



Buy
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Melrose

Strictly private and confidential



Melrose Industries PLC

Full Year Results

Twelve months to 31 December 2015

3 March 2016

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Highlights

Highlights in 2015

- Sale of Elster to Honeywell completed on 29 December 2015 for £3.3 billion, a multiple of 3.1x 2014 revenue and 14.3x 2014 headline¹ EBITDA² with a subsequent capital return of £2.4 billion made to shareholders
- On 16 March 2015, following the sale of Bridon, £200.4 million was returned to shareholders
- Brush is performing broadly in line with expectations in a tough market
- Headline¹ operating profit³ of £20.8 million (2014: £47.7 million) for the continuing Group. IFRS profit for the year of £1,408.0 million⁴ (2014: £194.7 million)
- The Board has proposed a final dividend of 2.6p per share (2014: 5.3p) rebased following the Elster disposal to reflect the resulting size of the Group
- Melrose has created £2.8 billion of total shareholder value since its inception in 2003
- For a shareholder who invested £1 in Melrose in 2005 on its first deal (acquiring McKechnie and Dynacast) and who then participated in all following deals, a net £9 of cash returns⁵ have been received in addition to still having more than £1 invested in Melrose today

1. Before exceptional costs, exceptional income and intangible asset amortisation
2. Operating profit before depreciation and amortisation
3. Continuing operations only
4. Includes continuing and discontinued operations and a profit on the disposal of Elster of £1,256.3 million
5. Assuming every fund raising and capital return was participated in since the first deal, together with dividends paid, an extra £6 would have been invested and £15 received, net £9



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Summary financial results

Income Statement

Full year to 31 December 2015

Continuing operations £m	Statutory format	Proforma ¹ 2015
Revenue	261.1	261.1
Operating profit	4.8	20.8
Operating margin %	1.8%	8.0%
Net finance costs	(35.5)	(1.8)
(Loss)/profit before tax	(30.7)	19.0
Tax credit/(charge)	14.4	(5.7)
(Loss)/profit after tax	(16.3)	13.3
Profit from discontinued operations	1,424.3	-
Profit for the period	1,408.0²	13.3

Brush
Central
LTIPs

38.5
(12.7)
(5.0)

Earnings Per Share (EPS)	Number of shares	Pence per share
Basic	145.1	9.2p
Diluted	165.8	8.0p
Dilution factor	c.13%	

9.7p³

Highlights

- The statutory Income Statement includes the results of the Brush business only but all the interest on debt including that used to finance Elster, hence the statutory results are not reflective of the underlying performance of the continuing Group nor of the Group pre the Elster disposal
- The best measure for the continuing Group is the proforma¹ Income Statement which includes the results of the Brush Group only and assumes no external debt and a continuing tax rate of 30%

Final 2015 dividend

Continuing operations £m	Proforma ¹ 2015
Revenue	261.1
Headline ² operating profit	20.8
Headline ² operating margin %	8.0%
Net finance costs	(1.8)
Profit before tax	19.0
Tax	(5.7)
Profit after tax	13.3
Proforma¹ profit for the period	13.3
<i>Basic number of shares (following share consolidation)</i>	145.1
<i>Basic Earnings Per Share (EPS)</i>	9.2p
<i>Annual dividend based on a 2.3x cover</i>	4.0p
<i>Final dividend (assuming a 65:35 split with interim)</i>	2.6p

Highlights

- Following the sale of Elster and the subsequent £2.4 billion capital return, shareholders have received £4.3 billion over the lifetime of Melrose
- Prior to any new acquisition the Group has a different shape, owning one business and carrying no debt
- Current year final dividend of 2.6p rebased to reflect the resulting size of the Group

Proforma¹ Balance Sheet

As at 31 December 2015

Continuing operations £m	Brush Group ²	Corporate	Total
Fixed assets, intangible assets and goodwill	384.7	1.2	385.9
Net working capital/accruals	62.8	(9.4)	53.4
Net cash ¹	-	54.1	54.1
Pensions and retirement benefits ³	(8.4)	-	(8.4)
Provisions	(25.7)	(4.3)	(30.0)
Current and deferred tax	(4.5)	6.7	2.2
Other	(0.3)	-	(0.3)
Net assets	408.6	48.3	456.9

Highlights

- Proforma¹ net cash of £54 million, after adjusting for the Return of Capital and £8.8 million of previously agreed contributions paid early to the UK Brush Pension Plan
- UK Brush Pension Plan is in accounting surplus and therefore the deficit is all in US

Pensions

£m	Gross liabilities	Gross assets	IAS 19 deficit
At 31 December 2014	(1,343.7)	1,125.2	(218.5)
At 29 December 2015	(1,209.4)	1,080.3	(129.1)
Sold with Elster	(848.7)	736.8	(111.9)
Percentage of IAS 19 deficit sold			87%
At 31 December 2015	(360.7)	343.5	(17.2)
Contributions paid early (post year end)	-	8.8	8.8
Proforma¹ pension balances	(360.7)	352.3	(8.4)

Pensions balances by region

December 2015



Highlights

UK:

- In surplus
- £8.8 million of previously agreed contribution paid early, increasing surplus to £10.2 million
- Reduction of liabilities in agreement with Trustees – £14 million impact in 2015
- Will be sold with Brush

US:

- Gross liabilities reduced by £43 million with only £37 million of assets surrendered in the last two years:
 - 2014 – lump sum offered to certain members – in round 1 60% accepted
 - 2015 – lump sum offered to certain members – in round 2 40% accepted
- Liabilities do not increase with inflation



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Melrose → the deals

Melrose → the deals

	 Elster	 FKI	  McKechnie / Dynacast
Acquired for	£1.8bn	£1.0bn	£0.4bn
Bolt on acquisitions	£0.1bn	-	-
Total price	£1.9bn	£1.0bn	£0.4bn
Net cash generated (after all costs)	£0.1bn	£0.4bn	£0.1bn
Sold for	£3.3bn	£1.8bn ³	£0.8bn
Total cash generated¹	£1.5bn	£1.2bn	£0.5bn
Equity multiple	2.3x	3.4x	3.0x
IRR²	33%	33%	30%
Post acquisition investment as a percentage of equity	25%	62%	51%

Highlights

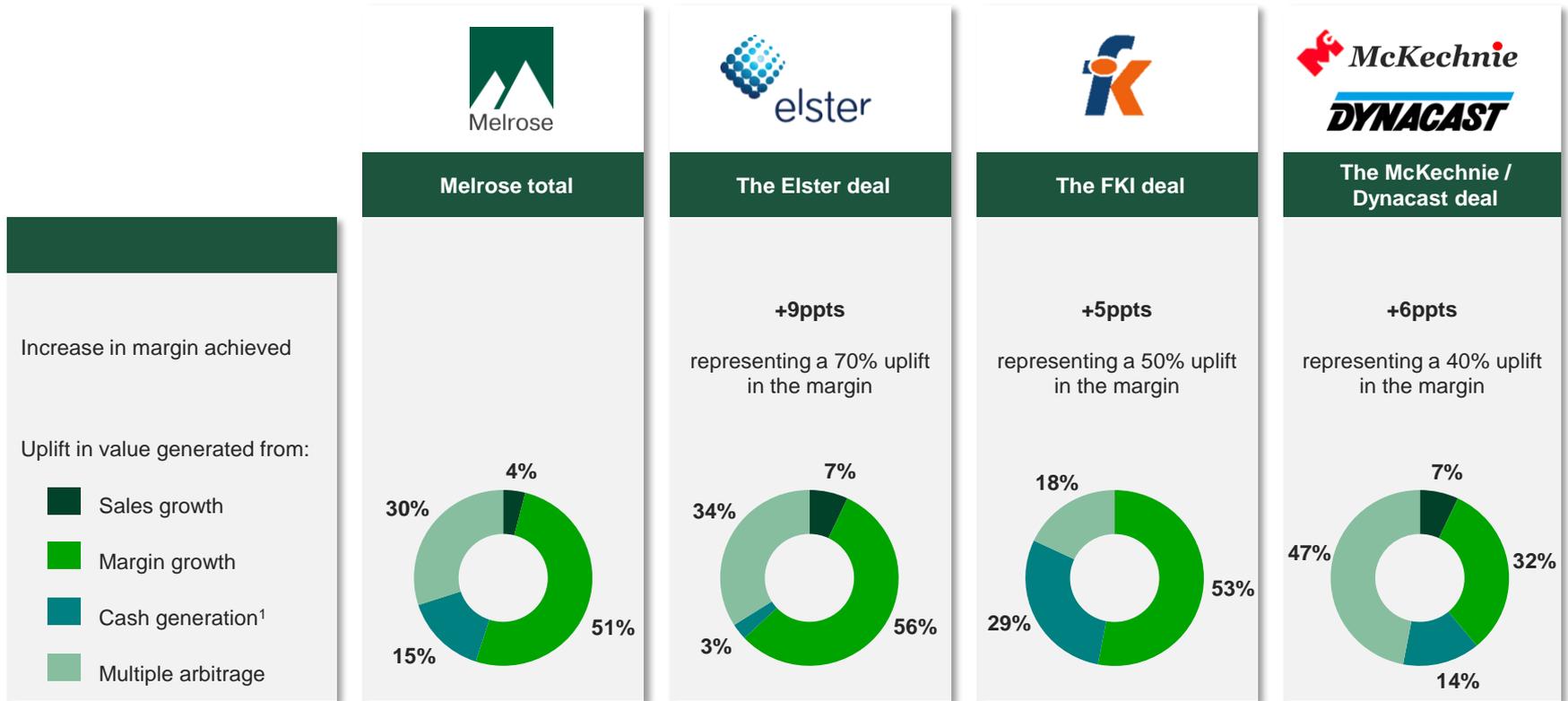
- Each deal has been successful, driven by significant post acquisition investment in the businesses through a combination of restructuring programmes and capital spend

1. Reconciliation to £2.8 billion total value generated by Melrose: equal to £1.5 billion Elster, £1.2 billion FKI, £0.5 billion McKechnie, less £0.2 billion central, less £0.2 billion other including foreign exchange

2. The average IRR for all three deals individually equals 32%. The reconciliation to the average IRR for a Melrose shareholder since 2005 of 22% is as follows: inclusion of central costs and foreign exchange (4%), dilution from the issue of Melrose incentive shares (1%), returning monies to shareholders later than deal signing (5%)

3. Includes consensus valuation of the Brush business

Melrose → operational improvement



Highlights

- Significant shareholder value generated even in a low sales growth environment through operational improvement



Brush



"the largest independent manufacturer of electrical equipment including 2 and 4-pole Turbogenerators, Power Management Systems, Transformers, Hawker Siddeley Switchgear and Harrington Diesel Generators."

www.brush.eu

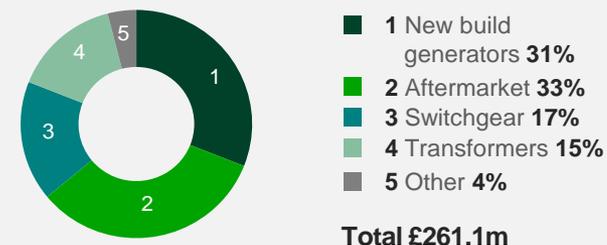
Brush – headline¹ results

£m	FY 2015	Growth ³
Revenue	261.1	-17%
Headline ¹ EBITDA ²	46.0	-33%
Headline ¹ EBITDA ² margin %	17.6%	-4.1ppts
Headline ¹ operating profit	38.5	-38%
Headline ¹ operating margin %	14.7%	-5.1ppts
<i>Order intake</i>	248.6	-6%
<i>Book to bill %</i>	95%	

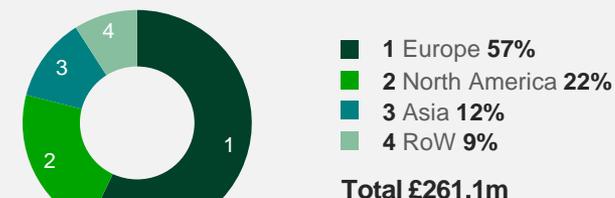
Highlights

- Brush is performing broadly in line with expectations in a tough market
- Action has been taken on the cost base and investment has been made in new product development which improves Brush's position
- China opportunity is between 18 months to 2 years behind original expectations

Revenue by product 2015



Revenue by geographical destination 2015





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Questions



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Appendix

Elster → operational improvement

£m	Elster Group ²		Gas		Electricity		Water	
	2015	Growth ³	2015	Growth ³	2015	Growth ³	2015	Growth ³
Revenue (CAGR%)	1,107.4	+2%	753.5	+6%	228.6	flat	125.3	-9%
Headline ¹ operating profit	248.1	+88%	204.1	+54%	26.6	+60%	18.8	+153%
Headline ¹ operating margin %	22.4%	+9ppts	27.1%	+8ppts	11.6%	+6ppts	15.0%	+13ppts

Highlights

- Each division of Elster was significantly improved, largely through margin growth
- Elster Group headline¹ operating margin growth includes Elster central cost savings