

## 2 The companies involved in the merger situation

### **RANSOMES plc**

2.1. Ransomes was founded in 1789 in Ipswich by Robert Ransome. It was incorporated in the United Kingdom as a private limited company in 1884 and became a public limited company in 1911. The company changed its name from Ransomes Sims and Jefferies, Public Limited Company to RANSOMES plc in August 1989 and is now the group holding company.

2.2. Ransomes' original business was the manufacture of farm machinery. It began making grass machinery in 1832 when it obtained the first manufacturing licence for Edwin Beard Budding's newly invented 'Patent Grass-Cutting Machine'. In 1902 it began manufacturing the world's first commercially-produced petrol-powered mower. Over the years Ransomes has manufactured a wide range of other engineering products, including railway components, portable steam and traction engines, electric vehicles (including trolley buses) and amusement machines. Ransomes also produced armaments during the two world wars.

2.3. By the 1970s Ransomes had three main businesses: commercial grass machinery; farm machinery; and electric trucks. In the mid-1960s Ransomes had decided to concentrate on commercial as opposed to domestic grass equipment and that became increasingly important, accounting for one-half of Ransomes' turnover by 1979. In its farm machinery and electric trucks businesses Ransomes faced intense competition, especially from major international firms, in markets suffering from substantial world-wide over-capacity. Ransomes sold its electric truck business in 1980 and followed that, in 1987, with the sale of its farm machinery business, thus enabling it to concentrate on grass-care machinery.

2.4. Ransomes is now organised in four divisions:

- (a) Ransomes Commercial Division which manufactures commercial grass-care equipment in the United Kingdom and, to a much lesser extent, France (its main site is at Ipswich and it has other manufacturing facilities at Cradley Heath; Wath-upon-Deerne, near Rotherham; and Yvetot, near Rouen) and distributes such products throughout the world, except North and South America;
- (b) Ransomes America Division which manufactures commercial grass-care equipment in North America and distributes such products throughout North and South America;
- (c) Ransomes Consumer Division which manufactures domestic mowers in the United Kingdom at Plymouth and in Italy and France and distributes such products in the United Kingdom and elsewhere in Europe; and
- (d) Ransomes Property Division which handles the group's property development and investment, including the business park which Ransomes has developed alongside its principal commercial equipment manufacturing site at Ipswich.

2.5. Ransomes moved back into the domestic mower market in 1985 with the acquisition of Mountfield, a company incorporated in 1962, which then manufactured petrol-powered walk-behind rotary mowers a range of machines complementary to Ransomes' own cylinder mowers. This was followed by the acquisitions in 1988 of an Italian company, BTS Green SpA, and a French company, Granja SA, which were designed to strengthen Ransomes' position in the continental European market. Together these companies and Westwood now comprise Ransomes Consumer Division.

## **Westwood Engineering Ltd and Laser Lawnmowers Ltd**

2.6. Westwood was founded in 1969 by Mr Gerry Hazlewood to manufacture rotary walk-behind mowers and cultivators under the Lawnbug brand name. Originally based in High Wycombe, Westwood moved to new factory premises at Plympton, near Plymouth, in 1972. The factory was extended to its present 130,000 square feet in the early 1980s.

2.7. In the 1970s Westwood developed a ride-on mower designed specifically for the conditions of the United Kingdom market. Imports of American ride-on mowers had not been successful in the United Kingdom as they were more suited to the rougher grass and drier climate of North America. The first Westwood ride-on mower was launched in 1976 and nearly 1,000 were sold in the first year. Sales increased rapidly and in 1978 Westwood decided to concentrate on the production of ride-on mowers.

2.8. Over the years, Westwood has extended its range of ride-on mowers, introducing the first ride-on mower with a rear roller capable of producing the striped effect which appeals to customers in the United Kingdom. It also developed a network of international distributors, and exports in 1989 accounted for 34 per cent of sales.

2.9. Between 1985 and 1989 Westwood succeeded in increasing sales by 88 per cent. Increases in selling costs and other overheads, however, outstripped this rising turnover with the result that Westwood's success in increasing sales was not matched by increases in profits. This, together with increasing demands for working capital, led to a doubling of borrowings over this period. By 1989 Westwood was making losses and in June 1989 130 of its 410 employees at Plymouth were made redundant.

2.10. Mr Hazlewood, who had withdrawn from an active management role at Westwood in 1986, decided to sell the business carried on by Westwood and the associated company, Laser, which sold Westwood machines in a different livery. Mr Hazlewood was the majority shareholder of both companies which had common management, manufacturing facilities and accounting operations. Except where the context otherwise requires, in this report this business is referred to simply as Westwood.

### **The acquisition**

2.11. On 30 August 1989 Ransomes announced that it had, on 24 August 1989, acquired Westwood and Laser for a cash consideration of £9 million and assumed a liability of US \$429,477 (about £270,000) in respect of a mortgage over a United States property together with other external indebtedness of up to £4.3 million. The consideration of £9 million was subject to adjustment and the sum paid after adjustments was £9.5 million. After fair value adjustments of £6 million, including provisions for the reorganisation of the Westwood and Mountfield businesses, the Westwood acquisition gave rise to goodwill of £15 million which was written off against reserves.

2.12. Ransomes also announced on 30 August 1989 that it had conditionally agreed to acquire the Cushman Group from Outboard Marine Corporation, a United States corporation, for a total cash consideration of US \$150 million (approximately £95 million). In view of the size of that acquisition and the qualified nature of the accountants' report on the Cushman Group, it was subject to the approval of the holders of Ransomes' ordinary shares. The approval of the ordinary shareholders was also required for an increase in the authorised share capital of the company, to create new convertible preference shares and to authorise their allotment in connection with a proposed rights issue to help finance the acquisitions. All these approvals were obtained at an Extraordinary General Meeting of Ransomes held on 15 September 1989. 56,660,262 new convertible preference shares of 12.5p each

were allotted on the basis of one new convertible preference share for each ordinary share held on 11 September 1989 at 100p per share, giving rise to a premium of £47.8 million. The cash amount raised, net of the expenses of issue, was £54.9 million.

## Financial information

### *Ransomes*

2.13. Ransomes' turnover, capital employed and related information for 1985 to 1989 are set out in Table 2.1. These figures include the effect of revaluations of land and buildings in 1985, 1987 and 1988 and incorporate the assets and trading results of Westwood and of the Cushman Group from their effective dates of acquisition. In 1989 31 per cent of Ransomes' total turnover arose from business in North America; 35 per cent was from business elsewhere outside the United Kingdom, mainly other Western European countries; while 34 per cent was from business in the United Kingdom. The turnover of the Consumer Division was £38 million, 30 per cent of total turnover. Appendix 2.1 gives summarised group balance sheets and Appendix 2.2 gives summarised group profit and loss accounts for Ransomes.

TABLE 2.1 **Ransomes: summary of group financial results, 1985 to 1989**

|                                    |      | <i>Year ended 31 December</i> |             |             |             |             |
|------------------------------------|------|-------------------------------|-------------|-------------|-------------|-------------|
|                                    |      | <i>1985</i>                   | <i>1986</i> | <i>1987</i> | <i>1988</i> | <i>1989</i> |
| Turnover                           | (£m) | 64.5                          | 69.7        | 81.2        | 92.1        | 126.6       |
| Capital employed                   | (£m) | 48.8                          | 47.2        | 48.6        | 87.3        | 132.2       |
| Average capital employed           | (£m) | 43.9                          | 48.0        | 47.9        | 68.0        | 109.8       |
| Return on average capital employed | (%)  | 20.1                          | 20.2        | 22.3        | 20.8        | 17.0        |

Source: MMC from Ransomes' audited accounts.

### *Westwood*

2.14. Westwood's turnover, capital employed and related information for 1985 to 1989 are set out in Table 2.2. The table includes figures for Westwood and subsidiary companies (but not Laser which was not a subsidiary of Westwood). Appendix 2.3 gives summarised group balance sheets and Appendix 2.4 gives summarised group profit and loss accounts for Westwood.

TABLE 2.2 **Westwood: summary of group financial results, 1985 to 1989**

|                                    |      | <i>Year ended 31 July</i> |              |             |             |                               |
|------------------------------------|------|---------------------------|--------------|-------------|-------------|-------------------------------|
|                                    |      | <i>1985</i>               | <i>1986*</i> | <i>1987</i> | <i>1988</i> | <i>1989</i><br><i>(draft)</i> |
| Turnover                           | (£m) | 11.0                      | 9.6          | 12.7        | 17.8        | 20.7                          |
| Capital employed                   | (£m) | 5.9                       | 6.5          | 6.0         | 8.0         | 7.9                           |
| Average capital employed           | (£m) | N/A                       | 6.2          | 6.3         | 7.0         | 8.0                           |
| Return on average capital employed | (%)  | N/A                       | 14.5         | 17.6        | 18.6        | (15.1)                        |

Source: MMC from Westwood's accounts.

\*Ten-month period: year end changed from 30 September to 31 July.

### Laser

2.15. Laser's activities, by comparison with Westwood, are not significant, its turnover having risen from £82,900 in 1985 to £116,600 in 1988 and £96,900 in 1989. It had net assets of £32,600 in 1989.