

QINETIQ

Investor seminar: Renewed ambition to accelerate
sustainable growth

Call transcript

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QINETIQ

Key:

Steve Wadey – Chief Executive Officer
David Smith – Chief Financial Officer
Mary Williams – Group Managing Director, United States
Nic Anderson – Group Managing Director, Air & Space
Ian Beresford – Group Functional Director, Technical
John Haworth – Group Head of Investor Relations

John Haworth

Good afternoon. Thank you for joining and welcome to our Investor Seminar: Renewed Ambition to Accelerate Sustainable Growth. I am John Haworth, Group Head of Investor Relations with QinetiQ. The session will be led by Steve Wadey, Group CEO, David Smith, Group CFO, and three members of our global leadership team as Steve will shortly introduce. Your videos have been automatically disabled and your audio is muted. There will be plenty of opportunities for Q and A throughout the seminar after each of the three topics and at the end of the presentation. In order to ask your question, we ask that you use the raise-hand feature, I will then take you off mute to ask your question. Before I hand you over to Steve, we will start the seminar with a short video that demonstrates the breadth of our capabilities and our value proposition. Thank you.

Steve Wadey

Good afternoon and welcome to our third Investor Seminar. In 2016, I launched our vision-based strategy to reverse decline and thrive growth by focusing on our customers' needs and our competitiveness. I am really pleased to say that we are on track to deliver our fifth year of growth. Building on this success and reflecting on the impact of COVID-19, I was delighted to announce that our half-year results, our renewed ambition, and evolved strategy. Today, we will be talking to you about three key enablers that are integral to this ambition and strategy to accelerate our next phase of sustainable growth.

So the agenda for today's investor seminar is as follows: following a short introduction for myself, I have chosen three subjects to strengthen your understanding of the investment case in QinetiQ. First, we look at our US Growth Strategy, our largest market opportunity. Then we look at Digital Test and Evaluation, our newest investment. Third, we look at our Environmental, Social, and Governance responsibility, fundamental to how we do business. Finally, we will draw the presentation together with a financial summary of how we are growing sustainably and profitably to drive shareholder returns. The presentation will take just under two and a half hours with opportunities to stop and take questions after each subject, and then again at the end.

At our half-year results in November, I set out our new ambition and evolved strategy to accelerate our global growth. Since launching our vision-based strategy at the start of FY 16, we have delivered a strong operational performance as shown from the left of this slide to the middle. Growing our revenue by sixty percent, increasing the share of international revenue from twenty-one percent to thirty-five percent, growing operating profit by twenty-eight percent, and doubling up all of both to just over 3.1 billion pounds. Our ambition, wavering from the middle to the right of this slide, is to accelerate our growth trajectory to FY 26 and beyond by building an integrated global defence and security complement. A company with a clear purpose, protecting lives, defending sovereign capability, and securing the vital interests of our customers. A company that is renowned for delivering mission-led innovation in our six home and priority countries, with international revenues of more than fifty percent. A company with a major presence in the United Kingdom, United States, and

Australia making a difference to global and national security. The scale of our ambition as shown on the right is to grow by at least sixty percent over the next five years. We would meet single-digit organic revenue growth, complemented by strategy-led acquisitions. Based on this new ambition and growing our maturity, we will continue to convert revenue growth into sustainable profitable growth at stable margins of between twelve to thirteen percent in the medium to long term, thereby enhancing returns to shareholders.

To deliver this ambition, our evolved strategy provides an even greater focus for our business decisions and our investment choices. We have a clear customer value proposition that we call mission-led innovation, co-creating efficient solutions to meet our customers' needs across the capability lifecycle of pace known as "Create It, Test It, and Use It." We also have a clear focus on where, what, and how we deliver value for our customers. Where: building an integrated defence and security company through global leverage of our unique skills and capabilities into our six home and priority countries. Our largest market opportunity is in the United States. What: sharpening our focus on co-creating and delivering distinctive offerings that add value to our customers, differentiate it from our competitors. How: applying disruptive innovation to accelerate solutions for our customers with greater agility and pace. Our newest investment is in digital test and evaluation. The foundation of our strategy is our high-performance inclusive culture where we live by simple values and behaviours and adhere to the highest environmental, social, and government standards. As you can see our subjects for today: US Growth, Digital T & E, and ESG are integral to our growth strategies.

So let me now say a few words on each of these subjects. Our largest market opportunity is in the US, where our strategy is to double our revenues to more than six hundred million dollars per annum over the next five years. Following the acquisition of MTEQ, a new governance model, and a new leadership team, our objective is to build a disruptive mid-tier defence business. A leader of advanced sensing, robotics, and autonomy in the largest defence and security market in the world, adding value to the US war fighter. We will achieve this through organic growth with complementary strategy-led acquisitions. To ensure we are even more relevant to the changing character of warfare and stay ahead for our customers' advantage, one important area of our digital transformation program is our investment in Digital T & E to enable the rapid development of next-generation products and services. This investment will expand our strong physical offerings into the virtual world to add greater value and pace to our customers and enable our future growth.

Throughout the company, including at the board level, we take our environmental, social, and government responsibility seriously and adhere to the highest standards. ESG is an integral part of our growth strategy and runs through everything we do. We are committed to delivering responsibly, sustainably, and for the benefit of all our stakeholders, customers, employees, and shareholders. While it is not a complete list, these three enablers are fundamental to my long-term ambition, growing an integrated global company at stable margins to deliver enhanced returns to our shareholders.

Let me introduce three members of my global leadership team. They will be leading the presentation this afternoon. Firstly, we have Mary Williams who joined QinetiQ in 2019 following the acquisition of MTEQ. Mary is the president of our US business. We then have Nic Anderson who joined QinetiQ in 2018. Nic is the Group Managing Director for our Air and Space business and also the leader of our Digital Transformation of Test and Evaluation. Also, we have Ian Beresford, who joined QinetiQ in 2016. He is the Group Functional Director for our Technical Function, and also the leader of our Environmental Responsibility as part of our group-wide ESG agenda. Then finally David Smith, our CFO that you know well. David will lead us through our financial summary at the end of the presentation. This is an excellent team to lead you through the subjects today. I hope you enjoy the presentation and I look forward to some lively questions. Thank you and over to you, Mary.

Mary Williams

I am delighted for the opportunity to speak to you today as the president of QinetiQ, I am leading our integrated US business. We are building a mid-tier defence and security company that leverages group capability and brings improved solutions to our customers. As Steve stated, we seek significant growth through our US business. A little over a year ago, I joined the QinetiQ Leadership Team after MTEQ was acquired by QinetiQ. The reason I am here today is because, with QinetiQ, we bring a common philosophy and focus on our customers, their mission, and a passion for bringing disruptive technology to advanced admission. The drive to start MTEQ was a deep passion for developing technology that helps our servicemen and women in the US.

I am excited about being part of the QinetiQ team. In QinetiQ, I found like-minded leadership and dedication to advancing our customers' mission with genuine care and compassion for our employees. We at QinetiQ share a desire for pulling through high-quality research and development faster and working closely with our customers to build solutions quickly. We do this with an approach we call "Mission-led Innovation at Pace". I look forward to sharing with you our strategy and vision for growth in the US. Today, I would like to share with you first the why. Why the US market is ripe for growth and why QinetiQ is well-positioned for outsized growth in the US. The what. What we do and what disruptive capabilities and solutions we bring to our customers. And finally, the how. How we are implementing our strategy to execute year-over-year growth to double the size of our US business in the next 5 years. Before we begin the heart of our presentation, however, we would like to play a short video from some of the leadership teams in the US. We hope the video brings to life what we do for our customers, what makes us different, and how we operate to deliver.

[Video plays]

Mary Williams

In the US, we are embarking on a multi-tier growth strategy fuelled by targeted investments. We are integrating our leadership in Robotics and Autonomous Systems with advanced sensors to create a new more expansive market proposition that we are calling "Mission-led Innovation at Pace". This fresh approach combined with our recently integrated business model is delivering disruptive solutions that are meeting and exceeding our customers' changing needs. We are excited about our future and see a clear path to year-over-year growth to double the size of our business in the next 5 years.

QinetiQ is driving "Mission-led Innovation at Pace" across the US defence and security market. We introduce disruptive technology that aligns with the modernization priorities of our customers. Our established US Army and Navy development programs, and on-going research and development investments have positioned us to grow as a differentiated mid-tier integrator. QinetiQ recently delivered prototypes of the army's next-generation robotic combat vehicle-light for operational evaluation. This is one of several technical innovations that we are advancing as we collaborate closely with our customers to design technologies for real operational use in the hands of servicemen and women. Our combination of design, prototyping, and product line experience lets us create and advance disruptive customer-centered solutions at a pace.

QinetiQ prides itself on having the best and the brightest engineers, scientists, technicians, and functional staff in the industry. Our cross-functional teams collaborate in order to develop, support, and drive mission-led innovation. Throughout the pandemic, it has been our priority to ensure the health and safety of our employees and their families while supporting our customers and sustaining our company. QinetiQ in the US leverages strong customer relationships, solid business strategy, and best-in-class talent to enable our growth

strategy while delivering to our customers at pace.

Now what fuels our growth? It is the US market that demands innovation to modernize. US defence market is the largest in the world. The US is modernizing at a record pace. This modernization is leveraging technologies such as robotics and autonomy and advanced sensors. These combined with AI and machine learning are providing greater standoffs through layers of sensors in robotics systems. Our customers not only seek the technology but the rapid integration of these technologies into advanced solutions. This is QinetiQ's strength.

Through the employment of our "Mission-led Innovation at Pace" business model, we drive growth through focus-alignment of our investments, resources, and capabilities with our customer's priorities. As we see tightening and focused defence spending, the US continues to prioritize investments and technological superiority. Technology such as advanced sensors, robotics, and autonomous systems continue to be well-resourced and funded. The US Department of Defence invested over fifty billion dollars in these technologies last year.

This has been growing at a rate of fifteen percent in recent years. Over fifty percent of our current revenue is in this growth market. We see continued and growing demand for the innovative products and services we provide. Through our customers and mission-focus, we ensure that we are addressing evolving and urgent challenges. When executing programs at pace, our agile, innovative model ensures solutions are iterated and relevant. We follow our "Create It, Test It, Use It" intuitive advancement process. This approach leads to differentiated as well as disruptive solutions that are relevant, in-demand, and address our customer's critical needs. We are renowned leaders in robotics and autonomous systems. This combined with our advanced sensing solution brings an added capability to support our customer's urgent modernization priorities.

QinetiQ continues to deliver innovation for our customers. We are building on our strength across QinetiQ. Our global technology leverage goes through capabilities from across the company to bring better solutions to our customers. Here on the slide, on the left, we highlight our core capabilities that we bring to our customers. Programs within these capability areas make up the majority of our business sales in the US. Showing on the right are our few exemplar programs that demonstrate how we are innovating using capabilities in developing disruptive products that are leading to larger, longer-term contracts. These are at the heart of our mission-led innovation approach. Please follow as I walk through each of these examples.

QinetiQ is a leader in robotics and autonomous platforms and technology. We are expanding our RAS offering to our customers. The robotic combat vehicle-light, shown here is a medium autonomous robotic system. This advanced system provides a versatile platform that will revolutionize the way robotic vehicles are used to support autonomous operations. We produce and deliver the first-of-a-kind system for our customers this year. This program is a major success for our army customers and is a pathfinder for next-generation robotic vehicles. Our customer is so pleased with the initial deliveries, the general-in-charge gave QinetiQ an awesome shoutout on social media. But more importantly, this program will continue to fuel our growth in the robotic market. This current program is opening a pathway to programs of record opportunities for QinetiQ worth several hundreds of millions of dollars.

Next, with the acquisition of MTEQ, we have expanded our technical offering to our customers to include a broad array of advanced sensor systems. We have developed state-of-the-art airborne surveillance systems. The system combined with multiple-sensing and processing provides improved stand-off performance and situational awareness. This first-to-market capability significantly improves performance due to its integration and to advance compact and stabilized airborne pod. This provides easy installation into manned and

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unmanned aircraft. We have delivered prototypes and are moving into the production phase of this program. This solution is a game-changer for the surveillance community and our customers are investing in the success of this technology. This project is leading to multi-hundreds of million-dollar programs in the near term and larger multi-hundreds of million-dollar programs across multiple customers in the next few years.

Finally, QinetiQ is leading the way to bring hybrid-drive technology to the troops. The final program shown here demonstrates our global technology leverage in action. This program is being executed through our single route-to-market approach, which simplifies the way we interact with our customers. Our US customers sought innovative ways to take the existing military vehicles and make them hybrid tanks. By using our hybrid-electric drive technology developed by our colleagues in the UK, we are able to accelerate the program and rapidly transform an existing vehicle into an electrified tank. This demonstration vehicle brings our customers greater capability and vehicle performance to include mobility and endurance. Our technology will reduce logistical requirements for fuel, and provide quiet modes of operation for stealth operations. Although this is a concept demonstration program, the army plans to convert larger numbers of existing and future vehicles to hybrid systems. These are multi-billion dollar programs and huge growth opportunities for QinetiQ. We are advocates for this technology not only for its value for the troops but for its reduced impact on our environment which is aligned with QinetiQ's ESG commitments, which Ian will speak to further in the presentation. These capabilities collectively bring to life how QinetiQ is relevant and aligned to our US modernization priorities.

Our strategy for growth follows our simplified plan to integrate, build, grow, and expand. Integrate. We continue to integrate and streamline our people, processes, and systems in the US. We are aligned with group and are leveraging investments in technology to realize improved performance to scale efficiently as we grow. We have integrated our leadership team and functions across the US and aligned our organizational design with group. We have expanded our leadership team with new talent that augments our current team and prepares us for growth. We also employed common business systems across all corporate functions. We have integrated our business-winning teams and are growing our capability offerings to our customers. By offering integrated capability for robotic platforms and sensors, we are expanding our role in major modernization programs. These changes along with our expanded leadership team talent provide a strong business platform for organic and acquisition-based growth. Next, build. We are building upon our agile, scalable, and differentiated business model with our mission-led Innovation approach. We are leveraging capabilities across the group to build upon our core customer base to expand our offerings.

A great example of this is utilizing our single route-to-market approach to connect better with our customers to solve challenging problems such as hybrid tanks. And then, growing our margins. By maturing products that address mission-critical modernization needs, we are expanding our margins through our disruptive portfolio of product offerings. We are actively doing this through our creation of game-changing and affordable products while streamlining our operations. And then finally, expand. We are expanding by bringing our mission-led innovation model to new customers, winning larger and longer-term contracts, and expanding our capability offerings to new domains through group leverage as well as strategic acquisitions. We are making this happen through investments and strategic capture planning and ensuring we have the capabilities and capacity to pursue and deliver larger-scale opportunities.

To summarize, through our mission-led innovation at pace approach, we are exceptionally well-positioned for growth in the US. We have a solid base of customers, capabilities, and products. We have upgraded our operations and aligned with group, giving us the platform to grow both organically and through strategically-aligned acquisitions. Our clear focus on delivering ISR sensing systems, robotic and autonomous solutions, leveraging QinetiQ

group technology is fuelling our growth. Our strategy has laid out a clear path to double the size of our US business to over six hundred million dollars in revenue by 2026. We are excited about the future and have a great team dedicated to delivering our customer's mission. I will now hand the floor back to John and we would be delighted to take any questions.

John Haworth

Thank you very much, Mary. To ask your question, please use the raise-hand feature. Please, can I ask you to introduce yourself and the organization you are calling from?

Richard Paige (Numis Securities)

Hi all, thank you for these presentations. I guess the first thing that strikes me is how ambitious that US doubling of revenue target looks. I would like to understand a bit more how you plan to achieve that, obviously, what is already almost... I hate to say well, guaranteed, but with the programs and record-positioning, as to where you are, what is coming through organically? And obviously, you mentioned acquisitions, and what would be assumed within that, please?

Mary Williams

Absolutely. Thank you, Richard, that is a good question. We do have ambitious growth but we do have a strategic plan laid out well-focused to get there. And many of them are built as what you said on our program of record capture, what we have positioned well for, as well as major programs that we have highlighted in our plan that we are well-positioned to attain. So if you look at what we are looking to get in growth and from our organic growth, as you say, that we have a well-laid-out plan. That is about fifty percent of that growth. Then we are looking for additional growth through our acquisition, and we are looking for a strategic complementary company to bring in new technology and new customers so that we continue this Mission-led Innovation Approach. So we do have a solid plan, Richard, and I appreciate the question. It is ambitious but it is well thought out and well-planned. With that said though, I do want to hand the floor over to Steve and give him an opportunity to build on that answer. Steve?

Steve Wadey

Thank you, Mary, I think you have covered all the key points, and good to hear you, Richard. We have ambitious plans that you have seen us deliver in the years gone by. This is, as I said in my opening, is our largest market opportunity. We are pleased to share with you that our plan is to double in the US in the next five years and we are confident in the plan that Mary just outlined. Yes, fifty-fifty national, organic, inorganic. Mary has got a good team and a good plan on the programs of record and trying to move into the multi-hundred million dollar programs that will drive that organic growth. Then it comes down to what we have done with our last set of acquisitions, which is strategy-led first. Now we have a clear strategy to grow in the US. We can use that as a lens on the type of companies that we are looking at, and we are clearly looking at companies that not just fit with the US strategy, but are complementary to the group strategy. The one additional comment I would make because you would probably come back and ask for more details about the acquisitions, which we will not be specific on, but bear in mind that our US business is probably about ninety percent a land business. So it is very dominated in terms of delivering for the US Army. It is part of the US government modernization and we would clearly be looking at how we can expand in line with Mary's strategy into other domains. Thinking about how we can serve both the US Army customer but expanded to other customers would be part of our thinking there. But they are just some additional thoughts there. So did we answer your

question, Richard?

Richard Paige (Numis Securities)

Yes, it does. I guess one additional question on that is how does the core RDT&E market fit within the US and your ambitions there as well?

Steve Wadey

You are referring to test and evaluation?

Richard Paige (Numis Securities)

Yes, into the Test and Evaluation side.

Steve Wadey

Well, Mary I will go first then you can add on it. I think what we are trying to do is recognize that we have real core strength and real core competence in sensing robotics and autonomy. And we build out from that strength in the short term and expand into other customers. But of course in the long term, as you know, Test and Evaluation is a huge strength for the company so where we can ultimately bring that leverage together, and sort of then move into that type of sphere in the US market. It is probably more medium to long term but it is certainly part of our thinking. Mary, what sort of additional thoughts would you have?

Mary Williams

I just want to build on what you just said, Steve. The US, Richard, the way the military is looking to modernize is more of a rapid iteration of capabilities, so they have a new way of doing acquisitions, which is a rapid acquisition where you rapidly develop through an RD T&E funding line, which is different than Test Evaluation. But you take it to the field, you get feedback from the customers, and you iterate that solution to quickly deliver technology which is a new way of working in the US. We are really well-suited to do because we can quickly prototype, bring in our team and partners to build an exemplar system that we build upon, and bring into better capabilities so that "Create It, Test It, Use It" intuitive model is really well-suited to the new acquisition strategy in the US. That is what we are building upon. So, thank you, Richard.

Steve Wadey

I am sorry Mary, just triggered me to steal one of Nic's sandwiches that will be coming later. So it is part of our investment. Sorry, Nic. It is part of our investment in digital T&E. We are looking at how we can move to the next generation of T&E. We are designing that in a sense that the tools and techniques that we will be investing in will be globally available in our company. Therefore there will be a point where Mary can stop to deliver a value-added, not more rapid, development and test cycle in the US customer base on what you are going to hear from Nic.

Richard Paige (Numis Securities)

Okay. Thank you very much.

John Haworth

Thank you very, Richard. Let us try Charlotte's line again. Technology is not working today on Charlotte's side, so we will come back to her later. Let us go to Sash Tusa.

Sash Tusa (Agency Partners)

Thank you very much. I got two questions. One is just about the M&A environment in the US. I am going to start with that. Arguably, the tremendous strength with MTEQ is that you acquired it before the boom of the spats and there is now a huge amount of hot money, some of which is very specifically focused on defence M&A that is sloshing around the US market looking for targets. Are you seeing that thing reflected in the prices thing asked for businesses you are looking at? Or are you fishing in a slightly-different pool, whether in terms of size or technology? Because clearly, if what you did was to participate in that sort of feeding frenzy, which might be terribly good for shareholder value?

Mary Williams

I will start, Sash and I will hand it back over to Steve, but I will say you are exactly right. The market has heated up in the last six months. There is a lot of acquisition and consolidation in the US market, so there is a lot of money going after companies to do what I call bolt-on acquisitions. That is not what our strategy is. Our strategy is looking for complementary technical companies with a passion for the mission. That might be, I am more hoping, is a different look at that lands and we might, from our perspective, look for a different type of acquisition that will be better suited for our growth strategy. We are not looking for an acquisition for acquisition's sake, but something that is a good fit. And we are starting to see those opportunities, Sash and we hope that that will continue and that we will find the right acquisition for us and that we will not be competing for a kind of a drive for price going forward. But with that said, I will hand it over to Steve because we are tracking some opportunities now that are kind of in line with what we are talking about. Steve?

Steve Wadey

Yes. I mean, I think the sort of a couple of builds on what Mary said. I think the first thing it made me smile, Sash, is I would not use the word luck and M&A and acquisition with MTEQ in the same sense. It was a very well strategy fought through, selected, and relationship development choice. You are right when you talked about the US M&A environment. Certainly, when we compare what is going on with the US to Europe, without a doubt you are in sort of a hotter, more intense environment. High prices are being commanded but I think that takes me right back to my first point. Our whole approach to M&A in the last four years is being strategy-led. So we have a clear strategy, we understand our strengths, we know the sort of businesses that we are looking at, that is our number one test. And then once we have worked out the nature of the business and identify the right business, we will test it against our normal investment criteria. We will look for the right integration that will create the right leverage to get the right return on that investment. So, yes, it is a hotter environment but the methodology that we are applying to select the target businesses. I think we will assure investors that we will get the right return from the companies that we ultimately choose to pursue. David, is there anything you would like to build about financial status?

David Smith

I was just going to really reinforce what you are saying, I think in our acquisition strategy, we are really looking for the opportunity to jointly create value with the company that we acquire. So, that does not mean just buying the value at the beginning, but it actually has a joint

strategy that we have agreed in advance basically, about how we can bring those two companies together and create value, and that may make us a bit unique in the market. But, you know, we will be pretty patient about that approach and clearly, I think MTEQ is a great example where that has really worked through very well for us and we are not the sort of company that is going to get into a bidding war for the top price, and the company will absolutely be looking for a strategy where we have got full alignment with the teams that are buying in terms of how we can create value and capability joint.

Sash Tusa (Agency Partners)

Okay, thank you. I apologize for the use of the word luck, then fortunate in sense of timing though I would still vote because you came in just before...

Steve Wadey

I know what you mean.

Sash Tusa (Agency Partners)

And just one follow-up.

Steve Wadey

You've just given me the perfect opportunity to reinforce it was strategy-led, that was the only comment I was making.

Sash Tusa (Agency Partners)

Well, that was definitely my error. Just one follow-up. One of the examples you gave Mary, was bringing hybrid-electric drive technology from the UK to US armour programs. I wondered if you could just discuss what, if any, issues there are associated with ITAR or managing the transfer of that technology, and yet still being able to use that technology on a UK basis, because there are some quite well-known examples of where technology has been transferred from a UK defence company to Europe to a US subsidiary for US program and then they have not been able to get the technology back again. So how to manage the ITAR issues associated with that process?

Mary Williams

Well, I think that is a good question, and that we can learn from the past. So what we are doing right now is where we understand those risks and we are actually looking at a strategy going forward to be able to leverage the technology in both the UK and the US. So right now, those ITAR relationships, we are managing very closely, we understand the risks so that we are planning the program so that we can move forward in that vein. With that said, we are transferring capabilities and technology that is still technology owned by the UK, and they are continuing to use that technology for programs in the UK. So we do not see it being a major risk, because we are planning to be successful from the start and addressing challenges to make sure we are not just handing over the technology, modifying the technology, and then cannot bring that back to the UK and we are managing that pretty well right now, Sash, and we will continue to manage that process. I do not know. Steve, did you want to build on that question?

Steve Wadey

No, I think you covered it.

Mary Williams

Yeah, okay.

Sash Tusa (Agency Partners)

Thanks very much.

John Haworth

Thank you very much Sash. So next, we will go to the line of Jack Barratt.

Jack Barratt (GLG)

Hello, can you hear me?

Steve Wadey

We can, Jack.

Jack Barratt (GLG)

Lovely, hello everybody. Thank you for that. That was great.

Just one for me if I may. Some of the things that you talked about, whether it be autonomous, robotic, AI, the hybrid are all such key parts of what the DOD is going to be spending on priorities for the next five, ten, fifteen years. I just love you to give me a bit of confidence or scale the size of the US business. Now within QinetiQ, that you can sort of compete at that high-end sort of, there are some things where being sort of a plucky newcomer, is a benefit that you suggest some of these big strategic visions that the DOD has, or they are not much better giving it to a big prime rather than giving it to sort of QinetiQ US business. Reassure me on your right to win in the US on these projects would be really helpful to understand.

Mary Williams

No, I appreciate that Jack and I do understand your point, but I think if you look at the acquisition strategy, how it is changed. There are more OTAs and OTAs transitioning directly to production programs and if you look at some of the major programs are running like RCV light, the hybrid electric drive, or working with VA, we are playing a significant role, we are teaming with larger companies, we are that mid-tier that is bringing value in these products and just take RCV light, for example, we are really succeeding in demonstrating and a track record is what gets you the following programs. So by developing innovative technologies, such as the ISR system, I am talking about the RCV light and partnering with our teaming partner, both the large tier ones, and the small niche companies to bring in that innovation, that is what we are doing and we can only continue to do that with our success and bringing that together, and working with our customers to bring them what they are asking for and I just cannot say that the track record is what is winning us as follow ons and we are looking at some of our programs being brought in and leveraging our current contract vehicles, to really start moving those programs out faster. So that is the confidence we can give you as

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we are already doing it, we are building that relationships with a customer and they want to move faster, and we can help them do that and we do understand we do rely heavily on our teaming partners to really help with getting that product fielded quickly, so our supply chain, we are working closely with our supply chain partners to get those programs from demonstrators limited right production to the larger right production program. And, Jack, I am going to hand the floor over to Steve to see if he wants to build on my answer.

Steve Wadey

I think what you have just described is what we call Mission-led Innovation at pace. Yeah, and that is where we see an area of the US market where there is an opportunity to build a company that brings even greater value to the US war fighter. So I think that it is next-generation technology by drawing upon the industrial base and the small to medium enterprises that Mary just described, and can also partner or prime directly to the customer, partner with large primes or partner directly with the customer to deliver that outcome at pace and that is the strategy and that is the track record that Mary and the team are building as we pursue this growth plan. Does that answer your question?

Jack Barratt (GLG)

Yeah, it does, I guess the proof will be in the pudding over time if you could bring an example, or maybe you are going to bring an example in some of the upcoming slides about how you have transitioned from a sort of the original pitch to partnering to then going into a full rate, the first journey of that, that would be really helpful to try and understand.

Steve Wadey

I think, maybe Mary to say a few additional words on RCV light, because I think RCV light is a great example where you are already within I mean, we are just over a year into the acquisition and integration process. We have been leveraging skills and technology between what was previously QinetiQ North America and MTEQ go to actually move this program on at a greater pace with our customer. So maybe, Mary, would you like to just say a few more words about that?

Mary Williams

Yeah, so Jack, if you look at RCV light versus the other RCV systems, RCV light has probably been the most successful, getting a robotic vehicle out there to support the future exercises and demonstrations that are in the army strategy and plan. So we have gone through and developed in record time delivered four units plus a fifth one to keep for us for testing and assessment and iterating, but we are looking at future buys in the near term to get us to a higher rate production because that is what the customer is looking for, to get more of these out there to support those missions. So our goal is to continue to build larger quantities and build on that and then move into what we call the program record which will be happening starting next year, we will see the acquisition strategy for that and we are well-positioned with our track record and our delivery. So that program will be a huge program for QinetiQ. We are partnered with very strong teaming partners and we have a demonstrated track record. So we feel confident that that program is going to continue and continue with the QinetiQ driving that program. So that is really an exemplar, we could go into some others, but there is some commercial sensitivity to some of them that we just did not want to talk about here but hopefully Jack that gives you a better understanding of programs like RCV light, we have quite a few of those in our portfolio that we are working.

Jack Barratt (GLG)

Great, thank you. That is really helpful. It gives me something to ask about in the future. If nothing else, I really appreciate that, thank you very much for taking the time.

Mary Williams

No worries, Jack and we look forward to presenting more on the program as they progress. Thank you and thank you all for your questions. John, I do not know if we have any time for more or we have...

John Haworth

I got time for one more question on this line again, let us see if we can have success this time.

Charlotte Keyworth (Barclays)

Hi, everyone, can you hear me?

Mary Williams

Yes.

Charlotte Keyworth (Barclays)

I have been trying and just so thanks for taking my questions, I just got a couple actually. One was really just sort of harking back to history and thinking about the US services business, which was built by the predecessor state, but I mean, appreciate that was operating under a proxy wall and now under an SSA, you have got things like UK board seats as privileges, but how are you doing things differently this time, would be the question and then secondly, on the areas where you have articulated, we are aligned to priority spend, and I guess that is the basis of which you are going to outpace defence growth, like autonomy and robotics, you said, to things like technical superiority and I guess it would be useful just to hear a little bit more about the R&D requirements and Capex behind that in your growth strategy, obviously, to maintain that lead and the incremental revenue ambitions you have got in the US.

Mary Williams

So, do you want to talk about history, Steve? Since I am not here for history...

Steve Wadey

Well, I mean, I will have to answer the question of history, which I will do, but you want to say a few words first, maybe we can get David to talk about the R&D and Capex?

Mary Williams

I will, so Charlotte, thank you for your questions. The first one is the SSA versus the proxy. So I have been part of the transition from the proxy to the SSA, and how are we doing things differently. The SSA is the government's opportunity for us to really allow us to collaborate from a business perspective, the governance for the focus on mitigation is there we have an SSA board, but really how we are doing things differently, is we are looking for a common strategy of how we move forward as a company. We are investing in technology and

focusing on the mission. So we are looking less at how do we build and aggregate bolt-on services that is not what we are doing. We support research and development to help advance technology that we can rapidly transition to bring better solutions for our customer and that is our focus and that is that Mission-led Innovation at Pace, we are co-creating capabilities and disruptive solutions with our customers with a mission focus, what is it that their needs, what are the challenges they are facing and it is not bringing just our capability to address a problem, because we have the capability, we actually look at our teaming partners and bring in innovation to make that happen. So that is really where we again, take our ability to leverage our SSA in the way we are governed to bring in capabilities just like we are bringing in with the X drive and we have other things that we are doing as well as the targeting and in Canada bringing into the US. The SSA is allowing us to simplify the way we operate and work with our customers to bring innovation. So it is really bringing value to the US market and as well, as I am going to answer your second question, and I will hand this over to Steve, but on alignment to the priorities and technical superiority, that happens Charlotte, not just by bringing exquisite solutions, it is sometimes the pragmatic solution bringing AI machine learning and our teaming partners, they are combined with advanced sensors to provide that leap of capability and performance for customers and that is really where we have done well as a mid-tier defence and security company. We are partnering with the small niche companies that bring innovation, both in the commercial market as well as in the defence market and working with the large tier ones to bring advanced capabilities to our customers and we feel like we have done that well. We have been first to market on that model and we have continued to innovate and perfect that and by leveraging the whole group capability, we are really refining that model and becoming stronger and what we are delivering. So with that said, I am going to hand the floor back over to Steve, but I think if that gives you an answer to somewhat both of your questions in one fell swoop.

Steve Wadey

Yeah, thank you, Mary. It is a great question, Charlotte. And, we were very, very conscious before we went back into the US market, so to speak, that we learn from history, for exactly the reason that you raised the question, I think that the most important thing about history is that you can learn from it and we spent a lot of time reflecting even though it was not when I was here reflecting on the lessons of that period to ensure that history would not repeat. And I think that the approach that we have adopted and are adopting is fundamentally different so that history will not be repeated and I would really summarize that there are three things that we are doing differently, I feel that we have really got the right strategy, I think that we got the right product and I think most importantly, and I will come back to this at the end, we got the right people on to ensure that our US growth is successful. When I talk about the strategy, and I think I said this when we announced the acquisition of MTEQ, there have been approximately two and a half years of work, that led us to the announcement on October 19th, about the acquisition of MTEQ because having done the lessons learned on the previous QinetiQ history, we were crystal clear that we would not re-enter the US market and undertake another X acquisition under a proxy arrangement and we proactively engaged the US government with our good reputation and relationship in the UK, about re-entering on the basis of a special security agreement and Mary will know well, that is part of the negotiation of the deal. Yeah, that was a conditional precedent that we put on the deal closure and I think our strategy said that we had to have the right governance model around the investment, and the right product, and that sort of takes me on to the product, the difference of the services business to what we have now is the nature of the product and the activity, we are talking about a high value add, an intellectual property-based business, where we have retained value inside the company, which is part of the overall value add to the customer, and by building around that type of product and capability set, we are confident that we can command the type of growth strategy that we are describing and margins that we expect. Then probably not most importantly, but equally, maybe most importantly, is the right people. We have built an SSA board around the business, David and

I am both members of the board but I am really delighted with the quality of people that we have established on the SSA board, a huge experience of the marketplace, and also experience in managing these type of governance arrangements of which we have a very strong relationship as board members, but also between the US board members and Mary and her executives. So I think we are taking a very different approach, having learned the lessons and set out a clear strategy, the right product base, and the right people to navigate the years ahead. Does that answer your question, Charlotte? Do you want more from David on Capex and R&D?

Maybe David, you can pick it up in your financial section?

David Smith

Yeah, well, maybe I will just say a word here. I think we have an R&D budget that we spend in the US and we will be incrementing that especially around the strategic captures that Mary was describing so that the programs of record making sure that we have got everything in place for those, I mean, these are not huge amounts of money but there are very important parts of money to make sure that we are developing the right capability, whether it is a supply chain or manufacturing or business capture capability going forward. So we have taken that into account in the plan that we are doing but I do not think these are going to be huge amounts of money that we manage.

Charlotte Keyworth (Barclays)

Thank you.

John Haworth

Great. Thank you very much for your questions, and there will be a further time in the end for further questions as needed. Let us now move on to the second major topic of the seminar, please, Digital Test and Evaluation. So Nic, over to you.

Nic Anderson

Hello, I am Nic Anderson group Managing Director for Air and Space. In the next twenty minutes, I am going to explain some of the drivers for mission-led innovation, and how this strategy creates a fantastic opportunity for QinetiQ in digital transformation. We intend to build a Digital Test and Evaluation capability that will support our customers achieve quality, cost, and time scale improvements, while simultaneously offering QinetiQ a range of new products and services that will enable sustained growth. As with Mary's update, there will be plenty of time for questions once I have run through the presentation.

With the growing economic and military strength of China, and the resurgence of Russian influence, combined with their willingness to sponsor state and non-state actors, Western-aligned nations now find themselves living in an era of persistent and multifaceted competition. The West's traditional supremacy and security and defence systems have driven adversaries towards grey zone approaches, which include a myriad of new threats described by buzzwords such as asymmetric and hybrid warfare. These terms refer to the exploitation of the widest range of social, political, economic, and military instruments available to achieve their desired effect. Since the Cold War, our adversaries have continued to invest in new technologies from hypersonics to autonomous systems, coupled with the use of commercial off-the-shelf capabilities, such as drones. Equally, our reliance on networks and information has opened up the relatively new but core domain of cyber warfare.

To counter these threats, we need to help our customers develop techniques that enable innovative capabilities to be rapidly delivered to operators. As Steve has said, we call this Mission-led Innovation, where we focus on the technologies and methods enable our customer to benefit from lower-cost fit for purpose capabilities generated at pace. You have heard a number of examples of Mission-led Innovation from Mary and our US business is leading this collaborative approach with our customers. Fundamental to the future, Mission-led Innovation will be the exploitation of the so-called Digital Thread, a concept that I will explore in a moment, which runs from the creation of the capability through to mission rehearsal. In QinetiQ, we are in the ideal position to offer customers distinctive new products and services, based on the digital thread and digital testing evaluation that supports our mission-led innovation strategy. We see this opportunity as another layer in our suite of services, a layer that will enable global leverage for growth, which builds in opposition as a partner in the provision of mission-critical capabilities. Before I focus further on the customer opportunities and the growth potential of Digital Test and Evaluation, which is a core global campaigning QinetiQ, I would like to share a video that explains what we mean by the digital thread, and I hope this will help set the scene.

[video presentation plays]

Woman: How does the digital thread work in defence? In today's digitally enabled world, almost everything we do generates data. Each step of translating an idea into a physical product generates strands of valuable digital information. Collectively, these strands are known as digital thread. This thread is a single library of digital assets and data stretching from initial design to finished product. In complex projects involving many organizations, it can be accessed by anyone involved at any point in the chain. This enables greater collaboration and helps each participating organization to deliver an end result that performs the expectations and beyond. The result is a better product delivered in less time and at a lower cost. In commercial manufacturing, the use of a digital thread is fast becoming established practice. How can the same thinking be applied to the defence sector? Let us take the example of a new air combat platform. While scale and complexity may differ significantly from commercial projects, the principles remain the same. At each stage of conceptualization, design, and testing, various models and datasets have reduced in numerous iterations.

A digital thread speeds up the development of these assets, combining them into a single source of truth about all the project's component parts at any point. This makes it easier to design the platform as a whole, taking every element into account and identifying potential issues before they become expensive and time-consuming. It also allows multiple organizations to operate as a virtual team working concurrently and at a faster pace despite the complexity of many interdependent elements maturing at different rates. In the manufacturing stage of a project, the prior use of the digital thread ensures the faithful translation of the final design into a tangible aircraft. At this stage, detailed data captured within the thread can be used to create a digital twin, a virtual representation of the aircraft unique to that specific production unit. That digital twin can be used to interpret operational data from the live aircraft and model the impact of any changes in near real-time without affecting performance or safety.

Not only does this mean pilots can receive alerts to possible issues in flight, but it also allows the aircraft to receive uploads during live missions, improving performance, optimizing mission capability, and maximizing combat effectiveness when it matters most. On return to base, individually tailored pre-provisioned maintenance and upgrade work based on data captured from the aircraft in real-time can then be undertaken immediately, cutting turnaround times. Currently, the effectiveness of a digital thread in the defence sector is held back by commercial sensitivities, the logistics of controlling data distribution, and the wealth

of different digital architectures and software tools. The solution is to utilize new technologies and form a common digital environment for the defence sector for digital thread operation, this would enable safe and open interaction with disparate digital assets and data, whilst allowing their respective owners to retain control. If implemented, the use of a digital thread has the power to transform the defence equipment lifecycle for customers and suppliers. By creating a safe and secure way for organizations to work with and contribute to a single repository of digital data. The processes involved in bringing a defence capability to life can be delivered faster, cheaper, and with greater assurance.

Nic Anderson

I hope you liked the video which described the benefits of the digital thread to defence, speeding up development and reducing the cost of delivering capability to frontline users, and enabling improvement of operational performance, all key parts of mission-led innovation. We are beginning our digital test evaluation journey, and we see great potential for new products and services for our customers through this capability. We have started a multi-year investment program in the region of eight to ten million pounds of OPEX and similar Capex in FY 22 and this is included in the forward guidance David has already provided, we expect returns on this investment in line with our overall company revenues margin. In the next three slides, I am going to share how we are targeting this investment in key areas that are critical to our customers. This will mean we can embed services that are core to our customers, ensuring we can continue to grow over the long term. As you know, we are implementing what we call the capability investment program on long-term partnering agreements. This is progressing well. As part of this investment, we have a digitization program to create distinctive new services for our existing customers and to attract new customers. These services include areas such as sensing and control for remote or centralized command and control which will enable live and virtual training a massive boost to our customers. Capture and Storage. A capture and storage systems and networks, therefore allowing easy integration and accessibility by QinetiQ and our customers. Processing, exploitation, and dissemination. Matching value to customers' timescales and needs through secure information analysis and transfer.

These digital testing evaluation investments will bring about significant improvement for our customers enabling capability to be evaluated rapidly, both live and virtually, and delivering insights that will improve mission performance through exploitation of managed and shared information. The digital thread video shows that we can start the customer journey and capability assurance much earlier in the lifecycle that has been the case traditionally. Labelled traditional testing evaluation on this slide. We have called this new concept for sure as you go in the creative space and we believe it will help customers validate capability much earlier and in steps and so take cost out of the assurance of equipment providers programs where significant resources are currently consumed. When we look at using it, we see opportunities for much more mission rehearsal in the use of space. We anticipate more testing at a full system level and at a systems or systems level, where live and virtual players are connected together to improve operational performance. Enabling virtual players also support our and our customer's drive to reduce carbon emissions. In line with our ESG commitments, as Ian will describe in the next presentation.

Assure as you go is designed to build evidence of the assurance needed throughout the lifecycle of a military system utilizing evidence derived from synthetic modeling in the earliest stages of the lifecycle. For our customers, this will enable faster, more cost-effective decision making, thereby accelerating capability to the frontline. For QinetiQ, it enables us to left shift our services and engage in the earliest stages of the equipment lifecycle than we have done traditionally. It also enables the establishment of the digital thread for the life of the system. An early example of this approach is the future combat ships programs in Australia, Canada, and the UK. We are developing a digital application that is targeted at providing an

assurance dashboard for decision-makers. Showing the maturity of the assurance evidence as you go and highlighting any assurance risk. On major programs, this offers a service opportunity to support our customers with the long-standing challenge of knowing assurance levels at any given time on a major acquisition program and thereby reducing acquisition timescales. This is an offering we can build into another of our long-term customer partnerships EDP. For the UK, LEDs, defence, and equipment support procurement agency. As I touched on earlier, building on our existing capabilities, such as those within the long-term partnership agreement, we are investing in the development of the digital architecture needed to enable the introduction of virtual assets alongside live testing, evaluation, and training scenarios. A single platform no longer operates independently, and the systems of systems become ever more complex, involving submarine ships, air platforms, and so on. Then a more flexible approach to testing and exercising is required. For example, one approach is the test and evaluation that does not require all the assets to be physically located together.

Live and virtually connecting synthetic players allow complex activities to take place in this way, increasing the value, reducing cost, and also reducing the burden on life platforms. For QinetiQ, we can right shift into these mission rehearsal services to enhance our offerings to new and existing customers. QinetiQ has recently signed a five-year contract with the US Air Force in Europe for the F-15E and F-35 fifth-generation fighter aircraft training on the long-term partnering agreement ranges. The five-year framework contract with QinetiQ worth up to twenty-seven million dollars provides USAFI, a fully instrumented and safe training location for the F-15 E and their flagship defence platform, the F-35 fifth-generation fighter aircraft when it is fully deployed in the UK and Europe. This contract will provide their frontline forces with the best available environment in which they can fully exercise their equipment and people, offering challenging practice scenarios and unique solutions to meet their overall operational goals. The program will open the door for new weapons to be certified in the UK for the first time. Our adoption of digital test evaluation capabilities, including live and virtual players, enables us to bring a greater capability to users, introducing new digital threats to training. We believe this will enable new service for our UK customer, USAFI, as well as attract European countries, a number of whom are procuring the F-35 to utilize the capability. Through our investment you can see that digital test and evaluation offers opportunities for sustained growth, building on the success of our long-term partnerships.

All of the above will be underpinned by cloud-based IT infrastructure investments, including secure data hosting, management, and connectivity, and our plans include the creation of a collaborative environment to host tools, capabilities, and services for our customers. Perhaps most powerful of all is this infrastructure can be used globally across QinetiQ and is key to our core cyber domain where we can leverage the investment for new product development. These foundational improvements are key enablers to support and sustain our long-term growth.

On this slide, I am going to give you three more examples across create it, test it, and use it to explain how our own digital investment benefits customers with their core challenges and how that creates sustained growth opportunities for QinetiQ. Firstly, create it. Team Tempest has been established under the UK's future combat air strategy as a technology demonstrator program to inform the customer's procurement decision on the UK's Combat Air Acquisition Program or CAP. CAP will procure the next-generation combat air system, which is anticipated to be one of the largest future programs in the UK. The current in-service date for the program is 2035 and the system is planned to be in service for thirty to forty years. QinetiQ has been invited to join the team of UK companies leading Team Tempest and has so far taken some twenty million pounds worth of orders. Through Team Tempest, we are targeting a lead role in the approach to digital test and evaluation. We are investing in two Digital T&E capabilities for application to Team Tempest. The first will

enable assure as you go, this is the concept I have already described enabling assurance earlier in the lifecycle. The second will enable equipment manufacturers to test the performance of connected synthetic models in a secure environment. We believe this will create a new service offering that we can take to customers across domains both in the UK and internationally. This approach is attracting significant interest across the UK MODs defence equipment support organization, where last month we had a workshop with the customer's chief engineers to explain our investment program and the benefits of Digital Test and Evaluation in the created space.

This has resulted in an appetite to develop a series of digital T&E demonstrators as the first stage in potential collaboration across a broad range of our customer programs. Secondly, test it. Looking at the second picture, you can see the uncrewed air systems Flight Test Range that QinetiQ developed in partnership with the Queensland Government, which we are now operating and maintaining for the customer. The range enables uncrewed air systems operators to conduct single or dual-platform trials in safe and compliant airspace. This success was based on leveraging QinetiQ's UK range expertise, specifically drawn from the long-term partnering agreements. The Queensland Government wants to develop the range to become a world center of excellence for uncrewed air systems testing. This means we have an excellent opportunity to leverage our digital test and evaluation capabilities. Based on the developments I have described in the long-term partnership agreement, we intend to develop the Queens and Range, providing a deeper long-term partnership with the customer. Enhancements plans include secure connectivity to enable data streaming to the customer's home base, the introduction of virtual players to enable a broader and more cost-effective evaluation and connectivity to other Australian ranges for more experimentation and training benefit between live and virtual players.

This is another great example of leveraging our Digital T&E investment through our home countries. And then finally use it. As Mary has said, the US is leading a QinetiQ approach to mission-led innovation and working in partnership with customers to solve mission challenges. This involves using the digital thread to develop products that enhance customer performance and enable them to embed mission learning by rehearsing in the virtual environments. One great example of this is the Joint Effects Targeting System, which is a target designation training emulator for the US Army. In this case, we took a rapid approach in developing a fully immersive simulator, a training solution based on mission information. The solution we developed also uses leading-edge augmented reality to support a rich and flexible mission training experience. This capability enables operators to be more prepared and effective in the field. This also enables QinetiQ to establish an excellent track record with the US Army. Fielding eighteen emulators at various fields and classroom locations. Our mission-led innovation approach is placed in a strong position to compete for the future Call for Fire Training three, the competition expected next year.

So to summarize, the characteristics of warfare are changing, and this is driving new opportunities for mission-led innovation. Through our proposition of create it, test it, and use it. We believe we can create value for customers and sustain growth for QinetiQ. Digital test and evaluation is an area where we can develop new and distinctive products and services that are needed by our customers to improve performance, reduce cost and reduce delivery timescales of their equipment programs. These products and services build on the successful growth we achieved through the long-term partnering agreement. It enables us to enhance performance to attract new customers to QinetiQ providing a significant commercial advantage. We see great opportunities for additional teaming capabilities. This is by expanding our service earlier into the equipment life cycle, through assure as you go, and later in the life cycle by exploiting digital thread in mission rehearsal and training. These capabilities are supported by a new foundation, a secure cloud-based IT infrastructure that serves our people globally, enabling us to create new products for additional test and evaluation as well as for our customers in our core site and domain. We are investing in its

program in a meaningful way, working in partnership with our customers. This will ensure we create solutions that will provide them with maximum benefit and places at the heart of their critical capabilities. We believe this will accelerate our next-generation global products and services and support and sustain growth for QinetiQ. Thank you and we will now welcome questions on this topic.

John Haworth

Thank you, Nick. Please go ahead and use the raised hand feature for questions. Thank you, the first question from the line of Sash Tusa.

Sash Tusa (Agency Partners)

Exactly, who your customer is at each stage? Are you selling to the prime contractor or the expected prime contractor for a program, or are you selling to the ultimate customer, the defence ministry? And perhaps you can use the examples there, you said twenty million orders. Who did you actually sold this to, was that the MOD or someone else?

Nic Anderson

Thank you, Sash, great question. I do not know if we came into it, a little way into it but I think I got the gist of the question. I will try and answer it. I think you are highlighting, who are we selling these products and services to, is it the ultimate customer in terms of each of our home countries' departments of defence, in this case, the MOD or the OEMs or both. I think the short answer is both actually. If I take the UK MOD and Tempest as the example, we obviously want to help that customer, UK MOD, understand how they can benefit from the digital revolution and really be able to ingest the synthetic models that are going to become more and more common. In a way, they understand the capability, the risk and ultimately get the assured service and product for them. Equally, the equipment providers have to learn how to provide that evidence, and that is the developing technical activity as well, from additive manufacturing through to getting their synthetic players across systems and systems playing together. So we can sell both products and services to help the OEMs, and to answer your question directly on the Team Tempest twenty million so far, that is being contracted through Team Tempest, not the MOD.

Sash Tusa

Thank you.

John Haworth

Next question is from the line of Jack Barratt.

Jack Barratt (GLG)

Hi, thanks for that. Just one on the evolution of QinetiQ software and the why that is here in space. In terms of how you would think about market share or your ability to execute or your ability to grow within the market, could you site the different leaders for me in the best way you can? Is the market has never been before or are you better able to compete in terms of the ability to grow? Or you had them before because you are the only one offering, it is much more being outsourced, I am trying to understand which is the most powerful growth driver for this part of the business in the next three to five years.

Nic Anderson

Well, I will give you my thoughts and I am sure there will be some perhaps from Steve and Ian. I think my thoughts, the digital change is going to happen and it is happening in all of our industries. I am sure QinetiQ is experiencing just as many trends like this. I think we are in a unique position based on our current discriminators. Deep technical expertise and know-how in T&E. And a co-creative and collaborative approach with customers. I think what I am trying to describe, that means we can move up the life cycle and help customers get assurance earlier and down the life cycle to help use additional thread in mission rehearsal. I think we are fairly uniquely positioned to do that, I think we are in a great position to do it, and the real beauty of that is those, that know-how, that deep technical expertise can be transferred and leveraged globally. So some of the examples that I gave, I think trying to illustrate is how we can be the leading edge of that, not just with the long-term partner agreement. That is to build on the back of that in our home countries. I think this is a fundamental change that is going to happen in the market space, and I think we are brilliantly positioned to exploit it.

Steve Wadey

I agree, Nic. It is a good question, Jack. This is not a sort of complete revelation and we are sharing something new for the first time. I think we have been progressively building this story. Think of QinetiQ, we are known as a world leader in test and evaluation capability today in the UK market but it is worth pausing and thinking about what are the unique strengths of QinetiQ in the field of T&E. And I am going to do what you might find strange which is ask you to park out of your mind all of the physical assets that we run currently, let us say through the LTPA and say other than the unique physical assets, what is there that is unique and differentiated about QinetiQ and I think there are three things we provide over and above the physical assets that are really unique and value add to us.

Nic has touched on all of these, but one is the multi-domain experience. The fact that we have that breadth across all domains at an overall system and system-level, that is really something that is unique. Secondly, the nature of what we do at equipment and system at system-level. That level of activity and understanding that we can apply for our customers: safety, performance, interoperability. They are really unique characteristics of capability that we can add. Thirdly, and this is a complement to our partners in the industry, we operate far above what is called the equipment line of development at an overall capability level so how training, people, systems, infrastructure all come together to give an overall fighting capability. If you look at those characteristics they are the value of QinetiQ over and above the physical asset that you recognize in T&E. So you probably thinking, "Well, what does that mean in terms of the growth levers?" If you think about those as a value add, those value adds can apply in the virtual world as much as the physical world, so what Nic is just really described to you is how do we build upon the strength of those characteristics in the physical world and how do we expand them into the virtual world. The first lever is how do you expand physical test and evaluation with those unique characteristics into a blend of both physical and virtual test and evaluation. And that is going to be really important as the next generation of systems come online because the next-generation systems will require a form of testing that you can not do in the digital world.

One example, the application of artificial intelligence in next-generation unmanned air systems, and once you have been able to transport those capabilities into the virtual world, it is very easy to left shift, as Nic described, from test and evaluation into operational experimentation. It is very easy to right shift from virtual test and evaluation into training and mission rehearsals. This is a really central part of our growth strategy and in the way that Nic described it, not just in the UK, but we do that on a global platform, hence the comment when I ate his sandwiches earlier when we were talking about the US market. Those are the

primary growth levers. Jack does that make sense to you?

Jack Barratt (GLG)

It does. That is really helpful, thank you. Just to follow up about the penetration of the US opportunity within T&E and given how dominant you are within the UK, how do you see the evolution of the T&E business in the US going in the next five to ten years? The opportunity there would be really helpful.

Steve Wadey

Well, and just to build upon what I said earlier, and as everything we have done in the last five years, everything we do is with a long-term strategy in mind that you can hear in short-term actions to get there. Our focus in the US is building out on our strengths of sensing of autonomy and robotics but of course, we do have our right to where will the US market go in this area, and it is no surprise if you look up what a UK customer and a US customer are talking about, they are talking about modern digital methods around tests and evaluations. The fact that we are investing and developing state-of-the-art thinking in this field definitely gives us the medium to long-term opportunity in the US. But that is very much in our longer-term horizons as opposed to the actual to medium term that we are working on in the US market right now, but it is in our sights.

Mary Williams

Steve, can I build on that? Do you mind?

Steve Wadey

Please, Mary.

Mary Williams

Part of what we have agreed that we brought with the MTEQ is we do a lot of live virtual constructive, not on the testing side but on the evolution of sensing technology with platforms, so we have a strong live virtual constructive that is in sync with the digital thread and we are growing that. With that we built ground combat, so for system integration laboratory that we are working with or created with our government customers, to bring sensors, platforms, AI, machine learning, together in a collaborative environment where our teaming partners can bring in their technology in a constructive environment to assess how that is going to advance the mission before our customers bring those technologies to the field. So we are already doing that and there is a lot of demand to use our cell to advance that strategy as we move into bringing sensors at different layers onto platforms to advance the missions. It is already going in that direction and we see more of that as well, Steve. Although it is in the future for other things we also have some hyper-sonic targeting when we get into the other elements in testing. The future of testing is going to require advanced threat target technology that we are also bringing to the market as well.

Nic Anderson

Can I just add one more point? I think if it did not register through, I hope it will. The secure cloud environment, the data exchange where the application will enable us to operate this development environment on a global basis, as we develop products and services for customers, overtime we will have a library which can be exported to every country. I think what we are actually doing, these foundations are going to serve us well for the mid and long-term of the sustained growth plan.

Jack Barratt (GLG)

That is very helpful, thank you, everyone. It really does, thank you very much, everyone.

John Haworth

Thank you. Thank you, Jack, Thank you, Nic. So we are now going to move on to the third topic of the seminar. ESG. Ian, hand over to you please.

Ian Beresford

Thanks. Hello, everyone. I am Ian Beresford, Group Functional Director responsible for QinetiQ's Engineering Safety and Technical Assurance, and for the deployment of our technical resources into UK business units. In this section of the presentation, I will talk to you about our approach to environment, social, and governance matters. What it means to us and how our approach is for the benefit of all of our stakeholders. I am really pleased to present this section both because of my technical role as I have formal responsibility for aspects of the E, S, and G agenda, but also as a leader, for I believe this is an enabler for our success. We are proud of what we have achieved so far and we have come a long way already on our ESG journey and are pleased to be rated as AA by MSCI and the highest rank in the Aerospace and Defence Center by Sustainalytics. I will talk about our core purpose and provide you with some examples of our work across the E, S, and G to bring the different elements to life. And I will end with a video highlighting a few case studies. And as with previous presenters, I will take questions at the end of my presentation.

Our purpose is clear on what drives us as a business and as employees is our critical role in defence and security. Protecting the lives of troops and the societies in which we operate and defending sovereign capability. While several talks in this presentation to the wider benefit we bring to the environment and society, its core purpose is central to our organization and at the heart of our business, defence of the realm and ensuring the safety of our citizens. Our value proposition is in providing mission-led innovation working alongside our customers to help solve their complex defence and security challenges. As Steve, Mary and Nic have already touched on, we help customers create it, for example in the development of new sensing autonomy platforms. Using robotics to take troops out of harm's way. We help our customers to test it, ensuring the equipment works as it should, improving safe and accuracy, and we help our customers use it. Supporting our customers with their training needs often in a combined live and synthetic environment, reducing emissions, cost, and improving safety.

Our purpose is underpinned by our commitment to operate responsibly and sustainably for the benefit of all our stakeholders. Climate change is one of the biggest global challenges and increasingly will affect regional stability, supply chain resilience, biodiversity, and our health. Environment stewardship, therefore, has never been more important and there is a clear understanding as a business, we have our part to play. Reducing our impact and contributing to biodiversity. We also create products and services which help our customers meet their environmental requirements. There are a few examples on this in subsequent slides, and I will touch on just a few of them, and our video at the end, will illustrate further. For our customers, as Mary and Nic have already explained, we are using our hybrid electric drive expertise in the US to fuel the next generation of tracked military vehicles, reducing weight and enhancing operational performance and we have developed a range of virtual training and testing platforms, combining live and virtual exercises, reducing the environmental impact. In 2019, we committed to a target to reduce our scope 1 and 2, greenhouse gas emissions by twenty-five percent by 2025, aligned to science-based targets.

We are well on track to deliver this but we know it is not enough, for we are currently working on our Net Zero strategy. We will also be including greenhouse gas emissions as one of our non-financial KPIs. Net zero is a tough challenge and we are working closely with our key customers on how this can be addressed more broadly by the defence enterprise. Due to the significant number of sites we operate and own across the world, we are uniquely placed to contribute to the conservation of biodiversity through the management and development of these sites. For example, we are responsible for fifty-three conservation sites across the world, including twelve sites of special scientific interest, sixteen special areas of conservation, four wetlands of international importance, and a double world heritage site. It is therefore very important that we conduct our complex test and evaluation operations in these environments in a way that is sensitive and responsible to the environment and our surrounding communities.

For us, society encompasses our people, our supply chain, our local communities, and wider society. The work that we do for our customers focuses on the safety and protection of the societies in which we operate. Recently, we have leaned in utilizing our IP portfolio to support the COVID-19 efforts. One specific example is using our expertise in respiratory and back treat power, to develop a cost-effective and lightweight Covid mask respirator with the performance and protection of higher cost PPE at a much-reduced cost and weight, wherein discussions around licensing the design and technology. Another area that we are not able to talk much about is the significant work that we do around cybersecurity, and the work we do with law enforcement and security agencies.

This is a fascinating area which is becoming more and more important as the world becomes more digital. With AI, 5G, the internets of things and alike and an area where QinetiQ has some of the most accomplished experts in the field that are deployed alongside our customers to keep society safe from digital threats. Furthermore, our work in robotics and autonomy is significant. Whether that be our robots that are used for reconnaissance or intelligence gathering or our Robotic Applique Kit that can transform a standard digger into a remotely controlled vehicle, for safe standoff route clearance and to investigate large ID's, thereby keeping our military, first responders, and civilians out of harm's way. For our people, we take a proactive approach to flexible working and inclusion, to our inclusion 2025 strategy and DNI leadership. On safety and wellbeing programs, have always been important, these have become more so over the last difficult year.

We placed a strong emphasis on our employee engagement, ensuring action is taken from local employee feedback and our global employee voice community. We are a people-based business, and so we are constantly looking at how we can create the skills our people need for the future, be that through apprenticeships or supporting Ph.D.'s and other professional development. As well as understanding where we have critical skill gaps with future customer needs driving our recruitment and M&A strategies. We have an active STEM outreach program, to inspire the next generation of scientists and engineers, with a particular focus on encouraging girls into STEM. Many of us also volunteer for charitable organizations outside of work. For example, I am a trustee and deputy chair of the Royal Air Force charitable trust, something that QinetiQ actively encourages and supports. As a further example, we have over two hundred and thirty Red Shed STEM ambassadors. In a typical year, we would connect with about ninety schools and run events and activities reaching about seven thousand young people on bespoke sessions.

Last but not least, our approach to good governance. For our customers, good governance is about creating trusted and reliable approaches, so that all products and services plus the management of our supply chain, can be relied on to protect the lives of the troops and to protect the security of our citizens. This is core to our services and fundamental to our values as a business. We have a wide range in role across our international customers acting as the lead safety and security authority whether that be the approval of a platform as

safe to release the service or advise on the disposal of weapons. Formidable Shield is an example of a hugely complex trial where QinetiQ is accountable to design, manage, coordinate, and deliver the deployment of a range, platforms, and assets in a safe and controlled way. We are entrusted by our customers to create the governance framework for maritime, space, and air activities, including live firing. To enable NATO to undertake the most sophisticated exercise in a safe and secure way. The ethics of defence can be perceived as challenging, whether that be in relation to specific products, countries, or customers, and particularly the combination of all three. We have a group code of conduct and all our employees, our leaders, and our board receive training in business ethics, underpinning on how we do business.

Through our business ethics committee, we carefully consider all high-risk opportunities and assess where they are aligned with our products and services trading policy. There have been some situations, where we have deemed not appropriate to pursue opportunities where they have not aligned with our high ethical standards and approach. Furthermore, we take a leading role in the defence sector, being the chair of the trade body, ADS Sustainability group, and the chair of the Defence Suppliers Forum Sustainability group. We are also proactive with our supply chain through our collaborate program. We will now play a video which summarizes our approach to ESG and brings to life a few examples.

[video presentation plays]

Woman 1: Our goal is to deliver responsibly and sustainably for the benefit of all of our stakeholders. Our approach to environmental, social, and governance issues, takes into account stakeholder expectations, best practices, changing landscape, and our own strategy and purpose. By setting priorities, we can ensure our actions align to our purpose and benefit our employees, customers, shareholders, and wider society. Society is facing some big global challenges, businesses need to be proactive and play their part, engendering a responsible and sustainable mind-set within the day-to-day business. Here are just some of the ways our approach benefits the environment, society, and our people across the globe. Our space team in Belgium is building the Out Here Satellite for the European space agency. ALTIUS will measure the levels and composition of greenhouse gasses in the atmosphere, helping us to identify and ban products that deplete the ozone layer and contribute to climate change. Testing military equipment and training the armed forces often demands activities that produce greenhouse gas emissions as a result of driving vehicles, flying aircraft, or firing live ammunition. While these activities remain necessary to ensure the safety and preparedness of the armed forces, QinetiQ has developed a host of novel testing and training capabilities that can help produce their environmental impact. These include increasing the role of simulated training which can reduce the number of hours spent flying, driving, sailing, or firing. Improves safety and reduces cost. And whilst we meet the environmental needs of our customers through our products and services, we are also uniquely placed to contribute to the conservation of biodiversity through the management and development of the sites we operate and own. For example, St. Kilda is one of the most remote places in the UK and boasts unique jewel world heritage site status for both historic and ecological interest. In 2017, QinetiQ began replacing the 1970's built infrastructure at St. Kilda with new accommodations and a new energy center. We ensure that the work required had no impact on the site's unique heritage and that the resulting facilities were both sympathetic and sustainable.

Woman 2: A high-performance, inclusive culture underpins our strategy. We believe this is vital for employee engagement, performance, and innovation. This sits at the heart of our Inclusion 2025 strategy, a group-wide approach to raising awareness on the importance of diversity and inclusion at QinetiQ. In Australia, our diversity and inclusion program Better Together aims to create an environment where everyone is valued and provided with equal opportunity to contribute and succeed. We work together to create an inclusive culture

focusing on areas such as flexible working, gender balance, and cultural diversity.

Woman 3: So in QinetiQ, we have an 'If Not, Why Not Policy,' and it is up to our leaders to be asking the question around flexible work if it is not possible why not, and I think that really encourages us to think right from the early stages of recruitment about role design and making sure that we are creating every opportunity for people to enter our organization from all different backgrounds and skills and experiences and working in a way that suits them

Woman 2: Our people are critical to our success, so it is vital that we create a workplace that is inclusive. Where our differences are not only embraced but harnessed as a way to make us stronger. A diverse and inclusive workplace is one that brings a breadth of thinking and original ideas. Helping us to solve our customer's most complex problems and support our growth.

Man 1: VIVACE is a QinetiQ-run Programme with a home of accelerated capability environment, ACE. Where we are working with over two hundred and fifty organizations to bring the best minds to bear on the most complex digital challenges faced by frontline law enforcement and security agencies. The wide range of partners we work with, offering an incredible diversity of experience and thinking. The work we do to deliver significant benefits to our society as a whole. One example is our work on supporting law enforcement to protect children from harm, by catching child abuse offenders. VIVACE developed a number of digital tools to identify offenders and catch them sooner, thus, safeguarding more children. These tools also help protect the welfare of investigating officers by reducing the amount of distressing images that they need to view. Under QinetiQ, the VIVACE program provides a unique platform for innovation at the heart of UK security and policing helping to keep our society safe

Ian Beresford

I hope you can tell from my presentation and the video that for us ESG is not just a box-checking exercise or a nice to have. Ensuring that it is embedded into our business operations and strategy reduces risk and creates value. We also support and enable our customer's ESG needs and expectations through the services and products we deliver for them. As we have briefly touched on today, we have so many fascinating examples of the breadth of our capabilities and how focusing on ESG benefits customers and our business. We have come a long way already on our ESG journey and as I mentioned at the start, we are pleased by our rating with MSCI and Sustainalytics, but ESG is rapidly evolving and we recognize we have more to do with a particular focus on our Net Zero plan this year. We welcome your feedback so we can continue to improve and meet your expectations. We have a strong strategy in place to grow the company, and we will only do so while delivering responsibly and sustainably for the benefit of all our stakeholders. Thank you and I am now happy to take any questions that you might have on this topic.

John Haworth

Thank you, Ian. As a reminder to ask your question, please use the raise hand feature. Richard Paige, do go ahead.

Richard Paige (Numis)

Hi, thank you for that Ian. I was just wondering, to what extent do the customers care about your ESG credentials and whether there is a level of variability within your customer list as well?

Ian Beresford

Yeah, that is a great question, Richard. It is a growing area of focus for our customers, and particularly government-related customers. Their high-level authorities place a mandate on them and they look into those who can part with them draw forward this agenda. I would say it is strong and it is strengthening, not just in our customer community but also in our partner and our supply chain community which again, we are keen to support in our agenda.

Richard Paige (Numis)

Sorry, just to follow that up, are you able to win business because of it? Is there any example of that?

Ian Beresford

Yeah, there are plenty of examples where we, you know, carbon reduction has to be shown to be delivering that. The topic that we already touched on, hydroelectric drive for combat vehicles, land vehicles. Our customer there not only sees the operational benefit that is brought by the application of that technology and it does enhance the performance of the vehicle but also sees the benefit and is able to recognize with their authorities, the benefit it brings in terms of the environment, in this case, the use of diesel. The supply chain of diesel, all of that is part of what comes along with the product and services that we offer. That is one example, I will give you another one. When we are doing haul designs through our maritime teams, down in Portsmouth, they are doing haul design and they are refining haul designs for both military and civil purposes, for various reasons but not least to create efficiency in terms of fuel utilization of vehicles at sea. And again, it is not a great example where our civil and military customers are really actively pursuing an environmental agenda.

Steve Wadey

Yes. Ian, if I could add to that. I mean, Richard, It is a great question. I think that Ian is right. It is an important agenda for the customer right now, but I think it is going to be increasingly important for our customer over the years ahead. If I take just one of our markets, which is the UK as an example, the UK is introducing a policy where what they call social value will be a parameter that they will consider within the competitive process, and the war points to contractors that really add more in terms of social value, in terms of environmental or social value add within the economy. And they are just working through the process now of how they will apply such procurement rules. And I think Ian is spot on. One end of the spectrum, you will have the operational importance of the ESG agenda, so as he has described, the example around hustler, well the impact of climate change will affect the top speed of warships, so how you adjust the design of warships to deal with that effect of climate change. And then, of course, the UK MOD is setting up their own policy for their own Net Zero plan, so how does their enterprise on the work of contractors support the MOD in reducing their own carbon footprint. So, you have got a full spectrum of the growing importance of the ESG agenda, and it will become a feature in terms of a differentiator or competitive edge for those companies that really adhere to it, and those principles that we have talked through there are growing and applying in all of the key countries that we focus on. It is not something that is just within the UK marketplace.

Richard Paige (Numis)

I see. Thank you, that is very helpful.

John Haworth

Next question from the line of Ross Law.

Ross Law (Berenberg)

Hi guys, can you hear me?

Ian Beresford

Yes, we can hear you, Ross.

Ross Law (Berenberg)

Great. Thank you very much for this seminar, it has been very helpful. I guess a bit of a big picture question really on the split of your products. If you can just broadly split them between products that you would class as offensive, or that have end uses that are offensive. And then, obviously, on the flip side of that, products that you would class as defensive or defensive end uses. So I guess, just a high-level split over your current product portfolio. And then, as a follow-on to that, how that trend is going forward, are you making any moves away from maybe some of these products seen as offensive? Thanks.

Ian Beresford

Yes, that is a tricky one to answer in the specific, because I do not know that I am equipped to do that at the moment. I doubt anybody else on the team is. I would say, the products that we are developing our products that are mission-led, and if you are getting to the point about the ESG agenda, we talked about our ethical approach and our ethical overview of everything we are doing. So, some of our activity of course is to support the military forces and is offensive in nature, but it is something that is well considered with government advice, and with customer advice, and of course our own view to our ethics committee on whether that is something we should be pursuing or not. Steve, I do not know if we can... I am not able to breakdown the percentages, Ross.

Steve Wadey

Yes. I mean, Ross, it is a good question. We do not split out products and service offerings by an offensive or defensive category. In fact, all of what we do is for the defence and security market. But I think as Ian has eloquently described in his presentation and the answer to that question, what we do think about very carefully, the customer, the nature of the activity, the product or service, and whether it meets the government standards, and our own standards.

As an example, you saw it on one of Ian's slides about eighteen months ago, as the discussion about the defence industry and the growing importance of autonomy really started to develop, we wanted to think about our own ethical stance on autonomy, and we developed a policy which actually is being through and had PLC board approval, which really sets out in simple terms that we will support the development of autonomy and artificial intelligence. But any product or service that we will support, we will expect ultimately there to be a human in the loop in terms of any decision making, in terms of the customers that we would sell those products or services to. So, we do not think about the question in an offensive, defensive split. We think about all of our products in terms of the nature of the customer, and the nature of the products and service, and whether it meets the governments that we would support selling our activity to, in terms of their standards, but then our own

ethical standards as Ian said is through our own ethics committee, and ultimately up to the PLC board. Hope that answers your question.

Ross Law (Berenberg)

Okay, thanks very much.

John Haworth

Let us run through the final section of the presentation now. So, I will hand it over to David to run through the financial summary, and then to Steve for the final summary. Thank you.

David Smith

Hi. So, good afternoon everybody. For those who do not know me, I am David Smith, group CFO. As you have heard, we have had significant ambition and a clear route to deliver this, underpinned by the three elements we have been describing today. Our US business is central to our future success, our digital investment program is a key enabler of our future growth, and ESG is a core underpin of our strategy running throughout the DNA of the company. At our interim results in November and earlier today, Steve has talked about our renewed ambition.

This renewed ambition is based on the foundations of delivering a strong track record of growth across revenue and profit, our order pipeline, and forward contract cover. We have a strong balance sheet with cash in excess of a hundred million pounds, and the option to leverage the balance sheet to support our future M&A growth. Our ambition is to deliver at least the same level of growth in the next five years, as we have in the last five years. And what that means is that we are targeting organic revenue growth of mid-single-digit percentage on a compound rate over time, plus strategic M&A.

As Mary outlined earlier, MTEQ is a great example of strategic M&A with strong US growth potential, and good synergies for the rest of our business, both in the US and globally. We are presently in a capital-intensive phase to support our growth. We have invested and committed over seven hundred and fifty million pounds in the last five years to support current and future growth, and that includes about three hundred and seventy million of LTPA investment recovered through that contract and nearly two hundred and seventy million in M&A. M&A aside, the next phase of growth will have a lower capital intensity, thereby supporting a strong long-term return on capital employed. The guidance we provided in November at our interim results remains, and all elements discussed in this seminar are included within that guidance.

We intend to grow the international share of the revenue from about thirty-five percent today, to over fifty percent in the next five-plus years. We intend to grow at stable margins or be it slightly suppressed in the next two years related to the upfront digital investment that Nic outlined earlier. Targeting our mid to long-term margin at twelve to thirteen percent, and a key part of our strategy is to deploy our balance sheet to target, to support targeted and strategically aligned acquisitions to further bolster this growth.

As I have touched on at our interim results and our quarterly trading update, we have delivered a resilient performance through fiscal 21 with continued strong order intake and delivery throughout the COVID-19 pandemic. And we remain on track to deliver our fifth consecutive year of organic growth and maintain our expectations for the full year. Our preliminary results will be announced on May the 20th.

Finally, our financial strategy remains the same. We intend to deliver revenue growth at stable margins, delivering an attractive return to our shareholders. Our revenue strategy is focused around delivering growth in our three home and three priority markets, and leveraging the capability of our global business in distinctive products and services with disruptive innovation. Our track record underpins our confidence in this strategy. We will support this growth with careful organic investments, strategic M&A, and continued strong delivery and cost discipline to deliver strong returns to shareholders. And this financial strategy supports us delivering responsibly and sustainably for the benefit of all our stakeholders. I will now hand it back to Steve to conclude.

Steve Wadey

Great. Thank you, David. And thank you for joining us this afternoon. We have covered a lot of ground, so let me just draw out again the three key strands. So firstly, our largest market opportunity is in the United States, and we have a strategy to double our revenue to more than six hundred million dollars revenue per annum over the next five years through both organic growth complemented by strategy-led acquisitions. Secondly, our newest investment is in digital test and evaluation to deliver next-generation products and services for our customers by expanding our strength of live offerings into the virtual world and enabling the next phase of growth.

And finally, fundamental to how we do business is our environmental, social, and governance responsibility. We do take this seriously, and see ESG as an integral part of our growth strategy, delivering benefits to all our stakeholders. Now, with that, we have about half an hour left for this seminar, and we will be pleased to open up the floor and take any questions on the three subjects that we have tabled this afternoon, or anything else that you may have for us. So, we will open the floor and back to you for questions, and hopefully, Harry will be able to get your audio working as well.

John Haworth

Excellent. Thank you. So, the first question is from the line of Rory Smith.

Rory Smith (Investec)

Hi, good afternoon. It is Rory at Investec. Can you hear me okay?

John Haworth

Yes, we can.

Rory Smith (Investec)

Super. Thank you. Two questions if I may, please. The first question is for David. On your slide twenty-eight there, you got three hundred and seventy million of essentially CAPEX committed under LTPA. I was just wondering if you could remind us how that is broken down in terms of what has already been spent, and what is still to be spent, and over what time frame, please. And maybe, I will come back to the second question after that.

David Smith

Yes. By the end of this year, we will have spent about half of that money. The next two years, probably. There will be a little about another fifty million each, and then there is a lower amount over the remaining life through 2028 of the program. So, we are a good way into the investment now. There is a lot of different projects to deliver, but that is about where

we are.

Rory Smith (Investec)

Great. Thank you so much. And my second question, just relating to Mary's section on US growth, forgive me if I have misunderstood this, but is that sort of fifty-fifty organic M&A split predicated solely on RCV-L going to a program of record, or does it also include some wins on some of the other RCV programs? And if so, which of the US defence primes are you competing with, or which ones are you potentially partnering with on some of those other programs in order to reach that organic revenue target in five to six years? Thank you.

Mary Williams

Rory, thank you. This is actually multiple, probably a dozen or more programs that we are looking at growth in. We have programs both in the maritime business, which we are partnered with GAEB electric boat on those programs, and we have other teaming partners that we are going forward on other modernization programs in the maritime market. And as Steve articulated our strongest market is in the land, the army domain. So in that market, RCV is one, we are looking at partnering in other programs such as OMFV, Optionally Manned Fighting Vehicle. We are partnering with Oshkosh on that program going forward, and we have several other programs in that domain. Also with the ISR portfolio, we partner with some large businesses. We are prime, first to market. We work with large businesses to include Raytheon Vision Systems and Raytheon Global. So, we do have a broad range of teaming partners, Rory, and we do have a dozen or more really strategic capture programs we are going after to build that portfolio. So, it is not just RCV-Light that is an exemplar program, it is one of our strongest and successful programs, but we have other ones in the portfolio.

Steve Wadey

Yes, I will just build on that, Mary. Yes. Just to be crystal clear, Rory, the overall growth to more than doubling the US business is what we were saying would be fifty-fifty through organic-driven growth and complementary strategy-led acquisitions. As Mary said RCV-Light is just but one of the programs that we are pursuing that would support that organic growth, but it is just one, and it is a very important one that we are doing very well on, but there are a number of programs across the air, land, and maritime space that we are pursuing. And I would also remind you as you have been following the story of kinetics development over recent years, Mary also mentioned moving into larger longer-term programs, and as you all know, that has been part of our group strategy for many years, and that gives us strength in the organic growth component. Many of the programs that we are now pursuing in the US are multi-ten or multi-hundred million dollar programs. So, we are not reliant on just the success of one program to support this growth strategy, we are pursuing numerous programs as part of the growth.

Rory Smith (Investec)

Understood.

Mary Williams

Thank you, Rory.

John Haworth

Thank you. The next question is from the line of Liren Li.

Liren Li (MFS)

Hello? Sorry, I think...

John Haworth

Hi there.

Liren Li (MFS)

Can you hear me now?

John Haworth

We can hear you.

Liren Li (MFS)

Yes. Hi everyone. Thank you for this. Yes, I am Liren from MFS. I have two questions, please. So, my first one is just around your kind of midterm organic growth target. I was just wondering, how much of that depends on the overall defence budget environment being in a growth mode especially in the UK? I guess in the US it is sort of flattening out. Just what is the kind of assumption you are breaking into your growth outlook with regards to the defence budget? And then, my second question is around the LTPA investment. I know part of the reasons for the investment was to help you grow your international customer base through your service offering the LTPA investment. How is that panning out at the moment? Are you attracting international interest through your investment in these facilities? Just some color on that would be helpful. Thank you.

Steve Wadey

Great question, Liren. I am very pleased to do that. I will pick up the LTPA growth, give you a couple of examples, and I will make a comment on overall macro budgets, and then hand it over to David to sort of pick up the specific midterm guidance. You are absolutely right. When we actively chose to invest in the long-term partnering agreement to modernize the capabilities, that was first and foremost to modernize them and meet our UK customer needs, but also to ensure that we could then attract other customers into utilize those ranges in the UK, and export the knowledge and skills to support our wider international growth. As Nic said, the overall investment in the capability improvement plan on our UK capability is going exceptionally well, and we are certainly on track to complete all elements of the two-year transformation program by the end of March, this month, in fact. So, that is going very well.

And then, in terms of using that investment to leverage wider growth opportunities, yes, we have made good inroads on that, and we are already seeing financial benefits as a result of that activity. I tend to think about this as both import and as export. In terms of import, Nic also mentioned a contract that we won towards the end of last year with the US Air Force in Europe. A customer that used to use the LTPA ranges about five to ten years ago but actually found that they were not fit for purpose. Now, as part of our overall modernization, we have been able to re-secure that customer. Now already, the US Air Force is using our ranges in the UK with their F-15 fLit based in Lakenheath and is also looking to expand that

into their wider assets that are here in the UK such as their F-35 base going forward. So, that is a real positive win and additional growth that is coming to our company from an import perspective.

And then, from an export point of view, we have been able to export some of the knowledge and skill from what we undertake in the LTPA to our team in Australia. And over the last eighteen months, they have been able to position, win, design, develop, and construct an unmanned air systems test range in Queensland, and that test range is being utilized, in fact, you probably saw only in the last week that Boeing have undertaken their first flight trials of their Loyal Wingman unmanned air system that has been designed and built in Australia, and that has been at this range, which has benefited from exporting the skills, knowledge, and capability from the UK.

So, the LTPA modernization is going extremely well. It absolutely is now yielding its wider growth from that investment, and the investment in the digitization of test and evaluation that Nic mentioned will take us even further forward. In terms of your question on midterm guidance, I always like to try to position kinetic in the markets that it operates in relative to the macro budget, and as you said, the budget in the United States is huge, and we are a relatively small player, and we are following the modernization vectors so that we can effectively dislocate upgrowth trajectories from any macro trends, and it is absolutely possible to see the level of growth that we are predicting in the US market.

Yet when it comes to the UK market, there are some positive trends too, with a four-year settlement, sixteen billion pounds additional investment going into UK defence spending. And again, here I would bring our strategy to bear. A strategy that is about mission-led innovation, it is about delivering more for less for our customer. And despite the headline benefits in defence, we know that over the coming weeks and months, some of the announcements will have some pressure on extent programs coming from them. And our strategy as a company is to understand the pressures, whether it is about the threat vector, whether it is about economic pressure, and work with our customer to deliver more for less, and if I give one example of the engineering delivery partner program, EDP, that has been extremely successful in the last two years, and that is because we are partnering with a customer in a way to deliver more value for their expenditure, and they are seeing that as a key enabler for their strategy.

So, from a strategy side, we absolutely can see the growth trajectory that we are on based on a focused strategy and the right mind-set in working with our customers. But David, could you maybe then pick up on the medium-term guidance that we have given within the update today?

David Smith

Yes. So basically, what we said is that we believe that we can grow the business organically at mid-single-digit growth rates over time, and in fact, actually, Mary's picture really would be higher than that. We do expect double-digit growth in the US, and that is really borne out by what Steve is saying, that if we look at the US, and Mary did have a chart on this, the kind of area of the market that we are operating in, particularly around robotics autonomy and sensing is growing at double-digit rates already, so actually, that is a very reasonable sort of growth projection we think, for that business.

Especially if we are able to start capturing the programs of records, and the growth that comes through that. In the rest of our markets, I mean the Australians are significantly increasing their defence spend, and they have a lot of similar needs I think, in terms of modernizing capability to the UK, and indeed the US, and therefore the kind of things that we are capable of now globally will be very useful I think in the US, and therefore we see good

potential to grow that market. And then, in the UK, the government has announced the next four years defence spend, which does include an increment of over twenty billion from the previous version. But as Steve says, what we know that we have to do as a company is really focus on how we can get them the right help to develop new solutions to the changing threats that they are facing up to. And particularly, I think, how we can do that in a way that also saves some money, and also helps them save carbon as well, I think, going forward. So, we see plenty of opportunities. So, I think the mid-single-digit organic growth target is a very achievable target that we are setting out to deliver, and we would absolutely see the opportunity to further enhance that with inorganic growth as well.

Liren Li (MFS)

Thank you very much. If I can, just to follow up on the LTPA bid, I am not sure if you are able to just quantify the international opportunity overall that you are seeing so far. What sort of percentage, of incremental opportunity are we talking about? Thank you.

David Smith

Well, as I think my colleagues describe the specifics contracts like the USAFE is twenty-seven million dollars. We are running at the moment, Formidable Shield, which is not part of the LTPA but is facilitated by LTPA facilities that is a multi-million dollar project as well. So, we are now getting good revenue streams from these sorts of projects. I mean, this year, we are probably going to see I would guess in the sort of twenty, thirty million pound range, it will increase over time. So, it is becoming a very viable way to grow the business in addition to other opportunities that we see as well. So, it is an important byproduct of modernizing the UK facilities.

Liren Li (MFS)

Thank you very much.

John Haworth

Thank you, Liren. The next question is from the line of David Barker.

David Barker (BAML)

Hello. Can you hear me okay?

John Haworth

We can.

David Barker (BAML)

Fantastic. Thanks for taking my questions. So, I have got a couple. I think first, a lot of the focus today has been on your international opportunities in the US, but in your pie charts, you are also highlighting some growth in I think Germany, Canada, and Belgium. Can you talk a little bit about these growth opportunities? Are they starting from a small base today? And do you need to do any M&A to get there? And then I guess, sticking on the regions as well, what are you thinking in terms of the Middle East, or is that a small exposure for you at the moment?

Steve Wadey

I mean, maybe David, if I can start and given we have got the leader of space in the room, I will ask Nic to say a few words on space. I think, first of all, David, I would start with the focus of our strategy, and we have been really clear on the geographies that are important, so we are trying to build breadth and depth in our chosen what we call home and priority countries, and first of all, if I define what we mean by home country. By a home country, we mean that we have an indigenous industrial capability of scale, more than two hundred and fifty people with a direct customer relationship, and those three countries that we have that meet that criteria are the United Kingdom, the US, and Australia.

And the first layer of our strategy is really about building out and growing those countries, and as you have seen within the United States, that was a very long and thought-through strategy about how we would re-enter that market and grow by changing the governance, thinking about the strategy, finding the right company, and driving the integration. And then, pursuing the next phase of growth through organic, and then complementary acquisitions. The same approaches applied in Australia. We have already undertaken one acquisition in Australia.

In fact, the first of our seven acquisitions was in Australia, and the same strategy applies. We are growing rapidly in Australia through organic growth, and we are also looking at complementary acquisitions. So, that is our three home countries. We then have three priority countries, and what we mean by that is these are three countries that we are focused on, that in the next five to ten years, we could see them meeting the criteria of what I have just described as a home country, and as you pointed out, Belgium, Canada, and Germany. So by definition, all of them today are much smaller than the three home countries that I have described, but all of them, we see specific opportunities that align with our overall growth trajectory, and those opportunities will certainly be organic in nature, and may or may not actually incorporate some acquisitions going forward.

We were just talking about test and evaluation, and the LTPA, and as an example, Canada is an example where yet we see the modernization of tests and evaluation opportunity, and we are undertaking, I think I have mentioned this before publicly, yet a study for the Canadian Air Force right now, looking at their test ranges, and how they might go about modernization, and that might bring a significant opportunity for us in Canada. Just before I hand it over to Nic, yes we do have some interest in the Middle East, we do those through joint ventures, but it is a much smaller part of our overall company portfolio than the six key countries that we are focused on from a home and priority perspective. Nic, do you just want to pick up a few words about Belgium?

Nic Anderson

Yes. I mean, I think, first of all, space is a domain that defence and security customers are getting much more interested in, and you can see that in the trends globally. And we have got some really excellent capabilities in cyber information security to serve that domain, and we are looking closely at how we continue our growth trajectory in it. In Belgium, we have got a super space products business that is primarily been working for the European Space Agency, developing what I would say is highly stable unique small satellites, and berthing and docking mechanisms, and an early-stage interest in robotics. We are keen to grow that into the military domain. We are hoping to sign up our first military customer for a major program. So, it forms a great capability, and actually, over the last year or two, we have seen it grow almost by fifty percent. So, it is doing really well right now. Just to give you a little flavour of space, and some of the things we do.

Steve Wadey

David, does that answer your question or would you like some more?

David Barker (BAML)

Oh, that was very helpful. And I have one quick follow-up just on a different topic. Obviously, I think in the last twelve months, OptaSense and QTS had been dragged on the group to some degree. Obviously, OptaSense is no longer a concern. What is the kind of latest on QTS in terms of trading momentum, and how do you expect this to impact the next six to twelve months?

Steve Wadey

Yes. I will say a few words. Maybe David would like to add. I mean, OptaSense, sorry. QTS was clearly impacted directly by the pandemic, as travel restrictions were put in place, customers were not able to travel, it made it more difficult to transport the product, and a number of trials and exercises around the world were suspended or cancelled. So, without a doubt, we reported that it had an impact on QTS during the course of the year. Momentum has certainly started to rebuild, and we have reported previously that we have seen green shoots of customers returning and reordering, and we are really pleased with the level of rebuild and momentum, and we would expect next year, things to start to return to normality from a QTS point of view.

And the long-term, we absolutely are still confident in the business, it is an integral part of our overall company strategy. Next-generation targets are absolutely part of how we deliver test and evaluation, operational experimentation, and training rehearsals. So, yes. A really integral part of our business and it is just the consequence of the pandemic that we saw during the financial year that we are just concluding. David, would you like to put some quantification around that?

David Smith

Yes. I mean, we did have a difficult first half for QTS, and they have seen improvement in order intake. They are back into the black in terms of operational results as well, which is pleasing, and I think by next year, sometime during next year, maybe the second half, we will be back to previous levels of business there. I think the other thing about QTS is increasingly, it is part of the integrated view of how we are developing the business, so we are just investing actually in a new project in Australia, and one of the product streams of that will be selling QTS products into Australia down the road. We are looking at opportunities in the US as well for their products, and we have an active program there. So increasingly, I think the future of QTS is an integrated part of our business, and most of the countries that we operate in are really being assured and we made a lot of progress I think that over the last six months or so.

David Barker (BAML)

Fantastic. Well, thanks for the answers, and also for the seminar for today.

Steve Wadey

Great. Thank you, David.

John Haworth

I think we just got to have one last question from the line of Sam Thomas. Are you able to unmute yourself, Sam? Unfortunately not. So, Steve, I think I will hand it back to you to close.

Steve Wadey

Okay. Thank you, John. So, well thank you again to all of you for joining us this afternoon. My key message is that we are on track for delivering a successful fifth year of growth, and we have a significant growth opportunity ahead over the next five years. This seminar has focused on three enablers which are key to realizing our renewed ambition to accelerate sustainable growth and deliver enhanced returns for our shareholders. I really do hope that this seminar has provided you with a greater understanding and support for your investment case in QinetiQ, and we would really welcome your feedback to help shape topics for the future that you would find good for your benefit. Thank you again for your time, and we look forward to your further questions offline. Thank you.

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