Melrose Industries PLC

Acquisition of Nortek – an excellent opportunity

Investor presentation

6 July 2016
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Contents

Sections

1 Executive summary
2 Nortek – an excellent opportunity
3 Divisions
4 Transaction structure and timetable
5 Appendices
Executive summary
Executive summary

- Nortek is a US manufacturing business with leading brands in air management, security, home automation and ergonomic and productivity solutions segments
- Helpful end-market conditions, with attractive entry point in the cycle
- Nortek is a good business but is underperforming its potential and is constrained by leverage
- Proposed acquisition for $86 per share in cash
- Like Elster, it is a fair price for a good opportunity, 10.0x historic ebitda¹ and 9.3x current year ebitda² (Enterprise Value £2.2 billion)³
- Shareholders representing over 50% of Nortek’s share capital are expected to agree to accept our offer, subject to Nortek not accepting a superior proposal within the window shop period which expires on 7 August 2016
- Fully underwritten Rights Issue to raise c.£1.65 billion
- Executive Directors to invest c.£17 million, equal to c.1% of the Issue
- Proposed new debt facility of c.£1.0 billion⁴ committed on a certain funds basis
- Expected completion of acquisition in late August or early September 2016

Since the last trading statement made on 11 May 2016, Melrose has continued to trade in line with the Melrose Board’s expectations

The Melrose Board believes that the acquisition will be significantly accretive to headline² earnings per share in the first full financial year of ownership (2017)⁵

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1. Headline² operating profit before depreciation and amortisation, calculated using the 12 months to March 2016
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Headline² operating profit before depreciation and amortisation, derived from an average of analysts’ reports available to Melrose for Q1 2016, being Jefferies (dated 16 May 2016) and Avondale Partners (dated 16 May 2016). Investors should note that such projections regarding Nortek were not prepared in the context of the acquisition and therefore cease to be valid under Melrose’s ownership. Investors should not rely upon any such projections in making any decision about the New Melrose Shares, the Rights Issue or the Acquisition. These reports are not endorsed by Melrose or the Banks and have not been, and will not be, verified or reported on
4. Converted using an exchange rate of £1 : $1.30
5. This is not intended to be, or is not to be construed as, a profit forecast or to be interpreted to mean that earnings per Melrose share for the current or future financial years, or those of the enlarged Group, will necessarily match or exceed the historical earnings per Melrose share
Nortek – an excellent opportunity
Nortek  Buy  Clear reasons to buy

A good manufacturing business:

1. Strong brands and market positions → Number 1 US positions in most product areas with presence in 80% of US homes, a good presence in US offices and in education and health centres
2. Good product sectors → Air management, cleaner air, security, home automation and ergonomic & productivity solutions
3. A helpful market backdrop → Underlying end markets are growing, an attractive entry point in the cycle
4. Clean balance sheet → High leverage but no significant other liabilities, with only a relatively small pension position

With opportunity to improve:

5. Nortek is underperforming its potential → Recent trading has been underwhelming despite a favourable end market backdrop. 2016 Q1 results showing momentum

At a fair price:

6. A fair price for good businesses → Expected to deliver a good return for Melrose shareholders
Nortek  Buy

How has the opportunity arisen?¹

- 1967: Company incorporated
- 2003: Taken private by Kelso & Co
- 2004: Bought by Thomas H Lee Partners, a private equity firm in Boston, for £1.3bn
- 2006: Dividend paid to Thomas H Lee Partners of £135m
- 2008: Debt refinancing took leverage to 9x ebitda
- 2009: Came out of Chapter 11. Debt decreased by £1.0bn
- 2009: Listed on Nasdaq
- 2010: Debt holders converted to equity
- 2013 - 2016: Various acquisitions
  - 2013
  - 2014: Phoenix
  - 2014: Reznor
  - 2015: Numera
  - 2014: 2GIG
  - 2015: tvONE
- 2010: Acquisition of Ergotron. Cost = £229m
- 2010: Listed on Nasdaq
- 2015

Trading 2007-2009
- Revenue declined 24%. Ebitda margin reduced from 11.1% → 9.7%.
- Remained profitable

1. Converted using an exchange rate of £1 : $1.30
## Nortek: Strong brands and market positions

<table>
<thead>
<tr>
<th>Air Management</th>
<th>Security &amp; Home Automation</th>
<th>Ergonomic &amp; Productivity Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>(64% of 2015 sales) (53% of 2015 profit)¹</td>
<td>(22% of 2015 sales) (17% of 2015 profit)¹</td>
<td>(14% of 2015 sales) (30% of 2015 profit)¹</td>
</tr>
<tr>
<td>Air Quality &amp; Home Solutions (AQH) (24% of 2015 sales)</td>
<td>Security &amp; Control Solutions (SCS) (17% of 2015 sales)</td>
<td>Ergonomic &amp; Productivity Solutions (ERG)</td>
</tr>
<tr>
<td>Residential &amp; Commercial HVAC³ (RCH) (23% of 2015 sales)</td>
<td>Audio, Video &amp; Control Solutions (AVC) (5% of 2015 sales)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(14% of 2015 sales)</td>
</tr>
</tbody>
</table>

1. 2015 headline² operating profit before central costs
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Heating, Ventilation and Air Conditioning (“HVAC”)
4. In the US market, Nortek management estimates
5. Licensed
Nortek Buy

Good product sectors & demand drivers

Nortek 2015 results at actual rates at a glance…

<table>
<thead>
<tr>
<th>Air Management £m</th>
<th>Security &amp; Home Automation £m</th>
<th>Ergonomic &amp; Productivity Solutions £m</th>
<th>Central costs £m</th>
<th>2015 Group £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,060</td>
<td>364</td>
<td>229</td>
<td>-</td>
</tr>
<tr>
<td>Headline(^2) operating profit</td>
<td>91</td>
<td>29</td>
<td>51</td>
<td>(27)</td>
</tr>
<tr>
<td>Headline(^2) operating margin %</td>
<td>8.6%</td>
<td>7.9%</td>
<td>22.1%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Lifestyle innovations for\(^1\):

- **Home**: 61% sales
- **Work**: 23% sales
- **Health**: 8% sales
- **Education**: 8% sales

Product sectors:

- **Air management**
- **Cleaner air**
- **Security**
- **Home automation**
- **Ergonomic & productivity solutions**

- Nortek’s growth is linked to the US replacement (75%) and new build market (25%)

...and at £1 : US $1.30

<table>
<thead>
<tr>
<th>Air Management £m</th>
<th>Security &amp; Home Automation £m</th>
<th>Ergonomic &amp; Productivity Solutions £m</th>
<th>Central costs £m</th>
<th>2015 Group £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,246</td>
<td>428</td>
<td>269</td>
<td>-</td>
</tr>
<tr>
<td>Headline(^2) operating profit</td>
<td>107</td>
<td>34</td>
<td>59</td>
<td>(31)</td>
</tr>
<tr>
<td>Headline(^2) operating margin %</td>
<td>8.6%</td>
<td>7.9%</td>
<td>22.1%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Updated for US$ rate

Split of sales…

By geography\(^1\):

- US: 84%
- Canada: 7%
- RoW: 9%

84% of sales in the US

By end market\(^1\):

- Residential new build: 26%
- Residential replacement & other: 12%
- Non residential new build: 49%
- Non residential replacement & other: 13%

25% of sales for new build, 75% for replacement and other

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1. Based on 2015 sales
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Converted at the average exchange rate for 2015 of £1 : $1.53
Nortek  Buy  A helpful market backdrop

1. Residential repair and remodelling spending¹

- Homeowner improvements and repairs ($bn)

2. Non-residential Repair & remodel and new construction spending³ ($bn)

- CAGR Nortek Sales

3. Residential new build²

- '000 units
- Single-family
- Multi-family

CAGR Nortek Sales

Total US housing starts

- 61% of the way back to normal
- +c.35% still to go
- Further upside?

- +c.35% to go to mid cycle ‘norms’

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1. Source: Home Improvement Research Institute, September 2015
2. Source: Historical data is sourced from US Census Bureau; projections from NAHB dated 31 May 2016
3. FMI 1Q16 report, 1Q12 report
4. Source: US Census Bureau
5. Based on Nortek management estimates
## December 2015 Balance Sheet position

<table>
<thead>
<tr>
<th>£m</th>
<th>31 Dec 2015 at actual rates</th>
<th>31 Dec 2015 at £1 : US $1.30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets, intangible assets and goodwill</td>
<td>912</td>
<td>1,034</td>
</tr>
<tr>
<td>Net working capital</td>
<td>198</td>
<td>224</td>
</tr>
<tr>
<td>Pensions and retirement benefits</td>
<td>(32)</td>
<td>(36)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(78)</td>
<td>(88)</td>
</tr>
<tr>
<td>Deferred tax and current tax</td>
<td>(56)</td>
<td>(64)</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Net debt5</td>
<td>(936)</td>
<td>(1,061)</td>
</tr>
</tbody>
</table>

### Net assets

| 12 | 13 |

### Leverage

**31 December 2015**

- **5.1x**

  **Constraining the business**

### Pension deficit

**31 December 2015**

- **£32m** (Deficit)
- **£81m** (Assets)
- **£113m** (Liabilities)

**At only 2% of Enterprise Value this is the lowest relative pension deficit of any previous Melrose acquisition**

### Total working capital as a percentage of revenue

**31 December 2015**

- **11.5%**

**Reasonable ratio to sales**

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1. Net debt divided by headline2 ebitda3 for continuing businesses
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Headline2 operating profit before depreciation and amortisation
4. Converted at the 31 December 2015 exchange rate of £1 : $1.47
5. Gross debt plus finance lease obligations, less cash
Nortek Buy Underperforming its potential

<table>
<thead>
<tr>
<th>Nortek results¹</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 at actual rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>1,440</td>
<td>1,497</td>
<td>1,666</td>
<td>1,653</td>
</tr>
<tr>
<td>Headline² operating profit margin (%)</td>
<td>8.9%</td>
<td>8.1%</td>
<td>8.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Leverage⁴</td>
<td>4.1x</td>
<td>4.2x</td>
<td>4.7x</td>
<td>5.1x</td>
</tr>
</tbody>
</table>

2015
<table>
<thead>
<tr>
<th></th>
<th>1,943</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.7%</td>
<td>5.1x</td>
</tr>
</tbody>
</table>

Updated for US$ rate

### Highlights

#### Revenue growth⁵ since 2012:
- **Organic** 2%
- **By M&A** +15%

Very small organic sales growth achieved despite a growing market backdrop and a sales led culture. Momentum starting to come with 2016 Q1 sales up 7%

#### Margin decline since 2012:
- Last 3 years -0.2ppt
- Last year Flat

Margin decline despite significant restructuring spend and with the Ergonomic & Productivity Solutions segment, which has the highest margins, being the only one to achieve organic growth. Some self inflicted operational issues suffered in 2015

#### Leverage⁴ rise since 2012:
- > 5x ebitda³
- Risen by 1.0x

Interest on the expensive debt, the significant restructuring and acquisition spend has used up all the cash generated from the businesses

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1. Converted at the average exchange rate for 2015 of £1 : $1.53
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Headline² operating profit before depreciation and amortisation
4. Net debt divided by headline³ ebitda³ for continuing businesses only
5. At constant currency
Nortek

Buy
Improve
Sell
Melrose track record; Nortek fits the bill

Actual value creation on previous deals:

1. **Elster:**
   - Sales growth: 7%
   - Margin growth: 56%
   - Cash generation: 3%
   - Multiple expansion: 34%
   - Return on equity: 2.3x
   - IRR: 33%
   - Investment in the businesses: 25%

2. **FKI¹:**
   - Margin growth: 53%
   - Cash generation: 29%
   - Multiple expansion: 18%
   - Return on equity: 3.4x
   - IRR: 33%
   - Investment in the businesses: 62%

3. **McKechnie / Dynacast:**
   - Sales growth: 7%
   - Margin growth: 32%
   - Cash generation: 14%
   - Multiple expansion: 47%
   - Return on equity: 3.0x
   - IRR: 30%
   - Investment in the businesses: 51%

Potential value creation on Nortek:

4. **Nortek:**
   - Sales growth: ✓
   - Margin growth: ✓
   - Cash generation: ✓
   - Multiple expansion: ✓

   - Good demand drivers potentially suggest more than average top line growth compared to previous Melrose deals
   - Nortek is underperforming its potential and has been constrained by leverage
   - Cashflows can be significantly improved
   - Multiple expansion is never assumed, but has been achieved on all previous deals (on average +30%) as the businesses have been improved

¹ Includes a consensus value of the Brush business as at 2 March 2016
² As a percentage of the original equity acquisition price
### Five opportunities to improve

#### How Melrose can help improve Nortek:

1. **Cost savings from delisting**
   - Removal of US listing costs

2. **Operational restructuring**
   - Current restructuring projects to deliver improvements with significant further opportunities available

3. **Increased investment**
   - Opportunities to improve the quality and efficiency of the businesses including through acquisitions

4. **More focused product mix**
   - A very busy portfolio of products can be streamlined to enhance margin

5. **Reduce the burden of debt to free up cash flow**
   - Reduce leverage to c.2.5x ebitda\(^1\) upon acquisition and use cheaper debt

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1. Headline\(^2\) operating profit before depreciation and amortisation for the enlarged Melrose and Nortek Group
2. Before exceptional costs, exceptional income and intangible asset amortisation
# Cost savings from delisting

**Nortek** improve

**Cost savings from delisting**

### Proforma 2015 year end numbers

<table>
<thead>
<tr>
<th>Proforma 2015 year end numbers¹</th>
<th>Revenue £m</th>
<th>Headline² operating profit pre central costs £m</th>
<th>Central costs £m</th>
<th>Headline² operating Profit £m</th>
<th>Headline² operating profit margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Melrose</td>
<td>261</td>
<td>39</td>
<td>18</td>
<td>21</td>
<td>8.0%</td>
</tr>
<tr>
<td>Nortek</td>
<td>1,653</td>
<td>171</td>
<td>27</td>
<td>144³</td>
<td>8.7%</td>
</tr>
<tr>
<td>Combined</td>
<td>1,914</td>
<td>210</td>
<td>45</td>
<td>165</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

1. Nortek results have been converted at the average exchange rate for 2015 of £1 : $1.53
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Converted from US GAAP to IFRS as per page 34

### Nortek : rising central costs, up 23% between 2012 - 2015

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£22m</td>
<td>£27m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+23%</td>
</tr>
</tbody>
</table>

**Equal to 1.6% margin**
Margin improvement opportunities

1. Underway

- **Restructuring projects**: >£15m¹ improvement still to come
  - Total restructuring cost spent over last three years £90m

- **Cost savings**: > £30m¹ of reductions underway

- **New product development**: Significant focus on developing new products over the last two years

2. More potential

- **Investment opportunities**
  - Capital expenditure has been constrained by leverage (averaging 0.9x depreciation) compared to 1.3x Melrose average
  - Factory expansion, consolidation and production line efficiency improvements exist.
  - Bolt on acquisition opportunities are available for review

- **Further restructuring opportunities**
  - Mexico factory restructuring project (cost >£35m¹) comes fully online in 2016 with more supply chain benefits to come
  - Selling and admin overheads benchmarked to be too high versus comparable businesses
  - A product profitability review to conclude on some low margin sales channels and products which need exiting
  - Restructure IT, c.£25m p.a. spend

- **New opportunities**
  - Develop parts & service business in Custom & Commercial HVAC
  - China opportunity driven by clean air
  - US ergonomic market only 2% penetrated²
  - Partner with a home service provider for security

**Headline operating margin**

- **2015 actual**: 8.7%
- **Q1 2016 result + 2.1ppcts on margin**: ✓
- **Corporate costs equivalent to 1.6ppcts plus improvements to the business**: ✓
- **Target margin**: ✓
Currently high and expensive debt

Current cost of debt: Over 7% p.a. Melrose will reduce this to less than 3% p.a.

Leverage\(^1\): 5.1x Melrose will reduce this to c.2.5x

Leverage\(^1\) and the cost of debt will be more than halved by Melrose

Cost of debt

Current Nortek: 5.1x New Melrose: c.2.5x

Leverage\(^1\)

Current Nortek: 7% New Melrose: <3%

Cost of debt

Tax

Proforma tax rate (income statement): 28%

1. Net debt divided by headline\(^2\) ebitda\(^2\), as at 31 December 2015
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Headline\(^2\) operating profit before depreciation and amortisation
Air Management (64% of Nortek sales)

### Air Management – headline¹ results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,060</td>
<td>-2%</td>
<td>1,246</td>
</tr>
<tr>
<td>Headline¹ ebitda²</td>
<td>113</td>
<td>-11%</td>
<td>132</td>
</tr>
<tr>
<td>Headline¹ ebitda² margin %</td>
<td>10.6%</td>
<td>-1.1ppt</td>
<td>10.6%</td>
</tr>
<tr>
<td>Headline¹ operating profit</td>
<td>91</td>
<td>-16%</td>
<td>107</td>
</tr>
<tr>
<td>Headline¹ operating margin %</td>
<td>8.6%</td>
<td>-1.4ppts</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

### Revenue by business 2015

![Revenue by business chart](chart)

### Revenue by geographical destination 2015

![Revenue by geographical destination chart](chart)

### Highlights

- Largest division with broadly flat organic revenue growth over the last three years
- Investment and restructuring opportunities exist, including by acquisition
- A good opportunity to develop in China with cleaner air products

---

1. Before exceptional costs, exceptional income and intangible asset amortisation
2. Headline¹ operating profit before depreciation and amortisation

---

**Updated for US$ rate**
Air Management (64% of Nortek sales) cont...

<table>
<thead>
<tr>
<th>Air Quality &amp; Home Solutions (AQH) (37% of Air Management sales)</th>
<th>Residential &amp; Commercial HVAC(^1) (RCH) (37% of Air Management sales)</th>
<th>Custom &amp; Commercial Air Solutions (CAS) (26% of Air Management sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1(^2) in range hoods &amp; bath fans</td>
<td>#1(^2) in commercial unit heaters &amp; manufactured housing HVAC(^1)</td>
<td>#1(^2) in custom air handlers</td>
</tr>
</tbody>
</table>

Key competitiors

<table>
<thead>
<tr>
<th>Key competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heating, Ventilation and Air Conditioning (“HVAC”) in the US market, Nortek management estimates Licensed</td>
</tr>
</tbody>
</table>

![Image of products and logos]
Security & Home Automation (22% of Nortek sales)

Security & Home Automation – headline¹ results

<table>
<thead>
<tr>
<th>£m</th>
<th>Actual 2015 at £1 : US $1.53</th>
<th>Growth on 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>364</td>
<td>-7%</td>
</tr>
<tr>
<td>Headline¹ ebitda²</td>
<td>35</td>
<td>-2%</td>
</tr>
<tr>
<td>Headline¹ ebitda² margin %</td>
<td>9.7%</td>
<td>+0.6ppt</td>
</tr>
<tr>
<td>Headline¹ operating profit</td>
<td>29</td>
<td>-7%</td>
</tr>
<tr>
<td>Headline¹ operating margin %</td>
<td>7.9%</td>
<td>Flat</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>£m</th>
<th>2015 at £1 : US $1.30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>428</td>
</tr>
<tr>
<td>Headline¹ ebitda²</td>
<td>41</td>
</tr>
<tr>
<td>Headline¹ ebitda² margin %</td>
<td>9.7%</td>
</tr>
<tr>
<td>Headline¹ operating profit</td>
<td>34</td>
</tr>
<tr>
<td>Headline¹ operating margin %</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Highlights

- Organic sales growth of 6% in total over the last three years
- Audio, visual and control business is loss making (2015: headline¹ operating loss of £6million) needs significant review

Revenue by business 2015

- Security & Control Solutions: 77%
- Audio, Video & Control Solutions: 23%

Revenue by geographical destination 2015

- US: 98%
- Canada: 1%
- RoW: 1%

1. Before exceptional costs, exceptional income and intangible asset amortisation
2. Headline¹ operating profit before depreciation and amortisation

Updated for US$ rate
### Security & Control Solutions (SCS)
(77% of Security and Home Automation sales)

1. **#3 in residential security hardware**

### Audio, Video & Control Solutions (AVC)
(23% of Security and Home Automation sales)

1. **Major supplier of audio, visual & control solutions**

#### Key Competitors

**Security & Home Automation (22% of Nortek sales) cont:**

1. In the US market, Nortek management estimates

#### Security & Home Automation
- Access control systems
- Garage door operators

#### Residential AV
- Power & energy management
- Home integration & control

### Key Competitors

<table>
<thead>
<tr>
<th>Security &amp; Home Automation</th>
<th>Residential AV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Honeywell</strong> Security</td>
<td><strong>Snap AV</strong> Control</td>
</tr>
<tr>
<td><strong>DSC United Technologies</strong></td>
<td><strong>savant AV</strong></td>
</tr>
<tr>
<td><strong>interlogix</strong></td>
<td><strong>Rusound</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Crestron</strong></td>
</tr>
</tbody>
</table>
Ergonomic & Productivity Solutions (14% of Nortek sales)

Ergonomic & Productivity Solutions – headline\(^1\) results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>229</td>
<td>+19%</td>
<td>269</td>
</tr>
<tr>
<td>Headline(^1) ebitda(^2)</td>
<td>54</td>
<td>+30%</td>
<td>63</td>
</tr>
<tr>
<td>Headline(^1) ebitda(^2) margin %</td>
<td>23.5%</td>
<td>+1.9pps</td>
<td>23.5%</td>
</tr>
<tr>
<td>Headline(^1) operating profit</td>
<td>51</td>
<td>+32%</td>
<td>59</td>
</tr>
<tr>
<td>Headline(^1) operating margin %</td>
<td>22.1%</td>
<td>+2.1pps</td>
<td>22.1%</td>
</tr>
</tbody>
</table>

Revenue by geographical destination

- 10% US
- 90% RoW

Updated for US$ rate

#1\(^3\) in ergonomic mounting & mobility solutions

Highlights

- Organic revenue growth of 10% in total in the last three years
- Only 2% of the overall market penetrated\(^3\)
- Supported by patents

Key competitors

Healthcare carts
Sit-stand workstations
Device management carts
Wall mounts

1. Before exceptional costs, exceptional income and intangible asset amortisation
2. Headline\(^1\) operating profit before depreciation and amortisation
3. In the US market, Nortek management estimates
Transaction structure & timetable
Melrose proposing to acquire Nortek for $86 per share
  – Equates to a Nortek Enterprise Value of £2.2 billion (excluding costs)
  – Break fee payable to Melrose of $50 million
  – Tender and Support Agreements to be entered into by Ares Management LLC and others (totalling 68.7% of Nortek share capital)
  – Reverse takeover under the UKLA rules, with re-admission of Melrose shares to a Standard Listing

- Rights Issue for c.£1.65 billion to be fully underwritten
- Executive Directors to invest c.£17 million, equal to c.1% of the Issue
- New five year bank facility of $1.25 billion, fully committed and underwritten on a certain funds basis
- Acquisition and Rights Issue both conditional on Melrose shareholder approval
  – Rights Issue not conditional on acquisition completing
- Acquisition expected to complete in late August or early September 2016
Transaction funding

Rights Issue summary

- Proposed gross proceeds: c.£1.65 billion
- Rights Issue terms: 12 for 1
- Closing price as of 5 July 2016: 409.75p
- Issue price: 95p
- Theoretical Ex Right Price (TERP): 119.21p
- Theoretical Nil Paid Price (TNPP): 24.21p
- Issue discount to TERP: 20.3%
- New shares issued: 1,741,612,236

New debt facility

- $1.25 billion committed five year facility
- Underwritten on certain funds basis
- ‘All in’ total interest cost less than 3%

Funding structure

<table>
<thead>
<tr>
<th>Price paid</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>$86 for 16.7 million shares</td>
<td>1,105</td>
</tr>
<tr>
<td>Existing Nortek debt plus transaction costs</td>
<td>1,221</td>
</tr>
<tr>
<td>Total cost of transaction including costs</td>
<td>2,326</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funded by</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights Issue</td>
<td>1,655</td>
</tr>
<tr>
<td>Existing Melrose cash</td>
<td>45</td>
</tr>
<tr>
<td>Acquisition debt</td>
<td>626</td>
</tr>
<tr>
<td>Total</td>
<td>2,326</td>
</tr>
</tbody>
</table>
## Expected timetable

- **Transaction announcement, posting of circular and notice of General Meeting and publication of the prospectus:** 6 July
- **Melrose General Meeting:** 25 July
- **Record date for rights issue:** 4 August
- **End of window shop period:** 6 August
- **Nil-paid trading expected to commence:** 9 August
- **Latest time for acceptance of rights issue:** 23 August
- **Announcement of results of rights issue expected:** 24 August
- **Expected date of completion of the US tender offer and the merger (Melrose acquires 100% of Nortek):** 31 August
Appendices
## Price paid – multiple of ebitda

### Nortek announced adjusted ebitda

<table>
<thead>
<tr>
<th>Basis</th>
<th>Historic(^3)</th>
<th>Current(^4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>2015 full year minus 2015 Q1 plus 2016 Q1 (267 – 46 + 60)</td>
<td>281</td>
<td>301</td>
</tr>
<tr>
<td>Analysts’ consensus(^4) 2016</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>IFRS and Melrose accounting policy adjustments(^6)</td>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>Ebitda(^1)</td>
<td>285</td>
<td>305</td>
</tr>
<tr>
<td>Central costs</td>
<td>40</td>
<td>48</td>
</tr>
<tr>
<td>Ebitda(^1) pre central costs</td>
<td>325</td>
<td>353</td>
</tr>
</tbody>
</table>

### Price paid

<table>
<thead>
<tr>
<th>Price paid</th>
<th>$86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price per share</td>
<td></td>
</tr>
<tr>
<td>Number of shares</td>
<td>16.7m</td>
</tr>
<tr>
<td>Price paid</td>
<td>$1,436m</td>
</tr>
<tr>
<td>Net debt at 31 March 2016(^5)</td>
<td>$1,401m</td>
</tr>
<tr>
<td>Total price paid</td>
<td>$2,837m</td>
</tr>
</tbody>
</table>

### Multiple at £1 : US $1.30

<table>
<thead>
<tr>
<th>Price</th>
<th>Ebitda(^1)</th>
<th>Multiple</th>
<th>Multiple (pre central costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>£m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Historic(^3) basis</td>
<td>2,183</td>
<td>219</td>
<td>10.0x</td>
</tr>
<tr>
<td>Current(^4) year</td>
<td>2,183</td>
<td>235</td>
<td>9.3x</td>
</tr>
</tbody>
</table>

---

1. Headline\(^2\) operating profit before depreciation and amortisation
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Calculated using the last 12 months to Q1 2016 ebitda\(^1\)
4. Calculated using analysts’ consensus for Q1 2016. Derived from an average of analysts’ reports available to Melrose for Q1 2016, being Jefferies (dated 16 May 2016) and Avondale Partners (dated 16 May 2016). Investors should note that such projections regarding Nortek were not prepared in the context of the acquisition and therefore cease to be valid under Melrose’s ownership. Investors should not rely upon any such projections in making any decision about the New Melrose Shares, the Rights Issue or the Acquisition. These reports are not endorsed by Melrose or the Banks and have not been, and will not be, verified or reported on
5. Including finance leases
6. IFRS and Melrose accounting policy adjustments calculated for the year ended 31 December 2015 and assumed constant
### Foreign exchange sensitivities

**Impact on Nortek headline\(^1\) operating profit of a 10% strengthening in the following currencies**

<table>
<thead>
<tr>
<th>Currency</th>
<th>Transactional impact £m</th>
<th>Headline(^1) operating profit sensitivity</th>
<th>Translational impact £m</th>
<th>Headline(^1) operating profit sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>3.8</td>
<td>3%</td>
<td>13.2</td>
<td>9%</td>
</tr>
<tr>
<td>CNY</td>
<td>(9.3)</td>
<td>(7%)</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>MXN</td>
<td>(1.6)</td>
<td>(1%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EUR</td>
<td>1.8</td>
<td>1%</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>CAD</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Nortek 2015 headline\(^1\) operating profit at various US $ exchange rates (translation only)**

<table>
<thead>
<tr>
<th>Exchange rate US$/£1</th>
<th>Headline(^1) operating profit (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>220</td>
</tr>
<tr>
<td>1.05</td>
<td>210</td>
</tr>
<tr>
<td>1.10</td>
<td>200</td>
</tr>
<tr>
<td>1.15</td>
<td>191</td>
</tr>
<tr>
<td>1.20</td>
<td>183</td>
</tr>
<tr>
<td>1.25</td>
<td>176</td>
</tr>
<tr>
<td>1.30</td>
<td>169</td>
</tr>
<tr>
<td>1.35</td>
<td>163</td>
</tr>
<tr>
<td>1.40</td>
<td>157</td>
</tr>
<tr>
<td>1.45</td>
<td>152</td>
</tr>
<tr>
<td>1.50</td>
<td>147</td>
</tr>
<tr>
<td>1.55</td>
<td>142</td>
</tr>
<tr>
<td>1.60</td>
<td>138</td>
</tr>
</tbody>
</table>

1. Before exceptional costs, exceptional income and intangible asset amortisation
Bonus adjustments

The effects of the Rights Issue

- Rights issue is treated as a bonus issue of shares and an issue of fully paid up shares

- The bonus factor is used to reflect the bonus element of the issue (IAS 33)

- The historic earnings per share and dividend per share are rebased to reflect the bonus element

- Note that after rebasing the historic dividend, the theoretical dividend yield is maintained on the new shareholding

Rights Issue summary

<table>
<thead>
<tr>
<th>Bonus element</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share price at close 5 July 2016</td>
</tr>
<tr>
<td>Rights issue price</td>
</tr>
<tr>
<td>TERP</td>
</tr>
<tr>
<td>Indicative bonus factor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Earnings per share restatement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proforma¹ 2015 headline² earnings per share – basic</td>
</tr>
<tr>
<td>Proforma¹ 2015 headline² earnings per share – fully diluted</td>
</tr>
<tr>
<td>x Indicative bonus factor</td>
</tr>
<tr>
<td>= Indicative bonus adjusted 2015 headline² earnings per share – fully diluted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dividend restatement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reported 2015 full year dividend per share</td>
</tr>
<tr>
<td>x Indicative bonus factor</td>
</tr>
<tr>
<td>= Indicative bonus adjusted 2015 full year dividend per share</td>
</tr>
</tbody>
</table>

¹. Proforma comprises headline² results excluding the interest on the debt used to finance Elster with a 30% headline² tax rate applied
². Before exceptional costs, exceptional income and intangible asset amortisation
## Nortek US GAAP to IFRS conversion

<table>
<thead>
<tr>
<th>2015 results¹</th>
<th>Depreciation and amortisation</th>
<th>Operating profit</th>
<th>Finance costs</th>
<th>Tax</th>
<th>Other (incl non-GAAP adjustments)</th>
<th>Net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>Ebitda²</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nortek results under US GAAP and Nortek accounting policies</td>
<td>174</td>
<td>(77)</td>
<td>97</td>
<td>(66)</td>
<td>2</td>
<td>(51)</td>
</tr>
<tr>
<td>Exclude amortisation of acquisition related intangible assets⁴</td>
<td>-</td>
<td>44</td>
<td>44</td>
<td>-</td>
<td>-</td>
<td>(44)</td>
</tr>
<tr>
<td>Nortek results under US GAAP, excluding amortisation of acquisition related intangible assets</td>
<td>174</td>
<td>(33)</td>
<td>141</td>
<td>(66)</td>
<td>2</td>
<td>(95)</td>
</tr>
</tbody>
</table>

| Differences between US GAAP under Nortek accounting policies and IFRS under Melrose accounting policies | 3 | - | 3 | - | (3) | 3 | 3 |

| Nortek results under IFRS and Melrose accounting policies included in Nortek Circular | 177 | (33) | 144 | (66) | (1) | (92) | (15) |

| Nortek results under IFRS and Melrose accounting policies, at £1 : US $1.30 | 208 | (39) | 169 | (77) | (1) | (109) | (18) |

1. Nortek results have been converted at the average exchange rate for 2015 of £1 : $1.53
2. Headline³ operating profit before depreciation and amortisation
3. Before exceptional costs, exceptional income and intangible asset amortisation
4. Nortek full year results announcement discloses amortisation of purchase price allocation of $67.8 million. These amortisation charges are excluded from headline³ operating profit and ebitda² calculations under Melrose accounting policies
Improvement in operating performance

### Headline operating margin improvement

- **McKechnie**
  - Entry: 18%
  - Exit/Current: 24%
  - Improvement: +6pts (>30% improvement)
- **Elster**
  - Entry: 13%
  - Exit/Current: 16%
  - Improvement: +5pts (>40% improvement)
- **Dynacast**
  - Entry: 11%
  - Exit/Current: 15%
  - Improvement: +5pts (>50% improvement)
- **FKI**
  - Entry: 10%
  - Exit/Current: 18%
  - Improvement: +9pts (>70% improvement)

- **Average increase in operating margin of 5 to 9 percentage points, improving the profitability of the businesses by between 40% and 70%**
- **Achieved through investing in the businesses to improve efficiency and quality**

---

1. Before exceptional costs, exceptional income and intangible asset amortisation
### Track record for a shareholder

<table>
<thead>
<tr>
<th>Total shareholder investment...</th>
<th>£ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total money invested</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Total money received back</td>
<td>4.3</td>
</tr>
<tr>
<td>Net shareholder investment retained</td>
<td>2.3</td>
</tr>
<tr>
<td>Market capitalisation¹</td>
<td>0.5</td>
</tr>
<tr>
<td>Net shareholder gain</td>
<td>2.8</td>
</tr>
</tbody>
</table>

#### Acquired for

<table>
<thead>
<tr>
<th></th>
<th>Elster</th>
<th>FKI</th>
<th>McKechnie / Dynacast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquired for</td>
<td>£1.8bn</td>
<td>£1.0bn</td>
<td>£0.4bn</td>
</tr>
<tr>
<td>Bolt on acquisitions</td>
<td>£0.1bn</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total price</td>
<td>£1.9bn</td>
<td>£1.0bn</td>
<td>£0.4bn</td>
</tr>
<tr>
<td>Net cash generated (after all costs)</td>
<td>£0.1bn</td>
<td>£0.4bn</td>
<td>£0.8bn</td>
</tr>
<tr>
<td>Sold for</td>
<td>£3.3bn</td>
<td>£1.8bn⁴</td>
<td>-</td>
</tr>
<tr>
<td>Total cash generated²</td>
<td>£1.5bn</td>
<td>£1.2bn</td>
<td>£0.5bn</td>
</tr>
<tr>
<td>Equity multiple</td>
<td>2.3x</td>
<td>3.4x</td>
<td>3.0x</td>
</tr>
<tr>
<td>IRR³</td>
<td>33%</td>
<td>33%</td>
<td>30%</td>
</tr>
<tr>
<td>Post acquisition investment as a percentage of equity</td>
<td>25%</td>
<td>62%</td>
<td>51%</td>
</tr>
</tbody>
</table>

1. As at close of business on Wednesday 2nd March 2016
2. Reconciliation to £2.8 billion total value generated by Melrose: equal to £1.5 billion Elster, £1.2 billion FKI, £0.5 billion McKechnie, less £0.2 billion central, less £0.2 billion other including foreign exchange
3. The average IRR for all three deals individually equals 32%. The reconciliation to the average IRR for a Melrose shareholder since 2005 of 22% is as follows: inclusion of central costs and foreign exchange (4%), dilution from the issue of Melrose incentive shares (1%), returning monies to shareholders later than deal signing (5%)
4. Includes consensus valuation of the Brush business as at 2 March 2016