

# THE ELDER SMITH GOLDSBROUGH MORT MERGER / G.A.Manning



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Until the 1960s two of the major Australian wool broking and pastoral finance firms, and the stock and station agency businesses were Elder Smith and Co. Ltd and Goldsbrough Mort and Co. Ltd.

Heavy demands on their separate resources led to the concept of amalgamation and in 1962 they merged to become the giant Elder Smith Goldsbrough Mort Ltd with 18,000 shareholders and assets of over \$A200 million.

This is the story of the merger: the reasons for it, the methods employed and the results.

In a period when amalgamations and takeovers are of increasing importance in Australia, this detailed study will be read with profit and interest by economists, industrial advisers, accountants, students of management, businessmen, and the public generally.

### Erratum

Inside back cover, lines 6-7 -

For 'General Manager' read 'Assistant General Manager'.

THE  
ELDER SMITH  
GOLDSBROUGH MORT  
MERGER

G. A. MANNING

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CANBERRA 1970

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# PREFACE

In 1952, Alan Barnard of the Australian National University approached me in Melbourne for information and documents relating to his projected work on the history of the Australian wool industry in the nineteenth century. At the time I was secretary of Goldsbrough Mort and Co. Ltd, and this contact with Barnard led to associations and friendships which I value highly. In due course the directors of Goldsbroughs made the firm's records available to the Archives Section of the Research School of Social Sciences in Canberra. After my retirement from Elder Smith Goldsbrough Mort Ltd in 1966—where I had been assistant general manager (administration)—the Australian National University invited me to accept a visiting fellowship to work for a period with the Department of Economic History.

The merger of the two companies to form Elder Smith Goldsbrough Mort Ltd was arranged and carried out during 1962 and 1963. Because of my greater familiarity with the position of Goldsbrough Mort this period will be approached from the point of view of that company, but the position of Elder Smith and other major wool-broking companies was essentially similar. I have attempted here an interpretation of the philosophy, methods, and effects of this merger.

I have received helpful co-operation from former associates, including Sir Colin Syme, Sir Norman Giles, and Messrs G. M. Niall, G. W. Docker, and H. C. Schmidt, but any opinions expressed are my own and I must accept full responsibility for errors or omissions. I have had full access to the official records and correspondence of Goldsbrough Mort for the period up to the merger, but I recognise that there could have been considerations affecting decisions of directors of which I am unaware.

Canberra 1969

G.A.M.

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## INTRODUCTION

In J. A. Bushnell's *Australian Company Mergers, 1946-1959* (M.U.P., 1961) he draws attention to the mergers arranged in that period by Australian wool-selling brokers and the resulting increased share of the total business handled by the four leading firms.

In the period September 1961 to December 1963 two amalgamations involving these four firms were arranged and carried through. The first in point of time involved organisations controlled from the United Kingdom—Dalgety and Co. Ltd and New Zealand Loan and Mercantile Agency Ltd, together with its subsidiary, Schute Bell Badgery Lumby Ltd (control acquired 1948). The second involved the two largest Australian controlled companies—Elder Smith and Co. Ltd and Goldsbrough Mort and Co. Ltd. Here I survey the developments leading to this latter merger, its methods and results.

Bushnell identifies twelve reasons for mergers, of which four—those relating to personal or company tax, tax losses or death duties—had no application to the Elders Goldsbroughs merger and another, vertical integration, very little application. Reasons listed by Bushnell which did apply in greater or less degree are the economics of large-scale operations; acquisition of facilities for expansion; the difficulties in obtaining new funds; reduction of competition; the shortage of qualified managers, diversification and empire building; and spread of operations to other markets.

## DESCRIPTION OF THE INDUSTRY

The early development of the Australian wool-selling industry and its relocation in the various Australian centres from

London has been graphically portrayed by Barnard in *The Australian Wool Market 1840-1900* (M.U.P., 1958). Although nearly all Australian wool is now sold in Australia (nearly 5,300,000 bales in 1968/69), the control of wool-selling brokers handling about 32 per cent of the clip still remains in the United Kingdom.

The wool-selling broker operates by receiving wool from the owner (nearly always the grower), preparing it for sale by lotting, cataloguing, and exhibiting the whole or a portion of the bales composing each lot on specially constructed roof-lighted inspection floors where it is examined by the buyers, who type it according to its dominant characteristics and form a view as to its appropriate price. Wool is a commodity covering a very wide range of qualities and therefore of appropriate uses. There are, in fact, over 1,500 primary types of greasy wool recognised in the Australian clip and these again must be subdivided in accordance with other characteristics. All such factors must be estimated by the buyer in deciding what the lot of wool is worth to his principal (a lot of wool may vary from one to fifty bales—the average for the clip is four bales). The wool catalogued by each selling broker is then offered for sale by auction in one of the auction rooms maintained in the Wool Exchange of the appropriate centre established by the local association of brokers. Methods of selling are standardised and wool is sold at a speed of up to 450 lots per hour, i.e. one lot every eight seconds. After the sale invoices for the buyers and account sales for the vendors are completed and settled within an agreed period known as prompt (at present sixteen days), and the sold wool delivered in accordance with the order of the buyer. If delivered for shipping, the wool is usually dumped (or compressed further) to conserve shipping space. Before cataloguing and lotting, the selling broker sometimes classes wool on behalf of the owner. As conditions and charges for selling are almost uniform, there is little competition in these terms. Nevertheless, competition be-

tween brokers in the standard and range of service is very keen.

Most wool-selling brokers are also agents for the sale of livestock (sheep, cattle, pigs, etc.) either by auction through their own selling yards or yards rented from local government, or by inspection on the owner's property. They are ready to make cash advances against wool or stock for sale in the future and maintain merchandise departments to sell goods most in use by their clients. Other operations include land, insurance, and travel agencies.

If a grower is favourably impressed by the service available from a rival to his usual broker there is now little or no difficulty in most cases in his arranging to transfer his business.

It will be seen from the above brief description that a selling broker needs very extensive equipment and staff to operate at all. For example, the wool stores near Perth of Elder Smith Goldsbrough Mort Ltd have a floor area of over 33 acres and are being extended further to cope with the steadily increasing Western Australian clip. City offices are also needed and shares in the local wool exchange, plus stores and equipment to handle merchandise. Offices, livestock sale yards, motor cars, and merchandise stores are required in country towns and the broker must be in a position to provide some of the finance required by his clients.

The cost of the fixed assets used in 1969 by the largest broker, Elder Smith Goldsbrough Mort Ltd, was \$48,000,000 and the replacement value of these at current prices would be very much higher. Funds advanced to clients totalled over \$116,000,000 at balance date. These funds are used by the pastoralist or farmer to meet shearing, transport, wages, and other working costs, and also for the purchase of livestock and the costs of improvement work. The industry is subject to very considerable seasonal variations and the producers' need of finance is therefore subject at times to unpredictable fluctuations. The availability of credit is important in main-

TABLE 1 Wool received by individual  
(000)

	Brisbane	Sydney	Newcastle	Goulburn
Australian Estates Co. Ltd	89.5			
Australian Mercantile, Land and Finance Co. Ltd	76.3	115.8	47.6	
Bennett and Fisher Ltd		84.7	19.3	
Country Producers Selling Co. Ltd		114.2	32.4	
Dalgety and Co. Ltd	125.0			
Dennys Lascelles Ltd				
Elder Smith and Co. Ltd	42.6	106.0	47.0	11.7
Farmers and Graziers Co-op. Co. Ltd		109.1	37.0	61.2
Goldsbrough Mort and Co. Ltd	51.4	120.0	38.1	14.6
Mactaggarts Primary Prod. Co-op. Ass. Ltd	17.8			
New Zealand Loan and M.A. Co. Ltd	96.0	107.3	33.7	
Pitt Son and Badgery Ltd		119.9	42.1	
Queensland Primary Producers Co-op. Ass. Ltd	170.2			
Schute Bell Badgery Lumby Ltd		66.9	9.8	
South Australian Farmers Co-op. Union Ltd				
Strachan and Co. Ltd				
E. J. Strickland and Son				
Victorian Prod. Co-op. Ltd				
Westralian Farmers Co-op. Ltd				
Winchcombe Carson Ltd	110.6	138.2	64.1	19.3
Younghusband Ltd				
Two Tasmanian Brokers				
Selling Centre Totals	779.4	1,082.0	371.2	106.8
Percentages	16.26	22.58	7.74	2.23

\*Ballarat

taining turnover and thereby the profitability of both the primary producer and the woolbroker. Advances are made at interest rates only slightly higher than trading bank lending rates, so there is little, if any, direct net earning to the woolbroker on lendings which exceed his own resources and thus force him to borrow in his turn. This question of maintaining the balance between increasing turnover and keeping total lendings within one's resources is a continual preoccupation of the management of all woolbrokers.

selling brokers, season 1960/61  
(sales)

Melbourne	Geelong	Albury and Ballarat	Adelaide	Perth	Albany	Hobart and Launceston	Total	%
89.0							178.5	3.73
82.8	12.0		76.1				334.5	6.98
							76.1	1.59
							104.0	2.17
99.1	100.7	52.9	71.0	91.1	6.6		693.0	14.46
	126.7						126.7	2.64
69.3	133.0		180.0	179.9	18.4		787.9	16.44
		38.0					245.3	5.12
121.8			148.0	64.2	10.9		568.9	11.87
							17.8	0.37
117.1	30.8						384.9	8.03
							162.0	3.38
							170.2	3.55
							76.7	1.60
			37.9				37.9	0.79
	78.6						78.6	1.64
		2.0*					2.0	0.04
92.8							92.8	1.94
				77.3	17.3		94.6	1.97
							332.3	6.93
104.2		36.7					140.9	2.94
						86.9	86.9	1.81
776.2	481.8	129.5	513.1	412.5	53.1	86.9	4,792.5	
16.20	10.05	2.70	10.71	8.61	1.11	1.81		100.0

Brokers' operating staff are the wool valuers, classers, and wool store executives, the livestock and land experts and salesmen, the merchandise specialists, and the country branch managers who must supervise all the business in their territory. Most of these are recruited in either city or country at school leaving age and trained by planned progression through the organisation. The administrative, finance control, and accounting staffs are recruited and trained similarly, but in their case the employer may be assisted by the various

courses conducted by management training and professional groups.

During World War I there were about fifty firms operating in wool auction selling; these have been reduced by mergers and failures to nineteen firms or groups in 1968/69. All are members of the National Council of Woollselling Brokers and each firm is also a member of the Woollselling Brokers' Association for each centre or state in which it operates. These organisations consult with appropriate bodies representing the growers and the buyers, and between them the scale of offerings, the conditions of selling, the scales of charges and the overall policy for the industry are worked out. Each July and December the Bureau of Agricultural Economics assists in making estimates of production for the ensuing season. A clearer idea of the composition and location of the industry will be obtained from the list of wool receivals in 1960/61 shown in Table 1.

## THE DEVELOPMENT OF THE LEADERS

In the season 1921/22 Dalgety and Co. Ltd and New Zealand Loan Ltd ranked first and second in point of wool throughput with approximately 16 per cent and 10 per cent of the Australian market respectively, while Elder Smith and Co. Ltd and Goldsbrough Mort and Co. Ltd were fifth and sixth, with 7 per cent and  $5\frac{1}{2}$  per cent respectively.

In the 1960/61 season, the market having more than doubled from 2·2m bales to 4·75m bales, Dalgety's share had fallen to 14·5 per cent and New Zealand Loan (including Schute Bell Badgery Lumby) was slightly lower at 9·6 per cent, while Elder Smith had risen spectacularly to 16·4 per cent and Goldsbrough Mort had also more than doubled its share to 11·9 per cent. The increased share of both the latter companies was partly due to their acquisition of several existing wool-broking businesses—in Elder's case to obtain repre-

sentation in additional market centres and in Goldsbrough's case for the same object but also to increase the share in a market where the company was already represented. The only purchase of a substantial wool-broking business by the two English companies was the acquisition by New Zealand Loan of the share capital of Schute Bell Badgery Lumby Ltd in 1948.

In July 1922 Goldsbrough Mort purchased the business of a long-established Sydney rival—Harrison Jones and Devlin Ltd—and in 1924 the South Australian business of Bagot Shakes and Lewis Ltd was amalgamated with the larger company. (This purchase also provided a toehold in Western Australia which was assisted in 1926 by the purchase of Henry Wills and Co.) These purchases raised Goldsbrough to second place with about 11½ per cent of the total Australian wool sales, and gave it Australia-wide representation. In 1947 the company purchased a small Brisbane wool and stock-broker (Fenwick and Co. Ltd) and in 1949 the Australian Wool Brokers and Produce Co. Ltd wool-selling business in Sydney.

Until 1937 Elder Smith's wool and stock agency business had been restricted to South and Western Australia, but in that year they initiated a strong forward move by purchasing the Geelong woolbroker George Hague and Co. Ltd. In 1949 Elders entered Melbourne by purchasing the Victorian business of the Commonwealth Wool and Produce Co. Ltd and in 1955 Sydney by the purchase of the remaining assets of that company. In 1956 Morehead's Brisbane business and N.E.N. and N.W. Produce Co. Ltd's (Nenco) Newcastle business were purchased. These acquisitions not only gave the Elder's group representation as wool-brokers in all Australian mainland states, but raised it above Dalgety and Goldsbrough Mort to the position of leading Australian broker.

During the period of expansion, all four leading companies purchased stock agency or merchandising firms and this is particularly true of Elders and Goldsbroughs, who both

built up and strengthened their country representation by this means.

Bushnell, writing of the industry for the period 1946-56 (*Australian Company Mergers*, p. 162), and discussing concentration and competition, comments:

The mergers of the post war period are not particularly important because of the increased share of the market acquired by the giants but they are important because these mergers are only part of a continuous long term trend towards greater concentration.

The trend towards concentration was emphasised by the two 1961/62 mergers.

The two new organisations, Elder Smith Goldsbrough Mort Ltd and Dalgety and New Zealand Loan Ltd each have wool stores in ten of the eleven mainland selling centres (Elders GM not Albury, Dalgety Loan not Goulburn), and sell approximately 28 and 21 per cent respectively of the wool passing through Australian centres. The Australian Mercantile Land and Finance Co. Ltd with five centres and Winchcombe Carson Ltd with four, each sell about  $6\frac{1}{2}$  per cent of the total, and Farmers and Graziers Co-op. Co. Ltd, with five centres, sells 5 per cent. These shares mean that nearly one-half of the market is in the hands of two companies and two-thirds in the hands of five. No other organisation has more than three centres, but some of them are very strong in their particular centres.

The main difference between the two giants and the rest is the geographical spread of representation. The giants compete strongly against each other and in every centre there are large 'independents' so that at present there is no 'monopoly' position in any sector. This is so even although Elders GM handles 60 per cent of the wool received in Adelaide and over 50 per cent of that received in Perth and Albany. In each centre Dalgety Loan is operating, while in Adelaide Bennett and Fisher Ltd and Southern Farmers Co-op. Ltd, and in Perth and Albany Westralian Farmers Co-op. Ltd maintain

effective organisations.

### An opportunity missed: Geelong

The failure to establish a wool store in Geelong represented a serious weakness in the pattern of Goldsbrough's development. As soon as the Adelaide business of Bagot Shakes and Lewis had been effectively integrated into the organisation and as pessimism induced by the 1930-2 depression was abating, there were strong reasons in favour of the establishment of such a branch.

Goldsbrough's board had proved its confidence in the future of the industry by building a new wool store in Brisbane in 1933-34—the decision to build being made at the depth of the depression—by building the large offices on North Terrace, Adelaide in 1935, and late in 1937 showed interest in expansion by the purchase of the Victorian stock agency firm, Pearson Rowe Smith and Co. Ltd.

I am unable to supply a satisfactory answer as to why Goldsbrough Mort did not make an offer for George Hague and Co. Ltd (who handled 30,000 to 35,000 bales per annum in Geelong) when that company was known in the trade to be available for purchase in late 1936 or early 1937. Hague's chairman had an interview with the Goldsbrough general manager during this period, but no record of the discussion can be traced and the appropriate Victorian executives were not asked for appreciations or recommendations. Hague's business was purchased by Elder Smith as at 1 May 1937.

This missed opportunity was soon proved to have been a serious mistake and it led to Elder Smith taking over from Goldsbroughs as the leading Australian controlled wool-selling broker. Elder's success in Geelong in their first ten years there was the incentive and spring-board for their further expansion in the eastern states.

Elder's experience in Geelong is instructive. Hagues had been handling about 17½ per cent of the wool sold in Geelong. In the four years following the purchase, Elder's share

dropped as low as 15½ per cent but thereafter began to rise and by 1947 was above 21 per cent. I think it likely that if Goldsbroughs had been the purchaser it would have done at least as well, as it was proving a successful competitor against Elders in Adelaide and it already had the strength of a good Wimmera and Mallee connection through its Melbourne centre.

The Elder's and Goldsbrough's percentages for Adelaide market for a series of seasons are as follows:

	ES and Co.	BS and L
	%	%
1923/24	48·0	23·0
		GM and Co.
1924/25	48·0	24·2
1931/32	42·5	25·7
1938/39	40·7	29·0
1945/46	35·0	28·3
1952/53	37·2	29·4
1959/60	35·8	30·0

For the 1936/37 period, Dalgety operated seven selling centres and was the largest broker, with 15·5 per cent of Australian sales, Goldsbroughs with 5 centres second, with 10·5 per cent, and New Zealand Loan, 3 centres, was third with 8·6 per cent. Elder Smith, 2 centres, was only seventh, with 5·7 per cent of sales.

A Goldsbrough wool-selling branch in Geelong would have gained business through the existing Goldsbrough connections in the Wimmera and the south-east of South Australia and, if consolidated by the purchase of the South Eastern Stock Agency, DeGaris Sons and Co. Ltd, who at the time were agents of the company, would have upgraded the earning power of the existing organisation. Staffing should not have been a problem, as after Elders purchase of Hagues in 1937 and DeGaris in 1947 those organisations provided practically all the staff in their areas.

## CONDITIONS FOR MERGER: GENERAL BACKGROUND

The atmosphere in which directors and executives of pastoral and wool-broking companies moved in the late 1950s and early 1960s needs to be appreciated in terms of experience over the previous decades.

After the dislocations of the years immediately succeeding World War I, the 1920s were generally years of good profit margins. (Goldsbrough Mort paid dividends of 15 per cent per annum from 1922 to 1929, but the surplus retained for reserves was not great from 1926 onwards.) The years from 1930 to 1946 varied between very bad to just difficult—dividends of  $2\frac{1}{2}$  per cent to 8 per cent were paid—again with little surplus for reserves. In the early 1930s, in view of the low world prices for their products, primary industries were merely existing, but a profitable basis had been re-established by the end of World War II and most sections were ready to take advantage of the higher overseas prices and strong demand which had developed. Considerable cash holdings had been accumulated, particularly by established pastoralists, and advances made in methods, equipment, and scientific knowledge, so that the years 1947–57 were years of very substantial increases in production. This was allied to good to phenomenally high prices and generally good seasons, so that pastoral and agricultural activities were generally very prosperous.

However, by the late 1950s prospects for pastoralists and therefore also for the wool-selling industry were becoming much more doubtful. Costs were climbing steadily while wool prices certainly were not. In 1952/53 and 1953/54 the Australian wool clip averaged about 82d per pound—it fell in 1954/55 to 71d and in 1955/56 to 61d. After a lift in 1956/57 to 80d it fell in 1957/58 to 63d and in 1958/59 to 48d.

As much of the company's income was earned from commission charges on wool and sheep sales (although a substantial proportion of wool charges are based on weight), the

company profits tended to fluctuate with wool prices, although the effect was masked to some extent by a steady increase in volume of production and also by leads and lags between wool receipts and wool sales. Wool prices also have a considerable effect on sheep prices and therefore on the company earnings from sales of sheep, which were based on commission only.

The year of 1958/59 was critical to the events leading to the merger. Goldsbrough's net profit after tax fell to 7·8 per cent on share capital. This was preceded and succeeded by years of considerably better net profits but the profits of 1958/59 had a much more significant effect on the thinking of the company's board (and those of competitors) than worse years had had in previous decades.

In the tough years of the 1930s and earlier, primary production was the dominant activity in Australia and business generally was depressed when the primary industries were unprofitable. All businessmen were in trouble together, costs tended to fall, and investors accepted the facts of the period.

Between the early and the late 1950s the wool-broking organisations suffered a loss in commercial prestige—in particular the industry was no longer regarded as one with growth potential at a time when growth in investment capital was sought as an essential offset to inflation. (The spectacular failures in retailing and finance, etc., associated with the early 1960s, helped to emphasise the industry's conservatism and to upgrade it again.)

The downgrading was mainly influenced by two factors:

- (a) the feeling that synthetic fibres established a low price ceiling above which wool prices were unlikely to rise in the future;
- (b) the difficulty faced by the industry in increasing its rate of charges, other than marginally, as costs rose.

If these factors remained effective, then the only possibilities of escaping from the squeeze on profits were increasing vol-

ume of throughput or diversification into other fields. The directors and executives of wool-broking firms discussed these questions among themselves without finding much cause for optimism. Some were unduly influenced by the (often starry-eyed) projections relating to the development and promotion of synthetic materials.

### GOLDSBROUGH MORT'S POSITION IN 1958/59

In the company's financial year to 31 March 1958, a net profit of £527,000 was recorded and dividends of 7 per cent, requiring £336,000, were paid. In the following year, 1958/59, average wool prices fell from 66d to 47d per lb and at 31 March 1959 the company carried forward unsold 36,000 bales more than at the 1958 balance date. These facts, together with an associated fall in the profits from the company stations, caused a fall in Goldsbrough's net profit at 31 March 1959 to £358,000, or £375,000 after adding back goodwill written off less capital profits credited. The carry forward of the extra wool represented an earning of £115,000 on the current prices, to benefit the ensuing year. During April 1959, wool prices recovered by 20 per cent and an estimate made in early May 1959 indicated that profits for 1959/60 must be better and could easily be £450,000 better. (In the event, adding back a special pension provision, the improvement was £580,000.)

In view of these circumstances and the good seasonal outlook, the action of the Goldsbrough board in May 1959 in reducing the 1958/59 dividends from 7 per cent to 6 per cent—requiring £288,000—must be judged to have been very conservative indeed and it was read by the share market as indicating a lack of confidence in the future.

This action should be compared with the board's dividend policy in the 1940s when in three years slightly more than the disclosed profit was distributed in the interests of a more

uniform payment policy. I consider the 1959 action gave the wrong signal to the market and thus was a definite error of judgment.

It seems likely that the major influence was a desire to conserve funds but, by depressing the value of shares, it certainly increased the possibility that the company would be a take-over proposition for break-up. A dividend of 6 per cent on share capital represented only slightly over 3 per cent on shareholders funds as shown in the balance sheet, and as the assets were conservatively stated, the return on market value was lower still.

Members of the board had, of course, to consider their responsibility to shareholders. Unless the return to holders could be improved, they would be better off if the business was liquidated, even if the money had been invested in Commonwealth loan and other securities. On the other hand, the company performed a service essential to primary producers and its elimination would have seriously affected the economy.

Estimates were made of the market value of the company's main assets and these indicated that the market value of shareholders' equity in the company, shown in the balance sheet at £9,100,000, was of the order of £15,000,000. The company's disclosed profit for 1958/59 (after adjusting goodwill written off and capital profits) was £375,000. This represented the following percentages;

to issued capital	7·8%
to shareholders' funds at balance sheet values	4·1%
to shareholders' funds at estimated market values	2·5%

These rates were very low indeed and shares were quoted down to 26s in spite of the approximate 38s per share represented by book value of assets, which were accepted as being stated very conservatively. The market value of assets suggested above represented a value of over £3 per share.

Energetic action had been taken by management by 1958

to improve profitability. This was too late to be effective in 1958/59 but had a substantial influence on the results for 1959/60. Detailed annual budgets were required from all states, departments, and branches and standard cost figures were set by Head Office where possible. Responsible management and the Head Office and state cost control sections analysed all unsatisfactory projections and conducted a careful examination each month of the actual results as compared with budget. From 1957 on the services of a leading firm of management consultants (PA Pty Ltd) were used to assist the company's executives in solving the problems associated with unsatisfactory results or trends; for some problems this was very successful.

The above figures suggest that for a period in 1959, prior to the credit squeeze of 1960, the company was vulnerable to a takeover offer, which could have shown a good profit to a buyer financially strong enough to handle the big problem of raising the necessary bridging finance and sufficiently ruthless to ignore the interests of staff and clients in obtaining the maximum return from a liquidation. It is possible that this was being considered by some group, as executives of the company were informed that detailed searches of the company's titles were made in the offices of some state Registrars-General. However, the company's strength relative to competitors was such that there was no likelihood of a takeover offer being made by any of them, unless in association with some strong financial group.

The very unsatisfactory year of 1958/59 was followed by a much better one in 1959/60, when the average wool price rose from 47d to 59 $\frac{1}{4}$ d and production increased after the droughty years of 1957/58. Goldsbroughs paid a dividend of 10 per cent. The disclosed profit for 1959/60 (goodwill added back and capital profits deducted) was £804,000. This figure was after providing an instalment of £200,000 (one-third of the total required) to bring staff retirement benefits to the standard recommended by the company's consultants. As the

deficiency thus being made good had accumulated over the period of post-war inflation (say, 1948-60) there was a good argument for spreading the deductions (net of income tax saving) over 12 years in assessing the profitability of the business.

If this is done, the figures are:

Disclosed profit	£801,500
Add goodwill written off	23,500
	<hr/>
	825,000
Deduct capital profit	21,000
	<hr/>
	804,000
Add pension fund instalment £200,000	
Less tax saving 80,000	120,000
	<hr/>
	924,000
Deduct 1/12 of net pension fund requirement	30,000
	<hr/>
	<u>£894,000</u>

This represents:

to issued capital	18.6%
to shareholders' funds at balance sheet values	9.5%
to shareholders' funds at estimated market values	5.8%

These were much more reasonable figures and had been achieved in relation to a wool price which was not high on the averages of recent years and which might easily be maintained. Average wool price realised over the company's financial years had been

	Price per lb		Price per lb
1950/51	151d	1955/56	60½d
1951/52	74½d	1956/57	80½d
1952/53	82d	1957/58	66d
1953/54	82¾d	1958/59	47d
1954/55	72¾d	1959/60	59¼d

## GOLDSBROUGH MORT'S POSITION IN 1960/61

### The need for more funds

By 1960 Goldsbrough Mort was experiencing difficulty in meeting the increased calls on it for finance, particularly in the livestock agency operations, and also those related to planned expansion of wool-selling to Goulburn and Geelong.

Before dealing with this question, it seems desirable to outline changes in the company's methods of controlling finance. Until the company entered the stock agency business (effectively from 1924 with the purchase of Bagot Shakes and Lewis), the methods of advancing to borrowers may be classified as:

- (a) big advances or drawing rights arranged with general management, or with state managers with the approval of Head Office, and paid over to credit of the client's bank account;
- (b) drawing rights arranged as above and implemented as required by the client by the issue of orders (cheques) drawn on the company in a capital city;
- (c) cheque advances, usually against wool in store or to arrive or on sheep's back, made at the request of the client by letter or personal application to a state office, wool traveller or wool agent;
- (d) refunds of advances against ensuing clips to the limited number of wool agents who had authority to advance on the company's behalf. These were usually stock agents of established reputation whose business required access to more funds than they had available themselves.

All the above outlets were relatively controllable, although it was a constant complaint by management that certain clients with order books drew orders for more than they had arranged or for substantial sums without the arranged notice. The orders (like cheques) could always be dishonoured but this was rarely done. The threat that on the next infringement of arrangements the order book would

be withdrawn was usually effective but was not used very much.

Economic conditions in the first half of the 1930s prompted tighter control over all substantially financed clients. The position of many became precarious, so much so that they were financed on a month-to-month basis related to approved annual budgets.

The operation of an active stock business after 1924 introduced new factors which made control and prediction of finance requirements much more difficult. The number of livestock which would be sold at each sale was not accurately predictable, nor the price, nor the total money to be credited to vendors' accounts with the company or paid out to them by cheque or to be paid in to the company by buyers or their agents (and how promptly or otherwise such people acted), or to be advanced to buyers against income to mature in the future.

In theory, any client wishing to purchase stock at a sale on credit should have arranged his advance with the local manager prior to the sale. This was not always possible and was often not done—the client not deciding until the bidding was proceeding whether to buy or not. The local country manager of the stock company, whether auctioneering himself or 'on the rail' beside the auctioneer, had to decide, at times in a few seconds, whether to knock stock down to a weak purchaser. He usually decided in the affirmative, as a negative decision would be regarded unfavourably by the vendor and would militate against the atmosphere of the sale and quite quickly against the company's goodwill in the area. It should be said that many potential buyers—doubtful about their credit or the wisdom of a purchase—would consult the manager beforehand. Of course, all the above unknowns, when averaged over the many sales held each month in each state, tended to conform to a predictable pattern, although the pattern could alter with the mix of types of stock and with seasonal conditions.

After Mr Latrielle's appointment as general manager of Goldsbroughs in 1936, he required that advances should bear a reasonable relationship to the business expected to accrue from the account so that, in effect, the old method of big advances against landed security became a rapidly reducing factor in the company's business. In conformity with this, in the late 1930s, the company introduced a general policy that an advance against stock must not exceed  $66\frac{2}{3}$  per cent of the value of the livestock (plus wool) owned by the borrower. In 1952 the margin required to be provided by the borrower was increased from  $33\frac{1}{3}$  per cent to 50 per cent and soon thereafter a further requirement was added that the debt thus created must not at any time exceed the income accruing to the account annually. This policy of not more than 50 per cent advance was more conservative than that of most other companies. (Some of the smaller ones dealt with each advance request individually and did not have an overall policy.)

The board supported this basis and generally agreed with the proposition that if the increases in the business and the effects of inflation on turnover and stock prices involved a level of advances higher than the company's resources would adequately support, then it was time to increase funds under its control, either by a share issue or a long-term loan. Naturally retained profits represented the cheapest source of funds and a policy directed towards achieving substantial retentions was essential in the inflationary circumstances which existed.

However, this policy was only valid while there was a reasonable expectation that additional funds would increase profitability overall, but the assessment of this factor was made on an optimistic basis if the alternative seemed to be neglecting established business or withdrawing from a major district.

#### Effects of the 1960 credit squeeze

A factor which completely altered the normal experience appeared in 1960 with the bank credit squeeze. The banks

were operating the squeeze for some months before its effects were generally understood—in fact, as I remember the period, the trading banks pushed for an official government announcement in an attempt to protect their own goodwill and the morale of their staffs, which was being damaged by reactions from refusals of credit to regular and credit-worthy borrowers. The result of this squeeze was that bank clients who had lodged security with, and had relied on obtaining credit from their banks, were refused it and came to their brokers and so the total number of borrowers at any one time increased. In many cases, bank managers suggested recourse to brokers. The situation was referred to by the Chairman of Goldsbroughs, Mr C. Y. Syme (who became Sir Colin Syme in 1963) at the June 1961 annual meeting:

During 1960, heavy additional advances were made available by the Trading Banks and the Pastoral Finance Companies to primary producers. During the first half of that year, advances by Trading Banks increased by £14·1M., and by Pastoral Companies by £5·7M. However, during the second half of the year, Trading Bank advances decreased by £8·5M., whereas in the same period Pastoral Company advances increased by a further £15·2M. In the year as a whole, Trading Bank advances increased by £5·6M. and Pastoral Company advances by £20·9M.

Much of the finance was essential to the continuing efficiency of the pastoral industry.

The circumstances which faced the company executive and board from May 1960 on (and likewise those of all other pastoral companies which relied on the provision of finance to obtain a considerable proportion of their turnover) may be realised from an examination of the totals of rural debts of the pastoral companies—taken from Reserve Bank returns of Goldsbroughs (see Table 2).

During the period mid-1960 on, the company's executive at Head Office and in the states was endeavouring by pressure on staff and clients to reduce advances, provided business was

not lost. Directions were given that no money was to be advanced to take over an account from a rival and that clients must be asked to reduce drawing to minimum requirements. For a time, cattle advances were restricted to 25 per cent of stock values. However, as will be seen from the Reserve Bank figures, quoted in Table 2, the total of advances fell very slowly.

It was, in fact, very difficult to convince the company's aggressive turnover-conscious state and livestock department managements that the restrictions were still less than those of most of their competitors.

### Development of wool-selling centres

In early 1960, the company's financial planning was complicated by decisions made earlier in relation to expansion at Goulburn and Geelong.

At Goulburn during the early 1950s the Farmers and Graziers Co-op. Co. Ltd was the only company conducting wool sales. The volume was increasing and local growers, including some of the company's substantial clients, were pressing Goldsbroughs to open. In addition, it was felt that the first competitor to open against the Farmers and Graziers was likely to get considerable business from clients of other brokers.

On 23 August 1957 Goldsbrough's board authorised construction of a store on land already owned—to be ready for business by July 1958. All plans were ready for immediate progress and site work had begun for the store, but the New South Wales and Queensland Wool Buyers Association served notice that they objected to an increase of the centre and that they would not buy at the projected store. This led to an inquiry on behalf of the state government by Mr Justice Cook into the monopoly position and methods of wool buyers. The findings of Mr Justice Cook were available in September 1959 and the wool buyers withdrew their opposition.

TABLE 2 Rural

	1958		1959	
	GM and Co. fm.	% of all companies total	GM and Co. fm.	% of all companies total
January	12.4	14.2	13.3	14.0
February	12.0	13.9	13.0	14.2
March	12.6	14.6	13.7	15.1
April	13.1	14.6	13.8	14.6
May	13.2	14.7	12.7	14.0
June	13.3	14.7	12.8	14.4
July	13.2	14.5	12.8	14.6
August	13.7	13.9	13.8	14.5
September	14.4	14.5	13.8	14.3
October	14.1	14.2	13.5	14.1
November	14.0	14.3	13.5	14.1
December	13.6	14.3	13.0	13.9

\*Goldsbrough Mort's monthly totals with its percentage of the total for all wool-brokers advised by the Reserve Bank (figures for Tasmania excluded).

Goldsbrough's board then felt that the conditions existing when they made their original decision in 1957 no longer existed, time having been given for other brokers to plan, come in, and fragment the business (Winchcombe Carson and Elder Smith in fact did so). Nevertheless, as the company had taken so leading a part in the matter, it would lose considerable goodwill with local clients and with wool growers generally if it did not proceed when it became possible to do so. It was therefore decided to proceed and on 22 January 1960 tenders for construction of a wool store and office involving, with equipment, over £300,000, were accepted.

The store was completed in time for the 1960/61 wool season, but receivals were under 15,000 bales instead of the 25,000 bales confidently predicted for the first season's receivals when planning was proceeding in 1957. The poor receivals were due in part to fears of some growers that buyers would not provide satisfactory competition; however, this has not been so and the centre's share of the New South Wales clip is showing an increase.

Also, in 1956/57 it had been decided that establishment of

indebtedness, 1958-62\*

1960		1961		1962	
GM and Co. £m.	% of all companies total	GM and Co. £m.	% of all companies total	GM and Co. £m.	% of all companies total
13.0	13.9	16.5	14.8	14.7	14.6
12.7	14.1	16.3	14.9	14.5	14.8
14.1	15.2	16.8	15.5	15.8	15.9
13.8	14.7	16.5	15.1	15.2	15.3
14.5	14.8	16.8	15.4	15.9	15.5
14.5	14.6	16.0	15.5	15.4	15.2
14.8	14.9	15.8	15.3	—	—
16.1	15.0	16.6	15.2	—	—
16.9	15.3	16.6	15.2	—	—
17.3	15.2	16.1	14.9	—	—
17.4	15.0	15.6	14.8	—	—
17.0	14.9	15.2	14.7	—	—

a wool store in Geelong was necessary. An approach to Dennys Lascelles Ltd was unsuccessful. The Melbourne wool staff was adequate to provide for such an expansion but the management and stock and branch organisation was not. Certain staff moves and developments were made to improve this factor and in the meantime 11 acres of land well situated for the establishment of a wool store were bought; by 1959 the state was ready to proceed. It was estimated that office and wool store would cost over £400,000.

To cover both possible expansions, the company was therefore faced with finding over £700,000 for buildings and a considerable further sum to finance anticipated extra business.

#### Reaction to the 1960 financial difficulties

At any time during the 1959/60 financial year, it would have been relatively easy to raise at around 7 per cent the approximately £1m necessary to provide for expansion of business at Goulburn and Geelong, on mortgage or unsecured notes.

It was unfortunate for the company that at this critical time the general management was in process of changing over. In mid-1959 it was decided that Mr Campbell, who was then 68 and had been general manager since January 1948, should retire during 1960. He went on a pre-retirement trip to Canada and the United Kingdom from April to October 1960. He felt that, as he would not be in office (except as one of the board members) during the period of establishment in Geelong, which must be difficult in view of the strongly entrenched position of the existing Geelong brokers, he should leave the decision as to timing to his successor, who was not confirmed as general manager until late in 1960. The uncertainties were influenced considerably by ill health affecting the two men, but the situation emphasised a failure to maintain an effective age and experience pattern in the senior executives.

A definite retiring age (65 for males) was introduced only in 1960, as a result of a complete review of the company's staff retirement provisions, and had this been in force previously it would have required the board to take more positive action earlier.

By August 1960 the pressures to provide clients' finance had become very heavy and a few months later it was decided to postpone again any further action relating to Geelong and to endeavour to raise money on mortgage at up to  $7\frac{1}{2}$  per cent and also to seek short-term deposits.

The Treasurer's budget speech in August and the supplementary budget in mid-November, together with continuous pressure on the banking system, tightened the long-term market so that the attempt to arrange sufficient long-term funds at the above rate was unsuccessful. However, considerable assistance came from clients credits and the short-term market, and at 31 March 1961 the company held £1.8m of deposits from 14 days to 15 months at rates varying between 4 per cent to  $5\frac{1}{2}$  per cent. By this time the period of greatest difficulty was past.

The major short-term difficulties had been related to the timing and severity of the controls exercised over the banking system during 1960, and in view of the electorate's reaction it seemed unlikely that this particular method would again be used so sharply in similar circumstances.

However, it was clear that the company needed additional resources, provided that they could be obtained on a basis which would allow a margin of earnings over cost. This was the core of the problem.

At this period the company charged 6 per cent on moneys advanced, but the effective earnings on the average amount lent at any one time was barely 5 per cent—interest not usually being collected on sales on cash terms which were not paid by due dates, etc. Money on call or short-term deposit provided a margin of profit, and small adjustments to the rate of interest offered would usually provide replacements for amounts withdrawn. However, it was risky to rely on this type of finance for more than a limited proportion of the resources used.

In late 1960 and early 1961, money on first mortgage for 10 or 15 years was costing at least  $7\frac{1}{2}$  per cent and in some cases was associated with onerous conditions (such as diverting to the lender insurance business which for many years had been placed under special agency arrangements). The obtaining of such money could be justified only if it allowed considerable profitable expansion of business. Additional finance through an issue of shares was associated with even heavier costs as profits accruing must provide for company taxation before becoming available for dividend and desirable additions to reserves. At the then market price of the company's shares, little if any premium on an issue could have been obtained to spread costs over a wider base. It was therefore decided to postpone any further plans for major expansion and to concentrate on the most effective use of existing resources.

## ELDER SMITH'S POSITION IN 1958-61

In 1955/56 Elders extended their wool-broking business to Sydney, Newcastle, and Brisbane by the purchase of the shares of the Commonwealth Wool and Produce Co. Ltd of Sydney and N.E.N. and N.W. Produce Co. Ltd of Newcastle, and Moreheads Ltd of Brisbane. For a period the businesses were carried on in the names of the old companies as subsidiaries of Elders, but in 1958/59 these businesses were integrated with that of the major company. These integrations made heavy calls on Elder Smith executives, most of whom were not familiar with the areas or clients involved. Substantial advances had been made to extend business. They proved slow to liquidate, and a higher than normal bad debt content appeared. Then in 1960 the bank credit squeeze, the effects of which have already been discussed in relation to Goldsbrough's, made similar calls on Elder's resources. Debtors' totals appeared in the balance sheets as:

30 June 1958	£11,451,584
1959	13,888,391
1960	16,381,930
1961	15,963,877

The company had to rely substantially and for long periods on bank overdraft and the management recognised it needed to obtain more funds or to use existing resources more effectively. Some of its substantial properties, including some held by subsidiary companies, had already been mortgaged; in any case the rates of interest required by term lenders had by 1960 been raised so high that they exceeded by considerable margins the company's rate of interest recoveries.

## STIMULUS TO MERGERS

In view of the declining trend of wool prices, those growers who had no opportunities of increasing or diversifying pro-

duction were receiving a reducing income and were therefore most vocal about outside costs, notably selling charges and freight rates, and they exercised considerable political influence. This was reinforced by the existence of the grower-directed co-operative brokers, who gave little financial assistance but relied on commission rebates, the pull of the co-operative theory, and the goodwill attaching to the position of their directors in the industry for their business.

All this meant that brokers generally considered that anything more than marginal increases in the rates of charges had become impossible to obtain and that therefore the only alternative was some reduction in costs if the industry was to become sufficiently profitable to attract the capital needed to service the still growing production. Most brokers found their country representation, with its busy livestock markets, a heavy cost factor requiring much finance and yielding little net profit after reasonable overhead was charged and credit given for wool influenced. Certainly the level of services given to some clients was completely uneconomic and was in fact paid for by the hard core of regular and undemanding clients. Agreements (usually amongst the firms in a state wool-brokers' association) affected only the fringes of the problem (transport to wool sales, free meal, etc.) and had little result.

During the late 1950s and early 1960s, anxious thought was given to the future of the pastoral companies. The conclusions reached generally by board members and senior executives were that further economies of operation were possible but were unlikely to be sufficiently large to do more than keep pace with rising costs. A new approach was necessary if they were to achieve a take-off to a satisfactory profit basis which would make further expansion to meet the market possible.

### A new approach to mergers

Before this, most mergers in the industry had been directed towards achieving a better geographical coverage by the merged interests. Now the idea of merging organisations which, at many local points, were in direct competition to achieve greater volume, to spread overhead, to allow better utilisation of assets and to reduce competition, was being examined.

Because of the greater experience in mergers of United Kingdom business it is significant that the first large merger of this type in the period was by United Kingdom based companies. It was recognised that the differing tax status of United Kingdom as against Australian based companies made mergers between organisations from the different groups particularly difficult.

The offer of Dalgety and Co. to buy the shares of the New Zealand Loan Co. and to change its name to Dalgety and New Zealand Loan Ltd was made to shareholders in September 1961—with acceptance required by the end of November 1961. The New Zealand Loan Co. was not a 'victim' of a takeover offer—it had, before the offer was made, actively sought such a merger and, indeed, it is likely that it initiated negotiations. The announcement of the Dalgety New Zealand Loan merger introduced a new urgency into current thinking in the industry. The question whether the new organisation incorporating the resources of two strong competitors—one generally conservative and the other in recent years aggressive—would tend to dominate the industry, was considered but usually discounted as affecting the short term, that is, that their immediate competitive strength would not be improved. However, the problem of low profitability still remained, with its associated difficulty of obtaining the resources necessary to service the steadily increasing volume of production of pastoral industry with ever increasing costs. The possibilities of this merger helping the English companies to solve these problems were taken seriously.

## THE NEGOTIATIONS BETWEEN ELDERS AND GOLDSBROUGHS

The thinking of the leaders of Elders and Goldsbroughs was that a merger of these two organisations was worth exploring because they agreed there was room for considerable reductions of duplicated services in specific districts and an increment in available funds by sale of duplicated fixed assets.

Both companies were short of potential management—Elders particularly in middle management and Goldsbroughs in the senior ranks. In particular the succession to Goldsbrough's general manager, aged 57, and assistant general manager, aged 60, was not clear. In Elder's case their turnover rate immediately prior to the merger, for livestock salesmen and auctioneers and managers of country branches and sub-branches, was more than twice the Goldsbrough rate for the same categories of employees. For both companies the lack of good profit margins meant that young men with special qualifications were not attracted by the future possibilities and therefore the prospects for recruiting and training such men for top management posts were not good. There were many points where a merger gave promise of strengthening the position in each company.

The first approach was by Elder's managing director to Goldsbrough's general manager. Both groups of executives recognised that, to be successful, a merger must be arranged with the utmost goodwill on both sides. In a servicing industry such as this, where the ability and enthusiasm of staff and the goodwill of clients are a crucial factor, any suggestion of 'takeover' or unreasonable terms to either party would have serious repercussions through loss of a significant percentage of business.

The problem of arriving at a fair basis was made much more difficult (particularly for the Goldsbrough executives) because the annual profit and loss accounts and balance sheets of the two companies were compiled on differing

standards, related to the substantial variation in the requirements of the then existing Companies Acts of Victoria and South Australia. The South Australian Act dated back to 1934 and had not been extensively amended since. It did not (unlike the much more modern Victorian Act) require disclosure of capital profits or of such items as provisions for specific or possible contingencies or transfers relating thereto, or of the figures of subsidiary companies.

It was generally (and correctly) accepted that the Elder Smith figures were compiled on a conservative basis and that their true earning rates in recent years had been better than those shown in their published figures. The share market responded to this assumption and to the steadier rate of dividend payments by Elders by pricing Elder's shares rather higher in relation to dividend distributions than Goldsbroughs. In 1961 Elder's shares were usually priced to require a dividend yield about  $\frac{1}{2}$  per cent above the average yield of the Stock Exchange of Melbourne fifty leaders, while buyers of Goldsbroughs required  $\frac{1}{2}$  per cent higher again.

Both company boards agreed that a merger offered considerable opportunities for improved profitability and that if terms thought to be just to each organisation could be arranged, then the matter should proceed. The best method was thought to be the formation of a new company to acquire the shares of both old companies in exchange for an appropriate number of shares in the new company.

Some figures relating to the relative size of the companies and volume of business done are as follows:

	Elders	Goldsbroughs
Wool selling centres	9	8
Country branches	210	190
Stations owned	—	8
Paid up capital	53% of total	47% of total
No. of shareholders	11,150	9,050
Wool sold	58% of total	42% of total
Sheep sold	52% of total	48% of total

	Elders	Goldsbroughs
Cattle sold	41% of total	59% of total
Pigs sold	51% of total	49% of total
Merchandise turnover	76% of total	24% of total
Staff numbers	60% of total	40% of total

Elders had a much wider range of travel and shipping agencies and a substantial portfolio of investments in shares of businesses outside the wool-broking industry. It was also operating in ship-chartering, stevedoring, and fruit export. It was agreed that the proportion to be offered each group of shareholders should be related to the expected future earning capacity of the assets of each old company and could be estimated only by considering the recent past record and adjusting for non-recurring items.

This amalgamation type of merger is quite different from the purchase or takeover type merger where the taken-over board is primarily concerned to obtain full market value for all assets, including goodwill, being sold.

Both companies adjusted their recent profit figures to give their idea of a fair basis, which varied between 37½ per cent to 42½ per cent to Goldsbrough shareholders. Much of the variation related to the basis of adjustment for the Goldsbrough pension grants which would be completed in 1962 and the question as to Elders 'true' profits. A different approach was that the 1961 adjusted profits of the old companies indicated that an 8 per cent dividend could be paid by a new company on the basis of a capitalisation of £12,000,000 after providing about one-third of net profit for reserves.

If the mid figure of those mentioned above—40 per cent to Goldsbrough shareholders—was adopted, this meant a total capital of £4,800,000 to them and £7,200,000 to Elders holders. This could be implemented in 10s paid up shares on the basis of two 10s shares for one £1 share to Goldsbroughs holders and eight 10s shares for each five shares paid to 12s to Elders holders. When this approach was tested against the

market assessments of the two stocks it became apparent that it was closely in line with the market.

An Elders shareholder receiving 10 per cent on five shares paid to 12s obtained dividends of 6s; on eight shares of 10s each at 8 per cent he would receive 6s 4·8d. The market value of the eight new shares would probably be about 16s, almost the same total as the five old shares at 26s, while the possible disadvantages of the uncalled liability of 8s per share would be cancelled. Goldsbroughs shareholders would be asked to exchange one share of £1, which over the past 3 years had averaged 8 per cent, for two shares of 10s each expected to pay 8 per cent, so the position would remain unaltered.

A further question was the effect on the book value of a shareholder's equity, but this was not rated as important as the comparisons of annual income or market value.

Any variation of the 60:40 ratio meant that the proposal would be out of line with the current market and therefore unlikely to gain majority support from one or other group of shareholders. It appeared that, provided the 60:40 ratio could be proved to be fair to both groups, agreement between the two boards was likely. It was decided that an opinion on the ratio could best be expressed by skilled and independent accountants after an examination of the recent results for both companies.

Messrs Fuller King and Co. (later Arthur Andersen and Co.) of Melbourne were retained to conduct this examination and an announcement that discussions had begun was made to the Adelaide and Melbourne stock exchanges and press. In an endeavour to reduce possible speculation, as much detail of the plan as was possible was given.

#### Public announcements

(Statement issued to Melbourne and Adelaide stock exchanges late afternoon, Friday 23 February 1962.)

The Chairmen of Elder, Smith and Co. Limited and Goldsbrough, Mort and Co. Limited, advise that discussions have

commenced regarding the possibility of co-ordinating the operations and development of their two Companies.

Subject to an independent investigation and check of essential figures, these discussions envisage the formation of a holding Company with a paid-up capital of £12M. of which £7,200,000 will be offered for the shares of Elder, Smith and Co. Limited and £4,800,000 for the shares of Goldsbrough, Mort and Co. Ltd.

The present view of the Directors of both Companies is that under current conditions this holding Company should be able to pay a dividend at the rate of 8% per annum.

Should it prove to be possible to carry this proposal through to completion the two existing Companies would continue trading under their present names and managements and existing relationships with Clients and Staff would be carefully preserved.

A further announcement will be made as soon as possible.

A letter from Fuller King and Co., dated 20 March 1962, advised that in their opinion the relationship of 60:40 was a just basis and was exactly the proportion shown by their calculations.

Since the first announcement, comment by shareholders and press had continued to be favourable and negotiations between the two boards continued.

The following announcement (paid for as an advertisement) was published in the press on 4 April 1962.

#### **Announcement regarding Elder Smith Goldsbrough Mort proposed merger**

Following on their announcement on 23rd February the Chairmen of Elder Smith and Co. Limited and Goldsbrough Mort and Company Limited report that discussions between the two Companies in regard to the possibility of co-ordinating their operations have proceeded satisfactorily. Accordingly steps are now being taken to incorporate a Holding Company, to be called Elder Smith Goldsbrough Mort Limited, with a nominal capital of £25,000,000 divided into 50,000,000 shares of 10/- each.

The Holding Company, in due course, will make an offer to the members of both Companies to acquire their present holdings in exchange for an issue of shares in the Holding Company on the following basis:

- (a) *Shareholders in Elder Smith and Co. Limited*  
Eight (8) fully paid shares of 10/- each in the Holding Company for every five (5) £1. shares paid to 12/- now held in Elder Smith and Co. Limited.
- (b) *Stockholders in Goldsbrough Mort and Company Limited*  
Two (2) fully paid shares of 10/- each in the Holding Company for each £1. stock unit now held in Goldsbrough Mort and Company Limited.

On the assumption that the Holding Company acquires all the issued shares and stock in the two companies it will have an initial paid up capital of £12,000,000 in 24,000,000 10/- full paid shares.

This capital will be held as to 60% (£7,200,000) by the former shareholders of Elder Smith and Co. Limited and as to 40% (£4,800,000) by the former stockholders of Goldsbrough Mort and Company Limited. Messrs. Fuller, King and Co., Chartered Accountants of Melbourne, acting as independent investigators on behalf of both Companies, have reported that, based on their examination of the relevant financial statements of the two Companies, the above ratio of capital ownership in the Holding Company provides a fair basis for their merger.

It is proposed that the first Board of the Holding Company will consist of twelve directors, of whom seven will be nominated by the Board of Elder Smith and Co. Limited and five by the Board of Goldsbrough Mort and Company Limited.

The Chairman of the Holding Company will be Sir Philip McBride (Chairman of Elder Smith and Co. Limited) and the Deputy Chairman, Mr C. Y. Syme (Chairman of Goldsbrough Mort and Company Limited).

Mr. Syme was unanimously invited by the Boards of the two Companies to accept the Chairmanship of the Holding Company but declined this office because of his other extensive commitments and the fact that the location of the admin-

istrative headquarters of the Holding Company in Adelaide would prevent his giving to this office the time and attention he believes it will require.

The senior executives of the new organization will be Messrs. H. N. Giles (Managing Director), G. W. Docker (Asst. Managing Director), G. A. Manning (General Manager) and L. Pearce (Asst. General Manager).

To take up his new appointment Mr G. A. Manning will transfer to Adelaide where the Head Office of the Holding Company will be situated.

Mr. G. W. Docker will continue as General Manager of Goldsbrough Mort and Company Limited, resident in Melbourne.

Mr L. Pearce will continue as Chief General Manager of Elder Smith and Co. Limited resident in Adelaide.

Based on present conditions it is expected that the Holding Company will be able to maintain a dividend at the rate of 8% per annum on its paid up capital.

The directors of the two companies recognise that an 8% dividend rate offers little or no immediate increase in income to the members of the two companies. They believe, however, that over a period the proposed merger of the two companies will result in significant cost savings and will release a considerable amount of capital for more profitable use, with no reduction in the efficiency or the extent of the service now rendered to clients.

The merger proposals, which carry the unanimous recommendation of the Boards of the two companies have been formulated as a result of joint consultation and with the fullest regard to the rights and interests of the members of the two companies.

As soon as practicable after the incorporation of the Holding Company circulars giving full particulars will be despatched to the shareholders of both companies.

In July 1963 the titles set out in this announcement of Giles, Docker, Manning, and Pearce were altered to general manager, chief assistant general manager, assistant general manager (administration), and assistant general manager

(finance) respectively. This was due to some doubt as to the effect of a clause in the Uniform Companies Acts (Section 129 of S.A. Act), limiting retiring benefits to directors to not more than the equivalent of 3 years' salary, and in view of this the two first named retired from the board. In 1967 Mr H. N. Giles, who had spent his working life with Elder Smith or Elders GM—when he was born his father had been livestock manager for Western Australia for Elder Smith and Co. Ltd—retired as general manager prematurely at the request of the board and was appointed a director and chairman of the board. He was awarded the O.B.E. in 1966 and was knighted in 1969.

#### The merger: legal problems

The proposed Holding Company was incorporated in Adelaide on 19 April 1962 and on 23 May 1962 an agreement between it and the boards of the old companies and representatives of the shareholders was entered into. The Memorandum and Articles, and the offer letter to shareholders, were approved by the committee of the Adelaide stock exchange as the 'home' exchange of Elder Smith Goldsbrough Mort Ltd. The Melbourne exchange—the 'home' exchange of Goldsbrough Mort and Co. Ltd—required some minor alterations to Articles and this was satisfied by an undertaking by E.S.G.M. Ltd to arrange the amendments at the first convenient opportunity. These approvals were accepted by all other exchanges in Australia.

Unfortunately for the prompt and smooth arrangements of the legal basis of the offer by the new Holding Company, Goldsbroughs had a London register on which just under 7 per cent of its shares were recorded. In addition, Elders had a very few holders of shares who resided in the United Kingdom. Goldsbrough's directors and executives knew from previous experience in share issues that the London stock exchange could prove rather difficult to deal with. Through

Blake and Riggall, Melbourne solicitors for Goldsbroughs and the Holding Company, the company authorised its London solicitors, Linklaters and Paines, and London share-brokers, Morton Bros, to act, and the company also requested its London registrars, National Nominees Pty Ltd, a subsidiary of the National Bank of A/Asia Ltd, to assist.

It soon became clear from advices from Linklaters to Blake and Riggall that the stock exchange was insisting on alterations to Articles and to the form of the proposed offer (some of which requests conflicted with requirements of the Australian authorities) and that the British Board of Trade had a further set of requirements under the Prevention of Fraud (Investments) Act of 1958.

The directors had always considered that there would be a small percentage of shareholders who through objection, inertia, or legal incapacity would not assent to the terms of the merger and that it would be necessary to invoke the compulsory acquisition clauses of the appropriate Companies Act after more than 90 per cent of the shareholders of both the old companies had assented. A necessary condition for this action was that all shareholders should have received the same offer and should have had a reasonable opportunity of considering it. The Australian solicitors considered it highly desirable that, in addition to the terms of the offer being identical, the form of presentation should also be uniform.

It was also desired to make the offer to shareholders before the 'uniform' Companies Acts came into force (expected to be July 1962) as these would require variation of the procedures applicable under the existing acts which had already been accepted by the two boards.

In view of the importance of the issues and the impossibility of resolving them in a reasonable time by cable or air mail, it was resolved on 2 May 1962—the first meeting of the board of E.S.G.M. Ltd—that representatives of the company should proceed to London to deal with the questions raised.

Messrs Niall and Giles reached London on 7 May and found it necessary to remain there until approximately 24 May. Their discussions were long and complex and required many references back to Australia. They arranged that the offer letters as already approved by the Australian exchanges would be acceptable by the English authorities, provided a supplementary letter from National Nominees Pty Ltd was sent to all United Kingdom resident shareholders, whether of Goldsbroughs or Elders. Most of the information in this letter would be readily available from Australian sharebrokers and, in any case, was not considered to create legal difficulties by adding anything material to the main offer letter.

In view of the three weeks' delay due to these negotiations it was found impossible to get the 'offer' letters out to shareholders in time for a June closing date and a closing date of 9 July was adopted. As soon as the 'offer' letters were despatched to shareholders on 7 June 1962, acceptances began flooding in and no doubt remained that the merger would be completed. A large majority of shareholders had accepted by 9 July and by 7 August 97.4 per cent of Elders and 94.9 per cent of Goldsbroughs shares were covered by valid acceptances. At 25 September 1962, valid acceptances were held from 10,973 shareholders of Elders in relation to 99.5 per cent of the shares and from 8,911 shareholders of Goldsbroughs representing 98.7 per cent of the shares (or stock in the latter case). Notice of compulsory acquisition was served on non-accepting shareholders of Goldsbroughs on 17 September 1962 and on 9 October 1962 to those of Elders. No difficulties arose in completing these formalities.

## IMPLEMENTATION OF THE MERGER

Immediately Giles returned from London in late May he worked strenuously (often until after midnight) on getting a detailed understanding of the Goldsbrough organisation,

personnel, and methods, and relating them to the Elders organisation. Even before he left for England, he had convinced the two boards that immediate integration was the best method of making the merger successful, and on 3 May 1962 Goldsbrough's board adopted a resolution which commenced:

In regard to the objectives of E.S.G.M. Ltd., it was resolved that approval should be given to the following statement:

1. 'It is essential that integration be recognised and accepted as the real aim and that regardless of the time that the final result will take to achieve, there must be a clear Board directive that all efforts of the Holding Company General Management must, from the very outset, be directed towards this end.'

Giles produced to the E.S.G.M. board meeting on 6 July 1962 lengthy and detailed recommendations regarding integration and the methods by which he proposed to carry it out and to the meeting on 7 August 1962 a survey of the combined businesses which ran to over forty pages of typed foolscap. To produce all the above in two months, during which time he had many other matters on his mind (including Commonwealth Bank responsibilities), indicates very great capacity and energy.

Integration meant that in any area there must not be two operating companies but only one co-ordinated business and staff. The new company very soon was changed from a holding to an operating company while the old companies became mainly property owning subsidiaries with few operational functions.

Close attention was given to the costs involved in any changes and transfer fees and stamp duties on transfers were not incurred unless there seemed a clear need for the transfer. The new operating company collected debts as agent for the old companies and leased their properties from them. On the other hand, motor cars, plant, etc., were sold to the new company at taxation values. The three companies estab-

lished share registers in Canberra and shareholders' acceptance of the offer by Elder Smith Goldsbrough Mort Ltd was arranged on these registers to avoid heavy and varying state share transfer fees.

On 13 and 14 July, a meeting was held in Melbourne of state managers of Elders and Goldsbroughs from the eastern states, and on 25 July in Adelaide of the state managers for South Australia and Western Australia. At the beginning of each meeting, four members of the board, Sir Philip McBride and Messrs C. Y. Syme, G. M. Niall, and N. S. Young (now Sir Norman Young) attended, and all spoke and answered any inquiries. At these meetings an outline of the objectives of the integration and the methods proposed was given and discussed with those present, so that these members of top management could convey company thinking down the line to their executives and staff.

Clear lines were laid down as to the responsibilities of Head Office and the state offices. In particular, Head Office accepted responsibility for group finance, group staff policy and controls—the control of all assets and policies relating to earnings and expenses.

The following committees were established:

At Head Office: A Head Office Amalgamation Committee, consisting of Giles, Docker, Manning, and Pearce; a Head Office Liaison Committee, consisting of Schmidt, Elder's Queensland manager, Bickford, Goldsbrough's Head Office chief inspector (administration), and Eyre, Elder's Head Office personnel and public relations officer. It was also arranged that Pearce would visit all states to confer with state managers and their appropriate staff to develop a uniform policy on advances and methods of control.

In each state: a State Planning Committee to consist of the state manager for each company, plus two other senior officers of each company. These committees had power to set up State Planning sub-committees to consist of one member for each company from the State Committee, plus other co-opted

members, to recommend to the State Committee regarding specific departments or functions. The two managers in each state were also responsible for preparing a recommendation for appropriate management appointments as far down as officers in charge of sections, etc., and these were discussed with Giles and Docker during a preliminary visit. The state managers and State Planning Committee were expected, by themselves or with assistance, to recommend on every factor of the combined businesses in their state—essentially the method and timing of integration.

In due course the Liaison Committee visited each state for a fortnight or longer and examined each plan. If they considered a 'policy' decision was required, the question was referred to the Amalgamation Committee at Head Office; if not, plans were discussed, possibly amended, and tentatively adopted. Then the whole plan had to be passed by the Head Office Amalgamation Committee.

The volume of work devolving on each State Planning Committee, and to a lesser extent on sub-committees, was very heavy and, as the officers concerned all had full-time jobs in their current positions, was in the main performed at night. It was not unusual for these officers to be at committee meetings four nights a week for at least four hours a night for months on end. The work-load in the Liaison Committee from Head Office was even heavier. They had to visit each state in turn and often more than once, and sit in committees both day and night with all or some of the State Planning Committee, examining exhaustively their plans, trying to suggest improvements and to anticipate the objections of the Head Office Amalgamation Committee, and in particular the managing director. The work-load which the managing director took on his own shoulders in settling all proposals from all states was very heavy indeed.

All the people concerned in this committee work were senior officers paid well above award rates. They received no overtime or extra payment for the additional work-load.

However, after each annual balance, a committee of the board set aside a sum of money to H. N. Giles to be allocated in a retirement benefits fund to those he considered had during the year rendered special or meritorious service. This meant that the beneficiaries did not get any tangible recognition at the time but could look forward to receiving at retirement (or their estates on death before retirement) the sum so allocated, plus interest. Most beneficiaries were told that a sum had been allocated to them (but not usually the amount).

In early July, target dates for integration were set as under:

Queensland, by 31 December 1962

New South Wales, Victoria, 30 June 1963

South Australia, Western Australia, after 30 June 1963.

At a later stage, and at the request of the State Planning Committee, the date for Victoria was brought forward to 31 March 1963, that for Western Australia was set at 30 June 1963, and for South Australia at 31 December 1963. The length of time allowed for planning reflected the scale of difficulty and volume of work relating to the various states.

The following matters were listed to receive early consideration from State Planning Committees:

City premises—selection of building to be used as state Head Office and an allocation to areas therein of departments and individual officers.

Agents—particularly the question of competition between different agents of the two companies in one area.

Surplus (or redundant) premises.

Reduction of problems with personnel relating to salary anomalies and to the possibility of personality clashes, more particularly in the country (i.e. if both companies were represented by strong and capable men in an area, endeavours were made to transfer one to another area where he would be the unquestioned senior, prior to integration).

Preparation of a staff establishment list—first, list positions and numbers of people estimated to be required to deal with the merged business; second, recommend names for each position; third, list the names of people not required at that time.

Standardisation of systems—outline the system to be used in each department, particularly in accounting. The systems of the bigger company (i.e. Elders) to be the anchor and to be adopted unless it was considered by both sides that Goldsbroughs' was the better.

All states were able to meet their dates for integration and no serious breakdown of the planned methods of operation occurred.

#### Special features of the merger

A noteworthy aspect was the care taken to preserve competing agencies held by the two companies. For instance, Elder Smith held the agencies for the Commercial Union Group of Insurance Companies while Goldsbrough Mort represented the Western Assurance Co. The new company arranged to maintain the existing shares of business of both principals and to give each support in seeking new business. In view of the strengthened country organisation of the new company, this has proved satisfactory to each principal.

Management efficiency was helped by action taken early in the merger to standardise the basis of costing figures so that management had reliable guides to areas of trouble, and presentation of such figures on a monthly basis encouraged early remedial action. For example, both companies had for many years calculated the wool store and wool department costs on the basis of bales handled. The procedures used were checked to ensure uniformity, and Head Office management then had comparable cost figures until integration for two stores in each main centre; after integration the factors influencing the costs recorded by each centre were well understood.

## EFFECTS OF THE MERGER

### Staff

The staffs of both companies responded in a remarkable manner to the challenge of the new experience. The expression 'to work day and night' is normally used in a very loose manner, but it was literally true of hundreds during the integration planning and implementation phase. It was freely stated that any executive who maintained his old rating at golf or bowls could not be pulling his weight.

Staff conditions varied considerably in detail but were very similar in most essential matters. It was necessary to conduct an averaging operation and in the main this was an averaging up towards the better of the two sets of conditions in any particular matter. Thus salary rates tended to improve because of the merger, although some people whose appointment under the new organisation did not justify the rates they were receiving were put on a 'mark time' basis until the rise in average rates or a new appointment lifted them again.

The problem of 'redundant' staff proved a minor one. For about two years recruitment was damped down and 'normal' wastage steadily reduced total numbers. Resignations reached a high rate, unfortunately largely amongst the youngest and most ambitious staff. For months they did not know just what their position in the merged company would be and when approached by competitors and offered a specific job, they tended to accept it to end the uncertainty. In addition, some officers resigned because they were unwilling to move from a local area where they had become established.

There were, however, a few long service officers who for various causes (sometimes uncertain health) were considered unsuitable for any post of a status suitable to their previous rating and who were retired before their normal retirement date. Such persons (about twenty in all) received a lump sum compensatory payment of one-half the deficiency of their

income from the company over the period between their actual and their normal retirement date. They received from their actual retirement date the normal retirement benefit, reduced for their actual age at retirement in accordance with the appropriate deed.

A vital feature in planning was the care taken by the two managers in each state and by Head Office executives to select the person they considered most suited for each post. Before making recommendations of appointments, each state manager sought to get to know the senior staff of the other company and the great majority of recommendations were agreed between the two managers. In the few cases of disagreement, Head Office executives had to decide and, of course, all senior appointments had to be confirmed by Giles after consultation with Docker.

Although each of the old companies provided state managers equally—Victoria and Western Australia from Elders, Queensland and South Australia from Goldsbroughs, with joint managers in New South Wales—an examination of the executives listed in the 1964 Annual Report shows that a large majority of top managerial posts went to ex-Elders personnel. The report lists forty-three ex-Elders and only fifteen ex-Goldsbroughs, i.e. 74 per cent ex-Elders. However, if the lists of senior executives (including the above top management) issued by Head Office and the various states *at the time of the integrations* are examined, the totals are ninety-five ex-Elders and sixty-two ex-Goldsbroughs, i.e. almost exactly the 60:40 ratio recorded for all staff at the beginning of the amalgamation.

The organisation of the merged company was based on that of Elders and it followed that Elders staff already had experience to fit them for many of the senior posts. I feel that this explains the apparent unbalance and that there was little or no bias in the appointments.

However, in addition to the dominance of ex-Elders personnel in the top posts, a factor particularly marked in Vic-

toria, New South Wales, and Western Australia, there were some other factors relating to the merged business which did give the appearance of a takeover rather than a true amalgamation. These were: (a) the transfer of all Head Office functions to Adelaide; (b) the concentration of power in the hands of the managing director; (c) the policy of using the systems of the larger company, i.e. Elders, unless all responsible executives agreed that the Goldsbrough system for the job concerned was better. Because of pressure to get the job completed it was difficult to obtain all the necessary agreements and so at times an Elder's system was adopted and applied, only to be accepted as inferior and a change-over arranged a few months later; and (d) the fact that in every state capital the office used by the state management was the Elders and not the Goldsbroughs one. There were logical economic reasons in each case for the decision and it was unfortunate in respect of appearances that all went the same way. The Elder's offices in South and Western Australia were considerably larger, while in the eastern states they were of more modern type, having been planned in the 1950s during that company's expansion moves.

The question of the continued location of the Head Office in Adelaide is one which may require reconsideration in the future because of the planned diversification of the company's operations, already giving much weight to finance and investment and likely to become even more important. In these matters there are intangible but definite advantages from the cross-fertilisation of ideas and information which is strongest in the leading centres, Melbourne or Sydney.

### Clients

Generally the clients of both companies accepted the merger for its ability to provide an even wider spread of service, but some clients of one had strong objections to the other and transferred their business. In a limited number of

cases business was lost because the volume of merged business in a centre proved too great for the manager to maintain the old standard of personal contact which two managers had maintained previously, and some clients objected to dealing with other members of staff. An indication of the trend of losses is given by the following figures, which set out the total bales received by the two recently merged groups, compared with the totals of the component companies in the 1960/61 season preceding the announcements. It will be seen that each amalgamation lost some share of its previous business. It should be observed that the percentages shown are influenced by a shift of production, due to development of pastures or to drought, from the north, where the Dalgety Loan group has its main strength, to the south, where Elders GM is strongest, and this shift is large enough to impart a substantial bias to the figures.

TABLE 3 National Council of Wool Selling Brokers  
wool received into brokers' stores, 1960/61-1968/69

Season	Elders GM		Dalgety N.Z.L. Group		Australian total, all brokers 000 bales
	bales 000	% of total	bales 000	% of total	
1960/61	1,356.8	28.31	1,154.6	24.09	4,792.5
1961/62	1,385.4	28.45	1,147.7	23.56	4,870.2
1962/63	1,326.5	27.87	1,103.6	23.19	4,759.9
1963/64	1,375.9	27.10	1,174.2	23.13	5,077.0
1964/65	1,375.9	26.68	1,164.3	22.58	5,156.2
1965/66	1,287.8	28.05	1,003.3	21.86	4,590.2
1966/67	1,371.5	28.06	1,049.2	21.46	4,888.0
1967/68	1,362.9	27.66	1,049.6	21.30	4,927.5
1968/69	1,499.2	28.39	1,109.6	21.01	5,281.1

A method of compensating for this bias is to accept as standard the percentage of the total receipts by all brokers in each state represented by the total receipts of the component companies of each merger in that state in 1960/61 (the year before either merger was announced) and apply

that percentage to total receivals in subsequent seasons. The resulting totals enable the calculation of the percentage of Australian totals each group would have achieved if state percentages had been maintained since 1960/61. These results are shown in Table 4.

TABLE 4 Comparison of percentage of the Australian wool received into all brokers' stores, 1960/61-1968/69\*

Season	Elders GM		Dalgety N.Z.L.	
	Standard	Actual	Standard	Actual
1960/61	28.31	28.31	24.09	24.09
1961/62	28.45	28.45	24.42	23.56
1962/63	28.27	27.87	24.00	23.19
1963/64	28.18	27.10	24.08	23.13
1964/65	28.44	26.68	23.98	22.58
1965/66	30.05	28.05	23.94	21.86
1966/67	30.45	28.06	23.71	21.46
1967/68	30.48	27.66	23.68	21.30
1968/69	31.07	28.39	23.56	21.01

\*After adopting the percentage received in each state by the component companies of the two groups in 1960/61 as 'standard' and comparing percentages actually received.

These figures confirm that each group has lost some of the total business, which is in line with the usual experience in the industry following a merger. The percentages for the most recent season suggest that Elders GM has at last been able to halt the drift, but both groups require to make considerable recoveries to regain the shares of business in each state enjoyed by their component companies before merger.

Trends in the livestock agency departments are not known, as the industry is not organised to supply overall totals.

### Shareholders

Results of the merger have proved very satisfactory to shareholders. Since 1960, published profits have moved as shown in Table 5.

TABLE 5 Profits, 1960-69 (\$A)

	ES and Co. Ltd	GM and Co. Ltd	Total net profit
1960	1,404,898	1,603,062	3,007,960
1961	1,354,782	1,133,932	2,488,714
1962	1,402,864	1,204,768	2,607,632
			ESGM Ltd
1963	(including 15 months GM and Co. Ltd)		3,601,356
1964			5,232,406
1965			5,377,174
1966			5,238,166
1967			5,988,226
1968			5,420,535
1969			6,028,401

Dividends which directors announced (at the time of the merger) they hoped to hold at 8 per cent were paid at that rate for 1963, raised to 10 per cent for 1964 to 1966, to 11 per cent for 1967 and 1968, and 12 per cent for 1969. (The 12 per cent dividend for 1969 absorbed \$2,880,000 out of disclosed profit of \$6,028,401, the balance being retained in the business.)

During 1961 the total valuation of the two companies—Elders and Goldsbrouchs taken at the high and low prices paid for the shares of each on the Melbourne stock exchange—was

Low \$30,900,000                      High \$36,400,000

In 1964 Elder Smith Goldsbrough Mort Ltd on a similar basis was

Low \$58,800,000                      High \$71,400,000

and in 1968

Low \$52,800,000                      High \$78,000,000

As paid up capital had not varied over the period, these figures reflect the considerable improvement in shareholders' dividend income and a much larger improvement in the market value of shares. This latter improvement is due to a decrease in the dividend yield required by buyers, which since 1963 has been below the average dividend yield of the

fifty leaders as calculated by the Stock Exchange of Melbourne.

However, the pre-merger profit figures shown above are not really comparable with those recorded by the merged business. The Goldsbrough pension fund grants were completed in 1962 and these less tax saving and also goodwill and capital profits need adjustment to compare with the basis used in 1963 and subsequent years.

It is not possible, from the information given in the printed annual accounts, to make similar adjustments to the Elder's figures, as they were compiled under the old South Australian Companies Act and do not disclose capital profits or adjustments to reserves, or full earnings of subsidiaries. In view of the report of the investigating accountants for the merger, we can probably get a reasonable guide to true net profits by applying the 60:40 ratio to Goldsbrough's adjusted profits.

Adjusted figures are shown in Table 6.

TABLE 6 Elders' and Goldsbroughs' profits, 1959-69\*

Profits for year	Elders estimated \$000	Goldsbroughs adjusted \$000	Total estimated \$000
1959/60	2,772	1,848	4,620
1960/61	2,085	1,390	3,475
1961/62	2,136	1,424	3,560
			Profits of ESGM Ltd (actual)
1962/63			3,601
1963/64			5,232
1964/65			5,377
1965/66			5,238
1966/67			5,988
1967/68			5,420
1968/69			6,028

\*1959/62 Adjusted profits, 1962/69 actual profits.

It will be seen that the profits for 1962/63 are within the range indicated by pre-merger profits—this was very satisfactory in view of the extra non-recurring costs associated

with the merger and the considerable dislocations affecting the operating staff. Results were assisted by the generally good season and by a rise in the average price realised for wool from 54½d in 1961/62 to 59d per lb.

For 1963/64 profits increased spectacularly. The Directors' Report gives the following reasons for the very satisfactory results:

- an unusually good season;
- a larger wool clip and higher wool prices;
- increased stock prices and merchandise and land sales;
- better earnings from stations;
- reduced costs due to merger savings;
- increased funds available for investment from capital profits on sale of surplus assets and retentions from profits.

The average price of wool rose from 59d per lb in 1962/63 to 69·8d in 1963/64 and the total clip handled by all brokers increased from 4,760,000 bales to 5,077,000 bales.

In the 1963 annual report, by which time reductions of, say, 200 had already occurred, total employees were shown as 5,187. In 1964 this figure had been reduced to 4,966 and in 1967 to 4,724. The figure for 1969 was 4,906. The largest reductions in staff numbers were in the accounting field where more sophisticated equipment and methods were adopted in view of the increased volumes.

An indication of the funds made available by sale of surplus assets is given in the notes relating to reserves in the various balance sheets which show:

Surplus on realisation of assets carried to reserve

1964	\$1,757,760
1965	875,874
1966	235,521
1967	391,072
1968	132,676
1969	<u>756,753</u>
Total	\$4,149,656

Substantial surpluses came from the sale of well-situated city properties which were eagerly sought for by redevelopers,

but many of the sales were in small and declining country towns where the company was fortunate to receive even book value. It is likely that gross realisations were of the order of twice the reserve transfers shown above. But, in addition, the company still owns a few well-situated city properties at present earning a rental income. Moreover, substantial areas of grazing land are held near cities, having been acquired for paddocking stock, but which because of improved transport and handling facilities are no longer required for this purpose.

Since the merger, new offices have been built in Brisbane and substantial alterations or additions made in most other states. A new wool-selling centre, Portland, has been established and substantial additions made to both Fremantle and Albany wool stores; also new merchandise stores have been established at Sydney, Melbourne, and Perth. In the six years to 1969, forty-one new or modernised country offices have been provided, also twenty country merchandise stores and sixty-four residences. Practically all this has been financed from redundant property or annual depreciation provisions. It was only in 1968 that the net value in the balance sheet of land and buildings exceeded the figure of 1963 and, of course, the additions to reserves still represent funds recovered and available for other uses. Most of the expenditure was on new buildings not specialised to the wool industry—for instance, the three new city merchandise stores are substantially used for industrial merchandise and each replaced a number of old and overcrowded units, so that working costs were reduced and general efficiency improved.

Wool received by the company at Portland, Fremantle, and Albany moved as under:

Season	Portland '000 bales	Fremantle '000 bales	Albany '000 bales
1963/64		223·9	24·2
1964/65	16·6	236·9	30·6
1965/66	33·9	258·3	34·1
1966/67	43·9	302·6	49·8
1967/68	43·5	318·9	66·2
1968/69	50·5	375·0	87·9

It is impossible to work an overcrowded wool store efficiently and the storing of wool in unspecialised units involves extra handling costs, so the expenditures entailed on buildings have proved to be a base for improved earnings or reduced costs.

The very substantial improvement in profits recorded in 1963/64 and maintained or improved since, together with the strengthening of the 'conservative' image of the organisation, has the following results:

large sums are available each year to strengthen reserves and the earnings thereon to improve total earnings;

money may be borrowed on the best market rates in relation to any particular period;

a new issues of shares would be welcomed by the market—the problem is the old one: the profitable use of the money. Subject to this factor the financial future is strong.

### Diversification

Part of the diversification policy of the company has involved the purchase of shares in subsidiary or associated companies, the most important mentioned in the annual reports being additional investments in the Commercial Union Assurance Co., Lensworth Finance, Squatting Investment, Elders Trustee Co., Elders Finance Co., and the Esperance land development project.

The income from investments recorded in the accounts represents good returns on cost prices, but is not very large in total.

A most important factor was improved methods of investing the increased volumes of funds available day by day. Most wool is paid for within a few days of its sale and on all payments received by a selling broker prior to the date the sale is due for settlement to vendors the broker has to pay interest to the buyer calculated at bank overdraft rates for the days still to run. This means that the broker must be

able to obtain an interest set-off either against his own overdraft or by placing money with the market on a short-term basis.

Both old companies gave considerable attention to this factor and, prior to the merger, Elders was developing a specialist investment section. After the merger, wool and stock proceeds of the group were about doubled and the section soon became skilled in short-term money market operations. With a turnover averaging £10m a week, the money flow and the associated unrepresented cheque totals reached very large figures. In addition to this source, substantial borrowing and lending operations were developed and conducted through a subsidiary—Elders Finance and Investment Co. Pty Ltd. The financial strength of the parent company which guarantees these borrowings allows the best market rates to be obtained. Funds available have been increased by sales of redundant property and influenced by the totals lent to clients from time to time. From 1966 on a substantial increase (about \$20m) in the totals of Australian Public Securities shown in the balance sheets suggests further development of money market operations.

Other possibilities of developing earnings outside the pastoral industry are the industrial merchandise agencies and business, the establishment of housing or factory estates on some of the land near cities previously used for livestock resting paddocks or alternatively the sale of the land to provide funds for diversified developments—an interest in Gove Alumina Ltd which in turn has a 30 per cent interest in the Gove Bauxite developments in north Australia; the controlling interest in Australian Char Pty Ltd, which is establishing a plant at Morwell to produce char from brown coal briquettes (the other partners in this enterprise are the Nissho-Iwai Company of Japan and the State Electricity Commission of Victoria). Other diversified interests include a partnership in Western Australia with B.H.P. in structural steel fabrication and an interest in the manufacture of welded steel pro-

ducts. The company has recently extended its interests into road transport, aerial agriculture, port services and stevedoring in Western Australia and, with its wide spread of branches in that state, is well placed to benefit from the increased business resulting from mineral developments.

When the two accounting staffs had been called on for the one (necessarily larger) establishment, there still remained trained and professionally qualified men to undertake systems and cost savings analysis and improvement in techniques of reporting to management. It is likely that substantial savings, by better methods or more advanced equipment, are still to be achieved.

The marked increases in gross trading income in recent years in spite of the reduced value of the wool handled is strong evidence of definite success with diversification. Significant figures taken from the company's Annual Reports are shown in Table 7.

TABLE 7 Profit and turnover figures, 1963-69

	Year ending 30 June						
	1963	1964	1965	1966	1967	1968	1969
Wool, av. val. (cents per lb)	49.1	58.1	47.7	50.2	47.5	41.7	44.7
Wool sold by company (000 bales)	1,339	1,358	1,350	1,309	1,354	1,382	1,468
Turnover—main components							
Wool (\$m)	203	244	197	202	201	178	206
Livestock	154	180	176	179	198	181	207
Land	38	56	54	43	50	55	48
Merchandise/rural	42	43	46	51	58	58	57
Merchandise/industrial	28	36	44	47	42	41	41
Turnover—total (\$m)	476	571	538	541	566	526	574
Gross trading income (\$m)	36.6	38.4	39.3	39.6	44.6	44.6	49.2
% to turnover	7.6	6.7	7.3	7.3	7.9	8.5	8.6

The improving percentage of gross trading income to turnover in the past three years, during which rates of charges have varied very little, indicates substantial sources of income other than commission earnings. Merchandise turnover has improved but is not yet a major factor in results and, because

of the drop in wool prices, station profits are unlikely to have risen, even after allowing for a recovery of sheep numbers following the drought. It seems that money market operations have represented a substantial earning.

#### DALGETY AND NEW ZEALAND LOAN LTD PROFITS AND DIVERSIFICATION

This company shows net profits of its group over the period covering their merger as follows:

	Net profit £UK000	Return on shareholders' funds %
1960	1,075	7.0
1961	940	6.0
1962	1,227	5.2
1963	1,645	6.9
1964	2,249	8.9
1965	2,023	7.3
1966	1,918	6.5
1967	2,016	6.2
1968	1,841	4.9
1969	2,416	6.4

This group, controlled in the United Kingdom, has a substantial business in New Zealand, selling there about 400,000 bales as compared with about 1,050,000 bales in Australia, and recently has been engaged in developing interests in the United Kingdom, United States, and Canada. In 1968/69 its turnover is recorded as approximately 55 per cent in Australia, 22 per cent in New Zealand, 14 per cent in the United States and Canada, and 9 per cent in the United Kingdom.

Losses have been reported in relation to some of these American and United Kingdom diversification operations and these, together with the recent Australian drought and

low prices for wool, particularly in New Zealand, have for the time being made the rate of return on shareholders' funds disappointing.

The group has purchased substantial pastoral properties in New South Wales and Western Australia and also in northern Australia, where it is hoped to develop beef cattle production. In this latter field considerable work is being done by Australian scientists and large sums expended by Australian and American interests. It seems likely that better returns should result as management, types of fodder, and transport are improved.

It may be remarked that the appreciation of Australian currency against English in 1967 is assisting the company's results.

#### COMPARISON OF RESULTS

For the two merged groups the percentage of net profit to shareholders' funds calculated from the annual accounts published by each group are:

	Elders GM	Dalgety NZL
	%	%
1962	6·2	5·2
1963	6·5	6·9
1964	8·4	8·9
1965	8·1	7·3
1966	7·6	6·5
1967	8·2	6·2
1968	7·1	4·9
1969	7·5	6·4

The rates shown for the groups are not really comparable, there being many sources of divergence—type of capitalisation, valuation of assets, impacts of taxation and exchange rates, etc. It should be noted also that the Elders GM figures for 1963 are not really comparable with those for 1962, owing

to additional reserves disclosed in the consolidated group figures for 1963. The \$3,600,000 created by the merger terms for goodwill has been deducted from disclosed reserves.

However, the trends of the percentages from 1963 on are considered to be reasonably comparable and these strongly suggest that for the period shown the Australian located and controlled merger has proved substantially the more successful.

The smaller wool-brokers operating in one or two states usually have a relatively small capitalisation and in most years show good rates of return on this. There are a few points of potential weakness. They are very susceptible to the effects of drought in their areas. For instance, the net profits of Younghusband Ltd (selling in Melbourne, Albury, and Portland), Dennys Lascelles Ltd (in Geelong and Portland), and Strachan and Co. Ltd (in Geelong) all fell in 1967/68 to under two-fifths of the level of their average net profits over the three preceding years. Winchcombe Carson Ltd (Sydney, Goulburn, Newcastle, and Brisbane) had in 1965/66 net profits of only one-half the previous three years' average. The market requires a relatively high return before buying these shares and the managements face problems whenever they require more funds.

## CONCLUSION

The merger plans of Elder Smith and Goldsbrough Mort were welcomed by the business community as evidence that an industry vital to Australian organisation and trade was displaying energy and imagination in meeting its considerable problems. The share market also approved and by March 1963 the merged company's shares were being purchased at prices high enough to reduce the yield obtained to lower than the average of the Melbourne stock exchange's fifty leaders. Integration in every state was not achieved until after Decem-

ber 1963, but from that time on the two separate organisations have been welded together. The concentration of two organisations into one allowed considerable reduction of staff in the cities and, in both city and country, freed many capital assets. The sale of these has reduced maintenance costs and general expenses. Between 1962/63 and 1963/64 salaries, wages, etc., and general expenses were reduced about 5 per cent in spite of a general rise in levels of costs. However, the most marked benefit has been the increase in trading income due to better use of the increased volume of funds available to the management. The merged company is stronger than the sum of the two old companies and therefore is better able to meet the problems of the industry. Even if there are grounds to doubt the prospects for wool, food production and particularly the meat industry appear destined to become increasingly important. In view of the financial results flowing from the merger the company appears poised to grow with the country.

Future development of the two integrated companies is unlikely to be by the purchase of other wool-broking businesses but towards greater efficiency and a search for a wider range of earnings. We might, however, expect to see some mergers of the small independents, to spread seasonal risks, to rationalise use of assets, improve the usage factor of assets, to resist takeovers, and to improve the ability to raise funds for development. If further mergers do occur, the personal ties of growers with their management are likely to be weakened somewhat and the industry leaders may look with equanimity on this prospect. It seems that the main issues facing Elders GM are the maintenance of its existing share of the market at an economic cost and the search for accelerated growth through diversification of activities.

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