BBA Aviation

**BBA Aviation full-year 2014 results**

**Interview with Simon Pryce, CEO, and Mike Powell, FD**

## Results overview – Simon Pryce

**Q: What's your view of BBA Aviation's 2014 performance?**

A: Well, it's been another busy year and one in which we've achieved a lot. Pleasingly, we've operated in an environment where our major market has shown continued recovery. And against that background most of our industry-leading businesses have outperformed and, in particular, we saw a very strong performance from Signature.

And against that background and despite the disposal of APPH we delivered a very solid set of results and at the same time continued to execute effectively both our investments in major growth projects and our strategy. So all in all after a busy 2014 we've done a lot to position the Group and build momentum into what's looking like an exciting 2015 for us.

**Q: And how have your key markets performed during the year?**

A: So our major market is US Business & General Aviation flying and that drives the vast majority of the demand for the products and services that our Group supplies. And, pleasingly, we saw good recovery in the first half that continued into the second half and we saw a 4% increase in movement across the year. And, pleasingly, Signature in particular has done very well in this rising market.

This growth wasn't uniform, however. We do rely on European Business & General Aviation flying and commercial movements and those markets were somewhat weaker than we anticipated at the start of the year. And despite that we still delivered a pretty strong set of results.

I suppose it's also worth mentioning we are seeing a bifurcation within US Business & General Aviation flying. We are seeing very strong growth in large cabin, new mid cabin and small cabin flying, but in older mid cabin flying the market still continues to decline. And that's been a bit of a headwind for our Engine Repair business because the repair of those engines is a big piece of their market.

## Financial performance – Mike Powell

**Q: These are your first full set of results for BBA Aviation. Take us through the numbers.**

A: We have a business that in the main performed as we expected. We have cash-generative assets that threw off a lot of cash and we reinvested a lot of that cash back into the business.

In terms of the numbers we had revenues up 3%, operating profit up 1% and increases in both profit before tax and in terms of earnings per share. And in the round with the confidence of the future the Board has increased the dividend by 5%.

**Q: Let's take a closer look at divisional performances, beginning with Flight Support, which has surpassed market expectations. How much of that was driven by Signature?**

A: Flight Support had a good year. The revenues were up 8% with the organic profit growth of 5%. Most of this was driven by the Signature business, with some challenges in the Aftermarket in the ASIG business.

In Signature, of the revenue growth of about $100m, more than two-thirds of that was Signature and that dropped through to profit nicely. Also during the year we reinvested back into the business for future growth, acquiring eight fixed-base operations, or FBOs, and also increasing some Signature Select locations. We also during the year extended a number of leases for our FBOs which again will position us well for future growth.

**Q: What's your assessment of the ASIG business, given these very tough market conditions?**

A: Yes, ASIG continued to outperform its markets in the year. The fuelling business was fairly solid, but the ground handling business, as you say, had some challenges.

We continue to look at operational efficiencies, though we were challenged through the two start-ups both in London Heathrow Terminal 2 and in Singapore.

London Heathrow was a large exercise for us, recruiting about 750 employees over the six months and transitioning 16 airlines into one terminal from a number of different terminals. That operation is now good and is starting to recover as we go through 2015.

Singapore, some challenges there operationally both with the airport and with the customer, but again now meeting the standards required of us.

**Q: And you must have been disappointed by the loss of the ground handling contract at JFK.**

A: Yes, we were. I think the loss of the JFK contract, which for 2015 is something in the region of a revenue loss of $36m, is clearly disappointing. But I think it reflects the competitive environment. But on a positive I think it also shows our financial discipline around contracts.

Throughout the year, though, and towards the end of the year we did win a number of contracts in the business. And of course we also acquired the Skytanking business and that acquisition is performing as expected.

**Q: And in Aftermarket Services, Legacy S upport has put in a strong performance. What was the driver of that performance and is it sustainable?**

A: Yes, as you will have seen from the numbers in our Aftermarket business, our revenues dropped 4% with our operating profit dropping 9%, but within that there was a good performance from our Legacy business.

And Legacy continues to provide excellent service and builds relationships with our customers. And I think that's evidenced by the fact that we signed four new licences during the year, two with Curtiss-Wright, one with Kidde and one with Rolls Royce. And we also achieved new certifications in both Singapore and Cheltenham in the UK.

**Q: And what about Engine Repair and Overhaul, another business that's facing headwinds?**

A: Yes, ERO experienced lower engine inputs and, therefore, lower volumes through our factories. However, as a management team we took the opportunity to rationalise our footprint throughout the year so that when the markets do recover we can put those engines through a lower fixed cost base.

As well as accelerating the change programme we have also added to our portfolio by expanding our rotorcraft authorisations in both North America, Europe and the Middle East.

**Q: Now, you've also refinanced your bank facilities and significantly increased net debt. Talk us through this. What does it mean for the business going forward?**

A: Sure. There's two issues in that question. If I take the debt first, I'm really pleased that we have refinanced the debt during the year and increased the maturity profile of the Group.

Two main pieces of work there, one is a $650m five-year bank facility put in place in the first half. And in the second half we had $200m of private placement notes with an average tenure of 10 years.

So on the second part of the question we have reinvested a significant amount back into the business, around $277m, which is a combination of both the capital expenditure and the acquisitions. And that of course has driven our leverage up.

But at the same time we have also repatriated funds to shareholders through both a dividend channel of about $74m and also in terms of buying back our own shares, about $72m. And that's pushed the leverage up to 2.3 times. Our normal stated range is 1.75 to 2.25, but at this point in the cycle, and the confidence that we have in the future, we're very comfortable around that range.

**Q: And what about other exceptional items, including the DoJ settlement?**

A: Yes, there was a number of moving parts in exceptional items this year. We had the successful disposal of the APPH business in March. We had the amortization of intangibles, some M&A costs, and we also had the fine from the DoJ and the associated costs with it.

We also had some restructuring, the income from the IRS tax settlement in the US and then the tax credit on all of the above items.

## Outlook – Simon Pryce

**Q: The Board is pausing the share buyback programme. What does this say about your pipeline?**

A: Well, 2014 was a year of great execution of our strategy. We invested over $160m in new acquisitions and licenses, all of which will contribute to 2015 and beyond. And we've also continued to spend to plan on our big growth investment programmes at places like San Jose and Luton. So all in all we've seen good deployment of capital in 2014 and we see a strong pipeline into 2015 and beyond which we can deploy our capital resources to.

**Q: And what are your expectations for 2015?**

A: Well, it was a busy year and it's a year in which we've created good momentum going into 2015. Our major market, US Business & General Aviation flying performed well, continued sustained recovery. And although January and February are always challenging months to predict it looks like that recovery is continuing as we speak. And Signature will benefit immediately from that.

If you look at the individual businesses themselves in Flight Support, we're seeing in Signature the realisation of a lot of investment and improvement that we've done over the last four years. And as its markets continue to recover I anticipate Signature will materially outperform and continue to see good growth.

In ASIG we have had some challenges this year, but a lot of the cost headwinds that we saw in 2014 will go away in 2015, which should offset the disappointing loss of a couple of contracts at the end of 2014.

**Q: And what about Aftermarket Services?**

A: In our Aftermarket business, our Engine Repair footprint reorganisation is going really well. We are seeing a slightly softer than anticipated market in the older mid cabin engines and we won't see the full benefits, therefore, of our footprint reorganisation until that flying picks up. But Engine Repair is stabilized and it looks in a very good place for 2016. And of course Legacy will continue to perform well and has a very solid order book.

So this, combined with all the investments that we've made over the last three or four years, and the contributions that they will be making to the Group in 2015, leaves us positioned for a year of really good growth.