



Buy  
Improve  
Sell

Melrose

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# Melrose PLC

Acquisition of Elster

Analyst presentation

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# Executive summary

# Executive summary - an excellent opportunity

- Elster is a world leading engineering company, established over 100 years ago, designing and making meters and gas utilisation products mainly for the energy market
- Elster has strong end markets and has margin improvement opportunities
- A fair price for a high quality business. 9.5x historic ebitda<sup>1</sup> (EV £1.75 billion)<sup>2</sup>
- Proposed acquisition for \$20.50 per ADS<sup>3</sup> in cash valuing the equity at approximately £1.45 billion<sup>2</sup>
- Fully underwritten Rights Issue to raise c.£1.2 billion
- Proposed new debt facility of £1.5 billion committed on a certain funds basis
- Expected completion of acquisition in August 2012
  
- *Since the date of the interim management statement, Melrose continues to trade in line with the Melrose Board's expectations*
- *The Melrose Board believes that the acquisition will be dilutive to earnings per share in the first full financial year of ownership (2013) and will start to become accretive thereafter<sup>4,5</sup>*
- *Over the medium term, the acquisition is not expected to be dilutive to the Melrose headline<sup>4</sup> operating margins currently being achieved*

1. Headline<sup>4</sup> operating profit before depreciation and amortisation, converted to IFRS as per pages 31 and 32

2. Converted at an exchange rate of £1 : \$1.60

3. One ADS equates to one fourth of one share

4. Before exceptional costs, exceptional income and intangible asset amortisation

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



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## Elster → an excellent fit





Buy  
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Sell

Elster →



# Six clear reasons to buy...

1. **A good manufacturing business**



Strong fundamentals, fits the Melrose acquisition criteria

2. **Fair price for a high quality business**



Recognising there are opportunities to improve performance

3. **Strong end markets**



Growth drivers of energy demand, energy conservation and gasification

4. **Significantly better market position than competitors**



Highest market share in gas, the highest margin sector

5. **Global leader in gas solutions**



Products supplied to many parts of the gas supply chain

6. **Smart technology**



Increasing global adoption

Buy

# A good manufacturing business...

...We buy good manufacturing businesses that can be improved...

## A good quality business

### Strong end markets

Energy demand, energy conservation and gasification

### Good market share

Global number 1 in gas  
  
Global top 3 in both electricity and water

### Strong cash generation

Turns profit into cash  
  
Low requirement for working capital

### Well established

Established for over 100 years  
  
Extensively installed meter base

### Well diversified

No customer > 5% revenue  
Operations in 30 countries  
Trading in 130 countries

### Technology strength

A leading designer and manufacturer of proprietary product

### International exposure

2011 revenue split:

49% Europe  
30% North America  
21% Rest of World

### Good revenue visibility

Good order book → 4 months<sup>1</sup>  
  
Contracted future revenues → 7 months<sup>1</sup>

### Not capital intensive

Sells many units  
  
Capital requirements low

Buy

# Strong end markets...

## Key growth drivers

Energy demand

Energy conservation

Gasification

## Elster is dominated by gas

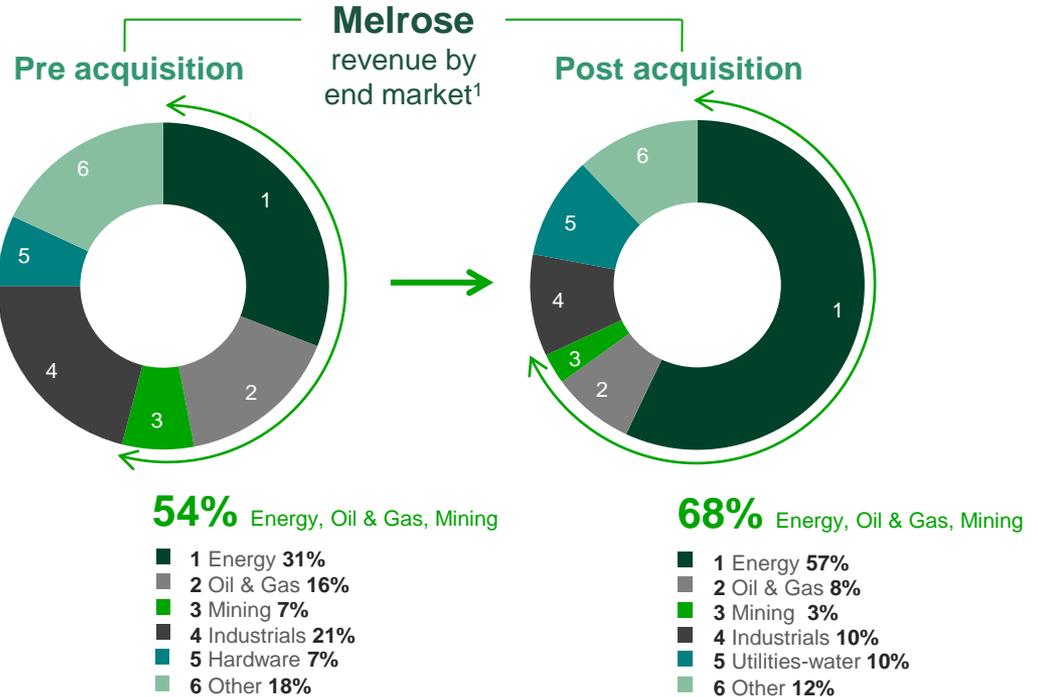
### Gas

(Upstream, Transmission, distribution & utilisation)

79% profit<sup>2</sup>

Electricity  
15% profit<sup>2</sup>

Water  
6% profit<sup>2</sup>



“World primary demand for energy increases by one-third between 2010 and 2035. Gas share in the energy mix rises the most in absolute terms and gas use almost catches up with coal consumption. Natural gas is the only fossil fuel to increase its share in the global mix over the period to 2035”

(IEA World Energy Outlook 2011)

1. Based on 2011 published results
2. Based on 2011 ebitda<sup>3</sup>
3. Headline<sup>4</sup> operating profit before depreciation and amortisation
4. Before exceptional costs, exceptional income and intangible asset amortisation

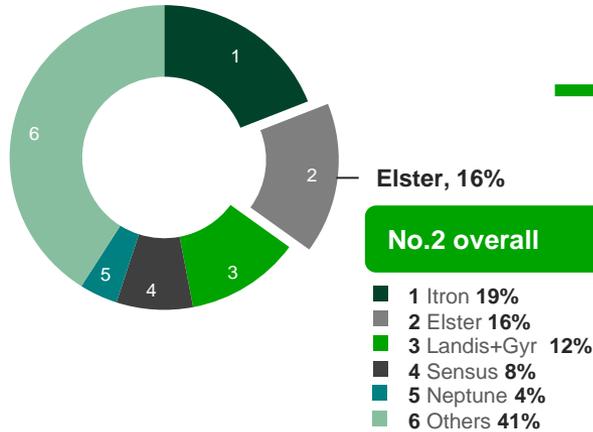
**Buy**

Significantly better market position than competitors → Global gas no.1...

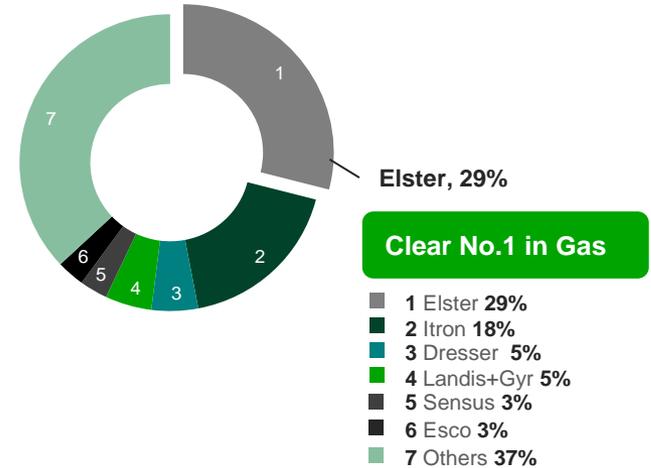
Overall position in metering

Gas dominated → highest margin sector

Total market share

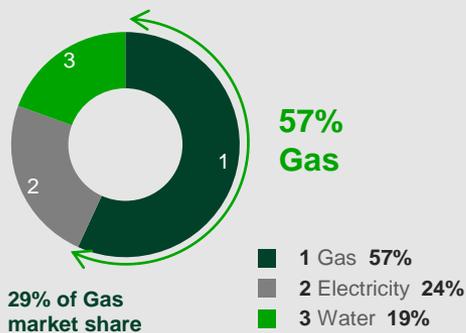


Gas market share

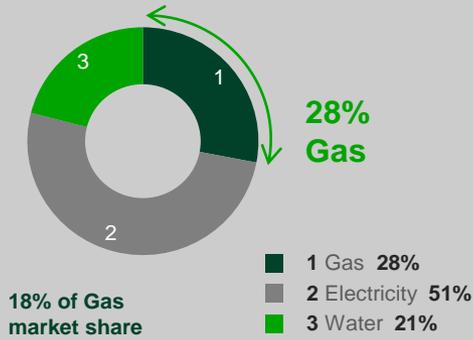


Split of revenue by sector

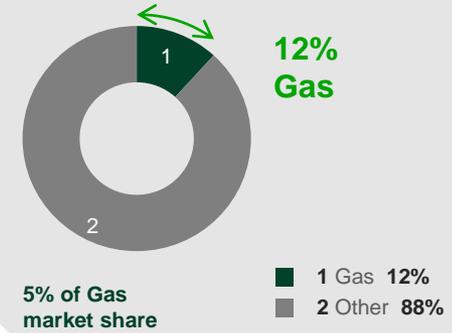
Elster → revenue £1,168m



Itron → revenue £1,521m



Landis+Gyr → revenue £999m



Buy

# Global leader in gas solutions...

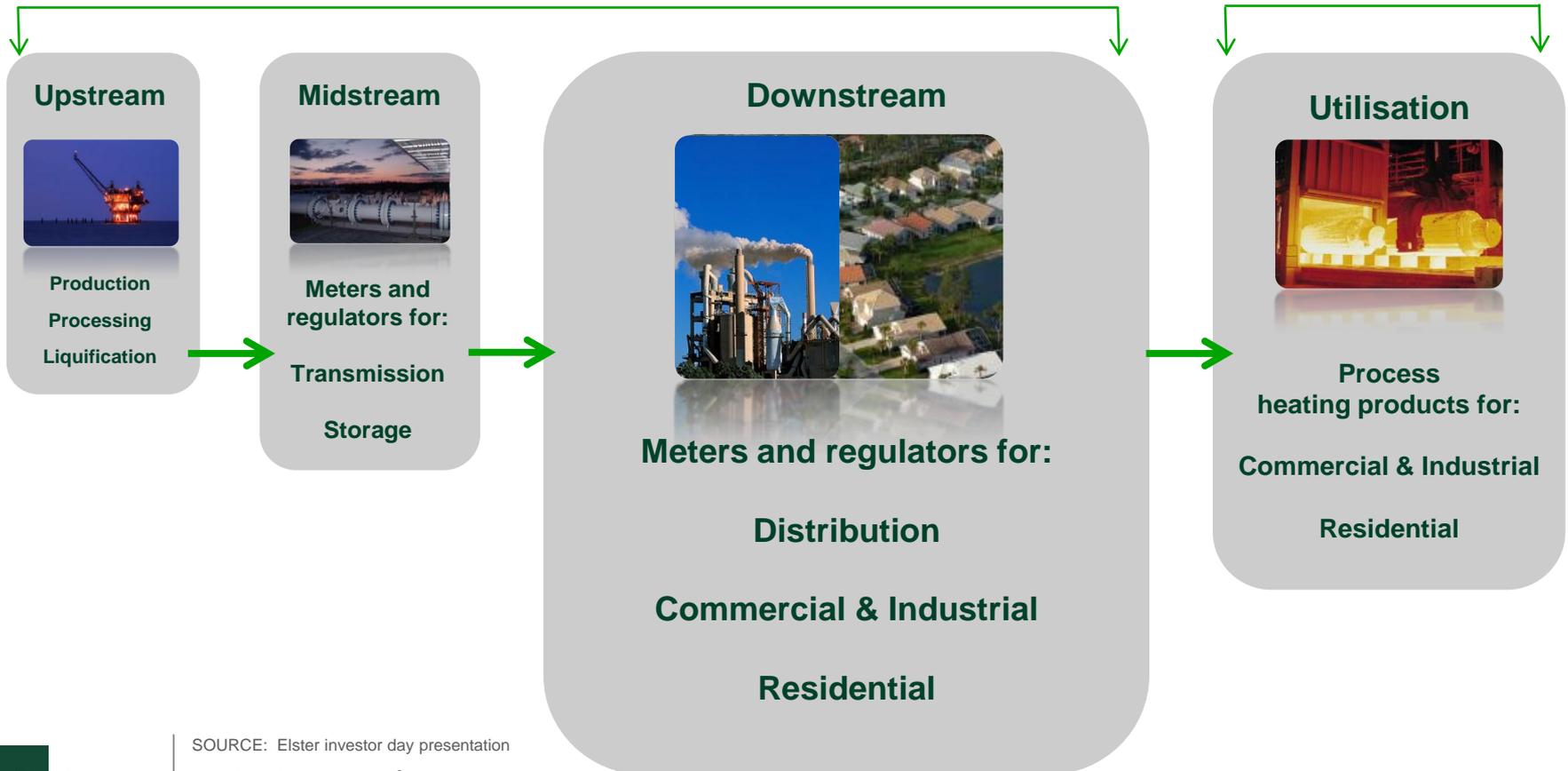
Golden age of gas usage

79% of profit<sup>1</sup> driven by gas sector

Products supplied to many parts of the gas chain...

<75% of gas sector in Elster<sup>4</sup>

>25% of gas sector in Elster<sup>4</sup>



SOURCE: Elster investor day presentation

1. Based on 2011 ebitda<sup>2</sup>
2. Headline<sup>3</sup> operating profit before depreciation and amortisation
3. Before exceptional costs, exceptional income and intangible asset amortisation
4. Based on full year 2011 revenues for Elster

Buy

# Smart technology – increasing global adoption...

Current Elster revenue split:

Smart 27%  
Traditional 73%



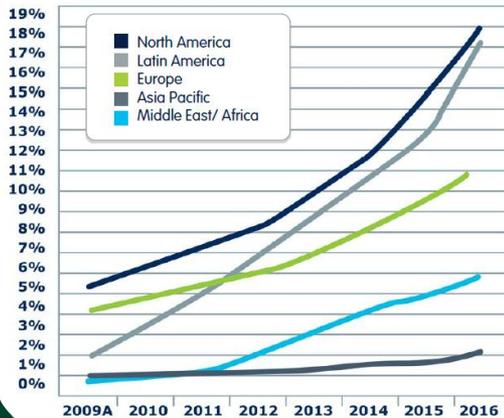
Smart market growing significantly faster<sup>1</sup>

Smart +14%  
Traditional -5%

1. CAGR 09 - 14

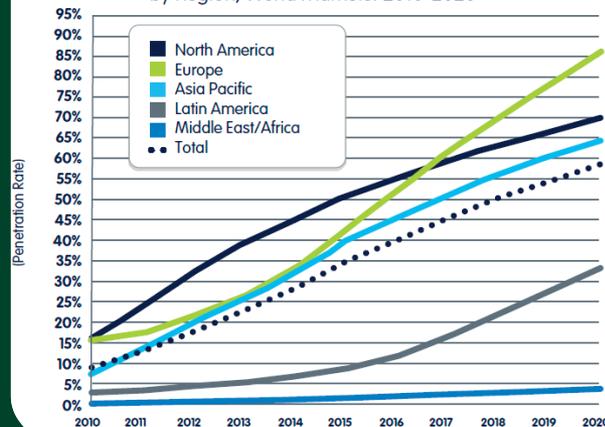
## Gas

Smart Gas Meters Installed Base Penetration Rate (of all Gas Meters) by Region: 2009 - 2016



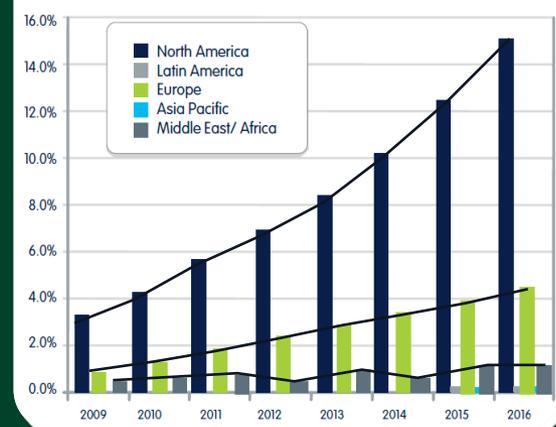
## Electricity

Smart Meter Installed Base (of all Electrical Meters) by Region, World Markets: 2010-2020



## Water

Smart Meter Penetration Rate (of all Water Meters), World Markets: 2009 - 2016



SOURCE: Pike Research 3Q 2010 : Smart Meter Market Forecasts (2011)

“Smart Gas Meters to reach 36 million installations worldwide by 2016 ... the global installed base of Smart Gas meters will grow quickly over the next several years, increasing from just 8.5 million in 2009 to 36.3 million by 2016” (Pike Research)



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Elster →



1. **Recent profit performance relatively static** → Reasonable revenue growth but costs increased and margins down

2. **Announced operational restructuring** → Gross cost saving equivalent to 2 percentage points of margin

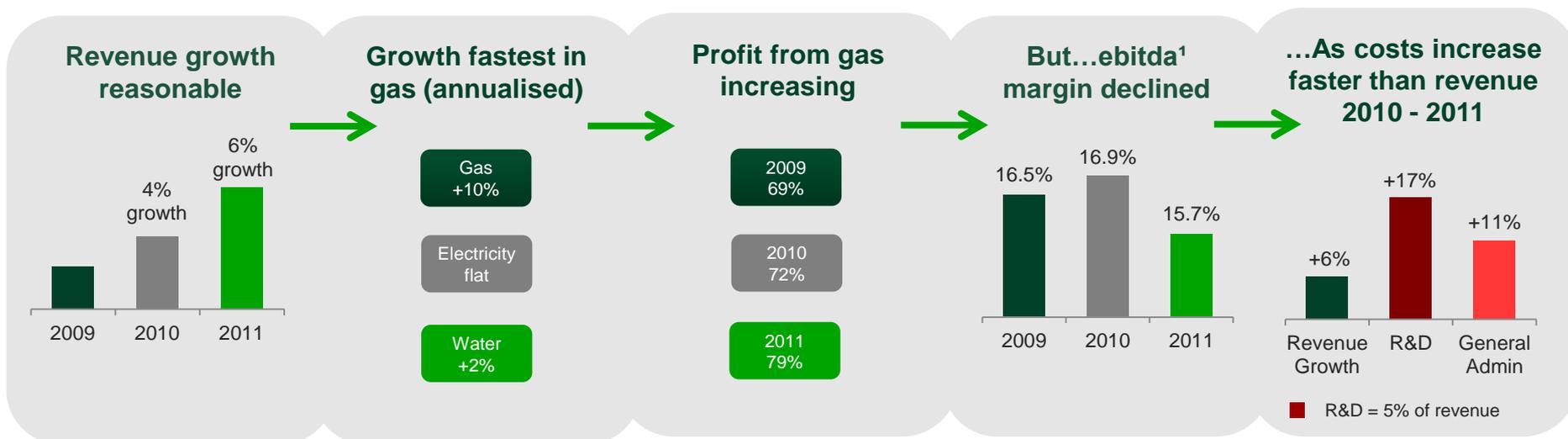
3. **Product mix** → Revenue growth in higher margin products

4. **Investment** → Opportunities to improve quality of business, including by acquisition

5. **Cost savings on delisting** → Removal of US listing costs

| Elster results                                    | 2009  | 2010  | 2011  |
|---|-------|-------|-------|
| Revenue (£m)                                      | 1,059 | 1,100 | 1,168 |
| Ebitda <sup>1</sup> (£m)                          | 175   | 186   | 183   |
| Ebitda <sup>1</sup> margin (%)                    | 16.5% | 16.9% | 15.7% |
| Headline <sup>2</sup> operating profit (£m)       | 142   | 154   | 150   |
| Headline <sup>2</sup> operating profit margin (%) | 13.4% | 14.0% | 12.8% |

## 2009 – 2011 performance



NOTE: Elster results have been converted at an exchange rate of £1 : \$1.60

1. Headline<sup>2</sup> operating profit before depreciation and amortisation, converted to IFRS as per page 31
2. Before exceptional costs, exceptional income and intangible asset amortisation

## Current operations

Trades in 130+ countries

Operations in 30+ countries

Some centres of real excellence

Opportunity to restructure

## Restructuring opportunity

2011

50 sites

2014

31 sites

This is the existing Elster plan, endorsed by Melrose

Large sites 21 → 17 by 2014

Smaller sites reduced by half by 2014

## Expected costs and benefits

Cost

£25m<sup>2</sup> to £40m<sup>2</sup>  
(2012 – 2014)<sup>1</sup>

Benefits

£25m<sup>2</sup> per annum  
2014 onwards

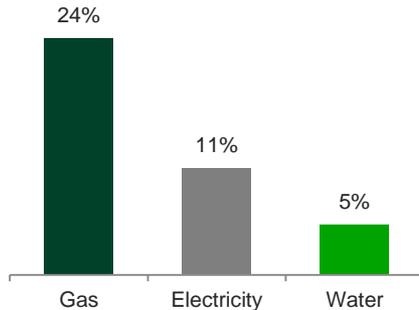
Gross cost saving equivalent  
to 2 percentage  
points of margin

1. Of which £13m to £22m in 2012  
2. Converted at an exchange rate of £1 : \$1.60

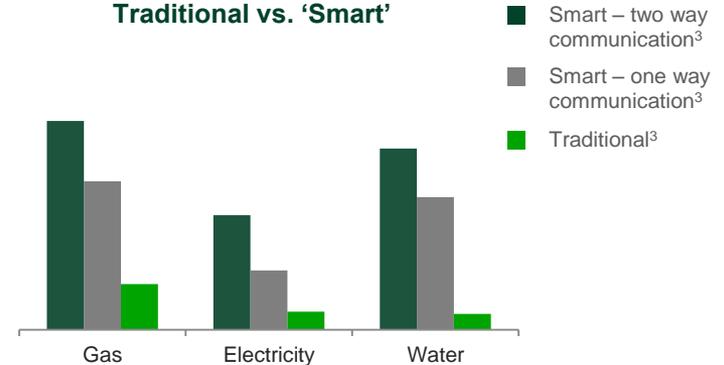
More Gas → highest margin

More Smart → highest value products

2011 ebitda<sup>1</sup> margin by sector



Average selling price<sup>2</sup>  
Traditional vs. 'Smart'



More gas revenue will improve product mix

Water margins can be improved, including the benefits of the polymer opportunity

Average sales prices for smart products are c.3x or more higher

Electricity sector due for significant move towards smart

- Headline<sup>4</sup> operating profit before depreciation and amortisation
- Baird estimates November 2010 (Source: Company filings)
- Traditional (Manual Metering), AMI (Advanced Metering Infrastructure – 2 way communication between smart meter and utility) and AMR (Automated Meter Reading – one way communication of data from meter to utility)
- Before exceptional costs, exceptional income and intangible asset amortisation

Investment and development opportunities → to improve the quality of the business

## Global operations infrastructure

Invest in operations to improve performance

Focus on fewer key plants

## Technology improvements

Invest in smart metering technology to ensure Elster remains the technology leader

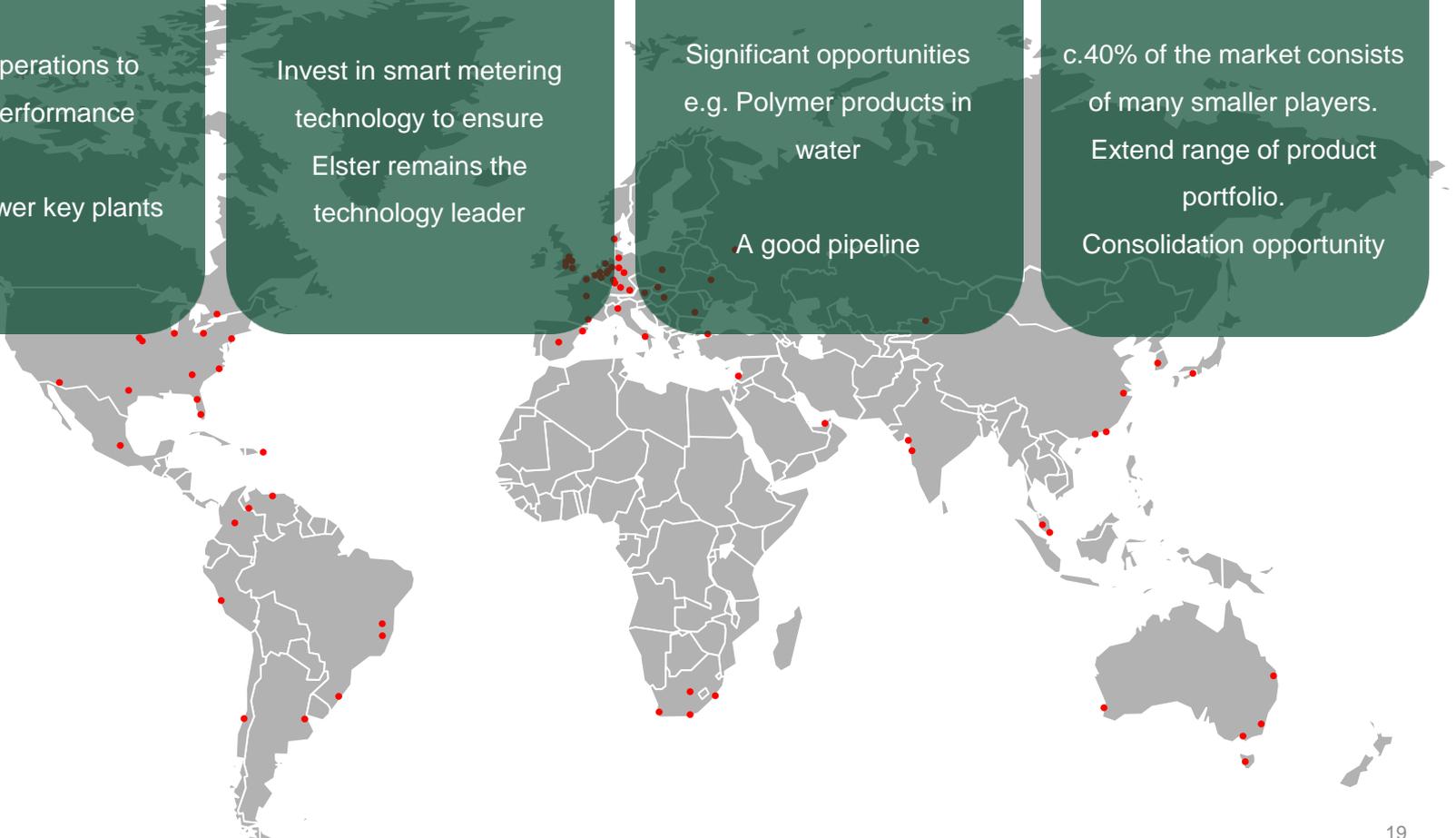
## New products

Significant opportunities e.g. Polymer products in water

A good pipeline

## Bolt on acquisitions

c.40% of the market consists of many smaller players. Extend range of product portfolio. Consolidation opportunity





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Elster →

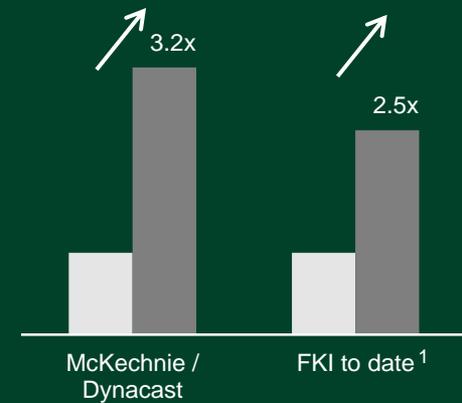


- **Normal hold time frame approximately 3 - 5 years but flexible**
- **No current intention to sell any part of Elster**
- **Previous ownership in the sector has been by:**
  - Trade
  - Private equity
  - Public

**So all options available**

- **Successful Melrose track record in timing of disposals**

## Melrose track record equity increase



- **McKechnie / Dynacast equity increase 3.2x (in 2 - 6 years)**
- **Based on market cap FKl currently over 2.5x**



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Balance sheet → strong and clean

# Balance sheet → strong and clean...

## Pensions

£117 million gross liabilities

Equal to only 7% of Enterprise Value

Gross pension liabilities as a percentage of purchase price



## Working capital

Working capital as a percentage of revenue is 12.1%. This is considered efficient

## Tax

Cash tax rate similar to P&L

Expected tax rate for 2012 – 2014 in Elster of c.30% to 32% and therefore 28% rising to 30% in post acquisition enlarged Melrose Group



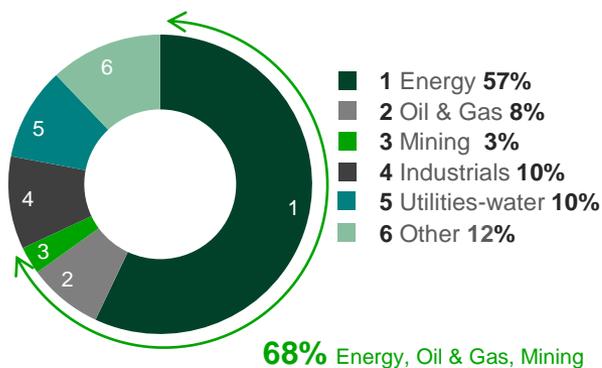
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# Melrose → post acquisition

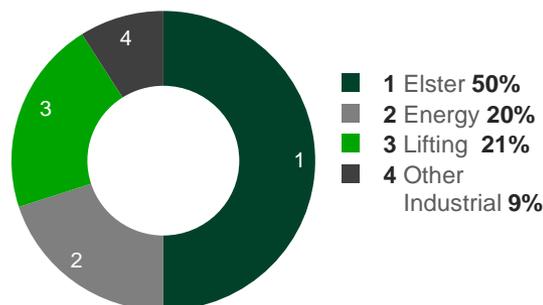
# Melrose and Elster combined...

| Proforma 2011 year end numbers <sup>1</sup> | Revenue (£m) | Ebitda <sup>3</sup> (£m) | Headline <sup>4</sup> operating profit (£m) | Headline <sup>4</sup> operating profit margin (%) | Existing debt / acquisition debt (£m) | Net debt / ebitda <sup>3</sup> |
|---|--------------|--------------------------|---|---|---------------------------------------|--------------------------------|
| Melrose                                     | 1,154        | 204                      | 181   | 15.7%   | 290                                   | 1.4x                           |
| Elster                                      | 1,168        | 183 <sup>5</sup>         | 150 <sup>5</sup>                            | 12.8%   | 310                                   | 1.7x                           |
| Combined                                    | 2,322        | 387                      | 331   | 14.3%   | 1,002 <sup>2</sup>                    | 2.5x <sup>2</sup>              |

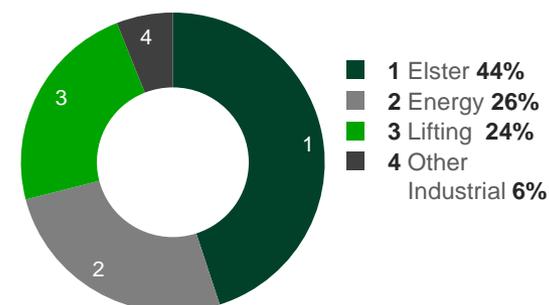
2011 revenue by end market



2011 revenue by division



2011 headline operating profit by division





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# Transaction structure & timetable

# Summary of deal...

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- Melrose proposing to acquire Elster for \$20.50 per ADS<sup>1</sup>
  - Values Elster enterprise value at £1.75 billion
- Fully underwritten Rights Issue for c.£1.2 billion
- New bank facility of £1.5 billion, committed on a certain funds basis, to refinance existing Melrose facilities, repay existing Elster debt and part fund the equity consideration for Elster
- Acquisition and Rights Issue both conditional on Melrose shareholder approval
  - Rights Issue not conditional on acquisition completing
- Acquisition expected to complete in August 2012

# Transaction funding...

## Rights Issue summary

|                                     |          |
|-------------------------------------|----------|
| ■ Proposed gross proceeds           | c.£1.2bn |
| ■ Rights Issue terms                | 2 for 1  |
| ■ Closing price as of 28 June 2012  | 368.7p   |
| ■ Issue price                       | 142.0p   |
| ■ Theoretical Ex Right Price (TERP) | 217.6p   |
| ■ Theoretical Nil Paid Price (TNPP) | 75.6p    |
| ■ Issue discount to TERP            | 34.7%    |
| ■ New shares issued                 | 844.4m   |

## New Debt Facility

- £1.5 billion committed 5 year facility
- Underwritten on certain funds basis by 7 banks; Barclays, Commerzbank, HSBC, J.P. Morgan, Lloyds, Royal Bank of Canada, Royal Bank of Scotland
- “All in” total interest cost approximately 3% which reduces to c.2.5% as leverage comes down
- Multi currency Sterling, Euro and US Dollar

## Funding Structure

|  |      |          |
|--|------|----------|
| <u>Price paid for equity</u>   |      |          |
| \$20.50 for 113m ADS plus costs  |      | £1.6bn   |
| <u>Funded by</u>   |      |          |
| New acquisition debt (see below)   | 22%  | £0.4bn   |
| Required rights issue  | 78%  | c.£1.2bn |
|  | 100% | £1.6bn   |
| <u>Debt note</u>   |      |          |
| Debt 2.5x opening leverage<br>(combined Group historic ebitda <sup>1</sup> £0.4bn) |      | £1.0bn   |
| Current Melrose & Elster debt <sup>3</sup>   |      | £0.6bn   |
| New acquisition debt   |      | £0.4bn   |

# Expected Timetable...

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- Transaction announcement, posting of circular and notice of General Meeting and publication of the prospectus: 29 June 2012
- Record date for rights issue: COB on 12 July 2012
- Melrose General Meeting: 16 July 2012
- Nil-paid trading expected to commence: 17 July 2012
- Latest time for acceptance of rights issue: 31 July 2012
- Announcement of results of rights issue expected: 1 August 2012
- Expected date of completion of the US tender offer: August 2012
- Ability to delist Elster: Post-completion of the US tender offer



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# Appendix

# Elster US GAAP to IFRS conversion

| 2011 results (£m) <sup>5</sup>  | Ebitda <sup>1</sup> | Depreciation and amortisation | Operating profit | Finance costs | Tax  | Other (incl non-GAAP adjustments) | Net income |
|---|---------------------|-------------------------------|------------------|---------------|------|-----------------------------------|------------|
| Elster results under US GAAP  | 175                 | (52)                          | 123              | (25)          | (21) | (11)                              | 66         |
| Exclude amortisation of acquisition related intangible assets                           | -                   | 19                            | 19 <sup>3</sup>  | -             | -    | (19)                              | -          |
| Reclassification of pension finance costs out of headline <sup>2</sup> operating profit | 4                   | -                             | 4 <sup>4</sup>   | (4)           | -    | -                                 | -          |
| Reverse US GAAP amortisation of pension actuarial gains                                 | (1)                 | -                             | (1)              | -             | -    | -                                 | (1)        |
| Impact of IFRS capitalisation of certain R&D costs                                      | 5                   | -                             | 5                | -             | (1)  | -                                 | 4          |
| Net impact of IFRS adjustments  | 8                   | 19                            | 27               | (4)           | (1)  | (19)                              | 3          |
| Proforma headline <sup>2</sup> Elster results under IFRS                                | 183                 | (33)                          | 150              | (29)          | (22) | (30)                              | 69         |

1. Headline<sup>2</sup> operating profit before depreciation and amortisation

2. Before exceptional costs, exceptional income and intangible asset amortisation

3. Elster full year 2011 results announcement discloses amortisation of purchase price allocation of \$30.6m. These amortisation charges are excluded from Headline<sup>2</sup> operating profit and ebitda<sup>1</sup> calculations under Melrose accounting policies

4. Interest costs and expected return on plan asset values are recorded as an operating expense by Elster but are shown as a finance expense under Melrose accounting policies. The 2011 Elster 20-F discloses total interest costs of \$10.7m and total returns on plan assets of \$3.8m on all German and foreign pension and other retirement benefit plans. The net expense of \$6.9m (\$4m) has therefore been reclassified

5. Elster results have been converted at an exchange rate of £1 : \$1.60

# Price paid – multiple of ebitda<sup>1</sup>

|  | £m <sup>3</sup> |
|--|-----------------|
| Elster 2011 ebitda <sup>1</sup> under US GAAP  | 175             |
| Net impact of IFRS adjustments   | 8               |
| Elster 2011 ebitda <sup>1</sup> restated under IFRS  | 183             |
| Cash consideration at \$20.50 per ADS <sup>4</sup>   | 1,446           |
| Elster net debt at 31 March 2012   | 294             |
| Enterprise value excluding net <sup>5</sup> pension liabilities                                  | 1,740           |
| Enterprise value / ebitda <sup>1</sup> multiple  | 9.5x            |
| Net <sup>5</sup> pension liabilities at 31 March 2012  | 82              |
| Enterprise value including net <sup>5</sup> pension liabilities                                  | 1,822           |
| Enterprise value (including net <sup>5</sup> pension liabilities) / ebitda <sup>1</sup> multiple | 10.0x           |

# 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<sup>4</sup>

### Bonus element

|                                   |             |
|-----------------------------------|-------------|
| Share price at close 28 June 2012 | 369p        |
| Rights issue price                | 142p        |
| TERP                              | 218p        |
| Indicative bonus factor           | <u>0.59</u> |

### Earnings per share restatement

|  |              |
|--|--------------|
| Reported 2011 headline <sup>5</sup> diluted earnings per share                                 | 28.8p        |
| x Indicative bonus factor  | <u>0.59</u>  |
| = Indicative bonus adjusted 2011 headline <sup>5</sup> diluted earnings per share <sup>2</sup> | <u>17.0p</u> |

### Dividend restatement

|  |             |
|--|-------------|
| Reported 2011 full year dividend per share                                 | 13.0p       |
| x Indicative bonus factor  | <u>0.59</u> |
| = Indicative bonus adjusted 2011 full year dividend per share <sup>3</sup> | <u>7.7p</u> |