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M E R C H A N T B A N K S A N D
C O R P O R A T E A C Q U I S I T I O N S

(Vol. 2)

A Survey of the Organisation, Role, And Approaches
to Contested Bids of the Major UK Merchant Banks

ROBERT CHIA K.G.

PhD Thesis

THE CITY UNIVERSITY BUSINESS SCHOOL

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VOLUME TWO

(COMPLETELY RESTRICTED)

C O N T E N T S

(Vol. 2)

Page

| | |
|---------------------|-----|
| Title | |
| Note on Restriction | |
| Contents | I |
| List of Tables | III |
| Abbreviations | IV |

P A R T O N E - SUMMARY OF SELECTIVE
DATA OF THE 30 UK MERCHANT BANKS SURVEYED

| | | |
|-----|---|---|
| 1.0 | The Comparative History, Evolution and Current Developments of the 30 Major UK Merchant Banks | 1 |
|-----|---|---|

P A R T T W O - TRANSCRIPTS OF INTERVIEWS

| | | |
|-----|---|----|
| 2.0 | MERCHANT BANKERS/STOCKBROKERS | 12 |
| 2.1 | Manager, Baring Brothers | 13 |
| 2.2 | Head, Corporate Finance Division (Societe Generale) | 20 |
| 2.3 | Vice-President, Corporate Finance (Goldman Sachs Europe) | 24 |
| 2.4 | Manager, Bank of America International Limited | 32 |
| 2.5 | Partner (Cazeneuve) | 36 |
| 2.6 | Merchant Banking Analyst (James Capel) | 41 |
| 3.0 | OTHER PROFESSIONALS | 47 |
| 3.1 | Takeover Specialist (Sir Charles Ball) | 48 |
| 3.2 | Corporate Lawyer (Clifford-Turner) | 57 |
| 3.3 | Divisional Director (Metra Consultants Group) | 62 |
| 3.4 | Editor, Journal of Business Law (Prof. Clive Schmitthoff) | 68 |
| 4.0 | SELF-REGULATORY/PROFESSIONAL BODIES | 71 |
| 4.1 | Director-General (Accepting Houses Committee) | 72 |
| 4.2 | Deputy Director-General (The Take-over Panel) | 76 |
| 4.3 | Secretary (Council for the Securities Industry) | 80 |

4.4 Head, Quotations Department (The Stock Exchange)

83

5.0 APPENDICES

88-95

List of Tables

(vol.2)

| <u>Table No.</u> | <u>Title</u> | <u>Page</u> |
|------------------|---|-------------|
| 5.1 | Comparative Financial Performance of the 30 UK Merchant Banks | 89 |
| 5.2 | Comparative Financial Highlights of the 17 Accepting Houses Committee Members. | 90 |
| 5.3 | Comparative Analysis of the Ownership Structure of the 30 UK Merchant Banks | 91 |
| 5.4 | Comparative Analysis of the Worldwide Multinational Merchant Banking Operations of the 30 UK Merchant Banks | 93 |
| 5.5 | Comparative Analysis of the Diverse Banking/ Financial Activities Offered by the 30 Major UK Merchant Banks | 94 |
| 5.6 | Comparative Balance Sheet Highlights of the 30 UK Merchant Banks & their Parent Organisations | 95 |

List of Abbreviations

(vol. 2)

| | | |
|------|---|---|
| AHC | = | Accepting Houses Committee |
| BNOC | = | British National Oil Corporation |
| CGT | = | Capital Gains Tax |
| CSI | = | Council for the Securities Industry |
| DoT | = | Department of Trade |
| D-G | = | Director-General |
| DCF | = | Discounted Cash Flow |
| GM | = | Grand Metropolitan |
| HoF | = | House of Fraser |
| HKSB | = | Hong Kong & Shanghai Bank |
| ICFC | = | Industrial & Commercial Finance Corporation |
| IHA | = | Issuing Houses Association |
| IBS | = | Investment Banking Service |
| RBS | = | Royal Bank of Scotland |
| SCB | = | Standard Chartered Bank |
| SEC | = | Securities & Exchange Commission |
| SCMB | = | Standard & Chartered Merchant Bank |
| TP | = | Takeover Panel |
| US | = | United States |

PART I: SUMMARY OF SELECTIVE DATA OF THE
30 U.K. MERCHANT BANKS SURVEYED

COMPARATIVE HISTORY, EVOLUTION AND CURRENT DEVELOPMENTS OF
THE 30 LEADING U.K. MERCHANT BANKS

1) ANSBACHER H.

Established in 1894 as a firm of stockbrokers and in 1949 it transformed its stocking business to merchant banking. Today Henry Ansbacher operates as a wholly owned subsidiary of Henry Ansbacher Holdings Ltd. (a new holding company restructured from Fraser Ansbacher Holdings Ltd. in 1979).

2) ARBUTHNOT LATHAM

It has its origin in the firm of Arbuthnot & Latham (1833) and is closely identified with the sale of Indian merchandise in London, the Sri Lankan tea trade as well as sisal and coffee production in East Africa. From the mid-1960's, the bank diversified from its commodity based operation into new financial services of modern banking like domestic lending, banking, corporate planning, portfolio management, corporate finance, etc. In October 1981, it merged with Dow Scandia. The shareholders in Dow Scandia are Dow Banking Corporation of Switzerland (52%), Sundsvallsbanken of Sweden (16%), Bank of Helsinki (16%) and Forretningsbanken of Norway (16%). These banks have combined assets of approximately £21/2 billion.

3) BARCLAYS MERCHANT BANK LTD.

It started off as a wholesale money market operator in 1967 and then shifted to merchant banking. In 1976, it changed its name from London & International to Barclays Merchant Bank and currently operates as a merchant banking subsidiary of Barclays Bank, one of the leading clearers in the U.K. BMB attained its distinction under the chairmanship of Sir Charles Ball, the takeover specialist who resigned after policy differences with the present company. The two principal activities of BMB are banking (provision of term loans and acceptance credits) and corporate financial advisory services

4) BARING BROTHERS & COMPANY LTD.

Founded by Francis and John Baring in 1763, it holds the distinction as the oldest established house in the 'City'. From merchanting in wool, the firm's reputation in banking soon became established worldwide; it assisted in the Louisiana purchase of 1804, and subsequently became bankers for the U.S. Government in 1818. Furthermore, it acted as London financial agents for the Imperial Russian Government in 1846, issue of bonds for the Chinese and Japa-

nese Imperial Government and was instrumental for the economic expansion of Argentina and Uruguay in the second half of the nineteenth century through the bank's experience in international trading, financial activities and contacts. This formed the basis of its contemporary multinational merchant banking role. Today, Barings is involved in all facets of international banking, finance and investment management.

5) BROWN SHIPLEY

Formed in 1810 in Liverpool as William Brown & Company it changed its name to Brown Shipley & Co. in 1839. In 1863, it moved into London and soon after, its Liverpool business ceased and by the middle of the nineteenth century, it had become established as an international bank. In 1918 because of corporate divestment, today its American operations flourish separately i.e. Brown Brothers Harriman & Co. (New York) and Alexander Brown & Co. (Baltimore). In the contemporary banking environment, Brown Shipley still finances trade but has gradually gone into sophisticated and specialised finance catering to the needs of industry, commerce, government and operates as a subsidiary of Brown Shipley Holdings (constituted in 1960).

6) CHARTERHOUSE JAPHET LTD.

Tracing its origin to J.S. Japhet in 1880 it was acquired by the business conglomerate, Charterhouse Group in 1954. Today, Charterhouse is an established investment and banking group with shareholders' funds of £70m and capital employed of £105m (1979) and its other subsidiaries are engaged in development capital, manufacturing, insurance broking, distribution and North Sea oil production. In July 1980, it acquired Keyser Ullman, another member of the AHC.

7) COUNTY BANK

County Bank dates back to 1862 - in 1934 it assumed its present name (Manchester & County Bank as previously constituted). Owing to the banking merger of National Provincial, Westminster & District Banks in 1970, it then became the merchant banking arm of the National Westminster Bank, one of the largest commercial banks in the world with assets exceeding £20 billion. It is a member of the Issuing Houses Association and its current emphasis is on providing corporate finance services emanating from its parent bank's domestic and international branches serving a wide spectrum of companies, listed and unlisted, local and worldwide in addition to its lending and investment management operations.

8) DAWNDAY DAY

Incorporated in 1928, Dawnday Day was subsequently acquired by the Industrial Finance & Investment Corporation. In December 1979, Rothschild Investment Trust through its wholly owned subsidiary, Hume Holdings successfully effected a takeover bid for the bank and subsequently, the Dawnday Day Group (the immediate holding company) has been restructured into three main operating divisions, namely, life insurance (Target Life) unit trust and financial services (Target Managers and Dawnday Day & Co. Ltd.) and industrial interests (Dawnday Day Holdings).

9) GRAY DAWES

Its origin dates back to 1865 when it began as a partnership trading with the Far East. It became a public company in 1958 and received recognised status as a merchant bank in 1971 from the Bank of England. As a result of the implementation of the Banking Act in 1980, the Bank of England subsequently conferred full banking status and as a result, it changed its name from Gray Dawes & Co. Ltd. to Gray Dawes Bank and operates as a fully owned subsidiary merchant bank of the Far Eastern trading conglomerate, the Inchape Group. Its activities centre around corporate finance, export financial services, commercial banking and portfolio management.

10) GIBBS ANTONY

In 1808, Antony Gibbs in partnership with his sons (George and William) founded the bank in London. In the early stages of its banking development, Antony Gibbs is closely associated with trading with Spain, Portugal and Latin American (especially Chile and Peru). By 1881, it had extended its business to Melbourne and in 1948, the company transformed from a partnership to a private limited company and became public in 1972. In 1973 the HKSB managed to acquire a 20% equity holding in the group and in June, 1980, it successfully took over the whole company in order to develop its merchant banking business here in Europe. Antony Gibbs has its own offices in South America and Australia and through its association with the HKSB and its subsidiaries, especially the British Bank of the Middle East, it has access to a worldwide network of merchant banking contacts and expertise with special focus on the Middle and the Far East.

11) GRINDLAY BRANDTS

It is a founder member of the AHC during the early part of this century and is formerly know as Wm Brandt. Founded in 1805, by the brother of Wilhelm Brandt who was involved with import/export business with Russia. In 1972, Grindlays Bank (a subsidiary of Grindlay Holdings) took over the bank from the Brandt family after buying out the family holding in one of London's oldest merchant banking houses. Its business was adversely affected by the 'fringe' financial crisis of the early 1970's and it had to be subsequently expelled from the AHC. Today, the merchant bank has been restructured. It is seeking to remould itself as an international merchant bank by exploiting and strengthening its international services in India and the Far East.

12) GUINNESS MAHON

The genesis of this Irish merchant bank is attributable to the partnership between R.R. Guinness and J.R. Mahon in 1836 in Dublin. In 1973, the holding company of the bank, Guinness Mahon Holdings merged with Lewis & Peat Ltd. to form the present day Guinness Peat Group (GPG). GPG, as it is constituted in its present day form is a very diversified multinational engaging in merchanting, commodity, chemicals, financial services, investments and property services, investments and property, international projects, insurance broking and international merchant banking.

13) GRESHAM TRUST

Gresham Trust is the merchant banking subsidiary of Gresham Investment Trust, a publicly quoted company established in 1959. It is small in comparison to the other accepting houses but its merchant banking focuses around venture capital and over the past 15 years it has invested in around 90 companies. Added to the aforementioned, it also offers corporate finance services, investment management, leasing and property development finance.

14) HAMBROS BANK LTD.

The banking business of Hambros has its roots in eighteenth century Copenhagen. The London merchant bank was established by Carl Joachim Hambro. It became a public company in 1920 when C.J. Hambro & Son merged with the Bank of Northern Commerce. In 1970, under a private Parliamentary Act, Hambros Bank Ltd. became the main merchant banking arm of Hambros Ltd, as a result of corporate re-organisation. Today, it operates as a family controlled

quoted company involved in both banking and non-banking activities like merchant banking (Hambros), insurance (Hambro Life), property (Berkley Hambro Property), advertising (Collett Dickensen Pearce) and diamonds (I. Henning & Co.). Over the past few years, Hambros has become vulnerable to publicity because of its involvement with the Reksten shipping companies.

15) HILL SAMUEL & CO. LTD.

In 1830, M. Samuel & Co. was established to exploit the East-West trade between England and the Far East by Marcus Samuel who also became the first chairman of Shell Transport Co. in 1897. In 1907, 'STT' merged with Dutch oil interests to become a new company, the Royal Dutch-Shell which today is one of the world's leading oil majors. In 1920, M. Samuel & Co. became a limited company and through rapid growth strategy of early twentieth century, it spawned off another company, Philip Hill & Partners and acquired Higginson & Co. In 1959, it merged with Earlangers Ltd., another merchant bank. The contemporary Hill Samuel Co. Ltd. is derived from a merger between Marcus Samuel & Co. and Philip Hill, Higginson, Earlangers Ltd. in 1965. As one of U.K.'s leading multinational merchant banks, Hill Samuel operates worldwide in America, Asia-Pacific region, the Middle-East, Africa and Europe in commercial banking, investment banking, corporate finance, shipping, portfolio management, project management and other related financial services. There is strong market speculation that in the 1980's, Hill Samuel would merge with a major American investment bank, possibly Merrill Lynch. In 1980, Philip Hill Investment Trust whose chairman is Lord Keith, disposed of its 16.07% shareholding in the company.

16) ICFC

Founded in 1945, ICFC is a fully owned subsidiary of Finance for Industry, a holding company which itself came into being as a result of the merger between Finance Corporation for Industry and Industrial & Commercial Finance Corporation both established in 1945. Today, ICFC as part of FFI maintains its leading position in the U.K. market as an investor in small and medium sized companies. Mergers, takeovers, rights issues and general financial advisory activities are undertaken by ICFC Corporate Finance Ltd.

17) KLEINWORT BENSON

Its beginning dates back to the Cuban sugar trade business founded by James Drake in 1792. He was later joined by Alexander Kleinwort from Schleswig-Holstein who was responsible for developing the banking business. The Kleinworts then acquired the business interests of the Drakes. In 1961, Kleinworts merged with Robert Benson, Lonsdale (this company is in fact a result of an earlier merger between Robert, Benson, & Co. and Lonsdale Investment Trust in 1947) to form Kleinwort, Benson, Lonsdale Ltd. Kleinwort Benson, the main merchant banking vehicle of the group then acquired Sharp Pixley in 1966. In the U.K. merchant banking scene, Kleinwort Benson as presently constituted, is the largest merchant bank and operates worldwide offering the whole range of modern multinational merchant banking services. Over the last decade it has expanded rapidly into the Asia-Pacific region.

18) KEYSER ULLMANN

Keyser Ullmann Ltd. has strong linkage with another established traditional house i.e. Samuel Montagu. In fact, the partners of Samuel Montagu founded A. Keyser & Co in 1868. In 1908, it became an independent merchant bank actively involved in money markets in Paris, Oslo and New York. In 1962, it merged with Ullmann and Co., another City merchant bank to become Keyser Ullmann. Its parent company, Keyser Ullmann Holdings Ltd., obtained a listing in the same year. In 1980, it merged with another member of the AHC, Charterhouse Japhet.

19) LAZARDS

Lazards is related by historical and banking affiliation with Lazard Freres et Cie (Paris) and Lazard Freres & Co. (New York) although there is no shareholding links. These links are traceable to 1848 when three brothers, Alexandre, Simon and Lazare moved from France to New Orleans and later to San Francisco, their business branched into New York, Paris and London. The English merchant banking business flourished when Lord Kindersley (later to become a director of the Bank of England), a stockbroker joined the company in 1905. In 1920, it became a private limited company at which time, S. Pearson & Son, (today, a diversified industrial conglomerate) acquired a major interest and currently, it is the main merchant banking arm of the group (listed in 1969) with its merchant banking services centering around commercial banking, corporate finance and portfolio management. In May 1981, Lazards diversified into commodities by acquiring Gardner Lochmann, a London commodity banking firm.

20) LLOYDS MERCHANT BANK

Lloyds merchant bank dates back to 1765 when Taylors and Lloyds established a partnership in Birmingham. A century later, the partnership merged with Moilliet & Sons to form Lloyds Banking Company Ltd (a joint stock company) and by 1884, it had established itself at Lombard Street in the City. Today, apart from a 25% stake in National & Grindlays, Lloyds also has an investment in BOLSA (Bank of London South America). To compete with the other clearers in the provision of comprehensive merchant banking services, in August, 1978, Lloyds Bank recruited Mr. David Horne (ex- Warburg) and Mr. David Anslow to develop its embryonic merchant banking activity located within the international division of the banking group. At the beginning of 1981, Lloyds International (the Australian merchant banking arm) took over David Block & Associates, a move which will make it the leading merchant bank in Australia.

21) MORGAN GRENFELL & CO. LTD

The origin of this famous merchant bank dates back to 1838 when George Peabody of Massachusetts opened his office at 31 Moorgate in London. By 1854, he had built up a merchanting business and incorporated a new partner, Julius Spencer Morgan, a fellow New Englander, who was responsible for the development of three worldwide banks, viz, Morgan Grenfell, Morgan Guaranty and Morgan Stanley. On Peabody's departure from the U.K. (he retired in 1864 and returned to the U.S. to continue his philanthropic work) the business then operated under the name of J.S. Morgan. In 1904, Edward Charles Grenfell joined the bank and became senior partner and six years later, in 1910, Morgan Grenfell & Co. replaced the old business's name. J.S. Morgan died in 1890 and was succeeded by his son, John Pierpont. From 1914 to 1920, the bank achieved great success when all British Government purchases, loans and financial deals were chanelled through Morgan Grenfell & Co. (London) and J.P. Morgan (New York). At this time, as a result of non-payment of debts owing to the bank and other houses from Germany and all her allies, the AHC came into being and Morgan Grenfell is one of its founder members. Furthermore, the Glass-Steagall Act, 1933 resulted in more changes in the Morgan houses. Normal relationship between J.P. Morgan & Co. ceased but the former still retained one third of the equity of its London business. The expansion of the company's business in the mid-50's and 60's led to the incorporation of Morgan Grenfell Holdings Ltd. in 1971. (Morgan Grenfell & Co. is still its most important subsidiary). In addition to its more traditional areas of operations, in 1970, the bank pursued an active policy of expansion into international markets in the Middle-East and Asia and in 1975, achieved distinction as the first merchant bank to receive the Queens Award to industry for export. In May 1981, Morgan's Guaranty Trust Company which is the largest single shareholder in the bank decided to reduce its 33% stake in the company by placing the equity with selected British institutions. At the same time, Morgan Grenfell established Morgan Grenfell Inc. in New York to expand its international corporate finance busi-

ness to compete with Schroders, New Court (Rothschilds) and Warburg Paribas Becker who are all prominent in New York.

22) MANUFACTURERS HANOVER LTD

One of the newest merchant banks in London, "MHL" started operation in January, 1969 and its principal shareholder, Manufacturers Hanover Trust Company (through its Edge Act subsidiary) owns 75% of the equity. In April 1979, it received permission from the Federal Reserve Board to acquire the 25% interest owned by Rothschilds, Riunione Adriatica di Sicurta and the Long Term Credit Bank of Japan in order to facilitate the co-ordination of its merchant banking activities on a worldwide basis. In addition to its London operation, "MHL" also operates a merchant banking subsidiary in Hong Kong. The bank deals in Eurobond issues, project finance, corporate financial advisory services and portfolio management.

23) ROBERT FLEMING

This merchant bank owes its foundation to Robert Fleming of Dundee. After his business trip to America, he returned home to form the first ever Scottish American Investment Trust for his clients. With the rapid growth of this business, he then moved to London and formed a partnership. He subsequently became the director of many Scottish and English investment trust companies which at that time were instrumental in the early part of this century in financing the growth of the North American economy especially in cattle, oil and railroads. In 1932, the partnership transformed into Robert Fleming & Company. The traditional activity of the bank i.e. investment trust management, remained the core activity for the next twenty years but in the 1950s, the bank established a number of unit trusts and played an instrumental role in the establishment of Save & Prosper Group which is now the foremost UK unit trust institution. Due to historical reasons, America is still the bank's major overseas operation. But since 1970, the company had diversified along with other leading UK merchant banks into the Far East especially Japan, Hong Kong and Singapore. For instance, Jardine Fleming formed in 1970 in partnership with Jardine Matheson is today one of the leading British merchant banks in the Far East. To cater to the needs of its rapid diversification programme, a new holding company, Robert Fleming Holdings Ltd has been created to oversee the salient activities of its two main subsidiaries, namely, Robert Fleming & Company (banking and corporate finance) and Robert Fleming Investment Management Ltd (investment business). In 1980, Robert Fleming joined the Accepting Houses Committee as its newest member since the expulsion of Grindlay Bradts and Antony Gibbs from the Committee.

24) REA BROTHERS

Rea Brothers, one of the smallest accepting houses, owed its creation to Rea, Warren & Mc Lennan Ltd in 1919, at the end of the First World War. In 1947, this company subsequently changed its name to Rea Brothers Ltd and three years later it acquired another bank, Walter H. Salomon & Co. and consequently became a publicly listed merchant bank in 1960. The bank's main operations are commercial banking, corporate finance, portfolio management, insurance broking supplemented by a travel business.

25) N.M. ROTHSCHILDS & SONS LTD ("NMR")

"NMR", the famous English merchant bank owes its existence to Mayer Amschel Rothschild, a German Jew who first started a money lending business in Frankfurt in the middle of the eighteenth century. One of the five sons of Mayer, Nathan Rothschild migrated to England in 1878 and in 1810, established N.M. Rothschild & Son, his own bank bearing the same name that is internationally known today (at the same time, the three brothers were developing the family's business in Germany while another built up an equally famous merchant bank in Paris). The bank's evolution is very well documented and during the 43 years Lionel*headed NMR (he succeeded Nathan in 1836), it is said that Rothschilds raised over £1 billion in foreign loans for Brazil, Belgium, Egypt, France, Holland, Greece, Portugal, Prussia, Turkey, USA, Russia, etc. Lionel's son, Nathaniel became the first Lord Rothschild. In 1961, Mr Evelyn de Rothschild inherited the family business on the death of his father, the third Lord Rothschild. In order to reassert NMR back into the forefront of British merchant business, he enlisted his cousin's help. His cousin, Jacob, was instrumental in creating a new corporate finance department as well as a new public company, Rothschild Investment Trust (RIT). In September 1980, owing to family differences between the cousins, Jacob (chairman of RIT) resigned from the Board of Rothschilds Continuation, the holding company of the merchant bank. Moreover, he had to change the name of RIT to RIT Ltd but was permitted to create a new company, J. Rothschild International Investments to look after his international businesses. This decisive corporate restructuring allowed Jacob to use the family name in a part of his business, but not in the title of the main holding company. On December 1980, Sun Alliance Insurance Group acquired Jacob's 11.4% stake in Rothschild Continuation (apart from members of the Rothschild family and their companies, the only shareholder in Rothschild Continuation until this share purchase had been Eagle Star which brought a 7.5% holding in early 1980). With Jacob's departure in March 1981, Evelyn then recruited Michael Richardson of Cazenove (the leading stockbroker) in to head and expand the corporate finance department.

* One of the sons of Mayer Amschel Rothschild.

26) SINGER & FRIEDLANDER

Incorporated in 1907 as Singer & Co. the bank changed its name to its present title in 1920 and then operated as a private company until 1957 when it became a quoted merchant bank. In 1971 Singer & Friedlander was taken over by C.T. Bowring and in 1980, the ownership of the bank once again changed hands when its parent company was acquired by the large American insurance company, Marsh & McLennan. With the approval of both the Bank of England and Lloyds, control of the merchant bank was then transferred to European Ferries (in order for it to retain its AHC status) who currently is the main shareholder with 92.5% of the banking group.

27) SAMUEL MONTAGU

Of the five subsidiary merchant banks of the clearers in the UK, Samuel Montagu is the most active in the international market. Incorporated in 1853 as Samuel and Montagu, it operated as a private limited company until acquired by Midland Bank (1973) and then reconstituted as Samuel Montagu & Co Ltd (formed from the amalgamation of two other businesses as well as, viz, Drayton Corporation Ltd and Midland Bank Finance Corporation Ltd). As a member of the AHC and a wholly owned subsidiary of Midland Bank, Samuel Montagu's merchant banking business operates through five main divisional structures, namely, UK Banking Division, Corporate Finance Division, Investment Division (Drayton Montagu Portfolio Management Ltd), International Banking & Finance Division and International Dealing Division. With the departure of Mr P. Shelbourne for BNOC, Midland Bank then brought Mr Staffan Gadd to assume the chairmanship and also to strengthen and expand its international corporate finance business in Asia and New York.

28) STANDARD CHARTERED MERCHANT BANK ("SCMB")

SCMB originated as Standard Bank Finance & Development Corporation Ltd to provide development finance in Africa. In 1973, as a result of corporate re-organisation, it changed its name to Tozer Standard & Chartered Ltd (joint merchant banking venture between Tozer Kemsley Millbourn & the Standard Chartered Banking Group). In January 1977, Standard & Chartered Bank Ltd successfully acquired the 49% equity holding of its joint partner and then rechanged the bank's name to Standard Chartered Merchant Bank. Affiliation with this major overseas banking group had allowed SCMB to fully exploit the Group's 1,500 offices worldwide. Over the last decade, the bank had actively expanded into Hong Kong, Malaysia and Singapore as well as Africa in the development of project finance and other international merchant banking activities.

29) SCHRODER WAGG, J.H.

Like Kleinworts, Hill Samuels and Rothschilds, Schroder Wagg, an AHC member is another leading international UK merchant bank. Founded in 1804 as J. Henry Schroder, it changed its name to Schroder Successors Ltd in 1956. Two years later, the bank was acquired by J. Henry Schroder & Co. Ltd. and in 1957, ownership passed into the control of the current holding company, Schroders Ltd. The present bank came into being in 1962 through the amalgamation of J. Henry Schroder & Co. Ltd and Helbert Wagg & Co Ltd. As an international and consultant merchant bank, J. Henry Schroder Wagg & Co. Ltd operates through 6 main operational divisions, viz, the banking division, the investment division, the company finance division (corporate finance), project division, reserve asset management group and the business analysis/strategy group.

30) S.G. WARBURG & CO LTD

Originally founded by Sir Sigmund G. Warburg in 1934 and operating under the former name of New Trading Co Ltd, in terms of historical development, S.G. Warburg (name derived in 1934) is comparatively young compared to most of the traditional houses. Nevertheless, over the past six decades it has developed an international reputation, chiefly enhanced by its French and American affiliations. On the French side, Warburg is linked with the powerful Paribas Group through a new company, Paribas-Warburg S.A. in which Warburg has a 50% stake. In exchange, Paribas owns 25% of the equity of S.G. Warburg & Co. Ltd. In America, Warburgs allies itself with an established American investment banking house, A.G. Becker & Co. Inc. It operates its merchant banking business through Becker Warburg Paribas Group Inc. These two associated investment banking and securities firms in America have progressed well especially in the development of WPB's corporate finance business. Warburg's business is currently affected by two major changes in 1981, firstly, the nationalisation of French banks by the Mitterand Government and secondly, the divestiture of its metal and refining subsidiary, Brandeis Goldschmidt & Co Ltd. As part of its international diversification, it has teamed up with Aetna Life & Casualty Company which is one of the largest non-mutual insurance companies in the US to provide investment management for Aetna which has assets of \$36 billion and manages a pension fund portfolio of over \$3 billion. Mercury Securities operates as a holding company (it has existed since 1953 when Warburgs acquired Central Wagon and converted it to Mercury Securities).

Compiled from:

- a) Annual Report & Special Brochures
(merchant banks)
- b) "Financial Times" (1979-81)
- c) "Investors Chronicle" (1979-81)
- d) "The Banker" (1979-81)

PART II: TRANSCRIPTS OF INTERVIEWS

(MERCHANT BANKERS AND STOCKBROKERS)

V. NICOLL
MANAGER
BARING BROTHERS

TRANSCRIPT

Q: Is a pre-bid stake critical to the outcome of a contested takeover situation?

A: Well, every circumstance is different and the reason that it is different is that you perceive at the start whether the takeover is going to be hostile or unfriendly. There are many instances where a takeover won't happen if the target company is not in agreement and in those circumstances there is no point in building up a stake for your client as it is expensive and a waste of money. If on the other hand, your intentions are aggressive, it may be that you would take a stake. But of course, if you develop a small stake that doesn't necessarily help and you are going to have the effect of putting up the price against you. It depends. Sometimes, it is a very thin market and in order to get a decent stake you have to disclose it at 5% anyway. So, even to get 5% in some companies they may put up the market price against you which means you have to pay more in the end perhaps. In this business, you have to realise that each circumstance is examined on its merits and we try to make a strategy which seems right for that case.

Q: What about the structure of the share holding?

A: It can do especially in small companies where you have large or family holdings, you know there are a lot of institutions. The bigger the company, the wider the shares, the more the number of institutions there are. It is usually easier to build a bigger stake where there are a number of bigger institutions because there is a much bigger market under those circumstances.

Q: What are the main parameters that you normally explore with your clients regarding acquisition planning?

A: That is a very difficult question because you know it depends on the circumstances. If it is a client we know very well, there may be a lot of discussions before we get to the stage of deciding whether the acquisition is right or whether the particular acquisition is right. In some cases, we are asked to look for companies but in other circumstances the client actually say, "We want to buy company X and how should I go about it?" You know, some companies are very experienced at this and therefore, it is very much more a question and we know them very well and therefore, the discussion is not exactly a start and therefore, it is almost continuing and there are other circumstances when the client comes in and say, "I want to buy a company. Can you help me?" It is obviously very difficult to do that

unless you can narrow the sort of companies he wants to buy and it is very difficult if somebody wants to do a takeover but he doesn't know what he wants to buy.

Q: Having assumed you have agreed to a mandate for takeover, how do you go about structuring the takeover assignment?

A: Well, one would obviously look at the circumstances of that particular company; where situated, what was known about it? Is it a public or private company? How many shareholders are there? You try to look at the share register and you try to find out as much information as possible about the company. You do a lot of work and then you evolve the strategy.

Q: How do you react to a hostile offer?

A: Again, it depends to some extent whether you have had a lot of discussion about that possibility before, whether it is a new client or long standing client or whether the bid is expected or unexpected. Then basically, you look at your client; its position, why is it attractive? The price being paid. What defences you have got? You have got a profits forecast you can make in a coming year which will make the company more attractive but obviously you can't put out a forecast which is not realistic. One has to look at the company and assess whether the shareholders knew about the following year so that they won't capitulate quite so easily. You have to look at the properties of the company and other assets to see whether they are properly valued. You have to look at the shareholders to try to convince them that the company might be better if they stay independent. You have to examine whether in your view the attempted takeover makes sense or indeed perhaps it is a good thing. The view of the management can possibly be very important because one does not only advise the directors but one tries to look at their position, their arguments, and again, we have to make up our minds whether the offer is a fair one or you are going to refuse it and then you are going to try and get more money because the idea is a good one or you are going to fight off completely. If it is more money, then it is a different strategy and is it independence, you may have to see what defences you have got including public relations, shareholders relations, future management...

Q: How would you then describe defensive strategies?

A: I mean, obviously, there are the basics. What the shareholders look for in the company. They look for the money they put in so that is profits and assets and dividends, all those are looked at. Yes, you are if you like, fighting a battle. If you are doing an aggressive takeover or a defended one, you have to use what weapon seems appropriate to that case. There are obviously, a number of common denominators for otherwise it wouldn't be

possible to be an expert in the field and, of course, we are very constrained by the Takeover Code, the takeover rules about this thing should be fought and how it can be done and so indeed, when you do things, how you can do them. things like profits forecast, assets re-valuation they are really constrained by the Code, So, frankly speaking, you are right. You can't say that there is a finite set of possibilities, you have to see what other possibilities can be devised.

Q: Do you indulge in forward planning regarding how best to defend those clients of yours who are vulnerable to takeover?

A: Absolutely! Like all these things. If a client comes to you and he already has an offer there is really nothing else you can do, it may be too late, you know. Basically, the only real long term plan, unless you have got a big shareholder is to make your company so attractive to its existing shareholders that the price somebody else has to pay isn't worth it. If we have a client who comes to us regularly with whom we talk about general problems because hopefully, in this business you have a relationship which is quite close and doesn't necessarily depend on a particular job that you are doing for them, you know we discuss with them things they might be doing to make themselves less vulnerable.

Q: How do you defend a company with poor figures?

A: Well, figures are not the only thing, of course. It depends. The company may have very substantial assets and the price being paid was considerably below assets or indeed, the poor figures were temporary. Basically, you can try and defend somebody like that but it is not going to be easy and one of the defences is to try and persuade your shareholders that the figures are temporary and there is in practice a strategy that has been entered into which will rescue those figures because in fact a good time to buy a company is when it is doing at the bottom of the cycle and many takeover attempts are made at that stage and, of course, it is the time when the chairman gets the least money for their company. So, it isn't always the best time to sell but it is difficult to persuade the shareholders that the cycle is going to turn up.

Q: Is timing important to the bidder?

A: Well, it depends to some extent whether if he is using paper or whether he is using cash. If he is using shares it is very important that his share price remains strong because if it becomes weak the value of the currency he is offering becomes less and timing is very important on his side as well but the timing on his side may not always be possible to determine, I mean circumstances will dictate that he makes an offer now or not at all. The biddee has no option of timing at all. Ideally, of course, you want to make an offer when the circumstances are right and I think in a number of cases where

there are a lot of takeovers that a company will probably want to make but there may be one or two he wants to make, here they may be planning for a long time.

Q: What about accessing major shareholders?

A: It is something which you can't say, you would do normally or you won't normally because it comes under a number of constraints because under the Code, you can't go to a lot of people without making an announcement. The difficulty you get is, when you are contemplating an offer and you want to get as far down the road as you can without making an announcement especially if it is an aggressive one because you must be prepared to organise before you make an announcement. To approach a lot of people means a lot of shareholders, obviously, it would probably leak out and they may have no particular reason not to talk about it although not the same reason as the bidder does. If there are only one or two major shareholders, maybe there is no point in making an offer without them. So again, it depends on circumstances. You can't approach a lot of shareholders under the Code but obviously, if you have one or two important shareholders with 30% or 40% for instance, perhaps, you might as well talk to them first. But if they won't sell, there is no point in making a bid. So here, it is more of a negotiation with the major shareholders.

Q: What about driving up the market price as a defensive tactic?

A: Well, one of the things you want to do is to make your companies as expensive as possible. There are two things - points in defence; one is to get as much as possible for your shareholders, that clearly, it is to get the best value for them. On the other hand, you say, drive the price up in a normal bid situation, the bidder can buy shares in the bid but the bidder can't buy his own shares and if we know that a bidder is about to make a bid, we can't advise anybody else to buy them because of the 1980 Companies Act relating to insider dealing. So, if I know that somebody is about to make an offer, I can't tell anybody to buy the shares. So, it is not that easy to drive up the price.

A: What bearing does shareholding structure exercise on your strategy?

Q: In defence, it is easier to defend if there are more individual shareholders because they are more loyal to the board. On the other hand, institutional shareholders are much less loyal and more likely to take profits.

Q: Which particular time of the year are you reluctant to incorporate a profits forecast?

A: Well, immediately after the first three or four months

of the year. One of the things about profits forecast is that you have to produce the thing to very high standard, you know it has got to be pretty accurate. The longer the period of the year you are actually reporting, the more difficult that is because clearly so much can happen. You know, it is not possible to be entirely accurate. So, the longer the period before the end of the current year, the more difficult to make a forecast. In fact, if their accounts have just come out (after all, accounts are not usually published about three or four months after the previous year) one wouldn't necessarily feel the necessity to make a detailed forecast but that depends on what you feel the next year has got of course. You know, the general strategy is that you can't say you wouldn't do it but basically, one would loathe to do a forecast at an early part of the new year.

Q: Are there industries which constrained you from making a forecast?

A: Let us face it, at the moment in the recession it must be very difficult for a lot of industries to make a forecast. They simply don't know what the level of their trade may be for the rest of the year and that makes it very difficult. I think forecast is something one tries to avoid unless one has to.

Q: Is it fair to say that you pace your forecast as an integral part of your defensive strategy?

A: Obviously, I don't want to get involved in how one goes about it but in any kind of battle or war, you need to have some powder, some reserves and basically, in a takeover situation you try to say as little as possible but at the same time try and persuade your shareholders to support you. It is not a question of saying as little as possible but you don't want to give them every thing on the first day and be left with nothing to come out with later, So, it is a very important part of the strategy how you time what particular circular.

Q: How crucial is the press in times of mergers and takeovers?

A: I would say very important. Certainly, institutional investors are influenced by what they read in the influential press especially in the "Lex Column" in "Financial Times" than what you see in the small papers. I think public relations which include the press is very important and we certainly make an effort to make sure the press understand what is happening and we are always ready to talk to the press.

Q: Does a low acceptances level deter you from going your aggressive bid?

A: I think you need to decide whether it is going to succeed at that particular level or whether you have to increase your offer and under those circumstances, of course, you already are public and you can probably go and talk to some of the big shareholders and you can increase it accordingly to that level but if you do not have any acceptances then you can't go on ultimately.

Q: What changes would you like to see associated with profit forecasts?

A: The danger is we are asked to report on it. Certainly, the wider the assumptions the more difficult it would make, but basically, to some extent, we have some control over that because we report on that and we can legitimately if we are not convinced that the assumptions are reasonable then we are not going to make our report. So we do have some control over them. I think that changes that one would make I don't really want to comment on that or make a particular suggestion because if one wants to see changes, they have already been done and we have some control to make sure that it happens.

Q: How do you go about breaching a tightly held company?

A: That is a very good question and it is a question I would like to ask myself. You may feel that in practice, there are members of that family who like to sell whereas around the table they may say, they won't sell but when they have time to digest the offer or if the bid becomes public and the press say, "What a good offer" and you may feel that this would weaken the resolve of some members or, you can create dissension within the family to get the majority on your side, you know, you do take those considerations into account.

Q: Following the logic of your arguments, what level then is critical to the outcome of a contested bid in deciding where the bidder actually gains control?

A: The critical thing is to have in your hand the control or the ability to control votes in your hands at a general meeting which have a majority and that is 50% plus 1 share and that includes shares you own yourself, you buy during the bid situation, acceptances that you received and anybody who is acting in concert with you. So, when somebody has 50% they can control the company and it may be worse to be a minority in a company really controlled by somebody else than to accept that bid on the assumption that you cannot get a better deal. For the 90% acceptances level, it is 90% of the shares that he is making the offer and it is not 90% of the share capital. It is 90% of the shares for which he is offering. So, if he already owns 25%, it is 90% of the 75%;

that is the law because if you get 90%, you can buy the balance compulsorily and it doesn't include shares you purchase in the market either. So, it is only shares that you acquired with the offer and there are a number of instances when you take control with 50%, but when you can't get 90% in which case you might accept a lower percentage.

Q: How closely^{do} you work with the Takeover Panel and what do you think of self-regulation?

A: Very closely and I speak to them regularly on the phone. The real advantage of self-regulation, of course, is it enables the regulations to be adapted in accordance with changing circumstances, for instance, we go and discuss with the Panel and put forward our point of view and the other side is advised to do the same, then the executive of the Panel makes a ruling which both sides can accept if they wish. If they don't accept it, they appeal to the to the full Panel who makes a hearing and decides. If it was legal, it would mean that every time you have a point of difference you go to court and and you have to involve legal counsels arguing about legal minutae. In self-regulation, the whole of this area is conducted swiftly to the advantage of everybody.

Q: What parameters guide your corporate fees?

A: Size, responsibility, time, exposure.

MICHAEL COLE
HEAD, CORPORATE FINANCE
SOCIETE GENERALE

TRANSCRIPT

Q: Could you tell us something about your merchant banking set up?

A: I should tell you that firstly, we have two banks, namely a commercial banking operation and the merchant banking operation. We have six people and we work on two main areas, firstly in acquisition and secondly in capital market. We advise British groups on acquisitions in France and vice versa. Now, we (the merchant banking operation) were established in 1972 when the EEC became a reality and the Head Office in Paris decided that French companies would be expanding very fast into the U.K. and they want us to work here in London and that proved to be too optimistic. We, French are very reticent on acquisition and also reticent on Britain and secondly, as a nation we don't like acquisitions. So, we, French have a very different approach to company takeovers - a non-financial approach whereas the British have a much more financial approach. So, having found out that the French were not very keen on acquisitions, we then work in the opposite direction. We advise British companies on French acquisitions and the bulk of our business is on that. It is only recently that the French are becoming more interested in acquisitions here. They are very export-minded and they must have some sort of presence in England before they make some acquisitions here.

Q: Do your subordinates work in teams or individually in takeover transactions?

A: We tend to work very much as individuals and I supervise the whole department. The individuals do intermingle and exchange ideas but they don't actually swap portfolio. One thing we do is to have regular meetings and discuss all the operations going on at that particular time. During the meeting, they would state what the prospects are, what the problems are, and obviously other people contribute their ideas. So, everyone is aware what the other is doing. Also, to a limited extent, say if one of my colleagues is working on a French company who wants to sell, and another, working on a British company in that sector, then obviously, they will work together.

Q: Do you find it easy to compete with the British merchant banking community here in London in this business?

A: As a French bank here in London (we have been here for at

least 100 years) we don't have a captive clientele like the British merchant banks with their own clientele list and they guard it very jealously so much so that sometimes you have instances in which the same merchant bank will find itself as the merchant banker advising the bid and also the banker to the company receiving the bid! So, we don't have captive clientele. That to a certain extent is a good thing because British merchant banks find it difficult to talk to new people whereas we can talk to anyone in the country and none of them has the merchant bank in France doing the work we do. We are the only French bank with the biggest number of staff committed actively to corporate finance activities here in the U.K.

Q: How do you approach an acquisition?

A: Say, if a French company is interested in buying a British aerosol company. Now, we are not specialists in that area but nevertheless, we have contacts and we will talk to people who are in this particular business and then collect all the available data. We then start with a principle that we prefer to buy a company within a group rather than a family business because there are far fewer emotional ties involved, and more important still, a subsidiary company is more professionally run as it has got proper accountants and it is run by professional managers. So, if we decide that a particular group has a subsidiary which is the right size and what we wanted, we then approach its chairman and say that we have got a client who wants to buy a company in that particular sector. We usually get a reply and then an invitation for discussion.

Q: What about acquisition criteria?

A: As I have said earlier, the French are not acquisition minded vis-a-vis the British who are much more interested in looking at the balance sheet. The French are more interested in looking at what the market is like, how the products are distributed and they are not too worried if the business is not very profitable.

Q: How do you package the financial terms?

A: British companies buying French companies always do it for cash as they are suspicious of French equity. As to how the cash is produced, they can either borrow in a third country, for example, in the U.S.A. or Germany and they can cover exchange risk by borrowing in Euro-Francs. On the other hand, it is much easier for a French company buying a British company because the Stock Exchange here is well organised and statistics are available on any sector. So, you can see what sort of yield is quoted, the P/E multiple and you can also see what sort of discount of

premium over assets. We then look at the relative strengths of both companies. What we try to do is always to get the vendors to state the price. When they have indicated a price to us we always ask for half and then it always ends up somewhere in between. There is a lot of horse trading going on.

Q: Do you assist your client with a loan facilitation in completing the acquisition deal?

A: We always assist in the acquisition financing. If a company whose financial situation is extremely poor, we would normally try to insist that on the acquisition side that we at least be allowed to help in the financing. We are not interested in equity participation. Sometimes, we do it on a very limited basis but with a guaranteed exit. The company or its shareholders may buy back from us after six years our stake in the investment and even with that, we work on a non-profit making basis to avoid C.G.T. So, what we do is that we pay X for your share and when you buy it back from us you will pay the cost of our financing, the cost of acquisition plus margin.

Q: Do you time your takeover?

A: Ideally, the best time to make an offer is when the results have just been published.

Q: What advantages and dysfunctions do you perceive as part of a larger banking group?

A: The advantages of being part of a big financial group... well, Sir Charles Ball was a big star at Barclays Merchant Bank and he left because he had a big row with the parent company. Our problems tend to arise on the question of lending as we run side by side with our commercial banking operation here in London. We use their contacts and vice versa and inevitably, we get clashes and differences of opinions on lending policies and as a subsidiary merchant bank, we are very much controlled by the parent company. On the corporate finance side, they tend to leave us very much alone, first of all because we are specialists. You don't try to tell Sir Charles Ball how to run his business!

Q: What gives you the distinction as financial advisers vis-a-vis British merchant banks as advisers operating in their own 'Square Mile'?

A: Because of the following factors, we have the muscle to execute big transactions as we have a prestigious name. We are the third name in France and sixth or seventh

largest bank in the world. Additionally, we are able to demonstrate our specialty in this field. Although British merchant banks are very good on domestic acquisition business when it comes to overseas business, they can't cover everything, whereas we are doing this everyday. In this department, we have British and French staff and we have a tax expert, a foreign exchange expert and so on.

JEAN - CHARLES CHARPENTIER
VICE-PRESIDENT
GOLDMAN SACHS

TRANSCRIPT

Q: How is your corporate finance department organised here in Europe and in America?

A: Well, in America and here we are organised very much along the same line. The corporate finance...let's put it in context and call it the investment banking department which consists of two divisions, the corporate finance division and the investment banking services division. The investment banking division is the marketing arm of our corporate finance activity. Again, I belong typically to the Investment Banking Service Division, IBS for short. My function is to talk to clients and potential clients and we have to make sure that our clients know what we have to offer and we have to know what they want. Whenever the IBS is given a mandate to execute any corporate finance transaction, it could be financing, it could be an acquisition, then we go to the second department of the investment banking which is corporate finance which is really an execution arm and we have specialists in all areas so that we can bring these people into the transaction and the IBS person will remain overall co-ordinator and will be responsible solely to the client so that he can use the backup of people who have spent all their time on this particular kind of transaction. So, typically, if I am calling on French company, XYZ, and in the course of that relationship they say, "Well, we want to acquire a company in the U.S.", and I'll be talking with them how to do it, what sort of mandate we expect and when we have that sort of mandate, I will form a group including specialists in our Merger/Acquisition Department here in Europe to work with me on a specific transaction and so really solicitation is IBS and execution is corporate finance.

Q: Do you rely on teamwork to see through your transaction?

A: It really depends. I hate to give you a glib answer as sometimes it is three, sometimes it is much larger, sometimes it is one person and evenⁿ a merger transaction we can...certainly there will be the IBS person or the accounts officer as it is called in commercial banking that's one, there will be one or two merger specialists but there they are inter-changeable for if one is not available, I can always get the other, At times, we might bring other talents to bear on the transaction like our arbitrage specialist, or, if it is a public tender offer in the U.S., somebody from the bank department, somebody who typically work with the SEC or someone from our research department at some stage in the transaction. So, it depends on where we stand in the

we may help them find out what they want to do but most banks don't like companies who don't know their objectives. So, if a company comes to us and say "We want to make a \$100m acquisition in widget control in the U.S., first we want to know how much it fits with their own global strategy. We want to know how much commitment there is from their senior management to actually commit the amount of money to the U.S. in that field. We don't think that once we are satisfied with the commitment then we should go out and hunt for a widget control company. They should really tell us which one out of five companies best meet their requirements. They should know their market. We usually advise them to take consultants who can do a better job than we can in the first stage i.e. identify your targets. We don't think that bankers are very good at that. You know, we can produce a list. We have got everything on computer. If you tell me that I want to know every company that produces that widgets, in five minutes I can give you all these companies but so what? That is a list. How can you go from there. How do you tell these people that they have a good product, that their market share is good, that their suppliers are happy with them, that they have got the kind of distribution that they are seeking? We cannot really provide a quality judgement other than a financial quality judgement so we shy away from taking on an assignment where the client expects us to identify the target. We believe that the client has an internal capability, a better capability than us and if he doesn't have that strong capability then we would recommend one of several consultants in the U.S. who can do that job. We will work with them stayed involved even in the initial stage but what we are saying is that they should pursue a jump seat first before assuming a driver seat.

Q: How do you then go about devising your acquisition strategy given the mandate to do so?

A: Okay. If I couldn't answer that question I mean, it would be easy to be in the Merger & Acquisition business. You know, we are going to look at each case at its own grounds but let us assume getting back to my example. Say, you are the client and you told me that you want to buy a widget control company. I understand what your business is, I understand what you want, we discuss management questions, do you need management in the U.S.? Do you have spare management? How much do you want to pay? You prefer minority or majority interest? I feel, at this stage what you really want is when you have identified the targets, you have done your homework, and you are satisfied that these companies really fit your bill, not only your size but they have the reputation in the market, the right kind of products, now we are talking how to get them loose (Right?) Because these companies might not be for sale. How are we going to get them loose? Well, we probably know all

transaction, what sort of transaction as there is no hard and fast rule about how many people.

Q: What is the head of your corporate finance division?

A: Well, Goldman Sachs is a partnership and we don't like titles very much but the head of corporate finance, there are two heads who rank pari passu and one is... and both are partners who are on the executive committee of the firm. The executive firm has nine partners and two of them are on the executive committee. The background of one is very much corporate finance of investment banking and the background of the other is the service side of investment banking so that you have marketing versus execution, that's the way it works. We have two chairmen and both of them are on the executive committee.

Q: Is your clientele traffic mainly American firms seeking acquisitions here in Europe or is there a balanced reverse flow?

A: Let's say 90% of our business are occasionally European companies who will come to us and give us a mandate to sell the company in which case we approach both European and U.S. buyers. When I say European, I mean international as we will approach foreign companies too. You know, if you want a proper job for selling companies you have got to have access not only to the U.S. buyers, but also, to the Japanese buyers, the German buyers, the Hong Kong buyers, the whole lot.

Q: What is the typical background of your corporate finance/investment divisions personnel?

A: Mostly, the people who join Goldman Sachs, I am not suggesting that Goldman Sachs is typical in this respect. It is just the aspect we would like to run our own business. Most people who join these two divisions are MBAs and they are fresh out of school. We like to form them ourselves. You know you have them before they form bad habits somewhere else.

Q: Are you in favour of being given a blind mandate in undertaking an acquisition assignment or would you rather favour your client to do the homework?

A: Again, it all depends. What we don't like is people who come to us and say, "We would like to make an acquisition, so go ahead and make an acquisition for us". I think we should separate your question into two. One, we don't like to be given a blind mandate like some of the European companies who say, "You go and make an acquisition, do the negotiation for us as we don't want to appear". The second aspect to your question is that we want our clients to know that we are able to

find companies. That^{it} is our business to know which year in the U.S. whichever company that earn more than a million dollars after taxes. We are going to know the shareholders; is there a trust department? Is there a widow? Is there an estate? Is there a family who controls x% or a number of institutions? We will know all about these. We will know some of the top directors of the board so we are going to find how to get these companies interested. Is it by talking to management? Is it by talking to one or several of the shareholders? So, we are devising the strategy as there is no unique strategy. I think what we can bring to bear is a knowledge of that particular company, its shareholders mix, have they tried to file a secondary offering of equity in the market in the last two years and the market didn't accept it. So, we know somewhere there is a seller stock and he couldn't get his liquidity. So, we are going to do now our homework - as we are going to ascertain what makes the company tick. We may devise an approach in which we talk to the officer of the trust department of the bank that owns a very large block of stocks^{of} that company on behalf of some estates or we may go and talk to the CEO and we have to devise that strategy but it is not going to be rigid. It is going to be each time different, possibly different to get that company interested in talking to us because that company may not be for sale at all and you have to find the little something to get them interested in talking to us.

Q: Which shareholding structure facilitates your acquisition process?

A: Well, we like to...again, I should say that Goldman Sachs has a policy not to do unfriendly takeovers and we don't usually get associated with unfriendly transactions. In summary, most of our clients in the U.S. are medium to large companies and we have clientele in the 100 to 750 largest corporations. These are target companies for unfriendly takeovers so if we side with the rapists we would lose a lot of our virgins! So, first, it wouldn't be perceived very well with what is the nucleus of our industrial clientele in the U.S. Then, we learn by experience that it was very profitable to be on the other side of an unfriendly takeover i.e. to defend the raidees is just as good business as that is just to defend the raiders. So, we learn the business and we develop a niche for ourselves becoming the firm that was most known for defending people which are attacked. Now, for this reason, we prefer to look at companies with a controlled block because that block is the key to the sale of the company. If you talk to someone with 30% of the equity, whether a founding entrepreneur, an estate or institutions, get that 30% to talk to you then you are in good shape for the remaining 70%. So, we prefer that as a rule because if we don't have that, all we can do is to

talk to the management and if management wants to stay independent, the only alternative is to go unfriendly and we don't want to do that. We may do a 'teddy bear hug', you know, tell management, you know, it is pretty difficult. We are talking about real values for the shareholders of the company and you do not want to do anything not to your liking but we will put pressure on them that they had better talk to us.

Q: What about the art of negotiation?

A: People, totally people, absolutely, solely people. When you buy a company, you are not buying intangibles. I am sure you have heard from all the people you have interviewed saying that merger is really 90% about people. You know the structure, the price, all these are important transactions; but why are you going to put a certain value and why are you going to structure a deal is to please people, to make people wanting to deal with you. It is solely knowing how to handle situations dealing with people that makes you a good negotiator or not. There is no big secret. Surely, we want to be smart, to be good at making DCF, good at dealing with the tax aspects, accounting aspects, management aspects. How are you going to provide incentives? Who for? People to work with you? I mean, you have to structure the transaction very carefully but in a sense you can do all these but let's say, the client is not behaving himself as you would wish, or, taking care of the people as he should, or, he is not putting his own senior people in the picture by not showing his own commitment and you may have done all the right thing on paper, but you don't have a deal because the chemistry is not there yet or your client has failed to create the chemistry. So, it is terribly important that when you engineer these transactions, always find the right balance of exposure between the parties. We will program our client; we will tell him what to say, we will tell him what strategy he should have in mind to conduct the meeting and part of our strategy may be telling him that we don't want to be there. It is a very personal type of business. Sometimes, in the office it is not very well understood. You don't go and buy a company the way you buy a piece of machinery.

Q: How do you go about devising the terms of offer?

A: Well, that is a combination of many considerations. You have the tax aspects, I am talking primarily of the U.S. and I am sure it is true in many other countries. We look at what kind of CGT, what kind of tax that have to be supported by both parties of the transaction. We will look at the accounting factors; should it be a pooling of interests? Purchase transaction? Should you buy assets or stocks? Are you going to step up the basis of your assets which appreciate afterwards? What access to the sources of capital do

we get from our buyers? What kind of international transactions? What kind of currency risks does the buyer want to take? So again, here you would want to look at a number of things, tax accounting and financing.

Q: What are the main defensive strategies that you opt for?

A: I mean, let's face it when a company is raided usually its objective is to stay independent. So what do we achieve is defending them? We try and get a better price for their shareholders, better value for their shareholders and we try to find a more suitable partner for management. If management or the company considered that it is raided, there are basically two objections; one that it is not fair value for this company and two, we do not like you people who are trying to swallow us. What can we do really except that up the price and it is usually up the price with someone else. Now, everything else is delaying tactics. You try and buy time. It takes time to find a white knight to come in and pay a higher price and if you look at the statistics of raids, you will find that few companies remain independent once a raid has been launched, very few, but several get swallowed by the initial bidder at a higher price and quite a lot to another company than the initial bidder at a higher price than the initial bidder and quite a few get swallowed by the initial bidder at a higher price than the original bid. I don't have the exact figures but we have run a study for this, but my hunch would be that your 10% remain independent, 40%-50% get sold to someone else and 50% goes to the initial bidder but at a higher price. There are a number of preemptive things you can do. I remember...you know these things are evolving very quickly, because you find the tactics and the opposition find the counter-tactics and you have to devise new tactics plus legislation is changing all the time. Most companies in the U.S. feel that they have a vulnerability in some sort of way because of the structure of their shareholding or their shareholders, or they are cash rich, or their stock is under-valued, you know. So, they are natural targets. Most of these companies will get a team on board, with a lawyer and investment banker to really work on the problem, not necessarily taking action, but at least review what they are going to do if suddenly they were being bid for so that instantaneously, they are on the telephone to talk to their lawyers, their investment bankers and in the next two hours the whole team is together fighting. I mean, all these are prepared. Sometimes, certain other things are being done to prevent this happening. Say, the company may need equity capital as opposed to doing primary offering, they may do private placement, in other words, I would come to you, a nice, foreign company and ask you to subscribe 20% of my shares because I need equity capital and I like a friendly shareholder and there a lots of things we can do together, commercial, industrial sort of things.

You become a 20% shareholder, sign a piece of paper which is a "standstill agreement" but you are not going to buy my company for the next ten years. So, if a raider has to acquire that 20%, he is not going to put in a bid that is going to step up this 20% because a "standstill" really works on your way because you can approach the 20% holder and say, "You are the natural white knight!" Or, I will find some reason to ask for an injunction on the basis that there are anti-trust situations, or misrepresentations and there is an enormous arsenal and as I said they are getting out of fashion quickly. You can't rely on tactics that are valid a year ago. You have to invent tactics. You have to look at each situation and say, "Where am I going to find the weakness?" The same way for the attacker who is going to do a lot of takeover planning.

Q: So, beyond the basic tactical arsenal, one has to look at a wider canvas?

A: Yeah, again, I am not familiar with this detail of our business but I can bet that in our checklist we have 35 or 135 items that are possible defences, sort of things that we keep in mind constantly when we are advising people on pre-emptive tactics. We are reviewing these sort of things; can we do this? Can we do that? Should we do that now? There are certainly basic rules but there are an enormous amount of them and that doesn't mean that if you stick strictly to those principles, you will be successful because if we have a real case in our hands, the question is what is the key one out of 135?

Q: How big is your organisation?

A: Gosh, I should be able to answer that question. Goldman Sachs has approximately 1,800 people worldwide. Then, besides corporate finance, we have a very large group in trading, arbitrage (that is, probably about half) and roughly in the corporate finance, I would call it investment banking there are 300 to 400 professionals.

Q: How closely do you work with the British merchant banks?

A: We don't like as much as possible to be involved with other people but sometimes it happens. Sometimes, it is people business which is referred to us, take the U.S., through an accounting firm or legal firm. The same thing may happen with a British merchant bank. Perhaps, their client company A is looking for an acquisition in the States and will look to their merchant bank and the merchant bank will usually approach a U.S. investment bank. They will introduce us as well as a few others to their client and they will like to stay in the background but they expect to get a portion of the fees. We don't object to them getting a portion of the fees but

we would object to their getting a portion of the responsibility.

Q: What gives you the distinction in the States as one of the leading "Merger & Acquisition" investment banks?

A: The U.S. is our market. We know the companies. We are used to dealing with them. We know all the legal and accounting conventions and it is a different market and it has its own characteristics. I think we are probably better known in the U.S. than the best of British merchant banks. You know when you go and talk to companies and mentioned "Goldman Sachs", they would say, "We know them". We have a track record of completed deals and we have people who have spent several years of their lives doing just that and we know the industrial fibre of the U.S. inside out.

U. BLANKEN
MANAGER, BANK OF AMERICA INTERNATIONAL LTD.
(BAIL) LONDON

TRANSCRIPT

Q: Could you tell me something about the background of "BAIL"?

A: Well, basically American merchant banks are subsidiaries of American banks and they tend to focus on traditional merchant banking functions but they are not investment banks in the sense of Wall Street investment banks because they are prevented from conducting certain businesses because of U.S. regulatory requirements. The main functions of American merchant banks in Europe on the international side will be very much the same as done by the U.K. accepting houses, and on corporate takeovers our merchant banks focuses on cross frontier transactions. We are the centre for international mergers and acquisitions headquartered here in London. We have offices in Tokyo, Paris and we also have a large unit in North America based in New York in the present time. Our clientele obviously come from banking relationships within our group and we are specifically looking to assist our clients with merger and acquisition services, market fund raising and general banking advice. The main aim is to complement the overall spectrum of financial services.

Q: Do you merely advise British companies on American acquisitions or is the acquisition activity a two way traffic?

A: We advise both sides of the transaction i.e. buyers or sellers. The major trend at this moment is for Europeans moving into the U.S.A. and that is why we have a substantial corporate finance unit in America which is identifying situations suitable for potential European bidders.

Q: Is your marketing approach to corporate clientele similar to that of British merchant banks?

A: Because of commercial banking, we have very good contacts. We have a comprehensive coverage of the corporate sector in Europe and England, in particular and in the course of their (commercial banking) business discussions with their clients, the merger and acquisition topic would come up and we also have a programme of training cum educating merchant banking executives to understand what the acquisition process is all about so that they are able to present that neatly to the corporate clients. We then evaluate the various enquiries which come from different corporations and then carry on the follow up action required. So, a lot of this flows through the existing banking network. Then, of course, within the group itself, we will maintain a number of valuable contacts with those corporations who are known to be acquisition-minded and

be up to date with their acquisition criteria through frequent contacts.

Q: Who normally generates the acquisition idea?

A: It is certainly a mixture of both i.e. the bank and the client.

Q: How do you go about your acquisition search and what criteria do you adopt in sizing up potential target companies?

A: Obviously, the important criteria will be the main nature of the business, what kind of product, what kind of distribution outlet and then generally what we will try to do is to spend a lot of time with the client on working on exactly what he wants to achieve with his acquisition. Is it a question of finding new outlets for his products in his home country? Is it a question of spreading the corporation's investments or assets more geographically? Is it a question of acquiring new technology? Or, is it a question of finding new earning sources? So, there is a variety of reasons why the company wants to expand. You may have the one-product company who wants to expand domestically or world wide or you may have the holding or investment type corporation and obviously, their criteria will be financial by nature and we will give four or five main lines, of businesses for the client to choose.

Q: Having been given the mandate to act for your client, how then do you approach the takeover?

A: Basically, the client would say, "I want to spend U.S. \$10m in buying an European company". He then delineates the parameters and we will commence with the acquisition search. We will go through the screening of the industrial sector and identify companies that will fit our client's criteria and we will then compile a list based on all the information that is available to us. Then, we will approach the senior management of the target company and then say that we are acting for a client. Now, it all depends very much on what the target company's share pattern is like; whether it is a privately owned company or a publicly listed company. If you have a manager whose owner is the family which is not very much interested in the business you probably have to decide between those two because the manager probably doesn't want to be taken over by somebody else because he is in a very comfortable position or if you go to the family, they probably for sentimental reasons would never dream of selling the business either. The manager, on the other hand, might be dying to get a big brother to look after him. If they don't seem to be very interested we will try to present arguments which will make business sense to the owner and why his company should be associated with our clients. Regardless of what

negative response you get, if you don't have any option i.e. they are the only company that fits your criteria, then obviously we will spend some time working on it pursuing it now and come back six months or a year later. What you should do here is to establish some sort of relationship but in my experience, most clients would agree to sell later on.

Q: How do you structure your terms of consideration?

A: For foreign companies acquiring American companies, it is advisable to go for cash transactions simply because it is very difficult for non-American companies to go for equity. Debt instruments are slightly easier on the other hand. For American companies buying U.K. companies, it all depends on whether they have been here and their paper is listed and traded in the market. If it is so, you may find that paper is equally acceptable. I think the exchange of paper in a cross-frontier transaction would only take place with large corporations.

Q: Do you enter into contested bids?

A: We, as a matter of policy don't advise on contested bids simply because we provide a wide range of services and we don't want to be seen as the sharpest thing in the market. The other thing is that the overall kind of bank-client relationship is too widespread, the chance of running into conflict is too great and as I have said before, there is enough creative business around. As I see it, the way of dealing in this game is by convincing somebody and not by forcing somebody to sell their corporation.

Q: How is your merchant bank organised for acquisition work?

A: I think it varies from bank to bank. In our merchant bank, we have corporate finance executives who work in teams and we will also draw and use the expertise of other people within the bank as a whole to the extent they can contribute their commercial and banking knowledge. Normally, in a corporate finance transaction, we will have one or two merchant banking offices assigned to it and we will also use two or three or one commercial banking officer(s) who perhaps have the experience in say, consumer durables industry in the U.K. because they are in our London offices. For instance, we had a transaction last year and part of the merger investigative work was done by one of our investment management groups in San Francisco who knew this industrial sector very well and was therefore best equipped to do a special study on it. We are the largest international bank and as such, we are well placed to exploit our international network and talents.

Q: What kind of relationships do you have with your large portfolio of clients?

A: Obviously, we have closer relationships with some corporations than others because we aim to develop an ongoing relationship on the corporate finance side. American merchant banks in the U.K. are still relatively young and currently most of us are in the process of building up a portfolio of corporate clients. The reason why we don't want to compete with the British merchant banks in their home ground is because they provide good services to their own clients and I don't think there is much merit in trying to duplicate their services. But at the same time, we won't say no to a corporate client who asks us to advise them in the U.K. The acquisitive U.K. companies would not only talk to their traditional U.K. merchant banking houses when considering acquisition because, the more professionals they have working on their behalf, the better they can cover the very big market we have in the U.S.A. One bank is not going to be able to cover the market as well as five.

Q: How involved are you with British merchant banks in the area of acquisitions?

A: We work very closely with them — same as with the investment banks in the U.S. When we are looking for target companies i.e. selling situations, we would also contact other merchant banks who are in the position of advising vendors and we tap on them to see whether they have any interest or suggestions. The corporate relationship between banks, I should emphasise is as important as personal relationship and the individual contacts that you have.

M. RICHARDSON
EX-SENIOR PARTNER, CAZENOVE
(Currently, Head, Corporate Finance
Rothschilds).

TRANSCRIPT

Q: What is the title of your head of corporate finance department?

A: Well, he is a partner, he hasn't got a title. There're four partners in this department. One, I think, you call the department head simply deals with the Stock Exchange and all the companies that we're brokers to. On top of that, four or possibly five, one partner goes out to the companies and actually get the business in. So, it is really split into two parts. The five partners who basically do nothing else but corporate work. It has one partner who is in charge of the department and four top grade assistants who are solicitors or accountants and then there is the secretariat consisting of four girls and two men. We've got a very big corporation business and our chaps are fully extended.

Q: Could you describe your department staffing?

A: There are two accountants, two lawyers, twelve analysts in the firm whose job is to keep in touch with all the companies that we act as brokers. Therefore, you could say that they are in the department, but we don't consider them to be in our department. The analysts have a partner in charge, and work totally separately, and all the corporate department want, is that, every company has the name of the partner who is looking after the corporation side, has the name of the analyst looking after the company against that.

Q: Do you work individually or in teams?

A: That is a difficult question. I think we mostly work individually. On this basis, there is a partner, a specialist and an analyst that are responsible for each company, but quite often, the analyst works individually and only comes on to the picture when the partner feels he should be incorporated.

Q: What are the functions of your corporate finance department?

A: Simply to give corporate finance information to the companies we act as brokers. Corporate Finance is a very wide subject... You know, they ring us up for corporate advice of endless sort, whether it is for raising money, takeover battle, dividend they should pay... it is really the full stretch of corporate advice.

Q: How involved are you with the merchant bank community in merger and acquisition work?

A: We work very closely. Of the seventeen AHC, or better still, of the eight largest merchant banks, we're the actual brokers to seven of them. If "Schroder ~~W&G~~", "Warburg", "Morgan Grenfell", "Lazards" or "Rothschild" do anything, we're their brokers and therefore, we get a lot of their corporate business from them. But we also deal with them as individuals on their corporate side. A large part of our commission business, and a very large part of our part of our corporate business comes from merchant banks. We would guess that we work more closely with merchant banks than any other brokers, and the only broker near this will be "Rowe & Pitman". The merchant banks bring a lot of their customers to us. If you like, to take the big, new business that we're going to advise next year is the denationalisation of government stocks, IMMOS, BNOC, etc., and I would guess that 3/4 of the customers that are going to be denationalised have already asked us to be their brokers, And all these come from merchant banks. So, a great deal of business comes from them.

Q: How often do you structure a bid or get into a contested bid situation?

A: We will work always with a merchant bank, for example, all this morning I spent with "Warburgs" advising House of Fraser in their battle with "Lonhro" and the whole of yesterday there. What we do is, we work with the merchant bank on giving corporate advice to their client on the broking end, but we try to work as a pair with the merchant bank. As for contested bids, we're in an embarrassing position because we've got so many customers that we act as brokers and quite often, we get two of our customers wanting to have a battle, in other words, "Dalgety" wanted to takeover "Spillers" and we're brokers to both customers. Always in that case, we will withdraw from both customers. We never defend a company against another one of our own customers, or attack one of our customers for another company which we act as brokers. Besides the conflict of interest, if we act for Spillers and lose the battle, then we lose Spillers for all time but more than that, we just feel that we are adviser and are very close to these companies that we have specialised so far in for so many years. We're crazy if we've failed to pull out when the two are locked in a takeover battle.

Q: What is the nature of your involvement with merchant banks in mergers and acquisitions?

A: We will be very involved in our merger/acquisition business. For instance, in fact last week we won the votes in GM/Ligget affair and that took up a great deal of time. There have been more takeovers/mergers than the year before, and the majority of the big ones we would expect to be involved in. Quite often, we

weren't the "House of Fraser" brokers but then this battle came along. They asked us to defend them, We will never do that unless we felt the case was good.

Q: What screening process do you adopt before consenting to become financial adviser to a new client?

A: We will go for quality business and we will turn down as many business as we take on. We find that the more business we turn down, the better business comes to us. In the days of "Slater Walker" and the other pirates of the last five years, we refused over the years to act for them, at any time because we felt they haven't got a viable business and they wore the stair's carpet out in coming here to ask us to act for them, but we never did, because we know that they haven't got the quality business. We look into enormous details and this is the reason over the last few years, and during the last few years, and during the '74 collapse, we had only one company out of all companies that went down and that was "Ceda" and that was eventually saved and bought. So, we're very thorough, for otherwise, we would lose all our business.

Q: How would you go about devising your acquisition?

A: Every single case is totally different. Every single case you need to look at to see where the company's weakness is (the company you want to acquire) to find out where, the best to attack, we will always advise people to see whether they could bring about a friendly merger. First of all, it is always cheaper and less aggravating in the long run. When it comes to the attack, we would normally look for the weakness in the opposition. But there is no exact steps and procedures that you can follow. If this was an exact science, there will be hundreds of people who will play a hand and they will do it very well. The fact that it is rather like a boxer going into the ring. Your second can tell you before hand how you should box, how you should fight, but once you're in the ring, you've got to do it yourselves.

Q: What factors do you take into account in formulating the terms of consideration?

A: Again, that depends on the amount of cash that the company has. If you're advising "GEC" you wouldn't suggest that they issue shares when they have got a cash margin of £750 million! On the other hand, if you're advising say a highly geared company, take "Grand Metropolitan" after they bought "Liggett" when they will be 60% geared, you could only advise them to issue their paper.

Q: Do you favour profit forecasts as a defensive tool?

A: Always, but a profit forecast needs an accountant to agree to it. We seldom use a profit forecast in our first defensive document. You know, there's usually two or three when we're attacking. We usually use it at a later stage so it doesn't give the attacker room to manoeuvre but we pretty well have it up our sleeves.

Q: Do you perceive any conflict of interest arising from your dual capacity role?

A: No, we don't...The reason for that is the corporate finance department is totally different with a separate room, with a separate staff, and in fact, if you take "Land Securities" yesterday in which we raise a £120 million, none of the people in the stock market world knew anything about that until late last night and they would have been still buying the shares. We have a door which is closed between them and neither side speak to the other. We're very, very careful because we would destroy our corporate business if our stockbroker business made use of it. In other words, if we've been selling "Land Securities" shares two or three days before this, the market would know that we were cheating, they would know that we were dealing as an insider.

Q: What distinctive factors favour you as financial advisor?

A: I don't^{think} there is any because we don't act as a corporate advisor without a merchant bank. We always work jointly with them and we think we've got more business and a better list of clients by doing that. If dual capacity came into the Stock Exchange, and if a merchant bank bought a stockbroker company and took us on on our business, I just say, "We'll act for those without a merchant bank". But while the situation is at this moment, we would try and not to trample on their feet and let them not trample on ours, but if we did take it with our client list, we would have a pretty good start!

Q: Do you foresee a merger of a merchant bank with a stockbroking firm?

A: I think that they probably won't. But I think, what might happen is that, the big merchant banks might turn themselves into investment banks like what they have done in America. Once "Salomon Brothers," "Morgan Stanley", "Goldman Sachs", "Merrill Lynch", etc. will try to come into the corporate banking business side here--and if they do that, then, I think merchant banks here will try and buy a stockbroking firm. We'll always try and remain totally separate because most of our business comes from merchant banks, and we be-

lieve that we would provide a much better service for customers and for our clients and for merchant banks if we didn't link with any merchant bank. If we were to give it a name "Warburgs", we would lose the business from "Samuel Montagu" and all the merchant banks. And therefore, we think that we'll always remain a separate entity even though we might be dual-capacity. We job as well as broke, but we don't think we would ever line up with any merchant bank because if you look at "Crawfords", and you see to all the companies that we act as brokers, each one of them has a separate merchant bank. And though we have some merchant banks that we're close to than others, it is pretty widespread over all of them. And therefore, we didn't dare to link with one merchant bank because we would lose 3/4 of our business!

DEREK BULLMAN
MERCHANT BANKING ANALYST
JAMES CAPEL & CO.

TRANSCRIPT

DB: It is quite strange that business-school seems to be interested in merchant banking as we receive on an average 4 or 5 letters a year from people regarding this subject. Recently, there was this chap from Oxford who rang me up and informed me that he was interested in looking into the profitability of merchant banks and he was willing to pay for my service. I told him that he was wasting his time as merchant banks reveal very little in their balance sheet. /

Q: Why does the term, "merchant bank" lacks precise definition?

A: The merchant banks arose because they were merchants in the old days and they got into banking because of their trade business but I think it was a description you use loosely to describe any kind of banking which is not clearing banking, not hire-purchase finance houses but still doing a big trade in settling trade indebtedness in import and export business but they have gone into other businesses as well. So, it is just a convenient label which have hung around for no better reason than that, and as the Bank of England has just pointed out that under the new Banking Act, many top quality merchant banks don't have "bank" in their name, like Kleinwort Benson, S.G. Warburg, Hambros, Hill Samuel, etc.

Q: In this present age, is it still important for a merchant bank to be accepted into the fold of the elitist AHC?

A: Well, you know, membership of this committee entitles them to have the best rates for dealing in their bills with the Bank of England and the Bank of England would not let them go broke. I think that it means less now than it used to especially as they go into the scope of widening their bills which are deemed to be eligible to be discounted with the Bank of England. Being a part of the AHC means that their members must be able to run their services efficiently and unaffected by direction from outside sources, in other words. Grindlay Brandts had to get out because Grindlay Bank has to sort it out, Antony Gibbs had to go because 'HKSB' took it over, 'Samuel Montagu' doesn't have to go because 'Midland Bank' doesn't interfere although there is a grey area there but, I don't honestly think, I mean it is an accolade, a quality symbol and many merchant banks that aspire to be good merchant banks must obviously hope to get that recognition.

Q: In your opinion, who are the leading U.K. merchant banks?

A: Obviously, it is the large accepting houses that have to

be included as leading and successful but you possibly have got to be a little careful as many of them are parts of much bigger groups and people tend to forget that they have other activities; Hambros has a merchant bank but has also got other wheeling-dealing interests as well and although the merchant bank is a large part, it is by no means the whole and the bank of Hambros has been relatively unsuccessful these few years especially in shipping and we don't think they are out of the blues yet and "Hill Samuel Group" has plenty of problems in banking but the bank itself is doing well now. "Warburgs" is very good and certainly being the most successful in terms of growth over the last few years although it has come from behind but it is still small. I would regard "Warburgs" as being leading and successful but by no means the biggest in terms of balance sheet but very good on fee earnings and that sort of thing as you know. "Kleinwort Benson" has to be included. "Lazards" is also a leading bank but they are highly secretive, "Barings", the "Rothschilds" of course (hardly anybody knows anything about them but has to be included as leading and successful) and "Schroder ~~Wag~~" all belong to this top league.

Q: All the U.K. Clearers have gone into merchant banking but what dictated their diversification into this area?

A: All the Clearers are interested in any way they can to diversify their business away from the clearing bank function because they can't get any more growth from retail banking, they can't get anymore market share so they have to think of other services they can provide or buy businesses around the country. Sometimes, banks like "Barclays Merchant Bank" get into some medium term lending which the parent bank would not otherwise do. They generally do some corporate financial advisory work and currency swaps and things like that. As you know, Charles Ball left "Barclays" because he couldn't get his own way. "Midlands" has got a fully fledged merchant bank and although it doesn't interfere; there have been one or two occasions of conflicts of interest. If you are really keen on this, it was about four or five years ago, there was a client "Samuel Montagu" which "Midland" was the banker, and the company got into difficulty and the bank wants to skew it one way to the bank's advantage but the merchant bank was advising it to resist "Midland's" request, and it was something else and there was a big bust up and "Samuel Montagu" had to resign because it was advising that interest. But when it comes down to the very top quality advice like mergers and takeovers, if you want top quality advice which will cover all the angles, the clearers merchant banking subsidiaries are honestly not in that grade at all, and big companies would be well advised, ~~staying~~ the more established accepting houses which have got much more experience and in the main, better quality management.

Q: Since we are on this point of the Clearers owning merchant banking business, the HKSB seems to be in hot pursuit of the RBS. Do you perceive any strong underlying current for this move?

A: Probably, they ought to be in Europe and probably London is the best place to be. Don't forget that HKSB has many branches in this country and an enormously posh office in the City but why do they need the RBS? Maybe they want to get bigger but, have they got the management to make the changes that they think they should make? They say they don't want to change anything in Scotland and even offer a partnership, a minority interests with Scottish institutions but I think that it's true. I heard, but I can't verify, that over half the shares in the RBS Group are held south of the border and it is not such a Scottish bank after all (it is not so much Scottish owned as they think it is although a lot of RBS business is in Scotland). On the other hand, "Williams & Glyn's" is tiny in England and I think SCB will win, that's what the market says and "HKSB" has[^] bid for something else.

Q: How important is corporate finance activity to the merchant banking community?

A: It is important to some than others. "Kleinwort Benson" will always tell you that it is never more than the icing on the cake, that's what they tell you but the fees, again one can get[^] very little information on the fees they charge on corporate finance work but they are successful, they do charge very high fees and I think for most merchant banks, it is quite significant and a lot goes on that is behind the scene that isn't publicised and I think quite a lot[^] deals are done with private companies which of course aren't publicised and these deals are important even after the salaries and the overheads people who are doing it and they form quite an important contributor to most merchant banks. Well, although I say important, it is rarely more than 25% and sometimes over a period of 12 months and a bank can have quite a lot of rights issue and they don't show it, so, that they can tuck it away and don't show it in the profits but there is precious little information on their earnings.

Q: What about the fact that corporate fees have been very high?

A: I know that Weinstock has refused to pay "Schroder Waggs" for defending "Averys" but apparently "Schroder Waggs" say, "Forget it" and they didn't sue and they just swallowed their pride and wrote it off. You see, when you are in a takeover situation, the board of a company is obliged to take expert advice and the merchant[^] knows as much of that company as anybody does and it[^] knows the market, the bidder, or the other side and the top executives have to weigh the thing up and take a decision and that decision they will be stuck with it whether right or wrong and

they can have very high responsibility in those decisions but it probably takes them 10 minutes to decide whether the decision is, literally. I know because when I was in auditing, I did a bit of "Keyser Ullman" for a couple of years and the managing director was advising "Vehicle & General Insurance" I think at the time and they come to them from some other merchant bank and he said they charged £100,000 for those fees but it took them only 10 minutes to decide what the advice had to be but it's the responsibility. That advice enables the board to do what it wants to do and everything hinges on that advice as they can't do without that written advice but it is worth a lot of money at that time then. It is worth even more or nothing with the benefit of hindsight. I think in the "GEC/Averys" incident, merchant banks ought to say what their fees ought to be. In the old days, in a takeover situation where the defence isn't successful, the merchant banks might not charge a fee at all, or a very small one, but their fees would be much bigger if it was successful. So it was almost successful payment by results. I think, nowadays, the fees are charged regardless and settled in advance before-hand what the charges are going to be by some sort of board minute which will bind the board to pay it.

Q: Do you as an established stockbroker firm pose serious competition to merchant banks in corporate finance activities?

A: I think we can be a slight threat and in some cases there can be. A few years ago then "Lloyds Bank" rights issue was handled by "Hoare Govett" and the brokers did the underwriting themselves and it was cheaper for the bank, but you see, merchant banks are so powerful that they can very soon teach you a lesson if you try to muscle on their preserve and they can very well stop the commission flowing faster than it was to you, very, very, easily but you see, we all hear of deals coming our way or new issues to be made or something and we can introduce companies to a merchant bank which we think is best suited to them and of course that works to our benefit and frankly, it is much more sensible for us all concerned to push business to them and for them to push it back to us in one way. I tell you where the threat lies - in fund management, "Philips & Drew" have developed a large fund management side on the basis that they don't apparently charge any fee for managing the funds and they do it all for the commissions and share dealings, and therefore, have got such a lot of business from local authority pension funds that the merchant banks were extremely upset about it and generally made sure that it gets very little business from merchant banks. They are getting enough to ensure that they can do research work but only just, but it hasn't deterred "Philips & Drew!"

Q: On its own, stockbrokers seem to be doing very little takeover transaction. Am I right in saying this?

A: That's quite right. Technically, we are quite capable of doing this but it is the merchant bank's seal, for example, if "Rothschilds" say or if any of the big names say that's their name^{or #} is all true that's enough to make people feel safe and that's what they are charging their fees for. If you look at "Lazards" and "Fairey", obviously, it is a hot potato there and you do remember that years ago when "GEC" bought "AEI" they were pretty upset by the wild profits forecast. I suppose, companies could sue the merchant banks for negligence but you must remember that it is the board who makes the forecast and although the merchant banks sanction it, you have to prove that they were negligent if you take them to court but, I suppose, it depends on each case. I suppose people are more prone to sue these days because the losses can be quite huge.

Q: Do you see a possibility of a business linkage or merger between merchant banks and stockbrokers in the future?

A: Well, we have to change the stock exchange rules to start with as we are not allowed. It would have happened already if they could be on the hand if a merchant bank merged with a stock broker, it wouldn't get the research from the other stockbrokers and I personally think there is a very great deal to be said for about the status quo, about dual capacity of stockbrokers and dealing with everybody at arm's length.

Q: Do you see a conglomeration of merchant banks in the 1980's?

A: No. Quite honestly, I think they will continue in their own sweet way. "Hill Samuel" has always been a potential takeover situation, they try to merge with a big property company before and at that time Sir Kenneth Keith, now Lord Keith reckoned they have got to be big in balance sheet terms - the only way you can be big in sort of balance sheet terms was to do a bloody big takeover of some asset situation like investment trusts or property company, flog the properties and put the bloody money into the bank and that was perfectly correct thinking but you know, he was ahead of his time, I think. Subsequently, they have been trying to build their capital base up because in international banking, the balance sheet size counts a hell of a lot. These banks tend to blow themselves up as large as possible just to impress people and they had vision to expand into Europe and other parts of the world.

Q: Are you in favour of hidden reserves?

A: No, I don't think so as it is a historical tool used by the clearing banks, public confidence being the main reason behind it and the fact that some merchant banks commodity side do have very big fluctuations and that goes for discount houses as well, profits fluctuate enormously, no doubt about that. As an analyst, I would wish

they didn't unless there is good justification at all but so far as the need is concerned "KB" last year brought out £10 million published reserves for the sake of re-assuring the world at large who don't know about this thing that they are not too stretched and "Union Discount" did the same thing. They will show as much as they need to show, but no more, but again, I like to see them show but I don't think it will, "Hambros" was in favour of showing before the shipping crisis...."

* Kleinwort Benson.

OTHER PROFESSIONALS

SIR CHARLES BALL
EX-CHAIRMAN, BARCLAYS MERCHANT BANK
(Takeover Specialist)

TRANSCRIPT

- Q: Sir Charles, before you agree to take on a corporate finance transaction pertaining to a bid or undertake the defence on behalf of a potential corporate client, what are the normal steps and procedures that you would adopt in your approach?
- A: First of all, I must meet the chairman of the board and then know possibly a little bit more about the company and I'll look at their trading record and ask what their prospects are and I shall have to find out what their immediate reactions are to the bid. In some cases, they will fight it off at all cost and I will say that I could defend them if it is right in the interest of shareholders that it should be fought but, the very fact that someone makes a bid that does not necessarily mean that it is the best price and so, therefore, by saying no, it may well mean that it is part of the tactics to increase the price of the bid maybe. There are all sorts of ways of looking at it but I want to see that the board are prepared to act in the interest of shareholders.
- Q: Assuming you have been given the mandate to act for your client, how do you go about putting together a corporate finance team to tackle the important assignment?
- A: If it is decided that we act for the company and fight off the bid, well, that is something I've got to choose but not necessarily at the first meeting. The client will want to meet the senior director involved. At those meetings, they would want to know that there is a team to call on and the responsibility is placed with the senior person. The size of the team depends on the size of the job. But the client always want to meet number one so that he wants to know that there is a number two, and as the number one, I want to see that there is a number two and number three to do the donkey work and also if you get a battle going for weeks and sometimes months to allow for absences.
- Q: If you are suddenly faced with an important defence transaction, how do you go about mobilising your defence team within the constraints of time?
- A: It may be even the bid has not been announced. Well, initially, the first thing is to decide the reaction of the defence, in other words, are we going to say we reject the bid and we assume that is the case for the purpose now. Then, I have got to tell the company that I need the figures, profits, forecasts for as long a period as they can give them. I have got to get in touch with the accountants who will have to look at the forecast and my own staff will have to check the forecast as

well, but, the first thing is to try and delay the various activities for as long as possible. Sometimes, it may be the bid is announced before I was even pulled in but, the bidder still has to post the documents and unless he has got hold of the list of the shareholders already, you delay the posting of the list, the longer you have in preparing the defence. So, time is important.

Q: We have now come to the stage when you are in possession of the shareholders' list; having analysed the share pattern, how do you perceive which particular shareholding component offers you a sound basis to fend off the unwelcome bid?

A: If the board and their families have large holdings and providing the family hold together which is not always the case and providing they hold together that is obviously the best. Sometimes, people think that if you get a lot of institutional shareholders they are easy meat. Not in practice! The better defence is when you have got lots of individuals because they will support the board as the institutions will see if they can make a profit. Many of the nominees in my experience you can identify who they are but under the 1976 Companies Act, you can ask the nominee company who is the beneficial owner.

Q: Could you kindly comment on the list of defensive strategies which I have in front of me?

A: I would say when I have been asked by a company how do they stop a bid and I say, "Make more profits!" That is really the crux of it. The question of asset values, that depends who the purchaser is, what he is going to do with the assets in different ways as to what you are using them. Revaluation of assets may mean raising the value but it also shows that the biddee company maybe has not been making a proper return on its assets, so, by raising the assets I can look like a weakness to some extent. And to some extent, if the asset value is more than the bid and it is a good argument to say if the bid is 50p and the asset is 60p then the bidder must pay more but the bidder is going to be looking at profits primarily because it is the profits which affect the market value. You can't do sale of corporate assets or capital reconstruction without going to the shareholders because the shareholders own the company and it is not for the board to change the nature of the company without the shareholders' permission. If the profits are there you can increase the dividend and when we have dividend limitation this was one of the ways which was allowed to increase in the normal manner. But if you have a bid you could increase your dividend which meant the market price went up and that is a good way of stopping the offer. Bonus issue/scrip issue doesn't really affect the case because to take a simple case, if you have a 1 for 1, double the number of shares it can technically make it more difficult for the bidder because those new shares are not on the register and he has more difficulty, but to do that you will have to go

to the shareholders again. If the issue is going to increase the total capital, it won't necessarily do so because the market price will go down in proportion to the size of the issue. Lodging shares with a friendly company...ah...there is no such thing as a friendly company. In the same way shares are sometimes placed in so called friendly hands i.e. to an institution and the institution will take a decision according to the merits of the case. To mount a bid against another company before a bid comes, that certainly increases the size of the victim so, to that extent, it makes it harder for the other company to bid, that is, if you are bidding shares. Here again, it makes it in practice a little more difficult because the new shares of the issue are not on the register, therefore, the bidder has more difficulty. I don't favour mud-slinging because institutions don't like it. I have known cases where the other side has been mud-slinging and a letter went out using rather extreme language. In one particular case, where I have said this, it proved right. The institutions were fed up with mud-slinging because if that was the only argument they had there wasn't a very good argument! Making counter bid by buying shares in the bidder company, it doesn't happen here because there again you are weakening the position to a large extent because the shareholders and the press^{is} sufficiently experienced and they realise this move is supposed to evade rather than producing a positive case. I rather prefer to be positive in my defence than negative and run away.

Q: Besides the defensive strategies that we just discussed are there other defensive options that you favour in a contested battle?

A: Well, first of all, what I always say to a company when I first meet them, I say, There are four answers you can say to a bid; you can say yes and in some cases, the figures may be such you have to say yes, it is unlikely for the first round, Secondly, you can say a straight no and thirdly, you can say no but if we get a higher price it may be yes or fourthly, you can look for another bidder who may pay more. Now, the last three are all different ways of saying no but events will change in the course of the bid and you may change from one to another. For example, you may look for another bidder but once you have done that it means you lose your independence besides either bidder number one or bidder number two is going to win. It is unusual to be able to fight off two bidders. Going for a higher price is showing that you don't oppose the bid in principle but the price is wrong or you can say a flat no which means that your options are completely open. So, my first reaction would be assuming that we have got some cards to play in the defence, is to say a straight "No. The bid is unacceptable". If you say that it is inadequate, it means that you are prepared to say yes at a higher price, but, if you say that it is unacceptable that means that you have got your options open, then,

you let events take their course. In fact, in the first defence letter or announcement, you may say the bid is unacceptable and we shall give our reasons after the bid is posted, so in other words, playing for time.

Q: How do you counteract against the 'sighting shot' strategy adopted by your merchant banking opponent?

A: It depends on the circumstances. In some instances, the bidder will have a sighting shot to draw out the defence and then come in with a higher figure. Occasionally, it may be they want their first price to be so high in relation that the press will think that this is a good price and it is all over and therefore the defence might as well cave in. But even though you show a high price you almost always have to put up a little bit more just to give some guide to the defence directors to show that they have done something for the shareholders.

Q: What is your opinion of the role of the financial press in a contested bid situation?

A: The press can be important if they take a view at the beginning that you haven't got a case. If, on the other hand, when the bid comes in or you have received notification from the other side, you talk to the press and say, "This is nonsense, this is unacceptable". Generally, the press from the first day is going to say that this is a 'sighting shot' and therefore the market price is going to linger above the bid price, therefore, the bidder cannot buy the market unless he increases his bid.

Q: What other trump cards should one put up one's sleeves in a contested battle to ensure a better chance of success?

A: I mentioned profits as the basic answer...depending on the first bid as to the price of the offer as to whether you need to bring out all your ammunitions - if the bid is very high you have to bring out more, if the bid is not too high then you talk about current profits or may be talk about current assets or say you're going to have a revaluation which will take a bit longer and then you try and keep some ammunition back for the second bid. But the takeover rule do say that the shareholders got to have all the information, so, you got to be very careful in keeping too many cards back because the shareholders haven't got the information. Now, I have a number of cases, ^{that} We sent out what I called the first defence letter, this is the first long one because lots of short ones go out early saying that when you get the documents don't do anything because a lot of shareholders are going to sign the first piece of paper they get. In your long defence, you got to decide with the board as to how much you are saying, how strong you put your points, because if you put all your cards on the table the first time, they have only to raise by 10p or 20p and then you have had it.

Q: What factors bear upon the choice of defensive strategy?

A: I think you have got to consider what is the objective; is there a chance of total independence? In which case, you may play your tactics one way. Is it a case that once the bid has started you may feel that you have lost your independence, how can we do the best deal? And, in some cases, of course, you don't know what the outcome is going to be but so often I have said to companies fearing a bid: "The objective is to stop a bid starting!"

Q: What other factors apart from price would you advise your client to accept the bid?

A: As far as the shareholder is concerned the price is what matters. If on the other hand, if you are being offered shares of another company, one way you can fight back is to cast doubt on the value of the other person's shares. I have frequently said that I wouldn't dream of accepting certain company shares but if they offer cash that is another matter! But, if they offer cash I would say, "I want shares to avoid CGT!"

Q: How do you go about structuring the right financial package for the right deal?

A: If I feel we are going to lose independence we might as well do the best deal we can. Therefore, we use the lever of the recommendation to make the bidder pay as much as possible. I remember a case where the share of the defender was I think at 24p, the first offer was about 32p, the second one was 40p, and in each case there was underwriting of shares for cash. For the recommendation, they paid 48p and I insisted on cash because I did not trust the paper and as it turned out later I was right.

Q: What is your view of the relevancy of profit forecast in defence?

A: A profit forecast is certainly relevant because it is not last year's profit which we are selling or last year's profit that the bidder is buying, and, if one can produce figures that are reliable that is the best thing. In some cases, owing to the timing you can't produce figures owing to the nature of the business. For example, during a strike, it is very difficult to produce figures because you don't know when the strike will be over. Even if I can produce figures I would try to have sufficiently wording to imply that the purchaser is buying future profits and not the last one and it is an opportunity which we are giving up. An example would be if you have considerable capital expenditure in recent months or a year or two. If you are really fighting for your independence, you've got to be prepared to live with what you said.

Q: If I may steer the conversation from a defensive posture to an offensive stance, how would you advise a corporate client who has identified his victim and requires your professional expertise to consummate the transaction?

A: First of all, I would question his reason for the bid and I often say to a bidding chairman, "Every time you shave in the morning, why are you doing it?" Just to make quite sure that there is a good reason! If there is a good reason then you are more likely to justify to the shareholders of the victim that 2 and 2 makes 5. In the case of diversification, I would advise them to make it an agreed bid because if it is not an agreed bid, they may lose the management of the other company, the experience of the other company, because, if you get the mud-slinging it does not make life easier afterwards. If on the other hand, you can convince the victim that they can join the family happily because it is diversification, they will continue as before and they will have the strength of the parent behind them and one or two of them may join the top board, and in the meantime, the shareholders will get a premium over the market. If you can get a friendly reaction then you can build up for the future and there are many big groups which have expanded out of diversification and there are many big groups, where the present management has been found from some of the victims which is an incentive to the victim because, this will give the victim's management a bigger scope. I will emphasise that. You got to get the bidder to write in such a way to get the victim's curiosity for a meeting. Once you have a meeting you can broaden the scope.

Q: What is your view on 'dawn raids'?

A: I don't approve myself because the small shareholders don't have a chance of participation.

Q: In your experience, is a merger list important to your corporate finance work?

A: Some companies will go to a merchant bank and say, "Fine, find me a victim". I prefer to say to the company, "You've got to manage it in the future, you ought to find your own victim but if you want more information about a certain company, I can help you on that, but it is better that you, the company, find the kind of target that you want to see that it makes sense commercially." Some of the big groups have lost money buying the wrong company.

Q: In pitching your own bid price do you incorporate a high premium?

A: You start off by saying, what is the market price and as a general point I would say you have got to be expected to pay something between 30% to 50% of the market. Then the bidder has got to do his sums to see whether it is worthwhile to pay that sum of money; if he is paying cash for instance, will the profits be suffi-

cient in the future to service the sum involved. If he is paying for shares, there may be dilution in earnings and you can accept a certain amount of dilution if two and two is going to make five. But having decided what is the fair price depending on the approach to the company on the assumption that you are making a bid out of the blue, then you will expect the first offer to be sufficiently over the market but not necessarily your top price.

Q: Would you kindly describe the background and process related to the structure of an offer?

A: The offer document has to contain a large number of items under the various regulations and most of that can be drawn up in advance of any bid. The commercial justification has got to be done with the assistance of the company and there are paragraphs like that in which I would invite the company to prepare the first draft and I would tell the kind of things that I am expecting but most of it is formal. Depending on the company and the adviser, it may be written by the bank or a little bit of both, but, the documents of the bid although long are relatively straightforward because they have to comply with the rules. The defence letter has much more freedom for individuality and here the merchant bank would almost certainly provide the first draft and would explain to the company the tactics they are adopting, in other words, what sort of strengths and weaknesses they are talking about. Sometimes for instance, you may purposely have the first defence letter looking rather weak, so that your bidder raises a little bit more and then you bring out your real ammunition later when the bidder has raised his offer and says, "That is my final, final offer". Once he has said that, he can't increase that again under the rules. So, you then trap the bidder into saying that is the final offer. This is the kind of thing on the defence. You have more freedom to decide which way to do it and if you are going for flat out independence as opposed to another counter offer or a higher one. In some cases, people just go for all guns firing all the time.

Q: What factors affect the timing of the bid?

A: You time the bid when it suits you best and suits the other man least. For instance, if the victim has just produced some figures half-annual or half yearly and said that they have got a difficult time coming. So, many bids are made at a time when the victim has shown signs of weakness.

Q: In your experience have you discovered that a long standing client is much easier to defend than a new client?

A: I have found that in many of my defences I have been called in the last moment and in some cases, I never even heard of the company before. You can improvise very quickly.

Q: Do you subscribe to the proposition companies should adopt defensive measures in advance of any pending bid?

A: Only if it is in the interests of its shareholders, because, if you take action to prevent a bid you weaken the company then you are making a bid more easy.

Q: Would you care to comment on the statement that in losing a defence you only lost the battle but not the war?

A: Oh yes, that example I gave you where the price went up from 24p to 48p, although we have lost the defence, I think the shareholders did very well. The press do tend to say sometimes that so and so lost the battle because they went down but if you ask the shareholders then I think you won the war.

Q: How do you normally go about approaching family controlled business?

A: You have got to encourage the family or the chairman that he can get more marketability through holding your shares or cash. If he stays where he is, he is going to be locked in forever and here is the opportunity to spread his family risks. There are many companies where the family has a strong holding. They have decided that this was a good opportunity for getting out...at a high price particularly when you have trustees involved, the trustees may feel that they ought to spread their risks because if the trustees have all the assets in one holding, that may be unmarketable and then they ought to sell some of their shares in any case in order to get some marketable securities.

Q: What are the most important factors that determine whether a bid is successful or not?

A: Price obviously.

Q: In view of the substantial professional fees charged by the big merchant banks for services rendered, in your view does that necessarily drive the smaller and medium-sized companies into the folds of the smaller merchant banks?

A: To that extent the smaller company may feel that they are going to be smaller if they go to a big merchant bank, I don't think that is quite true. I think some of the big merchant banks specialise in smaller companies and give them just as good service, but, the smaller merchant banks may, of course, give us a selling tactic that they are better able to look after the smaller client, but the smaller ones are going to say that because, they can't look after the bigger ones! The bigger ones vary as to how much they specialise in the smaller companies; some are very glad to deal with the smaller companies and others say that they don't want to deal with the smaller ones.

Q: In my course of conversation with the various merchant banks in the City, I am led to understand that the existence of mergers and acquisition divisions in some big multinational corporations meant that there is a tendency to reduce the role of merchant banks in this arena to mere "rubber stamps" if I may use this phrase. Do you think that is a healthy sign?

A: I came across that once-someone on the other side (a big company and a merchant bank). In that particular case where I thought that the tactics were being done by the big company, not the merchant bank, I think that they have suffered because of it. But, even big companies with their acquisition departments, they should rely on merchant banks, the tactics as to how they are going to succeed, what is the right price, etc.

Q: Why should companies seek the financial advisory services of merchant banks and not say, stockbrokers or corporate lawyers in the City in the field of acquisitions?

A: This was because merchant banks saw that there was a gap in the market and before the war, the accountants did much on the deciding of the price regarding friendly mergers. Then after the war, there was more takeover battles and the accountants don't want to be involved in the battles. As the merchant banks were exempted dealers, they therefore did not have to submit documents through what was then the Board of Trade so that gave the merchant banks the advantages. Stockbrokers can still do that, but on the whole, stockbrokers prefer not to get involved in all this because they regard this as a different expertise.

Q: There is a general conception that merchant banks thrive on their shroud of secrecy in order to perpetuate their corporate strengths. Do you see a significant departure from this traditional practice in order for them to survive into the 21st century?

A: Merchant banks have an aura about them which they have built up successfully and as long as they continue to be successful, well, they will do this business. It may be alright for companies A and B to get together but the shareholders of company B never get the opportunity of something else which is better still, either with C, or A, could be forced to pay more. So, the merchant banks were used in their poker playing in getting the best deal for their clients. That, I think, is the great difference between merchant banks and other professions - that you are trying to get the best deal which is just enough, and I think there is a subtle difference there.

SIMON MAC LACHLAN
CORPORATE LAWYER
CLIFFORD-TURNER
(leading firm of City Solicitors)

TRANSCRIPT

Q: What is the nature of your involvement with mergers and acquisitions?

A: Well, I think it is fair to say that there are two ways which we solicitors are involved. One is in consideration which is directly with our client before perhaps the merchant bank appears on the scene. The second and rather more common involvement is where a bid is already being organised, or at least in some form by a merchant bank and then the lawyer will become involved in the legal aspect of such an operation for instance, vetting the bid documentation to ensure that Section 209 procedures were going to work, that the stamp duty liabilities have been minimised, that the convertible loan stock rights have been taken care of and that the Memorandum and Articles didn't contain anything which creates a problem - or, those sort of questions which are essentially legal in nature as well as to review the various circulars to see that they comply with the various regulations like the Prevention of Frauds Act, Licensed Dealers Rules, the Stock Exchange and the Panel rulings. The lawyers would be expected to go through the documentation and satisfy themselves that each paragraph had been dealt with and asked a question if it hadn't been. The size of the merchant bank will indirectly affect the involvement of solicitors in mergers and acquisitions.

Q: From interviewing a substantial number of merchant banks we gather that in some cases in addition to its own lawyer the corporate client is advised to consult an established firm of City lawyers regarding takeover transactions. Why is this so?

A: They do because takeover is a specialised field. The average solicitor does not have the knowledge and the expertise about the various legal rules, let alone about the extra legal rules like the Takeover Code which as far as the City are concerned, effectively, they have the force of law and the client needs to be advised that he must not overstep any of those rules as he goes along and of course, the introduction of things like insider dealing legislation is going to mean that there are more legal issues, more complex legal issues than there were before.

Q: On this point of insider trading, do you consider that the proposed legislation would cover all the legal loopholes adequately?

A: Well, I think the fact that there is a criminal offence

should make people sit up. I feel that the problems are going to be complex and difficult to interpret and may apply to a lot of transactions which have traditionally taken place which everybody has thought as unobjectionable.

Q: On the question of nominees, do you think that they constitute a brick wall to financial advisers in times of contested bids?

A: I personally never come across anything where nominees rarely create a problem but there are companies who are concerned about the number of shares in the nominees and wonder who they are, which is a concern.

Q: On this controversial aspect of "dawn raids", does it in any way infringe on legal rules governing takeovers?

A: Here, you have got to take the view that if there is a market place then those who are nearer to the market place are always going to gain some advantages from it, almost always. The idea of taking a large equity stake to facilitate a takeover bid seems to me a good thing, but I think the small shareholders would suffer for they can never be fully protected and that is a fact of life.

Q: For the 1980's, are you in favour of self-regulation or the imposition of an SEC model in the U.K.?

A: The way in which the U.K. authorities regulate the market, the informality of the regulatory system I think does mean that we are more flexible than the SEC. The difficulty is where you get to a stage when the transgressor is prepared to dig his toes in and not take any notice. The whole thing then begins to crumble. If there was a system whereby in those circumstances as it were, it could be handed over to a statutory body which would therefore take the difficult cases, then, there might be merits in having a SEC model. Regarding the problem of obtaining evidence in a non-judicial proceeding, there are times when the Takeover Panel decides that evidence just isn't available, whereas in a proper judicial system that will become available. In order to get it, of course, the timing may go much longer. I still think that we are still learning. At the moment, I believe in balance, the current self-regulatory system is working but inevitably, if we get too many St. Pirans, people will have to accept that in the end, self-regulation is not good enough.

Q: Current documentation seems to be too complex for the general public especially the small investors. As such, do you favour a simplistic approach?

A: I think they are getting more complex which is a disadvantage. I would like to think we should evolve a system which

meant the main parts and the important parts of the document, are in big print and as a small print for the professional analysts and journalists to pick up. Three points are often significant. But I would hate to see a system like the American system, where your prospectus has become so complicated so that you have to send out your red herrings in advance, which is a different document simply because I think nobody bothers to read the other one, which to a certain extent, implies that the first five pages of your takeover document contains the stuff that really matters, and that the rest is there so that if there are things hidden, or which should be brought forward, the Press and the analyst can find them and make comments about them. I think that is the best compromise.

Q: On this point of structuring the offer and the document, are you required to attend all the meetings chaired by the merchant bank?

A: It depends. We normally would find ourselves attending it when the document is being considered as a type of drafting. We would not attend the meetings at which the assumptions relating to the profit forecast were being discussed ~~---~~ or the working of the cash flow statement. In relation to the rest of the meetings, we would expect to be present, that is the later meetings. At the first two or three meetings, the lawyers would not often be present.

Q: What is your view on the responsibility and reliability, if any, of merchant banks in profit forecasts?

A: I think that is a difficult issue. The standards which merchant banks apply to their vetting of profit forecast does vary. Some take the view that all they really do is to ensure that the report on the profit forecast seems to make sense, whereas others feel that they should do an in-depth inquiry into, for instance, sales forecast. I always advise directors who are recommending an offer to actually send out their recommendation letter with the forecast or without, separately to their own shareholders on the grounds that the only people who can then be said to be accepting responsibility are their own shareholders. If they allow it to go into a recommendation document there is a stronger argument that they are allowing their recommendation of the forecast to be part of the material which the bidder company has looked at to make its bid, and therefore, might give themselves liability in that respect. It is an area which we see some law emerging shortly. The question of who owes a duty to whom, I think, is quite a complex issue.

Q: In Scotland, we understand that solicitors are allowed to send out an offer document. Could a transaction of this nature be effected by English lawyers?

A: In Scotland, solicitors are permitted to send out offer documents and we are not permitted to send out offer

documents. We would be prohibited by the Law Society from doing so even if we were allowed to by law, because, we would be writing to people who are not clients.

Q: It is quite common nowadays for multi-national corporations to have their own mergers/acquisitions department. Do you see this development as being healthy?

A: I think very few of the merchant banks would like to think of themselves as "rubber stamps" and act only in the documentation for these merchants, and I think, appropriately, the actual art of putting together offer documents and handing them out is constantly changing and unless if it is an international company which is doing a lot of it, you know, even if they do one every six months, probably they will be out of date with the latest requirements and thinking, and that is where I think, the merchant bank would be valuable. The same applies to their internal legal department. Very few of the major companies internal legal department would be familiar with the every day routine of takeover bid because it is obviously something that their company doesn't do very much.

Q: We understand that solicitors exercise a critical role in the market of merchant banks, would you care to elaborate on this aspect?

A: Two ways really. One, when you have your family company, or a new company when it has grown up to the stage when it needs a merchant bank. And also for overseas client, particularly Americans, an overseas American client coming here for the first time doesn't necessarily have an investment or merchant bank here, but their lawyers would have been in touch with us.

Q: What are your distinctions as corporate legal advisers?

A: I think a lawyer is more able to take the client's point of view (subject to him not doing something illegal) than a merchant bank. Whereas a lawyer would say to a client, "If you want to reject this bid, you must consider that you might ultimately be criticised for doing it, but on the face of it, as long as you genuinely believe that it is not in the interest of the company, you can do so and you are not doing anything illegal and therefore, we will assist you legitimately to fight this bid" The merchant bank will always be concerned about his reputation of whether he should allow a client to do that because he is much more publicly exposed and much more publicly identified with the client than a lawyer. I think that you know it is a distinction which applies, and the bank is more constrained by things like the Takeover Code than lawyers are.

Q: Do you think that for the 80's, English companies will be more litigious like their American counter-parts in defending themselves against unwanted bids and takeovers?

A: I don't think the merchant banks would be keen on it simply because, they feel understandably, that it moves the centre of the transaction from the finance aspect into really what would probably be the side-issues, and they have little ability to predict the way in which judgement would come down. Also, I think that the number of members of the Bench who really understand takeover bids is really, very, very small, if not, negligible, and that is one of the defects in my view about separate professions because it is a field that members of the Bar don't really know much about, and therefore, you get a judiciary that is only picking it up second-hand.

Q: Does 29.9% constitute control and is this figure near enough to trigger off a bid?

A: It is effectively, usually control, but in the Lonhro's case, it has been shown that holders of that couldn't control the board, but in most companies, you would find that holding to be very persuasive. 29.9% is not a mandatory figure for triggering a bid. I'm not sure the figure is slightly too low in the sense because that is a protection for people who take major stakes and not make a bid because the other shareholders are very happy to have them in, you know, they can get it approved by the other shareholders and the situation doesn't arise. I think we may well see more situations in the future, where they will be stakes in excess of 30% without mandatory bids, particularly with the financial climate at the moment, a number of customers would need support, and I think the support of major shareholders.

Q: For the future, do you see yourself exercising a bigger role in this field?

A: I see in the UK, a number of mergers and acquisitions over the next 18 months in the face of the recession, largely defensive reasons, for companies that are short of the necessary money to survive another 6 months. After that, I would expect to see it slowing down. I don't see any dramatic change in the role of lawyers. The merchant banks are able to market their services in a way in which we are not. They have got money to buy shares in bid situation for their clients when we don't and therefore, for that reason, they would still be retained by their clients. I think that possibly, in the U.S. ^{where} greater reliance upon lawyers in the takeover bids may encourage customers with U.S. connections to think more about using their lawyers than they have done over the last 10 years.

PETER J. GORLE
DIVISIONAL DIRECTOR
METRA CONSULTING GROUP

TRANSCRIPT

Q: Who generates the idea for acquisition and how different is your approach from those of merchant banks?

A: I think normally the client generates the idea for acquisition but there are occasions when we do strategic planning or market planning for a client which results in us recommending an acquisition or a joint venture or another course of action that he should take. So, 80 percent to 90 percent of the time, it's the client's idea.

Q: Having been given the mandate to act for your client in an acquisition search, how do you go about it?

A: Let us say straight away that in our business, it is very different to that of a merchant bank and to some extent, we're critical but at the same time, we admire merchant banks. We would use several starting points and from there, we'll start ringing around these companies, major point in that business, major users of the business, etc. Let's take food processing in Germany which is a project we actually did. We started by talking to the companies in the basic company list and then we went to the local food processing association saying that "We are looking for a very good company to do this or that". They would come back with a few names, then we would ring them, talk to them and say, "Okay, we are looking for a joint venture in this area or that area". So, eventually, we've a very good picture of the main companies in the market and some of the main companies we immediately reject because they were part of a big group and expanding, or a small group, or whatever, and so on. We gradually short list, and short list, talking to the client until we come to 4 or 5 companies. Then we pop the question and some of them would say, "Sorry, not interested". While some of them say, "Yes, let us talk more". You see, I would say that acquisition is only one way into a market. There are cases where I'll advise the client to go for joint venture even though they came in and said to me, "I only want an acquisition".

Q: On the point of turnaround situation, by virtue of its very definition and compounded by the fact that you're advising clients on international acquisitions, how do you allay the fears, real or unreal of your corporate client in this sort of situation?

A: It is always very clear, whether the client has management resources to take a turnaround situation or not and if he hasn't got the resources, we would always advise him against it. A turnaround situation in a dif-

ferent country is a disaster if you haven't got the language, the knowledge and so on.

Q: What about the nature of your clients rather than new clients?

A: Most of our clients are existing clients and if you consider that we do something like 100 projects as a whole from London, and we do the projects for clients once very two years, so we cover the Times Top 1,000 pretty thoroughly every five years or so.

Q: Do you screen a new corporate candidate thoroughly like they do in merchant banks?

A: No, I would say we don't, and I would doubt some merchant banks do it although they say they do it. Of course, we will make sure that the client knew what he was doing.

Q: Have you ever advised a client of years against an acquisition? If so, on what basis?

A: Many times...that the criterion that they are using is not the right one for the market, that is the general reason. We would seldom get involved in the same way merchant banks would, in their financial resources, and in this way, we usually use a merchant bank for the financial side of the business. My only complaint about merchant banks is that they don't think seriously enough about the personnel and market side of the business which is often a bad thing. If you looked at the record of mergers/acquisitions (there are various studies done on that), I think the record is not too good and very often, the company that didn't merge grew organically and has done quite as well as the company that merged. So, that comes into the original thing which I've said earlier, that is, acquisition is only one route and because we are paid different, our introduction is not to push our clients into acquisition in the way that a banker does because he gets his money as a percentage of the deal. We get our money for the work that we do. So, at the end of the study, we can say to our client, "Acquisition is not the route. Get an acquisition, do a joint venture, do a know-how agreement. Don't do an acquisition", and we still get paid for saying that, but whereas if the merchant bank were to say that, he doesn't get paid.

Q: How do you normally approach the target companies?

A: Almost always directly. The target company could be either listed or unlisted but we'll always try and get financial details and so on before we get to the stage of approaching. In some cases, it is difficult to get financial information and therefore, we've to approach the board for details, in which case, we merely identify them; they are respected in the market or, the head of the company is about to retire or, whatever the reason is we consider them good for the client.

Q: What about a negative response? Are you deterred by this?

A: It all depends very much on the situation. Every man has his price. If you are really determined, there is no reason why you should not continue.

Q: Do you normally incorporate an exhaustive market study/survey in your acquisition study?

A: That again depends. For example, we did the packaging industry in Germany, a study for a British company. You see, there are various levels you get involved in these. In this case, the company had already decided on the company they thought they wanted to acquire and their acquisition to us was the company they wanted to acquire was a family owned company with a very dominant father and two sons, one of whom was in charge of production, and one of whom was in charge of sales and marketing. Their acquisition to us, if this became owned by an overseas organisation from U.K., would it still work? Because there is a sudden loss in motivation, sudden loss of the status of the boss and sons would they no longer be majority shareholders? So, that is a human factor problem which we resolved by setting up a plan, by which the boss became a board member of the British company and that one of the other sons, became the managing director. The other son was actually put into a new developing role because, we didn't think he was quite right in that position he was doing at the moment. Other management changes were made within the company to strengthen the gap that we perceived. Family controlled business is a dangerous one to takeover because there is always, very often, the man who started the business has a very strong hold over the business and this is lost when an outsider comes and takeover the business. So, you've the question of paying and keeping him or, sack him and put him in a new manager right away.

Q: Do you assist your client with loan facilities?

A: We could because our main shareholder is a French commercial bank. So, we could but in general, a client has his own merchant bank who does it.

Q: Have you ever been involved with merchant banks in doing acquisitions?

A: Yes, from time to time, Very seldom from step one, but usually, in parallel and the client will use us separately from the merchant bank. We'll call the bank in when we've identified the best company or companies, and sometimes we'll then work together with them, but usually, again because of the way we are paid, we will at that stage remove ourselves. If it is a contested situation, then it is not our problem, it becomes the problem of the client to do something about it. Our job is to identify and recommend, and it's our

client's job to do it.

Q: What are the main acquisition criteria normally sought after by your corporate clients?

A: It depends on the situation, but I would say under the general heading that we look under management facilities, market position to the share image and finances. If you are looking for a recovery situation, you probably will be...I can't generalise. You might be looking for somebody with very good management facilities but no market. The client might feel that he can bring in market or he might be looking for somebody with very poor management but very good market and the client will bring in market skills. There is no general rules. We'll certainly look at simple figures on financial performance but not in great detail. We'll be looking for trends rather than for great detail. So, we wouldn't be looking for accuracy. We've some checklist but they're never quite applicable, to be exact, in the situation you're in.

Q: Do you entertain requests for buy-outs?

A: Very unusual. Yes, that happens sometimes but I would say that it is very uncommon.

Q: How distinct do you see your work as being different from those of merchant banks?

A: To some extent we get involved with merchant bankers, but usually, we don't. Our approach is starting from zero, to find the best company for the client's situation. The merchant bank starts from square two where he says, "Okay, within the financial limitations, these are the ones available. The merger broker starts from square three where he says, "We've a list of 60 companies. Oh yes, we've got one here, we've got one there..."

Q: Your client list reflects "Who is Who" in the U.K. industry but, do you serve also the lower end of the corporate market, I mean, the smaller companies?

A: We seldom serve small companies. It is always medium-sized or big companies. It is not because we cost more but, we request money first whereas the merchant bank requests its money on completion.

Q: But surely, working most of the time for the big companies with their retinue of corporate planning/merger departments, surely it meant that at some stage, one would be reduced for lack of a better word to a 'rubber stamp'?

A: What the merchant banks doesn't see is that corporate planning departments of companies use Metra for the donkey work and then go to the merchant bank saying "This is the one that I want. Find it. Buy it or whatever".

Q: How long does it on average take you to complete an assignment?

A: Outside six to eight weeks but to actually do the acquisition, may be another six months but our job is actually quite quick. We do perhaps four or five acquisitions per year. One of my great sorrows at this moment is that we don't get enough business from U.K. companies because U.K. companies at the moment are too cautious and worried about spending money for the future.

Q: In this particular business, do you stress on the people side of it?

A: Yes, I think it is very important but we get less involved in the people side of it than merchant banks. We are more analytical and scientific in our approach. So we've less of a City approach which is good and bad and there are many situations where the only way to get a deal is to have a very good dinner, a good glass of port and so on. I would say in the international business that there are often situations where that doesn't go well.

Q: Do you see yourself competing ^{with} merchant banks in this lucrative business?

A: Generally not. I think we are complementary to them.

Q: What do you perceive to be the strengths and weaknesses of merchant banks?

A: I think my criticism of merchant banks as a whole is that they tend to work more on hunch and more on whom we know than on carefully researched facts. I think that is a very broad criticism which many banks could refute. We've just done some work on the way Japanese business has succeeded in Western Europe, and I would say it absolutely bears out our approach to business problems because the hallmark of Japanese success, is before they do anything, they find out and they really get to know the market, who is in it, what market shares, how they succeed and so on. I think there is a danger that we stay far too long the old boy net. There is a severe danger that you'll suddenly wake up and find that the business is gone. One of the successes of Japanese management has been that they have read management books and they did what they have said whereas most Europeans and Americans read the management books and do something different!

Q: For the 80's do you see your company getting more involved in this business?

A: I don't think it would affect us very much and I think in many situations, I would advise against acquisitions because I don't think that they are necessarily successful. As I have said before, it is only one of the routes

and often it is not the best route. Often, it is better to buy a distribution set up or join them rather than take them over. If the company goes to a merchant bank, the merchant bank has strong incentive to make him buy, that is the best reason I can give you but, if he comes to us, he pays his £10,000 and gets the best advice. If our conclusion was "Don't buy", we still get the money and may be that will save the company, millions and millions of pounds. So that is the fundamental difference. Many of our things start as acquisition projects but they don't finish as acquisition projects. They end up as something quite different.

Q: What gives you the distinctive advantages as corporate financial advisers?

A: Let's say that as corporate financial advisers, merchant banks have strong advantages over us because we are not in that business, but as a basic corporate strategic advisor, we have certain advantages because, we are working all the time in the management field, the marketing field and so on. So, we are better able to choose the strategic route I would say than merchant banks. And that's a different approach.

PROF. CLIVE SCHMITTHOFF
EDITOR, JOURNAL OF BUSINESS LAW

TRANSCRIPT

- Q: Do nominee companies still constitute a vehicle for control by stealth?
- A: Section 172 of the 1948 Companies Act gives the DoT power to ask the registered shareholder to disclose who the shares of the beneficiary is, or whether, he is acting as the nominee for another beneficiary. If the latter is the case, he must disclose the beneficiary and his address. Now, cases have happened where the nominee or the registered shareholder as a nominee has not done so because the beneficiary lives abroad and there are no possibilities of compelling the person out of the jurisdiction like in Jersey or in a foreign country to comply with the DoT to find out the true owners of the shares. In fact, one of these cases has come to the court. Here, we are talking about the disclosure of shares of the beneficial owner and where he has transferred his shares to a nominee which cannot or will not disclose the real beneficial owner because he lives abroad, then the transfer of shares and dividends can be suspended.
- Q: Do you subscribe to the adoption of a British SEC model to replace self-regulation?
- A: This question arose lately in connection with dawn raids and concert party. I think the existing system has worked quite well and we have had it for almost 20 years now. I do not think that we should introduce a system similar to the SEC model but what we can do is to strengthen the law and the hands of the T.P. and the CSI by giving them some statutory powers because there are some companies who do not comply with the orders of the T.P.
- Q: What are your views on profit forecasts?
- A: Well actually as you know, in the U.S., profit forecasts are prohibited but here in the UK, the T.P. monitors profit forecasts and if the forecast does not meet with the actual situation, then the people responsible for it are asked for explanations. I think that profit forecasts should be expressed in very general terms because there are so many elements which may influence a forecast and I would not be unhappy if we adopt the American practice in which a general statement which is expressed in very cautious, vague and general terms may be admissible as a forecast.

Q: What constitutes control in a company?

A: Well, control is very difficult to define. You will find a definition in Section 154 of the 1948 Companies Act in connection with dealing with subsidiary companies and there, if you have 51% of the equity share capital, it gives you the power of control over the board of directors even if the company holds one share. Another definition of control in the 1967 Act is that if you have 10% of the share capital then you are an associated company and must therefore disclose this fact in your balance sheet...I think it is impossible to say that a definite figure constitutes control. It very much depends on the individual company. However, there is one thing which is certain that we distinguished in law between positive and negative control, namely, if you have more than 25% of the equity capital, you can create a passing of a special resolution and that constitutes negative control. And then what constitutes positive control will depend very much on the financial situation of individual company. The figure of 30% in the Takeover Code is quite arbitrary - it is a general measure and does not quite apply to all cases and 29.9% (alluding to Lonhro's shareholding in the HoF) does in my view constitute positive control.

Q: Are present law adequate in ensuring that company directors act in the interest of shareholders in connection with bid situations?

A: Under the rules of the Prevention of Frauds Act, 1958, the directors are obliged to advise the shareholders of the target company whether the offer for their shares is adequate and in that respect, they owe a duty to shareholders. But, I am aware that numerous complaints have been made but I don't think that the new Companies Act of 1980 or 1981 can really add to that and if there are cases where company directors have abused the Companies Act, then I suppose the shareholders may bring action against the directors but such cases have not arisen yet.

Q: On this point of EEC, do you see it exercising a considerable influence in corporate mergers and acquisitions in the 1980s?

A: Most decidedly. I think that day will come. In fact, there are already five EEC "Harmonisation Directives" which have been accepted by the Council of Ministers, one of them relating to internal mergers and takeover bids and this does not differ greatly from UK law and in my view, this does not require UK legislation but I do think that EEC law will have considerable influence for takeovers and mergers in the future particularly the consultation of employees or the position of employees after the acquisition.

Q: In view of the strong concentration of shares in the hands of UK institutions, what do you perceive to be the implications for corporate mergers and acquisitions in the corporate sector since this trend is in parallel with West Germany. Are there inferences to be drawn from it?

A: The situation in Germany and the UK is quite different and only in exceptional cases will the institutions in the UK interfere with the management of the companies although I personally believe that at the end of the 1980s, a greater proportion of UK equities will be owned by institutions and by the end of the century, probably more than 90% of the share capital will be owned by institutions. Going back to the comparison, the position of the UK and Germany differs tremendously. Owing to historical reason, Germany became last to be industrialised in Europe and the industrialisation of Germany was done by German banks and since the end of the last century, it was the banks as the medium of financial institution which have a leading role in German industry. In the UK, as you know, clearing banks do not hold shares in companies. However, UK merchant banks do hold shares but for historical reason our institutions do not wish to interfere with managerial decisions of companies. There is only one case where institutions had interfered and interfered successfully (Prudential vs. Newman Industries) and in this instance, a major institution had taken a strong managerial stance.

Q: There have been some complaints that current bid circulars are too complex for the general comprehension of the small shareholders. Do you favour a more simplified type of bid documentation?

A: Yes. I would like to see that. I would like to see two documents sent. One, the most important facts in which everyone can understand (and I am of the opinion that the same should apply to accounts) and then, a more detailed document. I think that is the proper way and the law should prescribe it.

SELF-REGULATORY/PROFESSIONAL BODIES

L.H. COHEN, (RT. HON.)
DIRECTOR-GENERAL
ACCEPTING HOUSES COMMITTEE

TRANSCRIPT

Q: Mr. Cohen, Sir, could you kindly enlarge on the background of your distinguished Committee and also the benefits that a merchant bank may derive as a member of this established institution?

A: We've all the advantages of a trade association. There are matters of common interests. You may wish actively to act as a pressure group, so to speak, to bring your views in Whitehall, in individual departments of government, the Bank of England. The British Bankers' Association is being described as a whole but that would include the clearing banks, the foreign banks, the American banks, the Japanese banks, the discount houses, the Commonwealth Bank Association, and quite a lot of these have different interests, even conflicting interests to ours, such as, for example, the Banking Act where you have the question of how the burden should be shared of maintaining the deposit protecting requirement. So, that's one example. We are very useful as a body to government and the Bank of England when they want to distribute information, they use us to distribute it to the organisations. On top of that, I suppose, every aspect of life breeds its own bureaucracy and we have to provide quite a lot of public service, let's say the establishment of Takeover Panel and writing of City Code, the establishment of the CSI and that sort of thing. It didn't just happen. People were drawn from the AHC, the IMA and other institutions to do this. Every time the Panel as a total body sits in its quasi-judicial function, there's a representative from the AHC there. We've a representative on the British Bankers Association, Executive Committee, the Council of British Bankers' Association. We've certain amount of representation on the CBI which speaks for the employer organisation as a whole, which covers every industry, the CSI, the City Communication Centre, the Committee of Exports, the Queens Award Panel, Bank of England, City Liaison committee, Ariel, Director of Trade, Wilson's Committee, etc. The Director of Trade used us to get the views of the Accepting Houses, then the Accounting Standards Committee seeking to impose on business as a whole their standards all the time, and of course, banks have certain exemptions on the performance when they produced their accounts. Accountants subscribe to the strange belief that nudity is beauty. They wish to indulge in full frontal exposure and we, bankers are even more demure. We used the fig leaf. So, all these issues do concern us. That's the trade association side. As regards to the benefits...what the press would call, the two solid advantages still are that your bills are still discounted at the Bank of England at the finest rate, and this is important to the bank business. Now, in one of these discussion papers when I referred to the Bank of England indicated that it wishes to reveal the criteria on what particular privilege is enjoyed at the present time.

Another is that, if you're a member of the AHC, the Bank of England will give a reference in this context, that XYZ is a member of the AHC, and as such, is undoubted in its commitments. I wouldn't stress on its exact words, but it's that sort of wording which of course, is an extremely important feeling of background provided by the Bank of England for the AHC.

Q: The term "merchant bank" conjures up a thousand images to a thousand people. In your opinion, is there a solution surrounding this ambiguity?

A: It is not a term of art, merchant bank. It is an expression that has grown up through History and the original merchant banks were merchants - take Hill Samuel, for e.g. they were merchants out in the Far East and Marcus Samuel developed this important line of business by exporting to Singapore and Japan particularly kerosene in those days from the Russian oil fields and he brought back among other things, shells from Japan and the old department of HS became so big and it became a separate department and that was the growth of "Shell". Particularly, since after 1939, took to calling oneself "merchant bank" because it was a lovely name but (a), they were a bank and (b) they weren't merchants, but there was no law to stop them from doing it, and anybody, I mean, Joe Smith around the corner could just put up a brass plate calling himself, "Joe Smith Merchant Bank". It is only after the 1979 Banking Act for the first time that you have control over the use of the name "bank".

Q: How do you describe your involvement with the other regulatory bodies like the Takeover Panel, CSI, etc. which your distinguished Committee played an instrumental role in establishing?

A: I suppose, with the Stock Exchange, all the Issuing Houses including the Accepting Houses all have a department within the Stock Exchange which manages the investment of clients including pension funds, and so, they are user of the Stock Exchange services in a very big way. In the IHA connection, I suppose, the body of the Stock Exchange which we have the most commitment is the New Issues Committee. With regards to the Takeover Panel, which is the first body developing in the field which you are thinking about after the Stock Exchange, that was set up by the Bank of England, the IHA, the Stock Exchange, etc. And the Director-General of the Takeover Panel, has in every case, being a merchant banker. Lord Shawcross was the first chairman of the Takeover Panel and he gives up in June this year. He has been a great force in the development of the Takeover Panel. We still field one representative at every meeting of the Takeover Panel and I sit on it as the alternate chairman. I would say, we in this office, we provide the whole secretariat of the IHA, and we're a highly incestuous body in this respect! The CSI, is a later development and it's

only about two years old. It was set up at the time when there was quite a lot of noise developed by politicians, especially saying that "Oh, the Americans have got an SEC and we should have an SEC too". We could have an SEC if we want to pay for it! The SEC is a very expensive body nationally and profitwise. I mean, it costs the government a lot of money, it costs corporations a lot of money and CSI was incorporated partly as an SEC, but it has more flexibility. It has much greater speed and it has a lot of advantages. I think the CSI is doing quite well, and like criminal law, there will always be some fast moving gentlemen, particularly, fast moving gentlemen outside the jurisdiction who will keep one step ahead of the CSI, just as they keep one step ahead of the SEC, and very often, one step ahead of the criminal law, and there will be occasional scandals, which you can't do very much about. Of course, the CSI's total budget is something like £750,000 and the last figure I saw for the budget of the SEC was something over US \$60 mil. and mind you, that was the only direct cost!

Q: In the arena of mergers and acquisitions, in the 1980's, how do you discern the main thrust of AHC within the merchant banking context?

A: When one is talking about corporate mergers and acquisitions, you're talking about the corporate financial side of the Accepting Houses business and also the corporate finance side of many other merchant banks, and it is in their issuing houses capacity, that the thrust exists. I would say that here, you're providing a service to a client, a service which largely developed after the war. In takeovers and mergers, and there is a tendency to provide this service not only in the U.K., but you find it developing in the other parts of the former British Empire. There is a parallel development going on in Australia and I wouldn't be surprised if something like this developed in Singapore and Malaysia, and of course, a number of the AHC have investments in the Far Eastern banks in those areas. I think it will develop into the existing service really, and they will continue to play a very important part in the CSI, the Takeover Panel and Stock Exchange.

Q: Could you kindly comment on the power of censure that you exercise over deviant members?

A: Of course, your ultimate action is to remove a member from the Accepting Houses Committee. There is the ultimate sanction by the Bank of England which is refusal to accept their books which will be very damaging for business. We try to keep an open door policy to foreign banks, and so long as they are operating on the same rules as we do, we aren't afraid of competition. People often think of merchant banks as sitting like spiders in their webs, trying to think of mergers and acquisitions and I think this is not true. If GEC or Shell wants to

make some acquisitions in some particular field, they should know their own business so much that they must really know how to focus in on their own targets, and I would guess in the enormous majority of cases, the acquisition is kicked off by the raider/acquiror and not by his merchant bank. In few cases, initiative is taken by merchant banks. Normally, in the real world, it very often is that way. As I said, business must know its competition, its targets much better than its financial advisers. The financial advisor is the expert on how much money should be paid for, the financial consideration and the tactical way of getting the best price, what I called the machinery.

Q: What about the shroud of secrecy that still surrounds the merchant bank activities?

A: I think our business is much more competitive among merchant banks. I think up to the 1960's it was^{not} done to approach another merchant bank's client, but now, you can poach on "Tom Tiddler's" land to your heart's content. But merchant banks are to a certain extent, shy flowers, and I would also say that our clients do not like seeing any of their business much in the newspapers for in turn, they tend to be shy flowers too. And we don't have the capacity of competition with the clearing banks, and therefore, the shopping for business is very much done on a personal level - at a high level to a corporate customer. I think merchant banks as a total, do not find the inflationary atmosphere conducive to their bank business. Inflation also tends to be unfavourable for their corporate finance activities especially for raising of long-term capital with high interest rates, people don't like it at all.

PETER LEE
DEPUTY DIRECTOR-GENERAL
THE TAKEOVER PANEL

TRANSCRIPT

Q: Could we start by asking you to elaborate on the frequency and area of consultation by merchant banks?

A: Our function is to administer the Takeover Code. What we do is to give people rulings throughout the day, every-day as to whether they can or can't do what they asked us about. Very often (we do encourage it) merchant banks come to us long before a merger takes place. Sometimes, on a preliminary basis they might do it on a no name basis. They wouldn't reveal the name of the client but explain the situation so that we, in principle could tell them whether it is perfectly alright and eventually they would come back with the names of the people concerned. Consultation before anything happens is really one of the key things. Then, of course, when a bid is going on, it may be straight forward and we may have very little involvement with the advisers concerned, while in other cases which may lead to a full bid we may have consultations 6 or 7 times a day and meetings which are often arranged at half hour notice, etc. We are visited, I suppose by merchant banks, lawyers, accountants, company directors, stockbrokers and sometimes investment clients, institutions, private shareholders, but I suppose the principal contact is the merchant bank.

Q: What is the Takeover Panel's view on the very controversial "dawn raid" which is the subject of great debate in the City?

A: What is happening at the moment is the CSI is looking at the problem to see whether something should be checked or regulated in some way and if so, how it can be done and whether it is possible to do it. I think at this moment I don't know what the right answer is, but as in all these things, there are various view points. Some people would say, in the Code, you have the 30% marker and therefore what anybody does below this should not really concern the regulatory bodies at all. O.K...., dawn raids are done for a whole host of reasons and they may be followed by a fuller bid. So, one school of thought says that we should not interfere with the market forces, there should be a free market and this should go on. If you examine the market, there is all sorts of possible unfairness. Life is not absolutely fair, but it's where you draw the line. What you can do in this situation is different and has an awful lot of technical problems. We could say to a buyer if you want 25% of the company, you should make a partial bid, but that I suppose it wouldn't be very appealing to a lot of market or dawn raiders. Another possibility is to try and see if it can be kept there not for 1 hour or 2 hours but, the whole day which would involve scaling down the sale of shares to a certain figure which in the jobbing system is very difficult to effect. So, there is an awful lot of arguments in each direction and currently the CSI is looking into this

matter.

Q: Do you support the defensive measure subscribed by some companies in collusion with their merchant bank advisers i.e. the target company undertakes an acquisition to make itself less attractive. The contention here is when such an acquisition is effected without sound commercial/financial rationale?

A: In the Takeover Code as you know this is Rule 38, you are prevented from making any sort of acquisition of any size without getting the approval of your shareholders if you believe a bid might be imminent. How we would interpret that is, you maybe approached by a potential suitor, or, on the other hand, you may just feel that you are very attractive and here the Code would not preclude that company from making an acquisition to make itself larger and therefore less digestible to a potential predator.

Q: What are your powers of censure?

A: In a private reprimand we might say to a merchant bank, a stockbroker or somebody, "You shouldn't have done this. For God's sake don't do it again. Get it right the next time!" This is something we would do from time to time. We might write them a letter which might be slightly more formal, addressed to the chairman of the bank. So, a private telling off, I suppose, is the lowest form of punishment. I think I should say this as well. If somebody has done something wrong, we will quite often ask them to put it right and they will comply, a sort of penalty. Quite often, it may be publicly apparent that we asked them to put it right or, it may not be publicly apparent for example, if they put out a document on June 13th which is deficient in some way, and then they put out another document on June 18th which deals with the point in question, nobody would know that we have asked them to put it right. Now, as to penalties which are more public, in the case of insider dealing, we used to ask people who profited by the deal to pay their profits to charity and that has been done quite a number of occasions and this is coupled by a public statement. So, the real sanction is the public censure of somebody...how much impact it has is debatable as there are different views about it. If the person or the group of people being censured is very close to the City, then it probably has an impact because it affects their livelihood and indeed they may have to pack up and leave the merchant bank or wherever it may be. On the other hand, if they happen to be a very small company directly living in the North of England, it may not worry them too much. So it varies. Some people would also say that it is a pity there is not a formal penalty if you like, somewhere between a private reprimanding and the public reprimanding, because the public reprimanding is a very, very, strong one, a lot of people say that much stronger would be a fine of £1,000 in a magistrate court, it could be, depending on the people. So, that is the most

normal public censure meted out to a company director or if he is a stockbroker, I might say we would ask the Stock Exchange to consider striking off his membership, etc., etc. Again, we might refer the case to some other authorities, the Department of Trade who might appoint inspectors to look into the company's affairs and they in turn might refer it to the Fraud Squad if they detected criminal acts, then move on to the nearer ultimate sanction being done, getting the market in the general sense, to withdraw its facilities from the particular person.

Q: How do you compare self-regulation versus the formal bureaucratic and legalistic SEC system in America?

A: This is a debate which has gone on for years and years and no doubt will go on for years and years in the future, but the Wilson's Committee, as you know, is about to report in June and one of the areas it is looking at, is the regulation of the securities market and whether it is done in as efficiently as it should be or not, but all the signs are (originally, they were very skeptical about it), they are not as bad as they thought when they first started looking at it. I think the arguments for a SEC are mainly made by the lawyers although in some cases by merchant banks, that there shouldn't be a SEC but something likely, because it gives greater certainty to everything, people as the argument goes, know much more where they stand, There is a statute and again, the authority has statutory power to pursue people to take evidence on oath, to compel the production of documents, all those things that go along with a court approach to a particular problem. The advantages of self-regulation, I think are, it is much more flexible, it is much quicker, and I think, it is much less expensive because we don't have all the paraphernalia of bureaucracy and so on and I think that it works reasonably well particularly, if it has the confidence of the people who are operating in that field but once it loses confidence, then obviously, it doesn't have much future at all. You know, if it does regulate in a reasonable, sensible way and doesn't try to go too far and it is reasonably flexible and not absolutely high bound by rules, O.K., you use a bit of the spirit in order to stop what looks like a bad operation that may not technically be prevented or you use the spirit like the other way, to allow something which is not technically allowed but fine, it looks perfectly alright, I think all those sort of things make it quite a workable system and I do think that because you don't have statutory powers to compel people to produce documents or take evidence on oath, there may be a little loss in pursuing some sort of investigation after the event but I am sure how much is lost, and I think that Harold Green, chairman of SEC, was saying the other day, when he was in London, that they got an enormous number of investigations going on, but the number which achieve anything at the end of the day is very, very small, so that just because you

you have extra power it does not necessarily mean that you can go very much further.

Q: For the benefit of the small shareholders, is there any move towards simplification of documents related to corporate finance activities particularly to takeovers?

A: You know, they do have my sympathy because undoubtedly, the documents are very long and complex. Some people would say whether we could somehow make it less complicated and be able to produce it in an abbreviated form, summarising the important financial information. I think the various answers and comments to that is quite often people still try in a way for their own benefits to read the front page summarising that profit is X, premium is Y, dividend is up, you know, the main ingredients but I do think that it is going to be a very difficult to make them shorter or less complicated.

Q: What about nominee companies being used as a camouflaged vehicle for takeovers by stealth?

A: Well, I think the answer to that is under the 1976 Companies Act, a company can ask the nominee company to reveal the identity of its beneficial shareholders and that is fine as far as it goes, but if the answer to that is not Mr Smith of London but ABC Nominee of Panama, then you aren't any further down the road because you've no idea who controls that company in Panama and that is where the brickwall starts. You can't get behind that nominee company.

J.R. APSDEN
SECRETARY
COUNCIL FOR SECURITIES INDUSTRY

TRANSCRIPT

Q: Could you tell us briefly about the background of CSI?

A: The CSI was initiated by the Bank of England. They had in fact, ^{been} a general call for a body such as this some while, but we were recently put together. Having said that, we are totally independent and not an executive arm of the Bank of England or Stock Exchange. So, we are totally autonomous and that is very important particularly when the life of the CSI progresses, we get more and more involved on contentious issues, the fact that we are producing an independent view and not just the view of the Stock Exchange or the Bank of England, that is important.

Q: Do you consider market raids to be undesirable from the stand point of the target company as well as the small shareholders?

A: First of all, we need to be in agreement that market raids do not infringe any rules, they are perfectly legal. Point ~~two~~, they do effectively shut out the small shareholders. So, really, it is the professionals and the large shareholders who benefit from it. Point ~~three~~, there has been criticisms that a lot of these market raids have been tied up beforehand, in other words, the stockbroker has a good idea whom he is going to get the stock from. So, a lot of transactions have been put through in the market but as I said, this is my personal view, really. I think the next point to mention is that it is difficult to do anything about it, to come out with certain rules to satisfy all parties for a variety of reasons; one, the sheer practicality of it all, secondly, the market place is a free place, thirdly, the American tender system is very expensive. The most widely canvassed one is the bidder standing in the market for a period of 3 days to a week announcing his intention to buy such and such a stake at a given price and the possibility there would be the amount required. Let's face it, market raids have been taking place for a very long time now, not just over the last year. At this moment, the market is relatively depressed, but if you take a long term view, many people view this as a good opportunity to pick up stakes.

Q: On this point, due to the loopholes existing in the company laws on disclosure especially nominee companies, foreign companies have been exploiting this weakness to build up a strategic stake or creeping control on some major U.K. companies. Does this shortcoming warrant the attention of the CSI in taking redressive measures?

A: Following the removal of exchange control, the difficulties of policing non-resident companies stakes in U.K. companies particularly keeping control of acquisition of this kind of size, that kind of facility has been removed. You will hear from the Takeover Panel that they are worried about it. Non-resident outside the jurisdiction of U.K.

law particularly of disclosure of 5% shareholding and above would be able to accumulate this stake without anyone knowing it. I think it is very disconcerting to a company just to find that someone can walk in and purchase 25% or 27% of its equity in half an hour and it remains to be seen whether a lot of these are stepping stones to a full bid.

Q: Do you discern a problem of identity regarding foreign nominee companies, I mean, the brickwall situation?

A: I think that brickwall is a very good description. The Takeover Panel has a very good relationship with overseas companies and their regulatory authorities. Peter Lee, the Deputy D-G, is the expert on Singapore. As I understand, their contacts with overseas market in Hong Kong and Singapore are very good and receive good co-operation from them. But, if the end of the trail ends up with a Swiss company, then 99.9% of the cases, it is the end of the road. I would have thought certainly the nominee problem could be of relevance to dawn raids but it hasn't been, I think I'm right in saying until the "CGF"* act has been revealed, you could have said there was a problem of identity there and there was. But generally, in market raids there has been no problem in disclosure. Since the earlier type of market raids, the situation has improved on the small scale as now, you'll find that the bidding broker displays on the TV screen what he is doing, what his price is, etc, so it is there for all to see.

Q: What are your powers of control and censure over recalcitrant companies?

A: CSI operates on the undertaking of commitments given to it, its rulings, its objectives by which each of the member associations referred in the Annual Report on it. So, in the context of your question referring possibly to the "St. Piran" case, we operate very similar to Takeover Panel. Like them, we've the power of censure which in fact is very effective. That's the first one and you might say, "Well, that's not strong enough". You should look at Mr. Raper of St. Piran, not only has there been statements censuring his behaviour, you then extend that to the Stock Exchange by forbidding any dealing by Mr. Raper. That is a good illustration of the degrees which you can then take withdrawn facilities from the securities market to an individual or what have you. The ultimate, all members of the associations could withdraw facilities to the individual and this would include the Stock Exchange, licensed dealers, merchant banks, clearing banks, everybody close rank. The other interesting point is that in the context that you talked earlier regarding disclosure of nominee companies, one possibly could be that companies amend their Articles of Association to provide disenfranchisement of shares where nominee shareholders refused to disclose the beneficial owner behind it. That is a possibility.

* Consolidated Gold Fields.

Q: There is still the odd voice or so advocating for the implementation of the SEC model to replace self-regulation. Could we have your comments on this?

A: Our chairman just came from America to the SEC. SEC in a nutshell, I think you'll find out is extremely complex. It's extremely overweighted on the legal side and it reminds me in fact of the exchange control side of things, they used to have a continued basis of making new rules to amend more other rules and then a loophole was found and you make another rule and you just keep on and that to me is the main disadvantage of it. I think the question can be best answered by turning it the other way around. What are the advantages of self-regulations? Basically, it's flexibility and speed.

Q: In conclusion, how would you sum up the role of CSI?

A: The Takeover Panel as I see it deals on a case basis. It deals with current cases. We're much more orientated in the theory and the policy side. We don't get involved in day-to-day cases but if a complaint comes up, of course, we do that. We're all the time looking at current practices, commission structures, rights issue, DoT investigations, current accounting standards and see how improvements can be made for the future.

C.H. FRYER, ESQ.
HEAD, QUOTATIONS DEPT.
(THE STOCK EXCHANGE)

TRANSCRIPT

- Q: Could we start off the discussion by asking you to relate the main objectives of the Quotations Department in relation to mergers and acquisitions?
- A: Well, with regards to takeovers, the department is concerned with disclosure, making sure there is information for investors to decide whether or not to accept an offer and it is the disclosure of information which underlies the confidence which the whole market is based.. Now, how much information would depend upon each bid situation but the skeletal basis of the information can be found in the provisions of Frauds and Investments Act (1960), the Takeover Code and the Stock Exchange "Yellow Book" particularly in chapter 5. If you take those combined, it gives you the basis, but each situation is different, so that, when it comes to a judgement by investors as to whether or not to accept another company's cash or paper, or whether, other considerations from the offeror, for example, to know what is the current situation of the company's business, that may mean spelling out additional information which obviously can't be foreseen when laying down the recommendations.
- Q: From interviewing various merchant banks in the City, we understand that in a bid, it is absolutely crucial for them to submit all their documents to you for vetting and official sanction. Could you kindly elaborate on the nature of this process?
- A: Perhaps, I've just said that in context to you. You see, the Takeover Panel which has a number of sponsors or others who are underlying the Panel of whom the Stock Exchange is one, and the Issuing Houses is another, and there are many other bodies. Having laid down the provisions in the City Code, there is no relationship between the City Panel and its executives of the Panel, and, the offeror, in any bid situation, he could be an individual, or, it could be a company, there is no relationship where the Takeover Panel can say under some edict to an offeror, or potential offeror, that "When you get to D-Day minus 20, you must make proof document and having submitted it, we will vet it". Fortunately, for the Panel, the Stock Exchange was already doing this kind of work and has been doing it for many years and we, therefore, have very close liasion with the Takeover Panel. Now, what happens is that if a listed company sets out to offer for another company, then the offeror is obliged under the terms of the listing agreement (it used to be called "general undertakings") to submit proofs of all documents that they are going to send to all shareholders and we have said, more recently, in chapter 5 of the "Yellow Book" that in respect of offer situations, the company should also send to us, proofs of documents which

are going to shareholders of other companies. There is a well established procedure, and if a listed company did not submit the documents, we would not be very pleased. But it is a very well understood procedure. The merchant banks in the City understand this, the brokers, and the consequence is that we can see that the documents comply with the requirements for disclosure in takeover situations based upon Licensed Dealers Rule, the "Yellow Book," Takeover Code and anything else who applies from time to time, and all those documents are submitted through the brokers to the offeror and are returned to him with comments that we make. There is then the obligation upon the offeror to re-submit an amended proof, taking into account, the comments and indicating any changes that they have made with their own initiatives, which again, we'll vet. So, the procedure goes on until the document is agreed by us. During the course of this checking procedure, we will have regard to the City Code, and the most we are likely to do is to comment on the document that rule 16 on profit forecast should be complied with.

Q: What about defence documents?

A: The same procedure happens with any document whether it be offer, the reply, or a subsequent document, or an advertisement.

Q: We know that the Panel has laid down very comprehensive guidelines governing profit forecast. But, due to inherent complexities and technical problems associated with it, many financial advisers regard it as a "grey area". Are there any plans for the Stock Exchange and the Panel to review this subject?

A: There is very little excuse to regard it as a "grey area" as you mentioned. It arouses controversy. They are all highly conscious of the fact that the Stock Exchange took the initiative of issuing its own views of what constitute as forecasts...It was done in conjunction with the Takeover Panel, in that, we discussed with the Panel what we proposed to say, but, we took the view that it shouldn't simply rest on the question of figures. The question of what words you used can be just as indicative of what's going to happen in the future. The reason why it is such a controversial area, is because, when a party to a takeover especially one which is contested, are in the thick of the fight, then they will want to use all the armour they have available, to win the battle on behalf of their client, whether it is the offeror, or the defending offeree, so that, in those kind of circumstances, it is not surprising that people would want to come up with profit forecast or the other, even though they don't amount to figures. That is why, there may be controversy about it, and why some of the banks possibly resent the disciplines which have been imposed. The Takeover Panel and the Stock Exchange, do go over the figures that are published after the takeover situation is all over, to see whether forecasts that

are made have in fact, been met, and if, there is a wide discrepancy, a lot of questions will be asked by the Panel or the Stock Exchange.

Q: On the above point, in view of the fact that the board of directors are directly responsible for the profits forecasts itself with their financial advisers incorporated merely in the sanctioning process, don't you think that the company is equally reliable?

A: The responsibility rests with the directors, that is absolutely true, but merchant banks must make sure what the directors are saying are said after proper care has been taken. It is important for the financial advisers to be around, to hold their hands when they are making statements that cannot be supported the time they are made. It is no good looking 3 or 6 months later for justifications to statements. It must be able to justify it at the time. That is why, the Takeover Panel has incorporated in the Code, Rule 16 that certain disciplines have to be observed chiefly by accountants and the review by the merchant banks. Just imagine, a company whom a bid has been made by two competitors, the bid has now been going on for 3, 4 or 5 weeks. The Takeover Code allows 60 days as the maximum period for an offer. So, it has been going on for several weeks and each of the competing offeror has 40% of the company and that leaves 20% in the hands of the public, which means that one of them must be the first to get 11% out of the 20%. You can imagine that there is a great temptation to make remarks to induce people to sell. That is why, forecast is so pertinent as the public are told that profits will be doubled or the assets involved will be doubled.

Q: Could we have your comments on market or 'dawn' raids?

A: Leaving aside the words, market raids for the moment, any person or party can set out to buy a stake in a company, say 10% of a company. There is nothing to prevent them from doing this in the market. Of course, you then look up the register and you find the number of people who might, or might not be willing to sell. But, just accepting the level that is prescribed in the Code, then it is perfectly free and not thought unduly unfair for someone to go out and buy up to the 30% threshold.

Q: As a guardian of price-sensitive information, how do you go about ensuring that secrecy is maintained during a bid situation?

A: Let us say that the chairmen of the companies could have their meetings in an arrangement so that they are not noticed or seems to be too pointed. The problems do arise and they are now being taken care of by us where, having set terms between the two companies, the offeror may then want to go and talk to certain shareholders in the offeree company because without their going along with the thing there is no point in coming out with the document. They

obviously must have some indications that they are going to receive some support, and at this stage, you then open the wings beyond the board and assuming that it is not long before this, they have settled the terms or decided that they can't proceed, they should have a short suspension of listing. We, and the Panel issued a statement in November 1977 to cover these situations and since then the procedure has been used hundreds of times. Normally, a merchant banker or a stockbroker comes to us and say, "We have been instructed by so-and-so to request for suspension of their listing". We would not be very happy about if a company approached us to request for somebody else's listing. We normally suggest to companies not to suspend their listings for not more than 48 hours.

Q: What sort of control and monitoring systems do you have with regards to the market?

A: The department has staff who are watching market movements in newspapers, in market reports, investment service branch, our own official list, disposal of prices, we have our own antenna sensitive to any information which may come up in the market directly from the jobbers or through the brokers or even the merchant banks. These are all taken in to our sum total of knowledge and then assessed. Share dealing investigations is another of my province and it arises partly from the work that I have just mentioned i.e. the watching of the price and publication of the news, coupled with the fact that of course, we are aware of what is going on or, what is about to go on or, what is about to go on through the proof documents or discussions that were held in confidence. For example, if we had a meeting with some people about a situation they had, in confidence, and two days later, if the price starts moving about, we can telephone the people and say, "We have discussed this thing but we see the price moving about, shouldn't there be an announcement?" Right, so we get an announcement but the price moved. In the mean time, we sort of follow it up and it may lead us to having a look at the dealings in which case we look at the market, the scale of the trading, the nature of the trading and then take it from there.

Q: Like the Takeover Panel, do you have the power of censure against companies or financial advisers who have flouted Stock Exchange rulings relating to mergers and acquisitions?

A: Certainly, it is available. Well, you must be careful in using the word "censure". If, it is a matter which deserves discussions or public statement because of the general public interest, then one would use that. One wouldn't just use, certainly the Stock Exchange wouldn't use public statement just to have a go at somebody.

Q: For the benefit of the small shareholders, would you like to see more simplified documents relating to acquisitions and mergers?

A: Well, of course, things are getting more complicated. In part, it is because there are certain matters which need to be brought out to the public. They are information and people must have that information. But the reason chiefly why they become more and more complicated is, because a few instances have risen where advantage has been taken of the market, freedom of the market. Advantages have been taken of that very often for personal ends and very often for financial rewards and if it is thought that other cases where unfair or undue advantage has been taken at the advantage of the public, then something must be done about it and that is why a lot of regulations are there in case...the only consolation is that we aren't running the securities market of this country the way the Americans are, starting from the basis of a legislative background. The misuse of the system is curbed by regulations and the regulations get more and more complex and give rise to avoidance industry, and lawyers and others try to find ways around the regulations, which then brings into force an anti-avoidance regime to try and stop people running rings around the regulations. That is what makes it so complicated.

Q: What about nominee companies being used as a cloak for stealth by some companies?

A: Yes, this is a risk that nominees will be used as a cloak to conceal a potential takeover, In fact, it is a problem encountered by the regulatory bodies over the world. I think there will be attempts to try and ameliorate the situation but if there is undue regulations they will be driven underground.

Q: There is still some odd voices here and there advocating for the SEC model to be transplanted here. Do you see any merits in their advocacy?

A: If we have an equivalent of SEC, we could have a prospect of having to provide for virtually every conceivable situation, and if you have got 4,000 companies, you will have 4,000 situations, if not, 8,000 situations. But each one is like an individual, like a gene, a package of genes and you could start off with 4 identical companies. We are prepared to wager with you that after 3 years the 4 companies would become separate unless you take the drastic step of keeping them identical.

Q: With the Wilson's Report expecting to come out at any moment, in retrospect, how do you see the main thrust of your department and the Stock Exchange in the 1980's?

A: I would like to think that there will be a wider realization that we have already reached a stage, where things are complicated enough, and that what we should avoid, is to make it more complicated.

APPENDICES

TABLE 5.1: COMPARATIVE FINANCIAL PERFORMANCE OF THE 30 LEADING UK MERCHANT BANKS

| Merchant Bank | Year End | Total Assets (£m) | Total Deposits (£m) | Acceptances (£m) | Profits After Tax (£m) | Retained Profits (£m) | EPS (P) | Dividend (£m) | DPS (P) |
|--------------------|----------|-------------------|---------------------|------------------|------------------------|-----------------------|---------|---------------|---------|
| Ansbacher Henry | 31 Mar. | 47.7 | 38.5 | 2.2 | 0.46 | 0.37 | 7.7 | - | - |
| Arbuthnot Latham | 31 Mar. | 124.9 | 95.1 | 19.6 | 0.60 | 0.20 | 9.3 | 0.4 | 6.1 |
| Barclays M.B. | 31 Dec. | 893.6 | 454.0 | - | 3.01 | 1.01 | 15.1 | 2.0 | 10.0 |
| Barings | 31 Dec. | 441.6 | 351.3 | 97.5 | 0.71 | - | 23.8 | 0.7 | 25.8 |
| Brown Shipley | 31 Mar. | 231.8 | 198.3 | 36.6 | 1.65 | 1.06 | 29.0 | 0.5 | 10.6 |
| Charterhouse J. | 31 Dec. | 211.4 | 119.0 | 34.7 | 7.43 | 1.08 | 9.2 | 0.3 | 4.1 |
| County Bank | 31 Dec. | 646.5 | 505.0 | 26.3 | 3.44 | 2.75 | 43.0 | 0.6 | 8.5 |
| Dawday Day | 30 Jun. | 10.2 | 4.3 | - | 0.48 | - | 4.7 | 0.2 | 2.1 |
| Gray Dawes Bank | 31 Mar. | 76.8 | 64.4 | 3.0 | 0.53 | 0.53 | 20.2 | - | 23.9 |
| Gibbs Antony | 31 Dec. | 259.0 | 171.6 | 73.2 | 0.03 | 0.25 | 0.1 | 0.1 | 0.7 |
| Grindlay Brandts | 31 Dec. | 210.6 | 126.6 | 18.5 | 0.68 | 1.61 | 9.1 | - | - |
| Guinness Mahon | 30 Apr. | 303.5 | 235.7 | 39.9 | 5.01 | 4.21 | 9.8 | 0.8 | 8.9 |
| Gresham Trust | 31 Mar. | 4.5 | 3.1 | 0.2 | 0.75 | 0.37 | 4.7 | 0.3 | 2.3 |
| Hambros | 31 Mar. | 1,437.5 | 1,078.0 | 274.7 | 11.88 | 9.10 | 33.6 | 2.3 | 15.8 |
| Hill Samuel | 31 Mar. | 1,279.3 | 920.0 | 233.7 | 7.10 | 3.68 | 12.0 | 3.4 | 7.9 |
| ICFC | 31 Mar. | 335.8 | - | - | 5.85 | 3.78 | 9.7 | 0.5 | 1.0 |
| Kleinwort Benson | 31 Dec. | 2,373.9 | 1,442.0 | 334.2 | 12.09 | 8.52 | 22.2 | 3.5 | 12.9 |
| Keyser Ullman | 31 Mar. | 251.6 | 186.5 | 16.0 | 5.72 | - | 4.9 | 0.6 | 3.3 |
| Lazards | 31 Dec. | 729.1 | 572.2 | 103.6 | 4.30 | - | 38.7 | 2.0 | 10.0 |
| Lloyds M.B. (LBI) | 30 Sep. | 17,459.0* | 6,580.0 | - | 20.50 | 19.90 | 10.8 | 23.9 | 14.2 |
| Morgan Grenfell | 31 Dec. | 1,203.1 | 957.2 | 184.2 | 4.40 | 3.15 | 28.2 | 1.2 | 7.0 |
| Manufacturers H.L. | 31 Dec. | 175.7 | 132.6 | - | 2.39 | 2.30 | 19.1 | 0.08 | 6.9 |
| Robert Fleming | 31 Mar. | 214.6 | 118.4 | 1.2 | 3.82 | 2.54 | 33.2 | 0.2 | 17.4 |
| Rea Brothers | 31 Dec. | 111.2 | 90.9 | 15.3 | 0.60 | - | 6.5 | 0.2 | 2.3 |
| Rothschilds | 31 Mar. | 473.5 | 470.0 | 56.6 | 0.60 | - | 5.9 | 0.6 | 5.9 |
| Singer & Friedldr. | 31 Dec. | 206.7 | 219.4 | 75.9 | 1.92 | 1.75 | 17.5 | 0.06 | 0.5 |
| Samuel Montagu | 31 Dec. | 1,368.3 | - | 115.6 | 3.00 | 2.42 | 7.5 | 0.5 | 1.4 |
| SCMB | 31 Dec. | 114.6 | 97.0 | - | 0.65 | 28.00* | 50.8 | 8.6 | 14.2 |
| WAGE Schroder | 31 Dec. | 1,816.7 | 1,410.0 | 228.1 | 6.59 | 5.23 | 0.8 | 1.3 | 17.4 |
| Warburgs | 31 Mar. | 919.3 | 620.9 | 107.9 | 14.85 | 12.3 | 25.3 | 2.5 | 6.0 |

Table 5.1: Comparative Financial Performance of the 30 Leading UK Merchant Banks.

* Parent company

Source: Annual Accounts/Reports 1979 - 1980

Table 5.2: Comparative Balance Sheet Highlights of the 30 UK Merchant Banks & their Parent Organisations

| BANK | STAFF (AVERAGE NO.) | NON-UK AFFILIATES NO.* | TOTAL ASSETS (£m) | DISCLOSED NET PROFITS (£m) |
|----------------------|---------------------------|------------------------------|-------------------------|----------------------------------|
| Kleinwort, Benson | 1,074 | 19 | 2,713 | 19.0 |
| Schroder Wagg | 909 | 18 | 1,845 | 7.8 |
| Hambros Bank | 1,509 | 16 | 1,640 | 15.3 |
| Samuel Montagu | - | 11 | 1,580 | 5.0 |
| Hill Samuel | 3,756 | 20 | 1,443 | 11.3 |
| Morgan Grenfell | 713 | 18 | 1,288 | 7.2 |
| S.G. Warburg | 1,394 | 10 | 1,150 | 12.3 |
| Lazard Brothers | 456 | 3 | 735 | 5.6 |
| N.M. Rothschild | 568 | 15 | 603 | - |
| Baring Brothers | 412 | 7 | 489 | - |
| Charterhouse Japhet | - | 4 | 485 | 4.0 |
| Guinness Mahon | - | 4 | 332 | 1.8 |
| Singer & Friedlander | - | 5 | 283 | 4.1 |
| Robert Fleming | 341 | 5 | 278 | 7.3 |
| Brown Shipley | 530 | 4 | 252 | 1.5 |
| Arbuthnot Latham | 886 | 4 | 206 | 2.5 |
| Rea Brothers | 188 | 3 | 109 | 0.7 |

* Including subsidiaries and representative offices.

Sources: compiled from "The Banker," August 1981 and annual accounts/reports (1980/81) of merchant banks.

TABLE 5.3: COMPARATIVE ANALYSIS OF OWNERSHIP

| MERCHANT BANK | ADDRESS | CHIEF EXECUTIVE | AHC STATUS |
|-----------------------------|--|-----------------------------|------------|
| Ansbacher Henry | 1, Noble Str London EC2V 7JH | Sir S.Goldman | - |
| Arbuthnot Latham | 37, Queen Str. London EC4R 1BY | C.J.Prideaux | M(r) |
| Barclays M.B.(BMB) | 15/16 Grace- church Str. London EC3V OBA | D.V.Weyer | - |
| Baring Brothers & Co.Ltd | 8, Bishopsgate London EC2N 4AE | The Rt.Hon.J. F.H.Baring | M |
| Brown Shipley | Founders Court, Lothbury London EC2R 7HE | Rt.Hon.Lord Farnham | M |
| Charterhouse Japhet | 1, Paternoster Row, St.Pauls London EC4M 7DH | M.H.W.Wells | M |
| County Bank | 11, Old Broad Str. London EC2N 1BB | J.A.Leighton- Boyce | - |
| Dawnday Day | 31, Gresham Hse, London EC2V 7DT | E.P.Hatchett | - |
| Gray Dawes Bank | 40, St.Mary Axe, London EC3A 8EU | Rt.Hon.Earl of Inchcape | - |
| Gibbs Antony | 3, Frederick's Place, Old Jewry, London EC2R 8HD | Sir P. Zulueta | M(r) |
| Grindlay Brandts | 23, Fenchurch Str, London EC3P 3ED | N.J.Robson | M(r) |
| Guinness Mahon | 32, St.Mary-at- Hill, London EC3P 3AJ | Lord Kissin | M |
| Gresham Trust | Barrington Hse, Gresham Str. London EC2V 7HE | P.G.Wreford | - |

M = member, M (r) = membership removed, M(n) = new member

Source: Annual Accounts/Reports (Merchant Banks) 1979/80

STRUCTURE OF THE 30 UK MERCHANT BANKS

| JS | MAJOR SHAREHOLDERS | | ULTIMATE HOLDING CO. |
|----|---|---------------------------------|------------------------------------|
| | Associated Metals & Minerals Corp. Grand Metropolitan Ltd Barclays Nominees | 38.7% 16.7% 9.9% | Henry Ansbacher Ltd |
| | London Trust Company ICFC Birmingham & Midland Counties Tst. M.R.G. | 11.1% 10.4% 10.1% 5.3% | Dow Scandia Banking Corporation |
| | Barclays Bank Ltd | 100.0% | Barclays Bank Ltd |
| | Baring Foundation | - | Baring Foundation |
| | Duncan Lawries Investments Prudential Assurance Co. U.S. Debenture Corporation Pearl Assurance Co. | 7.4% 6.6% 5.8% 5.2% | Brown Shipley Holdings Ltd |
| | Charterhouse Group | 100.0% | Charterhouse Group |
| | National Westminster Bank | 100.0% | National Westminster Bank |
| | Hume Holdings Ltd | 100.0% | Rothschilds Investment Trust (RIT) |
| | The Inchcape Group | 100.0% | Inchcape Group |
| | Antony Gibbs Holdings Ltd | 100.0% | Hong Kong & Shanghai Bank (HKSB) |
| | Grindlay Bank | 100.0% | Grindlay Holdings Ltd |
| | Aer Lingus Teoranta Compagnie de Occident S.A. | 6.7% 5.4% | Guinness Peat Group |
| | Gresham Investment Trust Ltd | 100.0% | Gresham Investment Trust Ltd |

| MERCHANT BANK | ADDRESS - 92 - | CHIEF EXECUTIVE | AHC STATUS | |
|---|---|--------------------------|------------|--|
| Hambros Bank | 41, Bishopsgate London EC2P 2AA | J.O.Hambro | M | Hambro Prude |
| Hill Samuel & Co. Ltd | 100, Wood Str. London EC2P 2AJ | K.Keith | M | Banks Insur Phili Indiv Other The S BAII |
| Industrial & Commercial Finance Corporation Ltd (ICFC) | 91, Waterloo Rd, London SE1 8XP | Lord Seebohm | - | Natio Barcl Midla Bank Lloyd Royal Bank |
| Kleinwort, Benson | 20, Fenchurch Str. London EC3P 3DB | R.A.Henderson | M | Klein |
| Keyser Ullmann | 25, Milk Str. London EC2V 8JE | D.E.Wilde | M | Keyse |
| Lazard Brothers & Co.Ltd | 21, Moorfields London EC2P 8HT | I.J.Fraser | M | White |
| Lloyds Merchant Bank (Corp.Finance Division) | 40-66, Queen Str. London EC4P 4EL | Sir. J.Morse | - | Lloyd |
| Morgan Grenfell | 23, Gt Winches- ter Str. London EC2P 2AX | Lord Catto | M | J.P. Will: U.K.: Dire |
| Manufacturers Hanover Ltd | 8, Princess Str. London EC2P 2EN | J.F. McGillicuddy | - | Manu |
| Robert Fleming | 8, Crosby Sq., London EC3A 6AN | W.R.Merton | M(n) | Robe |
| Rea Brothers | 36-37 King Str. London EC2V 8DR | W.H.Salomon | M | Scot Scot W.H. |
| Rothschild N.M. & Sons Ltd | New Court, St. Swithin's Lane London EC4P 4DU | Evelyn de Rothschild | M | Roth |
| Singer & Friedlander | 20, Cannon Str. London EC4M 6XE | A.N.Solomons | M | Euro Dir |
| Samuel Montagu | 114, Old Broad Str. London EC2P 2HY | Staffan Gadd | M | Mid |
| Standard & Chartered Merchant Bank | 33-36 Gracechurch Str. London EC3V 0AX | P.A.Graham | - | Sta |
| Schroder Wagg J.H. | 120, Cheapside London EC2V 6DS | Rt.Hon.Earl of Airlie | M | One Vin Bar |
| Warburg S.G. | 30, Gresham Str. London EC2 | Lord Roll of Ipsden | M | Par |

| MAJOR SHAREHOLDERS | | ULTIMATE HOLDING CO. |
|--|---|---------------------------------|
| Hambros Trust Ltd Prudential Insurance Company | 14.8% 9.5% | Hambros Group |
| Banks & Nominees Insurance & Pension Funds Philip Hill Investment Trust Individuals Others The Samuel Family BAII | 24.5% 21.0% 16.3% 16.0% 9.1% 8.0% 5.1% | Hill Samuel Group |
| National Westminster Bank Barclays Bank Ltd Midland Bank Ltd Bank of England Lloyds Bank Ltd Royal Bank of Scotland (RBS) Bank of Scotland | 23.6% 18.8% 18.0% 15.0% 13.7% 7.5% 3.1% | Finance for Industry (FFI) |
| Kleinwort, Benson, Lonsdale Ltd | 100.0% | Kleinwort, Benson, Lonsdale Ltd |
| Keyser Ullmann Holdings Ltd | 100.0% | Charterhouse Group |
| Whitehall Trust | 100.0% | S. Pearson & Son |
| Lloyds Bank International | 100.0% | Lloyds Bank Ltd |
| J.P. Morgan Overseas Capital Corp. Willis Faber Ltd U.K. institutions Directors and others | 33.3% 23.4% 22.5% 21.8% | Morgan Grenfell Holdings Ltd |
| Manufacturers Hanover Trust Company | 100.0% | Manufacturers Hanover Corp. |
| Robert Fleming Holdings Ltd | 100.0% | Robert Fleming Holdings Ltd |
| Scottish Cities Investment Trust Scottish & Mercantile Investment W.H. Salomon | 6.9% 8.3% 10.6% | Rea Brothers Ltd |
| Rothschilds Continuation | - | Rothschilds Continuation |
| European Ferries Ltd Directors and Staff | 92.5% 7.5% | European Ferries Ltd |
| Midland Bank Ltd | 100.0% | Midland Bank Ltd |
| Standard & Chartered Bank Ltd | 100.0% | Standard & Chartered Bank Ltd |
| One Forty-Five Trust Ltd Vincitas Ltd Baroness Schroder | 19.8% 15.8% 5.0% | Schroder Ltd |
| Paribas International S.A. France | 6.6% | Mercury Securities Ltd |

| COUNTRY | ANS | AL | EMB | BAR | BS | CJ | CB | DD | GD | GIB | GB | CM | GT | HAM | HS | ICFC | KB | KU | LAZ | LMB | MG | MHL | RF | REA | RTH | S&F | SN | SCHE | WAGG | WEG |
|------------------------|-----|----|-----|-----|----|----|----|----|----|-----|----|----|----|-----|----|------|----|----|-----|-----|----|-----|----|-----|-----|-----|----|------|------|-----|
| <u>North America</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| USA/Canada | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>South America</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Brazil | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Others | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Africa</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| South Africa | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Others (Nigeria, etc) | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>West Indies</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Bermuda (Panama, etc) | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Europe</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Channel Islands</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| France | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Germany | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Holland | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Italy | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Luxembourg | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Spain | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Switzerland | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Others (USSR, etc) | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Middle-East</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Saudia Arabia</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Others (Lebanon) | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Asia/Pacific</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| <u>Australia/N.Z.</u> | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Hong Kong | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Indonesia | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Japan | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Korea | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Malaysia | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Philippines | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Thailand | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Singapore | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Others (Taiwan) | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X | X |

Source: Annual Accounts/Reports (1979-81) of Merchant Banks

Table 5.4: Comparative Analysis of the Worldwide Geographical Locations of the 30 Major UK Merchant Banks.

TABLE 5.5: COMPARATIVE ANALYSIS OF THE DIVERSE BANKING ACTIVITIES & SERVICES OFFERED BY THE 30 MAJOR UK MERCHANT BANKS

| Activity | ANS | AL | BMB | BAR | BS | CJ | CB | DD | GD | GIB | GB | GM | GT | HAM | HS | ICFC | KB | KU | LAZ | LMB | MG | MHL | RF | REA | ROTH | S&F | SM | SCMB | WAGG | WBG | | | | | |
|-------------------------|-----|----|-----|-----|----|----|----|----|----|-----|----|----|----|-----|----|------|----|----|-----|-----|----|-----|----|-----|------|-----|----|------|------|-----|--|--|--|--|--|
| Asset Management | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Banking | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Corporate Finance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Commodities & Metals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consultancy Services | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Film Finance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insurance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment Management | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment Banking | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Industrial Services | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| International Banking | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Property Investment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Shipping & Ship-broking | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Source: Annual Accounts/Reports & Special Corporate Brochures of Merchant Banks 1979/81.

| Code | Merchant Bank | Merchant Bank Assets (£m) | Parent Assets (£m) |
|--------|----------------------|---------------------------|--------------------|
| MB 1) | Ansbacher Henry | 47.7 | same |
| MB 2) | Arbuthnot Latham | 124.9 | 205.2 |
| MB 3) | Barclays Mer. Bank | 893.6 | 30,332.0 |
| MB 4) | Barings | 474.5 | same |
| MB 5) | Brown Shipley | 240.2 | same |
| MB 6) | Charterhouse Japhet | 211.5 | n/a |
| MB 7) | County Bank | 646.6 | 28,946.7 |
| MB 8) | Dawnday Day | 10.3 | 164.3 |
| MB 9) | Gray Dawes | 87.5 | 303.5 |
| MB 10) | Gibbs Antony | 259.0 | 7,364.2 |
| MB 11) | Grindlay Brandts | 207.9 | 3,362.5 |
| MB 12) | Guinness Mahon | 383.7 | n/a |
| MB 13) | Gresham Trust | 14.7 | 17.0 |
| MB 14) | Hambros Bank | 1,511.2 | same |
| MB 15) | Hill Samuel | 1,412.3 | same |
| MB 16) | ICFC Corp.Finance | 335.9 | 977.7 |
| MB 17) | Kleinwort Benson | 2,373.9 | same |
| MB 18) | Keyser Ullmann | 274.0 | same |
| MB 19) | Lazards | 729.1 | n/a |
| MB 20) | Lloyds Merchant Bank | 6,977.0* | 17,459.0 |
| MB 21) | Morgan Grenfell | 1,203.1 | same |
| MB 22) | Manufacturers H.L. | 175.8 | 23,837.8 |
| MB 23) | Robert Fleming | 214.6 | same |
| MB 24) | Rea Brothers | 111.2 | same |
| MB 25) | Rothschilds | 552.9 | same |
| MB 26) | Singer & Friedl. | 316.8 | 1,342.5 |
| MB 27) | Samuel Montagu | 1,368.4 | 20,205.3 |
| MB 28) | Standard Chartered | 17.6 | 9,369.2 |
| MB 29) | Wagg J.H.Schroder | 1,816.7 | same |
| MB 30) | Warburgs | 997.6 | 1,156.5 |

Table 5.6: Comparative Balance Sheet Highlights of the 30 UK Merchant Banks & their Parent Organisations.

* Balance sheet of Lloyds Bank International in which the merchant bank is sited.

Source: Annual Reports.