GKN AEROSPACE

Our Mission:
To be the most
TRUSTED and SUSTAINABLE
partner in the sky

ENGINES | STRUCTURES

Engines Investor Event

17 & 18 October 2023

MAKING THINGS FLY

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The revenue and profit numbers included in this presentation are calculated using a foreign exchange rate of USD:GBP of 1.25:1 and, unless otherwise stated, growth metrics are at constant currency. Unless otherwise stated, metrics refer to adjusted measures as described in the glossary to the Melrose Industries PLC 2023 Interim Financial Statements and considered by the Board to be a key measure of performance.

Team and introductions

Peter Dilnot
CEO

Matthew Gregory
CFO

Joakim Andersson
President, GKN Engines

Russ Dunn
CTO

Event overview

Context

- Melrose evolved into a focused aerospace business post-demerger in April
- Aerospace Capital Markets Event outlined compelling organic equity case in May
- Started journey to aerospace re-rating based on sector and trajectory
- Interim results in September exceeded H1 expectations, raised 2023 full year guidance and initiated share buyback early
- Engines operating margin now expected to be 24% in 2023, ahead of plan
- New target of >30% operating margin post 2025

Event objectives

- To showcase in more detail the full quality of the Engines business by:
  - Bringing the breadth and depth of capability to life in person
  - Introducing you to our world class leadership team
  - Highlighting our design and manufacturing skills on the shopfloor
  - Demonstrating our balanced portfolio of business models
- To give confidence on our trajectory and ability to meet stated targets

Key messages

1. GKN Engines has OEM-level capability and responsibility for selected engines which gives more technical and commercial advantages than normal for a Tier 1 supplier
2. Leading independent Tier 1 partner to all major engine OEMs with lucrative and diverse RRSP[1] portfolio, providing balance and resulting opportunities
3. Strong long-term demand for GKN proprietary breakthrough technologies which will shape new ways for the industry to improve

Trading ahead of plan with the 2023 full year Engines margin guidance raised to 24%

Significantly underpinning the 28% margin in 2025 and >30% beyond

1. Risk and revenue sharing partnerships

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Overview

Aerospace overview: unique Tier 1 technology supplier

Established positions on **ALL** of the world's high volume aircraft[1]

>70% revenue from sole source positions[2]

>650 global patents granted

>85% future Engines profit from aftermarket[3]

Engines RRSP[4] aftermarket entitlement on **100%** of legacy narrowbody global flying hours[5]

£20bn future cash flow from Engines RRSPs[6]

1. All of the world's high-volume platforms based on Airbus and Boeing narrowbody/widebody fleets, plus F-35 and major rotorcraft
2. >70% sole source positions based on 2022 revenue mix
3. Expected profit split of Engines division in 2025
4. Risk and revenue sharing partnerships
5. GKN Aerospace's 19 RRSPs are on engines that power 100% of legacy narrowbody hours through CFM56 and V2500 contracts
6. Forecast (undiscounted) pre-tax future cash flow from 19 RRSP engines contracts (based on OEM projections) and using a foreign exchange rate of USD:GBP of 1.25:1

Aerospace overview: two market-leading divisions

	Engines	Structures
		
Customers	Engine OEMs	Airframe OEMs
Technology	Structural engineered components; parts repair; commercial and aftermarket contracts	Lightweight composite and metallic structures; electrical distribution systems; components
End market	74% civil, 26% defence	67% civil, 33% defence
2023 operating margin	Raised to 24%	On track for 3%

Engines outperformed in H1 and guidance raised for full year

New target of >30% post 2025 announced

Aerospace overview: 2025 targets significantly underpinned

Engines

Differentiated technology IP, growing aftermarket and RRSPs entering 'sweet spot'

£1.8bn revenue
£580m EBITDA
£500m operating profit
28% operating margin

Structures

Deep design and manufacturing capability; embedded OEM positions

£2.2bn revenue
£290m EBITDA
£200m operating profit
9% operating margin

2023 – 2025 revenue CAGR[1] 11%

£4.0bn revenue
£870m EBITDA
£700m operating profit
17-18% operating margin

2023 – 2025 operating profit CAGR 36%

Engines generates >70% of Aerospace profits in 2025

1. Adjusted for c.£150 million of Structures revenue exited from planned site closure

Exceptional engines business

GKN components power
90%
of all global flights[1]

Target margins
>30%
post 2025

First supplier of
additive fabrication
in serial production

17 out of 19
RRSPs in aftermarket ‘sweet spot’

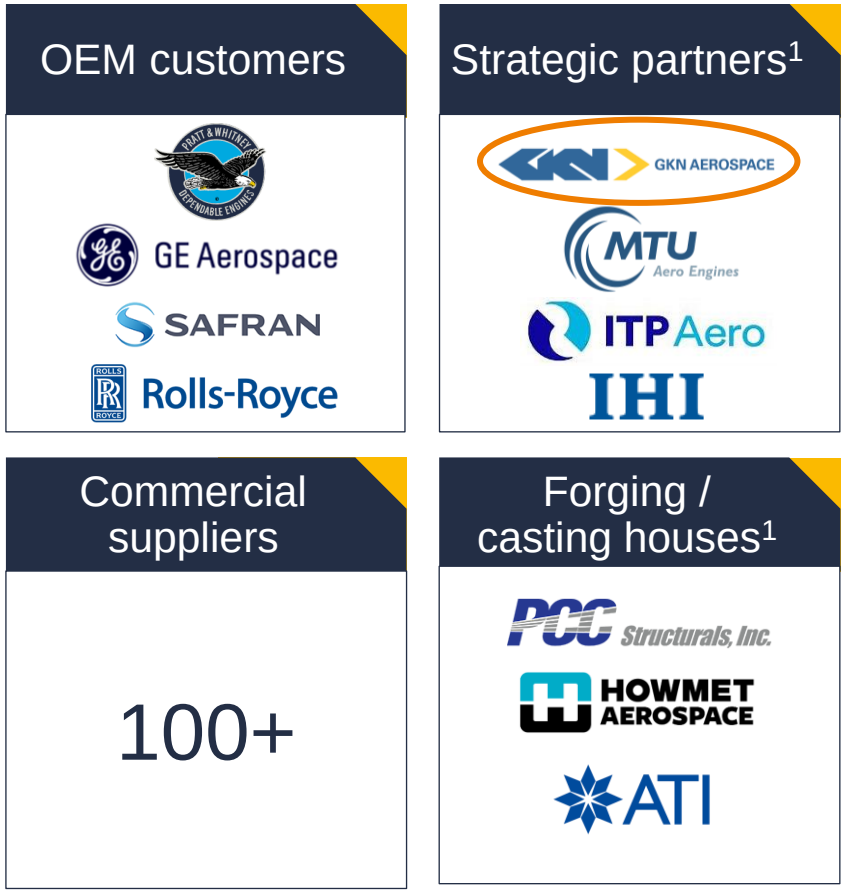
RRSP contracts cover
70%
of all global flights[2]

Only global player on both

next-gen
programmes

1. GKN content on ~90% of civil aircraft engines
2. Based on flying hours for aircraft with over 100 passengers

Unique position in the value chain as strategic partner to the OEMs



OEM customer / strategic partners

- OEMs need strategic partners to develop and fund new programmes
- Strategic partners contribute design, technology, risk sharing and financing
- Only a handful of such partners exist
- Higher margins due to aftermarket access

Commercial suppliers

- Commercial suppliers contribute with capacity and process know-how
- Competitive environment with lower margins
- Hundreds of players in commoditised segments

Forging / casting houses

- Few large players with strong position
- Typically higher margins
- Challenging quality and delivery as industry recovers and ramps up

High barrier of entry to become a strategic partner

1. Examples of companies in this segment

Key messages

1 OEM-level capability

- Exclusive supplier of military engines to Swedish government for over 90 years
- Integrated design understanding across full engine system

2 RRSPs portfolio with all major engine OEMs

- Portfolio entering ‘sweet spot’ of highly profitable aftermarket phase
- GKN designed parts typically last full life of engine resulting in exceptional margins
- Decades of predictable cashflow with total forecast inflow of £20 billion[1]

3 Proprietary GKN breakthrough technologies

- Additive fabrication entering serial production with potential to displace large forging and casting over time
- Only global player currently involved in both next-generation engine programmes

Ahead of schedule to deliver 28% margin in 2025 and >30% beyond

1. Forecast (undiscounted) pre-tax future cash flow from 19 RRSP engines contracts (based on OEM projections) and using a foreign exchange rate of USD:GBP of 1.25:1

Exceptional business attributes

	Barrier to entry	Structurally growing demand	Diversified, established position	Defensible technical advantage, IP	Strong customer pull	Long-term relevance 30yrs+
1 OEM-level capability	✓	✓	✓	✓	✓	✓
2 RRSPs portfolio with all major engine OEMs	✓	✓	✓	✓	✓	✓
3 Proprietary GKN breakthrough technologies	✓	✓	✓	✓	✓	✓

Unique value proposition

1 OEM-level capability

- Defence knowledge transfers to civil
- Full systems understanding helps customers
- Integration knowledge improves GKN parts performance

2 RRSPs portfolio with all major engine OEMs

- Surge in aftermarket demand/profit coincides with our RRSPs hitting ‘sweet spot’
- Compelling economics and returns lasting over 30 years
- Diversified portfolio covering 70% of all global flying hours[1]

3 Proprietary GKN breakthrough technologies

- Huge OEM interest and value from additive fabrication as it addresses forging and casting bottleneck
- Gains position on next-generation engine RRSPs
- Positions GKN to play meaningful and rewarding role in future sustainable aviation

1. Based on aircraft with over 100 passengers

Multiple business models provide a balanced Engines portfolio

Civil RRSP partnerships

Sales 55%

Provides entitlement to aftermarket revenue and profit

Original equipment + Aftermarket

Government partnerships

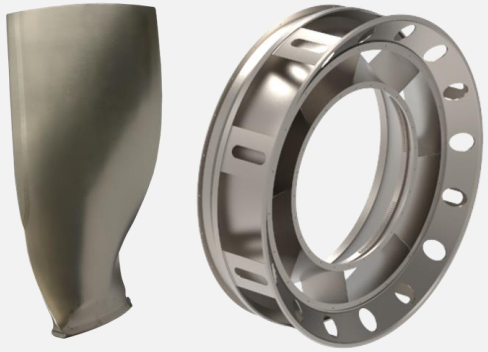
Sales 10%

Unique, system-level capability

Original equipment + Aftermarket

Repairs

Sales 10%



Significant growth opportunity

Aftermarket

Commercial contracts

Sales 25%

Balances profile of portfolio and supports partnerships' focus

Original equipment

A balanced business with strong foundation as a strategic partner

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RRSPs: portfolio and mechanics

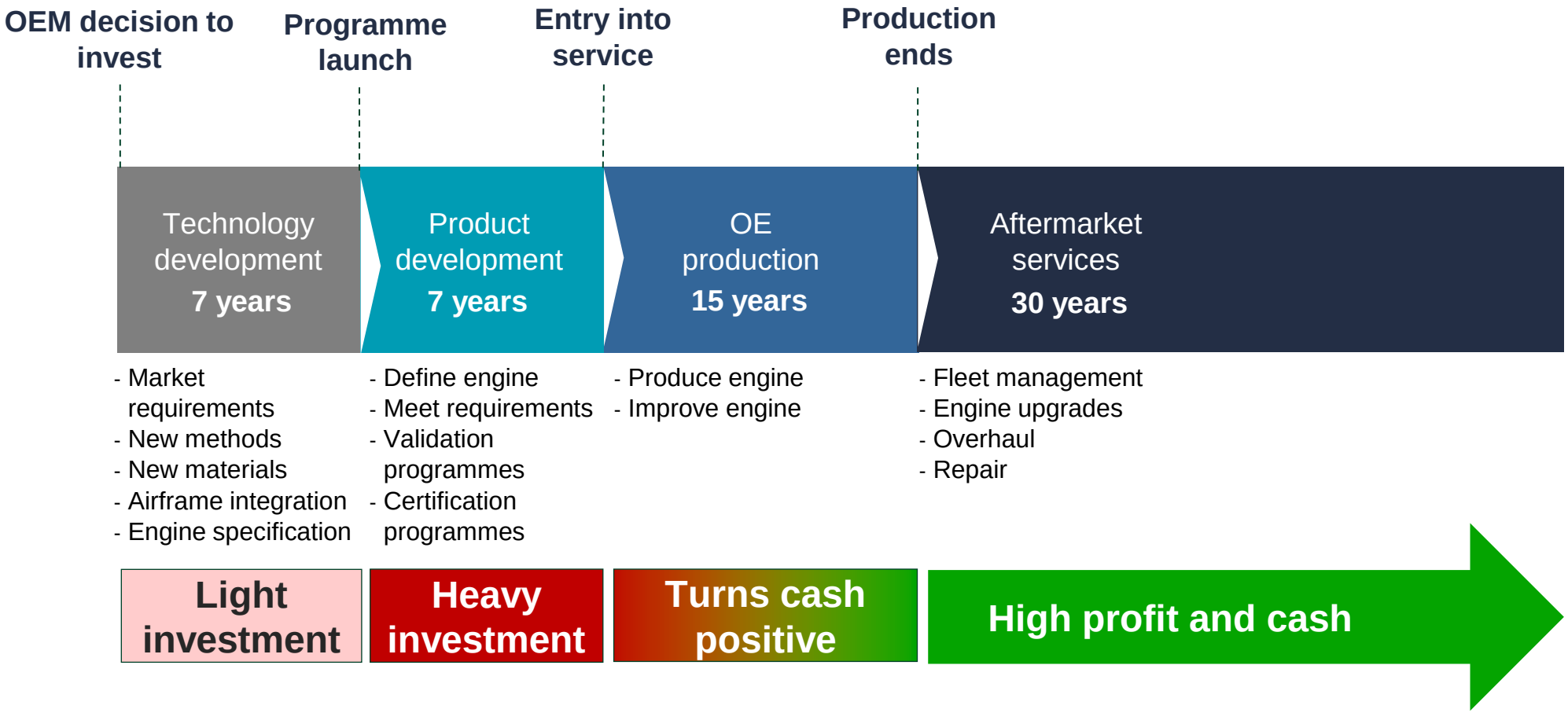
RRSPs: strong aftermarket demand

+ Flying hours above pre-pandemic levels and structurally growing
+ OEM new build rates constrained by supply chain with record order backlogs
+ Legacy aircraft working for longer, requiring ongoing aftermarket support
+ Shop visits and LLP[1] replacements forecast to grow over next 5+ years
+ MRO shop capacity strained and requiring growth investment – supply/demand dynamic and inflation drives higher pricing

Mature RRSP aftermarket dynamic is positive for GKN Engines

1. LLP = Life-limited parts

RRSPs: engine lifecycle[1]



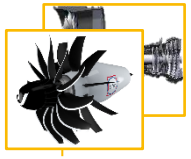
17 of 19 RRSPs already in cash generation phase[2]

1. Slide shows a typical RRSP lifecycle
2. Remaining two RRSPs reach cash generation phase in next five years

RRSPs: GKN unique portfolio

Light investment

CFMI RISE
P&W GTF next-gen



Only global player on both next-gen programmes

Heavy investment

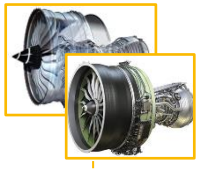
Turns cash positive

PW1500G/1900G
PW1100G-JM

Fundamentally excellent engine platform with issues being addressed

High profit and cash

GEnx
Trent XWB



Widebody in strong position as long-haul traffic recovers

CFM56
V2500

Only RRSP partner on both key mature narrowbody engines

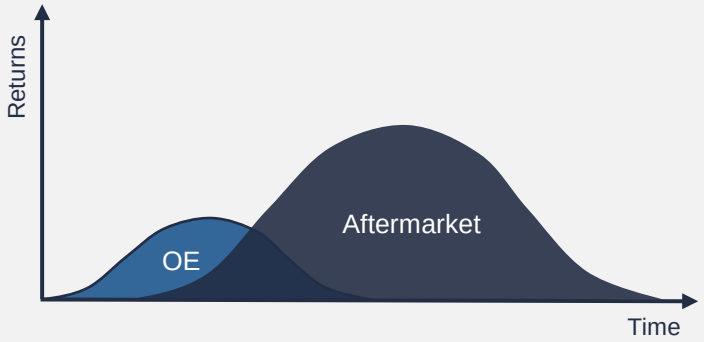
>90% of future cash flows from the top 6 programmes

RRSPs: unique portfolio and position

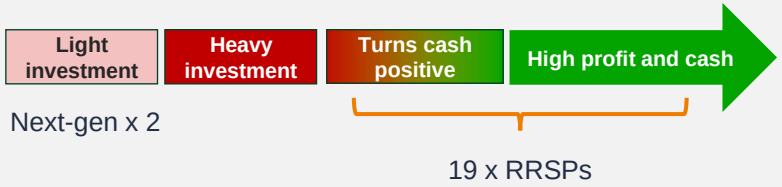
Structural demand increase

Aftermarket >2019 levels in 2023; strong structural growth thereafter

Engines in aftermarket 'sweet spot'



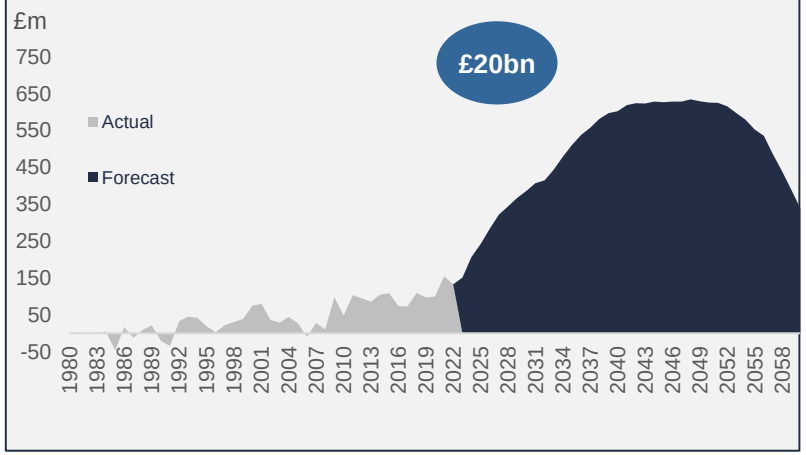
Unusual harvesting period



GKN parts typically last life of engine

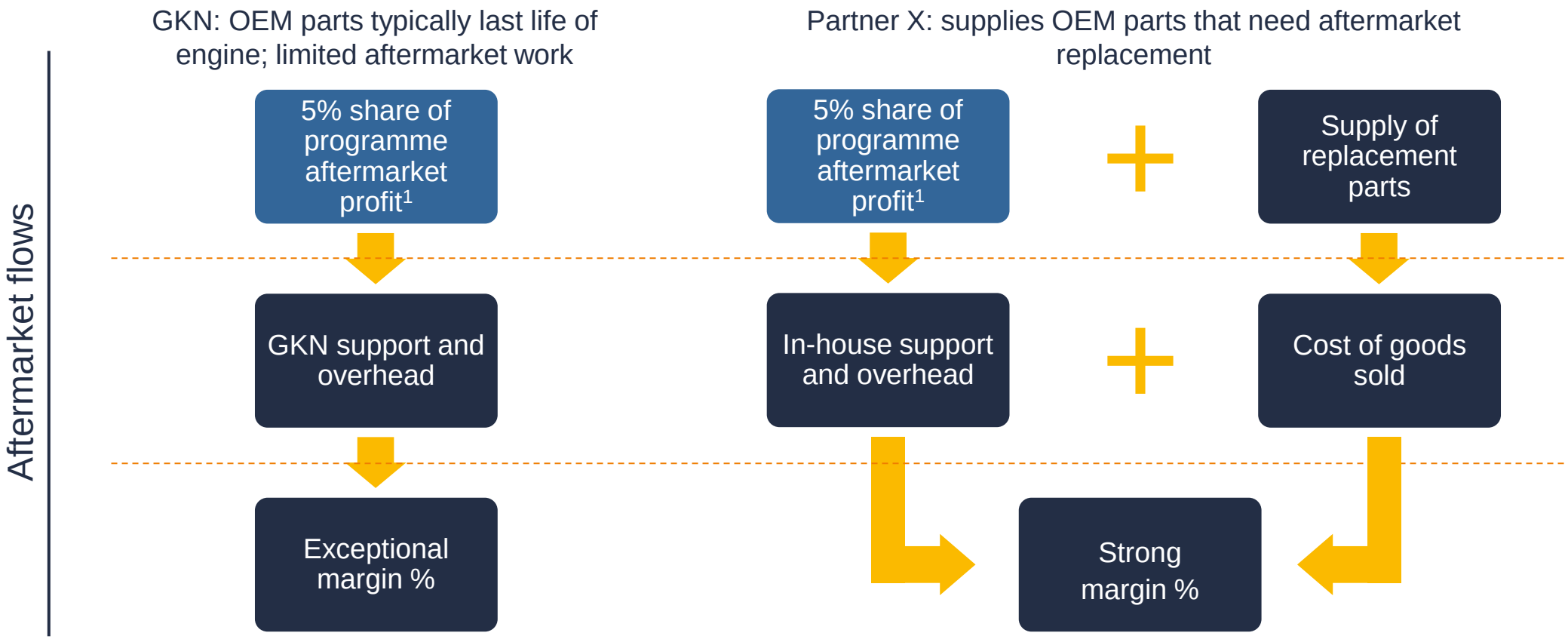
Exceptional profitability

Decades-long cash mountain



RRSPs: aftermarket mechanics

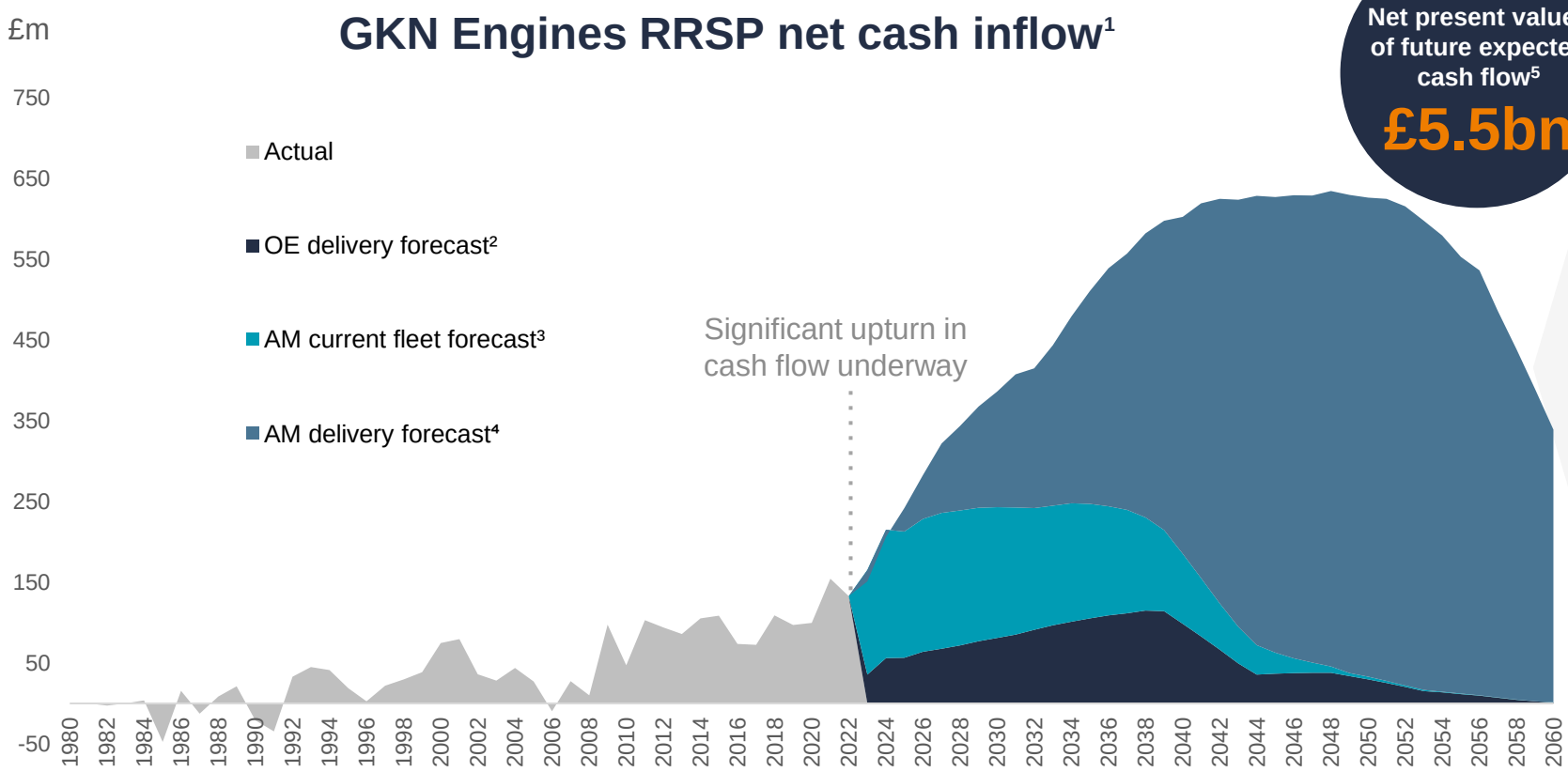
Illustrative example of programme partners with 5% share



GKN has less RRSP aftermarket revenue than equivalent share partners, but structurally higher margin (%)

1. Programme profit recognised in revenue as income from RRSP contract

RRSPs: cash mountain



Net present values of future expected cash flow[5]

£5.5bn

- Calculated using industry forecasts with conservative assumptions
- 17 programmes now in cash generation phase; remaining two programmes turn cash positive in next five years
- Cash and profits now rising as engines are in profitable aftermarket phase
- GKN parts typically last life-of-the-programme, limited future cost of sales after engine is sold
- Our RRSP share is recorded as revenue with minimal costs in aftermarket phase, leading to higher margins over time
- Maturity of our programmes means that commercial, technology and warranty risk has reduced and continues to do so over time
- GKN expecting to invest in next-generation engines (e.g. CFM RISE and next-gen GTF); investment and returns not modelled

Expecting to invest up to 10% of NPV in next generation of engines, no significant funding before 2030

1. Pre-tax
2. Original equipment (OE) delivery forecast represents the OE sale of expected future engine deliveries on current programmes
3. Aftermarket (AM) current fleet forecast includes AM on delivered engines
4. Aftermarket (AM) delivery forecast represents associated AM of expected future engine deliveries on current programmes
5. Calculation as per Capital Markets Event on 17 May 2023. Using a foreign exchange rate of USD:GBP of 1.25:1 and calculated using a discount rate of 7.5% which is between a debt related discount rate and a GKN Aerospace pre-tax weighted average cost of capital

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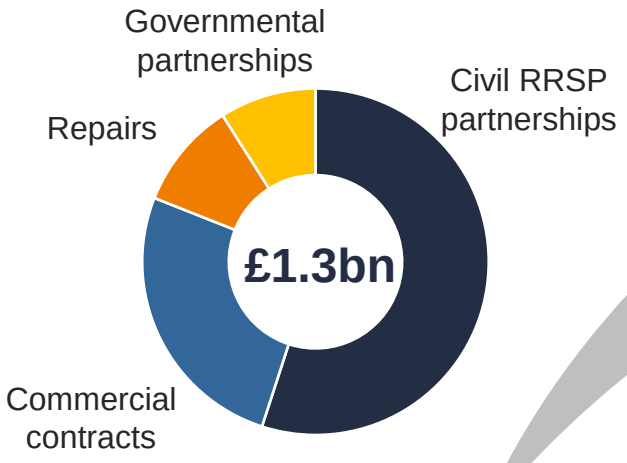
Financial trajectory

Multipronged strategy to deliver full business potential

2023 Engines revenue



24% operating margin

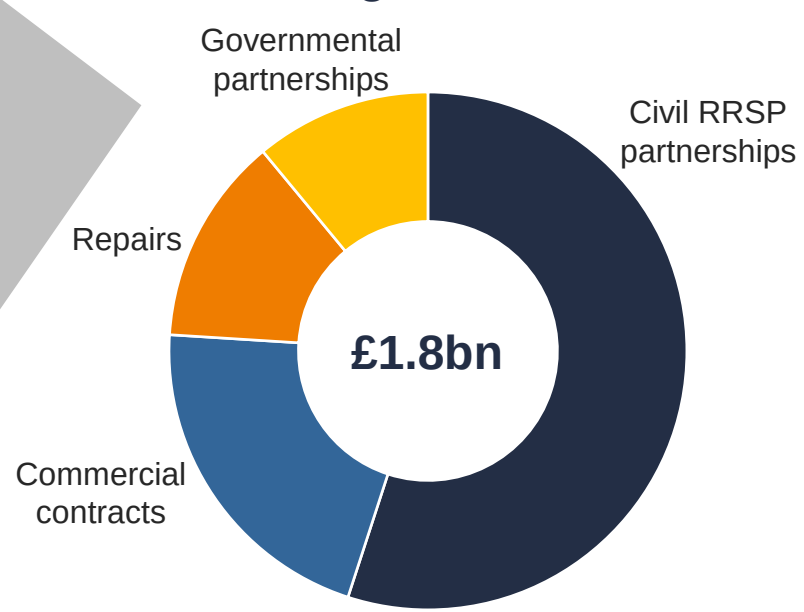
1 RRSP market growth

2 Growth initiatives

3 Business improvement

17%
sales CAGR to 2025

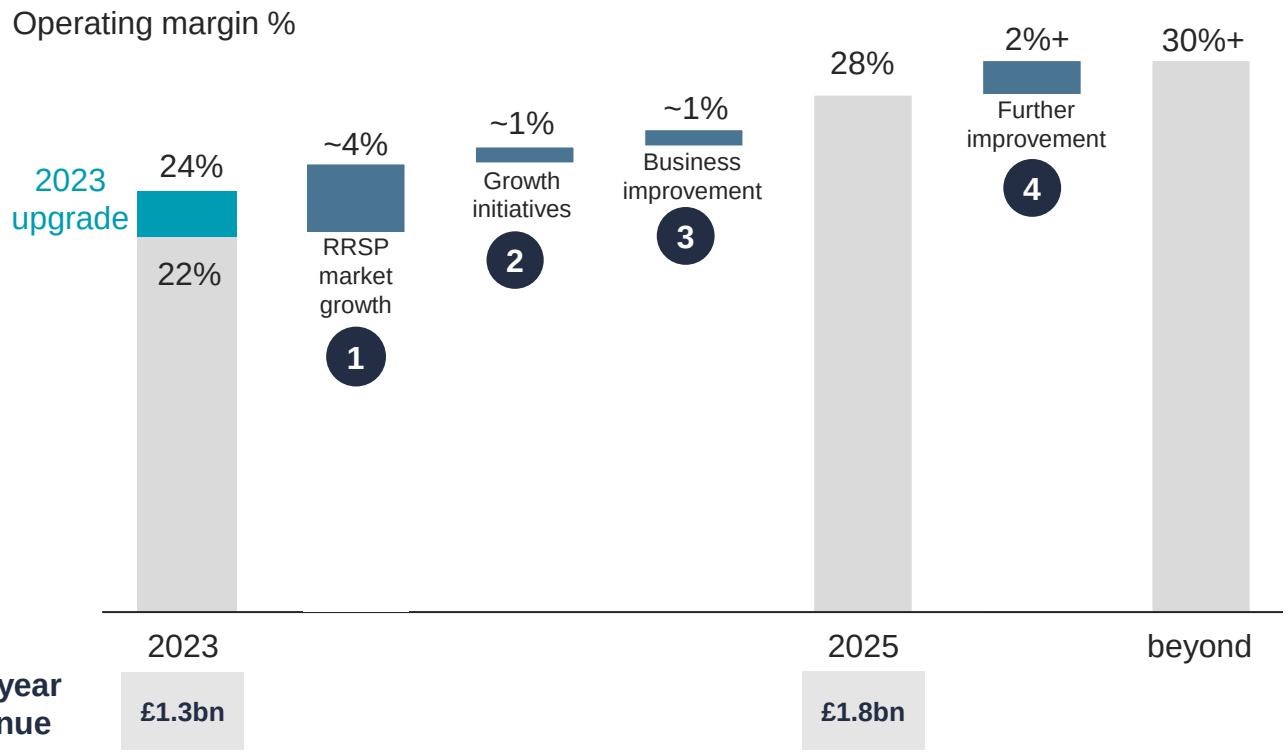
2025 Engines revenue



28% operating margin

Industry-leading Engines division positioned to achieve exceptional growth

On track for 28% operating margin in 2025, over 30% beyond

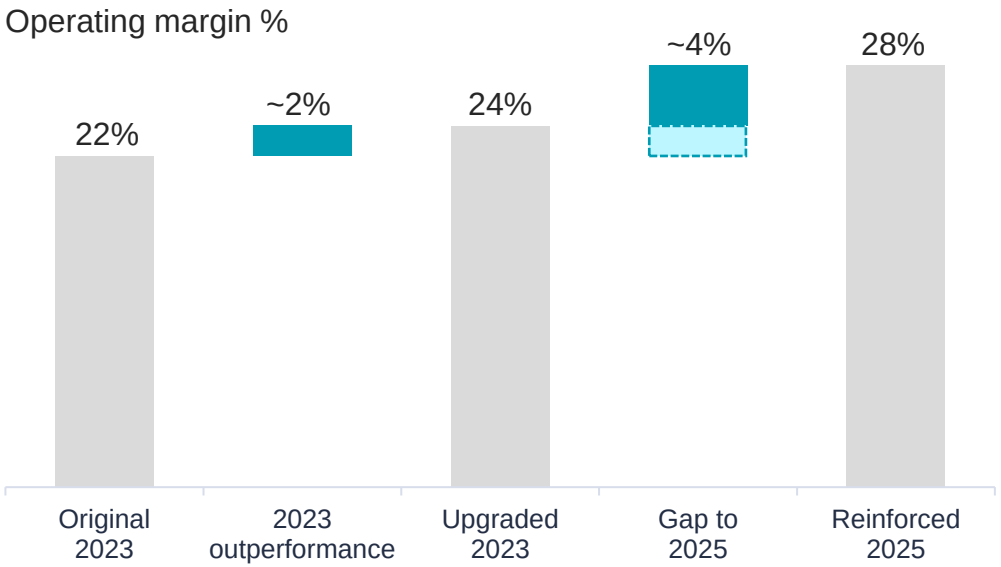


1. RRSP portfolio continues to mature and is entering highly profitable aftermarket phase
2. Revenue from repair business doubles, contributing to significant increase in profit
3. Remaining restructuring and operational excellence programmes finalised
4. Further improvement beyond 2025, primarily driven by aftermarket

Strong Engines margin to become industry-leading

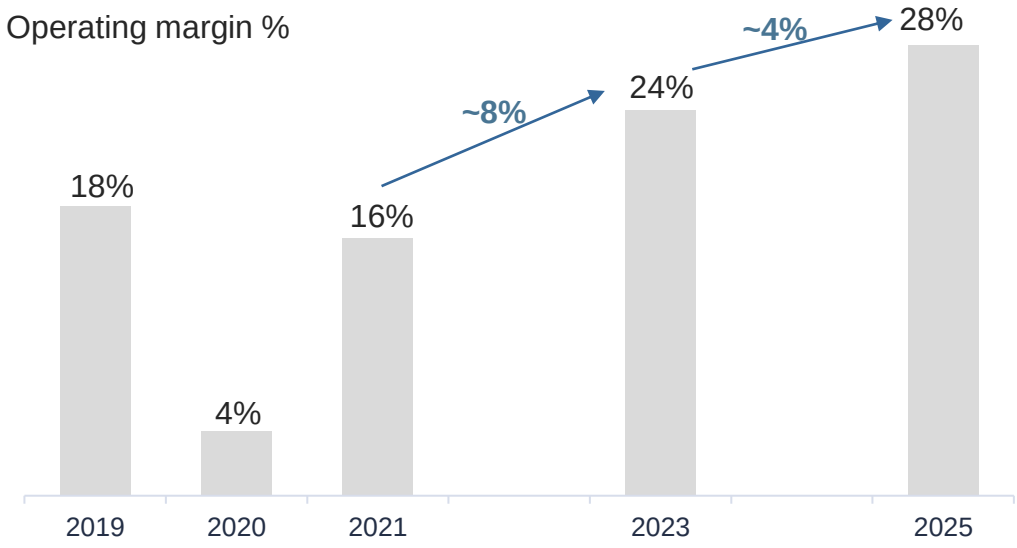
Clear momentum to achieve margin targets

Gap to target narrowed by a third



- Drivers for upgrade
  - Strong aftermarket performance
  - Restructuring benefits ahead of schedule

Strong trajectory on margin expansion



- Margin higher than 2019, with recovery from COVID-19 impact
- ~4% further improvement to 2025 target, equivalent to only ~2% per annum

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GTF

GTF situation overview

Situation

- GKN Engines has long-standing positive relationship with P&W and RRSP partners through multiple engines including highly successful V2500
- GTF is fundamentally an excellent engine with leading architecture and fuel economy, plus a long order backlog
- GTF has early service learnings that are typical of engines in this stage of lifecycle, however, time on wing better than V2500 at this point in the programme lifecycle
- Main legacy issue is around durability in harsh operating environments, and this is addressed through Block D upgrades which are now incorporated in both MRO upgrades and new engine deliveries
- Current issue relates to P&W manufacturing process problem with some powdered metal production between Q4 2015 and Q3 2021
- Global fleet management plan created by P&W to inspect GTFs that are potentially impacted – cost of required work estimated by P&W at c.US$1.5 billion over four years
- Current MRO capacity and spare parts availability will result in significant queue times while aircraft waiting on ground for required work – resulting customer compensation estimated by P&W at US$4.5 – US$5.5 billion
- GTF remains well positioned to sustain its position as engine of choice on longer-range A320 fleet in years ahead

Fundamentally excellent engine, issues being resolved

GTF implications

Melrose impact

- GKN has 4% share on PW1100G
- Based on RTX guidance potential cash cost to Melrose is c.£200 million, but it should not be assumed these are all programme costs
- GKN has conservative assumptions on GTF performance given its early stage of lifecycle and positive cash contribution never expected before 2027
- Therefore, no change needed to Melrose profit or balance sheet guidance

Market consequences

- MRO shop capacity and spare parts challenges
- Legacy engines fly longer with potentially additional ‘life extending’ shop visits
- Increase demand for aftermarket services and parts on legacy engines
- Industry-wide pricing increases likely for aftermarket given supply and demand issues

No change to profit or balance sheet guidance required due to conservative accounting policies

This unchanged guidance excludes any potentially positive impacts from the likely market consequences described above

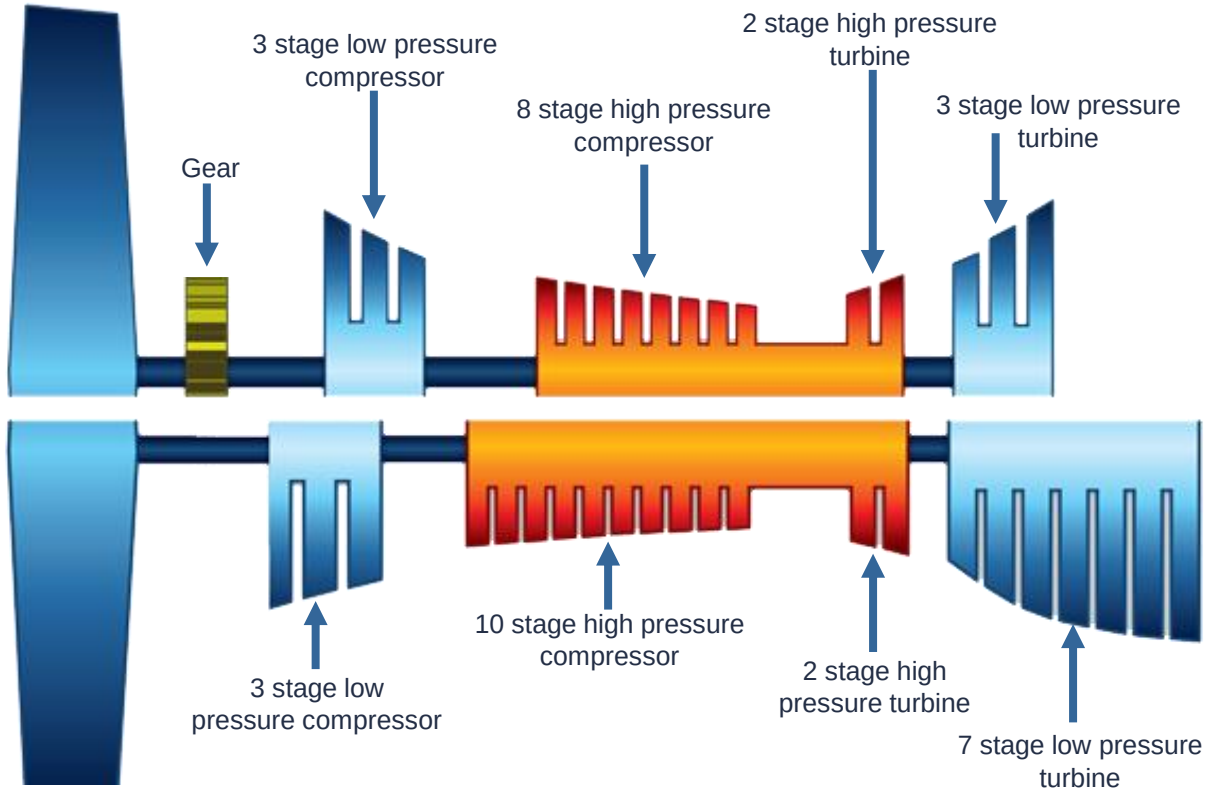
Architecture for the future

Geared turbofan

> Ultra-efficient, light-weight, low-speed fan
> Low pressure compressor and low pressure turbine speed optimised

Conventional turbofan

> Fan speed constrained by low pressure spool
> Low pressure compressor and low pressure turbine speed constrained by fan



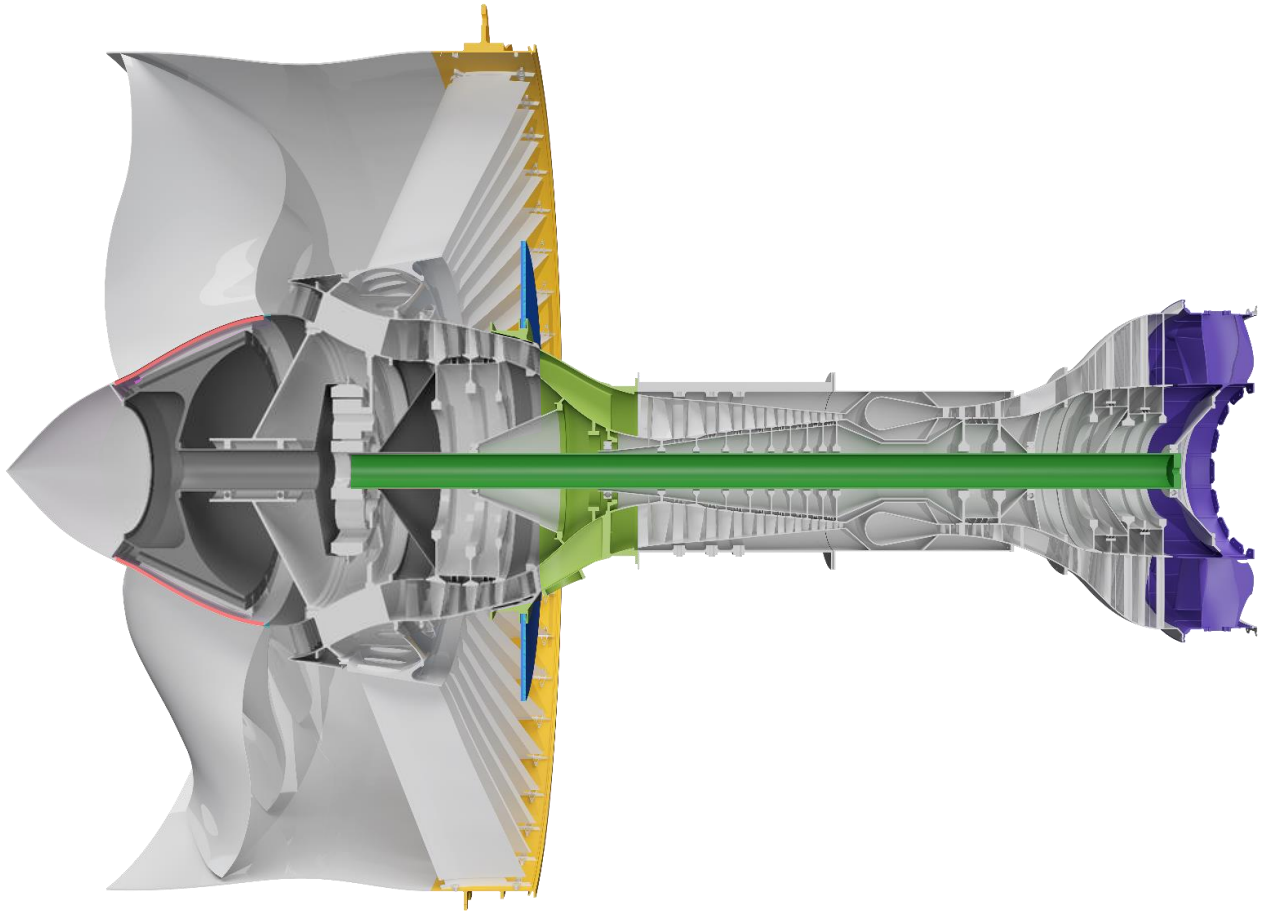
17% lower fuel burn than predecessor

75% reduced noise footprint

100% compatible with SAF[1]

1. SAF = Sustainable Aviation Fuel

GKN Aerospace RRSP content on GTF



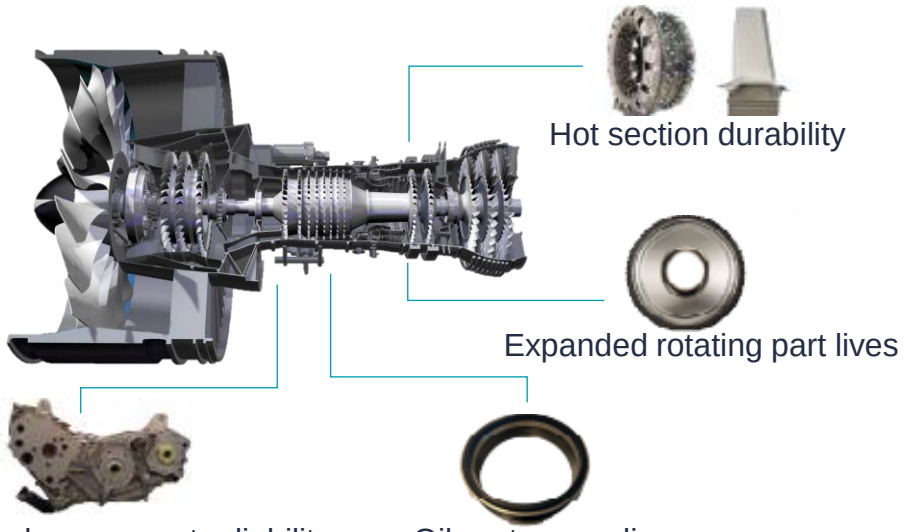
		PW1500G/ PW1900G (24k)	PW1100G (30k)
●	Fan spacer	√	
●	LP shaft	√	
●	Fan case mount ring	√	
●	Firewall	√	√
●	Intermediate case	√	√
●	Turbine exhaust case	√	√

GKN makes structural components that last life of engine

4% share on PW1100G, 7% share on PW1500G/PW1900G

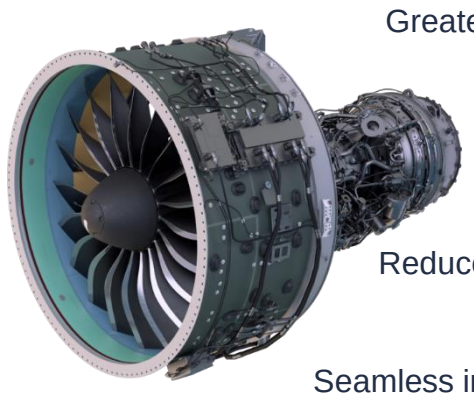
PW1100G evolution

Block D – key improvements to date



Durability focused improvements

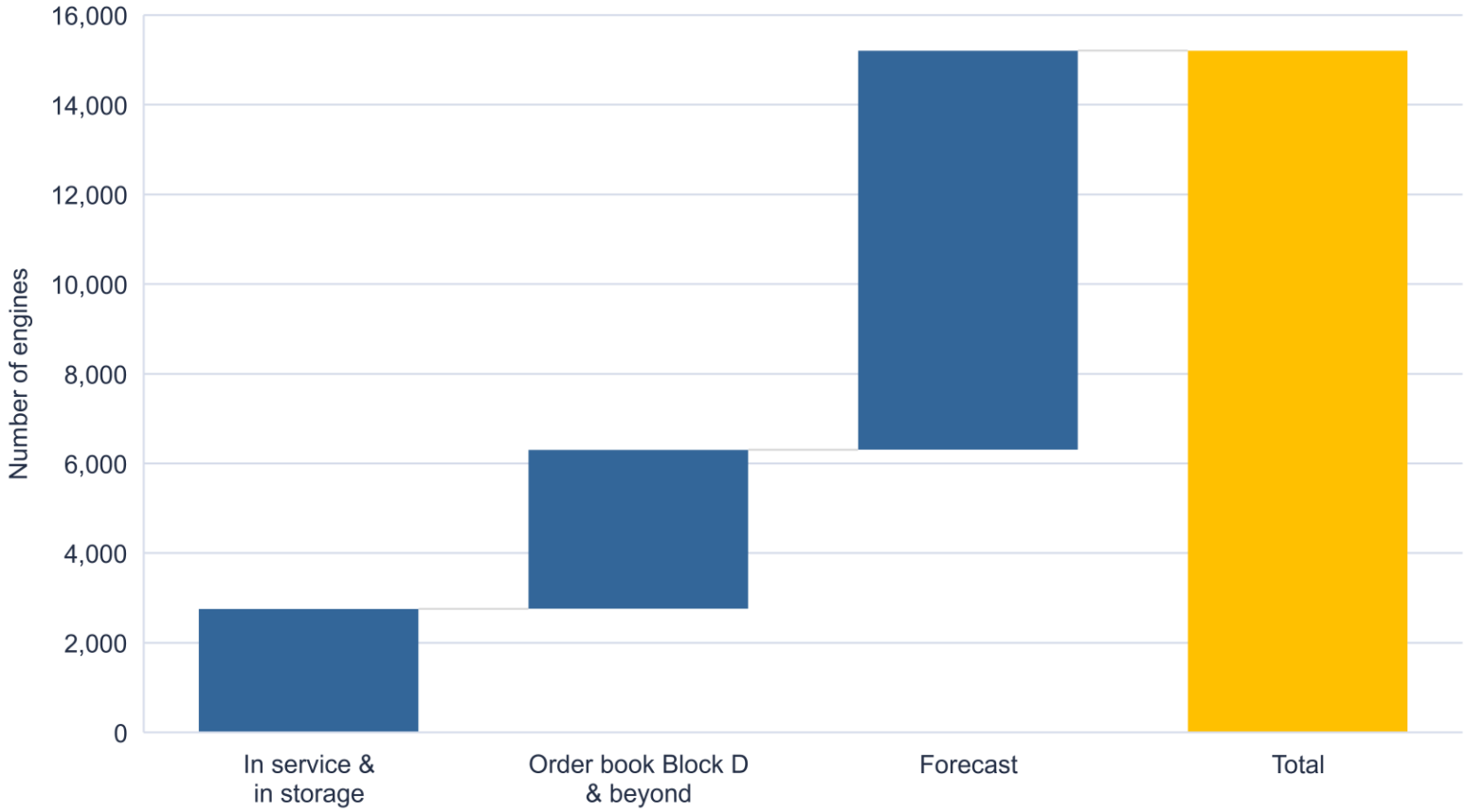
GTF Advantage



Future higher thrust variant

Current deliveries and MRO upgrades incorporate Block D configuration

PW1100G engine outlook



Source: AWIN, Airbus Global Market Forecast with share estimates

- >15,000 engines expected, majority of which will be GTF Advantage engine
- Market leading fuel efficiency makes GTF valuable, especially for longer range A320 usage and A321XLR

Extremely strong demand for GTF engines