WHY MARCONI WAS BENIGHTED BY A DAY

On 11 April, the Financial Services Authority announced its decision that Marconi's handling of its profits warning statement of 4 July 2001 had contravened Listing Rule 9.2(c). It should have spoken up one day sooner.

The FSA statement regarding Marconi's profit warning exonerated deputy chief executive John Mayo and FD Steve Hare, but was critical of the delaying tactics on the part of chairman Sir Roger Hurn and chief executive Lord (George) Simpson. Here is an edited chronology of events, as reported by the FSA.

17 May 2001
(share price 375p)
Marconi announces prelims for year to 31 March 2001. Sales are up 21% to £6.9bn, operating profit is up 8% at £807m. Net debt is £3.2bn. Statement says that the first-half of the 2001-02 financial year won't show improvement on previous year H1, but that growth is expected for the year as a whole.

12 June 2001
(share price 324p)
Chief executive Lord Simpson tells non-execs that the first two months of the financial year are off to a slow start, with flash results pointing to a 10% decline. Operational reviews underway to prepare a trading statement for the July AGM. Analysts at CSFB and UBS Warburg cut their forecasts by 21% and 22% respectively on 18 and 19 June.

21 June 2001
(share price 251p)
Full consolidated management accounts for April/May show 10% sales decline and sharply increased loss. Deputy CEO John Mayo and FD Stephen Hare discuss the preparation of a possible trading statement.

26 June 2001
(share price 237p)
Divisional forecasts reviewed by senior executives suggest H1 operating loss of £47m (compared with 17 May guidance to the market of expectations around £320m operating *profit*) and full-year operating profit of £491m, compared with 17 May guidance of £807m-plus. Hence, 17 May guidance to the market appears to be no longer correct, but Simpson, Mayo and Hare believe the forecasts contain inaccuracies and inconsistencies, and failed to take proper account of business restructuring since April 2001 and so are fundamentally flawed. Hare is instructed to review and resubmit forecasts by Friday, 29 June. Mayo goes overseas on business and does not return until the afternoon of 3 July.

28 June 2001
(share price 251p)
Simpson and chairman Sir Roger Hurn decide to call a board meeting for 4pm on Wednesday, 4 July, in light of the possibility of having to issue a trading statement.

30 June 2001
On Saturday, Hare's review of forecasts points to even greater variance from original expectations as sales forecasts are now £1bn less than they were four days ago. Forecasts now point to H1 operating loss of £121m and full-year operating profit of just £272m. Hare continues to review forecasts, which he believes still contain some flaws, but drafts a trading statement and circulates it via email on Sunday, 1 July. Disposal of Marconi Medical Systems Inc (MMSI), which had been up for sale since April 2001, is likely to be agreed imminently with a buyer.

2 July 2001
(share price 263p)
Simpson and Hare revise forecasts and set 'target' figures, showing H1 at break-even and full-year operating profit of £400m at about 2pm. These figures are used in 4 July trading statement. "It was at this point that Marconi changed its expectation and that the obligation to notify a change of expectation without delay arose," says the FSA. Chairman Hurn is advised, but Simpson and Hare want to consult Mayo, who is still out the country but is not contacted by phone.

The board meeting is not brought forward from 4 July as Hurn and Simpson want to do further work on the figures, prepare for analysts' questions and consult with Mayo. The FSA does not accept that it was necessary to wait for Mayo's return before taking other steps to issue a prompt trading statement.

Hurn and Simpson also want to wait and receive June flash figures due on the morning of 4 July. The FSA "does not accept that the flash figures were necessary to the release of a trading statement" and says the board meeting could and should have been rescheduled to the afternoon of 3 July. Further, it says the work on the figures largely amounted to reconciliation with previous forecasts and did not justify any delay. The flash figures due on 4 July are sourced from the same divisions that provided revised sales forecasts on 29 June and so were "very unlikely to be material to the making of the trading statement", says the FSA.

4 July 2001
(shares suspended at 245p)
Disposal of MMSI is agreed in the early hours and, as a Class 2 disposal, is announced at 7.03am, prior to the opening of the market. But with a trading statement due later that afternoon, a false market would be created for several hours so Marconi asks for suspension of its shares and issues an announcement that a trading statement will be released shortly. "Suspension of the listing of its securities does not suspend the obligations of a listed company under the Listing Rules," says the FSA. The trading statement is issued at 6.53pm, after the market has closed, and the share listing is restored. The FSA says a statement should have been made, at the latest, by the afternoon of 3 July and, as a result, Marconi has breached Rule 9.2(c) of the Listing Rules.

5 July 2001
(share price 112.5p)
More than 500 million Marconi shares trade on the London Stock Exchange – almost 30 times the volume of Tuesday, 3 July – and the shares fall from 245p to 112.5p.

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