LEONARDO PRESENTS 2018-2022 INDUSTRIAL PLAN: LONG TERM SUSTAINABLE GROWTH

News / Manufacturer

Leonardo presents 2018-2022 Industrial Plan: long term sustainable growth

Image courtesy of Leonardo

Taking action to return Group to sustainable growth over 2018-2022

- Well positioned for a positive market outlook
- Leveraging one company model with a new commercial strategy
- Leveraging a strong backlog and accelerating orders to deliver revenue growth and improved profitability
- Strict cost control and focused investment on sustainable growth
- Disciplined financial strategy to balance business growth, investments, and cash generation

Taken actions to address short-term issues in Helicopters business – underlining confidence in its strength

- A world class business with the right product strategy
- Very clear on what happened in 2017 – no structural issues
- Facing attractive opportunity in improving civil market
- Executing a sustainable plan to return to double digit profitability by 2020

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Near-term guidance – 2017 guidance range reconfirmed; planting the seed for sustainable growth

FY 2017 Guidance – confirming the “reset” announced last November

- Revenues, EBITA and FOCF expected towards the lower end of guidance ranges
- Orders expected to be €11.3 – 11.7 bn due to timing of C27J export contract
- Group net debt in line with guidance; c.€2.6 bn including US bond buy-back

FY 2018 – a consolidation year

- Order growth, stable revenues and slightly higher EBITA €1,075 – 1,125 mln
- FOCF of c. €100 mln reflecting the timing of the EFA Kuwait financial profile, other customer advances winding down, Aerostructure performance and higher investment to support sustainable growth.

Medium term guidance – sustainable growth plan 2018-2022

- Targeting a new phase of sustainable growth, accelerating through to 2022
- 5 years 2018-2022 Order growth CAGR >6% supporting revenue growth CAGR of 5%-6% and a book-to-bill at or above 1x
- 5 years 2018-2022 EBITA CAGR of 8%-10%, with profitability expected to reach double digit by 2020
- Accelerating FOCF from 2020 driven by EFA Kuwait positive contribution, full recovery in Helicopters, growing orders and higher profitability; 2015-2018 Cash Flow Conversion average of 50% will be the base for our plan going forward
- Disciplined financial strategy, continuing to strengthen the balance sheet and target a return to investment grade

Alessandro Profumo, CEO of Leonardo, commented "*After a challenging 2017 in which we re-set expectations, we intend to deliver an Industrial Plan to return Leonardo to long-term sustainable growth. We face attractive market improvement, we are taking actions to leverage off a new commercial strategy, we enjoy a strong backlog, and we know we can invest well for growth in enhancing further core products and technologies. We have taken actions to address short-term issues in our world-class Helicopters business. 2018 is a consolidation year, and we are confident we are laying the seeds for a new phase of sustainable growth with steady improvement in our top line, profitability and cash flow, to create value for of all the stakeholders of the company*”.

Taking action to return to sustainable growth - Industrial Plan strategies

The outlook in Leonardo’s reference markets is positive, particularly in international export markets. This underpins confidence in the opportunity for Leonardo’s core businesses.

Progress has been made in recent years building an effective “one company” operating and organisational model. But an acceleration is needed to ensure the sustainability of the business in the medium-long term, leveraging the "One Company", strengthening the business structure and enhancing the commercial approach.

The 2018-2022 Industrial Plan is therefore based on a transformation process that will be implemented in the following areas across the Group:

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- Operating model Optimization ("Leonardo 2.0") through a central organizational structure able to coordinate the businesses action and to share/generate best practices, a stronger identity and a more integrated resources management;
- A more effective commercial strategy and customer approach, through a strong boost to international business development, customer support process, a cross-business customer support and an effective governance of technological innovation;
- Targeted Investments to support growth, focused on key products and technologies and the development of a new commercial network;
- A focus on cost control through a cost transformation program to support competitiveness of our products and reinvestment in growth;
- Product portfolio “Reshaping", including a focus on the allocation of capital to our core businesses, new potential partnerships.

Taken actions to address short-term issues in Helicopters business – underlining confidence in its strength
Leonardo Helicopters Division is a world-class business, with a strong product strategy. It has a range of market-leading products that have strong customer appeal, and which are taking share in attractive market segments.

The issues which affected 2017 performance are clearly understood and actions have been taken to change the organisation, its processes and its people. In improving markets a clear plan is being executed to restore double digit profitability by 2020.

FY 2017 Guidance range reconfirmed
The results obtained in the first nine months of 2017 and the updated estimates for the last quarter suggest that the Group will deliver full year Revenues, EBITA and Free Operating Cash Flow in the lower part of the range of Guidance published in November 2017.

In respect of orders, In November it was flagged that the timing of the C27J order may move to 2018. As a consequence of this occurrence 2017 orders are now expected to be €11.3-11.7 billion. Group net debt is in line with guidance; at c.€2.6bn including effect of US bond buy-back.

- Revenues € 11.5 – 12.0 bn
- EBITA € 1,050 – 1,100 mln
- FOCF € 500 – 600 mln

FY 2018 Guidance planting the seed for growth
The current financial year 2018 is expected to be a consolidation year. Group guidance is summarized as follows:

- Orders € 12.5 – 13.0 bn
- Revenues € 11.5 – 12.0 bn
- EBITA € 1,075 – 1,125 mln
- FOCF c. € 100 mln
- Group Net Debt c. € 2.6 bn

2018-2022 Industrial Plan medium-term targets: Group sustainable growth in long term
The Plan envisages the achievement of the following targets over the next 5 years:

- **5 years 2018-2022 Order CAGR > 6%**, with a **book-to-bill equal to or above 1x**
- **5 years 2018-2022 Revenue CAGR between 5%-6%**, supported by new order intake and a

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strong order backlog
- **Continuous improvement in EBITA**, with 5 years 2018-2022 CAGR 8%-10% Return on Sales expected higher than 10% by 2020
- Accelerating FOCF accelerating from 2020 driven by order intake growth and increase in profitability
- Solid and flexible financial structure. We remain committed to a disciplined financial strategy, getting back to an “investment grade” credit rating and continuing to lower our cost of funding, while pursuing a balance between reducing leverage, sustaining investments for growth and adequate returns to shareholders.

Leonardo will present the FY 2017 results following the approval of the 2017 Draft Annual Report of the Board of Directors scheduled for March 14, 2018.

Leonardo is renegotiating a new credit line Revolving Credit Facilities with a pool of domestic and international banks. The RCF will provide for the payment of a margin of 75 basis points above the Euribor, a reduction compared to the 100 basis points of the previous RCF of July 2015. It will also reduce the size of the amount to 1.8 billion euros, from the 2 billion of the previous RCF. The deadline will be extended to February 2023, a year previously free from repayment commitments on the capital market. Favourable market conditions is enabling Leonardo to renegotiate this credit line and reduce the financial cost by confirming the gradual easing of the financing needs of the working capital, while maintaining a source of bank liquidity in line with the expectations of the financial market, including the credit rating agencies. The new RCF has been signed by 26 banks, resulting in an oversubscribed for 3.6 billion euros.

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