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Qa 05278

To: MR LANKESTER ✓

From: J R IBBS

Handwritten initials

ICL

1. Following the Prime Minister's meeting yesterday morning the CPRS and the Department of Industry established the sequence of main events leading up to the present crisis in the Company's affairs. I attach a copy of a paper which tabulates these events.
2. I am sending a copy of this minute to Sir Robert Armstrong.

Handwritten signature

10 March 1981

Att

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ICL : WHAT HAPPENED

DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
Autumn 1979	Drew up new corporate strategy based on fast growth (20%pa) as response to increasing competitive pressures (especially from IBM and Japan), based on improved product line.	Discussed in detail, at Permanent Secretary level, against background of forthcoming PAC hearing.	
November 1979	-	Explained and endorsed new strategy to PAC. Lower prospects of recovery through profit formula defended as being consistent with longer term industrial objectives.	
Late 1979	(Contemplated rights issue; dissuaded by NEB?)	(Not informed until much later of this episode - and never formally)	(NEB believed to have opposed rights issue)
December 1979	Announced 1978/79 results: Turnover £624m (+23%), profit £45.7m (+22%) positive cash £16m.	-	NEB sold 25% holding, at profit of £25m; picked up enthusiastically by City.
First quarter 1980	Experienced growing pressure on margins, especially affected by exchange rate overseas: also poor management of overseas business.		
6 February 1980	Chappell took over from Hudson as Chairman		

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DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
May 1980	<p>1 Announced half-year results. Turnover growth sustained (+21%) but profit growth less strong (+10%). (Reduced profit growth was in spite of "favourable sales mix".)</p> <p>2 Released management accounts for March 1980, revealing that "once-for-all" action had been taken to maintain profit, in particular by switching from rental to leasing (in all, represented £7.7m. of profit for half-year out of £20.5m.). There had therefore been a fall in underlying trading profit.</p>	<p>Asked Touche Ross to study half-year results.</p>	<p>Touche Ross, on behalf of Department, asked 19 questions on make-up of half-year results. Discovered, inter alia, the size of rental/leasing benefit to profit.</p>
24 July 1980	<p>Met Permanent Secretary DoI to discuss 5 year prospects. UK growth of orders had dried up. No increase in orders expected over previous year. Profit expected to be lower (£40m. instead of £50m.); overdraft expected to be £100m. by December 1980. Forecast growth 10% rather than 20%. Redundancies expected (1000 per year in next 2 years). Presented options for longer term future - including retrenchment or partnership - but did not envisage bringing to point of action for year or two.</p>	<p>Urged ICL to pursue partnership or association with cash rich company urgently. Would assist in taking soundings. Commended short term cost-saving action.</p>	
11 September 1980			<p>Peak share price - 196p.</p>

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DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
12 September 1980	<p>Called Department in for <u>informal</u> briefing. Orders had failed to materialise. Break even expected in second half of company year, ^{year} to end September (or at best full profit of £25m-£30m). Overdraft of £60m in prospect. Cash projections for 1980/81 showing £130m overdraft at end December, rising to £180m on worst case at peak in March - all put to ICL Board. Finance Director concerned about lack of response but working hard on remedial measures.</p>	<p>Situation reported to senior official level. Touche Ross asked to review June/July accounts (received recently) as matter of urgency. Particular concern expressed about management.</p> <p>Informal proposals put to ICL for strengthening Board (not taken up in the event)</p>	<p>Touche Ross rounding off work for Department on monitoring.</p> <p>Monitoring subsequently done by DoI accountants.</p>
mid October 1980	<p>Further informal word from Finance Director. Profit likely to be £25m. Overdraft at end year cut back to £35m or less. But still likely to be unacceptable at March 1981 without further action. Redundancies in prospect.</p>	<p>Management accounts for August received - showing small profit. Finance Director's conversation reported. Action from company awaited.</p>	<p>Share price hovering at 150p.</p>
30 October	<p>Formally reported to DoI Permanent Secretary on financial position. Continuing slump in orders, reflecting recession. Operating plan for 1980/81 already being revised downwards. Break-even as best estimate for next year's profitability. Major cost-cutting exercise under way; about to announce 2,200 redundancies and factory closure. Little progress made with partnership talks.</p>	<ol style="list-style-type: none"> 1 Urged ICL to redouble efforts on partnership talks. Supported cost-cutting efforts. 2 Permanent Secretary reported financial position and remedial action plan to Permanent Secretaries at CSD and Inland Revenue. 	

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DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
5 November 1980		Briefing for Secretary of State in advance of E Committee exposed position and recommended endorsement of management action in context of PAYE decision.	E Committee agreed to give PAYE contract to ICL.
Mid November 1980		Received management accounts for <u>September</u> , giving full year picture.	Share price 120p.
11 December 1980	ICL announced full year results. Turnover up 15% (to £716m), profit down 46% (to £25m). Overdraft contained to £10m. Further deterioration of financial position forecast in Chairman's statement, tempered by confidence in longer term prospects.		
Mid December 1980		Discussions between DoI accountants and Touche Ross	
15 December 1980			Share price 70p.

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EVENTS THIS YEAR

- 6 January : Managing Director explained crisis in cash and profitability to Under Secretary, in advance of -
- 15 January : Formal meeting with DoI Permanent Secretary. Advised to see Ministers. (Share price 48p)
- 21 January : Formal meeting with Mr Baker. Advised to seek partner with all urgency and present plans on that basis.
- 2 February : Minute to Prime Minister from Mr Baker.
- 3 February : Company AGM : E Committee meeting.
- 5 February : Share price 32p.

Econ Ppt
will.
my mem



↑
yesterday
morning

10 DOWNING STREET

Tip Mr Sanderson
to of all consequences
to ~~SPR~~ Dupont

Despite John's TL
request & X below,
we have not had
copies of the CPKS
or Cabinet office notes
on ICL.

Could we have them,
pl?

Andrews.

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