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## 2014 Interim results

5 August 2014

MEGGITT

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## Headlines

Stephen Young - Chief Executive



# H1 2014 – Strong orders in a challenging market

## Headlines

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- » Orders up 9%
  - 17% increase in civil aftermarket orders
  
- » Organic:
  - Revenue down 3%
  - Underlying profit before tax down 17%
  - Research and development spend up 14%
  
- » Significant improvement in free cash flow
  
- » MPS off to a strong start
  - Acceleration of supply chain element
  
- » Interim dividend up 8% at 4.25p



## Financial Review

Doug Webb – Chief Financial Officer



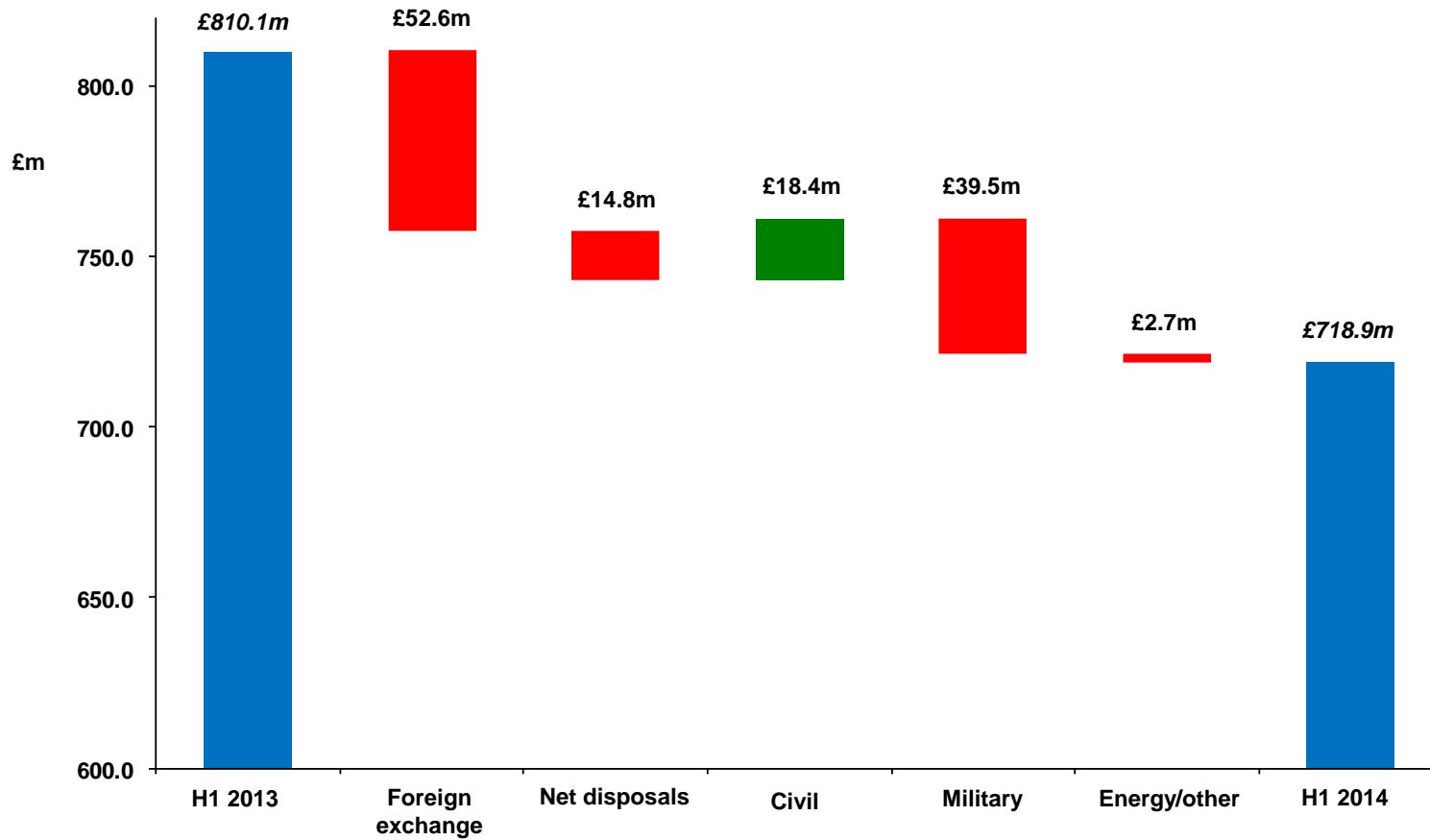
# Income statement

Underlying* (£m)	2014	2013	Growth	
			Reported	Organic**
Orders	782.7	778.7	+1%	+9%
Revenue	718.9	810.1	-11%	-3%
Operating profit	151.4	193.3	-22%	-17%
Finance costs : Interest	(7.6)	(10.9)		
Profit before tax	143.8	182.4	-21%	-17%
Tax	(31.6)	(40.1)		
Tax rate	22.0%	22.0%		
Profit after tax	112.2	142.3	-21%	-17%
EPS	14.0p	18.1p	-23%	
Dividend	4.25p	3.95p	+8%	

\* A full reconciliation from underlying to statutory figures is given in notes 4 and 9 of today's full-year announcement.

\*\* Organic figures exclude the impact of acquisitions, disposals and foreign exchange.

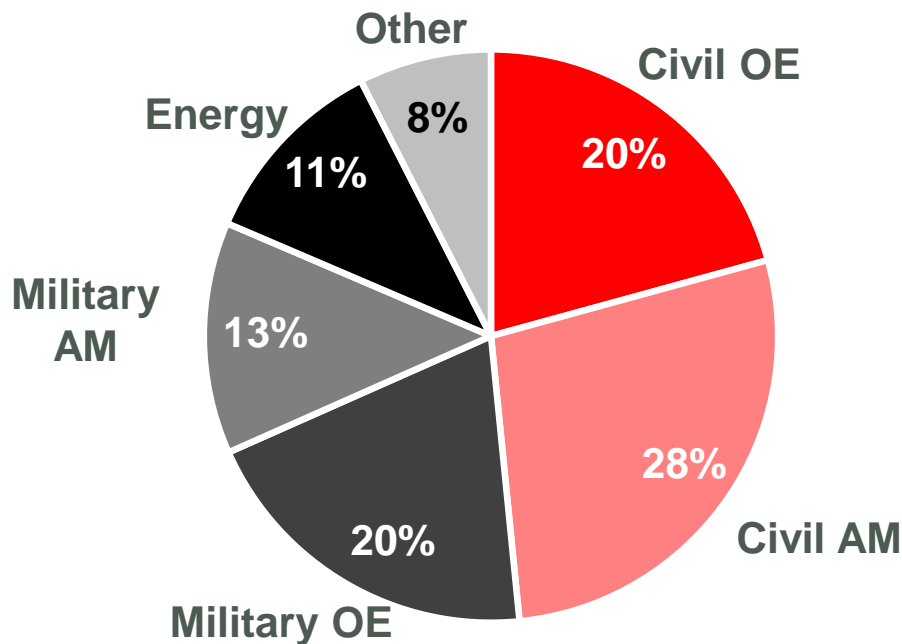
# Revenue bridge



# Revenue by market

## A well balanced portfolio

Reported revenue: £718.9m

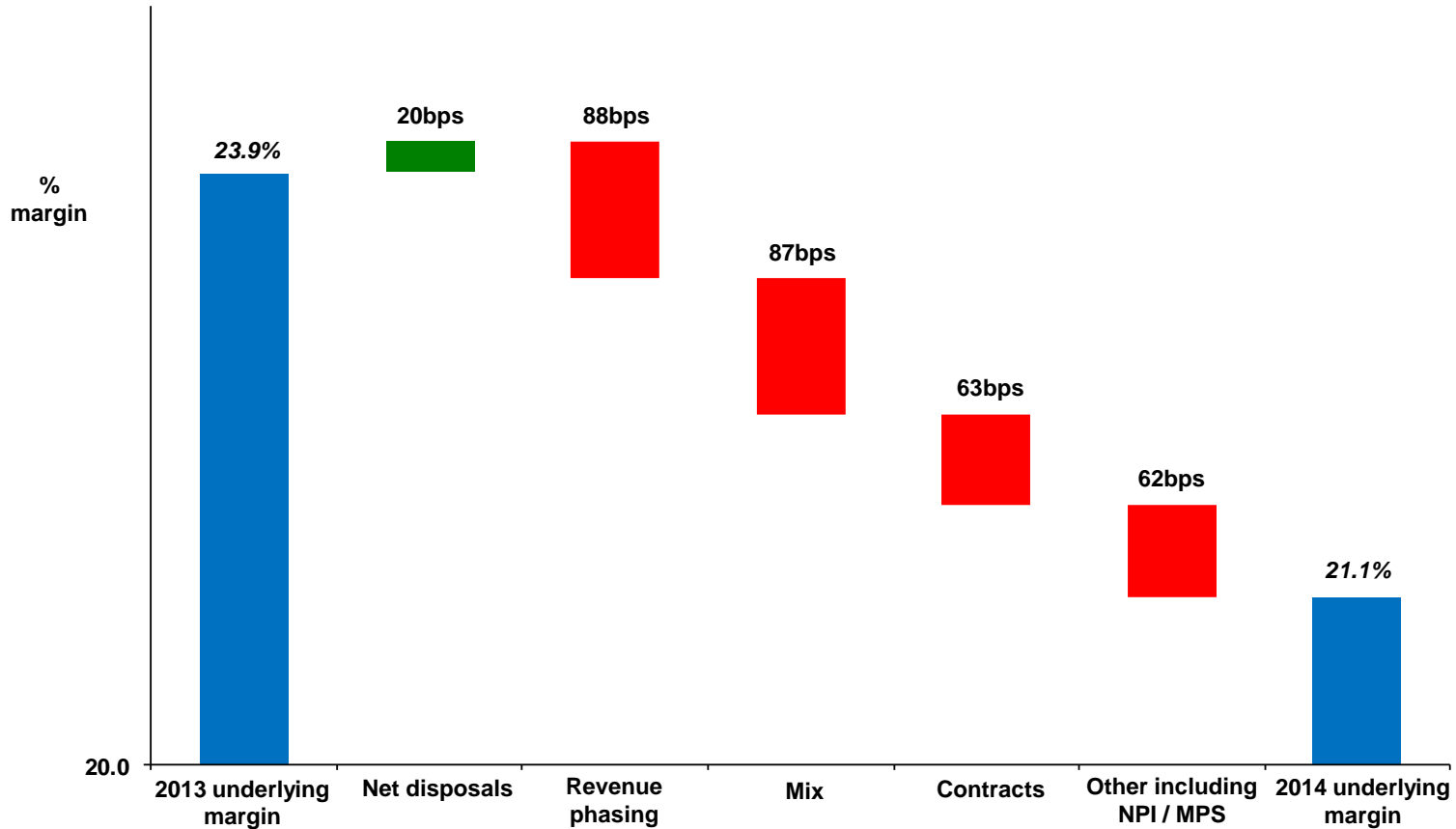


	H1 2014 growth		Orders Organic
	Revenue Reported	Revenue Organic	
Civil OE	-2%	+9%	+11%
Civil AM	-6%	+2%	+17%
<b>Total Civil</b>	<b>-5%</b>	<b>+5%</b>	<b>+14%</b>
Total Military	-22%	-13%	+2%
Energy	-5%	-2%	+5%
Other	-4%	-2%	+16%
<b>Total Group</b>	<b>-11%</b>	<b>-3%</b>	<b>+9%</b>

	H1 2014	H1 2013
<b>OE</b>	57%	55%
<b>Aftermarket</b>	43%	45%



# Operating margin bridge



# Divisional financials

Revenue	Growth			Underlying Operating Profit	Growth		Margin	
	2014 £m	Reported			Organic	2014 £m	Reported	Organic
150.3	-6%	+2%	Aircraft Braking Systems	56.3	0%	+5%	37.4%	35.3%
162.5	-14%	-5%	Control Systems	44.2	-24%	-18%	27.2%	30.5%
76.9	-17%	-11%	Polymers & Composites	10.0	-40%	-38%	13.0%	17.9%
188.0	-6%	-1%	Sensing Systems	21.7	-36%	-30%	11.6%	17.0%
141.2	-16%	-4%	Equipment Group	19.2	-33%	-33%	13.6%	17.1%
<b>718.9</b>	<b>-11%</b>	<b>-3%</b>	<b>Total</b>	<b>151.4</b>	<b>-22%</b>	<b>-17%</b>	<b>21.1%</b>	<b>23.9%</b>

\* 2013 comparators have been restated to reflect the new divisional structure.

# Cash flow

## Strong free cash flow performance

£m	2014	2013	Better/ (Worse)
Underlying EBITDA	188.5	233.1	(19)%
Working capital movement	(49.1)	(74.0)	34%
Capital expenditure	(22.1)	(36.3)	39%
Capitalised R&D and PPCs	(57.7)	(54.6)	(6)%
Pension deficit payments	(16.4)	(11.9)	(38)%
Operating exceptionals	(8.6)	(5.0)	(72)%
Interest and tax	(14.1)	(39.8)	65%
Free cash flow	<u>20.5</u>	<u>11.5</u>	<u>78%</u>

# Financing and covenants

## Strong balance sheet

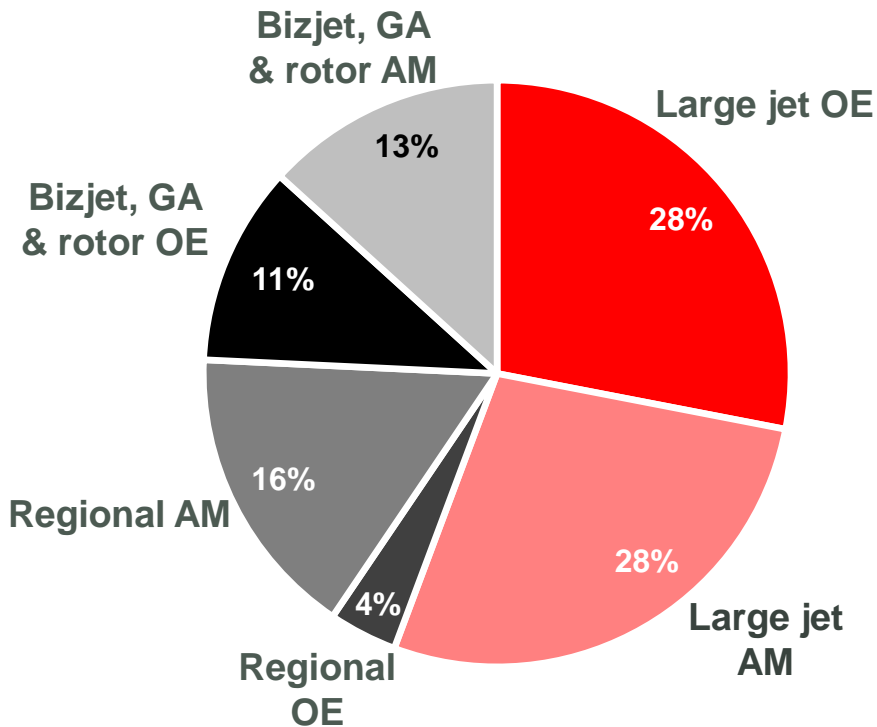
£m	At 31 Dec 2013 at \$1.66	FX	Other	At 30 Jun 2014 at \$1.71
Total assets (excluding cash)	3,667.6	(92.2)	42.7	3,618.1
Retirement benefit obligations	(238.1)	3.7	(26.5)	(260.9)
Other liabilities	(788.5)	20.3	23.1	(745.1)
Capital employed	2,641.0	(68.2)	39.3	2,612.1
Net debt	(564.6)	19.5	(23.2)	(568.3)
Net assets	2,076.4	(48.7)	16.1	2,043.8
 <u>Covenant ratios*</u>				
Net debt/EBITDA ( $\leq 3.5x$ )	1.2x			1.3x
Interest cover ( $\geq 3.0x$ )	22.0x			23.4x

\* As defined in financing agreements

# Civil aerospace

## 48% of total revenue

H1 2014 revenue £348.1m



### Commercial highlights:

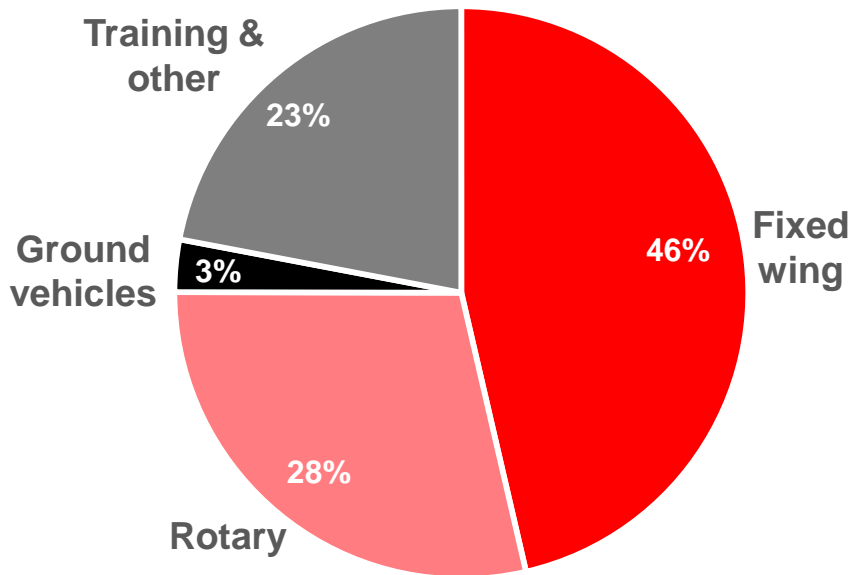
- » Fire protection award on Boeing 737MAX
  - Full ATA26 fire protection system
  - Sole source position
- » Funded development programme for new lightweight aero engine EMU
- » Award of contract for wheels, brakes and brake control system for the Dassault Falcon 8X business jet

	H1 2014	H1 2013
<b>OE</b>	43%	42%
<b>Aftermarket</b>	57%	58%

# Military revenue

## 33% of total revenue

H1 2014 revenue £237.4m



US: 57%; Europe 29%; RoW 14%

### Military highlights:

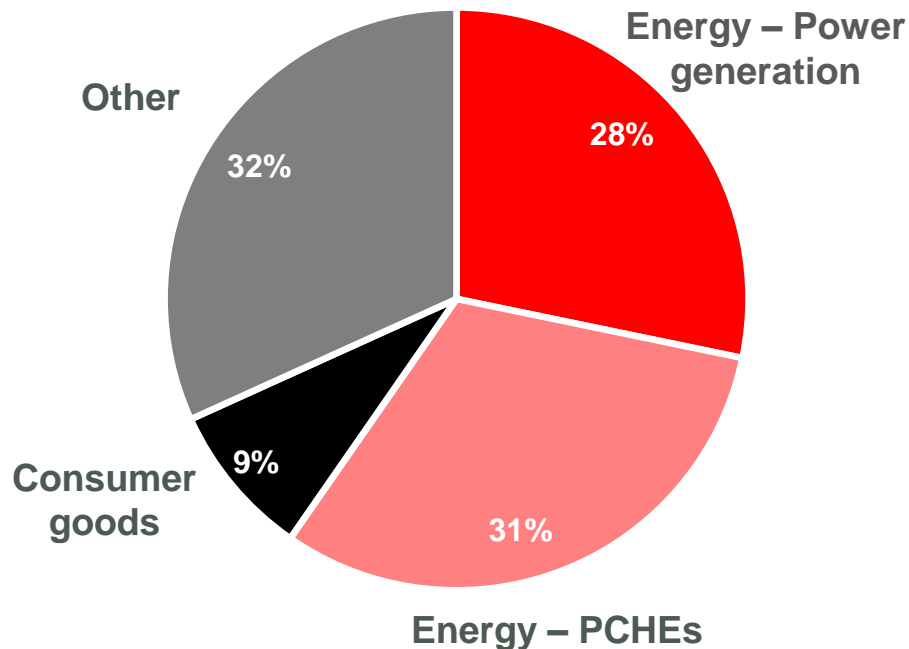
- » Engagement Systems Trainer II (EST II) award from the US DoD
- » Indian Navy jet Banshee contract
  - 160 jet Banshee targets
  - Associated support equipment
- » Award of a significant structural seals package for KC-390

	H1 2014	H1 2013
OE	60%	57%
Aftermarket	40%	43%

# Energy and other markets

## 19% of total revenue

H1 2014 revenue £133.4m



### Energy/other highlights:

- » Petronas FLNG contract
- » Strong growth potential in MCS energy business
  - Good technological progress on electric IGV for large frame turbines
  - Order intake up strongly year on year
- » Good progress on tourmaline replacement
  - Commercial sales of synthetic alternative now under way



## End market analysis & operational review

Stephen Young – Chief Executive

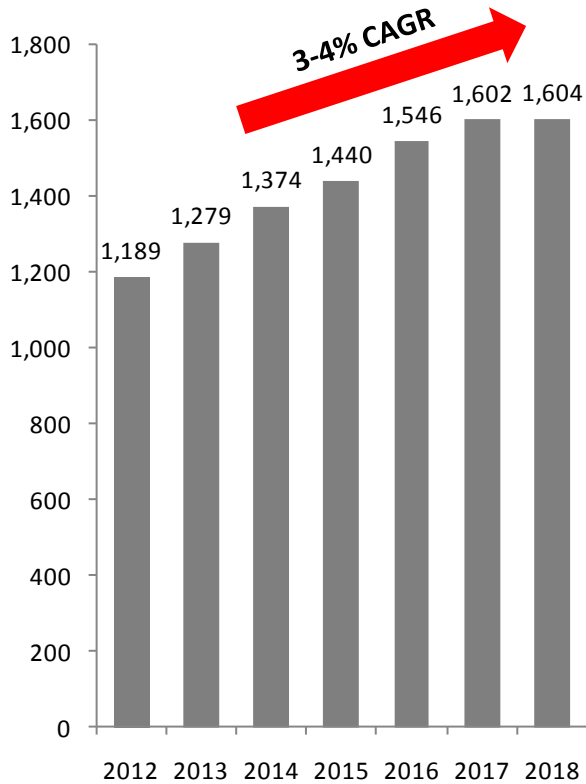




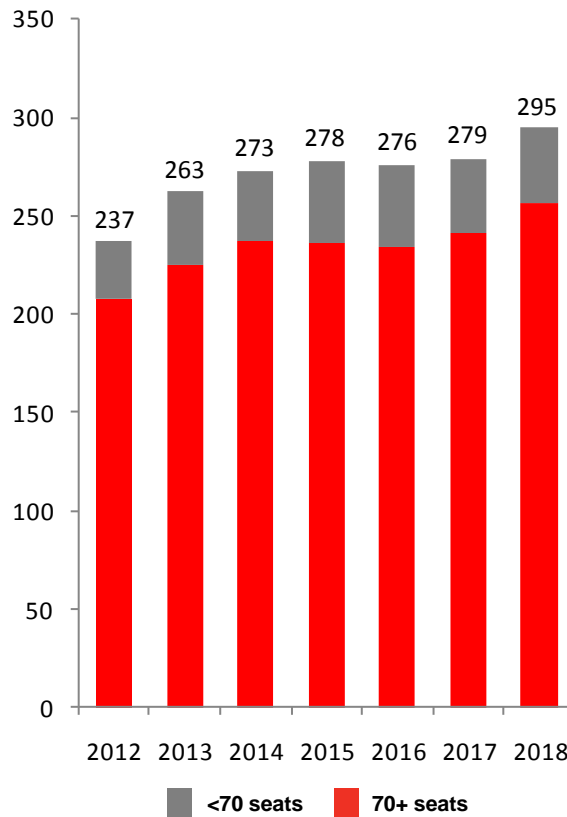
# Aircraft OE deliveries

## Strong outlook for large jets

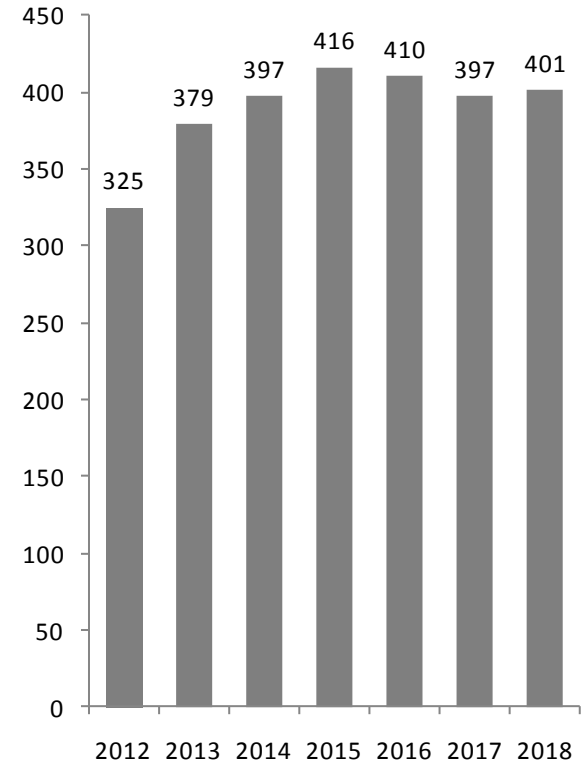
**Large jet - 28% of civil revenue**



**Regional aircraft - 4% of civil revenue**



**Business jet - 11% of civil revenue**  
(chart shows super-midsize & large only)



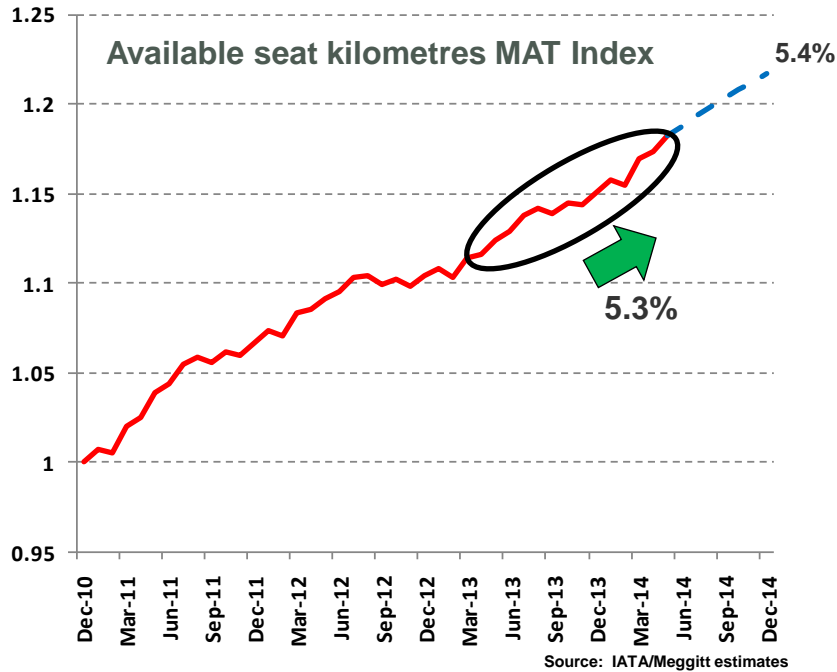
Source: Meggitt estimates

# Civil aerospace aftermarket

## Large jets & regionals

### Commercial aftermarket driver

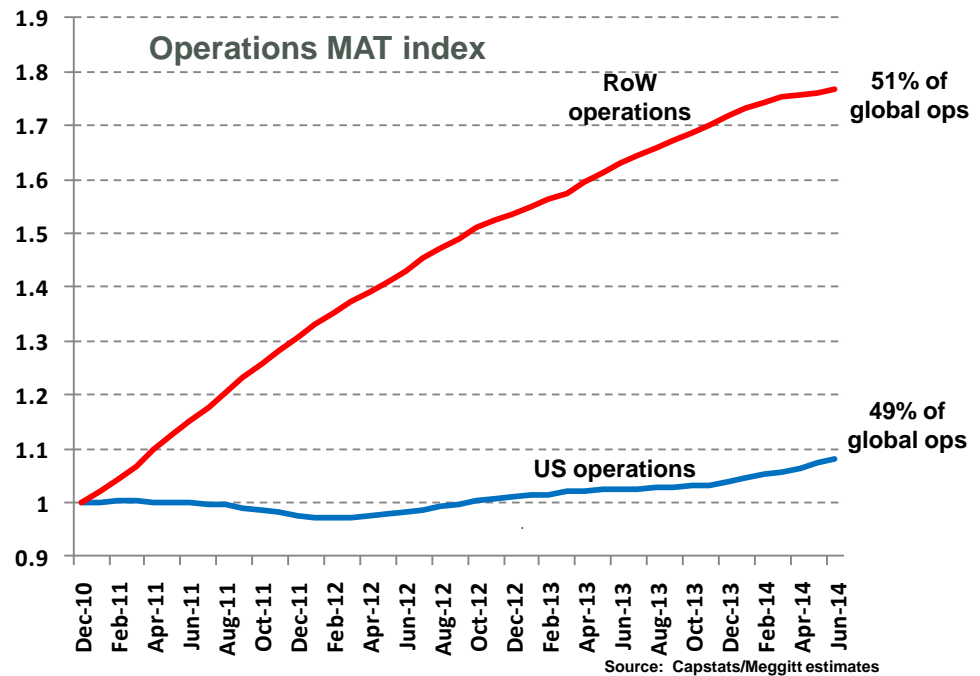
44% of civil revenue



- » 5.3% ASK growth since early 2013
- » IATA estimate 5.4% ASK growth in 2014

### Large regional jet aftermarket driver

11% of civil revenue



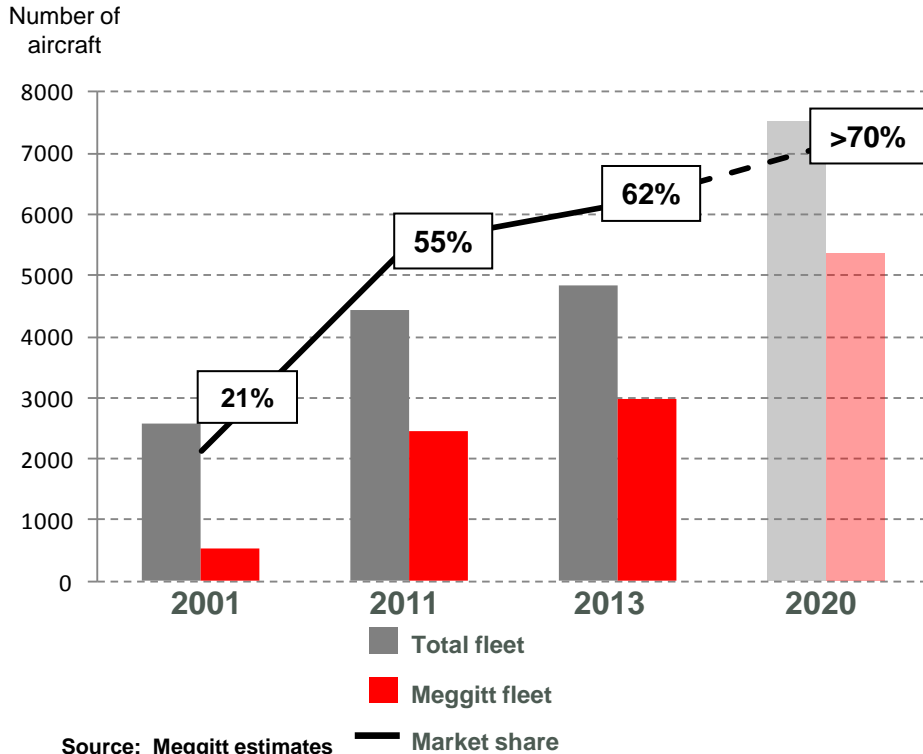
- » Strong and accelerating recovery in US operations
- » 70% growth in RoW operations since 2010

# Civil aerospace aftermarket

## Business jets

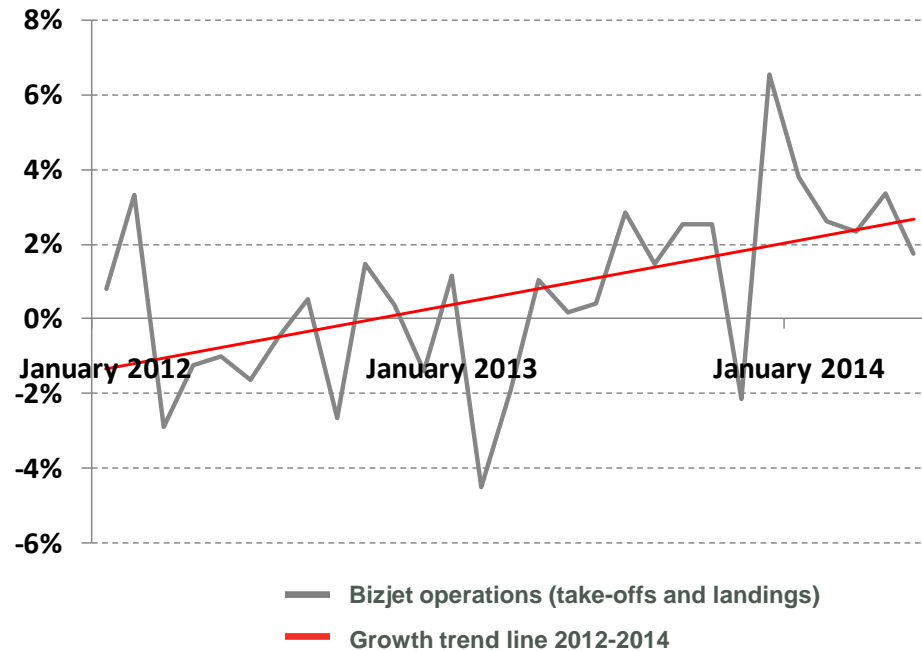
**Business jet aftermarket - 13% of civil revenue**

**Meggitt share of super-midsize to long-range business jet wheels & brakes market**



**Business jet utilisation EU & US**

**80% of global fleet**



# Military

## A broad spread of business

**Growth >>**

US platforms	Non-US platforms
<ul style="list-style-type: none"><li>» Blackhawk</li><li>» Apache</li><li>» P-8 Poseidon</li><li>» JSF</li><li>» V-22</li></ul>	<ul style="list-style-type: none"><li>» Eurofighter</li><li>» Rafale</li><li>» Gripen</li><li>» A400M</li><li>» KC-390</li></ul>

**Mature >>**

<ul style="list-style-type: none"><li>» C-130</li><li>» Harrier AV8B</li><li>» F15</li><li>» B1-B</li></ul>	<ul style="list-style-type: none"><li>» Tornado</li><li>» Hawk</li><li>» C-17</li></ul>
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**Near term headwinds >>**

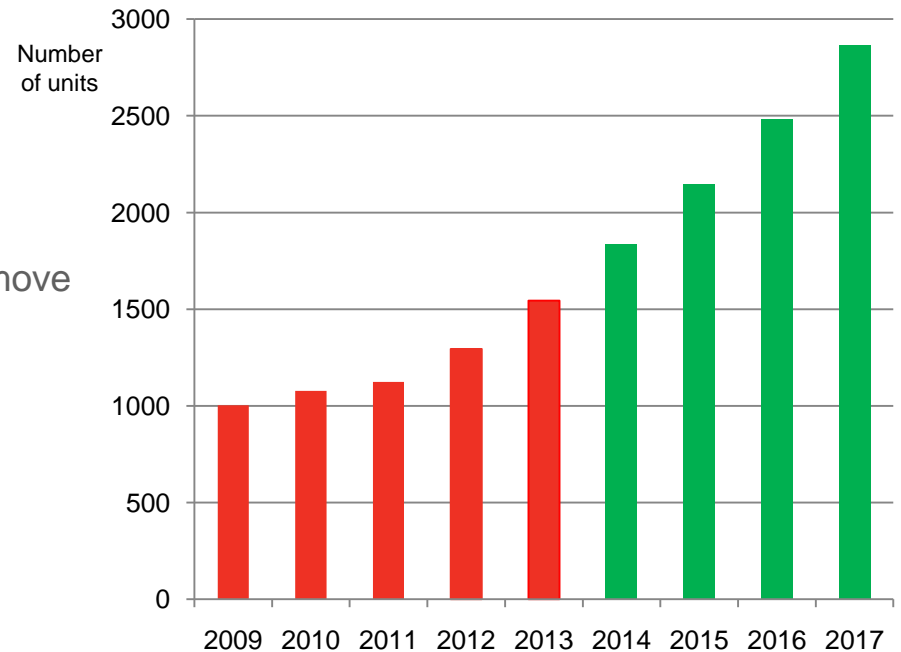
- » Afghan drawdown effect
- » Lack of availability of US government inspectors
- » Uncertain frequency of future retrofit/reset work
- » Uncertain US budgetary environment

# Energy markets

## Further growth opportunities

- » Strong record of revenue growth since 2009
  - >30% growth in energy condition monitoring
  - >50% growth in energy control valves
  - >300% growth at Heatric
- » Near term challenges
  - Customer acceptance of alternative sensor material still ongoing
  - Delivery schedules at Heatric continue to move
  - Subcontractor financial issues
- » Visible Heatric project pipeline valued in excess of £600m, covering:
  - Oil and gas
  - FLNG
  - Waste heat recovery
  - Power generation
- » Continuing to invest in further growth at Heatric

**PCHes – growth in installed base**



Source: Meggitt estimates

# Research and development

## Investing in future growth

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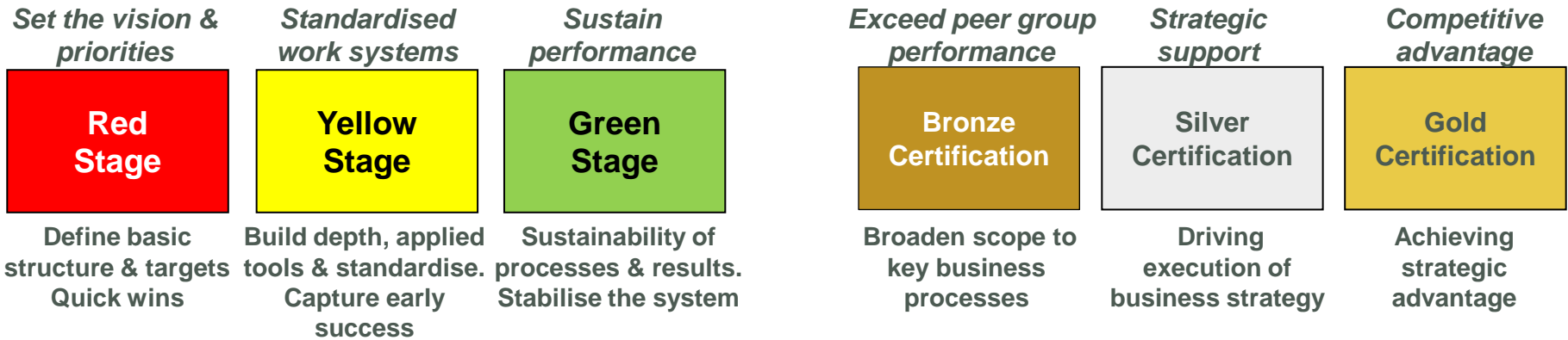
- » Self-funded R&D increased by 4% in the first half, following a 13% increase in 2013
- » Our R&D spend is broken down as follows:
  - » 42% on engines and accessories:
    - Multiple platforms including all major widebody and narrowbody aircraft
  - » 26% on wheels and brakes:
    - Developing equipment for 15 new civil aircraft platforms, some of which are still unannounced
  - » 32% on other applications:
    - Military
    - Energy/other



**Supporting  
future revenues  
of over £10bn**

# Meggitt Production System

## A reminder of the process



**MPS Critical Mass Achieved**



**Meggitt Business System**



**No checking the box, not a race, its about capability, maturity, & sustainability**

# Meggitt Production System

## Making great progress

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- » Programme roll-out achieved to date:
  - MPS launched at 24 sites across the Group
  - More sites scheduled for launch in the second half
  - 8 sites have already exited the first phase
  
- » Significant, measurable achievements:
  - On-time delivery up 15%
  - Defective parts per million down 78%
  
- » Acceleration of supply chain involvement:
  - Incremental cost, but good payback



# H1 2014 summary

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- » Healthy book to bill of 1.1x, including 17% growth in aftermarket orders
- » Organic:
  - Revenue down 3%
  - Underlying PBT down 17%
- » Underlying EPS down 23%
- » Significant improvement in free cash flow
- » Strong balance sheet – net debt to EBITDA 1.3x
- » Continuing to invest in future growth
- » Interim dividend up 8%

# Outlook

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- » Strong outlook for civil aerospace:
  - Deliveries continue to increase
  - Aftermarket growth will accelerate in the second half
- » Energy – near term challenges but a very healthy medium term view
- » Military – mid-single-digit decline in 2014, with return to growth over the medium term
- » Strong margin recovery in H2
- » Continued focus on cash
- » Low single digit organic revenue growth for 2014

# Appendices

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1. Currency PBT impact
  2. Operating exceptionals
  3. Investment accounts
  4. Shares in issue
  5. Credit maturity profile
  6. Pension information
  7. Divisional end market exposures
  8. Fleet age profile
  9. Typical MCS programme life cycle
  10. Air traffic history and forecast
  11. Impact of shock events on traffic growth
-

# Currency PBT Impact

	H1 2013 Act	FY 2013 Act	H1 2014 Act	H2 2014 Est	FY 2014 Est
<b>Translation rate (unhedged)</b>					
USD/£	1.53	1.57	1.67	1.71	1.69
CHF/£	1.44	1.45	1.48	1.52	1.50
Euro/£	1.17	1.18	1.22	1.25	1.24
<b>Transaction rate (hedged)</b>					
USD/£	1.62	1.62	1.54	1.54	1.54
CHF/USD	0.94	0.94	0.92	0.92	0.92
USD/Euro	1.28	1.29	1.31	1.31	1.31
<b>PBT impact £m</b>					
Year-on-year translation			(8.1)	(10.8)	(18.9)
Year-on-year transaction			<u>1.9</u>	<u>1.6</u>	<u>3.5</u>
Year-on-year currency benefit/(headwind)			<u>(6.2)</u>	<u>(9.2)</u>	<u>(15.4)</u>
Currency sensitivity:	± 5 cents = ± £35m revenue and £9m PBT				

# Operating exceptionals

£m	2014 H1 Actual at \$1.67	2014 Full year Estimate at \$1.69
<b>P&amp;L Charge</b>		
Site consolidations	4	6-7
Raw material supply issue	-	-
PacSci Integration	1	1
Other (net)	(1)	0-1
<b>Total</b>	<b>4</b>	<b>7-9</b>
<b>Cash out</b>		
Site consolidations	4	6-7
Raw material supply issue	2	6-9
PacSci Integration	1	1
Other (net)	2	2-3
<b>Total</b>	<b>9</b>	<b>15-20</b>

# Investment accounts

£m

	H1 2014 Actual at \$1.67	FY 2014 Est at \$1.69	FY 2015 Est at \$1.69
<b>1. R&amp;D</b>			
Total expenditure	72	140-150	135-145
Less: customer funded	<u>(12)</u>	<u>(25-30)</u>	<u>(25-30)</u>
Company spend	60	115-120	115-120
Capitalised	(38)	(70-75)	(65-75)
Amortised	<u>5</u>	<u>14-16</u>	<u>15-19</u>
Income statement	27	55-65	60-79
<b>2. Programme participation costs</b>			
Capitalised	20	38-43	40-50
Amortised	12	24-26	26-29
<b>3. Fixed assets</b>			
Capitalised	24	60-70	70-85
Depreciation/amortisation	20	45-47	49-52
<b>4. Retirement benefit deficit reduction payments</b>	16	33	32-34

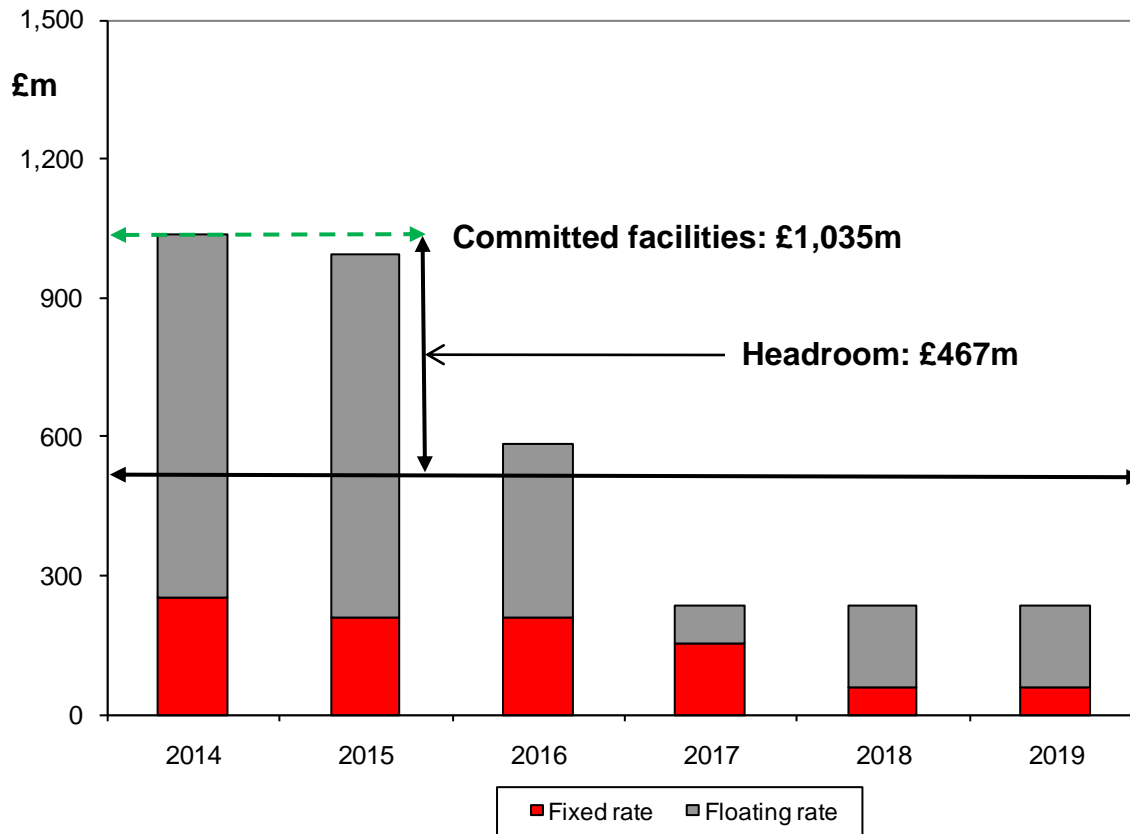
# Shares in issue

## Shares in millions

	2013 FY	2014 H1	2014 FY Est
Opening	785.0	797.1	797.1
Scrip/other *	12.1	8.5	9.0
Closing	<u>797.1</u>	<u>805.6</u>	<u>806.1</u>
Average	791.1	801.1	803.5

\* Assuming no take-up of scrip, and options generally satisfied by purchases of shares in the market

# Credit maturity profile



**Covenant Tests:**

	Covenant	Actual
Net debt/EBITDA	≤3.5x	1.3x
Interest cover	≥3.0x	23.4x

**Net debt at 30.06.2014: £568m**

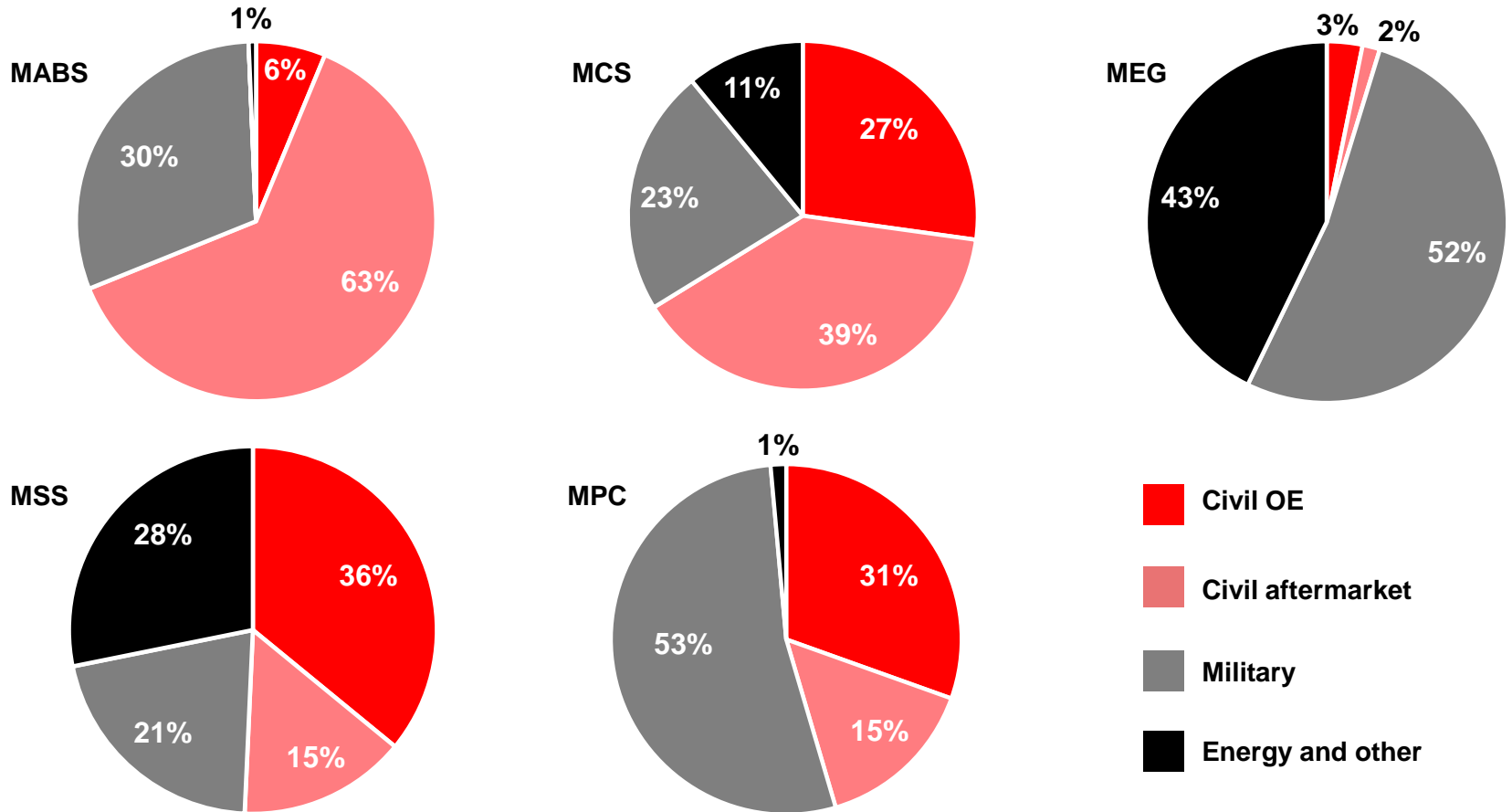


# Pension information

£m

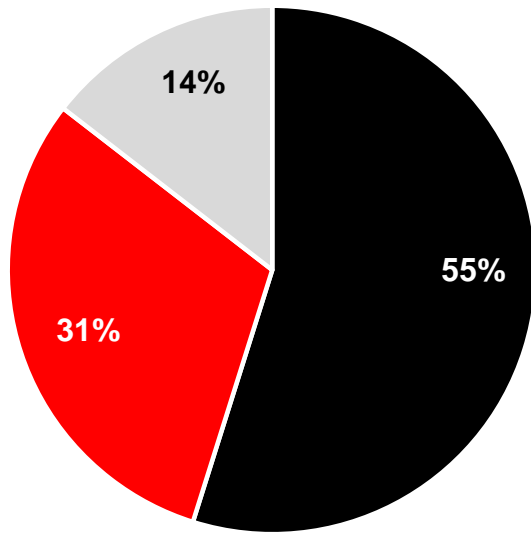
	Jun 2013	Dec 2013	Jun 2014
Opening deficit	(299.7)	(299.7)	(238.1)
Net deficit payments	11.9	27.4	16.4
Actuarial movements - assets	4.6	25.5	12.7
Actuarial movements - liabilities	29.8	21.3	(49.5)
	<u>34.4</u>	<u>46.8</u>	<u>(36.8)</u>
Other movements	(18.0)	(12.6)	(2.4)
Closing deficit	<u>(271.4)</u>	<u>(238.1)</u>	<u>(260.9)</u>
UK discount rate	4.75%	4.60%	4.30%
US discount rate	4.45%	4.55%	4.05%

# Divisional end market exposures H1 2014

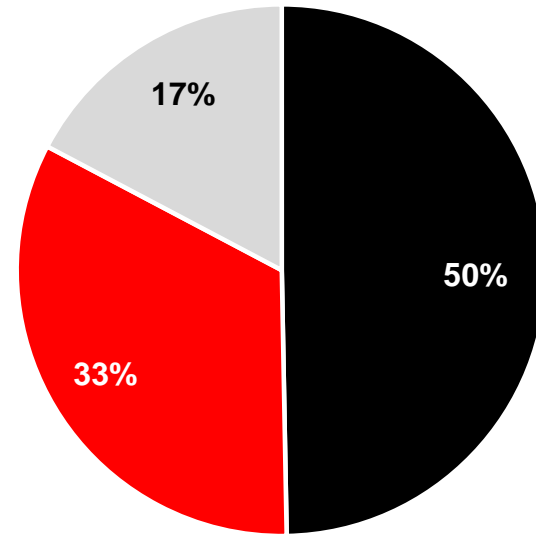


# Fleet age profile

**Meggitt civil fleet by age at 31<sup>st</sup> December 2013**



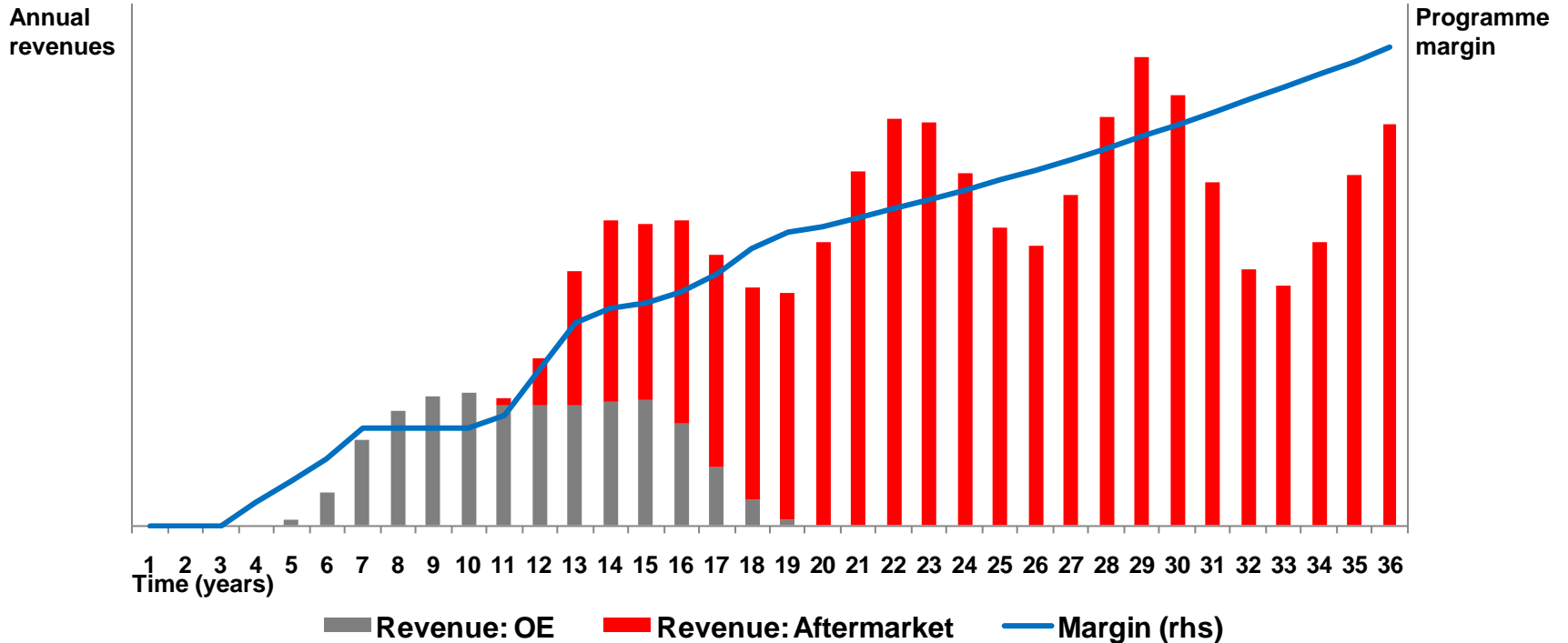
**Meggitt civil aftermarket revenues by fleet age in 2013**



■ 0 - 10 years      ■ 10 - 20 years      ■ >20 years

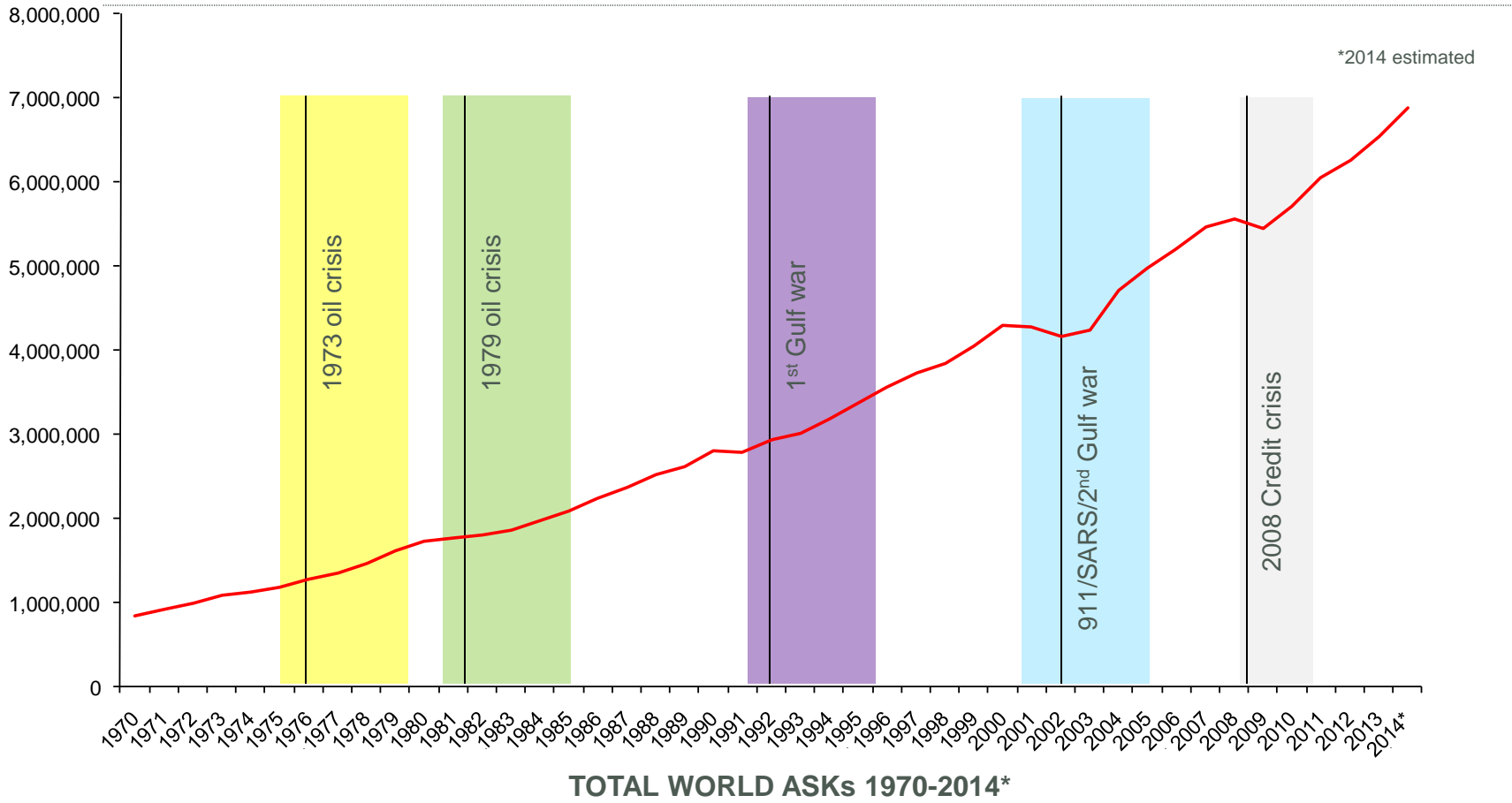
# Civil aerospace

## Typical MCS programme life cycle



- » Aftermarket revenues more than 6 times greater than OE revenues
- » Margin progression through the lifecycle

# Air traffic history and forecast



TOTAL WORLD ASKs 1970-2014\*

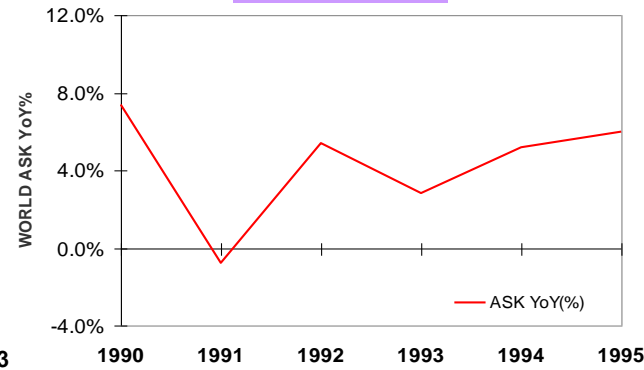
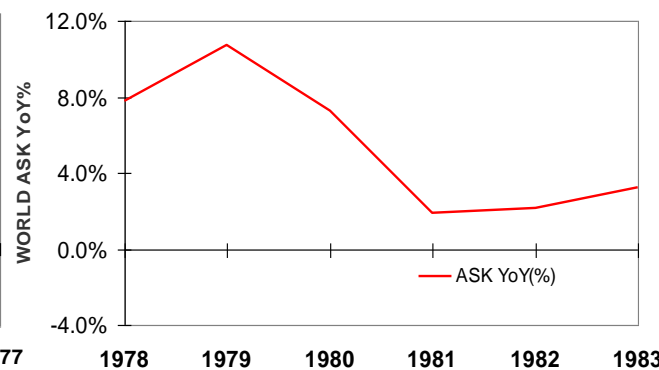
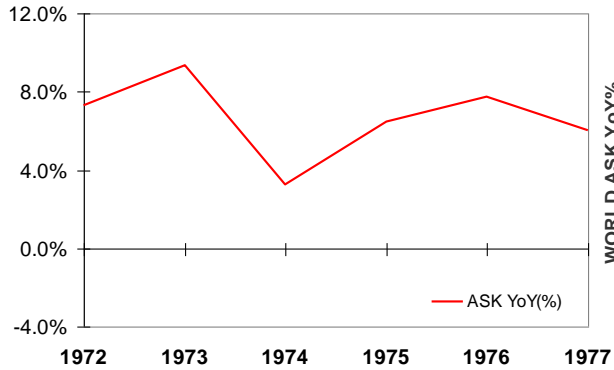
Source: ICAO – worldwide traffic, international & domestic...

# Impact of 'shock' events on traffic growth

1973 Oil Crisis

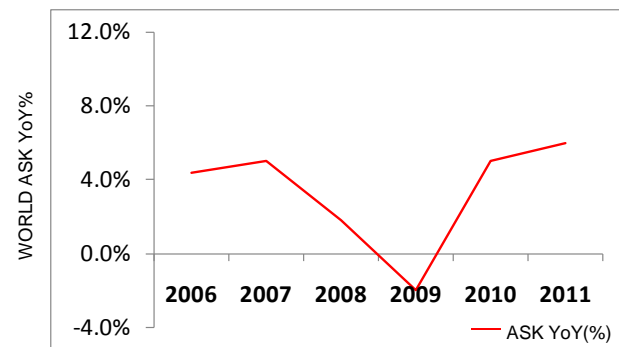
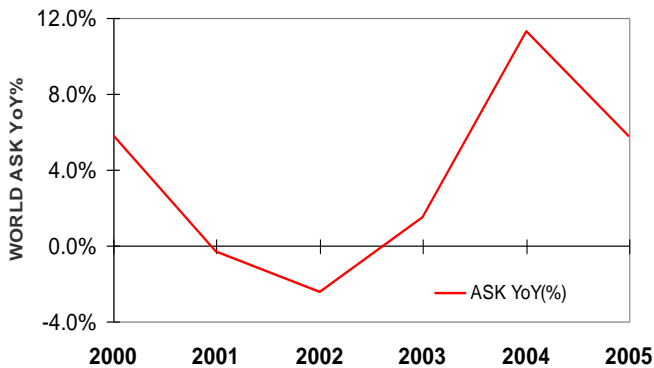
1979 Oil Crisis

1991 First Gulf War



2001 9/11, SARS and Second Gulf War

2008 Credit crisis



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