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ce Policy Unit

10 DOWNING STREET

From the Private Secretary

6 December 1984

Unipart

The Prime Minister has seen your letter to David Peretz of 4 December. She is prepared to agree to the acquisition of MDC by Unipart in preparation for early privatisation but she queries whether this is best done by acquiring RCH rather than by buying MDC from a receiver. She would like this alternative to be examined seriously.

BF | She has noted that privatisation of Unipart is planned for mid-1985. She believes that this should be the very latest date and that concrete steps should be taken now to start preparations for disposal, such as the drafting of documents and the resolution of the main issues outstanding, eg the size of BL's residual shareholding, if any, and the handling of sale proceeds. She would be grateful for a report in the new year on the timetable for the various steps in the disposal.

I am copying this letter to David Peretz (Treasury) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss Ruth Thompson,
Department of Trade and Industry

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MR TURNBULL

5 December 1984

UNIPART

BL wish to purchase an effectively bankrupt retail car parts chain (MDC) for £1. They will need up to £25 million to recapitalise the business. If Unipart were in the private sector this acquisition would make considerable commercial sense: it would distance them further from Austin Rover and secure additional outlets for Unipart's 'all makes' range. It could also save some jobs.

For this further nationalisation DTI propose that the agreed mid-1985 target for the Unipart sale should be converted into a binding understanding to a sale by end June 1985 provided markets do not deteriorate. This is manifestly inadequate and demonstrates the worth of BL promises.

We should not accept this: there are bidders around for Unipart but they have been reluctant to proceed without BL encouragement. It does however prove that the company could be quickly sold if the will is there.

DTI and Treasury think that the commitment to June a significant improvement as the mid-1985 target was - yet again - slipping. But why can taking on the extra complications of MDC make even that date more achievable? Surely it can only cause more delay. If one sells it quickly - a placement by end-March 1985 is possible - these problems will not have manifested themselves and there will be no time for BL to have found other excuses. With BL a bird in the hand is worth a whole flock in the bush.

Achievement of the March deadline would require the key contract with Austin Rover to be finalised in January (they have already spent 18 months on this) such that tender documents can be issued to interested merchant banks by end-

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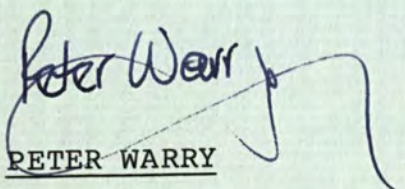
January. This would only include provisional financial results for 1984 and final audited figures would be sent out in February. To avoid accusations of a rushed sale we would need to give the banks two months to make their offers which implies a sale date of end-March. DTI would apparently have difficulty appointing their own merchant bank advisers consistent with this timetable but this surely can be overcome with some political will.

We must also decide who should get the proceeds of the sale; and what, if any, shareholding BL should retain (there are strong BL and City arguments for leaving them, say, 25%). If we can get the commitment to the sale date now, then these points can be considered before the tender documents are issued at end-January. The Government could also reserve its position to opt for a flotation (which would defer a sale) until then.

We therefore recommend the Prime Minister endorse the acquisition proposal but on the following terms:

1. BL agree to finalise the contract with Austin Rover and put out provisional tender documents by end-January so as to complete the placement by end-March.
2. Government will enter into discussions with BL to determine what shareholding (if any) should be retained by BL and how the proceeds of the sale should be handled.

If BL cannot accept these conditions then one must doubt their commitment to privatisation. And given their track record we would then strongly suggest that the acquisition of MDC is only likely to defer privatisation further.


PETER WARRY



Unipart file

10 DOWNING STREET

From the Private Secretary

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Prime Minister

Unipart want to make a further acquisition before privatisation.

Treasury agree provided BL accept commitment to date no later than mid 1985. They also agree that placement rather than flotation is best method.

Policy Unit believe privatisation could be achieved even earlier.

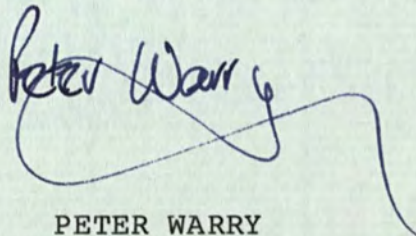
Agree the acquisition provided BL start work now on preparations for disposal, including documents, BL residual shareholding, and handling of sale proceeds?

This is costing / 20-25^m AT 5/12
Unipart would pick it up and more
cheaply for a review not

MR TURNBULL5 December 1985AUSTIN ROVER

DTI have bought the BL official line on the proposed board changes. They are wrong on industrial grounds and almost certainly equally wrong on political ones as well.

However, we cannot hope to run BL from No 10 through the DTI. We have put them on notice on the issue and regrettably I think we should let the matter rest there.

A handwritten signature in blue ink that reads "Peter Warry". The signature is stylized with a large, sweeping flourish that loops back under the name.

PETER WARRY

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PS/
Secretary of State for Trade and Industry

4 December 1984

David Peretz Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear David,

UNIPART

The BL Board are seeking the Government's approval of the acquisition of Unipart of R C Hartley (Holdings) Ltd (RCH), a company owning a nationwide chain of retail vehicle accessory shops trading as Motorists' Discount Centres (MDC).

2 Treasury and No.10 Policy Unit officials have details of this proposed acquisition. It can be summarised as follows. RCH was a very profitable company until 1981-2. In 1983, a combination of over-rapid expansion, a lack of strategic direction and adverse trading conditions led to a sharp reduction of profits in 1982-3. Although Mr Hartley, the owner, then reassumed personal control, the company made a loss in 1983-4. During 1984 the business has continued to operate at a loss.

3 The company's borrowings (from the National Westminster Bank) now stand at £11m, and trade creditors at £13m. The high level of trade creditors, coupled with the bank's reluctance to lend any more, means that the business is unable to obtain sufficient new credit to finance adequate stock levels; and it consequently cannot generate cash to reduce its deficit. As a result, the bank is on the verge of appointing a receiver in the absence of a credible bid to rescue the company.

4 Unipart believe that they have the resources to turn MDC round to profit again. They say they could restock the shops within a week or so, eliminating the stock shortage which has been the main weakness in current months. In the slightly longer term, they believe they could use point of sale microcomputers to link the MDC shops into Unipart's extensive distribution network. As a result, they believe that although the acquisition would reduce Unipart's trading profits by £0.7m in 1985, they would improve by £2.8m in 1986 and £4.3m in 1987 and subsequent years. They believe that the acquisition would strengthen Unipart prior to privatisation by

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reducing its dependence on Austin Rover, because MDC shops are aimed particularly at the DIY sector, and would therefore provide additional and secure outlets for Unipart's range of "all-makes" parts.

5 Unipart propose to pay only a nominal £1 for the MDC business. It would, however, be necessary to meet the outstanding obligations of the business, and they estimate the finance required, at between £21m and £25m. The basis of the present proposals is that the acquisition is conditional on an independent accountant's report that the business has a positive net worth.

6 Unipart are impressed by the personal qualities of Mr Hartley and propose to retain him as Managing Director. They also propose that Mr Hartley should hold deferred shares which would convert to 10% of the equity in MDC once trading profits reached £3m p.a. and the return on assets reached 15%. There would be provision for Unipart to buy out Mr Hartley, at a formula-determined price, at the request of either.

7 We need to consider what the Government's response to the BL Board's request should be. The Board clearly thinks that Unipart can start to turn MDC round quickly. That might well make Unipart more rather than less attractive to the market, despite the short-term adverse effect on profits - especially if there was to be a placement, where the institutions involved would be able to take a longer view; and, although it would be wrong to rule out a flotation, the placement seems the more likely route to privatisation at the moment. The IDU will be receiving copies of RCH's latest management accounts and also a report by an independent accountant on the net worth of the business. If the IDU's subsequent report concludes that BL's proposals are commercially sound, I believe that Government approval of Unipart's acquisition of MDC should be given, subject to satisfactory assurances on the timetable for the privatisation of Unipart.

8 On the privatisation of Unipart, the BL Board have already agreed to a target of mid-1985. We strongly believe that the Government should not agree to anything which might delay that. It would be unacceptable for this acquisition to be used as an excuse for mid-1985 to slip to late-1985. As a condition of approval, we therefore propose that the BL Board should give a formal commitment to privatise Unipart subject only to the possibility that market conditions might deteriorate so much that Ministers accept that privatisation should be deferred. The Board should formally accept the binding nature of this target, and should record their understanding that mid-1985 means not later than the end of June.

9 RCH's bankers are on the verge of appointing a receiver to the company. Because of Unipart's interest, they have agreed to stay



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their hand temporarily; but they will not wait long. I should therefore be grateful if you would let me know whether you are content with what I propose by Thursday 6 December.

10 I am sending copies of this letter to Andrew Turnbull at No.10 and Richard Hatfield.

*Yours ever,
Ruth*

RUTH THOMPSON
Private Secretary

-4 DEC 1984

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