QinetiQ
FY26 Interim Results

13th November 2025

Transcript

Stephen Lamacraft : Good morning everyone and welcome to the QinetiQ FY 26 Interim Results. So thank you all for being here and thank you all who are watching us online. Without further ado, I'd like to hand over to our CEO Steve Wadey and our CFO Martin Cooper. Thank you.

Steve Wadey: Thank you Stephen, and good morning everybody and welcome to our half year results for FY 26. Whilst we continue to operate in challenging market conditions, we have taken decisive action to improve our short-term performance and drive long-term growth, creating value for shareholders. And thanks to the dedication and hard work of our highly skilled employees, we've continued to support our customers operational needs, delivering mission critical technologies and services. Today we'll take you through our half one results and the actions we've taken to address both near term challenges and strengthen our market positioning for the long term. A great example is shown here, which illustrates the successful completion of the synthetic trials we undertook with BA Systems to demonstrate how drones can operate alongside combat aircraft like Typhoon. This was a significant milestone in developing critical sovereign capabilities needed to defend the UK's national interests. Let me start with our key messages for today.

First in tough near term market conditions that have delayed orders in the UK we have delivered robust operational performance and our restructuring program in the US is on track. Secondly, our mission critical capabilities remain highly relevant to our customer's needs in a growing defence market and combined with our significant order book and substantial pipeline provide very good visibility for long-term growth. Thirdly, despite near term headwinds in our home markets with focus and visibility to maintain our full year guidance and we continue to deploy capital with discipline. In summary, we are delivering the actions to improve business performance in the short term and are well positioned to capitalize on increasing defence spending so that we deliver compelling value creation for shareholders.

Our agenda this morning expands on these messages. I'll start by giving you our half year in review. Martin will 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 half year performance in response to the market backdrop, we have taken proactive and disciplined portfolio actions achieving good progress on our US restructuring program, as well as right sizing other areas of the business. The improvement actions are delivering benefits and building resilience that will improve both short and long-term performance. Overall, our first half financial performance was robust in tough near-term markets. We saw this particularly in the UK where we experienced delays to orders on our engineering services and R&D framework contracts. In part, due to our customers prioritizing major equipment programs, this reduced our underlying book to build to less than one.

Excluding the LTPA contract award, we achieved two strategic milestones that strengthen our company for the long-term. In May, we secured the 1.5 billion pounds extension to transform the LTPA for future warfare through to 2033. As a result, we closed the half with a significant order backlog and substantial pipeline providing very good visibility for long-term growth and in September we announced the strengthening of the EDP contract to accelerate defence productivity by expanding the partnership and augmenting our high value engineering skills with artificial intelligence. Together these strategic milestones show how we are playing our part in delivering on the ambitions of the UK government's strategic defence review. As normal, we delivered a healthy cash conversion, enabling investment in the business and increased shareholder returns through our progressive dividend and multi-year share buyback program. Looking forward, we have approximately 90% of revenue under contract for this year, which is the same as last year. Whilst market headwinds continue, we're focused on execution and have visibility to deliver our full year forecast. Martin will take you through a bridge of this later in the presentation.

I now want to address our half one performance and the progress we are making in each of our segments, starting with EMEA services. Due to market conditions in the UK and ongoing defence budget pressures in the Australian market, we delivered flat revenue with good margin. In the UK we grew 2% as a result of delayed orders on our framework contracts and in Australia our revenue was lower predominantly due to the loss of the land systems work package under the MSP framework. In response to these dynamics, we took some resizing actions to build resilience whilst protecting core skills for the future.

Our performance was underpinned by successful program execution across our long-term contracts. On the EDP contract delivery performance was strong with 98% of all milestones delivered on or ahead of schedule. In September, we announced changes to the LTPA that will make it easier and cheaper for SMEs and new entrants To use our test and evaluation capabilities across the UK. The launch of our T & E innovation gateway will help drive greater defence innovation and support wider economic growth across the UK. Notable new contracts in the half include the strategic win £25 million to deliver collective training for the Royal Navy to improve war fighting readiness at pace. This five-year contract will see us deliver an immersive virtual training environment that realistically simulates the threats and missions that Navy personnel can expect to undertake in the future. Whilst near term trading conditions remain tough, we have a clear pipeline of orders to win and deliver in the second half.

Turning to global solutions, during the first half of the year, we've been focused on executing our plan to address the market challenges and operational issues that we highlighted in May. We've made good progress on the US restructuring program. Key actions completed include the disposal of the US fed IT business, significant headcount, resizing and cost base reduction, as well as an improved control of labour rates and inventory. This progress puts us on a stronger foundation to move forward. As we forecast, revenue declined with lower margin compared to the prior year, half of the decline was due to a lower volume of non-US product sales versus a strong prior year comparator and the other half was in the US principally due to the impact of DOGE on our Fed IT business that we have now disposed of and our planned resizing actions. As the US market changed, we repositioned the business to build resilience and be better aligned to national security priorities.

Our strategy is now focused on four capabilities where we have differentiated long-term incumbent positions and see good growth potential. These four areas are space and missile defence, maritime systems, advanced sensors, and persistent surveillance. During the half, we secured $290 million of funded orders with a US book to bill of 1.5 times. Whilst we continue to focus on improving operational performance and winning longer term programs, this strong book to Bill underpins our second half forecast for global solutions. To summarize, we're making good progress whilst we finish the half with a smaller US business, it is more aligned to national priorities and is well positioned to deliver long-term growth. I'll now hand over to Martin to take us through our financial results.

Martin Cooper: Thanks Steve and good morning, everyone. As usual, I'll start with the financial highlights before moving on to the key financial metrics at a group level and details on our two reporting segments. I'll finish with capital allocation and guidance and for reference, the US dollar rate for the half average 1 34 compared to 1 29 last year, which has provided a headwind to the reported values. So turning to the results for the half. Order intake for the half was £2.4 billion, which drove a closing order backlog of £4.8 billion. Both reported records for the group. Revenue was 3% down on an organic basis at 900 million pounds resulting in a book to bill of 0.9 times reflecting the sale of our Fed IT business and trading conditions in H1, which impacted contract awards. Underlying profit was down £10 million versus H1 last year at £96 million, but margin at 10.7% was ahead of our half year expectations and underpins our full year target of around 11%.

Underlying basic earnings per share of 14.2 pence were in line with last half as the lower profit was offset by the enduring benefit of the enhanced level of share buyback. Turning profit into cash remains strong at 85%, which again underpins our full year guide of around 90%. The strong operating cash performance combined with the sale of our US Fed IT business has enabled effective and value accretive capital deployment. This has enabled us to not only reduce net debt half on half but also to significantly enhance shareholder returns which totalled £101 million as we made excellent progress on our ongoing two year share buyback program and paid the final dividend and return on capital employed remains strong at 21.1%.

Moving to the key group financials and starting with orders, the book to bill of 0.9 times as Steve raised, resulted from delays in contract awards in the UK impacting EMEA services and within global solutions. The year on year impact on the federal IT market was particularly stark in the order flow in the business we've now disposed of. Whilst book to bill was down, total orders at £2.4 billion was a record when incorporating the five year LTPA award. This meant we closed the half with an order backlog of £4.8 billion, which does include £0.4 billion of US unfunded backlog providing good visibility for future growth of core long-term business frameworks.

Revenue at £900 million is down 3% on a like for like basis when adjusting for FX and the sale of the Fed IT business. EMEA was lower on reduced volumes in Australia where we lost a competitive land systems work package and as Steve mentioned, despite being impacted by delays in orders, the UK business did grow 2% half on half. Global solutions declined due to US short cycle revenues of which a significant part was in the business now disposed of. In addition, our restructuring activities have resulted in us exiting some business lines as we focus on four major areas for long-term profitable growth. Within global solutions, our products business was lower against a high year on year comparative, but demand and outlook remains robust and we expect a better second half. Recognizing the step up required in H2 to deliver our revenue guidance, we've detailed on the chart the drivers that bridge us from half year to our year end assumption of circa 3% organic growth like for growth, so taking each in turn. Revenue cover at the half stood at 89% in line with last year's assumed outturn at this stage and that includes the core frameworks of EDP and LTPA established positions on the likes of Naval Combat systems and MSCA maritime training following the Mcast win and in the US the task persistent surveillance contract and the work we do with the Space Development Agency.

Secondly, our period seven order flow has added a further 2% to the cover and includes the mission critical typhoon support uplift. Thirdly, we have around 7% of orders which are extensions of current positions or where we are close to finalizing the awards. Examples include the DragonFire laser weapons contract and target sales with predominantly repeat customers. Finally, we have a good visibility on a pipeline of further rewards that we assume we shall win and deliver in year to cover the remaining around 2%.

Whilst there are clearly market headwinds prevailing in the US, UK, and Australia, we currently have good visibility and hence maintaining our full year guidance. Moving to operating profit which was down 10.6 million against last year reflecting lower revenue and the impact of the group's restructuring activities. Margin at 10.7% was ahead of expectations at the half with good consistent program execution against our backlog, especially in a EMEA services. In May I talked about rebuilding margin from 9.6% to around 11% and we are on track through driving strong program execution, cost-based efficiency actions and the portfolio actions in the US. As usual, we have detailed the table reconciling underlying operating profit from segments to statutory profit. The income from RDEC and intangible amortization are standard reconciling items and predictable. The other two major reconciling items reflect the actions being taken to improve the long-term performance of the business.

Firstly, our digital investment has increased in the half driven by a major rollout to over 60% of the business. As a reminder, this is part of a wide of a program to enable growth strategy and wider business efficiency. Secondly, we have booked a further £22.6 million of restructuring costs driven by the portfolio work in the US coupled with a right sizing activity in Australia and ongoing efficiency activity in the UK. To complete profit, the sale of the Fed IT business led to a £0.5 million profit on disposal. Now turning to the segmental split of the group performance, starting with EMEA services which had a good operational half in difficult near term market conditions. Orders increased to £2.2 billion excluding LTPA. The book to bill was down to 0.8 times with delays in contract towards in the UK and Australia driving the shortfall, albeit as mentioned in the revenue bridge, some of those orders have come through since period end. Revenue was broadly stable with the UK defence delivering growth, but this was offset by order delays and lower revenue in Australia with the loss of the Land MSP work package. Program performance and cost control was good, ensuring consistent margins at 11.5% and funded backlog is now at a record high £3.9 billion which support second half delivery and longer term visibility.

Next global solutions which posted orders of £247 million at a book to bill of 1.3 times including annual funding on our core US franchise contracts of tethered aerostat radar system, strategic capabilities office and space development agency. These contracts also saw good on contract growth. Securing these orders in the half helps to de-risk second half revenue given the ongoing government shutdown. Orders were down half on half due to restructuring of the US portfolio and timing of targets and product awards. These dynamics impacted revenue which was 16% lower at £192 million and as covered in the bridge, the book to bill gives us a foundation to drive the required second half performance. Margin was down half and half at 7.4%, but up from last year as we worked through the US restructuring actions and was in line with our expectations at this stage. Moving to cash where operating cashflow continued to be good at £128 million and was in line with last year delivering a high conversion ratio of 85%.

Capital expenditure was £36 million of which £21 million related to the LTPA and in line with guidance, we would expect higher spend in the second half with a total for the year around £100 million. To complete the cash analysis, the movement in net debt from year end is shown here. We generated £63 million of free cashflow and with the proceeds from the Fed IT sale that allowed us to deliver a significant step up in shareholder returns at £101 million as we accelerated the pace of the buyback program and grew the dividend 7% in line with our progressive policy. Net debt therefore closed at £180 million to leverage ratio of 0.6 times, up from year end, but a £10 million lower net debt than last half year.

Turning to capital allocation which is unchanged. The business is delivering good consistent cashflow and the focus and priority is driving sustainable organic growth at good margins whilst investing in the business. We maintain a rigorous approach to the deployment of our capital, scrutinizing organic investments against shareholder returns and ensuring we have a balanced and value accretive deployment of capital. During H1 we've demonstrated our discipline capital allocation policy by investing in our organic growth through CapEx, research and development, digital and major competitive bids. We provided a 7% progressive dividend, completed the sale of our non-core fed IT business in the US and used the funds from the sale to accelerate our share buyback program. We have a strong balance sheet which gives us flexibility to drive organic growth and provides optionality for value accretive capital deployment in excess of the £200 million share buyback already announced.

So pulling all that together and moving to guidance which is unchanged per the revenue bridge, we still expect to deliver a circa 3% organic growth on a like for like basis when adjusting for the sale of the Fed IT business and the higher exchange rate versus original guidance. Margin we expect to be around 11% and with the buyback progressing at pace EPS growth at 15 to 20%. Cash, we expect to be around the 90% conversion level and leverage around 0.5 times at year end. As usual to help with your models, we've included additional technical guidance in the backup slides. This has been a robust half against the difficult market backdrop and with the action taken and in train have the visibility to deliver this full year guidance. I'd like to thank all our teams for delivering critical capabilities to our customers and for this half year result, with that back to you Steve.

Steve Wadey: Great, thank you Martin. So to our strategic outlook, let me start by explaining why we are a differentiated company. Highly relevant to the increasing threat with strong fundamental growth drivers structurally aligned to the increasing defence spend, the threat environment has changed the market dynamics. We are in a new era of defence. Our customers have committed to long-term spending increases as we have seen across NATO and are driving major procurement reforms as they seek to rapidly scale existing capabilities and create new disruptive capabilities to overmatch the threat at wartime pace. We are not standing still. Our mission critical capabilities shown here on the right are highly relevant and are directly aligned to our customer's priorities. We are a horizontal integrator developing new technologies, testing new platforms, and delivering frontline mission support. We play an essential and vital role in helping our customers accelerate capabilities into service and increase war fighting readiness to counter the threat. As the market is changing, we have adjusted our strategy to increase focus in three areas. Firstly, partnering more closely with our customers to help them build greater resilience, rapidly modernize and deliver innovation at pace. Secondly, continuing to pursue focused growth in each of our key domestic markets and thirdly, leveraging our capabilities to expand and grow into European NATO markets. Let me take each of those. In turn.

We are increasing our competitive advantage through greater partnering and innovation with our customers and industry to deliver operational advantage and drive growth. We are a strategic partner to the UK government and the fourth largest defence supplier to the UK MOD. Our capabilities are aligned to the ambitions of the strategic defence review and we have increasing opportunities to leverage our expertise in partnership with the government into major export programs such as our engineering services and mission data capabilities into the recent win of Typhoon Türkiye. On Monday this week, Luke Pollard, the Minister for Defence readiness and Industry visited us in Farnborough and has welcomed our commitment to proactively transform the way that mission critical engineering services are provided to the UK's armed forces that I mentioned earlier. This includes our investment in new digital and AI technologies to augment our high value engineering skills, significantly increasing UK productivity and innovation.

To stay ahead for the long term, we remain focused on investing capital into our people, technology and capabilities. We achieved a major milestone in the half with the successful transition of UK and Australian employees onto our new digital workplace to improve our ways of working and business efficiency and investing in cutting edge defence technology continues to be a key driver for our future growth. Our long-term R&D created the laser technology that is critical to the growing DragonFire laser weapon program. Investing in the business is core to our strategy to ensure we have a differentiated portfolio and are well positioned to capitalize on increasing defence spending and drive organic growth.

The longer-term opportunity in our domestic markets remains significant and our mission critical capabilities are focused on areas of priority for our customers, which are robust and set to grow. In EMEA services. We have deep expertise that we are leveraging on next generation technologies capabilities and programs. This includes the launch of our DroneWorks initiative to help SMEs access our expertise and facilities to accelerate drone development for rapid deployment and we are delighted with a recent significant competitive win to further develop our disruptive laser technology for next generation laser weapons beyond DragonFire. In Global solutions, we now have a US business with much greater focus on the four differentiated capabilities that I described earlier. As a result, we've delivered significant on contract growth across our large multi-year contracts that Martin described SCO, TARS and SDA, and we see significant growth potential for space and missile defence where our capabilities are highly aligned to multiple US space programs.

From a wider products perspective, we are continuing to invest in our maritime, targets, sensors and secure navigation capabilities where we have differentiated offerings to drive organic growth. Our portfolio is now focused and structurally aligned to national security priorities of our domestic customers, underpinning our long-term perspective. We're also increasing our focus to position the business and drive organic growth in adjacent markets by leveraging our core capabilities across the AUKUS nations and into European NATO and allies. We are collaborating with our customers across the AUKUS nations to develop new opportunities. Examples include sharing laser technology from the UK into Australia, leveraging our R&D expertise. We're also sharing our engineering services experience to help shape the future of the EDP and MSP contracts and we are applying our world leading maritime T&D capabilities in the UK to support the T&E opportunity for the AUKUS submarine program in Australia.

Over recent years, we have made good progress with European NATO and allies where we have differentiated capabilities. We've grown the use of our unique UK test and training capabilities from nations such as Germany, Italy, Spain, and most recently Japan. We're also increasing our export focus and a key opportunity progressing well is the export of our electronic warfare and mission data expertise into Belgium. And whilst Poland remains an upside opportunity, we're actively shaping further persistent surveillance opportunities in Eastern Europe and the Middle East beyond our US program. We're also well positioned to capitalize on NATO's increasing defence spending and we see our addressable market growing. With a focused approach to our international expansion, we are creating value across the company to drive further organic growth.

Having secured the LTPA extension, we have a significant order backlog of £4.8 billion providing a firm foundation for the company. This backlog combined with our qualified pipeline of £11 billion provides good long-term visibility at eight times our FY25 revenue. We've built this visibility by focusing on our customer's needs, partnering with industry and winning larger longer-term programs. On the left, I'm showing our major domestic programs where we have strong incumbent positions that build up to approximately 70% of our annual revenue. This solid base in our domestic markets gives us a platform to deliver on contract growth and with new programs in our pipeline. This solid base also gives the platform to leverage our capabilities to expand internationally shown here on the right, including opportunities to leverage both our services and product capabilities into European NATO markets. Whilst we may not win all of these, our pipeline is robust and prudent with many additional growth opportunities beyond the £11 billion shown here. Overall, our significant backlog combined with our healthy pipeline gives us very good long-term revenue visibility and underpins our confidence in creating long-term value for shareholders.

So in summary, we've taken the necessary actions in tough near-term market conditions, strengthening our portfolio to improve our performance. The fundamentals of the business remain strong and our mission critical capabilities continue to be highly aligned to our customer's needs in a growing defence market. Combined with our backlog and pipeline, this gives us very good visibility for long-term growth. Whilst near term headwinds continue, we're focused on execution and have visibility to maintain our full year guidance. 10 years ago we launched our growth strategy. As you can see from the chart on the right. This year is a transition year having taken decisive action and significantly grown our backlog, we have a strong platform to capitalize on increasing defence spending. This gives us confidence to drive sustained long-term growth and deliver compelling value creation for shareholders.

Martin and I would be happy to take your questions.

Richard Page: Morning, it's Richard Paige from Deutsche Numis, could you just give a bit more detail about what's going on in Australia, please and circumstances there? Second one on UK intelligence, again, a sort of dig between there because it feels as though you are reasonably confident that there hasn't been a significant deterioration in trading in that business. And then thirdly, just on exceptionals and digital innovation, if you could just outline thoughts for the full year on both of those numbers and particularly digital innovation, how long that persists as an exceptional charge please.

Steve Wadey: Okay, maybe Martin, I'll start on Australia. Maybe we do Exceptionals and I'll finish off with UK Intel. Okay, so I mean I think on Australia, I think it's a tough market. In some ways the Australian market has been very similar to some of the dynamics that we've seen here in the UK. It's absolutely not unique to us. As you heard in my presentation right at the start of the year, we had a loss of a competitive work package whilst we're not the prime through the team that we're on under the MSP program, that has resulted in lower revenue for us, but I think we need to put that in perspective Rich. Australia now about 6% of the group and I think what's been important is that in understanding that market dynamic, whilst we've taken the resizing actions, we've also taken actions to strengthen the portfolio and focus on the programs that are going to give us long-term underpinning growth looking forward.

Those key areas if you are interested in those, there are really four big drivers that we're focused on for the future in Australia. The customer is going through an exercise in the coming calendar year, so 2026, looking at what program will replace MSP, it's called future MSP. We expect there to be an RFI and RFP for that and we're in a market shaping phase. I mentioned sharing experience between the UK and Australia customers to secure a prime role and position ourselves for the next phase of engineering services. Secondly, we're continuing and we're delivering really well on our threat representation business through the acquired air affairs business that's under our JATTS contract. We expect a renewal of that contract imminently and that provides long-term underpinning growth. Thirdly, you'll have heard me talk about lasers. We have quite a lot of progress on lasers. I'm sure we might get some questions on this in the UK in a moment. It's really a strong long-term growth driver, but there's a lot of collaboration between our customers and our teams looking at next generation lasers in Australia where we're very, very well positioned. And the final driver that I mentioned in my presentation is related to the AUKUS submarine program again, where we expect over the next one to two years a significant program opportunity on providing the range capability or the test and evaluation capability for both the AUKUS submarine program as well as surface fleet. So yes, it's been a tough year, it's not unique to us. There are plenty of businesses as you'll know, having to take resizing actions and improve business efficiency. We have, but we need to put it in perspective and we've got some really good solid positions to grow going forward.

Martin Cooper: Yeah, I mean I think as I covered in my script then, we've had a pretty significant rollout in the first half cost a lot of our workforce on one major work stream within that package. So it was 12, just over £12 million in the half. I'd expect the second half to be a little bit less, but if you model, I'd model about £22 million for the year and then we'd expect it to start to step down next year and then finally complete in FY28 for us.

Not by the nature of exceptionals, but I mean you'll notice just to cover the restructuring point, I mean I think that could be split into two major halves, one around roughly 50:50 around headcount impact and headcount reductions. And then as I mentioned again as a reflection of some of the work streams we’ve either exited or really rationalized down in the US than there were around £10 million plus of the write downs in the US that went through that line. So you should think of it, of headcount reduction and then sort of final balance sheet cleanups. But obviously we wouldn't expect anything else material in the second half on either line.

Steve Wadey: And I think on UK intelligence, I mean you'll know UK intelligence had a tough year last year, so this year has really much been a transition year for UK intelligence. And I describe the wider context of the UK market has been tough and we've seen a delay to orders particularly around the R&D DSTL areas and engineering services, but I think that UKI is positioned well for this year. It actually did relatively well on its orders in the first half and has got a very good pipeline to deliver a much stronger second half performance that we are planning on and included in that the business is also well positioned, you would have seen me mention a couple of export related orders, particularly in the EW emission data area where certainly in the next, let's call it one year, we would expect some of those export related orders to positively contribute to the rebuild and next phase of growth for UK intelligence. Thanks, Rich

George McWhirter : Morning, George McWhirter from Berenberg. Maybe coming back to Australia again just in terms of the competitive land systems package that you mentioned that you lost, can you just talk about the size of that contract please and what lessons you can take from that loss? And the second question is on the US what proportion of the business would you say is shorter cycle now that you've disposed of the federal IT services business and have you seen any impact from the government shutdown? Thank you.

Steve Wadey: I think you'll need to start on the Australia size. I'm happy to talk about lessons.

Martin Cooper: So the value of package of work was about 50 million Australian dollars. Most of that was reflected in our guidance at the start of the year. We had hoped to perhaps pick up a little bit of subcontract work, but that's not really materialized so around AUS$50 million impact, but it was baked into the guidance in essence at the start of the year.

Steve Wadey: And I think lessons George I think is similar to what we've discussed before and certainly I'm seeing that is our focus in the UK, which is really understanding the pressures and the drivers on our customers, all of our markets, our customers, whilst defence is a high priority, they're all trying to get more for less out of their budgets and therefore really thinking through innovative proposals and being focused on areas where we can differentiate and be more competitive is absolutely key. There are many examples I could talk about in the UK where we are doing that and the four areas that I mentioned in answer to Rich's question is really about how we become more competitive and more innovative to differentiate and then build those longer, larger sustainable positions going forward.

Martin Cooper: I think George turned it around a little bit. The four major work streams we're focusing on now that Steve outlined reflects more than 80% of the revenue work that we now do in the US and I think as you remember, as we went into this year, we didn't include really any material values on the likes of robots and sort of short cycle book to bill work. And so the coverage that we've got through the half year book to bill relies very little on short cycle impact at all and that's where it is now. You'll all know that in the US you do also have annual contracting, so you could describe that as short cycle in some instances as to where it is, but a lot of that will sort of what you would've traditionally called a short cycle volatility was stripped out at the start of the year and is not in our bridge for full year as we look forward.

And I think in respect of the government shutdown, the reflection that we had a very strong book to bill in the first half in most of those big contract awards on the likes of TARS, SCO, SDA, the forward funded contracts came in September, which drove the strong book to bill, which has given us that cover now like all defence contractors and all contractors, if there's another government shutdown in January again and or these things get protracted, then obviously there could be impacts further down the line or for further orders. But in the short run then we're fine.

Steve Wadey: I think more broadly, I think as I said in the presentation, we are really pleased with the progress that we're making. I mean the US restructuring program is on track. The disposal of the Fed IT business was a key milestones, you heard we've taken some significant cost out and headcount out to resize the business in line with the market that we see, hence my comment about we have now got a smaller business, but as Martin's just said, that smaller business is really well positioned because we've now focused on these four revenue streams where we have long-term positions and we can see that growth potential which reduces the exposure to that short cycle volatility that you are pointing at. And as Martin says, the book to bill of 1.5 gives us the ability this year to drive through that performance then really focus on these growth drivers for the long term hopefully. Does that answer your question, George?

Joel Spungin: Hey, morning, it's Joel Spungin from Investec. Steve one for you sort of big picture question and I've got a couple for Martin as well, but I was wondering if you could talk maybe just thinking out beyond FY26, we're looking to for fiscal year 27, 28, you go back in QinetiQ used to grow roughly double nominal defence budget growth for a long time in terms of organic growth. Is that still something you think is achievable even in a world where nominal defence budgets in the west a rising at an unprecedented rate, i.e, could this business get back to being a high single even low double digit organic growth business?

Steve Wadey: Yeah, I think this is a good question and I think there are a number of things to say. I think first of all, we are very confident we've taken the right actions, we've taken the right actions to deal with the dynamics as we came into this year and that ultimately, hence your question, puts us on the right trajectory to return to higher rates of growth. And we have an exceptionally strong backlog, an exceptionally strong pipeline. You've seen that there with eight times FY25 revenue cover. And therefore I think your question is a question of timing and actually how do we really make sure that we control the things that we can control? What we've shared with you today is that we are in control of everything that we can, but there are some market dynamics that will determine partly the answer to your question about how quickly we will return to that from a timing perspective.

But we are absolutely doing all the things that we can. And then if you go further into that question and say, well what are the drivers though, but what are the drivers that could become the bridge from this year into that multi-year phase of returning to that higher level of growth? And it is worth just mentioning them because I think that it will help everybody understand how the company returns to those higher growth rates. So the first one absolutely is in our core strength of test and evaluation. The long-term partnering agreement on a multi-year basis is absolutely going to be a contributor to our growth. The modernization work of bringing in hypersonics, directed energy, autonomous systems, the increasing in tasking that we expect to see through our test and evaluation innovation gateway, the DroneWorks initiative that I mentioned and I didn't mention in the presentation, but we've just won a contract to expand quite considerably the capacity of the ETPS training school, which is going to be considerable increasing capacity both for our domestic and international customers.

So that's a really important growth driver. The second is actually, and we've talked about this as our strategy for several years, how do we leverage our test capability into training? Note the strategic win of the MCAST contract, it's £25 million. You might say, well that's not big, but it's a strategic win as we move into training. And that training is absolutely complementing our test capabilities and there are quite a considerable number of incremental opportunities above MCAST in a short term period that will add to growth. The thirdly is US, I've mentioned this a few times actually in answers. I think we are really well positioned around space and missile defence. Our capabilities with the SDA, we have sat con capabilities and we also have broader sensors capabilities. Space is a very large growing opportunity in the US and well positioned in that and alignment with programs that you'll know such as Golden Dome, we are positioning to win a role on that. And separate to that, I think it's in our unfunded order bridge, we did actually win an option, a ceiling option with the space development agency worth up to $95 million to provide additional support to them in this coming year. So that's the third growth driver. Fourth one is around advanced weapons. You go back a year we talked about, in fact it was May wasn't it? We talked about the two-year renewal on the weapons sector research framework that is really starting over this next multi-year period to bring benefit particularly in the directed energy area, both radar frequency as well as lasers. Martin mentioned the importance of DragonFire and I've just mentioned we've had another win in next generation laser technology. And then finally the focus on Europe and two particular areas. I would highlight the framework contract that we signed now two years ago with NATO to allow access to our T&E ranges continues to bring and be attractive to nations like Germany, Italy, Spain, Netherlands.

And the second area I mentioned in response to Rich's question is our greater focus on export and we're in a really mature partnering position with HMG and looking at exports together. I mentioned two examples around our EW emission data capability with Belgium and with the Türkiye opportunity on Typhoon and those will contribute. So those five areas I think answer your question is the bridge from this year to those higher rates of growth. Clearly not everything there is under our control, so it's a matter of timing, but certainly over that few year period that you've mentioned, I would expect us to really get back into much higher growth rate. So hopefully that answers your question.

Joel Spungin: Can I, sorry, just a couple of quick ones, Martin a bit more dull. Sorry, I lost you a bit on the guidance, the 22 million, is that the digital investment that you expect for the full year or is that the restructure?

Martin Cooper: Yes so the total cost for digital investment, I expect to be around the 22 million pound.

Joel Spungin: Right, and you're not at the moment expecting any more restructuring charges,

Martin Cooper: Correct.

Joel Spungin: Right. Okay. And then, sorry, very final one Fed IT. I was just wondering if you could say how much did Fed IT contribute to revenue and profit in the half?

Martin Cooper: Yeah, so in revenue in the half it was about you should have modelled around 10 to 11 million pounds. It's around 13 to $14 million and it does have a second half waiting, which is why when you're adjusting your models, you'd expect more like 20 plus million dollars in the second half, which is why we want obviously the adjustment in the full year guide. It's fairly low margin.

Agency Partners: Sash Tusa from Agency Partners. Just a very quick one. First, I think that you slightly implied that there'd been some delays to targets orders in the first half if I understood that right. Is that something that has subsequently occurred or that you expect to occur in the second half?

Steve Wadey: Sorry, do that one first. Yeah, so you are right. There has been a slight slowdown, nothing particular in the market other than a general slowdown, but as Martin showed in our bridge targets are part of a pickup that we expect in the second half. It is worth saying that we did achieve some initial target sales in the US, relatively small in the half, but we did and we expect to be focused on additional task orders through the ATS3 contract that we signed 12 months ago in that second half bridge.

Agency Partners: Thank you. And then just sort of broader question about US space and Golden Dome and so forth. Clearly you've seen an awful lot of hopes for procurement reform over your careers and it's possible to be quite jaundice about claims that politicians make for that. But Secretary Hegseth does seem to want to go faster and break a lot of things and he doesn't seem to be particularly in favour of what he calls legacy contractors, which might be a category that you fall into. How do you make yourself relevant to new defence technology companies whose business model seems to be extravagant claims on PowerPoint, builds staff, it blows up, moves on as opposed to a rather more measured approach in terms of test and evaluation.

Steve Wadey: How long have you got? But you make a number of points. I mean first of all, you touched on space and SDA, we have an excellent relationship with the SDA, we're the largest contractor working in with them and therefore we partner very closely with them and we help them deliver their programs at pace. So by being relevant, by deeply partnering and helping them achieve, to your point, their programs faster, that's how you position well. And I think SDA contract was an example of significant on contract growth in the half that comes down to good performance and good partnering. And please note what I mentioned about the option that we've had added to that contract for the next few years, which could build even greater ongoing truck growth. So I think the core in that is being close to your customers, understanding the drivers.

I think more generally, I think all of our markets are looking for reform. I don't think that's a specific in the US and I think that is a nature of what is being driven by the threat. And therefore all of our governments, whilst they want to spend more money, that money is going to take time to come and therefore they want to get more from their money quickly. And that means doing things differently. And I come back to how well positioned we are and if you look at our four capabilities, creating new technologies that create disruptive military capabilities to overmatch the threat quickly. Lasers the case in point is really good. Focused on engineering services, I mentioned I think twice the importance of proactively investing in how do we augment our high value skills with artificial intelligence. That's not about replacing our people, that's about doing what we do faster and at greater scale to help them drive efficiencies and scale their capabilities. So I think these are the dynamics Sash and I could go on further that by being really relevant and partnering, but coming up with different ways of working to support them on their reform. That's how you grow in difficult markets and position yourself well for the long tail. I think that's the fundamental ethos.

Ben Varrow: Hi Ben Varrow, RBC.

Steve Wadey: Hi Ben.

Ben Varrow: On the maybe kicking off with the second half growth, I think you've addressed it in the slides there, but just maybe on EMEA services, looking at the second half I think you need to grow around or high single digit. Is the message from the slide there that those prospective orders coming in are pretty much de-risked so you're not concerned there of meeting those numbers? Is that the general takeaway?

Steve Wadey: I'll do that one. Maybe I could start generally, I mean we've sort of talked about the market being difficult and clearly we've had delays Ben, but we've got really good focus on execution and what the bridge that Martin showed is the visibility. If you're referring to the 7%, there are really three main drivers for that. The first is around EDP related task orders. Secondly is around laser related programs. That's not just DragonFire. It also includes the win that I've just mentioned on next generation lasers because that was post P7, in fact it was last night. And then thirdly, targets, they are the three biggest drivers in there. And what really we are showing is that in that 7% they're really specific and identified and therefore they are high confidence and we also have a pipeline of further awards that go beyond and hence the way that Martin presented it.

Ben Varrow: Maybe just two more in terms of maybe asking Joel's question slightly differently over the next couple of years you've spoken, you can get back to that sort of high single digit, low double digit. Is there anything to be mindful of that's working against you or prevents you from getting there over the next couple of years to keep in mind?

Steve Wadey: Well, I guess the most straightforward is the things that aren't in our control. So the market dynamics are partly the timing that I mentioned to the answer to Joel's question. But are we doing all the proactive thinking of investing, changing what we're offering, engaging with our customers? We're absolutely all over that. So we're doing everything in terms of the actions on short term performance and positioning us to shape and win these proposals. So I think it's the things that aren't in our control, which is actually just the flow of orders really. But no, I think we're very well positioned, hence the answer to Joel's question.

Ben Varrow: Last one. On the upcoming UK defence investment plan, thoughts or expectations? What could come out there?

Steve Wadey: Yeah, I mean we've been through a lot in the UK market this year. We had a strategic defence review in June, defence industrial strategy in September, defence reform initiative, July was it. And then we've got the defence investment plan, let's say before Christmas, wherever it's going to be. So we've been through a lot and I think that getting through in some ways the last big block of this reset and renewal of defence in the UK will be good. I think it will bring clarity, it'll bring confidence, and I think what we expect from it is with that clarity, I think there'll be a lot of focus on innovation and R&D and building different capabilities. Clearly we're well positioned for that. And then more fundamentally, I think it'll be calling even more so for initiatives of innovative capabilities to do more for less and hence some of the proactive changes that we've been making around the future of EDP and the AI related investments. So I think clarity and confidence is going to be good. We'll welcome that. And then we really expect innovation and bringing proactive proposals to be part of the implementation and then sort of build that position of support to our government going forward.

David Farrell: Thanks. Hi, David Farrell from Jefferies, two questions for me. Just going back to the exceptionals and the digital platform, could you just remind us what capabilities that will give you as an organization? What exactly are you doing? What efficiencies does it drive?

Steve Wadey: So if we go back a couple of years maybe to when this whole project was launched, I think we talked very openly that the company infrastructure had been built really on the back of a legacy IT infrastructure from the UK government. And it went back 20 years, hence why this was a fundamental discreet investment project to fundamentally build a digital platform and set of applications for the company globally. And really that project has been in three phases. The first phase was to put a fundamentally different secure network in place across the company using state-of-the-art digital technologies that is done and complete. Secondly, the next phase was then effectively migrating our people onto the new devices. As both Martin and I have said in our presentations that is largely complete and now we're on the final phase, which is really now all about migration of apps and then new tools, whether that's engineering tools or a project that's very close to Martin's heart, which is around the business system finance tools. So hence this was that multi-year discreet project to really bring the company digital infrastructure into state-of-the-art capability. And I think it's going very well and I think both of us use slightly different language. This will change the way that we work. It'll allow us to share information, share technology, drive collaboration, and also build greater business efficiency into the way that we operate. For you

Martin Cooper: I think David, I think this actually enables us to bid into some contracts as well and be prime lead in some areas. Steve mentioned Australia and other areas. By having these advanced and better systems that'll enable us to actually bid and hopefully win more work going forward as well. I would also make the point that we meant there, and you might be about to touch on margin anyway, but I mean I think anyone who's been through these digital rollout programs, it is quite disruptive to organizations. And you'll remember at the start of the year we were a little bit cautious, more cautious on margin just around that operational impact and there has been some impact and there will be for the rest of the year whilst we're going through that. But as Steve says, we are getting on with it and it'll have long-term efficiency benefits as well.

David Farrell: Thanks. Actually, my second question was about growth. Excellent. We really touched on the Polish TARS opportunity, but can you just detail how that works? Who selects the winner? Is it the US government? Is it the Polish government? Has the US government shut down in any way delayed the award of that project?

Steve Wadey: Yes. I mean the first thing is a reminder to ground us all. Poland is not in our base plan and it is not in our forecast. So just to be really clear on that, in terms of the process, it's an FMS sale from the US government to Poland, therefore the decision making is with the US government, but clearly they will have dialogue and exchange with the Polish government and to your point, partly related to shutdown. I mean there is no public announcement. So that remains as I would think about it more as an upside opportunity. But I think more important to that, you mentioned the phrase TARS is really thinking about our TARS capability, which if everybody's not familiar, this is where we are running a really significant national program along the southern US border providing persistent surveillance between the US and Mexico. That is another contract. There are two, in fact one called TARS, one called TAAS. And both of those also have delivered good on contract growth over recent years. And from our perspective, we're really positioning to grow that capability as one of our four priority streams. And we're positioning to grow that both domestically in the US. We expect further on contract growth to come this year and we also expect to grow it internationally and we're actively shaping a number of opportunities in different countries around the world, both in Eastern Europe and Middle East. Great, thank you.

Alfonso: Hi, it's Afonso from Barclays. Just going back to the digital investment you've been doing, you mentioned the fact that you can increase your win rates because of that investment down the line, which is obviously good for growth, but just in terms of margin, is this investment going to generate any margin benefits down the line or is it just a function of making your business better positioned to win new contracts in fund growth? And then secondly, going back to the US business with those four key areas lines before, can you discuss the medium-term growth profile for the business there? Compare that with the rest of the group and then how should we think about the margin in the US in the medium to long term? That would be very helpful. Thank you.

Steve Wadey: They seem more you Martin.

Martin Cooper: I'll start with the digital. I mean just to be clear mean, this is, as Steve says, this is around building good long-term business resilience and you'll all be very aware of obviously heightened cyber threats and other things. So this is predominantly around obviously having the right systems to be effective for our employees and other things. It does give us the opportunity in some parts of the world where we don't have the current capabilities to be able to bid into things, but this is predominantly an efficiency thing. But also we do need to clearly continue to invest in the business. So I wouldn't want you to think this is going to make a huge step up in margin going forward as we work through this program, but it should definitely help efficiency drive as we go there. Perhaps in the US just on margins. And then I'll hand over to Steve around growth.

I mean clearly all the actions we're taking are about designed to drive margin up in the long term. I referenced a couple of areas where we actually also actively took ourselves out of some contracts in the first half because they were lower margin and were non-core to us and things. But I think you should think about this business in the long run as more the high single digit margin business in line with peers. So in the 7% to 9% would be with a margin and that would then therefore push global solutions more up into around the 10% level as I think we've outlined in the past. But that's the kind of benchmark that we're pushing that business to through these actions.

Steve Wadey: And rather on the US I mean rather than giving growth rates and comparisons as we know, we'll be giving an update on our growth in May. Maybe what I can talk about is the growth drivers. I've sort of talked about a few of them, so just go back over. So space and missile defence is an absolute growth driver where we have positioned, and I use the phrase multiple space programs, it's worth just touching on. So clearly we have the SDA program, we also have a Sat Com related engineering services program. And I've just briefly touched on Golden Dome where we can see some of our engineering services and our census capability relevant for that. So we have a series of capabilities and we're well positioned in our customer relationships to see good growth coming from that program. Second one, maritime systems. We know if we look back in time, the company's been very well positioned in its relationship with General Atomics and the US Navy as part of the electromagnetic launch and recovery system on the Ford class carriers.

The Ford Class Carrier is a long-term franchise program for us, and we see good opportunity, particularly coming in the next year, bringing further growth on the carrier program. Many of you'll remember about three years ago we said we would those capabilities and position into the submarine program. We initially won some business onto the Virginia class carriers that has expanded onto two or three subsystems and in the last 12 months we're very pleased that our track record of performance in maritime systems has led to us winning business on the Columbia class submarine. So we've strong performance with the carriers. Moving on to Virginia, we've now moved on to Columbia and we see steady, but good long-term growth coming on a multi-year basis and then moving into surface fleet programs as well. So that's the second driver. Third one is around advanced sensors. This is from our prior MTEQ capability where we have some really good advanced R&D and next generation sensors. What might be a small win in the half was winning a phase zero contract on a program called Falcons. This is the next generation of really long range IR sensor for the US Army. It's potentially a very large program of record in the US. We've got a very novel and clever design and we are delivering that Phase zero program and looking at key strategic partnerships of how we will position ourselves to win. That's a multi-year opportunity. And the last really is the broader franchise opportunity that I discussed around persistent surveillance, which is TARS, TAAS, and the domestic growth that we expect on that, and then our focus on the wider international expansion. Those really are a bit more colour in the growth of those four areas.

Afonso: Very helpful. Thank you very much.

Steve Wadey: Any more questions? Any questions online from anyone?

Operator: There are no questions coming through from our conference call. I'd like to take conference back to Steve for any additional or closing remarks. Please go ahead.

Steve Wadey: Okay. Well thank you very much for your time. We'll both be hanging around if anybody in the room would like to follow up with any additional questions. Thank you.

Martin Cooper: Thanks.