2 July 2020

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

Meggitt PLC – Update on trading

Meggitt PLC ("Meggitt" or "the Group"), a leading international company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today issues a trading update for the second quarter, ahead of publication of first half results on 8 September 2020.

All organic revenue growth numbers within this statement are estimates with confirmation of adjustments relating to foreign exchange and M&A to be finalised as part of the half year results process.

Operational update

Against a backdrop of the significant slowdown across the global civil aerospace sector as a result of COVID-19, we remained focused on three core priorities during the second quarter alongside the continued execution of our strategy.

Our first priority has been to ensure the continued wellbeing of our employees, ensuring business continuity and safe operations across our global manufacturing sites. Second, we have continued to meet our commitments to customers as we adjust to changing market conditions and supported our suppliers to mitigate any disruption across the supply chain. Finally, we have made good progress executing our actions to reduce costs and cash expenditure to underpin our liquidity position and to resize the Group, as set out in our April statement.

During the second quarter, the majority of our manufacturing facilities remained open with around two-thirds of our global employees working at our sites and the remainder either working from home or on furlough. With lockdowns starting to ease across a number of the countries in which we operate, where possible, and in line with local government guidelines, we are putting plans in place for all employees including those that are office-based to progressively return safely to the workplace.

Trading update for the second quarter

Throughout the second quarter, widespread lockdowns had a material impact on civil aerospace, with up to 60% of the global fleet grounded and a substantial reduction in both passenger demand and air traffic.

As a result, and in line with our internal scenario plan, we saw a significant decline in our civil aerospace activity in the second quarter. Overall, we expect civil revenue in the period to be c.50% lower on an organic basis, with a similar reduction across both civil OE and AM.

Our Defence business, which represented 36% of Group revenue in 2019, continued to perform solidly during the second quarter after a very strong Q1 and against a tough comparative (Q2 2019 growth of 10%). Energy revenue is expected to be somewhat softer, with strength in LNG markets more than offset by declines in the power generation and oil sectors.

Overall, we expect Group organic revenue to be c.30% lower in the second quarter.

During the second quarter, and despite the marked slowdown in the external environment, we continued to execute our strategy including the consolidation of two sites (one US and one UK) into other sites as part of our ongoing footprint reduction initiative. In addition, within our Engine Composites business, we continued the transfer of products from Erlanger, US to our expanded facility in Mexico. And, at the end of the quarter and as announced on 1 July 2020, we completed the sale of Meggitt Training Systems for a cash consideration of $146m, continuing our strategy to focus our portfolio on businesses in growing markets where we have a leading market position.

Actions to reduce cash expenditure and our cost base

We have made good progress executing the actions announced in April to reduce our cost base, preserve cash, and resize the business to position us for H2 and 2021.

The reduction in our global workforce is proceeding as planned and, as a result of the early actions taken in the first quarter, we anticipate being able to derive higher savings than originally planned from reducing our discretionary operating costs. However, as we realign our global supply chain to reflect reduced customer demand alongside tightening supply parameters, it has taken slightly longer to gain momentum on reducing inventory levels. Inventory reduction remains a key objective for the Group and we continue to anticipate delivering good levels of cash saving from this initiative in the second half.

Overall, we remain on track to reduce cash outflows by around £400m to £450m in 2020.

Financial and liquidity position

At 31 May 2020, we had £1,630m of committed facilities in place providing headroom of £662m. We also have access to additional liquidity as an eligible issuer under the Bank of England's Covid Corporate Financing Facility. On 11 May, we secured a forward start on our revolving credit facility, with the signing of a new one year $575m multi-currency facility maturing in September 2022. On 15 June 2020, we paid $125m on the maturity of a tranche of 2010 US Private Placement Notes, covered by bilateral loans put in place at the end of December 2019.

H1 expectations and outlook

Group revenue in the first half is expected to be c.15% lower than in H1 2019 on an organic basis, with growth in Defence more than offset by lower revenues in both civil aerospace and Energy.

Civil aerospace revenue is expected to be c.30% lower on an organic basis, with a similar performance across both civil OE and AM, with the extent of declines in business jets expected to be less than in large and regional jets.

Against a tough comparative (13% organic growth in H1 2019), Defence is expected to deliver organic revenue growth of mid-single digits %, driven by good growth in OE. We continue to see good order flow and expect demand in this part of the business to remain robust throughout 2020.

Energy revenue is expected to be c.10% lower than the comparative period reflecting weaker market conditions in oil and gas and power generation sectors.

In light of the marked reduction in activity across the civil aerospace sector and the expected timing and duration of the recovery, we anticipate recognising a significant non-cash reduction in the carrying value of certain intangible assets under International Accounting Standard (IAS) 36 as part of our half year process.

We anticipate a significant free cash outflow (after interest and tax) in the first half driven by: lower levels of profitability; cost reduction actions being second half-weighted; being at a peak in the investment cycle for capital expenditure; higher working capital requirements; and higher cash tax payments. The first half outflow will be substantially offset by the disposal proceeds from the sale of Meggitt Training Systems announced on 1 July 2020. At the current time, and based on our modelling assumptions, we expect the first half free cash outflow to be reversed during the second half and to be free cash flow positive for the full year before disposal proceeds.

In recent weeks, initial signs of a recovery in commercial aerospace have emerged, with commercial airlines bringing more of the fleet back into service and business jet activity increasing in the US. Notwithstanding these early positive signals, and as we look ahead to the performance of the sector and our civil aerospace business in the second half, uncertainty and risk remain about the duration of the pandemic and its impact on the pace and shape of any recovery, including the potential for a second wave.

Against this market backdrop, in the second half we will continue to execute against our strategy and internal scenario plan and will provide further updates in our first half results on 8 September 2020.

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