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## GKN's first quarter profits dragged lower by US aerospace unit before Melrose takeover

GKN PLC (LON:GKN), which is being taken over by Melrose Industries PLC (LON:MRO), posted a decline in first quarter profits as the North American aerospace business continued to struggle.

Shareholders in GKN approved Melrose's £8bn hostile takeover of the engineer in March.

READ: Melrose declares narrow victory in bitter battle to takeover GKN with acceptances of 52.43%

Melrose on Tuesday presented GKN's trading statement for the 13 weeks to March 31, saying the accounts were sourced directly from the engineer's management before its offer became unconditional on April 19.

### US aerospace business drags on performance

At actual exchange rates, GKN's operating profit fell to £181.5mln in the quarter from £215.1mln the same period a year ago, while sales dropped to £2.59bn from £2.61bn.

At constant exchange rates, sales rose 5% but operating profit fell 10% as the North American aerospace business continued to be loss-making.

Total aerospace sales fell 1% while the automotive business, GKN Driveline, delivered a 7% rise in sales and the Powder Metallurgy division increased 5%.

GKN expects a 6% to 7% currency headwind to its 2018 full year results if exchange rates remain the same.

### Melrose says it will cut GKN's debt

Net debt rose to £1.12bn at the end of March from £889mln at the end of last year, mainly due to deal fees.

Melrose said it is confident it can bring down GKN's net debt levels by year end.

The turnaround specialist added that GKN's performance in the period before its takeover showed trends below current market expectations for profit and cash generation.

"While this gives Melrose a lower starting point for GKN than current market consensus opinion, Melrose allowed for further underperformance by GKN prior to its ownership in its acquisition assumptions, and remains confident it will be able to deliver on all the statements it made during the offer period over the medium term, including creating significant shareholder value by improving the performance of the GKN businesses over time and being a responsible owner for all stakeholders."

Last week, GKN's chief executive Anne Stevens, finance chief Jos Sclater, chairman Mike Turner and the rest of the board stepped down as Melrose's hostile bid became unconditional after securing acceptances from 85% of GKN shareholders.

### Share Information

**Code:** GKN

**Listing:** LSE

**Sector:** Transport

**Website:** [www.gknplc.com](http://www.gknplc.com)

### Company Synopsis:

*GKN is a global engineering business company serving the automotive, aerospace and off-highway manufacturers. The Company operates in four primary areas: Automotive, Powder Metallurgy, Aerospace and OffHighway.*

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GKN had tried to convince shareholders to vote against Melrose's bid and instead backed a plan to become a standalone aerospace engineer by selling off its other divisions - including Driveline to Dana Inc (NYSE:DAN).

But Melrose, which first approached GKN in January before taking its offer hostile, won the takeover battle after arguing it was best placed to improve the company's performance.

GKN shares to be cancelled in London

Melrose is set to cancel GKN's shares in London, which is expected to take place in mid-May.

**READ:** Melrose to cancel GKN's shares in London after winning takeover battle

The deal has received opposition from trade unions and some politicians over concerns Melrose would asset strip GKN and put its contracts in UK defence in jeopardy.

The takeover is still subject to approval from Defence Secretary Gavin Williamson but recent media reports claimed he did not see any issues despite worries about national security.

Ahead of the GKN shareholder vote on the deal, Melrose made a series of binding commitments to the UK and other governments by taking a long-term investment approach and keeping the company's headquarters in the UK.

**READ:** Melrose tries to soothe business secretary's concerns on hostile takeover bid for GKN

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