



## **BBA Aviation**

### **Half-year results 2018**

#### **Interview with Mark Johnstone, Group Chief Executive and David Crook, Group Finance Director**

**Q: So, what are your first impressions, four months in as CEO?**

A: I've spent the first four months travelling around, meeting as many people as I can across all of our businesses both Signature, Ontic and ERO. It has really convinced me what a great group of employees we have and how passionate they are for the success of their own businesses and BBA Aviation.

In terms of Signature, it is particularly important because I've spent time reacquainting myself with the business, in which I last worked in 2012. Clearly much has changed since 2012, including the transformational acquisition of Landmark Aviation in 2015.

So, having travelled around and met so many of our people and visited our locations, it really has reaffirmed to me what a unique and compelling business case BBA Aviation has. We have market-leading leadership positions. We have significant barriers to entry in both our Signature and Ontic businesses. We have a flexible cost base, so we can manage our businesses through cycle. We have tremendous organic and inorganic growth opportunities in both Signature and Ontic and last of all, this all adds up to delivering fantastic and highly attractive financial returns to our group and shareholders.

**Q: So, what's your take on performance and the progress made in the Signature business in the first half of 2018? It feels like you've had a very busy six months?**

A: It has been a very busy six months. In Signature firstly, the great news is we have continued to materially outperform the market. Previously we always guided to 200 basis points outperformance, we are exceeding that. That's great news.

As to the market itself, in Q1 we saw growth around 2.6%, which is marginally less than 2017, and then in quarter two, we've seen a slight softening of the market and we believe the full half-year growth, year over year, is going to be just under 2% at around 1.9%. So, some challenges there, but, again, tying back to our particular performance relative to the market, we continue to outperform the underlying market. So, I'm very pleased.

**Q: That's Signature's performance. What about Ontic?**

A: Ontic has done a great job continuing to integrate the GE business in Cheltenham in particular and is coming off a high performance threshold, last year with some one-off sales on the B52. But, again, very pleased with its performance. It's also added four new licences this year, with Honeywell, UTAS, Ultra Electronics and Esterline. So that licence portfolio on top of the 160 licences we already hold, is continuing to grow. So, I'm very pleased with Ontic and I think it will deliver very strongly from the full year.

**Q: And you're updating the market on the strategic review of ERO, so can you tell me a little bit more about that?**

A: We announced back in March that we were undertaking a strategic review of the ERO business and how it sat within the BBA Aviation portfolio. You know I personally was involved in that intimately, not only having run that business but having served on the BBA Aviation Executive Committee and adding a very strong input on strategic direction of the group. But, back to your question, we announced in March that it was under review, we've now since said that we've completed that review and we think the asset or the business would best be operated by a separate owner, a new owner going forwards.

Now, we continue to explore the options to sell the business, but at this point in time we have nothing to announce firm. Should that change in the future, we will let you know but clearly there is no certainty that this will result in a transaction at this point in time.

**Q: Talk us through the group's financial performance in the first half of 2018.**

A: BBA Aviation delivered operating profit growth of 3% during the first half of 2018. This took the group as a whole to an overall operating profit of \$180 million. Within that Flight Support delivered an operating profit of \$164 million. This was against a softer than expected US B&GA market. In After Market services, we saw an operating profit of \$24 million. Here this is, by and large, our Ontic business, given that we have now reclassified our Engine Repair and Overhaul business as a discontinued operation and it is reported separately.

Ontic has performed well in the half and has added additional licences from the likes of Honeywell and Esterline during the period, which are contributing as expected. In Engine Repair and Overhaul, we did see further improvement in the business, by some 39% to an operating profit of some \$13 million. This also coincided with the completion of our footprint consolidation in Dallas into our new integrated facility at Dallas Fort Worth.

Overall, this has delivered earnings per share growth of some 3% up to \$0.117 per share and has allowed an increase in the dividend of some 5% to \$0.04 per share.

**Q: Can you update us on the cashflow performance and the refinancing in the period?**

A: Yes, a good performance on cashflow in the period. We saw free cashflow delivered of some \$115 million and this was after absorbing a \$45 million cash outflow on the discontinued operations of ERO. So, overall, some \$160 million of free cashflow generation from our continuing operations within a six-month period. This has led to leverage at 2.6 times net debt to underlying EBITDA, which is flat compared to the year end and that's after absorbing \$27 million investment in acquisitions and paying a dividend of close to \$100 million.

We've also refinanced our debt during the period and that refinancing is now complete and represents a debt structure for the group which is appropriate for the strategy that the group is deploying and provides a range of maturities that are consistent with the long-term nature of the assets that we are financing, namely our lease portfolios in Signature and our IP protected licences within Ontic.

So, overall, a business that has the right capital structure and funding in place and is underpinned by a continuing business that is delivering strong fundamental free cashflow that will underpin future growth.

**Q: In your announcement you highlighted the continuing investment in technology, so what do you hope to achieve here?**

A: Looking at Signature, two of the key areas to invest in are our revenue management and our customer experienced sort of epos, the point of sale systems. We've been investing heavily in those this year and one example, for instance, in Signature, we set the fuel price once a week. Why? Because we traditionally buy our fuel once a week, so there is a natural hedge there. But why wouldn't you change it into a more dynamic pricing model? For example, pricing it differently at peak times or for sports events, or, indeed, to drive demand in off-peak periods?

**Q: What are you most proud of in the first half performance and in the first four months as CEO?**

A: I think it's a couple of things. The Board and the Group has managed a successful leadership transition and thank you very much to Wayne Edmunds for filling in on the interim capacity going forwards. I'm very proud with the momentum that we've continued since that period of time, both in trading, but then also on the growth opportunities, for instance EPIC or the four new licences within Ontic. Alongside of that and following my meeting, so many employees on the 40 plus locations I've visited around the group already, I just am so proud of their passion, their interest and their thirst for success.

**Q: So how do you feel about the outlook for the full year?**

A: Overall, we're very pleased with our progress in the first six months of the year and particularly our ability to continue to outperform the market. As we look to the second half, we'll continue to invest in technology and growth opportunities, to underpin the long-term prospects of BBA Aviation in the future.

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