

Trading Statement

Released : 19 May 2021 07:00

RNS Number : 0632Z
BAE SYSTEMS PLC
19 May 2021

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BAE Systems plc - market update

BAE Systems plc provides the following update.

Charles Woodburn, BAE Systems Chief Executive, said: *"I am proud of how our employees have continued to perform and adapt this year, against the backdrop of the global pandemic. Our focus for 2021 is driving operational performance, progressing our sustainability agenda and investing in and developing the technologies to meet our customers' needs."*

"Our good operational performance underlines our confidence in the full year guidance for top line growth and margin expansion and our three-year cash targets. Strategically, our geographically diverse portfolio is aligned to growing defence budget areas; we're ramping up investment in self-funded R&D aligned to customer focus areas and we're leveraging our leading capabilities in evolving markets to ensure we're increasingly well placed to deliver for all our stakeholders."

Guidance

At a constant currency, Group sales and underlying EBIT growth expectations in the full year 2021 guidance remain on track. The Group's full year 2021 guidance across all other metrics is unchanged. (1)

Operational Update

Whilst there remain uncertainties arising from the COVID-19 pandemic, progress continues in combatting the virus under the vaccination programme in our major markets and our good operational performance underlines our overall confidence in the full year guidance.

Air, Maritime, Electronic Systems and Intelligence and Security continue to perform strongly and there is positive momentum in Platforms & Services (US). Combat vehicle production across multiple platforms continues to ramp and is on track to meet agreed delivery schedules, and US ship repair performance is improving following COVID-19 and other disruptions experienced last year. Applied Intelligence has had a good start to the year with improved performance together with realised benefits from the restructuring.

Demand Outlook

Our backlog and programme positions support our growth expectations in the coming years, and the pipeline of opportunities across all sectors remains strong. Demand for our capabilities remains high with order intake ahead of expectations. Notable new and strategically important awards received to date include:

Sector	Contract
Electronic Systems	F-16 support: IDIQ worth up to \$600m over 10 years
Electronic Systems	F-15 EPAWSS LRIP
Electronic Systems	Advanced Military Code GPS modules - \$325m
Platform & Services	Amphibious Combat Vehicle build - \$200m
Platform & Services	Netherlands CV90 upgrade - over \$500m
Platform & Services	Sweden BvS10 new vehicles - c.\$200m

Maritime	Dreadnought funding - £848m
Maritime	Commander Radar for International Customer - £119m
Maritime	Future Maritime Support Programmes - follow on to existing programmes - BAE Systems' share booked - £473m
Maritime	RBSL - Challenger upgrade programme - BAE Systems' share £300m

Defence Spending outlook in our key markets

Our geographic diversity positions us strongly in the post pandemic cycle where many of the countries we operate in have made plans to increase their spending to counter challenging threat environments.

In the US, the President's budget request for fiscal year 2022 is expected to include top line defence funding of \$715bn, representing a relatively stable funding level compared to \$704bn in the current fiscal year. BAE Systems is prominent on many of the most important long-term defence programmes for the US armed forces. Our portfolio remains well aligned with customer priorities and the key focus areas outlined in the US National Defense Strategy. Through a wide range of leading capabilities, long-standing incumbencies often with high barriers to entry and deep customer relationships, we are demonstrating a competitive advantage in many domains. We are well placed to address the requirements of long-range precision munitions, air and missile defence systems, unmanned and autonomous vehicles, long-range strike platforms and systems, space and combat vehicles.

In the UK, the publication of the Defence Command Paper was positive for the Group with renewed commitments to our major long-term programmes in complex warship, submarine and combat aircraft design and build, allowing for long-term investment in these key sovereign capabilities, as well as strong support for cyber. The opportunity pipeline is positive with domestic, export and collaboration opportunities identified, and we have capabilities to support our UK customer in its space ambitions.

In Europe, a number of nations including Germany and France continue to increase their defence budgets to address the threat environment and move towards their 2% of GDP NATO commitments. We remain well placed in the region through our positions on the Eurofighter Typhoon, our shareholding in MBDA and our BAE Systems Hagglands land business based in Sweden with a number of opportunities being pursued in addition to the significant wins secured in the last year.

Additionally, our portfolio is well positioned to benefit from increased defence spending in Asia Pacific through our Australia business, which is already set to grow significantly from our contracted positions, and sizeable increase in Australian defence spending, and through export opportunities from our UK, US and Australian business to the region.

Portfolio Advancements

In line with our strategy to increase R&D investments and make a number of technology bolt on acquisitions, in March, we completed the acquisition of Pulse Power and Measurement Limited (PPM), an independent developer and manufacturer of high-end electronics. Its technologies are highly complementary to the Group's existing strong digital and data capabilities.

In April, we completed the sale of Rokar, a small Electronics business, to Elbit Systems.

Pension

All payments in our current UK pension deficit funding programme have now been completed. The combination of the increase in bond yields and the higher asset values has led to material reductions to both our funding and accounting deficits since the end of last year.

Sustainability

We are progressing on our 2030 greenhouse gas net zero programme with assessment of the impacts associated with our products, the opportunities through future technology and our supply chain. In addition, we are currently assessing the impacts of climate risk as part of our commitment to TCFD reporting in 2022. We have strengthened our commitment to diversity with both long term and in-year targets.

The progress we are making on our sustainability agenda has been reflected with an improvement in ratings across a number of platforms, and we have maintained our AA leader class rating with MSCI.

Board

As previously announced, Dame Carolyn Fairbairn joined the Board on 1 March, and Dr Ewan Kirk will join from 1 June.

Final Dividend

The 2020 final dividend of 14.3 pence per share will be paid on 1 June 2021.

Investor event

As previously announced, we will host a webcast presentation for analysts and investors at 2pm UK time today (19 May 2021) with a focus on the Group's technology capabilities and our Electronic Systems division. Details can be found

on investors.baesystems.com together with the presentation slides. A recording of the webcast will be available for replay afterwards.

2021 Interim results

BAE Systems will announce its interim results for the half year ending 30 June 2021 on 29 July 2021.

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(1) As per pages 64 and 65 of the 2020 Annual Report and Accounts

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