

**QinetiQ Group  
Preliminary Results 2022**

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**QINETIQ**

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John Haworth: Good morning and welcome. Welcome to our FY '22 results presentation. Welcome both to those of you in the room here in London, and also for those online. I'm John Haworth, I'm head of investor relations at QinetiQ. I'm joined by Steve Wadey, our CEO, and Carol Borg our CFO. Steve and Carol will run through the presentation, after which there'll be time for you to ask questions. Steve, over to you.

Steve Wadey: Great, thank you, John. And good morning everybody. And as John said, welcome to our FY '22 results. I'm immensely proud of the determination and commitment that our people have shown over the last year, in pulling together to overcome a challenging first half, and delivering a strong second half performance across the group.

Steve Wadey: The sad events in Ukraine have reinforced the vital importance of a technologically advanced defence industry to society. In the short term, we've seen a modest increase in demand for our capabilities, but more fundamentally, the conflict has reinforced the strategic long term needs of our customers for differentiated solutions. Such as our recent contract with the Royal Navy to support them in developing their future maritime air force, through an interoperable mix of crude and un-crude systems. With a strong balance sheet and an increasing demand for our high value solutions, I'm confident in our long term

strategy to deliver our increased ambition, as we outlined at our investor seminar last month.

Steve Wadey: So the agenda this morning is as follows. I'll start by giving you the headlines. Carol will provide a commentary on our financial results and I'll come back and give you a strategic update. We'll then open up for any questions.

Steve Wadey: So let's start with the headlines. We've delivered good progress with a strong second half momentum. Orders are up 9% on an organic basis, maintaining a robust order book. Revenue is up 5% on an organic basis. Profit is £137.4 million, equivalent to 11.4% margin before the complex project write-down, which is now fully closed as we said in our quarter four trading update. Cash performance remains strong, with 114% cash conversion, up from 98% last year. And earnings per share is 20.6 pence. And the full year dividend is up 6%, at 7.3 pence.

Steve Wadey: With continued discipline in execution of our customer focused strategy, we have secured record order intake across the group at £1.23 billion, delivered excellent revenue growth in Australia, up 26%. And in the UK, up 12%, driven by good program delivery across all our major contracts. And US revenue recovery was slower than expected, but our momentum is building, with 20% year on year growth in

orders. At a group level, we've now achieved 75% revenue growth over the past six years.

Steve Wadey: Looking forward, we start the year in a healthy position. We have £900 million of the year's revenue under contract and we are maintaining expectations for group performance. World events are heightening the market needs for our distinctive offerings. And as we shared at our investor seminar, we have increased the scale of our ambition to grow the company to more than £2.3 billion of revenue, representing a further 75% growth over the next five years.

Steve Wadey: To realise this ambition, we have a robust plan underpinned by investment in organic growth and strategic acquisitions, with an enhanced focus on our environmental, social and governance responsibility. We are focused and on track to deliver sustainable global growth over the next five years and deliver enhanced shareholder return.

Steve Wadey: Our performance has been underpinned by a number of significant operational highlights across our global company. In the UK, we delivered NATO's largest missile defence exercise, leveraging our successful investment in the long term partner agreement. The engineering delivery partner contract continues to grow with £320 million of new orders. We secured more than £160 million of digital

intelligence orders, demonstrating the criticality of our cyber and information advantage offering.

Steve Wadey: In February, I was delighted to welcome Shawn Purvis as the new president and CEO of our US business. She is strengthening her team and focused on improving our operational performance, including winning larger, longer term programs, such as the \$70 million production phase for the next generation bomb suit. Our Australian business continues to go from strength to strength, including winning \$97 million of new contracts to deliver technical and engineering services.

Steve Wadey: Following the pandemic, I'm really pleased to see our target systems business fully recovered with the largest ever order intake at £42 million. In Germany, we continued flying operations throughout the year and are focused on pursuing future opportunities for both operational training and special missions. And finally, our space business in Belgium has had a really excellent year, with a number of record contracts from the European Space Agency and delivered record revenue.

Steve Wadey: These are just a few of many operational highlights across the company, where we are delivering high value solutions critical to national defence and security challenges, demonstrating our strategy

in action. I'll now hand over to Carol to take us through the financial results.

Carol Borg: Thanks, Steve. Good morning, everyone. It's really lovely to see some of you again in person, following our investment seminar a couple of weeks ago. I intend to provide more detail confirming what we presented in our Q4 trading update, that our FY '22 results will be marginally ahead of our previous guidance and current market consensus expectations.

Carol Borg: As Steve alluded to, FY '22 has been a year of two halves. Our first half was indeed challenging, impacted by two discrete short-term issues. Drawing on the resilience, strength and disciplined execution across the entire organisation, we have delivered a strong second half, and overall have delivered good underlying operational performance at a group level for the full year.

Carol Borg: This slide shows our top six financial KPIs that summarise our financial performance for the year. The top row shows that we have delivered our largest order intake at 1.23 billion, growing 7% on a reported basis, demonstrating high demand for our distinctive offerings. Strong revenue at 1.32 billion growing 3% on a reported basis, through good program execution and delivery across all our major contracts. Strong cash performance with underlying net cash flow from operations at

215.3 million, an increase of 8% on a reported basis, largely due to robust working capital management.

Carol Borg: You're all aware that we had a complex project write-down in our H1 results. As communicated in our Q4 trading update, we have now fully closed the complex project contract and the financial impact remains the 14.5 million write-down with no additional financial risk. To assist in understanding of our underlying performance, I will make some comparisons to results pre write-down.

Carol Borg: The second row shows we have delivered good underlying operating profit at 137.4 million, which is equivalent to 11.4% margin pre write-down, consistent with our short-term guidance. If not for the write-down, we would've delivered underlying profit in line with last year. This impact flows through to the remaining two KPIs, underlying return on capital employed of 26%, decreasing by two percentage points, and underlying basic earnings per share of 20.6 pence, decreasing by 7%. So in summary, good progress with strong second half momentum, resulting in overall good underlying performance in FY '22 at a group level.

Carol Borg: So now onto orders, we've secured impressive order growth at 1.23 billion, growing 7%, 9% on an organic basis. As referred to by Steve, in EMEA Services, this has included 320 million of engineering delivery

partner EDP framework orders, 115 million under the weapons sector research framework. And in excess of 160 million from defence digital and defence intelligence. In global products, this has included a \$62 million US order for the full rate production contract of the SPUR robots.

Carol Borg: We continue to build a significant order backlog at 2.83 billion as at the 31st of March, 2022. What is pleasing to see is our success in winning new business for our distinctive offerings outside the longterm partnering agreement, LTPA. The LTPA is a large multi-year contract that was booked in prior years. As we deliver revenue under this contract, this will naturally reduce the LTPA order backlog. Order backlog excluding the LTPA is continuing to steadily increase with 7% CAGR increase now standing at 1.33 billion.

Carol Borg: We can also see the realisation of our previously stated strategy of moving towards larger, longer term contracts. In FY '22, 34% of our orders were greater than 5 million in contract value, an increase from 28% two years ago. Steve will present how this translates into our pipeline later in the presentation.

Carol Borg: Revenue. We have delivered strong revenue at 1.32 billion, growing 3%, 5% on an organic basis. This has been driven by 13% organic growth in EMEA Services, primarily due to ongoing EDP growth, new



work under the weapons sector research framework contract, and work delivered under the major service provider contract in Australia, again, as referred to by Steve earlier.

Carol Borg: Global products was down 16% organically, due to the US revenue performance recovery being slower than expected. H2 US revenue was in line with H1 revenue, largely due to changing market dynamics and the US defence budget being constrained by the extended continuing resolution. We start the new financial year with approximately 900 million of the group's FY '23 revenue under contract, compared to 800 of the FY '22 revenue under contract at the same time last year. This reflects strong performance in our key framework contracts and provides a greater level of confidence in the delivery of our FY '23 results.

Carol Borg: We have delivered good underlying operating profit at 137.4, ahead of the 135 million that we guided in the Q4 trading update. This represents a decline of 9%, 12% on an organic basis. As illustrated on this chart, pre write-down underlying operating profit would be in line with last year, equivalent to 11.4% margin, consistent with our short-term guidance. EMEA Services delivered 14% organic growth, driven by revenue increases and continued focus on operational efficiency. Unfortunately, this only partially offsets the decrease in global

products, which as communicated in our H1 results, was primarily due to slower recovery in the US and the complex project write-down.

Carol Borg: So now turning on to the divisional split of the group performance. First, we have EMEA Services. EMEA Services has delivered significant year on year growth across all businesses, driven by successful implementation of our strategy to win larger, longer term contracts, which gives us greater visibility and margin stability. We've increased orders by 6%, revenue by 13% and operating profit by 14%, all on both a reported and organic basis.

Carol Borg: Operating profit margin remains strong at 12.8%, slightly ahead of last year, reflecting ongoing discipline contract delivery and execution and cost control measures. With a book to bill ratio of 1.1 times excluding the LTPA, we have maintained a substantial order backlog, which gives us good forward revenue visibility.

Carol Borg: Next, on global products. Global products has had a number of notable achievements in year, including the full rate production CRS(I) contract for SPUR robots, which I mentioned earlier. And as referred to by Steve, our targets business delivered a record high order intake. These achievements have unfortunately been offset by slower performance recovery in the US, nothing of which is new, rather it is consistent with what we have mentioned in our H1 results.

Carol Borg: Order intake was up 8%, 20% organically, driven by the achievements I have just mentioned, partially offset by the write-down, which impacted orders by 22.5 million. Revenue was down 23%, 16% organically, largely driven by slower recovery of the US performance as I explained earlier, with operating profit at 0.7%.

Carol Borg: But excluding the impact of the write-down, the operating profit margin would be 6%. We continue to work towards double digit operating margin for this division in the medium term. Whilst we've experienced slower recovery in the US, momentum is building, as evidenced by a book to bill ratio of 1.2 times. We are confident in the local leadership teams to deliver strong revenue and profit performance in FY '23.

Carol Borg: So onto cash. We have delivered strong cash with underlying net cash flow from operations of 215.3 million, equating to a cash conversion of 114%, largely due to robust working capital management. Listening to stakeholder feedback, we have changed our cash conversion definition to reflect our pre-capital expenditure cash flows as a proportion of EBITDA in order to demonstrate how we convert our profit, excluding interest, tax, depreciation and amortisation into cash flow.

Carol Borg: Under this new definition, we achieved underlying cash conversion of 114%, an increase from 98% last year, applying the new definition.

Also, we invested 84.3 million in capital expenditure, predominantly driven by the ongoing LTPA and digital transformation.

Carol Borg: We retain a strong balance sheet to support investment in our longterm growth strategy. After paying tax of 20 million and dividend of 40.2 million, we delivered a net cash position of 225.1 million as at the 31st of March, 2022. We maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities in the same manner, to ensure returns to our shareholders appropriately reflect the risks.

Carol Borg: As I presented at our investment seminar three weeks ago, we have a clear and concise capital allocation policy that we continue to deploy for the benefit of all of our stakeholder groups. Examples of what we executed under this policy in FY '22 are as follows. Priority one, investing in our capabilities, both organically and inorganically.

Carol Borg: I mentioned on the previous slide, our 84 million organic investment in capital expenditure. We continue to explore inorganic opportunities that support our long term growth strategy, evidenced by a specific adjusting item recognised this year in relation to an unsuccessful inorganic acquisition opportunity. Priority two, maintaining balance sheet strength. As mentioned on the previous slide, we have delivered excellent cash performance, both in terms of cash conversion and

ending cash balance. Our balance sheet could support leverage if we felt it appropriate for the right strategic acquisition opportunity. This is not a target, but something we are open to considering to support the long-term growth of the group, obviously, if it passes our three investment gates of strategic fit, economics and deliverability.

Carol Borg: Priority three, providing a progressive dividend to shareholders. We have announced a full year dividend of 7.3 pence per share, an increase of 6% from last year and have made dividend payments of 40.2 million during the year. And finally, priority four, returning our excess cash to shareholders. We continue to regularly review this to ensure consistency with our overall strategy. Whilst we have had a material cash balance for a few years and with good operational performance and strategic rigour, this may continue to increase in the short term. We are comfortable with this as it gives us the flexibility in prosecuting our strategy as you will hear from Steve later in the presentation.

Carol Borg: Other technical factors. The following slide shows the result of the other technical factors contributing to our financial results and the expected trajectory into FY23. Net finance expense is expected to remain consistent into next year. Effective tax rate is expected to increase due to the growth in proportion of international profits. Tax cash outflow is expected to remain consistent into next year.

Networking capital is expected to realise a modest cash outflow as a result of our growth ambition. And capital expenditure is expected to increase to the upper end of our guidance of 90 to 120 million as we continue to invest in our customer facing propositions, our employee value proposition and our business infrastructure.

Carol Borg: And finally, our outlook statement. We enter FY23 with confidence, a healthy order book, 900 million of revenue under contract and positive momentum. We remain confident to deliver in line with our current expectations for FY23, with mid-single digit organic revenue growth and operating profit towards the middle of our 11 to 12% expected range, lower than our medium to long term guidance driven by inflationary pressures and our continued investment to support future growth. As you will hear from Steve, our ambition is to deliver circa 75% growth in the next five years as we have delivered in the last six years with revenue of more than 2.3 billion in FY27 and beyond.

Carol Borg: This means we are targeting mid-single digit percentage compound organic revenue growth over the next five years with strategic acquisitions further enhancing this growth. We are targeting an operating profit margin of 12 to 13% in the mid to long term, and ROCE is forecast to remain strong at the upper end of the 15 to 20% range. And with that, I'll now hand back to Steve.

Steve Wadey:

Great. Thank you, Carol. Now let's turn to our strategic update.

QinetiQ's investment case is to grow an integrated global defence and security company operating in attractive markets with distinctive offerings to deliver enhanced shareholder returns. Over the last six years, we've built a company delivering good operational performance as shown from the left to the middle of this slide, growing by 75% to £1.32 billion of revenue and growing operating profit at 6% per year, excluding the one-time write-down. By focusing on our customer's needs, we've also increased our forward visibility with our three-year revenue cover, nearly doubling to £1.9 billion, and our five years order pipeline more than tripling to £7 billion.

Steve Wadey:

Building on this strong momentum and with recent world events reinforcing the long-term needs of our customers we have chosen to increase the scale of our ambition. Our plan is to grow by another 75% over the next five years, to more than 2.3 billion revenue as shown from the middle to the right of this slide. As you heard from my team at the seminar last month, we see 30% of this growth coming from the UK and more than 50% coming from Australia and the US. This plan is enabled by our strong balance sheet and underpinned by rigorous financial discipline through both organic opportunities and strategic acquisitions.

Steve Wadey: We're at an exciting stage in the development of the company and are focused on delivering sustainable global growth for all our stakeholders over the long term. The global security situation is worsening, tensions have risen to new heights following Russia's invasion of Ukraine, and the Indo-Pacific threat remains. These threats are driving budget prioritisation and defence modernisation. This picture shows our addressable market in each of our home and priority countries and our current market share, demonstrating that we have significant growth potential.

Steve Wadey: In the United States, the budget request this year has the largest ever requirement for research and development and testing evaluation of advanced technologies, such as cyber space and artificial intelligence. Science and technology also remains at the heart of the UK's strategy with £6.6 billion investment over the next four years into research and development and rapid experimentation of next generation capabilities. The Australian defence budget continues to grow rapidly with a strong commitment to building sovereign industrial capability, including test evaluation and robotics.

Steve Wadey: In the last year, we have also seen the creation of a trilateral partnership between the governments of Australia, the United Kingdom, and the United States known as AUKUS. The AUKUS partnership initially formed with a focus on submarines has recently



been expanded to include advanced capabilities such as counter hypersonics. By focusing on these countries and their increased emphasis on novel capabilities, we see heightened need for our high-value solutions to drive growth into an addressable market worth more than £20 billion per year.

Steve Wadey: Within this market context, our strategy is unchanged and is increasingly relevant, providing a clear focus for our business decisions and our investment choices. We're a company with a clear focus, with a clear purpose, vision and customer value proposition that we call mission-led innovation, co-creating cost effective solutions to meet our customers' needs at pace as we have seen reinforced by the conflict in Ukraine. As we embark on the next phase of growth, we are increasing our emphasis on our people who are at the heart of delivering our growth strategy and our passionate about our company's purpose.

Steve Wadey: We're investing in our high-performance inclusive culture to ensure we are continuously creating a safe and secure environment for everyone to thrive. As our people thrive, our business will thrive and we will deliver sustainable growth. We're already making good progress in building this integrated defence and security company through global leverage of our unique capabilities across the group. Over the past six years, we have significantly improved our customer focus and up-skilled our business winning capability, enabling us to win larger,

longer-term programs consistently. Working in partnership with our customers and our suppliers, we have successfully grown positions on major contracts, such as the engineering delivery partner in program in the UK, the optionally-manned fighting vehicle in the US and the major service provider in Australia.

Steve Wadey: Our momentum continues to build with record order intake this year at £1.23 billion. Through continued focus on program execution, we have delivered excellent year-on-year revenue growth in Australia, up 26%, and in the UK up 12%. In the US, revenue recovery was slower than we expected largely due to the US defence budget being constrained by the extended continuing resolution. However, with 20% growth in new awards and a new leadership team under Shawn Purvis, we are creating a strong foundation for growth both this year and beyond.

Steve Wadey: Building on our track record of growing the company by more than 75% over the past six years, we are well positioned to grow by a further 75% over the next five years. Our major focus for growth is in our three home countries, the UK, US and Australia, where we are pursuing similar opportunities to support their shared defence and security mission. Through our multi-domestic strategy, we continue to sharpen our focus on co-creating and delivering these distinctive offerings that add value to our customers. As I've shared, before we

deliver mission-led innovation through these offerings as shown on the slide.

Steve Wadey: We optimise our capabilities internally through leveraging our solutions globally so that we can maximise growth opportunities externally through single roots to market. By applying this business model, we create value for our customers and enable growth. Let me give you a current example in our distinctive offering of experimentation and technology. In the UK, we are world leaders in weapons research and are at the cutting edge of developing laser-directed energy technology. We make an important contribution to the UK's sovereign capability as identified in the government's integrated review.

Steve Wadey: We are currently leveraging these world class skills into our Australian business to develop sovereign capability and support next generation laser technology, a key focus area under AUKUS. With increasing demand for our high-value solutions to national defence and security challenges, our offerings are increasingly relevant. A critical element of the success of this strategy is applying disruptive innovation to accelerate solutions for our customers with even greater agility and pace. As I mentioned before, the threat environment has become increasingly complex as evidenced by recent and current events. Our

adversaries are deploying novel capabilities as seen in Ukraine with the first operational use of a hypersonic strike missile.

Steve Wadey: This changing character of warfare demands a major shift in our customer's response to neutralise such threats. Our response to this environment is to ensure that we remain at the cutting edge of technology, which can be rapidly integrated into interoperable solutions that create operational advantage. I've already mentioned that we are a world leader in weapons research, and last year we secured £115 million of orders to develop advanced technologies, including exploring the application of directed energy for counter-hypersonics. Creating technology is not enough, disruptive innovation requires us to partner with our customers and industry to co-create solutions which rapidly pulls our technology through into operational use.

Steve Wadey: Our approach to innovation has enabled us to win larger, longer term programs and grow our five year orders pipeline to over £7 billion. We've achieved more than 25% growth in the pipeline over the last two years with two thirds coming from orders with more than £5 million. This expansion in our pipeline underpins our confidence in future growth. To ensure our growth is sustainable, we are enhancing our focus on environmental, social and governance responsibility. We

already have a significant environmental agenda, including managing over 50 internationally recognised conservation sites.

Steve Wadey: We also work closely with our customers to co-create sustainable solutions, such as the modernisation of St. Kilda, a world class heritage site in the middle of our world class test range as shown in the picture. From a social perspective, we are a people business and we want our people to feel inspired and everybody have the opportunity to realise their full potential. This year, we are enhancing our focus on both physical safety and wellbeing committing an additional £10 million into our reward offering focused on supporting those on lower pay due to the rapidly increasing cost of living, and embracing the many forms of difference that make us stronger, including a new global target of 30% women across the company by 2030.

Steve Wadey: Effective governance is critical to our sustainability. We are focused on strengthening our own skills and processes as well as those of our supply chain. Driven by our company purpose, we take the ethics of defence seriously and carefully consider who we do business with and the projects that we undertake to protect lives and secure the vital interests of our customers. This year, we're taking our focus on ESG to a new level with 17.5% of all leadership incentives focused on delivering these commitments. To realise our ambition, we have a clear

strategic business plan focused on creating a global leader in mission-led innovation.

Steve Wadey: The picture on the right illustrates the current breadth of our six distinctive offerings in each of our home countries. This provides a guide for our business decisions and strategic investment choices, with a long term objective to build a full suite of offerings in each of our home countries, so that we grow coherently into our £20 billion addressable market. To achieve this objective, we drive organic growth by building local capability and leveraging our offerings across countries, such as the launch of our new Test & Evaluation Sovereign Skills program to transfer our world class capabilities from the UK into Australia and creating new opportunities through our global campaigns.

Steve Wadey: In addition, our strong balance sheet provides the capacity to undertake strategic acquisitions that strengthen our capabilities, extend our customer base and build scale. We are actively managing a pipeline of opportunities with a priority focus on Australia and the US, as we covered in some detail at the investor seminar last month. Our organic and acquisitive strategy is underpinned by continued investment in our people, technology and capabilities to ensure that we stay ahead and are even more relevant to the changing character of warfare.

Steve Wadey: With a robust plan to drive disciplined execution of our strategy, we are on track to realise our global ambition.

Steve Wadey: So in summary, I'm incredibly proud of how our people have pulled together to overcome a challenging first half and deliver a strong second half performance. We achieved 9% orders growth, and 5% revenue growth on an organic basis and delivered £137.4 million in profit equivalent to a 11.4% margin before the complex project right down. We've continued to drive disciplined execution of our strategy, which has now delivered 75% revenue growth over the last six years/ world events have heightened the market needs for our distinctive offerings, and as a result, we've increased the scale of our ambition to grow the company to more than £2.3 billion of revenue representing another 75% over the next five years. With a robust plan underpinned by investment in organic growth and strategic acquisitions, I'm confident that our long term strategy will realise our ambition. We are focused and on track to build an integrated global defensive security company to deliver sustainable growth with enhanced returns for our shareholders. Carol and I now be happy to take any questions hand over to you.

John Haworth: Thank you, Steve and Carol. We will do questions in the room here first, followed by those online. For those in the room, please may ask you to raise your hand and wait for a microphone. And for those

online, there is a phone number provided for you to ask your question, if you could dial into that. Let's start in the room here first, Charlotte.

Charlotte: Morning, Charlotte from Barclay's. So first one for me is just on your five year growth ambition. You said in the press release that 30% of that growth would be coming from the UK and that your Australian and us home countries are your targets for M&A, so I'll assume that's all organic growth and it represents about 300 million of revenue incremental by 2027. Could you just give us a bit more detail on what your assumptions are behind that in terms of where the growth areas are for the UK?

Steve Wadey: Yeah. So thanks Charlotte. Maybe just a bit of colour first, so of the 75% growth over the next five years, we see about half of that coming from organic growth and half coming from acquisitions. And as we said in the statement, the priority for inorganic is Australia and the US, but not solely; we will look at other acquisition, if appropriate. But coming to the UK growth, the assumption is that 30% notionally is organic, and Carol can add some colour to that. But it's really through continuing doing the things that we've been doing over the last four or five years, whether that's in engineering services, such as EDP, we see that continuing to bring net positive momentum to the company and expanding some of the services that we've modernised in the long term partnering agreement, including greater throughput from some



international customers. So at the 30% is organic - it will come from bigger, larger programs, such as the weapons research framework that we mentioned. We still see that as a major contributor, you've seen 115 million order intake on the weapons sector research framework contract, which is a huge achievement. And therefore, with the dynamics that we're seeing, out of the integrated review and that continued focus on technology modernisation and R&D we'll see that come through research frameworks, engineering service framework contracts, and the long term partnering agreement. Carol, do you want to add?

Carol Borg: Maybe just an add on that. Charlotte, you obviously know that we don't segment by countries, and the UK is spilled across a services and global products, but in FY 22 EMEA services did grow by about 12.6% in terms of revenue growth, and just further to our call just earlier, we are guiding around four to 5% revenue growth across the global group in the future. So we'll see a little bit more of an uptick on global products in FY 23, and MA services will come down to more mid-single digit growth rates in FY 23.

Charlotte: Great. Yes, it does. Yeah.

Richard Page: Morning, it's Richard Page from Numis, couple of questions from me, please. So looking at EMEA services in a bit more depth. The cyber

business has obviously grown quite strongly over the last three years, it's now, what, 29% of divisional sales; I think it was 18%, only three years ago. Could you just give a bit more colour about what's happening there and obviously that trajectory of growth can go forward?

Richard Page: And then moving to global products, the US order intakes obviously much stronger; you've got greater visibility starting this year. What sort of trajectory should we see, particularly from the US business this year, I'm thinking first half, second, half working forwards. And obviously with that, QTS over the book as well.

Steve Wadey: Yeah. Okay. If I'll start off, maybe let's do each one, we'll add some comments on each one. So first of all, what's happening in the cyber business? Well, what's happening is exactly what we plan to happen, which you remember five years ago, we recruited James Willis to come in with his background of that cyber domain. And he's built a strong team, and he's driven that growth. He's done that exactly as we plan to do, which was focusing on the customer partnering and building larger, longer term projects. So, publicly, I think the first large win was the BATCIS program around battlefield tactical communications infrastructure. That program has grown revenue rapidly. It's very similar in the mainline defence sector as EDP, slightly different scale, but those type of engineering and technical services.

Steve Wadey: In the announcement, you may not have gone through in the detail. We've won some significant orders to modernise the intelligence and information management systems for certain parts of defence command. There's some contract wins identified in the report. So it's really about that continued momentum, Richard, of focusing on the customer and building those longer term contracts. And as you saw in one of the headlines, you that amounted to 160 million of additional awards across what is called Defence Digital in UK strategic command. And we are one of the primary partners there now in that sort of relationship. So it's just really good focus and good momentum and we expect to see more of that over the coming years. And of course, that will contribute to the 30% growth that Charlotte was asking about. Carol, do you want to cover a bit more on EMEA? And then we talk about the US?

Carol Borg: Think you've covered EMEA.

Steve Wadey: Okay. Right, we'll I'll go on to the US. Well, yeah, on the US, I won't be specific about next year, but you know, our plan; our plan is that we will aim to more than double the size of the business over the next five years. You know, Shawn's doing a great job, she's in the business now for just over two months, she's building a team focused on operational performance. She's particularly building a business development capability, which is entirely analogous to what we've

done in the UK over the last five years. And that focus on partnering, real opportunities, longer term opportunities, so I would expect that to start to bring benefit.

Steve Wadey: So the focus is what we've said before, Richard, more than double over the next five years, significant component of that will be organic, but as we've clearly identified over the last year, and hopefully, if you like my Harvey Balls chart, you can see where the emphasis is not just of organic growth, but also where we will be looking to put our capital to work through strategy led acquisitions.

Carol Borg: I might add on this one, if I may.

Steve Wadey: Yeah.

Carol Borg: So obviously, US forms part of the global products business, and just to reiterate ordinarily in FY 22 0.7% Operating profit margin, if not for the write down 6% compared to 9.8% last year, we are still working towards our trajectory of moving towards double digit operating margin in that division, in the midterm. Rich, to your point around timing: Shawn's in, we've had a great kick up in terms of orders, great book to bill ratio, but she's still bedding in her team. My recommendation would be not to be too bullish in terms of seeing that in the first half; we will take the full year to get that through. I'm not sure we'll get to double digits in FY 23, but I think we'll have a

good go at it. So, yeah, so I would suggest that it's the trajectory over the full year that you can see the global products business rebounding.

Richard Page: Thank you. Just a cheeky follow up one; it's probably too early to be talking about this, but you've obviously set out a five year strategy. When do you start properly sitting down on the LTPA renewal? Because that would be in that timeframe.

Steve Wadey: Well, so the renewal officially, as everybody knows, because it's transparent is 2028, but it's something we're working on every day now because we're continuously looking about how do we modernise the services and make various elements more attractive, for both the UK customer? And as I referred to Charlotte attracting in further international usage. I mean, just as an example of the success of that program, the test Aircrew Training Project that you remember, which was one of the big, first projects. In the last two years, I think we used to get a lot of questions, whether we would attract greater international throughput, the UK throughput is increased by 50% on Test Aircrew Training and the international throughput has tripled in three years. So that's an incredible example that when you modernise something based on what a customer needs, you do become attractive. And then, you get the increased revenue and therefore return.

Steve Wadey: And we're talking all the time about what those needs are going to evolve to be the integrated in review, set out what future defence trends were, what was needed in terms of how systems would modernise and therefore, we can then get ahead of the game to think about how we modernise the test and evaluation services. I didn't speak to it, but it was on one of my charts. I talked about digital T&E, which we talked about before that is probably one of the big elements of how you create a blend of live and virtual test and evaluation. And we are making good progress with our customer on our digital T&E platform that will complement the services that we give in the long term partner agreement, it's called the defence engineering evaluation capability. That's our scruffy name for our sort of digital T&E platform. And the more that we do those things, the more attractive we will become. So in my mind, staying ahead of the game, being customer focused 2028 is something that will just sail past, that's the plan.

David Farrell: Thanks. Good morning, David Farrell from Jeffries, a couple of questions, firstly, just in terms of M&A, clearly the public markets have rerated strongly post-Russia's invasion of Ukraine, just wondering, has that impacted the conversations you've had with potential M&A partners over pricing or are they sufficiently removed from the public markets that it doesn't feature? And then, my second question was around the space business within global products. I think I'm right in

saying the Russians have said, they're no longer going to collaborate with NASA, the European Space Agency as well, does that impact the outlook for that business?

Steve Wadey: Okay. Two sort of great questions. So, on the M&A relating with Ukraine, directly, I would say no. But it's probably a bit of a yes and no question because clearly something like Ukraine creates uncertainty, so you can see a sort of a downside or an upside effect of that. And I guess until we're in that significant, sort of final stage of pricing, then it's quite hard to sort of answer the question, but in terms of our pipeline, our level of discussion, has anything directly changed? Not at this stage.

Steve Wadey: On space, I'm afraid the answer's going to be no again, because you we've got a good blend of programs that have got no sort of direct connection between ESA and Russia; they're independent European programs. So not only are they fully funded by the European Space Agency, but we also have some standalone commercial programs that we're running from the Belgium business. So, no direct impact that we see at this stage.

David Farrell: That's good.

John Haworth: As a reminder for those joining us online, please dial into the phone line provider if you'd like to ask a question. Thank you.

George McWhirter: Hi, it's George McWhirter from Berenberg, just a question on your order pipeline. It's gone up about a billion to 7 billion. Please can you just talk about the drivers behind that? Thanks.

Steve Wadey: What's quite interesting if you go on my slide to the first chart on page 17, it's actually gone from just under 2 billion to 7 billion in six years, George. So, hence my more than tripling over six years. And the fundamentals of that, where I'm afraid I've got to go back in history, when we first launched the strategy in 2016 and the primary driver was customer focus, the group at that point in time, had very little competitive work and it really wasn't focused on how it could partner, understand customer needs and grow large programs. And we went through a sort of a major change program to upscale our business winning capability. I think we replaced 60% of our business development capability in the company. We changed our processes. We built board to board in relationships with all of the major industrial partners in the defence and security world. And then, we kept focused and what's happened really is that, through that persistent focus of understanding the customer need, partnering, working out how we can blend our skills and our supply chain skills, that's why we've delivered record order intake this year and it's why the pipeline continues to expand.



Steve Wadey: And I think really it's that simple, keeping to a simple model, and focusing on that and driving it through. And as I said, the fact that our pipeline is now at 7 billion, that gives us huge confidence that the growth trajectory will continue from an organic growth perspective.

Steve Wadey: But that's the key to answer your question, George. Having not the ability to see you, I don't know... Oh, sorry. You were there. I thought it was an online. You misled me that it was online. Sorry, George. Does that answer your question?

George McWhirter: Yeah, that was really helpful.

Steve Wadey: I wish I knew you were there. I could have looked at you.

Charles Armitage: Hi there. Thank you. Charles Armitage from Citi. First of all, on the LTPA, you really need to win that from a strategic position. As I understand it, the more you invest, you get a return on that. So presumably if you were to lose it, you would get a reimbursement from the government, from the stuff you've invested. Can you give us any idea of the size of that?

Steve Wadey: So, first of all, we're not going to lose it, as per my prior answer, and if you step back over the last four years, we've committed just over 400 million with this contract to modernise it. And it's becoming very attractive. It's getting high utility and it's on point with delivering what

the customers require. That particular scenario about what would happen in such a scenario isn't something that I'd want to sort of talk about publicly. There's clearly a lot of commercial aspects around how a contract would break. The clear focus for us is making sure that through that investment, which is very positive and is giving us good returns and giving the customer what the customer wants, that we continue to do that. So that it's just more and more attractive, more and more relevant.

Steve Wadey: So, as I said to Richard, we just sailed past 2028. And if I look at where we were in 2015, when I joined, it was a real challenge. And that's just six years ago, and the engagement with the customer, the feedback from the customer is brilliant, and it's being used in so many different ways. And with six years to go to that point, it's a bit like my answer to the business winning answer. We're just going to keep to that focus of listening, understanding, being ahead, investing, and make sure that it's just continuously attractive and move forward. And in fact over the long term, we probably see the demand for the type of activities going through the LTPAs growing. Certainly I've had questions about whether the focus on digital T&E will reduce throughput. We don't see that as the case at all. We see it blending live and virtual capabilities together to actually enhance the spectrum of offerings that we put through the

LTPA. And I think that as long as we keep that model going, it's a scenario that I don't see occurring.

Charles Armitage: But it's a nice poison pill as well, it seems to me.

Steve Wadey: You might say that. I would say we'll deliver what the customer needs. So we sail past 2028.

Charles Armitage: The next question is we've seen defence budgets across Europe, at least promised to go up. Quite a lot of it seems to be about resilience and the ability to sustain warfare rather than necessarily new warfare. Stockpiling. But can you just sort of walk through how your different businesses will benefit from those increasing defence budgets. The LTPA, there's not going to be much more testing, because it's going to be more of the same thing, but in hypersonics or whatever else, it will be more to advanced weapons and so forth. Just sort of puts and takes.

Steve Wadey: Yeah. Interesting to comment you made there. Even in recent weeks we've had increased testing. So, my answer to the question is sort of multi-level. So first of all there have been some countries where you've seen immediate change to defence budgets. Germany probably being the case in point. Other countries haven't yet, but clearly there's a backdrop of tension that might lead to increase budget. But I think the important thing for us is not so much... It's clearly helpful to have a

positive outlook to macro defence spending. But I think that our primary issue is what are those budgets prioritised on? Which I think is what your question is really getting at.

Steve Wadey: And we see that prioritisation reinforcing both aspects of our mainstream business, certainly the engineering services activity. We see that it will expand because engineering services are the key to how customers develop, integrate, and get capability into the front line, including how they may need to enhance stockpiles. So we do see that creating a positive dynamic on engineering services. But really importantly, the technology led modernisation side, and I mentioned that quite a lot today, we do see significant reprioritisation. I mentioned the US budget request, which is some 30 billion higher for this year, includes the largest ever request for research development and test and evaluation in technologies.

Steve Wadey: The UK budget has an incremental 6.6 billion on advanced technologies. So understanding, and you've seen this in Ukraine that technological advantage is critical, reinforces what we do every day. So I think that sort of outlook is positive for both of our dynamics. And therefore, whilst we, and this may have been a subtlety in what we presented at the investor seminar and today, whilst we haven't changed the scale of our addressable market, we've still referred to that as more than 20 billion pounds. Because of those dynamics that

I've just described, that's why we've increased the scale to 2.3 billion pounds for the company within that addressable market, because we see that heightened need in the market for the offerings that we supply.

Charles Armitage.: One more, possibly two, if I may. Inflation, can you just talk about escalation clauses, the ability to pass on inflation, what you're seeing.

Steve Wadey: Want to take this one?

Carol Borg: Yeah, I can take that one. So, our business is largely a people business. And so wage inflation is a key element of the things that we're looking at. Steve mentioned in his presentation, we're investing 10 million in our award employee value proposition, which goes a long way at trying to address that inflationary measures, particularly for our lower income earners across the organisation. That's also, I think I mentioned as well, no, I know I mentioned, that we are investing about 100 basis points of our margin into investments. That includes inflationary measures as well.

Carol Borg: The other side of the coin is revenue protection cost base. We enter FY 23 with 900 million of revenue under contract. We ordinarily are 50% hedged, either through cost plus contracting mechanisms or in fact variation of price clauses. And we've still got a bit to get in terms of delivering next year. So, I feel that we've got a good handle on it, on

the assumptions that we've included, to deal with the inflationary pressures obviously faced by other organisations as well as ours in the immediate term.

Steve Wadey: Of course.

Charles Armitage: 2.3 billion, mid single digit organic growth, I can work my calculator, compound growth. That gets me to about 1.7 billion. So you need to buy about 600ish million. That makes quite a dent or likely to make quite a dent in your cash pile. Back of the envelope, doesn't seem as though it's going to be an awful lot of cash to return to shareholders beyond the dividend, progressive dividend.

Steve Wadey: Do you want to go first?

Carol Borg: I'll go first. Yeah. Again, we have a very clear and concise capital allocation policy. Return of excess cash to shareholders is a priority, but there are obviously others that come before that. So investing in organic and inorganic opportunities is certainly there. I think our balance sheet strength also shows that we could support some leverage up to starting with a two, maybe going a bit higher than that in the short term, before we come back. But it's certainly something that we certainly is part of our strategy and something that we've set our stall out to achieve.

Steve Wadey: Yeah. I would just reinforce, I think we've been totally transparent about what our strategy is. We've been totally transparent about the capital allocation policy that Carol's outlined, and as you've seen from our results, from what was in the middle column, we had 3.7 million of charge related to an acquisition that we chose not to proceed with, which also shows discipline in the way that we think about acquisitions. But our priority, as Carol said, is organic growth focused on the countries that we've mentioned. But you can also see, and I mentioned Australia and US as being our priorities when it comes to acquisitions, we will put our balance sheet to work under a strategy led capital allocation policy. And that is the plan.

Charles Armitage: Thank you for patience.

Steve Wadey: Good questions.

Annabel: Morning. Hi, it's Annabel from Stifel. Just two questions please, after Charles' marathon. The first one on the circle chart. Thank you for that one, on page 24. Just really from a sort of an M&A standpoint, and I know that we are thinking of larger scale acquisitions. Do we have a preference here to broaden the offering in circles that are already partially filled or could we go into a blank circle as it currently stands?

Steve Wadey: It's always hard with a generic question, but the answer is we could do either. It's a very simple depiction to try to help guide you. But yes, so

if we take an example of engineering services in the US, 90+ percent of our engineering services in the US is around the army. Could we consider moving that breadth into air or maritime through an appropriate capability expansion? Yes, we could. Would we consider moving into a complete blank circle in the US around cyber and information advantage? Absolutely. Because it compliments what we currently have in the US, and we can see strong leverage across the countries in line with what we do in the UK.

Steve Wadey: So the answer is it could be both of those scenarios, Annabel. And the acquisition that we were taking exceptionally seriously during the course of the year would've filled some of those significant white spaces as well as expanding the customer domain. So it actually did both, given the scale that it was. And if your question then moves on to, "Well, are you focused purely on one scale?" The answer is no, our pipeline that we are looking at, will be looking at acquisitions in the hundred million dollar class up to multi hundred million dollar class. So again, the world of acquisitions, as we all know, it does take two to tango. But we have an active pipeline. We have many parallel discussions and time will determine exactly what we proceed with to fill in those charts.

Annabel: Cool. Thank you. Second question, possibly less generic, just on QTS. Great sort of rebound there after the delays we saw with COVID. Given



new product development, winning new customers, I mean, is there sort of a way we can think of how the growth rate in that business over the next two to three years?

Steve Wadey: Yeah. Do you want to answer first?

Carol Borg: In terms of just the financials around QTS?

Steve Wadey: Yeah.

Carol Borg: Yeah. QTS has had a really strong rebound and we are back to FY 19 level. So we've got over the hump of COVID and I'm really encouraged with the record order intake, Annabel that we've seen in QTS this year. So, from a financial perspective, they're my comments on that. Maybe you could build on-

Steve Wadey: I mean, I, like you, was really pleased because I remember a year or so ago being asked, "Well, given the impact on QTS, will it ever come back?" And we were very clear that the need for the type of target products and services that we provide have got long term need in this sector. And I think that's evidenced by the 42 million orders this year. So I'm really pleased that it's coming back. In terms of where the business goes in terms of product development, and we've talked about these two before, but there are two next generation products

that are just coming online now, which we're seeing active customer demand for.

Steve Wadey: One of them is our supersonic target called the Rattler. In fact, we didn't talk about it because we had a lot to talk about. We won a 10 million, this is a good example of global leverage, we won a \$10 million order in the United States as a sort of a cross selling success between our Canadian operation into the US. So the US is now procuring from QTS. So that's a really significant milestone and we expect that demand for low cost supersonic targets to grow. The second that we've mentioned before is the next generation Banshee, Banshee NG, it's now completed its development testing around the sort of turn of this calendar year, and that we now have two or three customers lined up. So we see that coming forward. So we have those two next generation products that will continue the short term sort of order intake and revenue growth as it comes back.

Steve Wadey: And then more longer term, I sort of refer to the sort of picture on the front of the presentation, the ability to have got to a point where we are now in a partnership with the Royal Navy, as an example, looking at their future maritime air force, which is then looking at how you might team effectively un-crewed systems, such as these type of advanced targets with cruise aircraft, actually gives us the ability to explore further evolution of that target business. So yeah, we're doing

well today. We've got two products coming onto the stock and I think that we're about to enter a new sort of epoch, if you like, of next generation development beyond those two. So yeah, very much pleased to have bounced back and see great long term potential for QTS.

Annabel: Thank you.

Steve Wadey: Great. Well thank you very much for joining us today. Thank you for your questions and look forward to any other questions in due course.  
Thank you.