De La Rue victory shakes AOT

By Alex Grant

Applied Optical Technologies has seen its share price more than halve after being beaten by De La Rue in the race to produce holograms for euro banknotes.

AOT shares now stand at 69.5p, down from 139.5p as recently as January 24, after another profit warning and news that De La Rue has won a contract to supply holograms, or Optically Variable Devices (OVDs) for about 10% of all euro banknotes.

De la Rue Holographics' factory in Basingstoke has already produced the first batch of holograms, which have been delivered to the Continent. The other 90% of the holograms are being produced by Kurz of Germany. "The high standing of De La Rue among the European banking fraternity has enabled us to get off the starting blocks and make a confident entry into the euro market," says managing director Humphrey Miller. "I am sure this market will prove to be a vigorous source of new business for the company."

In April 2000, De La Rue announced that it was coining a joint venture with the Bank of Portugal, equipping a factory in Lisbon for euro production. De La Rue Holographics was then accredited for euro production last May, since when it has already produced holograms for the new £10 and £20 notes.

AOT's woes have been added to by De La Rue's expertise

AOT, known as Applied Holographics until a year ago, has been far less successful, failing to even meet the European Central Bank's requirements for euro production.

It reported an increase in interim profits to £1.54m last year, but has lately warned that problems with hologram production at its Newcastle site could lead to losses, which analysts predict could reach more than £8m. The problems stem form a joint venture between AOT and US company Technical Graphics Security Products, and a

Report finds falling profits

Printers' profitability is falling even faster than other sectors of manufacturing, Experian's latest Corporate Healthcheck report has shown.

The average return on capital has fallen from 10.55% in the first quarter of 2000 to 9.86% in the second. The year-on-year decline is 20%, higher than almost all other industrial sectors, and printing has now slipped to 17th out of 23 in the profitability league.

Higher productivity has failed to offset the effects of the strong pound across the economy as a whole. And printing is still lagging behind the rest of the economy.

The average return across the economy as a whole is 12.48%, almost 25% higher than the 9.86% margins that printing companies face. Remarkably, printing's average return on capital was above the overall average as recently as summer 1998.

Shareholders' returns have also fallen from 21.73% on average in summer 1998 to 15.03% in the second quarter of last year. Interest cover, however, has fallen by 30% in the

Lanier taken over

Ricoh's takeover of copier and printer company Lanier is now complete. Lanier is now wholly owned by Ricoh and no longer has a stock market listing of its own.

Potter's greetings

International Greetings has won the lucrative rights to print the Harry Potter name and images on stationery and giftwrap in the UK. International Greetings already has exclusive rights to the Chicken Run name. IG has just announced a 9% increase in interim profits to £2.7m, and said it will cut costs at its Stephen Lawrence subsidiary in the US by moving production from New Jersey to Georgia.

Smaller US profits

Smurfit-Stone Container Corporation has clocked up a fourth-quarter profit of $67m, down from $286m a year ago. Although higher paper prices have boosted the company, higher energy costs and mill downtime have brought profits down recently.

Profits warning

WH Smith is considering selling its distribution arm for up to £300m after warning of poor sales, with newspapers' revenue falling 1% in the five months to January 20. Full-year profits are now expected to be around £144m, not £150m as previously hoped. After an outcry from other publishers and smaller retailers, WH Smith failed to set up a new exclusive distribution system last year.

RIM rejects Gannett

Newspaper publisher Regional Independent Media, considered a ripe takeover target last year, now looks set to remain independent for the time being at least.

An "unacceptable" but unspecified offer from the acquisitive US publisher Gannett has been rejected as too low. RIM, now valued at between £600m-£650m, up from £550m a year ago, says it is happy to go it alone if no higher bidders emerge. As rival publisher Hollinger has already said that it considers RIM overvalued, this appears unlikely.

RIM announced last June that it was considering either flotation or a trade sale to Gannett, which already owns both Newsquest and Newscom (formerly Southern Newspapers). Johnston Press swiftly entered the fray, although Trinity Mirror ruled itself out as a possible buyer. The Guardian Media Group and Daily Telegraph publisher Hollinger then followed.

Gannett, GMG and Johnston Press were then all given the green light from the DTI to continue negotiations, fuelling speculation that RIM might be spilt three ways. Most observers predicted that RIM would be bought by Gannett and then have many of its papers sold off to either Johnston or GMG.

But RIM then said it might go it alone after all, after a decline its half-year losses from £3.62m to £2.24m last year, and hinted it might want to buy a publisher in Scotland.

GMG had been thought most likely to leave RIM's print capacity in Leeds, Harrogate, Preston and Sheffield unaffected, as GMG has no newspapers in Yorkshire, where the bulk of RIM's titles including the flagship Yorkshire Post lie.

RIM has been privately owned since it was bought out from United News & Media for £360m in 1998,

Photobition share price plummets

Photobition's share price has suddenly plummeted by 35% after a profits warning caused by a sudden slow-down in sales last December, which was especially marked in the US.

Shares which stood at 100p as recently as January 25 now stand at just 66.75p. The price stood at around 200p just five months ago.

The terse statement, issued on January 26, said simply that the company "announces it no longer believes that it will achieve the market's profit expectation for the current year to 30 June, 2001."

As recently as November, chairman Eddie Marchbanks told the company's agm that the second half of the year – in other words, the six months to June 2001 – would be stronger than the first, and that trading was in line with expectations.

"We don't know if 2001 profits will be below last year's but it remains a possibility," says group financial director Steven Smith.

Despite difficulties at its new York operations in 2000, Photobition still increased sales by 50% and made £20.7m profit in 1999-2000, 18% more than in 1998-99.

Analysts had been pre-

US print demand down

Slowing demand for print has prompted a wave of redundancies at big print companies in the US as capacity is cut.

Mail-well, which owns three label printers in the UK, has seen profits fall slightly to $41m, and has recently closed 11 factories in the US. Chairman and chief executive Gerald Mahoney has retired, to be replaced by new ceo Paul Reilly and new chairman Robert Stephens.

Master Graphics, however, has confirmed that its plan to leave Chapter 11 bankruptcy protection next month is on track. But it too has shed its chief executive, Michael Bemis, replaced by Calvin Aurand, former president and chief operat-

legal notices

Compulsory winding up

The following case is due to be heard at Leeds District Registry, The Courthouse, Oxford Row, Leeds LS1 1BG

● **Organic Living Magazine Ltd** 4 B South Park Road, Harrogate HG1 5QU on March 8 at 10.30am for members. Petition by Paul Trewhitt, Paul McLaughlin and Barry Holdroyd trading as Face

The following case is due to be heard at Nottingham County Court, 60 Canal Street, Nottingham

● **All English Book Co Ltd** Harlaxton House, Harlaxton Drive, Lenton, Nottingham NG7 1JA on February 16 at 3pm. Petition by Nottingham Trent University

Appointment of liquidators

● **Lewis Trade Bench Finishers** Print finishing. Liquidators: RWL Horton and A Murphy, Smith & Williamson, Onslow Bridge Chambers, Bridge Street, Guildford, Surrey GU1 4RA

● **Graphix Editions Ltd** Liquidator: P Gorlov, Gainsborough House, Lower Sheering Road, Sawbridgeworth, Hertfordshire CM21 9RG

● **Precise Image Ltd** Printer. Liquidator: MR Fry, Begbies Traynor, The Old Exchange, 234 Southchurch Road, Southend-on-Sea, Essex SS1 2EG

● **Perfect Image Printers Ltd** Printer. Liquidator: MCJ Sanders, 1 Gray's Inn Square, Gray's Inn, London WC1R 5AA

● **Chiltern Media Services Ltd** Graphic designer. Liquidator: AK Bhardwaj, 47-49 Green Lane, Northwood, Middlesex HA6 3AE

● **PCL Realisations Ltd** Previous company name: **The Printing Crew Ltd** Printer and publisher. Liquidators: JPN Martin and DR Wilton, PricewaterhouseCoopers, 8 Ridge House, Ridge House Drive, Festival Park, Stoke-on-Trent, Staffordshire ST1 5SJ

● **Wishpark Ltd** Printing company. Liquidators: SJ Billot and C Herron, Levy Gee, 7th Floor, Wettern House, 56 Dingwall Road, Croydon CR0 0XH

● **Martin Leach Publishing Group Ltd** Magazine publishing. Liquidators: R Hocking and SJ Michaels, BDO Stoy Hayward, 8 Baker Street, London W1M 1DA

● **Cholcrest Group Ltd** Printer. Liquidator: GG King, 3 College Street, St Albans, Hertfordshire AL3 4PW

Meetings of creditors

● **CBC Colour Print Ltd** at New Garden House, 78 Hatton Garden, London EC1N 8JA on February 2

Final meetings

● **Southline Press Ltd** at Wilkins Kennedy, BRB House, 180 High Street, Egham, Surrey TW20 9DN on February 28 at 10.30am for members and at 10.45am for creditors

● **Bostock Print Services Ltd** at Leonard Harris Partnership, 5th Floor Mosley Street, Manchester M2 3HR on February 20 at 2pm for members and at 2.15pm for creditors

Business GROW-HOW

From Paul Holohan & the team at Richmond Capital Partners Limited

Business ADVICE

RESTRICTIVE COVENANTS

I'm considering buying a printing business but I am concerned that its founder may then set up in competition. What can I, and should I, do to prevent this?

Your question highlights a common problem. You need to protect your investment in this new business which could be damaged by the owner deciding to start up in competition. Equally he or she will probably need to continue to earn a living through their skills and experience in an area which they are familiar with.

It is common to see provisions, known as restrictive covenants, in business sale agreements which seek to restrict the seller from setting up in competition. Many are similar to those restrictive covenants in employment service agreements for senior personnel or sales staff. Generally these seek to:-

- Prevent poaching of customers
- Prevent enticement of staff
- Prevent a competitor from attacking in the same geographic area or in the same business sector i.e. printing.

This is usually for a specific period of time, typically one or two years whereas one would expect a two or three year period in a business sale situation.

These restrictive covenants will only be legally enforceable if they do no more than is necessary to reasonably protect the business. The problem is what is "reasonable"? This varies from case to case and issues which affect the likely enforceability of the restrictive covenants are:-

- The length of time for which restrictions are imposed
- Geographic exclusions need to be reasonable in the circumstances looking at the geographic spread and the customer base
- The consideration or price paid for the business and the amount the owner receives. Arguably the more he or she receives, the more enforceable the restrictive covenants are as they are seen as 'reasonable' compared to similar provisions in an employment service agreement, for example.

If you have to go to law, the costs and potential harm done to the business in the meantime may well prove insupportable. The key is to produce an agreement which deters any such potential action. Whilst there are no methods of "guaranteeing" success, the tighter the preparation, the more likely it is. Make sure you can prevent a problem by embarking on robust due diligence and consider how much you trust the seller. Use an independent advisor to help your investigations which can then be discreet and confidential.

Drafting of enforceable restrictive covenants is an art form for which professional legal advice should always be sought.

The author accepts no legal responsibility for the advice given. Comments and advice given in this column do not necessarily represent the views of Printing World.

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