
Chief Executive Officer's review

Our strategy is delivering – third year of growth

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Steve Wadey
Chief Executive Officer

We are pleased to report another year of organic revenue growth and record order backlog. Three years since launching our vision-based strategy we have reversed five years of revenue decline and delivered three years of growth. In addition, we drove performance across the Group to successfully offset a ~£5-6m profit headwind from UK single source regulations in FY19 and delivered organic growth in operating profit. For FY20, we are maintaining expectations for Group performance, excluding non-recurring trading items, with revenue growth at stable margins resulting in continued operating profit progression.

This year marked a number of significant strategic achievements that will underpin sustainable profitable growth of QinetiQ in the years ahead.

Shortly after the period end we agreed a significant amendment to the Long Term Partnering Agreement (LTPA) for test, evaluation and training services, our largest single contract and the foundation for many of the capabilities we offer. This secures our market leading position in this critical UK capability, facilitates investment to enhance this capability at appropriate returns for our shareholders, and provides a platform for UK and international growth.

During the year we won five long-term, competitive programmes that mark a step change in our ability to understand our customer requirements, draw on resources across the whole of QinetiQ and identify key industry partners. In every case, these wins provide us with opportunities to enhance our expertise and the value we can derive from these capabilities in the future.

In the UK, we were selected with our partners to become the Engineering Delivery Partner (EDP) to the UK Ministry of Defence (MOD) procurement agency Defence Equipment & Support (DE&S), establishing the default contracting route for all engineering services. We also won the Battlefield Tactical Communication and Information Systems (BATCIS) contract, our largest competitive UK win, awarded by an area of the UK MOD we had not worked with regularly before. Winning these types of contract moves us up the value chain and deepens our relationship with key customers creating further opportunities.

We are applying the same approach in markets outside of the UK to deliver our ambition of 50% of revenues from international customers.



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In the US, we won two robotic programs of record: the Common Robotic System-Individual (CRS-I) program for small robots worth up to \$164m over seven years, and a \$12m order as part of the Route Clearance and Interrogation System (RCIS) program for route clearance vehicles which is worth up to \$44m. This positions us well for future growth in an attractive and dynamic market. Our focus on strategic business winning will deliver greater stability in the performance of our Global Products division, through expansion of the product portfolio and larger, longer-term programmes.

In Canada, we were awarded a C\$51m contract to provide Unmanned Aerial System (UAS) services to the Royal Canadian Navy and Canadian Special Operations Forces Command. We won this competition, our largest ever export order, by combining the strong relationship with the Canadian customer, expertise in unmanned systems and manufacturing facilities acquired through QinetiQ Target Systems, with broader defence capabilities from across the QinetiQ Group.

We completed one further acquisition and one strategic investment during the year that complement our capabilities and allow us to access attractive adjacent markets in UK and international training. With a strong balance sheet, we have the ability to continue to acquire attractive businesses that complement our strategy, enhance our capabilities and increase our international reach.

QinetiQ is a company built on the expertise of its people who are critical to our success. Our focus is on creating the right culture and ensuring everyone feels engaged in our strategy and driving growth. This year we launched a new All Employee Incentive Scheme, the first time QinetiQ has provided a Company-wide bonus. The scheme aligns our employees and shareholders by incentivising and rewarding growth and I am delighted that in its first year of introduction it will pay out £1,000 to every employee in the Company.

It has been an excellent year for QinetiQ, with strong operational performance and further evidence of our strategy delivering results. I would like to take this opportunity to thank the hard work of all our people who have been instrumental in delivering such significant change, and who will be critical to sustaining our strategy and delivering continued profitable growth in the years ahead.

Outlook – FY20

We enter FY20 with confidence having delivered a third successive year of organic revenue growth and an organic increase to operating profit.

- As we build on our record order backlog and benefit from the full year contribution from our recent acquisition of E.I.S. Aircraft Operations and strategic investment into Inzpire, we anticipate delivering mid-single-digit revenue growth including further organic revenue progression
- In EMEA Services, we expect divisional margins in FY20 to be consistent with FY19
- In Global Products, we also expect more stability in divisional margins due to the expansion of our product portfolio combined with our success in winning longer-term programmes
- We will continue to invest to drive future growth, including capex of £80-100m, the majority of which will be invested into the LTPA at an appropriate return. We expect working capital outflows of £20-30m and continued strong cash conversion pre-capex

Overall we are maintaining expectations for Group performance in FY20, excluding non-recurring trading items, with revenue growth at stable margins resulting in continued operating profit progression.

Outlook – longer term

We will continue to grow by implementing our strategy and investing in our people, technology, systems and infrastructure. By doing so, our objective is to deliver continued organic revenue growth, further supported by acquisitions, resulting in sustainable profitable growth at stable margins.

Steve Wadey

Chief Executive Officer
23 May 2019