

Submission to International Trade Committee Inquiry into UK Export Finance by Mechatherm International Ltd

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Organisation: Mechatherm International Ltd

Role in Organisation: Chairman and 35% shareholder

Other Positions: Chairman Midlands Division Engineering Constructors Training Board, Midlands Export Ambassador.

Background:

1. Mechatherm designs, manufactures, installs, commissions, services aluminium melting, holding and heat treatment furnaces to the aluminium industry and also services equipment for the paper industry. We take orders ranging from a few hundred pounds for spare parts to turnkey installations consisting of multi furnace installations with order values around £25 to 30million. All our products are bespoke. We have exported to over 60 countries.
2. Mechatherm has been in existence since 1972 and has won the Queens Award for Export 3 times. We export, typically, over 90% of our turnover. We have exported throughout our existence.
3. Mechatherm's turnover varies considerably due to the variable size of the orders but is typically in the region of £15 to 25million. Our shareholders funds are £1.9 million.
4. Mechatherm is a privately owned, second generation, company which was started by my Father and another Engineer in 1972 from my Fathers back bedroom. A third Engineer soon joined them. All shares are held by descendants of these 3 Engineers.
5. The industries health is heavily dependent on the performance of aluminium in the commodities market and hence is cyclical.
6. Pre Covid, we employed 80+ people with 80% of these being highly skilled Engineers.
7. Aluminium is used significantly in the aerospace, automotive and construction sectors which have all suffered massively due to Covid. Our turnover is likely to drop to 25% of pre Covid levels. Business conditions are very tough and cash flow conservation is essential to our survival.

Mechatherm's Reasons for using UKEF's products.

8. Furnace contracts in the aluminium industry vary from around £1million, for single furnaces, to £30million for multi furnace installations. Contracts outside the US typically require an advanced payment guarantee and a Performance Bond varying in the range of 10 to 20% of contract value. Our Bankers (one of the Big 4) typically require us to cash cover 70% of bonds up to the limit of our facility. Thereafter this will be 100% – assuming our Bank prepared to issue the bond. As can readily be seen, with shareholders funds of £1.9million (less in the past), funding bonds and bank guarantees has a massive adverse effect on our cash flow. Many orders have been turned down, in the past, due to our inability to fund the bonds.

9. In the past the National Bank of Egypt International (UK) Ltd provided us with far superior facilities, to our UK Banker, which enabled us to cash cover about 30% of bonds using them. They were also much more flexible than our other Bank. Indeed, up until the UKEF facility we always used the NBE (UK) Ltd to issue bonds where customers allowed the use of NBE paper. Unfortunately, they decided that, due to the 2009 recession and its ongoing effects, they would withdraw from this market. We have recently been contacted by them to say they would like us to consider using them in the future as they are back in the market. They do not have a UKEF facility currently so it is unlikely we will use them unless they can beat UKEF's offer.
10. Without the use of the NBE we would not have been able to grow the company as we could not afford to cash cover the bonds 70%.
11. With the help of UKEF's superior funding of Guarantees (up to 80%) we can accept many more orders.

Effect of the UKEF facility on Mechatherm

12. We recently completed an order in Bahrain for £28million, with UKEF funding, which we could not have taken without the use of the UKEF facility.
13. We use the UKEF facility for all our overseas business. This helps UK industry as we anticipate for every job created at Mechatherm 4 are created in the UK economy. We also use UK sources bonds now which is a further boost for the economy. It was always embarrassing to have to explain to foreign companies that we got better assistance from an Egyptian Bank than a UK bank.

UKEF Benefits we don't use but are potentially useful and should be continued with.

14. UKEF are prepared to provide finance to our customers to fund their projects. We have advised several customers of this, but they have not used the service yet. They tell us they prefer to fund the finance elsewhere. This suggests to me the offer here could be more competitive, but we have no hard evidence of this.
15. We are advised that UKEF will visit our customers abroad with us, but we have had no need of this yet.
16. We have similarly advised our UK suppliers that UKEF have funding support for them but none of our suppliers have used it we believe. It would be good to know the reasons for this if it is a common trend. We are told our Suppliers have no need of it.
17. Both services are potentially beneficial, and I know other companies use them a lot.

Bond Support Application process

18. We have used the facility over many years and initially found the process very slow, time consuming and unnecessarily complicated. Over time this message was acted on by UKEF and we find the process suitable for purpose now.
19. We find the UKEF staff very helpful and knowledgeable. They always respond in a timely fashion and keep us informed of progress.

Future products to assist Covid recovery

20. Due to the significant drop in worldwide orders, and the consequent effect on exporting companies' turnover, cashflow and balance sheet it is likely that we will be unable to fund

contracts we would have been able to in the past. A flexibility with facility limits will assist greatly here.

21. UK companies require bank guarantees and it would be good to extend the facility to fund these as well as direct exports.