

## 2 The companies involved and the merger situation

### YALE & VALOR PLC (Yale & Valor)

2.1. Yale & Valor is an international group of industrial companies which generally operate under their established brand names. Its principal activities are the design, manufacture and marketing of mechanical and electronic locks, door closures, gas and electric heaters, other electrical appliances, and commercial and industrial kitchen and catering equipment.

2.2. Yale & Valor as a whole employs some 7,200 people, of whom approximately 3,500 are in the United Kingdom. The gas heating division employs some 750 at its factory in Birmingham.

2.3. Yale & Valor's turnover and operating profits for each class of business and by geographical area for the year ended 31 March 1989 are shown in Table 2.1. A summary of Yale & Valor's financial record for the last four years is shown in Appendix 2.1.

TABLE 2.1 Yale & Valor: turnover and operating profit for the year ended 31 March 1989

	<i>£ million</i>	
<i>Class of business</i>	<i>Turnover</i>	<i>Operating profits</i>
Home products (including gas fires)	197.0	31.1
Industrial and other products	33.5	4.1
Security products	<u>118.6</u>	<u>17.7</u>
Group total	<u>349.1</u>	<u>52.9</u>
<i>Geographical area</i>		
United Kingdom	120.9	11.0
Rest of Europe	17.7	2.1
United States	180.4	36.5
Canada	15.4	1.5
Rest of world	<u>14.7</u>	<u>1.8</u>
Group total	<u>349.1</u>	<u>52.9</u>

*Source:* Yale & Valor's audited accounts.

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### Gas heating

2.4. Yale & Valor competes with Myson in the manufacture and supply of gas fires for domestic use. Yale & Valor does not manufacture or supply gas boilers. For the purposes of this inquiry we concentrated on the activities of Yale & Valor's home products gas heating division.

2.5. The Valor trade mark was first used by a small business in Birmingham which began, in 1890, to manufacture oil-storage cabinets principally for the Anglo-American Oil Company (subsequently better known as Esso). This business later expanded its product range to include paraffin heaters. In 1936 the Valor Company Ltd (Valor) was floated on the London Stock Exchange when its American parent was obliged to dispose of it to comply with new anti-trust laws in the United States.

2.6. By the early 1960s Valor was heavily dependent upon the manufacture and supply of paraffin heaters. A collapse of this market left the company in severe financial difficulty. To reduce its reliance on its traditional base, it made a number of acquisitions. It also reviewed the future prospects for paraffin heating in the light of the increasing importance of North Sea gas. As a result, Valor entered the market for gas-fired space heaters in 1968 by developing a range of new products. Subsequent expansion of this business to its present size has been through organic growth.

2.7. From 1984 Valor continued to diversify by acquiring companies with well-known brand names and a significant position in the markets in which they operated. Foremost among these were Yale and Nutone in the United States, the former specialising in locks and door closures, the latter in installed electrical products for the home. The acquisition of these two companies in the 1988 fiscal year trebled the size of the business in terms of turnover and profits.

2.8. Yale & Valor's gas-fired space heater business operates from a single site in Birmingham. It manufactures heaters sold under the Valor brand name. These include the Homeflame gas fire, which combines live flames with radiant and convected heat; the Venetian open basket fire which provides live flames and a controllable heat output; and Nevada wall-hung units for heating small spaces.

2.9. Although gas-fired space heaters have traditionally been sold only in the United Kingdom, Yale & Valor is seeking to expand into other European countries. It has also developed a flame effect fire specifically for the North American market, the manufacture of which has recently started in the United States.

2.10. Details of Yale & Valor's sales of gas heating products, and their place in the market, are given in Chapter 3.

## Organisation

2.11. The Managing Director of the gas division is a member of the Yale & Valor Executive Committee which supervises all operations in the United Kingdom. The committee, which reports to the Board of Yale & Valor, is responsible for strategic planning and operating performance over a three-year period with a rolling budget. It also monitors current performance against the budget on a monthly basis. Yale & Valor told us that each Managing Director has complete responsibility for sales, marketing, advertising, research and development and production in his division.

## Turnover for domestic space heating activities

2.12. The turnover for domestic gas space heating activities is summarised in Table 2.2.

TABLE 2.2 Yale & Valor: turnover for domestic gas space heating activities

	<i>Year ended 31 March</i>			
	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>
Turnover (£m)	26.3	29.4	30.2	28.3

*Source:* Yale & Valor.

## MYSON GROUP PLC (Myson)

2.13. Myson is a company with more than 30 wholly-owned operating subsidiaries situated mainly in the United Kingdom. The activities of the group include the manufacture and sale of domestic gas and oil boilers, gas fires, gas water heaters and other central heating equipment (eg radiators, circulating pumps, valves, fan convectors and towel warmers) and industrial and commercial heating and air-conditioning equipment.

2.14. Myson's activities are organised into five divisions:

- (a) *Residential heating.* This division produces the residential heating systems and components mentioned above. It has ten factories.
- (b) *Industrial and commercial.* This division produces heating and air conditioning equipment, and axial and centrifugal fans. It has two factories.
- (c) *Spares and service.* This provides spares and servicing for residential and industrial equipment. It has three main locations and ten depots.
- (d) *Engineering.* This division is engaged in the manufacture of window fasteners and in contract design. It has three factories.
- (e) *Administration and finance.* These functions are carried out on one site.

2.15. The group's turnover in the year ending 31 December 1988 was £169.6 million and the operating profit was £23.1 million. A summary of Myson's financial record for the last four years is shown in Appendix 2.2.

2.16. The group as a whole employs some 3,600 people, of whom some 670 are engaged in the manufacture of gas fires, gas water heaters and electric tumble driers at Padiham in Lancashire, and around 570 in the manufacture of domestic gas and oil boilers at Birtley in County Durham and Kirkby near Liverpool.

## **History of Myson**

2.17. Myson was formed by Robert Myson in 1950. The company was incorporated as Myson Heat Exchangers Ltd in 1960 and became a public company in 1969 with the name of Myson Group Ltd. From 1970 to 1975 Myson expanded rapidly through acquisitions and by the end of the decade had established businesses engaged in the production of radiators, boilers, pumps, fan convectors, towel warmers and valves in its residential heating division; ventilation and air-conditioning equipment and fans in its industrial and commercial division; and contract design and window fastenings together with a number of small contract engineering activities in its engineering division.

2.18. In late 1979 and 1980 Myson suffered from a downturn in its markets and consequently incurred major losses and heavily increased its debt. In 1981, with its capital reorganised, Myson was acquired by a syndicate of City institutions formed by Mr R A Wheeler and Mr J G Salkeld. In July 1981 Mr Wheeler was appointed to the Board as Chairman and Chief Executive and Mr Salkeld was appointed to the Board as Deputy Chief Executive. They continue to hold these positions today.

2.19. A reorganisation by the new management returned the company to profitability. In February 1986 Myson acquired Thorn EMI Heating (Thorn). This enabled Myson to expand its small, primarily oil-fired boiler business into the large gas-fired heat generation market with the addition of Thorn's gas boiler business and its Main range of gas fires and water heaters.

2.20. In 1987 and 1988 Myson made three acquisitions:

- (a) Taylor Economic Gas Fires, to complement the price and model range of Main Gas fires;
- (b) Matthews and Yates, thus adding centrifugal fans to the existing range of axial fans; and
- (c) the Qualitair air-conditioning business.

## Domestic gas boilers

2.21. Myson currently produces a wide range of gas-fired boilers. The biggest seller is the Apollo wall-hung boiler which has a fabricated copper heat exchanger. This is offered in a range of heat outputs from 15,000 to 80,000 Btu/hour and with a choice of flues. Myson also offers a 'budget' wall-hung boiler with a fabricated heat exchanger (the Economist), a wall-hung boiler with a cast-iron heat exchanger (the Orion), a combination boiler (the Midas), a floor-standing back-boiler (the Marathon) and a back-boiler unit (the Housewarmer). The fabricated copper heat exchangers are made at Padiham but, unlike most other major boiler manufacturers, Myson has no foundry; the cast-iron heat exchangers are bought in. Myson's boilers are assembled at Birtley and Kirkby.

## Gas fires and water heaters

2.22. Myson markets gas fires under two brands: Main Gas and Economic. Both ranges offer a variety of radiant and convector fires and live fuel effect fires (LFEs). Main Gas also offers a World of Flame range of decorative fuel effect fires (DFEs). Myson also supplies under the Main Gas brand wall-mounted single-point and multipoint gas water heaters. The Main Gas and Economic ranges are manufactured at Padiham.

## Turnover for domestic gas boiler and gas fire activities

2.23. The turnover for the last two years of Myson's domestic gas boiler and gas fire activities is summarised in Tables 2.3 and 2.4.

TABLE 2.3 Myson: turnover for domestic gas boiler activities

	1987	1988
Turnover (£'000)	27,815	31,689

Source: Myson.

TABLE 2.4 Myson: turnover for gas fire activities

	1987	1988
Turnover (£'000)	8,499	8,805

Source: Myson.

## EVENTS LEADING UP TO THE MERGER SITUATION

2.24. On 21 July 1989 Yale & Valor announced the terms of an offer recommended by the Board of Myson. This valued Myson at approximately £180 million. Following the announcement, Yale & Valor purchased just over 8 per cent of Myson's issued ordinary share capital.

2.25. On 2 August 1989 Blue Circle Industries plc (BCI) announced its intention to make an offer for Myson. Agreement was reached between BCI and Myson on cash terms which were higher than the terms offered by Yale & Valor. Myson's Board then withdrew its recommendation of the Yale & Valor offer.

2.26. Yale & Valor's offer document was posted on 8 August 1989. Under the terms of the offer a Myson shareholder would receive a mixture of cash, a special dividend and new Yale & Valor convertible preference shares, estimated to be worth 222.7 pence per Myson share. This document put the estimated value of Myson at £182 million. BCI's offer document was posted on 11 August 1989.

2.27. On 30 August the Secretary of State for Trade and Industry referred to the Commission Yale & Valor's proposed acquisition of Myson (see Appendix 1). In the course of our inquiry Yale & Valor confirmed that, subject to clearance by the Secretary of State, it was still its intention to pursue its acquisition of Myson.

2.28. On 30 August 1989 the Secretary of State also referred to the Commission BCI's existing shareholding in Myson and its proposed acquisition of the remainder of the shares. These matters are the subject of a separate report.