

THE MONOPOLIES COMMISSION

The Rank Organisation Limited
and
The De La Rue Company Limited

a report on the proposed acquisition of the
De La Rue Company Limited
and
General observations on mergers

*Presented to Parliament in pursuance of section 9 of the
Monopolies and Restrictive Practices (Inquiry and Control) Act 1948
(as applied by section 6(5) of the Monopolies and Mergers Act 1965)*

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† Note by the Board of Trade. Mr. Smith has ceased to be a member of the Commission since the report was signed.



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Introduction

1. On 28th January 1969 the Board of Trade, under the powers given them by section 6(7) of the Monopolies and Mergers Act 1965, referred to the Commission for investigation and report the matter of the proposal of The Rank Organisation Ltd to acquire The De La Rue Company Ltd. We were required to make our report within four months of the date of the reference, the text of which is reproduced in Appendix 1. The Board of Trade did not exercise their powers, under section 6(11) of the Act, to stay the proposed acquisition until we had made our report.

2. On 28th January 1969 the Chairman (in accordance with the provisions of section 1 of, and paragraph 9 of Schedule 1 to, the 1965 Act) directed that the functions of the Commission in relation to the investigation under this reference should be discharged through a group consisting of eight members of the Commission.

3. At the time when the reference was made it appeared to the Board of Trade that arrangements were in progress or in contemplation which, if carried into effect, would result in section 6(1)(a) and (b) of the 1965 Act being satisfied as stated in the reference. Section 6(7) of the Act requires the Commission in such a case to proceed "in relation to the prospective and (if events so require) the actual results of the arrangements proposed or made as they might proceed in relation to the results of arrangements made immediately before the reference".

4. Under section 6(2) of the 1965 Act we are required to investigate and report on the facts, that is whether sections (6)(1)(a) and (b) of the Act are satisfied and, if we find that they are, to report whether the acquisition operates or may be expected to operate against the public interest. If we so find, we are to consider whether any and if so what action should be taken to remedy or prevent any resulting mischiefs and, if we think fit, we may include in our report a recommendation as to such action.

5. In investigating and reporting on the facts we were not to consider whether the provisions of section 6(1)(b)(i) were satisfied and we were not, therefore, required to consider (in this context) the two companies' shares of the markets in which they operate.

6. When the inquiry began public notices were inserted in *The Times* and the *Financial Times* inviting evidence on the reference. We have held six hearings in all; two each with representatives of the two companies; one with the Deputy Master of the Royal Mint; and one with a representative of American Cyanamid Company. One of our members, accompanied by Sir Hugh Tett, who agreed to serve as our consultant for this purpose, visited The Rank Organisation Ltd and The De La Rue Company Ltd to inquire into their management organisation. Written evidence was sought from firms and trade associations in the various industries in which the two companies are engaged, and from the appropriate

trade unions. Much of the oral and written evidence was of a commercially confidential nature and our report contains only such information as we consider necessary for an understanding of our conclusions.

7. We should like to place on record our thanks to all those who helped us in our inquiry, particularly The Rank Organisation Ltd, and The De La Rue Company Ltd, upon both of which we have made heavy demands for factual evidence and facilities of various kinds, as well as seeking their viewpoints on many issues.

The Proposals of The Rank Organisation Ltd to acquire The De La Rue Company Ltd

8. On 19th November 1968, Mr. John Davis, the Chairman of The Rank Organisation Ltd (hereafter referred to as Rank), informed the Deputy Chairman of The De La Rue Company Ltd (hereafter referred to as De La Rue), in the absence of the latter's Chairman, Mr. A. G. Norman, that he had decided to make a bid for De La Rue. In consequence, meetings between Mr. Davis and Mr. Norman, and other representatives of the two companies, were held on 26th and 28th November 1968. Rank's objective at these meetings was to secure the support of the De La Rue Board for the former's intended bid for acquisition of De La Rue. At the second of these two meetings, Mr. Norman informed Mr. Davis of the unanimous decision of the De La Rue Board that it was unable to offer its co-operation in negotiating any acquisition by Rank. Following the second meeting and in view of the De La Rue share price having risen on 27th November and again on the 28th, De La Rue felt obliged, under the City Take-Over Code, to issue a Press Release making public knowledge the approach it had had from Rank, stating that no discussions were taking place, and that no bid had been made. On 4th December, Mr. Davis telephoned Mr. Norman, who repeated that his Board was unwilling to negotiate. On 5th December, Mr. Davis reported the position to the Board of Rank and that Board then authorised a bid and discussed an initial price for the De La Rue shares. On the same day Mr. Davis wrote to Mr. Norman to inform him that Rank intended making offers for the whole of the issued share capital of De La Rue on the following terms:

Ordinary Shares. For every three Ordinary Shares of 10s. in De La Rue, there would be offered one 'A' Ordinary Share of 5s. and £4 nominal of 7½ per cent Convertible Unsecured Loan Stock 1988-93 in Rank.

Preference Stock. For each Preference Stock Unit of £1 there would be offered 11s. nominal of 8 per cent Unsecured Loan Stock 1988-93 in Rank, or 11s. in cash.*

9. The formal offers were to be subject to all the normal and usual conditions and in particular to acceptance by the holders of not less than 90 per cent of each class of share (or such lesser percentages as Rank might determine) and to the passing at an Extraordinary General Meeting of Rank's shareholders of a resolution for an appropriate increase in the authorised 'A' Ordinary Share Capital in Rank. On the basis of ruling market prices for Rank holdings, the offer was said to place a value of about 57s. on each Ordinary Share in De La Rue. The impending offer was announced in the Press on 6th December, and on the following day De La Rue issued a Press Release advising its shareholders not to accept it. On 19th December the offer was formally conveyed to the

* Section 6 of Kleinwort, Benson's Offer of 19th December 1968 shows Rank's 'A' Ordinary Shares of 5s. each as having a middle market quotation of 88s. 9d. on 17th December 1968.

In Section 1 of Appendix E to the Offer it is stated that on making the appropriate application in the years 1971 or 1972, holders of the Convertible Loan Stock will be entitled to receive the following number of 'A' Ordinary Shares for every £300 stock converted:

50 'A' Ordinary Shares on conversion in 1971
42 'A' Ordinary Shares on conversion in 1972

De La Rue shareholders by Kleinwort, Benson Ltd, acting on behalf of Rank. On 30th December, De La Rue's Board wrote to its shareholders formally advising them against acceptance and detailing its reasons for tendering that advice. The closing date, set for acceptance of Rank's offer was 9th January 1969, and on that day Kleinwort, Benson Ltd, sent a further letter to the De La Rue's shareholders increasing the offer for the Ordinary Shares to the following:

For every 20 Ordinary Shares of 10s. each in De La Rue there were offered eight 'A' Ordinary Shares of 5s. each in Rank and £33 nominal of 7½ per cent Convertible Unsecured Loan Stock 1988-93 in Rank.

10. The terms of the offer for Preference Stock were not revised (save that, as in the case of the Ordinary Shares, the closing date for acceptance was deferred to 17th January 1969 or such later date as Rank might determine being not later than 28th February 1969). The revised offer was said to place a value of 70s. 8d. on each Ordinary Share in De La Rue at ruling market prices. In a letter of 13th January to shareholders, De La Rue's Directors once more advised them not to accept. On 28th January, consequent upon the issue of the Board of Trade's order of that date referring the proposed acquisition to us Rank announced that it was allowing its offer to lapse, and that when our findings were known it would review the position.

CHAPTER 2

The Rank Organisation Ltd

11. The Organisation is about 38th in order of size among British companies measured by capital employed,* and employs over 50,000 people, including some 11,000 overseas. It is a public company with an issued share capital of nominal value of £29.6m made up of £12.6m Preference Shares and £17.0m Ordinary Shares. The latter are divided into Ordinary (voting) Shares and 'A' (non-voting) Ordinary Shares. 53 per cent of the Ordinary (voting) Shares is owned by Odeon Cinema Holdings Ltd. The consolidated balance sheet values of the assets of the Group at 29th June 1968, totalled £261m including fixed assets, £146m; current assets, £87m; goodwill, patents and trade marks, £10m; others £18m (including taxation on unrealised inter-group profits). According to the published accounts, capital employed at 29th June 1968 was £202.2m. Group turnover during 1967-68 amounted to about £204m, on which a profit of £35.8m was made (after charging all costs, including depreciation and interest, but before taxation).

12. The 1967-68 turnover figures are broken down in the Organisation's published accounts as follows:

	£'m
Rank Xerox Ltd	84.4
The Rank Organisation Ltd (other than Rank Xerox):	
Film exhibition, home and overseas	37.3

* "The Times 500"—leading companies in Britain and overseas.