

# Preliminary results for year ended 31 March 2015

**QinetiQ Group Plc**



**21 May 2015**

# Introduction

**Mark Elliott** | Chairman



# Opening remarks

**Steve Wadey** | Chief Executive Officer



# Opening remarks

## My perspective

Looking at the market  
Looking at QinetiQ  
Key principles



## First impressions

Strong position  
Outstanding people  
Ready to move forward

# Year in review

**David Mellors** | Chief Financial Officer



# Headlines

## Strategic

- Sale of US Services
- Separation of US Global Products with standalone infrastructure
- Paid off US Private Placement notes
- £150m share buyback well advanced
- 17% increase in full year dividend reflecting upgrade at the half year and progressive dividend policy

## Operational

- Strong performance in EMEA Services
- Restructured US Global Products with new management team
- Continued high cash conversion: 103%
- Maintaining expectations for Group performance in the current financial year

**A good year of strategic and operational progress**

## Market Drivers

- Increasingly diverse threats to our security
- Customers need to achieve more with less

## UK Defence Market

- Ongoing defence transformation
  - Revised single source regulations
- New parliamentary term
  - Comprehensive Spending Review
  - Strategic Defence and Security Review

## Global Markets

- US
  - post-conflict environment
- Australia and Canada
  - similar objectives to UK
- Middle East
  - building their defence and security capabilities

**Market uncertainty provides new opportunities as well as challenges**

# Summary financial headlines

	<b>FY15</b>	<b>FY14<sup>^</sup></b>
	<b>£m</b>	<b>£m</b>
Revenue	<b>763.8</b>	782.6
Operating profit*	<b>111.3</b>	113.7
Operating margin*	<b>14.6%</b>	14.5%
Earnings per share* (pence) - continuing operations	<b>15.2</b>	13.8
Net cash from continuing operations (post capex)*	<b>114.9</b>	106.2
Cash conversion from continuing operations (post capex)*	<b>103%</b>	93%
Net cash	<b>195.5</b>	170.5
Dividend (pence)	<b>5.4</b>	4.6

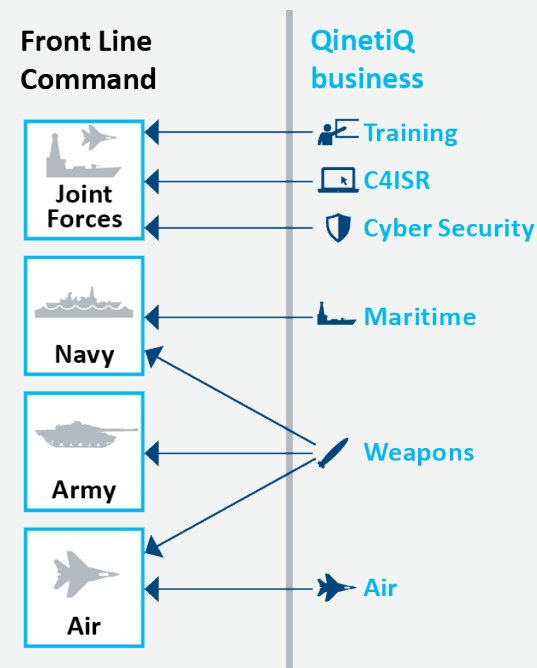
<sup>^</sup> 2014 data has been restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation  
\* Underlying performance as defined in appendix



# EMEA Services – financial performance

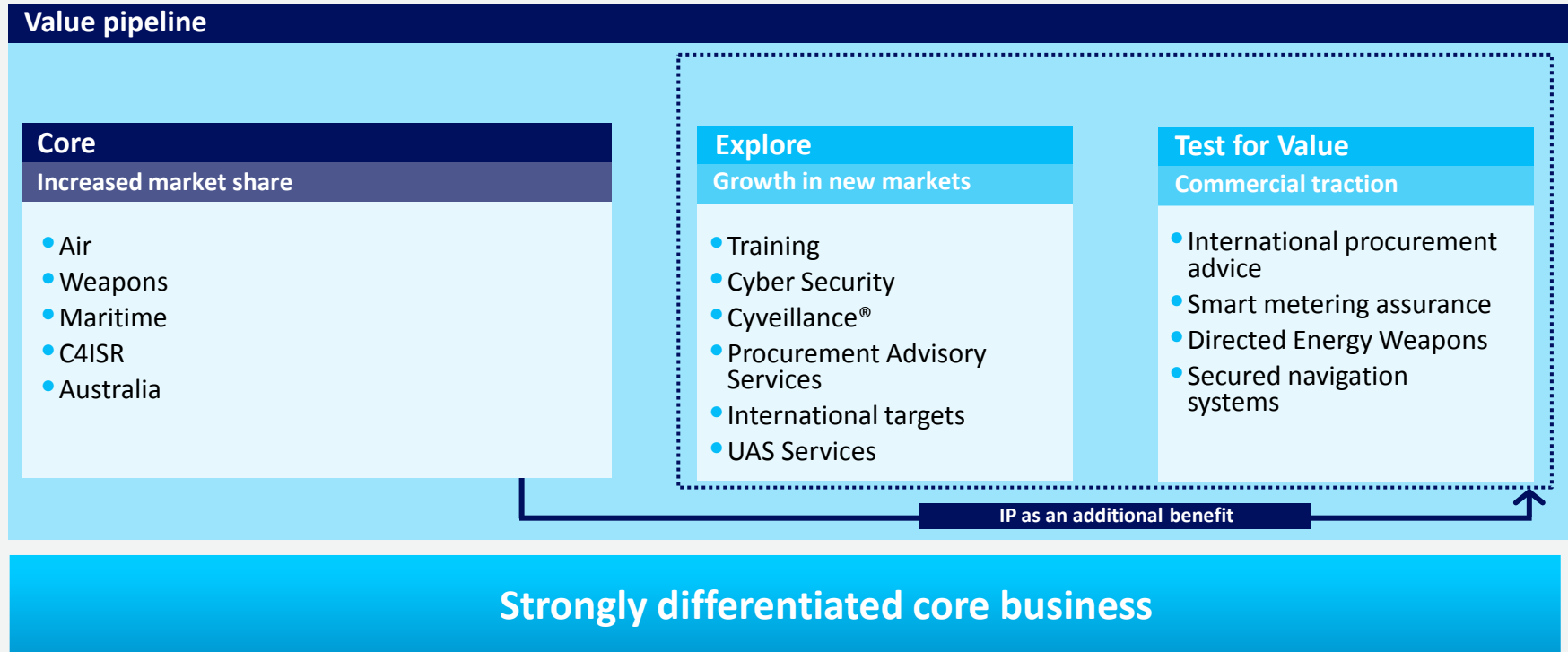
	<b>FY15</b>	FY14
	<b>£m</b>	£m
Orders†	<b>461.6</b>	447.8
Revenue	<b>625.6</b>	607.0
Underlying Operating Profit*	<b>93.0</b>	86.7
Underlying Operating Profit Margin*	<b>14.9%</b>	14.3%
Book to Bill Ratio†	<b>1.1x</b>	1.1x
Funded Backlog†	<b>678.6</b>	661.0

- 3% revenue growth
  - Core Air, Weapons & Maritime all performed well
- Strong margin driven by:
  - Good utilisation, better project management, productivity improvements
  - Assisted by c£4m project completion milestone and insurance recovery
- FY16 revenue cover: c80% at 1 April 2015; similar to prior year
- Opportunity for future value – LTPA investment



\* Underlying performance as defined in appendix  
 † Excludes the third term £998m renewal of the LTPA contract. Book to Bill ratio is orders won divided by revenue recognised excluding the LTPA contract

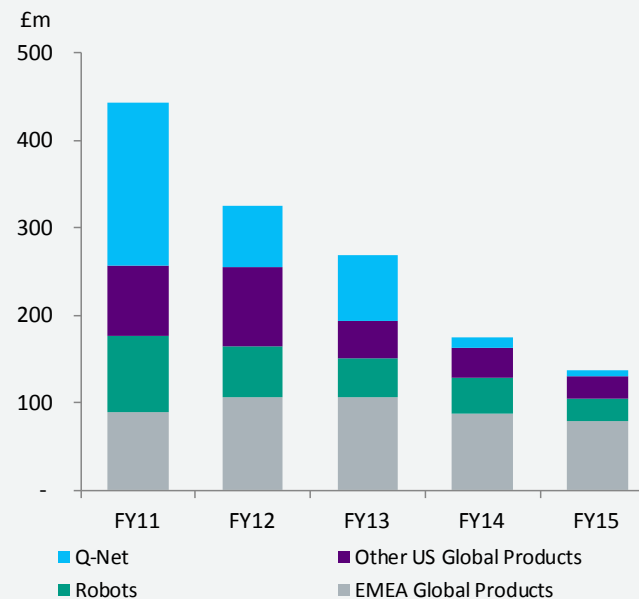
# EMEA Services – Year in review



# Global Products – financial performance

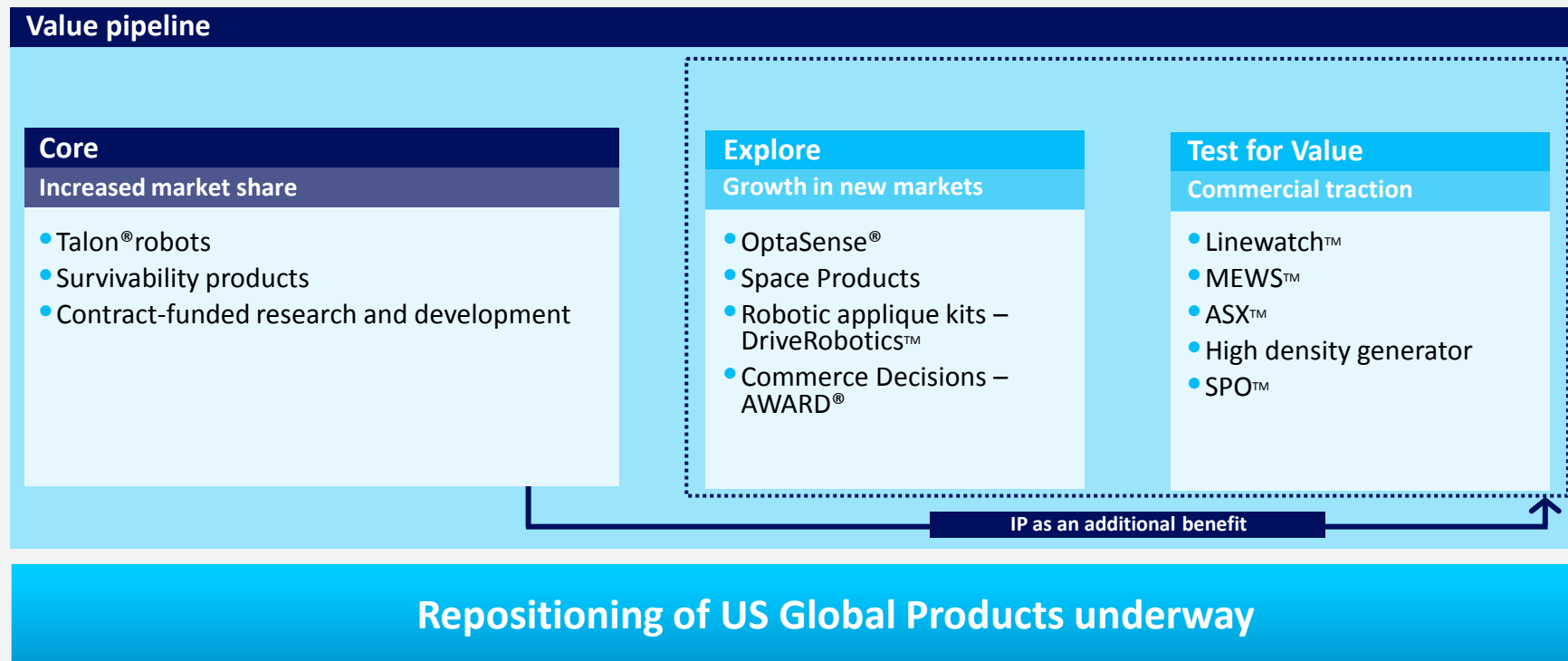
	FY15 £m	FY14 £m
Orders	152.0	149.1
Revenue	138.2	175.6
Underlying Operating Profit*	18.3	27.0
Underlying Operating Profit Margin*	13.2%	15.4%
Book to Bill Ratio	1.1x	0.8x
Funded Backlog	116.7	97.1

- Drawdown impact still reducing revenues in conflict-skewed US portfolio
- US cost reductions partially protected margin
- Profit impacted by \$5m of additional costs separating from US Services infrastructure
- More than half of its FY15 revenue under contract at 1 April 2015; slightly higher than last year



\* Underlying performance as defined in appendix

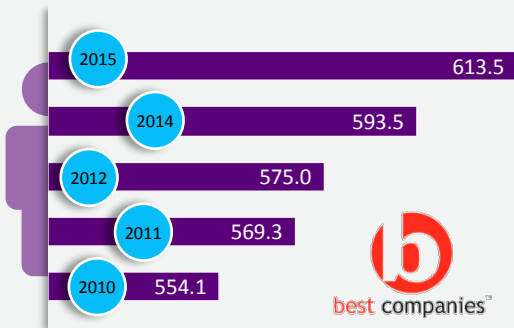
# Global Products – Year in review



# Our employees and customers – non-financial KPIs

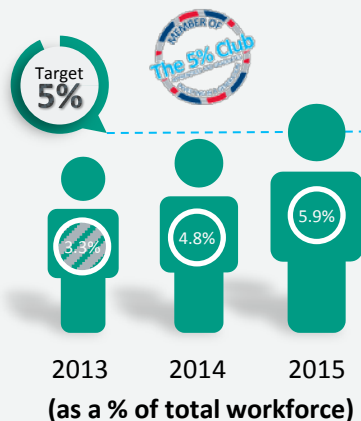
## Employee engagement

### Best Companies Employee Survey



## Investing in future capability

### Apprentices & Graduates

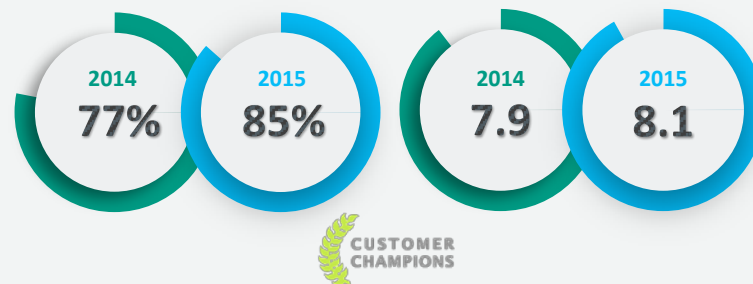


## Customer satisfaction

### Customer Champions Survey

85% said we are performing as a top 3 supplier

QinetiQ's overall project performance (out of 10)



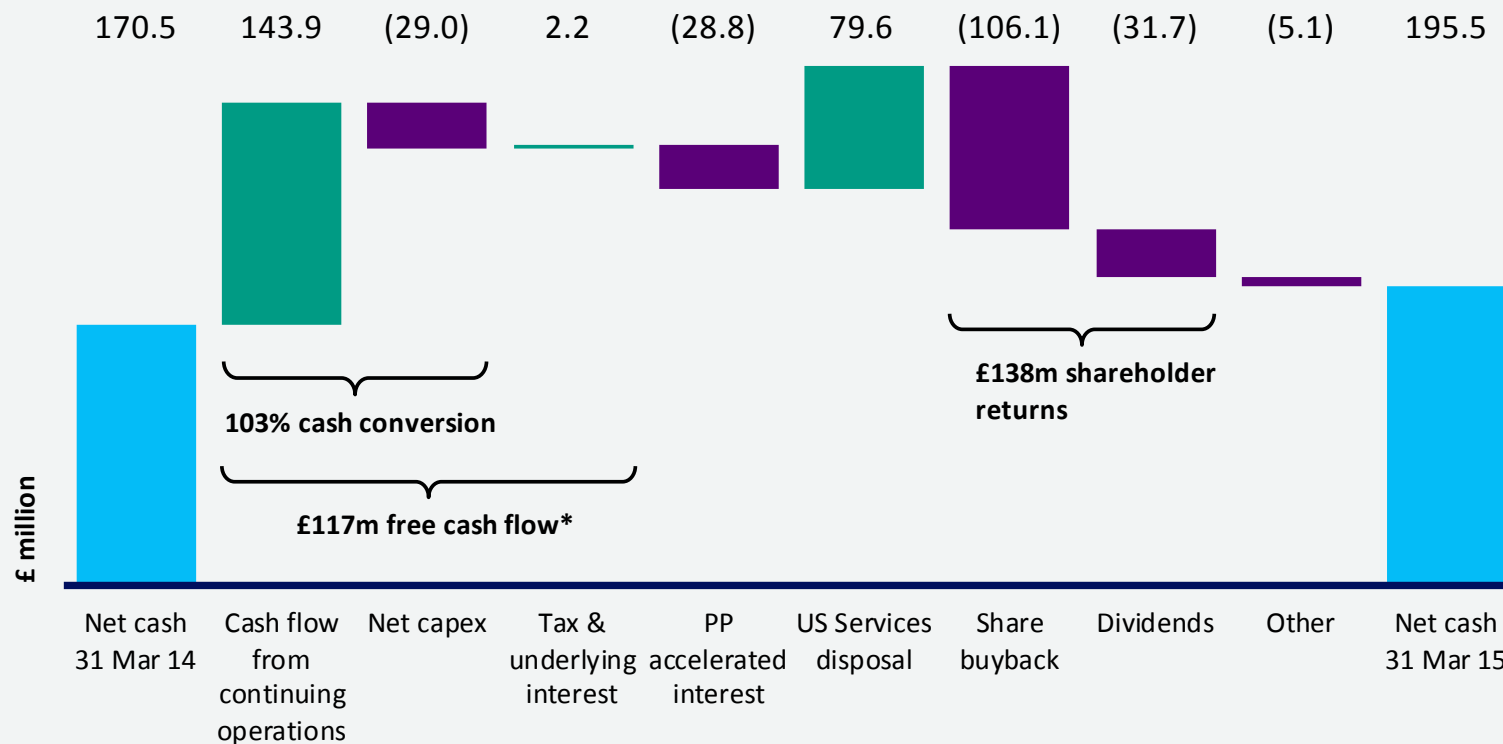
**Strong position; ready to move forward**

# Specific adjusting items\*

	<b>FY15</b>	FY14
	<b>£m</b>	£m
<b>Items with cash impact</b>		
Reduction in pension liabilities on closure to future accrual (net of costs)	-	27.1
Gain on disposal of business - UK Calibration	-	1.1
<b>Non-cash items</b>		
Amortisation of acquired intangibles	<b>(2.8)</b>	(3.4)
Impairment of goodwill	-	(41.9)
Other	<b>0.4</b>	(0.1)
<b>Total specific adjusting items (pre-tax)</b>	<b>(2.4)</b>	(17.2)
Tax on the above	<b>(1.4)</b>	(4.6)
Recognition of deferred tax asset - UK tax losses	<b>25.2</b>	-
<b>Total specific adjusting items - continuing operations</b>	<b>21.4</b>	(21.8)
<b>Total specific adjusting items (post-tax) - discontinued operations</b>	<b>(13.4)</b>	(94.9)
<b>Total specific adjusting items - total</b>	<b>8.0</b>	(116.7)

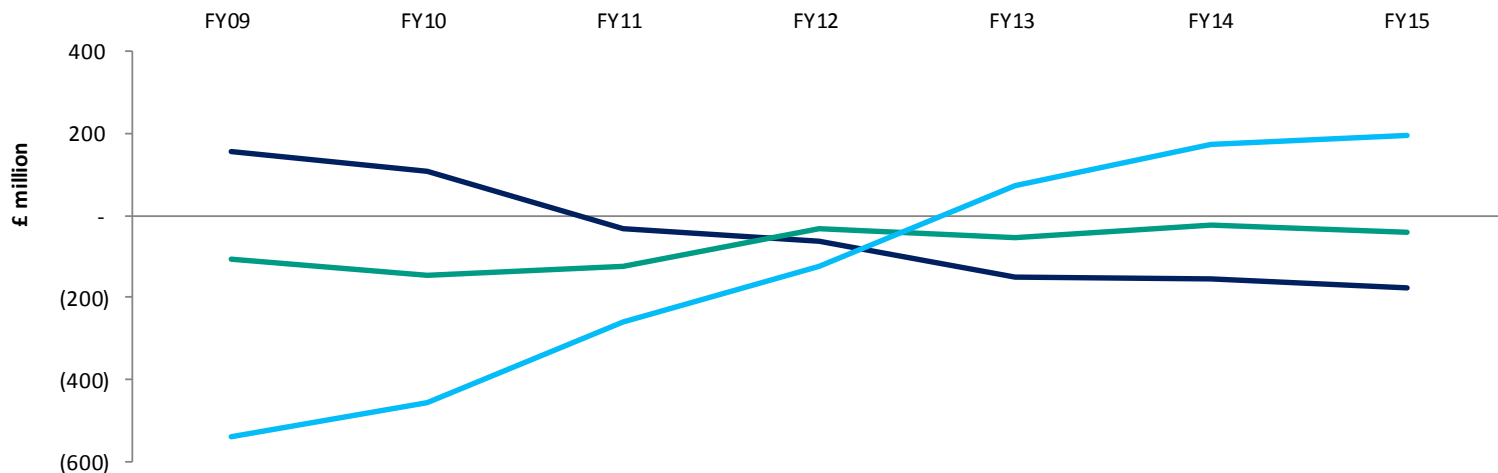
\* Specific items adjusted in arriving at underlying performance as defined in appendix

# Movements in net cash



\* from continuing operations

# Balance sheet position



	FY09	FY10	FY11	FY12	FY13	FY14	FY15
	£m	£m	£m	£m	£m	£m	£m
Working capital	154.0	107.2	(30.7)	(62.7)	(148.3)	(155.3)	<b>(174.6)</b>
Retirement benefit obligation (pre-tax)	(105.2)	(147.3)	(124.6)	(31.5)	(54.1)	(22.2)	<b>(39.4)</b>
Net (debt) / cash	(537.9)	(457.4)	(260.9)	(122.2)	74.0	170.5	<b>195.5</b>



## **EMEA Services**

Defence transformation, and the forthcoming Comprehensive Spending Review and SDSR are expected to have an impact on the UK defence market this year. This will provide future opportunities for EMEA Services to build on its strong record of delivering 'more for less', whilst recognising that in FY16 there will be uncertainty and the potential for interruptions to order flow. The portion of revenue under contract at the start of FY16 was similar to a year ago and the balance is supported by a pipeline of opportunities but order flow and contract cover will be watched closely over the coming months. Overall, given the opening backlog position, expectations for the performance of EMEA Services in the current financial year are unchanged.

## **Global Products**

In Global Products, newer products are recording notable milestones and the amount of revenue under contract at the start of FY16 is up slightly on a year ago, but the drawdown of American overseas military forces is continuing to depress demand for conflict-related products. As the division has a lumpy revenue profile which is dependent on the timing and shipment of key orders, there is a range of possible outcomes for the performance of Global Products in the current year.

## **Group performance**

In balancing the market uncertainties with the strength of the Group's operations, the Board is maintaining its expectations for Group performance in the current financial year.

# Questions



**QinetiQ iPad  
App**



# Appendices



## Underlying performance is stated before

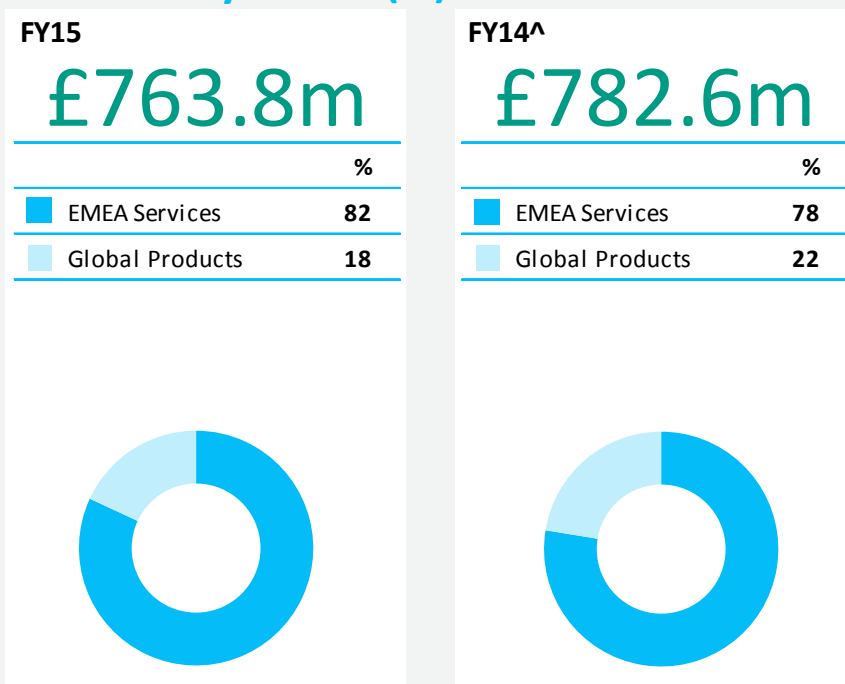
- Amortisation of intangibles arising from acquisitions
- Pension gain on closure to future accrual and associated Scheme-closure mitigation costs
- Pension net finance expense
- Gains/losses on business divestments and disposal of investments
- Restructuring costs
- Impairment of property
- Impairment of goodwill and other intangible assets
- Tax on the above items
- Tax credits on one-off recognition of deferred tax asset in respect of UK trade losses

## Organic growth

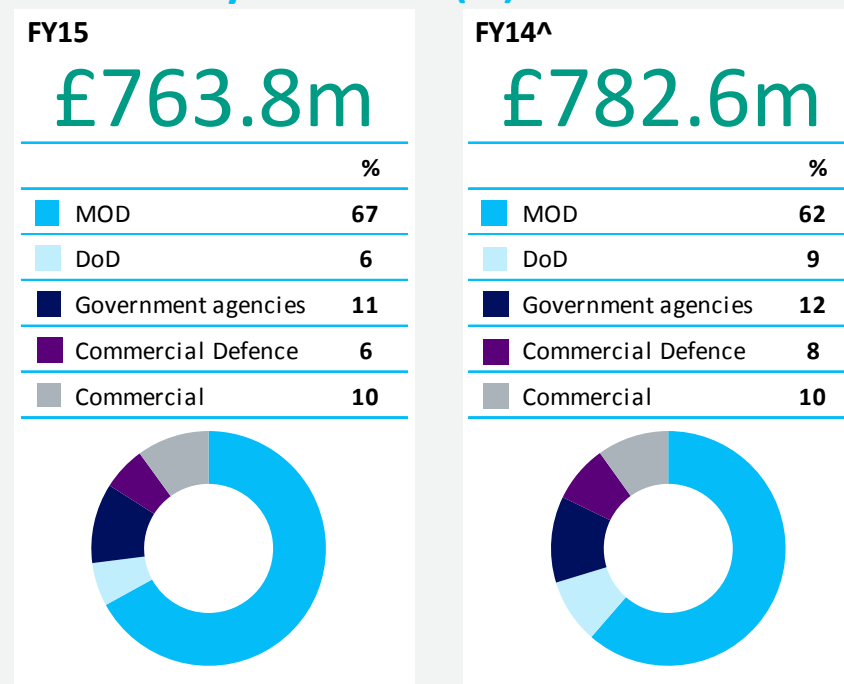
- Is calculated at constant foreign exchange rates, adjusting the comparatives to incorporate the results of acquired entities and excluding the results for any disposals for the same duration of ownership as the current period

# Revenue by sector and customer – continuing Group

## Revenue by sector (%)



## Revenue by customer (%)



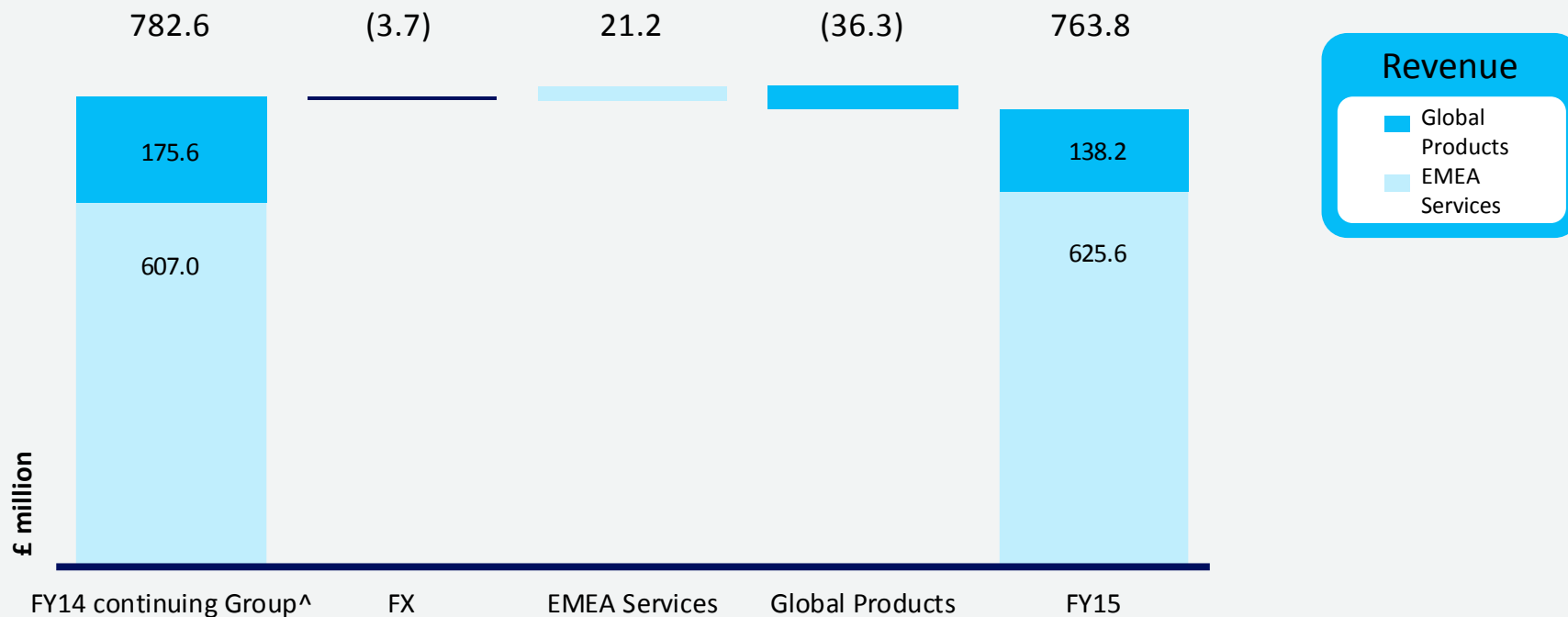
# Income Statement

	FY15 £m	FY14 <sup>^</sup> £m
Revenue	<b>763.8</b>	782.6
Underlying operating profit*	<b>111.3</b>	113.7
Net finance expense	<b>(3.5)</b>	(12.5)
Underlying profit before tax*	<b>107.8</b>	101.2
Amortisation & impairment of acqn-related intangibles - continuing	<b>(2.8)</b>	(3.4)
Impairment of goodwill and reversal of impairment of PP&E	-	(40.5)
Pension net finance expense	<b>(0.6)</b>	(1.7)
Net pension curtailment gain and closure mitigation costs	-	27.1
Gain on disposal of investments	-	1.1
Other restructuring	<b>1.0</b>	0.2
Profit before tax	<b>105.4</b>	84.0
Taxation	<b>12.0</b>	(16.0)
Profit from continuing operations	<b>117.4</b>	68.0
Loss from discontinued operations (net of tax)	<b>(12.7)</b>	(80.7)
Statutory profit/(loss) after tax	<b>104.7</b>	(12.7)

<sup>^</sup> 2014 data has been restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation.

\* Underlying performance as defined in appendix

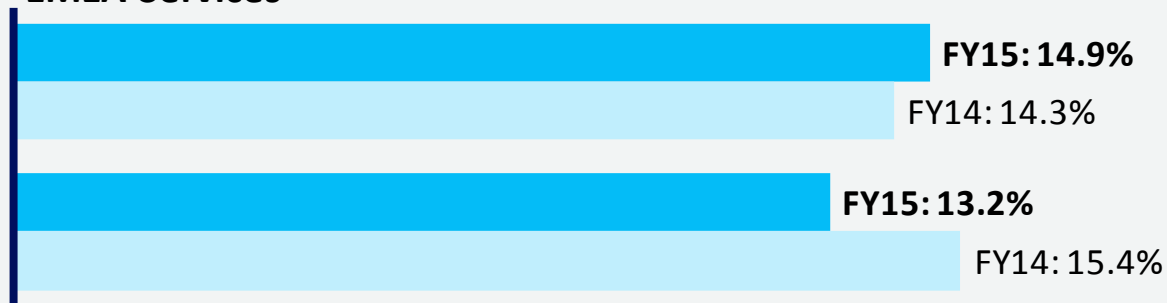
# Revenue bridge



<sup>^</sup> 2014 data has been restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation

# Segmental analysis of profit and margin

## EMEA Services



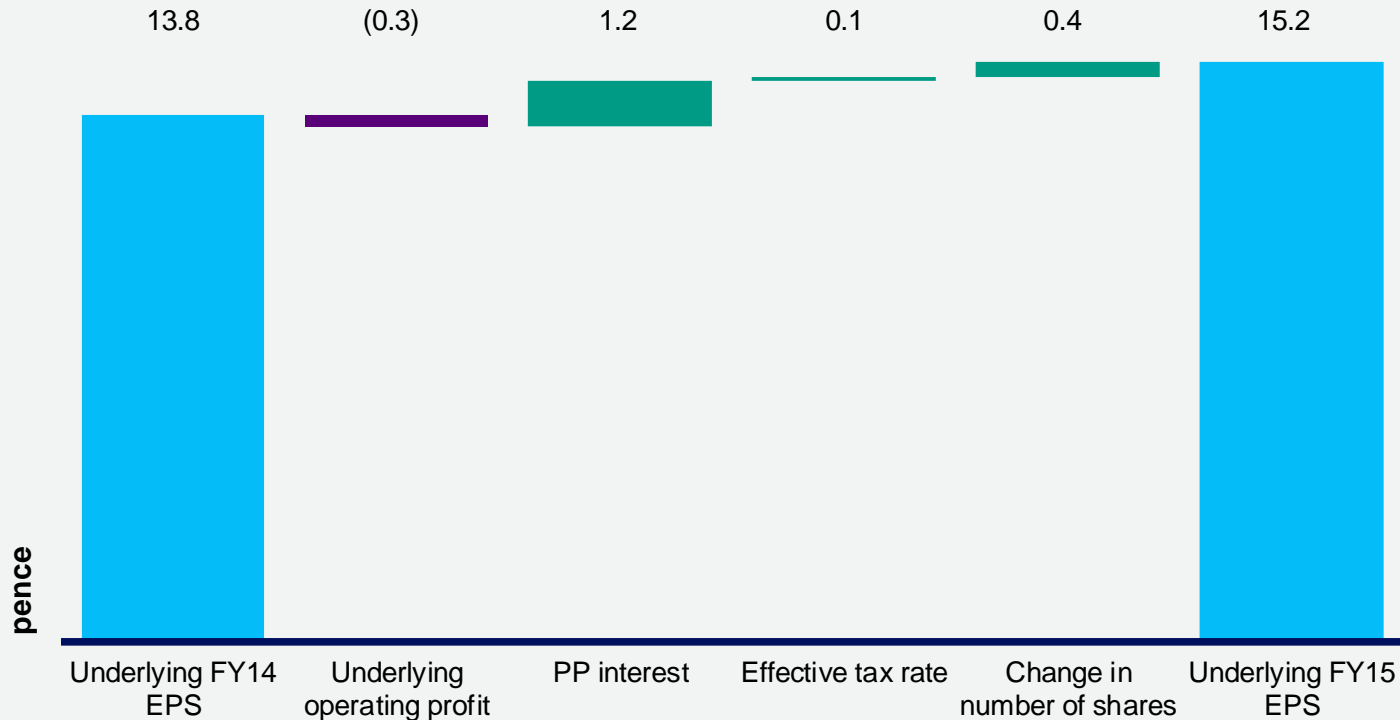
## Global Products

	Operating profit*	
	FY15	FY14
	£m	£m
EMEA Services	93.0	86.7
Global Products	18.3	27.0
<b>Continuing Group</b>	<b>111.3</b>	<b>113.7</b>

\* Underlying performance as defined in appendix



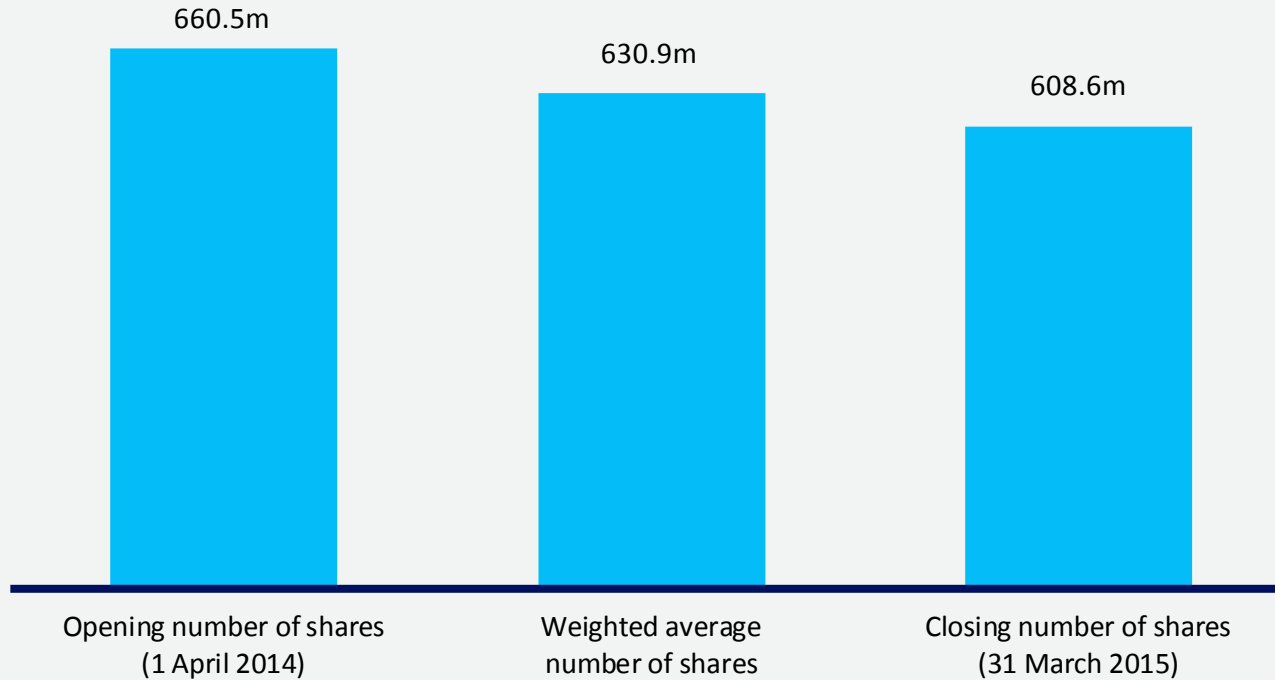
# Earnings per share (pence) – underlying performance



Continuing operations only



# Number of shares in issue



# Balance sheet

	<b>31 March 2015</b>	31 March 2014
	<b>£m</b>	£m
Goodwill	<b>107.2</b>	141.3
Intangible assets	<b>15.3</b>	44.2
Property, plant and equipment	<b>229.6</b>	233.8
Working capital	<b>(174.6)</b>	(155.3)
Retirement benefit obligation (net of tax)	<b>(37.8)</b>	(20.9)
Other assets and liabilities	<b>(37.1)</b>	(35.5)
Net cash	<b>195.5</b>	170.5
<b>Net assets</b>	<b>298.1</b>	378.1

	FY15 £m	FY14^ £m
Underlying tax charge*	<b>(11.8)</b>	(11.4)
Tax on non-recurring items	<b>23.8</b>	(4.6)
Headline tax charge	<b>12.0</b>	(16.0)
Underlying tax rate*	<b>10.9%</b>	11.3%

\* Underlying performance as defined in appendix  
^ 2014 data has been restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation

# Cash conversion

	<b>FY15</b>	<b>FY14<sup>^</sup></b>
	<b>£m</b>	<b>£m</b>
Underlying operating profit*	<b>111.3</b>	113.7
Cash flow from operations*	<b>143.9</b>	127.0
Net capex	<b>(29.0)</b>	(20.8)
Net cash flow from continuing operations post capex	<b>114.9</b>	106.2
<b>Cash conversion %*</b>	<b>103%</b>	93%
Net interest paid	<b>(6.6)</b>	(11.3)
Taxation - continuing operations	<b>8.8</b>	2.1
Free cash flow*	<b>117.1</b>	97.0

\* Underlying performance as defined in appendix  
<sup>^</sup> 2014 data has been restated for the reclassification of US Services (excluding Cyveillance<sup>®</sup>) as a discontinued operation

# Movements in net cash

	<b>FY15</b>	FY14
	<b>£m</b>	£m
<b>Free cash flow from continuing Group</b>	<b>117.1</b>	97.0
PP accelerated interest	<b>(28.8)</b>	-
Reorganisation costs	<b>(0.6)</b>	(10.3)
Pension scheme closure	-	(4.0)
Disposal related pension contribution	<b>(6.0)</b>	-
US Services disposal proceeds	<b>79.6</b>	-
Acquisition of businesses	<b>(3.7)</b>	-
Share buyback and purchase of own shares	<b>(106.8)</b>	(0.5)
Dividends	<b>(31.7)</b>	(26.8)
Cash generated from discontinued operations	<b>1.8</b>	30.3
Other	<b>2.0</b>	(0.1)
<b>Change in net cash before FX</b>	<b>22.9</b>	85.6
FX translation impact	<b>2.1</b>	10.9
<b>Change in net cash</b>	<b>25.0</b>	96.5
Opening net cash - 1 April	<b>170.5</b>	74.0
<b>Closing net cash - 31 March</b>	<b>195.5</b>	170.5

# Defined benefit pension scheme – IAS 19 balance sheet position

	FY15 £m	FY14 £m
Market value of assets	1,454.6	1,304.6
Present value of scheme liabilities	(1,494.0)	(1,326.8)
Net pension liability before deferred tax	(39.4)	(22.2)
Deferred tax asset	1.6	1.3
<b>Net pension liability</b>	<b>(37.8)</b>	<b>(20.9)</b>
	FY15 %	FY14 %
<b>Assumptions</b>		
Discount rate	3.2%	4.2%
Inflation (CPI)	2.1%	2.6%

## Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £28m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £28m
Life expectancy	Increase by 1 year	Increase by £37m

# Credit facilities

	<b>Maturity date</b>	<b>Denomination</b>	<b>Value in denomination</b>	<b>Value £m</b>
Revolving Credit Facility	August 2019	£m	166.0	166.0
Revolving Credit Facility	August 2019	\$m	100.0	67.3
<b>Total Committed Facilities</b>				<b>233.3</b>



# Employee numbers

	31 March 2015	31 March 2014
EMEA Services	5,576	5,399
Global Products	674	834
<b>Continuing operations</b>	<b>6,250</b>	<b>6,233</b>
US Services	-	2,704
<b>Total</b>	<b>6,250</b>	<b>8,937</b>

# Disclaimer

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 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.