

26 July 2023

## ROLLS-ROYCE HOLDINGS TRADING UPDATE

This announcement contains inside information.

### Improved financial results and upgraded guidance

Rolls-Royce Holdings plc financial results for the first half of the year are expected to be materially above consensus expectations\* and we have updated our guidance for the full year.

- **Significantly improved first half results:** higher underlying operating profit of £660m-£680m (consensus: £328m) and free cash flow of £340m-£360m (consensus: £50m) reflects continued end-market growth and our focus on commercial optimisation and cost efficiencies across the Group
- **Full year guidance raised:** we now expect underlying operating profit of £1.2bn-£1.4bn (consensus: £934m) and free cash flow of £0.9bn-£1.0bn (consensus: £732m) in 2023, helped by early transformation benefits
- **Margin improvement led by Civil and Defence:** this reflected higher volumes, commercial improvements and cost efficiencies; Power Systems margins were lower, but are expected to improve in the second half due to our pricing actions
- **Accelerated financial delivery driven by transformation:** our multi-year transformation programme has delivered strong initial results
- **Delivering in an uncertain environment:** an increased focus on costs and productivity has helped to offset the impact of inflation and mitigate supply chain pressures

*Tufan Erginbilgic, CEO said: "Our multi-year transformation programme has started well with progress already evident in our strong initial results and increased full year guidance for 2023. There is much more to do to deliver better performance and to transform Rolls-Royce into a high performing, competitive, resilient, and growing business. Despite a challenging external environment, notably supply chain constraints, we are starting to see the early impact of our transformation in all our divisions. Better profit and cash generation reflects greater productivity, efficiency and improved commercial outcomes."*

### Strong first half results helped by transformation

For the first half of 2023, we now expect **underlying operating profit of £660m-£680m**. This performance reflects continued revenue growth across all three main divisions coupled with early transformation benefits, notably commercial optimisation, cost efficiencies and focused investment across the Group.

- **Civil Aerospace:** We expect first half underlying operating profit in the region of £400m compared to a loss of £(79)m in the prior period. The increase in operating profit was primarily driven by higher aftermarket profitability, which reflects higher volumes and our commercial optimisation actions. Operating profit also benefited from higher spare engines sales and cost efficiencies.
- **Defence:** We expect first half underlying operating profit in the region of £260m compared to £189m in the prior period. This was driven by strong revenue growth and higher margins. Revenue growth reflected increased underlying demand and a more even delivery profile between the first half and second half of the year than in 2022. Higher margins were driven by higher revenues, pricing actions, a more favourable product mix and cost efficiencies.
- **Power Systems:** We expect first half underlying operating profit in the region of £120m (H1 2022: £119m), but with a lower margin than the prior period. We anticipate a higher year on year margin for

\* The consensus numbers referred to in this release are available on our website: [Analyst consensus | Rolls-Royce](#)

the full year, with an increase in the second half due to the impact of pricing actions, cost efficiencies and seasonally higher volumes.

We expect first half **free cash flow of £340m-£360m** to be driven by:

- An improvement in **underlying operating profit** from £125m in the prior period to £660-680m, led by Civil Aerospace and Defence.
- An **LTSA balance** increase of approximately £700m (H1 2022: £433m) which reflected large EFH (engine flying hour) growth to 83% of 2019 levels and our commercial optimisation actions, notably increased pricing and the anticipated collection of overdue debts that had previously been provided for. A portion of our LTSA receipts are payable to our RRSPs (risk and revenue share partners), which reduces the amount of cash retained by Rolls-Royce. Of the total LTSA balance growth of c.£700m, approximately £500m benefited Rolls-Royce's cash flows in the period.
- Offsetting this, **working capital** is expected to be an outflow of approximately £600m, principally driven by higher inventories. Higher inventories reflected continued supply chain constraints and an expectation of higher revenues in the second half.

### Upgraded full year 2023 guidance

Our upgraded full year 2023 guidance reflects the strong first half results and continued benefits of transformation which is accelerating our financial delivery.

We now expect full year **underlying operating profit of £1.2bn-£1.4bn** (previously: £0.8bn-£1.0bn). This assumes targeted contract improvements of £200m-£250m (previously: £100m-£200m).

We expect full year 2023 **free cash flow of £0.9bn-£1.0bn** (previously: £600m-£800m). This reflects higher expected underlying operating profit and assumes:

- A £1.0bn-£1.2bn growth in the LTSA balance (previously: £500m-£700m). Of the total LTSA creditor growth, £800m-£900m is expected to benefit our cash flows in the period.
- A negative impact of approximately £150m in respect of the impact of two fires at suppliers' premises (previously: £100m).
- Legacy Boeing concessions outflows of approximately £200m (unchanged).
- A c.£100m expected outflow in respect of the outcome of a legal judgment (new guidance).
- Working capital improvements in the second half, despite supply chain constraints.

We continue to expect large EFH at 80%-90% of 2019 levels, 400-500 total engine deliveries and 1,200-1,300 total LTSA shop visits in the full year 2023.

### Half year results presentation

Our 2023 half-year results will be published at 0700 (BST) on 3 August, with a results presentation at 0900.

To register for the live results webcast on 3 August, visit: <https://app.webinar.net/8m6Mp2Vpzya>, to register for attendance in person contact [investor.relations@rolls-royce.com](mailto:investor.relations@rolls-royce.com). No conference call is scheduled for today, 26 July 2023.

Officer responsible for making the notification:  
Pamela Coles, Chief Governance Officer

**For further information, please contact:**

**Media**

Richard Wray  
Director of External Communications & Brand, Rolls-Royce plc  
Tel +44 (0) 7810 850055  
[Richard.Wray@Rolls-Royce.com](mailto:Richard.Wray@Rolls-Royce.com)

**Investors**

Isabel Green  
Head of Investor Relations, Rolls-Royce plc  
Tel +44 (0) 7880 160976  
[Isabel.Green@Rolls-Royce.com](mailto:Isabel.Green@Rolls-Royce.com)  
[www.Rolls-Royce.com](http://www.Rolls-Royce.com)

**About Rolls-Royce Holdings plc**

**About Rolls-Royce Holdings plc**

1. Rolls-Royce develops and delivers complex power and propulsion solutions for safety-critical applications in the air, at sea and on land. Our products and service packages enable our customers to connect people, societies, cultures and economies together; they meet the growing need for power generation across multiple industries; and enable governments to equip their armed forces with the power required to protect their citizens.
2. Rolls-Royce has customers in more than 150 countries, comprising more than 400 airlines and leasing customers, 160 armed forces and navies, and more than 5,000 power and nuclear customers. We are committed to making our products compatible with net zero carbon emissions to meet customer demand for more sustainable solutions.
3. The annual underlying revenue was £12.69 billion in 2022, and the underlying operating profit was £652m.
4. Rolls-Royce Holdings plc is a publicly traded company (LSE: RR., ADR: RYCEY, LEI: 213800EC7997ZBLZJH69)

[www.rolls-royce.com](http://www.rolls-royce.com)