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THE LEX COLUMN

Melrose

What's the difference between a quoted industrial holding company, which has a core strategy of buying, enhancing and selling manufacturing assets, and a private equity business? Aside from transparency and accountability demands, not a lot. So buyer Kohlberg Kravis Roberts may have its work cut out to do hugely better with the Crosby businesses offloaded for $1bn by turnround specialist Melrose yesterday.

Still, shareholders at Melrose - sometimes viewed as a latter-day Hanson Industries - will not be complaining. Deal price for the well-signposted sale was in line with expectations and represents a very acceptable 10 times earnings before interest, tax, depreciation and amortisation at US-based Crosby last year. As also expected, part of these proceeds will be now returned to shareholders.

In fact, Melrose investors have very little to complain about, full stop. The group's shares have more than quadrupled in five years, and the total return over this period has been over three times that for Bloomberg's European sector index. The trick is to keep the pace going. Other disposals may eventually be in the pipeline - Brush turbogenerator and Bridon lifting operations are sometimes suggested - but nothing has been flagged as imminent. So post-Crosby, the Elster metering business, bought last year, will make up about two-thirds of the group.

Elster never looked to be a cheap purchase, but Melrose seems to be delivering the promised margin improvements. Even so, pressure is on for another big deal and a more expensive environment cannot help - although executives seem unfazed and have no need to rush. Melrose shares, which had stalled a bit on worries about order levels in some non-Elster parts of the group, perked up yesterday to trade on 17 times consensus 2013 earnings. That is a premium to the sector but rightly so.