

Melrose

**Full Year Results Webcast
7th March 2024**

Melrose

Peter Dilnot, Chief Executive Officer

Matthew Gregory, Chief Financial Officer

Chris Dyett, Investor Relations

Questions From

Rory Smith, UBS

Mark Davies Jones, Stifel

Ben Heelan, Bank of America

Sam Burgess, Citi

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Jonathan Hurn, Barclays

Aymeric Poulain, Kepler Cheuvreux

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Welcome to the Melrose Full Year 2023 results presentation. CEO Peter Dilnot and CFO Matthew Gregory will present the results. This will be followed by a Q&A session.

Let me now hand you over to Peter Dilnot.

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Introduction & Key Highlights

Peter Dilnot, Chief Executive Officer

Thank you and hello everyone and welcome to the Melrose Plc. results for the year ended the 31st of December 2023. It's great to see so many of you here with us in person at the London Stock Exchange today and I know we've got many others on the webcast as well. So welcome to you all and thanks for being with us.

Now let me start by saying that I'm delighted to be stepping up as Melrose CEO. As many of you know I have been at Melrose for about five years now and frankly for much of that time have focused on the Aerospace business including running it directly as the CEO of GKN Aerospace during this period.

So this is a business that I know well. And I can say with confidence that it's extremely well positioned with great technology, established positions, a strong team and a bright future. So I'm really looking forward to leading the business from here and to us unlocking the great potential in the years ahead.

So what we're going to do with the results presentation today is I'm just going to say a few words about the key messages from the results and then I'll hand over to Matthew who will go through the financials in a bit more detail and then I'll return to talk about our exciting trajectory from here.

By way of an introduction I think it's fair to say that last year was truly transformational for Melrose. Not just in terms of us changing our well-established business model and becoming focused on Aerospace for the longer term but also in terms of delivering record results. Last year we also outlined our path for future value creation and made good progress executing our plans.

There are really three key messages today. The first is that our transition to a new pure play Aerospace business is complete. The second is that our performance is ahead of plan and thirdly we have a positive growth trajectory from here.

Now on the transition front we have a new business model in place which is very consistent with the equity case that we launched at our inaugural Aerospace Capital Markets event in May, and we have a seasoned Aerospace Management in place.

Now in terms of performance it's been an excellent year with profit more than doubling and coming in well ahead of our expectations. Indeed GKN Aerospace delivered record margins despite the fact that the recovery is still ongoing.

Now if you think about it this outperformance de-risks our path to our 2025 targets and we're not adjusting these 2025 targets today but - as we've still got work to do to get there, we're just saying that our trajectory towards them has become a much more de-risk and we're very confident about getting there. And when they are delivered in 2025 it will be a breakthrough performance with profit doubling twice over three years.

Now when we think about momentum clearly the markets are helping us right now with very strong demand, but it is not just a rising tide. We've been driving business improvements for a number of years now both operationally and commercially and the benefits are coming through.

As a result we've upgraded 2024 guidance today and specifically our Engines division we're guiding to hit our 28% operating margin target that was originally set in 2025 for hitting it this year. We also remain on track for taking our Engines margins to above 30% beyond 2025.

Now the final piece in terms of our trajectory is around increasing the number of attractive growth opportunities. And it's not just about building capacity with our established positions but it's also about industrialising new technology and new platforms that could generate very attractive returns for our shareholders.

Now as I've said we've completely transitioned from the previous Melrose model of buy, improve, sell. That's behind us now as we have a fantastic Aerospace asset that we will retain, develop and build on from here for the long term. It's a great platform for future value creation.

To reflect this we have a new business model which is around design, deliver, improve and I'll come back to this in a moment.

We had a pretty busy 2023 getting to where we are today, and this included of course the demerger of our Automotive related assets back in April followed by many activities that shone a light on the quality and prospects of this great Aerospace business.

Effectively it was like an IPO with a number of capital market events where we laid out a path to appropriately ambitious 2025 targets. Now at this point as we enter 2024 it's all about execution and we are shamelessly focused on organic growth to deliver our 2025 targets which include generating 17 to 18% margins and around £900m of EBITDA.

So let's turn briefly to how our new Aerospace focused business sits together. We have a parent Aerospace holding group that we will continue as Melrose PLC. We believe this name has value in capital markets due to our track record. GKN Aerospace will remain the brand for our global operating and trading business because it's well regarded with customers, suppliers and across the industry at large. Now we've deliberately kept any brand or name changes quite light as we want to focus all our effort on delivering our plan.

So just a few more words about our model. It starts with Design which reflects that we are a technology business but not just a technology supplier. We partner with all the world's leading OEMs to design our technology deep into their platforms. We think like a peer for them too as we're similar to an OEM given the extent and breadth of our Engineering capabilities.

In terms of Deliver, this is not only delivering consistent performance for our customers of course but also delivering for our shareholders with a commitment to achieving financial results.

And then Improve which largely speaks for itself. And I think this also reflects our proud heritage as Melrose because business improvement will remain right at the heart of what we do.

So turning to performance. As I've said, we delivered results ahead of plan in 2023. Our revenues came in pretty much as we expected at £3.35bn and this was despite some significant supply chain issues.

What's most positive here is clearly the margin story. We generated £420m operating profit at the Aerospace level which was ahead of our most recent guidance. And we shouldn't forget that this is a 20% or a £70m beat versus the equity case we presented in May last year.

This resulted in 12.5% margins at the overall Aerospace level, and it reflects everything we've been doing around improving the quality of earnings. Focusing the business on the right areas, restructuring, renegotiating and driving operational improvement. So we ended the year some 250 basis points ahead of where we expected to.

Now beneath this headline performance, it's encouraging that it isn't just one side of the business, but both sides that have outperformed. In Engines, we delivered 26% margin versus our original plan of 22% and our recent guidance of 25%. So very strong there. And similarly on Structures, the original plan was 3% but we actually delivered 5% again ahead of our most recent guidance. So we have positive and encouraging earnings momentum in both of our divisions.

This next slide shows where we've been and where we're heading on margins. In 2023, it was another year of strong margin progression from the lows of COVID where clearly volume was significantly down.

It was back then that we triggered our comprehensive and extensive restructuring programme, coupled with determined plans to focus the portfolio where we can win and where we're advantaged.

So while we're naturally getting benefit from increasing volumes of course, it's our multiyear improvement plans contribution to these results and it will continue to happen going forwards.

Put together, this led us to deliver margins for GKN Aero which were pretty much double the margins of the prior year and as we've said, this gives us confidence in achieving our 17% to 18% margin target in 2025.

So having given you some headlines, I'm now going to hand over to Matthew to talk in more detail about our financial results.

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Financial Review

Matthew Gregory, Chief Financial Officer

Thanks Peter and good morning everybody. I'm very pleased to be with you here today presenting my first set of Melrose results and it's good to see that nothing changes in the PLC world. The CEO has already taken all the exciting stuff in the presentation.

But as you can see here on slide 11, the business has delivered a very strong performance this year and better than our guidance from November. As you'd expect, my presentation focuses on the continuing Aerospace business, but you'll find all of the statutory details in the back of the RNS if you need them.

Group revenue has grown 17% driven by structural growth in both of our division end markets. Aerospace operating profit has more than doubled to £420m as a result of this strong growth and the impact of our restructuring and business improvement programmes.

Margins have also doubled up 620 basis points and both divisions continue to grow margins significantly.

Logically, EPS has grown significantly up to 18.7p.

So a very strong set of results beating profit guidance by 4% and putting us firmly on the path to our 2025 targets.

Turning to slide 12, I've got a slide for each division coming up but at a headline level you can see that both divisions delivered high teen revenue growth despite all of the supply chain issues in the market.

Margins are also growing strongly for each division as a result of the customer ramp up, RRSP growth and our restructuring and business improvement programmes.

You'll also note that both businesses are making very good progress towards our 2025 margin targets.

So, let's dig a little deeper into the drivers behind each division and turning to Engines first. Revenue growth was robust at 16% driven by good RRSP Aftermarket growth and also from our Aftermarket repair business. And in reality, this growth was constrained by supply chain issues on our OE sales particularly in the second half of the year and so it could have been higher.

Aftermarket sales were up 34% in the year. In line with the industry we saw a strong first half with a more normal second half which we've shown on the chart. And we don't see a reason for that second half growth rate to slow for the 2024 full year. Particularly since we're building our repair capability in this division.

Operating profit has nearly doubled to £310m and margins hit 26%. And this not only reflects the growth in the highly profitable Aftermarket business but also the improvements in productivity and quality as well as the substantial completion of our restructuring projects in this division.

Now the phasing of profit margins reflects the restructuring work, but it's also affected by the mix between OE and Aftermarket sales. And as the industry works through its supply chain issues, I'd expect the margin split to be more balanced in 2024.

So it's a very strong performance from Engines reflecting the exceptional business that many of you had the opportunity to witness in Sweden last year.

Turning to Structures, the division delivered revenue growth of 18% as customer deliveries ramped up. Again despite the supply chain challenges. This was a very good performance when you compare to the performance of the OEs this year. The civil side of the business which is the bulk of the division drove this performance with narrowbody up 15% and widebody up 26%.

Defence also had a better year with pricing initiatives ahead of targets laid out in our Capital Markets Day. Around 42% of the portfolio is now sustainably priced.

Margin performance was strong with a combination of the volume ramp up, pricing and business improvement initiatives dropping through. And operating profit more than tripled and margins grew from 1.3% to 5.1%.

Now on this slide you can see that we've noted the half year margin split which shows good progress. Now this is more information than we've given in the past and I'd say having given you this information I'd caution against reading too much into the split. As you know deliveries in this industry are back end loaded and our revenue split historically has been around 45% first half to 55% second half.

So overall very good positive progress in Structures with revenue, profit and margins all growing strongly in the year.

So having talked about the divisions let's talk about the numbers below operating profit. Now we've put the details of our adjustments to operating profit in the appendix so you can see all the details there.

But turning to finance costs, these are £59m which largely reflects the interest on bank loans with an average cost of 5.2%. For 2024 I'd expect this to increase reflecting the increase in net debt as we progress with the share buyback and as leverage increases interest rate costs move up to around 5.4%.

The ETR is in line with guidance at 21% and as a reminder cash tax is £17m, lower as a result of carried forward losses and the guidance for ETR is around 21% and this is still very much weighted towards the Swedish tax rate but will depend on the precise balance of profits during the year.

And the cash tax cost will increase in absolute terms for 2024 but will still be low compared to the P&L charge as we continue to utilise losses.

So coming back to 2023 a combination of all of the above shows EPS at 18.7p a growth of 350%.

So as a result of all of this strong performance and the progress in the year a final dividend of 3.5 pence per share is proposed increasing the full year dividend to a total of 5p per share.

So let's finish off on the P&L with our upgraded guidance for 2024 on slide 16. Following the strong performance in 2023 we're upgrading our 2024 guidance. The revenue range is tightened slightly and at midpoint shows around a 10% increase year on year.

Operating profit guidance is upgraded by 6% to a range of £550m to £570m, an increase of £30m. And our view is that margins will grow to more than 15%. And this is driven by the continued strong growth in Engines, particularly in the Aftermarket, as well as business improvement plans delivering ahead of schedule.

At a divisional level, we expect Engines to maintain strong growth rates, driven by the continued strength in Aftermarket and we expect margins to hit 28% one year ahead of schedule. This is achieved while we continue to invest in the business, with a new repair centre coming online in the US and continued investment in new programmes and technology.

The Structures division is expected to deliver relatively flat revenue growth, but this does include the fact that we've sold our fuel systems business at the beginning of March and we're also exiting certain programmes and businesses. So when this is all excluded, the growth rates of the Structures business is around 8%. Now this is clearly lower than the current growth rates and is a result of de-stocking within the customer base.

Supply chains need to normalise based on latest OEM production. But we're pleased to say that we have met all of our delivery obligations, and this is why our growth rates in 2023 beat the peer group. But we need to realign to revisions in our customers' production rates and we expect this to be a one-off correction given that demand for new aeroplanes is not the issue here and top-line growth will resume in 2025.

The Structures division continues to make good progress on margins, and we expect that to continue in 2024 through the impact of restructuring and business improvement and we expect margins to be around 7% this coming year.

Now as a final point, just a reminder that the above numbers are Aerospace numbers and at PLC level we anticipate costs of £30m and this is broken into what we call cash costs at £25m in line with our prior guidance and we'll also be charging a non-cash LTIP cost of around £5m in the year. Now these LTIP costs were previously charged below the line but with the change of strategy, it's appropriate that they get put into operating profit.

Now all of this momentum leads us to have greater confidence in the business' ability to meet its 2025 targets. As we said before Engines will hit its margin target of 28% one year early and Structure is well on the way to achieving 9% target by 2025 and as Peter said, we're not looking

to change the targets we set less than a year ago, but these results give us much confidence that the targets are de-risked.

So moving on to slide 18 let's finally talk through cash performance and guidance. Cash performance was better than expectations with operating cash before capex at £331m and free cash flow before interest and tax at £70m.

Net debt ended the year at £572m and leverage at 1.1 times and this was a good performance and better than expectations, slightly helped by the timing of the share buyback programme. Leverage was around 1 times when the share buyback is excluded.

Working capital performance in the second half was good particularly in the context of the challenge supply chain and working capital remains at 13% of sales. Looking forward we expect to maintain this percentage as the business grows so working capital will be an outflow again as we continue to increase the top line.

In addition to this we will see the impact of the GTF Powder Metallurgy issue coming through in 2024 and from a guidance perspective we're assuming that a third of the forecast £200m cost will come through in 2024, so you can build around £70m into your models if you've not already done so.

Capex was £102m and we expect 2024's capex to be around 1.2 times depreciation as we invest in new technology, and you've heard about our investment in additive fabrication for example and also as we prepare for increased volumes being planned by our customers.

Looking at restructuring we've made great progress on our restructuring activities this year. In Europe we've actioned the bulk of activities needed to complete our business improvement plans and in the US we're well progressed, but we still do have more to do to allow certain sites to run off their closure or transfer plans.

And as you'd expect the cash impact lags the P&L charge and so we're expecting around £120m of cost in 2024 as these activities run to completion.

The final comment to make here is that the share buyback scheme is moving forward and as at the end of 2023 we'd spent £93m buying shares in the market. Now we can confirm that we will complete the full £500m programme by the end of September 2024 as planned.

And overall this will leave the group with net debt levels below 2 times at the end of 2024 in line with our prior guidance. And at this level we retain significant headroom allowing us to take up opportunities that present themselves during the year.

So in summary we continue to invest in the right things. Working capital to support customers capex to support growth and restructuring to improve margins and also returns to shareholders and this is all within sensible leverage levels.

So with that let me hand back to Peter.

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Outlook

Peter Dilnot, Chief Executive Officer

Thank you, Matthew. So you've now got some colour in terms of what we did last year and I'm going to pivot us towards the outlook from here.

The foundation for our business is that it is truly uniquely positioned. Not just in terms of its technology but specifically where that technology sits. We're a super tier one player which means that we directly serve the world's OEMs. Our design to build business model results in our technology being deeply embedded into all the world's leading aircraft both on the civil and on the defence side. And as a result as the industry grows, we automatically see the growth coming in with revenue uplift.

Now within Engines we have an extraordinarily wide RRSP portfolio of 19 Engines which extends to all of the OEMs and gives us a lifetime share of the lucrative Aftermarket. This includes RRSPs for both of the Engines that power the busy legacy narrow body fleet. And as you've heard again today the RRSP portfolio will generate £22bn of future cash flow in the decades ahead.

Now beyond that we also have our Structures positions built around metallics, composites, wiring and transparencies and our extensive content on all the major civil aircraft today means that our technology is on around 100,000 flights every day.

And finally we shouldn't forget the long-term future with multiple breakthrough opportunities.

Now just a quick recap on the two parts of our business. Our Engines division is truly an industry leading franchise. We partner with all the OEMs GE and Safran including through CFM then of course Pratt & Whitney and Rolls-Royce. And what we do here is we make key structural components right at the heart of Engines and they're designed in right from the start. And in addition to that we have our fast-growing Aftermarket repair business.

On the Structures side this is again very much a design led and differentiated technology business that serves all the OEMs. We serve Airbus, Boeing, and leading business jets with a weighting towards Airbus which is helpful given the current market dynamics.

We also have opportunities with the emerging Chinese manufacturer Comac through our exclusive joint venture to make their Aerostructures. And on the defence side we partner with all the leading global primes covering fighters, helicopters, and uncrewed aircraft.

Now on that note let's now turn to the market. The Aerospace market is now not just about recovery but about structural growth. Civil flight hours have increased rapidly, and look set to continue. Narrowbody traffic is at or above pre-pandemic levels already with wide body accelerating now too. These higher flying hours are leading to a very strong Engines Aftermarket and as you've heard that looks set to continue.

In terms of OEM deliveries let's just step back for a moment as there's lots of talk on the supply side about ramp up rate. Now this can be debated quarter to quarter due to supply chain issues but what is clear is that production will definitely pick up structurally in the years ahead given record order backlogs.

And it looks like there will also be a significant gap before any new major platforms will be launched. So we're in something of a harvest period.

Turning to defence clearly the geopolitical issues that are impacting the world around us are also driving government procurement and we're seeing a big push for increased NATO spending.

In parallel we're seeing the future of defence aviation being shaped by ongoing conflicts and this means that our capabilities are in increased demand. For example with the F-35 where we have \$2.5m of content on every one of those aircraft that gets shipped.

As we turn to the outlook, I thought it would be helpful just to recap on our previous guidance on margin improvement levers from 2023 to 2025 and these still hold true as our plan is very much in its execution phase and I'm going to use this as a framework for the rest of today's presentation.

On the Engine side we're going from 22% to 28% margins driven by three things. Increasing RRSP contribution especially due to the accretive Aftermarket. Our specific growth initiatives particularly around global parts repair and business improvement.

On the Structures side again there are three levers to take us from 3% to 9% in the original plan. Civil ramp up which will come through profitably for us. Reshaping and repricing our defence portfolio and again business improvement.

All six of these levers are ahead of plan and I'll now update you on each one in turn starting with the most powerful lever for our economics which is the RRSP contribution.

Now as many of you will recall Engine RRSP is a life of programme contract which involve investing heavily at the stage of development and as the Engine matures getting returns from the lucrative Aftermarket phase. These economics are particularly favourable for us because the majority of our work is done during the build phase so when the cash flows come through from the Aftermarket the margins are very high for us. We're now in that phase for 17 out of 19 of our RRSP contracts or put another way we're just entering the sweet spot.

So last year it was a great year and frankly our very strong financial performance in Engines has primarily been driven by these RRSP's and the associated shop visits. Specifically our narrowbody positions with the CFM56 and the V2500 perform very strongly as that legacy narrowbody fleet is working really hard right now.

And then wide-bodied Engines where again we have great positions through the GenX and XWB and these Engines are also performing well and profitably, and they will continue to do so as the international travel market recovers further.

Now we can't pass by here clearly with what's happened with the GTF, and it's clearly been a challenge for the industry at large due to the well-publicised powder metallurgy manufacturing issue. Now the good news here is that the programme to inspect the fleet is well underway and I think there's increased certainty of how this will play out both with aircraft on the ground and the regulatory framework.

We've been working hard with Pratt & Whitney and other partners to minimise the impact and it does look like turnaround times may be less than originally expected. To be clear though there's no change to our previous financial guidance.

Looking through this we retain our confidence though that the GTF is going to be a robust and a very successful Engine over its lifetime and it will power a very good proportion of the future narrowbody fleet particularly on longer routes where it's advantaged.

Now just before I move on, I wanted to re-emphasise that we're of course thinking about the future for RRSPs beyond these current positions and right now we remain the only technology partner on both the next generation development platforms and that's the CFM rise - the open rotor, and the next generation of GTF.

Our expansion in Engines is not just about RRSPs as we've also got our specific growth initiatives. We have two main areas here. The first one is around global Aftermarkets parts repair. The industry needs more parts for the Aftermarket, but the problem is that the supply of new parts just can't keep up, especially for blades, blisks and discs. So supplying Aftermarket parts through our OEM certified capabilities is an incredibly valuable offering for our customers.

We have got good capability here through our fabrication and our welding technology and we've built out repair capacity in Europe, the US and Asia and growth came through last year at 23% with much more to come.

The second initiative is around additive fabrication, and this is important. Essentially what we have here is proprietary GKN technology that can support the growth of Engine manufacturing addressing current supply chain constraints, including with some forgings and castings.

Our approach effectively uses a combination of additive manufacturing and proven welding fabrication methods to build established components in a more sort of modular way and this has shorter lead times, it uses less energy in transport, is lower cost and ultimately better performance. And this isn't just about the future, we are now today shipping certified parts supplied into Engine OEMs and this technology was frankly the foundation of our recent deal with GE.

So let's turn now to the specific drivers in our Structures division of which there are two, starting with civil ramp-up. It's clear that there is exceptional demand for commercial aircraft right now and that the Aerospace industry is frankly just struggling to keep up. There is some debate around how fast ramp-up will come and I think that's important on one level and it certainly is for us operationally, but ultimately what we do know is that higher volumes are coming for sure. Indeed it's pretty clear that with all the backlogs of up to nine years as you can see on the 320

here, the industry will continue to ramp up production and as it does, we'll get the resulting sales uplift with good operating leverage on our restructured operating base.

On the defence side we're well underway with what is a significant turnaround. As many of you will know our defence portfolio has some excellent positions but also has some positions that are not sustainable, core or appropriate for us going forwards. We're addressing this through renegotiating or in some cases if that can't be done, we will exit the contracts and we'll always do so professionally and diligently to ensure continuity of supply for our customers.

Effectively here we committed to having 85% of our portfolio sustainably priced by 2025 with stages along the way. And we're now ahead of plan with 42% done already, so nearly half of it completed within the first year.

We've continued to trim our portfolio more structurally as well by exiting businesses that are non-core and we're announcing today that we've just successfully sold our fuel systems business as it did not fit with either of our technology divisions.

In parallel with this trimming and improving we're also concentrating effort on where we can win profitably going forwards including this year with MOUs with the Netherlands and Airbus on the next generation of helicopters, work on new fighter programs and some great new positions on uncrewed platforms or drones which is clearly a macro trend.

So while we've still got a lot of work to do on defence, I'm confident that we're on a clear path to this being an advantaged business with appropriate margins and cash flow and of course our improvement actions are underpinned by increasing and sustainable long term defence spending.

Now sitting across both of our divisions is our business improvements and we made good progress here too in 2023. From an operational perspective, escapes which are the quality issues that are felt by our customers are down an encouraging 44%. That also reads through in terms of our economics with the total cost of quality going down by 23%.

We've made some particularly good progress in our core Engines business where we had an impressive zero escapes during the year. Now clearly this is the performance we aspire to through lean manufacturing plus further investments in automation and digitalisation.

I also think it's particularly noteworthy that our arrears also reduced by £40m during 2023 despite increasing order backlogs. And that's through hard work despite all the supply chain issues we are absolutely determined to stay ahead of our customer demands and to be frank this is an ongoing challenge in some parts of our business.

So we're on a journey here and there are more operational gains to come through not just in terms of quality and delivery but also in terms of productivity as volumes increase across our rationalised operating base and that leads us directly to the next slide.

Our footprint rationalisation is on track to be substantially completed this year. We have a clear plan for a properly placed footprint which has the right capability focused on the right programmes and with the right resource pools to deliver profitably in the years ahead.

We've made some great progress with Engines coming down from 12 sites to 9 and Structures from 40 to 22 by the time we're done. So a lot of change here.

On the Structures side the Netherlands is probably the best example. We've taken 6 sites originally and consolidated them into 2 leading plants going forwards. Our resulting master plant in Papendrecht is the hub of the Dutch Aerospace ecosystem and it employs around 2,000 highly skilled people now. Now the majority of the physical moves are done and we're now into finalising these projects with a stabilised workforce and redesigned plant operations.

And as we conclude our restructuring, we will start to see the benefits not only from a margin perspective but also in terms of cash flow as the project costs fall away.

And that leads us to the priorities for this year. Now consistent as you would expect with an Aerospace business, our top priorities will always be safety and quality. This is something that runs right the way through the business with aligned metrics from our tier 1 shopfloor boards at team leader level, right the way through to our reviews at an Executive Committee. Nothing is more important than keeping our own people, the flying public and armed forces from harm.

Beneath that we've got work to do, not just in defence but across the business to make sure we have the right programme portfolio. Most of that's behind us but there's still work to finish off there.

There's also operational work to be done, particularly as I've just mentioned on delivering productivity gains as volumes continue to increase. We've got a new mantra here, a new focus if you like on what we're calling the brilliant basics and that's making sure we have the core elements of lean manufacturing in place everywhere and all the time.

Now we've already covered finishing off restructuring and beyond that as you'd expect you're going to hear more around our organic growth opportunities and these are inevitably technology led.

The initiatives cover a number of categories. Some are funded and underway already and others are in a funnel of exciting future opportunities. We've covered additive fabrication earlier and here we're investing £50m with some of that coming from the Swedish government. There's Aftermarket repair too with our Malaysia site and the new robotics repair centre under construction in California.

In total we're on our way to investing £100m in this business. Whether it's metallic, thermoplastic, wiring or transparency technology we've got huge demand here in a range of areas including with the electric urban air mobility market and this isn't something that's decades away actually, it's going live soon and we're playing very selectively here to deliver profitable growth.

And finally there's the next generation of Engines and new forms of propulsion such as hydrogen and this leads me into saying a few words about sustainability before we close.

The way we approach sustainability at Melrose is really in three ways. We need to make sure that we run our business in a way that limits its impact on the environment and of course this includes conserving the planet's natural resources.

Additionally and where I think we can have most impact is around enabling aviation's route to net zero by 2050. Now we've focused on short term targets initially and announcing upgrades to these today but we're also looking well beyond these to the long-term future.

Specifically what does that mean? Well as it relates to emissions, just to give you a sense of that, we said that across Melrose we were going to have a 20% reduction in Scope 1 and 2 intensities by 2025. Our Aerospace business has actually delivered a 38% reduction already and so we're going to move to a new goal of 50% and you'll see more new targets on this chart.

The most important thing on this page though I think is what we're doing to contribute to the sustainable future of flight. Here I can say proudly that our target is that 100% of our new products will contribute in some way towards decarbonisation and indeed 80% of our R&D funding will go on projects related to climate solutions. For example the ongoing work around hydrogen propulsion.

So our story is a holistic one that will ultimately deliver value for all stakeholders, employees, customers, shareholders and also the communities and society which we serve.

And so as we close today, I'd like to reinforce our compelling equity case for you our shareholders in the financial community. This is underpinned by strong market growth that we've seen coming through with our embedded positions on all of the world's leading aircraft.

We have our Engines business with exceptional growth prospects through the Aftermarket with our uniquely wide RRSP portfolio coupled with our new growth initiatives in repair and additive.

The trajectory on profit I hope should be clear. We've more than doubled profit in 2023 and we're on track to increase it by another 70% or so by 2025. And we're reinforcing this commitment today and bringing forward the Engines margin target.

Then we have an ongoing share buyback which compounds the EPS story with £500m to be completed by the end of September this year and beyond that we'll continue to have a disciplined approach to capital allocations as our Engines RRSPs start to mature.

So with that hopefully we've given you a flavour of not only last year's performance, but I think most importantly our exciting promising trajectory. We're confident that we're on the right course with a plan to unlock the exciting potential of our well positioned business. We know what needs to be done and we're determined to deliver it from here.

And so with that I'll open up to questions and I think we're going to start with questions in the room before turning to the webcast where Chris will orchestrate for us.

Questions and Answers

Rory Smith, UBS

Thanks for the presentation, great to see all the detail in there. Just looking at slide 38, your Engine cash flow chart that we've seen a few times before. I don't have the old one in front of me to compare but it does look like we're at a little bit of a local peak this year and then maybe the sort of 2040 to 2055 shape has changed. I don't want to be too literal, but could you just describe any of the changes that's happened there since the last time you've seen that?

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Matthew Gregory, Chief Financial Officer

Sure, I'll take that one. So in 2023 I think we saw good performance. We've seen very strong performance, particularly around some of the legacy RRSPs. That was built into our targets we set at the beginning of the year. You then see the impact effectively of the GTF, £200m is coming through, so that reduces the numbers.

And then after that, as you look out into the future years, what you're seeing is the impact of the GE deal that we did last year. So as you can see, the future cash flows have grown from £20bn that we put out last time to £22bn and that's a direct result of the GE deal coming through.

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Rory Smith, UBS

Great, thanks very much.

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Matthew Gregory, Chief Financial Officer

Thanks.

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Mark Davies Jones, Stifel

Hi there. Peter, you're not raising '25 guidance but you sort of did, because you said 28% margins for Engines in 2024 and you said 30% from 2025 on and obviously the formal target is 28%. Is there any reason why it doesn't go higher in 2025? I mean clearly, you're just being cautious given the time to get through but is there any headwind in 2025 we should be aware of?

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Peter Dilnot, Chief Executive Officer

No, there's not. Just to be clear, the guidance for 30% is from beyond 2025. But what we've got here is we've got a really strong performance. You've seen that we're significantly above where we're expected to be and it's particularly because of the Aftermarket. But it's not just the Aftermarket, it's the mix of the Aftermarket and OE because the Aftermarket is particularly strong, as we've said, OE less so.

So with the Aftermarket is expected to be strong and continue to be strong this year, which is why we're going for that 28% margin target and we expect OE to come in stronger actually next year in 2025 and that might have a slightly diluted effect. I mean in the big scheme of things we're talking high 20s margin here.

So there's nothing sinister going on here. We are being, you know, to a certain extent we just want to be absolutely sure about the trajectory from here because we outperformed and we're clearly going to outperform again in the year ahead and we'll go from here.

But right now let's be clear, we are on a path we set out as we both said literally the guidance last year so there's some good news this year. We'll deliver that and then we'll look forward.

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Mark Davies Jones, Stifel

Thanks. If I can do just one more. Can you comment briefly on Boeing and the trials and tribulations both for them and their supply chain? I know it's smaller for Airbus and it's lower margin for you, but any implications either way from those developments?

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Peter Dilnot, Chief Executive Officer

Well Boeing is clearly an important customer for us and the issues they're having with quality is unfortunate. I don't think that's good news for the industry at large and they're working very hard to address that. Specifically as it relates to us, as I said we're on all platforms, all the major platforms which includes the 737 and the 787. In the Boeing fleet we have actually frankly very little content on the 737 so that's all in our numbers and isn't a big deal for us.

And in terms of quality we're just focusing on what we can control which is our own quality. And we're redoubling our efforts there it's part of what we do, and we track it literally daily in terms of quality so that's a bit that we play into that. But specifically on the Max it's not a big deal for us. Thank you.

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Mark Davies Jones, Stifel

Thank you.

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Matthew Gregory, Chief Financial Officer

Ben.

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Ben Heelan, Bank of America

Yeah, thank you. Could you talk a little bit about the GE contract because it's obviously a very significant contract I think \$5bn is what you said so if you could talk a little bit about that and is there more in the pipeline given, I think it's the additive technology that's around?

Can you talk a little bit about the destocking and Structures in '24? I have an idea of what I think it is but if you could talk a little bit about that.

And then supply chain challenges, if you could talk about the bottlenecks today, have they changed, are they getting worse, are they getting better how you're seeing that. Thank you.

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Peter Dilnot, Chief Executive Officer

Thanks Ben, we'll take those in order, and I'll get the first and the third and do the middle one. So on the GE deal, I mean a very exciting deal and actually at its heart as you picked up and I mentioned is this additive fabrication and an opportunity. It's really unusual for any OEM to open up an RRSP effectively and insert technology into it and that's essentially the essence of what we're doing here with GE. So we're taking the additive fabrication and using it, over time to expand our RRSP content, if you will, on the GenX.

In addition to that as part of the deal, we're also expanding our role within their repair network, you've heard me talk about that. And so it's the combination of those things and what we're doing over the longer term, and I think that there is more to come through in terms of the size of that deal and one sort of similar we continue in discussions with all the OEMs. Because the reality is that a lot of the challenges in the sector are around forging and castings and in part, the technology we have will alleviate that. So that's the GE deal and as I said, quite unusual and very technology driven. Do you want to get to that?

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Matthew Gregory, Chief Financial Officer

Yeah, so looking at the stocking piece, this is very much in our civil business and really reflects that this is, again, tied into supply chain actually, you talk about supply chain for GE, you talk about supply chain for the destocking. So the issue here we have, as we always do starting off 2023 with a production plan and we have absolutely met our delivery requirements for our major customers.

And what we've seen is as they have been unable to meet their production rates that they wanted to with all these numbers going slightly to the right, they have found themselves with too much stock of certain parts, particularly ours. And you can see that if you look at our growth rates versus their production growth rates, you can see that we have just delivered to them.

Now that's fine for us we are continuing to sort of level load our factories and make sure we continue to produce the parts. But it means that we're effectively growing into their production rates.

So it's really positive for us, we're the ones that have been able to keep delivering and it has been other suppliers and to some extent labour in their supply chain that's meant they haven't been able to make all the aeroplanes that they wanted to.

But as I said, short term issue and the revenue will come back in 2025.

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Peter Dilnot, Chief Executive Officer

And just more broadly on the supply chain which is your last question I think it impacts us in two ways. Firstly is the very obvious one that it's gating OEM production so it's an indirect effect as you just described we're paced by how OEMs can perform and their own supply chain issues. Secondly, supply chain constraints have a direct impact on our production, which we're all over it as you'd expect.

This does mean frankly that the business sometimes isn't running as optimally as it might. In some places we have excess inventory and perhaps lower productivity as we're waiting for stuff to come in. But the key thing for us is we're staying ahead of our customer's demand.

And the issues are reasonably broad based, I would just say - the colour I give you is more about industry capacity now, less around people and materials. You know if we sat here a year ago, I think that it would be around that. But the reality is the industry is growing so fast I think this is going to be certainly a recurring and ongoing issue for a year at least.

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Analyst, Ben

Okay. Thank you.

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Sam Burgess, Citi

Morning guys, just a couple of questions if I can. So just going back to cash, your long term unlevered pre-tax free cash flow guide if I remember is 15% rising to over 20% free cash flow margin long term. That sounds like very strong cash generation, are you still targeting that and would end of the decade be kind of what you'd see as long term? Question one.

And then question two, just given what's happening with Spirit, are there any elements of kind of Spirit Europe you could potentially be interested in? Any kind of views around that would be really helpful, thank you.

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Matthew Gregory, Chief Financial Officer

Shall I take the first one, so as Peter said as a whole package, we're not changing our targets, we're not changing what we said at the Capital Markets Day. We are targeting you know 15%

free cash flow margin long term. And I think as you look at our cash inflows from the RRSP that shows you how that comes through.

To be honest I'm not going to put a date on it, it is long term, so I think I'd just - it's out there, you can see the inflows coming from the RRSP, it will come and even by this year's standards it sort of beats expectations. But I don't think we want to get dragged into exactly which year it's going to be, our models aren't as precise as yours on that one Sam.

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Sam Burgess, Citi

You didn't take the bait, thank you.

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Matthew Gregory, Chief Financial Officer

We do have models; Rich is there doing all the models but we're not telling you.

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Peter Dilnot, Chief Executive Officer

So on Spirit clearly a complex situation, the first thing I will say is it's you know consistent with what we said, which is we're primarily focused on organic growth, we've got a great story in terms of margin progression, EPS growth and quite a bit to do. So that's the main focus for now.

That being said obviously we stay very close to what's going on in the world around us. And I mean the situation is particularly complex as you know because Spirit supply Boeing but they're also supplying Airbus. So I think how that's going to play out I think it's going to be quite interesting. And I'm not going to get in the middle of that particularly as clearly Boeing and Airbus are important customers for us. But we're here to support our customers and we'll see how it plays out. But it's a complex - clearly a very complex situation.

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Sam Burgess, Citi

Great, thank you.

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Harry Philips, Peel Hunt

Hi, just one question please. Just on the repricing element in Structures and your very helpful bar chart, 200 basis points of margin to '25, is it very simplistic and straightforward to just assume 100 basis points a year? And the sort of process in there to put that in print strikes me as being, you must be very confident in achieving that, that isn't a speculative guess?

.....

Peter Dilnot, Chief Executive Officer

None of the numbers we put across Harry are speculative guesses. So specifically on this, I mean we've been clear and consistent about it on the defence side. And I'd say it's a couple of things, firstly yes, it is repricing but it's also trimming the portfolio and we talked about that today, we talked about it in the past. So we've shut sites, we're selling assets that don't make sense that - for us longer term because we can't get the returns.

And the conversation is very straightforward with important ongoing customers, which says look, we need to get reasonable returns and often defence actually is open book in terms of the way it works, particularly in the US. And we need to have decent returns from this, if we can't get those returns then in terms of proper pricing then we work responsibly to pass that business across. And that's happened diligently and responsibly we do that - but we do do it. And that's all part of the plan.

We're on track with this, we're actually building our business in defence in the right areas as well but it's a deliberate and a focused plan.

And the other thing I will say is it's linked to again particularly with US procurement is you have programmes that come up for renewal, you bid for lots which typically last between 3 and 5 years so as those come up for renewal we've obviously got quite a big catch up if you think about what's happened over that sort of time frame looking back in the rear view mirror, it's been a lot of inflation. So part of it is just a bit of a catch up there as well. But no, frankly everything we're doing has got a very clear plan with the teams allocated and working hard to delivering it and we're on track.

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Matthew Gregory, Chief Financial Officer

Can I just sort of add to that, your comment about so just put 100 and 100 I wouldn't necessarily do that. As Peter said it's very directly related to when the contracts get renewed, they need to be negotiated that can be sort of time consuming and then you need to see it feeding through. So I'd suggest that it was sort of more weighted to the '25 but as Peter said absolutely, we've got a very clear line of sight of what we're going for, which contracts we're looking at and the team are working hard to deal with that.

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Jonathan Hurn, Barclays

Good morning, hi, so I just have two questions please. Firstly just coming back to pricing and looking at Engines how do we think about the pricing dynamics for Engines in '24?

And also sorry if I've missed it, can you just give us the growth assumption for Aftermarket RRSP portfolio in '24 as well please?

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Matthew Gregory, Chief Financial Officer

Yeah, so on the growth side we're really just saying if you look at our second half growth which is around 24%, I think that is the level of Aftermarket growth that we'd expect to come in our business. And the reason why that's possibly higher than others is because we have this repair capability that's coming online. But that's around the level that we're seeing for Aftermarket growth.

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Peter Dilnot, Chief Executive Officer

And then specifically on price Jonathan, we are seeing obviously positives here as others are in the industry and it's about supply and demand. The pricing dynamic in the Aftermarket is strong but it's not just about price action - there's beyond that - the shop visits, it's about pricing but it's also about the scope of those shop visits which is broader and also the number of shop visits that come round.

So there's effectively a rising tide on the Aftermarket, but we effectively get that primarily actually through our RRSP cash flows and we get a share of the profit of the overall Aftermarket. And so if profitability goes up for our partners on these Engines, then we benefit from that and we're seeing that through.

What I would say though in terms of pricing beyond that is for Aftermarket repair for example as you'd expect we're meeting a need but doing it in a way which actually has got lower inherent cost and as you'd expect we don't price that in terms of cost plus. So that again is favourable in terms of margins for us.

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Jonathan Hurn, Barclays

Great very helpful maybe I can just sort of squeeze one in as we look to '24 just across sort of Engines and Structures can you just give us a feeling for the phasing of the benefits that you're going to see in terms of sort of restructuring and operational improvements?

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Matthew Gregory, Chief Financial Officer

Yeah, I mean we're not specifically getting into that and I'm trying to avoid people looking for example at the second half Structures margin as a sort of proxy, because there is seasonality that comes through that. I mean we laid out £145m of savings across the periods of 2025 and we'll just be growing into that. So the savings logically will come through sort of second half weighted as they come through.

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Peter Dilnot, Chief Executive Officer

It looks like we're out of questions in the room Chris have we got any from the webcast?

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Chris Dyett, Investor Relations

Yeah, sure we have one question online it's from Aymeric at Kepler Cheuvreux broken into three parts and it links into a question that Sam asked earlier.

So given the news around Spirit Aerosystems with Boeing he's asking a question around the broader industry with smaller aerostructure suppliers being in difficulty, what role do we see it playing in the industry consolidation? That's the first question.

The second question is around do you expect to share organically with additive technologies, etc, or do you also see selective acquisition opportunities?

And then the third question which is tied to that is if so, in terms of acquisitions what level of investment and financial leverage would you be happy with to capture such opportunities?

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Peter Dilnot, Chief Executive Officer

Okay quite a lot in there. So as it relates to aero suppliers yes there is clearly a need for performance through the supply chain because it's down to the weakest link isn't it when you're building an aircraft it doesn't take much not to be able to complete it. And OEMs, tier one players like us obviously are looking through our supply chain and we look for ongoing sustained relationships that we're confident they can meet our performance, not just in terms of quality but clearly in terms of delivery.

In terms of any part we might play look you know very clearly our story is one about quality of earnings and, so some sort of roll up to secure our supply chain doesn't make sense for our shareholders unless it's a particular situation. So don't expect us to be very active in that. And just more broadly as we said our focus really is organic.

But I will answer then the third part of that question which is around would we do material acquisitions? Our focus is organic, but clearly, we're operating in an industry which is evolving and will stay alive to those situations but it's not a prime focus for us now.

And on the leverage side we've guided to up to two and a half times we've been more comfortable around the two times going forwards. So hopefully that gives you some indication on that.

The middle part of the question was around additive manufacturing and whether or not it would be organic or M&A? This is an organic path primarily because it's our proprietary technology. So we're having to build out this as we are doing with our new industrialisation plant in Sweden £50m going in to do that. But this is an organic play it's proprietary technology.

That said and actually we did acquire a small business in Sweden actually about 18 months ago called Permanova that brought some specific capabilities that was helpful to our path and our development. But, no we will be working on this and maintaining our advantage and there's some exciting and important developments as we go through. And I think it's particularly

around not just additive manufacturing, but I mentioned it, as well it's a fabrication of being able to bring things together so you build things in a more of a component way rather than being reliant on these huge hugely casted or forged components.

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Chris Dyett, Investor Relations

Thanks Peter, we have one additional question online that's just come in it's from one of our long-term shareholders. Can you please talk about the cost inflation pressures for 2024?

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Matthew Gregory, Chief Financial Officer

Sure, yes so, we are - we continue to see cost inflation pressure. We as you'd expect with supply chain issues that gives suppliers an opportunity to put prices up potentially for us. I think in the longer term we have quite good protection in our contracts, so we either have enabled materials or we have escalation, or as in our defence business we have the opportunity to go back and renegotiate based on the actual cost.

So I think we did pretty well on that in 2023, I think we will continue to see pressure in 2024, but the teams are continuing to work both through our contracts but also with our customers to do the best to offset that as we go through it.

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Chris Dyett, Investor Relations

Thanks Matthew, no further questions online.

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Peter Dilnot, Chief Executive Officer

Well good with that thank you very much for being here with us in person and also for all those joining on the webcast, and we'll catch up soon.

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END

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