MEGGITT

2017 Full year results

27 February 2018

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Highlights

Tony Wood - Chief Executive

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Financial highlights
Performance in line with expectations

- Orders up 5% (+6% organic); book to bill of 1.03
- Organic revenue up 2%
  - Civil OE +3%
  - Civil AM +6%
  - Military +1%
  - Energy (8%)
- Underlying operating margin up 10 bps to 19.2%
- Free cash flow[1] up 42% to £186m
- Net Debt at 1.9x EBITDA[2] (2016: 2.1x)
- Dividend increased by 5% to 15.85p

[1] Free cash flow stated after interest and tax but before M&A and payments to shareholders
[2] Calculated on a financing covenant basis

Strategic and operational highlights
Good progress in 2017

Growing momentum underpins confidence in medium term targets

PORTFOLIO
5 businesses sold in 14 months to Feb 18[1]
Continued investment in new technology

CUSTOMERS
Contract awards on 777X, A321neo and C919
Strong military order intake
Elite Aero enhances CSS capability

GROWTH / ROCE

COMPETITIVENESS
MPS maturity improves cash and margin
1% net purchased cost reduction achieved
Major UK footprint consolidation announced

CULTURE
Strengthened Executive Committee
High Performance Culture roll-out

[1] Including the agreement to sell Thomson which is due to complete in March 2018

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Financial Review

Doug Webb - Chief Financial Officer

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Income statement

10 basis point improvement in margin

Underlying[1] (£m)

			Growth	
	FY17	**FY16**	*Reported*	*Organic[2]*
Orders	**2,082.6**	1,990.5	*+5%*	*+6%*
Revenue	**2,027.3**	1,992.4	*+2%*	*+2%*
Operating profit	**388.4**	379.7	*+2%*	*+1%*
Net finance costs	**(30.5)**	(27.6)		
Profit before tax	**357.9**	352.1	*+2%*	*(1%)*
Tax	**(84.8)**	(82.7)		
Tax rate	***23.7%***	*23.5%*		
Profit for the year	**273.1**	269.4	*+1%*	
Statutory profit for the year	**350.0**	171.2	*+104%*	
Underlying EPS	**35.3**	34.8p	*+1%*	
Dividend	**15.85p**	15.10p	*+5%*	

Book to bill of 1.03x (including 1.08x in military) supports outlook for continued growth

Strong growth in civil offset by delays in military business and continued declines in energy

10 basis point improvement in margin

Full year impact of a greater proportion of fixed rate debt

[1] A full reconciliation from underlying to statutory figures is given in notes 5 and 11 of the interim results announcement
[2] Organic figures exclude the impacts of acquisitions, divestments and foreign exchange

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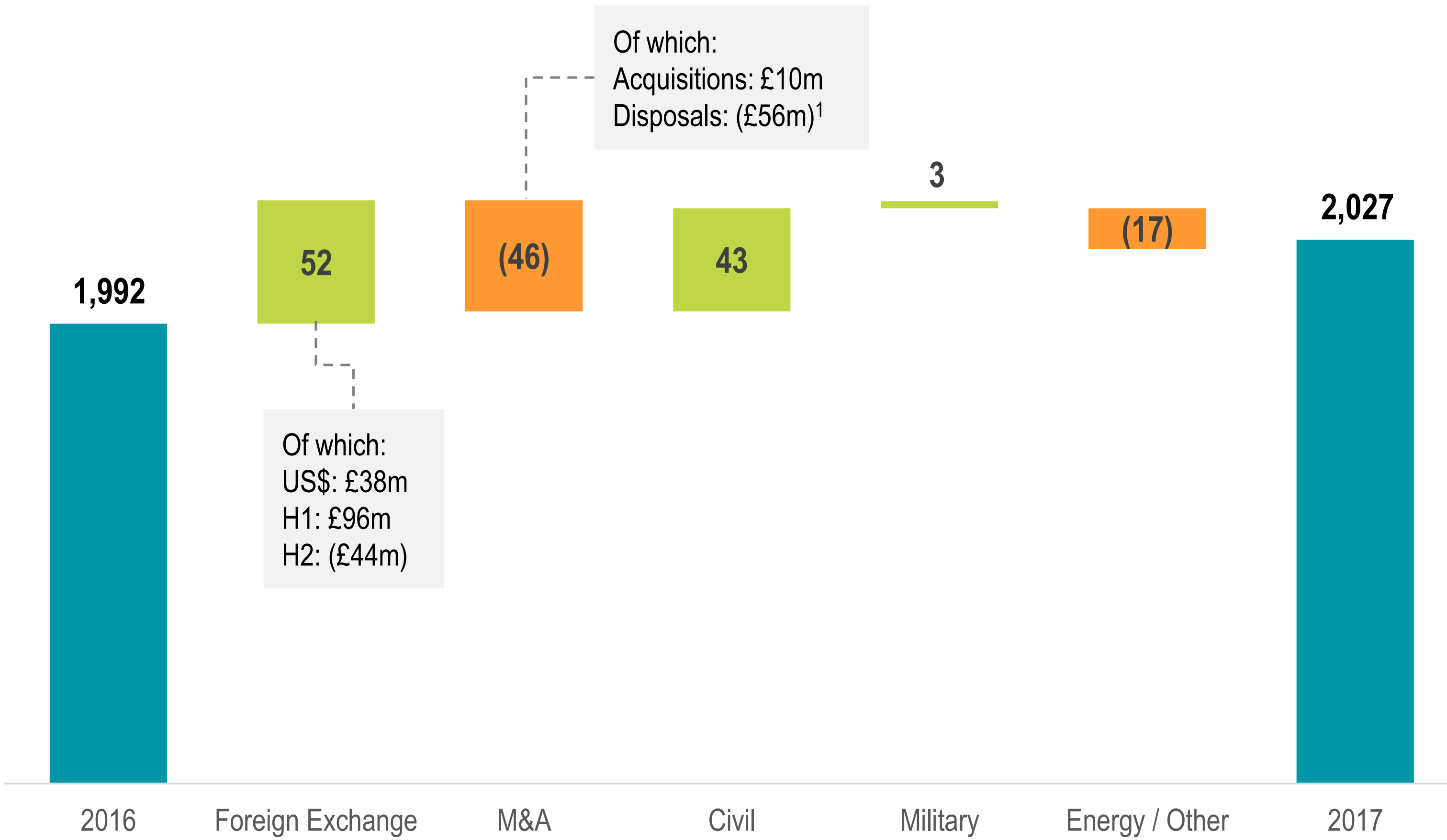
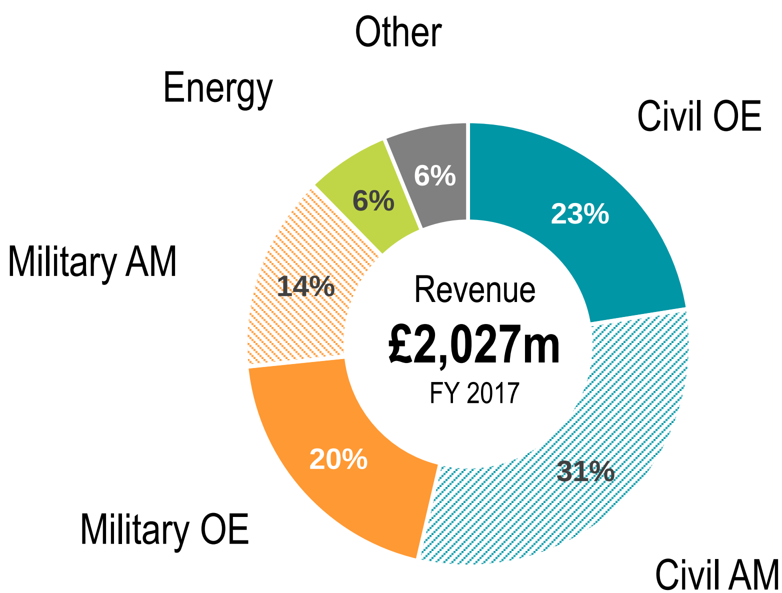
Revenue
Civil growth offsets disposals



[1] Disposal impact includes: Meggitt Target Systems (sold December 2016); Meggitt Maryland, Piezo Technologies and Piher (all sold June 2017)

Revenue by market

A balanced and growing portfolio



OE: 53%, aftermarket: 47%[1]

2017 Organic Growth

	Revenue			*Orders*
	H1	*H2*	*FY*	*FY*
Civil OE	1%	4%	3%	4%
Civil AM	2%	8%	6%	10%
Total Civil	**2%**	**6%**	**4%**	**8%**
Military	0%	1%	1%	4%
Energy	(14%)	(2%)	(8%)	13%
Other	(1%)	(11%)	(6%)	(3%)
Total Group	**0%**	**3%**	**2%**	**6%**

[1] Aftermarket split includes service and support revenue from energy and other business

Divisional financials
Summary

	Revenue		Underlying operating profit	Margin	
		Organic Growth		FY17	*FY16*
	£m	%	£m	%	%
Aircraft Braking Systems	387	*(2)*	148	38.2	36.3
Control Systems	526	*+4*	123	23.5	24.5
Polymers & Composites	337	-	24	7.1	12.0
Sensing Systems	515	*(1)*	71	13.9	13.7
Equipment Group	262	*+12*	22	8.2	3.5
Total	**2,027**	**+2**	**388**	**19.2**	19.1

Positive mix given civil growth relative to larger military decline

Strong growth in civil offset military weakness

Slower ramp up on new programmes increased new product introduction costs

Declining revenue in military, energy and industrial

Strong revenue growth from military and return to breakeven at Heatric

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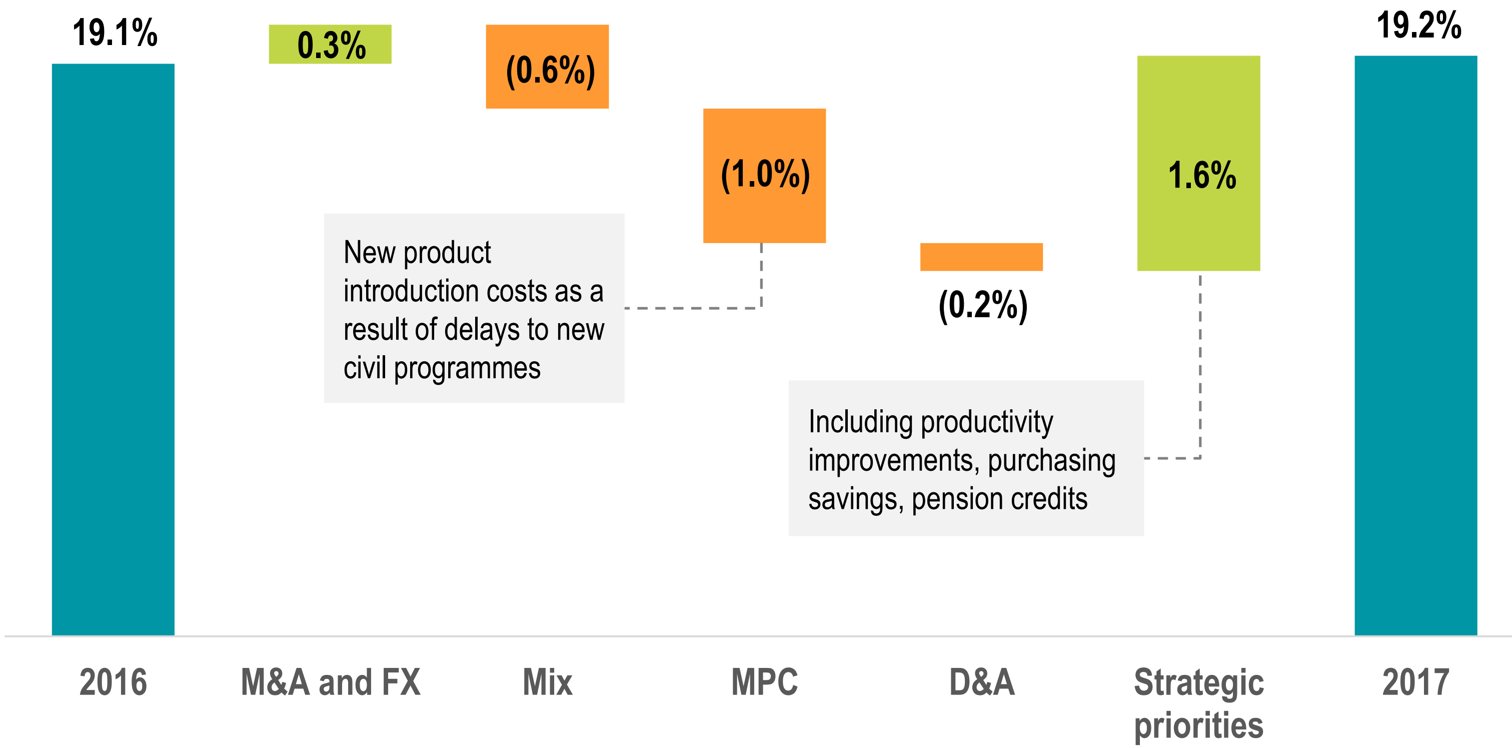
Underlying operating margin

10 basis point improvement, in line with guidance



New accounting standards
IFRS 15 / IFRS 16

Estimate of 2017 impact (£m)	Revenue	Underlying operating profit
Current GAAP	**2,027**	**388**
PBH / Funded R&D / Other	(30)	(10)
FoC PPCs	-	(23)
Operating leases	-	2
Post IFRS15 / IFRS16	**1,997**	**357**
Margin		*17.9%*

FUTURE IMPACT

- FoC's will grow as a result of our success in winning new programmes
- In 2018, expected FoC growth of 9% to18%[1] will be a ~30 bps headwind to margin
- Between 2017 and 2021, we estimate a total 60 bps headwind to margin
- Other changes not expected to vary significantly

[1] 30 bps headwind at lower end of our guidance range for reported growth in free of charge PPCs – for more detail see appendix 3

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Tax reform

3% reduction in underlying effective rate in 2018

- Headline US Federal Tax rate reduced from 35% to 21%
- Offset by elimination of domestic production deduction and reduction in allowable interest deductions

2017 Impact:

» £123m gain arising on revaluation of deferred tax liabilities

2018 Impact:

» Planning rate reduced to 21% (from 23.7%) – 20 to 22% remains our longer term guidance rate

» Limited impact on cash tax

Statutory profit reconciliation
104% growth in statutory profit

	FY17	FY16	Cash (£m) FY17	Cash (£m) FY16
Underlying profit before tax	**357.9**	**352.1**		
Mark to market of derivatives	58.6	(66.4)		
Acquisitions and disposals	25.3	39.1	60.4	59.8
Programme impairment	(59.5)	-		
Site consolidations	(7.9)	(7.0)	(8.5)	(4.7)
Acquisition integration and business restructuring	(7.2)	(12.3)	(5.3)	(12.8)
Net pension interest expense	(11.3)	(10.6)		
Amortisation of acquired intangibles	(93.5)	(98.6)		
Other	-	(0.8)		(0.8)
Adjustments to profit before tax	**(95.5)**	**(156.6)**	**46.6**	**41.5**
Tax	(35.0)	(24.3)		
Gain on revaluation of deferred tax liabilities	122.6	-		
Statutory profit for the year	**350.0**	**171.2**		

Net profit on disposals. Cash includes offset for acquisition of Elite Aerospace

Dassault Falcon 5X cancellation and lower anticipated volumes on Silvercrest engine

One-off gain as a result of US tax reform

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Free cash flow
42% growth in free cash flow

	FY17	FY16	Change
Underlying EBITDA	**505.8**	**487.8**	4%
Working capital movement	(18.6)	(57.0)	(67%)
Capital expenditure	(78.4)	(65.5)	20%
Capitalised R&D	(57.7)	(69.6)	(17%)
Capitalised PPCs	(59.0)	(57.5)	3%
Pensions	(33.5)	(35.0)	(4%)
Operating exceptionals	(13.8)	(18.3)	(25%)
Interest and tax	(58.8)	(53.8)	9%
Free cash flow	**186.0**	**131.1**	**42%**
Dividend paid	(118.6)	(113.0)	
Purchase of own shares[1]	(19.0)	-	
Acquisitions and disposals	60.4	59.8	
Net cash flow	**108.8**	**77.9**	

£16m lower inventory offset by increasing in receivables

Total R&D as % of revenue declined to 7.6% (2016: 7.9%)

Contributes to further reduction in net debt:EBITDA to 1.9x (2016: 2.1x)

[1] For employee share schemes

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Market & Strategic Overview
Tony Wood - Chief Executive
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End market review
Positioned for growth

	CIVIL OE	CIVIL AM	MILITARY	ENERGY
2017 MARKET HIGHLIGHTS	**3.6%** Growth in large jet deliveries in 2017	**6.3%** ASK growth, continuing to outperform the long run average of 5% traffic growth	**3.5%** Global defence budget growth in 2017[2]	**13.0%** Increase in oil price compared to January 2017
2018-2021 MARKET OUTLOOK	▪ Solid large jet backlogs ▪ Few new programmes ▪ Business jets stabilising	▪ 4% component growth forecast in 2018[1] ▪ Improving trend for business jet utilisation	▪ US budget set to increase significantly in FY18 & FY19 ▪ Good potential for reset and retrofits	▪ Improving outlook in oil & gas ▪ Limited growth in power generation

[1] Cannacord Genuity Q4/17 commercial aerospace MRO survey
[2] Forecast International: 2017 Global Defense Spending Snapshot Jan 2018

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Strategic priorities

Four priorities to increase growth and returns

DELIVERING BREAKTHROUGH PERFORMANCE

PORTFOLIO
Attractive markets
Strong positions
World class technology

CUSTOMERS
Upper quartile performance
OE / aftermarket growth

GROWTH / ROCE

COMPETITIVENESS
Productivity
Inventory
Purchasing
Footprint

CULTURE
Diversity and inclusion
Employee engagement
High performance

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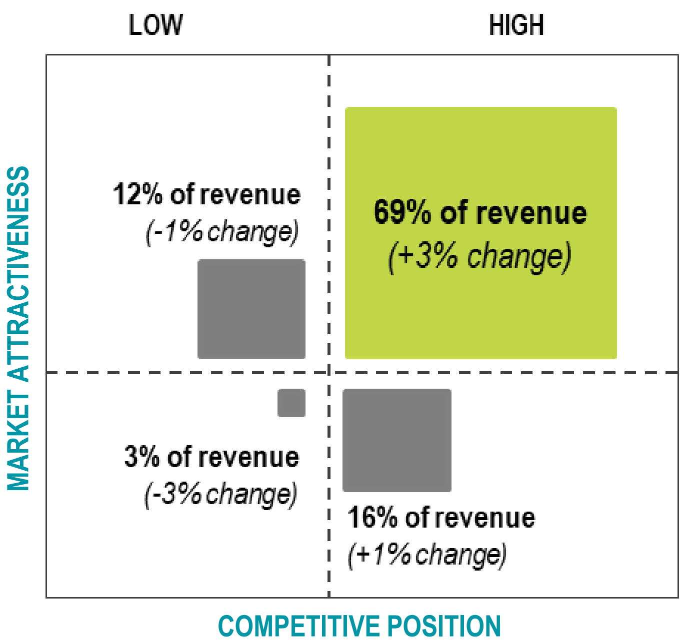
Strategy progress
Portfolio



Non-core divestments

MEG: Piher / MSS: Maryland / Piezotech
Industrial sensors and controls sold to Amphenol Corp in Jun 2017

MEG: Thomson
Precision engineering for ball screw components – sale to Umbra expected to close in Mar 2018

MCS: Aviation Mobility
Wheelchair and associated safety systems MRO sold to Smart Carte in Jan 2018

Aggregate FY17 revenue = £53.1m

Investment in technology further enhances competitive positioning

NOTE – Change in portfolio composition since FY16 Portfolio Review (first published at 2017 Capital Markets Day)

Strategy progress
Customers

FURTHER GROWTH IN PLATFORM POSITIONS

- Embraer E2 Radomes
- A320neo Sensors and Actuators
- Comac C919 Flight Lock Actuators
- Boeing 777X Safety Systems, Sensors, Avionics and Power

STRONG ORDER INTAKE IN MILITARY

- F/A-18 Fuel Tanks
- Training Systems
- M1 Abrams Thermal Systems

SUPPORT TO KEY MILESTONES

- Boeing 737 MAX entry into service
- 14 first flights including: Comac C919, Irkut MC-21, Embraer E2, Saab Gripen-E, Boeing 787-10, Airbus A321neo, Bell V280 Valor

Strategy progress
Customers – aftermarket growth

A321NEO BRAKES

- Strategically significant contract award
- Growing aftermarket capability enhances our ability to win share and support customers

STRONG ORDER INTAKE

- 1.03 book to bill in Civil AM
- 1.21 book to bill in Military AM

GROWTH IN EMERGING ECONOMIES

- Long term agreements signed with Vietjet, IHI, Astana and Comac
- 24% revenue growth at Asia Pacific hub

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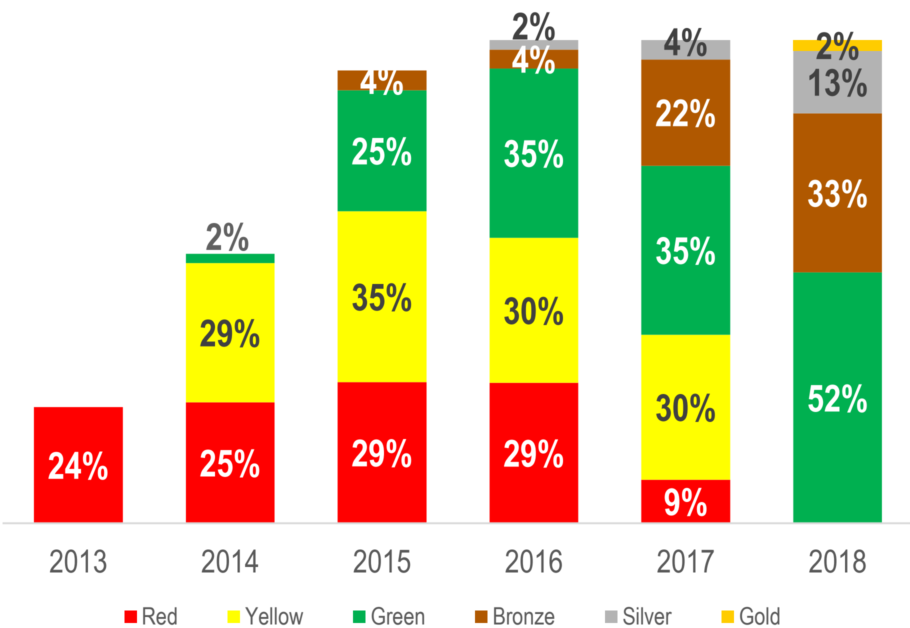
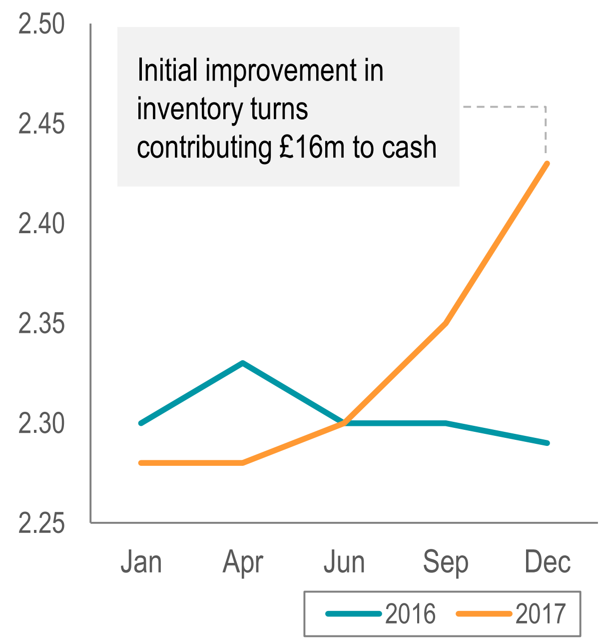
Strategy progress

Competitiveness – MPS

% OF SITES AT MPS STAGE



INVENTORY TURNS[1]



Growing MPS maturity contributing to cash and margin improvement

[1] Underlying cost of sales divided by 13 month average of total inventory

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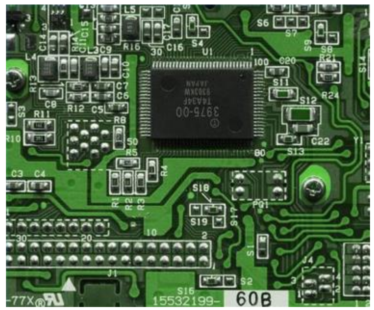
Strategy progress

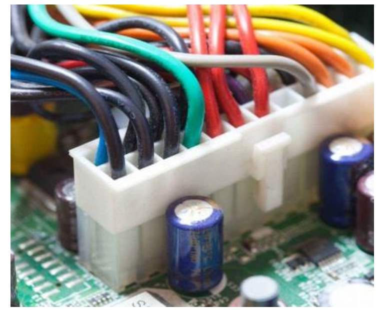
Competitiveness – Purchasing / Footprint

Centralised purchasing savings

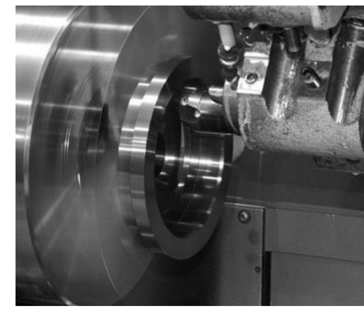
ELECTRONICS



ELECTRICAL ASSEMBLIES

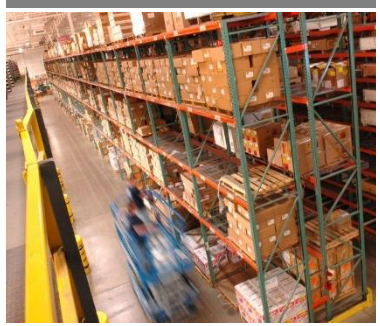


MACHINING



Site consolidation pace increasing

MRO CONSOLIDATION



LCM EXPANSION

UK SUPER SITE

Strategy progress
Culture

Strengthened Executive Committee

- » Good mix of fresh perspective and tenure
- » Recruited three experienced new executives
- » Four executives in new or expanded roles

20% of top 100 leaders in new roles or new to Meggitt

High performance culture

- » 800 leaders completed training to date
- » Common vocabulary and approach to leading and engaging teams

2018 Outlook
Guidance

	2017 GROWTH[1]	2017	FY18 GROWTH[1]	MEDIUM TERM DRIVERS
Civil OE	3%	£456m	2 to 4%	Shipset growth / Dual source programmes / 4% forecast delivery growth
Civil AM	6%	£632m	3 to 5%	Growing content on new aircraft / ASK growth above 5% / 47k installed base
Military	1%	£690m	3 to 5%	Growing military budgets / Strong platform positions / 22k installed base
Energy	(8%)	£124m	0 to 5%	Continued improvement in market outlook / Strong technology franchise
REVENUE	**2%**	**£2,027m[2]**	**2 to 4%**	**Progressively stronger growth over the medium term**
UNDERLYING OP PROFIT	*2017 GAAP*	**19.2%**	**10 to 40 bps**	**200 to 250 bps improvement by 2021**
	IFRS15	**17.9%**	**-20 to +10 bps** (after 30bps FoC)	**200+ bps improvement by 2021** (after ~60bps FoC headwind)

[1] Organic growth excluding the impact of divestments and foreign exchange
[2] Includes 'other' revenues of £125m

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Summary

On track to deliver further improvements

» **Growth rate accelerating**

» **Strategic priorities offset margin headwinds in 2017**

» **Inventory reductions contribute to strong cash performance**

» **Pace of strategy deployment accelerating:**

- Aligned portfolio
- Improved market share
- Delivered inventory and productivity improvements
- Strategically significant UK site consolidation
- Strengthened Executive Committee

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Appendix

1. Currency PBT impact
2. Operating exceptionals
3. Cash drivers
4. R&D investment
5. Free cash flow bridge
6. Shares in issue
7. Credit maturity profile
8. Retirement benefits
9. Capital allocation
10. MPS
11. Aircraft deliveries
12. Aircraft utilisation
13. Market exposures
14. Guidance overview

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Currency PBT Impact

	H1 2017 Act	FY 2017 Act	H1 2018 Est	FY 2018 Est
$/£ rate				
Translation rate	1.27	1.30	1.40	1.40
Transaction rate (hedged)	1.47	1.47	1.43	1.43
Euro rate				
€/£ Translation rate	1.16	1.14	1.20	1.20
$/€ Transaction rate (hedged)	1.18	1.19	1.20	1.20
CHF rate				
CHF/£ Translation rate	1.25	1.28	1.30	1.30
$/CHF Transaction rate (hedged)	1.06	1.06	1.07	1.07
PBT impact £m				
Year-on-year translation	13.7	10.1		
Year-on-year transaction	2.5	4.1		
Year-on-year currency benefit/(headwind)	16.2	14.2		

Currency sensitivity:

- 10 US$ cents = - £110m Revenue; - 19m PBT

± 10 Euro cents = ± £12m Revenue; ± 2m PBT

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Operating Exceptionals

£m	2017 FY Act at $1.30	2018 FY Est at $1.40
P&L charge		
Site consolidation	7.9	13 – 16
Business restructuring costs	2.7	-
Integration of acquired businesses	4.5	1
Programme impairments	59.5	-
Total	**74.6**	**14 – 17**
Cash out		
Site consolidation	8.5	13 – 16
Business restructuring costs	0.8	2
Integration of acquired businesses	4.5	1
Total	**13.8**	**16 - 19**

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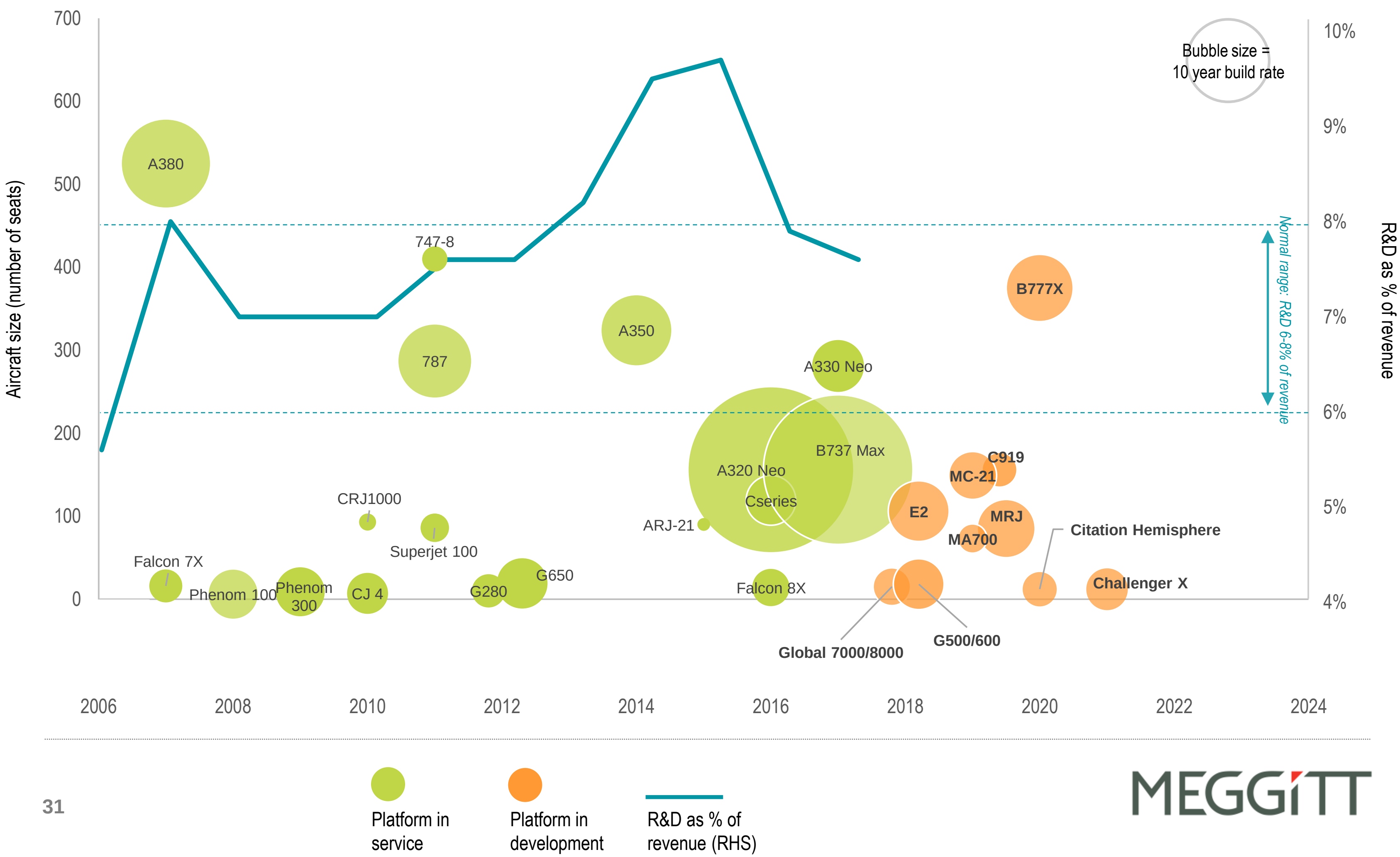
Cash drivers

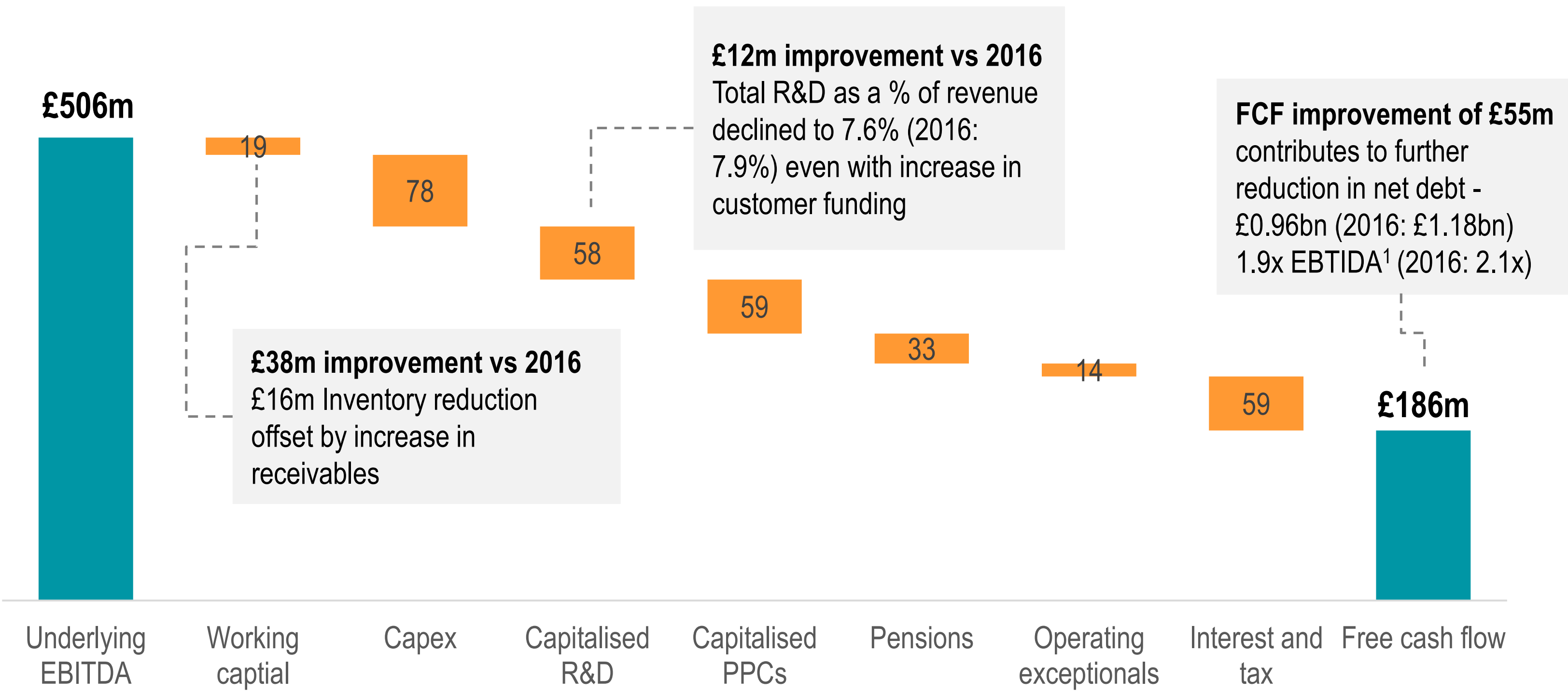
£m	2017 Act at $1.30	FY 2018 est at $1.40	FY 2019 est at $1.40
1. R&D			
Total expenditure	154		
Less: customer funded	(36)		
Group spend	**118**	**105 – 115**	**100 – 115**
Capitalisation	(61)	(57) – (62)	(50) – (60)
Amortisation/impairment[1]	22	22 – 24	25 – 30
Charge to net operating costs	79	70 – 77	75 – 85
2. Fixed assets			
Capital expenditure	78	85 - 105	85 – 110
Depreciation	(58)	(62) – (66)	(71) – (77)
3. Retirement benefit deficit payments	34	38	43
4. Free of charge costs[2]	57	62 - 67	65 – 75

[1] Excludes Falcon 5X / Silvercrest
[2] Excludes cash contributions

R&D Investment



Free cash flow
42% growth in free cash flow



FCF per share up 42% to 24.0p

[1] Calculated on a financing covenant basis

Shares in issue

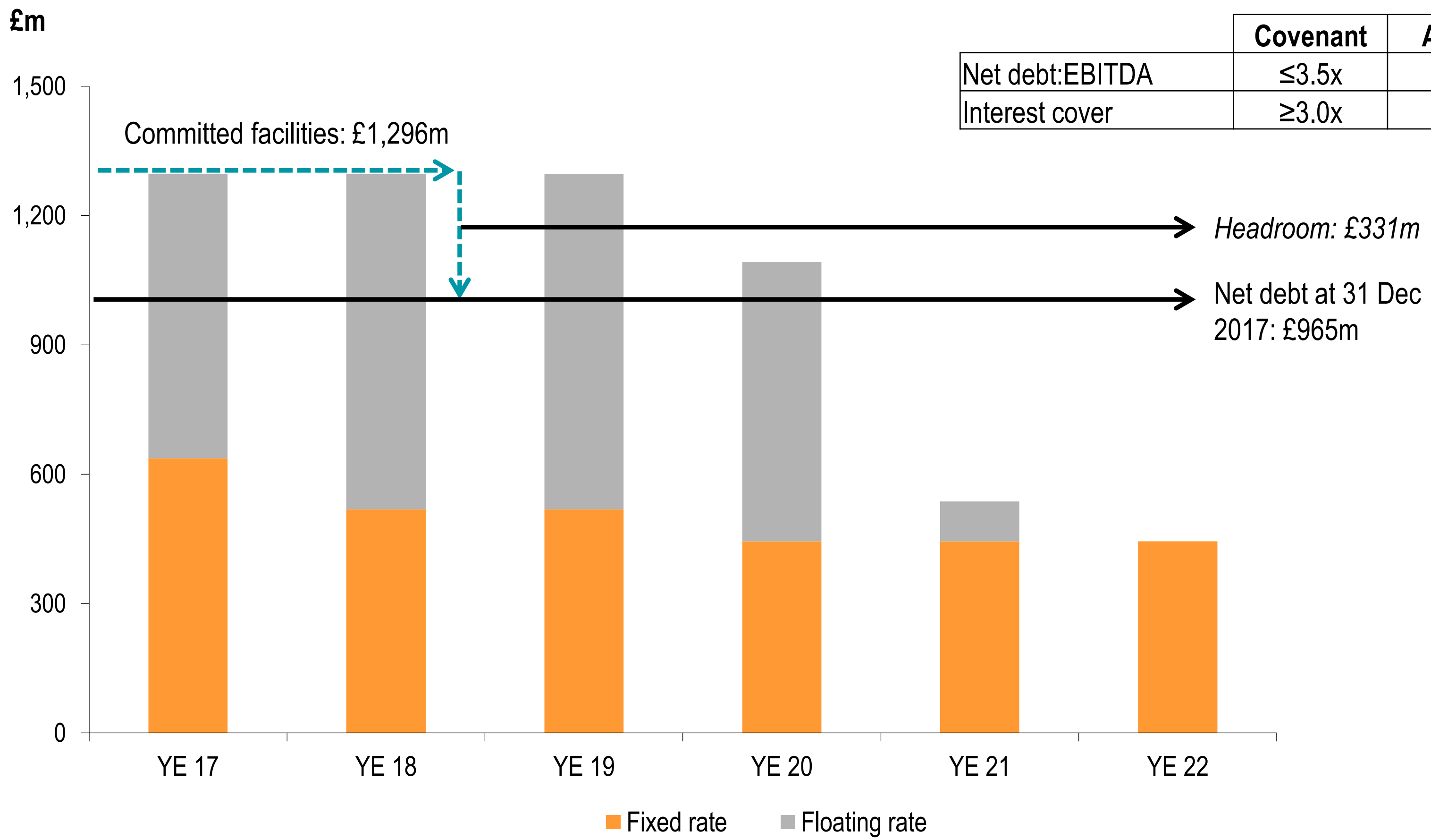
Share in millions

	2016	2017
Opening	775.5	775.7
Scrip/Share schemes	0.2	0.7
Closing	775.7	776.4
Average*	774.7	774.2

* Adjusted to exclude own shares

Credit maturity profile
As at 31 December 2017

	Covenant	Actual
Net debt:EBITDA	≤3.5x	1.9x
Interest cover	≥3.0x	13.6x



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Retirement benefit obligations

£m	2016	2017
Opening deficit	(284.5)	(414.7)
Net deficit payments	35.0	33.5
Actuarial movements - assets	72.4	56.8
Actuarial movements - liabilities	(193.1)	9.8
	(120.7)	66.6
Other movements (including FX)	(44.5)	6.5
Closing deficit	(414.7)	(308.1)
UK discount rate	2.65%	2.55%
US discount rate	3.95%	3.55%

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Capital allocation
Investing for growth

CONTEXT
Cash generative business model
Passed the peak of a major development cycle
Normal net debt:EBITDA range of ~1.5x to 2.5x

FOUR CONSISTENT PRIORITIES FOR CAPITAL ALLOCATION	
#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

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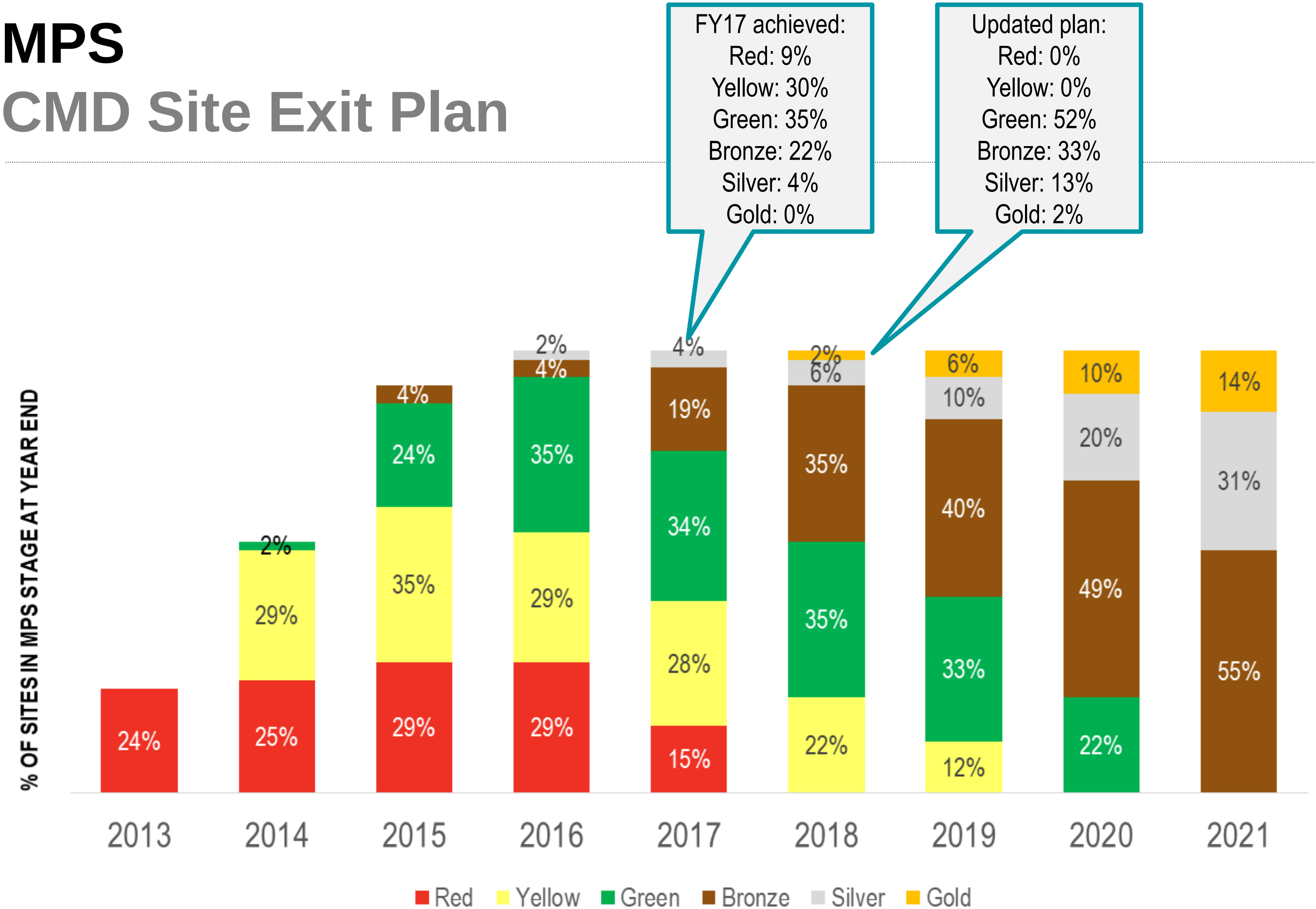
MPS
CMD Site Exit Plan



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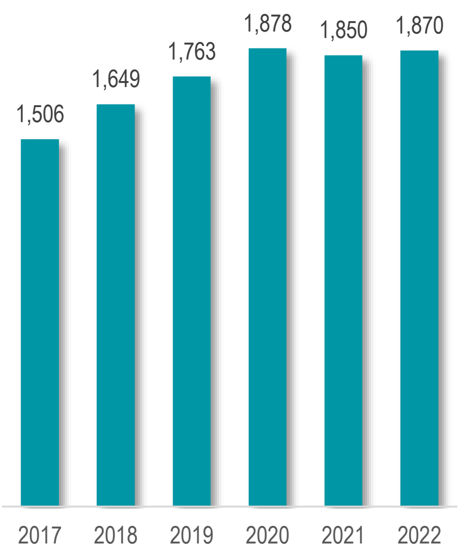
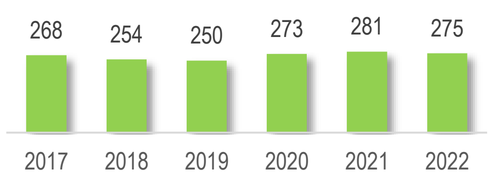
Aircraft OE deliveries

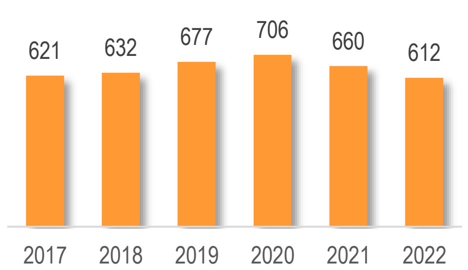
Large jet deliveries



Regional jet deliveries



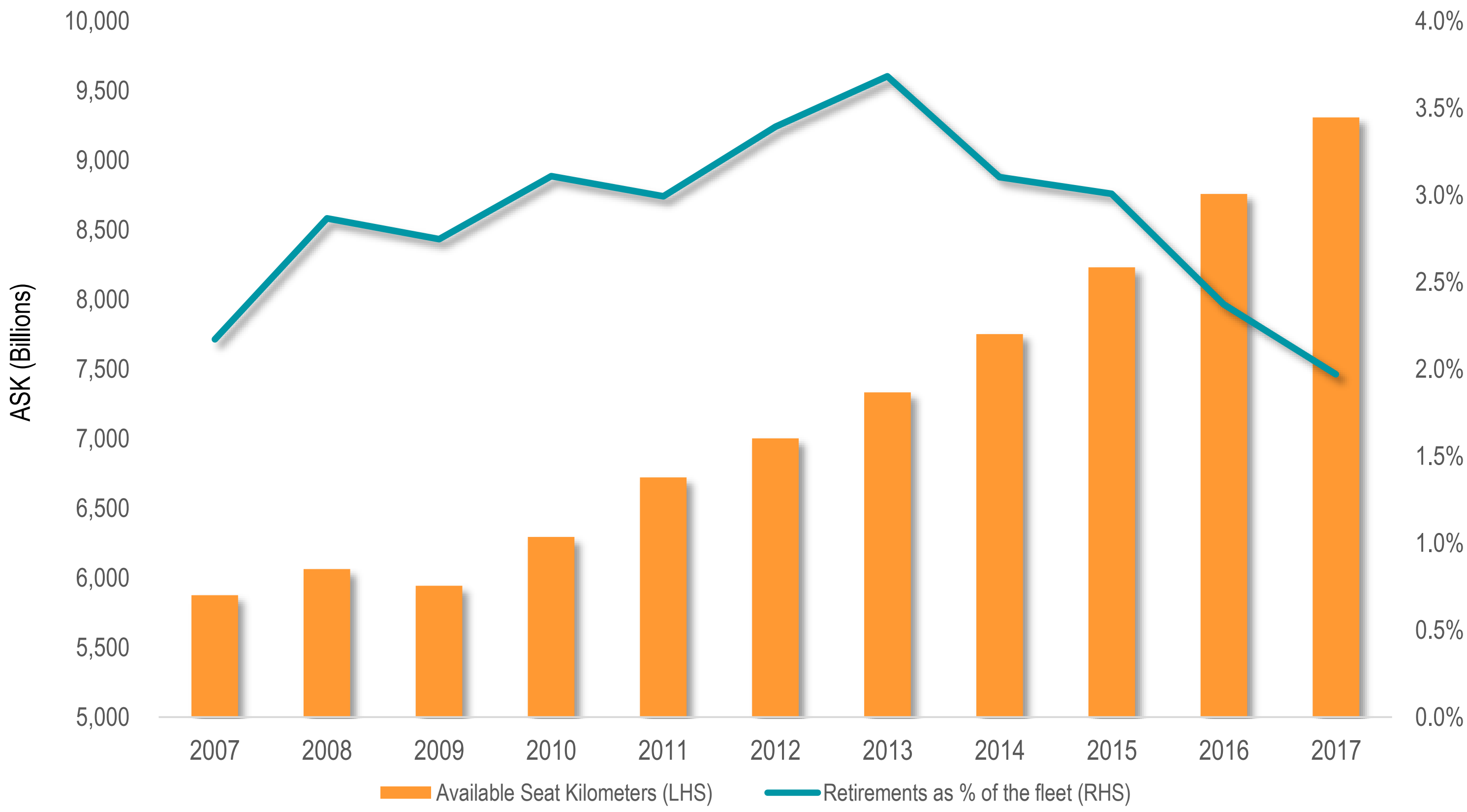
Business jet deliveries[1]



Source: Meggitt estimates

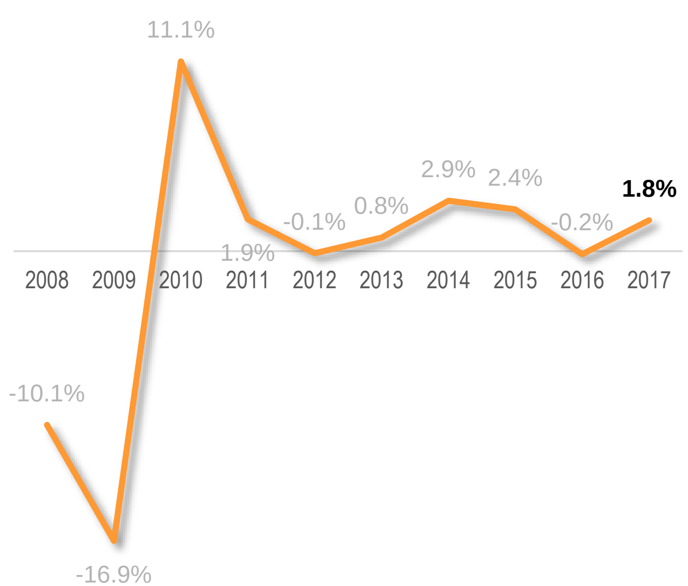
[1] Super mid size and large cabin only

Civil aerospace aftermarket
Commercial jet utilisation and retirement rates

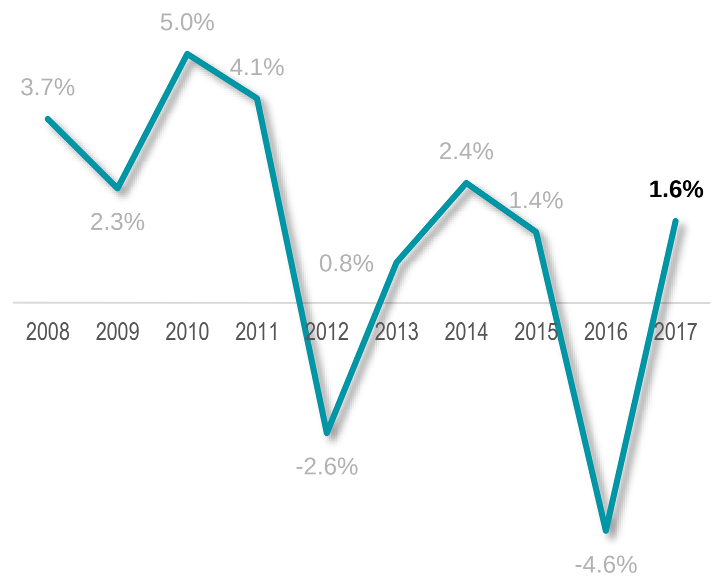


Civil aerospace aftermarket
Business and regional jet utilisation

Business jet operations (US and EU only)

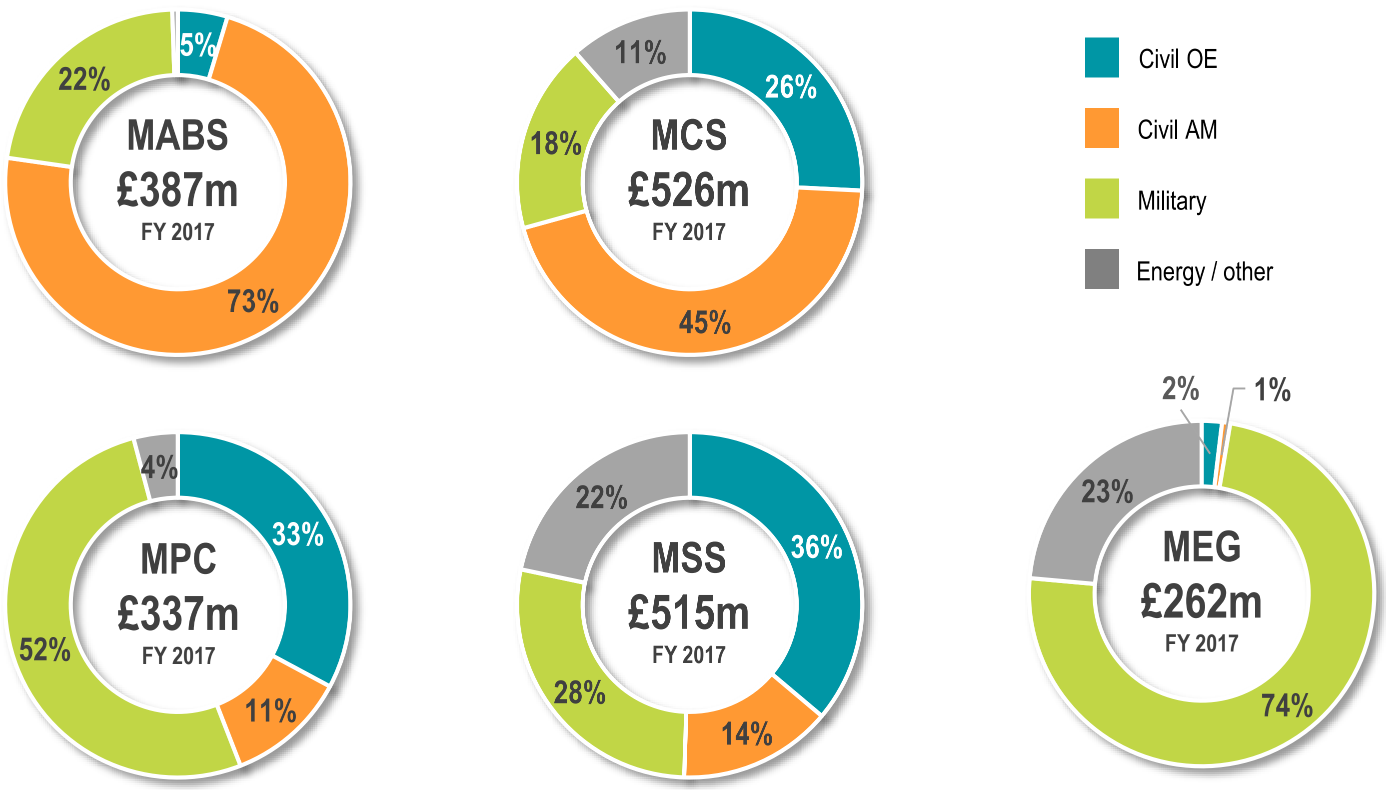


Regional jet operations



Source: Eurosky/ETMSC & Meggitt estimates

Divisional end market exposures
FY 2017



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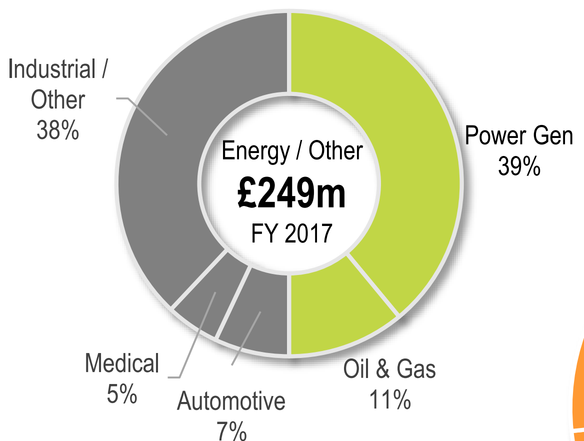
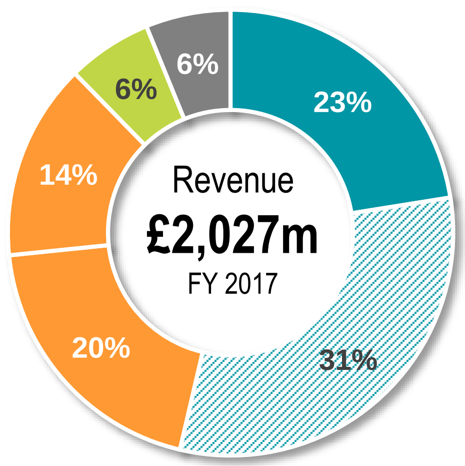
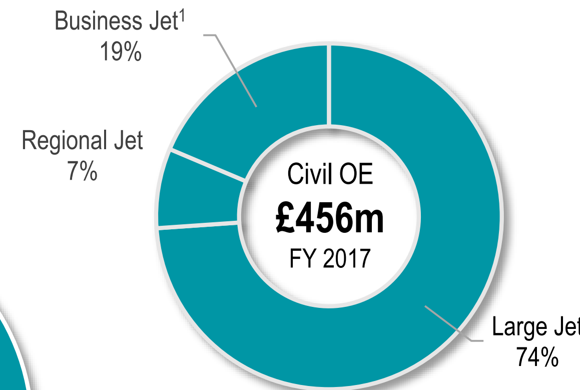
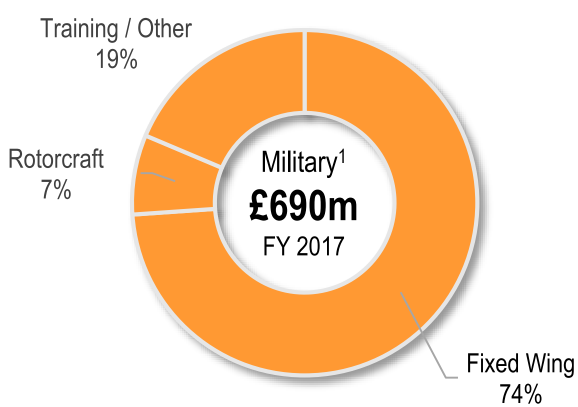
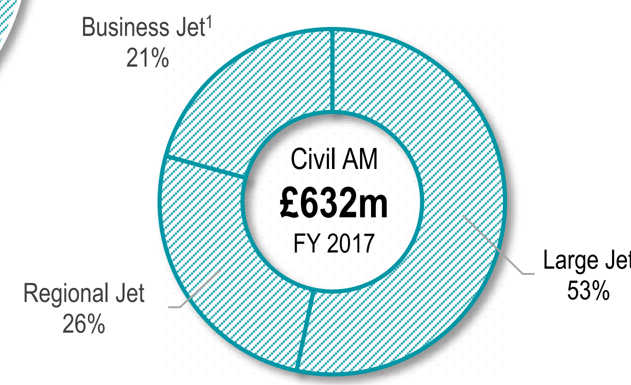
Market segment exposures
FY 2017







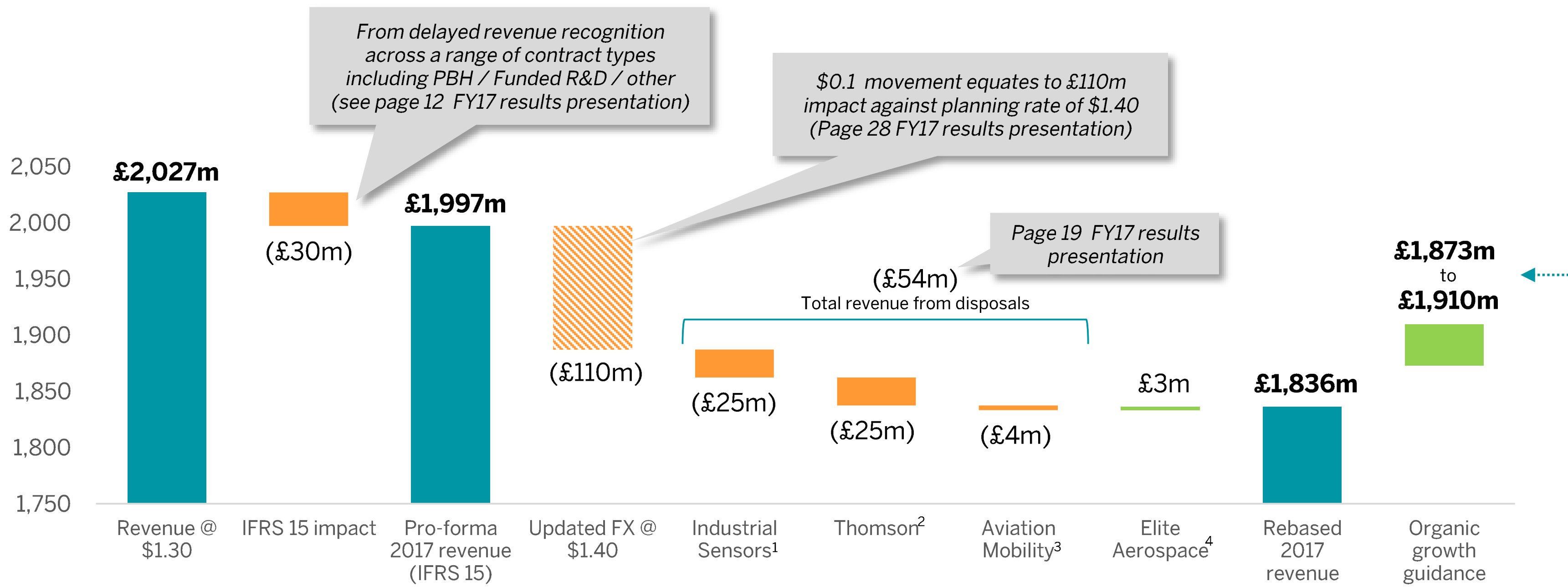




[1] Military chart includes OE (20% of revenue) and AM (14% of revenue)

2018 Revenue Guidance

FX, Divestments and IFRS 15 impact



Organic revenue guidance (page 25 FY17 Results)

	FY17 Revenue	FY18 Growth[5]	Key Drivers
Civil OE	£456m	+2% to +4%	▪ Increased shipset on large jets ▪ Offset by weak demand for business and regional jets
Civil AM	£632m	+3% to +5%	▪ 47k installed base and growing content on new platforms ▪ Large jet growth offset by slower growth on business and regional jets
Military	£690m	+3% to +5%	▪ Increasing budgets in US up 10%+ in FY18 with particular opportunity for reset ▪ Book to bill of 1.1x in 2017 / 22k installed base / strong platform positions
Energy	£124m	0% to +5%	▪ Recovery at Heatric with good growth in revenue and orders in Q4 2017 ▪ Offset by continued weakness in demand for industrial gas turbines

Organic Revenue[6] Guidance: +2% to +4%

[1] Piher, Piezo Technologies and Meggitt Maryland sold in June 2017
[2] Sale due to complete in Q1 2018 subject to customary regulatory approvals
[3] Sold in January 2017
[4] Acquired in March 2017
[5] Organic growth guidance excluding the impact of M&A and foreign exchange
[6] Baseline includes other revenue of £125m in FY17

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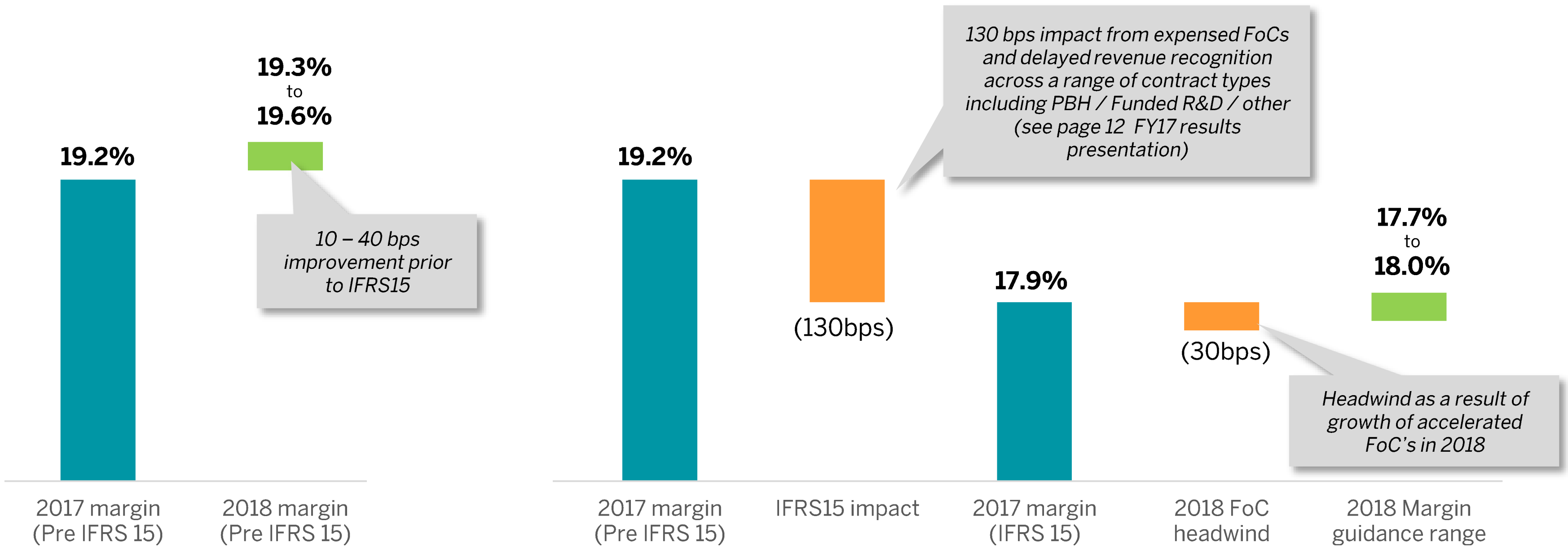
2018 Margin Guidance

Current GAAP

Post IFRS 15



NOTE: IFRS 15 HAS NO IMPACT ON CASH

Supplementary metrics

Tax	2018 planning rate: 21% Mid-term planning rate: 20-22%
Net debt	£965m at Dec 2017
EPS	35.3p (2017 GAAP) 32.0p (IFRS 15)

Cash drivers

	2017 Actual	*2018 Guidance*	*2019 Guidance*
Capitalised R&D	£61m	£57m - £62m	£50m - £60m
Capex	£78m	£85m - £105m	£85m - £110m
Pension	£34m	£38m	£43m
FoC's	£57m	£62m - £67m	£65m - £75m

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