



Melrose Industries PLC

Trading update and GKN

1 February 2018

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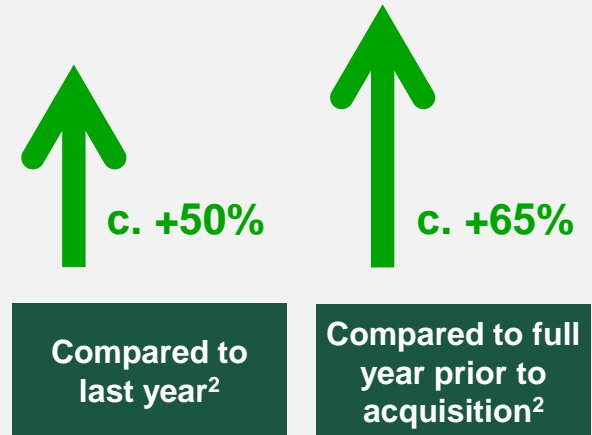
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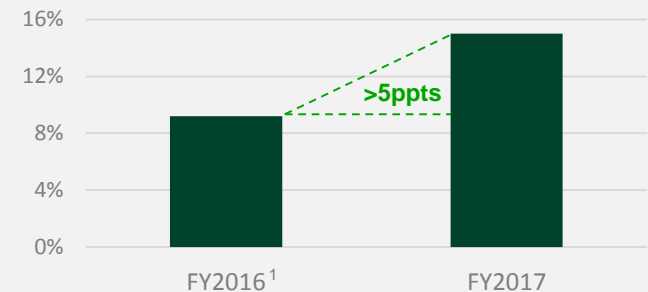
Exceptional Nortek improvement in a very short time

- Trading in 2017 was in line with management expectations
- Nortek trading transformed more comprehensively and faster than envisaged at the time of the acquisition
 - underlying operating profits c. +50% vs 2016^{1,2} (\$241.0m) at constant currency
 - c. +65% vs full year prior to acquisition² (\$220.1m) at constant currency
 - underlying operating margin increased to c.15% (>500bps improvement)

Nortek underlying operating profit growth



Nortek underlying operating margin



1. 2016 included four months of Nortek under Melrose ownership

2. This statement has been provided on an underlying operating profit basis consistent with the current accounting policies of Melrose, which are in accordance with IFRS, adjusted for constant currency at the 2016 average exchange rates for the comparison to 2016 and at the 2015 average exchange rates for the comparison to 2015. The principal exchange rate is GBP:USD and the average rates applied to calculate growth in underlying operating profit on a constant currency basis are 1.3554 for 2016 and 1.5284 for 2015. The average GBP:USD exchange rate for 2017 is 1.2888

- Management freed from restrictions of formerly centralised group structure
- Improvement programmes funded by planned investment of c2x depreciation
- Strong cash conversion rate of over 100%¹

Global HVAC

- Strengthened and refocused management under incumbent CEO
- £9m upgrade to key US production facilities
 - Full benefits expected from 2018 onwards
- Significant investment in Saskatoon R&D centre
 - New product development and process improvements
- Detailed product profitability review
 - c12% low margin sales exited, better tendering

Air Quality and Home Solutions

- New CEO
- Sold loss making Best Italia to Electrolux in July 2017
- Part way through optimising production footprint
 - Site consolidation in Canada
 - Hartford: £16m upgrade to plant to increase production and consolidation of entire warehousing operation
- In-depth product portfolio review supports product range refresh – new product launches due in 2018

Security and Smart Technology

- Strengthened team under incumbent CEO
- Opening new Carlsbad HQ in April 2018
- Consolidation of Nortek Security and Control, Core Brands and GTO Business under single management team
- Significant investment to upgrade R&D capabilities
- Refocused on profitable channels and improving product mix
- Significant investment in new product tooling (e.g. Nova) and further development of Elan platform

Ergotron

- Further investments focused on supporting expansion projects long sought-after by existing management
- Growth in e-commerce
- Growth in APAC and European markets
- Restructuring of Tualatin production facility
- Further development of Ergotron's work fit and medical cart products

Melrose believes these and other ongoing investments will enable Nortek to continue to build on the success to date to deliver improvement for benefit of shareholders

1. Defined as operating cash generated before capital expenditure as a percentage of EBITDA (underlying operating profit before interest, tax, depreciation and amortisation)

- Previously announced structural market changes caused by global environmental policy
- Fall in gas turbine market volumes of >60% from 2011 peak
 - Brush's turbogenerator sales fallen from 122 units in 2016 to c.50 expected in 2018
- Entered into a consultation with employees in relation to restructuring Turbogenerators:
 - Closure of Ridderkerk (Netherlands) production facility and transfer of 4-pole production facility to Czech Republic
 - Changshu (China) factory has already been closed
 - Entry into consultation process in respect of 2-pole turbogenerator production at Loughborough
- Cash cost of restructuring c.£40m - expected to be materially complete in 2018
- Expected to mitigate £12m annual losses of the Turbogenerators business and to align to new market conditions
- Carrying value of Brush reduced to £300m
- Melrose remains fully committed to supporting management to be positioned for best possible long-term future

Summary of our Offer¹

81p in cash
and 1.49 New Melrose Shares

418.3p
per GKN Share

- Premium of c. 28% to GKN's share price pre approach

Share price movement since announcement has already created

c. £1.7bn
of value

GKN shareholders will:

- receive immediate cash payment of £1.4bn
- own c. 57% of the merged group
- be major participants in significant value creation opportunity in GKN's businesses
- receive c. £2.5bn in cash from sale of Nortek (based on Melrose's market cap. today)

Together we will create a UK engineering and industrial powerhouse worth over £10bn today

1. Based on 31 January 2018 Closing Prices

Our plans to unlock GKN's potential – re-energise and re-purpose

We will unlock potential for the benefit of all stakeholders by delivering operational improvements, empowering management and investing heavily

Simplify management structure

→ Flat organisation with fast economic decision-making

Exit low margin sales over time

→ Focus on profits not sales

Restructure head office

→ Reduce complexity and cost base

Put in place new management incentives

→ Change culture with clear targets and incentives for margin, cash conversion and return on investment

We expect to exceed GKN's own top-end trading margin target of 10%^{1,2}

We believe we can deliver significantly greater benefits to the shareholders of GKN than GKN could otherwise achieve on its own

1. GKN's top-end group trading margin target based on the published group target range of 8% - 10% first stated in the 2007 annual report and repeated up until 2017 interim results
2. This statement is not and is not intended as a profit forecast or a Quantified Financial Benefit Statement for the purposes of Rule 28 of the City Code and should not be interpreted as such

Our plans to unlock GKN's potential – simplify and declutter

Exit certain smaller non-core businesses in the Aerospace and Automotive divisions, once improved

Exit Powder Metallurgy in the medium term, once improved

Net proceeds returned to shareholders, taking into account interests of all stakeholders

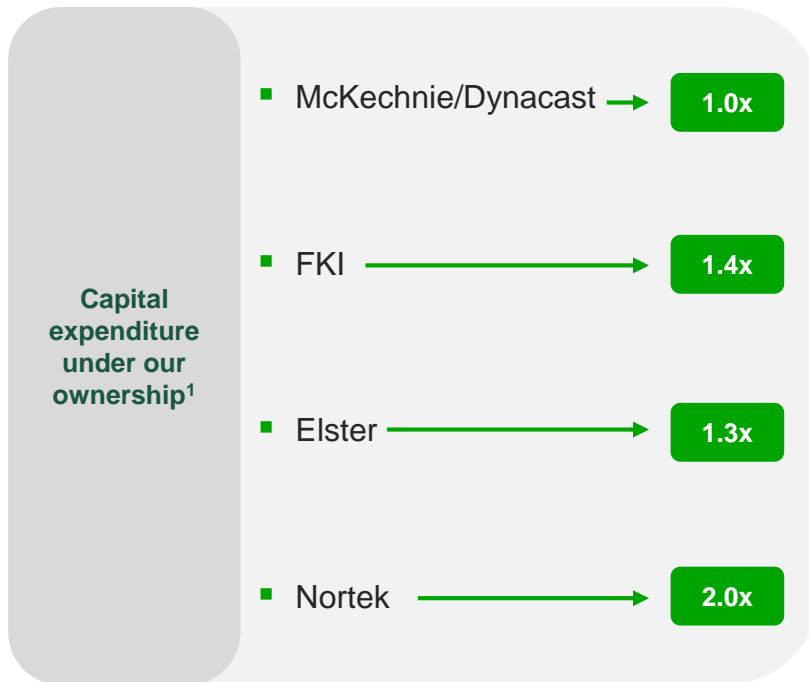
No hasty separation of the Aerospace and Automotive businesses

Timetable for improvement to be within our normal 3 to 5 year time horizon



We consider GKN to be at the longer end of this scale

Melrose invests in its businesses



**R&D investment of over £230m
(c. 4% of sales)
at Elster and Nortek
over the last 5 years**

**On average we invest an additional
third of the original equity purchase price
in order to strengthen and grow our
businesses**

We are committed to improving our businesses through a focus on operations and do not use financial engineering; we do not rely on debt to boost returns and use only modest levels of leverage

1. Capital expenditure as a multiple of depreciation

Melrose are good stewards of pension schemes

- Good stewards of pension schemes, with focus on:
 - Maintaining professional relationships with trustees
 - Implementing on-going deficit reduction programmes
 - Maintaining prudent levels of leverage
 - Opportunistically de-risking liabilities

**Substantial, voluntary cash
contribution of £150m
to the GKN pension scheme**

**GKN's statement on pension
entirely in line
with Melrose's understanding**

Summary

- GKN board have accepted that fundamental change is needed
- Ultimately a choice of incumbent management team or Melrose team with decades of experience turning around businesses
- Change of control is a necessary first step to unlocking GKN's potential
- Melrose management team are substantial shareholders and highly motivated to continue to deliver superior returns for shareholders



Appendix

Melrose delivers for shareholders

Generated net shareholder value of £4.9bn

Total shareholder investment	£ billion
Total money invested	(3.64)
Total money returned to investors	4.35
Net shareholder investment returned	0.71
Market capitalisation ¹	4.22
Net shareholder gain	4.93

Return on equity from first three acquisitions

- McKechnie/Dynacast → **3.0x**
- FKI → **2.9x**
- Elster → **2.3x**

Melrose performance

- £1 invested in 2003 → **£17.7 today²**
- Average annual return for a shareholder since formation → **21.9%²**
- Total shareholder return since formation → **3,019%**

We aim to double shareholders' investment in 3 to 5 years

Source Melrose, Datastream

- As at close of business on 5 January 2018, the last business day prior to the approach
- Assuming participation in all equity issuances, based on 5 January 2018 share price