Melrose Industries PLC

Investec conference

19 November 2019
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# How Melrose creates value

## Melrose approach

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Identify underperforming industrial assets</td>
</tr>
<tr>
<td>2</td>
<td>Buy at an appropriate price, disciplined approach</td>
</tr>
<tr>
<td>3</td>
<td>Improve business performance through clear strategy and investment led by chosen, incentivised management team. <em>Melrose oversees this improvement over the three to five-year investment horizon</em></td>
</tr>
<tr>
<td>4</td>
<td>Sell to new owner a more profitable and a better cash generating asset</td>
</tr>
<tr>
<td>5</td>
<td>Return cash to our shareholders</td>
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</table>

- Melrose has c.50 employees based in London, Birmingham and Atlanta, US

## Melrose performance

- **£1**
  - Invested on the first deal in 2005
- **£17.85 today**
  - Average annual return for a shareholder since the first deal
- **23.6%**
  - Average return on equity across all three exited acquisitions
- **2.6x**
  - GKN has the same characteristics as the previous successful acquisitions

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1. Based on total shareholder return up to 31 December 2018
2. Comprises McKechnie/Dynacast, FKI and Elster
The previous results

### Melrose operating margin improvement

<table>
<thead>
<tr>
<th></th>
<th>Entry</th>
<th>Current</th>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>McKechie</td>
<td>18%</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>Elster</td>
<td>13%</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>Dynacast</td>
<td>10%</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>FKI</td>
<td>9%</td>
<td>10%</td>
<td>24%</td>
</tr>
</tbody>
</table>

- 24% (>30% improvement)
- 22% (>70% improvement)
- 16% (>40% improvement)
- 14% (>40% improvement)

### How Elster and Nortek operating margin improved

- Elster: +9ppts
  - +1ppt
  - +2ppts
  - +6ppts
- Nortek: +6ppts
  - +1ppt
  - +4ppts

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

- Increase in operating margin of between 4 and 9 percentage points
- Achieved through investing in the businesses to improve efficiency and quality

- Operating margins always improved through investment and management actions

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1. Nortek operating profit margin up to 31 December 2018
GKN Aerospace

Revenue by market
- 1 Commercial (71%)
- 2 Military (29%)

Revenue by product type
- 1 Aerostructures (63%)
- 2 Engine Systems (32%)
- 3 Special Technologies (5%)

Revenue by destination
- 1 North America (57%)
- 2 Europe (38%)
- 3 Asia (4%)
- 4 RoW (1%)

1. Based on adjusted first half 2019 operating profit for all businesses
A leading global tier one Aerospace supplier

Aerostructures

63%
£2.2 billion
(£0.6 billion North America)

Engine Systems

32%
£1.1 billion

Special Technologies

5%
£0.2 billion

Strong focused businesses
A global business with £3.5bn sales to blue chip customers

GKN Aerospace has great core strengths

- Global #2 by revenue in Aerostructures and Aero Engines. Aero Engines has very positive longer term cash flow dynamics
- Attractive specialist positions in niche markets
- Differentiating technologies, including additive manufacturing, supplied to an unrivalled breadth of customers
- Positioned alongside our customers, across 3 continents

- 51 sites across 15 countries
- Approximately 17,000 people (FTEs)
- 4 R&D centres

Sales by market

- 1 Commercial (71%)
- 2 Military (29%)

Sales by customer

- 1 Airbus (19%)
- 2 Boeing (11%)
- 3 UTC (11%)
- 4 GE (8%)
- 5 Lockheed (7%)
- 6 Rolls-Royce (5%)
- 7 Safran (4%)
- 8 Gulfstream (3%)
- 9 Honeywell (3%)
- 10 Others (29%)

We provide vital technology to an enviable portfolio of global customers
Investment and restructuring

- Creation of ‘One GKN Aerospace’; major new operational improvement programme announced:
  - Business refocused to better serve customers
  - Operational excellence – many initiatives underway, supported by the recently announced new operating model
- Continued investment in new facilities:
  - Fan blade repair centre in Malaysia
  - Wiring facility in India
  - State-of-the-art advanced composites manufacturing facility in Florida, USA
- Record investment in technology:
  - Work has started on the new Global Technology Centre in Bristol, UK
  - World leading additive manufacturing pilot production cell at Oak Ridge National Laboratory, US
  - Technology centre in the Netherlands to focus on thermoplastic components
  - Manufactured first components for the Wing of Tomorrow programme
- Delivery, quality and customer relationships all improving
- New target to improve trade working capital, particularly inventory
- Good progress being made on resolving loss-making contracts
- Direct and indirect procurement improvements
- Significant capital investment to previously underinvested parts of the business and to new growth areas
Margin improvement

12%
Margin target under Melrose ownership

Margin improvement only requires limited sales growth, therefore the required actions are largely within our control.

Aerospace margin improvement

Operational excellence (including fixing North America)

Procurement

Net savings

2018 operating margin
8.2%

Target operating margin
12%

£70m+ opportunity

£40m+ opportunity

£40m+ opportunity

Strongly positioned – great technology and footprint will enable us to grow

1. Excludes the positive impact of the required IFRS accounting for loss-making contracts
Based on adjusted first half 2019 operating profit for all businesses
Balanced business across products, regions and customers

Product mix¹

- 1 Driveshafts² (62%)
- 2 Propshafts (11%)
- 3 AWD³ (26%)
- 4 eDrive (1%)

Strong mix of conventional and new technologies

Regional mix¹,⁴

- 1 Europe (36%)
- 2 Americas (36%)
- 3 Asia-Pacific (15%)
- 4 China (13%)

Improving alignment to global production

Customer mix¹,⁴

- 1 Customer A (16%)
- 2 Customer B (13%)
- 3 Customer C (13%)
- 4 Customer D (9%)
- 5 Customer E (9%)
- 6 Customer F (7%)
- 7 Customer G (5%)
- 8 Customer H (5%)
- 9 Customer I (5%)
- 10 Customer J (5%)
- 11 Customer K (3%)
- 12 Customer L (2%)
- 13 Others (8%)

Largest customer at 16% of sales

Globally balanced business

1. Includes JVs at GKN Automotive percentage share
2. Includes Niche, Motorsports and Aftermarket (NMA)
3. All Wheel Drive
4. Excludes NMA

Note: The above does not include the Cylinder Liners business (included in the Automotive Division in the Melrose Financial Statements)
Global leader

2018 sales £4.9bn

Driveline¹

>82m driveshafts delivered in 2018

47% (#1)

GKN Automotive market share

All Wheel Drive (AWD)²

>2.9m AWD units delivered in 2018

30% (#1)

eDrive Systems³

>850,000 eDrive systems cumulative deliveries

14% (#1⁴)

Competitor market shares

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Market Share</th>
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</thead>
<tbody>
<tr>
<td>Competitor 1</td>
<td>20%</td>
</tr>
<tr>
<td>Competitor 2</td>
<td>16%</td>
</tr>
<tr>
<td>Competitor 3</td>
<td>15%</td>
</tr>
<tr>
<td>Competitor 4</td>
<td>15%</td>
</tr>
</tbody>
</table>

Key competitors

Leading player with significant scale, excellent market share

Source: IHS

1. Figures shown are for Drivshafts only
2. Figures shown are for Power Transfer Units/AWD Final Drive Units
3. Figures are for P4 eDrives
4. On cumulative deliveries

Note: Figures calculated on addressable market only (in-house production excluded)
### Investment and restructuring

- Significant restructuring programmes underway:
  - Layers of management removed
  - Structural reductions in fixed costs
  - Early retirement programmes initiated at several plants
  - Footprint reduction taking place
- Focus on improving production flows
- Direct and indirect procurement improvements
- eDrive continues to grow:
  - Development of market leading technology
  - Capital investments to increase specific eDrive manufacturing capacity
- Good progress being made on resolving loss-making contracts
Major opportunity for margin improvement

GKN only did limited cost base restructuring in 2009, presents significant opportunity

1. 2007 = 100: Includes ~100 best performing auto suppliers across all regions
2. 2007 = 100: Trading profit used for 2007-2017, excluding amortisation of acquisition-related intangibles
3. Excludes joint ventures
New path forward for GKN Automotive

Key elements of the plan

- Focus on selective, profitable growth
- Expand leading position in ePowertrain
- Drive operational performance in our Driveline business
- Rigorous focus on lean, reactive and high performing business model

Changing focus from sales to profitability

1. Excludes the positive impact of the required IFRS accounting for loss-making contracts. Includes the Cylinder Liners business
Powder Metallurgy, Nortek Air & Security and Other Industrial
# Investment and restructuring

**Powder Metallurgy**
- Continued investment in additive manufacturing technologies
- Footprint consolidation underway
- Focus on increasing market share based on leading positions and service offerings
- Targeted cost reduction actions
- New plant in Guanajuato, Mexico opening October 2019

**Nortek Air & Security**
- Significant investment in StatePoint Technology® liquid cooling system and accompanying factory footprint expansion; margin headwind due to expensing initial investment in StatePoint Technology® which accounts for a quarter of the profit decline
- Footprint consolidation within the core Air Management business
- Security & Smart Technology production location moving to mitigate the impact of US tariffs

**Other Industrial**
- Ergotron market impacted by US tariffs on Chinese goods. New product launches underway
- Revenue and operating profit decline in Wheels & Structures from the challenges created by significant over investment prior to acquisition, which heavily disrupted the business
- Management change in Wheels & Structures enacted to improve operational efficiencies in the UK and bed-in the new investment, good upside potential
- Brush smaller but profitable, restructuring substantially completed to plan
GKN Working Capital
GKN working capital – cash release of £400 million

<table>
<thead>
<tr>
<th></th>
<th>Pre-Melrose situation</th>
<th>New approach</th>
<th>Opportunity for improvement</th>
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<tbody>
<tr>
<td><strong>Inventory</strong></td>
<td>• Not centrally reviewed previously</td>
<td>• Build to order</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Excess stock due to quality issues</td>
<td>• Supply chain fulfilment driven by demand ‘pull’</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• High work in progress due to inefficient production flows</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Inaccurate demand forecasting</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Receivables</strong></td>
<td>• Inconsistent terms</td>
<td>• Terms embedded into commercial negotiations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Unstructured approach to cash collection</td>
<td>• Collections rigour throughout year, reduced past dues</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Invoice disputes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Payables</strong></td>
<td>• Creditor squeezes at period close</td>
<td>• Structural procurement negotiations</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Paying on time</td>
<td></td>
</tr>
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Targeting £400 million of additional future free cash within our ownership period

- Represents c.10% of GKN gross trade working capital\(^1\) balances
- Largest opportunity from reducing GKN net inventory of £1.2 billion

\(^1\) Inventory plus trade receivables plus trade payables
Closing Summary
Closing summary

GKN is on track to be another successful Melrose acquisition

1. GKN Aerospace and Automotive are attractive, well positioned businesses

2. Historical operational problems and programme underperformance are fixable. These challenges are not new to us

3. Melrose is confident of delivering significantly improved margin performance. Margin improvement only requires limited sales growth, therefore the required actions are largely within our control

4. Our operating margin targets are realistic
   - Aerospace: 12%
   - Automotive: 10%
   - Powder Metallurgy: 14%

5. These targets equate to a blended GKN operating margin of >11%, higher than the >10% promised on acquisition