PRIME MINISTER

5 March 1986

LAND ROVER-LEYLAND SALE

The following bids have been received:

Aveling Barford:	Land Rover excluding Range Rover
Lonrho:	Land Rover
Management buy-out:	Land Rover and Freight Rover
GM:	Land Rover, Freight Rover & Leyland Trucks

All the bidders are also interested in various of the overseas subsidiaries. All the other interest in Leyland Trucks has evaporated, and unless the GM deal goes through its future (and that of Bedford) must be bleak.

GM have never formally split their £230m offer into constituent parts but indications during the negotiations suggest their price for Land Rover on its own would be around £200m. If a generous £10m is ascribed to the Truck business, this leaves £20m as the price for Freight Rover. On these assumptions, the comparison of bids is as below:

Land Rover only

		£m
1.	GM	200
2.	Lonrho	12 to 155
3.	Aveling Barford	circa 70

Land Rover plus Freight Rover

		£m
1.	GM	220
2.	Management buy-out	144*

* This includes taking over £30m of leasing commitments which GM is, conservatively, not assumed to do.

Aveling Barford and Lonrho's bids appear to be all cash whilst the management buy-out bid is £84m in cash and £30m in loans. The GM bid is £154m cash and £76m in loans.

On any realistic commercial basis the GM bid is best, and overwhelmingly so when the disposal of Leyland Trucks is also taken into account. The Annex to this paper discusses the performance of the individual BL companies and what each of the bidders will contribute.

Aveling Barford is a British company but foreign-owned in just the same way as Bedford. Lonrho is of course British but they indicate they might take 'a minority technical partner akin to the Honda/Austin Rover relationship'.

GM will maintain the British identity of Land Rover, keeping the bulk of manufacture and R&D in the UK. They are prepared to give assurances that the UK content of both existing and new models in Land Rover and Leyland Trucks will be maintained at broadly current levels. GM are also prepared to find ways of avoiding the closure of Freight Rover in the immediate future.

Conclusion

Price and employment argue strongly in favour of GM. Presentationally BL would be wise to hold further discussions with the other bidders and supply them with more information, but this should not alter their preference for GM. When BL report,Government must be ready with a propaganda campaign to explain the decision.

LEYLAND BUS

DTI intend to take a decision on Leyland Bus by the end of the month. The Laird Group have put in a sensible bid which involves taking over the bus plant of Leyland in Lancashire but not buying the ones at Lowestoft or Workington. Aveling Barford have yet to do more than express interest, Volvo have now withdrawn, and a management buy-out for the whole business seems highly improbable. Workington will therefore close with the loss of some 400 jobs but a local management buy-out of the Lowestoft plant could be possible. **The Laird bid should be progressed quickly before Leyland Bus runs up yet larger losses.**

UNIPART

The Charterhouse Japhet bid is running into difficulties with a strike at Unipart itself, the House of Lords decision on copyright, still worse problems on stock losses emerging at Edmunds Walker, and as yet no agreement from BL to paying their accounting and legal costs in the event that BL reject the Charterhouse proposal. These problems are not insuperable. The House of Lords decision damages Austin Rover who take the bulk of the profit on the spares far more than Unipart, who also gain by being able to more easily sell spares for other manufacturers' cars. **But there is no doubt that if the sale is to succeed then Charterhouse are going to need more encouragement than has been forthcoming so far.**

Peter Warry

PETER WARRY

ANNEX

LAND ROVER LTD

				£m
	1982	1983	1984	1985
Profit Before Interest	3	(14)	1	2
Profit After Interest and tax	(3)	(39)	(4)	(8)
Assets Employed	192	153	160	170
Manpower (000s)	10.1	9.5	8.9	8.1
Sales (£m)	368	306	338	395
Unit Sales: Land Rover	39.9	28.2	26.4	30.3
(000s) Range Rover	13.1	12.1	12.0	13.5

The Land Rover and Range Rover products are no longer unique. Their share of the world (open) markets have fallen from 16% in 1981 to 13% in 1985, and the decline is expected to continue. In the UK the Japanese have caused Land Rover's share to fall from just under 60% in 1981 to just over 40% today. In 1985 there were 6,741 Land Rovers sold in the UK compared to the 6,140 Japanese equivalents made by Diahatsu, Mitsubishi, Nissan, Suzuki, Subaru and Toyota.

Despite the losses Land Rover has made in each of the last four years it continues to forecast profits for future years. Latest plans are for a profit before interest of £20m in 1986 rising to £50m by the end of the decade. This is based on a forecast increase of nearly 50% in Range Rover sales over the next four years even though performance over the last four years has been static.

If Land Rover is to stem the Japanese tide and break into the US market then it will need strong financial backing and a lot of marketing muscle. Only GM can offer both. Lonrho and possibly Aveling Barford can offer financial backing, but the management buy-out can offer neither.

FREIGHT ROVER LTD

£m

	1982	1983	1984	1985
Profit Before Interest	(2)	Nil	6	7
Profit After Interest and tax	(3)	(1)	4	7
Assets Employed	18	25	28	28
Manpower (000s)	1.3	1.4	1.6	1.8
Sales (£m)	52	66	87	112
Units (000s)	13.0	15.8	17.7	18.4

Freight Rover has 14% of the British market but makes only nominal exports. If Freight Rover holds onto this share in an increasingly competitive market for the rest of the decade (as it hopes) then it will be doing very well.

Freight Rover's forward projections are considerably more modest than those for Land Rover. Profits (before interest) are forecast to peak at £10m in 1988 and then fall back to half that level by 1990. Cash flow over the period is negative because of the need to replace the existing Sherpa Van in 1989 with a new model which will involve a £70m investment (against an asset base of only £28m).

Making vans is becoming an increasingly international business where economies of scale are essential. The link up with Bedford offers the best hope of achieving this. Without such a tie-up Freight Rover's future beyond the next few years must be debatable, and especially with a management buy-out would have difficulty in funding the £70m investment in the new model.