

# Trading Statement

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BAE SYSTEMS PLC  
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## **BAE Systems plc - pre close market update**

BAE Systems plc provides the following update in light of the ongoing COVID-19 pandemic and ahead of entering its close period before the Half Year results announcement on 30<sup>th</sup> July.

### **Current business priorities**

Given the critical nature of the products and services that we provide to a number of nations, the important role we play in national economies and the local communities in which we operate, the Group has continued to focus on its near-term priorities:

- 1) Protecting the wellbeing of our employees
- 2) Meeting customer priorities as they face unique challenges
- 3) Supporting our supply chain in dealing with pandemic related disruption
- 4) Preserving and protecting our capabilities and the strength of the Group's business which is underpinned by our c. £45bn order backlog and programme positions
- 5) Ensuring that we maintain appropriate liquidity and balance sheet strength

In parallel, we have taken actions to enhance the Company's resilience and position the business towards a return to full operational tempo. In many of our defence operations, the number of employees now working has progressed to near normal levels, whether through working on site in accordance with adjusted protective safety measures or through working remotely from home.

Based on current expectations, further improvements are expected to be progressively achieved during the third quarter.

We continue to drive the key actions as outlined in February:

- Completing the two US acquisitions, one of which completed in May
- Injecting a one-off £1bn payment into the UK pension scheme, which took place in April
- Investing in new facilities to meet the growth profile in a number of sectors

### **Supporting governments and communities in our key markets**

We continue to support governments and communities in the countries where we operate as they respond to the COVID-19 pandemic. We have deployed our 3D printing capabilities and collaborated with our supply chain to donate more than 150,000 items of Personal Protective Equipment (PPE) to healthcare workers in the US and the UK. We are proud to support ventilator production as part of the VentilatorChallenge UK consortium. We are also supporting our communities in the US, UK, Australia and Saudi Arabia through the provision of online educational resources for young people as well as financial support to healthcare providers and local charities to enable them to provide care packages and food relief to the most vulnerable. Much of our outreach work has been supported by our employees who have volunteered their time and skills to help local relief efforts. We are also delighted to be proceeding with our plans to recruit a record number of apprentices, some 800 in total across a wide number of our sites.

### **Trading update**

As expected, the pandemic has impacted the business in the second quarter, with sites in the Air and Maritime sectors and our US commercial avionics business being most affected. However, as a result of the actions taken, productivity levels in June have improved within our defence businesses (which account for around 90% of the Group's revenues). Many of these operations now have well over 90% of employees working. This includes a high proportion working from home and critical on-site workers having returned under adjusted protective safety measures in response to the pandemic. In parallel the business continues to drive cost control measures.

Within our UK-based Air and Maritime sectors, second quarter disruptions have particularly impacted cost recoveries and sales volumes, offset to some degree by strong underlying operational performance and cost control measures. Product delivery levels in MBDA have also been impacted given the European locations of its factories.

Our US-based Controls and Avionics business has been and is expected to be impacted for the near-term, especially in the commercial aftermarket and product delivery lines. The Power and Propulsion business has been impacted by the reduced demand for mass transit in recent months, and commercial cyber operations have also seen reduced trading levels.

In the US, our defence manufacturing facilities and shipyards have continued to operate following implementation of appropriate safe working measures. There has been some disruption to manufacturing operations primarily due to the pandemic's impact on the supply chain, as well as some intermittent production delays in our own lines where precautionary measures to reduce COVID-19 exposure were necessary.

#### **Programme status update - key highlights**

In the second quarter, despite having to rapidly adjust to new working practices the defence business has continued to deliver strong operational performance in support of our customers' critical activities. A number of highlights include:

- Astute Boat 4 and the fourth Offshore Patrol Vessel were accepted by the Royal Navy, and HMS Queen Elizabeth was able to commence the next phase of Royal Navy sea trials.
- Key milestones on the Qatar Typhoon programme were achieved.
- The Combat Mission Systems Business continued to make progress towards achieving consistent quality and production across multiple combat vehicle programmes by investing in modernising facilities and implementing improved manufacturing technologies.
- APKWS® successfully demonstrated a ground-launch capability.

#### **Outlook**

Demand for our capabilities remains high with order intake in line with our original expectations for the year.

Sales for the half year are expected to be broadly stable year on year whilst half year profit is expected to be c.15% lower than last year primarily due to cost under recoveries in the period, significantly reduced volumes in higher margin commercial work and the sales mix year on year. As we return towards full operational tempo we expect the business performance in the second half to be much stronger than in the first half, assuming no new significant COVID-19 related disruptions.

The liquidity of the Group remains strong. As in prior years, cash has a significant first half working capital outflow. Despite some additional profit to cash impacts from COVID-19 disruptions, operating business cashflow in the half-year remains broadly in line with expectations and, excluding the one-off £1bn injection into the UK pension scheme, is likely to be consistent with the first half cash profiles seen in the last two years.

#### **Acquisitions**

The \$275m acquisition of the Airborne Tactical Radios business completed in May and its integration into the Electronic Systems C4ISR Systems business is underway. The proposed acquisition of the Collins Aerospace Military Global Positioning System business continues to fulfil the closing conditions and remains on track to close early in the second half.

#### **Pension**

In line with the new funding contributions outlined in February 2020, both the £240m contribution in respect of the scheme year ended 31 March 2020 and the one-off £1bn raised through the bond issuance in April have been made.

#### **Final dividend payment**

Following the announcement in April to defer the decision on the 2019 final dividend payment, the Board will provide an update with the Group's Half Year results next month.

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