
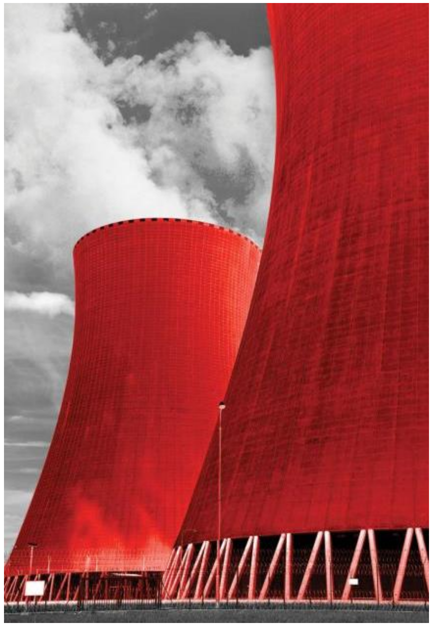

# 2016 Interim results

**2 August 2016**

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# Highlights

## Stephen Young - Chief Executive

# Financial highlights

## H1 as expected; orders support stronger H2

- Strong H1 orders - up 18%; organic 6%
- Reported revenue up 11%; organic -2%:
  - Civil OE +4%
  - Civil aftermarket +4%
  - Military -5%
  - Energy -19%
- Modest increase in underlying EPS to 15.4p
- Net debt at 2.6x EBITDA*
  - Will be within target range of 1.5x-2.5x at end of year
- Full year guidance reconfirmed
- Interim dividend increased by 4.3% to 4.8p

*Calculated on a financing covenant basis.



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# Strategic & operational highlights
## Focus on execution

- R&D expenditure now declining as % of revenue – to 8.9% (H1 2015: 9.9%), as anticipated
- Successful new product introduction programme continues
- MPS now launched at all primary pre-acquisition sites
  - 2 facilities are in the 4th *Bronze* phase
  - Accelerated roll-out commenced at recently acquired sites
- Customer Services & Support (CSS) – implementation on plan
- Composites integration progressing well
- Cost and efficiency focus
  - Headcount reduction announced last year completed on schedule
  - Plan to close two facilities in early 2017
  - Further footprint consolidation to commence after programme ramp-ups

# Financial Review

## Doug Webb – Chief Financial Officer

# Income statement

| Underlying* (£m) | 2016 | 2015 | % change Reported | % change Organic** |
|---|---|---|---|---|
| Orders | 911.8 | 775.3 | +18% | +6% |
| Revenue | 882.9 | 793.7 | +11% | -2% |
| Operating profit | 163.3 | 160.2 | +2% | -9% |
| Finance costs | (11.3) | (8.2) | | |
| Profit before tax | 152.0 | 152.0 | 0% | -10% |
| Tax | (33.1) | (30.4) | | |
| *Tax rate* | *22%* | *20%* | | |
| Profit for the period | 118.9 | 121.6 | -2% | -12% |
| EPS | 15.4p | 15.3p | +1% | |
| Dividend | 4.8p | 4.6p | +4% | |

**Reflects FX benefit and composites acquisitions**

**Lower margin reflects Heatric weakness, unfavourable revenue mix and phasing**

**Higher debt from acquisitions and FX partially offset by lower interest rate**

**Higher tax rate reflects smaller benefit from historical tax items**

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

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



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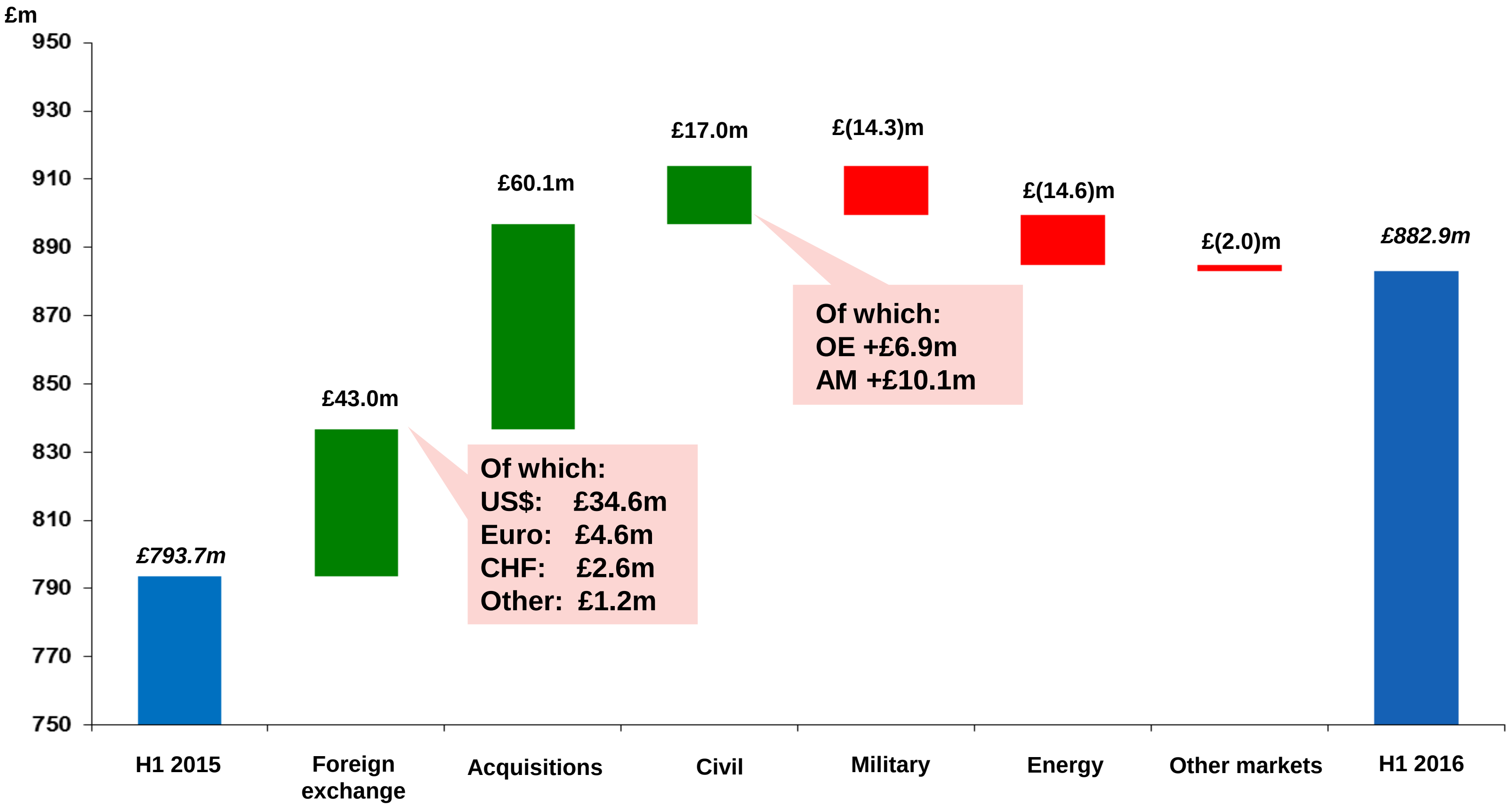
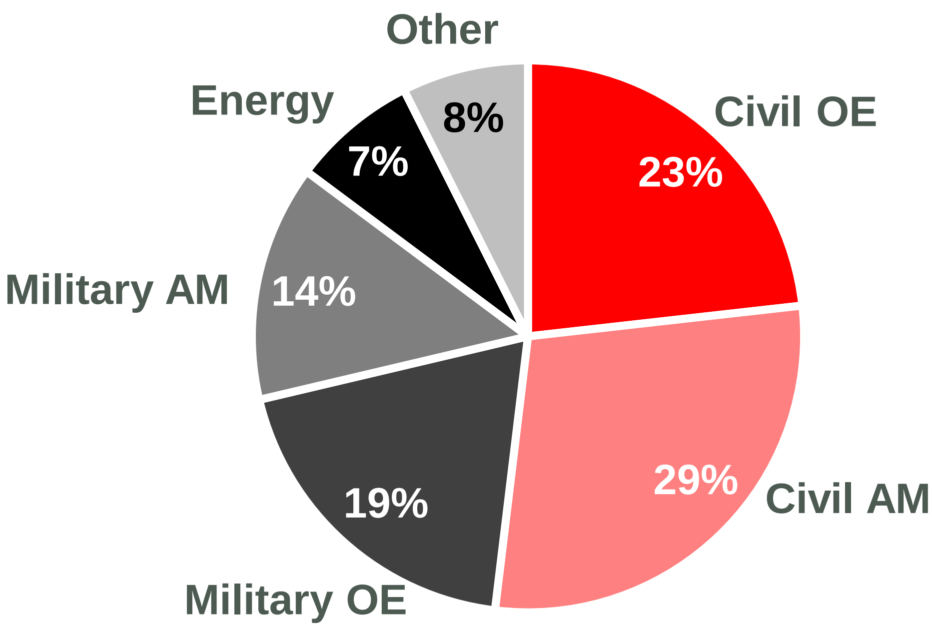
# Revenue
## Strong benefit from acquisitions and FX



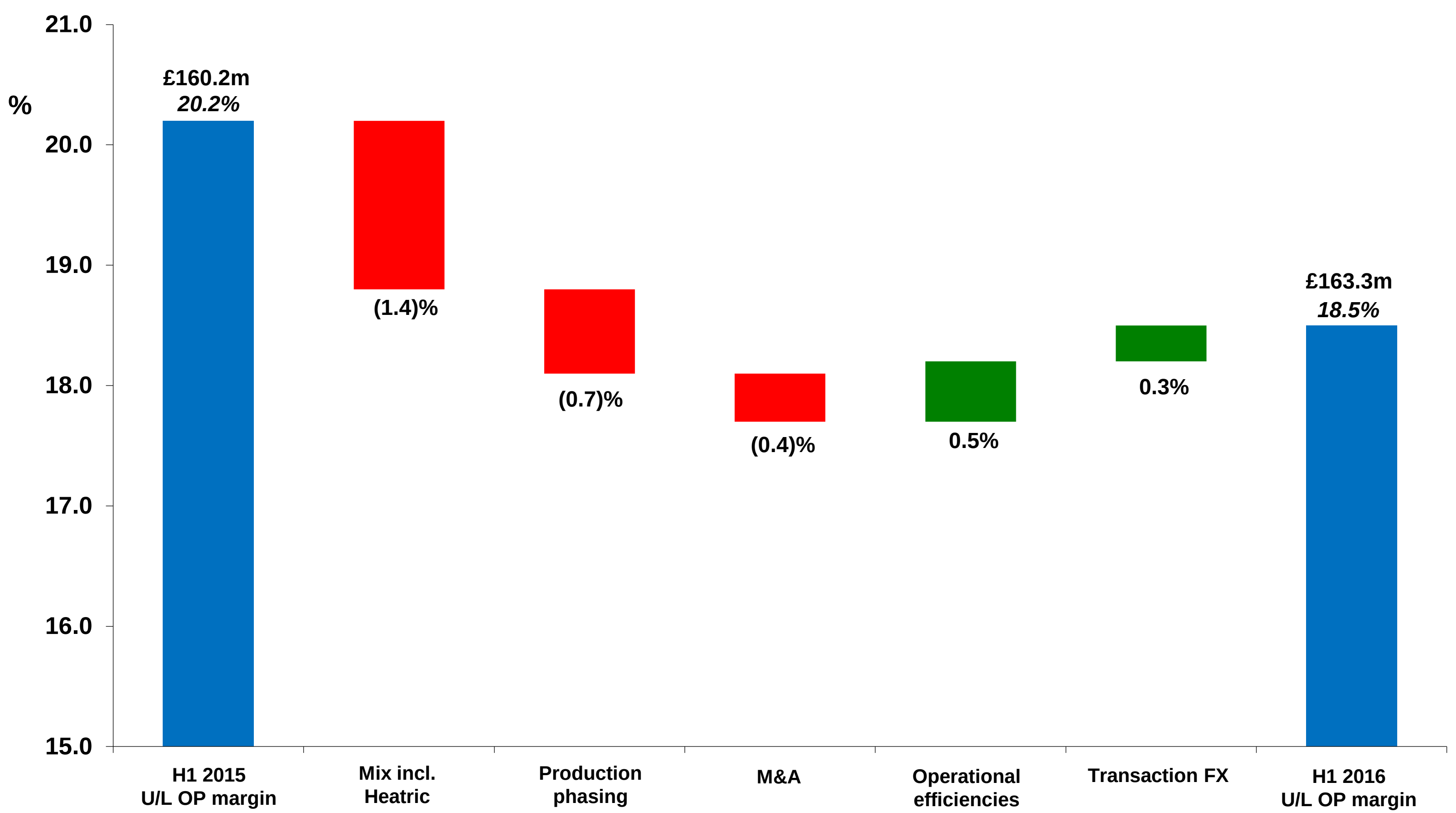
# Revenue by market
## A well balanced portfolio




| | H1 2016 growth | | |
|---|---|---|---|
| | Revenue | | Orders |
| | Reported | Organic | Organic |
| Civil OE | +26% | +4% | -15% |
| Civil AM | +11% | +4% | +16% |
| **Total Civil** | **+17%** | **+4%** | **+1%** |
| Military | +10% | -5% | +28% |
| Energy | -15% | -19% | -25% |
| Other | +12% | -3% | -18% |
| **Total Group** | **+11%** | **-2%** | **+6%** |

**OE: 56%, aftermarket: 44%**

# Underlying operating margin



# Divisional financials

## More normal revenue/profit phasing – weighted to H2

| | Revenue | | Underlying Operating Profit | | Margin |
|---|---|---|---|---|---|
| | | *Organic Growth* | | *Organic Growth* | |
| | £m | *%* | £m | *%* | % |
| Aircraft Braking Systems | 175.9 | *0* | 59.4 | *-9* | 33.8 |
| Control Systems | 211.2 | *+1* | 51.0 | *-4* | 24.1 |
| Polymers & Composites | 146.3 | *0* | 16.1 | *+5* | 11.0 |
| Sensing Systems | 244.9 | *-1* | 36.1 | *-10* | 14.7 |
| Equipment Group | 104.6 | *-12* | 0.7 | *-106* | 0.7 |
| **Total** | **882.9** | *-2* | **163.3** | *-9* | **18.5** |

**Margin impacted by production phasing and business mix (incl. weak biz jet)**

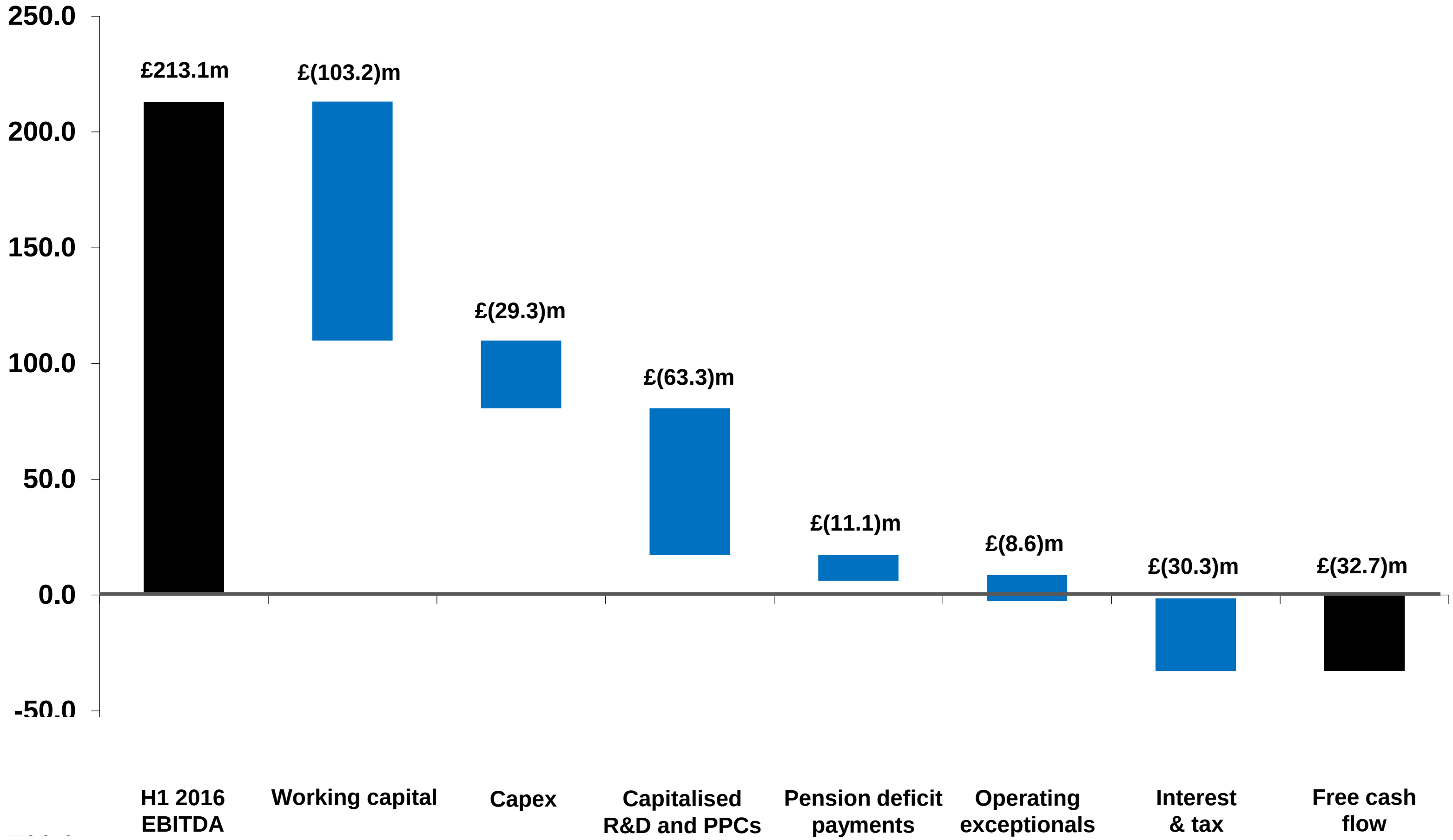
**Strong growth in civil offset by military decline on tough comparator**

**Margin growth from organic business and composites acquisitions**

**Margin impacted by weaker mix in 2016**

**Profitability reflects weak Heatric trading and H2 phasing of training revenue**

# Cash flow
## Working capital headwinds to partially unwind in H2



# Financing and covenants
## Strong balance sheet

| £m | At 31 Dec 2015 at $1.47 | FX | Other | At 30 Jun 2016 at $1.34 |
|---|---|---|---|---|
| Total assets (excluding cash) | 4,388.9 | 370.4 | 49.7 | 4,809.0 |
| Retirement benefit obligations | (284.5) | (19.4) | (69.7) | (373.6) |
| Other liabilities | (872.8) | (65.1) | 47.7 | (890.2) |
| Capital employed | 3,231.6 | 285.9 | 27.7 | 3,545.2 |
| Net debt | (1,053.1) | (107.8) | (115.8) | (1,276.7) |
| Net assets | 2,178.5 | 178.1 | (88.1) | 2,268.5 |

| Covenant ratios* | At 31 Dec 2015 | | | At 30 Jun 2016 |
|---|---|---|---|---|
| Net debt/EBITDA (≤3.5x) | 2.3x | | | 2.6x |
| Interest cover (≥3.0x) | 21.4x | | | 18.6x |

**Deficit increase due to lower AA bond yields**

**Next UK triennial 2018**

* As defined in financing agreements.



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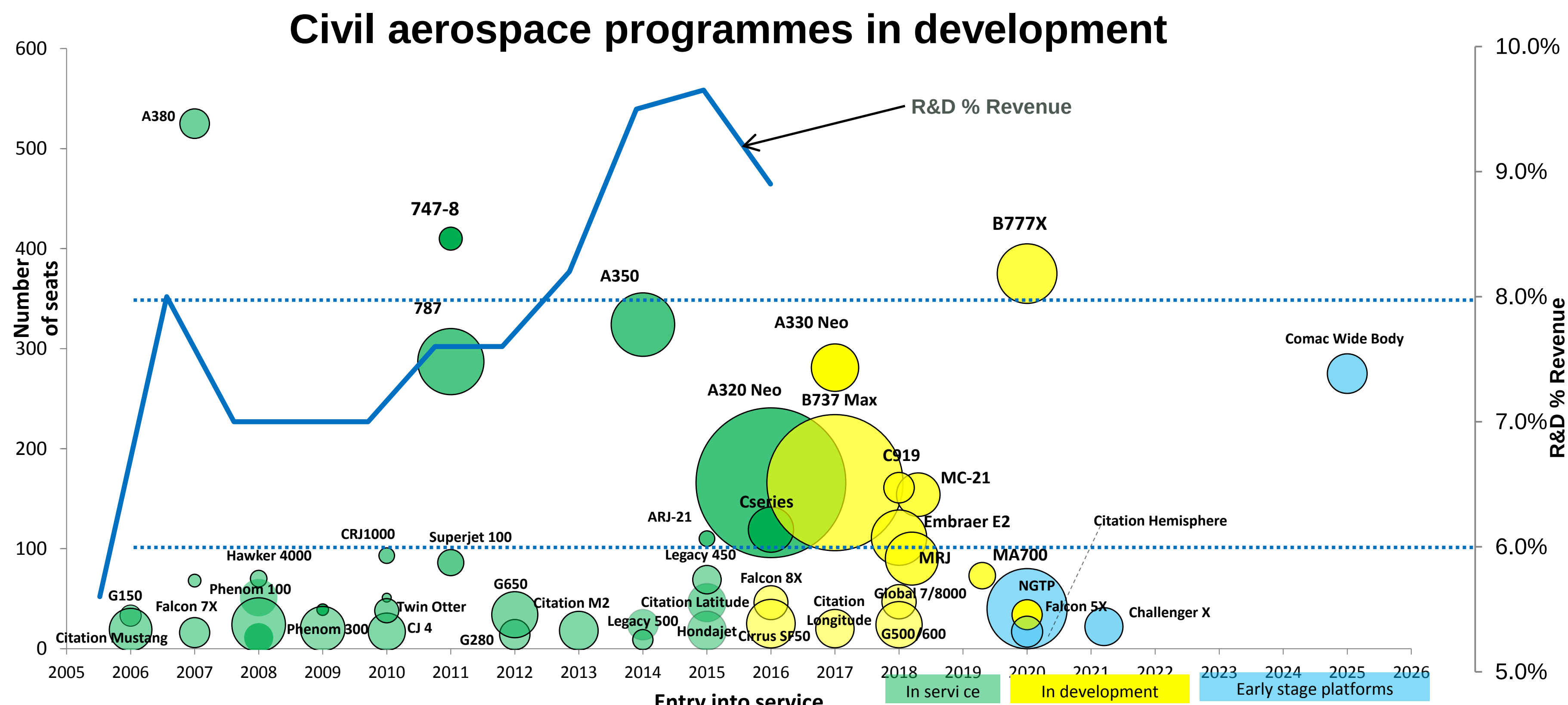
# End markets and operational review

## Stephen Young – Chief Executive

# Research and development
## Passing peak investment




Bubble size denotes 10-year build rate

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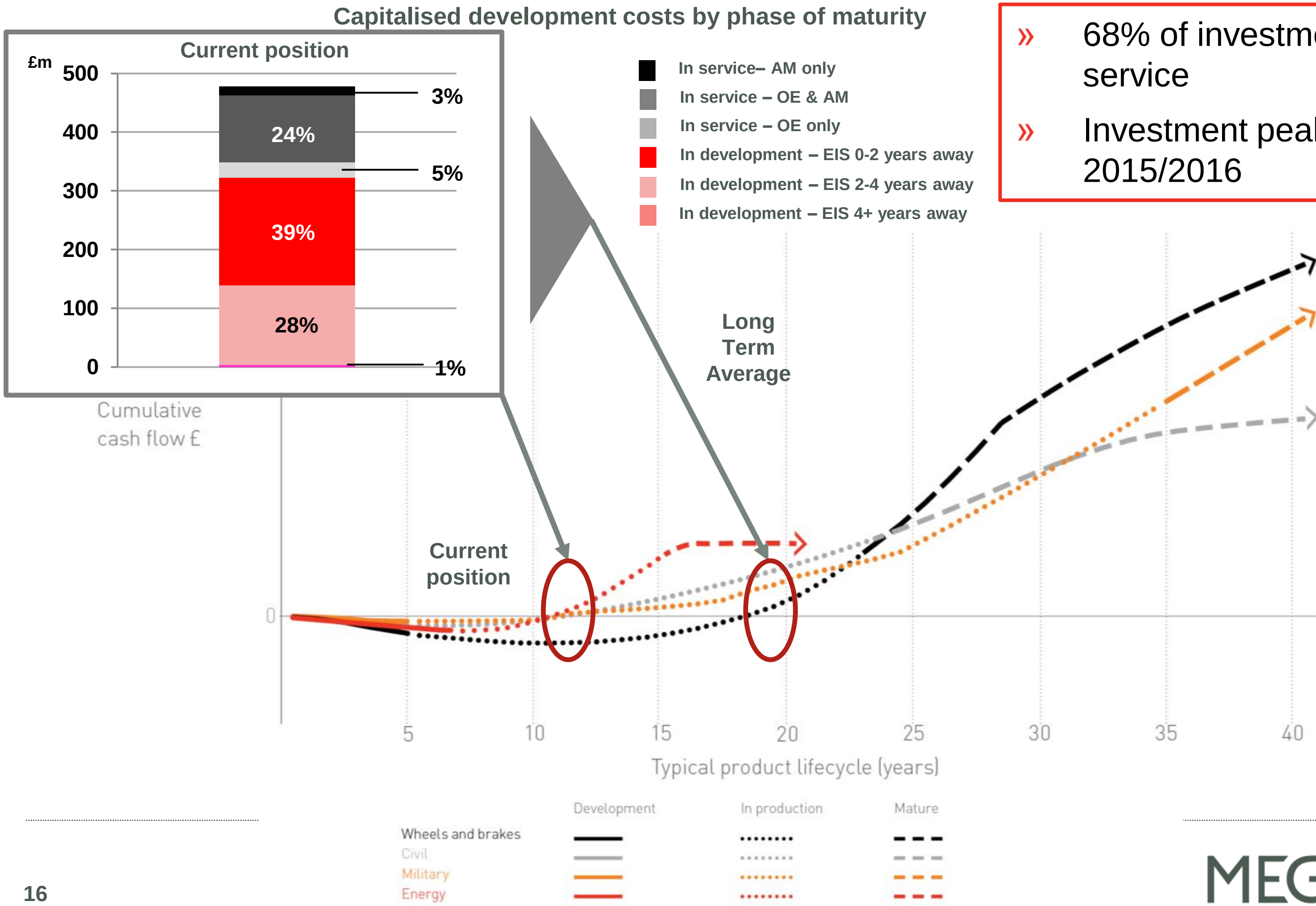
# Investment drives future cash flow growth




- » 68% of investment not yet in service
- » Investment peaking in 2015/2016



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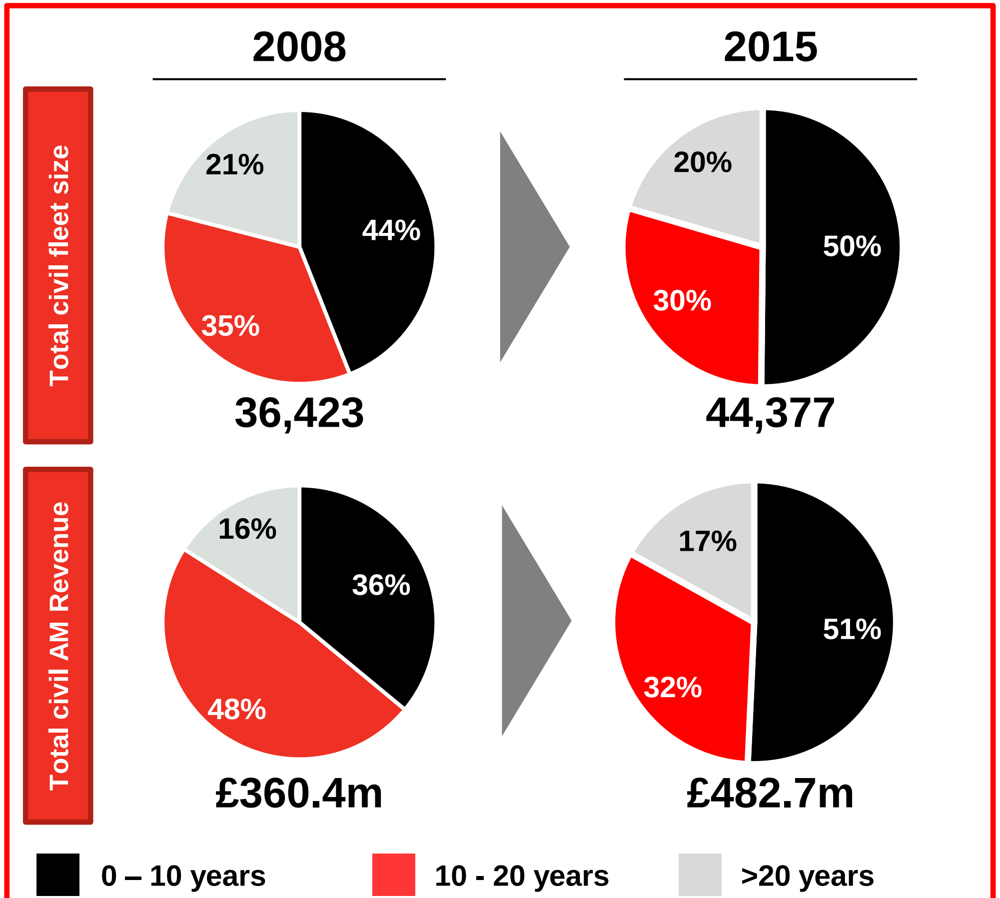
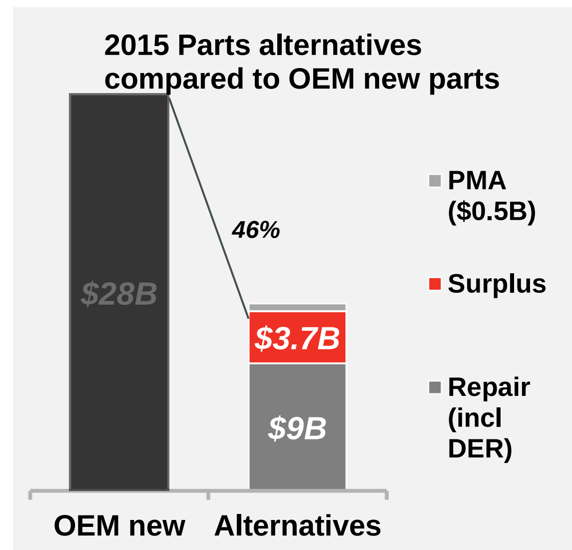
# Attractive aftermarket fleet profile
## Trends 2008-2015




- Success in securing positions on new programmes
- Meggitt has captured greater share of future revenue
- Aftermarket fleet profile rebalanced toward younger aircraft
  - Substantive mix shift in last 7 years
  - Short term drag on margin
- Underpins future aftermarket revenue

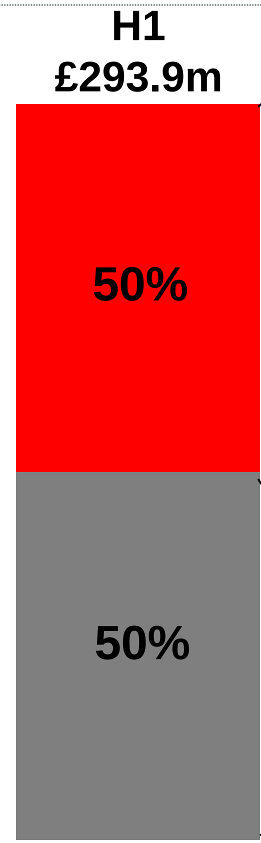
# Civil aerospace
## Fundamentals and priorities

- Large and growing fleet
- Traffic growth at or above long term trend
- Near-term focus on execution:
  - Re-engined narrow bodies ramp-up
  - CSeries entry into service
- CSS implementation
  - Capture greater volume of MRO market
  - Increase Meggitt participation in surplus parts
  - Identify upgrade and retrofit opportunities
  - Distribution network rationalisation plan



# Military
## Growth in fleets and budgets

- Budgets growing
- Broad product and platform exposure across fast jets, transport, rotary and trainers
- Significant exposure to growth platforms
- Acquisitions boost F-35 shipset value by over 120%
- Opportunities for retrofit and reset becoming increasingly apparent
- Strong order intake on multi-year programmes (esp. Training)




**Top 20 aerospace platforms**

| | |
|---|---|
| 1 **Eurofighter Typhoon** | 11 BAE Hawk |
| 2 **Blackhawk** | 12 KC135 |
| 3 **F-35 Lightning** | 13 **A400M** |
| 4 F-18 (All) | 14 **Cobra** |
| 5 **V22 Osprey** | 15 **P-8 Poseidon** |
| 6 **F-15 (all)** | 16 Tornado |
| 7 **Apache** | 17 Lynx/Super Lynx |
| 8 F-16 | 18 E2C/D Hawkeye |
| 9 C-130 | 19 **AW/EH/US101** |
| 10 **Chinook** | 20 Harrier |

Hundreds of platforms and training installations worldwide

Red font denotes growing fleet



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# Energy markets
## Flexibility retained, costs reduced

### Heatric

- Long-term pipeline remains interesting
- Key design skills, manufacturing capability and capacity retained despite workforce reduction
- Well positioned to react to improvement in demand environment but limited visibility on timing

### Power generation

- Product portfolio in this market is common with aerospace offering
  - Generally manufactured in the same facilities by the same people
- Short term demand cyclicality can be absorbed by growth in aerospace market
- Long-term growth market with strong and growing OE and retrofit customer base

# Acquisitions update

## World-class composites capability

**EDAC TECHNOLOGIES**

- 560 employees
- 4 sites in US and Mexico
- Revenue split: 90% civil; 10% other
- Synergy run rate: $3.8m by end 2017
- Cost to achieve: $4.3m

**COBHAM (Advanced Composites)**

- 580 employees
- 4 sites in UK and US
- Revenue split: 20% civil; 80% military
- Synergy run rate: $6.0m by end 2018
- Cost to achieve: $4.8m

- Organic growth of acquired businesses in H1 of 5%
- Integration progressing well
  - Value-stream organisation now complete
  - MPS roll-out commenced
  - Excellent customer feedback on progress to date
  - Radome production in existing MPC Rockmart facility
  - Greater than anticipated share of engine programmes

# H1 2016 summary

- Strong order intake supporting H2 growth expectations
- Reported revenue up 11%; organic growth in civil offset by continued weakness in energy and tough comparators in military
- Continuing to invest in future growth: NPI, MPS and R&D
- Customer Services & Support (CSS) implementation on plan
- Acquisition integration progressing well
- Net debt at 2.6x EBITDA; will be in target range (1.5x-2.5x) at year end
- Interim dividend up 4.3% to 4.8p

# Outlook for 2016 & medium-term

## No change from prior guidance

| | % of sales FY2015 | 2016 Outlook Sales | 2016 Outlook Mix | Meggitt expectations |
|---|---|---|---|---|
| **Civil OE** | 20% | ↗ | → | • Aircraft and engine manufacturer order books support sustained OE growth through the medium term.<br>• Shipset gains support medium term growth ahead of the market. |
| **Civil Aftermarket** | 29% | ↗ | ↘ | • Strong and growing market positions, often on a sole-sourced basis, support good growth potential through the medium term.<br>• Uncertainty around the supply of surplus parts inhibits near-term visibility. |
| **Military** | 35% | ↗ | → | • US FY16 budget agreement suggests good growth potential beyond 2016, with increasing focus on equipment reset presenting opportunities for retrofit contracts.<br>• Good training orders for H2 delivery. |
| **Energy** | 9% | ↘ | → | • Near term challenges persist in the energy market, but a strong technology franchise in Heatric and growth opportunities in energy condition monitoring underpin confidence in the medium term. |
| **GROUP** | | ↗<br>2016 Outlook – low single digit organic growth. M&A and FX will increase reported revenue | → | • Expectation that Meggitt will outgrow its markets over the cycle |

# Appendices

1. Currency PBT Impact
2. Operating exceptionals
3. Investment accounts
4. Shares in issue
5. Credit maturity profile
6. Retirement benefits
7. Capital allocation
8. Segmental revenue analysis – civil, military & energy
9. Aircraft OE deliveries
10. Commercial jet utilisation and retirement rates
11. Business jet market share and utilisation
12. Meggitt Production System – update
13. Divisional end market exposure
14. Typical MCS programme life cycle
15. Air traffic history and forecast / Impact of shock events on traffic growth

# Currency PBT Impact

| | H1 2015 Act | FY 2015 Act | H1 2016 Act | H2 2016 Est | FY 2016 Est |
|---|---|---|---|---|---|
| **$/£ rate** | | | | | |
| Translation rate (unhedged) | 1.52 | 1.53 | 1.43 | 1.34 | 1.37 |
| Transaction rate (90% hedged at $1.56 for 2016) | 1.57 | 1.57 | 1.53 | 1.53 | 1.53 |
| **Euro rate** | | | | | |
| €/£ Translation rate (unhedged) | 1.38 | 1.38 | 1.28 | 1.20 | 1.24 |
| $/€ Transaction rate (hedged) | 1.36 | 1.36 | 1.21 | 1.21 | 1.21 |
| **CHF rate** | | | | | |
| CHF/£ Translation rate (unhedged) | 1.44 | 1.47 | 1.41 | 1.30 | 1.35 |
| $/CHF Transaction rate (hedged) | 1.08 | 1.08 | 1.07 | 1.07 | 1.07 |
| **PBT impact £m** | | | | | |
| Year-on-year transaction benefit/(headwind) | | | 3.8 | 3.7 | 7.5 |
| Year-on-year translation benefit/(headwind) | | | 6.3 | * | * |

* Year on year translation sensitivity: ± 10 US$ cents = ± £85m Revenue; ± £17m PBT
± 10 Euro cents = ± £11m Revenue; ± £1m PBT

# Operating exceptionals

| £m | 2016<br>H1 Act<br>at $1.43 | 2016<br>FY Est<br>at $1.37 |
|---|---|---|
| **P&L charge** | | |
| Site consolidation | 0.8 | 7-9 |
| Business restructuring costs | 5.1 | 5-6 |
| Integration of acquired businesses | 1.7 | 4-5 |
| Total | 7.6 | 16-20 |
| **Cash out** | | |
| Site consolidation | 0.2 | 6-8 |
| Business restructuring costs | 6.2 | 8-9 |
| Integration of acquired businesses | 1.7 | 4-5 |
| Raw material supply issue | 0.5 | 1-2 |
| Total | 8.6 | 19-24 |

# Investment accounts

| £m | H1 2016 Actual at $1.43 | FY 2016 Est at $1.37 | FY 2017 Est at $1.37 |
|---|---|---|---|
| **1. R&D** | | | |
| Total expenditure | 79 | 165-175 | 155-175 |
| Less: customer funded | (14) | (35-40) | (22-32) |
| Company spend | 65 | 130-135 | 130-145 |
| Capitalisation | (37) | (75-80) | (73-88) |
| Amortisation/impairment | 7 | 15-18 | 18-23 |
| Income statement | 35 | 70-75 | 75-90 |
| **2. Programme participation costs** | 27 | 55-58 | 68-78 |
| Amortisation | 16 | 34-35 | 35-40 |
| **3. Fixed assets** | 29 | 90-100 | 125-145 |
| Depreciation/amortisation | 28 | 55-58 | 63-68 |
| **4. Retirement benefit deficit payments** | 11 | 26 | 35 |

# Shares in issue

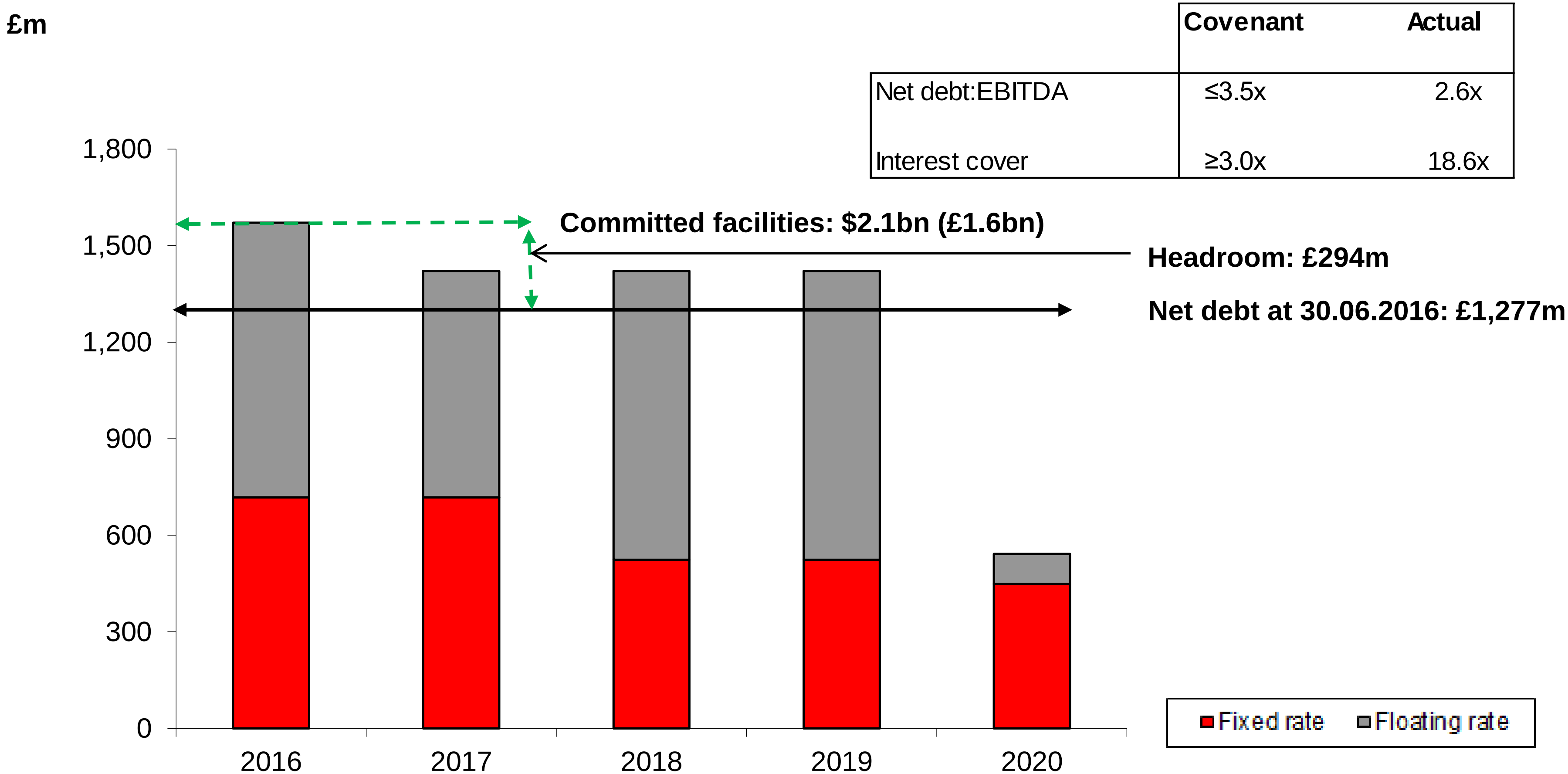
## Shares in millions

| | 2015 H1 | 2015 FY | 2016 H1 |
|---|---|---|---|
| Opening | 802.3 | 802.3 | 775.5 |
| Buyback | (19.6) | (26.8) | - |
| Closing | 782.7 | 775.5 | 775.5 |
| | | | |
| Average for EPS* | 794.6 | 785.4 | 774.4 |

* Excludes treasury shares and own shares held by ESOP.

# Credit maturity profile
## As at 30 June 2016*

| | Covenant | Actual |
|---|---|---|
| Net debt:EBITDA | ≤3.5x | 2.6x |
| Interest cover | ≥3.0x | 18.6x |




*Maturity adjusted to reflect drawdown of new private placement and cancellation of acquisition bridge financing which took place on 6th July 2016.

# Retirement benefits

**£m**

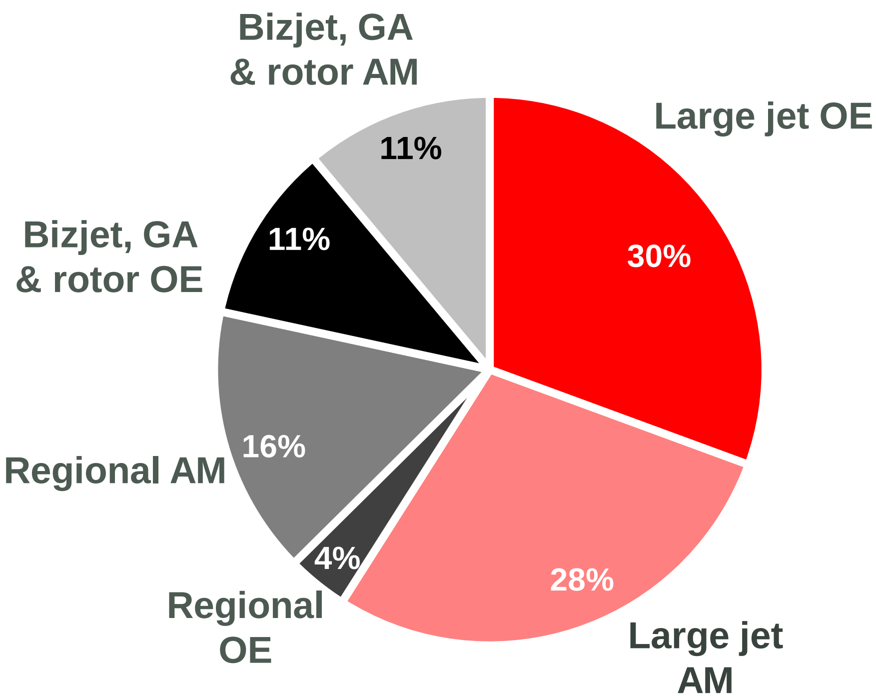
| | **Jun 2015** | **Dec 2015** | **Jun 2016** |
|---|---|---|---|
| Opening deficit | (317.8) | (317.8) | (284.5) |
| Net deficit payments | 14.8 | 24.4 | 11.1 |
| Actuarial movements - assets | (4.4) | (7.2) | 42.6 |
| Actuarial movements - liabilities | 27.7 | 36.6 | (117.3) |
| | 23.3 | 29.4 | (74.7) |
| Other movements | (5.5) | (20.5) | (25.5) |
| Closing deficit | (285.2) | (284.5) | (373.6) |
| UK discount rate | 3.80% | 3.85% | 2.95% |
| US discount rate | 4.25% | 4.20% | 3.50% |

# Capital allocation
## Investing for growth

» Context:
  - Cash generative business model
  - Nearing the peak of a major development cycle
  - Normal operating range of net debt:EBITDA is ~1.5x to 2.5x
  - Comfortable to move above and below this range in certain circumstances

» Within this context, our priorities are:
  1. Funding organic growth and driving operational efficiency
  2. Growing dividends in line with earnings through the cycle
  3. Targeted, value-accretive acquisitions in our core markets
  4. Maintain efficient balance sheet

# Civil aerospace
## 52% of total revenue

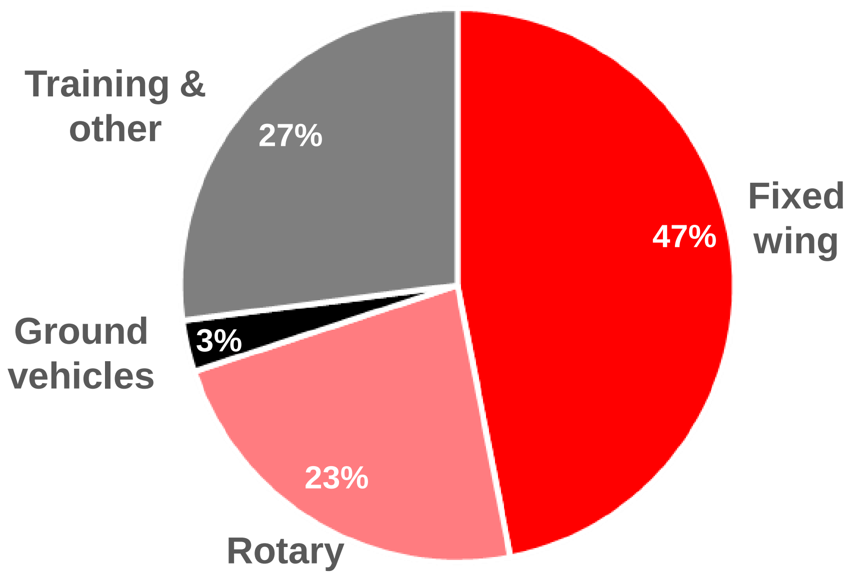



**H1 2016 revenue £458.3m**

**OE: 45%, aftermarket: 55%**

# Military
## 33% of total revenue

**H1 2016 revenue £293.9m**

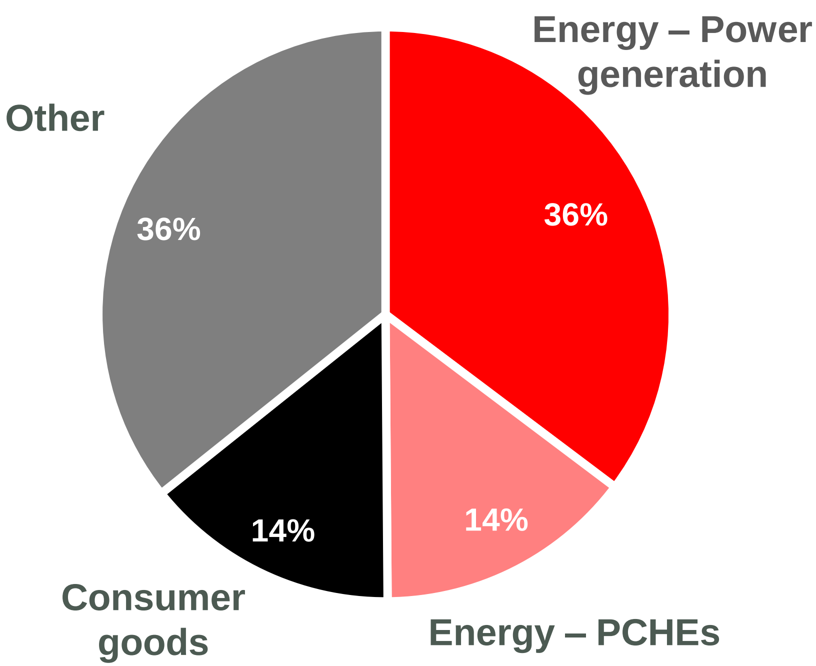



**OE: 58%, aftermarket: 42%**

**US: 63%; Europe 27%, RoW 10%**

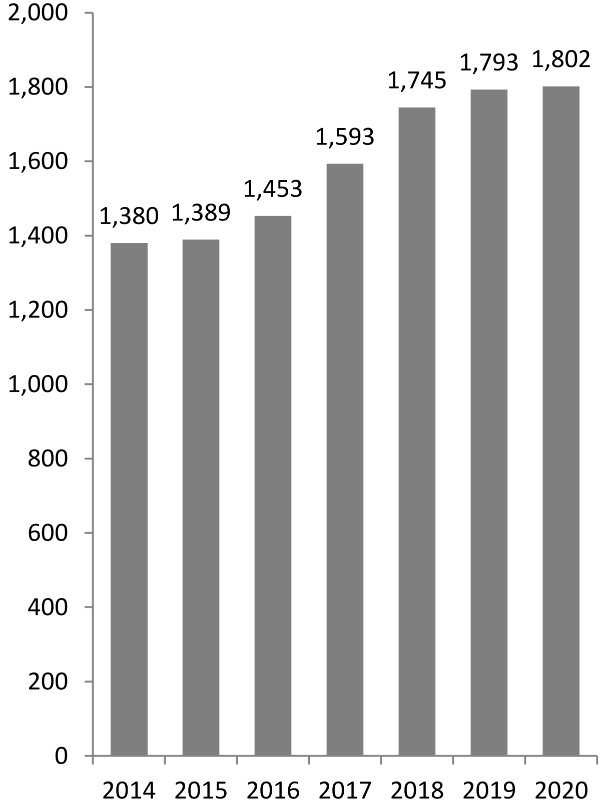
# Energy & other markets
## 15% of total revenue

**H1 2016 revenue £130.7m**

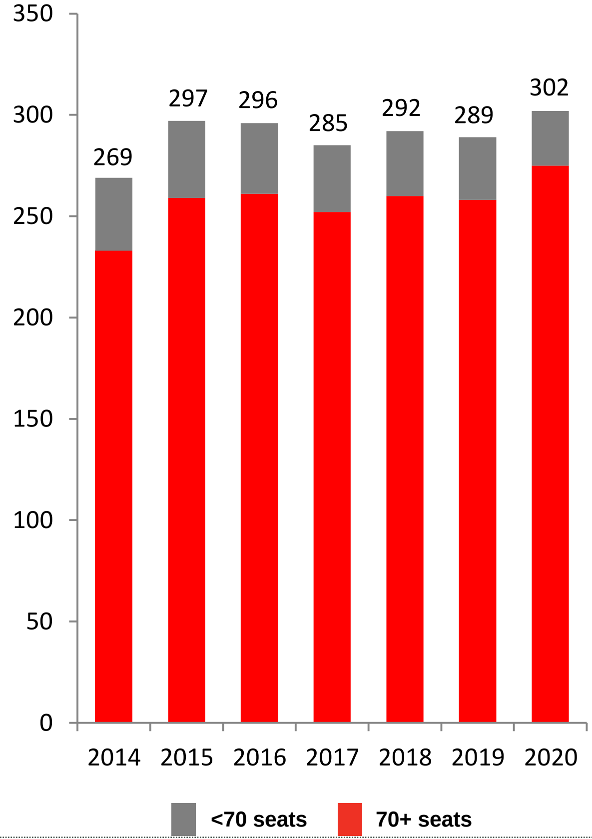


# Aircraft OE deliveries

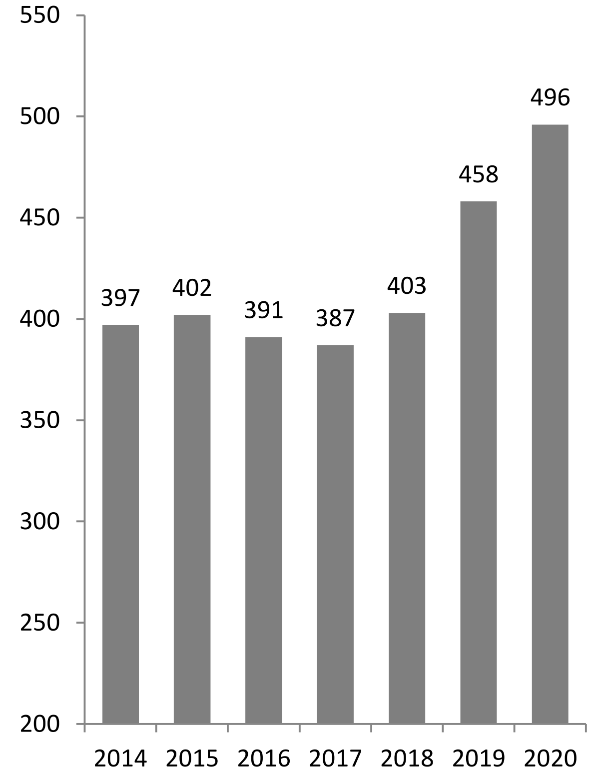
**Large jet -** 30% of civil revenue




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



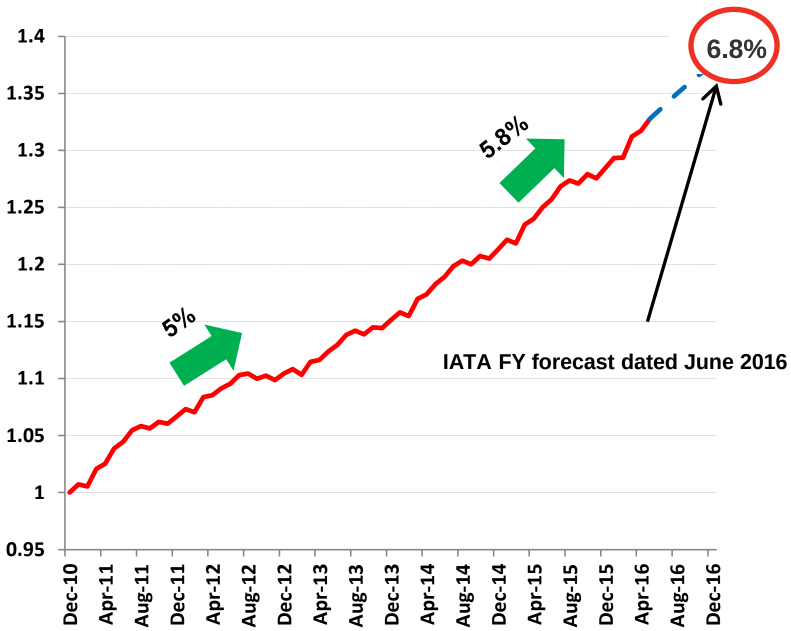

**Business jet -** 11% of civil revenue
(chart shows super-midsize & large only)




Source: Meggitt estimates

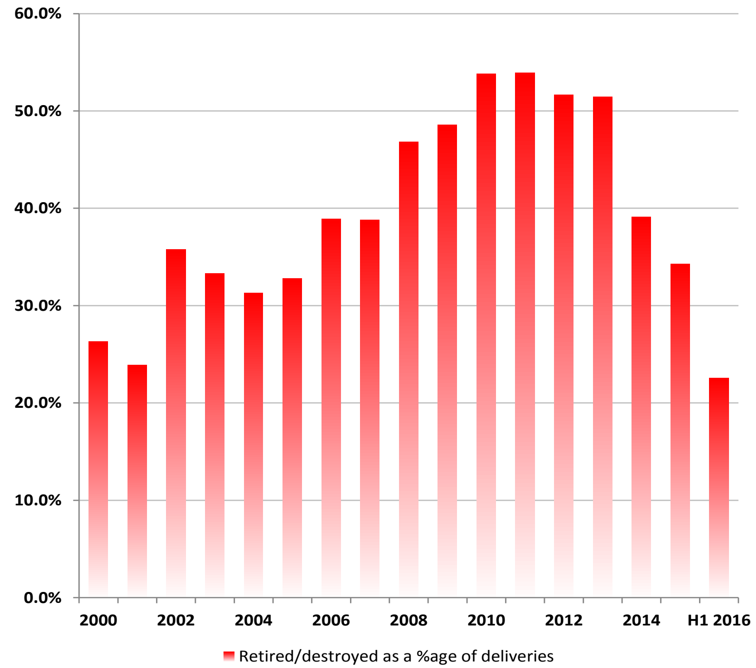
# Civil aerospace aftermarket
## Commercial jet utilisation and retirement rates

### Available seat kilometres MAT Index




Source: IATA/Meggitt estimates

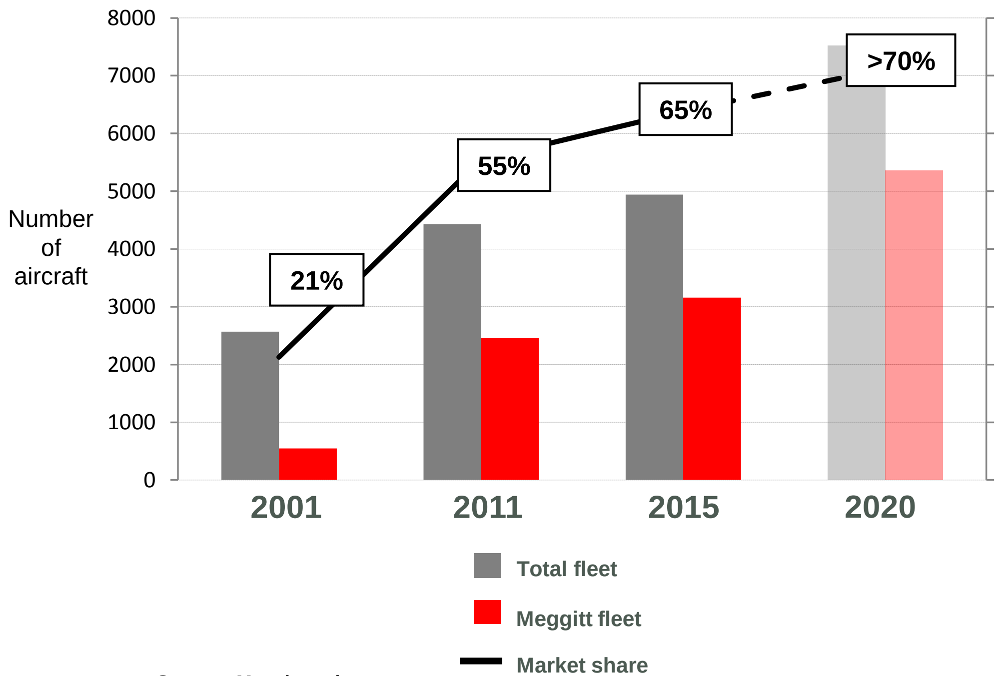
### Retirements as a percentage of deliveries




Source: ACAS/Meggitt estimates

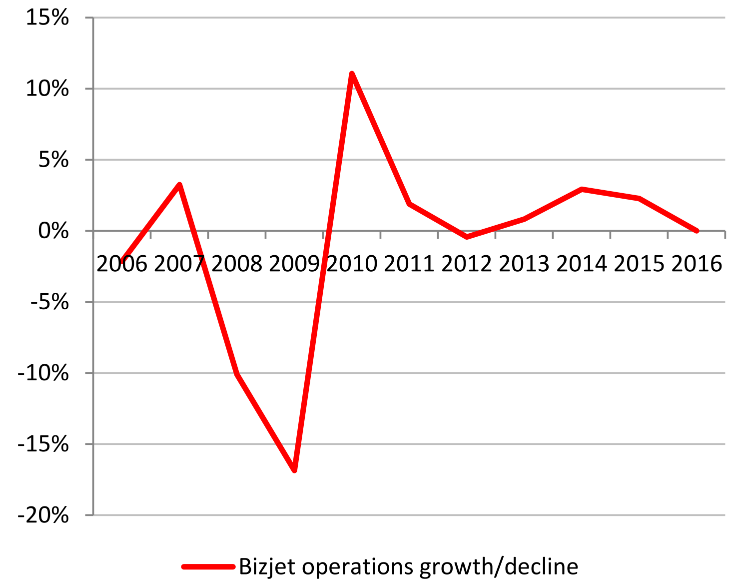
# Civil aerospace aftermarket
## Business jet market share and utilisation

### Meggitt share of super mid-size & large business jet wheels & brakes market




Source: Meggitt estimates

### Business jet operations (US & EU only)




Source: Eurosky/ETMSC & Meggitt estimates

» Significant market share gains and fleet growth

» US & EU traffic broadly flat in H1

# Meggitt Production System - update
## Driving cultural change

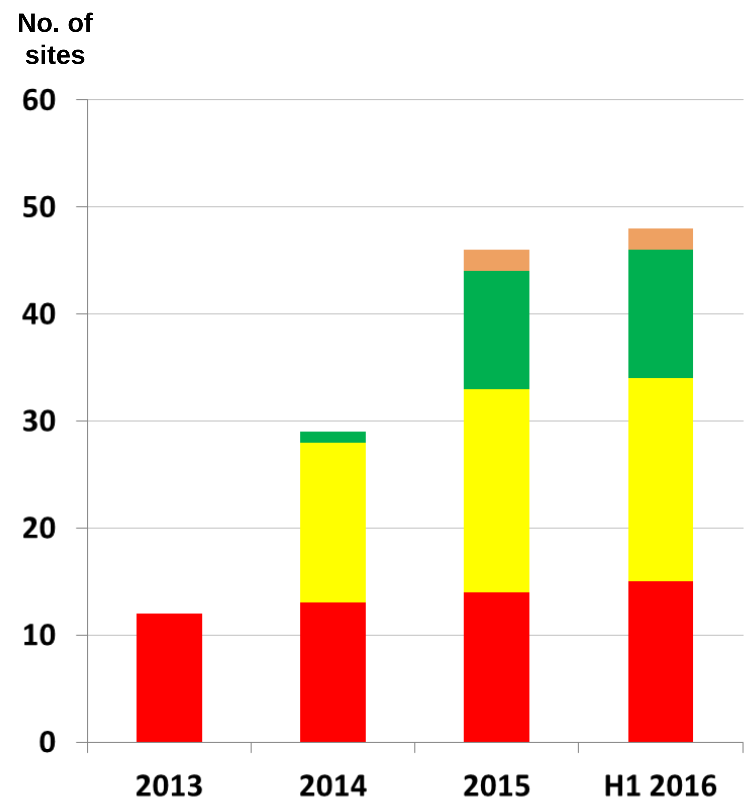
**What we have learned:**

- Pace of cultural change is accelerating
- Tremendous level of employee engagement
- Customers already seeing benefits – we will exceed their expectations as a world class supplier

**Medium term goals**

- Drive organic growth
- Reduce cost of poor quality
- Reduce inventory

**Site launch timeline**



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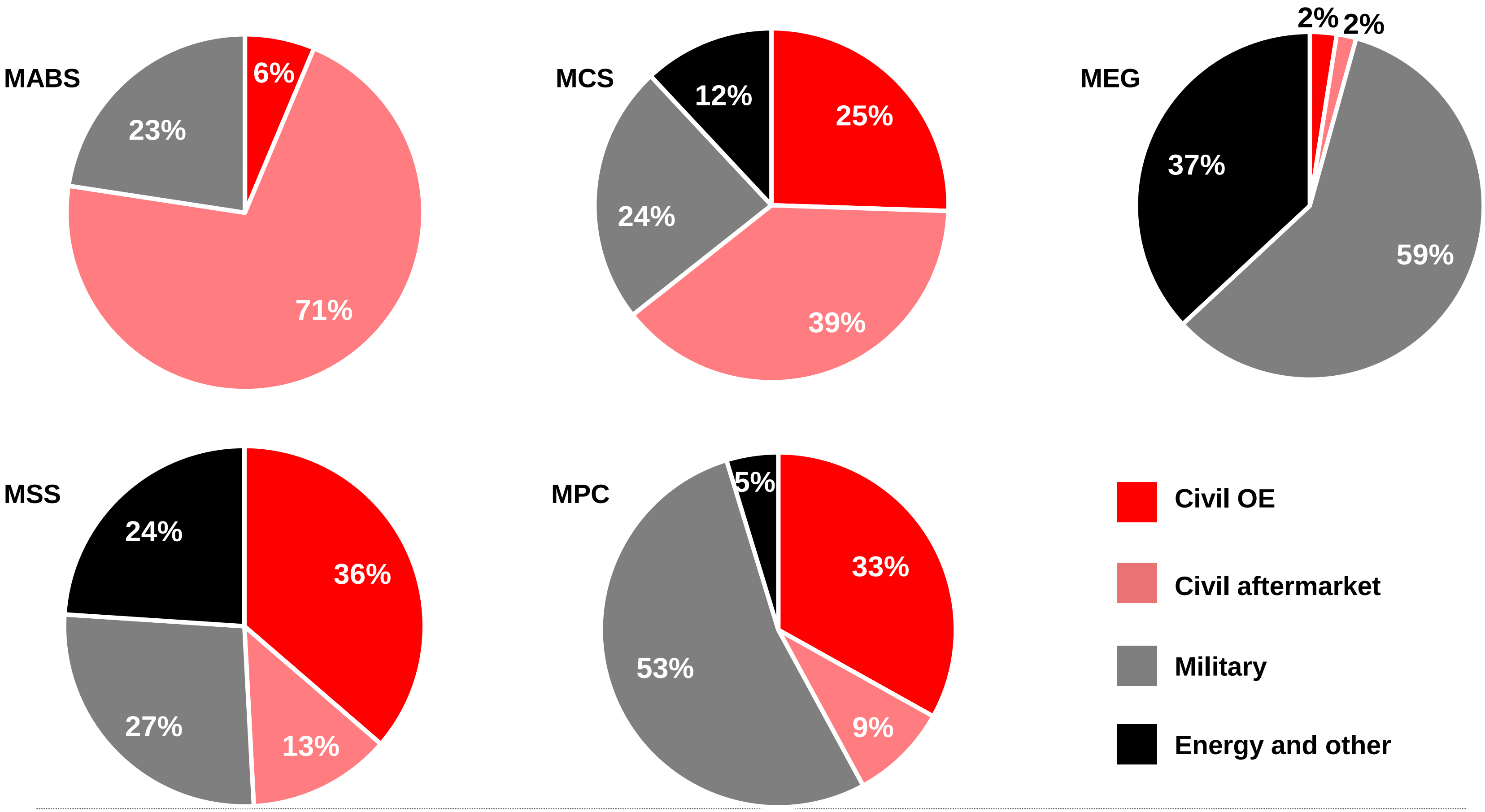
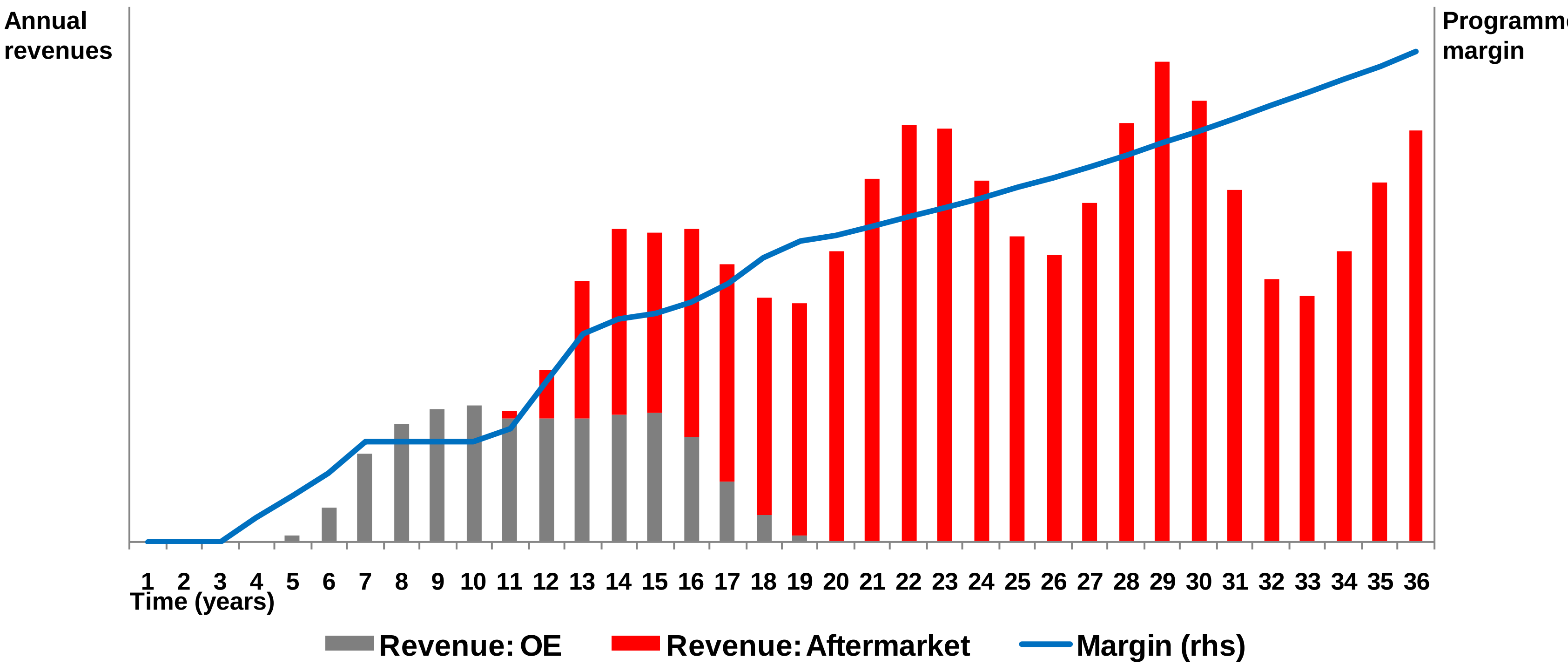
# Divisional end market exposures
## H1 2016



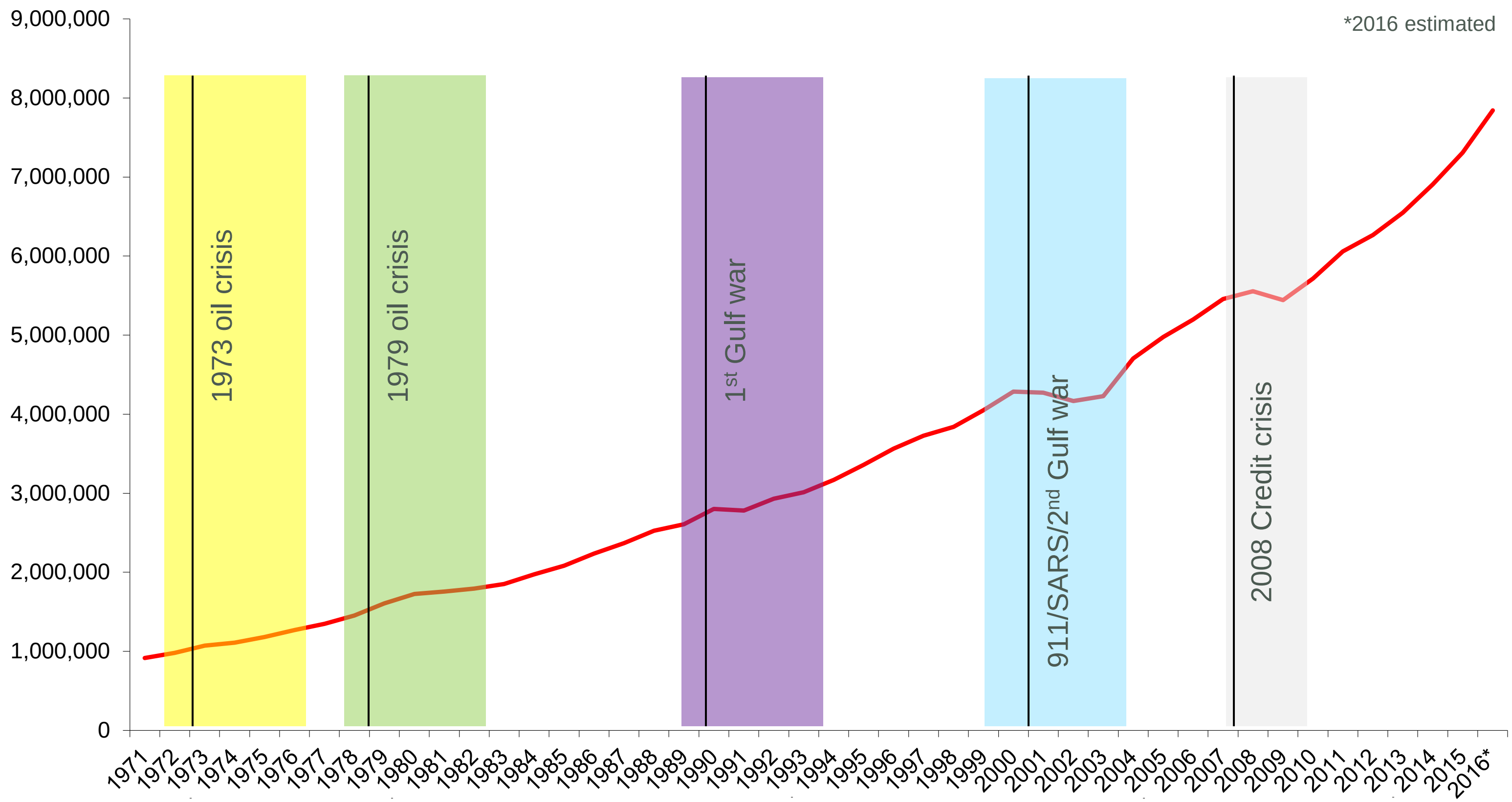
# Civil aerospace

## Typical MCS programme life cycle




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

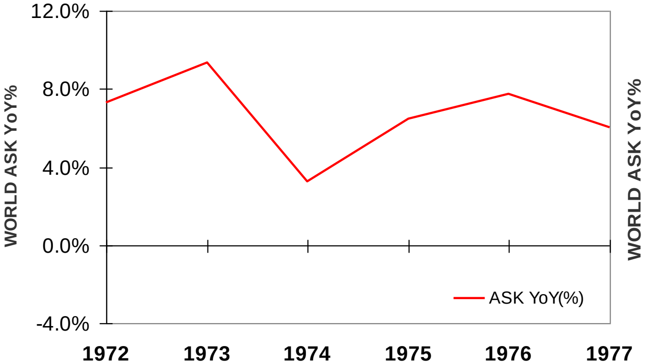
# Air traffic history and forecast



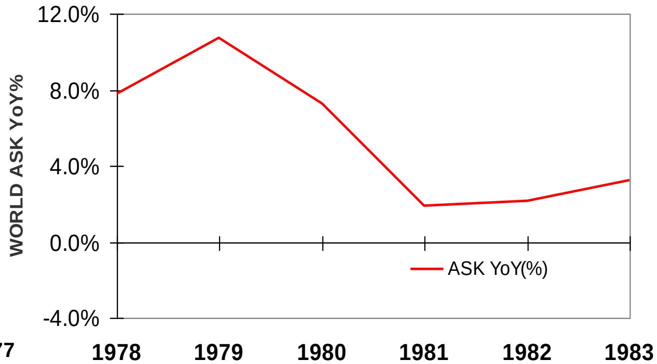

**TOTAL WORLD ASKs 1970-2015*** Source ICAO – worldwide traffic, international & domestic

# Impact of ‘shock’ events on traffic growth

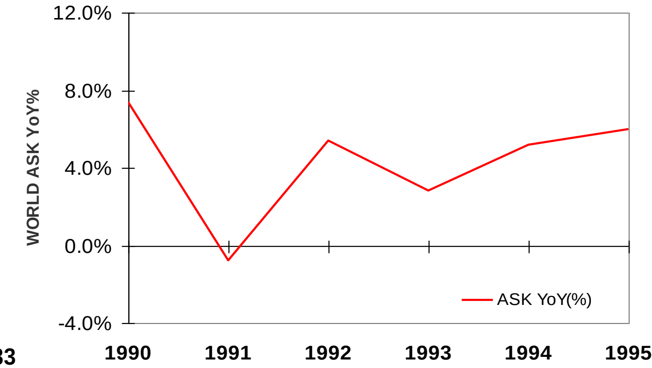
**1973 Oil Crisis**



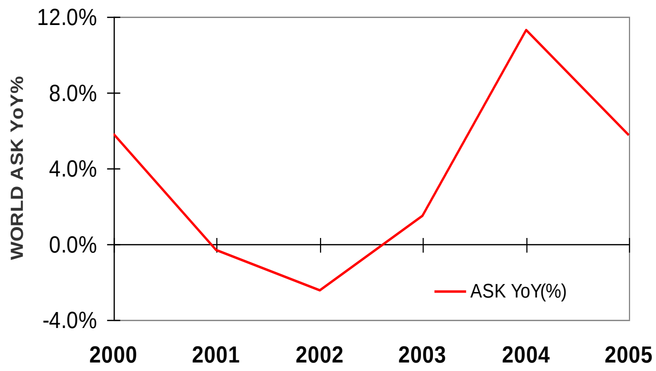

**1979 Oil Crisis**



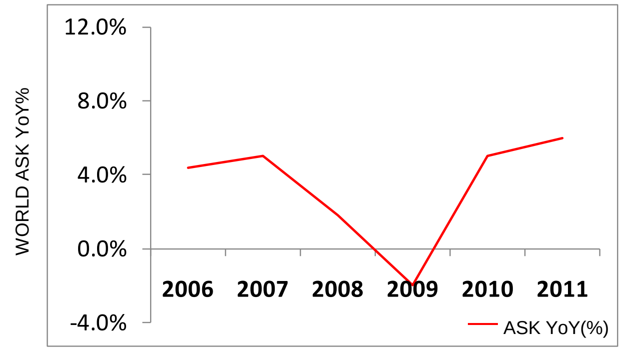

**1991 First Gulf War**




**2001 9/11, SARS and Second Gulf War**




**2008 Credit crisis**



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