

Acquisitions and mergers by financial companies

As with industrial and commercial companies, there has been a marked increase in recent years in the numbers and importance of take-overs and mergers by banks and other financial companies. This note introduces a new series of quarterly statistics of such transactions, intended to complement the figures for industrial and commercial companies published by the Department of Trade and Industry.¹

The new series is shown in the accompanying tables, which cover the period from 1966 to the middle of this year. The tables illustrate the concentration and diversification within the U.K. financial sphere in recent years. The figures in Table A are presented so that they can be readily combined with comparable Department of Trade and Industry statistics to produce totals of company acquisitions and mergers, as in the following summary:

Acquisitions and mergers by industrial, commercial and financial companies

	Industrial and commercial			Financial			Total		
	Number acquiring	Number acquired	Value £ millions	Number acquiring	Number acquired	Value £ millions	Number acquiring	Number acquired	Value £ millions
1969	686	846	1,069	80	98	327	766	944	1,396
1970	629	793	1,123	83	97	279	712	890	1,402
1969 1st qtr.	190	235	403	14	18	120	204	253	523
2nd qtr.	183	236	286	24	30	72	207	266	358
3rd qtr.	159	187	226	21	27	67	180	214	293
4th qtr.	154	188	154	21	23	68	175	211	222
1970 1st qtr.	164	206	289	40	44	142	204	250	431
2nd qtr.	155	203	435	17	20	39	172	223	474
3rd qtr.	149	178	233	12	15	15	161	193	248
4th qtr.	161	206	166	14	18	83	175	224	249
1971 1st qtr.	132	159	90	12	17	13	144	176	103
2nd qtr.	174	219	187	12	14	60	186	233	247

Table A at the end of this article shows that amalgamations of financial companies increased sharply in 1968 (as did those of industrial and commercial companies). The strong rise in share prices in that year was one among a number of reasons for this sudden upsurge. For both groups of companies, take-over and merger activity slackened in 1969 and 1970, although it remained much larger than in earlier years.

The marked rise in the value of amalgamations of financial companies in 1968 was mainly attributable to those between Barclays and Martins Banks (some £105 million), the Royal Bank of Scotland and the National and Commercial Bank of Scotland (£49 million) and the National Provincial and Westminster Banks (£178 million). During the same year the Northern & Employers Assurance Company was amalgamated with Commercial Union Assurance

¹ See the article presenting statistics in a revised form in *Trade and Industry* (H.M.S.O., 19 May 1971) and *Business Monitor: acquisitions and mergers of companies* (H.M.S.O., May 1971).

(some £29 million) and Guardian Assurance with Royal Exchange Assurance (£64 million). Amalgamations of investment trust companies also rose sharply, from £6 million in 1967 to £121 million, reflecting a large rise in the number of transactions.

The figures shown on the previous page and in Table A suggest that, in 1969 and 1970, amalgamations by financial companies were to some extent concentrated in the first quarter of each year. This seems to have been fortuitous; the bulk of the totals in each of these two periods was accounted for by a few large transactions.

The new series also gives some information, in Table B, about the amounts of cash paid, and securities given, for acquisitions and mergers by financial companies. After 1967 there was a sharp fall in the proportion of acquisitions for cash in relation to acquisitions against the issue of securities. This feature was doubtless associated with the rise in share prices in 1968 and early 1969 already mentioned, and with the pressure on company liquidity in 1969 and 1970.

Table C gives figures by type of financial company for the years 1966-70 and the first two quarters of 1971. Over this period, amalgamations undertaken by banks were much larger in amount than those by other financial companies. This was true both of operations between companies within the same industry and those involving diversification into other activities – as can be seen from Table D, which analyses the figures to the end of 1970 by type of acquiring company and type of company acquired (or merged). This table shows that diversification accounted for some 29% of the acquisitions and mergers by insurance companies, 18% of those by banks and 17% of those by investment trusts.

Description of the series

The Bank's new statistics relate to the numbers and value of company acquisitions and mergers which are initiated by financial companies. They therefore include, besides amalgamations between financial companies, the acquisition by financial companies of non-financial companies.¹

"Financial companies" are defined as those falling within Minimum List Headings 860-2 of the Standard Industrial Classification 1968 (Insurance; Banking and bill discounting; Other financial institutions – which include investment, hire purchase, export finance, leasing and factoring companies). Deals involving unincorporated businesses, and financial institutions such as building societies which are not incorporated under the Companies Act, are not covered. If a company has diverse activities, it is classified according to what appears to be the main of these; but in some cases the classification is necessarily arbitrary.

Acquisitions are defined as purchases which result in the buyer holding more than 50% of the equity capital of the company whose securities are acquired. Purchases of minority interests in existing subsidiaries and mergers of subsidiaries within the same company group are excluded.

¹ The Department of Trade and Industry's statistics include acquisitions by non-financial companies of financial companies.

Where a company, in the course of acquiring a subsidiary, purchases preference or loan capital as well as equity, the whole amount of the transactions is included. Mergers are amalgamations effected by arrangement between companies.

The values shown relate to the consideration paid in respect of acquisitions and mergers, whether in cash or by the issue of securities. So far as possible, securities are included at market value. The amounts shown are those of expenditure during the current period and therefore do not include any previous investment in the company acquired. Purchases of shares on the Stock Exchange made directly in connection with successful bids are included. Mergers are valued as if the larger (or largest) company concerned had acquired the smaller.¹ In general, amounts are included at the date when a bid is declared unconditional or a contract to purchase is signed. The transfer of funds often occurs slightly later, and the integration of business operations and changes of name considerably later.

Sources

Like those of the Department of Trade and Industry, the Bank's statistics are compiled mainly from information published in the financial press. Supplementary details are sometimes obtained direct from companies and the Bank are grateful for the co-operation received in this way. Although the coverage of acquisitions by quoted companies should be reasonably good, there are doubtless numbers of small acquisitions of unquoted companies which escape mention in the press. Thus the statistics of acquisitions shown in the accompanying tables will understate the true total numbers of companies changing ownership during the periods concerned. The total values shown, however, should not be seriously deficient.

Future publication

A regular quarterly version of Tables A-C will be included in the statistical annex to the *Bulletin*, with periodical publication of the statistics shown in Table D. Tables covering amalgamations of both industrial and commercial companies and financial companies will be published in *Financial Statistics*.

¹ In particular, in line with the revised treatment recently introduced by the Department of Trade and Industry (see *Trade and Industry* H.M.S.O., 19 May 1971) mergers in which a new company is formed to take over the assets of two (or more) existing companies are valued as if the larger of the existing companies had acquired the smaller. (That is, the amount included is the value of the smaller company - or companies - only.)

Acquisitions and mergers by financial companies within the United Kingdom

Table A

Type of transaction

	Acquisitions of independent companies			Mergers			Total			Sales of subsidiaries between company groups			Total all acquisitions and mergers		
	Number acquiring	Number acquired	Value £ millions	Number acquiring	Number acquired	Value £ millions	Number acquiring	Number acquired	Value £ millions	Number acquiring	Number acquired	Value £ millions	Number acquiring	Number acquired	Value £ millions
1966	33	35	41	1	1	1	34	36	42	2	2	—	36	38	42
1967	24	31	52	—	—	—	24	31	52	7	7	16	31	38	68
1968	47	58	292	3	3	290	50	61	582	12	12	8	62	73	590
1969	67	85	279	1	1	27	68	86	306	12	12	21	80	98	327
1970	74	88	234	1	1	37	75	89	271	8	8	8	83	97	279
1969 1st qtr.	12	16	120	—	—	—	12	16	120	2	2	—	14	18	120
2nd qtr.	17	23	25	1	1	27	18	24	52	6	6	20	24	30	72
3rd qtr.	18	24	66	—	—	—	18	24	66	3	3	1	21	27	67
4th qtr.	20	22	68	—	—	—	20	22	68	1	1	—	21	23	68
1970 1st qtr.	35	39	102	1	1	37	36	40	139	4	4	3	40	44	142
2nd qtr.	16	19	36	—	—	—	16	19	36	1	1	3	17	20	39
3rd qtr.	10	13	14	—	—	—	10	13	14	2	2	1	12	15	15
4th qtr.	13	17	82	—	—	—	13	17	82	1	1	1	14	18	83
1971 1st qtr.	10	15	12	—	—	—	10	15	12	2	2	1	12	17	13
2nd qtr.	10	12	19	1	1	36	11	13	55	1	1	5	12	14	60

— nil or less than £½ million.

Table B

Expenditure

£ millions: *percentage of total in italics*

	Cash		Ordinary shares		Fixed interest securities		Total
1966	21	48	14	33	8	19	42
1967	26	38	35	51	7	11	68
1968	31	5	473	80	85	15	590
1969	30	9	253	77	44	14	327
1970	25	9	185	66	69	25	279
1969 1st qtr.	2	1	80	67	38	32	120
2nd qtr.	10	13	60	86	1	1	72
3rd qtr.	11	16	52	78	4	6	67
4th qtr.	7	11	60	86	2	3	68
1970 1st qtr.	7	5	84	59	51	36	142
2nd qtr.	3	8	33	87	2	5	39
3rd qtr.	7	45	9	54	—	1	18
4th qtr.	8	10	59	71	16	19	83
1971 1st qtr.	2	15	9	70	2	15	13
2nd qtr.	7	11	52	87	1	2	60

— nil or less than £½ million.

Table C**Acquiring companies**

£ millions (numbers of companies acquired in brackets)

	1966		1967		1968		1969		1970		1971			
											1st qtr.	2nd qtr.		
Banks ^a	26	(4)	6	(8)	345	(9)	81	(14)	99	(16)	—	(—)	36	(1)
Hire purchase finance houses	—	(—)	3	(3)	2	(4)	6	(9)	16	(2)	—	(—)	—	(—)
Insurance companies	1	(9)	52	(8)	104	(12)	46	(5)	21	(8)	—	(1)	—	(—)
Investment trust companies	12	(17)	4	(13)	121	(33)	156	(44)	105	(40)	11	(9)	4	(4)
Unit trust management companies	1	(2)	—	(2)	1	(1)	6	(3)	—	(—)	—	(—)	—	(—)
Other financial companies ^b	2	(6)	3	(4)	17	(14)	32	(23)	38	(31)	2	(7)	20	(9)
Total	42	(38)	68	(38)	590	(73)	327	(98)	279	(97)	13	(17)	60	(14)

— nil or less than £½ million.

^a Including discount houses.^b Excludes property companies which are covered by the Department of Trade and Industry's statistics.**Table D****Companies acquired January 1966 – December 1970**

£ millions (numbers in brackets)

	Banks ^a	Hire purchase finance houses	Insurance companies	Investment trust companies	Unit trust management companies	Other financial companies ^b	Non-financial companies	Total
Acquiring companies:								
Banks ^a	455 (12)	— (—)	15 (5)	23 (8)	— (—)	46 (9)	18 (17)	557 (51)
Hire purchase finance houses	— (—)	24 (11)	— (—)	— (—)	— (—)	1 (3)	1 (4)	26 (18)
Insurance companies	— (—)	45 (1)	160 (33)	— (1)	— (1)	11 (2)	8 (4)	224 (42)
Investment trust companies	— (—)	1 (2)	1 (3)	330 (47)	2 (2)	26 (34)	39 (59)	399 (147)
Unit trust management companies	— (—)	— (—)	— (—)	— (—)	6 (6)	2 (2)	— (—)	8 (8)
Other financial companies ^b	— (1)	10 (5)	12 (4)	12 (8)	2 (3)	16 (13)	40 (44)	92 (78)
Total	455 (13)	80 (19)	188 (45)	365 (64)	10 (12)	102 (63)	106 (128)	1,306 (344)

— nil or less than £½ million.

^a Including discount houses.^b Excludes property companies which are covered by the Department of Trade and Industry's statistics.