



SAFRAN : VERY STRONG RESULTS FOR THE FIRST-HALF 2018 - FULL-YEAR 2018 OUTLOOK RAISED SIGNIFICANTLY

News / Finance, Manufacturer



Adjusted data

- Revenue at Euro 9,506 million (including a contribution of Euro 1,516 million from Zodiac Aerospace), up 23.9% on a reported basis and up 10.1% on an organic basis
- Recurring operating income at Euro 1,386 million (including a contribution of Euro 129 million from Zodiac Aerospace), up 32.6% on a reported basis and up 20.3% excluding Zodiac Aerospace
- CFM56-LEAP transition on track: Propulsion margin rate improved to 18.3%
- Strong margin improvement in Aircraft Equipment (to 13.4%) and Defense (to 6.9%)
- Excellent free cash flow generation at Euro 820 million (including Euro 25 million from Zodiac

Aerospace). At constant scope, free cash flow amounting to 63% of recurring operating income

- 2018 outlook raised for revenue, recurring operating income and
- free cash flow (for Safran scope at January 1, 2018)

Consolidated data

- Consolidated revenue was Euro 9,393 million
- Consolidated recurring operating income at Euro 912 million
- Consolidated profit from operations at Euro 886 million
- Consolidated profit for the period attributable to owners of the parent at Euro 535 million
- Free cash flow at Euro 820 million

The Board of Directors of Safran (Euronext Paris: SAF), under the Chairmanship of Ross McInnes, at their meeting in Paris on September 5, 2018, adopted and authorised the publication of Safran's financial statements and adjusted income statement for the six-month period ended June 30, 2018.

Executive commentary

CEO Philippe Petitcolin commented: *"During the first half of 2018, our performance was very strong with significant growth across all Safran businesses. We are expecting this good overall performance for Propulsion, Aircraft Equipment and Defense to continue and therefore we raise significantly our full year guidance. In addition, the integration plan of Zodiac Aerospace is being implemented and will progressively deliver the expected results. On the operational front, the ramp-up of LEAP production is proceeding and our objective remains to deliver around 1100 LEAP engines at the end of this year."*

Foreword

- All figures in this press release represent adjusted^[1] data and continuing operations, except where noted. Please refer to the definitions and reconciliation between H1 2018 consolidated income statement and adjusted income statement. Comparisons are established against 2017 figures for continuing operations. Please refer to definitions contained in the Notes on page 16 and following of this press statement.
- All figures are presented in application of IFRS 15 and comparisons are established against H1 2017 figures restated for the application of IFRS 15.
- Zodiac Aerospace is fully consolidated in Safran's financial statements starting March 1, 2018.
- Organic variations exclude the changes in scope (notably the four-month contribution of Zodiac Aerospace) and the currency impacts for the period.

Key figures for first-half 2018

- **Adjusted revenue was Euro 9,506 million**, an increase of 23.9% on a reported basis, including a four-month contribution of Euro 1,516 million from Zodiac Aerospace and Euro (445) million of currency impacts. On an organic basis, adjusted revenue grew 10.1%.
- **Adjusted recurring operating income [2] was Euro 1,386 million** (14.6% of revenue), an increase of 32.6% on a reported basis compared to Euro 1,045 million (13.6% of sales) in H1 2017. H1 2018 recurring operating income included a four-month contribution from Zodiac Aerospace amounting to Euro 129 million. Excluding Zodiac Aerospace, adjusted recurring operating income grew 20.3%.
- **Adjusted net income – Group share was Euro 932 million (basic adjusted EPS of Euro 2.17 and diluted adjusted EPS of Euro 2.11)**. In H1 2017, adjusted net income – Group share amounted to Euro 1,488 million comprising Euro 716 million of net income from continuing operations and Euro 772 million of net income from discontinued operations.
- **Free cash flow [4] generation amounted to Euro 820 million (including Euro 25 million from Zodiac Aerospace)**, representing an increase of 23% compared with Euro 666 million in the year-ago period. The growth was driven by higher cash from operating activities and lower capital expenditures, partially offset by an increase in working capital. At constant scope, H1 2018 free cash flow amounted to 63% of adjusted recurring operating income.
- **Net debt position was Euro 3,533 million** as of June 30, 2018, including the acquisition of Zodiac Aerospace.
- **H1 2018 civil aftermarket [3] was up 12.5%** in USD terms driven notably by spare parts sales for latest generation CFM56 engines. Q2 2018 civil aftermarket growth was 8.8%.
- **Safran (excluding Zodiac Aerospace) raises its outlook for 2018 as the strong momentum for Propulsion, Aircraft Equipment and Defense seen in H1 2018 should continue into H2 2018.**
As a result, compared to 2017 figures restated for IFRS 15, Safran expects:
 - Adjusted revenue to grow on an organic basis in the range 7% to 9%. At an estimated average spot rate of USD 1.21 to the Euro in 2018, adjusted revenue is expected to grow in the mid-single digits.
 - Adjusted recurring operating income to grow around 20% at a hedged rate of USD 1.18 to the Euro.
 - Free cash flow to be comfortably above 50% of adjusted recurring operating income, an element of uncertainty being the rhythm of payments by state-clients.
- **In addition, Safran expects from Zodiac Aerospace businesses (consolidated for 10 months in 2018) a contribution of:**
 - Euro 3.6 billion to 4 billion (at an estimated average spot rate of USD 1.21 to the Euro in 2018) to its adjusted revenue;
 - Euro 260 million to 300 million (at a hedged rate of USD 1.18 to the Euro from 09/01/2018) to its adjusted recurring operating income;
 - Euro 80 million to 120 million to its free cash flow.

Key business highlights

CFM commercial success

During the Farnborough Airshow, CFM International announced orders and commitments for 858

LEAP and CFM56 engines, in addition to LEAP and CFM56 services agreements, at a combined value of USD 15.7 billion at list price.

Following the air show, at July 31, 2018, the LEAP order book stands at 15,450 engines (orders and commitments) and CFM56 backlog stands at 434 engines.

Continuing growth of narrowbody engines deliveries

Combined deliveries of CFM engines (LEAP and CFM56) increased by 20% in H1 2018 to 1,029 units, from 857 units in H1 2017.

CFM56 program

CFM56 production rate was sustained with 591 units delivered in H1 2018 compared with 710 units in H1 2017, in line with customers' demand. CFM International expects to deliver around 1,000 CFM56 engines in 2018.

LEAP program

The ramp-up of LEAP production proceeds. LEAP deliveries almost trebled in H1 2018 to 438 engines compared with 147 engines in H1 2017. CFM International plans to deliver around 1,100 LEAP engines in 2018, as previously indicated.

- LEAP-1A : 27 airlines were operating 240 aircraft powered by LEAP-1A engines totalling over 1.2 million flight hours so far.
- LEAP-1B : 41 airlines were operating 183 aircraft powered by LEAP-1B engines totalling over 550,000 flight hours so far.
- LEAP-1C : Around 80 flight hours logged to date.

Silvercrest

Safran and Dassault Aviation reached an agreement regarding the indemnity to be paid to Dassault Aviation related to the termination of the Silvercrest engine for the Falcon 5X.

The amount is covered by the provisions previously booked by the Group, and the payment will be spread over three years from 2018. Safran confirms that this agreement will not change its profitability and cash flow generation outlook.

Helicopter turbines

Safran received EASA (European Aviation Safety Agency) engine type certification for its Arriel 2H engine (powering the Avicopter AC312E) and its Ardiden 3C (powering the Avicopter AC352).

Carbon brakes

Safran signed several carbon brakes contracts, notably with Turkish Airline for 25 A350 and 25 787, with Sun Express for 32 737 MAX and with Indigo for 100 A320neo.

Zodiac Aerospace - Aircraft Interiors

A major Middle-East airline selected Zodiac Aerospace to provide business class and economy class seats for a large wide-bodies linefit order.

In addition, a major Asian airline selected Zodiac Aerospace to provide first class seats for its

future wide-bodies linefit order.

Zodiac Aerospace - Aerosystems

ANA selected Zodiac Aerospace to retrofit its 16 Boeing 777-300 with the inflight connectivity system RAVE™ Broadband as well as its 8 Boeing 777-200, 11 Boeing 787-8 and 2 Boeing 787-9 with the inflight entertainment system RAVE Centric.

Defense

Raytheon Company and Safran have signed a Memorandum of Understanding to collaborate on the next-generation of combat vehicle sighting systems.

At the Eurosatory 2018 defense show, Safran Electronics & Defense introduced its new family of inertial navigation and pointing systems for land vehicles, Geonyx™.

Signing of an agreement for the acquisition of Rockwell Collins' Actuators, Pilot controls and Special products business

These operations will expand the electrical actuation and flight control business lines of Safran Electronic & Defense and Zodiac Aerospace. In particular, they will allow Safran Electronic & Defense and Zodiac Aerospace (Aerosystems) to increase their critical mass in these sectors and to eventually enhance their competitiveness.

The acquisition, which is subject to regulatory approval and the other usual conditions for this type of transaction, should be finalized in the first half of 2019.

Auxiliary Power Units (APUs)

Boeing and Safran agreed to create a new 50/50 JV to design, build and service APUs. The completion of the transaction, subject to customary conditions including regulatory and antitrust clearance, is expected to close in H2 2018.

The JV will be accounted for by using the equity method and will be progressively capitalized once the regulatory authorizations are obtained.

On demand mobility

Safran and Bell announced a new collaboration on the development of innovative hybrid electric propulsion systems for future air taxi and VTOL systems. In this collaboration, Bell will lead the design, development and production of VTOL systems, and Safran will bring its technical expertise to bear in the development of a disruptive propulsion system.

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