News release

QINETIQ

QinetiQ Group plc

Trading Update

14 October 2021 – QinetiQ Group plc ("QinetiQ" or "the Group") today issues a trading update covering its second quarter to 30 September 2021, ahead of publishing its interim results on 11 November 2021.

Strong underlying operating performance – continued strategic momentum

Group half year performance is in line with market consensus expectations, subject to audit. We have delivered strong underlying operating performance at Group level with excellent order intake at £700m, 25% higher than the first half of FY21. For the full year, we expect to deliver mid-single digit organic revenue growth at c.5% and underlying operating profit margin at the lower end of our 11-12% expected range (prior to any one-off write down, see below). This expectation includes short-term effects of the customer's mission shifting from Afghanistan and COVID related delivery and supply chain challenges in the US. Operating cash flow has been good and we retain a strong balance sheet with net cash at 30 September 2021 of approximately £140m.

We are experiencing technical and supply chain issues on a large complex programme, which, if unmitigated, could result in the need for a one-off write down to our short-term guidance. We are working closely with our customer and are making progress, jointly with our supply chain, towards recovery of the programme and mitigating this risk to less than £15m.

We are maintaining our medium to long-term guidance: we continue to target mid-single digit percentage compound annual organic revenue growth over the next 5 years, with strategic acquisitions further enhancing this growth. Similarly, we continue to target operating profit margin of 12-13%, although in the short-term we continue to anticipate margins being c.100bps lower, driven by increased investment on our digital transformation programme and by the evolution of our business mix. Capital expenditure remains in the region of £90m to £120m per annum for the next two years.

EMEA Services

EMEA Services has continued to perform particularly strongly during the first half, with good orders, revenue, profit and cash flow delivering excellent growth in Australia and the UK. Across the division, we are well placed to continue this strong growth.

Global Products

Strong EMEA Services performance has offset short-term weaker performance in the US, which reduced first half revenue, profit and cash flow in Global Products. US revenue reduced by 15% compared to the second half of FY21 as a result of entering the year with lower orders due to short-term effects of COVID, transition to the new US administration and the customer's priorities shifting from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific. This also included COVID related delivery and supply chain challenges in our legacy QNA business e.g. initial production ramp-up of Common Robotic System–Individual (CRS-I) robots.

Positively, we achieved excellent order intake in the US at $184m compared to $83m in the second half of FY21. This provides a solid foundation to deliver a stronger second half, enhanced by changes to leadership and organisation focus made under our new Special Security Agreement (SSA) Board following dissolution of the Proxy Agreement.

Strategic progress

Our strategy to build an integrated global defence and security company delivering for our customers' advantage continues at pace. We remain focused on our six home and priority countries and our six distinctive offerings, using our balance sheet to support growth into our >£20bn addressable market through both strong organic growth and strategically aligned acquisitions. With c.£450m orders won in the second quarter, we achieved a number of successes that demonstrate our strategic momentum:

- **$64m CRS-I Full-Rate Production (FRP) contract –** we have secured a $64m FRP contract in the US for over 1,200 CRS-I units with a multi-year delivery schedule for the US Army. CRS-I enables a heightened capability for organic tactical reconnaissance, surveillance and target acquisition to enhance manoeuvres and protection for dismounted forces. The small advanced robotic platform is lightweight and highly mobile offering unprecedented capability in multi-domain environments including special payloads, advanced sensors and mission modules.

- **AU$27m Major Service Provider (MSP) contract** – alongside our MSP partners, we have secured an AU$27m order to assist the Australian Department of Defence in delivering its largest and most complex Land projects. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities.

- **£68m Weapons Sector Research Framework (WSRF) orders** – we have won orders totalling £68m on the WSRF contract for development and deployment of directed energy weapons for UK MOD, an important capability as identified in the Integrated Review earlier in the year. We were appointed to lead the WSRF in June 2020 by DSTL, alongside industry partners MBDA and Thales. The framework, which we expect to be worth £300m over five years, brings together more than 100 industry and academic partners to research and develop technologies for the benefit of UK MOD.

- **Building a disruptive mid-tier company in the US** – our ambition is to more than double the size of the US business over the next 5 years through both organic growth and strategy-led acquisitions. Having supported the first phase of growth, Mary Williams has chosen to step back from day-to-day operations and remains as a strategic advisor to the company. We have taken this opportunity to make a number of changes to leadership and organisation focus to create the capability to drive operational performance and accelerate our growth ambition. We are actively recruiting a new US CEO and have appointed two senior leaders for our newly named C5ISR Solutions and Technology Solutions business units, formerly known as MTEQ and QNA respectively. In addition, we appointed Lawrence (Larry) Prior III to the QinetiQ Plc Board in July bringing a wealth of US experience from aerospace, defence and government services, making him ideal to support our global ambition.

On 2 July 2021, we announced that David Smith, Chief Financial Officer, intended to retire. David's successor, Carol Borg, has now joined the company and will take over from 1 December 2021.

Steve Wadey, Group Chief Executive Officer said:

"Overall the Group has delivered strong operational performance in the first half of the year. We continue to deliver for our customers around the world, with EMEA Services delivering very strong performance to offset short-term weaker US performance in Global Products, due to the changing customer mission and COVID. We remain focused on delivering our strategy to build an integrated global defence and security company, through both organic growth and acquisitions. I am pleased with our continued strategic momentum, demonstrated by excellent order intake including a range of significant contract wins."

Investor and analyst call:

Management will host a call for investors and analysts at 08.00 BST on 14 October 2021. Please join using the following details: +44 (0) 33 0551 0200, Password: QinetiQ

Interim results

QinetiQ will announce its interim results on 11 November 2021. We will be hosting a virtual results presentation, details of which will be available on our website shortly at: www.QinetiQ.com/investors.

About QinetiQ

QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

Inside information

This announcement contains inside information and the person responsible for making this announcement is Jon Messent, Company Secretary.

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