

Trading Update

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BAE SYSTEMS PLC
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BAE Systems - Trading update

Guidance

The Group's guidance for 2019 remains unchanged from the 2019 interim results. Overall, we expect the Group's underlying earnings per share (excluding the one-off tax benefit) to grow by mid-single digit percent compared to the full year underlying earnings per share in 2018 of 42.9p.

The Group continues to target in excess of £3bn of free cash flow over the three-year period 2019-2021, and expects 2019 net debt to be broadly unchanged from the net debt at 31 December 2018.

Whilst the Group is subject to geopolitical uncertainties including the forthcoming general election in the UK, the above guidance is provided on current expected operational performance and remains based on an assumption of average sterling exchange rate of US\$1.30.

UK and US market update

In the UK, the spending round announced in September re-emphasised the UK's commitment to strong defence and security with a 2.6% real terms increase in the MoD budgets from 2019-20 to 2020-21. In the US following the two-year budget agreement that was signed in July, Congress passed a Continuing Resolution for funding through 21 November. The Group's US-based portfolio is well aligned to customer priorities and growth areas and the business has continued to grow its backlog.

Major programme update

The production ramp up of the F-35 programme is progressing well towards c.140 aft fuselage sets in 2019 and full rate production levels targeted in 2020.

The Qatar Typhoon and Hawk contract is meeting its contractual milestones with Typhoon now aligned to the accelerated schedule. Typhoon support in the UK and Oman continues to deliver expected operational levels.

In Saudi Arabia, following the updates in September from the German government regarding export licences, we continue to work closely with industry partners and the UK government to fulfil our contractual support arrangements in the Kingdom on key European Collaborative programmes.

In our UK Maritime business, activity on the Dreadnought programme is ramping up, with the associated major programme of building works continuing to progress. On the Offshore Patrol Vessels programme, the third ship has been conditionally accepted. Schedule on ships four and five is being maintained with the programme due to complete in 2020. The Queen Elizabeth Class aircraft carrier programme is nearing completion with HMS Prince of Wales commencing sea trials in September as planned.

Manufacturing work on the Type 26 programme in the UK continues to increase following cut steel on the second ship in August. The first formal design review with the customer on the Hunter Class programme in Australia was approved in September. Mobilisation activities on the Canadian Surface Combatant programme are taking shape.

Whilst progress is being made in US Combat Vehicles, this remains a clear area of focus as we ramp production across a number of programmes. On the Paladin M109A7 we are meeting our revised delivery plan. The first four Amphibious Combat Vehicles have been delivered to meet customer testing requirements. The Armored Multi-Purpose Vehicle programme is ramping with first deliveries still expected in the first half of 2020. Further contract awards were received

in September for the M88A3 modernisation and the Bradley A4 programmes, strengthening the order backlog for the Combat Vehicles franchise.

US Ship Repair was awarded a total of \$171m for the repair and maintenance of the USS Decatur and USS Stethem in September. This represents the first tandem docking in our San Diego dry dock facility as we work with the US Navy to improve utilisation levels.

The Electronic Systems business continues to perform strongly. It has received an initial \$184m award for APKWS under the recently announced five year, \$2.7bn, Indefinite Delivery Indefinite Quantity production contract. Additionally the business was awarded the \$450m digital upgrade contract for the ALR-56C Radar Warning Receiver to be incorporated onto the F-15 platform.

Pension

The low bond yield environment continues to impact the Pension accounting position. It has a lesser impact on the funding position of our schemes which is driven by an asset led discount rate approach. Asset returns are exceeding our investment return assumptions and the latest actuarial tables have increased mortality assumptions which lowers liabilities. The Group will commence the triennial funding valuations of its UK schemes in April 2020.

As explained in previous years the low discount rate environment does impact the accounting pension service cost in the UK businesses and whilst this will provide a headwind into 2020, the impact of the higher costs is expected to be absorbed within the existing margin ranges.

Board

On 1 February next year, Sir Roger Carr will have served as Chairman of the Board for six years. It has been agreed that he will serve a final term of just over three years from that date, and in keeping with current corporate governance best practice will retire following the conclusion of the Company's Annual General Meeting in May 2023.

Having served as a non-executive Director for nine years, Harriet Green retires from the Board with effect from today.

As previously announced, Peter Lynas Group Finance Director will retire from the Company on 31 March 2020 and the Company has appointed Brad Greve as Group Finance Director Designate to succeed Peter Lynas and join the BAE Systems plc Board on 1 April 2020. Brad joined at the start of September and became a member of the Executive Committee and is working with Peter to ensure a smooth handover of responsibilities.

Interim Dividend

The Interim dividend of 9.4 pence per share will be paid on 2 December 2019.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2019 on 20 February 2020.

Cautionary statement

All statements other than statements of historical fact included in this statement are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. BAE Systems plc and its directors accept no liability to third parties in respect of this statement, save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A of the Financial Services and Markets Act 2000.

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