Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
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12 March 1986

D R G Andrews Esq CBE
Gainford
Mill Lane
GERRARDS CROSS
Bucks
SL9 8BA

PM saw today 13/3.

DRW

Dear Mr. Andrews

Thank you for your letter of 3 March 1986 about the Land Rover management Group's offer to acquire the Land Rover group of businesses. I am replying also on behalf of my Ministerial colleagues here to whom you have written similarly, and to your letter of 22 January to the Prime Minister, to which a reply is well overdue, but was overtaken by the various turns of events with which you will be familiar.

I was very pleased to have the opportunity to meet you and your Schroders Ventures colleagues on 10 March, and to discuss your proposition. I am also grateful for the speed with which you sent in the useful supplementary information in Mr Moulton's letter of 10 March. As you know, we and BL and our advisors are assessing the situation as rapidly as we can, with a view to an early decision, and we are glad of your support for the view that that is needed. My colleagues and I are determined to seek the best outcome, taking account of the interests of all the businesses involved and the paramount need to maximize, in the medium term and beyond, UK production and employment in the commercial vehicle industry and in those depending on it.

Thank you again for coming to see me earlier in the week.

Yours sincerely,

Paul Channon

PAUL CHANNON

JF3AEB

Ind Pol: BL Pt 10

CF

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10 DOWNING STREET

From the Private Secretary

11 March 1986

We discussed the outstanding letters to Mr. David Andrews of Land Rover.

The Prime Minister had not in fact yet signed her reply to the letter from Mr. Andrews of 3 March. I suggest that your Secretary of State might reply to this, together with the letter from Mr. Andrews of 22 January.

BF

David Norgrove

Miss Catherine Bradley,
Department of Trade and Industry.

MICHAEL   c.c. Mr Norgrove

Michael Grylls telephoned to say he had just come from a well-attended meeting of the Trade and Industry Backbench Committee where they saw representatives of the Land Rover Management Buyout Consortium.

Great concern was expressed because David Andrews, Chairman of Land Rover Group, had written to the Prime Minister on 18th January (and the letter was delivered by hand), to ask to be allowed to proceed with preparing the management buyout offer which was being delayed by the BL Board. He has not received a reply.

I have spoken to David Norgrove about this. But I think you should ask David what is the position.

Bowen Wells also rang on the same matter.

(Michael Grylls would like to talk to you about this 735 6297)

SHANA
11.3.86

Conservative Research Department

32 Smith Square Westminster SW1P 3HH Telephone 01-222 9511

Director: ROBIN HARRIS

CONSERVATIVE TRADE AND INDUSTRY COMMITTEE CONFIDENTIAL

Tuesday, 11th March 1986

Chairman: Michael Grylls

Speakers: David Andrews, representing the Land Rover management buy-out team plus colleagues

25 members present

Mr Andrews stated that the aim of the management buy-out option was to secure Land Rover's independence and financial viability. It was important that control should remain in the UK. A management buy-out would have three main advantages. It would build on established businesses. It would maintain the link with ARG, worth £20m a year to ARG (Land Rover was the biggest customer for ARG engines and they used ARG sales companies in Europe) Third, it would continue its franchise linkage with Leyland trucks.

Turning to the company's profitability, Mr Andrews said that Land Rover itself was on the turn. There had been a major rationalisation. The most recent half-year results showed a profit of £5.7m (up on the 1984 result of £2m). Sales in 1985 increased by 26 per cent and for the first time exceeded £500m. Land Rover dominated the UK four wheel drive market despite a strong Japanese challenge.

The company sold in most markets throughout the world. The USA was now a prime target for Range Rover which would be launched in 1987. They would be setting up a wholly owned company with 50-60 dealers concentrating on high income groups. Progress was being made and the company had had a good reception at the New Orleans Dealer Convention in February.

The 90 and 110 models had been introduced and were now firmly established. They had survived the MOD trials and Land Rover was seen as an acceptable producer for overseas markets. Range Rover product development was continuing. It occupied a unique niche and was experiencing sales increases of the order of 10-15 per cent a year.

As regarded the financial viability of the management buy-out option, Mr Andrews said that the demanding task of putting together a package in such a short space of time was a measure of confidence in it, confidence shared by four major institutions and a bank. A flotation was not feasible now. The aim would be to float - possibly in one or two years' time. Mr Andrews concluded by saying that he saw the need for an early decision, whichever way it went. The company was already begining to suffer in the market place would be damaged further if there were delays.

Mr John Ward asked why Land Rover did not have a bigger dealer network and why the company had not been successful in the past. Replying to the second question, Mr Andrews said BL had had money problems. In the 'seventies attention had been concentrated on cars. Furthermore during that period, the US safety and emission rules were subject to much change and the company did not have the engineering capacity to deal with this. It was a cause for hesitation.

Mr Tony Gilroy, managing director of Land Rover, said that the company had commissioned two independent market research reports on the US market. These, together with other assessments, showed the need to be selective about dealers. In America, once a franchise had been given, it was for life. It was expensive to buy dealers out, as Jaguar was now finding. The company had a good response with three good candidates for each franchise. Indeed the chairman of Porsche had said that Land Rover's was the right approach.

Mr Robert Atkins commented that one or two banks had suggested that following a management buy-out, Land Rover would last two or three years before needing to be bailed out. He asked about the possibility of a 49/51 split with GM and where Multipart fitted in. Mr John Moulton of Schroders Ventures, said that he had looked at the company in detail. If he had had to make a decision based on information in the press, he would not have gone ahead. But his team had examined a mass of information. As a result, he believed that the company could generate cash to reduce borrowings and fund all capital expenditure outlined in the corporate plan. This was based on the current use of cash. He felt that more could be squeezed out of the company when it was in the private sector. Under his plans, at flotation the company would have a further £50m and would be debtfree for the forseeable future, i.e. until the 1990s. Mr Moulton stressed that the company would be 'all right'.

Replying to the suggestion of a 49-51 split between GM and the management consortium, Mr Andrews said that this would defeat one of the group's primary objectives, namely to retain UK control. Furthermore he believed that GM only wanted Land Rover for its profits and its cashflow. He was not clear how the proposal as mooted would fulfil either the group's or GM's aims. He suspected GM's motives over Freight Rover. On Multipart, there would be a difficult practical problem if the bus business was hived off. At the moment no-one was working on a solution to this problem.

Mr John Taylor declared his support for the management's package but asked whether it had the goodwill of employees. He understood that the unions were hostile to GM, neutral on the management initiative whilst preferring the status quo. Mr Andrews said that he was not in a position to test opinion in a formal sense and Mr Gilroy said that it was difficult to get to know the views of the workforce. The trade unions were on the horns of a dilemma as the Labour Party wanted Land Rover to remain part of a nationalised BL. Mr George Simpson, managing director of Freight Rover, said that for his employees the GM option meant the dole. They were giving their wholehearted support.

Mr Tony Marlow asked four questions concerning the mix of risk capital as opposed to secured loans in the proposals, productivity, Land Rover's markets and the link between Land Rover's profitability and the dollar. Mr Moulton said that he could not divulge details of the financing of the package at Hill Samuel's insistence. He did say that the company would have more equity than before. Hill Samuel's decision was unfair and had made life more difficult.

Mr Gilroy said that no money had gone into Land Rover during the period 1971 to 1983 and none had gone into Range Rover from 1970 to 1981. Market share had declined. Now it was increasing, and was at its highest level since 1975. These increases were being matched by other succeses around the world. He criticized GM for suggesting that Range Rover could be sold through its truck outlets, and believed that Land Rover's approach was more appropriate than GM's.

Last year, twelve factories had been closed and for two successive years productivity had grown by 13 per cent. Despite the closures, only 50 man weeks had been lost due to industrial relations problems. The company's current exposure to the dollar was small. They could export at £1=$2. Nevertheless, it was not critical to the survival of the company. Mr George Simpson said that his company had raised its UK market share from 8 per cent in 1984 to 14 per cent in 1985. Productivity had increased by 60-70 per cent whilst Freight Rover had increased the number of people it employed.

Mr Anthony Beaumont-Dark asked about the possibility of Aa GM minority share holding which what he believed would be a spoiling tactic. Mr Andrews said that he doubted why GM had to buy Leyland Trucks if they had all the resources they appeared to have. They wanted Land Rover as a 'cash cow'. Mr Moulton, referring to the suggestion of a GM minority stake, said that there would be a practical problem to get GM to agree within the necessary timescale. Negotiations would be extremely complex and on GM's part they would require too much time. Mr Beaumont-Dark said that it was important for the management team to stress the benefits of being individualistic and said that they had many friends.

Mr Robert Adley spoke of the support of companies involved in distributing Land Rovers for the buy-out option. He personally wished them well. Mr Channon had talked of packs of information being made available to interested parties. It would appear that the managment team had not received co-operation. Had they been obstructed? He felt it was important to allay the political fears amongst colleagues who thought that they would be taking a chance with a 'bunch of nice chaps' as against GM. He would support them wholeheartedly. Meanwhile Mr Andrews and his team should do everything they could to say whether GM had had an unfair advantage.

Mr Moulton stressed that it was unusual to be asked to put together a bid in a couple of weeks. The Hill Samuel pack could have been better but he understood that they wanted all participants to have the same information. He wouldn't put it any harder than that. Instead the major consideration had been the time factor.

Mr Timothy Rathbone argued that the choice was not, as Mr Andrews had said, about Britishness but between a known and successful company and unknown and potentially successful team. He believed that politicians would be attracted to the former. He thought that Land Rover's US dealer network of 50-60 was an admirable but David-like approach. Mr Andrews said that the position on US distribution had been arrived at after extensive research. It would not be the final shape or size of the network but it was important that the dealers made money from it. He would hope to build on that initial approach. It was important that Land Rover did not diffuse its effects on day one.

Mr Rathbone suggested that a better approach might be to go state by state. Whilst he could accept that Land Rover was doing the right thing in its present circumstances. GM would radically alter that. Surely with a strong link with GM, the advice would be different.

Mr Andrews replied that General Motors had previously agreed with the approach that Land Rover had embarked upon. Mr Gilroy spoke of Land Rover's high market perception in the US. They could sell 3000 units a year which would give each dealer 50 a year, the same as for the UK. Mr Simpson said that his management had displaced GM's in the marketplace with higher local content, greater profitability and better industrial relations. This reflected better management.

Mr Ken Warren suggested that the Treasury would favour the GM bid if it £100 m higher then the management buy-out option and asked about the suggestions that the management had been stifled in December. Who had done this? Mr Andrews said he had approached the BL chairman who had put it to the board. Mr Warren suggested that he should have asked the Secretary of State. Mr Andrews said that he had written to a senior minister in January but had received no reply. He felt that these matters were sensitive. On the question of a higher GM bid, he pointed out the continuing £10m contribution to ARG.

Mr Robert Adley said it was a pity that British companies couldn't emulate Saab Volvo who whilst having a small domestic market were very successful. Mr Andrews said he was confident that his team could do the same thing for Land Rover.

Rupert Darwall
12th March 1986