

# Engine-maker just needed a push to restart

INNOVATION is essential in any evolving business, but it is expensive. What does a manufacturer do when there is a desperate need to upgrade its entire range of products but the money isn't there?

**The problem:** Lister-Petter is a maker of diesel engines with a history of nearly 150 years and combines two of the best-known names in that industry. Since Victorian times, Lister and Petter engines have been exported, many to countries of the former Empire, where they are still a common sight. Indeed, in India, a "Petter", a corruption of one of these brands, is the generic name for a small engine.

The company, which operates from a plant in Dursley, Gloucestershire, was part of Hawker Siddeley when this engineer was acquired by BTR, the industrial conglomerate. In 1996, as part of the unravelling of the BTR empire, it was the subject of a buyout backed by Schroder Venture Capital.

The company was badly hit by the 1998 recession in engineering. One customer alone, which used to take 225 engines a week, cut its order to just 15, giving the factory two weeks' notice. But worse, its products did not comply with forthcoming EU regulations on engine emissions, and would also have to meet the requirements of further rounds of tighter environmental legislation as these came in over the next 15 years or more.

Lister-Petter had been starved of investment under BTR, to the extent that the foundry on the Dursley site was little changed since the 1970s. In addition, most of the

**Martin Waller on an eleventh-hour rescue that made a troubled manufacturer run smoothly again**

company's competitors had moved to outsource foundry and machining work entirely to subcontractors.

But with the downturn in engineering, there were not the funds to find the £15 to £20 million it would cost to redesign and a similar sum to retool the company's seven ranges of small engines, five running on diesel and two on natural gas, to meet the new regulations.

Finally, the board, typically for a venture capital-backed operation, was drawn from all the backers, including the banks, and there were inevitable conflicts of interest arising from the different backgrounds of the various interests represented there.

**The players:** Bonnie Dean, with a background in diesel engines including a spell at one of the industry leaders, Cummins, had been brought in by Schroders as chief executive.

It became obvious to her that significant investment would be needed, and that this would require a new source of funds and a balance sheet

restructuring. In addition, cash would be needed for the closure of the casting and machining operations on the site. Given the long history of the company in the area, this would have to be handled sensitively.

"Schroders were quite sympathetic," she says, "but they didn't feel that this was something they wanted to continue going forward with. There's a very long lead time for a return in this business, and the investment needed to be made over quite a few years."

**The solution:** By late 1999 the board had decided that the best way forward was a sale, either to a trade buyer or to a financial buyer — that is, another venture capital outfit. "It was a difficult period in which to be selling the business because the entire industry was in recession. As well, the new product was not yet on the market," Dean says.

Feeling the need for independent advice, she called in Nigel Pantling, a former Schroders and Hambros merchant banker who now runs his own consultancy business. He put together a list of possible financial advisers to handle the sale, and one was duly chosen.

At the same time, work was continuing on the much-needed rationalisation at the plant.

One trade buyer finally emerged. But by 2000 negotiations for the sale, although under way, were proceeding very slowly. The buyer was itself owned by a venture capitalist that was apparently debating whether to remain in the engines business.

In September 2000 Dean and the rest of the management team had no choice but to prepare Lister-Petter for po-



**Fine-tuning:** Lister-Petter's revival was kick-started by the purchase of its site in Dursley by the regional development agency

tential receivership. "At the same time we started to look around to see if there was another solution," she says.

Help came from an unexpected quarter. The South West Regional Development Agency had expressed an interest in acquiring the Dursley site for a light industrial park. The company occupied more than half the 92 acres, the rest either unsuitable for development or zoned as greenfield. But as Lister-Petter was withdrawing from casting and machining, its land needs would be significantly less in future. In October 2000 the RDA agreed to pay £15 million for the whole site, the company retaining a 15-year lease on the limited space it needed.

"That formed the basis for us to go out and find extra funding," she says. Meanwhile,

by the end of 2001 the foundry and the machine shop had been closed, at a cost of 279 jobs, all but 11 of whom went on to find other work in the area.

In December 2000 the necessary refinancing was in place. Schroders came out almost entirely, and the management team raised £13.5 million from WestLB and Royal Bank of Scotland. But day-to-day cashflow up to then had been awesomely tight, and relied on the goodwill of suppliers and the local VAT and tax offices. Dean is proud that staff were always paid on time, but confesses: "It was a very close-run thing. The day RBS got approval for their funding was the day the banks had decided we needed to make a decision [about receivership]."

**The result:** All five new diesel engines, compliant with the current EU legislation and upgradeable to cope with further tightening of emission standards, will be coming off the production line by the end of this year, their natural gas equivalents a year later.

Lister-Petter, says Dean, is now a "much lighter, nimble vehicle" better designed to ride the downturns of a volatile world market in diesel engines. While trading inevitably suffered after September 11, March saw the start of a pick-up which appears to have continued since. The new range was on display at the engine world's trade fair, ConExpo, in Las Vegas in March.

## Engine-maker just needed a push to restart

Article by Martin Waller. Published by The Times

Page 2 of 2