

# 2022 Preliminary Results

## 23 February 2023

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# Agenda

- **Chairman Review** Sir Roger Carr - Chairman
- **2022 Review** Charles Woodburn - CEO
- **2022 Financials** Brad Greve - CFO
- **Business Outlook** Charles Woodburn - CEO
- **Q&A**



Sir Roger Carr  
Chairman

# Chairman's Overview

Step up in performance improvement and shareholder returns driven by fundamental changes:

- ▶ Customer at the forefront
- ▶ Transfer of knowledge and skills in the business
- ▶ Management de-layering and strengthening the talent bench
- ▶ Investment in next generation of capability and people
- ▶ Care for security and prosperity of all our stakeholders

Working with governments and industry for a safer and prosperous society

# 2022 - Year in review

Charles Woodburn - CEO



# 2022 – Our year in review

Delivered mission critical requirements

Record order intake - backlog £59bn – well set for good long term growth

Strong operational performance	Delivered good top line and earnings growth	Increased Investment in business	Increased shareholder returns
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Orders  
**£37.1bn**  
 (2021: £21.5bn)

Sales  
**£23.3bn**  
 (2021: £21.3bn)

Underlying EBIT  
**£2,479m**  
 (2021: £2,205m)

Free cash flow  
**£1,950m**  
 (2021: £1,864m\*)

Building a track record of strong and consistent operational and financial performance

\* 2021 included £250m one off receipts from the sale of the Filton and Broughton sites

# Investment in the business over last 3 years



Self-funded  
R&D  
£0.8bn

Capex  
£1.4bn

c.3,000  
apprentices  
hired &  
c.£300m in  
education &  
skills

# ESG Agenda evolving and progressing

‘We serve, supply and protect those who serve and protect us, in a corporate culture that is performance driven and values led’

**Defence and Cyber:**  
We help governments fulfil their primary responsibility - protecting the country and citizens

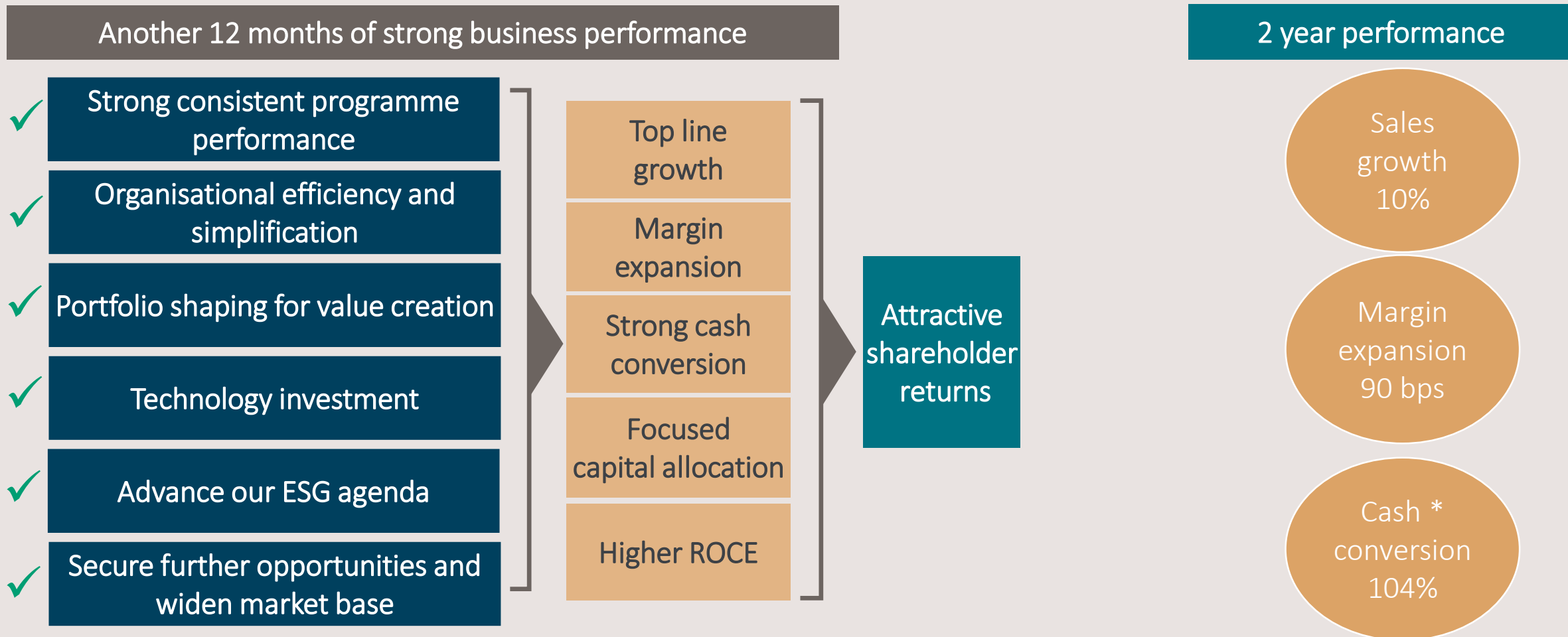
  
We are driving our ambition through four key themes, underpinned by our core foundations



<b>Core Foundations</b>	safety, health & wellbeing	diversity, equity & inclusion	robust ethics & governance	accountability & transparency	product trading, quality & safety	early careers	environmental management
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**MSCI AA leader class rating**

# “What we look to achieve in the 3 years 2021-23”

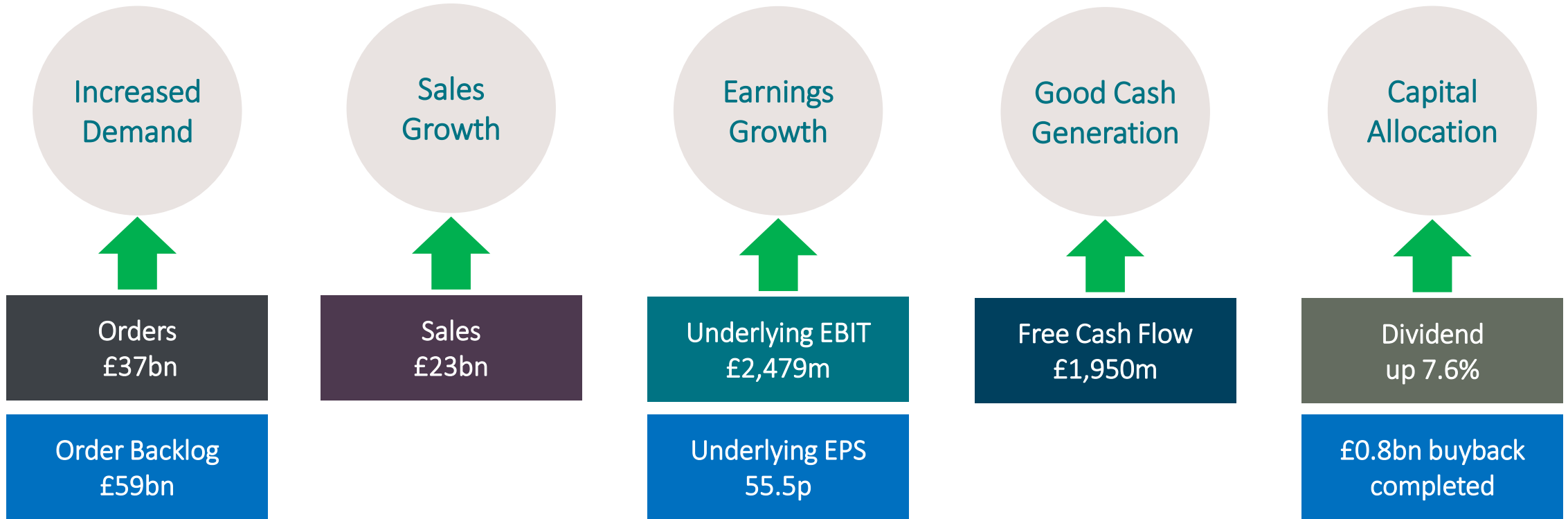


# Brad Greve

## CFO



# 2022 financial highlights



Strong demand, top line growth & continued margin expansion

Delivery on commitments – enhanced returns to shareholders

## 2022 summary financials

	2022	2021	Constant Currency	Reported
Order Intake	£37,093m	£21,458m		
Sales	£23,256m	£21,310m	+4.4%	+9%
Underlying EBIT <sup>(1)</sup>	£2,479m	£2,205m	+5.5%	+12%
Return on Sales	10.7%	10.3%	+20bps	+40bps
Underlying EPS <sup>(1,2)</sup> - excluding one-off tax benefit <sup>(3)</sup>	55.5p	47.8p	+9.5%	+16%
- including one-off tax benefit <sup>(3)</sup>	55.5p	50.7p		
Underlying Tax Rate	19%	18%		
Operating Business Cash Flow <sup>(4)</sup>	£2,552m	£2,322m		+£230m
Free Cash Flow <sup>(4)</sup>	£1,950m	£1,864m		£86m
Dividend per Share	27.0p	25.1p		+7.6%
Order Backlog	£58.9bn	£44.0bn		
Net Debt	£(2,023)m	£(2,160)m		
Pension Surplus / (Deficit)	£0.6bn	£(2.1)bn		

Average \$ rate: 2022 \$1.24, 2021 \$1.38

1 Operating profit excluding amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, finance costs & taxation expense of equity accounted investments (EBIT) and adjusting items

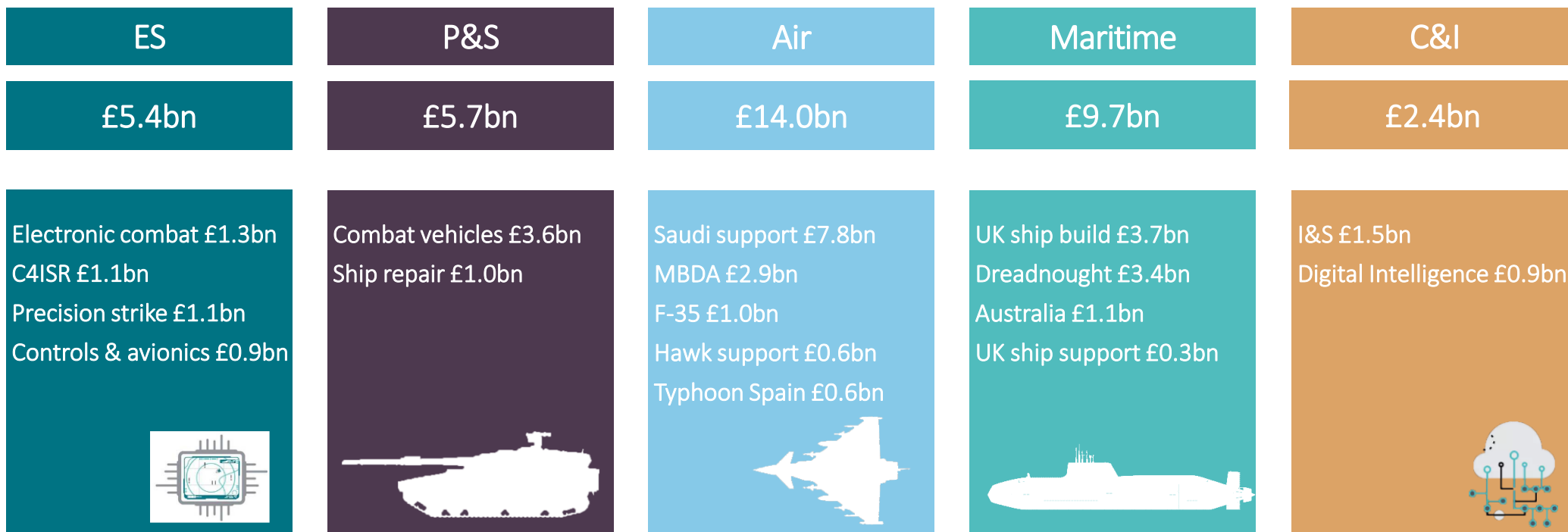
2 Basic Earnings per Share (EPS) excluding the post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, non-cash finance movements on pensions and financial derivatives and adjusting items attributable to shareholders

3 One-off tax benefit of £94m in 2021 in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime

4 Free Cash Flow defined as Operating Business Cash Flow less interest paid (net) and taxation.

# Order intake

## Record order intake - £37bn



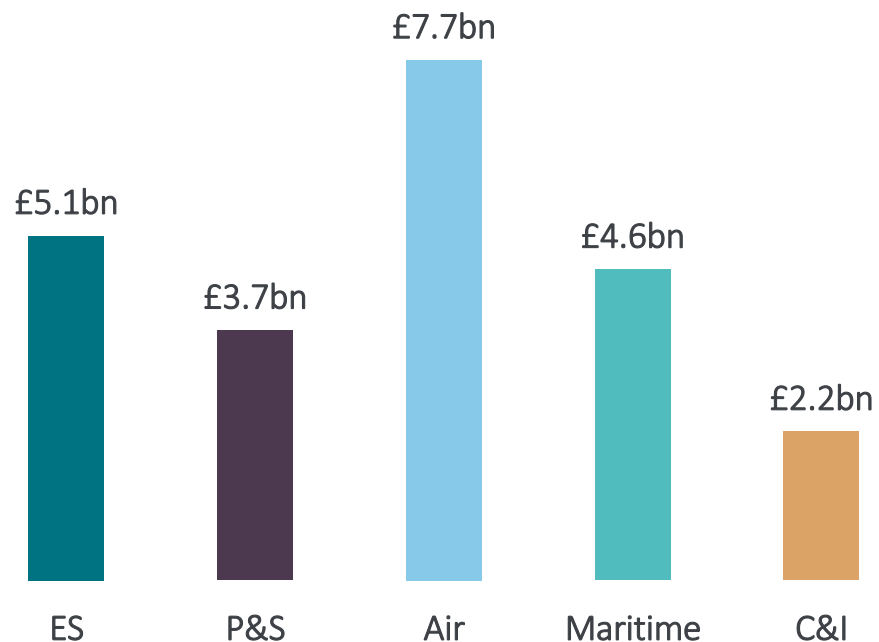
*Excludes HQ & intra-group eliminations*

# Sales



£23.3bn

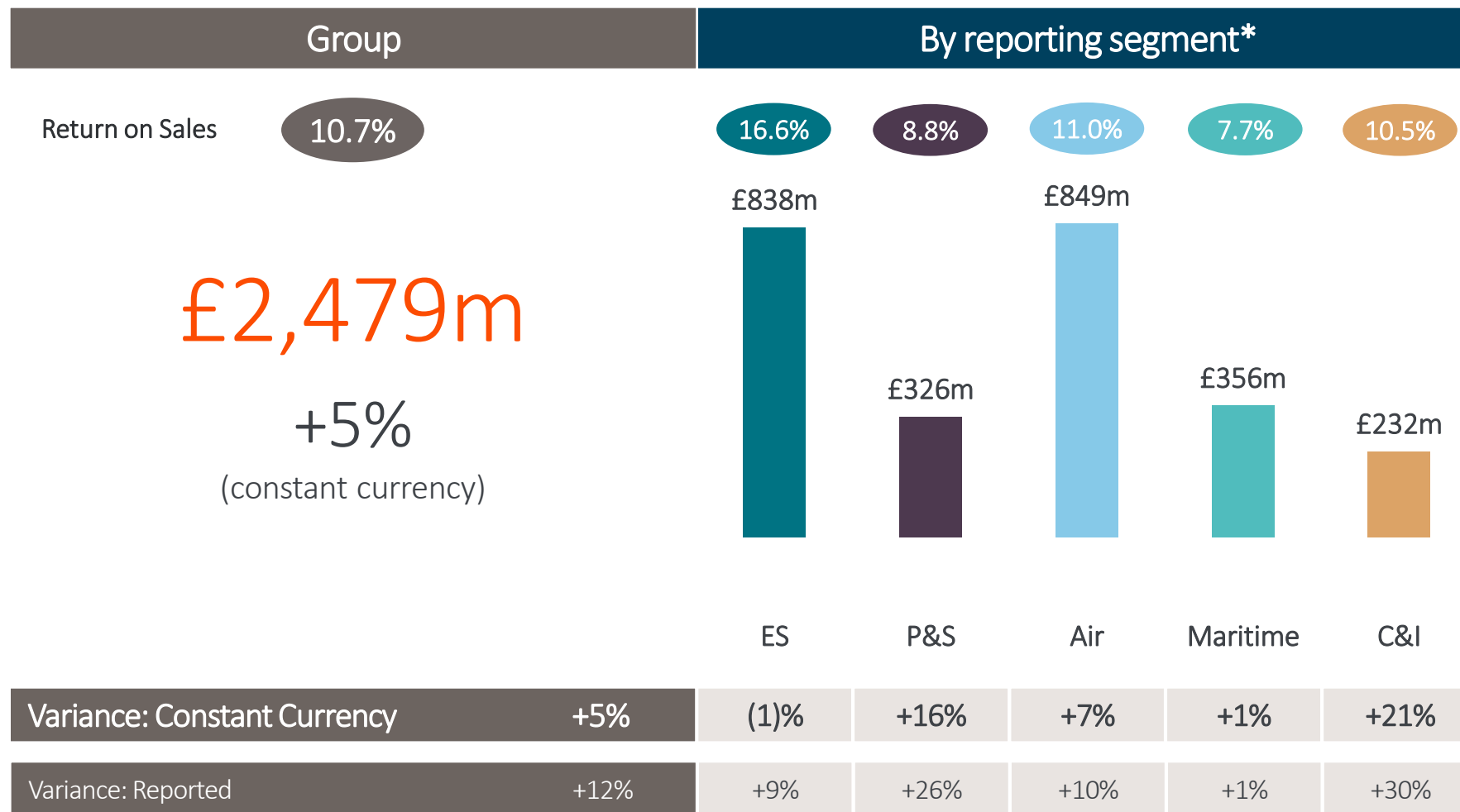
+4%  
(constant currency)



Variance: Constant Currency	+4%	+2%	(1)%	+3%	+10%	+7%
Variance: Reported	+9%	+13%	+9%	+3%	+10%	+15%

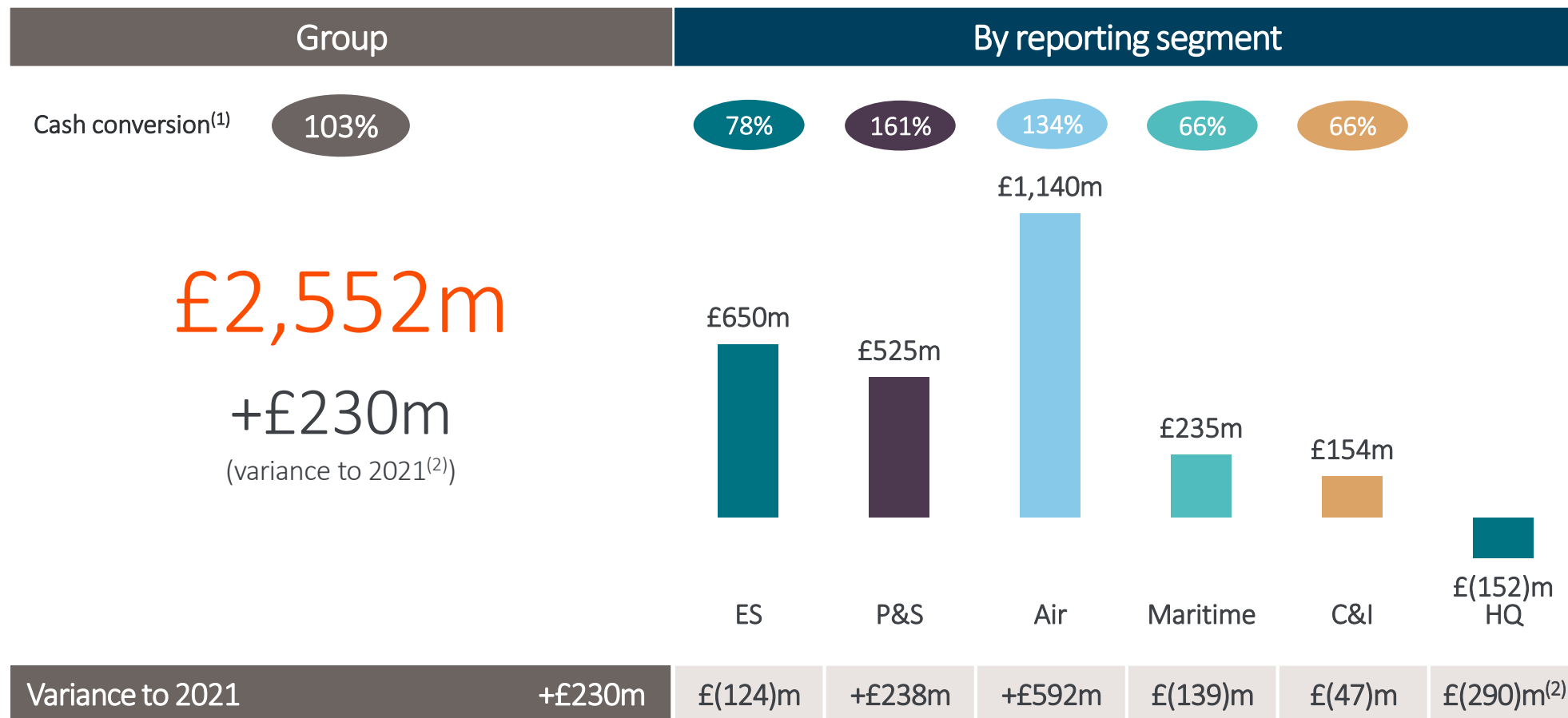
\* excludes HQ & eliminations

# Underlying EBIT/Return on Sales



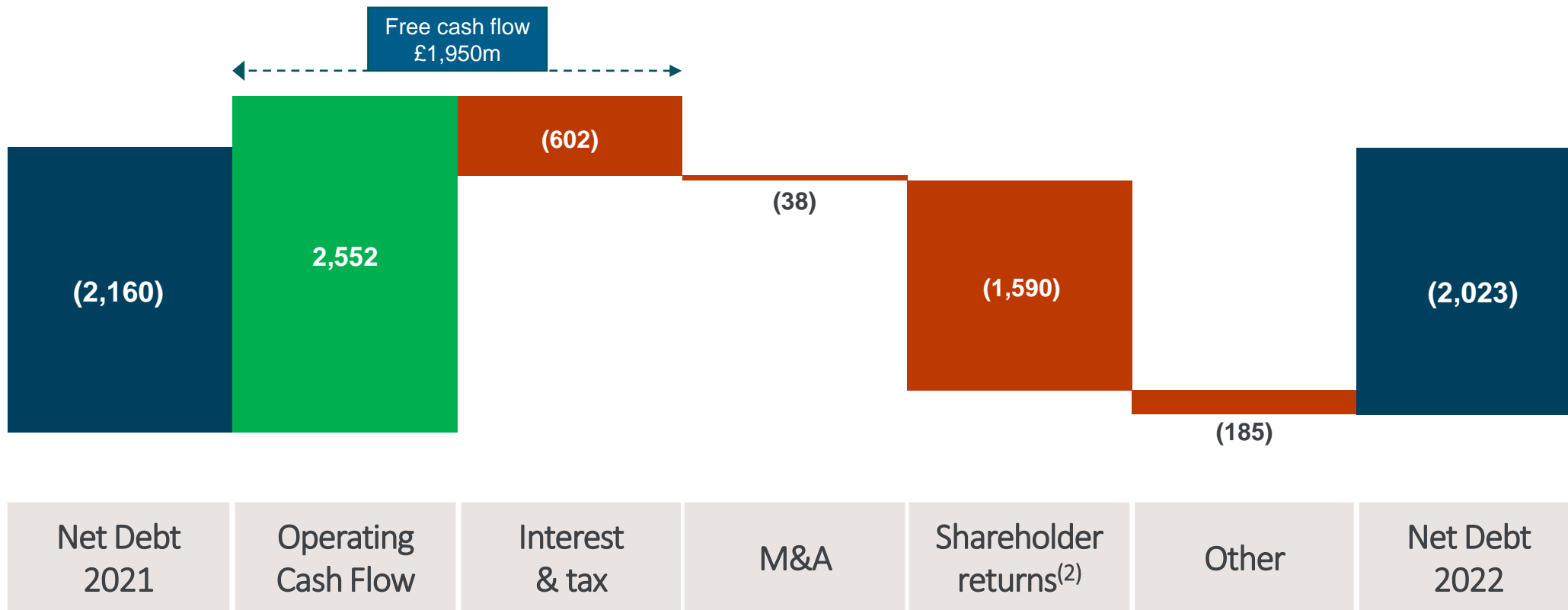
\* excludes HQ £(122)m (2021 £(122)m)

# Operating business cash flow



- 1) Defined as Operating business cash flow as a percentage of Underlying EBIT
- 2) 2021 included £250m receipts in respect of the Filton and Broughton site disposals

# Net debt<sup>(1)</sup> (£m)



(1) Net debt excludes lease liabilities

(2) Dividends £802m & share repurchases £788m

## 2023 Group guidance<sup>(1)</sup>

Guidance based on \$1.24:£1

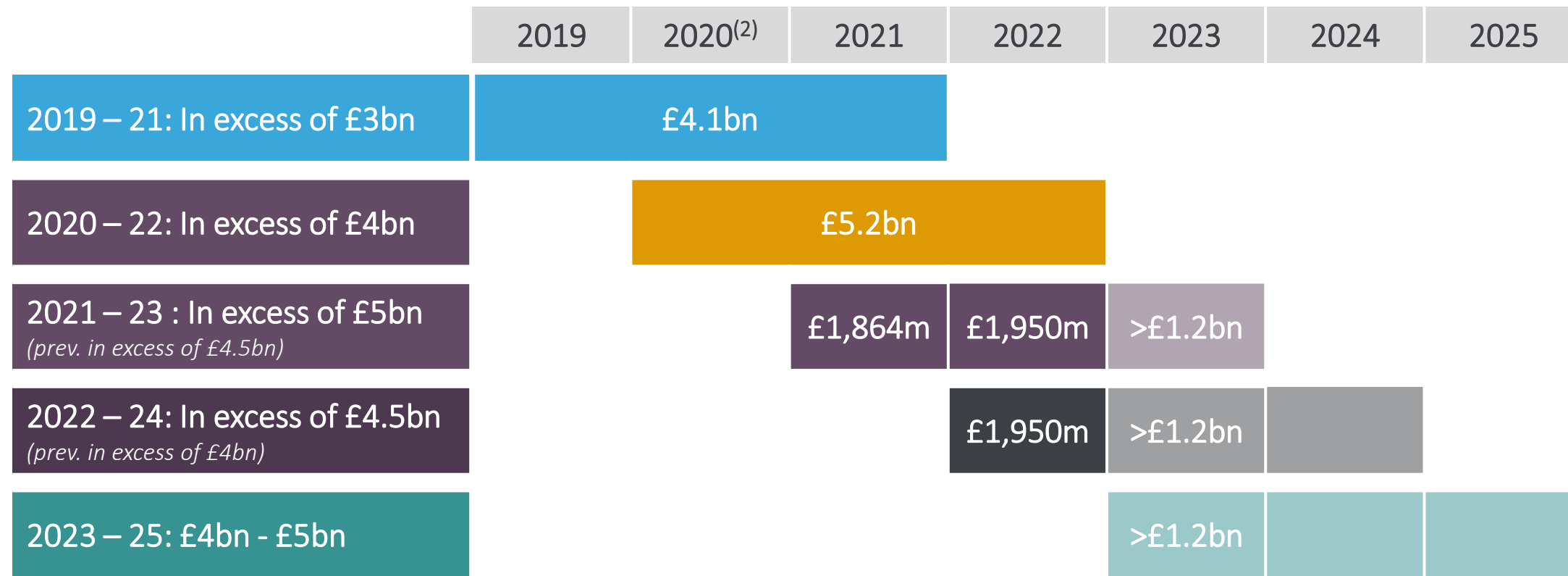
Sales	Underlying EBIT	Underlying EPS	2023 Free Cash Flow
<p><b>+3% to +5%</b></p> <p>(2022 £23,256m)</p>	<p><b>+4% to +6%</b></p> <p>(2022 £2,479m)</p>	<p><b>+5% to +7%</b></p> <p>(2022 55.5p)</p>	<p><b>&gt;£1.2bn</b></p> <p>(2022 £1,950m)</p>
<p>Underlying finance costs c.£260m</p>	<p>Effective tax rate c.21%</p>	<p>Non-controlling interest c.£70m</p>	<p>Sensitivity to 5c mvmt<sup>(2)</sup> EPS c.1p</p>

Another year of top line growth, margin expansion and strong cash generation

(1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

(2) Sensitivity to 5c movement: Sales c.£400m, Underlying EBIT c.£55m

## 3 year free cash flow guidance<sup>(1)</sup>



**Upgrades to existing three-year FCF guidance**

**Outperforming on targets – structurally delivering higher cash**

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(1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

(2) Excluding the £1bn one-off UK pension contribution

# Clear margin expansion pathway

*Driven by continued programme execution and robust business model*

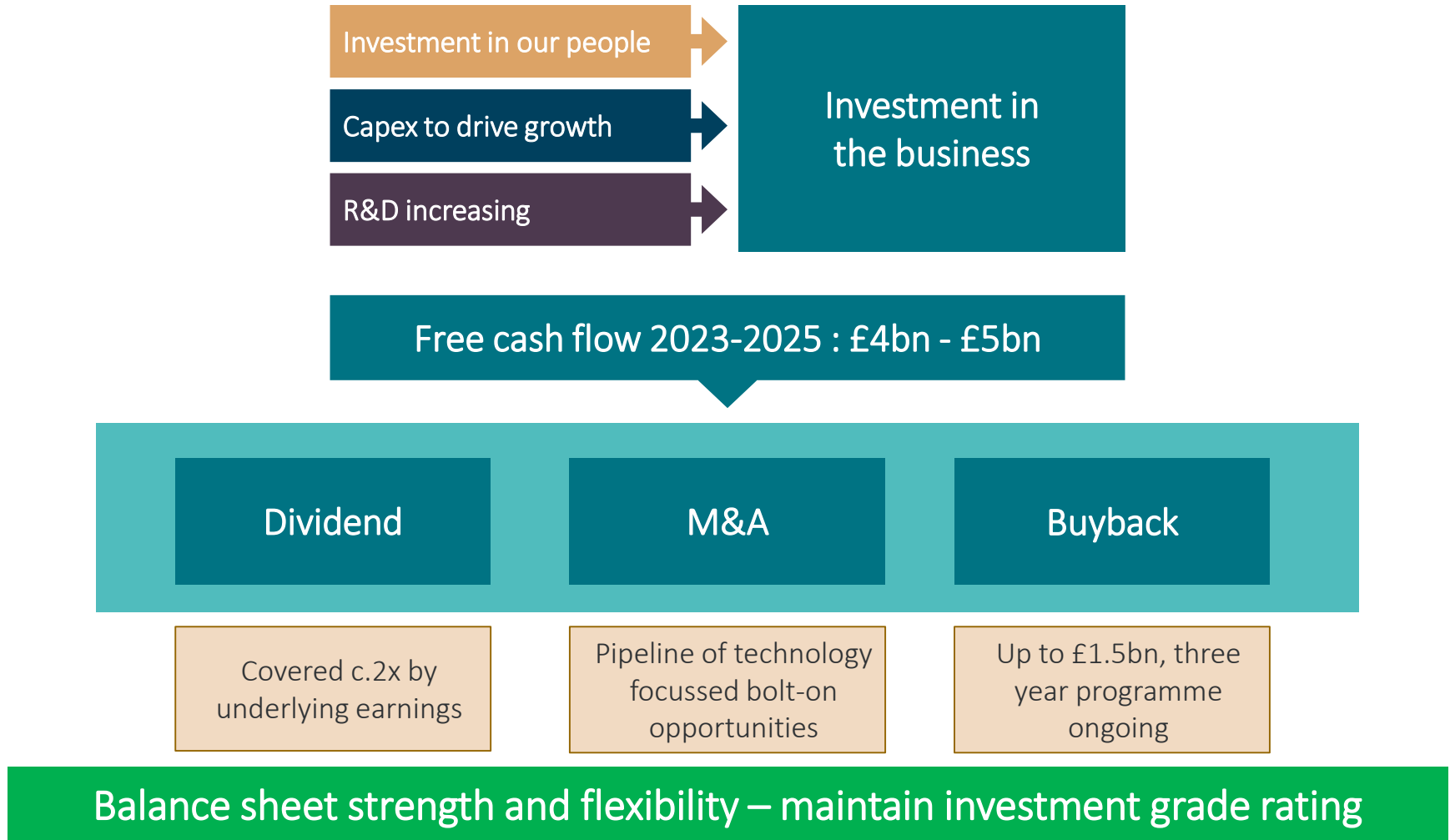
## 90bps of Margin Expansion in the last 2 years

- ✓ Matching business models with commensurate risk
- ✓ Enhanced programme performance and risk retirement
- ✓ Closer supply chain focus and supplier relationships
- ✓ Proactive portfolio actions
- ✓ Efficiency initiatives

## Pathway to Further Margin Expansion Clear

- Higher margin commercial activity in ES
- Business mix
- Risk retirements
- Further improvements in P&S
- Further efficiency initiatives

# Capital Allocation



# Business Outlook



# Financially we continue to be focused on three priorities...



## Organic Growth

- Order intake and backlog
- Portfolio diversity
- Technology investment
- World class multi domain capabilities
- Partnerships & collaboration



## Expanding Margins

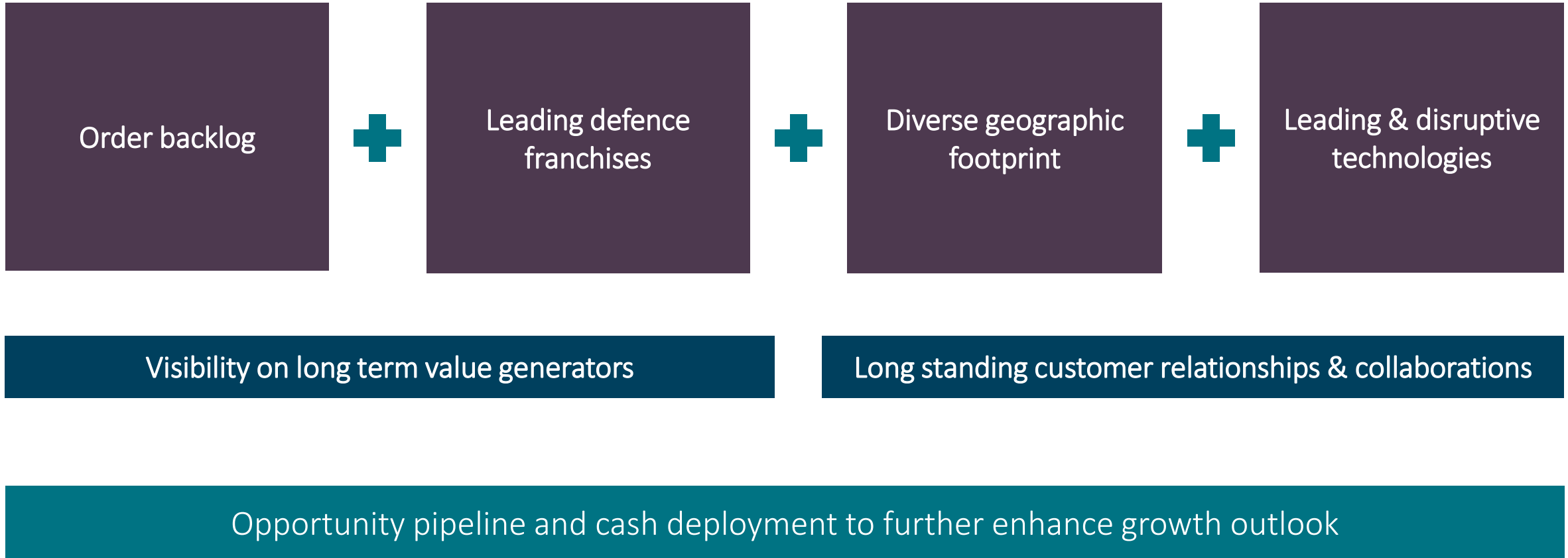
- Programme performance
- Business mix
- Operational efficiency and simplification



## Disciplined Capital Allocation

- Higher and sustained cash conversion
- Organic investment
- Ordinary dividend
- Inorganic opportunities
- Incremental returns via Share Buyback

## Key drivers behind long term growth outlook



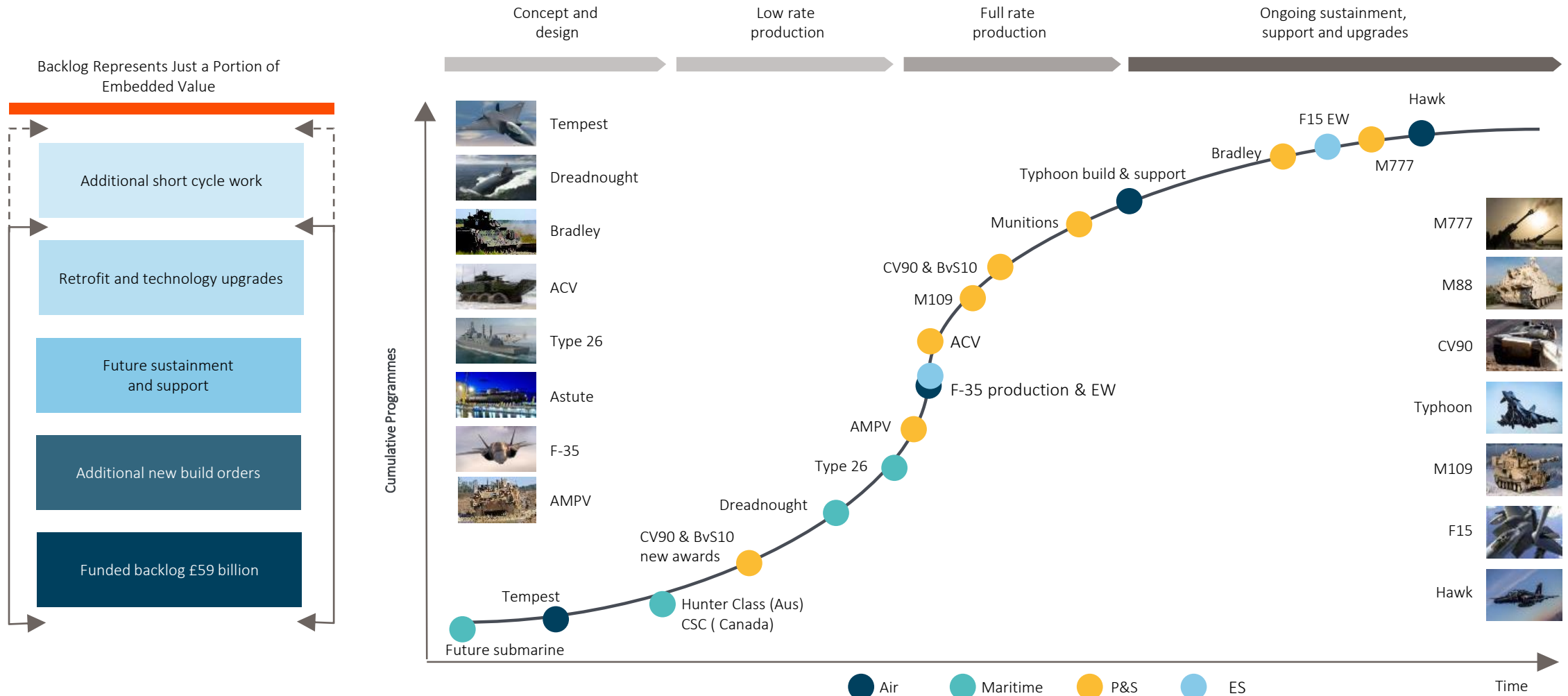
# Multi year programme visibility underpinned by a £59bn backlog

	2022 Sector Backlog	Sector sales outlook	Major Programme/Franchise	2022 Sales	Sales outlook <sup>(1)</sup>
ES	\$9.7bn	↑	Electronic Combat Solutions	\$1.8bn	↑
			ES Defence other	\$3.6bn	↑
			ES Commercial	\$0.8bn	↑
P&S	\$9.7bn	↑	Combat Mission Systems	\$2.4bn	↑
			Hagglunds & Bofors	\$0.5bn	↑
			US Ship Repair	\$0.8bn	↑
Air	£24.4bn	↑	F-35 (AIR)	£1.0bn	↑
			Typhoon Support & Upgrade	£2.0bn	↑
			Typhoon Production & Tempest Development	£1.2bn	↑
			KSA Support*	£1.6bn	↑
			MBDA	£1.3bn	↑
Maritime	£17.2bn	↑	Submarine Design and Build	£1.8bn	↑
			Global Combat Ship	£1.0bn	↑
C&I	\$2.5bn	↑	Intelligence and Security	\$1.8bn	↑
			Digital Intelligence	\$0.9bn	↑
<b>Funded backlog - a subset of true programme visibility</b>					

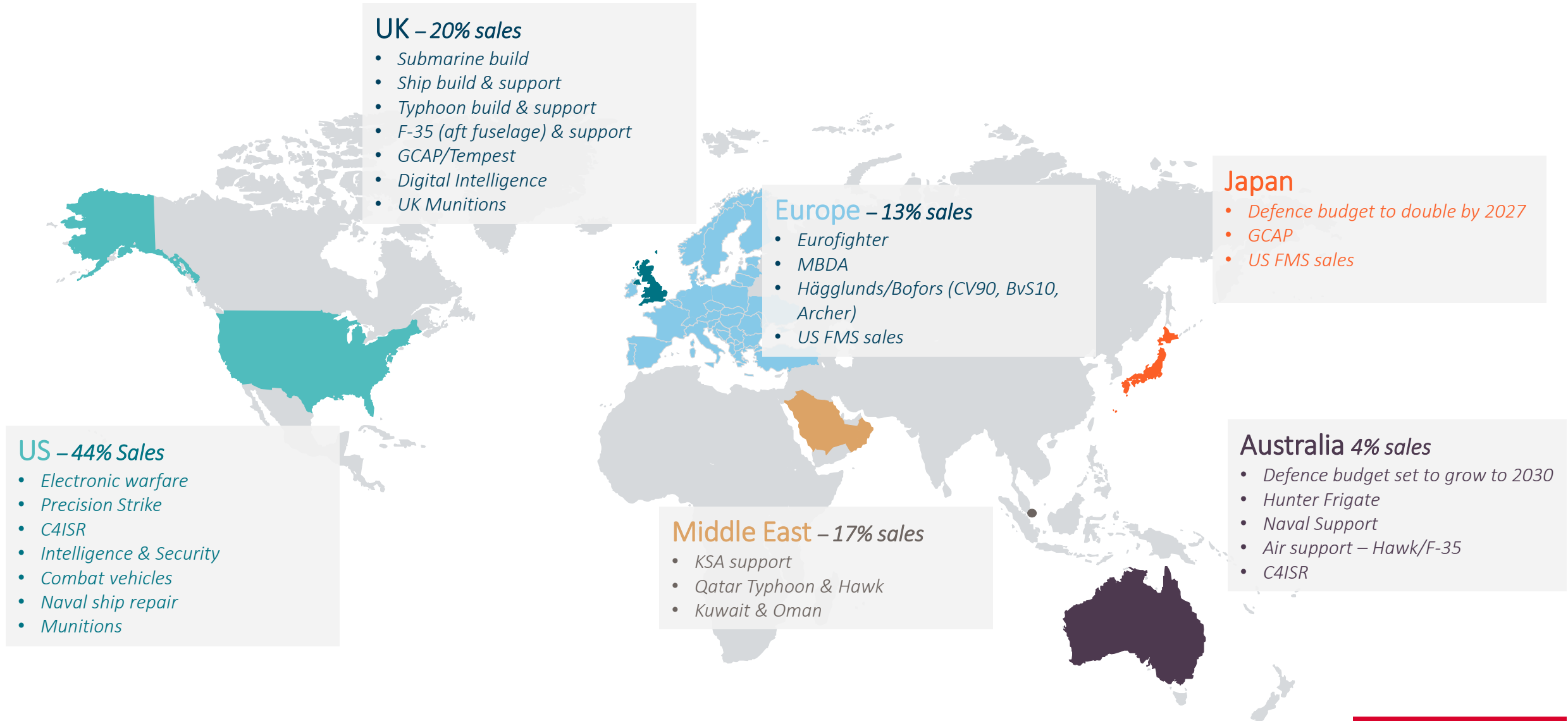
1. Projections are based on internal management estimates and reflect management’s current assumptions, including assumed receipt of future orders over the medium term

\* KSA Support excludes KSA Typhoon support which is included in “Typhoon Support and Upgrade”

# Multi-decade Programmes With Long-Term Embedded Value - illustrative



# Geographic diversity - a strength now and into the future



### UK – 20% sales

- Submarine build
- Ship build & support
- Typhoon build & support
- F-35 (aft fuselage) & support
- GCAP/Tempest
- Digital Intelligence
- UK Munitions

### Europe – 13% sales

- Eurofighter
- MBDA
- Hägglunds/Bofors (CV90, BvS10, Archer)
- US FMS sales

### Japan

- Defence budget to double by 2027
- GCAP
- US FMS sales

### US – 44% Sales

- Electronic warfare
- Precision Strike
- C4ISR
- Intelligence & Security
- Combat vehicles
- Naval ship repair
- Munitions

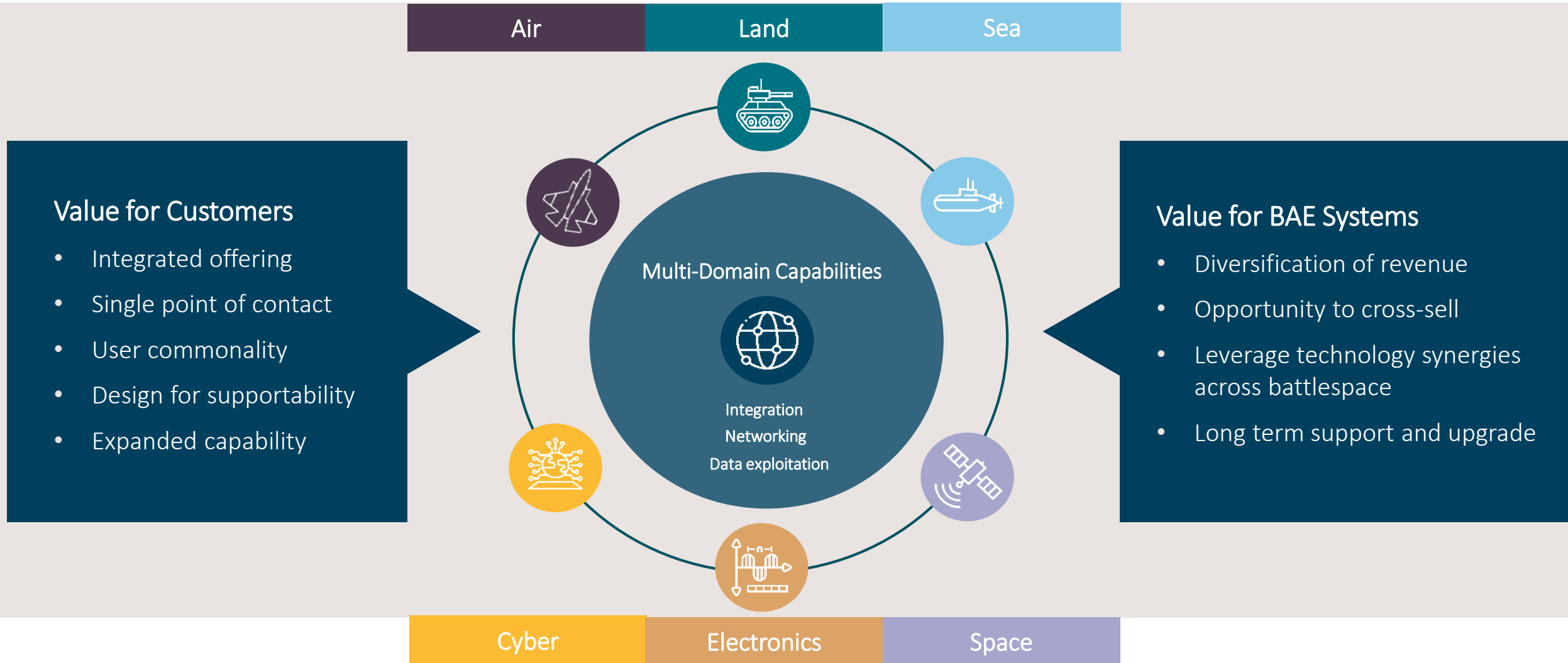
### Middle East – 17% sales

- KSA support
- Qatar Typhoon & Hawk
- Kuwait & Oman

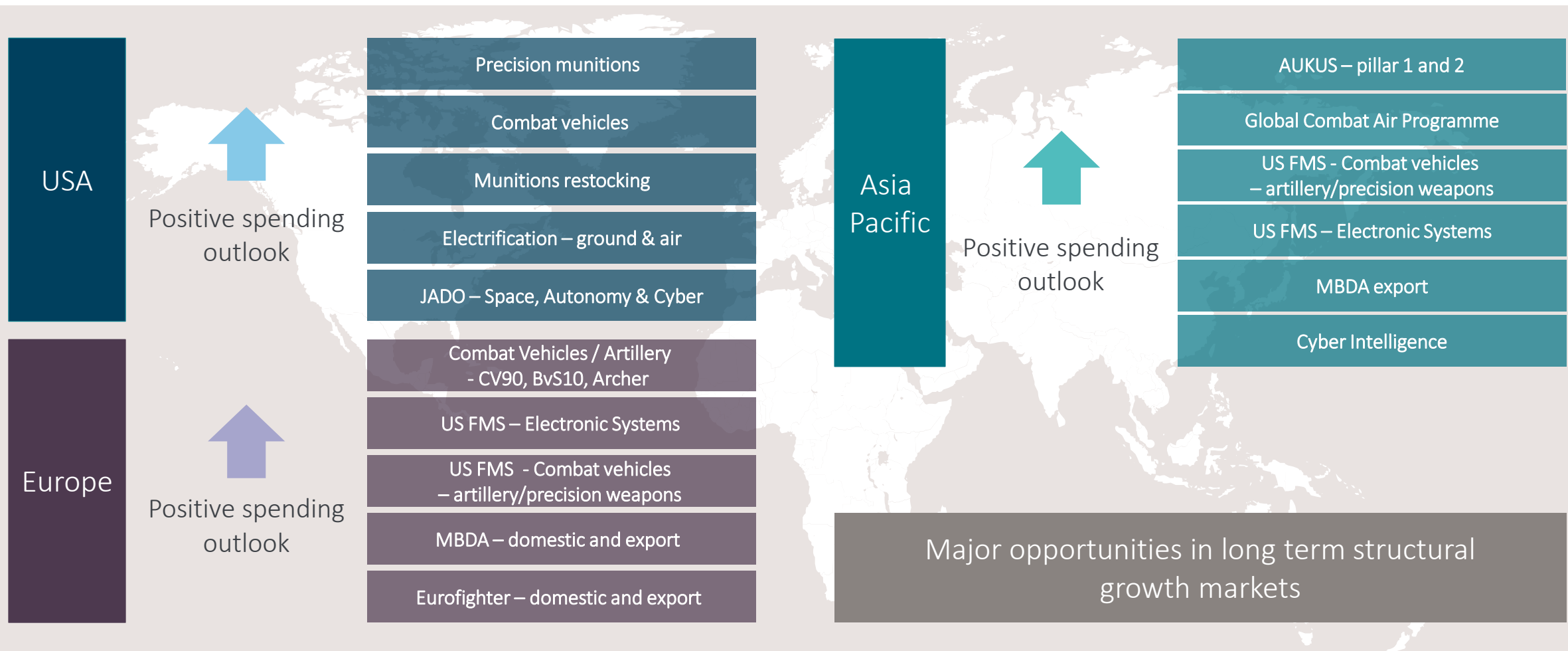
### Australia 4% sales

- Defence budget set to grow to 2030
- Hunter Frigate
- Naval Support
- Air support – Hawk/F-35
- C4ISR

# World Class Multi-domain Capabilities - Enabling an Integrated and Networked Battlespace



# Portfolio uniquely placed to address current and future threat environment



# Summary - Our Investment Proposition



Strong programme performance

1



Investing in the business  
Progressive ESG agenda

2



Foundation for sustained growth  
Backlog & geographic reach

3



Leading technology solutions

4



Global opportunity pipeline

5



Scope to expand margins

6



Consistent Capital Allocation and Cash Generation

7

Well positioned for long term growth and value creation

# Supplementary Information

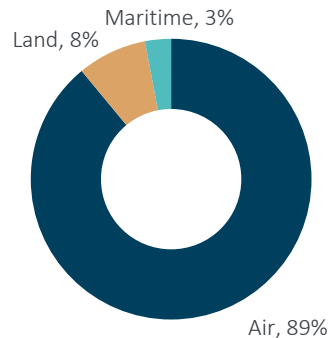


# Electronic Systems

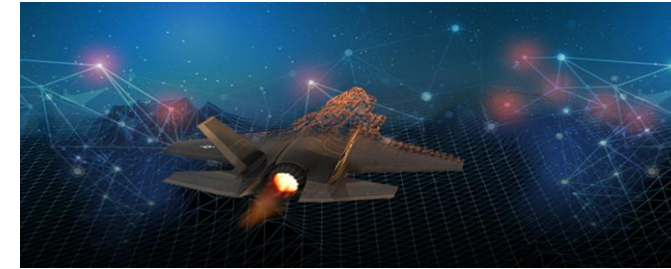
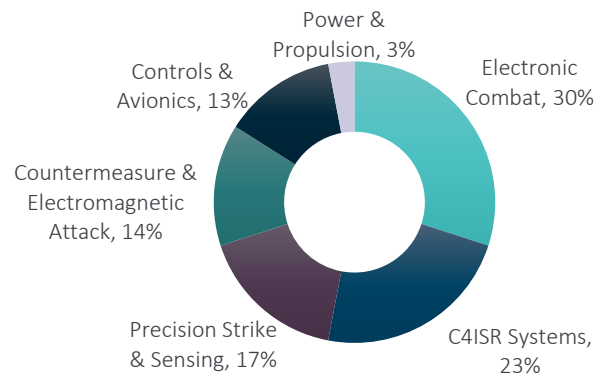
## Business Description

Electronic Systems comprises the US- and UK-based electronics activities, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

### 2022 Sales by Domain



### 2022 Sales by Line of Business



## Financial Performance

	2022	2021
Sales	\$6,248m	\$6,178m
Underlying EBIT	\$1,036m	\$1,054m
Margin	16.6%	17.1%
Cash flow	\$803m	\$1,065m
Order intake	\$6,727m	\$6,773m
Order backlog	\$9.7bn	\$9.7bn

- Sales up 2% on a constant currency basis
  - Continued growth in Electronic Combat Solutions
  - Commercial demand returning but recovery slow
  - Volumes impacted by supply chain constraints & tight labour market
- Margin performance in line with guidance
- Cash flow reflects facilities investment and inventory build
- 1.1x Book-to-bill
  - Awards on F-35, Precision Strike & C4ISR capabilities

# Platforms & Services



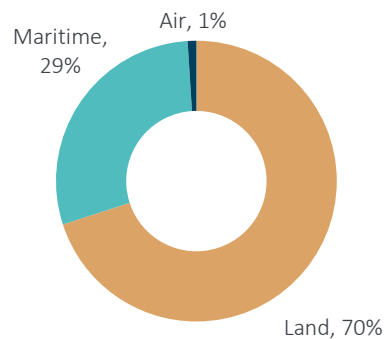
## Business Description

Platforms & Services, with operations in the US, UK and Sweden, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of government-owned munitions facilities.

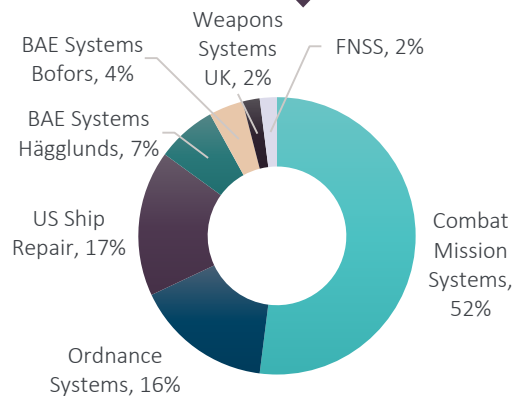
## Financial Performance

	2022	2021
Sales	\$4,557m	\$4,670m
Underlying EBIT	\$403m	\$356m
Margin	8.8%	7.6%
Cash flow	\$649m	\$395m
Order intake	\$7,067m	\$4,451m
Order backlog	\$9.7bn	\$7.6bn

## 2022 Sales by Domain



## 2022 Sales by Line of Business



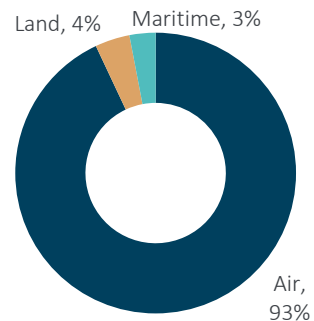
- Sales down 1%, on a constant currency basis
  - Combat vehicles volumes maintained
  - Lower ship repair volumes
- Margin improved by 120bps
  - Improvements in ship repair & combat vehicles
- Cash performance reflects advances on CV90 Slovakia
- Order intake driven by CV90 Slovakia, BvS10 and CATV awards, and higher ship repair volumes

# Air

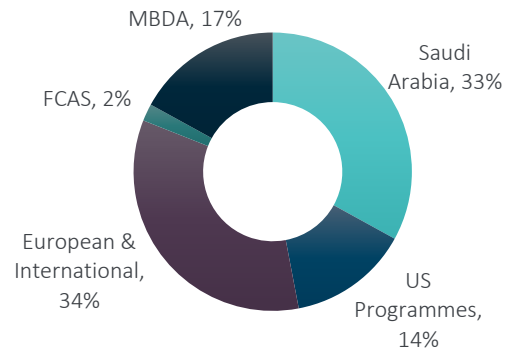
## Business Description

Air comprises the Group’s UK-based air activities for European and International Markets, US Programmes, and development of Future Combat Air Systems, alongside its businesses in the Kingdom of Saudi Arabia, together with its 37.5% interest in the European MBDA joint venture.

### 2022 Sales by Domain



### 2022 Sales by Line of Business



## Financial Performance

	2022	2021
Sales	£7,698m	£7,449m
Underlying EBIT	£849m	£772m
Margin	11.0%	10.4%
Cash flow	£1,140m	£548m
Order intake	£14,042m	£5,695m
Order backlog	£24.4bn	£17.8bn

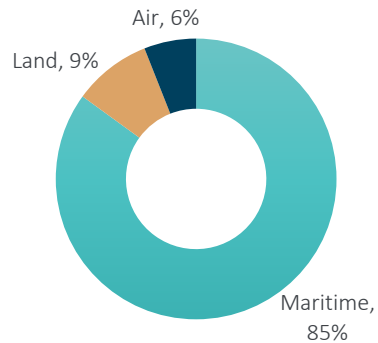
- Sales up 3% on a constant currency basis
  - F-35 running at full rate production
  - Future combat aircraft activity increasing
- Margin performance reflects continued good programme execution
- Cash flow performance reflects renewal of Saudi support contracts
- Order backlog:
  - Saudi support 5-year renewal ; F-35 awards; Typhoon Spain award; Hawk UK support orders; strong MBDA order flow

# Maritime

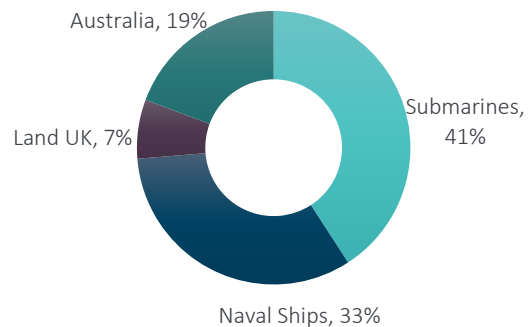
## Business Description

Maritime comprises the Group’s UK-based maritime and land activities, as well as the Group’s Australian business.

### 2022 Sales by Domain



### 2022 Sales by Line of Business



## Financial Performance

	2022	2021
Sales	£4,598m	£4,169m
Underlying EBIT	£356m	£351m
Margin	7.7%	8.4%
Cash flow	£235m	£374m
Order intake	£9,716m	£5,688m
Order backlog	£17.2bn	£12.1bn

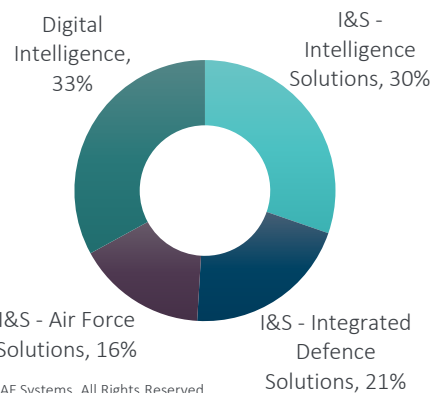
- Sales growth at 10% on a constant currency basis
  - Increased volumes on Dreadnought & Type 26 programmes
- Margin performance
  - Increased volumes on Dreadnought sales and increased self-funded R&D related to autonomous & multi-domain capabilities
- Cash performance reflects utilisation of UK munitions advance funding
- Orders driven by ongoing Dreadnought funding and Type 26 Batch 2 award for further five frigates

# Cyber & Intelligence

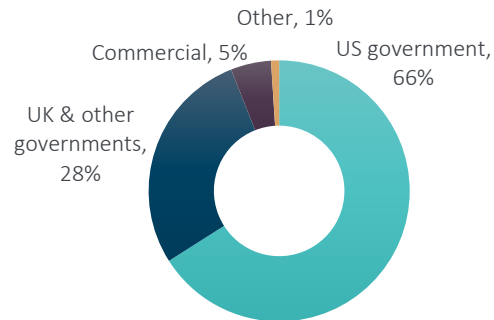
## Business Description

Cyber & Intelligence comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, and covers the Group’s cyber security and secure government activities.

## 2022 Sales by Line of Business



## 2022 Sales by key programme



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## Financial Performance

	2022	2021
Sales	\$2,724m	\$2,645m
Underlying EBIT	\$287m	\$246m
Margin	10.5%	9.3%
Cash flow	\$190m	\$277m
Order intake	\$3,018m	\$2,798m
Order backlog	\$2.5bn	\$2.6bn

- Sales up 7% on a constant currency basis<sup>(1)</sup>
  - I&S & DI both growing at c.7%
- Margin up 120bps on good utilisation, programme performance & contribution from Bohemia acquisition
- Cash performance reflects unwind of timing benefits in 2021
- Order backlog
  - I&S book-to-bill 1.1 and Digital Intelligence 1.2

1) FX headwind given retranslation of Digital Intelligence from GBP to USD

## 2022 summary by reporting segment

	Sales £m	Underlying EBIT £m	Return on Sales %	Operating Cash Flow £m	Order Intake £m	Order Backlog £bn
Electronic Systems	5,057	838	16.6%	650	5,444	8.1
Platforms & Services	3,688	326	8.8%	525	5,719	8.1
Air	7,698	849	11.0%	1,140	14,042	24.4
Maritime	4,598	356	7.7%	235	9,716	17.2
Cyber & Intelligence	2,205	232	10.5%	154	2,443	2.1
HQ	420	(122)		(152)	426	-
Eliminations	(410)				(697)	(1.0)
	<b>23,256</b>	<b>2,479</b>	<b>10.7%</b>	<b>2,552</b>	<b>37,093</b>	<b>58.9</b>

at USD FX rate of \$1.24 (backlog @ \$1.21)

## 2023 guidance by reporting segment

- guidance below assumes a £1:US\$1.24 exchange rate

	2022 Actual		2023 guidance <sup>(1)</sup>	
	Sales	Return on Sales	Expected Sales	Expected Return on Sales
Electronic Systems	5,057	16.6%	Up 4% to 6%	16% to 17%
Platforms & Services	3,688	8.8%	Up 2% to 4%	9% to 10%
Air	7,698	11.0%	Up 1% to 3%	11% to 12%
Maritime	4,598	7.7%	Up 3% to 5%	8% to 9%
Cyber & Intelligence	2,205	10.5%	Up 2% to 4%	8% to 9%

HQ Underlying EBIT is expected to be broadly similar to 2022 (expense £122m)

*Return on Sales defined as Underlying EBIT as a percentage of Sales*

(1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

## Summarised balance sheet (£m)

	31 December 2022	31 December 2021
Intangible fixed assets	12,644	11,716
Tangible fixed assets	4,723	4,010
Investments	886	630
Working capital	(4,119)	(3,740)
Pension surplus/(deficit)	646	(2,124)
Lease liabilities	(1,582)	(1,252)
Tax assets & liabilities	363	589
Financial assets & liabilities	(138)	(1)
Net debt	(2,023)	(2,160)
<b>Net Assets</b>	<b>11,400</b>	<b>7,668</b>

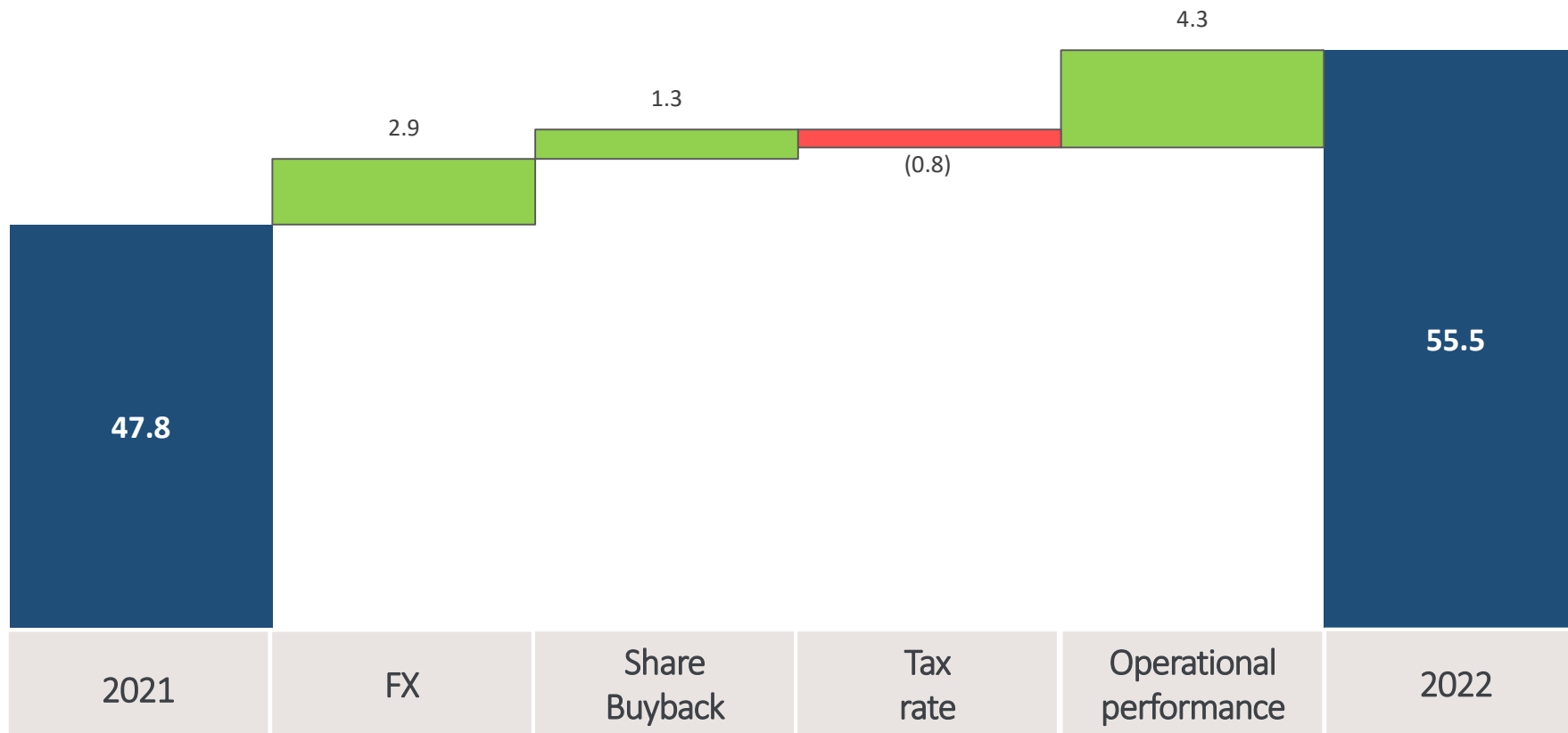
2022 stated at US\$1.20 ; 2021 stated at US\$1.35

## 2022 reconciliation of earnings

(£m / pence EPS)	Underlying			Reported	
	2022	2021 (excl. one-off tax benefit)	2021 (incl. one-off tax benefit)	2022	2021
Underlying EBIT	2,479	2,205	2,205	2,479	2,205
Other intangible amortisation/impairment				(111)	(101)
Adjusting items				91	350
<b>EBIT</b>				<b>2,459</b>	<b>2,454</b>
Underlying finance costs	(246)	(241)	(241)	(246)	(241)
Pensions & fair value movements				(174)	(65)
<b>Finance costs<sup>(1)</sup></b>				<b>(420)</b>	<b>(306)</b>
Underlying tax	(422)	(350)	(350)	(422)	(350)
Other tax				57	20
One-off tax benefit			94	-	94
<b>Tax<sup>(1)</sup></b>				<b>(365)</b>	<b>(236)</b>
Underlying	(83)	(91)	(91)	(83)	(91)
Adjusting items				-	(63)
<b>Non-controlling interest</b>				<b>(83)</b>	<b>(154)</b>
<b>Earnings</b>	<b>1,728</b>	<b>1,523</b>	<b>1,617</b>	<b>1,591</b>	<b>1,758</b>
Weighted average number of shares	3,112	3,187	3,187	3,112	3,187
<b>Earnings per Share</b>	<b>55.5p</b>	<b>47.8p</b>	<b>50.7p</b>	<b>51.1p</b>	<b>55.2p</b>

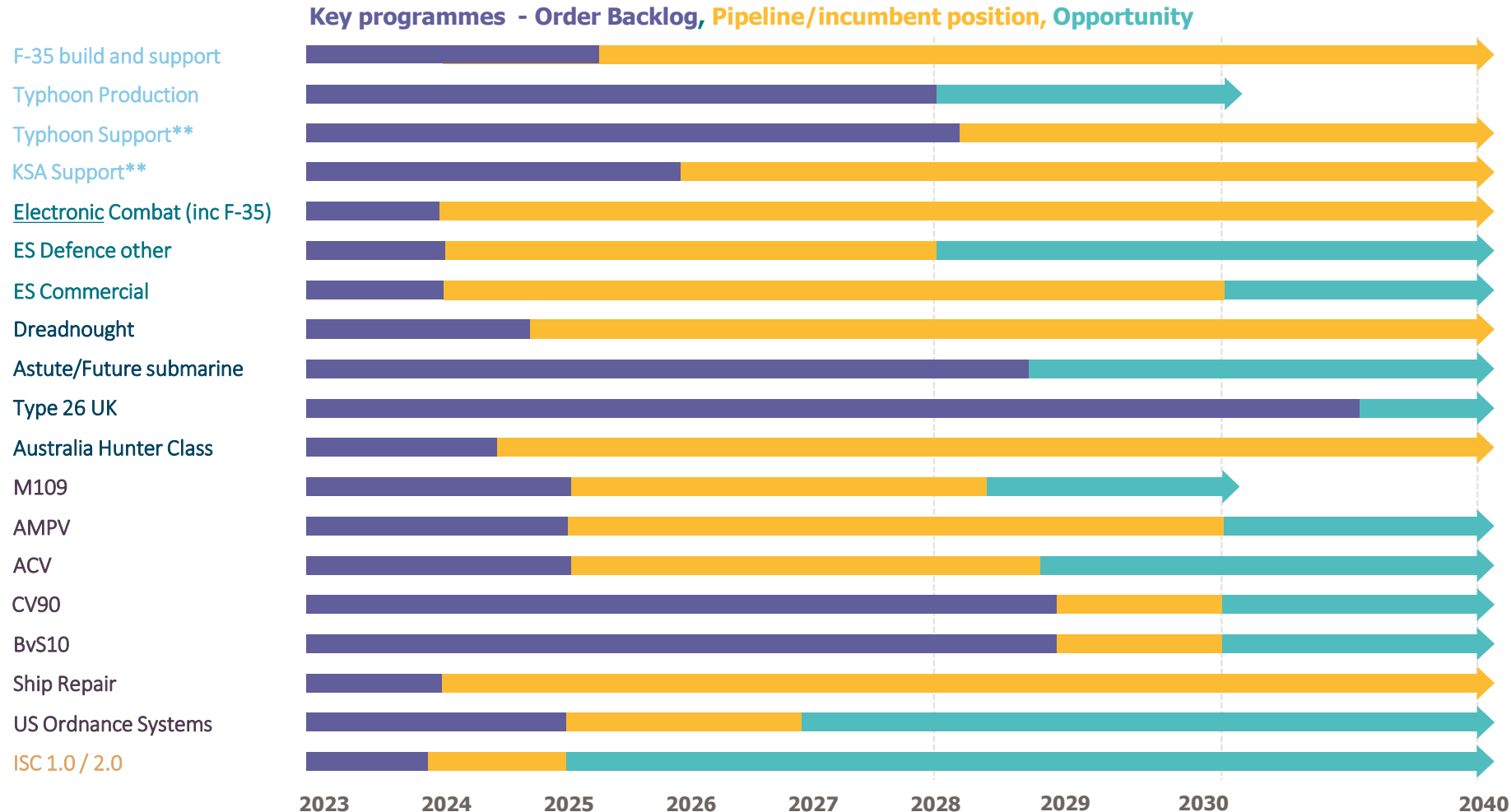
(1) Including share of Equity Accounted Investments

## 2022 underlying EPS bridge (pence)












# Key Franchises and Programmes - illustrative







- Air
- Electronic Systems (ES)
- Maritime
- Platforms & Services
- Intelligence & Security



(1) Dates reflect position at 1<sup>st</sup> January each year

\*\* KSA support reflects SBDCP programme – Salam support to be renewed in 2023;

Sector	5 Year outlook (2022 Sales)	Key growth drivers	Primary markets	Major Opportunities
ES	 (\$6,248m)	Electronic Combat – F35, F15, classified	  	US FMS direct and content on other prime platforms
		GPS/Precision strike		Hybrid technologies on military platforms
		Commercial and Avionics ( engine and flight controls)		Joint All Domain Operations
		Power and propulsion (sustainable technology)		Precision munitions - restocking and new requirements
		C4ISR systems		Electrification in civil ground and air markets
		Countermeasures and electromagnetic solutions		Commercial avionics – after market recovery
P&S	 (\$4,557m)	CV90	  	CV90 & BvS10 new vehicles
		BvS10		ARCHER mobile howitzer new sales
		AMPV		US FMS over various platforms
		Ship repair		Munitions restocking and higher quantities
		Bofors (ARCHER and munitions)		Optionally Manned Fighter Vehicle (OMFV)
C&I	 (\$2,724m)	Synthetic Training	  	I&S – Systems integration
		C5ISR & UK Space		I&S – Synthetic training
		National Security programmes		DI – International & defence
		Digital Defence Services		UK Space

Sector	5 Year outlook (2022 Sales)	Key growth drivers	Primary markets	Major Opportunities
Air	 (£7,698m)	F-35 build and support	  	Typhoon sales and support (increased flying hours)
		Typhoon support and upgrade		MBDA exports and restocking
		MBDA		F-35 Sustainment
		Tempest/Global Combat Air Programme		Training and support
Maritime	 (£4,598)	Type 26	  	AUKUS pillars 1 and 2
		Hunter Frigate		Type 26 exports
		Future submarine		UK munitions restocking
		UK Munitions		Global Combat Ship support
		RBSL ( Boxer and Challenger)		Radar exports