
QinetiQ Group plc

Proposed Acquisition of Avantus Federal LLC: delivering our global strategy

05 August 2022 - QinetiQ Group plc (“QinetiQ” or the “Company”) announces that its wholly-owned subsidiary QinetiQ Inc. has entered into an agreement to acquire Avantus Federal LLC (“Avantus”) from NewSpring Holdings, for an enterprise value of \$590 million (£483 million¹) (the “Acquisition”). The Acquisition will generate a tax benefit for QinetiQ of approximately \$70 million². The closing of the Acquisition is subject to customary conditions, including regulatory approvals and is expected to close by end of calendar year 2022.

Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense, Intelligence Community, Department of Homeland Security and other Federal civilian agencies. Avantus has a strong track record of achieving speed-to-mission impact. In the 12 months to 30 June 2022³ (“LTM”), Avantus generated revenues of \$298 million, adjusted EBITDA of \$35.5 million and adjusted operating profit of \$32 million. This results in a LTM purchase price multiple of 14.6x EBITDA to EV after adjusting for the tax asset acquired. Over the last three years, Avantus has demonstrated a strong track record of consistent double-digit revenue growth on a proforma organic basis, at attractive margins.

Highlights

- Market leading mission-focused cyber, data analytics and software development solutions provider for US defense, intelligence and homeland security customers
 - Strengthens our capabilities in Cyber, Information Solutions, Mission Services and National Security
 - Expands our customer portfolio in Department of Defense and into National Security, Homeland Security and Federal Civilian customers
- Strong cultural fit; management and talented employee base augments strengthened US leadership team
 - Deepens US management expertise and bench strength
 - Strengthens our workforce particularly in technical, data analysis, advisory and program management skills
- Transforms our US business to create a platform to accelerate growth in high priority segments aligned with US national security mission
 - Grows Group revenue by c.25% and doubles the size of our US business
 - Creates a disruptive mid-tier US business that accelerates growth through complementary capabilities
- Strategically aligned to build on our six distinctive offerings, extends our customer base and increase breadth and scale within the US
 - Particularly in the areas of Engineering Services and Support, Cyber and Information Advantage, Test and Evaluation, and Training and Mission Rehearsal
 - Provides further opportunity for global leverage

¹ FX rate of 1.22 USD: 1 GBP

² For US tax purposes the transaction creates relief which is anticipated to generate a cash tax benefit with a present value of ~\$70m (at our Weighted Average Cost of Capital)

³ On an IFRS basis

- Highly attractive business with significant orders visibility and 10%+ forward revenue growth with stable double-digit margins
 - Attractive double-digit revenue growth and operating margins consistent with Group guidance
 - Multi-year visibility on existing contracts underpins medium term growth outlook with strong pipeline of new opportunities, with a qualified order pipeline for the next 5 years of \$2.4bn

- Compelling business case with enhanced shareholder returns and an effective use of our strong balance sheet
 - Immediately earnings accretive with double-digit EPS growth by end of first full year after completion
 - ROIC to exceed WACC by end of third full year after completion
 - Acquisition to be financed through combination of existing cash and new debt facilities
 - Leverage of approximately 1.3x Net Debt / EBITDA expected at completion
 - Targeting rapid deleveraging to less than 1.0x by end of first full year after completion

Commenting on today's announcement, Steve Wadey, Group Chief Executive Officer of QinetiQ, said:

"This acquisition is an important step in the execution of QinetiQ's five-year ambitions to expand our presence in the US, the largest security and defence market in the world. Avantus significantly enhances our US offering and provides a strong platform from which to further grow our US operations. Avantus has a track record of high growth at attractive margins and is well-positioned across priority areas for key defence and intelligence customers in the US. We have a high confidence plan to integrate Avantus in order to deliver our global growth strategy.

Avantus' highly integrated business, core capabilities and customer relationships complement QinetiQ's distinctive offerings, allowing us to grow the services and solutions that benefit our combined global customers as their needs evolve at an accelerating pace. The combination of QinetiQ and Avantus will create a leading defence and intelligence business delivering mission-led, disruptive innovation to customers across the US, UK, Australia and other Five Eyes nations. I am confident that our shared cultures and values, focus on innovation and development, and passion for delivering for our customers, will prove a winning combination. This transaction also deploys our strong balance sheet to drive growth and enhance returns to shareholders.

Recent world events have reinforced the long-term needs of our customers and with a significantly enhanced offering and continued focus on disciplined execution of our strategy I am confident we are better placed than ever to deliver for all our stakeholders."

Information regarding Avantus

Avantus is a mission-focused cyber, data analytics and software development solutions company. As a mid-market powerhouse with an intentional blend of elite talent, infrastructure and speed to impact, Avantus leads with technical and domain expertise for its Defense, Intelligence, Homeland Security and Federal Civilian customers. Avantus has well-established customer relationships with key defence and intelligence customers including the US Air Force, the Office of the Secretary of Defense, the Department of Homeland Security, and the Space Development Agency – delivering Big Data engineering, cloud-enabled mission application development, and highly consequential cyber development solutions.

The company was founded in 2016 and is headquartered in McLean, VA, with another corporate office in Reston, VA. Avantus has 1150 employees, with an impressive 92% of whom are security cleared and employee retention rate of 86%. Avantus is privately owned by NewSpring Holdings.

Avantus' core capabilities span six key areas:

1. Data engineering & integration – data collection, delivery, processing, exposure and governance solutions
2. Mission enablement & sustainment – tailored, technology-enabled program management solutions

3. Data & software solutions – application development, ranging from business process automation to mission applications
4. Intelligence analysis & operations – analytical, technical, operational, training and linguistic services
5. Cyber technologies & operations – sophisticated products covering everything from full-stack web applications to embedded microcontrollers
6. Augmented intelligence – combines artificial intelligence capabilities with expert analysis from a human touch

These capabilities help Avantus to deliver operational advantage for their customers, helping to solve their complex and evolving defence and security threats. These capabilities are well aligned to areas of increased spend and focus in the US defense and security budget.

Avantus has deep and long-tenure customer relationships, operating typically as a prime to its customers. These relationships and impressive order intake provide a strong foundation for continued growth in its key defence and security markets.

Delivering our global growth strategy

Building on our track record of growing the company by 75% over the last six years, we are targeting to deliver a further 75% growth over the next five years, with revenues of more than £2.3bn by FY27. More than 50% of this growth will come from AUKUS countries (Australia, UK and US) with a shared defence and intelligence mission, achieved through both organic growth and strategically-aligned acquisitions.

The acquisition of Avantus is delivering on our five year ambition, transforming our US business in high priority growth segments. The combination grows revenues by c.25% and doubles the size of our US business, it creates a platform to accelerate US growth through complementary capabilities and provides further opportunity for global leverage. Post-acquisition, QinetiQ will generate approximately £1.6 billion of revenues⁴ which will be split approximately 25% US and 62% UK, with the balance largely from Australia and other Five Eyes nations.

The combination of Avantus with QinetiQ US materially enhances QinetiQ's position in the largest defence and intelligence market in the world by creating a business well-positioned across key customers and programmes. Avantus brings a strong order backlog (with Book-to-Bill of 1.4 times of June 2022 LTM revenue) and is well positioned in priority areas of US defense spending, including intelligence analysis and operations cyber and data and software solutions.

QinetiQ has set out a clear strategy to align its capital deployment and focus on its six distinctive offerings in its three priority countries of the US, UK and Australia. This transaction successfully fills out many of the targeted capabilities in the US, most notably with expertise in Engineering Services and Support, and Cyber and Information Advantage, as well as additional expertise in Test and Evaluation and Training and Mission Rehearsal. Not only does this acquisition provide a strong foundation and platform for growth in the US, it builds a business in the US with capabilities similar to that in the UK; furthermore the acquisition brings capabilities and technology that are customer-aligned, known priorities and that can be leveraged across the US, UK and Australia.

The combined business will be well positioned to drive meaningful growth by leveraging an enhanced capability set, a highly skilled and cleared workforce, and deep customer relationships across US and international defence markets. In particular, Avantus is a highly attractive platform for US growth bringing well established customer relationships with clients such as National Security, Homeland Security and Federal Civilian customers which are highly complementary to QinetiQ's client base. Avantus has achieved strong and resilient profit margins, broadly consistent with QinetiQ's existing portfolio.

Integration of Avantus will be phased to successfully deliver a smooth and optimal transition for people, processes and tools. QinetiQ has developed a good relationship with Avantus and intends to work closely to achieve the

⁴ On a proforma basis for FY22

optimal operating model to enable global leverage of capabilities whilst respecting appropriate security measures with the Special Security Arrangement.

Compelling shareholder returns

In the 12 months to 30 June 2022⁵, Avantus generated revenues of \$298 million, adjusted EBITDA of \$35.5 million and adjusted operating profit of \$32 million (10.8% operating margin). Avantus has a strong track record of consistent growth – whilst acquisitions have supported particularly strong revenue growth, on a proforma basis Avantus has delivered in excess of 10% organic revenue growth over the last 3 years. Avantus has delivered consistent operating profit margins at or in excess of 10%.

Avantus has an impressive qualified order pipeline of \$2.4bn, with a strong track record of conversion (over 90% win-rate on prime recompetes). Looking forward, the future growth is supported by good order growth of \$417m in the June 2022 LTM.

We expect Avantus to deliver at least double-digit revenue growth and margins consistent with QinetiQ's Group guidance. This acquisition supports the delivery of QinetiQ's five-year ambition to build a company with revenues of more than £2.3bn at stable margins.

The acquisition Enterprise Value of \$590 million represents a transaction multiple⁶ of 14.6x on a June 2022 LTM Adjusted EBITDA basis. Forward looking acquisition multiples are expected to be materially lower, reducing to single-digit in the third full year after completion.

The proposed acquisition will be immediately earnings accretive, will deliver double-digit EPS growth by the end of the first full year after completion and is expected to achieve a return on invested capital in excess of QinetiQ's cost of capital by the end of the third full year after completion. Group ROCE will reduce to the upper end of the 15-20% range after completion, as previously guided, further improving as Avantus delivers. This remains a highly attractive ROCE, particularly favourable compared to our A&D peers.

The Acquisition will be funded through a combination of cash on QinetiQ's balance sheet and the proceeds of a new £350 million debt facility. At completion, QinetiQ's leverage is expected to be approximately 1.3x Net Debt / EBITDA. QinetiQ is targeting deleveraging to less than 1.0x by the end of first full year after completion, achieved through the highly cash generative nature of Avantus.

The Acquisition constitutes a Class 2 transaction for the purposes of the UK Financial Conduct Authority's Listing Rules. As at 31 December 2021 gross assets totalled \$169m and the last twelve months profit before tax totalled \$3.1m.

Transaction details and timing

Transaction completion is expected by the end of calendar year 2022 and is conditional upon regulatory clearances in the US, as well as other customary closing conditions. Citizens and Gleacher Shacklock acted as joint lead financial advisors to QinetiQ in relation to the transaction.

On completion of the transaction, Avantus will be incorporated into the existing US business (QinetiQ Inc) and will be reported within Global Products.

⁵ On an IFRS basis

⁶ Net of tax asset

Analyst and investor presentation

QinetiQ will host a meeting for the Company's analysts and investors at 08:00 BST on Monday 08/08/2022.

Details of how to register to attend can be found here:

<https://stream.brrmedia.co.uk/broadcast/62ea454e04182f363ba9a529>

For Q&A, please use the following phone numbers: UK: +44 (0)330 165 4012 / US: +1 646 828 8073.

Confirmation Code: 9879995

This announcement and the presentation slides can be found here:

<https://www.qinetiq.com/en/investors/results-reports-and-presentations>

A recording of the presentation will be available for replay shortly afterwards.

Notes

The information contained in this announcement does not form the basis of any contract, does not constitute or form part of, and should not be construed as, an offer, invitation, inducement, solicitation or recommendation for the taking of any action, the acquisition of any asset of, or securities in, the Company or any other entity or the making of any investment, commercial or financial decisions and does not otherwise constitute an agreement to provide investment services.

The information in this announcement has not been independently verified and accordingly, no reliance may be placed for any purpose whatsoever on the information or opinions contained or expressed in this announcement or on the adequacy, accuracy, fairness or completeness of such information and opinions. Certain statements contained in this announcement contain (or may contain) certain forward-looking statements with respect to the Company's current expectations, beliefs, intentions, estimates and projections about future events, strategic initiatives and the Company's future financial condition and performance. These statements sometimes use words such as "aim", "believes", "estimates", "may", "will", "should", "plans", "anticipates", "could", "potential", "expects", "anticipates", "plans", "intends", "projects", "indicates" and words or terms of similar meaning (or the negative thereof). By their nature, forward-looking statements are inherently predictive, speculative and involve risks, uncertainties and assumptions that could cause actual results, financial condition, performance, developments or achievements to differ materially from those expressed or implied by the forward-looking statements.

No statement in this announcement is or is intended to be a profit forecast or profit estimate or to imply that the earnings of the Company for the current or future financial periods will necessarily match or exceed the historical or published earnings of the Company and/or its subsidiaries. No statement of a financial metric should be interpreted to mean that any financial metric for the current or future financial years would necessarily match or exceed the historical published position of the Company and/or its subsidiaries. The estimates set out in this announcement have been prepared based on numerous assumptions and forecasts, including those set out in this announcement, some of which are outside of the Company's influence and/or control, and are therefore inherently uncertain. The estimates have not been audited, reviewed, verified or subject to any procedures by the Company's auditors. You should not place undue reliance on them and there can be no guarantee or assurance that they will be correct.

Gleacher Shacklock LLP ("Gleacher Shacklock"), which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively as joint lead financial adviser to QinetiQ and for no one else in connection with the matters described in this announcement and will not be responsible to anyone other than QinetiQ for providing the protections afforded to clients of Gleacher Shacklock nor for providing advice in connection with the matters set out in this announcement or any transaction, arrangement or other matter referred to in this announcement.

Inside information

This announcement contains inside information and the person responsible for making this announcement is James Field, Company Secretary.

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