

2015 Full year results

23 February 2016

MEGGITT

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Highlights

Stephen Young - Chief Executive



Financial highlights

Organic revenue flat on energy weakness

- » Flat revenue on an organic basis
 - Civil OE +4%
 - Civil aftermarket +3%
 - Military 0%
 - Energy -20%
- » Underlying EPS down 2% to 31.6p
- » Good improvement in free cash flow
 - Up 36% to £199m
- » Balance sheet within target range: net debt at 2.3x EBITDA
- » Proposed increase in final dividend of 3% to 9.8p – proposed full-year dividend up 5% to 14.4p.

Strategic & operational highlights

Continued focus on execution

- » Research and development expenditure up to £159m – 10% of revenue
 - » Successful new product introduction programme continues
 - » MPS now launched at all primary sites
 - 2 facilities have now moved into the 4th *Bronze* phase
 - » Customer Services & Support (CSS) – phase 2 under way
 - » Cost and efficiency focus
 - Aligning costs with revenue outlook, particularly Heatric
 - Original headcount reduction of 300 to be complete by end of Q1
Further reduction of 100 in Q2
 - £5m charge recognised in 2015; further charge of £8m to be taken in 2016
 - Optimisation of manufacturing estate
-



Financial Review

Doug Webb – Chief Financial Officer

Income statement

Underlying* (£m)

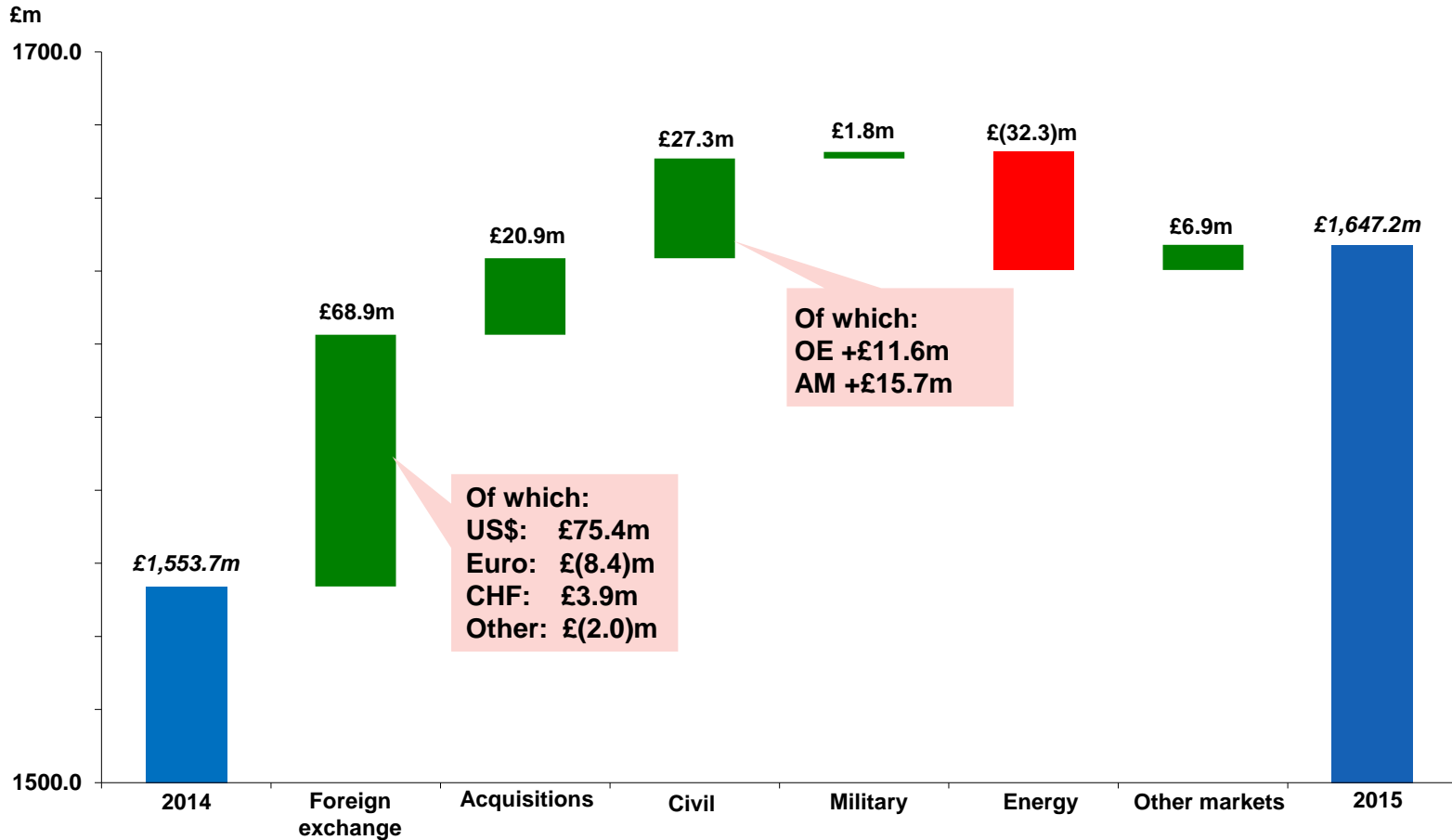
	2015	2014	Growth		
			Reported	Organic**	
Orders	1,630.5	1,610.0	+1%	-4%	Reported increase reflects FX benefit and the contribution from PECC acquired in 2014
Revenue	1,647.2	1,553.7	+6%	0%	Reported revenue growth benefits from favourable FX and acquisitions
Operating profit	325.5	346.0	-6%	-10%	Lower margin reflects Heatric weakness, unfavourable revenue mix and higher NPI costs
Finance costs	(15.2)	(17.3)			
Profit before tax	310.3	328.7	-6%	-9%	
Tax	(62.0)	(68.5)			Higher debt from buyback offset by lower interest rate and prior year refinancing charge
Tax rate	20%	21%			
Profit after tax	248.3	260.2	-5%	-8%	
EPS	31.6p	32.4p	-2%		Lower tax rate reflects reduction in UK corp tax rate and release of provision against historical tax uncertainties
Dividend	14.40p	13.75p	+5%		

* A full reconciliation from underlying to statutory figures is given in notes 4 and 10 of today's full-year announcement.

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

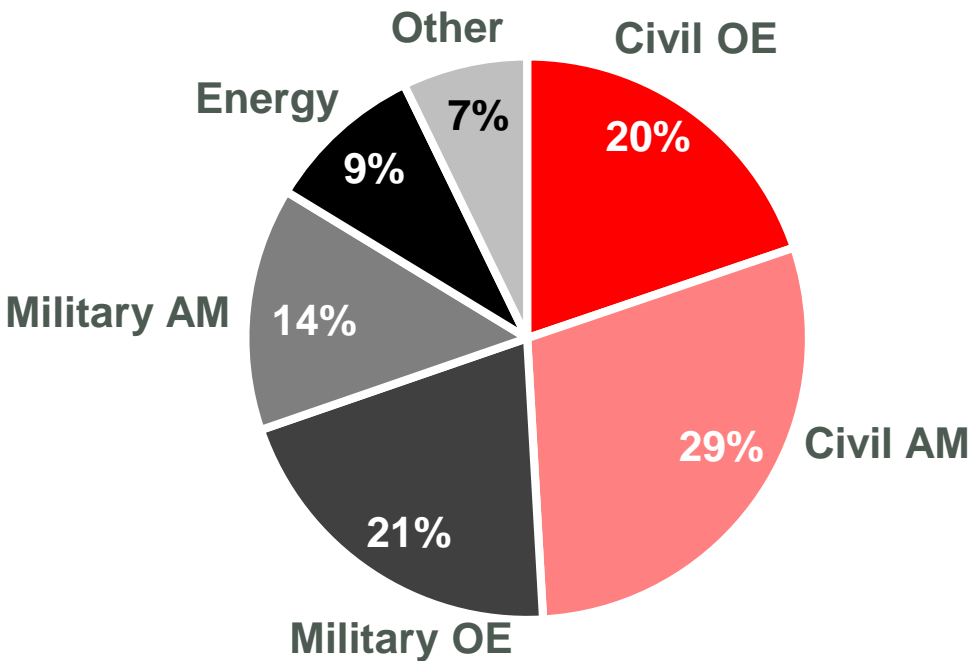
Revenue bridge

Flat organic revenue



Revenue by market

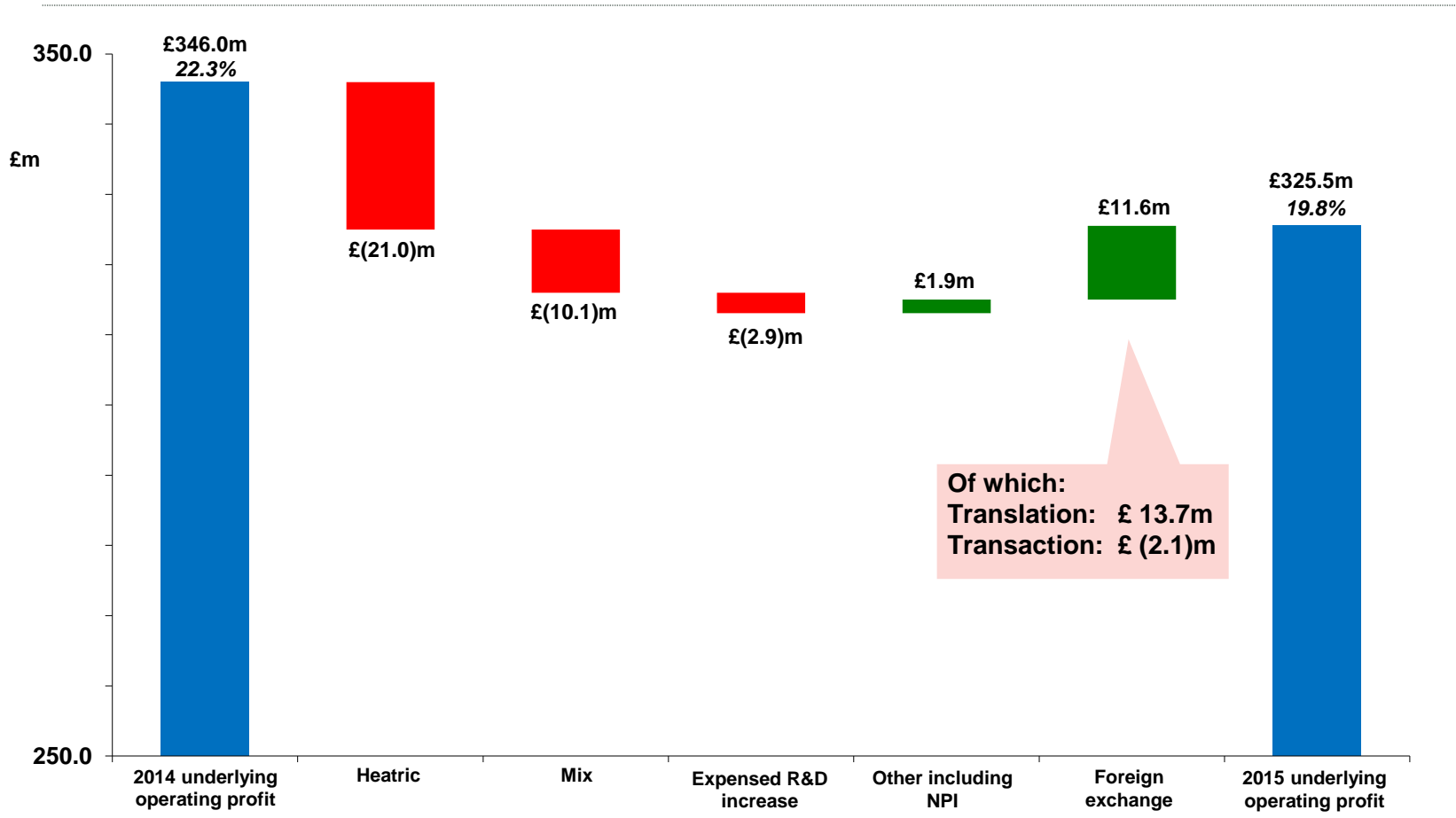
A well balanced portfolio



	2015 organic growth		
	Orders	Revenue	
	FY	H2	FY
Civil OE	+24%	+3%	+4%
Civil AM	-10%	+2%	+3%
Total Civil	+2%	+2%	+4%
Total Military	-7%	-4%	0%
Energy	-22%	-22%	-20%
Other	-2%	+6%	+6%
Total Group	-4%	-2%	0%

OE: 55%, aftermarket: 45%

Underlying operating profit bridge



Divisional financials

	<u>Revenue</u>		<u>Underlying Operating Profit</u>		<u>Margin</u>	
	<i>Organic</i>		<i>Organic</i>			
	<i>Growth</i>		<i>Growth</i>			
	£m	%	£m	%	%	
Aircraft Braking Systems	353.1	+2	131.7	-1	37.3	Strong bizjet aftermarket offset by lower military revenue
Control Systems	397.9	+3	97.0	0	24.4	Strong growth in civil OE and military offset by civil AM decline
Polymers & Composites	177.4	-1	15.4	-30	8.7	Margin impacted by increased new product introduction costs and lower overhead recovery in fuel tanks
Sensing Systems*	474.8	+3	72.3	-4	15.2	Margin impacted by weaker mix in H2 and prior year provision release
Equipment Group*	244.0	-10	9.1	-73	3.7	
Total	1,647.2	0	325.5	-10	19.8	Profitability reflects weak Heatric trading

* Meggitt Avionics transferred from Equipment Group to Sensing Systems in January 2015

Cash flow

Strong improvement in free cash performance

£m	2015	2014	Change	
Underlying EBITDA	414.5	429.6	-4%	Strong working capital performance, further improved by Heatric receipts
Working capital movement	29.8	-36.3	182%	
Capex	-55.4	-42.2	-31%	Increased furnace capacity in MABS and production capacity in MCS & MPC
Capitalised R&D and PPCs	-123.5	-123.7	0%	
Underlying operating cash flow	265.4	227.4	17%	Higher R&D offset by reduction in PPCs
Pension deficit payments	-24.4	-29.3	17%	Reduced pension funding requirements for US schemes
Operating exceptionals	-10.7	-16.6	36%	
Interest and tax	-31.3	-34.7	10%	
Free cash flow	199.0	146.8	36%	Increase in cash dividend following cancellation of scrip
Dividends paid	-111.1	-51.4		
Share buyback and purchase of own shares	-156.1	-45.2		35.2m shares purchased prior to suspension of programme
M&A	-363.2	-29.1		
Net cash flow	-431.4	21.1		Acquisitions of EDAC and Cobham advanced composites businesses
Free cash flow per share (pence)	25.3	18.3	38%	

Financing and covenants

Strong balance sheet

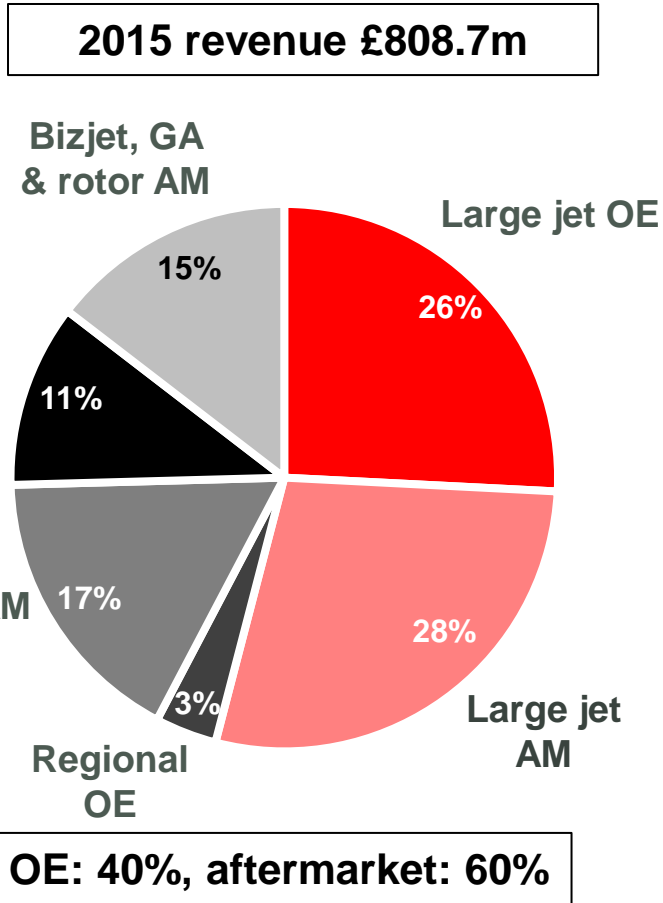
£m	At 31 Dec 2014 at \$1.56	FX	Other	At 31 Dec 2015 at \$1.47
Total assets (excluding cash)	3,844.0	161.1	383.8	4,388.9
Retirement benefit obligations	(317.8)	(7.3)	40.6	(284.5)
Other liabilities	(809.9)	(31.5)	(31.4)	(872.8)
Capital employed	2,716.3	122.3	393.0	3,231.6
Net debt	(575.5)	(39.6)	(438.0)	(1,053.1)
Net assets	2,140.8	82.7	(45.0)	2,178.5
<u>Covenant ratios*</u>				
Net debt/EBITDA ($\leq 3.5x$)	1.2x			2.3x
Interest cover ($\geq 3.0x$)	20.8x			21.4x

Of which, £392m
related to composites
acquisitions

* As defined in financing agreements

Civil aerospace

49% of total revenue



Performance Overview:

- » Organic growth of 4% in OE reflects lower growth in large jet deliveries
- » Aftermarket recovery slowed in H2
- » Business jet revenue up strongly in H1
- » Younger fleet age and availability of surplus parts impacted mix

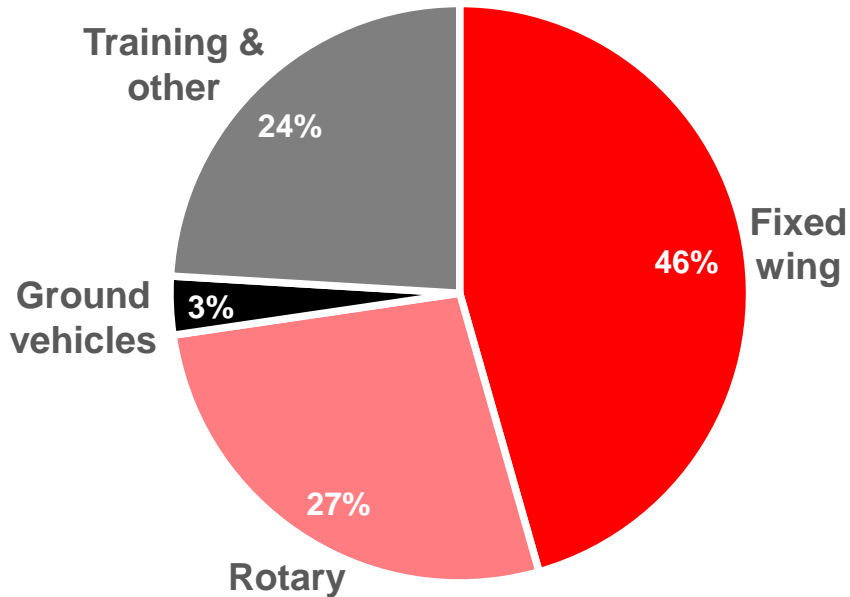
Commercial Highlights:

- » MCS to provide smoke detection system on Boeing 777X
- » Fire suppression system win for A330neo programme
- » Good narrowbody shipset growth through MPC & MCS
- » Acquired businesses secured multi-year LTAs for LEAP, GEnX, GE9x and GE90 engines

Military

35% of total revenue

2015 revenue £570.2m



OE: 60%, aftermarket: 40%

Performance Overview:

- » Strong first half, with effect of CR impacting second half growth
- » MABS military impacted as expected by completion in 2014 of B1-B and Taiwanese Air Force retrofits

Commercial Highlights:

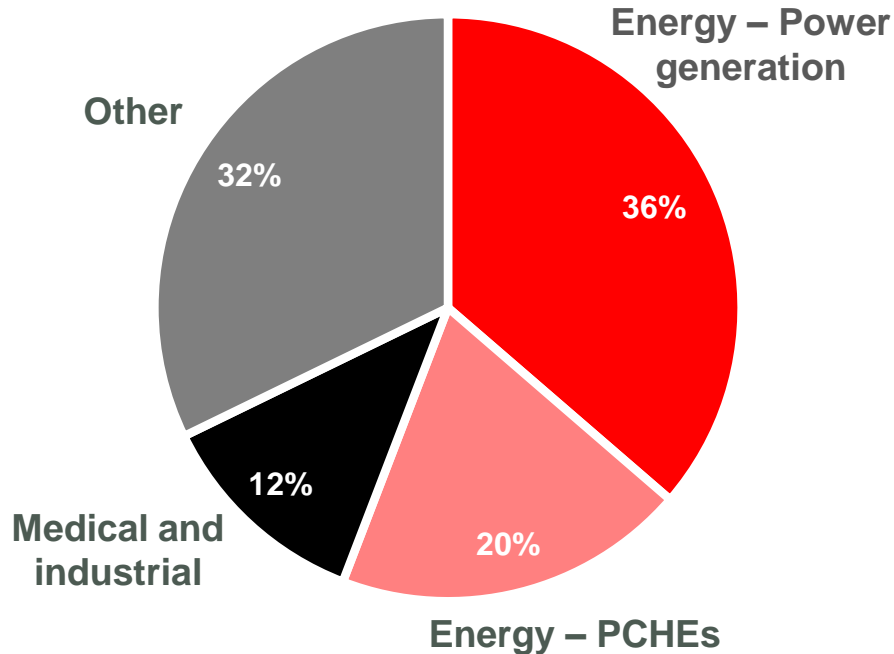
- » \$42m contract for ammunition handling system on the Scout armoured vehicle
- » Training and targets contract awards in Canada, India and the US
- » Retrofit fuel tanks for a number of US DoD aircraft platforms including V-22, Apache and A10

US: 58%; Europe 26%, RoW 16%

Energy & other markets

16% of total revenue

2015 revenue £268.3m



Performance Overview:

- » Revenue decline at Heatric following weakness in commodity prices
- » Further project deferrals will impact 2016 performance; cost reduction under way
- » Energy power generation revenue streams grew in 2015
- » PECC now fully integrated into MCS

Commercial Highlights:

- » New Vibrosmart system selected as standard equipment on new Siemens small gas turbine
- » Strong order intake at Piezotech and Denmark facilities – good growth in medical and industrial segments



End markets and operational review

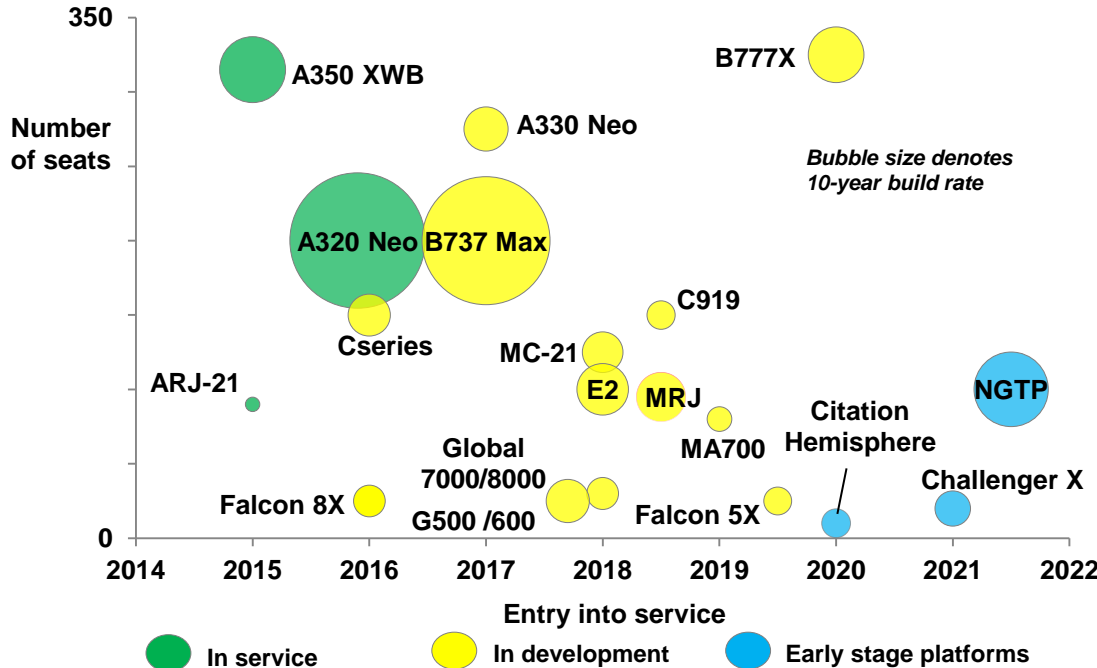
Stephen Young – Chief Executive



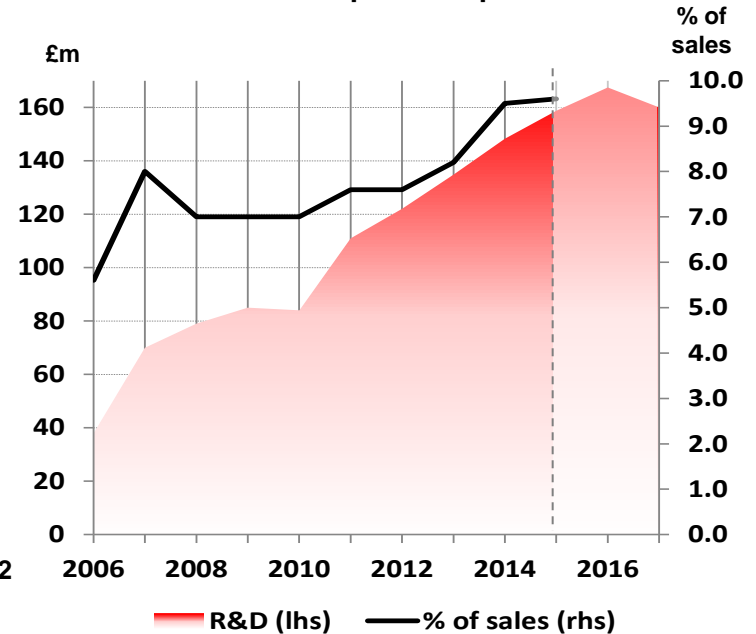
Research and development

Locking in future revenue

Civil aerospace programmes in development



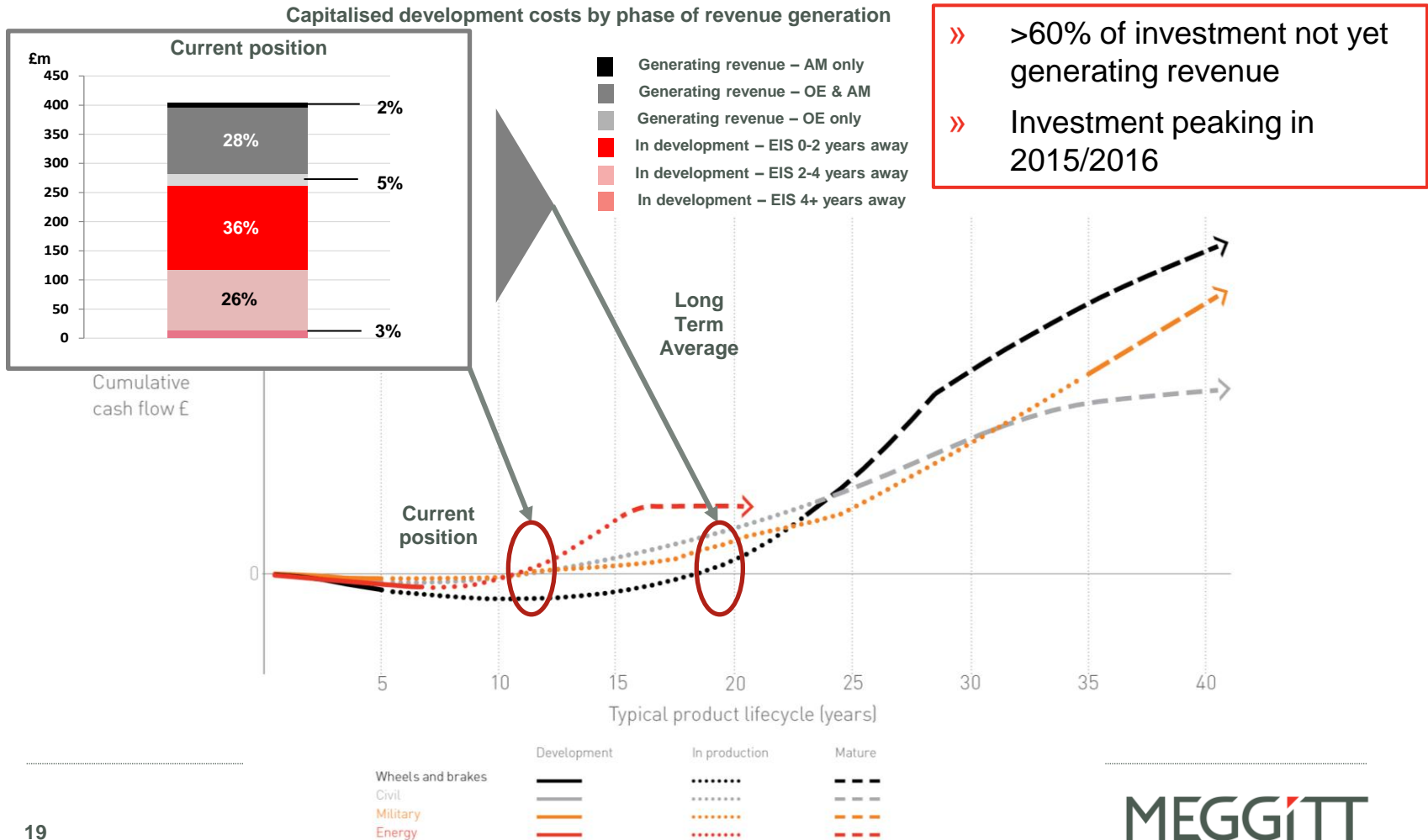
Research and development expenditure



- » EIS scheduled for 13 new platforms over next 5 years
- » R&D and NPI as percentage of revenue will reduce from 2017

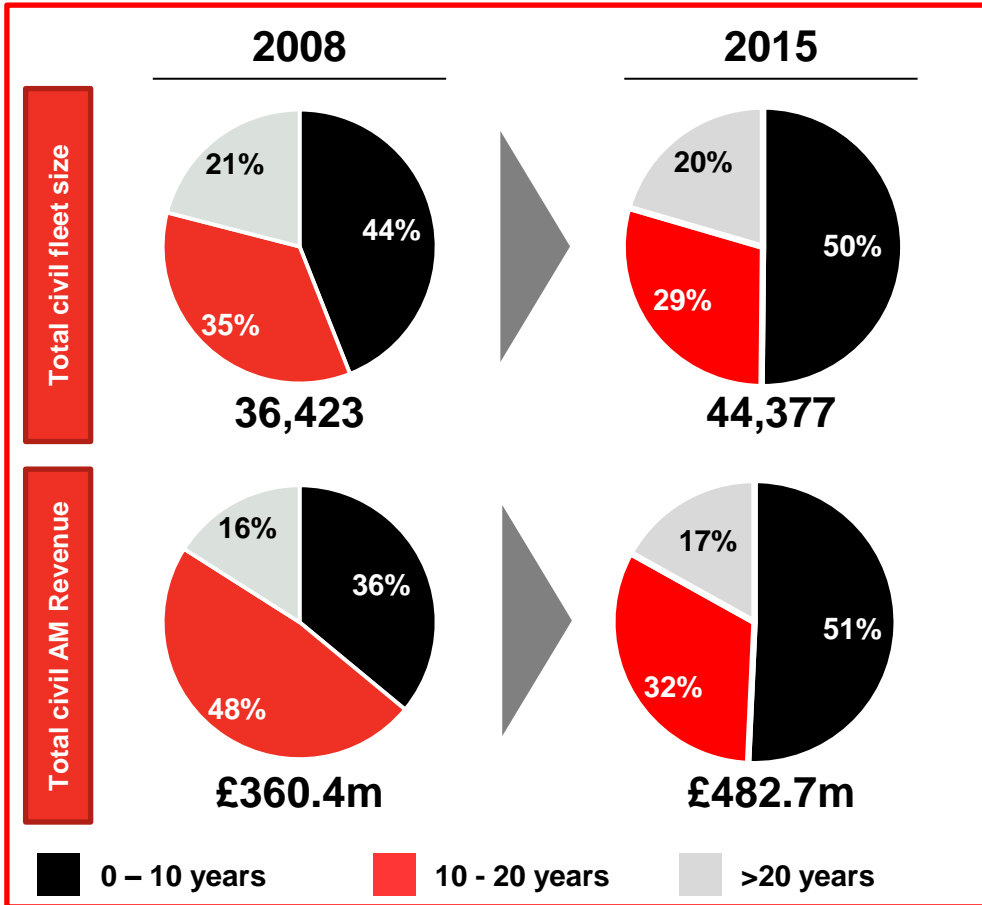
Business model supports cash flow growth

Current investment phase underpins confidence in medium term



Attractive aftermarket fleet profile

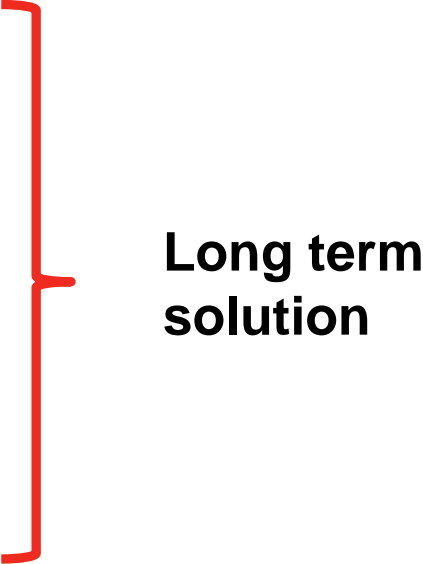
Trends 2008-2015



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

Civil aerospace

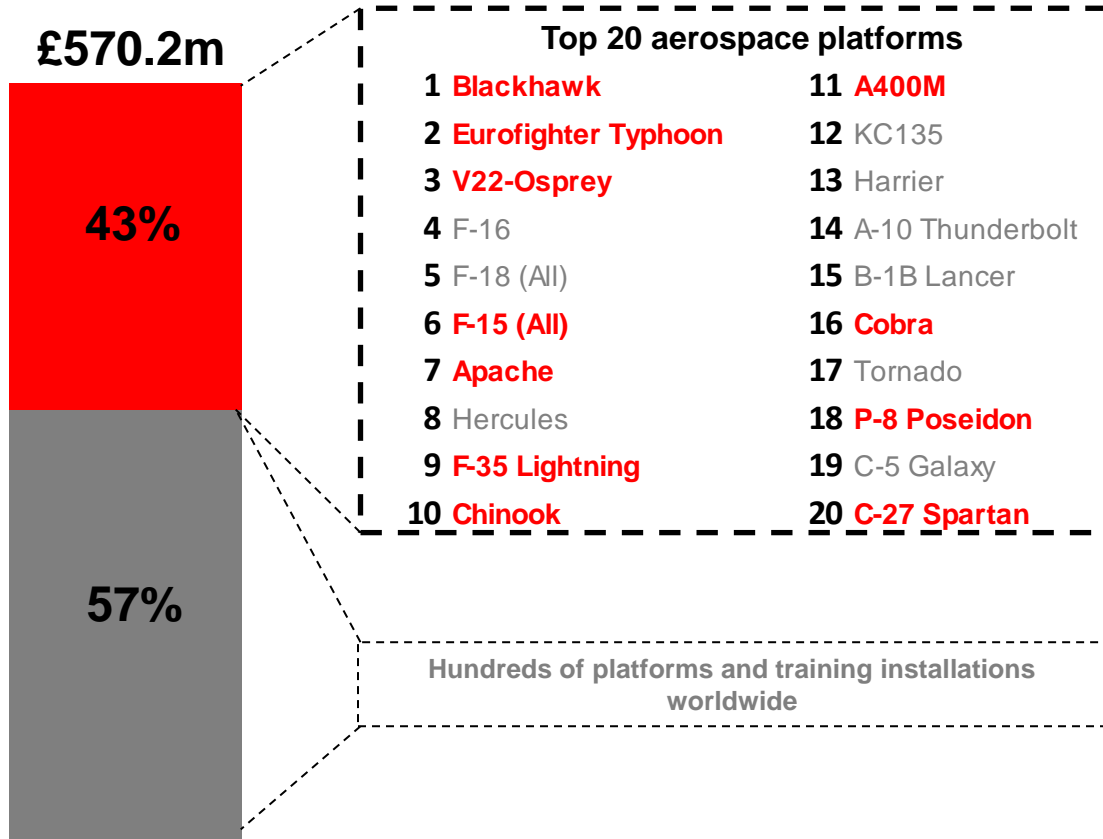
Fundamentals good - CSS a priority

- » Deliveries and traffic remain strong
 - » Focus on execution to support entry into service and delivery ramp-up
 - » CSS phase 1 (2015):
 - New sales structure
 - » CSS phase 2 (from 2016):
 - Capture greater volume of MRO market
 - Distribution network rationalisation plan
 - Increase Meggitt participation in surplus parts
 - Identify upgrade and retrofit opportunities
 - » Investor day will feature CSS
- 
- Long term solution**

Military

Growth in fleets and budgets

- » Military market environment becoming more benign, although some timing uncertainties
- » Broad product and platform exposure
- » Continuing fleet growth
- » Acquisitions boost F-35 shipset value by over **120%**
- » Opportunities for retrofit and reset becoming increasingly apparent



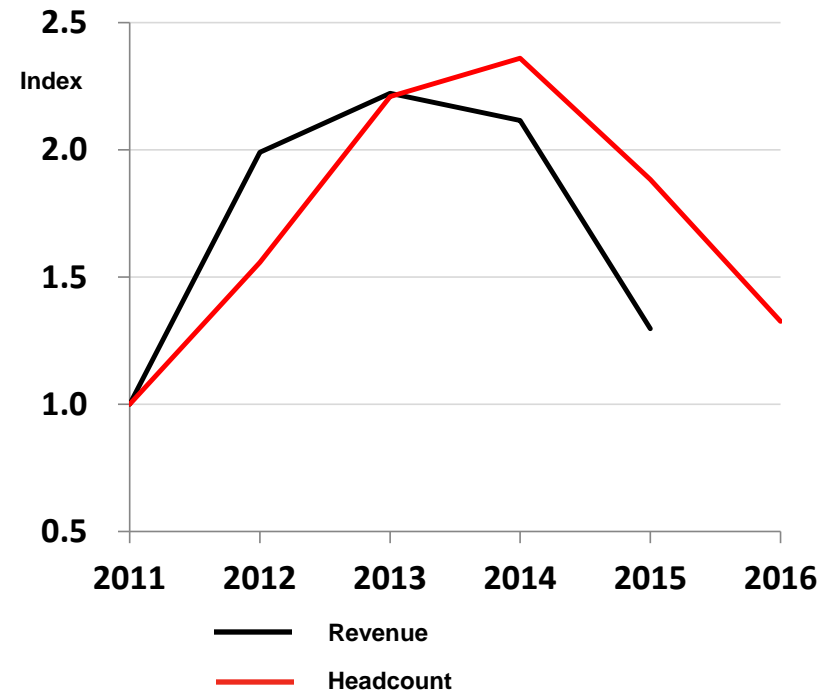
Red font denotes growing fleet

Energy markets

Short term headwinds

- » We continue to see the long term energy opportunity
- » Energy condition monitoring and valves businesses continue to see growth potential
- » Commodity prices have impacted short term prospects at Heatric
- » Reduced the cost base appropriately without impacting future recovery optionality
- » Given the long term opportunity, carrying cost is worthwhile at this time compared with other potential options

Index chart showing revenue and headcount at Heatric



Acquisitions update

World-class composites capability



- » 560 employees
- » 4 sites in US and Mexico
- » Revenue split: 90% civil; 10% other
- » Focus on engine components – positions on every major commercial platform
- » Excellent content on LEAP, PurePower, GEnX, GE9X and GE90 engines













- » 580 employees
- » 4 sites in UK and US
- » Revenue split: 20% civil; 80% military
- » Capability in engine components, radomes and complex secondary structures
- » Excellent content on F35, Typhoon, EA-18G, P-8 Poseidon and Tejas aircraft. Good exposure to growing inflight wifi market

- » High growth potential and broad range of capabilities
- » Integration under way
- » Investor day focus on MPC

FY 2015 summary

- » Organic growth in civil aerospace and flat military revenue offset by a challenging year in energy
- » Continuing to invest in future growth: R&D, NPI and MPS
- » Launch of centralised aftermarket organisation (CSS)
- » Good improvement in free cash flow
- » Balance sheet within target range: net debt at 2.3x EBITDA
- » Integration of the composites acquisitions is progressing well
- » Proposed final dividend up 3%; full year dividend up 5%

Outlook for 2016 & medium-term

	% of sales FY2015	2016 Outlook		Meggitt expectations
		Sales	Mix	
Civil OE	20%			<ul style="list-style-type: none"> Aircraft and engine manufacturer order books support sustained OE growth through the medium term. Shipset gains support medium term growth ahead of the market.
Civil Aftermarket	29%			<ul style="list-style-type: none"> Strong and growing market positions, often on a sole-sourced basis, support good growth potential through the medium term. Uncertainty around the supply of surplus parts inhibits near-term visibility.
Military	35%			<ul style="list-style-type: none"> US FY16 budget agreement suggests good growth potential beyond 2016, with increasing focus on equipment reset presenting opportunities for retrofit contracts.
Energy	9%			<ul style="list-style-type: none"> 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				<ul style="list-style-type: none"> Expectation that Meggitt will outgrow its markets over the cycle

2016 Outlook – low single digit organic growth. M&A will increase reported revenue

Appendix

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. Aircraft OE deliveries
 9. Commercial jet utilisation and retirement rates
 10. Business jet market share and utilisation
 11. Meggitt Production System – update
 12. Divisional end market exposure
 13. Typical MCS programme life cycle
 14. Air traffic history and forecast / Impact of shock events on traffic growth
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Currency PBT Impact

	2014 Act	2015 Act	H1 2016 Est	H2 2016 Est	FY 2016 Est
\$/£ rate					
Translation rate (unhedged)	1.63	1.53	1.45	1.45	1.45
Transaction rate (hedged)	1.54	1.57	1.56	1.56	1.56
Euro rate					
€/£ Translation rate (unhedged)	1.24	1.38	1.30	1.30	1.30
\$/€ Transaction rate (hedged)	1.30	1.36	1.21	1.21	1.21
CHF rate					
CHF/£ Translation rate (unhedged)	1.51	1.47	1.45	1.45	1.45
\$/CHF Transaction rate (hedged)	1.08	1.08	1.06	1.06	1.06
PBT impact £m					
Year-on-year translation		12.6	5.1	7.4	12.5
Year-on-year transaction		(2.1)	2.4	2.9	5.3
Year-on-year currency benefit/(headwind)		10.5	7.5	10.3	17.8

Currency sensitivity:

± 10 US\$ cents = ± £70m Revenue; ± 15m PBT

± 10 Euro cents = ± £9m Revenue; ± 1m PBT

Operating exceptionals

£m	2015 FY Act at \$1.53	2016 FY Est at \$1.45
P&L charge		
Site consolidation	0.9	6-8
Business restructuring costs	9.2	7-9
Integration of acquired businesses	0.3	3-4
Raw material supply issue	-	-
Total	10.4	16-20
Cash out		
Site consolidation	0.9	6-8
Business restructuring costs	4.8	11-13
Integration of acquired businesses	0.1	3-4
Raw material supply issue	4.9	1-2
Total	10.7	21-25

Investment accounts

£m

	2015 Act at \$1.53	FY 2016 est at \$1.45	FY 2017 est at \$1.45
1. R&D			
Total expenditure	159	160-180	150-170
Less: customer funded	<u>(27)</u>	<u>(30-40)</u>	<u>(20-30)</u>
Company spend	132	130-140	125-140
Capitalisation	(85)	(75-85)	(70-85)
Amortisation/impairment	<u>14</u>	<u>15-20</u>	<u>17-22</u>
Income statement	61	70-80	70-85
2. Programme participation costs	43	48-58	65-75
Amortisation	29	30-33	33-38
3. Fixed assets	55	95-110	120-140
Depreciation/amortisation	46	53-58	60-65
4. Retirement benefit deficit payments	24	28*	35*

* Subject to outcome of UK triennial valuation

Shares in issue

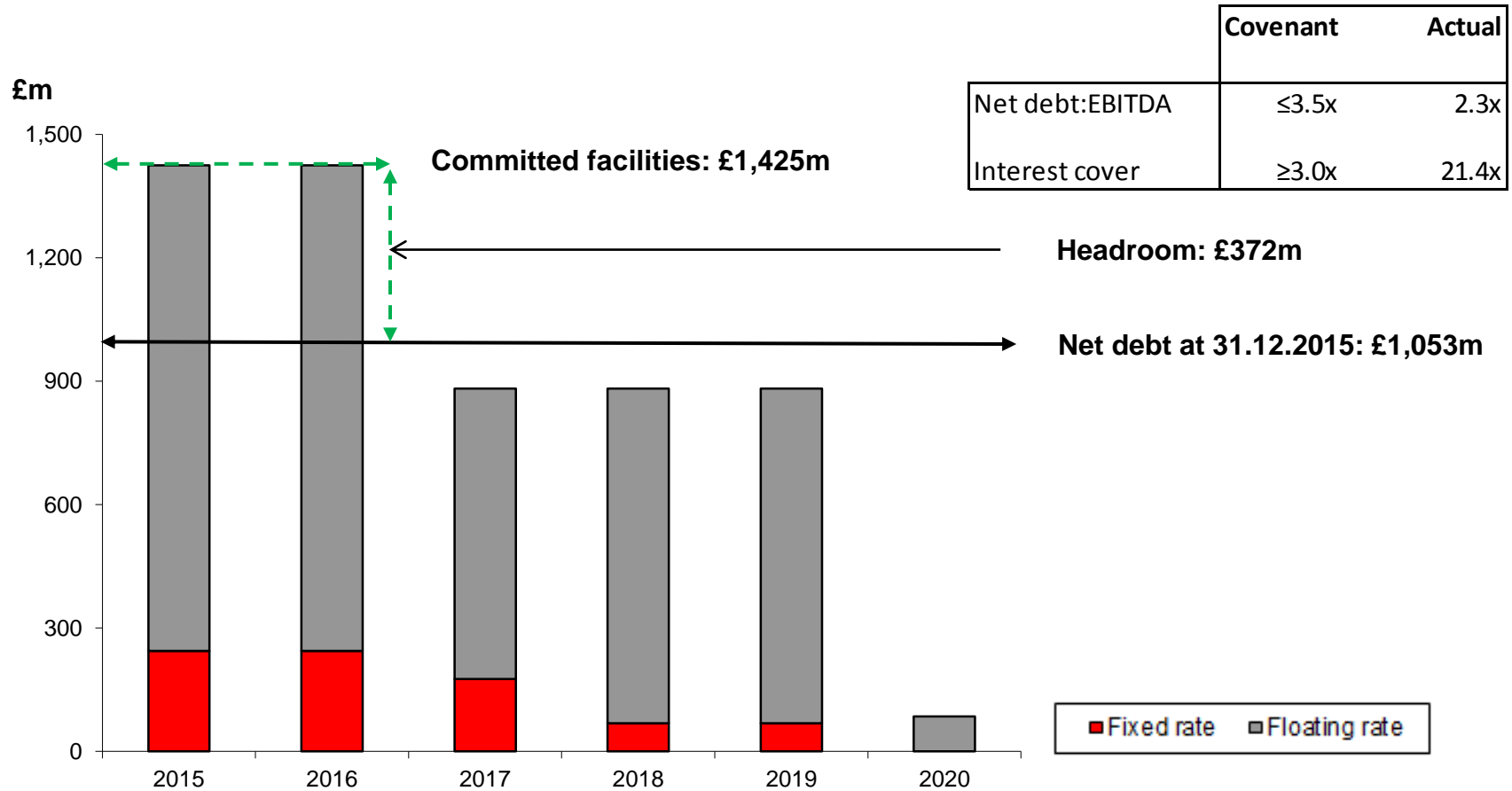
Shares in millions

	2014	2015
Opening	797.1	802.3
Buyback	(6.8)	(28.3)
Scrip/Share schemes *	12.0	1.5
Closing	<u>802.3</u>	<u>775.5</u>
Average	804.1	785.4

* The scrip dividend has been replaced by a dividend reinvestment plan for 2015 dividend payments.

Credit maturity profile

As at 31 December 2015



Retirement benefits

£m

	2014	2015
Opening deficit	(238.1)	(317.8)
Net deficit payments	29.3	24.4
Actuarial movements - assets	30.9	(7.2)
Actuarial movements - liabilities	(128.6)	36.6
	<u>(97.7)</u>	<u>29.4</u>
Other movements	(11.3)	(20.5)
Closing deficit	<u>(317.8)</u>	<u>(284.5)</u>
UK discount rate	3.60%	3.85%
US discount rate	3.85%	4.20%

Capital allocation

Investing for growth

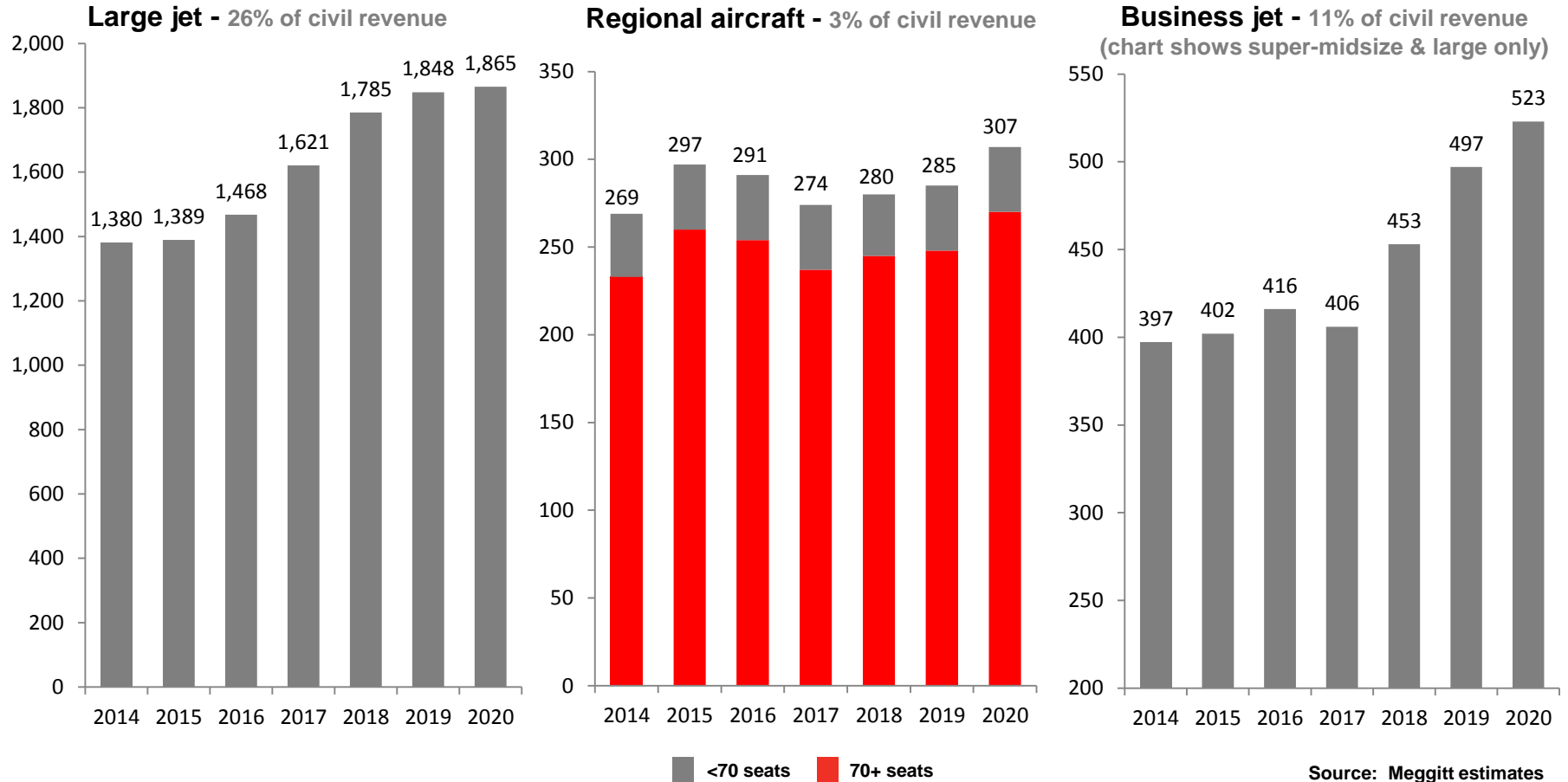
» Context:

- 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

Aircraft OE deliveries

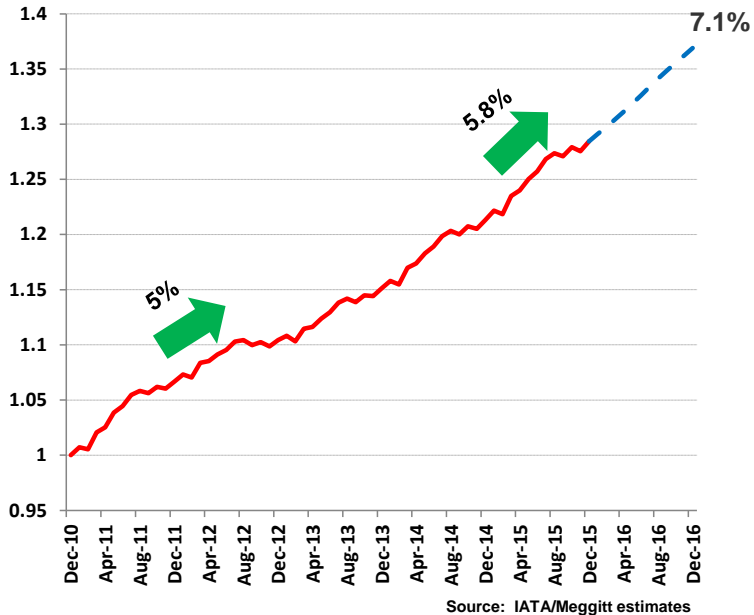


Source: Meggitt estimates

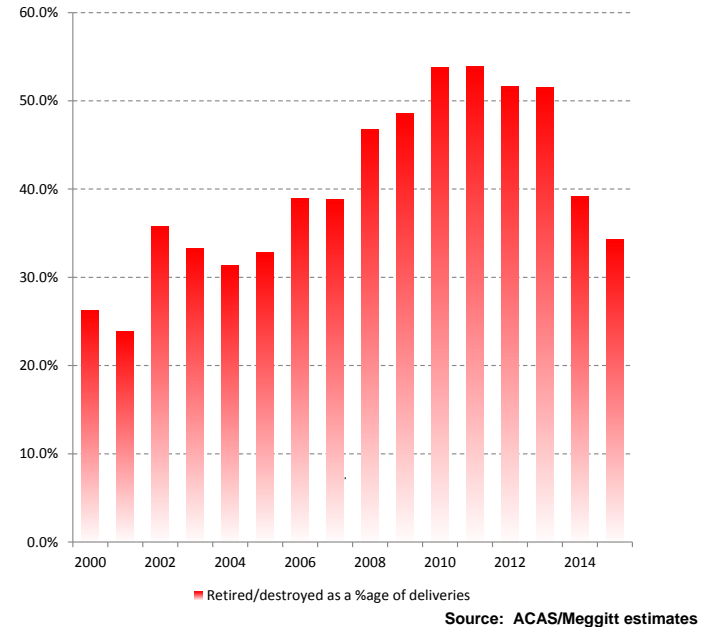
Civil aerospace aftermarket

Commercial jet utilisation and retirement rates

Available seat kilometres MAT Index



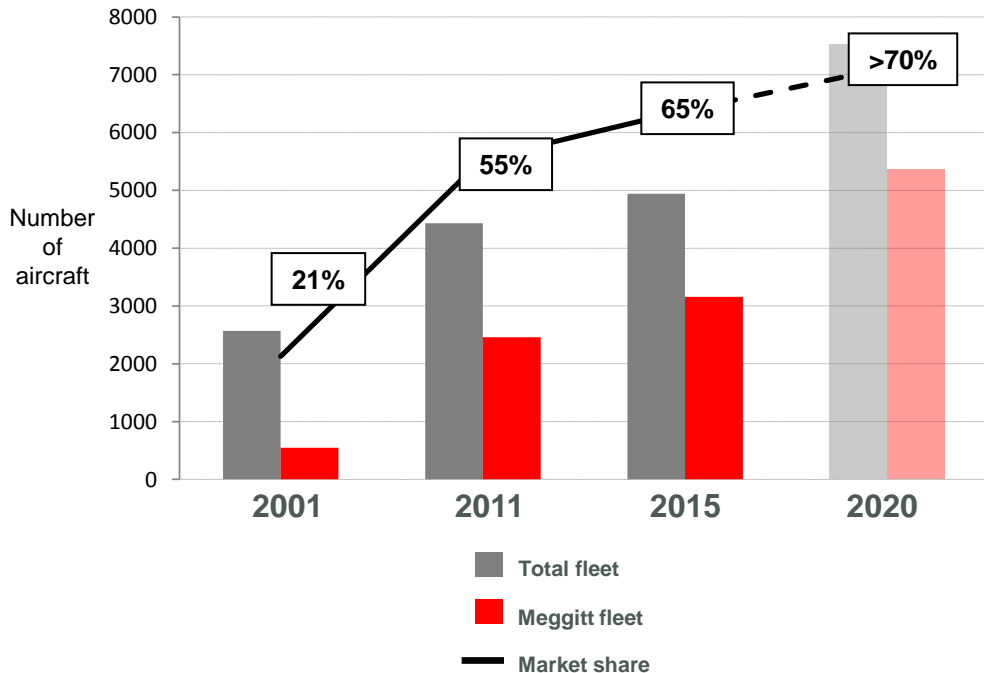
Retirements as a percentage of deliveries



Civil aerospace aftermarket

Business jet market share and utilisation

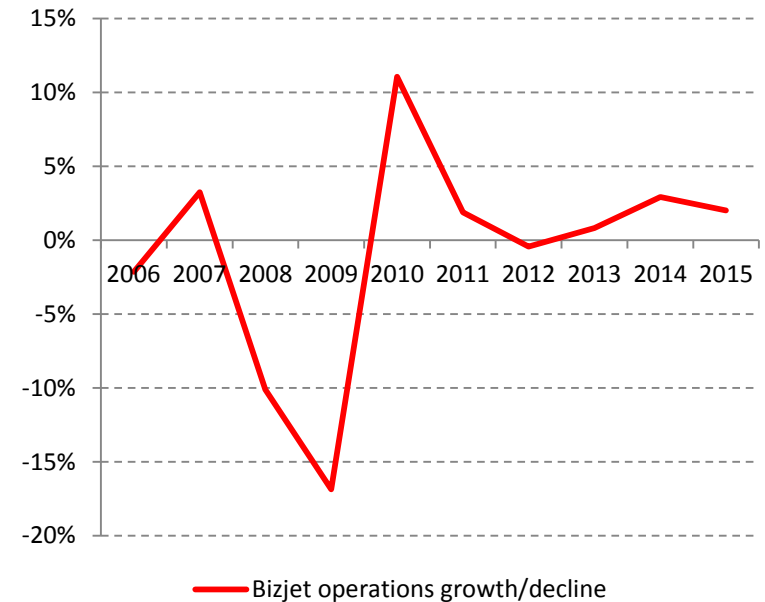
Meggitt share of super mid-size & large business jet wheels & brakes market



Source: Meggitt estimates

» Significant market share gains and fleet growth

Business jet operations (US & EU only)



Source: Eurosky/ETMSC & Meggitt estimates

» Modest growth in US & EU traffic in 2015

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

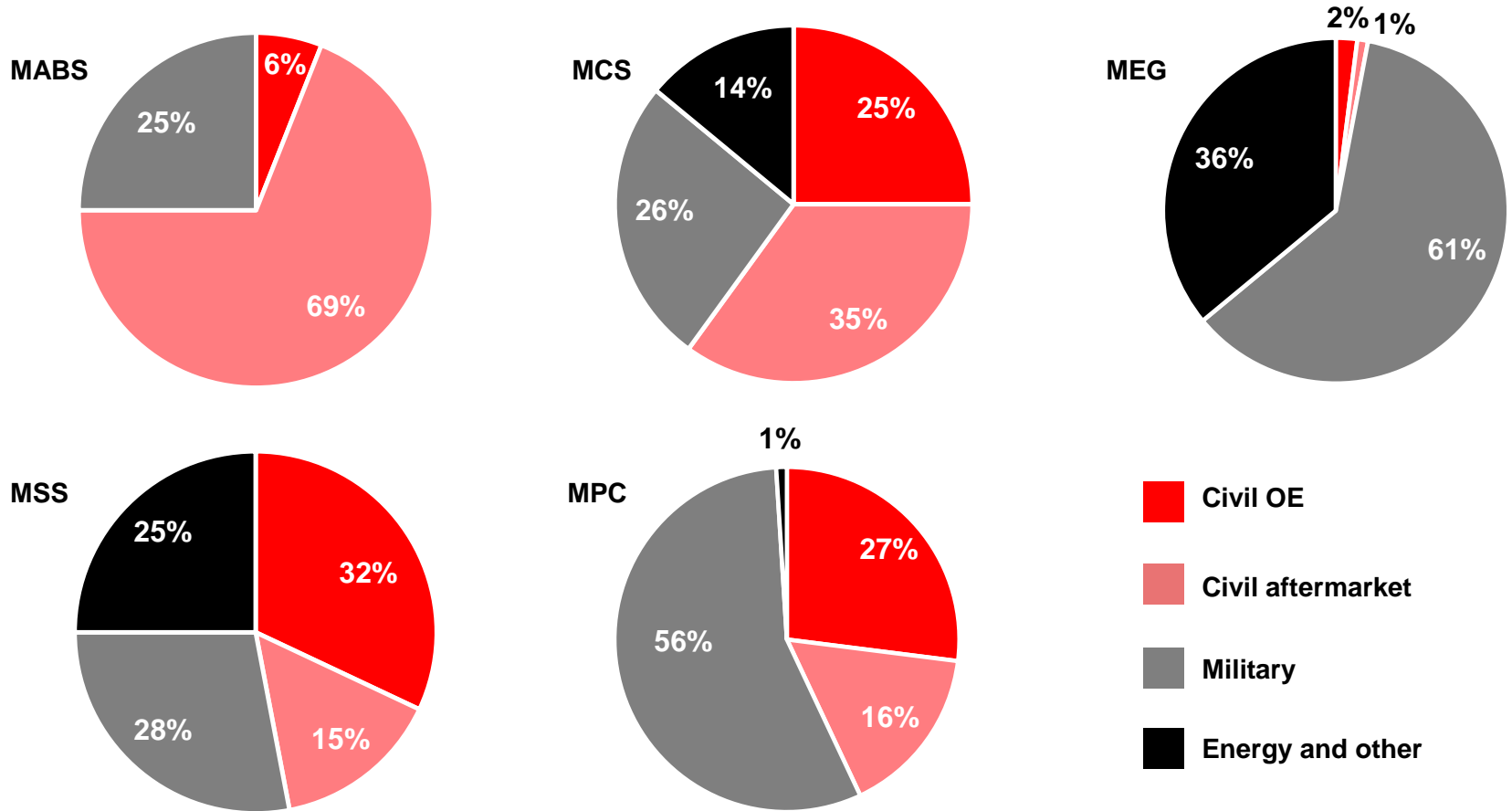
Medium term goals

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

Site launch timeline

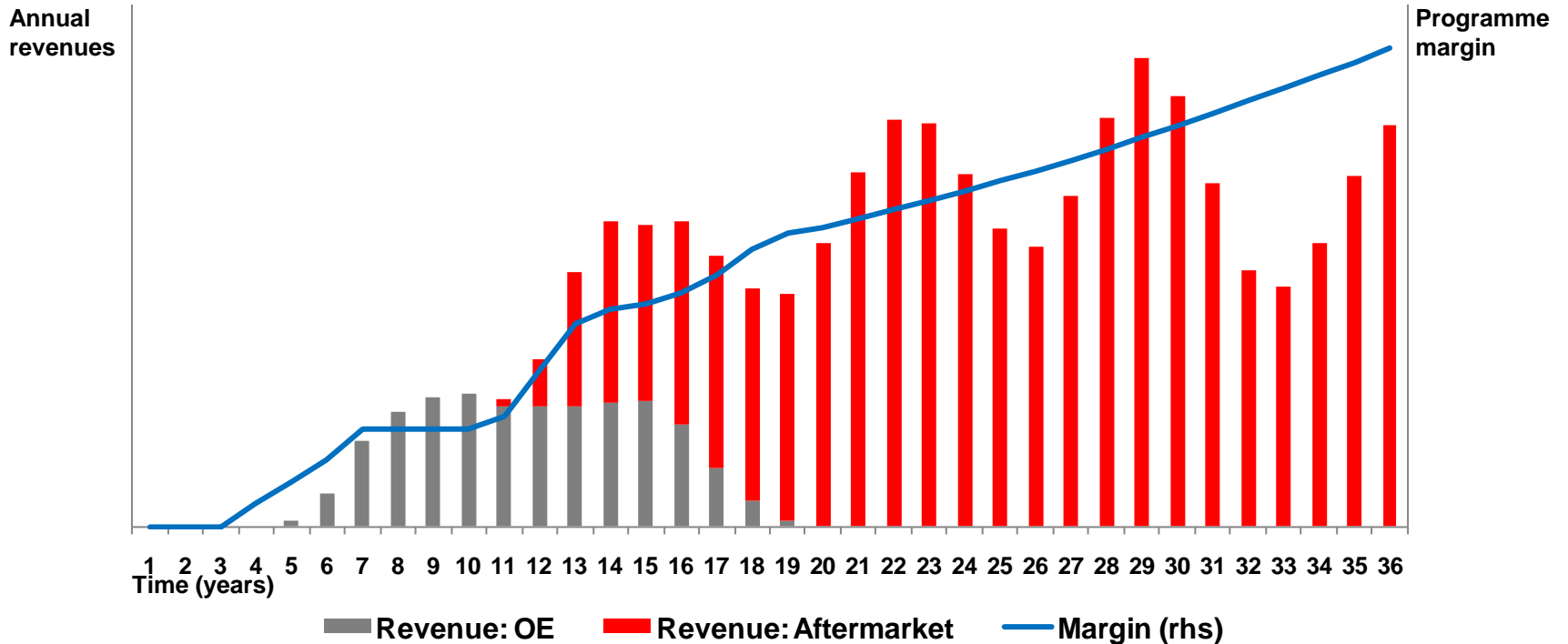


Divisional end market exposures FY2015



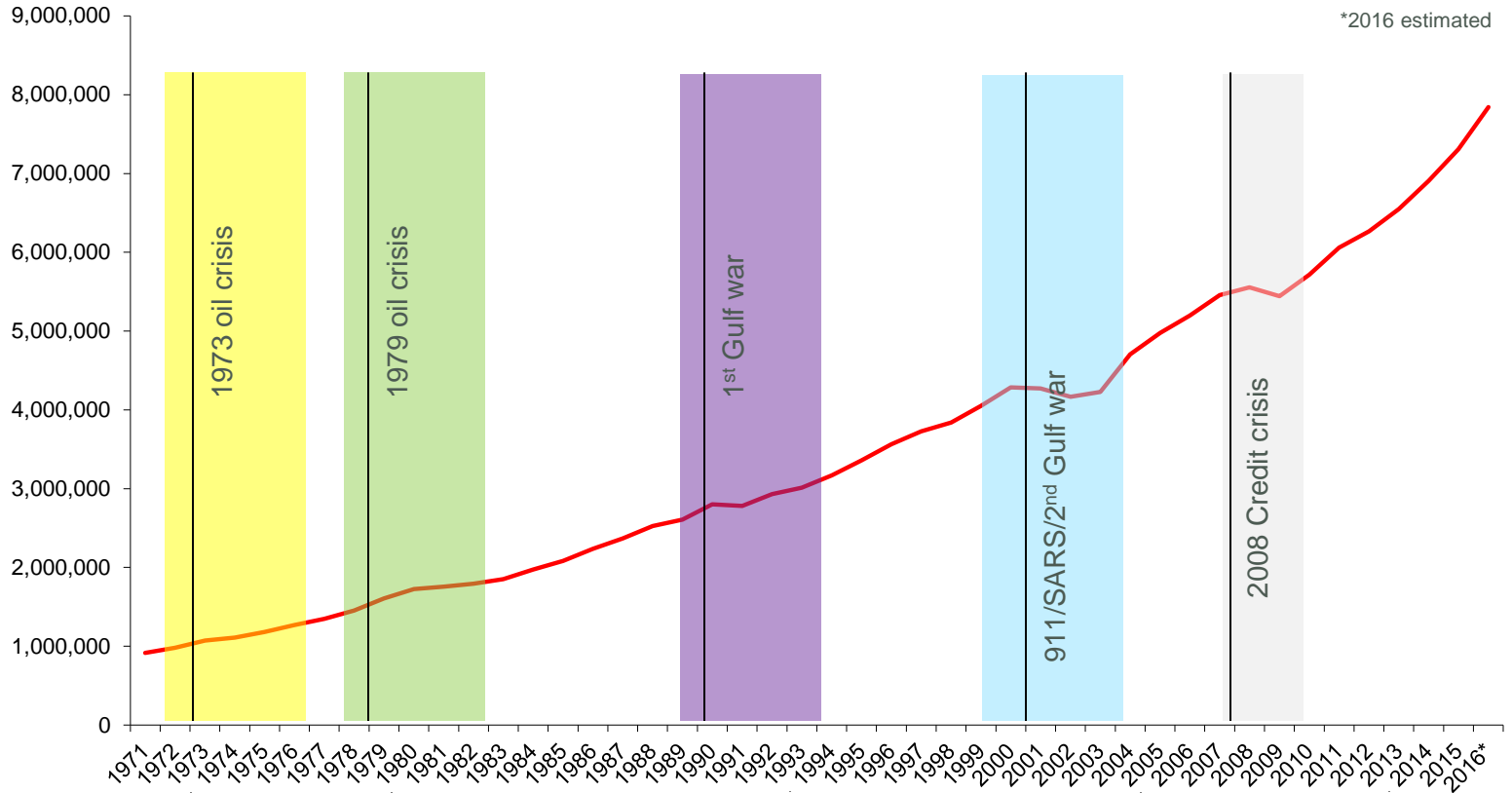
Civil aerospace

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

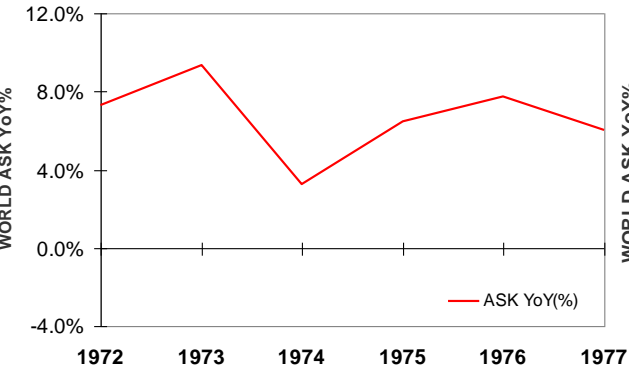


TOTAL WORLD ASKs 1970-2015*

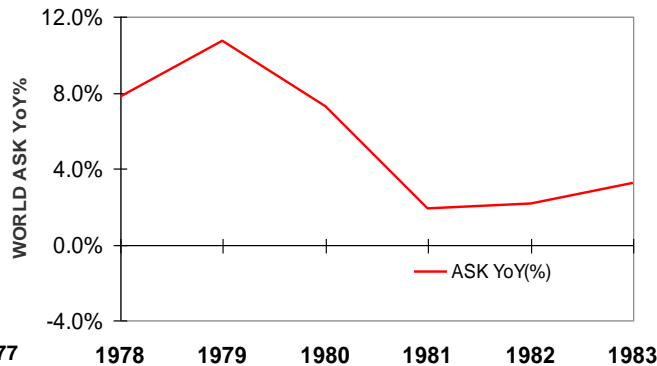
Source: ICAO – worldwide traffic, international & domestic...

Impact of 'shock' events on traffic growth

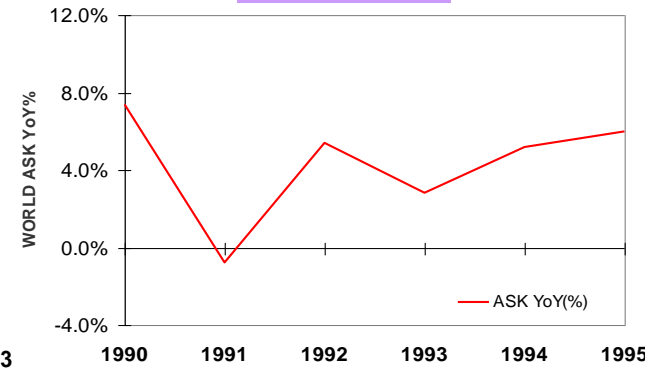
1973 Oil Crisis



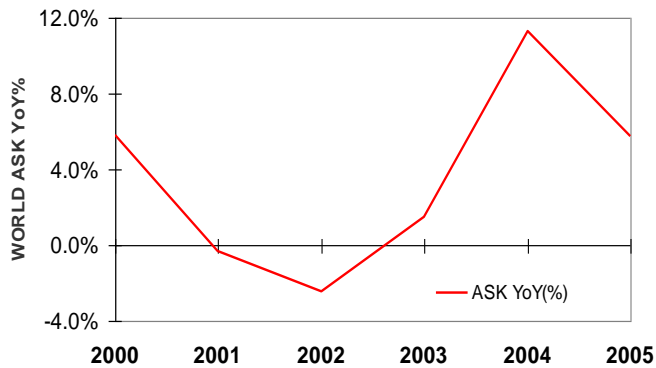
1979 Oil Crisis



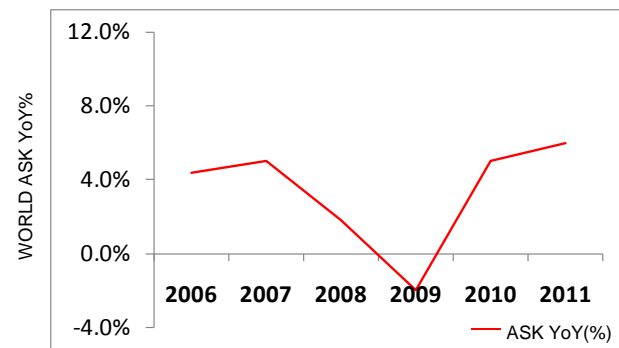
1991 First Gulf War



2001 9/11, SARS and Second Gulf War



2008 Credit crisis



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