QinetiQ

Interim Results| Video Webcast

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Transcript

John Haworth: Great. Good morning everyone. Good to see you all here. So welcome to our Interim Results presentation and good to see you here in the room and also those joining us live on the webcast.

I'm John Haworth, Group Director of Investor Relations, and I'm joined today by Steve Wadey, our Group CEO, and Carol Borg, our Group CFO. As normal, Steve will run through the presentation, after which there'll be an opportunity for you to ask questions. Thank you very much. Enjoy the presentation.

Steve, over to you.

Steve Wadey: Great. Thank you, John, and good morning everybody, and welcome to our Interim Results for FY24. Thank you for joining us today. In September, I was delighted to announce that we had won a $224m five-year contract to provide systems engineering services for the US Space Development Agency. Our contract supports building the SDA's next generation satellite network, launched from SpaceX's Falcon 9 rockets, as shown in this picture.

This critical capability provides the US with enhanced situational awareness and missile tracking of the battlespace. This contract is the largest competitive win for Avantus since our acquisition last year and is a clear demonstration of the value we are creating from the combination of Avantus and QinetiQ, and I'll cover more on this story later.

I'd also like to thank our incredible people across the whole company. As the world continues to experience a heightened threat environment, they have continued to support our customers' operational priorities and delivered a really strong first half performance. And as a team, we have a robust customer focused strategy and are delivering long-term sustainable growth.

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 then I'll come back and give you a strategic update. We'll then open up for questions. So let's start with the headlines.

We've delivered strong and consistent operational performance across the company globally. Orders are up 19%, a record high of £953m, and a book to bill of 1.3, demonstrating increasing demand for our distinctive offerings. Revenue is up 31% and profit is up 35%, delivering excellent organic growth of 19% and 25% respectively, and improving margin to 11.3%. Cash conversion was 50% due to short-term timing effects and returns remain healthy, with EPS up to 13.4 pence and an interim dividend of one-third prior year total.

Beyond this impressive organic performance, our biggest highlight was Avantus winning $657m of new contract awards. Whilst Avantus first half revenue was slower than expected due to the US continuing resolution and competitor protests, the team have done a really great job integrating the business and winning these awards. This outstanding performance builds strong momentum to drive future revenue growth and demonstrates that the combination of Avantus and QinetiQ is creating a powerful platform to deliver for our US customers.

As a differentiated company, we have a clear strategy and a robust organic growth plan to deliver £2.4bn revenue at 12% margin by FY27. Our strategy is underpinned by disciplined capital allocation and provides optionality to compound growth with bolt-on acquisitions to reach our long-term ambition of £3bn revenue. Our focus remains on supporting our customer's mission and increasing returns for shareholders in both the short and long-term. We're on track to deliver our full-year performance in line with market expectations.

I'll now hand over to Carol to take you through our financial results.

Carol Borg: Thank you, Steve. Good morning everyone. In this section of the presentation, I will provide more detail on our first half financial performance.

Like Steve, I'm very pleased with our results. We've delivered strong and consistent operational performance, continued to deliver revenue growth at improved operating profit margins and are seeing the Avantus acquisition deliver through winning an impressive amount of new and recompeted business.

Firstly, our key financial highlights. In the first half, we have delivered excellent order intake of £953m, growing 19% on a reported basis, demonstrating high demand for our distinctive offerings. Excellent revenue at £883m, growing 31% on a reported basis, up 19% on an organic basis, delivered through good programme execution across all of our major contracts and the contribution of our acquisitions last year. We delivered excellent underlying operating profit at £100m which represents 11.3% margin. I'm particularly pleased by the margin in the half, an increase on the first half last year and stable compared to last full financial year, demonstrating our effort to drive consistent operational performance.

Underlying net cashflow from operations was £72m resulting in a cash conversion rate of 50%. This cash conversion is lower than we have delivered in the past, but is merely short-term timing and is already reversing. Leverage is at 0.9x net debt to EBITDA. Underlying basic earnings per share of 13.4 pence is up 18%, reflecting increased profit offset by higher interest payments and increased UK tax rate. And with our focus on delivering returns, we have added return on capital employed for the first time in our half year results.

Using a rolling 12 month profit, ROCE continues to remain attractive at 25.5%. And whilst not shown on this slide, I can confirm that an interim dividend of 2.6 pence per share will be paid. So overall, strong and consistent underlying performance in the first half, which is a good foundation to deliver on our full-year expectations, de-risking the second half.

I will now provide further detail on our performance, bringing out our two operating segments, which, just to remind you, in April, we renamed Global Products to Global Solutions to reflect the changing nature of that segment following the addition of Avantus last year.

Orders. We have delivered excellent order performance in the period, with orders of £953m, growing 19%, 2% on an organic consistent currency basis against a high prior year comparator. As we articulated at our investor seminar three weeks ago, we are highly relevant in high-growth market segments. Some of these segments are evidenced by the orders that we have won in the half, namely £190m of orders under the Engineering Delivery Partner framework and a £39m Battlefield Communication Programme renewal in the UK and significant new awards in the US.

Order performance by our integrated acquisitions has been impressive. As Steve has already outlined, we have won contract awards totalling $657m in Avantus since the start of the financial year, booking $195m in our first half orders as per our prudent order recognition policy. It is pleasing to see continued growth in overall backlog figure up to £3.1bn as at the end of September, particularly with growth continuing outside of our LTPA contract. Our orders won and backlog demonstrate our unique value proposition and high demand for our distinctive offerings.

Revenue. We have delivered excellent revenue at £883m, growing 31%, 19% on an organic consistent currency basis. This revenue growth has been driven by four main factors. Firstly, the strong orders won last year flowing into revenue across all of our major contracting frameworks, including EDP and LTPA. Secondly, operational requirements have driven some short-term taskings. Thirdly, with our contracting terms, the impact of inflation has benefited revenue growth. And finally, inorganically with the addition of our recent acquisitions of Avantus and Air Affairs. The investment we have made in recent years into our business winning capabilities across our three home countries is delivering results, driving this impressive level of continued organic revenue growth across the group. It is pleasing to also see good revenue cover. We start the second half with 92% of our full-year revenue guidance under contract, de-risking our full-year delivery.

Underlying operating profit. We have delivered excellent underlying operating profit at £100m, which is 11.3% margin. This represents an increase of 35%, 25% on an organic consistent currency basis. I'm pleased to see improved margin with good margin performance across both our segments, demonstrating our effort to drive consistent organic operational performance.

The improved margin continues the momentum that I have previously guided. In particular, in EMEA services, profit has grown, reflecting excellent revenue growth at modestly higher profit margin. In Global Solutions, profit has grown, with margins increasing towards double-digit. And inorganically, our acquisitions achieved good margin in line with our expectations with Avantus maintaining double-digit operating profit margin.

Now turning to the segmentation split of the group performance. First, we have EMEA Services. EMEA Services has delivered significant year-on-year growth, continuing to demonstrate success in our strategy to win and deliver larger, longer term contracts. We've increased orders by 4% and revenue by 23%, both on an organic basis. Our largest orders in the half were £190m of EDP orders, a £39m Battlefield Communication Program renewal, and a £54m variation of price contract on the LTPA to reflect inflationary impacts.

Revenue growth has been particularly strong year-on-year and in line with the second half of last year, demonstrating our relevance in high-growth market segments. Operating profit margin has seen a modest increase to 11.8%, demonstrating strong and consistent delivery performance. EMEA Services delivered a good book to bill ratio of 1.2x, excluding the LTPA and has a funded order backlog of £2.7bn, giving us good forward revenue visibility.

Next, onto Global Solutions. Global Solutions combines our world leading technology based products and services. On an organic basis, orders and revenue have been broadly flat. Our largest orders in the half were a $51 million aircraft launch and recovery system award, and an $84m full production contract for the next generation advanced bomb suit, of which $34m has been recognised in the half.

We achieved an impressive book to bill ratio of 1.4x and grew our funded order backlog to £0.4bn. Whilst Avantus first half revenue was slower than we expected due to the US continuing resolution and competitor protests, we are really pleased with the recent contract awards and momentum. The combination of Avantus and QinetiQ is creating a platform that gives us great confidence in the future growth of this business in the second half and beyond.

As I have previously communicated, we have been driving improved margins in this segment. Operating profit has been strong, with margins improving 150 basis points to 10%, reflecting good margin stability in the US and higher margin products in our threat representation and niche intelligence businesses.

Cash. Cashflow management remains strong, but as guided at our Q2 trading update, cash conversion in the first half was lower than prior periods due to short-term timing. We delivered underlying net cashflow from operations of £72m, which, compared to the excellent underlying operating profit, resulted in a cash conversion of 50% due to timing of contract receipts and payables. We are already seeing this reversing, and therefore I am confident that we are on track to deliver full-year cash conversion of at least 90% in line with guidance.

As outlined in our recent investor seminar, we have a clear and disciplined capital allocation policy that provides the financial frame to deliver our long-term strategy. We have deployed £47m in capital investments to support our future organic growth. After distributing £31m in dividends and an increase of £26min lease obligations from entering into new long-term property arrangements in both the UK and the US, this has resulted in a closing net debt position of £274m. This is equal to leverage at 0.9x, well below our recently communicated maximum leverage guidance of 1.5x.

We continue to maintain a rigorous approach to the deployment of our capital, enabling delivery of our long-term strategy to compound and accelerate growth and shareholder returns.

My final slide is the outlook slide, articulating our guidance, which is consistent with what we have previously guided. FY24 in line with market expectations. We enter the second half with confidence, a healthy order book, and positive momentum, with 92% of revenue under contract. We confirm that our full-year performance will be in line with market expectations, which I have set out in the footnote of this slide.

We expect to deliver high single digit organic revenue growth and high teens reported revenue growth at stable operating profit margin. Capital expenditure is expected to remain within the £90 to the £120m range. Longer term guidance unchanged. As we articulated at our investor seminar, our long-term guidance reflects the financial expectation arising from the delivery of our strategy, which remains unchanged. We remain on track to deliver our exciting ambition to build a company of £3bn revenue at 11% to 12% margin by FY27. And with that, I'll now hand back to Steve.

Steve Wadey: Great. Thank you, Carol. So, as I highlighted at our recent investor seminar, the world is experiencing the most severe threat environment for a generation with conflict escalating in Eastern Europe and the Middle East, as well as growing tensions in the Indo-Pacific. Within this geopolitical context, we are a differentiated company with a unique value proposition. In response to the threat, we deeply partner with our customers to rapidly create and experiment with new capabilities. Test those capabilities are safe and perform as intended and ensure our war fighters are trained and operationally ready to use those capabilities. We are a horizontal integrator helping our customers accelerate through this critical capability lifecycle to counter the threat with agility and pace.

We are a purpose-driven company with a customer focused strategy. Our purpose is to protect lives by serving the national security interests of our customers. This has never been more relevant. Our strategy has three interrelated components, delivering six distinctive and mutually supportive offerings by applying disruptive and innovative technology and business models and leveraging those capabilities across our three home countries of Australia, the United Kingdom and the United States. Our customers need to respond to the enduring and increasing threat and the formation of the AUKUS trilateral partnership underpins our strategy and makes us highly relevant.

As the global security context continues to worsen, the threat dynamics are driving national security policies, prioritisation of budgets and modernisation of capabilities. The changing character of warfare and the widening threat spectrum evidenced by the current conflicts in Ukraine and Gaza is demonstrating a major shift in our customer's response to neutralise such threats. NATO is expanding its membership and strengthening its defence capabilities. And as was already mentioned, the formation of the AUKUS partnership. Whilst the global economic outlook remains challenging, top line defence and security budgets are growing. These budgets need to accommodate inflationary pressures and difficult capability choices from short-term stockpile replenishment through to long-term modern deterrents.

As a result, our customers are reprioritising their budgets and seeking efficiencies through greater innovation and technology-based solutions. As I described at the investor seminar, we are structurally aligned with these market dynamics and focused on our customer's high priority and high growth segments, which is why we are outpacing the market. Examples common to all three of our primary customers are research and development and test and evaluation, known as RDT&E, advanced cyber and autonomy. This is why we have delivered 9% organic revenue growth over the last five years, approximately double the rate of growth of national defence budgets and 15% total growth including strategy led acquisitions. The successful execution of our strategy and the relevance of our value proposition have driven this strong track record and will enable us to grow sustainably into an addressable market worth more than £30bn per year.

Our strong performance has been achieved by significantly improving our customer focus and upskilling capabilities to win and deliver programmes critical to national defence and security. In the first half, our UK defence sector continued to deliver strong performance across all major contracts and support our customers' operational priorities. EDP delivered significant benefit to our customers and secured £190m of new orders, including work on the new AUKUS submarine. The LTPA delivered NATO's first multi-domain Formidable Shield Exercise, testing the alliance's response to the world's most challenging ballistic missile threats. And in partnership with the Royal Navy, we demonstrated an advanced live synthetic collective training capability for the carrier strike group, positioning us well for future maritime training opportunities.

Our UK intelligence sector also delivered a number of major outputs for our defence and security customer. The team delivered key milestones on the SOCIETAS contract three months early to accelerate the production of mission data and improve the protection of all UK platforms. We developed a T&E environment for an AI demonstrator of cyber resilience for military equipment and networks. And in partnership with our intelligence customers, we delivered a new national exercising capability to enable training and mission rehearsal in the cyber domain. This sector continues to deliver impressive revenue growth consistent with its track record, as described by James Willis, our sector Chief Exec at the investor seminar in New York.

Last year, we achieved a step change in our global platform with two strategy led acquisitions to strengthen our capabilities and extend our customer base. Avantus in the US and Air Affairs in Australia. In the first half, our US sector made significant progress. We transitioned NGABS to full scale production by winning an $84m contract to supply 700 Next Generation Bomb Suits to the US Army. Avantus achieved strong recompete performance winning six out of seven major renewals, the two biggest being the SDA contract that I mentioned earlier and $127m contract with the DOD's Strategic Capabilities Office. Both are five-year contracts to provide systems engineering and mission support with significant on contract growth. And in total so far this year, Avantus has won $657m of new contracts, a record high for the business. Whilst first half revenue was slower than expected, these major wins build momentum to deliver strong growth in the second half and beyond.

We have also identified new opportunities worth an additional $1.5bn over the next five years. Driven by the combination of capabilities and transformed market access. I'm excited by the progress that we're making, expanding our customer base and creating a disruptive mid-tier business in the US. Our Australia sector has delivered strong performance. We've secured a three-year extension to our MSP contract and won $58m of new orders for engineering services on land systems and explosive ordinance programmes. Air Affairs saw a 24% increase in flying hours on our JATTS contract, including support to the international Talisman Sabre training exercise involving 13 nations and 30,000 military personnel. And finally, demand continues to rise for our global threat representation products and services with Air Affairs, QinetiQ Germany and QinetiQ Target Systems delivering a combined 17% revenue growth. Through disciplined execution of our multi domestic strategy, we are coherently building an integrated global company with a strong track record of organic and inorganic performance.

As Carol described earlier, investing in our business winning capability has enabled us to win larger, longer term programmes, growing our backlog to more than £3bn and increasing our future orders pipeline to more than £10bn. We have fundamentally shifted our focus onto major national programmes and are regularly competing for and winning £100m plus contracts. By building on our partnering approach and leveraging our scale, we will continue to win larger programmes and drive future organic growth. I'd like to give you an insight into four of our significant opportunities. First, I'm delighted to share some fantastic news. We have signed a principles agreement with the UK MOD to jointly explore how the LTPA services are sustained and modernised beyond 2028 to enable next generation military capabilities such as directed energy weapons, as shown on this picture. Under this agreement, we are pursuing the contract option for a five-year extension, subject to negotiation and approval, and securing our long-term role as MOD's strategic test and evaluation partner until 2033.

With our focus on AUKUS, we are leveraging these unique T&E capabilities to create new opportunities in Australia across multiple domains. The most immediate need is to enable the Australian Nuclear Submarine Programme launched as part of the AUKUS partnership. In the UK, we're also leading a strong industry team to win the Army Collective Training Services programme worth more than £1bn. The differentiated skills and capabilities of our team will modernise training through better use of technology and transform army readiness. And finally, in partnership with Oshkosh in the US, we have successfully completed trials of our robotic combat vehicle known as RCV-Light, positioning us well to compete and win the $500m production phase. Building on our successful performance and long-term visibility, we have a robust and sustainable organic growth plan to deliver £2.4bn of revenue at 12% by FY27.

Underpinning delivery of this organic growth plan is our disciplined approach to capital allocation, investing in our strategy and building our global platform for long-term sustainable growth. Creating a culture for our people to thrive is critical to our performance. We've increased employee engagement and invested further in our long-term reward strategy to retain and recruit the best talent, growing our company to more than 8,500 people during the course of the first half of the year. We have also introduced a new long-term incentive plan for our top 300 leaders, fully aligned with our strategy to drive sustainable performance and increase shareholder returns. In response to today's threat environment, our people are supporting our customers' operational priorities. They're focused on creating innovative solutions that directly respond to these priorities by leveraging our products and skills across the company. An example of this is establishing a US final assembly and test capability for our Banshee targets to support future US customer demand.

We continue to invest approximately £20m per year in advanced technology to maintain our relevance at the forefront of innovation. Whilst we've more than doubled the size of the company over the last seven years, we continue to invest in strengthening our capabilities consistent with our long-term ambition. We are maintaining rigor in our bidding and programme management to ensure we continue to deliver excellent organic performance. In addition, we have a disciplined approach to our acquisition pipeline to grow our global platform coherently and deliver an attractive return on investment. We've evidenced this recently by walking away from a couple of deals that did not meet our returns criteria. Our strategy is underpinned by our capital allocation policy, previously covered by Carol, to drive both our organic growth and provide optionality for bolt-on acquisitions to reach our ambition of £3bn revenue by FY27.

So stepping back, we have a robust investment case. Our company is focused on our AUKUS customer's mission and aligned to structural growth markets. With our value proposition uniquely relevant to the enduring and increasing threat. We have a track record of delivering strong operational performance and a robust business plan underpinned with a normalised level of investment to deliver sustainable growth. Underpinning our success is our focus on our customers and our people. By continuing to execute this strategy, we will achieve our longer term guidance, as shown on the right of this slide, delivering high single digit organic revenue growth at stable operating margin. As an asset-like company, we'll maintain high cash generation and deliver attractive returns on capital employed.

Through disciplined use of our balance sheet, we have optionality to compound growth with acquisitions that drive synergies. ESG remains at the heart of our strategy in all dimensions and for all stakeholders. We're well positioned for long-term sustainable growth with increasing returns for shareholders.

So in summary, I'm incredibly proud of the people who have provided outstanding support to our customers and achieved a strong first half performance. We've delivered a record order intake of £953m, with a book-to-bill of 1.3. Grown revenue organically by 19% and improved margin to

11.3%. As the world continues to experience an increasing threat, our offerings are uniquely relevant and needed by our customers to counter the threat. Avantus has transformed our customer access in the US and delivered excellent orders performance with $657m of new contracts. We have a robust organic growth plan to deliver £2.4bn revenue at 12% margin by FY27, and this year, we're on track to deliver in line with market expectations.

With a strong track record and robust strategy, we remain focused on achieving our growth ambition and increasing shareholder returns. In summary, we're a differentiated defence and security company successfully delivering long-term sustainable growth.

Thank you. And Carol and I would be happy to take any questions.

John Haworth: Great, thank you very much. We'll start with questions in the room here first, and please do use one of the microphones provided. Do introduce yourself and the company that you represent. And for those on the webcast, to ask a question, please do use the phone line provided. Let's start in the room.

Sash Tusa: Thank you. Sash Tusa from Agency Partners. I've got a number of questions.

Firstly, I'm a bit puzzled by the Global Solutions revenue growth, flat, organic, so stripping out the effect of Avantus. But the threat simulation business is up 17%, which implies that the remainder of the business was down quite significantly. What am I missing? And if that math is broadly correct, what were the problems with the rest of the business?

Steve Wadey: Should I start off, Carol?

Carol Borg: Go ahead.

Steve Wadey: So I think the first thing, I'm very comfortable sharing this openly, we did have some disappointing news in the US at the end of June when we didn't secure a position on the Optionally Manned Fighting Vehicle programme. So OMFV was one of the very large programmes that we were on two of the teams and the US Army was going to win three awards, and we were confident that we would've won one out of those two. And the outturn of that competition was that the two teams that were taken through were neither of the teams that we were on. So that did create an impact in our US business, which we haven't been able to recover on during the course of the half.

But that said, the team is working extremely hard and we have won other contracts, examples being the NGABS contract that we referred to, the CVN81 contract. They're two significant contracts that give us a long-term foundation. And we have other opportunities that we're working on that business and we'll see some of that come back for the full year and beyond. And examples of future growth would be the Robotic Combat Vehicle - Light programme that I mentioned, and also the Digital Vision Night Technology programme.

So you are right, Sash, to point out that aspects of Global Solutions did very well, but we did have some depression in revenue in our legacy US business, predominantly due to the loss on the OMFV programme that we'll recover from. So that's the primary reason.

But Carol, what would you like to add?

Carol Borg: No, other than the incumbent also lost in OMFV, so BAE, which was widely publicised. We were with BAE on that, and I think-

Steve Wadey: Does that answer your question?

Sash Tusa: Yeah, that's great. Thank you very much.

And then second question about cashflow. The working capital outflow was bigger than our forecast, but that's clearly my problem. But to what extent does this suggest that your cash, and clearly you had very strong comps last year as well, but to what extent does this suggest that as you start or continue to undertake larger, longer-term contracts, the milestones impact on cashflow is going to be much more lumpy? And should we start to expect your cashflow to have a much greater H2 skew than perhaps it's had previously?

Carol Borg: I can take that one. Yeah.

So Sash, as you know, all businesses have cashflow differences between the half and a good example is the timing of, for example, tax payments, RDEC in P&L and cash comes in later. So those factors, plus the timing of our customer billing milestones did have an impact on the half. But as I said, we are already seeing the impacts of that reverse so which is why I'm confident that we'll maintain our full year guidance.

But to your point about larger, longer term contracts and cash profile, we have a really rigorous approach to ensuring that our contract delivery remains cashflow-positive throughout. In fact, operationally, any projects that go into a cashflow negative position need to get independent approval by myself. So whilst we are going into longer, larger contracts, we still maintain our discipline of ensuring that each project in its own right remains cashflow-positive throughout the life cycle of delivery.

Sash Tusa: But I mean, sorry, just to clarify for me, should we expect it to become more of a norm that the cash conversion is lower in the first half and higher in the second half, perhaps particularly because of the RDEC payment scheduling?

Carol Borg: Yes.

Sash Tusa: Right, thanks.

Charlotte Keyworth: Hi, Charlotte Keyworth from Barclays. You've mainly answered my cash question actually, but just as a very small point of clarity, on that working capital outflow, I mean, you all mentioned it's short term and it's timing-related. Is there anything in there in terms of customers paying slightly later than expected, not related to sort of time milestones?

Carol Borg: Yeah, I'll go again?

Steve Wadey: Yeah, I would.

Carol Borg: Yeah. There is a little bit in there. We've actually had one of our customers upgrade their accounting software, which has resulted in a little bit of a delay. We've caught that back. That was in Australia, actually. So there is something around milestone delivery and billing. There is something a little bit about our customer's ability to pay that. But more importantly, as you said rightly, Charlotte, it is a timing issue. We are seeing the reversing effects of that, we’re holding our full year guidance.

Charlotte Keyworth: Okay. And I suppose given the share price reaction this morning, and it probably is related to cash from the conversations I've had, how can you give investors confidence, other than this beginning of reversal, that your free cash flow is going to be as expected?

Steve Wadey: Well, what I would add is that our underlying programme delivery is sound, and the biggest driver is programme delivery. Carol has described the reasons why there was some short-term timing effects, but revenue is strong. Revenue for the full year is strong. The cash is reversing, as Carol said, and would be back in line with full year guidance.

Charlotte Keyworth: Okay, thank you.

Sam Burgess: Good morning, guys. Sam Burgess from Citi. Just one for Carol, actually. On Avantus H1 revenue growth, slightly weak due to the continuing resolution and competitor protests. Obviously, the budget outlook is still looking quite uncertain, but if a budget deal is reached, would you expect to recoup any of that lost revenue in H2? Or is your confidence in the full year really based on growth in new orders?

Carol Borg: Yeah.

Steve Wadey: Shall I start?

Carol Borg: Go ahead.

Steve Wadey: So I think, Sam, I mean, we put in our trading update that we'd had some delay in awards and the two primary reasons were the continuing resolution and the protests. I think we're seeing this more as a shift to the right. So we're going to have a strong second half compared to the first half so we're going to see growth, but I think revenue this year will be slightly lower than we originally expected. That's also a factor with us maintaining full year guidance in line with market expectations today.

But I think the main thing to take away is that Avantus is really performing as a business. I mean, we have totally transformed our position in the United States. We've got a strength of capabilities. Hopefully you all clocked in my narrative it's not just the $657m of contracts that we've won, all of which are multi-year three to five year contracts, but we've also in the last six months, identified new opportunities beyond the individual pipelines of Avantus and our legacy business worth $1.5bn over the next five years. And that was the whole logic for the acquisition, that it fits strategically and we could create value through the combination and that will drive revenue growth through the second half and beyond.

So I understand why you'd be asking about the short-term effect of a slightly short on revenue, but I think overall, we're really delighted with the business. We see it as a really strong platform now that's going to drive growth in line with our original expectations.

Sam Burgess: That's great. Thank you.

And just one for you, Steve, just on capital allocation. I know you had a question on this at the CMD, but I suspect you and I agree that the company is at least 30% undervalued. That feels like a pretty easy value creation opportunity for investors relative to acquisitions at relatively high multiples in the sector at the moment. Does it remain a live option when we think about buybacks? Is that something the company would keep under consideration?

Steve Wadey: Yeah, I'd start with saying we've got a long-term strategy to build a company through the organic growth with optionality for acquisitions. And I think you can see over the last seven years, the strategy has really worked and it's really relevant to the market and it's really working with our focus.

In terms of capital allocation, look, we have a really robust and disciplined policy. We're constantly reviewing all of our investment options. But right now, as I said in New York, we're investing in the strategy and we're building the platform. The focus is on organic. I mentioned in the narrative earlier, our pipeline is healthy on acquisitions. We're continuously engaged with companies and looking at options.

We demonstrated our discipline recently, two that we've walked away from in the last six months. Shareholders should be pleased to hear that. We hold our returns criteria as a really strong component of our discipline around acquisitions. Remember, our discipline has got three primary principles, strategic fit, economics and ultimately, long-term integration, delivering the returns that we expect. And the two that we've walked away from, personally, quite frustrating because they certainly met the first two criteria, but we weren't confident on the last. So yeah, we withdrew. So I think that our discipline is there around capital allocation, great investment going into the organic growth that you can see coming on. It's a long-term strategy, and we've really made the right judgments for our shareholders for long-term returns.

Sam Burgess: Great. Thanks very much both.

George McWhirter: Hi, good morning. It's George McWhirter from Berenberg. Just on the US budget, it looks like we might be facing a slightly longer continuing resolution this year. Can you comment on which areas of the business in the US might see greater disruption or less disruption than others, if that were to materialise? Thank you.

Steve Wadey: So first of all, last year's was very long. So we'll see whether this year's is longer or not than last year's.

But a couple of points to make and, first of all, the fact that we've now got $657m of orders, we've actually got really good cover for the year with the guidance that we've given on US performance within our full year guidance. So I think we've covered, to a very large degree, that risk that you've mentioned.

But the business is very different than, say, a year or two years ago. We've got much more volume, and we've also got many more programmes that are just not contracted, but they're with customers that really would continue to perform throughout that period. We've got a large component of intelligence-related contracts that really are not going to be subject to impact through that continuing resolution. So I think the backlog, the way that we've considered the risk in our full year forecast and the nature of what we're doing really gives us much more resilience to that market dynamic this year.

George McWhirter: Thank you.

Steve Wadey: And let's all hope it's much shorter.

Sash Tusa: It's Sash Tusa again. I've just got two follow-up questions. You talked about your acquisition discipline and walking away from two acquisitions. Was one of those ESG Electrotechnic in Germany?

Steve Wadey: No.

Sash Tusa: Right. Okay. Thank you. That's alright. That's delightfully clear.

Steve Wadey: There's nothing else I can say, Sash.

Sash Tusa: No, no, it's fine. It's good. Second question-

Steve Wadey: I thought you were going to ask me another company name.

Sash Tusa: No, no, no. I'm not going to play bingo. Don't worry.

I wonder whether you could just talk about the UK intelligence business a bit. You've talked about that having grown at a compound annual growth rate of 28% over the last four years. I wonder whether you could just tease out a bit how much of that was market growth, i.e., UK government is just spending more on intelligence or contracting out more on intelligence than it was. How much of that was share wins? Are you taking business from other people? And then how much of that might've been, you just can do more than you could four years ago, so your market opportunity is bigger.

Steve Wadey: So first of all, I'm going to make a plug for our investor seminar that we did two or three weeks ago in New York. Because at New York we brought three of our Chief Execs of sectors over to unpack the capabilities and the performance of, first of all, the UK intelligence sector, secondly the US and then thirdly, Australia and global threat representation. And I'd really encourage you to go onto the website and sort of watch it, James Willis.

Sash Tusa: I did. I watched it. That's why I'm asking.

Steve Wadey: I'm talking to everyone, Sash, not just you. Because the reason why is that probably for the last four years we've had lots of questions about our UK intelligence sector to try to understand it. And I think we've talked often about our main defence programmes in the UK, not a lot about our UK intelligence. That was why we unpacked it at the seminar.

In terms of your specific question, I'd say the vast majority is the latter of your three categories. So clearly intelligence budgets growing at a good rate so yes, you can get some support from that. But predominantly, if I go back to the origin of this strategy, we really weren't focused on the customer need. We were not teaming to build our combined capabilities and pursuing long-term contracts. And I think really it's the combination of our strategy, yes, on a market that is growing well, that has really created a very impressive performance and track record. And as mentioned, we've seen that performance in the first half of this year continue and be consistent with this track record. So I think it's more the latter.

Richard Paige: Morning Richard Paige from Numis, just a couple from me please. EMEA services, the line that intrigued me is the operational requirements in terms of the growth. Given current global threat environment shouldn't we expect that line to reappear a few more times potentially? And aligned to that, just the rebalancing of that business across the first half and second half, which obviously your full year guidance points to.

And then secondly, the slide on 20 that orders pipeline. Big step change for this in FY23. Just intrigued, obviously you've grown the business overall, but wondering about your win percentage rate as to whether you believe within that orders pipeline you are still using the same lens on that?

Steve Wadey: Yeah, I'll cover the pipeline. Do you want to cover EMEA?

Carol Borg: Can do? Do you want me to go first?

Steve Wadey: Yeah.

Carol Borg: Yeah. So I'll take your second part of the question first, Rich, if I may. So we've gone out very deliberately to drive strong and consistent performance and balance our halves a little bit better. And that was really evident this year. So traditionally we've driven around 46% of our full year revenue in the first half. This year it's closer to 48, 49%. So again, we're trying quite hard and deliberate to show stable and deliver stable performance. And we get that through the diversity of our programme mix and project mix across the organisation. So I think you can read into that, yes, there has been a deliberate effort to drive that stable margin and revenue growth more consistently through the halves.

And then in terms of your first question around EMEA services performance. Yes, it's been really strong. It has been aided by inflationary impacts pickup in the LTPA contract. We've delivered fantastic revenue on the back of the really strong order intake last financial year that we've seen come through. And we have seen some modest, I might say, operational tasking requirements. So if I was putting those three categories in order, I'd probably go orders, inflation, new tasking in terms of kind of sequence and impact. Hope that addresses your question.

Steve Wadey: And on the pipeline, I might just sort of take an opportunity to make some sort of broader points, Rich. I mean, first of all, let's step back and you know this, but over the last seven years as part of this strategy, we've really fundamentally changed our business winning capability to be really focused on customers, to be really looking at partnering industrially to have complimentary capabilities and then really look at how we can add value on much larger longer term programmes. You have seen that radically change our backlog over this period of time. I was just looking for Carol's slide where even in the half you can see if you excluded the underpinning framework of the long-term partnering contract, you can see that volume of backlog go up quite considerably. So that validates that the strategy and the approach to business winning is really, really strong.

When you look specifically at slide 20 that you've mentioned and you look at that pipeline, that pipeline chart is exactly the same chart that I used in May. It's not changed in the half, I'm referring to the full year at the end of FY23. And there were two reasons for that significant step up from '22 to '23. So first was the inclusion of Avantus pipeline. Yet before we'd done any of the work on what I just mentioned in answer to the previous question where we've now identified a further $1.5bn. And secondly, a general refresh where we were looking at the next wave of larger longer term programmes. So those were the two reasons for the step up that we reported in May.

And my prediction will be that it's why we've sort of unpacked, trying to give you an example, we've gone through a period where we've probably gone from winning, when I joined we were celebrating £1m contract successes, we then shifted to £10m and we are now up into the a hundred and beyond. And that's what I put these four on here to give you the scale of type of programmes, not instead of but on top of our business winning performance.

And then to finish with your specific question about our performance on that pipeline, probably on average I would say on incumbent work that's included in this pipeline, we're sort of well over a 90% win rate. And on true, new competitive business, we are probably averaging around 30%, which is strong performance given that we've come from a pretty much standing start seven or eight years ago.

And then my final point to talk up the pipeline, this obviously is a prudent qualified pipeline that we would be confident to share in the marketplace. It's not a full disclosure of our total pipeline and all of the opportunities that we're pursuing. And the reason why we focused on it today is to just reinforce to all of our shareholders and perspective investors the focus on organic performance.

Richard Paige: Thank you.

John Haworth: Great, thank you. As a reminder to those on the webcast to ask a question, do use the phone line provided. We've got first question from David Perry at JP Morgan on the phone line. Do go ahead, David.

David Perry: Yes. Hi everybody, two or three questions, they're all on the same theme, if I may about Global Solutions. Carol, apologies if I missed it, but do you have an Avantus organic growth number for H1?

The second question is just trying to reconcile to the full year guidance that you've got out there. Can you help me with the organic growth that you expect in H2, by division would be amazing, but if not at the group level. And then I'm just trying to work out how big, third question, how big this contract or these two contracts were that you didn't win on OMFV because they look like they must have been very significant. And are there other large contracts you have that there's not a guarantee that they progress forward to the next stage? Thank you.

Steve Wadey: Do you want me to take the third one, Carol?

Carol Borg: Go on.

Steve Wadey: Whilst you think through. I mean look David, in every business plan, it goes straight to the question that Rich was asking about when you move into competitive winning, you don't win all of them. And on Optionally Manned Fighting Vehicle, the Army was going to proceed with three contractors, and we were on BA Systems team, the incumbent and Oshkosh, and we were confident and assumed in our business plan that we would win one of those two deals and the US Army chose to only take forward two. And those two, which were General Dynamics and Rheinmetall, were neither of the two teams that we were on. So that was in our mind, a really prudent judgment in our business planning and it turned out not to be the case. I think that's the nature of business.

And yeah, the assumption of the volume that we would've assumed in our legacy business from OMFV was considerate. And it was the primary driver, as I answered the question earlier, for the lower than expected revenue in the US. And that is the answer to why in Global Solutions, whilst we're sort of flat overall on an organic basis, we had some over performance and reduced revenue on the legacy US.

But stand fast that, that is a short-term effect of that particular order. What's really important is we have a solid business, we have a really healthy pipeline, and we're going to continue to grow through the rest of the year and into next year. So that is the reason why you see the Global Solutions effect down to that order. And as I mentioned earlier, it's also one of the reasons why we're maintaining our full year guidance, where we're maintaining it. So Carol, back to you.

Carol Borg: Yeah, so in the spirit of going backwards in David's questions, I'll answer the full year guidance question. So at a total group level, just to kind of remind everybody, our half two performance last year compared to our half one performance last year grew organically 25%. So whilst we have articulated today an impressive half on half organic revenue growth of 19%, we have maintained a flat growth compared to half two last year. So based on what at the group level, what we're predicting or what we're being very transparent today in terms of maintaining our full year guidance at average consensus, which to put it in the room is 1868, we believe that our organic growth rate will be about 9% half on half, blending in at the high single digits across the full year. So I hope that answers that question.

With respect to Avantus and in terms of just kind of giving that a bit more colour, let's reiterate what our messages have been today. We did have slower than expected growth in Avantus. We have some great contract awards that gives us momentum into the future. And we believe that our half two on half one revenue growth for Avantus will be in the range of 15 to 30% in terms of half on half. And that combined platform that we've created with Avantus, probably fair to say, Steve, I don't think either Avantus or QinetiQ would've won these awards in their selves independently. It is the combination of the two that has created a great platform for growth, which gives me confidence that we will deliver in line with our expectations for Avantus from the second half and beyond.

Steve Wadey: Yeah, and I'd just like to sort of add and reinforce a couple of different dimensions to what Carol said. Think of $657m of Avantus awards, is equivalent to nearly two years of revenue that we've effectively got ready to load in our backlog. That is a really strong achievement so far this year.

Carol is absolutely right, neither Avantus or our QinetiQ legacy team could have won those awards independently. It's only come from the combination. And referring to that combination, I mentioned that we've really identified some really significant opportunities that we see, and again being prudent here, of £1.5bn over the next five years. And I hope that there'll be something positive on your screens on Monday. So this is moving in a good direction.

David Perry: Am I allowed an annoying follow up?

Steve Wadey: Of course you can David. I'm sure it won't be annoying.

David Perry: Carol went a little fast there for me and you kind of talked half on half, which is hard to follow. Just year over year, so H2 over H2, you make a good point that your last year's H2 was very, very strong, but year over year for H2, what is the organic growth you are expecting?

Carol Borg: 3%.

David Perry: Sorry, say again.

Carol Borg: Three.

David Perry: Three. And that's for both divisions or is there a spread?

Carol Borg: I'm talking at group numbers, David.

David Perry: Okay. For Global Solutions in particular,

Carol Borg: David, I'm more than happy, we can have a chat afterwards and we can give you some more insight than that. But at this stage, group number is 3%, half on half. Depends where you are really. I'm not trying to avoid the question, depends where each analyst is in terms of their Global Solutions pitch.

Steve Wadey: And if I could also add Carol, I mean Carol made a point, David, which I think we need to reinforce. We've been really driving consistency in delivery of our operational performance, back to whole debate about delivering our big programmes. So the smoothing of our halves is something that we've really worked on across our whole leadership team.

And I think, Carol, you mentioned that the second half this year, based on our guidance, it'll be 12% growth compared to the first half. That's impressive growth. And compared to last year, what Carol's just said about the half to half performance comes back to high single digit organic, year-on-year and high teens total growth year-on-year. So these are really impressive growth figures when we look at our full year performance.

David Perry: Thank you.

Steve Wadey: Thanks David.

John Haworth: So I think we have no further questions in the room. Any final remarks, Steve?

Steve Wadey: No. Great. Thank you. If you've got any further questions, please follow them up with the IR team or for those in the room, happy to stay and answer them now. Thank you.