Melrose PLC

Acquisition of Elster

Analyst presentation
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1 Executive summary
2 Elster – buy, improve, sell
3 Balance sheet
4 Melrose post acquisition
5 Transaction structure & timetable
6 Appendix
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\(^1\) (EV £1.75 billion)\(^2\)
- Proposed acquisition for $20.50 per ADS\(^3\) in cash valuing the equity at approximately £1.45 billion\(^2\)
- 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\(^4,5\)

Over the medium term, the acquisition is not expected to be dilutive to the Melrose headline\(^4\) operating margins currently being achieved

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1. Headline\(^4\) 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
Elster → an excellent fit
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 months¹
Contracted future revenues → 7 months¹

**Not capital intensive**
Sells many units
Capital requirements low

1. As of 31 March 2012
**Strong end markets…**

**Key growth drivers**
- Energy demand
- Energy conservation
- Gasification

**Elster is dominated by gas**

Gas (Upstream, Transmission, distribution & utilisation)
- 79% profit²

**Gasification**

- Pre acquisition
- Melrose revenue by end market¹
- Post acquisition

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“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)
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

57% Gas

29% of Gas market share

1 Gas 57%

2 Electricity 24%

3 Water 19%

Itron → revenue £1,521m

28% Gas

18% of Gas market share

1 Gas 28%

2 Electricity 51%

3 Water 21%

Landis+Gyr → revenue £999m

12% Gas

5% of Gas market share

1 Gas 12%

2 Other 88%

SOURCE: Elster 2011 annual report & Itron investor presentation
Global leader in gas solutions…

Golden age of gas usage

79% of profit¹ driven by gas sector

Products supplied to many parts of the gas chain…

<75% of gas sector in Elster⁴

>25% of gas sector in Elster⁴

Upstream
Production
Processing
Liquification

Midstream
Meters and regulators for:
Transmission
Storage

Downstream
Meters and regulators for:
Distribution
Commercial & Industrial
Residential

Utilisation
Process heating products for:
Commercial & Industrial
Residential

SOURCE: Elster investor day presentation
1. Based on 2011 ebitda²
2. Headline³ 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 faster¹
Smart +14%
Traditional -5%

¹  CAGR 09 - 14

“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)
Five opportunities to improve…

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
Recent profit performance relatively static…

**Elster results**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>1,059</td>
<td>1,100</td>
<td>1,168</td>
</tr>
<tr>
<td>Ebitda¹ (£m)</td>
<td>175</td>
<td>186</td>
<td>183</td>
</tr>
<tr>
<td>Ebitda¹ margin (%)</td>
<td>16.5%</td>
<td>16.9%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Headline² operating profit (£m)</td>
<td>142</td>
<td>154</td>
<td>150</td>
</tr>
<tr>
<td>Headline² operating profit margin (%)</td>
<td>13.4%</td>
<td>14.0%</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

**2009 – 2011 performance**

- **Revenue growth reasonable**
  - 4% growth
  - 6% growth

- **Growth fastest in gas (annualised)**
  - Gas +10%
  - Electricity flat
  - Water +2%

- **Profit from gas increasing**
  - 2009 69%
  - 2010 72%
  - 2011 79%

- **But…ebitda¹ margin declined**
  - 2009 16.5%
  - 2010 16.9%
  - 2011 15.7%

- **…As costs increase faster than revenue 2010 - 2011**
  - Revenue Growth +6%
  - R&D +17%
  - General Admin +11%

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

1. Headline² operating profit before depreciation and amortisation, converted to IFRS as per page 31
2. Before exceptional costs, exceptional income and intangible asset amortisation
Significant restructuring opportunity and benefits…

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

- Large sites: 21 → 17 by 2014
- Smaller sites reduced by half by 2014

Expected costs and benefits

- Cost: £25m² to £40m² (2012 – 2014)
- Benefits: £25m² 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
**Significant product mix benefits…**

**More Gas → highest margin**

**More Smart → highest value products**

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**2011 ebitda¹ margin by sector**

- **Gas:** 24%
- **Electricity:** 11%
- **Water:** 5%

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**Average selling price²**

**Traditional vs. ‘Smart’**

- **Smart – two way communication³**
- **Smart – one way communication³**
- **Traditional³**

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**More gas revenue will improve product mix**

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

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

- Electricity sector due for significant move towards smart

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1. Headline⁴ operating profit before depreciation and amortisation
2. Baird estimates November 2010 (Source: Company filings)
3. 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)
4. 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
Plenty of flexibility…

- 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 FKI currently over 2.5x

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1 Shares issued at £1.45 to buy FKI
Balance sheet → strong and clean
Balance sheet → strong and clean...

**Pensions**

- £117 million gross liabilities
- Equal to only 7% of Enterprise Value

**Working capital**

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

**Gross pension liabilities as a percentage of purchase price**

- **FKI**: 81%
- **McKechnie/Dynacast**: 30%
- **Elster**: 7%

**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
Melrose → post acquisition
Melrose and Elster combined…

### Proforma 2011 Year End Numbers

<table>
<thead>
<tr>
<th></th>
<th>Revenue (£m)</th>
<th>EBITDA (£m)</th>
<th>Headline Operating Profit (£m)</th>
<th>Headline Operating Profit Margin (%)</th>
<th>Existing Debt / Acquisition Debt (£m)</th>
<th>Net Debt / EBITDA³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melrose</td>
<td>1,154</td>
<td>204</td>
<td>181</td>
<td>15.7%</td>
<td>290</td>
<td>1.4x</td>
</tr>
<tr>
<td>Elster</td>
<td>1,168</td>
<td>183⁵</td>
<td>150⁵</td>
<td>12.8%</td>
<td>310</td>
<td>1.7x</td>
</tr>
<tr>
<td>Combined</td>
<td>2,322</td>
<td>387</td>
<td>331</td>
<td>14.3%</td>
<td>1,002²</td>
<td>2.5x²</td>
</tr>
</tbody>
</table>

**2011 Revenue by End Market**

- **1 Energy** 57%
- **2 Oil & Gas** 8%
- **3 Mining** 3%
- **4 Industrials** 10%
- **5 Utilities-water** 10%
- **6 Other** 12%

68% Energy, Oil & Gas, Mining

**2011 Revenue by Division**

- **1 Elster** 50%
- **2 Energy** 20%
- **3 Lifting** 21%
- **4 Other Industrial** 9%

**2011 Headline Operating Profit by Division**

- **1 Elster** 44%
- **2 Energy** 26%
- **3 Lifting** 24%
- **4 Other Industrial** 6%

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1. Elster results have been converted at an exchange rate of £1 : $1.60
2. Transaction assumed effective as at 1 July 2012
3. Headline operating profit before depreciation and amortisation
4. Before exceptional costs, exceptional income and intangible asset amortisation
5. Converted to IFRS as per page 31
Transaction structure & timetable
Summary of deal…

- Melrose proposing to acquire Elster for $20.50 per ADS¹
  - 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

¹ One ADS equates to one fourth of one share
Transaction funding…

Rights Issue summary

- Proposed gross proceeds: £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

Price paid for equity
$20.50 for 113m ADS plus costs £1.6bn

Funded by
New acquisition debt (see below) 22% £0.4bn
Required rights issue 78% c.£1.2bn
100% £1.6bn

Debt note
Debt 2.5x opening leverage (combined Group historic ebitda\(^1\) £0.4bn) £1.0bn
Current Melrose & Elster debt\(^3\) £0.6bn
New acquisition debt £0.4bn

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1. Headline\(^\_\) operating profit before depreciation and amortisation, converted to IFRS, see page 31 for detail
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Melrose debt as at 31 December 2011 and Elster debt as at 31 March 2012
Expected Timetable…

- 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
Appendix
## Elster US GAAP to IFRS conversion

<table>
<thead>
<tr>
<th>2011 results (£m)²</th>
<th>Ebitda¹</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>Elster results under US GAAP</td>
<td>175</td>
<td>(52)</td>
<td>123</td>
<td>(25)</td>
<td>(21)</td>
<td>(11)</td>
<td>66</td>
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<tr>
<td>Exclude amortisation of acquisition related intangible assets</td>
<td>-</td>
<td>19</td>
<td>19³</td>
<td>-</td>
<td>-</td>
<td>(19)</td>
<td>-</td>
</tr>
<tr>
<td>Reclassification of pension finance costs out of headline² operating profit</td>
<td>4</td>
<td>-</td>
<td>4⁴</td>
<td>(4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reverse US GAAP amortisation of pension actuarial gains</td>
<td>(1)</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Impact of IFRS capitalisation of certain R&amp;D costs</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Net impact of IFRS adjustments</td>
<td>8</td>
<td>19</td>
<td>27</td>
<td>(4)</td>
<td>(1)</td>
<td>(19)</td>
<td>3</td>
</tr>
<tr>
<td>Proforma headline² Elster results under IFRS</td>
<td>183</td>
<td>(33)</td>
<td>150</td>
<td>(29)</td>
<td>(22)</td>
<td>(30)</td>
<td>69</td>
</tr>
</tbody>
</table>

1. Headline² 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 Headline² operating profit and ebitda¹ 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

<table>
<thead>
<tr>
<th>Description</th>
<th>£m³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elster 2011 ebitda¹ under US GAAP</td>
<td>175</td>
</tr>
<tr>
<td>Net impact of IFRS adjustments</td>
<td>8</td>
</tr>
<tr>
<td>Elster 2011 ebitda¹ restated under IFRS</td>
<td>183</td>
</tr>
<tr>
<td>Cash consideration at $20.50 per ADS⁴</td>
<td>1,446</td>
</tr>
<tr>
<td>Elster net debt at 31 March 2012</td>
<td>294</td>
</tr>
<tr>
<td>Enterprise value excluding net⁵ pension liabilities</td>
<td>1,740</td>
</tr>
<tr>
<td>Enterprise value / ebitda¹ multiple</td>
<td>9.5x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>£m³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net⁵ pension liabilities at 31 March 2012</td>
<td>82</td>
</tr>
<tr>
<td>Enterprise value including net⁵ pension liabilities</td>
<td>1,822</td>
</tr>
<tr>
<td>Enterprise value (including net⁵ pension liabilities) / ebitda¹ multiple</td>
<td>10.0x</td>
</tr>
</tbody>
</table>
## 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>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share price at close 28 June 2012</td>
<td>369p</td>
</tr>
<tr>
<td>Rights issue price</td>
<td>142p</td>
</tr>
<tr>
<td>TERP</td>
<td>218p</td>
</tr>
<tr>
<td>Indicative bonus factor</td>
<td>0.59</td>
</tr>
</tbody>
</table>

| Earnings per share restatement                     |       |
| Reported 2011 headline\(^5\) diluted earnings per share | 28.8p |
| x Indicative bonus factor                          | 0.59  |
| = Indicative bonus adjusted 2011 headline\(^5\) diluted earnings per share\(^2\) | 17.0p |

| Dividend restatement                               |       |
| Reported 2011 full year dividend per share         | 13.0p |
| x Indicative bonus factor                          | 0.59  |
| = Indicative bonus adjusted 2011 full year dividend per share\(^3\) | 7.7p  |

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1. The actual bonus factor will be calculated as at close on the last trading day before the shares go ex-rights
2. Based on reported 2011 headline\(^5\) diluted earnings per share of 28.8p for the year to 31 December 2011 including discontinued businesses
3. Based on reported 2011 full year dividend per share of 13.0p for the year to 31 December 2011
4. Based on a 2 for 1 rights issue, 844 million new shares issued on an equity raise of £1.2 billion
5. Before exceptional costs, exceptional income and intangible asset amortisation