CHAPTER 5

The Merger and the Case for it

A. The origins of the merger

97. We have already mentioned in paragraph 33 that until September 1966 the largest shareholders of the Pyrotenax ordinary stock were the ICI group, with 17·3 per cent., A. Reyrolle & Co. Ltd. with 9·6 per cent., and Société Alsacienne de Constructions Mécaniques, with 4·7 per cent. All these companies had been shareholders since the early days of Pyrotenax.

98. In September 1966 the position was materially altered when the ICI group decided to dispose of its Pyrotenax holding. ICI offered it first to Yorkshire Imperial Metals Ltd., and then, when Yorkshire Imperial Metals turned it down, to BICC. BICC states that, although this offer from ICI came as a complete surprise, the company was asked to give a decision on its acceptance or rejection of the offer with the minimum of delay. BICC decided that, although it was not its policy to acquire minority interests, the offer should in this case be accepted. It took this view partly because it seemed clear that, if it did not accept, the holding would be offered to, and acquired by, some other company, and partly because it seemed likely that the holding would enable BICC to become the supplier of copper rods and tubes to Pyrotenax. This would be particularly advantageous to BICC, because the copper tube mill which had recently been built at Prescot specially for the production of copper tubes for mineral insulated cable had reserve capacity.

99. Pyrotenax was not informed of ICI's offer until after BICC's decision had been made. However, when the arrangements for the sale by ICI had been completed the Chairman of Pyrotenax was informed by a director of ICI that this had been done.

100. Meanwhile, BICC was considering the position which had arisen from its acquisition of ICI's holding. The alternatives open to BICC were to confine its interest in Pyrotenax to the 17·3 per cent. holding as a trade investment (which was not in accordance with the company's policy), to increase this holding gradually as opportunity offered and to secure the contract for the supply of materials to Pyrotenax, or to make an offer for the whole of the remaining capital of Pyrotenax. BICC says that it did not wish to make an offer for the remaining capital of Pyrotenax without the support of the Pyrotenax board ; an approach to Pyrotenax was therefore made so that the alternatives open to BICC could be discussed and the attitude of the Chairman and directors of Pyrotenax ascertained. BICC also approached Reyrolle and Société Alsacienne de Constructions Mécaniques to ascertain if they were prepared to sell their holdings in Pyrotenax. Both these companies agreed to sell subject to acceptable offers being made.

101. The board of Pyrotenax, after considering the matter and after discussing it with BICC, decided that an offer from BICC should be accepted subject to agreement on price. Pyrotenax states that the principal reasons for its acceptance were first that it seemed likely that BICC might in any case become its supplier of copper tubes, and that if it remained an independent

company it might be placed in an unfavourable position by having to rely on a competitor for its supplies ; secondly it might be in the interests of its shareholders to accept then rather than risk the possibility of having to accept at some later date in less favourable circumstances. In addition Pyrotenax told us that it recognised that a link with a larger group might in any case be desirable in time, and that for three reasons a merger with BICC might be more acceptable than one with any other manufacturer. These reasons were BICC's favourable position in the supply of raw materials for mineral insulated cable, the fact that BICC's resources and efforts are so largely concentrated in the cable industry, and the large measure of autonomy which BICC gives to its Mineral Insulated Cables Division.

102. Terms were discussed with Pyrotenax and agreement was reached on an offer which the board of Pyrotenax was prepared to recommend its shareholders to accept. On the 18th November 1966 a formal offer was made on behalf of BICC of £12 nominal of 7¼ per cent. convertible unsecured loan stock 1986–91 of BICC for every 10 ordinary stock units of 5s. each of Pyrotenax. Taking the BICC convertible loan stock at par, the offer was worth 24s. for each 5s. stock unit of Pyrotenax ; on the 7th November (the day before the announcement of the offer appeared in the press) the middle market quotation on the London Stock Exchange was 17s. 9d. The offer became unconditional on the 13th December 1966, and by that date acceptances had been received in respect of more than 90 per cent of the share capital of Pyrotenax not already owned by BICC. The reference to the Monopolies Commission had been made on the 7th December 1966.

103. BICC told us that before the offer by ICI it had not contemplated acquiring Pyrotenax. Pyrotenax said that, although it had considered the possibility that, in order to make its supplies of materials more secure, it might at some time in the future be desirable for it to become part of some larger group, it had not given any detailed thought to this and had not contemplated any immediate possibility of being taken over. It is not possible to say that this merger, or any other merger involving Pyrotenax, would never otherwise have taken place, but both companies accept that it was the offer by ICI which set in motion the events which brought this particular merger about.

104. Although neither of the parties to the merger had previously seen any need to seek to bring it about, nevertheless when ICI's offer to BICC had made the merger a possibility, and when thought had been given to the probable consequences of it, both parties came to the conclusion that there were benefits to be gained from it.

B. Implementation of the merger and the advantages claimed for it

105. BICC says that, in implementing the merger, it is its intention that competition both between mineral insulated cable and other BICC cables and between Pyrotenax and the Mineral Insulated Cables Division shall continue. The Mineral Insulated Cables Division will remain, as it is at present, a separate and largely autonomous operating division of the company, exploiting its own product in competition with those of other divisions of the company. As regards the organisation and control of Pyrotenax, it is intended that competition with other cables and with the Mineral Insulated Cables Division

should be preserved by Pyrotenax continuing to be operated and developed as a company concerned only with mineral insulated cable and under its own board and management. The present Chairman of Pyrotenax will continue as Chairman, and the headquarters and main factory of the company will remain at Hebburn. However, BICC says that in order to facilitate some of the advantages of the merger which are set out below, the Chairman of Pyrotenax has joined the board of BICC and that of the Mineral Insulated Cables Division and the Chairman of the Divisional Board (who is also a director of BICC) has joined the board of Pyrotenax.

106. It is BICC's intention that Pyrotenax's pricing policy will come under the same control as that of the Mineral Insulated Cables Division (see paragraph 47), and that the list prices and discount terms of the two units shall as soon as possible be made identical. Selling, however, will continue to be Pyrotenax's own responsibility in the United Kingdom and Pyrotenax will continue to maintain its own selling organisation based mainly on its branches. It will not normally sell through BICC's Home Sales Division.

107. Overseas manufacture of mineral insulated cable will come under a new company, to be called Pyrotenax (Overseas) Ltd., which will be responsible for the formulation and implementation of overseas manufacturing policy. The first Chairman of this company is to be the present Chairman of Pyrotenax. Direct exports from this country will continue to be the separate responsibilities of Pyrotenax and the Mineral Insulated Cables Division, but both will have access to the experience and guidance of the Export Division and of Pyrotenax (Overseas), which will be in close touch with market conditions throughout the world, and the export strategy of both will be co-ordinated.

108. The benefits which BICC expects to result from the merger have been listed by BICC under four heads, as follows:

1. Immediate benefits
2. Medium-term benefits
3. Exports
4. Manufacture overseas.

Immediate benefits

109. (a) *Supply of tubes to Pyrotenax.* BICC explained that the principal cost saving would arise on the supply of copper tubes, as follows. BICC was already manufacturing copper tubes for mineral insulated cable in the plant which it had set up specifically for the purpose (see paragraph 58). This plant was not being fully utilised and could without difficulty supply the whole of Pyrotenax's requirement of tubes in addition to BICC's own. BICC estimates that it can supply tubes to Pyrotenax at an average of £57 a ton, which is £78 less than the average price of £135 previously paid by Pyrotenax*. As the price to be charged to Pyrotenax will include £12 a

* Pyrotenax told us that, in comparing prices charged by Yorkshire Imperial Metals with prices quoted by other suppliers, it should be borne in mind that Yorkshire Imperial Metals' prices included a 'premium' (charged by the copper producer and understood to amount to between £15 and £16 a ton of copper tube) on account of the particular quality and source of the copper which Pyrotenax specified. Although this premium relates to the copper rather than to the tubes, it is the practice to include it in the conversion cost. As BICC's copper is obtained without any premium being paid, and as there is therefore no equivalent addition to its conversion charge, it is legitimate to include the amount of the premium in the conversion cost savings which arise as a result of the merger.

ton profit accruing to the tube mill, the combined benefit will be £90 a ton. As Pyrotenax is at present using about 2,600 tons of copper tubes per year, the combined annual saving to Pyrotenax and to BICC's Mineral Insulated Cables Division is estimated at £234,000. In addition, BICC estimates that the fuller utilisation of the tube mill from supplying Pyrotenax will result in savings from greater efficiency amounting to £10,000 a year; secondly, British Copper Refiners Ltd., a subsidiary of BICC which supplies copper billets to BICC's Mineral Insulated Cables Division, will earn additional profits of £8,000 a year. Thus the combined savings to the BICC group as a whole, including Pyrotenax, will be £252,000 a year, which BICC has rounded off to £250,000.

(b) *Supply of rods to Pyrotenax.* BICC estimates that there will be an annual saving of £5,000 from the supply of rods to Pyrotenax from the Wire Mill Division of BICC at Prescot.

(c) *Accessories.* About half of Pyrotenax's requirements of metal accessories is supplied by its own wholly-owned subsidiary, Currie & Warner, and most of the rest of both Pyrotenax's and BICC's requirements is bought out. BICC considers that by aggregating the requirements of the two companies it should be possible to obtain them more cheaply, and it is estimated that the resulting savings might amount to about £50,000 a year.

(d) *PVC compound.* BICC estimates that a saving of £3,000 a year will result from BICC's Wiring and General Cables Division's taking over the supply of PVC compound to Pyrotenax.

Medium-term benefits

110. (a) *Rationalisation.* Although it is the intention that the two factories making copper covered mineral insulated cable, BICC's at Prescot and Pyrotenax's at Hebburn, will continue to operate independently of each other, it is believed that consultation between the management of BICC's Mineral Insulated Cables Division and that of Pyrotenax could lead to more efficient loading of the manufacturing facilities and, for example, to savings from longer production runs. Secondly, both companies believe that, although it is the intention that they should continue to market mineral insulated cable in competition with each other, nevertheless there may be some slight scope for savings. The companies have not yet examined these possibilities in detail, and have not attempted to quantify the savings which might arise.

(b) *Development.* BICC believes that there has been some overlapping of effort in technical development by BICC and Pyrotenax, and states that, while it does not propose to reduce the total expenditure on this work, the effectiveness of it will be increased. Pyrotenax will benefit from the research conducted centrally by BICC into cable problems generally and some duplication of effort may be eliminated. Nevertheless, where there will be duplication in research, BICC told us that it considered that this would be beneficial rather than wasteful.

Value of the savings

111. The expected savings which BICC as quantified (those described in paragraph 109) amount to a total of £308,000 annually. Other savings have not been quantified, but BICC states that it confidently expects that the total savings resulting from the merger will be between £300,000 and £400,000,

and it says that it is its firm intention to use these savings to promote the use and expand the sale of mineral insulated cable and to reduce prices or contain price increases which otherwise would have been necessary.

Exports and overseas manufacture

112. BICC believes that there is much scope for the export or overseas manufacture of mineral insulated cable, particularly in Western Europe and the United States. It believes that selling mineral insulated cable overseas requires technical salesmen who can 'educate' potential customers, and that Pyrotenax's experience in this field, with BICC's greater resources, will facilitate the exploitation of overseas markets. Pyrotenax has, of course, been a manufacturer of mineral insulated cable only, and its overseas selling efforts have therefore been geared to the selling of this particular product. Pyrotenax states that during the last five years it has attempted marketing and sales coverage on a world-wide basis, and points out, that for a company of the size of Pyrotenax, this has inevitably meant that it is not as strongly represented in some countries as it would wish. The companies hope that this deficiency will be made good by the association with BICC's much larger overseas selling organisation. In addition, BICC states that the use of mineral insulated cable is a matter of customer choice and not of technical necessity, and that a considerable selling effort is required to overcome prejudices and conservative attitudes in overseas markets. This effort will, it says, be costly, and it is particularly for this reason that the greater resources of BICC will effectively complement the overseas sales know-how already acquired by Pyrotenax. BICC says that there will be considerable advantage to be derived from co-ordinating strategy in attacking new export markets. To mount an effective sales campaign in any particular country might cost up to £½ m., and it would therefore be a substantial economy if duplication of such expenditure could be avoided. BICC told us that it has firm plans for attacking the market in particular foreign countries in the near future.

113. Pyrotenax already has manufacturing subsidiaries in Australia and Canada, and its factories in both countries have considerable spare capacity. It has also recently established manufacturing facilities in India, in which it has a 50 per cent. interest. BICC has extensive interests in other cables in Australia, and before the merger had plans for starting manufacture of mineral insulated cable there. As a result of the merger, however, these plans have been cancelled and it is intended to utilise the spare capacity in Pyrotenax's factory to expand production in Australia. Similarly, in Canada BICC has been able to cancel plans for a mineral insulated cable factory of its own, and intends to utilise the spare capacity in Pyrotenax's factory. The cancellation of these plans will result in a capital saving of about £1 m., which BICC states will be available both for expanding the production capacity of the Pyrotenax factories and for promotion of sales in overseas markets.

Effect of cost savings on profits

114. We have considered the effect which the proposed merger might have on the profit rates of Pyrotenax and BICC's Mineral Insulated Cables Division, assuming the total immediate and medium-term cost savings which BICC expects to arise from the merger to be £350,000 a year (see paragraphs 109

and 110). In round figures, the tube mill savings are estimated at £250,000, of which Pyrotenax is expected to benefit to the extent of £200,000, the balance of £50,000 being retained by BICC. The remaining £100,000 savings consist of various items and because the production of mineral insulated cable of the two companies is about equal it has been assumed that each company will benefit to the extent of £50,000 a year.

115. To measure the effect which cost savings of £350,000 a year would have on profit rates (assuming that the savings were simply used to increase profits) we have increased the profits of Pyrotenax for the year to 31st March 1966 by £250,000 and those of BICC's Mineral Insulated Cables Division for the year 1965 by £100,000. The resultant profits as percentages of capital employed (with fixed assets at original cost less depreciation) would be as follows:

		Profit rates
		%
(a)	Pyrotenax Ltd.	42
(b)	Pyrotenax Group	38
(c)	BICC's Mineral Insulated Cables Division	28
(d)	(a) and (c) combined	34
(e)	(b) and (c) combined	34

(We estimate that if the cost savings were not retained as profits the figures for (e) would be 27 per cent.)

Competition

116. BICC is, through this merger, acquiring its main competitor in the manufacture of mineral insulated cable, but it states that the manufacture of this cable will nevertheless still be influenced by an important degree of competition. This arises in two ways. First, as already mentioned, it says that Pyrotenax, as a subsidiary of BICC, will continue to be controlled by separate management and will continue to be in competition with BICC's Mineral Insulated Cables Division; it will thus continue to have the same incentives as hitherto to maintain efficiency, reduce costs, and develop new ideas and techniques, even though, when the merger has been fully implemented, the prices and discounts of the two companies are to be made uniform. Secondly, both companies believe that the main competition affecting the manufacture of mineral insulated cable has not been between the two leading manufacturers, but between mineral insulated cable and other cable systems. BICC points out that in other highly industrialised countries (including the United States of America, all European countries and Japan) mineral insulated cable is scarcely used or not used at all, and it says that the mineral insulated cable system 'does not possess any technical features for which there are no practical commercial alternatives'. It says that, although for some purposes mineral insulated cable is the best cable, there are nevertheless alternatives which are satisfactory technically and acceptable commercially. For example, in many situations rubber and PVC insulated cables in conduits can be used satisfactorily instead of mineral insulated cable; asbestos, glass and terylene insulated cables can be used in situations where they are exposed to heat; and armoured cables can be used where protection from physical damage is necessary. BICC itself makes all the cables which

can be used instead of mineral insulated cable, but these cables are also made by a number of other substantial cable manufacturers who are in competition with BICC. BICC (including Pyrotenax) therefore has a very much lower share (BICC estimates about 36 per cent.) of the market for mineral insulated cable together with possible alternative cables than it has of the market for mineral insulated cable alone. Mineral insulated cable can make progress against the other competitive systems only if price and service are competitive. Pyrotenax has succeeded in this field because it has always been a manufacturer of mineral insulated cable only and has therefore not been adversely affected by any inroads which mineral insulated cable might make into the demand for other types of cables. BICC, although a manufacturer of other types of cables, says that it has succeeded with mineral insulated cable because it has from the beginning been the responsibility of a separate and largely autonomous division of the company (the Mineral Insulated Cables Division), which has been free to develop mineral insulated cable and, substantially, to fix its own selling prices in competition with other divisions of the company. Indeed, BICC believes that an important reason for the failure in other countries to establish a market for mineral insulated cable is that its development has been in the hands of companies which either are not interested solely in mineral insulated cable, or which do not have the same philosophy as BICC regarding competition between divisions.

CHAPTER 6

The Views of Interested Parties

The use of mineral insulated cable

117. The significance of BICC's dominant position in the supply of mineral insulated cable following the merger depends partly on the extent to which this cable serves a separate market in which it is not subject to competition from other types of cable. We were therefore concerned to investigate whether in practice mineral insulated cable is indispensable for any purpose or whether other types of cable are always technically acceptable in place of it, as BICC argued (see paragraph 116). For this purpose we obtained the views of about 100 interested, or potentially interested, parties, including other cable manufacturers, electrical contractors, electrical wholesalers, shipbuilders, steel manufacturers, nationalised industries (particularly the Central Electricity Generating Board, the Area Electricity Boards and the National Coal Board), Government Departments, architects and insurance companies.

118. As far as we could ascertain, there are no regulations which specifically require the use of mineral insulated cable. The *Regulations for the electrical equipment of buildings*,* issued by the Institution of Electrical Engineers, recognise the use of mineral insulated cable in a number of situations but do not in any situation require its use exclusively. Insurance companies appear to accept the regulations of the Institution of Electrical Engineers, and do not make any stipulations about the use of mineral insulated cable in any situation.

* 17th edition, 1967. (17s. 6d. from the Institution, Savoy Place, Victoria Embankment London WC2).