

# Industrial Plan Presentation

Vergiate (VA), 30 January 2018



# Agenda

- **Introduction**

*Raffaella Luglini, EVP External Relations, Communication, Italian Institutional Affairs, Investor Relations and Sustainability*



## *Part 1: Context and overview*

- **Context and industrial plan overview**
- **Helicopter division insight and action**

*Alessandro Profumo, CEO*

*Gian Piero Cutillo, MD Helicopters Division*



## *Part 2: Strategy for growth*

- **Executing our growth strategy**
- **Enhanced commercial strategy**
- **Financial Plan**
- **Concluding remarks**
- **Q&A**

*Alessandro Profumo, CEO*

*Lorenzo Mariani, CCO*

*Alessandra Genco, CFO*

*Alessandro Profumo, CEO*

# Leonardo Industrial Plan

## Context and industrial plan overview

**Alessandro Profumo**

Chief Executive Officer

Vergiate (VA), 30 January 2018



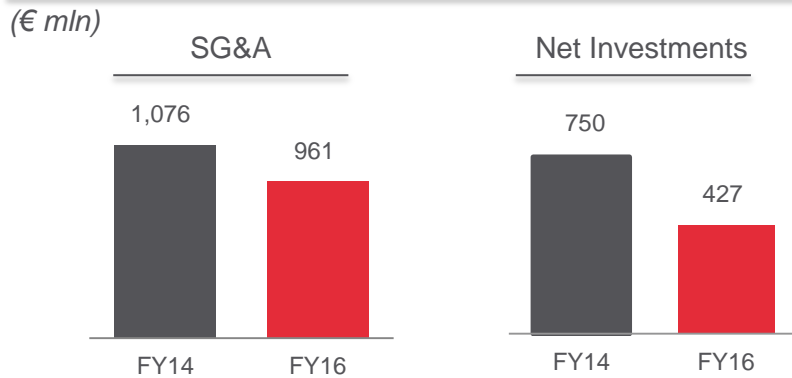
# A plan to return to sustainable profitable growth

- A lot was achieved in Leonardo in recent years
- The re-set in 2017 was disappointing
- We are confident about the opportunity for Leonardo
- We are going to set this business up to win
- A sustainable financial strategy

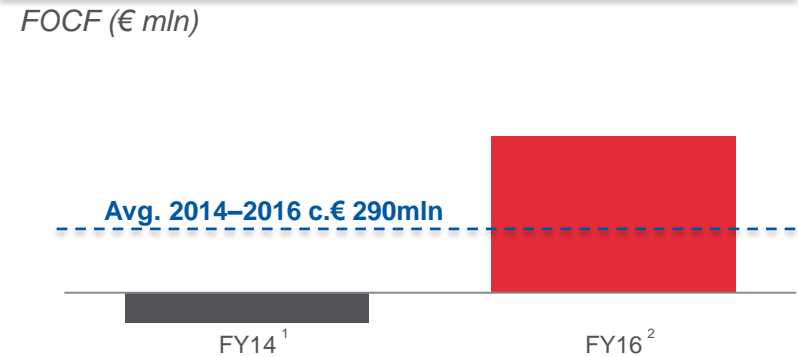
# A lot was achieved in Leonardo in recent years

*Took the right steps in weak markets...*

## STRONG ACTIONS ON COSTS

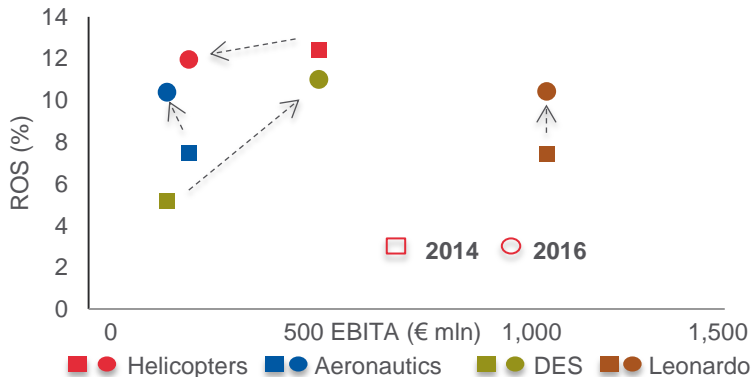


## RETURNING TO POSITIVE FOCF



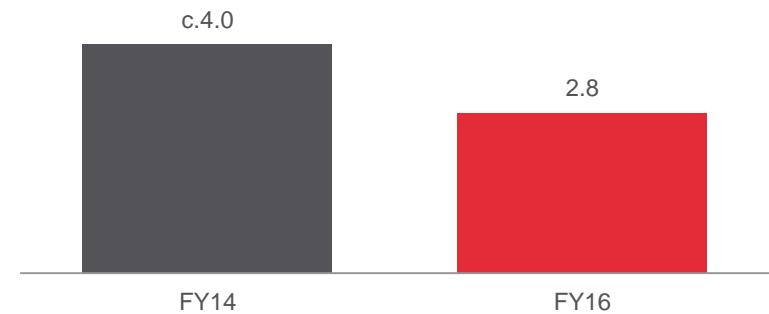
## RESTORING PROFITABILITY

EBITA (€ mln) vs. ROS (%)



## REDUCING NET DEBT

Net debt (€ bn)



*...hard for the business...but necessary*

Note:

1 FY14 FOCF including India cash-out

2 FY16 FOCF including EFA Kuwait cash advances

# The re-set in 2017 was disappointing

*Created two perspectives for today...*

## Short-term



- Helicopter recovery
- 2018 outlook

## Longer-term



- New industrial plan
- Sustainable financial strategy

*Addressing the short-term to move forward with our long-term discussion*

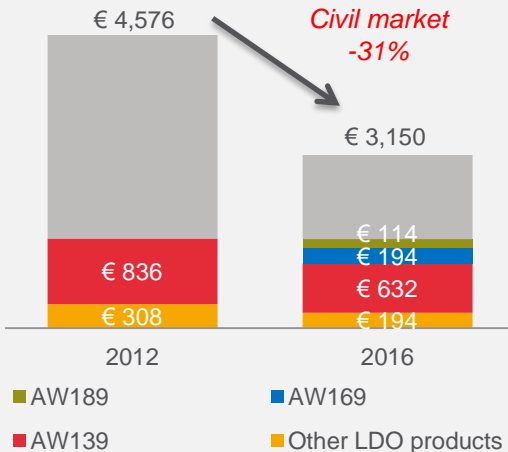
# The re-set in 2017 was disappointing

## Temporary issues in the Helicopters division

### EXTERNAL FACTORS

- Continued market decline
- Changing market mix in Intermediate

Civil Helicopters Market (€ mln)



### INTERNAL FACTORS

- Lower military sales
- Lack of sales discipline on re-configuration
- Issues in planning and production

Production visibility



### FINANCIAL IMPACTS

- Lower profitability on young products
- Some extra costs & delays
- Customer claims

Impact on Revenues and EBITA



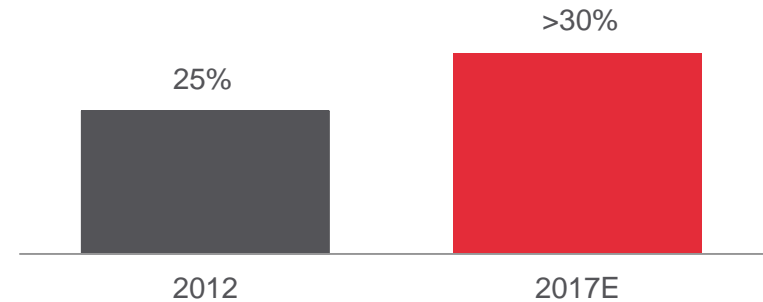
# The re-set in 2017 was disappointing

*Helicopters remains a strong and high quality business*

- **Fundamentals remain strong**
  - Taking market share
  - Quality leadership vs. peers
  - Strong profitability vs. key peer
- **Confidence in a recovery**
  - Changed leadership
  - New disciplines
  - New commercial strategy
- **But realistic on timing**

## Leonardo still taking market share...

*Civil market share...*



## Strong profitability in Helicopters

*FY17e*

High single digit



# Confident about the opportunity for Leonardo

*We are entering a new phase: back to growth*

- Our target markets will grow by 6%
- High quality products
- Highly valued by our customers
- International footprint
- Balance of Civil and Military
- Leverage a broad product portfolio
- Positioned for market trends

## CONFIDENCE IN FUTURE GROWTH



*Leonardo addressable market growth*



*Leonardo revenues in markets with improving trends%<sup>1</sup>*

## High quality products valued by our customers

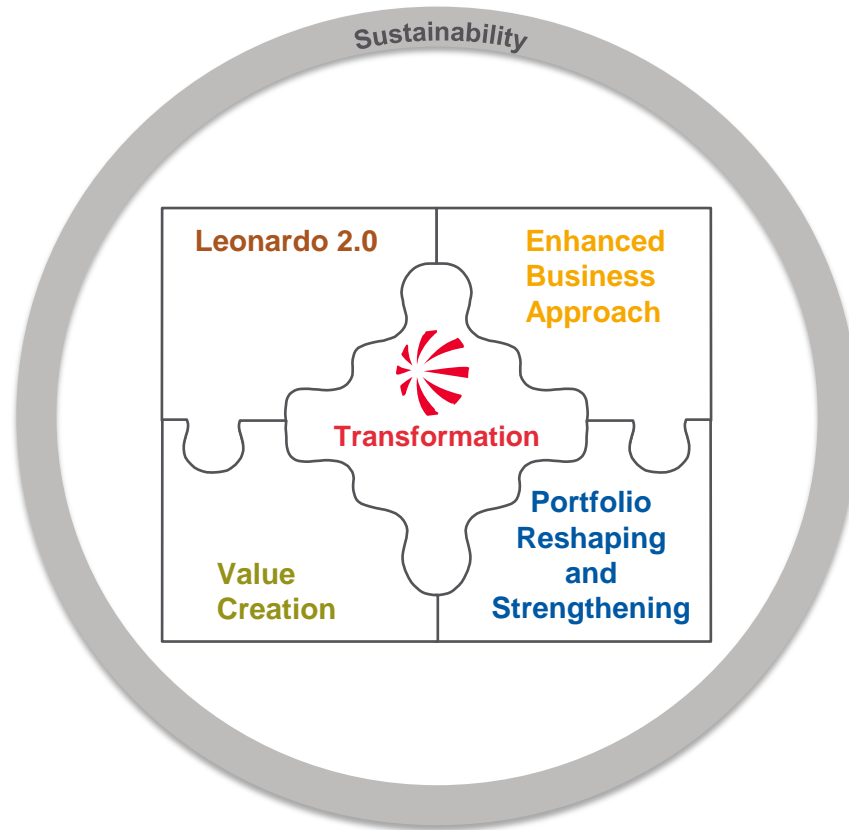


Note:

<sup>1</sup> Based on Leonardo estimates<sup>1</sup>

# We are going to set this business up to win

2018



# We are going to set this business up to win

*We cannot cut our way to sustainable growth...*

## New commercial strategy

- New CCO organisation
- Increased presence in international markets
- Leverage «One Company»
- Increased Customer Support & Services

## Investing in an extended representative offices network 2018-2022



## Focused investment

- Sales organisations
- Product leadership
- Digitalisation

### New Orders expected



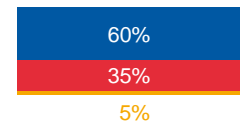
2018-2022 CUMULATED

### Customer Support & Services



GROUP ORDER INTAKE

### Increase in R&D activity 2018–2022



Total  
■ Upgrade Existing Products  
■ New Product Development

# We are going to set this business up to win

*Strict cost control delivered through clear actions*

## Initiatives

- Strategic Sourcing
- Spending continuous improvement
- Offload optimization
- Should cost on proprietary products
- Engineering excellence
- Zero defects manufacturing and industry 4.0
- Material handling & logistic optimization
- Real estate management
- Discretionary cost management
- Competence mix change



CUMULATIVE ANNUALISED SAVINGS  
IDENTIFIED

# A new sustainable financial model

*Doing the right things for the long-term: Sustainable profitable growth...*

*Return to top-line growth*

**c. 70<sub>bn</sub>**

2018-2022  
cumulated orders

**5%-6%**

5 yr. Revenue  
CAGR

*Strict cost control,  
reinvested in growth*

**c. €200<sub>mln</sub>**

Annualised savings  
identified

**c. 80%**

Reinvested in  
competitiveness &  
capability

*Sustainable improvement  
in profitability*

**c. 10%**

ROS by 2020

**8%-10%**

5yr EBITA CAGR

*Focus on cash and a  
stronger capital structure*

**c. 50%**


Avg. 2015-2018 CF Conversion;  
Accelerating FOCF from 2020

**Investment  
grade**

Credit rating

*...2018 planting the seeds for growth*

# A plan to return to sustainable profitable growth



We are confident about the opportunity for Leonardo



We are going to set this business up to win



A sustainable financial strategy



**Now it's time  
to execute**

# Leonardo Industrial Plan

## Helicopter division insight and action

Gian Piero Cutillo

MD Helicopters Division

Vergiate (VA), 30 January 2018



# Key Messages



We have a high quality Helicopters business with the right product strategy



We are clear why we didn't perform in 2017 and we have taken action



We have a great opportunity in the right areas of an improving market



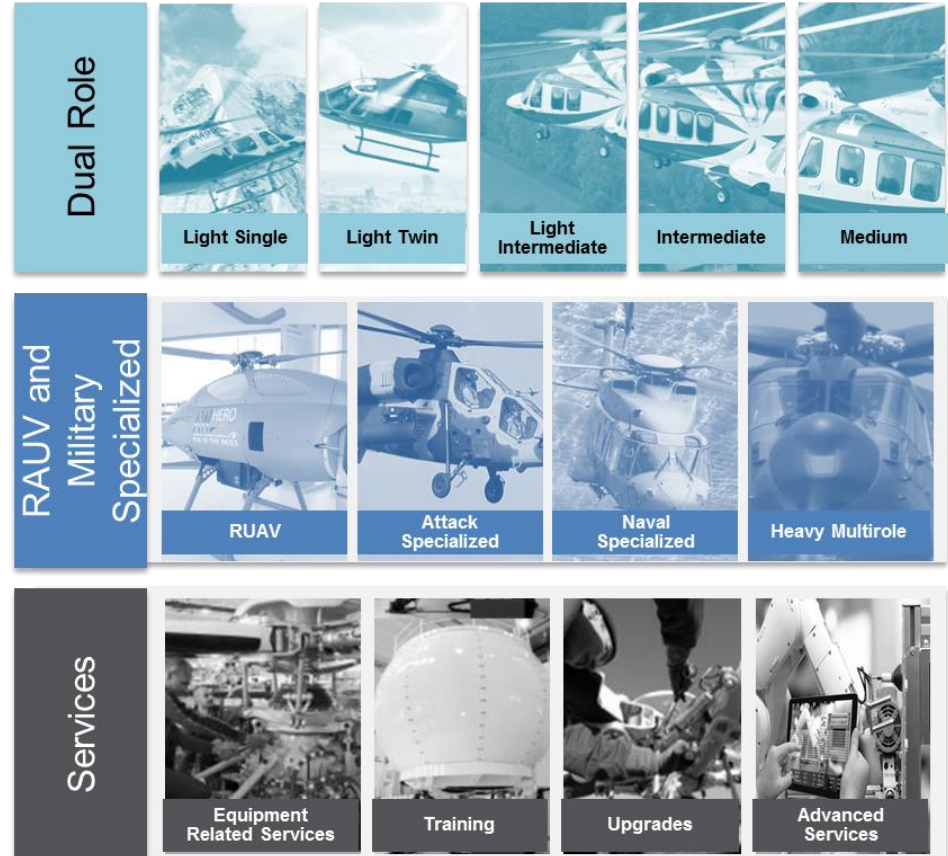
We are executing a plan to deliver a return to sustainable growth



# We have a high quality Helicopters business

*There is no structural problem*

- High performing products
- Leadership positions in key segments
- Civil market share >30%
- Gained share during market decline
- Flexible “product family”
- Leading innovations
- Well positioned for military and services market trends
- Still high single digit profitability



# We have a high quality Helicopters business

*The answers in two very different business/markets*

## CIVIL

---

- Absolutely correct product strategy
- Well impacted by external and internal factors
- Very well positioned in the right areas of improving markets
- Keep investing to sustain leadership

## MILITARY

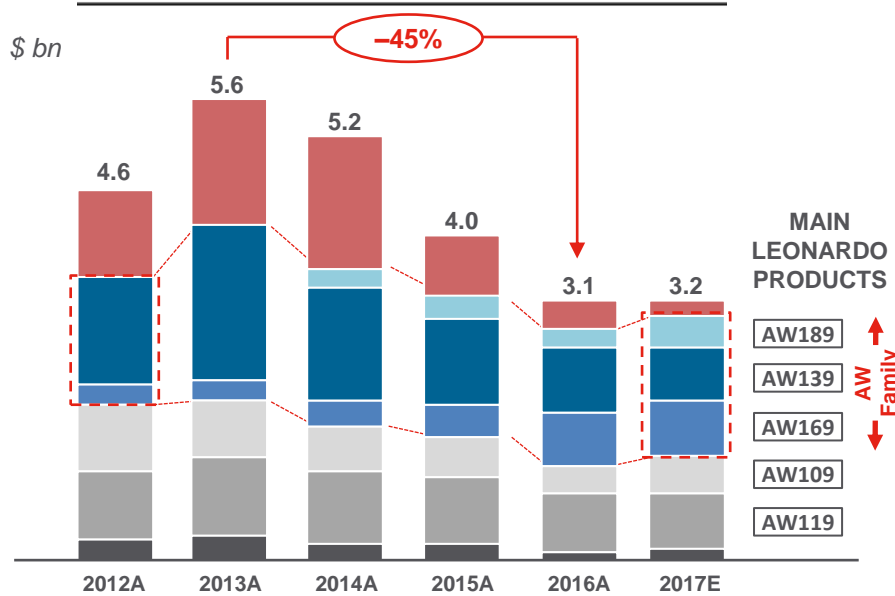
---

- Not linear business and highly opportunistic
- Some opportunities missed in the past
- Able to leverage dual use and specialized platforms
- Operating model already changed and ongoing mindset change to win consistently

# We are clear why we didn't perform in 2017...

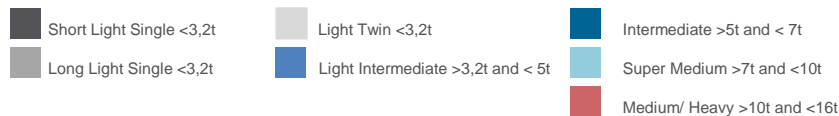
*Strong External Factors in the Civil Market*

## SIGNIFICANT MARKET DECLINE



Of which Offshore (\$ bn):					
1.6	2.2	2.1	1.2	0.6	0.6

Total deliveries (#):					
~850	~950	~750	~600	~550	~550



- Total market declined by 45% between 2013 and 2016
- We dominate "Intermediate" with mature AW139
- "Intermediate" class grew ...but splits into 3 different markets
- We meet market need with younger AW169 & AW189
- Our share of broader 'Intermediate' remains above 50%
- Profit impact from mix shift to younger / low margin product
- Focused presence in lighter classes, newly certified Trekker

Source: Internal analysis on Leonardo Helicopters reference civil market; Economic Condition 2017; third parties analysis

# Illustrating the mix shift in civil 3–10 tonnes range

Leonardo 3–10 tonnes classes revenues have grown between 2012 and 2017 – taking share, but mix impacted profitability

**LIGHT INTERMEDIATE**  
<3,2t

**CORE INTERMEDIATE**  
>3,2t and < 5t

**SUPER MEDIUM**  
>7t and <10t

**TOTAL**

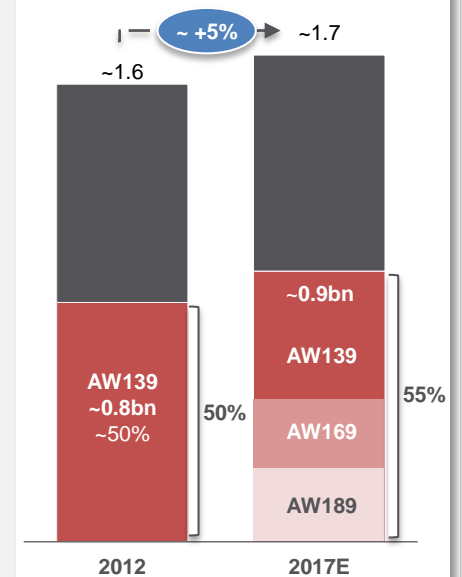
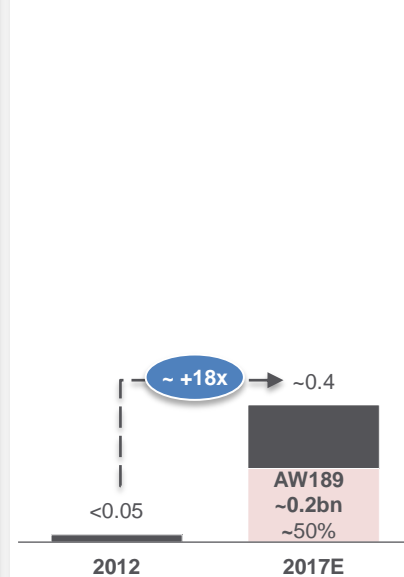
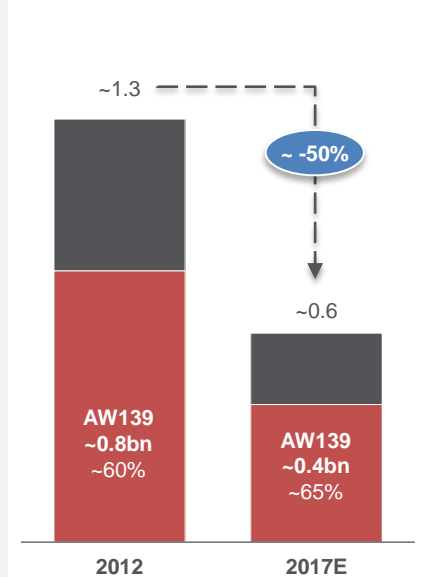
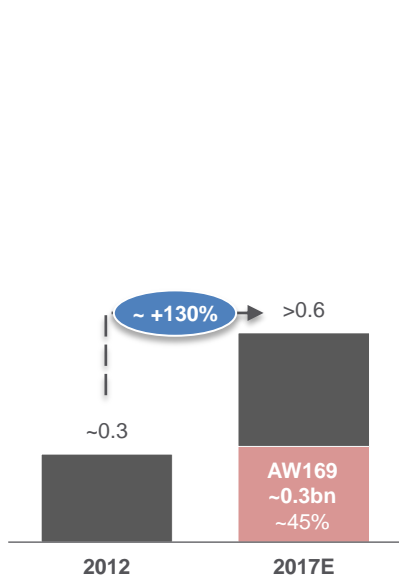
Split

**AW169**  
Driven all growth

**AW139**  
Maintained Share

**AW189**  
Market leader in new category

**AW169, AW139, AW189**  
Taken share



\$ bn    ■ Leonardo    ■ Other players

Source: Internal analysis on Leonardo Helicopters reference civil market; Economic Condition 2017; third parties analysis


# We are clear why we didn't perform in 2017...

*Lack of Discipline and Agility in our industrial response*

## Challenging market


### Compounded by Underperformance in Military sales

- Products & services potential not fully exploited
- Ineffective in tender processes and major campaigns
- Some addressable market challenges (i.e. India)
- Issues in leveraging consortium/ partnerships full potential

 Missed opportunities


### Commercial department granted excessive flexibility

- Competing for business in a challenging market
- Offered far too much flexibility to push sales
- Accepted late configuration and short lead times
- Limited forecasting capabilities to support operations

 Delays / Inability to fulfil customers' requests


### Loss of Governance and Planning & Control discipline

- Challenging situation originated by commercial decisions
- Unable to adapt quickly
- Misalignment and delays in information flows towards all key Division's stakeholders

 Delays / overruns

### Inflexibility of internal and external supply chain

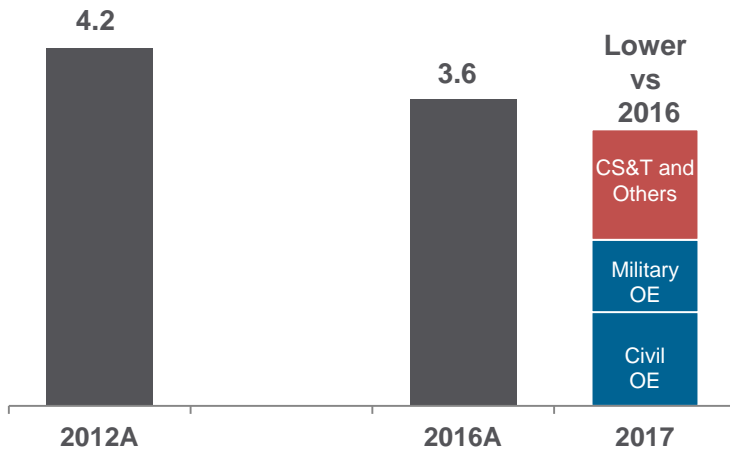
- Set up for old 'push model'
- Unable to adapt quickly enough to the flexibility required from a demand led model
- Suffered configuration changes combined with higher complexity due to new products ramping-up

 Poor delivery capabilities/ overruns

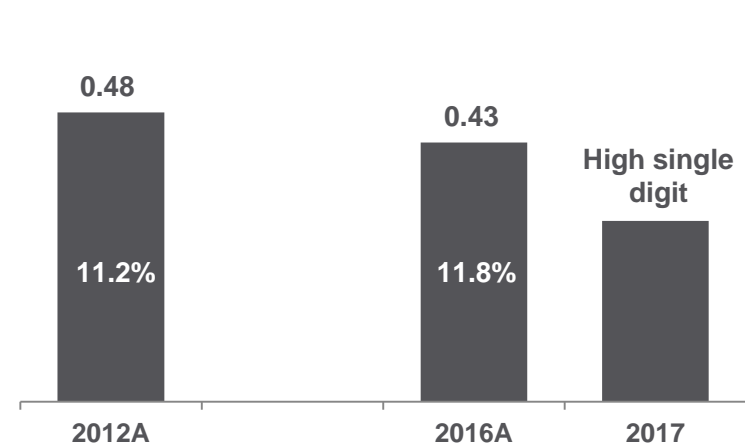
# We are clear why we didn't perform in 2017...

## Financial impacts

LEONARDO HELICOPTERS REVENUES € bn



LEONARDO HELICOPTERS PROFITABILITY € bn



- Lower revenues due to
  - Decline in the civil market
  - Mix effect
  - Reduced contribution from military programs in 2017

- Lower profitability due to
  - Lower volumes
  - Mix change
  - Reworks and inefficiencies
  - Issues on specific 2017 military contracts

# Action taken to restore core disciplines in our processes

*...and we have taken action*

## GUIDING PRINCIPLES

---

- **Discipline** in the governance
- **Agility** in the industrial operations, both in internal production shop floors and in supply chain management
- **Effectiveness**, driven by an Integrated Planning & Control process across all key stakeholders
- **Clear accountability**, through operating model revamping, impacting organization, processes and key people
- **Financial awareness** spread across the entire organisation

## IMMEDIATE ACTIONS TAKEN

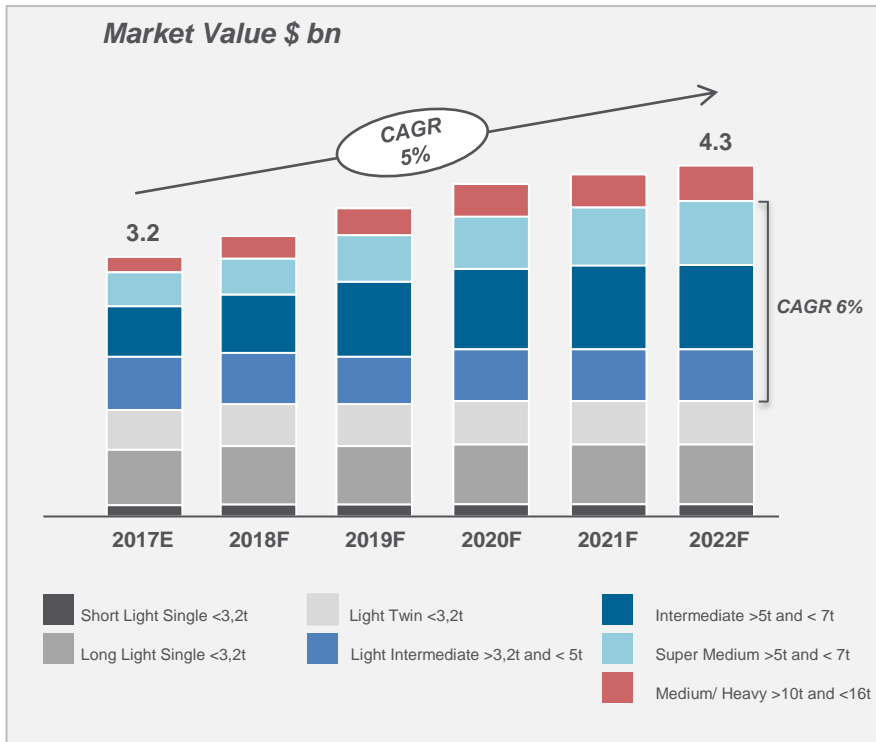
---

- Execution Excellence programme enhanced
- New integrated planning and control operating model launched
- Production flow and supply chain logics changed
- Commercial organisation and approach to market improved, also enhancing forecasting capabilities

# We have a great opportunity in an improving market

*Well positioned in the right areas of Civil*

## CIVIL HELICOPTERS MARKET FORECAST



Source: Internal analysis on Leonardo Helicopters reference civil market; Economic Condition 2017; third parties analysis

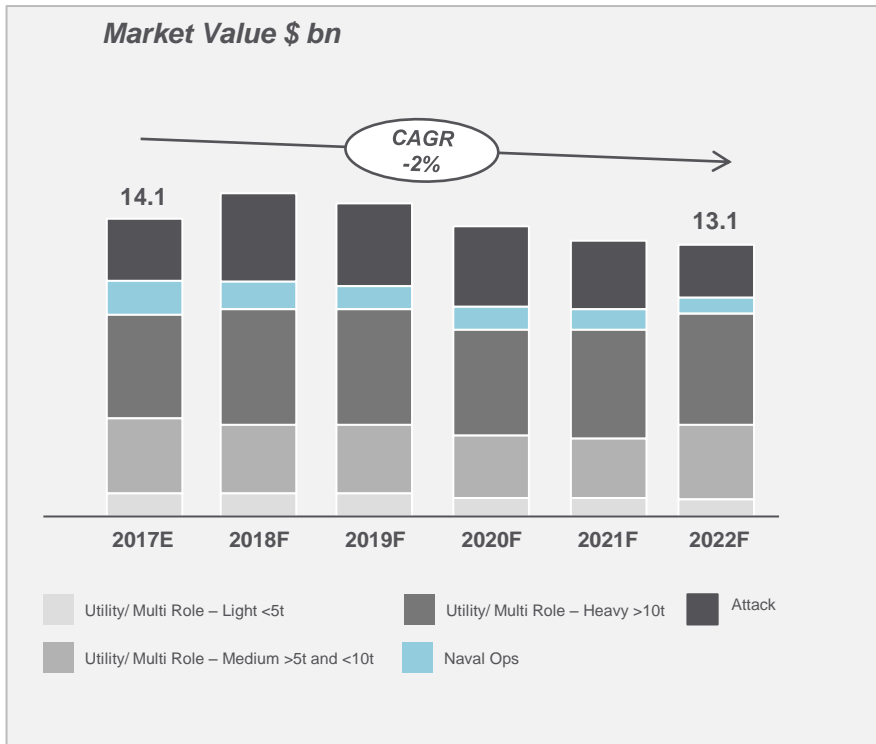
- Conservative approach, lower than major external analysts' forecasts
- Light Intermediate (AW169), Intermediate (AW139) and Medium (AW189) are main growth drivers
  - Delivering the best value for money
- Light classes will experience low growth, high competition and cost sensitivity
  - Focused presence in specific segments
- Medium/ Heavy segment not attractive



# We have a great opportunity in an improving market

*Catching non linear opportunities*

## MILITARY HELICOPTERS MARKET FORECAST



Source: Internal analysis on Leonardo Helicopters reference civil market; Economic Condition 2017; third parties analysis

- Military budget constraints & committed programmes tailing off; waiting for new procurement cycle
- Utility/Multi-role helicopters, mainly dual use military variant, will largely prevail
- We are well positioned
  - Wide and strengthening dual use products portfolio
  - Competitive military specialized platforms addressing multi-role, naval and attack segments
- Priority to diversify, penetrating new geographies

# Executing a plan to deliver a return to sustainable growth

*Key pillars for sustainable growth*

## **BEST IN CLASS OFFER PORTFOLIO**

*Strengthen our products & services value proposition*

## **TECHNOLOGY IMPROVEMENT & INNOVATION**

*Sustain rotorcraft technological competitiveness and keep investing in disruptive innovation*

## **CLEAR VISION AND MARKET STRATEGY**

## **PARTNERSHIPS**

*Select and leverage the right partners along the entire Value Chain*

## **GO TO MARKET**

*Ensure robust route to market for military programmes and civil products*

## **EXECUTION EXCELLENCE**

*Commit to continuous improvement to reach execution excellence*

# Executing a plan to deliver a return to sustainable growth

*Focus on Technology & Innovation Leadership*

## Innovative Architectures

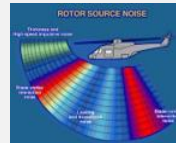
### Tilt Rotors



### RUAVs



## Platform-focused Technologies



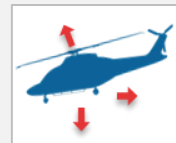
Noise Reduction and Passenger Comfort improvement



Payload fraction improvement



Green technologies



Avionics



Modelling & Simulation

## Transversal Technologies



Advanced Materials & Processes



Real-time sensors, Big Data & Advanced Analytics



Algorithm for Cyber-Protection

■ Consolidate innovation leadership and technological excellence by developing, maintaining and expanding state-of-the-art and front-end product development & innovation capabilities across the entire Product Portfolio

# Executing a plan to deliver a return to sustainable growth

*Focus On Execution Excellence: Improvement Program*

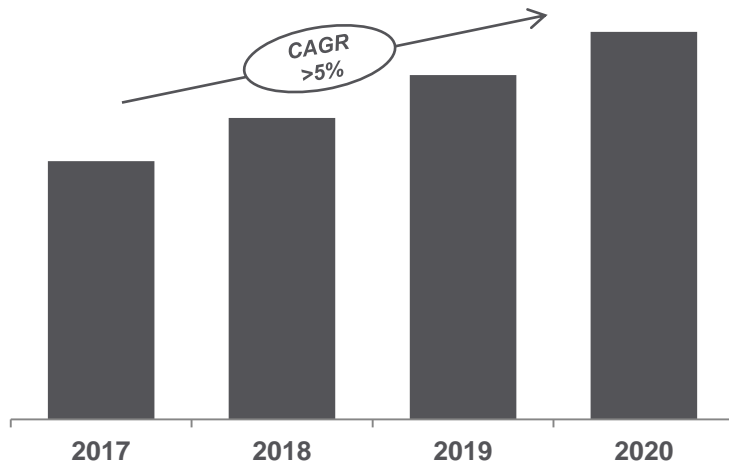


Continuous improvement program to deliver execution excellence and improve product market attractiveness, lower operating costs and cash generation

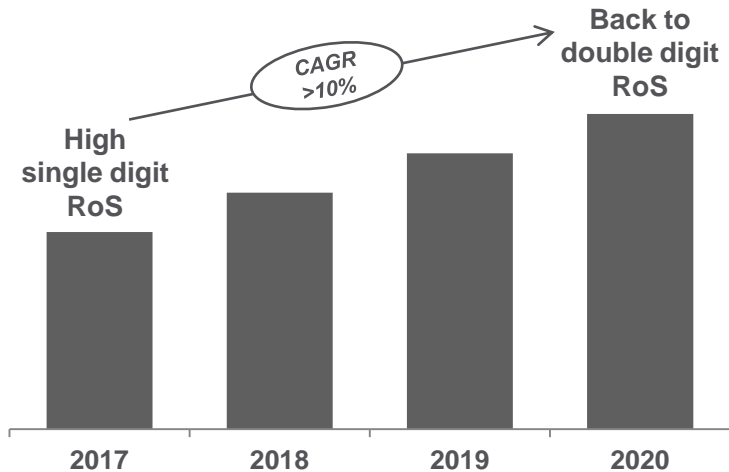
# Executing a plan to deliver a return to sustainable growth

*Realistic expectations*

LEONARDO HELICOPTERS REVENUES € bn



LEONARDO HELICOPTERS EBITA €bn



- Back to double digit profitability by 2020
- A return to growth supported by an healthier market outlook
- Capturing growth by improving actions already deployed
- Aimed at delivering effectively what we have planned
  - Roughly 90% of our deliveries in 2018 already have a clear configuration
- Well balanced growth across the three key segments of Civil, Military and Customer Support & Training

# Key Messages



We have a high quality Helicopters business with the right product strategy



We are clear why we didn't perform in 2017 and we have taken action



We have a great opportunity in the right areas of an improving market



We are executing a plan to deliver a return to sustainable growth

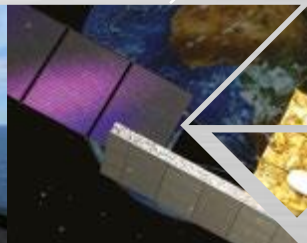
# Leonardo Industrial Plan

## Executing our growth strategy

**Alessandro Profumo**

Chief Executive Officer

Vergiate (VA), 30 January 2018



# Executing our growth strategy



Improving markets provide a strong backdrop for our future growth



More than just helicopters– strong portfolio focused on 3 core business



We are setting up this business to win



# Improving markets provide a strong backdrop for our growth plan

*Strong fundamental growth drivers*

## GLOBAL OUTLOOK

---

- Uncertainty in Europe (immigration flows and election in several Nations)
- New US Defence and international policy

## DEFENCE BUDGETS

---

- About 3% CAGR of Procurement + RDT&A in 2017-2022
- European growth mainly driven by France, Germany and UK
- Flat Italian Defence Budget, still below 2% NATO Target

## LEONARDO TARGET MARKET

---

- Our reference market is € 113 bn per year, 19% of total A,D&S reference market
- Ca. 6% 5 years CAGR in 2018-2022
- Highest growth perspectives in Military Aircraft, Civil Helicopters and Security; slight contraction in Military Helicopters

## LEONARDO COMPETITIVE POSITIONING

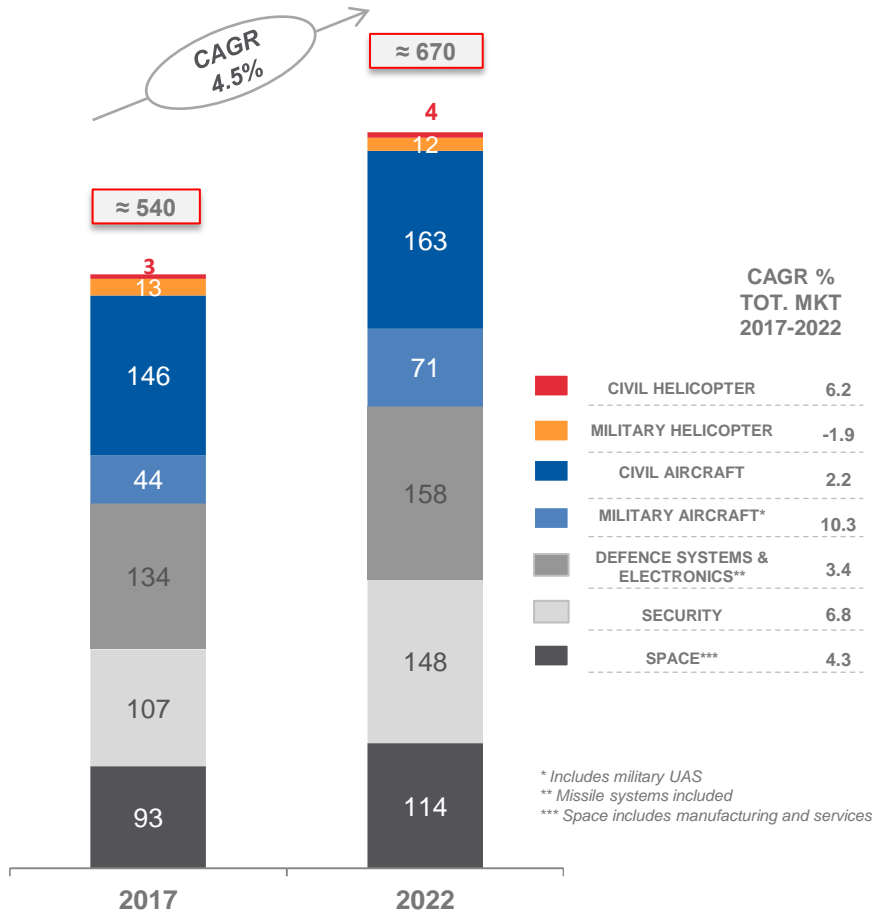
---

- #10 global A,D&S players; new comers are changing the competitive landscape
- Most diversified portfolio vs Peers
- Some areas of leadership (i.e. civil helicopters, trainers, radar and sensors, naval guns)

# Improving markets provide a strong backdrop for our growth plan

*Our core categories are all expected to grow*

## TOTAL A&D MARKET- EVOLUTION BY BUSINESS - € bn



- Material recovery in Civil Helicopters
- Major key programmes in Military Aeronautics (Combat & Trainers)
- Defence Systems & Electronics sustained by international crisis threats
- Key opportunities in Space

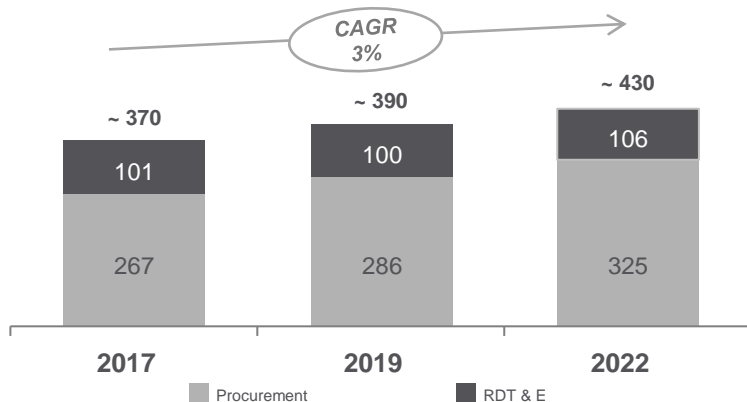
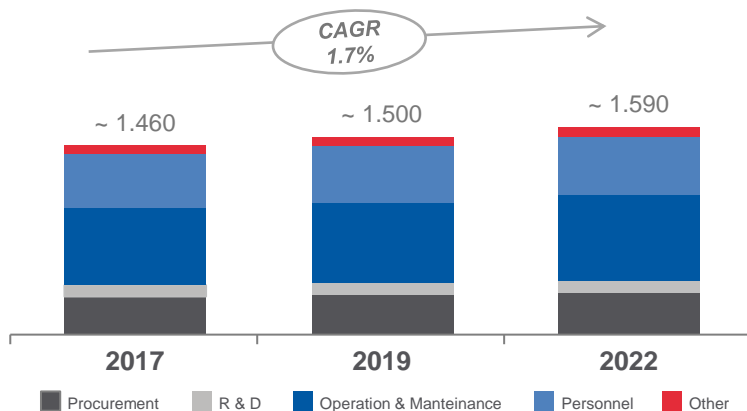
\* Includes military UAS  
 \*\* Missile systems included  
 \*\*\* Space includes manufacturing and services

Sources: Leonardo estimates on IHS Jane's, 2017 / Forecast International April 2017 / HSRC 2017 / SDI 2017

# Improving markets provide a strong backdrop for our growth plan

*Focus on Defence Budgets - Worldwide*

**WW DEFENCE BUDGET BY DESTINATION (2017 – 2022) - € bn**

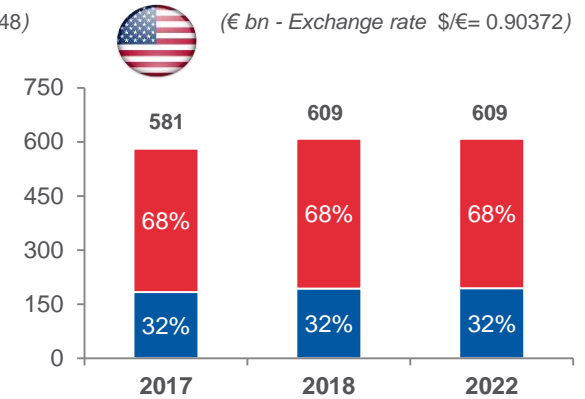
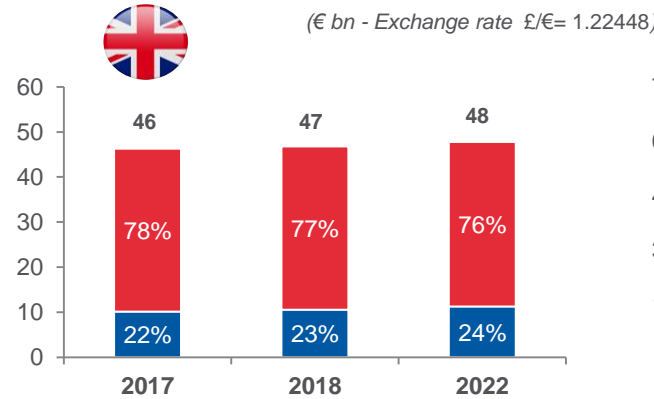
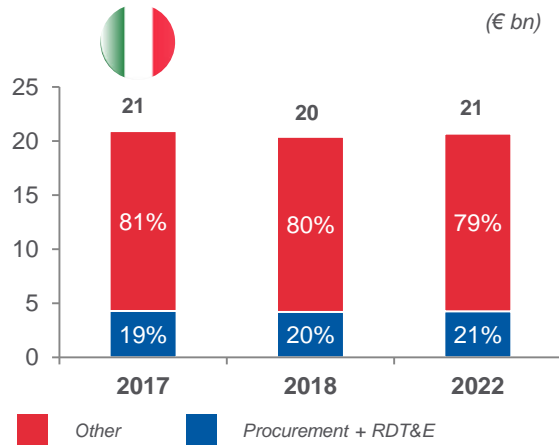


- 2017 Global Defence Budget continues the increasing trend started in 2014
- Growing procurement and R&D
- Improved economic conditions and strategic challenges
- Rebuilding the Military in US
- European efforts to increase budget to 2% GDP in NATO Countries
- Asia Pacific & Middle East most attractive EU markets

Sources: IHS Jane's Nov2017 and Leonardo estimates; Exchange rate \$/€= 0,90372; IHS Janes - Nov. 2017 RID 7/17

# Improving markets provide a strong backdrop for our growth plan

*Our domestic markets remain stable... with some opportunities*



- Substantially flat Defence Budget
- Possible additional funds in the next few years
- Italy is bucking the trend compared to other NATO Countries
- Procurement continue to receive a limited amount

- Moderate growth in the UK Defense Budget under pressure
- Confirmation of the Security initiatives outlined in the SDSR and funding
- Defence Equipment Plan in place
- Brexit uncertainties

- Increasing trend in US Defence Spending more than 3% of National GDP
- Procurement expected to grow
- Boosted Cyber Security funds (Cyberspace included)
- Some funds allocated to Foreign Military Financing

Sources: IHS Jane's Nov2017 and Leonardo estimates; Exchange rate £/€= 1.22448; IHS Janes - Nov. 2017 RID 7/17

# Improving markets provide a strong backdrop for our growth plan

Potential opportunities from European spending and 2% GDP NATO countries target

## EUROPEAN DEFENCE ACTION PLAN



The European Council adopted the «*implementation plan of the global strategies on matters of defence and security*» and the *European Defence Action Plan*

## EUROPEAN FUNDS

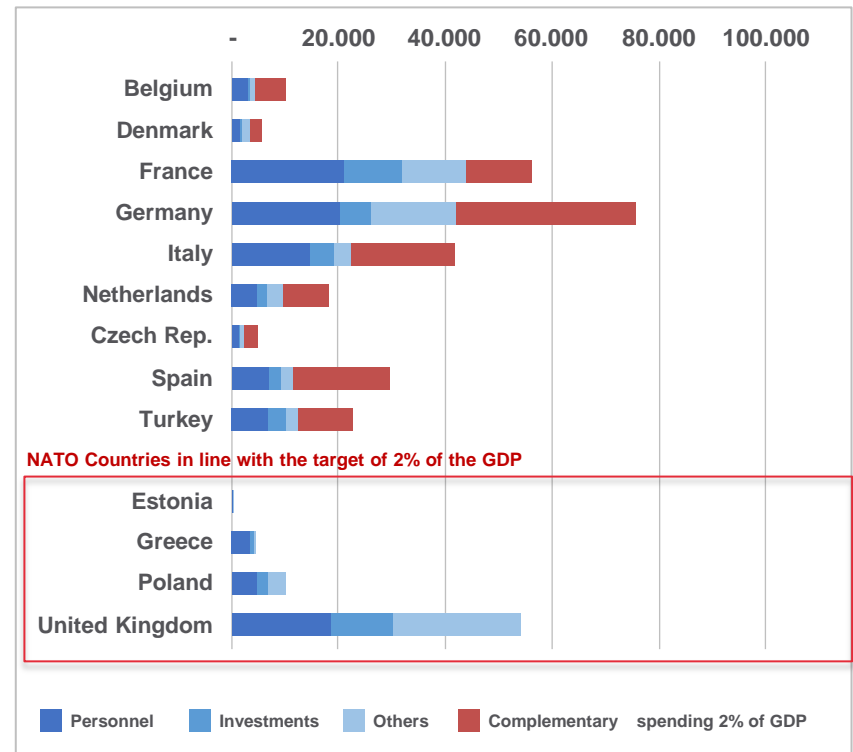
### Research Window»

- Preparatory Action - € 90 mln from 2017 to 2020
- EDRP (*European Defence Research Program*) - € 500 mln/year in the period 2021-2028, for a total of € 3.5 bn
- «*Capability window*»
- Financial instruments for the co-development of technologies and capabilities acquisition
- Defence Industrial Development Plan - DIDP - € 500 mln on 2019-2020
- DIDP 2 from 2021, € 1 bn from EC with 5x multiplier effect. Overall estimated volumes € 5 bn/year

## ACHIEVEMENTS

- Leonardo was awarded the European research tender (OCEAN2020) for naval surveillance technology, issued by the European Union under the 'Preparatory Action on Defence Research'

## NATO 2%GDP TARGETING - EUROPEAN COUNTRIES



Source: Leonardo elaboration on Budget NATO estimate, 2017

# More than just a helicopters business

*...Strong portfolio focused on 3 core divisions*



# More than just a helicopters business

*European leader in Electronics, Defence and Security Systems*

- Leader in Military Defence Electronics
  - Radars and sensors
  - On-board avionics
  - Electronic warfare systems
- ISTAR Avionic – Surveillance
- C4I Systems / Aero Defence
  - Naval systems
  - Combat systems
  - Combat management Systems
- Cyber Security
- Exposure to the Biggest Defence Market (US) through DRS



# More than just a helicopters business

*Key programmes and technologies to sustain Aeronautics in the long term*



- International Cooperation Programmes
  - Eurofighter Typhoon
  - F-35 Lightning II
- Able to provide complete solutions in Military Training Syllabus
  - Trainer Aircraft (M-345 HET, M-346)
  - Ground Based Training System (GBTS) for pilots and ground crew
- UAVs Evolution (UCAV)
- Tactical Transport Aircraft & Special Mission
  - C27-J
- Cutting Edge Technologies in structural components (i.e. B787)
- Regional Transport Aircraft (ATR)



# Strong portfolio based on 3 core divisions

*We are clear on our strengths and weaknesses*

## STRENGTHS

---

### Business

- Strong and innovative product portfolio
- Clear market leadership in some business segments
  - Civil Helicopters, Trainers, Naval Armaments, Radars and Sensors
  - Space, Missiles, Regional Turboprop (in JVs / Partnerships)
- Well recognized position as a «trusted partner»

### Technologies

- Mastering of «CORE» technologies
  - Radar systems
  - Electro-optical systems
  - Cyber security and intelligence
  - Aircraft systems integration and certification
- Continuous upgrading of products by technology insertion, following Customer requirements

## WEAKNESSES

---

### Business

- Too diversified portfolio compared to other international peers
  - Fragmentation / scattering of resources
  - Different positions along the industrial value-chain
  - Sub-optimal cash generation in some business lines
  - Limited market share in a number of business lines

### Technologies

- More technology driven than market oriented
- Cautious exploration and adoption of «NEW» technologies
  - Digital transformation of products
  - More electric
  - New materials and processes

# Strong portfolio focused on 3 core divisions

*Still too diversified product portfolio*

	Main Lines of business							
HELICOPTERS	Civil Helicopters	✓	✓				✓	
	Military Helicopters	✓	✓				✓	
AERONAUTICS	Civil Aircraft*	✓	✓					
	Military Aircraft	✓	✓	✓	✓		✓	
	Trainers	✓		✓	✓		✓	
	UAS	✓	✓	✓	✓	✓	✓	✓
	Aerostructures	✓	✓					
DEFENCE ELECTRONICS & SECURITY	Avionics Systems	✓	✓	✓	✓	✓	✓	✓
	Land and Naval Systems	✓	✓	✓	✓	✓	✓	✓
	Security	✓	✓	✓	✓	✓	✓	✓
DEFENCE SYSTEMS	Land Armaments	✓		✓				
	Naval Armaments	✓		✓				
	Missiles	✓	✓	✓	✓	✓	✓	✓
	Underwater-Torpedoes	✓		✓	✓			✓
SPACE	Services	✓	✓			✓		
	Manufacturing	✓	✓			✓	✓	✓

Note: benchmark based on quali-quantitative evaluation with reference to: (i) revenues by segment, (ii) technology / product portfolio, (iii) market positioning, and (iv) market competitiveness

MBDA

(\*): Leonardo is active in the Regional Aircraft business through ATR

Source: Leonardo elaborations

# We have a well positioned portfolio focused on 3 core business

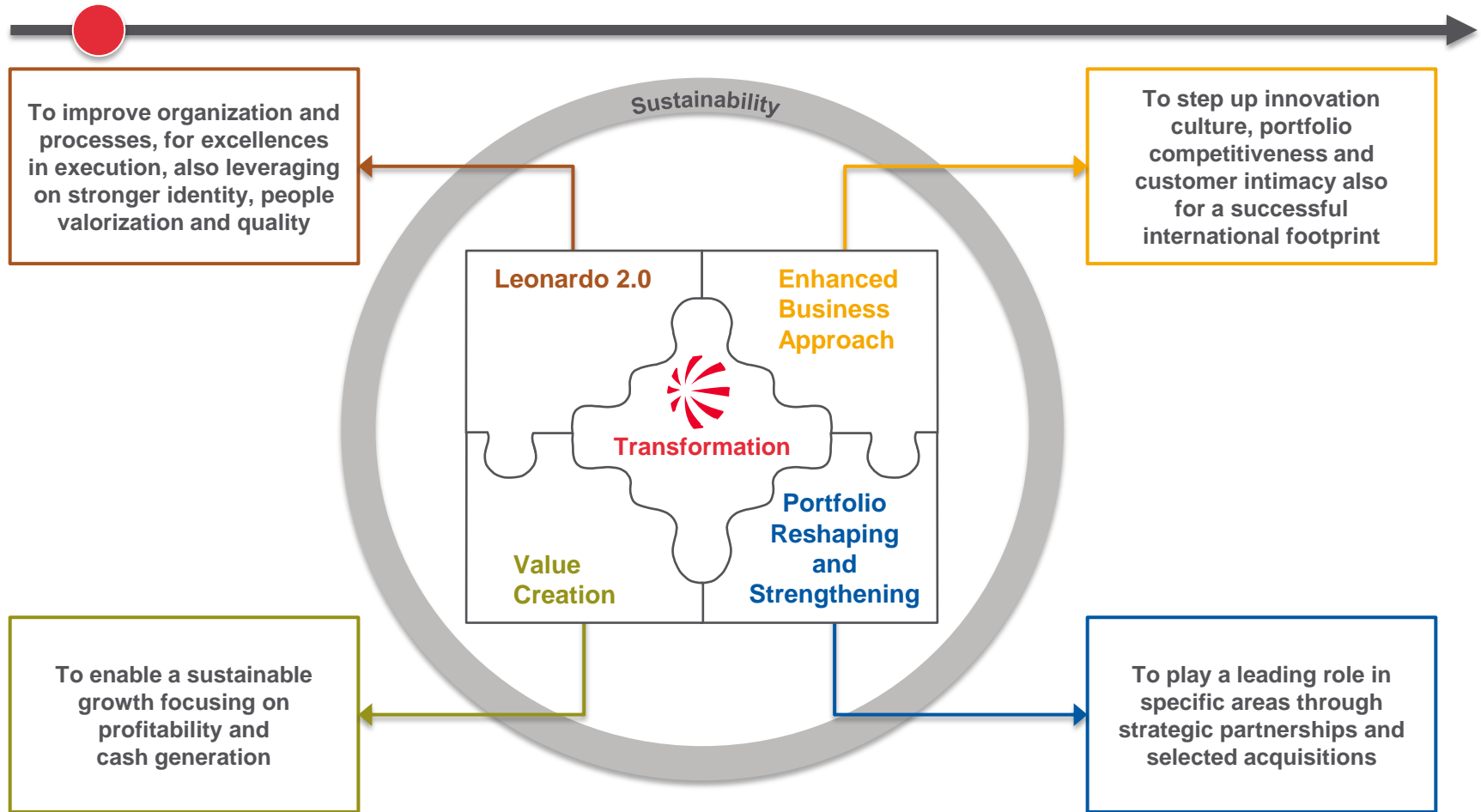
*Still too diversified – what are we going to do about it?*

## Portfolio reshaping

1. **Allocation of capital**
  - Directed to our core businesses and competencies
2. **Partnering with other/larger companies**
  - Broader shoulders to access commercial opportunities
  - Reduces investment of capital and management time
3. **Selected disposals and acquisitions**
  - We will update you when we have something to say

# We are setting up this business to win

2018



# We are setting up this business to win

## *Leonardo 2.0 in a Nutshell*

### INSPIRING PRINCIPLES

---

- Gather Leonardo's people under the same core values, revolving around customer satisfaction, technological innovation and integrity
- People at the center of Leonardo
- Enhance the “ONE Company” organization model

### COST TRANSFORMATION

---

- Materially improve cost position through short-term and long term initiatives
- Launch Group wide cost transformation program

### OPERATIONS

---

- Materially improve industrial performance across the entire value chain
- Enhance engineering
- Revamp shop-floor – “Zero Defects Manufacturing & Industry 4.0” Program
- Evolve relationship with suppliers

### ORGANIZATION ENABLERS

---

- Set-up central governance of Group improvement initiatives
- Improve working environment through office spaces and buildings rationalization

# We are setting up this business to win

## Research and Development Activities



List of products is not exhaustive

# Leonardo Industrial Plan

## Enhanced commercial strategy

**Lorenzo Mariani**

Chief Commercial Officer

Vergiate (VA), 30 January 2018



# Key Messages



Solid Order Intake Plan



Key Strategic Campaigns



Leveraging International Presence: Offices & Subsidiaries



Enhanced Customer Support

*.....back to growth*

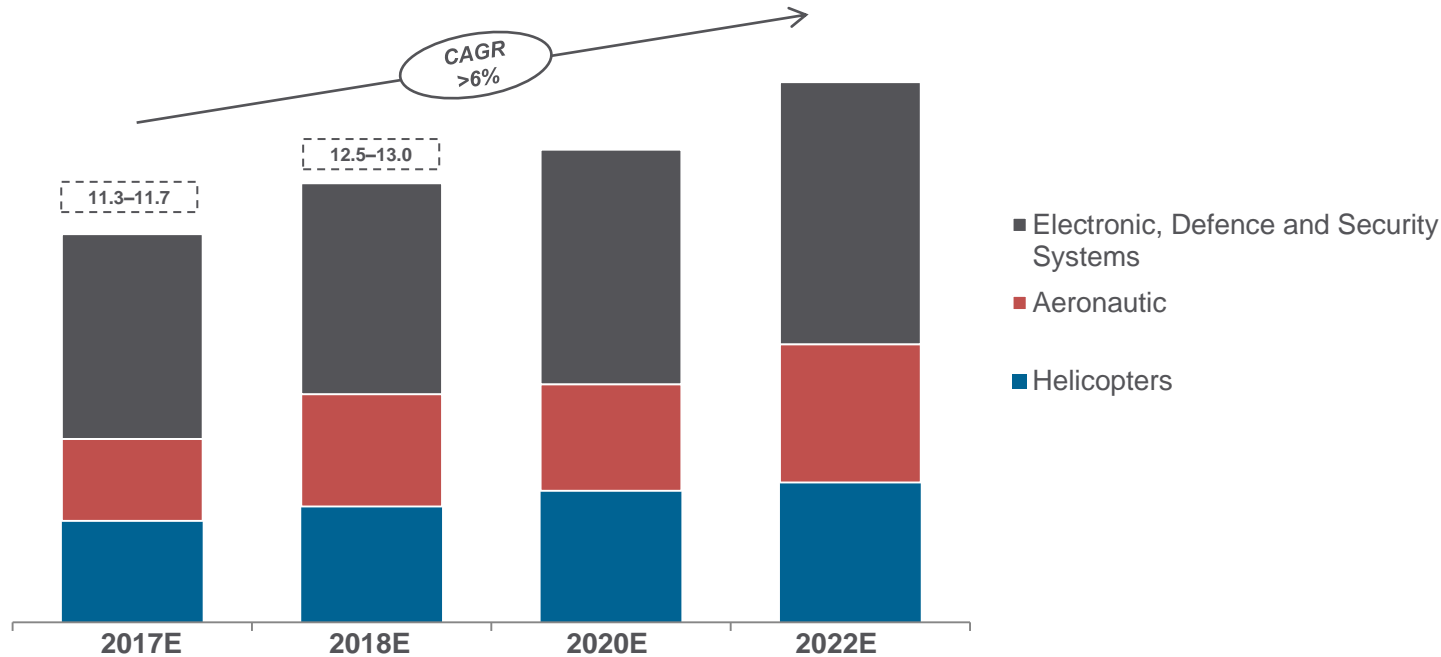


# We are entering a new phase of sustainable growth

- A challenging but realistic Order Intake Plan
- 2018-2022 Order CAGR >6%, well balanced on the three Key Business
  - Helicopters
  - Aircrafts
  - Electronics for Defence & Security
- Three Key Pillars for Growth
  - Internationalization
    - International Offices
    - Subsidiaries & JVs
    - Regional Logistic Hubs
  - Strategic campaigns
    - > € 20 bn
    - 70 key campaigns
- Customer Support Development growing market and emerging requirements
- Customer intimacy

*.....back to growth*

# Solid Order Intake Plan supported by strategic campaigns



- Material recovery in Military Helicopters driven by Key Large Campaigns
- Aircrafts growth sustained by EFA and Trainers
- ED&S' positive trend driven by Avionics, Naval, Cyber & DRS
- Customer Support up from current <20% to > 25%

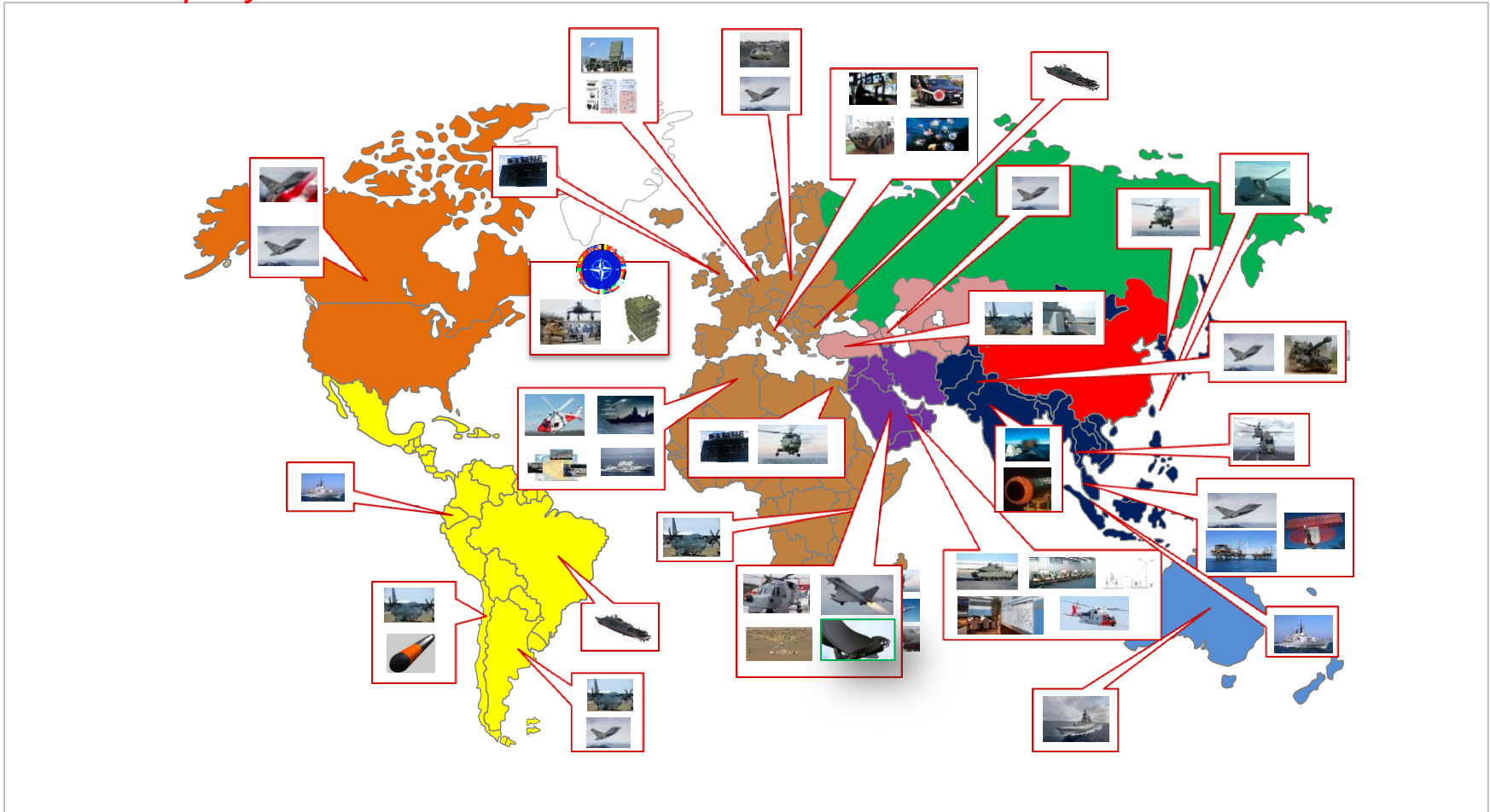
# Key Strategic Campaigns

*Being closer to the customers and its needs*

- > 70 Key Campaigns for over € 20 bn in 2018-2020, excluding US
- «Big shots» in US, not included in baseline plan: T-100, UH-1N
- Top priority Countries accounting for over € 1 bn each
  - Algeria
  - Qatar
  - Kuwait
  - Egypt
  - Poland
  - Pakistan
  - Malaysia
  - Saudi
- Centralised Governance challenging and control, full divisional accountability, continuous tracking, focused team
- Tight link with the Country & Regional Offices, full Support of Italian & UK Institutions, coordinated UK & IT efforts on Export campaigns (i.e. Helicopters)

# Key Strategic Campaigns

*Strong opportunities to address worldwide customers needs leveraging on the «One Company» – «One Voice»*



# Leveraging on International presence

## *Offices & Subsidiaries*

- 25 Offices & Subsidiaries at the end of 2017
- More than 10 new initiatives in 2018 – 2019
- More than 25 new initiatives in the Plan
- Link with key strategic campaigns:
  - Algeria
  - Bahrain
  - Azerbaijan
  - Egypt
  - Poland
  - Pakistan
  - Australia
  - Thailand
- Proximity to the Customer
  - Daily check of Key Campaigns
  - Building requirements
  - Logistic support
  - Better understanding of the competitive environment

# Offices and Subsidiaries

*Strengthening existing International Representative Offices Network*



*...structured approach to market opportunities*

# Enhanced Customer Support

- 2017 – 2022 CAGR c. 10%
- Customer Support Target: >25% of Order Intake by end of plan
- Positive trend in Aircraft, Helicopters and Electronics
- 4 Main Areas
  - Regional Hubs for enhanced local capability
  - Dedicated Organization in each Division with challenging & control from CCO on best practices
  - Manufacturing & Supply Chain specific processes
  - Enhanced product portfolio

CUSTOMER SUPPORT & SERVICE



GROUP ORDER INTAKE

*...exploiting significant opportunities*

# Exploiting further opportunities in Customer Support

## *extended offering*

- Mid Life Upgrade (MLU):
  - Already applied to Land and Naval environment
  
- Advanced Training
  - Training School: an innovative approach in partnership with Italian Air Force



# Leonardo Industrial Plan

## Financial Plan

**Alessandra Genco** Chief Financial Officer

Vergiate (VA), 30 January 2018



# Key Messages

*Entering a new phase...*

- Higher market penetration
- Selected investments for growth
- Cost control
- Profitability improvement
- Cash flow generation
- Strong capital structure

*...back to growth*

# 2017 was a year of rebasing

*We had to reset in challenging markets...*

		FY2016A	FY2017E (as at March 2017)	FY2017E (as at November 2017)	
<b>New orders</b>	€ bn	20.0	12.0 – 12.5	c. 12.0 <small>Assuming finalization of C27J export contracts</small>	✓ 11.3 – 11.7
<b>Revenues</b>	€ bn	12.0	c. 12.0	11.5 – 12.0	✓
<b>EBITA</b>	€ mln	1,252	1,250 – 1,300	1,050 – 1,100	✓
<b>FOCF</b>	€ mln	706	500 – 600	500 – 600 <small>Assuming cash-in of EFA Kuwait payments related to 2017 milestones</small>	✓
<b>Group Net Debt</b>	€ bn	2.8	c. 2.5	c. 2.6 <small>Including the effect of US bond buyback</small>	✓

*Exchange rate assumptions: €/USD 1.15 and €/GBP 0.85*

- Re-base in Helicopters
- Order intake affected by key export order slippage
- 2017E Revenues, EBITA and FOCF towards the lower end of Guidance

*... continued confidence in medium-term opportunities*

# Core strenghts of our Group

## HELICOPTERS



- Best in class business
- Outstanding product portfolio
- Leading margins

## DEFENCE ELECTRONICS



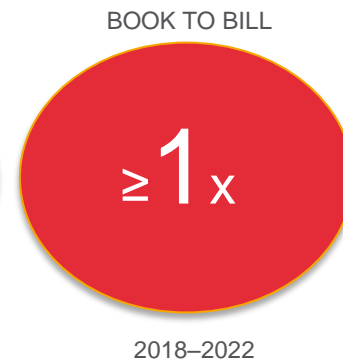
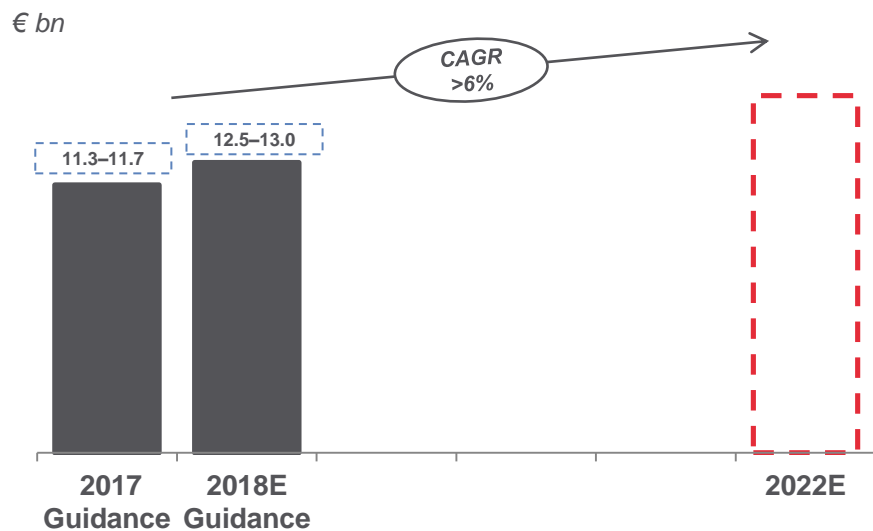
- Solid business built on long term contracts
- Healthy backlog
- Key export market exposure

## AIRCRAFTS



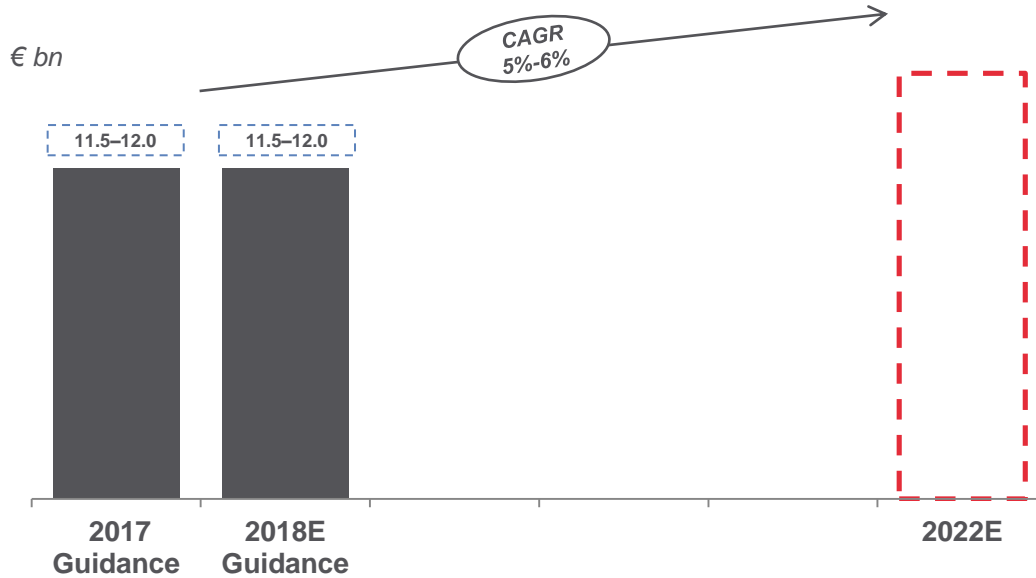
- Key player in leading international programmes
- Strong backlog
- Attractive product portfolio (i.e. Family Trainer)

# Strong Order Intake



- Strong pipeline
- Capturing opportunities in growing export markets
- Central coordination of commercial campaigns

# Stable and Sustainable Revenue Growth



BACKLOG

c. €34 bn

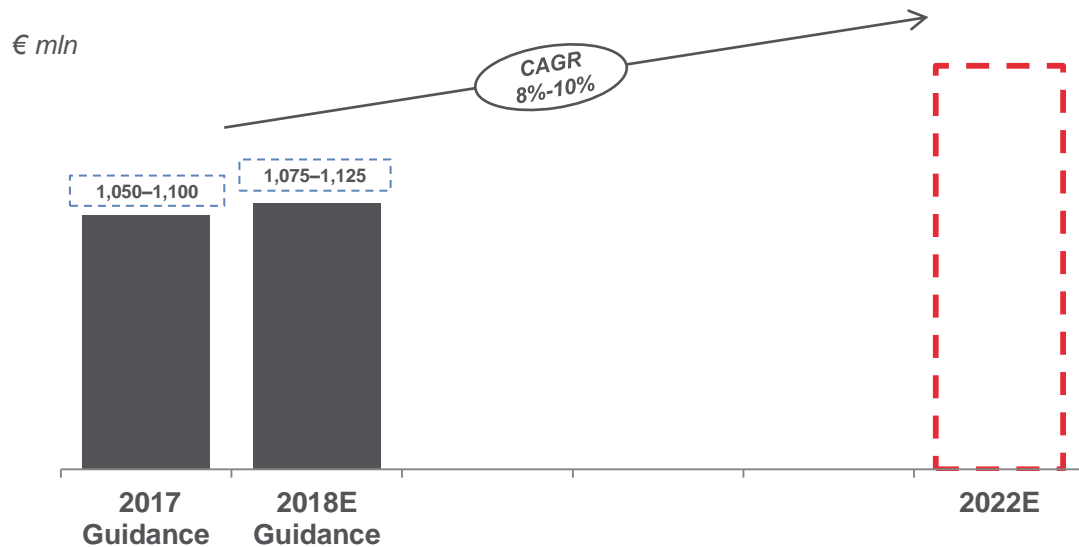
9M2017A

- Solid Backlog c.3 years of equivalent revenues
- Strong order intake



- Helicopter recovery supported by an attractive product portfolio
- Aircrafts and Defence Electronics strong backlog and market position
- Production ramp up of some programmes (i.e. in DRS)

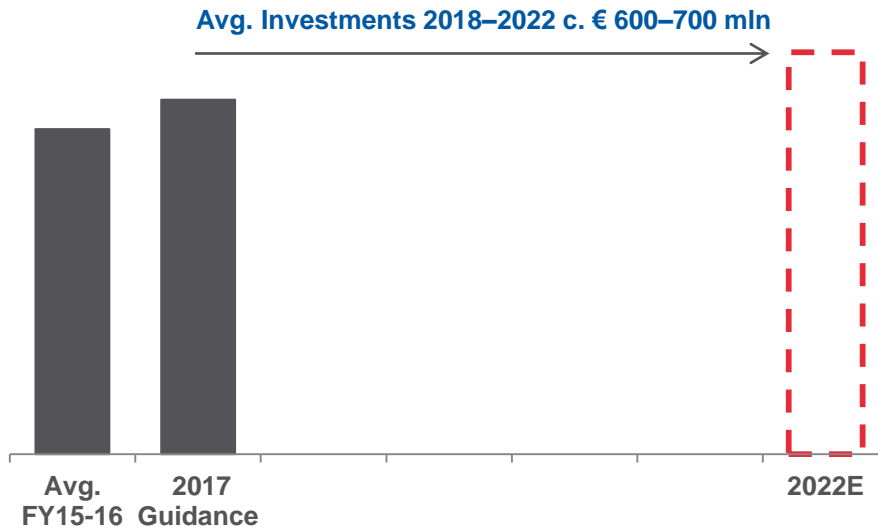
# Profitability back to double digit by 2020



- Helicopters recovery
- Solid continuous contribution from Defence Electronics and Aircrafts
- Operating leverage driven by higher volumes
- Relentless cost control through central coordination

# Investing in sustainable growth

€ mln



Selected and market driven investments



€ 150–200 mln higher compared to 2015-2016 avg.



## MAIN PROGRAMS



Emphasis on key technologies and products for long term sustainability

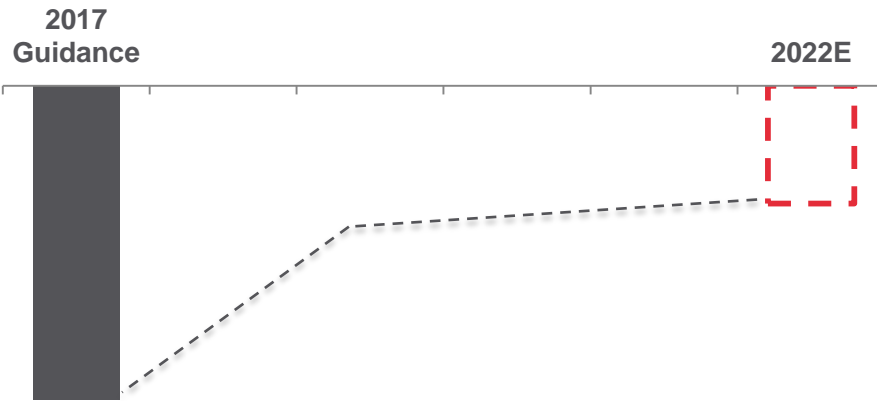


Short term investments for the One Company full deployment (i.e. digital transformation)



# Working Capital under control while supporting growth

€ mln



2018–2020 Eurofighter  
Kuwait production ramp up



Customer advances winding  
down



Need to support growth in  
top line



Operating Working Capital on Revenues,  
net of customer advances, almost stable/  
slightly reducing thanks to initiatives



Working Capital efforts aimed at improving  
industrial processes through effective  
integrated planning



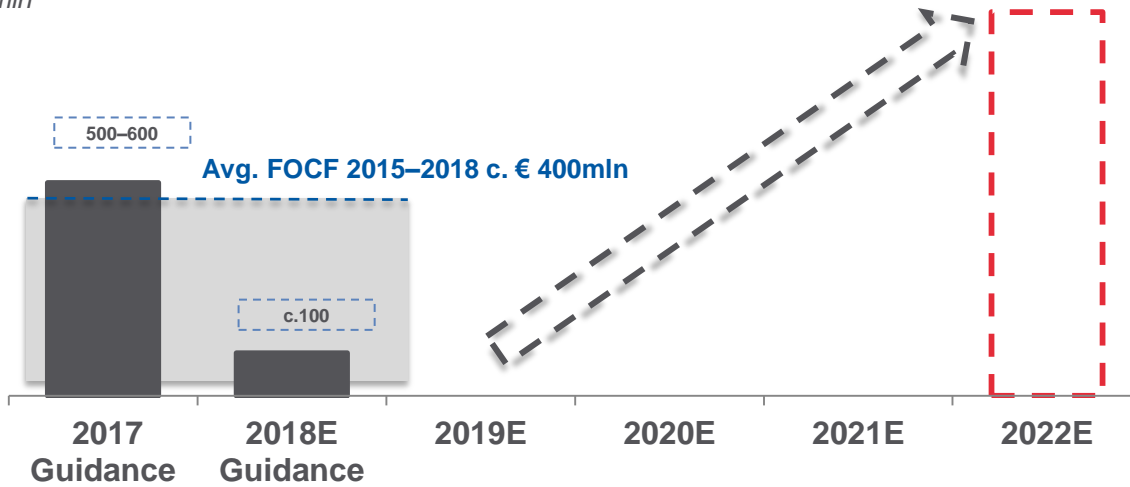
Set specific targets and actions on key  
working capital components



Define clear accountability and set the  
appropriate incentive scheme

# FOCF remains a priority, but timing will impact 2018 and 2019

€ mln



CASH FLOW CONVERSION RATE\*



2015-2018 AVERAGE

- Short term pressures in 2018 and 2019
  - Eurofighter Kuwait
  - Winding down of contracts' advances
  - Investments for growth
  - Aerostructures' underperformance
- FOCF significant step up from 2020



- Growing FOCF sustained by
  - Kuwait contribution
  - Full recovery in Helicopters
  - Order growth
  - Higher profitability
  - Lower financial charges

(\*) FOCF/EBITA after cash financial charges and cash taxes

*...growing Cash flow conversion rate\* beyond 2019*


# Executing on our Financial Strategy: Reduce Debt

## Gross Debt Reduction<sup>1</sup>



TARGET REDUCTION BY 2020



 Only a portion of expiring debt refinanced

(1) Bonds and EIB Loan

# Delivering more than promised in 2017

*What we planned in 2017 .....*

*.... what we achieved.....*

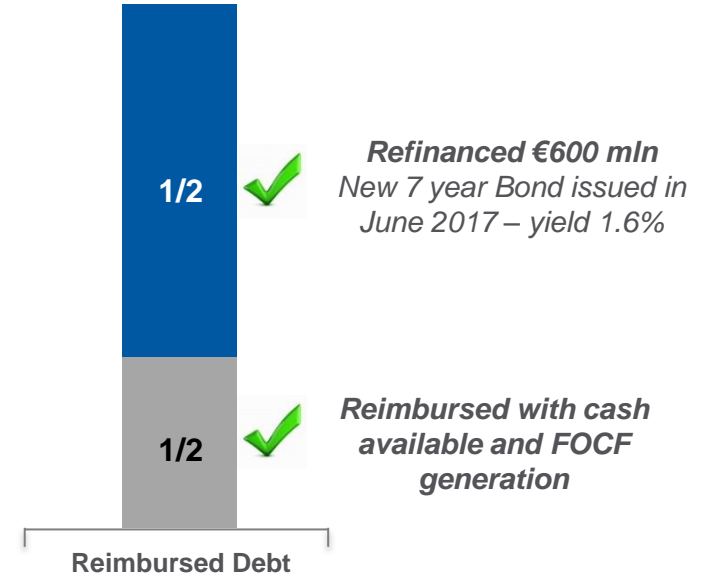
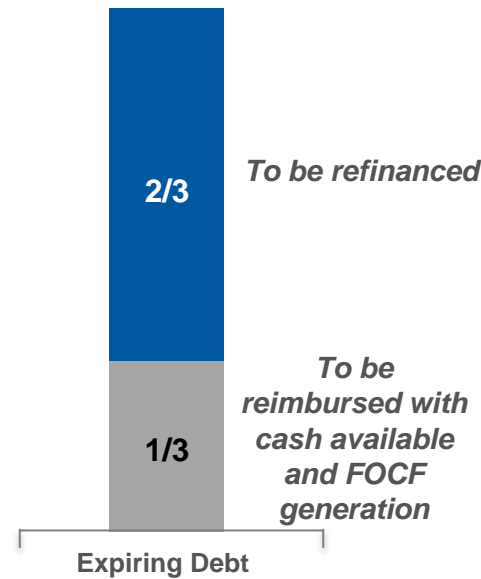
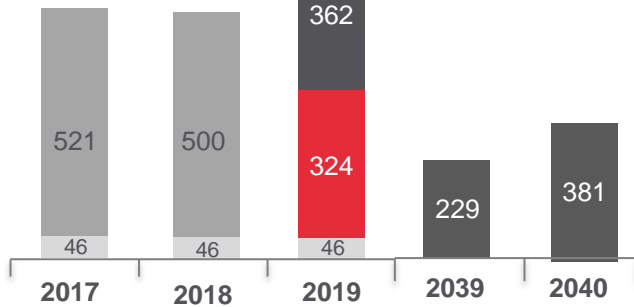
**Expiring Debt  
(2017–2019) + tendered 2039  
and 2040 US Bonds  
w/\$ 200mln NPV**

**€ 2.3bn**

**€ 1.2bn**

**Reimbursement of bond  
maturing in 2017 and buy  
back of US bonds 2019,  
2039 and 2040<sup>1</sup>**

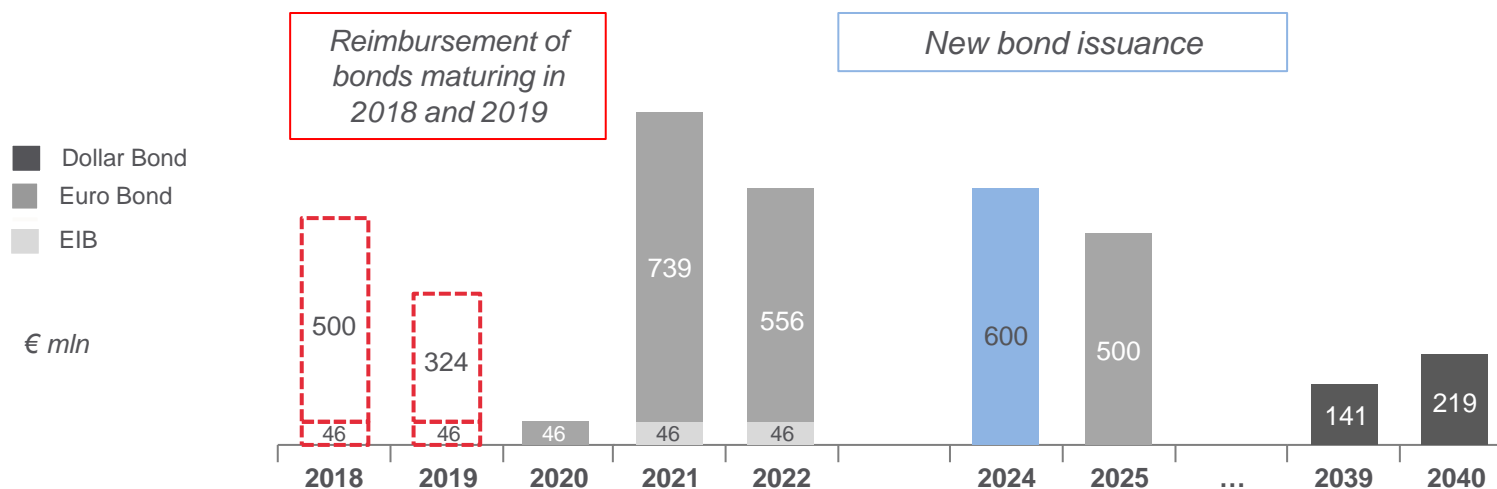
€ mln



Dollar Bond
  Euro Bond  
 Sterling Bond
  EIB

(1) Bought back entire 2019 bond through make whole exercise (\$434mil) and tendered a total of \$300mil of 2039 and 2040 bonds

# ... And we plan to do more in 2018 – 2020



	As of today	Before last review	Date of review
<b>Moody's</b>	Ba1 / <i>Positive Outlook</i>	Ba1 / <i>Stable Outlook</i>	May 2017
<b>S&amp;P</b>	BB+ / <i>Stable Outlook</i>	BB+ / <i>Negative Outlook</i>	April 2015
<b>Fitch</b>	BBB- / <i>Stable Outlook</i>	BB+ / <i>Positive Outlook</i>	October 2017

...fully committed to Investment Grade

# Executing on our Financial Strategy: Reduce Cost of Funding

## Lower Cost of Funding<sup>1</sup>



TARGET REDUCTION BY 2020



- In 2017 retired bonds with an average coupon of 5.5% (both in euro and in dollar buyback transaction w/\$ 200mln NPV)
- New bond Issued in June 2017 at 1.6% yield
- Revolving Credit Facility renegotiated at lower margin

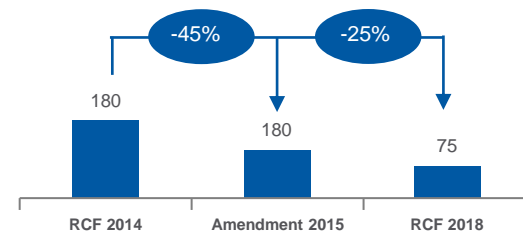
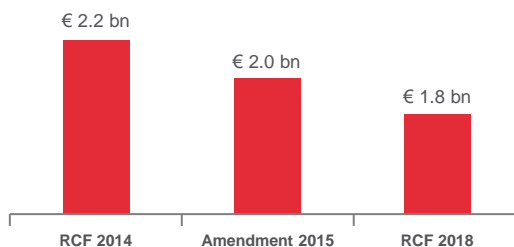
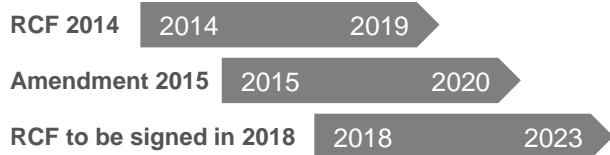
(1) Year End Bonds and EIB Loan Funding Cost

# Revolving Credit Facility Renegotiation

**Extending Facility Life**  
*Expiring Date*

**Size Fitting business needs**  
*Amount*

**Lowering Financial Costs**  
*Margin (bps)*



**Bank Commitments for €3.6bn → 2x Oversubscribed**

# 2018 Guidance: planting the seeds for growth

		<b>FY2017E</b>	<b>FY2018E</b>
<b>New orders</b>	€ bn	✓ 11.3 – 11.7 <small>Assuming finalization of C27J export contracts</small>	12.5 – 13.0
<b>Revenues</b>	€ bn	✓ 11.5 – 12.0	11.5 – 12.0
<b>EBITA</b>	€ mln	✓ 1,050 – 1,100	1,075 – 1,125
<b>FOCF</b>	€ mln	✓ 500 – 600 <small>Assuming cash-in of EFA Kuwait payments related to 2017 milestones</small>	c.100
<b>Group Net Debt</b>	€ bn	✓ c. 2.6 <small>Including the effect of US bond buyback</small>	c. 2.6

Exchange rate assumptions: €/USD 1.20 and €/GBP 0.90

**...moving to growth**



# Getting back to sustainable profitable growth

- 2018–2022 cumulated orders c. € 70 bn and book to bill  $\geq 1x$
- 2018–2022 Revenue CAGR 5% – 6%
- Back to double digit in profitability, with RoS at 10% by 2020
- Investments to support Growth both in key products and operating backbone
- FOCF as key priority: step up from 2020
- Disciplined financial strategy

# Leonardo Industrial Plan

## Concluding remarks

**Alessandro Profumo**

Chief Executive Officer

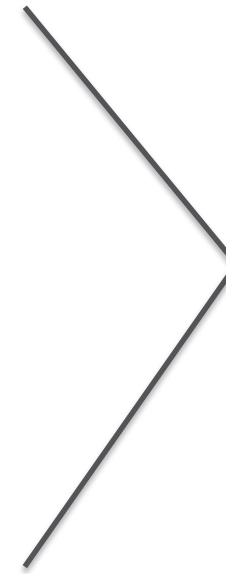
Vergiate (VA), 30 January 2018



# Concluding Remarks

*A plan to return to sustainable profitable growth*

- We are confident about the opportunity for Leonardo: entering a new phase
  
- We are going to set this business up to win
  - Leonardo 2.0
  - Enhanced Commercial Approach
  - Investments for Growth
  - Cost control
  
- Disciplined financial strategy



**Now it's time  
to execute**

# Q&A

THANK **YOU** FOR YOUR ATTENTION



# 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

## **Raffaella Luglini**

*EVP External Relations, Communication, Italian  
Institutional Affairs, Investor Relations and Sustainability*  
+39 06 32473.066  
[raffaella.luglini@leonardocompany.com](mailto:raffaella.luglini@leonardocompany.com)

## **Valeria Ricciotti**

*Equity & Fixed Income Analysts & Investors  
and Relationship with Credit Rating Agencies*  
+39 06 32473.697  
[valeria.ricciotti@leonardocompany.com](mailto:valeria.ricciotti@leonardocompany.com)

## **Manuel Liotta**

*Group Sustainability & ESG*  
+39 06 32473.666  
[manuel.liotta@leonardocompany.com](mailto:manuel.liotta@leonardocompany.com)