

6 Conclusions

6.1. In this inquiry we are concerned with the proposed transfers to Trinity International Holdings plc (Trinity) of the newspapers published by Argus Newspapers Ltd (Argus Newspapers), a subsidiary of Argus Press Ltd (Argus) (see Appendix 1.1). We are required by our terms of reference and section 59(3) of the Fair Trading Act 1973 to report on whether any of the transfers in question may be expected to operate against the public interest, taking into account all matters which appear in the circumstances to be relevant and, in particular, the need for accurate presentation of news and free expression of opinion.

Circumstances of the application for consent to transfer the newspapers

The titles

6.2. Argus Newspapers publishes some 50 paid-for and free weekly and other newspapers in south-east England through four operating companies, Reading Newspaper Company Ltd (RN), London & North Surrey Newspapers Ltd (LNSN), Surrey & South London Newspapers Ltd (SSLN) and South London Press Ltd (SLP), as listed in Appendix 3.2. These titles circulate mainly in South London, Surrey and Berkshire but also reach parts of Buckinghamshire, Hampshire, Oxfordshire, West Sussex and Wiltshire.

Background to the proposed transfers

6.3. Trinity is the eighth largest publisher of regional and local newspapers in the UK as measured by total weekly circulation and distribution. It publishes three daily newspapers, together with a number of weekly paid-for, twice-weekly paid-for and weekly free newspapers which are circulated/distributed throughout Merseyside, Lancashire, Cheshire, North Wales, central and southern Scotland and a small area of south-west England (see Appendix 3.1). It also publishes free and paid-for local magazines. North American subsidiaries publish newspapers and operate as contract printers in Canada and the USA.

6.4. Trinity's issued share capital currently consists of 12 management shares held by the Board members of the day, together with cumulative preference £1 stock units, unclassified £1 shares and ordinary (limited voting) 10p stock units (see paragraph 2.7). The holders of the management shares hold full rights to attend and vote at all meetings. The holders of the ordinary (limited voting) 10p stock units may attend and vote only in restricted circumstances such as the winding up of the company or the sale of the Liverpool daily newspapers. In consequence Trinity is controlled by its Board.

6.5. During the course of our inquiry Trinity announced proposals which in effect would convert the ordinary (limited voting) stock units into ordinary shares carrying full voting rights (see paragraphs 2.8 and 5.10). Trinity told us that it had become increasingly unusual for a listed company to have ordinary stock which carried limited, or no, voting rights. The Trinity Board had concluded that, since all classes of shareholders shared the same risks and rewards, it was appropriate that they should have the same voting rights. Trinity also said that some institutional investors were unable or unwilling to invest in ordinary stock or shares which carried limited voting rights. The enfranchisement should, therefore, increase the number of institutions prepared to invest in the company and enhance the marketability of its shares.

6.6. The proposed enfranchisement of the ordinary (limited voting) stock units does not appear to us to raise any issues in relation to the transfers which are the subject of the present inquiry.

6.7. Argus, based at headquarters in Redhill, Surrey, was formed in September 1988 following a management buy-out from BET plc (BET) at a cost of some £200 million. The business and tangible assets of its newspaper publishing division were transferred to Argus Newspapers and its subsidiaries, except that, for accounting reasons, Team Argus Inc (Team Argus), a wholly-owned subsidiary of Argus incorporated in the USA, retained ownership of the publishing rights, which it licenses to Argus Newspapers in return for royalty payments. These publishing rights are proposed to be transferred to Trinity with the assets of the publishing companies to which they relate.

6.8. Argus is organized into a Newspaper Division (Argus Newspapers), a UK Business Division, a Consumer Division and a USA Magazines Division, and is engaged in newspaper publishing and printing, magazine publishing and distribution, book and directory publishing and exhibitions and conferences, and in operating a network of slimming clubs in the UK.

6.9. Argus Newspapers has two printing companies, Reading Newspaper Printing Company Ltd (RNP) and Tridant Press Ltd (Tridant). RNP, which shares leasehold premises with RN, prints all of the titles published by RN and a number of those published by LNSN. Tridant, located in freehold premises at Edenbridge in Kent, prints the remaining titles published by LNSN and all of those published by SSLN and SLP. In addition, both RNP and Tridant supply contract printing services to other publishers. Also located at Reading is the Newspaper Division's central computer services department.

6.10. At August 1993, Argus Newspapers and its operating subsidiaries employed a total of 927 full- and part-time staff. Of these, 285 were employed by RN, 201 by SSLN, 153 by SLP, 129 by LNSN, 93 by Tridant, 60 by RNP and 6 by Argus Newspapers.

Events leading up to the proposed transfers

Argus

6.11. Argus, which ranks 17th among the publishers of regional and local newspapers in the UK, told us that the turnover of its Newspaper Division had fallen from £39.8 million in 1989/90 to £32.1 million in 1992/93. Trading profit had also declined, from £3.9 million in 1989/90 to £0.6 million in 1992/93.

6.12. Argus attributed the decline in the trading fortunes of its Newspaper Division to the impact of the recession, which it said had been particularly marked in the south of England. Other parts of the group had also suffered. As a result, it had become impossible for Argus to meet its repayment commitments to the syndicate banks to which it had become indebted in September 1988; nor could it continue the improvement strategy identified at the time of the buy-out, in particular by introducing direct input technology (see paragraph 2.28).

6.13. In May 1992, with the agreement of the syndicate banks, a restructuring of Argus' finances was implemented whereby Argus' share capital was enlarged by the creation of 15.5 million new shares, 15 million of which were allotted to the banks in capitalization of interest. The syndicate banks thus own 51 per cent of Argus' enlarged voting share capital (the balance being held by institutional shareholders (37 per cent) and BET (12 per cent)).

6.14. By autumn 1992, Argus' cash resources were again under strain, increasing the possibility of breaches by Argus in 1993 of its covenants to the banks. The syndicate banks refused to readdress covenant levels unless a significant debt reduction was made through a major disposal. The sale of the Argus Newspaper Division was approved, in principle, in January 1993.

Trinity

6.15. Trinity told us that it was committed to the growth of its newspaper business, both organically and by acquisition. Acquisitions which provided the opportunity to develop into new geographical regions did not arise frequently. For Trinity, Argus represented an outstanding opportunity to expand into the south-east of England. Trinity was confident that its commitment and experience, together with its willingness to invest in the Argus titles, would result in a profitable newspaper group in that region.

6.16. In July 1993 Trinity emerged successful from the competitive bidding process which had been initiated by Argus and entered into heads of terms with a view to concluding an agreement to acquire the Argus newspaper titles, together with the assets necessary to support their production and publication, for a cash consideration of £22.75 million (subject to due diligence, contract and the consent of the Secretary of State). Trinity applied for the consent of the Secretary of State on 27 July 1993. In August 1993 Trinity also announced an agreed cash offer of £12.6 million for Joseph Woodhead & Sons Limited (Woodhead), an independent newspaper publisher in the Huddersfield area.¹

Public interest issues

6.17. In our view, the issues affecting the public interest which arise from the proposed transfers fall under three headings:

- (a) accurate presentation of news and free expression of opinion (see paragraph 6.1);
- (b) concentration of ownership and competition for readers and advertisers; and
- (c) employment and employment-related matters.

Accurate presentation of news and free expression of opinion

6.18. This issue has been considered in two recent MMC inquiries involving Trinity.² Trinity told us that it agreed broad editorial and advertising policies with the management of its newspapers, based on the perceived requirements of readers and advertisers in the communities where the newspapers were published. Its newspapers did not follow a common editorial line. Trinity said that the editorial policies of Argus would be changed only if Trinity's senior management believed that individual titles were failing properly to serve the communities in which they were published.

6.19. We see no reason to believe that Trinity will change its existing policy in respect of editorial independence, and we conclude that the accurate presentation of news and free expression of opinion would not be endangered by the proposed transfers.

Concentration of ownership and competition for readers and advertisers

6.20. At the national level, we have shown (see paragraph 3.13 and Table 3.6) that at the time of our inquiry Trinity was the eighth largest publisher of regional and local newspapers, with a share of some 3.5 per cent. Argus, with a share of about 1.3 per cent, was ranked 17th. The accretion to Trinity of Argus' share would make Trinity the sixth largest publisher of regional and local newspapers, with a share of approximately 4.9 per cent (after rounding). The increase in concentration is not of concern in this case. We note that the effect of the further accretion of the Woodhead titles referred to in paragraph 6.16 would be to increase Trinity's aggregate share by 0.4 per cent, to about 5.3 per cent, leaving its ranking unchanged.

6.21. At the regional and local level the proposed transfers would merely replace Argus with Trinity as a publisher of newspapers in the South-East. There is no overlap between the geographic areas in which the Trinity and Argus newspapers are circulated/distributed, nor are the areas contiguous (see paragraphs 6.2 and 6.3). There would therefore be no increase in concentration at the regional or local level, nor any loss of competition for readers or advertisers.

¹The Secretary of State referred Trinity's proposed acquisition of Woodhead to the MMC on 13 August 1993. We have submitted our report on that inquiry simultaneously with the present report-see *Trinity International Holdings plc and Joseph Woodhead & Sons Limited*, Cm 2374, October 1993.

²*Southern Newspapers PLC and EMAP plc, Pearson plc, Reed International PLC and Trinity International Holdings plc*, Cm 1772, November 1991, and *Trinity International Holdings plc and Scottish & Universal Newspapers Ltd*, Cm 2013, July 1992.

6.22. We conclude that the proposed transfers would have no adverse effect on competition for readers and advertisers.

Employment and employment-related matters

6.23. Argus remains today one of the few significant newspaper publishers which has yet to take advantage of the efficiency gains available from introducing direct input technology. Its inability to do so stems from continuing cash constraints following the 1988 management buy-out. Indeed it is these constraints which led to the decision to sell Argus Newspapers (see paragraphs 6.12 to 6.14). We believe that the efficiency gains available at Argus Newspapers were a principal attraction not only to Trinity but to all the prospective purchasers of the business. We conclude that job losses at Argus Newspapers are inevitable, regardless of the proposed transfers. This perhaps explains the lack of adverse comment we received during the course of our inquiry (see Chapter 4).

6.24. [

Details omitted. See note on page iv.

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6.25. We questioned Trinity and Argus about the pension arrangements for Argus Newspapers' employees. Trinity told us that it would propose to offer employees the choice of remaining with the relevant Argus scheme or joining the Trinity scheme. Argus said that preliminary indications from the actuarial valuation currently being undertaken were that the Argus group pension scheme would be in slightly greater surplus than at the last valuation in 1990.

6.26. We conclude, so far as employment and employment-related matters are concerned, that there is no justification for interfering with the proposed transfers.

Conclusion on the proposed transfers

6.27. Having considered the issues which arise under the three headings listed in paragraph 6.17, we conclude that the proposed transfers to Trinity of the newspapers referred to in paragraph 6.1 may be expected not to operate against the public interest.

P H DEAN (*Chairman*)

A G ARMSTRONG

D C CHURCHILL

N H FINNEY

T R C WILLIS

S N BURBRIDGE (*Secretary*)

5 October 1993