17 May 2023

MELROSE INDUSTRIES PLC

Capital Markets Event & New 2025 Guidance

Ahead of today's Capital Markets Event starting at 2.15pm in London, Melrose Industries PLC ("Melrose") publishes the following statement. All numbers are calculated at constant currency and exclude the businesses recently demerged to Dowlais Group PLC.

Material new information

Material new information is announced today and will be discussed at the Capital Markets Event. A presentation will be available on the Melrose website before the event starts and a recording of the event will be available on the Melrose website after the event has concluded.

Trading expectations for 2023 were announced last week, on 10 May, along with a statement that the 14%+ Aerospace adjusted[1] operating margin target is expected to be reached on a run rate basis during 2024. Today, new guidance for 2025 is given which materially exceeds previous adjusted[1] operating margin expectations.

In addition, for the first time Aerospace is reported as two divisions, Engines and Structures. The expected 2025 adjusted[1] operating margin for Engines is 28% and Structures 9%, thus increasing the blended expected Aerospace adjusted[1] operating margin from 14%+ previously, to between 17% and 18%.

For ease of presentation in the following tables, the 2023 guidance is assumed to be in the middle of the expected ranges announced by Melrose on 10 May 2023.

Aerospace 2023 and new 2025 guidance (prior to PLC costs[2])
Assumes £1 = $1.25

Total Aerospace[3]	**2023[4]**	**2025**
Revenue	£3.4bn[5]	£4.0bn
Operating profit	£350m	£700m
Operating margin	10% to 11%	17% to 18%
EBITDA	£505m	£870m
EBITDA margin	15%	22%

Engines[3]	**2023**	**2025**
Revenue	£1.3bn	£1.8bn
Operating profit	£290m	£500m
Operating margin	22%	28%
EBITDA	£350m	£580m
EBITDA margin	27%	32%

Structures[3]	2023	2025
Revenue	£2.1bn[5]	£2.2bn
Operating profit	£60m	£200m
Operating margin	3%	9%
EBITDA	£155m	£290m
EBITDA margin	7%	13%

The Capital Markets Event today will lay out clearly why Aerospace is on track to achieve this higher performance and that further growth is expected beyond 2025.

The Aerospace profits are increasingly coming from Engines with over 85% of this being from aftermarket activities by 2025.

In addition, lifetime net cash inflows, from RRSP engines contracts, being approximately half the Engines business today, are expected to total £20 billion with a net present value of £5.5 billion[6].

Free cash flow margin[7] is expected to reach 12% in 2025 and long-term 15% rising to greater than 20%.

This gives Melrose the capacity from 2024 onwards, after the completion of current restructuring programmes, to buy back between 5% and 10% of its market capitalisation per annum in addition to paying a progressive annual dividend, whilst maintaining a prudent Balance Sheet.

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

"We are making clear today that after 5 years hard work, Aerospace is now positioned to fulfil the potential it had at acquisition, with a highly enviable aftermarket presence and predictable strong cashflows. This is a great business in a very attractive global aerospace sector and is being deliberately focused to produce both top level equity performance and very significant cash returns. We are totally focused on completing, over the next 12 months, the work we need to do to maximise returns for shareholders."

1. Described in the glossary to the Melrose Industries PLC Annual Report and considered by the Board to be a key measure of performance
2. PLC costs reducing to c.£30 million in 2023 and to c.£25 million in 2025
3. Unless otherwise stated, metrics refer to adjusted[1] measures
4. Consistent with guidance given in the 10 May 2023 trading update
5. Including c.£150 million of Structures revenue from planned site closures to be exited in 2024
6. Using a discount rate of 7.5%, which is between a debt related discount rate and a GKN Aerospace pre-tax weighted average cost of capital
7. Unlevered and pre-tax

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