



***COBHAM***

# 2017 Interim Results

Thursday 3<sup>rd</sup> August

**01**

## **Introduction**

David Lockwood,  
Chief Executive Officer

**02**

## **Financial Results**

David Mellors,  
Chief Financial Officer

**03**

## **Business Review**

David Lockwood

**04**

## **Questions**

# 01

## Introduction

David Lockwood

First half results in line with expectations; full year outlook unchanged albeit there remains a wide range of potential outcomes for 2017

In early stages of turnaround; focus on priorities of: (1) customers (2) leadership and simplification and (3) control and execution

Portfolio review undertaken: commencing strategic review of Wireless and AvComm business units

plc Board refresh underway

# 02

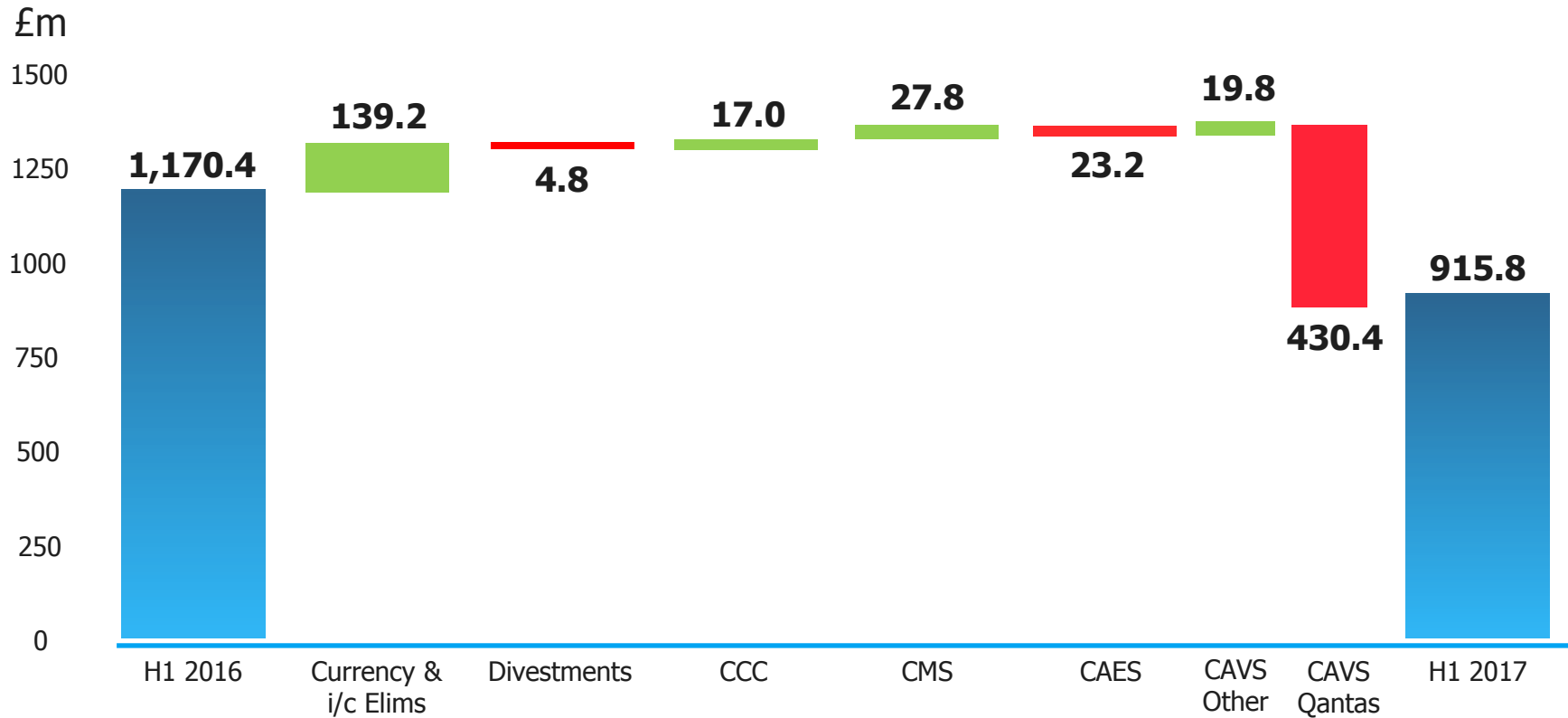
## Financial Results

David Mellors

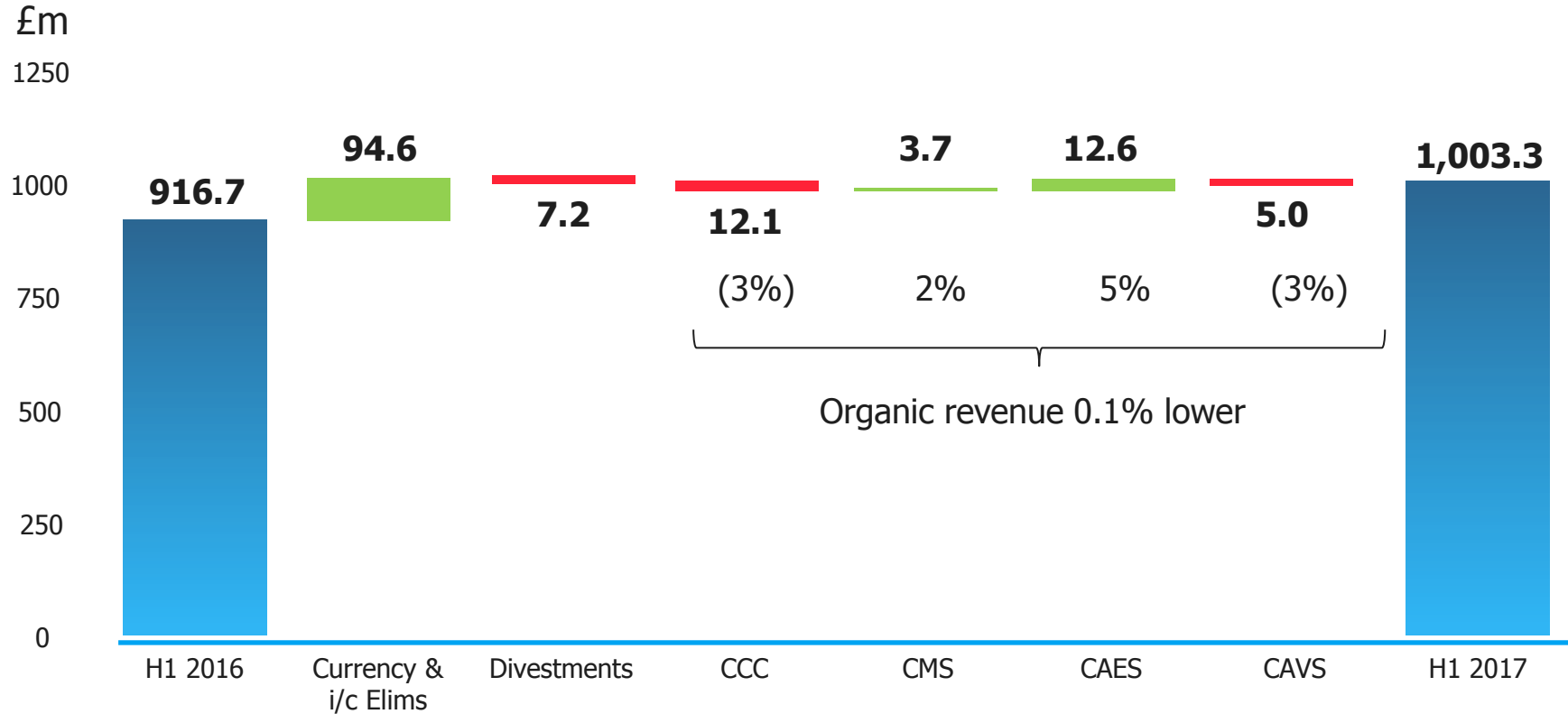
# Summary Financial Headlines

	H1 2017 £m	H1 2016 £m
<b>Order intake</b>	<b>915.8</b>	1,170.4
<b>Revenue</b>	<b>1,003.3</b>	916.7
<b>Underlying operating profit</b>	<b>89.9</b>	102.2
<b>Underlying operating margin</b>	<b>9.0%</b>	11.1%
<b>Underlying earnings per share (pence)</b>	<b>2.5</b>	3.8
<b>Operating cash flow</b>	<b>108.3</b>	108.0
<b>Operating cash conversion</b>	<b>120%</b>	106%
<b>Net debt</b>	<b>460.8</b>	877.2
<b>Net debt:EBITDA ratio</b>	<b>1.5x</b>	2.3x
<b>Dividend (pence)</b>	<b>-</b>	2.03

# Order Intake Bridge

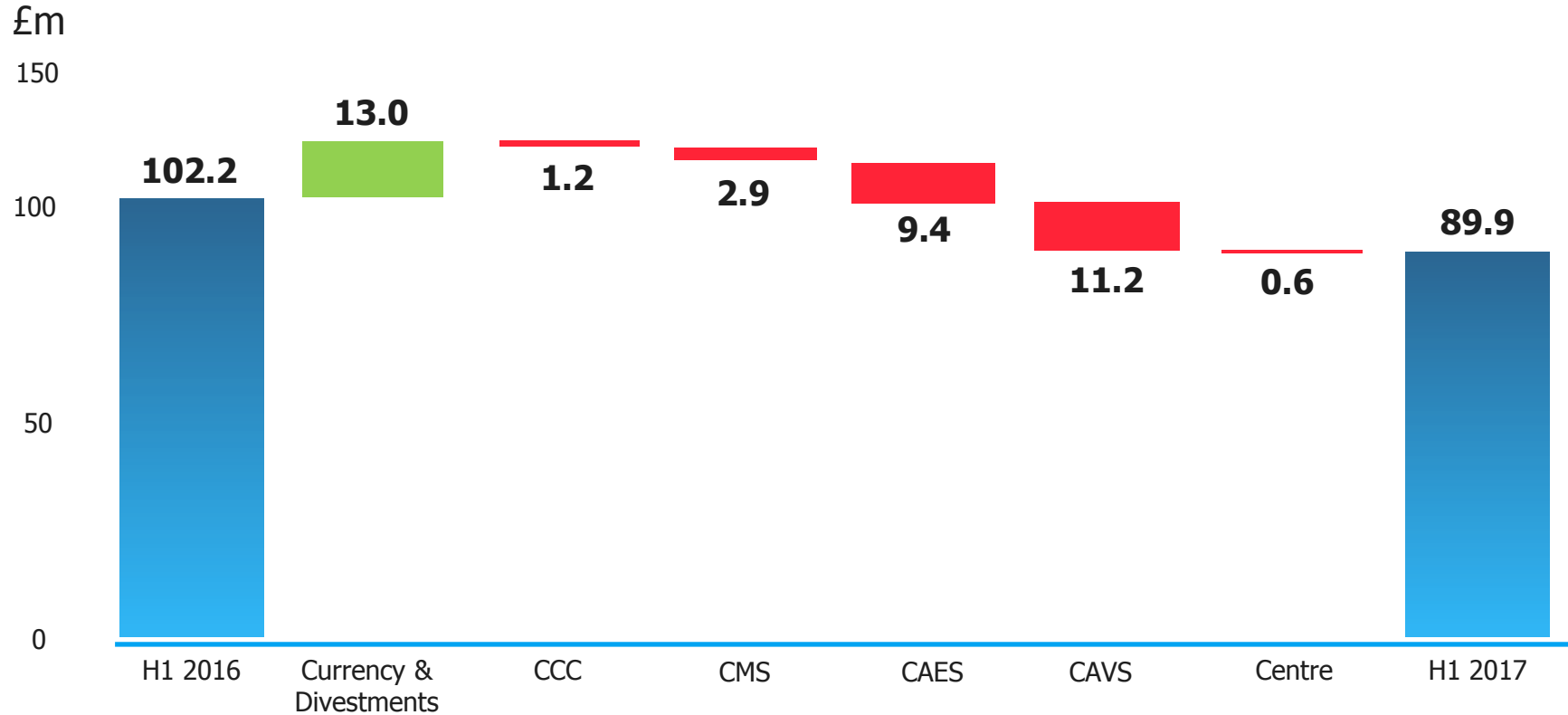


# Revenue Bridge





# Underlying Operating Profit Bridge



£m	H1 2016	FX	Organic	H1 2017
<b>Order Intake</b>	311.6	25.9	17.0	<b>354.5</b>
<b>Revenue</b>	328.5	29.4	(12.1)	<b>345.8</b>
<b>Underlying operating profit</b>	21.9	5.2	(1.2)	<b>25.9</b>
<b>Underlying operating margin</b>	6.7%			<b>7.5%</b>
<b>Order Book</b>	269.6			<b>263.4</b>

### Organic revenue decrease driven by:

- AvComm distributor change and large order in 2016
- SATCOM lower aerospace retrofit
- Wireless test and coverage increased volumes provide partial offset

### Profit impacted by:

- Revenue decrease
- Restructuring (£3.6m); increased PV (£3.8m)
- 2016 included Wireless charge of £9m

£m	H1 2016	FX	Divested	Organic	H1 2017
<b>Order Intake</b>	179.6	17.0	(4.8)	27.8	<b>219.6</b>
<b>Revenue</b>	187.5	18.5	(7.2)	3.7	<b>202.5</b>
<b>Underlying operating profit</b>	24.3	2.7	0.4	(2.9)	<b>24.5</b>
<b>Underlying operating margin</b>	13.0%				<b>12.1%</b>
<b>Order Book</b>	622.7				<b>646.1</b>

### Organic revenue increase driven by:

- Actuation control subsystems
- Air Separation Module for B737 NG operators
- Decrease in aerial refuelling and KC-46 development revenue

### Profit impacted by:

- Lower aerial refuelling production revenue
- KC-46 development trading at nil margin in 2017
- 2016 included high margin UOR

£m	H1 2016	FX	Organic	H1 2017
<b>Order Intake</b>	247.1	33.3	(23.2)	<b>257.2</b>
<b>Revenue</b>	225.6	30.2	12.6	<b>268.4</b>
<b>Underlying operating profit</b>	27.3	3.3	(9.4)	<b>21.2</b>
<b>Underlying operating margin</b>	12.1%			<b>7.9%</b>
<b>Order Book</b>	615.0			<b>630.1</b>

### Organic revenue increase driven by:

- Higher development revenue
- Higher EW production volumes
- Lower RFMW components and ASICS

### Profit impacted by:

- Adverse revenue mix, including lower margin development revenue
- Increased costs (£7.5m) strengthening functional infrastructure, IT systems and security compliance

£m	H1 2016	FX	Organic	H1 2017
<b>Order Intake</b>	432.1	64.5	(410.6)	<b>86.0</b>
<b>Revenue</b>	175.7	17.1	(5.0)	<b>187.8</b>
<b>Underlying operating profit</b>	21.2	1.7	(11.2)	<b>11.7</b>
<b>Underlying operating margin</b>	12.1%			<b>6.2%</b>
<b>Order Book</b>	1,436.4			<b>1,276.1</b>

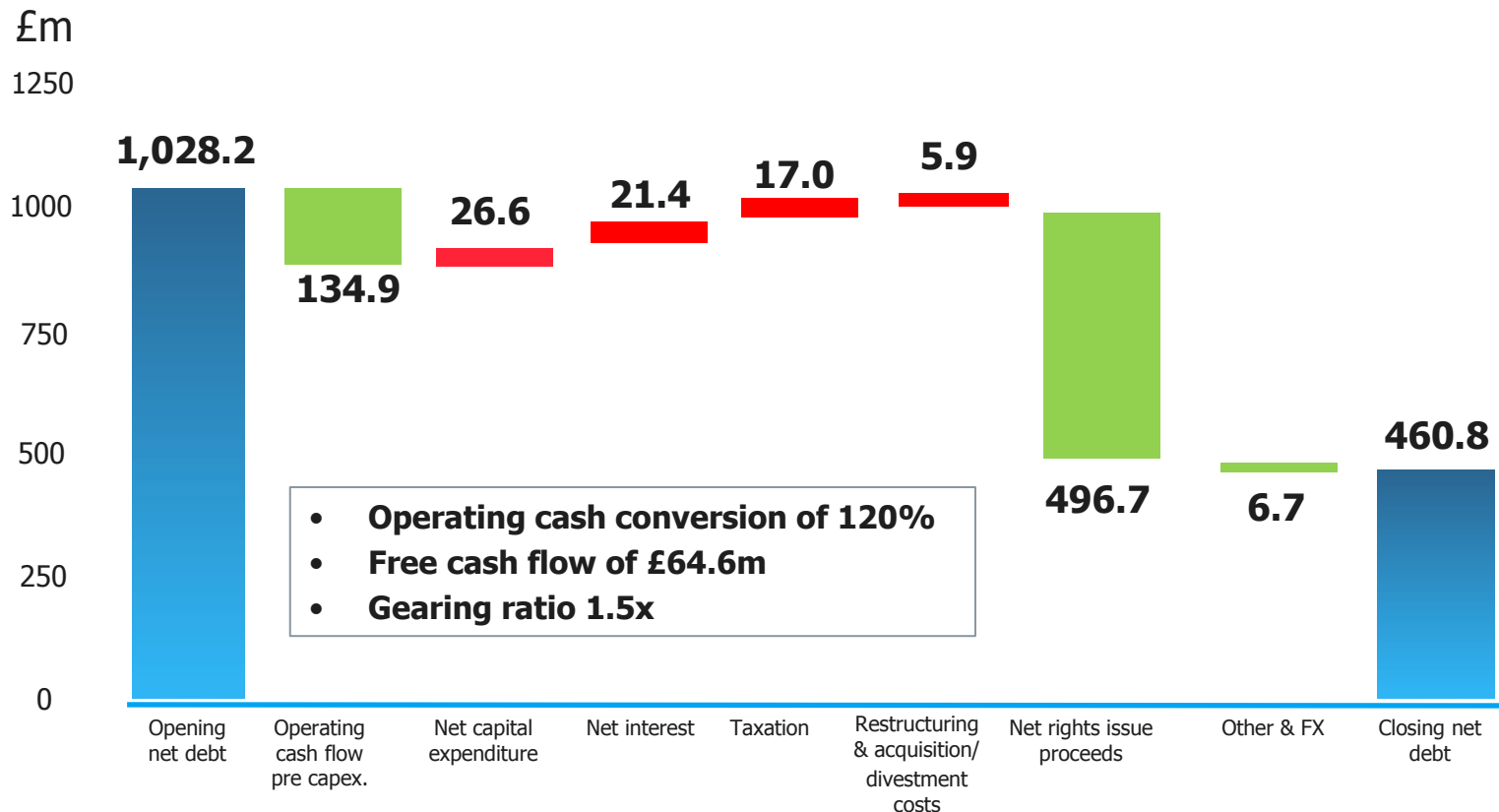
### Organic revenue decrease driven by:

- Reduced flying for natural resources and Qantas repricing
- Completion of helicopter services contract
- Initial revenue from AMSA mobilisation

### Profit impacted by:

- Reduced revenue and mix
- Non-recurring charges relating to legacy issues (£2.7m)

# Movements in Net Debt



# Balance Sheet

£m	30-Jun-17	31-Dec-16	30-Jun-16
Current working capital	335.8	384.3	384.5
Net receivables/payables >1 year	29.4	34.5	49.8
<b>Total Working Capital</b>	<b>365.2</b>	<b>418.8</b>	<b>434.3</b>
<b>Net debt</b>	<b>(460.8)</b>	<b>(1,028.2)</b>	<b>(877.2)</b>
<b>Provisions</b>	<b>(195.5)</b>	<b>(237.9)</b>	<b>(124.5)</b>
<b>Pension deficit</b>	<b>(64.2)</b>	<b>(87.0)</b>	<b>(74.0)</b>

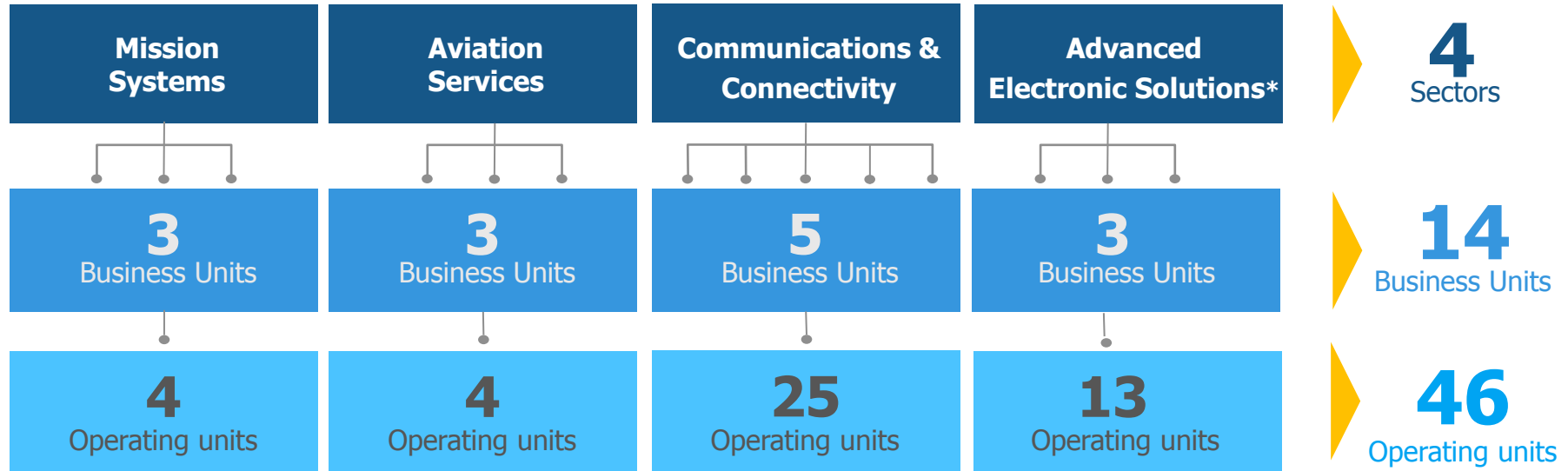
*Note: Contingent Liabilities have been disclosed in note 14 to the Interim Financial Statements*

# 03

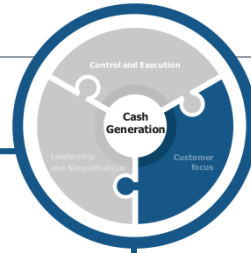
## Business Review

David Lockwood





*\* Reporting into refreshed SSA Board*



## Improving customer intelligence and building relationships

- More regular leadership meetings: resulting in enhanced understanding of customer views and needs
- Air Marshall Greg Bagwell CB CBE appointment
- Increased government and trade body participation

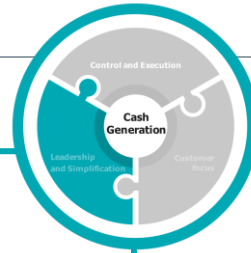
## Monitoring and driving customer satisfaction

- Collecting and reviewing key customer related indicators
- Aligning internal measures to our customer commitments
- Actively using customer score cards

## Focusing on improving delivery

- Focus on processes to improve on-time delivery
- Group-wide training; targeting training 500 employees in 2017
- Coaching on operational planning techniques where needed

**Increasing customer intimacy; improving delivery**



## Instilling a common sense of purpose and motivation

- Strengthened CAES Board (SSA)
- Increased engagement with top 200 leaders and collaboration encouraged
- Visited two thirds of businesses - three quarters of headcount – and all-hands meetings

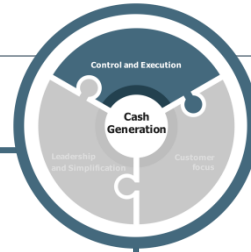
## Reducing and simplifying internal policies

- Streamlined Group policy framework and 40% reduction in policies
- Delegated authorities used as an active management tool

## Focusing on most critical performance metrics

- Remove unnecessary system reports and data line items
- Reporting burden reduced - 70% fewer non-financial key performance indicators
- Monthly operational review packs now standardised; comprehensive finance pack

**Freeing potential**



## Increasing visibility and accountability

- Business unit reviews increased to monthly, with greater clarity on performance and improved accountability
- Culture of transparency

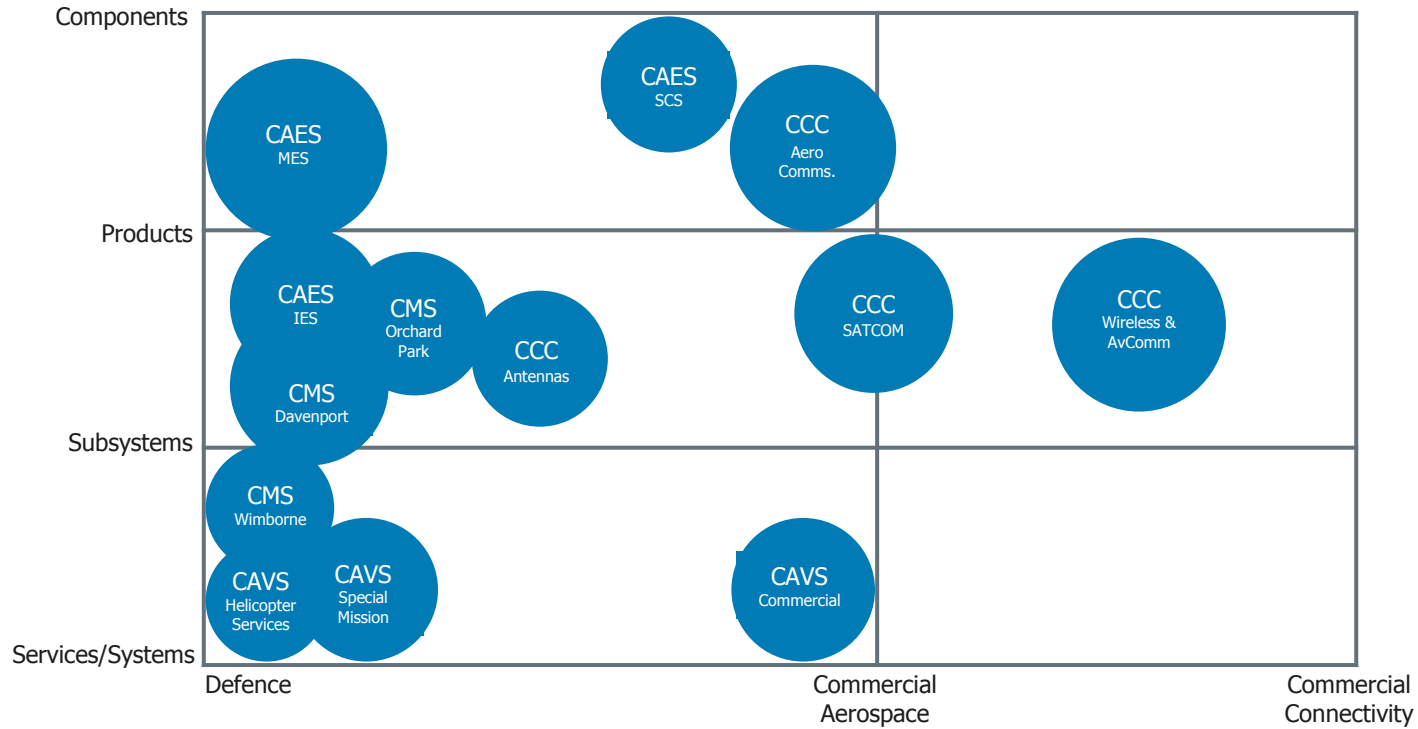
## Increasing scrutiny of key development programmes

- Group-level review of material programmes; drive increased rigour
- Reinforcement of underlying processes (e.g. LCM)

## Operational improvements

- New internal COO appointment; consolidating supply chain, quality, information technology and engineering functions
- Launching supply chain and manufacturing plans to drive cost reductions and improve quality and customer delivery
- Investment in quality, supply chain and infrastructure

**Many improvement initiatives underway**



Bubble sizes proportionate to Cobham revenue contribution in H1 2017

## Review undertaken of business portfolio

- Focus on areas where Cobham can add value:
  - Assess commonality of markets, capabilities and offerings
  - Judge market knowledge and management expertise to optimise performance

## Commencing strategic review of Wireless & AvComm business units

- Investigate how to optimise shareholder value:
  - Strong technology and/or market positions
  - Comprise c10% of Group revenue

**A defence and commercial aerospace company which designs and delivers services, systems and products**

- First half results in line with expectations
- In the early stages of a challenging turnaround – may encounter some turbulence along the way
- Leading positions in attractive markets
- A number of high quality businesses with differentiated technology and know-how
- Full year outlook remains unchanged – albeit with a wide range of potential outcomes

# 04

## Questions





***COBHAM***

## Appendices

# Revenue and Underlying Operating Profit by Sector

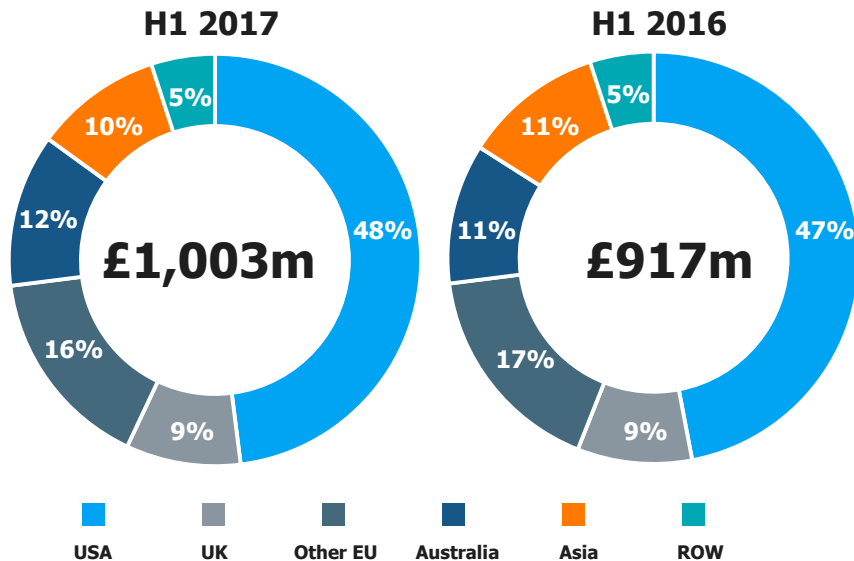
	Revenue		Underlying Operating Profit	
	H1 2017 £m	H1 2016 £m	H1 2017 £m	H1 2016 £m
CCC <i>Margin</i>	<b>345.8</b>	357.9	<b>25.9</b> <i>7.5%</i>	27.1 <i>7.6%</i>
CMS <i>Margin</i>	<b>202.5</b>	198.8	<b>24.5</b> <i>12.1%</i>	27.4 <i>13.8%</i>
CAES <i>Margin</i>	<b>268.4</b>	255.8	<b>21.2</b> <i>7.9%</i>	30.6 <i>12.0%</i>
CAvS <i>Margin</i>	<b>187.8</b>	192.8	<b>11.7</b> <i>6.2%</i>	22.9 <i>11.9%</i>
HO and Elims	<b>(1.2)</b>	(0.7)	<b>6.6</b>	7.2
<b>Subtotal</b> <i>Margin</i>	<b>1,003.3</b>	1,004.6	<b>89.9</b> <i>9.0%</i>	115.2 <i>11.5%</i>
Divestments	-	7.2	-	-
Exchange	-	(95.1)	-	(13.0)
<b>Cobham Group – as reported</b> <i>Margin</i>	<b>1,003.3</b>	916.7	<b>89.9</b> <i>9.0%</i>	102.2 <i>11.1%</i>

*2016 data at 2017 FX rates*

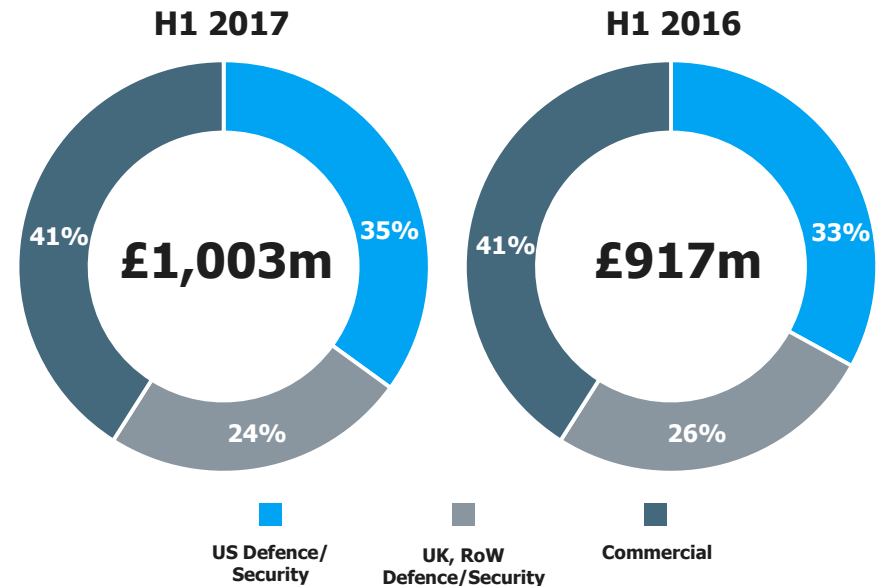
# Income Statement

	H1 2017 £m	H1 2016 £m
<b>Revenue</b>	<b>1,003.3</b>	<b>916.7</b>
<b>Underlying operating profit</b>	<b>89.9</b>	<b>102.2</b>
Underlying net finance costs	(20.4)	(26.4)
<b>Underlying profit before taxation</b>	<b>69.5</b>	<b>75.8</b>
Amounts related to prior periods' restructuring programmes	(2.4)	(8.3)
Derivative financial instruments	18.2	(25.1)
Amortisation of intangible assets arising on business combinations	(72.4)	(81.4)
Adjustment to revisions of the carrying value of assets provided at 31/12/16	1.4	-
Profit on divestments	-	0.6
<b>Profit / (loss) before taxation</b>	<b>14.3</b>	<b>(38.4)</b>
Taxation	<b>2.0</b>	<b>13.4</b>
<b>Profit / (loss) after taxation</b>	<b>16.3</b>	<b>(25.0)</b>

## Group Revenue by Destination

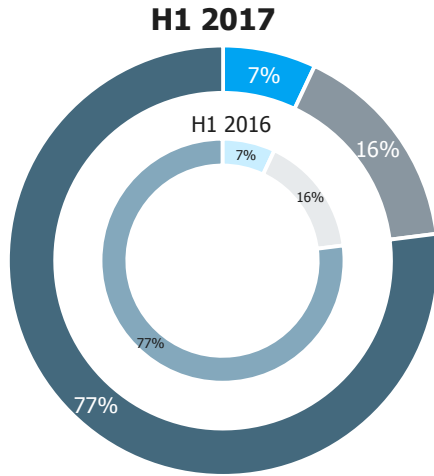


## Group Revenue by Market Segment



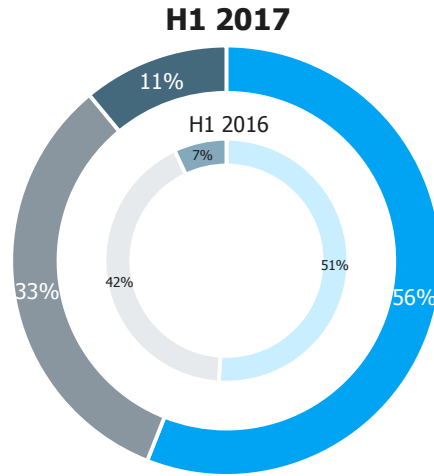
# Market Segment Revenue by Sector

## Communications and Connectivity



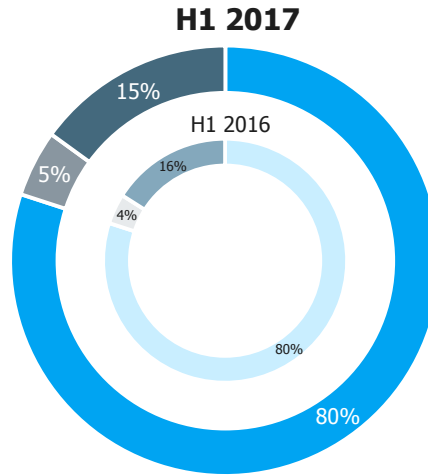
 US Defence/Security

## Mission Systems



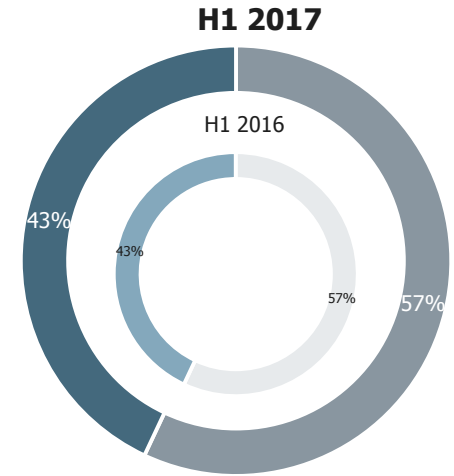
 UK, RoW Defence/Security

## Advanced Electronic Solutions



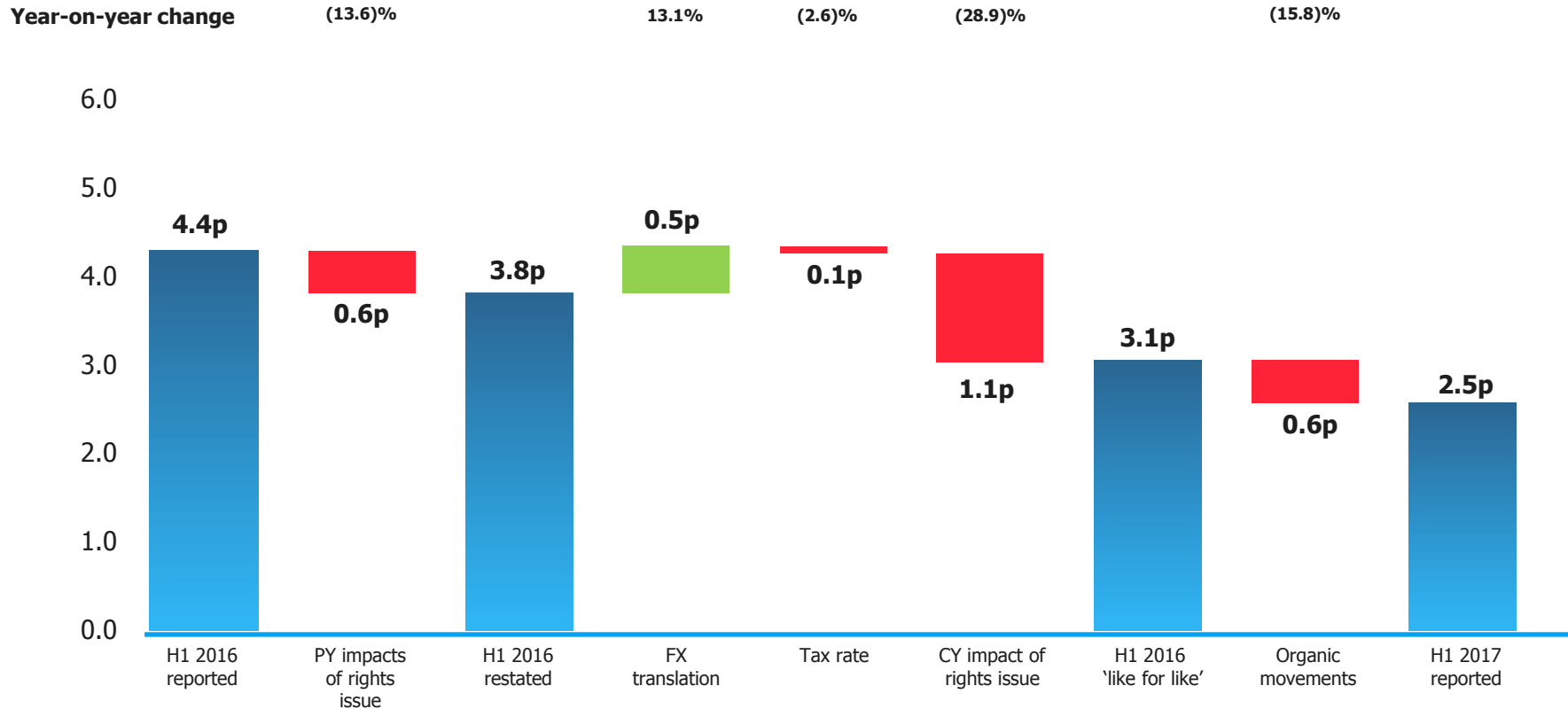
 Commercial

## Aviation Services

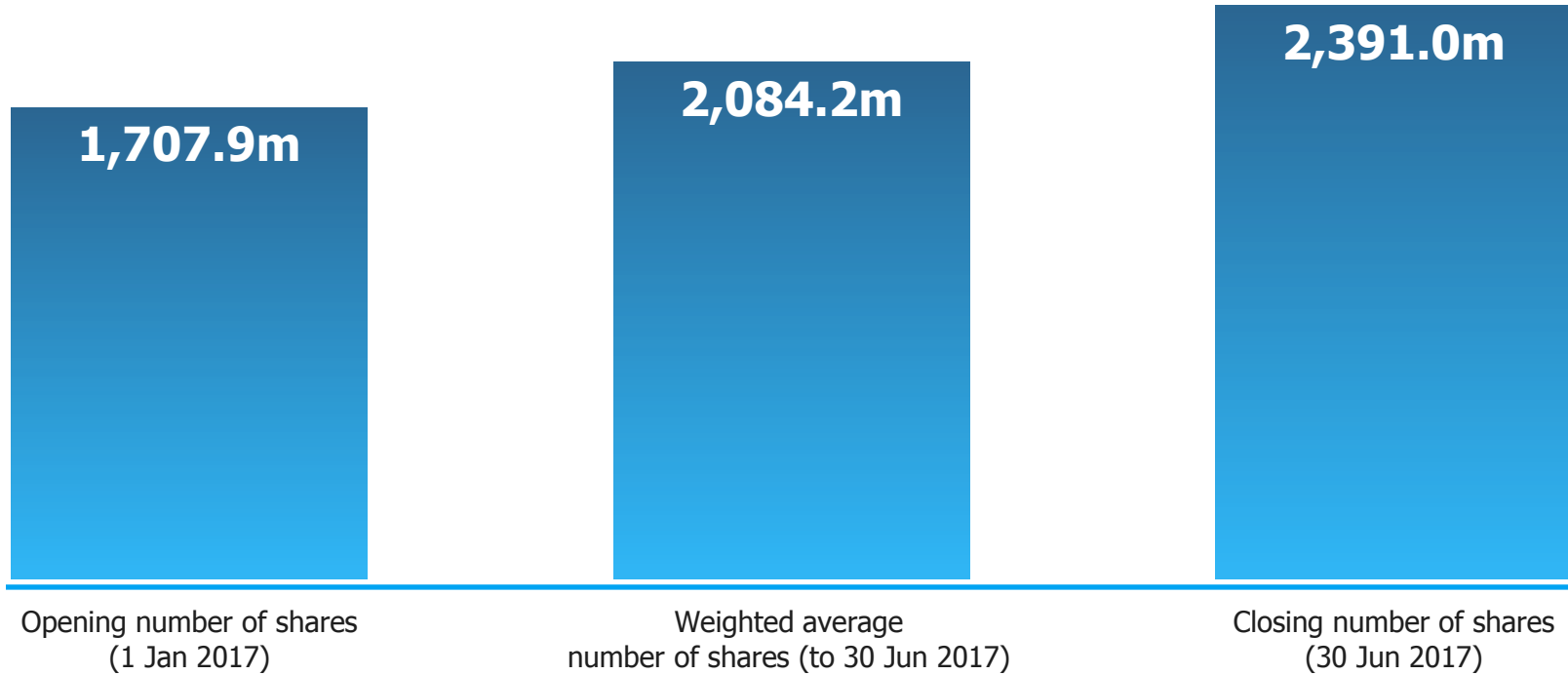


	H1 2017 £m	H1 2016 £m
Underlying tax charge	<b>(16.4)</b>	(16.7)
Tax credit on non-underlying items	<b>18.4</b>	30.1
Headline tax credit	<b>2.0</b>	13.4
Underlying tax rate	<b>23.6%</b>	22.0%

# Underlying Earnings Per Share



# Shares in Issue





# Balance Sheet

	30-Jun-17 £m	31-Dec-16 £m
Intangible assets	1,069.7	1,165.9
Property, plant and equipment	403.0	422.9
Other non-current assets	144.0	141.3
<b>Non current assets</b>	<b>1,616.7</b>	<b>1,730.1</b>
Inventories	415.8	405.3
Trade and other receivables < 1 year	359.0	409.8
Trade and other payables < 1 year	(439.0)	(430.8)
<b>Current working capital</b>	<b>335.8</b>	<b>384.3</b>
Net current tax liabilities	(141.5)	(146.4)
Net debt	(460.8)	(1,028.2)
Provisions	(195.5)	(237.9)
Retirement benefit obligations	(64.2)	(87.0)
Other assets/liabilities	(96.9)	(125.0)
<b>Net assets</b>	<b>993.6</b>	<b>489.9</b>

# Cash Conversion

	H1 2017 £m	H1 2016 £m
<b>Underlying operating profit (less post tax share of JV profits)</b>	<b>89.9</b>	<b>102.1</b>
Depreciation and amortisation	41.4	33.9
Share based payments	2.3	1.3
Movements in provisions	(35.9)	(7.7)
Pension contributions in excess of pension charges	(8.6)	(8.2)
Decrease in working capital	45.8	23.1
Gross capital expenditure	(27.4)	(40.7)
Proceeds on disposal of PPE	0.8	4.2
<b>Operating cash flow</b>	<b>108.3</b>	<b>108.0</b>
<b>Cash conversion</b>	<b>120.5%</b>	<b>105.8%</b>

# Movement in Net Debt

	H1 2017 £m	H1 2016 £m
<b>Operating cash flow</b>	<b>108.3</b>	<b>108.0</b>
Net interest paid	(21.4)	(27.1)
Taxation paid	(17.0)	(9.7)
Costs of prior years' restructuring programmes	(5.3)	(17.2)
<b>Free cash flow</b>	<b>64.6</b>	<b>54.0</b>
Dividends paid	-	(91.6)
Net divestments	(0.6)	(6.5)
Net rights issue proceeds and allocation of treasury shares	497.0	492.8
Exchange movements	6.4	(119.1)
<b>Decrease in net debt</b>	<b>567.4</b>	<b>329.6</b>
<b>Opening net debt</b>	<b>(1,028.2)</b>	<b>(1,206.8)</b>
<b>Closing net debt</b>	<b>(460.8)</b>	<b>(877.2)</b>

# Capital Expenditure and Depreciation

£m	H1 2017		H1 2016	
	Net Capex <sup>(1)</sup>	Depn <sup>(2)</sup>	Net Capex <sup>(1)</sup>	Depn <sup>(2)</sup>
Cobham Communications and Connectivity	3.0	7.7	3.4	7.4
Cobham Mission Systems	1.1	3.2	4.1	2.8
Cobham Advanced Electronic Solutions	6.9	8.1	2.0	6.5
Cobham Aviation Services	15.0	18.0	20.4	14.9
Head Office	0.6	4.4	6.6	2.3
<b>Cobham Group</b>	<b>26.6</b>	<b>41.4</b>	36.5	33.9

*1) Shown net of proceeds on disposal of property, plant and equipment.*

*2) Depreciation excludes amortisation of acquired intangibles but includes amortisation of other intangibles of £5.3m (2016: £3.0m).*

*Shown net of profit/loss on sale of property, plant and equipment.*

# Defined Benefit Pension Schemes

	H1 2017 £m	FY 2016 £m
Market value of scheme assets	797.6	790.0
Present value of scheme liabilities	(861.8)	(877.0)
<b>Net pension liability before deferred tax</b>	<b>(64.2)</b>	<b>(87.0)</b>

## Primary assumptions

Discount rate	2.60%	2.65%
Inflation rate	3.30%	3.45%
Life expectancy of male aged 65 in 2045	90.2yrs	90.2yrs

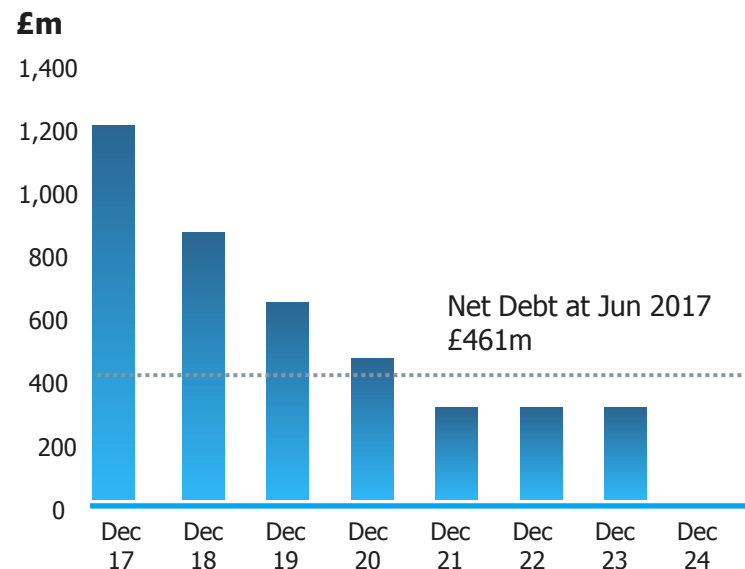
## Sensitivity of scheme liabilities to primary assumptions\*

	Change	Impact
Discount rate	Increase by 1.0%	Decrease by 9%
Inflation rate	Increase by 0.5%	Increase by 3%
Life expectancy of male aged 65 in 2045	Increase by 1 year	Increase by 2%

*\*Sensitivity updated annually: figures are at 31 December 2016*

# Credit Facilities

	Loan/Facility £m	Usage £m
<b>US\$ loan notes</b>		
US\$75m fixed rate (Oct. 2017)	57.7	57.7
US\$180m fixed rate (Oct. 2019)	138.6	138.6
US\$250m fixed rate (Oct. 2021)	192.5	192.5
US\$425m fixed rate (Oct. 2024)	327.1	327.1
	<b>715.9</b>	<b>715.9</b>
<b>Bank facilities</b>		
US\$75m credit agreement (Dec 2019)	57.7	57.7
EUR70m multi-currency revolving facility (Oct. 2018)	61.5	-
DKK525m multi-currency revolving facility (Oct. 2018)	62.0	-
US\$270m multi-currency credit agreement (Oct. 2018)	207.9	-
AUS\$90m revolving credit facility (Oct. 2018)	53.1	19.9
US\$40m Schuldschein agreement (May 2020)	30.8	30.8
EUR131m Schuldschein agreement (May 2020)	115.1	115.1
EUR4m Schuldschein agreement (May 2022)	3.5	3.5
	<b>591.6</b>	<b>227.0</b>
<b>Total committed facilities</b>	<b>1,307.5</b>	<b>942.9</b>
Overdrafts	-	-
Finance leases	0.4	0.4
<b>Gross debt</b>	<b>1,307.9</b>	<b>943.3</b>
Cash		(482.5)
<b>Net debt</b>	<b>1,307.9</b>	<b>460.8</b>



	<b>H1 2017</b>	<b>FY 2016</b>	<b>H1 2016</b>	<b>FY 2015</b>
Net debt (£m) – balance sheet	<b>(460.8)</b>	(1,028.2)	(877.2)	(1,206.8)
Net debt (£m) – average rate <sup>(1)</sup>	<b>(469.6)</b>	(937.9)	(786.0)	(1,160.7)
EBITDA <sup>(2)</sup> (£m)	<b>314.8</b>	316.5	346.5	396.4
<b>Net debt to EBITDA (not to exceed 3.5 times)</b>	<b>1.5</b>	<b>3.0</b>	<b>2.3</b>	<b>2.9</b>
EBITA (£m)	<b>238.9</b>	245.2	280.7	333.4
Net interest (£m)	<b>41.7</b>	48.0	50.5	48.7
<b>Interest cover (at or above 3 times)</b>	<b>5.7</b>	<b>5.1</b>	<b>5.6</b>	<b>6.8</b>

*1) For covenant purposes net debt is typically expressed at average translation rates*

*2) EBITDA includes pro forma adjustments in respect of acquisitions and divestments*

# Exchange Rates

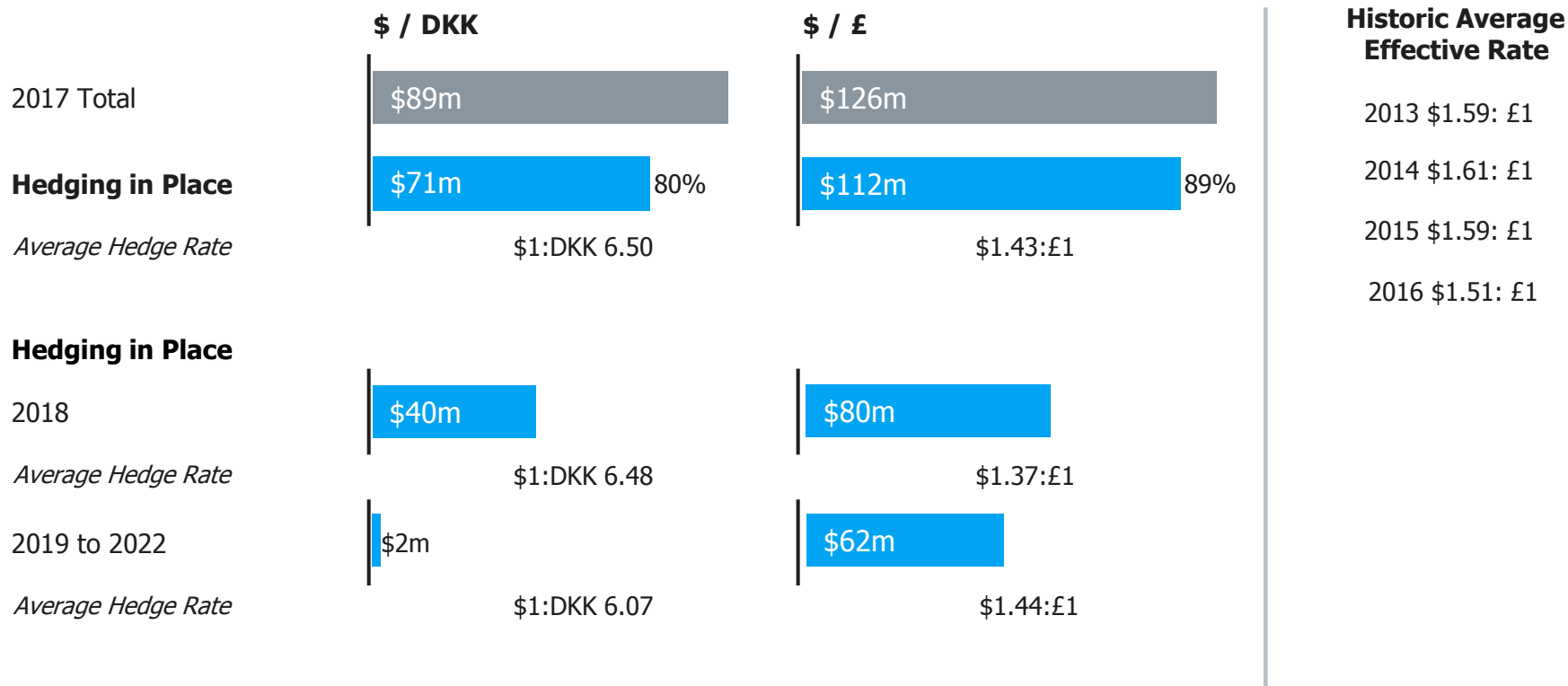
	Average Rate	Period End Rate
<b>H1 2017</b>		
US\$	<b>1.26</b>	<b>1.30</b>
AUS\$	<b>1.67</b>	<b>1.69</b>
EUR	<b>1.16</b>	<b>1.14</b>
DKK	<b>8.64</b>	<b>8.47</b>
<b>FY 2016</b>		
US\$	1.35	1.24
AUS\$	1.83	1.71
EUR	1.22	1.17
DKK	9.11	8.71
<b>H1 2016</b>		
US\$	1.43	1.34
AUS\$	1.95	1.80
EUR	1.28	1.20
DKK	9.54	8.95

Impact of pro rata 1 cent movement		
	Revenue £m	PBT £m
US\$	9	1
AUS\$	2	0
EUR/DKK	3	0
	14	1

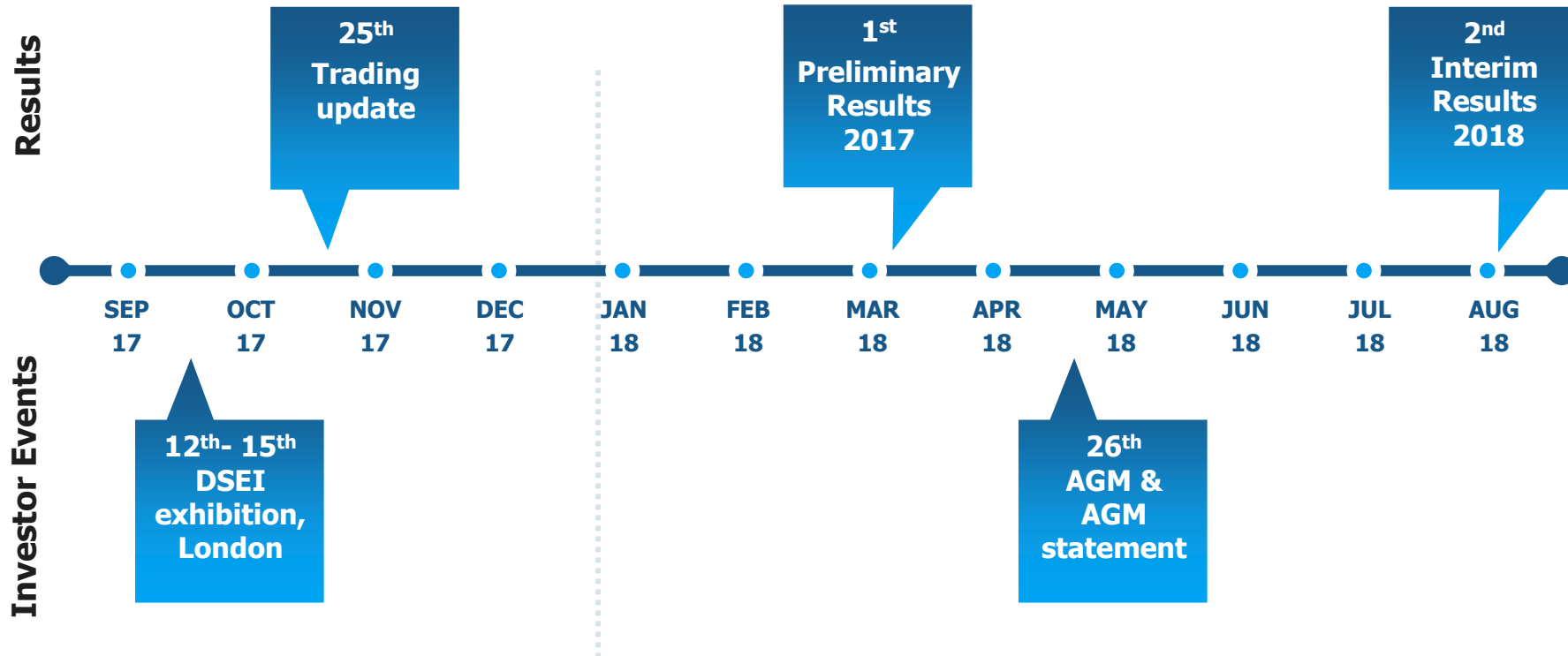


# Hedging

## Transaction Exposure



Dollar/Euro exposure predominantly hedged for 2017 with \$58m @ 1.13



## **Underlying measures**

To assist with the understanding of earnings trends, the Group has included within its published financial statements non-GAAP measures including underlying operating profit and underlying profit. The non-GAAP measures used do not include the impact of items described below which are not considered to reflect the day to day operating results of the Group. Underlying measures are therefore considered to provide a more comparable view year-on-year, having removed the distorting effects of the excluded items which are more clearly understood when presented separately. All underlying measures include the operational results of all businesses including those held for sale until the point of sale.

## **Underlying operating profit**

This has been defined as operating profit from continuing operations excluding the specific adjusting items as described below.

- Business acquisition and divestment related items excluded from underlying operating profit and underlying profit comprising the amortisation of intangible assets arising on business combinations, gains or losses arising on business divestments, and other direct costs associated with business combinations and terminated divestments;
- Amounts relating to prior periods' restructuring programmes which are incremental to normal operations and non-recurring in nature. In 2017 and 2016, these relate to the integration of the Aeroflex businesses acquired in 2014. Where restructuring costs are incurred as a result of the on-going execution of Group strategy, such costs are included within administrative expenses and are not excluded from underlying results;
- Changes in marking to market of non-hedge accounted derivative financial instruments and gains and losses arising on dividend related foreign exchange contracts; and
- Other items deemed by the Directors to be of exceptional, non-operating nature including impairment of intangible assets and adjustments arising from the January 2017 Balance Sheet review.

## **Underlying profit before taxation**

Underlying profit before taxation is defined as underlying operating profit less net underlying finance costs, which exclude business acquisition and divestment related items and non-recurring finance costs.

## **Free cash flow and operating cash flow**

Free cash flow is defined as net cash from operating activities plus dividends received from joint ventures, less cash flows related to the purchase or disposal of property, plant, equipment and intangible assets but excluding payments relating to business acquisition and divestment related activities.

Operating cash flow is free cash flow before payment of tax, interest and restructuring costs. Operating cash conversion is defined as operating cash flow as a percentage of underlying operating profit, excluding the share of profit from joint ventures and associates.

## **Net debt**

Net debt is defined as the net of borrowings less cash and cash equivalents at the balance sheet date.

## **Organic revenue growth**

Organic revenue growth is defined as revenue growth stated at constant translation exchange rates, excluding the incremental effect of acquisitions and divestments

For the purposes of the following disclaimers, references to this 'document' shall be deemed to include references to the presenters' speeches, the question and answer session and any other related verbal or written communications.

This document contains certain 'forward-looking statements' with respect to the financial condition, results of operations and business of Cobham plc (Cobham) and to certain of Cobham's plans and objectives with respect to these items. Forward-looking statements are sometimes but not always identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "should", "expects", "believes", "intends", "plans", "targets", "goal", or "estimates". By their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or will occur in the future. There are various factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include but are not limited to, changes in the economies, political situations and markets in which the Group operates; changes in government priorities due to programme reviews or revisions to strategic objectives; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; changes to or delays in programmes in which the Group is involved; the completion of any acquisitions and divestitures and changes in currency exchange rates. All or written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Cobham or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Cobham does not intend to update these forward-looking statements.



