2017 Interim results

1 August 2017

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Highlights

Stephen Young - Chief Executive

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Financial highlights
On track to deliver 2017

- Orders up 6%
- Revenue up 10%. Organic revenue flat:
  - Civil OE +1%
  - Civil AM +2%
  - Military 0%
  - Energy (14%)
- Underlying operating profit up 7%
- Free cash flow of £19m (H1 2016: £33m outflow)
- Net Debt at 2.2x EBITDA[1] (2.6x as at 30 June 2016)
- Interim dividend increased by 5% to 5.05p

[1] Calculated on a financing covenant basis

Strategic and operational highlights

Progress towards medium term targets

Portfolio Strategy

Customer Service & Support

Key contract wins

Meggitt Production System

Footprint consolidation

2021 TARGETS:

- Progressively stronger growth
- Net margin +200 to +250 bps[1]
- +£200m cash from inventory

[1] Current GAAP

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HY Financial Review

Doug Webb - Chief Financial Officer

Income statement

Underlying[1] (£m)

	H1 17	H1 16	Growth Reported	Growth Organic[2]
Orders	**966.8**	911.8	+6%	-2%
Revenue	**968.1**	882.9	+10%	0%
Operating profit	**174.3**	163.3	+7%	-2%
Finance costs	**(16.9)**	(11.3)		
Profit before tax	**157.4**	152.0	+4%	-6%
Tax	**(37.8)**	(33.1)		
Tax rate	***24.0%***	*21.8%*		
Profit after tax	**119.6**	118.9	+1%	
EPS	**15.5p**	15.4p	+1%	
Dividend	**5.05p**	4.80p	+5%	

Reflects FX benefit (net of M&A)

Lower margin reflects stronger second half revenues and ongoing investment

Higher proportion of fixed rate borrowings and stronger $

Increased % of profit from US businesses

[1] A full reconciliation from underlying to statutory figures is given in notes 4 and 9 of the interim results announcement
[2] Organic figures exclude the impacts of acquisitions, divestments and foreign exchange

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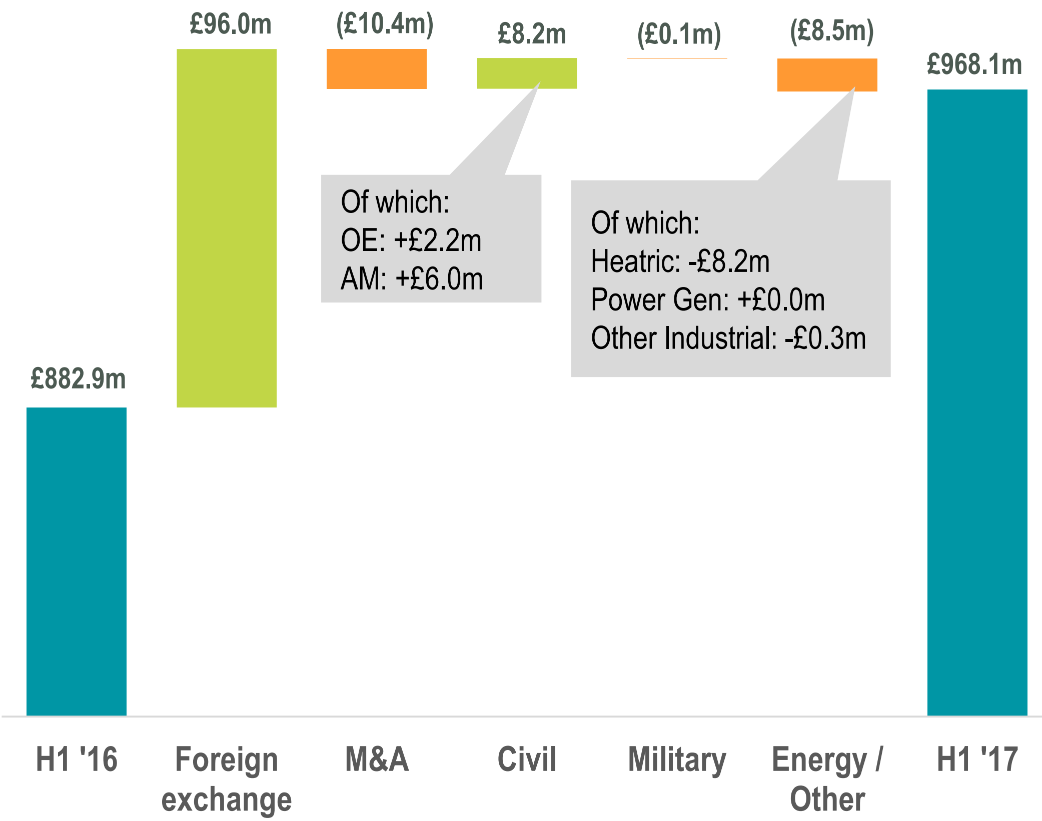
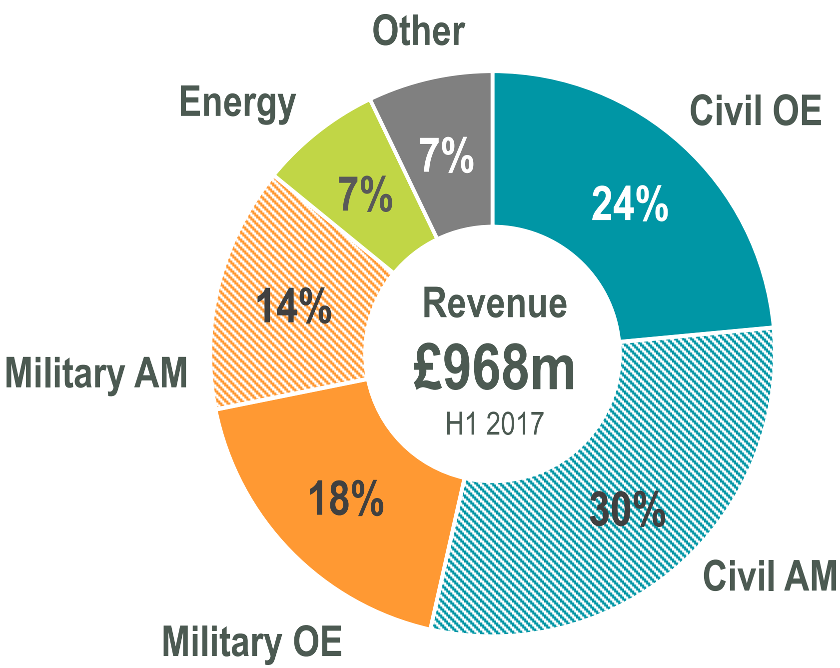
Revenue
Half year benefit from FX



Currency	USD	EUR	CHF	Other	Total
H1 16	1.43	1.28	1.41		
H1 17	1.27	1.16	1.25		
Tailwind	16c	12c	16c		
Translation	**£67m**	**£6m**	**£7m**	**£2m**	**£82m**
Transaction	**£13m**	**£1m**	**-**	**-**	**£14m**
Impact	**£80m**	**£7m**	**£7m**	**£2m**	**£96m**

Revenue by market
A well balanced portfolio



	2017 Revenue Growth		
	H1		*Q2*
	Reported	**Organic**	**Organic**
Civil OE	11.7%	1.1%	(1.4%)
Civil AM	15.3%	2.4%	2.0%
Total Civil	**13.7%**	**1.8%**	**0.5%**
Military	7.1%	0.0%	4.3%
Energy	(3.7%)	(14.1%)	(11.9%)
Other	6.1%	(0.5%)	1.0%
Total Group	**9.7%**	**0.0%**	**0.9%**

OE: 54%, aftermarket: 46%

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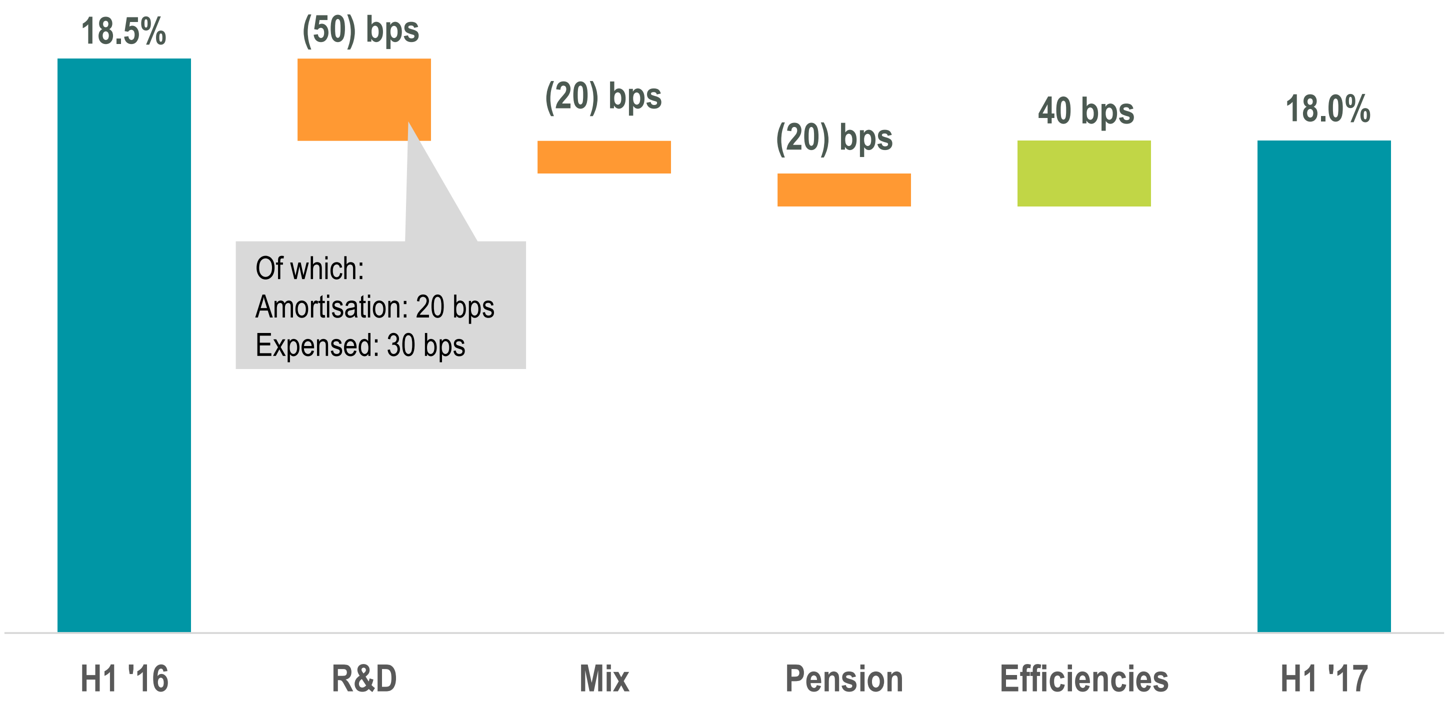
Underlying operating margin



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Divisional financials

	Revenue	Organic Growth	HY 17 Underlying Op. Profit	HY 17 Margin	HY 16 Margin
	£m	%	£m	%	%
Aircraft Braking Systems	183.2	-6	59.9	32.7	*33.8*
Control Systems	240.5	+5	55.1	22.9	*24.0*
Polymers & Composites	165.4	+3	20.3	12.3	*11.0*
Sensing Systems	267.2	-2	36.5	13.7	*14.7*
Equipment Group	111.8	+2	2.5	2.2	*2.9*
TOTAL	968.1	*0*	174.3	18.0	*18.5*

Lower aftermarket demand in regional jet and large jet

Strong civil OE growth drives unfavourable mix impact

Higher margin composite business growing at fastest rate

Softness in bizjet OE

Continued challenge at Heatric and margin dilution from the sale of Target Systems offset by growth in military

Prior period figures for Control Systems and Equipment Group restated to reflect a transfer of activities following the closure of MCS operations in Corona

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Free cash flow

Underlying (£m)

	H1 17	H1 16	*Change* %
Underlying EBITDA	**228.4**	**213.1**	*+7*
Working capital movement	(67.3)	(103.2)	*(35)*
Capex	(33.4)	(29.3)	*+14*
Capitalised R&D	(27.2)	(36.4)	*(25)*
Capitalised PPCs	(31.9)	(26.9)	*+19*
Underlying operating cash flow	**68.6**	**17.3**	***+396***
Pension deficit payments	(14.0)	(11.1)	*+26*
Operating exceptionals	(8.0)	(8.6)	*(7)*
Interest and tax	(28.1)	(30.3)	*(7)*
Free cash flow	**18.5**	**(32.7)**	
Dividends paid	(79.6)	(75.8)	*+5*
Purchase of own shares[1]	(9.0)	-	
M&A	62.8	1.8	
Net cash flow	(7.3)	(106.7)	

Inventory reductions, particularly at sites in the later stages of MPS; good customer receivables

New programmes entering service

Growth in deliveries where we have free of charge shipsets (e.g. CSeries, G650)

Full effect of 2015 triennial valuation and increasing US payments

[1] Share purchases to support share incentive schemes

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Financing and covenants
Strong balance sheet

£m	At 31 Dec 2016 at $1.24	FX	Other	At 30 Jun 2017 at $1.30
Total assets (excluding cash)	5,139.7	(182.7)	(39.8)	4,917.2
Retirement benefit obligations	(414.7)	7.9	37.5	(369.3)
Other liabilities	(1,089.5)	22.7	109.6	(957.2)
Capital employed	3,635.5	(152.1)	107.3	3,590.7
Net debt	(1,179.1)	62.2	(5.2)	(1,122.1)
Net assets	2,456.4	(89.9)	102.1	2,468.6
Covenant ratios[1]				
Net debt/EBITDA (≤3.5x)	2.1x			2.2x
Interest cover (≥3.0x)	14.5x			12.5x

[1] As defined in financing agreements

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Strategic update

Stephen Young - Chief Executive

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Growth outlook
Positioned to outperform end-markets




	CIVIL OE	CIVIL AM	MILITARY	ENERGY
PRIMARY DRIVERS	**4%** growth in Large Jet deliveries to 2021[1]	**5%+** growth in ASKs[1]	**4%+** growth in DoD budget accounts[1]	**3%+** growth in industrial gas turbine deliveries[1]
MEGGITT POSITION	**+20-250%** increase in shipset on new platforms	**75%** of revenue from sole-source programmes **46k** installed base	**90%** of top 10 platforms have growing fleets **22k** installed base	**Strong aero-derivative technology and customer relationships**

Source: Forecast International; BofAML Research; Techanvio

[1] Compound annual growth rate

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Operational review
Continued progress

DELIVERING BREAKTHROUGH PERFORMANCE

PORTFOLIO STRATEGY
Attractive markets
Strong positions

CUSTOMERS
'Gold-level' performance
World class technology
OE / aftermarket growth

GROWTH / ROCE

COMPETITIVENESS
Productivity
Inventory
Purchasing
Footprint

CULTURE
Collaborative
High performance

Targeting 200-250 bps net margin improvement and £200m from increased inventory turns by 2021

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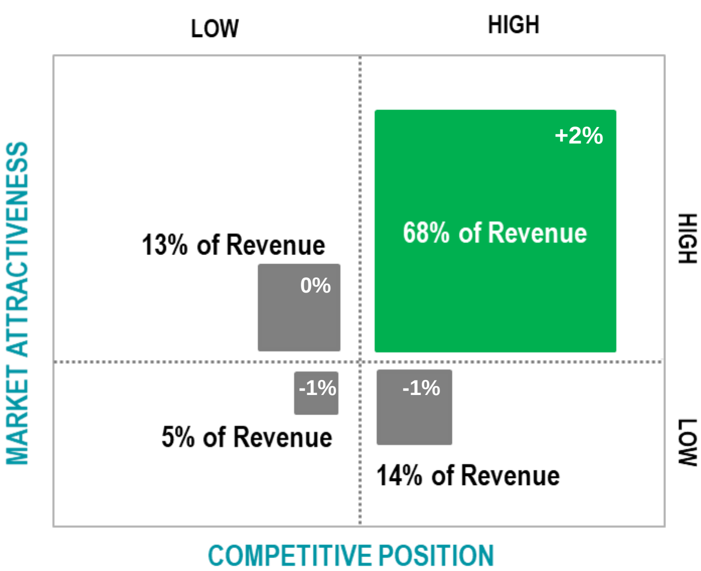
Operational review
Portfolio strategy

Package of non-core industrial businesses sold to Amphenol[1]



Wilcoxon Sensors[2] (Maryland, US)
Meggitt Sensing Systems
Industrial accelerometers and associated vibration products

Piezo Technologies (Indianapolis, US)
Meggitt Sensing Systems
Piezo-ceramic transducers sold to oil and gas and other industrial customers

Piher (Tudela, Spain)
Meggitt Equipment Group
Sensors and controls sold to automotive, consumer electronics and other industrial markets

[1] £82m consideration; aggregate FY16 revenue: £51m / underlying operating profit: £5m
[2] Meggitt Maryland trading as Wilcoxon Sensors

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Operational review
Customers

Further aftermarket progress

- Partnerships secured with Emirates, Air France and Vietjet
- Elite Aerospace integration proceeding to plan

Customer awards continue growth momentum

- Further sole source wins on Comac C919 and Boeing 777X
- Dual source award for Airbus A321neo braking system

Continued success in supporting new programmes

- 9 first flights enabled by Meggitt technology during last 18 months
- New aircraft enter service - A320neo, 737MAX, CSeries, Falcon 8X

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Operational review
Competitiveness

Meggitt Production System

- On track for 20%+ of sites in bronze (4^{th}) phase by end 2017
- Focus on inventory supported H1 working capital improvement

Purchasing

- Progress in rationalising and simplifying our supply chain
- Further agreements secured in electronics category[1]

Footprint Reduction

- Corona closure complete
- Divestments further reduce footprint by 3 sites[2]
- Evaluating options for a UK 'super site' in the Midlands

[1] £100m total annual spend on electronics

[2] Site footprint reduced to 48 sites from 51 at end December 2016, after the closure of the Corona site; divestment of the Maryland, Indianapolis and Tudela sites; and acquisition of Elite Aerospace (one site acquired in Miami)

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2017 Outlook
Overall guidance confirmed

	H1 GROWTH[1]	H1 2017	FY17 GROWTH[1]	H2 DRIVERS
Civil OE	1%	£229m	4 – 6% *(down from 6-8%)*	Increased shipset on new programmes
Civil AM	2%	£292m	4 – 6%	Improving outlook for regional jet brakes
Military	0%	£315m	2 – 4% *(up from 1-3%)*	Increased DoD outlays expected
Energy	(14%)	£62m	(5) – (10)%	Heatric comps ease
REVENUE	0%	£968m[2]	2 – 4%	Confident of delivering 2017 revenue guidance
UNDERLYING OP PROFIT		18.0%	19.1 – 19.4%	Confident of delivering 2017 underlying operating profit guidance

[1] Organic growth excluding the impact of divestments and foreign exchange
[2] Includes 'other' revenues of £70m

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H1 2017 summary

- Trading in line with our expectations; guidance reiterated
- Revenue growth accelerating in second half
- Strong H1 cash: inventory, divestments
- Good momentum on strategic initiatives
- Interim dividend up 5% to 5.05p

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Appendices

1. Currency PBT impact
2. Operating exceptionals
3. Investment accounts
4. R&D investment
5. Shares in issue
6. Credit maturity profile
7. Retirement benefits
8. Capital allocation
9. IFRS15 impact
10. Aircraft OE deliveries
11. Commercial jet utilisation and retirement rates
12. Business jet market share and utilisation
13. Divisional end market exposure
14. Market segment exposure

Currency PBT Impact

	H1 2016 Act	FY 2016 Act	H1 2017 Act	H2 2017 Est	FY 2017 Est
$/£ rate					
Translation rate	1.43	1.33	1.27		
Transaction rate (hedged)	1.53	1.49	1.47	1.47	1.47
Euro rate					
€/£ Translation rate	1.28	1.21	1.16		
$/€ Transaction rate (hedged)	1.21	1.21	1.18	1.18	1.18
CHF rate					
CHF/£ Translation rate	1.41	1.32	1.25		
$/CHF Transaction rate (hedged)	1.07	1.08	1.06	1.06	1.06
PBT impact £m					
Year-on-year translation			13.7	*	*
Year-on-year transaction			2.5	1.6	4.1
Year-on-year currency benefit/(headwind)			16.2		

*Year on year translation sensitivity: ± 10 US$ cents = ± £93m Revenue; ± 15m PBT
± 10 Euro cents = ± £11m Revenue; ± 2m PBT

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Operating exceptionals

£m	2017 HY Act at $1.27	2017 FY Est at $1.29
P&L charge		
Site consolidation	4.0	7 - 9
Integration of acquired businesses	2.7	4 – 5
Business restructuring	-	2 – 3
Total	6.7	13 – 17
Cash out		
Site consolidation	5.3	7 – 9
Integration of acquired businesses	2.7	4 – 5
Business restructuring	-	1 – 2
Total	8.0	12 – 16

Investment accounts

£m	H1 2017 Act at $1.27	FY 2017 est at $1.29	FY 2018 est at $1.29
1. R&D			
Total expenditure	75.9	153 – 166	140 – 170
Less: customer funded	(15.1)	(37) – (42)	(30) – (40)
Group spend	60.8	116 – 125	110 – 130
Capitalisation	(28.3)	(65) – (70)	(60) – (70)
Amortisation/impairment	8.1	19 – 20	22 – 27
Charge to net operating costs	40.6	70 – 75	72 – 87
2. Programme participation costs			
Free of charge capitalisation	29.4	58 – 60	64 – 74
Free of charge amortisation	(16.7)	(33) – (35)	(37) – (42)
PPC capitalisation	1.7	4	4
PPC amortisation	(1.5)	(3)	(3)
3. Fixed assets			
Capital expenditure	33.4	80 – 100	90 – 120
Depreciation / amortisation	(27.8)	(57) – (61)	(75) – (85)
4. Retirement benefit deficit payments	14.0	35	41

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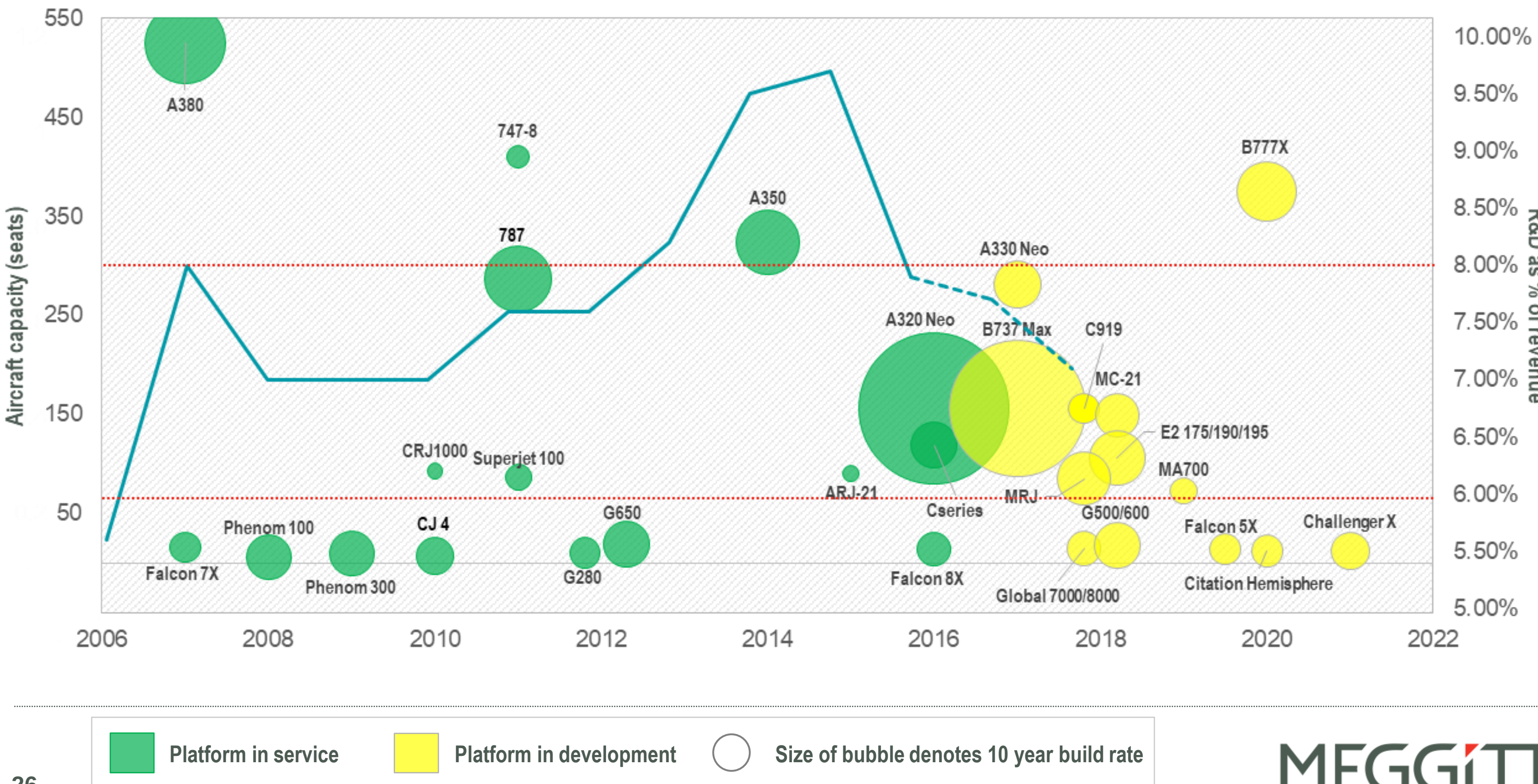
R&D investment

R&D investment passed the peak as % of revenue. NPI starts to peak in 2018



Note – dotted line shows R&D as % of revenue based on the mid-point of guidance plotted against consensus revenue (as at 1 August 2017)

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Shares in issue

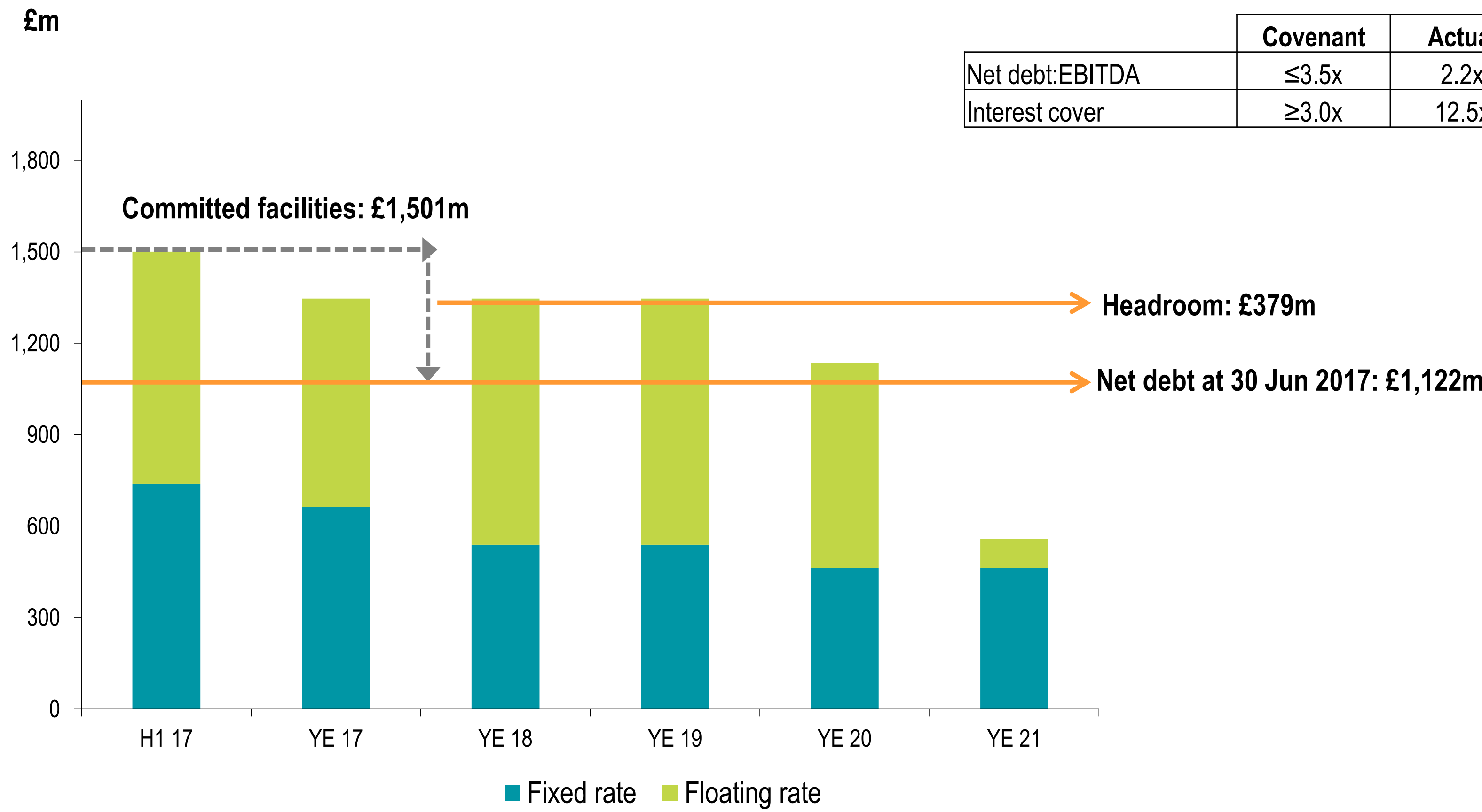
Share in millions

	FY 2016	H1 2017
Opening	775.5	775.7
Share schemes	0.2	0.1
Closing	775.7	775.8
Average*	774.7	774.1

* Adjusted to exclude own shares

Credit maturity profile
As at 30 June 2017

	Covenant	Actual
Net debt:EBITDA	≤3.5x	2.2x
Interest cover	≥3.0x	12.5x



Retirement benefits

£m	Jun 2016	Dec 2016	Jun 2017
Opening deficit	(284.5)	(284.5)	(414.7)
Net deficit payments	11.1	35.0	14.0
Actuarial movements - assets	42.6	72.4	46.0
Actuarial movements - liabilities	(117.3)	(193.1)	(14.6)
	(74.7)	(120.7)	31.4
Other movements (including FX)	(25.5)	(44.5)	-
Closing deficit	(373.6)	(414.7)	(369.3)
UK discount rate	2.95%	2.65%	2.45%
US discount rate	3.50%	3.95%	3.70%

Capital allocation
Investing for growth

» Context:
  - Cash generative business model
  - Just past 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

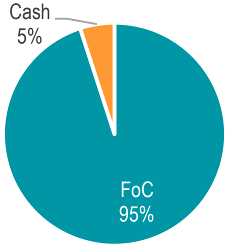
» Within this context, our priorities are:
  1. Funding organic growth and driving operational efficiency
  2. Growing dividends in line with earnings through the cycle
  3. Targeted, value-accretive acquisitions in our core markets
  4. Maintain efficient balance sheet

IFRS15 Impact
>90% of revenue from sale of parts / MRO

POINT OF IMPACT	MAGNITUDE OF ANTICIPATED IMPACT FROM 2018

PROGRAMME PARTICIPATION COSTS

HY17 PPCs: £31m

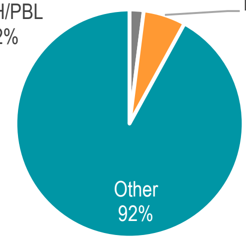


- No change likely to capitalisation of cash contributions
- Free of charge PPCs expensed from 2018 (2016 capitalised asset: £283m)
- Notional 2017 – 2018 impact charge to P&L based on IFRS 15:

£m	HY17 Act	FY17 est	FY18 est
Capitalised PPCs (FoC)	(29)	(58) – (60)	(64) – (74)
Less: Amortisation	17	33 – 35	37 – 42
Net P&L impact under IFRS 15	**(12)**	**(23) - (25)**	**(27) – (32)**

REVENUE

HY17 Revenue: £968m



- PBL contracts account for £15m of group revenue – unique to MABS
  - Typical maintenance interval of 2 years across fleet of 700+ a/c
- PBH contracts account for £8m of Group revenue – MCS / MSS only
  - Maintenance interval between 5 – 10 years on broad range of a/c
- Revenue derived from contracts with milestone payments (e.g. Heatric projects, funded R&D) account for £55m
  - Precise treatment likely to depend on specifics of contract

No impact on cash. Unlikely to have a significant impact on revenue.

FoC = Free of charge; PBH = Power by the hour contracts; PBL = Per brake landing contracts

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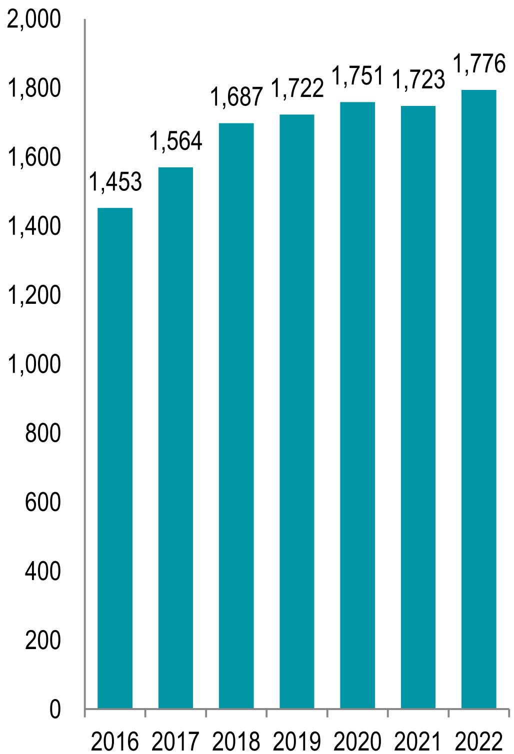
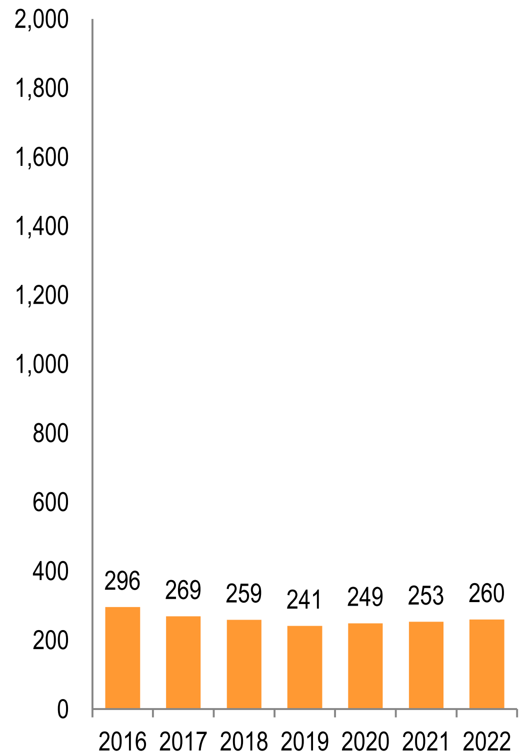
Aircraft OE deliveries

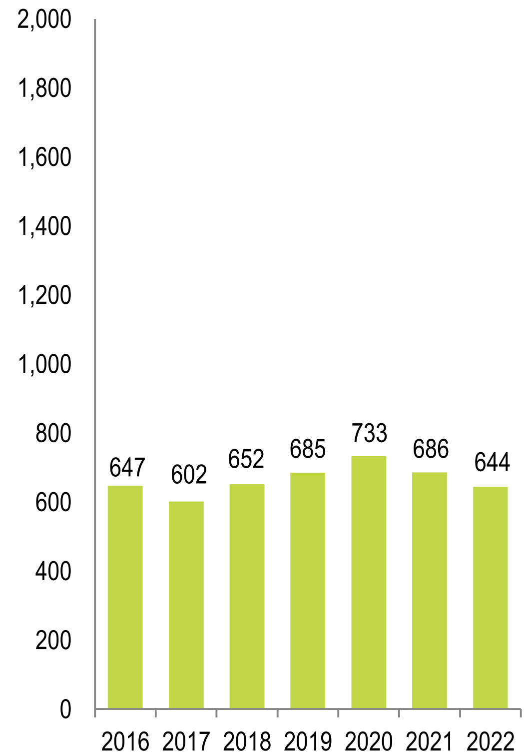
Large jet - 33% of civil revenue



Regional aircraft - 4% of civil revenue



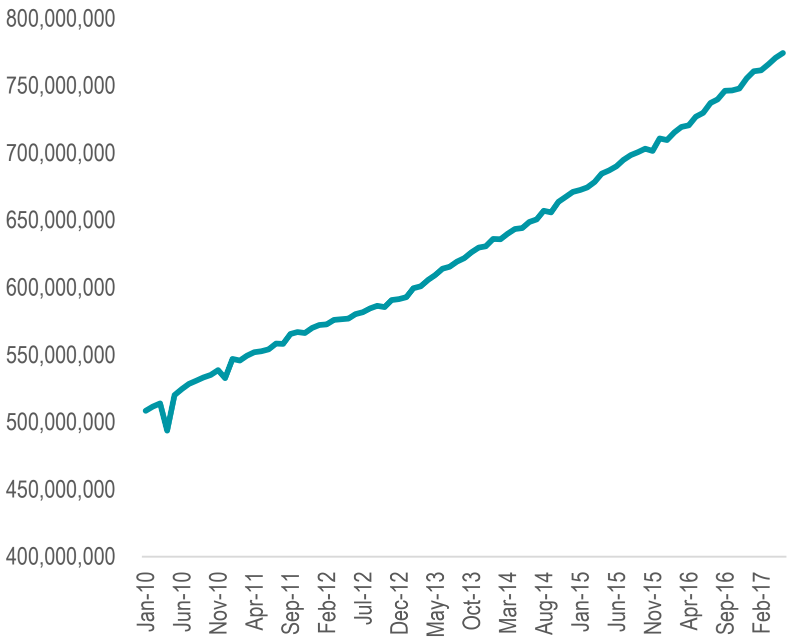
Business jet - 5% of civil revenue
(chart shows super-midsize & large only)



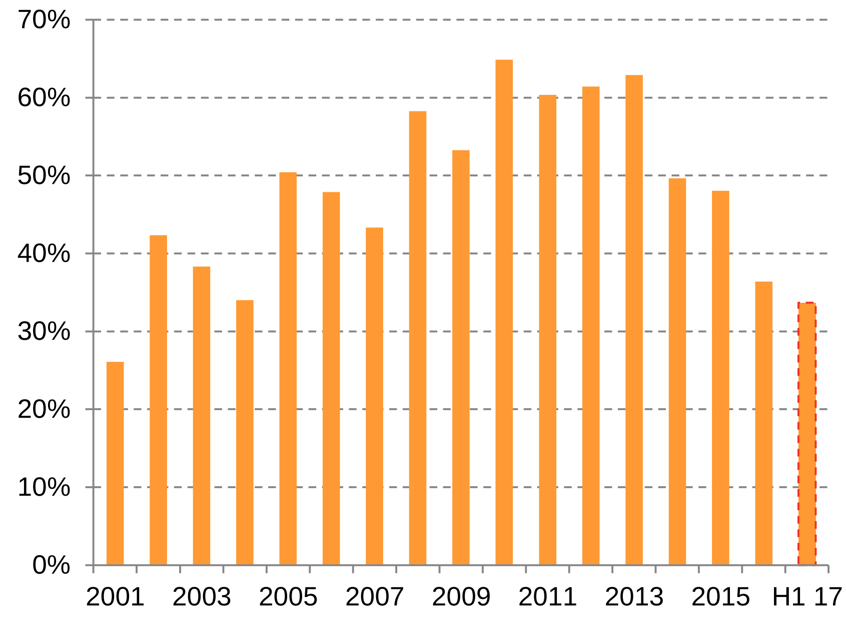
Source: Meggitt estimates, Forecast International

Civil aerospace aftermarket
Commercial jet utilisation and retirement rates

Available seat kilometres



Retirements as a percentage of deliveries



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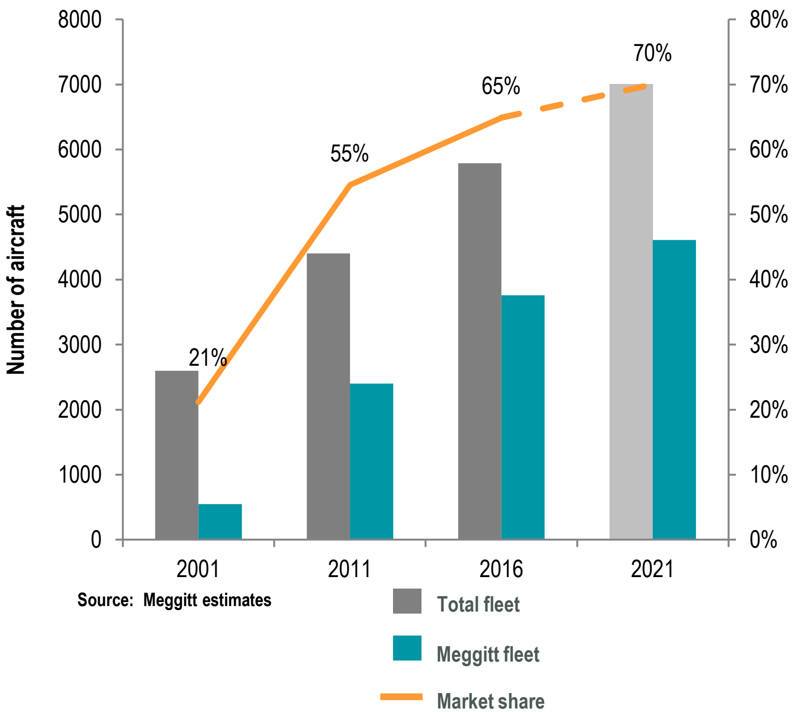
Appendix 12

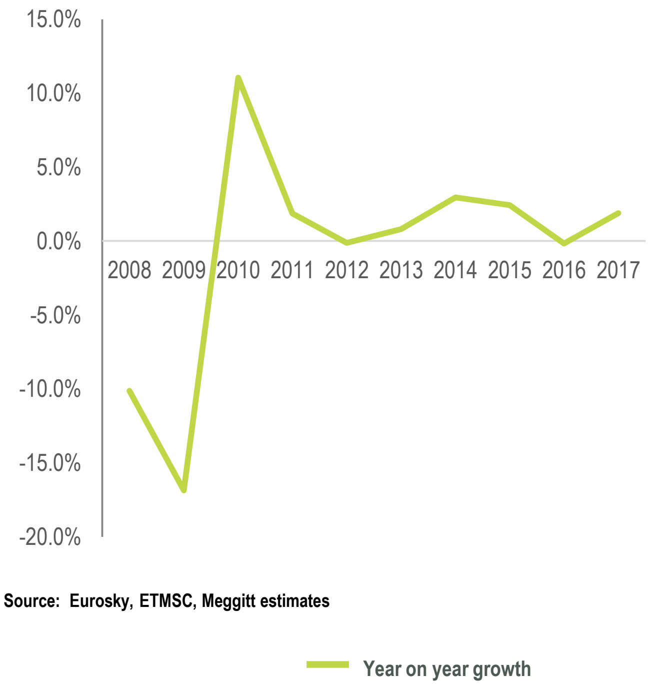
Civil aerospace aftermarket
Business jet market share and utilisation

Meggitt share of super mid-size & large business jet Wheel & brake market



Source: Meggitt estimates

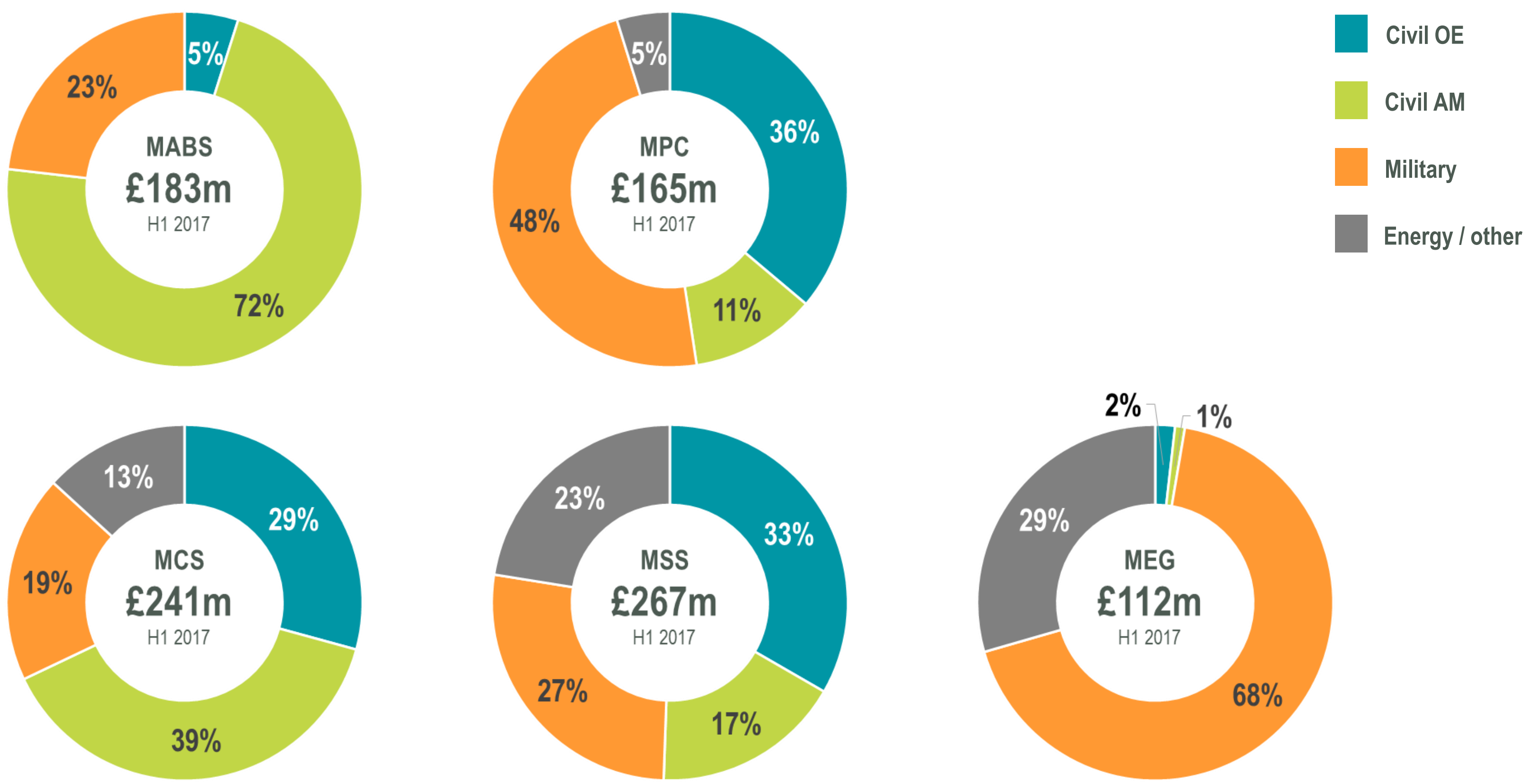
Business jet operations (US and EU only)



Source: Eurosky, ETMSC, Meggitt estimates

Appendix 13

Divisional end market exposures
H1 2017



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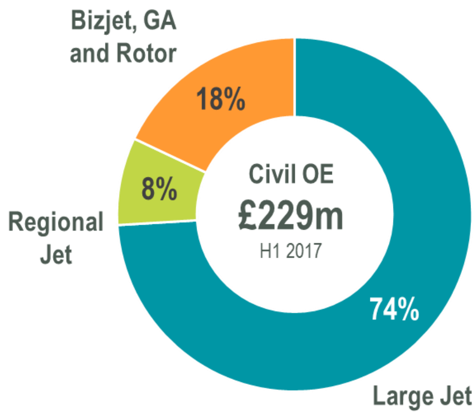
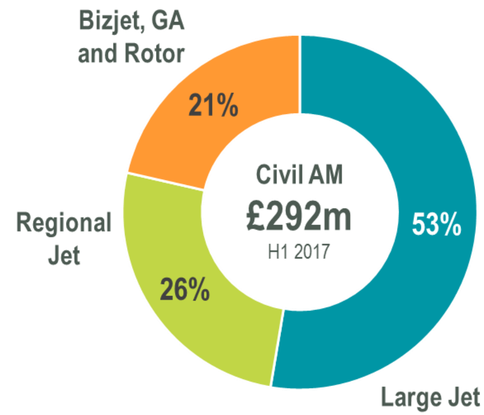
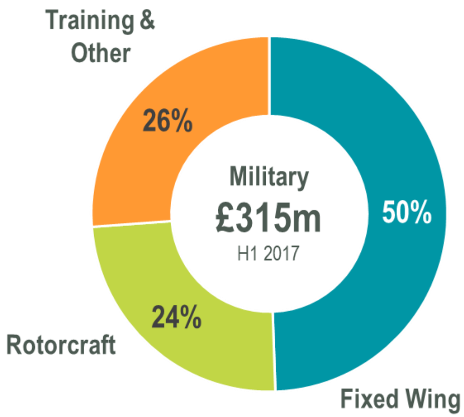
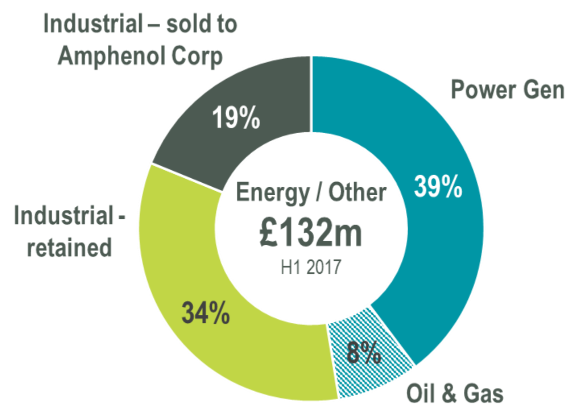
Market segment exposures
H1 2017









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