QinetiQ

FY25 Results

Webcast

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Transcript

Stephen Lamacraft: Good morning everybody. Welcome to the QinetiQ FY'25 results presentation. So thank you all for coming and thank you all for joining us who are online. We're very grateful. So my name is Stephen Lamacraft, I'm the Investor Relations Director of QinetiQ and I'm joined by Steve Wadey, the CEO and Martin Cooper, the CFO. And without further ado, I will hand over to Steve to start the presentation. Thank you.

Steve Wadey: Great, thank you Stephen and good morning and welcome to everybody. Those in the room and also those online for our Full Year results for FY 25.

Whilst it's been a difficult year for the group, our highly skilled employees have continued to deliver mission critical technologies and services for our customers supporting their operational needs. Today we will take you through our results and the actions we've taken to address our short-term performance. I'm also going to set out why we are a differentiated company and our long-term fundamentals remain strong, positioning us at the centre of defence innovation for future warfare.

A great example is shown here, the QinetiQ operated MOD Hebrides Range in Scotland as we speak. Quite literally, our team is supporting NATO's formidable shield exercise, Europe's largest integrated air and missile defence training scenario. They're delivering realistic threat representation scenarios and expert analysis in a secure test and training environment to ensure that 10 NATO nations plus Australia are prepared to respond decisively against some of the world's most demanding threats. Formidable SHIELD also showcases our long-term partnering agreement in action. I'm sure you'll have seen our announcement this morning of the £1.5 billion pounds contract extension. More on that later.

Let me start with our four key messages for today. First, our financial performance in the fourth quarter was not as anticipated, due to tough external market conditions impacting our UK and US short cycle work, and we have taken an impairment charge to reflect the restructuring underway in the US.

Secondly, following my new leadership appointments, we have reviewed the business and taken decisive actions to address the operational issues that impacted our short-term performance with a disciplined focus across the portfolio. Thirdly, the fundamentals of the company remain strong and we have a clear strategy to create long-term value across the group. And finally, including the LTPA extension, we now have a record order backlog of £5 billion. This combined with the strong alignment of our mission critical capabilities to our customers needs, provides confidence and visibility in delivering medium to long-term growth.

Our agenda today expands on these key messages. I'll start by giving you our year in review. Marty will then provide a commentary on our financial results. I'll then come back and give you an overview of our strategic outlook. Finally, we'll open up for questions.

So to our review of the year as we set out in March in our trading update, tough near-term conditions and geopolitical uncertainty impacted our revenue and profit with delays to a number of contract awards in the UK and us, notably our usual fourth quarter waiting to higher margin product sales from the US. This performance fell short of our expectations. During the year, I made three key appointments to strengthen our leadership team, Martin as group CFO, Ian Stevenson as Chief Operating Officer and Tom Vecchiolla as US Chief Exec. I now have an experienced team that is making a positive impact for our long-term performance with discipline portfolio actions, including the US restructuring and associated one-off charges.

We've also increased our strategic focus to leverage the strengths of being a UK led multinational group into NATO allies whilst retaining our focus across the AUKUS nations. Encouragingly, we ended the year with a record order intake of £2 billion, highlighting the relevance and demand for our core capabilities. With a strong focus on execution, we enter FY'26 with 75% revenue cover at group level. We achieved a healthy cash conversion of 105%, enabling investment in organic growth and delivering record shareholder returns through our progressive dividend and share buyback programmes for which in March we announced an additional £200 million over the next two years. Moving forward, we are focused on delivering consistent operational performance and are well positioned to deliver sustainable profitable growth.

I now want to address our short-term performance and the actions we've taken in our UK intelligence and US sectors in response to the tough near term trading conditions. In UK intelligence, we experienced a marked slowdown in short cycle contract awards, particularly science and technology work, reducing revenue by £30 million compared to prior year.

In response, we resized our capabilities whilst protecting core skills for the future. In addition, we have taken action to realign the business to emergent customer needs so that we are better positioned to support operations and digital transformation in the UK defence and security markets. Whilst we have assumed a stable year ahead, this business remains highly relevant and is well positioned to return to growth in the years ahead. In the US we experienced both market challenges following the change in administration, including export restrictions and operational issues. This resulted in revenue reducing by $70 million due to our legacy operations, mainly related to delays in high margin product sales.

Within this difficult market, Avantus revenue remained flat. In response and following the appointment of Tom Vecchiolla in January, Martin and I, along with Ian and Tom, reviewed our US operations and launched a restructuring programme. We've taken actions to improve operational performance by resizing our cost base, aligned to market priorities, addressing labour rates and inventory management. These actions resulting in US taking in year non-cash charges predominantly due to our legacy US operations, but they put us on a necessary and stronger foundation to move forward. Martin will detail those to you later.

As part of the restructuring and to be more resilient in the new market environment, we're refining our strategy in the US to be better aligned to current national security and defence priorities. We are focused on four revenue streams where we have good long-term incumbent positions and have delivered underlying growth in the year.

Maritime systems, advanced sensors, space and missile defence, mission support and persistence surveillance systems to illustrate the Avantus long-term contracts with the Space Development Agency Strategic Capabilities office and the Tethered aerostat radar system programme are all high priority national programmes and all have delivered significant on contract growth in the year, providing a solid base from which to execute this refined strategy.

Whilst it's been a difficult year in the US, we are taking the necessary and steps to resize the business, improve execution to deliver a stable year ahead and refine the strategy to deliver long-term growth and value creation. To summarise, we've taken decisive actions in UK intelligence and the US sectors to de-risk the portfolio and drive consistent operational performance as well as proactive steps to improve our cost efficiency across the group.

Whilst the difficult year, we also achieved many successes which demonstrate the relevance of our capabilities. Leveraging the LTPA, we signed a three-year agreement with NATO to access our unique test and training services. As a result, we've seen greater usage by the Spanish, German and Italian Air forces. Reflecting our expertise in r and d, we've won £160 million, two year contract extension to lead the weapons sector research framework, increasing the pace at which next generation weapons are being developed. For the front line in the uk, we secured programs up to £200 million pounds for the design build and support of highly secure communications capabilities used on major operations such as the current carrier strike group deployment to the far east.

During the year, we've been awarded contracts worth $120 million for advanced census systems for the US Army, highlighting our role as a key industrial partner for the development of next generation soldier sensor and ISR systems

In Australia, we awarded a $47 million contract from the defence Aviation Services Authority to deliver specialist engineering skills and knowledge for the next five years, with an option to extend for a further five years.

Finally, we continue to see success in the delivery of our training capabilities with a 17% increase in demand for our aerial targets. These are just a few examples of the mission critical capabilities that we are delivering to our customers, demonstrating our relevance to the current and future threat as well as giving us long-term revenue visibility. I'll now hand over to Martin to take us through the financials.

Martin Cooper: Thank you Steve, and good morning everyone. The second half of the year was below financial expectations. The short-term market conditions took hold and we took a number of one-off charges. At the half year we talked about a near-term focus on strengthening core business processes. As we grow in scale, we do so from firm cost-effective foundations. The results today reflect the considerable action taken in recent months to ensure we have the financial controls in place as we drive the business forward.

So turning to the results, and I'll start with the key financial metrics at a group level and details on our two reporting segments, and I'll finish with guidance and capital allocation and for reference, the US dollar rates for the year average 128 compared to 126 last year, which provided a modest headwind to the reported values. So onto the numbers, order intake came in at £1.95 billion, up 12% on last year and this enabled backlog to remain flat versus last year and H1 on an organic basis.

Revenue increased 1% or 2% on an organic basis to £1.93 billion. Underlying profit was down 14% on last year to £185 million, primarily reflecting the one-off charges taken. I'll cover this in detail later. Underlying basic earnings per share of 26.1 pence were down 11% as the profit fall was modestly offset by the ongoing benefit of the buyback and whilst profitability was disappointing, cash generation and conversion were strong with good working capital management and many of the charges taken were non-cash.

Cash generation allows for reflective and value creating deployment of capital and shareholder returns increase significantly with a 7% dividend growth and over a hundred million pounds of share buyback completed. Leverage therefore ended the year at an improved position of 0.4 times and return on capital remains strong at 22%.

Moving to the key group financials, starting with orders which grew 13% on an organic basis with £1.95 billion, a record annual level. Whilst this was a good orders performance by year end, the timing and nature of the order flow, especially in the short cycle book, impacted our revenue in the second half.

The book to bill of 1.2 times meant we closed the year with a robust funded order backlog of £2.8 billion and with the additional US unfunded backlog, we have a total position of £3.4 billion providing good visibility for future growth revenue at £1.93 billion grew 2% on an organic basis with second half revenue of just under £1 billion.

Our framework contracts and backlog saw milestone adherence and programme execution, but our growth rates for the year and the second half were down on expectations as our short cycle work in the UK and the US were impacted by the geopolitical backdrop. Looking forward, our revenue cover going into FY'26 is higher than last year, 75% up from 70%, giving confidence for the coming year.

Profit for the year was £185 million to margin of 9.6% down on last year predominantly due to one-off charges in our legacy US business. Against expectations set at the start of the year and as indicated in March, profit was down £45 million due to two major factors. £20 million due to the revenue shortfall primarily in our UK and US short cycle work as mentioned by Steve and £25 million for the one-off charges associated with stock value and cost recovery in the US.

On the right you will see a table reconciling underlying operating profit to the reported statutory loss reflecting the exceptional charges in the year, which I will cover in detail on the next slide. But just to note, income from research and development expenditure credits or our deck is up on prior year and we would expect around this level going forward.

Moving to the reported exceptional charges in the year and those I want to pull out can be categorised into two areas. Firstly, those planned and executed as part of the company growth strategy and secondly, those one-offs predominantly non-cash arising from the US restructuring and group efficiency drive. On the planned items, our digital platform investment continues and rollout has commenced. As a reminder, this represents a discreet multi-year investment project to enable our growth strategy and customer needs and as outlined following the sale and leaseback of the farm site back in October, under right of use asset accounting, a one-off non-cash accounting loss arose for £36 million.

As a reminder, this did generate £108 million of cash in year cash and we extended the buyback programme by £50 million at the half year to reflect this deal.

On US restructuring and efficiency, the drivers of the charges are firstly the one-off charge, largely non-cash charges incurred predominantly in legacy US businesses around recoverability of costs and inventory values incurred in prior years. And secondly, as Steve mentioned, we have embarked on a cost efficiency programme including a headcount reduction, which includes leadership and manager roles, and with the US restructuring we have taken a £144 million pound impairment of goodwill relating to the holding value of our US business. £30 million of which relates to a change in discount rates, the balance driven by the one-off charges taken and the change in market conditions, again mainly in our legacy US operations.

Before moving to the sectors, I want to cover the three main drivers to bridge from the FY five margin of 9.6% to our guide of circa 11% for FY'26. Firstly, having conducted a thorough balance sheet review and implemented a more prudent treatment on r and d expenditure and stock holding periods, we do not expect the one-off 25 million pounds of charges to repeat in FY'26. Secondly, we are investing in and driving growth in longer term framework contracts and those areas of higher sustainable returns. Which combined with a programme performance focus through the chief operating officer role, we look to drive enhanced contract execution and retire risk to the bottom line.

And thirdly, we continue to focus on cost-based efficiency to drive down indirect costs across the group and improve margin. We have a group-wide supply chain efficiency program underway to streamline activities, enhance our category management and our purchasing power across the group. We expect to see the results of these actions materialise through the FY'26 performance as we embed the changes.

Now turning to the segmental split of the group performance, starting with EMEA services, which overall had a good year, orders grew 21% to £1.4 billion with a book to bill of 1.2 times with the 284 million Euro aerial training services contract in Germany. Leading the way, this increased funded order backlog up to £1.6 billion excluding LTPA, providing visibility on our sales growth expectations. Revenue came in at 4.3% growth as good programme execution on the framework contracts like LTPA and EDP was offset by a year on year decline in the UK intelligence business due to the reduction in short cycle work. Operating profit grew to £169 million delivering margins at 11.4% consistent with the outturn for FY'24.

Next global solutions, which had a difficult year, total orders of £513 million at a book to bill of 1.1 times was down year on year due to the declines and delays in the US short cycle product orders and government services work. In year orders did see the next year of funding and good growth on the space development agency, strategic capabilities office and tethered aerostat radar systems programs funded order backlog at £0.4 billion and unfunded of £0.5 billion gives us enhanced FY'26 revenue cover at 89%. Revenue was down nearly 10% due to the lower orders and the completion of the US robot Chrissy production programme.

But within the headline decline, there was increased revenue from the incumbent positions on the SCO tars and SDA contracts and higher levels in our targets and other product lines as Steve referenced. Margin, 3.6% was impacted by the shortfall in higher margin US product sales and recoveries in the US government services, coupled with the one-off in year charges in the US.

Cash generation was once again strong with a conversion ratio of 105%. Many of the profit impacts were non-cash and we improved working capital management CapEx spend was £108 million. As we continue our investment in infrastructure and capability enhancement and £43 million of this relates to recoverable investment in the LTPA.

To complete the cash analysis, the movement in net debt is shown here. We generated £142 million of free cashflow and delivered a significant step up in shareholder returns at £151 million. As we extended and increased the pace of the buyback program and the dividend grew at 7%. Net debt closed at £133 million when the net benefit of the sale and leaseback was included. So we closed the year with a leverage ratio of 0.4 times.

Moving to guidance for the FY'26 year. Revenue we expect to grow around 3% on an organic basis with good visible growth in our UK defence business. This is at the lower end of the three to 5% we articulated back in March. As in other parts of the business, we are taking a more cautious view. Whilst the impact of the geopolitical outlook in the UK, US and Australia is worked through.

As covered earlier margin, we expect to recover to around 11%. As we build back from the FY'25 performance. Cash conversion, we expect to remain strong at least 90%, which with our buyback programme and dividend policy in place, we would expect leverage to remain around the 0.5 times. EPS we expect to grow 15 to 20% reflecting the margin recovery and the ongoing buyback program. And as usual to help you with your models, we've included the additional technical guidance slide in the backup.

Finally, then let me turn to capital allocation. We continue to see the business delivering strong cashflow and the focus and priority is on organic growth as we drive program performance, margin expansion and investment in the business. As illustrated, we have ramped up shareholder returns and alongside our progressive dividend policy, we can continue to see buybacks as a compelling component of shareholder returns as illustrated by the additional two year extension for up to £200 million. This programme we expect to commence in early June.

We have a strong balance sheet and it gives us flexibility for growth and enables the potential for further shareholder returns as we look to deploy capital in the most value enhancing manner.

In summary, FY'25 was a tough year. However, our good backlog and opportunity set are a strong indicator of our prospects. Our cost efficiency drive together with good operational performance is key to that translating into consistent sales and profit growth. And through our capital allocation, we are demonstrating that we will allocate our growing returns in ways that continue to create value. With that, I'll hand back to you Steve.

Steve Wadey: Great, thank you Martin. So to our strategic outlook, let me start by explaining why we're a differentiated company with strong fundamental growth drivers that position us well for the future. In response to the increasing threat, we partner closely with our customers to rapidly create and experiment with new capabilities, test those capabilities are safe and perform as intended and ensure our war fighters are trained and operationally ready.

We are a horizontal integrator working across platforms, services and suppliers, helping our customers accelerate capabilities into service to counter the threat. we're a purpose-driven company with a customer-centric strategy aligned to structural growth markets in defence and security. A highly relevant mission critical capabilities underpin this strategy and we are focused on delivering consistent operational performance.

Whilst we have a plan to address our short-term performance, the fundamental growth drivers of the business remain strong. The incumbent positions we have on long-term contracts provide good revenue visibility and our underlying business continues to deliver high quality earnings. With a strong balance sheet and high cash conversion, we're able to continue investing in our people technology and capability. We also have a disciplined approach to capital allocation, ensuring we'll continue to deliver attractive returns for shareholders. We're a differentiated company with a unique value proposition, creating long-term value for all stakeholders.

In the last six months, there has been significant shifts in the world order creating uncertainty and a dynamic geopolitical landscape. There has been continued instability and a heightened threat environment created from ongoing conflicts and rising regional tensions. Lessons from current conflicts, particularly Ukraine, are informing the defence requirements of our customers and our strengthening new alliances in Europe and with NATO allies.

Within our markets, there is an enduring need for strong national defence and security. Defence reform is underway with governments having to balance national priorities with fiscal pressures, resulting in increased demand for productivity and efficiency from industry. That said, over the last year we have seen major commitments in significantly increasing defence spending over the long term, particularly in Europe. To maintain alignment with these changing priorities. We continue to prioritise our customers in the AUKUS nations and have increased our strategic focus to leverage our strong UK base on opportunities that meet the needs of NATO and its allies.

Our strategy and inherent strengths are well matched to these national priorities and are increasingly attractive for our capabilities. These changing market dynamics are driving our customer's priorities shown on the left of this slide, and these are clearly increasing in importance and urgency to overmatch the threat. In essence, our customers are looking to the defence industry to help them build greater resilience, rapid modernization, and deliver defence innovation at pace.

Our mission critical capabilities shown on the right, specifically R and D engineering services, test and training mission support and operations are highly relevant and aligned to enabling our customers achieve their changing national priorities, as evidenced by this year's record order intake. Let me give you four good examples that show how we use these capabilities through partnering to enable our customer's mission. Following the UK's decision to accelerate the Dragon Fire laser directed energy weapon into service, we have rapidly mobilised this programme with our partners and secured £58 million of orders in the year.

This next generation capability would not be possible without our disruptive laser technology enabled by our focus on long-term R and D. Under the engineering delivery partner contract, we deliver advanced engineering services that are critical to national programmes and frontline operational capability. We enable these outcomes by leading a thriving ecosystem of more than 250 small to medium enterprise is in the UK to deliver the very best engineering solutions.

In the US, we provide 24 7 persistent surveillance and mission support to protect the southern border through the tethered aerostat radar system programme that both myself and Martin mentioned earlier. This programme also provides us with credibility to pursue a number of significant opportunities in Europe where there is increased demand for persistent surveillance solutions along the borders of the Eastern flank, our nearest opportunity being in Poland. And finally within the LTPA, we have established a drone centre of excellence to get new uncrewed air systems into service at pace learning lessons from Ukraine.

Whilst SMEs are driving rapid product innovation in this area by partnering with us and leveraging our engineering and test capabilities, we're enabling them to move from concept to frontline capability faster with a recent system now being exported into Ukraine.

All of these examples demonstrate how we are deeply embedded with our customers and partners delivering cutting edge technology and services to enable current and future warfare at pace.

Now regarding the long-term partner agreement, I'm delighted to confirm that earlier this morning we announced a five year £1.5 billion contract extension. Through this extension we'll provide mission critical test and evaluation and training capabilities through to 2033. As the UK MOD's strategic partner for t and e under the contract, we will continue to deliver and modernize strategic t and e capabilities that are critical to major UK equipment programs and future upgrades. For examples, type 23 to type 26 frigates, typhoon to tempest combat aircraft and Vanguard to dreadnought nucleus submarines.

As part of this extension, we'll also transform the LTPA for next generation defence technology in areas such as directed energy hypersonics and uncrewed systems. In addition, in partnership with MOD, we're launching a T and E innovation gateway to attract SMEs and new entrants to the sector to drive greater defence innovation and economic growth from the UK's T and E enterprise.

Whilst we're already seeing increased demand for our services from NATO, these changes will also further attract other allies. Strengthening the UK's position as a world leading centre for T and E and training. Financially, the extension provides excellent long-term visibility with approximately £300 million per annum revenue and high quality earnings. Investment will continue at approximately £50 million per year, generating appropriate and consistent returns.

Securing this LTPA extension is a major milestone for the company and provides a strong platform to put us at the Centre of Defence Innovation in the UK and enabling further international growth.

Having secured the LTPA extension, we start the year with a record order backlog of £5 billion providing a firm foundation for the company. This backlog combined with our five-year qualified and prudent pipeline of £10 billion is worth more than £15 billion, providing good visibility at eight times our FY'25 revenue.

We've built this visibility by focusing on our customer's needs, partnering with industry and winning larger longer term programmes. I'd like to give you further insight into our backlog of embedded programmes and pipeline of associated opportunities.

On the right I'm showing 15 of our major programmes where we have strong incumbent positions that build up to more than half of our annual revenue. This solid base in our home markets gives us a platform to deliver on contract growth, win new business, and leverage our capabilities for multinational expansion.

The opportunities to leverage our capabilities and create value across the group are illustrated by the flags, including examples such as Dragon Fire Technology from the UK into Australia, threat representation from the UK into the US and perent surveillance from the US into Europe.

Whilst we may not win all of these opportunities, our pipeline is robust and prudent with many additional growth opportunities well beyond the £10 billion shown here. Overall, our record backlog, including the LTPA extension, combined with our strong pipeline, gives us significantly enhanced revenue visibility and underpins our confidence in creating long-term value.

So in summary, our financial performance in the fourth quarter was not as anticipated due to tough external market conditions impacting our UK and US short cycle work and we've taken an impairment charge to reflect the restructuring underway in the US. Following my new leadership appointments, we've reviewed the business and taken decisive actions to address the operational issues that impacted our short-term performance. With a disciplined focus across the portfolio, the long-term fundamentals of the company remain strong and we have a clear to create value across the group positioning us at the centre of defence Innovation for future warfare.

Finally, including the LTPA extension, we now have a record order backlog of £5 billion. This combined with the strong alignment of our mission critical capabilities to our customer's needs, provides confidence and visibility in delivering medium to long-term growth. Thank you Martin, and I'd be now happy to take questions.

Sash Tusa: Thank you. Sash Tusa from Agency Partners. I just wondered if I could ask a couple of questions about global solutions.

First of all, to check that I understand, I think the issue of the various charges, Global Solutions reported a profit of £16 million for the Full Year, but just to check that was after £25 million of charges. So the underlying, the baseline from which you would hope to at least develop this year is the thick end of 40. That's correct. Yeah. Great, thank you.

And then more broadly for Global Solutions, you've talked about the four product areas that you want to focus on. How much of global solutions business at the moment is not in those four areas and what happens to that and specifically what's your residual exposure to government services, government IT, which has been a particularly bumpy area for pretty much every participant.

Martin Cooper: Thanks. I'll just clarifying on the Global Solutions and for you all I'm sure we'll get a question about sector guidance and things. So you're completely correct actually if you add back the 25 then you get to around circa 9% margin, which is in essence what underpins the group 11% guide. So EMEA services we expect to be in the 11 to 12% range in global solutions around 9% margin this year as we build back and do the restructuring.

Steve Wadey: And if I pick up the second question Sash on how much is related to those four streams? So the four streams that we've mentioned are around the US which is clearly the majority of global solutions. And just to recap for everybody as we've come through FY'25, as we've learned the exposure and where we saw volatility in some of the short term short cycle work, those are the areas that we are deemphasising going forward. And what we are reemphasising is where we've got good long-term incumbent positions because we have differentiated capability aligned to national security.

So the four areas in the US where we've refined our strategy, first of all in the area of solutions we're focusing on research and development and how that exploits into innovative products that are enduring. We see sensors and targets being key elements of that revenue stream that we expect enduring and growing capability.

Secondly, also related to solutions, our maritime systems capability where again we have very good long-term incumbency on the aircraft carrier programme and also the Virginia class submarine. Both of these are very long-term established programmes. The third stream is in our engineering services offerings and you'll have heard us mention both of us to very strong contracts that we have through Avantus with the space development agency and the strategic capabilities office. They are very strong and growing.

And then finally in the area of mission support and operations where we have the persistent surveillance system programmes through TARs. And again that gives us a strong and growing reference in the US and also opportunity to leverage that capability into Europe and NATO.

So those are the four areas that we are focused on. And in terms of how that connects with our US performance, that is absolutely the vast majority of our US performance going forward as we've really reflected on the lessons of the year and how we've reduced effectively the volatility of that short cycle work moving forward.

Now you did mention Avantus specifically and you would've noticed in both of our commentary Avantus as a business performed flat in terms of revenue that is slightly lower than what we originally guided this time last year. And actually the reason for that is a slight slow down in the federal IT area that you mentioned. And if we were to extract that the underlying growth inside the Avantus business actually performed particularly well through those SCO, SDA and TAs contracts where we saw just over, I think it was just over 10% on contract growth. And that really gives us through the Avantus acquisition a solid foundation on these long-term incumbent positions, which gives us the confidence for the refined strategy that we've set out in the us. Go ahead, Rich.

Richard Paige : Morning, it's Richard Paige from Deutsche Numis. Three from me please. I guess the compelling question, again, just throw, I'll hold myself to that constantly get incoming on where we are with the US. Obviously we've announced this restructuring refinement of where we are and obviously following on from the earlier question, where are we in that whole programme? Are we now solid base and moving forward? Are we still restructuring at the start of this year?

More importantly, obviously this realignment around the US core areas of operation, what does that mean for Q4 in FY'26 in terms of the guidance? Will we be reliant on that.

EDPs moving to EMEA services, EDP had another good year, where are we in terms of maturity of that contract? Can we still see that grow? And then on the last piece, can I just ask on the one small one on the exceptionals notice again there was a charge against the acquisitions, is that the end of that?

Steve Wadey: So maybe I'll do US and EDP. Martin, you might want to come back with a few more ads on the US and then you could take the exceptionals. So on the US, I think it builds upon my answer though just giving to us in terms of the US restructuring, you'll know that we announced that back in March and really that was a result of Martin and I with Ian Stevenson and Tom Vecchiolla reviewing the business. And I think I would just stop and think about there were really two critical components in that restructuring. So first of all, we took an active decision to resize the business aligned with the market demand and the market priorities that we saw as enduring that we could really build a solid base performance from.

And then secondly, we then refined the strategy in the way that I just described on those four areas, which is more than about how we are confident in medium to long-term growth.

That restructuring as with many things in the US is a lot faster than we would see in UK and Europe that's launched, it's announced it's underway and I would expect the majority of that resizing to be complete probably early to late summer this year, well before the end of the Half. So that's where that is in progress.

In terms of your question about Q4 waiting, obviously that is one of the major learning points and we were subjected to the geopolitical uncertainty and volatility that I guess all of us were surprised to live through in our fourth quarter and that would've been very difficult for anybody to really predict until that market environment ensued. But of course what that does mean to us is that that meant that we had volatility and therefore we take an active decision to design that out of our forward planning.

We don't want that volatility in our business. And I think as Martin has already shared with a few analysts this morning, our plan and our guidance does not rely on that again for this year. And again, that component of the business, whilst we still have that product business, whilst we've resized it, it gives us opportunity. But what we don't want to do is plan that short cycle volatility into it.

On EDP, yes, you're right. EDP has had another good year. You'll seen that in the detail, in the numbers in that programme is performing well. I think the main things to really reinforce on EDP and I gave a live example about how it's really delivering real critical capability for the future, but also frontline capability. Some of the network systems that have been deployed in the carrier strike group going through to the Far East have come through EDP and there are plenty of others.

I think it really goes to the heart of what we expect to see coming out of the SDR when that gets published, which is how do we really as an industry get the best of industry, get the best innovation, get the best from small to medium enterprises to deliver faster and better outcomes for defence? And the EDP contract is highly innovative. It's delivering significant savings for the customer and helping them deliver capabilities at pace. And we run an ecosystem of more than 250 companies delivering that programme. And I think that means it's well positioned. We're looking at further improvements to that. I think I've shared in this forum before, we're always looking at how we can modernise and improve the way that we work with our customers in the industry. We're looking at increasing, we're already invested in increasing digitisation of those services to make them even more relevant.

So performing well as is, expect it to be really relevant to the SDR and we as a company proactively see how do we lever that even further. And I would also say if you look at the pipeline chart that we shared in the back, the way that we're looking to innovate and modernise around this approach to engineering services, we're probably leading that in the UK, but we also see multinational expansion opportunity of that in the medium to long-term into other adjacent markets such as the US and even with our increasing focus on NATO related countries. I was in Poland a few weeks ago, they're asking to see something similar so early days, but that type of innovation across the industrial base, I think plenty of customers are going to look for it. So it's a foundation contract for the long term. Martin, do you want to pick up any on us? Yeah,

Martin Cooper: Just a couple of points. I mean the Q4 point has said in the presentation and is in the slides and we've got nearly 90% cover in global solutions. That is obviously reflective. I mean we are in essence planning on a guiding flat performance in global solutions in the US and we'll very much treat things like robot sales and other things. There's upside to that. We clearly could still have opportunities that we're definitely looking to pursue and prosecute. So it's not, there isn't without opportunity, but we wanted to just shift the emphasis of take out the volatility from the guidance as to where we are. And then I think on the exceptionals then on the acquisition areas, this relates to air affairs acquisition and closing out a few final things on Avantus, but we're now done on both of those to answer your questions.

Joel Spungen: Hi, it's Joel Spungen here from Investec. I've just got a couple of questions. Can I just come back on the US and the review of the US business and the folks on the four areas? Just in terms of the earlier question.

So to be clear, there are no parts of the US business that you would sort of consider to be potentially areas that you would wish to exit now or anything like that or that are under review for the future. And second question, I just want you to talk about the extension to LTPA a little bit. I noticed in the statement you mentioned £166 million incremental there. Is there anything in the new next phase of LTPA A that is significantly different either from a margin or a risk perspective or is it pretty much a continuation of the structure as it was before?

Steve Wadey: Yeah. Okay, so maybe I'll do both. Martin, you can add to both the points I miss out. So in terms of the US review, I think I really covered, I mean obviously we always keep a portfolio review open, but I think the important thing through this restructuring is we've done a resize to align to market demand. We've reduced that volatility to that short cycle work and then importantly, that gives us a solid base to go forward and I think we're comfortable with that overall sizing aligned to those four areas.

I think to go back on my first answer to Sash, I think one thing we've really learned in the US is you need that deep incumbency, you need those long-term contracts, particularly given the scale of the market. And whilst some may say, well, you've said this before, I think we've really got a learning in the four areas that we have described, and I think I've summarised them, they are deep programs, they are national priorities, and in that particular area expertise, they're very solid for the long term.

So we've really thought through the second iteration of the strategy to give us that solid base and remove the volatility. In terms of the LTPA, I mean two halves to your question. I think in terms of margin and risk profile, no change, but in terms of the capabilities and the impact, really significant opportunity about aligning it with the defence reform needs. I mentioned directed energy, uncrewed air systems and hypersonics. These, as you'll know from just reading the commentary about defence, these are the future defence and security capabilities.

And I think the approach that we've agreed with the UK to really look at how do we open up the access and make it more attractive for SMEs, new entrants, disruptors to the sector as well as that are well established in the sector. It really does mean that we can think about the LTPA going forward as a very different contract.

Something that is really, as I've described, a centre for innovation, the UK and its allies really needs to increase productivity and the pace of innovation to overmatch the enemy. And I think this is a very solid contract with good modernisation and it will attract in and drive a lot more change in terms of military capabilities and I think it also plays very well to wider economic growth. So we expect to drive growth on this. I think we can think about this as a growth platform because it's in the interest of the government, it's going to be interest of those that use it, whether that's in the UK or greater attraction from NATO.

Martin Cooper: Marty perhaps just put a couple of numbers around that for you, Joel, especially on the LTPA, I mean in FY'25 we did about £270 million of just core work and then about £70 million of tasking work. As you've seen from today's announcement from the £1.54 plus the extra £160 million. As you'll see, that does create, as Steve says, this is a growth engine for us as well as great long-term visibility. And yeah, we're comfortable on the contractual terms. And you'll notice from the investment level it's going to run roughly at about that 50 million a year. This year it was, or last year it was £43 million. So cashflow model, cash distribution, etc. All not impacted by this all very much in line with what we've laid out. So we're very comfortable and pleased with it.

David Farrell: Hi, morning. David Farrell from Jefferies.

Three questions. You've talked about leadership change in the US there's also been some leadership change in Australia where the Chief Executive has changed. Can you just maybe talk through what's happened there? Is that performance related or is that of his own volition?

Obviously it's a period of flux for the organisation. You previously had a £2.4 billion revenue target in 2027 that assumed high single digit organic revenue growth. Do you think ultimately QinetiQ ends back at delivering high single digit organic revenue growth? And then my final question is in terms of European defence expenditure, optically relatively low level of revenue out of Europe, but clearly some of that comes through in the UK defence figure. What number do you think it is in absolute terms and what do you think you can grow it to?

Steve Wadey: Maybe I'll do leadership in Europe and maybe you want to pick up medium term guidance, which that really gets to I think on the leadership, but I mean both of them, not performance related. I think what we've done is we've evolved, our strategy is really looked at the skills and the capabilities that we need. In Australia particularly, we are really focusing specifically on the Australian business and the home market. And really it's right that change occurred and we've got to the right outcome with our team and the skills that we need to grow from in terms of Europe.

In fact, we dug out the specifics for you. Europe is currently around 3% of a revenue that breaks into two halves. Half of that is our German business and half of it is our product related sales mainly targets into European related customers. Clearly, and I mentioned it in the presentation, Europe is the most significant shift in increases to long-term spending.

And you'll have noted, I described that we're increasing our strategic focus on NATO and its allies in particular European spending. So whilst it's small, it's absolutely strategically and from a growth point of view, an area of focus. And clearly there are a number of different mechanisms and routes to try to access that, whether it's from our basin in Germany, whether it's through our three year agreement that we've just got with NATO on accessing UK capabilities, whether it's leveraging the Tars programme from the US into the European countries along the eastern flank or whether it's about creating partnerships and cooperation opportunities either with governments or indirectly through industry. And we're looking at all of those.

So I think this is a long-term growth vector. It's not something that we are looking at changing guidance next year, but as I described on our strategy, we'll absolutely retain our core focus on our AUKUS nations. That's our base. That's a majority of our revenue, but we're going to increase our focus on NATO in response to these changing geopolitical environment. So that's our current thinking. David, do you want,

Martin Cooper: And Steve, and then Dave, just to clarify on the European, that's sort of the number Steve mentioned is from obviously actually into Europe, then NATO's using NATO countries, using the LTPA facilities comes through the tasking element, so through the £70 million that I referenced. So an element of that would've been generated in essence out of Europe as well. If you look to guidance, we obviously haven't given midterm guidance today. We've just given in year guidance. I think I've spoken to a number of you anyway today.

I think given where we are with the strategic defence review still to come out in the uk, still quite a lot of geopolitical uncertainty around some of us angle just at Australia election and other things. Then as we work through that and some of the restructuring, then we decided to just give one year guidance. Today, you'll notice from the pipeline and the opportunities in our narrative that we absolutely feel we're very well placed to benefit from increased structural defence spending increases and return to a lot higher growth levels. But we will come back and probably at the interim results in November and update you on that, but that's our timescale that we're looking at to probably give you some more either firmer or formal midterm guidance at that stage.

David Farrell: Understood. Thanks.

Ben Varrow: Hi, Ben Varrow from RBC.

Steve Wadey: Hello Ben.

Ben Varrow: Also three questions just on UK intelligence. Can you give us a bit of colour there on order cover for the year and what assumption you've made on when you see order intake pick up? Second on also on UK Intel, you mentioned you've refocused some of the capabilities there. Keen to hear which areas you've maybe gone into and where's no longer of interest. Last point, just on the shorter term guide, conscious you've taken out the top end. Is there anything that's changed over the last two months since that was issued to make you a little bit more cautious on that top end of the guide? Thanks.

Steve Wadey: And maybe I should start on the second one of those because that will allow you to then build out. Yeah, one and three. Yeah, thanks Ben. I think as I mentioned talking about UK eye, I think the UK intelligence was really about an adjustment for market sizing. I mentioned specifically support to operations and digital transformation. We definitely see, and it comes back to my commentary about the SDR, those being areas where our capabilities are going to have increasing demand. But specifically answer your question, are there areas that we're no longer focused? The answer is no. It was more about sizing in terms of how the cycle of change occurred in the UK market. So the biggest driver for the impact I mentioned was science and technology where there was a really marked reduction in science and technology.

We expect that over the coming years to progressively return, but there are no capability areas in UK where we've decided to exit. And in fact, you'll see actively in our communication we talked about protecting the core skills and capabilities in UK for the long term. So it's really about a market adjustment and the market sizing we expect that flow to improve during the course of this year and beyond and then return to growth market.

Martin Cooper: Yes, I'll just cover a couple of points there for you. And so I think Amere services as a whole, the revenue covers just over 70%. UK intelligence within that would be a little bit lower. We clearly have a lot higher cover in UK defences you would expect. But I think again, to sort of shape it, as we talked about, UK intelligence did around £435 million last year. We are in essence, assuming in our guidance, that stays pretty flat. So again, some of the drop off in certainly the science and technology spend that we saw in year, we're assuming modest recovery in that. So again, we've taken a cautious view in the outlook. If that comes on faster post the strategic defence review, that would be upside. But so I think we are very comfortable going into the position with the guide we have there under UK intelligence based off last year and the right sizing.

And I think based on that and it's linked, what has changed? I mean to keep it really simple for you, we expect the UK defence business that is roughly 50% of the revenues of the group to grow six, 7%. And other areas like UK Intelligence, as I just mentioned, the US business, we're expecting pretty stable. And we've taken, as we've said a couple of times today, that cautious view around the short cycle work as we go into. And I think you'd probably expect that from us as a management team given last year. And we're working through this volatility. So we want to treat the short cycle work as upside to the guide going forward. And hopefully we'll update you during the year as to how that progresses and once we get through some of the government resolutions that we're expecting in the near term. Hopefully that's clear. Okay,

Ben Varrow: Thank you.

Sash Tusa: I just wanted to follow up on some questions on LTPA. You said it's roughly three. The contract extension that you've now say is roughly £300 million, but £300 million a year, should we think of that as covering operating, maintaining, upgrading the estate and all tasking is on top of that? Or is the tasking on top? Is there a take or pay element? And then the tasking work that you talked about is the icing on the cake because that's effectively incremental volume, which you've covered all the overhead.

Steve Wadey: Yes. And as Martin described, I think you referred, what was this, year's non-task?

Martin Cooper: £270.

Steve Wadey: So the £300, which is obviously an average of £1.5 billion relates to the £270. And then tasking. So if I take an example, like the NATO exercise that we're just doing, that's got tasking work that's on top of our base delivery quite rightly, as you described. Delivering the service, modernising the service, maintaining the service, and building in these transformational projects that I mentioned.

Sash Tusa: Thank you.

Stephen Lamacraft: More? Yeah, go. Just got a couple of questions from the web guys.

All based on Europe really, some of which you've kind of answered. So the first one comes from Markus Hollmén at Corecam asking about what parts of QinetiQ will see the biggest impact from European investments into security and defence. And then falling on from that, we have got Robert Donald at Schroeders asking, are there any impacts from the recent UK EU summit in London on your future outlook? Does it open up your ability to tender for EU based projects? Thank you.

Steve Wadey: So if I, first of all, where are the areas that we would be focused on? I would primarily pull out three areas that we would be focused on. So first of all, test and training. I think that that's quite clear from some of the examples that we've covered in the presentation. We have absolutely UK unique test and evaluation and training capabilities that are highly attractive to NATO allies. I mentioned Germany, Spain, Italy, coming to use our test and evaluation capabilities because they're unique and they haven't got the equivalent capabilities available to them. And I see that as an area of growth to attract in further allies from NATO and Europe. The second area I'd mention is our mission support and operations in the area of persistent surveillance. I briefly mentioned in the presentation, effectively taking our reference programme of the tethered aerostat radar system into Europe.

And the nearest opportunity for us being with Poland. There are a number of countries in Eastern Europe that want to really strengthen their security along their borders of the Eastern flank. And that gives us a really significant opportunity to use that reference and build effectively in some people calling it an eastern shield, an eastern shield of persistent surveillance to protect that border. That's a second area of growth. And maybe longer term, and I briefly mentioned this, I think a number of the NATO and Eastern European countries are going to be looking at just not buying product, but actually building an industrial base. And building an industrial base requires the fundamentals of research and development. It requires technology development, it understands, it is about understanding how you buy defence capability, how you interoperate. These are quite significant shifts if countries want to build their own national capabilities and longer term partnering with a company like

QinetiQ, where we have those capabilities that are critical to countries like the UK, Australia, and the US.

That is also a long-term opportunity in Europe. So those three areas, I would say, if we step back from the immediate, our long-term vectors of growth for us with NATO and Europe. In terms of the question specifically on the UK EU summit, I think the security and defence partnership is a good thing. It shows intent between the UK government and the European Union to allow British companies to access that funding. I think we need to reflect that. It's very early days in that UK to European cooperation since Brexit. But that's an opportunity and I think we're engaged. We're talking to the right people in the government in the UK and increasingly in NATO and in the relevant countries where we see immediate opportunity. So we'll work that through in time.

Stephen Lamacraft: Thank you, Steve. We do have analysts on the conference call, so perhaps we can invite them to ask any questions if they see fit.

Operator: Thank you very much, sir. Ladies and gentlemen, if you'd like to ask an audio question, please press star one on your couple keypad. That's star one. If you wish to ask an audio question, we'll pause just to try the signal. We do not have any questions in the queue from the audio audience, sir.

Stephen Lamacraft: Looks like there's no further questions, Steve, any further questions from the room?

Steve Wadey: Okay, well if you do have any further questions afterwards, we'll also for those in the room, we'll be around, happy to answer any further questions. And if anybody online has any further questions, then please email Steven and we'll answer those in due course. And with that, thank you very much for your time. Thank you. Thanks so much. Cheers.