



Equity Valuation of Rolls Royce Holdings PLC

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Abstract

Valuing a multi-segment conglomerate amid a fundamental operational turnaround requires a framework that captures the distinct risk, growth, and margin characteristics of each business unit. This paper applies a sum-of-the-parts discounted cash flow methodology to Rolls-Royce Holdings PLC, valuing the firm's four operating segments, Civil Aerospace, Defence, Power Systems, and New Markets, independently over a ten-year explicit forecast period (FY2026E–FY2035E). Segment-specific weighted average costs of capital are derived from bottom-up unlevered betas computed via the Hamada equation across a peer group of 16 publicly traded aerospace, defence, and industrial firms. Revenue growth and EBIT margin assumptions follow a recency-weighted initialization that fades linearly toward terminal-year targets anchored in management guidance, peer benchmarks, and long-run industry growth. A consolidated company-wide DCF and a relative valuation based on trading multiples serve as cross-checks. The SOTP model produces an implied equity value of £9.57 per share, a 16.8% discount to the market price of £11.50 as at December 31, 2025. The consolidated DCF is corroborated at £8.84, while a segment-level comparable company analysis yields a range of £8.53 to £ 9.60. Sensitivity analysis identifies the discount rate and the perpetuity growth assumption as the principal sources of valuation uncertainty. The findings suggest that the prevailing market price capitalizes a degree of forward earnings growth that the company's reported financials do not yet substantiate.

Key Words: *Equity Valuation, Sum-of-the-Parts, Discounted Cash Flow, Relative Valuation, Aerospace & Defence, Conglomerate Discount, Rolls-Royce Holdings PLC*

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Abstract in Portuguese

Avaliar um conglomerado multi-segmentado em transformação operacional fundamental requer um modelo que capture as características distintas de risco, crescimento e margem de cada unidade de negócio. Este trabalho aplica uma metodologia de fluxos de caixa descontados por soma das partes à Rolls-Royce Holdings PLC, avaliando independentemente os quatro segmentos operacionais, Civil Aerospace, Defence, Power Systems e New Markets, ao longo de um período de previsão explícita de dez anos (FY2026E–FY2035E). Os custos médios ponderados do capital por segmento são derivados de betas desalavancados calculados bottom-up pela equação de Hamada numa amostra de 16 empresas cotadas dos sectores aeroespacial, defesa e industrial. Os pressupostos de crescimento de receitas e margens EBIT seguem uma inicialização ponderada pela recência, diminuindo linearmente em direcção aos valores-alvo terminais, ancorados nas orientações da administração, referenciais de pares e crescimento industrial de longo prazo. Um DCF consolidado e uma avaliação relativa por múltiplos de mercado servem como verificações cruzadas. O modelo SOTP produz um valor implícito de £9,57 por acção, um desconto de 16,8% face ao preço de mercado de £11,50 em 31 de Dezembro de 2025. O DCF consolidado é corroborado em £8,84, e uma análise de comparáveis por segmento produz um intervalo de £8,53 a £9,60. A análise de sensibilidade identifica a taxa de desconto e o pressuposto de crescimento de perpetuidade como as principais fontes de incerteza. Os resultados sugerem que o preço de mercado prevalecente capitaliza um crescimento de resultados futuro que os valores financeiros reportados ainda não fundamentam.

Palavras-chave: *Avaliação de Capital Próprio, Soma das Partes, Fluxos de Caixa Descontados, Avaliação Relativa, Aeroespacial & Defesa, Desconto de Conglomerado, Rolls-Royce Holdings PLC*

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List of Abbreviations

Abbreviation	Definition
APV	Adjusted Present Value
Bn.	Bn.
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
Capex	Capital Expenditure
D&A	Depreciation & Amortisation
D/E	Debt to Equity
DCF	Discounted Cash Flow
DDM	Dividend Discount Model
EBIT	Earnings before Interest & Taxes
EBITDA	Earnings before Interest, Taxes, Depreciation & Amortisation
ERP	Equity Risk Premium
EV	Enterprise Value
FCF	Free Cash Flow
FCFF	Free Cash Flow to the Firm
FY	Fiscal Year
GBP	British Pound Sterling
GBX	British Pence Sterling
GDP	Gross Domestic Product

Abbreviation	Definition
IATA	International Air Transport Association
IFRS	International Financial Reporting Standards
Ke	Cost of Equity
Kd	Cost of Debt
LSE	London Stock Exchange
Mio.	Mio.
MRO	Maintenance, Repair & Overhaul
NTM	Next Twelve Months
NWC	Net Working Capital
OEM	Original Equipment Manufacturer
P/E	Price to Earnings
PV	Present Value
Rf	Risk-Free Rate
ROCE	Return on Capital Employed
ROIC	Return on Invested Capital
RR	Rolls-Royce Holdings PLC
RPK	Revenue Passenger Kilometer
R&D	Research and Development
SMR	Small Modular Reactor
SOTP	Sum-of-the-Parts
Tr.	Trillion
TV	Terminal Value
UFCF	Unlevered Free Cash Flow
WACC	Weighted Average Cost of Capital
β_L	Levered Beta

Abbreviation	Definition
β_U	Unlevered Beta

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Declaration of Authorship

I hereby declare that I have written this thesis independently, using only the resources and literature cited, and that the thesis has not been used to obtain any other academic title. During the preparation of this thesis, I used the artificial intelligence program ChatGPT and Claude to correct code and formulas in Excel, convert tables and plots to LATEX-format and check grammar. After using this tool/service, I reviewed and edited the content as necessary and take full responsibility for the content of this thesis.

1 Introduction

“The primary role of the capital market is allocation of ownership of the economy’s capital stock. In general terms, the ideal is a market in which prices provide accurate signals for resource allocation.”

— Eugene F. Fama (1970)

Equity valuation occupies a central position in financial literature, reflecting its pivotal role in corporate finance, mergers and acquisitions, and portfolio management (Damodaran (2012)). At its core, it is the process of estimating the intrinsic value of a company’s shares by analyzing fundamentals, growth prospects, and operational risks. For a complex conglomerate such as Rolls-Royce Holdings PLC (RR), this opens multiple methodological paths, from discounted cash flow models to relative valuation techniques. Determining the intrinsic value of a listed company requires converting expectations about future cash flows and risks into a single price through a process whose output is only as reliable as the assumptions that drive it (Koller et al. (2020)).

Even well-constructed valuation frameworks are vulnerable to disruption by unforeseen events, as demonstrated by the COVID-19 pandemic. The aerospace and defence industry was among the hardest hit, with global air travel declining by over 60% in 2020, severely impacting manufacturers reliant on aftermarket engine servicing revenues (International Air Transport Association (2025)). RR, one of the world’s leading manufacturers of aero-engines and power systems, bore the full force of the disruption. The company recorded a pre-tax loss of £3.2 Bn. in 2020, undertook a £2 Bn. rights issue, and saw its share price fall below £1 per share. The scale of the crisis raised fundamental questions about the firm’s long-term viability and the applicability of traditional valuation methods to a business undergoing existential uncertainty.

The subsequent turnaround under CEO Tufan Erginbilgiç, appointed in January 2023, has been equally significant. Through a comprehensive restructuring programme focused on operational efficiency and margin improvement, RR returned to profitability, restored its investment-grade

credit rating, and launched a share buyback programme. By December 31st, 2025, the share price had recovered to approximately £11.50, making it one of the best-performing stocks on the FTSE 100. This rapid transformation, from near-insolvency to market outperformance, presents a structurally complex valuation problem: four segments with fundamentally different risk profiles, growth rates, and competitive dynamics that a single-entity approach cannot adequately price. A single-entity valuation risks obscuring these differences, making RR an ideal candidate for a sum-of-the-parts (SOTP) approach that captures the value contribution of each segment individually.

This thesis seeks to determine the intrinsic equity value per share of Rolls-Royce Holdings PLC as of December 31, 2025, through a triangulated valuation framework comprising a segment-level SOTP DCF as the primary method, a consolidated DCF cross-check, and a relative valuation using peer-group trading multiples. Each method is built upon a 10-year explicit forecast horizon, with assumptions grounded in a thorough analysis of the company's financials, segment dynamics, and the broader industry environment. The resulting valuations are compared with the prevailing market price as of December 31st, 2025, and of March 1st, 2026, and contrasted against published equity research to assess whether the current share price adequately reflects the firm's fundamentals.

2 Literature Review and Valuation Framework

This chapter reviews the academic foundations underpinning the equity valuation of RR. The discussion is organized around three principal valuation approaches: intrinsic valuation through discounted cash flow models, relative valuation through market multiples, and sum-of-the-parts analysis for diversified firms. Each section synthesizes seminal and contemporary literature, identifies the theoretical assumptions and practical limitations of each method, and explains the rationale for the methodological choices adopted in this thesis.

2.1 Intrinsic Valuation Methods

Intrinsic valuation rests on the premise that the value of any financial asset equals the present value of its expected future cash flows, discounted at a rate reflecting their riskiness. Williams (1938) first formalized this intuition mathematically, Miller and Modigliani (1961) later showed that in a frictionless market, the choice of discount rate, equity, debt, or blended cash flows does not affect the answer, only the computational path. Within this paradigm, three principal models have emerged in both academic literature and professional practice: the free cash flow to the firm model discounted at the weighted average cost of capital, the adjusted present value model, and the dividend discount model. Each of them is based on explicit assumptions and their relative suitability depends on the characteristics of the firm being valued.

2.1.1 Discounted Cash Flow: Free Cash Flow to the Firm

The DCF model based on free cash flow to the firm (FCFF) is widely regarded as the most theoretically sound and practically versatile approach to equity valuation. Koller et al. (2020) describe FCFF as the after-tax operating cash flow available to all providers of capital, defined as

earnings before interest and taxes (EBIT) multiplied by one minus the tax rate, plus depreciation and amortization (D&A), minus capital expenditure (Capex), minus changes in net working capital (NWC). By discounting these cash flows at the weighted average cost of capital (WACC), the model yields the enterprise value of the firm (EV), from which net financial debt and other non-equity claims are subtracted to arrive at equity value.

$$\text{Firm Value} = \sum_{t=1}^n \frac{FCF_t}{(1 + k_c)^t} + \frac{\text{Terminal Value}_n}{(1 + k_c)^n} \quad (2.1)$$

where FCF_t = Free Cash Flow in period t , and k_c = Cost of Capital.

$$FCFF = EBIT(1 - t) + \text{Depreciation} - \text{CapEx} - \Delta NWC \quad (2.2)$$

FCFF-based DCF has one decisive practical advantage: by discounting cash flows before interest payments, it separates the investment from the financing decision, making the model invariant to capital structure (Damodaran (2012)). Surveys consistently confirm that the WACC-based DCF is the dominant valuation method among practitioners, used by over 85% of respondents (Bruner et al. (1998); Bancel and Mittoo (2014)).

The practical application of the FCFF model requires careful estimation of each component. Knudsen et al. (2017) examined how leading practitioners apply DCF in mergers and acquisitions and identified significant dispersion in the treatment of terminal value (TV), the cost of capital, and the length of the explicit forecast period. Their findings underscore the importance of transparency and sensitivity analysis, as small variations in key assumptions can produce materially different valuations.

Cost of Equity: The Capital Asset Pricing Model

The estimation of the cost of equity is central to any DCF valuation. The Capital Asset Pricing Model (CAPM), introduced by Sharpe (1964) and Lintner (1965), remains the most widely used framework. Under CAPM, the expected return on equity (K_e) equals the risk-free rate (R_f) plus the product of the equity risk premium (ERP) and the firm's systematic risk, measured by beta

$$E(R_i) = R_f + \beta_i [E(R_m) - R_f] \quad (2.3)$$

where R_f = Risk-free rate, β_i = Systematic risk of asset i , and $E(R_m)$ = Expected market return.

Despite sustained empirical criticism, notably the size and value factors of Fama and French (1993) and the five-factor extension of Fama and French (2015), CAPM remains the standard in professional valuation practice. While multi-factor models might better capture the risk reduction from RR's transformation, CAPM is retained for comparability with practitioner benchmarks.

Koller et al. (2020) and Damodaran (2012) recommend the 10-year government bond yield matching the cash flow currency as R_f , and a geometric-mean historical ERP (Dimson et al. (2003)) or an implied forward-looking estimate.

Beta estimation introduces further judgement. Blume (1975) showed that estimated betas regress toward the mean over time, motivating the use of adjusted betas. For diversified firms like RR, Hamada (1972) demonstrated that observed equity betas reflect both operating risk and financial leverage and must be unlevered before comparison with peers. The standard practice is to unlever the betas of comparable firms, compute a peer-group median, and re-lever at the target capital structure of the subject company (Koller et al. (2020)).

Weighted Average Cost of Capital

The WACC aggregates the k_e and the after-tax k_d , weighted by their respective market values. Fernandez (2007) argues that the weights used should be based on market values, not book values, because book values often misrepresent the actual financial proportions. This is especially important for RR, whose market capitalization has grown significantly compared to its book equity since the post-COVID recovery.

$$WACC = \left(\frac{E}{V}\right) K_e + \left(\frac{D}{V}\right) K_d(1 - t) \quad (2.4)$$

where E = Market value of equity, D = Market value of debt, and $V = E + D$.

A well-known technical complication arises from circularity: the WACC depends on the market value of equity, which is itself the output of the DCF model. Koller et al. (2020) recommend assuming a target capital structure based on the firm's stated policy and peer-group benchmarks. This approach avoids circularity and is adopted in this thesis, consistent with RR's publicly communicated leverage targets.

Terminal Value

TV typically accounts for a large proportion of total EV, often exceeding 60% in practice (Koller et al. (2020)). Two approaches dominate: the Gordon Growth perpetuity model and the exit multiple method. Under the Gordon Growth Model, TV equals the normalized FCF beyond the explicit forecast period divided by the difference between WACC and the perpetual growth rate (Gordon (1959)). The critical assumption is that the perpetual growth rate must not exceed long-run nominal GDP growth (Damodaran (2012)).

$$\text{Terminal Value} = \frac{FCFF_{n+1}}{WACC - g} \quad (2.5)$$

where g = Perpetual growth rate.

The exit multiple approach applies a market multiple (typically EV/EBITDA) to the terminal-year metric, avoiding an explicit growth assumption but reintroducing market pricing assumptions (Koller et al. (2020)).

For RR, the explicit forecast period must be sufficiently long to capture the full maturation of the LTSA engine aftermarket cycle, which spans 20 to 30 years from engine delivery. This thesis adopts a 10-year explicit forecast, allowing the wide-body fleet recovery to approach a normalized state before applying the Gordon Growth perpetuity.

2.1.2 Adjusted Present Value

The adjusted present value (APV) model, first proposed by Myers (1974), separates the valuation into two components: the value of the firm as if entirely equity-financed, and the present value of financing side effects, principally the interest tax shield. By discounting unlevered free cash flows at the unlevered cost of equity and valuing tax shields separately, APV avoids embedding capital structure assumptions into a single discount rate, making it theoretically preferable when leverage changes materially over time.

$$V_L = V_U + PV(\text{Interest Tax Shield}) - PV(\text{Financial Distress Cost}) \quad (2.6)$$

where V_U = Value of the unlevered firm and V_L = Value of the levered firm.

Ruback (2002) extended this framework through the capital cash flow (CCF) method and demonstrated analytical equivalence between CCF, APV, and WACC under specific conditions. Arzac and Glosten (2005) formalized the conditions under which APV and WACC yield

identical results, showing that equivalence requires a constant market-value leverage ratio. RR's capital structure has undergone significant changes since 2020, when the firm raised £5 Bn in emergency financing. The subsequent deleveraging to approximately £2 Bn of net debt by 2024 means the leverage ratio has been far from constant. In principle, APV would provide a more accurate treatment, however, the firm's convergence toward a stable target leverage and the practical complexity of estimating the discount rate for tax shields favor the WACC-based DCF adopted in this thesis.

2.1.3 Dividend Discount Model

The dividend discount model (DDM) values equity directly as the present value of expected future dividends, discounted at the cost of equity. The foundational contribution of Gordon (1959) established the constant-growth variant. Fama and French (2001) documented a secular decline in the proportion of firms paying dividends, driven by a shift toward share repurchases. RR suspended its dividend in 2020 and has only recently reinstated dividends once again since FY2024 additional to commencing a share buyback programme in 2024. In the absence of an long lasting track record and enduring dividend policy, the DDM is not a suitable primary valuation method for this analysis, though it is acknowledged as a theoretically valid approach for mature, continuously dividend-paying firms. Similarly, the residual income model (Ohlson (1995)) could in principle serve as an alternative equity-value cross-check by capitalizing earnings in excess of the required return on book equity. However, RR's book equity was negative from FY2020 through FY2024 as a consequence of accumulated losses during the pandemic period, rendering the base value in the residual income framework unstable and economically uninformative over the relevant historical window.

$$\text{Value per Share} = \sum_{t=1}^n \frac{E(DPS_t)}{(1 + k_e)^t} \quad (2.7)$$

where DPS_t = Expected dividend per share in period t , and k_e = Cost of equity.

2.2 Relative Valuation

Relative valuation estimates a firm's value by comparing its pricing metrics to those of comparable companies or transactions. Damodaran (2012) notes that while the theoretical underpinnings are

less formal than those of DCF, multiples-based approaches remain the most commonly used tool among equity analysts and investment bankers. However, the apparent simplicity is deceptive: the selection of comparable firms, the choice of multiple, and the adjustment for differences in growth, risk, and profitability all require careful judgement.

2.2.1 Multiples-Based Valuation

Liu et al. (2002) found that forward earnings multiples outperform trailing multiples, book value multiples, and cash flow multiples in terms of valuation accuracy. At the enterprise level, EV/EBITDA has emerged as the preferred multiple for comparing firms with different leverage and depreciation policies (Koller et al. (2020)). Lie and Lie (2002) examined which multiples produce the most precise valuations across different industries and found that for capital-intensive industries such as aerospace, enterprise value multiples based on EBITDA or EBIT tend to outperform equity multiples. This thesis employs EV/EBITDA as the primary relative valuation multiple, supplemented by P/E as a secondary cross-check.

2.2.2 Peer Group Selection

The validity of any multiples-based valuation depends critically on the quality of the peer group. Bhojraj and Lee (2002) proposed a valuation-based approach to peer selection, using warranted multiples derived from fundamental characteristics rather than relying solely on industry classification. Hoberg and Phillips (2010) extended this by developing a text-based approach using product descriptions from annual reports. For RR, which operates across civil aerospace, defence, and power systems, peer selection is inherently challenging: no single comparator replicates its exact business mix. This thesis constructs a peer group of firms with the closest operational and financial characteristics and discusses the limitations imposed by imperfect comparability.

2.3 Other Valuation Approaches

2.3.1 Balance Sheet-Based Approaches

Asset-based valuation methods, including book value, liquidation value, and replacement cost approaches, derive a firm's value from its balance sheet. These methods are most appropriate for

asset-heavy firms, holding companies, or distressed entities approaching liquidation (Damodaran (2012)). For going-concern valuations of firms like RR, where the majority of value derives from future operating cash flows, balance sheet approaches significantly understate intrinsic value. The firm's most valuable asset, its installed base of over 4,600 wide-body engines generating decades of aftermarket revenue, is largely absent from the balance sheet. Accordingly, asset-based methods are excluded from this analysis.

2.3.2 Real Options

Real options theory, drawing on the contingent claims framework of Black and Black and Scholes (1973) and extended to corporate investment by Dixit and Dixit and Pindyck (1994), recognizes that managerial flexibility has economic value that traditional DCF may fail to capture. For RR, the New Markets segment, and in particular the small modular reactor (SMR) programme, exhibits characteristics amenable to real options analysis: large upfront investment, significant technological and regulatory uncertainty, and a highly asymmetric payoff profile.

While a full real options valuation of the SMR programme is beyond the scope of this thesis, the SOTP framework accommodates this optionality by modelling New Markets with an exit multiple approach that captures the asymmetric risk profile. A formal Black-Scholes application is precluded by fundamental assumption violations: the absence of a traded underlying asset, the inability to estimate variance from market data given no comparable listed SMR developers, and the multi-stage sequential investment structure that violates the single-exercise assumption. It is for these reasons that this analysis adopts an exit multiple approach for New Markets, consistent with Damodaran (2012) recommendation to use scenario analysis as a practical alternative to formal option pricing models when the underlying assumptions of Black-Scholes are not satisfied.

2.4 Sum-of-the-Parts Valuation

The SOTP approach values a diversified company by estimating the standalone value of each business segment and aggregating the results. The method is rooted in the broader academic debate on the value consequences of corporate diversification and is directly relevant to RR, which operates four distinct segments with markedly different growth profiles, margin structures, and risk characteristics.

2.4.1 The Conglomerate Discount

Berger and Ofek (1995) documented that diversified firms trade at an average discount of 13-15% relative to the aggregate value of their individual segments. They attributed this to cross-subsidization of underperforming divisions, managerial inefficiency, and informational opacity. Lang and Stulz (1994) reached similar conclusions, finding that Tobin's Q declines with diversification.

Villalonga (2004) demonstrated that the measured discount is sensitive to segment-level data, disappearing when Census data replaces Compustat segment reports, while Custódio (2014) showed that acquisition accounting methods can mechanically create a measured discount.

For RR, the conglomerate debate is directly applicable due to the varying business segment operations and industry specific financial performance impacts. A SOTP approach explicitly captures these segment-level differences, while a single-entity DCF risks blending fundamentally distinct cash flow profiles into a single discount rate.

2.4.2 SOTP as a Valuation Framework

Damodaran (2012) argues that SOTP is the appropriate framework whenever segments face materially different risks, growth rates, or capital requirements. Koller et al. (2020) recommend using segment-level DCFs with segment-specific WACCs derived from pure-play comparable betas, aggregated to yield total EV. This thesis adopts a three-pronged approach: a SOTP valuation with distinct assumptions and discount rates for each segment, a consolidated FCFF-based DCF and a relative valuation using peer-group multiples. The triangulation of these methods provides a robustness check against model-specific biases, consistent with Fernandez (2007).

2.5 Choice of Valuation Methods

The selection of valuation methods for this thesis reflects the intersection of theoretical suitability and the specific characteristics of RR. Three considerations guide the choice. First, the firm is a going concern generating positive and growing free cash flows, which favors DCF-based intrinsic valuation over asset-based or liquidation approaches. Second, the multi-segment structure, with segments facing different risks and growth profiles, necessitates a SOTP analysis alongside the consolidated DCF to avoid cross-subsidization of discount rates. Third, the availability of

publicly traded peers in the aerospace and defence sector enables a meaningful relative valuation as a market-based cross-check.

The FCFF-based DCF discounted at the WACC is adopted as the primary method, consistent with its dominance in both academic literature and practitioner surveys (Bruner et al. (1998), Bancel and Mittoo (2014), Knudsen et al. (2017)). The WACC approach is preferred over APV despite the firm's recent capital structure changes, because RR has converged toward a stable target leverage and the added complexity of APV does not yield proportionate gains in accuracy (Arzac and Glosten (2005)). The DDM is excluded due to the absence of a consistent and long running dividend policy track record.

The SOTP valuation applies segment-level DCFs using segment-specific assumptions for revenue growth, margins, capital expenditure, and working capital, with discount rates derived from pure-play comparable betas. This approach follows the framework of Koller et al. (2020) and addresses the conglomerate discount literature by making transparent the value contribution of each business unit. Relative valuation complements the intrinsic approaches by benchmarking the implied valuation against observable market pricing, with EV/EBITDA as the primary multiple given its robustness to differences in leverage and depreciation policy (Lie and Lie (2002), Liu et al. (2002)). Together, the three methods provide a triangulated valuation range that is more robust than any single estimate.

3 Company Overview and Segment Structure

3.1 Overview

RR is a British multinational engineering company headquartered in London, listed on the London Stock Exchange under the ticker RR.L and a constituent of the FTSE 100 Index. As of December 31st, 2025, the company had a market capitalization of approximately £90 Bn. RR operates in 48 countries, employs approximately 42,400 people, and supports over 160 customers globally (Rolls-Royce Holdings plc (2026b)).

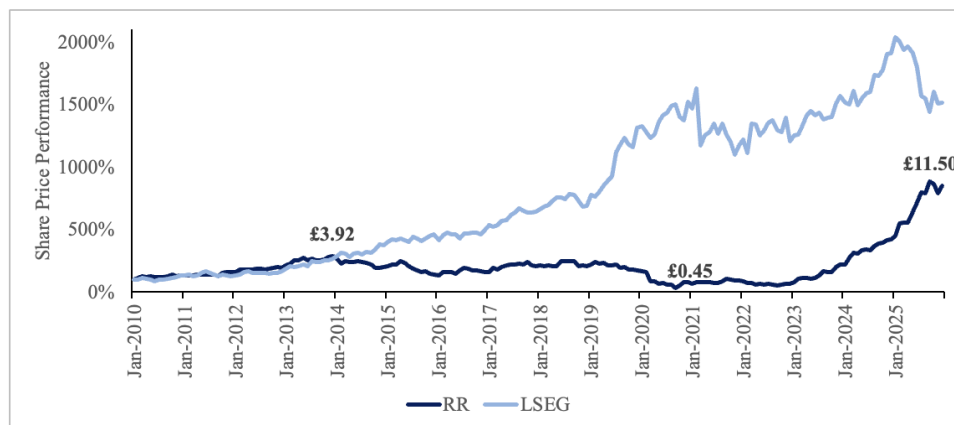


Figure 3.1: Share Price Performance of Rolls-Royce and LSEG, indexed as of Jan 31, 2010

The company traces its origins to 1904 and was incorporated as Rolls-Royce Limited in 1906. Following nationalization in 1971 due to financial difficulties related to the RB211 engine programme and subsequent re-privatization in 1987, the current listed entity, Rolls-Royce Holdings PLC, was created on 23 May 2011 (Pugh (2001), Hayward (1989)). Today, RR is a global leader in mission-critical power systems, designing, manufacturing, and servicing gas turbines for wide-body aircraft, military aero engines, submarine nuclear propulsion plants,

reciprocating engines for power generation and marine applications, and emerging technologies including small modular reactors (Rolls-Royce Holdings plc (2026b)).

3.2 Shareholding and Governance

RR has a widely dispersed public ownership structure dominated by institutional investors, operating on a one-share-one-vote principle with no dual-class share structures. As of early 2025, the principal shareholders included Capital Group Companies with approximately 5.07%, BlackRock Inc. with approximately 5.01%, and The Vanguard Group with approximately 2.89% (Bloomberg (2025)). In total, 368 institutional investors held approximately 1.7 Bn shares (Fintel (2025)).

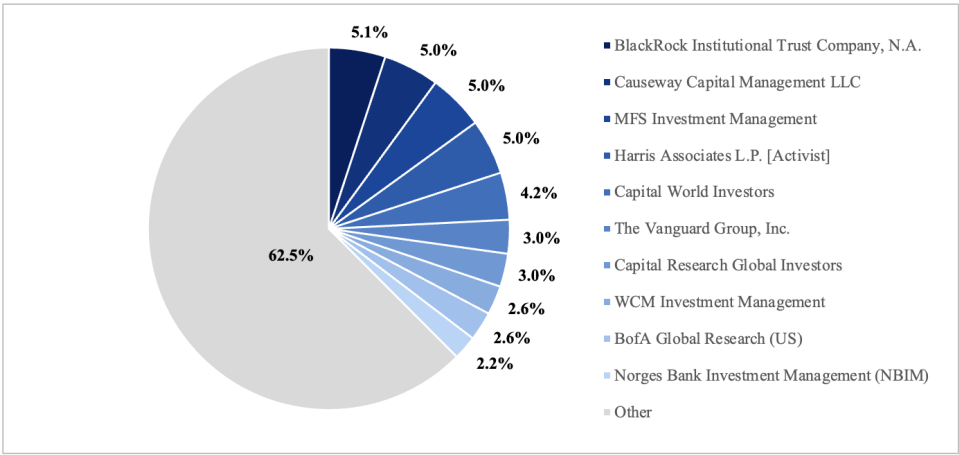


Figure 3.2: Ownership Structure RR - Top Institutional Shareholders (FY2025)

A valuation-relevant feature is the UK Government’s retention of a Special Share (Golden Share), which restricts the acquisition of material interests without government consent. This reflects the strategic importance of RR to UK defence and national infrastructure and effectively precludes hostile takeovers, a factor that may limit the applicability of a control premium in the valuation (Rolls-Royce Holdings plc (2025)).

CEO Tufan Erginbilgiç, appointed on January 1st, 2023, has led the company’s transformation programme. His prior career included over twenty years at BP, where he served as CEO of the downstream business (2014-2020), and a partnership at Global Infrastructure Partners (Rolls-Royce Holdings plc (2025)). Dame Anita Frew serves as Chair of the Board and Helen McCabe as CFO.

3.3 Business Model

A distinctive feature of the RR business model, particularly in Civil Aerospace, is the long-term service agreement (LTSA) framework. Rather than generating the majority of its profit from original equipment (OE) sales, which are often sold at low or negative margins, the company earns significant aftermarket revenue through LTSAs. Under these agreements, airlines pay for engine maintenance on a 'power-by-the-hour' basis, with revenue tied to engine flying hours (EFH). As of 2024, approximately three out of five customers were on long-term service agreements (Rolls-Royce Holdings plc (2025)).

This revenue model has direct implications for the DCF valuation. The LTSA structure generates highly recurring, long-duration cash flows with strong visibility, characteristics that support the use of a multi-year explicit forecast period and reduce forecast uncertainty relative to companies with more transactional revenue models. The installed base of engines creates a stream of quasi-annuity income that grows with the utilization of the installed fleet.

In Defence, the model centers on customer-funded development and long-term government contracts, with RR as sole supplier of nuclear propulsion plants for the Royal Navy's submarine fleet (Rolls-Royce Holdings plc (2025), Hartley (2011)). In Power Systems, operating under the MTU brand, the model focuses on differentiated, high-performance reciprocating engines for mission-critical applications, holding over 30% market share in governmental backup power and approximately 20% in data center backup power (Rolls-Royce Holdings plc (2026b)).

3.4 Business Segment Overview

RR reports across four operating segments: Civil Aerospace, Defence, Power Systems, and New Markets. The company announced an organizational restructuring effective from 2026, but for this valuation as of December 31st, 2025, the four-segment structure remains the relevant reporting framework (Rolls-Royce Holdings plc (2026a)).

3.4.1 Civil Aerospace

Civil Aerospace is the largest segment, accounting for approximately 52% of underlying group revenue in FY2025 (Rolls-Royce Holdings plc (2026a)). The division designs, manufactures, and services aero engines for wide-body commercial aircraft, regional jets, and business aviation.

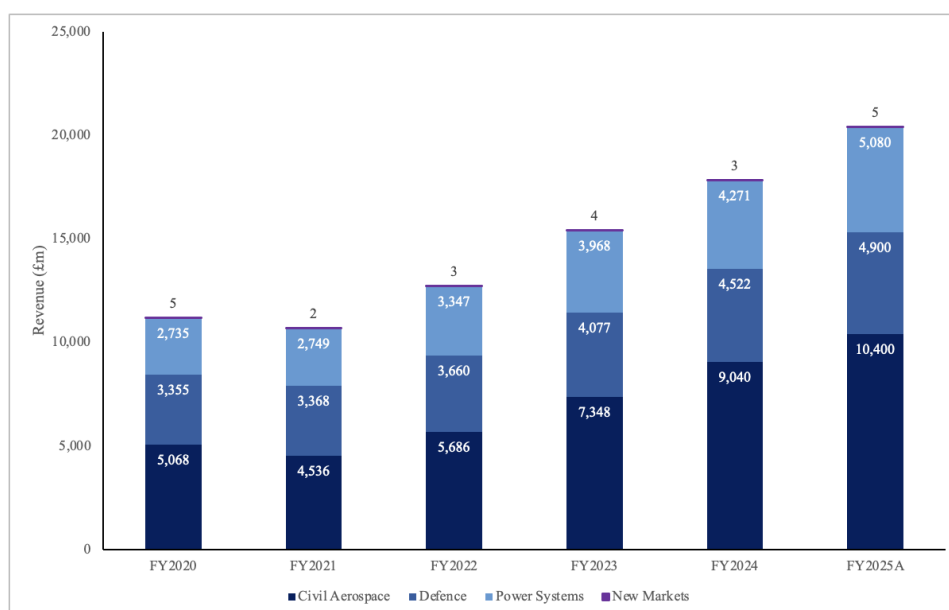


Figure 3.3: Group Revenue by Segment (FY2020–2025)

Key engine programmes include the Trent family (Trent 700, 900, 1000, 7000, XWB) for Airbus and Boeing wide-body platforms, and the Pearl family for Gulfstream and Dassault business jets. Revenue is dominated by large engines (approximately 76% of segment revenue), followed by business aviation (19%) (Rolls-Royce Holdings plc (2026b)).

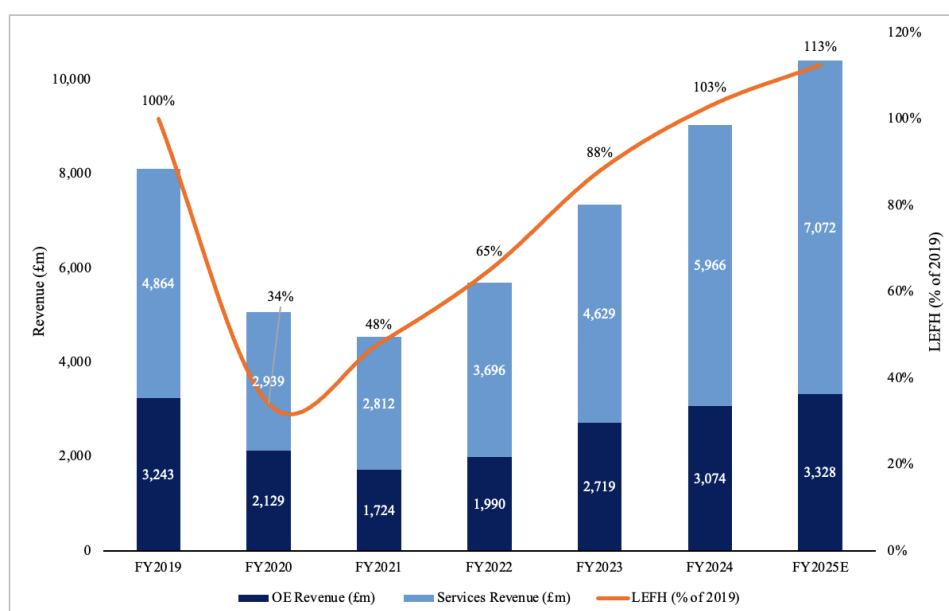


Figure 3.4: Civil Aerospace Revenue Split - OE vs. Services and Large Engine Flying Hours Recovery (2019–2025)

In FY2025, the segment delivered revenue of £10,382 Mio. (+15% organically), operating profit of £2,130 Mio. (+41%), and an operating margin of 20.5% (Rolls-Royce Holdings plc

(2026b), pp. 7–8). The 41% profit growth, significantly outpacing revenue, demonstrates the operating leverage inherent in the LTSA model as flying hours recover. LTSA engine flying hours reached 20.0 Mio. (up 6%) and total shop visits rose to 1,440 (up 10%). Management guides 2026 large engine EFH at 115-120% of 2019 levels, with mid-term operating margin targets of 21-23% (Rolls-Royce Holdings plc (2026b)).

3.4.2 Defence

The Defence division accounts for approximately 24% of underlying group revenue and is a market leader in military aero engines and naval nuclear propulsion (Rolls-Royce Holdings plc (2026b), p. 9). Revenue is split across transport (31%), combat (28%), submarines (30%), naval (7%), and helicopters (4%). Key programmes include engines for the Eurofighter Typhoon (EJ200), C-130 Hercules (AE 2100), and the B-52 Stratofortress re-engining (F130). Government contracts provide predictable revenue streams with long cycles spanning decades (Hartley (2011)).

In FY2025, Defence delivered revenue of £4,772 Mio. (+8 % organically), operating profit of £689 Mio. (+9%), and an operating margin of 14.4%. The order backlog stood at £17.4 Bn., with a book-to-bill ratio of 1.1x Rolls-Royce Holdings plc (2026a). Mid-term margin targets are 14-16%. Growth beyond the mid-term will be driven by the B-52 re-engining (~600 engines), GCAP, MQ-25 Stingray, and expanded AUKUS-related submarine revenues ramping by approximately 50% from the late 2020s (Rolls-Royce Holdings plc (2026b)).

3.4.3 Power Systems

Power Systems, operating under the MTU brand, accounts for approximately 24% of underlying group revenue and provides integrated power solutions across diverse end markets: power generation (54%), governmental (25%), marine (10%), industrial (9%), and BESS (2%) Rolls-Royce Holdings plc (2026b). Unlike Civil Aerospace, Power Systems has a higher OE share (approximately 70% OE, 30% services), implying greater cyclicalities.

In FY2025, the division delivered revenue of £4,892 Mio. (+19% organically), operating profit of £852 Mio. (+60%), and an operating margin of 17.4%, the strongest organic growth of any segment. Growth was driven primarily by surging data centre backup power demand (power generation revenue up 30%). The order backlog rose 25% to £6.1 Bn., with a book-to-bill of 1.2x (Rolls-Royce Holdings plc (2026a)). Mid-term margin targets are 18-20%, with guided

power generation revenue growth of 15-17% per year, significantly above the approximately 10% market growth rate (Rolls-Royce Holdings plc (2026b)).

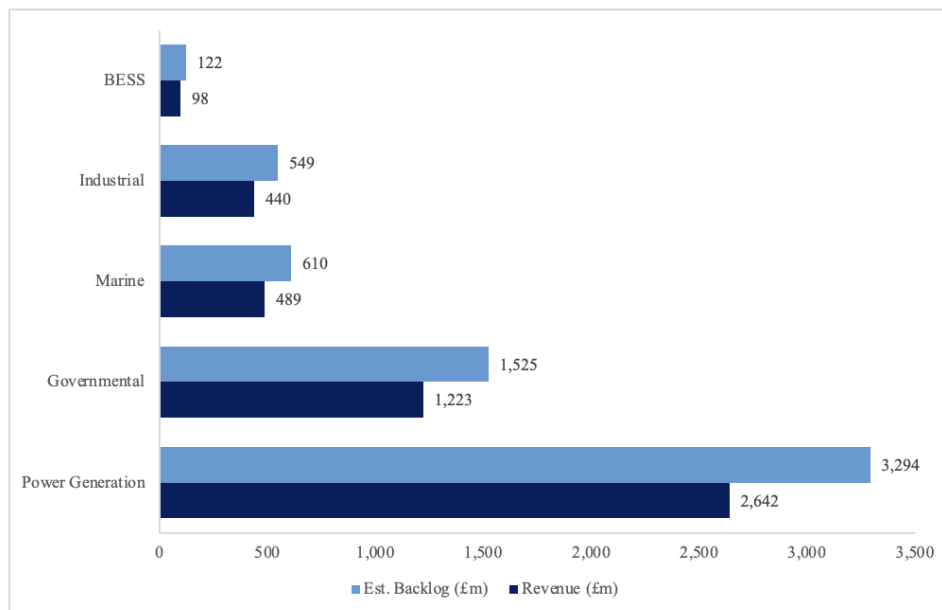


Figure 3.5: Power Systems - Revenue vs. Estimated Backlog by End Market (FY2025)

3.4.4 New Markets

New Markets encompasses early-stage businesses leveraging existing engineering expertise. The primary component is RR SMR (Small Modular Reactors), a 470 MWe reactor for commercial power generation that draws on decades of submarine nuclear propulsion experience. Key milestones include completion of Step 2 of the UK’s Generic Design Assessment, selection by CEZ Group for deployment in the Czech Republic, and selection by Great British Nuclear for the UK’s SMR competition (Rolls-Royce Holdings plc (2025)). In FY2024, the segment generated revenue of £3 Mio. with an operating loss of £177 Mio. (Rolls-Royce Holdings plc (2025)). Given its pre-revenue, investment-heavy nature, New Markets requires a fundamentally different valuation approach, as discussed later in Chapter 6.

3.5 Historical Financial and Operational Performance

RR’s financial trajectory over FY2020-2025 represents a notable corporate turnaround in recent FTSE 100 history. Group underlying revenue recovered from approximately £11.4 Bn. in 2020 to £20.1 Bn. in 2025, a compound annual growth rate of approximately 12%. Underlying operating profit evolved from a loss of £2,008 Mio. in 2020 to a profit of £3,462 Mio. in 2025, with the operating margin expanding from negative territory to 17.3% (Rolls-Royce Holdings plc (2026b)).

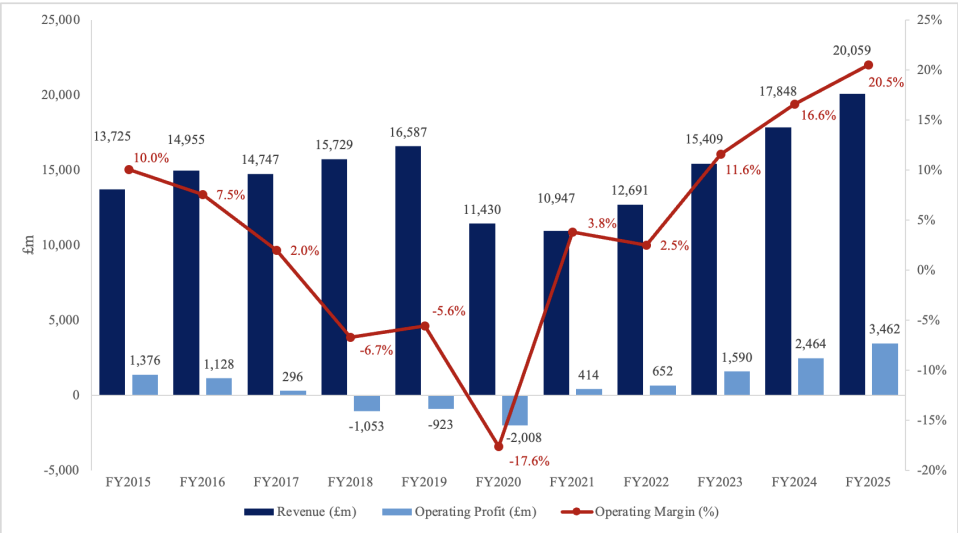


Figure 3.6: Group Revenue, Operating Profit, and Margin Development (2020–2025)

This margin expansion reflects a fundamental restructuring of the business. Key drivers include commercial renegotiation of legacy LTSA contracts, improved time on wing reducing

shop visit frequency and cost, over £1.2 Bn. in cumulative procurement savings, and over £0.6 Bn. in organizational simplification benefits by end of 2025. The TCC/GM ratio, total cash costs as a proportion of underlying gross margin, fell from 2.84 in 2020 to 0.36 in 2025, demonstrating the scale of the efficiency transformation (Rolls-Royce Holdings plc (2026b)).

Free cash flow mirrored the profitability recovery, from negative £4.3 Bn. in 2020 to positive £3.3 Bn. in 2025. The balance sheet was transformed from approximately £5.2 Bn. of net debt at the pandemic peak to a net cash position of £1,895 Mio. at end of 2025, with all three major credit rating agencies upgrading RR to investment grade in 2024 (Rolls-Royce Holdings plc (2025), Rolls-Royce Holdings plc (2026b)). Return on capital improved from negative 16.5% in 2020 to 18.9% in 2025, with a mid-term target of 23-26% (Rolls-Royce Holdings plc (2026b)). Full historical income statements (Appendix 1), balance sheets (Appendix 2), and cash flow statements (Appendix 3) are provided.

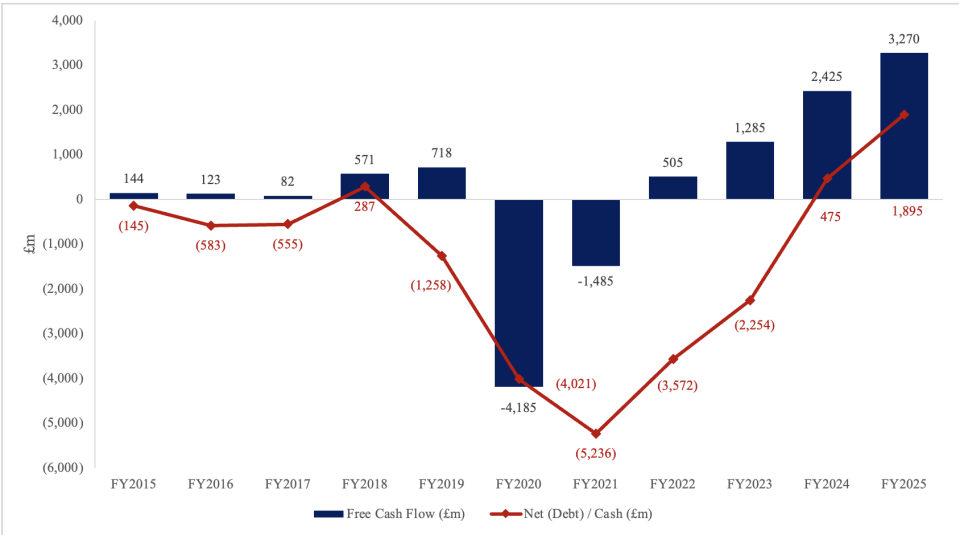


Figure 3.7: FCF and Net Debt / Net Cash Position (FY2015–2025)

3.6 Key Strategic Developments

Several recent developments are material to the valuation as of 31 December 2025. In February 2026, RR upgraded its mid-term targets to a 2028 timeframe, projecting operating profit of £4.9-5.2 Bn., operating margin of 18-20%, free cash flow of £5.0-5.3 Bn., and return on capital of 23-26%, the previous targets having been achieved approximately two years ahead of schedule (Rolls-Royce Holdings plc (2026b)). For FY2026, the company guides operating profit of

£4.0-4.2 Bn. and free cash flow of £3.6-3.8 Bn..

The company announced a £7-9 Bn. share buyback programme for 2026-2028, with £2.5 Bn. planned for 2026, and has indicated that in excess of 75% of cumulative free cash flow will be returned to shareholders through the mid-term (Rolls-Royce Holdings plc (2026b)). Dividends were reinstated at 6.0p per share for FY2024 and increased to 9.5p for FY2025, targeting a 30-40% payout ratio. Additional catalysts include the AUKUS-driven expansion of submarine capacity, major defence programme wins (B-52 re-engineing, GCAP, MQ-25), surging data centre demand in Power Systems, continued SMR regulatory progress, and the UltraFan next-generation engine programme that positions RR for both wide-body and potentially narrowbody platforms (Rolls-Royce Holdings plc (2025), Rolls-Royce Holdings plc (2026b)).

Looking beyond the company's profile, segment structure, and financial trajectory, the following analysis examines the market environment in which RR operates, providing the external context necessary for the rigorous valuation of the conglomerate.

4 Industry and Market Analysis

4.1 Market Description

RR operates at the intersection of several large and structurally growing end markets, spanning civil aerospace, defence, and industrial power. Each of these markets is shaped by distinct demand drivers and competitive dynamics. This section examines the key markets in which RR competes, with particular emphasis on civil aerospace, which accounts for more than 50% of group revenue and represents the primary source of long-term earnings growth.

4.1.1 Civil Aerospace Market

The global civil aerospace market encompasses the design, manufacturing and aftermarket servicing of commercial aircraft and their propulsion systems. RR participates primarily in the wide-body segment, where it supplies engines for aircraft such as the Airbus A350 (Trent XWB), Boeing 787 (Trent 1000), and Airbus A330neo (Trent 7000). The wide-body engine market is a duopoly shared between RR and General Electric, where RR holds approximately 40% of the in-service wide-body engine fleet by installed base and with Pratt & Whitney maintaining a minor presence through the GP7200 programme for the A380. This concentrated market structure creates significant barriers to entry and affords incumbents a degree of pricing power, particularly in the aftermarket.

The commercial aviation industry experienced an unprecedented disruption during the COVID-19 pandemic. Global revenue passenger kilometers (RPK) declined by approximately 66% in 2020, and wide-body flying hours, which directly determine RR's aftermarket revenue through power-by-the-hour contracts, fell by a comparable magnitude. Recovery has been uneven across segments as narrow-body traffic, driven by domestic and short-haul demand, surpassed 2019 levels by mid-2023, while wide-body traffic did not fully recover until late 2024. As of late 2024, IATA forecasts that global RPK will reach 9.7 Tr. in 2025, exceeding the 2019 baseline by

roughly 12%.

Both Airbus and Boeing project the global fleet will approximately double over the next twenty years, driven by rising demand in Asia-Pacific, fleet replacement, and fuel-efficient platforms. This growth directly benefits engine OEMs through initial equipment sales and, more importantly, multi-decade aftermarket agreements.

Demand for wide-body aircraft is supported by the structural expansion of long-haul international routes, although the wide-body share of total deliveries has declined as single-aisle aircraft increasingly serve medium-haul routes. This fleet growth directly benefits engine OEMs through both initial equipment sales and, more importantly, multi-decade aftermarket service agreements.

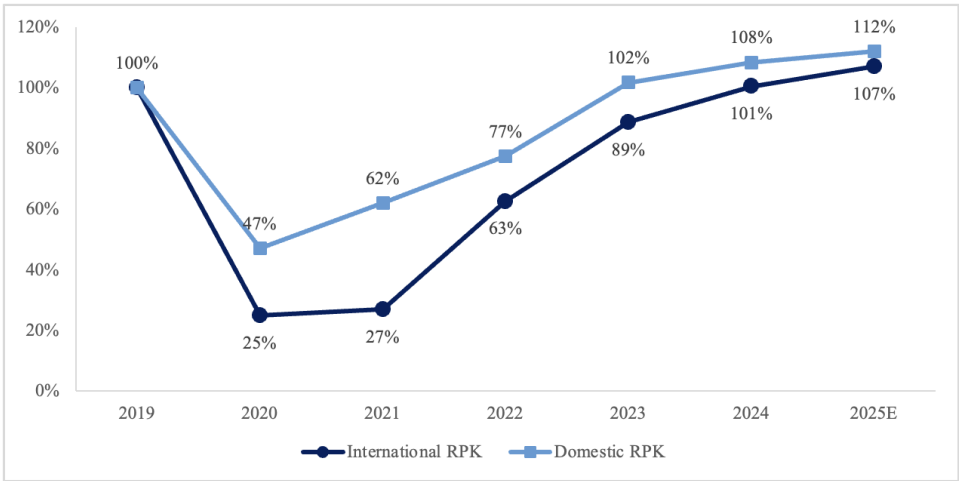


Figure 4.1: Global RPK Recovery - International vs. Domestic (2019-2025E)

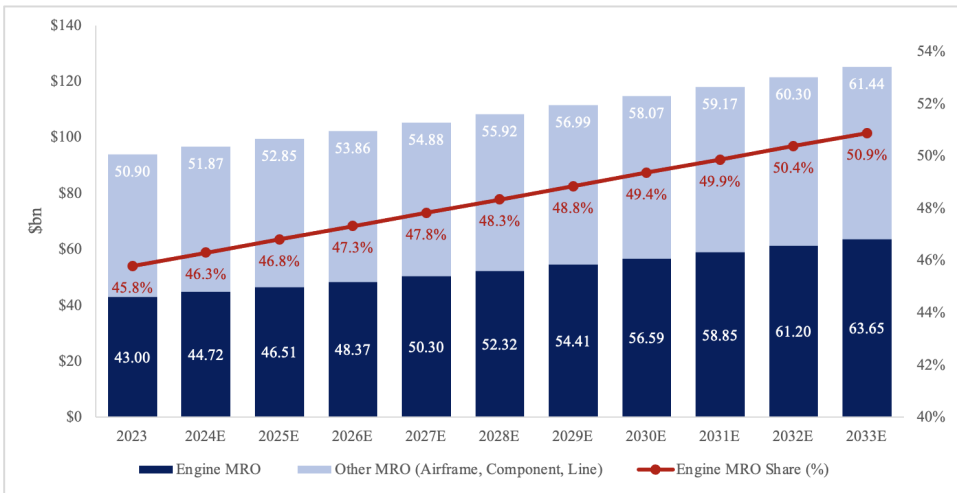


Figure 4.2: Global Commercial Engine MRO Market Size and Forecast, 2023–2033E

Engine manufacturers typically sell original equipment near cost, generating returns through

long-term service agreements spanning 25–30 years. RR’s TotalCare contracts provide predictable recurring revenue tied to flying hours. The global commercial engine MRO market, valued at approximately USD 43 Bn. in 2023, is projected to grow at 4.0% CAGR through 2033 (Oliver Wyman (2025)).

4.1.2 Defence Market

The global defence market provides a structurally stable demand environment, underpinned by sovereign spending commitments with multi-year budget visibility. Global defence expenditure reached approximately USD 2.2 Tr. in 2023, according to the Stockholm International Peace Research Institute, and is expected to continue growing as geopolitical tensions drive increased investment in military capabilities across NATO member states and the broader Indo-Pacific region. The European defence landscape has shifted materially since Russia’s invasion of Ukraine in February 2022, with multiple NATO allies accelerating their timelines to meet the 2 % of GDP defence spending target.

RR is a major supplier of propulsion systems for military platforms, including the Eurofighter Typhoon (EJ200 engine), various military transport aircraft, and naval vessels. The Defence segment contributed approximately £4.5 Bn. in revenue in FY2024, representing roughly 25 % of group sales. Unlike civil aerospace, where demand is cyclical and tied to airline profitability and passenger volumes, defence revenues are largely contractual and programme-based, providing a stabilizing element to the overall revenue mix. The segment’s order backlog stood at £17.4 Bn. at year-end 2024, offering multi-year forward visibility.

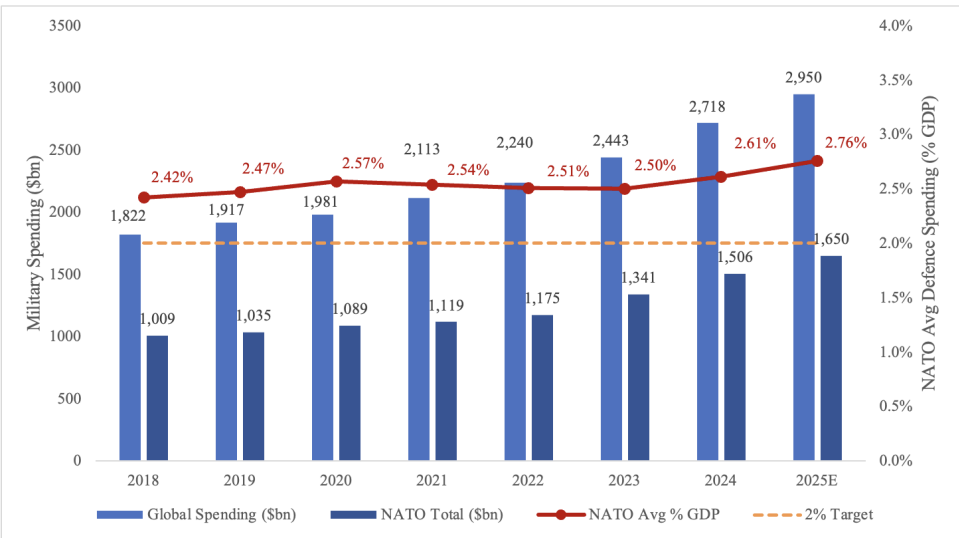


Figure 4.3: Global Defence Spending and NATO Budget Trajectories, 2018–2025E

A notable growth opportunity within the defence market is the development of next-generation combat aircraft programmes. RR is a core partner in the Global Combat Air Programme (GCAP), a trilateral initiative between the United Kingdom, Italy, and Japan to develop a sixth-generation fighter aircraft, with entry into service expected around 2035. The programme is anticipated to generate substantial engine development and production revenue over its multi-decade lifecycle. Additionally, rising demand for submarine nuclear propulsion systems, where RR holds a monopoly position in the UK through its Submarines division, provides a further source of long-term, government-backed revenue.

4.1.3 Power Systems Market

The Power Systems segment, operated through RR's subsidiary based in Friedrichshafen, Germany, manufactures high-speed reciprocating engines and complete propulsion systems under the MTU brand. These products serve a diverse range of applications, including marine propulsion, rail traction, power generation, and oil and gas extraction. The global market for distributed power generation and off-highway propulsion is large and fragmented, with RR competing against Caterpillar, Wärtsilä, MAN Energy Solutions, and Cummins, among others.

The segment generated approximately £4.2 Bn. in revenue in FY2024, accounting for roughly 24 % of group sales. Demand is driven by a combination of factors including global economic activity, energy infrastructure investment, and the ongoing need for reliable back-up and peak-load power generation. The energy transition is a net tailwind for Power Systems in the near term: the intermittency of renewable generation increases demand for gas-powered backup capacity, while MTU's hydrogen-compatibility roadmap reduces the risk of stranded assets beyond 2030. RR has been investing in sustainable fuel compatibility and hybrid-electric solutions to position the segment for the evolving energy landscape.

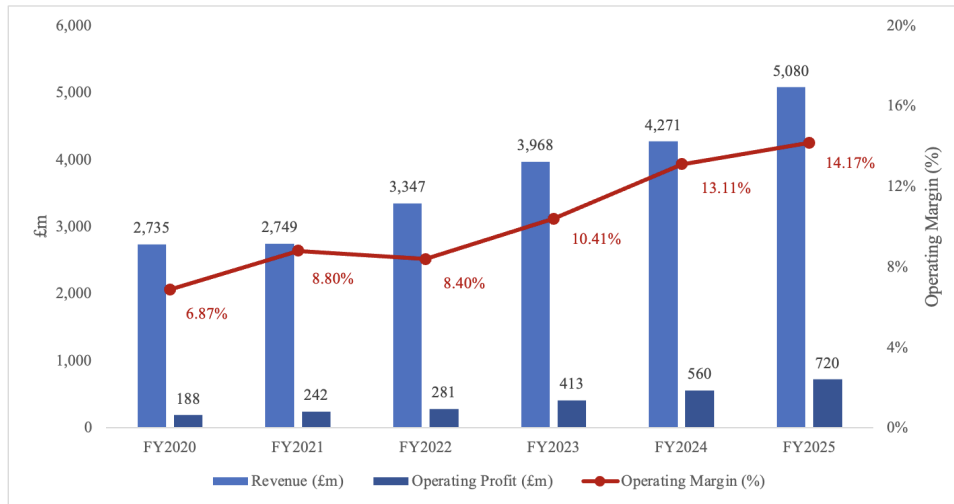


Figure 4.4: Power Systems Revenue Development, FY2020–FY2025

4.1.4 New Markets

The New Markets segment encompasses RR’s emerging business activities, notably the development of small modular nuclear reactors (SMRs) and electrical power solutions. RR SMR, in which the company holds a majority stake following a consortium restructuring in 2023, is developing a 470 MWe pressurized water reactor designed for serial factory manufacture, with a target commissioning of the first unit in the early 2030s. The UK government’s endorsement of nuclear power as a key component of its energy security strategy, including the designation of SMR technology as eligible for the regulated asset base funding model, provides a supportive policy framework.

While New Markets currently contributes only a modest share of group revenue, the strategic significance of the segment is considerable. The global SMR market is projected to reach substantial scale over the coming decades as countries seek low-carbon, baseload power alternatives to supplement renewable energy. The electrical division, which supplies generator systems for a range of civil and military applications, also stands to benefit from the broader electrification trend.

4.2 Competitive Position of Rolls-Royce

RR occupies a differentiated position across its core markets, characterized by deep technical expertise, long-duration customer relationships and significant installed-base economics. In civil aerospace, the company’s competitive strength derives from its position as one of only two

manufacturers of wide-body aircraft engines, alongside General Electric. The installed base of approximately 4,500 large engines under long-term Total Care service agreements represents a substantial and growing annuity stream. Each engine generates aftermarket revenue over its operational life of 25 to 30 years, and the transition of the fleet toward newer, higher-utilization Trent XWB engines is expected to drive improving unit economics.

In defence, RR benefits from its incumbency on multiple sovereign platforms and from the high switching costs inherent in military propulsion programmes. The company's position as the sole UK provider of nuclear submarine propulsion systems represents a quasi-monopolistic franchise with guaranteed long-term demand. Across Power Systems, the MTU brand commands strong market recognition in the high-speed engine segment, and the breadth of applications served provides diversification against cyclicalities in any single end market.

A key competitive dynamic relevant to the valuation is the ongoing transformation under CEO Tufan Erginbilgiç's leadership. The restructuring programme, initiated in 2023, has focused on operational efficiency, cost discipline, and margin improvement across all segments. The company's mid-term targets, including an operating margin of 18-20 % and free cash flow of £5.0-5.3 Bn. by 2027, represent a significant step change from historical performance and underpin the growth assumptions embedded in the equity valuation of RR.

4.3 Macroeconomic and Regulatory Environment

The global economy has navigated elevated inflation and monetary tightening since 2022. As of early 2025, Eurozone inflation has moderated to approximately 2.5% and the Bank of England base rate stands at 4.5%, suggesting the peak tightening cycle has passed. Lower rates would support air travel demand and airline fleet investment, both positive for RR's civil aerospace business.

Geopolitical developments continue to shape the demand environment across segments. The ongoing conflict in Ukraine has reinforced the structural uplift in European defence spending and has disrupted certain supply chain linkages, particularly for raw materials used in advanced manufacturing. Tensions in the Indo-Pacific region and the Middle East further support the case for sustained defence investment globally. For civil aviation, geopolitical instability can affect route availability and fuel costs.

Environmental regulation is a further structural consideration, with the EU ETS covering

intra-European flights and CORSIA mandating carbon offsets from 2027. RR has achieved compatibility of all Trent engines with 100% SAF. In Power Systems, the transition toward lower-carbon fuels requires continued R&D investment.

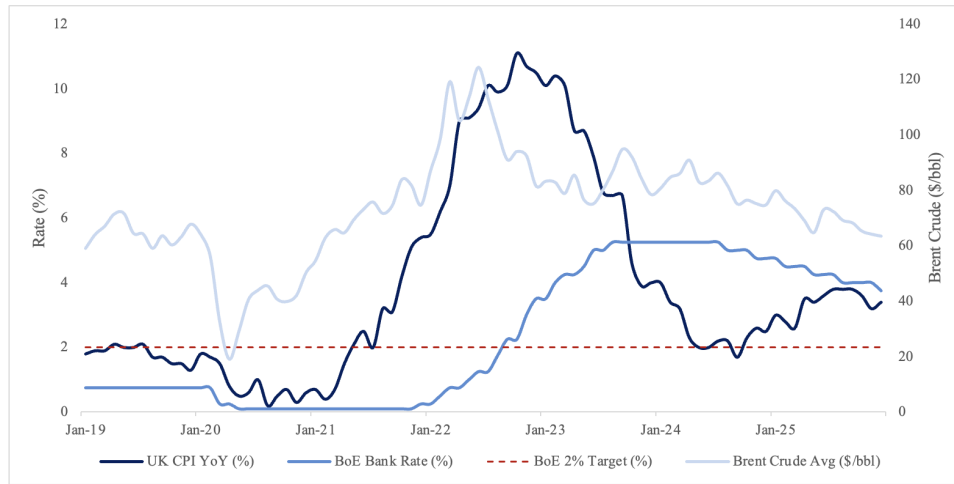


Figure 4.5: Macroeconomic Indicators: UK Inflation, Bank Interest Rates, and Oil Prices, 2019–2025

5 Financial Analysis and Forecast

This chapter analyses RR's historical performance (FY2015–FY2025) and presents the segment-level financial forecast (FY2026E–FY2035E). The analysis is conducted at the segment level, consistent with the SOTP valuation framework, and then consolidated at the group level. Full forecasted financial statements are in Appendix 4.

5.1 Historical Financial Analysis

5.1.1 Revenue

RR's group revenue has undergone a pronounced cycle over the past decade. Between FY2015 and FY2019, revenue remained broadly stable in the range of £13.7–£16.6 Bn., reflecting the mature installed base of the Trent engine programme and steady defence and power systems contributions. The onset of the COVID-19 pandemic in 2020 triggered a severe contraction, with revenue falling to £11.5 Bn. in FY2020 and remaining depressed at £11.2 Bn. in FY2021. The decline was concentrated in the Civil Aerospace segment, where wide-body engine flying hours, the primary driver of aftermarket revenue through Total Care contracts, collapsed by approximately 55 % relative to 2019 levels.

The recovery since FY2022 has been substantial: group revenue increased from £13.5 Bn. to £21.1 Bn. in FY2025, a compound annual growth rate of approximately 16%. Note that the segment-level table below reports underlying revenues, which differ from consolidated totals due to inter-segment eliminations. Civil Aerospace has been the principal driver, with segment revenue rising from £5.7 Bn. in FY2022 to £10.4 Bn. in FY2025 as wide-body flying hours normalized and new Trent XWB engines entered the aftermarket cycle. Defence revenue grew from £3.7 Bn. to £4.9 Bn. over the same period, benefiting from increased NATO spending, while Power Systems expanded from £3.3 Bn. to £5.1 Bn., supported by strong demand for distributed power generation. The detailed revenues per segment are shown in Appendix 20.

5.1.2 Profitability and Margins

Revenue grew at a 16% CAGR from FY2022 to FY2025, while EBIT grew from a £0.8 Bn. to £4.2 Bn, a demonstration that a substantial portion of group costs are fixed, causing margins to expand rapidly as volume returns. Group EBITDA declined from £2.2 Bn. in FY2015 to £0.3 Bn. in FY2019, as the combination of high fixed costs and depressed flying hours eroded margins. The turnaround has been pronounced: EBITDA recovered to £2.8 Bn. in FY2023 (18.1% margin), £3.3 Bn. in FY2024 (18.3%), and £5.1 Bn. in FY2025 (25.7%). Operating profit (EBIT) followed a similar pattern, rising from £1.8 Bn. in FY2023 (11.9% margin) to £2.4 Bn. in FY2024 (13.4%) and £4.2 Bn. in FY2025 (21.2%). The FY2025 operating result includes certain non-recurring items, on an underlying basis, the EBIT margin stood at approximately 18-20%, broadly consistent with the company's mid-term guidance.

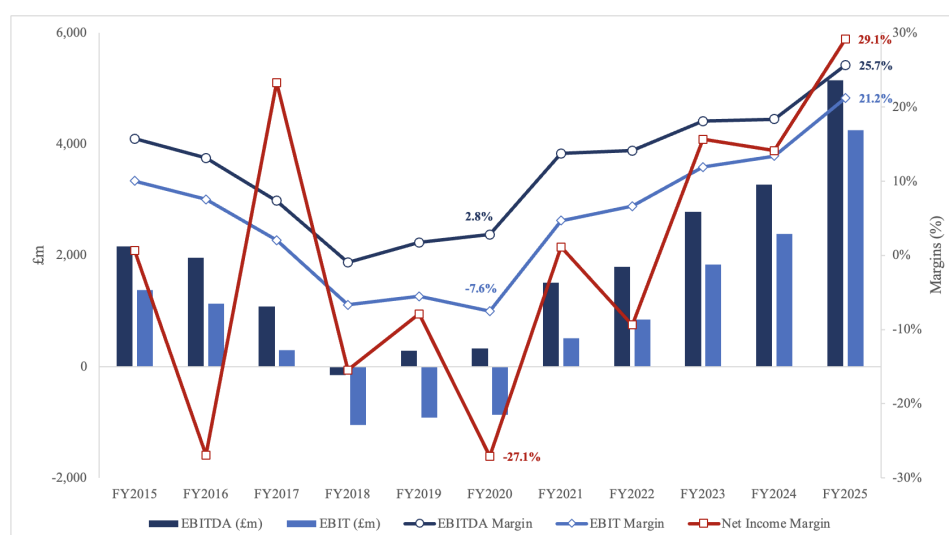


Figure 5.1: EBITDA, EBIT, and Net Income Margins, FY2015–FY2025

At the segment level, Civil Aerospace margins have improved most significantly, with EBIT margin rising from 1.9% in FY2023 to 21.2% in FY2025 as the aftermarket mix shift toward higher-margin Total Care shop visits accelerated. Defence has maintained stable margins in the range of 10-13% in recent years, reflecting its programme-based revenue structure. Power Systems has seen margin expansion from 7.1% in FY2023 to 14.2% in FY2025, driven by pricing discipline and operational efficiency gains under the restructuring programme.

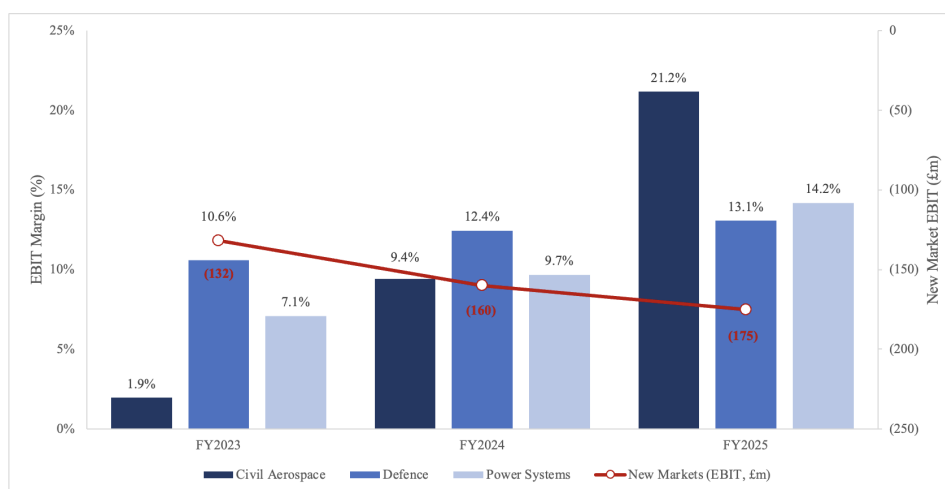


Figure 5.2: Segment EBIT Margins, FY2023–FY2025

5.1.3 Balance Sheet and Capital Structure

RR’s balance sheet has been transformed over five years: from £7.8 billion of gross debt, following the emergency financing measures undertaken in 2020, including a £2 Bn. rights issue and £5 Bn. in new debt facilities, and negative equity in FY2021 to £4.3 billion of debt, £2.3 billion of net cash, and positive equity of £2.7 billion, which had been negative since FY2020 due to accumulated losses and pension-related charges, by end of FY2025.

Capex has been managed conservatively during the recovery phase. Group capex amounted to £699 Mio. in FY2023, £876 Mio. in FY2024, and £978 Mio. in FY2025, representing approximately 4.3-4.6% of revenue. This level is below the pre-pandemic average of roughly 8.3%, reflecting the deliberate prioritization of cash generation over capacity expansion during the restructuring period. Free cash flow has improved correspondingly, from £1.5 Bn. in FY2023 to £2.6 Bn. in FY2024 and £3.3 Bn. in FY2025, comfortably above the company’s mid-term target trajectory.

The pension deficit, a historically significant liability for RR, stood at approximately £606 Mio. on a funded basis at year-end 2024. While this represents a material deduction in the equity bridge from enterprise value to equity value, the deficit has narrowed substantially from its peak, supported by rising discount rates and employer contributions. Net operating working capital is structurally negative, reflecting the advance payment terms embedded in Total Care contracts and defence programmes, and is modelled as a stable % of revenue in the forecast. Segment-level NWC ratios are derived from the FY2022–2024 three-year average, which showed minimal variance across the period (Civil Aerospace: -11% to -12%; Defence: -4% to -5%; Power

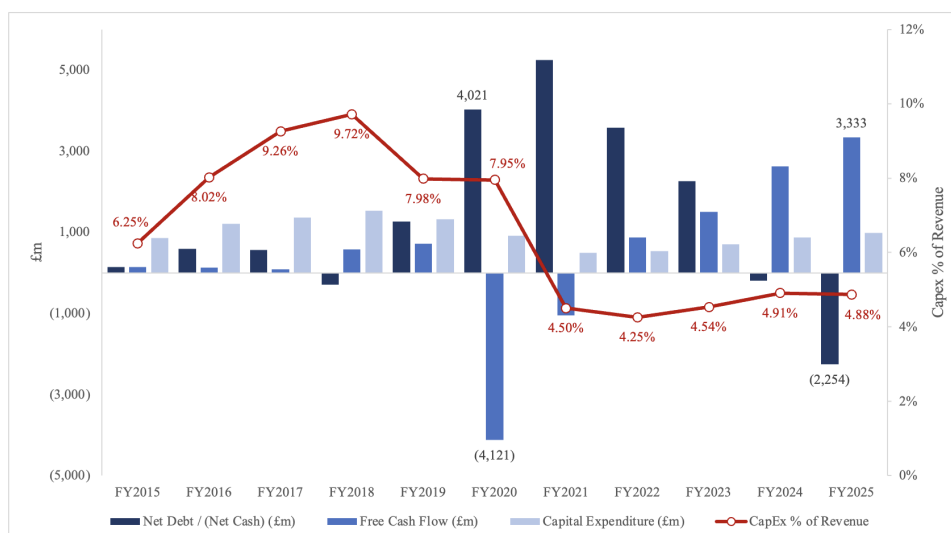


Figure 5.3: Net Debt, FCF, and Capex, FY2015–FY2025

Systems: +3% to +4%), confirming the structural stability of each segment’s cash conversion dynamics.

5.2 Forecast Methodology and Assumptions

The financial forecast is constructed at the segment level and then consolidated, consistent with the SOTP valuation framework. The explicit forecast period spans 10 years (FY2026E-FY2035E), with FY2025 as the base year. The 10-year horizon is chosen to capture the full maturation of the Trent engine aftermarket cycle and the gradual convergence of all segments toward steady-state growth. Revenue growth rates and EBIT margins for each segment are initialised using recency-weighted averages of historical data, with heavier weights assigned to the most recent fiscal years and lighter weights to pre-COVID reference periods that anchor long-run profitability. For Civil Aerospace and Power Systems, a dampening factor is applied to the weighted average growth rate to prevent the extrapolation of pandemic-recovery-era growth rates into the forecast. All key assumptions then fade linearly from their weighted starting values toward terminal-year targets informed by management guidance, peer benchmarks, and long-run industry growth rates.

The terminal growth rate is 2.5% for the three established segments, anchored conservatively below long-run nominal GDP growth for developed economies (approximately 3.5–4.5% per IMF and Bank of England projections, combining 2% real growth with 1.5–2.5% inflation) and supported by CPI-linked Total Care escalators that provide a contractual inflation floor on

aftermarket revenues. This rate also sits conservatively below the 4% long-term air traffic growth projected by Airbus and Boeing, reflecting the post-forecast steady-state deceleration consistent with Damodaran (2012) guidance that terminal growth should not exceed nominal GDP. New Markets follows a bespoke trajectory reflecting the pre-revenue nature of the SMR programme.

5.2.1 Civil Aerospace

Civil Aerospace revenue is projected to grow from £10.4 Bn. in FY2025 to approximately £23.0 Bn. by FY2035E, driven by the continued normalization and expansion of wide-body flying hours, new engine deliveries for the A350 programme, and the maturing aftermarket on the Trent XWB and Trent 1000 fleets. Near-term revenue growth is assumed at approximately 13.6% in FY2026E, decelerating linearly to 3.0% by FY2035E. The near-term assumption reflects the ongoing recovery in wide-body utilization rates and the ramp-up of Trent XWB shop visits, while the long-term rate aligns with industry fleet growth projections from Airbus and Boeing.

The FY2026E EBIT margin of 15.0% is derived using a recency-weighted average of historical segment margins, with weights of 4 (FY2025), 2 (FY2024), and 1 each for two pre-COVID reference years. This approach warrants explicit justification, as the apparent decline from the reported FY2025 EBIT margin of 21.2% is substantial. The reported figure is inflated by £2,500m in non-recurring items (primarily legacy Trent 1000 provision releases); the underlying margin is approximately 17.9%, consistent with management's 18–20% guidance (Rolls-Royce Holdings plc (2026b)). The recency-weighted scheme blends the inflated FY2025 reported margin with FY2024 (9.4%) and pre-COVID benchmarks, producing a conservative starting point of 15.0%, below both the underlying margin and management's 21–23% mid-term target. From this base, EBIT margins fade linearly to a terminal margin of 21.0% by FY2035E, reflecting the structural shift in revenue mix toward higher-margin aftermarket services as the installed base of Trent XWB and Trent 1000 engines matures and a growing share of revenue transitions from lower-margin original equipment sales to Total Care shop visits. D&A is modelled to reach 5.0% of revenue by FY2035 from 4.2% in FY2026, and Capex declines from 7.3% in FY2026E to 6.0% by FY2035E, consistent with the three-year historical average of 7.2–7.7% and the expected maturation of the Trent XWB and Trent 1000 investment cycles as the asset base shifts toward lower-capex aftermarket servicing. Net working capital remains negative at -12% of revenue, reflecting the advance payment structure of Total Care contracts.

CIVIL AEROSPACE FORECAST SUMMARY

£ millions	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue	10,400	11,814	13,281	14,773	16,260	17,705	19,070	20,315	21,403	22,297	22,966
<i>Revenue Growth</i>	<i>15.0%</i>	<i>13.6%</i>	<i>12.4%</i>	<i>11.2%</i>	<i>10.1%</i>	<i>8.9%</i>	<i>7.7%</i>	<i>6.5%</i>	<i>5.4%</i>	<i>4.2%</i>	<i>3.0%</i>
EBIT	2,200	1,770	2,078	2,411	2,762	3,126	3,494	3,858	4,208	4,533	4,823
<i>EBIT Margin</i>	<i>21.2%</i>	<i>15.0%</i>	<i>15.6%</i>	<i>16.3%</i>	<i>17.0%</i>	<i>17.7%</i>	<i>18.3%</i>	<i>19.0%</i>	<i>19.7%</i>	<i>20.3%</i>	<i>21.0%</i>
(+) D&A	520	500	574	651	730	810	889	964	1,034	1,096	1,148
(-) Capital Expenditures	(624)	(864)	(952)	(1,038)	(1,118)	(1,192)	(1,256)	(1,308)	(1,347)	(1,370)	(1,378)
(-) Change in NWC	163	170	176	179	178	173	164	149	131	107	80
Unlevered Free Cash Flow	1,709	1,257	1,460	1,673	1,917	2,167	2,417	2,699	2,974	3,233	3,468
<i>UFCF Margin</i>	<i>16.4%</i>	<i>10.6%</i>	<i>11.0%</i>	<i>11.3%</i>	<i>11.8%</i>	<i>12.2%</i>	<i>12.7%</i>	<i>13.3%</i>	<i>13.9%</i>	<i>14.5%</i>	<i>15.1%</i>

Note: Positive Change in NWC reflects cash inflow from negative working capital.

Table 5.1: Civil Aerospace Segment Forecast Summary, FY2025A–FY2035E

5.2.2 Defence

Defence revenue is projected to grow from £4.9 Bn. in FY2025 to approximately £9.0 Bn. by FY2035E, supported by the structural uplift in European defence spending, the GCAP development programme, and the continued demand for submarine nuclear propulsion systems. Near-term growth is assumed at 9.6% in FY2026E, reflecting the strong order backlog of £17.4 Bn. and the acceleration of NATO-related procurement. Growth decelerates linearly to 3.0% by FY2035E as the spending cycle matures.

Consistent with the methodology applied across all segments, the FY2026E EBIT margin of 12.8% is derived from a recency-weighted average of historical segment margins, with weights of 3 (FY2025), 2 (FY2024), 1 (FY2023), and 1 each for two pre-COVID reference years (FY2017–2018), which serve as margin benchmarks for a segment that was relatively unaffected by the pandemic. No recovery dampening factor is applied, as Defence revenue exhibited stable growth throughout the COVID period. From this starting point, EBIT margins fade linearly to 16.0% by FY2035E, reflecting scale benefits and improving programme economics. The margin trajectory is conservative relative to peers such as BAE Systems, acknowledging the cost-plus pricing structure of certain defence contracts and the investment requirements associated with GCAP. Capex is modelled at approximately 4.0% of revenue declining to 3.5%, and net working capital at -5.0% of revenue.

DEFENCE FORECAST SUMMARY

£ millions	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue	4,900	5,369	5,843	6,317	6,783	7,234	7,662	8,060	8,419	8,733	8,995
<i>Revenue Growth</i>	8.4%	9.6%	8.8%	8.1%	7.4%	6.6%	5.9%	5.2%	4.5%	3.7%	3.0%
EBIT	640	688	770	855	942	1,030	1,118	1,204	1,288	1,366	1,439
<i>EBIT Margin</i>	13.1%	12.8%	13.2%	13.5%	13.9%	14.2%	14.6%	14.9%	15.3%	15.6%	16.0%
(+) D&A	123	131	143	155	167	178	189	200	209	218	225
(-) Capital Expenditures	(172)	(215)	(231)	(246)	(260)	(274)	(285)	(296)	(304)	(311)	(315)
(-) Change in NWC	19	23	24	24	23	23	21	20	18	16	13
Unlevered Free Cash Flow	450	504	551	599	655	710	764	827	889	948	1,003
<i>UFCF Margin</i>	9.2%	9.4%	9.4%	9.5%	9.7%	9.8%	10.0%	10.3%	10.6%	10.9%	11.1%

Note: Positive Change in NWC reflects cash inflow from negative working capital.

Table 5.2: Defence Segment Forecast Summary, FY2025A–FY2035E

5.2.3 Power Systems

Power Systems revenue is projected to grow from £5.1 Bn. in FY2025 to approximately £9.6 Bn. by FY2035E. Near-term growth of 9.6% in FY2026E reflects strong order momentum in the power generation and governmental end markets, while the deceleration to 3.5% by FY2035E reflects the mature nature of the reciprocating engine market and the gradual transition toward lower-carbon alternatives.

The FY2026E EBIT margin of 12.7% follows the same recency-weighted methodology, with weights of 4 (FY2025), 2 (FY2024), 1 (FY2023), and 1 each for two pre-COVID reference years (FY2018–2019). A dampening factor of 0.6x is applied to the weighted average revenue growth rate, reflecting the view that recent growth was partly inflated by the post-COVID rebound and a surge in data-centre-related demand; the pre-COVID compound annual growth rate for Power Systems was approximately 2%. From this normalised starting point, EBIT margins fade linearly to 17.0% by FY2035E, driven by operational efficiencies, favourable product mix toward higher-margin aftermarket services, and the benefits of the ongoing restructuring programme. Depreciation is modelled at approximately 5.3% of revenue declining to 4.5%, and capital expenditure at 4.3% declining to 4.0%, consistent with the asset-light relative positioning of the power generation business. Net working capital is positive at 3% of revenue, reflecting the shorter-cycle nature of the business relative to aerospace.

POWER SYSTEMS FORECAST SUMMARY

£ millions	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue	5,080	5,569	6,068	6,570	7,069	7,557	8,027	8,473	8,885	9,256	9,580
<i>Revenue Growth</i>	<i>18.9%</i>	<i>9.6%</i>	<i>9.0%</i>	<i>8.3%</i>	<i>7.6%</i>	<i>6.9%</i>	<i>6.2%</i>	<i>5.5%</i>	<i>4.9%</i>	<i>4.2%</i>	<i>3.5%</i>
EBIT	720	705	798	895	997	1,103	1,210	1,318	1,425	1,529	1,629
<i>EBIT Margin</i>	<i>14.2%</i>	<i>12.7%</i>	<i>13.1%</i>	<i>13.6%</i>	<i>14.1%</i>	<i>14.6%</i>	<i>15.1%</i>	<i>15.6%</i>	<i>16.0%</i>	<i>16.5%</i>	<i>17.0%</i>
(+) D&A	254	293	314	335	354	372	388	403	415	424	431
(-) Capital Expenditures	(203)	(238)	(257)	(277)	(295)	(314)	(331)	(346)	(361)	(373)	(383)
(-) Change in NWC	(24)	(15)	(15)	(15)	(15)	(15)	(14)	(13)	(12)	(11)	(10)
Unlevered Free Cash Flow	567	619	680	741	811	882	951	1,031	1,110	1,187	1,260
<i>UFCF Margin</i>	<i>11.2%</i>	<i>11.1%</i>	<i>11.2%</i>	<i>11.3%</i>	<i>11.5%</i>	<i>11.7%</i>	<i>11.8%</i>	<i>12.2%</i>	<i>12.5%</i>	<i>12.8%</i>	<i>13.1%</i>

Table 5.3: Power Systems Segment Forecast Summary, FY2025A–FY2035E

5.2.4 New Markets

New Markets is modelled separately due to its fundamentally different risk and cash flow profile. The segment is currently pre-revenue in its core SMR business and generates only modest income from the electrical division. Revenue is assumed to remain negligible through FY2029E (£20 Mio.), before ramping to £100 Mio. in FY2031E and £450 Mio. by FY2035E as the first SMR unit approaches commissioning. This trajectory is grounded in the implied unit economics of the 470 MWe programme: at an estimated construction cost of £1.8–2.0 Bn. per reactor, RR's share as technology provider and nuclear fuel services partner is estimated at approximately £350–400 Mio. per unit, implying that the FY2035E revenue figure is consistent with one unit nearing commercial operation alongside ongoing development and licensing income. The assumption is further anchored by the programme's current regulatory and commercial pipeline, including the completion of Step 2 of the UK Generic Design Assessment, the selection by CEZ Group for deployment in the Czech Republic, and the progression of the Great British Nuclear competition, all of which provide a credible pathway to first-unit commissioning in the early 2030s (Rolls-Royce Holdings plc (2025)). Operating losses are expected to continue through FY2032E, reflecting the ongoing development expenditure. A higher WACC of 13.0% is applied to this segment, and terminal value is estimated using an exit EV/Revenue multiple of 7.0x on FY2035E revenue, consistent with comparable nuclear energy development-stage businesses.

NEW MARKETS FORECAST SUMMARY

£ millions	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue	5	5	8	12	20	45	100	180	280	380	450
Revenue Growth	25.0%	-	60.0%	50.0%	66.7%	125.0%	122.2%	80.0%	55.6%	35.7%	18.4%
EBIT	(175)	(190)	(195)	(190)	(175)	(140)	(85)	(10)	25	50	
EBIT Margin	(3500.0%)	(3800.0%)	(2437.5%)	(1583.3%)	(875.0%)	(311.1%)	(85.0%)	(5.6%)	8.9%	13.2%	15.6%
(+) D&A	-	15	15	15	15	15	18	22	28	34	40
(-) Capital Expenditures	(50)	(20)	(25)	(30)	(40)	(50)	(60)	(38)	(35)	(38)	(40)
(-) Change in NWC	-	-	(1)	(1)	(2)	(5)	(11)	(8)	(8)	(5)	(5)
Unlevered Free Cash Flow	(181)	(148)	(157)	(159)	(158)	(145)	(117)	(32)	4	29	48
UFCF Margin	(3625.0%)	(2950.0%)	(1965.6%)	(1320.8%)	(791.3%)	(322.2%)	(116.8%)	(17.5%)	1.3%	7.5%	10.6%

Table 5.4: New Markets Segment Forecast Summary, FY2025A–FY2035E

5.3 Consolidated Forecast

The segment forecasts are consolidated to produce the group-level income statement, balance sheet, and cash flow projections presented below. Group revenue is projected to grow from £21.1 Bn. in FY2025 to £22.8 Bn. in FY2026E and £25.2 Bn. in FY2027E, decelerating gradually to £42.0 Bn. by FY2035E. The near-term growth rate of 7.7% in FY2026E and 10.7% in FY2027E reflects the combined momentum across all three established segments, while the gradual deceleration toward 3.3% in FY2035E aligns with the assumed convergence to steady-state growth.

At the group level, the EBITDA margin is projected to expand from 17.2% in FY2026E to 23.4% by FY2035E, driven primarily by the civil aerospace aftermarket mix shift and operational leverage across all segments. EBIT margins follow a similar trajectory, rising from 13.1% to 19.0%. The effective tax rate is assumed at 23–25%, reflecting the UK statutory rate of 25% adjusted for R&D tax credits and the geographic distribution of profits. Net income is projected to grow from £2.5 Bn. in FY2026E to £6.1 Bn. in FY2035E.

CONDENSED GROUP FCFF

£ millions	FY2025A	FY2027E	FY2029E	FY2031E	FY2033E	FY2035E
Revenue	21,121	25,200	30,132	34,859	38,987	41,991
<i>Revenue Growth</i>	<i>12.3%</i>	<i>10.7%</i>	<i>8.9%</i>	<i>7.1%</i>	<i>5.3%</i>	<i>3.3%</i>
EBIT	4,247	3,451	4,526	5,737	6,946	7,961
<i>EBIT Margin</i>	<i>20.1%</i>	<i>13.7%</i>	<i>15.0%</i>	<i>16.5%</i>	<i>17.8%</i>	<i>19.0%</i>
(-) Cash Taxes on EBIT	—	(690)	(1,041)	(1,434)	(1,736)	(1,990)
NOPAT	—	2,761	3,485	4,303	5,209	5,970
(+) D&A	902	1,046	1,266	1,484	1,686	1,844
(-) Capital Expenditures	(978)	(1,151)	(1,348)	(1,528)	(1,673)	(1,764)
(-) Change in NWC	—	(1,763)	(1,567)	(1,239)	(758)	(119)
Unlevered Free Cash Flow	—	892	1,836	3,021	4,464	5,932
<i>UFCF Margin</i>	<i>—</i>	<i>3.5%</i>	<i>6.1%</i>	<i>8.7%</i>	<i>11.5%</i>	<i>14.1%</i>

Table 5.5: Group Condensed FCFFs, FY2025A–FY2035E

Free cash flow is projected to increase from £3.1 Bn. in FY2026E to £7.2 Bn. by FY2035E. The FCF trajectory reflects growing operating cash flow, partially offset by increasing Capex as the company invests in next-generation engine programmes and the SMR development. Capex as a percentage of revenue is assumed at approximately 4.6% in FY2026E, decreasing modestly to 4.2% by the end of the forecast period. This gradual decline reflects the maturation of the current engine investment cycle, particularly in Civil Aerospace, where the Trent XWB and Trent 1000 programmes have passed their peak development and production ramp-up phases. As the installed base shifts from original equipment delivery toward aftermarket servicing, the capital intensity of the revenue mix naturally diminishes. The assumed trajectory remains broadly in line with the three-year historical average for each segment. The balance sheet forecast assumes a progressive reduction in long-term debt from £2.8 Bn. in FY2025 to £1.5 Bn. by FY2030E, consistent with scheduled maturities and the company's stated deleveraging objective. Dividend payments are assumed to commence from FY2028E at a modest level of £0.02 per share, increasing gradually to £0.09 per share by FY2035E. The payout ratio remains conservative throughout the forecast period, consistent with the company's stated preference for reinvestment and share buybacks over dividend distributions.

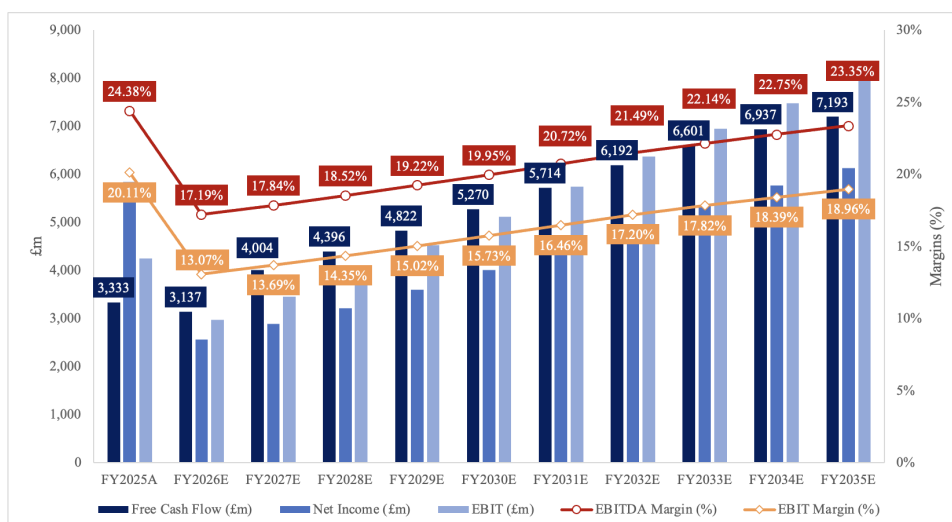


Figure 5.4: Consolidated Revenue, EBITDA, EBIT, Net Income, and FCF Forecast with Margin Trajectory, FY2025A–FY2035E

The key risks to the forecast include a slower-than-expected recovery in wide-body flying hours, execution risk on the civil aerospace margin expansion, potential delays or cost overruns in the SMR programme, and macroeconomic headwinds affecting airline fleet investment decisions. The full forecasted income statement is in Appendix 4, the balance sheet forecast in Appendix 5, the cash flow forecast in Appendix 6 and the condensed income statement forecast in Appendix 24.

6 Valuation of Rolls-Royce

6.1 Sum-of-the-Parts (SOTP) Valuation

The chosen triangular valuation approach for the equity valuation of RR can be broken down in the following: a sum-of-the-parts discounted cash flow model, a consolidated company-wide DCF as a cross-check, and a relative valuation based on trading multiples of comparable companies. The primary valuation methodology is the SOTP DCF, which values each business segment independently using segment-specific discount rates and terminal assumptions. This approach is preferred given the materially different risk profiles, growth trajectories, and competitive dynamics across RR's four operating segments.

6.1.1 Methodology and Discount Rates

The SOTP valuation discounts projected unlevered free cash flows for each segment over a ten-year explicit forecast period (FY2026E–FY2035E), followed by the TV calculated using the Gordon Growth Model for the three mature segments and an exit multiple approach for New Markets. The cost of capital is estimated using the Capital Asset Pricing Model (CAPM), with segment-specific adjustments to the levered beta reflecting differences in operating risk and revenue cyclicity. The risk-free rate of 4.45% is based on the UK ten-year gilt yield as at the valuation date, while the equity risk premium of 4.33% follows the Damodaran estimate for the UK market. The company-wide unlevered beta of 0.760 represents the median of 16 peer company unlevered betas, each derived via the Hamada equation using 2-year levered betas from Refinitiv, market-value debt-to-equity ratios, and local statutory tax rates. The full peer group and individual unlevered beta calculations are presented in Appendix 7. This peer-group median is re-levered at RR's target capital structure (D/E of 4.4%) to yield a levered beta of 0.785 and a cost of equity of 7.85%. At the segment level, betas are derived from subsets of the peer group that most closely match each segment's operating risk: Civil Aerospace peers yield a median β_U

of 0.760, Defence peers 0.670, and Power Systems peers 0.860 (see Appendix 8 for segment peer compositions). The after-tax cost of debt is 4.82%, based on the company's weighted average borrowing cost and a marginal tax rate of 25% and computed as FY2025 gross interest expense divided by the average of opening and closing gross debt. As a cross-check, the weighted-average yield-to-maturity on RR's six outstanding bonds is 4.65% pre-tax (see Appendix 22), confirming that the book-based estimate is conservative. The 4.65% is a notional-weighted figure with YTM's in local currency. An OAS-based sterling-equivalent cross-check sits within ten basis points (Appendix 22, note). The resulting company-wide WACC is 7.72%, with segment WACCs ranging from 7.33% for Defence to 13.00% for New Markets. Excess cash is excluded from the WACC calculation and the net cash of £2,254 Mio. is added back in the equity bridge. The full peer group and unlevered beta calculations are presented in Appendix 15.

WACC CALCULATION SOTP DISCOUNT RATES

Panel A: Company-Wide WACC (CAPM)				
Parameter	Value			
Risk-Free Rate (R_f)	4.45%			
Equity Risk Premium (ERP)	4.33%			
Unlevered Beta (β_U)	0.760			
Debt / Equity (D/E)	4.4%			
Tax Rate (t)	25.0%			
Levered Beta (β_L)	0.785			
Cost of Equity (K_e)	7.85%			
Pre-Tax Cost of Debt (K_d)	6.42%			
After-Tax Cost of Debt	4.82%			
Weight of Equity (E/V)	95.8%			
Weight of Debt (D/V)	4.2%			
Company-Wide WACC	7.72%			
Terminal Growth Rate (g)	2.5%			

Panel B: Segment-Specific WACCs				
Segment	Segment β_U	Segment β_L	K_e	WACC
Civil Aerospace	0.760	0.785	7.85%	7.72%
Defence	0.670	0.692	7.45%	7.33%
Power Systems	0.860	0.889	8.30%	8.15%
New Markets	N/A	N/A	N/A	13.00%

Table 6.1: WACC Calculation and Segment-Specific Discount Rates

6.1.2 Segment Valuations

Civil Aerospace, as the largest and most valuable segment, generates an enterprise value of £47,148 Mio., representing 59.5% of the total SOTP enterprise value. The present value of explicit-period free cash flows amounts to £14,776 Mio., while the terminal value contributes £32,371 Mio., or 68.7% of the segment's total value. The terminal value is calculated using a terminal year unlevered free cash flow of £3,468 Mio., a segment WACC of 7.72%, and a perpetuity growth rate of 2.5%, reflecting the long-term growth trajectory of global air traffic and the embedded aftermarket annuity from the installed engine base. The high terminal value share is characteristic of aerospace businesses with long-duration revenue streams and is consistent

with the industry valuation precedent observed in Safran and GE Aerospace.

The Defence segment is valued at £15,400 Mio., comprising 19.4% of total SOTP enterprise value. The segment's lower WACC of 7.33% reflects its contractual, programme-based revenue model and the reduced cyclicity inherent in sovereign defence spending. The terminal value represents 68.0% of segment enterprise value, with a terminal year UFCF of £1,003 Mio.. Power Systems is valued at £16,307 Mio. (20.6% of total), discounted at a WACC of 8.15% that reflects the segment's greater exposure to industrial cyclicity and competitive intensity. The terminal value share of 64.0% is the lowest among the mature segments, consistent with the more diversified and shorter-duration nature of its revenue streams.

New Markets, which encompasses the pre-revenue SMR programme and the electrical division, is valued at £344 Mio., representing just 0.4% of total SOTP value. Because New Markets lacks publicly traded pure-play comparables from which to derive a segment beta, the CAPM-based approach used for the three mature segments cannot be applied. Instead, a WACC of 13.0% is assigned directly, representing a venture-stage premium of approximately 530 basis points above the company-wide WACC of 7.72%. This premium reflects the pre-revenue nature of the SMR programme, significant technological and regulatory uncertainty, and the binary risk profile characteristic of development-stage nuclear ventures. The terminal value is estimated using an exit EV/Revenue multiple of 7.0x applied to FY2035E revenue, benchmarked against nuclear and clean energy peers: BWX Technologies (5.1x), Bloom Energy (13.2x), and the broader clean energy sector median (5.7x). The selected multiple sits at the upper end of this range, reflecting the significant optionality embedded in the SMR programme's long-term growth potential. The negative present value of explicit-period cash flows (-£584 Mio.) reflects the substantial investment required before the first SMR unit reaches commercial operation, partially offset by the terminal value of £928 Mio.. Detailed DCF models for Civil Aerospace, Defence, Power Systems, and New Markets are presented in Appendices 11–14 respectively.

SOTP VALUATION

Panel A: Segment DCF Valuations (£m)

Segment	WACC	Terminal Method	PV of FCFs	PV of TV	Segment EV	% of Total	TV / Seg. EV
Civil Aerospace	7.7%	GGM (g=2.5%)	14,776	32,371	47,148	59.5%	68.7%
Defence	7.3%	GGM (g=2.5%)	4,927	10,473	15,400	19.4%	68.0%
Power Systems	8.2%	GGM (g=2.5%)	5,873	10,434	16,307	20.6%	64.0%
New Markets	13.0%	Exit 7.0x Rev	(584)	928	344	0.4%	269.7%
Total SOTP EV			24,993	54,206	79,199	100.00%	68.4%

Panel B: Equity Bridge (£m)

Total SOTP Enterprise Value	79,199
(+) Net Cash	2,254
(-) Minority Interest	(27)
(-) Pension Deficit (IAS 19)	(606)
Equity Value	80,820
Diluted Shares (m)	8,448
Implied Share Price (£)	9.57
<i>Current Market Price (£)</i>	<i>£11.50</i>
Downside to Market	-16.8%

Table 6.2: SOTP Valuation by Segment

6.1.3 Equity Bridge and Implied Share Price

The aggregate SOTP EV of £79,199 Mio. is converted to equity value through a series of adjustments. Net cash of £2,254 Mio., reflecting RR's strengthened balance sheet following the operational turnaround, is added to enterprise value. The pension deficit of £606 Mio., representing the net liability after the significant de-risking achieved through buy-in transactions, is deducted, as are minority interests of £27 Mio..The residual Other NCA (£5,573 Mio.) and Other NCL (£13,229 Mio.) are operating in nature, primarily deferred tax assets, contract assets and liabilities arising from LTSAs, long-term provisions, and deferred revenue. Their cash effects already flow through EBIT and net working capital in the segment forecasts, and their non-cash components, such as DTA unwinding, provision remeasurements, and ROU asset depreciation, do not belong in a cash-based equity bridge. The line-by-line decomposition and the reconciliation panel are provided in Appendix 23. The resulting equity value of £80,820 Mio., divided by 8,448 Mio. diluted shares outstanding, yields an implied share price of £9.57. The denominator reflects the most recent reported diluted share count as at FY2025. This analysis employs the current count on the basis that the precise pace and magnitude of the £7-9 Bn. repurchases remain subject to execution risk, and that the anticipated accretion from buybacks is already partially capitalized in the prevailing market price against which the implied value is compared. The implied share price represents a discount of 16.8% to the prevailing market price of £11.50 as at the valuation date, suggesting that the current share price may incorporate market expectations that exceed the assumptions embedded in this model.

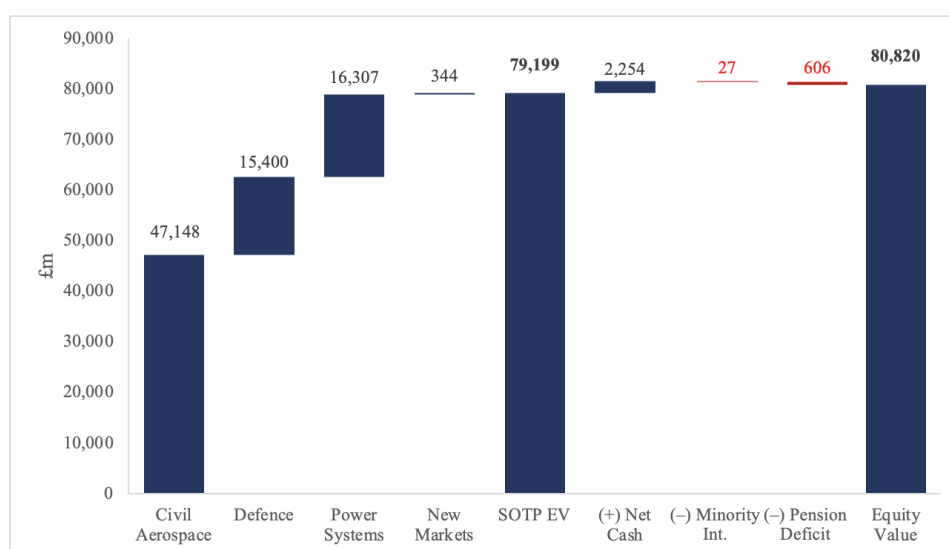


Figure 6.1: SOTP Enterprise Value Bridge to Equity Value

6.2 Consolidated DCF Cross-Check

As a cross-check on the SOTP valuation, a consolidated company-wide DCF is performed using aggregate group-level free cash flows discounted at the blended WACC of 7.72%. This approach sacrifices the granularity of segment-specific discount rates but provides a useful benchmark against which to assess the SOTP result. The consolidated DCF yields an EV of £73,050 Mio., approximately 7.8% below the SOTP estimate. After applying the same equity bridge adjustments, the implied equity value is £74,671 Mio., corresponding to an implied share price of £8.84. The difference between the SOTP and consolidated DCF estimates arises primarily from the loss of segment-specific WACC calibration: the consolidated approach applies the company-wide WACC uniformly, effectively over-discounting the lower-risk Defence segment while under-discounting New Markets. This result reinforces the appropriateness of the SOTP methodology as the primary valuation framework.

6.3 Relative Valuation

6.3.1 Company-Level Comparables

The relative valuation provides a market-based perspective on RR's fair value by applying trading multiples from comparable companies. At the company level, the peer group comprises diversified aerospace and defence firms including Safran, MTU Aero Engines, GE Aerospace, RTX, BAE Systems, and Thales. Consistent with the peer selection framework outlined in Section 2.2.2, these firms were identified on the basis of their shared TRBC industry classification (Aerospace & Defence), comparable business-mix characteristics, specifically the combination of aero-engine OEM, aftermarket/MRO, and defence activities, and similar positioning as large-cap, publicly listed primes. No single peer replicates RR's exact revenue composition, but this group represents the closest set of firms in terms of warranted valuation fundamentals (Bhojraj and Lee (2002)). Applying the median next-twelve-months (NTM) EV/EBITDA, EV/Revenue, and P/E multiples to RR's projected financials yields a median implied share price of £7.06, representing a discount of 38.6% to the current market price. The wide discount reflects the premium valuation at which RR trades relative to its peer group, driven by the market's recognition of the company's substantial margin expansion potential and the ongoing transformation programme.

6.3.2 Segment-Level Comparables

A segment-level relative valuation, which applies multiples from peers most closely comparable to each business segment, provides a more granular assessment. The segment-level peer groups are deliberately broader than the company-level group, as the objective shifts from matching RR's overall profile to matching the operating characteristics of each individual business line. This introduces firms that would be inappropriate company-level comparators due to their concentrated business mix, for example, Leonardo and Babcock for Defence, or Caterpillar and Cummins for Power Systems, but whose specific segments are highly comparable. The Civil Aerospace segment is benchmarked against Safran, MTU, GE Aerospace, and RTX. Defence is benchmarked against BAE Systems, Thales, Leonardo, Rheinmetall, General Dynamics, and Babcock. Finally, Power Systems against Wärtsilä, Siemens Energy, Caterpillar, and Cummins. Summing the segment-implied EV and applying the equity bridge produces an implied share price of £8.53 on NTM multiples and £9.60 on FY2027E multiples. The higher FY2027E value reflects the anticipated earnings growth that is not yet captured in trailing or near-term multiples, underscoring the importance of the time horizon in relative valuation. Full comparable company analysis tables at the company level and for each segment are provided in Appendices 7–10. The peer set is benchmarked on growth, profitability, and returns Appendix 21. Adjusting the FY2025 reported EBIT margin for £2,500 Mio. of non-recurring items, RR's underlying operating margin of approximately 17.9% sits in the upper quartile of the peer group alongside Safran (14.5%) and GE Aerospace (17.1%), with NTM revenue growth of 15.6% above the peer median of 12.1%. The peers were selected for business-mix comparability, matching aero-engine OEM, aftermarket, and defence characteristics, rather than identical financial profiles.

RELATIVE VALUATION

Panel A: Company-Level NTM Consensus Multiples

Multiple	Peer Median	RR Multiple	Premium	Implied Price (£)	vs. Market
EV / Revenue	2.0x	4.9x	140.8%	£5.38	-53.2%
EV / EBITDA	13.9x	23.3x	67.7%	£8.73	-24.1%
P / E	23.8x	37.3x	56.9%	£16.39	42.5%
P / Cash Flow	17.5x	25.1x	43.4%	£8.93	-22.3%
P / Book Value (a)	4.9x	39.9x	719.0%	£1.57	-86.3%
P / Revenue	2.0x	5.0x	148.5%	£5.06	-56.0%
Median Implied Price (NTM)				£7.06	-38.6%

(a) P/BV distorted: RR common equity was negative FY2020–FY2024; FY2025 BV of £0.32/share is not comparable to established peers. P/BV excluded from weighting.

Panel B: Segment-Level Median Peer Multiples

Segment / Multiple Basis	EV/Rev NTM	EV/EBITDA ^A NTM	EV/Rev FY27E	EV/EBITDA ^A FY27E	Avg. NTM EV	Avg. FY27E EV
Civil Aerospace	41,802	41,941	46,992	48,999	41,872	47,996
Defence	10,454	11,614	11,377	12,939	11,034	12,158
Power Systems	15,933	18,515	17,359	20,620	17,224	18,989
<i>New Markets (DCF only)</i>	<i>344</i>	<i>344</i>	<i>344</i>	<i>344</i>	<i>344</i>	<i>344</i>
Total SOTP Enterprise Value	68,532	72,414	76,073	82,901	70,473	79,487
(+) Net Cash	2,254	2,254	2,254	2,254	2,254	2,254
(-) Minorities & Pension	(633)	(633)	(633)	(633)	(633)	(633)
Equity Value	70,153	74,035	77,694	84,522	72,094	81,108
Diluted Shares (m)	8,448	8,448	8,448	8,448	8,448	8,448
Implied Share Price (£)	£8.30	£8.76	£9.20	£10.01	£8.53	£9.60
Downside to Market	-27.8%	-23.8%	-20.0%	-13.0%	-25.8%	-16.5%

Table 6.3: Relative Valuation: Company-level and segment-level implied share prices

6.4 Comparison and Synthesis of Results

Every methodology applied in this thesis, SOTP DCF, consolidated DCF, and segment-level relative valuation, points to the same conclusion: RR's equity is priced for a degree of operational execution that its financials do not yet fully support, with a central intrinsic value estimate of £9.57 against a market price of £11.50 as of December 31st, 2025. Based on this the analysis supports a Sell recommendation. The SOTP DCF, which is considered the most reliable approach given its ability to capture segment-specific risk and growth characteristics, implies the central intrinsic share price of £9.57. The consolidated DCF cross-check at £8.84 and the segment-level relative valuation at £8.53-£9.60 provide directional corroboration, while the company-level relative valuation at £7.06 anchors the lower bound. The convergence of the SOTP DCF and forward-looking segment comps around the £9.50-£9.60 range suggests a central estimate of

intrinsic value in that vicinity.

The consistent discount across all approaches relative to the market price carries important implications. It suggests that the market may be pricing in a more optimistic earnings trajectory than the assumptions in this model, potentially reflecting expectations of faster margin expansion, stronger aftermarket growth as the Trent XWB fleet matures, or a higher TV for the SMR business. Alternatively, the discount could indicate that the market is applying a lower cost of capital than the 7.72% WACC estimated in this analysis, which would be consistent with a more benign view of the risk environment. The sensitivity analysis that follows explores these dynamics in greater detail.

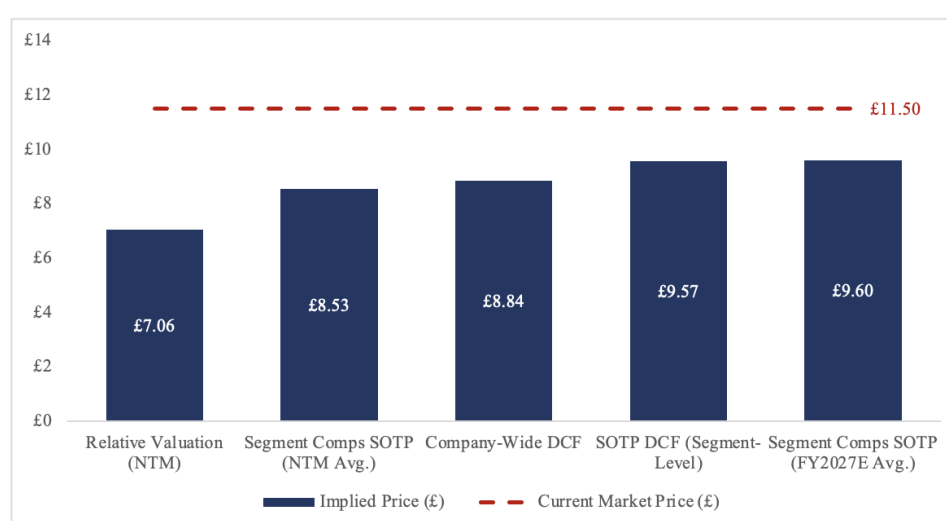


Figure 6.2: Summary of Implied Share Prices Across Methodologies

6.5 Sensitivity Analysis

SOTP IMPLIED SHARE PRICE UNDER VARYING WACC AND TERMINAL GROWTH						
£ per share SOTP DCF (segment-specific WACCs) Base case: WACC 7.7%, Terminal g 2.5%						
WACC \ Terminal g →	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
5.7%	£12.94	£14.25	£15.97	£18.33	£21.78	£27.32
6.7%	£10.29	£11.05	£12.00	£13.20	£14.78	£16.95
7.2%	£9.32	£9.92	£10.65	£11.56	£12.71	£14.23
7.7%	£8.50	£8.99	£9.57	£10.27	£11.14	£12.25
8.2%	£7.81	£8.21	£8.67	£9.23	£9.90	£10.74
8.7%	£7.22	£7.54	£7.92	£8.37	£8.90	£9.55
9.7%	£6.25	£6.48	£6.74	£7.04	£7.39	£7.81

Table 6.4: SOTP implied share price under varying WACC and terminal growth

The sensitivity analysis examines the impact of changes in the two key value drivers, the WACC and the terminal growth rate, on the SOTP implied share price. A matrix varying the WACC by ± 200 basis points from the base case of 7.72% and the terminal growth rate by ± 100 basis points from the base case of 2.5% produces a wide range of outcomes. At the base case assumptions, the implied share price is £9.57. Reducing the WACC by 100 basis points to 6.72% while holding the terminal growth rate constant increases the implied price to approximately £12.00, which would exceed the referenced market price. Conversely, increasing the WACC by 100 basis points to 8.72% reduces the implied price to approximately £7.92.

The terminal growth rate exerts a similarly pronounced effect. At the base WACC of 7.72%, raising the terminal growth rate from 2.5% to 3.5% increases the implied share price to approximately £11.14, while reducing it to 1.5% lowers the implied price to approximately £8.50. The sensitivity matrix demonstrates that the current market price of £11.50 can be justified within the model framework under a combination of a modestly lower WACC (in the range of 7.0%-7.3%) and a terminal growth rate of approximately 3.0%. Detailed WACC/terminal-growth sensitivity matrices for each individual segment DCF are in Appendices 16–19.

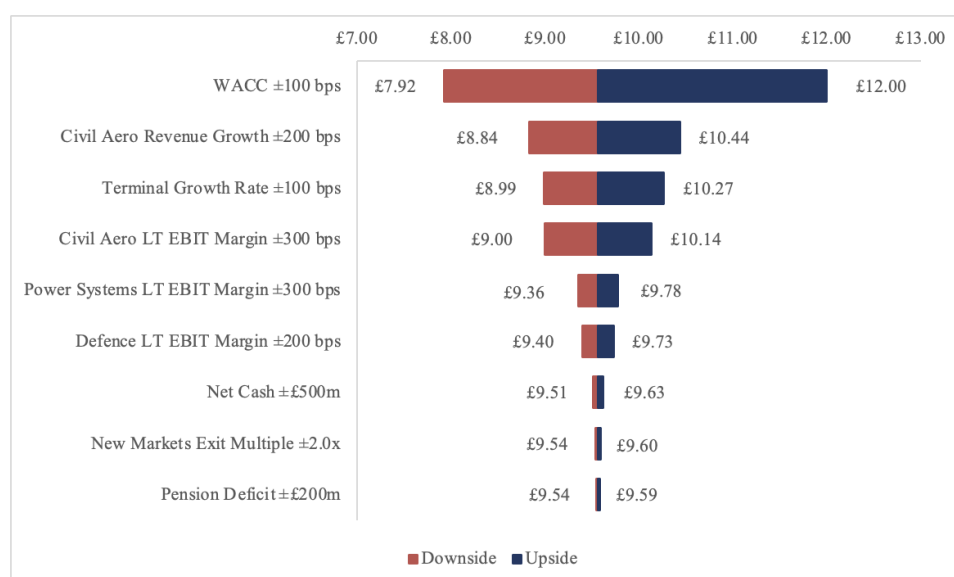


Figure 6.3: Key Value Drivers and Impact on SOTP Implied Share Price (£)

7 Comparison of Valuation Estimates with Analyst's Equity Research Reports

This chapter compares the thesis SOTP valuation of £9.57 per share against two external benchmarks: the Alpha Spread platform and the Zacks Equity Research report (March 7, 2026). Alpha Spread is a retail-facing automated DCF platform rather than institutional research; the comparison is therefore directional rather than methodological. Both reports cover RR and provide independent assessments of fair value, enabling a structured comparison of assumptions and outputs. Where relevant, both the valuation-date price of £11.50 (December 31, 2025) and the more recent price of £13.04 (March 1, 2026) are cited to contextualize the comparison.

Parameter	Own Analysis	Alpha Spread	Zacks Equity Research
Valuation Date	Dec 31, 2025	Mar 1, 2026	Mar 7, 2026
Price Target (£)	9.57	5.27	14.50*
Recommendation	Overvalued	Overvalued	Buy (Rank 2)
Methodology	SOTP DCF	Consolidated DCF	Proprietary Ranking
Forecast Horizon	10 years	5 years	N/A
WACC	7.72%	9.02%	N/A
Beta	0.785 (bottom-up)	1.16 (regression)	1.09 (regression)
P/E (Forward)	N/A	N/A	35.53x
Proj. Sales Growth	8.5% (FY26E)	5.5%	5.74%
Proj. EPS Growth	N/A	N/A	25.64%

Table 7.1: Comparison of Key Valuation Inputs

**Zacks target of \$19.00 converted at the implied ADR exchange rate of approximately \$1.31/£.*

The most significant source of divergence lies in the cost of capital. Alpha Spread estimates a WACC of 9.02%, driven by a regression beta of 1.16, compared to 7.72% in this thesis, which employs a bottom-up unlevered beta of 0.760 re-levered via the Hamada equation. The bottom-up approach, recommended by Damodaran (2012) and Koller et al. (2020) for conglomerate firms, reduces estimation noise inherent in single-stock regression betas and better captures the underlying operating risk of each business segment. The 130-basis-point gap in discount rates

propagates materially through the TV, which constitutes roughly two-thirds of EV in both models. Zacks reports a regression beta of 1.09, which falls between the Alpha Spread estimate and the thesis bottom-up beta, suggesting the market's perception of RR's systematic risk sits within this range.

Alpha Spread employs a five-year explicit forecast period with revenue growing at a compound annual rate of approximately 5.5% and operating margins in a narrow band of 16.8-17.5%. This thesis uses a ten-year horizon (FY2026E–FY2035E) to capture the full Civil Aerospace aftermarket ramp and the anticipated margin expansion from the ongoing transformation programme. The longer horizon allows margins to normalize toward long-term equilibrium levels rather than truncating the forecast while the business is still in a growth phase. Zacks projects sales growth of 5.74% and EPS growth of 25.64%, the latter reflecting anticipated margin expansion broadly consistent with the thesis trajectory.

Metric	Own Analysis	Alpha Spread	Zacks
Implied Share Price (£)	9.57	5.27	14.50
vs. Market Price (£11.50)	-16.8%	-54.2%	+26.1%
vs. Market Price (£13.04)	-26.6%	-59.6%	+11.2%

Table 7.2: Summary of Valuation Outputs

The thesis estimate of £9.57 per share occupies a middle position between Alpha Spread's intrinsic value of £5.27 and the Zacks target of £14.50. All three DCF-based estimates in this thesis, the SOTP at £9.57, the consolidated cross-check at £8.84, and Alpha Spread at £5.27, conclude that RR trades above its estimated intrinsic value as of the valuation date. The Zacks target, which incorporates forward-looking earnings momentum and analyst revision trends rather than a traditional DCF framework, is the only benchmark that supports the current market price, implying further upside of 11% from the March 2026 level.

Three factors account for the majority of the spread between the estimates. First, the cost of capital: the choice between a bottom-up peer-derived beta and a raw regression beta has a first-order impact on TV and consequently on the implied share price. Second, the forecast horizon: a ten-year explicit period captures the full earnings normalization cycle, whereas a five-year horizon truncates the forecast before the business reaches steady state. Third, the level of granularity: the SOTP approach with segment-specific WACCs ranging from 7.33% to 13.00% provides a more calibrated reflection of risk than a single company-wide discount rate.

Despite these methodological differences, both Alpha Spread and this thesis identify RR as trading above intrinsic value on a DCF basis, consistent with a market that has priced in

transformation execution ahead of financial realization.

8 Conclusion

This thesis sought to determine the intrinsic equity value of Rolls-Royce Holdings PLC as of December 31st, 2025, through a triangulated valuation framework. The primary method, a sum-of-the-parts DCF built on segment-specific WACCs derived from a 16-peer bottom-up beta and a ten-year explicit forecast horizon, yields an implied share price of £9.57. The consolidated DCF cross-check at £8.84, the segment-level relative valuation at £8.53–£9.60, and the company-level relative valuation at £7.06 all point in the same direction, indicating a discount to the prevailing market price of £11.50. The analysis therefore supports a Sell recommendation. The current share price appears to capitalize a degree of forward earnings growth and margin expansion that the firm's reported financials do not yet substantiate. The sensitivity analysis identifies the discount rate and the terminal growth rate as the principal sources of valuation uncertainty, with only a combination of WACC near 7.0-7.3% and terminal growth near 3.0 % reconciling the model with the market price. The key risks to this conclusion are a faster-than-modelled recovery in wide-body flying hours, accelerated margin realisation under the ongoing transformation programme, and upside optionality in the SMR programme, all of which warrant continued monitoring as Rolls-Royce progresses toward its 2028 mid-term targets.

9 Appendix

Appendix 1: Income Statement

INCOME STATEMENT											
£ millions	Actual										
	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A
Revenue	13,725	14,955	14,747	15,729	16,587	11,491	11,218	13,520	16,486	18,909	21,207
% Growth		9.0%	(1.4%)	6.7%	5.5%	(30.7%)	(2.4%)	20.5%	21.9%	14.7%	12.2%
Cost of Revenue (actuals only)	10,459	11,907	12,325	14,531	15,645	11,678	9,082	10,763	12,866	14,688	15,032
% Growth		13.8%	3.5%	17.9%	7.7%	(25.4%)	(22.2%)	18.5%	19.5%	14.2%	2.3%
% of Revenue	76.2%	79.6%	83.6%	92.4%	94.3%	101.6%	81.0%	79.6%	78.0%	77.7%	70.9%
Gross Profit (actuals only)	3,266	3,048	2,422	1,198	942	(187)	2,136	2,757	3,620	4,221	6,175
% Growth		(6.7%)	(20.5%)	(50.5%)	(21.4%)	(119.9%)	#####	29.1%	31.3%	16.6%	46.3%
Gross Margin	23.8%	20.4%	16.4%	7.6%	5.7%	(1.6%)	19.0%	20.4%	22.0%	22.3%	29.1%
SG&A Expenses (actuals only)	1,877	2,149	2,065	2,356	1,878	1,975	1,668	1,968	1,849	1,892	1,660
% Growth		14.5%	(3.9%)	14.1%	(20.3%)	5.2%	(15.5%)	18.0%	(6.0%)	2.3%	(12.3%)
% of Revenue	13.7%	14.4%	14.0%	15.0%	11.3%	17.2%	14.9%	14.6%	11.2%	10.0%	7.8%
R&D Expenses (actuals only)	681	771	694	647	637	644	708	797	650	512	392
% Growth		13.2%	(10.0%)	(6.8%)	(1.5%)	1.1%	9.9%	12.6%	(18.4%)	(21.2%)	(23.4%)
% of Revenue	5.0%	5.2%	4.7%	4.1%	3.8%	5.6%	6.3%	5.9%	3.9%	2.7%	1.8%
EBITDA	2,156	1,958	1,083	(149)	285	322	1,503	1,793	2,783	3,275	5,149
% Growth		(9.2%)	(44.7%)	(113.8%)	(291.3%)	13.0%	366.8%	19.3%	55.2%	17.7%	57.2%
EBITDA Margin	15.7%	13.1%	7.3%	(0.9%)	1.7%	2.8%	13.4%	13.3%	16.9%	17.3%	24.3%
(-) Depreciation & Amortisation	(780)	(830)	(787)	(904)	(1,208)	(1,187)	(992)	(952)	(948)	(887)	(902)
% Growth		6.4%	(5.2%)	14.9%	33.6%	(1.7%)	(16.4%)	(4.0%)	(0.4%)	(6.4%)	1.7%
% of Revenue	(5.7%)	(5.5%)	(5.3%)	(5.7%)	(7.3%)	(10.3%)	(8.8%)	(7.0%)	(5.8%)	(4.7%)	(4.3%)
Operating Profit (EBIT)	1,376	1,128	296	(1,053)	(923)	(865)	511	841	1,835	2,388	4,247
% Growth		(18.0%)	(73.8%)	(455.7%)	(12.3%)	(6.3%)	(159.1%)	64.6%	118.2%	30.1%	77.8%
EBIT Margin	10.0%	7.5%	2.0%	(6.7%)	(5.6%)	(7.5%)	4.6%	6.2%	11.1%	12.6%	20.0%
Non-Recurring Items	30	224	6	191	107	833	43	52	797	(61)	2,500
Net Interest Expense	(59)	(63)	(56)	(80)	(151)	(157)	(245)	(308)	(205)	(93)	(31)
% of Revenue	(0.4%)	(0.4%)	(0.4%)	(0.5%)	(0.9%)	(1.4%)	(2.2%)	(2.3%)	(1.2%)	(0.5%)	(0.1%)
Other Non-Operating Inc/(Exp)	100	117	9	4	104	190	45	48	-	-	219
Pre-Tax Income (EBT)	53	56	67	(1,165)	(1,022)	620	105	69	2,427	2,234	6,935
% Growth		5.7%	19.6%	(1838.8%)	(12.3%)	(160.7%)	(83.1%)	(34.3%)	3417.4%	(8.0%)	210.4%
EBT Margin	0.4%	0.4%	0.5%	(7.4%)	(6.2%)	5.4%	0.9%	0.5%	14.7%	11.8%	32.7%
Income Taxes	76	(604)	465	(511)	420	302	-	-	(23)	250	(1,099)
Effective Tax Rate	(143.4%)	1078.6%	(694.0%)	(43.9%)	41.1%	(48.7%)	-	-	0.9%	(11.2%)	15.8%
Net Income	84	(4,032)	3,433	(2,436)	(1,311)	(3,101)	124	(1,194)	2,412	2,521	5,841
% Growth		(4900.0%)	(185.1%)	(171.0%)	(46.2%)	136.5%	(104.0%)	#####	(302.0%)	4.5%	131.7%
Net Margin	0.6%	(27.0%)	23.3%	(15.5%)	(7.9%)	(27.0%)	1.1%	(8.8%)	14.6%	13.3%	27.5%
Less: Minority Interest	1	-	1	8	4	1	1	(5)	(60)	(37)	-
Net Income to Common	83	(4,032)	3,382	(2,401)	(1,315)	(3,170)	120	(1,269)	2,352	2,484	5,841
% Growth		(4957.8%)	(183.9%)	(171.0%)	(45.2%)	141.1%	(103.8%)	#####	(285.3%)	5.6%	135.1%
Net Margin (Common)	0.6%	(27.0%)	22.9%	(15.3%)	(7.9%)	(27.6%)	1.1%	(9.4%)	14.3%	13.1%	27.5%
Earnings per Share (£)	£0.02	-£0.76	£0.64	-£0.45	-£0.24	-£0.52	£0.01	-£0.14	£0.28	£0.29	£0.69
% Growth		(3900.0%)	(184.2%)	(170.3%)	(46.7%)	116.7%	(101.9%)	#####	(300.0%)	4.3%	137.0%
Dividends per Share (£)	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Total Dividends	-	-	-	-	-	-	-	-	-	-	-

Appendix 2: Balance Sheet

BALANCE SHEET											
£ millions	Actual										
	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A
ASSETS											
Cash & Short-Term Investments	3,157	2,774	2,933	4,949	4,427	3,309	2,540	2,383	3,505	5,330	6,526
% of Total Assets	14.1%	11.5%	10.5%	15.5%	13.7%	11.2%	8.9%	8.1%	11.1%	15.8%	15.9%
Receivables	6,072	5,590	6,107	6,188	6,595	6,183	5,942	6,686	6,875	7,876	10,918
% of Revenue	44.2%	37.4%	41.4%	39.3%	39.8%	53.8%	53.0%	49.5%	41.7%	41.7%	51.5%
Inventories	2,637	3,353	3,803	4,287	4,320	3,690	3,666	4,708	4,848	5,092	5,728
% of Revenue	19.2%	22.4%	25.8%	27.3%	26.0%	32.1%	32.7%	34.8%	29.4%	26.9%	27.0%
Prepaid & Other Current Assets	250	10	274	1,396	712	1,149	1,139	2,234	2,883	3,175	2,998
% of Revenue	1.8%	0.1%	1.9%	8.9%	4.3%	10.0%	10.2%	16.5%	17.5%	16.8%	14.1%
Total Current Assets	12,116	11,727	13,117	16,820	16,054	14,331	13,287	16,011	18,111	21,473	26,170
% Growth		(3.2%)	11.9%	28.2%	(4.6%)	(10.7%)	(7.3%)	20.5%	13.1%	18.6%	21.9%
PP&E	3,490	4,134	4,658	4,929	6,812	5,920	5,120	4,997	4,633	4,485	4,772
% of Revenue	25.4%	27.6%	31.6%	31.3%	41.1%	51.5%	45.6%	37.0%	28.1%	23.7%	22.5%
Intangible Assets (incl. Goodwill)	4,645	4,116	5,565	5,295	5,442	5,145	4,041	4,098	4,009	4,402	4,598
% of Revenue	33.8%	27.5%	37.7%	33.7%	32.8%	44.8%	36.0%	30.3%	24.3%	23.3%	21.7%
Other Non-Current Assets	2,073	4,106	4,587	4,813	3,958	4,121	6,226	4,344	4,759	3,326	5,573
Total Non-Current Assets	10,208	12,356	14,810	15,037	16,212	15,186	15,387	13,439	13,401	12,213	14,943
% Growth		21.0%	19.9%	1.5%	7.8%	(6.3%)	1.3%	(12.7%)	(0.3%)	(8.9%)	22.4%
Total Assets	22,324	24,083	27,927	31,857	32,266	29,517	28,674	29,450	31,512	33,686	41,113
% Growth		7.9%	16.0%	14.1%	1.3%	(8.5%)	(2.9%)	2.7%	7.0%	6.9%	22.0%
LIABILITIES & EQUITY											
Payables	2,637	6,133	3,635	4,953	4,977	3,450	3,159	3,867	3,376	4,624	8,863
% of Revenue	19.2%	41.0%	24.6%	31.5%	30.0%	30.0%	28.2%	28.6%	20.5%	24.5%	41.8%
Other Current Liabilities	5,117	4,902	8,714	9,040	9,224	8,978	7,721	9,693	10,741	11,042	8,998
Short-Term Debt	419	172	82	858	775	1,272	279	358	809	1,097	1,426
Total Current Liabilities	8,173	11,207	12,431	14,851	14,976	13,700	11,159	13,918	14,926	16,763	19,287
% Growth		37.1%	10.9%	19.5%	0.8%	(8.5%)	(18.5%)	24.7%	7.2%	12.3%	15.1%
Long-Term Debt	2,883	3,185	3,406	3,804	4,910	6,058	7,497	5,597	4,950	4,035	2,846
Other Non-Current Liabilities	6,252	12,248	11,157	14,254	15,734	14,634	14,654	15,951	15,265	15,769	13,229
Total Non-Current Liabilities	9,135	15,433	14,563	18,058	20,644	20,692	22,151	21,548	20,215	19,804	16,075
% Growth		68.9%	(5.6%)	24.0%	14.3%	0.2%	7.1%	(2.7%)	(6.2%)	(2.0%)	(18.8%)
Total Liabilities	17,308	26,640	26,994	32,909	35,620	34,392	33,310	35,466	35,141	36,567	35,362
% Growth		53.9%	1.3%	21.9%	8.2%	(3.4%)	(3.1%)	6.5%	(0.9%)	4.1%	(3.3%)
Shareholders' Equity	5,014	(2,559)	930	(1,074)	(3,376)	(4,897)	(4,662)	(6,050)	(3,681)	(912)	2,726
% Growth		(151.0%)	(136.3%)	(215.5%)	214.3%	45.1%	(4.8%)	29.8%	(39.2%)	(75.2%)	(398.9%)
Minority Interest	2	2	3	22	22	22	26	34	52	31	27
Total Shareholders' Equity	5,016	(2,557)	933	(1,052)	(3,354)	(4,875)	(4,636)	(6,016)	(3,629)	(881)	2,753
Total Liabilities & Equity	22,324	24,083	27,927	31,857	32,266	29,517	28,674	29,450	31,512	35,686	38,115

Appendix 3: Cash Flow Statement

CASH FLOW STATEMENT

£ millions

Actual

	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A
OPERATING ACTIVITIES											
Net Income	84	(4,032)	3,433	(2,436)	(1,311)	(3,101)	124	(1,194)	2,412	2,521	5,841
% of Revenue	0.6%	(27.0%)	23.3%	(15.5%)	(7.9%)	(27.0%)	1.1%	(8.8%)	14.6%	13.3%	27.5%
(+) Depreciation & Amortisation	780	830	787	904	1,208	1,187	992	952	948	887	902
Non-Cash / Non-Recurring Adj.	948	4,648	(2,328)	4,885	2,902	810	(925)	2,646	(1,156)	(425)	(1,584)
Changes in Working Capital	(773)	(107)	(433)	(1,197)	(694)	(2,067)	(676)	(943)	-	516	(848)
Change in Receivables	(836)	54	(239)	(581)	(651)	(2,655)	(507)	(56)	-	(1,001)	(3,042)
Change in Inventories	63	(161)	(194)	(616)	(43)	588	(169)	(887)	-	(244)	(636)
Change in Prepaid & Other CA	-	-	-	-	-	-	-	-	-	(292)	3,175
Change in Payables	-	-	-	-	-	-	-	-	-	1,248	4,239
Change in Other CL	-	-	-	-	-	-	-	-	-	301	(2,044)
Change in Other NCL	-	-	-	-	-	-	-	-	-	504	(2,540)
Cash from Operations (CFO)	1,039	1,339	1,459	2,156	2,105	(3,171)	(485)	1,461	2,204	3,499	4,311
% Growth		28.9%	9.0%	47.8%	(2.4%)	(250.6%)	(84.7%)	(401.2%)	50.9%	58.8%	23.2%
% of Revenue	7.6%	9.0%	9.9%	13.7%	12.7%	(27.6%)	(4.3%)	10.8%	13.4%	18.5%	20.3%
INVESTING ACTIVITIES											
Capital Expenditures	(858)	(1,200)	(1,366)	(1,529)	(1,324)	(909)	(493)	(540)	(699)	(876)	(978)
% of Revenue	(6.3%)	(8.0%)	(9.3%)	(9.7%)	(8.0%)	(7.9%)	(4.4%)	(4.0%)	(4.2%)	(4.6%)	(4.6%)
Change in Intangibles	(404)	(623)	(640)	(667)	(627)	(347)	(226)	(229)	-	-	-
Change in Other NCA	388	460	852	1,221	1,033	246	291	1,595	-	-	-
Cash from Investing (CFI)	(874)	(1,363)	(1,154)	(975)	(918)	(1,010)	(428)	826	(726)	(831)	(939)
FINANCING ACTIVITIES											
Net Debt Issuance / (Repayment)	276	(667)	(74)	772	(1,600)	3,186	181	(2,563)	-	-	-
Dividends Paid	-	-	-	-	-	-	-	-	-	-	-
Equity Issuance / (Buyback) & Other	-	-	-	-	-	-	-	-	-	-	-
Cash from Financing (CFF)	276	(667)	(74)	772	(1,600)	3,186	181	(2,563)	(268)	(764)	(2,719)
FX & Other Effects	(6)	286	(69)	66	(104)	56	(82)	156	-	-	-
Net Change in Cash	314	(405)	162	2,019	(517)	(939)	(857)	(34)	-	1,842	668
% Growth		(229.0%)	(140.0%)	1146.3%	(125.6%)	81.6%	(8.7%)	(96.0%)	(100.0%)		(63.7%)
Free Cash Flow (CFO – CapEx)	181	139	93	627	781	(4,080)	(978)	921	1,505	2,623	3,333
FCF Margin (% of Revenue)	1.3%	0.9%	0.6%	4.0%	4.7%	(35.5%)	(8.7%)	6.8%	9.1%	13.9%	15.7%
% Growth		(23.2%)	(33.1%)	574.2%	24.6%	(622.4%)	(76.0%)	(194.2%)	63.4%	74.3%	27.1%

Appendix 4: Income Statement Forecast

INCOME STATEMENT										
£ millions	Forecast									
	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue	22,757	25,200	27,672	30,132	32,541	34,859	37,027	38,987	40,666	41,991
% Growth	7.3%	10.7%	9.8%	8.9%	8.0%	7.1%	6.2%	5.3%	4.3%	3.3%
Cost of Revenue (actuals only)	—									
% Growth										
% of Revenue										
Gross Profit (actuals only)	—									
% Growth										
Gross Margin										
SG&A Expenses (actuals only)	—									
% Growth										
% of Revenue										
R&D Expenses (actuals only)	—									
% Growth										
% of Revenue										
EBITDA	3,912	4,496	5,126	5,792	6,493	7,221	7,959	8,631	9,251	9,805
% Growth	(24.0%)	14.9%	14.0%	13.0%	12.1%	11.2%	10.2%	8.4%	7.2%	6.0%
EBITDA Margin	17.2%	17.8%	18.5%	19.2%	20.0%	20.7%	21.5%	22.1%	22.7%	23.4%
(-) Depreciation & Amortisation	(939)	(1,046)	(1,155)	(1,266)	(1,375)	(1,484)	(1,589)	(1,686)	(1,772)	(1,844)
% Growth	4.1%	11.3%	10.5%	9.6%	8.7%	7.9%	7.0%	6.1%	5.1%	4.1%
% of Revenue	(4.1%)	(4.1%)	(4.2%)	(4.2%)	(4.2%)	(4.3%)	(4.3%)	(4.3%)	(4.4%)	(4.4%)
Operating Profit (EBIT)	2,973	3,451	3,970	4,526	5,118	5,737	6,370	6,946	7,479	7,961
% Growth	(30.0%)	16.1%	15.1%	14.0%	13.1%	12.1%	11.0%	9.0%	7.7%	6.4%
EBIT Margin	13.1%	13.7%	14.3%	15.0%	15.7%	16.5%	17.2%	17.8%	18.4%	19.0%
Non-Recurring Items	-	-	-	-	-	-	-	-	-	-
Net Interest Expense	(25)	(20)	(15)	(10)	(10)	(5)	(5)	-	-	-
% of Revenue	(0.1%)	(0.1%)	(0.1%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	-	-	-
Other Non-Operating Inc/(Exp)	182	176	166	151	163	174	185	195	203	210
Pre-Tax Income (EBT)	3,130	3,607	4,121	4,666	5,271	5,906	6,551	7,141	7,682	8,171
% Growth	(54.9%)	15.2%	14.3%	13.2%	13.0%	12.1%	10.9%	9.0%	7.6%	6.4%
EBT Margin	13.8%	14.3%	14.9%	15.5%	16.2%	16.9%	17.7%	18.3%	18.9%	19.5%
Income Taxes	(563)	(721)	(907)	(1,073)	(1,265)	(1,477)	(1,638)	(1,785)	(1,920)	(2,043)
Effective Tax Rate	18.0%	20.0%	22.0%	23.0%	24.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	2,567	2,886	3,215	3,593	4,006	4,430	4,913	5,355	5,761	6,128
% Growth	(56.1%)	12.4%	11.4%	11.8%	11.5%	10.6%	10.9%	9.0%	7.6%	6.4%
Net Margin	11.3%	11.5%	11.6%	11.9%	12.3%	12.7%	13.3%	13.7%	14.2%	14.6%
Less: Minority Interest	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(27)
Net Income to Common	2,540	2,859	3,188	3,566	3,979	4,403	4,886	5,328	5,734	6,101
% Growth	(56.5%)	12.6%	11.5%	11.9%	11.6%	10.7%	11.0%	9.1%	7.6%	6.4%
Net Margin (Common)	11.2%	11.3%	11.5%	11.8%	12.2%	12.6%	13.2%	13.7%	14.1%	14.5%
Earnings per Share (£)	£0.30	£0.34	£0.38	£0.42	£0.47	£0.52	£0.58	£0.63	£0.68	£0.72
% Growth	(56.5%)	12.6%	11.5%	11.9%	11.6%	10.7%	11.0%	9.1%	7.6%	6.4%
Dividends per Share (£)	£0.00	£0.00	£0.02	£0.03	£0.04	£0.05	£0.06	£0.07	£0.08	£0.09
Total Dividends	-	-	169	253	338	422	507	591	676	760

Note: COGS, SG&A, and R&D are presented for historical context only. Forecast EBITDA and EBIT are derived from bottom-up segment margin assumptions; consolidated cost disaggregation is not disclosed by Rolls-Royce at the segment level.

Appendix 5: Balance Sheet Forecast

BALANCE SHEET										
£ millions	Forecast									
	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
ASSETS										
Cash & Short-Term Investments	4,552	6,735	9,196	11,977	15,218	18,838	23,005	27,586	32,553	37,875
% of Total Assets	11.4%	14.8%	17.9%	20.9%	23.9%	26.9%	29.9%	33.0%	36.1%	39.2%
Receivables	11,716	12,596	13,417	14,158	14,803	15,335	15,735	15,983	16,062	15,957
% of Revenue	51.5%	50.0%	48.5%	47.0%	45.5%	44.0%	42.5%	41.0%	39.5%	38.0%
Inventories	6,147	6,750	7,351	7,937	8,499	9,026	9,505	9,921	10,257	10,498
% of Revenue	27.0%	26.8%	26.6%	26.3%	26.1%	25.9%	25.7%	25.4%	25.2%	25.0%
Prepaid & Other Current Assets	3,608	3,887	4,150	4,390	4,602	4,780	4,919	5,012	5,054	5,039
% of Revenue	15.9%	15.4%	15.0%	14.6%	14.1%	13.7%	13.3%	12.9%	12.4%	12.0%
Total Current Assets	26,023	29,969	34,115	38,462	43,121	47,980	53,163	58,502	63,927	69,368
% Growth	(0.6%)	15.2%	13.8%	12.7%	12.1%	11.3%	10.8%	10.0%	9.3%	8.5%
PP&E	5,121	5,656	6,196	6,730	7,250	7,747	8,208	8,621	8,969	9,238
% of Revenue	22.5%	22.4%	22.4%	22.3%	22.3%	22.2%	22.2%	22.1%	22.1%	22.0%
Intangible Assets (incl. Goodwill)	4,934	5,445	5,958	6,465	6,957	7,426	7,860	8,246	8,571	8,818
% of Revenue	21.7%	21.6%	21.5%	21.5%	21.4%	21.3%	21.2%	21.2%	21.1%	21.0%
Other Non-Current Assets	4,020	4,573	5,155	5,758	6,375	6,997	7,611	8,201	8,751	9,238
Total Non-Current Assets	14,075	15,674	17,309	18,952	20,582	22,170	23,679	25,068	26,291	27,294
% Growth	(5.8%)	11.4%	10.4%	9.5%	8.6%	7.7%	6.8%	5.9%	4.9%	3.8%
Total Assets	40,098	45,643	51,423	57,414	63,703	70,150	76,842	83,570	90,217	96,662
% Growth	(2.5%)	13.8%	12.7%	11.7%	11.0%	10.1%	9.5%	8.8%	8.0%	7.1%
LIABILITIES & EQUITY										
Payables	9,511	10,006	10,409	10,705	10,882	10,929	10,836	10,595	10,202	9,658
% of Revenue	41.8%	39.7%	37.6%	35.5%	33.4%	31.4%	29.3%	27.2%	25.1%	23.0%
Other Current Liabilities	9,263	10,378	11,528	12,696	13,867	15,021	16,132	17,172	18,106	18,896
Short-Term Debt	1,426	1,426	1,426	1,426	1,426	1,426	1,426	1,426	1,426	1,426
Total Current Liabilities	20,200	21,809	23,363	24,828	26,174	27,376	28,394	29,193	29,734	29,980
% Growth	4.7%	8.0%	7.1%	6.3%	5.4%	4.6%	3.7%	2.8%	1.9%	0.8%
Long-Term Debt	2,446	2,146	1,946	1,746	1,646	1,546	1,546	1,546	1,546	1,546
Other Non-Current Liabilities	12,159	13,536	14,944	16,358	17,758	19,123	20,418	21,610	22,657	23,515
Total Non-Current Liabilities	14,605	15,682	16,890	18,104	19,404	20,669	21,964	23,156	24,203	25,061
% Growth	(9.1%)	7.4%	7.7%	7.2%	7.2%	6.5%	6.3%	5.4%	4.5%	3.5%
Total Liabilities	34,805	37,492	40,253	42,931	45,579	48,045	50,358	52,349	53,937	55,041
% Growth	(1.6%)	7.7%	7.4%	6.7%	6.2%	5.4%	4.8%	4.0%	3.0%	2.0%
Shareholders' Equity	5,266	8,124	11,143	14,456	18,097	22,078	26,457	31,194	36,253	41,594
% Growth	93.2%	54.3%	37.2%	29.7%	25.2%	22.0%	19.8%	17.9%	16.2%	14.7%
Minority Interest	27	27	27	27	27	27	27	27	27	27
Total Shareholders' Equity	5,293	8,151	11,170	14,483	18,124	22,105	26,484	31,221	36,280	41,621
Total Liabilities & Equity	40,098	45,643	51,423	57,414	63,703	70,150	76,842	83,570	90,217	96,662

Appendix 6: Cash Flow Forecast

CASH FLOW STATEMENT										
£ millions	Forecast									
	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
OPERATING ACTIVITIES										
Net Income	2,567	2,886	3,215	3,593	4,006	4,430	4,913	5,355	5,761	6,128
% of Revenue	11.3%	11.5%	11.6%	11.9%	12.3%	12.7%	13.3%	13.7%	14.2%	14.6%
(+) Depreciation & Amortisation	939	1,046	1,155	1,266	1,375	1,484	1,589	1,686	1,772	1,844
Non-Cash / Non-Recurring Adj.	-	-	-	-	-	-	-	-	-	-
Changes in Working Capital										
Change in Receivables	(842)	(880)	(821)	(741)	(644)	(532)	(399)	(248)	(79)	106
Change in Inventories	(442)	(604)	(600)	(586)	(562)	(528)	(479)	(416)	(337)	(240)
Change in Prepaid & Other CA	(259)	(279)	(263)	(240)	(212)	(179)	(139)	(93)	(42)	15
Change in Payables	684	495	404	296	176	47	(93)	(241)	(393)	(544)
Change in Other CL	666	1,115	1,150	1,168	1,170	1,154	1,111	1,040	934	790
Change in Other NCL	874	1,377	1,407	1,414	1,401	1,365	1,295	1,192	1,047	858
Cash from Operations (CFO)	4,186	5,155	5,646	6,170	6,711	7,242	7,798	8,274	8,664	8,957
% Growth	(2.9%)	23.1%	9.5%	9.3%	8.8%	7.9%	7.7%	6.1%	4.7%	3.4%
% of Revenue	18.4%	20.5%	20.4%	20.5%	20.6%	20.8%	21.1%	21.2%	21.3%	21.3%
INVESTING ACTIVITIES										
Capital Expenditures	(1,049)	(1,151)	(1,251)	(1,348)	(1,441)	(1,528)	(1,606)	(1,673)	(1,727)	(1,764)
% of Revenue	(4.6%)	(4.6%)	(4.5%)	(4.5%)	(4.4%)	(4.4%)	(4.3%)	(4.3%)	(4.2%)	(4.2%)
Change in Intangibles	40	(92)	(51)	(0)	58	125	202	288	384	490
Change in Other NCA	1,553	(553)	(582)	(603)	(617)	(622)	(614)	(591)	(549)	(487)
Cash from Investing (CFI)	543	(1,796)	(1,884)	(1,952)	(2,000)	(2,026)	(2,018)	(1,976)	(1,891)	(1,761)
FINANCING ACTIVITIES										
Net Debt Issuance / (Repayment)	(400)	(300)	(200)	(200)	(100)	(100)	-	-	-	-
Dividends Paid	-	-	(169)	(253)	(338)	(422)	(507)	(591)	(676)	(760)
Equity Issuance / (Buyback) & Other	-	-	-	-	-	-	-	-	-	-
Cash from Financing (CFF)	(400)	(300)	(369)	(453)	(438)	(522)	(507)	(591)	(676)	(760)
FX & Other Effects	-	-	-	-	-	-	-	-	-	-
Net Change in Cash	(1,974)	2,183	2,461	2,781	3,241	3,620	4,167	4,581	4,967	5,322
% Growth										
Free Cash Flow (CFO – CapEx)	3,137	4,004	4,396	4,822	5,270	5,714	6,192	6,601	6,937	7,193
FCF Margin (% of Revenue)	13.8%	15.9%	15.9%	16.0%	16.2%	16.4%	16.7%	16.9%	17.1%	17.1%
% Growth	(5.9%)	27.7%	9.8%	9.7%	9.3%	8.4%	8.4%	6.6%	5.1%	3.7%

Appendix 7: CCA Company Level

Company	Ticker	EV / Revenue	EV / EBITDA	P / E	P / Cash Flow	P / Book	Div. Yield	P / Revenue
Safran SA	SAF.PA	3.88x	17.9x	32.2x	23.0x	8.8x	1.2%	3.91x
BAE Systems PLC	BAES.L	2.04x	14.5x	24.6x	21.1x	4.9x	2.0%	1.87x
Thales SA	TCFP.PA	2.34x	13.9x	22.8x	17.5x	5.3x	1.8%	2.19x
MTU Aero Engines AG	MTXGn.DE	2.05x	10.9x	18.7x	17.4x	3.8x	1.5%	2.02x
Dassault Aviation SA	AM.PA	1.94x	15.9x	20.3x	37.6x	3.5x	1.7%	2.99x
Airbus SE	AIR.PA	1.75x	13.1x	23.8x	17.2x	4.9x	1.9%	1.75x
Leonardo SpA	LDOF.MI	1.70x	12.9x	24.0x	14.2x	3.0x	1.2%	1.53x
Mean		2.24x	14.2x	23.8x	21.1x	4.9x	1.6%	2.32x
Median		2.04x	13.9x	23.8x	17.5x	4.9x	1.7%	2.02x
25th Percentile		1.84x	13.0x	21.5x	17.3x	3.7x	1.4%	1.81x
75th Percentile		2.19x	15.2x	24.3x	22.1x	5.1x	1.9%	2.59x
Rolls-Royce Holdings PLC	RR.L	4.91x	23.3x	37.3x	25.1x	39.9x	0.9%	5.01x

Appendix 8: CCA Civil Aerospace

Panel A — Civil Aerospace				
Company	Ticker	EV / Revenue	EV / EBITDA	P / E
Safran SA	SAF.PA	3.88x	17.9x	32.2x
MTU Aero Engines AG	MTXGn.DE	2.05x	10.9x	18.7x
General Electric Co	GE	7.43x	30.8x	44.3x
RTX Corp	RTX	3.20x	19.1x	28.9x
Mean		4.14x	19.7x	31.0x
Median		3.54x	18.5x	30.5x
RR Civil Aerospace (NTM)				
		NTM	FY2027E	
Segment Revenue (£m)		11,814	13,281	
Segment EBITDA (£m)		2,270	2,652	
Implied EV (via EV/Revenue)		41,802	46,992	
Implied EV (via EV/EBITDA)		41,941	48,999	
Implied Segment EV (Average)		41,872	47,996	

Appendix 9: CCA Defence

Panel B — Defence				
Company	Ticker	EV / Revenue	EV / EBITDA	P / E
BAE Systems PLC	BAES.L	2.04x	14.5x	24.6x
Thales SA	TCFP.PA	2.34x	13.9x	22.8x
Leonardo SpA	LDOF.MI	1.70x	12.9x	24.0x
Rheinmetall Aktiengesellschaft	RHMG.DE	5.06x	22.5x	38.1x
General Dynamics Corp	GD	1.85x	15.1x	21.3x
Babcock International Group PLC	BAB.L	1.32x	12.3x	21.5x
Mean		2.39x	15.2x	25.4x
Median		1.95x	14.2x	23.4x
RR Defence (NTM)				
		NTM	FY2027E	
Segment Revenue (£m)		5,369	5,843	
Segment EBITDA (£m)		819	913	
Implied EV (via EV/Revenue)		10,454	11,377	
Implied EV (via EV/EBITDA)		11,614	12,939	
Implied Segment EV (Average)		11,034	12,158	

Appendix 10: CCA Power Systems

Panel C — Power Systems				
Company	Ticker	EV / Revenue	EV / EBITDA	P / E
Wartsila Oyj Abp	WRT1V.HE	2.81x	18.2x	31.3x
Siemens Energy AG	ENR1n.DE	2.91x	18.9x	34.3x
Caterpillar Inc	CAT	5.00x	23.5x	30.8x
Cummins Inc	CMI	2.35x	13.2x	21.2x
Mean		3.27x	18.4x	29.4x
Median		2.86x	18.5x	31.1x
RR Power Systems (NTM)				
		NTM	FY2027E	
Segment Revenue (£m)		5,569	6,068	
Segment EBITDA (£m)		998	1,112	
Implied EV (via EV/Revenue)		15,933	17,359	
Implied EV (via EV/EBITDA)		18,515	20,620	
Implied Segment EV (Average)		17,224	18,989	

Appendix 11: DCF Civil Aerospace

DCF Valuation — Civil Aerospace	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue Growth	—	23.0%	15.0%	13.6%	12.4%	11.2%	10.1%	8.9%	7.7%	6.5%	5.4%	4.2%	3.0%
Revenue	7,348	9,040	10,400	11,814	13,281	14,773	16,260	17,705	19,070	20,315	21,403	22,297	22,966
EBIT Margin	1.9%	9.4%	21.2%	15.0%	15.6%	16.3%	17.0%	17.7%	18.3%	19.0%	19.7%	20.3%	21.0%
EBIT	143	850	2,200	1,770	2,078	2,411	2,762	3,126	3,494	3,858	4,208	4,533	4,823
Tax on EBIT	(36)	(213)	(550)	(319)	(416)	(530)	(635)	(750)	(874)	(965)	(1,052)	(1,133)	(1,206)
NOPAT	107	638	1,650	1,451	1,663	1,880	2,127	2,376	2,621	2,894	3,156	3,400	3,617
(+) D&A	755	719	520	500	574	651	730	810	889	964	1,034	1,096	1,148
(–) Capex	(415)	(562)	(624)	(864)	(952)	(1,038)	(1,118)	(1,192)	(1,256)	(1,308)	(1,347)	(1,370)	(1,378)
(–) ΔNWC	—	—	163	170	176	179	178	173	164	149	131	107	80
NWC % Revenue	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%
Unlevered Free Cash Flow	447	795	1,709	1,257	1,460	1,673	1,917	2,167	2,417	2,699	2,974	3,233	3,468

Terminal Value & Valuation

Terminal Year UFCF (Year 10)	3,468
Terminal Growth Rate (g)	2.5%
Segment WACC	7.72%
Terminal Value (Gordon Growth)	68,095
PV of Forecast UFCF (Yr 1–10)	14,776
PV of Terminal Value	32,371
Segment Enterprise Value	47,148
<i>TV as % of Total EV</i>	68.79%

Appendix 12: DCF Defence

DCF Valuation — Defence	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue Growth	—	10.9%	8.4%	9.6%	8.8%	8.1%	7.4%	6.6%	5.9%	5.2%	4.5%	3.7%	3.0%
Revenue	4,077	4,522	4,900	5,369	5,843	6,317	6,783	7,234	7,662	8,060	8,419	8,733	8,995
EBIT Margin	10.6%	12.4%	13.1%	12.8%	13.2%	13.5%	13.9%	14.2%	14.6%	14.9%	15.3%	15.6%	16.0%
EBIT	432	562	640	688	770	855	942	1,030	1,118	1,204	1,288	1,366	1,439
Tax on EBIT	(108)	(141)	(160)	(124)	(154)	(188)	(217)	(247)	(279)	(301)	(322)	(342)	(360)
NOPAT	324	422	480	565	616	667	725	783	838	903	966	1,025	1,079
(+) D&A	128	105	123	131	143	155	167	178	189	200	209	218	225
(–) Capex	(146)	(176)	(172)	(215)	(231)	(246)	(260)	(274)	(285)	(296)	(304)	(311)	(315)
(–) ΔNWC	—	—	19	23	24	24	23	23	21	20	18	16	13
NWC % Revenue	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Unlevered Free Cash Flow	306	351	450	504	551	599	655	710	764	827	889	948	1,003

Terminal Value & Valuation

Terminal Year UFCF (Year 10)	1,003
Terminal Growth Rate (g)	2.5%
Segment WACC	7.33%
Terminal Value (Gordon Growth)	21,255
PV of Forecast UFCF (Yr 1–10)	4,927
PV of Terminal Value	10,473
Segment Enterprise Value	15,400
TV as % of Total EV	68.0%

Appendix 13: DCF Power Systems

DCF Valuation — Power Systems	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue Growth	—	7.6%	18.9%	9.6%	9.0%	8.3%	7.6%	6.9%	6.2%	5.5%	4.9%	4.2%	3.5%
Revenue	3,968	4,271	5,080	5,569	6,068	6,570	7,069	7,557	8,027	8,473	8,885	9,256	9,580
EBIT Margin	7.1%	9.7%	14.2%	12.7%	13.1%	13.6%	14.1%	14.6%	15.1%	15.6%	16.0%	16.5%	17.0%
EBIT	281	413	720	705	798	895	997	1,103	1,210	1,318	1,425	1,529	1,629
Tax on EBIT	(70)	(103)	(180)	(127)	(160)	(197)	(229)	(265)	(302)	(329)	(356)	(382)	(407)
NOPAT	211	310	540	578	638	698	768	838	907	988	1,069	1,147	1,221
(+) D&A	193	194	254	293	314	335	354	372	388	403	415	424	431
(–) Capex	(177)	(160)	(203)	(238)	(257)	(277)	(295)	(314)	(331)	(346)	(361)	(373)	(383)
(–) ΔNWC	—	—	(24)	(15)	(15)	(15)	(15)	(15)	(14)	(13)	(12)	(11)	(10)
NWC % Revenue	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Unlevered Free Cash Flow	227	344	567	619	680	741	811	882	951	1,031	1,110	1,187	1,260

Terminal Value & Valuation

Terminal Year UFCF (Year 10)	1,260
Terminal Growth Rate (g)	2.5%
Segment WACC	8.15%
Terminal Value (Gordon Growth)	22,845
PV of Forecast UFCF (Yr 1–10)	5,873
PV of Terminal Value	10,434
Segment Enterprise Value	16,307
<i>TV as % of Total EV</i>	<i>64.0%</i>

Appendix 14: DCF New Markets

	FY 2023A	FY 2024A	FY 2025A	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E	FY 2032E	FY 2033E	FY 2034E	FY 2035E
Revenue	3	4	5	5	8	12	20	45	100	180	280	380	450
EBIT (Operating Loss)	(132)	(160)	(175)	(190)	(195)	(190)	(175)	(140)	(85)	(10)	25	50	70
Tax on EBIT	33	40	44	48	49	48	44	35	21	3	(6)	(13)	(18)
NOPAT	(99)	(120)	(131)	(143)	(146)	(143)	(131)	(105)	(64)	(8)	19	38	53
(+) D&A	6	9	0	15	15	15	15	15	18	22	28	34	40
(-) Capex	(16)	(17)	(50)	(20)	(25)	(30)	(40)	(50)	(60)	(38)	(35)	(38)	(40)
(-) ΔNWC	—	—	—	—	(1)	(1)	(2)	(5)	(11)	(8)	(8)	(5)	(5)
Unlevered Free Cash Flow	(109)	(128)	(181)	(148)	(157)	(159)	(158)	(145)	(117)	(32)	4	29	48

Terminal Value & Valuation (Exit Multiple)	
Terminal Year Revenue (Year 10)	450
Exit EV/Revenue Multiple	7.0x
Segment WACC	13.00%
Terminal Value (Exit Multiple)	3,150
PV of Forecast UFCF (Yr 1–10)	(584)
PV of Terminal Value	928
Segment Enterprise Value	344
TV as % of Total EV	269.7%

Appendix 15: Beta Derivation

[illegible]

Appendix 16: Sensitivity - DCF Civil Aerospace

£ millions | Civil Aerospace DCF | Base case: WACC ~7.7%, Terminal g 2.5%

WACC \ Terminal g →	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
5.7%	59,048	64,325	71,021	79,797	91,799	109,207	136,739
6.7%	47,560	50,794	54,714	59,562	65,714	73,777	84,803
7.2%	43,227	45,829	48,930	52,689	57,337	63,236	70,966
7.7%	39,554	41,678	44,174	47,148	50,752	55,210	60,867
8.2%	36,403	38,159	40,196	42,590	45,443	48,899	53,176
8.7%	33,673	35,139	36,823	38,778	41,074	43,811	47,127
9.7%	29,182	30,232	31,417	32,767	34,318	36,118	38,233

Appendix 17: Sensitivity - DCF Defence

£ millions | Defence DCF | Base case: WACC ~7.3%, Terminal g 2.5%

WACC \ Terminal g →	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
5.3%	19,369	21,258	23,713	27,035	31,780	39,110	51,933
6.3%	15,461	16,580	17,956	19,691	21,946	24,997	29,355
6.8%	14,016	14,905	15,977	17,296	18,959	21,121	24,046
7.3%	12,803	13,520	14,372	15,400	16,665	18,259	20,333
7.8%	11,770	12,357	13,045	13,862	14,848	16,061	17,590
8.3%	10,881	11,367	11,931	12,591	13,374	14,320	15,483
9.3%	9,430	9,774	10,164	10,612	11,131	11,738	12,460

Appendix 18: Sensitivity - DCF Power Systems

£ millions | Power Systems DCF | Base case: WACC ~8.2%, Terminal g 2.5%

WACC \ Terminal g →	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
6.2%	20,113	21,648	23,554	25,981	29,179	33,582	40,032
7.2%	16,549	17,522	18,684	20,095	21,846	24,077	27,016
7.7%	15,176	15,968	16,901	18,015	19,369	21,048	23,188
8.2%	13,998	14,652	15,413	16,307	17,376	18,674	20,285
8.7%	12,978	13,524	14,151	14,880	15,739	16,764	18,009
9.2%	12,086	12,546	13,069	13,671	14,371	15,194	16,178
10.2%	10,603	10,936	11,310	11,733	12,215	12,770	13,415

Appendix 19: Sensitivity — DCF New Markets (Bear / Base / Bull)

£ millions | New Markets DCF (Exit Multiple) | Base case: WACC 13.0%, EV/Rev 7.0x | Bear: 15% / 4.0x | Bull: 11% / 10.0x

WACC \ EV/Rev →	3.0x	4.0x	5.0x	7.0x	8.0x	10.0x	12.0x
10.0%	-111	63	236	583	757	1,104	1,451
11.0%	-139	19	178	495	653	970	1,287
12.0%	-164	-19	125	415	560	850	1,140
13.0%	-186	-54	79	344	477	742	1,007
14.0%	-205	-84	38	280	402	645	887
15.0%	-221	-110	1	223	335	557	780
16.0%	-236	-134	-32	172	274	478	682

SCENARIO SUMMARY	Segment EV (£r)	WACC	EV/Rev	Rationale
● Bear Case	-110	15.00%	4.0x	Technology fails to commercialise; regulatory headwinds; low exit multiples
● Base Case	344	13.00%	7.0x	Current assumptions; SMR/nuclear peers median; VC-adjusted WACC
● Bull Case	970	11.00%	10.0x	SMR wins government contracts; Bloom-like premium; de-risked execution

Appendix 20: Group Revenue By Segment

Segment Revenue											
£ millions											
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Civil Aerospace	6,933	7,067	6,598	7,378	8,107	5,068	4,536	5,686	7,348	9,040	10,400
% Growth		1.9%	(6.6%)	11.8%	9.9%	(37.5%)	(10.5%)	25.4%	29.2%	23.0%	15.0%
% of Group Revenue	50.5%	47.3%	44.7%	46.9%	48.9%	44.3%	41.4%	44.8%	47.7%	50.6%	51.8%
Defence	2,035	2,209	3,180	3,124	3,250	3,355	3,368	3,660	4,077	4,522	4,900
% Growth		8.6%	44.0%	(1.8%)	4.0%	3.2%	0.4%	8.7%	11.4%	10.9%	8.4%
% of Group Revenue	14.8%	14.8%	21.6%	19.9%	19.6%	29.4%	30.8%	28.8%	26.5%	25.3%	24.4%
Power Systems	2,385	2,655	3,008	3,484	3,184	2,735	2,749	3,347	3,968	4,271	5,080
% Growth		11.3%	13.3%	15.8%	(8.6%)	(14.1%)	0.5%	21.8%	18.6%	7.6%	18.9%
% of Group Revenue	17.4%	17.8%	20.4%	22.2%	19.2%	23.9%	25.1%	26.4%	25.8%	23.9%	25.3%
New Markets						5	2	3	4	3	5
% Growth							(60.0%)	50.0%	33.3%	(25.0%)	66.7%
% of Group Revenue						0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Group Revenue	13,725	14,955	14,747	15,729	16,587	11,430	10,947	12,691	15,409	17,848	20,059
% Growth		9.0%	(1.4%)	6.7%	5.5%	(31.1%)	(4.2%)	15.9%	21.4%	15.8%	12.4%

Appendix 21: Peer Growth, Profitability & Revenue Profile

#	Company	Growth					Profitability				Returns & Scale		
		Rev Growth (FY-1→FY0)	Rev Growth NTM vs LTM	EPS NTM vs LTM	EBITDA NTM vs LTM	LT Growth (Consensus)	Gross Margin	Operating Margin	5Y Avg Op. Margin	Net Margin	ROE (TTM)	ROA (TTM)	Revenue FY0 (USD m)
1	Safran SA	29.7%	15.1%	37.2%	11.8%	19.3%	42.2%	14.5%	12.8%	23.4%	57.4%	12.5%	37,178
2	BAE Systems PLC	16.0%	10.4%	14.7%	17.1%	14.8%	100.0%	9.5%	9.3%	7.6%	17.6%	5.7%	41,366
3	Thales SA	17.6%	8.4%	12.4%		9.2%	26.4%	10.0%	8.7%	7.4%	21.6%	4.1%	25,707
4	MTU Aero Engines AG	33.6%	10.6%	7.2%		14.4%	19.3%	13.9%	11.4%	11.7%			10,315
5	Dassault Aviation SA	28.3%	19.3%			9.5%	30.7%	8.6%	7.9%	13.2%	15.1%	3.2%	8,639
6	Airbus SE	18.9%	12.7%	-4.5%	8.9%	19.9%	14.9%	7.9%	8.2%	6.8%	22.8%	3.8%	86,430
7	Leonardo SpA	16.8%	12.1%			27.2%	36.9%	8.9%	7.3%	6.8%	13.2%	3.9%	22,643
8	General Electric Co	20.5%	16.9%	21.3%	16.3%	14.6%	35.0%	17.1%	10.1%	19.0%	45.9%	6.9%	42,322
9	RTX Corp	9.7%	7.5%	11.7%	11.3%	10.1%	20.1%	12.8%	12.2%	8.0%	10.7%	4.2%	88,603
10	Wartsila Oyj Abp	21.7%	2.1%	13.2%	8.4%	8.7%	62.6%	12.6%	7.9%	9.1%	23.2%	7.8%	8,163
11	Rheinmetall Aktiengesellschaft	7.7%	57.6%	169.8%	74.1%	59.0%	48.5%	16.8%	13.4%	11.8%	22.9%	7.6%	11,435
12	General Dynamics Corp	10.1%	5.4%	8.6%	8.5%	10.5%	15.1%	10.2%	10.4%	8.0%	17.7%	7.4%	52,550
13	Caterpillar Inc	4.3%	12.4%	27.1%	24.8%	11.0%	34.2%	19.2%	19.0%	13.1%	43.5%	9.5%	67,589
14	Cummins Inc	-1.3%	8.5%	22.6%	11.6%	13.7%	25.4%	12.0%	10.3%	8.8%	25.1%	9.0%	33,670
15	Siemens Energy AG	24.1%	16.7%	220.7%	70.6%	65.6%	16.8%	4.0%	-2.5%	4.3%	18.1%	3.8%	45,451
16	Babcock International Group PLC	16.8%				11.9%	53.6%	7.1%	3.3%	5.2%	46.1%	7.6%	6,601
Rolls-Royce Holdings PLC		20.3%	15.6%	32.9%	16.3%		29.1%	20.0%	10.9%	27.5%	64.0%	15.8%	27,042
Peer Median		17.2%	12.1%	14.7%	11.8%	14.0%	32.5%	11.1%	9.7%	8.4%	22.8%	6.9%	35,424
Peer Mean		17.2%	14.4%	43.2%	23.9%	20.0%	36.4%	11.6%	9.4%	10.3%	26.7%	6.5%	36,791
Count		16	15	13	11	16	16	16	16	16	15	15	16

Appendix 22: Rolls-Royce Bond Portfolio & Market Cost of Debt

Panel A: Active Bond Portfolio												
Bond Information			Terms			Market Data					Weight	
#	ISIN	Ccy	Coupo	Maturity	Seniority	Amt Out.	Last	YTM	OAS	Mod.	% of	Wtd
			n							Duration		Contrib
			(%)	Date		(£M)	Price	(%)	(bps)		Total	
1	XS0944831154	GBP	3.375%	18-Jun-2026	Senior Unsecured	375.0	99.751	4.319%	44.5	0.234	10.9%	0.472%
2	XS2244321787	GBP	5.750%	15-Oct-2027	Senior Unsecured	545.0	100.916	5.129%	61.5	1.442	15.9%	0.815%
3	USG76237AC37	USD	5.750%	15-Oct-2027	Senior Unsecured	744.6	101.457	4.773%	79.9	1.453	21.7%	1.036%
4	XS2244321860	GBP	5.750%	15-Oct-2027	Senior Unsecured	545.0	100.492	5.416%	94.3	1.448	15.9%	0.861%
5	US77578JAC27	USD	5.750%	15-Oct-2027	Senior Unsecured	744.6	101.516	4.734%	78.8	1.454	21.7%	1.028%
6	XS1819574929	EUR	1.625%	09-May-2028	Senior Unsecured	474.6	96.887	3.159%	56.0	2.047	13.8%	0.437%
						3,428.8	100.411	4.650%	71.8	1.400	100.0%	4.650%

Panel B: Market Cost of Debt Summary	
Metric	Value
Total Bonds Outstanding	1
Total Outstanding Amount	£3,428.8M
Weighted-Average Coupon	4.919%
Weighted-Average YTM (Pre-Tax)	4.650%
Weighted-Average OAS	71.8 bps
Weighted-Average Modified Duration	1.400x
Weighted-Average Maturity (Years)	1.5 yrs

Note: YTM's are quoted in each bond's local currency, portfolio weights use GBP-equivalent notionals at spot. An OAS-based sterling-equivalent cross-check (weighted-average OAS of 71.8 bps over the 1.4-year UK gilt yield) lies within ten basis points of the headline 4.65%. WACC uses the more conservative 6.42% book cost (Section 6.1.1).

Appendix 23: Composition of Other Non-Current Assets & Liabilities

PANEL A: OTHER NON-CURRENT ASSETS																
£ millions	Actual					Forecast										
	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E	
Other Non-Current Assets — Total	3,412	3,367	3,814	4,455	3,746	4,020	4,573	5,155	5,758	6,375	6,997	7,611	8,201	8,751	9,238	
Deferred Tax Asset (DTA)	2,249	2,731	2,998	3,660	3,460	—	—	—	—	—	—	—	—	—	—	
Pension Assets (IAS 19 surplus)	1,148	613	782	790	286	—	—	—	—	—	—	—	—	—	—	
Other Non-Current Assets (residual)	15	23	34	5	-	—	—	—	—	—	—	—	—	—	—	
DTA as % of Other NCA	65.9%	81.1%	78.6%	82.2%	92.4%	—	—	—	—	—	—	—	—	—	—	
Δ Other NCA (YoY)	—	(45)	447	641	(709)	(1,553)	553	582	603	617	622	614	591	549	487	
Other NCA / Revenue	30.4%	24.9%	23.1%	23.6%	17.7%	17.7%	18.1%	18.6%	19.1%	19.6%	20.1%	20.6%	21.0%	21.5%	22.0%	
PANEL B: OTHER NON-CURRENT LIABILITIES																
£ millions	Actual					Forecast										
	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E	
Other Non-Current Liabilities — Total	10,625	12,336	12,930	13,832	11,331	12,159	13,536	14,944	16,358	17,758	19,123	20,418	21,610	22,657	23,515	
Provisions — Long-Term	2,480	2,734	2,532	2,386	1,942	—	—	—	—	—	—	—	—	—	—	
Post-Employment Benefits (Pension & Oth	1,373	1,033	1,035	981	892	—	—	—	—	—	—	—	—	—	—	
Provisions — Other (Long-Term)	1,107	1,701	1,497	1,405	1,050	—	—	—	—	—	—	—	—	—	—	
Deferred Revenue — Long-Term	6,710	7,337	8,438	9,447	8,762	—	—	—	—	—	—	—	—	—	—	
Other Non-Current Liabilities (residual)	1,435	2,265	1,960	1,999	627	—	—	—	—	—	—	—	—	—	—	
Deferred Revenue as % of Other NCL	63.2%	59.5%	65.3%	68.3%	77.3%	—	—	—	—	—	—	—	—	—	—	
Δ Other NCL (YoY)	—	1,711	594	902	(2,501)	874	1,377	1,407	1,414	1,401	1,365	1,295	1,192	1,047	858	
Other NCL / Revenue	94.7%	91.2%	78.4%	73.2%	53.4%	53.4%	53.7%	54.0%	54.3%	54.6%	54.9%	55.1%	55.4%	55.7%	56.0%	
PANEL C: EQUITY BRIDGE RECONCILIATION																
Category	Key Items															
Items already in DCF (operating flows)	DTA, Provisions, Deferred Revenue, Other operating items															
Items in equity bridge (separate deductions)	Pension deficit (IAS 19 net): £606m															
Items NOT in bridge but already netted	Net Debt (£2,254m cash), Minorities (£27m)															

Appendix 24: Condensed Group Income Statement Forecast, FY2025A–FY2035E

CONDENSED GROUP INCOME STATEMENT FORECAST

£ millions	FY2025A	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
Revenue	21,121	22,757	25,200	27,672	30,132	32,541	34,859	37,027	38,987	40,666	41,991
<i>Revenue Growth</i>	<i>12.3%</i>	<i>7.7%</i>	<i>10.7%</i>	<i>9.8%</i>	<i>8.9%</i>	<i>8.0%</i>	<i>7.1%</i>	<i>6.2%</i>	<i>5.3%</i>	<i>4.3%</i>	<i>3.3%</i>
EBITDA	5,149	3,912	4,496	5,126	5,792	6,493	7,221	7,959	8,631	9,251	9,805
<i>EBITDA Margin</i>	<i>24.4%</i>	<i>17.2%</i>	<i>17.8%</i>	<i>18.5%</i>	<i>19.2%</i>	<i>20.0%</i>	<i>20.7%</i>	<i>21.5%</i>	<i>22.1%</i>	<i>22.7%</i>	<i>23.4%</i>
(-) D&A	(902)	(939)	(1,046)	(1,155)	(1,266)	(1,375)	(1,484)	(1,589)	(1,686)	(1,772)	(1,844)
Operating Profit (EBIT)	4,247	2,973	3,451	3,970	4,526	5,118	5,737	6,370	6,946	7,479	7,961
<i>EBIT Margin</i>	<i>20.1%</i>	<i>13.1%</i>	<i>13.7%</i>	<i>14.3%</i>	<i>15.0%</i>	<i>15.7%</i>	<i>16.5%</i>	<i>17.2%</i>	<i>17.8%</i>	<i>18.4%</i>	<i>19.0%</i>
Non-Recurring Items	2,500	-	-	-	-	-	-	-	-	-	-
Net Interest Expense	(31)	(25)	(20)	(15)	(10)	(10)	(5)	(5)	-	-	-
Other Non-Operating Inc/(Exp)	219	182	176	166	151	163	174	185	195	203	210
Pre-Tax Income	6,935	3,130	3,607	4,121	4,666	5,271	5,906	6,551	7,141	7,682	8,171
Income Taxes	(1,099)	(563)	(721)	(907)	(1,073)	(1,265)	(1,477)	(1,638)	(1,785)	(1,920)	(2,043)
<i>Effective Tax Rate</i>	<i>15.8%</i>	<i>18.0%</i>	<i>20.0%</i>	<i>22.0%</i>	<i>23.0%</i>	<i>24.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>
Net Income	5,841	2,567	2,886	3,215	3,593	4,006	4,430	4,913	5,355	5,761	6,128
<i>Net Margin</i>	<i>27.7%</i>	<i>11.2%</i>	<i>11.3%</i>	<i>11.5%</i>	<i>11.8%</i>	<i>12.2%</i>	<i>12.6%</i>	<i>13.2%</i>	<i>13.7%</i>	<i>14.1%</i>	<i>14.5%</i>

Appendix 25: Comparison of SOTP and consolidated DCF implied share prices

SOTP VS. CONSOLIDATED DCF			
£m	SOTP DCF	Company-Wide DCF	Difference
Panel A: Key DCF Assumptions			
WACC	Segment-specific	7.7%	—
Terminal Growth Rate (g)	2.5%	2.5%	0.0%
Forecast Period	10 years	10 years	—
Terminal Value Method	GGM + Exit Multiple	Gordon Growth Model	—
TV as % of Enterprise Value	68.4%	75.8%	-7.4 pp
Panel B: Valuation Build (£m)			
PV of Forecast FCFs (Yr 1–10)	24,993	17,674	7,319
PV of Terminal Value	54,206	55,376	-1,169
Enterprise Value	79,199	73,050	6,149
<i>Δ Enterprise Value (%)</i>			8.4%
Panel C: Equity Bridge (£m)			
Total Enterprise Value	79,199	73,050	6,149
(+) Net Cash	2,254	2,254	—
(-) Minority Interest	(27)	(27)	—
(-) Pension Deficit (IAS 19)	(606)	(606)	—
Equity Value	80,820	74,671	6,149
Diluted Shares Outstanding (m)	8,448	8,448	—
Panel D: Implied Share Price			
Implied Share Price (£)	£9.57	£8.84	£0.73
<i>Current Market Price (£)</i>	<i>£11.50</i>	<i>£11.50</i>	
Downside to Market	-16.8%	-23.1%	6.3 pp
Company DCF vs. SOTP DCF		-7.6%	
Convergence Assessment		Aligned (<15% gap)	

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