

Matthew Brown PLC

4.1. The main activities of Matthew Brown PLC are the production and wholesale and retail sale of beer, mineral waters, fruit juices and cordials; the management of public houses, restaurants and hotels; and the sale of wines and spirits. Turnover in the year ended 29 September 1984 was £44 million, of which £30 million was from sales of ales and lagers. Profit on ordinary activities (at historical cost and before taxation) was £7 million on net assets at 29 September 1984 of £65 million. Capital employed, as calculated in the manner set out in Table 4.2, was £71 million.

History

4.2. Matthew Brown bears the name of the founder of the business, who started brewing and selling beer from a shop in Pole Street, Preston, in 1830. Following incorporation in 1875, the company began to purchase retail properties and expanded in particular by the acquisition of a number of brewery companies and their licensed houses in the first quarter of this century. In 1918 the group entered the wine trade with the acquisition of Thornton & France Limited. A major development was the purchase of Nuttall & Co (Blackburn) Limited in 1927. This brought a tied estate of 172 public houses and the Lion Brewery in Blackburn, to which production was moved from Preston.

4.3. There were further acquisitions in the decade after the second World War and a considerable expansion of brewing capacity. A period of consolidation followed, until in 1974 the group entered the food and catering business with the acquisition of Wilkinson (Haighton) Limited, since renamed Matthew Brown Manor Houses Limited. The following year Matthew Brown bought the Workington Brewery and its 103 tied houses. Modernisation and extra plant were introduced at Workington, and at Blackburn an extensive programme of development was completed with the opening of a multi-purpose bottling hall for beers, minerals and soft drinks.

4.4. The past ten years have seen five further important developments:

- (a) With the purchase of the Workington Brewery in 1975 Matthew Brown acquired and began to develop the Slalom Lager brand, giving the company a growing presence in an increasingly important market.
- (b) The group expanded into the North-East, establishing a distribution depot at Newcastle in 1983.
- (c) In 1984 Matthew Brown acquired T & R Theakston Limited (Theakston), which brought not only a famous name for traditional beers but also the breweries at Masham and Carlisle and a basis for the expansion of the group's business in Yorkshire.
- (d) Also in 1984 the group purchased the Carlisle-based tied estate of 25 public houses belonging to John Smith's Tadcaster Brewery Limited (a management company for Courage), which strengthened Matthew Brown's position in Cumbria.
- (e) The group developed its restaurant and hotel business under the aegis of Matthew Brown Manor Houses Limited.

Present activities

Brewing and distribution

4.5. Matthew Brown operates breweries at Blackburn, Workington, Carlisle and Masham. Blackburn produces the original Matthew Brown ale brands, of which the principal ones are Lion Bitter, Lion Mild and John Peel Bitter. It also produces some standard Slalom Lager and its two premium varieties, namely Slalom 'D' and Slalom International. All bottling for the group is now undertaken at Blackburn, as is the production of mineral waters and soft drinks. Workington continues to produce the standard Slalom Lager. Carlisle, in addition to Theakston ales (principally Best Bitter), now brews Matty's Light, developed by Matthew Brown especially for the Cumbrian market. Masham continues the small-scale production of Theakston ales (eg Old Peculier and XB).

4.6. Although still predominantly a brewer of traditional ales, Matthew Brown has strongly developed its lager business. Slalom now accounts for over 31 per cent by volume of all Matthew Brown beer sales, and 39 per cent of all draught Slalom Lager is sold to the free trade. These proportions are high for a regional brewer.

4.7. Matthew Brown's main distribution centre is at Blackburn, with regional depots at Workington, Newcastle and Masham.

Beer sales

The on-trade

4.8. In the six months to March 1985, some 90 per cent of the group's output was sold through the on-trade, 53 per cent through tied outlets and 37 per cent through the free on-trade. At June 1985 the group had 527 tied outlets located as in Appendix 2.2 and comprising 464 tenanted public houses, 48 managed houses, three hotels and 12 restaurants, and some 1,300 free trade accounts. The group's regional development from its original East Lancashire base is described below.

4.9. Of Matthew Brown's total tied estate, 88 per cent are tenanted (or leased) outlets and only 12 per cent managed. This is a relatively high ratio for the industry and according to Matthew Brown reflects the fact that much of its estate consists of low-barrelage outlets (in terms of weekly sales) which could not be operated profitably under management.

The off-trade

4.10. Matthew Brown's off-sales, whether directly or through brokers, of its canned and bottled products (including the Theakston range) to the take-home trade are made principally through specialist off-licences and retail grocery trade outlets other than supermarkets. About 10 per cent of the group's beer sales are made in this way to around 400 customers with over 4,500 outlets.

Regional coverage

4.11. Matthew Brown is very much a regional, as distinct from a national, brewery company. Since the end of the second World War it has followed a

policy of selective expansion into areas in the North of England seen as offering opportunities for profitable growth. Thus it has largely avoided the inner cities of Manchester and Liverpool, already served by a number of other brewers. It has instead developed out from its original heartland of East Lancashire into North and West Cumbria and, subsequently, into the North-East and, through its recent acquisition of Theakston, into North Yorkshire.

North and West Cumbria

4.12. Matthew Brown has been trading in parts of Cumbria since the 1920s, but in 1970 its volume of trade was still small and heavily dependent on its tied estate. In the past decade the company has become supplier to a larger number of tied and free houses in North and West Cumbria than any other brewer (see Table 5.5), so that around one-quarter of its total sales of draught and packaged beers (including Theakston's) are now made in this area. The purchase of the 103 tied houses with the Workington Brewery in 1975 was a major step forward. In 1982 Matthew Brown bought three Allied Breweries houses, and in 1984, 25 John Smith's houses (see paragraph 4.4(d)), following decisions by Allied and Courage to withdraw from Cumbria. In the same period Matthew Brown has pursued free trade accounts to the extent that sales to the free on-trade account for some 37 per cent of its total sales in North and West Cumbria.

The North-East

4.13. When in 1981 it became clear to Matthew Brown that prospects for further growth in Cumbria were extremely limited and, most significantly, that economic recession in Cumbria's industrial West would be long-lived, the company identified the North-East as a potential market for expansion. It perceived the area as one with a high density of population suffering from a lack of choice because of the concentration of the market in the hands of only five brewers, including Scottish & Newcastle. In 1982 the company's first local sales representative was appointed and Matthew Brown began to acquire free trade accounts. In January 1983 the company bought a distribution depot at Newcastle, and over the following year it acquired its first two local public houses. The strategy has been to expand slowly, primarily through financing free trade houses, and not by extensive loans to large-barrelage working mens' clubs. Matthew Brown now has 80 accounts in the North-East, including 48 in free houses.

North and West Yorkshire

4.14. A number of public houses were purchased by Matthew Brown in West Yorkshire in the early 1980s and the company had a total of ten when it was approached by Mr Paul Theakston to make a counter-offer for Theakston. The acquisition of Theakston brought a large number of free trade accounts, mainly in the Cleveland and North Yorkshire areas, but few tied houses.

4.15. Since acquiring Theakston Matthew Brown's policy has been to maintain the company as a separate and identifiable business operating principally in Yorkshire. Six Matthew Brown tied houses in West Yorkshire have been transferred to Theakston (along with a similar number in Lancashire and Cumbria). One new Theakston house has been built and several of Theakston's

original houses have been the subject of substantial refurbishment expenditure. Further transfers from Matthew Brown and the purchase of additional tied houses in Yorkshire are planned to alleviate the imbalance in Theakston's business caused by its lack of tied trade. Theakston has also been put in funds to develop its free trade and capital improvements have been initiated in both Theakston breweries.

Minerals and soft drinks

4.16. Matthew Brown is one of the few regional brewery companies continuing to manufacture a complete range of mineral waters and soft drinks. They are sold under its 'Whittle Springs' label and are delivered to customers in the same delivery as their beers, wines and spirits.

Wines and spirits

4.17. Thornton & France Limited, the group's wines and spirits subsidiary, operates from Blackburn, with depots at Workington and Masham. It supplies the whole of Matthew Brown's tied estate and also 400 free trade customers. Turnover was just over £4 million in the year to 29 September 1984.

Hotels and restaurants

4.18. Since 1975, when Matthew Brown acquired its first licensed restaurant, the group has steadily developed in this sector of the trade and now has three hotels and 12 licensed restaurants operated by Matthew Brown Manor Houses Limited. These outlets are largely concentrated in Lancashire and three further licensed restaurants in Cumbria are due to open in October 1985.

Employment

4.19. Matthew Brown's workforce numbers approximately 2,000. After being around 1,500 in the early 1980s the acquisition of Theakston and an increase in part-time staff in Matthew Brown's managed and Manor House activities brought a sharp increase in the financial year 1983-84.

4.20. The spread of the workforce between different operating locations is shown in Table 4.1.

TABLE 4.1 Matthew Brown PLC: employees by location at April 1985

	<i>Full-time</i>	<i>Part-time</i>	<i>Total</i>
Blackburn	410	18	428
Workington	108	3	111
Masham	66	4	70
Carlisle	57	2	59
Newcastle	8	—	8
	649	27	676
Brewery operations			
Managed and Manor Houses	350	933	1,283
	999	960	1,959
Total			

Source: Matthew Brown.

Group organisation

Group Board and Group Management Boards

4.21. The Group Board comprises four executive and four non-executive directors. Apart from the Chairman and Managing Director the Executive Directors are the Chairmen of the two Group Management Boards, Matthew Brown (Sales) Limited and Matthew Brown (Brewing) Limited, and the General Manager of Matthew Brown (Cumbria) Limited, who is also Chairman of T & R Theakston Limited. A fifth Executive Director (presently in charge of free trade) was appointed with effect from 1 October 1985. The financial and accounting functions are directed by the Company Secretary.

4.22. Beneath the Group Board are two Group Management Boards, covering the two principal aspects of the group's activities, Matthew Brown (Sales) Limited and Matthew Brown (Brewing) Limited. Although structured as subsidiary companies they have no executive functions but carry out the role of policy planning and co-ordination and bring together directors and senior executive personnel from the group's operating divisions.

Trading operations

4.23. The group's trading is carried out through six operating divisions, mainly organised as limited companies. The brewing management of the tenanted tied estate, and management of the free trade is carried out by three companies according to area:

- (a) Matthew Brown PLC, which through its operational staff handles these operations for Lancashire and Cheshire;
- (b) Matthew Brown (Cumbria) Limited, based at Workington, covering Cumbria and the North-East; and
- (c) T & R Theakston Limited, which continues to operate the Theakston business from Masham, covering Yorkshire and Cleveland.

4.24. Divisions run from the group's Head Office in Blackburn, which have operational responsibilities not confined to particular geographical areas, comprise:

- (a) Matthew Brown Managed Houses, which controls all the group's 48 managed houses;
- (b) Matthew Brown Manor Houses Limited, which runs the hotel and restaurant division; and
- (c) Thornton & France Limited, which runs the wines and spirits division.

Financial planning and control

4.25. The group has an October to September financial year, and in June of the preceding year with the help of Matthew Brown PLC all the operating divisions prepare their preliminary operational budget for the following year. A 'budget preview meeting' is held in August, attended by all the Operational Managers, the Executive Directors and the Company Secretary and Financial Controller. At this meeting the Operational Managers review their performance in the current year and present and answer questions on their plans for the next year. Afterwards the group accounting staff prepare a preliminary financial

budget for capital and revenue. The sales staff are given an opportunity to review their estimates when the preceding year's figures are finalised early in October and the budget is then submitted to the Group Board for approval in November.

4.26. If any operating division wishes to incur expenditure to be capitalised it submits an appraisal form to the group accounts department. This is placed before the appropriate functional manager in the group for approval. Major capital expenditures, as well as other policy questions of significance, are considered by the Group Board.

4.27. Control is exercised by the Group Board, meeting monthly. The Directors receive in advance the management accounts, for each of the six divisions, of the past accounting month (actual compared with forecast and with the preceding year's figures), cumulative figures for the present year, and an updated forecast to the year end. In the light of this information the Group Board direct any necessary action to be taken.

Financial information

4.28. Matthew Brown makes up its accounts under the historical cost convention (modified to include the revaluation of certain land and buildings) for periods of 52 weeks (or 53 weeks when necessary) to the close of business on the Saturday nearest to 30 September each year.

4.29. Table 4.2 summarises Matthew Brown's balance sheets at its accounting date in each of the last five years.

TABLE 4.2 Matthew Brown PLC: summarised balance sheets

	1980	1981	1982	1983	£'000 1984
Fixed assets	24,451	51,707	55,023	58,822	71,263
Stocks and debtors less liabilities (other than borrowings)	(1,578)	(2,446)	(1,758)	(929)	(9)
Capital employed	22,873	49,261	53,265	57,893	71,254
Net liquid funds/(borrowings)	(816)	(226)	2,718	952	(5,774)
Net assets	22,057	49,035	55,983	58,845	65,480
Capital and reserves	21,562	48,641	55,768	58,845	65,364
Deferred taxation provision	495	394	215	—	116
	22,057	49,035	55,983	58,845	65,480
Gearing (borrowings/capital and reserves) (%)	3.8	0.5	—	—	8.8

Source: MMC based on Matthew Brown's published accounts.

The increases in fixed assets and capital and reserves between 1980 and 1981, and between 1983 and 1984, were partly attributable to property revaluation surpluses—£24.698 million on 3 October 1981 and £1.071 million on 29 September 1984. The positive movement in net liquid funds between 1981 and 1982 followed a rights issue which raised £4.65 million in December 1981. In the following two years further major investments were made in fixed assets, free trade loans and the acquisition of Theakston, resulting in a reversion to a net borrowing position.

4.30. Details of Matthew Brown's fixed assets at 29 September 1984 are set out in Table 4.3.

TABLE 4.3 Matthew Brown PLC: fixed assets at 29 September 1984

	<i>At cost or valuation</i>	<i>Depreciation</i>	<i>£'000 Net book value</i>
<i>Tangible fixed assets</i>			
Brewery, licensed and other properties:			
Freehold	43,320	341	42,979
Long leasehold	7,327	—	7,327
Short leasehold	85	—	85
	<u>50,732</u>	<u>341</u>	<u>50,391</u>
Fixtures and fittings	9,267	2,488	6,779
Plant and machinery	11,319	4,804	6,515
	<u>71,318</u>	<u>7,633</u>	<u>63,685</u>
<i>Investments</i>			
Unlisted investments		139	
Trade loans		7,439	7,578
			<u>71,263</u>

Source: Matthew Brown.

4.31. The analysis of properties stated at cost or valuation was:

	<i>£'000</i>
As valued at 29 September 1984	43,558
As valued at 3 October 1981	5,685
At original cost	1,489
	<u>50,732</u>

4.32. Freehold and long leasehold licensed and non-industrial properties are not depreciated, it being Matthew Brown's policy to maintain them in such condition that their aggregate residual values are at least equal to the net book value in the accounts.

4.33. Table 4.4 summarises Matthew Brown's profit and loss accounts for each of its last five complete years and also for the periods of 26 weeks to March 1984 and March 1985.

TABLE 4.4 **Matthew Brown PLC: summarised profit and loss accounts**

	1979-80	1980-81	1981-82	1982-83	1983-84	26 weeks to 1984	£'000 March 1985
Turnover	25,605	30,919	34,334	37,335	44,313	19,227	25,526
Trading profit	4,004	4,890	5,308	5,830	6,918	2,766	3,239
Investment income	16	16	12	12	13	6	—
Interest receivable/ (payable) (net)	(44)	(94)	352	211	(88)	(46)	(278)
Profit on disposals	72	232	164	378	198	3	163
Profit on ordinary activities before taxation	4,048	5,044	5,836	6,431	7,041	2,729	3,124
Taxation on profit on ordinary activities	(1,441)	(1,897)	(2,023)	(1,954)	(2,397)	(1,215)	(1,245)
Extraordinary items	—	290	—	—	(300)	—	—
Dividends	(967)	(1,082)	(1,413)	(1,523)	(1,830)	(382)	(486)
Profit retained	1,640	2,355	2,400	2,954	2,514	1,132	1,393
Earnings per share (pence)	15.0	18.1	19.3	21.8	21.5	7.2	8.3

Source: Matthew Brown.

Matthew Brown does not publish an analysis of turnover and profit by class of business.

4.34. At 29 September 1984 Matthew Brown's issued share capital consisted of £5.6 million in ordinary shares of 25p each. There were no share options outstanding. Its most recent annual report stated that Britannic Assurance PLC was interested in shares representing 9.5 per cent of the share capital of the company and that the Directors were not aware of any other shareholding which represented 5 per cent or more of such capital. Subsequently Scottish & Newcastle acquired shares to the extent referred to in paragraph 5.3 and Whitbread Investment Company PLC to the extent referred to in paragraph 6.35.