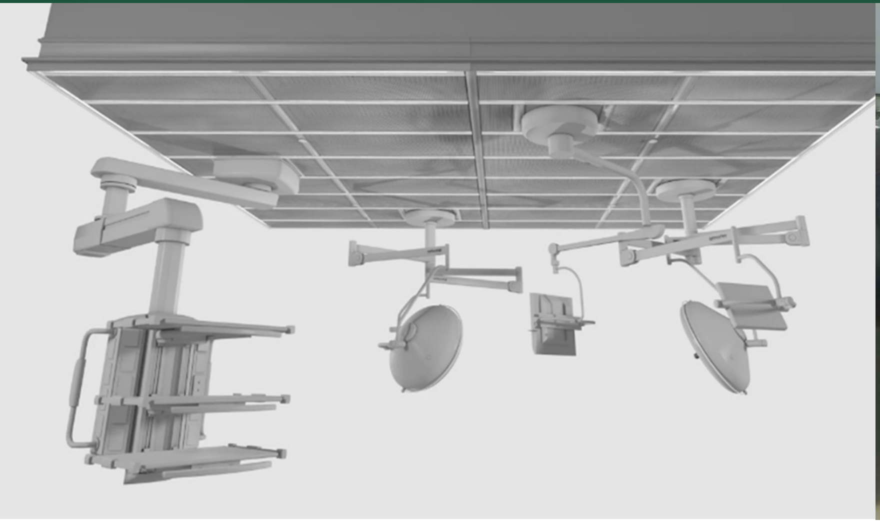
Melrose

Buy
Improve
Sell

Strictly private and confidential



Melrose Industries PLC

Half Year Results

Six months to 30 June 2017

31 August 2017

Contents

Sections

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Highlights

Highlights in 2017

£m	Underlying[1] results	Statutory results
Revenue	1,085.6	1,085.6
Profit before tax	131.1	47.8
Diluted earnings per share	4.9p	2.0p

- Record Nortek first half performance:
  - Fastest improvement in profit compared to any previous Melrose deal
  - Highest ever first half cash generation of £103.4 million pre-capex[2]
  - Underlying[1] operating profit of £145.5 million, 54%[3] higher than last year
  - Underlying[1] operating margin of 14.7%, up 5.5[3] percentage points
  - Significant investment of over £47 million in capital and restructuring projects to further improve performance
- Brush is experiencing its toughest market conditions since Melrose acquired it in 2008 and, accordingly, appropriate action is being taken for the long term with all parts of the business being reviewed
- Net debt of £669.1 million, equal to 2.3x EBITDA[4], better than expected
- Interim dividend of 1.4p per share (2016: 0.3p[5])

Christopher Miller, Chairman of Melrose Industries PLC, today said:

"During the first ten months of our ownership, Nortek has delivered the fastest initial improvement in performance Melrose has ever achieved. More investment is being made in Nortek to drive further improvements and appropriate actions are being taken in Brush for the long term. We have also been busy exploring potential acquisitions over the past few months, and remain confident in our ability to find the right opportunity."

1. Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is given on slide 7
2. Operating cash generated before capital expenditure
3. 2017 post acquisition performance compared to the same period in 2016. Proforma 2016 results are based on previous Nortek accounting policies, reported under US GAAP, using constant exchange rates
4. Underlying[1] operating profit before depreciation and amortisation. Includes 12 months of Nortek
5. Adjusted to include the effects of the 2016 Rights Issue

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Summary financial results

Income Statement

Six months to 30 June 2017

Statutory numbers	£m
Revenue	**1,085.6**
Operating profit	**57.9**
Profit before tax	**47.8**
Tax	**(9.6)**
Profit after tax	**38.2**

Underlying[1] operating profit	**141.2**
Underlying[1] profit before tax	**131.1**
Underlying[1] profit after tax	**95.3**
Underlying[1] diluted earnings per share	**4.9 pence**

- Full statutory numbers are followed by the underlying[1] numbers which the Melrose Board believes to be the best measure of trading performance

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1. Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is given on slide 7

Reconciliation of statutory results to underlying performance

- A reconciliation of the statutory results to the underlying performance

	£m
H1 2017 statutory profit before tax	**47.8**
Restructuring costs	**25.1**
Acquisition and disposal costs	**1.7**
Amortisation of intangible assets	**41.5**
Melrose equity-settled compensation scheme (LTIP)	**17.3**
Release of fair value provisions	**(2.3)**
H1 2017 underlying profit before tax	**131.1**

- Items excluded from underlying results are those considered to be significant in size or volatility or by nature are non-trading or non-recurring, or any item released to the income statement that was previously a fair value item booked on acquisition

Restructuring costs	**£m**
Air Management	**19.8**
Security & Smart Technology	**1.5**
Ergonomics	**0.8**
Nortek central	**1.3**
Brush	**1.7**
Total	**25.1**

Melrose LTIP scheme	**£m**
First half charge - mainly the 2012 scheme (including employer's NI)	**17.3**
New ongoing annualised charge (excluding employer's NI)	**13.3**[1]

1. The charge for the Melrose Incentive Plan, including its associated employer's NI charge, is excluded from underlying results due to its size and volatility

H1 2017 underlying[1] operating results by division

£m	Air Management	Security & Smart Technology	Ergonomics	Nortek Central	Energy	Melrose Central	Total Group
Revenue	616.6	237.5	133.3	-	98.2	-	1,085.6
Underlying[1] operating profit	75.9	37.0	33.9	(1.3)	7.2	(11.5)	141.2
Underlying[1] operating margin	12.3%	15.6%	25.4%	n/a	7.3%	n/a	13.0%
Revenue growth[2]	2%	-4%	-5%	-	-11%	-	-2%
Underlying[1] operating profit growth[2,3]	39%	45%	-9%	n/a	-43%	n/a	42%
Underlying[1] margin increase[2,3]	3.8ppts	5.2ppts	-1.0ppts	n/a	-4.3ppts	n/a	4.2ppts

- Nortek Group underlying[1] operating profit of £145.5 million, 54%[3] higher than last year
- The Nortek Group underlying[1] operating margin has been increased to 14.7% (2016: 9.2%), a rise of 5.5 percentage points[3]
- Air Management underlying[1] revenue grew for the first time in three years, Security & Smart Technology and Ergonomics revenue performance expected to improve with the Ergonomics performance slowed by a new warehouse introduction
- Brush's market conditions have worsened, and all parts of the business are being reviewed

1. Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is given on slide 7
2. At constant currency and excluding revenue from exited sales channels
3. 2017 post acquisition performance compared to the same period in 2016. 2016 results are based on previous Nortek accounting policies, reported under US GAAP

Foreign exchange → forward looking

	2017		2016	
	USD	**CNY**	**USD**	**CNY**
6 month average rates	**1.26**	**8.66**	**1.43**	**9.37**
Closing rates (June)	**1.30**	**8.80**	**1.33**	**8.83**
Closing rates (December)	**-**	**-**	**1.23**	**8.57**

Ongoing sensitivity of profit to translation risk and the portion of transaction risk that is not hedged £m	**Increase/(decrease) in underlying[1] operating profit**
For every 10 percent strengthening of the US Dollar	**26.5**
For every 10 percent strengthening of the Chinese Renminbi	**(3.1)**

Ongoing sensitivity of profit to translation and full transaction exchange rate risk £m	**Increase/(decrease) in underlying[1] operating profit**
For every 10 percent strengthening of the US Dollar	**31.4**
For every 10 percent strengthening of the Chinese Renminbi	**(15.7)**

- Significant profit sensitivity to the US Dollar exchange rate

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Summary financial results

Cash performance

Record first half cash generation for Nortek, strong Brush cash performance

£m	Group H1 2017	Nortek	Brush
Underlying[1] operating profit	141.2	145.5	7.2
Depreciation	17.7	13.1	4.6
Working capital movement	(48.0)	(55.2)	7.8
Operating cash flow (pre capex)	110.9	103.4	19.6
EBITDA[2] profit conversion to cash (pre capex) %	70%	65%	166%
Net capital expenditure	(20.7)	(19.4)	(1.3)
Operating cash flow (post capex)	90.2	84.0	18.3
Net interest and net tax paid	(14.9)	(9.0)	(0.3)
Defined benefit pension contributions	(2.3)	(2.2)	(0.1)
Incentive scheme payments (including associated employer's tax)	(147.2)	-	-
Other (including restructuring)	(45.4)	(41.8)	(3.9)
Cash generated (after all costs including tax)	(119.6)	31.0	14.0

- Record first half cash generation for Nortek. H1 pre capex operating cash flow of £103.4 million, 168% higher than average of last three years. Nortek still inherently generates more of its cash in H2 but getting better
- The strong cash generation has been achieved through improved working capital management despite adverse seasonality. This good performance has funded a significantly increased injection of capital expenditure into Nortek

Operating cash flow (pre capex)

Air Management £47.9m

Security & Smart Technology £24.8m

Ergonomics £36.9m

Nortek Group £103.4m up 168% on last 3 year average

Brush £19.6m

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Melrose

1. Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is given on slide 7
2. Underlying[1] operating profit before depreciation and amortisation

Balance Sheet, leverage[3], capital expenditure & tax

£m	30 June 2017
Fixed assets, intangible assets and goodwill	**2,705.3**
Net working capital	**274.2**
Pensions and retirement benefits	**(22.2)**
Provisions	**(239.7)**
Deferred tax and current tax	**(85.7)**
Other	**22.0**
Net debt	**(669.1)**
Net assets	**1,984.8**

- Significant injection of capital into Nortek starting to overcome previous under investment
- The main Brush UK defined benefit scheme is in surplus due to being funded properly under Melrose ownership
- Underlying[1] tax rate of 27%
- Net debt of £669.1 million, equal to 2.3x EBITDA[2]

Capital expenditure - Nortek

1.5x dep'n

Significant capital investment into Nortek

Tax

27%

Underlying[1] tax rate

Leverage[3]

2.3x

June 2017

1. Considered by the Board to be the best measure of performance. A reconciliation of the statutory result to underlying performance is given on slide 7
2. Underlying[1] operating profit before depreciation and amortisation. Includes 12 months of Nortek
3. Net debt divided by underlying[1] EBIDTA[2]

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Summary of operating divisions

- Brush
- Nortek

Brush

9% of Melrose[1]

Brush Turbogenerators is the world's largest independent manufacturer of electricity generating equipment for the power generation, industrial, oil & gas and offshore sectors

1. Based on H1 2017 revenue

Brush

Brush – underlying[1] results

£m	Brush H1 2017	Brush Growth[3]
Revenue	98.2	**-11%**
Underlying[1] EBITDA[2]	11.8	**-32%**
Underlying[1] EBITDA[2] margin %	12.0%	**-3.8ppts**
Underlying[1] operating profit	7.2	**-43%**
Underlying[1] operating margin %	7.3%	**-4.3ppts**
Order intake	128.9	**10%**
Book to bill %	131%	

- Revenue and margins impacted by a worsening of market conditions to be the toughest since Melrose acquired Brush in 2008
- The market for generators has reduced significantly since its previous peak in 2012 when Brush sold 208 generators. In 2016 Brush sold 122 and this year it is expected to be approximately 80
- Order intake is up 10% on last year which is a quirk of timing rather than an indicator of growth
- Appropriate action is being taken for the long term interests of the business with all parts of the business being reviewed

Revenue by end market £m	H1 2017	Growth[3]
Generators[4]	27.0	**-40%**
Aftermarket	34.5	**1%**
Switchgear	22.8	**33%**
Transformers	13.9	**2%**
Total	**98.2**	**-11%**

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2. Operating profit before depreciation and amortisation
3. At constant currency
4. Includes Harrington Generators International

Melrose

Nortek

91% of Melrose[1]

NORTEK

Nortek is a global, diversified group which manufactures innovative air management, security, home automation and ergonomic and productivity solutions

1. Based on H1 2017 revenue

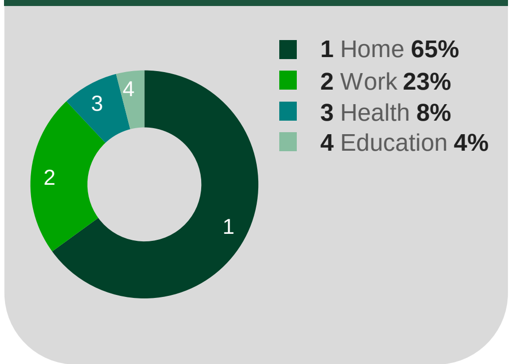
Nortek

Nortek – underlying[1] results

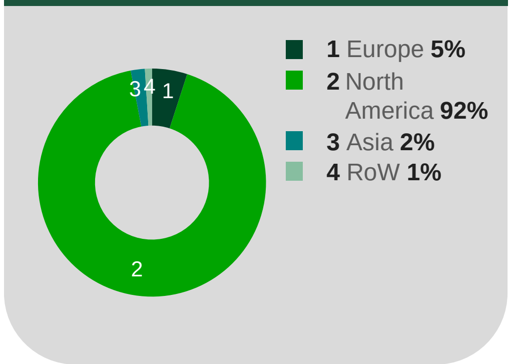
£m	Nortek Group[5] H1 2017	Nortek Group[5] Growth[3,4]	Air Management H1 2017	Air Management Growth[3,4]	Security & Smart Technology H1 2017	Security & Smart Technology Growth[3,4]	Ergonomics H1 2017	Ergonomics Growth[3,4]
Revenue	987.4	**-1%**	616.6	**2%**	237.5	**-4%**	133.3	**-5%**
Underlying[1] EBITDA[2]	158.6	**39%**	85.4	**27%**	38.5	**33%**	35.3	**-10%**
Underlying[1] EBITDA[2] margin %	16.1%	**5.0ppts**	13.9%	**3.3ppts**	16.2%	**4.5ppts**	26.5%	**-1.5ppts**
Underlying[1] operating profit	145.5	**54%**	75.9	**39%**	37.0	**45%**	33.9	**-9%**
Underlying[1] operating margin %	14.7%	**5.5ppts**	12.3%	**3.8ppts**	15.6%	**5.2ppts**	25.4%	**-1.0ppts**

- Record first half underlying[1] profit and cash performance
- Underlying[1] operating profit up 54%[4] and operating margin up 5.5[4] percentage points to 14.7%
- Significant margin improvement in Air Management and Security & Smart Technology businesses as well as significant cost reductions in Nortek central
- Many actions completed and more underway to improve performance
- Ergonomics performance slowed by a new warehouse introduction

Revenue by end market



Revenue by geographical destination



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5. Includes Nortek central costs

Nortek – actions achieved and underway

NORTEK

Air Management

Management changes

Further consolidation of the two HVAC businesses into one management team

Appointment of a new CEO for the AQH business

Investment

Significant capital investment at HVAC facilities including c. $10m investment at the Oklahoma facilities and c. $1m for the Saskatoon R&D facility

Investment in AQH of c.$20m to improve manufacturing processes and introduce more automation. Expanded distribution and warehouse operations at Hartford

Restructuring and cost reductions

Commercial HVAC head office closed and consolidated into single HVAC head office in St Louis

Closure of the Folkestone facility and relocation to Brierley Hill

Rationalisation of manufacturing footprint within the AQH business including the planned closure of the Mississauga facility and relocation of production to Hartford and Drummondville

Decentralising of functions

Warehouse and distribution functions brought in-house

Security & Smart Technology

Management changes

Consolidation of Security & Smart Technology under one management team incorporating Core Brands and GTO

Investment

Investment in the development of touchscreen security panel ahead of a major new product launch

Investment in Cloud service platform

Restructuring and cost reductions

Closure of the Hong Kong office, warehouse consolidation and reorganisation of engineering

Planned move to new Carlsbad location to allow greater consolidation of Security & Smart Technology back office, including combined operations, engineering and finance

Decentralising of functions

Warehouse and distribution functions brought in-house

Ergonomics

Investment for growth

Investment for tooling to enter the large furniture market, insertion machines and new healthcare carts

Expansion into digital sales channels and new geographical markets

Exiting of lower margin sales channels

Ongoing review and discontinuance of lower margin products and lines

Decentralising of functions

Warehouse and distribution functions brought in-house which delayed some trading in June

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Questions