Rolls-Royce Holdings PLC (LON: RR)

Buy Rating (£903.77 Price Target, 46.1% Implied Upside)

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I. Executive Summary

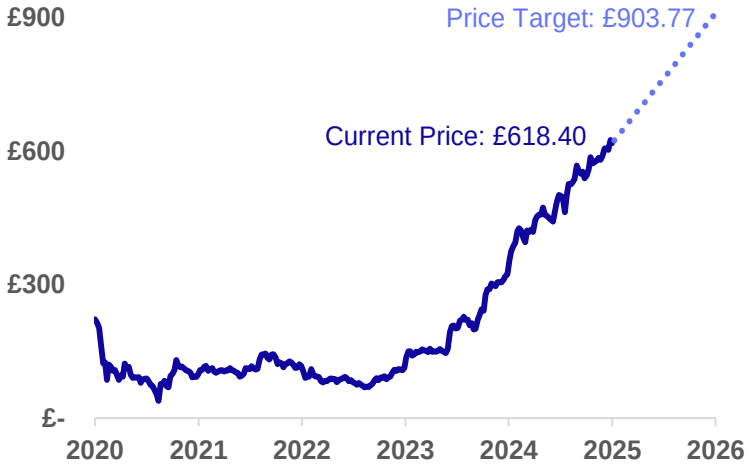
Executive Summary

Rolls-Royce is rapidly evolving from an underperforming legacy business into a lean, high-performing industrial powerhouse

Trading Summary

Ticker:	LON: RR
Price:	£618.40
Market Cap (£ mm):	£54,652
LTM Performance:	75%
5-Year Performance:	179%
Beta:	1.11
NTM PE:	28.6x
NTM EBITDA:	15.6x
NTM Price / FCF:	24.1x

Price Performance



Why Rolls-Royce?

Thesis 1: Rapid Turnaround Driving Record Performance

- Under CEO Tufan Erginbilgic, Rolls-Royce has **significantly expanded margins and free cash flow, with momentum continuing across all divisions**

Thesis 2: Secular Trends Drive Power Systems

- Power Systems is now **structurally profitable**, driven by **strong data center growth**, while **industry-leading SMRs offer a long-term clean energy opportunity**

Thesis 3: Comprehensive Transformation Drives Engine Profitability

- Rolls-Royce is **unlocking valuation upside through cost efficiencies, contract improvements, and market share expansion**

Implied Price Range & Upside

Case	Multiples Method	DCF Weighting	PGR Method	Comps Weighting	Price Target
Bull Case	£1,018.80	*50%*	£1,144.47	*50%*	£1,081.64
% (Premium) / Discount	*64.7%*		*85.1%*		*74.9%*
Base Case	£841.27	*50%*	£966.27	*50%*	£903.77
% (Premium) / Discount	*36.0%*		*56.3%*		*46.1%*
Bear Case	£516.49	*50%*	£715.62	*50%*	£616.06
% (Premium) / Discount	*(16.5%)*		*15.7%*		*(0.4%)*

Sources: Company Website, Company Fillings, FactSet (As of 02/20/25)

II. Industry Overview

Industry Overview

Aerospace, Defense, and Power Systems Positioned for Long-Term Expansion

Market Landscape

- **Civil Aerospace:** Strong **widebody aircraft demand** as international travel rebounds, with airlines prioritizing **fuel-efficient engines and SAF** adoption
- **Defense:** Rising **global military budgets** are driving demand for **next-gen fighter jets, UAVs, and naval propulsion systems**
- **Power Systems:** Growth in **backup power for data centers, marine, and industrial applications**, with a shift toward **hydrogen and electrification**

Headwinds & Tailwinds

Tailwinds:

- Aviation Market Recovery
- Rising Defense Budgets
- Sustainability Regulations
- Data Center Expansion

Headwinds:

- New Engine Margin Dilution
- Regulatory & Certification Delays
- Increased Competition

Market Dynamics

- **Civil Aerospace:** The industry is dominated by **GE, Rolls-Royce, and Pratt & Whitney**, with **GE leading in narrowbody engines** and **Rolls-Royce specializing in widebody engines**
- **Defense:** **Lockheed, Boeing, and Northrop Grumman** drive demand for high-performance combat and transport aircraft engines, supplied by **Rolls-Royce, GE,** and **Pratt & Whitney**
- **Power Systems:** The market is moving toward low-emission, high-efficiency engines for marine, industrial, and backup power, with **Caterpillar, Cummins, GE Vernova and Rolls-Royce** advancing hydrogen, hybrid-electric and natural gas-based solutions

Competitors

HEICO, SAFRAN, GE, GENERAL DYNAMICS, Raytheon Technologies, L3HARRIS, LOCKHEED MARTIN, Cummins, CAT, GE VERNOVA, GENERAC

Sources: Company Website, Company Fillings, FactSet (As of 02/20/25)

III. Company Overview

Rolls-Royce Overview

Business Description

- **Headquarters:** London, United Kingdom
- **Industry:** Aerospace and Defense
- **Founded:** 1906
- **Status:** Public (London Stock Exchange: RR)
- **Business Overview:** Rolls-Royce is a global leader in power and propulsion systems, specializing in aerospace, defense, and energy solutions. The company designs, manufactures, and services engines for civil and military aircraft, power systems for marine and industrial applications, and is advancing innovations in sustainable technologies like electric aviation and small modular reactors.

Management Team

Tufan Erginbilgic

CEO (Jan. '23)

Former BP executive with 20+ years of experience in various senior leadership roles

Helen McCabe

CFO (Jan. '23)

25+ years of experience in senior finance and performance management at BP

Revenue Segments

Civil Aerospace (58.1%):

- Designs, makes, sells, and services commercial aircraft engines

Defense (27.1%):

- Provides military aircraft engines, naval engines, submarine nuclear power, and related services

Power Systems (14.8%):

- Creates and sells power and propulsion solutions for various industries

Sources: Company Website, Company Fillings, FactSet (As of 02/20/25)

IV. Theses

Rapid Turnaround Driving Record Performance

Under new leadership, Rolls-Royce has swiftly transformed into a high-margin, cash-generating powerhouse, far exceeding initial recovery expectations

CEO: Tufan Erginbilgic

- Before joining Rolls-Royce in January '23, Tufan spent **20+ years at BP**, including **6 years as CEO** of its downstream business
- As CEO, he **led a large-scale turnaround of BP's** energy, aviation, and infrastructure operations, driving profitability, efficiency, and performance
- He currently serves as a **senior adviser to Global Infrastructure Partners (GIP)** and was previously a partner until 2020

Four Pillars of a Business Transformation

"Put the mirror up and have a full assessment of the business"

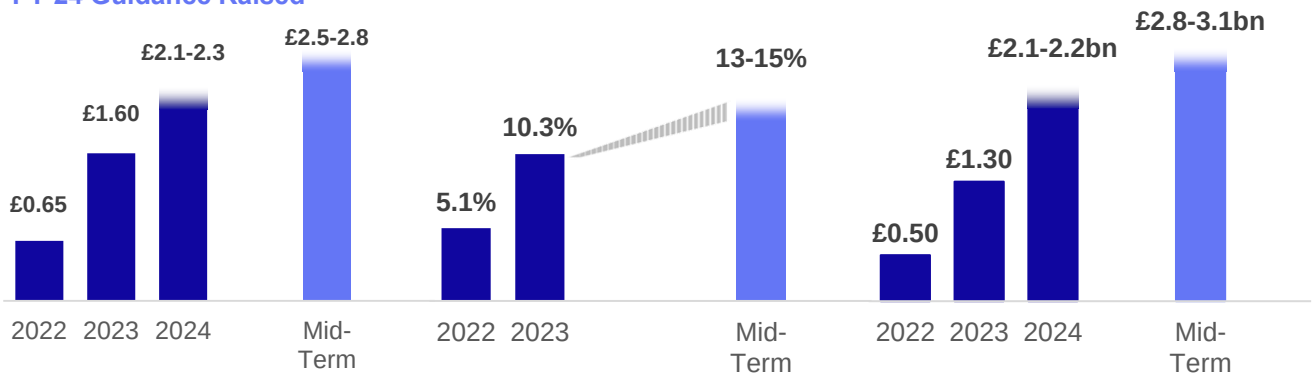
"Create a clear, granular strategic plan"

"Create a performance culture, where performance improvement becomes part of your strategy implementation"

"Do all three of these with intensity, pace, and rigor"

Record Performance & Sustained Growth Since Tufan Joined in Jan '23

FY'24 Guidance Raised



- **Exceeding Targets Ahead of Schedule:** Rolls-Royce has achieved **75% of mid-term profit** and **65% of FCF targets early**, delivering record profit, margin expansion, and cash flow growth
- **Margin & Free Cash Flow Expansion:** Civil Aerospace, Power Systems, and Defense have all **grown margins**, while higher FCF and lower debt enabled **increased shareholder distributions in 2024**

Sources: Company Website, Company Fillings, Wall Street Research, FactSet (As of 02/20/25)

Secular Trends Drive Power Systems

Continued implementation of microgrids within data centers and other critical infrastructure provide strong growth outlook for the power business

- Microgrid spend is **expected to grow at a 20.5% CAGR** from 2024 through 2032[1]
  - MTU, a Rolls-Royce subsidiary, **produces some of the highest value components needed to implement microgrid technology**
  - MTU also benefits **from economies of scale** by providing customers **with all-inclusive solutions**
- Companies that operate in similar segments such as GE Vernova, trade **at much higher multiples**
- **Analysts are undervaluing future top line growth** of the MTU business, **and future earnings power** of MTU as more pricing and cost cutting initiatives are implemented within the business

Microgrid Components

Power Generation

GE VERNOVA
mtu A Rolls-Royce solution
Cummins
ENPHASE.
CATERPILLAR
GENERAC
Goldwind
SIEMENS
Envision

Energy Storage

GE VERNOVA
mtu A Rolls-Royce solution
TESLA
Honeywell
EATON
EVLO
ABB
MITSUBISHI ELECTRIC

Power Management Systems

GE VERNOVA
Schneider Electric
mtu A Rolls-Royce solution
UL Solutions
SIEMENS
Honeywell
ABB

Electrical Products

EATON
Schneider Electric
Honeywell
EMERSON
S&C ELECTRIC COMPANY Excellence Through Innovation
MITSUBISHI ELECTRIC
TOSHIBA

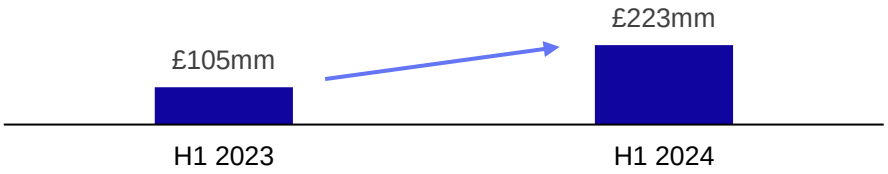
Sources: Company Website, Company Fillings, FactSet (As of 02/20/25)
1.) CAGR from Global Market Insights

Comprehensive Transformation Drives Engine Profitability

Operational improvements and renewed focus on improving the product provide catalysts for future earnings power

Margin Expansion and Contract Renegotiations

- **OE revenue grew 27% YoY,** while **service revenue also grew 27%,** driven by higher shop visit volumes and commercial optimizations.
- Rolls-Royce improved LTSA (Long-Term Service Agreement) profitability, **more than doubling net contractual margin improvements** YoY:



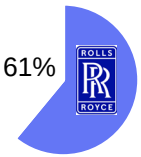
Time on Wing and Cost Efficiency Improvements

- **£1B investment** in ToW initiatives is **increasing engine durability by 40%,** reducing shop visits, maintenance downtime, and repair costs.
- Rolls-Royce's **TCC/GM ratio has improved to 0.49x** in H1 2024, down from 0.80x in 2022, reflecting **substantial cost reductions.**
- These enhancements are **improving LTSA profitability,** lowering cash costs, and **strengthening Rolls-Royce's competitive position** relative to GE and Pratt & Whitney.

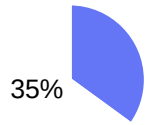
Market Expansion

- The company is exploring a potential **narrowbody entry,** which could significantly expand its total addressable market (TAM)
- As **market share gains** materialize in **widebody** and through **new revenue streams,** Rolls-Royce's valuation gap is expected to narrow.

2024 Widebody Market Share



Widebody Installed Base



Engine Performance and Technology Upgrades

Trent XWB-97

- The Trent XWB-97 engine saw strong demand, with **108 new orders in H1 2024,** reinforcing its position as Rolls-Royce's **best-selling widebody engine.**

Trent 1000/7000

- Upgrades to Trent 1000 and 7000 engines are set to **increase ToW by another 25-30%** by 2025, improving fleet reliability and reducing maintenance costs.

Sources: Company Website, Company Fillings, Wall Street Research, FactSet (As of 02/20/25)
Note: TCC/GM = (self-funded R&D expenditure + C&A costs) / underlying gross profit

V. Valuation

Bear Case Valuation

Rolls-Royce has limited downside risk

(£ in millions, except per share data)

	2025E	2026E	2027E	2028E	2029E
Revenue	**£18,120**	**£18,770**	**£19,427**	**£20,124**	**£20,857**
% Growth		*3.6%*	*3.5%*	*3.6%*	*3.6%*
(-) COGS	(14,375)	(14,793)	(15,211)	(15,657)	(16,232)
% Revenue	*79.3%*	*78.8%*	*78.3%*	*77.8%*	*77.8%*
Gross Profit	**£3,744**	**£3,977**	**£4,216**	**£4,467**	**£4,625**
% Margin	*20.7%*	*21.2%*	*21.7%*	*22.2%*	*22.2%*
EBIT	**£1,845**	**£2,052**	**£2,288**	**£2,528**	**£2,668**
% Margin	*10.2%*	*10.9%*	*11.8%*	*12.6%*	*12.8%*
(-) Taxes	(461)	(513)	(572)	(632)	(667)
% Rate	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
NOPAT	1,384	1,539	1,716	1,896	2,001
% Margin	*7.6%*	*8.2%*	*8.8%*	*9.4%*	*9.6%*
(+) D&A	1,087	1,089	1,098	1,107	1,126
(-) Capex	(752)	(725)	(713)	(699)	(704)
(+/-) Δ NWC	7	(26)	(528)	(251)	249
Unlevered FCF	**£3,111**	**£3,416**	**£3,289**	**£3,949**	**£4,674**
Discount Period	1	2	3	4	5
Discount Factor	1.09	1.18	1.29	1.40	1.52
FCF PV	**£2,861**	**£2,890**	**£2,559**	**£2,826**	**£3,076**

WACC

Beta	1.11
ERP	4.12%
Risk-Free Rate	4.54%
Cost of Equity	9.11%
Cost of Debt	4.30%
Tax Rate	25.00%
After-Tax Cost of Debt	3.22%
Total Equity	51.04
Total Debt	3.62
% Equity	93.39%
% Debt	6.61%
WACC	**8.72%**

Multiples

Civil Aerosapce	20.6x
Power Systems	16.0x
Defense	13.6x
Blended Multiple	**18.0x**

Implied Share Price

Gordon Growth Method	£716
Mulitples Method	£516
Blended Price	**£616**
(Premium) / Discount	**(0.4%)**

Base Case Valuation

Rolls-Royce is trading at a significant discount

(£ in millions, except per share data)

	2025E	2026E	2027E	2028E	2029E
Revenue	**£18,269**	**£19,099**	**£20,016**	**£20,987**	**£21,992**
% Growth		*4.5%*	*4.8%*	*4.9%*	*4.8%*
(-) COGS	(14,223)	(14,740)	(15,314)	(15,970)	(16,623)
% Revenue	*77.9%*	*77.2%*	*76.5%*	*76.1%*	*75.6%*
Gross Profit	**£4,047**	**£4,359**	**£4,702**	**£5,018**	**£5,369**
% Margin	*22.1%*	*22.8%*	*23.5%*	*23.9%*	*24.4%*
EBIT	**£2,197**	**£2,532**	**£2,936**	**£3,237**	**£3,586**
% Margin	*12.0%*	*13.3%*	*14.7%*	*15.4%*	*16.3%*
(-) Taxes	(549)	(633)	(734)	(809)	(897)
% Rate	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
NOPAT	1,648	1,899	2,202	2,427	2,690
% Margin	*9.0%*	*9.9%*	*11.0%*	*11.6%*	*12.2%*
(+) D&A	1,096	1,108	1,131	1,154	1,188
(-) Capex	(752)	(731)	(726)	(721)	(735)
(+/-) Δ NWC	48	(16)	(528)	(268)	279
Unlevered FCF	**£3,688**	**£4,159**	**£4,282**	**£5,021**	**£6,112**
Discount Period	1	2	3	4	5
Discount Factor	1.09	1.18	1.29	1.40	1.52
FCF PV	**£3,392**	**£3,519**	**£3,332**	**£3,593**	**£4,023**

WACC

Beta	1.11
ERP	4.12%
Risk-Free Rate	4.54%
Cost of Equity	9.11%
Cost of Debt	4.30%
Tax Rate	25.00%
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Total Equity	51.04
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WACC	**8.72%**

Multiples

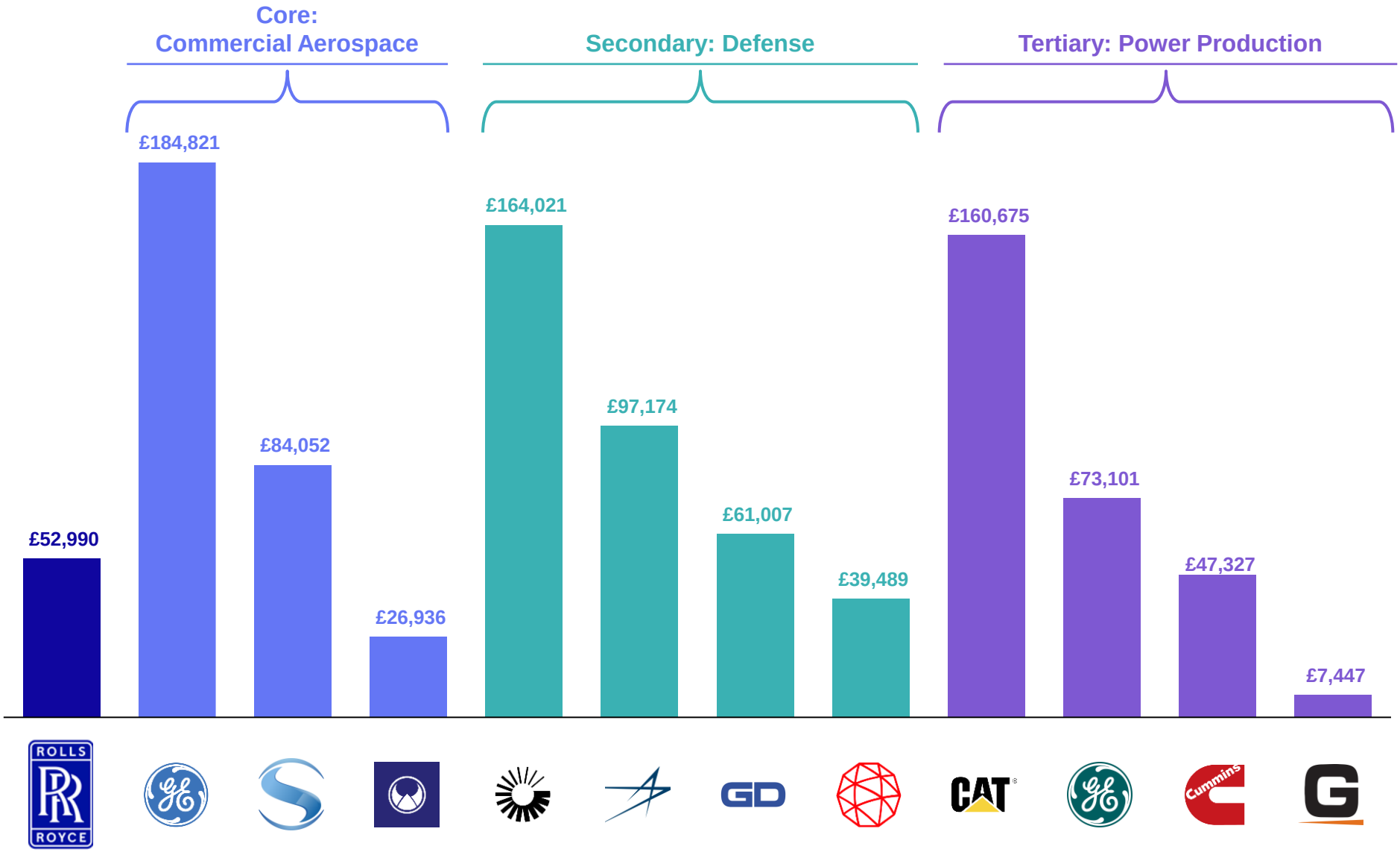
Civil Aerosapce	28.6x
Power Systems	20.0x
Defense	14.7x
Blended Multiple	**23.6x**

Implied Share Price

Gordon Growth Method	£966
Mulitples Method	£841
Blended Price	**£904**
(Premium) / Discount	**46.1%**

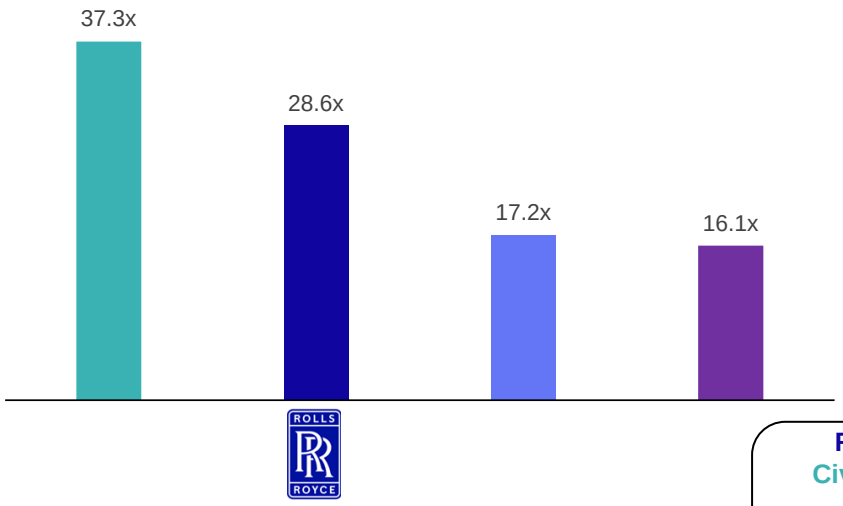
Comps Universe: Enterprise Value

(£ in millions)

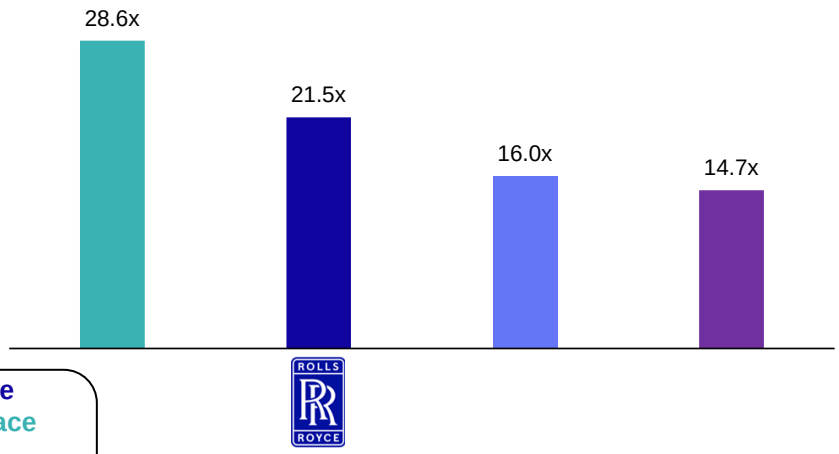


Valuation Multiples Among Peer Groups: Median Multiples

NTM P/E

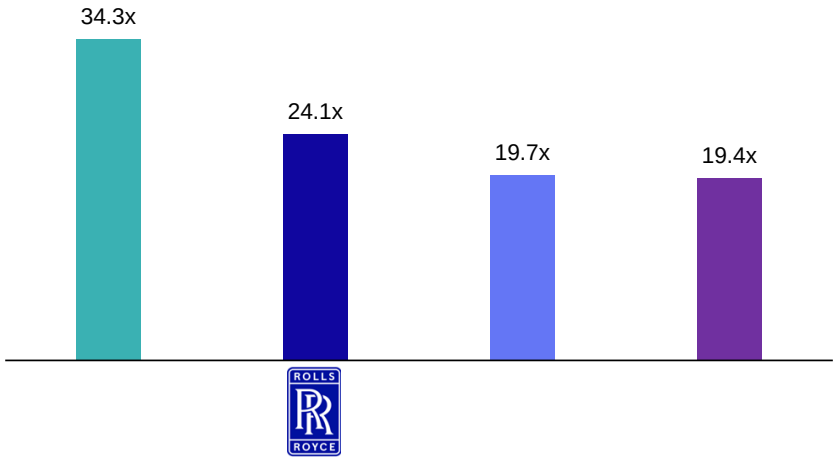


NTM EV/EBIT

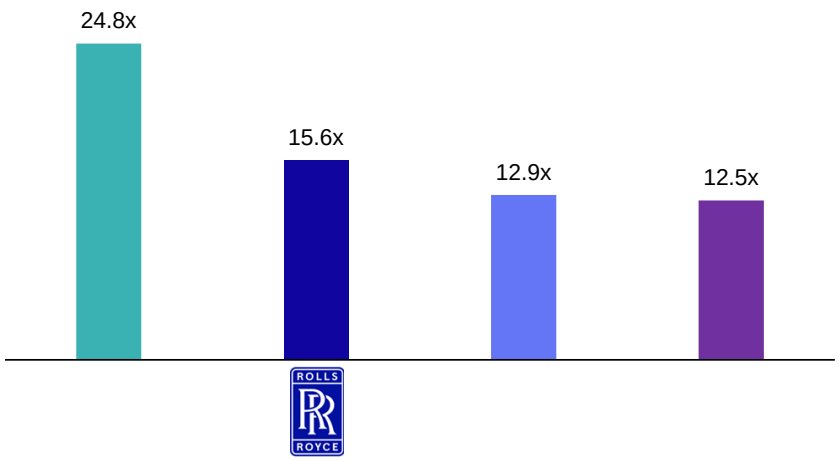


Rolls-Royce
Civil Aerospace (58.1%)
Power Systems (14.8%)
Defense (27.1%)

NTM P/FCF



NTM EV/EBITDA



Football Field

Method	Assumptions	Implied Share Price	Implied EV / '24E EBIT Low	Implied EV / '24E EBIT High	Implied Enterprise Value Low	Implied Enterprise Value High
Bull	■ Exit Multiple: 18.2x - 25.2x EV/EBIT ■ PGR: 2.25% - 2.75% ■ WACC: 8.21% - 9.21%	£879.74 – £1,148.82	30.7x	39.8x	£76.8bn	£99.6bn
Base	■ Exit Multiple: 18.2x - 25.2x EV/EBIT ■ PGR: 2.25% - 2.75% ■ WACC: 8.21% - 9.21%	£767.61 – £1,001.80	26.9x	34.8x	£67.2bn	£87.1bn
Bear	■ Exit Multiple: 18.2x - 25.2x EV/EBIT ■ PGR: 2.25% - 2.75% ■ WACC: 8.21% - 9.21%	£583.04 – £759.90	20.6x	26.6x	£51.5bn	£66.6bn
Comps	■ Current Multiple Range: 13.3x - 48.5x EV/EBIT	£507.11 – £716.92	18.0x	25.2x	£45.1bn	£62.9bn
Broker Estimates	■ Current Ratings: 11 Buy, 4 Hold, 1 Sell	£540.00 – £800.00	19.1x	28.0x	£47.9bn	£70.0bn
52-Week Range	■ Low of $323.30 on 2/16/24 ■ High of 644.40 on 2/19/25	£329.50 – £644.40	12.0x	22.7x	£30.0bn	£56.7bn

Current Price: £618.40

Target Price: £903.77

VI. Risks & Catalysts

Risks & Catalysts

While Structural Risks Exist, Rolls Royce is Well-Positioned to Navigate and Overcome Potential Hazards

Rolls-Royce Risks

- **Recessionary Risks Within Civil Aerospace:** A **recession may cause significant contraction** to the Civil Aerospace segment as demand for air travel softens due to lower discretionary spending**.** **Airlines will cut routes and push out orders** to protect near term profitability and cash flow.

- **Boom and bust Cycles within High Performance Compute:** Current **Power Systems revenue is closely tied to demand from data centers**. **A shock in data center demand** would significantly **hurt top-line growth rates** within the segment and **dampen performance.**

- **Reduced US Spending on Defense Capabilities:** As Elon Musk **and DOGE targets reducing the U.S. budget deficit**, there are **material risks with Rolls Royce losing contracts** or missing out on future contracts. **This exposure could significantly impact their backlog and book to bill ratios** over the coming years.

Rolls-Royce Catalysts

- **Enplanement Resilience:** While a recession would seriously dent airline profitability, **Rolls Royce's revenue is more tied to enplanements**. US enplanement data at the top 50 airports shows **that in years following recession, the maximum decline in enplanements was 7%** (excluding Covid). Airlines will still have demand for new engines and services throughout a recession.

- **AI Application and Microgrid Adoption:** While near term profitability is sensitive to hyperscaler capex, **AI applications in industries such as robotics and automation are yet to be implemented** leading to a **longer-term demand cycle**. Furthermore, **microgrid adoption is low** across the world, and **as renewable energy becomes more accessible, adoption should increase meaningfully.**

- **Global Defense Spending Resilience and Limited U.S Exposure:** While U.S spending looks to be volatile moving forward**,** **global defense spending is trending upwards** with many countries looking to modernize their defense capabilities. Furthermore, **Rolls Royce mainly services engines for the U.S.**, making these contracts **less likely to be canceled** and more **likely to be extended through the foreseeable future.**

Sources: Company Website, Company Fillings, Wall Street Research, FactSet (As of 02/20/25)

VII. Opportunity Summary

Opportunity Summary

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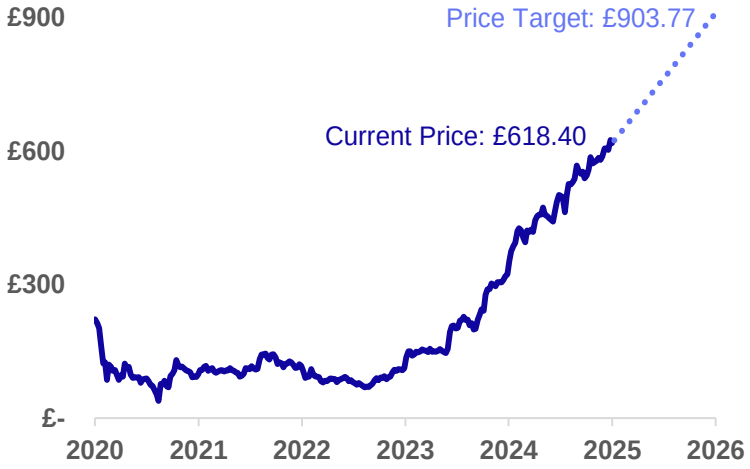

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Why Rolls-Royce

Thesis 1: Rapid Turnaround Driving Record Performance

- Under CEO Tufan Erginbilgic, Rolls-Royce has **significantly expanded margins and free cash flow** across all divisions.
- The company has already achieved **75% of its profit and 65% of its FCF mid-term targets**, with further acceleration expected.

Thesis 2: Secular Trends Drive Power Systems

- **Power Systems is now structurally profitable**, benefiting from **double-digit data center growth** as a key demand driver.
- Rolls-Royce's **industry-leading SMRs** provide a **strong long-term clean energy opportunity.**

Thesis 3: Comprehensive Transformation Drives Engine Profitability

- Rolls-Royce is **closing the valuation gap with GE** through **cost restructuring, contract renegotiations, and efficiency improvements**.
- With 61% widebody market share in 2024, Time on Wing investments, and a potential narrowbody entry, Rolls-Royce is positioned for **profitability, multiple expansion, and sustained market share growth**.

Implied Price Range & Upside

Case	Multiples Method	DCF Weighting	PGR Method	Comps Weighting	Price Target
Bull Case	£1,018.80	*50%*	£1,144.47	*50%*	£1,081.64
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% (Premium) / Discount	*(16.5%)*		*15.7%*		*(0.4%)*

VIII. Appendix

Bull Case Valuation

Favorable market conditions yield a deep discount

(£ in millions, except per share data)

	2025E	2026E	2027E	2028E	2029E
Revenue	**£18,634**	**£19,750**	**£20,915**	**£22,110**	**£23,390**
% Growth		*6.0%*	*5.9%*	*5.7%*	*5.8%*
(-) COGS	(14,386)	(15,112)	(15,876)	(16,668)	(17,467)
% Revenue	*77.2%*	*76.5%*	*75.9%*	*75.4%*	*74.7%*
Gross Profit	**£4,248**	**£4,639**	**£5,038**	**£5,442**	**£5,923**
% Margin	*22.8%*	*23.5%*	*24.1%*	*24.6%*	*25.3%*
EBIT	**£2,420**	**£2,825**	**£3,274**	**£3,667**	**£4,139**
% Margin	*13.0%*	*14.3%*	*15.7%*	*16.6%*	*17.7%*
(-) Taxes	(605)	(706)	(818)	(917)	(1,035)
% Rate	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
NOPAT	1,815	2,118	2,455	2,750	3,104
% Margin	*9.7%*	*10.7%*	*11.7%*	*12.4%*	*13.3%*
(+) D&A	1,118	1,146	1,182	1,216	1,263
(-) Capex	(752)	(745)	(751)	(753)	(774)
(+/-) Δ NWC	63	(14)	(551)	(281)	299
Unlevered FCF	**£4,060**	**£4,623**	**£4,792**	**£5,683**	**£6,998**
Discount Period	1	2	3	4	5
Discount Factor	1.09	1.18	1.29	1.40	1.52
FCF PV	**£3,734**	**£3,911**	**£3,728**	**£4,067**	**£4,606**

WACC

Beta	1.11
ERP	4.12%
Risk-Free Rate	4.54%
Cost of Equity	9.11%
Cost of Debt	4.30%
Tax Rate	25.00%
After-Tax Cost of Debt	3.22%
Total Equity	51.04
Total Debt	3.62
% Equity	93.39%
% Debt	6.61%
WACC	**8.72%**

Multiples

Civil Aerosapce	30.0x
Power Systems	22.0x
Defense	16.5x
Blended Multiple	**25.2x**

Implied Share Price

Gordon Growth Method	£1,144
Mulitples Method	£1,019
Blended Price	**£1,082**
(Premium) / Discount	**74.9%**

Sensitivity Analysis

Multiples Method

Bull Case

WACC \ Terminal Multiple	18.0x	23.6x	25.2x
8.2%	£807.07	£988.83	£1,040.98
8.5%	798.59	978.26	1,029.82
8.7%	790.22	967.84	1,018.80
9.0%	781.96	960.16	1,007.93
9.2%	773.81	947.40	997.20

Base Case

WACC \ Terminal Multiple	18.0x	23.6x	25.2x
8.2%	£702.05	£1,084.28	£904.71
8.5%	694.67	850.34	895.01
8.7%	687.38	841.27	885.43
9.0%	680.19	832.33	875.98
9.2%	673.10	823.50	866.66

Bear Case

WACC \ Terminal Multiple	18.0x	23.6x	25.2x
8.2%	£527.52	£644.70	£678.32
8.5%	521.97	637.80	671.04
8.7%	516.49	631.00	663.85
9.0%	511.08	624.28	656.76
9.2%	505.75	617.66	649.77

Perpetuity Growth Method

Bull Case

WACC \ Perpetuity Growth	2.3%	2.5%	2.8%
8.2%	£1,164.94	£1,208.80	£1,256.66
8.5%	1,114.68	1,157.14	1,198.10
8.7%	1,068.33	1,104.87	1,144.47
9.0%	1,025.45	1,061.08	1,095.17
9.2%	985.67	1,016.50	1,049.70

Base Case

WACC \ Perpetuity Growth	2.3%	2.5%	2.8%
8.2%	£1,018.78	£1,057.09	£1,098.89
8.5%	974.86	1,009.77	1,047.72
8.7%	934.36	966.27	1,000.86
9.0%	896.88	926.16	957.78
9.2%	862.12	889.04	918.05

Bear Case

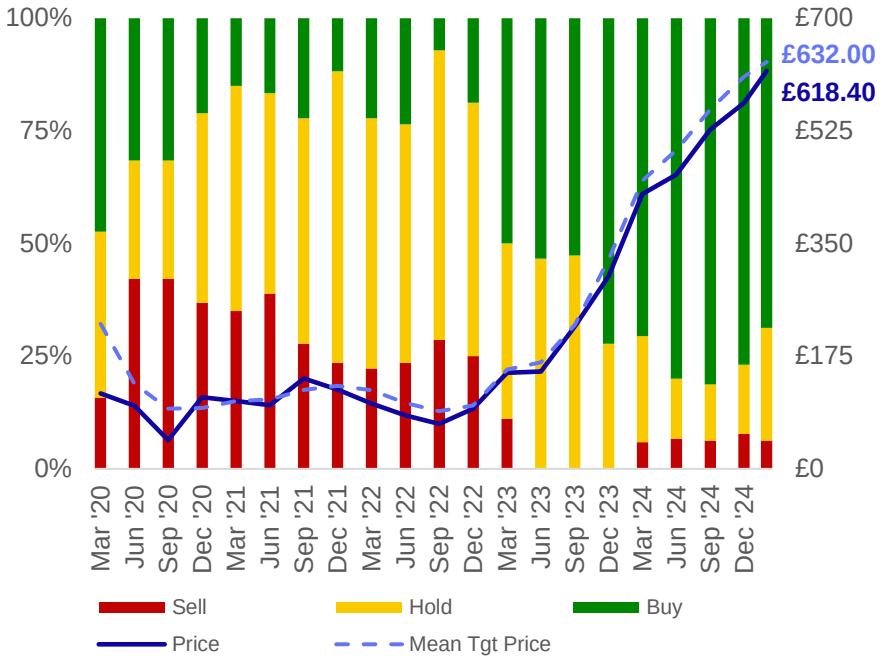
WACC \ Perpetuity Growth	2.3%	2.5%	2.8%
8.2%	£780.23	£809.52	£841.49
8.5%	746.62	773.31	802.34
8.7%	715.62	740.03	766.47
9.0%	686.94	709.32	733.50
9.2%	660.33	680.92	703.09

Historical Valuation

Analyst Targets

Broker Outlook

Broker	Date	Rating	Valuation Multiple	Target Price	% Premium
Deutsche Bank	12/17/24	Buy	17x EV/EBITDA	£630.00	2%
BARCLAYS	11/19/24	Buy	15.4x EV/EBITDA	£540.00	(13%)
J.P.Morgan CAZENOVE	11/06/24	Buy	17x EV/EBITDA	£655.00	6%



Industry Commentary

Deutsche Bank

"There is still some upside to current valuation levels… A bull case scenario, based on current GE valuations in Civil Aerospace and a 3.75% FCF yield, would yield a 730p PT. However, we believe it is premature to value it on GE multiples, as the transformation program must continue to deliver tangible results" *(12/17/24)*

BARCLAYS

"Rolls-Royce has high exposure to the recovering civil aerospace cycle. We expect the China unlock to drive higher EFHs [Engine Flying Hours] combined with improved pricing. We expect civil aero profitability to materially improve as a result of commercial optimization activities" *(11/19/24)*

J.P.Morgan CAZENOVE

"RR is now very focused on improving its aftermarket profits by reducing the cost of maintaining its engines, extending their time on wing, and by increasing the price it charges for aftermarket parts and services" *(11/06/24)*

Why Are We More Bullish Than The Analysts

- **Margin Expansion Across all Three Segments:** We believe that **margins will continue to expand** as they have over the past two years under Tufan Erginbilgic
- **Higher Growth Rates Within the Power Systems Business:** We believe the **secular trend of power consumption** will drive the Power Systems business and provide **10+% revenue growth over the coming years**
- **Favorable Contract Mix and Market Share Gains within Commercial Aerospace:** We believe Rolls-Royce will exhibit more **market share gains** along with **continued recovery within their contract portfolio**

Sources: Company Website, Company Fillings, Wall Street Research, FactSet (As of 02/20/25)
1.) Premium to current price (as of 02/20/25) 2.) 2027E EV/EBITDA 3.) 10% premium to the EU aero 10-year through-cycle multiple 4.) SOTP: Propulsion 19x, Defense 16x, Power 15x

Analyst Targets Vs. Base Projections

Sales	2024E	2025E	2026E	2027E
Civil Aerospace Projection	£8,866	£9,251	£9,680	£10,163
Civil Aerospace Consensus	*£8,799*	*£9,735*	*£10,546*	*£11,381*
Delta	£67	(£484)	(£866)	(£1,218)
Defense Projection	£4,619	£4,689	£4,768	£4,873
Defense Consensus	*£4,251*	*£4,369*	*£4,492*	*£4,629*
Delta	£368	£319	£276	£244
Power Systems Projection	£3,995	£4,330	£4,650	£4,980
Power Systems Consensus	*£4,127*	*£4,353*	*£4,612*	*£4,868*
Delta	(£132)	(£23)	£38	£113
Total Sales Projection	£17,480	£18,269	£19,099	£20,016
Total Sales Consensus	*£17,194*	*£18,476*	*£19,672*	*£20,972*
Delta	£286	(£206)	(£574)	(£956)

EBIT	2024E	2025E	2026E	2027E
Civil Aerospace Projection	£1,443	£1,323	£1,452	£1,616
Margin	*16.27%*	*14.30%*	*15.00%*	*15.90%*
Civil Aerospace Consensus	*£1,363*	*£1,566*	*£1,529*	*£1,817*
Margin	*15.48%*	*16.08%*	*14.49%*	*15.96%*
Delta	£80	(£243)	(£76)	(£201)
Margin Delta	*0.79%*	*(1.78%)*	*0.51%*	*(0.06%)*
Defense Projection	£664	£519	£596	£663
Margin	*14.38%*	*11.07%*	*12.50%*	*13.60%*
Defense Consensus	*£578*	*£597*	*£633*	*£659*
Margin	*13.60%*	*13.66%*	*14.08%*	*14.24%*
Delta	£86	(£78)	(£36)	£4
Margin Delta	*0.78%*	*(2.59%)*	*(1.58%)*	*(0.64%)*
Power Systems Projection	£394	£355	£484	£657
Margin	*9.86%*	*8.20%*	*10.40%*	*13.20%*
Power Systems Consensus	*£489*	*£525*	*£560*	*£601*
Margin	*11.84%*	*12.05%*	*12.13%*	*12.35%*
Delta	(£94)	(£169)	(£76)	£56
Margin Delta	*(1.97%)*	*(3.85%)*	*(1.73%)*	*0.85%*
EBIT Projection	£2,501	£2,197	£2,532	£2,936
Margin	*14.31%*	*12.03%*	*13.26%*	*14.67%*
EBIT Consensus	*£2,196*	*£2,462*	*£2,690*	*£2,970*
Margin	*12.77%*	*13.33%*	*13.67%*	*14.16%*
Delta	£305	(£265)	(£158)	(£34)
Margin Delta	*1.54%*	*(1.30%)*	*(0.42%)*	*0.51%*

Notable Customers

Top 50 US Airport Enplanement Data *(In Thousands)*

	2011	2010	2009	2008	2007	2004	2003	2002	2001	2000
ATL	44,414.12	43,130.59	42,280.87	43,761.28	43,236.67	41,123.86	38,893.67	37,720.56	37,181.07	39,277.90
LAX	30,528.74	28,857.76	27,439.90	28,861.48	30,113.99	28,925.34	26,239.58	26,911.57	29,365.44	32,167.90
DFW	27,518.36	27,100.66	26,663.98	27,219.29	28,482.42	28,063.04	24,976.88	24,761.11	25,610.56	28,274.51
DEN	25,667.50	25,241.96	24,013.67	24,287.94	24,117.62	20,407.00	17,969.75	16,943.56	17,178.87	18,382.94
ORD	31,892.30	32,171.83	31,135.73	33,683.99	36,521.59	36,100.15	32,920.39	31,706.33	31,529.56	33,845.90
JFK	23,664.83	22,934.05	22,710.27	23,620.95	23,401.35	18,586.86	15,676.35	14,552.41	14,553.82	16,155.44
MCO	17,250.42	17,017.49	16,371.02	17,288.48	17,614.68	15,270.35	13,375.16	12,921.48	13,622.40	14,831.65
LAS	19,872.62	18,996.74	19,445.95	21,024.44	22,537.95	19,943.03	17,097.74	16,600.81	16,633.44	17,425.21
CLT	19,022.54	18,629.18	17,165.38	17,281.43	16,584.78	12,499.48	11,465.37	11,743.16	11,548.95	11,469.28
MIA	18,342.16	17,017.65	16,187.77	16,377.49	16,194.16	14,515.59	14,198.32	14,020.69	14,941.66	16,489.34
SEA	15,971.68	15,406.24	15,273.09	15,839.50	15,419.12	14,092.29	13,109.15	12,969.02	13,184.63	13,875.94
EWR	16,814.09	16,571.75	16,659.44	17,599.58	18,163.65	15,827.68	14,628.71	14,553.84	15,497.56	17,212.23
SFO	20,056.57	19,359.00	18,467.91	18,135.83	17,280.33	15,605.82	14,079.17	14,736.14	16,475.61	19,556.80
PHX	19,750.31	18,907.17	18,559.65	19,450.58	20,796.17	19,336.10	18,252.85	17,271.52	17,478.62	18,094.25
IAH	19,306.66	19,528.63	19,290.24	20,030.90	20,767.14	17,322.07	16,134.68	15,865.48	16,173.55	16,358.04
BOS	14,180.73	13,561.81	12,566.80	12,820.49	13,783.30	12,758.02	11,087.80	11,077.24	11,739.55	13,613.51
FLL	11,332.47	10,829.81	10,258.12	11,020.09	11,079.25	10,040.60	8,682.78	8,266.79	8,015.06	7,817.17
MSP	15,895.65	15,512.49	15,551.21	16,369.32	16,962.56	17,482.63	16,022.99	15,544.04	15,852.43	16,959.01
LGA	11,989.23	12,001.50	11,084.30	11,567.59	12,529.89	12,312.56	11,367.31	11,076.03	11,352.25	12,697.21
DTW	15,716.87	15,643.89	15,211.40	16,998.17	17,495.14	17,046.18	15,754.02	15,525.41	15,819.58	17,326.78
PHL	14,883.18	14,951.25	15,002.96	15,586.85	15,656.65	13,824.33	11,870.93	11,954.47	11,736.13	12,294.05
SLC	9,701.76	9,910.49	9,903.82	9,993.20	10,560.91	8,884.88	8,958.00	8,997.94	8,951.78	9,522.34
BWI	11,067.32	10,848.63	10,338.95	10,215.23	10,487.79	10,103.56	9,768.04	9,367.50	10,098.67	9,675.68
DCA	9,053.00	8,736.80	8,490.29	8,704.47	9,038.17	7,661.53	6,813.15	6,172.07	6,267.40	7,517.81
Next 25	131,614.76	131,082.09	130,165.21	140,539.65	150,568.94	145,934.18	139,809.37	143,349.10	147,142.17	158,460.96
Top 50	603,973.51	592,379.99	578,691.77	607,285.81	628,532.32	581,802.93	536,717.36	532,000.64	545,457.06	587,200.20
YoY Change	**2.0%**	**2.4%**	**-4.7%**	**-3.4%**	**3.0%**	**8.4%**	**0.9%**	**-2.5%**	**-7.1%**	

Pratt & Whitney Historical Revenue

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pratt & Whitney Revenue	9,295	11,112	12,129	12,965	12,577	12,935	13,430	13,964	14,501
YoY Change		**19.5%**	**9.2%**	**6.9%**	**-3.0%**	**2.8%**	**3.8%**	**4.0%**	**3.8%**

Civil Aerospace Segment EBIT Build

Bear Case	2024E	2025E	2025E	2025E	2025E	2025E
Civil Aerospace Segment Revenue	**£8,866**	**£9,192**	**£9,543**	**£9,940**	**£10,395**	**£10,885**
OE Revenue	2,897	2,984	3,073	3,178	3,305	3,437
Services	5,969	6,208	6,470	6,762	7,091	7,448
COGS	(6,877)	(7,399)	(7,635)	(7,902)	(8,212)	(8,599)
Gross Profit	**£1,989**	**£1,792**	**£1,909**	**£2,038**	**£2,183**	**£2,286**
Gross Margin	*22.4%*	*19.5%*	*20.0%*	*20.5%*	*21.0%*	*21.0%*
Commerical & Administrative	(407)	(441)	(458)	(477)	(499)	(522)
R&D	(287)	(276)	(286)	(298)	(312)	(327)
JV & Associates	147	92	95	99	104	109
SG&A	(546)	(625)	(649)	(676)	(707)	(740)
EBIT	**£1,443**	**£1,167**	**£1,260**	**£1,362**	**£1,476**	**£1,546**
Operating Margin	*16.3%*	*12.7%*	*13.2%*	*13.7%*	*14.2%*	*14.2%*
Base Case	**2024E**	**2025E**	**2025E**	**2025E**	**2025E**	**2025E**
Civil Aerospace Segment Revenue	**£8,866**	**£9,251**	**£9,680**	**£10,163**	**£10,688**	**£11,275**
OE Revenue	2,897	3,024	3,163	3,313	3,482	3,671
Services	5,969	6,226	6,517	6,850	7,206	7,604
COGS	(6,877)	(7,354)	(7,647)	(7,978)	(8,337)	(8,738)
Gross Profit	**£1,989**	**£1,896**	**£2,033**	**£2,185**	**£2,351**	**£2,537**
Gross Margin	*22.4%*	*20.5%*	*21.0%*	*21.5%*	*22.0%*	*22.5%*
Commerical & Administrative	(407)	(416)	(416)	(417)	(438)	(451)
R&D	(287)	(278)	(290)	(285)	(289)	(282)
JV & Associates	147	120	126	132	139	147
SG&A	(546)	(574)	(581)	(569)	(588)	(586)
EBIT	**£1,443**	**£1,323**	**£1,452**	**£1,616**	**£1,764**	**£1,951**
Operating Margin	*16.3%*	*14.3%*	*15.0%*	*15.9%*	*16.5%*	*17.3%*
Bull Case	**2024E**	**2025E**	**2025E**	**2025E**	**2025E**	**2025E**
Civil Aerospace Segment Revenue	**£8,866**	**£9,444**	**£10,036**	**£10,674**	**£11,361**	**£12,117**
OE Revenue	2,897	3,071	3,258	3,448	3,646	3,860
Services	5,969	6,374	6,778	7,226	7,715	8,257
COGS	(6,877)	(7,461)	(7,879)	(8,326)	(8,804)	(9,269)
Gross Profit	**£1,989**	**£1,983**	**£2,158**	**£2,348**	**£2,556**	**£2,847**
Gross Margin	*22.4%*	*21.0%*	*21.5%*	*22.0%*	*22.5%*	*23.5%*
Commerical & Administrative	(407)	(416)	(422)	(427)	(454)	(485)
R&D	(287)	(283)	(281)	(267)	(261)	(267)
JV & Associates	147	142	151	160	170	182
SG&A	(546)	(557)	(552)	(534)	(545)	(569)
EBIT	**£1,443**	**£1,426**	**£1,606**	**£1,815**	**£2,011**	**£2,278**
Operating Margin	*16.3%*	*15.1%*	*16.0%*	*17.0%*	*17.7%*	*18.8%*

Defense Segment EBIT Build

Bear Case	2024E	2025E	2025E	2025E	2025E	2025E
Defense Segment Revenue	**£4,619**	**£4,666**	**£4,722**	**£4,802**	**£4,903**	**£5,050**
OE	1,831	1,850	1,877	1,915	1,972	2,061
Services	2,788	2,816	2,844	2,887	2,930	2,989
COGS	(3,663)	(3,779)	(3,824)	(3,865)	(3,922)	(4,040)
Gross Profit	**£956**	**£886**	**£897**	**£936**	**£981**	**£1,010**
Gross Margin	*20.7%*	*19.0%*	*19.0%*	*19.5%*	*20.0%*	*20.0%*
Commerical & Administrative	(218)	(221)	(212)	(206)	(201)	(202)
R&D	(79)	(210)	(203)	(202)	(196)	(202)
JV & Associates	6	0	0	0	0	0
SG&A	(292)	(431)	(415)	(408)	(397)	(404)
EBIT	**£664**	**£456**	**£482**	**£528**	**£583**	**£606**
Operating Margin	*14.4%*	*9.8%*	*10.2%*	*11.0%*	*11.9%*	*12.0%*
Base Case	**2024E**	**2025E**	**2025E**	**2025E**	**2025E**	**2025E**
Defense Segment Revenue	**£4,619**	**£4,689**	**£4,768**	**£4,873**	**£5,000**	**£5,160**
OE	1,831	1,859	1,896	1,943	2,011	2,112
Services	2,788	2,830	2,873	2,930	2,989	3,048
COGS	(3,663)	(3,751)	(3,791)	(3,850)	(3,950)	(4,051)
Gross Profit	**£956**	**£938**	**£978**	**£1,023**	**£1,050**	**£1,109**
Gross Margin	*20.7%*	*20.0%*	*20.5%*	*21.0%*	*21.0%*	*21.5%*
Commerical & Administrative	(218)	(222)	(205)	(200)	(185)	(181)
R&D	(79)	(202)	(181)	(166)	(160)	(165)
JV & Associates	6	5	5	5	5	5
SG&A	(292)	(419)	(381)	(361)	(340)	(341)
EBIT	**£664**	**£519**	**£596**	**£663**	**£710**	**£769**
Operating Margin	*14.4%*	*11.1%*	*12.5%*	*13.6%*	*14.2%*	*14.9%*
Bull Case	**2024E**	**2025E**	**2025E**	**2025E**	**2025E**	**2025E**
Defense Segment Revenue	**£4,619**	**£4,712**	**£4,815**	**£4,931**	**£5,084**	**£5,288**
OE	1,831	1,868	1,915	1,972	2,051	2,164
Services	2,788	2,844	2,901	2,959	3,033	3,124
COGS	(3,663)	(3,746)	(3,804)	(3,871)	(3,965)	(4,098)
Gross Profit	**£956**	**£966**	**£1,011**	**£1,060**	**£1,118**	**£1,190**
Gross Margin	*20.7%*	*20.5%*	*21.0%*	*21.5%*	*22.0%*	*22.5%*
Commerical & Administrative	(218)	(223)	(207)	(197)	(188)	(174)
R&D	(79)	(193)	(173)	(163)	(163)	(159)
JV & Associates	6	10	10	10	11	11
SG&A	(292)	(406)	(370)	(350)	(340)	(322)
EBIT	**£664**	**£560**	**£641**	**£710**	**£778**	**£868**
Operating Margin	*14.4%*	*11.9%*	*13.3%*	*14.4%*	*15.3%*	*16.4%*

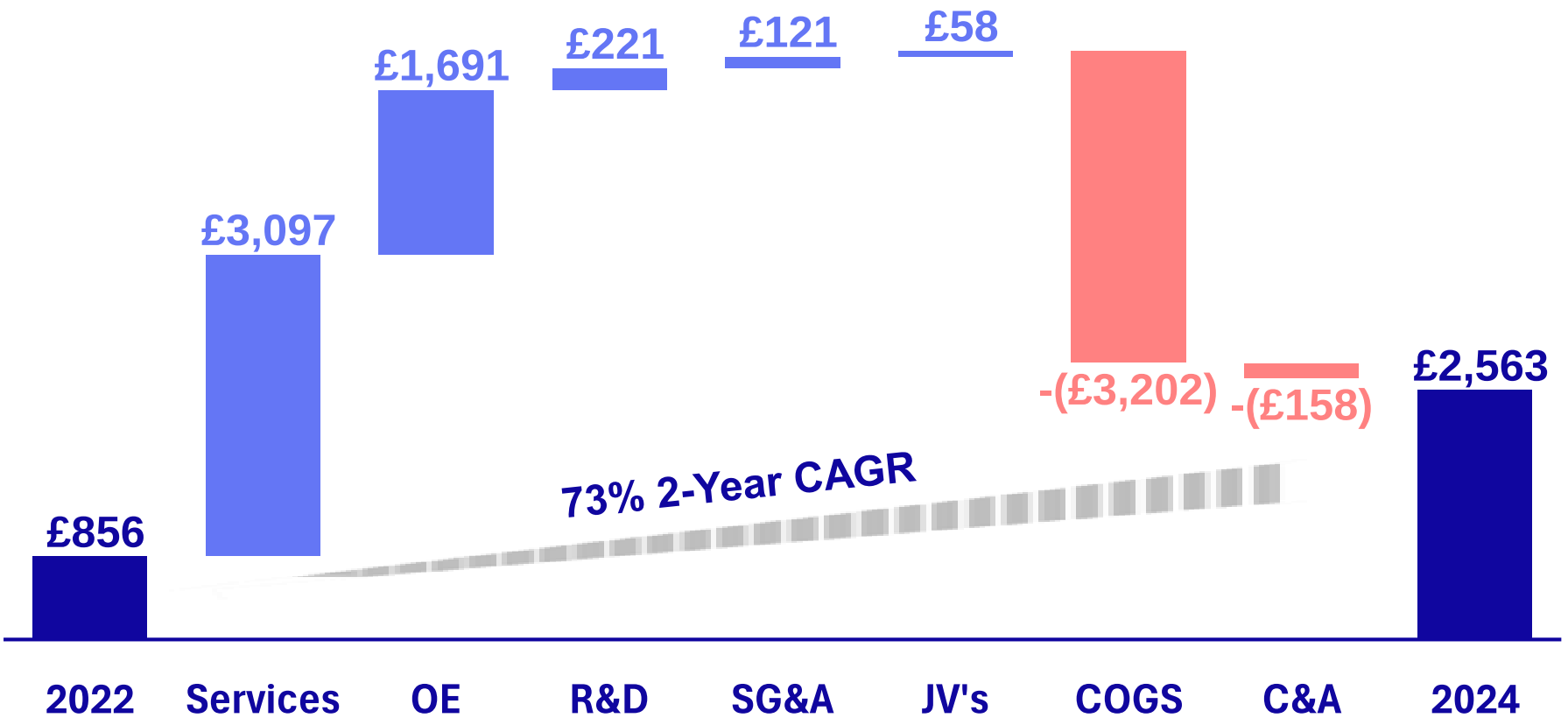
Power Systems Segment EBIT Build

Bear Case	2024E	2025E	2025E	2025E	2025E	2025E
Power Systems Segment Revenue	**£3,995**	**£4,262**	**£4,505**	**£4,685**	**£4,826**	**£4,922**
OE	2,765	2,959	3,137	3,262	3,360	3,427
Services	1,230	1,303	1,369	1,423	1,466	1,495
COGS	(2,905)	(3,197)	(3,334)	(3,444)	(3,523)	(3,593)
Gross Profit	**£1,090**	**£1,066**	**£1,171**	**£1,242**	**£1,303**	**£1,329**
Gross Margin	*27.3%*	*25.0%*	*26.0%*	*26.5%*	*27.0%*	*27.0%*
Commerical & Administrative	(519)	(554)	(568)	(562)	(555)	(541)
R&D	(191)	(290)	(293)	(281)	(280)	(271)
JV & Associates	14	0	0	0	0	0
SG&A	(696)	(844)	(860)	(843)	(835)	(812)
EBIT	**£394**	**£222**	**£311**	**£398**	**£468**	**£517**
Operating Margin	*9.9%*	*5.2%*	*6.9%*	*8.5%*	*9.7%*	*10.5%*
Base Case	**2024E**	**2025E**	**2025E**	**2025E**	**2025E**	**2025E**
Power Systems Segment Revenue	**£3,995**	**£4,330**	**£4,650**	**£4,980**	**£5,300**	**£5,557**
OE	2,765	3,014	3,255	3,516	3,762	3,950
Services	1,230	1,316	1,395	1,464	1,538	1,607
COGS	(2,905)	(3,118)	(3,302)	(3,486)	(3,683)	(3,834)
Gross Profit	**£1,090**	**£1,212**	**£1,349**	**£1,494**	**£1,616**	**£1,723**
Gross Margin	*27.3%*	*28.0%*	*29.0%*	*30.0%*	*30.5%*	*31.0%*
Commerical & Administrative	(519)	(563)	(567)	(538)	(551)	(556)
R&D	(191)	(286)	(288)	(289)	(291)	(289)
JV & Associates	14	(9)	(9)	(10)	(11)	(11)
SG&A	(696)	(857)	(865)	(837)	(853)	(856)
EBIT	**£394**	**£355**	**£484**	**£657**	**£763**	**£867**
Operating Margin	*9.9%*	*8.2%*	*10.4%*	*13.2%*	*14.4%*	*15.6%*
Bull Case	**2024E**	**2025E**	**2025E**	**2025E**	**2025E**	**2025E**
Power Systems Segment Revenue	**£3,995**	**£4,477**	**£4,898**	**£5,310**	**£5,666**	**£5,986**
OE	2,765	3,125	3,437	3,747	4,009	4,230
Services	1,230	1,353	1,461	1,563	1,657	1,756
COGS	(2,905)	(3,179)	(3,429)	(3,680)	(3,898)	(4,100)
Gross Profit	**£1,090**	**£1,298**	**£1,469**	**£1,630**	**£1,768**	**£1,886**
Gross Margin	*27.3%*	*29.0%*	*30.0%*	*30.7%*	*31.2%*	*31.5%*
Commerical & Administrative	(519)	(560)	(578)	(558)	(567)	(569)
R&D	(191)	(287)	(294)	(303)	(300)	(299)
JV & Associates	14	(18)	(20)	(21)	(23)	(24)
SG&A	(696)	(864)	(891)	(881)	(890)	(892)
EBIT	**£394**	**£434**	**£578**	**£749**	**£878**	**£994**
Operating Margin	*9.9%*	*9.7%*	*11.8%*	*14.1%*	*15.5%*	*16.6%*

Working Capital Assumptions

NWC	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Inventories	£4,320	£3,690	£3,666	£4,708	£4,848	£5,157	£5,439	£5,589	£5,785	£5,937	£6,221
Trade Recievables	5,065	5,455	5,383	6,936	8,123	9,099	9,700	10,551	11,174	11,812	12,816
Contract Assets	2,095	1,510	1,481	1,473	1,242	1,363	1,398	1,462	1,688	1,784	1,887
Taxation Recoverable	39	117	90	127	80	129	155	155	162	161	180
Other Financial Assets	86	107	46	141	34	116	126	123	138	126	149
Short-Term Investments	6	0	8	11	0	7	8	10	9	8	10
Current Assets	**£11,611**	**£10,879**	**£10,674**	**£13,396**	**£14,327**	**£15,872**	**£16,825**	**£17,890**	**£18,955**	**£19,827**	**£21,264**
Other Financial Liabilities	£493	£608	£689	£1,016	£448	£874	£745	£593	£609	£643	£681
Trade Payables	8,450	6,653	6,016	6,983	6,896	7,368	7,686	8,280	9,134	9,590	10,050
Contract Liabilities	4,228	4,187	3,599	4,825	6,098	7,080	7,733	8,335	8,889	9,441	10,011
Current Tax Liabilities	172	154	101	104	143	184	191	189	200	217	233
Provisions for Liabilities	858	826	475	632	532	604	644	683	723	764	808
Current Liabilities	**£14,201**	**£12,428**	**£10,880**	**£13,560**	**£14,117**	**£16,109**	**£16,999**	**£18,078**	**£19,554**	**£20,656**	**£21,782**
NWC	**(£2,590)**	**(£1,549)**	**(£206)**	**(£164)**	**£210**	**(£237)**	**(£174)**	**(£189)**	**(£600)**	**(£829)**	**(£518)**
Change in NWC		**1,041**	**1,343**	**42**	**374**	**(447)**	**63**	**(14)**	**(411)**	**(229)**	**310**
Inventory Days Outstanding	*128*	*114*	*154*	*169*	*146*	*140*	*138*	*135*	*133*	*130*	*130*
Receivables Days Outstanding	*127*	*178*	*184*	*199*	*193*	*190*	*190*	*195*	*195*	*195*	*200*
Contract Assets % of Rev	*14.4%*	*13.5%*	*13.9%*	*11.6%*	*8.1%*	*7.8%*	*7.5%*	*7.4%*	*8.1%*	*8.1%*	*8.1%*
Taxation Recoverable % of Rev	*0.3%*	*1.0%*	*0.8%*	*1.0%*	*0.5%*	*0.7%*	*0.8%*	*0.8%*	*0.8%*	*0.7%*	*0.8%*
Other Financial Assets % of Rev	*0.6%*	*1.0%*	*0.4%*	*1.1%*	*0.2%*	*0.7%*	*0.7%*	*0.6%*	*0.7%*	*0.6%*	*0.6%*
Short-Term Investments % of Rev	*0.0%*	*0.0%*	*0.1%*	*0.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other Financial Liabilities	*3.4%*	*5.4%*	*6.5%*	*8.0%*	*2.9%*	*5.0%*	*4.0%*	*3.0%*	*2.9%*	*2.9%*	*2.9%*
Payables Days Outstanding	*250*	*206*	*253*	*250*	*207*	*200*	*195*	*200*	*210*	*210*	*210*
Contract Liabilities	*29.1%*	*37.5%*	*33.8%*	*38.0%*	*39.6%*	*40.5%*	*41.5%*	*42.2%*	*42.5%*	*42.7%*	*42.8%*
Current Tax Liabilities	*1.2%*	*1.4%*	*0.9%*	*0.8%*	*0.9%*	*1.1%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Provisions for Liabilities	*5.9%*	*7.4%*	*4.5%*	*5.0%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*

EBIT Bridge



Sources: Company Website, Company Fillings, Wall Street Research, FactSet (As of 02/20/25)