



Buy  
Improve  
Sell

Melrose

Strictly private and confidential



# Melrose Industries PLC

## Full Year Results

Twelve months to 31 December 2013

March 2014

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- 2 Summary financial results
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# Highlights

# Highlights<sup>1</sup> in 2013

- Group<sup>2</sup> revenue down 3%, headline<sup>3</sup> operating profit up 20% (Elster +37%, FKI -6%)
- Elster<sup>2</sup> acquisition continuing to outperform expectations
  - Headline<sup>3</sup> operating profit of £194.2 million, up by over one third on last year
  - Second half rate of growth similar to first half, despite a comparative that was already benefiting from Melrose actions
  - Headline<sup>3</sup> operating margin of 17.4% (2012: 12.4%), further growth to come
  - Profit conversion to cash of 95%
  - All three sectors, Gas, Electricity and Water, have improved profitability
- Headline<sup>3</sup> diluted earnings per share from continuing operations of 12.8p, 36% growth over 2012 proforma<sup>4</sup> headline<sup>3</sup> diluted EPS
- Net debt of £140.8 million, equal to 0.4x EBITDA<sup>5</sup>. Adjusting for the Return of Capital proforma net debt would have been £736.1 million, 2.3x EBITDA<sup>5</sup>
- Five FKI businesses sold during the year for combined proceeds of £950 million (a combined EBITDA<sup>5</sup> multiple of 9.3x) representing a more than tripling of shareholder value during the period of ownership
- Shareholder payments
  - Return of Capital of c.£600 million (47.0p per share) post year end alongside an 11 for 13 share consolidation
  - Final proposed dividend of 5.0p per share (2012: 5.0p). Full year dividend increased by 2% to 7.75p per share (2012: 7.6p)
- Following the Return of Capital the net shareholder investment in Melrose is £0.5 billion against a market cap of £3.5 billion

1. Continuing businesses only and at constant currency unless otherwise stated  
2. Assuming a full year's ownership of Elster in 2012  
3. Before exceptional costs, exceptional income and intangible asset amortisation  
4. Assumes a full year's ownership of Elster in 2012, allowing for the finance costs of the acquisition in the period Elster was not owned, using a consistent number of shares  
5. Headline<sup>3</sup> operating profit before depreciation and amortisation



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# Summary financial results

## Income performance

# Income Statement

## 2013 headline<sup>1</sup> growth<sup>2</sup>

£m	Group 2013	Growth <sup>3</sup>	Elster	Growth <sup>3</sup>	FKI	Growth
Revenue	1,732.8	-3%	1,116.3	-3%	616.5	-4%
Headline <sup>1</sup> operating profit	274.9	+20%	194.2	+37%	107.2	-6%
Headline <sup>1</sup> operating margin %	15.9%	+3.1ppts	17.4%	+5.0ppts	17.4%	-0.3ppts
Headline <sup>1</sup> profit before tax	226.1					
Headline <sup>1</sup> tax	(60.0)					
Headline <sup>1</sup> profit after tax	166.1					
Headline <sup>1</sup> diluted EPS	12.8p					
Proforma <sup>4</sup> headline <sup>1</sup> diluted EPS growth	+36%					
Order intake <sup>5</sup>	1,610.9		1,041.8		569.1	
Book to bill % <sup>5</sup>	94%		95%		92%	

## Highlights

- Growth<sup>3</sup> assumes Elster was owned for the full year in 2012. It is considered the best measure of like for like performance

## 2013 statutory format

Continuing operations £m	Headline <sup>1</sup>	Other	Total
Revenue	1,732.8	-	1,732.8
Operating profit	274.9	(55.0)	219.9
Operating margin %	15.9%	n/a	12.7%
Profit before tax	226.1	(55.0)	171.1
Tax (charge)/credit	(60.0)	10.8	(49.2)
Profit after tax	166.1	(44.2)	121.9
Profit from discontinued operations <sup>6</sup>	-	442.7	442.7
Profit for the year	166.1	398.5	564.6

## 2013 other non-headline<sup>1</sup> items

Continuing operations £m	Operating	Tax	Total
Intangible asset amortisation	(64.6)	22.6	(42.0)
Restructuring costs	(18.8)	3.1	(15.7)
Acquisition & disposal related activities	(0.5)	(1.6)	(2.1)
Fair value releases	28.9	(5.2)	23.7
Exceptional tax	-	(8.1)	(8.1)
Total other non-headline <sup>1</sup> items	(55.0)	10.8	(44.2)

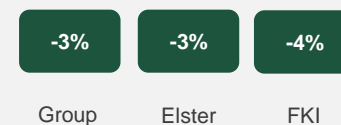
1. Before exceptional costs, exceptional income and intangible asset amortisation
2. At constant currency
3. Assuming a full year's ownership of Elster in 2012
4. Assumes a full year's ownership of Elster in 2012, allowing for the finance costs of the acquisition in the period Elster was not owned, using a consistent number of shares
5. Elster adjusted to exclude closed business units and significant one-off contracts
6. Includes gains of £400.7 million from disposals

# Revenue growth

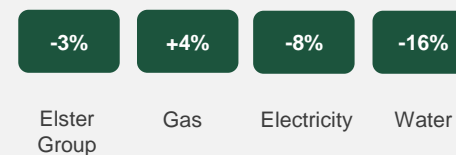
## 2013 headline<sup>1</sup> growth<sup>2</sup>

£m	Group 2013	Growth <sup>3</sup>	Elster	Growth <sup>3</sup>	FKI	Growth
<b>Revenue</b>	<b>1,732.8</b>	<b>-3%</b>	<b>1,116.3</b>	<b>-3%</b>	<b>616.5</b>	<b>-4%</b>
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<i>Order intake<sup>5</sup></i>	1,610.9		1,041.8		569.1	
<i>Book to bill %<sup>5</sup></i>	94%		95%		92%	

## Revenue growth<sup>2</sup> – by division<sup>3</sup> year on year



## Revenue growth<sup>2</sup> – Elster<sup>3</sup> year on year



## Highlights

- Group<sup>3</sup> revenue down 3% at constant currency
- Revenue growth in the Elster Gas sector
- Water revenue down 16%, exited low margin business as planned

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2. At constant currency
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5. Elster adjusted to exclude closed business units and significant one-off contracts

# Headline<sup>1</sup> operating margin

## 2013 headline<sup>1</sup> growth<sup>2</sup>

£m	Group 2013	Growth <sup>3</sup>	Elster	Growth <sup>3</sup>	FKI	Growth
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<i>Book to bill %<sup>5</sup></i>	94%		95%		92%	

## Headline<sup>1</sup> operating margin

15.9%

17.4%

17.4%

Group

Elster

FKI

## Year on year growth<sup>3</sup> in margin

+3ppts

+5ppts

flat

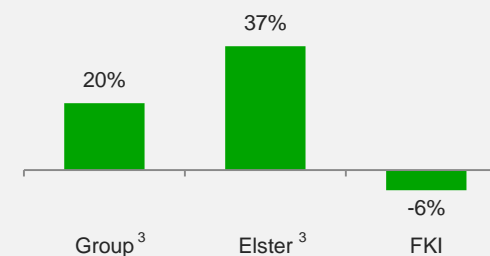
Group

Elster

FKI

## Headline<sup>1</sup> operating profit

Year on year growth



## Highlights

- Elster headline<sup>1</sup> operating margin now exceeding 17%
  - All three sectors in Elster have improved profitability
  - Elster<sup>3</sup> headline<sup>1</sup> margin up 5 percentage points in first full year of ownership
- Despite a 4% reduction in revenue in the FKI businesses, operating margin remained broadly flat

- Before exceptional costs, exceptional income and intangible asset amortisation
- At constant currency
- Assuming a full year's ownership of Elster in 2012
- Assumes a full year's ownership of Elster in 2012, allowing for the finance costs of the acquisition in the period Elster was not owned, using a consistent number of shares
- Elster adjusted to exclude closed business units and significant one-off contracts



# Foreign exchange impact

## 2013 headline<sup>1</sup> growth<sup>2</sup>

£m	Group 2013	Growth <sup>3</sup>	Elster	Growth <sup>3</sup>	FKI	Growth
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<b>Headline<sup>1</sup> operating profit</b>	<b>274.9</b>	<b>+20%</b>	<b>194.2</b>	<b>+37%</b>	<b>107.2</b>	<b>-6%</b>
Headline <sup>1</sup> operating margin %	15.9%	<b>+3.1ppts</b>	17.4%	<b>+5.0ppts</b>	17.4%	<b>-0.3ppts</b>
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<i>Book to bill %<sup>5</sup></i>	94%		95%		92%	

## 10 cents strengthening impact on the Group

Headline<sup>1</sup> operating profit

£7.3m

US \$

£6.4m

Euro €

## Headwind by currency

2.5%

US\$

1%

Euro

1.5%

Other  
currencies

5%

Group  
total

## Highlights

- The Group's biggest currency exposure is to the US\$ and Euro exchange movements
- Further strengthening of Sterling in recent months has increased the translational headwind in 2014 to 5%

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# Order intake

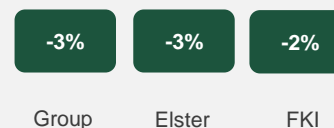
## 2013 headline<sup>1</sup> growth<sup>2</sup>

£m	Group 2013	Growth <sup>3</sup>	Elster	Growth <sup>3</sup>	FKI	Growth
Revenue	1,732.8	-3%	1,116.3	-3%	616.5	-4%
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Headline <sup>1</sup> diluted EPS	12.8p					
Proforma <sup>4</sup> headline <sup>1</sup> diluted EPS growth	+36%					

<b>Order intake<sup>5</sup></b>	<b>1,610.9</b>	<b>-3%</b>	<b>1,041.8</b>	<b>-3%</b>	<b>569.1</b>	<b>-2%</b>
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Book to bill % <sup>5</sup>	94%	95%	92%
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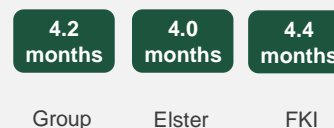
## Order intake growth<sup>2</sup> – year on year<sup>3 5</sup>



## Highlights

- Order intake remains moderate although good order coverage remains
- Over 4 months of revenue in order book at year end in both segments

## Months of revenue in order book





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# Summary financial results

## Cash performance

# Profit conversion to cash and investment

## Cash generated from trading (after all costs including tax)

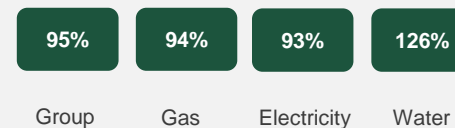
£m	Group 2013	Elster	FKI
Headline <sup>1</sup> operating profit	274.9	194.2	107.2
Depreciation <sup>2</sup>	40.7	26.6	13.4
Working capital movement	(13.5)	(10.3)	(3.3)
<b>Headline<sup>1</sup> operating cash flow (pre capex)</b>	<b>302.1</b>	<b>210.5</b>	<b>117.3</b>
<b>Headline<sup>1</sup> EBITDA<sup>3</sup> conversion to cash (pre capex) %</b>	<b>96%</b>	<b>95%</b>	<b>97%</b>
<b>Net capital expenditure</b>	<b>(44.6)</b>	<b>(18.8)</b>	<b>(25.1)</b>
<b>Headline<sup>1</sup> operating cash flow (post capex)</b>	<b>257.5</b>	<b>191.7</b>	<b>92.2</b>
Net interest and net tax paid	(78.4)	(40.2)	(8.2)
Defined benefit pension contributions	(32.7)	(7.2)	(2.6)
Other (including restructuring & discontinued operations)	(37.1)	(73.0)	34.1
<b>Cash generated from trading (after all costs including tax)</b>	<b>109.3</b>	<b>71.3</b>	<b>115.5</b>

## Highlights

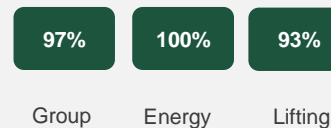
- Strong profit conversion to cash from both FKI and Elster
- Capital investment remains above depreciation with ongoing investment in Energy, in particular China. Elster investment phase to commence in 2014
- Melrose five year capital expenditure for all businesses tracking at 1.2x depreciation

## 2013 headline<sup>1</sup> profit conversion to cash

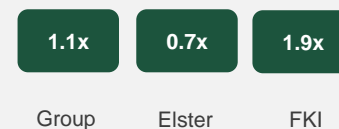
### Elster



### FKI



## Net capital investment ratios in 2013 by segment





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# Summary financial results

## Balance Sheet

# Balance Sheet – leverage<sup>3</sup>, pensions, working capital

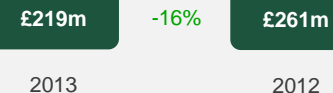
## 2013 Balance Sheet position

£m	31 Dec 2013	31 Dec 2012
Fixed assets, intangible assets and goodwill	2,853.2	3,367.6
<b>Net working capital</b>	<b>126.9</b>	<b>217.0</b>
<b>Pensions and retirement benefits</b>	<b>(219.3)</b>	<b>(261.3)</b>
Provisions	(177.8)	(287.2)
Deferred tax and current tax	(272.9)	(301.9)
Other	18.6	5.2
<b>Net debt</b>	<b>(140.8)</b>	<b>(997.7)</b>
<b>Net assets</b>	<b>2,187.9</b>	<b>1,741.7</b>

## Leverage<sup>3</sup>



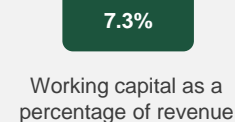
## Pension deficit



## Highlights

- Year end leverage<sup>3</sup> of 0.4x. Adjusting for the Return of Capital leverage<sup>3</sup> would have been 2.3x
- Net deficit on DB pension plans has reduced by £42 million (16%)
- Working capital well controlled

## Working capital





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## Summary of operating divisions

- Elster
- FKI



# Elster

64% of Melrose<sup>1</sup>



## Gas

*"Best-in-class products and solutions for measurement, regulation and the safe control and application of gases"*

62% of Elster<sup>1</sup>

40% of Melrose<sup>1</sup>

[www.elster.com/en/gas](http://www.elster.com/en/gas)



## Electricity

*"Meeting the expanding needs of utilities by providing advanced metering products and services worldwide"*

22% of Elster<sup>1</sup>

14% of Melrose<sup>1</sup>

[www.elster.com/en/electricity](http://www.elster.com/en/electricity)



## Water

*"Metering and communication systems for water utilities and industries"*

16% of Elster<sup>1</sup>

10% of Melrose<sup>1</sup>

[www.elster.com/en/water](http://www.elster.com/en/water)

1. Based on 2013 revenue for all continuing businesses



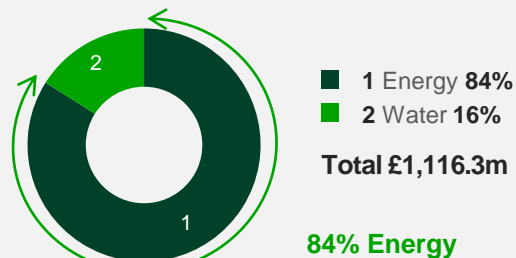
## Elster – headline<sup>1</sup> results

£m	Elster <sup>5</sup>		Gas		Electricity		Water	
	Full year 2013	Growth <sup>3,4</sup>	Full year 2013	Growth <sup>3,4</sup>	Full year 2013	Growth <sup>3,4</sup>	Full year 2013	Growth <sup>3,4</sup>
Revenue	1,116.3	-3%	688.9	+4%	247.5	-8%	179.9	-16%
Headline <sup>1</sup> EBITDA <sup>2</sup>	220.8	+29%	167.8	+10%	28.2	+18%	27.5	+116%
Headline <sup>1</sup> EBITDA <sup>2</sup> margin %	19.8%	+4.9ppts	24.4%	+1.4ppts	11.4%	+2.6ppts	15.3%	+9.3ppts
Headline <sup>1</sup> operating profit	194.2	+37%	152.4	+11%	21.5	+41%	23.0	+218%
Headline <sup>1</sup> operating margin %	17.4%	+5.0ppts	22.1%	+1.4ppts	8.7%	+3.0ppts	12.8%	+9.4ppts
Order intake <sup>6</sup>	1,041.8	-3%	670.2	flat	218.5	-8%	153.1	-6%
Book to bill % <sup>6</sup>	95%		97%		88%		98%	

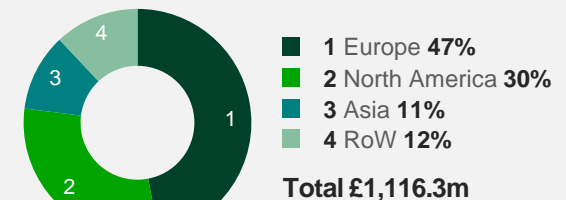
### Highlights

- Operating profit<sup>4</sup> up 37% and margin up 5 percentage points at constant currency
- 69% of the absolute profit growth achieved through the businesses and 31% through central cost savings
- Operational improvement projects returning efficiency gains in each of the businesses
- Water exited low margin sales and improved operating margins by 9.4 percentage points

### Revenue by end market



### Revenue by geographical destination



1. Before exceptional costs, exceptional income and intangible asset amortisation
2. Operating profit before depreciation and amortisation
3. At constant currency
4. Assuming a full year's ownership in 2012
5. Includes Elster central costs
6. Adjusted to exclude closed business units and significant one-off contracts



FKI

36% of Melrose<sup>1</sup>



*“World number one independent supplier of turbogenerators”*

57% of FKI<sup>1</sup>

21% of Melrose<sup>1</sup>

[www.brush.eu](http://www.brush.eu)



*“Global technology leaders in the manufacture of wire and wire rope”*

43% of FKI<sup>1</sup>

15% of Melrose<sup>1</sup>

[www.bridon.com](http://www.bridon.com)

1. Based on 2013 revenue for all continuing businesses

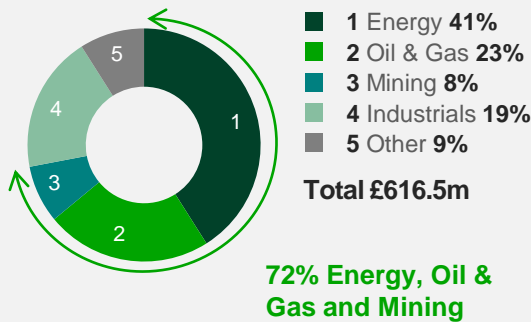
FKI – headline<sup>1</sup> results

£m	FKI		Brush		Bridon	
	Full year 2013	Growth <sup>3</sup>	Full year 2013	Growth <sup>3</sup>	Full year 2013	Growth <sup>3</sup>
Revenue	616.5	-4%	350.1	-6%	266.4	-2%
Headline <sup>1</sup> EBITDA <sup>2</sup>	120.6	-3%	79.0	-5%	41.6	flat
Headline <sup>1</sup> EBITDA <sup>2</sup> margin %	19.6%	+0.2ppts	22.6%	+0.3ppts	15.6%	+0.3ppts
Headline <sup>1</sup> operating profit	107.2	-6%	73.1	-6%	34.1	-5%
Headline <sup>1</sup> operating margin %	17.4%	-0.3ppts	20.9%	flat	12.8%	-0.4ppts
Order intake	569.1	-2%	318.5	+2%	250.6	-7%
Book to bill %	92%		91%		94%	

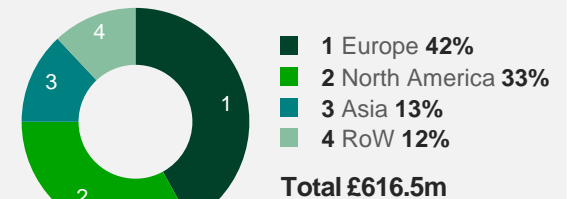
Highlights

- Revenues<sup>3</sup> down on prior year but operating margins held flat year on year
- Book to bill of 92% compared to 90% in 2012

Revenue by end market



Revenue by geographical destination





Buy  
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# Questions



Buy  
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# Appendices

# Balance Sheet – pensions and retirement benefits

## 2013 Balance Sheet position

£m	31 Dec 2013	31 Dec 2012
Fixed assets, intangible assets and goodwill	2,853.2	3,367.6
Net working capital	126.9	217.0
<b>Pensions and retirement benefits</b>	<b>(219.3)</b>	<b>(261.3)</b>
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Net debt	(140.8)	(997.7)
<b>Net assets</b>	<b>2,187.9</b>	<b>1,741.7</b>

## DB pension plans – by region

£m	31 Dec 2013		
	Assets	Liabilities	Deficit
UK	862	(975)	(113)
Europe	1	(90)	(89)
US	205	(222)	(17)
Other	3	(3)	-
<b>Total</b>	<b>1,071</b>	<b>(1,290)</b>	<b>(219)</b>

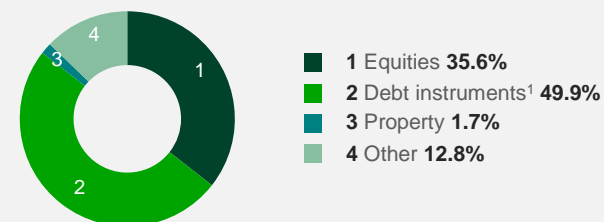
## DB pension plans – by segment

£m	Annual cash payments	31 Dec 2013		
		Assets	Liabilities	Deficit
FKI and central	26	1,032	(1,149)	(117)
Elster	7	39	(141)	(102)
<b>Total</b>	<b>33</b>	<b>1,071</b>	<b>(1,290)</b>	<b>(219)</b>

## Highlights

- Adoption of IAS19 (revised) has reduced profit before tax in 2013 by £7.9 million (2012: £4.8 million)
- FKI UK Plan demerged into three independent plans
- £42.0 million reduction in net deficit

## Pensions – spread of investments



# Exchange rates

	2013		2012	
	US Dollar	Euro	US Dollar	Euro
12 month average rates	1.56	1.18	1.59	1.23
Closing rates	1.66	1.20	1.62	1.23

On-going sensitivity of profit to translation and unhedged transaction exchange risk £m	Increase in headline <sup>1</sup> operating profit
For every 10 cent strengthening of the US Dollar against Sterling	5.0
For every 10 cent strengthening of the Euro against Sterling	8.4

On-going sensitivity of profit to translation and full transaction exchange rate risk £m	Increase in headline <sup>1</sup> operating profit
For every 10 cent strengthening of the US Dollar against Sterling	7.3
For every 10 cent strengthening of the Euro against Sterling	6.4

# Discontinued businesses

## Disposed businesses

Segment	Business	Proceeds (£m)	Revenue multiple	EBITDA <sup>1</sup> multiple	Sold to	Date
Lifting	Crosby / Acco	632	2.5x	10.0x	KKR	Nov 2013
Energy	Marelli	177	1.5x	9.6x	Carlyle Group	Aug 2013
Other Industrial	Truth / Harris	141	1.1x	7.0x	Tyman PLC / Avis Industrial Corp	Jul 2013 / Dec 2013
<b>Total</b>		<b>950</b>	<b>1.9x</b>	<b>9.3x</b>		

- Combined sales have tripled the original equity investment
- Return of Capital c.£600 million (47.0p per share) in February 2014, alongside an 11 for 13 share consolidation
- £1.7 billion of cash generated from FKI trading and disposal proceeds so far. Brush and Bridon remain in the Group