

# 2019 INTERIM RESULTS



**6 August 2019**

presented by  
Tony Wood, Chief Executive  
Louisa Burdett, Chief Financial Officer

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# HIGHLIGHTS

**Tony Wood**  
Chief Executive

# Financial highlights

## Continued strong growth

- Full year organic revenue guidance upgraded to 4-6%<sup>1</sup> / margin guidance maintained at 0-50 bps
- Organic orders up 7%; book to bill of 1.13x
- Organic revenue up 9%
  - Civil OE +11%
  - Civil AM +7%
  - Defence +13%
  - Energy -1%
- Underlying operating profit up 7% to £161m (margin of 15.0%)
- Free cash flow up 80% to £49m
- Interim dividend increased by 5% to 5.55p





# Strategic highlights

## Further strong progress in strategy execution

### Strategic priority



### 2019 H1 progress

#### Portfolio Strategy

- Continued progress in developing new technologies: optical sensing, thermal systems, fire protection and braking systems
- 75% of revenue in attractive markets with strong positions

#### Customers

- Further share gains in civil including wins with Safran, Embraer and Textron
- Book to bill of 1.33 in defence including cockpit equipment and composites on F-35 and fuel tanks on F/A-18 and C-130
- Aftermarket agreements with Lufthansa Technik, Pratt & Whitney and Delta

#### Competitiveness

- Purchased costs down 2%
- Footprint down 25%<sup>1</sup> following closure of Miami site and two non-core disposals
- MPS progress continues – over 30% of sites now in Bronze or later phases
- Improving operational performance at engine composites

#### Culture

- Positive customer feedback on new customer-aligned organisation at Paris Air Show
- Cross-business ventures easier to execute including continued evolution of our Services & Support division
- 4,500+ leaders now trained in High Performance Culture

# FINANCIAL OVERVIEW

**Louisa Burdett**  
Chief Financial Officer

# Income statement

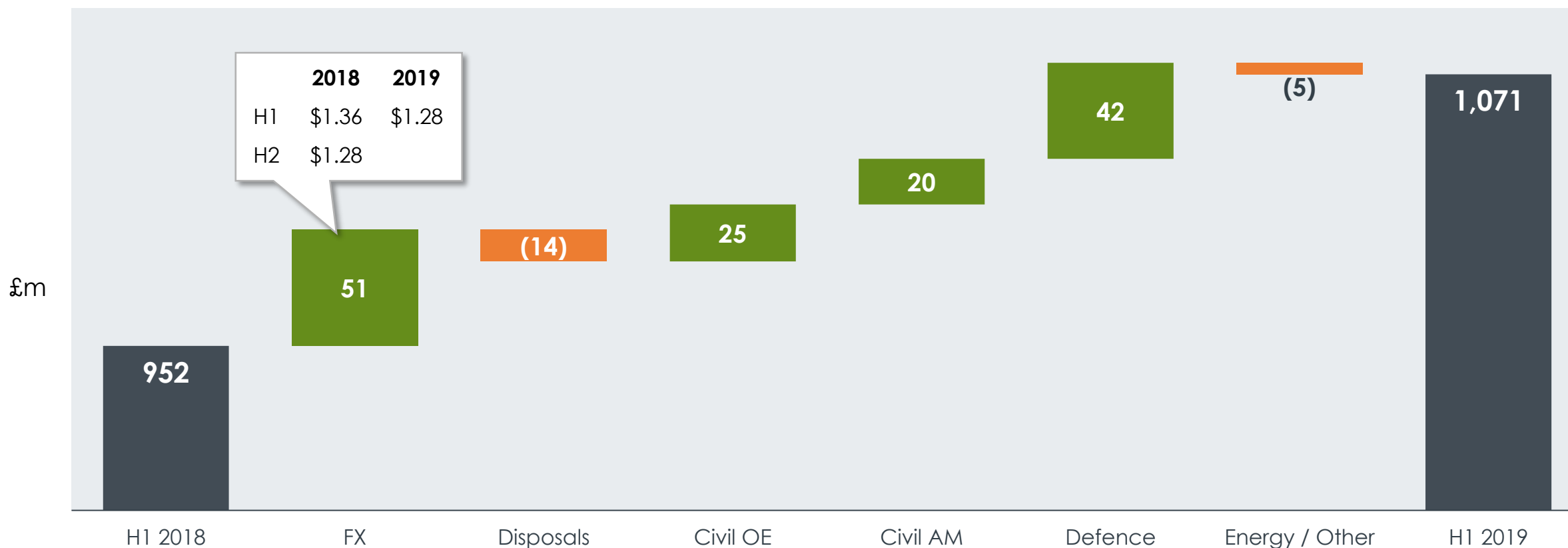
## Strong organic revenue growth

Underlying	H1 2019	H1 2018	Growth (%)		
	£m	£m	Reported	Organic <sup>1</sup>	
Orders	1,193	1,087	10	7	Book to bill of 1.13x
Revenue	1,071	952	12	9	
Operating profit	161	151	7	2	Strong organic growth, particularly in civil OE and defence
Operating margin	15.0%	15.8%			
Net finance costs	(16)	(15)	7	4	Underlying margin improvement offset by additional costs at engine composites and investment in installed base (mix, FOC, D&A)
Profit before tax	145	136	7	2	
Tax	(32)	(28)	12		Exchange rate movements on dollar denominated debt and higher US interest rates
Tax rate	22%	21%			
<b>Profit for the half year</b>	<b>113</b>	<b>108</b>	5		
Earnings per share	14.7p	13.9p	6		
Interim dividend	5.55p	5.30p	5		

<sup>1</sup> Organic growth adjusted to exclude FX and divestments

# Revenue

Strong organic growth across aerospace and defence markets



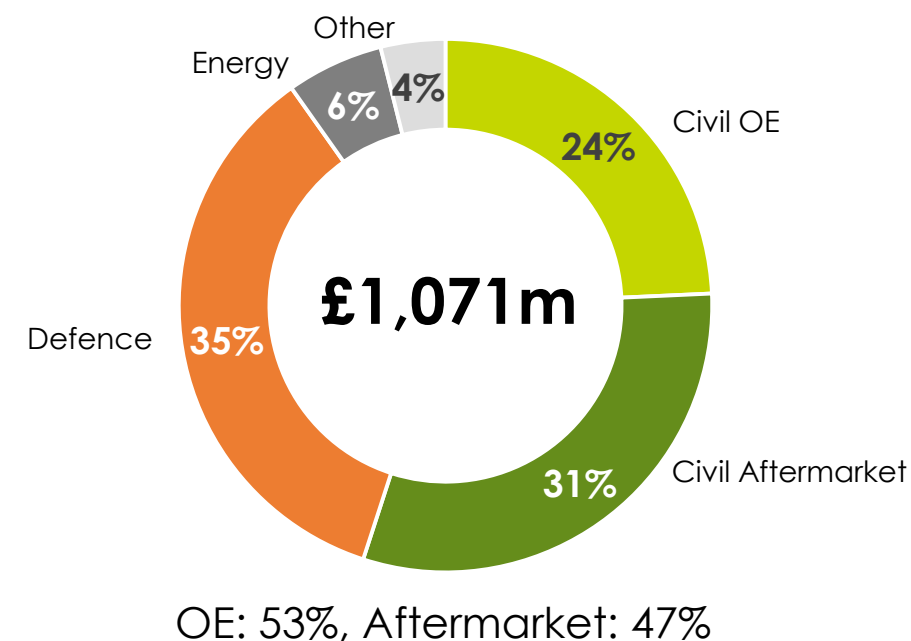


# Revenue by market

Strong organic growth across aerospace and defence markets

	<b>HY19 Orders</b>	<b>HY19 Revenue</b>
	Organic Growth	Organic Growth
Civil OE	(8%)	11%
Civil AM	(7%)	7%
<b>Total Civil</b>	<b>(8%)</b>	<b>9%</b>
Defence	30%	13%
Energy	24%	(1%)
Other	(17%)	(14%)
<b>Total Group</b>	<b>7%</b>	<b>9%</b>

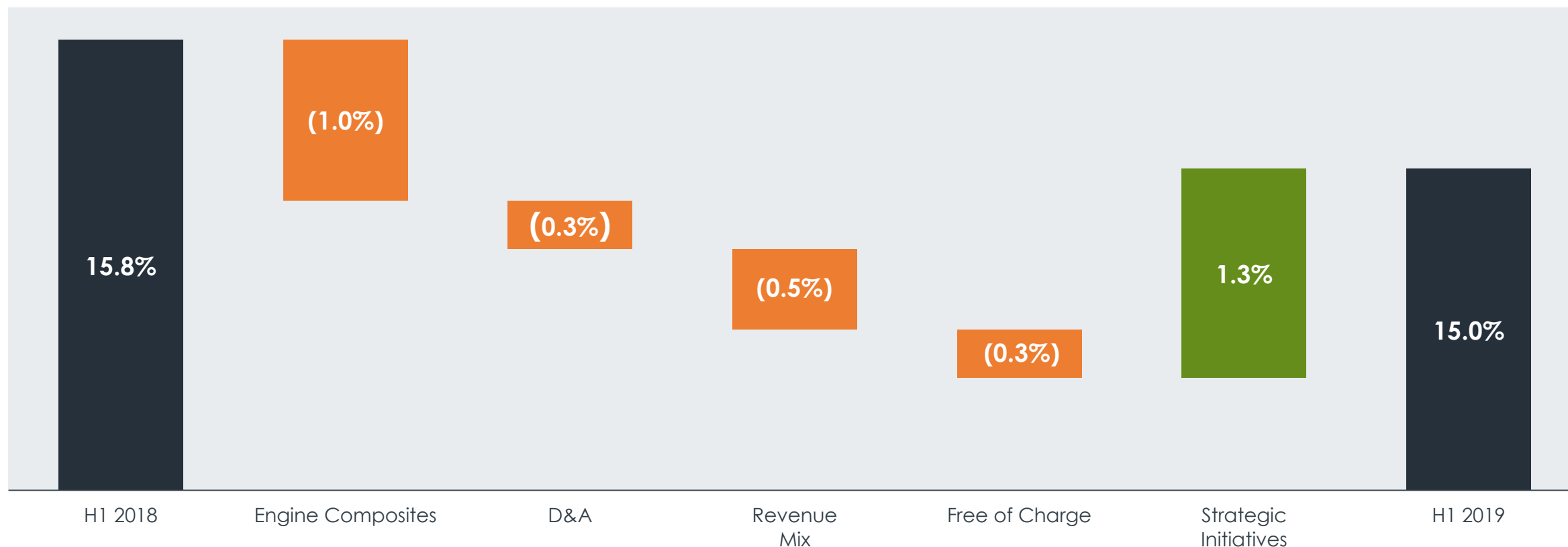
HY19 Revenue by market



**ORGANIC REVENUE GUIDANCE UPGRADED TO 4-6% (FROM 3-5%)**

## Underlying operating margin

Benefits of strategic initiatives partly offset by increased costs at Engine Composites in H1



**MARGIN GUIDANCE RECONFIRMED AT 0-50 BPS**

# Divisional financials

## Summary

	Revenue		Underlying operating profit	Margin		
		Organic Growth		H1 19	H1 18	
	£m	%	£m	%	%	
Airframe Systems	498	6	103	20.7	21.5	Growth in FOC brakes and least mature MPS sites offset strong underlying improvements across the broader division
Engine Systems	159	21	5	3.0	8.3	Increased demand for engine composites
Energy & Equipment	192	9	21	11.2	7.0	Margin accretive divestments and growing efficiencies from mature MPS sites
Services & Support	219	9	32	14.5	16.5	
<b>Total<sup>1</sup></b>	<b>1,071</b>	<b>9</b>	<b>161</b>	<b>15.0</b>	<b>15.8</b>	Good performance across all end markets with defence demand enhanced by stocking associated with a new distributor partnership

# Free cash flow

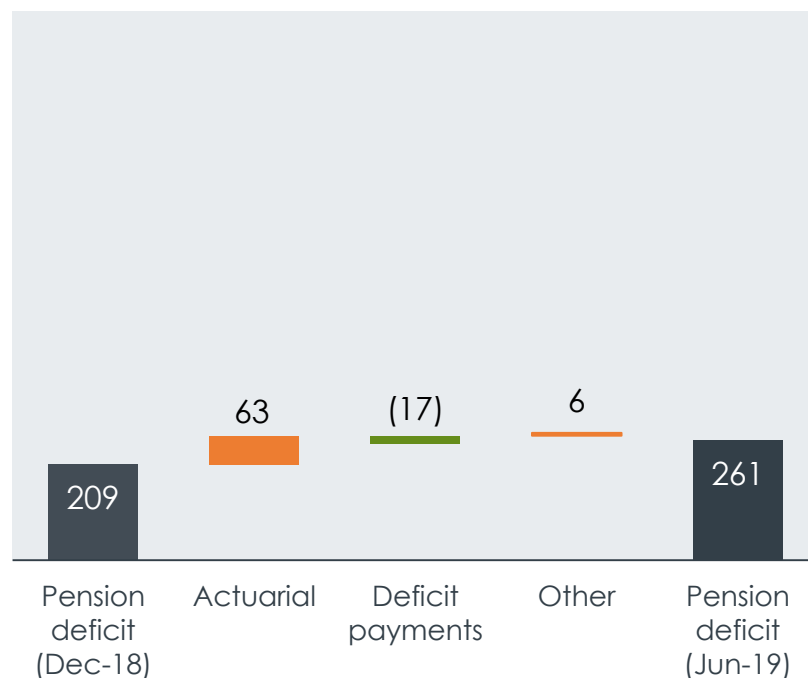
## Strong H1 cash generation

	H1 2019	H1 2018	Change (%)	
<b>Underlying EBITDA</b>	<b>212</b>	<b>197</b>	8%	
Working capital movement	(72)	(57)	27%	Inventory buffers for site consolidations, Brexit and supply chain shortages and to accelerate growth in services
Capitalised R&D/PPCs	(26)	(28)	(6%)	
Capex	(37)	(37)	-	Continued reduction in capitalised R&D
<b>Underlying operating cash flow</b>	<b>77</b>	<b>75</b>	<b>2%</b>	
Pension deficit payments	(17)	(16)	5%	Increase in site consolidation and business restructuring expenses
Operating exceptionals	(12)	(5)	125%	
Sale of Holbrook Lane	21	-		Reduction in cash tax due to US tax refunds and UK deductions (IFRS 15)
Interest & tax	(20)	(27)	(24%)	
<b>Free cash flow</b>	<b>49</b>	<b>27</b>	<b>80%</b>	

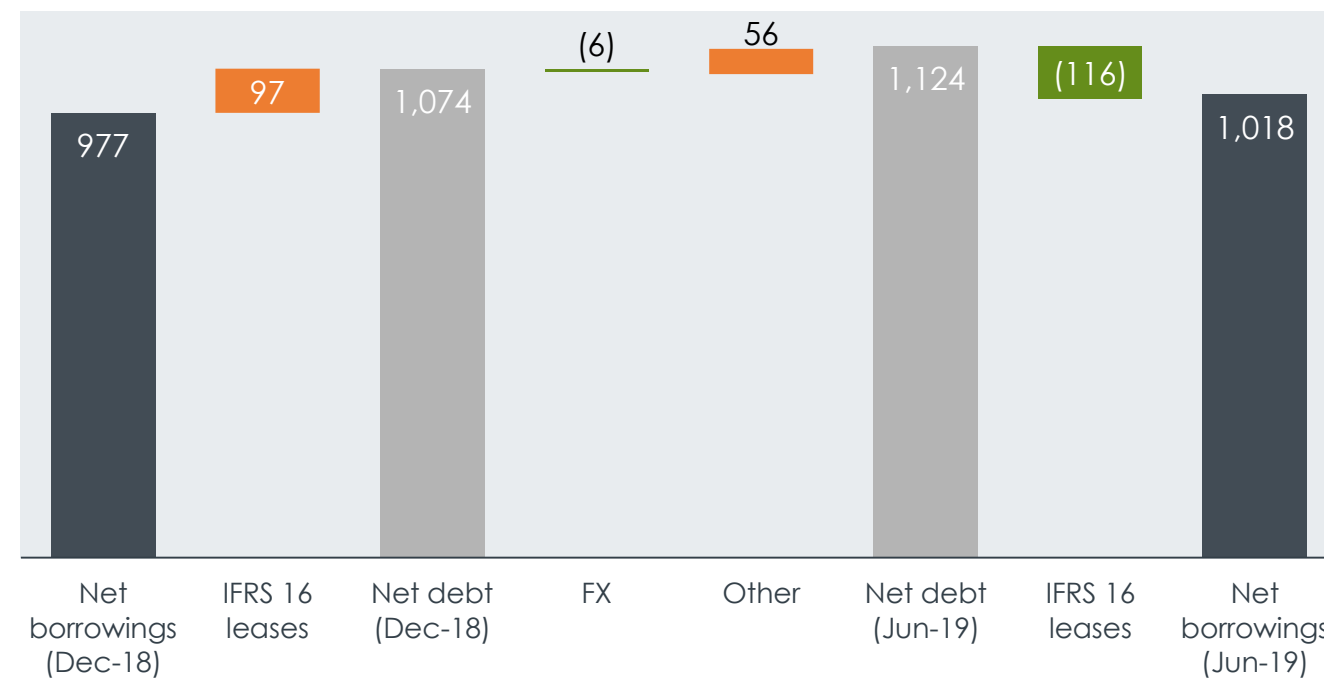
# Financing and covenants

## Healthy balance sheet

### Pension deficit



### Net borrowings



#### COVENANT RATIOS:

**NET BORROWINGS / EBITDA ( $\leq 3.5x$ )**

**Jun 2019: 1.8x**

**INTEREST COVER ( $\geq 3.0x$ )**

**Jun 2019: 15.0x**

# MARKET AND STRATEGY OVERVIEW

**Tony Wood**  
Chief Executive



# Market dynamics

Strong underlying demand drivers underpin outlook for long term Meggitt growth



## CIVIL OE

- 11% decrease in Large Jet deliveries as a result of 737MAX grounding<sup>1</sup>
- Large Jet delivery growth to plateau in early 2020s
- Business and Regional Jets expected to lag Large Jet growth
- **Strong content on new Large Jet platforms means Meggitt is well positioned**



## DEFENCE

- Continued growth in US Procurement and O&M outlays
- F-35 deliveries grew by 18% in H1
- FY20 budget request of \$738bn (up 3%)
- Non-US defence spending growth lower
- **Positions on fastest growing and hardest working fleet underpins healthy outlook**



## CIVIL AM

- Air traffic growth eased to 4.6% in H1
- Constrained capacity keeping load factors high (81%)
- 0% growth in business jet and 3% growth in regional jet utilisation in H1
- **Installed base of ~50k civil aircraft and growing content on new Large Jets offset slower growth in Business and Regional Jet**

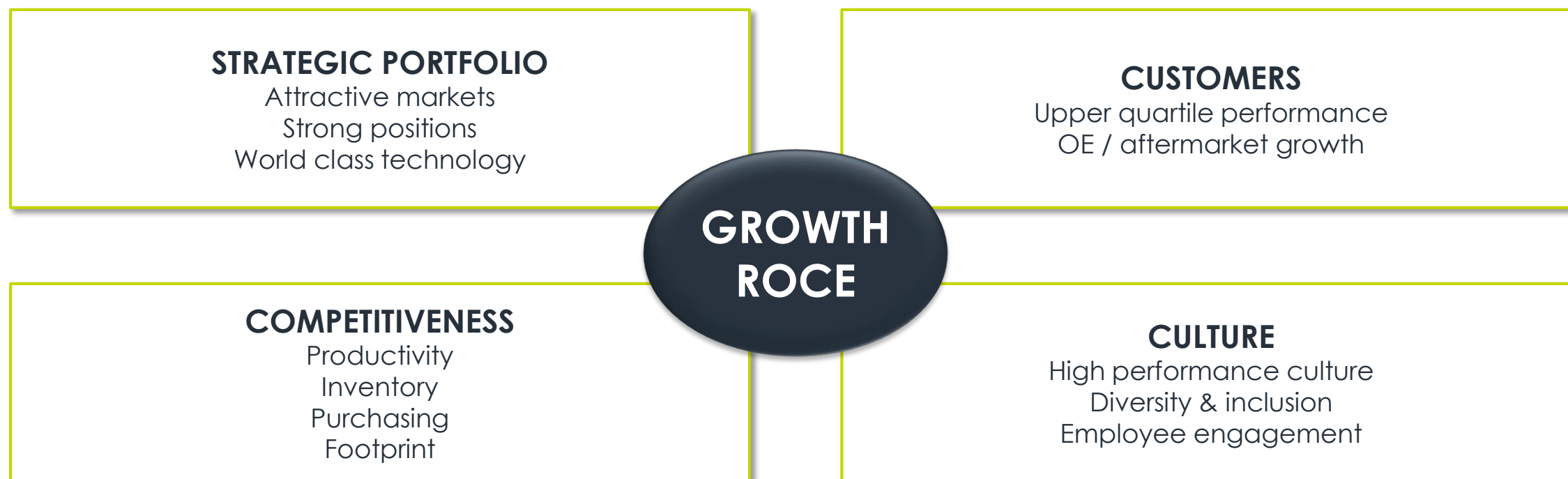


## ENERGY

- Growth in renewable energy driving increased demand for small frame turbines
- Demand for large frame turbines continues to decrease
- **Strong aero-derivative technology positions / exposure to renewables (small frame turbines) and LNG (PCHes) supports outlook for growth**

# Our strategy

Four priorities to increase growth and returns



# Strategic Portfolio

Differentiated technology for next generation programmes

70%+

of revenue from sole-source, life of programme positions based on our extensive IP portfolio



**Optical Sensing:** Partnership with Luna Innovations to deploy optical sensors in Bleed Air Leak Detection Systems



**Fire Protection:** Continued investment to maintain our leading position in fire protection and detection systems



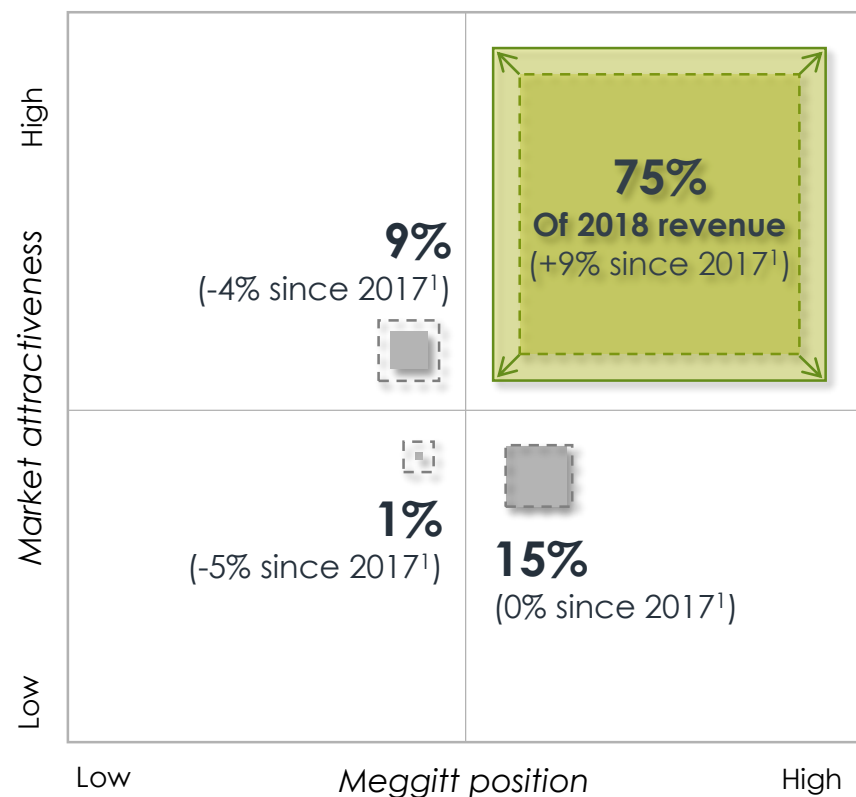
**Braking Systems:** Half a million landings on eBrake, our all electric braking system installed on the Airbus A220



**Thermal Systems:** Radically improved thermal technologies to enable the next generation of novel and hybrid aircraft propulsion

# Strategic Portfolio

Increased focus on attractive markets where we can win



## Exit of Endevo

- Provider of high performance sensors for non-aerospace test and measurement applications
- 100 employees based in two sites in Southern California
- Sold in August 2019 for £55m
- Generated £21m revenue during FY18



## Exit of Meggitt France SAS

- Non-core ignition and electronics supplier to a range of aerospace, defence and industrial customers
- 70 employees based in South West France
- Sold in April 2019
- Generated £11m revenue during FY18



# Customers

Expanding relationships with key customers through differentiated technology

**Defence  
Logistics  
Agency**

F/A-18 Fuel  
Tanks



**Textron**  
Cessna Fire  
Protection  
Systems



**JGC**  
LNG Canada  
Heat  
Exchangers



**Lockheed  
Martin**  
C-130J Fuel  
Tanks



**Embraer**  
Praetor Braking  
Systems



**Lufthansa  
Technik**  
China MRO  
Partnership



**Lockheed  
Martin**  
F-35 Cockpit  
Equipment



**Dassault**  
Falcon 6X  
Braking  
Systems



**Safran**  
Anti-Ice  
Valves



**1.13x**  
Book to bill<sup>1</sup>

# Customers

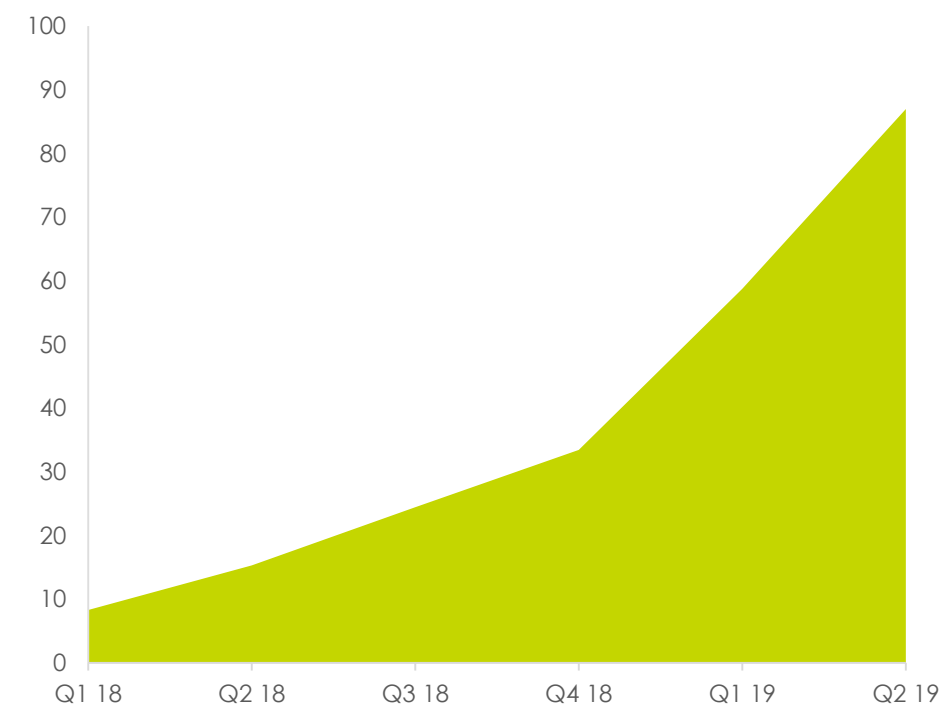
Replacing transactional aftermarket relationships with long term strategic partnerships

## EXPANDING OUR PORTFOLIO OF SMART SUPPORT PARTNERSHIPS

- Increasing addressable aftermarket
- Managing risk of leakage to surplus parts
- Increasing visibility and enabling greater operational efficiency



Cumulative value of secured long term agreements (£m)





# Competitiveness

Operational transformation continues at pace

**42 sites**

Footprint reduced by a further 3 sites (down 25% vs 2016 baseline)

**2%**

Purchased cost reduction achieved in HY19

**2.7x**

Inventory turns in HY19 vs 4.0X target by 2021

**30%+**

Of sites now in MPS Bronze & Silver



# Competitiveness

## Engine Composites

- **Operational performance continues to improve**
  - Rate (revenue growth of 31% in H1)
  - Yield (majority of parts >90%)
- **Investments increasing capacity and capability**
  - Adaptive machining
  - Robotics
  - Automated inspection
  - Multi-axis compression moulding
  - Lean flow
- **Transfer of production to our expanded facility in Mexico has begun, with support from customers**
- **Action taken to underpin H2 margin improvement**



COMPOSITE SPINNERS

MEGGITT



# Culture

## A more integrated, customer-aligned Group

- New organisation increasing customer alignment
  - Evidenced by good customer feedback and successful Paris Air Show
- 4,500 employees now trained in high performance culture concepts and accelerating our journey to a more integrated organisation
- Continued strengthening of the Meggitt leadership team



# GUIDANCE

**Tony Wood**  
Chief Executive

# Outlook

## Upgraded 2019 revenue guidance; outlook for full year margin unchanged

### FY19 ORGANIC REVENUE GROWTH



#### Civil OE

5 to 7%  
(up from 4 to 6%)

- Continued growth of new generation aircraft where we have strong content
- Negligible impact from 737 MAX



#### Civil AM

3 to 5%

- Growth in large jets despite near term headwind from 737 MAX grounding (IP Spares) and slower growth from business and regional jet



#### Defence

6 to 8%  
(up from 4 to 6%)

- Continued growth in DoD outlays
- Prioritisation of fleet readiness



#### Energy

0 to 5%

- Growth of LNG / renewables offsets declining demand for large frame turbines

MEGGITT

#### GROUP

4 to 6%  
(up from 3 to 5%)

### FY19 OPERATING MARGIN

MEGGITT

#### GROUP

17.7% to 18.2%  
+0 to 50bps

- Improving financial performance at Engine Composites and increased operational leverage offset by unfavourable revenue mix (Civil OE / Defence)

### FY21 OPERATING MARGIN

MEGGITT

#### GROUP

19.9%  
+200bps vs FY17 baseline

- Benefits from strategic initiatives including the Meggitt Production System, centralised purchasing and footprint rationalisation offset headwinds from investment in the installed base (mix, D&A and growth of FOC)

# Summary

## Momentum building

- Strong revenue growth in H1 – FY organic revenue guidance upgraded to 4-6%
- Improving outlook in Engine Composites and increasing strategy momentum underpins full year margin guidance which is reconfirmed at 0-50 bps
- Good cash performance
- Continued strong progress in strategy execution
- On track to deliver our 2021 targets





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# Currency impact

## Appendix 1

	H1 2018 Act	FY 2018 Act	H1 2019 Act	FY 2019 Est <sup>1</sup>
<b>\$/£ rate</b>				
Translation rate	1.36	1.31	1.28	1.28
Transaction rate (hedged)	1.43	1.44	1.43	1.43
<b>Euro rate</b>				
€/£ Translation rate	1.14	1.13	1.15	1.13
\$/€ Transaction rate (hedged)	1.21	1.21	1.19	1.19
<b>CHF rate</b>				
CHF/£ Translation rate	1.33	1.30	1.30	1.27
\$/CHF Transaction rate (hedged)	1.07	1.06	1.06	1.06
<b>PBT impact £m</b>				
Year-on-year translation			5.9	
Year-on-year transaction			1.3	
Year-on-year currency benefit/(headwind)			<b>7.2</b>	

Currency sensitivity:

± 10 US\$ cents = ± £120m Revenue; ±20m PBT  
 ± 10 Euro cents = ± £11m Revenue; ± 2m PBT

# Operating exceptionals

## Appendix 2

£m	H1 2018 Actual at \$1.36	H1 2019 Actual at \$1.28	FY 2019 Previous guidance at \$1.30	FY 2019 Updated guidance at \$1.28
<b>P&amp;L charge</b>				
Site consolidations	5.7	8.9	25-30	29-34
Business restructuring costs	1.8	2.1	3-6	3-5
Integration of acquired businesses	0.6	-	-	-
<b>Total</b>	<b>8.1</b>	<b>11.0</b>	<b>28-36</b>	<b>32-39</b>
<b>Cash out</b>				
Site consolidations	3.1	9.6	29-34	33-39
Proceeds from sale of site	-	(21.0)	(21)	(21)
Business restructuring costs	1.6	2.3	3-6	3-5
Integration of acquired businesses	0.6	-	-	-
<b>Total</b>	<b>5.3</b>	<b>(9.1)</b>	<b>11-19</b>	<b>15-23</b>

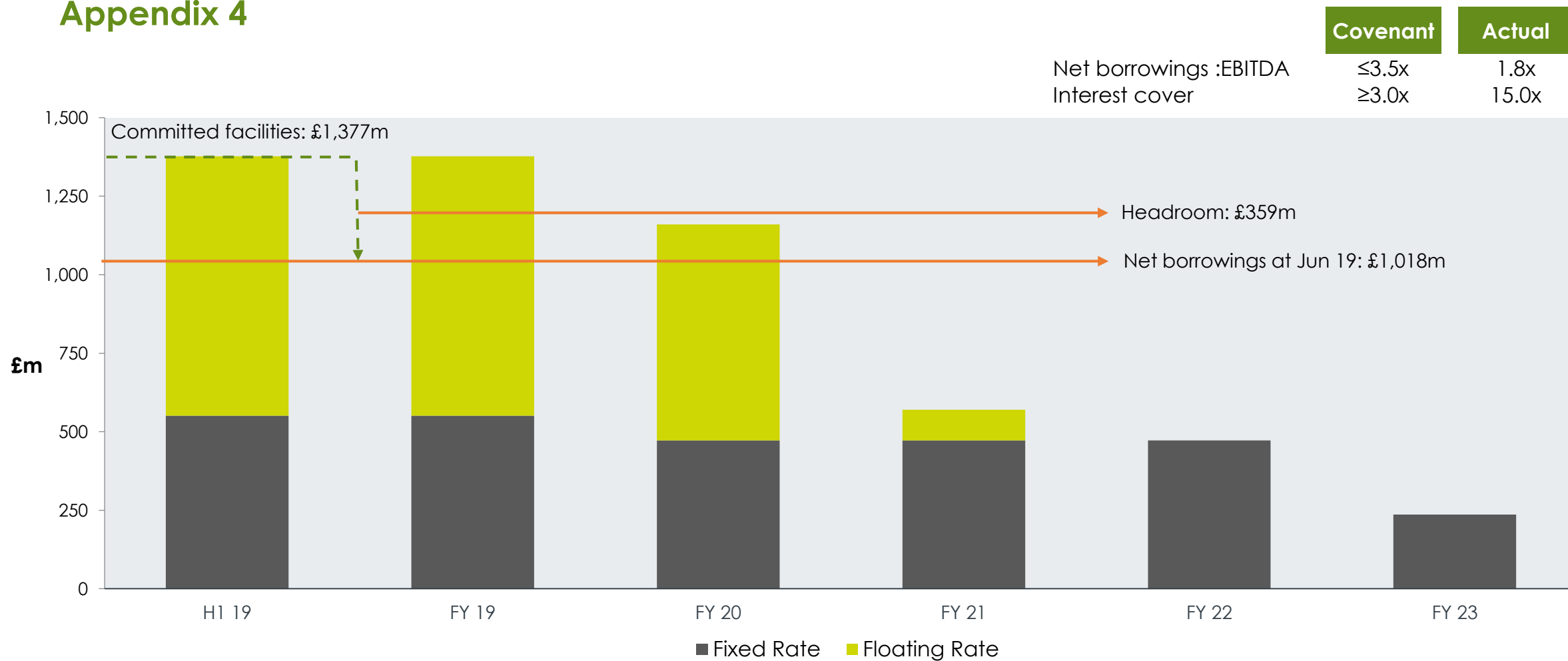
# Cash drivers

## Appendix 3

£m	H1 2018 Actual  at \$1.36	H1 2019 Actual  at \$1.28	FY 2019 Previous Guidance  at \$1.30	FY 2019 Updated Guidance  at \$1.28	FY 2020 Previous Guidance  at \$1.30	FY 2020 Updated Guidance  at \$1.27	FY 2021 Previous Guidance  at \$1.30	FY 2021 Updated Guidance  at \$1.27
<b>1. R&amp;D</b>								
Total expenditure	65	65						
Less: charged to cost of sales / WIP	(13)	(14)						
Group spend	<b>52</b>	<b>51</b>	<b>90-105</b>	<b>90-105</b>	<b>95-110</b>	<b>95-110</b>		
Capitalisation	(27)	(25)	(50)-(60)	(50)-(60)	(52)-(62)	(52)-(62)		
Amortisation/impairment	11	13	28-33	28-33	35-40	35-40		
Charge to net operating costs	<b>36</b>	<b>39</b>	<b>68-78</b>	<b>68-78</b>	<b>78-88</b>	78-88		
<b>2. Fixed assets</b>								
Capital expenditure	39	37	95-120	95-120	100-130	100-130		
Depreciation	(37)	(38)	(77)-(82)	(75)-(80)	(85)-(95)	(85)-(95)		
<b>3. Retirement benefit deficit payments</b>	16	17	37	37	37	37		
<b>4. Free of charge costs</b>								
Expensed	33	37	77-90	77-82	85-100	85-95	90-108	90-108

# Credit maturity profile

## Appendix 4



# Retirement benefit obligations

## Appendix 5

£m	FY 2018	H1 2019
Opening deficit	(308.1)	(209.1)
Net deficit payments	67.6	17.2
Actuarial movements - assets	(52.1)	71.1
Actuarial movements - liabilities	98.3	(134.3)
	46.2	(63.2)
Other movements (including FX)	(14.8)	(5.6)
Closing deficit	(209.1)	(260.7)
UK discount rate	2.90%	2.25%
US discount rate	4.15%	3.35%



# Shares in issue

## Appendix 6

Share in millions

	FY 2018	H1 2019
Opening	776.4	776.9
Share schemes	0.5	0.1
Closing	776.9	777.0
<b>Average*</b>	<b>773.2</b>	<b>772.9</b>

\* Adjusted to exclude own shares held by employee benefit trust

# Capital allocation

## Appendix 7

### CONTEXT

Cash generative  
business model

Passed the peak of a  
major development  
cycle

Normal net borrowings:  
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

# 2018 H1 Restatement

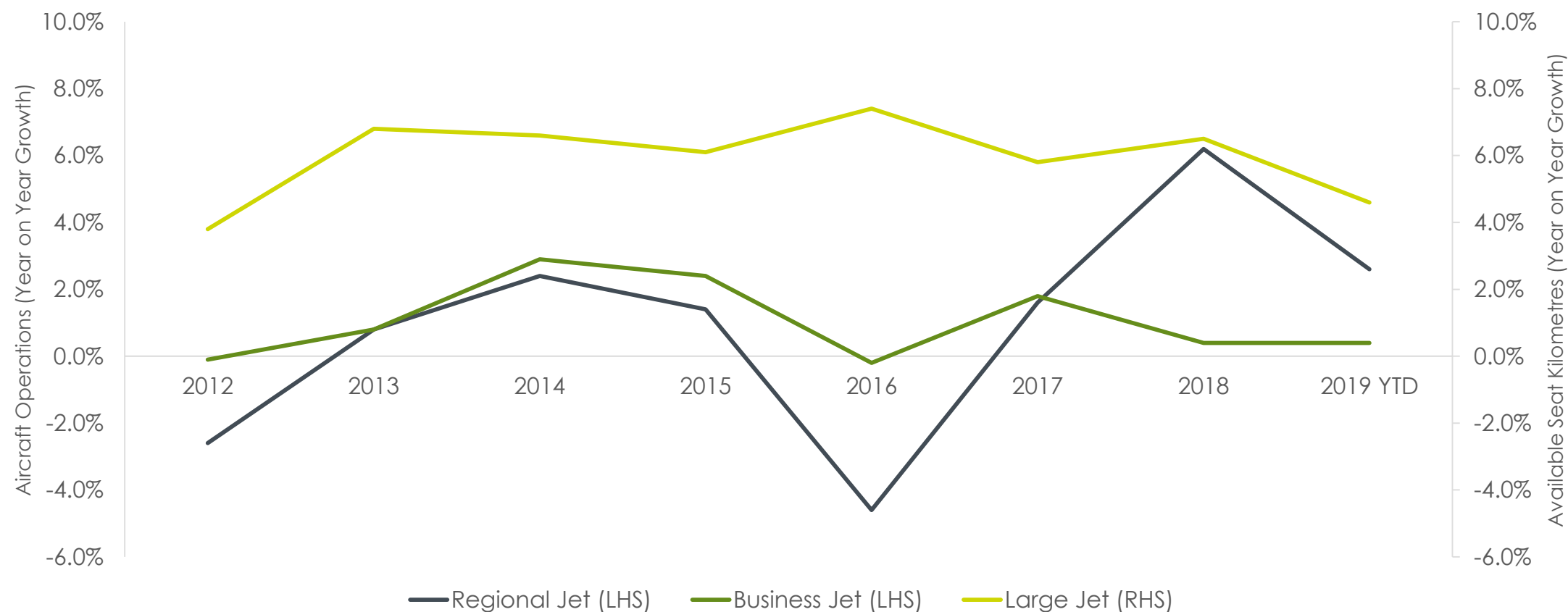
## Appendix 8

Revenue (£m)	Dec-18 Presentation	Adjustment	As restated
Airframe Systems	449.6	-	449.6
Engine Systems	139.8	(14.5)	125.3
Energy & Equipment	160.3	7.0	167.3
Services & Support	190.8	-	190.8
Other <sup>1</sup>	11.7	7.5	19.2
<b>Group</b>	<b>952.2</b>	<b>-</b>	<b>952.2</b>

Underlying operating profit (£m)	Dec-18 Presentation	Adjustment	As restated
Airframe Systems	96.6	-	96.6
Engine Systems	11.5	(1.1)	10.4
Energy & Equipment	11.0	0.7	11.7
Services & Support	31.5	-	31.5
Other <sup>1</sup>	0.2	0.4	0.6
<b>Group</b>	<b>150.8</b>	<b>-</b>	<b>150.8</b>

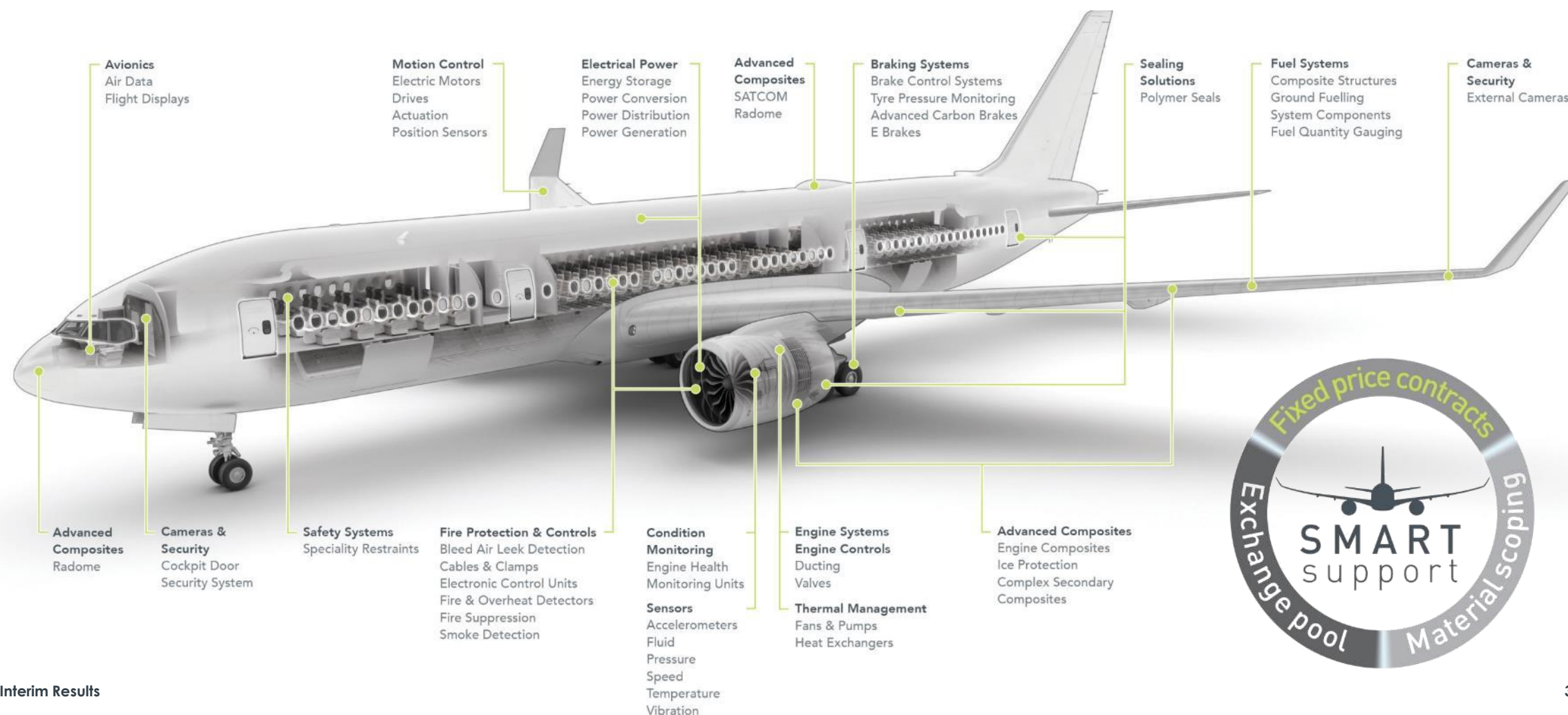
# Market data: aircraft utilisation

## Appendix 9



# Meggitt capabilities

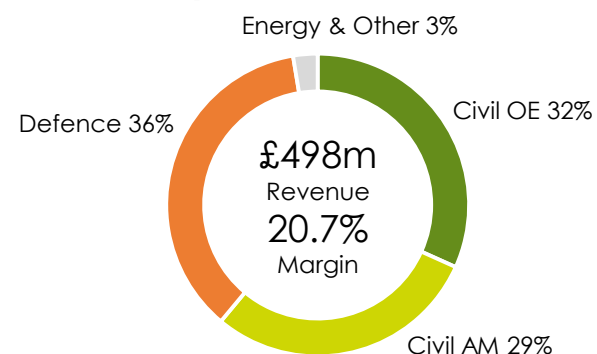
## Appendix 10



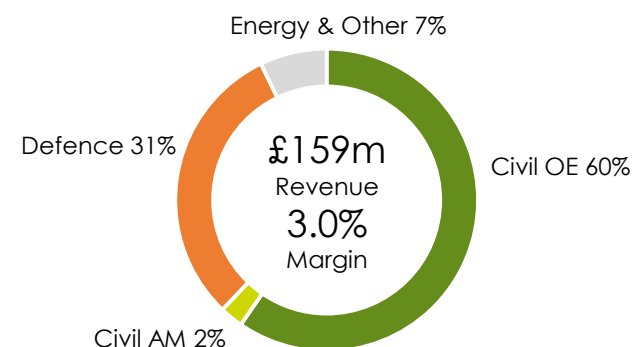
# Market segment exposure: by division

## Appendix 11

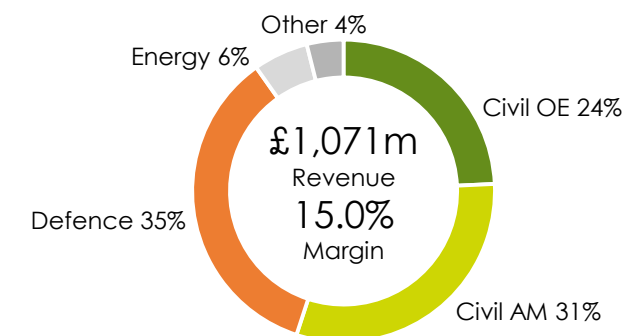
### Airframe Systems



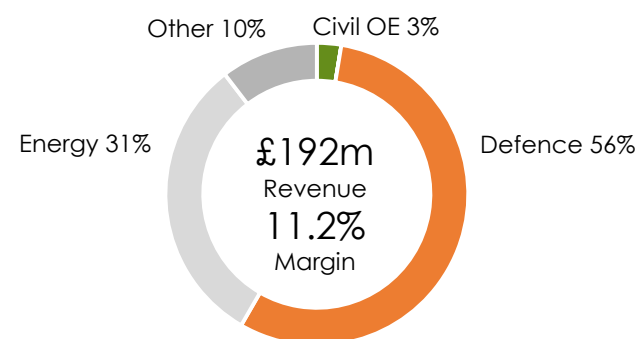
### Engine Systems



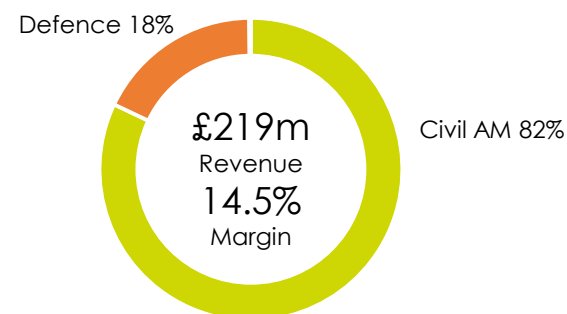
### GROUP



### Energy & Equipment



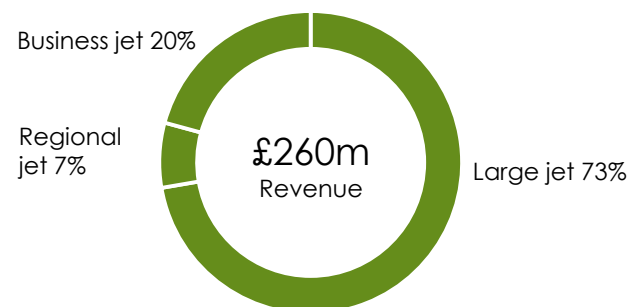
### Services & Support



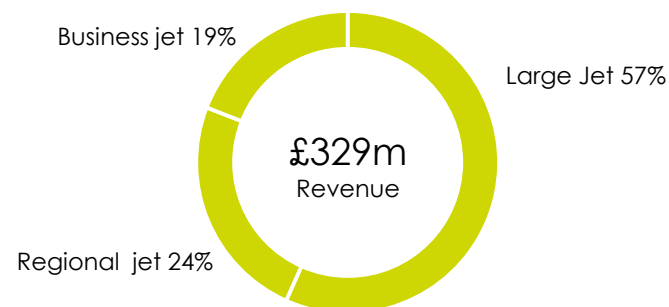
# Market segment exposure: by sub-segment

## Appendix 11

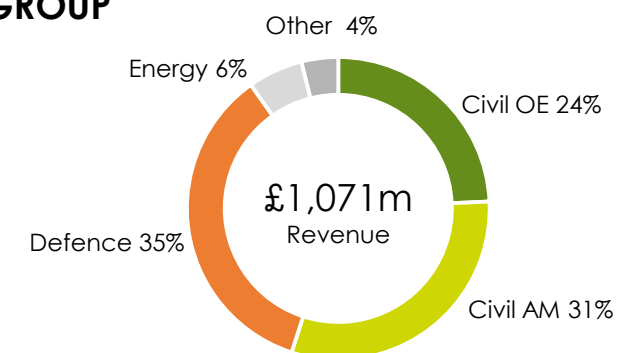
### Civil OE



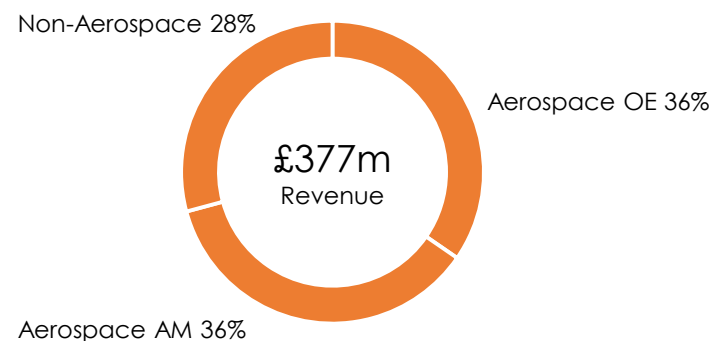
### Civil aftermarket



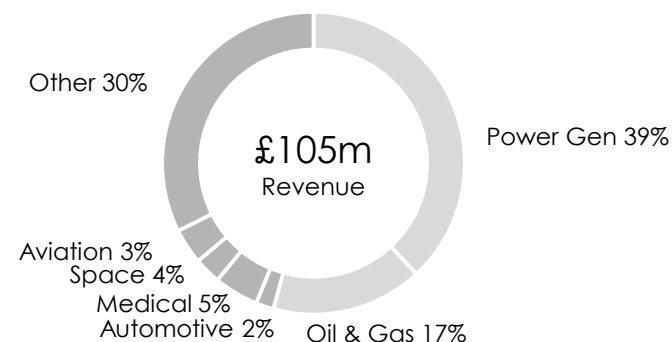
### GROUP



### Defence



### Energy / Other



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