

# *Strategic Review*

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## Agenda

- Trading Update**
- Introduction & Key Conclusions
- Portfolio Strategy
- Financial Strategy
- Next Steps

- Overall full year in line with expectations, at the lower end of the range
- Trading remained very difficult in the last quarter of 2008
- Impact from the significant deterioration in automotive markets globally
- Trading in Integrated Manufacturing Services and Secure Power businesses proved more resilient
- Sound financial position and trading well within banking facilities
- The very difficult markets experienced towards the end of 2008 are expected to continue in 2009 due to the severe global recession
- Action taken in 2008 and planned for 2009 will address the cost base and partially mitigate increasingly challenging markets

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### **New management started August 2008**

- Change of emphasis
- Greater focus and engagement with businesses, pro-active approach



### **Thorough strategic review undertaken**

- Covers all businesses and all markets
- Rigorous review of competitive position and segment participation



### **Strategic Actions**

- Develop market leading positions in chosen segments
- Simplify the portfolio and prioritise investment
- Streamline the organisation structure
- Develop a culture and track record of successful delivery
- Withdraw from unattractive markets

***Deliver Shareholder Value***

- Blue chip global customer base
- Some great businesses with growth opportunities in medical, defence and aerospace
- Good technologies and applications engineering skills
- Leadership in certain niche markets
- Many good people
- Established low cost manufacturing footprint
- Significant investment made in businesses
- Strong culture of financial reporting

***Sound Financial Position***

## But:

- Group has lacked a clear identity and direction, the portfolio remains too diverse
- Decreasing (but material) automotive sector exposure with high cost base
- Businesses largely run on a stand-alone basis – opportunities exist to leverage scale and manufacturing footprint
- Potential to simplify and focus sales organisation
- Need to increase focus on key forward looking performance indicators
- Need for a structured development plan for management

*Increased Focus Required on Delivery*

## Framework for Strategic Business Unit roles in the Portfolio

### “STRATEGIC FOCUS”

Heartland to the brand / group

#### Components/Connectors

- Major driver of shareholder value
- Retain and defend
- Invest long term

Extends the existing core

#### Sensors

- Invest short-term
- Evaluate cost / benefit

### “DEVELOPMENT”

Scalable Opportunities

#### IMS

#### Secure Power

- Have potential to deliver material increase in shareholder value
- Invest to grow
- Monitor potential through milestone achievements

### “RUN FOR VALUE”

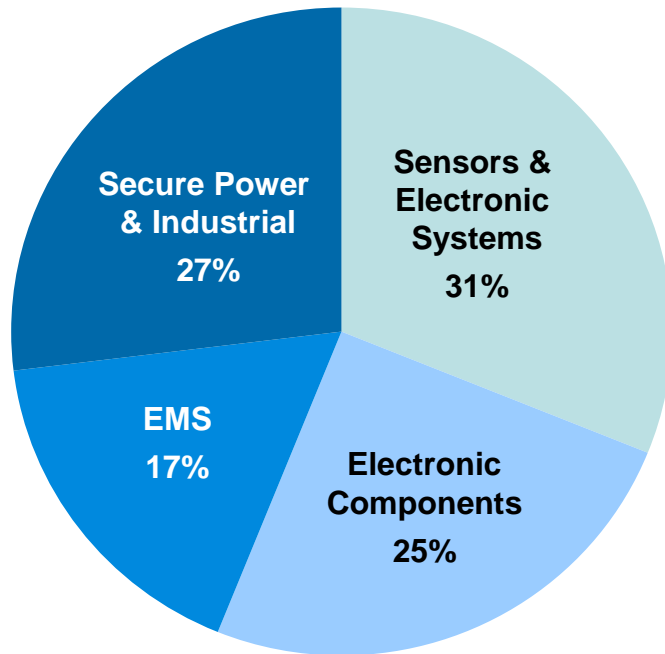
Value Businesses

#### General Industrial

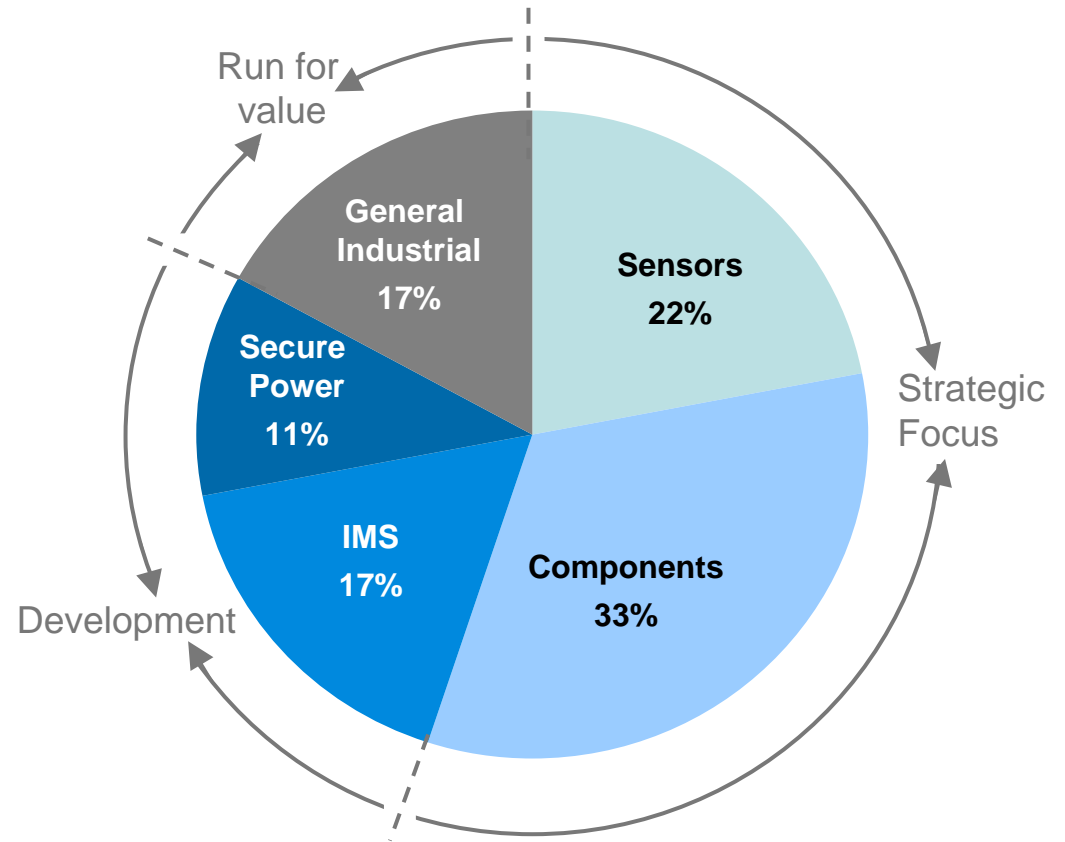
<b>AEI Compounds</b>	<b>AB Automotive</b>
<b>Abtest</b>	<b>BAS</b>
<b>Henley</b>	<b>Magnetics</b>
<b>Prestwick Circuits</b>	<b>WST</b>

- Unlikely to deliver material increase in shareholder value
- Limit investment
- Manage for value

### 2008 Revenue by division



Old structure



New structure

## Outcome

- Strategic Focus on Components, with IMS and Secure Power representing scalable Strategic Opportunities
- Redefinition of Sensor Division, reduced exposure to automotive with separate management to close AB Automotive
- Focus on higher growth and higher margin markets e.g. medical, aerospace and defence
- Withdrawal from low growth, unprofitable areas
- Targeting 100% operating cash flow conversion, with sustained reduction of working capital and debt
- Focus on improving margins and organic growth
- Clarify priorities and substantially improve execution

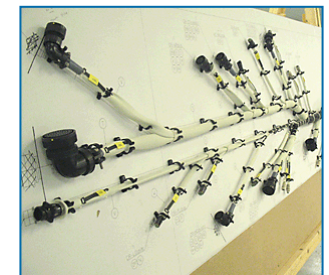
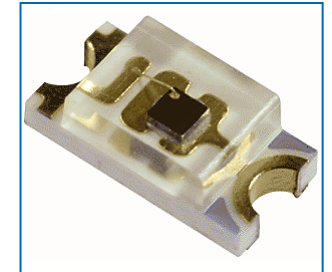
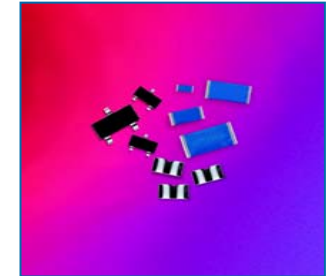
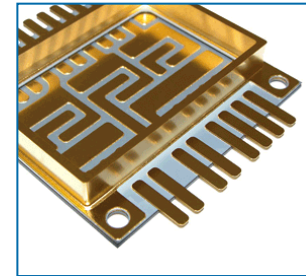
***Wide Ranging Redefinition of Group Strategy***

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## Portfolio overview

- Products are niche highly-engineered bespoke solutions
- Broad global customer base
- Strong market positions in:
  - Fixed and Variable Resistors - growth from design wins, new products and customer service
  - Military connectors and harnesses – strong UK and North America presence
- Emerging positions in higher growth segments of Visible Opto, Power Semi and RF Semi (together currently less than 10% of division)
- Targeting higher growth medical, military and mass transit sectors
- Capable of achieving double digit operating margin over medium term



***Opportunity to Invest in Growth Segments***

## Key actions

### 2008

- 2 Senior appointments - Head of European Component Sales and Head of US Components
- Acquisition of Semelab and New Chapel – defence and aerospace focused
- Transfer of 4 manufacturing lines offshore from UK
- Actions taken in 2008 have resulted in a headcount reduction of 369 at a cost of £1.6m with an annualised cost reduction of £5.4m

### 2009

- Reconfigure European components sales structure
- Drive customer service and ‘design wins’ focus across all businesses
- Launch US 38999 Milspec connector range
- Further headcount reduction in 2009 of 80-100 at a cost of £0.6m with an annualised cost reduction of £1.3m

## Portfolio overview

- Highly engineered sensors for specific auto and industrial applications
- Strong customer relationships with major German automotive OEMs
- Strong market positions in chassis and transmission sensors with potential opportunities in high temperature and low pressure sensors
- Opportunity to further develop non automotive position
- Some poor segments with pedals commoditising
- High German cost base - although some low cost manufacturing in Eastern Europe and Asia
- Major restructuring underway to target double digit margins in longer term



***Painful Transition Required***

## Key actions

### 2008

- Announced closure of AB Electronic Romford site and associated restructuring at an exceptional cost of £1.2m with a payback of 12 months
- Transfer of 7 production lines offshore completed in 2008 and a further 13 lines planned for 2009

### 2009

- Align cost base – complete fundamental realignment of European cost base, with an additional reduction in headcount of over 200 at an exceptional cost of £7.5m with an annualised cost reduction of £8.2m
- Focus on core sensor expertise
- Pursue non-automotive sensor opportunities
- Recruit new Divisional Director

## Portfolio overview

- Ottomotores
  - Manufacturer and distributor of generator sets and distributor of uninterruptible power supplies
  - GenSet market leader in Mexico with growing export business in the Middle East and Latin America
- Dale Power Solutions
  - UK provider of bespoke secure power solutions with some export overseas
  - Provide GenSet and uninterruptible power supply products and services to market sectors with a critical need for secure power
- Opportunity to expand geographically, exploit service opportunities and provide a one stop “secure power” solution
- Targeting sustainable double digit operating profit margins



***High Quality Business With Positive Growth Prospects***

## Key actions

### 2008

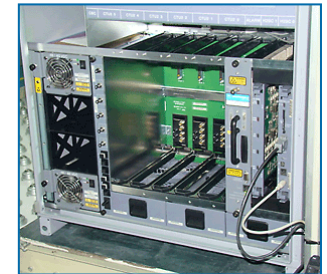
- New factory opened to enhance production capabilities and satisfy the increased demand for acoustic canopies and enclosures
- Ottomotores export business has grown by 22% in 2008
- A 31% increase in the 2008 order book for Secure Power products and services at Dale

### 2009

- Secure Power Division created with dedicated Divisional Chief Executive
- Continue to grow service business in UK and Mexico – open 3 service centres in Mexico
- Continue the development of an enhanced range of GenSets, acoustic enclosures and containers to meet the latest European CE specification
- Consolidate our position in international markets through a more active distributor programme

## Portfolio overview

- Integrated Manufacturing Services Division established
  - Offering broad capabilities from board assembly to full systems integration
  - With a global footprint and high service level
- Target markets: medical, industrial, aerospace and defence
- Focused on higher mix/lower volume business with a co-ordinated strategy across the division to move towards more specialised integrated assembly
- Substantial design engineering team and International Purchasing Office based in China
- Targeting mid to higher single digit operating profit margins



*Leveraging Capability Already in Place*

## Key actions

### 2008

- New Divisional Director appointed (internal promotion)
- US, China, UK and Malaysian sites brought under common control
- 91 heads eliminated at a cost of £0.3m with an annualised cost reduction of £1.9m

### 2009

- Create global brand
- Create global sales structure – sales director being recruited
- Eliminate a further 51 heads with an annualised cost reduction of £1.1m

### **AB Automotive**

- Decision announced to close Cardiff site in July 2008
  - Manufacturing being moved to China and IMS Rogerstone
- Decision taken to withdraw from business as quickly as possible to limit ongoing losses

### **Other General Industrial**

- Businesses profitable
- Delivered £6.5m of free cash flow in 2007
- Recruitment of Divisional Director in progress
- Businesses to be run for value

- **Inter-divisional opportunities**
  - Key Account Management programme initiated
  - Develop “virtual market teams”
  - Share key customer leads
  - New product introduction process
- **Business support costs**
  - Increase purchasing synergies across the Group
  - Re-organise back office functions
  - Leverage IT spend across the Group
- **Incentive and bonus plans**
  - Align with new organisation structure
  - Introduction of strategic objectives
  - Focus on cash as well as profit

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- Overall restructuring results in headcount reduction of 1,295 (16% of the overall Group) at a total cost of £20.1m giving an annualised cost reduction of £24.5m from 2010
- Targeting taking £10 – 15m out of working capital in the next twelve months
- Dividend policy defined
- Agreement reached on pension scheme deficit to fix funding amounts
- Adequate debt facilities in place with a comfortable level of headroom on loan covenants

***Sound Financial Position***

## Operating costs

- Actions already implemented to reduce cost base, at a total operating cost of £2.1m
- Annualised cost reduction of £7.9m from this programme
- Headcount reductions in total of 483, notably across Components of 369 and IMS of 91

## Exceptional Items

- In 2008, an exceptional cost of £4.1m has been charged
- Closure of AB Electronic in Romford at a cost of £1.2m, with a headcount reduction of 122 and annualised cost reduction of £1.2m
- Closure of AB Automotive climate control facility at Forest Farm, Cardiff at a cost of £2.9m

## Exceptional Items

### **Climate control**

- Complete the exit from AB Automotive affecting operations in UK, USA, Brazil and China
- Total cost of programme £6.2m including the £2.9m charge taken in 2008
- Total headcount reduction of over 200, with an annualised cost reduction of £4.0m

### **European restructuring**

- Fundamental realignment of cost base in Sensors involving headcount reduction of over 200
- Exceptional charge of £7.5m in 2009, with an annualised cost reduction of £8.2m

### **Additional restructuring**

- Restructuring across other businesses at a cost of £2.0m
- Headcount reduction of over 100, with an annualised cost reduction of £1.0m

£m	Costs		Annualised Cost Reduction
	2008	2009	
AB Electronic – Romford Closure	1.2		1.2
AB Automotive – Climate control exit	2.9	3.3	4.0
European restructuring		7.5	8.2
Other restructuring		2.0	1.0
<b>Total Exceptional</b>	<b>4.1</b>	<b>12.8</b>	<b>14.4</b>
<b>Operating</b>	<b>2.1</b>	<b>1.1*</b>	<b>10.1</b>
<b>TOTAL</b>	<b>6.2</b>	<b>13.9*</b>	<b>24.5</b>

\* estimated

## Capex

- Approval process revised to introduce more rigorous benefit analysis and post expenditure reviews to be conducted
- Spend focused on highly attractive investment projects with quick payback (<2 years)
- 2009 capex budgeted to be significantly less than depreciation – business already well invested

## Working Capital

- Working capital totals over £100m
- Targeting to reduce this by £10 - 15m this year with further reductions to come over the next two years
- Tighter individual company targets set for stock turn, debtors days and creditors days

## Cashflow

- Targeting 100% conversion of operating profit into operating cashflow after capex

Dividend (pence per share)	2007A	2008F
<b>Interim</b>	<b>3.69</b>	<b>3.69</b>
<b>Final</b>	<b>6.36</b>	
<b>Total</b>	<b>10.05</b>	<b>3.69</b>
<b>Dividend cover</b>	<b>1.5</b>	

- Dividend policy defined to maintain cover of a minimum of 2x underlying EPS
- Policy of progressively increasing dividends whilst maintaining cover at this level
- No final dividend for 2008
- Interim dividend for 2009 to be paid in October 2009
- Policy going forward to pay approximately 1/3 as interim, 2/3 as final

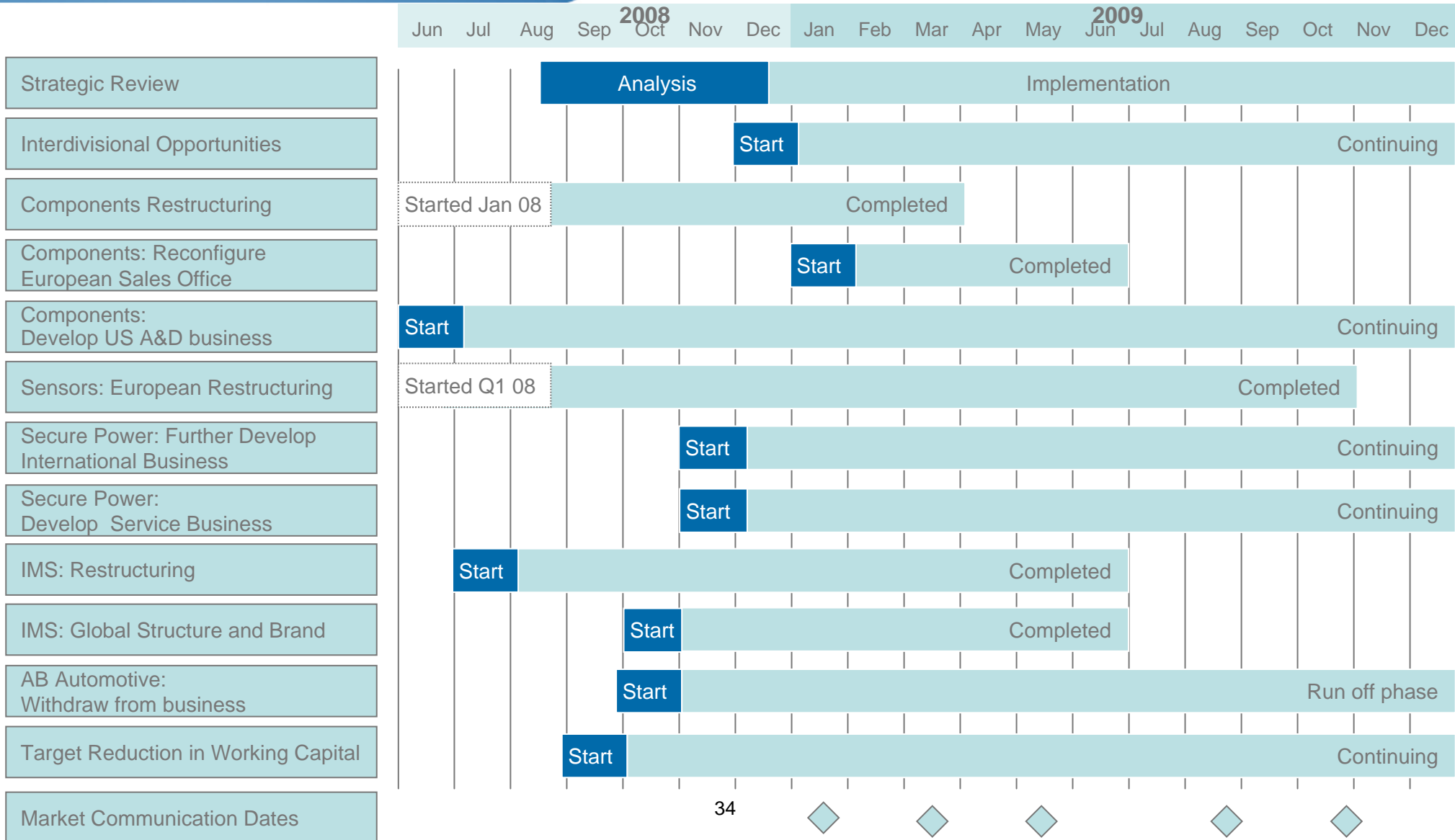
- Previous Funding Agreement based on contributions linked to the last IAS19 deficit with full repayment by 2014
  - Volatility of cash payments by the company
  - Inability to plan cash flows
  - Could have led to a substantial increase in payments as 2014 approached
- Revised agreement now reached with Trustee for fixed contributions extending out to 2016 based on the actuarial deficit at April 2007
  - Contributions already paid: 2007 £8.7m, 2008 £2.2m
  - Planned contributions: 2009 £2.2m, 2010 £3.2m, 2011 £3.5m, then increasing by £0.2m each year to £4.5m in 2016

- Capital employed of c£320m at 31 December 2008 (Dec 07: £257m)
- Net debt of c£114m at 31 December 2008 (Dec 07: £75m); increase in net debt during 2008 reflects exchange movement (£23m) and acquisitions (£14m)
- Facilities:
  - Total facilities available of £166m, of which £60m is working capital
  - Main term loan of £70m is with HSBC and extends to 2011
- Loan covenants with HSBC:
  - Gross debt / EBITDA (before exceptionals) < 3x
  - EBITDA (before exceptionals) / Gross interest > 6x
- Comfortable level of headroom on covenants at December 2008 and going forward, based on Strategic Review forecasts with suitable sensitivity analysis

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- Completed strategic review – new focus communicated throughout the business
- New organisational structure in place Q1 2009
- New incentive plan being introduced
- Senior management changes made
  - 2 new hires in Components Division
  - Leaders appointed for IMS and Secure Power Divisions
  - New leaders to be appointed for General Industrial and Sensor Divisions
- Significant restructuring across the Group completed or underway - 595 positions eliminated in total in 2008, with a further 700 positions to be eliminated in 2009
- Annualised cost reduction of over £9m from restructuring already undertaken in 2008
- Further actions underway to address automotive market contraction
- Dividend policy announced and increased attention on working capital

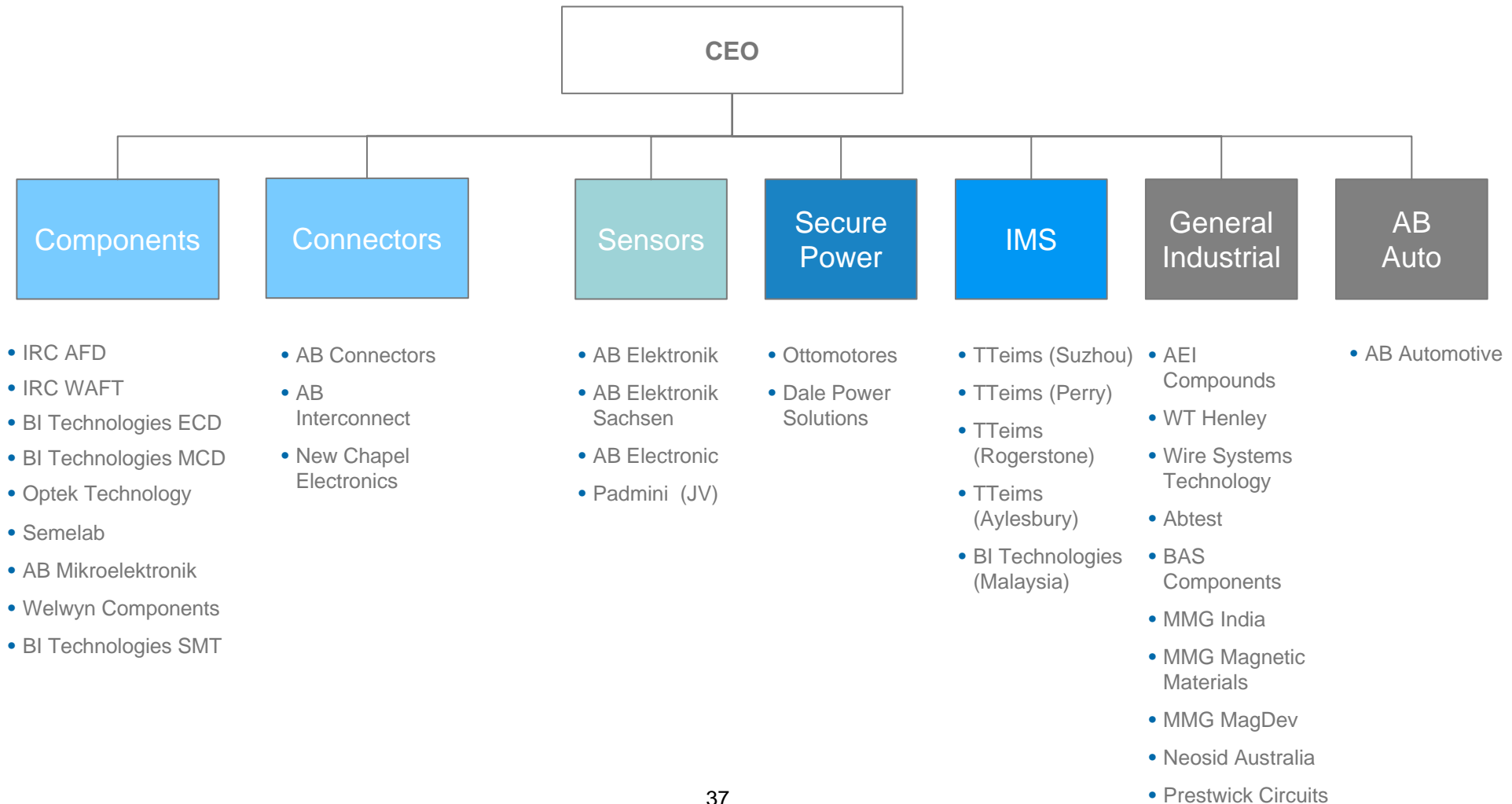


- Core business to focus on design of highly engineered, application specific, electronic components for higher margin growth markets
- Reduce Automotive exposure from c40% to 25 – 30% of Group sales
- Invest in Secure Power and IMS businesses to realise growth and profitability potential
- General Industrial businesses to be run separately and managed for value
- Actions implemented in 2008 to reduce cost base, further restructuring underway
- Maintenance of tight financial controls and targeting margin improvement

***Deliver Shareholder Value***

# Appendix

## Management structure as of 1 January 2009



£m	Revenue	Operating Profit
Components	176.3	13.7
Sensors	116.1	9.9
Secure Power	59.9	6.0
IMS	92.2	4.1
General Industrial	100.4	4.0
<b>TOTAL</b>	<b>544.9</b>	<b>37.7</b>

## Segment overview

Segment	Description	Defence & Aero	Telecoms	Industrial	Medical	Office Equipment	Automotive	Traction
Fixed and Variable Resistors	Fixed resistors used in most electronic circuits to regulate current flow or vary it for device control or measurement	X	X	X	X		X	X
Microcircuits	Complete electronic circuits for functions including motor control, power management, and switching applications	X	X	X	X		X	X
Infra Red (IR) and Visible Opto	Optical switching, sensing and measurement and motor control, solid state lighting for speciality indicators, back lighting and illumination	X		X	X	X	X	
Power Semi	Used for power switching, amplification and/or signal control in mostly analogue circuits	X		X				
Radio Frequency Semi	Used to amplify, choke or transform radio frequency signals	X		X	X			
Magnetics	Control current, produce pulses and/or filter current flowing through circuits		X	X	X	X	X	
Connectors	Used to form a joint for the transfer of power and/or data signals	X						X
Harnesses	An assembly consisting of multiple cables and connectors for the distribution of power and/or data	X						X

## Segment overview

Segment	Description	Passcar	Truck	Non Automotive
Speed	Sensors used to monitor speed and position of rotating shafts (crankshafts, camshafts, gear position, wheel speed etc)	X	X	X
Chassis	Sensors used to monitor chassis height, angle and position	X	X	
Transmission	Sensors for use in the transmission for gear position detection	X	X	
Pedal	Accelerator pedals	X	X	
Potentiometers	Sensors used in motor management, fuel level sensing and other industrial applications	X	X	X
Low Temperature	Sensors to measure temperatures up to 350 degrees centigrade for oil, water and gas	X	X	X
High Temperature	Sensors to measure temperatures between 350 and 950 degrees centigrade (primarily exhaust gas)	X	X	X
Low Pressure	Used to measure oil, water, air and exhaust gas pressure of up to 40 bar	X	X	X

## Segment overview

Segment	Description	Construction	Government	Financial Sector	Retail	Industrial	Hospitals	Communications
GenSets Mexico	Generator sets in the range 15kW to 2000kW	x	x	x	x	x		x
GenSets International	Export of Gensets outside of Mexico to Latin America, Middle East, Africa and Far East	x	x	x	x	x	x	
GenSet Projects	Bespoke power solutions as part of system upgrade / refurbishment		x	x	x	x	x	x
Service and other	Service and maintenance of GenSet, batteries and UPS equipment, AC UPS and DC Charger sales	x	x	x	x	x	x	x

## Segment overview

Segment	Description	Aylesbury	Rogerstone	Perry	Suzhou	Malaysia
<u>HIGH MIX/LOW VOLUME</u>						
Medical	Medical business assembling radiology products, medical imaging products etc	x		x	x	
Telecoms	Assembly business for telecommunications, trading and entertainment systems	x	x	x		
Industrial	Assembly business for precision instruments, weigh scales, power analysers, laser measurement	x	x	x	x	
Defence & Aerospace	Assembly business for aerospace and defence assemblies		x	x		
<u>LOW MIX/HIGH VOLUME</u>						
Telecoms	Assembly business for telecoms		x		x	x
Defence & Aerospace	Assembly for aerospace and defence including communications equipment			x		
Industrial	Assembly for industrial products		x	x		
Automotive	Assembly for Sensor Division		x			