

Xerox activities have been developing. A summary of profits, in relation to capital employed, during the five years to June 1968, is set out in Appendix 7, under the headings of "Xerox" and "non-Xerox" activities, with the latter further divided into manufacturing and non-manufacturing activities. In the period covered it was the Xerox activities which provided the growth and the increasing profitability; the profits from these activities made up more than half of Rank's consolidated profit by the year 1964-65 and reached nearly four-fifths of that total by the year 1967-68.

CHAPTER 3

The De La Rue Company Ltd

23. The De La Rue Company Ltd is about 186th in order of size among British companies, measured by capital employed,* and employs 10,100 people including 3,060 overseas. It is a public company with an issued capital of nominal value £6.67m, of which £6.17m is in the form of Ordinary Shares and £0.5m in Preference Shares. The consolidated balance sheet values of the assets of the Group at 31st March 1968, totalled £39.2m, including fixed assets, £15.5m; current assets, £20.8m; goodwill, £1.8m; investments, £1.1m. According to the published accounts, capital employed at 31st March 1968 was £27.3m. Group turnover in 1967-68 amounted to £42.4m, on which a profit of £3.66m was made (after charging all costs including depreciation and interest, but before taxation).

24. The 1967-68 turnover can be analysed as follows:

	£m
Formica International Ltd	22.2
Thomas De La Rue International Ltd	10.5
Potterton International Ltd	9.7
Total	42.4

25. The principal activities of the operating subsidiaries (detailed lists of which will be found in Appendices 3 and 5) are:

Formica International Ltd. This subsidiary contains a number of further subsidiaries engaged in the production of FORMICA, used in decorative form for table tops and wall coverings, etc., and, in insulating form, in the electrical and electronics industries, i.e., industrial laminates. 40 per cent of this subsidiary is owned by American Cyanamid Company, of New Jersey.

Thomas De La Rue International Ltd. This subsidiary company contains a number of further subsidiaries engaged in the manufacture of banknotes and other security documents, printing, currency counting machinery and money dispensers for use out of banking hours. It also contains Security Express Ltd, a subsidiary which is engaged in the security transfer of valuables, and has a 50 per cent interest in an associate company engaged in the design and sale of banknote printing machinery.

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

Potterton International Ltd. This subsidiary group manufactures boilers of several kinds including automatic gas- and oil-fired boilers, storage heaters, warm air units, and other heating appliances.

26. De La Rue, it told us, began in 1813 and eventually became securely established as printers of high-quality playing cards,* postage stamps and banknotes. The business of Thomas De La Rue & Co. Ltd was first registered at the end of the nineteenth century, and since then has grown by acquisition and diversification and at present operates as a holding company. Although between the two World Wars the banknote business grew rapidly and became the biggest profit earner in the Company, it was apparent by 1930 that an increasing number of countries were setting up their own national printing works, a trend which in time was thought likely to reduce considerably the opportunities for the commercial banknote printer. This trend developed more slowly than was feared at the time, but had two consequences, De La Rue's expansion into activities other than banknote printing and later into joint banknote enterprises with Local Governments, and into the design and supply of banknote printing machinery.

27. Against this background it became the policy of the Company to find new ideas still in their infancy which could be developed into prosperous businesses. One of these was the development of a plastic moulding business, which had been originally acquired in 1915, to produce decorative and industrial laminates. Towards the end of the Second World War the Company decided to investigate the business potential of modern domestic hot water and heating systems. A research establishment began work in 1944 and soon afterwards Thomas Potterton Limited, a small manufacturer of gas-fired central-heating boilers, was acquired. In 1946 a foundry was bought and the production of boilers was increased, although progress was slow in the difficult economic conditions of the immediate post-war years.

28. Thus by the end of the 1940s De La Rue had developed the framework of its current business—the traditional security printing side, the plastic laminates business and that of central heating. The following features of the subsequent history of the Company are relevant to our inquiry.

29. In 1946 a licence was obtained from the Formica Corporation of Cincinnati, USA, for the manufacture and sale of decorative and industrial laminates. Sub-licences were granted by De La Rue in exchange for royalties in the major European markets, France, Spain, Germany and Italy, other markets being served by exports from the UK. In 1957 a joint company, now known as Formica International Limited, was formed in the UK with American Cyanamid which had acquired the business of the former licensor, Formica Corporation. De La Rue holds 60 per cent of the share capital and American Cyanamid has 40 per cent. The FORMICA trade mark was assigned in perpetuity to Formica International in the eastern hemisphere, and a Technical Exchange Agreement was made between American Cyanamid and Formica International under which the technical co-operation begun with Formica Corporation in 1946 was extended to include the wider resources available to Cyanamid. The decorative laminate business expanded rapidly overseas and subsidiary manufacturing

* The playing card business was finally disposed of in 1968.

companies were set up in France (1950), Australia (1956), Germany and New Zealand (1959), and Spain and India (1962).

30. Two privately-owned chipboard companies were acquired in the UK in 1963 as an adjunct to the production of decorative laminates, with the objective of gaining a greater foothold in the furniture and construction industry and in order to provide core material to which decorative laminates could be bonded.

31. The security printing business extended its activities into Europe, North and South America. Moreover, in 1949 at the request of the Government of Pakistan, De La Rue formed a company jointly with that Government to establish a printing works in Pakistan for the printing and supply of local currency. In 1963 a banknote printing plant was established in Nigeria, jointly with the Government of that country, for the production of local currency, on similar lines to the printing works established in Pakistan. In Britain, De La Rue's activities were expanded into the carrying of cash and valuables through the establishment of Security Express Limited, in conjunction with American Express Inc, which later sold its interest to De La Rue. Currency counting machines were developed during this period.

32. In the late 1950s De La Rue became involved in the development of printing inks and printing technology for use in connection with the automatic handling of security printed documents. This research was initially related to cheque handling which required the development of magnetic inks to suit data-processing systems. Most of this work was done with Compagnie des Machines Bull of Paris, with which close relationships were formed. This in turn resulted in the formation in 1959 of a jointly owned marketing company in the UK for the sale of data-processing equipment manufactured by the French company which, up to that time, had made no attempt to market in the UK. During 1965 General Electric Company of USA acquired control of Compagnie des Machines Bull. The following year negotiations were concluded whereby the American Company also acquired the controlling interest in the computer marketing company in the UK leaving De La Rue with a holding of 25 per cent in the UK company, now known as GEIS Ltd.

33. During 1965 an Agreement was reached with Mr. G. Giori, a leading designer of banknote printing machinery, with headquarters in Switzerland, to establish a company, De La Rue Giori S.A., owned equally by him and De La Rue for the design and sale of machinery for purposes of banknote printing. The manufacture of machinery is sub-contracted.

34. Since 1964 De La Rue has acted as agent for the Royal Mint on a commission basis in the sale of coinage to overseas governments. The basis of this arrangement is that De La Rue, by virtue of its well-established position in the sale of banknotes to those governments, is particularly well placed to sell coinage also. It is a matter of public record (see De La Rue's evidence to the Estimates Committee, in May 1968, in the course of that Committee's inquiry into the workings of the Royal Mint) that business amounting to £7,029,000 was secured for the Mint under the agency arrangement up to the time of the Estimates Committee's inquiry.

35. We obtained from De La Rue figures showing the results of the group's trading for the ten years 1958-59 to 1967-68 together with estimated figures for 1968-69 and a forecast for 1969-70. During the period 1958-59 to 1967-68 the turnover more than trebled and until 1962-63 the percentage of profit in relation to capital employed was satisfactory but thereafter until 1967-68 the group suffered a recession and the profit/capital employed ratio was less favourable. This was to some extent due to unsuccessful ventures overseas and strong competition in the United Kingdom. In 1966 measures were taken to eliminate unprofitable activities and in 1967-68 turnover which in the previous year had fallen, showed some recovery accompanied by a more adequate return on capital. In Appendix 8 we set out details of the profits, capital employed and return thereon for the five years ended 31st March 1968. The estimates for 1968-69 and the forecast for 1969-70 foreshadow further substantial improvements both in turnover and profits in relation to capital employed. As to overseas markets De La Rue is and has for some time past been actively engaged therein. In 1958-59 about 31 per cent of the group's turnover consisted of direct exports from the United Kingdom and a further 24 per cent of sales by overseas subsidiaries making a total overseas trade of 55 per cent of turnover. By 1967-68 direct exports had fallen to about 15 per cent but sales by overseas subsidiaries had risen to about 38 per cent of turnover. Thus the proportion of overseas trade remained at about the same relatively high level of over 50 per cent as in 1958-59.

CHAPTER 4

The Arguments For and Against the Acquisition

36. As is made clear in Chapter 1 the proposals for the acquisition of De La Rue by Rank have been resisted at all stages by De La Rue's Board. Not surprisingly, therefore, the evidence given before us by the two companies has often reflected contrary views. These views, which are set out in this Chapter, have been taken into account and our conclusions in respect thereof are set out in Chapter 6.

37. Rank has told us that it has needed to find fields of activity outside the shrinking film industry in which it had its origin. In view of the relatively small size of the United Kingdom market it has sought to find products or services, marketable internationally, for the marketing of which it claims that its skills and experience qualify it well. In theory Rank could expand in both of its two existing main areas, viz., leisure services and the marketing of manufactured goods. In practice it considers that expansion in the field of leisure services is not advisable either in the home market, because of market uncertainties, or overseas, because of the industry's need for a large labour force together with the wide differences which it claims exist from place to place in the type of service demanded. Thus, in its view, the marketing of manufactured goods offers the best prospects for success.