

## 3 The companies concerned in the merger

### **The merger**

3.1. The companies concerned in the merger are Glynwed International plc (Glynwed) and JB & S Lees Limited (Lees). The merger occurred on 16 November 1988 when Glynwed purchased from Quoteplan plc the share capital of the parent company of Lees for £25 million. Glynwed cannot rescind the contract of sale in any circumstances.

3.2. Glynwed has transferred the Lees business to Glynwed's subsidiary, Glynwed Steels Ltd (Glynwed Steels). Glynwed Steels carries on the Lees business under the business name of JB & S Lees, but Lees has become a dormant company. After the merger was referred to us Glynwed gave certain undertakings to the Secretary of State. The undertakings are shown at Appendix 3.1. The most important for the purposes of our inquiry are that Lees would continue to be run as a separate and viable business, and that in the event of the need for divestment in consequence of our report Lees would be capable of being divested as a viable business in its own right.

### **Glynwed International plc**

3.3. Glynwed is a manufacturer and distributor of building, consumer and engineering products in a variety of plastic and metal materials. The company's main operations are in the United Kingdom, but it has growing businesses on the Continent, in the United States of America and in Australia. Glynwed is organised in five divisions: consumer and building products, tubes and fittings, plastics, steel and engineering and the metal services division.

### *Steel and Engineering Division*

3.4. The steel businesses of the Steel and Engineering Division are concerned with conversion of mild, carbon and stainless steel billet and slab bar and coil into an extensive range of products through hot- and cold-rolling and bright drawing processes. Glynwed Steels is part of the division. Firth Cleveland Steel Strip (Firth) is an operating unit in the Cold Rolled Subdivision of Glynwed Steels. Firth is engaged in cold rolling narrow carbon steel strip, some of which it hardens and tempers.

### *Firth Cleveland Steel Strip*

3.5. Firth was formed as a company under another name in 1949. It acquired the name of Firth Cleveland Steel Strip Ltd in 1955 when it was sold to the Firth Cleveland Group. GKN plc acquired the Firth Cleveland Group in 1972. In 1985 GKN decided to sell Firth to Cope Allman Ltd (Cope Allman), then a subsidiary of the Hawley Group plc, which also included Lees. After the proposed merger was referred to the Monopolies and Mergers Commission in March 1986, the parties decided to drop the proposal, and the reference was laid aside. Glynwed then bought Firth from GKN in August 1986.

3.6. Firth employs 220 people at its Tipton site, and a few at a sales office and stockholding facility in the United States. The H & T strip department employs 39 people, but in addition is supported by other Firth employees. There are 20 agents selling to 34 countries. The exports of Firth amounted to approximately 50 per cent of turnover in 1988.

### **J B & S Lees Limited**

3.7. Lees was formed as a timber yard and later moved into the production of hot- and cold- rolled steel strip. The company began to harden and temper cold-rolled steel strip in 1937. It began to develop the production of metal cutting bandsaw strip in the late 1960s, and since then there has been little development of the H & T strip business. Lees now manufactures bimetallic strip, metal cutting bandsaw strip, cold-rolled mild and carbon steel strip and H & T strip.

3.8. In 1960 Lees was acquired by Harper Engineering and Electronics Ltd, which itself was acquired by Cope Allman in 1965. The Hawley Group sold Cope Allman in 1988 to Quoteplan plc, a new company formed for the purpose of acquiring Cope Allman. As paragraph 3.1 shows, Glynwed's acquisition of Lees followed. Like the 1986 merger proposal described in paragraph 3.5, this acquisition is concerned with the bringing of the Firth and Lees businesses into single control.

3.9. Like Firth, Lees is now an operating unit in the Cold Rolled Subdivision of Glynwed Steels. Following immediate priorities Glynwed has spent over £550,000 and plans to spend a further £750,000 on new equipment for Lees' production of metal cutting strip. Since the acquisition there has been some exchange of information between Lees and Firth and minor rationalisation of export activities. Glynwed told us that it was the philosophy of Glynwed Steels to keep its factories small and numerous, enabling customers to double source production so that supply was flexible, particularly in small quantities. If the merger was cleared and the undertakings withdrawn, Lees and Firth would still be kept separate following this philosophy. Production would continue in the present factories with their existing autonomy and brand names. By carrying out different processes on the same material in the two plants they would become able to produce thin H & T strip.

3.10. Lees employs some 330 people at its two factories and offices on a single site in West Bromwich, and a few at a sales office and warehouse in the United States and a sales office in West Germany. The H & T strip department employs 18 people directly, but as in the case of Firth the H & T strip department is also supported by other employees. Total exports of Lees now amount to over 50 per cent of sales and exports of H & T strip to over 60 per cent.

### **Financial information**

3.11. In 1988 Glynwed's turnover was £840 million and operating profit £87 million. These results include turnover by the Steel and Engineering Division of £247 million and profit of £22 million. Within the results of this division Firth contributed £13.6 million in turnover and £1.3 million operating profit. Firth's figures include both reference and non-reference products.

3.12. An analysis of Firth's turnover and operating profit is shown in Table 3.1. The non-reference turnover covers sales of cold-rolled strip and exports of H & T strip. The reference turnover covers sales of H & T strip in the United Kingdom. The table shows that United Kingdom sales of H & T strip contributed 25 per cent of Firth's total turnover in 1986, rising to 28 per cent in 1988; for operating profits the contributions rose from 17 per cent in 1986 to 31 per cent in 1988.

TABLE 3.1 Analysis of Firth's turnover and operating profit

	1986		1987		1988	
	£'000	%	£'000	%	£'000	%
<i>Turnover</i>						
Cold-rolled strip and exports of H & T strip	7,190	75	8,658	75	9,786	72
UK sales of H & T strip	2,420	25	2,916	25	3,827	28
	9,610	100	11,574	100	13,613	100
<i>Operating profit</i>						
Cold-rolled strip and exports of H & T strip	829	83	859	74	866	69
UK sales of H & T strip	168	17	299	26	398	31
	997	100	1,158	100	1,264	100

Source: Glynwed.

3.13. Table 3.2 is an analysis of Firth's returns on capital employed and turnover between 1986 and 1988. The returns on reference products are improving whereas on non-reference products they are in decline.

TABLE 3.2 Analysis of Firth's returns on capital employed and turnover

		1986	1987	1988
<i>Average capital employed*</i>				
Cold-rolled strip and exports	£'000	1,984**	2,477	3,002
UK H & T strip sales	£'000	668**	835	1,173
<i>Return on capital employed</i>				
Cold-rolled strip and exports	%	41.8	34.7	28.8
UK H & T strip sales	%	25.1	35.8	33.9
<i>Return on turnover</i>				
Cold-rolled strip and exports	%	11.5	9.9	8.8
UK H & T strip sales	%	6.9	10.3	10.4

Source: Glynwed.

\*The basis of this calculation is described in paragraph 3.17.

\*\*An analysis of capital employed at the start of the financial year was not available and so the capital employed at 31 December 1986 has been used as an average for 1986.

3.14. Lees' financial year is for the 52/53 weeks ending nearest to 30 June. The results shown in Tables 3.3 and 3.4 have been adjusted to calendar years to enable them to be more readily compared with Firth's calendar year results.

3.15. Table 3.3 is an analysis of Lees' turnover and operating profit. The table shows sales in the United Kingdom of H & T strip contributed only 4 per cent of the company's turnover in 1988 and only 2 per cent of its operating profit. There was no significant increase between 1986 and 1988 in United Kingdom sales of H & T strip whereas export sales increased by 27 per cent and other product sales by 17 per cent. A growth of some 50 per cent was achieved in operating profits for H & T exports and other products.

TABLE 3.3 Analysis of Lees' turnover and operating profit

	1986		1987		1988	
	£'000	%	£'000	%	£'000	%
<i>Turnover</i>						
UK sales of H & T strip	741	4	733	4	769	4
Export sales of H & T strip	1,102	6	1,426	7	1,405	7
Total H & T strip	1,843	10	2,159	11	2,174	11
Other products	15,994	90	17,117	89	19,409	89
	17,837	100	19,276	100	21,583	100
<i>Operating profit</i>						
UK H & T strip profit	78	3	119	5	89	2
Other products and H & T strip exports	2,352	97	2,311	95	3,596	98
	2,430	100	2,430	100	3,685	100

Source: Glynwed.

3.16. Table 3.4 is an analysis of Lees' returns on capital employed and turnover between 1986 and 1988.

TABLE 3.4 Analysis of Lees' returns on capital employed and turnover

		1986	1987	1988
<i>Average capital employed*</i>				
H & T products sold in the UK	£'000	285**	286	289
Other products and export sales of H & T strip	£'000	6,578**	6,932	7,561
<i>Return on capital employed</i>				
H & T products sold in the UK	%	27.4	41.6	30.7
Other products and export sales of H & T strip	%	35.8	33.3	47.6
<i>Return on turnover</i>				
H & T products sold in the UK	%	10.5	16.2	11.6
Other products and export sales of H & T strip	%	13.8	12.5	17.3

Source: Glynwed.

\*The basis of this calculation is described in paragraph 3.17.

\*\*An analysis of capital employed at the start of the financial year was not available and so the capital employed at 31 December has been used as an average for 1986.

3.17. The capital employed shown for Firth is based on accounts prepared on the historical cost basis, except that the factory is leased from Glynwed and so land and buildings are carried in Firth's balance sheet at nil value. The capital employed shown for Lees is calculated from accounts on the historical cost basis, except that the values of freehold and long lease buildings have been excluded from the capital employed in order to place the capital employed on the same basis as for Firth. A notional charge for rent has been deducted from the profits of Lees to achieve consistency in accounting treatment.