Melrose

Melrose Industries PLC

GKN – unlocking the potential

January 2018

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GKN’s current position

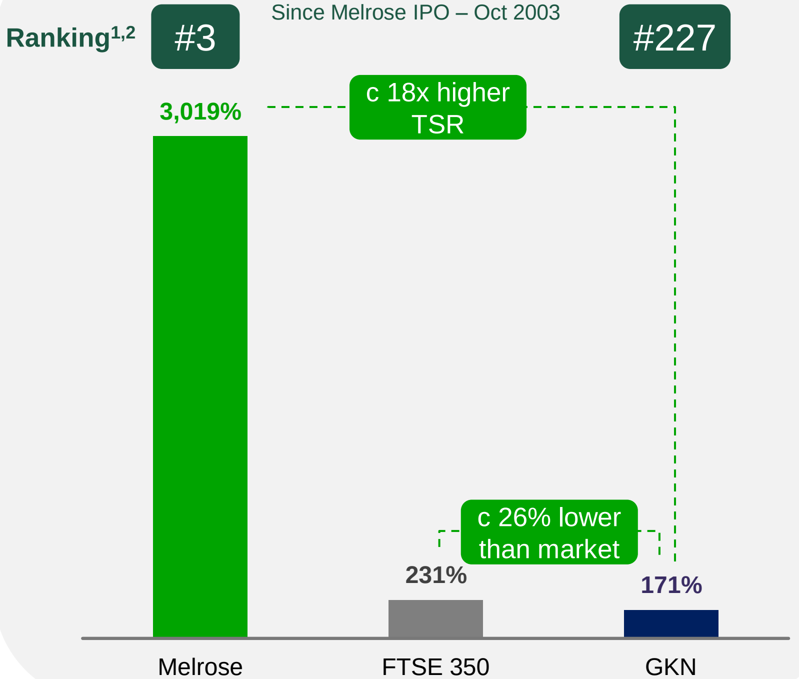
- Overly complex organisation without clear focus
- Need for a fundamental change in culture and leadership
- Parts that do not fit with each other - conglomerate-like structure
- A history of missed targets and below par shareholder returns
- Lack of return focus in investment
- World leading businesses that offer huge scope for improvement

An under-managed organisation without focus

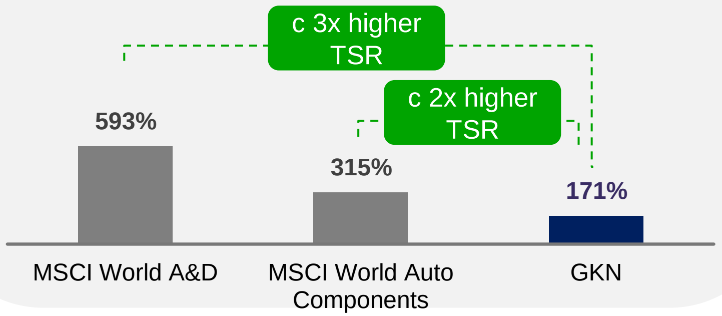
Total shareholder returns (TSR) compared

GKN has underperformed

TSR
MELROSE VS. FTSE 350 VS. GKN
Since Melrose IPO – Oct 2003



TSR
GKN VS. ITS SECTORS
Since Melrose IPO – Oct 2003



TSR – GKN VS. MELROSE
Since Melrose acquisitions[3]

	McKechnie/Dynacast May 2005	**FKI** Jul 2008	**Elster** Aug 2012	**Nortek** Aug 2016
Melrose	2,223%	1,624%	426%	49%
GKN	168%	190%	70%	8%

Source Datastream

1. As at close of business on 5 January 2018, the last business day prior to the approach
2. Top 10 TSR performance over the period: Ashtead Group, JD Sports Fashion, Melrose, Micro Focus, Paddy Power Betfair, Dechra Pharmaceuticals, Domino's Pizza, Croda, Hill & Smith and Diploma in order of performance
3. TSR calculated since respective acquisition completion dates

Melrose

Melrose delivers for shareholders

Melrose has consistently generated significant financial returns

Generated net shareholder value of £4.9bn

Total shareholder investment	£ billion
Total money invested	(3.64)
Total money returned to investors	4.35
Net shareholder investment returned	0.71
Market capitalisation[1]	4.22
Net shareholder gain	4.93

Melrose performance

- £1 invested in 2003 → £17.7 today[2]
- Average annual return for a shareholder since incorporation → 21.9%[2]
- Average return on equity across all three[3] exited acquisitions → 2.7x

Melrose

Source Melrose

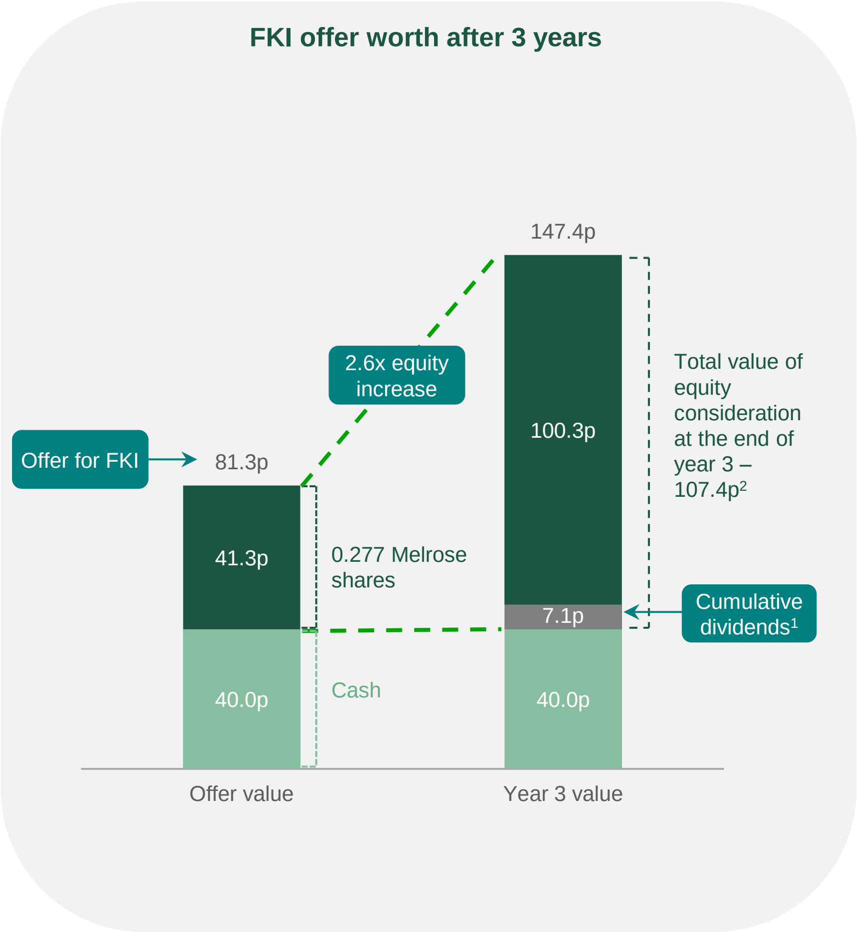
1. As at close of business on 5 January 2018, the last business day prior to the approach
2. Assuming participation in all equity issuances, based on 5 January 2018 share price
3. Comprises McKechnie/Dynacast, FKI and Elster

Summary of the proposal

- Proposal to acquire GKN for 405 pence per share represents:
  - Immediate premium of approximately 24% over the closing share price of GKN on 5 January, the last business day prior to the approach
  - Premium of approximately 30% on the average share price since the GKN trading statement on 13 October[1]
  - Value today ahead of GKN's 3 year high share price of 386 pence per share on 23 February 2015 with further significant upside through continued shareholding of the enlarged group
  - Implied offer value of approximately £7 billion
- GKN shareholders to receive 1.49 new Melrose shares and 81 pence in cash for each GKN share
  - Consideration payable 80% in new Melrose shares and 20% in cash at the proposal price of 405 pence per share
  - GKN shareholders would own approximately 57% of the enlarged group and would become major participants in potential future value creation
  - Net leverage in line with Melrose declared strategy of c 2.5x combined group EBITDA
- Enterprise value of approximately £9.5 billion
  - EV / EBITDA 2017 of 8.4x[2,3]
- Cash consideration to be financed via a new debt facility for the enlarged group, which is in an agreed form

1. Average share price up to and including 5 January, the last business day prior to the approach
2. Based on 2017 analyst consensus and including net pension deficit of £1.6 billion as at 30 June 2017, adjusted for £250 million contribution in H2 2017
3. Consensus comprises all analyst notes available to Melrose since 13-Oct-17 (date of GKN's trading statement) and includes divisional and group level estimates from the following analysts: Barclays (16-Oct-17), Berenberg (16-Oct-17), Deutsche Bank (16-Oct-17), J P Morgan Cazenove (group level only, 16-Oct-17), UBS (16-Oct-17), Peel Hunt (17-Oct-17), Citi (18-Oct-17), Liberum (23-Oct-17), Jefferies International (9-Nov-17) and Bank of America Merrill Lynch (16-Nov-17). Estimates from the following analysts have been excluded from the consensus as they adjust estimated trading profit for the impairment charge in the Aerospace business (shown as a separate impact on charts where applicable): Bank of America Merrill Lynch (17-Nov-17), Deutsche Bank (17-Nov-17), J P Morgan Cazenove (6-Dec-17), Investec Securities (18-Dec-17) and UBS (10-Jan-18). Estimates from Investec Securities (6- Nov-17) have been excluded from the consensus as it is a connected adviser to Melrose. In accordance with Rule 28.8(c) of the City Code, the consensus estimates are not shown with the agreement or the approval of GKN. The minimum group EBITDA full-year 2017 estimate per the consensus is £1,087m, the maximum group EBITDA full-year 2017 estimate is £1,178m and the arithmetic average is £1,132m.

FKI shareholders' return from Melrose shares over 3 years

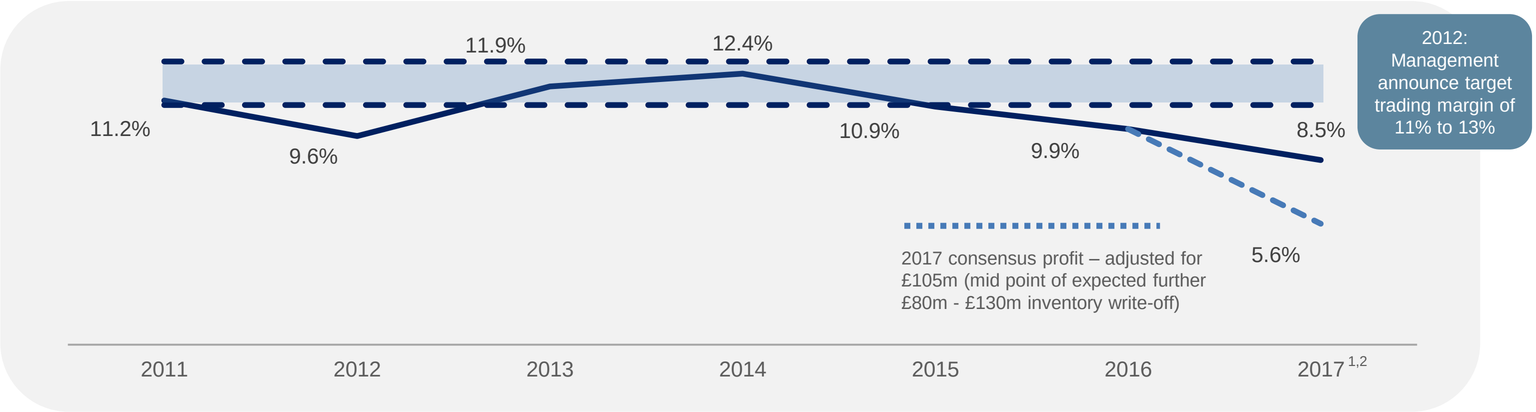


- As part of the transaction, FKI shareholders received 0.277 Melrose share for each FKI share and 40p in cash
- FKI shareholders who received and held Melrose shares achieved 2.6x return on the initial value of Melrose shares over 3 years
  - Total headline offer for FKI of 81.3 pence (inclusive of 40 pence in cash) worth 147.4 pence in 3 years
  - Value of equity increased from 41.3 pence as part of the offer to 107.4 pence in 3 years' time
- Value creation achieved from margin growth (47%), cash generation (37%) and multiple expansion (16%) over the period of ownership

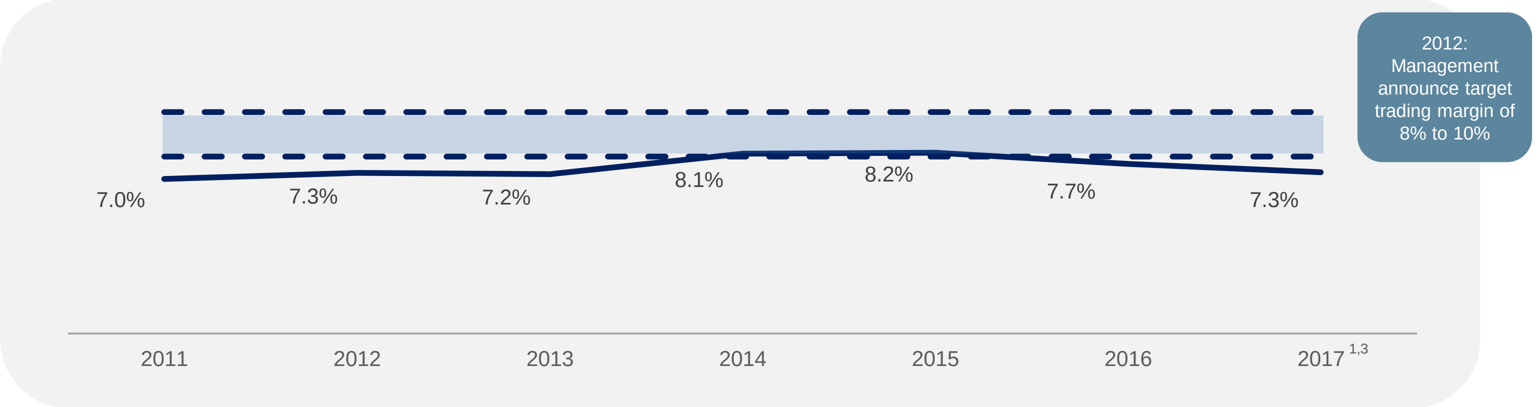
1. Cumulative dividends between 30 June 2008 and 30 June 2011
2. Based on Melrose share price of 362p as of 30 June 2011

GKN target margins missed ... despite significant expenditure

Aerospace trading margin over recent years



Driveline trading margin over recent years



Group trading profit:
Group trading margin:

2011
£0.5bn
7.7%

→

£3.2bn spent
on capex and acquisitions
capex 1.5x depreciation and amortisation on average[4]

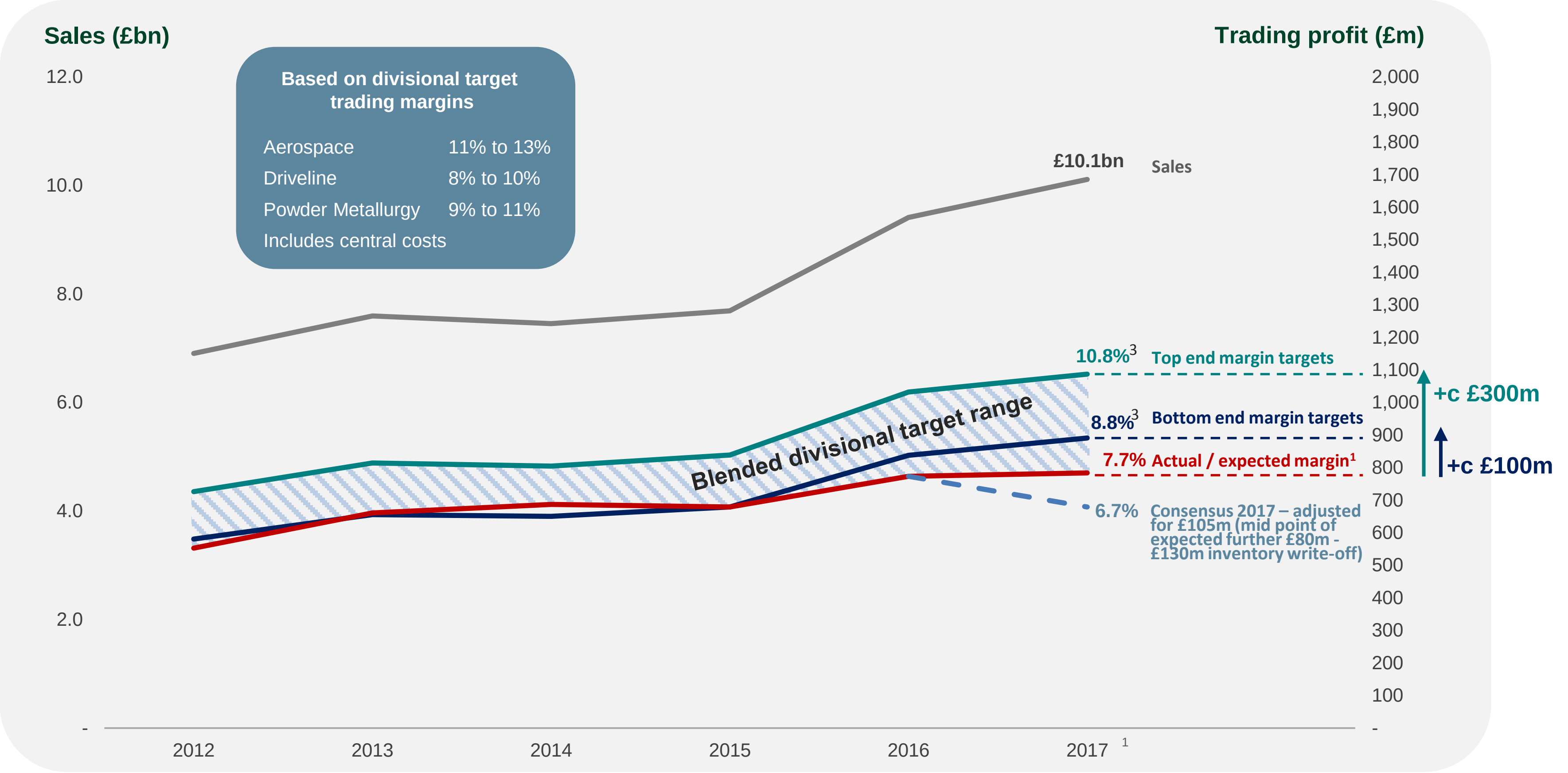
→

2017[1]
£0.8bn
7.7%

1. See note 2 on page 6 for composition of consensus. In accordance with Rule 28.8(c) of the City Code, the consensus estimates are not shown with the agreement or the approval of GKN.
2. The minimum Aerospace trading profit margin full-year 2017 estimate per the consensus is 8.2%, the maximum Aerospace trading profit margin full-year 2017 estimate is 9.0% and the arithmetic average is 8.5%. The Aerospace margin in 2012 (excluding acquisition of Volvo) was 11.2% (per the FY12 results presentation), the Aerospace margin in 2015 (excluding acquisition of Fokker) was 12.2% (per the FY15 results presentation)
3. The minimum Driveline trading profit margin full-year 2017 estimate per the consensus is 7.2%, the maximum Driveline trading profit margin full-year 2017 estimate is 7.5% and the arithmetic average is 7.3%.
4. Spend during five years to December 2016

Melrose

The lost opportunity for GKN shareholders



If GKN achieved its divisional target margins in 2017 consensus trading profit would be c £100m – c £300m higher (14% – 39% of 2017 consensus trading profit)

1. See note 2 on page 6 for composition of consensus. In accordance with Rule 28.8(c) of the City Code, the consensus estimates are not shown with the agreement or the approval of GKN.
2. The minimum group sales and trading profit margin full-year 2017 estimates per the consensus are £9,883m and 7.6% respectively, the maximum group sales and trading profit margin full-year 2017 estimates are £10,241m and 8.0% respectively and the arithmetic averages are £10,113m and 7.7% respectively
3. Arithmetical sum of applying top end or bottom end divisional targets to respective divisional revenues, adding consensus trading profit for the Other division and deducting consensus central costs. The minimum Other division trading profit full-year 2017 estimate per the consensus is £4m, the maximum is £18m and the arithmetic average is £12m. The minimum central costs full-year 2017 estimate per the consensus is £25m, the maximum is £33m and the arithmetic average is £29m.

Melrose

The Melrose plan

Melrose will improve GKN's trading margin → **to exceed GKN's top-end group margin target of 10%[1]**

- GKN has promised but not delivered – **Melrose will deliver**

Our immediate actions:

1. **Head office to be restructured** → **Simplify management structure**
2. **Culture to be changed** → **Focus on performance and reduced cost base**
3. **Focus on profitability not sales** → **Exit unprofitable or low margin sales**
4. **Investment in operations to produce return** → **Not growth only**
5. **Management focus back on business** → **Targets there to be achieved – incentives restructured**
6. **Fast economic-based decision making** → **Speedy, flat, unbureaucratic organisation**

Melrose

1. GKN's top-end group trading margin target based on the published group target range of 8% - 10% first stated in the 2007 annual report and repeated up until 2017 interim results

How to simplify GKN within Melrose

Focus on GKN's main businesses

1 **Exit Powder Metallurgy in the medium term once improved**

- **Reduce number of businesses to concentrate our efforts**
- **Disposal at the right moment, timing also affected by pension situation**

2 **Look to exit non core activities from within Aerospace and Automotive divisions in due course once improved**

3 **In parallel, continue with strategy of exiting Nortek businesses in next 2 – 3 years**

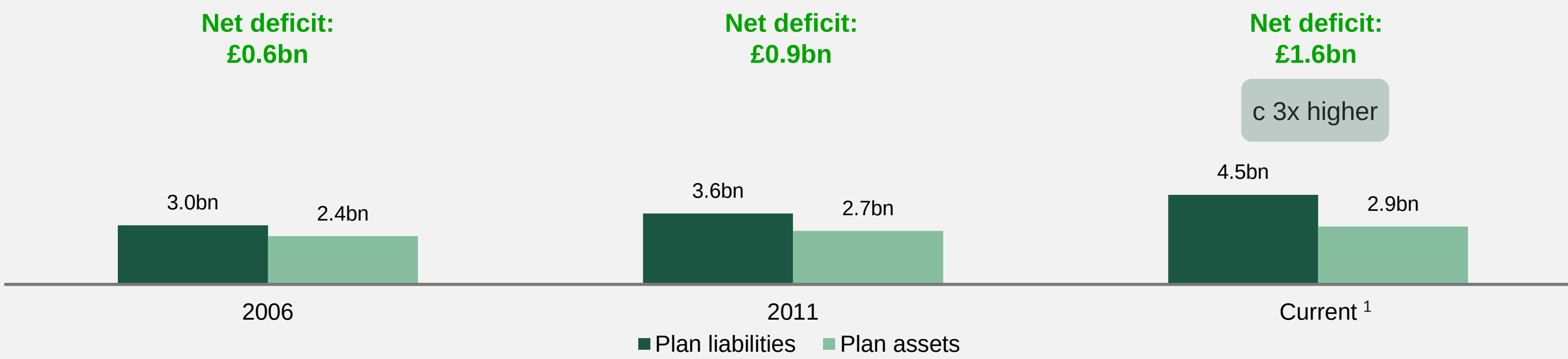
4 **Disposals will result in substantial capital returns to shareholders**

Melrose

Melrose deals with pension issues

- GKN **only** closed the main UK Pension Scheme to future accrual in July 2017
  - By contrast, Melrose closed the FKI UK Pension Scheme to future accrual in February 2011

Evolution of GKN net pension deficit over last 10 years



- Melrose has an excellent track record of managing pension schemes:

Funding % (IFRS basis)	On acquisition	On sale
McKechnie UK Plan	**58%**	**109%**
FKI UK Plan	**87%**	
Separated into 3 schemes in June 2013		
- residual FKI Plan		**95%**
- Bridon		**99%**
- Brush		**107%**

Transferred into Honeywell with a full Honeywell International, Inc guarantee

Transferred with the Bridon business to Ontario Teachers' Pension Plan

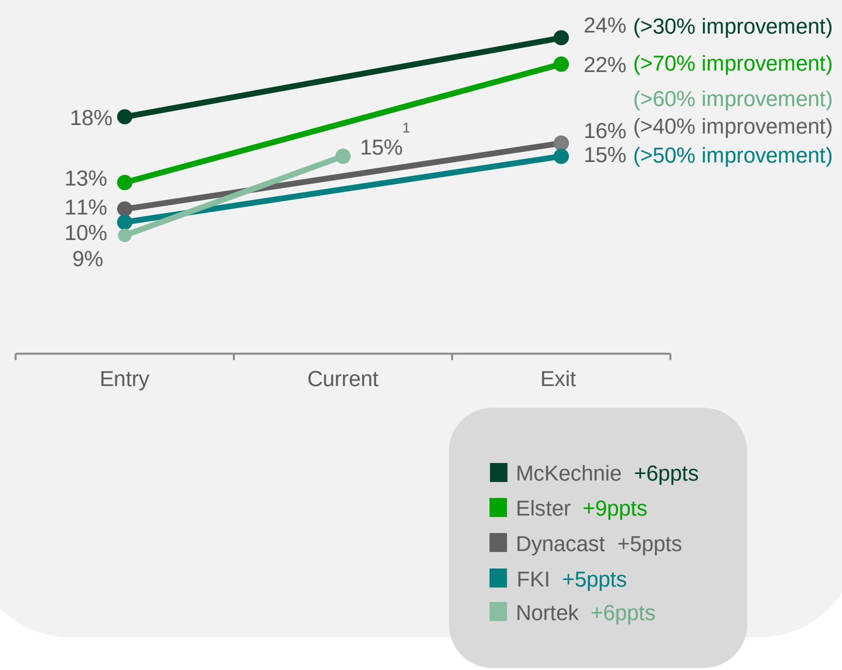
Retained within the Brush business and in surplus

1. Based on June 2017 reported plan assets and liabilities, adjusted for announced £250m cash injection in the second half of 2017

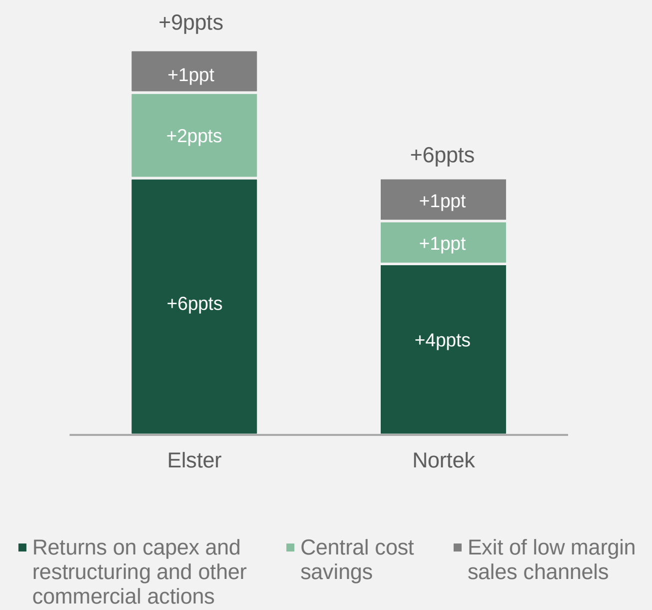
Melrose

The Melrose record for margin improvement

Melrose underlying operating margin improvement



How Elster and Nortek operating margin improved



Operating margins always improved through management actions

1. Nortek operating profit margin up to 30 June 2017

Conclusion

- Very attractive offer for GKN
  - GKN shareholders become major participants in potential future value creation
  - Over and above attractive immediate premium to the share price prior to our proposal

- Substantial opportunity to realise the potential of the business
  - Swift decision making to turnaround GKN
  - Change culture and management
  - Exceed GKN's top-end group trading margin target of 10%[1] - reversing a history of underperformance
  - Simplify GKN by exiting smaller businesses in due course once improved and focusing on core

- New team with "skin in the game" to deliver superior returns
  - Proven track record of Melrose strategy and approach as demonstrated on previous acquisitions
  - Melrose board owns 3.7% of Melrose (£150 million)

1. GKN's top-end group trading margin target based on the published group target range of 8% - 10% first stated in the 2007 annual report and repeated up until 2017 interim results

Appendix

The GKN Business

Leading positions in established end markets

£bn	2016	2017[1]
Revenue	9.4	10.1
Trading profit	0.8	0.8
Trading margin	8.2%	7.7%

Organic revenue growth[2]

last 5 years : +5%

Aerospace

Aerostructures (50% of Aerospace)	Global	#2
Engine systems	Global	#2
Electrical wiring	Global	#3

Organic revenue growth

last 5 years: +3%

Driveline

Driveshafts	Global	#1
All Wheel Drive	Global	#1
eDrive	Global	#1

Organic revenue growth

last 5 years: +7%

Powder Metallurgy

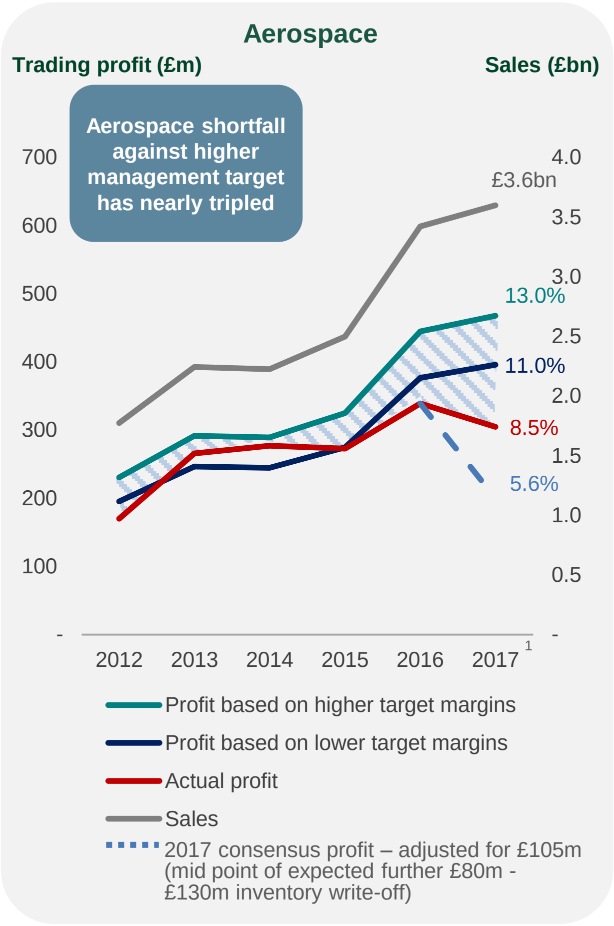
PM components	Global	#1
Powders	Global	#2
Additive manufacture (with GKN Aerospace)	Emerging	

Organic revenue growth

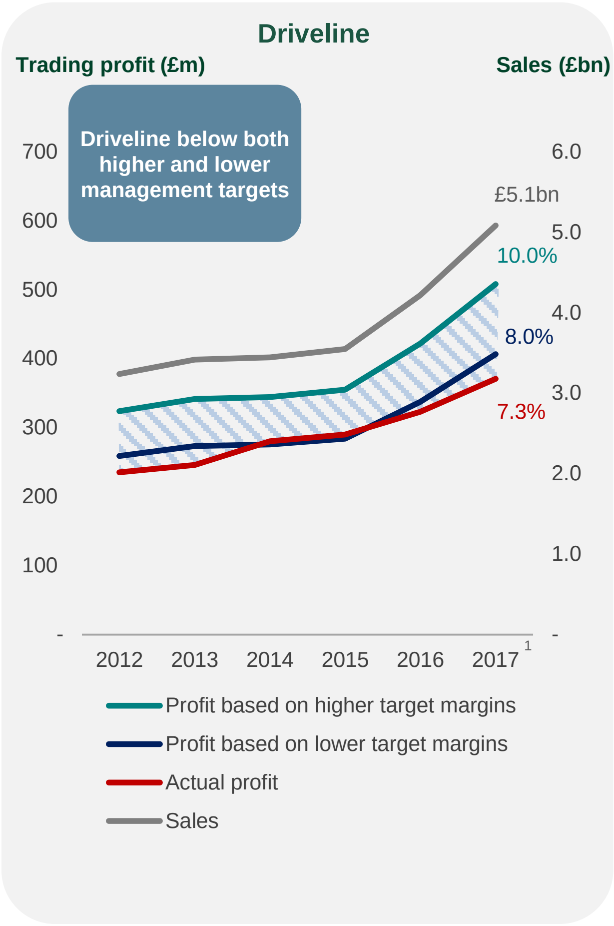
last 5 years: +3%

1. See note 2 on page 6 for composition of consensus. In accordance with Rule 28.8(c) of the City Code, the consensus estimates are not shown with the agreement or the approval of GKN. The minimum group revenue, trading profit and trading margin full-year 2017 estimates per the consensus are £9,883m, £776m and 7.6% respectively, the maximum group revenue, trading profit and trading margin full-year 2017 estimates per the consensus are £10,241m, £792m and 8.0% respectively and the arithmetic averages are £10,113m, £784m and 7.7% respectively. In accordance with Rule 28.8(c), the consensus estimates are not shown with the agreement or the approval of GKN.
2. Aerospace, Driveline and Powder Metallurgy only
3. Organic revenue growth represents average reported organic growth rate over last 5 years

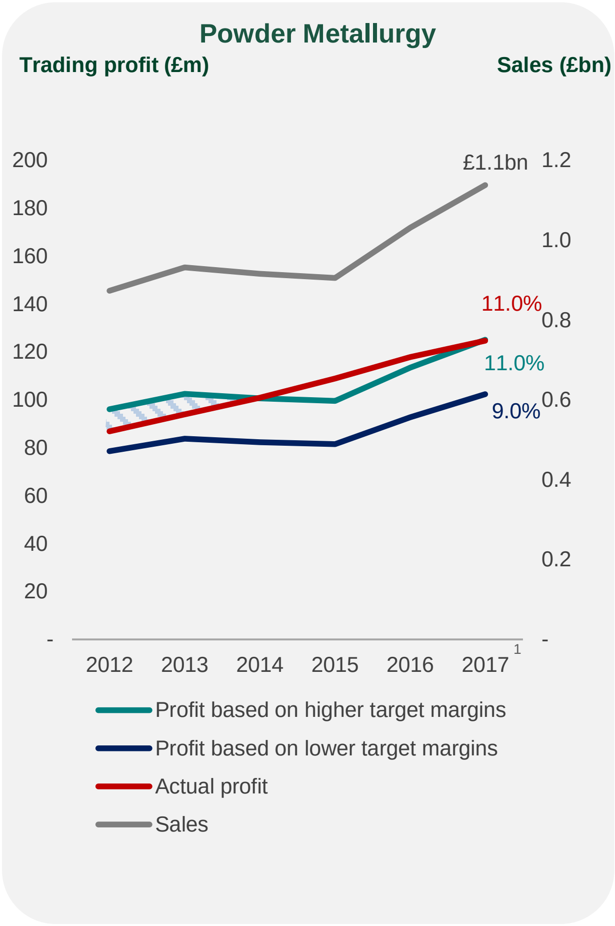
Performance by division



A growing issue



Opportunity clear



Better managed

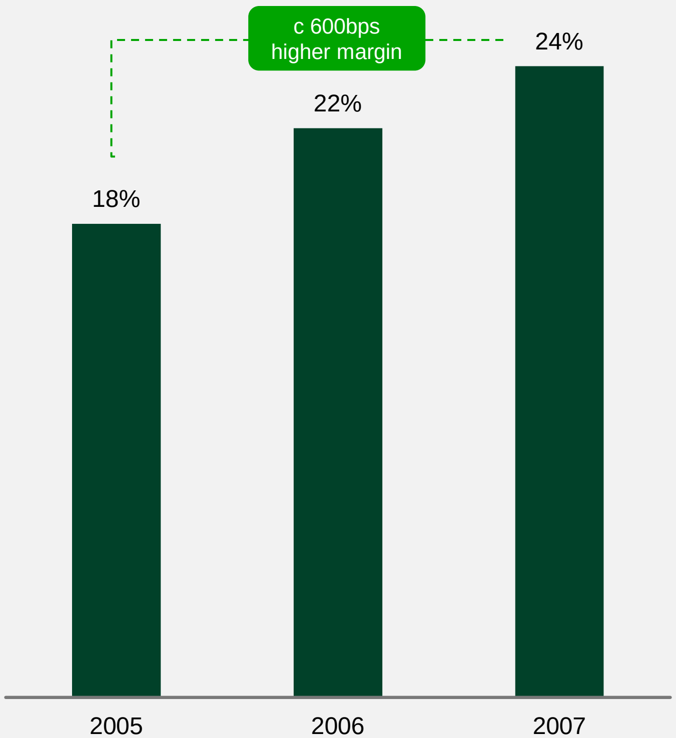
1. See note 2 on page 6 for composition of consensus. In accordance with Rule 28.8(c) of the City Code, the consensus estimates are not shown with the agreement or the approval of GKN.
2. The minimum Aerospace sales and trading profit margin full-year 2017 estimates per the consensus are £3,493m and 8.2% respectively, the maximum Aerospace sales and trading profit margin full-year 2017 estimates are £3,668m and 9.0% respectively and the arithmetic averages are £3,601m and 8.5% respectively.
3. The minimum Driveline sales and trading profit margin full-year 2017 estimates per the consensus are £4,882m and 7.2% respectively, the maximum Driveline sales and trading profit margin full-year 2017 estimates are £5,212m and 7.5% respectively and the arithmetic averages are £5,087m and 7.3% respectively.
4. The minimum Powder Metallurgy sales and trading profit margin full-year 2017 estimates per the consensus are £1,089m and 10.6% respectively, the maximum Powder Metallurgy sales and trading profit margin full-year 2017 estimates are £1,175m and 11.6% respectively and the arithmetic averages are £1,139m and 11.0% respectively.

Melrose

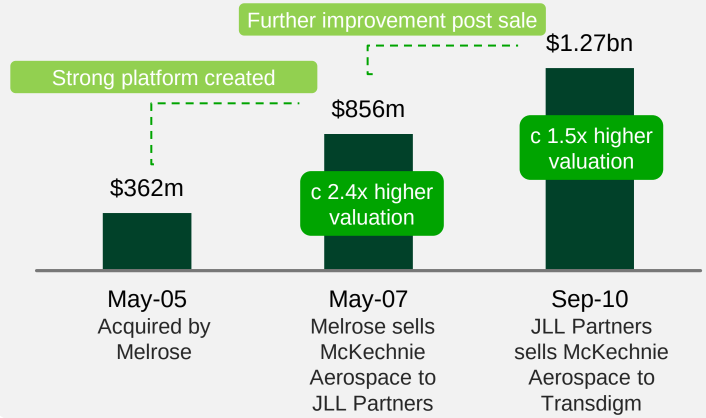
Melrose's track record with McKechnie Aerospace

McKechnie Aerospace

Significant operating profit improvement within just 2 years of ownership



Continued value creation in McKechnie



How Melrose delivered operational improvements

- Disciplined and focused approach to cost cutting and working capital requirements of the business
- Investment in machine tool technology, production capacity and IT systems
- Renegotiation of contracts with customers
- Changes in management in certain divisions, empowering of second level management

Melrose