

Part II

Background and evidence

3 The parties and the background to the merger

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Introduction

3.1. This chapter deals briefly with the businesses of the parties and the relationship between them. It provides information about the history and financial performance of each party and ends with a summary of the terms by which Alanod acquired Ano-Coil from Metalloxyd GmbH on 17 March 1999 and a description of certain events since the acquisition.

3.2. Ano-Coil had several overseas subsidiaries which it had set up as sales offices and one UK subsidiary, Metaprint Ltd (Metaprint). Where appropriate, references to Ano-Coil should be taken to include the subsidiaries. Alanod did not have any subsidiaries.

3.3. Certain of the information which follows was provided to us by the Managing Director or the Financial Director of Ano-Coil which by the time of our inquiry was already a subsidiary of Alanod. Both individuals had therefore become answerable to Alanod rather than to Metalloxyd GmbH. We have therefore regarded them as Alanod sources of information.

3.4. We have shown figures given to us in Deutschmarks in that currency when tabulating annual figures in order not to distort trends. Where translations have been made, year-end rates have been used for balance sheet items and averages for the year have been used for revenue items.

Alanod

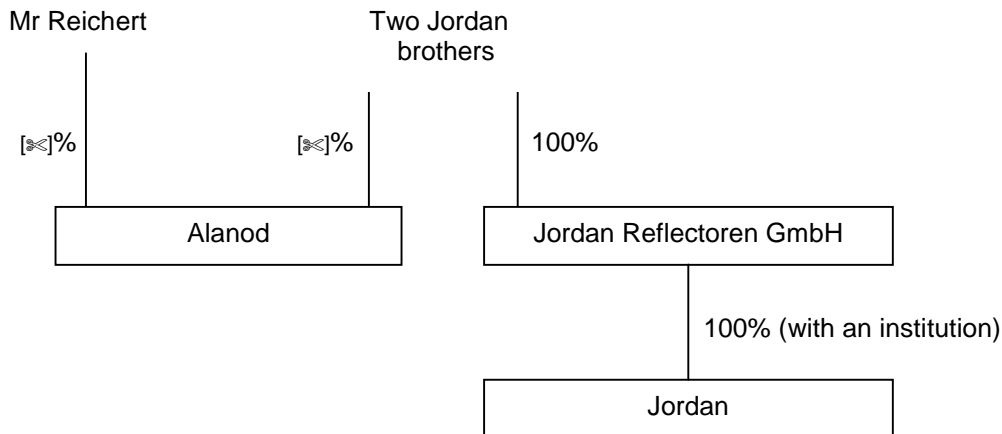
History and operations

3.5. Alanod has been engaged in the production of anodized aluminium since 1976 when it was set up in Wuppertal by four former senior employees of Metalloxyd GmbH (see paragraphs 3.20 to 3.33). Alanod is structured as a limited partnership incorporated in Germany and until early 1999 Alanod had

two limited partners who indirectly held the entire equity interest in the business. Shortly before the acquisition of Ano-Coil, one of Alanod's two equity partners, Mr Jordan, died. Alanod told us that Mr Jordan's interests in Alanod have been inherited by his two sons. Mr Jordan's sons also own the whole of the ordinary share capital of Jordan Reflectoren GmbH which in turn owns the ordinary share capital of Jordan which is registered in England and manufactures louvres. Figure 3.1 shows this relationship in a diagram. An institutional shareholder owns one participating redeemable ordinary share and redeemable preference shares in Jordan; redemption of these shares would leave Jordan Reflectoren GmbH with 100 per cent of Jordan.

FIGURE 3.1

Equity interests in Alanod and Jordan



Source: Alanod.

3.6. Alanod became the only coil anodizer in Germany to serve the lighting industry when Metalloxyd GmbH closed its bright anodizing lines in Cologne on 31 December 1998. Alanod's original coil anodizing plant is still operating at Wuppertal, having been improved and upgraded from time to time, and has a maximum coil width of 810 mm. In 1981 Alanod built its second line at Wuppertal able to handle 1,000 mm coil and in 1987 it built a 1,250 mm line and new offices at Ennepetal some 6 km away. The maximum total capacity of these three lines is around [] tonnes a year. Alanod currently employs approximately 270 people.

3.7. At Ennepetal, Alanod has four slitting lines, two cut-to-length lines and one levelling machine. It supplies semi-finished product in the form of coils of varying widths, sheets and blanks.

3.8. Alanod also has a vacuum deposition facility to produce its MIRO product range which has been available since 1994. It is currently the only producer to offer such a product. The original MIRO line had a maximum capacity of around [] tonnes a year; a second line, with a capacity of about [] tonnes, came on stream in August 1999. MIRO is presently produced using existing specular, highly specular and diffuse anodized aluminium substrates and so involves an additional process. Alanod told us that the attractions of MIRO are its reflectivity, which is always 94 to 95 per cent regardless of diffusivity levels or surface profile, and its zero iridescence level. Research is continuing into the use of cheaper substrates such as raw aluminium with a lacquered surface known as MIRO L. MIRO is generally more expensive than conventional anodized aluminium and in 1998 accounted for approximately 13 per cent by volume and 18 per cent by value of Alanod's UK sales.

3.9. About 80 per cent of Alanod's German pre-anodized coil production was exported in 1998: it sells to 98 countries through 38 agencies. In 1984 it appointed Thyssen as its UK distributor to handle all sales other than to two existing customers. Thyssen told us that it traded as a principal and provided a stocking, slitting and cutting service. Alanod's business with Thyssen initially was negligible but in 1998 it amounted to £[] million and accounted for [] per cent of Alanod's sales in the UK: in terms of Thyssen's share of Alanod's UK business, the percentage would be higher after allowing for Thyssen's

mark-up which, it told us, was [30] per cent on average. The balance of Alanod's sales was sold to Jordan and to LCL which had no shareholding connection with Alanod.

3.10. Table 3.1 shows the extent of Alanod's sales in the UK as a percentage of its total sales. By way of comparison, equivalent figures are shown for Ano-Coil. Alanod's figures include sales to Thyssen which provided a service and distribution function and added its own mark-up (see paragraph 3.9). Ano-Coil's figures are for sales of coil and include sales to its subsidiary Metaprint which manufactured louvres.

TABLE 3.1 Alanod and Ano-Coil: proportions of anodized coil turnover in the UK

	Years ended 31 December				DM'000	£'000
	1994	1995	1996	1997	1998	1998
Alanod						
UK	[Figures omitted. See note on page iv.]				16,023	5,499
Other					[Figures omitted. See note on page iv.]	
Total						
UK percentage						
					£'000	
Ano-Coil						
UK	[Figures omitted. See note on page iv.]				6,369	
Other						
Total	<u>28,856</u>	<u>29,571</u>	<u>31,315</u>	<u>30,684</u>	<u>17,936</u>	
UK percentage	(Figures omitted. See note on page iv.)					26.2

Source: Alanod.

Notes:

1. Alanod's figures include MIRO.
2. Ano-Coil's total sales are only its own and do not reflect total sales by the Metalloxyd group.

3.11. The table shows Alanod's UK sales declining in 1995 from DM[30] million to DM[30] million, recovering in 1996 and 1997 to DM[30] million before falling again in 1998 to DM16 million. By contrast, total sales showed a steady upward trend. Ano-Coil, by contrast, held its UK sales more or less steady from 1996 onwards, although in 1998 its UK sales did decline by [30] per cent to £6.4 million, while its total sales in 1998 were affected by the economic collapse in the Far East. Sales and volumes are discussed in further detail in Chapter 4.

3.12. Alanod told us that in May 1998 it took a decision in principle to terminate its agreement with Thyssen; the difficulty it faced in implementing that decision was a perception that probably [30] per cent, and perhaps [30] per cent, of its sales through Thyssen would be lost. Alanod considered alternative strategies such as using a different distributor or setting up its own distribution operation. On 3 November Alanod told Thyssen that it wished to terminate their agreement. Alanod confirmed that decision in a letter dated 16 November giving notice of termination on 31 December 1999 and in which it wrote: 'The reasons are of a strategic nature based on a planned acquisition where we have to cover ourselves'.

3.13. Thyssen told us that in November 1998 it received notice of termination of its distribution agreement with Alanod with effect from 31 December 1999 and that both parties subsequently agreed to a termination on 31 July 1999. Since that date, Alanod's UK sales have been handled by Ano-Coil. Thyssen's views are summarized in paragraphs 5.56 to 5.63 and Chapter 4 refers to its selling and marketing activities in more detail.

Financial performance

3.14. A German limited partnership is not required to publish its accounts but Alanod has provided us with copies of its profit and loss accounts and balance sheets for each of the last five years. Table 3.2 shows Alanod's profitability.

TABLE 3.2 Alanod: audited financial results

	Years ended 31 December					DM'000	£'000
	1994	1995	1996	1997	1998		
	1994	1995	1996	1997	1998	1998	1998
Turnover							
Operating profit							
Net interest paid							
Profit before tax							
Local taxes							
Profit after local taxes							
<i>Figures omitted. See note on page iv.</i>							
<i>Key ratios</i>						<i>Five-year averages</i>	
Operating profit as a percentage of turnover							
Profit before interest and tax as a percentage of average net operating assets							
Profit after tax as a percentage of average shareholders' funds							
Net debt:equity (%)							
Interest cover							
<i>Figures omitted. See note on page iv.</i>							

Source: Alanod/CC analysis.

Notes:

1. Averages for net operating assets and shareholders' funds are arithmetic means of opening and closing figures.
2. Five-year averages have been calculated using aggregate figures rather than arithmetic means of the ratios for each year.

3.15. The table shows turnover consistently increasing since 1994. Operating profit increased strongly from DM[20] million (£[20] million) in 1995 to DM[20] million in 1997 but fell back to DM[20] million (£[20] million) in 1998. This fall was partly a consequence of the collapse in Far Eastern markets and the result of currency fluctuations between the US dollar and the Deutschmark: a significant proportion of Alanod's sales were to the USA and its sales to the Far East were denominated in US dollars. During the five years, Alanod's operating profit margin averaged [20] per cent, its return on net operating assets averaged [20] per cent and its return on equity (after deduction of local taxes only) was [20] per cent.

3.16. Summaries of Alanod's audited balance sheets for the same years are set out in Table 3.3.

TABLE 3.3 Alanod: summarized audited balance sheets

	As at 31 December					DM'000	£'000
	1994	1995	1996	1997	1998		
	1994	1995	1996	1997	1998	1998	1998
Fixed assets:							
Tangibles							
Investments							
Net current assets excluding cash/debt:							
Stock							
Debtors							
Creditors due within one year							
Excluding debt							
Net operating assets							
Net cash (debt)							
Non-operating assets							
Provisions							
Net assets							
Share capital							
Reserves							
Partners' accounts							
Partners' equity							
<i>Figures omitted. See note on page iv.</i>							

Source: Alanod/CC analysis.

Tangible fixed assets can be seen to have reduced significantly between 1994 and 1998. Alanod's first MIRO plant came on stream in 1994 at a cost of approximately DM[] million (£[] million at that time) for plant and buildings, ie excluding research and development costs and pre-production trials. That was an unusually large investment and the reduction in fixed assets in subsequent years reflects the depreciation charged. In 1994, before depreciation had materially reduced fixed asset values, working capital, shown as net current assets, was about [] the level of fixed assets and by 1998 had risen to about [] fixed assets.

3.17. At 31 December 1998 Alanod had gross debt of DM[] million and cash of DM[] million to give net debt of DM[] million. The consideration for the acquisition of Ano-Coil in March 1999 was DM[]. *Details omitted. See note on page iv.*

3.18. The non-operating assets comprise down-payments relating to new fixed assets: in 1997 and 1998 they related to the [] tonne MIRO plant, including buildings, which came on stream in August 1999. Provisions comprises provisions for pension costs, tax payable and other provisions; some of these might be classified as current liabilities under UK accounting conventions.

3.19. []

Details omitted. See note on page iv.

]

Metalloxyd GmbH and Ano-Coil

History and operations

3.20. The Buchholz family established its first business in Berlin in the 1920s and bought Steinert,¹ based in Cologne, in 1931. In 1932 it formed Metalloxyd GmbH in Berlin and in 1939 another company in Hamburg, both to carry out static anodizing. A Cologne branch was established in 1936 and coil anodizing was developed in the mid-1950s. The Berlin plant was lost to the communist regime but the group continues to operate static anodizing businesses in Cologne and Hamburg.

3.21. Metalloxyd GmbH, based in Cologne, is presently owned as to 96 per cent by its Chairman, Mr W K R Buchholz, and as to 4 per cent by his son, Mr K F J Buchholz. Metalloxyd GmbH's businesses included anodizing aluminium coil, the production of anodized aluminium architectural and building products and, through its subsidiary Steinert, the manufacture of electromagnets using anodized aluminium.

3.22. Metalloxyd GmbH installed its first coil anodizing plant in 1956, the output of which was used mainly for decorative applications. Ano-Coil was formed in 1957 with Metalloxyd GmbH having a 49 per cent shareholding and RTZ² having 51 per cent. Its initial function was as a sales outlet for Metalloxyd GmbH's pre-anodized aluminium. At that time typical end-uses were offset printing plates, white goods and automotive trim, window frame parts and lighting reflectors; little was used for lighting louvres.

3.23. In the early 1960s Ano-Coil set up a line to anodize aluminium up to 100 mm wide and later increased the width to 360 mm. In 1967 Ano-Coil moved to Bletchley and installed a 620 mm anodizing line. It became a major supplier of printing plates but that market ceased abruptly when Kodak Ltd took the business in-house. However, the louvre business developed rapidly and a second, 820 mm, line was

[*Details omitted. See note on page iv.*]

¹Ferdinand Steinert-Elektromagnetische Aufbereitungsanlagen, now Steinert Elektromagnetbau GmbH.

²Rio Tinto Zinc PLC.

installed together with slitting and cut-to-length facilities. In 1986 Metalloxyd GmbH bought out RTZ so that Ano-Coil became a wholly-owned subsidiary.

3.24. By the late 1980s, the lighting sector was becoming increasingly important to the Metalloxyd group: in 1987 it built a 1,250 mm line in Cologne followed by a second, in 1992, on a new site at Kingston, Milton Keynes. Alanod told us that the Milton Keynes plant was designed to produce the lower grades of specular aluminium primarily for the Far East market; Metalloxyd GmbH concentrated on higher-grade production in Cologne while the Bletchley plant produced mainly etched and matt products. A slitting operation and service centre was opened at Aldridge in the West Midlands to serve UK customers. The brand name ANO-FOL was adopted for lighting grade aluminium coil sold in most world markets but not in the UK where the name Ano-Coil was used.

3.25. Ano-Coil was responsible for sales in the UK and to parts of the world with a UK connection: South Africa, Australia, parts of the Far East and the Middle East. Sales and service subsidiaries were established in Australia, South Africa, Hong Kong and Korea, each of which employed less than five sales staff and provided limited stockholding facilities. The subsidiaries in Hong Kong and Korea were owned by Metalloxyd GmbH as to 50 per cent and 100 per cent respectively until 31 December 1998 when Ano-Coil bought out its parent's interests for cash.

3.26. In 1998 Metalloxyd's maximum production capacity in Cologne was [] tonnes a year, that at Bletchley about [] tonnes and at Milton Keynes about [] tonnes. Metalloxyd GmbH serviced Continental Europe, North and South America and parts of the Far East. Metalloxyd GmbH and Ano-Coil bought extensively from each other to cover their respective customers' requirements: in 1998 Ano-Coil sold nearly [] its production to Metalloxyd GmbH from which, Alanod told us, it was buying about [] per cent of its own requirements. More than 90 per cent of sales in 1998 went to the lighting industry and about 75 per cent overall was exported. At the time of its acquisition by Alanod, Ano-Coil employed approximately 110 people.

3.27. In 1993 Metalloxyd GmbH moved downstream into louvre manufacture for the lighting industry through subsidiaries Metaprint in the UK and Metaprint GmbH in Germany. Metaprint was a subsidiary of Ano-Coil but Alanod told us that it was effectively managed from Germany.

3.28. The former Chairman of Metalloxyd GmbH's advisory board, Mr Wagner, told us that by 1997 the Metalloxyd group was making losses and under bank control. An advisory board was established that year with himself as independent Chairman, and a new General Manager, Mr Scheel, was recruited in February 1998. The new team proceeded to close the Metaprint and architectural product businesses and to review the core business of coil anodizing. A new Managing Director for Ano-Coil was appointed in December 1997.

3.29. Metaprint never reported a profit and its fixed assets, which had a book value of £272,000, were sold to LCL in February 1998 for £100,000 plus an undertaking by LCL [*Details omitted. See note on page iv.*]. Cumulative Metaprint losses, including losses on the disposal of the assets, amounted to £2.3 million before tax relief.

3.30. Mr Wagner and Mr Scheel had concluded that there was excess capacity in the industry. Metalloxyd GmbH's coil anodizing business was running at 50 to 60 per cent capacity and making losses; during 1998 it was apparent that the long-term future of the Metalloxyd group was in jeopardy because, first, market conditions were preventing profits being made and second, Ano-Coil had no product to compete against Alanod's MIRO. Alanod was known to have another MIRO plant under construction and Metalloxyd GmbH had endeavoured unsuccessfully to develop a similar product with a company in the USA. Metalloxyd GmbH had neither the resources to fund the estimated minimum DM30 million (£10 million) to acquire an equivalent plant nor the technical skills needed to develop it.

3.31. In the middle of 1998 an approach was made to Alanod with a view to merging the two businesses, but Alanod was not interested in a deal on that basis. Mr Wagner told us that he had also held discussions with a venture capital institution and with an individual investor but both were unfruitful.

3.32. The review by Mr Wagner and Mr Scheel revealed that operating costs in the UK were about 30 per cent lower than in Cologne. In the middle of 1998 a decision was taken to shut the production lines at Cologne, which were closed on 31 December 1998 at a loss of 100 jobs, and to transfer production to Ano-Coil. The German sales team, which reported to the UK, was retained in Cologne together with a stocking and service centre.

3.33. Notwithstanding this reconstruction, Ano-Coil's medium-term future was considered to be vulnerable and a decision was taken to sell it as a going concern. Contact was renewed with Alanod in October 1998 and it acquired Ano-Coil on 17 March 1999. Further details of the acquisition are given in paragraphs 3.48 to 3.51.

Financial performance

3.34. Ano-Coil's results, derived from its published accounts, are set out in Table 3.4. These figures are consolidated and so include the results of its subsidiaries; however, the results of Metaprint (see paragraphs 3.28 and 3.29), including the loss on disposal of its assets, have been separated and shown each year as a single amount net of tax.

3.35. Ano-Coil traded extensively with its German parent (see paragraph 3.26) and its trading results as a UK corporate entity will therefore have been entirely under the control of its parent company. Alanod told us that the trading relationship between Ano-Coil and Metalloxyd GmbH was entirely at arm's length. Metalloxyd GmbH declined to provide us with copies of its accounts.

TABLE 3.4 **Ano-Coil: consolidated financial results**

	£'000				
	<i>Years ended 31 December</i>				
	1994	1995	1996	1997	1998
Turnover	<u>28,856</u>	<u>29,136</u>	<u>30,707</u>	<u>30,684</u>	<u>24,305</u>
Operating profit	2,134	2,462	1,456	1,349	287
Net interest paid	<u>(762)</u>	<u>(841)</u>	<u>(680)</u>	<u>(575)</u>	<u>(493)</u>
Profit/(loss) before tax	1,372	1,621	776	774	(206)
Tax	<u>(391)</u>	<u>(407)</u>	<u>(226)</u>	<u>(259)</u>	<u>(26)</u>
Profit/(loss) after tax	981	1,214	550	515	(232)
Minority interests	<u>(38)</u>	<u>(81)</u>	<u>(72)</u>	<u>29</u>	<u>65</u>
Retained earnings excluding Metaprint	943	1,133	478	544	(167)
Metaprint profits/(losses) after tax relief	<u>(213)</u>	<u>(572)</u>	<u>(159)</u>	<u>(605)</u>	<u>23</u>
Retained earnings including Metaprint	<u>730</u>	<u>561</u>	<u>319</u>	<u>(61)</u>	<u>(144)</u>
<i>Performance ratios excluding Metaprint</i>					
Operating profit as a percentage of turnover	7.4	8.5	4.7	4.4	1.2
Interest cover	2.8	2.9	2.1	2.3	0.6

Source: Metalloxyd GmbH/CC analysis.

Notes:

1. We have added back the release of a deferred tax provision of £340,000 in 1998 thereby reducing the tax credit shown in the accounts by that amount.
2. The operating profits shown include the cost of writing off bad debts due from Metalloxyd Inc, a fellow subsidiary in the USA, of £295,000 in 1996 and £32,000 in 1997.
3. We have not been able to make any performance calculations based on assets because it has not been practicable to deconsolidate figures relating to Metaprint from the consolidated balance sheets.

3.36. The greatest impact caused by Metaprint occurred in 1995, and again in 1997 when substantial provisions were raised in relation to the forthcoming closure and disposal of the Metaprint assets in February 1998.

3.37. The overall trend since 1995 has been that of decreasing profitability whether or not Metaprint is included. Table 3.1 shows the extent of UK sales. Mr Wagner told us that the marked fall in sales and profitability in 1998 had been caused by a collapse in the Far East market combined with an increase in raw material costs and an inability to raise prices because of excess capacity in the industry. Ano-Coil's figures show that both volumes and margins declined in 1998 which is in contrast to Alanod's results where volumes rose almost [] per cent but margins fell—see paragraph 3.15. Alanod told us that its sales resilience was helped by its relatively large volume of business in the USA, whereas Ano-Coil was more exposed to the economic collapse in the Far East.

3.38. Alanod told us that from 1 January 1999 the costs of Metalloxyd GmbH's sales and service operations in Cologne, its research and development operation and other overheads, totalling £3 million annually, had been the subject of a management charge to Ano-Coil. Ano-Coil had been budgeted to show a profit before tax in 1999, after carrying this additional charge, of £1.7 million.

3.39. This 1999 budget had been prepared before the merger and represented a profitability turnaround of £4.9 million. Alanod told us that it regarded it as optimistic and that it was based on two main reasons: the first was that Ano-Coil previously sold a net [] tonnes a year to its parent at discounted prices which in future would be sold at full prices. The second reason was that the Cologne output of approximately [] tonnes a year would in future be processed by Ano-Coil. Ano-Coil's monthly production in 1998 averaged [] tonnes; in January 1999 it produced [] tonnes rising to a peak of [] tonnes in March when the sale to Alanod was completed. Thereafter its output has been less than [] tonnes following the closure of the Bletchley lines and transfer of some production to Germany (see paragraph 3.58). The management charge payable to Metalloxyd GmbH ceased following the sale of Ano-Coil to Alanod.

3.40. Ano-Coil's consolidated balance sheets for the past five years are summarized in Table 3.5. The separation of Metaprint has not been practicable.

TABLE 3.5 **Ano-Coil: summarized consolidated balance sheets**

	<i>As at 31 December</i>					<i>£'000</i>
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	
Tangible fixed assets	10,080	10,005	9,689	8,844	7,953	
Net current assets excluding cash:						
Stock	5,314	4,695	4,909	4,017	5,154	
Debtors	8,706	8,608	7,005	7,193	6,272	
Creditors due within one year excluding debt	<u>(10,046)</u>	<u>(6,863)</u>	<u>(6,552)</u>	<u>(5,811)</u>	<u>(5,783)</u>	
	<u>3,974</u>	<u>6,440</u>	<u>5,362</u>	<u>5,399</u>	<u>5,643</u>	
Net operating assets	14,054	16,445	15,051	14,243	13,596	
Debt less cash	(7,587)	(9,423)	(7,647)	(6,648)	(6,119)	
Provisions	<u>(951)</u>	<u>(1,003)</u>	<u>(1,065)</u>	<u>(1,367)</u>	<u>(1,011)</u>	
Net assets	<u>5,516</u>	<u>6,019</u>	<u>6,339</u>	<u>6,228</u>	<u>6,466</u>	
Share capital	2,200	2,200	2,200	2,200	2,700	
Retained earnings	3,213	3,732	3,993	3,909	3,766	
Minority interests	<u>103</u>	<u>87</u>	<u>146</u>	<u>119</u>	<u>-</u>	
Shareholders' equity	<u>5,516</u>	<u>6,019</u>	<u>6,339</u>	<u>6,228</u>	<u>6,466</u>	

Source: Ano-Coil/CC analysis.

Note: In 1998 we have increased provisions and reduced retained earnings by £340,000 to reflect the write-back of the deferred tax release referred to in the notes to Table 3.4.

3.41. Tangible fixed assets can be seen to be declining as a consequence of depreciation exceeding capital expenditure; this was attributable partly to the heavy investment in the Milton Keynes plant in 1992 and its subsequent depreciation.

3.42. In 1995 the increase in net debt of £1.9 million was largely caused by a reduction in trade creditors without a corresponding decrease in debtors and stocks. In the previous year, stocks and debtors on the one hand and creditors on the other had each increased by some £3.5 million with no net effect on working capital. In 1994, working capital was about 40 per cent of fixed assets, a significantly lower level than applied to Alanod (see paragraph 3.16).

3.43. Table 3.6 shows Ano-Coil's cash flows and compares depreciation with expenditure on fixed assets.

TABLE 3.6 **Ano-Coil: cash flow summary**

	Years ended 31 December					£'000
	1994	1995	1996	1997	1998	Total
Net cash inflow from operating activities	1,517	130	3,736	1,945	716	
Debt service costs	(742)	(893)	(771)	(642)	(522)	
Taxation (paid)/refunded	227	(48)	(347)	(62)	(20)	
Investing activities:						
Payments to acquire fixed assets	(554)	(805)	(611)	(207)	(267)	
Proceeds of sale of fixed assets	60	10	22	431	209	
Acquisition of subsidiary or minority interest	(74)	-	-	-	(65)	
Net cash inflow/(outflow) from investing activities	<u>(568)</u>	<u>(795)</u>	<u>(589)</u>	<u>224</u>	<u>(123)</u>	
Net cash inflow/(outflow) before financing	434	(1,606)	2,029	1,465	51	2,373
<i>Financing</i>						
Repayments of amounts borrowed	(424)	(1,023)	(1,262)	(1,107)	(1,108)	
New loans received	-	400	-	-	-	
Capital element of finance lease payments	(130)	(179)	(219)	(266)	(152)	
Share capital issued	-	-	-	-	500	
Net cash outflow from financing	<u>(554)</u>	<u>(802)</u>	<u>(1,481)</u>	<u>(1,373)</u>	<u>(760)</u>	(4,970)
Increase/(decrease) in cash and cash equivalents	<u>(120)</u>	<u>(2,408)</u>	<u>548</u>	<u>92</u>	<u>(709)</u>	<u>(2,597)</u>
<i>Comparison of net capital expenditure with depreciation</i>						
Depreciation of tangible fixed assets	942	1,018	1,054	1,210	956	5,180
Net purchases of fixed assets	<u>(624)</u>	<u>(974)</u>	<u>(808)</u>	<u>(42)</u>	<u>(210)</u>	<u>(2,658)</u>
Depreciation less net amounts paid to acquire fixed assets	<u>318</u>	<u>44</u>	<u>246</u>	<u>1,168</u>	<u>746</u>	<u>2,522</u>

Source: Ano-Coil/CC analysis.

Note: Net purchases of fixed assets comprise expenditure on purchases less proceeds of sales plus capital elements of finance leases.

3.44. The table shows that Ano-Coil and its subsidiaries achieved over the five years net cash inflow before financing of £2.373 million. The net cash outflow from financing was £4.97 million after the injection in 1998 of £0.5 million by way of new equity. That injection was to enable Metaprint to pay trading debts due to Metaprint GmbH: it therefore had no overall effect on cash flow because the payment to Metaprint GmbH had already reduced the net cash inflow from operating activities. Ano-Coil was therefore not generating sufficient cash to repay its borrowings as shown by the decrease in cash and cash equivalents: the shortfall was almost £2.6 million. Without the Metaprint losses of £2.3 million, the shortfall would have been £0.3 million.

3.45. The borrowings being repaid mostly comprised five long-term loans totalling approximately £8 million taken out to finance the acquisition of the site and construction of the Milton Keynes plant in 1992. Repayments are by 15 or 16 semi-annual instalments beginning in 1994 or 1995.

3.46. The table also compares depreciation with net capital expenditure (including the capital elements of finance leases) and shows depreciation over the five years at £5.2 million against net capital expenditure of £2.7 million (or £5.0 million and £2.45 million respectively if Metaprint is excluded). Net expenditure on fixed assets in 1997 and 1998 was significantly below the levels of the previous three years. In September, following a request for information from the CC (see paragraph 3.60), Alanod submitted figures showing planned investment of DM[] million (£[] million), including DM[] million (£[]) in 1999, to upgrade Ano-Coil's plant by 2001 so as to increase capacity and efficiency. These figures are set out in Appendix 3.1 which also shows economies and costs which Alanod expects to apply to Ano-Coil (see paragraph 3.60). Alanod asserted that investment at Milton Keynes had been inadequate and told us in October that so far it had spent £[] of the £[] planned for 1999.

3.47. In summary, Ano-Coil's financial condition had been adversely affected by:

- a capital investment programme in 1992 funded entirely by bank borrowings;
- inadequate cash flow to service those borrowings;
- Metaprint exacerbating the cash flow shortage; and
- the collapse of Far Eastern markets in 1998.

The merger

The transaction

3.48. Metalloxyd approached Alanod in the middle of 1998 with a merger proposal (see paragraph 3.31) but that came to nothing. Some months later, Mr Wagner renewed contact with Alanod which, following examination of Ano-Coil's 1997 accounts, made an oral proposal to buy Ano-Coil. After some negotiation an agreement in principle was reached between Alanod and Metalloxyd GmbH whereby Alanod would buy Ano-Coil, [*Details omitted.*]. The final agreement was to be achieved by [*See note on page iv.*].

3.49. In the event, an agreement was signed and completed on 17 March at a price of DM[*See*] million based on the audited accounts for the year ended 31 December. Alanod also had a three-month option to buy certain Metalloxyd GmbH assets in Cologne which it exercised at a cost of DM520,000 (£180,000).

3.50. [*Details omitted.*] The agreement was made under German law; its salient points were: [*See note on page iv.*]

Details omitted. See note on page iv.

]

3.51. Ano-Coil's net asset value shown by the completion accounts was £6.8 million after the release of a deferred tax provision of £340,000 (see notes to Tables 3.4 and 3.5).

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3.52. [*Details omitted. See note on page iv.*] In the event, the agreement for the sale of the shares was made on 17 March and the sale took place on the same day: Alanod's legal advisers told us that they notified the OFT of the fact by telephone two days later, confirming it subsequently in a letter dated 1 April which also provided further information about the affected market. The acquisition was referred to the CC on 15 July 1999.

3.53. Alanod gave undertakings to the OFT on 11 August that, inter alia, it would maintain Ano-Coil as a separate operating unit pending the outcome of this inquiry. Alanod told us that it had informed the OFT that, as a result of changes which had already occurred and of which the OFT was aware, Ano-Coil was no longer in a position to operate as a stand-alone entity.

Reasons for the acquisition

3.54. Alanod told us that it was already familiar with Metalloxyd GmbH's business, particularly because its four Managing Directors had once worked for Metalloxyd GmbH. Alanod told us that without conducting any detailed analysis, the directors and partners were of the opinion that annual cost savings totalling DM[30] million would be possible following the acquisition of Ano-Coil's business. They had, however, calculated that an estimated available saving of [30] per cent on Ano-Coil's cost of buying aluminium would in itself cover the cost of acquiring the business. Alanod told us that the decision to proceed was based on:

- its need for a distribution network in the UK to replace its distribution through Thyssen with which relations were deteriorating and the agreement with which was to terminate on 31 December 1999; and
- opportunities for cost saving as a result of elimination of duplicated sales networks, the rationalization of production and possible savings on raw material costs.

3.55. Alanod pointed out that the acquisition should be seen in the context of the global markets which both it and Ano-Coil served. [

Details omitted. See note on page iv.

]

Events since the acquisition

3.56. On 29 July, Alanod's legal advisers wrote to the OFT to inform it of events since the acquisition on 17 March. On the day of the acquisition, Ano-Coil's Sales Director and five Regional Sales Managers covering sales outside the UK, all of whom were on the payroll of Metalloxyd GmbH, were made redundant. In April, the Technical and Marketing Directors of Ano-Coil were made redundant together with some members of the internal sales teams. In June, the slitting centre at Aldridge was closed followed by the sales centre in August. Two of the employees involved were transferred to Milton Keynes and the remaining nine were made redundant. By August, the number of employees had reduced by ten to approximately 100 excluding reductions overseas. All of Ano-Coil's overseas sales and marketing subsidiaries (see paragraph 3.25) have since been wound up except for Ano-Coil Pty Ltd in Australia. In each case, the personnel concerned were made redundant.

3.57. Following the redundancies of the Metalloxyd GmbH sales staff, Alanod took over about 80 per cent of the non-UK sales of Ano-Coil. The overseas sales network has been consolidated and agreements with several of Ano-Coil's agents and distributors have been terminated.

3.58. The Bletchley lines, which had been transferred to Metalloxyd GmbH, ceased production on 31 March 1999 and have since been scrapped. Some production has been transferred to Kingston but most has been transferred to Alanod in Germany.

3.59. Alanod told us that it had already spent £[30] on capital expenditure at Ano-Coil (mostly to speed up the slitting lines) and planned to spend a further £[30] during 1999 subject to a favourable outcome of this inquiry. Production at Milton Keynes had been rationalized to four main product lines so as to enhance throughput: Alanod and Ano-Coil buy product from each other so the Alanod group can continue to service all its customers with a full range of products.

3.60. In September 1999, as part of a response to requests from the CC for information relating to the price paid, Alanod produced a schedule of expected savings and investment plans based on its experience since the acquisition. This is reproduced at Appendix 3.1 and shows plans to invest DM[30] million (£[30]) at Milton Keynes in 1999 and a further DM[30] million (£[30] million) during the subsequent two years. [

Details omitted. See note on page iv.

] The net annual benefit to Alanod in each of 2000 and 2001 was forecast to be approximately DM[30] million (£[30] million).