

31 July 1984

②
PRIME MINISTER

HT 21/7

SHARE SALES AND BT

Most Government issues have been accident-prone. Like French Generals, advisers and Ministers often prepare to win the last war and not the next one.

My conclusions are:

1. For a small issue (up to £300/400 million) you need the protection of a tender against underpricing (ABP, Amersham, Jaguar).
2. These issues need not be underwritten at all. The fee could be saved by having either no minimum or a low minimum price. Whatever the sale proceeds, the Government could say that the right price had been achieved.
3. For a larger issue (Britoil, BP etc) there is more danger of a flop. Here, underwriting has attractions to guarantee sale, and the Government can run the risk of a fixed price issue, as the very size of the company will prevent an enormous premium being established.

If people insist on underwriting an issue at a "realistic price" and on a tender, they will kill all the fun and naturally deter institutions from applying.

BT

The argument at yesterday's meeting that there is a danger of selling far too cheaply - of making the issue a stag's charter - is not well founded.

Institutions and individuals have cash and facilities of around £2-3 billion for an attractive issue. These facilities are not related to the size of the issue concerned - a £30 million attractive issue is often 70-100 times oversubscribed; a £100 million, 20-30 times; and a £500 million issue, 4-6 times. On this simple rule, allowing for some additional build-up of institutional cash for BT, it will only be 1-1½ times subscribed (on a fully paid basis). [Multiply by 3 for the partly paid basis, as some will gear their applications.] This is not a level of oversubscription likely to embarrass us in early dealings.

The disappointment yesterday was in the approach to the issue, stressing the institutions whilst playing down the retail market on administrative grounds and overseas markets. This will make selling to the institutions more difficult.

Conclusion

To succeed, we must sell to more than 1 million private
investors. Inducements to do so will be cheap given the
higher price you will then get from the institutions.



JOHN REDWOOD

SHAREHOLDER INCENTIVES

BILL VOUCHER SCHEME

- 1 Each voucher will be worth £18 against a quarterly BT bill.
- 2 The vouchers will be sent out every six months as follows -

<u>Shares purchased and retained (approx)</u>	<u>July 1985</u>	<u>January 1986</u>	<u>July 1986</u>	<u>January 1987</u>	<u>July 1987</u>	<u>January 1988</u>
£250	1					
£500	2					
£1000	<u>2</u>	<u>2</u>				
£2000	2	2	2	2		
£3000 or over	2	2	2	2	2	2

SHARE BONUS SCHEME

- 1 The share bonus will be one free share for every ten shares held for three years after the flotation.
- 2 The share bonus will only apply to the first £5,000 worth of shares held for the qualifying period.

PRICE OFFSET

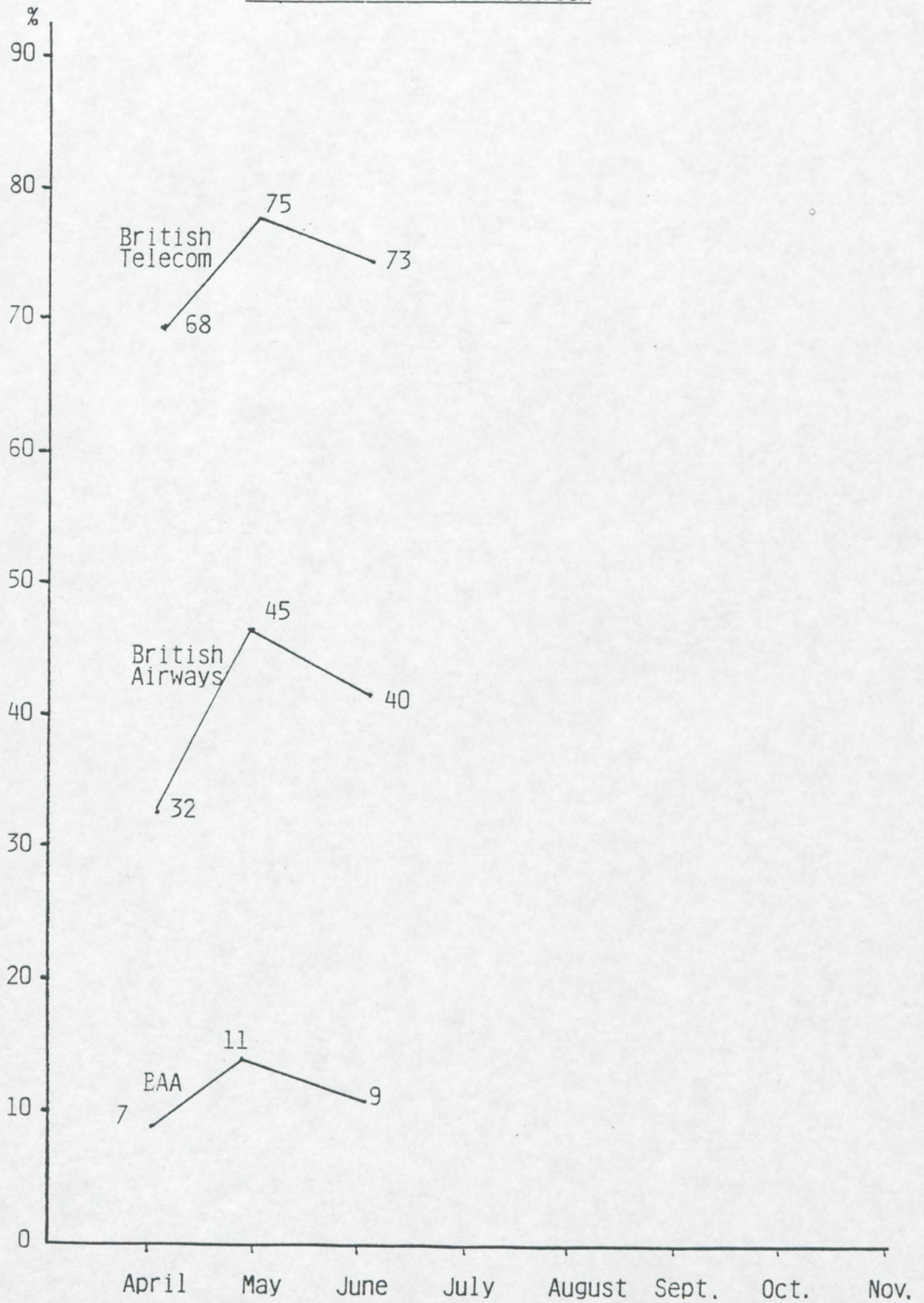
- 1 Dependent on the public response, the shareholder incentives might cost between £80-120m for investment by individuals of between £950-1,400m.
- 2 This cost would be offset if the price of BT shares was to increase as a consequence of the incentives by 2.5-3.5 per cent.

10 72.

1100.
=

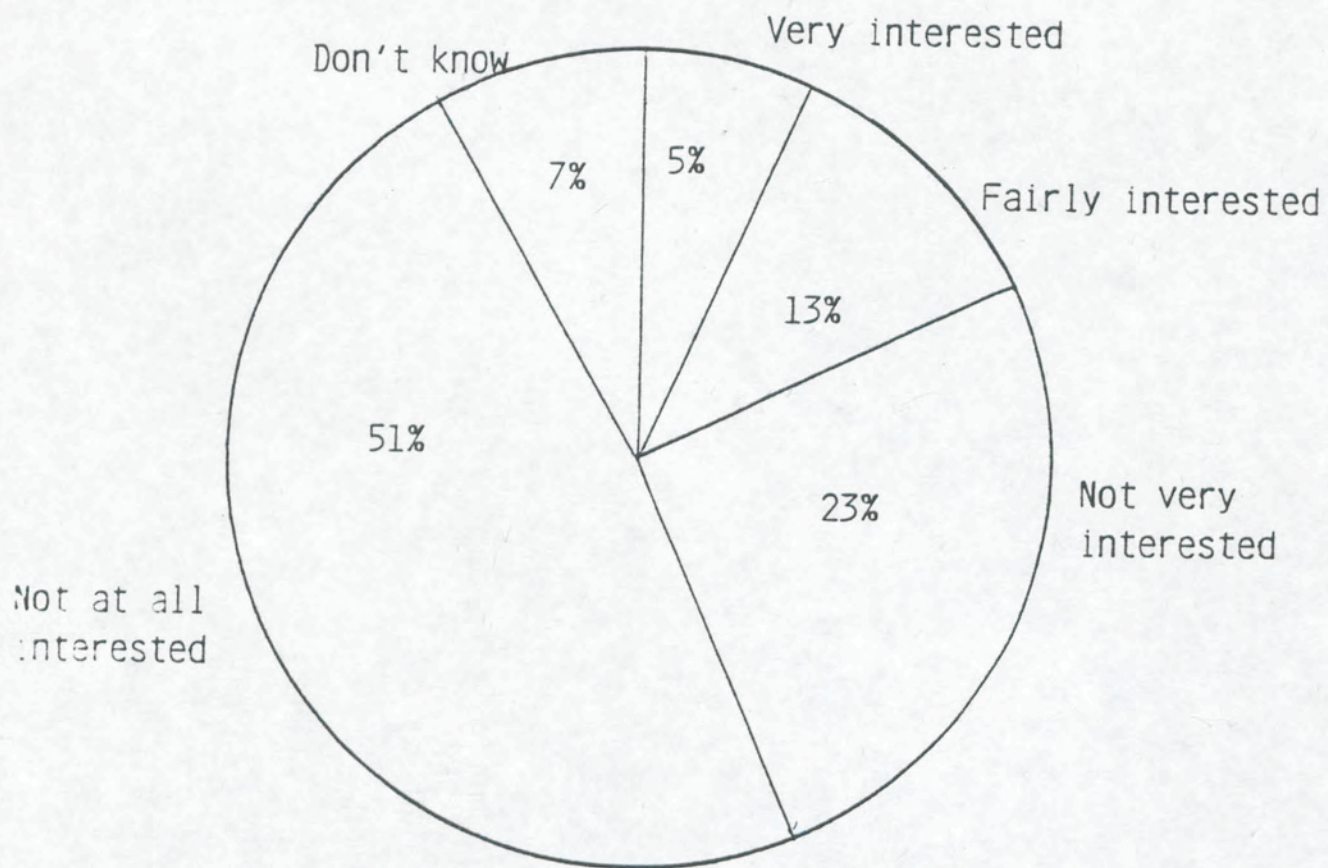
100.
=

AWARENESS OF PRIVATISATION



INTEREST IN BUYING

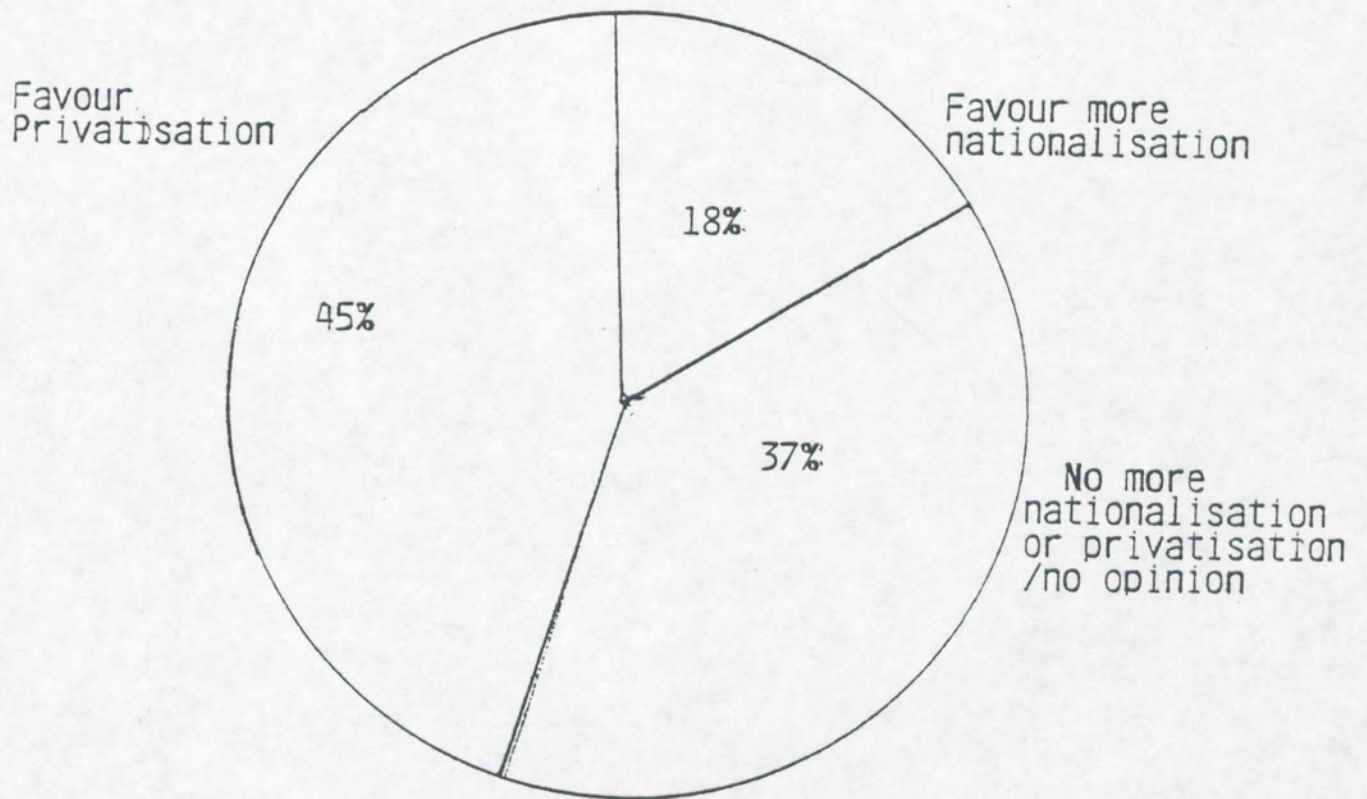
Q. The Government intends to offer shares in British Telecom for sale this year. How interested do you think you will be in purchasing such shares?



Base: All

SOURCE: MORI
(June, 1984)

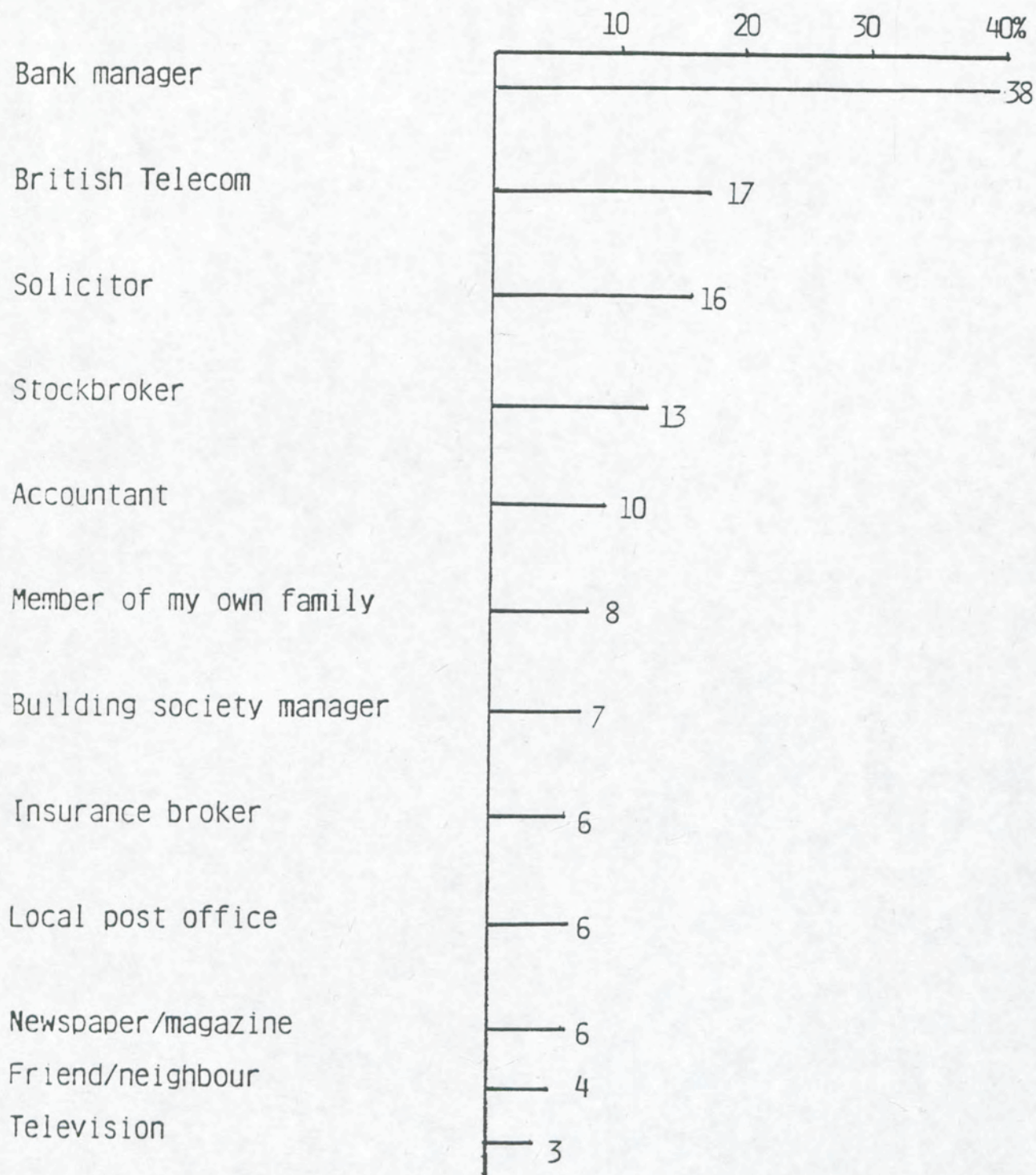
PRIVATISATION - GENERAL



SOURCE: MORI

(June, 1984)

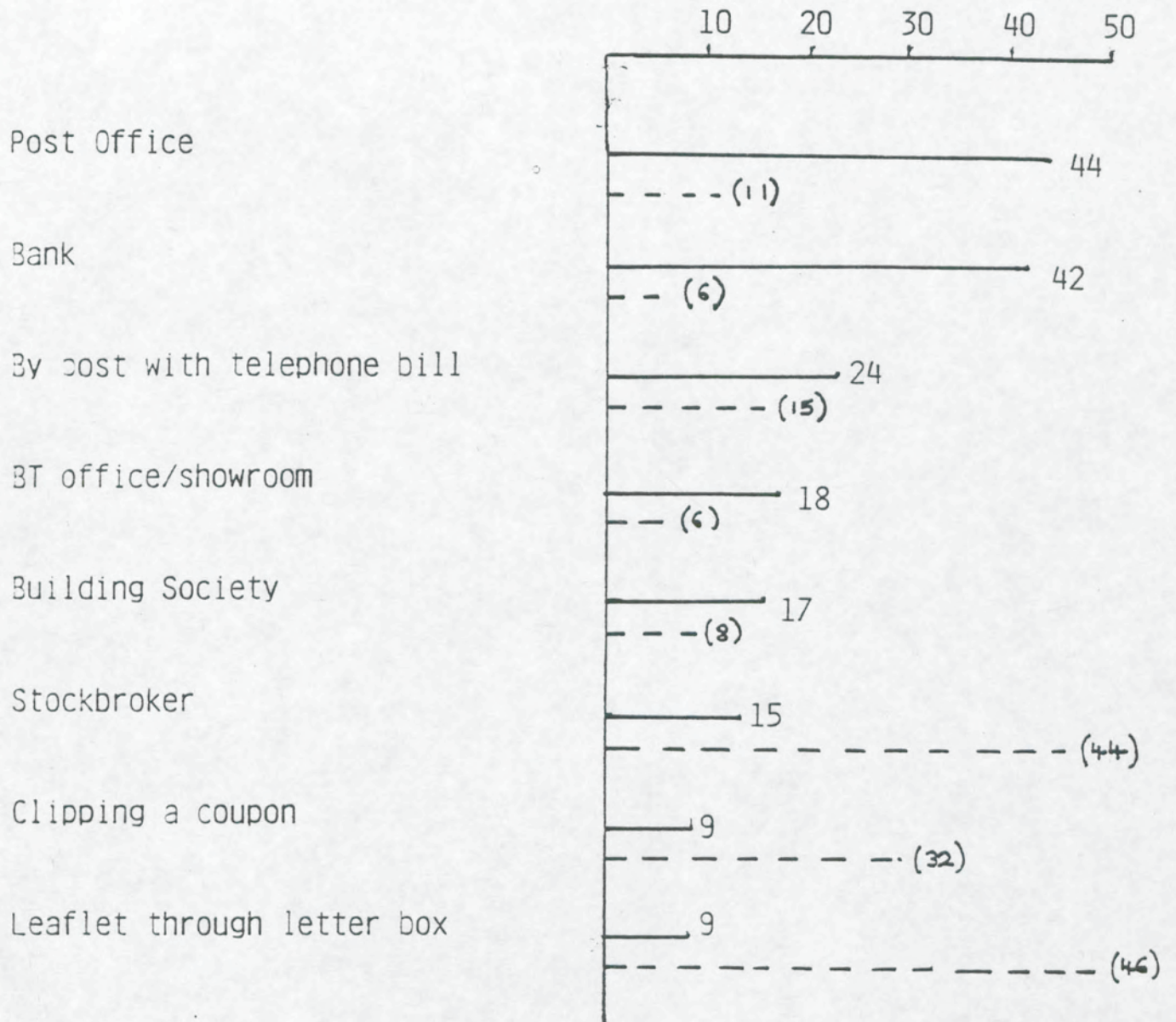
ADVISERS



Base: Those interested in buying

SOURCE: MORI
(June, 1984)

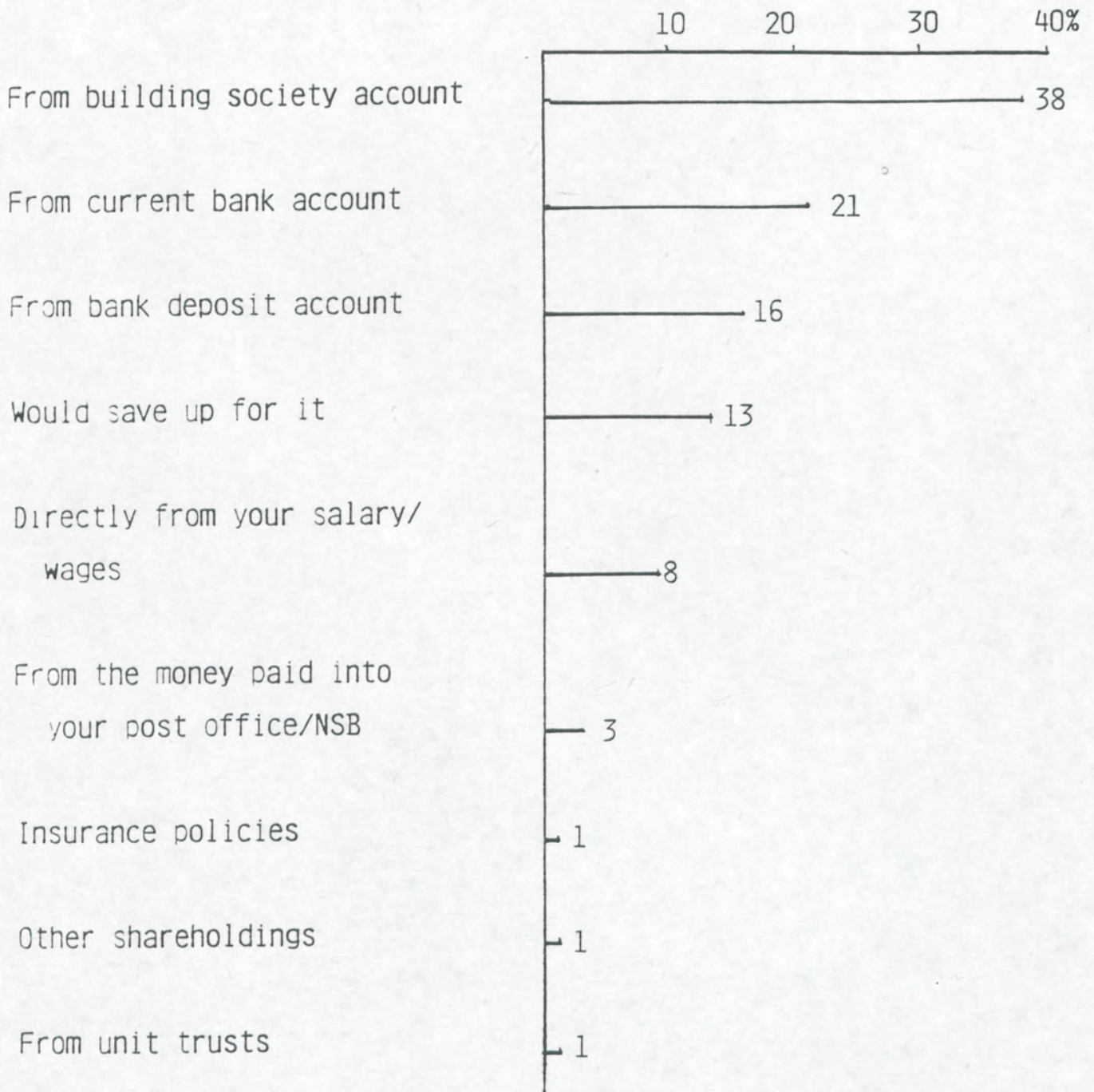
HOW PREFER TO PURCHASE



Use ———
 (Definitely not use) - - - -

SOURCE: MORI
 (June, 1984)

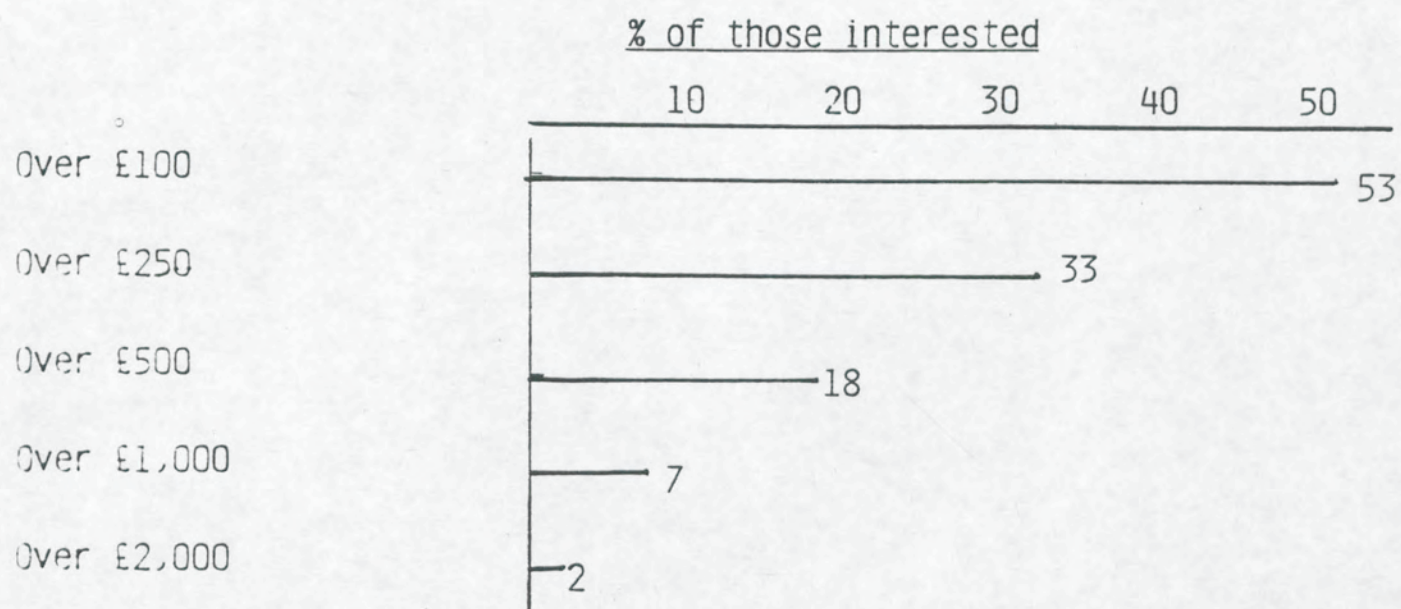
WHERE MONEY WOULD COME FROM



SOURCE: MORI
(June, 1984)

Base: All interested

AMOUNTS INTEND TO INVEST

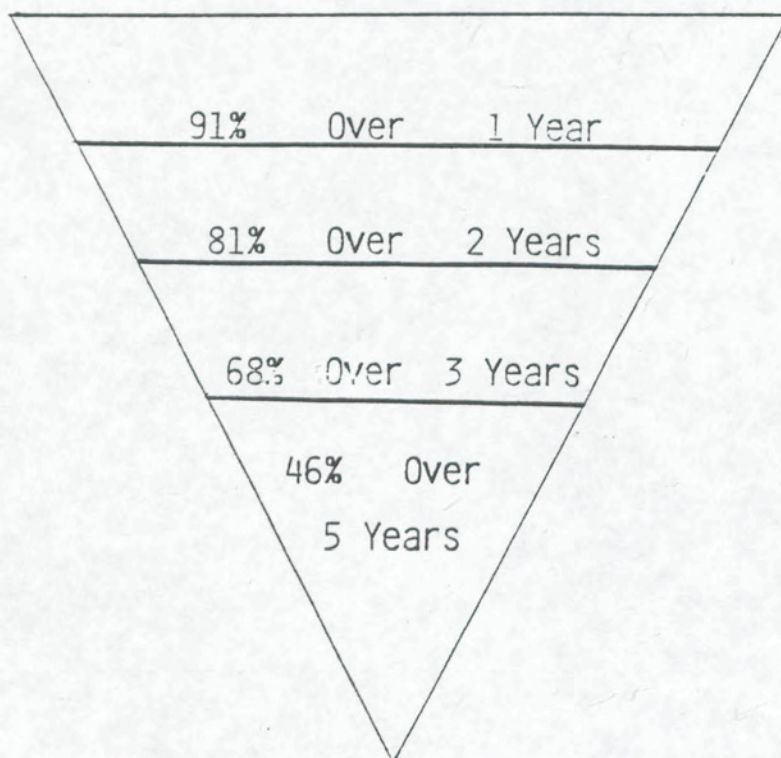


	AB %	C1 %	C2 %	DE %
Over £100	60	63	51	43
Over £250	39	43	29	25
Over £500	26	25	13	11
Over £1,000	10	8	5	5
Over £2,000	2	4	-	3

SOURCE: MORI

(June, 1984)

LENGTH OF PERIOD OF INVESTMENT

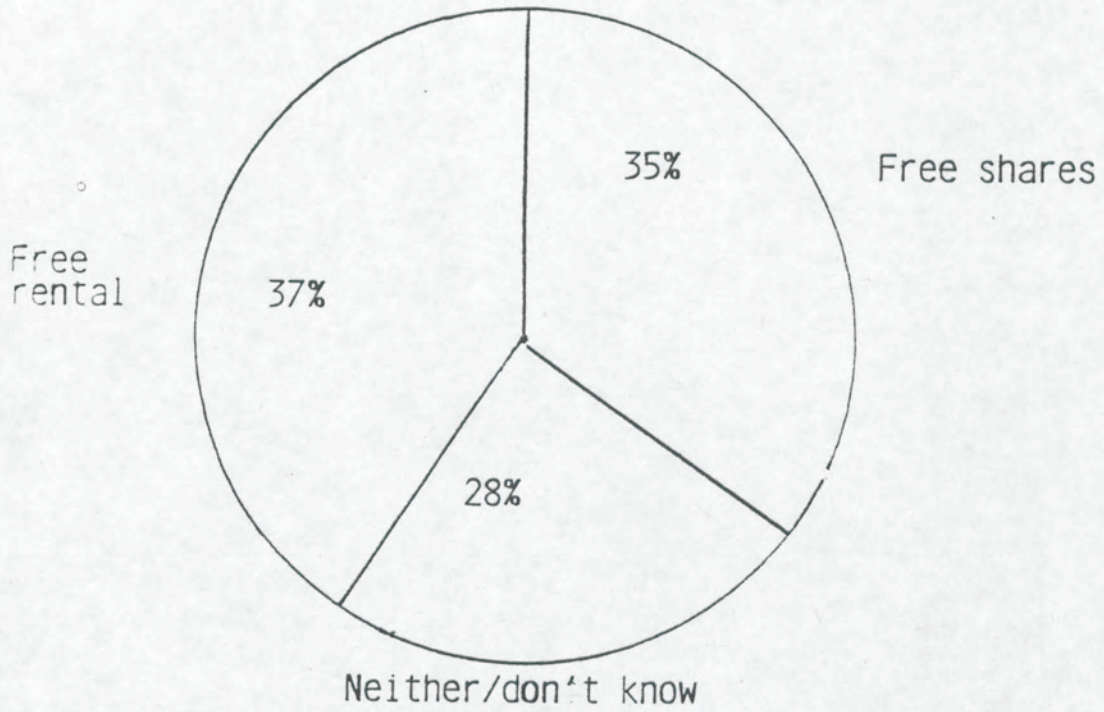


(REPERCENTAGED TO
EXCLUDE "DON'T KNOWS"
= 16%)

SOURCE: MORI
(June, 1984)

PREFER SHARES OR RENTAL

ALL RESPONDENTS



INTERESTED

