

16 November 2023



MELROSE INDUSTRIES PLC

Trading Update Strong growth, upgrading profit, higher margins

Melrose Industries PLC (“Melrose”) announces the following trading update for the four months from 1 July 2023 to 31 October 2023 (“the Period”) and gives upgraded guidance for the 2023 full year and a first guide for 2024. All numbers are calculated at constant currency¹.

Current trading – better than previous expectations

- Melrose is trading ahead of expectations
- Strong revenue growth of 18%² in the Period, with underlying demand higher
- The margin performance in the Period is substantially better than expectations, driven by higher aftermarket demand and pricing, and the successful delivery of operational improvements

Engines trading in the Period – margins comfortably exceed 25%

Engines revenue continues to grow at 18% and adjusted³ operating margins in the Period were comfortably in excess of 25%. This strong performance is driven by good aftermarket trading, up 24% in the Period, from higher volumes, increased scope and positive pricing. Engine OE volumes continue to increase, albeit they are constrained by industry OEM supply chain issues which are ongoing. Given the higher profitability of aftermarket, the resulting business mix is generating stronger margins and this shows no signs of slowing down.

Structures trading in the Period – margins exceed 4%

Revenue growth was 17%² in the Period and adjusted³ operating margins have risen above 4%, ahead of the previous guidance. This is primarily due to business improvement projects progressing faster than expected. In particular, restructuring benefits from global plant consolidation are coming through and the repricing of contracts is ahead of plan. As a result, the division has positive momentum and is improving the quality of its earnings.

New 2023 full year guidance¹ – a 7% profit upgrade to previous expectations; stronger margins

- Revenue of between £3.3 billion and £3.4 billion
- Aerospace adjusted³ operating profit⁴ between £400 million and £410 million
- Aerospace adjusted³ operating margin over 12%
- Aerospace adjusted³ EBITDA⁴ between £545 million and £555 million

Expected full year revenue demand and growth continue to be strong at 18%² year over year. Due to the stronger underlying margins being achieved, the 2023 full year profit expectations are upgraded by 7%, more than doubling profits compared to last year. This reflects ongoing confidence in the performance of the business with Engines full year margins now expected to be 25% and Structures margins 4% or more.

Free cashflow⁵ and net debt, including the share buyback programme which commenced in October, are in line with expectations, with year end leverage³ expected to be c.1.3x.

First guide to 2024¹ – adjusted³ operating profit c.4% better than market expectations⁶

- Revenue of between £3.5 billion⁷ and £3.7 billion⁷
- Aerospace adjusted³ operating profit⁴ between £520 million and £540 million
- Aerospace adjusted³ operating margin c.15%
- Aerospace adjusted³ EBITDA⁴ between £680 million and £700 million

The first guide to 2024 adjusted³ operating profit performance is c.4% better than market expectations⁶ even whilst prudently assuming that demand will continue to be constrained by supply. Growth will become higher when these ease. In addition, significant operational improvements are on track in both Engines and Structures to enhance margins further.

Including the cash impact arising from the recent announcements about the GTF Engine, ongoing restructuring spend, and the announced £500 million share buyback programme, Melrose expects leverage³ in 2024 to be comfortably below 2x, better than the previous medium term leverage guidance.

These higher expectations for 2023 and 2024 announced today, along with the recent signing of the new GE deal announced on 6 November 2023, show the guidance given in the Capital Markets Event on 17 May 2023 is being exceeded and the stated 2025 profit targets are substantially more underpinned than before.

Simon Peckham, Chief Executive of Melrose said:

“It is a pleasure to hand over Melrose so well positioned for the future. 2024 will be another year of strong progress under its new leadership as the targets announced in the Capital Markets Event come into sight.”

1. Calculated using a foreign exchange rate of £1 = US\$1.25
2. Excluding revenue from planned site closures
3. Described in the glossary to the Melrose Industries PLC Interim Financial Statements and considered by the Board to be a key measure of performance
4. Excluding PLC central costs
5. Free cashflow, post-central costs but before interest and tax
6. Per company compiled consensus of twelve analysts, being £510 million adjusted³ operating profit for 2024
7. After exiting c.£150 million of sales as planned, over the period from the Capital Markets Event on 17 May 2023 to the end of 2024

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