

## Business Markets

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Buy, sell or hold: today's best share tips

# Complex takeover is impossible to fault

### MELROSE INDUSTRIES

**Brush 2015 revenues** £261m | **Operating profit** £38.5m

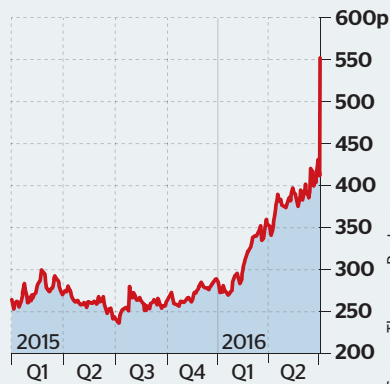
We have been sitting around waiting for Melrose Industries to make another purchase since the sale of the last one, the Elster metering business, at the end of last year. The next deal has duly arrived and, gosh, is it a complicated one. Melrose is buying Nortek, a maker of household items such as heating equipment, air conditioning, alarms and surveillance, based in Rhode Island, for £2.15 billion in dollars. This splits into £1.1 billion for the shares, which are quoted on Nasdaq, and the rest accounted for by the company's huge debt, much of which is being paid off.

The main shareholders are seeking an exit but have left the door open until August 6 for another bidder. Melrose is offering \$86 a share; any other bidder must find the equivalent of \$89 to take

**£2,154m**  
Total cost of Nortek purchase

### New model

Melrose Industries share price



Source: Thomson Reuters

### MY ADVICE Buy

**WHY** The company's record speaks for itself. The share price movement gives a good idea of how well received the deal is in the market

account of a \$3 "break fee" by then. Melrose is giving no details, but bits of Nortek are not terribly well run.

They can be improved, applying the company's usual model, by efficiencies, cutting costs, selling unwanted offices and so on. It seems feasible that Melrose can increase the current return on sales, about 10 per cent, to maybe 15 per cent that way.

Nortek is also emerging from a period of underperformance, to do with a distribution network that went wrong last year and disruption

### The tale of two deals



- Die casting
- Bought May 2005

Price	Cash generated	Sold for
<b>£400m</b>	<b>£100m</b>	<b>£800m</b>



- Gas and water solutions
- Bought August 2012

Price Inc. acquisitions	Cash generated	Sold for
<b>£1.9bn</b>	<b>£100m</b>	<b>£3.3bn</b>

from a takeover approach from another bidder. Melrose's model means that as large businesses such as Elster are sold and the money handed back to shareholders, it shrinks. The only asset at present is Brush, which makes turbo-generators and is not yet ready for sale.

This means that the market capitalisation before yesterday, when the shares were a bit more than £4, was about £600 million. The deal has to be funded by means of a 12-for-1 rights issue at 95p. That ratio of new equity would normally suggest a company in dire danger of going bust, but it is down to the complicated mathematics of what is effectively a reverse takeover.

What you need to know is that the market's reaction was to mark Melrose shares up 187¾p to 597½p. The market likes this deal, which will almost certainly go ahead. You should too. I have been tipping the shares for years now and Melrose has not put a foot wrong.