Melrose Industries PLC today announces its audited results for the year ended 31 December 2019.

9 March 2020

Highlights

	Adjusted[1] results		**Statutory results**	
	2019	2018	**2019**	2018
Continuing operations[2]	**£m**	£m	**£m**	£m
Revenue	**11,592**	8,645	**10,967**	8,152
Operating profit/(loss)	**1,102**	813	**318**	(387)
Profit/(loss) before tax	**889**	672	**106**	(542)
Diluted earnings per share	**14.3p**	12.7p	**0.9p**	(11.8p)

Group

- The results for 2019 were comfortably ahead of the Board's expectations for both profit and cash generation
- Adjusted[1] diluted earnings per share ("EPS") were 14.3 pence, up 13% on last year (statutory EPS: 0.9 pence) and adjusted free cash flow[3] was £591 million, up 72%[4] on an annualised like-for-like basis
- Group net debt and leverage have both been improved and were reduced to £3.28 billion and 2.25x respectively
- Net trade working capital in the Group was reduced by £95 million (5%) in the year, with adjusted profit conversion to cash[1] of 104%. More progress in net trade working capital to come, in line with achieving the previously announced £400 million target within the Melrose ownership period
- Loss-making contracts have been improved materially with the losses from 2018 reducing by 11% in 2019. In addition, c.25% of the remaining provision has been released (as previously stated this release is not included in adjusted[1] operating profit) due to improvements implemented by management this year. These improvements impact future trading in GKN positively
- The GKN UK defined benefit pension schemes are significantly better funded, aided by over £240 million[5] of cash contributions from the Group so far during Melrose ownership, fully in line with the plan agreed with the Trustees. Along with better investment returns, the remaining contributions required to make these schemes well funded has reduced from up to £1 billion at acquisition to c.£500 million
- A proposed final dividend of 3.4 pence per share (2018: 3.05 pence) is 11% up on last year, giving a full year dividend of 5.1 pence per share (2018: 4.6 pence) up 11%
- During 2019, a record total level of investment has been made in new product development; technology; environmental, social & governance (ESG); and capital and restructuring projects - all designed to improve the quality of the businesses and their future performance

- The effects of the COVID-19 outbreak are not fully known at present. However, whilst there will clearly be some impact, the opportunities to improve GKN in 2020 and beyond position Melrose well to deliver positive returns for shareholders in the future

Divisions[6]

- Aerospace sales grew by 7% in 2019 and the adjusted[1] operating margin rose to 10.6%, up from 9.9% in 2018. The second half margin was 11.1%, fully on track to achieve the target previously set
- Aerospace is implementing its extensive restructuring project, “One Aerospace”, as announced in September 2019, to achieve further performance enhancements and is investing in new technology to improve aircraft efficiency in the future. North American Aerostructures became profitable in 2019; only two years ago this part of Aerospace made a £43 million loss
- Automotive sales reduced by 6% over the full year in 2019 in line with the market, but saw an improved trend in the second half, being 4% down, despite the General Motors strike in the autumn. An exciting new commercial partnership in eDrive has been signed with Delta Electronics Inc to accelerate the development of electric vehicles
- The Automotive adjusted[1] operating margin in the full year was 7.7% with the second half margin rising to 7.9% up from 6.8% in 2018, a very encouraging performance. This meant the adjusted[1] operating profit actually rose by 14% in the second half compared to the same period in 2018 despite the macro Automotive headwinds
- The Automotive and Aerospace businesses are now totally separate from a head office, legal, tax and pensions perspective. Melrose will be holding an Investor Day for Automotive in New York in October this year to update the markets on its future strategy
- Nortek Air Management continues to benefit from its leading edge sustainable StatePoint Technology® to reduce energy and water consumption in data centres. Nortek Security had a tough year but is rebuilding under new management. Ergotron ended the year strongly with its second half profit being 26% ahead of the previous year
- Melrose has appointed advisers to explore the strategic options for Nortek Air Management, although clearly recent events may have some bearing on timing. In the event of a significant disposal, a further reduction to net debt would be made along with an exceptional repayment to shareholders and a further contribution to the GKN UK defined benefit pension schemes

Justin Dowley, Chairman of Melrose Industries PLC, said:

“We are delighted with the Melrose performance in 2019 and the substantial value that is being unlocked. Notwithstanding any implications of the COVID-19 outbreak, the bedrock has now been built for the GKN businesses to attain results which were not previously achievable, and, in addition, the shareholder value built up in our longer held assets is closer to being realised. This shows, once more, that the Melrose model thrives by investing properly in businesses and giving management the entrepreneurial freedom to succeed. This is just the start of what is possible for GKN.”

1.Considered by the Board to be a key measure of performance. Described in the glossary to the 2019 Preliminary Announcement

2. Results for 2018 include GKN for 8 months only and have been restated for discontinued operations

3. Adjusted free cash flow excludes the special one-off pension contributions and restructuring spend

4. Calculated compared to 2018 annualised adjusted free cash flow, excluding the previously announced £150 million cash outflow from unwinding creditor stretch in 2018. 2018 annualised adjusted free cash flow includes 12 months of GKN ownership

5. Including the contribution paid on 6 January 2020

6. All growth metrics are calculated at constant currency against 2018 annualised results, excluding the impact of loss-making contracts in both periods for consistency. 2018 annualised results include 12 months of GKN ownership