Melrose

Full Year Results Webcast
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Melrose

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Introduction & Key Highlights

Peter Dilnot, Chief Executive Officer
Well, hello, everyone, and welcome to Melrose 2024 results. It's great to see so many of you here in in London with us, and I know we've got lots of others on the webcast too. So, welcome to you all and thanks for joining us.

Now, this is actually our third set of results as a focused aerospace technology business. 2024 was a busy and successful year for us, and we've got good momentum going into 2025 and, clearly, we're going to cover lots of that shortly. But importantly, today, we're also announcing new five-year targets; these are built on our clear plans for our repositioned aerospace group, and they also reflect our confidence and our excitement about where we're going to take Melrose from here.

So, running order today is I'll give some highlights on all of this up front and then Matthew will do 2024 and 2025 before I return to talk in more detail about these five-year targets.

Let's just get started with some headlines. Firstly, as I said, we delivered a strong performance in 2024 with profit at the top end of expectations against a backdrop of what we all know has been a difficult time in the industry with supply chain challenges.

This progress continues with our positive momentum into 2025, and, this year, we're going to complete our multi-year transformational restructuring programme, and we'll also deliver substantial free cash flow.

Now, on the five-year targets, these include good revenue growth, primarily from the market ramp up, significant further margin expansion and ongoing step-ups in cash generation. So, lots of value to unlock.

Some highlights specifically on 2024 include this 42% increase in profit to £540m. This was delivered despite lower than expected revenue growth due to these reduced production rates. So, our margin expansion was the result of business improvement actions reading through and positive aftermarket mix.

Operationally, our priority is always safety and quality, and, in 2024, I'm proud to say that we delivered an 80% reduction in lost time accidents and further improvements in quality too; this is important.

We also took steps to grow our business for the future, including expanding capacity on existing platforms, such as the F-35, as well as investing in engines capability, such as our breakthrough additive fabrication technology, which we're going to talk through in more detail later. And finally, our ongoing portfolio rationalisation is now largely complete with the successful sale of three non-core businesses, including two to Boeing.

2025 is all about further delivery and the execution of our plans. We'll see another step-up in profit and margins, and we'll complete our extensive restructuring programme and deliver improved productivity on our restructured, leaner operating base. Most significantly, though, we

will reach an inflection point on cash, with recent one timers dropping away and moving from cash outflow in 2024 to more than a £100m positive free cash flow post interest and tax this year.

So, lastly, a word here on our five-year targets which we think reflect the excellent potential in the Group.

From a top line perspective, we're targeting high single-digit CAGR, leading to £5bn of revenue by 2029.

In terms of margin, we'll continue to see expansion up to 24%-plus from the impacts of volume, positive mix and our business improvement initiatives reading through. And this will lead to at least £1.2bn operating profit and, most excitingly, a greater than 20% CAGR in EPS over the next five years.

Finally, cash – our target is £600m post interest and tax, and this is certainly not the peak with cash generation continuing to increase into the next decade. So, with that as an introduction, I'll hand over to Matthew.

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Financial Review

Matthew Gregory, Chief Financial Officer
Thank you, Peter, and good morning, everyone. It's great to be here with you all to talk about the business's strong performance with profits at the top end of our guidance from November.

At a headline level, the Group revenue has grown 11% on a like-for-like basis, which was very much led by the performance of the Engines Division.

Group operating profit has taken another stride forward, growing 42% to £540m as a result of the revenue growth and the impact of our restructuring and business improvement programmes.

Margins continue to grow up 400bps to 15.6%, with both divisions continuing to grow margins strongly. And, logically, EPS has also grown significantly, up 45% to 26.4p. So, a strong set of results, with profit at the top end of our guidance and continuing our trajectory to the 2025 targets set out two years ago.

Turning to slide ten – I do have a slide for each division coming up – but, at a headline level, you can see that, while both divisions delivered revenue growth, our performance is very much driven by the continued strong performance of the Engines Division, which was up 26%.

Structures growth was dampened by the ongoing supply chain challenges being experienced in the sector and the specific customer destocking and production rate changes that our business has faced. This, alongside the weaker dollar impact of around £70m, resulted in overall revenue falling slightly short of expectations.

However, margins continue to grow strongly in each division due to the buoyant Engines aftermarket, as well as the impact of restructuring and our business improvement programmes. Engines has beaten its margin target one year earlier than planned, and Structures continues its good progress towards the 2025 targets. And a result of this better performance and despite an FX headwind of around £10m, we were able to deliver operating profit at the top end of our expectations.

So let's dig a little deeper into the performance of each division- turning to Engines on slide eleven.

Revenue growth was robust at 26% up, driven by strong aftermarket performance across all of our subsectors as well as good OE growth. Aftermarket revenue was up 32% in the year. Within this, we saw a particularly strong performance in our Swedish military business, which was up 74%, driven by the higher level of support required for the upgrade of the Gripen RM12 engine. In addition, during the year, this business signed a multiyear agreement with Sweden's FMV to explore the propulsion requirements for future fighter systems, and our technology helped propel the Ariane 6 rocket during its inaugural launch in July.

Our aftermarket repair business continued to grow up 18% on last year, driven by the higher number of certified parts for both LEAP and GTF that are able to go through our facilities, as well as our Malaysia facility being online for a full year. We expect this growth to continue as we've now opened our new $55m 150,000 square foot state of the art repair facility in San Diego.

The final contributor to our aftermarket growth was the performance of our RRSP business, which was up 30%, and the RRSP revenue included £274m of variable consideration.

On the other side of the Engines business, OE grew 19% in the year, and this was driven by stronger GTF volumes and a higher spare engine ratio as well as increased revenue on GE engines.

And we also saw good commercial wins on the OE side of the business, with a decade-long agreement with Safran to supply shafts for the LEAP 1A variant, and we expect this agreement to expand to the LEAP 1B variant in 2025.

Operating profit grew 40% to £422m, and margins at 28.9% have beaten our 2025 target of 28% one year early. And this strong margin reflects the growth in the highly profitable aftermarket business, the improvements in productivity and quality, as well as the readthrough from restructuring projects in this division. So, a very strong performance from the Engines Division with further growth and improvements to come.

Turning to Structures on slide 12 – after taking account of the three businesses that were sold in the year, the division delivered revenue growth of 3%. The Civil side of the business grew 1%, and this was impacted by well publicised customer destocking and rate changes during the year, which was driven by sector wide supply chain issues. The business element of this business continues to see good growth during the year. And on the commercial side, we secured a

contract renewal with Airbus for the full wiring package for the A220 and production is well underway at our new Electrical Wiring Centre of Excellence in Chihuahua, Mexico.

Revenue was stronger in Defence, up 7%, where increased build rates and improved commercial terms read through in the year. And we now see 61% of the portfolio being sustainably priced, up from 42% last year, with good momentum to reach our 85% target by the end of 2025.

Commercially, Defence secured customer investment of more than £100m to double its F-35 canopy production capacity in Garden Grove, California, extending our participation into the 2030s.

Margins continue to improve despite the slower ramp up, with the impact of pricing, business improvement, restructuring and the sale of lower margin businesses dropping through.

Operating profit grew by 32% to £144m, and margins grew from 5.1% to 7.2%, an increase of 210bps.

So, despite the volume and supply chain challenges, the business continued to grow profits and margins strongly in the year, with line of sight to the 2025 margin target of 9%.

So, having talked about the businesses individually, I think it's worth a quick recap, on slide 13, of our progress towards the 2025 margin targets that we set out two years ago.

For Engines, we set a target margin of 28% for 2025, which we've exceeded this year, and the strong performance has been driven by the aftermarket performance and mix effect over the past two years as well as the division fully delivering on its business improvement initiatives. The final part of our margin growth comes from the growth in our Part Repair business, which is well on track. So, good performance from Engines with more to come in 2025.

For Structures, we set a target margin of 9% for 2025, and we've grown from our original 2023 guidance of 3% to 7.2% in 2024. The Defence portfolio and repricing activities are very much on track and business improvements are also reading through.

Now, the Civil ramp up was a key part of our margin improvement target, and, whilst this is reading through in part, we're not getting the full effect as volumes remain constrained. This is a challenge, but we've already delivered margin improvements in line with our plans and are confident that the further margin improvement is achievable, and we remain committed to delivering 9% margin for 2025.

So, having talked about the divisions, let's talk about the numbers below the operating profit, on slide 14. Now, we put the details of all of our adjustments to operating profits in the Appendix as normal.

Net financing costs are £102m, which largely reflects the interest on bank loans, with an average cost of 5.7%. The ETR for the year is lower than expectations, at 20.1%, and this was due to recognition of certain tax assets in Malaysia and Sweden. And the combination of all the above shows EPS at 26.4p, a growth of 45%. And, as a result of that strong performance and progress

in the year, a final dividend of 4p per share is proposed, increasing the full year dividend to a total of 6p per share.

So, let me now turn to our cash performance for 2024 on slide 15. Our cash performance is in line with expectations, with operating cash before capex at £298m and free cash flow before interest and tax at £23m. We consider this a robust performance given the challenging operating environment.

Now, turning to working capital, you can see that we've split out the impact of the movement in unbilled work done to give full transparency as to how this impacts our results, and this was very much in line with our expectations.

Trade working capital in the second half of the year was good, particularly in the context of the challenging supply chain, and this reflects the seasonality of the business, which we expect to continue.

And, for those that want it, you'll be able to see the details of the factoring position, which ended the year at £338m in the Appendix of the presentation.

Just a quick update on the powder metal issue – we saw around £40m-impact coming through in 2024. This is a little over half the amount that we guided to at the start of the year but does reflect the direct activity from Pratt & Whitney.

Capex was £123m and represents 1.1x depreciation, and this includes our net investment in additive fabrication in Sweden and also the completion of our repair centre in San Diego.

Looking at restructuring, we're now very much at the backend of our restructuring work, and we expect these to complete during 2025. From a cash perspective, the cost was £126m, which is below the £140m cost guided earlier in the year. And our guidance remains that we expect the completion of these projects in 2025 to cost between £40m and £50m.

Moving on to the share buyback program; this continues. We completed the previous £500m share buyback programme by the end of September 2024 as planned and commenced our £250m programme in October. Total spend in 2024 was £431m, and the £250m programme is due to be completed by March 2026.

Net debt ended the year at £1.321bn and leverage at 1.9x, and this was in line with our expectations, slightly helped by the timing of the share buyback programme.

So, let me finish off with a couple of slides which update our guidance for 2025. So, let's talk about the P&L first on slide 16.

Given the continued supply chain challenges that are affecting the whole aerospace industry and the recent announcements specific to the platforms of our largest customer, Airbus, it should be little surprise that we are tempering our revenue guidance for 2025. We're guiding to revenue from £3.550bn to £3.7bn, which, at the midpoint, represents like-for-like growth of around 7%.

Given the strength of our aftermarket business and the delivery of our business improvement plans, we are guiding to Aerospace Operating profits of between £680m and £720m, and, at the midpoint, this represents profit growth of around 25% and is in line with the target we set out at our Capital Markets Day in 2023. The midpoint margin of greater than 19% exceeds the target we set out in 2023 by 1%.

At the divisional level, we expect Engines to maintain strong growth rates, just into double-digit territory, driven by continued strength in the aftermarket, and operating profit guidance is £515m to £545m, and this includes variable consideration of around £340m at the midpoint. We expect margins to be greater than 32%, well ahead of our original target.

The Structures Division is expected to deliver low to mid-single-digit revenue growth on a like-for-like basis, and, as I mentioned earlier, the Division's growth is impacted by the constrained volumes from a major customer that is affected by continuing supply chain challenges. However, the Structures Division is expected to make continued good progress on margins in 2025 through the further impact of restructuring and business improvement, and we expect margins to be around 9% this coming year. Operating profit is guided at £165m to £175m.

Now, at this point, I should talk about tariffs and the impact that this may have on the business.

We do have product that now attracts a higher rate of tariffs on imports into the USA, particularly from Mexico. Now, obviously, we've been monitoring the situation and assess that the overall impact on the Group for this year would not be material. We've seen that the tariffs have been implemented this week, but it's unclear how long this will last, whether they'll continue to apply to all of our products in Aerospace and also, ultimately, who will pay for these additional costs.

So, given that the situation has been dynamic since the start of the year, we've not included this in our guidance. And, depending on the impact on the Aerospace sector, we'll update as we go through the year. And I would point out that the impact to us has been reduced due to the fact that certain contracts require the customer to pay any duties and the fact that we have a distributed global footprint.

Moving down the P&L for 2025, I'd expect absolute net interest costs to increase, reflecting the continuation of the share buyback and the fact that cash generation of this business will continue to be backend loaded in the year. For 2025, the interest rate for gross bank debt is expected to be around 5.4% percent.

Guidance for ETR is 21% to 22%, and this is still very much weighted towards the Swedish tax rate but will depend on the precise balance of profits during the year.

Now, as a final point, just a reminder that the above numbers are Aerospace numbers. In addition to this, the PLC costs are anticipated to be around £30m, broken into operating costs of £27m and a non-cash LTIP cost of £3m in the year. Now, these LTIP costs were previously charged below the line, but, with the change in our strategy, it's appropriate that they get put into operating profits. Once we're through the 2025 year, which had specific Aerospace targets

attached to it, we will revert to a more conventional approach of including the PLC costs within our guidance.

So, with all that, from a P&L perspective, it's very pleasing to be able to guide to operating profit directly in line with the targets we set out in 2023.

Now, my final slide, slide seventeen, relates to our cash guidance for 2025. As shown on the graph, 2025 will be an inflection point for the Group, and we're guiding to positive free cash flow after interest and tax that is in excess of £100m.

Now, this is the first time Melrose has guided on an absolute basis, and it reflects us now reporting as a conventional aerospace company.

We've given the P&L guidance on the previous slide and also an indication of the impact of variable consideration on the P&L.

Trade working capital is expected to grow in relation to revenue growth at around 13% of sales, and we're not anticipating that supply chain performance will improve significantly during the year.

In addition to this, we expect powder metal issue to have around a £70m impact in 2025.

Now, we remain confident that the total cost to Melrose of resolving this issue will still be around £200m, as advised by Pratt and Whitney. So, the remainder will flow through 2026 and into 2027.

We expect capex for 2025 to be between 1x and 1.1x depreciation, and this includes our net £25m investment in additive fabrication technology.

As a reminder, cash tax at £10m is lower than the P&L charge due to carried forward losses, and the cash tax costs will increase in absolute terms for 2025 but will still be very low compared to the P&L charge as we continue to utilise historic losses and we expect cash tax to be around 4% of the adjusted profit before tax.

Now, when you combine all of this with the restructuring cash guidance of £40m to £50m that I've already given, we'd expect leverage to be below 2x EBITDA, in line with our capital allocation policy.

So, to repeat, free cash flow, after interest and tax, is guided at in excess of £100m. This cash flow will be weighted to the second half of the year in line with historic Melrose seasonality and, as such, free cash flow will be negative in the first half.

So, to conclude from my side, the business has performed well in 2024 despite continued supply chain challenges, and, for 2025, we expect the business to deliver on the profit target we set two years ago. And, in addition, 2025 will be the year that substantial cash will be generated, an important inflection point on our way to our longer-term targets that I'll now hand over to Peter to talk about.

Business Update

Peter Dilnot, Chief Executive Officer
Thanks, Matthew, and let's now look further out and unlocking the promising potential of Melrose.

We're very well placed as a leading Tier One technology company and, of course, this has been reinforced by all the repositioning work we've done over the last few years.

We've got a diversified portfolio covering Civil and Defence, and we also have Engines and Structures and, importantly, of course, not just the OE side of the business, but access to that lucrative aftermarket, and indeed, our technologies are on over 100,000 flights every day. And you name a major platform and we're on it with GKN technology, and over 70% of those positions are sole source.

And if you look at the Structures business today, we're now the largest independent player in the market, with global reach and local presence in the US, Europe and Asia, and this is important with world events.

In Engines, we have our unique portfolio of RRSPs, which gives us this entitlement to long-term cash flows over the full life of the engines. These contracts cover an unparalleled 70% of all flying hours globally. So, every time one of those engines goes into a shop visit, we get returns. And longer term, we have our breakthrough technologies, particularly around additive fabrication, and our position on next generation engines. So, this all provides a strong foundation for growth.

We also have a clear and consistent growth strategy which, simply put, is based around three core elements. First, delivering growth from our existing positions, second, expanding in selected target opportunities and, third, participating in next generation of aircraft. But to be clear though, 90% of the plan we're presenting today is driven from this first element. We think this is important and a reassuring point. Effectively, as production ramps up and the aftermarket continues to grow, we step up in sync because of the established positions we have, both in OE deliveries but also through aftermarket activities.

At the same time, we are on track with growing our business by gaining share and capturing new opportunities where we're advantaged, and we can generate attractive returns. This is well underway already as we have traction with additive fabrication, advanced air mobility, new military uncrewed vehicles and civil growth in China. And finally, we will continue to play our part with next generation aircraft, and also engines, for the longer term, and this includes work on both of the leading narrow body next generation engine developments and work with Airbus on sustainable wings for next generation of single aisle.

Now, those strong foundations and our linked strategy for growth enable us to present our five-year targets with conviction.

So, let's start on the revenue side. This, as I say, is predominantly driven by the platforms we're on, and we've assumed that, by the time we get to 2029, the targeted build rates for the industry will be met.

Now, clearly, there is some question mark at the rate at which OEMs will get there, but we're confident that these rates will be achieved within five years given the record order backlogs on both the Civil and the Defence side. We're also assuming that flying hours will continue as the industry predicts with the resulting aftermarket growth coming to us, and this all reads through to high single-digit compound annual growth rate in revenue through to 2029.

In terms of operating profit, we expect a 17% plus CAGR to take us to over one point two billion with margins in excess of 24% for the Group. The key drivers here are volume drop through, ongoing efficiency and commercial excellence, and the positive mix from strong, ongoing aftermarket growth. And to be clear, the operating profit target includes £500M of variable consideration from our Engines' RRSP portfolio.

Now, that operating profit growth, plus the reducing interest costs, will give us a CAGR and EPS of greater than 20% over the next five years, and this excludes the benefits of further buybacks beyond the current program. Our target for free cash flow is £600m after interest and tax with further growth beyond. So, let's get into that important cash bridge in more detail.

This slide highlights the drivers to £600m free cash flow over the next five years. The overarching point here is that the sources of cash are increasing and there is a decrease in the one-time uses of cash.

On the sources side, we have cash coming from the growth in operating profit, and this is from both divisions, including the non-RRSP part of Engines.

The second element is the RRSP portfolio maturing, giving good growth from Gen X and XWB and contributions from the legacy V2500 and CFM56. Our current uses of cash will reduce at different rates over the period.

The GTF programme itself is currently consuming cash at this stage of its development cycle as was expected. Going forward, we and our partners are increasingly confident that the GTF will be a highly successful engine family, especially with the imminent launch of the new Advantage variant. So, the programme is on track to turn cash positive in 2028 as originally anticipated.

We also expect the GTF powder metal headwinds to fall away in 2027 and the conclusion of our restructuring programme at the end of 2025.

During this period, we'll also be driving an improvement in trade working capital, especially given it's above the level that we would want or expect given all the supply chain challenges we have right now.

There are some other cash items which are included in the Appendix, but hopefully this provides a helpful route map to the higher level of free cash flow, and to be clear, we have excellent visibility on each of these drivers.

Now, we set out our capital allocation policy in August last year and we're outlining it again today as a reminder of the clear prioritisation.

Our first priority is investing in the health of the business. This includes automation projects and growth opportunities with a focus naturally on the Engines Division.

New opportunities in Structures will typically be capital light with, primarily, customer funding.

Now, given this model, we expect capex to be in the range of 1x to 1.2x and, for clarity, this does include the additive fabrication capex we've announced previously.

Balance sheet will remain strong through the period with a leverage between 1.5x and 2x while targeting investment grade metrics over time. We would expect, for leverage, if you put this together, to naturally reduce through the period given the improving profit and the cash generation dynamics in the years ahead. And this provides opportunities for further returns in cash to our shareholders, both through the ordinary dividend as well as potential further share buybacks. Now, we'll consider this based on an assessment of our free cash flow and leverage each year with our next decision point in March 2026. We think this capital allocation policy provides a valuable element of our overall equity case.

So, that's the overall group story. Let's now go into each of our divisions.

In Engines, you can see the target here over the five-year period is high single-digit growth on the top line. This is driven not only by increasing build rates but, of course, the aftermarket reading through. Operating margins will continue to expand from where we are today to mid to high 30s, and this is driven particularly by the aftermarket, including variable consideration from our RRSP portfolio.

The Structures business will continue to grow at around mid-single digits, driven by the increase in production rates. Our margin target now goes well beyond the 9% we've guided to for this year, and we can see a clear trajectory to get this business to low teens margins.

Both these businesses are uniquely positioned with proprietary technology and diversified portfolios.

In Engines, there's much focus on our RRSP portfolio, and rightly so, but it's really important to recognise that about half our Engines business sits outside of these RRSPs. This includes commercial contracts where we have long term agreements to supply military and civil customers on an original equipment basis.

We have government partnerships which are performing particularly well because they're defence related, and we have our expanding parts repair business, which is meeting the growing

demand for aftermarket parts, and, again, this is where we've invested our shareholders' capital for growth.

Turning to our Structures business, this is a design-led business with deep technical capability. We're not a manufacturing business that builds to print. We embed our technology onto our customers' platform, and we do that in four core areas - in wings and in other aerostructures, with deep OEM relationships, particularly with the likes of Airbus, and with the US defence primes, we have a leading global electrical distribution business, which is clearly set for growth given the proliferation of electrics on aircraft and, finally, our advanced transparency business serving Civil and Defence customers.

Now, we're going to talk a little bit more about growth in each of these businesses in turn, but let's start with our most exciting investment for the future, and that's engines additive fabrication.

[Video plays]

So, as you've just seen, this technology is a revolutionary new way to manufacture structural components, which is at the heart of what we do, but the key reason why it's so in demand is because it addresses supply chain shortages, which, in some cases with forgings and castings, is actually gating the production rate of aircraft.

Now, we're the only company to have certified structural aerospace parts flying on engines today, and our task, therefore, is to now certify more parts, and we've got a very long list of opportunities and we're working through these in partnership with all the major OEMs.

We're also working on the industrialisation side and, as you may have got a sense from that video, it's a modular approach. We don't need to build very large factories in one go. You can create a module which consists of robots, our proprietary software and the appropriate tooling.

We're able to replicate these advanced manufacturing cells, and our plan is to build capability to start with in our existing factories and then, in time, alongside our OEM customer facilities. We've got some great traction here, and it's only increasing over time.

Our target is to generate £50m incremental profit by 2029, and we've got a clear roadmap to make that happen.

So, finally, a word on our expansion in Structures, which is underway and is typically employing a more capital light approach. An example of this is the F-35 canopy, where we've been asked by the US government to increase our production. We're delighted, of course, to be able to do that, but not using our capital up front. So, in discussions with the US government, and in close partnership with our customer, Lockheed Martin, we've secured funding to be able to build a factory to double our capacity. And, on the back of that, we'll have a 10-year contract to supply this important operational fleet.

Now, a very different example, but uses the same sort of approach, is our expansion in the China civil industry. This is going to represent a significant part of the global aerospace market in the

years ahead, so an important play for us. We're working here through a local-for-local strategy with much of the capital funding coming from our local JV partner, Comac.

So, hopefully, here you've got a sense of a clear growth strategy based on established positions plus appropriate degree of ambition around new technologies. We believe this all leads up to a compelling equity case.

Our business sits in a structurally growing market. We're well placed with established presence on all the world's leading aircraft, and we have this unique portfolio in Engines with an entitlement to the aftermarket for decades to come.

Beyond this structural position of where we sit, we're a business and a team with a track record and real momentum around business improvement and making sure we get the very best from our assets in terms of productivity and cash generation, and, coupled with our new opportunities that are coming through, in the future and today, we're very well placed.

Now, I'm not going to repeat the targets again, they're out there for you to see, but what I can say is all our focus is on delivering these targets and positioning for the longer term because these are not the peak. And, with that, we'll open to questions.

Thanks, Sam. Shall we start with you? If you could just introduce yourself, that would be helpful. Thanks. I'd like to hear you, Sam, I think.

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Questions and Answers

Sam Burgess, Citigroup
Hello. There we go. Thank you very much, Peter and Matthew. A couple of questions, if I may?

Firstly, as we think about the growth of free cash flow from 2025 to 2029, should we expect the relative divergence between profit and cash driven predominantly by that variable consideration to progressively narrow, meaning free cash flow is going to grow substantially faster than profit over the period and then overtake profit on those RRSPs in the 2030s?

Second question, clearly £600m midterm free cash flow, a very big number. How confident do you feel in that number, and would you say you've baked any conservatism into that?

And then, finally, would the benefit to you of your additive investments potentially look like higher RRSP share on Engines?

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Matthew Gregory, Chief Financial Officer
Shall I cover off the point about RRSPs first and talk about that?

So, look, we've made this clear in our RRSP brochure. You know, we expect that the unbilled work done asset will grow while we continue to build, particularly the GTF engines because that is how the mechanism works, and that will be up to the late 2030s, but we do expect that gap to narrow.

So, you're quite right, we're expecting the cash to grow, sort of, in that particular area, faster than the build-up of the of the unbilled work done, asset, over time.

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Peter Dilnot, Chief Executive Officer
Yes, indeed, and, actually, the variable consideration grows significantly slower than the underlying profit in the business as well over the planned period, which is important.

So, I mean, you asked about the conservatism on the targets, perhaps the best way to say that is, firstly, we're not going to step up and make commitments to targets unless we've got a clear line of sight to do that, that's the first and most important thing, but I think, to get underneath that, we're pretty confident about the one-time uses of cash. The restructuring is in our control, that is going to end this year, and that's obviously a significant change, and, similarly, the GTF powder metallurgy issue is well trailed and looks well under control. So, that's the two parts of the uses of cash, as is the GTF programme, nicely on track.

I think the most variable bit, if you will, is in the in the top two lines, which are conditional on build rates for the overall operating profit, and we've taken the industry build rates.

Interestingly, I was asked this morning whether or not the full weight of potentially Defence spending increasing over this period is in the numbers and, arguably, it's not, but, at the same time, we do need to step up, as we'd expect, on the Civil side, and then the RRSP side, which is throwing off cash from the aftermarket, is clearly contingent upon flight hour growth.

So, we're confident on these targets overall, and we're not going to put things out there that aren't doable, and we've got a very good line of sight on, but I hope that gives you a sense. I'd say the uses are clear and we know what those are. There is clearly execution, both up and down, on the profit growth, but we feel confident about it.

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Sam Burgess, Citigroup
Thank you. Sorry, just the final one was the additive investments, whether that might look like a higher RRSP?

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Peter Dilnot, Chief Executive Officer
Oh, yes, I'm sorry. So, I mean, I think on that one around the RRSP use, I think you asked whether or not we might get a position on the RRSPs. Is that what you mean, with the next generation?

So, the answer to that is yes. It's really interesting.

The additive fabrication has, very broadly speaking, two elements to it. The first is what we're doing is we're taking stuff that's being made today by forgings and castings where there's a supply chain issue, and what we're doing is we're producing that with this new method and that protects the supply chain but also it's obviously a lot in demand with OEMs given where we are on supply chains more broadly, and that, in itself, is a very profitable opportunity for us. It's near term, it's not something we're going to have to wait for, and that's, frankly, where that £50m of incremental profit is. So, that's what that's based on.

But, Sam, you ask a very good question, which is what does that mean? And what we're finding is we're in huge demand, actually, across all OEMs for the next generation, and I would be very surprised if there isn't an opportunity for what's called 'designing for additive', so you take the technology and you design something that only can be made that way. And I think we will have the opportunity, whether or not we choose to take it, to take a bigger share on Engines going forwards because of this technology. But what we've presented today is based on the near term and that's, frankly, just making stuff for this new technology. Next question, I think shall we go...?

. . . .

David Perry, JP Morgan
Can I ask three as well?

. . . .

Matthew Gregory, Chief Financial Officer
Yes.

. . . .

David Perry, JP Morgan
So, first one, the free cash flow of £600m, as you as you make clear, is post interest and tax, which is good, but if we look at it, sort of, at a trading level, pre interest and tax, I'm just curious roughly how much is it going to be the RRSPs and how much all the other businesses that were on that good slide you had, the non-RRSP Engines, the Structures?

The second question is the Aerostructures margin that you're guiding to is very good, it's probably stronger than a lot of aerostructures companies I think they can achieve, so, I just wonder if you could sort of say what's behind that?

And then my third one, is slide 22, someone's had fun with the coloured bars there, and I'm just intrigued about the GTF RRSP in 2028 because there are about three or four different shades of colour there as it moves from red through to green. So, I'm just, like, sort of, what magnitude of delta are we going to see on that programme in 2028, please?

. . . .

Matthew Gregory, Chief Financial Officer
So, I'll take the first one and the third one, if that's okay, and then you can take the one about the Structures margin.

So, we haven't broken out the RRSP versus the non-RRSP at this stage. You know, we've obviously done our plan from the bottom up, we've given you the divisional split, we've given a lot of information as to how the business is built up from there, but to be honest, we're not going to give, sort of, additional guidance on that. We think we've given a huge amount of transparency in these numbers, particularly to where the business was previously, but we're not going to go much further than that.

On page 22, it's a good question and, clearly, we're obviously looking at forecasts, we're looking at the partnership forecast as well, so that's where we get the confidence that the GTF will move into positive cash in 2028.

I think is a real challenge for us. This information is commercially sensitive, and we can't tell people what the existing level of development spend that is going through the GTF and how that moves because, by doing that, we would then be effectively giving a forecast for the other members of the partnership, two of which are, you know, quoted, RTX and an MTU as well. So that is the challenge we face here.

We feel we've given a huge amount of building blocks to take you, you know, through the reduction in the drags on cash, but, unfortunately, that's the one piece that we can't give out but you're right, a lot of time was spent looking at those colours. A lot of time.

. . . .

Peter Dilnot, Chief Executive Officer
That's great that's it's acknowledged. David, I'll just add one thing, if I may, on Matthew's answer about the RRSPs, because I think, for the GTF, effectively what you've got here, you've got two sides of the coin. You've got, effectively, the development costs that are ongoing, and, as I've said, the GTF Advantage looks in great shape going forwards, and the continued development and commercialisation of that, and then that's, obviously, offset by the cash generative shop visits as that fleet gets flying, and that's the trade-off there.

As a partnership, we're confident that that's on track, and I'd just add, actually, that the inflection points for the GTF becoming cash positive to us was always around 2028. I think probably the depth of the investment has been somewhat higher, but the shape of it has remained intact.

And then you asked about Structures, an interesting question. I mean, the first thing I'd say is that we have spent a huge amount of time and effort to reposition the Structures business where we are design leaders, and that includes, frankly, you know, quite a lot of our revenue lies in Structures at the moment, and you can see that, we're exiting businesses that are non-core and not profitable and wouldn't generate cash over time.

So, what we're left with is a portfolio where we own the design rights, where we, frankly, invest a huge amount to work alongside our customers and embed our positions on their platforms.

The margins we make, you know, we've also repriced to get appropriate value, and that's reading through. We've been clear about that in Defence with our plans to do that, and we're on track to get those repriced and, frankly, US defence, some of it is open book and there is a threshold there of around 12%. So, it's consistent with that as well. But look, we make no bones about it, we're aiming to have the highest quality Structures business based on our technology, and that's the work that we've been doing.

. . . .

Ian Douglas-Pennant, UBS
Thanks very much. Your capex commentary, you'll forgive me, I don't have your H1 slides in front of me, but I think it's different to what you said at H1, where you're now saying 1x to 1.2x, including the additive manufacturing capex. I thought before it was that number plus, but maybe you could correct me if I'm wrong? And apologies again, I don't have the slides in front of me.

Second, on your inventory reduction plans to 2029, clearly, your inventory levels are high. Can you give us an idea of how much you believe you can reduce inventory levels by, when you think you can reduce inventory levels by, and then just quickly confirm what your assumption is in 2029 versus 2028, inventory days are flat, please? Thank you.

. . . .

Matthew Gregory, Chief Financial Officer
Let me let me cover both of those. So, yes, we did give indications of the 1x to 1.2x within our additive fabrication expenditure of £300m. I think there are two things that have really developed since that conversation – one is the fact that, you know, we know more about it, so, we're now factoring in a much more up-to-date view of how much we think it's going to cost.

The other thing is we're getting subsidies; we're getting grants to help us with this technology, particularly in Sweden as well, and you've seen we made an announcement around, sort of, £50m investment and, actually, that's sort of the £12m grant coming on. So, when you take those into account, we're now feeling like we can absorb those together.

In terms of the inventory, we'd probably say there's around £100m of inventory, sort of, too much in the supply chain. It's difficult to see when that directly comes out.

We're not saying that the inventory days are going to be flat in 2028 to 2029. We still see some improvement coming through. The improvement is likely to come through, sort of, 2027, 2028 and then still coming through 2029, but it's a combination of working through the supply chain, but also, you know, Peter talked about our, sort of, lean model, our brilliant basics model, actually, the operational efficiency that will continue to come through the business as the supply chain stabilises and the business ramps up and we can get more predictability coming through the factories.

. . . .

Peter Dilnot, Chief Executive Officer
I think I'd just build on that to say I think there are two separate parts to it, Ian. The first is we've got excess because of the supply chain, and that manifests itself in two ways – firstly, we end up with deliberately making sure we've got the right materials, so, you know, that's raw materials in the factory, and then the other thing is, if we're waiting for parts, you've got quite a lot of work in progress.

So, part of this unlock is, actually, just having a supply chain that is more robust, and I think, frankly, that will take time to work through. But the other bit, and I think it's really important, actually, Matthew, what you just said, which is we're moving away now, with Melrose, away from, sort of, restructuring to drive margin expansion into what I would describe as continuous improvement. So, that's using, you know, an approach which would be more consistent with Danaher, something that's in my own background, or, indeed, what GE are doing with their cockpit work. But it's driving operational improvement which links to both productivity and inventory as we work through flow. And there's more opportunity to do that now, of course, because we've got a restructured cost base, we've got the right platforms with the right operations, and, frankly, that is an important part of our margin expansion and cash generation going forwards.

. . . .

Ian Douglas-Pennant, UBS
Thanks. And just quickly, any other anticipated changes in the other working capital lines, please?

. . . .

Matthew Gregory, Chief Financial Officer
I don't think so. I think we've talked about that. No, no, not at that point, no

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Peter Dilnot, Chief Executive Officer
Ben?

. . . .

Ben Heelan, BofA
Morning, guys. Can I ask you a couple of questions on Structures? So, where are you now on destocking? And, when I look at that mid-single-digit growth over the next five years, it does seem quite low relative to some of the production ramps, so can you just highlight what's, kind of, involved in that?

And then the £50m profit on additive manufacturing, can you talk about what that revenue opportunity could be in 2029? That would be great. Thank you.

. . . .

Peter Dilnot, Chief Executive Officer
Okay. So, on the Structures side, you're right about the destocking, and that's, primarily, been because we have, effectively, been building at the higher rate, which hasn't been achieved and it's particularly acute, and we've been public about that on the A320. That's working its way through and, obviously, we're in very close discussions about that with our - with our customer. And, similarly, we're just working through what's happening on the A350, I mean, you know, the market very well, Ben. So, that's all reading through.

What we've done over the planned period, though, just straightforwardly, is we have taken the target build rates, which, as you know, for example, on the A320, is 75, and said - look, that's going to be achieved by 2029 – all being well, it'll be achieved very significantly before that. So, that's how we've assumed it and, if you play that out, we've probably smoothed it a bit, which is why you've got that mid-single-digit and then, if we accelerate a bit, we'll have that.

. . . .

Matthew Gregory, Chief Financial Officer
Let me talk specifically about that. Can I just caveat this with saying we do run the business, but there are two things we spend a lot of time on, and one is those colours that David talked about, the other one is the definitions of, sort of, mid and high and low single digit.

In the Structures side, as Peter said, it's, sort of, mid to high single digits, so, it is very much in line, as you look at those other ramp up rates, it's very much towards that end of it, and so, I'd just, you know, point that out to you.

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Peter Dilnot, Chief Executive Officer
There you go.

. . . .

Matthew Gregory, Chief Financial Officer
And then on the revenue side?

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Peter Dilnot, Chief Executive Officer
Yes. On the revenues for the additive, we deliberately haven't guided to that for a couple of reasons. One is because we're working with our OEM customers, so we don't want to, sort of, effectively, give out our margin aspirations on this, but also because some of the operating profit that will read through for us is actually, effectively, reduced cost from our own supply chain,

because what we're doing is replacing forgings and castings in some cases with what we're producing internally.

So, the net impact on the P&L is that £50m, but we've been quite thoughtful around what we've guided here for those two reasons, but we're very confident we'll see that reading through and that's what's in these numbers. Does that make sense? Thanks.

I think the other point on Structures, by the way, is obviously on the Defence. We've just taken the Defence expectations before any of the latest developments.

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Mark Fielding, RBC
I am Mark Fielding from RBC. A couple of questions, maybe three. Just the first one, you know, typical analyst, you give us 2025 and 2029. I'm going to ask you about the shape in between, but from the comments, you've made, you know, obviously we know about GTF, working capital seems slightly later loaded, but is there anything else to think about, just the shape of that cash flow progression over the period and how much it ramps later on versus the current £100m?

. . . .

Matthew Gregory, Chief Financial Officer
Yeah, I mean, look, we recognise that, sort of, 2028 and 2029 start to be the real sort of clean years. Obviously, the operating profit, the normal business will grow in, sort of, in line with the way that we talked, but, yeah, those drags, and that's what we tried to do with that slide 22, is say, you know, that drag of restructuring, that goes away fully in 2026, the PMI goes away fully by the end of 2027, the GTF turns cash positive in 2028. So, that's as far as we can go and, again, we get this challenge on the commerciality there.

. . . .

Mark Fielding, RBC
And specifically on the additive manufacturing, following on from Ian's question, what do you actually think versus that £300m comment before, what do you think is going to be your net capex now, actually, over the next five years on additive? Is it therefore substantially lower than that in terms of your spend?

. . . .

Peter Dilnot, Chief Executive Officer
No, I mean, we've looked at what we can get from funding point of view. It will be broadly in that direction. But what we've done, and I think an important message today when we've looked at our capex over the five-year plan period, is we're deliberately placing bets, if you will, and additive fabrication is where we're going to invest more heavily and capital light on the Structure side with a couple of examples on there.

So, what we've done, and, hopefully, it makes it cleaner, actually, for everyone in terms of what we're going to spend on capex going forwards, we traded off those things. The investment in additive, given the opportunity, it will continue at, broadly, the pace that we've talked about, which is roughly £50m a year.

The only other thing I would add to that is it's very much in demand for customers. So, I mean, over the five-year period, bluntly put, I would be disappointed if we're not in a different stage in terms of some of the customer funding for some of this stuff as well. But what we've outlined today is what is in our line of sight in terms of what we can commit to with the investment we've made.

. . . .

Mark Fielding, RBC
Yeah, because I was going to be my one follow up was, obviously, it was a five-year plan, which would be coming to an end in 2029. The capex guidance is pretty stable in that, sort of, 1x to 1.2x. Is that because you foresee continuing that investment in the future in that area or are there other investment things you're thinking about in the business?

. . . .

Peter Dilnot, Chief Executive Officer
I mean, on additive fabrication, as I say, it'll be just interesting to see where we get to with our customers because, if we start building modules, if you like, or factories adjacent to theirs, quite how that will be funded is work that we'll be doing. But clearly, we'll be making sure we're delivering value for customers but also being smart with capital for our investors.

I think if you look out beyond that, Mark, the reality is, is that when, into the 2030s, where next generation engines will kick in, and I think we're very well placed, very much in demand, actually, with all the major programmes to play in that, and that's clearly, you know, the cost of being in that position on those development programs is absolutely in here, but, if we were to ramp up with a new RRSP, for example, that's something that we'll come back to you, but, you know, that's seven years away. So, we're positioning for that, and we will make a decision as a board and guide the market accordingly.

. . . .

Mark Fielding, RBC
And promise last follow up question, you talked about the £50m of profit and how that was the opportunity in terms of replacing existing forgings, etc, but to be clear, that's not the end of the opportunity for that either, is it?

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Peter Dilnot, Chief Executive Officer
No, no.

. . . .

Mark Fielding, RBC
There's a lot of runway on that side, too?

. . . .

Peter Dilnot, Chief Executive Officer
Yeah. Yes, there is, and not just in additive fabrication but beyond what we've got in our in our pipe.

The key challenge at the moment, just straightforwardly, is we've got this long list of opportunities with the OEMs and, frankly, prioritising that based on not just the technology but also commerciality and what the customer needs are, and, in some cases, it's about providing resilience to the supply chain, it does take a while. It's two years to get certified, broadly speaking, on these parts. It gets faster as you've done more, and we're in that position, and that's part of the defensive position or the if you like, the IP that we have.

. . . .

Mark Fielding, RBC
Okay.

. . . .

Mark Davies Jones, Stifel
Hi. Can I just go back to one of the Defence exposures, particularly in Engines? Clearly, given the state of the world, that Swedish exposure should be quite beneficial, but it sounds like you've had some specific drivers in 2024 which drove a very strong year there, so, what do you think about that for the next year or two?

. . . .

Peter Dilnot, Chief Executive Officer
Yeah, so, you're right, Mark, around our position. Effectively, we're responsible for running the engines on the operational fleet for the Gripen, not just actually run by the Swedish Air Force but the other air forces around the world that do that, and we've just been super busy. Those aircraft are busy to the east of this continent, and they look set to do so, I mean, for that to continue.

I mean, there's a broader question mark about our defence position, and I'd just reiterate that we've got established positions on all the major platforms, many of which are in the US but are actually bought by European nations, such as the F-35, which is, clearly, part of UK, Germany, Italian, Dutch defence, and so that position is strong. And then, of course, we've got, you know, European defence, which is an industry we need to step up and develop. And clearly, as you'd expect, we're working with the likes of BAE and others in Europe to do that as well. But you're

right to pull out Sweden, it's a bit of a jewel in the crown and it's an important position. It's been busy and I think it will continue to be busy.

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Mark Davies Jones, Stifel
I guess that was the question. We're not coming off a sort of, elevated base?

. . . .

Peter Dilnot, Chief Executive Officer
I think if you look at Defence spending and look at the world around us, which is, clearly, changing very rapidly, but everything we see and hear, and you see as well, is that defence spending, particularly in Europe, is going one way.

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Mark Davies Jones, Stifel
Thank you.

. . . .

Peter Dilnot, Chief Executive Officer
Lots of questions this morning. That’s good.

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Richard Paige, Deutsche Numis
Just two from me, please. A seminal moment in the absence of the cash mountain, but if I looked at the last version and I compared the sort of, 2024 number to the 2029, the RRSP cash flows look to improve, sort of, £250m. Is that a relevant number still?

And, secondly, cash tax – I've noticed it's low and looks to be remaining low out to 2029. Could you just remind us of the tax losses and their endurance, please?

. . . .

Matthew Gregory, Chief Financial Officer
Yeah. So, look, on the cash mountain, you know, we can't, sort of, get rid of what we put out there before. We feel that we are not putting that back out there again. We're not going to give, sort of, specific cash mountain numbers. It hasn't changed significantly. It was, what, £22bn before, it's 22 billion now. So, we're not really commenting specifically on that. I suppose what we've done is we've just given you absolute numbers. First time in Melrose history, we have given absolute cash numbers.

I think on the second question, on the cash tax, yeah, I mean, we've got some big losses in, you know, the US, Netherlands, particularly UK. They go out for a while. I think the challenge is that

you can't actually utilise it, particularly like in the UK, you can only use 50% of the losses each year. So, that's why we tried to give you a five-year outlook and just say – Look, it goes from 4% PBT to 7% of PBT, so it does grow, and you can, sort of, plug that into the model.

But, yeah, as you'd expect in Aerospace, you've got some long-life deferred tax assets there. You know, we're comfortable we're going to recover them. If you look at the other UK sort of big aerospace players, you'll see exactly the same sort of thing, but, yeah, we tried to give a guidance, say, look, it's not it's not going to be like £10m like it was in 2024, it is going to grow, but we gave you some math to try to help you work it through.

. . . .

Peter Dilnot, Chief Executive Officer
Richard, could I just add something more structural to that, if you will.

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Matthew Gregory, Chief Financial Officer
On tax?

. . . .

Peter Dilnot, Chief Executive Officer
Certainly not! [laughter]

. . . .

Matthew Gregory, Chief Financial Officer
Okay.

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Peter Dilnot, Chief Executive Officer
Matthew looking really, really worried now! No, don't worry. On the broader point about actually what we're reporting, I mean, we're looking at this very straightforwardly, it's trying to be as open as possible in what we are. And so, yes, you know, you make a point about the cash mountain, but here you've got Melrose, for the first time, talking about variable consideration, guidance, spitting out the movements on the working capital as well, and with factoring. So we are trying to explain the mechanics of the business, how we're running the business, the decisions we're taking with transparency in a way that makes sense for investors to understand our business.

So, I hope that you recognise that there's more disclosure here rather than rather than less.

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Peter Dilnot, Chief Executive Officer

Back to David.

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David Perry, JP Morgan
Yes. Sorry to be annoying and come back, but I think it's an important question. I mean, all the feedback I get from investors is the new sort of transparency is fantastic, starting with the accounting booklet and how much you've laid out today that we never had before. I guess the bit I struggle with a little bit, and I think the investors I talk to are struggling with a bit, just how you landed on the £500m 2029. I think it would just be helpful if you could give a bit of colour on why that is the number.

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Peter Dilnot, Chief Executive Officer
For variable consideration?

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David Perry, JP Morgan:
Yeah, for 2029.

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Peter Dilnot, Chief Executive Officer
Well, it's based on assumptions. I mean, let's just step back on variable consideration, which is, effectively, as an engine gets shipped, we recognise the profit, and it's, therefore, a very small proportion of the aftermarket profit, 10% to 30%, as you know, and that is our assessment of the engines that will be shipping at that time that attract variable consideration. So, it's based primarily on that. I don't know if you'd add anything.

. . . .

Matthew Gregory, Chief Financial Officer
Absolutely. That's exactly the answer, is that you're looking at the OE build rates and, you know, our variable consideration is directly related to that. So, I think we've got a roughly, sort of, 10% CAGR, you know, depending on where we land to 2025 for those, sort of, four years, and we're showing we've got a, you know, high single-digit revenue growth rate.

So, I think it's really, sort of, mathematically worked through in that way. We felt we felt it was important to really give people that number, but a lot of the focus is, yes, there's a focus on profit, but also it doesn't affect the cash, but that's a separate conversation.

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Peter Dilnot, Chief Executive Officer

And, again, the key point here is that variable consideration is growing in profit terms, you know, less than the rest of the business from here, which goes to the point about cash as well.

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Jonathan Mounsey, BNP Paribas Exane
Thanks. Just to follow up there to David's question, and you touched on it there in your answer, so £500m of a variable consideration, 2029, I looked at the booklet at length when it was published, there's two forms of accounting I think – one of them you alluded to 10% to 30%. I'd say 10% is quite a small proportion of profit; 30% is getting up there. Why 10%? Why 30%? What leads to it being either 10% or 30% or something in between? And does it change over time on each RRSP, or, once you pick it, it's stuck there? There were a few words that did a lot of heavy lifting in the booklet, and, in the end, I didn't really understand why it's 10% or why it's 30%.

. . . .

Matthew Gregory, Chief Financial Officer
So, just to step back, you know, we're obliged to recognise this contractual entitlement to the aftermarket at the point that we ship the OE engine. There's a lot of sort of water to go under the bridge as those engines fly and, you know, we've seen the development of those is up and down. So, we make sure we're very prudent in the amount of aftermarket that we recognise. So, that's why we're saying it's a 10% to 30% of the available number. It is different per RRSP, and we've come with a range that is not, sort of, so precise that we're giving you a spreadsheet, but it's enough to indicate to everybody it is a low proportion of the available aftermarket, and it takes again a potential risk. And I can say, you know, we are absolutely categoric, you know, with auditors old and new that we are very prudent in this respect. Our accounting is very prudent.

How it develops and what we've got to understand, and we've seen this this year is that you can't be prudent forever, right. At some point, you have to recognise all of the aftermarket that that engine, each individual engine, is entitled to.

So, over time, we have to release that prudence, and you can call it catch up, you can call it, sort of, change in our assumptions, but, over time, we are, sort of, releasing that in a very sort of slow way.

So, again, if you look at the life of the life of the engines over the sort of, late 2020s into the 2030s, the prudence levels will reduce because the engines will have been flying for 10, 15 years and the level of risk related to them is much lower.

So, it's quite a long-winded answer to your question. It won't stay the same. The prudence on each RRSP will be considered on its own merits, will gradually get, sort of, less prudence, and that's where we have this change in assumption number, but it's going to take a long while for that to come through. So, that's all we can really say on that, I suppose.

. . . .

Jonathan Mounsey, BNP Paribas Exane
So, listening to you, is that an accountant's way of saying when the Engine programme is young, it's near 10% and, after the Engine programme is getting a bit older, there are engines flying we have some visibility, it moves towards 30%?

. . . .

Matthew Gregory, Chief Financial Officer
Yes. Yes. You know, as the engines get more reliable, much longer term, we don't need and we can't take as much prudence as we go through, but, yeah, we are we are very prudent at the moment.

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Jonathan Mounsey, BNP Paribas Exane
Thank you.

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Matthew Gregory, Chief Financial Officer
Thanks. Glad you read the booklet though. Thank you.

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Peter Dilnot, Chief Executive Officer
Very good. Well, we appreciate all the questions in the room. There's been lots.

Should we just go to see whether or not we've got any on the webcast? We have got them. So, I don't know how they come through, but let's go to those now.

. . . .

Telephone Operator
To ask a question, please press star, followed by one on your telephone keypad now. If you change your mind, please press *, followed by 2. When preparing to ask your question, please ensure your device is unmuted locally. We will allow for a momentary pause for you to register your question. [pause]

We have a question from Aymeric Poulain of Kepler Cheuvreux.

. . . .

Aymeric Poulain, Kepler Cheuvreux
As a point of clarification, the £500m variable consideration is a sales or EBIT contribution in 2029. We're looking at the £60 d0m free cash flow,oes that include capex over the 1x? And if so, what decline is non-variable consideration, working capital savings and interest cost reduction assumptions? Do you also assume, by 2029, some R&D investments to absorb Free cash or are

these investments planned for later in the 2030s? As you say that interest assumed to fall into 2029 to reach 2029 FCF of £600m. Does that mean that a new share buyback in 2026will be less likely to assure sufficient deleveraging?

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Peter Dilnot, Chief Executive Officer
Well, I think we're going to have to try and break this down and we've got the transcript because it didn't come through particularly clearly at this end, I'm afraid.

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Matthew Gregory, Chief Financial Officer
Well, I'll give a go. So, the £500m variable considerations will go through sales and EBIT. That's the way we account for the variable consideration. The capex to depreciation is 1x to 1.2x – it is 1x to 1.2x in 2029.

The low cash tax we're saying ends up being around 7% of PBT in 2029. That's in the back of the book, actually, there's quite there's some extra sort of guidance in there.

In terms of working capital assumptions, I think we've covered that off with the conversation with Ian beforehand. We are expecting, you know, the supply chain issues to be resolved and we expect that we would continue to get sort of efficiency in working capital, particularly around inventory.

And the interest costs, well, again, we are not guiding specifically on the cash points in between 2025 and 2029, so that's really for people to think about that.

I think in terms of the R&D, you know, we think that, and Peter may want to add some more on this, is that 2029 is still before the point of time at which new engines will go into their higher cash consuming phase. And, you know, all of this is - sort of excludes - anything significant on the new engines.

We will be having R&D at the current level, which is around, sort of, 3%, and we will be continuing to invest in the development in our Engines business, but it will be at the current, sort of, level that's going through the P&L at the moment.

So, there are not significant R&D increases planned in our number, and we wouldn't expect that to be either.

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Peter Dilnot, Chief Executive Officer
I think there was one other question in there, if I remember, just because it was at the end, which was around assumptions on buyback.

So, what we've got in terms of the cash is -it's free cash flow. So, we have got, obviously, this year's guidance includes the completion of our current programme, but, beyond that, the £600m does not include any buybacks.

Okay. And we've had lots of questions here. Is there anything else? If not, we are significantly over time, so I think we'll wrap. Can I thank you all for being here, for the attention and all the questions? Good to see you. Thank you.

. . . .

END

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