

5 October 2021



MELROSE INDUSTRIES PLC

Trading Update

Melrose Industries PLC (“Melrose” or the “Group”) publishes the following trading update for the period 1 July 2021 to 30 September 2021 (the “Period”). All numbers are calculated at constant currency.

Trading update

Melrose is seeing improvement in the Aerospace end markets with revenue in the Period being 16%¹ higher than the same period last year. The Aerospace business continues to improve its performance through restructuring, and we expect the pace of this to further pick up during the second half.

As previously discussed, there are well publicised supply constraints in the automotive industry, and this naturally affects the performance of the Automotive and Powder Metallurgy divisions. At present the timing and duration of these constraints is uncertain, but recently the consensus view is that they have lengthened. There are a number of scenarios possible, but it is likely these are below previous expectations.

The underlying demand from Automotive customers is strong, with the near-term schedules from customers being above 2019 pre-COVID-19 levels. Those schedules are, however, then being heavily constrained by the customers due to their supply chain issues caused by the global shortage of semi-conductors. This is best illustrated by ‘in month cancellations’ from customers rising from a normal rate of c.1% each month experienced in Q1 this year to a current rate of approximately 20% to 25%. A similar theme is impacting Powder Metallurgy. These industry supply issues are very difficult to plan for, or predict, and both businesses are working with their customers to best manage this challenging situation.

The Automotive and Powder Metallurgy divisions would nevertheless both still be able to deliver a full year margin of approximately twice that achieved last year should the supply for light vehicle production this year more closely resemble 2020 COVID-19 levels (i.e. approximately 76 million vehicles), as some industry bodies now assume. This shows the clear benefit from the restructuring projects being delivered especially as there is much less governmental help for the industry this year compared to last.

Melrose is confident that the scale of the impact on profitability from any revenue adjustment is in line with previous guidance given on margin drop-through, further underlining the good progress being made with the restructuring of these businesses. Both the Automotive and Powder Metallurgy businesses are fully on track to achieve their margin targets once supply constraints are resolved. As an inflationary environment returns, all of the businesses are focussed on the recovery of their costs and will take whatever actions are necessary to do so.

Cash generation in the year is expected to be managed well, with all businesses showing positive cash flows, despite the supply constraints in the automotive industry, and with continued investment in new technology and restructuring. The disposal of Nortek Control for \$285 million has been successfully completed.

As stated in the interim results, the Board will review a capital return next March in the light of market conditions at the time.

Simon Peckham, Chief Executive of Melrose Industries PLC, said:

“All internal management actions are on track, and many are ahead of plan. We are very pleased with the internal progress being made. Tightened supply of semi-conductors to the automotive industry are frustrating and difficult to plan for, but whilst they affect current trading, they don’t impact long-term value, particularly as cash is well controlled and debt reduced. We have made our businesses better, more flexible and resilient to deal with near term headwinds, and all our businesses are on track to achieve their margin targets assuming partial end market recoveries.”

1. Adjusted for the disposals of Fokker Services and Fokker Techniek, completed in H1 2021

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