

The background to the proposed merger

5.1. Both BET and Initial gave us information on the events leading up to the present merger proposal.

5.2. BET's early interests in transport and electricity generation and distribution were largely overtaken by nationalisation and other factors and it had become a conglomerate with diverse interests both at home and abroad. In 1982 BET reviewed its structure and strategy and decided to reduce the diversity of its operations and focus more sharply on a limited number of sectors which it judged to have good potential for growth and satisfactory profit margins. One such sector was textile maintenance and associated activities, BET having had interests in the laundry sector for 50 years and been a substantial shareholder in Initial for over 30 years.

5.3. Initial had concentrated on the domestic and contract laundry and textile rental businesses from its inception, and was the current market leader in textile maintenance by a substantial margin. BET had a 42 per cent shareholding in Initial, and an 80 per cent holding in Advance,¹ which was considerably smaller than Initial in much the same sectors of the market and ranked fourth by market share in textile maintenance.

5.4. On 30 May 1984 BET announced its intention to make an offer to acquire the rest of the issued share capital of Initial. On 8 June 1984 an offer was made by Baring Brothers & Co Ltd, merchant bankers, on behalf of BET, to acquire the remaining shares on the basis of four BET ordinary shares plus £16 in cash for every five ordinary shares in Initial and £1 in cash for each Initial preference share. The bid valued the 58 per cent interest at some £166 million.

5.5. This offer was considered by the independent directors of Initial, being the Board of Initial other than BET nominees, on 18 June 1984 and rejection was recommended. The directors, on the advice of their merchant bankers, N M Rothschild and Sons, did not think the offer sufficient in view of Initial's past performance and future prospects. A revised offer of nine BET ordinary shares plus £33 in cash for every ten ordinary shares in Initial (or the equivalent in shares and cash in different proportions) and £1 in cash for each Initial preference share, which raised the bid to £176 million, was made on 6 July 1984 and acceptance was recommended.

5.6. Initial has since told us that it perceived benefits to both sides in the proposed merger and the recommendation to reject the first offer was on the grounds that the terms were inadequate.

5.7. On 26 July 1984 the Secretary of State referred the proposed merger to the Commission and the offer formally lapsed. Since then it has been made clear to us that both parties remain strongly in favour of the merger and that BET intends to pursue the matter if and when it is permitted to do so.

¹ See also paragraph 3.10.