advantages would offset the loss of the distribution arrangements which Morris was negotiating with American companies other than ACCO (see paragraphs 37 and 38). We do not think it likely that ACCO would favour the substitution of existing Morris products for competitive ACCO products in view of the adverse effect on output and employment in ACCO plants; and we think that, in view of the size of Babcock's investment in ACCO compared with the investment it would be making in Morris, Babcock would be more likely to favour the interests of ACCO. As to the development of new products upon which Morris is embarking and for which it sees penetration of the US market as a necessary condition for success, ACCO is less likely to oppose their sale in its own domestic market if they prove clearly superior to those of competitors including ACCO itself. We nevertheless consider that there must be some risk that Morris would be less free than it now is to pursue its new product programme; and that any alternative way of selling such new products in the US as it might ultimately develop with ACCO would be a 'second best' to the arrangements it is now negotiating. We accept the Morris view that any threat to its potential North American sales would be a matter for concern, not only as regards its existing sales but also because the loss of potential business would jeopardise its efforts to build up its manufacture of lighter products to an economic scale. This would reduce the opportunity which Morris now sees for developing its export sales elsewhere in the world and resisting the competition of imports in the domestic market.

Conclusion

78. If we find that the creation of a merger situation operates or may be expected to operate against the public interest we are required to specify the particular effects, adverse to the public interest, which the creation of that situation has or may be expected to have. Our conclusion is that the merger situation which is in contemplation is contrary to the public interest because it endangers the satisfactory development of the Morris enterprise by putting at risk the effectiveness of Morris' management, and hence its successful progress in improving productivity, developing new products for home and export markets, and modernising its manufacturing plant. It also puts at risk its sales, in markets served by ACCO, of Morris products similar to those made by ACCO. These adverse effects are not offset by the possibility of advantage to Morris from the availability of Babcock's financial support, from sharing in Babcock's research and development resources and from the use of Babcock's overseas representation. We are unable to recommend any action which would remedy or prevent these effects. We therefore recommend that the contemplated merger should not be permitted.

79. We also conclude that the existing merger situation created by the Babcock shareholding of 39·24 per cent is contrary to the public interest because such a shareholding will enable Babcock materially to influence the policy of Morris and, indeed, to obtain representation on the Morris board. Such a situation would involve the risks specified in paragraph 78 above. A sharehold-

ing of not more than 10 per cent should ensure that Babcock would not be able to exercise such influence. We therefore recommend that Babcock should reduce its shareholding to not more than 10 per cent; and that, until such a reduction is effected, Babcock should not exercise voting rights in respect of more than a 10 per cent shareholding.

C J M HARDIE
R L MARSHALL
S A ROBINSON

The following members of the group dissent from the conclusion for the reasons set out in the note of dissent included in this report.

J G Le QUESNE (*Chairman*)
F E JONES

Y Lovat Williams (*Secretary*)

17 January 1977

Note of dissent by Mr J G Le Quesne and Dr F E Jones

80. We agree with our colleagues that arrangements are in contemplation which, if carried into effect, will result in the creation of a merger situation. We are unable to share their opinion of the consequences of such a merger. The evidence, in our judgment, does not justify the conclusion that the merger situation would operate in any way against the public interest.

81. The contrary opinion of our colleagues is based on their view of the effect of the merger on management and on exports. They 'see material risk that Morris would be less effectively managed if Babcock were to acquire it' (see paragraph 74). The reasons for this apprehension are that the chairman and the managing director of Morris say they would leave the company if the merger were to take place, and Morris would have to be adapted to 'the Babcock system of corporate supervision and control'. These developments, our colleagues believe, would have 'a disturbing effect, in the short-term'.

82. It is obvious that, if the merger is carried out, there will be some change of the management of Morris. The chairman and the managing director, if they do in fact what now they expect they would do, will have to be replaced. We do not wish to belittle in any way what these gentlemen have achieved with Morris, but we see no reason to doubt that Babcock would be able to find, either within the great resources of the group or outside, equally effective substitutes. The management of Morris would have to become accustomed to 'the Babcock system of corporate supervision and control'. Our colleagues acknowledge that this is not an unusual system, nor a system which 'necessarily stifles initiative or inevitably results in a lower standard of performance' (see paragraph 73). We do not think it need be expected to do either of these things to Morris.

83. These changes, like many changes, might cause some disturbance at the time. Our colleagues themselves do not expect any disturbance to be more than temporary. There would be, they say, 'a disturbing effect, in the short-term'. We

certainly see no reason to anticipate anything long lasting. Such temporary disturbance of the management of a business cannot, in our judgment, be elevated to the category of things 'contrary to the public interest'.

84. Our colleagues see two reasons for anxiety about exports. 'First', they say (see paragraph 77), 'if we are right in our conclusion as to the disturbing effects of a merger on the Morris management, there must be some risk that the initiatives which have built up Morris exports so far would be blunted'. If, as we believe, the apprehension about management is insubstantial, this argument too must fall.

85. The second argument about exports concerns exports to North America, which our colleagues fear would be 'put at risk' by the merger. These exports fall into two groups. There are first the current exports to North America of Morris' present products. The volume of these exports is insignificant for the public interest, and there is no reason to expect that it can be greatly increased. Morris' real hope for North American exports lies in new products, which they are developing or hoping to develop. Our colleagues suggest that, if the merger takes place, 'there must be some risk that Morris would be less free than it now is to pursue its new product programme; and that any alternative way of selling such new products in the US as it might ultimately develop with ACCO would be a "second best" to the arrangements it is now negotiating' [sc. with another American hoist manufacturer and a smelting company in America] (see paragraph 77).

86. It is true that as a result of the merger Morris' new product programme would be subject 'to the discipline of Head Office scrutiny' (see paragraph 73). Doubts about the consequence of such scrutiny, however, appear to us to imply doubts about the policy and the management of Babcock which the evidence contains nothing to justify. If there is reason for the high hopes which Morris entertain of their new products, we see no reason why Babcock should be less keen than Morris to develop those products. If those products are developed successfully and prove superior to competing products, we see no reason why Babcock should be anything but anxious to promote their sale in North America or, indeed, why ACCO itself should not be willing to enter into some satisfactory arrangement for marketing them.

87. Views about the likely consequences of the merger must depend largely upon speculation. However, that speculation can be guided by knowledge of what has happened in the past. We consider that our colleagues' conclusion allows less weight than is fair to Babcock's record. Babcock has acquired a number of companies since 1968. The achievements of those companies since their acquisition (cf. paragraphs 8 and 73) do not suggest that the influence of Babcock has enervated their performance or blunted any sound initiatives in exporting. We do not believe that merger with Babcock would prove a blight upon prosperity for Morris any more than it has done for those companies.

88. Finally, it must not be overlooked that the merger would bring to Morris some positive advantages. This is a matter upon which there is some agreement between our colleagues and us. They consider that the availability of

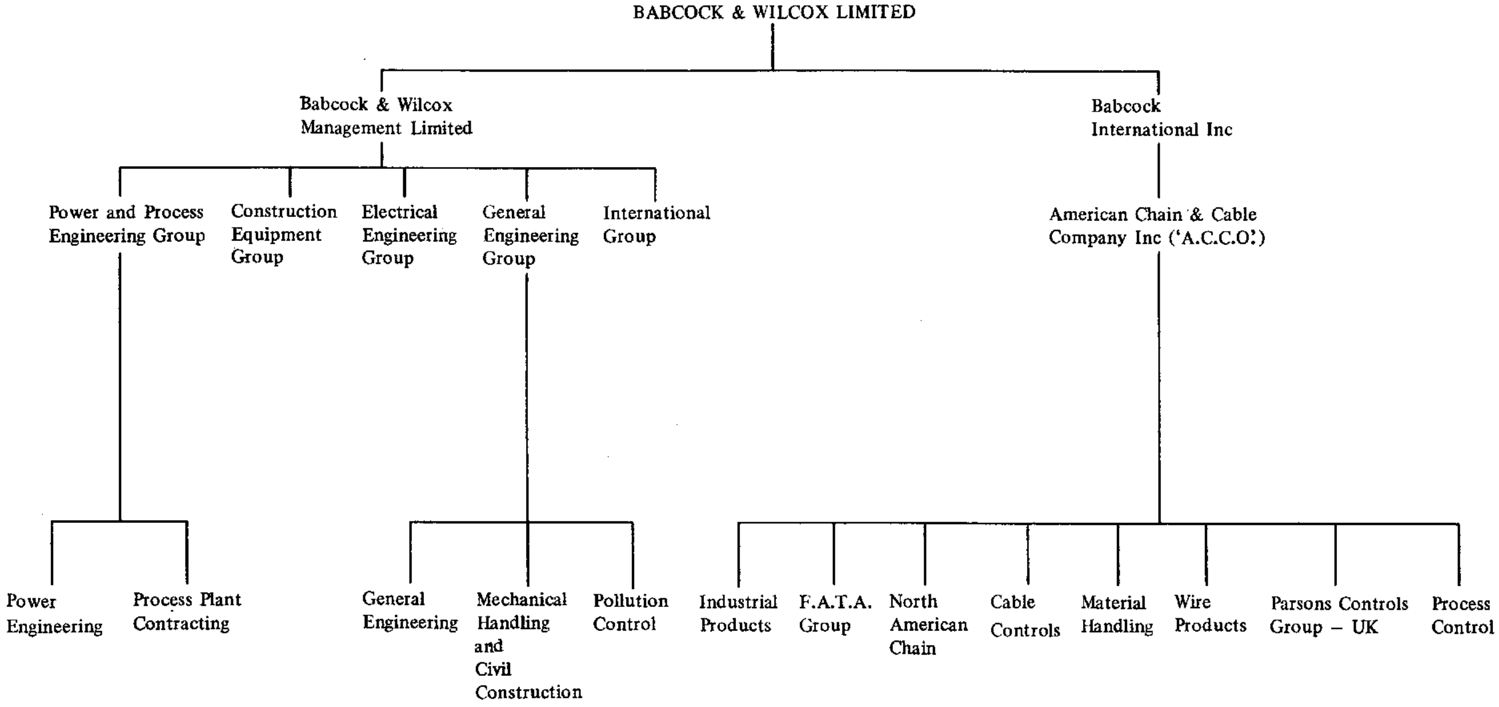
Babcock's financial support in hard times would be a contingent advantage to Morris (see paragraph 68); Babcock would have something to offer on the technological side which might constitute a possible advantage (see paragraph 72); Babcock might be able to promote Morris cranes in major projects for which Babcock is responsible and Morris might derive some benefit from Babcock's wider respresentation around the world (see paragraph 77). We should ourselves state these advantages rather more positively and give them rather greater weight; but, even if they are to be viewed as our colleagues view them, we do not consider they are outweighed by any material before us.

89. There is no doubt that in recent years Morris has been a successful and enterprising company. We do not believe it would suffer any prejudice from union with a group as well established, well organised and well managed as we consider Babcock to be. We see no ground for concluding that either the existing or the contemplated merger would operate against the public interest.

APPENDIX 1

(referred to in paragraph 12)

Babcock & Wilcox Limited
Operating group structure



Note: The above chart does not include further subsidiary divisions of A.C.C.O.

APPENDIX 2

(*referred to in paragraph 15*)

Babcock & Wilcox Limited
Consolidated profit and loss accounts

	Years ended on or about 31 December									*Unaudited 6 months to end June*
	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	79,854	100,145	103,553	110,586	128,094	126,802	202,232	248,201	370,700	294,761
Trading profit before depreciation	5,028	5,181	4,775	6,584	7,130	8,063	13,095	13,782	19,285	
Depreciation	(1,660)	(1,850)	(2,149)	(2,302)	(2,330)	(2,253)	(3,014)	(3,185)	(3,865)	
Trading Profit	3,368	3,331	2,626	4,282	4,800	5,810	10,081	10,597	15,420	14,072
Share of profits/(losses) of associated companies	—	—	—	92	177	71	(353)	1,197	372	1,067
Investment income (see note 2)	598	767	789	779	739	840	1,037	1,094	3,387	3,568
	3,966	4,098	3,415	5,153	5,716	6,721	10,765	12,888	19,179	18,707
Net interest payable	(639)	(861)	(1,344)	(2,009)	(1,703)	(1,397)	(2,608)	(3,009)	(2,114)	(3,529)
Profit before taxation	3,327	3,237	2,071	3,144	4,013	5,324	8,157	9,879	17,065	15,178
Taxation	(1,360)	(1,356)	(1,581)	(1,626)	(1,417)	(1,681)	(3,486)	(4,684)	(7,630)	(6,356)
Profit after taxation	1,967	1,881	490	1,518	2,596	3,643	4,671	5,195	9,435	8,822
Minority interests	(183)	(317)	(350)	(323)	(223)	(260)	(387)	(362)	(200)	(53)
Profit after taxation and before extraordinary items	1,784	1,564	140	1,195	2,373	3,383	4,284	4,833	9,235	8,769
Extraordinary items										
Net surpluses on disposals of investments	103	—	—	—	858	—	922	126	22,141	
Net surpluses/(deficits) on disposals of properties	—	—	—	4,688	566	68	419	(22)	—	
Other	1,051	(2,545)	(168)	(651)	(864)	1,012	1,967	(684)	(177)	
Profit/(loss) after extraordinary items	2,938	(981)	(28)	5,232	2,933	4,463	7,592	4,253	31,199	8,769

Notes: 1) The above figures have been taken from the Group's published accounts but adjusted in respect of extraordinary items to include certain transactions which in earlier years had been taken direct to reserves.

2) Investment income shown for 1975 and the half year 1976 includes currency gains of £2,014,000 and £2,994,000 respectively.

Appendix 3

(referred to in paragraph 15)

Babcock & Wilcox Limited

Turnover and trading profits by operating groups

	Years ended on or about 31 December										Unaudited 6 months to end June	
	1971 £'000		1972 £'000		1973 £'000		1974 £'000		1975 £'000		1976 £'000	
Turnover:												
Power and process engineering	63,596		56,977		78,866		101,517		146,908		78,615	
Construction equipment	15,679		19,836		23,146		24,093		32,587		17,023	
Electrical engineering	3,455		3,925		9,054		9,798		15,934		8,056	
General engineering	11,826		15,084		41,828		57,652		84,139		47,113	
International	33,538		30,980		49,338		55,141		78,651		50,444	
ACCO (1975—from 5 December)	—		—		—		—		12,481		93,510	
	128,094		126,802		202,232		248,201		370,700		294,761	
Trading profit:												
Power and process engineering	1,999	(3·1%)	1,801	(3·2%)	2,111	(2·7%)	2,886	(2·8%)	3,590	(2·4%)	1,500	(1·9%)
Construction equipment	939	(6·0%)	1,727	(8·7%)	2,538	(11·0%)	2,511	(10·4%)	4,268	(13·1%)	1,700	(10·0%)
Electrical engineering	114	(3·3%)	135	(3·4%)	584	(6·5%)	489	(5·0%)	1,030	(6·5%)	700	(8·7%)
General engineering	343	(2·9%)	948	(6·3%)	2,629	(6·3%)	3,036	(5·3%)	4,380	(5·2%)	2,200	(4·7%)
International	1,405	(4·2%)	1,199	(3·9%)	2,219	(4·5%)	1,675	(3·0%)	1,452	(1·8%)	900	(1·8%)
ACCO (1975—from 5 December)	—		—		—		—		700	(5·6%)	7,000	(7·5%)
	4,800	(3·7%)	5,810	(4·6%)	10,081	(5·0%)	10,597	(4·3%)	15,420	(4·2%)	14,000	(4·7%)

Notes: 1) Trading profit comprises profit before investment and associated company income and interest payable.
2) The percentages represent the ratios of trading profits to turnover.

APPENDIX 4

(referred to in paragraph 17)

Babcock & Wilcox Limited

Group source and application of funds

	Years ended on or about 31 December		
	1973 £'000	1974 £'000	1975 £'000
SOURCE OF FUNDS			
Profit after tax and before extraordinary items (excluding associated companies)	4,729	3,902	9,065
Depreciation	3,014	3,185	3,865
Minority interests	387	188	276
Deferred taxation	341	1,433	3,707
Total funds generated from operations	8,471	8,708	16,913
Arising from other sources:			
Additional loans	7,193	661	8,756
Disposals of investments	1,525	226	31,956
Net proceeds of rights issue	—	—	11,203
	17,189	9,595	68,828
APPLICATION OF FUNDS			
Purchase of shares in subsidiaries (see note)	13,503	1,283	35,458
Purchase of fixed assets (net of disposals)	3,090	4,676	7,637
Purchase of investments	1,334	2,342	4,648
Repayment of loans	430	281	1,123
Dividends paid	822	860	913
Increase/(decrease) in working capital	(160)	(2,354)	20,942
(Increase)/decrease in bank overdrafts	(1,830)	2,507	(1,893)
	17,189	9,595	68,828
Note: The cost of shares in subsidiaries was represented by the following assets and liabilities:			
Fixed assets	5,922	—	42,277
Investments	581	—	1,112
Working capital	2,762	—	35,855
Bank overdrafts (net)	(345)	—	(11,887)
Loans	(525)	—	(15,142)
Minority interests	535	1,227	(3,726)
Deferred taxation	(77)	—	(4,757)
	8,853	1,227	43,732
Acquisition (reserve)/goodwill	4,650	56	(8,274)
	13,503	1,283	35,458

APPENDIX 5

(referred to in paragraph 19)

Babcock & Wilcox Limited

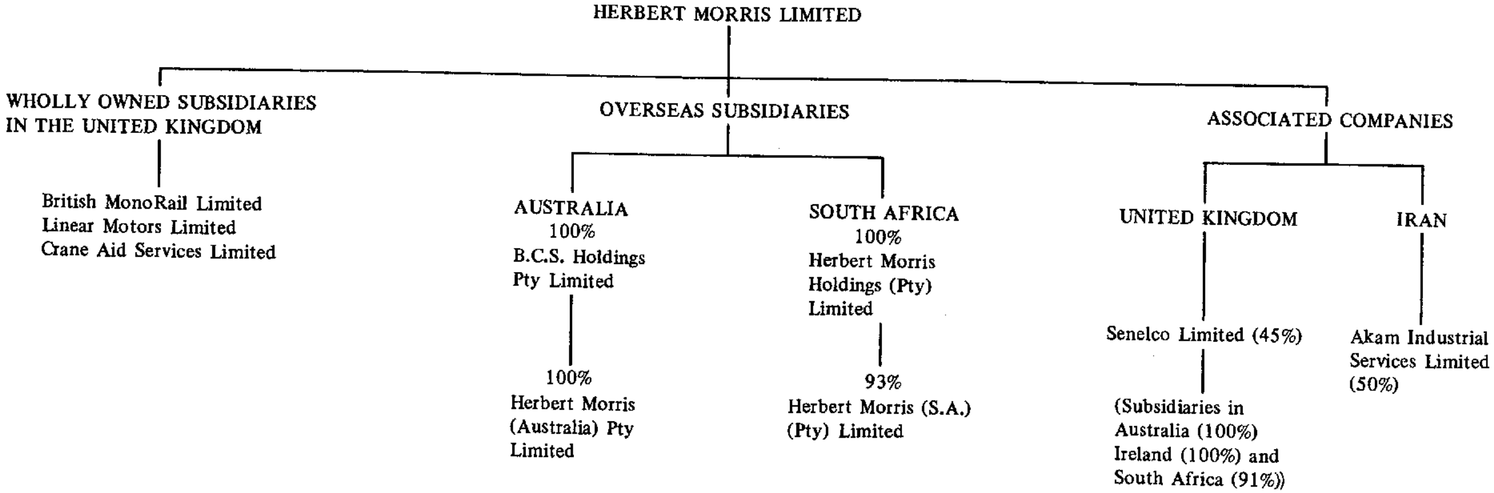
Analysis of turnover of operating groups

	Years ended on or about 31 December										*Unaudited 6 months to end June*	
	1971		1972		1973		1974		1975		1976	
U.K. Companies	£'000		£'000		£'000		£'000		£'000		£'000	
U.K. sales												
Power and process engineering	47,038		42,503		61,589		86,274		128,753		69,058	
Construction equipment	10,889		15,526		18,200		15,730		19,580		10,619	
Electrical engineering	3,193		2,936		7,257		7,232		13,169		6,970	
General engineering	9,513		11,870		34,387		48,778		69,652		36,446	
ACCO (1975—from 5 December)	—		—		—		—		1,506		12,357	
	70,633	(55·1%)	72,835	(57·4%)	121,433	(60·0%)	158,014	(63·7%)	232,660	(62·7%)	135,450	(46·0%)
Exports to third party and to overseas subsidiaries												
Power and process engineering	17,523		15,218		18,428		15,045		16,397		10,076	
Construction equipment	5,698		5,601		6,974		10,469		17,007		8,188	
Electrical engineering	997		1,954		2,511		4,124		4,978		2,042	
General engineering	2,330		3,055		4,415		4,121		7,980		4,245	
ACCO (1975—from 5 December)	—		—		—		—		252		1,854	
	26,548	(20·8%)	25,828	(20·4%)	32,328	(16·0%)	33,759	(13·6%)	46,614	(12·6%)	26,405	(8·9%)
Overseas companies:												
International group and companies other than ACCO	34,858		32,174		53,851		64,349		96,383		60,039	
ACCO (1975—from 5 December)	—		—		—		—		10,723		83,168	
	34,858	(27·2%)	32,174	(25·4%)	53,851	(26·6%)	64,349	(25·9%)	107,106	(28·9%)	143,207	(48·6%)
Less: Inter group sales—UK and Overseas	(3,945)	(3·1%)	(4,035)	(3·2%)	(5,380)	(2·6%)	(7,921)	(3·2%)	(15,680)	(4·2%)	(10,301)	(3·5%)
Total group turnover	128,094	(100·0%)	126,802	(100·0%)	202,232	(100·0%)	248,201	(100·0%)	370,700	(100·0%)	294,761	(100·0%)

APPENDIX 6

(*referred to in paragraph 29*)

Herbert Morris Limited
Corporate structure



APPENDIX 7

(*referred to in paragraph 30*)

Herbert Morris Limited
Distribution of shares
as at 1 November 1976

Held by	*No of shares*	%
1. Babcock & Wilcox Ltd	1,301,278	39·24
2. Morris Family and Directors		
(*a*) Morris Family	818,248	24·67
(*b*) Directors, excluding Mr Morris	27,387	0·83
3. Morris Pension Fund	38,925	1·17
4. Institutions (over 5,000 shares each)	591,081	17·82
5. Other shareholders Large shareholders (Over 5,000 shares each) 90,994 (2·74%) Small shareholders 448,646 (13·53%)	539,640	16·27
	3,316,559	100·00

APPENDIX 8

(referred to in paragraph 40)

Herbert Morris Limited

Consolidated profit and loss accounts

Years ended 31 October	1967 £'000	1968 £'000	1969 £'000	1970 £'000	1971 £'000	1972 £'000	1973 £'000	1974 £'000	1975 £'000	*Provisional (unaudited)* 1976 £'000
Turnover	6,376	6,545	7,117	7,118	9,085	8,908	11,099	14,401	21,281	28,000
Trading profit before interest and depreciation	610	624	435	189	680	857	834	859	1,659	2,516
Depreciation	(215)	(210)	(171)	(167)	(169)	(177)	(238)	(259)	(295)	(379)
Trading profit before interest	395	414	264	22	511	680	596	600	1,364	2,137
Interest payable	(58)	(41)	(64)	(119)	(153)	(85)	(104)	(302)	(287)	(219)
Profit/(loss) before taxation	337	373	200	(97)	358	595	492	298	1,077	1,918
Share of profits/(losses) of associated companies	—	—	—	53	37	(4)	(28)	18	78	182
Group profit (loss) before taxation	337	373	200	(44)	395	591	464	316	1,155	2,100
Taxation (including deferred tax)	(178)	(198)	(107)	(49)	(141)	(243)	(250)	(192)	(654)	*n.a.*
	159	175	93	(93)	254	348	214	124	501	*n.a.*
Minority interests	(4)	(5)	(5)	(8)	(18)	8	16	13	(26)	*n.a.*
Profit/(loss) after taxation before extraordinary items	155	170	88	(101)	236	356	230	137	475	*n.a.*
Extraordinary items										
Pension scheme provision (less taxation)	—	—	—	—	—	(120)	—	100	—	*n.a.*
Goodwill and investment in subsidiary and associated companies written down	—	(69)	(229)	(91)	(20)	(183)	(111)	(6)	—	*n.a.*
Sale of foundry (less taxation)	—	—	—	—	—	—	119	—	—	*n.a.*
Changes in bases of accounting	—	—	(235)	—	21	—	—	—	—	*n.a.*
Other items	(1)	(13)	5	(71)	20	33	(2)	(24)	—	*n.a.*
	154	88	(371)	(263)	257	86	236	207	475	*n.a.*

Notes: The extraordinary items shown in the published accounts have been adjusted for 1974 and previous years to the figures shown above, in accordance with current practice as set out in the Statement of Standard Accounting Practice (SSAP 6).
n.a. = not yet available.

APPENDIX 9

(*referred to in paragraph 44*)

Herbert Morris Limited

Source and application of funds

Years ended 31 October	1973 £'000	1973 £'000	1974 £'000	1974 £'000	1975 £'000	1975 £'000	(*forecast*) 1976 £'000	(*forecast*) 1976 £'000
Source								
Trading profit for year before taxation		464		316		1,155		2,100
Depreciation		238		259		295		379
Disposals of fixed assets		99		82		127		77
Shares issued on acquisition of associated company		250		—		—		—
Other		321		—		—		—
		1,372		657		1,577		2,556
Application								
Tax paid		26		250		160		237
Dividends paid		168		102		60		259
Additions to fixed assets		869		849		786		1,110
Cost of shares in associated company		85		30		—		—
Movement in working capital:								
Stock increase/(decrease)	61		2,318		1,140		(335)	
Debtor increase	1,283		479		1,142		704	
Creditor (increase)	(299)		(1,267)		(840)		(682)	
Progress payments (increase)/decrease	(543)		(555)		(2,652)		1,453	
		502		975		(1,210)		1,140
Other		—		57		35		336
		1,650		2,263		(169)		3,082
Movement in total borrowings (increase)/decrease		(278)		(1,606)		1,746		(526)
Reflected in:								
Cash and bank balances—increase/(decrease)		30		(27)		4		520
Bank loans and overdrafts—(increase)/decrease		(308)		(1,279)		1,942		(1,171)
Term loan—(increase)/decrease		—		(300)		(200)		125
		(278)		(1,606)		1,746		(526)

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