Delivering long-term sustainable growth

QinetiQ Group plc
Interim results for half year ended
30 September 2023

16 November 2023

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Agenda

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Delivering long-term sustainable growth – headlines

1. Strong and consistent operational performance globally
2. Excellent organic revenue growth and improved margin
3. Highly relevant to increasing threat with book-to-bill of 1.3x
4. Avantus won $657m[1] contracts driving future revenue growth
5. On-track: £2.4bn organic revenue at c.12% margin by FY27
6. Disciplined capital allocation & bolt-on acquisition optionality
7. Full year performance in-line with market expectations

FY24 H1 financial performance

Orders

£952.7m +19%

FY23 H1: £798.8m

Revenue

£883.1m +31%

FY23 H1: £673.4m

Profit[2]

£100.1m +35%
11.3% margin

FY23 H1: £74.1m

Cash

50% conversion
0.9x leverage

FY23 H1: 98%[3]

Focused on our AUKUS[4] customers' mission and increasing shareholder returns

[1] Year to date of which $195m orders recognised in FY24 H1 [2] Operating profit from segments [3] FY23 H1 cash conversion re-stated to reflect change in treatment of RDEC [4] Australia, United Kingdom, United States

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Financial results

Carol Borg

Group Chief Financial Officer

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H1 FY24 Financial Highlights

Orders **£952.7m** H1 FY23: £798.8m +19%	**Revenue** **£883.1m** H1 FY23: £673.4m +31%	**Operating Profit*** **£100.1m** H1 FY23: £74.1m +35%
Cash conversion & leverage **50%** H1 FY23: 98%[1] **0.9x** leverage	**EPS** **13.4p** H1 FY23: 11.4p +18%	**ROCE** **25.5%** H1 FY23: 28.8%

* All measures on this page are underlying. Operating profit is the total from the operating segments. Definitions of APMs can be found in the Appendix

[1] H1 FY23 cash conversion has been restated to reflect the change in treatment of RDEC at the end of last year, moving into underlying EBITDA (from the tax rate)

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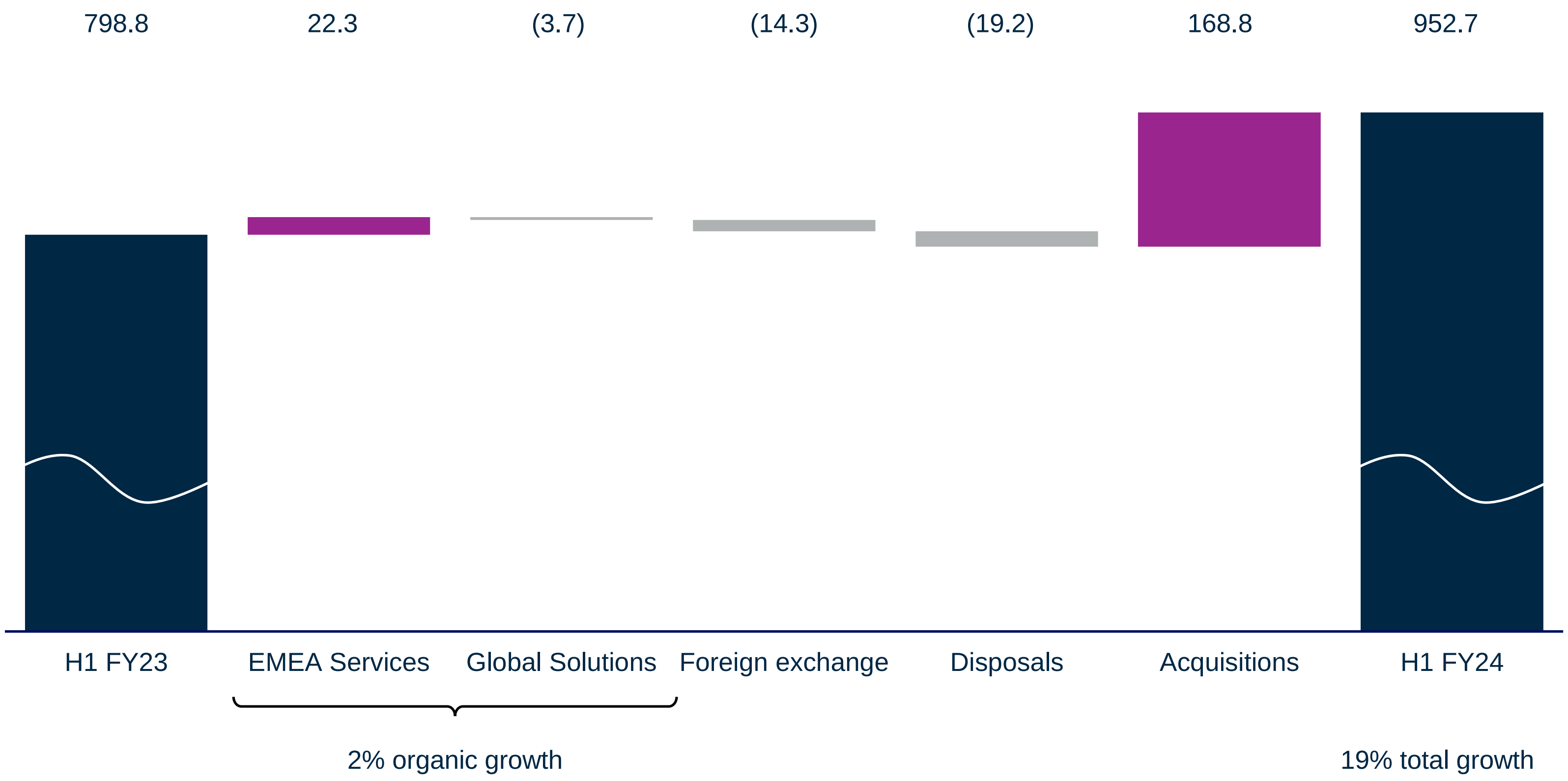
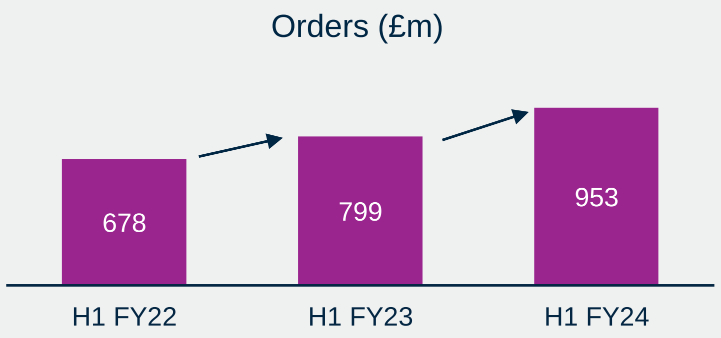
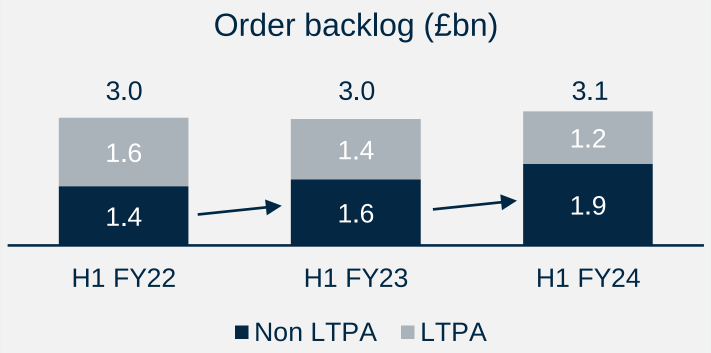
Excellent orders performance, organically and acquisitions, driving future growth

Orders (£m)







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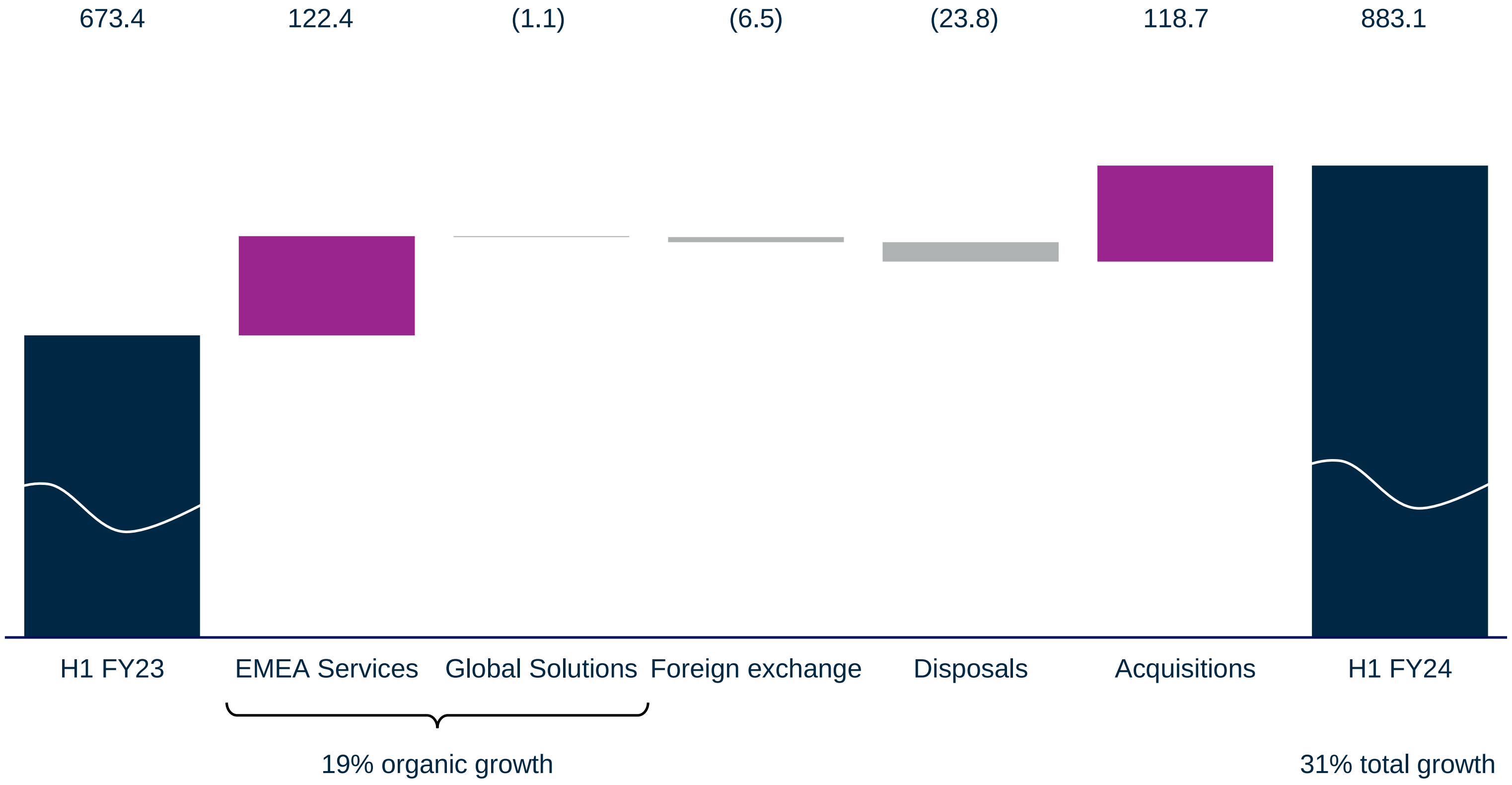
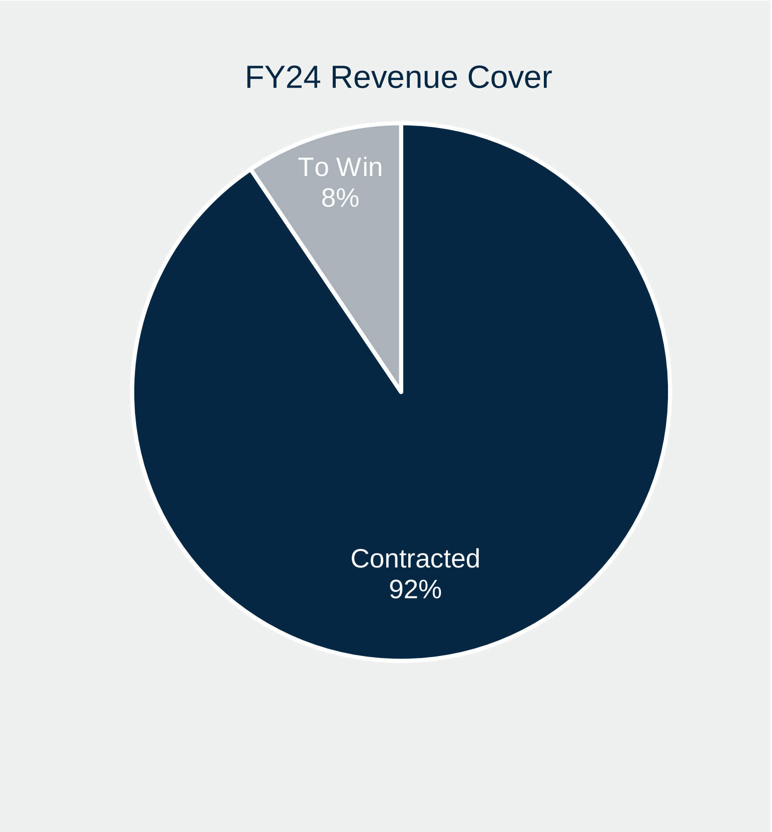
Excellent revenue growth, particularly in EMEA Services

Revenue (£m)





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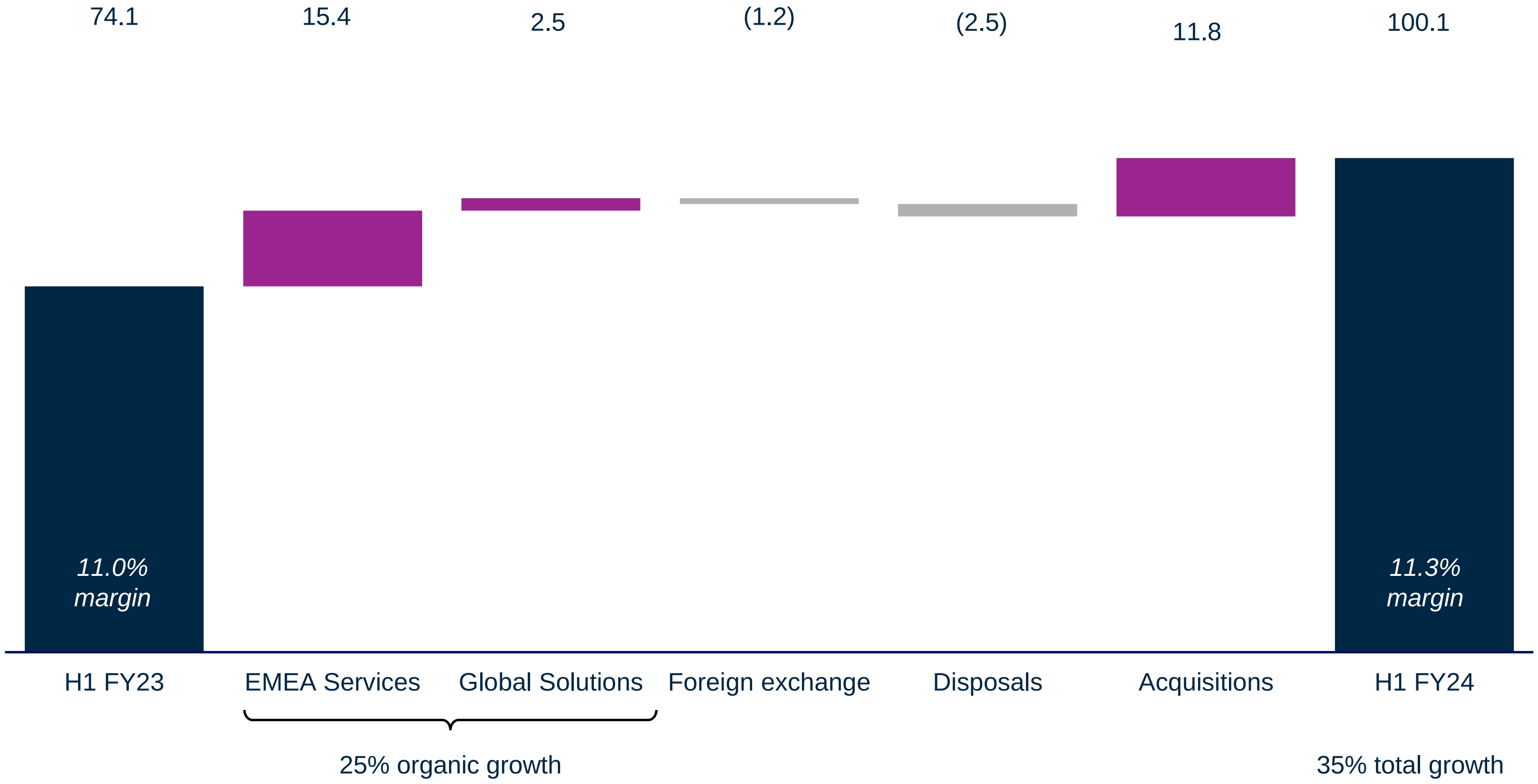
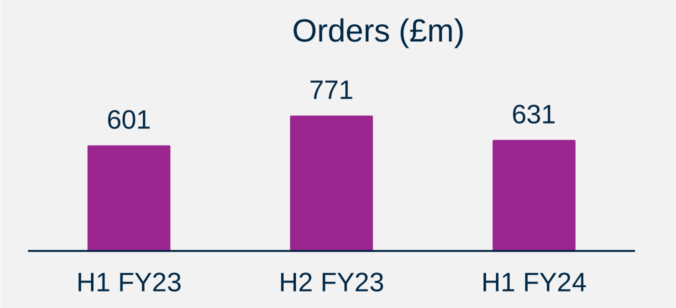
Excellent profit growth across the Group with improved margin

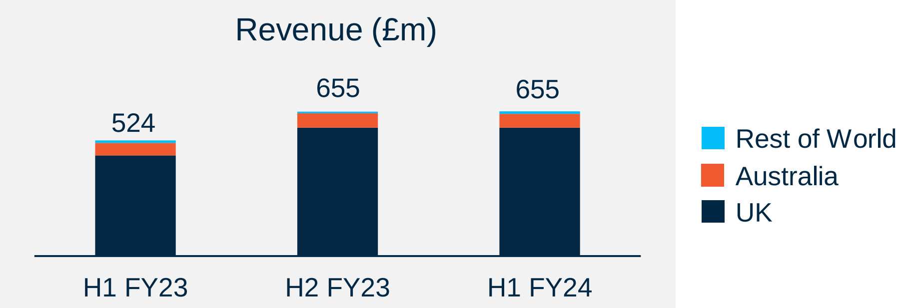
Underlying operating profit from segments (£m)

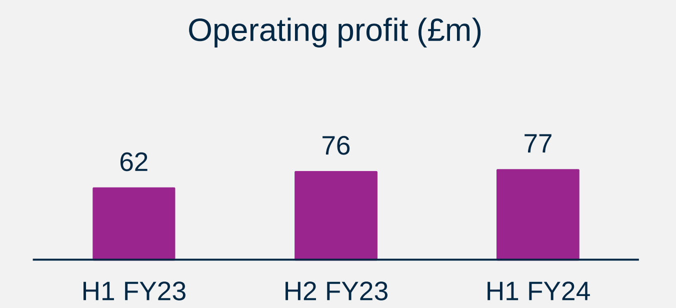


- EMEA Services profit growth due to strong revenue and modest margin improvement
- Global Solutions profit growth due to flat revenue and margin improvement
- Acquisitions (Avantus and Air Affairs) delivering good margins

EMEA Services – continued growth driven by order backlog and margin stability







	H1 FY24 £m	H1 FY23 £m
Orders	**631.1**	600.8
Revenue	**654.8**	524.3
Underlying operating profit	**77.4**	61.5
Underlying operating profit margin	**11.8%**	11.7%
Book to bill ratio[1]	**1.2x**	1.4x
Total funded order backlog	**2,732.8**	2,601.2

- Orders increased by 5% reported and 4% organic against strong PY comparator, delivering strong book to bill ratio of 1.2x. Funded order backlog increased to £2.7bn
- Revenue increased by 25% reported and 23% organic, due to strong orders won last year, short-term operational priorities and inflation. Revenue flat vs H2 FY23
- Operating profit margin stability with modest improvement to 11.8%, demonstrating strong delivery performance

[1] B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract revenue of £129m (H1 FY23: £106m)

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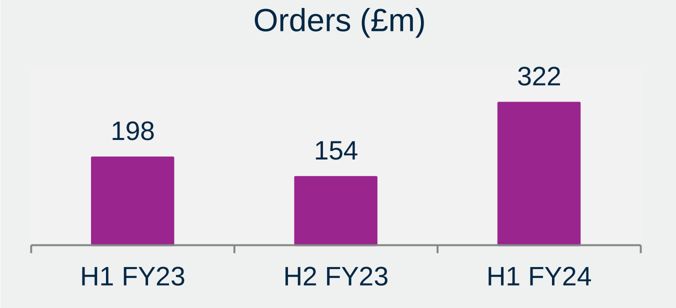
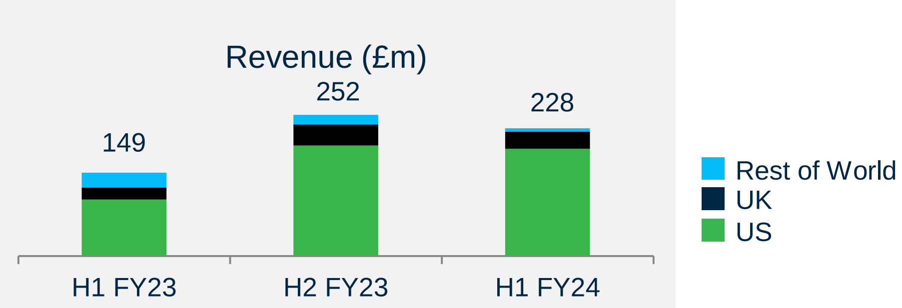
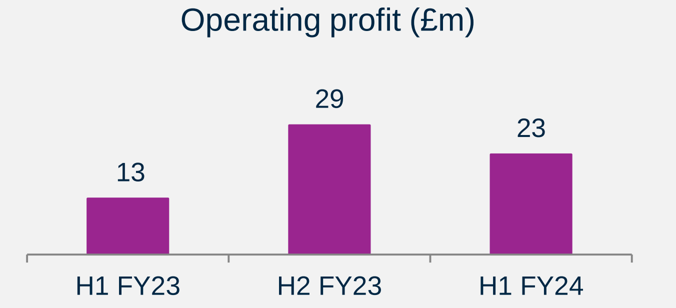
Global Solutions – order growth and 1.4x book to bill, supports future growth







	H1 FY24 £m	H1 FY23 £m
Orders	**321.6**	198.0
Revenue	**228.3**	149.1
Underlying operating profit	**22.7**	12.6
Underlying operating profit margin	**9.9%**	8.5%
Book to bill ratio	**1.4x**	1.3x
Funded order backlog	**399.2**	367.4

- Orders increased by 62% reported and broadly flat on an organic basis. $657m of multi-year contract awards won in Avantus since the start of the financial year, only $195m recognised in H1 Orders
- Despite a shorter cycle business delivering a strong book to bill ratio of 1.4x with funded order backlog at £0.4bn
- Revenue increased by 53% reported due to the addition of Avantus in H1 FY24, and remained flat on an organic basis
- Operating profit margin increased to 10% reflecting good margin stability in the US and higher margin product deliveries (QTS and intel products)

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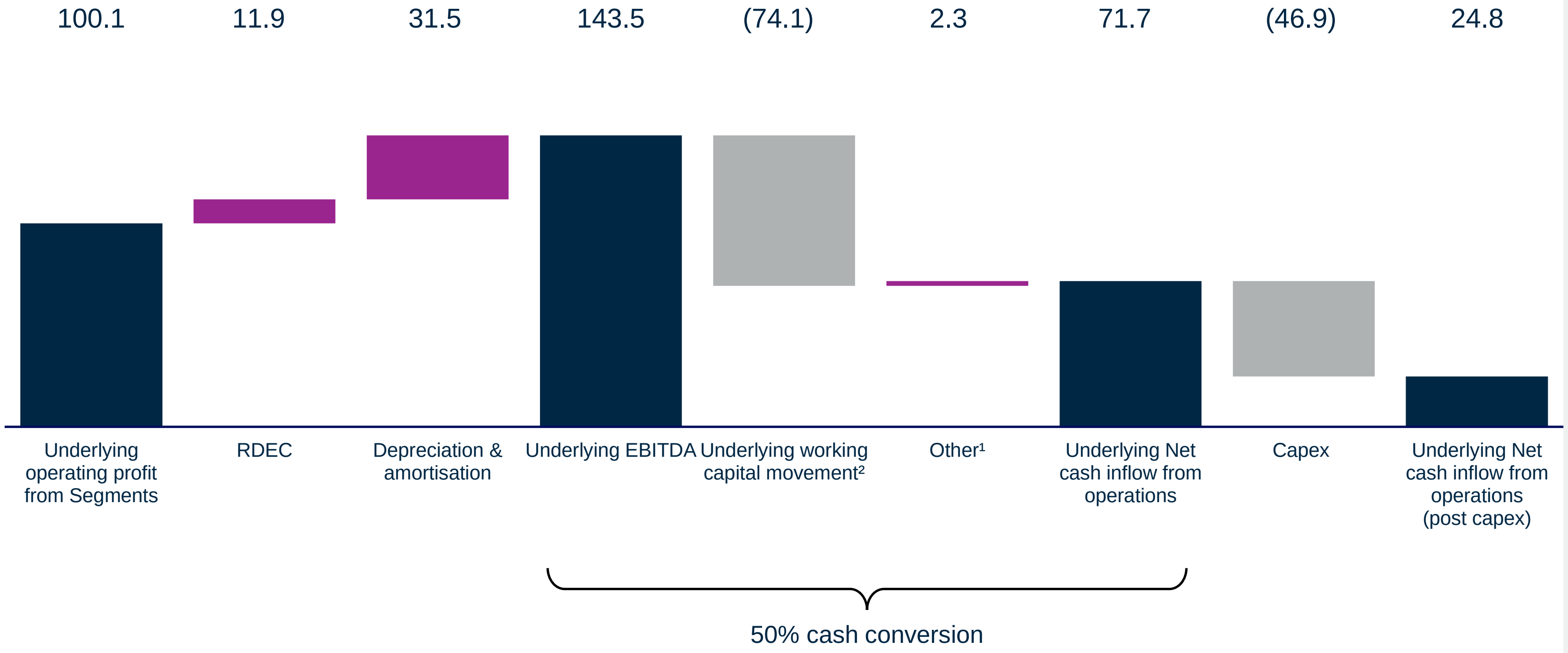
Cash remains on-track for full year guidance

Cash generation (£m)



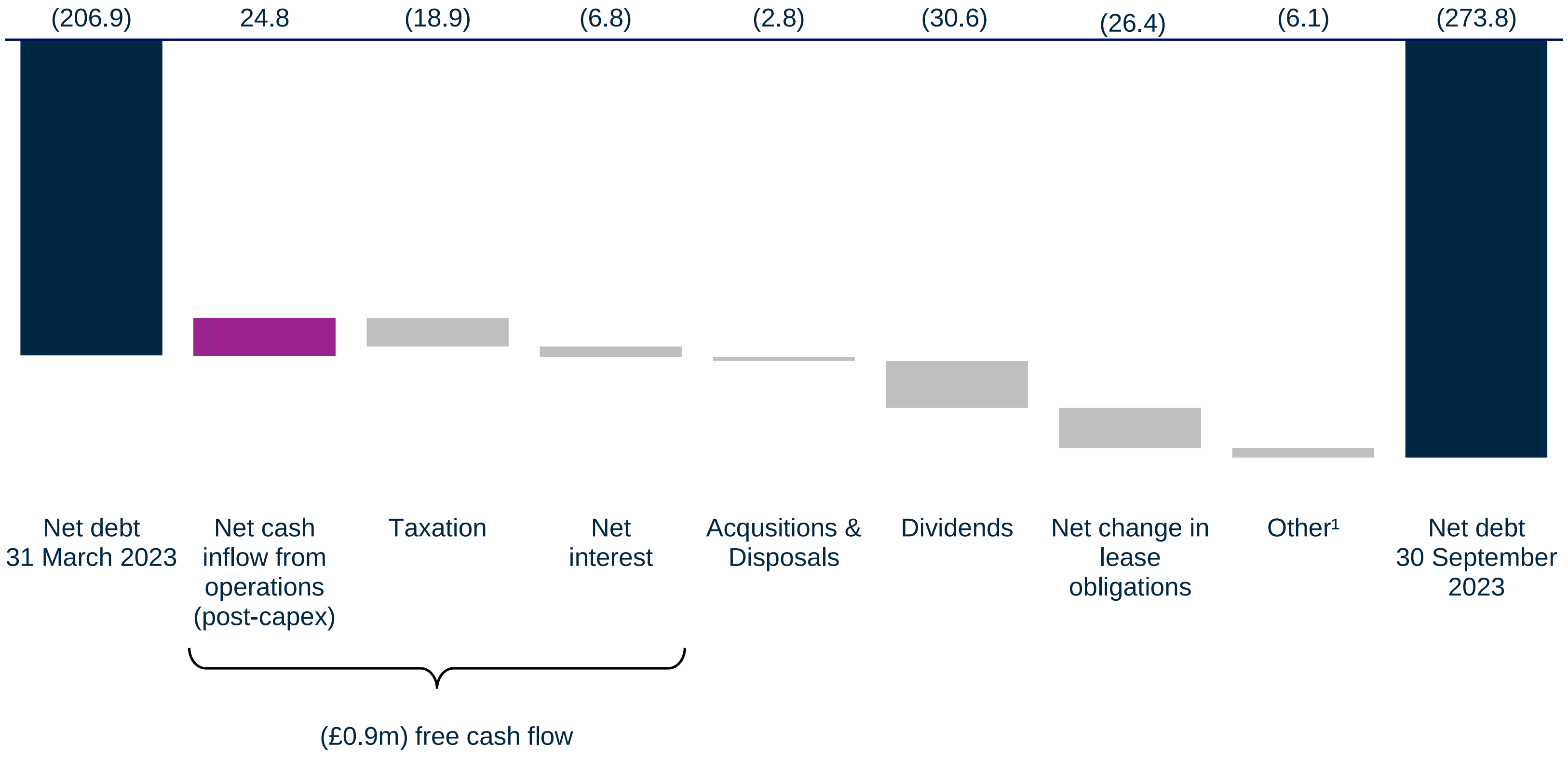
- First half cash conversion lower, as indicated, due to timing of contract cash receipts & payables, already reversing
- Remain on-track to deliver 90%+ cash conversion for the FY

[1] Other movements driven by share based payments, net movement in provisions and pensions impacts

[2] Excludes £0.1m working capital movement relating to specific adjusting items

Deploying our balance sheet to support our growth strategy

Net debt (£m)



Capital deployed in H1 FY24:

- £47m organic capex across LTPA, property maintenance & upgrades, IT, capitalised R&D and new Australian engineering facility
- £31m progressive dividend payment

FY24 H1 leverage of 0.9x (below our maximum leverage guidance of 1.5x)

[1] Other includes the cash flow relating to specific adjusting items and foreign exchange movements

Outlook Statement

FY24: in-line with market expectations

- We enter the second half of FY24 with confidence, a healthy order-book and positive momentum with 92% revenue under contract. We confirm that our full year performance will be in-line with market expectations[1].
- We expect to deliver high single-digit organic revenue growth and high teens total revenue growth at a stable operating profit margin.
- Capital expenditure is expected to remain within the £90m to £120m range.

Longer-term: guidance unchanged

- We are targeting high single-digit organic revenue growth, to deliver c.£2.4bn organic revenue at c.12% margin by FY27.
- With our highly cash generative business model, this provides optionality to deploy our capital to compound our growth and shareholder returns – through bolt-on acquisitions we see an opportunity to build a company of circa £3bn revenue at 11-12% margin by FY27.
- This delivers attractive return on capital employed at the upper end of the 15-20% range.

[1] Analyst expectations (average) for FY24 as at 14/11/23: Revenue £1,868m, Op profit £209m

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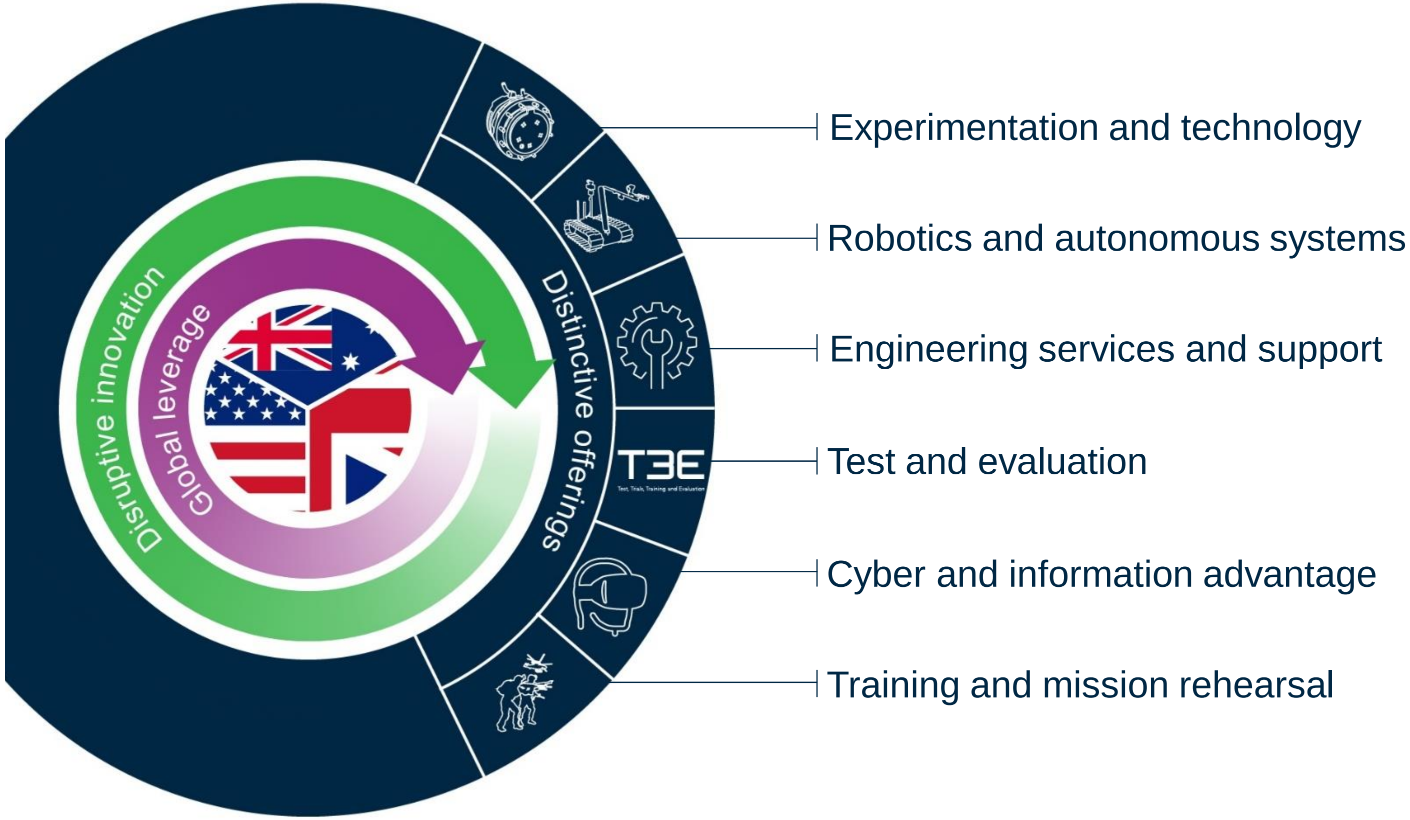
Strategic update

Steve Wadey

Group Chief Executive Officer

A differentiated company responding to national and global security needs



A unique value proposition highly relevant to an enduring and increasing threat

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Increasing European and Indo-Pacific threats driving rapid modernisation

Threats: changing character of warfare

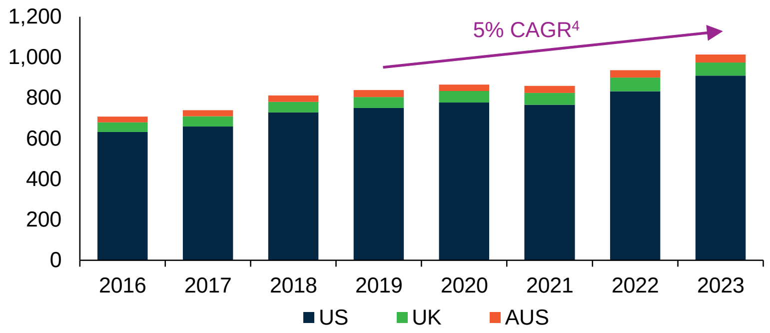
Politics: strengthened alliances

Focus: high priority high growth areas

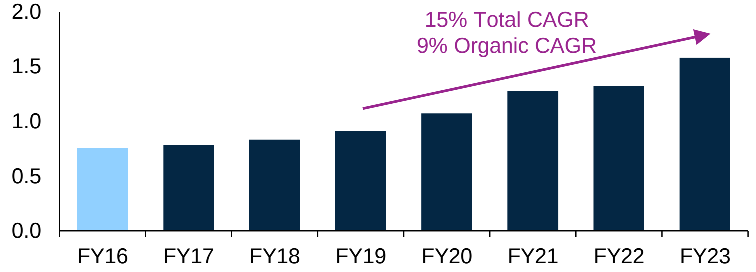
Budgets: re-prioritisation and efficiency

Strong track record

National defence budgets ($bn)[3]



QinetiQ revenue (£bn)



Delivering organic revenue at double growth rate of national defence budgets

[1] Research & Development and Test & Evaluation [2] Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance & Reconnaissance [3] Source: Janes Defence Budget data, Oct 2023 [4] Compound Annual Growth Rate

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Responding to UK critical national defence and security challenges

UK Defence

- EDP[1] delivering customer benefits with £190m new orders
- Delivering NATO's first multi-domain Formidable Shield
- Advanced synthetic training with HMS Queen Elizabeth

Strong execution and support to operational priorities

UK Intelligence

- Accelerated production of mission data for UK platforms
- AI demonstrator for cyber resilience of military systems
- Delivering new national cyber exercising capability

High revenue growth at 28% CAGR over last 4 years

Successfully delivering consistent operational performance

[1] Engineering Delivery Partner

Global platform delivering excellent orders performance and future growth

United States

- Commenced NGABS[1] full production with $84m contract
- Won $224m SDA[2] and $127m SCO[3] five-year contracts
- Avantus won $657m[4] re-compete & new contract awards

Avantus synergies driving future revenue growth

Australia including global threat representation

- MSP[5] contract extended by 3 years with $58m new orders
- Increased demand for aerial targets with strong growth
- Air Affairs delivering 24% increase in JATTS[6] flying hours

17% revenue growth in threat representation

Successfully executing our multi-domestic growth strategy

[1] Next Generation Advanced Bomb Suit [2] Space Development Agency [3] Strategic Capabilities Office [4] Year to date of which $195m orders recognised in FY24 H1 [5] Managed Service Provider [6] Joint Adversarial Training and Testing Services

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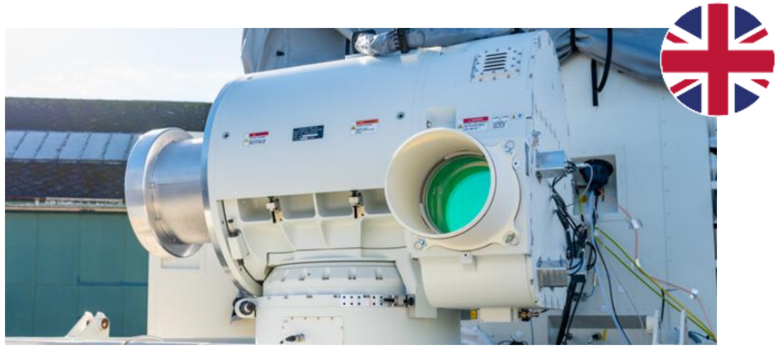
Major national programmes driving long-term growth opportunities



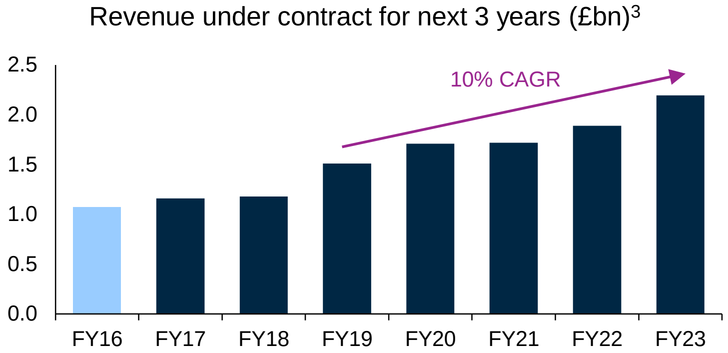
Principles Agreement for LTPA[1] to 2033

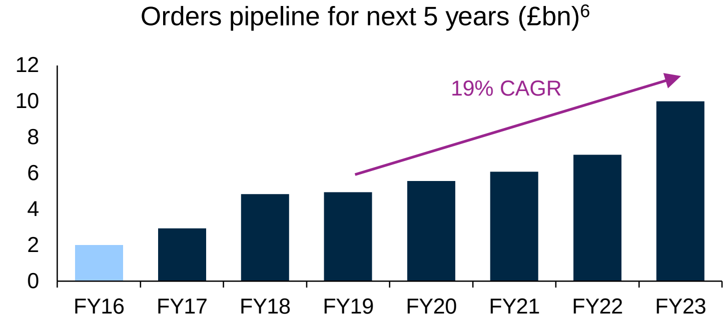
Sovereign T&E[2] programmes

Partnering for c.£1bn ACTS[4] programme

c.$500m RCV-L[5] programme of record

Expanding revenue visibility





On-track to deliver £2.4bn organic revenue at c.12% margin by FY27

[1] Long Term Partnering Agreement [2] Test & Evaluation [3] Revenue under contract for next 3 years at end of FY [4] Army Collective Training Service [5] Robot Combat Vehicle - Light [6] Orders pipeline for next 5 years at end of FY, FY16 estimated

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Building our global platform to deliver sustainable growth

Thriving people

- Improved employee engagement and invested to retain and recruit
- New Top 300 leadership incentive plan to increase shareholder returns

Advanced technology

- Leveraging products and skills across AUKUS nations e.g. targets into US
- Underpinned by ongoing c.£20m p.a. IRAD[1] investment programme

Strengthened capability

- Maintaining rigour in campaigns, bidding and contract execution
- Optionality for strategy-led bolt-on acquisitions that drive synergies

Disciplined capital allocation with optionality for c.£3bn revenue by FY27

[1] Internal Research and Development

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A differentiated defence and security company with robust investment case

Driven by our purpose and strategy

Aligned to structural growth markets	Highly relevant to increasing threat
Strong operational performance	Investing in sustainable growth

Focused on our customers and people

High organic revenue growth	7 – 9%
Stable operating margin	11 – 12%
High cash conversion	90%+
Attractive ROCE[1]	15 – 20%
Responsible ESG[2]	Net Zero, Engagement[3]

Well positioned for long-term growth and increasing shareholder returns

[1] Return On Capital Employed [2] Environmental, Social and Governance [3] Stakeholder engagement including employees and community

Summary

Steve Wadey

Group Chief Executive Officer

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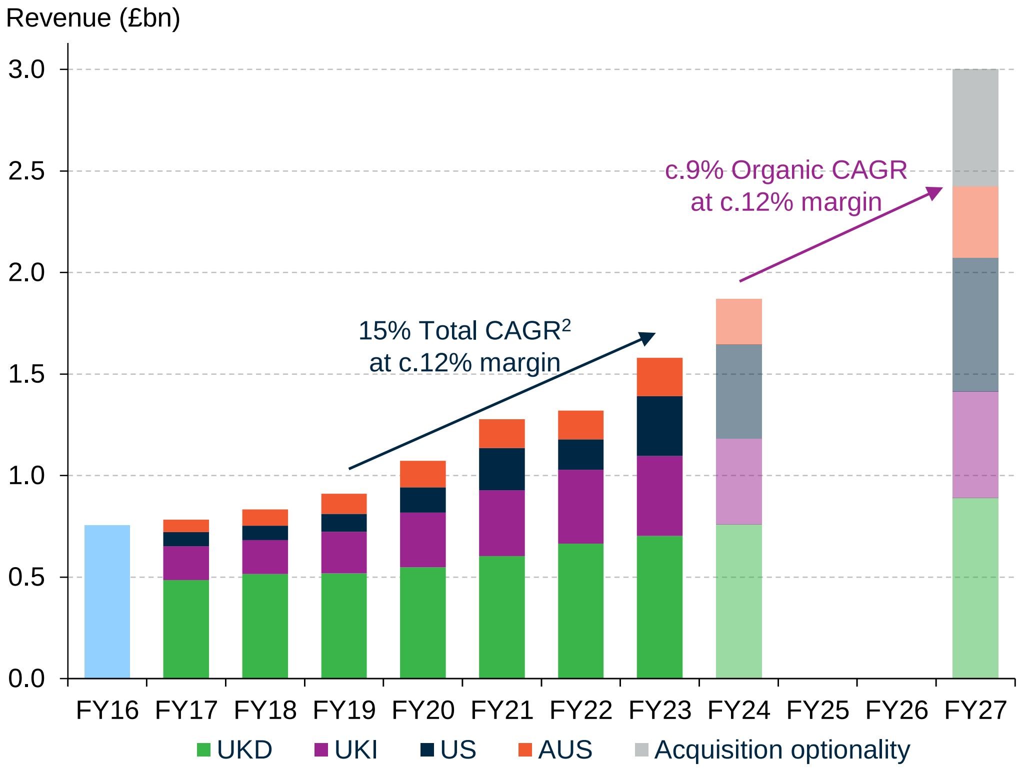
Delivering long-term sustainable growth – summary

1. Strong and consistent operational performance globally
2. Excellent organic revenue growth and improved margin
3. Highly relevant to increasing threat with book-to-bill of 1.3x
4. Avantus won $657m[1] contracts driving future revenue growth
5. On-track: £2.4bn organic revenue at c.12% margin by FY27
6. Disciplined capital allocation & bolt-on acquisition optionality
7. Full year performance in-line with market expectations

Financial performance



Focused on our AUKUS[3] customers' mission and increasing shareholder returns

[1] Year to date of which $195m orders recognised in FY24 H1 [2] Compound Annual Growth Rate [3] Australia, United Kingdom, United States
Revenue graph by UK Defence, UK Intelligence, United States and Australia including global threat representation

Q&A

COMMERCIAL IN CONFIDENCE

Appendix

Definitions

- Underlying performance is stated before:
  - Amortisation of intangibles arising from acquisitions
  - Pension net finance income
  - Gains/losses on disposal of businesses, investments and property
  - Transaction, integration and acquisition related remuneration costs in respect of business acquisitions and disposals
  - Impairment of property and goodwill
  - Change in accounting policy in respect of software implementation costs
  - One-off period of digital investment
  - Tax impacts of the above items
  - Other significant non-recurring tax and RDEC movements
- Book to Bill:
  - Orders won divided by revenue recognised excluding the LTPA contract
- Organic growth:
  - The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group

Technical guidance

	H1 FY24	FY24	
Revenue	£883.1m	↗	We expect to deliver high single digit organic revenue growth and high teens total revenue growth
Profit margin	11.3%	→	We are targeting stable margin for the FY
Underlying net finance expense	£(7.7)m	↗	Debt financing at 5.2% weighted average cost of debt (including all fees). Expect the FY24 net interest expense to be £14-15m
Effective tax rate	25.9%	→	Expect FY tax rate to remain stable with H1. Tax rate is higher than PY reported ETR due to 1) RDEC credit in the income statement (no longer included in the tax rate), and 2) increase in the UK statutory rate effective from 19% to 25% from 1st April 2023. For modelling purposes – if you retain RDEC credit within the tax rate (not as a separate credit in the income statement), the equivalent tax rate for comparison against profit from segments would be c.17%
Tax cash outflow	£18.9m	↗	Expect increase to £35-40m due to UK corporation tax rate rise
Net working capital change	£(74.1)m	↘	Expect working capital improvement in H2. Remain confident to deliver 90%+ cash conversion for the FY
Capital expenditure	£46.9m	↗	Capex expected in the £90-120m range
Closing net debt	£(273.8)m	↘	With cash generative nature of the business model we expect to generate free cash flow of £105-125m. After dividend and increased lease liability, expect closing net debt (including lease liability) of £160-180m

Revenue by customer and country

Revenue by customer (%)

H1 FY24

£883.1m

	%
MOD	58%
DoD	16%
Government agencies	15%
Commercial Defence	10%
Commercial	1%

H1 FY23

£673.4m

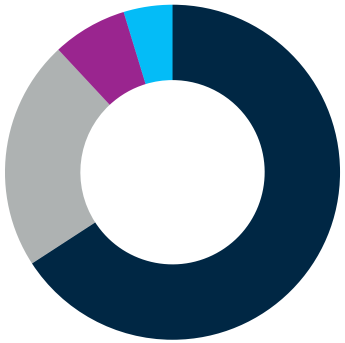
	%
MOD	60%
DoD	12%
Government agencies	16%
Commercial Defence	9%
Commercial	3%

Revenue by destination country (%)

H1 FY24

£883.1m

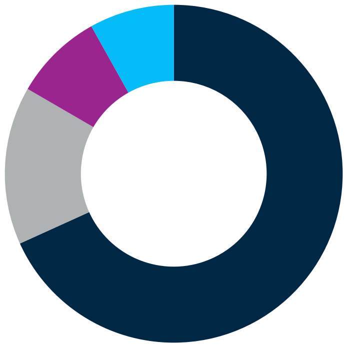
	%
UK	66%
US	22%
Australia	7%
Other	5%



H1 FY23

£673.4m

	%
UK	68%
US	15%
Australia	9%
Other	8%



Income statement including specific adjusting items

	H1 FY24 £m	H1 FY23^ £m
Operating profit from segments	**100.1**	74.1
RDEC Income	**11.9**	7.5
Underlying operating profit before tax	**112.0**	81.6
Acquisition, integration and disposal costs inc acquisition related renumeration costs	**(4.3)**	**(6.4)**
Digital investment	**(5.1)**	**(2.5)**
FX on Acquisition derivatives	**-**	**42.9**
Restructuring costs	**-**	**(3.3)**
Release of RDEC MoD appropriation liability	**-**	**19.6**
Gain on sale of property	**2.1**	**0.9**
Impairment of property	**(0.7)**	**-**
Amortisation of intangibles assets arising from acqusitions	**(12.7)**	**(5.6)**
Pension net finance income	**2.2**	**4.9**
Total specific adjusting items (pre-tax)	**(18.5)**	50.5
Underlying net Finance Expense	**(7.7)**	(0.5)
Profit before tax	**85.8**	131.6
Taxation	**(22.1)**	(21.4)
Profit after tax	**63.7**	110.2

^ H1 FY23 has been restated for the change in accounting policy relating to RDEC

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Impact of Foreign Exchange Translation

	H1 FY24 Organic **£m**	H1 FY23 £m	**H1 FY24 Restated at FY23 Rates** **£m**	H1 FY24 FX headwind £m	**H1 FY24 FX headwind** %
Orders	**783.9**	798.8	**798.2**	(14.3)	(1.8%)
Revenue	**764.4**	673.4	**770.9**	(6.5)	(1.0%)
Underlying operating profit	**88.3**	74.1	**89.5**	(1.2)	(1.6%)
Total funded order backlog	**3,132.0**	2,968.6	**3,138.9**	(6.9)	(0.2%)

- Key driver of FX change in year was the translation of US dollars
- US revenue made up 22% of total group revenue in H1 FY24 compared to 19% in FY23
- Guidance assumes FX rates as at the H1 closing rate: £/US$ 1.22, £/A$ 1.89

Understanding our different underlying profit and tax rates

	H1 FY24 £m	H1 FY23 £m
Underlying operating profit*	112.0	81.6
Underlying tax charge*	27.0	15.7
Tax (income)/expense on specific adjusting items	(4.9)	5.7
Headline tax charge	22.1	21.4
*Underlying tax rate**	*25.9%*	*19.4%*

Illustrative effective tax rate, with impact of RDEC income included in the tax charge		
Operating profit from segments*	100.1	74.1
Tax charge including RDEC income	15.1	8.2
Effective tax rate including RDEC income	*16.3%*	*11.1%*

^ H1 FY23 has been restated for the change in accounting policy relating to RDEC
* Definitions of APMs can be found in the Appendix

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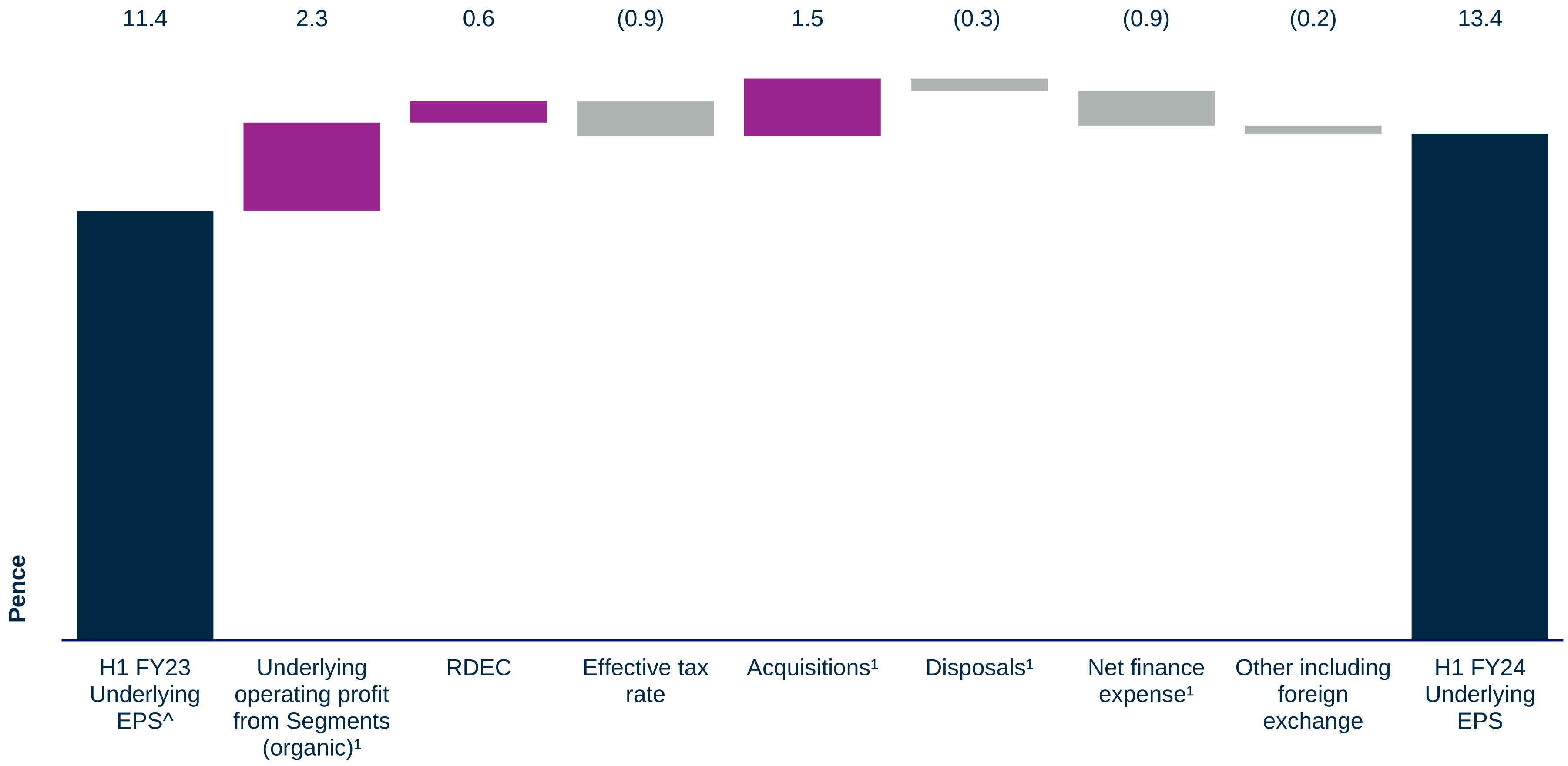
Underlying earnings per share (pence)



[1] Post-tax on prior year tax rate

^ H1 FY23 has been restated for the change in accounting policy relating to RDEC

Cash conversion

	H1 FY24 £m	H1 FY23^ £m
Operating profit from segments	**100.1**	74.1
Underlying RDEC income	**11.9**	7.5
Underlying operating profit	**112.0**	81.6
Depreciation and amortisation	**31.5**	26.9
EBITDA	**143.5**	108.5
Underlying changes in working capital	**(74.1)**	(3.0)
Share-based payments charge	**4.6**	1.0
Share of post-tax profit of equity accounted entities	**(0.2)**	(0.3)
Net movement in provisions	**(2.6)**	-
Retirement benefit contributions in excess of income statement expense	**0.5**	0.6
Net cash inflow from operations	**71.7**	106.8
Cash conversion %	**50%**	98%
Capex	**(46.9)**	(48.5)
Underlying net cash inflow from operations (post-capex)	**24.8**	58.3
Net interest	**(6.8)**	0.4
Taxation	**(18.9)**	(18.2)
Free cash flow	**(0.9)**	40.5

^ H1 FY23 has been restated for the change in accounting policy relating to RDEC

Movements in net cash

	H1 FY24 £m	H1 FY23 £m
Free cash flow	**(0.9)**	40.5
Dividends	**(30.6)**	(28.8)
Acquisition of business	**(4.9)**	(1.6)
Disposal of business	**2.1**	1.1
Change in lease obligations	**(26.4)**	(1.4)
Acquisitions, including integration and remuneration costs	**(4.4)**	(2.4)
Restructuring	**-**	(2.4)
Digital investment	**(5.1)**	(2.5)
Purchase of own shares	**(0.4)**	(0.4)
Other (including FX)	**3.8**	36.8
Change in net (debt)/cash	**(66.8)**	38.9
Opening net (debt)/cash - 1 April	**(206.9)**	225.1
Closing net (debt)/cash - 30 September	**(273.8)**	264.0

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Balance sheet

	H1 FY24 £m	FY FY23^ £m
Goodwill	**413.2**	409.0
Intangible assets	**333.4**	343.0
Property, plant and equipment	**518.0**	477.8
Working capital	**9.9**	(69.0)
Retirement benefit surplus (net of tax)	**65.6**	84.4
Other assets and liabilities	**(70.6)**	(70.0)
Net (debt)/cash	**(273.8)**	(206.9)
Net assets	**995.7**	968.3

^ H1 FY23 has been restated for the change in accounting policy relating to RDEC

Confirmed pension surplus

	H1 FY24 £m	FY FY23 £m
Equities	**206.4**	210.3
LDI investment	**130.9**	227.2
Asset backed security investments	**4.5**	4.3
Bonds	**376.6**	374.0
Cash and cash equivalents	**31.4**	17.2
Derivatives	**(6.3)**	6.7
Insurance buy-in policies	**492.7**	515.5
Market value of assets	**1,236.2**	1,355.2
Present value of scheme liabilities	**(1,141.2)**	(1,235.4)
Net pension asset before deferred tax	**95.0**	119.8
Deferred tax liability	**(29.4)**	(35.4)
Net pension asset	**65.6**	84.4

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