



# Delivering Value

**QinetiQ Group plc – Annual Results 2012**  
24 May 2012



# Agenda

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- 1. Headlines**
- 2. Financial overview**
- 3. Launching the next phase: Organic-Plus**
- 4. Q&A**

# Headlines

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- **Self-help programme exceeded expectations**
  - Resilient despite challenging markets
- **Strong foundation built over 24 months**
  - De-risked portfolio
  - Upgraded leadership
  - Balance sheet restored to strength
  - Performance – margin improved from 7.4% to 11.0%
  - Full year dividend 2.9p / £18.8m (2011: 1.6p / £10.5m)
  - Structural issues resolved – Special Share, UK DB pension scheme deficit
- **Sets up next phase of development**
  - Organic-Plus programme to grow dependable earnings



# Financial overview

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**David Mellors**

Chief Financial Officer

# Summary financial headlines

	FY12 £m	FY11 £m	Change
Revenue	1,469.6	1,702.6	(14) %
Operating profit*	161.3	145.4	11 %
Operating margin*	11.0 %	8.5 %	
Profit before tax*	118.3	114.6	3 %
Earnings per share* (pence)	14.6 p	14.2 p	3 %
Net cash from operations (post capex)*	235.4	265.8	(11) %
Cash conversion (post capex)*	146 %	183 %	
Net debt <sup>†</sup>	(122.2)	(260.9)	53 %
Gearing ratio*	0.5 x	1.4 x	
Dividend (pence)	2.9 p	1.6 p	

\* Underlying performance and gearing ratio as defined at appendix

† Net debt includes £27m accelerated interest associated with early repayment of private placement notes and £40m cash injection into the UK defined benefit pension scheme. It excludes a £65m payment from the MOD received after the year end

# UK Services

	FY12 £m	FY11 <sup>1</sup> £m
Orders	450.3	420.4
Revenue	610.1	652.7
Underlying Operating Profit*	63.0	47.4
Underlying Operating Profit Margin*	10.3 %	7.3 %
Book to Bill Ratio <sup>2</sup>	1.1	0.9
Backlog <sup>2</sup>	633.5	611.0

(1) Restated to reflect the transfer of QinetiQ's Force Protection business from Global Products at the start of FY12

(2) Book to Bill ratio is orders won divided by revenue recognised excluding the LTPA contract  
Backlog also excludes LTPA contract

\* Underlying performance as defined at appendix



De-risking A400M



Leaders in C4ISR



Naval combat systems integration

# US Services

	FY12 £m	FY11 <sup>1</sup> £m
Orders	530.3	580.9
Revenue	534.5	607.3
Underlying Operating Profit*	32.1	45.9
Underlying Operating Profit Margin*	6.0 %	7.6 %
Book to Bill Ratio	1.0	1.0
Backlog	204.7	207.0

(1) Restated to reflect the transfer of M&T Services from Global Products at the start of FY12

\* Underlying performance as defined at appendix



NASA programme success



Logistics and fleet management



C4ISR and cyber security

# Global Products

	FY12 £m	FY11 <sup>1</sup> £m
Orders	245.7	558.4
Revenue	325.0	442.6
Underlying Operating Profit*	66.2	52.1
Underlying Operating Profit Margin*	20.4 %	11.8 %
Book to Bill Ratio	0.8	1.3
Backlog	162.3	242.2

(1) Restated to reflect the transfer of QinetiQ's Force Protection businesses from Global Products at the start of FY12

\* Underlying performance as defined at appendix



Incorporated OptaSense®



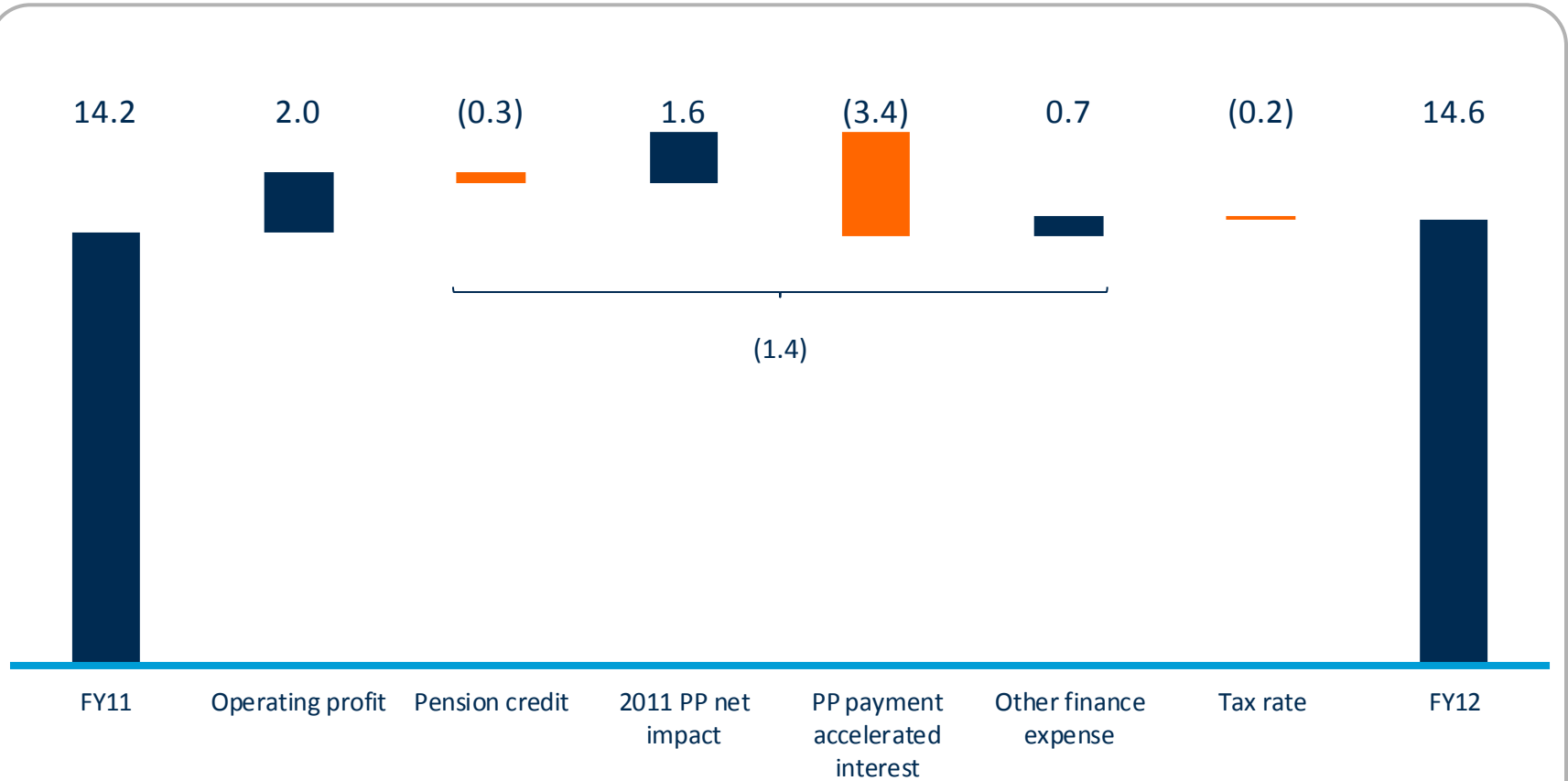
E-X-Drive® for GCV



DR-10™ for US JIEDDO



# Underlying\* EPS (pence)



Net finance costs included an accelerated interest payment of £27.4m (2011: £8.8m) associated with the early repayment of \$177m of private placement debt (2011: \$135m)

\* Underlying performance as defined at appendix

# Earnings impact of pension and private placement deal

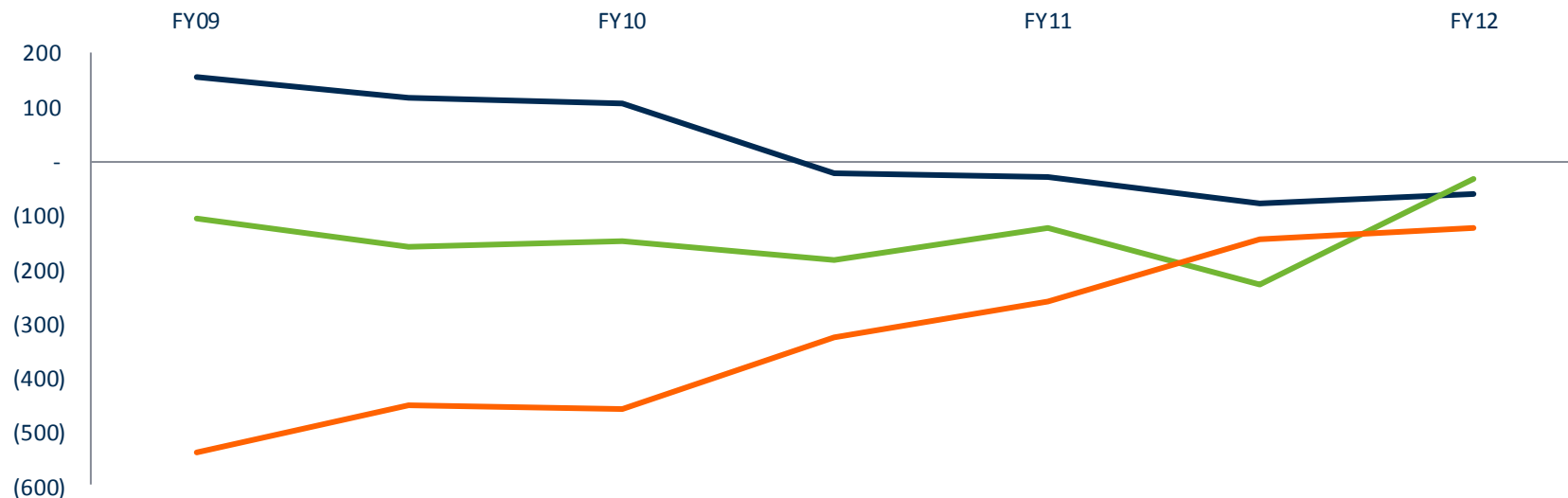
	FY12 £m	FY13(approx) £m
Net interest expense	(19.7)	(15)
Accelerated interest payments	(27.4)	-
Other finance costs	(2.3)	(2)
Pension finance credit	6.4	9
<b>Net finance expense</b>	<b>(43.0)</b>	<b>(8)</b>

# Non-recurring items\*

	FY12 £m	FY11 £m
<b>Non-cash items:</b>		
Amortisation of acquired intangibles (recurring)	(20.3)	(26.3)
DTR inventory recovery/(write-off)	4.1	(23.8)
Impairment of property	(1.9)	(5.9)
Pension past service credit	141.4	-
Other	-	0.6
<b>Items with cash impact:</b>		
Net reorganisation credits/(charges)	69.4	(28.6)
Gain on business divestments and disposal of investments	11.6	2.1
Gain on disposal of property	9.0	-
Contingent payments on acquisition treated as remuneration	-	(6.1)
<b>Total non-recurring items (pre-tax)</b>	<b>213.3</b>	<b>(88.0)</b>

\* Acquisition amortisation and specific non-recurring items

# Strengthening the balance sheet



	FY09 £m	FY10 £m	FY11 £m	FY12 £m
■ Working capital	154.0	107.2	(30.7)	(62.7)
■ Retirement benefit obligation (pre-tax)	(105.2)	(147.3)	(124.6)	(31.5)
■ Net debt	(537.9)	(457.4)	(260.9)	(122.2)

# Cash conversion

	FY12 £m	FY11 £m
Underlying operating profit*	161.3	145.4
Share of JVs & associates	(0.1)	(0.2)
Operating profit before JVs & associates*	161.2	145.2
Cash flow from operations*	250.8	287.6
Net capex	(15.4)	(21.8)
Net cash flow from operations post capex	235.4	265.8
<b>Cash conversion %*</b>	<b>146%</b>	<b>183%</b>
Net interest paid	(38.5)	(28.6)
Tax	(23.3)	(42.9)
Free cash flow*	173.6	194.3

# Movements in net debt

	FY12 £m	FY11 £m
<b>Free cash flow</b>	<b>173.6</b>	<b>194.3</b>
UK restructuring costs	(8.9)	(31.8)
Acquisitions and investments	(0.9)	(15.8)
Divestments	11.2	38.2
Dividends	(16.4)	-
Purchase of own shares	(12.0)	(0.6)
Other	(6.2)	(11.4)
<b>Change in net debt before FX</b>	<b>140.4</b>	<b>172.9</b>
FX translation impact	(1.7)	23.6
<b>Change in net debt</b>	<b>138.7</b>	<b>196.5</b>
Opening net debt	(260.9)	(457.4)
<b>Closing net debt</b>	<b>(122.2)</b>	<b>(260.9)</b>

## Defined benefit pension scheme – IAS 19 balance sheet position

	FY12 £m	FY11 £m
Market value of assets	1,107.9	981.1
Present value of scheme liabilities	(1,139.4)	(1,105.7)
Net pension liability before deferred tax	(31.5)	(124.6)
Deferred tax asset	13.3	32.4
Net pension liability	(18.2)	(92.2)

	FY12 %	FY11 %
Assumptions:		
Discount rate	4.8	5.6
Inflation	2.6	3.6

### Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease 0.1%	Decrease / increase by £21.1m
Inflation	Increase / decrease 0.1%	Increase / decrease by £22.2m
Life expectancy	Increase by 1 year	Increase by £19.3m

# Market

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## US:

- Limited visibility throughout US Presidential election year; overhang of possible sequestration unlikely to be resolved before end of 2012
- Continued delays in the award of DoD and federal civil business
- Drawdown of the Overseas Expeditionary Force 2012/13
- Competition is keen
- Large and relatively resilient federal contracting market with opportunities in:
  - ISR and unmanned systems, space and cyberspace
  - IT services

## UK:

- Defence transformation
  - Yellow Book review
  - DE&S reform – short-term uncertainty; medium-term opportunity
- Emphasis on technology to maintain national security
  - “Floor” for R&D expenditure
  - Onshore T&E skills for the procurement of off-the-shelf equipment



# Outlook

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- Given the continuing uncertainty and lower than normal visibility in our markets, the Board's expectations for trading performance in the current year remain unchanged
- However, underlying earnings per share will benefit from early repayment of private placement debt and the reduction in the deficit of the UK defined benefit pension scheme following the change to CPI as the inflation index
- The success of the self-help programme in restoring both the balance sheet and portfolio to strength gives the Board confidence in QinetiQ's ability to build significant value over the next phase of its development

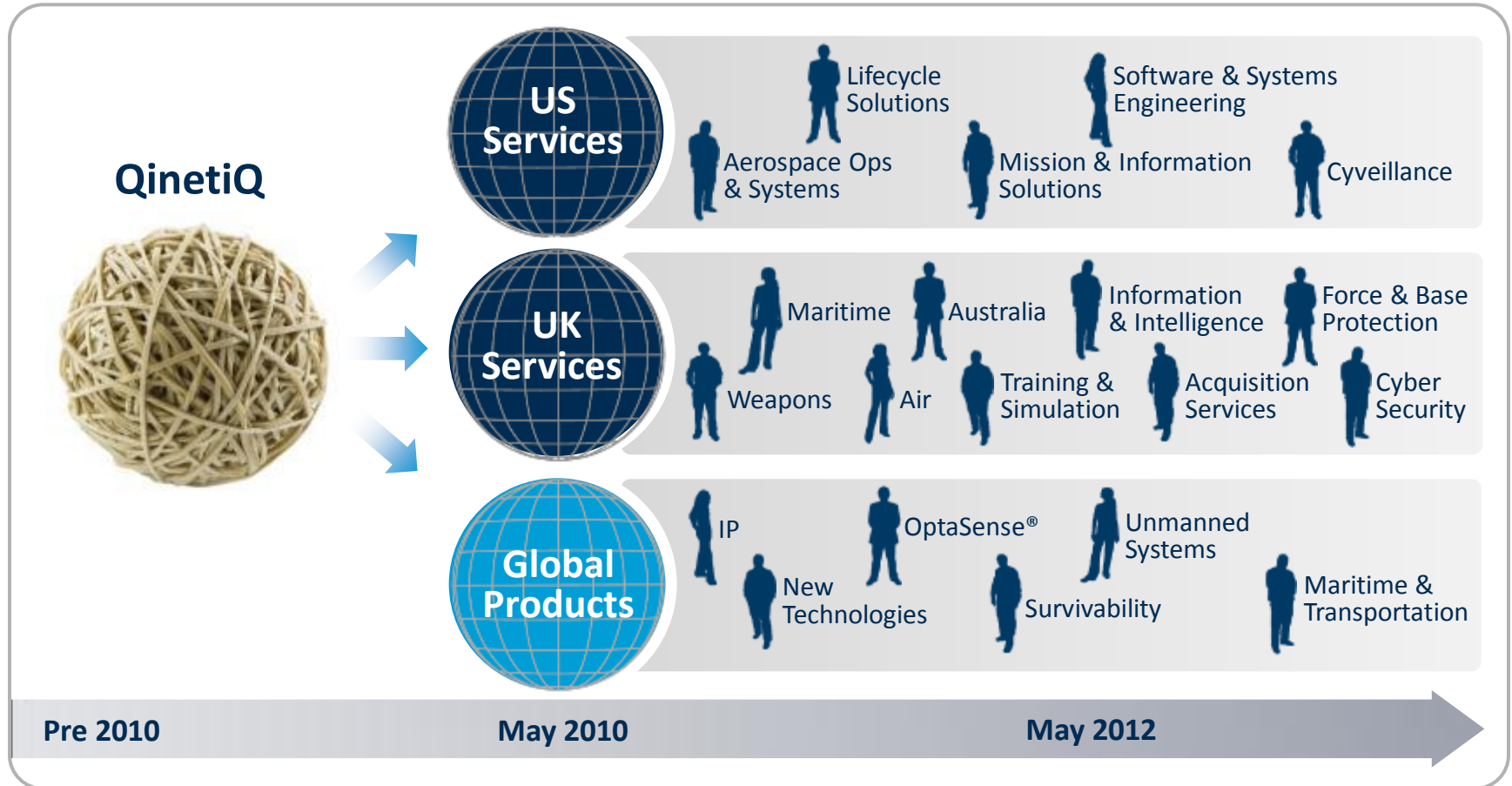


# Launching the next phase: Organic-Plus

**Leo Quinn**

Chief Executive Officer

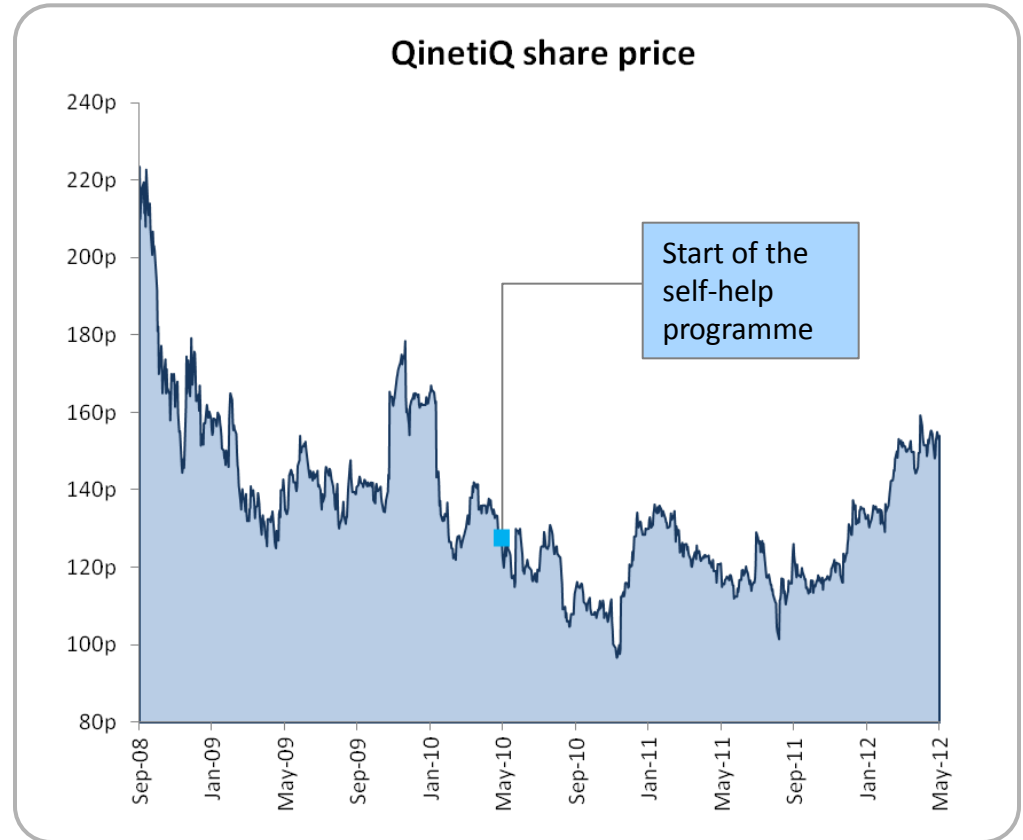
# From self-help to Organic-Plus



Leadership – portfolio – process

# Pre 2010 – forced growth

- Loss of clear direction
- Lack of transparency
- Utilisation at the expense of profit
- Acquisitions not integrated
- Innovation not managed
- Technology-push not market-pull
- Over-stretched balance sheet



Lessons learnt for the future

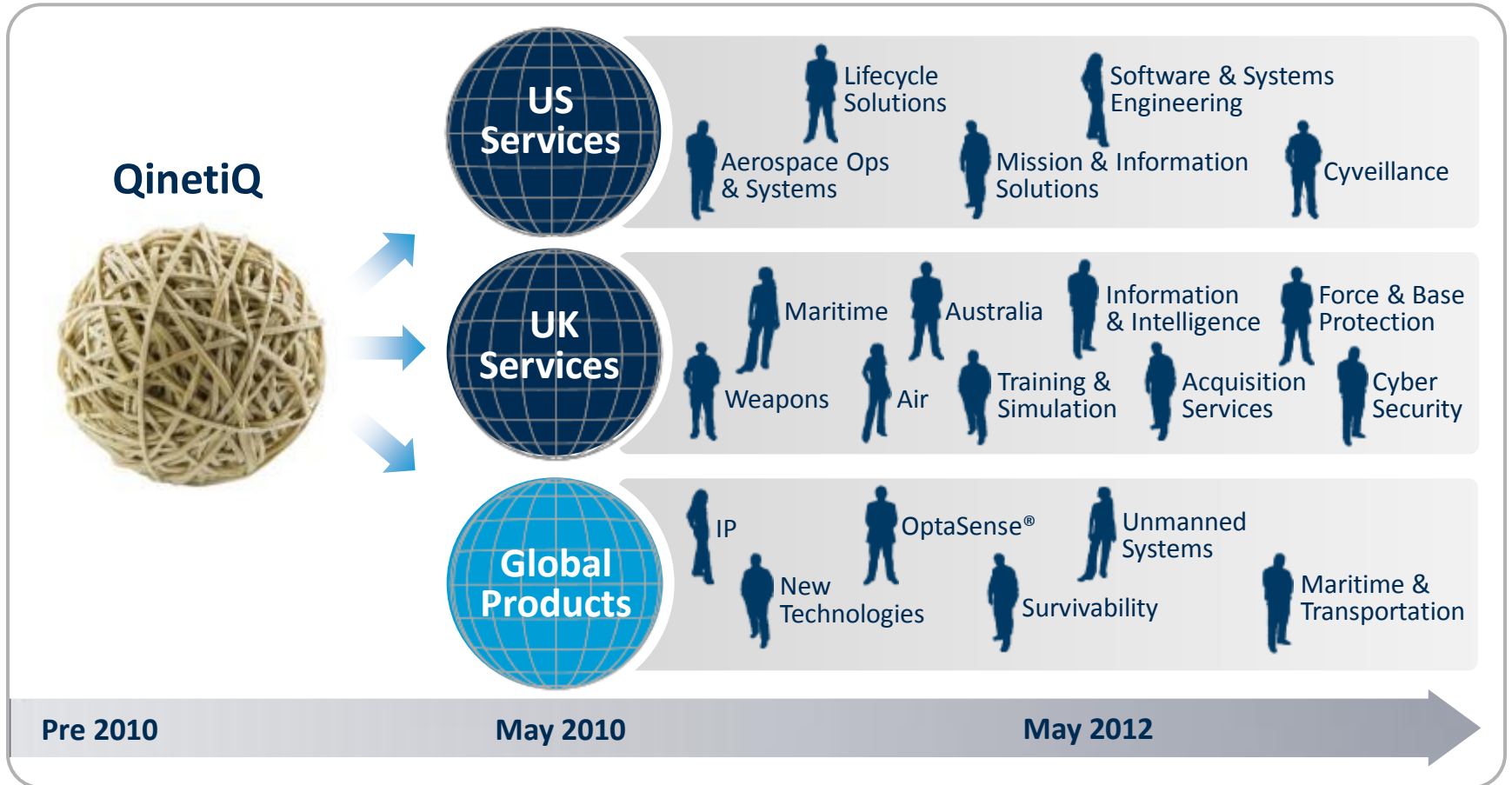
# Phase one – a sustainable foundation

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- **Strengthening the balance sheet – capacity for investment**
  - Gearing reduced to 0.5x (from 2.5x); net debt reduced to £122m (from £538m)
  - Refinanced and restructured – earliest maturity 2016
  - Pension scheme deficit reduced by £141m due to change to CPI as inflation index
- **Cultural transformation – a more competitive, commercial culture**
  - Leadership upgrade – 80% top level; 50% next level
  - Lean processes – year 1: £50m costs out of UK; year 2: \$25m costs out of US
  - Employee engagement – 9,000+ My Contribution proposed projects
  - Customer satisfaction – first quartile
  - MOD special share agreement modernised
- **Focus – investable, accountable businesses**
  - Transparency – where money is made and lost
  - Portfolio segmented by “business readiness level” – scalable business models

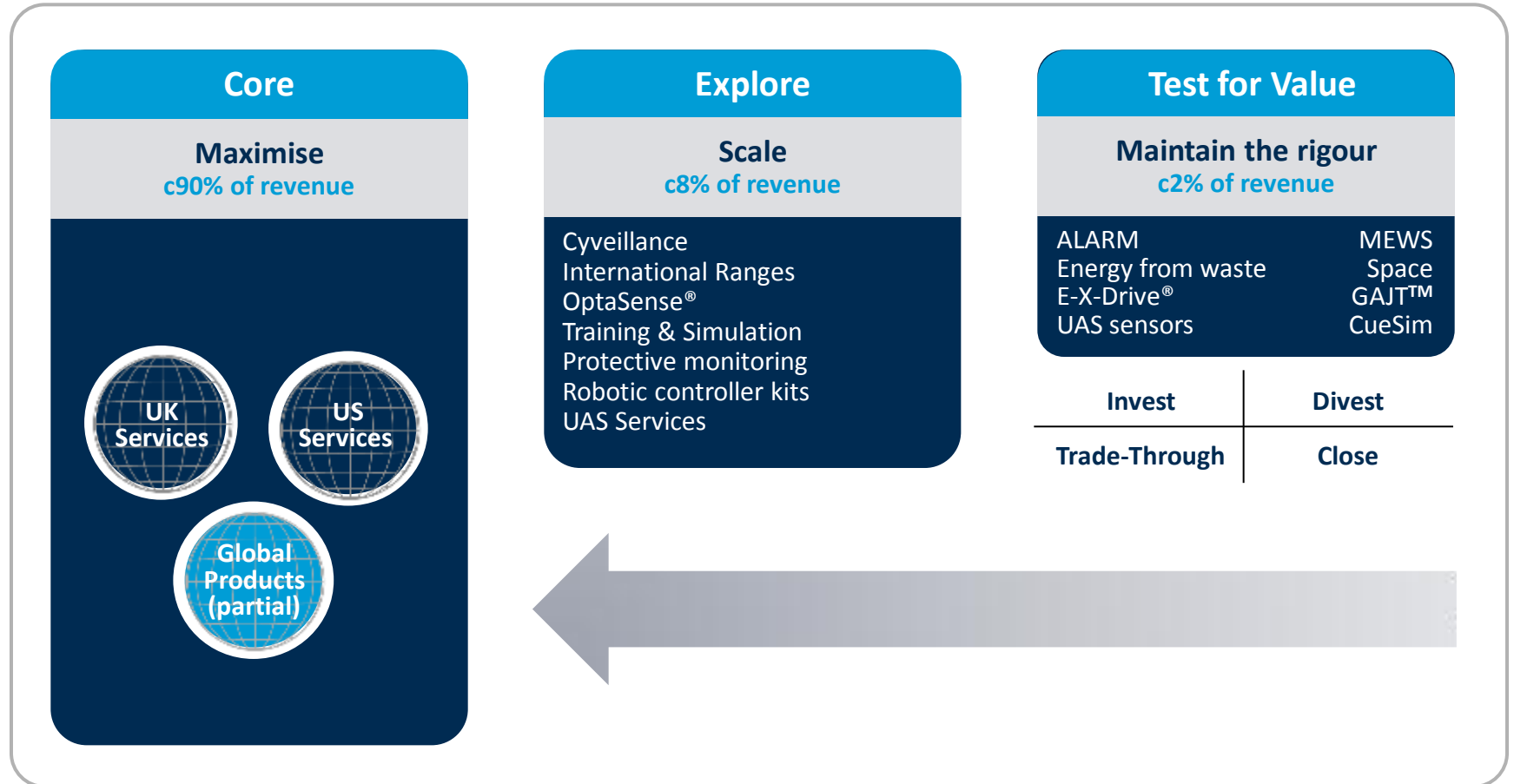
**A strong foundation for managed earnings growth**

# Focus – an emerging cadre of leaders



**Accountable, investable businesses**

# Focus – a strong core complemented by a “value pipeline”



A disciplined approach to value creation

# Maximise the Core – UK Services

- **Proven sustainable businesses**

- Unique competitive advantage: domain expertise and impartial advice
- Long-term contracts

- **Plays to future customer outsourcing**

- Delivers customer savings (LTPA: £180m)
- Scalable
- International sales



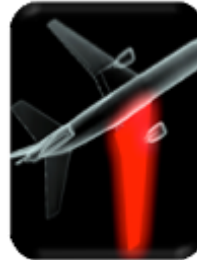
C4ISR



Force & base protection



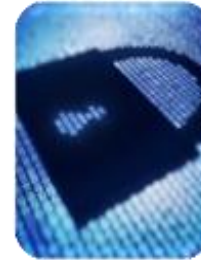
Test & evaluation



Air engineering



Programme support



Cyber security



Acquisition services



Information & intelligence

## Case study: Naval combat systems integration

- £38m contract – broadens services to MOD
- Test facilities, analysis, technical expertise
- Approve combat systems before fitted on ships

## Case study: A400M

- End-to-end evaluation capability
- Trials, safety, airworthiness
- De-risks procurement

**Invest to win market share**



# Maximise the Core – US Services

- **Established player**

- Strong, respected brand
- Contract vehicles
- Security cleared people

- **Large US federal services market**

- Scope to grow share
- Relatively resilient – not big defence
- Close customer relationships



C4ISR



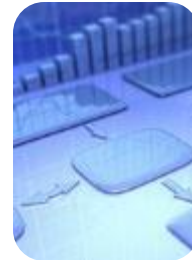
Mission assurance



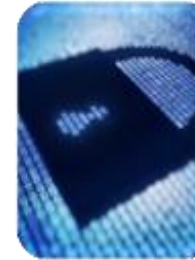
Cloud computing



IT and software engineering



Logistics



Cyber solutions



Mobility solutions



Information & intelligence

## Case study: NASA Kennedy

- Proof point on \$2bn contract
- Support for space flight, ground systems, labs
- 90%+ customer satisfaction

## Case study: Volpe Center

- New US national transportation center
- Protecting critical transport control systems
- Selected ahead of IT and defence primes

**Invest to grow**

# Maximise the Core – Global Products

- **Single product successes**

- Strong R&D capability
- Customer-led not technology-driven
- Established brand in US and UK

- **Lumpy revenue**

- Partner / acquire to broaden portfolio
- Pull through Explore opportunities
- UK / US collaboration



Talon®



DR-20™



Q-Nets®



PADS™



LAST® Armor



LAST® Spall  
Liners



EMALS



AAG

## Case study: Q-Nets®

- Rapid productisation to replace bar armour
- Spares revenues – c\$50m FY12
- International sales – France, Poland

## Case study: Dragon Runner™

- Growing unmanned systems portfolio
- Selected by US Joint IED Defeat Organisation (JIEDDO)

**Invest in building portfolio to smooth earnings**

# Scaling an Explore opportunity – OptaSense®

“The earth’s nervous system”™

Distributed Fibre Sensing to protect and secure the world's critical assets

## QinetiQ offering

- Oilfield Services
  - £27m Shell R&D contract
  - New commercial services framework agreement
  - Hydraulic fracture monitoring services commenced
- Infrastructure Security & Monitoring
  - In operation on 6,000km of linear assets
- Investing to expand applications and geographies
  - 123 patents filed to protect strategy
  - New offices in North America and Middle East
  - Acquired Sensoptics Ltd



**OptaSense®**  
a QinetiQ company

## Platform technology

- Oil & Gas – \$4.5bn pa market for down-hole fibre sensing
- Pipeline – £6bn total market (1,180,000km of pipeline)
- Border protection – £5bn pa addressable market
- Transport and utilities – \$2bn market (500,000km of networks)



**Invest to grow beyond defence**

**QinetiQ**

# Scaling an Explore opportunity – Training and Simulation

“Transforming the way the world delivers complex training”

## QinetiQ offering

- Deployment of COTS and gaming technology to reduce the cost of complex training
- Platform independent, technology agnostic approach
- Approved supplier for \$2bn US Navy IDIQ contract
- Delivered world-first “360° Coal Mine Safety Trainer”
- Invested in new simulation centres



## Markets

- Global military virtual training market – \$3.5bn pa, growing at 7% a year
- Addressable markets
  - UK: £100m pa
  - US: \$2.2bn pa

Invest to grow within defence

# Test for Value – examples

## Partner to minimise risk and accelerate time to market

### GAJT™

Instant GPS anti-jam protection



- QinetiQ licenses algorithms and electronic design
- Partner: NovAtel Inc, manufacturing and sales channels
- Now being fitted to armoured vehicles (addressable market: 15,000 vehicles); Maritime and Air systems to follow

### MEWS

Modular Electronic Warfare System



Flexible threat warning and RF Spectrum situational awareness

- QinetiQ EW software & processing techniques
- Partner: L-3 TRL, manufacturing and sales – existing routes to market in 25+ countries
- Global signals intelligence market – £500m pa

### E-X-Drive®

Hybrid electric drive transmission for tracked vehicles



- Enables 20% reduction in fuel consumption and reduced through life costs
- Step-change in design flexibility compared to conventional designs
- On BAE Systems / Northrop Grumman team for GCV (\$450m prime contract)

### Energy from waste

Localised waste management; turns rubbish into power



- Farnborough prototype:
  - 2,000 tonnes pa
  - software to quantify savings
- 144m tonnes pa of UK waste sent to landfill
- UK EfW market:
  - 2013 – £1bn
  - 2020 – £5bn

Managed innovation

QinetiQ

# Next phase – Organic-Plus

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Manage the portfolio actively by investing in organic growth, supplemented where appropriate by partnerships, alliances and selective acquisitions to deliver the strategy and diversify risk

- **MAXIMISE the Core**

- Invest to win share – develop offerings in step with changing customer needs
- Invest – extend offering to new geographies and sectors
- Strategically acquire against a scalable strategy

- **SCALE the Explore**

- Invest and/or partner – to scale business
- Acquire for strength (eg acquired Sensoptics Ltd to accelerate OptaSense®)

- **MAINTAIN THE RIGOUR in Test for Value**

- Rigorous organic process: invest/divest/trade-through/close
- Partnerships and alliances – drive the optimum route to crystallise value

# Creating value

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- **Phase one (self-help) – foundation**
  - Focused portfolio capable of building value
  - Upgraded leadership; leaner company
  - Stronger balance sheet
  - Dividend restored
- **Phase two (Organic-Plus) – managed growth**
  - Dividend increased
  - Maintain disciplines of phase one
  - Drive the “value pipeline”
    - Maximise the Core
    - Scale the Explore
    - Maintain the rigour in Test for Value

 Growing our dependable earnings



# Questions

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**Diary date: Investor Day, Farnborough UK**  
Wednesday 26 September 2012

See [www.QinetiQ.com/investors](http://www.QinetiQ.com/investors) for further information





# Appendices

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# Definitions

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- **Underlying performance is stated before**

- Net restructuring recoveries/charges
- Pension curtailment gains & pension past service gains
- Recovery/write-offs of previously capitalised DTR programme costs
- Gains/losses on business combinations & divestments and disposal of investments
- Amortisation of acquisition related intangible assets
- Impairment of intangible assets and property
- Tax effect of the above

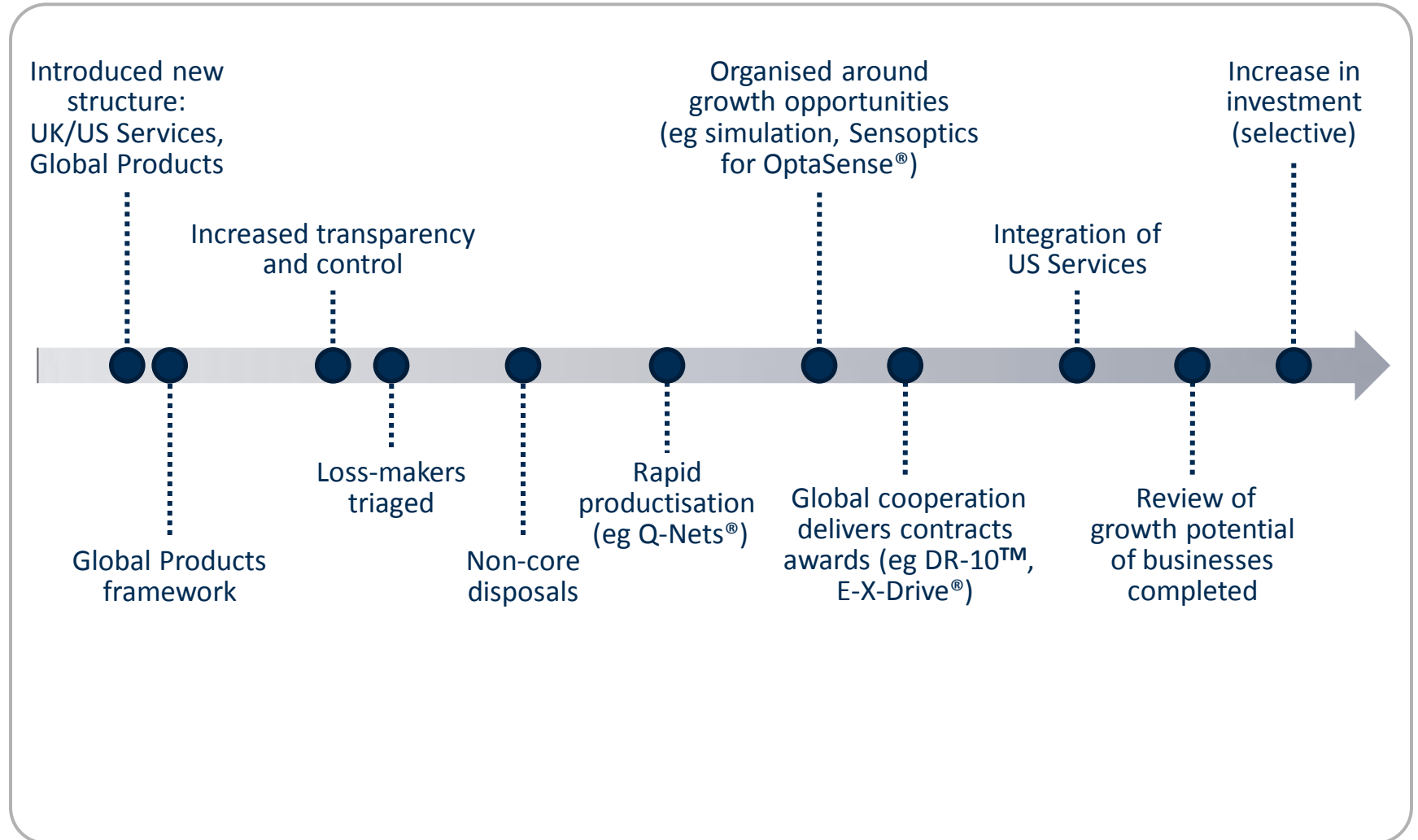
- **Organic growth**

- Is calculated at constant foreign exchange rates, adjusting the comparatives to incorporate the results of acquired entities and excluding the results for any disposals for the same duration of ownership as the current period.

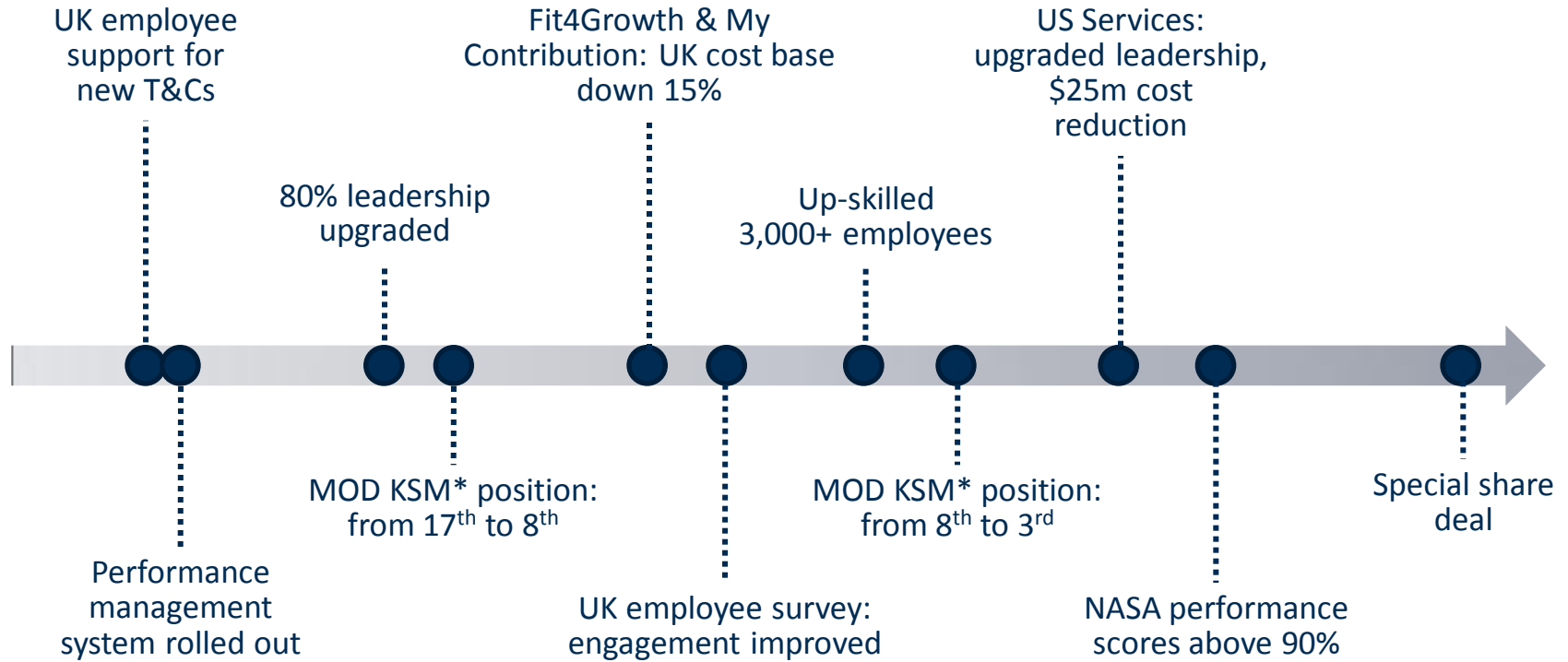
- **Gearing ratio**

- The gearing ratio (net debt to adjusted EBITDA) is the ratio of net borrowings at the balance sheet date translated at average exchange rates for the period, to EBITDA generated in the 12 month period to balance sheet date, and calculated in accordance with the Group's credit facility ratios.

# Focus

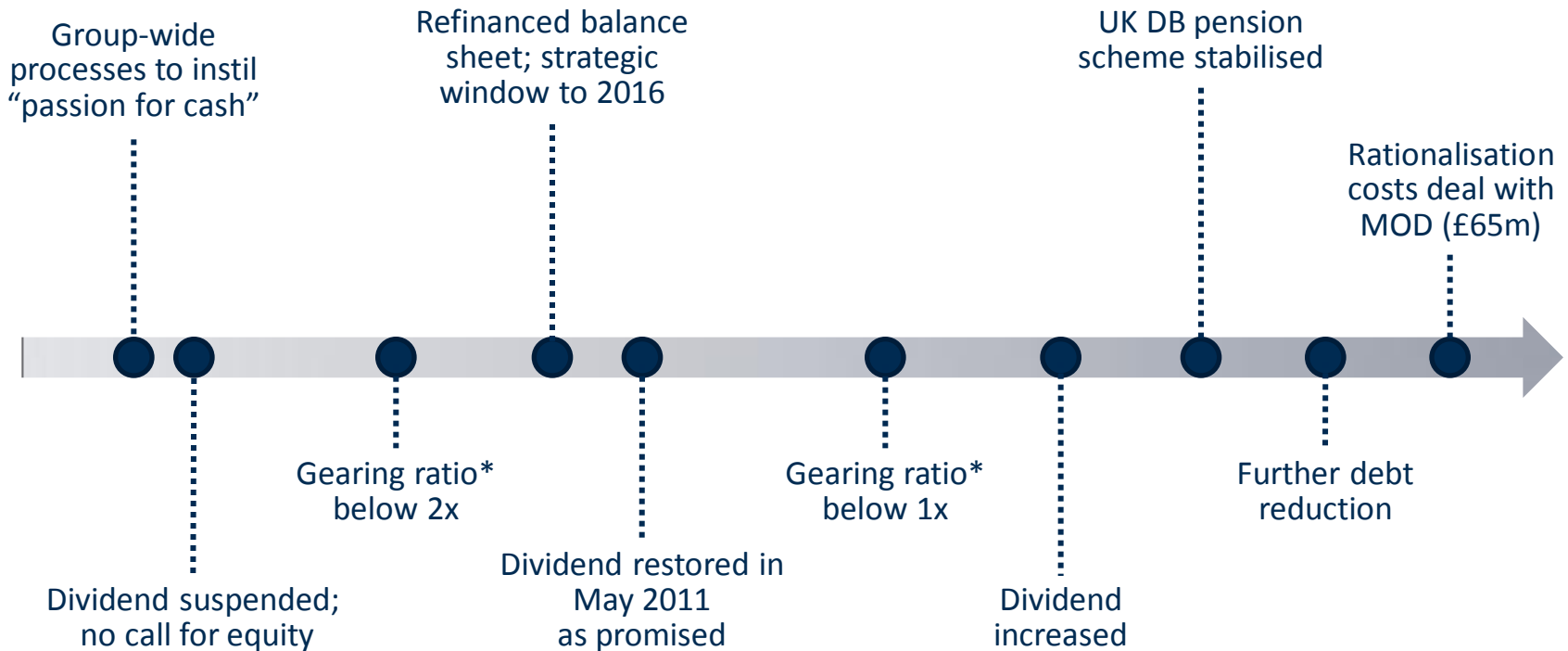


# Cultural Transformation



\* Ministry of Defence "Key Supplier Management" customer satisfaction score

# Balance Sheet



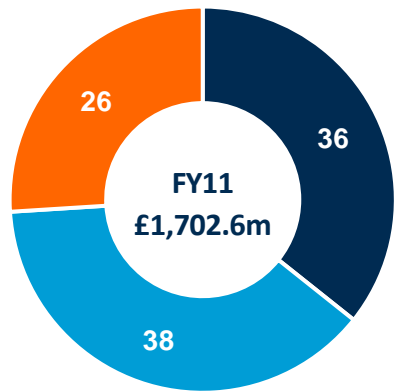
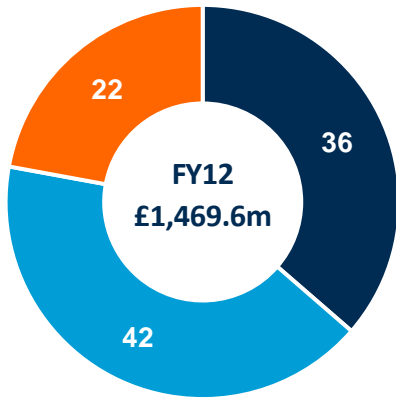
\* Gearing ratio as defined at appendix

# Detailed income statement

	FY12 £m	FY11 £m
Revenue	1,469.6	1,702.6
Underlying operating profit*	161.3	145.4
Net finance expense	(43.0)	(30.8)
Underlying profit before tax*	118.3	114.6
Amortisation of acquired intangibles (recurring)	(20.3)	(26.3)
DTR inventory recovery/(write-off)	4.1	(23.8)
Impairment of property	(1.9)	(5.9)
Pension past service credit	141.4	-
Net reorganisation recoveries/(charges)	69.4	(28.6)
Gain on business divestments and disposal of investments	11.6	2.1
Gain on disposal of property	9.0	-
Contingent payments on acquisition treated as remuneration	-	(6.1)
Other	-	0.6
Statutory profit before tax	331.6	26.6
Taxation	(73.7)	(21.6)
Statutory profit after tax attributable to equity shareholders	257.9	5.0

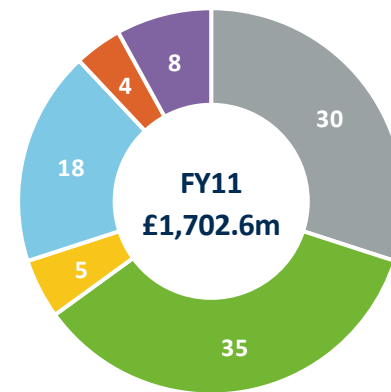
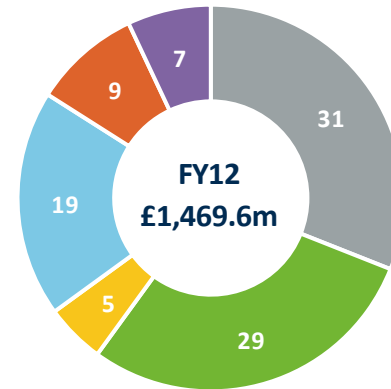
\* Underlying performance as defined at appendix

# Revenue by sector and customer



**Revenue by sector (%)**

- Global Products
- US Services
- UK Services



**Revenue by customer (%)**

- Civil/Other Government Agencies
- MOD
- NASA
- DHS
- DoD
- Commercial Defence

# Taxation

	<b>FY12 £m</b>	<b>FY11 £m</b>
Underlying tax charge*	<b>(23.5)</b>	(21.8)
Tax on non-recurring items	<b>(50.2)</b>	0.2
Headline tax charge	<b>(73.7)</b>	(21.6)
Underlying tax rate*	<b>19.9%</b>	19.0%



# Balance sheet

	FY12 £m	FY11 £m
Goodwill	519.3	521.1
Intangible assets	71.8	103.2
Property, plant and equipment	246.6	260.9
Working capital	(62.7)	(30.7)
Retirement benefit obligation (net of tax)	(18.2)	(92.2)
Other assets and liabilities	(35.2)	(43.9)
Net debt	(122.2)	(260.9)
Net assets	599.4	457.5

# Business realignment

	Revenue	Operating profit	Margin
	FY11 £m	FY11 £m	FY11
<b>UK Services</b>			
As reported	611.6	48.7	8.0 %
Restructuring	41.1	(1.3)	(3.2) %
Adjusted	652.7	47.4	7.3 %
<b>US Services</b>			
As reported	588.2	44.3	7.5 %
Restructuring	19.1	1.6	8.4 %
Adjusted	607.3	45.9	7.6 %
<b>Global Products</b>			
As reported	502.8	52.4	10.4 %
Restructuring	(60.2)	(0.3)	0.5 %
Adjusted	442.6	52.1	11.8 %

# Credit and debt facilities

	Maturity date	Denomination	Value	Value £m
Private Placement	February 2016	\$m	43.0	26.9
Revolving Credit Facility	February 2016	£m	118.0	118.0
Revolving Credit Facility	February 2016	\$m	250.0	156.3
Private Placement	December 2016	\$m	48.0	30.0
Private Placement	February 2019	\$m	157.0	98.2
<b>Total Committed Facilities</b>				<b>429.4</b>

The Group elected to make early repayment of US\$177m of private placement debt which will complete after the year end.  
The table shows expected facility values after early repayment.

# Employee numbers\*

	<b>FY12</b>	<b>FY11<sup>(1)</sup></b>
UK Services	<b>5,157</b>	5,337
US Services	<b>3,940</b>	4,686
Global Products	<b>1,083</b>	1,185
<b>Total</b>	<b>10,180</b>	11,208

\* As at financial year end

<sup>(1)</sup> Restated to reflect the transfer of businesses from Global Products at the start of FY12

# Disclaimer

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This document contains certain forward-looking statements relating to the business, financial performance and results of the Company and/or the industry in which it operates. Actual results, levels of activity, performance, achievements and events are most likely to vary materially from those implied by the forward-looking statements. The forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words 'believes', 'expects', 'predicts', 'intends', 'projects', 'plans', 'estimates', 'aims', 'foresees', 'anticipates', 'targets', 'goals', 'due', 'could', 'may', 'should', and similar expressions. These forward-looking statements include, without limitation, statements regarding the Company's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the relevant markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Nothing in this document should be regarded as a profit forecast.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this Results Announcement are solely opinions and forecasts which are uncertain and subject to risks. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed or implied by these forward-looking statements. A number of factors could cause actual events to differ significantly. These factors include, but are not limited to:

- Defence budgets which are subject to review and change from time to time and the level of available funding open to private contractors in the United Kingdom and United States;
- The winning of new business or retention of previous business through a competitive bidding process;
- The continued growth of the Company's US business and the availability of attractive candidates for further acquisitions;
- The level of pension liability the Company accrues, given market conditions and actuarial factors;
- Material adverse changes in economic conditions in the markets served by the Company; and
- Future regulatory actions and conditions in the Company's operating areas, including competition from others.

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of the Company, speak only as of the date they are made. Save as required by law, the Company will not publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document.