

2 The companies involved in the merger

The Gillette Company

History

2.1. Gillette was established in 1901 by Mr King Gillette in Boston, Massachusetts, and commenced commercial production of the patented 'Gillette safety razor' some two years later. The company headquarters has remained in Boston.

2.2. Blades and razors have been Gillette's core product line but in 1955 the company entered the writing instruments business by acquiring the Paper Mate companies of the USA and Puerto Rico.

2.3. Other product areas in which Gillette operates are:

(a) toiletries and cosmetics;

(b) consumer electrical goods under the Braun name, such as electric shavers and household appliances; and

(c) oral care products under the Oral-B brand name.

2.4. Gillette acquired another interest in the writing instruments business in 1970 when it bought the luxury goods and pens manufacturer S T Dupont. It sold this company in 1986 and in 1987 acquired Waterman SA based in France.

Present activities

2.5. Gillette started marketing its Paper Mate writing instrument products in the UK in 1966. Paper Mate is now primarily a supplier of disposable writing instruments and its refillable products are at the low-priced end of the market. These include ball point, roller ball and fountain pens as well as mechanical pencils, refills and inks with the emphasis very much on ball points. The bulk of Gillette's Waterman products in the UK are sold at the higher-priced end of the market.

2.6. Neither Paper Mate nor Waterman products are manufactured here. Paper Mate products are imported from Gillette manufacturing facilities in the USA, Central and South America and Malaysia and from contract manufacturers located principally in Japan, Germany and Italy. Waterman products are imported from the company's plants at Nantes and Chamonix in France. Paper Mate and Waterman products are marketed and distributed in the UK from Gillette facilities at Isleworth and Reading.

Gillette's organizational structure

2.7. A chart of Gillette's world-wide organizational structure, including its Stationery Products Group, is at Appendix 2.1.

2.8. Gillette's Stationery Products Group is responsible for the design, manufacture, procurement and marketing of writing instruments and refills, as well as of correction fluids (under the Liquid Paper name).

Gillette's corporate structure

2.9. A chart showing Gillette's UK corporate structure is at Appendix 2.2. It will be seen that Gillette UK Ltd (Gillette UK), responsible for Gillette's writing instruments business in the UK including Waterman (see paragraph 2.13), is a subsidiary of the parent Gillette Company of Boston which made the offer to acquire Parker Pen Holdings Limited, the subject of this inquiry.

Employment

2.10. Gillette has some 2,800 employees in its Stationery Products Group of whom about 75 are employed in the UK.

Waterman Pens (UK) Limited and Gillette UK Ltd

2.11. Gillette acquired a majority (95 per cent) shareholding in Waterman SA, the parent company of Waterman Pens (UK) Limited (Waterman Pens (UK)) in 1987. One of the vendors was Parker Pen Limited which sold to Gillette its 12 per cent holding in the share capital of Waterman SA. The business of Waterman Pens in the UK is to import writing instruments from its parent and distribute them in the UK.

2.12. Between 1987 and 30 November 1991, the Waterman business in the UK was conducted by Waterman Pens (UK). However, Waterman Pens (UK) traded at a loss and was supported financially by Waterman SA. The report of the auditors of Waterman Pens (UK) for the year ended 30 November 1990 was qualified (as it had been in previous years since the acquisition of Waterman SA by Gillette), stating that: 'The continuation of the company's activities is dependent on the support of Waterman SA. The financial statements have been drawn up on a going concern basis which assumes that this support will continue.'

2.13. On the close of business at 30 November 1991 the business of Waterman Pens (UK) was transferred, as part of a restructuring activity, to Gillette UK. From that date the Waterman Pens business has been conducted, together with Paper Mate pens and Liquid Paper products (correcting fluids), as part of the Stationery Products Division of Gillette UK.

Financial information on Gillette

2.14. Details of the profit and loss accounts, balance sheets and sources and application of funds of Gillette UK (which include the businesses of razors, razor blades and toiletries as well as writing instruments) are shown in Appendices 2.3, 2.4 and 2.5.

Waterman Pens (UK) Limited

2.15. The trading results of Waterman Pens (UK) for the four accounting periods ended 30 November 1991 are summarized in Table 2.1.

TABLE 2.1 **Waterman Pens (UK): summary of trading results for the four accounting periods to 30 November 1991**

	<i>£ million</i>			
	<i>Year ended</i> 30.9.88	<i>14 mths ended</i> 30.11.89	<i>Year ended</i> 30.11.90	<i>Year ended</i> 30.11.91
Turnover	1.3	2.3	2.5	2.4
Gross profit	0.5	1.1	1.1	1.1
Operating profit/(loss)	(0.1)	(0.2)	(0.1)	(0.2)
	<i>per cent</i>			
<i>Ratios*</i>				
Gross margin	42.5	48.7	44.8	47.4
Net margin	(4.5)	(8.9)	(5.6)	(8.3)

Source: Gillette UK.

*Calculated on unrounded figures.

2.16. The profit and loss accounts of Waterman Pens (UK) are shown in more detail in Appendix 2.6. Waterman Pens (UK)'s turnover and operating loss in the year to 30 November 1991 were respectively £2.4 million and £0.2 million. The corresponding figures for Parker Pen UK Limited (Parker Pen UK) in its year to 28 February 1992, shown in Table 2.6, were turnover of £71.6 million and operating profit of £13.8 million.

2.17. The balance sheets of Waterman Pens (UK) for the four years to 30 November 1991 are shown in Appendix 2.7. Over this period, Waterman Pens (UK) had negative capital employed from 1989 and negative net equity from 1988. The company was dependent on Waterman SA for financial support. Waterman Pens (UK) was financed primarily by trade credit and loans from Waterman SA; at 30 November 1991, these amounted respectively to £2.3 million and £0.3 million.

Parker Pen Holdings Limited

History

2.18. The original Parker business was founded in Wisconsin by George Parker in 1888. He patented his first fountain pen design in 1889 and in 1894 patented the Lucky Curve ink-feed system which became the foundation for The Parker Pen Company's principal products into the 1920s. The Parker Pen Company was incorporated in 1892 and by the end of the First World War had established a leading position in the North American market, with sales of over US\$1 million. It had also begun to market its products internationally. Independent distributors were appointed overseas from 1903 and the first marketing subsidiaries were established in Canada and the UK in the early 1920s. Parker products are currently sold through a network of marketing subsidiaries and independent distributors in some 120 countries in Europe, North, Central and South America, Africa, Australia and the Far East.

2.19. Parker's first factory and offices were built at Janesville, Wisconsin, in 1919. Manufacturing operations in the UK began at Newhaven in 1947 and at Meru in France in 1967. Satellite assembly facilities have also been established in Colombia, Argentina and South Africa.

Background to the proposed merger

2.20. In March 1976 The Parker Pen Company acquired a majority interest in Manpower Inc (Manpower), a company providing temporary help services to business, professional, government and service organizations. Manpower was run as an autonomous division alongside the writing instrument division within The Parker Pen Company. Manpower grew rapidly and eventually became the predominant division within The Parker Pen Company. In 1985, following a period of under-performance by the writing

instrument division, the senior management of The Parker Pen Company decided to withdraw from the writing instruments business by disposing of the division.

2.21. In January 1986 the writing instrument division of The Parker Pen Company was acquired by Parker Pen Limited (Parker Pen), a company owned by a consortium of management and other investors. The investing consortium comprised members of Parker's management team, Schroder Ventures, Chemical Equity Associates, Bankers Trust International Limited, Electra Investment Trust PLC and PKR Associates representing various interests of the Parker family.

2.22. Subsequently, in 1987 and 1988, a proposed market flotation of Parker Pen was considered but not proceeded with. At an extraordinary general meeting of the company held on 6 May 1988, a resolution was passed to change the name and status of the company to a public limited company. However, the directors decided subsequently that it would not be in the best interests of the shareholders to proceed to a listing. Also in 1988 an offer was made for Parker Pen by Pentland Industries but this too was not proceeded with.

2.23. In 1989 certain of the investors wished to realize all or part of their investment in Parker Pen and a decision was taken to refinance the group. Parker Pen Holdings Limited (Parker Pen Holdings) was established to acquire the entire ordinary and preference share capital of Parker Pen in a cash and share offer financed through a £75 million banking facility from Barclays Bank plc. It was also agreed by shareholders in 1989 that they should be provided in 1992 with an opportunity to realize their investment.

2.24. The present shareholders and share capital structure of Parker Pen Holdings are shown in Table 2.2.

TABLE 2.2 **Parker Pen Holdings: present shareholders and share capital structure**

<i>Ordinary shares of £1 each</i>	<i>Issued £m</i>	<i>Shareholders</i>
`A'	0.3	PPHL management
`B'	0.8	Institutions, PKR Associates and executives*†
`D'	<u>0.1</u>	One US bank
	1.2	

Source: Parker Pen Holdings.

*Parker Pen Holdings has a share option scheme under which there were in addition, at 28 February 1992, options remaining over 81,650 of the company's `B' Ordinary shares at exercise prices between £10 and £70 per share. Category `B' shareholders include small holdings by executives as a result of the exercise of share options.

†PKR Associates represents various interests of the Parker family.

Note: All shares have equal rights to dividends and to return of capital on a winding up. The `A' and `B' shares carry votes. The `D' shares are non-voting.

2.25. Although issued share capital is £1.2 million only, total net equity shown in Appendix 2.10 was £18.4 million at 28 February 1992. In January 1992 an Information Memorandum was issued by Schroder Wagg & Co Limited on behalf of Parker Pen Holdings inviting bona fide purchasers to submit indicative offers for the share capital of the company by 12 March 1992. A number of offers were received. A conditional offer made by Gillette, which valued Parker Pen Holdings at £285 million, was subsequently accepted and an Agreement between the two companies on the sale was announced on 10 September 1992. The offer was conditional on, among other things, notification to and approval by the relevant competition authorities in the UK, Germany, France, Canada and the USA.

Organization

2.26. The group, which operates from head offices in Newhaven, has a total of 19 marketing subsidiaries and 87 major independent distributors. Details of the group's corporate structure are set out in Appendix 2.8.

Employment

2.27. Parker has some 2,500 employees of whom about 770 are employed in the UK.

Financial information on Parker

2.28. The group balance sheet of Parker Pen Holdings as at 28 February 1992 showed that the gross value of its world-wide assets (ie excluding liabilities) at that time amounted to £115.0 million, comprising fixed assets £22.8 million and current assets £92.2 million. Gross value of world-wide assets would be £103 million if a loan repayment of £12 million due in March 1992 was deducted; we know of no other significant change since the group's year end which would materially reduce that value.

2.29. Table 2.3 shows a summary of the trading results of the Parker Pen group for the five years to 28 February 1992. Due to the refinancing referred to in paragraph 2.23, the table shows the results of two different legal entities, Parker Pen for 1987/88 and 1988/89 and, subsequently, Parker Pen Holdings. Parker Pen Holdings states that the results for these periods are not directly comparable due to fair value adjustments made to the values of assets and liabilities on acquisition by Parker Pen Holdings and to changes in accounting policy.

TABLE 2.3 **Parker Pen and Parker Pen Holdings: summary of trading results for the five years to 28 February 1992**

	<i>£ million</i>				
	<i>Year ended 28 February</i>				
	<i>Parker Pen</i>		<i>Parker Pen Holdings</i>		
	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
Turnover	134.3	144.2	160.9	170.4	181.3
Gross profit	64.9	73.4	84.0	91.5	99.0
Operating profit	19.8	23.4	30.9	32.7	35.8
Net interest payable	(1.8)	(2.1)	(9.8)	(9.2)	(6.4)
Average capital employed	45.1	40.5	39.9	43.8	52.6
<i>Ratios*</i>					<i>per cent</i>
Gross margin (gross profit as a percentage of turnover)	48.3	50.9	52.2	53.7	54.6
Net margin (operating profit as a percentage of turnover)	14.7	16.2	19.2	19.2	19.7
Return on average capital employed	44.0	57.9	77.6	74.7	68.0
Interest cover (number of times net interest payable covered by operating profit)	11.2	11.2	3.2	3.6	5.6

Source: Parker Pen Holdings.

*Calculated on figures rounded to the nearest £'000.

2.30. The Parker Pen group turnover, gross profit and operating profit increased in every year between 1987/88 and 1991/92. Gross margins exceeded 50 per cent in each year from 1989. Net margins increased from 14.7 per cent in 1987/88 to 19.7 per cent in 1991/92. Interest charges have been covered several times by operating profits. Returns on average capital employed of between some 44 and 78 per cent have been made; however, the Parker brand name is not valued in the company's balance sheet.

Profit and loss accounts

2.31. Detailed profit and loss accounts of Parker Pen for the two years to 28 February 1989 and Parker Pen Holdings for the three years to 28 February 1992 are shown in Appendix 2.9.

Balance sheets

2.32. The consolidated balance sheets of Parker Pen for the two years to 28 February 1989 and Parker Pen Holdings for the three years to 28 February 1992, which consolidate the balance sheets of the holding company and its subsidiaries world-wide, including Parker Pen UK, are shown in Appendix 2.10.

2.33. The issued share capital of the group at £1.2 million is small in relation to its capital employed and level of trading. Appendix 2.10 shows that capital employed is primarily financed by borrowings. Borrowings net of cash were £42.4 million at 28 February 1992.

2.34. Equity finance has been increased by retained profits and by provisions (set up for liabilities and charges not yet crystallized), which together totalled some £80 million at 28 February 1992. However, these retentions are largely offset by a negative merger reserve (explained in Appendix 2.11) so that net equity at 28 February 1992 was £18.4 million only.

2.35. Gearing (borrowings net of cash as a percentage of net equity) was some 230 per cent at 28 February 1992. This is based on net equity after deduction of the merger reserve. However, as shown in Table 2.3, interest was covered some 5.6 times by operating profit in 1991/92. Borrowings net of cash and investments were 69 per cent of capital employed at 28 February 1992.

2.36. Over the three years from the refinancing in 1989, dividends paid and proposed were £8.4 million on share capital of £1.2 million.

Sources and application of funds

2.37. Appendix 2.12 shows sources and application of funds statements of Parker Pen for the two years to 28 February 1989 and Parker Pen Holdings for the three years to 28 February 1992. The acquisition of Parker Pen by Parker Pen Holdings, financed partly by issue of shares and partly through borrowings, is reflected in the statement for 1989/90. Excluding this, there was a net repayment of other borrowings during the five-year period and applications were almost entirely financed by the respective holding companies by funds generated from their own operations.

Parker Pen UK Limited

Turnover

2.38. An analysis of the turnover of Parker Pen UK in 1991/92, separating UK domestic, export and inter-company sales, is shown in Table 2.4. Excluding sales to other companies in the group for resale by them, the UK company's external sales (domestic and export) totalled £48.1 million in 1991/92, representing 26.5 per cent of group sales of £181.3 million.

TABLE 2.4 **Parker Pen UK: UK domestic, export and inter-company turnover for the year ended 28 February 1992**

	<i>£ million</i>
UK domestic	25.8
Export	22.3
Inter-company	<u>23.5</u>
Total	71.6

Source: Parker Pen UK.

2.39. An analysis of the UK domestic turnover, cost of sales, gross profit and gross margin of Parker Pen UK in the year ended 28 February 1992 by trade channel is shown in Table 2.5.

TABLE 2.5 **Parker Pen UK: UK domestic turnover, cost of sales (net of inter-company margin), gross profit and gross margin for the year ended 28 February 1992 by trade channel**

	<i>£ million</i>	<i>per cent</i>
<i>Turnover</i>	<i>Cost of sales</i>	<i>Gross profit</i>
		<i>Gross margin*</i>
In-flight and airports	[
Business to business		
Independent and wholesale		
Multiples		
Miscellaneous:	<i>Figures omitted.</i>	
Writing instruments	<i>See note on page iv.</i>	
Writing paper		
Total UK domestic]

Source: Parker Pen UK.

*Calculated on figures rounded to the nearest £'000.

2.40. Gross margins in 1991/92 were greater on UK domestic turnover, at [*] per cent overall, than on the UK's company turnover in total, shown in Table 2.6 at 42 per cent.

Profit and loss accounts

2.41. The trading results of Parker Pen UK for the five years to 28 February 1992 and forecast profit and loss account for the year to 28 February 1992 are summarized in Table 2.6.

TABLE 2.6 **Parker Pen UK: summary of trading results for the five years to 28 February 1992 and forecast turnover and profit for the year to 28 February 1993**

	<i>£ million</i>					
	<i>Year ended 28 February</i>					<i>Forecast</i>
	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>
Turnover	54.6	58.1	62.7	73.7	71.6	67.1
Gross profit	21.3	25.6	28.3	28.7	30.3	26.3
Operating profit	9.7	12.7	14.9	14.7	13.8	11.7
Average capital employed	23.3	24.5	23.9	20.4	21.2	
						<i>per cent</i>
<i>Ratios*</i>						
Gross margin	39.0	44.1	45.1	38.9	42.4	39.2
Net margin	17.7	21.9	23.8	20.0	19.3	17.4
Return on average capital employed	41.4	51.7	62.5	72.3	65.0	

Source: Parker Pen UK.

*Ratios to year ended 28 February 1992 are calculated on figures rounded to the nearest £'000.

2.42. The sales of Parker Pen UK peaked in 1990/91 at £73.7 million and operating profit in 1989/90 at £14.9 million. In 1991/92 both sales and operating profit declined and a further decline to £67.1 million and £11.7 million respectively is forecast for 1992/93. Parker Pen UK attributed this decline primarily to the effects of the recession in the UK and the growing recession in Europe affecting inter-company sales to Parker's European marketing operations.

*Figure omitted. See note on page iv.

2.43. Overall gross margins between 39 and 45 per cent have been earned during the period. Net margins have declined since 1989/90, in particular due to higher administrative expenses in 1991/92. Net margins are forecast to decline further to 17.4 per cent in 1992/93.

2.44. Returns on average capital employed between some 41 and 72 per cent have been made; however, the Parker brand name is not valued in the company's balance sheet. Details of Parker Pen UK's capital employed are shown in Appendix 2.14.

2.45. Apart from net interest of £0.1 million payable in 1987/88, Parker Pen UK had no other net interest charges over the five years to February 1992. Over this period, Parker Pen UK's dividends to its parent company, paid and proposed, totalled £37.9 million.

2.46. Detailed profit and loss accounts of Parker Pen UK for the five years to 28 February 1992 and the forecast for the year to 28 February 1993 are shown in Appendix 2.13.

Balance sheets

2.47. The balance sheets of Parker Pen UK for the five years to 28 February 1992 are shown in Appendix 2.14. These show an increase in capital employed since 1990 but no net borrowings at the year ends between 1989 and 1992.

Sources and application of funds

2.48. The sources and application of funds of Parker Pen UK for the five years to 28 February 1992 are shown in Appendix 2.15. These show applications, including dividend payments of £37.9 million to the parent company over the period, being funded entirely by Parker Pen UK from its own operations.