LUISS

LEONARDO

Financial Reporting and Performance Measurement

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PROFILE

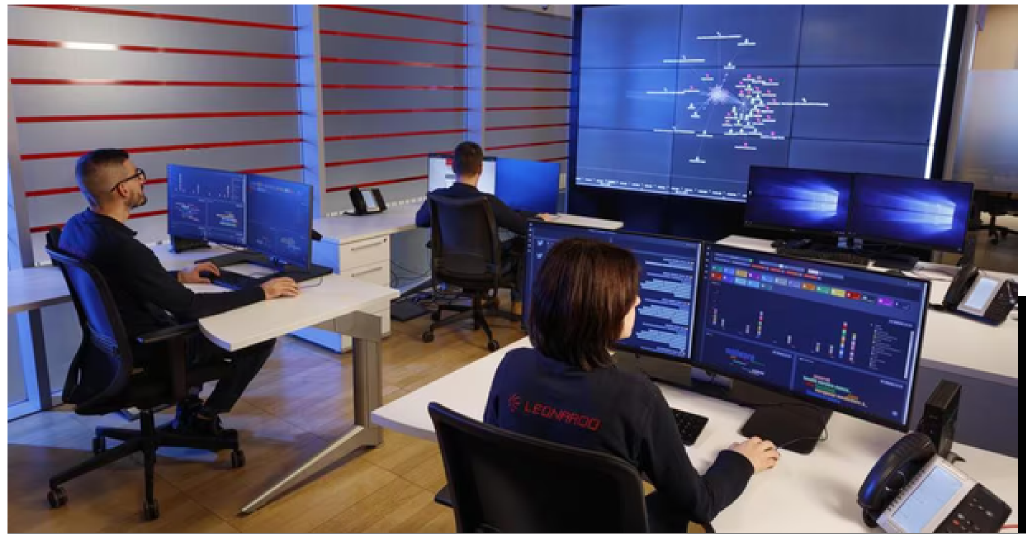
Leonardo is an **industrial and technological** leader in the Aerospace, Defence & Security sector, with a **balanced** and geographically distributed **order backlog** and a significant industrial footprint in Italy, the United Kingdom, Poland and the USA.

PURPOSE

Contribute to the world's progress and safety through our innovative technological solutions

MISSION

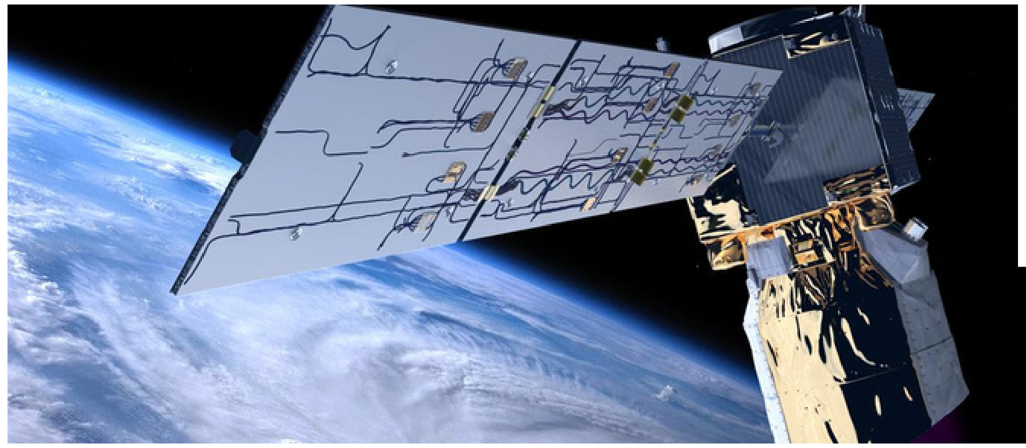
To be the internal Aereospace, Defence and Security company that best enables its customers' success, by thinking creatively and working with passion



Defense Electronics & Security

Helicopters

Aeronautics



Space

€14,7 BLN revenues in 2022

150 countries in the commercial network

10.500 global suppliers

€2 BLN invested in R&D

51.392 people across the world

€37,5 BLN order backlog 2022

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REFORMULATION BS 1/3

	2020	2021	2022
Total Operating Assets Short-term	12738	13012	12986
Total Operating Liabilities Short-term	14095	14038	14096
Net Working Capital	**-1357**	**-1026**	**-1110**

1
- Inventories ↓
- Trade receivables ↑

→ Improved efficiency in managing short-term assets

→ Contracts that provide for sizeable retention money withheld by customers

2 Trade payables ↓ in relation to a trade receivables ↑ effect in terms of liquidity

3
- Current operating liabilities exceed the current operating assets
- Operates in markets affected by geopolitical tensions - exposition to credit risk

REFORMULATION BS 2/3

	2020	2021	2022
Total Operating Assets Long-term	10889	11508	11881
Total Operating Liabilities Long-term	1996	2216	2174
Net Fixed Asset	**8893**	**9292**	**9707**
Net Invested Capital	**7536**	**8266**	**8597**

4 Growth & investment in long-term assets

- Intangible assets
- Property, plant and equipment

Employee benefits ↓

5 Investments in long-term assets to support growth or enhance operational capabilities

6 Actively deploying more capital into its operations

REFORMULATION BS 3/3

	2020	2021	2022
Net Financial Position Short-term	-556	-982	-534
Net Financial Position Long-term	2814	2793	1432
Net Financial Obligation	**2258**	**1811**	**898**
Total Equity	**2769**	**3929**	**4684**
Capital Employed	**5027**	**5740**	**5582**

7

- Borrowings ↓ due to bonds ↓
- High values of cash on hand (20/21)
- ST financial asset exceeds liabilities

not at risk of financial insolvency

- LT financial position:

borrowing > investments

REFORMULATION IS 1/2

	2020	2021	2022
GROSS PROFIT	1426	1365	1559
EBITDA	1289	1312	1456
EBIT	494	787	829

1 In the 3 years:
- Revenues ↑
- Purchase and personnel expenses ↑

Only in 2021 Costs increased more than Revenues

2 EBITDA ↑ year by year in all the three periods due to great Operating Income

3 EBIT ↓ due to Depreciation and Amortisation

REFORMULATION IS 2/2

	2020	2021	2022
EBT	253	753	983
EAT	243	587	932

4 In the 3 years EBT ↑↑ due to:

- Financial Income ↑
- Profit from Investees ↑
- Financial expenses ↓

5 EAT ↓ in 2021 due to ↑ income taxes

CASH FLOW ANALYSIS

€, millions	2022	2021	2020	% Change 2021 to 2022	% Change 2020 to 2021
Net CFOA	1 152,00	742	275	55%	170%
Net CFIA	-791	-541	-438	-46%	-24%
Net CFFA	-1 402,00	30	460	-4773%	-93%
Net Change in Cash - Total	**-968**	**266**	**251**	**-464%**	**6%**

1. Cash Flow Operating Activities
   - Signals that Leonardo is able to generate cash from it’s core business activities
   - Improving operational efficiency and financial performance
2. Cash Flow Investing Activities
   - Indicates that the company has been making investments in assets
3. Cash Flow Financing Activities
   - Significant outflow of cash in 2022 as a result of reduced debt (-1322M€)

CASH FLOW ANALYSIS - COMPETITORS

Net CFOA	2022	2021	2020	% Change 2021 to 2022	% Change 2020 to 2021
Leonardo (M€)	1 152	742	275	55%	170%
Boeing Co (M$)	3 512	-3 416	-18 410	203%	81%
Lockheed Martin Corp (M$)	7 802	9 221	8 183	-15%	13%
Net CFIA	**2 022**	**2 021**	**2 020**	**% Change 2021 to 2022**	**% Change 2020 to 2021**
Leonardo (M€)	-791	-541	-438	-46%	-24%
Boeing Co (M$)	4 370	9 324	-18 366	-53%	151%
Lockheed Martin Corp (M$)	-1 789	-1 161	-2 010	-54%	42%
Net CFFA	**2 022**	**2 021**	**2 020**	**% Change 2021 to 2022**	**% Change 2020 to 2021**
Leonardo (M€)	-1 402	30	460	-4773%	-93%
Boeing Co (M$)	-1 266	-5 600	34 955	77%	-116%
Lockheed Martin Corp (M$)	-7 070	-7 616	-4 527	7%	-68%
Net Change in Cash - Total	**2 022**	**2 021**	**2 020**	**% Change 2021 to 2022**	**% Change 2020 to 2021**
Leonardo (M€)	-968	266	251	-464%	6%
Boeing Co (M$)	6 543	269	-1 736	2332%	116%
Lockheed Martin Corp (M$)	-1 057	444	1 646	-338%	-73%

- Leonardo's negative change in cash in 2022 was primarily driven by a significant decrease in cash flow from financing activities.
- Boeing experienced a significant improvement in cash flows in 2022 compared to the challenging years of 2020 and 2021.
- Lockheed Martin Corp saw a decrease in operating cash flow and an increase in investing cash flow, resulting in a negative impact on net change in cash.

LIQUIDITY RATIOS 1/2

	2020	2021	2022
Current Asset	15.118	15.552	14.602
Current Liabilities	15.894	15.596	15.166
Inventories	5.882	5.486	5.338
Cash & cash equivalents	2.213	2.479	1.511
Account Receivables	3.033	3.203	3.338
Account payables	3.619	3.372	3.054

	2020	2021	2022	
CURRENT RATIO	0,95	1,00	0,96	*> 1*
ACID TEST	0,58	0,65	0,61	*> 0.8*

1 **Current ratio:** has remained relatively stable over the three years

2020 - 2021: Current Assets ↑ Current Liabilities ↓

2021 - 2022: Current Assets ↓ Current Liabilities ↓

2 **Acid Test Ratio:** the values are below 0.8, suggesting a potential challenge in covering immediate liabilities without relying on inventory.

2020 - 2021: Current Assets ↑ Current Liabilities ↓ Inventories ↓

LIQUIDITY RATIOS 2/2

	2020	2021	2022
Current Asset	15.118	15.552	14.602
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Cash & cash equivalents	2.213	2.479	1.511
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	2020	2021	2022	
CASH RATIO	0,14	0,16	0,10	*between 0.2 and 0.5*
OPERATING CURRENT RATIO	2,46	2,58	2,84	*> 1*

3 **Cash Ratio:** has experienced some fluctuations

2020 - 2021: cash & cash equivalents ↑ Current Liabilities ↓

2021 - 2022: cash & cash equivalents ↓ Current Liabilities ↓

4 **Operating Current Ratio:** this ratio has increased over the years

2020 - 2021: Acc. Receivables ↑ Inventories ↓ Acc. Payables ↓

2021 - 2022: Acc. Receivables ↑ Inventories ↓ Acc. Payables ↓

	2020	2021	2022	
CURRENT RATIO	0,95	1,00	0,96	*
ACID TEST	0,58	0,65	0,61	
CASH RATIO	0,14	0,16	0,10	
OPERATING CURRENT RATIO	2,46	2,58	2,84	*

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	2020	2021	2022	
CURRENT RATIO	1,39	1,33	1,22	*
ACID TEST	0,46	0,36	0,35	
CASH RATIO	0,09	0,10	0,16	
OPERATING CURRENT RATIO	6,47	8,80	7,91	

BOEING

	2020	2021	2022	
CURRENT RATIO	1,39	1,42	1,32	*
ACID TEST	1,14	1,20	1,13	*
CASH RATIO	0,23	0,26	0,16	*
OPERATING CURRENT RATIO	6,28	6,34	2,64	

LOCKHEED MARTIN

*: Good Performance

CASH CONVERSION CYCLE

	2019	2020	2021	2022
ACCOUNT RECEIVABLES		3.033	3.203	3.338
ACCOUNT PAYABLES		3.619	3.372	3.054
COGS		11.984	12.770	13.154
INVENTORIES	5.823	5.882	5.486	5.338
PURCHASES		12.043	12.374	13.006
SALES		13.410	14.135	14.713

	2020	2021	2022
Days Sales Outstanding (DSO)	82,55	82,71	82,81
Days Payable Outstanding (DPO)	109,68	99,47	85,71
Days Inventory Outstanding (DIO)	179,15	156,80	148,12
CASH CONVERSION CYCLE	152,02	140,05	145,22

Days Sales Outstanding (DSO): measures the average number of days it takes for a company to collect payment after making a sale.

Accounts receivables ↑ Sales ↑

Days Payable Outstanding (DPO): measures how long a company takes to pay its suppliers.

Accounts payables ↓ Purchases ↑

Days Inventory Outstanding (DIO): represents the average number of days it takes for a company to turn its inventory into sales.

Inventories ↓ COGS ↑

PROFITABILITY RATIOS

	2020	2021	2022
ROE	5%	9%	12%
ROIC	7%	8%	9%
ASSET TURNOVER	1,78	1,52	1,52
PROFIT MARGIN	4%	6%	6%
FINANCIAL LEVERAGE	1,43	1,28	1,12
FIN & TAX EFFECT	49%	75%	112%
COST OF DEBT	7%	5%	8%

FIANCIAL LEVERAGE → decreased

Potential driver → **COST OF DEBT** increased

1. **ROE** → increased during the three years

   2020 - 2021: **EAT** ↑

   2021 - 2022: **EAT** ↑

2. **ROIC** → positive and increasing

   Main driver → **EBIT**

   From **494 mln €** in 2020 to **829 mln €** in 2022

3. **PROFIT MARGIN** → **POSITIVE**

   2020-2021 **EBIT** ↑ 2021-2022 **EBIT** ↑

4. **FIN & TAX EFFECT** → improved significantly

   In **2022** → **Financial Income** of **392 mln €**

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	2020	2021	2022
ROE	**5%**	**9%**	**12%**
ROIC	7%	8%	9%
ASSET TURNOVER	**1,78**	**1,52**	**1,52**
PROFIT MARGIN	4%	6%	6%
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- ***Asset Turnover*** *went* ***down***
- *Overall* ***lower*** *than competitors*

LOCKHEED MARTIN

	2020	2021	2022
ROE	**113%**	**58%**	**62%**
ROIC	59%	48%	39%
ASSET TURNOVER	**4,50**	**3,52**	**2,98**
PROFIT MARGIN	13%	14%	13%
FINANCIAL LEVERAGE	2,41	1,74	2,39
FIN & TAX EFFECT	**79%**	**69%**	**69%**
COST OF DEBT	5%	16%	11%

BOEING

	2020	2021	2022	
ROE	**28%**	**29%**	**75%**	*
ROIC	-22%	-16%	-59%	
ASSET TURNOVER	**3,34**	**2,31**	**2,43**	
PROFIT MARGIN	-6%	-7%	-24%	
FINANCIAL LEVERAGE	-1,10	-1,82	-1,51	
FIN & TAX EFFECT	**118%**	**97%**	**85%**	
COST OF DEBT	4%	5%	4%	

- *Both* ***ROE*** *and* ***ROIC*** *very distant* ***Lockheed Martin*** *and* ***Boeing***
- ***** *The* ***ROE*** *of* ***Boeing*** *is just apparently good*
- ***Profit Margin*** *lower than* ***Lockheed*** *but higher than Boeing*

CONCLUSIONS & *FUTURE EXPECTATIONS*

Resulting from the **BS reformulation** :

- increasing resources allocation to long-term operational investments
- "***Be Tomorrow - Leonardo 2030***"

→ sustainable growth
→ prioritizing innovation
→ technological advancements

- enablers to embrace opportunities in an ever-changing landscape

The performance of Leonardo in term of **profitability** :

- **good** and apparently on a **growth path**.
- work on **decreasing** the value of **operating expenses**

↓

investments in **innovation** and **technology**

Future Expectations

- **Liquidity ratios** → **increase** both **Acid test** and **Cash ratio**
- **CCC** → **increase DPO** and **decrease DSO** and **DIO for a more performing CCC**.

Expectations on future cash flows

- **Rising demand** for air travel (Deloitte, 2023), increasing amount of orders.
- Focus on **deleveraging** & **continue to invest** to capture future opportunities.