

20 January 2020

BAE Systems plc – Proposed acquisition of Collins Aerospace’s Military Global Positioning System business and Raytheon’s Airborne Tactical Radios business.

BAE Systems plc (“BAE Systems” or the “Company”) announces that it has entered into a definitive Asset Purchase Agreement to acquire Collins Aerospace’s Military Global Positioning System business (“GPS business”) for \$1.925bn in cash, subject to customary closing adjustments. As an asset purchase there is an expected tax benefitⁱ of c.\$365m.

The Company has also entered into a definitive Asset Purchase Agreement to acquire Raytheon’s Airborne Tactical Radios business (“Radios business”) for \$275m in cash, subject to customary closing adjustments. As an asset purchase there is an expected tax benefitⁱⁱ of c.\$50m.

Completion of both acquisitions are subject to successful closure of the Raytheon-United Technologies Corporation (UTC) merger, as well as customary regulatory approvals and conditions.

These two proposed acquisitions represent a unique opportunity to purchase high quality technology based businesses with market leading capabilities and long histories of pioneering innovation in their fields. These assets have come to market as part of the regulatory process relating to the merger of Raytheon and UTC. Both businesses are highly complementary to our US-based Electronic Systems business and on completion they would be integrated into our Electronic Systems division.

Both businesses have strong growth outlooks driven by close alignment with the priorities outlined in the US National Defense Strategy, Congressional mandates to upgrade existing capabilities and a presence on a substantial installed base of products and platforms in the US and with allied nations. Both transactions would be expected to be immediately earnings and cash accretive.

Commenting on today’s announcement, Charles Woodburn, Chief Executive of BAE Systems said:

“These proposed acquisitions present a unique opportunity to add high quality, technology focused businesses to our Electronics Systems sector. It’s rare that two businesses of this quality, with such strong growth prospects and close fit to our portfolio, become available. The strategic and financial rationale is strong and these proposed acquisitions, which are focused on areas of highest priority defence spending, will further enhance the Group’s opportunity for continued growth in Electronic Systems. We look forward to welcoming the employees of the two businesses to the Company, as we work together to help drive our business forward successfully.”

Proposed acquisition of Collins Aerospace’s Military Global Positioning System business (“GPS business”)

Highlights

- Global leading provider of mission critical military GPS receiver solutions
- Installed base on over 280 different platforms across ground, air and individual weapon systems
- High growth potential from strong positioning for next generation technology development
- Revenue CAGR of 10% + over the next four years with sustained margins expected
- Margins, earnings and cash expected to be immediately accretive
- ROIC > WACC expected in 3rd full year post completion
- Highly complementary fit to enhance Electronic Systems technology and existing capabilities
- All cash consideration, to be funded by new external debt

GPS business

The GPS business is the leading provider of mission critical military GPS receiver solutions and has been a pioneer in military GPS receiver markets for over 40 years. Today it designs and produces advanced hardened and secure GPS products that include next-generation M-Code technologies.

The business operates across a broad base of customers and platforms and is well positioned in the highly attractive, US-focused defense electronics and weapon systems end markets. The GPS business has fielded over 1.5 million units and currently has a presence on over 200 ground, 40 airborne and 40 weapons platforms and is a key provider on the two highest volume weapons programmes for the US Air-Force.

The GPS business brings both industry leading GPS receiver products and a broad platform footprint, based on its long track record of technological innovation that has led to increasing product performance whilst simultaneously reducing size and cost.

The business is based in Cedar Rapids, Iowa, with approximately 675 employees and post-acquisition, would be integrated into our Electronic Systems division.

Strategic rationale

Driven by the secure geo-positioning needs of the modern battlespace, we expect the business to see continuing strong customer demand for its product portfolio as precision munitions are expected to play an increasingly critical role in military operations.

The GPS business is developing the next generation M-Code GPS technologies for the US military. Utilisation of M-Code increases security, integrity and availability with US Congress having mandated M-Code for all military GPS user equipment after October 2020. The GPS business is well positioned to provide the M-Code upgrade to its existing product base, which includes some of the highest volume Air Force and Army programmes. In total over 700 platforms are anticipated to be transitioned to M-Code.

The GPS business will be highly complementary to our priority growth area of precision guided munitions in our Electronics Systems division. It has high growth potential as a result of its technological strength and is well positioned to participate in the next cycle of generational upgrades across its sizeable installed base. As it complements both BAE Systems' defence electronics capabilities and has pan domain systems presence there are significant opportunities for our respective product lines in this growth area.

Financial impact

The GPS business is expected to achieve revenues of approximately \$359m and adjusted EBITDA of approximately \$127m in 2020 and has strong future growth potential with an expected revenue CAGR in excess of 10% over the next four years, with continued growth expected thereafter. EBITDA margins are expected to be sustained.

The gross acquisition price of \$1.925bn represents a transaction multiple of 15x estimated 2020 EBITDA or 12x when adjusted for the tax benefitⁱ. The proposed acquisition would be expected to be immediately earnings and cash flow accretive, and would be expected to achieve a return on invested capital in excess of cost of capital in the third full year post completion.

The proposed acquisition would be funded by new external debt.

The proposed acquisition of the GPS business constitutes a Class 2 transaction for the purposes of the UK Financial Conduct Authority's Listing Rules. During the full year ended 31 December 2018, the GPS business generated total revenue of \$254 million and EBITDA of \$98 million. As at 30 September 2019, the GPS business had gross assets of \$106 million.

Proposed acquisition of Raytheon's Airborne Tactical Radios business ("Radios business")

The Radios business and strategic rationale

The Radios business is a leading provider of airborne tactical radio solutions. The business designs, manufactures and supplies a broad range of mission-critical communication systems to the US Department of Defense, allied governments and large defence aircraft manufacturers. The business has a long history of innovation which has resulted in development of valuable intellectual property to support its secure communications, leading to a significant installed base of radios across a number of allied countries.

The Radios business is a strong strategic fit, adding complementary positions in the airborne communications domain including software-defined radio capabilities and a catalogue of waveforms. The acquisition provides the business with a certified indigenous encryption capability, an essential part of secure communication.

These systems feature robust anti-jamming, multi-band, multi-channel and encryption capabilities. It is differentiated by its industry-leading and battle-proven performance in challenging environments.

The combination of the Radios business's robust existing order backlog and strong positioning for the continued modernisation of secured communication technologies underpins its long-term growth potential.

The business is based in Fort Wayne, Indiana, and Largo, Florida, with c.100 employees and post-acquisition, would be integrated into our Electronic Systems division.

Financial impact

The Radios business is expected to generate revenue of approximately \$125m in 2019 and has strong growth potential underpinned by US Department of Defense and NATO mandates for cryptographic and anti-jamming modernisation of software defined radios. The proposed acquisition is expected to be immediately earnings and cash flow accretive, and achieve a return on invested capital in excess of cost of capital in the first full year post completion.

The proposed acquisition would be funded by existing cash on the balance sheet.

Analyst and investor presentation

A presentation, for analysts and investors, will be available via webex at 9.00 am GMT today (20 January 2020). Details can be found on investors.baesystems.com, together with presentation slides and this announcement. A recording of the webex will be available for replay later in the day.

Conference call dial in details:

UK Domestic +44(0)207 192 8000

International 001 6315 107495

Access code: 2944704

Webcast link: <https://edge.media-server.com/mmc/p/5eyrhkuv>

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All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, 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 report 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 Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A contains limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.

Notes:

ⁱ For US tax purposes the transaction constitutes an asset sale for vendor and purchaser - the associated relief is anticipated to generate a cash tax benefit with a present value of c.\$365m

ⁱⁱ For US tax purposes the transaction constitutes an asset sale for vendor and purchaser - the associated relief is anticipated to generate a cash tax benefit with a present value of c.\$50m

Issued by:

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London