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26/8/88
cc B/CP

PRIME MINISTER

LAND ROVER/FREIGHT ROVER

... BL have now completed their assessment of the four competing bids for Land Rover/Freight Rover and the BL Board meets tomorrow to consider issues. I enclose a summary of the main financial elements of each proposal. For ease of comparison a value of £30m has been added to three bids: this allows for the fact that only the fourth, the Schrodgers/MB0 proposal, includes a bid for Freight Rover.

2 BL have also considered the relative merits of retaining Land Rover/Freight Rover with a view to later flotation or a trade sale. Of most significance these cover the benefits to BL's profit figures of the rationalisation of Land Rover facilities and the entry into the US market. On the basis outlined above BL estimates that in net present value terms Land Rover Limited might be floated in mid-1988 for around £200m.

3 Sir Austin Bide has made private soundings of his BL Board colleagues. He is very confident that the Board will recommend keeping Land Rover within BL and preparing the company for later flotation so that its full value is realised and the benefits flow back to BL (and indirectly to HMG).

4 If we accept that view we will face political criticism for not taking that decision some months ago thereby avoiding prolonged, damaging uncertainties for the businesses

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involved. We should however be able to mount a respectable defence against this - not least the need to give full consideration to the GM proposals and to test the market when other interested parties emerged. Having carefully examined the options, it is now the Board's firm commercial judgment that BL's best interests would be served by retaining the businesses and preparing them for later privatisation by other means.

5 I expect the Board to reach only a preliminary view tomorrow. This will allow colleagues to have the opportunity to comment before final decisions are taken. However, if we conclude that the Board's chosen course is the right one, I believe there would be strong advantages in an announcement this week - before the BL view leaks, as it almost inevitably will, and we are faced, yet again, with a series of damaging Parliamentary and public debates. This would point to a Statement on Thursday, 24 April.

6 I am copying this minute and its attachment to Willie Whitelaw, Nigel Lawson, Norman Tebbit and John Wakeham. I should welcome your own and colleagues urgent views on how we should proceed.

John Mogg

PAUL CHANNON

21 April 1986

(Approved by the Secretary of State and signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

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Proposal from	Schroder Ventures (on behalf of a consortium of institutional investors and the management)	Lonrho Plc	JC Bamford Excavators Limited	Aveling Barford Limited and others
Offer for	Land Rover, Freight Rover, their related parts businesses and certain overseas companies.	Land Rover, its parts business and certain overseas companies.	Land Rover, its parts business and certain overseas companies. Willing to consider the inclusion of Freight Rover.	Land Rover, its parts business and certain overseas companies.
Nominal value of offer or proposal	£153 million	£117 million	Claimed to be £150 million to £175 million plus a further £25 million if Freight Rover included.	Net working capital plus a royalty on Land Rover and Range Rover sales for the next 3 years (but extending to 10 years if Santana licence terminated).
Cash element and financial liabilities to be taken over	£113 million	£117 million	£40 million	£68 million (estimated)
Non-cash or deferred element (nominal)	£40 million possibly rising to £53 million	None	Possibly £110 million to £135 million. Additional £25 million if Freight Rover included.	Possibly £17 million
Form of non-cash element	Convertible unsecured loan stock, interest free for 3 years.	-	Profit related payments.	Royalty on worldwide sales of Land Rover and Range Rover units.
Estimated present value of offer (see 6.1)	£143 million	£147 million*	£120 million*	£116 million*
* Adjusted for Freight Rover, with an assumed value to BL of £30 million				
Business Plans	- Business to be conducted broadly in accordance with 1986 Corporate Plan.	- Land Rover to be expanded within Lonrho. - Possible involvement of minority technical partner.	- Land Rover to be run as a separate entity within the JCB Group.	- Range Rover business will either be separately disposed of or floated. - Particular strengths in Far East, China and South America claimed.
Other	- Planned flotation within 2 years when an additional £50 million would be raised. - Arrangements for employees to acquire up to 10% of the ordinary share capital of the new holding company.	- Offer conditional on net assets being not less than £115 million.	- Employee profit sharing scheme to be considered but dependent on productivity.	- Purchaser not specifically identified - Aveling Barford Limited would be a minority shareholder.