

29 April 2021

Meggitt PLC – First quarter trading statement

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 first quarter of 2021.

Summary

- Progressive rollout of vaccines is encouraging for the civil recovery despite near-term headwinds
- Activity levels in the domestic, business jet and cargo markets continue to outperform weak international market
- Group revenue improves sequentially in Q1, down 29% on an organic basis (Q4 2020: -35%) with defence and energy remaining robust
- Good Q1 cash performance driven by better working capital
- Ongoing effects of COVID-19 hold back Q1 profit performance
- Pace and extent of recovery in H2 2021 expected to be slightly softer

Market context

In civil aerospace, the progressive rollout of vaccines and the recovery in domestic activity levels, particularly in China and the US, is encouraging. More widely, the first quarter of 2021 and start of the second quarter has been marked by ongoing travel restrictions across a number of regions with international activity remaining weak. Additional waves of COVID-19 infections in some countries, coupled with the uneven nature of vaccination rates globally, has also led to a slight softening in expectations of the extent of the recovery in the second half and industry traffic forecasts for the full year.

Overall levels of civil activity remained weak in the first quarter, with global RPKs -72.2% and -74.7% and ASKs -59.2% and -63.1% in January and February compared with pre-crisis (2019) levels respectively, with this trend continuing in March 2021. Business jet activity has remained robust, with total flights in the quarter 10% below 2019 levels with activity growing further towards the end of the quarter.

In defence, outlays in our core US market have been solid, and with the initial DoD budget proposal for 2022 up 1.7% on enacted levels for 2021, the outlook remains supportive. Conditions in energy have remained stable, underpinned by good levels of capital expenditure in the markets that we serve.

First quarter 2021 trading performance (all revenue numbers on an organic basis)

Our financial performance in the first quarter of 2021, both at a Group level and within civil aerospace, reflects the comparator of a normal trading quarter given that the outbreak of COVID-19 impacted the Group only in the latter stages of Q1 2020.

In the first quarter, Group revenue was down 29% against the comparative period, a sequential improvement on Q4 2020, where revenue was down 35%. In civil aerospace, both original equipment and aftermarket revenue were down 46%. Within civil aftermarket, business jet revenue was down 24%, outperforming large and regional jets which were down 53% and 51% respectively.

Defence revenue was 10% lower compared with a particularly strong first quarter in 2020, where revenue grew by 15%. Energy revenue was in line with the comparative period with other markets down 7%.

While Group revenue in the first quarter of 2021 was broadly in line with our expectations, disruption to our operations caused by the ongoing effects of the pandemic and lower productivity at two of our earlier stage MPS sites in the US dampened profitability in the period.

Our focus remains on the appropriate management of cash and cost, while in parallel preparing our sites for increased volumes and focusing on the delivery of our strategic initiatives, notably the transfer of production from four sites in the UK to Ansty Park.

Our cash performance in the first quarter was better than expected driven by a lower outflow within working capital. As anticipated, during the period, we made a cash payment of £17 million in respect of the UK CFC regime pending appeals by the Group and the UK Government.

Outlook for the full year 2021

While the demand trends in civil aerospace in the first quarter are expected to continue throughout the rest of the first half, we continue to anticipate and plan for a progressive recovery in civil aerospace activity levels throughout the third and fourth quarters as passenger confidence grows. As a result of the recent reduction in full year industry traffic forecasts, we now expect the extent of this recovery to be slightly softer than at the time of our March results. Conditions in our defence and energy end markets are expected to remain robust.

Recognising the ongoing difficulties in forecasting demand within civil aerospace with precision, and assuming no extended disruption from the pandemic and the smooth resumption of international travel in the second half, in 2021 we now expect the Group to generate:

- Revenue broadly in line with 2020 on an organic basis
- Underlying operating profit to be ahead of 2020, with the latest industry data highlighting risks to the downside compared with our previous expectations in March and with profit heavily weighted to the second half
- Positive free cash flow

While we recognise the need to remain agile and respond quickly to changes in the external environment, based on the significant progress we have made over the last four years to transform the Group, the effective actions we've taken, our diverse end market exposure, leading market positions and strong IP, we are well placed to benefit from the recovery in civil aerospace and to deliver long-term profitable growth.

Annual General Meeting

Information regarding our Annual General Meeting, which takes place today, can be found on our website: <https://www.meggitt.com>.

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