FOR LEARJET, MERGER MAY BE THE ONLY ANSWER

PRESIDENT TAYLOR: "IF WE CAN GET SOME BREAKS, WE CAN TURN THE COMPANY AROUND"

JEFF HAMILTON

When William P. Lear Sr. rolled out the first small jet for business travel, in Wichita in 1963, he envisioned a new era in corporate transportation—and decades of high flying for his fledgling company. His dream didn't last long. Within four years, Lear was forced to sell out to Gates Corp. For a halcyon period that lasted until 1978, Gates Learjet Corp. dominated the market. Now it, too, has fallen on hard times. It is trying to reverse a four-year sales slump and is searching for a well-heeled rescuer.

Nine companies make business jets worldwide, and all are struggling to overcome a combined 60% downturn in unit sales since 1981. Learjet, the only one still independently owned, lost more than $40 million from operations in the seven quarters ended Sept. 30. The company delivered only 33 planes last year, down 77% from 1981. For 1985, revenues may barely top $300 million—45% below the 1981 peak. Learjet's stock price has slumped to less than 6 a share—down from 13 a share a year ago and 27 a share in 1981.

EXTRA EXPENSE? Under new company President James B. Taylor, 64, who designed the successful marketing program for the Citation jet at archrival Cessna Aircraft Co., Learjet is making changes. But progress is slow. Shareholders of many companies complain that company jets are an unnecessary expense. Former big spenders, such as oil companies, are ailing now and cutting back their fleets. Those that do buy are choosing cheaper, used planes: 89% of the 300 Learjets sold in 1985 were secondhand. "You can buy a four-year-old Learjet for $2 million, slap a little paint on it, and off you go," Taylor says. In response, Taylor cut the price of new jets by 5% last fall. The small Lear 35 now costs $2.9 million; the larger Lear 55 goes for $4.7 million.

Learjet held the lead in market share for business jet sales until it was surpassed by Cessna's Citation in 1979. The gap has widened throughout this decade. Citation accounted for 41% of sales in 1985; Learjet's total was 14%. What's more, total jet sales have declined in each of the past four years, and there are no signs of that trend reversing.

> Corporations still want company jets but find it more economical to buy them secondhand

Some of Learjet's problems are of its own making. Instead of spending research dollars on a new generation of jets, the company gambled on a risky diversification into propeller-driven planes. In 1983, under then-President Bermar S. Stillwell, Learjet joined Italian planemaker Rinaldo Piaggio in a $100 million venture to build an advanced turboprop craft. The plane was supposed to reach near-jet speeds but use 35% less fuel. The joint venture was well past the design stage when it ran into a combination of falling fuel prices and sluggish turboprop sales. Sales prospects tumbled. Strapped for cash, Learjet abandoned the project in January after spending $40 million on it.

Taylor knows better than anyone that turning Learjet around will be tough. But he's earned a reputation for launching successful programs—often against big odds. In addition to the Cessna success, Taylor was responsible for getting Canadair Ltd.'s Challenger jet program started. He took early retirement from Canadair a year ago.

PINCHING PENNIES. Since last May, when he succeeded Stillwell, Taylor has slashed the work force from 3,162 employees to 1,613, reduced inventories, and streamlined the corporate structure. "We had to stop the bleeding," he says. Taylor also has turned his attention to foreign and military markets. "The company had let its international sales deteriorate completely," he says. "There wasn't even anybody assigned to it." His effort is paying off: Last year 35% of Learjet's sales came from overseas, up from 5% in 1984. At home, Taylor is trying to persuade the Air Force to buy the 80 Lear 35s the service now leases.

Critics say, however, that these moves are too little, too late. Taylor's efforts to cut costs are hitting snags. After agonizing for four months over whether to consolidate operations at the Wichita or the Tucson Learjet plant, the board decided in January that it couldn't afford to do either.

And while Learjet is forced to operate on a penny-pinching budget, its competitors are gaining financial strength. Last year, Cessna was acquired by General Dynamics and Gulfstream Aerospace by Chrysler (BW—Sept. 30). Even more ominous, Beech Aircraft Corp.—until now mainly a turboprop maker—recently jumped into the jet market by acquiring Mitsubishi Aircraft International Inc.'s Diamond jet series. The Diamond, introduced in 1981, never sold well under Mitsubishi. But under Beech, a subsidiary of Raytheon Corp., it may get new life.

To catch up in a market increasingly dominated by titans, Learjet's best bet is to be acquired. Gates, which owns 65% of the company, says it has talked to several large defense contractors but has found no takers so far. Still, Taylor bravely insists: "If we get some breaks, we can turn the company around." If not, Taylor may finally have found a challenge he can't handle.

By Mark Ivey in Denver