

# **Rolls-Royce Holdings plc (RYCEY) Q2 2024 Earnings Call Transcript**

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**Body**

Rolls-Royce Holdings plc (RYCEY)

Q2 2024 Earnings Conference Call

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Company Participants

Jeremy Bragg - Head, IR

Tufan Erginbilgic - CEO

Helen McCabe - CFO

Conference Call Participants

David Perry - JPMorgan

Nick Cunningham - Agency Partners

Ian Douglas-Pennant - UBS

Charlotte Keyworth - Barclays

Presentation

Jeremy Bragg

So good morning, everyone, and welcome to our half year 2024 results presentation. My name is Jeremy Bragg. I'm Head of Investor Relations, and I'm joined here today by our CEO, and our CFO, Helen McCabe.

So before we start today's presentation, I'm required to show you our safe harbor statement on Slide 2. As always, the full set of results materials can be downloaded from the Investor Relations section of our website.

We're going to start today with an update on our financial performance and strategic progress from Tufan before Helen goes into more details on our 2024 half year results. Tufan will then close the presentation with our guidance and investment proposition. After the presentation, there will be time for questions from the room and from our audience online. [Operator Instructions].

So with that, I'll hand over to Tufan. Thank you.

Tufan Erginbilgic

Thanks, Jeremy. Good morning, everyone. Our transformation aims to build a sustainably distinctive Rolls-Royce that is high-performing, competitive, resilient and growing with improving profitability and cash flow generation and a strong balance sheet and growing shareholder returns.

Operational excellence and the safety of our people and our products is our very first priority. We put safety and quality at the heart of everything we do. It is a responsibility every employee in the company carries. Our strategic initiatives aim to improve operational effectiveness and deliver best-in-class customer service.

We are significantly expanding the earnings and cash potential of the group despite challenges associated with the supply chain. We have made a strong start to the year, delivering a significant year-on-year improvement in operating profit and free cash flow across all 3 divisions.

The strong start was driven by our strategic initiatives, notably commercial optimization and cost efficiencies. This continued strong progress gives us confidence to raise our guidance for 2024, both for operating profit and free cash flow, which I will come back to later.

We are unlocking the potential of the business and are on track to deliver our midterm targets. We are focusing on strategic progress of the business with a relentless efforts to make it better every day. Consistent with my previous transformations, we are seeing a front-end loaded strategic delivery.

As we have stated before, if we can achieve our midterm targets before 2027, then we will. We have also made good progress strengthening our balance sheet and building cash flow resilience. This progress allows us to announce today that we will reinstate shareholder distributions for full year 2024 results. This will be based on a 30% payout ratio of underlying profit after tax for the full year 2024.

Helen will talk to you about this in more detail.

Helen McCabe

Let's look at our financial performance in the period. Operating profit of £1.1 billion was 74% higher than last year. Our operating margin of 14% was 4.4 percentage point higher than last year. All 3 core businesses contributed to this higher operating profit. I would like to highlight some of the key drivers.

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First, in Civil Aerospace space, aftermarket profit was driven by higher LTSA margins and increased number of large engine shop visits. Our LTSA margins increased for all engine types, except the Trent 1000, which we expect to improve in the second half.

Business Aviation also delivered a strong performance improvement, which builds on the doubling of profit we delivered last year.

Second. Contractual margin improvements reflect improved commercial terms and lower costs across our large engine and business aviation contracts. These are underlying business improvements that result in higher immediate or future cash flows.

Third. Strong profit growth in defense, driven by improved aftermarket performance in transport and combat and growth in submarine.

And fourth. Profitable growth in Power Systems, driven by our data center growth. The actions we have taken to significantly improve the business model in power generation driving commercial optimization and cost efficiencies mean that we have been able to increasingly benefit from the attractive market growth in data centers.

In addition, across all businesses, our efficiency and simplification actions have helped mitigate the impact of inflation in the period. Free cash flow was £1.2 billion versus £0.4 billion in first half 2023. This was driven by higher operating profit and continued LTSA balance growth as we continue to grow our EFH rate through our commercial optimization efforts.

Lastly, return on capital improved materially to 13.8% and represents significant value creation. Our strong financial delivery in the first half further increases our confidence in full year delivery. And this strong delivery was achieved despite prolonged supply chain headwinds, in particular, a lack of availability of parts, which is causing delays to OE deliveries and shop visits.

The supply chain is an industry-wide issue, but we are proactively and relentlessly managing these challenges to mitigate their impact. We have established a new procurement and supply chain organization with an increased focus on achieving world-class capability. This includes the appointment of a Group Chief Procurement Officer with extensive industry experience.

We continue to work very closely with our suppliers to make sure we've got products in the right place at the right time. And where we need it, we have embedded our teams to support specific suppliers.

Our focus is on 15 suppliers whose delivery performance requires focused interventions. Additionally, we have a group of 26 suppliers in our high-performing supplier group as we look to focus our activities with high-performing suppliers where necessary.

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We also created a dedicated multidisciplinary agile team focused solely on resolving part supply issues. We continue to make substantial progress against each of the 4 pillars of our strategy: portfolio choices, strategic initiatives, efficiency and simplification, lower carbon and digitalization.

First, portfolio choices and partnerships. In Business Aviation, deliveries are ramping up of the Pearl 700 engine for the Gulfstream G700 business jet, which entered service in April. We delivered 83 Pearl engines in the first half of 2024. Our commercial optimization actions means that Business aviation engine deliveries are now mostly profitable. We also invested to grow our capacity in Darby and Dahlewitz, which will allow us to deliver around 40% additional new engines per year from 2025 compared to 2023 and support rising aftermarket volumes.

Moving to the second pillar. Let me talk about a few other things here on the first pillar, by the way. So in line with our strategy, we also completed, in the first pillar on the divestments, sale of Direct air Capture business. And yesterday, we completed the sale of off-highway engines business in the lower power range in Power Systems.

Now talking about Second pillar, advantaged businesses and strategic initiatives. In Civil Aerospace, the Trent XWB-97 was our best-selling engine with 108 new orders placed in the first half of the year. Our time-on-wing initiatives are progressing well. Here, we are investing £1 billion to improve the time-on-wing of our modern engines by 40%. This includes doubling the time-on-wing of the XWB-97 in nonbenign environments.

Flight testing of Trent 1000 HPT plate is progressing well. Actually, just yesterday, we did the first flight test very successfully. I can now declare that I got the news from West Coast. So it was very successful, 1 hour, 15 minutes flight test, and that will continue 8 weeks right now. So -- but it is progressing well.

We expect the improved HPT blade for the certified by the FAA later this year. This part will more than double the time-on-wing of the Trent 1000 engine and is already in service in 50% of the Trent 7000 fleet.

We have progressed the design of further improvements for Trent 1000 and 7000 engines. This will deliver an incremental 25%, 30% improvement in time-on-wing by the end of 2025. Manufacture of these engine components is already well underway for engine testing.

We have also tested improvements for the Trent XWB-84 that will further improve the fuel burn efficiency of the best-in-class engine. Certification for these improvements will be achieved later this year and for entering into service in 2025.

In our large engine LTSA business, we delivered contractual margin improvements of £431 million. This reflects continued progress, renegotiating onerous contracts in widebody as well as catch-ups in both widebody and business aviation, driven by price escalation and cost reductions on key platforms.

In defense, we are proud to be partnered with prime contractors, Sierra and Nevada Corporation to provide engines for the U.S. Air Force Survivable Airborne Operations Center Program. This is another great win in defense, and we expect the order to have a near-term benefit to earnings. And in submarines, we started to work on August.

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In power generation, we have improved the business model, which means that we are capturing profitable growth from our strong position in the fast-growing market for data centers.

Next, efficiency and simplification. Our new organizational design came into effect as of 1 June '24. This is about being a simpler, more agile and less top-heavy organization. An organization with clear accountabilities to make decisions at pace, where we can also leverage synergies across the group.

We are redesigning our tools and processes and changing our ways of working and behaviors to enable our organization to be simpler, more efficient and more effective. In total, we expect our efficiency and simplification program to deliver more than £250 million of cumulative benefits by the end of this year, on track to deliver our targeted total annualized savings of £400 million to £500 million by the midterm. Within that, organizational design remains on track to deliver benefits of £200 million by the end of 2025.

Next, procurement. By the end of this year, we expect to deliver around £500 million of cumulative third-party cost savings. We remain on track to deliver our target of £1 billion of gross third-party cost savings by the midterm, which will partly mitigate supply chain inflation.

Supporting this is a zero-based budgeting. Pilots in civil aerospace have been successfully completed and confirmed our expectation of 10% to 15% savings in third particles through this approach. We are now in the process of rolling out zero-based budgeting across the group. This is something that Helen and I have used extensively in the past, and we have found it to be very, very effective.

Finally, lower carbon and digitally enabled. We have secured partial funding from the German government as part of a consortium to develop the necessary technologies for a highly efficient hydrogen reciprocal engine to drive combined heat and power systems.

In SMRs, Roadshows is 1 of the 2 companies that have been shortlisted by [indiscernible], the Swedish power company, competing to potentially deploy a fleet of small marginal reactors in Sweden. The program is part of plans to meet the rising demand for electricity, adding nuclear capacity and helping Sweden achieve it is a goal of creating a fossil-free economy by 2045.

In Power Systems, we won some major battery storage systems contracts. These include a contract to help ensure the stability of the power grid in Latvia through the installation of one of the largest battery storage systems in the EU. It will have an output of 80 megawatts and a storage capacity of 160 megawatts hours.

Turning to digital. We are now using machine learning and advanced imaging technologies to inspect turbine blades. By using this technology, in conjunction with our understanding of how each blade has been operated in service, we have been able to remove uncertainty around our planning assumptions for blade replacements for individual engines.

This results in a faster, more consistent blade inspection process that is reducing costs and extending the time-on-wing of critical engine components. It also provides vital in-service condition information that feeds back to our design and manufacturing engineering teams, underpinning current and future product enhancements.

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What I shared are just some of the highlights of what we delivered in the first half of the year. They help demonstrate that our transformation is being delivered by multiple initiatives and actions coming together successfully in order to build a sustainably distinctive business.

I will now pass to Helen to take you through the results in more detail and how we are building resilience and our shareholder distribution policy.

Helen McCabe

Thank you, Tufan. Good morning, everyone. Now let's look at half year performance in more detail. First, I will take you through the key financials for the group and by division, and then how we are continuing to improve the resilience of Rolls-Royce and maintain a strong balance sheet; and finally, our new shareholder distribution policy.

So let's start with the results. They are strong, double-digit growth across revenue, profit and cash flow. The balance sheet is also being strengthened. The results show that we are running the business very differently with a focus on high-quality and sustainable earnings and cash flow growth.

Group revenues grew by 19% to £8.2 billion, with good end market growth across all divisions. Group operating profit grew by 74% to £1.1 billion. Operating margin increased by 4.4 percentage points to 14%, again, with strong growth across all divisions.

Free cash flow increased to £1.2 billion, more than triple that over the same period in 2023. Cash flow generation in the period meant we reduced net debt to £822 million compared to £2 billion at the end of 2023. To put that in perspective, that is our lowest net debt position in more than 5 years.

Lastly, return on capital rose to 13.8% for the rolling 12 months, which represents significant value creation. This was driven by higher operating profit and margin, focused capital allocation and disciplined working capital management. A very strong set of results with every part of the organization leaning in to deliver.

Now the detailed by division, starting with Civil Aerospace. Civil Aerospace delivered the largest year-on-year improvement. The highlights include: operating profit grew to £740 million, an increase of 85% compared to last. Operating margins grew to 18%, a 5.6% increase compared to last year.

Revenues grew to £4.1 billion, an increase of 27%, driven by higher shop visits, OE deliveries and commercial optimization. OE deliveries grew by 26% to 236. This was achieved despite the supply chain environment. Of the 236, 120 were large engines, of which 21 were spares.

Business Aviation deliveries were 116, of which, as Tufan mentioned, 83 were Pearl deliveries. And total shop visits grew by 6% to 624. Of these, 195 were large engine major shop visits. This compares to 144 last year.

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Now operating profit in more detail. Four key factors drove the 85% increase. First, higher large engine aftermarket profits. The LTSA aftermarket profit grew as a result of higher average LTSE across almost all engines, combined with an increased number of shop visits. In addition, time and materials profit increased, driven by our commercial actions.

Second, stronger business aviation profitability. This was in both OE and aftermarket. In OE, deliveries grew by 59% to 160, and they were mostly delivered at positive margins. In aftermarket business aviation and shop visits grew by 7% to 211, which were also done at higher margins.

Third, cost efficiencies. Our actions supported lower year-on-year indirect costs despite continued inflationary pressure.

And fourth, contractual margin improvements. Net contractual margin improvements were £223 million. This compares to £105 million in H1 '23. The £223 million comprises a benefit of £216 million from catch-ups and a £7 million improvement in onerous contracts.

But let me unpack that for you. In large engines, we continue to renegotiate and find win-win solutions with our customers. And in both large engines and business aviation, we saw a benefit from catch-ups, driven by, for example, our focus on life cycle cost reductions and price escalation.

In total, all of this contributed to a gross benefit of £431 million. However, there were some offsets, an additional charge of £208 million was taken across both onerous and catch-ups, largely due to prolonged supply chain challenges.

You've already heard from Tufan how the supply chain remains a challenge. We are very proactively managing this across every level of the organization. We are laser-focused on it.

Now turning to cash. Civil Aerospace delivered a trading cash flow of over £1 billion compared to £400 million in the prior period. Cash delivery was driven by higher operating profit and continued net LTSA balance growth.

This was supported by a 22% increase in large engine flying hours, bringing them to 101% of 2019 levels and a higher normalized engine flying hour rate.

Expectations for the second half of the year. We expect a lower operating margin several due to a higher number of OE deliveries and aftermarket shop visit mix, notably an increased number of Trent 1000 major refurbs.

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Defense, another strong performance, reflecting the benefits of our strategic initiatives, particularly our commercial optimization and cost efficiency actions. Operating profit grew to £345 million, an increase of 34% year-on-year.

Operating margin grew to 15.5%, a 1.9 percentage point increase. Order intake for the period was £1.7 billion, with a book-to-bill ratio of 0.8x and an order backlog of £8.5 billion.

Order cover for the remainder of the year stands at nearly 100%. Revenue grew by 18% to £2.2 billion. This was led by submarines and combat, which both reported double-digit growth. Most revenue growth come from services, which grew 27% year-on-year. It's worth noting that defense revenue growth included a benefit due to a change in a submarine contract.

Excluding this, revenue growth was a very healthy 8% for the division. The year-on-year improvement in operating profit was driven by 3 key factors: first, strong aftermarket profit in both combat and transport, including a more favorable mix and improved pricing.

Second, submarines growth, which was very strong, reflecting the ramp-up of programs, including focus. And third, cost efficiencies, including an increase in customer-funded R&D as work ramps up on key programs that will drive decades of growth, notably AUKUS, B52, FLRAA and GCAP.

Defense's cash flow increased to £234 million. Cash delivery was driven by operating profit and an improved working capital performance. In the second half, we expect a lower operating margin, reflecting the impact of aftermarket mix and increased OE deliveries.

Power Systems also delivered a strong result. The significant year-on-year improvement was driven by our actions on pricing and costs. Operating profit grew to £189 million, a 56% in Operating margin increased to 10.3%, an increase of 3.3 percentage points.

Order intake was £2.4 billion, with a book-to-bill ratio of 1.3x. Order cover for the remainder of 2024 is greater than 100% and 44% for 2025. Demand remains strong, particularly in power generation, where we saw increased demand from data centers for backup power units and in governmental where we saw growth in land defense.

Revenues grew by 6% to £1.8 billion. OE revenues grew by 10%, with service revenues broadly flat. Power generation and governmental reported the highest growth, 15% and 12%, respectively. Power generation remains an exciting opportunity, now representing more than 40% of Power Systems total revenue.

Operating profit growth was primarily driven by 2 factors: Commercial optimization, we saw the benefits from the actions we have taken on pricing in all subsegments with power generation being the standout. And cost efficiency actions. The team continued the good work in this area with their focused actions helping to mitigate the impact of inflation.

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Cash flow increased to £121 million. It was driven by higher operating profit and working capital continuing to be tightly managed. And as we typically see with Power Systems, which is more seasonal, we expect a stronger profit and margins in the second half of the year. So a very strong performance across all 3 core divisions, we are delivering as 1 Rolls Royce.

Now let's move to the funds flow. We delivered almost £1.2 billion of free cash flow in the first half, £800 million higher than in the same period last year, a record delivery for our first half year. The principal drivers of free cash flow growth was increased operating profit, which grew by £476 million.

Other factors included: net investments of £41 million. Notable investments in Civil Aerospace in the first half included time-on-wing improvements, particularly on the the Trent XWB-97 and further investments in our Pearl engines. In defense, we invested in test facilities in Indianapolis. And in Power Systems, we further invested in our new engine to replace the 4000 engine.

Civil net LTSA balance. This was broadly similar to last year at £544 million. Engine flying hour growth and a higher normalized engine flying hour rate were partially offset by an increase in the number of shop visits.

And then working capital. As you know, this is a key focus area, and we continue to make good progress. Our working capital outflow was lower than in the same period in 2023, even as we supported business growth and dealt with the supply chain. Inventory and debtor days both improved year-on-year.

Then over hedge costs, as expected, were materially lower year-on-year. Net interest costs fell significantly by £66 million, reflecting our improved cash position.

And finally, cash tax costs rose to £113 million due to timing differences compared to payments made last year. Turning to the full year. We continue to expect the net LTSA balance growth to be towards the lower end of the range of £0.8 billion to £1.2 billion, as shop visits ramp up in the second half of the year, notably, as I mentioned, on Trent 1000 refurbs.

We expect continued progress on working capital with the release of working capital in the second half and overhedge costs to remain at £146 million, as previously guided. We now expect net interest to be around £100 million lower year-on-year and cash tax to be £150 million higher year-on-year.

Fourth, reflecting the impact of our stronger profit and cash delivery. These details are set out in our supplementary slides. One of my key priorities I set out at Capital Markets Day was the need to improve resilience and strengthen in the balance sheet.

You can see from the results today that we are becoming a more resilient business with reduced operating leverage, a stronger balance sheet and improved returns. Look at our total cash cost to gross margin ratio, or TCC to GM, which is shown on the left. It shows an improvement 0.49x, already at the upper end of our midterm target range of 0.4 to 0.5.

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This has been driven by 2 key focus areas: cost efficiency and commercial optimization. Our TCC to GM ratio is now almost half of what it was in 2019. It is approaching best-in-class.

We are also building resilience by strengthening the balance sheet. We reduced gross debt, excluding leases, to £3.6 billion by repaying a 550 million Eurobond in May, and we canceled the last remaining U.K. EF supported undrawn loan facility.

Net debt fell to £0.8 billion from £2 billion at the end of '23. Our net debt-to-EBITDA ratio now stands at 0.3x, which compares to 0.8x at the end of 2023. Our liquidity position remains strong at £6.8 billion. Our work has been recognized by the credit rating agencies. Two of 3, Fitch and S&P Global, now rate us as investment grade and all 3 have us on a positive outlook.

We are building stronger foundations. We are creating a more resilient business. We remain committed to maintaining a strong balance sheet. Tufan and I have been consistently clear on this. As we set out at the CMD, our capital frame is focused on 3 clear priorities: a strong balance sheet, a commitment to regular and growing shareholder distributions and a disciplined approach to further investments, which could include additional distributions.

We have made strong progress and are now confident that the strength of the balance sheet is being sustainably improved. We intend to achieve and maintain a strong investment-grade rating and robust liquidity levels.

Today, we are pleased to announce that we will be reinstating regular and sustainable shareholder distributions, starting in respect of the full year 2024 results. A regular shareholder distribution will be based on an earnings payout ratio with a policy to distribute 30% to 40% of underlying profit after tax.

We will start at 30% in respect of the full year 2024. We have assumed an effective tax rate in the mid 20s. And over the midterm, we expect to be broadly in the middle of the 30% to 40% payout range. This is a competitive payout ratio for our industry.

And as our earnings grow, so too will our distributions. We have consistently said safety expenditure will always be our top priority. And as we continue to invest in the business to deliver earnings and cash flow growth to the midterm and beyond, we will be disciplined. All investments are assessed against the lenses of strategic fit and shareholder value.

This includes any incremental investments, which could be organic or inorganic. We have strict investment hurdle rates in the mid- to high for our 3 established divisions and a group-wide investment committee. It's a rigorous process.

Alongside incremental investments, we will also consider the relative merits of further distributions to shareholders, which could include share buybacks.

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To close, we have delivered strong first half results against all key metrics. We are continuing to build resilience. We are becoming a stronger Rolls-Royce. We are ambitious. There is still more we want and need to do. We will remain focused and deliberate. And we are excited about the potential that lies ahead.

With that, let me pass you back to Tufan, who will talk you through our updated guidance.

Tufan Erginbilgic

Okay. Thanks, Helen. Hopefully, now you convinced it's a strong set of results. As you can see from our results, we are expanding the profit and cash potential of the business and significantly improving the quality of earnings, despite significant challenges from the supply chain.

We are managing the business very differently, focusing on sustainable and quality profit and cash flow growth. All 4 pillars of our strategy are critical to our success. We are executing on a granular plan with clear strategic purpose and rigorous performance management.

Now turning to our guidance for 2024. Following a strong first half delivery, we are raising our guidance for the full year. We now expect operating profit of £2.1 billion billion, £2.3 billion. This compares to our previous operating profit guidance of £1.7 billion to £2 billion.

For free cash flow, we now expect £2.1 billion to £2.2 billion. This is higher than our previous free cash flow guidance of £1.7 billion to £1.9 billion, despite the £150 million to £200 million charge associated with the supply chain.

We are actively working to mitigate these headwinds, but we anticipate the supply chain to remain challenging for another 18 to 24 months. As the supply chain stabilizes, the benefits of our transformation program will be even more visible.

In Civil Aerospace, we maintain our guidance on EFH growth, OE deliveries and shop visits. By the end of 2024, based on our updated guidance, we will have delivered more than 75% of our midterm profit improvement and more than 65% of our targeted free cash flow improvement.

We have seen fast progress in the first years of our transformation due to our actions. This front-end loaded financial delivery is consistent with my prior turnarounds and should provide further confidence in our midterm targets. We are on track to deliver these in 2027 and if we can achieve them earlier, we will.

Let me summarize. We made great progress on our ambitious transformation plan and delivering the Rolls-Royce proposition. We are becoming a high-performing, competitive and resilient business with growing sustainable cash flows, shareholder returns and strong balance sheet.

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Among all this, safety and quality are our top priorities and at the core of our business. Our transformation is progressing at pace and with intensity. Our strong first half results give us confidence to raise our full year guidance for both operating profit and free cash flow.

We are well on track to deliver the improvements in profit and cash flow set out in our midterm targets. We have always stated that our midterm targets are a milestone. The investments we are making today along with our strategic actions will also result in attractive profit and cash flow growth beyond the midterm.

I am truly excited by Rolls-Royce's long-term outlook. All these mean we are in a position to reinstate shareholder distributions for full year 2024 results, an important moment in the Rolls-Royce transformation and our Rolls-Royce's proposition.

We have achieved a lot, but there is more to do. We have a granular strategy, which aligns the whole organization. Strategic initiatives are owned and actioned with clear accountabilities. Everybody knows their role, what they must deliver and their part in our transformation. I am incredibly proud of how our employees are working relentlessly to reach our ambition to create a sustainably distinctive business. I would like to thank them for their hard work and the impact they make. It is their energy and commitment that is making the difference.

Before I open to questions, I would like to take a moment to thank Isabel for her dedication and contribution to Rolls-Royce over the last 5 years as the Head of Investor Relations. This is her last set of results and we wish her luck for the future.

I was going to also announce Jeremy, but he announced himself. So I should just sort of -- that says something, he's always 1 step ahead of me. So Jeremy, Jeremy is obviously taking over as the Head of Investor Relations and we have full confidence, obviously, in him, and I wish him all the success in in his new role.

With that, we are going to open it to questions.

Question-and-Answer Session

Q - David Perry

Okay. Yes, David Perry from JPMorgan. Can I also just which Isabel all the best? She went through some tough times and seeing the good times now. So first question, just a very high level. On the medium-term guidance you conveyed in your presentation, you are really on track, probably ahead of plan.

So just wondering what is it that's stopping you formally raising the targets or officially pulling forward what you define as the midterm? Then just being a little bit more detailed. I thought I'd ask 1 on Power Systems.

I just thought the growth there might have been a little bit stronger. So could you just unpick a little bit some of the things. So exactly how much is pure, pure data centers and maybe talk to the bits that were down?

And then last one for Helen, if I may. On working cap, just so minus £228 million in H1. Can you just say what you think that number will be for the full year, neutral or positive?

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Tufan Erginbilgic

Good questions. I'll take first and Helen will take the working capital question. So I think, David, you are absolutely right, we are definitely making good progress. And actually expanding the earnings and cash potential of this business in an accelerated way. And what is really behind that?

You need to understand how we run the business and what's the mindset behind that. We are not chasing a bunch of numbers, but actually making the sort of strategic progress is our focus. What does that mean? It is -- it means actually making the business better every day and that is what we are incentivizing with the teams as well.

And that strategic progress -- and if you actually think about combined that mindset with clear programs, very clear programs and you run them at pace and with intensity, suddenly accelerate delivery comps. And that's what you are looking at.

Because of that reason, though, it won't be linear. I mean I said it earlier as well. Actually, I've seen this movie before. Almost -- I was actually 1 dark night, I was sort of stepping back and thinking, what's going on here? It was going on exactly almost identical picture in terms of how front-end delivery was happening.

Therefore, it won't be linear. I know that. And -- but front-end delivery obviously derisk, I would argue, our midterm target delivery. And that's a good thing definitely. And I said it in my speech that, frankly, we will keep going with strategic progress. If we can achieve the targets before '27, we will.

Last point I'm going to make is, we always said '27 targets are a milestone. Although if I remind you how we set those targets, we actually said we are going to create high-performing competitive resilient growing business. Effectively with external benchmarking, we converted them to financial targets, right? That's how we did it. So when we get there, it is going to be very competitive and resilient business, and Helen was talking about resilience earlier.

So I think -- but there are milestones. Given the things we are doing, I can actually go division by division, make it, I won't unless there is a question. But I can illustrate to you why what we are doing right now is creating more profitable growth even beyond midterm.

So your second question on Power Systems, great observation. I agree with you, 6% is not -- but as you know, David, the Power Systems have multiple subsegments in it. And the answer is -- so I'm going to unpick it for you, hopefully. So within that, already Helen said around 40% of our revenue comes from Power Gen.

Power Gen growth was actually 15% within that, okay? Given the order intake I see right now, order intakes year-on-year in Power Gen from data centers growing more than 40%, I actually believe that may accelerate that growth. But in first half results, it is 15%.

If you actually only look at data center portion of Power's generation, it is actually 17%. Governmental growth is also good, around 12%, but there are marine. We did -- we had a good growth last year, benchmark against that was tough.

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Marine is a little bit flat year-on-year. And industrial, mainly the business we just completed to sell. Now you know why we are selling it, but it actually shrank. So it went backwards, so -- in the first half. So -- because frankly, the reason we sold it, it was at differentiated enough business for us. Hopefully, that answers first 2 questions. Over to you.

Helen McCabe

Thanks, Tufan. Thanks, David. So as you say, working capital, we did see a build in the first half of the year. It's worth noting that in that build as we look to make sure that we had particularly inventory in the right place at the right time for a product, we actually still made progress on our working capital initiatives.

That was one of the priorities that we set out at Capital Markets Day. If you look year-on-year inventory days H1 '24 to H1 '23 actually improved by 12 days. Actually, debtor days also improved. In the second half of the year, now that we've got inventory in the right place for our right products, we expect a release of working capital, and we'll continue to see improvements across inventory and debtors.

Just a little bit of context for you. Tufan and I were looking the other day. If we go back to the end of 2022 to where we are now, just to give you a little bit of a feel for what we're doing around building resilience: we've improved inventory days by more than 20 and we improved debtor days by more than 10. Yet that's all sustainable reductions while ensuring that we've got the right capacity and capability to support us in this current environment where the supply chain remains challenged.

So hopefully, that helps, David. Yes, that really expected in the second half across debtors and inventory.

Tufan Erginbilgic

Thanks, Helen. That was one question, that I'll come to--

Nick Cunningham

Nick Cunningham, Agency Partners. Just picking up on that working capital question and over a sort of longer term. Rolls-Royce has built a lot of working capital over recent years because they had to for the crisis and more recently because of supply chain. But in the CMD, you seem to be emphasizing more cash profits and LTSA net balance build as the cash generator rather than working capital.

But whereas, it seems sort of obvious externally that working capital should be a really big source of cash looking slightly further out. So do we need to get past the crisis in in supply chain to be able to release some of that? Can those day numbers sort of get back to where they were pre-COVID, if you like?

And then a second question, which is -- having followed Rolls for so long, it seems to be an odd one to be asking now. But capital structure, the resumption of the dividend and the sheer quantity of cash that you're generating makes one want to ask about what is the appropriate capital structure for Rolls looking forward?

I mean historically, you might have said, well, you should really be a net cash business in the balance sheet. A bit like Airbus' as well on the basis that it's a very volatile and typical industry. Is that the case? And sort of what sort of balance is an appropriate balance?

And then finally, and apologies for a really nerdy one. But Rolls-Royce has a lot of historical U.K. tax losses. In fact, it wrote-off a chunk of them because it thought it would never recover them. I don't think that's true any longer. So how much tax shelter do you have? And should that keep your average tax rate down below a sort of industry norm? And can you even write some of them back? That's it.

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Tufan Erginbilgic

Helen, those are for you. I may add a few points on the second point, but...

Helen McCabe

Fantastic. Okay. So thank you, Nick. So I've written them down. So tell me if I miss anything. So I think to your first question, working capital. So if I take you back to Capital Markets Day and just remind you of a couple of things that we said there.

So we said is Capital Markets Day that we were looking to -- on a gross basis, we had a program of work to underpin £2 billion of working capital release. Now that was in addition to how we supported the business and grow. So obviously, you need working capital to build for that and to deal with some legacy concession payments. So that £2 billion was in part offset to support growth and address those legacy concession payments.

If I stand back from that and see, well, how we are actually progress on that £2 billion? We have delivered £0.4 billion off that. And you can clearly see that come through in those metrics that I was sharing with David. Inventory days already have improved by 20%, that is not inconsequential while we support the supply chain.

Debtor days have improved by 10. There is more that we want to do, and we will do, but we are making good progress on that. But that's how you hold that working capital question. So hopefully that helps.

In relation to your balance sheet question, I think we have been consistently clear that particularly where Rolls-Royce has come from a historic perspective that our first priority always after safety is making sure that we have a strong balance sheet, a resilient balance sheet, and we maintain that.

And you saw from the slide that I had up that we say we want to have a strong investment grade profile, yes? Now investment-grade profile for some that differs. Some may be say BBB+, so what does that equate to from a net debt-to-EBITDA perspective, 1 to 1.5.

I think to your specific question, where we are at Rolls-Royce at the minute? I would definitely be comfortable running level lower than that and 18 months in to a material transformation program, more prudent and to run with the net cash position.

So that's how we'll hold it in the near term and the medium term. And as I said, as I was going through the results, we will always be incredibly clear and disciplined about how we choose where to invest and why, but we will always make sure that the balance sheet is appropriately protected as well. So that's how you should just hold our intent around the balance sheet in the near to the medium term. And you did [indiscernible] apologies.

Tufan Erginbilgic

On resilience, I'll come from a slightly different perspective. I think balance sheet answer hopefully you got. But I would like you may want to think about Rolls-Royce slightly different than you thought about Rolls-Royce before. So I think the resilience, resilience has the aspects that Helen talk about.

One aspect of it from a cash generation perspective, if you actually think about, all Rolls-Royce had 1 division effectively and it got TCC GM almost 1. So that means every time somebody coughs sort of you are falling down. So that's 1 thing.

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Second, cash generation was an issue in that division or in general. And therefore, even you didn't need COVID, you need a proper recession, frankly, to be in negative territory. If I take you to even the current Rolls-Royce is not even where we are going to go.

But you effectively have 2 divisions, Defense and Power Systems, I would say, with ratable earnings and cash almost isolate -- I mean, at least to a greater extent, isolated from cyclicalities because 1 difference, obviously, related to other things. The other one, we just talked about data centers, sort of digital transformation rather than every quarter, there is a recession or something.

In the past, they were there. But in one, you were making 0 money, 0 cash generation -- negative cash generation. So if I were you, I didn't worry about them. But right now even, we are delivering between those 2 more than £1 billion cash. So that cash is not cyclical. That's why -- and then you go to civil, you got this sort of in the first opportunity stumbling sort of division replaced by a big cash surplus, which creates the cushion.

I mean, looking -- flying hours, we are saying 101%, right? And we upgraded the guidance, and Civil has a lot to do with it. So that should -- that cushion makes it a lot less volatile and TCC GM went from 1 to almost half, sort of if you think about it, so when you think about volatility, cyclicality, you may want to think about Rolls-Royce differently versus some other peers in the industry.

Helen McCabe

Thank you, Tufan. So in relation to your final question, so deferred tax. So obviously, as we continue to expand earnings potential, then we do look at the deferred tax balance recognized and unrecognized very closely. And if you look at some of the notes to the accounts, you may not have time to do that, Nick, there is a comment in there that in the half year, we have recognized any element of deferred tax and that is something that we'll continue to monitor very closely and we take a very close view on that. I wouldn't say it was -- it remains prudent, but appropriate. Yes. Thank you.

Tufan Erginbilgic

Thanks, Helen. Ian, do you still have the question?

Ian Douglas-Pennant

Yes. So my question has changed slightly given your last answer. So I have in my head, and I apologizes, I don't have my notes with me, so I can't check it, but you used to be talking about a small net debt position being the target capital structure, and that seems to have changed this morning. So given Tufan's comments about this being a different company, I guess, why?

And then second related question, even if you are aiming for a small net debt structure and even if you do start to pay a dividend, as you're targeting, you're still going to be generating more cash than you're using unless you start doing large-scale M&A. Does that mean a buyback is a conceivable outcome or how would you resolve that difference? I'll leave it there.

Helen McCabe

Yes. So just to clarify, so I mean, at the minute, from net debt to EBITDA, we're at 0.3. Just to be clear, I said in the short term, if we're in a positive position, I'm fine with that 18 months into a material transformation program. I think we've been consistently clear as to how we hold our capital frame, yes, and how we've set that out.

We've always said safety, then we said the balance sheet. We're making good progress on that, you can see from the metrics that we shared with you today. Then we said resumption of shareholder distributions. Today, a nice milestone, I think, in the Rolls-Royce journey announcing after more than 5 years that we will be resuming the distributions.

And then after that, those strategic priorities in those 4 pillars are the frames that Tufan took through, we have a very clear frame, and we will use that to help guide what we do with our capital. So we will always be driven by strategic clarity based on our very detailed and clear strategy. We will then be driven shareholder value, what is the right thing to do there and how we balance the 2 of them.

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And we have options and we will look at how we balance those different options between further investments, organic and organic or further distributions, which may include share buybacks, but it will always be driven by that clear capital frame and those clear strategic lenses we've been consistently sharing with you.

Tufan Erginbilgic

Thanks, Helen.

Charlotte Keyworth

I'm Charlotte Keyworth from Barclays. I was going to ask about share buybacks, but I think we've probably exhausted that one there.

Tufan Erginbilgic

Yes, yes. Good conclusion.

Charlotte Keyworth

Yes. So my first question then was around the Civil margin, so you took a £410 million onerous contract provision last year. And I was surprised to see how little you'd released in the first half. So my question is, if with the shop visits being higher, does that include any assumption of further release from what you're seeing in the second half contributing to the margin? That's the first question.

And then the second one, actually, I was watching your often cheerful LinkedIn post, Tufan, you mentioned SMR. And I saw you were calling on the U.K. government to offer a contract by the end of the year. And I appreciate you've obviously got to the shortlist position with Sweden. But should we infer anything on that time line in terms of strategic decisions because clearly, it's burning cash at the moment.

Tufan Erginbilgic

Okay. I think first question, Helen may want to add sort of some color from accounting perspective as well. But I think second half margins actually not very complex in terms of this year, why we are saying it is going to be lower because OE delivery -- I mean, because of supply chain issues, frankly, more of our shop visits and more of our OE deliveries sitting now in second half, okay? So obviously, OE deliveries have have a different margin profile on it. That's one thing.

Second, on the shop visits, the biggest step up -- if you remember, February this year, we talked about when we set the guidance, we said Trent 1000 shop visits will double this year. And you actually see that effect, but more of it, a lot of it will happen second half rather than first half.

And Trent 1000, and there is the cash implication of it as well. Trent 1000 is our highest cost shop visits because of some sort of historic issues, frankly, but we are going to improve. But our run rate on shop visit cost and because of our shop visit program on Trent 1000 will improve significantly by the end of this year.

But calendar year impact will not be there. So therefore, you are effectively looking at high shop visit cost circling cash, cash implication and lower margin margin -- LTSA margin that combination lower LTSA margin shop visits and OE deliveries is pulling the sort of operating margin down, okay?

Helen McCabe

I think you've covered it. I mean, Charlotte, as you said, at the end of last year, we took that in provision for the supply chain. You know onerous contracts that because they're owners you have to take the full impact of that in the year that you do. So it's not built into the future margins. And this year, when we talk about the 208, the onerous part of that it in the period. So it's not built into the future piece. So I think you've covered the rest of it, Tufan that was the accounting part. Thank you.

Tufan Erginbilgic

I mean, good news is I just announced flight test, that's significant because that certification will allow Trent 1000 shop visits to actually flatten going forward rather than keep going up, right? So that is -- we have been actually working with Boeing very closely because that's an important moment frankly. And I was delighted that first successful flight happened yesterday, literally.

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And it is going to be 8 weeks flight test than the documentation, then hopefully, we get the certification, then that's the process. So going to SMR. First of all, thanks for at least somebody is following my LinkedIn post. So 1 data point, that's good.

So I think -- I mean, there are a couple of things there, really. First of all, we are really -- that milestone means, i.e., final phase of GDA process, regulatory process means, a, recognition by the regulator our technology; b, actually, that means we are almost 2 years ahead of everybody else, right, literally, 2 years ahead of everybody else.

So what needs to happen right now is really a decision -- technology selection decision is due with GBM November-December that needs to happen without any delay. I mean it is already 6 months to delayed. I'm not going to bore you sort of with my first-mover advantage point.

But to my point is U.K. missed offshore wind supply chain development in the U.K. If we are not careful, U.K. will miss SMR supply chain development in the U.K. because first-mover will shape that supply chain, and that's true. And then exports will come. So big economic growth aspect.

But I think earlier, the better that technology selection, but no later than end of November. And equally importantly, by the end of 1Q next year, there needs to be really clear, committed projects so that we can go into execution phase.

To your point, many countries actually watching GBM process, and we are working with them, they actually like our technology, like Sweden, Czech Republic, they actually sent very capable teams to do due diligence on our technology and they were delighted to see what we got.

So they are sort of eager to employ our technology. But they are looking at GBM process, but what if U.K. doesn't endorse this, then I am a little bit sort of exposed. I don't believe there is that risk, absolutely, because we are 2 years ahead of everybody with a proven technology with lots of capability. I don't think there is that risk. But dating there is that risk, there for GBM process is very important, right?

I'll go there, then I'll go to Jeremy, it seems like.

Unidentified Analyst

[Indiscernible] from Goldman Sachs. And I'm extending my thanks to Isabel for all the help in the ramp up and support. So 2 questions. The first one is on the supply chain. And I'm wondering if you could help us understand the commentary from Airbus in June regarding the Trent 7000? Is there any issue that you're facing on this engine with your supply chain? So that's the first one.

The second question is to understand whether the £150 million to £200 million of cash impact that you mentioned due to the supply chain was already assumed in the guidance at the time of March. I'm asking because by looking at the upgrade of the full year guide, it seems that there's been an element turning more positive in your assumptions of cash flow since then. So I was wondering what that is?

Tufan Erginbilgic

Thanks. Thanks for the questions. I think very short answer. Frankly, we didn't cause any issues. We were 1 engine behind first half, okay, 1 engine, 7000. So literally 1 engine, I can say it. So therefore, there is no -- I mean there is no issue we cause to any air framers, frankly. And that's our plan for second half.

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It is easy to say, but not easy to achieve. But team did a great job. We got there because, as you know, not many companies can say that in our industry because supply chain is really challenging. Now that I spend probably more than I would like to spend on it, I know how challenging, but we are managing it proactively.

To your question, in our guidance in February, we knew a little, but not to the extent that we would actually say £150 million to £200 million. So we now know more and that's the cash impact. By the way, more of it, more cash impact will be in second half. When you guys think about your cash formula for second half, you need to think that way, okay?

That's first half, very small portion of it because there is a lag in some of these hits and the second half will be equally challenging, we believe. So there was little frankly, in our guidance. Therefore, we didn't talk about it because we don't want to talk about small numbers.

Having said that, I think in my script, I talk about the things we are doing to mitigate that impact. So we are going to obviously do as much as possible to mitigate that impact. But also, we are highlighting that supply chain will continue to be challenging, at least 18 to 24 months. But we will manage it and mitigate as much as we can and that's why I talk -- I'm not going to repeat everything I said in the script, but those actions are there.

And frankly, I meet with agile team weekly basis, weekly basis. So that should tell you the intensity and pace on it, right?

Jeremy?

Jeremy Bragg

Thank you. So we've got some questions online, which I'll go through -- I'll deal with them one by one. So firstly, from Ben Heelan. Please, could you give an update on how the pricing negotiations are going with onerous contracts? And is there more to come in the second half and in future years?

Tufan Erginbilgic

That's it? Okay. Let's go with that. Thanks, Jeremy. So I think -- thanks, Ben. Price -- here is how you would like to think about our renegotiations. By the way, when I go to renegotiations, I want to remind you that our LTSA margin expansion, there are 6 levers, 3 of them efficiency, 3 of them top line. Always keep that in mind because otherwise, you won't understand what is going on with LTSA margin, right?

For example, our shop visit cost went down this year as we planned, right? So that's contributing to LTSA margin improvement. It's not only pricing. But because Ben is asking a specific question on onerous contract negotiations. Frankly, we started last year, as you know, OE contract negotiations as well as some airline contract negotiations, we made great progress. And last year and first half, we actually book some of it.

And short answer to Ben, yes, there is more to do. It is not like new conversations, but progressing conversations are there. Until they are landed, obviously, we cannot book them. So there is some to go still in terms of negotiations. And if you ask me how it is going, actually, overall, we did -- I would argue that we did a great job, and team has done a great job in terms of what we achieved, but also in terms of how we find win-win solutions, therefore, what we achieved strengthened our partnership with airlines or OEs rather than creating tension.

So it is not only good performance improvement, but actually, it became good partnership improvement on the back of it. So -- but there is more to come.

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Jeremy Bragg

So next one, I'm going to consolidate a couple and the sort of round off the supply chain, I think, which is, firstly, you've taken £400 million of charges last year and £200 million now, what exactly do they -- are they, so is it higher parts costs or new agreements? And is there a risk that you might take future charges? So that's the first question.

Second question is, the 18- to 24-month time frame hasn't changed, so are you seeing a prolonged impact? And the third question is on the £150 million to £200 million cash which is, again, exactly what is it? Are you having to provide financial support to suppliers? Is it higher costs, et cetera?

Tufan Erginbilgic

Well, there are lots of questions there pointing out to the same thing. Yes, we took last year's and this year's, you are absolutely right. Both of them were supply chain related, some product cost increase and parts availability is creating some customer disruptions. It also includes that.

But almost answer to the first question is in the second question. Yes, because of prolonged supply chain, yes, we said 18 to 24 months, I don't -- we keep managing these things very closely, but I don't have a crystal ball to say this is it. So about 18 to 24 months, yes, it prolonged.

And as a result, we got more charge. Is there a risk to be more? Hopefully not. In fact, our mitigating actions may improve that. So the way I hold onerous and catch-up hit, when it comes to this, frankly, commercial agreements are commercial agreements, they are there to stay.

But if we can actually improve these things, hopefully, we can actually claim some back. But definitely try not to have additional hit. So that's our intent. In a way, £150 million to £200 million is the cash conversion, if I may say, because as you know, our accounting when it comes to onerous and catch-ups, we get immediate impact.

Cash is a different issue. So £150 million, £200 million is effectively this year's number because of supply chain-related costs, including customer disruption costs and again, we will -- and if we are saying 18, 24 months, we see a challenging environment. But again, we will try to mitigate as much as possible. But that's where we are at this point.

Jeremy Bragg

So next one, switching it up is on Trent 1000, which is what's your confidence of regaining market share on Trent 1000 given the time-on-wing improvements you've got scheduled with particular reference to the British Airways decision to switch to the GE engine?

Tufan Erginbilgic

So I think -- I look at -- as you may expect, I told about this long and hard. So sometimes people think because of our pricing actions, we are losing contracts, et cetera. That's not true, actually. So first of all, we are only think we are remunerating our pricing actions is the investments we make and the risks we take.

In the past, Rolls-Royce didn't actually price that fairly and we are right now. So our issue with Trent 1000 is not reliability. It is -- reliability of this engine is as good as the competitor engine, but time-on-wing has been the issue, therefore, to gain market share in this, we are -- it is -- we created this structured program we are investing £1 billion in it. It's not all Trent 1000 by the way, all engines, but Trent 1000 and 97 are the key ones in it.

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And the flight test is a very, very significant moment because getting to that point. But that, that is certified. We will double the time when we think about it. Then we have next year, we have another 25%, 30%. Here is the good news about that, that requires only engine-level certification rather than aircraft-level certification which is a lot faster.

You don't have to do flight tests with Boeing and all that stuff. Once those 2 happen, you have a very, very competitive time-on-wing, equal to our competitors on Trent 1000. And with that, if you actually look at right now, all the orders coming into the industry, they will be only delivered '27, '28, '29, if you are lucky.

So we are already -- sort of we will be ready when the new deliveries come and you will say then why aren't they ordering because they need to see -- we need to deliver, they need to feel confident about that. That's what we are in.

But actually, it works. We know that because we retrofitted 50% of the fleet in Trent 7000, even in Trent 7000 with these new blades, even in sort of nonbenign environment, like Kuwait has it, actually so far, it is running really, really well. So -- and it is already a couple of years, right?

So I think -- do we believe we can regain market share? Absolutely. Otherwise, we wouldn't have invested in time on wing. That is the only thing holding us back.

Jeremy Bragg

So next question is about the broader environment for airlines and a softening of airline ticket pricing and profit warning. So a question from Phil Buller at Berenberg, which is basically our ability or confidence in delivering our midterm targets in an environment where potentially demand and pricing is softening for airlines.

Tufan Erginbilgic

Frankly, first of all, we don't see it yet, but I'll come back to that flying hours in a minute. But we don't see that. But I would like you guys to make a distinction between competitive intensity in airline business versus the demand, right? Because they are talking about yield, which has a lot to do with competitive intensity.

So I think we don't see that issue. I mean we talk about supply chain. This, so far, frankly, demand is not an issue. If you look at our order book or Airbus, Boeing order books, you will conclude that's not -- demand is not the issue, but actually supply chain is the issue to deliver that.

Second thing is passenger growth is already happening, 6% growth this year. Some people expect double-digit growth this year by the time year is over. So passenger growth is happening.

And another point I'm going to say, there may be sort of -- I'm not going to sit here and project cyclicality of this industry. But fundamentals, this is going to be a growing industry. Passenger numbers are expected to double, especially driven by India and China. I may point out our strategy was very deliberate to play big in India and China.

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If you notice, we have a great position soon with 1 more announcement, which will tell you how we are reinforcing that position. So -- but that -- we have a great position to capture that growth, which will be driven by India and China. But -- and if you look at Boeing and Airbus, they are saying aircraft -- number of aircraft in the next 20 years will double, which is in line with the passenger numbers doubling.

Last point I'm going to say, look at our results and then Helen's resilience presentation. Our results, EFH, we said 101 sort of 100% almost, and we are upgrading our guidance. Frankly, if I was in your seat, probably you would be thinking, hey, your EFH is a little bit light.

By the way, supply chain is something to do with it as well to some extent. But what does it tell you? We are actually expanding underlying performance in this business and with that, making it more resilient because environment will be what it will be.

But earlier comments from Helen and me, which should tell you, we are ready to deal with any environment, although I don't see that environment -- I don't actually read that cross from competitive intensity airlines to this. By the way, even in airlines, obviously, I talk to CEOs, different airlines see the picture slightly differently.

Jeremy Bragg

So we'll make this the last one, I think, guys, which is focusing on narrowbody this time. So this is per the comments you're moving ahead with the demonstrator engine for the narrowbody market. Is this a change in strategy? And what made you the decision to go it alone versus your prior comments about doing it as a partnership?

Tufan Erginbilgic

There's no change of strategy. We are pretty consistent company. We deliver what we say. So in CMD, if you remember, that's the first time we officially told you that where we are going to participate, where we are not going to participate. Part of that, we said narrowbody is something attractive for us and we will participate preferably with partnerships. Nothing has changed in that.

And what gives us the confidence to participate in that is our engineering capability, obviously, but also Ultrafan, next-generation engine will have to be more efficient. And most efficient engine today in the industry is 84. Ultrafan is 10% more efficient than. And actually, at plan level, we believe you can get to 15% efficiency doing some other things on the plane combination.

And IPs we have on Ultrafan, a coverage of them and the duration of them positions us well. Why are we going with the demonstrator? Because, frankly, that doesn't mean we don't want to partner, but that means we would like -- we don't want to wait and position ourselves well out there.

So our preference didn't change, our strategy didn't change, but we actually see opportunities progress this. And while we are progressing Ultrafan with small engine as well, some additional funding comes with it because it is a different space. So there are some advantages of that as well.

Jeremy Bragg

Great. Thank you. We'll leave it there. Thanks very much, Tufan and Helen.

Tufan Erginbilgic

Okay. Thanks, Jeremy. I think while we are closing, first of all, thanks, Helen. And I think thanks for coming here, and thanks for all the questions. Thanks for your engagement in general with Rolls-Royce. We believe we are really making good progress. And today, hopefully, you get some data point in that progression and I'm actually excited about what we will deliver not only in midterm, but also the future beyond that. And we are making good progress. Most importantly, our organization is responding to this brilliantly and that makes a difference. Thank you for coming. Have a great day.

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