

MEGGITT PLC

# NUMIS Presentation

8 June 2009



**MEGGITT**  
smart engineering for  
extreme environments

## 2008 Summary

### ▀ Excellent progress in 2008

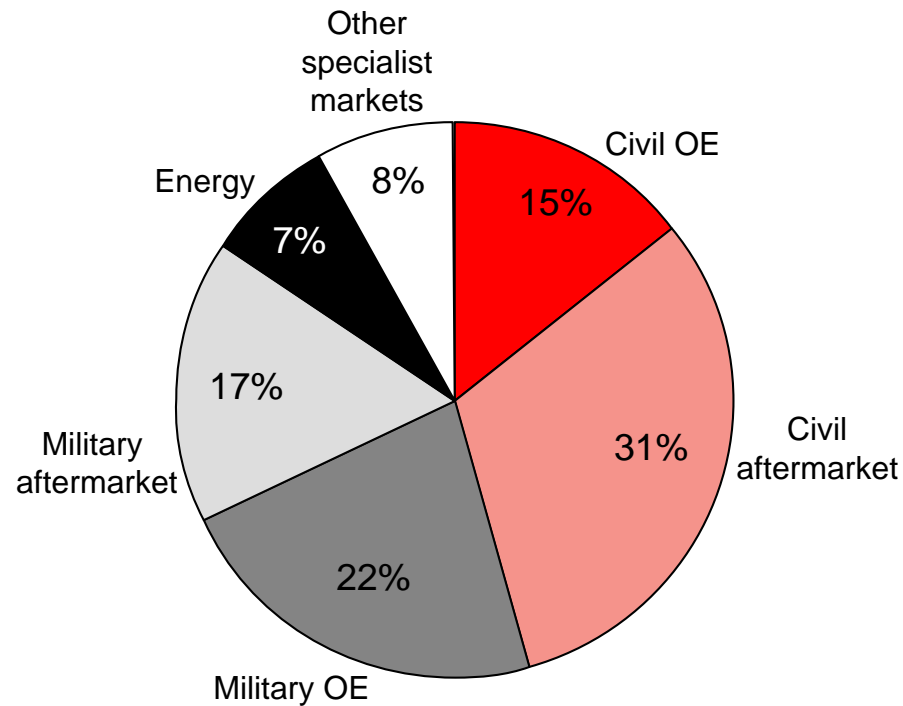
- Headline revenue growth 30%; organic 10%
- Revenue growth in main market segments: civil 31%; military 35%; energy 21%
- Growth in all divisions, as well as OE and aftermarket
- Significant double digit increases in orders and underlying earnings
- K&F integration on track
- £75m net cash generated
- Comfortable net debt/EBITDA 2.4x vs covenant  $\leq 3.5x$
- Dividend up 3%

## 2009 - Well positioned to respond to challenging markets

- Balanced portfolio (46% civil; 39% military; 15% other markets)
- Proprietary technology and large installed base generating significant aftermarket revenues
- Military demand remains healthy
- Civil air traffic projected to decline by 5-6% in 2009 but flat/recovering in 2010
- Economic/credit issues will result in lower or delayed civil OE sales
- Good progress implementing £50m cost reduction plans
- Strong currency “tailwind” at current £:\$ rates
- Strong financial position – headroom and visibility

# Group 2008 revenue

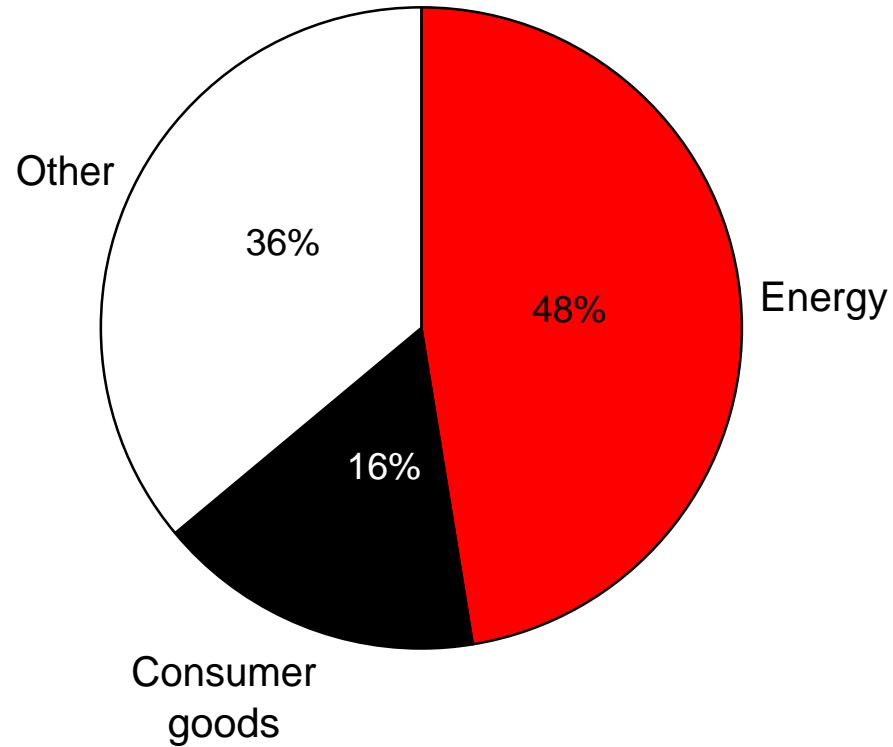
Revenue by market segment  
£1,162.6m



# Other markets 2008 – 15% of Group revenues

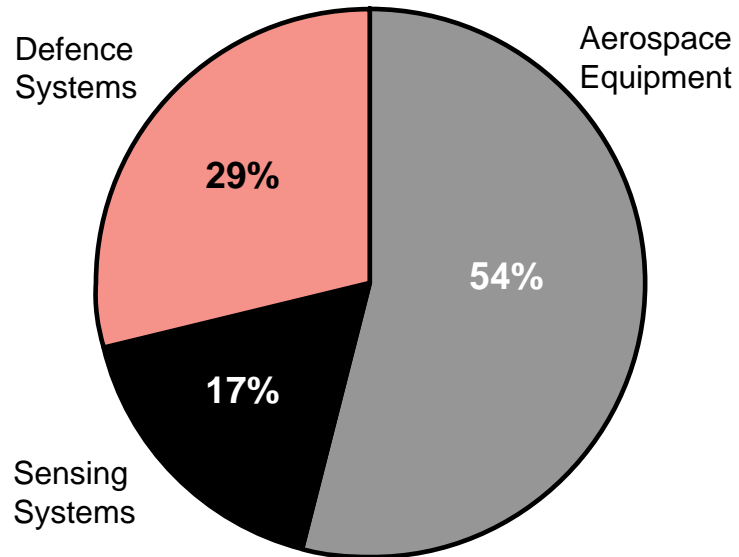
Other revenue by market segment

£179.4m

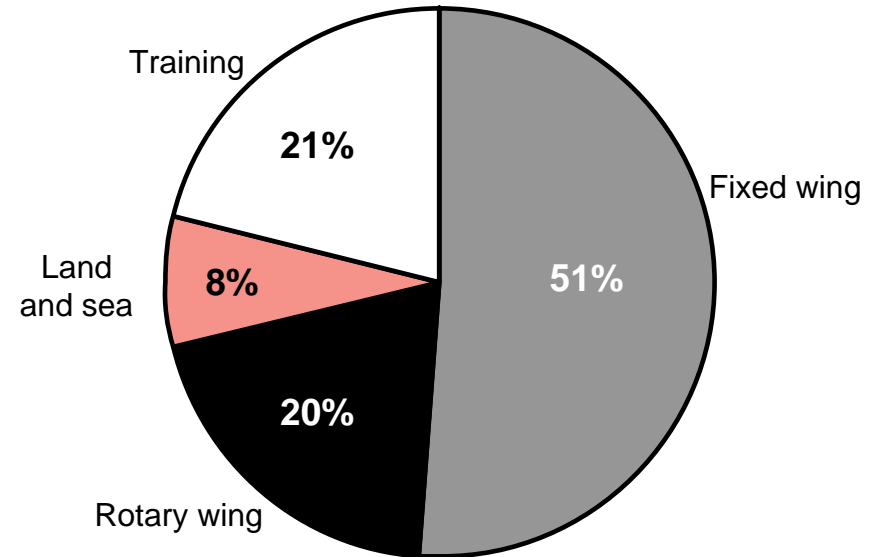


# Military 2008 – 39% of Group revenues

**Military Revenues by Division**  
£455.8m

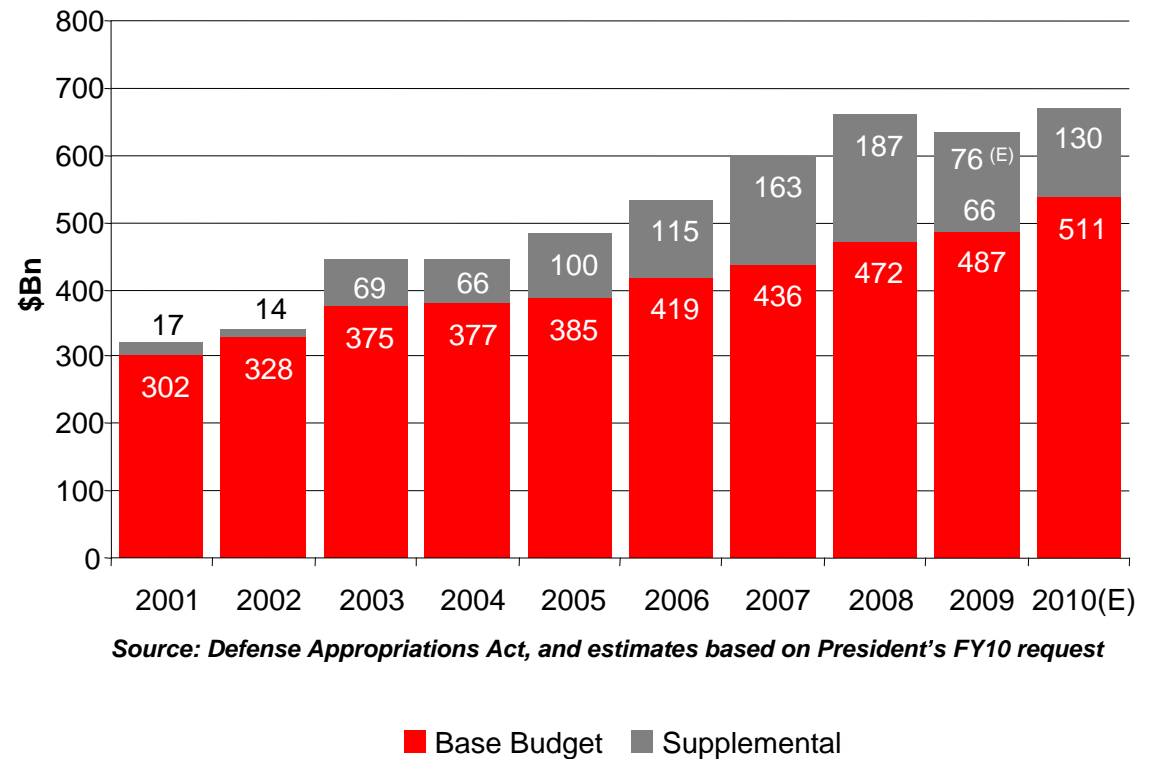


**Military Revenues by Market Segment**  
£455.8m



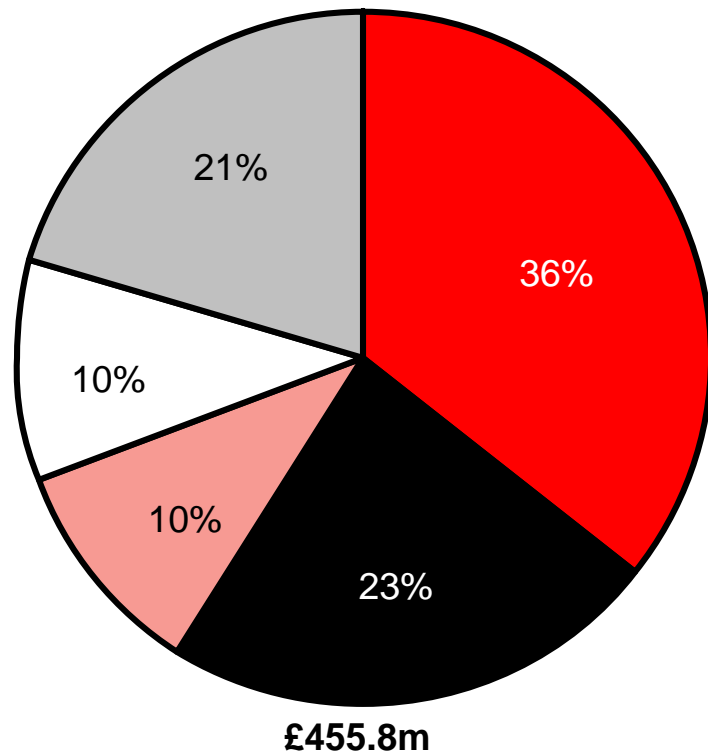
# DoD budget

- Base budget grew by 3% in FY2009 and is expected to grow by up to 5% in FY2010, to address reset requirements
- Supplementals are expected to reduce in line with gradual withdrawal from Iraq and shift of reset to the base budget



# Military revenue growth opportunities

Breakdown of 2008 military revenue across lifecycle



- Growth military platforms**  
Platforms with expanding fleets and current production build rates at 25% to 100% of peak levels, or development programs
- Stable military platforms**  
Platforms with stable fleet sizes for at least 5 to 20 years, ongoing upgrades, budget support, but have low production rates (<25% of peak) or are out-of-production
- Mature military platforms**  
Platforms where fleet size may see some decline (gradual erosion not extinction) during the next 5 years
- Other military platforms**  
Programmes at various lifecycle stages, growth to mature
- Training**  
Targets, training systems and countermeasure products



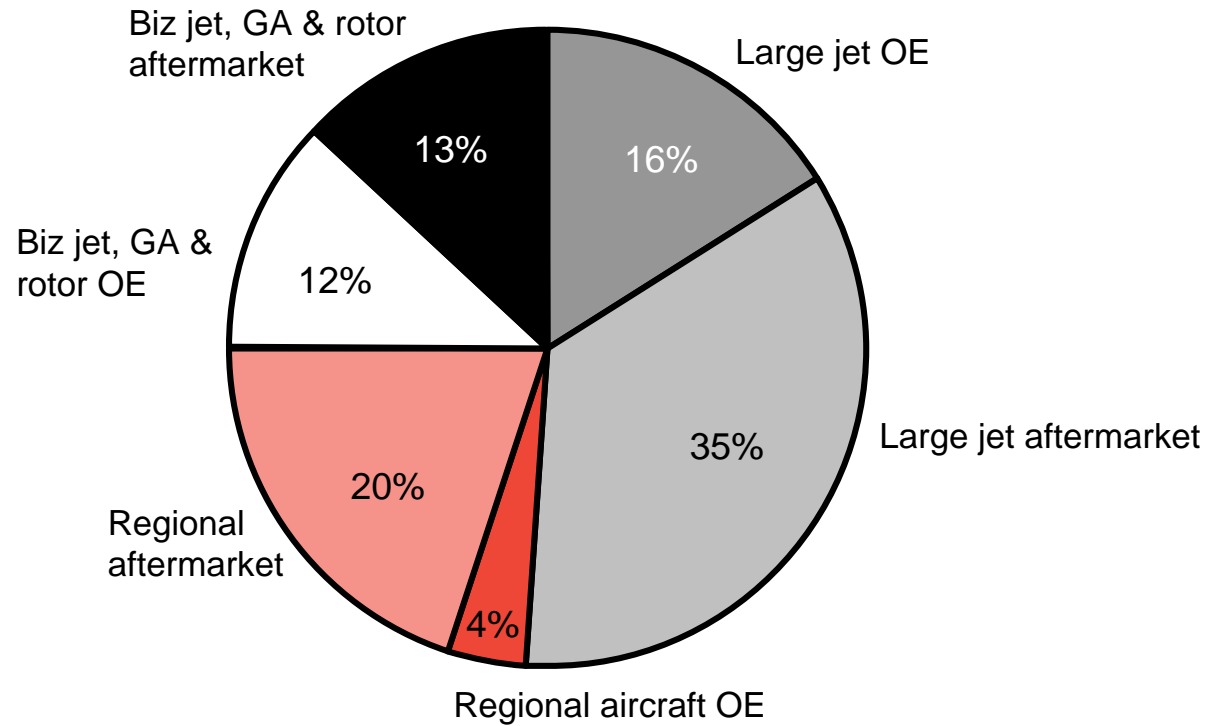
# Summary of Meggitt's military business

- Military revenues balanced throughout Group and across platform segments
- Excellent content on new fighters and rotary wing platforms will provide a stable growth base throughout next decade
  - Eurofighter Typhoon
  - F-35 Lightning II JSF
  - Apache, Black Hawk and V22
- Meggitt is winning strategic positions on long term unmanned air and land vehicle technology programmes
  - Key wins include Mantis and the MULE programme
- Well positioned to capture funding for reset and repair
  - Apache, Black Hawk, Stryker, Abrams tank
- Well positioned to capture training funding
- Meggitt's military business is significant, secure and growing



# Civil aerospace - 46% of total revenues

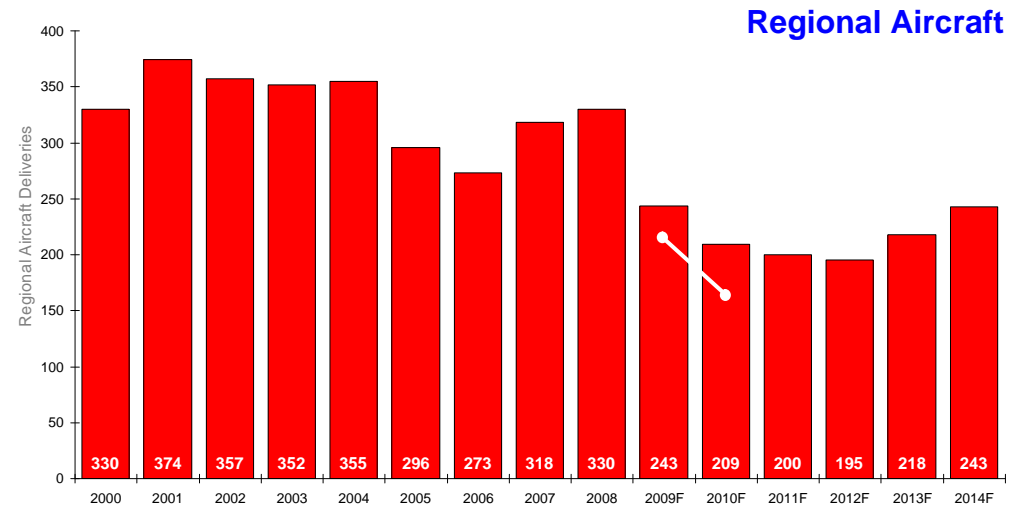
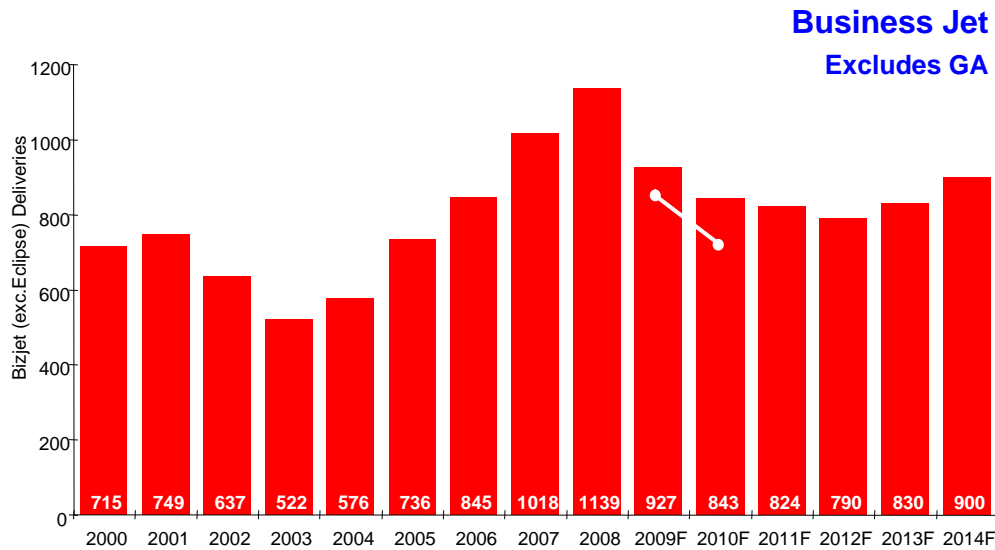
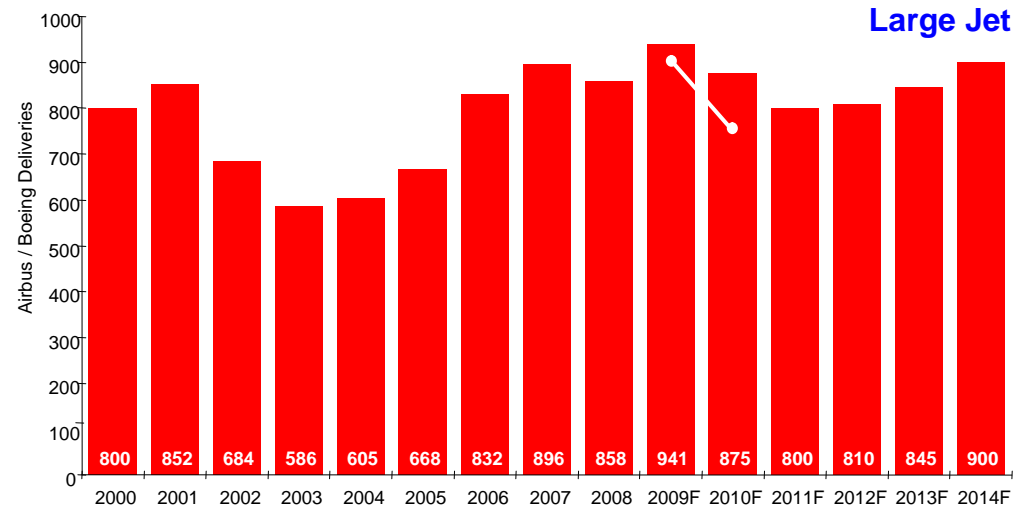
## Civil revenues by market segment

£527.4m



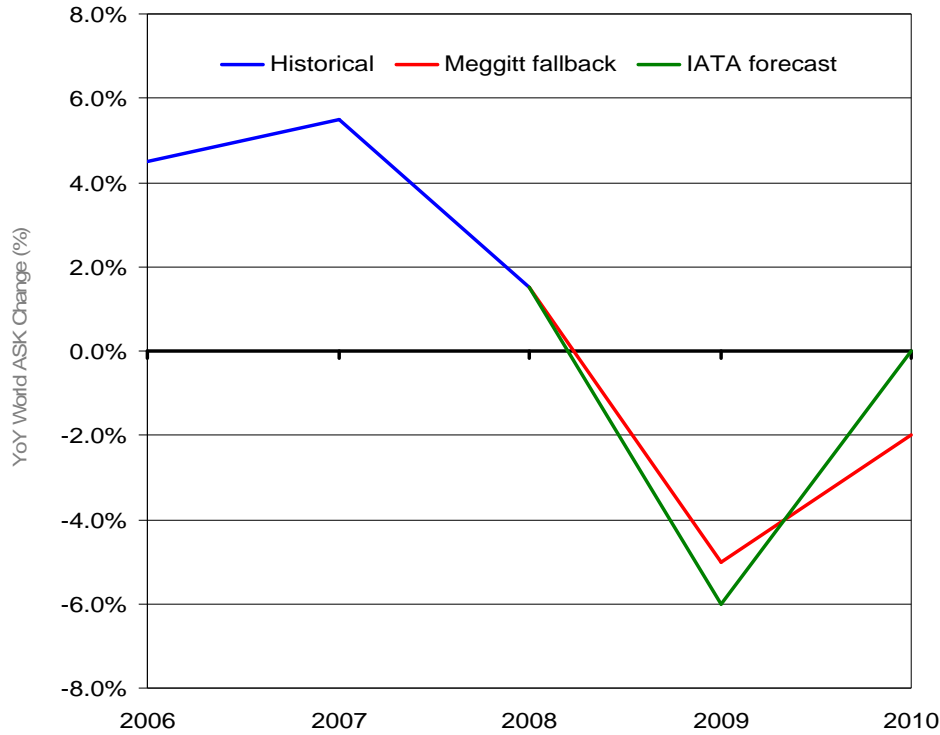
# Aircraft OE deliveries

-  Meggitt cost plan
-  Meggitt view of consensus forecasts



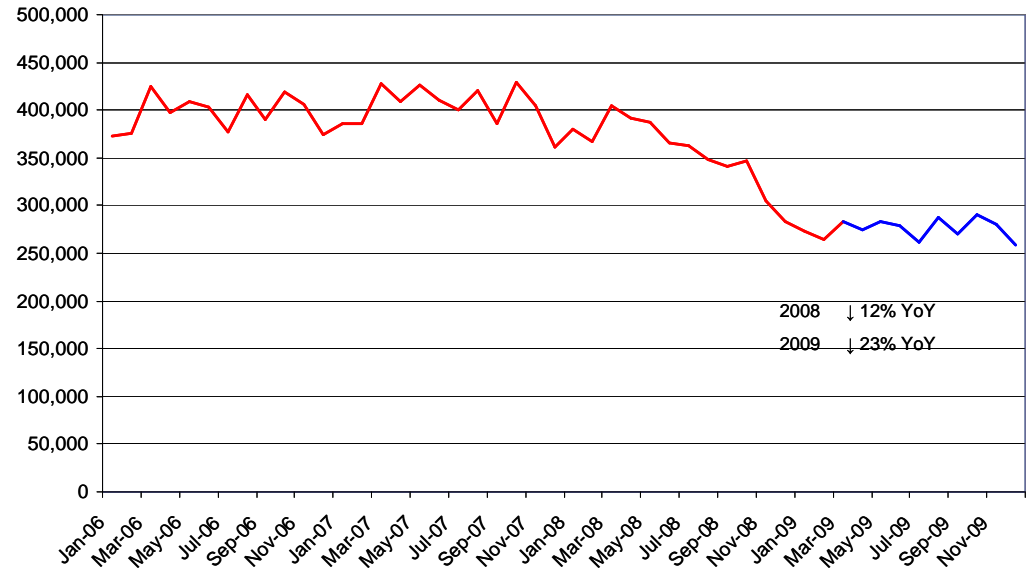
# Civil aftermarket

Large Jet and Regional Aircraft



Source: IATA world forecast / Meggitt management estimates

Business Jet (excludes GA)



Source: FAA ETMSC Database / Meggitt management estimates  
 Note: (1) Meggitt cost plan

# Ongoing operational improvements

- ▶ Operational excellence programmes
  - focused on the supply chain
  - producing incremental savings of circa £11m per annum
- ▶ K&F synergies
  - 2009 incremental savings of £6m,
  - cumulative £18m per annum
- ▶ Ongoing low cost manufacturing initiatives in Mexico and China

## Cost reduction plan

- Internal management savings (£20-25m pa)
  - Full time team has identified £20m pa savings already
  - Strengthening role of SBUs and Functions
  - Individual BUs will be managed as factories
  - Implementation IT dependent in many cases
- Plans in place for up to 15% reduction (600 people) in civil workforce (£20m pa)
  - Headcount already reduced by 537 from mid 2008 peak
- Other initiatives implemented (£5-10m pa)
  - Executive pay freeze (top 200)
  - Overtime working minimised
  - Short time working in impacted factories
  - Pensions benefits reduced

**In total, the Group can comfortably see cost savings of £20m in 2009, rising to an annual run rate of £50m by the end of 2010**

**£25m one-off operating exceptional cost to achieve savings**

# Currency benefits

## Translation

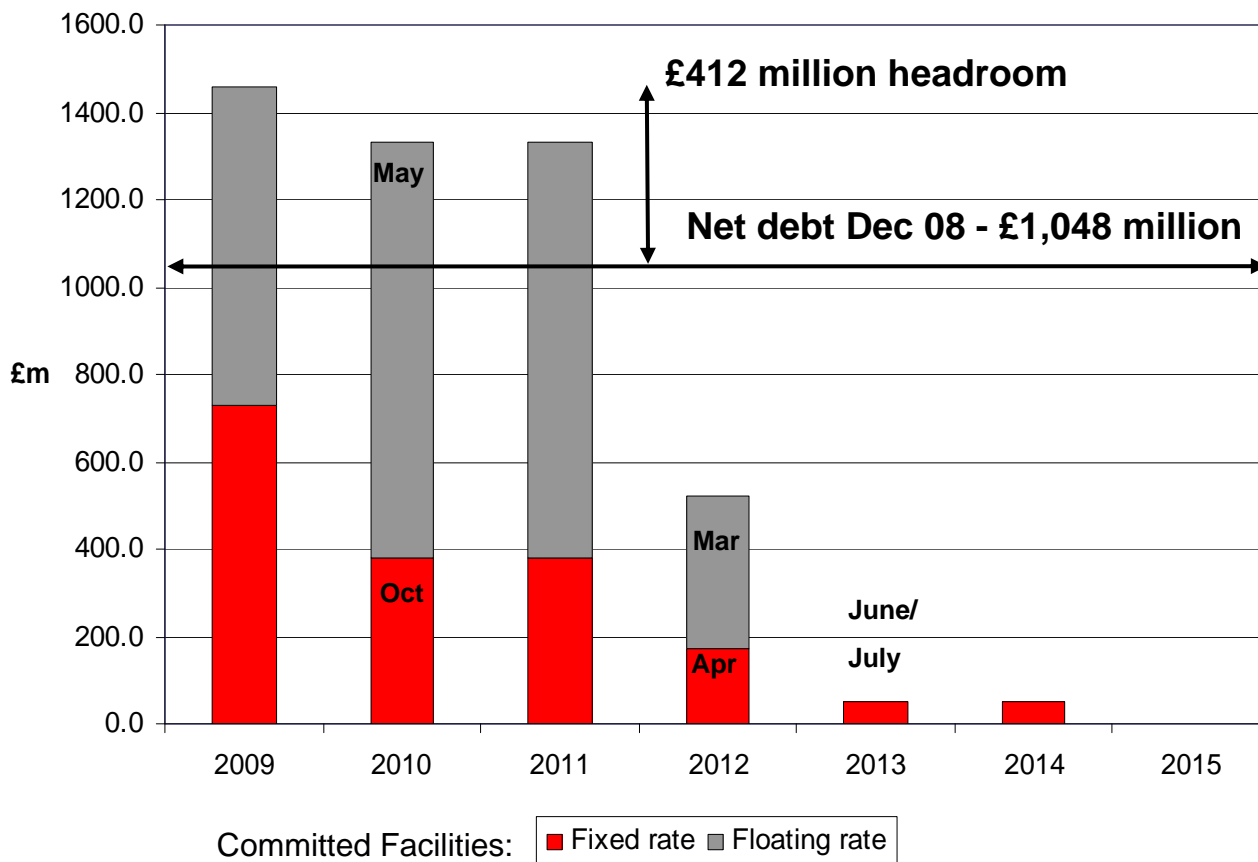
- Around 2/3<sup>rd</sup> of profits earned in US dollars
- Translation rate for 2008 was \$1.83 to the pound
- Stronger dollar benefits PBT by £1m for every cent improvement
- The \$ exchange rate will provide a significant benefit in 2009 if it remains at current levels

## Transaction

- Transaction benefits will not occur until mid 2010 due to existing hedge cover
- Each 1 cent improvement in transaction rate worth £0.3m PBT in full year

# Balance sheet\* is strong

## Maturity profile of credit facilities:



## Covenant tests:

	<u>Per bank agreements</u>	
	<u>Covenant</u>	<u>Actual</u>
Net debt/ EBITDA	≤ 3.5x	2.4x
Interest cover	≥ 3.0x	6.6x

Appendix 3 outlines covenant principles. Summary:

- Calculations are based on 'frozen' UK GAAP as defined by credit agreements
- Exchange rates used in debt and EBITDA calculations based on trailing 12 month average

\* As at 31 December 2008



# Summary

- Meggitt has plans in place to respond to a challenging 2009
- Ongoing operational improvements continue to deliver savings
- Further savings will be delivered at the rate of £50m a year by the end of 2010 in response to economic downturn
- Currency benefits
- Good forward visibility of financing (next refinancing March 2012)
- Meggitt's balance sheet is strong
  - Net debt/EBITDA at 2.35x (covenant  $\leq$  3.5x: EBITDA headroom > £100m)
  - Interest cover more than double covenant requirement

## Outlook

- Military demand and energy business will remain healthy in 2009
- Civil air traffic declining in 2009
  - Large jet deliveries will peak
  - Regional Jets and Business Jets deliveries will decline
  - Aftermarket impacted
- In response, the Group is well advanced in cutting costs
  - Savings of £20m in 2009
  - Rising to an annual run rate of £50m by the end of 2010
- Cost savings and currency will support profitability
- Strong balance sheet with good visibility of financing and covenant headroom
- Well positioned for the long term

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# Appendices

1. Group strategy
2. Aerospace Equipment update
3. Sensing Systems update
4. Defence Systems update
5. Civil aftermarket maturity profile
6. Covenant definitions per credit agreements
7. Prudent review of cash
8. Good covenant (net debt/EBITDA) headroom

**Group strategy**

Deliver sustainable upper quartile returns through focused leadership positions in Aerospace, Defence & specialist extreme environments



**Group strategic objectives**

Focused investment	Leverage group capabilities	Achieve Operational Excellence	Satisfy our customers	Maintain a culture of strong performance
<ul style="list-style-type: none"> <li>- Components &amp; value-added sub- systems</li> <li>- High technology content</li> <li>- Aftermarket value</li> <li>- Growth by organic investment &amp; acquisition</li> </ul>	<ul style="list-style-type: none"> <li>- Adding value with cross-business solutions</li> <li>- Leveraging scale of operations</li> <li>- Strengthening central functions</li> <li>- Shared services and best practices</li> </ul>	<ul style="list-style-type: none"> <li>- Lean manufacturing and continuous improvement</li> <li>- Strategic sourcing</li> <li>- Low cost manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>- Develop strategic supplier relationships</li> <li>- Strengthen our customer and industry partnerships</li> <li>- Be easier to do business with</li> </ul>	<ul style="list-style-type: none"> <li>- Delivering against targets</li> <li>- Leadership development</li> <li>- Financial rigour</li> </ul>

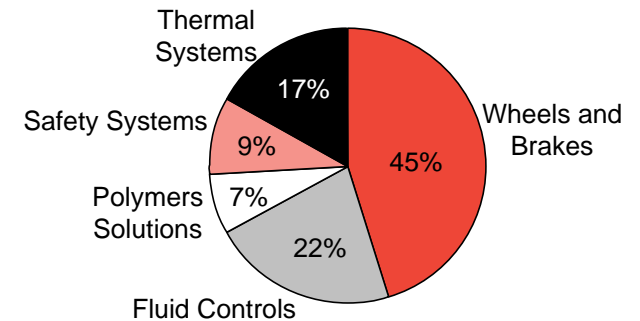
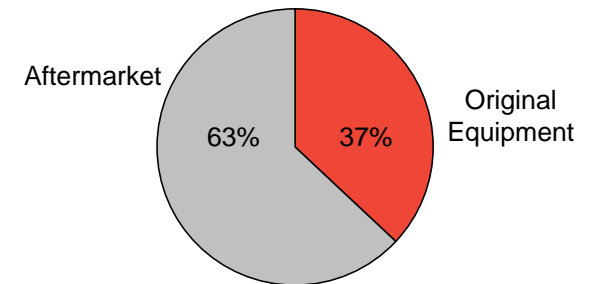
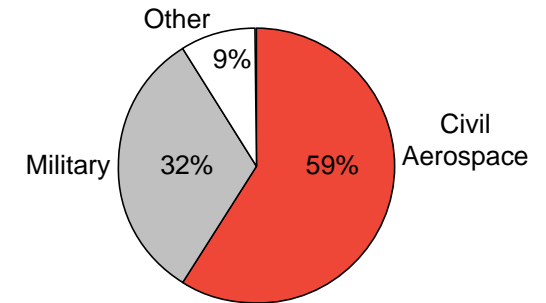
**Be the leading provider of smart engineering for extreme environments**



# Aerospace Equipment update

- ▶ Multiple programme wins for military and commercial markets
  - Additional fuel tank orders for KC-135 aircraft
  - MFC wins first land-based application of its new modular control technology on MULE programme
  - Civil wheels and braking systems wins, including Bombardier CRJ1000
- ▶ Investment in new technologies and sub-systems
  - Motor control technology for more electric vehicles
  - Lightweight seals
  - Ebrake<sup>®</sup>
- ▶ Continued focus on operational improvement
  - K&F integration on track
    - Targeted savings for 2008 exceeded
  - Expanded low cost manufacturing for wheels & brakes, polymers and ground fuelling

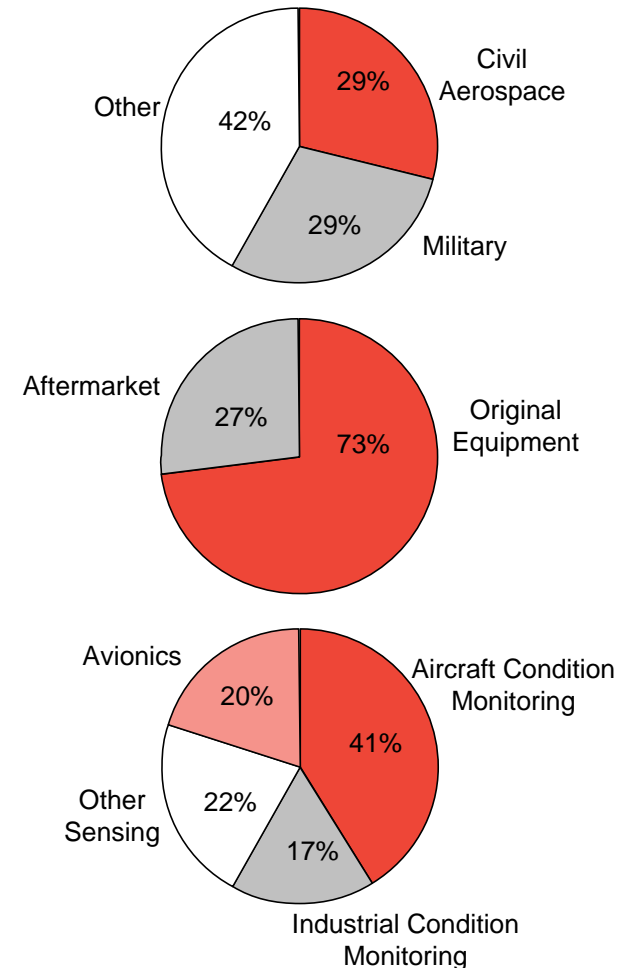
2008 Revenue Breakdown



# Sensing Systems update

- ▀ **Strong organic growth**
  - Continuing growth in condition monitoring for the Aerospace and Energy markets
    - Some weakness in other markets, particularly consumer goods
    - Multiple monitoring systems for steam and gas turbines, especially in India
  - Numerous avionics wins for the military market, including air data systems for Apache attack helicopter
  
- ▀ **Investing in leading-edge technologies**
  - Founding member of IVHM research consortium with Cranfield University
  - Silver Boeing Performance Excellence award for Avionics
  
- ▀ **Expanding in energy markets**
  - Developing new innovative products and service offering
  - Expanding sales infrastructure, including potential new office in Middle East

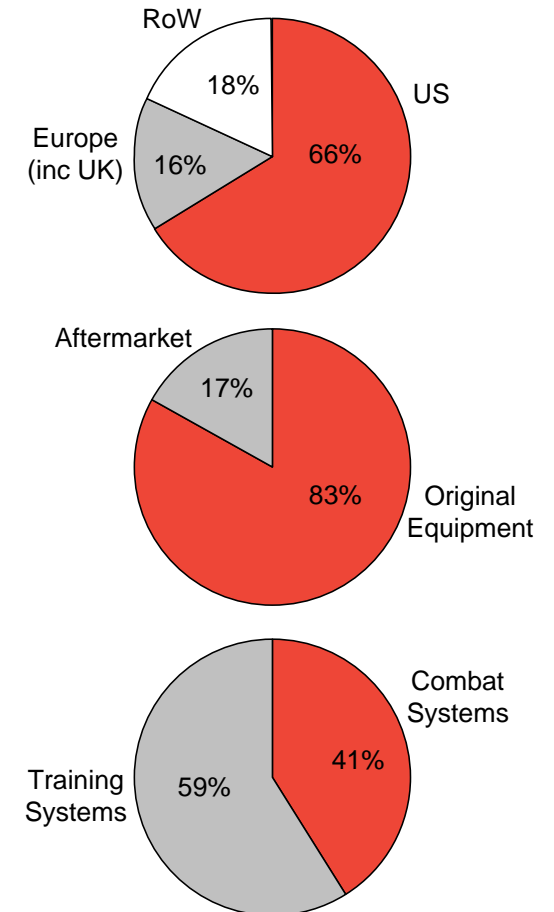
2008 Revenue Breakdown



# Defence Systems update

- ▶ Better second half drives full year growth
  - Training Systems
    - Upgrades for US Army National Guard
  - Combat Systems
    - Strong demand for electronics cooling capability, including contract for M1A2SEP Abrams TMS
    - Environmental control unit for the F/A-18E/F Super Hornet fighter jet Infrared Search and Track (IRST) system.
  
- ▶ Investment in products and markets
  - Following launch of next generation law enforcement products, first order received
  - Opened office in Middle East to position for growth in International markets
  - Silver Boeing Performance Excellence award for Irvine site in California
  
- ▶ Consolidation complete
  - Completed integration of live-fire and virtual capability in Atlanta
  - Seven factories consolidated into three (2US; 1UK) since early 2007

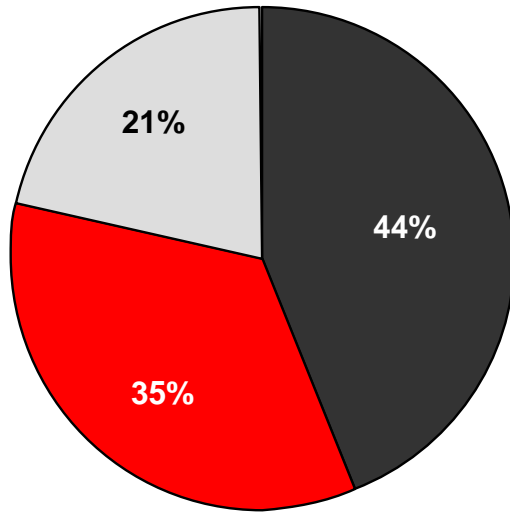
2008 Revenue Breakdown





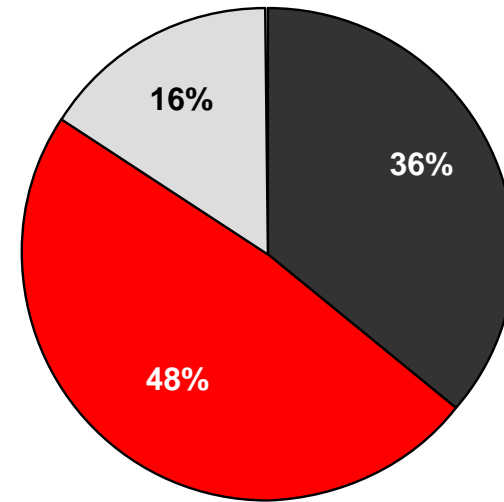
# Civil aftermarket maturity profile

Meggitt civil fleet by age



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

Meggitt civil revenues by fleet age



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

# Covenant definitions per credit agreements

## Key principles

- Currency amounts translated to Sterling at trailing 12 month average exchange rates
- Calculations based on frozen UK GAAP and exclude changes brought in with IFRS
- Profit numbers are before exceptional items
- Financial covenants measured at 30 June and 31 December

## Consequences

- EBITDA/EBITA calculated broadly consistent with Meggitt definition of 'underlying profit'
- Currency profit translated to Sterling at profit weighted average of preceding 12 month end rates (\$1.83 in 2008)
- Currency borrowings translated to Sterling at average of preceding 12 month end rates (\$1.84 in 2008)
- Covenants relatively insensitive to exchange rate movements

## Prudent review of cash

£m	2008	2009 est	2010 est
	\$1.83	\$1.50	\$1.50
<b>1. R&amp;D</b>			
Total expenditure	78.8	85.7	81.4
Less: customer funded	(19.4)	(22.6)	(21.5)
Company spend	<u>59.4</u>	<u>63.1</u>	<u>59.9</u>
Capitalised	(23.7)	(28.7)	(27.3)
Amortised	<u>3.5</u>	<u>6.4</u>	<u>11.6</u>
P&L	<u>39.2</u>	<u>40.8</u>	<u>44.2</u>
<b>2. Programme participation costs</b>			
Capitalised	35.7	37.4	32.3
Amortised	14.1	19.1	20.0
<b>3. Fixed assets</b>			
Capex	40.9	36.6	36.6
Depreciation	26.6	36.7	39.8
<b>4. Net capitalisation*</b>	56.1	40.5	24.8
<b>5. Pension deficit reduction payments</b>	22.5	25.8	31.0

\* Capitalised R&D, PPCs and fixed assets less depreciation/amortisation

# Good covenant (net debt/EBITDA) headroom

		<i>EBITDA (before exceptionals)</i>				
			-10%	-20%	-30%	
<b>Net debt (FX sensitivity)</b>	Avge \$1.50	<b>2.3</b>	<b>2.6</b>	<b>3.0</b>	<b>3.5</b>	( -29% EBITDA ≤ 3.5x )
	Avge \$1.25	<b>2.4</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>	( -26% EBITDA ≤ 3.5x )
	Avge \$1.00	<b>2.5</b>	<b>2.9</b>	<b>3.3</b>	<b>3.8</b>	( -24% EBITDA ≤ 3.5x )

Ratios calculated in accordance with credit agreements.  
 Sensitivity scenario assumes that 2008 results in currency are repeated in 2009.  
 This is for illustrative purposes only and is not a forecast.