

Trading Statement

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 BAE SYSTEMS PLC
 08 November 2021

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BAE Systems plc - market update

BAE Systems plc provides the following update.

Charles Woodburn, BAE Systems Chief Executive, said: *"We're evolving our business to be well positioned for growth over the medium term alongside a focus on longer-term value drivers as we ramp up investment in advanced technologies and progress our sustainability agenda. Our continued good operational performance underlines our confidence in the full year guidance for top line growth and margin expansion as well as our three-year cashflow target.*

"Demand for our capabilities remains high and we have a strong pipeline of opportunities across our broad geographic portfolio that will enable our skilled, global workforce to deliver capabilities which will support our customers in responding to the evolving threat environment."

Guidance

Our 2021 guidance remains unchanged from the improved underlying position outlined at the interim results and is underpinned by continuing good operational performance.

- Sales +3-5% (2020: £20,862m) - Constant currency +5-7%
- Underlying EBIT +6-8% (2020: £2,037m) - Constant currency 10%+
- Underlying EPS ⁽¹⁾ +3-5% (2020: 44.3p)
- 2021 Free Cash Flow (FCF) >£1.0bn⁽²⁾
- Cumulative FCF 2021-2023 >£4bn

(1) Excludes the one-off tax benefit of 2.9p

(2) Before net benefit of c.£200m from the Broughton and Filton sale announced at the 2021 interim results

Order flow

Our backlog and programme positions support growth over the medium term, and our pipeline of opportunities remains strong with continued demand for our capabilities. Notable strategically important awards announced since the half year include:

Sector	Contract
Electronic Systems	10-year IDIQ: Life-cycle sustainment and technical support to the Limited Interim Missile Warning System program - up to \$872m
Electronic Systems	F-35 EW System Sustainment over 5 years - \$93m
P&S	Concept Development Selection on Optionally Manned Fighting Vehicle (OMFV) program
I&S	5-year Systems Engineering and Integration Support Services for US Navy - up to \$478m
Air	Typhoon Future Synthetic Training - c.£220m

Air	Typhoon capability enhancements - c.£135m
Maritime	UK future submarine early design and concept - £85m

Operational Update

Whilst uncertainties arising from the COVID-19 pandemic remain, progress continues in combatting the virus under vaccination programmes in our major markets. Meanwhile our continued good programme execution underlines the guidance for sales growth, margin expansion and our three-year cash targets.

We continue to effectively mitigate and manage supply chain pressures having avoided any material impacts on our performance to date. In many cases, we benefit from long-term programme positions and incumbencies with more stable forward visibility for long-lead items allowing us to continue to actively manage supplier lead times against demand requirements.

Electronic Systems secured key wins across its business areas, marked by the Limited Interim Missile Warning System and F-35 electronic warfare system readiness awards. In the second half, our teams have continued to demonstrate technology advances, with key milestones ranging from unveiling the world's smallest M-Code military GPS receiver, to receiving a DARPA contract to advance autonomy software for multi-domain mission planning. In addition, we have an opportunity to expand our clean energy footprint by demonstrating our proven maritime propulsion solutions for use on the River Thames in London, and we continue to progress technologies that will enable lighter weight, cost-competitive energy storage solutions for hybrid engines in aircraft.

Whilst Platforms & Services continues to invest in next-generation combat vehicles for US and international customers, production across multiple franchise vehicle platforms continues to meet or exceed agreed delivery schedules. Across the US Ship Repair business, good progress is being made on resolving several challenged ship modernisation programmes and recovering from pandemic and other operational disruptions.

The US Intelligence & Security business continues to maintain a robust bid pipeline and was awarded multiple contracts in the second half to sustain its order backlog. One specific highlight was the re-compete win from the US Navy's Strategic Systems Programs office for systems engineering and integration services over five years.

Applied Intelligence continues to deliver a significantly improved performance this year with profitable growth driven by the ramp-up in Government related business.

Our Air sector is growing this year as a result of production moving towards full rate levels on F-35 rear fuselage assemblies in line with our long term planning assumptions of 150+ sets per annum, higher Typhoon production revenues with the first Qatari jets well into final assembly, higher Typhoon upgrade and support activity and further expansion of our Australian business.

In Maritime, manufacturing levels on Type 26 are increasing with the first three ships in production. Within Submarines we are progressing the build of the remaining Astute class boats, while on the Dreadnought programme, production volumes are increasing with Boats 1 and 2 in build.

Defence Spending outlook in our key markets

Our geographic diversity positions us positively post-pandemic as many of the countries we operate in have published plans to increase their spending to counter evolving threat environments.

In the US, a Continuing Resolution was passed to fund the government through 3 December as Congress continues to debate and advance the Bipartisan Infrastructure Bill, debt ceiling limits, and the fiscal year 2022 budget reconciliation. As the Senate works to pass its version of the National Defense Authorization Act (NDAA), the House passed its version of the NDAA at a spending level of \$740 billion, which marks an increase over the President's request of \$715 billion earlier in the year.

Through a range of innovative technologies and proven capabilities, the US business continues to sustain its diverse portfolio of long-term defence programmes for the US Armed Forces and international allies. The business portfolio remains closely aligned with enduring customer priorities and key focus areas outlined in the US National Defense Strategy, all of which have contributed to good performance year to date and support our positive outlook for the full year.

In the UK, the Defence Command Paper 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 the capabilities to support our UK customer in its space ambitions, furthered by our acquisition of In-Space Missions in September.

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 due to our contracted positions, and through export opportunities from our UK, US and Australian business to the region. The recent AUKUS announcement is strategically significant. As the largest defence provider in the UK and Australia and a top 10 prime contractor to the US DoD we are well positioned to support our Government customers in these nations as discussions progress. This is a clear example of how nations are looking to co-ordinate capabilities in multi domain operations to address the threat environment.

In Europe, 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 through our positions on the Eurofighter Typhoon, our shareholding in MBDA and our BAE Systems Hagglunds land business based in Sweden, and we are pursuing a number of significant opportunities in the region.

In the Middle East, our longstanding relationships at government and company levels, continued regional instability and the nature of our long-term contracts, mean we expect defence and security to remain a priority. The renewal of certain existing long-term support contracts is tracking in line with expectations and we continue to progress a number of opportunities with existing customers.

Technology Strategy - Key highlights

In line with our strategy to increase R&D investment and to seek bolt-on acquisitions to augment our existing technology base, we acquired In-Space Missions in September, a UK company that designs, builds and operates satellites and satellite systems. The acquisition will enable us to combine BAE Systems' experience in highly secure satellite communications with In-Space Missions' full lifecycle satellite capability. In the US, our radiation-hardened RAD510™ System on Chip (SoC) for space-based computing is entering fabrication. The RAD510 SoC will be the core of a single board computer with twice the performance capability, providing more advanced processing while demanding less power from its spacecraft than the industry standard RAD750® microprocessor.

ESG

On 13 October we outlined to our stakeholders the importance of the Group's Environmental, Social and Governance policies and actions. Our sustainability objectives go hand in hand with our focus on improved performance and we continue to increase and accelerate our ambitions. Since the half year we have:

- Committed to cease handling white phosphorus
- Achieved our accreditation as a real living wage employer
- Published through BAE Systems, Inc. a report entitled *A Decade of Progress*, to detail progress made over the past ten years toward increasing diversity, equity, and inclusion in the workplace and to outline a strategic path forward to further advance our culture of inclusion

Share Buyback Programme

We have completed £308m of the £500m share buyback programme we announced in our Half-year results statements.

Board

As previously announced, Crystal Ashby joined the Board as a non-executive director of the Company with effect from 1 September 2021.

The Company also announced recently that Ian Tyler, a non-executive director of the Company and Chair of the Remuneration Committee, will retire from the Board with effect from the close of the Company's AGM to be held on 5 May 2022, when he will have served for nine years. Dame Carolyn Fairbairn will succeed Ian as Chair of the Remuneration Committee, with effect from 1 January 2022.

Interim Dividend

The 2021 interim dividend of 9.9 pence per share will be paid on 30 November 2021.

Full year results

BAE Systems will announce its financial results for the year ending 31 December 2021 on 24 February 2022.

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