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Melrose



# Melrose Industries PLC

**Acquisition of Nortek – an excellent opportunity**

Investor presentation

6 July 2016

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# Executive summary

# Executive summary

- Nortek is a US manufacturing business with leading brands in air management, security, home automation and ergonomic and productivity solutions segments
- Helpful end-market conditions, with attractive entry point in the cycle
- Nortek is a good business but is underperforming its potential and is constrained by leverage
- Proposed acquisition for \$86 per share in cash
- Like Elster, it is a fair price for a good opportunity, 10.0x historic ebitda<sup>1</sup> and 9.3x current year ebitda<sup>3</sup> (Enterprise Value £2.2 billion)<sup>4</sup>
- Shareholders representing over 50% of Nortek's share capital are expected to agree to accept our offer, subject to Nortek not accepting a superior proposal within the window shop period which expires on 7 August 2016
- Fully underwritten Rights Issue to raise c.£1.65 billion
- Executive Directors to invest c.£17 million, equal to c.1% of the Issue
- Proposed new debt facility of c.£1.0 billion<sup>4</sup> committed on a certain funds basis
- Expected completion of acquisition in late August or early September 2016
- *Since the last trading statement made on 11 May 2016, Melrose has continued to trade in line with the Melrose Board's expectations*
- *The Melrose Board believes that the acquisition will be significantly accretive to headline<sup>2</sup> earnings per share in the first full financial year of ownership (2017)<sup>5</sup>*

1. Headline<sup>2</sup> operating profit before depreciation and amortisation, calculated using the 12 months to March 2016
2. Before exceptional costs, exceptional income and intangible asset amortisation
3. Headline<sup>2</sup> operating profit before depreciation and amortisation, derived from an average of analysts' reports available to Melrose for Q1 2016, being Jefferies (dated 16 May 2016) and Avondale Partners (dated 16 May 2016). Investors should note that such projections regarding Nortek were not prepared in the context of the acquisition and therefore cease to be valid under Melrose's ownership. Investors should not rely upon any such projections in making any decision about the New Melrose Shares, the Rights Issue or the Acquisition. These reports are not endorsed by Melrose or the Banks and have not been, and will not be, verified or reported on
4. Converted using an exchange rate of £1 : \$1.30
5. This is not intended to be, or is not to be construed as, a profit forecast or to be interpreted to mean that earnings per Melrose share for the current or future financial years, or those of the enlarged Group, will necessarily match or exceed the historical earnings per Melrose share



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## Nortek – an excellent opportunity

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# Nortek Clear reasons to buy

## A good manufacturing business:

1. **Strong brands and market positions** → Number 1 US positions in most product areas with presence in 80% of US homes, a good presence in US offices and in education and health centres
2. **Good product sectors** → Air management, cleaner air, security, home automation and ergonomic & productivity solutions
3. **A helpful market backdrop** → Underlying end markets are growing, an attractive entry point in the cycle
4. **Clean balance sheet** → High leverage but no significant other liabilities, with only a relatively small pension position

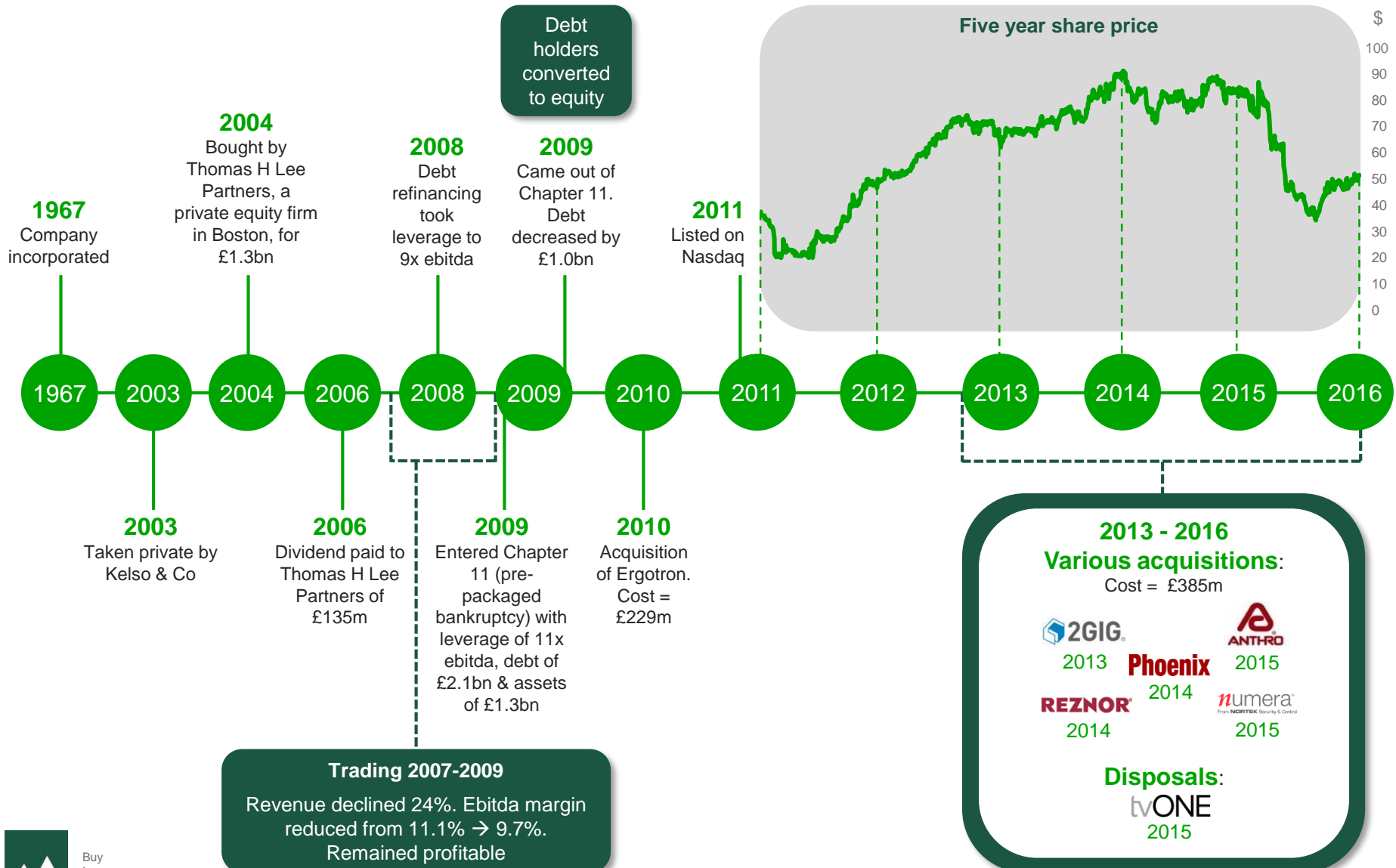
## With opportunity to improve:

5. **Nortek is underperforming its potential** → Recent trading has been underwhelming despite a favourable end market backdrop. 2016 Q1 results showing momentum

## At a fair price:

6. **A fair price for good businesses** → Expected to deliver a good return for Melrose shareholders


























# Nortek Buy How has the opportunity arisen?<sup>1</sup>



1. Converted using an exchange rate of £1 : \$1.30



# Nortek Buy Strong brands and market positions

Air Management (64% of 2015 sales) (53% of 2015 profit) <sup>1</sup>			Security & Home Automation (22% of 2015 sales) (17% of 2015 profit) <sup>1</sup>		Ergonomic & Productivity Solutions (14% of 2015 sales) (30% of 2015 profit) <sup>1</sup>
Air Quality & Home Solutions (AQH) (24% of 2015 sales)	Residential & Commercial HVAC <sup>3</sup> (RCH) (23% of 2015 sales)	Custom & Commercial Air Solutions (CAS) (17% of 2015 sales)	Security & Control Solutions (SCS) (17% of 2015 sales)	Audio, Video & Control Solutions (AVC) (5% of 2015 sales)	Ergonomic & Productivity Solutions (ERG) (14% of 2015 sales)
<div>#1<sup>4</sup> in range hoods &amp; bath fans</div> <div>          </div>	<div>#1<sup>4</sup> in commercial unit heaters &amp; manufactured housing HVAC<sup>3</sup></div> <div>   <sup>5</sup>  <sup>5</sup>       </div>	<div>#1<sup>4</sup> in custom air handlers</div> <div>          </div>	<div>#3<sup>4</sup> in residential security hardware</div> <div>      </div>	<div>Major supplier of audio, visual &amp; control solutions</div> <div>      </div>	<div>#1<sup>4</sup> in ergonomic mounting &amp; mobility solutions</div> <div>      </div>

# Nortek Buy Good product sectors & demand drivers

## Nortek 2015 results at actual rates<sup>3</sup> at a glance...

	Air Management £m	Security & Home Automation £m	Ergonomic & Productivity Solutions £m	Central costs £m	2015 Group £m
Sales	1,060	364	229	-	1,653
Headline <sup>2</sup> operating profit	91	29	51	(27)	144
Headline <sup>2</sup> operating margin %	8.6%	7.9%	22.1%	n/a	8.7%

Updated for US\$ rate

## ...and at £1 : US \$1.30

	Air Management £m	Security & Home Automation £m	Ergonomic & Productivity Solutions £m	Central costs £m	2015 Group £m
Sales	1,246	428	269	-	1,943
Headline <sup>2</sup> operating profit	107	34	59	(31)	169
Headline <sup>2</sup> operating margin %	8.6%	7.9%	22.1%	n/a	8.7%

## Lifestyle innovations for<sup>1</sup>:

**Home**  
61% sales

**Work**  
23% sales

**Health**  
8% sales

**Education**  
8% sales

## Product sectors:

**Air management**

**Cleaner air**

**Security**

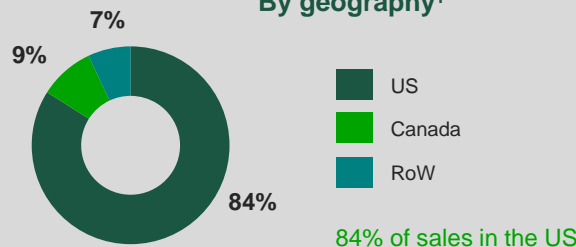
**Home automation**

**Ergonomic & productivity solutions**

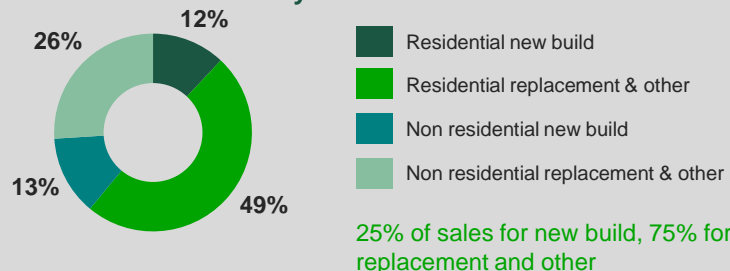
- Nortek's growth is linked to the US replacement (75%) and new build market (25%)

## Split of sales...

### By geography<sup>1</sup>

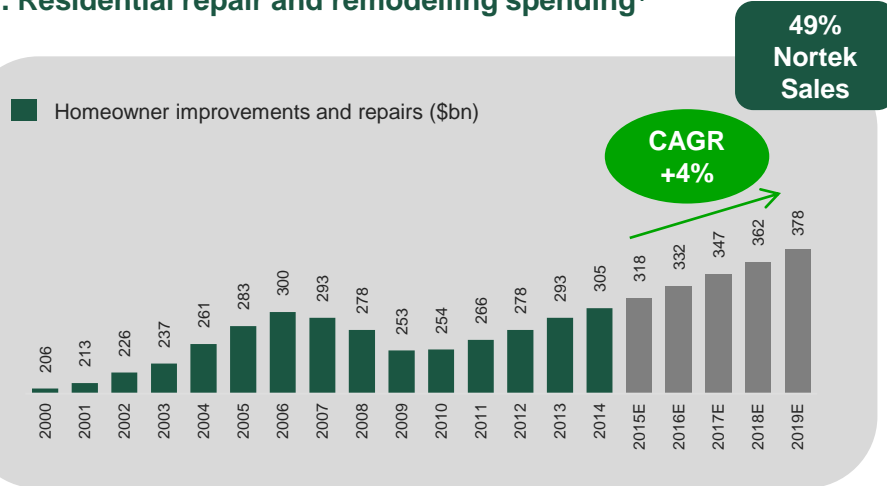


### By end market<sup>1</sup>

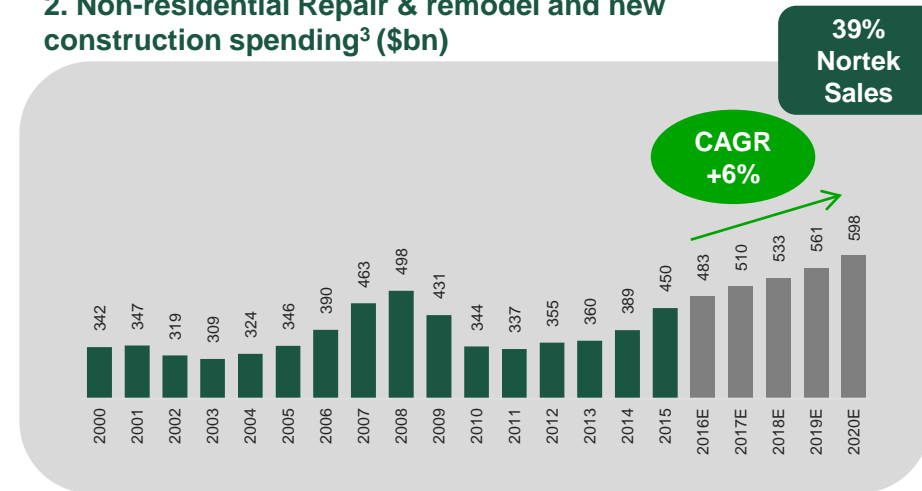


# Nortek Buy A helpful market backdrop

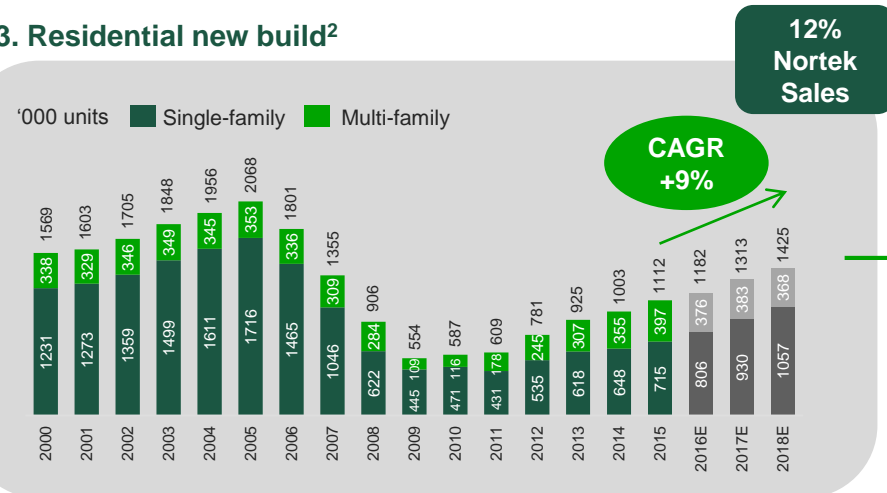
## 1. Residential repair and remodelling spending<sup>1</sup>



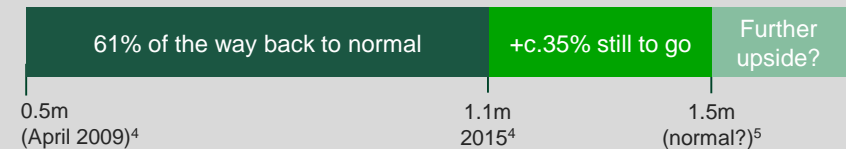
## 2. Non-residential Repair & remodel and new construction spending<sup>3</sup> (\$bn)



## 3. Residential new build<sup>2</sup>



## Total US housing starts



**+c.35% to go to mid cycle 'norms'**

- Source: Home Improvement Research Institute, September 2015
- Source: Historical data is sourced from US Census Bureau; projections from NAHB dated 31 May 2016
- FMI 1Q16 report, 1Q12 report
- Source: US Census Bureau
- Based on Nortek management estimates

# Nortek High leverage but no significant other liabilities

## December 2015 Balance Sheet position

£m	31 Dec 2015 at actual rates <sup>4</sup>		31 Dec 2015 at £1 : US \$1.30
Fixed assets, intangible assets and goodwill	912		1,034
Net working capital	198	→ Updated for US\$ rate	224
Pensions and retirement benefits	(32)		(36)
Provisions	(78)		(88)
Deferred tax and current tax	(56)		(64)
Other	4		4
Net debt <sup>5</sup>	(936)		(1,061)
<b>Net assets</b>	<b>12</b>		<b>13</b>

### Leverage<sup>1</sup>

31 December 2015

**5.1x**

Constraining the business

### Pension deficit

31 December 2015

**£32m**

Deficit

**£81m**

Assets

**£113m**

Liabilities

At only 2% of Enterprise Value this is the lowest relative pension deficit of any previous Melrose acquisition

### Total working capital as a percentage of revenue<sup>4</sup>

31 December 2015

**11.5%**

Reasonable ratio to sales

# Nortek Underperforming its potential

Nortek results <sup>1</sup>	2012	2013	2014	2015 at actual rates	2015 at £1 : US \$1.30
Revenue (£m)	1,440	1,497	1,666	1,653	1,943
Headline <sup>2</sup> operating profit margin (%)	8.9%	8.1%	8.7%	8.7%	8.7%
Leverage <sup>4</sup>	4.1x	4.2x	4.7x	5.1x	5.1x

→  
Updated  
for US\$  
rate

## Highlights

Revenue growth<sup>5</sup> since 2012:

Organic  
2%



By M&A  
+15%

Very small organic sales growth achieved despite a growing market backdrop and a sales led culture. Momentum starting to come with 2016 Q1 sales up 7%

Margin decline since 2012:

Last 3 years  
-0.2ppts



Last year  
Flat

Margin decline despite significant restructuring spend and with the Ergonomic & Productivity Solutions segment, which has the highest margins, being the only one to achieve organic growth. Some self inflicted operational issues suffered in 2015

Leverage<sup>4</sup> rise since 2012:

> 5x ebitda<sup>3</sup>



Risen by  
1.0x

Interest on the expensive debt, the significant restructuring and acquisition spend has used up all the cash generated from the businesses



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# Nortek

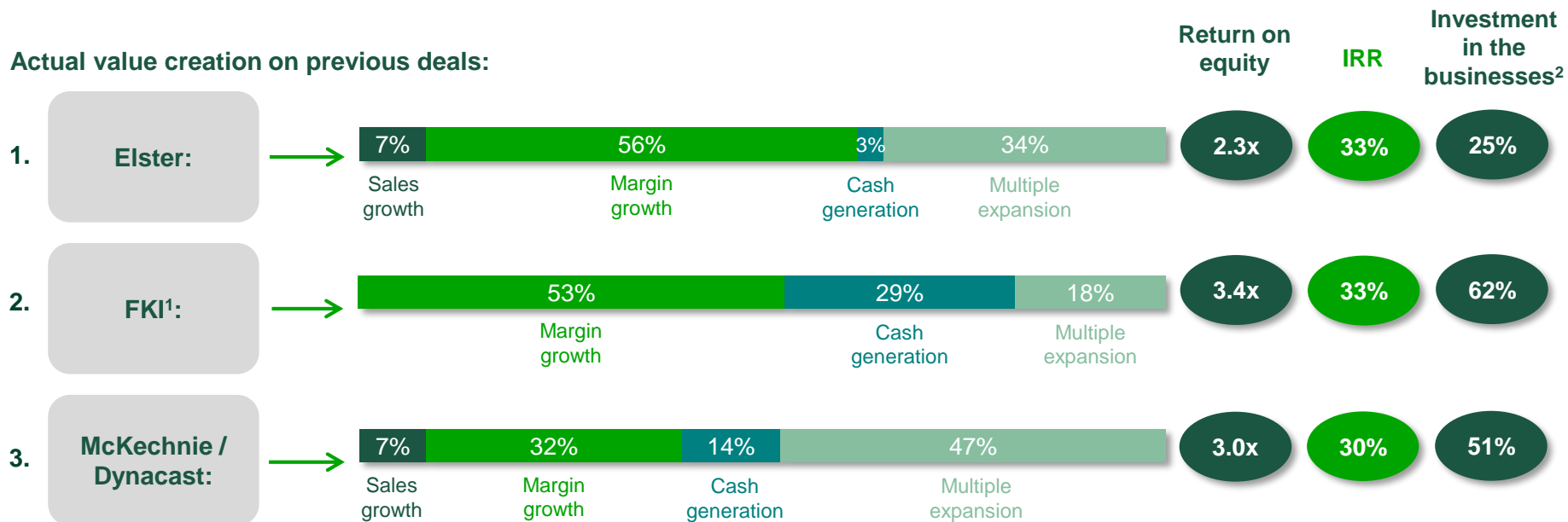
Buy

Improve

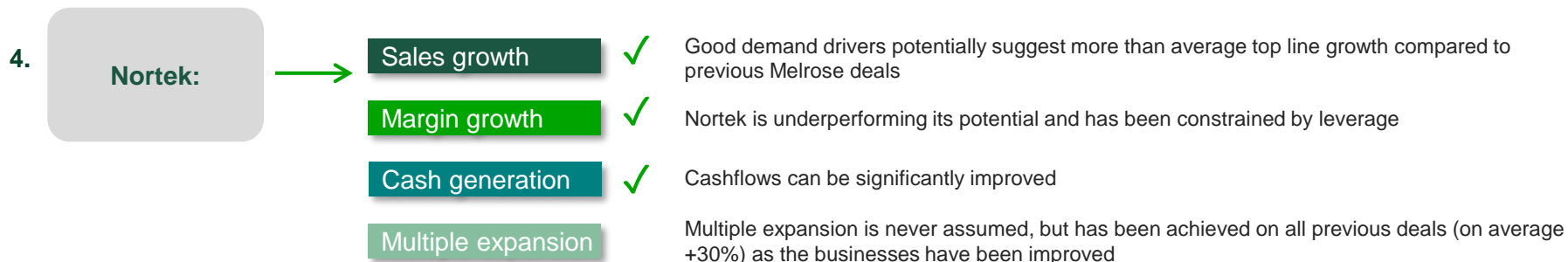
Sell

# Nortek Melrose track record; Nortek fits the bill

## Actual value creation on previous deals:



## Potential value creation on Nortek:



# Nortek Improve Five opportunities to improve

## How Melrose can help improve Nortek:

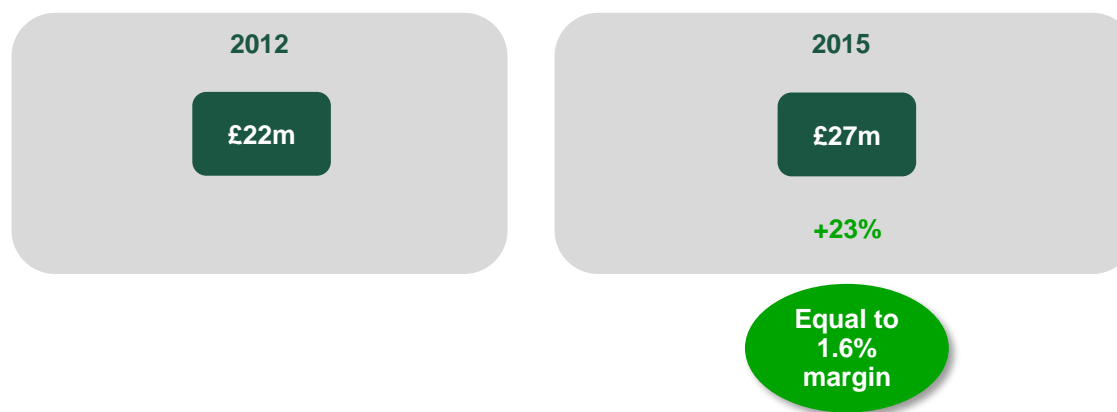
1. **Cost savings from delisting** → Removal of US listing costs
2. **Operational restructuring** → Current restructuring projects to deliver improvements with significant further opportunities available
3. **Increased investment** → Opportunities to improve the quality and efficiency of the businesses including through acquisitions
4. **More focused product mix** → A very busy portfolio of products can be streamlined to enhance margin
5. **Reduce the burden of debt to free up cash flow** → Reduce leverage to c.2.5x ebitda<sup>1</sup> upon acquisition and use cheaper debt



# Nortek Cost savings from delisting

Proforma 2015 year end numbers <sup>1</sup>	Revenue £m	Headline <sup>2</sup> operating profit pre central costs £m	Central costs £m	Headline <sup>2</sup> operating Profit £m	Headline <sup>2</sup> operating profit margin %
Current Melrose	261	39	18	21	8.0%
Nortek	1,653	171	27	144 <sup>3</sup>	8.7%
Combined	1,914	210	45	165	8.6%

## Nortek : rising central costs, up 23% between 2012 - 2015



Margin improvement opportunities

1. Underway

**Restructuring projects**

>£15m<sup>1</sup> improvement still to come

Total restructuring cost spent over last three years £90m

**Cost savings**

> £30m<sup>1</sup> of reductions underway

**New product development**

Significant focus on developing new products over the last two years

2. More potential

**Investment opportunities**

Capital expenditure has been constrained by leverage (averaging 0.9x depreciation) compared to 1.3x Melrose average

Factory expansion, consolidation and production line efficiency improvements exist.

Bolt on acquisition opportunities are available for review

**Further restructuring opportunities**

Mexico factory restructuring project (cost >£35m<sup>1</sup>) comes fully online in 2016 with more supply chain benefits to come

Selling and admin overheads benchmarked to be too high versus comparable businesses

A product profitability review to conclude on some low margin sales channels and products which need exiting

Restructure IT, c.£25m p.a. spend

**New opportunities**

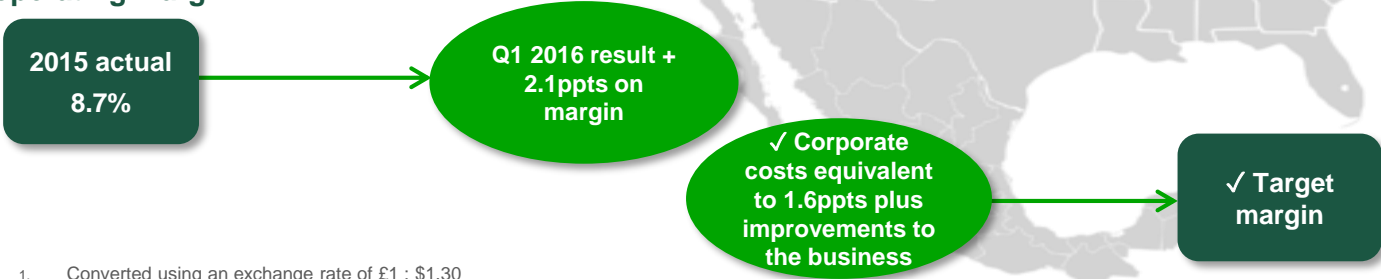
Develop parts & service business in Custom & Commercial HVAC

China opportunity driven by clean air

US ergonomic market only 2% penetrated<sup>2</sup>

Partner with a home service provider for security

Headline operating margin



# Nortek **Improve** Reduce the burden of debt to free up cash flow

## Currently high and expensive debt

Current cost of debt:

Over 7% p.a.

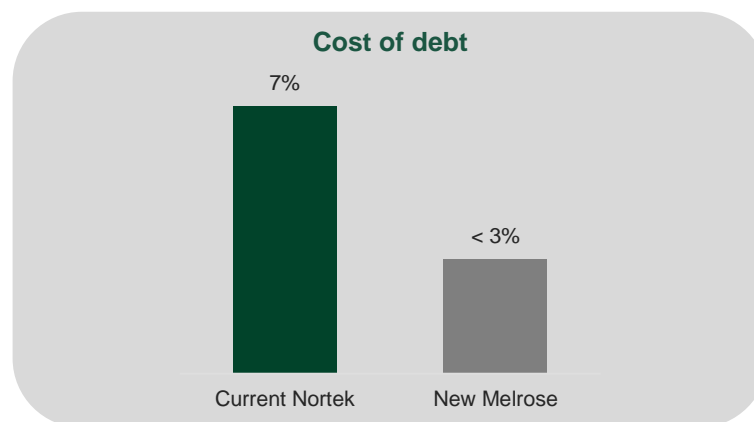
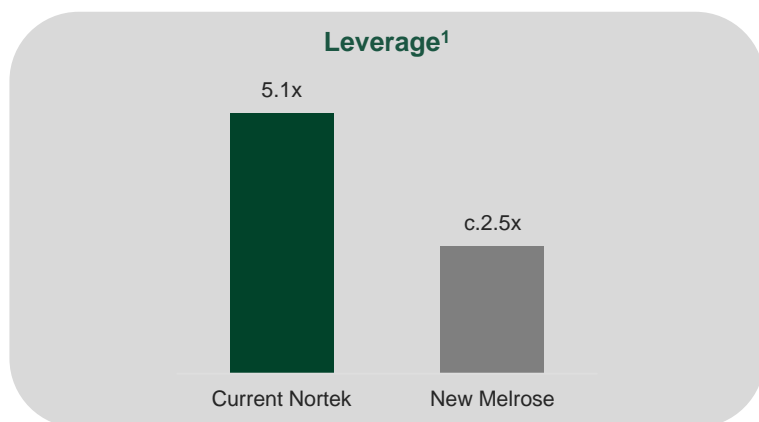
Melrose will reduce this to less than 3% p.a.

Leverage<sup>1</sup>:

5.1x

Melrose will reduce this to c.2.5x

Leverage<sup>1</sup> and the cost of debt will be more than halved by Melrose



## Tax

Proforma tax rate (income statement):

28%



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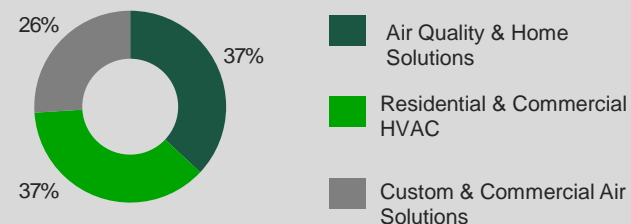
# Divisions

# Air Management (64% of Nortek sales)

## Air Management – headline<sup>1</sup> results

£m	Actual 2015 at £1 : US \$1.53	Growth on 2014		2015 at £1 : US \$1.30
Revenue	1,060	-2%		1,246
Headline <sup>1</sup> ebitda <sup>2</sup>	113	-11%	→	132
Headline <sup>1</sup> ebitda <sup>2</sup> margin %	10.6%	-1.1ppts	Updated for US\$ rate	10.6%
Headline <sup>1</sup> operating profit	91	-16%		107
Headline <sup>1</sup> operating margin %	8.6%	-1.4ppts		8.6%

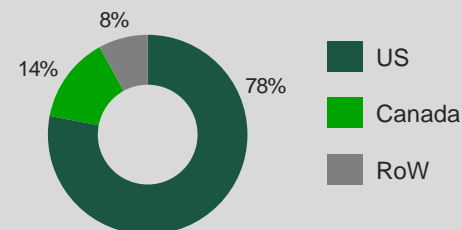
## Revenue by business 2015



## Highlights

- Largest division with broadly flat organic revenue growth over the last three years
- Investment and restructuring opportunities exist, including by acquisition
- A good opportunity to develop in China with cleaner air products

## Revenue by geographical destination 2015



# Air Management (64% of Nortek sales) cont...

<b>Air Quality &amp; Home Solutions (AQH)</b> (37% of Air Management sales)	<b>Residential &amp; Commercial HVAC<sup>1</sup> (RCH)</b> (37% of Air Management sales)	<b>Custom &amp; Commercial Air Solutions (CAS)</b> (26% of Air Management sales)
<div data-bbox="285 344 562 608"> <div>#1<sup>2</sup></div> <div>in range hoods &amp; bath fans</div> </div>	<div data-bbox="842 344 1118 608"> <div>#1<sup>2</sup></div> <div>in commercial unit heaters &amp; manufactured housing HVAC<sup>1</sup></div> </div>	<div data-bbox="1383 344 1659 608"> <div>#1<sup>2</sup></div> <div>in custom air handlers</div> </div>
<div data-bbox="175 629 687 694"> </div> <div data-bbox="171 722 672 829"> </div>	<div data-bbox="707 636 1228 686"> </div> <div data-bbox="716 736 1209 836"> </div>	<div data-bbox="1257 636 1769 708"> </div> <div data-bbox="1286 743 1740 822"> </div>
Range hoods Indoor air quality Ventilation fans	Unit heaters Air conditioners Make-up air units Furnaces	Air handlers Cleanroom systems Data centre cooling Rooftop & packaged systems
Key competitors	Key competitors	Key competitors
<div data-bbox="175 1086 687 1250"> </div>	<div data-bbox="716 1086 1228 1250"> </div>	<div data-bbox="1257 1086 1769 1250"> </div>

1. Heating, Ventilation and Air Conditioning ("HVAC")
2. In the US market, Nortek management estimates
3. Licensed

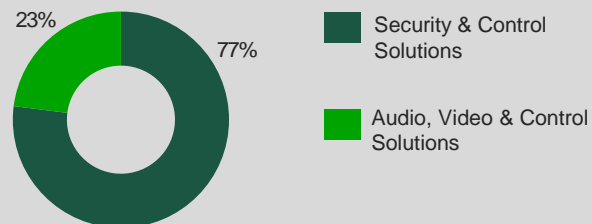
# Security & Home Automation (22% of Nortek sales)

## Security & Home Automation – headline<sup>1</sup> results

£m	Actual 2015 at £1 : US \$1.53	Growth on 2014	2015 at £1 : US \$1.30
Revenue	364	-7%	428
Headline <sup>1</sup> ebitda <sup>2</sup>	35	-2%	41
Headline <sup>1</sup> ebitda <sup>2</sup> margin %	9.7%	<b>+0.6ppts</b>	9.7%
Headline <sup>1</sup> operating profit	29	-7%	34
Headline <sup>1</sup> operating margin %	7.9%	<b>Flat</b>	7.9%

Updated  
for US\$  
rate

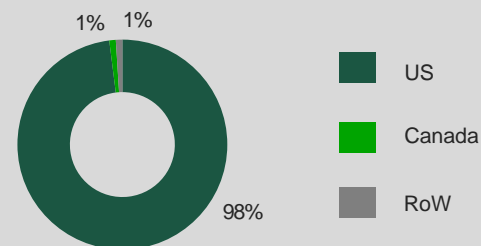
## Revenue by business 2015



## Highlights

- Organic sales growth of 6% in total over the last three years
- Audio, visual and control business is loss making (2015: headline<sup>1</sup> operating loss of £6million) needs significant review

## Revenue by geographical destination 2015



# Security & Home Automation (22% of Nortek sales) cont...

<b>Security &amp; Control Solutions (SCS)</b> (77% of Security and Home Automation sales)	<b>Audio, Video &amp; Control Solutions (AVC)</b> (23% of Security and Home Automation sales)
<div data-bbox="465 344 745 608"> <p><b>#3<sup>1</sup></b> in residential security hardware</p> </div>	<div data-bbox="1195 344 1476 608"> <p>Major supplier of audio, visual &amp; control solutions</p> </div>
<div data-bbox="340 629 871 679"> </div> <div data-bbox="340 701 861 822"> </div>	<div data-bbox="1074 629 1605 679"> </div> <div data-bbox="1054 708 1595 822"> </div>
<p>Security &amp; home automation Access control systems Garage door operators</p>	<p>Residential AV Power &amp; energy management Home integration &amp; control</p>
Key competitors	Key competitors
<div data-bbox="378 1086 842 1250"> </div>	<div data-bbox="1016 1108 1663 1229"> </div>

1. In the US market, Nortek management estimates



# Ergonomic & Productivity Solutions (14% of Nortek sales)

## Ergonomic & Productivity Solutions – headline<sup>1</sup> results

£m	Actual 2015 at £1 : US \$1.53	Growth on 2014	2015 at £1 : US \$1.30
Revenue	229	+19%	269
Headline <sup>1</sup> ebitda <sup>2</sup>	54	+30%	63
Headline <sup>1</sup> ebitda <sup>2</sup> margin %	23.5%	+1.9ppts	23.5%
Headline <sup>1</sup> operating profit	51	+32%	59
Headline <sup>1</sup> operating margin %	22.1%	+2.1ppts	22.1%

Updated  
for US\$  
rate

## Revenue by geographical destination 2015



## Highlights

- Organic revenue growth of 10% in total in the last three years
- Only 2% of the overall market penetrated<sup>3</sup>
- Supported by patents

## Ergonomic & Productivity Solutions (ERG)

(100% of Ergonomic & Productivity solutions sales)



ERGOTRON<sup>®</sup>

OMNI MOUNT

ANTHRO



Healthcare carts  
Sit-stand workstations  
Device management carts  
Wall mounts

## Key competitors

enovate

Humanscale

Rubbermaid  
Medical Solutions

VARIDESK

B

BRET FORD



Buy  
Improve  
Sell

# Transaction structure & timetable

# Summary of deal...

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- Melrose proposing to acquire Nortek for \$86 per share
  - Equates to a Nortek Enterprise Value of £2.2 billion (excluding costs)
  - Break fee payable to Melrose of \$50 million
  - Tender and Support Agreements to be entered into by Ares Management LLC and others (totalling 68.7% of Nortek share capital)
  - Reverse takeover under the UKLA rules, with re-admission of Melrose shares to a Standard Listing
- Rights Issue for c.£1.65 billion to be fully underwritten
- Executive Directors to invest c.£17 million, equal to c.1% of the Issue
- New five year bank facility of \$1.25 billion, fully committed and underwritten on a certain funds basis
- Acquisition and Rights Issue both conditional on Melrose shareholder approval
  - Rights Issue not conditional on acquisition completing
- Acquisition expected to complete in late August or early September 2016

# Transaction funding

## Rights Issue summary

- Proposed gross proceeds c.£1.65 billion
- Rights Issue terms 12 for 1
- Closing price as of 5 July 2016 409.75p
- Issue price 95p
- Theoretical Ex Right Price (TERP) 119.21p
- Theoretical Nil Paid Price (TNPP) 24.21p
- Issue discount to TERP 20.3%
- New shares issued 1,741,612,236

## New debt facility

- \$1.25 billion committed five year facility
- Underwritten on certain funds basis
- 'All in' total interest cost less than 3%

## Funding structure

Price paid	£m
\$86 for 16.7 million shares	1,105
Existing Nortek debt plus transaction costs	1,221
Total cost of transaction including costs	2,326

Funded by	£m
Rights Issue	1,655
Existing Melrose cash	45
Acquisition debt	626
Total	2,326

# Expected timetable

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■ Transaction announcement, posting of circular and notice of General Meeting and publication of the prospectus:	6 July
■ Melrose General Meeting:	25 July
■ Record date for rights issue:	4 August
■ End of window shop period	6 August
■ Nil-pays trading expected to commence:	9 August
■ Latest time for acceptance of rights issue:	23 August
■ Announcement of results of rights issue expected:	24 August
■ Expected date of completion of the US tender offer and the merger (Melrose acquires 100% of Nortek):	31 August



Buy  
Improve  
Sell

# Appendices

# Price paid – multiple of ebitda<sup>1</sup>

	Historic <sup>3</sup> basis \$m	Current <sup>4</sup> year \$m
<b>Nortek announced adjusted ebitda<sup>1</sup></b>		
2015 full year minus 2015 Q1 plus 2016 Q1 (267 – 46 + 60)	281	
Analysts' consensus <sup>4</sup> 2016		301
IFRS and Melrose accounting policy adjustments <sup>6</sup>	4	4
Ebitda <sup>1</sup>	285	305
Central costs	40	48
Ebitda <sup>1</sup> pre central costs	325	353

Price paid	
Price per share	\$86
Number of shares	16.7m
Price paid	\$1,436m
Net debt at 31 March 2016 <sup>5</sup>	\$1,401m
Total price paid	\$2,837m

## Multiple at £1 : US \$1.30

	Price £m	Ebitda <sup>1</sup> £m	Multiple	Multiple (pre central costs)
Historic <sup>3</sup> basis	2,183	219	10.0x	8.7x
Current <sup>4</sup> year	2,183	235	9.3x	8.0x

- Headline<sup>2</sup> operating profit before depreciation and amortisation
- Before exceptional costs, exceptional income and intangible asset amortisation
- Calculated using the last 12 months to Q1 2016 ebitda<sup>1</sup>
- Calculated using analysts' consensus for Q1 2016. Derived from an average of analysts' reports available to Melrose for Q1 2016, being Jefferies (dated 16 May 2016) and Avondale Partners (dated 16 May 2016). Investors should note that such projections regarding Nortek were not prepared in the context of the acquisition and therefore cease to be valid under Melrose's ownership. Investors should not rely upon any such projections in making any decision about the New Melrose Shares, the Rights Issue or the Acquisition. These reports are not endorsed by Melrose or the Banks and have not been, and will not be, verified or reported on
- Including finance leases
- IFRS and Melrose accounting policy adjustments calculated for the year ended 31 December 2015 and assumed constant

# Foreign exchange sensitivities

Impact on Nortek headline<sup>1</sup> operating profit of a 10% strengthening in the following currencies

Currency	Transactional impact £m	Headline <sup>1</sup> operating profit sensitivity	Translational impact £m	Headline <sup>1</sup> operating profit sensitivity
USD	3.8	3%	13.2	9%
CNY	(9.3)	(7%)	0.1	-
MXN	(1.6)	(1%)	-	-
EUR	1.8	1%	0.1	-
CAD	-	-	1.8	1%

Nortek 2015 headline<sup>1</sup> operating profit at various US \$ exchange rates (translation only)

Exchange rate US\$/£1	1.00	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.45	1.50	1.55	1.60
Headline <sup>1</sup> operating profit (£m)	220	210	200	191	183	176	169	163	157	152	147	142	138



# Bonus adjustments

## The effects of the Rights Issue

- Rights issue is treated as a bonus issue of shares and an issue of fully paid up shares
- The bonus factor is used to reflect the bonus element of the issue (IAS 33)
- The historic earnings per share and dividend per share are rebased to reflect the bonus element
- Note that after rebasing the historic dividend, the theoretical dividend yield is maintained on the new shareholding

## Rights Issue summary

### Bonus element

Share price at close 5 July 2016	409.75p
Rights issue price	95.00p
TERP	119.21p
Indicative bonus factor	0.29

### Earnings per share restatement

Proforma <sup>1</sup> 2015 headline <sup>2</sup> earnings per share – basic	9.20p
Proforma <sup>1</sup> 2015 headline <sup>2</sup> earnings per share – fully diluted	8.00p
x Indicative bonus factor	0.29
= Indicative bonus adjusted 2015 headline <sup>2</sup> earnings per share – fully diluted	2.32p

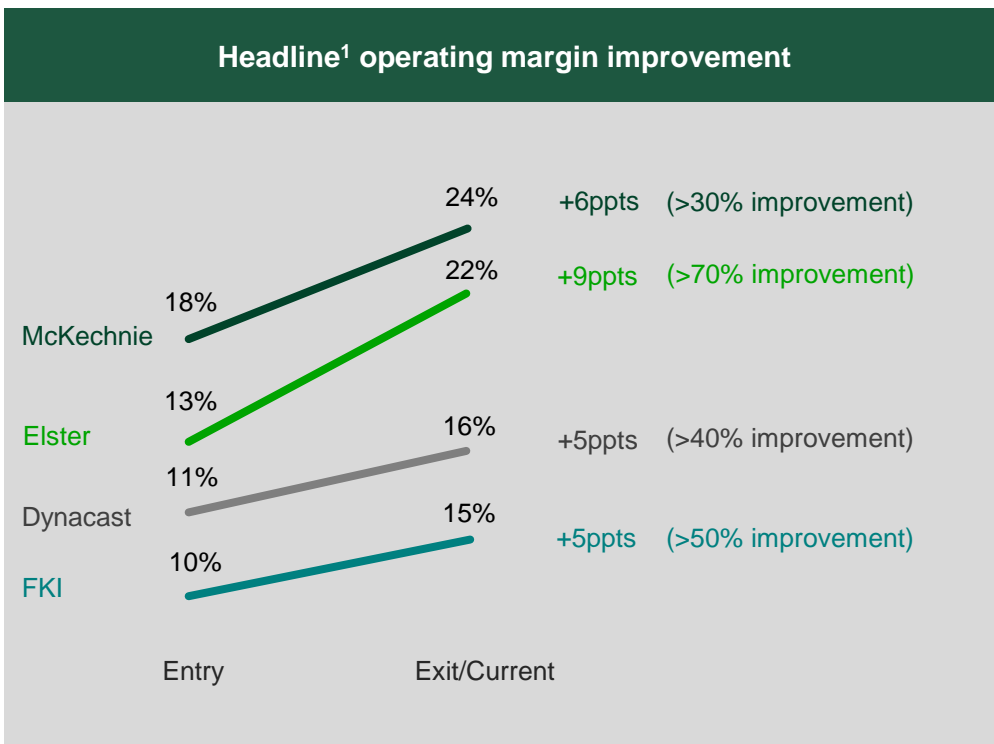
### Dividend restatement

Reported 2015 full year dividend per share	5.40p
x Indicative bonus factor	0.29
= Indicative bonus adjusted 2015 full year dividend per share	1.57p

# Nortek US GAAP to IFRS conversion

2015 results <sup>1</sup> £m	Ebitda <sup>2</sup>	Depreciation and amortisation	Operating profit	Finance costs	Tax	Other (incl non-GAAP adjustments)	Net income
Nortek results under US GAAP and Nortek accounting policies	174	(77)	97	(66)	2	(51)	(18)
Exclude amortisation of acquisition related intangible assets <sup>4</sup>	-	44	44	-	-	(44)	-
Nortek results under US GAAP, excluding amortisation of acquisition related intangible assets	174	(33)	141	(66)	2	(95)	(18)
Differences between US GAAP under Nortek accounting policies and IFRS under Melrose accounting policies	3	-	3	-	(3)	3	3
Nortek results under IFRS and Melrose accounting policies included in Nortek Circular	177	(33)	144	(66)	(1)	(92)	(15)
Nortek results under IFRS and Melrose accounting policies, at £1 : US \$1.30	208	(39)	169	(77)	(1)	(109)	(18)

# Improvement in operating performance



- Average increase in operating margin of 5 to 9 percentage points, improving the profitability of the businesses by between 40% and 70%
- Achieved through investing in the businesses to improve efficiency and quality

# Track record for a shareholder

Total shareholder investment...	£ billion
Total money invested	(2.0)
Total money received back	4.3
Net shareholder investment retained	2.3
Market capitalisation <sup>1</sup>	0.5
Net shareholder gain	2.8



	Elster	FKI	McKechnie / Dynacast
Acquired for	£1.8bn	£1.0bn	£0.4bn
Bolt on acquisitions	£0.1bn	-	-
Total price	£1.9bn	£1.0bn	£0.4bn
Net cash generated (after all costs)	£0.1bn	£0.4bn	£0.1bn
Sold for	£3.3bn	£1.8bn <sup>4</sup>	£0.8bn
Total cash generated <sup>2</sup>	£1.5bn	£1.2bn	£0.5bn
Equity multiple	2.3x	3.4x	3.0x
IRR <sup>3</sup>	33%	33%	30%
Post acquisition investment as a percentage of equity	25%	62%	51%

1. As at close of business on Wednesday 2nd March 2016
2. Reconciliation to £2.8 billion total value generated by Melrose: equal to £1.5 billion Elster, £1.2 billion FKI, £0.5 billion McKechnie, less £0.2 billion central, less £0.2 billion other including foreign exchange
3. The average IRR for all three deals individually equals 32%. The reconciliation to the average IRR for a Melrose shareholder since 2005 of 22% is as follows: inclusion of central costs and foreign exchange (4%), dilution from the issue of Melrose incentive shares (1%), returning monies to shareholders later than deal signing (5%)
4. Includes consensus valuation of the Brush business as at 2 March 2016