

2 The companies involved and the merger situation

BLUE CIRCLE INDUSTRIES PLC (BCI)

2.1. BCI is the United Kingdom's largest cement manufacturer. In the United Kingdom it also makes facing bricks, engages in property development, and has interests in industrial minerals, land reclamation and effluent treatment. It has extensive overseas interests notably in cement and related products in the United States.

2.2. In recent years BCI has been building up its activities in home products. Through its acquisition of Armitage Shanks in 1980, BCI is now a leading manufacturer of bathroom products. It also has a presence in the kitchen furniture market through its acquisition of Wrighton and Elizabeth Ann in 1987. In 1988 BCI acquired Birmid Qualcast and increased its range of home products to include Potterton heating products, New World gas cookers and Qualcast and Atco lawnmowers.

2.3. BCI's turnover and operating profits by class of business for the year ending December 1988 are shown in Table 2.1. A summary of BCI's financial record for the last four years is given in Appendix 2.1.

TABLE 2.1 BCI: turnover and operating profits in 1988

	<i>£ million</i>	
	<i>Turnover</i>	<i>Operating profits*</i>
Cement and building material	886.0	148.1
Home products	139.8	22.6
Property	28.8	24.8
Bricks	16.2	6.1
Other	<u>54.2</u>	<u>11.7</u>
Group	1,125.0	213.3

Source: BCI audited accounts.

*Includes share of profits of related companies (£51.7 million).

2.4. BCI as a whole employs just under 14,000 people in the United Kingdom. Of these, some 3,600 are employed by Cement Division, 3,200 by Armitage Shanks Home Products Division, and 4,000 by Qualcast Home Products Division.

Heating products

2.5. In this inquiry we are mainly concerned with competition in domestic gas heating which is the only business of any significance in which BCI and Myson compete. The focus of attention is, therefore, on the Potterton heating products acquired by BCI in 1988 as part of the acquisition of Birmid Qualcast.

2.6. Thomas Potterton Ltd was founded in London in the 1850s as a firm of general contractors. In 1902 it introduced the first gas boiler. The company was taken over by the De La Rue Group in 1944; in the following year, production was switched from London to newly acquired

premises in Warwick. In the mid-1950s a decision was taken to concentrate on products for the rapidly growing heating market and the series of Diplomat boilers was launched. In 1973 the company was purchased by Birmid Qualcast Ltd. In the same year Potterton introduced the Netaheat wall-hung boiler.

2.7. These activities are now carried out by two subsidiary companies in BCI's Qualcast Home Products Division: Potterton International Ltd (Potterton) and Ener-Tech Electronics Ltd (Ener-Tech). The Boards of Potterton and Ener-Tech (which are almost identical in composition) report directly to the Group Board.

Potterton International Ltd (Potterton)

2.8. Potterton is the principal company, with manufacturing and administrative activities based in Warwick, a second assembly plant at Rugby, and regional sales and services offices in Wandsworth, Warwick and Otley. Potterton employs 1,200 people, mostly in Warwick. The company is organised into five profit centres (see paragraphs 2.9 to 2.15).

Domestic heating

2.9. The main activities assigned to this profit centre are the design, manufacture and sale of gas boilers for domestic wet central heating systems, ie systems which circulate hot water around the premises. The product range embraces a traditional floor-standing boiler (the Kingfisher), wall-hung boilers (the Netaheat fan-flued boiler and the Flamingo conventional-flued boiler), a combination boiler (the Lynx) and a recently launched back-boiler (the Fireside). With the exception of the combination boiler, the range is based on the use of cast-iron heat exchangers manufactured on site in Potterton's own foundry. The fabricated heat exchangers used in the combination boilers are purchased from Italy. For each type of gas boiler there is a range of different heat outputs, starting at 30,000 Btu/hour and going up, in some cases, to 125,000 Btu/hour. Manufacture of the range of boilers involves foundry, press, fabrication, paint, sub-assembly and final assembly facilities located at the Portobello Works in Warwick. The second final assembly area, opened recently in Rugby, uses components from Warwick.

2.10. Potterton also sells a range of electronic central heating controls designed, developed and, for the most part, manufactured by Ener-Tech. These sales are also assigned to the domestic heating profit centre. The controls are marketed under the name Sensomatic.

2.11. Details of Potterton's sales of domestic gas boilers, and their place in the market, are given in Chapter 3.

Commercial/industrial

2.12. This profit centre covers the research, design (or design modification), sale, assembly, commissioning and servicing of a range of cast-iron commercial/industrial boilers, the components for which are purchased from independent suppliers in the United Kingdom and abroad. The commercial/industrial division also markets large-capacity gas-fired storage water heaters imported from the United States.

Export

2.13. Potterton exports products mainly to the United States and the Republic of Ireland. In the United States Potterton supplies a version of the old Netaheat boiler adapted to meet United States requirements; this is now being phased out and replaced by the new Netaheat Profile model. In the Irish Republic the full range of Potterton products is available, supplied to United Kingdom standards, but the majority of sales are of Netaheat boilers.

Parts

2.14. This profit centre deals with the supply of some 10,000 components used to maintain Potterton's own products during the guarantee period and subsequent operation. Potterton does not supply spares for products produced by other manufacturers.

Domestic service

2.15. The domestic service profit centre provides service for Potterton products during the guarantee period and provides specialist advice thereafter.

Potterton's financial results

2.16. Potterton's financial results for the last four years (consolidated with those of the BCI subsidiary from which it leases the Warwick site) are summarised in Table 2.2. Turnover and operating profits have grown steadily over the period.

TABLE 2.2 Potterton: summary of financial results

	Year ended			
	2 November 1985	1 November 1986	31 October 1987	31 December* 1988
Turnover (£m)	35.4	43.2	53.1	69.9
Operating profit (£m)	5.0	6.8	9.8	11.7
Profit margin on turnover (%)	14.1	15.7	18.4	16.7

Source: MMC from data provided by BCI.

*In 1988 Potterton's financial year end was changed to that of other BCI subsidiary companies. This change required a 14-month accounting period to 31 December 1988.

2.17. Sales of domestic gas boilers in the United Kingdom form a large part of Potterton's total sales and profits. The turnover of these activities is shown in Table 2.3.

TABLE 2.3 Potterton: turnover of domestic gas boiler activities

	Year ended				£ million
	2 November 1985	1 November 1986	31 October 1987	31 December* 1988	
Turnover	26.1	31.9	41.2	54.7	
Exports from United Kingdom	<u>0.7</u>	<u>1.0</u>	<u>0.8</u>	<u>1.2</u>	
	26.8	32.9	42.0	55.9	

Source: MMC from data supplied by BCI.

*14-month accounting period.

Ener-Tech Electronics Ltd (Ener-Tech)

2.18. Ener-Tech was formed as a subsidiary of Birmid Qualcast in 1986. It is managed by Potterton and its main role is to design and manufacture electronic components for incorporation in Potterton boilers and the Sensomatic range of electronic programmers, timers, thermostats, motorised valves and thermostatic valves for other parts of the central heating system. The company also supplies components to customers in other industries. Ener-Tech employs 115

people at a factory in Reddich. Table 2.4 shows Ener-Tech's turnover for 1987 and 1988; a very high proportion of its sales were made to Potterton.

TABLE 2.4 Ener-Tech: turnover

	<i>£ million</i>	
	<i>Year ended</i>	
	<i>31 October 1987</i>	<i>31 December* 1988</i>
Turnover:		
Sales to Potterton	2.0	4.2
Other customers	<u>0.2</u>	<u>0.5</u>
	2.2	4.7

Source: Ener-Tech's audited accounts.

*14-month accounting period.

MYSON GROUP PLC (Myson)

2.19. 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 heaters) and industrial and commercial heating and air conditioning equipment.

2.20. 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) *Spare 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.

2.21. 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.

2.22. 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

2.23. 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.

2.24. 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.

2.25. 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.

2.26. 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

2.27. 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. Further information on Myson's gas boilers, and their place in the market, is given in Chapter 3.

Gas fires and water heaters

2.28. 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

2.29. 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 of domestic gas boiler activities

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

Source: Myson.

TABLE 2.4 Myson: turnover of gas fire activities

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

Source: Myson.

EVENTS LEADING UP TO THE MERGER SITUATION

2.30. On 2 August 1989 the Boards of BCI and Myson announced that they had agreed terms for an offer to be made by BCI for Myson. Myson's Board then withdrew its recommendation of a previous offer by Yale & Valor plc. BCI's offer document was posted on 11 August 1989. In this document BCI offered 240 pence in cash for each Myson ordinary share, valuing the issued share capital of Myson at £195.7 million.

2.31. On 2 August BCI acquired some 29 per cent of Myson's shares, taking its total shareholding up to 29.5 per cent.

2.32. On 30 August 1989 the Secretary of State for Trade and Industry referred to the Commission BCI's 29.5 per cent interest in Myson and its proposed acquisition of the remainder of Myson's shares (see Appendix 1).

2.33. In the course of our inquiry BCI confirmed that, subject to clearance by the Secretary of State, it was still its intention to bid for the whole of the share capital of Myson.

2.34. On 30 August 1989 the Secretary of State also referred to the Commission the proposed acquisition of Myson by Yale & Valor plc. This is the subject of a separate report.