



# Leonardo Breakfast Meeting

**Alessandro Profumo**

Chief Executive Officer

Investor Relations and Credit Rating Agencies

—  
Milan, 10 February 2020





# Agenda

- > **Recent achievements**
- > Executing the Industrial Plan
- > 9M 2019 Results
- > Sector Results
- > Focus on Businesses
- > CEO Remuneration
- > Appendix



# Strong 2019 performance, meeting or exceeding expectations

		FY2018A	FY2019 Guidance*	Revised expectations*
<b>New Orders</b>	(€ bn)	15.124	12.5 - 13.5	Above the top-end of the range
<b>Revenues</b>	(€ bn)	12.240	12.5 - 13.0	
<b>EBITA</b>	(€ bn)	1.120	1.175 - 1.225	Mid to upper-end of the range
<b>FOCF</b>	(€ mln)	336	ca. 200	Slightly above expectations

\* Assuming Guidance exchange rate €/USD of 1.25 and €/GBP of 0.9. Favorable foreign exchange will provide additional benefits for 2019 Results.

# Kopter acquisition extending market leadership leveraging SH09 helicopter

## STRATEGIC RATIONALE

- Strengthen **positioning in the light single engine** segment (>1.8 tonne)
- Leverage **innovation, new capabilities** and **engineering skills**
- Exploit a **cost/effective** and **versatile platform**

## KEY DATA

- Purchase price (cash and debt free) **185 M\$ plus earn out**
- To replace planned investments for new single engine helicopter
- **Closing** expected **Q1 2020**

## PRODUCT KEY SUCCESS FACTORS



- **Brand new single engine helicopter**
- **Latest technologies** and **Safety** features
- **High performance at affordable cost** for a variety of applications
- **Suitable for future developments** incl. hybrid/electrical options

## Recent achievements

- **14 January 2020: \$176mIn contract for 32 TH-73A for the US Navy**
  - Including initial spares, support and training
  - Deliveries to start in 2020 up till 2024
  - Additional tranches expected for up to 130 helicopters (\$648mIn)
- **4 December 2019: Standard & Poor's raised Leonardo's outlook to "Positive"**
- **18 November 2019: \$127mIn buyback of U.S. notes due 2039 and 2040**
  - NPV materially positive





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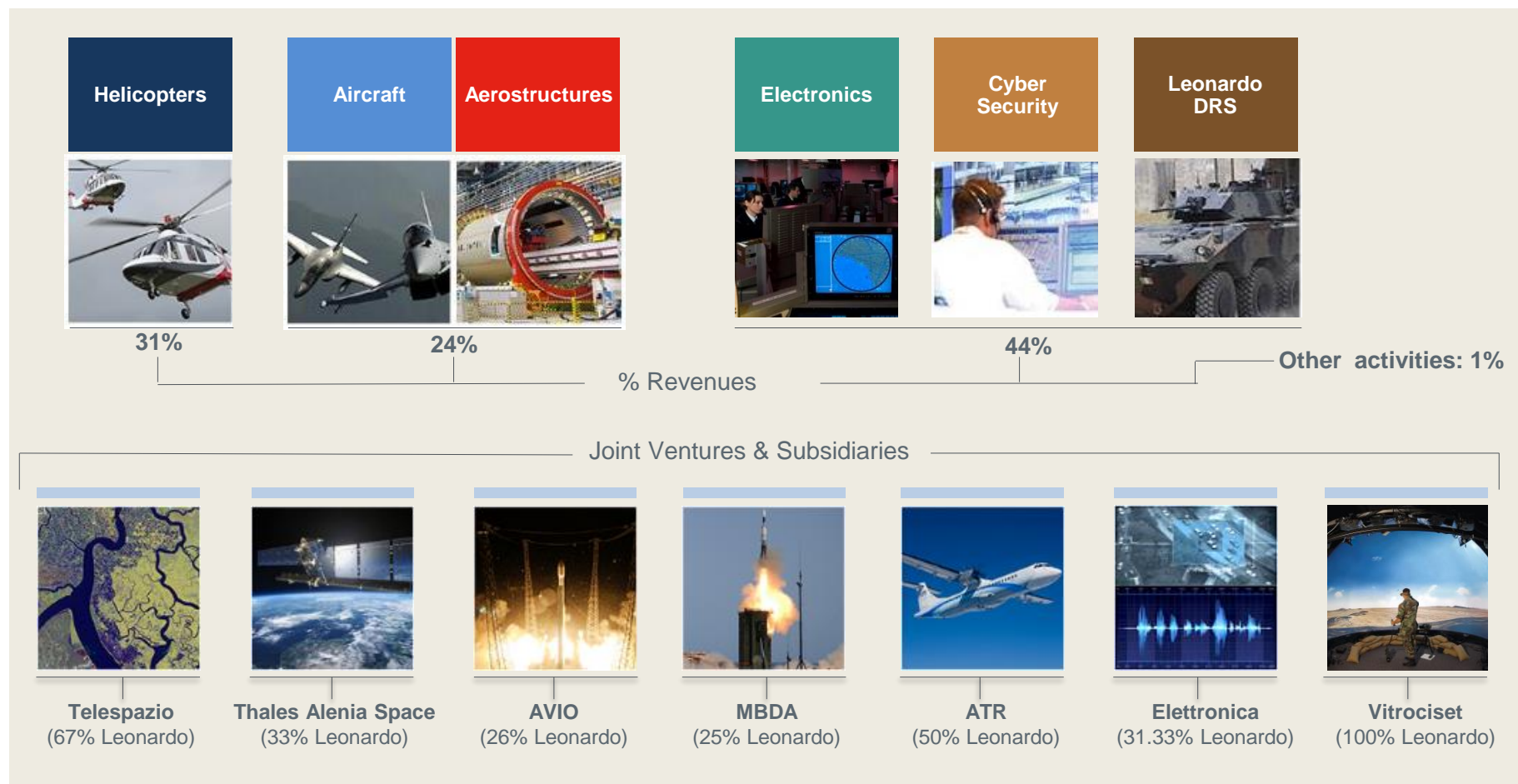


# Global player in High Tech Aerospace, Defence and Security business

2018 REVENUES  
in € bn



15% From Italian market  
85% From international markets





# Strong progress towards Industrial Plan objectives

## Building long term sustainable future

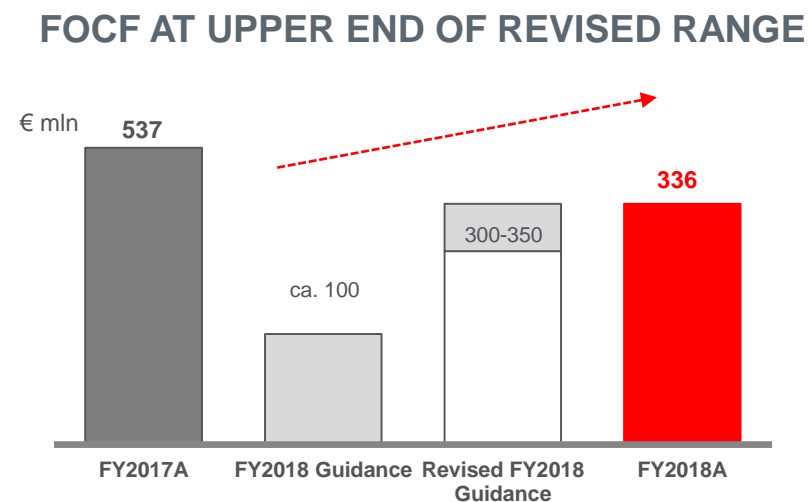
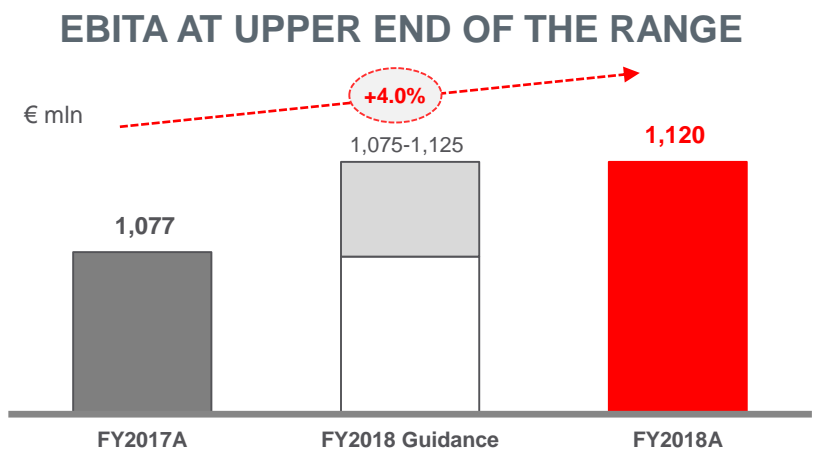
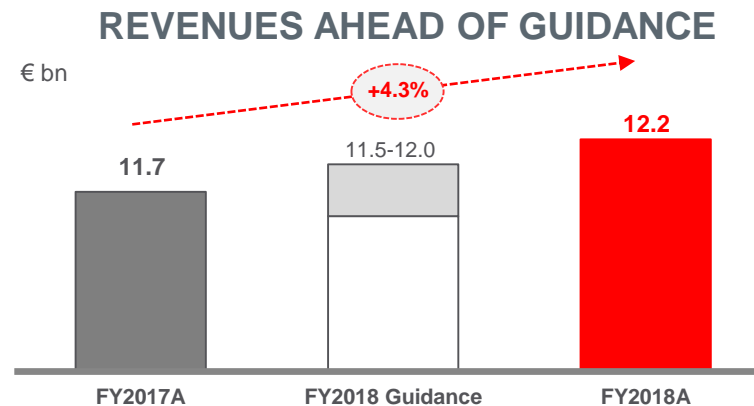
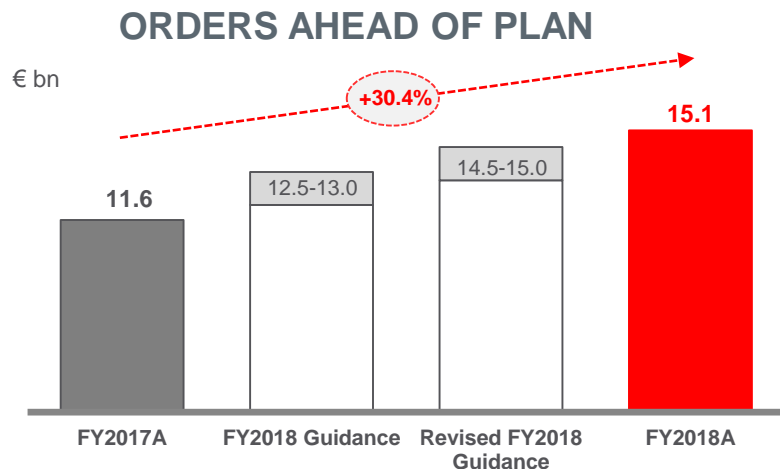
- 2018 targets delivered or exceeded
- Order growth ahead of Industrial Plan, with record backlog
- Strengthened international presence to drive export success
- Profitability to benefit from growth, efficiencies and cost control
- Increasing confidence in profitability and cash generation targets
- Creating a culture of continuous improvement
- 2018-2023 Industrial Plan targets underpinned
- Confirming or exceeding 2017-2022 objectives





# We are tracking ahead of plan

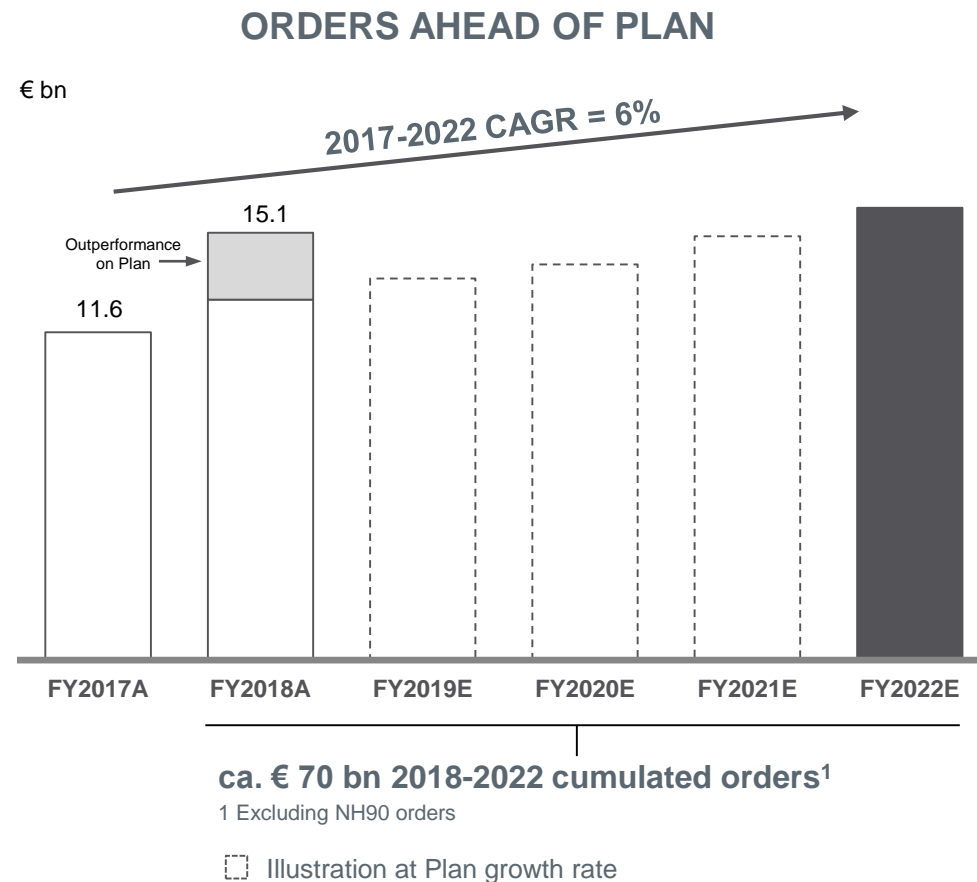
## 2018 Orders and Revenues above Guidance range





# Industrial Plan delivering the growth required for sustainable performance

## 2018 Orders and Revenues above Guidance range



### • Outstanding achievement in 2018 delivered by:

#### ○ Growth ahead of our market:

- Driven by Leonardo DRS, (i.e Mounted Family of Computer Systems and “Throphy” Active Protection Systems)

#### ○ Success in international markets:

- € 3 bn NH90 Qatar contract
- EFA Qatar
- M346 Poland
- NATO Joint Electronic Warfare Core Staff
- Land & Naval systems
- Up to \$ 1.4 bn IDIQ MH-139 contract in US

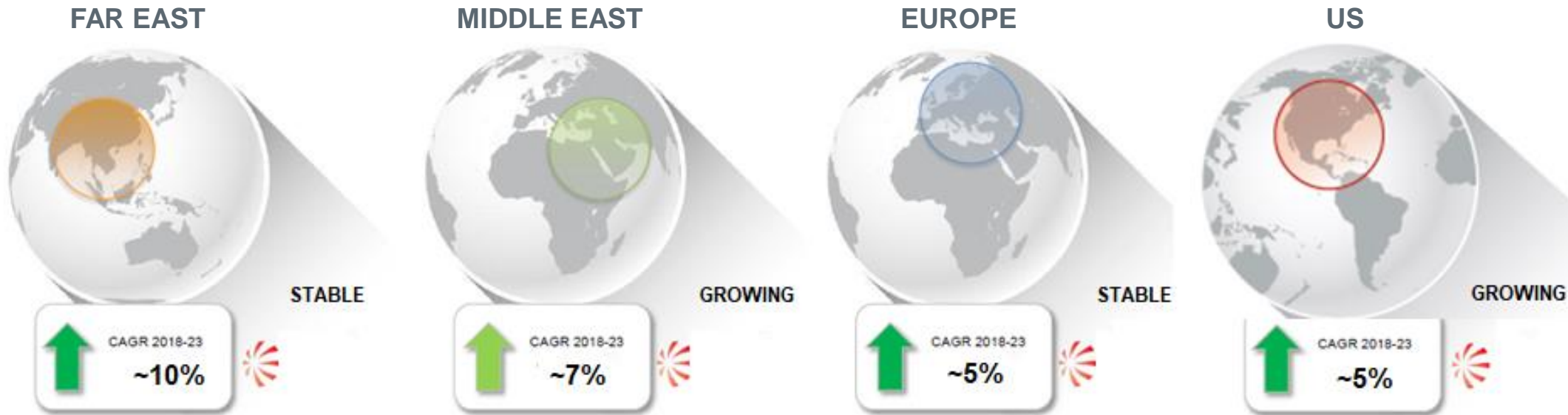
#### ○ Support and services:

- Contract with the UK MoD for the integrated operational support of the Apache
- Aircraft Customer Support & Service



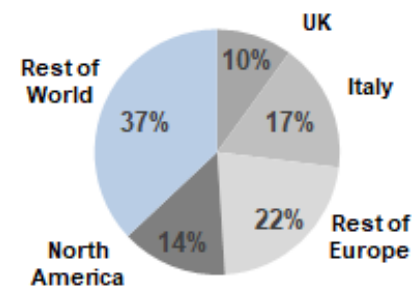
# Growth in international markets

Well positioned in key-high growth markets

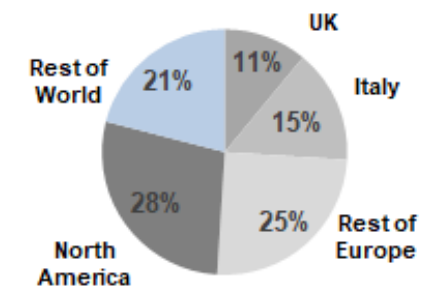


- High-growth markets providing a strong backdrop for our growth plan
- Well balanced worldwide footprint
- Leonardo is expected to address ca. 20% A&D market

WORLDWIDE PRESENCE (FY18 BACKLOG = € 36 BN))

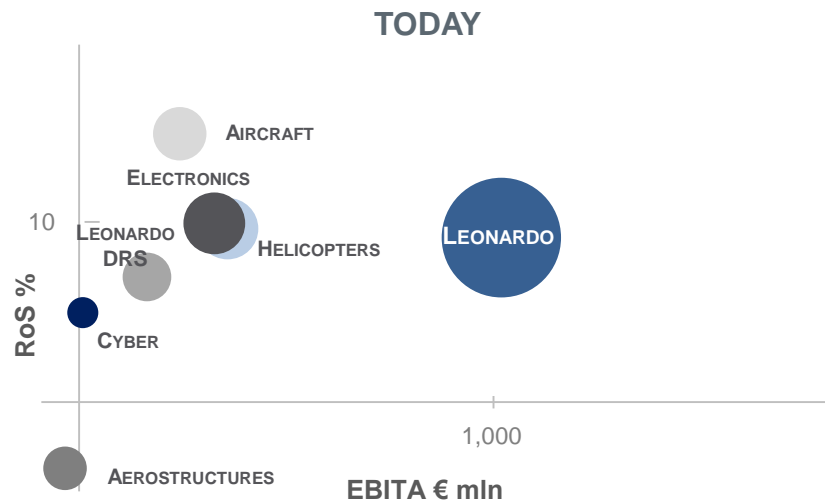


WORLDWIDE PRESENCE (FY18 REVENUES = € 12 BN))



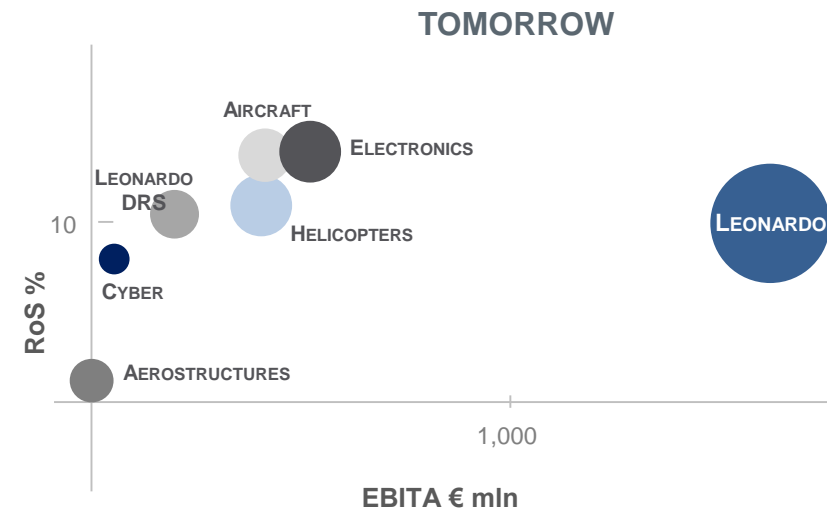


# Profitability to deliver growth benefits to the bottom line



## What we have done...

- **Delivering on cost control initiatives:**
  - € 220 mln annual savings achieved
- **Early retirement plan signed with Italian union:**
  - involving 1,100 employees plus 65 managers
- **Leap 2020 programme to optimise supply chain on track**

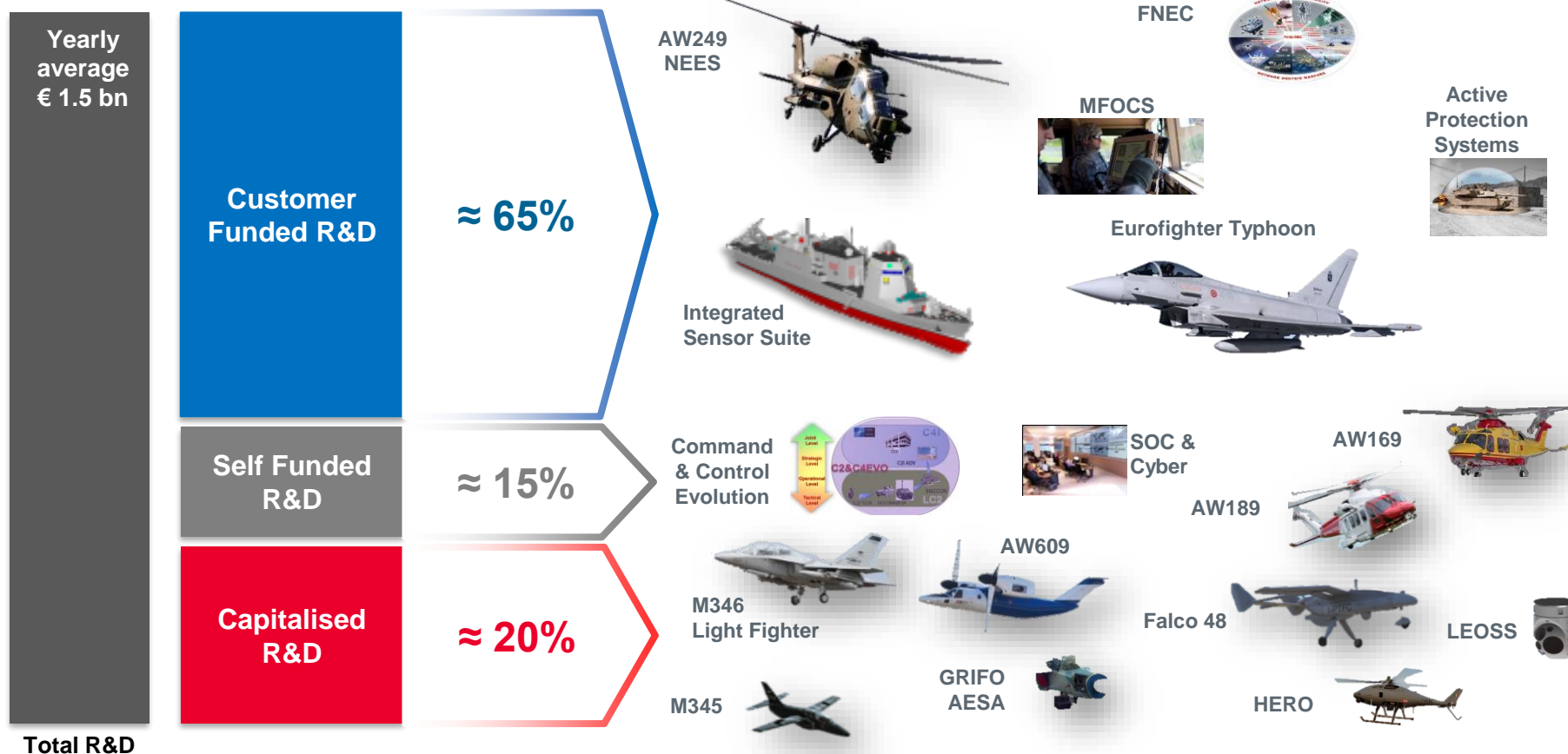


## ...What we are planning to do

- **8-10% EBITA CAGR growth in 2017-2022 at Group level driven by:**
  - Significant step-up in helicopters
  - Continued momentum in Electronics in Europe and Leonardo DRS
  - Strong Aircraft performance offsetting Aerostructures and ATR
  - Benefitting from operational leverage across all businesses



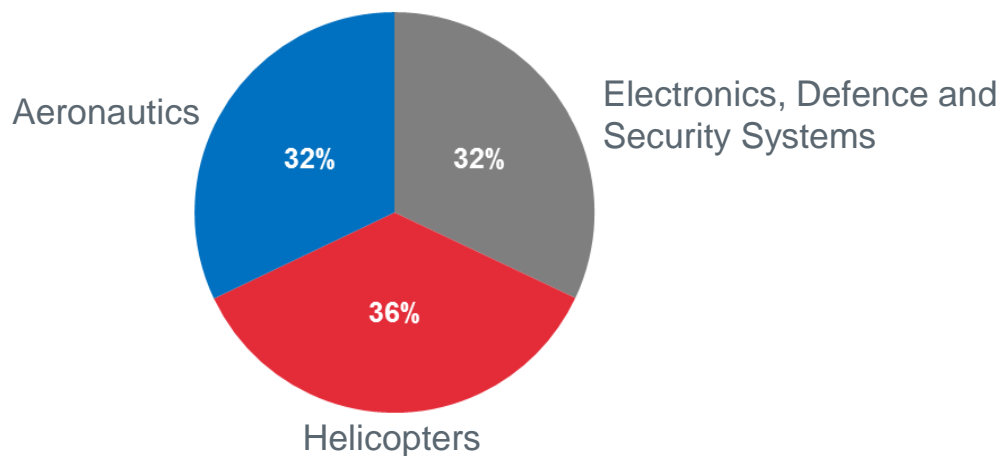
# Leonardo investments as guarantee for the future growth of the business



- Leonardo confirms the strong commitment to invest approximately 12% of revenues in R&D

# Leonardo investments as guarantee for the future growth of the business

## INVESTMENTS 2019-2023



## PRODUCTS & TECHNOLOGIES



- Focus on key products and technologies in order to achieve the target growth and guarantee medium-long term business sustainability
- Investments in security, physical and IT infrastructures in order to preserve the Company's competitiveness

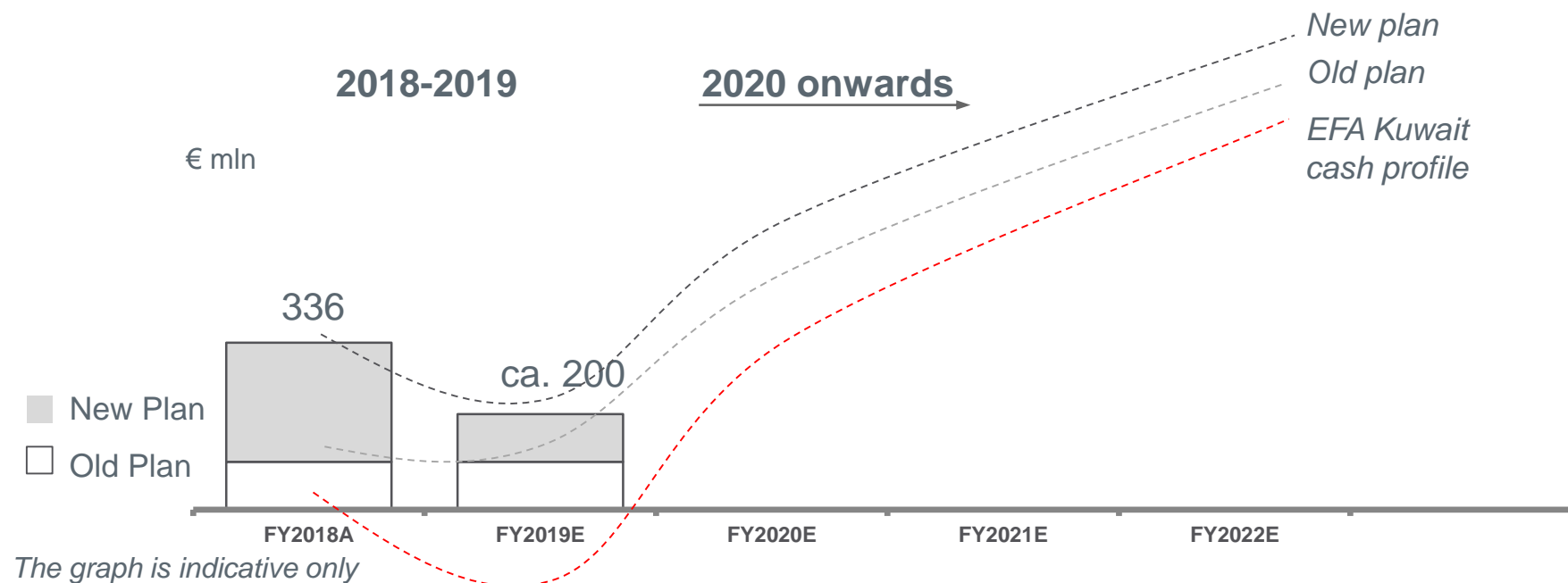


# FOCF higher than old plan, stepping up in 2020

- 2018-2019 FOCF higher than in old plan
- 2019 FOCF reflecting EFA Kuwait cash absorption
- Cash drain due to:
  - Aerostructures underperformance
  - Winding down of contract advances
- Material step up in 2020 FOCF driven by:
  - EFA Kuwait deliveries
  - Improving profitability throughout the Group
- Growing cash flow conversion rate beyond 2019



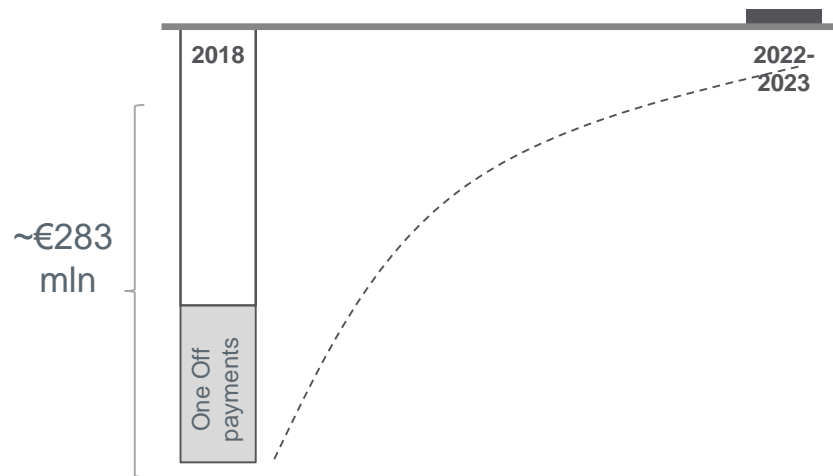
\* Cash flow conversion rate = FOCF / EBITA after cash financial charges and cash taxes





# Aerostructures: still draining cash but clear recovery path defined

- Identified and implementing initiatives aimed at improving industrial performance, recovering profitability and cash generation
- **Clear targets and action plan to reach break-even in terms of operating cash flow by 2022/2023**

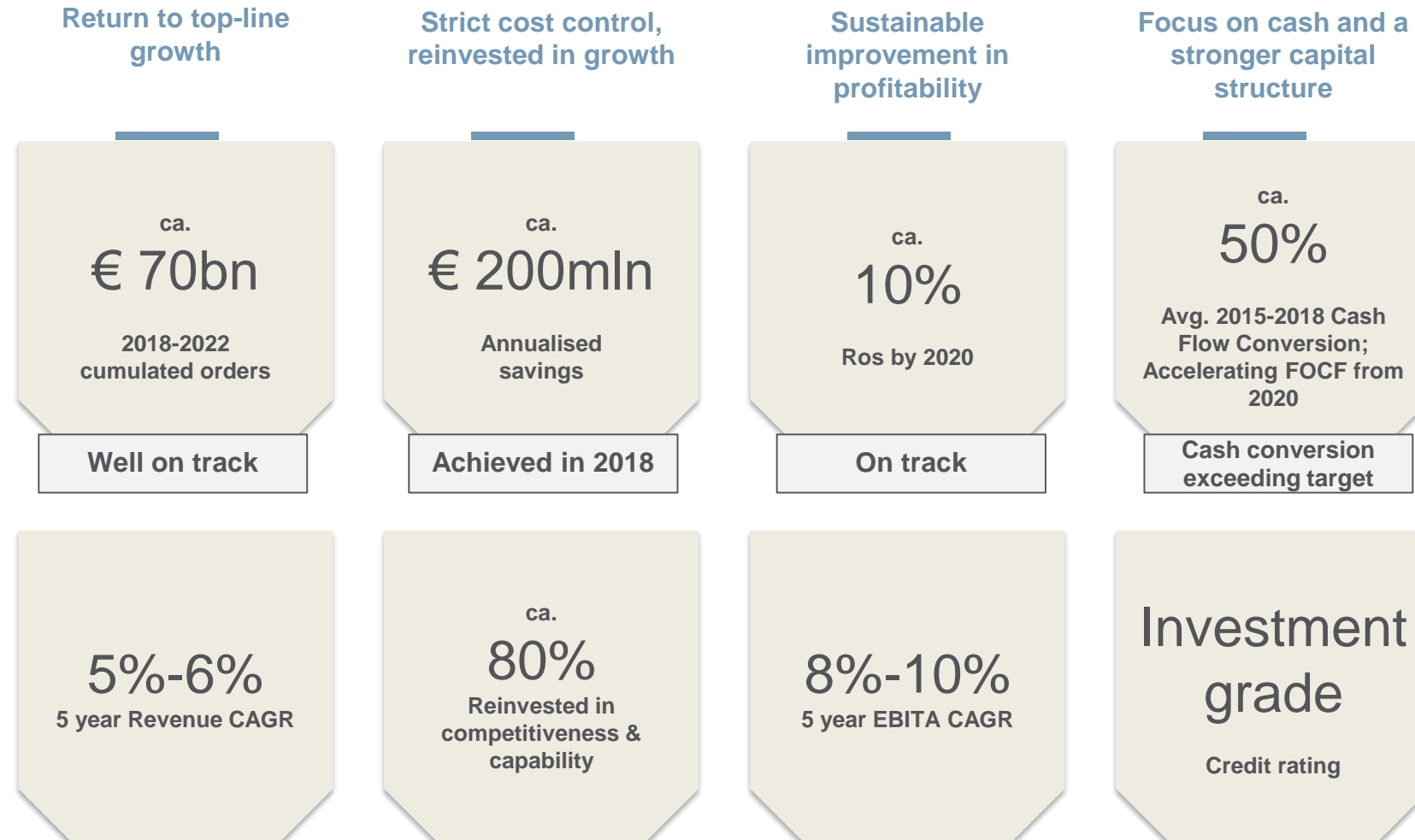


	2018	2019 - onward
<b>One off payments</b>	<ul style="list-style-type: none"> <li>• normalization of payment terms to suppliers &amp; probation costs</li> </ul>	-
<b>B787</b>	<ul style="list-style-type: none"> <li>• customer advances repayment</li> <li>• old claims payment</li> </ul>	<ul style="list-style-type: none"> <li>• reducing as per contract</li> <li>• reducing as per contract</li> <li>• price upward revision as per Global Settlement from 2022 on</li> </ul>
<b>A220</b>	<ul style="list-style-type: none"> <li>• loss making programme</li> <li>• cash out for non quality issues</li> </ul>	<ul style="list-style-type: none"> <li>• reduction of unit production cost by ≈30%</li> <li>• fixing industrial processes</li> <li>• price renegotiation</li> </ul>
<b>Additional Work Packages</b>	-	<ul style="list-style-type: none"> <li>• growing contribution</li> </ul>





# On target to deliver the Industrial Plan communicated in January 2018





# Sustainability as a base of the Industrial Plan

Being able to attract and nurture talents

40%

new hires under 30 on the total hires in 2022

32%

new hires women on the total hires in 2022

Over 100

cumulated hours of training for each employee in the 2018-2022 period

Building a solid and reliable supply chain

LEAP2020

Implementation of Supply Chain Partnership programme by 2020

Group governance and assessment on Conflict Minerals

of 100% of supply chain by 2021

100%

of procurement and supply chain employees trained on ESG topics by 2020

Promoting operational eco-efficiency

-6%

reduction of total water withdrawal by 2020

-7%

reduction of total waste produced by 2020

80%

of employees in sites ISO14001-certified by 2020

Financing a responsible business model

ISO37001

certification of anti-bribery management system

Commercial advisors and sales promoters trained by 2019

Strengthening employees' awareness on whistleblowing



# Execution of sustainability plan to create long-term value

## Governance, reporting and culture

- A sound governance supports the achievement of sustainability targets
- Alignment of the executive pay with sustainability performance strategy
- Disclosure of non-financial information according to international standards
- Training and awareness to embed sustainability in our culture

*The management of economic, environmental and social risks and opportunities creates long-term value, ensuring the robustness of returns*



# Our vision for Leonardo

Strengthening multi-country presence in Aerospace, Defence & Security with growing international presence in the right markets



## Leading in our strengths

- Civil Helicopters
- Defence Electronics
- Training suppliers
- Customer Support



## Driving value in the portfolio

- Strong foothold in fighter
- Leverage economies of scale
- European JVs



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- > **9M 2019 Results**
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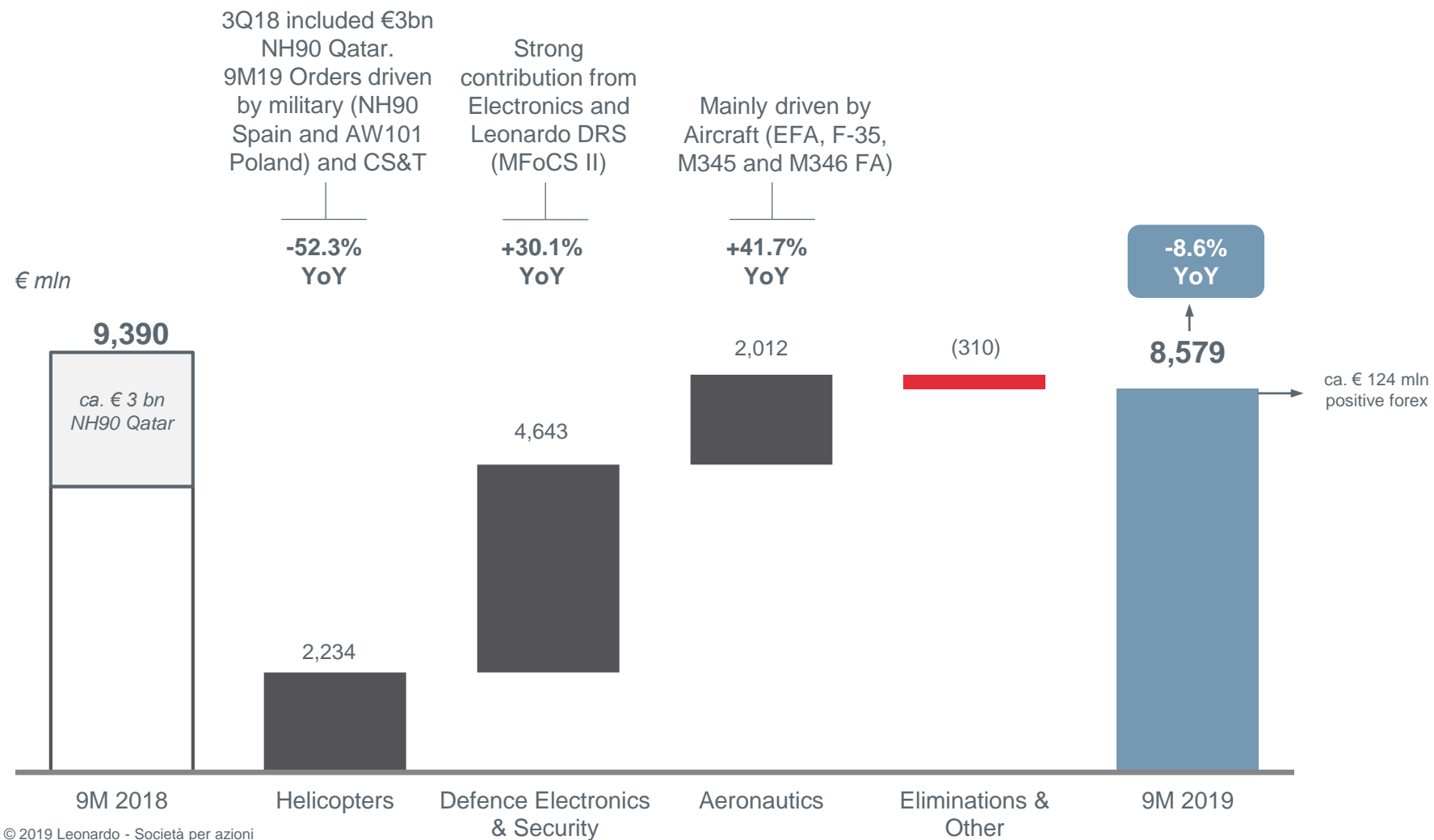
## Solid 9M 2019 performance

- **Successfully driving commercial momentum**
- **Good progress in 3Q/9M**
  - Orders at € 8.6 bn (9M18 included NH90 Qatar for ca. € 3 bn)
  - Revenues up 11% YoY at € 9.1 bn
  - EBITA up 9% YoY at € 686 mln with RoS at 7.5%
  - Net Result up 76.8% at € 467 mln
  - FOCF at € (1.2) bn, in line with usual seasonality
- **All main businesses delivering in line with Plan**
- **2019 Guidance confirmed**
- **Executing on our financial strategy**
- **Building and investing in sustainable future**



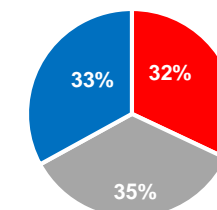
# Order Intake

## Good commercial momentum across the Group



### ORDER BACKLOG

9M 2019 ca. € 36 bn

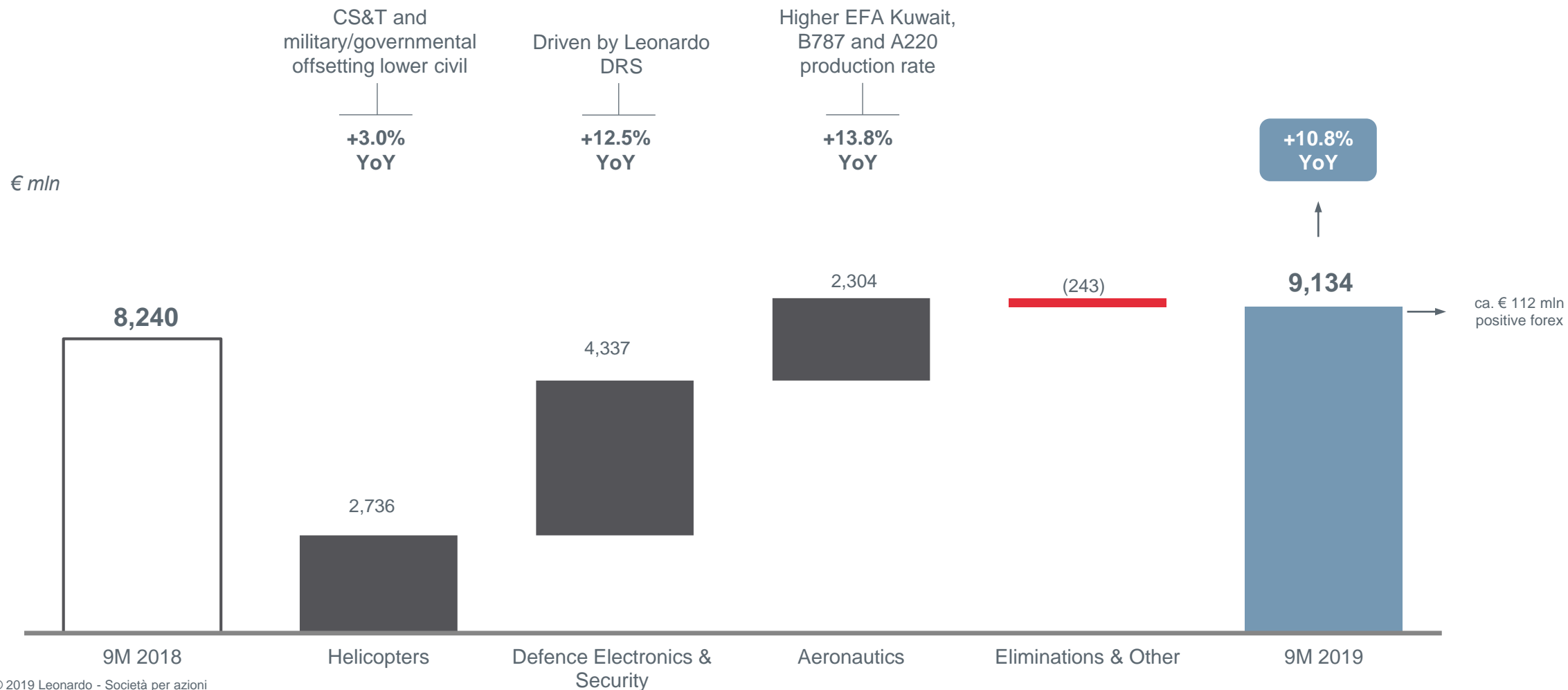


- Helicopters
- Defence Electronics & Security
- Aeronautics



# Revenues

Positive momentum mainly in Defence Electronics & Security and Aeronautics

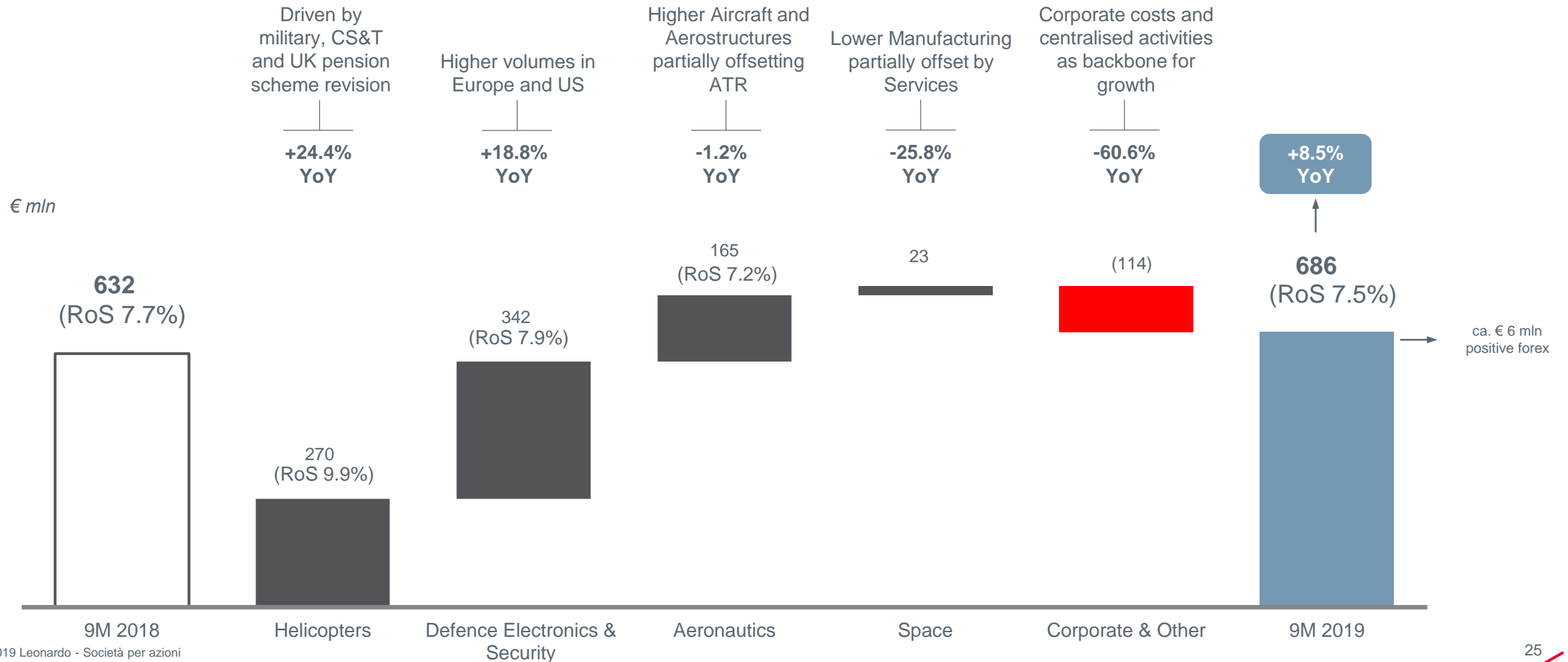






# EBITA and Profitability

Higher performance across all businesses, with lower contribution from Space Manufacturing and ATR

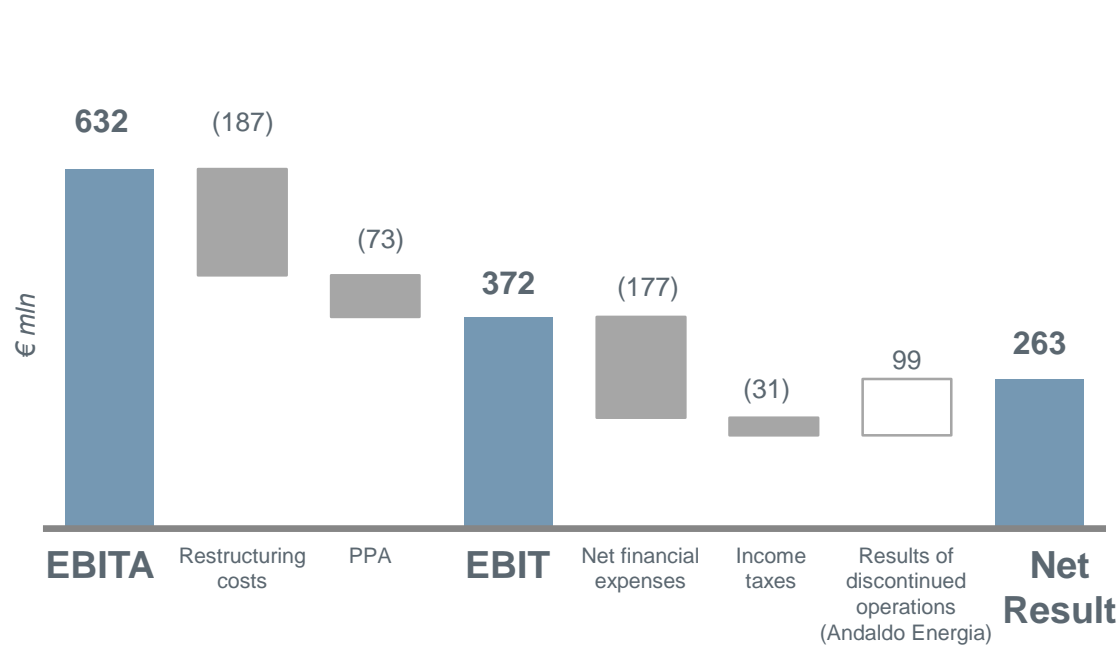




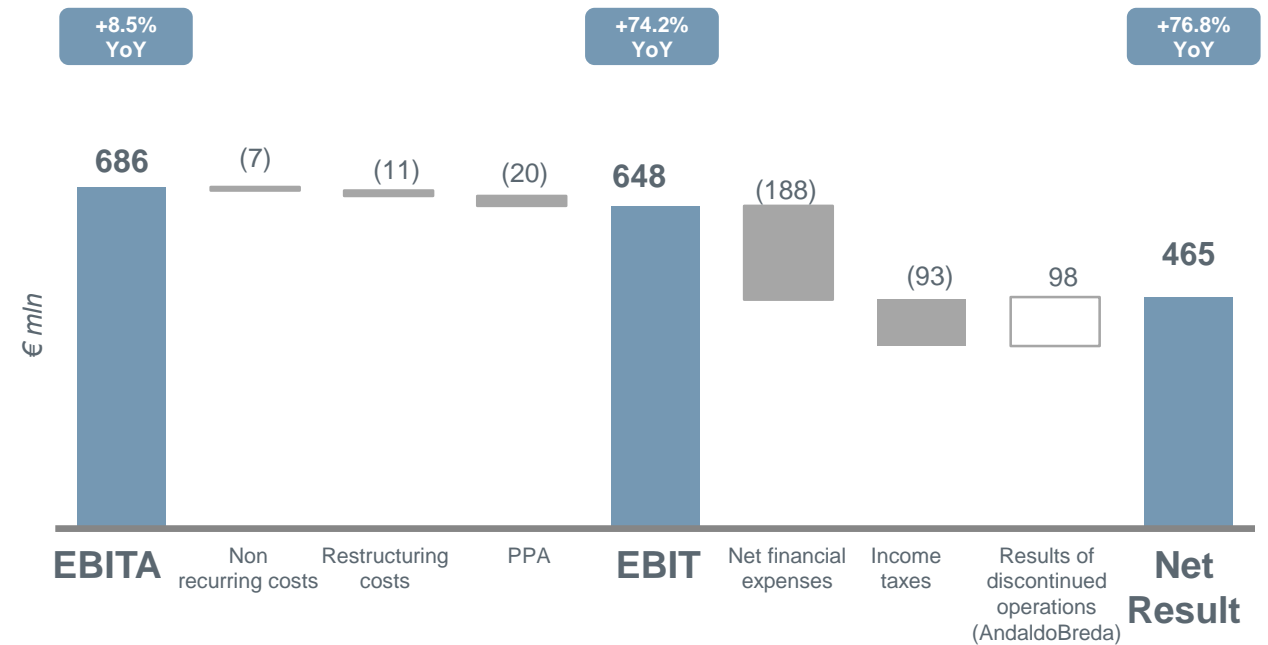
# Net Result

Below the line benefitting from lower restructuring costs and PPA

9M 2018



9M 2019



- EBIT up 74.2%, driven by lower restructuring costs and lower PPA
- Net Result benefitting from the release of the risk provision set against guarantees given upon disposal of transportation business of AnsaldoBreda (2Q19)



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# Helicopters

Well positioned to capture growth opportunities

€ mln	3Q 2018	3Q 2019	% Change	9M 2018	9M 2019	% Change	FY 2018
Orders	3,356	527	-84.3%	4,685	2,234	-52.3%	6,208
Revenues	826	841	+1.8%	2,656	2,736	+3.0%	3,810
EBITA	64	70	+9.4%	217	270	+24.3%	359
RoS	7.7%	8.3%	+0.6p.p.	8.2%	9.9%	+1.7p.p.	9.4%

## 2019 OUTLOOK

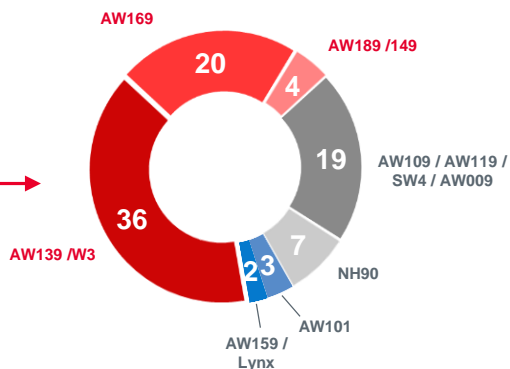
- Well placed in the most attractive segments
- Profitability strengthening: 9M2019 benefitted from higher military and customer support contribution and agreed changes to UK pension scheme.
- Back to double digit profitability by 2020
- Continuing optimization of industrial processes to improve competitiveness



# Helicopters

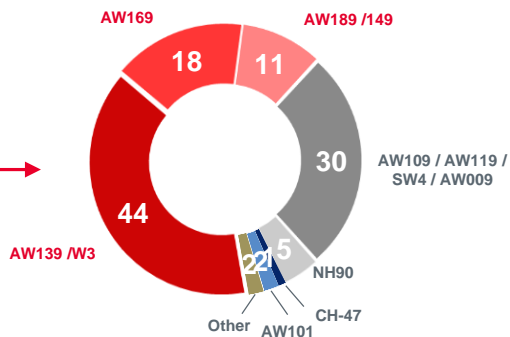
## DELIVERIES BY PROGRAMME

9M2019 = 91 new units



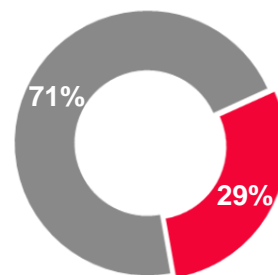
AW FAMILY

9M2018 = 113 new units

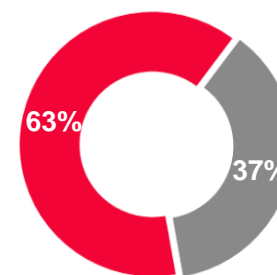


## REVENUES BY CUSTOMER/SEGMENT

9M2019

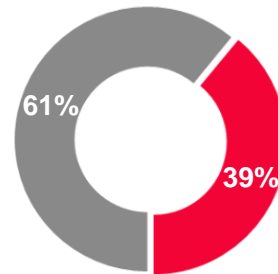


■ Civil ■ Military/Governmental

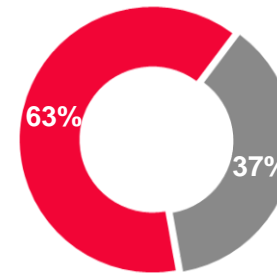


■ OE ■ CS&T/Other

9M2018



■ Civil ■ Military/Governmental



■ OE ■ CS&T/Other



# Defence Electronics & Security

## Growing Revenues and Profitability

### ELECTRONICS - EU

	3Q 2018	3Q 2019	% Change	9M 2018	9M 2019	% Change	FY 2018
€ mln							
Orders	620	652	+5.2%	1,950	2,660	+36.4%	4,408
Revenues	843	867	+2.8%	2,587	2,738	+5.8%	4,010
EBITA	50	66	+32.0%	218	238	+9.6%	394
RoS	+5.9%	+7.6%	+1.7p.p.	8.4%	8.7%	+0.3p.p.	9.8%

### LEONARDO DRS

	3Q 2018	3Q 2019	% Change	9M 2018	9M 2019	% Change	FY 2018
\$ mln							
Orders	700	676	-3.4%	1,950	2,253	+15.5%	2,880
Revenues	582	687	+18.0%	1,541	1,816	+17.8%	2,339
EBITA	38	53	+39.5%	84	116	+38.1%	151
RoS	6.5%	7.7%	+1.2p.p.	5.5%	6.4%	+0.9p.p.	6.5%

Avg. exchange rate €/€ @ 1.12371 in 9M2019  
 Avg. exchange rate €/€ @ 1.19494 in 9M2018

### 2019 OUTLOOK

- 2019 revenue growth
- Profitability improvement
- Leonardo DRS to continue its strong performance
- Leonardo DRS Soft Backlog accounting for > 3x current Backlog (ca. \$ 3 bn)



# Aeronautics

## Solid Aircraft performance offsetting lower ATR

€ mln	3Q 2018	3Q 2019	% Change	9M 2018	9M 2019	% Change	FY 2018
Orders	291	681	+134.0%	1,420	2,012	+41.7%	2,569
Revenues	599	915	+52.8%	2,025	2,304	+13.8%	2,896
EBITA	44	44	+0.0%	167	165	-1.2%	328
RoS	7.3%	4.8%	-2.5p.p.	8.2%	7.2%	-1.0p.p.	11.3%

### 2019 OUTLOOK

- Higher revenues compared to 2018
  - Aircraft production increase (especially EFA Kuwait)
- Good levels of profitability supported by
  - Solid Aircraft performance
  - First signs of recovery in Aerostructures benefitting from efficiency improvement in line with expectations
- Softness in ATR expected to drive JV lower profitability YoY



# Space

## Pressure on Manufacturing

€ mln

	3Q 2018	3Q 2019	% Change	9M 2018	9M 2019	% Change	FY 2018
EBITA	10	10	+0.0%	31	23	-25.8%	58

### 2019 OUTLOOK

- Continued downturn in telecommunication market expected to affect Manufacturing activities





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- > Recent achievements
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- > Sector Results
- > **Focus on Businesses**
  - **Helicopters: delivering on promises**
  - Electronics
  - Leonardo DRS
  - Aircraft



## On track for sustainable growth

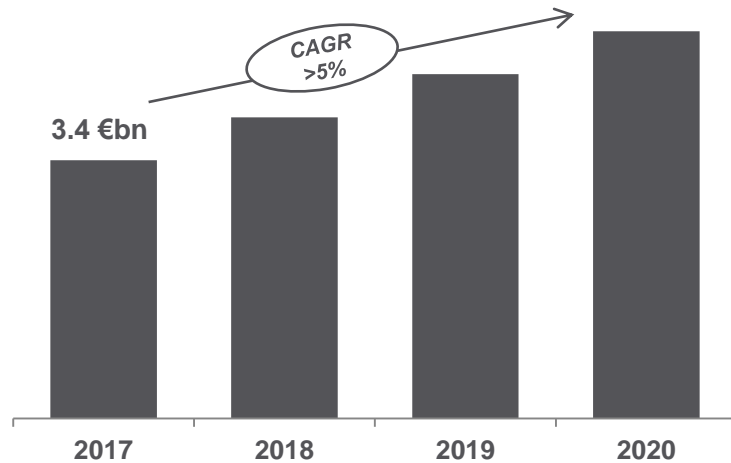
- Successfully **achieving our Industrial Plan targets**, notwithstanding challenging civil market
- Performing **pretty well in Military** market
- Weakening civil market, **keeping our leadership position** (especially 3-10 tonne)
- **Stronger offer for Customer Support & Training** and digitalization
- **Targeted investments** in our future products, services and technologies
- Strengthening further our **commitment to Safety**



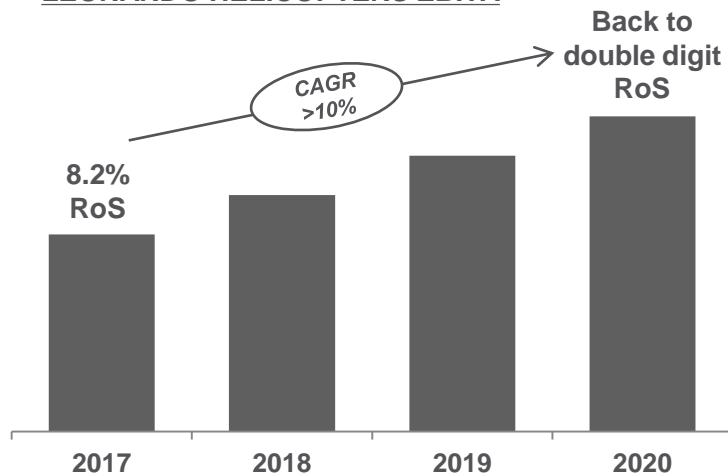


# Fully focused on Industrial Plan Objectives: returning to sustainable growth

LEONARDO HELICOPTERS REVENUES



LEONARDO HELICOPTERS EBITA



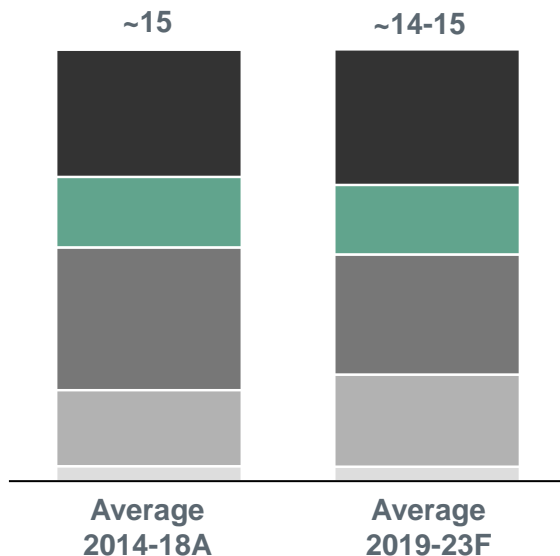
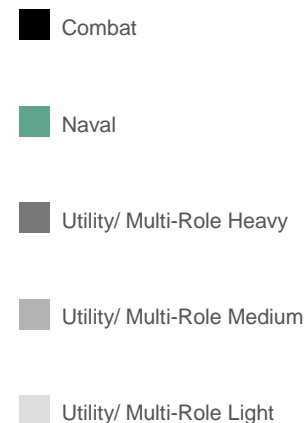
- **Committed to top line increase, 2017-2020 CAGR  $\geq$  5%**
  - Military and Customer Support & Training ahead of schedule...
  - ...more than compensating current civil market challenges
  - New commercial initiatives to sustain civil sales
- **Double digit profitability by 2020 confirmed**
  - Reaping the benefits of launched actions
  - Profitability recovery slightly faster than planned
  - Cash conversion improving but working capital level still high
- **Increasing our international Customers base** to reduce risk and maximise geographical reach



# Attractive military market supported by new opportunities

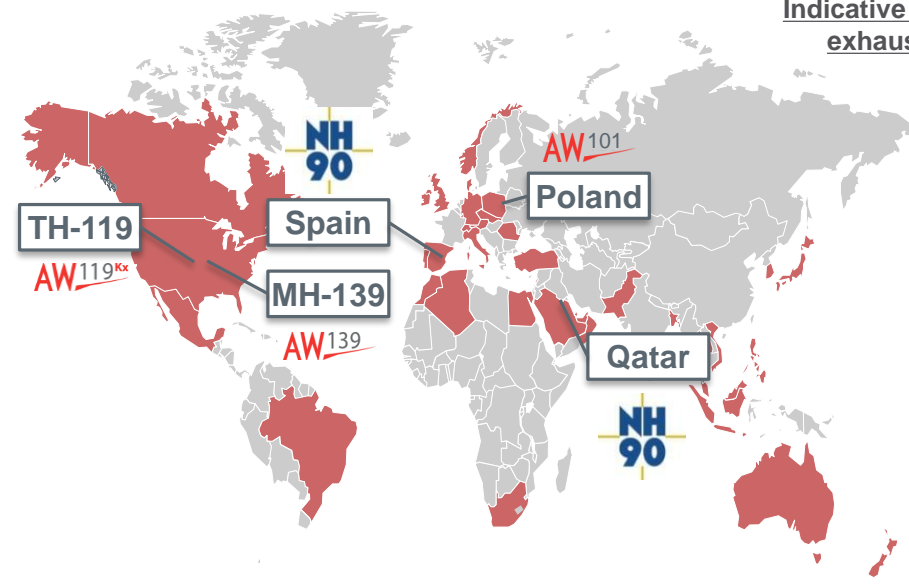
## GLOBAL MILITARY MARKET

Total market value \$  
bn per year



## FOCUSED EFFORT ON KEY GEOGRAPHIES

Indicative and not  
exhaustive



- Opportunistic market, **substantially flat in the next five years:**

- New procurement cycles launched in specific countries
- Need of replacing aging fleets
- Expected increasing importance of **military variant of dual use helicopters**, especially for multirole segment

- Leonardo addressable market **~40%**

- We outperformed the **Military** market thanks to focused sales effort:

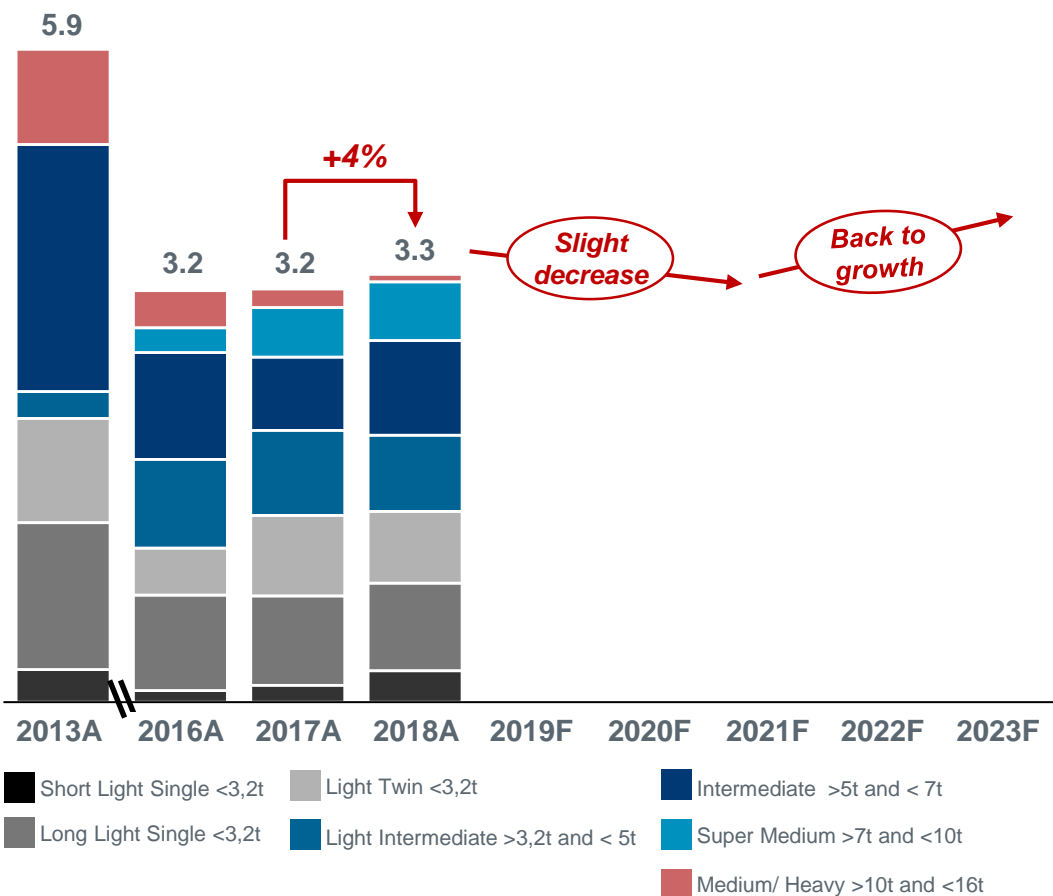
- Leveraging on **competitive dual use and specialized platforms**
- Consolidating the current Customers base and penetrating **new geographies**
- Selected **cooperative efforts**



# Civil Market reducing pace, we remain leader

## CIVIL HELICOPTERS MARKET EVOLUTION

Market Value \$ bn



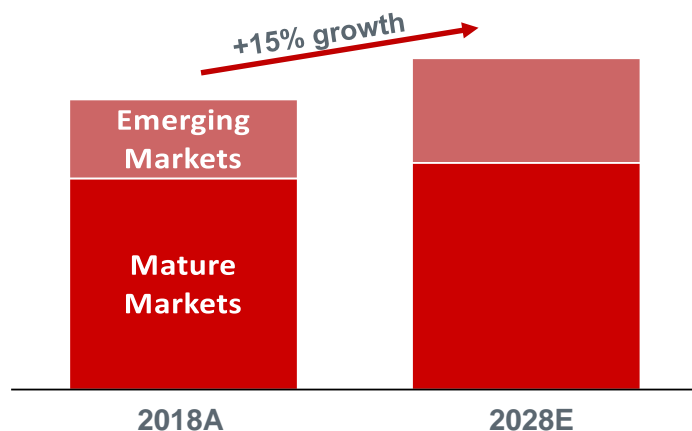
- Civil market slightly decreasing trend in 2019-21
  - Uncertain macro economic situation
  - Operating lessors financial issues
  - Difficulties of some large operators with knock-on effect on other operators
- Market expected back to growth from ~2022
  - Intermediate class main growth driver
  - EU and US by far the most important markets, China fastest pace
- We remain very well positioned
  - All our helicopters are **continuing to fly** (flight hours constantly increasing)
  - Almost the only OEM that has **performed sales in the O&G segment**
  - **Clear leadership in the twin engine**
  - **Delivered 1000<sup>th</sup> AW139** in Sept '19



# Customer Support & Training is a priority business in a growing market

## MARKET

In service fleet evolution, # Helicopters



Maintenance & Support Services market trend

Civil Outlook (CAGR '18-'28)

~4%

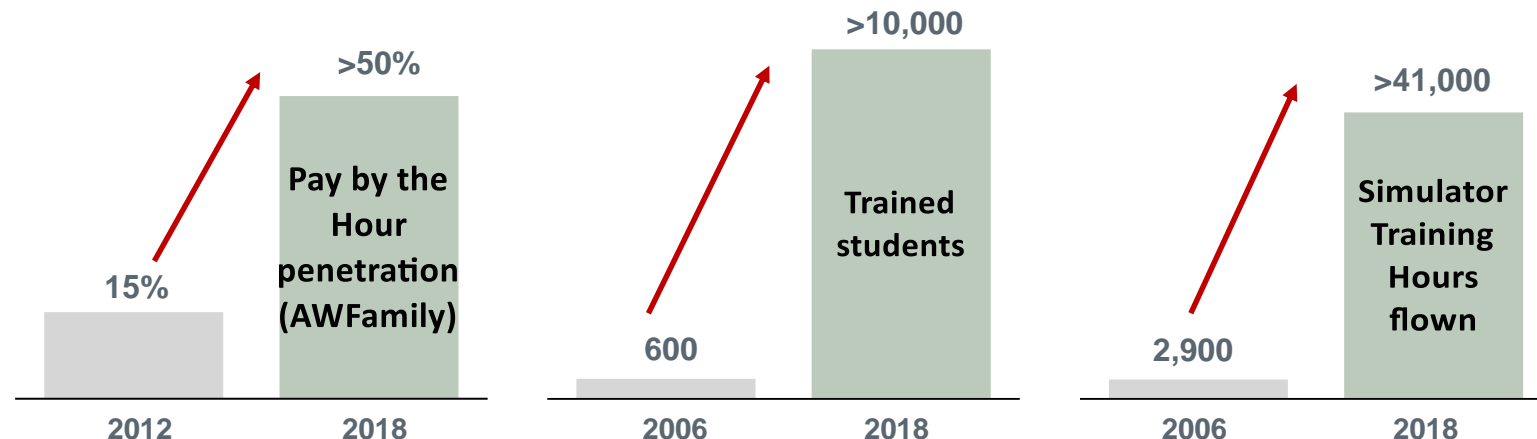


Military Outlook (CAGR '18-'28)

~2%



## LEONARDO



### • Priority business:

- **Steadily growing business**, resilient to market fluctuations
- Driven by our **growing fleet**, **higher flight hours per helicopter**, **wider service portfolio**
- High impact on **Customers satisfaction and retention**
- **Mission effectiveness and safety**

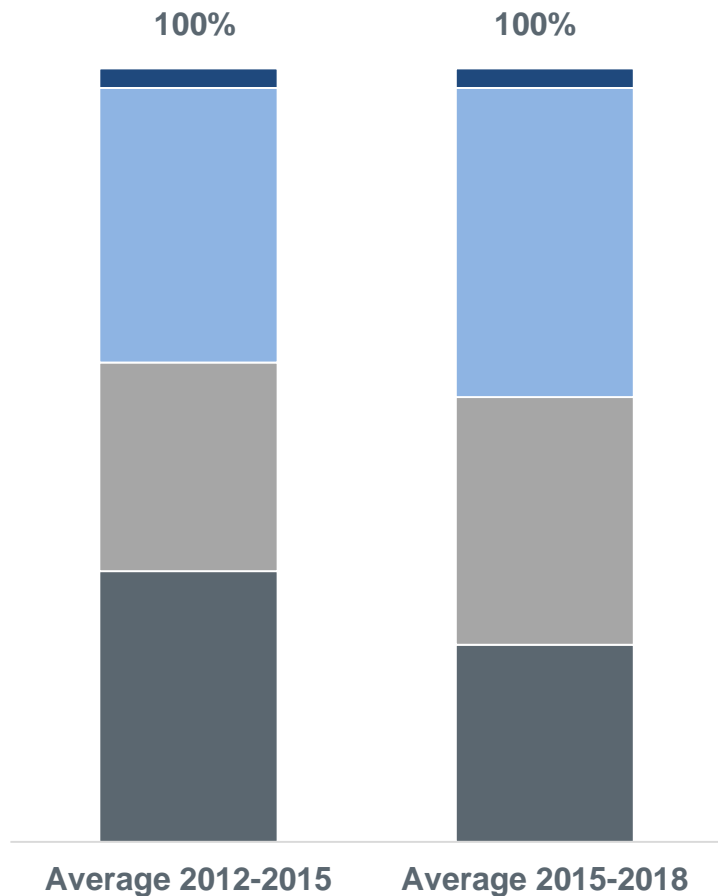
### • Key investment area:

- **Innovative digital services** to increase Customers' service level and value generation
- **Advanced services** to maximize fleet availability
- Global footprint and **customer proximity**
- **Worldwide logistics** to guarantee next day parts delivery to Regional Customers

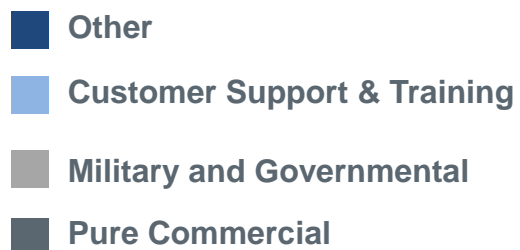


# Balanced orders across Commercial, Military and Customer Support & Training

DIRECTIONAL\*



- **Balanced volumes across the 3 core segment:** Commercial, Military & Governmental, Customer Support & Training
- Military & Governmental and Customer Support & Training **offsetting lower Commercial volumes**



\* Purely directional data

# Investing in innovative products and disruptive technologies

Tilt Rotors



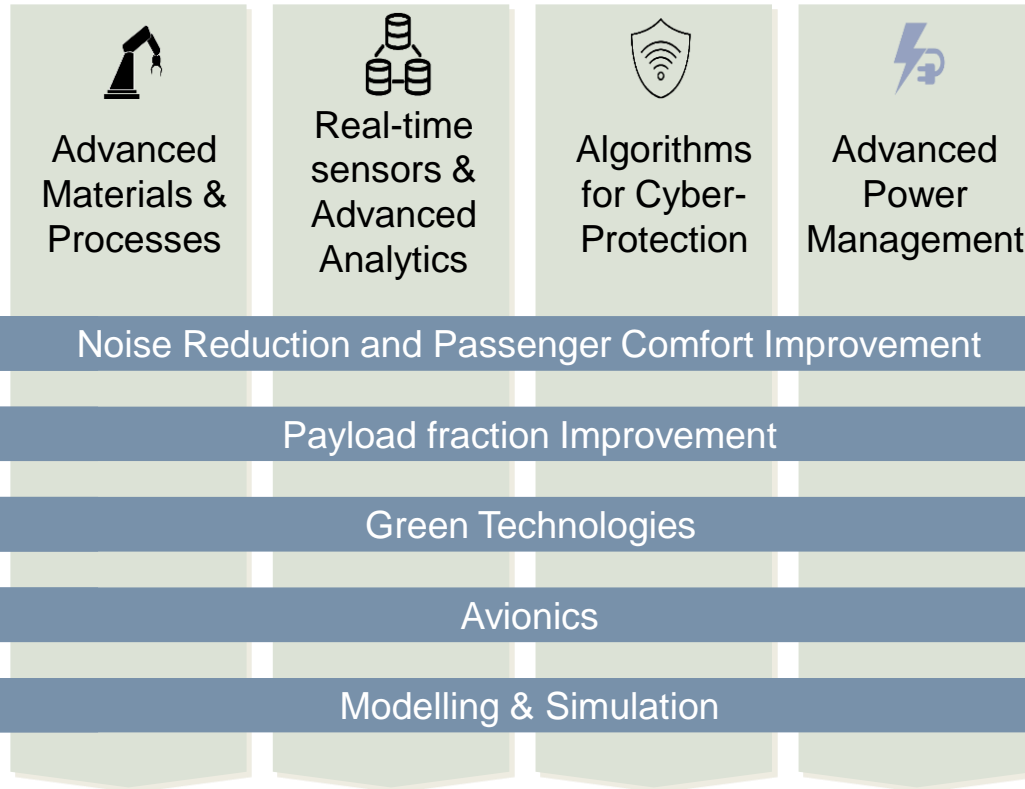
RUAV



Helicopters disruptive technologies



Tilt Rotors, RUAV and helicopters disruptive technologies introducing a step change in mission capabilities to better respond to current and new operational needs

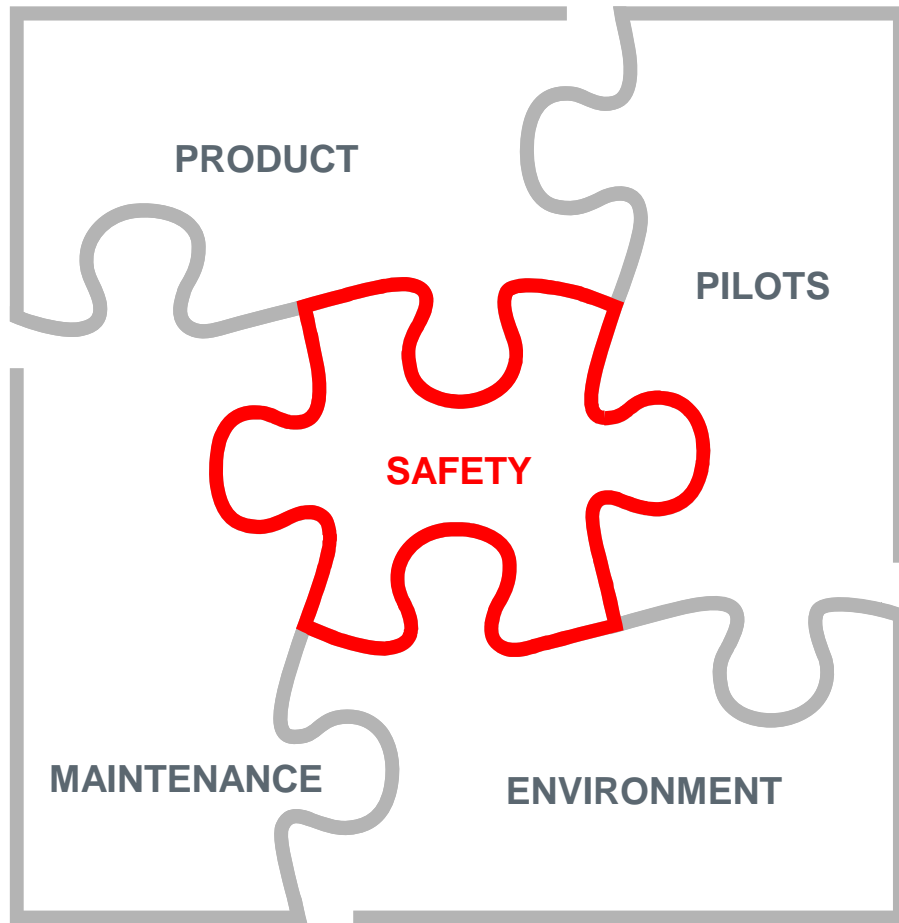


Transversal technologies and helicopters-focused technologies are the key pillar to sustain long term competitive advantage





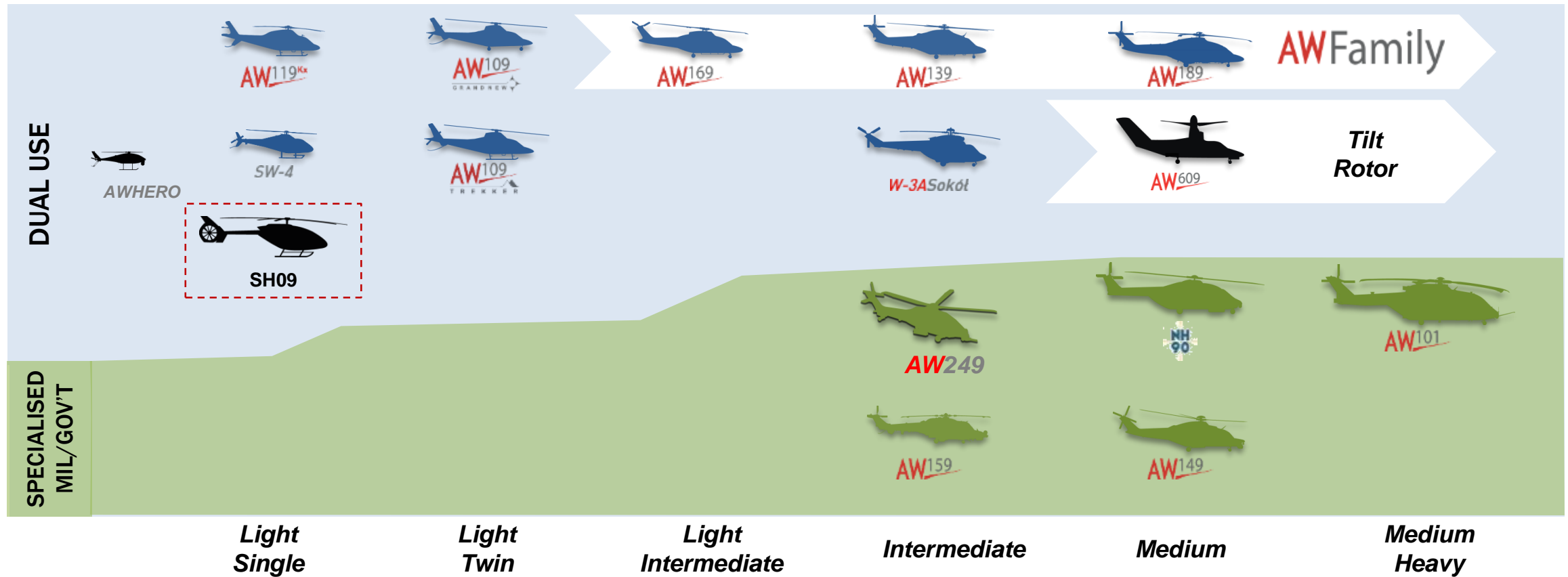
## Safety is a core Company value



- Strongly committed towards **continuous improving our Safety**
- We look at **helicopter as a “system”**, not only as a platform
- **New “Safety Systems Governance”** in place
- Focus on **state of the art processes, products and services...**
- ... leveraging on internal **“network of safety partners”** and collaborating with external **“Safety Stakeholders”**



# SH09 perfect fit for our state of the art product range...



...offering opportunities for future technological developments and cross-fertilization

## Increasing position in the US domestic market

- **Two key orders from US DoD in the last 18 months**
  - **TH-119 for US Navy, Leonardo Prime Contractor** for the first time  
(130 helicopters + support equipment for ~650 M\$)
  - **MH-139 for US Air Force**  
(84 helicopters + training & support for ~1.4 B\$)
- Our **US fleet doubled in 10 years**
- ~250 M€ revenues from US customers in 2018
- Built and delivered the **300<sup>th</sup> AW139** from our **Philadelphia** facility





# Agenda

- > Recent achievements
- > Executing the Industrial Plan
- > 9M 2019 Results
- > Sector Results
- > **Focus on Businesses**
  - Helicopters: delivering on promises
  - **Electronics: a gem in the crown**
  - Leonardo DRS
  - Aircraft



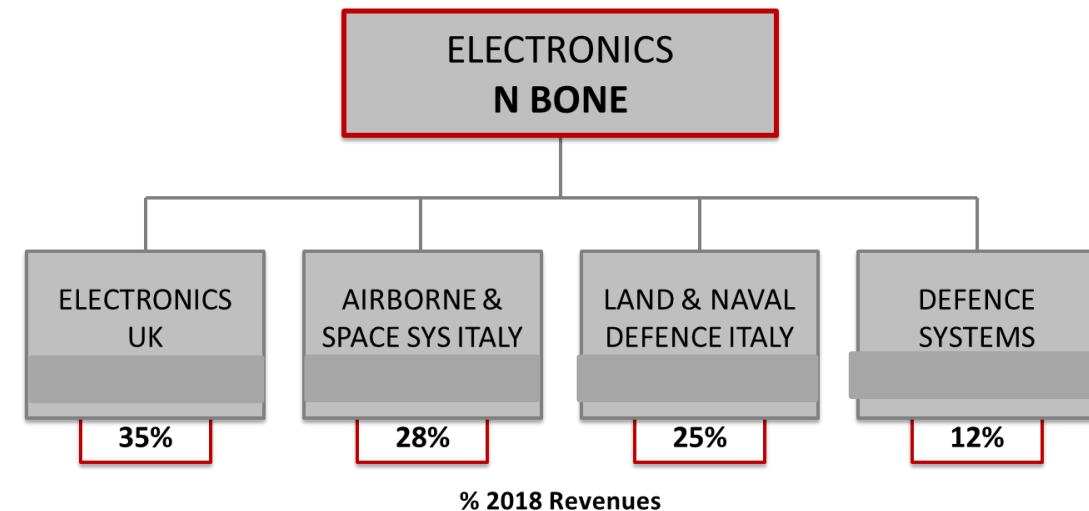
# Key messages

- **A bigger Division, addressing the largest part of the A&D market**
  - **Bringing Business Units together to make them stronger, through**
    - Internationalisation
    - Focus on performance
    - Product Development Synergies
  - **High quality businesses with real momentum**
  - **Delivering on promises to execute to schedule**
  - **Significant opportunity ahead**
    - Double digit profitability
    - Cash conversion well above Group average
    - CAGR in excess of market trend
    - Delivering long term sustainable growth
- **Focus on performance**
  - **Internationalisation**
  - **US Market**
  - **Sustainable Growth**



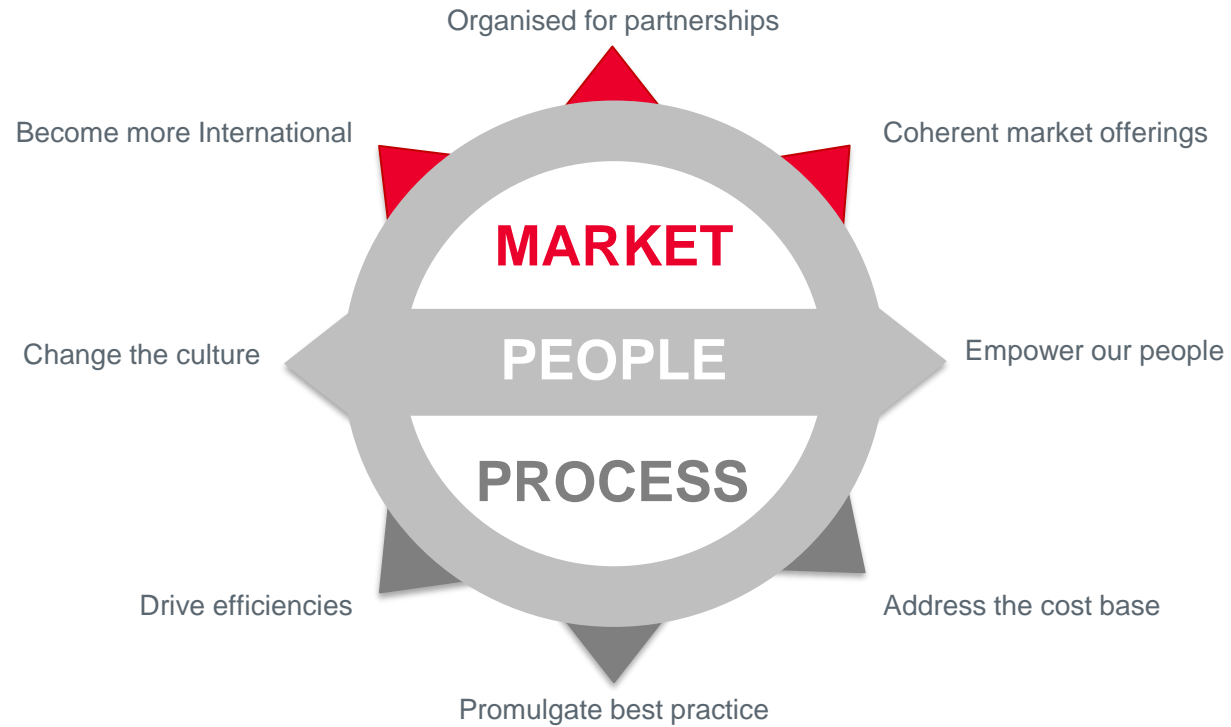
# One Electronics Division within One Leonardo

- On 1<sup>st</sup> February 2019 Leonardo creates a new Electronics Division, which brings together the former
  - Airborne and Space Systems Division
  - Land and Naval Defence Electronics Division
  - Defence Systems Division
  - Automation Systems and Traffic Control Systems Lines of Business (both formerly under Security and Information Systems Division)
- Automation managed separately
  - Long term strategic direction
  - Execution issues to be addressed
- Cyber outside division – specific focus area
- Vitrociset added to perimeter
- Addressed historical inconsistencies
  - E.g. air traffic control
- Created the right structure to enhance commercial performance





# How we are going to do it...





# Transition Plan to be accomplished over the medium term

## 15 WORKSTREAMS CREATED (WS)

- Two WS are Turnaround of 2 lines of business
- Four WS relate Engineering including Research and Development
- One WS in Marketing and Sales
- Four WS in Operations and Procurement
- One WS in UK Cost Efficiency
- Two WS in People and Structure and Culture
- One WS for Information & Technology





# Turnaround

## AUTOMATION AS WAS

- Good Technology
- Able to compete in the market
- Poor Execution
- Inadequate disciplines
- Skilled resource shortage

## TRAFFIC CONTROL SYSTEMS NOW

- Able to complete in the market
- Competitive Technology
- Delivery on time poor
- Customer support inadequate
- Organised on market structure

## FUTURE AUTOMATION

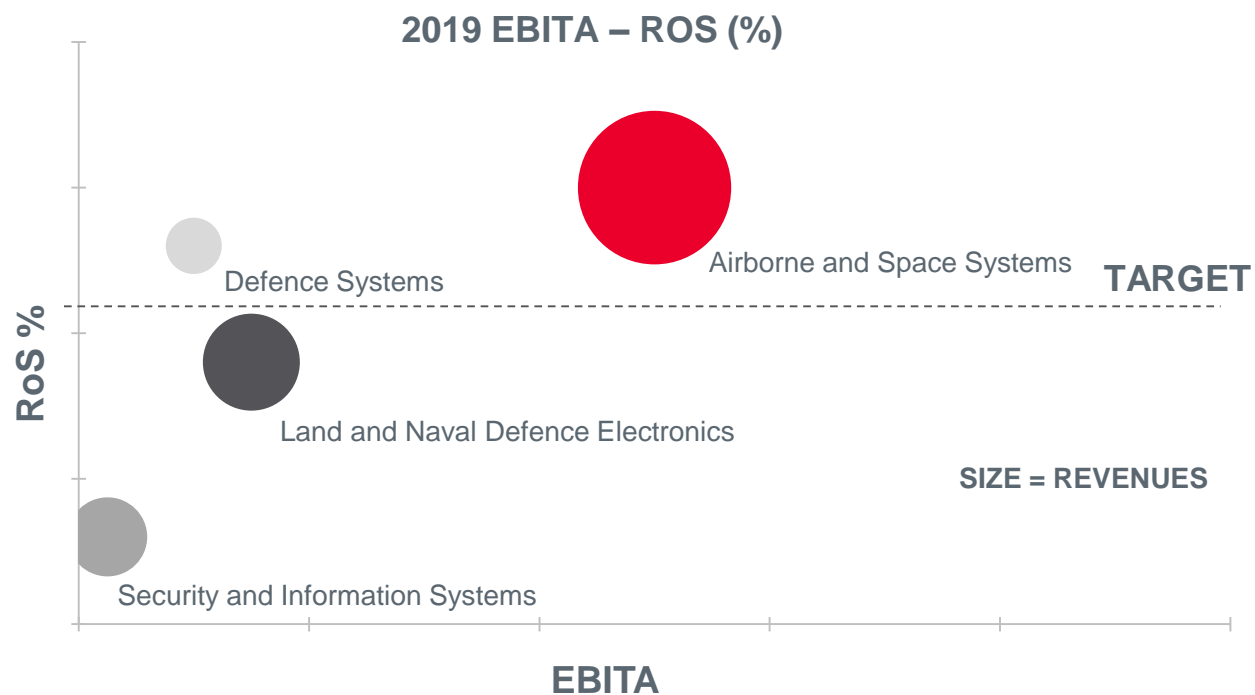
- New Structure
- Integrated Project Team
- Configuration Control
- Account management principles
- Reviewing partnership models

## FUTURE TRAFFIC CONTROL SYSTEMS

- Embedded into Land & Naval Business Unit
- Common Radar development team created between Naval/Air Defence Lines of Business and TCS
- Investing in production for support
- Account management principles
- Reviewing Strategic Market position

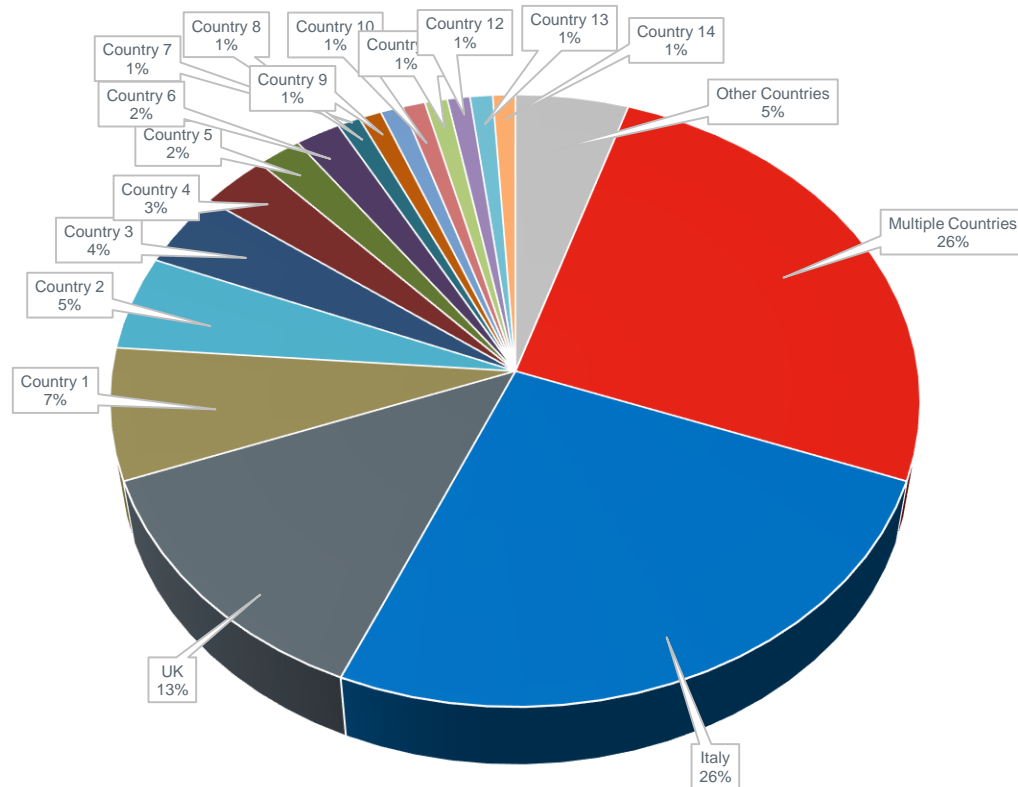


# Our path to double digit profitability...





## Diversity through internationalisation

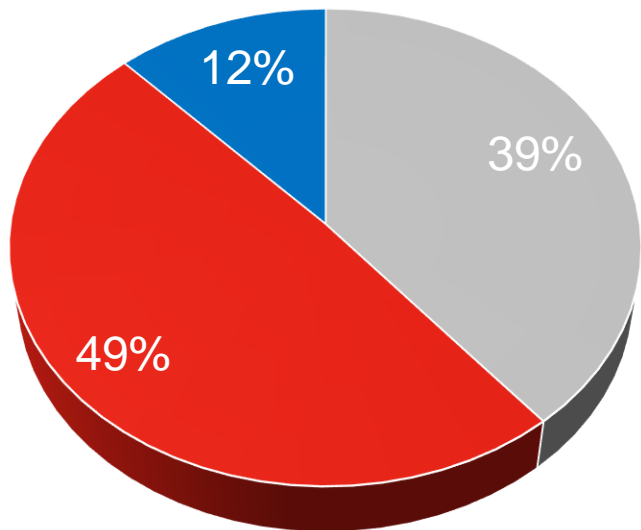


- In 2019, the Division is forecasting to take around 800 new contracts, with 90% of these being less than €10Mln in value
- More than 3500 projects and prospects are managed across the Division at any time
- 39% of Orders in 2019 are in our Italy & UK Domestic Markets
- In 2019, the Middle East is our largest export region at ~17% of order intake; Qatar is our largest customer, followed by Saudi Arabia, Kuwait and the UAE
- Central Asia is at ~6% of Order Intake with the largest export customer Naval Systems (Turkmenistan)
- ~5% of the Division's 2019 Order Intake is from ~45 other countries and agencies, most of which are <1% each of the order intake



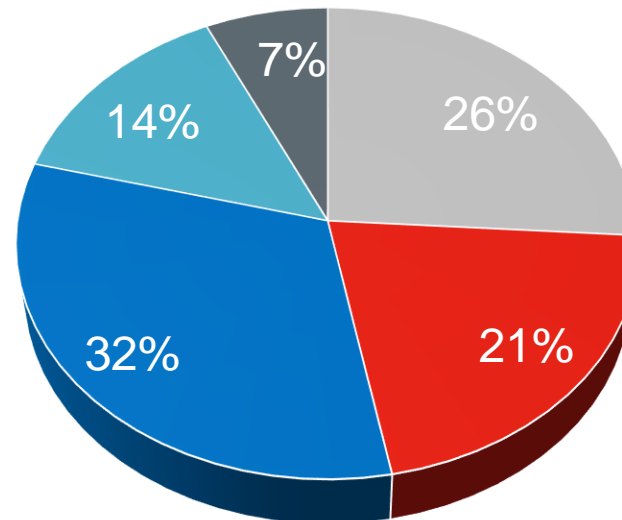
# Well Diversified Order Intake Full Year 2019

## MARKET



- Domestic
- Export
- Intercompany

## BUSINESS UNIT



- Land and Naval
- Electronics UK
- Other
- Airborne & Space Systems
- Defence Systems



# Tempest – Typhoon to Typhoon LTE and Beyond

- In July 2018 the UK Government launched its Combat Air Strategy, delivering an ambitious vision for the future
- The strategy confirmed the UK's intent to remain at the cutting edge of combat air systems development in order to meet the UK's National Security Objectives - to best protect its people, project influence and promote prosperity
- The strategy set out a clear statement of intent as to how the UK will preserve its national advantage and maintain choice in how combat air capability is delivered
- This commitment includes working alongside **international partners** to develop and deliver the best possible capability
- Leonardo UK Electronics selected as core partner





## Electronics UK & Italy – Next Pillar

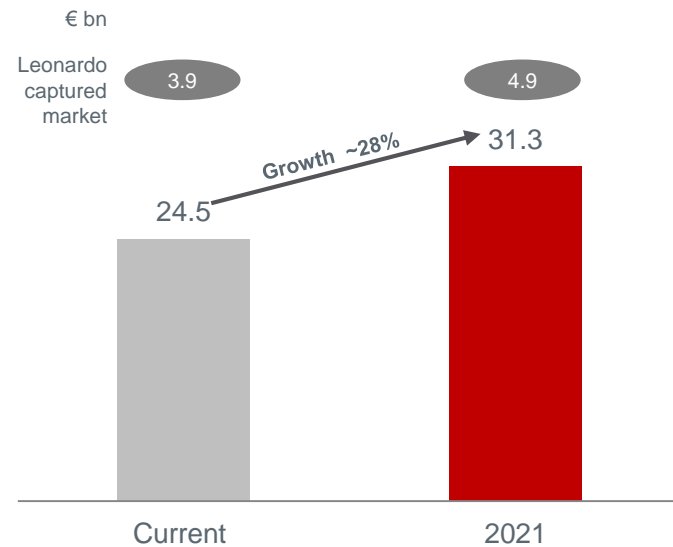
- On the 10th September the Governments of Italy and the UK signed a Statement of Intent (SOI) as a broad pledge to cooperate on matters of “combat air capability.” The idea is to “deepen discussions on Tempest military requirements,” come up with a “road map” for feeding advanced Eurofighter capabilities into the future programme, and facilitate an industry ecosystem to make it all happen
- The inclusion of Italy in the programme marks the third partner nation, following Sweden in July
- Both of our national industries have a strong pedigree of working well together (e.g. Tornado, Typhoon) and offer key complementary capabilities
- We also hold similar views on the future operating environment and share an aspiration for an affordable and sustainable industrial base
- Effective international partnering was identified as fundamental to the Combat Air Acquisition Programme





# Achieving our full potential...

## ELECTRONICS ACCESSIBLE MARKET



## LEVERAGING SUCCESS AND EXPLOITING OPPORTUNITIES

- Longevity of Typhoon
- Tempest
- Future Capabilities
- Future Support Models
- Partnerships
- Addressing the Export Market





# Agenda

- > Recent achievements
- > Executing the Industrial Plan
- > 9M 2019 Results
- > Sector Results
- > **Focus on Businesses**
  - Helicopters: delivering on promises
  - Electronics
  - **Leonardo DRS: growth outlook**
  - Aircraft





# Overview

We have eight lines of business organised into three customer-facing sectors

- Leading U.S. mid-tier defence company with over 6,500+ employees worldwide
- Recent reorganisation and customer focus has created diversified product portfolio
- 'Mid-tier' level creating significant market advantage
  - Platform 'agnostic'
  - Agile decision making
  - Streamlined lean cost structure



## NAVAL SYSTEMS

Naval Power



Naval Electronics



## AIRBORNE & COMMUNICATIONS

Global Enterprise Solutions



Airborne & Intelligence Systems



## ARMY SENSORS & ELECTRONICS



Land Electronics



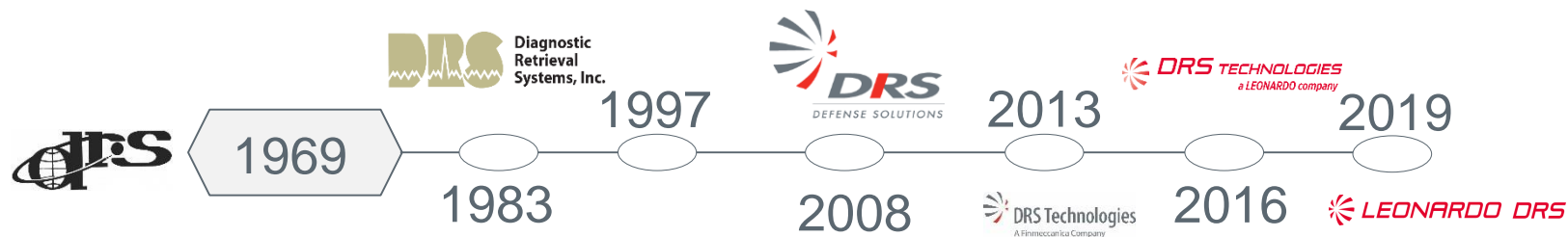
Electro Optical & Infrared Systems



Land Systems



Daylight Solutions





# Leonardo DRS contributing to Leonardo's Industrial Plan targets

- **US Defence Budget continues to rise**
  - 2020 Projects healthy 3% growth
  - Growth curve 'flattens' in 2021 & beyond but spending at historically high levels with bipartisan support
- **Leonardo DRS uniquely positioned to excel in current market dynamics**
  - Leonardo DRS revenue growth continues to outperform U.S. defence market
  - Mid-Tier Position enabling enhanced 'quick to market' strategy accelerating growth
  - Growth driven by **strong product alignment** with Army and Navy modernisation initiatives
- **Profitability growth**
  - Current Profit (EBITA) growing at double digit rates annually
  - Future Margin Expansion driven by a combination of factors
  - Product portfolio allows for strong EBITA to Free Cash Flow conversion

*Leonardo DRS poised to continue growth and expand margins*

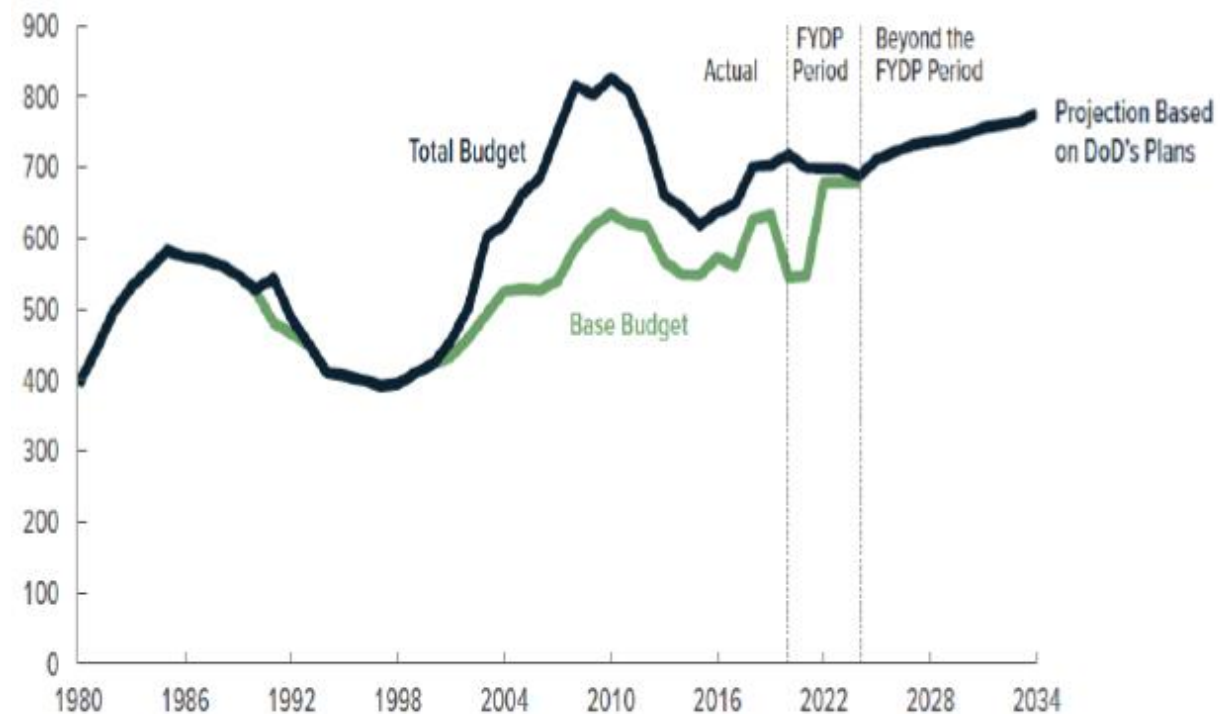


# US Defence Budget Outlook

- **New Two Year Budget Deal in Congress**
  - Raises FY20 & FY21 budget caps and ends sequestration
  - Stabilised defence planning
- **DOD Budget Growth of 3%, from already high historical base levels, in FY20**
  - Strong defence budget of 5% growth for 2017-2019
  - FY20 BBA deal provides \$738B topline – 3% growth
- **FY21 and beyond, Growth Flattens Out**
  - 2021 budget only \$3B higher than 2020 – flat budget
- **Budgets Support National Defence Strategy**
  - Operationalise National Defence strategy
  - Modernise air, maritime, and land domains
  - Develop and field innovative technologies
  - Recapitalise legacy equipment to field new systems

## FUNDING FOR DEPARTMENT OF DEFENCE

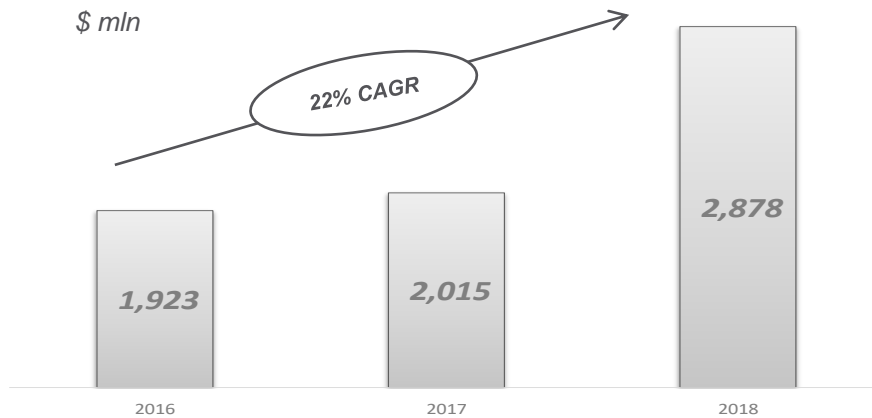
Billions of 2020 Dollars



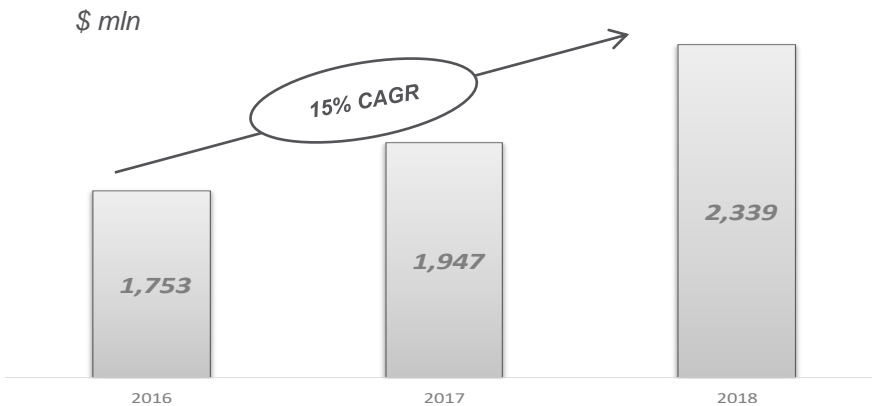
*Despite 'Flattening' Budget – Leonardo DRS positioned to outperform market resulting from strategic portfolio alignment*

# Growth: Leonardo DRS outperforming US defence market

## NEW ORDERS CONTINUE ABOVE MARKET

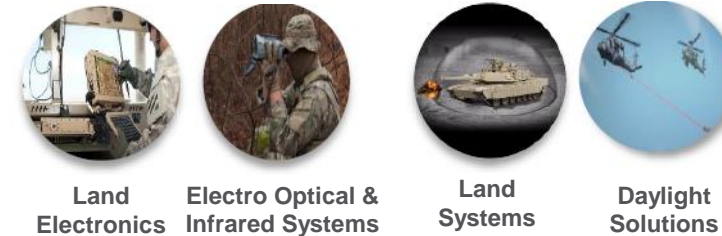


## REVENUE TRENDS EXCEED US DEFENCE MARKET



## LEONARDO DRS ALIGNED IN HIGH GROWTH SEGMENTS

- **Army Electronics & Sensors**
  - Product alignment within Army's key modernization priorities fueling continued growth
  - **2018 Revenue Growth – 26%**
  - **2017 Revenue Growth – 35%**



- **Naval Systems**
  - Provides power propulsion and control technology as well as shipboard electronics and computing on the Navy's highest priority platforms
  - **2018 Revenue Growth – 32%**
  - **2017 Revenue Growth – 7%**



# Six Army Modernisation Priorities Driving Growth

- **Next-Generation Combat Vehicle** ✓

- Aligned to be positioned for situational awareness and targeting, including next generation sensing and Active Protection System

- **Future Vertical Lift** ✓

- Positioned to protect the platform through combination of degraded visual environment optics as well as state of the art infrared counter-measure (IRCM) solutions

- **Network** ✓

- Leonardo DRS has secured the Army baselined rugged computing solution on all ground combat vehicles

- **Air and Missile Defence** ✓

- Received contracts to support Counter UAS and Short-Range Air Defence solutions on the ground and IRCM defences for airborne platforms

- **Soldier Lethality** ✓

- Designed next generation weapon sights and targeting systems providing soldiers battlefield over-match

- **Long-range Precision Fire**



*Leonardo DRS well balanced across Army's major initiatives driving growth opportunities*

# Army Growth: Quick Response = Rapid Growth

- **New environment has rewarded innovative companies that are quick to market and cost competitive**
  - Leonardo DRS organisational structure affords both streamlined decision making coupled with a lean cost structure resulting above market growth
  - Across all modernisation priorities is an element of 'Force Protection' for both our soldiers, and infrastructure
    - The successful penetration of the this new market has fostered our above market growth and is fueling the optimism for sustained growth into the future
- **Force Protection Success**
  - Trophy Active Protection System – to supply 4 brigades of Abrams Tanks to automatically detect and destroy incoming projectiles
  - Counter Unmanned Aircraft Systems – supplying the US army with both hard and kinetic defeat capabilities
  - Infrared Counter Measures – Protecting aircraft from heat-seeking missiles

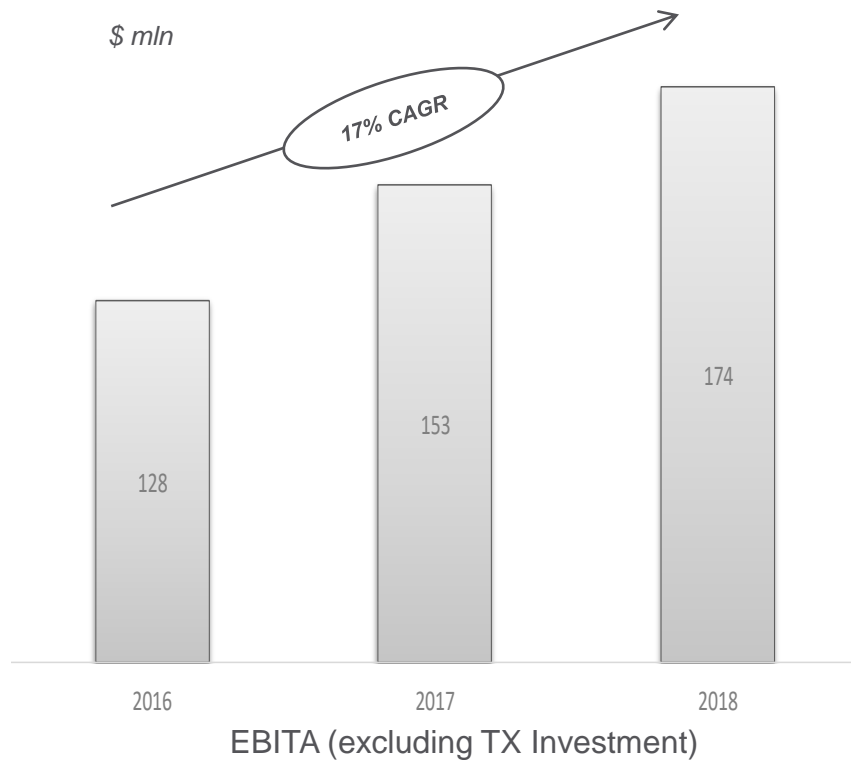


*Force protection generated over \$750m of contract value received to date with 3x that amount in 'soft backlog' for production opportunities*



# Driving Improving Profitability

## DOUBLE DIGIT EBITA GROWTH



## MARGIN EXPANSION

- **17% EBITA CAGR supporting increased shareholder return**
- **Increased EBITA margins drive free cash flow generation**
  - Programme portfolio / required investments allow for above market conversion of EBITA into FCF
- **4 Levers to Further Profit Enhancement**
  - Revenue growth
  - Operation Excellence
  - Selective Investments
  - Programme life-cycle

*Leonardo DRS to deliver +10% operating margins during the plan period*



# 4 Levers of Improved Profitability

## TOP LINE GROWTH EXCEEDS COST BASIS

- Revenue Growth Trend Secure
- Maintain lean environment to enable competitive advantage while increasing shareholder returns

## PROGRAMME LIFE CYCLE TRANSITION

- War-Time spending accelerated procurement of mature production hardware
- Recent modernisation awards have 'refilled' the funnel driving revenue growth trends, creating larger portion of development type programs
- As these next generation programmes move towards a healthier production mix, ROS will expand



## OPERATIONAL EXCELLENCE

- Project launched geared at enhancing returns through a combination of efficiencies and cost cutting efforts
  - Enhanced manufacturing – reduction in scrap and rework
  - Supply chain focus – consolidation of vendors driving out cost through economies of scale

## SELECTIVE INVESTMENTS

- Higher base business allows for more selective pursuits, reducing dependency on dilutive pursuits
- Stay within our Core Capabilities
- Utilise investments on existing development jobs to reduce risk on future opportunities

*Multiple levers drive Leonardo DRS margin expansion*

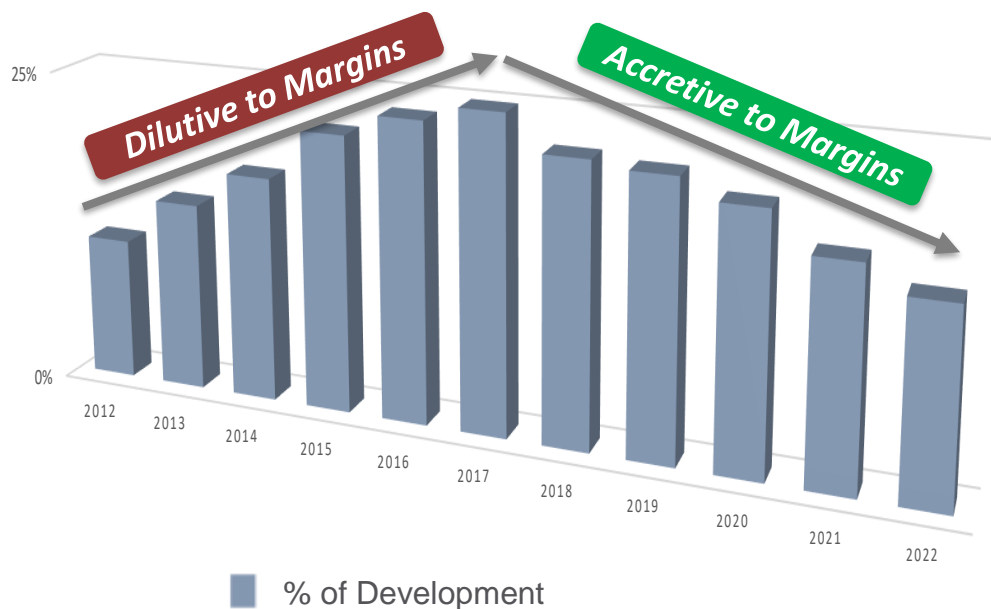




# Development Programme Transition



**LEONARDO DRS % OF DEVELOPMENT REVENUE**



## TIMELINE OF EVENTS

- 'War-Time' spending drove large production bubble in 2008 - 2012
- 2015-2018 Leonardo DRS awarded 'next generation' design programmes geared at refreshing existing technologies for network, soldier systems, ground vehicle sensing and airborne survivability
- 2019-2020 Leonardo DRS begins fielding these programmes at Low Rate Initial Production (LRIP) levels
- 2021 & Beyond – newly awarded next generation programmes transition into sustained production base returning development to normal steady state level of total revenue

*Programme Life Cycle supports continued margin expansion*



# Key Takeaways

- **Optimistic on Growth Trajectory**

- Multi-year revenue CAGR and H1 2019 results confirm continued growth that exceeds industry peers
- Leonardo DRS remains well aligned with Pentagon's major procurement priorities
  - Army Electronics & Sensors well positioned within the U.S. Army's modernisation priorities
    - Successful penetration into adjacent markets driving increased optimism
    - Recent wins poised to enter into production, increasing revenue volumes
  - Naval Systems poised for continued growth based on ship-building and fleet modernisation efforts
    - Naval electronic systems growth driven by fleet modernisation efforts on network, radar and combat systems
    - Expanding market leading power and propulsion solutions onto increased ship-building priorities

- **Profit is Growing, Confident in Future Profitability Expansion**

- Revenue growth, programme life-cycle, efficiency efforts launched and selective pursuits all support continued margin expansion over the budget plan period
- Profit expansion will drive increased FCF performance while maintaining our already above market FCF conversion of EBITA



# Agenda

- > Recent achievements
- > Executing the Industrial Plan
- > 9M 2019 Results
- > Sector Results
- > **Focus on Businesses**
  - Helicopters: delivering on promises
  - Electronics
  - Leonardo DRS
  - **Aircraft: a strong strategy to deliver the Industrial Plan in a high growth market**



## Great position in high growth market

- We operate in a materially high growth market
- Strong and comprehensive product range

**Strong Backlog**

**~ €11bn**

**Revenues**

**~ €2bn**

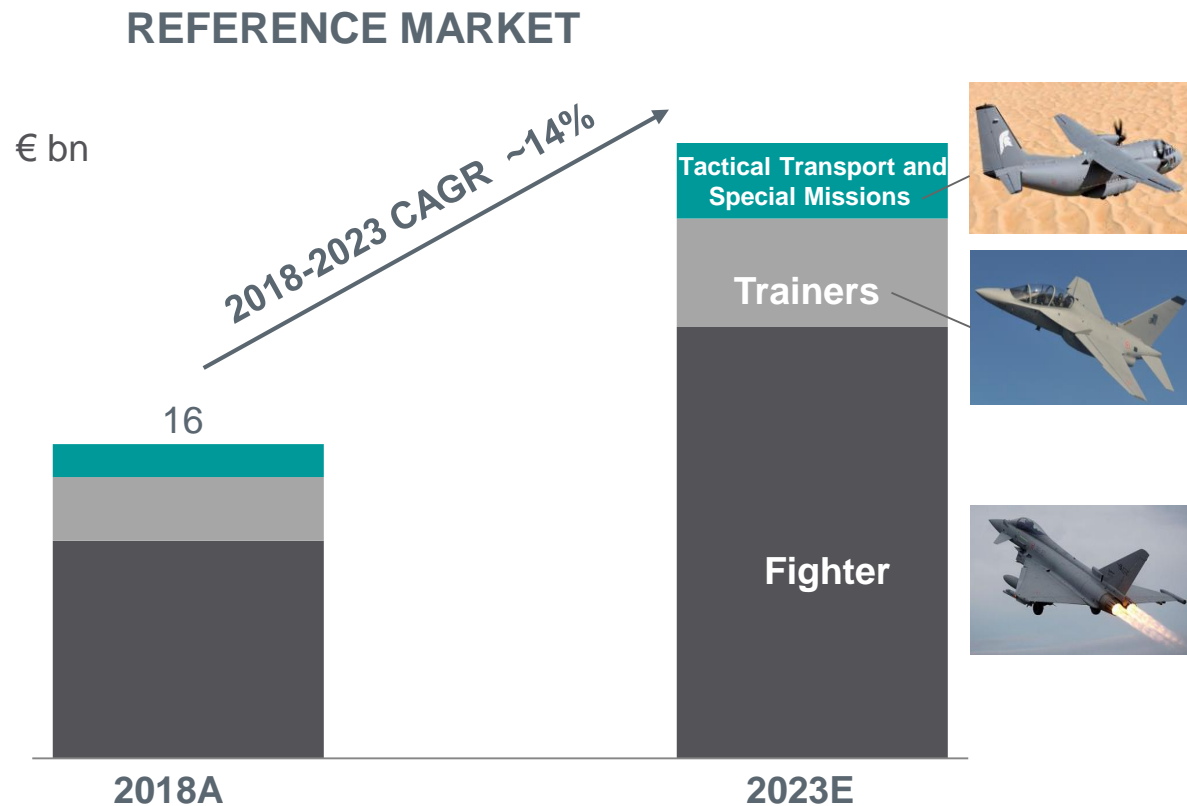
**Profitability**

**> 10%**

- Leveraging our strong product portfolio and enhancing services

*...Strongly growing revenues and profitability*

# Double digit growth in military aircraft markets



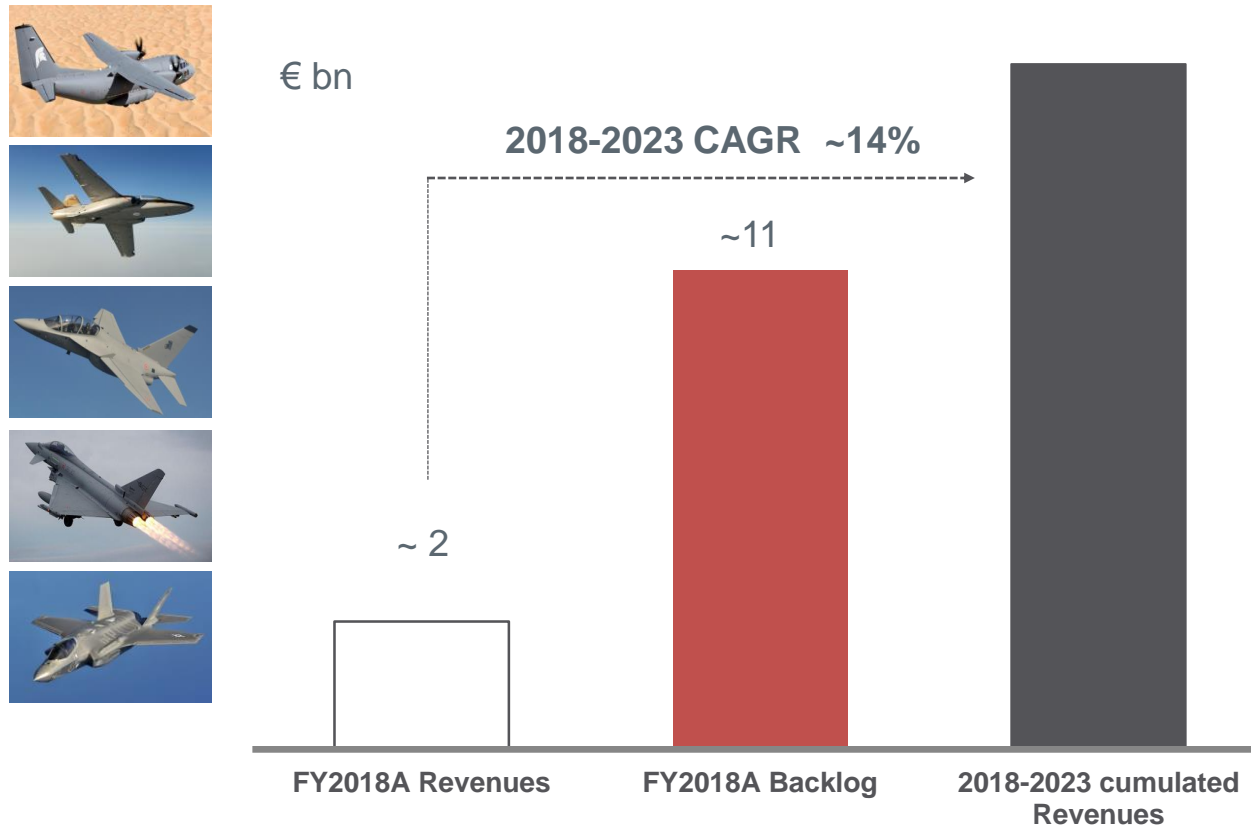
- **Fighter market**
  - Opportunities in Asia, Far East and Middle-East
- **Trainers market**
  - Opportunities for Light Attack Versions (Dual Role Capability) and Integrated Training Services
  - Sweet spot of the Integrated Training Services (phases II, III and IV)
- **Tactical Transport and Special Missions market**
  - Growth sustained by replacement of old fleets and new threats

**2019-2023 Target Market ca. € 130 bn**

Source: Leonardo estimates based on HIS Jane's forecast International teal

# Long term Revenue visibility from very significant Backlog and additional high potential opportunities

## REVENUE GROWTH UNDERPINNED BY BACKLOG



## OPPORTUNITIES TO GROW BACKLOG FURTHER

- Strong Backlog supporting long term visibility
- Over 100 market opportunities in addition to baseline business plan
- Robust growth underpinned by fighter segment, Integrated Training Systems and services
- TX was only an opportunity but the foreseen market is still there



# We have the right portfolio to deliver growth

Best in class aircraft portfolio ready to serve market demands



## International Collaborations (Fighters)



EUROFIGHTER



JSF F-35



F-35 MRO&U HUB

## Trainers



M-346 AJT



IFTTS (2019)



M-345 HET (2020)



M-346 LFFA (2021)

## Tactical transport & Special missions



C-27J



ATR Special Missions



C-27J Multimission

*Leading the evolution of customer assets and processes through continuous service innovation and partnership approach based on a Customer-Centric Attitude*



# From platforms to services: complimentary meaningful and profitable growth

- Delivering **world-class services** and **capabilities** to our customers
- > **1,100** aircraft supported in **~30** countries worldwide
- Industrial collaborations worldwide
- **~25%** of aircraft division turnover and more than **30%** of its profitability
- Full spectrum of **support, services** and “enlarged” **training solutions** for proprietary and non-proprietary products (e.g. F35 MRO&U, C-130J, AWACS)
- Increase use of **digitalisation** (big data analysis and customer demand forecasting)
- Opportunities related to **continuous functional upgrade** of the existing platforms (such as C-27J) to support our customers in competing against new operational scenarios



# We are thinking and working on the future...

EUROMALE 2025



Technologies

- Hybrid/Electric Propulsion Management (IVHM)
- Virtual Pilot
- Highly automated Assembly
- Digital Twin
- Integrated Vehicle Health

Eurofighter Long Term Evolution

European 6<sup>th</sup> Generation Fighter

*A real collaboration among the European industry with customers to provide future growth opportunities*



## Strong Outlook

- **Great growth potential** in the markets we serve supported by a strong and **comprehensive product range**
- **Very significant backlog** with plenty of opportunities to make it biggest still
- **Best-in-class aircrafts** already in the market, complemented by our **integrated training services**
- **Balanced portfolio** set to deliver growth over the short, medium and longer term
- **Cash flow generation** with solid **double digit profitability**

*Confidence in translating growth into profitability and cash flow generation*

# CEO REMUNERATION

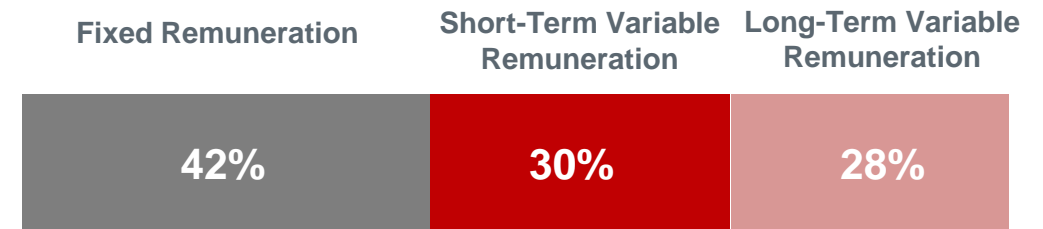


# Balanced Remuneration Policy

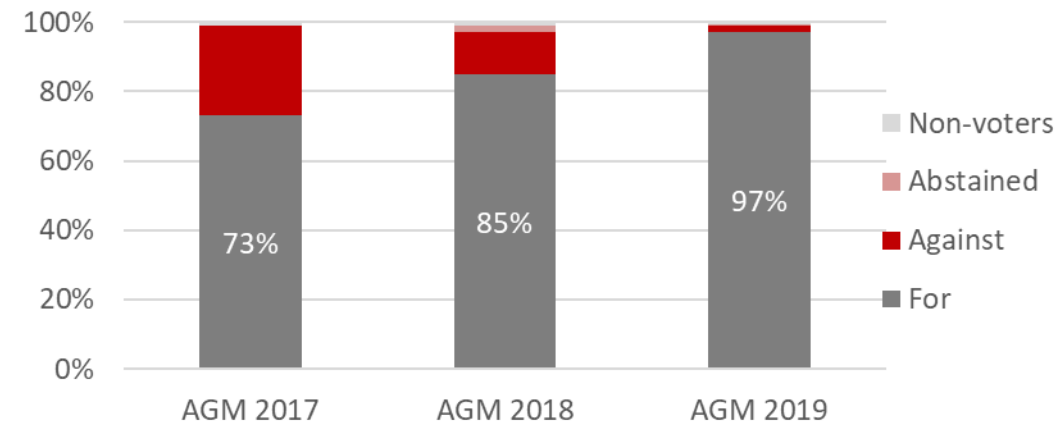
## Aligned with shareholders interests

- Convergence of interests between management and shareholders
- Clear link between pay and degree of achievement of targets
- Aligning the remuneration package with international market best practices
- Including Sustainability/ESG objectives, consistently with business strategy
- Meeting the investors' expectations regarding management remuneration
- Complying with transparency and merit system embedded in Leonardo strategy
- Attracting / retaining resources regarded by the Company as key performers
- Reducing risk-oriented behavior

### CEO REMUNERATION



### VOTING RESULTS ON REMUNERATION REPORT





# CEO performance: Management by Objectives

**MBO remuneration is paid in cash on a yearly basis**

**GATES**

- Group EBITA → 85% of budget
- Group FOCF → 100% of budget

**TARGETS**

Group EBITA

Group FOCF

Industrial Plan Objectives

Sustainability

30% of REM

30% of REM

30% of REM

10% of REM - ON/OFF

2 specific KPIs

1. Progress in the Industrial Plan with focus on Electronics and Cyber Security
2. Book to Bill  $\geq 1$

Linked to the inclusion of Leonardo in Dow Jones Sustainability Indexes



# Remuneration scheme: methodology

- **CLAW-BACK CLAUSE**

- Leonardo is entitled to request repayment of the variable remuneration paid in the event of erroneous or falsified calculation.

- **SEVERANCE**

- No severance payment for early termination and non renewal of mandate.
- CEO severance not higher than 2 years fixed remuneration.
- He will receive the total remuneration (fixed and variable elements) as would have been until the natural expiry of the term of office (12 months in May 2019, descending down to zero upon natural expiry).

- **TSR PEER Group (LTIP)**

- Leonardo's performance will be measured in relation to a "peer Group" selected on comparability.
  - Aerospace and Defence companies.
  - Industrial companies in the FTSE MIB.



# Long Term Incentive Plan (LTIP)

- **BENEFICIARIES**

- Chief Executive Officer
- Executive directors, employees and/or associates with a greatest impact on the achievement of business results (210 people)

- **FREQUENCY**

- 3 year cycles assigned yearly on a rolling basis

- **AWARD**

- Max 67.4% € 620.000 CEO

- **LOCK UP**

- 1 year

- **VESTING PERIOD**

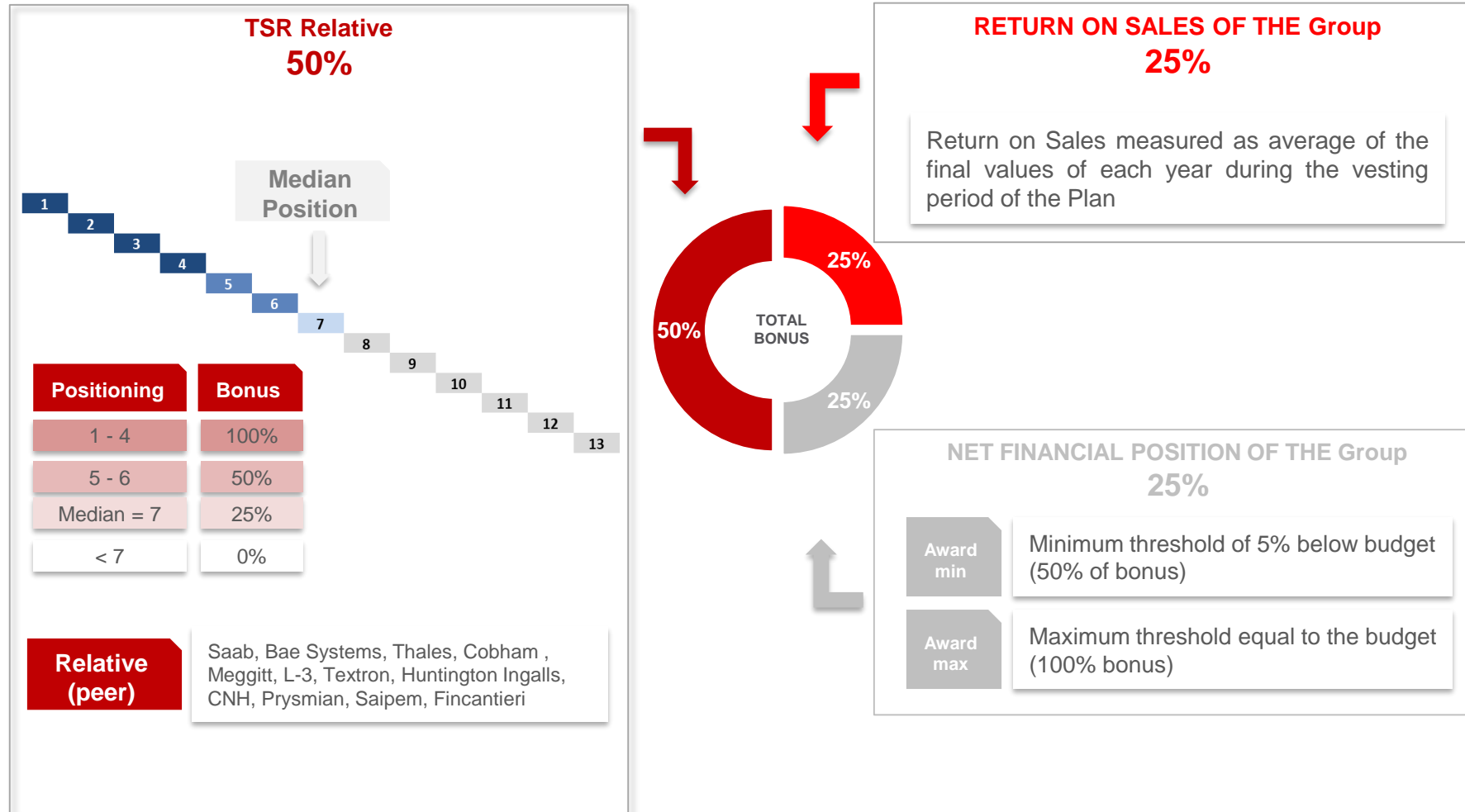
- 3 year

- **PAYOUT**

- Shares only for Top Management, Executives with Strategic Responsibilities and other Top Executive
- Shares & Cash for other Beneficiaries



# LTIP Performance conditions





# APPENDIX



# 3Q/9M 2019 Results

## Group Performance

	3Q 2018	3Q 2019	% Change	9M 2018	9M 2019	% Change	FY 2018
€ mln							
New Orders	4,786	2,434	-49.1%	9,390	8,579	-8.6%	15,124
Backlog				34,501	35,672	+3.4%	36,118
Revenues	2,651	3,172	+19.7%	8,240	9,134	+10.8%	12,240
EBITA	162	199	+22.8%	632	686	+8.5%	1,120
RoS	6.1%	6.3%	+0.2 p.p.	7.7%	7.5%	-0.2 p.p.	9.2%
EBIT	132	186	+40.9%	372	648	+74.2%	715
EBIT Margin	5.0%	5.9%	+0.9 p.p.	4.5%	7.1%	+2.6 p.p.	5.8%
Net result before extraordinary transactions	58	115	+98.3%	164	367	+123.8%	421
Net result	156	116	-25.6%	263	465	+76.8%	510
EPS (€ cents)	0.271	0.202	-25.5%	0.456	0.809	+77.4%	0.888
FOCF	9	(167)	-1,956%	(800)	(1,217)	-52.1%	336
Group Net Debt				3,503	4,301	+22.8%	2,351
Headcount				46,413	49,234	+6.1%	46,462

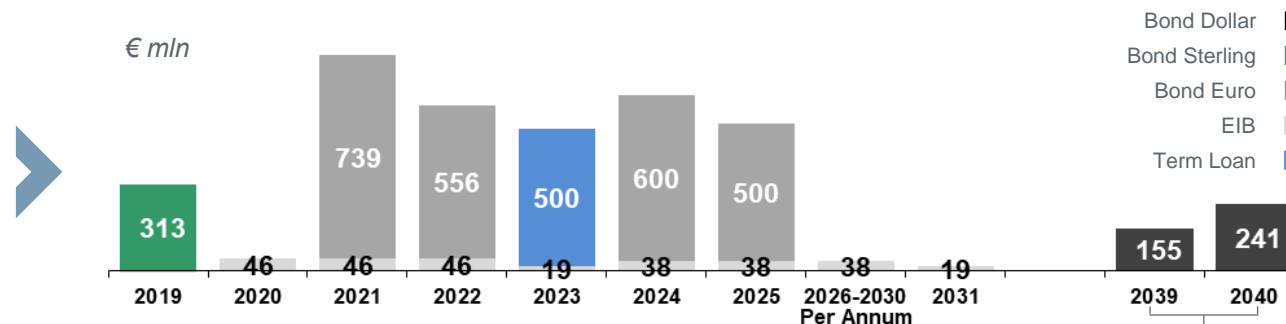
Free Operating Cash-Flow (FOCF): this is the sum of the cash flows generated by (used in) operating activities (which includes interests and income taxes paid) and the cash flows generated by (used in) ordinary investment activity (property, plant and equipment and intangible assets) and dividends received



# Solid Financial Position as at end of September 2019

## DEBT MATURITY

Average life: ≈ 5,4 years <sup>(1)</sup>



## Repayment Conditions of New Debt Instruments

The Term Loan Facility is characterised by a 5 years bullet repayment; the EIB financing is a 12 year amortizing loan with a 4 year grace period

18 November 2019: \$127mln buyback with NPV materially positive

## CREDIT RATING

	As of today	Before last review	Date of review
<b>Moody's</b>	Ba1 / Stable Outlook	Ba1 / Positive Outlook	October 2018 *
<b>S&amp;P</b>	BB+ / Positive Outlook	BB+ / Stable Outlook	December 2019
<b>Fitch</b>	BBB- / Stable Outlook	BB+ / Positive Outlook	October 2017

\* In May 2019, Moody's upgraded Leonardo's Baseline Credit Assessment (BCA) to ba1 from ba2 and affirmed the Ba1 Corporate Family Rating (CFR)

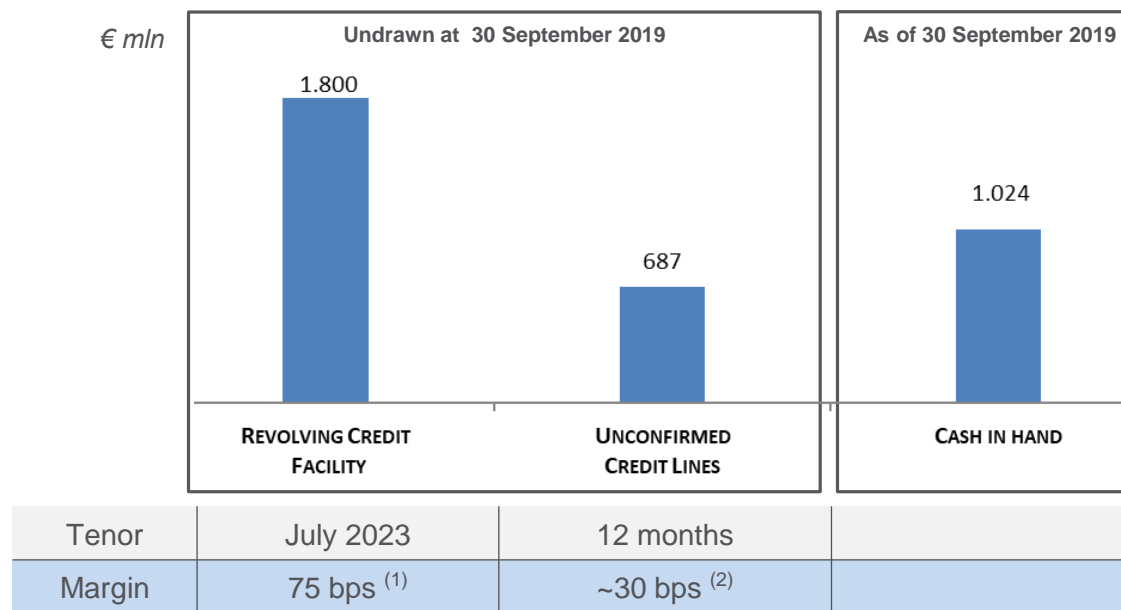
<sup>(1)</sup> Excluding reimbursements due in 2019

- **4 December 2019: Standard & Poor's raised Leonardo's outlook to "Positive"**

# Availability of adequate committed liquidity lines as at end of September 2019

- In order to cope with possible swings in financing needs, Leonardo can leverage:

- 30 September cash balance of € 1.0 bn
- Credit lines worth € 2.5 bn (confirmed and unconfirmed)
- The Revolving Credit Facility signed on 14 February 2018 amounts at €1.8 bn with a margin of 75bps and will expire in 2023
- Bank Bonding lines of approximately € 3.2 bn to support Leonardo's commercial activity



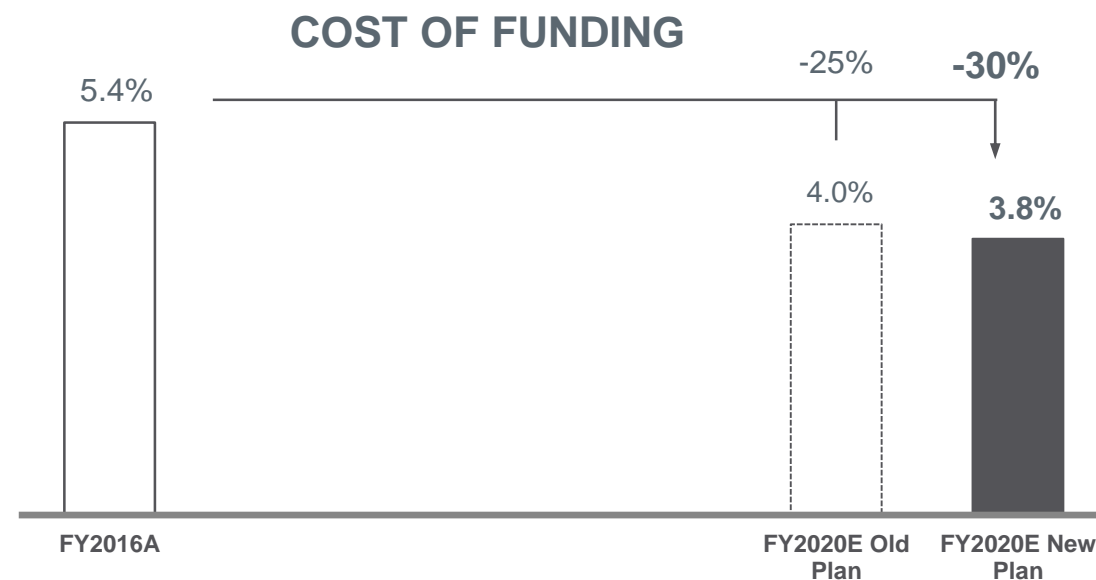
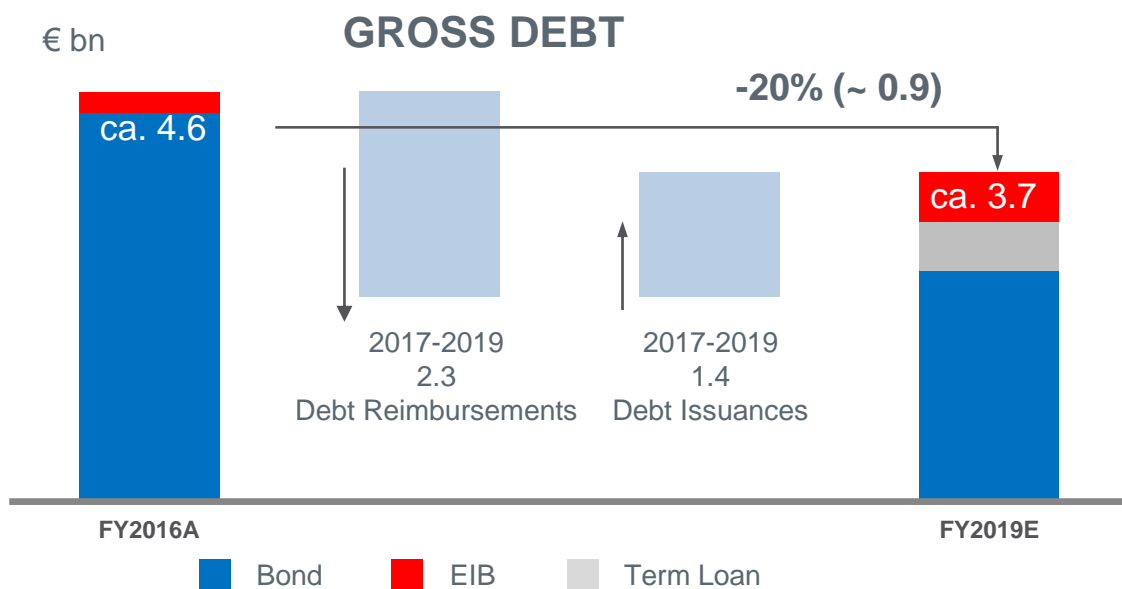
(1) Based on rating as of 30/09/2019

(2) Average. Expected to be renewed at maturity



# Reduced gross debt and cost of funding earlier than promised

- **Reduced Gross Debt by 20%<sup>1</sup>** one year earlier than forecasted through cash generation
- **2018 Leverage Ratio**
- **Net Debt / EBITDA: 1.6x**
- **Lowered cost of funding by 30%**, more than previously expected
- **Diversified Funding Pool**



1 Excluding IFRS 16 adjustments



# IFRS 16

- IFRS 16 redefines recording methods of operating leases in the financial statements imposing a single recognition method for all types of leasing, with the consequent recognition in the balance sheet of the tangible assets and liabilities for future payments
- The main impacts deriving from the application of the new principle are:
  - recording of non-current assets equal to rights of use on tangible and intangible assets against existing leasing contracts
  - recognition of financial liabilities equal to the present value of future lease payment
- The Group has applied this principle starting from 1<sup>st</sup> January 2019
- The estimated impact on the Group Financial Debt for FY 2019 will be ca. € 0.4-0.5 bn



## SAFE HARBOR STATEMENT

NOTE: Some of the statements included in this document are not historical facts but rather statements of future expectations, also related to future economic and financial performance, to be considered forward-looking statements. These forward-looking statements are based on Company's views and assumptions as of the date of the statements and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Given these uncertainties, you should not rely on forward-looking statements.

The following factors could affect our forward-looking statements: the ability to obtain or the timing of obtaining future government awards; the availability of government funding and customer requirements both domestically and internationally; changes in government or customer priorities due to programme reviews or revisions to strategic objectives (including changes in priorities to respond to terrorist threats or to improve homeland security); difficulties in developing and producing operationally advanced technology systems; the competitive environment; economic business and political conditions domestically and internationally; programme performance and the timing of contract payments; the timing and customer acceptance of product deliveries and launches; our ability to achieve or realise savings for our customers or ourselves through our global cost-cutting programme and other financial management programmes; and the outcome of contingencies (including completion of any acquisitions and divestitures, litigation and environmental remediation efforts).

These are only some of the numerous factors that may affect the forward-looking statements contained in this document.

The Company undertakes no obligation to revise or update forward-looking statements as a result of new information since these statements may no longer be accurate or timely.



# Contacts

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