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Business

Melrose shares soar as investors cheer £2.2bn Nortek deal

By Christopher Williams

MELROSE, the London-listed turnaround specialist, has found its next project with a \$2.8bn (£2.2bn) deal to take over the US home ventilation equipment maker Nortek.

The deal ends a months-long search for a new investment by Melrose following its sale of the utility meter manufacturer Elster last year.

Nasdaq-listed Nortek supplies US housebuilders with ventilation units, heaters, cooker hoods and a range of home security products.

Melrose said it had agreed to pay a premium of almost 38pc on the company's share price and claimed it was "well placed to benefit from a helpful market backdrop with key US economic indicators pointing to continued momentum in construction".

US construction spending has been on a strong run, although it recorded its biggest decline in more than five years in April and slipped again in May.

The sequential declines surprised analysts, as other important economic indicators such as consumer spending and industrial production have remained buoyant.

Melrose's own shares rose 46pc to 597½p as investors welcomed the long-awaited deal. They appeared to shrug off the slide in the value of sterling since the EU referendum result, despite the fact the company will sacrifice its premium listing on the London Stock Exchange to complete what amounts to a reverse takeover.

Melrose will raise £1.6bn to fund the acquisition in a 12 for one rights issue at 95p per share, and cover the rest with new debt. The UK company is offering \$86 cash per Nortek share, valuing the US group's equity at \$1.4bn.

Analysts at Numis said Nortek offered Melrose "quick potential opportunities" to improve two of its smaller, underperforming businesses, as well as being a broader turnaround candidate. More than 90pc of its

sales are in North America, and its products are in 80pc of US households.

Simon Peckham, Melrose's chief executive, said: "It serves attractive end markets at good points in their cycle, with strong brands and market positions. None the less there remains solid potential for further improvement under Melrose's guidance. Our ability to apply our industrial experience and investment expertise, as well as to liberate Nortek from its current capital structure, will transform the prospects of the business."

The company said it aimed to refocus Nortek's product range and improve margins, as well as overhaul its supply chain, back office and debt structure. Melrose said some of its institutional shareholders had already backed the deal and that Nortek investors controlling more than two thirds of the company had accepted its offer.

The acquisition is expected to be completed by the end of August.