

Acquisitions and amalgamations of quoted companies 1954-1961

There are about 2,600 companies engaged mainly in manufacturing and in the distributive and service trades whose shares are quoted on a United Kingdom stock exchange. The published accounts of these companies are analysed by the Statistics Division of the Board of Trade and combined into aggregated income appropriation accounts, balance sheets and sources and uses of funds accounts.⁽¹⁾ The book value of net assets of these companies amounts to some £14,000 million, and of this over £7,000 million was added during the period 1954 to 1961—some £4,000 million of this representing additions to fixed assets and about £1,500 million each representing increases in net current assets and expenditure on acquiring subsidiaries.

This article analyses in some detail the last of these three broad categories of expenditure, the £1,500 million spent on acquiring subsidiary companies. Among the questions it examines are the trend of expenditure on acquiring subsidiaries over the period and how this was divided among companies classified to different industries; the relation of acquisitions to growth of business concentration on the one hand and diversification on the other; how the consideration was paid, by way of the issue of shares or in cash; the pattern of assets of the companies which were acquired, and whether the consideration paid was greater or less than their book value; and how much of total acquisition expenditure was expenditure by the very large quoted companies (with assets £25 million or more). Finally, the article considers eighteen large 'mergers' which have taken place—cases in which a new unit is formed from an amalgamation of two or more companies of which no one is predominant.

Some problems of interpretation

Statistics of acquisition expenditure are inevitably subject to many technical limitations. Information about the consideration paid by a company for a controlling interest in another company may be very varied in its quality. In the simplest case, the acquiring company will make public a cash bid for the shares of the company it wishes to acquire. More often, at least part of the consideration will be by way of shares in the acquiring company, and in such cases any calculation about the consideration paid requires an estimate of the value of the shares issued. In some cases the acquiring company itself supplies this estimate by showing in its balance sheet an increase in the number

of shares issued (and in their total nominal value) together with a share premium account which reflects the difference between the nominal value of the shares issued and the value attributed to them by the acquiring company—often on the basis of the price of the shares on the stock exchange. On the other hand, cases occur where only the nominal value of the shares is shown in a company's accounts, and the acquiring company does not treat as a premium on the shares issued an amount equal to the difference between the nominal and the market value of the shares issued to acquire the subsidiary company.

Apart from these difficulties of deciding the amount paid for a newly acquired subsidiary, there are difficulties in identifying the assets of the company acquired. When a company takes over another company which it brings into its consolidated accounts, the changes between the opening and closing valuations in the consolidated balance sheets for each item of assets and liabilities will contain amounts equal to the corresponding items of assets and liabilities of the company which has been acquired. When the acquired company is a quoted company, its last published balance sheet will give some guidance about the value of the different assets and liabilities which have been added to the acquiring company's balance sheet as a result of the transaction; the accuracy of such estimates based on this type of information depends of course on the accounting treatment on consolidation as well as on how soon after the date of its last published balance sheet the company was acquired. But if the acquired company was not a quoted company it is much more difficult to obtain information about it. Companies are not required to name the subsidiary companies covered by group accounts. Hence it is not always possible to identify the names of companies acquired, or indeed to determine exactly how many companies have been acquired during a year. Changes in the acquiring company's long term liabilities, minority interests, goodwill and reserves can often be attributed to acquisitions; but if the company acquired is an unquoted company, the majority of which are not required to submit accounts to the Registrar of Companies, it is usually not possible to say how much of the change in stocks, tangible fixed assets, bank overdrafts, cash, etc. reflects items taken over with the acquisition. In the Board of Trade statements of sources and uses of funds, 'direct' expenditure by a company on buying assets like those mentioned, and increases in its liabilities such as bank and trade credit, are over-stated to the extent that they represent unidentified assets and liabilities taken over with a company which has been acquired; the over-statement is offset in total in the sources and uses statement by a 'consolidation adjustment' equal to the value of the unidentified assets of the acquired company. Where

⁽¹⁾ See *Economic Trends* April 1962 and *Board of Trade Journal* 7 December 1962. From 1961 onwards, the analysis excludes about 400 companies each with assets of less than £0.5 million, but these companies account for less than 5 per cent. of assets and income of the quoted companies in total; in 1960 they spent only £23 million on acquiring subsidiaries, out of a total expenditure by all companies of £338 million. Where reference is made in this article to the assets of all quoted companies, including these 400 smaller companies, 1960 figures have been used.

separate companies merge (as opposed to the acquisition of one company by another) the first account of the new enlarged company in many cases will not give corresponding figures for the previous financial year; and to add together the last published accounts of the separate companies, which may relate to different dates, can introduce errors which are difficult to detect. These and other limitations must be borne in mind in interpreting these statistics of company acquisitions.

The trend and industrial pattern of acquisition expenditure

Total expenditure on acquisitions by the quoted companies amounted to £1,594 million between 1954 and 1961, while the book value of subsidiaries they sold amounted to £97 million; thus their net investment in subsidiaries was £1,498 million. Between 1954 and 1958 expenditure on acquiring subsidiaries was running steadily at around £100 million a year, but in 1959 it rose very sharply to £307 million and increased again by 10 per cent. both in 1960 and in 1961, when it amounted to £368 million.

Apart from expenditure on acquiring subsidiaries, there was a marked increase in the trade investments of the quoted companies between 1954 and 1961. Trade investments are investments, not amounting to more than half the equity share capital, in companies with which the company is associated by way of business and as such may, for some purposes, be regarded as akin to investment in subsidiary companies. These have also shown a marked upward trend, from £10 million in 1954 to £80 million in 1961. The industry which has been most prominent in acquisition expenditure over the period—paper, printing and publishing—also recorded large expenditure on acquiring trade investments shown in Table 1. The analysis in the remainder of this article is confined to expenditure on acquiring control of subsidiary companies.

In terms of total expenditure on acquisitions, companies classified to the drink industry and to paper, printing and publishing both spent over £190 million, considerably more than any other industry over the eight years; third in size of expenditure were non-electrical engineering companies at £126 million. But there is a wide variation in the size of the industries for which separate figures are compiled; net assets in 1960 ranged from over £1,800 million of companies classified to chemical and allied industries (Order IV of the *Standard Industrial Classification, 1958*) to £17 million of companies classified to the leather, leather goods and fur industries (Order XI). It is preferable therefore to relate expenditure on acquisitions to the value of net assets. Table 1 shows the breakdown of expenditure by industries, how expenditure was divided between the two periods 1954-1958 and 1959-1961, and its relation to the value of net assets of the industry at the end of 1960.

In three industries—paper, printing and publishing, clothing and footwear, and drink—expenditure on acquiring subsidiaries between 1954 and 1961 amounted

to over one-fifth of the value of net assets at the end of 1960. At the other end of the scale, companies classified to tobacco, the chemical industry, miscellaneous manufacturing industries, shipbuilding and construction spent relatively little—less than 7 per cent. of the value of their assets at the end of 1960—in acquiring subsidiary companies. The much greater rate of expenditure in 1959-1961 than in 1954-1958 is apparent in most industries, though here again there was considerable variation in experience. Annual average expenditure increased sixfold between the two periods among companies classified to electrical engineering, an increase largely accounted for by the concentration which took place among companies manufacturing electric cables in 1959 and among radio and electronic companies in 1961. The increase was nearly as sharp among firms in the drink trade: food, metal manufacture and vehicles were other industries where annual acquisition expenditure was more than three times greater in 1959-1961 than in the earlier period.

Concentration and diversification

The varying nature of the population of quoted companies is well illustrated by the changes which take place in the actual numbers of companies. In 1954, the accounts of nearly 2,900 companies were analysed; over the next seven years, nearly 450 companies were added to the population but the accounts of over 700 ceased to be analysed, the majority because they were absorbed by other quoted companies. Details are given in the table below. Moreover, while nearly one-fifth of the quoted companies in existence at the end of 1961 had joined the population during the previous eight years, the quoted companies were also absorbing a large number of unquoted companies—around 200 a year between 1954 and 1958, nearly 500 in 1959, and around 600 in 1960 and 1961. As explained above, information about the numbers of unquoted companies acquired and about their assets and liabilities is only approximate.

Changes in the numbers of quoted companies 1954-1960

	Number of companies
Companies whose accounts for 1954 were analysed	2,892
plus	
Companies newly granted quotations, 1954-1960...	446
less	
Amalgamations within the same industry ...	321
Acquired from other industries ...	157
Acquired by companies not in population ...	143
Companies reclassified as no longer engaged in manufacturing and distribution, 1954-1960 ⁽¹⁾ ...	2
Companies liquidated ...	82
Companies ceasing to have quotations ...	15
Companies whose accounts for 1960 were analysed ⁽²⁾	2,618

⁽¹⁾ In addition, 49 companies were reclassified to different industries within manufacturing and distribution.

⁽²⁾ In 1961, the analysis was confined to 2,037 quoted companies with net assets of £0.5 million or income of £50,000 or more.

Whether the absorption of one company by another represents statistically an increase in business concentration defined, say, as an increase in the share of the market for a product held by the company, or the diversification of the acquiring company's interests depends to some extent on the degree of refinement of the statistical classifications used. Concentration and diversification are concepts best related to particular products or commodities and not to an industrial classification. But a company usually makes a range of products, and in this analysis is classified, rather arbitrarily if its products are very diverse, to an industry, usually corresponding to an Order of the S.I.C. Moreover, it must be borne in mind that not all acquisitions reflect the coming together of hitherto independent companies. The difficulty of classifying acquisitions in terms of concentration or diversification or other simple categories is exemplified by the acquisition by Albert E. Reed & Co. of Anglo-Canadian Pulp and Paper Mills in 1960. The transaction appears to have involved a measure of integration between Albert E. Reed & Co. and the Daily Mirror Group, who sold their interests in Anglo-Canadian Pulp and Paper Mills to Albert E. Reed in exchange for ordinary shares in the latter. As another example, the acquisition of Pinchin, Johnson and Associates, the paint company, by Courtaulds, classified to textiles, is, in terms of the statistical classification used here, a diversification of Courtaulds' interests. But Courtaulds already had interests in the paint industry before this acquisition, and hence the acquisition in fact represented increased concentration in paints. While, therefore, there has undoubtedly been an increase in business concentration in this latter sense⁽¹⁾, some of the company acquisitions which have taken place represent a growth in the diversity of industry and in the products under the control of the financial unit—a diversity which is typical, for instance, of the large industrial holding company, although it may also be a reflection of the integration into a unit of a source of supply of the materials, components or processes the acquiring company needs for its operation.

Typical of the industry where the absorption of companies represents increased concentration is the drinks industry. Out of over 60 quoted companies acquired by companies classified to the industry or involved in mergers, only five were from outside the industry; and in the food industries, engineering, textiles, paper, printing and publishing, and miscellaneous services trades, the number of acquisitions within the industry far exceeded the number of acquisitions from outside. Industries where acquisitions by way of diversification were important included bricks, pottery, glass, cement, etc. Of the 19 quoted companies which were acquired by (or merged with) companies in this industry, 10 were classified to other industries—

⁽¹⁾ For a discussion of this topic for the period 1951 to 1958 based on the results of the Census of Production, see the article in the *Board of Trade Journal* of 8 March 1963.

including engineering, textiles, paper, construction and wholesaling—reflecting partly the diverse activities of the Thomas Tilling Group, which is classified to this industry. Twelve of the 22 companies acquired by companies classified to the metal goods industry came from other industries, including metal manufacture, engineering, retailing and textiles. Clothing and footwear (engineering, metal goods, textiles and distribution) and chemicals (food, drink, metal manufacture, bricks, etc., and paper, printing and publishing) were other industries where 'outside' acquisitions were relatively numerous. Acquisitions within the textile industry were more numerous than acquisitions by the industry from other industries, but nevertheless acquisitions by textile companies of companies classified to chemicals, metal manufacture, engineering, metal goods, clothing and distribution were recorded.

The size of companies acquired

Altogether, about 3,400 companies (over 500 of them quoted) are recorded in the analysis as being acquired by quoted companies between 1954 and 1961 for a total consideration of £1,594 million. Table 2 on page x shows that on average the consideration paid for a quoted company was about £2 million, and for an unquoted company it was very roughly one-tenth of this amount. The large increase in the number of companies acquired, from under 300 a year in 1954-1956 to around 700 in 1960 and 1961, saw an increase in the size of the average consideration paid for a quoted company (from around £1 million in the early years to £3.5 million in 1961), but no marked change in the average consideration for an unquoted company. But the quoted companies were relatively few in number—they accounted for only 516 out of a total of 3,384 companies acquired over the eight years—and the overall pattern of the size of companies acquired showed little change. During the eight years, 70 per cent. of the acquired companies cost less than £½ million, and year by year this percentage varied only between 67 per cent. (1957) and 71 per cent. (1958). The examination of the size of the companies acquired shows that a comparatively small number of very large acquisitions accounted for quite a high proportion of total expenditure. For instance, 50 companies were recorded as acquired for a consideration of £5 million or more. Considerations paid for these companies, only seven of which were unquoted companies, totalled £530 million, or one-third of the total. Of these 50 cases, 35 occurred during the period of heavy expenditure on acquisitions between 1959 and 1961. The table below lists the largest of these acquisitions—those for which the consideration paid was in each case £15 million or more. Of the nine entries in the table, four relate to acquisitions by companies classified to paper, printing and publishing industry and these totalled £94 million of the industry's total acquisition expenditure of £192 million over the period. Two other entries in the table represent acquisition expenditure of £35

million out of total acquisition expenditure of £125 million by companies classified to textiles.

The largest companies acquired 1954-1961

Name of company acquired	Acquired by	Payment (percentage in shares ⁽¹⁾ in italics)	Excess of payment over book value	Year
		£ million		
Odhams Press	Daily Mirror Newspapers	34 (91)	12	1961
Harrods	House of Fraser	28 (39)	7	1959
Anglo-Canadian Pulp and Paper Mills ⁽²⁾	Reed (Albert E.) & Co.	24 (100)	11	1960
British Celanese	Courtaulds	19 (95)	-3	1957
Standard-Triumph International	Leyland Motors	19 (94)	—	1961
Mersey Paper Co. ⁽²⁾	Bowater Paper Corporation (The)	19 (—)	⁽³⁾	1956
Bristol Brewery Georges & Co.	Courage, Barclay & Simonds	19 (61)	7	1961
Amalgamated Press	Daily Mirror Newspapers	17 (96)	3	1958
Pinchin, Johnson & Associates	Courtaulds	16 (95)	7	1959

⁽¹⁾ Including preference shares, debentures, etc.

⁽²⁾ Unquoted company.

⁽³⁾ Less than £0.5 million.

Payments for companies acquired

Payment for a company may be made either by an issue of shares (including preference shares and loan capital) of the acquiring company, or in cash (or both). It may be noted that in an analysis of growth of the company sector there are difficulties in the treatment of acquisitions which arise because growth can be defined in various ways. So far as an individual company is concerned, an issue of shares to purchase a subsidiary results in a growth in the assets under the control of the acquiring company; but if the acquisition is for cash, there is no growth, since the increase in physical assets etc. due to the acquisition is offset by the fall in liquid resources represented by the cash paid out to the shareholders of the company acquired (any difference between the book value of the assets acquired and the amount paid for them is ignored here). So far as an analysis of growth of the company sector as a whole is concerned, there are some advantages in measuring the growth of the sector as the sum of the growths of the individual companies which comprise it, and in fact this method has so far been used in the Board of Trade analysis. But the method also has

disadvantages: if one quoted company issues shares to the shareholders of another quoted company by way of acquiring the latter, there is no growth in the assets of the quoted company sector as a whole. Looked at in this way, the aggregation of the growth of individual companies overstates the growth of the company sector as a whole.

Table 3 shows that over the period 1954-1961, cash paid to acquire companies amounted to £730 million, while shares issued were valued at £864 million. From 1954 to 1956, payment in cash year by year exceeded the value of shares issued. These years saw the ending of a period of high liquidity among companies which was partly an aftermath of the war and the postwar period when capital expenditure was at a relatively lower level than in recent years, and partly a reflection of the more conservative dividend distribution policy of companies, influenced by a differential rate of tax on undistributed profits (3 per cent. against 30 per cent. on distributed profits). The sharp increase in acquisition expenditure since 1958 has been met to a considerable extent by the issue of shares. Payment in cash, however, has also increased and in 1959-1961 was running at around £140 million a year; these disbursements go some way to explaining the fall in liquid assets of the quoted companies by around £100 million a year in 1960 and 1961.

Table 3 also shows that there was a considerable variation from industry to industry in the way that acquisitions were paid for. Among acquisition payments by electrical engineering companies, the value of shares issued was more than four times greater than the amount of cash payments, and shares amounted to two or more times cash payments in the case of the drink industry, and paper, printing and publishing. On the other hand, three-quarters of acquisition expenditure by wholesalers was in cash; food companies and metal manufacturers were others who paid significantly more in cash than they did in shares for companies they acquired.

There are indications that quoted companies which are acquired by other quoted companies tend to be companies with a degree of liquidity much below the average. For the quoted companies as a whole, net current assets were roughly equal to the book value of tangible fixed assets in 1954, but they have grown much less sharply than fixed assets and in 1961 amounted to only about 70 per cent. of the value of tangible fixed assets. The liquidity, as measured by the ratio of net current assets to fixed assets, of companies acquired in the period 1959-1961, when activity in this field was at a high level, was markedly lower than liquidity of companies taken over in the earlier years. Moreover among the quoted companies which were acquired, an appreciable number showed current liabilities exceeding current assets; net current assets as a percentage of tangible fixed assets of all quoted companies acquired was at its highest at 46 per cent. in 1957 and was as low as 14 per cent. in 1961. But again,

exceptions may be found; for example, net current assets of companies acquired by electrical engineering firms between 1954 and 1961 amounted to £36 million, against tangible fixed assets of only £21 million. A fairly consistent feature of the analysis is that while for an individual acquisition the book value of the assets acquired may exceed the consideration paid for them, on balance over the field as a whole acquiring companies pay more for the companies they acquire than their book value⁽¹⁾. Again, the pattern in 1959/61 is different from that in earlier years. The book value of assets of quoted companies acquired averaged around £50 million in 1954-1956, £100 million in 1957-1958, and well over £150 million in 1959-1961. But while between 1954 and 1958, the net excess of payments made over the book value of assets acquired was no more than £4 million a year or so on average, in 1959-1961 it rose to an annual average of getting on for £40 million. The identified premium over book values paid for unquoted companies showed a similar trend, from an average of well under £10 million a year in 1954-1958, to nearly £30 million in 1959-1961.

Acquisition expenditure of very large companies

A recent list in which the quoted companies in the Board of Trade analysis were ranked by the size of their net assets⁽²⁾ showed that 98 companies had net assets of £25 million or more at the end of 1960. It is interesting to see how acquisitions by these companies compare with the acquisitions of quoted companies in total so far described in this article. These 98 companies owned net assets of £7,274 million at the end of 1960, or 54 per cent. of net assets of all the quoted companies (numbering 2,618).

Of the very large companies, four out of five companies recorded the acquisition of subsidiaries during the period—compared with 1,292 out of the total of 2,618 quoted companies. Nearly one-third of the quoted companies which were taken over during the period were taken over by the very large companies; and while the latter were less active so far as the acquisition of unquoted companies were concerned, they nevertheless acquired 208 out of the total of 2,868 unquoted companies taken over by quoted companies during the period. The average consideration paid for a quoted company was around £2 million and for an unquoted company, perhaps £¼ million; but the very large companies paid an average of £3½ million for each quoted company acquired and about £1 million for each unquoted company. Of the 167 quoted companies they acquired, about 1 in 3 was classified

⁽¹⁾ Additions to reserves, reflecting a book value of the company acquired in excess of the amount paid, occurred in the case of acquisitions of 191 quoted companies and 325 unquoted companies; on the other hand, goodwill entries in the consolidated accounts of the acquiring companies indicated that payments had exceeded book values of the companies acquired in 1,812 cases, 281 of them quoted companies.

⁽²⁾ *Company Assets, Income and Finance in 1960*, H.M.S.O. 1962, 10s. 0d. net.

to an industry different from the industry of the acquiring company; but over the field as a whole, about 1 in 2 acquisitions involved a change of industry group. But it must be borne in mind that the very large companies often have diverse interests and that their industrial classification is necessarily often an arbitrary one.

In terms of expenditure, the very large companies accounted for about half of all acquisition expenditure over the period—£772 million out of £1,594 million. Of this expenditure, 36 per cent. was in cash, compared with 55 per cent. paid in cash by other companies. Thus the very large companies were able, because of the greater marketability of their shares and of the 'premium' they can command over the shares of smaller acquiring companies, to finance a higher proportion of their acquisition expenditure by the issue of shares.

The present analysis, coupled with the statistics in *Company Assets, Income and Finance in 1960*, make it possible to analyse in some detail for the three years 1958 to 1960 the financing of company growth, and the part played in it by acquisition expenditure; the table below shows how the very large companies compare with others in terms of financing of growth. Acquisition expenditure by the very large companies accounted for 46 per cent. of total acquisition expenditure during these three years; thus they shared more or less fully in the sharp expansion compared with the years 1954 to 1957. They were able to do so with less resort to their liquid funds: the proportion of payment for acquisitions which was made in cash was only 28 per cent. of their total acquisition expenditure, compared with 55 per cent. paid in cash by other companies.

Thus while over this period the very large companies and other companies both increased their net assets by 28 per cent., there were some marked differences in

Company growth 1958-1960

£ million
(percentage of growth
1958-1960 in italics)

	Companies with net assets of £25 million or more at end of 1960 (98 companies)	Companies with net assets of less than £25 million at end of 1960 (2,520 companies)	All quoted companies (2,618 companies)
Net assets beginning-1958 plus	5,676	4,893	10,569
Receipts from new issues of capital:			
To finance acquisitions:			
Ordinary shares ...	241 (15)	164 (12)	405 (14)
Preference shares, debentures, etc.	14 (1)	18 (1)	32 (1)
Other new issues ...	353 (22)	285 (21)	638 (22)
Retained profits, etc.:			
Expenditure on acquiring subsidiaries for cash ...	100 (6)	228 (17)	328 (11)
Other retained profits	890 (56)	633 (48)	1,523 (52)
Net assets end-1960 ...	7,274	6,221	13,495

the way the two types of company financed their growth. Acquisitions which were paid for by the issue of shares were a more important source of growth for the very large companies than they were for other companies, and about 15 per cent. of their growth, against 12 per cent. for other companies, was accounted for by these new issues, of which only about 1 per cent. was in debentures and preference capital. Both the very large companies and other companies financed rather over 20 per cent. of their growth by new money raised to finance their own activities, although it must be remembered that the distinction between the two types of issue is not clear-cut: a subsidiary may be bought for cash—borrowed perhaps from a bank—and later the acquiring company may make a new issue to restore its liquidity.

The balance of growth was financed by internally generated funds (mainly profits retained in reserves). The very large companies depended to a rather lesser extent than other companies on internally generated funds—62 per cent. against 65 per cent.; and the other companies spent a larger proportion of these funds on buying subsidiaries. Thus taking acquisitions paid for in cash and by shares together, they accounted for 22 per cent. of the growth of very large companies but for 30 per cent. of the growth of other companies. In fact, during these three years growth by way of the formation of new assets was more important for the large companies than for others; the latter depended rather more for their growth on taking over existing assets.

Mergers between companies

Sometimes amalgamations occur not through a bid by one company for another but by an agreement of two or more companies to merge into a new larger unit. The foregoing analysis which is based on the acquisition of one company by another for a consideration either of cash or shares excludes such mergers. Of the companies whose accounts for 1961 were analysed by the Board of Trade, 18 were companies which had been formed from such mergers during the years 1954-61, seven of them with assets of over £20 million. A number of brewery companies were among these large mergers. In 1960 Joshua Tetley & Son merged with Walker Cain to form Tetley Walker (with net assets at the time of merger of £33 million) and the following year Tetley Walker merged with Ind Coope and Ansells to form a new group with assets of £137 million. Other large brewery companies formed from mergers included Courage, Barclay and Simonds (with assets totalling £22 million), United Breweries (1960, £26 million), and Bass Mitchells & Butlers (1961, £61 million). Other large mergers recorded include that between E. K. Cole & Pye into British Electronic Industries in 1960 with assets of £26 million, Patons & Baldwins and J. & P. Coats into J. & P. Coats, Patons & Baldwins in 1961 (net assets £113 million), and Unigate, formed in 1959 with assets totalling £55 million from United

Dairies, Cow & Gate and a number of smaller companies.

Summary and conclusions

From this analysis of expenditure on acquiring subsidiaries it seems that, despite the variability of behaviour of United Kingdom companies which underlies any statistical analysis, a sharp rise in acquisition expenditure from the level of £100 million in 1954-58 to some three times as much in recent years has been accompanied by a change in the pattern of expenditure. The tendency during the early part of the period for the payment for a company acquired to exceed the net book value of its assets has been strengthened, particularly as far as quoted acquisitions are concerned. There has been a change in the pattern of payment. In the early part of the period at least half of the payment for companies acquired was in cash; by 1961 the value of shares issued to acquired subsidiaries was nearly double the amount paid in cash for them. Throughout the period, which was one of falling liquidity generally, the typical quoted company acquired was one whose liquidity (as measured by the ratio of net current assets to tangible fixed assets) was much lower than the average of quoted companies.

The analysis underlines the predominant part played in United Kingdom industry by the very large undertakings. The amount paid for the 50 largest companies acquired during the period—only 1 per cent. of the total number of acquisitions recorded—amounted to one-third of the total amount spent on acquisitions. The very large companies—those with assets of £25 million or more, numbering 98 out of a total of about 2,600 quoted companies—accounted for almost half of all acquisition expenditure. They financed a higher proportion of this expenditure by the issue of shares than other companies did. But a detailed analysis for the three years 1958 to 1960 shows that growth by way of the formation of new assets was more important for these large companies than for others; the latter depended more for their growth on taking over existing assets by acquiring subsidiary companies.

But the statistics in themselves can throw little light on the economic forces behind amalgamations in the company sector—forces such as the search for a larger share of the market for a product or the need to control the sources of supply of materials and processes; the economies which may arise from production on a larger scale or from a wider scope for management skills and ability; or the better employment of under-utilised liquid resources or the diversification of interests of companies in declining industries into more profitable fields.

NOTES AND DEFINITIONS

Companies included

The companies included in this analysis, numbering about 3,300, are those engaged mainly in the United Kingdom in manufacturing, distribution, construction,

transport and certain other services. Companies whose main interests are in agriculture, shipping, insurance, banking, finance and property and those operating wholly or mainly overseas are not included. In most cases the companies are public companies whose shares were quoted on a United Kingdom stock exchange during the whole or part of the period 1954-1961, but a few unquoted companies are included because of their importance. Some of the latter are companies jointly owned by quoted companies, and others are subsidiaries, operating in the United Kingdom, of companies registered overseas. In this article where quoted companies are mentioned they include the few unquoted companies covered by the analysis. In 1961 the analysis was confined to the quoted companies with assets of £0.5 million or income of £50,000 or more. The few unquoted companies and the quoted companies, numbering about 400, which are now excluded account for less than 5 per cent. of total assets and income of the quoted companies.

Method of presentation

Wherever possible the accounts used in the analysis are the consolidated accounts of groups of companies, including the balance sheets and profit and loss accounts of subsidiary companies within each group. The statistics are not therefore confined to activities in the United Kingdom but in some cases include the activities of subsidiaries operating overseas. Because of rounding, the total of a row or column may not be exactly equal to the sum of its components.

The accounting 'year'

The figures for the year '1961' relate to companies' accounting years finishing between 6 April 1961, and 5 April 1962; other years are similarly defined. The accounting years of companies end on different dates throughout the year, but about 40 per cent. of quoted companies have accounting periods ending in the fourth quarter of the calendar year, and a further 30 per cent. end in the first quarter. The figures of acquisition expenditure in this article differ to some extent from those which were published in an article in *Economic Trends* in April 1962 entitled 'The income and finance of quoted companies, 1949-60'. Figures in the latter article were described as presenting an approximation to the experience since 1949 of the 1960 population of companies and were obtained by linking together changes from one year to the next in the accounts of comparable sets of companies for pairs of years. The present article presents figures of total acquisition expenditure between 1954 and 1960 of all companies

whose accounts were analysed by the Board of Trade between 1954 and 1960 (including companies which were liquidated or were acquired by other companies during that period), together with expenditure in 1961 of quoted companies with assets of £0.5 million or income of £50,000 or more.

Industry classification

Each company whose accounts are included in the analysis is allotted to an industry group, corresponding generally to an Order of the *Standard Industrial Classification, 1958* (S.I.C.). If a company has diverse activities it has been classified to the industry in which its main activity lies; but for some companies, and particularly for industrial holding companies with interests in a number of manufacturing and service industries, the classification is a very arbitrary one. Detailed tables for each of 22 industry groups are available on application to Statistics Division, Board of Trade, Companies House, 55-71 City Road, London, E.C.1.

Net assets

Issued capital and reserves, including loan capital and future tax reserves.

Growth in net assets

Changes in issued share and loan capital, either by way of issues of new capital (apart from bonus issues) or repayments of existing capital; from the retention of profits or the incidence of losses; from changes arising from the disposal of fixed assets; or from a change in the value of minority interests during the period. Thus revaluations of fixed assets, writing off goodwill, and other purely 'book' transactions are not recorded as growth.

Expenditure on acquiring subsidiaries (Consideration)

• Cash paid *plus* the value of shares (including preference shares, debentures, etc.) issued by a company for a controlling interest (that is, more than half in nominal value of the equity share capital) in another company. The value of shares is that attributed to them in the accounts of the acquiring company. Payments which a company makes to acquire minority interest in existing subsidiaries which are not wholly owned are excluded.

Net investment in subsidiaries

Expenditure on acquiring subsidiaries *less* book value of subsidiaries disposed of.

Board of Trade

APPENDIX
Investment in subsidiary companies 1954-1961

TABLE I

£ million

	Net assets (¹)	Net investment in subsidiaries (²)	Expenditure on acquiring subsidiaries 1954-1961			Expendi- ture on trade investments 1954-1961	
			Total	Annual average expenditure			As per- centage of net assets (¹)
				1954-1958	1959-1961		
All industries							
1954... ..	8,098	103	105			10	
1955... ..	8,900	86	89			21	
1956... ..	9,674	115	131			25	
1957... ..	10,567	132	136			31	
1958... ..	11,301	112	120			35	
1959... ..	12,314	287	307			68	
1960... ..	13,495	315	338			76	
1961(³) ...	14,522	348	368			79	
Food	609	73	74	5	17	8	
Drink	894	186	191	9	48	22	
Tobacco	354	4	4	(⁴)	1	14	
Chemicals and allied industries ...	1,847	83	84	7	16	48	
Metal manufacture	1,373	111	123	8	28	28	
Mechanical engineering	1,105	110	126	10	26	34	
Electrical engineering	962	114	116	5	30	39	
Shipbuilding and marine engineering ...	171	8	10	1	2	2	
Vehicles	843	106	112	7	25	32	
Metal goods not elsewhere specified ...	506	69	70	8	9	4	
Textiles	926	118	125	11	24	19	
Leather, leather goods and fur	17	3	3	(⁴)	(⁴)	(⁴)	
Clothing and footwear	178	41	41	5	5	6	
Bricks, pottery, glass, cement, etc. ...	393	53	56	4	13	8	
Timber, furniture, etc.	79	14	14	2	2	(⁴)	
Paper, printing and publishing	783	180	192	15	39	38	
Other manufacturing industries... ..	312	13	14	1	3	10	
Construction	143	5	9	1	2	6	
Transport and communication (excluding shipping) ...	253	25	27	3	6	4	
Wholesale distribution	503	45	58	5	11	2	
Retail distribution	893	113	119	10	23	3	
Miscellaneous services	351	24	26	1	6	16	
Total 1954-1961	13,495	1,498	1,594	116	338	344	

(¹) In the figures for individual industries in this table, net assets are shown at the end of 1960. Expenditure on acquiring subsidiaries during the period 1954 to 1961 is expressed as a percentage of end-1960 assets for individual industries and for all industries. In the figures for all industries net assets at the end of 1960 are as shown in companies balance sheets. In the figures for other years the effect on the value of assets of purely 'book' transactions (revaluations of fixed assets, writing off goodwill, etc.) have been eliminated as far as possible.

(²) Net investment equals expenditure on acquiring subsidiaries less book value of subsidiaries disposed of.

(³) Excluding companies with assets of less than £0.5 million or income less than £50,000.

(⁴) Less than £0.5 million.

Acquisitions of quoted and unquoted companies 1954-1961

TABLE 2

	Quoted companies acquired			Unquoted companies acquired		
	Number of companies acquired	Consideration paid	Consideration per company	Number of companies acquired	Consideration paid	Consideration per company
		£ million			£ million	
All industries	42	59.6	1.4	233	45.6	0.20
1954	49	45.8	0.9	245	42.8	0.17
1955	44	54.4	1.2	202	76.9	0.38
1956	70	98.4	1.4	231	37.2	0.16
1957	68	79.6	1.2	273	40.6	0.15
1958	98	216.0	2.2	461	91.3	0.20
1959	81	160.6	2.0	655	177.8	0.27
1960	64	225.4	3.5	568	142.2	0.25
1961						
Food	43	40.5	0.9	152	33.3	0.22
Drink	64	157.2	2.5	105	33.9	0.32
Tobacco	1	0.3	0.3	20	4.0	0.20
Chemicals and allied industries	25	46.3	1.8	103	37.5	0.36
Metal manufacture	42	87.2	2.1	126	35.5	0.28
Mechanical engineering	37	52.3	1.4	310	73.9	0.24
Electrical engineering	19	86.3	4.5	127	29.4	0.23
Shipbuilding and marine engineering	5	9.0	1.8	6	1.5	0.25
Vehicles	23	75.0	3.3	91	36.9	0.40
Metal goods not elsewhere specified	21	36.1	1.7	199	33.4	0.17
Textiles	52	83.6	1.6	205	41.8	0.20
Leather, leather goods and fur...	1	0.1	0.1	28	2.9	0.10
Clothing and footwear	14	24.9	1.8	134	16.5	0.12
Bricks, pottery, glass, cement, etc.	16	9.4	0.6	184	47.1	0.26
Timber, furniture, etc.	6	5.6	0.9	66	8.6	0.13
Paper, printing and publishing	25	96.8	3.9	94	94.7	1.01
Other manufacturing industries	7	4.8	0.7	73	9.2	0.13
Construction	3	2.0	0.7	68	6.6	0.10
Transport and communication (excluding shipping)	13	14.4	1.1	79	12.2	0.15
Wholesale distribution	27	19.2	0.7	324	39.0	0.12
Retail distribution	50	78.7	1.6	227	39.3	0.17
Miscellaneous services	22	9.6	0.4	147	16.7	0.11
Total 1954-1961	516	940.0	1.8	2,868	654.2	0.23

Payment for companies and the assets acquired 1954-1961

TABLE 3

£ million

	Payments for companies acquired		Quoted companies acquired					Unquoted companies acquired		
			Book value			Payment less book value		Book value	Payment less book value	
	Shares etc.	Cash	Net tangible fixed assets	Net current assets	Other assets (1)	Excess payment	Excess book value		Excess payment	Excess book value
All industries										
1954	33.6	71.5	42.9	10.1	(2)	14.0	-7.4	37.0	9.2	-0.6
1955	42.0	46.6	30.9	10.5	2.9	9.0	-7.5	32.9	12.1	-2.2
1956	40.0	91.3	37.6	5.8	1.5	12.2	-2.7	70.6	11.5	-5.2
1957	84.1	51.5	64.9	30.1	3.1	11.1	-10.8	35.0	6.4	-4.2
1958	71.7	48.4	50.6	21.6	8.3	11.5	-12.2	34.8	8.0	-2.2
1959	172.7	134.5	99.3	44.9	29.9	50.3	-8.3	76.4	19.4	-4.5
1960	192.6	145.7	111.7	34.1	(2)	39.0	-24.2	137.9	44.6	-4.7
1961	227.1	140.5	128.2	18.3	20.3	76.7	-18.1	114.0	34.6	-6.4
Food	26.1	47.7	30.4	3.5	3.5	12.0	-8.9	25.3	9.0	-1.0
Drink	145.1	46.0	147.3	-27.8	8.6	38.4	-9.3	26.8	8.7	-1.6
Tobacco	1.5	2.7	0.1	0.1	0.1	0.1	(2)	2.0	2.1	-0.1
Chemicals and allied industries	50.9	32.9	22.7	11.8	0.9	16.7	-5.7	30.8	7.3	-0.6
Metal manufacture	44.8	77.9	55.1	29.6	1.4	14.1	-13.0	34.3	5.7	-4.5
Mechanical engineering	65.2	61.0	27.1	21.6	3.6	6.8	-6.7	59.5	17.5	-3.1
Electrical engineering	93.9	21.8	21.5	35.9	4.3	28.7	-4.0	25.3	5.1	-1.0
Shipbuilding and marine engineering	8.2	2.3	5.9	4.1	0.5	0.4	-1.9	1.3	0.2	(2)
Vehicles	65.4	46.5	45.0	31.6	3.5	7.4	-12.5	40.0	1.3	-4.4
Metal goods not elsewhere specified	17.4	52.1	25.2	9.7	1.1	8.8	-8.8	29.5	5.6	-1.7
Textiles	56.4	69.1	45.2	29.0	4.4	17.4	-12.3	37.0	6.8	-2.0
Leather, leather goods and fur...	1.0	2.0	0.1	(2)	(2)	(2)	(2)	2.3	0.6	(2)
Clothing and footwear	19.8	21.7	15.6	3.8	0.4	5.5	-0.3	12.7	4.3	-0.5
Bricks, pottery, glass, cement, etc.	29.5	27.1	5.6	2.3	(2)	2.1	-0.6	39.0	9.4	-1.3
Timber, furniture, etc.	3.3	11.0	2.4	3.8	(2)	0.2	-0.8	8.8	1.2	-1.4
Paper, printing and publishing	131.3	60.2	46.1	3.4	12.3	35.1	-0.1	62.6	32.9	-0.8
Other manufacturing industries	6.9	7.1	3.0	1.3	(2)	0.5	-0.1	6.7	2.9	-0.4
Construction	4.4	4.2	0.7	(2)	0.1	1.2	(2)	6.2	0.7	-0.3
Transport and communication (excluding shipping)	7.2	19.4	9.0	-0.7	1.0	5.7	-0.5	10.6	2.7	-1.1
Wholesale distribution	14.5	43.7	9.6	7.6	1.7	3.1	-2.8	32.7	8.9	-2.6
Retail distribution	58.7	60.1	40.7	7.9	15.4	17.2	-2.6	34.3	6.4	-1.4
Miscellaneous services	12.6	13.8	7.9	-0.7	0.1	2.6	-0.3	10.4	6.5	-0.2
Total 1954-1961	864.0(3)	729.7	566.0	178.6	62.8	223.8	-91.2	538.4	145.8	-30.0

(1) Intangibles plus unidentified assets.

(2) Less than £0.5 million.

(3) Including £63.4 million preference shares and £13.7 million debentures, etc.