

Melrose Industries

Growth outweighs tariff uncertainty

Melrose Industries' end markets remain positive and the company is trading strongly, in line with management's expectations, with guidance unchanged. Uncertainty over the impact of US tariffs is affecting sentiment on the shares. As the benefit of Melrose's mitigation actions becomes clear, we would expect the valuation discount to reduce once more.

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	22.2	1.2
12/24	3,468.0	438.0	26.80	6.00	16.1	1.4
12/25e	3,615.0	556.0	34.40	6.90	12.6	1.6
12/26e	3,921.0	711.0	44.70	8.90	9.7	2.1

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

Q1 trading in line with expectations

Trading in Q1 was in line with management's expectations. The Engines division revenue increased 9%, driven by original equipment, with positive mix and growth in the aftermarket against a more difficult comparator, particularly due to the strong Swedish military activity in 2024. Melrose's margins also improved, assisted by volume drop-through. The Structures division revenue increased 4% (organic) despite continued constraints in the aerospace supply chain. More importantly, the operating margin benefited from the restructuring programmes and other actions, such as the repricing of works.

Tariff impact expected to be mitigated

US tariffs provide significant uncertainty at present, not least due to the lack of clarity and the complexity of the aerospace supply chain. Management believes it can mitigate the impact on direct operations, primarily components into the US, through a range of actions, including exemptions (particularly in military programmes), contractual protections, drawback, adjusting the supply chain and price/cost negotiations. The potential secondary effects in such a complex sector are more difficult to assess. This is clearly a fluid situation.

Foreign exchange sensitivity poses downside risk

Melrose highlighted that a 10% change in the US dollar to sterling exchange rate in isolation would have a £47m, or 8.7% full year impact on operating profit using FY24 results. There would be some mitigation at the PBT level given c 80% of debt is in US dollars, so we would expect a c 7.5% potential impact to PBT going forward. Edison forecasts assume an exchange rate of £/\$1.25, in line with rates in Q1 but, with current rate of £/\$1.34, there is clearly downside risk.

Valuation: Unchanged

There is no change to management's guidance for the full year. Our forecasts remain unchanged, albeit we note the foreign exchange risk, as does our valuation of 709p per share, last reviewed in our March [results note](#).

Q1 trading update

Aerospace and defence

30 April 2025

Price **432.00p**
Market cap **£5,508m**

Net cash/(debt) at 31 December 2024 £(1,321.0)m

Shares in issue 1,274.9m

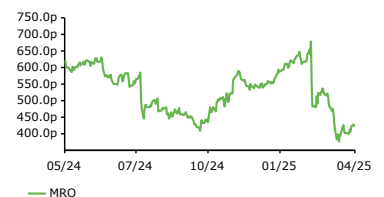
Free float 99.0%

Code MRO

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(9.1)	(27.0)	(31.9)
52-week high/low		677.4p	376.0p

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

Interim results 31 July 2025

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[Edison profile page](#)

Melrose Industries is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

£m	2022	2023	2024	2025e	2026e
Year to December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	2,954	3,350	3,468	3,615	3,921
Cost of Sales	(2,531)	(2,178)	(2,220)	(2,277)	(2,431)
Gross Profit	423	1,173	1,248	1,338	1,490
EBITDA	292	532	682	820	972
Operating profit (before amort. and excepts.)	147	390	540	674	823
Amortisation of acquired intangibles	(260)	(260)	(255)	(260)	(260)
Exceptionals	(157)	(73)	(289)	(40)	0
Reported operating profit	(270)	57	(4)	374	563
Net Interest	(58)	(65)	(102)	(118)	(112)
Profit Before Tax (norm)	89	325	438	556	711
Profit Before Tax (reported)	(328)	(8)	(106)	256	451
Reported tax	99	9	57	(51)	(90)
Profit After Tax (norm)	69	268	350	439	562
Profit After Tax (reported)	(229)	1	(49)	205	361
Minority interests	(5)	0	0	0	0
Discontinued operations	(80)	(1,020)	0	0	0
Net income (normalised)	64	268	350	439	562
Net income (reported)	(314)	(1,019)	(49)	205	361
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
BALANCE SHEET					
Fixed Assets	11,114	5,681	5,856	5,568	5,290
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
Current Assets	2,873	1,423	1,580	1,630	1,695
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
Current Liabilities	2,978	1,640	1,751	1,810	1,856
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
Long Term Liabilities	3,841	1,897	2,841	2,339	1,718
Long term borrowings	1,433	576	1,401	1,546	1,448
Other long term liabilities	2,408	1,321	1,440	792	270
Net Assets	7,168	3,567	2,844	3,049	3,410
Minority interests	39	0	0	0	0
Shareholders' equity	7,129	3,567	2,844	3,049	3,410
CASH FLOW					
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)
Net operating cash flow	53	244	136	327	466
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					
Net Cash Flow	(144)	(88)	(714)	(145)	98
Opening net debt/(cash)	343	487	572	1,321	1,466
FX	0	0	(22)	0	0
Other non-cash movements	0	3	(13)	0	0
Closing net debt/(cash)	487	572	1,321	1,466	1,368

Source: Company data, Edison Investment Research

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