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# Angus Morrison Ltd.

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It was March 2013. For the last two months Iain Clark, an experienced Scotch whisky executive, had been investigating the possibility of putting together a management buy-in of a small Scotch whisky business; however, what had seemingly started out as a straightforward process had grown increasingly difficult. The current owner was proving awkward to negotiate with and, as yet, Clark still did not have a firm offer of finance to back a deal.

An attractive job offer which had been open to Clark since the beginning of the year would not be available for much longer. Clark had to pin down the situation and make an offer for the business. But what deal would be acceptable to the seller, Clark's financial backers and Clark himself?

## Background

After qualifying as a chartered accountant in 1991, Iain Clark joined John Erskine and Sons, Scotland (JES), a subsidiary of the large Canadian drinks group, John Erskine. JES operated largely as an autonomous business and over subsequent years grew rapidly to become a major company in the Scotch whisky industry. After joining the company, Clark quickly found himself in a staff role, acting as an aide to the managing director. During the following years he had risen through various staff positions, eventually becoming director of finance and administration in 2003. Clark commented, "I'd been exposed to the top of the company for a very long time. During that period no decisions were taken that I didn't know about. Indeed, I'd probably done some analysis on most of them."

In 2012 John Erskine was acquired by United Brands, the U.K. drinks group. After the acquisition, it had become increasingly obvious to Clark that his current role at the autonomous JES would no longer be needed within an integrated U.K. company. Clark pressed for the opportunity to become the managing director of a significant business within United Brands; however, United Brands saw him in a different role. "The company already had a Scotch whisky business which it intended to integrate with JES under a new structure, and they saw me as a finance man within that set-up. That wasn't what I wanted," Clark explained.

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This case was prepared by Lenka Kolarova, MBA 2011, and Professor Rob Johnson. October 2018.
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At the end of 2012 Clark, now aged 46, left United Brands. He outlined the situation:

> During 2012 I looked at other possibilities both within and outside the Scotch whisky industry. I've already been offered a position by another large Scotch whisky company, which will probably lead to a managing director role within a few years; however, I don't have to respond immediately, so I have time to consider my options.

In January 2013, Clark received an unexpected approach from Ian Paterson, managing director and majority shareholder of Angus Morrison Ltd., enquiring whether Clark would like to buy his business. Paterson, aged 55, had had a major operation during 2011, and concern for his future health had prompted him to consider selling his company.

Angus Morrison was a fringe player in the Scotch whisky industry, and neither the company nor Paterson were particularly well regarded. Thus, Clark's initial response was to say no, but Paterson pressed further. Paterson asked Clark if he would help him find a buyer. Clark agreed to assist: "I'd had dealings with Angus Morrison for 10 years and liked Paterson personally. Besides, I wasn't doing anything else, so I thought I might as well have a look at the numbers."

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## The Scotch Whisky Industry

Since the late 1970s ownership of the industry had concentrated into fewer hands. A large portion was now controlled by large multinational drinks groups, the four largest being: Brown Reid, United Brands, Thomson and Lancet Glendower (see **Exhibit 1**). These companies marketed various branded bottled whiskies. There were very few publicly quoted, pure Scotch whisky companies; however, a significant number of traditional, private family-owned firms still operated in various parts of the industry.

The long lead times necessitated by the whisky maturation process meant that the major whisky companies planned well in advance, by developing their position in the world's drinks markets to build their brands and laying down large stocks of maturing whiskies to meet their anticipated future requirement. JES, for example, with annual sales of £140 million and profits before tax of £40 million, currently held, at cost, whisky stocks of £130 million.

The major whisky companies were vertically integrated, regulating their distillery production with respect to the balance between long-term optimistic sales forecasts and current inventory levels. In practice the major companies always held surplus stocks in relation to their likely requirements, but when these surpluses were perceived to have grown too large, distillery production was curtailed. Rebalancing meant that whisky production was highly cyclical in comparison with sales. A stall in sales volume growth in the early 2000s had resulted in a sharp downturn in production as the industry attempted to de-stock. The resulting decline in profitability had, in part, prompted the merger and acquisition activity of the early 2000s.

## Angus Morrison

Angus Morrison had been founded in 1973. Since its inception the company's main business had been based around the commodity trade in mature bulk whiskies. Although the major companies laid down stocks to meet planned future requirements, inevitably their inventories did not exactly match actual needs; therefore, they often had to trade mature whiskies with one another to meet their current blending requirements. In this market Angus Morrison had built up a brokerage business between buyers and sellers of mature whisky within the industry, taking a small commission of typically £0.01 per litre of alcohol on a transaction.

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Over the years since, the company had established a much larger whisky trading business: buying mature whiskies, blending and selling them, mainly in bulk, to end customers. Angus Morrison did not lay down maturing stocks. It simply bought, blended and sold mature whiskies as required, surviving on the surpluses created by the industry's planning practices. Today Angus Morrison's broking business was driven by the needs of its trading business. It exchanged mature whiskies with other companies to meet its immediate trading demands. Any paper profit or loss resulting from broking activity in effect simply served to reduce or increase the trading business's cost of sales.

Clark described Angus Morrison's position:

> They're commodity traders dealing on a short-term basis, ducking and diving and essentially living off the rest of the industry. In volume terms the business represents around 3% of the industry; even a major company like John Erskine has only 10%. In profit terms the business is insignificant. It has no long-term strategy, and its margins are derisory in comparison to those of serious Scotch whisky companies.

The purchasing and selling of whisky was conducted by Angus Morrison from an administrative and sales office with a staff of 20 based in London. Eighty-two staff worked at a blending, bottling and storage facility east of Glasgow. The company had been founded by Paterson's father, who today owned 48% of the equity. Now aged 82, he had no active involvement in the business. Paterson, who owned the remaining 52%, had been running the business for 10 years.

Paterson managed the business with two co-directors, Craig Taylor and Douglas Ross. Taylor, aged 50, had worked in the business for over 20 years. Based in London, he was now Angus Morrison's sales director and was primarily responsible for export sales. Ross, aged 43, had worked elsewhere in the Scotch industry before joining the business in 2009. An experienced whisky blender, he was now managing director of the Glasgow facility and had also been instrumental in winning some cased whisky sales for the business.

## The Opportunity

Clark had taken a quick look at the company's accounts (see **Exhibit 2**). He summed up his initial view:

> The key feature of the business is the availability of matured whisky supplies from the Scotch industry. Without them the business cannot function, since the margins it earns are nowhere near adequate to support the level of inventory needed to service future requirements.

Nonetheless, keeping his agreement with Paterson, he set about a fuller appraisal.

Angus Morrison's business was largely in bulk blend and bulk malt whiskies (see **Exhibit 3**). Despite the commodity nature of the business, the company had established a list of regular customers (see **Exhibit 4**). The largest bulk customer was Dorer, a French company which Angus Morrison had supplied since 2004. This company owned a cheap supermarket brand which was now one of the biggest selling Scotch brands in France, with an annual volume of 600,000 cases.

At present the company's largest bottled product was an own-label brand produced for ASDA, a major U.K. supermarket chain. Paterson estimated that the ASDA business could eventually grow to 150,000 cases per year. The other cased products consisted of other customer-owned brands and secondary brands sold mainly to overseas customers. Angus Morrison spent no