



## Return of Capital Guidance Note

### **Melrose model**

Melrose operates a “Buy, Improve, Sell” model, in which we raise money from our investors to acquire underperforming manufacturing businesses, invest heavily to achieve operational improvements, before selling them to a new home for the next stage of their development. Following this, we return the net proceeds to shareholders.

It is a fundamental principal on which Melrose was founded that we raise equity from shareholders for acquisitions and return net proceeds to them following a sale.

### **Sale of Nortek Air Management**

The Nortek Air Management division has been through the full Melrose “Buy, Improve, Sell” cycle and we therefore propose to return the net sale proceeds to shareholders.

### **Return of Capital and Share Consolidation**

As a listed company, there are a couple of ways of returning capital to shareholders, but for a return of this size, a “B Share Scheme” is considered to be the most attractive and is the format we have used for previous returns. Pursuant to the return of capital, each shareholder will receive one B Share for every ordinary share they hold. Each B Share is then redeemed for the relevant amount to be returned (in this case 15 pence) and is cancelled.

We are proposing to return approximately £730 million cash to shareholders, which is currently approximately 10% of our market capitalisation. Recognising that this involves handing back a material amount of our market capitalisation, which if left unadjusted, would cause an equivalent impact on the share price and create ongoing comparison issues, we intend to undertake a share consolidation at the same time. This seeks to ensure that the share price remains at approximately the same level after the return of capital as it was before the return of capital, so ongoing performance can be measured independently of the return.

However, shareholders will still have the same interest in Melrose that they had before the return of capital and corresponding share consolidation, and the value of each shareholders’ holding will not change. It is simply that it will be split between (i) the holding in the new Melrose market capitalisation, and (ii) the cash received as a result of the return of capital.

Please refer to the circular posted to shareholders on 22 June 2021 for further details of the return of capital, share consolidation, and matters related to fractional entitlements. A copy of the circular can also be found on our website.