UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 10, 2023

LEONARDO DRS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**001-41565**	**13-2632319**
(State of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification Number)**

2345 Crystal Drive
Suite 1000
Arlington, Virginia 22202
(Address of principal executive offices)

(703) 416-8000
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2.below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	DRS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02. Results of Operation and Financial Condition.

On March 10, 2023, Leonardo DRS, Inc.'s (the "Company") majority stockholder, Leonardo S.p.A., an Italian società per azioni, listed on the Milan Stock Exchange, ("Leonardo S.p.A"), of which the Company is a consolidated subsidiary, issued a presentation related to the release of its consolidated financial results for the year ended December 31, 2022 (the "Presentation"), which is attached hereto as Exhibit 99.1, and includes but is not limited to Company backlog on slide 7 and Company fourth quarter trends on slide 37. A transcript of the Presentation prepared remarks is attached hereto as Exhibit 99.2. The Presentation was followed by a live question and answer webcast (the "Q&A"), a transcript of which is attached hereto as Exhibit 99.3.

The financial information contained in these materials includes, on a consolidated basis, information regarding the Company's results of operations and financial condition in accordance with International Financial Reporting Standards ("IFRS"), which differs in some respects from the accounting principles generally accepted in the United States of America ("U.S. GAAP").

As previously announced, the Company plans to issue its quarterly earnings press release on March 28, 2023, which will contain financial information of the Company for the fourth quarter and the full year 2022 in accordance with U.S. GAAP.

The Presentation, the transcript of the Presentation prepared remarks and transcript of the Q&A are attached hereto as Exhibit 99.1, Exhibit 99.2 and Exhibit 99.3, respectively, are being furnished to the SEC under both Item 2.02 "Results of Operations and Financial Condition" and Item 7.01 "Regulation FD Disclosure" of Form 8-K. The information furnished pursuant to this Form 8-K (including the exhibits hereto) shall not be considered "filed" under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall it be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or under the Exchange Act, unless the Company expressly states in such filing that such information is to be considered "filed" or incorporated by reference therein.

Item 7.01 Regulation FD Disclosure.

To the extent applicable, the information in Item 2.02 of this Form 8-K is incorporated by reference into this Item 7.01.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number Exhibit Description

99.1 Leonardo S.p.A.'s Presentation regarding the 2022 Integrated Annual Report

99.2 A Transcript of Leonardo S.p.A.'s Presentation regarding the FY 2022 Integrated Annual Report

99.3 A Transcript of the March 10, 2023 Leonardo S.p.A. Live Questions and Answers Webcast following the Presentation regarding the 2022 Integrated Annual Report

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		LEONARDO DRS, INC.
		(Registrant)
Date: March 10, 2023	By:	/s/ Mark A. Dorfman
		Mark A. Dorfman
		Executive Vice President, General Counsel and Secretary

FY 2022 Results – A Stronger Leonardo

Rome

10th March 2023

Agenda

- Key messages — Alessandro Profumo, Chief Executive Officer
- Industrial review — Lucio Valerio Cioffi, General Manager
- Financial review — Alessandra Genco, Chief Financial Officer
- Medium-long term outlook — Alessandro Profumo, Chief Executive Officer
- Q&A
- Sector results
- Appendix

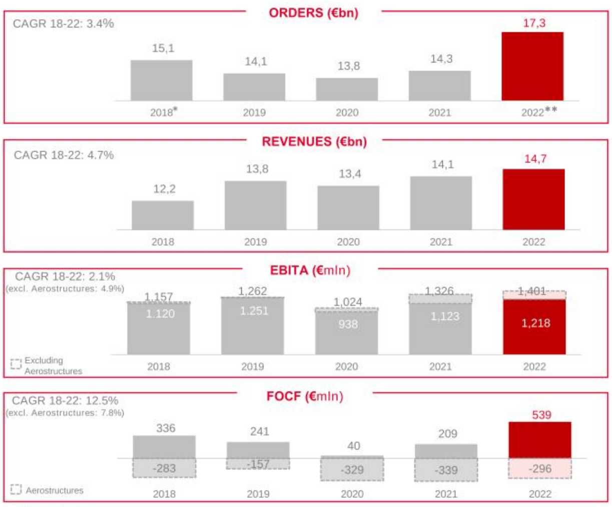
FY2022: a year of solid execution and commercial success

DELIVERING ON PROMISES	• Meeting or exceeding Guidance • Continuing to deliver and making the Group stronger, more resilient, sustainable • Set up to capture best growth opportunities
ACCELERATING COMMERCIAL MOMENTUM	• Growing order book across all divisions at € 17.3 bn (+21.0%* YoY), well above guidance even without the €1.4bn AW149 Poland order • Book-to-bill at 1.2x
IMPROVED FINANCIAL PERFORMANCE; STEPPING UP FOCF	• Revenues: € 14.7 bn, + 4.7%* YoY • EBITA: € 1.2 bn, + 14.9%* YoY vs FY21 restated** • RoS: 8.3%, +0.8 p.p. vs FY21 restated** • FOCF: € 539m, more than doubling FY21 • Full redemption of 2039 and 2040 bonds and early repayment of term loan • Confirming € 3 bn FOCF generation over 2021-2025 • Proposed dividend of € 0.14 p.s.
PROGRESS ON ESG	• Committed to SBTI • Strengthening decarbonisation plan (-15% Scope 1+2 CO_2 emissions vs 2021) • Achieving results in diversity and inclusion (19% of female managers on total managers vs 15% in 2017) • Demonstrating our commitment to sustainable finance (55% of sources of funding linked to ESG)

* Adjusted perimeter to exclude the contribution of Global Enterprise Solutions (August-December 2021)
**Restatement to include covid costs within EBITA as previously accounted below the line

A Stronger Leonardo: Successful Delivery of 2018-2022 Industrial Plan

- Delivering results in line or exceeding yearly Guidance
- Emerging stronger commercially and financially with a more resilient and sustainable business model
- Successfully navigating a period of unprecedented global challenges



*€3 bn NH90 Qatar
** €1.4bn AW149 Poland

Significant progress delivering against our roadmap towards the future

STRENGTHEN OUR CORE Reinforce the core business and core activities	TRANFORM TO GROW Leveraging digitalisation to capture new opportunities	MASTER THE NEW Create advanced technological solutions to drive innovation
Increasing critical mass in strategic areas and strengthening global footprint	Making the business more modern and agile to meet customer needs	Innovate and create new technologies and new high-tech markets

STRENGTHEN OUR CORE

- Continued momentum in International co-operation programmes e.g. GCAP
- Acquisition of 25.1% stake in HENSOLDT
- Leonardo DRS & RADA merger
- Acquisition of KOPTER

TRANFORM TO GROW

- Leonardo Production System Programme
- Aerostructures recovery plan - confirming target to breakeven by end-2025
  - Re-skilling and upskilling of 3,100+ colleagues
- Focused on supply chain

MASTER THE NEW

- Leonardo Labs at the core of innovative R&D technologies
- DAVINCI-1 HPC unique edge
- Enabling capabilities in Digital Twin, Big Data, Cloud and AI

Core business growing stronger
Helicopters and Aircraft

Helicopters

2022 Backlog **€ 13.6bn**

2018-2022 Revenues*: +4.5%

2018-2022 EBITA*: +4.0%

- **Continued strong commercial momentum; € 6 bn of new orders in 2022**
- Global market leading product portfolio
- Defence/governmental, customer support & training core strengths, accelerated recovery in civil
- Continue to invest to capture future opportunities

Aircraft

2022 Backlog **€ 8.6bn**

2018-2022 Revenues*: +12.4%

2018-2022 EBITA*: +12.2%

- Strong performance, programme delivery and best in class profitability
- Partner in world class international cooperation programmes, e.g. next-gen GCAP
- A strong order book, product portfolio and significant contribution from customer support & training, providing good visibility for future performance

* CAGR

Core business growing stronger

Electronics and Leonardo DRS

Electronics

2022 Backlog **€ 12.4 bn**

2018-2022 Revenues*: +4.1%

2018-2022 EBITA*: +9.0%

- Technology leadership in key focus areas i.e. sensors, radars, electro-optical and combat management systems driving solid revenue and profitability growth
- Strategic presence across Air, Land and Sea, maximizing market opportunity
- Well positioned to capture upgrading and restocking demand from customers
- Exciting partnership with Hensoldt

Leonardo DRS

2022 Backlog **€ 2.7 bn**

2018-2022 Revenues*: +6.6%

2018-2022 EBITA*: +18.5%

- Successful business transformation and portfolio restructuring
- World class supplier of advanced sensing & computing solutions & integrated mission systems
- Positioned on key DoD priority programmes
- Combination with RADA strengthening market position

* CAGR

Customer, Support & Training providing resiliency, solid revenue stream & long-term visibility

~ 4,000 Helicopters flying

> 1,000 Aircrafts flying

ca. 10 years
Electronics useful life of equipment

CUSTOMER SUPPORT & TRAINING

2017	2022 Target	2022
<20%	>25%	>28%
% of Group revenue	% of Group revenue	% of 2022 Group revenue and backlog

CS&T REVENUE CONTRIBUTION OF KEY DIVISIONS

Helicopters

Aircraft

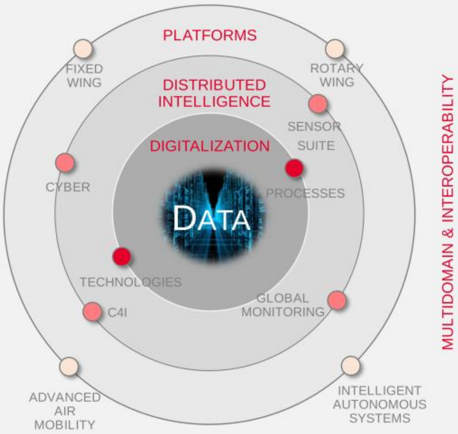
~48,000 hours of training through flight simulators

Over 13,000 helicopter and aircraft pilots and operators trained

Ranked #1 in ProPilot's Aftersales Service Quality Ranking (since 2018)

- **Net cash present value embedded in customer support of existing fleet for next 30 years equal to ca. € 5.5 bn**

Interoperability and strategic presence across all domains



- Strategic presence as leader across Helicopters, Simulation & Training and EU Defence Electronics
  Key player in European Cooperation Programmes, Safety and Security partner for Institutions
- Strong and unique portfolio to address multidomain solutions
- Synergies in R&D and product innovation capabilities
- Challenging traditional business models with digitalisation capabilities
- Driver of innovation and development in a digital and sustainable way

Important progress towards ESG milestones in 2022

Progress on environment and climate change	• -15% CO_2 Scope 1 & 2 emissions** vs 2021 • -7% intensity* of energy consumption vs 2021 • -4% intensity* of waste produced vs 2021 • -13% intensity* of water withdrawals vs 2021 Committed to SBTI
Progress on social impact and people	• >4,900 new hires • 24% women, 59% hold a STEM qualification,44% under 30 • 22% women hires with STEM degree on total hires with STEM degree • 19% of female managers on total managers
Commitment to sustainable finance	• >50% of investments SDG-aligned • 55% of financial sources ESG linked
Recognition by third-parties	• Highest score in the A&D sector in the DJSI • Leadership band of CDP - Climate Change • Confirmed in the Bloomberg gender equality index • A rating from MSCI • Highest score in Transparency International's assessment

* On revenues ** Market-based

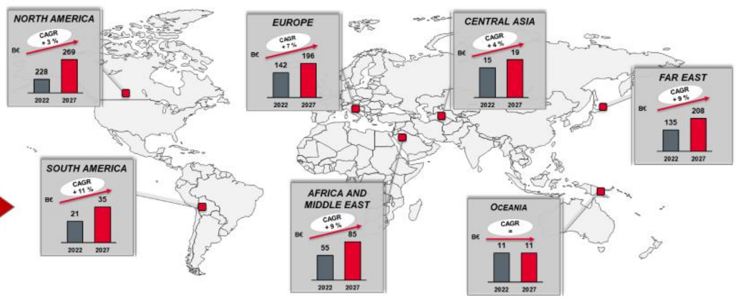
Agenda

• Key messages	Alessandro Profumo, Chief Executive Officer
• Industrial review	Lucio Valerio Cioffi, General Manager
• Financial review	Alessandra Genco, Chief Financial Officer
• Medium-long term outlook	Alessandro Profumo, Chief Executive Officer
• Q&A	
• Sector results	
• Appendix	

Strong fundamental drivers of commercial outlook over medium term

Positive market outlook in our core defence markets

- A,D&S market CAGR over the next 5 years: ca. 6%
- A,D&S annual average market value: **ca. €800 bln**
  - Leonardo's addressable market: ca 15% of the global A,D&S market



Defence spending as % of GDP

- Italy: Expected to reach 2% NATO spending target* in 2028
- UK: Increasing spending towards 3% of GDP by 2030
- Poland: Increasing spending towards 4% of GDP in 2023

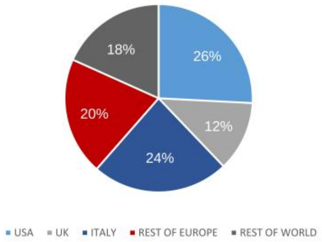
* In 2006, NATO Defence Ministers agreed to commit a minimum of 2% of their Gross Domestic Product (GDP) to defence spending to continue to ensure the Alliance's military readiness.

Positive order intake momentum providing long-term visibility

Well positioned to capture future opportunities

ORDER INTAKE 2018-2022

Cumulative value:
Ca. **€75** bln



LEVERAGING ON GROUP STRENGTHS

- Strong position in key domestic markets
- Enhanced strength across international export markets
- Partner on large, long-term international programmes
- Unique ability to combine interoperable and multidomain capabilities across the group

OPPORTUNITIES ACROSS THE BUSINESSES

- Opportunities in
  - Short-term Helicopters pipeline
  - Proprietary Aircraft programmes (incl. Trainers)
  - International programmes
  - EFA follow-on activity in the pipeline for Aircraft, Electronics and Customer Support offering
- Italian National Recovery Fund
  - Cloud digitization (National strategic hub)
  - Global Monitoring (Critical infrastructures, environmental, ..)

2022-2026
OUTLOOK IMPROVED

Cumulative value
Ca. € 90 bln
(prev. ca. € 80 bln)

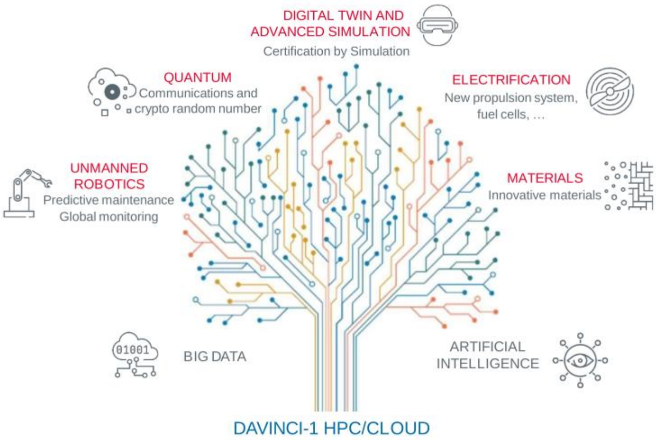
Well positioned to capture opportunities in Global Monitoring

Our strengths

- Expertise in control room creation and management, both in civil and defence markets
- Secure-by-design solutions and predictive analysis-based integration of data from several sources
- Computing and storage platform (e.g., predictive analysis, big data analytics, machine learning)
- Modular solutions
- Integrating data and systems from third parties (e.g., Smart Road, Road Asset Management)

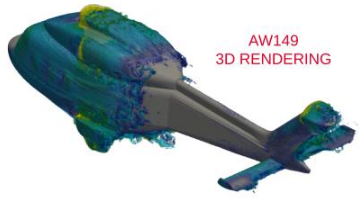
Innovation is the key for our future

Group capabilities and technological innovation to drive long-term growing commercial success



DAVINCI-1 HPC IN HELICOPTERS

- Digital Twin application for predictive maintenance
- Improving flow field accuracy and minimizing experimental needs and computing time
- Reducing development costs and risks



AW149
3D RENDERING

Innovation is key for our future: Global Combat Air Programme (GCAP)

Groundbreaking ‘System of Systems’ connecting all domains

LEAD SYSTEM INTEGRATORS

BAE SYSTEMS

MITSUBISHI HEAVY INDUSTRIES

LEONARDO

- ALL DOMAIN
- CONNECTIVITY
- AUTOMATION
- AI, BIG DATA
- DIGITAL TWIN
- SECURE BY DESIGN

Aerostructures recovery plan on track

Confirming breakeven by end of 2025

PROGRESS SO FAR

ACTION PLAN	• Reduced headcount by 20% • Reducing cost through automation and digitalization • Final phase our investment plan to achieve manufacturing efficiency gains • Pursuing new opportunities
AIRBUS	• Increasing volumes of A220 & A321 programmes • Investment in state-of-the-art A220 assembly line complete
ATR	• Clear strategy to strengthen leadership in regional market, providing sustainable and affordable configurations • New state of the art assembly line reducing production times and assuring higher quality level standard
BOEING 787	• 2022 production rate < 2/m while expected increase in activity to 4-5 shipsets per month in 2023, rising to 10/m within 2025 • Breakeven from fuselage delivery n. 1,406 due to rate profile and pricing per contract
DEFENCE	• Robust and profitable Eurofighter and JSF production • EuroMALE providing significant industrial impacts in Grottaglie and Foggia plants

AEROSTRUCTURES BREAKEVEN

Confirmed end of 2025

Agenda

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FY22: Making the Group stronger, resilient and sustainable

Delivering above FY22 guidance

- Continuing on our track record of execution
- Strong growth in new orders with book-to-bill of 1.2x
- **Backlog of € 37 bn providing** confidence of continued revenue growth momentum
- Acquisition of 25.1% stake in Hensoldt entirely self-funded, while decreasing debt

	2021A[1]	Original 2022 Guidance	Updated 2022 Guidance	2022A	% Δ
ORDERS **(€bn)**	14.3	ca. 15.0	ca. >16.0	17.3	+21.0%
REVENUES **(€bn)**	14.1	14.5-15.0	14.4-15.0	14.7	+4.7%
EBITA **(€mln)**	1,060	1,180-1,220	1,170-1,220	1,218	+14.9%
FOCF **(€mln)**	209	ca. 500	ca. 500	539	+186.7%
NET DEBT **(€bn)**	3.1	ca.3.1[2]	ca.3.0[2]	3.0[2]	-3.4%

(1) 2021 Adjusted perimeter to exclude the contribution of Global Enterprise Solutions
(2) Including the acquisition of 25.1% stake in Hensoldt net of divestitures

Order Intake

Continued strong commercial momentum

	€ mln	Δ % YoY	
FY2021A**	14,267		
HELICOPTERS	6,060	38.7%	32 AW149 Poland; modernization of AW101/CH-149 "Cormorant" fleet; US Navy TH-73A (AW119); 20 AW119Kx, 10 AW139, 4 AW169 LUH for Italy; 6 AW189 China; 5 AW119Kx Israel; MLU of 1 AW101; 4 AW609; various AW139 Commercial
ELECTRONICS	5,628	4.4%	Export orders in Defence Systems mainly naval. Combat systems for German Navy and logistic support for Special and Diving Operations - Submarine Rescue Ship (SDO-SuRS). 20 EFA Spain
LEONARDO DRS	2,997	36.6%	Growing across advanced sensing, network computing, force protection and electric power and propulsion
AIRCRAFT	2,800	4.9%	20 EFA Spain; 1 C-27J for MoD Slovenia; first phase Euromale order, modernization of C-27J fleet for AMI, JSF and EFA logistics support
AEROSTRUCTURES	420	15.1%	Orders for A220 and A321. Euromale Programme
ELIMINATIONS & OTHER	-639		
FY2022A*	17,266	21.0%**	

*Including ca. € 404 mln of positive forex
** Adjusted perimeter to exclude the contribution of Global Enterprise Solutions (August-December 2021).

Revenues

Growing top line and continued strong programme delivery

	€ mln	Δ % YoY	
FY2021A**	14,050		
HELICOPTERS	4,547	9.4%	Ramp-up in defence/governmental (NH90 Qatar and TH-73A US Navy); AW169, Customer support and training
ELECTRONICS	4,712	4.3%	Delivery on backlog and capturing new opportunities globally; Higher volumes in EU, mainly UK. Pass-through activities
LEONARDO DRS	2,558	5.1%	Some softness due to supply chain. Positive FX effect
AIRCRAFT	3,085	-5.6%	Lower production on EFA Kuwait and shifted export contracts partially offset by volumes increase on JSF and Airlifter programs other than starting activities on Euromale. EFA Kuwait rump up in 2021
AEROSTRUCTURES	475	7.5%	Increased deliveries to ATR consortium and orders by Airbus
ELIMINATIONS & OTHER	-664		
FY2022A*	14,713	4.7%**	

*Including ca. € 351 mln of positive forex
** Adjusted perimeter to exclude the contribution of Global Enterprise Solutions (August-December 2021).

EBITA and Profitability

Improving Profitability

	€ mln	RoS	Δ % YoY
FY2021A**	1,114	7.6%	
FY2021 Restated	1,060***	7.5%***	
HELICOPTERS	415	9.1%	2.2%
ELECTRONICS	553	11.7%	14.0%
LEONARDO DRS	252	9.8%	15.6%
AIRCRAFT	421	13.6%	-2.4%
AEROSTRUCTURES	-183	-38.5%	9.9%
ATR	-6		75.0%
SPACE	31		-50.0%
CORPORATE & OTHER	-265		-3.9%
FY2022A*	1,218	8.3%	14.9%**

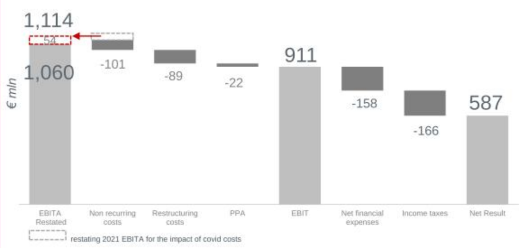
- HELICOPTERS: Higher volumes with higher pass-through contribution
- ELECTRONICS: Increase across all business areas and all domains
- LEONARDO DRS: Confirmed margin expansion primarily driven by the transition of development programmes into production. Lower volumes offset by FX.
- AIRCRAFT: Confirming strong profitability driven by fighter business line
- AEROSTRUCTURES: Increased asset utilisation
- ATR: Increase driven by higher customer support and contractual renegotiation with customers
- SPACE: Decrease due to risk provisions on a contract related to Russia, in addition to the unfavorable comparison base (tax benefit accounted in 2021)

*Including ca. € 27 mln of positive forex
** vs FY21 restated
*** Adjusted perimeter to exclude the contribution of Global Enterprise Solutions (August-December 2021)

From EBITA to Net Result

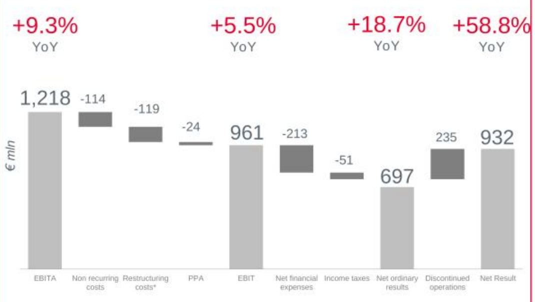
Stronger bottom line thanks to EBITA increase

FY 2021A



* Including restructuring costs for the early retirement of Aerostructures workforce as per agreement signed with the Unions in July 2021

FY 2022A



* Including restructuring costs for the early retirement of personnel serving in the Corporate and Staff functions on a national basis

- Net Result benefitting from EBIT increase, with lower impact from income taxes, despite the “make-whole” charges related to bond buy-back by Leonardo US Holding, and the gain from the sale of GES and AAC accounted for in “Discontinued operations”

On track with our commitment to improve cash flow

(€ mln)

2018-2025e FOCF

Achieved all targets set on 2022 cash flow generation

- ca. 70% cash flow conversion excl. Aerostructures — 70%
- Slightly lower cash absorption from Aerostructures vs 2021 — **€40mln** better vs 2021
- ca. 55% Group cash flow conversion — 55%

Main drivers

- Mid-single digit revenue growth
- High single digit EBITA growth
- Continued cash discipline in core
- Consistent contribution from JVs
- Aerostructures breakeven in 2025

Focus on deleveraging

Leonardo investments for innovation, growth and sustainability

Strongly aligned to SDG goals

50% of SDG-aligned investments

SDG-aligned Investments | Other Investments

Our main contribution to SDG[2]

- Improving resources efficiency and productivity by innovation & promoting safety at work
- Ensuring resilient infrastructures, increasing efficient and digital processes and developing technologies with green impact
- Supporting safe and resilient cities, preventing disasters and intervening in emergency situations
- Improving energy efficiency and increasing the share of renewable energy
- Improving water efficiency, reuse and water networks
- Promoting waste reduction, recycling, reuse and therefore reducing the impact on environment

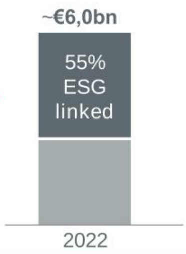
(1) Including Capitalized R&D, Capex, Tooling and Other Immaterial
(2) The initiatives mainly impact SDG 9 "Industry, Innovation & Infrastructure" followed by SGD 8 "Decent work and economic growth" and SGD 11 "Sustainable Cities & Communities"

55% of Leonardo funding sources now are **“ESG linked"**

ESG linked financial transactions

- €2.4 bn ESG linked Revolving Credit Facility (RCF)
- €600 mln ESG linked Term Loan (to refinance January 2022 debt maturing)
- €200 mln EIB Loan NEW

Financing sources

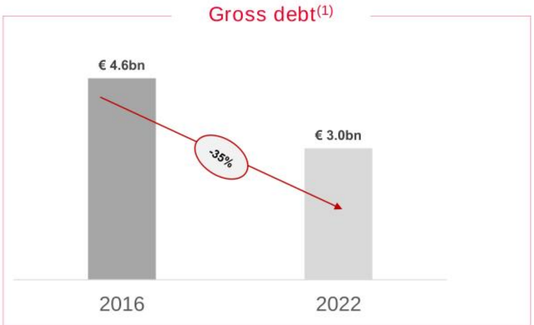


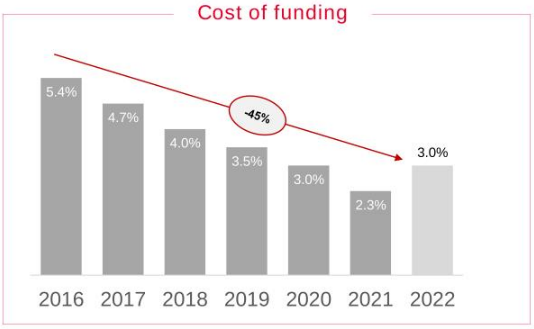
KPIs selected fully aligned with ESG strategy and Long-Term Incentive Plan

- Reduction of CO_2 emissions
- Employment of women with STEM degree
- Computing power per capita NEW

Reduced debt by ca. 35% and decreased cost of funding by ca. 45%

Focus on deleveraging





- Important deleveraging achieved in 2022 vs 2016
  - In 2022 full redemption of 2039 and 2040 bonds and early repayment of term loan
- Cost of funding materially reduced from 5.4% to 3.0% in 2022 (70% fixed)
- Debt decreased notwithstanding strategic acquisition and continued investment in competitiveness

Capital allocation – Deleveraging is written on the cards

- Cash flow generation will be devoted to
  - Deleveraging: Priority No. 1
  - Maintaining shareholder returns constant

2023 Outlook

	2022A	2023E[1]
ORDERS (€bn)	17.3	ca.17
REVENUES (€bn)	14.7	15-15.6
EBITA (€mln)	1,218	1,260-1,310
FOCF (€mln)	539	ca. 600
NET DEBT (€bn)	3.0	ca. 2.6[2]

- Continued solid commercial momentum, with book-to-bill>1x
- Successfully navigating inflationary pressures
- Continued improvement in FOCF and focus on deleveraging

2023 exchange rate assumptions: € / USD = 1.10 and € / GBP = 0.87
1) Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration
2) Assuming dividend payment od € 0.14 p.s. and new leases for ca 100 mln

Agenda

• Key messages	Alessandro Profumo, Chief Executive Officer
• Industrial review	Lucio Valerio Cioffi, General Manager
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Confidence in the medium-term

Based on strong fundamentals of our businesses

KEY ESG PRIORITIES

- SUPPORTING OUR KEY COMMERCIAL AND INDUSTRIAL GOALS
- ENABLING SUSTAINABLE GROWTH BY INNOVATION AND TECHNOLOGY
- MEETING AND ANTICIPATING CUSTOMER PRIORITIES
- PARTNERING WITH OUR SUPPLIERS
- ENHANCING HUMAN CAPITAL AND SKILLS FOR THE FUTURE
- TRANSPARENCY AND INTEGRITY AT OUR CORE
- DRIVING CAPITAL ALLOCATION AND LONG-TERM RETURNS

ESG TARGETS

	2023 – 2027 TARGETS[1]
ORDERS	2022-**2026 Cumulated ca € 90 bn** **(€ 80 bn vs previous plan)** Book to bill >1
REVENUES	Confirming Mid Single Digit CAGR 2023-**2027 Cumulated ca € 85 bn**
EBITA	Confirming High Single Digit CAGR RoS growing, at double digit at Plan end
FOCF	**Confirming ca. € 3 bn cumulated in 2021**-2025 (including Aerostructures)
CASH FLOW CONVERSION	ca. 70% in 2022, excluding Aerostructures ca. 70% by 2025, including Aerostructures
ROIC	ca. 13% in 2025

1) Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration

Closing remarks

- Leonardo is stronger, more robust, resilient and sustainable
- Successfully capturing increasing opportunities
- Continued strong commercial activity globally building our backlog
- Top line growth across all defence/governmental sectors
- Robust profitability benefitting from increasing volumes and solid industrial performance
- More solid, structurally increasing cash flow and deleveraging
- Digitalization and supercomputing at the base of technological and product competitiveness
- Confirmed our commitment on ESG for a long-term growth
- Fully committed to create value for all our stakeholders

Agenda

• Key messages	Alessandro Profumo, Chief Executive Officer
• Industrial review	Lucio Valerio Cioffi, General Manager
• Financial review	Alessandra Genco, Chief Financial Officer
• Medium-long term outlook	Alessandro Profumo, Chief Executive Officer
• Q&A	
• Sector results	
• Appendix	

Q&A

Agenda

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Helicopters

Solid business with accelerated civil recovery

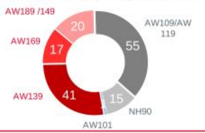
2018-2022 Results

4Q22 Results

€ mln	4Q 2021	4Q 2022	% Change
Orders	1,979	1,437	-27.4%
Revenues	1,438	1,393	-3.1%
EBITA	183	181	-0.5%
RoS	12.7%	13,0%	+0.3 p.p.

Deliveries by programme

FY2022
149 new units



Revenues by customer/segment

2023 Outlook(*)

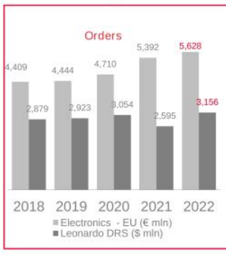
- Strong level of order intake expected both in civil and governmental; confirming increasing revenues and deliveries
- Good level of profitability supported by structured actions to offset inflationary pressure

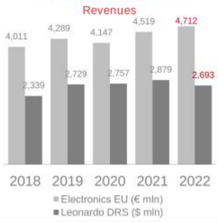
(*) Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration

Electronics

Growing Revenues and Profitability

2018-2022 Results





4Q22 Results

ELECTRONICS - EU

€ mln	4Q 2021	4Q 2022	% Change
Orders	1,529	2,134	41.5%
Revenues	1,496	1,562	7.9%
EBITA	203	247	21.7%
RoS	13.6%	15.8%	2.2 p.p.

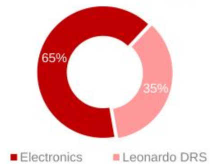
Leonardo DRS

$ mln(*)	4Q 2021	4Q 2022	% Change
Orders	676	852	26.0%
Revenues	820	820	0.0%
EBITA	85	104	22.4%
RoS	10.4%	12.7%	2.3 p.p.

2023 Outlook(**)

- Growing volumes and profitability driven by improving execution of backlog and investments
- Market dynamics still reflecting inflationary pressure and supply chain

FY22 Revenue by segment



* Avg. exchange rate €/$ @ 1.18 in FY2021; Avg. exchange rate €/$ @ 1.05 in FY2022

** Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration

Aircraft

Solid performance

2018-2022 Results

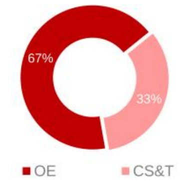
4Q22 Results

€ mln	4Q 2021	4Q 2022	% Change
Orders	1,025	1,163	13.5%
Revenues	1,147	1,126	-1.8%
EBITA	191	176	-7.9%
RoS	16.7%	15.6%	-0.9 p.p.

2023 Outlook(*)

- Growing export market for proprietary platforms
- Confirming strong contribution from Fighter business lines (F-35 and Eurofighter)

FY22 Revenues by platform

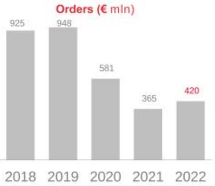


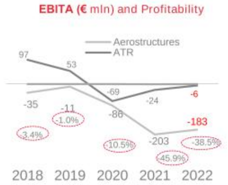
* Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration

Aerostructures and ATR

Gradual recovery

2018-2022 Results





4Q22 Results

Aerostructures

€ mln	4Q 2021	4Q 2022	% Change
Orders	66	78	18.2%
Revenues	37	124	235.1%
EBITA	-78	-49	37.2%
RoS	-210.8%	-39.5	171.3 p.p.

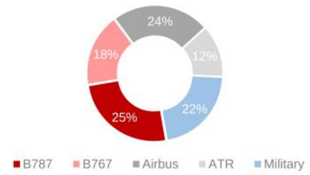
ATR

€ mln	4Q 2021	4Q 2022	% Change
EBITA	1	-2	-300%

2023 Outlook(*)

- Increasing volume driven by increasing production rate by Airbus and Boeing 787
- Better profitability driven by higher asset utilisation
- GIE-ATR expected increase deliveries

FY22 Revenue by programme

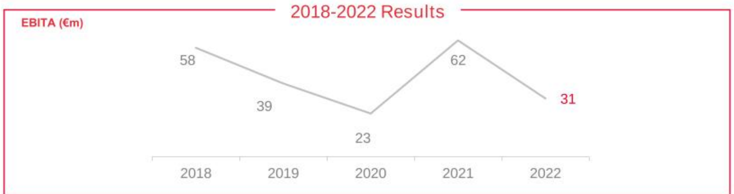


* Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration

Space

Recovery of Manufacturing and confirmed solid performance of Satellite services

2018-2022 Results



4Q22 Results

€ mln	4Q 2021	4Q 2022	% Change
EBITA	25	21	-16,0%

2023 Outlook(*)

- Growing volumes driven by solid and increasing backlog
- Profitability improvement expected in Manufacturing
- Satellite business confirmed strong fundamentals in Europe and Latin America with top line and EBITA increase

* Based on the current assessment of the effects deriving from the geopolitical situation on the supply chain and the global economy and assuming no additional major deterioration

Agenda

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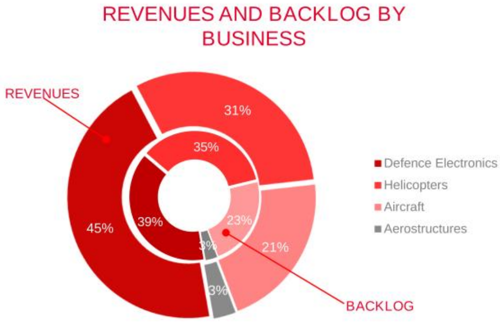
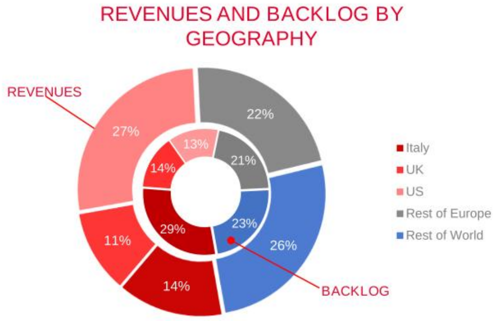
Revenue and Backlog diversification





REVENUES	NEW ORDERS	ORDER BACKLOG	EBITA
€ 14.7 BN	€ 17.3 BN	€ 37.5 BN	€ 1.2 BN

4Q/FY 2022 Results

Group Performance

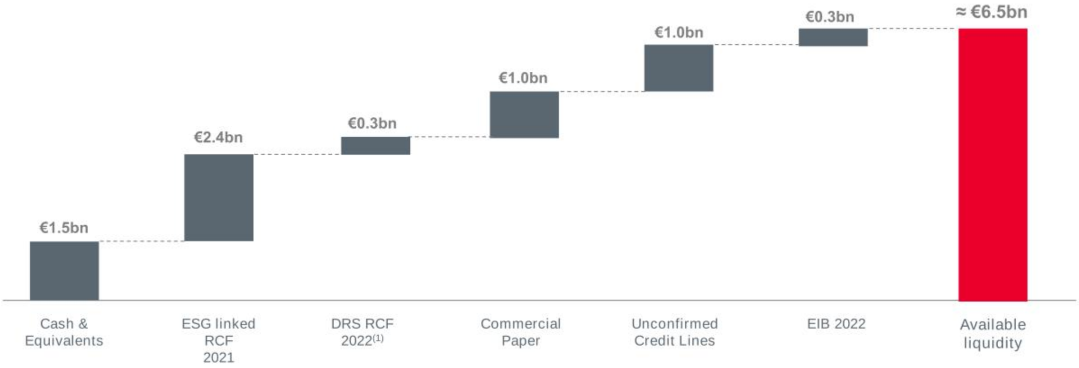
€ mln	4Q 2021	4Q 2022	% Change	FY 2021	FY 2022	% Change
New Orders	5,041	5,547	10.0%	14,307	17,266	+20.7%
Backlog				35,534	37,506	+5.5%
Revenues	4,571	4,796	4,9%	14.135	14,713	+4.1%
EBITA	516	599	16.1%	1,123	1,218	+8.5%
RoS	11.3%	12.5%	1.2 p.p.	7.9%	8.3%	0.4p.p.
EBIT	466	409	-12.2%	911	961	+5.5%
EBIT Margin	10.2%	8.5%	-1.7p.p.	6.4%	6.5%	0.1p.p.
Net result before extraordinary transactions	358	310	-13.4%	587	697	+18.7%
Net result	358	270	-24.6%	586	932	+58.8%
EPS (€ cents)	0.623	0.472	-24.2%	1.019	1.623	+59.3%
FOCF	1,596	1,433	-10.2%	209	539	+157.9%
Group Net Debt				3,122	3,016	-3.4%
Headcount				50,413	51,392	+1.9%

Free Operating Cash-Flow (FOCF): this is the sum of the cash flows generated by (used in) operating activities (which includes interests and income taxes paid) and the cash flows generated by (used in) ordinary investment activity (property, plant and equipment and intangible assets) and dividends received

Solid Group liquidity ensures adequate financial flexibility

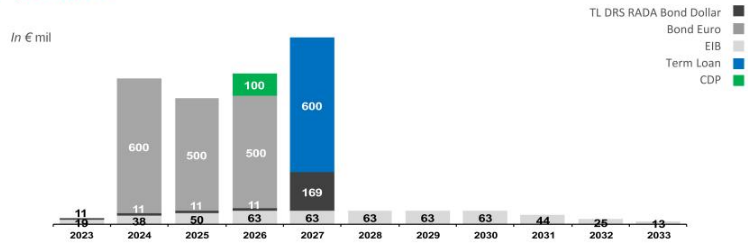
- Available credit lines
  - ESG Credit Line signed in October 2021 equal to € 2.4 bn
  - Existing unconfirmed credit lines equal to € 1.0 bn
  - Commercial Paper, signed in August 2022, equal to € 1.0 bn
  - New «Sustainability-Linked» EIB loan equal to € 0.3 bn

  together with the Revolving Credit Facility signed in November 2022 by Leonardo DRS, following the merger with RADA, equal to $ 0.3 bn and cash in-hands ensure a Group's liquidity of approx. € 6.5bn



Balanced debt maturity profile

Debt maturity
Average life: ≈ 3,3 years



Repayment Conditions of New Debt Instruments

- Leonardo DRS, following the merger with the company RADA, has signed total funding of $500mil expiring in 5 years (of which $225mil Term Loan fully drawn on December 31, 2022 and agreement for $275mil Revolving Credit Facility fully undrawn on December 31, 2022)

CREDIT RATING

	As of today	Before last review	Date of review
Moody's	Ba1 / Positive Outlook	Ba1 / Stable Outlook	July 2022
S&P	BB+ / Positive Outlook	BB+ / Stable Outlook	May 2022
Fitch	BBB- / Stable Outlook	BBB- / Negative Outlook	January 2022

Capex initiatives that align our portfolio with SDGs represent 50% of the total

New initiatives increasing industrial process efficiency

Energy efficiency
Transition to LED technology for most industrial plants

Water efficiency
Reduction of consumption through modernisation of water networks and correct recovery of wastewater

Re-industrialization projects
Implementation of automated equipment and digital solutions in order to increase competitiveness and product reliability for both existing and upcoming programs (ATR and EuroMALE)

Barrel production line
Production line improvement with machines substitution in order to increase production rate and to reduce waste in the process

Digitalization
Digitalization of manufacturing and engineering processes driven by upgrade applications (such as SAP and Product Life-cycle Management) in order to reduce waste and improve quality

New products included in our SDGs-aligned portfolio

M-346 and M-345
Our trainers through a greater use of simulation systems allow a reduction of the flight-hours resulting in benefits on carbon footprint and emissions

AW609
First civil tiltrotor to be certified which will represent and enabler technology for prosperity and progress combining into one aircraft the benefits of helicopter and fixed-wing aircraft

AW169
Light Intermediate helicopter with class-leading technology that guarantees the highest performance also representing a solution for a healthier planet along with operating capability in the most challenging conditions

Integrated Sensors Suite
New AESA multifunctional radars suite for naval platforms with state-of-the-art technologies. The new materials and manufacturing process for AESA antennas reduce power consumption and increase sustainable production

Falco Xplorer
RPAS designed for persistent multi-sensor strategic surveillance with situation awareness capability. The increase in performance in terms of persistence allows to reduce the number of missions and to optimize the flight profiles, leading to carbon footprint reduction.

Development costs capitalised as intangible assets as at 31 December 2022

€ mln	Self Funded National Security	Self Funded Other	Total
01 January 2022 Opening Balance	1,760	849	2,609
Gross R&D capitalised	98	133	231
Depreciation and write offs	(85)	(40)	(125)
Disposals	-	(1)	(1)
Subtotal	13	92	105
Other Changes (*)	1	2	3
Net R&D capitalised	14	94	108
31 December 2022	1,774	943	2,717

(*) Movements w/o cash and PL effects

Covenant FY2022

	FY2022A Post IFRS 16
EBITDA*	€ 1,671 mln
Net Interest	€ 104 mln
EBITDA / Net Interest	16.1
THRESHOLD	> 3.25

	FY2022A Post IFRS 16
Group Net Debt	€ 3,016 mln
Leasing (IFRS 16)	- € 570 mln
Financial Debt to MBDA	- € 713 mln
Group Net Debt for Covenant	€ 1,733 mln
EBITDA*	€ 1,671 mln
Group Net Debt / EBITDA	1.0
THRESHOLD	< 3.75

* EBITDA net of depreciation of rights of use

Defence Budget perspectives

USA

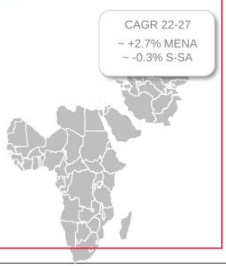
- USA: the main defense spender worldwide (> 780B $ in 2022)
- Return to growth expected from
- 2026 (>840 B $ expected in 2023)

Asia Pacific

- Asia Pacific: > 570B $ in 2022
- China the main spender
- Significant Defense budgets in South Korea, India and Japan, with annual values> 50B $

Middle East - Africa

- Iran and Saudi Arabia are the major spenders
- Defence budget in this area started decreasing from 2017, due to lower crude oil price
- Growing tensions in the area are expected to change this trend



Europe

- Germany: € 57B – target 2% in 2023
- France: € 60B - target 2% in 2025
- UK: € 70B - target 3% in 2030
- Italy: € 33B - target 2% in 2028
- Poland: € 13B - target 4% in 2023

Important progress towards ESG from 2018

2018 – 2022 progress

Progress on environment and climate change

- -37% intensity* CO_2 Scope 1 & 2 emissions location based
- -24% intensity* of energy consumption
- -26% intensity* of waste produced
- -30% intensity* of water withdrawals
- 75% of employees work at sites with certified environmental management systems (from 66% in 2017)

Progress on social impact and people

- +14% workforce growth vs 2017
- >22,000 people hired
- Under 30 employees from 8.2% in 2017 to 11.2% in 2022
- Female managers on total managers from 15% in 2017 to 19% in 2022
- Injury rate reduction by 53% vs 2017
- 80% of employees work at sites with certified health and safety management systems (from 56% in 2017)

Data baseline 2017

* On revenues

Our main ESG achievements in 2022

	LEONARDO RATING	SCALE (low | high)	LEONARDO RANKING in the sector	SECTOR Score average
MSCI	A	CCC|AAA	Top 10	BBB
SUSTAINALYTICS	21.2 medium risk	40+| 0 Severe - Negligible	2nd/99	34.9
S&P	87	0|100	1st/92	22
CDP	A-	D-|A	-	C
MOODY'S ESG	62	0|100	3rd/19	41
ISS ESG	C	D-|A+	Decile 1	D+

Bloomberg Gender-Equality Index 2023

Confirmed for the third time in **Bloomberg's** Gender Equality Index (GEI).

EURONEXT BORSA ITALIANA

Confirmed in the MIB ESG Index, including the best 40 Italian listed companies for ESG performance.

TRANSPARENCY INTERNATIONAL

Included in band A, the highest in the Defence Companies Index on Anti-Corruption and Corporate Transparency

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.

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Raw Transcript

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Q4 2022 Earnings Call - Pre-Recorded

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Chief Executive Officer & Director, Leonardo SpA

Alessandra Genco
Chief Financial Officer, Leonardo SpA

MANAGEMENT DISCUSSION SECTION

Valeria Ricciotti

Head-Investor Relations & Credit Rating Agencies, Leonardo SpA

Good morning, ladies and gentlemen, and welcome to our full year 2022 results presentation. I'm Valeria Ricciotti, Head of Investor Relations and Credit Rating Agencies.

Today, our CEO, Alessandro Profumo will take you through the important progress that we achieved during the last year. Our Group General Manager, Valerio Cioffi, will provide an update on the opportunities for the group driven by market trends and technology in the medium and long run, as well as on the progress made in the aerostructures. Our CFO, Alessandra Genco, will take you through the full year 2022 results and the outlook for the full year 2023. And then our CEO will provide an update on how we are positioned looking forward.

That will follow a live Q&A session starting at 9 a.m. CET, where we will welcome your questions. Thank you.

Alessandro Profumo

Chief Executive Officer & Director, Leonardo SpA

Thanks, Valeria and good morning, everybody. And thank you for joining us today. 2022 was an important year of delivery, solid execution and growing commercial success. And we are pleased to report today a strong set of full year results.

We have continued to deliver on our promises, meeting our or exceeding all our key targets once again, while making the group stronger, more resilient and sustainable. And importantly, as a group, we are in a better and stronger position to capture new opportunities. We have stepped up and we are accelerating our commercial momentum with group new orders of €17.3 billion. That's a significant increase of 21%, adjusting 2021 to exclude the contribution of GES, beating the original guidance set last year and also well above the updated guidance.

Impressive even without the major polish AW149 order with a book-to-bill of 1.2 times. We have grown our top line and continued strong program delivery with group revenues up 4.7% at €14.7 billion on a perimeter-adjusted basis. We have also continued to improve our profitability with EBITDA up 14.9% to €1.2 billion on a restated basis, adjusting for COVID cost within EBITDA, which, last year we had previously accounted for below the line.

And reflecting the changes in perimeter, the deconsolidation of GES and the inclusion of [indiscernible] 00:03:13. Then importantly, we have also delivered on our target to step up cash flow generation and conversion, delivering free operating cash flow of €539 million, well over double the previous year. And not just higher, but an improved quality of cash flow with lower seasonality and less factoring. We are reiterating the €3 billion cash flow generation over 2021, 2025, within – with 2022 strongly contributing to this medium-term target.

Now, we are prioritizing deleveraging while maintaining cost and shareholders return. In 2022, we redeemed on our 2039 and 2040 bonds and early repaid €500 million term loan. And this year, we are proposing again as a payment of a dividend of €0.14 per share.

We ended the year very strongly in the final quarter with our core defense and governmental business delivering a very strong and robust performance. While at the same time our recovery plan for Aerostructures is on track, we're reducing cash absorption and increasing operating performance.

And, finally, we have also continued to make important progress on ESG. Carrying out our deep commitment to sustainability, we have strengthened our decarbonization plan by formally committing to SBTi. We achieved important results in our social impact and diversity and inclusion. We have demonstrated our commitment to sustainable finance, and all of this is again were recognized also by third parties. I'll give you more details later.

So, 2022 was a year where we have continued to deliver and make the group stronger, more resilient, sustainable, and set up to capture best growth opportunities. It's important to appreciate the major progress we have made as a group over the recent period 2018-2022. These results are also important as they demonstrate the stability of the group in a more challenging external scenario with inflationary pressure, showing Leonardo's resilience and ability to respond challenges which, as a group, we have already demonstrated during the pandemic period.

The last five years have been important years of delivery, strategically and financially. We have been delivering and successfully executing our industrial plan through a stronger international presence, a sharper commercial presence, leveraging on capabilities throughout Leonardo one company and faster innovation and digital capability. We have transformed key areas of the business like helicopters, strengthen the core business of Defence Electronics while focusing on the restructuring plan in Aerostructures and we have delivered group results in line or exceeding targets year-over-year in the last five years.

We have successfully navigated through the COVID pandemic and period of unprecedented uncertainty and we are emerging stronger commercially and financially. Structurally more solid as a group with a more resilient and sustainable business model. And strong and growing backlog providing greater revenue visibility, good program delivery, improved profitability despite changing mix with and without pass-through, with and without Aerostructures, better return on invested capital. Improved cash flow ahead of guidance and improving cash conversion with and without Aerostructures. Reduced gross and net debt while strengthening our core business.

Our commercial strength and momentum is confirmed. We are moving faster in key areas. Look at the recent outstanding commercial performance of helicopter driven by defence/governmental and civil is recovering, too. Electronics is also exciting, vibrant market. They need to upgrade Electronics capabilities for land system and air defence. The need for protection, strengthening sector, sensors, communication, cyber resiliency and achieving information superiority. We remain anchored in important international programs using our platform strengths and our key anchored in important international programs using our platform strengths on – and our key strategic partnerships. And we see significant long-term opportunities like the GCAP among international cooperation programs. And the key point is our ability to capture demand and opportunities across the board because we are using our strong domestic and international presence and because we can leverage capabilities and opportunities throughout Leonardo.

So we have made significant progress in delivering our strategy, and we are on the right path to our goal of long-term sustainable growth. We have focused on strengthening our core, making important moves to drive more value from our strong fundamentals already across our businesses, increasing critical mass in strategic areas. Our investment in Hensoldt, which is now a key partnership in sensors, enabling us to access the German market better, play a stronger role at European level in key programs and is creating significant development opportunities with our electronic sector units. We have seen our rationale for investing in Hensoldt being fully confirmed, and we are also pleased with its current share price of more than €30 compared to our purchase price of €23 per shares.

The merger of Leonardo DRS and RADA is creating a world leader in advanced sensing and integrated mission system with growing international opportunities. Then we are increasingly a key player in major international cooperation programs like GCAP, leveraging our group platforms and system trends across aircraft and helicopters. And the Kopter acquisition is added to our helicopter world-class product range and has created important opportunities for future technological development.

leveraging our group platforms and system, strengths across aircraft and helicopters. And the Kopter acquisition has added to our helicopter world-class product range, and has created important opportunities for future technological development. Then we have also focused on transforming to grow, making the business more modern and agile, changing from a product seller to a solution provider, to meet the changing customers need, and to capture new opportunities. And leveraging our capabilities in a much more integrated way across divisions.

Our Leonardo production system program has helped optimize the efficiency and productivity of Leonardo's industrial size, and we are taking further, designing the digital production processes of the future. Then we are executing a recovery plan to position our structure for the future. Also focusing on upskilling and reskilling of our people. We are on-track to reduce their restructure cash absorption, and are confirming our target of breakeven by end 2025. Valeria will talk in more detail on our progress here in a moment.

And we have focused on mastering the new, creating advanced technological solution, knowing that our future competitiveness is driven by our technology innovation, which, in turn, is driven by digitalization, cyber resilience and sustainability. We have significantly transformed our research and development, Leonardo labs are at the core of this effort, of driving research and development in the most innovative technologies.

Prioritizing key areas, most important to our customers, and we are – and we – where we can leverage across the group. We have built world-leading computing power capabilities, and our world-class DAVINCI HPC gives us a unique edge in product development, meeting the most demanding needs in the complex simulation user, for example, in the design of aircraft and helicopters.

meeting the most demanding needs in the complex simulation use so, for example, in the design of aircraft and helicopters. And we have key enabling capabilities in areas like digital green, big data cloud, and artificial intelligence.

Our core defense businesses have grown stronger, and they are better-positioned to capture exciting new opportunities. We can see clear value drivers of the future also leveraging on commercial success. Helicopter, in 2022, achieved an excellent commercial performance with €6 billion of new orders, impressive, even without the major Polish AW149 order, showing its leading position in the defense and governmental markets and in customer support, simulation and training, and its proven business winning ability to gain large defense orders.

The division has increased its impressive backlog to €13.6 billion, also thanks to its world class product portfolio. We have delivered a major transformation turnaround in helicopters over the past five years with a much improved execution, a big step-up in the results, a restored profitability, back to double-digit excluding pass-through, an improved cash generation, and a major commercial success, all achieving results ahead of our expectation. It is driven by Helicopters' world class product portfolio, which is technologically leading, with key customers for all product across geographies.

And it's a result of our successful strategy, focused on dual-use and future technologies, with customer support and training, representing a core strengths and additional growth driver. We are very excited by the strong commercial momentum, seeing growing opportunities in the defense and governmental markets and seeing the demand there recovering faster than expected in the civil market.

demand recovering faster than expected in the civil market. We are investing in exciting new generation products in the [indiscernible] 00:13:53 area like the AW249. It is a state-of-art specialized platform for exploration and [indiscernible] 00:14:02 missions, featuring advanced digital solution and connectivity, embedding a modular and truly open architecture capability to support future multi-domain scenarios and interoperability.

A great example of how we are synergically leveraging expertise and technologies among our divisions. Embedding in our helicopter's platforms' digital native capabilities, we've integrated state-of-the-art sensors, ensuring cyber resilience. It all make us confident in transitioning helicopters from a €4 billion to a €5 billion business, solidly at double-digit profitability over the planned Horizon.

Then Aircraft continues to achieve strong performance and program delivery and high, best-in-class profitability. It has key growth drivers, great position on both international cooperation programs and proprietary platforms and with leadership position in trainers and strong position in special mission and transport aircraft. And we have successfully added a new business model with our International Flight Training School.

We are excited by the future here, too. We also see follow-on opportunities for Eurofighter across Europe. We have been expanding our role on the JSF program, seeing strong demand for the core platform and becoming the EMEA leader on the MRO side. Aircraft has a solid backlog and a strong order pipeline, and we are steadily leveraging its customer support activities. It all means we see good visibility for the future performance of aircraft.

and becoming the EMEA leader on the MRO side. Aircraft is a solid backlog and a strong order pipeline, and we are steadily leveraging its customer support like these. It all means we see good visibility for the future performance of aircraft. And looking further forward, we are very excited by the GCAP next generation program. All these provide stability and continuity for business into the long term for decades to come. And great examples of how we are leveraging capabilities across both platforms and electronics.

Electronics continues to be a growth driver for us. In 2022, performing well for us again, delivering on that more than 4% revenue growth and 9% EBITA growth over the past five years. We expect these growth to continue, and we are confident of transitioning electronics from a €5 billion to €6 billion business. Also material increasing EBITA and profitability over the plan horizon.

In electronics, we are a European leader. We have top capabilities and strong positions across all the key domains, air, sea and land. And all these domains have strong potential too. The need for electronics is growing more and more, with the value adamant on platforms rising materially. We have key capabilities to meet new customer needs and priorities, for example, integration across domains.

We have a leading edge solution in sensor and the capability to integrate and combine sensors data with other rather [indiscernible] 00:17:13 equipment and provide to customers information superiority. We are taking advantage of growing opportunities to establish our position on key programs, for example, in sensors and electronics warfare and electronics optics.

And we are also excited by the potential of our partnership with [indiscernible] 00:17:31. All this makes us confidence of continuous sustainable growth. Leveraging on our key enabling technologies and execution are critical.

Leonardo DRS is another part of the group we have transformed in recent years. We have successfully rebuilt its profitability and growth trajectory and we have focused its portfolio on four key technology areas. It's a world-class supplier of advanced sensing and computing solutions and the integrated mission system It has greater position on key DOD priority problems and it is set to grow both top line and profitability as its programs transition from development to production.

The recent combination with RADA is very exciting as well. It brings together the advanced sensing capabilities of DRS with a world-class tactical radars provided by RADA. The enlarged business is well-placed to be a leader in the rapidly growing force protection market. And there are significant additional opportunities.

Customer support, service and training is increasingly becoming a key revenue and profit driver for Leonardo and this is a driver of long term sustainable growth. It's a key part of our business now in helicopters and the aircraft also in electronics too. With the need to upgrade system, for example, avionics. This represents a huge opportunity, our existing fleets of flying aircraft and helicopters we need support and upgrade into the long term.

There's already a significant installed base of 4,000 helicopters and over 1,000 aircraft flying and we have achieved that, ten years added trainings useful life of equipment. And these customer support revenues are recurrent with multi-year visibility and they are attractive and profitable and get us closer to our customer. Overall, the group customer support and training is steadily growing In 2017, it contributed less than 20% of total revenues. We targeted for 2022 a contribution of more than 25%, and in 2022, it grew to 28%, thus exceeding the target [ph] set 00:20:00.

We have successfully been growing this customer support and training activities across divisions and they now account for 35%, 40% of helicopters' revenues per year and 30%, 35% of aircraft revenues per year.

In 2022, we delivered approximately 48,000 hours of training through flight simulators. We have trained over 13,000 helicopter and the aircraft pilots and operators. Last week, we were ranked again as number one in ProPilot's after-sales service quality ranking. It is the fifth year in a row that we are the number one. And we estimate that the value of customer support needs relating to our current fleet base over the next 30 years is some €5.5 billion in cash net present value.

As a group, we have significant advantages. Integration is a key strength and it is what makes us succeed competitively. And from right across our group, we can work and integrate across all domains, and so best meet the present and future needs of our customer. We can drive innovation and development in a digital and sustainable way. We are adding to that our key strengths in digitalization, which is now at the heart of the group, and it is having transformational impact across all businesses. It provides a bridge to link all our businesses together platforms, electronics, and the key strategic joint ventures.

We have a strong and unique portfolio that has a capability to address multi-domain solutions for our customers with our products, services and solution being interoperable. This all means we can play a key role in the evolving international development of the aerospace and defense sector.

It can also achieve leadership position in major programs of European collaboration. It means we play important roles industrially in our domestic markets. We have also continued to make important progress on our ESG milestones in 2022. We have strengthened our decarbonization plan. First, we have further reduced CO2 emission by 15% this year, mainly thanks to this replacement of SF6 in helicopters and the energy efficiency initiatives. Then, we formally committed to SBTI. And then, we reviewed our decarbonization target, making it more ambitious and aligned with the Paris Agreement.

Now, we are committed to reduce the CO2 emission by 50% by 2030. We achieved important results also in our social impact and diversity and inclusion. We increased the percentage of women with a STEM degree hired, accounting now for 22% of the total STEM degree hiring. And the percentage of female managers now accounting for 19% of the total managers. We now have more than 50% of our investments targeted to initiatives that impact on ESG. And 55% of our financial sources are ESG linked, with objective fully aligned with our strategy and long-term incentive plan.

And with this, I will now hand over to Valeria, and I will talk later about the group's medium-term outlook.

Valeria Ricciotti

Head-Investor Relations & Credit Rating Agencies, Leonardo SpA

Thank you, Alessandro, and good morning, everybody. Today, I would like to cover some key areas.

and good morning, everybody. Today, I would like to cover some key areas. First, the growing upside trends in our core defense governmental markets, especially in the medium and long term, with strong fundamental drivers that underpin growing new order intake over the short and medium term. At the same time, we see greater opportunities driven by our technological innovation, which excitingly are transversal across the group. Lastly, I am pleased to report that we are on track with the Aerostructures recovery plan.

We see a positive outlook in our core defense markets. Due to increased geopolitical tensions, governments are reassessing their needs for security, leading to increases in defense spending. Across the board, the main global defense markets are set to see sustained growth in demand with an overall market CAGR expected of around 6%. Our addressable market remain at around 15% of the overall Aerospace, Defense, and Security annual average market value of around €800 billion.

In our domestic markets, we see increasing level of expenditure, with Italy expected to reach the need to target of spending 2% of GDP by 2028, the UK increasing its spending towards 3% by 2030, and Poland towards 4% in 2023 This year, there is also a strong level of spending in the US, and we are very well positioned to benefit from this increase in defense budgets across all these markets. Furthermore, we are also seeing growing levels in geographies like the Middle East and North Africa where we have been building stronger positions to create new opportunities. So across our markets, we are now noticing increased demand levels while the precise impact on our budgets are being allocated will take time to play out.

To summarize, we are confident that our current position allows us to greatly benefit from higher overall defense spending, customer accelerating orders, and also spending to replace or upgrade equipment and systems that have become obsolescent. We have a strong track record with an impressive commercial performance in recent years with new order intake of almost €75 billion, of which 62% in main domestic markets, Italy, UK, and US, 20%

in Europe, including Poland, and 18% in the rest of the world. We are currently planning on exceeding our previous new order intake target of €80 billion for the period 2022-2026, and our new target is around €90 billion target of €80 billion for the period 2022-2026and our new target is around €90 billion over the same time horizon, 10% more. We can leverage from our key group strength, our solid standing in key domestic markets where we have such deeply established customer relationships.

Our enhanced position across international export markets, our role on large long-term international programs, plus our unique ability to combine key interoperable and multi-domain capabilities across the group, from platform to electronics to synergistic partnerships throughout our strategic joint venture. We see growing commercial opportunities across all our core business areas.

Here, only a few examples. The short-term pipeline in helicopters based on a wide dual use product portfolio. Opportunities in proprietary aircraft programs like trainers and training systems. Additional follow-on activity for Eurofighter, involving our aircraft division, electronic sensors and products, as well as customer support activities.

Lastly, the results are an exciting opportunity involving all our core business areas among the international cooperation program, which is the Global Combat Air Programme, the GCAP. We are also proud to mention concrete results and opportunities enabled by the Italian National Recovery Fund. We are managing partner of the National Strategic Hub, which will drive cloud digitalization right across the Italian public sector. We are strongly positioned in the field of global monitoring for civil application such as critical infrastructure, cultural heritage, environmental protection and agriculture indeed, with reference to the specific segment of the road infrastructure monitoring, we operate as industrial lead of the national consortium called Rete Mille Infrastrutture, supporting high tech solutions for critical infrastructure.

We are on the right path, to aid our country in achieving the ambitious target posed by the Italian National Recovery Fund, and we will identify any applicable end-to-end solution and service. Innovation is the key to our future. We are selecting, focusing, and connecting key technological areas to achieve benefits and address opportunities. Our focus is transversal. This means that we are building capabilities that can be used group-wide, and will allow us to capture commercial opportunities for multiple businesses of the group.

At the same time, we are developing disruptive dual use technologies, not just for maintaining up-to-date our existing products, but for major new programs in domestic market, as well as – even opening up new markets for the group.

Leonardo Labs is at the center of these efforts to address specific needs such as digital twin, new materials, sustainable aviation fuel, hybridization, while our Davinci-1 HPC is a key driver of innovation. Here, our investment is now driving important leading edge benefits with many application. We have built our own cloud, developed our own data capabilities and specific engineering codes. We are at the forefront of digital twin applications, and this means that we can now give all our divisions a digital twin framework. All this is significantly reducing design and certification times, development risks and costs, optimizing our time-to-market.

To give you a simple example of one of the many application of the HPC capability, we have extended the digital twin to engineering design process. And it computes the accurate flow field around the helicopter in extremely reduced processing time, assuring accuracy, while minimizing wind tunnel experimental leads, and then greatly reducing development cost and times.

I also want to talk briefly about a very significant future opportunity, the global combat air program. Leonardo is a key strategic partner in GCAP, a system of systems covering and fully connecting all domains, air, land, maritime, space, and cyber.

And fully connecting al domains, air, land, marine time, space and cyber. It's a major internal program with industrial partners in Italy, the UK and most recently in Japan, aimed at the development of the six generation air platform for multi-domain in the defense sector to be operational by 2035.

It will have a groundbreaking combination of technologies and capabilities from aeronautics to electronics, from cyberspace to power and propulsion, leveraging on artificial intelligence, big data analytics, quantum computing, Digital Twin use and cooperation between monitored and managed platforms in a cyber secure environment. It represents an exciting long term opportunity for us, strengthening our technological and industrial lead while ensuring at the same time sustainability, prosperity, safeguarding specialist skills and core competencies, generating STEM employment and improving competitiveness. The GCAP will also involve the entire national value chain, including universities and research centers, startups in an open innovation concept and small to medium size industries.

Then in aerostructure, we are on track and we are executing our recovery plan after making further progress in 2022. We are now seeing an improving civil aviation market as a tailwind with air traffic level increasing, especially in the shore tall airlines growing financially stronger and better airlines growing financially stronger and better placed to purchase and take deliveries of aircraft especially as they look to replace older and less fuel-efficient fleets and driving rising volumes of our future activity in the civil customers, Airbus, ATR, and Boeing.

For Airbus, we are seeing increasing volumes under the A321 and the A220, combined with renegotiated and improved terms for the A220. ATR is increasing its commercial opportunities, and we have a clear strategy to strengthen leadership in the regional market, providing sustainable and affordable configuration while leveraging on new state-of-the-art assembly line, reducing production times, and assuring higher quality level standards.

On the B787 program, Boeing has resumed deliveries in July 2022. Our level of activity last year was lower than two fuselages per month. In 2023, we expect to produce four to five shipset per month. But under Boeing latest plans, this level is forecast to rise to around 10 shipset per month within 2025. And this increase, together with new pricing per contract, will be a key factor allowing us to break even.

On the defense side, our work on Eurofighter and JSF remain robust and profitable. And we, at the same time, are also pursuing new commercial opportunities by new work packages with our existing customer and new initiatives like [indiscernible] 00:37:31, where we have just received the first design phase order for the wing.

And, at the same time, we have made Aerostructure (sic) Aerostructures more efficient, reducing the head count by 20% and manufacturing costs through automation and digitalization, and completing our investment plan to achieve a greater manufacturing efficiency.

We have made significant changes to our Aerostructure (sic) Aerostructures business, and all this gives us a strong confidence in the path of our recovery, having seen the 2021 as the bottom year. Therefore, we expect to make a further progress this year, considering that our volumes and production rates are on a upwards trajectory and we have a lower cost base, while we are effectively managing a wider cost pressure.

This means we are confident in achieving our breakeven target by 2025 even though the benefits of our progress will be more back end loaded.

And, with this, I will hand it over to Alessandra and thank you for the attention.

Alessandra Genco

Chief Financial Officer, Leonardo SpA

Thank you, Valerio, and good morning, everybody. As you have heard, 2022 has been a year of delivery, a solid execution and a growing commercial success. We have delivered on promises, once again, meeting or exceeding targets, making the group stronger, resilient and sustainable, and showing how we can successfully capture a growing level of new opportunities.

We have stepped back and accelerated commercial performance with orders at €17.3 billion up 21% beating both the original and our increased guidance, even excluding the €1.4 billion AW149 Polish order.

Our backlog has grown to over €37 billion and we achieved the book-to-bill of 1.2 times. We grew top line and continued strong program delivery with revenues at €14.7 billion, up 4.7% on a perimeter-adjusted basis. And we have continued to improve profitability notwithstanding the cost pressures in the current macro scenario. EBITA was €1.2 billion, up 14.9% on a restated basis for treatment of COVID costs above the line and we increased our group profitability from 7.9% to 8.3%.

Our core defence and governmental businesses has performed well strongly. We can also see the important contribution from our strategic joint ventures. Our civil business is recovering faster than expected. We have been delivering in 2022 on our target to improve cash flow from €209 million to €539 million. It's also higher quality with reduced seasonality and lower factory. We met our target of slightly lower cash absorption in Aerostructures and are on the path to breakeven by end 2025. We have finalized the acquisition of 25.1% stake in Hensoldt entirely self-funded while decreasing debt. At December 2022, the net debt was €3 billion, around €100 million lower than last year. So we ended the year strongly and are carrying our momentum into 2023.

Now let's look at the key metrics across the businesses, starting with new order intake. We have stepped up and accelerating our commercial momentum with group new orders of €17.3 billion. That's a significant increase of 21% with a book to bill of 1.2. And we saw increased order intake across all our divisions. Helicopters had orders of €6 billion, up 38.7%, achieving very strong commercial success even without the major AW149 Polish order for €1.4 billion.

The business won a good spread of new orders across defense governemental, showing the strength of our world-class product portfolio, including the Cormorant Mid life Upgrade program for the AW101 Search and Rescue fleet; the fourth order under the US Navy age TH-73A program with 26 additional helicopters; and additional Italian orders for 20 AW119, 10 AW139, and 4 AW169. We have also been seeing confirmation of accelerating recovery in demand on the civil side, and the Helicopters backlog has now grown to €13.7 billion.

Then Electronics, Europe also performed strongly. New orders increased to €5.6 billion, up 4.3% with high levels of demand and good order intake across all the main domains in [indiscernible] 00:42:58 electronics for both domestic and export, including guns and logistics support for the German navy frigates and in air for the avionics of the 20 typhoon aircraft for the Spanish Ministry of Defense.

At Leonardo DRS, new orders increased to €3 billion, up 36.6%, demonstrating its great positions on key priority DoD programs. We continue to see growing new order intake across the four key technology areas of advanced sensing, network computing, force protection and electric power and propulsion.

At Aircraft, new orders were €2.8 billion, up 4.9%, thanks to the Eurofighter Typhoon program with 20 aircrafts for Spain. For the first C-27J for Slovenia, and the first design phase of the Euromale remotely piloted program, plus good customer support and logistics orders for Eurofighter and upgrading avionics for C-27J program.

Aerostructures achieved new orders of €420 million, up 15.1%. Improved but still reflecting the softer market, we saw an increase in orders from Airbus under the Airbus A321 and Airbus A220 programs, and the first order from the Aircraft division for the early phase of Euromale for the production of the aerostructure. So overall, a very strong group performance in new order intake.

Moving on to revenues, the group grew top line by 4.7% to €14.7 billion and continued strong program delivery. In Helicopters, revenues increased to €4.5 billion, up 9.4%, a strong performance driven by program delivery and increased activity on NH90 Qatar, US Navy TH73 and AW169, as well as customer support.

Electronics Europe grew revenues by 4.3% to €4.7 billion, driven by the strong backlog with an increasing contribution from avionics activity on Eurofighter.

Leonardo DRS revenues were €2.6 billion with volumes down slightly because of slippages related to supply chain, although more than offset by the positive currency impacts. At aircraft, revenues were down slightly at €3.1 billion because of the production phasing under the Eurofighter Kuwait program and some shift in export contract, partially offset by JSF, airlifter, and initial activities on Euromale. Aerostructures recorded revenues of €475 million, up 7.5%, thanks to increased delivery to ATR and higher demand from Airbus. So, overall, a solid group revenue performance.

With respect to EBITA and profitability, we also achieved a step-up in EBITA, up 14.9% to €1.2 billion on a restated basis for the treatment of COVID-related costs, which were accounted for below the line in 2021. We also improved profitability with return on sales increasing to 8.3%.

Talking about specific sectors, Helicopters EBITA was €415 million, up 2.3% on the back of higher volumes, with a return on sales of 9.1% excluding pass-through activity on major programs being delivered. Electronics EBITA grew 14.2% to €556 million with a return on sales of 11.7%, driven by strong performances all across the division and across all domains.

Leonardo DRS EBITA grew 15.2% to €252 million an improved profitability from 9% to 9.8% in line with plan. Aircraft EBITDA was slightly lower at €421 million and a return on sales slightly higher at 13.6% with a very strong profitability maintained driven by its fighter's business line. Aerostructures reduced its operating losses from $203 million to $183 million, reflecting higher activity with lower under absorption of overhead and some efficiency gains, confirming progress on our recovery plan.

ATR is improving its financial performance, and in 2022, we saw its contribution improved to negative €6 million versus negative €24 million, helped by higher customer support and the signing of a customer settlement, which mitigated a lower level of deliveries impacted by some supply chain delays. We expect ATR to make further progress in 2023.

Then the contribution from our space activities, which fell from €61 million to €31 million. Our satellite services joint venture performed well with good new order intake, growing revenues, and solid profitability. It has a solid backlog, giving revenue visibility for future years. On the other hand, the manufacturing joint venture performance last year was impacted by a risk provision on a contract related to Russia in addition to the unfavorable comparison base due to the one-off benefits related to the tax regulation change accounted for in 2021.

So overall, a positive performance across the group, increasing EBITDA, and increasing profitability, delivering on our targets and successfully managing a more challenging external environment where we were able to contain inflationary pressures on costs and largely limit supply chain pressures.

Looking now at the below the line. Our EBIT of €961 million benefited from an improving EBITA in 2022. Non-recurring costs were slightly higher at €114 million, including the Russia-Ukraine related write-down of €36 million and transaction costs related to the many transactions occurred in the US, the acquisition of RADA and the subsequent listing of Leonardo DRS, as well as the divestiture at Leonardo DRS level for approximately €35 million.

The restructuring costs at €119 million were also higher than in 2021 and include the cost of early retirement for corporate and staff functions, as per the agreement signed with the unions in December 2022, which is an NPV positive project.

Then net financial expenses includes the costs of the make-whole charge for the US bond redemption last year. Lower taxes, mainly benefited from utilization of carryforward losses. And the capital gain from the disposal of GES and AAC completed in August, accounting for €235 million. Giving a net result of €932 million.

We are also on track in meeting our targets to structurally improve cash flow generation. In 2022, we stepped our free operating cash flow from €209 million to €539 million and our cash conversion at 55% is in line with the target we set last year. And that's even after the still significant cash flow absorption from Aerostructures for €296 million.

So excluding Aerostructures, free operating cash flow would have been around for €296 million. So, excluding our Aerostructures, free operating cash flow would have been around €300 million higher, with a cash flow conversion at 70%. And it's not just a higher cash flow generation, it's also quality that has improved significantly. We're seeing a reduction in seasonality, with nominal levels of factoring of €404 million, a much reduced level compared to the circa €700 million in 2021.

In an even lower outstanding, and we're also seeing better working capital management. Improving cash flow generation further remains a key priority target of ours. We maintain our target of €3 billion cumulative cash flow over the five years to 2025, with group cash conversion improving to circa 70%, and with Aerostructures at breakeven expected by end of 2025, all of this driving strong deleveraging.

We see the key drivers of our cash flow as follows. First, our increasing revenue and EBITA performance, which we target to improve over the coming years. Second, increasing our conversion of profit to cash, benefiting from continued cash discipline in our core businesses, accelerating the timing of cash-ins from customers, while maintaining strict control on working capital. Improving ratio of depreciation on investments, combined with a consistent contribution from joint ventures.

At the same time, we will benefit from recovery in Aerostructures to breakeven cash flow by end 2025. In 2022, we reduce the cash absorption to €296 million, delivering and exceeding our target. In 2023, we expect slightly lower cash flow absorption in Aerostructures, and we remain on-track with our recovery plan, which, as we have said previously, is back-end loaded. Seeing the major improvements in 2025, helped by increasing volumes and pricing per as we have said previously, is back end loaded, seeing the major improvements in 2025, helped by the increasing volumes and pricing per contract on the B787 program.

Now, moving on to investments, we're continuing to invest well for the future and for growth. Our current future level of investment spend is in the range of €700 million to 800 million per annum, and that's focused on the development of innovative products and solutions, and as well as setting up our engineering and manufacturing setups for the future through digitalization, reducing also our natural resources utilization and increasing efficient and greener processes and around 50% of our investments are targeted to initiatives that impact on our SDGs.

And, at the same time, ESG remains a key priority in our financial strategy. This remains for us fully aligning and integrating both our financial strategy and ESG. You can see how ESG is driving our funding strategy, and now 50% of Leonardo's sources of funding are linked to ESG targets, including CO2 emissions and the number of STEM-qualified women. This is fully in line with our ESG strategy and long term incentive plan.

And this year, in 2022, we also signed €260 million of sustainability-linked financing from the European Investment Bank, including an innovative KPI. This is the first loan in the aerospace and defense sector where the selected ESG target includes a KPI linked to technology.

All of this also enables us to reduce our cost of funding, in line with our disciplined financial strategy. Deleveraging for us is a key priority. We made progress in 2022, reducing our year end debt to €3 billion, delivering on our target. That is also after the acquisition of the 25.1% stake in Hensoldt, the make whole cost on the US bond redemption, thanks to the higher than expected sales of proceeds from GS and AAC and a strong cash flow generation while continuing to pay dividends to shareholders. And that adds to progress made in recent years on gross debt and costs of funding.

Since 2016, we have reduced gross debt from €4.6 billion to €3 billion, even after strategic acquisitions and continuous investment in future projects for growth. And in 2022, we have repaid in advance of maturity circa €800 million of debt, with the redemption in full of circa €300 million of the US dollar bonds and the early repayment of the €500 million term loan. And over 2026 to 2022, we have also reduce our cost of funding to 3% with 70% of these bonds, of this debt at fixed rate. And deleveraging is written on the cards. It remains our key priorities in terms of capital allocation going forward.

Put it simply, we're driving strong deleveraging of the group. We will use our cash flow to reduce debt as priority number one while also providing stable returns to shareholders through dividends. I want to finish today by covering our guidance for 2023. 2022 was an important year of delivery, solid execution and growing commercial success.

We finished the year strongly with very strong commercial momentum, which we expect to continue in 2023. We can see growing commercial opportunities across all our core businesses in both domestic and international markets where we are strong, plus selected new markets.

In helicopters, we're seeing a strong short-term pipeline of opportunities in defense and governmental, In helicopters we're seeing a strong short term pipeline of opportunities in defense and governmental including customer support, plus a rising demand in civil market.

Aircraft has a whole range of potential opportunities and sizeable campaigns. There is further Eurofighter follow-on activity in the pipeline and the delivery of the Euro Mail Development. And we see opportunities in proprietary programs such as trainers and airlifters. Electronics is seeing very strong demand both domestically and internationally, and is seeing growing opportunities and potential across all main domains; air, naval and land.

Here, we're confident of leveraging on our very strong domestic markets in Italy and the UK and on our positions on key major programs. We see opportunities coming from the partnership we then sold, especially in Europe and also growing international opportunities across defensee electronics on top of that. Leonardo DRS is also seeing growing opportunities across all its four key technology areas of advanced sensing, network computing, force protection, and electric power and propulsion. It's already anchored on key DOD programs, and it's also looking to leverage on its and rather's product strength internationally.

So overall we expect the group level new order intake in 2023 of circa €17 billion. This, together with our strong backlog, will continue to fuel top line growth across the group and we expect 2023 group revenues to rise to $15 billion to $15.6 billion.

At the same time, we see margins and profitability continuing to improve across the board. Leveraging on high volumes and driven by efficiencies to balance cost pressures. In helicopters, solid margin is anchored by customer support and high volumes despise pass through effect. We continue to see excellent margins leveraging on high volumes, and driven by efficiencies to balance cost pressures. In helicopters, solid margins anchored by customer support and higher volumes, despite pass through effect. We continue to see excellent in margins from aircraft, making progress on continuing program delivery. And again, defense electronics being the highest contributor, on the back of its higher volumes and higher profitability. We also see some reducing Aerostructures losses, with consistent performance on our joint ventures. And we expect all of this will translate into group EBITA of €1,260 million to €1,310 million.

We also expect to further increase free operating cash flow to approximately €600 million, reflecting the positive operating performance across the group, driven by the consistently stronger core defense business, as well as a slightly lower cash absorption from Aerostructures. As said, we have a laser focus on deleveraging. So, we expect net debt to decrease to approximately €2.6 billion, thanks to cash flow generation, while continuing to maintain a constant shareholder return, and including signing of circa €100 million of new leasing contracts.

So, to sum up, 2022 was a year of delivery, with solid performance across all key metrics. We saw growing commercial success and stronger financial performance, and we're confident of our path forward.

Thank you, and I will now hand it back to Alessandro.

Alessandro Profumo

Chief Executive Officer & Director, Leonardo SpA

Thank you, Alessandra. So, you have heard today about our further progress and strong set of results. It reinforce our confidence in the short and medium and long-term targets. Our commercial momentum is strong, we have stepped up order intake, we are now targeting a higher level of new order intake, a total of €90 billion over 2022, 2026 horizon, versus €80 billion under our previous plan. As we leverage off our strong position in our four domestic markets. Our product portfolio and our stronger international presence. We are confirming mid-single-digit top line revenue growth over the plan. We expect a total of circa €85 billion over 2023, 2027 horizon as we deliver on our backlog, seeing growth across all areas of the business.

On top of this, we expect to see high-single-digit growth in EBITDA as we continue to make progress in profitability, leveraging volume growth and greater efficiencies that will balance cost pressure. We are also targeting continuous improvement in our cash flow, confirming our target of €3 billion communicated free operating cash flow over 2021, 2025 rising cash conversion to around 70% by 2025, including Aerostructure and targeting breakeven in Aerostructure by end of 2025. So we are driving strong deleveraging of the group. We will use our cash flow to reduce debt as a priority number one while providing stable returns to our shareholders through dividends and we are fully committed to reduce CO_2 emission by 50% by 2030.

So in summary, our results today are showing group that is stronger, more robust, resilient and sustainable, steadily growing year-after-year. We are successfully capturing increasing opportunities. We are continuing to build our backlog, we are achieving top line growth across all defence governmental sectors. We are improving profitability, benefiting from increasing volumes and solid industrial performance. We have a structurally more solid increasing cash flow.

We are laser focused on deleveraging. We have invested well in technology and digitalization. We have ESG at the core of our business, and we are fully committed to creating value for all our stakeholders. Thank you.

Raw Transcript

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Leonardo SpA (LDO.IT)

Q4 2022 Earnings Call - Q&A

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to our Full-Year 2022 Results Live Q&A Session. Before taking your questions, I would like to hand you over to our CEO, Alessandro Profumo, for some initial remarks. Thank you.

Alessandro Profumo

Chief Executive Officer & Director, Leonardo SpA

Many thanks, Valeria, and good morning, everybody. Before starting our Q&A session, I would like to highlight some key messages. 2022 was an important year of delivery, solid execution, and growing commercial success. And we are pleased to report today a strong set of full-year results, showing a group that is a stronger, more robust and resilient, sustainable, steadily growing year after year. We have continued to deliver on our promises, meeting or exceeding all our key targets once again.

And as a group, we are in a better and stronger position to capture new opportunities. We have stepped up, and we are accelerating our commercial momentum. We have grown our top line and continued strong program delivery. We have also continued to improve our profitability. We have a structurally, more solid increasing cash flow, and we are laser focused on deleveraging. On ESG, we have also continued to make important progresses. And, finally, we are fully committed to creating value for all our stakeholders.

And, with this, we are ready to take your questions. Many thanks.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Alessandro Pozzi of Mediobanca. Alessandro, your line is now open. Please go ahead.

Alessandro Pozzi
Analyst, Mediobanca SpA (United Kingdom)

Q

Yeah. Good morning and thank you for taking my questions. And if I look at the 2023 guidance and if I take the midpoint, we could see maybe a slight progression in margins. And I think that's a good data point given that concerns around inflationary pressure. And I was wondering how should we read this in 2023? I mean, assuming that we're going to see stabilization of inflation is – are inflationary pressures as worse as they could get in 2023, and then, you – we should see an improvement from 2024 also because you are maybe renegotiating some of the contracts in defense or you are able to pass on price hikes to the end customers, especially in the defense program. So I was wondering if you can give us maybe a bit more color on that?

The – and the second question is on order intake. Obviously, again a much above guidance despite having raised the guidance over the Q3 and I was wondering if perhaps if you can give us some indication of why it was so strong even after you raised the guidance, maybe was it some of the orders that were supposed to come in 2023 were brought forward in 2022, given the order intake guidance is around €17 billion for next year?

And also, on the order intake for 2023, can you give us a sense of how you built it up? I guess we already potentially you had included some of the big orders, like the one in Brazil. I was wondering, does you rely on jumbo with that could be a lot of opportunities in 2023. And if so, how much? Thank you.

A

Many thanks, Alessandro. I think that Alessandra will start talking on inflation. It's very, very important that if you consider the fact that we also gave a view on the longer term future. So, we will continue to grow also after 2023. I think that the number in 2023 is very important because you remember the idea you had that we were not able to face as inflation pressure. While here with this guidance, we demonstrate that we are capable to manage that, and we will continue to do so also in the longer term perspective. But I'll leave that floor to Alessandra.

Alessandra Genco
Chief Financial Officer, Leonardo SpA

A

Thank you, Alessandro. You highlighted the key elements. Alessandro, certainly, 2022 as an EBIDTA level, double-digit growth over 2021, testifies that the group was able to manage inflationary pressures. And 2023 is another step forward in profitability in line with the plan that we had, capturing all the opportunities that we have in the top line and managing well for another year, the supply chain and the inflationary pressures.

Honestly, I think, you know, your view is, is well, well drafted and well crafted. 2023 would have been a year of even higher growth in profitability if we had not to manage the pressures on inflation. And clearly, 2023 is a year where this impact is the highest. Going forward, there is going to be an opportunity to reprice contracts with customers as well as we are embedding starting from 2022 in the new bids, and this is the key, the new curve of costs that will be factored into our bids to customers. Therefore, we will be again naturally hedged from 2024 onwards, and we'll accelerate the pace of profitability growth. In any case, 2022 and 2023 are evidence of the fact that inflation is well managed and has been more than offset by the actions taken by the group.

A

On order intake, Alessandro, in 2022, we had the €1.4 billion order from Poland. So, in reality, this was expected to come in 2017 so – starting 2023. So, the 2017 number is, in reality [ph] €15.6 billion 00:07:05 which is higher than the guidance we gave to the market at the beginning. But in this order, there is as well this €1.4 billion.

The €17 billion of 2023 is composed by small orders. So, there are no jumbo orders. So, it's very, very solid. And I think it's a clear demonstration of the fact that we continue to grow is also important. What we said for the plan, overall, we have seen €10 billion more of orders on same lines in terms of years vis-à-vis the previous plan, giving the view that we are really managing well the growth.

We do expect that that the market overall with the 2% expected expenditure on defense by all the NATO countries will realize. So I think is – the 2003 number is a really solid number, again, without joint borders.

Q

Okay. And just going back on the contract renegotiations, are you able to have discussions on existing contracts or you'll need to wait for the roll off and the start of new ones to pass on price hikes?

A

Well, Alessandro it depends on the individual contract, but I think, you know, the key message here is that overall at group level, we are weathering inflationary pressures well and we're continuing to grow profitability year-over-year. 2022 over 2021 and 2023 over 2022.

Q

Okay. That's fine. And just a last one for me, if I can. And in terms of guidance on free cash flow, you reiterated the €3 billion, if the starting point is 2021, when net debt was €3.3 million, it means that – and if we adjusted for Hensoldt, by the end of 2025, we should see a net debt around €1 billion. Is that a fair assumption?

A

The way I would look at it is that our guidance is focused on cash flow generation. Alessandro. So over the five-year term, 2021 to 2025, we are confirming cumulative cash flow generation of €3 billion, of which two years are already delivered. The third one is, as per guidance, plan to be at [ph] 600 00:09:57 and the other two, clearly, you run the math better than us.

We continue, at the same time, to pay a consistent return to our shareholders. As you have seen, the board of directors, yesterday, decided to submit to the EGM in May the proposal to confirm the dividend payment for €0.14 per share, same as we had in 2022. And our focus in the capital allocation principles that we have set for the group is to be absolutely prioritizing net debt reduction over the planned time, as we have demonstrated to be doing and capable to be doing in the past few years.

Alessandro Profumo
Chief Executive Officer & Director, Leonardo SpA

A

I think that is also important why we decided to confirm, as the numbers are showing, the [ph] 21, 25 00:10:59 cash flow generation because we received hundreds of questions on Aerostructures. So, this is – this cash flow generation is included Aerostructures that, as you know, has been different due to the [indiscernible] 00:11:17 program. And then later on, maybe Valeria will say something more on that.

So, this is – these numbers, which is quite a good number, is included Aerostructures,which means, as I'd say, all the rest is really quite strong. It's important to say that if we would crystallize Aerostructures in 2022, the conversion rate would be already 70%, which is quite irrelevant conversion rate. So, I think it's a very clear demonstration the fact that our group is capable to generate a significant cash flow. We are delivering on cash flow [indiscernible] 00:11:59 of the company is focused on cash flow. So, I think it's the most relevant element for all of us.

Q

Okay. Thank you. And the disposals were included in the free cash flow guidance.

A

No. Disposals are not free cash flow.

Q

The US disposals are excluded. Okay.

A

Is not a cash flow.

Q

All right. Yeah. Thank you very much.

A

The operating cash flow is a reduction of that, but is not free operating cash flow, clearly. Here, we are talking of free operating cash flow.

Q

Okay. Thank you very much.

Operator: Thank you. Our next question comes on Virginia Montorsi of Bank of America. Virginia, your line is open. Please proceed.

Virginia Montorsi
Analyst, BofA Securities, Inc.

Q

Good morning and thank you for taking my questions. I have two quick ones. The first one is, could you just tell us if – or confirm to us if going back to investment grade remains kind of one of the key priorities in 2023? And if you're confident about that. And then just to confirm, the EBITA CAGR you're providing for the medium term, would that be still 2023 to 2027? Am I correct? Thank you.

A

On investment grade, Virginia, absolutely. Becoming investment grade, we are already investment grade for Fitch. Becoming investment grade for the other two rating agencies is a priority for the group. And we are confident in saying that we're delivering with these results in 2022 on the plan that we have set to the agencies. And we're having clearly a very constructive and engaged dialogue that will have an appreciation of the results achieved to-date.

On the CAGR, the CAGR is a 22% to 27% CAGR. So, it's, basically, the five-year plan CAGR accumulated for the time being. I think, yeah, we're talking about double-digit, yes, the plan and starting from [audio gap] 00:14:07 levels.

Q

Thank you very much. Very clear.

Operator: Thank you. Our [audio gap] 00:14:20 Martino De Ambroggi at Equita. Your line is open. Please go ahead.

Martino De Ambroggi

Q

Thank you. Good morning, everybody. This question is on free cash flow again. Focusing on 2023, am I right in assuming that the improvement, basically, come from – comes from the – at a structural division improvement? And could you specify what are the underlying assumptions on factoring CapEx, net working capital, and dividends from unconsolidated assets?

The second question is on the order intake, that you increase the accumulated order intake in 2022, 2026. I was wondering what are the divisions that you expect to benefit more from this trend. And what regions, presumably would be Western countries. But I don't know if you have some comments on this.

And still on the free cash flow, you are providing the €3 billion cumulated free cash flow for the group. Could you specify what is the underlying assumptions for the – at a structure cumulated cash burn in the same period?

A

Martino, I'll take the first one. So, free operating cash flow or 2023 and improvement drivers, the main improvement So free operating cash flow of 2023 and improvement drivers. The main improvement are associated with our core business defense and governmental aerostructures, as we said, will slightly improve year-over-year but this is not going to be the determining factor.

What you see is that we are going to grow top line. We're growing profitability while maintaining a strict control on working capital. We have expedited significantly timing of cash ins from our customers, and that's a key element of the culture of cash that Alessandro was referring to before. And in 2022, we also managed to accelerate the payments to suppliers.

So these drivers will continue to make a difference in delivering cash. While the CapEx level is around $700 million to $800 million per annum, CapEx meaning both tangible and intangible investments and the dividends from joint ventures will be consistent throughout the plan for the group. Alessandro, do you want to take the second question?

A

Yeah. On order intake, the – we do see a growth in all the division. The one which will grow more is the defense electronics, which is clearly incredibly important in order to manage interoperability and multi-domain request we are seeing from different customers. In terms of geographies, it is very well spread at that. And so really we do have a significant growth in all the geographies. So there is not one geography which is more relevant than the other one. So what we have seen in the period 2018-2022 is more or less reflected in the following period.

Here, you can see where we received the different orders. There is not a single country which is really dominating. USA is the most relevant one in terms of single country. It's by far the largest market worldwide, and we will continue to move in this direction. But all the others are also relevant.

UK clearly is not only UK, but since for us, UK is very, very important for the Eurofighter. The end customer, in some case, are in the Middle East, which is the area and where we have the strongest export in terms of Eurofighter from UK.

A

But if I can add, I think that the balancing that you have seen saw mainly 62% in our domestic markets, the 20% that we have in Europe, including Poland, and the 18%, 20% in the rest of the world will be maintained. And also, in the new order intake that we are presenting now, and we will have some new opportunities which are in the Middle East and in North Africa where we have built and are building several potential opportunities and that are markets in which we are investing on.

A

Finally, Martin, on your question on free operating cash flow for Aerostructures. As you know, year-over-year free operating cash flow is improving in the division and is improving at a good pace. We had an absorption of cash of And it is improving at a good pace we had an absorption of cash of $339 million in 2021 which went down to $296 million last year and for 2023, we're projecting a slightly lower cash flow absorption. But again, not material with the goal to achieve cash flow breakeven at the end of 2025. And as we have always said, Valerio reminded about this several times that this is going to be a back end loaded profile considering the mix of programs and level of production that the division will follow mainly on the B787 program.

A

Alessandra, I should correct a little bit you, is not mainly due to the B787 program. As we know, the 787 program will have a completely different provide from the fuselage 1,407. So maybe that Valerio can elaborate on that.

A

Well, I – as you have seen as a you have heard, we are mainly doubling all the numbers year by year on the B787. Last year we delivered the two fuselages per month, while this year we are expecting four to five. And on Boeing latest plan, we will arrive at 10 ships per month within the 2025. So we are doubling year by year.

And on the other program, we are on a clear upwards trajectories for any program we are already on levels higher than in 2019 for the A321, the A220. We are restoring higher level on ATR, but as Alessandro said, we need to arrive as soon as possible to [ph] 1406 00:21:45, serial number of Boeing in order to increase profitability as per contract and restore higher volumes such as we had before the COVID.

Q

Thank you. If I may just two quick of follow ups on the cumulated cash burn for Aerostructures. Am I right in assuming €901 billion over the planned period? And on the division that is benefit more from these current improvement in the cumulated orders, being defense electronics which is the most profitable, am I right in assuming some positive mix effect on the EBITA margin going forward?

A

Martino, I have to say, you know, the way I'd look at it is widely spread improvement in cash flow generation and profitability throughout the group. With the qualifier for Aerostructure that we discussed with a clear target to breakeven and a consistent improvement year-over-year, the mix is clearly an element that plays into the equation. But honestly, what we're seeing is that overall throughout the group, we do see consistent strengthening of cash flow generation and improvement in profitability, being in defense electronics, in helicopters, in aircraft that maintain, for example, a top margin level in absolute terms and even relative to peers.

So, you know, we're capturing all of these effect, the divisional levels and embedding this and embedding this in the plan for group which we are delivering to you today.

Q

Okay. Thank you.

Valeria Ricciotti
Head-Investor Relations & Credit Rating Agencies, Leonardo SpA

A

[indiscernible] 00:23:50 done questions from...

Operator: Thank you. [Operator Instructions] We now have a question from the webcast.

Valeria Ricciotti
Head-Investor Relations & Credit Rating Agencies, Leonardo SpA

A

Yeah, exactly. Before moving on with question from the call, let's take a question from the Web that is coming from Monica Bosio at Intesa Sanpaolo. Good morning. Can you please provide us a rough indication on financial charges as for 2023 and going forward and do you expect further restructuring above the EBIT line this year?

Sure, Monica. Good morning. Financial charges for 2023 are expected to be around [ph] 230 00:24:34. The number you see in 2022 reflects some one-off effects, including some FX, fair value effects, as well as some actualization of balance sheet accounts that has dropped the number significantly. So, 2023 is going to be in the range of [ph] 230 00:24:59 with a figure that, over time, will clearly decline as we decline net debt in the plan horizon.

On restructuring, what you do see recorded in 2022 is the effect of the pre-pension plan signed with the unions in December focused on a changing mix in corporate functions and staff functions of the group. Going forward, we do not see any specific restructuring happening. Therefore, guidance What you do see recorded in 2022 is the effect of the pre-pension plan signed with the unions in December foregoes the on a changing mix in corporate functions and staff functions of the group. Going forward we do not see any specific restructuring happening. Therefore, guidance for below the line in the restructuring line will be below 100.

Operator: Fantastic. Thank you. [Operator Instructions] Our next question comes from Gabriele Gambarova over of Banca Akros. Gabriele, your line is open. Please go ahead.

Gabriele Gambarova
Analyst, Banca Akros SpA

Q

Yes. Thank you. Good morning to everybody. The first one is on the DRS. I saw that in the first nine months, the margin, EBITDA margin in absolute term was almost flat and then, there was a nice acceleration in Q4. So, I was wondering if you succeeded in fixing the supply chain issues or even, let's say, you passed the higher costs to clients. Basically, I was wondering how you could perform in 2023. This is the first question.

Then, I saw that in the press release you made the references to reduce the factor, is it possible to have a number on this item?

The third one is on the new medium helicopter contest in the UK. Any update on the timing of the RFP would be very useful because there are no more, not many information on this. And that's it. Thank you.

A

DRS, in USA, as you know, there are still some problem not, not for us, but for the overall industry in terms of supply chain. So, it's not something related to Leonardo DRS. In any case, DRS is working quite well with the customer base. The profitability of DRS is going up as we said two years ago and we will continue – it's continuing and it will continue to happen because many programs are moving from development to production. So there is and there will continue to be a good growth in term of marginally of DRS. Again, is included in what is already on the book because we know and we were saying that when we were talking of the listing of DRS, we have been capable to grow in a very significant way in terms of new programs. This is also one of the reason why I'm so positive on the proxy contract because thanks to the proxy, we can beat that in any classified program.

Clearly, there is a significant program in the [indiscernible] 00:28:38 replacement program, so called, that is moving forward. And while before it was absorbing cash and was also negative in terms of marginality. Today is positive and we have working on second rounds of opportunities as well is clearly very relevant but there are many other programs on which we are in a similar position. So DRS will continue to move positively in terms of marginality.

I will talk of the last question on helicopters and then I will leave the floor to Alessandra for factoring. We don't have any news on the new medium helicopter in the UK in terms of a timeframe. We continue to have a continuous contact with the customer.

We have a platform which in our opinion is incredibly strong, it's the AW149. It is that yearly comp that we just sold as well to Poland, is the military version of the AW189.

So we think that this is the most ready for sure. And in terms of readiness, it's really – and we are sure that there are no doubts on that, that we are the one most advanced, that we think that he's also an incredibly good helicopter for this type of mission.

So we continue to see to be confident, but we don't have any news in terms of time frame. Alessandra, factoring?

Alessandra Genco
Chief Financial Officer, Leonardo SpA

A

Yes, Gabriele. Factoring has been decreasing in the last two years consistently and at year-end 2022 we were below €400 million.

Q

Maybe -

Operator: That's it. Thank you. Our [audio gap] 00:30:47 comes from Ian Douglas-Pennant of UBS. Ian, your line is open, please go ahead.

Ian Douglas-Pennant

Q

Thanks very much. Yes, I've got a couple left, please. So I'm in the helicopters, very strong order growth there, even accounting for the jumbo order from Poland. Should we – and clearly some Polish language from you as well, should we see this as evidence of a structural turnaround in helicopters? Do you believe that the market outlook longer term has improved?

Secondly, following up on a previous question on factoring, apologies if I missed the answer, but you gave some guidance on CapEx spending and dividends from JVs, cash flow next year and in future years.

There's also a question on factoring in that question, I'm not sure I heard the answer. Thank you.

A

Helicopter, first of all, many thanks, Ian, for your question because I think it's incredibly important to stress some concept that, first of all, the – you talk of restructuring the – I would say redesigning process of a helicopter is completed. And so we – I'm really incredibly satisfied by what [ph] Jean-Pierre Gordillo 00:32:06 and his team did in these six years.

You remember that when I joined Leonardo in 2017 that we made a profit warning on helicopters. Today, he's completely behind us that time so that the team is strong. The way they manage the programs is incredibly relevant. And so, we are very solid and very positive in terms of forward looking. What we do see in the helicopter world.

On the military side, we will continue to see a demand which is not incredibly growing. So the growth rate is not very relevant, but we are sure that as Leonardo we are capable to increase our positioning in this market.

What we have done in US, I think is a clear demonstration of that. We are the only foreign company, not a US company present on the defense system in US. So with the MH-139 – turning MH-139 just in these days we started the production after the first prototyping. And so – and this is very, very relevant. Our 80 AW139 (sic) MH-139, we will deliver to the US Army, and this is relevant.

And then, we have the 135 order which, in reality, is not yet in the backlog because, as you know, in the US, we book as a yearly order, but the – not – the total number of the TH-73 (sic) TH-73A, which is the AW119 for training, and the total order is 135, and we are delivering. And, if the customer is incredibly satisfied, then we assume that there will be something more in the future. And, if I may say so, I'm very confident on that.

And, on top of that, you know that the [indiscernible] 00:34:31 tender has been completed now, where the TiltRotor technology has been the one who has been the winner of this tender, and this is, again, incredibly relevant for us because of we are closer to the certification of the AW609, and we already received the four first orders. This is incredibly important because the technology is solidly accepted and, thanks to that, we do see a very good perspective also for us. And so, this is the military award and the AW609.

On top of that, we are seeing a more dynamic market in the civil domain. Search and rescue is very important and you have seen, I think, yesterday or the day before yesterday, On top of that, we are seeing a more dynamic market in the civil domain. Search and rescue is very important. You have seen, I think yesterday, or the day before yesterday, a very important order from DHC, the helicopter company in Saudi, this is a very, very relevant. Emergency medical services is another important market.

We do expect the some improvement as well in oil and gas, is not in the plan, but we are positive as well on this domain. So, overall, we are very positive on our Helicopter division. I hope that I answer to your question.

Ian Douglas-Pennant

Q

Thank you. And that the assumption of factoring in 2023, please?

A

Ian, as you know, and I'm sure you have not missed the quality of free cash flow generation as significantly strengthened. So, not only the absolute value, but also the quality. And you must have appreciated the lower cyclicality throughout the year, as on a quarterly basis, our cash flow absorption profile has significantly smoothened out throughout the last two years. With respect to factoring, the answer for 2022 is that we have a level, which is below €400 million.

Ian Douglas-Pennant

Q

Sorry, the question was a follow-up on the prior question on 2023. So, you said CapEx €700 million to €800 million, you said dividends from JV consistent throughout the plan, and I missed the answer on factoring 2023.

A

Yeah. I mean, factoring 2023 would be around the same levels of 2022. We're clearly continuing to work throughout the group, to accelerate cash-ins from customers, and we're confident that the quality of the free cash flow will continue to improve year-after-year.

We're clearly continuing to work throughout the group to accelerate cash-ins from customers. And we're confident that the quality of the free cash flow will continue to improve year after year.

Q

Thank you. [indiscernible] 00:37:27. Just following up on helicopters, sorry. The UK NMH has been delayed. Do you expect to hear something soon after the Integrated Defense Review is published or maybe I could ask do you expect to hear something this year?

A

We don't know. We think that will come next year, but you never know. So, we don't exclude. It's not in the 2023 numbers as to be clear.

Q

Thank you.

A

Okay. Let's take another question from the Web. It's from Yan Derocles from ODDO. Can you give a little bit more color on the negotiation with your unions in terms of wage increases in your main geographies? Then, he asked again about factoring. I think we have already answered. And the third question is, unlike peers, gross customers advances did not grow strongly in 2022. Given your expectation of a book-to-bill greater than one, can we anticipate an increase in down payments in 2023?

A

Negotiation with the trade unions. There are no negotiations in the sense that there are the contracts so is the trend is very clear. So, we don't expect a pressure higher than the one that are implied in our numbers because the contracts are already signed.

Clearly, this is one of the piece of inflation pressure because if you have a step-up in 2023, then this increase will remain also the following year If you have a step up in 2023, then this increase will remain also the following year will not increase furthermore maybe but – so, overall, we are incredibly satisfied with the capabilities we have in terms of sightings inflation pressure because and you have seen the guidance and also we will continue to grow also after 2023 in terms of marginality offsetting a complete increase. Because if you have a 5% increase in one country and you don't have another 5% the following year, but in any case, the base is higher. So you have an higher cost which will continue to be there.

Despite of that, that we will continue to improve our marginality. So this is, I think, a demonstration of the strengths that we have and so this is a very important. As, you know, in Italy we have a contract for which we have an increase, an expected increase of salary related to the core inflation.

Today, the inflation is mainly imported. And so this is the reason why in Italy we have a lower impact in terms of salary increase. Alessandra?

Alessandra Genco
Chief Financial Officer, Leonardo SpA

A

Yes. So on customer advances in 2022, the flow of cash-ins was ordinary, I would say nothing, nothing material to report. And this is honestly good news again, going back to the quality of the cash flows because we have delivered increasing cash flow year-over-year, more than double cash flow organically with no jumbo contribution from any single order and from no contribution from customer advances, which over time need to be repaid, as we all know.

So, you know, we're really happy with the mix of this cash flow generation in 2022 and we're projecting a similar composition also in 2023.

Operator: Thank you. [Operator Instructions]

A

Okay. Thank you. Let's take another question from the web, could you please provide us with an update on the B787 and the other programs within your Aerostructures Division?

A

Valeria. Okay. As I have already anticipated for the other question, we are on a upwards trajectory. We are have already volumes higher than in 2019 for the A321 and the A220 and the A220 has also renegotiated terms in order to increase profitability by the end of this year. ATR is strong with large potential portfolio also due to sustainable configurations. We have the cargo version. We are near to deliver the stall version.

On the 787, as I anticipated last year, we delivered two fuselages per month. We are planning to deliver 4 to 5 this year and the latest Boeing plans are foreseeing 10 ships per month within 2025, so doubling year by year. At the same time in Aerostructures, we have also we – on the military side, we are robust and profitable on Eurofighter and JSF.

we have several new opportunities which have not been included in the plan relevant to newer packages. We have in the plan Euro Mail, where the first order for the winged in terms of design has been already finalized.

And the – in top of all these commercial potential contracts and opportunities, we have reduced our cost base. You know that we reduced the head count to 20%. We reduced our manufacturing cost with automation, digitalization. This year, we will have our first fuselage in terms of production for the ATR in Pomigliano, which grant us higher quality level standards and profitability.

So, I think that our volumes are coming back to previous one and the 2021 was the bottom year as confirmed also by number that you have in 2022.

Operator: Thank you. Our next question comes from the telephone lines and is that of Harry Breach of Stifel. Harry, your line is open. Please go ahead.

Harry Breach

Q

Yes. Thank you for taking my questions. And good morning, Alessandro and Alessandra. [indiscernible] 00:45:01 Can I ask you maybe three simple ones? Firstly, Alessandra, forgive me if I – if I have misunderstood. MDBA, the cash that you owed to MBDA I think increased by €50 million, around that number in 2022. Clearly with the level of orders and down payments, the cash position at MBDA should continue to get very strong. Do you expect to increase your debt to MBDA or effectively you will withdraw the of cash from MBDA in 2023, should we think about a same level as in 2022?

Second question, Defense Electronics, guys, in overall, you know, very impressive full-year margin performance at electronics EU particularly. How do you think about margins at that business overall following what you've reported it? Are we kind of at a natural feeling level for EBITA margins at the French electronics at the current level, and 11.7%. Or do you think they could get even higher, especially as the equity income from MBDA continues to rise?

And then final question, maybe more for Alessandro. Alessandro, supply chain, we've spoken about it more in the past in the context of CRF, but over in Europe, in Italy, in the UK as well as the US, is the situation in terms of on time, on quality and health of supply chain, about the same as it was maybe three months ago. Is it stabilizing? Is it getting better? Can you give us any idea, please?

A

Sure. Okay. On supply chain, starting from.

A

Why we then start on supply chain?

A

Oh, sorry. Okay.

A

So start from MBDA.

A

MBDA. MBDA cash is basically projected to be stable. Now the company has ended 2022 with a high level of cash absolutely. We are currently in discussion that treasury committee level with the other shareholders to understand how to best utilize this cash that is available in the the joint venture. And in any case, for us is honestly quite neutral because we, as you know, we get the cash, it's accounted for as debt, so from a net debt perspective is absolutely nil impact and the group has strong liquidity. So clearly the cash from MBDA is one of the component but is one of the multiple components of this liquidity base.

A

On Defense Electronics, we do see a continuous growth in terms of profitability during the plan. So clearly, this is in terms of contribution to the group in the period of the plan the one, the division with the highest growth rate in terms of volume, but as well in terms of profitability contribution in absolute terms. So this is clearly the area with the highest G, the group level, which is positive for us because do confirm the view we had in the past being saying for us, that the two platforms are relevant, helicopters and aircraft also because they are receiving a lot of benefit and the Defense Electronics division is learning a lot from these platforms in order to be capable to grow furthermore.

And today, there is no one in this market, which is as strong as we are in terms of integration of this system. I'm learning these six years how much is difficult to have the right integration process in the area where any program is more risky. So, the fact that we have these three divisions together is really a strength for us.

By chance, I open and close a bracket, when we made the investment in Hensoldt at 2023. At that time, Hensoldt was in the market, it's the price of 16. I remember quite clearly someone was saying, why are you paying so much? Now, let me have a look today, Hensoldt is at 34 and so which is in any case, not bad.

So, Defense Electronics really is incredibly around, never...

Q

[indiscernible] 00:50:03 just to be – just to be clear, sorry, which in the plan the margin for the Electronics EU business, it is continuing to increase in the plan period, the margin?

A

Yes, the answer is yes.

Q

That's clear. Thank you.

A

Sorry. For me, it clearly is relevant. The margin in percentage, but if you are reducing the volume, that is not good. So, we are increasing the margins, and we are raising it also in absolute terms, which is clearly at the end relevant for you because it is the value of the of the company. So, in order to be very clear, we will have an increase in terms of percentage so and in terms of volumes so that at the end, the bottom line will grow quite significantly. Is it clear?

Q

Having said that supply chain [indiscernible] 00:51:02.

You remember that we started – today, the situation is better than three months ago. But also what is very relevant is what we have done on the supply chain in Italy since 2018. So, I think that [ph] Valerio 00:51:23, since the procurement structure belongs to [ph] Aero, Valerio 00:51:28 can say some word on the results of our program on the supply chain.

A

Yes. We started, as Alessandro said, in 2018. We are creating a real partnership in which, obviously, we are assuring to our supply chain a future strategic view. We are creating a stronger supply chain. They are obviously putting on the table stability, financial stability and sustainability of their competencies. Now, we have created a [indiscernible] 00:52:14 map supply chain which, for the future, is strong, not only for Leonardo, but for the supply chain in international programs. And we are moving on with supply chain towards sustainability and digitalization.

So, we have done a lot of work, and our supply chain is stronger and stronger again more with respect to previous year. You shall take into account that, for example, in the international programs, cooperation programs, supply chain is one of our building blocks in order to create value chain.

Q

Okay. Thank you. Thank you, all.

Operator: Thank you. I will now hand back over to the team for the webcast question.

A

Yeah. Again, from the webcast, they're asking for a little bit more color on our role in the GCAP.

A

Valerio?

A

Okay. I think that. My answer will also cover a few point that Alessandro said before .We are strong because we have electronics and we have platforms. Really, these are the reason for which we are a leading partner in the GCAP. The GCAP is an exciting new adventure is the demonstration that Leonardo is a stronger in international cooperation programs such as Eurofighter, Euro Mail and other program.

And the GCAP, we have the UK and most recently Japan. It's the program dedicated to a system of system which will cover all the domains; air, land, maritime space and cyber. And we'll take advantage not only by our divisions portfolio, but also we'll take advantage from our labs and the choice to have internal labs developing disruptive dual use technologies.

So we'll – we will leverage on artificial intelligence, big data analytics and quantum computing, digital twin, which is now a framework that we have in all our divisions and the program with that now is not really in the number of the plan without only technological activities that we are planning in next two years. We'll provide the sustainability and prosperity above all. We'll also provide capability to preserve and safeguard our core competencies while generating STEM employment. So, in our value chain that starts from universities and resource centers, with the start-up in [indiscernible] 00:55:39 innovation contract, we will have really a strong opportunity being a leading partner in a new program that will arrive to – in air combat new platform in 2035 but covering a real system of system interoperable and in multi-domain.

Unverified Participant

Thank you. Actually, it was the last question. So, thank you all for being with us this morning and for your attention. As usual, we are available for follow-ups.

Unverified Participant

Good. Many thanks. Bye.