

2 Mr David Sullivan

Summary

2.1. Mr Sullivan told us that he conducts all his business activities through three companies: Sport Newspapers Ltd (in which he has a 50 per cent interest), publisher of the Sunday Sport and, on Wednesdays and Fridays, The Sport; and two wholly-owned close companies, Roldvale Ltd described to us as a dealer in bloodstock and promoter of films, magazines and associated products and its subsidiary Conegate Ltd similarly described as publisher and promoter and retailer of ancillary products. Mr Sullivan has purchased and proposes to purchase shares in BEP in his own name and in the names of the two close companies and their associated pension fund. In the year ended 31 August 1989 Sport Newspapers' unaudited accounts show a profit before tax of £505,000 on a turnover of £15.316 million and the two close companies for the latest period available (to the end of September 1988) made combined profits before tax of £6.474 million on a combined turnover of £9.268 million.

Background to the application

2.2. BEP became aware in January 1990 that Mr Sullivan had acquired a significant interest in the company. It accordingly served notices on Mr Sullivan under section 212 of the Companies Act 1985 seeking information on his holdings. This was provided indicating that Mr Sullivan through his companies Roldvale and Conegate and Roldvale Associated Companies Pension Scheme had acquired a holding amounting to some 7.4 per cent. We understand that Mr Sullivan has made no formal approach to the company or its shareholders with an offer for their shares.

2.3. On 9 February 1990 Mr Sullivan wrote to the Department of Trade and Industry (DTI) indicating that he had acquired an interest in BEP which he described as 'less than 25 per cent'. He also indicated his intention to increase that interest saying that a situation might arise where it became a controlling one as defined in section 57(4) of the Fair Trading Act 1973 (ie 25 per cent). Mr Sullivan sought the Secretary of State's consent to the acquisition of such a controlling interest as required under section 58(1) of the 1973 Act. In a subsequent letter to the DTI dated 15 February Mr Sullivan declared his '... present intention to proceed to a possible bid situation'.

2.4. Mr Sullivan also approached BEP for information on the circulation of its papers. The company did not respond but subsequently readily co-operated when information about its titles was requested by the DTI. The circulation of Mr Sullivan's newspapers together with those of BEP exceeded 500,000 and, as required under section 58(2) of the 1973 Act before his consent to the acquisition of a controlling interest may be given, the Secretary of State referred Mr Sullivan's application to the Commission on 5 March 1990.

2.5. In his submission to us Mr Sullivan said that he proposed to increase his stake in BEP as the opportunity arose. He could not, however, increase his interest beyond 25 per cent without the Secretary of State's consent and so had applied for that consent. He pointed out that other businesses might have rapidly increased their stake towards the limit and then applied for the consent of the Secretary of State. Mr Sullivan considered that it was in no one's interest for him to spend

considerable sums acquiring a stake without knowing whether consent would be forthcoming. He had, therefore, applied for consent prior to proceeding further.

History

2.6. The Sunday Sport was first published on 14 September 1986. The publisher was Apollo Ltd (since renamed Sport Newspapers Ltd). Mr Sullivan owns 50 per cent of the shares in this company and Messrs R & D Gold 25 per cent each. In order to spread the financial risk he set up the company to run the Sunday Sport in conjunction with Messrs Ralph and David Gold. Mr Sullivan has told us that as far as he knows Messrs R & D Gold have not had any previous newspaper interests and have no shares in BEP. They are not parties to Mr Sullivan's consent application which is the subject of this inquiry.

2.7. Mr Sullivan has told us that the original concept for the Sunday Sport was his. A number of newspapers run columns which contain snippets of news under what may be termed a general heading of 'Well Fancy That'. Mr Sullivan considered that this type of item was of interest to a relatively wide range of the population. He therefore positioned the Sunday Sport as a paper which would give greater emphasis to stories that might not have been considered to have been worthy of such treatment in other newspapers.

2.8. Subsequently weekday versions of the Sunday Sport called The Sport were published first on Wednesdays (from August 1988) and then on Fridays (from March 1989). We understand from Mr Sullivan that there are plans to publish The Sport on Thursdays later this year and on a daily basis as soon as this is practicable. The Sport contains none of the fantasy-type news items featured in the Sunday Sport, and a higher proportion of news items; its range and proportion of advertising is similar to that of the Sunday Sport.

2.9. A rough analysis of the content of a sample of editions of The Sport and the Sunday Sport spread over the past year suggests that the newspapers devote about 30 per cent of their available column inches to advertising, between 25 and 30 per cent to news, 20 per cent to sport, between 5 and 10 per cent to topless pictures and the remainder to features such as letters, leader columns and competitions. These figures vary between editions. The advertising is with very few and occasional exceptions directed to sex-oriented products ('adult' videos, magazines etc) with the great majority being for telephone entertainment lines. The news content is also heavily sex-oriented with something less than a third (ie under 10 per cent) being devoted to news stories appearing in most of the tabloid press on a given day.

2.10. In 1987 Express Newspapers plc acquired a 24.8 per cent interest in Apollo (later Sport Newspapers). Mr Sullivan was appointed Newspaper Promotion Consultant in respect of the Daily Star. The late Mr Michael Gabbert, the then editor of the Sunday Sport, was made editor of the Daily Star, with the aim of improving circulation. Following differences of view on changes that then took place and the effects on circulation Mr Gabbert was dismissed some eight weeks later. Subsequently, the shares in Apollo reverted to their present ownership and Mr Sullivan's connections with Express Newspapers were severed.

2.11. At the beginning of 1989 Mr Sullivan acquired a stake of just over 5 per cent in Portsmouth & Sunderland Newspapers plc. The Board of the company did not welcome this move and Mr Sullivan subsequently disposed of his interest to Associated Newspapers (AN) at a profit.

Principal activities

2.12. In addition to his interest in the two newspapers Sunday Sport and The Sport, Mr Sullivan's companies also publish a number of magazines. Their titles include Titbits published by Sport Newspapers and Parade, Adult Fantasy and New Park Lane published by Conegate. The frequency of publication and approximate net sales of Conegate's titles are shown in Table 2.1.

TABLE 2.1 **Titles published by Conegate**

<i>Title</i>	<i>Approximate net sales</i>	<i>Frequency</i>
<i>Parade</i>	65,000	Fortnightly
<i>Adult Fantasy</i>	15,000	6-weekly
<i>New Park Lane</i>	15,000	6-weekly

Source: Mr D Sullivan.

These magazines circulate in the United Kingdom and some quantities are also exported. In addition, there are various adult specials published on an infrequent/irregular basis, covering an average eight titles per month with combined net sales of approximately 100,000 per month.

Other activities

2.13. As indicated in paragraph 2.1, Mr Sullivan's close companies apart from dealing in bloodstock also promote films, magazines and associated products. Conegate also retails ancillary products, some through a mail-order house. We understand these products to include video recordings described as 'adult' and other sex-oriented products as well as other more conventional products.

2.14. The close companies also operate a number of 0898 telephone entertainment lines.

2.15. Some of the products offered by the close companies are advertised in the Sunday Sport and The Sport. But Mr Sullivan told us that advertising for the telephone entertainment lines was not purchased through Sport Newspapers but from a third party company (in which Mr Sullivan had no shareholding and over which he exercised no control) which purchased advertising space.

Editorial and advertising policies

2.16. Mr Sullivan told us that his relationships with editors employed by Sport Newspapers had been first to establish and agree a general policy and subsequently to make some suggestions in accordance with that policy, which editors were free to decide whether they wished to follow or not. There was obviously liaison with editors on technical matters but at the end of the day, he considered editors were employed to edit.

2.17. Similarly Mr Sullivan described the general advertising policy for the Sport newspapers as accepting advertisements for any products which were legal. The aim was to have as wide a selection of advertisements as possible.

Market data

Mr Sullivan's newspapers

2.18. The following paragraphs bring together market information for the two newspapers, the Sunday Sport and The Sport, published by Sport Newspapers (formerly Apollo).

Circulation

2.19. In March 1990 net sales of the four publications of Sunday Sport Newspapers Ltd were estimated as shown in Table 2.2.

TABLE 2.2 **Circulation of Sport Newspapers titles**

<i>Title</i>	<i>March 1990 average net sales '000</i>
<i>Sunday Sport</i>	485
<i>The Sport (Wednesday)</i>	270
<i>The Sport (Friday)</i>	280
<i>Titbits (monthly)</i>	60

Source: Mr SullivanABC.

2.20. The Sunday Sport commenced circulation in the London region on 14 September 1986. At that time it was said to be aiming for an initial London area circulation of 350,000 rising to 1.3 million when published nationally. Distribution in the North of England began in February 1987, and in Scotland in the following month, when it was claimed that average circulation had reached 500,000.

2.21. Average net sales per issue of the Sunday Sport have been declared by the Audit Bureau of Circulation (ABC) since April 1988, and show circulation rising to a peak of about 590,000 copies in October 1988, declining during the first half of 1989, followed by a recovery to just under 500,000 by December 1989. ABC figures since April 1988 are shown in Table 2.3.

TABLE 2.3 **Average net weekly sales of the Sunday Sport, 1988 to 1990**

<i>Month</i>	<i>Average weekly sales, '000</i>		
	<i>1988</i>	<i>1989</i>	<i>1990</i>
January	N/A	561	488
February	N/A	571	489
March	N/A	534	429
April	408	517	
May	431	504	
June	430	501	
July	467	450	
August	520	481	
September	584	464	
October	589	468	
November	584	499	
December	583	499	

Source: ABC.

Readership

2.22. Information on the readership of a wide range of newspapers including the Sunday Sport is prepared regularly by the Joint Industry Committee for National Readership Surveys (JICNARS) based on a large national sample survey of readers. The survey covers both adult readers and teenage readers in the age range 15 to 17, analysing reading habits twice yearly covering readership during the previous 12 months.

2.23. On the basis of JICNARS figures, total readership of the Sunday Sport during the year July 1988 to June 1989 was estimated at 1,636,000. Male readership was estimated at 1,130,000 and female readership at 506,000.

2.24. Readership figures analysed by age and sex are shown in Table 2.4. The highest proportion of readers were in the 15 to 24 age group for both males and females, at an estimated 12 per cent and 6 per cent respectively of the total population in that age group.

TABLE 2.4 **Sunday Sport readership by age and sex, July 1988 to June 1989**

Age	Total readership '000	Male readership '000	% of estimated population	Female readership '000	% of estimated population
15-24	750	518	12	232	6
25-34	434	301	7	133	3
35-44	202	134	3	68	2
45-54	148	113	4	35	1
55-65	71	48	2	23	1
65 and over	31	16	*	15	*
	1,636	1,130	5	506	2

Source: JICNARS National Readership Survey 1988-9.

*Less than 1 per cent.

Table 2.5 gives percentages of readers in each age group out of the total. This shows that almost half of Sunday Sport readers are in the age group 15 to 24.

TABLE 2.5 **Sunday Sport readership by age and sex, July 1988 to June 1989**

Age	Total readership		Male readership		Female readership	
	'000	%	'000	%	'000	%
15-24	750	46	518	46	232	46
25-34	434	27	301	27	133	26
35-44	202	12	134	12	68	13
45-54	148	9	113	10	35	7
55-64	71	4	48	4	23	5
65 and over	31	2	16	1	15	3
Total	1,636	100	1,130	100	506	100

Source: JICNARS National Readership Survey 1988-89.

2.25. Readership of the Sunday Sport analysed by region was estimated as shown in Table 2.6.

TABLE 2.6 **Sunday Sport readership by region, July 1988 to June 1989**

Region	Readership '000	% of estimated population
South-East (excluding Greater London)	420	4
Greater London	255	5
South-West and Wales	182	3
Midlands	235	3
North-West	163	3
North-East and North	251	4
Scotland	130	3
All regions	1,636	4

Source: JICNARS National Readership Survey 1988-9.

2.26. No comparable information is currently available on the readership of The Sport published on Wednesdays and Fridays. But readership of the Sunday Sport in the South-West and Wales is shown in Table 2.6 as 182,000. Circulation of the Sport newspapers is likely to be about 90,000 so that circulation in the South-West alone might be in the region of 30,000, assuming an average of

three readers per copy. It is unlikely that this provides any significant competition in the areas in which the BEP titles circulate.

Revenue analysis

2.27. Mr Sullivan supplied us with an analysis of income for a recent January issue of the Sunday Sport, and of each of the two weekday editions of The Sport. This is given in Table 2.7 and shows a different pattern between the Sunday and the weekday issues in respect of shares of income arising from sales and advertising.

TABLE 2.7 **Breakdown of income of Sport newspaper issues, end-January 1990**

	<i>The Sport on Friday issue dated 26.1.90</i>		<i>The Sport on Wednesday issue dated 31.1.90</i>		<i>Sunday Sport issue dated 28.1.90</i>	
	£	%	£	%	£	%
Income (net of discounts)*	33,800	52	35,100	49	106,560	64
Display advertising (net of agency and advertising department commissions)	23,166	36	24,536	35	37,145	22
Classified advertising (less agency fees and commissions)	7,563	12	9,950	14	21,642	13
Phone line income	700	1	700	1	700	0.4
Lonely hearts	-	-	750	1	-	-
Total income	65,229	100	71,036	100	166,047	100

Source: Sport Newspapers.

*Based on estimated net sales.

Financial information

2.28. Details of the shareholdings in companies associated with Mr D Sullivan are given in Appendix 2.1. The companies are: Sport Newspapers Ltd; Roldvale Ltd; and Conegate Ltd. Mr Sullivan owns 50 per cent of Sport Newspapers, 100 per cent of Roldvale and through that company 100 per cent of Conegate.

2.29. Summarised balance sheets and profit and loss accounts for Sport Newspapers are at Appendix 2.2, Tables 1 and 2, covering the 18 months to 26 August 1987 and the two succeeding years. The 1989 figures are unaudited.

2.30. Returns on turnover for Sport Newspapers were 1.7 per cent (1986/87), 3.0 per cent (1988) and 2.5 per cent (1989). Trading having commenced in February 1986, there is no average capital employed for 1986/87 (18 months). Capital employed figures for 1988 and 1989 are negative because of the excess of liabilities over fixed and current assets (other than cash) in these years. Cash net of borrowings was £589,000 in 1988 and £795,000 in 1989. Average shareholders' funds for 1988 and 1989 are £168,000 and £427,000 respectively, with returns of 103 per cent and 71.2 per cent respectively. These funds include a general provision against claims brought against the company for articles in its publications, which was increased in 1989 from £40,000 to £140,500, because of two unsettled libel claims arising in 1988. The directors were unable to quantify the liability but thought that if the claims were upheld the liability could be substantial.

2.31. Summarised balance sheets and profit and loss accounts for Roldvale are at Appendix 2.2, Tables 3 and 4, covering the five years 1984 to 1988. The year-end date is 30 September.

2.32. Turnover, profit before interest and tax, profit available for distribution, average capital employed and average shareholders' funds from Roldvale are set out in Table 2.8 for the five years 1984 to 1988. The table provides margins on turnover and returns on average capital employed and average shareholders' funds.

TABLE 2.8 **Roldvale: margins on turnover and returns on average capital employed and on average shareholders' funds, 1984 to 1988**

	<i>£'000</i>				
	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>
Turnover	1,418	1,759	2,619	2,579	4,104
Profit before interest and tax	88	399	181	1,549	2,576
Profit available for distribution	14	341	(9)	989	1,980
Average capital employed	827	896	824	1,187	2,002
Average shareholders' funds	862	935	859	1,221	2,601
	<i>per cent</i>				
Margin on turnover	6.2	22.7	6.9	60.1	62.8
Return on average capital employed	10.6	44.5	22.0	130.5	128.7
Return on average shareholders' funds	1.6	36.5	-1.0	81.0	76.1

Source: Roldvale.

2.33. Summarised balance sheets and profit and loss accounts for Conegate are at Appendix 2.2, Tables 5 and 6, covering the five years 1984 to 1988. The year-end date is 30 September.

2.34. Turnover, profit before interest and tax, profit available for distribution, average capital employed and average shareholders' funds for Conegate are set out in Table 2.9 for the five years 1984 to 1988. The table provides margins on turnover and returns on average capital employed and average shareholders' funds.

TABLE 2.9 **Conegate: margins on turnover and returns on average capital employed and on average shareholders' funds, 1984 to 1988**

	<i>£'000</i>				
	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>
Turnover	2,238	3,480	3,802	3,485	5,164
Profit before interest and tax	1,498	1,774	1,838	1,892	4,027
Profit available for distribution	535	906	1,149	1,326	2,570
Average capital employed	3,459	3,632	4,171	6,706	10,291
Average shareholders' funds	4,172	4,892	5,920	7,157	9,106
	<i>per cent</i>				
Margin on turnover	66.9	51.0	48.3	54.3	78.0
Return on average capital employed	43.3	48.8	44.1	28.2	39.1
Return on average shareholders' funds	12.8	18.5	19.4	18.5	28.2

Source: Conegate.

Employment

2.35. Sport Newspapers employs 63 staff at its editorial offices; of these 13 are employed in its London office, and the remainder in Manchester. A further 14 staff work on the newspaper on a regular self-employed basis on sub-editing/shift work. In addition to these, four freelance journalists supply regular 'columns', and an average of 23 sub-editors work one day a week for Sport Newspapers. During the football season an average of 19 freelance journalists attend football matches each week on behalf of the sports pages of both papers.

Printing and distribution arrangements

2.36. Printing for the Sunday Sport is contracted out to four companies in which neither Mr Sullivan nor any of the companies in which he has an interest, have any stake. The four companies are Northampton Mercury, Express Printers, Southern Web and Kettering Web. The combined print run for the four companies at the end of January 1990 was 726,000 copies. The three latter companies also printed a total of about 440,000 copies of the Wednesday and Friday issues of The Sport at the end of January 1990. Distribution of the Sport newspapers is handled by a distributor, Moore Harness, owned by Messrs R & D Gold. As shown in Table 2.7, the newspaper company receives a net price for each copy sold.