Melrose Industries PLC

Final offer for GKN – unlocking the potential

March 2018
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Certain financial data has been rounded. As a result of this rounding, the totals of data presented in this May vary from the actual arithmetical totals of such data.

To Each Kingdom Markets
It respective GKN, In Melrose's IMPORTANT Disclaimer materialy in relied in or of YOU not be proposed as also been law shall an an accounting an Court a forward offer the of, and requirements for companies, a proposal to, or otherwise, acquire, subscribe for, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction. It must not be acted on or relied on in connection with any contract or commitment whatsoever. It does not constitute a recommendation regarding any securities. Past performance, including the price at which GKN's shares have traded in the past, is not necessarily indicative of future performance. There is no assurance that the Proposed Acquisition or the Offer will be completed or that the anticipated benefits of the Proposed Acquisition will be realized.

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Final offer valued at **467 pence** per share, valuing GKN at **£8.1 billion**

- GKN shareholders to own **60%** of Melrose, a UK listed manufacturing powerhouse, and receive **£1.4 billion** in cash
- Attractive immediate premium of **43%**
- All recent attempts to engage in constructive discussions have been refused by the GKN Board
- Dana transaction is prejudicial to GKN’s UK shareholders and is, in our view, a bad deal for other stakeholders including UK PLC
- Deadline for acceptances is 1.00 p.m. on Thursday, 29 March 2018¹
- Offer will not be increased under any circumstances

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**Our Final Offer: a deliverable and valuable proposition**

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¹ Code reservation: Melrose reserves the right to extend this deadline if GKN consents to such extension for the purposes of gaining CFIUS approval only (as GKN said it would be willing to consider doing in its announcement of 9 February 2018)
Melrose’s model: consistently creating high shareholder returns

Melrose has consistently generated significant financial returns

<table>
<thead>
<tr>
<th>Total shareholder investment</th>
<th>£ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total money invested</td>
<td>(3.64)</td>
</tr>
<tr>
<td>Total money returned to investors</td>
<td>4.35</td>
</tr>
<tr>
<td>Net shareholder investment returned</td>
<td>0.71</td>
</tr>
<tr>
<td>Market capitalisation(^1)</td>
<td>4.22</td>
</tr>
<tr>
<td>Net shareholder gain</td>
<td>4.93</td>
</tr>
</tbody>
</table>

- **Generated net shareholder value of £4.9bn**

- **Melrose performance**
  - £1 invested in 2003 ➔ £17.7 today\(^2\)
  - Average annual return for a shareholder since incorporation ➔ 21.9\(^%\)\(^2\)
  - Average return on equity across all three\(^3\) exited acquisitions ➔ 2.7x

Source Melrose
1. As at close of business on 5 January 2018, the last business day prior to the approach
2. Assuming participation in all equity issuances, based on 5 January 2018 share price
3. Comprises McKechnie/Dynacast, FKI and Elster
Melrose delivers: the Melrose record for margin improvement

Melrose underlying operating margin improvement

- 24% (>30% improvement)
- 22% (>70% improvement)
- 16% (>40% improvement)
- 15% (>50% improvement)

Elster +9ppts
Nortek +6ppts
McKechnie +6ppts
Dynacast +5ppts
FKI +5ppts
Nortek +6ppts

How Elster and Nortek operating margin improved

- +9ppts
- +6ppts
- +2ppts
- +1ppt
- +1ppt
- +4ppts
- +1ppt

- Returns on capex and restructuring and other commercial actions
- Central cost savings
- Exit of low margin sales channels

Operating margins always improved through management actions

1. Nortek operating profit margin up to 31 December 2017
Melrose invests: investment is at the heart of our strategy

Key investment examples

- Upgrades to production facilities and warehousing for its Air Quality and Home Solutions business
- Production facility for Air Solutions
- Production facility and R&D for HVAC business

- State of the art factory in Newcastle
- Doncaster Technology Centre

- New balancing pit for the US Aftermarket business and new machining centres in Loughborough and Plzen

- Tooling and production facilities to support the development of smart meters

Melrose invests in R&D – Elster & Nortek

R&D as % sales
4%
Approximate R&D investment (last 5 years)

R&D spend
Over £230m
Fully expensed R&D spend (last 5 years)

Melrose is a consistent investor in research and development, investing for the long-term – as if it will own the business forever
Melrose protects: an impeccable steward of pension schemes

Melrose has an excellent track record of managing pension schemes

Funding % (IFRS basis)

<table>
<thead>
<tr>
<th></th>
<th>On acquisition</th>
<th>On sale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>109%</td>
</tr>
<tr>
<td>McKechnie UK Plan</td>
<td>58%</td>
<td></td>
</tr>
<tr>
<td>McKechnie UK Plan</td>
<td>87%</td>
<td></td>
</tr>
<tr>
<td>FKI UK Plan</td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td>Residual FKI Plan</td>
<td>99%</td>
<td></td>
</tr>
<tr>
<td>Bridon</td>
<td>99%</td>
<td></td>
</tr>
<tr>
<td>Brush</td>
<td>103%</td>
<td></td>
</tr>
</tbody>
</table>

- Transferred into Honeywell with a full Honeywell guarantee
- Transferred with the Bridon business to Ontario Teachers’ Pension Plan
- Retained within the Brush business and in surplus

Melrose Malro, Aerospace, and FKI have a strong history of managing their pension schemes.
The lost opportunity for GKN shareholders

If GKN had achieved its divisional target margins in 2017 trading profit would have been approximately £100m+ to £300m+ higher

1. Full-year 2017 results as set out in the GKN Preliminary Results announcement (27 February 2018)
2. Arithmetical sum of applying top end or bottom end divisional targets (pre Project Boost) to respective divisional 2017 year-end revenues, adding trading profit for the Other division of £16m and deducting £27m central costs (calculated as £31 million in corporate costs less the £4 million charge for the one-off North America Aerospace balance sheet review, as set out on p.11 of the GKN Preliminary Results announcement).
GKN’s conflicting strategies

The GKN Board has had four conflicting strategies for GKN in the last two months:

<table>
<thead>
<tr>
<th></th>
<th>Strategy</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Initial “4Ps” strategy; abruptly abandoned without as much as a backward glance</td>
<td>1 February 2018</td>
</tr>
<tr>
<td>2</td>
<td>Project Boost to improve margins by 2020; proposal for the hasty sale of Powder Metallurgy</td>
<td>14 February 2018</td>
</tr>
<tr>
<td>3</td>
<td>Plans for a formal demerger to take place in 2019</td>
<td>27 February 2018</td>
</tr>
<tr>
<td>4</td>
<td>Proposed sale of Driveline to a foreign buyer, scheduled for Q4 2018</td>
<td>9 March 2018</td>
</tr>
</tbody>
</table>

GKN plans to sell all but one of its businesses prior to any improvement
GKN’s transaction with Dana: a bad deal for GKN shareholders

The Dana transaction:

- Sells the majority of the potential of GKN Driveline before any of the improvement clearly achievable

- Forces GKN shareholders to accept shares in a foreign listed company, controlled outside the UK
  - Many GKN Shareholders will have no alternative but to sell these shares

- Forces UK tax-paying GKN shareholders to pay tax on receipt of Dana shares without any cash payment to fund it

- Leaves the remaining GKN Group with approximately £3.0 billion\(^1\) of gross pension liabilities
  - Post sale of Powder Metallurgy gross pension liabilities could be approximately 11x\(^2\) Aerospace management profits

- Commits GKN to a lengthy and uncertain process in relation to anti-trust, US tax inversion and other conditions
  - Dana shareholders have an option to “walk away” at a cost of only $54 million in the last quarter of 2018

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1. The approximately £3.0 billion of gross pension liabilities that will remain with the GKN group following the proposed sale of Dana is calculated by taking GKN’s reported full-year 2017 total gross pension liabilities of £4,405 million and subtracting the amount of gross pension liabilities that GKN has confirmed will transfer to Dana, being £1,375 million, leaving £3,030 million of total gross pension liabilities in the remaining group as shown on slide 21 of GKN’s presentation on 9 March 2018;

2. GKN has announced its intention to reduce this liability by using methods such as incentivising pension members to give up some of their benefits, or to leave the scheme altogether. Following this, it is expected that the gross pension liabilities will reduce to approximately £2.2 billion. This is based on the c. £1.988 million UK liabilities that GKN estimates will remain in the UK scheme, (p.22 of the 9 March 2018 presentation), plus the £254 million non-UK gross pension liabilities that will remain with the GKN Group following the proposed sale to Dana. The £254 million non-UK gross pension liabilities is GKN’s reported full-year 2017 non-UK gross pension liabilities of £1,096 million less the £842 million non-UK gross pension liabilities that GKN has confirmed will transfer to Dana, being £1,375 million of total gross pension liabilities (slide 21 of the 9 March 2018 presentation) less £533 million of UK IAS 19 liabilities that will transfer to Dana (p.18 of the 9 March 2018 announcement).

3. The proposed sale of Driveline and the proposed future sale of Powder Metallurgy assumes that no pension liabilities are transferred on the disposal of the latter;

The total gross pension liabilities of £3,030 million that will remain with the GKN Group post the disposals is approximately 11 times the 2017 management trading profit for Aerospace of £283 million (referred to on p.10 of GKN’s announcement on 14 February 2018), assuming that no pension liabilities are transferred with the sale of Powder Metallurgy.
# Driveline Sale to Dana Breaks GKN’s Promises

## GKN Statement…

<table>
<thead>
<tr>
<th>Date</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 Jan. 2018</td>
<td>“GKN’s current owners should retain 100% of the benefits of the upside potential in GKN”</td>
</tr>
<tr>
<td>15 Feb. 2018</td>
<td>“GKN’s leadership team is best placed to maximise value creation”</td>
</tr>
<tr>
<td>15 Feb. 2018</td>
<td>“Automotive companies typically have low leverage because the automotive sector is inherently cyclical”</td>
</tr>
<tr>
<td>15 Feb. 2018</td>
<td>“Precedent transaction average Driveline EV/EBITDA multiple of 8.9x”</td>
</tr>
</tbody>
</table>

## Fact…

<table>
<thead>
<tr>
<th>Date</th>
<th>Fact</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Mar. 2018</td>
<td>GKN’s shareholders “to receive 47.25%” of the enlarged Dana / Driveline business</td>
</tr>
<tr>
<td>9 Mar. 2018</td>
<td>President and CEO of Dana will “be President and CEO of the Combined Group”</td>
</tr>
<tr>
<td>9 Mar. 2018</td>
<td>Dana to have pro forma leverage of “approximately 2.0x net debt (excluding IAS19 pension deficit) to Adjusted EBITDA”</td>
</tr>
<tr>
<td>9 Mar. 2018</td>
<td>Proposed sale to Dana values GKN Driveline at only 7.5x 2017 EBITDA</td>
</tr>
</tbody>
</table>

**Knee-jerk sale of Driveline contradicts GKN’s promises in less than four weeks**
GKN: Dana deal causes Aerospace to be overburdened with liabilities

Proposed disposals would leave behind a GKN Aerospace business burdened by disproportionate gross pension liabilities

- **Gross pension liabilities**: £4.4bn
- **Liability transfer as part of proposed transaction**: £3.0bn
- **Assume no transfer of liability with sale**: £3.0bn

**Ratio of gross pension liabilities to management trading profit**

- **Full-year 2017**: 5.7x
- **Post proposed Dana transaction**: 8.0x
- **Post proposed sale of Powder Metallurgy**: c. 11x

Plan to reduce liabilities (if successful) to c. £2.2bn – c. 8x trading profit, involves controversial methods

- **69% of pension obligations remain with Residual GKN (which accounts for less than half of GKN's 2017 trading profit)**
- **Limited deficit reduction measures for Residual GKN as a result of Dana transaction**
- **Gross liabilities increased from 5.7x of trading profit to approximately 11x**

**UK scheme left overexposed**

Most of the gross liabilities Dana would take are foreign

1. The current total gross pension liabilities of £4,405 million is 5.7 times the 2017 group management trading profit of £774 million as set out in the GKN Preliminary Results announcement.
2. The £3,030 million (or approximately £3.0 billion) of gross pension liabilities that will remain with the GKN group following the proposed sale of Dana (as set out on slide 10) is equivalent to 69% of the total gross pension liabilities of £4,405 million currently in the GKN Group. Management trading profit post proposed Dana transaction calculated as £774m full-year 2017 management trading profit, less Driveline full-year 2017 management trading profit of £394m as referred to on p.18 of GKN's presentation on 9 March 2018. The £3,030 million of gross pension liabilities is 8.0 times the trading profit post proposed Dana transaction;
3. Following the subsequent disposal of Powder Metallurgy (assuming no pension liabilities are transferred on disposal), the total gross pension liabilities of £3,030 million (or £2,242 million post GKN's proposed liability reduction exercise as set out on slide 10) that will remain with the GKN Group is approximately 11 times (or 8 times) the 2017 management trading profit for Aerospace of £283 million respectively (p.10 of GKN's announcement on 14 February 2018);
4. UK related gross pension liabilities proposed to be transferred to Dana of £533 million (as set out on p.18 of the announcement on 9 March 2018), are approximately 15% of the UK-related full-year 2017 total gross pension liabilities of £3,309 million (as set out in the GKN Preliminary Results announcement on 27 February 2018).
Melrose’s proposal to the GKN pension trustees

- Formal proposal to the GKN Pension Scheme trustees following a series of constructive discussions
- Comprises potential contributions to the GKN Pension Schemes of up to c. £1 billion over the Melrose ownership period
  - £450m of contributions irrespective of any business disposals
    - £150 million upfront contribution (as announced previously)
    - Part of this contribution funding the 2016 scheme to self-sufficiency
    - £300m in annual contributions over a 5 year period
      - Double the annual contributions to the 2012 Scheme, the larger of the two schemes, from £30 million currently to £60 million
- Contributions into the schemes upon the sale of existing GKN or Melrose businesses.
  - Capped at an agreed funding level
- Represents almost twice the size of the GKN deficit reduction package of £528m under the alternative sale to Dana
- The proposal is in line with Melrose’s original assumptions in respect of the acquisition and has been taken into account in its approach

Funding the GKN pension schemes for the future as a responsible owner – in line with our investment criteria

1. GKN’s £528 million deficit reduction package comprises the following: £124 million special contribution by Dana (as set out in Clause 12.4 of ‘Letter from GKN to Chairmen of the GKN Group Pension Schemes’, dated 9 March 2018); £105 million additional contribution to the 2012 scheme from non-core disposals (Clause 5.1); the Walnut termination amount of £273.7 million (Schedule 5); and a £25 million contribution (net of tax) to the 2016 UK Scheme (as set out on p. 18 of the Proposed combination announcement on 9 March 2018)
### GKN: a questionable 503p tomorrow

<table>
<thead>
<tr>
<th>Implied valuation assuming Project Boost achieved...</th>
<th>...relies on a number of risks and an unproven GKN management team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td>vs. 3.7x average for Aerospace peers</td>
</tr>
<tr>
<td>303p</td>
<td>Option for Dana with $54m get out of jail card</td>
</tr>
<tr>
<td>Driveline</td>
<td>221p</td>
</tr>
<tr>
<td>Powder Metallurgy</td>
<td>121p</td>
</tr>
<tr>
<td>Other items</td>
<td>(142p)</td>
</tr>
<tr>
<td>Total</td>
<td>503p</td>
</tr>
</tbody>
</table>

- **Aerospace**
  - 303p
  - **Minority stake**
  - **Many UK shareholders can’t hold US paper**
  - **Share flowback**
  - **Long completion risk**
  - **Tax cost implications**
  - **Execution risk (no previous track record)**
  - **Jam tomorrow based on 2020**
  - **Pension liabilities: c.8 - 11x the profit**
  - **Valuation derating risk due to heavy liabilities**

- **Driveline**
  - 221p

- **Powder Metallurgy**
  - 121p

- **Other items**
  - (142p)

- **Total**
  - 503p

**Share price pre approach = 326.3p**

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**Aerospace overburdened**

**A risky 503p – No certainty in delivery**

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1. SOTP as set out on p. 23 of GKN’s Second Response Circular released 12 March 2018
2. 3.7x average pension liabilities of Aerospace peers (as identified by GKN in its Response Circular dated 15 February 2018) include Meggitt, Rolls Royce, Safran, Latecoere, Heroux-Devtek, MTU, Senior and Spirit
## The Melrose plan

### Our immediate actions:

1. **Head office to be restructured**  ➔ Simplify management structure
2. **Culture to be changed**  ➔ Focus on performance and reduced cost base
3. **Focus on profitability not sales**  ➔ Exit unprofitable or low margin sales
4. **Investment in operations to produce return**  ➔ Not growth only
5. **Management focus back on business**  ➔ Targets there to be achieved – incentives restructured
6. **Fast economic-based decision making**  ➔ Speedy, flat, unbureaucratic organisation
How to simplify GKN within Melrose

Focus on GKN’s main businesses

1. Exit Powder Metallurgy in the medium term once improved
   - Reduce number of businesses to concentrate our efforts
   - Disposal at the right moment, timing also affected by pension situation

2. Look to exit non core activities from within Aerospace and Automotive divisions in due course once improved

3. In parallel, continue with strategy of exiting Nortek businesses in next 2 – 3 years

4. Disposals will result in substantial capital returns to shareholders
Summary of the proposal

- Proposal to acquire GKN for 467\(^1\) pence per share represents:
  - Immediate premium of approximately 43% over the closing share price of GKN on 5 January, the last business day prior to the approach
  - Value today ahead of GKN’s 10 year high share price of 414.9\(^2\) pence per share on 24 February 2014 with further significant upside through continued shareholding of the enlarged group
  - Implied offer value of approximately £8.1 billion

- GKN shareholders to receive 1.69 new Melrose shares and 81 pence in cash for each GKN share and retain the GKN final 2017 dividend of 6.2 pence per share
  - GKN shareholders would own approximately 60% of the enlarged group and would become major participants in potential future value creation
  - Net leverage in line with Melrose declared strategy of c 2.5x combined group EBITDA

1. Share prices at 9 March 2018 (the last business day before the announcement of the final offer)
2. Before 5 January 2018, the last business day prior to the approach
Shareholders must decide: 467p today + 60% of future value improvement vs. a questionable 503p tomorrow

1. Share prices at 9 March 2018 (the last business day before the announcement of the final offer)
2. 81 pence per GKN share to be received in cash plus the final 2017 dividend of 6.2 pence payable to GKN Shareholders
3. Based on Melrose’s market capitalisation at 9 March 2018
4. Based on Melrose’s offer as set out in the announcement on 12 March 2018, adjusted for the cash portion of the offer
5. 503p as set out on p. 23 of GKN’s Second Response Circular released 12 March 2018
Appendix
Total shareholder returns (TSR) compared

GKN has underperformed

TSR MELROSE VS. FTSE 350 VS. GKN
Since Melrose IPO – Oct 2003

Ranking1,2 #3 #227
3,019% 231% 171%
c 18x higher TSR
c 26% lower than market

Melrose FTSE 350 GKN

TSR GKN VS. ITS SECTORS
Since Melrose IPO – Oct 2003

593% 315% 171%
c 3x higher TSR
c 2x higher TSR
c 26% lower than market

MSCI World A&D MSCI World Auto Components GKN

TSR – GKN VS. MELROSE
Since Melrose acquisitions3

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<thead>
<tr>
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<tbody>
<tr>
<td>Melrose</td>
<td>2,223%</td>
<td>1,624%</td>
<td>426%</td>
<td>49%</td>
</tr>
<tr>
<td>GKN</td>
<td>168%</td>
<td>190%</td>
<td>70%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Datastream

1. As at close of business on 5 January 2018, the last business day prior to the approach
2. Top 10 TSR performance over the period: Ashtead Group, JD Sports Fashion, Melrose, Micro Focus, Paddy Power Betfair, Dechra Pharmaceuticals, Domino’s Pizza, Croda, Hill & Smith and Diploma in order of performance
3. TSR calculated since respective acquisition completion dates