

Company acquisitions

This note introduces a new statistical series of cash expenditure by U.K. industrial and commercial companies on the acquisition of subsidiaries, of outstanding minority interests in existing subsidiaries, and of trade investments.

Progress during the past decade in the development of financial statistics has made practicable the study of the flow of funds between the various sectors of the economy. In these sector accounts, however, there have remained very large unexplained differences between, on the one hand, the financial surpluses or deficits of persons and of industrial and commercial companies emerging from national income data and, on the other hand, the separately compiled net totals of these sectors' identified financial transactions.⁽¹⁾ Both the national income and the financial statistics are subject to error, but the difference between them has pointed consistently to an understatement both of companies' spending on financial assets and of persons' receipts from sales of such assets. Part of this understatement has been attributable to the lack of satisfactory estimates of the flow of cash from companies to the personal and other sectors in connection with take-overs and similar deals.

An indication of the size of these transactions is given by the analysis of companies'

published accounts developed by the Board of Trade.⁽²⁾ This analysis, however, is not particularly suitable for flow of funds purposes, because company balance sheets, as a source of statistics, have certain defects. They are usually published only once a year, often much in arrears, and relate to differing accounting dates; a full collective picture is therefore late to emerge and can refer only to a hybrid accounting year. Thus in the case of the Board of Trade's analysis, where the 'accounting year' covers balance sheet dates from April one year to March the next, the figures for any particular accounting year will include transactions occurring over a much longer period.

In September 1964 the Central Statistical Office began an up-to-date measurement, from information reported in the press, of the amount of companies' acquisitions for cash. Their estimates, which were later carried back to 1962, have been incorporated in the figures for company finance published in the National Income Blue Book and in *Financial Statistics*,⁽³⁾ and in the articles on sector financing in this *Bulletin*. Last year it was agreed that the Bank should take over the compilation of these statistics, alongside their estimates of capital issues;⁽⁴⁾ the new series is a development of that first produced by the Central Statistical Office. Quarterly totals from the beginning of 1965 appear in a table at the end of this note.

(1) See, for instance, the article "Sector financing 1965" in the June *Bulletin*.

(2) Statistics of companies' expenditure on acquiring subsidiaries, trade investments, etc. have appeared in articles in *Economic Trends* (see "Acquisitions and amalgamations of quoted companies", for 1954-61 in April 1963 and for 1962-63 in November 1965; "Non-quoted companies and their finance" in February 1965; and "Trade investments of quoted companies" in May 1966) and in the *Board of Trade Journal*.

(3) Tables 7 and 68 in November 1966. The estimates for years before 1962 in these tables are derived from the Board of Trade's analysis of company accounts.

(4) Described in the June *Bulletin*, page 151.

Description of the series The series has been designed to measure purchases for cash, by industrial and commercial companies registered in the United Kingdom, of securities of U.K. companies. Purchases of unincorporated businesses, about which little information is available, are not covered, but appear to be quite small: an enquiry by the Board of Trade at the end of 1964 suggested that they amounted to no more than £10–20 million a year in both 1963 and 1964. Also excluded are purchases of the securities of overseas-registered companies; these are already covered in the statistics of U.K. companies' net acquisitions of overseas share and loan capital collected by the Board of Trade and published in the *Board of Trade Journal* (e.g. on 10th June 1966) and in *Financial Statistics*.

Acquisitions, or those parts of acquisitions, for which payment is made otherwise than in cash—in particular, share exchanges—are excluded; this is because the new series is primarily of use in studying sector financing and such transactions give rise to no movement of funds from one sector to another. Acquisitions, so far as identifiable, from vendors which are themselves U.K. industrial or commercial companies are omitted for the same reason. Purchases of fixed assets are also excluded; they are part of companies' fixed capital formation and are separately recorded in national income statistics.

The series is confined to acquisitions by industrial and commercial companies. Transactions in company securities by banks and other financial institutions are already reflected in the quarterly statistics relating to these institutions.

No detailed records have been kept of companies' sales of other companies' securities. Observations have shown that the bulk of such sales for cash are transactions with other U.K. industrial and commercial companies or with overseas purchasers; and that transactions in which the U.K. purchaser is outside the company sector are normally small.

Classification of acquisitions The main division of acquisitions is between (a) purchases which result in the buyer holding more

than 50% of the equity capital of the company whose securities are acquired, including outright purchases ("purchases of subsidiaries"); (b) acquisitions of minority interests in the purchaser's existing subsidiaries; and (c) purchases which give a holding of equity capital of 50% or below ("trade investments"). Where a company, in the course of acquiring a subsidiary or of buying up minority interests in an existing subsidiary, purchases preference or loan capital as well as equity, the whole amount of the transactions is included under the appropriate heading. Moreover, where over 50%, but less than 100%, of a company's equity capital is at first acquired, and the parent company later in its same accounting year acquires some or all of the remaining shares, the latter transaction is also treated as the purchase of a subsidiary rather than as the acquisition of minority interests.⁽¹⁾

Acquisitions are also divided between those made by quoted companies⁽²⁾ and their subsidiaries and those made by unquoted companies. This will facilitate comparison in due course with statistics such as those derived from the Board of Trade's analysis of company accounts. The companies whose securities are acquired are likewise divided between quoted and unquoted companies.

No analysis has been made of acquisitions by industrial groups. A full industrial division of companies' expenditure on the acquisition of subsidiaries is available from the Board of Trade's analysis of company accounts.

Sources The series depends very largely on published information. The main source is the press, but supplementary information is obtained from companies' annual reports, *The Stock Exchange Official Year-Book* and other published material. Additional details are frequently obtained direct from companies and the Bank gratefully acknowledge the co-operation received in this way. The coverage of purchases of subsidiaries, particularly by quoted companies, should thus prove to be reasonably good. Coverage of acquisitions of minority interests and of trade investments, which are not so well publicised in the press, is bound to be very much less complete.

⁽¹⁾ The same principle is applied where a trade investment is increased, later in the same accounting year, to obtain control; both transactions are then treated as the purchase of a subsidiary.

⁽²⁾ Companies which have at least part of their capital quoted on a U.K. stock exchange.

Timing The general aim has been to include transactions at the time that cash payment is made. Sometimes, however, the exact date of payment may not be known, in which case the date on which it is due, or assumed to be due, is used. Where payments are spread—perhaps over several years—and the amounts are sizable, the various instalments are included at the time that they are due to be paid. If a bid has been made and accepted by a majority of shareholders and is then declared ‘unconditional’, the payment is assumed to take place forthwith. Where reported acceptances exceed 90%, the full amount of the bid is included in the estimates straightaway; if the proportion accepted is smaller, only that proportion of the full amount is included—and additional amounts are included subsequently as and when they become known.

Minimum size of deals Deals in which the cash payment amounts to less than £50,000 are not now recorded. Smaller deals between £10,000 and £50,000 were recorded for 1965 and the first quarter of 1966. However, it was found that although more than a quarter of all reported acquisitions fell within this bracket they accounted for less than 2% of the total value of all deals (£5 million out of a total of £267 million in 1965); reported deals below £10,000 are negligible both in number and value.

The figures shown in the table for 1965 and the first quarter of 1966 relate to all deals analysed, including those under £50,000. For later periods the recorded totals of deals from £50,000 upwards have been grossed up to include estimates of the amounts of deals below that figure.

Integration in published statistics The published estimates of companies’ total cash expenditure on acquiring subsidiaries and on trade investments⁽¹⁾ use part of the Bank’s series.

They include the Bank’s estimates of expenditure on purchasing subsidiaries and on acquiring minority interests; these are the best figures available—although, as noted above, the latter estimate is probably incomplete. For trade investments, however, two series are available. The first is that produced by the Bank; this undoubtedly understates purchases of trade investments because, as mentioned earlier, such purchases are likely to receive much less publicity than take-over deals which involve the purchase of a subsidiary. The second series, which is the one used in the published estimates of companies’ expenditure, is derived from the Board of Trade’s analysis of company accounts. The figures are considerably larger than those produced by the Bank but this series will tend to overstate companies’ expenditure outside the company sector because it includes payments to other companies.

The way in which the published estimates are built up is illustrated in the table below:

	£ millions
1965	
In the United Kingdom	
Bank’s estimate of expenditure on purchases of subsidiaries	247
Bank’s estimate of expenditure on acquiring minority interests	8
Allowance for expenditure on trade investments ^(a)	60
Allowance for acquisition of unincorporated businesses etc. ^(b)	18
	<u>333</u>
Overseas	
Purchase of share and loan capital of overseas companies ^(c)	69
Total cash expenditure by industrial and commercial companies on trade investments and on acquiring subsidiaries	<u>402</u>

(a) Provisional figure, derived from the Board of Trade’s analysis of company accounts.

(b) Based on an enquiry by the Board of Trade.

(c) Obtained from the Board of Trade’s enquiry into U.K. direct investment overseas.

(1) *Financial Statistics*, November 1966, Tables 7 and 68.

Company acquisitions^(a)

£ millions

	Year 1965	Quarter ended						
		1965				1966		
		Mar.	June	Sept.	Dec.	Mar.	June	Sept.
Purchases of subsidiaries								
Quoted companies' expenditure:								
On quoted companies ...	151	29	75	17	29	28	17	8
On unquoted companies ...	83	27	27	14	15	13	14	10
Total ...	234	56	102	31	44	41	31	18
Unquoted companies' expenditure:								
On quoted companies ...	8	2	1	—	5	1	4	1
On unquoted companies ...	5	1	3	—	1	4	3	1
Total ...	13	3	4	—	6	5	7	2
Total ...	247	59	106	31	50	46	38	20
Minorities bought in								
By quoted companies ...	7	4	2	1	—	4	4	1
By unquoted companies ...	1	—	—	—	—	—	—	—
Total ...	8	4	2	1	—	4	4	1
Trade investments								
By quoted companies ...	12	6	5	1	1	4	1	1
By unquoted companies ...	—	—	—	—	—	—	—	—
Total ...	12	6	5	1	1	4	1	1

(a) The figures relate only to acquisitions *for cash*. Acquisitions by one company from another, and of the securities of overseas-registered companies, are excluded. Further details are given in the text.