Melrose Industries PLC

Investec conference

13 November 2018
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Highlights

- Melrose is trading in line with the Board’s expectations for 2018
- Melrose has seen strong revenue growth in Aerospace and Powder Metallurgy in the four month period since the half year with flat revenue in Automotive despite some well publicised industry factors
- GKN continues to offer an outstanding opportunity for value creation
- All GKN businesses are being managed successfully on a standalone basis, freed from head office bureaucracy and with medium and long-term improvement plans agreed
- Nortek Air & Security sales are broadly flat in the four months since the half year
- Net debt is in line with the Board’s expectations
- The Group will announce full year results on 7 March and host a Capital Markets Day in London on 3 April 2019 focused on Aerospace and Automotive

Trading Update as of 13 November 2018

Christopher Miller, Chairman of Melrose Industries PLC, said:

“Melrose has a proven business model, which has been successful over many years and through several economic cycles. We are confident that there is an outstanding opportunity to make significant and lasting improvements to the performance of the GKN businesses. Whilst certain end markets may be unpredictable, the Group is on track to meet our expectations for this year. We are excited by the future prospects of the Group and look forward to delivering significant value for shareholders.”
Melrose Plan – acquisition promises

Acquisition promise:  Post acquisition update:

- Head office to be restructured  →  Simplify management structure
- Culture to be changed  →  Focus on performance and reduced cost base
- Focus on profitability not sales  →  Improve unprofitable or low margin sales
- Investment in operations to produce return  →  Not growth only
- Management focus back on business  →  Targets there to be achieved – incentives restructured
- Fast economic-based decision making  →  Speedy, flat, unbureaucratic organisation

Future actions:

Melrose will improve GKN’s trading margin  →  From c.7% to in excess of 10%

Target reconfirmed and Powder Metallurgy target announced
Businesses – investment & improvement
**Revenue by market**

- 1 Commercial narrow body (19%)
- 2 Commercial wide body (34%)
- 3 Other commercial (20%)
- 4 Military (27%)

**Revenue by product type**

- 1 Aerostructures (63%)
- 2 Engine Systems (32%)
- 3 Special Technologies (5%)

**Revenue by geographical destination**

- 1 Europe (40%)
- 2 N America (56%)
- 3 Asia (3%)
- 4 RoW (1%)

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1. Based on proforma 2018 first half revenue for all businesses

**Aerospace**

28% of Melrose

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Aerospace – actions achieved and underway

**Growth / Markets**

Well positioned in strong markets. Continued growth expected in the aerospace market with both commercial air traffic, and the military fighter jet market growing (c.2%/3% weighted average) with GKN Aerospace having a heavier mix of wide body rather than narrow body components which limits some growth potential.

**Investment and restructuring**

Moving to three focused autonomous businesses – Aerostructures, Engine Systems and Special Technologies.

North America Aerostructures businesses in the process of being improved, positive signs.

Onerous contract management and pricing review ongoing.

Supply chain and procurement improvements.

Operational excellence – many initiatives commenced. Investment into historically underinvested parts of the business.

Review and manage industrial footprint appropriately.

Incentive arrangements realigned.

Focus on delivery and quality performance is improving customer relationships.

**Trading Update as of 13 November 2018**

“Aerospace is performing well, revenue was up over 6% on last year in the Period and good progress has been made on margin including improvement in the performance of North America. With an experienced and incentivised management team, the Aerospace business is making the improvements necessary to achieve the acquisition objectives.”

Key investments underway:

- Plans to build new Global Technology Centre near Filton production facility
- New manufacturing facility in Florida, USA
- New wiring facility in India
- New engine repair plant in Malaysia
- Upgrade of several manufacturing facilities
Civil aerospace — deliveries

- Air traffic continues to grow
- Strong order backlogs
- Very limited new programmes, previous introductions becoming mature
- GKN has heavier mix of wide body relative to narrow body

Military spend by geography

- Good growth in military fighter jet market

Source: Industry market data
Revenue by geographical destination:

1. Europe (36%)
2. N America (32%)
3. Asia (28%)
4. RoW (4%)

Revenue by product type:

1. Driveline (73%)
2. All Wheel Drive (25%)
3. eDrive (1%)
4. Cylinder Liners (1%)

1. Based on proforma 2018 first half revenue for all businesses
Automotive – actions achieved and underway

**Growth / Markets**

Global light vehicle long-term production forecast to grow by expert bodies at 2% per annum

eDrive is a high growth market – loss-making for the foreseeable future, but with significant growth potential. Sales of £35 million in 2017, and current run rate losses of approximately £60 million per annum as significant investment is made in the business

**Investment and restructuring**

Targeted reductions in global costs, consolidation of back office functions to remove duplication and footprint optimisation to manage cost base

- Manage low margin work through focused price increases
- Significant investment into eDrive capabilities for programme launches
- Direct and indirect procurement improvements
- Industry 4.0 automation improvements to drive operational performance at the plants

**Trading Update as of 13 November 2018**

“In the Automotive division, revenue has been flat in the Period compared to last year despite some well publicised industry factors. Consistent with previous reporting periods, margin was lower but Melrose remains confident that operational improvements identified on acquisition are achievable and will positively impact performance in 2019 and beyond.

Liam Butterworth was appointed CEO of the Automotive division on 5 November 2018. He is assembling a new management team from internal and external sources to significantly enhance the performance of the business.”

Key investments underway

- New advanced All Wheel Drive & eDrive production facility in Japan
- Poland factory expansion
- Automated production cells across numerous locations
- Next-generation electric vehicle driveline
- Capacity expansions in key geographical locations
eDrive

- GKN ePowertrain pioneered the development of high-performance electric driveline systems, with more than 725,000 electric axle drives produced to date
- GKN ePowertrain is a leading electric powertrain systems engineer and all-wheel drive systems integrator. With eight manufacturing sites in six countries, and over 6,000 dedicated employees globally, located in line with customer needs

### Financial summary

<table>
<thead>
<tr>
<th>£m</th>
<th>2018</th>
<th>2019 – 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>64</td>
<td>2018 – 2020 expected CAGR of &gt;100%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>16</td>
<td>Expect gross margin % to remain stable</td>
</tr>
<tr>
<td>Investment^1</td>
<td>(78)</td>
<td>Significant increase in investment to whatever is commercially required and sensible</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(62)</td>
<td>Not expected to be profitable until early/mid 2020s</td>
</tr>
<tr>
<td>Current customer schedules</td>
<td></td>
<td>over £2.5 billion</td>
</tr>
</tbody>
</table>

- eDrive market growing significantly globally, including China
- eDrive supported by customer schedules in excess of £2.5 billion, spread over many years
- Growth is largely based on booked business, with major launches as Tier 1 and Tier 2, and volume uplift projects launched in 2018
- Gross margins are acceptable. Substantial investment planned
1. Based on proforma 2018 first half revenue for all businesses
Powder Metallurgy – actions achieved and underway

**Growth / Markets**

Powder Metallurgy achieving above market growth with very strong growth in small sinter products

Strong footprint in the largest powder metallurgy markets. China and India markets growing rapidly. New plant in Mexico

New alliances in additive manufacturing

**Investment and restructuring**

Actively managing cost base

Selective consolidation of back office functions and sites into geographical clusters

Focus on continued product development and process technology

Operational improvements and footprint optimisation. Cape Town site sold

Investment in additive manufacturing

**Trading Update as of 13 November 2018**

“This business has achieved revenue growth in the Period of 9% compared to last year with improved margins. This good momentum gives confidence that the 14% margin target can be achieved in the medium term.”
Powder Metallurgy – highlights

- Global #1 powder metal solutions provider
- Significant growth potential in attractive end markets
- Highly diversified blue-chip customer base
- Technology leadership and superior operations – with a pipeline of innovative products and solutions
  - Additive manufacturing – high growth
- Continue commercial strategy in order to extend leadership in automotive markets into industrial markets
- Track record of resilient financial performance – achieving above market growth with high visibility over future revenues
- Clear strategy for value creation
- Successful M&A track record and strong acquisition opportunities
- Industry-leading management team with a proven track record of delivery
- No impact from US tariffs
Revenue by geographical destination

1. Europe (4%)
2. N America (94%)
3. Asia (1%)
4. RoW (1%)

Revenue by end market

1. Home (71%)
2. Work (20%)
3. Health (6%)
4. Education (3%)

1. Based on proforma 2018 first half revenue for all businesses
Nortek Air & Security – actions achieved and underway

**Growth / Markets**
A good market backdrop in Air Management with a major growth opportunity in StatePoint Liquid Cooling, a new and more efficient technology for cooling data centres. Security market is more volatile

**Investment and restructuring**
Significant investment in StatePoint Liquid Cooling technology and accompanying factory footprint expansion. Potential to be a group-wide opportunity

Footprint consolidation within the Air Management business including the closure of the Belgium facility

Canadian operations restructured to exit the Air Management Mississauga facility and transfer production to other locations

Security back office functions consolidated and moved to a new office in Carlsbad, complete with a new research and development lab

Acquisition of IntelliVision for £26 million. IntelliVision is a pioneer and leader in Artificial Intelligence, smart cameras and deep learning-based video analytics software which gives the security business far more Smart capabilities

**Trading Update as of 13 November 2018**

“Nortek Air & Security has achieved broadly flat sales compared to last year in the Period. The effects of U.S. tariffs in these businesses are materially confined to Security and Ergotron in respect of their factories based in China, and thus tariff issues for these businesses should not have a material effect on the Melrose Group.”
Revenue by geographical destination

1. Europe (55%)
2. N America (34%)
3. Asia (8%)
4. RoW (3%)

Revenue by business

1. Ergotron (22%)
2. Brush (15%)
3. Off-Highway Powertrain (39%)
4. Wheels & Structures (24%)

1. Based on proforma 2018 first half revenue for all businesses
Other Industrial – actions achieved and underway

**Growth / Markets**
- Strong growth in the Off-Highway Powertrain and Wheels & Structures businesses
- Ergotron experiencing some growth in commercial channels to offset declining lower margin consumer channels
- Generator market remains challenging

**Investment and restructuring**
- Separation of GKN businesses from shared factory locations into standalone businesses
- Operational improvement initiatives in the plants and footprint optimisation
- Brush business restructuring is in line with expectations

**Decentralising**
- GKN businesses are being decentralised to make them fully standalone

**Other**
- Poor health resulted in the retirement of the Ergotron CEO, recruitment process ongoing
Conclusions

- Melrose is trading in line with the Board’s 2018 expectations
- The businesses are responding positively to the Melrose way of working
- The new standalone businesses and operational management teams are in place and improving the businesses
- Melrose has a well-established track record, successful through various economic cycles
- No black holes identified, but there is a lot to do
- Melrose is confident of achieving the GKN margin target set at the acquisition and delivering significant value to shareholders

Trading Update as of 13 November 2018

Christopher Miller, Chairman of Melrose Industries PLC, said:

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First half 2018 adjusted\(^1\) results by division in Melrose ownership

<table>
<thead>
<tr>
<th>£m</th>
<th>Aerospace</th>
<th>Automotive</th>
<th>Powder Metallurgy</th>
<th>Nortek Air &amp; Security</th>
<th>Other Industrial</th>
<th>Corporate</th>
<th>Total Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted(^1) revenue</td>
<td>714</td>
<td>1,019</td>
<td>254</td>
<td>720</td>
<td>355</td>
<td>-</td>
<td>3,062</td>
</tr>
<tr>
<td>Adjusted(^1) operating profit</td>
<td>49</td>
<td>70</td>
<td>28</td>
<td>104</td>
<td>42</td>
<td>(13)</td>
<td>280</td>
</tr>
<tr>
<td>Adjusted(^1) operating margin</td>
<td>6.9%</td>
<td>6.9%</td>
<td>11.0%</td>
<td>14.4%</td>
<td>11.8%</td>
<td>-</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

- First half results include GKN trading for the period from 19 April to 30 June 2018

1. Considered by the Board to be a key measure of performance
The accounting deficit of £1.2 billion, which has reduced by c.19% since the last year end comprises:

- 52% of European schemes (non UK)
- 37% of UK schemes
- 9% of US schemes
- 2% of Other

UK plans mainly consist of the acquired GKN 2012 and 2016 schemes.

European plans predominantly relate to German unfunded pension schemes which were closed to new entrants in 1998. There is no funding requirement on these schemes so payments to retirees are made from company funds as they fall due.

GKN previously excluded the annual pensions interest charge from adjusted results, but this practice has been stopped.
Pensions – UK defined benefit schemes

**UK**

<table>
<thead>
<tr>
<th>30 June 2018 £m</th>
<th>Assets</th>
<th>Liabilities</th>
<th>(Deficit)/Surplus</th>
<th>Annual cash contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>GKN 2016</td>
<td>509</td>
<td>(513)</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>GKN 2012</td>
<td>2,123</td>
<td>(2,577)</td>
<td>(454)</td>
<td>60</td>
</tr>
<tr>
<td>GKN post retirement medical</td>
<td>-</td>
<td>(15)</td>
<td>(15)</td>
<td>1</td>
</tr>
<tr>
<td>Nortek Air &amp; Security</td>
<td>20</td>
<td>(34)</td>
<td>(14)</td>
<td>2</td>
</tr>
<tr>
<td>Brush</td>
<td>261</td>
<td>(232)</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td><strong>Total UK defined benefit schemes</strong></td>
<td><strong>2,913</strong></td>
<td><strong>(3,371)</strong></td>
<td><strong>(458)</strong></td>
<td><strong>63</strong></td>
</tr>
</tbody>
</table>

**Agreement with the GKN UK pension trustees**

- Agreement reached with GKN Pension Scheme Trustees to considerably improve position of GKN UK schemes
- First independent chairman of the GKN trustees appointed together with a second independent trustee
- Agreed funding target:
  - 2016 scheme funded to gilts +25 basis points
  - 2012 scheme funded to gilts +75 basis points
- Speed of contribution to achieve the new funding target:
  - Initial contribution: £150 million (£56 million in July 2018 and £94 million in first half 2019)
  - Annual contributions: £60 million per annum
  - Disposal contributions: £270 million upon the disposal of Powder Metallurgy, 5% of proceeds on Melrose disposals and 10% of proceeds on other GKN disposals (ceasing when funding target achieved)

UK funding deficit of approximately £950 million:
- GKN 2016 & 2012 schemes c.£890m$^1$
- Other c.£60m

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1. On an external basis, excludes approximately £250 million of company assets owned by the pension scheme.
Interest, tax and Balance Sheet

Interest

<table>
<thead>
<tr>
<th>£m</th>
<th>Facility size</th>
<th>At 30 June 2018</th>
<th>Income Statement rate</th>
<th>Cash rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019 6.75% unsecured bond</td>
<td>350</td>
<td>350</td>
<td>1.8%</td>
<td>6.8%</td>
</tr>
<tr>
<td>2022 5.375% unsecured bond</td>
<td>450</td>
<td>450</td>
<td>2.9%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2032 4.625% unsecured bond</td>
<td>300</td>
<td>300</td>
<td>4.4%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Cross currency swaps (2019 &amp; 2022 bonds)</td>
<td></td>
<td>167</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.5 year term loan</td>
<td>1,500</td>
<td>385</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>5 year revolving credit facility</td>
<td>3,058</td>
<td>2,152</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Unamortised finance costs</td>
<td>(52)</td>
<td>(52)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,506</td>
<td>2,485</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance leases and other facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance leases</td>
<td>19</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other facilities</td>
<td>28</td>
<td>28</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>47</td>
<td>47</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total facilities / Gross debt</td>
<td>5,653</td>
<td>3,799</td>
<td>3.5%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Cash</td>
<td>(426)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt¹</td>
<td>3,373</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Approximately 50% of interest exposure fixed on projected gross debt
- Significant committed facility headroom
- Effective average Income Statement interest rate of 3.5% on gross debt and cash rate of 4.2%

Tax

- Full year tax rate anticipated to be approximately 23%

Balance Sheet

- Acquisition Balance Sheet review ongoing
- Provisional fair value adjustments processed for GKN financing liabilities, derivatives, pensions, freehold property, leasehold property commitments, tax and equity accounted investments
- All other Balance Sheet areas including working capital and provisions not updated

¹ Net debt comprises interest-bearing loans and borrowings (excluding acquisition related fair value adjustments), cross currency swaps and cash and cash equivalents
Foreign exchange → forward looking

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>EUR</td>
</tr>
<tr>
<td>6 month average rates</td>
<td>1.38</td>
<td>1.14</td>
</tr>
<tr>
<td>73 day average rates for GKN</td>
<td>1.35</td>
<td>1.14</td>
</tr>
<tr>
<td>(19 April – 30 June)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing rates (June)</td>
<td>1.32</td>
<td>1.13</td>
</tr>
<tr>
<td>Closing rates (December)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Income Statement volatility**

On-going sensitivity of profit to translation and unhedged transaction exchange risk for every 10 percent strengthening of £m USD EUR

<table>
<thead>
<tr>
<th></th>
<th>Increase in adjusted¹ operating profit</th>
<th>81</th>
<th>21</th>
</tr>
</thead>
</table>

**Balance Sheet volatility**

On-going sensitivity of net debt to translation exchange risk for every 10 percent strengthening of £m USD EUR

|                                | (Increase) in debt | (169) | (56) |

- If average exchange rates in the first half of the year had been equal to the closing rates at 30 June 2018, proforma² operating profit would have been 3% higher

**On-going sensitivity of profit to translation and full transaction exchange rate risk for every 10 percent strengthening of £m USD EUR**

|                                | Increase in adjusted¹ operating profit | 128 | 19 |

1. Considered by the Board to be a key measure of performance
2. Proforma results assume that GKN was owned for the full period and are presented on an adjusted¹ basis