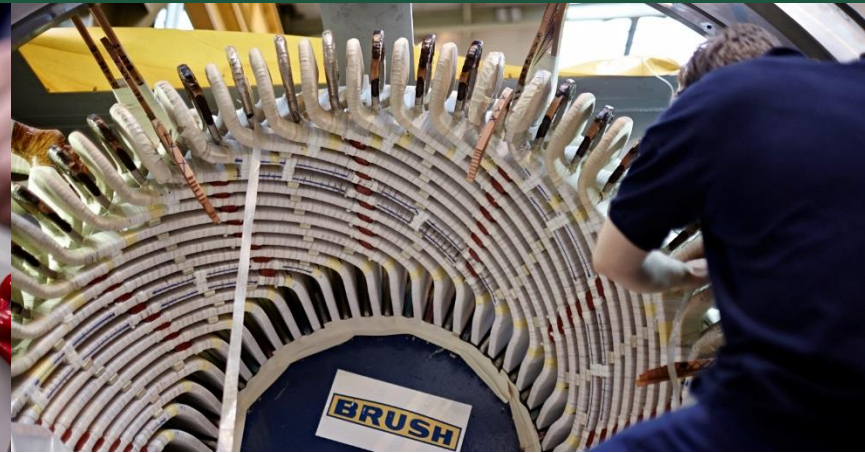




Buy  
Improve  
Sell

Melrose

Strictly private and confidential



# Melrose Industries PLC

## Half Year Results

Six months to 30 June 2014

August 2014

# Contents

## Sections

- 1 Highlights
- 2 Summary financial results
- 3 Summary of operating divisions
  - 4 Elster
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- 7 Appendix



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# Highlights

# Highlights<sup>1</sup> in 2014 – at constant currency

- Headline<sup>2</sup> profit before tax up 10% and headline<sup>2</sup> diluted earnings per share<sup>3</sup> of 7.3p up 11%
- Elster businesses continue to perform strongly
  - Headline<sup>2</sup> operating profit up 10% and headline<sup>2</sup> operating margin up 2.9 percentage points to 18.9%
  - Enhanced margins in all businesses
  - Overall Elster profitability increased by almost 50% since its acquisition in August 2012
- FKI order intake up 5% on last year but trading slower in the first six months
- Net debt of £750.6 million, equal to 2.4x EBITDA<sup>4</sup>
- Return of Capital of £595.3 million (47.0p per share) paid in the period alongside an 11 for 13 share consolidation
- Interim dividend of 2.8p (2013: 2.75p)



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# Summary financial results

## Income performance

# Income Statement

## H1 2014 headline<sup>1</sup> growth<sup>2</sup>

£m	Group H1 2014	Growth	Elster	Growth	FKI	Growth
Revenue	780.9	-5%	493.6	-7%	287.3	-3%
Headline <sup>1</sup> operating profit	128.5	+4%	93.1	+10%	47.7	-9%
Headline <sup>1</sup> operating margin %	16.5%	+1.3ppts	18.9%	+2.9ppts	16.6%	-1.2ppts
Headline <sup>1</sup> profit before tax	109.9	+10%				
Headline <sup>1</sup> tax	(29.7)	+10%				
Headline <sup>1</sup> profit after tax	80.2	+11%				
Headline <sup>1</sup> diluted EPS <sup>3</sup>	7.3p	+11%				
<i>Order intake<sup>4</sup></i>	769.0	+3%	499.2	+1%	269.8	+5%
<i>Book to bill %</i>	98%		101%		94%	

## Highlights

- Group revenue down 5%, headline<sup>1</sup> operating profit up 4%
- Headline<sup>1</sup> diluted EPS of 7.3p, 11% growth on H1 2013
- Group order intake up 3%

## H1 2014 statutory format

Continuing operations £m	Headline <sup>1</sup>	Other	Total
Revenue	780.9	-	780.9
Operating profit	128.5	(40.3)	88.2
Operating margin %	16.5%	n/a	11.3%
Profit before tax	109.9	(40.3)	69.6
Tax (charge)/credit	(29.7)	10.4	(19.3)
Profit for the year	80.2	(29.9)	50.3

## H1 2014 other non-headline<sup>1</sup> items

Continuing operations £m	Operating	Tax	Total
Intangible asset amortisation	(30.9)	8.8	(22.1)
Restructuring costs	(14.8)	1.6	(13.2)
Exceptional income	5.4	-	5.4
Total other non-headline <sup>1</sup> items	(40.3)	10.4	(29.9)

# Revenue growth

## H1 2014 headline<sup>1</sup> growth<sup>2</sup>

£m	Group H1 2014	Growth	Elster	Growth	FKI	Growth
<b>Revenue</b>	<b>780.9</b>	<b>-5%</b>	<b>493.6</b>	<b>-7%</b>	<b>287.3</b>	<b>-3%</b>
Headline <sup>1</sup> operating profit	128.5	+4%	93.1	+10%	47.7	-9%
Headline <sup>1</sup> operating margin %	16.5%	+1.3ppts	18.9%	+2.9ppts	16.6%	-1.2ppts
Headline <sup>1</sup> profit before tax	109.9	+10%				
Headline <sup>1</sup> tax	(29.7)	+10%				
Headline <sup>1</sup> profit after tax	80.2	+11%				
Headline <sup>1</sup> diluted EPS <sup>3</sup>	7.3p	+11%				
<i>Order intake<sup>4</sup></i>	769.0	+3%	499.2	+1%	269.8	+5%
<i>Book to bill %</i>	98%		101%		94%	

## Highlights

- Elster Gas: Underlying growth 4-5%  
Reduced by the timing of several major projects in Gas stations
- Elster Electricity: Very seasonal, second half weighted  
US slow start, as expected, due to stimulus wind-down  
Expect full year performance to be better
- Elster Water: Effect of US restructuring
- FKI: Brush: Flat year on year
- FKI: Bridon: Mining downturn – stronger order book

## Revenue growth<sup>2</sup> – by division

compared to H1 2013



Group Elster FKI

## Revenue growth<sup>2</sup> – Elster

compared to H1 2013



Elster Group Gas Electricity Water

# Headline<sup>1</sup> operating margin

## H1 2014 headline<sup>1</sup> growth<sup>2</sup>

£m	Group H1 2014	Growth	Elster	Growth	FKI	Growth
Revenue	780.9	-5%	493.6	-7%	287.3	-3%
Headline <sup>1</sup> operating profit	128.5	+4%	93.1	+10%	47.7	-9%
<b>Headline<sup>1</sup> operating margin %</b>	<b>16.5%</b>	<b>+1.3ppts</b>	<b>18.9%</b>	<b>+2.9ppts</b>	<b>16.6%</b>	<b>-1.2ppts</b>
Headline <sup>1</sup> profit before tax	109.9	+10%				
Headline <sup>1</sup> tax	(29.7)	+10%				
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<i>Order intake<sup>4</sup></i>	769.0	+3%	499.2	+1%	269.8	+5%
<i>Book to bill %</i>	98%		101%		94%	

## Headline<sup>1</sup> operating margin

16.5%

Group

18.9%

Elster

16.6%

FKI

## Headline<sup>1</sup> operating margin growth<sup>2</sup> compared to H1 2013

+1.3ppts

Group

+2.9ppts

Elster

-1.2ppts

FKI

## Highlights

- Elster headline<sup>1</sup> operating margin up 2.9ppts to 18.9% in the period
- Elster margin has now increased by 6.1ppts, up nearly 50% since acquisition
- Operating margins improved in all Elster businesses
- FKI margin down mainly due to the slower mining market in Bridon



# Foreign exchange impact on interim results

## H1 2014 headline<sup>1</sup> growth<sup>2</sup>

£m	Group H1 2014	Growth	Elster	Growth	FKI	Growth
Revenue	780.9	-5%	493.6	-7%	287.3	-3%
<b>Headline<sup>1</sup> operating profit</b>	<b>128.5</b>	<b>+4%</b>	<b>93.1</b>	<b>+10%</b>	<b>47.7</b>	<b>-9%</b>
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<i>Order intake<sup>4</sup></i>	769.0	+3%	499.2	+1%	269.8	+5%
<i>Book to bill %</i>	98%		101%		94%	

## Highlights

- Currency headwind in the period reduced turnover by 6% and headline<sup>1</sup> operating profit by 7%
- US\$ and Euro are the Group's main currency exposures
- Other currency exposures include the 11% weakening of the Czech Koruna, the 22% weakening of the Russian Ruble and the 65% devaluation of the Argentinian Peso

## Currency impact on the Group results year on year

	Revenue	Headline <sup>1</sup> operating profit
At constant currency	-5%	+4%
	6% currency headwind ↓	7% currency headwind ↓
Actual exchange rates	-11%	-3%

## Headwind by currency on profit

-1.8%	-1.3%	-3.6%	-6.7%
US\$	Euro	Other currencies	Group total

# Foreign exchange sensitivities ongoing

## H1 2014 headline<sup>1</sup> growth<sup>2</sup>

£m	Group H1 2014	Growth	Elster	Growth	FKI	Growth
Revenue	780.9	-5%	493.6	-7%	287.3	-3%
<b>Headline<sup>1</sup> operating profit</b>	<b>128.5</b>	<b>+4%</b>	<b>93.1</b>	<b>+10%</b>	<b>47.7</b>	<b>-9%</b>
Headline <sup>1</sup> operating margin %	16.5%	+1.3ppts	18.9%	+2.9ppts	16.6%	-1.2ppts
Headline <sup>1</sup> profit before tax	109.9	+10%				
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Headline <sup>1</sup> profit after tax	80.2	+11%				
Headline <sup>1</sup> diluted EPS <sup>3</sup>	7.3p	+11%				
<i>Order intake<sup>4</sup></i>	769.0	+3%	499.2	+1%	269.8	+5%
<i>Book to bill %</i>	98%		101%		94%	

## Highlights

- Strengthening of Sterling against US\$ and Euro continues to have an adverse impact on the Group
- June 2014 spot rates would cause a further headwind in the second half of the year
- Using the June 2014 spot rates for the second half of the year would cause an 8% headwind on full year headline<sup>1</sup> operating profit

## Translation impact on the full year profit of a 10 cent strengthening of US\$ or Euro

£5.2m

US\$

£8.2m

Euro

## Exchange rate movements

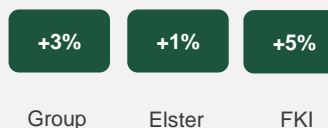
	H1 2013 average rates	H1 2014 average rates	30 June 2014 spot rates
US\$	1.54	1.67	1.71
Euro	1.18	1.22	1.25

# Order intake

## H1 2014 headline<sup>1</sup> growth<sup>2</sup>

£m	Group H1 2014	Growth	Elster	Growth	FKI	Growth
Revenue	780.9	-5%	493.6	-7%	287.3	-3%
Headline <sup>1</sup> operating profit	128.5	+4%	93.1	+10%	47.7	-9%
Headline <sup>1</sup> operating margin %	16.5%	+1.3ppts	18.9%	+2.9ppts	16.6%	-1.2ppts
Headline <sup>1</sup> profit before tax	109.9	+10%				
Headline <sup>1</sup> tax	(29.7)	+10%				
Headline <sup>1</sup> profit after tax	80.2	+11%				
Headline <sup>1</sup> diluted EPS <sup>3</sup>	7.3p	+11%				
<b>Order intake<sup>4</sup></b>	<b>769.0</b>	<b>+3%</b>	<b>499.2</b>	<b>+1%</b>	<b>269.8</b>	<b>+5%</b>
Book to bill %	98%		101%		94%	

## Order intake growth<sup>2</sup> – year on year<sup>4</sup>



## Months of revenue in order book



## Highlights

- Group order intake up 3% on last year
- Order intake growth in both Elster and FKI compared with H1 2013
- Group order book equal to 3.7 months of revenue, supporting the full year expectations
- A book to bill ratio of 101% in Elster



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# Summary financial results

## Cash performance

# Profit conversion to cash and investment

## Cash generated from trading (after all costs including tax)

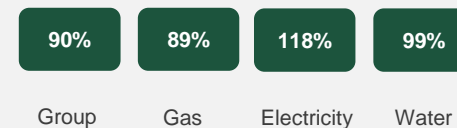
£m	Group H1 2014	Elster	FKI
Headline <sup>1</sup> operating profit	128.5	93.1	47.7
Depreciation <sup>2</sup>	19.7	12.4	6.9
Working capital movement	(29.2)	(10.6)	(13.5)
<b>Headline<sup>1</sup> operating cash flow (pre capex)</b>	<b>119.0</b>	<b>94.9</b>	<b>41.1</b>
<b>Headline<sup>1</sup> EBITDA<sup>3</sup> conversion to cash (pre capex) %</b>	<b>80%</b>	<b>90%</b>	<b>75%</b>
<b>Net capital expenditure</b>	<b>(28.8)</b>	<b>(11.9)</b>	<b>(16.7)</b>
<b>Headline<sup>1</sup> operating cash flow (post capex)</b>	<b>90.2</b>	<b>83.0</b>	<b>24.4</b>
Net interest and net tax paid	(30.6)	(16.3)	(7.7)
Defined benefit pension contributions	(16.4)	(3.8)	(3.2)
Other (including restructuring & discontinued operations)	(11.7)	(14.7)	-
<b>Cash generated from trading (after all costs including tax)</b>	<b>31.5</b>	<b>48.2</b>	<b>13.5</b>

## Highlights

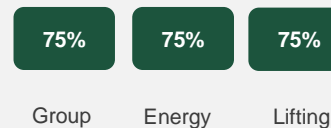
- Strong profit conversion to cash by Elster of 90%
- FKI cash conversion should improve in the second half
- Capital expenditure equal to 1.5x depreciation
- Significant capital investment made, particularly in Brush China

## H1 2014 headline<sup>1</sup> profit conversion to cash

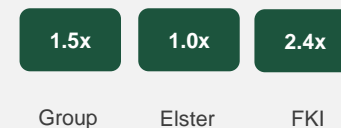
### Elster



### FKI



## Net capital investment ratios in H1 2014 by segment





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# Summary financial results

## Balance Sheet

# Balance Sheet – leverage<sup>3</sup>, pensions, working capital

## June 2014 Balance Sheet position

£m	30 Jun 2014	31 Dec 2013
Fixed assets, intangible assets and goodwill	2,743.0	2,853.2
<b>Net working capital</b>	<b>152.0</b>	<b>126.9</b>
<b>Pensions and retirement benefits</b>	<b>(236.9)</b>	<b>(219.3)</b>
Provisions	(167.5)	(177.8)
Deferred tax and current tax	(258.4)	(272.9)
Other	12.7	18.6
<b>Net debt</b>	<b>(750.6)</b>	<b>(140.8)</b>
<b>Net assets</b>	<b>1,494.3</b>	<b>2,187.9</b>

### Leverage<sup>3</sup>

June 2014

2.4x

Bank facility improved and extended

### Pension deficit

June 2014

£125m

UK

£95m

Europe

£17m

US

UK defined benefit pension plans fully funded in < 5 years

## Highlights

- Net debt of £750.6 million, equal to 2.4x EBITDA<sup>2</sup>
- Net deficit on pensions increased by £18 million (8%) mainly due to lower discount rate assumptions
- Working capital remains well controlled
- Bank facility term extended from June 2017 to July 2019 with improved terms and lower costs

### Working capital as a percentage of revenue

9.3%

June 2014



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- Before exceptional costs, exceptional income and intangible asset amortisation
- Headline<sup>1</sup> operating profit before depreciation and amortisation
- Net debt divided by headline<sup>1</sup> EBITDA<sup>2</sup> for continuing businesses only

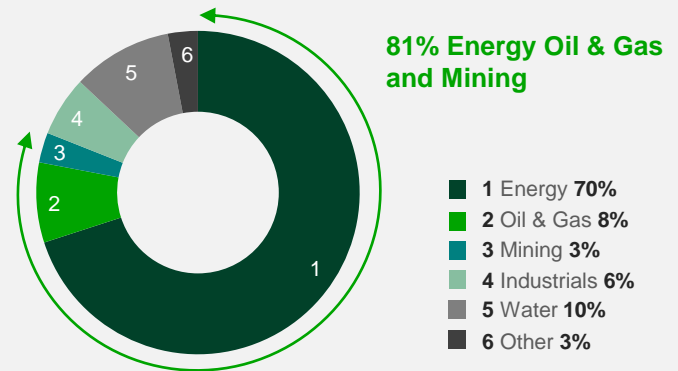


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# Summary of operating divisions

- Elster
- FKI

Revenue by end market







# Elster

63% of Melrose<sup>1</sup>



## Gas

*"Best-in-class products and solutions for measurement, regulation and the safe control and application of gases"*

66% of Elster<sup>1</sup>

42% of Melrose<sup>1</sup>

[www.elster.com/en/gas](http://www.elster.com/en/gas)



## Electricity

*"Meeting the expanding needs of utilities by providing advanced metering products and services worldwide"*

18% of Elster<sup>1</sup>

11% of Melrose<sup>1</sup>

[www.elster.com/en/electricity](http://www.elster.com/en/electricity)



## Water

*"Metering and communication systems for water utilities and industries"*

16% of Elster<sup>1</sup>

10% of Melrose<sup>1</sup>

[www.elster.com/en/water](http://www.elster.com/en/water)

1. Based on H1 2014 revenue for all continuing businesses

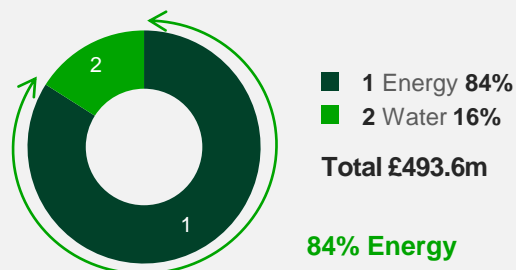
## Elster – headline<sup>1</sup> results

£m	Elster <sup>4</sup>		Gas		Electricity		Water	
	H1 2014	Growth <sup>3</sup>	H1 2014	Growth <sup>3</sup>	H1 2014	Growth <sup>3</sup>	H1 2014	Growth <sup>3</sup>
Revenue	493.6	-7%	325.5	-1%	87.1	-17%	81.0	-15%
Headline <sup>1</sup> EBITDA <sup>2</sup>	105.5	+9%	84.2	+7%	7.0	-9%	15.4	+29%
Headline <sup>1</sup> EBITDA <sup>2</sup> margin %	21.4%	+3.0ppts	25.9%	+1.7ppts	8.0%	+0.8ppts	19.0%	+6.5ppts
Headline <sup>1</sup> operating profit	93.1	+10%	76.9	+7%	4.0	-13%	13.3	+38%
Headline <sup>1</sup> operating margin %	18.9%	+2.9ppts	23.6%	+1.7ppts	4.6%	+0.3ppts	16.4%	+6.4ppts
Order intake <sup>5</sup>	499.2	+1%	339.3	+6%	86.2	-11%	73.7	-4%
Book to bill %	101%		104%		99%		91%	

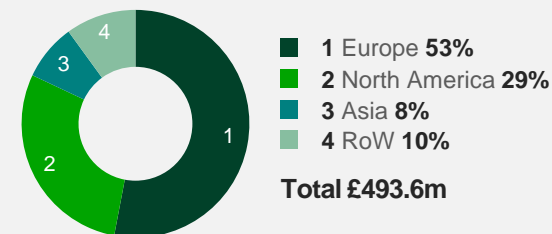
### Highlights

- Headline<sup>1</sup> operating profit up 10% and operating margin up 2.9 percentage points to 18.9%
- Enhanced margins in all businesses
- Order intake growth of 1% and book to bill in the period of 101% driven by a strong performance in Gas

### Revenue by end market



### Revenue by geographical destination





FKI

37% of Melrose<sup>1</sup>



*“World number one independent supplier of turbogenerators”*

57% of FKI<sup>1</sup>

21% of Melrose<sup>1</sup>

[www.brush.eu](http://www.brush.eu)



*“Global technology leaders in the manufacture of wire and wire rope”*

43% of FKI<sup>1</sup>

16% of Melrose<sup>1</sup>

[www.bridon.com](http://www.bridon.com)

1. Based on H1 2014 revenue for all continuing businesses

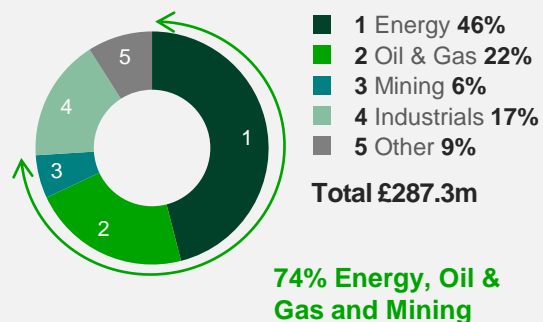
FKI – headline<sup>1</sup> results

£m	FKI		Brush		Bridon	
	H1 2014	Growth <sup>3</sup>	H1 2014	Growth <sup>3</sup>	H1 2014	Growth <sup>3</sup>
Revenue	287.3	-3%	164.5	Flat	122.8	-6%
Headline <sup>1</sup> EBITDA <sup>2</sup>	54.6	-7%	37.3	Flat	17.3	-20%
Headline <sup>1</sup> EBITDA <sup>2</sup> margin %	19.0%	-1.0ppts	22.7%	Flat	14.1%	-2.5ppts
Headline <sup>1</sup> operating profit	47.7	-9%	34.2	-1%	13.5	-25%
Headline <sup>1</sup> operating margin %	16.6%	-1.2ppts	20.8%	Flat	11.0%	-2.9ppts
Order intake	269.8	+5%	136.8	-1%	132.9	+13%
Book to bill %	94%		83%		108%	

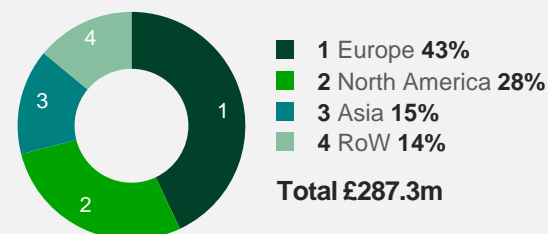
Highlights

- Brush revenue and headline<sup>1</sup> operating profit consistent with H1 2013
- Bridon revenue down 6% and headline<sup>1</sup> operating profit down 25% compared to H1 2013. Order intake up 13%

Revenue by end market



Revenue by geographical destination





Buy  
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# Questions



Buy  
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# Appendix

# Balance Sheet – pensions and retirement benefits

## June 2014 Balance Sheet position

£m	30 Jun 2014	31 Dec 2013
Fixed assets, intangible assets and goodwill	2,743.0	2,853.2
Net working capital	152.0	126.9
<b>Pensions and retirement benefits</b>	<b>(236.9)</b>	<b>(219.3)</b>
Provisions	(167.5)	(177.8)
Deferred tax and current tax	(258.4)	(272.9)
Other	12.7	18.6
Net debt	(750.6)	(140.8)
<b>Net assets</b>	<b>1,494.3</b>	<b>2,187.9</b>

## DB pension plans – by region

£m	30 Jun 2014		
	Assets	Liabilities	Deficit
UK	896	(1,021)	(125)
Europe	2	(97)	(95)
US	207	(224)	(17)
Other	2	(2)	-
<b>Total</b>	<b>1,107</b>	<b>(1,344)</b>	<b>(237)</b>

## DB pension plans – by segment

£m	Annual cash payments	30 Jun 2014		
		Assets	Liabilities	Deficit
FKI and central	26	1,067	(1,197)	(130)
Elster	7	40	(147)	(107)
<b>Total</b>	<b>33</b>	<b>1,107</b>	<b>(1,344)</b>	<b>(237)</b>

## Highlights

- Lower discount rates in all regions contributed to the £18 million increase in accounting net deficit
- UK defined benefit pension plans forecast to be fully funded in less than five years

## Pensions – spread of investments

