

10 November 2020

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

Meggitt PLC – Third quarter trading statement and guidance for full year 2020

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 third quarter ended 30 September 2020 and guidance for the year to 31 December 2020.

CEO, Tony Wood commented:

“Our number one priority remains ensuring the safety of our employees and continuity of our operations in what continues to be a challenging and unprecedented external environment. I, along with the Board, would like to thank our teams for their continuing hard work and dedication, which have been outstanding.”

“While conditions in the global civil aerospace sector remained weak during the third quarter, our top line performance slightly improved, with revenue down 25% in the period, compared with down 30% in the second quarter, reflecting the breadth of our end markets and the continued strong performance of our defence business and growth in energy. Although expectations of the extent of the recovery in civil aerospace in the important final quarter have softened in recent weeks, our global teams continue to focus on actions within our control, including our cost and cash actions where we have made strong progress.”

“For the full year, we expect to deliver underlying operating profit between £180m and £200m, to be free cash flow positive in the second half, and cash flow neutral for the full year at the top end of the operating profit guidance range.

“While we remain alive to the challenges which COVID-19 continues to pose, we are encouraged by recent news on vaccine development and the positive implications for air travel. With diverse end market exposure, strong market positions, and having taken a range of decisive actions, we remain well placed for the recovery.”

Highlights

- Group revenue in the third quarter of £384m, down 25% on an organic basis
- Group revenue for the first nine months of £1,301m, down 18% organically
- Continued strong performance from defence, with organic growth of 9% in the third quarter and 8% organic growth in the first nine months of 2020
- Strong execution on cash actions; on track to deliver £400m to £450m for full year
- Headroom on committed facilities of £814m at 30 September
- Guidance reinstated for the full year, with positive free cash flow in the second half

Market update

Defence

In defence, conditions in our core US market remained positive, with 4% growth in overall US DoD outlays during the quarter ended 30 September. Improving fleet readiness and modernisation remain core priorities within the US defence budget for 2021, and consequently, the external environment is expected to remain supportive in the near-term.

Civil Aerospace

In civil aerospace, activity levels improved during the period, with global ASKs and RPKs recovering from -80% and -86% in June, to -63% and -73% respectively in September compared with 2019 levels.

With international flight activity remaining at very low levels, and a large proportion of regional jet flights in the US serving the major international hubs, regional jet activity levels remained subdued during the period at -55% versus 2019 levels at the end of September.

In business jets, activity levels have continued to recover with global flight activity increasing from -26% in June to -17% at the end of the third quarter, compared with 2019 levels.

In terms of fleet dynamics, deliveries of new commercial aircraft (a driver of our civil OE revenue) were 36% lower in the third quarter compared with 2019 levels and 51% down for the nine months to the end of September.

Energy and other

In Energy and other markets, conditions in our main end markets remained stable throughout the third quarter, underpinning our order book.

Third quarter Group trading performance

The performance of the Group in the third quarter broadly reflected the trends seen across our end markets, with a robust performance from our defence and energy businesses more than offset by soft market conditions in civil aerospace:

- Group revenue down 25% on an organic basis
- Defence revenue grew 9% organically, driven by another strong performance in OE which was up 18%. We continue to see good order flow and expect demand in this part of the business to perform well throughout the remainder of 2020
- Civil aerospace revenue was 49% lower than the comparative period on an organic basis, within which OE and aftermarket revenue decreased by 48% (Q2: -53%) and 50% (Q2: -47%) respectively
- Energy revenue grew by 4% organically driven by a number of orders in our Heatric business and our order book is encouraging

While our top line performance was broadly in line with our expectations in the third quarter, margins were lower, particularly at the end of the period. This was driven by adverse mix within civil aftermarket, as airlines deferred spares purchases through pro-active management of their fleets ('green time') to preserve cash, and the consequent lower volumes across our manufacturing sites.

The trends across our end markets have continued in October, with Group performance slightly lower than our base case, which assumed a progressive improvement in the fourth quarter.

During the period, we secured a number of contract awards comprising: several orders across our defence business, including the supply of innovative nose radome technology, defence composites and follow on orders for fuel bladders across multiple platforms; in Energy, we secured two contracts for the supply of Printed Circuit Heat Exchangers in Heatric; and in the aftermarket, new long-term contracts with two airlines in Asia.

Actions to reduce cash expenditure and our cost base

As reported in our half year results on 8 September, we have completed the majority of our actions to reduce cash expenditure and resize the business and we remain on track to deliver our target of £400m to £450m of cash savings for the full year.

Financial and liquidity position

At the end of September, we had £1,660m of committed facilities in place providing headroom of £814m. We also have additional liquidity available under the CCF.

On 5 October, we repaid \$150m on the maturity of a tranche of US PP notes. On 29 October we priced a new private placement of debt and agreed, subject to standard closing conditions, to issue \$300m in aggregate of three and five year senior notes to international investors. The issuance of the notes, which was significantly oversubscribed, is expected to take place on 19 November and will provide us with additional liquidity and financial flexibility as we look ahead to 2021 and beyond.

Outlook for the full year 2020

As set out in September, we have been managing the Group to a plan that: (1) assumed delivery of our cash savings target for the full year; and (2) that our trading performance in the second half would reflect a progressive recovery in air traffic in the latter part of the year.

As reported above, we have delivered the first of these objectives and continue to execute actions within our control. Notwithstanding this, in recent weeks, as a result of the onset of a second wave of COVID-19 across many countries, the environment in civil aerospace has softened, with airlines reducing short-term planned capacity, moderating our expectations of the extent of a progressive recovery in activity levels in the final quarter.

Consistent with a broad trend across the civil aerospace industry, the fourth quarter has historically represented our most important trading period. This year, with customer behaviour and our win and ship volumes in the final two months of the year being harder to predict, our guidance ranges for the Group for 2020 are as follows:

- Group underlying operating profit to be between £180m and £200m
- We continue to expect to deliver positive free cash in the second half and to be free cash flow neutral for the full year at the top end of our underlying operating profit guidance range

A further update on our performance for the year ending 31 December 2020 will be provided in January 2021.

While we remain alive to the challenges which COVID-19 continues to pose, we are encouraged by recent news on vaccine development and the positive implications for air travel. With diverse end market exposure, strong market positions and having taken a range of decisive actions, we remain well placed for the recovery.

END

A conference call for analysts and investors will be held at 8.30am this morning. The dial in details are as follows:

Dial-in number(s):

UK Toll-Free: 0800 358 9473

UK Toll: +44 333 300 0804

Access code: 89900785#

International dial-in: <https://event.sharefile.com/d-s7bae1d9235d495a8>

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