

# LONRHO

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The Prime Minister  
10 Downing Street  
London, S.W.1.

22nd April, 1986

*Dear Prime Minister,*

JCB have placed advertisements in certain newspapers concerning the validity of their approach for Land Rover.

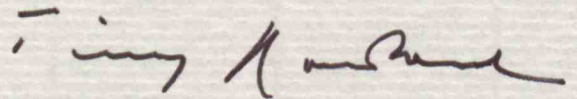
We were surprised at certain statements made by JCB and have researched from public records the history of the company.

The facts do not appear to support the statements made by the company (see attached).

In addition, JCB's approach to Land Rover appears to be as a sister equipment to its construction machinery when in reality the potential for Land Rover is greatest in the related passenger vehicle market in which JCB has no experience.

Land Rover, if it is to be sold into 'private hands', should, for the security of employment of the 10,000 plus employees, be sold to an organisation which has a substantial track record in all areas of motor and equipment market places - worldwide.

Yours sincerely,



R.W. Rowland

## JCB / LAND ROVER

JCB and their adviser Lazards Brothers & Co. have issued press statements and published advertisements in The Sunday Times, The Times and The Daily Telegraph claiming that JCB products are a match for the Land Rover operations of BL.

These advertisements make various claims and indirectly attacks the management buy-out proposals as having the objective of 'looking to make a quick killing from a flotation on the stock exchange'.

What is the truth behind these claims and what questions should be addressed to JCB.

### 1. IS JCB BRITISH?

The corporate holding structure of JCB is most unclear. Indeed the advertisements are declared as being placed by J.C. Bamford Excavators Ltd, not the JCB UK holding company, JCB Service Ltd. Control of J.C. Bamford Excavators Ltd is through substantially a 74 per cent holding by JCB Services Ltd in the United Kingdom and 24 per cent holding by Abigail Holdings in Luxembourg .

JCB Service Ltd is owned as to one share held by a Jersey company and 48,708 shares held by a Netherlands company, Transmission & Engineering Services Netherlands. It is not possible to establish the owners of this company which is registered at a Dutch lawyers office (see Appendix A for holding structure).

The true shareholders behind these nominee companies are deliberately obscured.

Indeed, in addition, another major company in the JCB family of companies is JCB Transmissions. This company sold to J.C. Bamford Excavators in 1983 £8.7million of product. However, for reasons which are not immediately clear, the company was acquired by a lawyer's 'off the shelf' company on 31st August 1984 and in October 1984 this company was re-registered as an unlimited company. The major attraction according to Palmers Company Law manual of unlimited companies is that they are not required to publish their annual accounts.

For a company as clearly in the public eye, such as Land Rover, employing over 10,000 people, it is disturbing that JCB have pursued a lack of frankness about their affairs and to the company's true ownership, foreign or British.

This aspect requires clarification as any undertaking and suggested 'gold share' arrangements required by Government, need to be enforceable on identifiable persons.

2. DO JCB AND LAND ROVER FIT TOGETHER?

JCB Service (the UK holding company) had a turnover in the year to December 1983 of £131 million (the 1984 accounts are overdue under the Companies Act for filing). Land Rover's turnover in 1984 was over three times larger at £415million.

Land Rover employees in 1984 were nearly nine times larger at 10,897 (JCB Service employed 1257).

Land Rover assets employed in 1984 were approximately £270million, three times larger than JCB Service assets of £86million in 1983.

Land Rover exports approximately 50 per cent of its production, whereas the JCB accounts for 1983 show that close to 67 per cent of JCB's turnover is sold in the UK market. In fact, Land Rover exports at over £200million are nearly five times as large as JCB's.

JCB appear to be a small puppy with a large appetite.

3. HAS JCB MADE A LOSS IN ITS 40 YEARS OF TRADING?

The JCB UK holding company, JCB Service Ltd, in 1980 made only £75,267 on a turnover of £109.8million. However, the accounts revealed a charge of £725,320 described in the notes as a provision for losses in subsidiaries not consolidated.

If these subsidiaries had been consolidated the JCB Service would have shown a loss of £650,000.

Indeed, J.C. Bamford Excavators Ltd, in which company's name the advert was placed, reported a loss before tax of £2.9million in 1980.

This statement made by Lazards shows a lack of basic research underlying the various claims made by the advertisement.

4. JCB HAVE MADE A PROFIT OF £25MILLION IN 1985

Unfortunately, the 1985 accounts have not been filed with Companies House, nor indeed have the 1984 accounts been filed.

5. JCB DOESN'T HAVE ANY NET BORROWINGS

JCB Service owns 26 per cent of JCB Credit Ltd., the balance being held by Lombard & Ulster Ltd, a subsidiary of National Westminster Bank Plc. This company provides instalment credit facilities for JCB customers. In doing so allowing JCB to offer credit without having to find the finance from its own resources.

The borrowing on JCB Credit Ltd at September 1985 was £33.8million. This related debt is kept off the balance sheet of JCB Service, because this company is financially treated as an investment and not a subsidiary.

Unfortunately, the up to date position of overall JCB related debt cannot be calculated because of the failure by JCB to file current accounts. However, based on the latest available information the JCB associated debt would appear as follows:-

JCB Service (UK holding company) December 1983

Cash	£21.0million
	-----
Debt	
Overdraft	(5.0)million
Mortgage	(1.1)million
	<u>(6.1)million</u>
	-----
<u>Net JCB Service Ltd.</u>	
<u>Cash in Hand</u>	£14.9million
	-----
JCB Credit Ltd debt	£(33.8)million
September 1985	
JCB 'Group' net debt	£18.9million
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In reality, therefore, the on and off balance sheet finance would indicate that JCB does have net borrowings.

#### 6. JCB WORLD SHARE IS GROWING FAST

Whereas the world market place for 4x4 vehicles has shown dramatic increase over the last few years, the Economist in its article of November 6th, 1985 showed that the world backhoe-loader market - the single most important product of JCB (approximately 6,000 from total unit sales of equipment of 8,500) - has fallen 40 per cent. In 1979 nearly 50,000 units were sold by all manufacturers, falling to approximately 33,000 units in 1984.

JCB is of course fortunate to derive some protection in its important European markets (88 per cent of total JCB sales in 1983) by the ruling of the European Commission imposing additional import duty of 33 per cent on five Japanese importing companies.

The Japanese had increased their market share of the British market over three years from 6.5 per cent to 42 per cent.

No such similar protection has assisted Land Rover .

#### 7. JCB IS STRONG IN THE USA

Certainly JCB has invested over a long period of time extensive marketing efforts in penetrating the USA market. JCB is reported to have lost £12million in the United States up to 1982.

The strength of the dollar during 1984 and 1985 has assisted the price effectiveness of JCB equipment in the American market, compared with the difficulties the company experienced when the pound was at \$2.40.

It is during the period of American dollar strength relative to Sterling that JCB's share of American market has increased from 2.6 per cent to a reported 8 per cent.

8. JCB TAKES OVER 50 PER CENT OF THE UK MARKET (AND HAS DONE SO FOR 22 YEARS)

Prior to the Japanese being handicapped in the UK market place, this competition had forced out JCB other competitors, Ruston Bucyrus now out of production, Hymac going bankrupt (subsequently rescued), and Priestman reducing substantially its operations. Subsequently the lack of competition from local or Japanese manufacturers has assisted JCB securing a major share of the UK market. This position follows the success of the British Manufacturers of Construction Equipment and Cranes' application to the European Commission 'pushed', according to the Financial Times of 6th August 1984, by JCB so that as the survivor they have achieved a major share of the UK market.

This action by JCB was reported to be resented by major UK buyers and as Mr. Ronald Stuart, the then president of the Construction Plant Hire Association in Britain said 'we are set against that looks like protectionism'.

9. OVER THE LAST 10 YEARS JCB'S AVERAGE RETURN ON INVESTMENT HAS BEEN 27 PER CENT PER ANNUM

Because again of the failure to file up to date Report and Accounts, it is not possible to look at the last ten years ending with December 1985.

However, looking at the last eight years of Profit before Tax as an percentage return on capital and reserves (including minority interests) (Appendix B). Only 1976 has a return higher than 27 per cent per annum and the average for the eight years was 13.7 per cent.

Indeed the last five years' average return (1979/83) was only 10.4 per cent.

In addition, the 1983 Report and Accounts notes that Land and Buildings at £26.9million are stated at cost but 'it is the view of the Board that the aggregate market value of Land Buildings has increased significantly over the net book values as shown in the Balance Sheet'.

This 'significant' increase in book value of Land and Buildings would only serve to reduce again the return on JCB's shareholders' funds.

In summary, therefore, JCB has not the record it holds out for itself, in relative terms JCB is substantially smaller than Land Rover bringing with this the particular problems of management, finance and marketing which the Land Rover scale of operations can bring.

JCB isolates the Land Rover as a rough terrain vehicle for agriculture construction with military, local authority and government markets.

Land Rover and if JCB include Freight Rover, has a significant future potential in the personal vehicle market as well as in the transport vehicle market.

JCB has no experience in these vitally important areas of Land Rover distribution. The future plans of Land Rover rely heavily on the increasing contribution from these areas of activity.

From the comparative analysis of turnover (excluding USA, because Land Rover until recently had not had suitable acceptable equipment to export to the USA) the geographic distribution of turnover is as follows:-

	1983		1985	
	J C B	Land Rover/Range Rover	J C B	Land Rover/Range Rover
	%	£000's	%	£000's
U.K.	74		28	
Europe	23		26	
Africa	1		13	
Middle East	1		10	
Other Regions	1		23	
	<u>100</u>	118,825	<u>100</u>	395,000
	---		---	
U.S.A.		<u>12,357</u>		<u>NIL</u>
		£131,182		£395,000
		-----		-----

Lonrho on the other hand has turnover in motor and vehicle distribution in 1985 of £1.1 billion. It is a distributor, a manufacturer, and it is a retailer of most vehicle marques in the world. It is one of the biggest retailers of agricultural earth moving and passenger vehicles in the UK. Also, Lonrho in continental Europe and in Africa has significant vehicle distribution. It sells worldwide over 250,000 passenger vehicles in addition to commercial vehicles.

Land Rover is well within the management strength of Lonrho.

MOTOR & EQUIPMENT DISTRIBUTION

Year	September	TURNOVER	PBT	£millions
	1985	1096.5	27.3	
	1984	989.4	24.0	
	1983	931.3	17.6	
	1982	839.3	12.7	

MANUFACTURING

1985	434.2	19.4
1984	410.8	11.2
1983	418.9	14.4
1982	410.5	12.1

Also Lonrho's overall performance has shown a substantial increase

	<u>Shareholders' Funds</u> <u>(including Minorities</u> <u>interests)</u> <u>£millions</u>	<u>PBT</u> <u>£millions</u>	<u>% Return</u>	<u>Gearing</u>	<u>Cash</u> <u>£millions</u>
1985	793.6	158.3	19.9	62%	211.3
1984	786.9	135.4	17.2	76%	125.6
1983	659.1	113.2	17.2	89%	109.4
1982	648.1	75.1	11.6	91%	56.3

Source: Lonrho Annual Report and Accounts

However, Land Rover from the analysis in this paper is demonstrated as being outside the scale of experience of the obscurely controlled JCB organisation.

22.4.86.  
TJR/MN

JCB CORPORATE HOLDING STRUCTURE

OVERSEAS

Directors  
Hogeneg (lawyer)  
Leent  
Sinterniklaas  
Antony Bamford  
Gilbert Johnson

OWNERSHIP UNKNOWN

TRANSMISSION & ENGINEERING SERVICES NETHERLANDS Bv

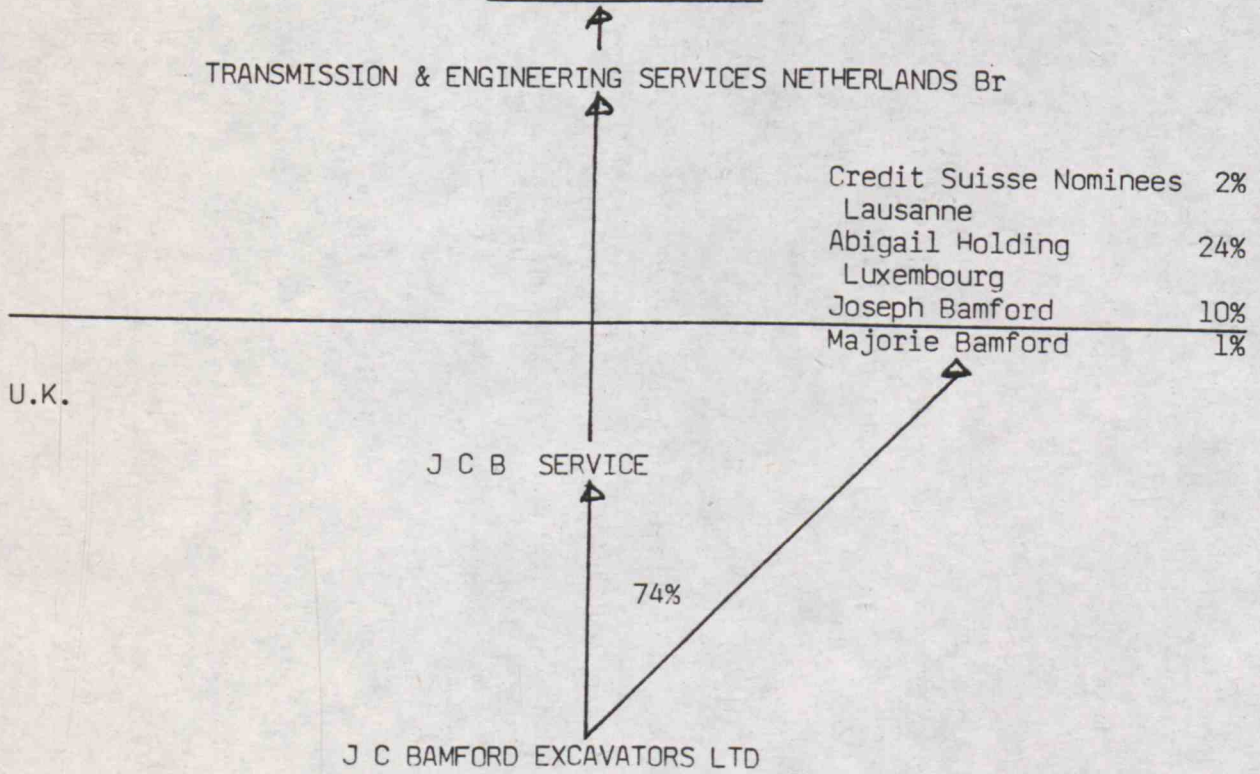
Credit Suisse Nominees Lausanne	2%
Abigail Holding Luxembourg	24%
Joseph Bamford	10%
Majorie Bamford	1%

U.K.

J C B SERVICE

74%

J C BAMFORD EXCAVATORS LTD





J C B

RETURN ON INVESTMENT

	<u>CAPITAL &amp; RESERVES</u> (incl. Minority)	<u>P.B.T.</u>	<u>% Return</u>
1983	79.7	11.3	14.2
1982	73.5	9.8	13.3
1981	<u>72.3</u>	<u>3.7 *</u>	<u>5.1</u>
Ave. 3 years 1981-83	75.2	8.3	11.0
1980	73.0	0.1 *	0.1
1979	<u>74.7</u>	<u>13.9</u>	<u>18.7</u>
Ave. 5 years 1979-83	74.7	7.8	10.4
1978	63.4	14.8	23.3
1977	47.2	10.8	22.9
1976	<u>7.3</u>	<u>2.8</u>	<u>38.4</u>
Ave. 8 years 1976-83	61.4	8.4	13.7
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\* PBT is per Accounts and excludes extraordinary items re non-consolidated subsidiaries.

- 1) Land and Buildings at December 1983 of £26.9m are stated at cost, but Directors' Report states "it is the view of the Board that the aggregate market value of Land and Buildings has increased significantly over the net book value as shown in the Balance Sheet".





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10 DOWNING STREET

*From the Private Secretary*

23 April 1986

The Prime Minister has asked me to  
acknowledge and thank you for your letter of 22  
April about JCB.

DAVID NORGROVE

R. W. Rowland, Esq.

LR