

# 2020 FULL YEAR RESULTS

**4 March 2021**

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



# Agenda

1. Introduction and highlights
2. Full year 2020 financials
3. Strong fundamentals for the recovery
4. Our priorities
5. Our sustainability framework – People, Planet and Technology
6. Outlook



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# HIGHLIGHTS

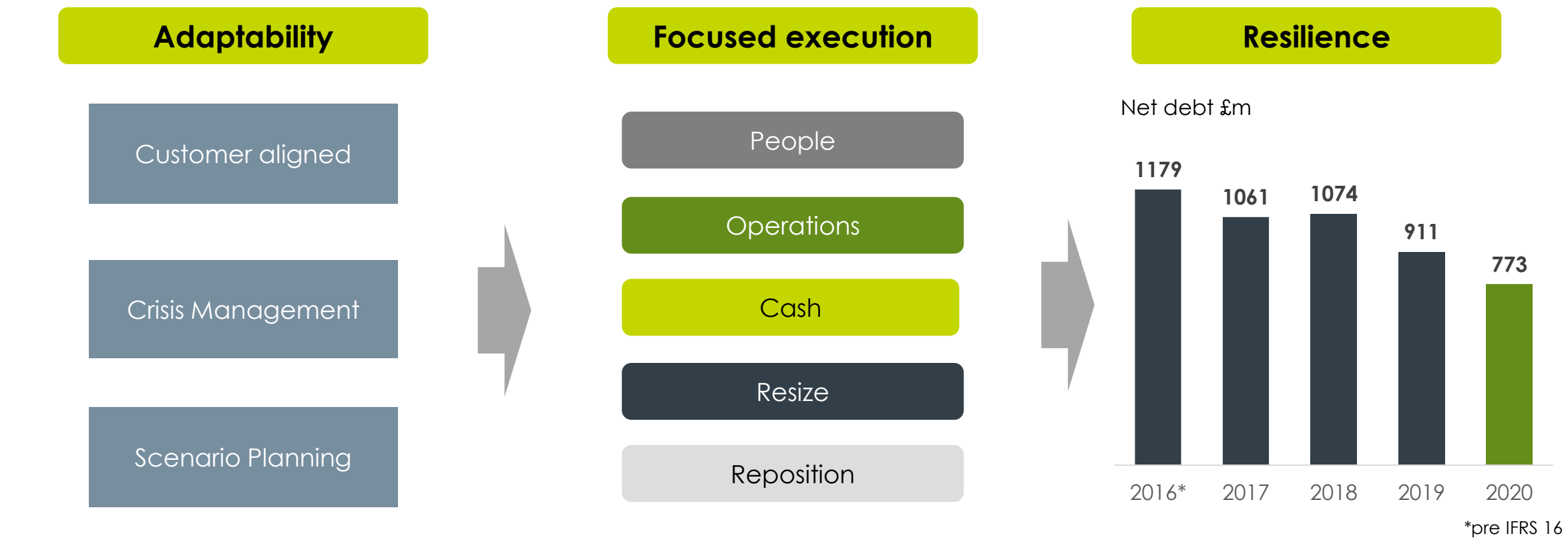
**Tony Wood**

Chief Executive

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# Our response to Covid-19

We entered 2020 in a robust position and moved quickly to adapt to the crisis



**DECISIVE EARLY ACTION, STRONG EXECUTION, POSITIONED FOR THE RECOVERY**

# Market dynamics in 2020

## Defence and energy helped offset severe downturn in civil activity



### Civil OE (18% of revenue)

- Lower demand from OEMs as new build rates reduced
- Deliveries by Airbus down 34% and Boeing down 59%
- Regional and business jet deliveries down 46% and 21%



### Civil AM (25% of revenue)

- Significant reduction in air traffic; global ASKs down 57%
- Business jets and narrow bodies outperform
- Active fleet recovered to 70% at end of 2020 (43% April)



### Defence (46% of revenue)

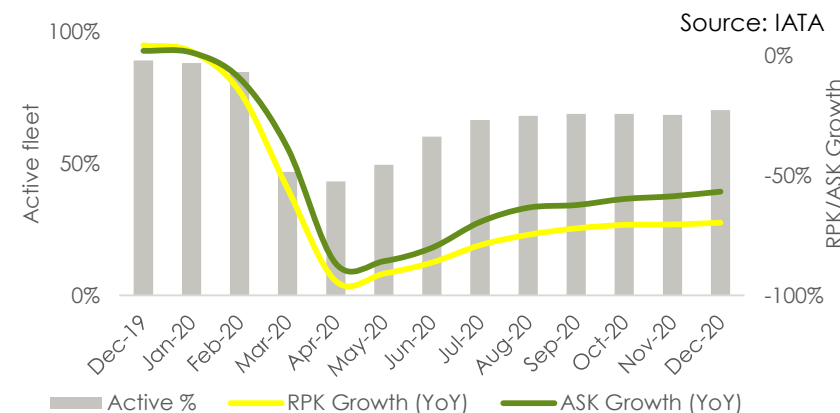
- Total US DoD outlays up 6% in 2020 vs 2019
- Procurement and RDT&E outlays up 12%
- Agreed defence budget for 2021 at \$696bn in line with 2020



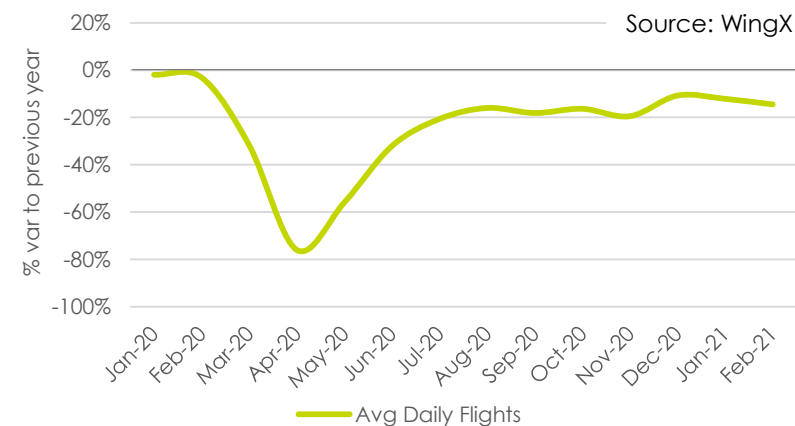
### Energy (11% of revenue)

- Lower oil price has delayed oil capex projects
- Robust investment in LNG and renewable energy infrastructure

### Global flight activity



### Business jets have recovered well





# Financial Summary

Defence robust, strong liquidity, net debt significantly lower

- Defence book to bill <sup>1</sup> of 1.05x with Group book to bill <sup>1</sup> of 0.9x
- Organic revenue<sup>1</sup> 22% lower vs 2019:
  - Civil OE -40% (H1: -29%)
  - Civil AM -41% (H1: -25%)
  - Defence +4% (H1: +8%)
  - Energy -8% (H1: -6%)
- Underlying operating profit down 53% to £191m
- Delivered in-year cash savings of £450m
- Free cash inflow of £32m
- Net debt reduced by £138m to £773m (2019: £911m)
- Strong liquidity with headroom of £908m and net debt:EBITDA of 2.2x
- Board not recommending final dividend for 2020

<sup>1</sup> Organic figures exclude the impacts of acquisitions, disposals and foreign exchange.

# Strategic highlights in 2020

Continued focus on strategy execution throughout the year

## Strategic priority

### Portfolio Strategy



### Customers



### Competitiveness



### Culture



## 2020 Achievements

- Completed portfolio streamlining with sale of Training Systems
- Strong progress on new technologies for sustainable aviation

- Growing aftermarket share with 14 new SMARTSupport® wins
- Growing pipeline in defence and energy

- Ansty Park offices opened in June 2020 with completion in 2021
- Footprint reduced to 37 sites with more opportunities identified

- Supported our people and communities throughout the crisis
- Group Employee Engagement maintained at 'High Performance norm'



# FINANCIALS

**Louisa Burdett**  
Chief Financial Officer

# Income statement

## Defence robust with Group revenue impacted by downturn in civil aerospace

Underlying <sup>1</sup>	FY20	FY19	Growth		
	£m	£m	Reported	Organic <sup>2</sup>	
Orders	<b>1,547</b>	2,468	(37%)	<b>(38%)</b>	+4% growth in defence more than offset by lower revenue in civil aerospace and energy
Revenue	<b>1,684</b>	2,276	(26%)	<b>(22%)</b>	
Operating profit	<b>191</b>	403	(53%)	<b>(50%)</b>	
Operating margin	<b>11.3%</b>	17.7%			Reflects substantial reduction in Group revenue particularly higher margin aftermarket partly mitigated by cost saving actions
Net finance costs	<b>(31)</b>	(33)			
Profit before tax	<b>160</b>	370	(57%)		Lower USD interest rates on floating rate debt
Tax	<b>(31)</b>	(81)			
Tax rate	<b>19.7%</b>	22.0%			2019 tax rate reflected impact of provisions relating to UK CFC regime
Profit for the year	<b>128</b>	289	(56%)		
Earnings per share	<b>16.5p</b>	37.3p			

<sup>1</sup> A full reconciliation from underlying to statutory figures is provided in notes 6 and 11 of the preliminary results announcement.

<sup>2</sup> Organic figures exclude the impacts of acquisitions, disposals and foreign exchange.

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# Revenue by end market

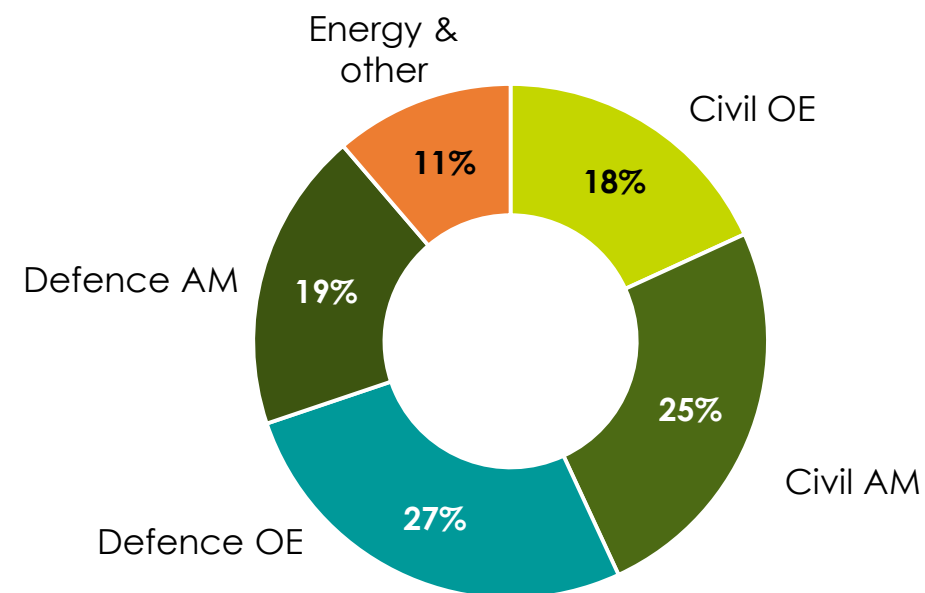
Group revenue down 22%; defence 46% of Group revenue

Revenue growth (Organic)	H1 20 %	H2 20 %
Civil OE	(29)	(51)
Civil AM	(26)	(54)
Civil	(27)	(53)

## FY 2020 Revenue Growth

	Reported %	Organic %	
Civil OE	(41)	(40)	LJ (44) RJ (46) Biz (25)
Civil AM	(41)	(41)	LJ (41) RJ (49) Biz (32)
<i>Total civil</i>	<i>(41)</i>	<i>(41)</i>	
Defence	(7)	4	
Energy	(8)	(8)	
Other	(21)	11	
<b>Total Group</b>	<b>(26)</b>	<b>(22)</b>	

## FY 2020 Revenue by market (Reported)



OE: 55%, Aftermarket: 45%

# Divisional performance

## Summary

Underlying	Revenue		Operating profit	Operating margin	
		<i>Organic Growth</i>		2020	2019
	£m	%	£m	%	%
Airframe Systems	793.1	(22)	120.5	15.2	24.1
Engine Systems	233.6	(28)	(13.2)	(5.7)	8.3
Energy & Equipment	335.0	7	42.4	12.7	12.9
Services & Support	322.4	(35)	40.8	12.7	14.8
<b>Total</b>	<b>1,684.1</b>	<b>(22)</b>	<b>190.5</b>	<b>11.3</b>	<b>17.7</b>

1. Aftermarket margin shared between the OE divisions and Services & Support division
2. Margin decline in Airframes and Engines driven by lower volumes across both OE and AM and under-recovery of overheads
3. Engines result also reflects impact of COVID-19 disruption / delays
4. Good performance from defence drives E&E result



# Free cash flow

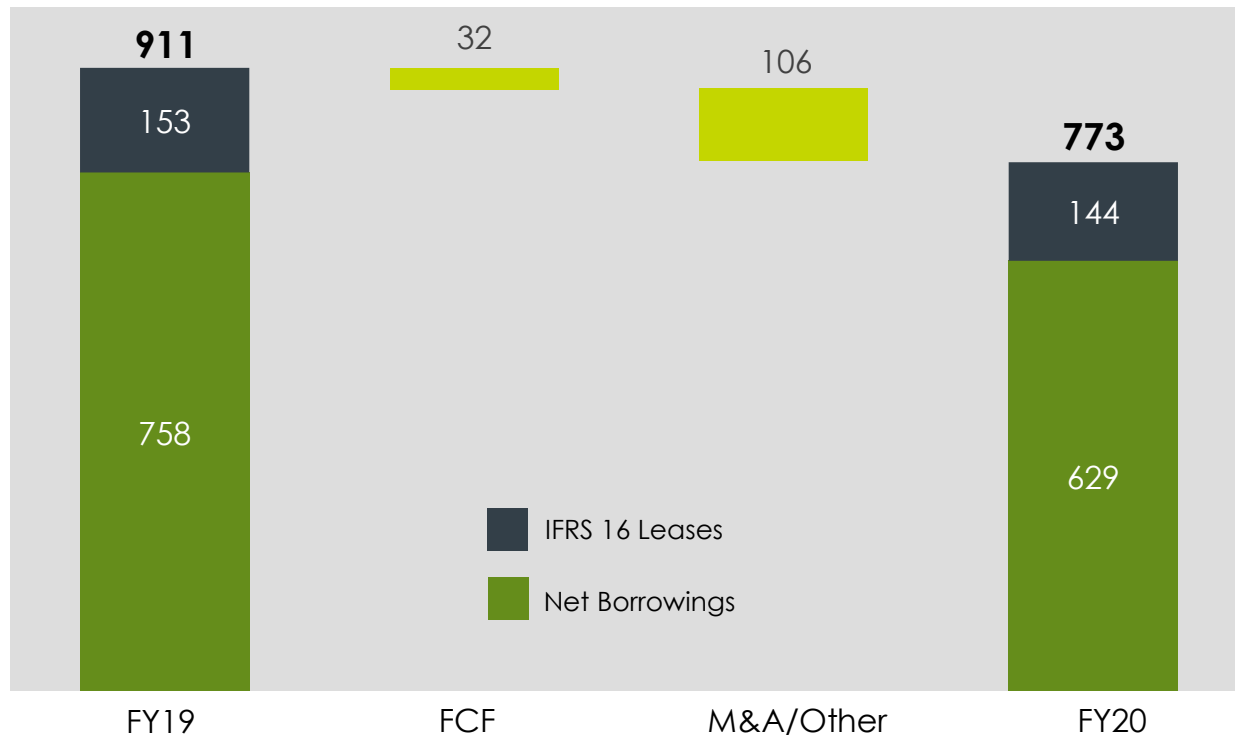
## Delivered positive free cash flow

£m	FY 2020	FY 2019	
<b>Underlying EBITDA</b>	<b>297</b>	<b>507</b>	
Working capital movement	8	(21)	Reflects reduction in gross inventory and tight control of receivables
Capex	(89)	(92)	Reflects capex deferral into 2021 relating to Ansty Park transition and carbon capacity expansion
Capitalised R&D/PPC	(43)	(57)	
Sale of Holbrook	-	21	
Reverse lease premium	4	20	Deferral of deficit reduction payments including £10m in the UK, to be made across current recovery period to August 2023
<b>Underlying operating cash flow</b>	<b>177</b>	<b>378</b>	
Pension deficit payments	(22)	(35)	
Operating exceptionals	(49)	(27)	Impact of £19m non-recurring COVID-19 related costs and increase in site consolidation costs vs 2019
Net interest paid	(32)	(33)	
Tax paid	(42)	(15)	Phasing of payments
<b>Free cash flow</b>	<b>32</b>	<b>268</b>	

# Balance sheet and liquidity

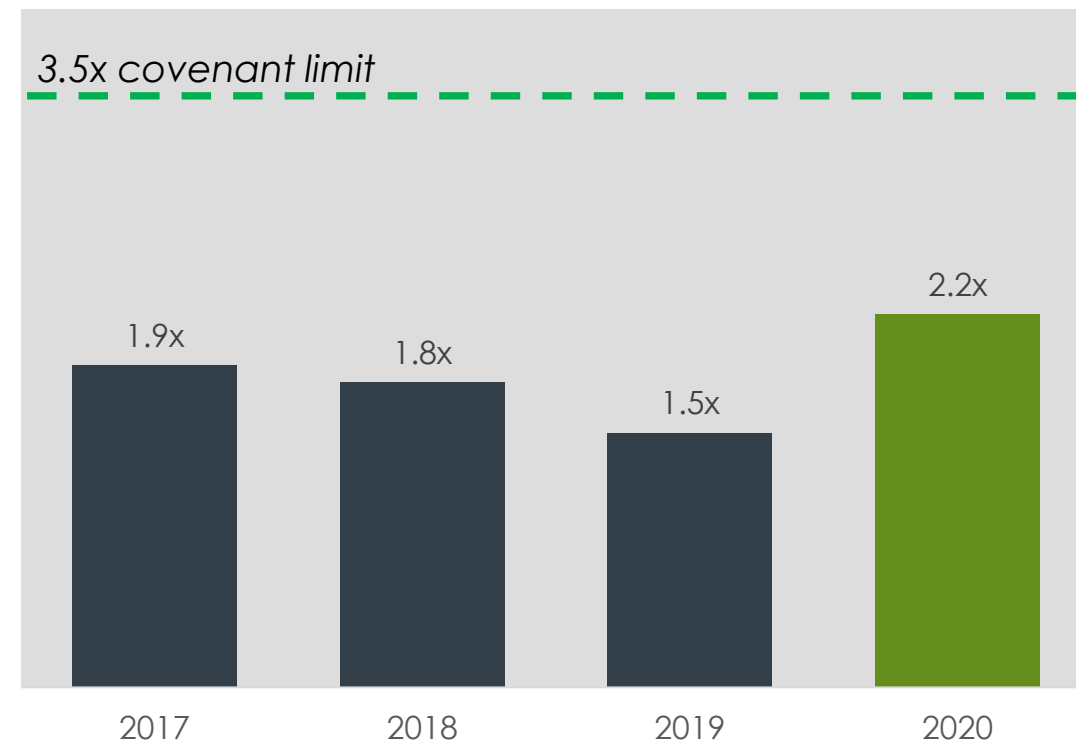
Net debt £138m lower; strong liquidity and headroom

Net debt £m



	Covenant	FY 2020	FY 2019
Net debt:EBITDA*	≤3.5x	2.2x	1.5x
Interest cover	≥3.0x	9.8x	16.3x
Liquidity headroom		£908m	£806m

Net debt:EBITDA ratio



Lower net debt, strong liquidity and significant headroom

# Impact of cash and cost actions taken in 2020

2021 remains a transition year for free cash flow and the cost base

	2020 actual	2021 outlook	2022 onwards
<b>Employee costs and SG&amp;A</b>		Full year benefit (vs 2019) of c.£140m <sup>1</sup> partially offset by £50m of bounce back costs in 2021	Reflects net impact of volume growth and lower footprint / leaner operations
<b>Capex</b>	£89m	~£80m as deferred projects completed	Normalises at ~£70m per year
<b>Pension</b>	£22m	£47m with a proportion deferred from 2020	Contributions <sup>2</sup> of £46m in 2022 and £36m in 2023
<b>Cash Tax</b>	£42m	~£60m reflecting CFC payment	Cash tax rate to converge with P&L rate <sup>3</sup>
<b>Opex</b>	£49m	~£40m reflecting peak cash for Ansty / footprint moves	Normalises at single digit £m

# WELL PLACED FOR THE RECOVERY

**Tony Wood**

Chief Executive

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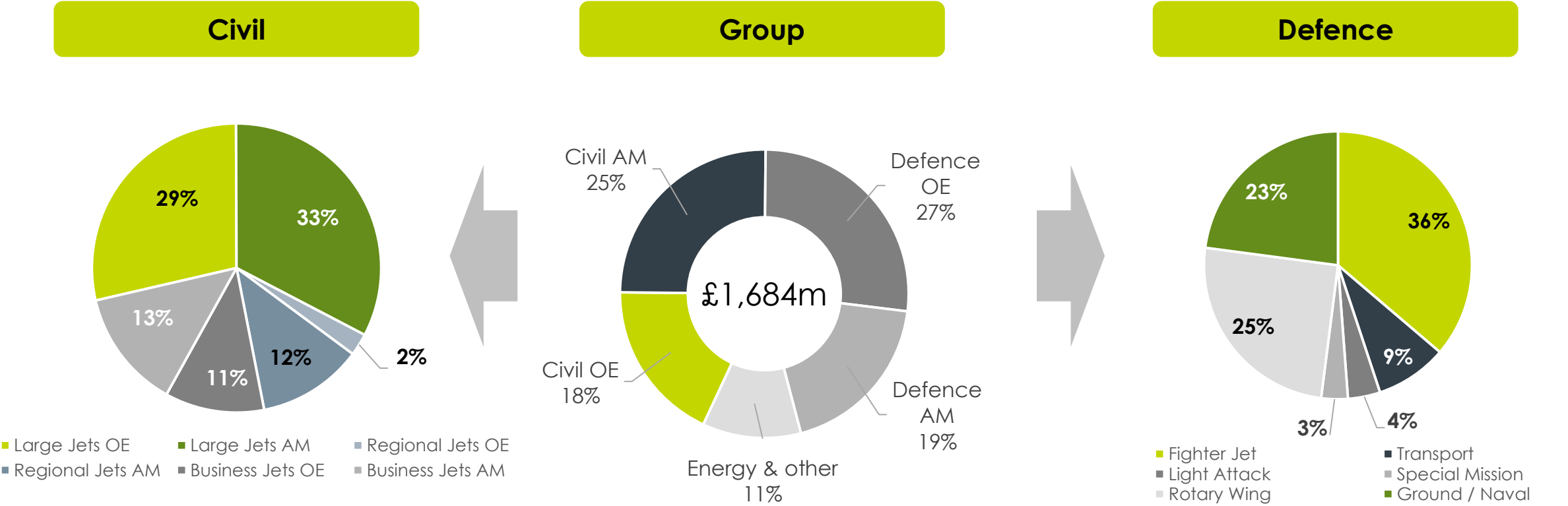
# Well placed for the recovery

Strong fundamentals and foundations underpin the Group



# Diverse end market exposure

Broad based civil business and over 50% of Group revenue from defence and energy



A GROWING AND BALANCED PORTFOLIO ACROSS THREE LARGE, ATTRACTIVE SECTORS

# Differentiated technology

Deep IP with over 70% of revenue from sole source positions



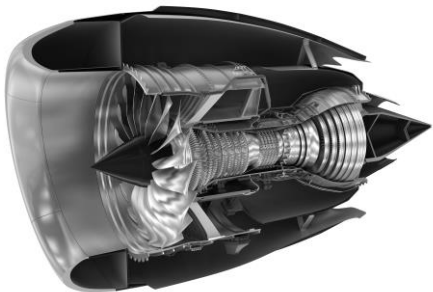
#1 Regional, Business Jet and Defence wheels and brakes



#1 Fire suppression and detection



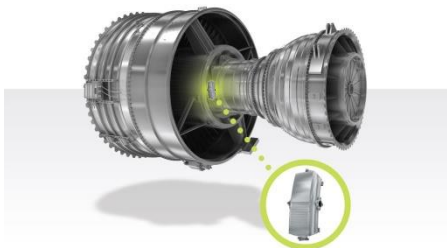
#1 Sensing and vibration monitoring



#1 Advanced engine composites



#1 Military fuel tanks



#2 Engine thermal systems



#2 Engine valves



#1 Printed Circuit Heat Exchangers

**STRONG PORTFOLIO OF CRITICAL TECHNOLOGY ACROSS A LARGE INSTALLED FLEET**

# Content on almost every civil platform

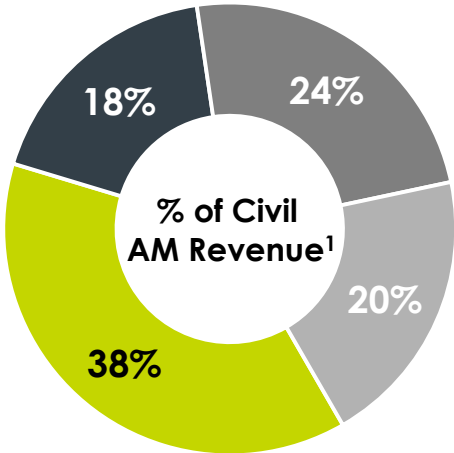
A large, diverse and renewed civil fleet

Large installed civil fleet of ~51,000 aircraft

Strong AM annuity

70% content uplift on new narrow and wide body aircraft

Strong content and market positions in business and regional jets



■ Narrow body ■ Wide body ■ Regional ■ Business

24,000 Large jets

20,000 Business Jets

7,000 Regional

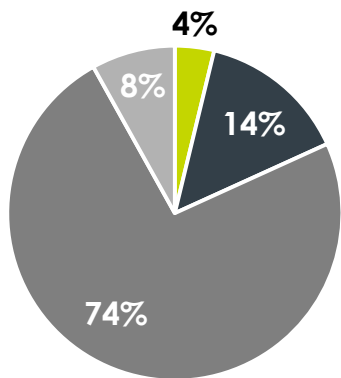
STRONG EXPOSURE TO FASTEST RECOVERING CIVIL MARKET SEGMENTS



# A strong defence business

Critical technologies installed across a large diverse fleet of ~22,000

## Large defence markets



■ UK ■ Rest of Europe ■ US ■ Rest of World

70% + US exposure

60% OE:40% AM

Attractive ROCE profile

## Strong positions

- Thermal systems
- Braking systems
- Advanced composites
- Fuel containment
- Ammunition handling
- Radomes

## On the right platforms



F-35



Apache



M1 Abrams



V-22 Osprey

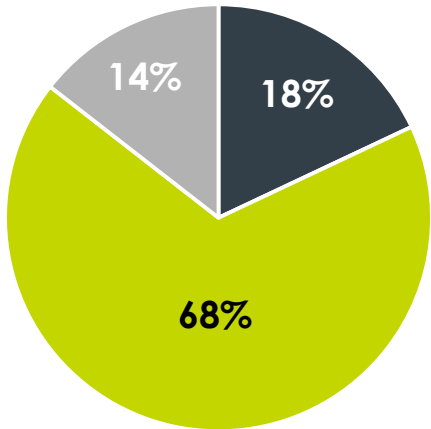
**STRONG DEFENCE BUSINESS WITH OPPORTUNITIES FOR GROWTH**

# Opportunities across our energy business

Leveraging aero-derived expertise in select energy markets

2/3 revenue from lower carbon applications

Oil Lower Carbon\* Other



Heatric #1 in PCHEs



Energy Sensing & Controls



Applications

Onshore & Offshore LNG/Gas

Power generation

Renewable power generation & storage

Disruptive low carbon technology

INCREASING OPPORTUNITIES ACROSS LOWER CARBON AND RENEWABLE APPLICATIONS

# OUR PRIORITIES

**Tony Wood**

Chief Executive

# Our core priorities

Sustainable Growth, Operational Excellence, High Performance Culture

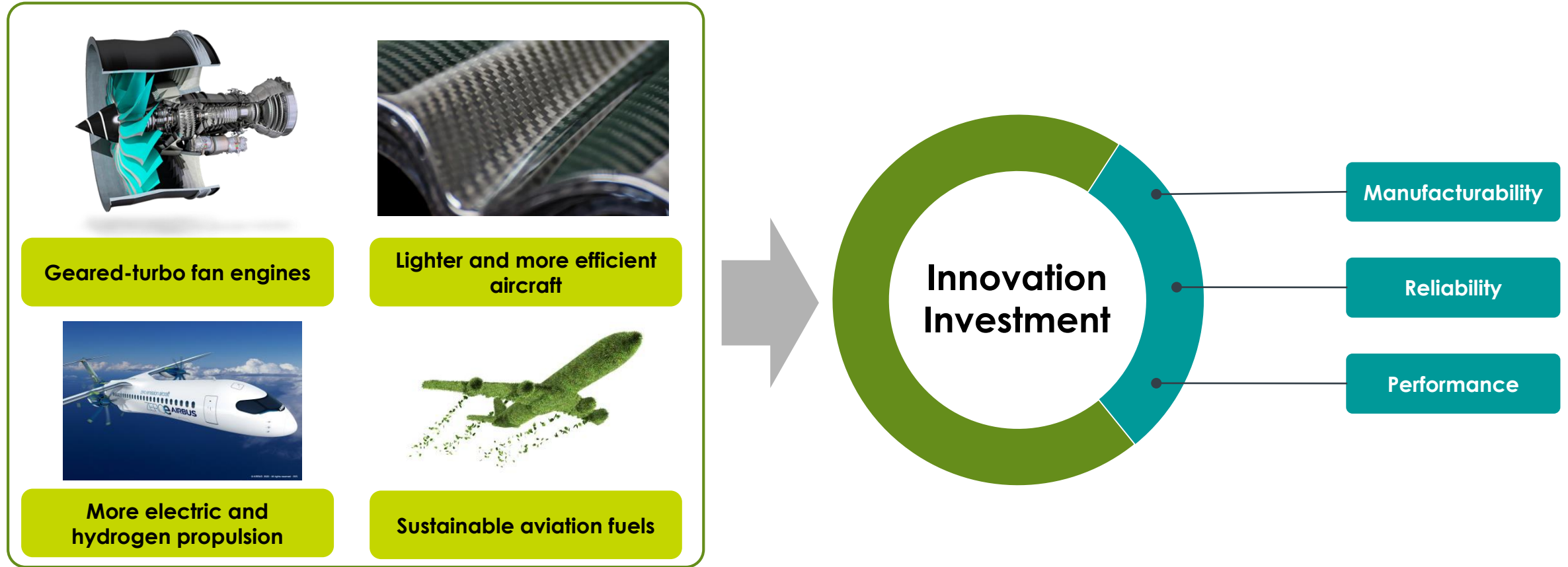


TO OUTGROW THE MARKET THROUGH HIGH VALUE, INNOVATIVE PRODUCTS AND SERVICES



# Technology themes for the future

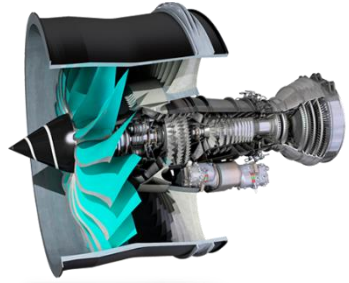
Continued investment of at least 2/3 of our innovation budget in sustainable technologies



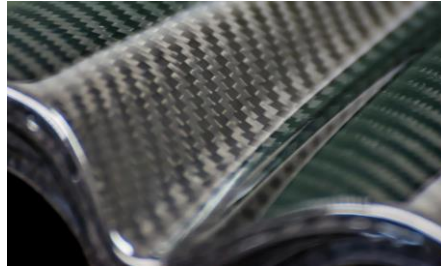
**CRITICAL ENABLING TECHNOLOGY FOR SUSTAINABLE AVIATION**

# Technology themes for the future

Continued investment of at least 2/3 of our innovation budget in sustainable technologies



**Geared-turbo fan engines**



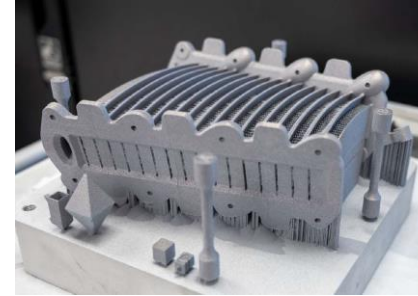
**Lighter and more efficient aircraft**



**More electric and hydrogen propulsion**



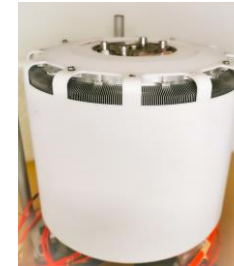
**Sustainable aviation fuels**



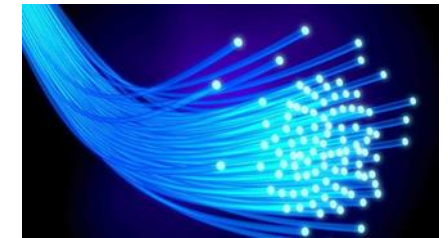
**Advanced thermal systems**



**Advanced engine composites**



**Lithium batteries and Electric Propulsion Units**



**Optical sensing**

**CRITICAL ENABLING TECHNOLOGY FOR SUSTAINABLE AVIATION**

# Growing our Aftermarket annuity

## Focus on core priorities as we grow post crisis

### Growth

- SMART Support®
- Route to market
- Value optimisation

### Competitiveness

- Data & digital / e-Commerce
- Global material management
- Centres of Excellence



**GROWING SHARE THROUGH ENHANCED CAPABILITIES**



# Optimising our global footprint

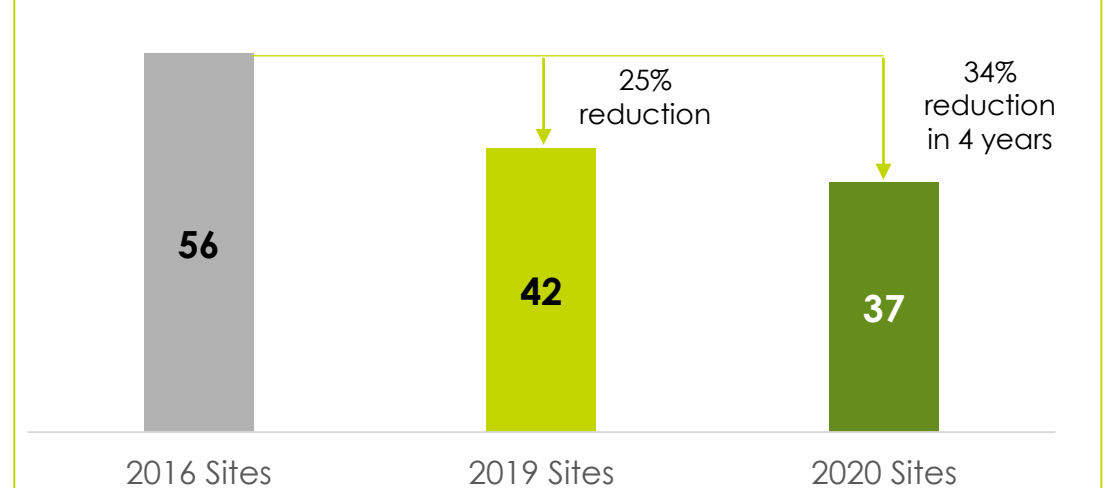
## Continuing strong progress

### Ansty Park opened in June 2020



- Consolidation of 4 UK sites into Ansty Park
- Thermal Management, Braking Systems, Services & Support and HQ
- Centres of excellence, shared services
- Leveraging sustainable technology

### Global footprint reduction



- Fewer, larger sites brings a number of advantages:
  - Reduced overheads
  - Increased efficiency
  - Greater resilience, less fragmented
  - Increased access to low cost manufacturing

# Great teams and Culture

## High Performance Culture, Talent and Engagement

- Protecting our people and supporting our communities
  - Safe working practices and equipment
  - Helping the communities where we operate
- Maintaining high levels of engagement
  - Reinforcing HPC concepts
  - Recognising extraordinary people
- Promoting Diversity and Inclusion
- Investing in talent
  - Leadership development through LeadX
  - Spitfire Operations Academy



**ATTRACTING, ENGAGING, RETAINING AND DEVELOPING THE RIGHT TALENT**

# OUR SUSTAINABLE FUTURE

**Tony Wood**

Chief Executive

MEGGITT



# Continuing innovation towards a sustainable future

Proven pedigree at the cutting edge of innovation

Pre 2000 Legacy technology	2000-2020 Modern technology		2021+ Future technology	
				
Digital brake by wire Gulfstream IV	First commercial Ebrake® for Airbus A220	More sustainable production facilities and operations	VERDAGENT™ Halon-free fire suppressant	Electric Propulsion Units for Urban Air Mobility

WE CONTINUE TO INNOVATE FOR A MORE SUSTAINABLE FUTURE

				
Engine Vibration Monitoring (EVM) systems	Engine Composites for GE-90	Printed Circuit Heat Exchangers for renewable energy applications	Thermal systems and optical sensing for next gen engines	Critical systems for next gen propulsion



# Our Sustainability Framework

Underpinned by three core pillars

## PEOPLE



Spitfire -  
Operations  
Academy

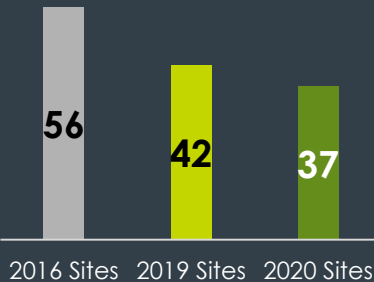
## PLANET

50%

Reduction in green  
house gas  
emissions by 2025<sup>1</sup>

100%

of energy sourced  
from green  
suppliers for UK sites



Consolidating  
our global  
manufacturing  
footprint



## TECHNOLOGY



R&T spend on  
sustainable  
aviation & low  
carbon energy



<sup>1</sup>As percentage of revenue relative to 2015 baseline

# OUTLOOK & SUMMARY

**Tony Wood**

Chief Executive

MEGGITT

# Outlook for the year ahead

## Robust defence and energy; uncertainty remains around timing of civil aerospace recovery

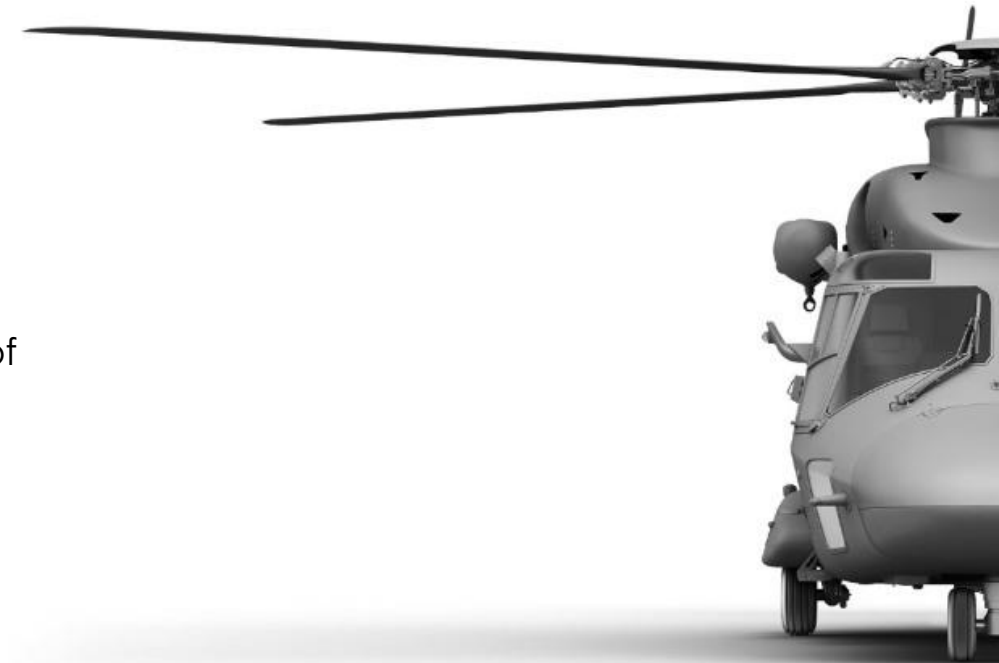
### Context

- Rollout of vaccines is encouraging
- Uncertainties remain in predicting the timing of the civil recovery
- H2 2020 civil trends to continue in H1 2021
- Recovery weighted more towards H2 2021
- Conditions in defence and energy to remain robust

### Group outlook

Assuming no further disruption to normal operations during the year as a result of additional lockdowns, in 2021 we expect the Group to generate:

- Revenue broadly in line with 2020
- An increase in underlying operating profit versus 2020
- Positive free cash flow



**WE LOOK FORWARD TO UPDATING OUR GUIDANCE AS THE YEAR PROGRESSES**



# Summary

Strong fundamentals and well placed for the recovery

- Quick and decisive action taken to mitigate the impact of the downturn
- The response of our people has been outstanding
- Continued to execute and accelerate our strategy and retained options for future growth
- Strong liquidity with significant headroom and lower net debt
- Our diverse end market exposure and strong fundamentals means we are well placed for the recovery

# QUESTIONS

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# Exceptional costs and impairment

## Appendix 1

- Non-cash impairment losses / asset write downs of £374.2m including goodwill
- Cash expenditure on exceptional operating costs was £49.3m

### Underlying results

*Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. Items excluded from underlying profit measures are treated consistently with the way performance is measured under the Group's short-term and long-term incentive plans and with covenant requirements defined in the Group's committed credit facilities.*

### Exceptional operating items

*Items which are significant by virtue of their size or nature; are considered non-recurring; and which are excluded from the underlying profit measures used by the Board to measure the underlying performance of the Group, are classified as exceptional operating items.*

### Reconciliation between profit and underlying profit £m

		<u>Of which cash</u>
<b>Underlying operating profit</b>	<b>190.5</b>	
Impairment losses / asset write-downs	(374.2)	-
Covid-19 costs	(22.0)	(18.9)
Site consolidations	(33.5)	(31.6)
Business restructuring and other	1.0	(1.2)
Exceptional operating items	(428.7)	(49.3)
Amortisation of acq. Intangibles	(88.2)	
Financial instruments	(2.9)	
Disposal of businesses	32.0	117.0
<b>Statutory operating loss</b>	<b>(297.3)</b>	



# Operating exceptionals

## Appendix 2

£m	FY 2019 £m at \$1.28	FY 2020 £m at \$1.29
<b>P&amp;L charge</b>		
Asset impairments/write-downs	-	374.2
Covid-19 costs	-	22.0
Site consolidations	20.1	33.5
Business restructuring costs	6.1	(1.0)
<b>Total</b>	<b>26.2</b>	<b>428.7</b>
<b>Cash out</b>		
Covid-19 costs	-	18.9
Site consolidations	22.4	31.6
Business restructuring costs	4.9	(1.2)
<b>Total</b>	<b>27.3</b>	<b>49.3</b>

# Currency impact

## Appendix 3

	FY 2020 Act
<b>\$/£ rate</b>	
Translation rate	1.29
Transaction rate (hedged)	1.38
<b>Euro rate</b>	
€/£ Translation rate	1.14
\$/€ Transaction rate (hedged)	1.17
<b>CHF rate</b>	
CHF/£ Translation rate	1.22
\$/CHF Transaction rate (hedged)	1.09
<b>PBT impact £m</b>	
Year-on-year translation	(0.1)
Year-on-year transaction	2.5
Year-on-year currency benefit	<b>2.4</b>

Currency sensitivity<sup>1</sup>:

± 10 US\$ cents = ± £85m Revenue; ±5m PBT  
 ± 10 Euro cents = ± £9m Revenue; ± 1m PBT  
 ± 10 Swiss cents = ± £6m Revenue; ± 1m PBT

<sup>1</sup>The sensitivity of 2021 full-year revenue and underlying PBT to exchange rate translation movements against sterling, when compared to the 2020 average rates

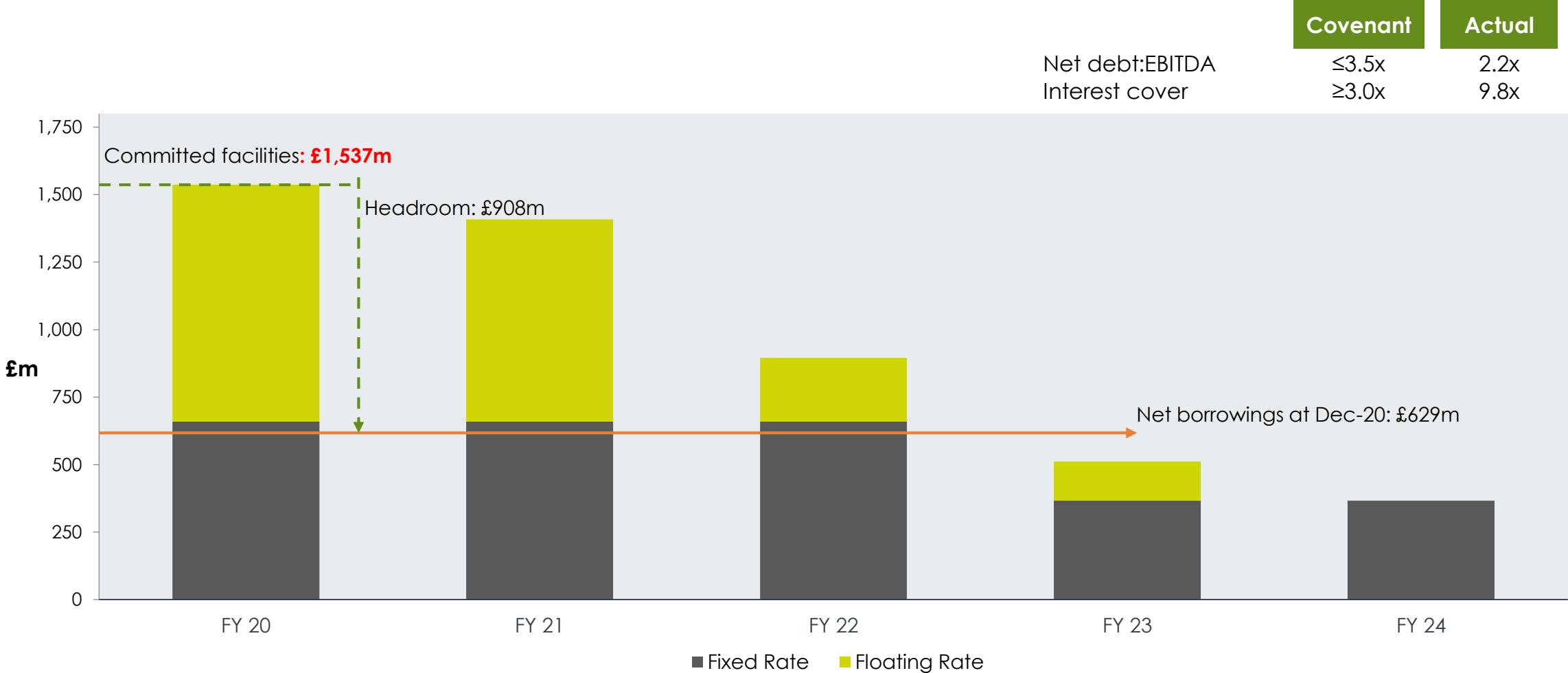
# Cash drivers

## Appendix 4

£m	2020 Actual	2021 Guidance
	at \$1.29	at \$1.30
<b>1. R&amp;D</b>		
Group spend	<b>98</b>	<b>85-95</b>
Less: Charged to cost of sales / WIP	(21)	(18)-(28)
Less: Capitalisation	(41)	(29)-(36)
Add: Amortisation / Impairment	32	29-36
Charge to net operating costs	<b>68</b>	<b>63-73</b>
<b>2. Fixed assets</b>		
Capital expenditure	(90)	(80)
Depreciation/amortisation	(76)	(78)-(85)
<b>3. Retirement benefit deficit payments</b>	(22)	(47)
<b>4. Free of charge costs</b>		
Expensed	53	47-52

# Credit maturity profile

## Appendix 5



# Retirement benefit obligations

## Appendix 6

£m	FY 2019	FY 2020
Opening deficit	(209.1)	(267.9)
Net deficit payments	35.2	21.7
Actuarial movements - assets	53.5	93.5
Actuarial movements - liabilities	<u>(142.7)</u>	<u>(136.1)</u>
	(89.2)	(42.6)
Other movements (including FX)	(4.8)	(6.6)
Closing deficit	<u>(267.9)</u>	<u>(295.4)</u>
UK discount rate	2.05%	1.40%
US discount rate	3.10%	2.30%

# Shares in issue

## Appendix 7

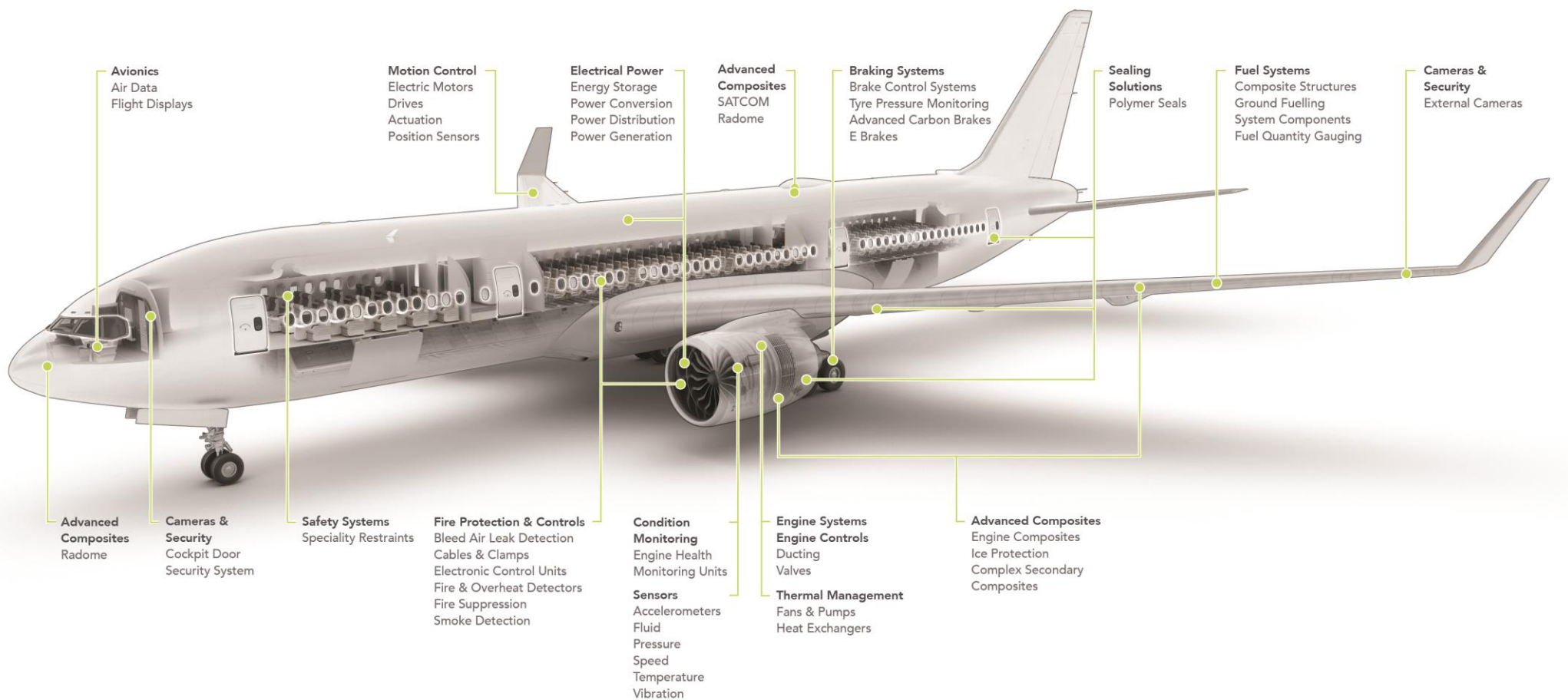
Share in millions

	FY 2019	FY 2020
Opening	776.9	777.5
Share schemes	0.6	3.7
Closing	777.5	781.2
<b>Average<sup>1</sup></b>	<b>773.7</b>	<b>777.8</b>

<sup>1</sup> Adjusted to exclude own shares

# Meggitt capabilities

## Appendix 8

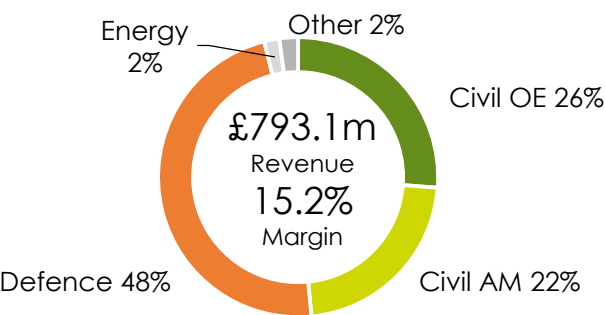




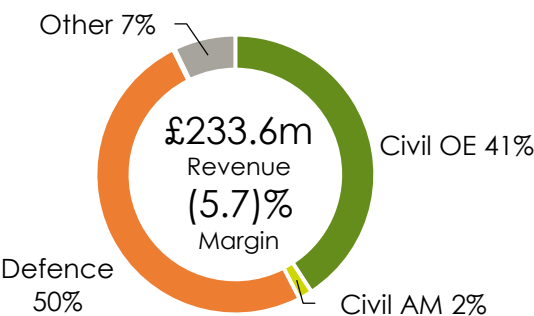
# Market segment exposures by division

## Appendix 9

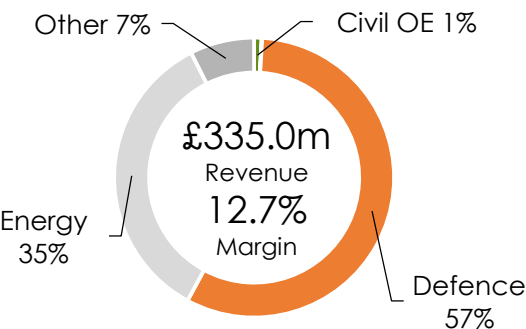
### Airframe Systems



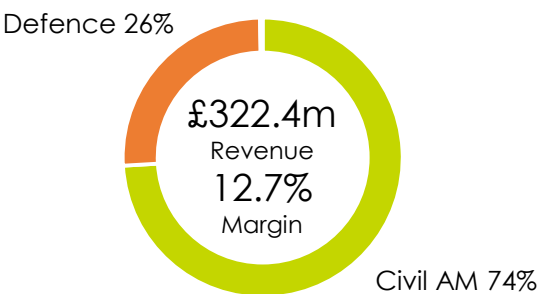
### Engine Systems



### Energy & Equipment



### Services & Support



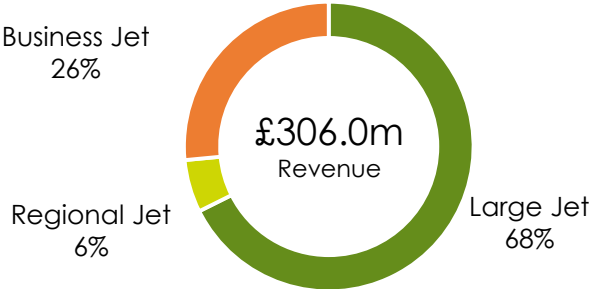
#### LEGEND

- Civil OE
- Civil AM
- Defence
- Energy
- Other

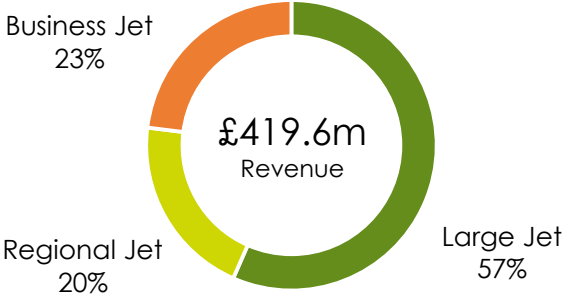
# Market segment exposures by end market

## Appendix 10

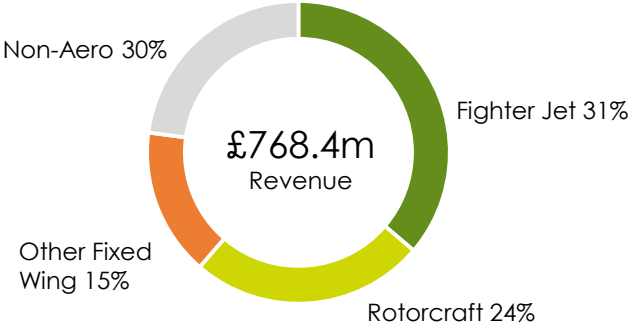
### Civil OE



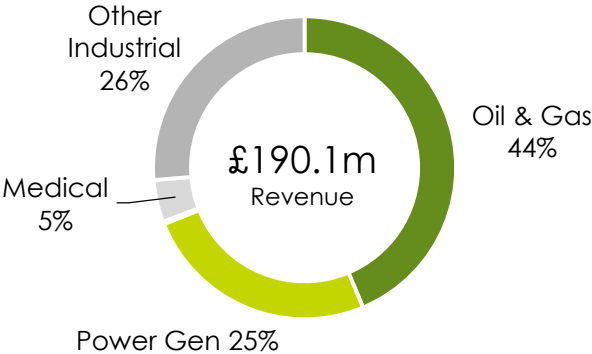
### Civil AM



### Defence



### Energy & other



# Revenue growth by quarter

## Appendix 11

Organic Growth	Q1 2020	Q2 2020	H1 2020	Q3 2020	Q4 2020	H2 2020	FY 2020
Civil OE	(1.8)%	(52.6)%	(29.1)%	(47.3)%	(54.8)%	(51.0)%	(40.1)%
Civil Aftermarket	1.1 %	(47.3)%	(25.5)%	(50.2)%	(56.9)%	(53.8)%	(40.8)%
Defence	20.0%	(2.0)%	7.9%	8.5%	(7.2)%	0.1%	3.7%
Energy	(3.2)%	(7.6)%	(5.4)%	4.4%	(22.1)%	(10.6)%	(8.3)%
Other	5.3 %	11.2 %	8.3 %	(20.0)%	94.5 %	14.4 %	11.0 %
<b>Group</b>	<b>6.3%</b>	<b>(29.8)%</b>	<b>(13.3)%</b>	<b>(25.3)%</b>	<b>(34.9)%</b>	<b>(30.4)%</b>	<b>(22.3)%</b>

# Future Tax rate scenarios

## Appendix 12

- Covid-19 has caused sharp increases to government borrowings and we are mindful that deficit reduction plans may include higher corporate tax rates
- We continue to monitor developments in this area, noting:
  - US: President Biden campaigned to increase the federal tax rate from 21% to 28%
  - UK: Rishi Sunak confirmed the UK corporate tax rate will increase from 19% to 25% for large businesses from April 2023
- Increases to the UK and US tax rates of this magnitude would significantly impact the underlying tax rate and cash taxes, illustrated below (this should not be taken as forward looking guidance)

Scenario	ETR %
Current US/UK rates	20 to 22
US increase to 28%	25 to 27
UK increase to 25%	22 to 24
US and UK increase	27 to 29

*For further information:*

**Mathew Wootton**

Vice President, Investor Relations

+44 (0)7833 094 069

[mathew.wootton@meggitt.com](mailto:mathew.wootton@meggitt.com)

**Vikas Gujadhur**

Investor Relations Manager

+44 (0)7880 381 569

[vikas.gujadhur@meggitt.com](mailto:vikas.gujadhur@meggitt.com)

**Meggitt PLC** Pilot Way, Ansty Business Park, Coventry, CV7 9JU Registered in England and Wales (number 432989)

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