

# Melrose Industries

The horizon remains positive

Full year results

Aerospace and defence

10 March 2025

Melrose continues to build on its track record of delivering to expectations. Indeed the Engines division has achieved FY25 target returns a year early. This provides confidence in management's new medium-term guidance (to FY29): a minimum EPS CAGR of 20% and acceleration to £600m of annual free cash flow, benefiting from the maturing of the risk and revenue sharing partnerships (RRSPs). With further potential from additional military spend not factored in, the shares offer interesting value.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/23	3,350.0	325.0	19.50	5.00	25.1	1.0
12/24	3,468.0	438.0	26.80	6.00	18.2	1.2
12/25e	3,615.0	556.0	34.40	6.90	14.2	1.4
12/26e	3,921.0	711.0	44.70	8.90	10.9	1.8

Note: PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Results ahead of Edison forecasts

Underlying sales growth was 11% to £3.5bn and operating margins improved 380bp to 16.3% (Engines 28.9%, Structures 7.2%). Underlying PBT increased 36% to £438m (Edison forecast £432m), with EPS growth of 45% to 26.8p (Edison forecast 25.9p) benefiting from the share buy-back programme. The dividend was increased 20% with cover at 4.5x. Net debt increased from £572m to £1,321m (1.9x EBITDA), primarily reflecting restructuring spend of £126m along with the buy-back and LTIP.

## Outlook and forecasts

Management confirmed its FY25 profit guidance, albeit, with the continued disruption in the civil aerospace sector, the top-line expectation is a little softer. Management guidance is for FY25 revenue of £3.55–3.70bn and adjusted operating profit before central costs of £680–720m, reflecting an adjusted operating margin of over 19%. Our FY25 forecasts are essentially unchanged, with a revenue reduction of 3.6% offset by increased margin expectations (+120bp) reflecting the mix and the Engines division having attained management's FY25 target margin in FY24. We have reduced our dividend growth expectation to reflect management's move to 5x cover with a preference for share buy-backs. We also introduce FY26 forecasts.

## Longer-term guidance to 2029

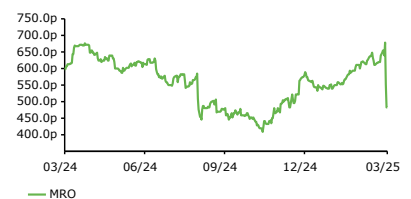
Management has provided longer-term guidance based on the broader industry growth expectations, internal investments in areas such as additive fabrication, completion of the restructuring programme and the positive runway for the RRSPs, in particular the GTF engine, which is expected to turn cash positive. Guidance includes revenue of £5.0bn (c 8% CAGR), adjusted operating profit of at least £1.2bn, an operating margin of over 24%, an adjusted diluted EPS CAGR of over 20% excluding the impact of any further buy-backs (we estimate EPS of c 70p a share in FY29) and annual free cash flow of £600m (after interest and tax).

## Valuation: Positive upside remains

We have increased our valuation from 654p to 709p/share. Non-RRSP operations are valued against peers and we have rolled forward the RRSP cash flow model.

<b>Price</b>	<b>488.80p</b>
<b>Market cap</b>	<b>£7,141m</b>
Net cash/(debt) at end FY24	£(1,321.0)m
Shares in issue	1,283.5m
Free float	99.0%
Code	MRO
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(10.7)	(2.3)	(11.1)
52-week high/low		682.6p	413.6p

## Business description

Melrose Industries is a focused aerospace group with activities in engine components and structures, operating in both metallic and composite materials. The group has significant risk and revenue sharing partnership investments on multiple engine programmes.

## Next events

AGM	30 April
Interim results	31 July

## Analyst

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## Full year results

### Overall

#### Exhibit 1: Summary financials (£m)

	2023	2024	Change
Sales	3,350	3,468	11%
Operating margin	12.5%	16.3%	380bps
Divisional operating profit	420	566	38%
Central costs	(30)	(26)	
Underlying operating profit	390	540	42%
Interest charges	(59)	(102)	
Underlying PBT	331	438	36%
EPS	19.5	26.8	45%
DPS	5.0	6.0	20%

Source: Melrose Industries. Note: Like-for-like growth is calculated at constant currency against 2023 results and, for revenue, excludes exited businesses.

FY24 was another strong year, with underlying sales growth of 11% despite the well-documented issues in the civil aerospace sector (note this excludes a currency headwind of c £70m and the impact of business exits). Operating margins improved 380bp to 16.3%. Underlying PBT increased 36%, with EPS growth of 45% benefiting further from the share buy-back programme (the current £250m programme runs to March 2026). The dividend was increased 20% with cover at 4.5x.

### Divisional performance

#### Exhibit 2: Engines division performance (£m)

	2023	2024
Organic growth	16%	26%
Sales	1,193	1,459
Operating profit	310	422
Operating margins	26.0%	28.9%

Source: Melrose Industries. Note: Like-for-like growth is calculated at constant currency against 2023 results and, for revenue, excludes exited businesses.

The Engines division generated strong growth of 26%, with aftermarket (AM) contributing 32% and original equipment (OE) 19%. AM revenue growth was driven by military, up 74% due to the extended support of the Gripen fighter programme, and parts repair was up 18%, benefiting from the growth in flying hours and additional capacity investment. In addition, the important high-margin RRSP business was up 30%. Operational leverage, internal actions and mix helped the operating margin expand 290bp to 28.9%, achieving management's FY25 target a year early.

The Structures division's organic underlying revenue growth was 3%, after taking into account exited businesses. Defence was strong, up 7%, with civil up only 1%, driven by business jets, reflecting the difficulties in the civil airliner market from supply chain problems and Boeing's issues, albeit Melrose significantly more exposed to Airbus, leaving deliveries from the two majors (Airbus and Boeing) down 12% in the year. Operating margins increasing from 5.1% in 2023 to 7.2%, benefiting from restructuring, exiting businesses and repricing of contracts now 61% achieved, up from 42% (end of FY25 target: 85%). The business appears on track to achieve the previously guided FY25 margin of 9%, and we estimate the seasonally stronger H224 margin was 9.7%, providing confidence.

#### Exhibit 3: Structures division performance (£m)

	2023	2024
Organic growth	17%	3%
Sales	2,157	2,009
Operating profit	110	144
Operating margins	5.1%	7.2%

Source: Melrose Industries

## Cash flow

**Exhibit 4: Summary cash flow (£m)**

	2023	2024
Operating Cash Flow	532	682
Working capital	(146)	(352)
Exceptional & other	(159)	(184)
Tax	17	(10)
Net operating cash flow	244	136
Capex	(93)	(123)
Acquisitions/disposals	0	52
Net interest	(65)	(84)
Equity issue/repurchase	(93)	(623)
Dividends	(81)	(72)
Net Cash Flow	(88)	(714)
Opening net debt/(cash)	487	572
FX and other	3	(35)
Closing net debt/(cash)	572	1,321

Source: Melrose Industries

Working capital increased to support top-line growth and included £309m for 'unbilled work done' as part of the RRSPs IFRS 15 long-term contract accounting requirement (see the [Melrose RRSP guidance booklet](#)). Exceptional costs included £126m on restructuring and pension cash financing of £20m. The equity expenditure included the share buy-back programme and the maturing of the previous LTIP programme. Net debt increased to £1.3bn, with net debt/EBITDA 1.9x, within management's 1.5–2.0 target range.

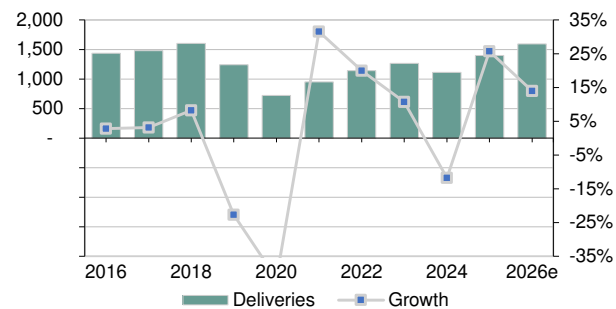
## 2025 outlook and forecasts

Key elements of management's guidance for 2025 are:

- A revenue range of £3.55–3.70bn, which would suggest growth of c 5% at the mid point. This takes into account the continued supply chain issues in the original equipment (OE) aerospace sector, as recently highlighted by Airbus. We expect growth to be below the civil sector overall (see Exhibit 5), as a recovery in Boeing deliveries is likely to be a key driver of the sector, with Melrose more weighted to Airbus. Note on the military side, the F35 is expected to see a strong recovery in volumes in 2025. Melrose announced plans in 2024 to double canopy capacity by 2027.
- Adjusted operating profit before central costs is maintained at £680–720m, reflecting an adjusted operating margin of over 19%, up from 16.3% reported in FY24. Divisional performance guidance was for an Engines margin of over 32%, from 28.9% in FY24, and a Structures margin of 9%, from 7.2% in FY24.

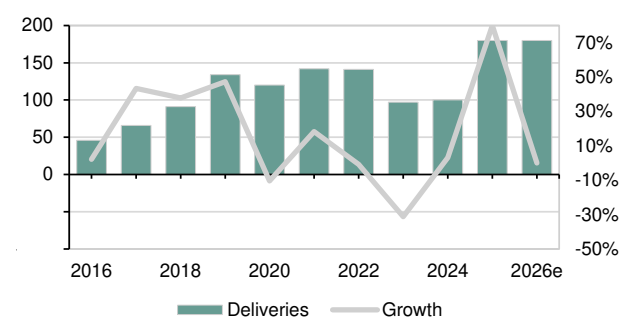
Note that management has not included any impact from potential tariffs at this stage. While the group has some business from Mexico into the US, it is unclear what the impact will be or who will pay, as aerospace contracts tend to have pass-through clauses.

**Exhibit 5: Civil deliveries (Airbus and Boeing)**



Source: Airbus, Boeing

**Exhibit 6: F35 deliveries**



Source: Lockheed Martin

The guidance sees us trim our sales forecasts modestly, but retain our profit forecast, reflecting margins tracking ahead of previous expectations. We have also reduced our dividend forecast, reflecting management's preference for share buy-backs to return funds to shareholders, assuming a payout ratio of 20%.

### Exhibit 7: Forecast changes (£m)

	2025		Change	2026
	Old	New		New
Revenues	3,750	3,615	-3.6%	3,921
Aerospace operating profit	696	704	1.1%	855
Aerospace operating margin	18.6%	19.5%	+120bps	21.8%
Normalised operating profit	666	674	1.2%	823
Normalised PBT	551	556	0.9%	711
Normalised basic EPS	34.1	34.4	0.9%	44.7
Dividend per share	7.6	6.9	-9.2%	8.9
Net debt/(cash)	1,515	1,466	-3.2%	1,368

Source: Edison Investment Research

## Longer-term five-year guidance

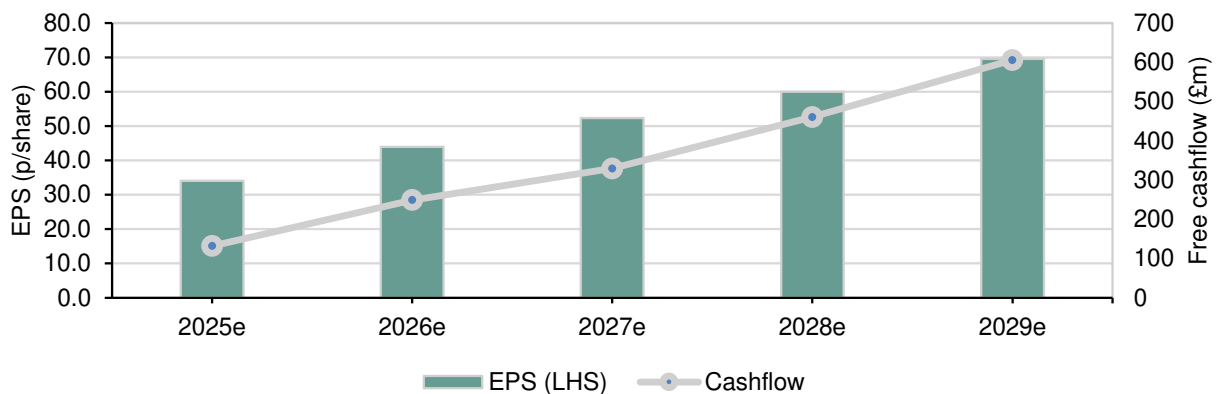
Management has provided longer-term financial guidance for five years out to FY29. The key elements are:

- Revenue of c £5.0bn in 2029, which equates to a CAGR of c 8%.
- Adjusted operating profit of at least £1.2bn after central costs (high £30m by 2029), with an operating margin of over 24%.
- An adjusted diluted EPS CAGR of over 20% excluding the impact of any further buy-backs (post the £250m programme already underway).
- Free cash flow of £600m (after interest and tax) in 2029.

The guidance is based on the growth plans of the key civil aerospace companies along with current military expectations, excluding any potential increases from rising European budgets. Internal growth initiatives include the already announced £300m investment in additive manufacturing, ramp-up from COMAC in China and continued growth of the RRSP contribution. In cash flow terms, the key RRSP programme, the P&W GTF, is expected to become cash positive, with exceptional costs such as restructuring and GTF powder rectification programme completed. This is after an anticipated variable consideration of c £500m for the RRSP portfolio.

Exhibit 8 highlights the potential progression in financials in achieving these targets. We estimate that, if guidance is met, EPS will be c 70p in 2029.

### Exhibit 8: Indicative financials



Source: Edison Investment Research

## Valuation

Our valuation methodology remains unchanged. We split Melrose into two parts: the RRSPs (which are associated with the Engines division's aftermarket) and the remaining operations, primarily manufacturing operations in Structures and the Engines division.

The RRSP cash expectations are unchanged, as is the discount factor we use of 8.0%, but rolling the model forward has a significant impact on the net present value (NPV), which increases from £5.3bn to £5.7bn (note that the FY24 results presentation includes management's latest figure of £6.0bn, using a discount rate of 7.5%).

For the remainder of the group we use a peer-based valuation, as shown in Exhibit 9.

#### Exhibit 9: Melrose non-RRSP operations valuation

	Market Cap		EV/EBIT			EV/EBITDA		
	£m	2024	2025	2026	2024	2025	2026	
FACC	260	16.6	11.0	7.9	7.2	5.8	4.7	
Magellan	306	13.6	9.9	5.4	6.0	4.5	3.7	
MTU	14,909	15.3	13.8	12.5	11.9	10.9	10.1	
Safran	87,106	20.9	18.2	16.5	16.6	14.6	13.6	
Senior	679	14.5	11.3	9.7	8.0	7.0	6.3	
Spirit	3,067	26.5	11.2	7.8	9.7	7.8	5.9	
Triumph	1,527	22.3	17.4	15.1	18.1	14.4	12.7	
Average		16.6	13.4	10.7	11.1	9.3	8.1	
Melrose ex RRSPs (EBIT/EBITDA - £m)		292	362	458	403	476	576	
Melrose ex RRSPs valuation (£m)		4,842	4,830	4,902	4,458	4,421	4,691	

Source: Edison Investment Research, LSEG Data and Analytics

These two elements are then combined to provide our overall valuation of 709p/share as per Exhibit 10, which also highlights how our valuation has progressed since the demerger of Dowlais in 2023.

#### Exhibit 10: Edison valuation of Melrose Industries

£m	May-23	Sep-23	Dec-23	Mar-24	Mar-25
Melrose ex RRSPs average of EV/EBIT and EV/EBITDA	3,393	3,740	3,960	4,314	4,711
RRSPs DCF valuation	5,300	5,300	5,300	5,300	5,700
Melrose net debt on demerger/year end	(484)	(553)	(687)	(572)	(1,321)
Melrose equity valuation	8,209	8,487	8,573	9,042	9,090
Number of shares in issue (m)	1,351	1,351	1,335	1,382	1,283
Value per Melrose share (p)	608	628	642	654	709

Source: Edison Investment Research

## Exhibit 11: Financial Summary

£m	2022	2023	2024	2025e	2026e
Year to December	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>					
<b>Revenue</b>	<b>2,954</b>	<b>3,350</b>	<b>3,468</b>	<b>3,615</b>	<b>3,921</b>
Cost of Sales	(2,531)	(2,178)	(2,220)	(2,277)	(2,431)
Gross Profit	423	1,173	1,248	1,338	1,490
<b>EBITDA</b>	<b>292</b>	<b>532</b>	<b>682</b>	<b>820</b>	<b>972</b>
<b>Operating profit (before amort. and excepts.)</b>	<b>147</b>	<b>390</b>	<b>540</b>	<b>674</b>	<b>823</b>
Amortisation of acquired intangibles	(260)	(260)	(255)	(260)	(260)
Exceptionals	(157)	(73)	(289)	(40)	0
<b>Reported operating profit</b>	<b>(270)</b>	<b>57</b>	<b>(4)</b>	<b>374</b>	<b>563</b>
Net Interest	(58)	(65)	(102)	(118)	(112)
<b>Profit Before Tax (norm)</b>	<b>89</b>	<b>325</b>	<b>438</b>	<b>556</b>	<b>711</b>
<b>Profit Before Tax (reported)</b>	<b>(328)</b>	<b>(8)</b>	<b>(106)</b>	<b>256</b>	<b>451</b>
Reported tax	99	9	57	(51)	(90)
<b>Profit After Tax (norm)</b>	<b>69</b>	<b>268</b>	<b>350</b>	<b>439</b>	<b>562</b>
<b>Profit After Tax (reported)</b>	<b>(229)</b>	<b>1</b>	<b>(49)</b>	<b>205</b>	<b>361</b>
Minority interests	(5)	0	0	0	0
Discontinued operations	(80)	(1,020)	0	0	0
<b>Net income (normalised)</b>	<b>64</b>	<b>268</b>	<b>350</b>	<b>439</b>	<b>562</b>
<b>Net income (reported)</b>	<b>(314)</b>	<b>(1,019)</b>	<b>(49)</b>	<b>205</b>	<b>361</b>
Average Number of Shares Outstanding (m)	1,406	1,349	1,307	1,276	1,258
EPS - normalised (p)	4.1	19.5	26.8	34.4	44.7
EPS - normalised fully diluted (p)	4.1	19.1	26.4	33.9	43.9
EPS - basic reported (p)	(16.6)	(75.5)	(3.7)	16.0	28.7
Dividend (p)	2.3	5.0	6.0	6.9	8.9
Revenue growth (%)	8.5	16.6	11.0	6.8	8.5
Gross Margin (%)	14.3	35.0	36.0	37.0	38.0
EBITDA Margin (%)	9.9	15.9	19.7	22.7	24.8
Normalised Operating Margin	5.0	11.6	15.6	18.6	21.0
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>	<b>11,114</b>	<b>5,681</b>	<b>5,856</b>	<b>5,568</b>	<b>5,290</b>
Intangible Assets	6,882	3,397	3,106	2,846	2,586
Tangible Assets	2,599	777	821	793	775
Investments & other	1,633	1,507	1,929	1,929	1,929
<b>Current Assets</b>	<b>2,873</b>	<b>1,423</b>	<b>1,580</b>	<b>1,630</b>	<b>1,695</b>
Stocks	1,025	513	528	546	569
Debtors	1,426	815	949	981	1,023
Cash & cash equivalents	355	58	88	88	88
Other	67	37	15	15	15
<b>Current Liabilities</b>	<b>2,978</b>	<b>1,640</b>	<b>1,751</b>	<b>1,810</b>	<b>1,856</b>
Creditors	2,347	1,286	1,510	1,561	1,627
Tax and social security	141	20	20	20	20
Short term borrowings	63	54	8	8	8
Other	427	280	213	221	201
<b>Long Term Liabilities</b>	<b>3,841</b>	<b>1,897</b>	<b>2,841</b>	<b>2,339</b>	<b>1,718</b>
Long term borrowings	1,433	576	1,401	1,546	1,448
Other long term liabilities	2,408	1,321	1,440	792	270
<b>Net Assets</b>	<b>7,168</b>	<b>3,567</b>	<b>2,844</b>	<b>3,049</b>	<b>3,410</b>
Minority interests	39	0	0	0	0
<b>Shareholders' equity</b>	<b>7,129</b>	<b>3,567</b>	<b>2,844</b>	<b>3,049</b>	<b>3,410</b>
<b>CASH FLOW</b>					
EBITDA	292	532	682	820	972
Working capital	(148)	(146)	(352)	(294)	(351)
Exceptional & other	(83)	(159)	(184)	(170)	(110)
Tax	(8)	17	(10)	(29)	(45)
<b>Net operating cash flow</b>	<b>53</b>	<b>244</b>	<b>136</b>	<b>327</b>	<b>466</b>
Capex	(31)	(93)	(123)	(118)	(131)
Acquisitions/disposals	(7)	0	52	0	0
Net interest	(82)	(65)	(84)	(104)	(102)
Equity issue/repurchase	0	(93)	(623)	(170)	(40)
Dividends	(77)	(61)	(72)	(80)	(95)
Other					
<b>Net Cash Flow</b>	<b>(144)</b>	<b>(88)</b>	<b>(714)</b>	<b>(145)</b>	<b>98</b>
<b>Opening net debt/(cash)</b>	<b>343</b>	<b>487</b>	<b>572</b>	<b>1,321</b>	<b>1,466</b>
FX	0	0	(22)	0	0
Other non-cash movements	0	3	(13)	0	0
<b>Closing net debt/(cash)</b>	<b>487</b>	<b>572</b>	<b>1,321</b>	<b>1,466</b>	<b>1,368</b>

Source: Edison Investment Summary

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