QinetiQ Group PLC

New York Investor Seminar

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Transcript

John Haworth:
Welcome to our investor seminar for QinetiQ - Drivers of our sustainable growth. It's great to see so many of us here in person in New York, and I know we've got about 80 to 100 online on the webcast, so thank you very much for joining us this morning, this afternoon if you're joining from the UK. For those you who I haven't met, my name is John Haworth, I'm the group Director of Investor Relations. With with over a quarter of our shareholders now here in the US and a significant amount of increased attention and demand from prospective shareholders in the US and with our US business now representing over a quarter of our Group revenues, I'm really delighted that we can present this seminar today in New York. That said it's not an investor seminar on our US business alone. It is one of the areas, but it's really looking at the three largest growth drivers for the group going forward. Our UK intelligence business, our US business, and our Australian business, including our global threat representation capabilities.

Steve Wadey:
Thank you, John. Hello, everybody, welcome and thank you for joining our investor seminar today. Two weeks ago we released our second quarter trading update, and I was really pleased to announce that we had delivered a strong first half performance with improved organic revenue growth and margin moderately ahead of expectations and that we are on track to deliver our full year expectations of £1.85 billion of revenue at stable margins.

Today, the team and I are going to take you through more detail about our differentiated strategy and demonstrate that the drivers of our long-term growth are sustainable. The specific focus will be on our UK Intelligence, United States and Australia businesses as they represent 75% of our organic growth plan to deliver £2.4 billion revenue by FY27. Let me start by giving you the headlines of what you will hear from us today. First and foremost, we have a clear growth strategy and you will get a good insight into the quality and depth of our leadership team delivering that strategy.

That our offerings are uniquely relevant compared to our peers and are needed to counter the increasing threats in the world. We, as a business, are structurally aligned to our customers' high priority and high growth segments which is why we can grow faster than macro defense and security budgets. A deeper understanding into the acquisitions of Avantus and Air Affairs, and what they have brought us in transformed customer access to provide further attractive growth opportunities. We have a robust organic growth plan to deliver £2.4 billion of revenue at 12% margin by FY27 with three quarters of the growth driven by our UK intelligence, US and Australia businesses that the team will showcase in their presentations today. Our highly cash generative business provides acquisition optionality to compound growth and reach our long-term ambition of £3 billion revenue. Finally, our strategy is underpinned by a disciplined financial strategy with a clear capital allocation policy that will continue to deliver attractive and sustainable returns for our investors.
Our agenda for today's seminar is as follows. I'll provide a short introduction to the company strategy. The team will then go through our global market opportunity followed by overviews of each of the three businesses, and we will finish with an update on our financial strategy. As

John said, the presentation will take about three hours with two opportunities for questions. We will also have a half hour break in the middle of the seminar.

Let's start with an overview of our company strategy. Just over seven years ago I launched our strategy to build a disruptive and integrated global defense and security company to make a positive difference to national and global security. Today, we are a multinational company listed on the UK stock market with a strategy and value proposition primarily focused on three home countries, Australia, the United Kingdom and the United States.
We have successfully more than doubled the size of the company to £1.6 billion revenue at 11.3% margin by the end of FY23 and have more than eight and a half thousand dedicated and highly skilled engineers and business professionals across 60 sites globally.

Our people are really passionate about our customers' mission, and we as a team live by three core values. Performance - we do what we say we're going to do. Collaboration - we work together in partnership both internally and with our customers. Integrity - we do the right thing. The increasing threat in the world and the formation of the new trilateral partnership between Australia, the United Kingdom and the United States known as AUKUS further underpins our strategy and makes us even more relevant. Whilst we've made significant progress over the last seven years we have so much more potential to come. The world is experiencing the most severe threat environment for a generation with conflict in Eastern Europe and the Middle East as well as growing tensions in the Indo-Pacific. Within this geopolitical context we are a unique company that helps our customers respond to their national and global needs.

Our value proposition is to rapidly develop an experiment with new capabilities. Test those capabilities are safe and perform as intended against the threat, and ensure our war fighters are trained and operationally ready. With us, our customers can accelerate through this critical cycle and be prepared and ready to counter the threat. This is why we are driven by our purpose and our strategy. On the left of this slide, our purpose, which has never been more relevant, protecting lives and serving the national security interests of our customers. In the middle of the slide our strategy, which has three inter-related components, delivering six distinctive and mutually supportive offerings, listed on the right, by applying disruptive and innovative technology and business models, and leveraging those capabilities across our three home countries. In order to counter the increasing threat, our customers are prioritizing their budgets on rapid defense modernization.

Our value proposition is structurally aligned to their high priority and high growth segments. You'll hear more about that from Sam. This is why our growth is outpacing headline defense spending. Also, we see a total addressable market for the company worth more than £30 billion per year, which is why we will continue to see our long-term growth being sustainable. Through continued and disciplined execution of this strategy we offer an attractive investment case. Our company is focused on our AUKUS customers' mission and aligned to structural growth markets due to our value proposition being uniquely relevant to the increasing and complex threat environment. We've delivered a strong track record of operational performance and have a robust business plan underpinned by normalized level of investment to ensure continued sustainable growth, and as part of our ongoing success our focus is on our customers and attracting the very best talent to the company.

Pursuing this strategy, we will achieve our longer term guidance shown on the right-hand side of this chart. We will deliver high single digit organic revenue growth at stable operating margins. As an asset light company, we will maintain high cash generation delivering attractive returns on capital employed. Through disciplined use of our balance sheet we have optionality to complement our organic performance and compound growth with strategic acquisitions. ESG remains at the heart of our strategy in all dimensions and for all stakeholders. In summary, we're a world-leading defense and security company that will continue to deliver attractive and sustainable returns for our shareholders.

Let me introduce the four main speakers. First we have Sam Lewis who joined the company in June 2021. Sam is our Chief Growth Officer for the group, driving our pipeline of new business opportunities including leadership of our global campaigns.

We then have James Willis who joined the company in 2017. James is the Chief Executive for our UK Intelligence business, which under his leadership has more than tripled in size over the last five years. We then have Shawn Purvis who joined in 2022. Shawn is the President & Chief Executive Officer of our US business, which following the successful acquisition of Avantus has more than doubled in size. Finally, we have Gary Stewart who joined us in May this year. Gary was previously the Chief Executive Officer Vehicle Systems Asia Pacific for Rheinmetall. As Chief Executive of our Australia business, Gary has an objective to approximately double the size of the business over the next four years. After these four main speakers, Carol Borg, our group CFO, will provide you with an update on our financial strategy. I hope you enjoy the presentations and we look forward to some engaging questions. I'll now hand over to Sam.

Sam Lewis:
Thank you, Steve. Excuse me. Hello, my name is Sam Lewis. As Steve mentioned, I'm the Chief Growth Officer for QinetiQ, and I want to extend my warm welcome as well. We're grateful that you're here. We're building a mid-tier disruptive innovator, and we're excited to take you on that journey a little bit with us this morning. We believe we are uniquely positioned to respond to this moment in time where tactics and the threat is rapidly evolving.

That positioning really is our willingness to challenge the cherished places of comfort and rest that we associate with our market, like bureaucratic acquisition processes or serial lifecycle management. What we bring is innovative and customer-intimate knowledge to help take those anchor points and turn them into disruptive movement. That disruptive movement is what we'll spend a little more time talking about this morning.

Let me take a step back and start with a bit of the history, which Steve articulated in the in the formation and outlaying of his strategy. When he launched the strategy seven years ago it created an organic growth profile that significantly outpaces the market. In fact, this disruptive innovation organic growth profile is seeing a defense budget that grows 3 to 5% of the top line and complementary to that our results grow at 9% organically in the same time horizon. I really put this down to a number of reasons, but I think there's two that I really like to highlight. The first is that we indeed are that disruptive innovator that I mentioned in my opening. That's that we bring new and novel technology and new and novel business processes, and sometimes we put the two of those together to crack some of the hardest challenges that are aligned to our nations. I'm referring to our home countries and our priority countries, their highest priorities.

These aren't just science projects or engineering challenges or business optimization drills. They're actually going after the hard to get at problems. Some examples in our corporate history include the invention or at least the first optimized use of radar or the invention of LCD screens. Very similar to the ones that you have in your pockets or on your laptops today. The second reason is we have deep and trusted relationships with our customers. That's really led to framework contracts, and in US DoD parlance those are IDIQ, or indefinite delivery indefinite quantity contracts, that make it easy or more rapid for our customers to come to us and put capability under contract. They allow us to both sense with our intimate customer relationships and respond to their needs, and oftentimes ahead of their needs. Now shifting our focus a little bit to the future, I wanted to share a little bit about the market dynamics that when coupled with what QinetiQ brings to bear can in fact help us drive higher growth than some of our peers and others in the sector.

It is now widely accepted and even okay to publicly acknowledge the risk posed by a rising China, the state-based competition referred to on the chart. As a former naval officer, I'm alarmed at the pace and speed of Chinese shipbuilding. They're not just building mass, they're also building capability. That's really just an example. They're actually building capability at pace in all of the warfighting domains of air, sea, land, and most recently space and information or cyber. That's in fact the reason why our nations have launched the trilateral alliance that Steve referred to in AUKUS. AUKUS is about changing the way we deter and prepare to fight. We believe we, QinetiQ, are poised to support that AUKUS partnership, on meeting that challenge to both create a sovereign nuclear submarine capability in Australia. But also, to collaborate amongst our three nations on disruptive technologies like AI and autonomy of which we are experts in.

In addition to thwarting the rise of China, we are faced with an ever deteriorating and increasingly hostile geopolitical climate on the other fronts as well. Evidenced obviously most recently in the form of Russia's war in Ukraine and the Hamas attack on Israel, the combined effect of these are driving our market to reward those companies that are horizontally aligned across the breadth and even deep or shallow across that breadth of capability. Companies that can balance the need to provide at scale and help the customers provide at scale assurance to exquisite weapons on one hand, and provide rapid development of low-cost mass on the other hand. The companies that we will outgrow the market will have an ability to almost at a moment's notice allow their customers to experiment, develop, train and field systems. This will also support the high complexity, low complexity mix and immediately leverage the lessons learned on the battlefield.

Today's conflicts are affirming the areas of focus articulated in the AUKUS agreement and coincidentally the areas we are equipped to excel in. They're actually driving 12 to 15% growth, that's three times the overall top line budget growth in some of the sub areas we focus on. Listed on the chart, sensors, communications and information processing, cyber and electronic warfare, and autonomy and AI. This is why we continue to deliver growth rates at a multiple higher than top line defense spending. Throughout today you'll hear a number of examples of current efforts delivering disruptive capability to our customers from three of our four business CEOs. The presentations will help to solidify and give you some concrete examples of what we have and can continue to deliver to outpace and outgrow the organic market. As a primer for my colleagues, I want to focus you on the left side of this chart and our six distinctive offerings, which Steve mentioned earlier.

We have dedicated business development. If I say it better, we have we have focused market-shaping campaigns associated with these distinctive offerings, focused on the AUKUS countries and responding to the lessons learned on a daily basis in both the hot and cold conflicts around the globe. Just to walk through them briefly, I'll start with our leadership position and experimentation and technology development. You heard me mention a couple of our legacy inventions. Today, we are deeply involved in research and development of exquisite sensors, sensor fusion and processing technology, precision navigation and timing, autonomy and AI, just to name a few. It has spawned leading offerings in robotics and autonomous systems that we are taking to all three of our home markets. We have also developed and support hardening ours and other systems from electromagnetic and cyber attack, a re-emerging and important area of warfare.

We then digitally connect work like that which we do in technology and development through engineering services, which supports our customers in maturing and acquiring these and other capabilities from both us and your more traditional OEMs. We stay connected through that life cycle, iteratively delivering tests and evaluation services and assuring that the weapons and the processes deliver the outcomes that our customers are expecting. We do that both physically and digitally. That then creates adjacent opportunity to apply our knowledge and even some things we manufacture, like aerial and surface targets, to deliver testing as well as training. That not only assuring a capability but ensuring that the warfighter knows how to use that capability to effect. Finally, we apply all that knowledge and innovative business processes and technologies to create what we call information advantage.
My colleague, James, will share about a contract that is focused on in the electronic warfare arena and take sensor information to create mission data packages to empower faster and rapid decision-making. The application of these distinctive offerings on the left side applied to those key growth areas articulated in the center of the chart is what yields that graph on the right of the chart. We have rapidly grown at 19% annual growth rate, our pipeline of well-qualified opportunities to well over £10 billion. When you couple that with a significant backlog traditionally yielding 60% to 70% revenue coverage at the beginning of a fiscal year, we can confidently say and plan to deliver above market growth. With that I will turn the floor over to my colleague James to share more details about the UK intelligence business.

James Willis:
Thanks, Sam. Good morning everybody here. Great to see everybody. Good afternoon to everybody in the UK. I'm James Willis, I'm the Chief Executive the UK Intelligence business. I'm going to give you an overview of my business, its performance, and then the future growth potential. QinetiQs UK intelligence business is a critical partner to UK defense and security. From strategic command, or joint forces command as you'll know it in the US, or equivalent in the US, across to Dstl, the UK equivalent of DARPA, and international security and homeland security. We've been on the leading edge of defense technology and services for a number of years through our focus on the customers' mission, from our heritage as a government agency, and also through our people and their technology expertise.

We were the pioneers of modern cyber services in the '80s and '90s, including pen testing firewalls' boundary protection services, as well as sending the first transatlantic email from DARPA here in the US to my business back in the UK. We operate in a £3 billion and growing addressable UK market, and we've grown to £400 million revenue in the last five years. We've remained relevant in a fast-changing market through both organic capability development as well as through acquisition and disposals. It's worth noting that the majority of our growth has been organic even though the three acquisitions all made around FY20/21 have more than doubled in size, so we have a strong track record of delivery and growth.

I'm now going to bring to life what we do using three of our key contracts. Firstly, on the left-hand side is the engineering delivery partner. This is a framework contract QinetiQ won in 2018 for the MOD's procurement agency DE&S, Defence Equipment and Support. It's to deliver engineering services more efficiently to the military frontline users like Strategic Command, Royal Air Force, Navy and the Army. QinetiQ, as a group, has delivered around £1 billion worth of orders through the Framework to date covering both defence engineering as well as digital engineering services across cyber intelligence and operational communications, and with UK intelligence delivering around £400 million of those orders. We won EDP by proving we could deliver value for money and savings, as well as bring the best of industry together to deliver services for the frontline warfighter. Secondly, in the middle, as Sam touched on earlier, is SOCIETAS, the Mission Data Intelligence contract we won recently. This is an initial £80 million deal for Defence Intelligence. It's part of Strategic Command, and it's to transform the way they collate analyse and disseminate Electronic Warfare Threat Intelligence in support of warfighter missions.

This threat intelligence, or Mission Data as it's called, will deploy onto platforms like F-35 and Eurofighter Typhoon, so pilots and planners can plan their missions to avoid threats like surface-to-air missiles and electronic warfare jamming. We won this by working with the customer over three years to understand the transformation they needed, and then bringing together a team of leading industry experts as well as Defence and Security Artificial Intelligence Centre at the University of Lincoln to deliver modern tools and technology, including machine learning, to transform the speed we collate mission data and threat intelligence.

The third example on the right-hand side here is within the UK homeland security market. It's the Home Office, ACE, or Accelerated Capability Environment. This is a joint government industry venture primed by ourselves through a contract we call Vivache. It includes Home Office staff embedded in a joint team. This is fairly unique in the UK, and it brings together the operational users, such as the police, with industry to jointly understand the mission problem that needs solving, always in the information domain.
Then to develop information solutions at pace within 12 weeks using agile DevOps and data science tools. This is all about rapid capability developments in the information domain. It was won because of our ability to rapidly develop solutions using an ecosystem of over 300 technology companies, as well as using our own data intelligence capability.

All of these contracts support our customers' digital transformation to keep pace with the threat. As well as advice and services, we also develop highly specialized mission-centric technology products. The short video I'm going to show you brings to life some of the solutions we've developed to meet the threat that Sam talked about earlier. I'll bring to life in a couple of minutes when we talk about the market and the threat landscape, and these solutions are in the main, developed jointly with our customers, keeping us embedded in the heart of our customers' mission.

Video voiceover:
Assure your critical operations with defence-hardened technologies that perform in the harshest conditions across space, land, sea, air and cyber. QinetiQ's resilient and secure communication solutions ensure multi-domain connectivity and perform without disruption in contested and congested environments. Our sensing solutions enable total situational awareness through multi-threat detection, location, identification and tracking. Our cross-domain navigation solutions guarantee precision and are resilient to growing threats of jamming, spoofing, and cyber breaches. Our range of defense-hardened technologies is extensive. From counter drone systems and encrypted satellite communications to assured P&T solutions, we protect critical operations and enable service continuity. We work in partnership with customers to design mission-specific and interoperable solutions that optimize performance and work where others fail. Safeguard your most important assets and secure your mission with QinetiQ.

James Willis:
I'm now going to cover the market we operate in and then our future growth on the final slide. So the threat environment in cyber and intelligence changes rapidly, as you'd imagine. From the introduction of artificial intelligence to what we're seeing in Ukraine at the minute. Which is state level cyber attack, electronic warfare, jamming of GPS and drones to name just a couple of examples.

And the UK is investing heavily in countering these threats. And QinetiQ is at the forefront of much of this research and development and operational delivery. And to give you a very current example, we're delivering a £20 million research contract looking at artificial intelligence in the cyber defensive systems and how that can then be integrated and deployed.

The picture you see on the right-hand side highlights the space domain. That's a critical area we work in. From communications and geospatial intelligence to resilient GPS Sat nav receivers, which can resist jamming and spoofing, and secure satellite communications, which can deliver resilient communications to the users on the ground. All examples you just saw in the video.

And we differentiate in the market with our deep technology and mission understanding versus the consultancies, your generic system integrators. We're also seen as non-competitive to many companies. We don't produce competing products at scale, very highly specialized in the product space. So we have an unrivaled partnering capability in the UK defense and security market.

And this allows us to innovate through our 2000 technology specialists alongside our 400 or so industry partners. And finally, on the competitive landscape, we're seeing more commercial customers coming into the security market and we embrace this and have relationships with companies like AWS, Google and Microsoft to enhance our capabilities and offerings. And we compete based on our unique industry knowledge in defense and security allied to our technology and partnering capability.

So finally, future growth. As I said earlier, we operate in a £3 billion and growing addressable cyber and intelligence market in the UK. We're already a top five player in UK defense and security, cyber and intelligence, and are seeing strong double-digit growth this year and beyond.

Our aim is to be one of the key British sovereign cyber and intelligence companies and we're well on the way to achieve this ambition. We'll stay relevant and continue this growth across a number of opportunity areas of which the one shown in the middle of the section of this slide are just three of many.
The one worth touching on though has been highlighted on the right around virtual experimentation, simulation and mission rehearsal, such as the creation of digital twins to test and experiment on, cyber exercising and mission rehearsal, and AI insurance and integration into mission systems.

And this is a major area of investment for all our customers because of the flexibility, speed of execution and value for money it brings. And we'll execute this growth through continuing to win and deliver strategic deals like societies and ACE that we saw on the previous slides.

And by keeping our capabilities relevant to our customers through our seven centers of excellence based alongside our customer locations in the UK, focused on areas like data intelligence and cyber and electronic warfare, all delivered using the latest tools in the right environment to deliver what the customers need at pace.

So finally, let me finish by reiterating what Sam and Steve highlighted earlier. We operate in a high growth market and have tripled in size in the last five years and we see continued strong market out-performance in the coming years. Thank you. And John, I think we're handing over to you for questions.

John Haworth:
Brilliant. Thank you, James and team. So as James said, we've got a first session of Q&A now for Steve, Sam, and James. And if you want to bring any of the others, ask any other questions in other areas, please feel free.

But we'll try and focus this first set of questions on the first presentations. So we'll start with questions in the room here first and then we'll go on to some questions on the phone line.

Please do introduce yourself and the company you represent and we'll go from there. So let's start in the room over here. Just wait for a microphone. Thank you.

Alex:
Alex Magee, Magee family office. I'm also accredited investor. My question for Sam. My experience little bit, I mean I'm familiar, I work for a number of defence contractors, but I kind of switch from technology to finance, finance and technology.

And as I mentioned, I'm currently accredited investor. I am really interested to understand, I know you briefly mentioned it, but still it's probably not enough. Your company kind of in between traditional defence contractor, I see there is [CAC, DAC, I see LADES I see SIAC] and also the hardware component obviously with manufacturing products over there.
I honestly see the same kind of the offerings from large defence contractors, from smaller defense contractors, not to mention DARPA. And again, my apology for asking this question, can you tell us a little bit more how, I don't want to use that word secret sauce, but how is it really different? What I don't understand seeing your presentation, trying to compare what I just told you. Thank you. Thank you.

Sam Lewis:
Yeah, sure. Start off. Yeah, sure. Absolutely. So the secret sauce and everyone who articulates a value proposition will claim they have a secret sauce. Really our secret sauce I think is related to our true deep technical capability.

We're predominantly engineers that many of whom grew up when we were a government agency not dissimilar to DARPA. And that culture has allowed us to continue to be disruptive and innovative and creative. DARPA in the US likes to take on challenges that are DARPA hard is kind of their tagline.

Well, that's what our engineers and technicians do as well. We did it for the UK government and in private industry, we've done and maintained that kind of do the hard things mentality, which is not what everybody else does. They tend to bring just what the customer needs at the time that they can sell it.

And that's not necessarily what we do. We try to bring things the customer may not even know they need ahead of the time they need it. And we have that, not only those relationships, but again, we do have the foundational frameworks to allow us to do that and react and respond very quickly. So I would say that's the key differentiator to discriminator. I don't know if you want to..

Steve Wadey:
Yeah, I'd add a couple of comments. A lot of the contractors that you might compare us against are more vertically integrated and they provide a plane and all the relevant subsystems or through a supply chain. We often describe ourselves as we are more a horizontal integrator, very deep as Sam said, partnering with our customers.

And if you think about what our customers, our defence and intelligence customers are really trying to do, they understand there's a threat in the world and they want to quickly have a capability that they can mitigate that threat.

And that is a horizontal process and the value proposition that Sam has just described, we are really at that horizontal layer. We are not a vertically deep integrated product company. We're a horizontal enabler for our customers. So we sit in a very unique position. In fact, as I said in my presentation, we don't believe there is any other company in the world that is focused on that horizontal enabler, which is why we describe the value proposition as create it, test it, use it.

We help them create technology and experiment with capability that will mitigate the threat, test it in terms of safety performance and know that it's going to work. And then with the user be trained and operationally ready.
So it's a great question because it goes to the heart of everything that we talk about today in terms of our performance and our future growth and why we can outpace headline defence and security spending because it is that secret sauce of that unique value proposition.

I hope that sort of goes to answer your question. Great, thank you. Next question. I think it was Charlotte's hand just picked up the post, but we will come to you.

Charlotte Keyworth:
Hi there. Charlotte Keyworth from Barclays. I just wanted to touch on UK intelligence. I mean you've mentioned the business has grown threefold in the last five years. I mean it's quite punchy growth rates. How scalable is this business? I mean in terms of things like recruitment and exportability, because I think we had a chat earlier, 10, 15% of its products, and the rest services. Could you just give me your vision of the future?

James Willis:

The vision for the future? Firstly, to answer your first question, very scalable business. So we do probably about 40% of our revenue through our partnering. So we bring partners in system, integrate so we can scale rapidly through our partners. So that allows us, and we've got 400 technology partners from the IBMs of the world down to small startups with highly specialised technology.

So we scale a lot through the ability to bring partners in and integrate and deliver solutions for the market. So that is one key part of our growth and that's been a big driver. And it's that to answer the secret sauce question earlier, it's that non-competitive nature, which actually stands us apart. We don't compete against the big defense OEMs, the consultancies. So we can scale quite rapidly in that space. We are doing more managed services, so intelligence systems, intelligence platforms versus people to task.

We are doing more specialist products which are scalable and global. To answer your question, so about 15 20% of my business is technology products, which we export mostly around NATO allies. So that is scalable and we're investing in those at the minute. And you saw some of those in the video.

And the rest of the business is broadly UK but highly scalable within the UK through the partnering. We are recruiting rapidly, we recruit about 10% of our workforce every year, year on year. And we're attracting them with the interesting work and the mission that we do, which is because we're not going to compete against Google and AWS on salaries.
We compete on the mission, the interesting work, the career development that people can get from doing highly specialized work. That's why we're the first cyber or we were the first, DARPA will think they're the first cyber company. We'd like to think we were the first, but we sent an email to each other to prove it in the Eighties. But we are at the cutting edge of that technology.
And you saw that from some of the stuff Sam talked about and we talked about. So I hope that helps answer the question.

Steve Wadey:
I'd add, Charlotte, and I know that you've been wanting to talk to James for years because whenever you asked me a question about UK Intelligence, I said, well, I can't really tell you what he does, but to give James credit from when he first joined the company, I think you'd agree James, at the start it was very much around staff augmentation for the customer.

And James was really clear in the strategy that actually we had to move to a higher level. So scalability, yes, comes with people, but it comes from many other dimensions like the product mix and the exportability of those.

And we as a team, through our single roots to market, look for those opportunities, you'll see some of those come out of the conversation. And whilst in the intel world there are certain aspects that are going to be protected within a nation, some of the underpinning technology or trade craft can be shared and that's the future.

So I think he's got himself to, he's demonstrated scalability in the last five years and the same model will apply going forward.

James Willis:
And we're going to do 15 to 20% growth this year on top of what we've done. So we are continuing that. So we've got a scalable model. The market's big enough, £3 billion and growing. We're about 13% market share in there.

BAE is the biggest player as I talked about, top five player and are growing into that. So we've got all the things set up we believe are the strategy and the people and the partners to deliver that growth going forward.

Steve Wadey:
And if I just add to that, because we haven't covered it today, but I covered it in May, we redefined the scope of our addressable market to include the intel and security markets in May when we increased the addressable market for the company with this strategy from £20 billion a year to £30 billion because of the maturity of the strategy and ultimately the scalability that we could see that could be developed. And the ad of intel and security is an important part.

I think James also alluded to it. I think that Shawn will talk a lot about it. If you look at what our customers going through right now, yes, they need equipment, but the intel and digital space is growing rapidly and back to why we're focused on high priority, high growth segments.
So it's a great question and we think about it a lot every day because we have to be able to scale to continue our performance. Last one, sure. And then I'm going to pass you on, sorry.

Charlotte Keyworth:
Just a quick follow-up. So on that sort of scale of growth, I mean are you facing any restraints on recruitment because everybody's talking about outpaced budgets and the priorities and I would've thought recruitment would be one of the overhangs that you have. And also obviously inflation environment wages going up not down. Can you pass that back in contracts?

Steve Wadey:
I might say. Shawn, do you want to talk a little bit about recruitment because it's trying to bring some different voices in and I'll add some points, but recruitment is really important and I think James teed up a key point that this is not just about salaries. Do you want to add?

Shawn Purvis:
Thanks, appreciate that. We share some of the same both opportunities and challenges across the market. I think that the piece that's most important is in today's world, an employee chooses a company not just for salaries, we talked about they choose it for mission and they choose it for the employee value proposition.

So what you see, I think the uniqueness of QinetiQ is culture and the culture work that we've done across all of our core markets that really allow an employee to come in, start their career, develop through multiple different disciplines, but also understand how much we're investing in them. That to me is that sticky part. And the unique piece from a QinetiQ component.

In the United States, over 26% of our population are military, former military veterans. And there's nothing more passionate about the mission than those who served and now see core capability, whether it be software technology or as you see our next generation bomb suit, go back into market to their brothers and sisters who are still serving and to be able to defend them.

So we pull from kind of a different base I think, than just a pure play commercial market. We don't do commodity IT. And I think that's a piece while we're able to keep pace with recruitment.

Steve Wadey:
And I think I'd add that if you look at overall resourcing, I think I said we're over eight and a half thousand people in the company now. One of the other measures is to look at attrition.
We are either at or below market norms in attrition, which really illustrates the point that Shawn is making because there's a wider value proposition in terms of mission strategy, career development, and their contribution to what they see as important in the world.
And I think we are on or ahead of our resourcing requirements for this year. So we're confident in our growth. I'm going to move us to our next question.

Byron Callan:
Thanks Byron Callan, Capital Alpha Partners. Just following up on Charlotte's question, really two questions. You talked about the organic sales growth targets. Do you think turnover per employee will be working at the same pace you get more productivity or more sales or turnover per employee?

So were your headcount grow at 4% or 5% or does it also have to track that 9% curve? And then Sam, can you talk a little bit about, we talked about Ukraine, but the war in the Gaza strip is going to put a pretty keen focus on urban warfare. How do you think that's going to shape what QinetiQ might be able to address going forward?

Steve Wadey:
So if I address the first one, and I think we alluded to it in the answers to the previous question. So we absolutely don't see headcount in line with organic revenue growth and there are two or three reasons for that just to sort of name them.

First of all, a lot of what we do we are integrating, so we are managing a supply chain as well as our own direct engineering contribution. So our supply chain component is an important part of delivering our service.

And secondly, the mix of what we are doing. If we simplify in terms of service and product, there is an increasing small but increasing product component because really playing at what we would describe the solution level to mix services and products.

So if you think about those two gearing factors, you are going to end up with a differentiation between revenue growth and headcount growth. Do you want to pick up on the second question?

Sam Lewis:
Yeah. So the question about urban warfare is a good one. We still believe and we think it will prove out to be true, that the advances in electronic warfare in information advantage will translate in either environment, whether it's urban or more traditional environments.

The other bit is when you get into an urban environment, we've got a lot of products, capabilities and past performance that grew out of urban conflicts, right? If you think about in the US business for Shawn, Shawn's business has counter IED robots for example, that were pervasive in the Iraq and Afghanistan conflict and we're supporting dangerous missions disrupting IEDs and disrupting the enemy and urban environments throughout that entire conflict.

So we have that same and similar technology that we can bring to bear in the urban environment, but when you really just step back and look at it, our focus on intelligence and making information and advantage, it applies across the board. And we think that's we're going to see continued real growth in that arena.

John Haworth:
Thank you. As a reminder for those on the live webcast, if you'd like to ask a question, please dial the phone line provided.

Richard Paige:
Good morning, Richard Paige of Numis. A couple of questions please. Firstly to Sam, just trying to understand a bit more how you interact with the businesses, identifying opportunities and throw the pool either way on that front please.

And then secondly, maybe no tension, there's nothing. And then just James and Shawn actually, just obviously with the development of the US business, AUKUS is a medium of operation as well. Is there any future opportunity between your two businesses that you can operate slightly closer?

Sam Lewis:
Yeah, so first of all how we operate. We have business development professionals of all stripes really in both the central function as well as in our sectors. And I would say it's extremely collaborative. We share, we all have the same number and target.

We manage a combined pipeline for the company and we devote resources based on where the priorities are regardless of what business they sit in.

The other element that is centrally led and supported by the businesses is the campaigns that Steve mentioned. Around those distinctive offerings, we have dedicated market shaping campaigns that are really about looking at the three to five year problem and creating opportunities where there aren't, or shaping opportunities that we think are emerging towards the business.

And that interaction and interplay between the campaigns and the business development professionals that actually reside in the businesses is what I think accelerates our ability to organically grow, to be honest.

Steve Wadey:
Yeah, I mean maybe just before we go to, I think I'd reinforce what Sam is saying. A way of thinking about that is that whilst, I mean we've got three of our four sectors here have their own BD leads. They're a functionally matrixed into Sam. So that's a core lever of alignment and collaboration.

And then the four, why do you got four global campaigns that actually sit at a level across the whole company. And actually it's not unconnected to the question that we're going to hear whatever Shawn and James are going to say because AUKUS, one of the objectives that I've given Sam is actually developing a really clear AUKUS roadmap for the company as the customers are maturing and getting an understanding of what they aim to deliver through AUKUS pillar one, the submarine program to the technologies. And even let's start thinking about, well what's AUKUS pillar three? What's going to come beyond those two levels?

So it's a really critical part of our change. And if you've followed the history of this phase of QinetiQ change, business development was one of the four fundamental change levers for the company. Professionalizing business development with experienced people that understand customers partnering and how you develop high value long-term programs has been the core.

And Sam presented the pipeline. The pipeline's gone from less than a billion, I think it's probably £700 million back in FY 16 and here today we've got a pipeline that we'll be prepared to share publicly of £10 billion. And of course our internal business plan has got opportunities well beyond that, so critical part of our historic growth, but importantly our future growth. James, Shawn, do you want to kick off Shawn and then I'll cover?

Shawn Purvis:
Oh, that's nice. So I think the question was, with the advent of AUKUS, how can we continue to work together? I would say first, as Sam and Steve alluded to, that is a core part of our overarching strategy.

For those of us who've been in defence companies who've tried to do cross country, it is really something that is a core part of who we are. It's a natural conversation. And with that, taking core capability that's in one resident country and applying that into the same mission in another country is something that then is facilitated not as a have to do, but as something as we see as a value creation unique way to go to market.

The second I'd say outside of AUKUS, our customers, especially in the intel community, actually work very closely together. They've always have, there's actually great collaboration. There's very few missions that our countries are not partners with.

So you think about joint communications, you think about sharing of intel, you think about needing to have an ability that when you're forward operating to be able to see the same situational awareness.

And that goes all the way back to the Iraq and previous environments. And so we actually have deep relationships facilitated by our customers partnership and the core capability that James and team build, very similar to the needs that we see in our customers and vice versa. And to me it's a great powerful relationship for us to go forward.

James Willis:
We tend to find that, and this is driven by security, obviously higher classifications, it tends to be government to government, so they'll do it on our behalf. It's quite nice.
But at lower classifications, unclassed, we can work together. And we've already had discussions. I mean Jonathan over there, we had dinner last night, Jonathan from Avantus, an awful lot of stuff in the homeland security market for instance that we do in Homeland Security.

10 opportunities. I think we were talking through things like that, areas we need to look at and transfer of that unclassed. So it is driven a bit by the security levels as well, but government to government at the senior and we can do the unclassed at our levels.

Sam Lewis:
I would say one build, when you put it in the context of the AUKUS relationship, we like to think of AUKUS as a joint program to put money and resource from the three countries in different buckets to arrive at different conclusions as opposed to pouring the same money into the same bucket, to arrive at a similar conclusion.

And we actually think that we can use our position in both intelligence communities, for example, to help shape what the UK can focus on and what Australia should focus on and what the US should focus on so that we arrive at a combined solution, a collaborative solution that outpaces the threat we're facing.

Steve Wadey:

And I might just add a couple of thoughts, and I'm going to ask Gary to say a few words because whilst you've talked about AUKUS in your question, Richard, to Shawn and James, it's worth just stepping back that one of the key ingredients to our success is simple focus in our strategy.

One company, three countries, six mutually supportive offerings. And the fact that we can express that with such succinct clarity and that flows down into our people, our investments is why you are seeing the performance that you see.

But Gary is fresh to the business, huge experience, multinational. He might even want to do his introduction now before he does his presentation. But one of the things that we've been partnering on between Sam, myself, Gary, and Nick Anderson, who's Chief Executive of UK defence, who's not here today, which is a very important part of the company and it's growing exceptionally well Nick, if you're listening, is actually some of the development of opportunities between the UK and Australia. So maybe just some words about what you think about AUKUS Gary.

Gary Stewart:
Yeah, so I mean AUKUS has fundamentally changed what the Australian customer is setting its priorities around. I'll talk about it in my segment. And one of the real strengths that QinetiQ brings to that is the role that we're already undertaking.

You've heard about it from the intelligence side with James, Shawn will expand on it, but across every dimension of the capabilities that are now a priority and a number of those are actually creating industries and environments that haven't existed in Australia where we can provide direct access and speed because of our presence and our pedigree and our performance and our relationship with the UK and the United States customers.

And that's a really unique position that QinetiQ has. And to James's point, because we operate at the higher levels of classification with those customers, you get a very high level of customer advocacy and ability to transfer and enable a lot of those capabilities that simply are difficult to translate on a purely commercial basis.

And that's generating a significant amount of opportunity and growth for us that we actually didn't have two years ago within the Australian market. So I'll talk about that some more as well.

Steve Wadey:
Thank you, Gary. Here you go, Rich.
Other questions? Do you want to make a comment online, just remind people, John?

John Haworth:
Sure. Any questions from the online webcast? Please do call into the phone line provided. I've got no questions at the point in time, so maybe we'll...

Steve Wadey:
Any further questions in the room? Oh, we do have.

Chris Meeker:
This is Chris Meeker from Franklin Mutual Series. Just a quick, maybe high level question. You had a slide up with regard to market growth of 12 to 15% in the high priority segments. Can you just tease out what percentage of the business would fall into these high priority segments that have this above market growth?

Sam Lewis:
Yeah, that's a great question. When we look at that 12 to 15% and we talk about communications, sensing, autonomy, AI, we think that's about 25 to 30% of our business today. That 30% then is experiencing higher growth rates, which is why we're delivering closer to 9% organic growth, not 12 to 15%. It does have a demonstrative impact, and by the way, it also commands a lot of our internal R&D and our focus on how we're shaping deals or how we're trying to connect deals. We talked about the SOCIETAS contract and that's an electronic warfare mission data. We're trying to apply that, and in fact during our capture process, we helped to make sure that that could apply to the AUKUS Trilateral partnership. Those areas are not only growing in the defense markets that we're currently got expertise in, say the UK, but also in Australia and the US for example, right? That's the percentage of the business focused on that.

Chris Meeker:
So just to be clear, 30% of the... To be clear, 25 to 30% of the intelligence piece of QinetiQ? 25 to 30% of all of QinetiQ?

Sam Lewis:
25 to 30% of the company is in those higher growth areas.

Chris Meeker:
Okay. Yeah, thank you.

Steve Wadey:
I think, Chris, if I might add, I think Sam's accurately described the current state, but I'll make another dynamic point which will cause resonance around the table, is our ongoing dynamic and conversation on your question. As a team, we are continuously ensuring through the pipeline, through our customers, through the way that we engage, that we're continuously looking to orientate the focus of the business onto those higher value and higher margin opportunities. Again, if you look at some of the history, arguably there has been lower value staff augmentation, whereas actually the more we can pivot to towards these higher value, higher segments, you'll see these continued higher growth rates, really attractive margins that the company is achieving. I think the dynamic is important on top of the current facts.

Chris Meeker:
Thank you.

Steve Wadey:
I think whoever said it, but our incentive model throughout all of the executives of the companies aligned with that as well.

Jon Cotchen:
Thank you. Jon Cotchen, Federated. Just on your comment about margins, you guys are guiding margin stability, so would that imply some of the other legacy businesses, maybe there's cost deflation in those or?

Steve Wadey:
Carol, opportunity for you to say something before coffee break.

Carol Borg:
Thanks, Jon. I've been quite quiet here in the side. We are guiding our long-term guidance of 11 to 12%. Currently, our organic pipeline is delivering circa 12%, so with the optionality of some strategic investments, particularly focused in the US and Australia, we see that blend just mathematically come down. I think what Steve was saying previously, our unique offering does afford us to play in that, I believe, upper quartile margin stack, based on the uniqueness of our offering, and I think our margins do range. Not I think, I know. Our margins do range across the business. We are about 7% product related revenue that attracts higher margins. We have some services related business that attracts lower margins, but in the whole we are hearing from some of our higher growth areas that afford us a little bit of higher margins, but we blend in to 12% organically, 11 to 12% with some optionality for strategic investments.

BREAK

John Haworth:
Great. Welcome back everyone, and I hope you've enjoyed the first part of the seminar. We're now going into the second part where you'll hear from Shawn, Gary, and Carol, and then an opportunity of further questions at the end. Shawn, over to you.

Shawn Purvis:
Good morning, everyone. It's a little warmer for those of us in the room, so I appreciate that. Good morning. My name is Shawn Purvis. I am the President & CEO of QinetiQ US. I'm excited to be here today to talk to you about the US organization. I joined QinetiQ about a year and a half ago, excited to take the opportunity to transform the company, build upon our core technology and intimate customer access with a pivot towards sustained profitable growth. We're well on our way to being a middle tier provider of mission essential technical solutions to the United States Department of Defense, National Security and Intelligence and our customers in the Department of Homeland Security.

Our core offerings are focused in the areas of intelligence, surveillance, reconnaissance or ISR mission operations, advanced cyber offerings, information advantage, multi-domain, autonomous solutions and systems and engineering and innovation such as our persistent surveillance and multi-sensor integration. The delivery of these capabilities is powered by the more than 1500 highly technical, mission-focused QinetiQ employees in the United States and our core growth markets are aligned to the National Defense strategy. We're focused on areas of high growth, while fully aligned to our customer's mission, which combined with our organic and inorganic growth, has propelled us to outpace the market.

To highlight a few of our areas within our portfolio, I'd like to speak to three recent contract wins. Our recent win at the SPACE Development Agency as a prime contractor demonstrates our deep customer intimacy and exceptional program performance. SDA will quickly deliver needed space opportunities to the joint war fighter to support terrestrial missions through development, fielding and operation of the National Defense Space Architecture. As prime on this contract, the QinetiQ team will deliver agile program services, adding capabilities to the future generation as the threat evolves.

Our next win at the Strategic Capabilities Office or SCO, builds upon our existing work within DOD while adding resources which demonstrate incremental on contract growth. SCO is an organization within the Office of Secretary of Defense, which seeks to identify, analyze and prototype disruptive applications of new systems, unconventional uses of existing systems, and implementing emerging technologies to create operational strategic effects. Our highly technical engineers work to quickly identify and prototype disruptive technology to enhance the customer's ability to counter adversaries. Both SDA and SCO were re-competes won by the customer intimacy and the delivery of our current team, but also will excel with on-contract growth as is now been won and baked for the next five years.

Our Next Generation Advanced Bomb Suit or NGABS, you can see it outside at the next break. This award represents years of partnership with the army customer to build the next generation bomb suit. It's integrated with sensors and controllers to save the war fighter's life. This award replaces a 20-year bomb suit and will provide enhanced protection to its users and operators. It represents a start from a concept where our customers said, "How can you take the current technology, integrate new sensors, new features, information advantage, and make it better?" This new suit will increase our soldier's survivability and readiness to respond to evolving threats, providing 360 degree ballistic protection while significantly increasing situational awareness. We'll now show a short video of our in NGABS technology, and again, this suit is on display in the lobby.

I am really proud of the work our team did on the next generation advanced bomb suit. It brought together mechanical, electrical and mission-oriented individuals in partnership with the customer to create the next generation bomb suit. I'm proud of the work that we've done to complete the full integration of Avantus into QinetiQ US. The company has been fully integrated and operates as one QinetiQ US since the beginning of our fiscal year. The combination of QinetiQ US and Avantus has expanded our addressable customer market, which provides immediate opportunity for revenue synergies in new markets such as National Security, Department of Defense and Department of Homeland.

We've also pulled through key capabilities across the company, allowing us to bid large prime opportunities. Areas of cyber, robotics, information advantage, all have identified new areas of opportunity in both our current markets but also in the adjacent markets across the company. Avantus' core capability aligned nicely with our QinetiQ strategic offerings. In the areas of ISR Mission Solutions, the legacy Avantus team has employees across DoD, DHS, National Security and Intelligence agencies supporting our customers missions and program requirements. In advanced cyber, we provide cyber intelligence, managed attribution and advanced cyber network defense to national security intelligence customers.

Our deep knowledge of data analytics provides leading edge information advantage to the customer, allowing them to consolidate and utilize vast amounts of disparate data, including open source intelligence data to create finished intel that's actionable to the war fighter. The legacy Avantus engineering and innovation in areas of persistent surveillance and reconnaissance pairs nicely with our multi-domain autonomous organization to create modular payloads that can be served on land, air, or sea platforms. Avantus has provided a great momentum for our full year, winning six out of seven of our critical re-competes, delivering over $600 million in Q2. I'm just going to say that one more time. $600 million in Q2.

The company now fully integrated, has a best in class employee value offering for over 1500 highly technical mission-focused employees and is expected to grow and net new employees throughout the rest of the year. The significance of winning those re-competes this year gives us five years now of backlog with those core customers and allows us to grow and take those capabilities across other adjacent markets. QinetiQ US is a solid company with a strong technical base business. We support long-term business partners and customers through our mission-led technology deployment. We primarily sell high value services and products to United States Department of Defense and our national security agencies, and we are positioned to develop and enhance offerings in the US defense modernization platforms and programs.

Part of our core offering is our family of autonomous platforms, such as our work done with our army customer on the Robotic Combat Vehicle Light or RCVL. This is an area that is constantly evolving as we move to larger form factors and integrate autonomous systems and platforms in the battle space. Our core customers in this market include the US Army Tank Combat Capability Development, Ground Vehicle System Center, and the Marine Corps War Fighting Laboratory. They rely on our engineers to develop and field unmanned combat vehicles, giving the war fighter a competitive edge on the battle space. Our highly technical engineers deliver capability and multi-domain autonomous systems, persistent surveillance and deep data analytical AI/ML solutions.

Our engineering services span the DoD and intel community providing subject matter expertise in the areas of communication, sensor integration, research development, survivability, and unmanned ground combat systems.

Our investment in our Center of Excellence for Information Advantage allows us to create innovative and new data analytic platforms for our space, intel and DHS customers. We combine our employee's deep customer mission and knowledge, and we create a competitive advantage to deliver capabilities that rapidly fuse data together and create applications to support our customer's most sacred mission.

Underpinning this core capability is our deep technical talent with a strong customer affinity and mission knowledge. This allows us to continue to compete and win against near peer defense and intel competitors in the United States market. Our employee value offerings recognized by our employees as the top workplace in 2023 provides best in class offerings to our over 1500 employees. Finally, we see the ability for strong double-digit organic growth with optionality for strategic inorganic acquisitions through FY23 and 27. The growth is fuelled by our $2 billion in qualified opportunities across all of the markets I just spoke to. From a market perspective, we look to grow in national security and intelligence customers, focus expansion on US intel and cyber.

We continue to expand our automation and analytic services to all our core demographics. Another area of expansion is in our areas of persistent surveillance along the US and allied border. Sensors, radar and ISR mission operations, combined with our commercial offerings such as our SPADE software development, allow our customers to enhance their ability to detect, defend, eliminate threats to their borders. As SPADE integrates sensors and software and workflow automation, we will see our customer elevate their mission from where they are today. The combined capabilities of US and Avantus allows us to go to market as one defence intel company. We continue to pursue and invest in high growth markets such as space, national intelligence and global security. I'm excited about the future of QinetiQ US and our team, our company and our employees. Bolstered by a strong pipeline, a robust technical offering, we remain focused and continued on growing our business. Thank you.

I will now bring up Gary to talk a bit about Australia.

Gary Stewart:
Thanks, Shawn. Okay, good morning and good afternoon to those joining us from the UK. I'm Gary Stewart. I started with QinetiQ in May this year, almost six months ago now, as the Chief Executive of our Australia business, which includes our global threat representation offering, and I'll talk about both aspects. Throughout my career, to date, I've actually had the fortune of living and working in all four countries where my business operates. Australia, the United Kingdom, Canada, and Germany and I like to think that that experience actually helps with what our growth and performance focuses over the coming years. Today, I'll give you an overview of the Australia and global threat representation business as a whole, the changing market dynamics and where we see the future from here.

Over the last eight years, we have increased our contributions and relevance to the Australian Department of Defence, related federal agencies like the Bureau of Meteorology and the National Emergency Management Authority, and our global threat representation offerings deliver to over 40 countries around the world. We are a truly global team. We've got close to a thousand people in Australia and in excess of 200 people working and operating in Germany, Canada, and the United Kingdom. We've got a highly skilled and diverse mix of talent in those four countries, critical to our customers missions and needs across guided weapons, ammunitions, aircraft, structural integrity, military and civilian pilots and drone operators, robotics and autonomous systems, and complex trials, testing and training.

Our revenue profile is balanced between Australian domestic and global threat representation revenue streams, and we've delivered consistent annual growth over the last five years through strong organic growth and targeted acquisitions. Our breadth of core offerings, clear growth opportunities to increase and expand those offerings and our talent and degree of customer trust and intimacy positions us favorably in our markets. To give you an idea of what we do and how we do it, we've got an example from each of the three segments that make up the Australia business. First, we've got our advisory segment, and this is the foundation of QinetiQ's entry and performance in the Australia geography. Makes up about 30% of our revenues for this year.

Within this segment, our major service provider contract is the major contract through which we provide specialist technical expertise and delivery of capability to the Department of Defence. There are only four major service providers, which have this contracting relationship and together, are responsible for the majority of service provision and deep technical support. For QinetiQ, we are intrinsic to the delivery of capability across land vehicles, maritime warfare, guided weapons, explosive ordinance, and aerospace surveillance and reconnaissance. There are two, really interesting decisions that the Australian customer has taken this year, which really open up the growth or continuing organic growth opportunity.

First, the entire Department of Defence has been instructed to maximize the use of our major service provider contracts, which means we've got a good runway of organic growth and our current contracts were renewed for another three years earlier this year as well, giving us good stability and reliability in those revenue streams. Our engineering segment provides a similar service to the defense science and technology group oriented around technology, manufacturing and training. Makes up about 20% of our revenue profile for this year and within this segment, our integrated engineering services contract is the primary delivery mechanism. It is a sole source, multi-year relationship between QinetiQ and the Defence Science and Technology Group who are responsible for all of the defence related research and development in Australia and has got the leadership responsibility within the AUKUS Pillar Two Scientific and Technology Partnership Alliance with the UK and the United States.

Our role within that arrangement is to actually operate many of the workshops that defence science and technology group relies on to build prototypes and testing that contributes to underwater warfare, submarine design, guided weapons, hypersonics, lasers and quantum computing. Finally, our global threat representation segment makes up about 50% of our revenues for this year. For those that are here, you'll be able to see some of those products actually out in the lobby, our Banshee and our Rattler high performance aerial targets, but we've now got a short video to show you, which can explain what we're doing and what our current thinking is.

Video voiceover:
Across the globe, national defense and security customers are being increasingly challenged by an evolving threat landscape. More sophisticated aircraft are being developed, uncrewed autonomous vehicle use is growing. Electronic warfare is intensifying, area denials and swarm tactics are on the increase and supersonic, anti-ship missiles are becoming prolific. Added to this, is the emergence of anti-ship ballistic missiles, intelligent minds, loitering munitions, and new hypersonic threats. It's more important than ever to stay ahead of the threat. At QinetiQ, our full spectrum threat representation offering ensures our customers can stay ahead of any threat, delivering realistic and cost-efficient emulations of threats across multiple domains. We design, develop, manufacture, and operate advanced target systems for training and test and evaluation, as well as supplying deployable, ready to use aerial target services for one-off or ongoing campaigns, exercises, or trials. Through our cost-effective naval, aerial and land-based, integrated live, virtual and synthetic threat representation products and services, we ensure our customers are combat ready and fully interoperable with Allied Partners. In an uncertain and rapidly changing world, we are focused on anticipating change. It is why we are continuing to invest further in exploring new technology, new products, and new systems to help our customers stay ahead of the threat.

Gary Stewart:
Within the Australia business, we actually face two quite different sets of market dynamics. Within Australia itself, there are a number of factors that are changing those dynamics, competition and creating new opportunities for QinetiQ. Within the last two years, we've seen the adoption of the AUKUS Trilateral Security Alliance as a clear response to the growing major power contest between the United States and China. AUKUS strengthens and builds upon a number of existing security and intelligence arrangements, which is a natural extension of the quite special role that Australia has within each of those arrangements. Whether it's NATO, the Five Eyes Intelligence Alliance between the United States, the United Kingdom, Australia, Canada, and New Zealand, or the quadrilateral security dialogue between the United States, Australia, South Korea, and Japan.

In parallel, the Australian government completed its Defence Strategic Review in March this year, fundamentally rebalancing the priorities and budgeting for future capability for the decades to come. The new priorities that this sets out for Australia are quite clear. In integrated air and missile defense, maritime warfare, including nuclear-powered submarines and a more potent maritime surface force and cyber, information and electronic warfare. Within this changing set of priorities and financing, QinetiQ's offerings and proven performance in the United Kingdom and the United States are even more relevant for

Australia's new needs and priorities. By building on our proven, trusted, and deep customer relationships within our advisory and engineering segments, we can rapidly offer and link those solutions from our United Kingdom and United States markets. This is a unique proposition that is opening up new growth opportunities for QinetiQ, given that our three home market orientation is directly aligned to the AUKUS Security Alliance.

Turning now to global threat representation. We are at a critical point in the role and changing nature of threat representation and its contribution to our customer's mission and need. Traditionally, countries tested and trained against single or small numbers of inbound targets representing variously helicopters, missiles, fast attack boats, or attack aircraft. Worldwide, we are seeing the rapid merging of technologies that are greatly increasing the complexity and the lethality of real world threats. In the last couple of years, we've seen the introduction of low cost and swarming drones, the use of autonomy and artificial intelligence, resilience to electronic warfare, and increasing combination of crewed and uncrewed threats.

In the coming years, we're already seeing the emergence of new threats such as hypersonics, lasers, cyber, and information warfare to overwhelm and confuse. Over the last five years, QinetiQ has acquired a number of physical threat representation companies, QinetiQ Target Systems in the United Kingdom and Canada, QinetiQ Germany, and most recently Air Affairs in Australia. QinetiQ is integrating these companies into an integrated global live threat representation offering with the unique mix of piloted aircraft and sea and aerial drones. And this year, for example, we're also industrializing our United States operations to build and support some of these drones, like the Banshee out in the lobby, to open up and access the large and exciting US market. These live threat representation offerings are complimented by the ongoing delivery and investment we have in the United Kingdom and the United States market for virtual, synthetic, and simulated threat representation, some of which you saw on the video a bit earlier.

There is no other company with the global reach, live and virtual threat representation offerings, and vertically integrated operating model to design, build, and deploy these representative threats to both kinetic-operated ranges and customer testing and range facilities.

We have a clear ambition and plans to double the Australia business to more than AUD$700 million in the Australian and global threat representation markets. The adoption of the Orca Security Alliance and the Australian Defense Strategic Review have enhanced the areas within which QinetiQ can become an even closer, trusted, and sovereign partner for defense capability testing trials and mission rehearsal. That unique role performance and capabilities that we have available to us in the United Kingdom and United States perfectly align to the AUKUS priorities and security alliance, enabling QinetiQ to access and migrate with speed, trusted, and required capabilities into Australia for maritime warfare, both nuclear submarine and surface warfare, integrated air and missile defense, including the associated investments in guided weapons and cyber information, and electronic warfare.

And with Australia as a respected and reliable security partner in the Indo-Pacific region, this provides a longer-term opportunity for how QinetiQ can support Australia and the United States, and the United Kingdom into the region itself. With our threat representation, our integration of those global operations are creating synergies in a multi-domain, crude and uncrude product and services segment, providing a strong foundation for future growth. We will complement this with new product offerings by coupling the live with our virtual synthetic and simulated threat representation capabilities. We are confident that our continuing delivery performance, our customer intimacy, and our strong AUKUS market alignment creates the leverage to grow above market rates and realize our ambition. Thank you. And I'll hand over to Carol.

Carol Borg:
Thank you, Gary. So in this final section of today's seminar, I'll bring together what you have heard from my colleagues, translating it into four key areas of our equity investment case, specifically our proven track record to deliver organic revenue growth at stable margins, our successful execution, integration, and value creation of our disciplined acquisition and disposal strategy, our reducing capital intensity and increasing cash returns, and our clear and robust capital allocation model.

The first and most important pillar of our investment case is our strong, resilient, and predictable organic growth. Over the last four years, we have achieved compound annual organic revenue growth of 9% from our core underlying businesses, or 15% if we include the effect of our strategy-led and disciplined inorganic activity of nine acquisitions and four disposals. This organic revenue has been achieved at circa 12% operating profit margin. We have made a conscious effort to drive towards larger, longer-term contracts, a few of which you've heard about today, which gives us great forward revenue visibility, as demonstrated earlier by Sam.

Today, we have shared with you our key growth drivers. On the 25 May this year, we provided updated, longer-term guidance that we will achieve high single-digit organic revenue growth, which is to be interpreted to be seven to 9%. We continue to maintain this guidance, and today we are showing that this longer-term guidance provides a path to organic revenue of £2.4 billion pounds in FY27, supplemented by optionally strategic aligned acquisitions. Simply put, we are setting out to achieve over the next four years what we have proven over the past four years. We have a clear strategy, one company focused on three home countries, with six distinctive offerings being delivered by an experienced leadership team. Our unique offerings are in high demand and give us competitive advantage. This sustainable performance will deliver year-on-year, high single-digit organic profit growth. So in summary, we will continue on our trajectory, a proven track record with a robust plan to deliver organic revenue growth to £2.4 billion pounds in FY '27 at stable margins.

Capital deployment is evaluated consistently across both our organic and inorganic opportunities. All opportunities are evaluated using our simple three-gate model being strategic fit economic viability, which primarily is delivering a return on invested capital greater than our WACC in the third year of ownership and deliverability. Our strategy includes the optionality to inorganically acquire capabilities that allow us to build greater scale and success across our distinctive offerings within the frame of ensuring that we appropriately deploy our capital to generate sustainable returns for our shareholders.

This builds us from organic revenue of £2.4 billion to circa £3 billion in FY27, which is also what we communicated in May. Over the past eight years, we have invested approximately £800 million pounds in nine acquisitions and generated approximately £200 million pounds via the disposal of four businesses and nine sites from our property portfolio, demonstrating our disciplined assessment of our portfolio and relevance to the execution of our strategy.

All acquisitions were funded by putting our balance sheet to better use, in essence, from our highly cash-generative business model and proceeds from our disposals. Gary has shared his ambition to build a global threat representation business, which we have been building our capability in both organically and inorganically over the past five years. A case study that brings to life our discipline towards inorganic growth is the acquisition we completed in 2016 of the QinetiQ target systems from Meggitt for £57.5 million pounds.

We committed at the time of this announcement that this acquisition would be highly cash-generative and profitable. Earnings per share, accretive in the first full year of ownership and generating returns in excess of our weighted average cost of capital within three years. I'm pleased to share that, through disciplined execution and integration, this acquisition has delivered better than we communicated. Generating a return on capital investment of 10% in years two to three post-acquisition, a compound annual growth rate of 11% and has been margin accretive to the group. Overall, delivering our promise of a highly profitable and cash generative business.

This example is illustrative of our overall average return performance across all of our acquisitions. In summary, our track record demonstrates a thoughtful and disciplined approach to acquisitions and disposals with successful execution, integration, and value creation from our acquisition and disposal strategy.

This slide shows our capital intensity and free cash flow yield trajectory metrics that have been improving over time. However, also an area where we have a slight nuance compared to our peers, particularly in relation to the long-term partnering agreement with the UK Ministry of Defense. I'll call it the LTPA, not to be confused with some other US parlance. We have two types of organic investment, one which is used to sustain the growth of the company like any other organization. The other is what we have committed to as part of the LTPA, our only capital-intensive contract, which was a commitment of £400 million pounds of capital funding to modernize the UK Ministry of Defence's facilities and capabilities, which has a contractual recovery mechanism in excess of our weighted average cost of capital in exchange for securing the contract to 2028.

The LTPA represents circa half of our annual capital expenditure, with the peak reducing from FY25. The other half relates to investment in our estate research and development and information technology, all of which is at normalized levels to deliver our growth ambition. The chart on this slide shows that looking forward, our capital intensity is reducing, and as a result, our free cash flow yields are increasing. Our business model is highly cash-generative, and we expect that trajectory to continue, indicating that scale and, in particular, organic revenue growth does matter, particularly as our capital expenditure begins to reduce. For those that are not new to our investment case, you will have heard me describe our clear and robust capital allocation policy. We have made two slight refinements to our policy that I'm sharing with you today. Further aligning our financial framework with our overall strategy.

Our operating business delivers strong and sustainable growth and margin, which is supplemented by returns being generated on capital that has been deployed in the past. This generates impressive operating cash flow, which enables us to reinvest to compound our growth. The financial frame that governs our capital allocation is to maintain a prudent and optimal balance sheet. Whilst this has always been a feature of our framework, we have refined this by articulating this as the frame in which our capital allocation is governed and specifically drawing out the leveraged, i.e., net debt to EBITDA range, that we would sustain to execute our strategy.

The forward visibility of our organic cash generation, coupled with our current view of the potential size and timing of future strategy-led and value-enhancing acquisitions, would result in our leverage not exceeding 1.5 times over the foreseeable future. Within this frame, we apply discipline to pursue our four priority areas that deliver our required return hurdles.

Firstly, we invest in our organic capabilities, which I previously described in relation to our capital expenditure characteristics and profile. Our final refinement to the policy is the explicit articulation of our second priority, to complement our organic capabilities with optional strategic acquisitions. This was previously grouped under our first priority, however, we felt that it was important to show this as a discreet and separate priority area. I have previously mentioned our track record in this space, and James, Shawn, and Gary have all mentioned how successful integration of acquisitions have benefited their total compound annual growth rates. Thirdly and fourthly, we proactively consider shareholder returns through a progressive dividend policy and through other means such as returning excess cash to shareholders. In summary, we have a clear financial frame that governs our capital allocation, and we actively continue to review our capital deployment across all four priority areas, weighing up the short and long-term benefits to ensure that we continue to maximize value and returns for our shareholders.

So bringing this all together, I'm reiterating the key financial highlights of our investment case. We are guiding to high single-digit organic revenue growth. We've achieved this before, and we are well placed to achieve the same again, aligned to many areas of the defense budgets with higher growth rates. This organic growth will be delivered at stable margins. And with the strategic US and Australian-focused acquisitions, this is expected to blend margins in the range of 11 to 12%. A highly cash-generative business with an asset-like business model ensures we can deliver an attractive return on capital employed. We continue to guide for modest cash outflow in working capital to support our growth, but expect to retain full-year cash conversion of at least 90%. Our ROCE will reduce modestly as we have the full-year effect of last year's acquisitions, and we are targeting ROCE at the upper end of the 15 to 20% range.

And finally, we are proud that we've been recognized so well in relation to our ESG commitments, and we continue to push ahead with all aspects of our E, S and G agenda, including driving towards net zero. In summary, as has been demonstrated by all of my colleagues, we are truly a unique company with attractive financial characteristics compared to our broad peer set. We are a company with an impressive track record and will continue to deliver organic revenue growth, margin, cash, and returns, as set out in our longer-term guidance. And with that, I'll hand back to John to open the floor for questions.

John Haworth:
Great, thank you. Thank you, Carol and team. So we've now got an opportunity for further questions. So, as before, if you can give us your name and the company you represent. We'll start in the room here, and please do use a microphone so people can hear you on the webcast. And then we'll go to the phones. And if you do want to ask a question from the webcast, please do use the phone line provided.

Richard Paige:
Hi, it is Richard Paige from Numis again. Question for you, Shawn, some great contract wins recently across the business. Could you give us a sense of what sort of pipeline or guaranteed, I hate to use that word phrase, but base level of contract visibility you've got over the next few years within the US business?

Shawn Purvis:
Sure. So I think there's two questions in that. I'll talk pipeline first. So when I talk $2 billion qualified pipeline, qualified pipeline means we've identified the opportunity, we've assessed it as one that, given our current skillset, core capabilities solution is viable, and we're actually going to pursue it. Unlike if I give you the full pipeline, full pipeline is probably about $4 billion of those that are still going through a gated process. So we have a business acquisition process that actually helps to identify that. That pipeline is in the core areas. We have four business units that are aligned really to who we serve in that DoD market, DHS space, national security intelligence, and then our fourth business unit that does the autonomous robotics mission systems that you see up front across those platforms. So in each of those markets, they have both new opportunity on contract growth and then adjacent opportunity. And that's what we see in terms of what I would call a qualified pipeline across the portfolio.

In terms of backlog, which is the other piece and we've talked about, how do we talk about backlog? So all of those contract wins, for example, we just started in Q2 as well as what has come through the first half of the year, are on contract unfunded backlog. In the United States, we have a base plus four, in general, about a five year period of performance. And the option year is exercised one year after award barring anything different. You run that for five full years and at the end of the fifth year you either get a contract extension or you go back into recompete. So we can see in terms of a backlog perspective, roughly about 60% of our portfolio going into next year is in backlog. Does that help?

Richard Paige:
Yeah. Great.

Steve Wadey:
And Rich, I'm going to ask Shawn a question as well. No, because I think the whole point of these investor seminars is about really getting clear understanding, and what Shawn just expressed is a very significant difference to how the UK Ministry of Defense contracts and the US DoD contract or the US government contracts. And it may have been in the footnote of our Q2 trading update, but we were very clear on the repeated twice $600 million of contract wins. I think, and Carol may correct me, only $137m of that.

Carol Borg:
$169m.

Steve Wadey:
$169m of that was actually booked in our H1 figure when we referred to 950. And therefore, you have a very different confidence level of backlog that isn't in our formal backlog. And I think maybe Shawn, just add into your own words the difference, but maybe the confidence level that those five-year contracts based on our past performance and our current performance gives us, because effectively we have a much bigger backlog than you're actually seeing in our formal accounting. But maybe you could just add some confidence factors.

Shawn Purvis:
No, that's great. I appreciate that. So not just the Advantus awards, and those were those recompetes I highlighted. Those were legacy Advantis contracts in Gabs, is a legacy C5ISR intact for those who track some of the components to it, intact proper. I'm just using for like last year, went through the same process, almost our entire book was up for recompete 99.9% recompete win rate. And so all of that win from last summer is also in our backlog. When you combine now the businesses, our DoD space really is very strong across all of the market components to it.

The other areas that we have are in our Intel organization, where we have prime contracts. We have customers shifting from where we're a subcontractor on other primes, moving that into our prime contract vehicles. And then those contracts, they don't tend to go as long as the DoD components to it, but having the prime contract allows you to have more of control of your destiny.

And then, where we have additional, I would say go get in the US is our products business. So all of our robots contract vehicles, in general, they are shorter in duration, but what you see is that they serve so many different multiple missions and different platforms, and that's the variety that you see outside, everything from a small that can go for a Navy or Marine Corps customer up through a larger one that's more serving an army customer or international army customer. So we balance a bit of all of that across the whole of the portfolio.

Richard Paige:
Thank you. One to Gary. The doubling revenue target for... I assume it's not all organic, what do you think you could do organically?

Gary Stewart:
Well, that's the process we're going through at the moment. We've actually got a very clear runway for organic growth being a predominant part when we've spent the last six months looking at what Orca and the defense strategic review actually represent as generating new requirements and capabilities that the Australian customer hasn't had previously. Nuclear-powered submarines, significant increase in investment in cyber and electronic warfare, creation of a guided weapons industrial base, which Australia's never built a guided weapon before. So there are these really key new segments where we've got across the QinetiQ portfolio a substantial contribution that we're already making in the United Kingdom and the United States. And so what we've been doing the last six months has been mapping what we can bring forward in partnership with those government agencies to rapidly insert or orient for those new sectors.

And those will predominantly be delivered through organic growth firstly, but where scale or speed dictates that we need to bring in additional capacity or heft, we've got the ability to look at that as well through disciplined inorganic. But it starts from, how can we build that capacity organically? How can we leverage the expertise we've got across our other markets and pull that through?

Richard Paige:
And I think if I add to that-

Steve Wadey:
What you just heard from Gary is exactly what you heard from Shawn, the discipline, the focus on the organic growth. Hence, our clarity today on the £2.4 billion organic growth the base and the platforms that we've created is a core focus. And I would add, because I'm sure we're going to get to this question about acquisitions, our focus there, exactly as the team has said, is around discipline. First of all, with the strategy, our ability to get the right economics and then deliver incremental value through that particular asset and just to reconfirm something that we've said before, the United States and Australia are our primary focus for where, if we choose to, we would deploy that optionality of acquisitions. Do you want to go to Tom? We'll come back to you.

Tom Horsey:

Thanks for putting today on. It's been great to see everything. Gary, when you were talking about growth, you mentioned there were two things that were accelerating growth. The first was that the Australian DoD had instructed people to use the service providers, and then I actually missed the second bit, so I don't know if you could elaborate on that.

Gary Stewart:
It was the contract renewals for another three years. So all of the major service provider contracts were reaching expiry of their first period of performance, and they all got renewed this year as well to make sure that the Australian customer base has got access to that expertise with confidence over the next three years, as well as then the first decision of maximizing the use of those skill sets because they provide guaranteed access to skilled labor force to complement and build teams that can respond to those different needs. And that's going into capability and acquisition, which is the traditional use customer of those service provision contracts, but also into defense estate, joint capability, and cyber and electronic warfare as an initiation point.

Tom Horsey:
Thank you, Gary. Carol, you took us through the organic revenue growth in the last few years, but there've been a couple of things that have been weighing on the margin, like the extra investment in people, which has been great to see, and the extra sort of catch-up IT investment. Can you just walk us through as the revenue growth continues as you gave us the outlook, what are the puts and takes on the margin that will help or hinder your target to keep margins constant from here?

Carol Borg:
Yeah, so we think, Tom, that we can deliver an 11 to 12% margin with a normalized level of investment that is now sustainable. I think we've heard from my colleagues about the building of the business development machine, the investment that we're making in IT capabilities, and just broader R&D that is now all baked into our 11 to 12% margins. I think I'd raise another point that Charlotte alluded to in her first question, but we didn't answer, which is our protection against inflation. So we tend to have, through our contracting vehicles, 50 to 60% of our business is a people-related business. So it is wage inflation that worries me the most. And we have about 50 to 60% protection. And you would've seen that actually in our Q2 trading update, our LTPA variation on price order intake uplift to adjust for inflationary pressures.

So not complacent, absolutely not, but we do have an ability, and I think, Sam, you even mentioned that we enter any year with 60 to 70% of our revenue undercover. So we do have some good forward visibility in terms of delivery of those stable margins in the 11 to 12% range.

John Haworth:
Charlotte.

Charlotte Keyworth:

Hello. It's me again, Charlotte from Barclays. Question for Carol. So thanks very much for putting the leverage target of ceiling down effectively. I'm just looking at my numbers, and I've got you at half a turn for 2024, which implies to go to one and a half times net debt to EBITDA. You'd be prepared to take on another £300 million or so, and you did leverage very quickly from the Avantus acquisition. So, sorry, my question is really whether... Yeah, you did leverage very quickly from the Avantus acquisition. So in this sort of high interest rate environment we're in, given how cash-generative you are when you look at bolt ons, would it not be more sensible to think about funding them through free cash flow, or do you think the scale and size of these deals will require debt as part of the transaction?

Carol Borg:
So I'll answer that in a couple of ways, Charlotte, if I may. Firstly, it's not a target for us to hit 1.5 times leverage if we choose to inorganically invest. I'm saying our forward visibility has us in that window, so I'm not aiming to get there.

Secondly, I think I demonstrated through our nine acquisitions and four disposals that that was all largely funded off balance sheet. We entered debt with Avantus for the first time in 10 years. So again, I think we are highly cash-generative, and we are working at deploying our capital a bit better.

I think that thirdly, we've got a really robust and strict treasury policy in terms of ensuring up to 80% of our interest rate is fixed. We have a very non-speculative kind of approach with the board in terms of managing that, and we keep a very tight aim on that.

And then the final thing I'd say, because I'm quite braggy about it as Shawn was. When we did the Avantus deal, we said that we would be under one-time lever within the first 12 months of operation. We did it in four. So again, the use of our cash generation in other parts of the business is helping us on managing our capital cashflow, capital allocation and associated cashflow.

Charlotte Keyworth:
So it's conceivable then that to get to your target in 2027 with acquisitions that you may not be actually taking on any additional debt?

Carol Borg:
Could be, depends on size, timing.

Steve Wadey:
Depends on size, timing. I mean, I'd just like to add to reinforce, because we have so many questions on this. Everything that Carol's just said is absolutely right. The 1.5 is not a target. We're just trying to help give some clarity about where we would see the limits. But the target is the strategy, it's strategy led. I think you've heard it from everybody in slightly different

language. It's strategy led. It's got to hit the right economics and we've got to know that we can integrate and create value.

I think we really tried to clarify today or confirm, nothing's changed on the strategy. Our focus is absolutely about organic growth. Carol changed two refinements in the capital allocation policy to make that crystal clear, if it wasn't already crystal clear. I think that just to help really illustrate the discipline point, we always have a pipeline of acquisitions that we're pursuing that we're continuously reviewing in terms of long-term value creation for the company.

Even in the last six months for different reasons, there are two particular targets that we have walked away from. One based on margin, another based on just too high a price that we weren't prepared to pay. I say that quite deliberately to make sure that our investor community knows that we really do live and breathe the policies that we set out and the description of our strategy that we set out. I think Carol was very clear about the value that we have created through disciplined use of the balance sheet in support of long-term value creation for our investors.

We have had a request to go to the phone lines, so it's great that there are more questions coming from the room, but I'm going to go to John and we're going to bring in some of our investors that are on the phone. John, over to you.

John Haworth:
Thanks Dave. We do have quite a few viewing this live. David Farrell from Jefferies, if I could pass over to the phone line for your question. David.

David Farrell:
Good afternoon. Good morning. Thanks very much for taking my question. I've got two. Firstly, just for Carol on the return on capital employed profile. I was just wondering if you could maybe explain what organically the US and Australia looks like relative to the UK conscience that the US and Australia are likely to outgrow the UK over the organic period to 2027.

Then my second question is clearly with targets you always got to set a date, but it is coincidental that the target is 2027. The LTPA expires in 2028. I'm just wondering in terms of that LTPA renewal, if there's anything in there that might change the profile of the company beyond the current target period. Thank you.

Steve Wadey:
Great. Thank you, David. Maybe do you want to start on the first one, a little bit of the second one? I'll add some comments from the LTPA to finish.

Carol Borg:
Yeah, sure. Return on capital employed and our investment hurdles are the same regardless of where we are investing either organically, inorganically, and regardless of anywhere in the

world. Our key primary metric, David, is to ensure that all of our investments, organic and inorganic, return above our weighted average cost of capital within the third year of operation. We don't make any distinction if it's an acquisition in the US or in Australia. We are deploying a consistent tight hurdle rate.

Steve Wadey:
Do you want to start on the LTPA from a funding point of view and I'll add?

Carol Borg:
Yeah, sure. LTPA, the long-term partnering agreement with the UK MOD is a contract that is in operation till 2028. Steve will talk about where we're going with that. I mentioned just briefly today that we do have a CapEx commitment. It's our only capital intensive contract where we are deploying £400 million. We've spent about half of it already in modernizing facilities and capabilities around the UK. We will see that CapEx peak reduce from FY25 as we run out that contract in its current form to 2028.

Steve Wadey:
Yeah, and my builds, I mean a couple of points on 2028, nothing new that I haven't said before. David, whilst you bring up that the current contract extends to 2028, full confidence and great engagement with our customers that that will extend at least another five years. It's worth just describing why. I think Carol's just mentioned £400 million of investment in the last seven years into the LTPA, and that investment has achieved huge modernisation and the contract is performing exceptionally well. Our relationship and our outputs that we're delivering for our customer are going really great.

Then if your next question would be, well, if your confident on the extension, well what is the further capital commitment? One comment I would make before I answer that would be, if you think about an estate that was under-invested, the £400 million that's gone in over the last seven years has had quite a significant amount of catch-up in terms of really establishing new and modern capabilities. Whilst there will be continued CapEx commitment for the future LTPA beyond 2028, we would expect it to relative to the prior investment, be a slightly lower level, and clearly all beyond the 2028 figures that Carol was mentioning in her presentation. Hopefully David, that answers your question.

David Farrell:
Yeah, thanks very much for that and thanks very much again for the seminar.

Steve Wadey:
Great. Thanks David.

John Haworth:
Thanks David. One more on the lines and then I suggest we come back into the room. George McWhirter from Berenberg.

George McWhirter:
Hi, good morning. I hope you can hear me all right. Just two questions on your threat representation business please. Just on slide 27 of the presentation, you indicated about 200 million Australian dollars in revenue from threat representation in FY24, which I think implies quite a high rate of growth versus the FY23 level. Please can you outline what level of growth do you think that business can achieve up to FY27 if possible? Just related to that, can you comment on the order book trends and order book cover in threat representation please? Thank you.

Gary Stewart:
Okay, thanks. We've seen an increase in the use of the threat representation activities over the last six months. Part of that is the effect that bringing Air Affairs into the threat representation portfolio brings. However, we've also seen a number of our existing contracts either extend or increase through recompete and win. We've seen that happen in Germany. We've seen that in the changing dynamic between Canada and the United States in particular, where a number of the extend aerial threat service contracts are actually going through a re-tendering recompete. It's one of the reasons we're industrializing our US sector to be able to increase capacity and supply into the US market for the future.

We've just come off the back of Exercise Talisman Sabre in Australia, the largest peacetime exercise and mission rehearsal, bringing together Australia, United States Marine Corps, United States Navy, Japanese Defense Force and other nations. This year, Air Affairs actually supported Japanese Defense Force testing and trials in Australia. We're increasing the support we're providing to countries like Singapore and South Korea as well.

There's a growing demand and use of all of our threat representation services. If we look into the next couple of years, there are new recompetes and new competitions happening in Germany, in the Indo-Pacific region, where we're ideally positioned for that continuing growth and targeted organic investment to keep our products relevant and able to satisfy those wider missions.

Steve Wadey:
Thank you, Gary. It's a great question, George, and I'm really pleased you ask it. A couple of builds. If you go back to Carol's description about our organic revenue growth. This is an area, by definition we're going to have a blend of different revenue growths across different segments of the company. This is an area that will probably be at the upper, if not beyond, the net guidance, but I'd like to come back to two or three fundamental points that your question illustrates.

The fact that we had some strategy-led acquisitions here means that we're really creating value by leveraging what we acquired with the capabilities that we already have. When we look at the true growth in the company, there is mutual growth going on between the acquired companies and our core businesses. Let's say, take an example of test and evaluation in the UK. This mutually supportive growth that is coming from these acquired assets is important.

I think if we go back to the first question and answer session, we started talking about AUKUS. It's a great example and Gary's just given one illustration talking about establishing capability in the US with a very large and growing market. It's another example of how we create value by leveraging our capabilities or product or service across borders with the nature of strategy that we have. Thank you, George, for the question.
We're back in the room.

George McWhirter:
That's great. Thank you very much.

Steve Wadey:
We're back in the room. Back there. Whoever gets to the microphone first. It's you.

Byron Callan:
Byron Callan, Capital Alpha Partners. A couple of things. I just wonder if you could talk more generally about the budget environment. In the United States, we arguably don't have a defense budget going to keep pace with the rate of inflation. You have a fair amount of dysfunction going on within Congress right now. Just a little, just a little. How is it affecting the dialogue you're having with your customers? Are they looking for better effect at lower cost? I mean, are they really starting to read things here?
Maybe also, just on the whole issue of autonomy, particularly the vehicles. Where do you think the Army is in their thinking about this? What do they need to get over the hill to really get comfortable with having these in an operating environment and how big an opportunity could it be for you guys?

Steve Wadey:
Do we want to start with overall budget and then migrate for your view of budget and then build in autonomy, Shawn. Do you want to start, Sam?

Sam Lewis:
Sure, yeah. I think there's a couple dynamics at play, right? You've correctly identified that top line budget growth may in fact be outstripped by inflation. That's why we really spend a lot of time focusing on what are the high growth areas in that budget growth or in that budget, and those are in fact outstripping inflation and growing, in some cases double digits.

We've also seen just recently in the last couple of days, President Biden has reiterated his support for things like AUKUS, throwing another $50 billion on the playing field, if you will. Four billion or five billion of that, which is designed around supporting the submarine industrial base, which is a direct hat tip to getting sovereign capability for nuclear submarines into Australia, which we're going to participate in through our UK businesses with the Australians and through our US businesses.

I think while you're correct that inflation is suppressing the opportunity, it's not necessarily suppressing the opportunity in the areas we're critically focused on.

Steve Wadey:
More about the trade-offs that maybe made already too.

Sam Lewis:
I think that comes right back to autonomy and AI sensors and information advantage. Those are the places that are going to see that.

Steve Wadey:
Maybe just before we flip to Shawn on that. I mean it is a good question. I remember when we launched this strategy, the UK defense budget was in depression and the few nods, right? People were saying, how on earth can you grow in a depressing market? The answer is by having the right strategy and focusing on to the point of your question, the sub elements where there is high priority and high growth. I think that again, our track record of our strategy execution says that we understand those dynamics, which is why we can still grow. But, Shawn.

Shawn Purvis:
I think a great question and we talked a bit during the break. We'll take an example of OMFE. OMFE as an opportunity originally thought, down select three, budget concerns down selected to two. I think the uniqueness though of our position is that our capability and autonomy, our universal controller, it's applicable to whichever prime. Where you see us playing is really shifting from being platform specific to platform agnostic, and therefore we benefit regardless, frankly, of that component to it. That's a key piece.

I think the other side, I love the diversity of our business. When there is challenges, for example in the uniqueness of the United States government contracting field where there's a potential threat of shutdown, over 80% of my business is mission essential. We support war fighters downstream, that funding does not get cut and that funding does not stand down. Those areas are areas where we are prime, special forces, our Intel customers, where we are really in the heart of mission. I think that's really critical for us to try and get across in those components.

On autonomy, the video that's playing, the Robotic Command Vehicle Light. A series of over five, 10 years of work with the customer started as a concept in an OTA phase has moved through. Now the next down select of phase two, we expect it then to go to full rate in about 18 months to two years that competition to come out.

What we see is in particular, that customer has used that platform with manned and unmanned in tests and saw results that they weren't even expecting. Phenomenal results of being able to flank manned vehicles with unmanned, if you think about a lead follow kind of situation. They're also thinking about how can they use that for its own situational awareness.

If you were at AUSA, you see there was a tethered UAS for example. You now get to a multi-mission with one platform that is unmanned that allows us to do a series of this component.

We are right in the heart of that with the customer. We are leading that. We are recognized for that as a leading industry. That is our prime work that our team has continued to go through. Over $66 million in funding year-to-date with that part of the customer.
What we're doing now is saying, well, given that platform on land, well what can we do in sea, UUVs? What can we do as you bring targets in in air? Really if you take that stack and worry less about the platform and more about the mission, that's where I see us moving forward. It's a very significant both pivot but also opportunity space across those three domains.

Steve Wadey:
Great. Thank you. Next question.

Kevin Oro-Hahn:
Hi. Kevin Oro-Hahn. I'm with Saddle Point. Thank you for the presentation today, which was very informative. I wanted to return to the earlier question about capital allocation. Steve, Carol, you probably won't be surprised to hear this. I know we've talked about this some, but I guess if I take as your assumption that you're trying to maximize value in returns. On your slide, I just want to ask you about priorities two and four.

Priority two in terms of acquisitions, you have a hurdle rate something above your WACC. If I look at the sum total of what you said today, and believe what you're saying, I don't think your stock price has kept up over the last five years with the value creation. On priority four, there may be an opportunity there that's significantly better than your WACC. I guess my specific question is if you believe that that's true, why wouldn't you vary your hurdle rate explicitly to express the value that may be there in buying back your own stock?

Steve Wadey:
Who wants to go first? I'll go first. First of all, one of your middle comments I completely agree with, and as you know, we've discussed this and our answer will be the same as we've discussed before. But as Carol brought out two refinements of a capital allocation policy that is essentially the same. She also said that we continuously and actively review our capital allocation policy as we're executing strategy. As you alluded to in your question, we're absolutely about executing the strategy and maximizing value creation. That's why we continuously look at it.

In terms of priority number two, real clarity that that is around the complimentary acquisitions and the optionality that we have from high cash generative business. The reason for that refinement was not that it is changing our strategy and our focus on organic growth supplemented by acquisitions, but we wanted to make sure that it was clear and understood by everybody that it was a second priority.

In terms of your direct question about should we be considering a buyback, which is what the question is getting at, we're always reviewing and considering that. But when we look at our four priorities and we look at our strategy and we look at all the things that we're doing inside the business, we believe we really have the right balance of value creation and strategy execution for us at this point in time. Carol?

Carol Borg:
I think my build on that would be, I'm quite encouraged by the compound growth that we have done through organically to back our strategy to avoid, let's call it what it is, to not go into a shared buyback at the moment. We still continue to look at it, but I think we've got more value to create for you guys as shareholders through continuing on our growth trajectory and executing our strategy. But definitely very active conversations at all levels of the organization consistently.

Steve Wadey:
Other questions? Anything more online, John? Any more questions on anything from the first, second or anything else?

Kevin Oro-Hahn:
Sorry, I hate to be a pain in the butt and I feel like I've crossed over the line here, but I guess when I hear that, I don't completely understand What I hear you saying in that is that actually you disagree with my view that you're trading at a significant discount to intrinsic value when you say that you don't think there's an opportunity in the stock. I just want to put a fine point on that. Do you agree or disagree with the fact that you may be trading at a substantially discount to your intrinsic value such that you could create more value by buying back stock?

Carol Borg:
I agree that we are undervalued.

Kevin Oro-Hahn:
Okay, so if that's true, then I don't understand the follow-up point that you can create more value by making acquisition where the target is to hit WACC within three years, versus you could use that same cash to buy back stock and have whatever that discount is, I think significantly higher than your WACC at the current valuation.

Steve Wadey:
Well, I think the answer is because we are trading lots of dimensions inside the company on multiple time fronts. Your thesis is correct if that were the only independent judgment we're making, but we're making a judgment across a wide waterfront of different investment choices that we're pursuing all at the same time on a multiyear basis. I mean, that's our judgment of active review and consideration on a regular basis. We can talk more about it over lunch. I'm very happy to have these conversations because they're good questions to ask and we take them very seriously internally as a team. Thanks Kevin.

Was that a sign to wrap? Any more questions before we wrap?

Okay. Well first of all, thank you for joining our investor seminar today, and for your engaging questions from online and also in the room. Genuinely, we hope that you really gained a better understanding of QinetiQ, a better understanding that our strategy is differentiated, and we are a unique company to respond to the threats in the world.
We are going to be around for a few hours for those of you that are here in New York. We would love to showcase the capabilities that are outside, particularly there's an immersive zone, which you may not have noticed, which actually will really bring our cyber and intelligence business alive for you. I'd encourage you to go and enjoy that.

If you have any further questions, for those online, please do send them in. John Haworth, our lead for investor relations, we would be really pleased to answer any questions that you might have got post today's seminar or in the coming weeks and months. Thank you, and for those of you here, please let's enjoy lunch and continue the conversation. Thank you.

ENDS