

## 2 The companies involved and the merger situation

### **BICC plc**

2.1. BICC is an international engineering group with interests particularly in the United Kingdom and Western Europe, North America and Australasia. Its principal businesses are in the production of electric cables of all types, and (through its subsidiary company Balfour Beatty) in civil, electrical and mechanical engineering. Its turnover has grown rapidly in recent years, from £2,109 million in 1985 to £3,792 million in 1989, when the group had over 46,000 employees world-wide, of whom about 25,000 were in the United Kingdom.

2.2. BICC's cables business in the United Kingdom was formed in 1945 by the merger of two of the largest and oldest United Kingdom cable manufacturers, British Insulated Cables Ltd and Callender's Cable and Construction Co Ltd. It has since expanded substantially, mainly by organic growth in the United Kingdom, and by acquisitions in Western Europe and the USA in recent years. BICC was described in the monopoly inquiry report,<sup>1</sup> published in 1979, as the largest organisation in the world with cabling as its primary activity. Since then, the Alcatel Group, a company based in France and controlled by Compagnie Générale d'Electricité, and Pirelli SpA, the Italian tyre and cable manufacturer, have, partly as the result of extensive acquisitions, become slightly larger cable manufacturers than BICC on a world scale. BICC's sales of cables world-wide in 1989 were £2,064 million, of which 78 per cent was outside the United Kingdom. Most of BICC's cable manufacture is carried out in the North-West of England and North Wales. Its factories which produce the types of cable with which this inquiry is concerned are at Wrexham in Clwyd and at Leigh in Lancashire.

2.3. The capital employed, profit before interest and tax and returns on capital employed for the four years ending 31 December 1986 to 1989 for the BICC group, using the historical cost convention, modified by the revaluation of certain fixed assets, are set out in Table 2.1. Further financial information is given in Appendix 2.1.

TABLE 2.1 **BICC group: returns on capital employed**

	1986	1987	1988	1989
Capital employed (£m)	489	479	550	673
Profit before interest and tax (£m)	114	136	173	230
Return on capital employed (%)	23.3	28.4	31.5	34.2

Source: MMC from BICC audited accounts.

2.4. BICC's published accounts do not include separate turnover or profit figures for its sales of cables in the United Kingdom. BICC Cables, the division of BICC which covers cable sales mainly in Europe including the United Kingdom, had a turnover in 1989 of £866 million for all types of cable, of which £458 million was for sales in the United Kingdom, and profits before interest and tax of £87 million.

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<sup>1</sup>Insulated Electric Wires and Cables. A Report on the Supply in the United Kingdom and the Export from the United Kingdom of Insulated Electric Wires and Cables. HC 243, published on 27 March 1979.

## Sterling Greengate Cable Company Ltd

2.5. The Sterling Cable Company Ltd was established in 1938. In 1962 it was acquired by Raytheon, the United Kingdom subsidiary of the Raytheon Company of Lexington, Massachusetts, USA, a large and diversified group engaged in defence electronics, aircraft and other activities. In 1974 Sterling moved from Enfield to its present location at Aldermaston. In the same year the company also acquired the Lancashire Cable Works in Warrington. Greengate Cables Ltd at Trafford Park, Manchester, specialising in rubber and elastomeric technology, was acquired in 1975. The two companies were operated separately until 1983 when they were merged to form Sterling Greengate Cable Company Ltd. The Greengate Cables factory at Trafford Park was closed in 1986; some of its elastomeric business was transferred to Aldermaston. The Warrington factory produces mains cables. Aldermaston now produces PVC armoured wiring and elastomeric wiring cables together with small mains cables (service cables) and small amounts of information, control and instrumentation cables. Sterling Greengate is now the sixth largest cabled maker in the United Kingdom (after BICC, Delta Crompton Cables Ltd (DCC), General Electric Company, plc (GEC), Pirelli General plc (Pirelli) and STC PLC). In March 1990 it employed 611 people, 395 at Aldermaston, where its head office is located, and 216 at Warrington.

2.6. Sterling Greengate's capital employed, profits before interest and tax and returns on capital employed for the four years ending 30 November 1986 to 1989, using the historical cost convention, are set out in Table 2.2. Further financial information is given in Appendix 2.2.

TABLE 2.2 Sterling Greengate: returns on capital employed

	1986	1987	1988	1989
Capital employed (£m)	22.3	23.0	23.3	20.8
Profit before exceptional charges for site closure costs, interest and tax (£m)	1.2	0.8	0.3	1.1*
Return on capital employed before exceptional charges for site closure costs (%)	5.4	3.5	1.3	5.3
Profit/(loss) after exceptional charges for site closure costs and before interest and tax (£m)	(2.8)	(0.2)	0.3	1.1*
Return on capital employed after exceptional charges for site closure costs (%)	(12.6)	(0.9)	1.3	5.3

Source: MMC from Sterling Greengate's audited accounts.

\*Profits for 1989 are stated after making a deduction of £201,000 for the settlement of a debt previously written off as an exceptional charge in 1987. Exceptional charges in 1987 have been reduced by that amount.

## Average company profitability

2.7. Average returns on capital employed for 1987 and 1988 for several categories of activity published by the Bank of England are shown in Table 2.3.

TABLE 2.3 Average returns on capital employed

	<i>per cent</i>	
	1987	1988
All industrial groups	19.8	19.8
Capital goods groups	19.1	20.3
Building materials	20.9	22.6
Electricals	20.2	23.0

Source: Bank of England Quarterly Bulletin.

## The merger situation

2.8. Raytheon decided in 1989, as the result of a reassessment of its strategy, to sell Sterling Greengate, preferably to a buyer with interests in cable manufacture (see also paragraph 5.41). BICC entered into negotiations with Raytheon in October of that year. The purchase transaction was completed on 8 December 1989. BICC paid a total of £38.2 million (financed by an issue of new ordinary shares for cash); this included the settlement of inter-company debt to Raytheon and the purchase of land and buildings at Aldermaston. Pending the outcome of this inquiry, Sterling Greengate has continued to operate under the same management and trade under its own name, but as a separate unit within the BICC group.

## Financial information on the products relevant to the merger inquiry

2.9. This inquiry is concerned primarily with those types of cables produced by both BICC and Sterling Greengate. In Sterling Greengate's case, those cables account for the greater part of the company's sales, but in BICC's case for a fairly small part of its sales. The relevant cables are mains, elastomeric wiring and PVC armoured wiring cables. The sales of these cables in 1989 for each company are set out in Table 3.2.

2.10. The output of each type of cable relevant to this inquiry, as a proportion of total factory output, varies in the factories concerned. The different proportions are shown in Table 2.4, based on outputs by value in 1989.

TABLE 2.4 Outputs of relevant types of cable, as proportions of total factory outputs

<i>Location</i>	<i>Type of cable produced</i>	<i>Approximate percentage of total factory output</i>
(a) BICC's factories		
Wrexham I*	Mains	88
Leigh I*	Elastomeric wiring	73
Wrexham II*	PVC armoured wiring	33
(b) Sterling Greengate's factories		
Warrington	Mains	100
Aldermaston	(i) Mains	26
	(ii) Elastomeric wiring	22
	(iii) PVC armoured wiring	31
	(iv) Other types of cable	21**

*Source:* BICC.

\*These are separate factories at BICC's Wrexham and Leigh sites.

\*\*Mainly information, control and instrumentation cables.

## Profitability of the separate factories

2.11. BICC provided us with figures for operating profits, before interest and tax, and returns on capital employed for the above factories; the figures for Sterling Greengate's factories excluded management charges paid to Raytheon. All figures were prepared on the historical cost convention. The figures are in Table 2.5.

TABLE 2.5 Sales and profits of the factories producing relevant cables

		1987	1988	1989
<b>BICC</b>				
<i>Wrexham I</i>				
Sales	£m	46.6	48.1	60.9
Operating profit	£m	4.4	5.8	5.2
Capital employed	£m	14.9	17.2	17.1
Return on capital employed	%	29.5	33.7	30.4
<i>Leigh I</i>				
Sales	£m	29.2	24.0	28.5
Operating profit/(loss)	£m	0.6	(2.1)	(1.8)
Capital employed	£m	12.5	13.3	17.6
Return on capital employed	%	4.8	(15.8)	(10.2)
<i>Wrexham II</i>				
Sales	£m	35.2	38.9	41.5
Operating profit	£m	2.7	3.1	4.1
Capital employed	£m	11.4	11.8	13.4
Return on capital employed	%	23.7	26.3	30.6
<b>Sterling Greengate</b>				
<i>Warrington</i>				
Sales	£m	14.2	16.7	21.4
Operating profit	£m	2.2	2.4	2.5
Capital employed	£m	9.7	9.2	8.4
Return on capital employed	%	22.7	26.1	29.8
<i>Aldermaston</i>				
Sales	£m	16.8	18.4	21.5
Operating profit/(loss)	£m	(0.9)	(1.7)	(0.9)
Capital employed	£m	14.2	13.5	13.8
Return on capital employed	%	(6.3)	(12.6)	(6.5)

Source: BICC.

2.12. The returns on capital employed shown in Table 2.5 have been calculated using the same accounting policies as those used for preparing each company's statutory accounts. The accounting policies are generally consistent. Both companies depreciate plant and machinery over a life of ten years. In practice, however, the plant and machinery lasts considerably longer than ten years. If plant and machinery were given an accounting life corresponding more closely to the actual life in use in the factories, the likely effect on returns is that they would be lower than those shown in the table.

### Profitability of the separate products

2.13. The MMC asked BICC to prepare estimates of profitability, ie returns on capital employed, for each of the three products covered by the reference. However, neither company allocates capital employed to products in its management accounts and BICC has only recently introduced a new reporting system for calculating the operating profits for each product. We decided therefore that reliable figures for the profitability of the separate products could not be obtained.

### Summary of the profitability of the relevant products

2.14. The evidence we have received on the recent profitability of BICC's and Sterling Greengate's production of mains, elastomeric wiring and PVC armoured wiring cables in 1987 to 1989 can be summarised as follows:

## *BICC*

- (a) BICC's profits on mains cable have been better than the average returns shown in the Bank of England figures in Table 2.3.
- (b) BICC's production of elastomeric wiring cables has been unprofitable (though the Leigh factory is now said to be close to break even see paragraph 5.11).
- (c) BICC's production of PVC armoured wiring cables has been profitable.

## *Sterling Greengate*

- (d) Sterling Greengate's profits on its production of mains cables at Warrington have been better than the average returns shown in the Bank of England figures in Table 2.3.
- (e) Sterling Greengate's Aldermaston factory as a whole has been unprofitable for the last three years. The gross margin on total sales fell from about 20 per cent in 1986 to 9 per cent in 1988 and 1989. In 1989 the estimated net margins for the separate products made at Aldermaston were:

- |                                  |                 |
|----------------------------------|-----------------|
| (i) Mains cables                 | 2 per cent      |
| (ii) Elastomeric wiring cables   | (12.5) per cent |
| (iii) PVC armoured wiring cables | (3) per cent    |
| (iv) Other types of cable        | (6.5) per cent  |

The other types of cable are mostly information, control and instrumentation cables.