

2021 Half Year Results

29 July 2021

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Agenda

- 2021 Half Year Review Charles Woodburn - CEO
- 2021 Half Year Financials Brad Greve - CFO
- Summary Charles Woodburn - CEO
- Q&A

Charles Woodburn Chief Executive

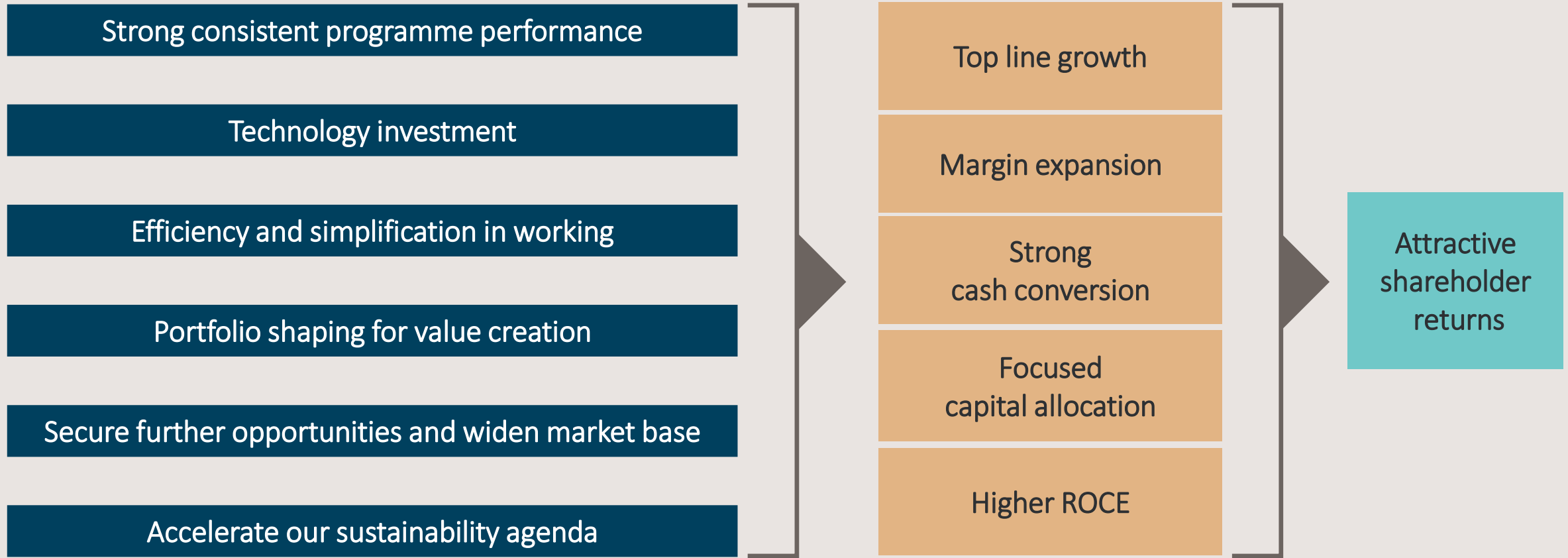


2021 – Half year in review



* 2020 Free cash flow excluding the £1bn one-off UK pension contribution

What we look to achieve in the next 3 years



2021 Half year highlights

Strong underlying business growth - 2021 guidance confirmed

Operational Performance

- Air – Growth delivered
 - F-35; Typhoon production and support
- Electronic Systems - Acquisitions performing well
 - F-35 and F-15 electronic warfare volumes ramping
 - Commercial portfolio beginning to recover
- Maritime – Good performance maintained
 - Type 26 – first 3 ships now in build
 - Astute boat 5 launched
- P&S – positive operational trends
 - Combat vehicles delivery rates up
 - US Ship Repair improving following COVID disruptions
- Cyber and Intelligence – Profitability improved
 - Applied Intelligence – increased government demand
 - I&S good programme performance

Technology Investment

- Linking and transitioning solutions into priority areas: - Multi domain networks, autonomy, space and sustainability- driven
- Tempest investment and new contract award
- Investment in Australia high speed weapons capability
- Hydrogen fuel cell partnership

Competitiveness

- Cross cutting efficiency programmes underway
- Data analytics and benchmarking

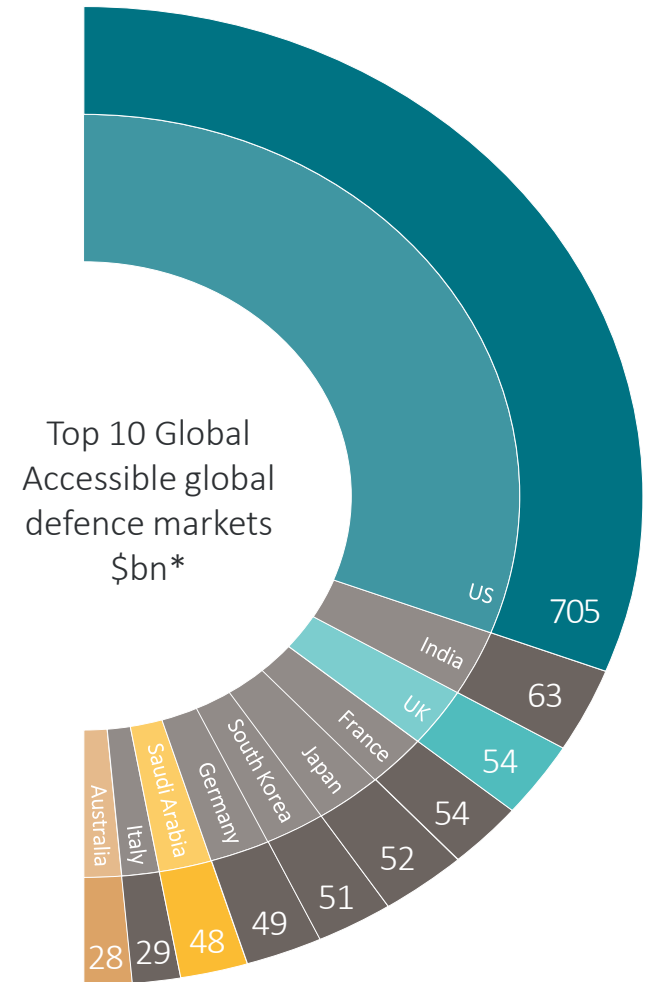
Portfolio shaping for value creation

- Acquisition of Pulse Power Management – data/digital capabilities
- KSA portfolio companies – sale of AEC
- Sale of Filton and Broughton sites – one off cash benefit

Financial focus on margin expansion and improved long term cash generation

Demand outlook

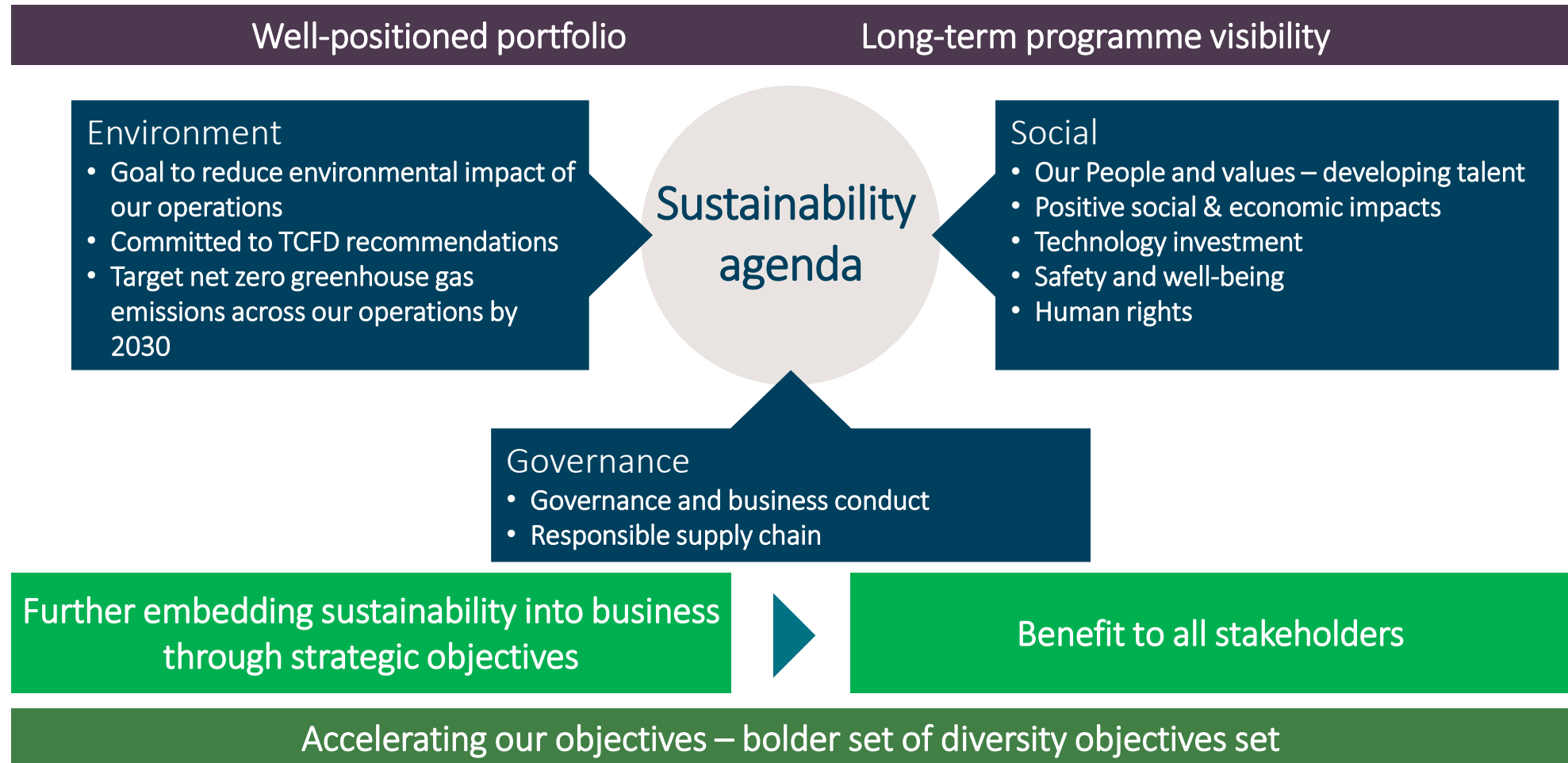
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 - US Business growth in coming years from recent high Book to Bill
 - 2022 proposed budget supports US business programmes
 - Opportunity to outperform from NDS portfolio alignment
 - Budget spending on high-end technology benefits ES
- 
 - 4 year spending increases announced
 - Defence Command Paper positive for the Group
 - Long-term contracts on key sovereign capabilities
 - Opportunity to support UKG in exports and new technologies
- 
 - Increases in defence spending including Germany and France
 - Defence spending increases flowing to orders
 - Typhoon, MBDA, Hägglunds well placed to secure further opportunities
- 
 - Hunter Class Frigate programme drives growth in coming years
 - 40% increase in 10 year defence capability spend creates opportunity
- 
 - Opportunities to expand existing relationships and access new markets



Global portfolio a strength - well positioned to generate growth

* Source: 2019 US budget as shown in the Department of Defense Fiscal Year 2021 Budget Request and, outside the US, Jane's Defence budgets (based on 2019 total defence budgets and constant 2020 US dollars).

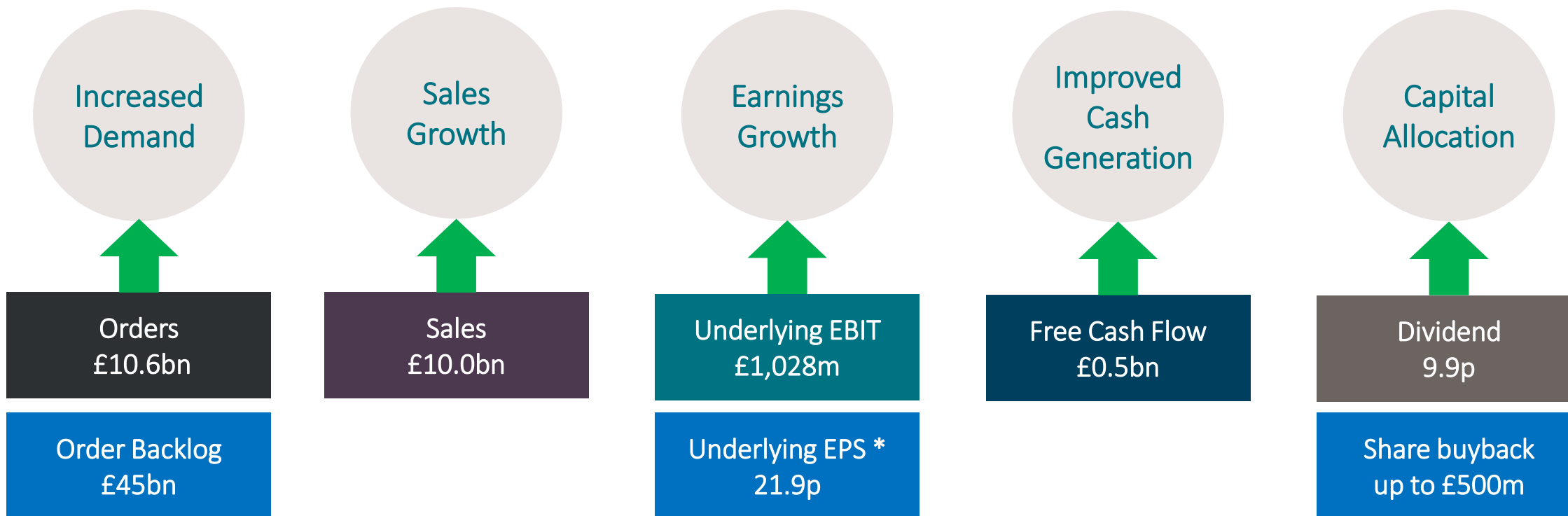
Sustainability central to our business



Brad Greve
CFO



2021 Half year financial highlights



Top line growth, margin expansion & improved cash generation

Enhanced returns to shareholders

* excluding one-off tax benefit

2021 Half year summary financials

	Half Year 2021	Half Year 2020	Reported change	Constant currency	Average \$ rate: June 2021 \$1.39, June 2020 \$1.26
Order Intake	£10,582m	£9,339m			
Sales	£10,035m	£9,871m	+2%	+6%	
Underlying EBIT ⁽¹⁾	£1,028m	£849m	+21%	+27%	
Margin	10.2%	8.6%	+160bps	+170bps	
Underlying EPS ^(1,2) - excluding one-off tax benefit ⁽³⁾	21.9p	17.5p	+25%	+31%	1 Operating profit excluding amortisation of programme, customer-related and other intangible assets, finance costs & taxation expense of equity accounted investments (EBIT) and non-recurring items
- including one-off tax benefit ⁽³⁾	24.8p	17.5p			
Underlying Tax Rate	18%	19%			2 Basic Earnings per Share (EPS) excluding the post-tax impact of amortisation of programme, customer-related and other intangible assets, non-cash finance movements on pensions and financial derivatives and non-recurring items attributable to shareholders
Operating Business Cash Flow ⁽⁴⁾	£694m	£120m	+£574m		
Free Cash Flow ⁽⁴⁾	£461m	£(110)m	+£571m		
Dividend per Share	9.9p	9.4p	+5%		3 One-off tax benefit of £94m in respect of agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company regime
		<i>Full Year 2020</i>			
Order Backlog	£44.6bn	£45.2bn			
Net Debt	£(2,745)m	£(2,718)m			4 Free Cash Flow defined as Operating Business Cash Flow less interest paid (net) and taxation. 2020 Half Year Operating Cash Flow and Free Cash Flow exclude the £1bn one-off UK pension contribution
Pension Deficit	£(2.4)bn	£(4.5)bn			

Order intake


£10.6bn – orders ahead of expectations

US		
ES \$3.1bn	P&S (US) \$2.6bn	I&S \$0.9bn

Air
£2.7bn


Maritime
£2.8bn

Electronic Combat \$0.7bn
 C4ISR \$0.6bn
 Precision Strike \$0.6bn
 Combat vehicles \$1.4bn
 Ship Repair \$0.5bn




Book to bill 1.1

FCAS £0.3bn
 F-35 £0.2bn
 Typhoon Support £0.3bn
 Australia £0.3bn
 MBDA £1.0bn

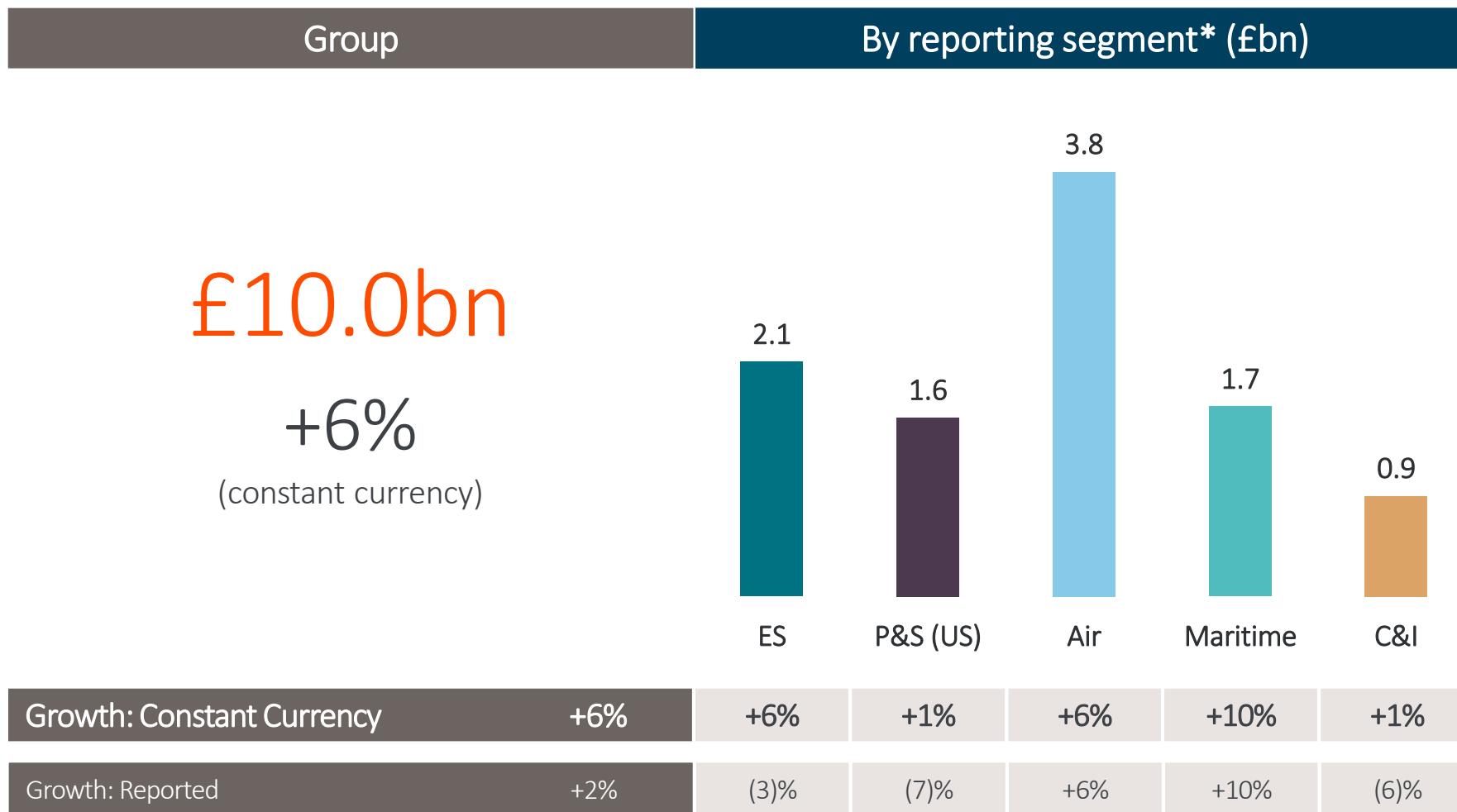


Submarines £1.4bn
 UK ship support £0.5bn
 RBSL Challenger £0.3bn



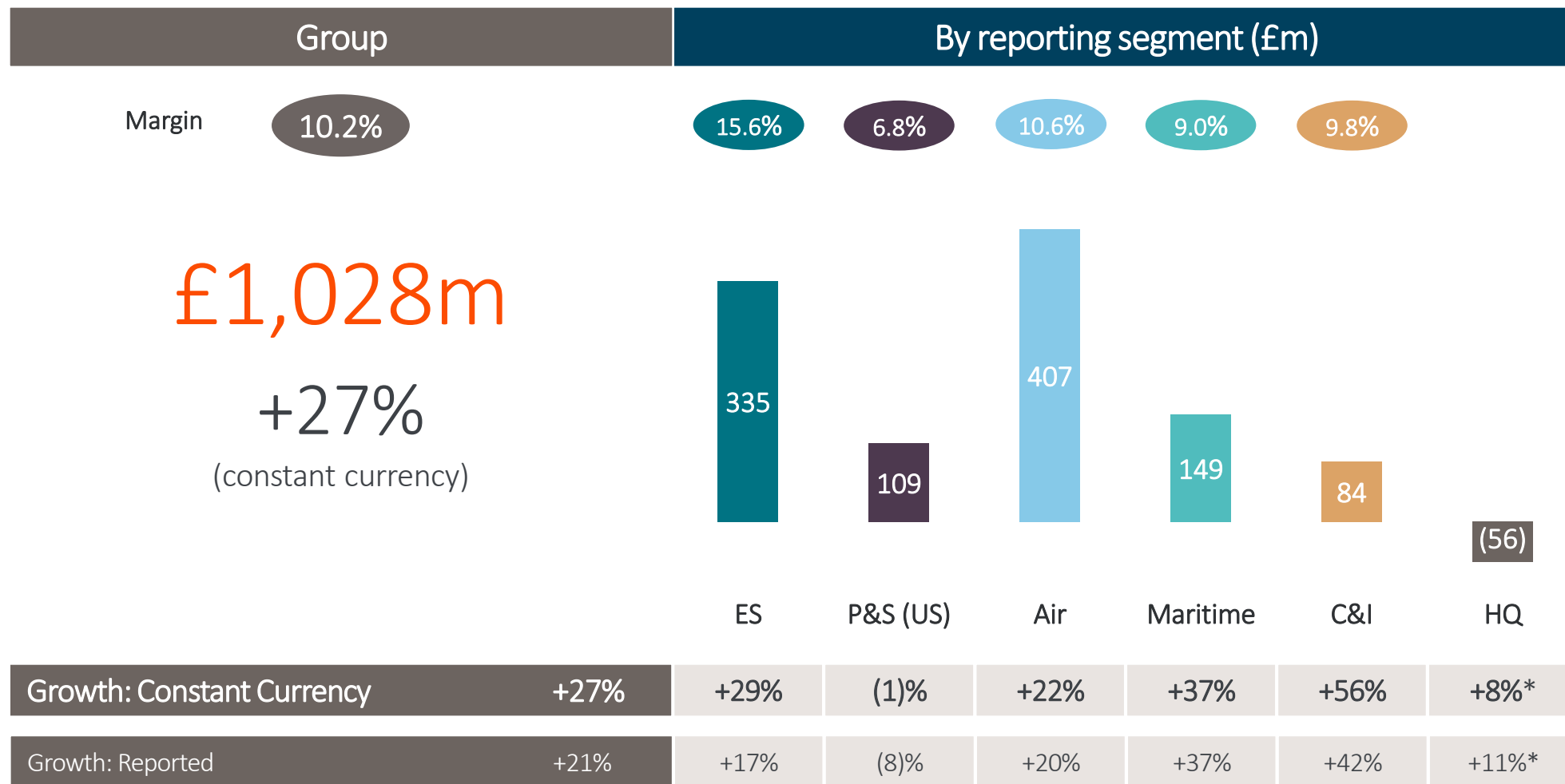
In addition, Applied Intelligence, HQ & eliminations total £0.4bn

Sales



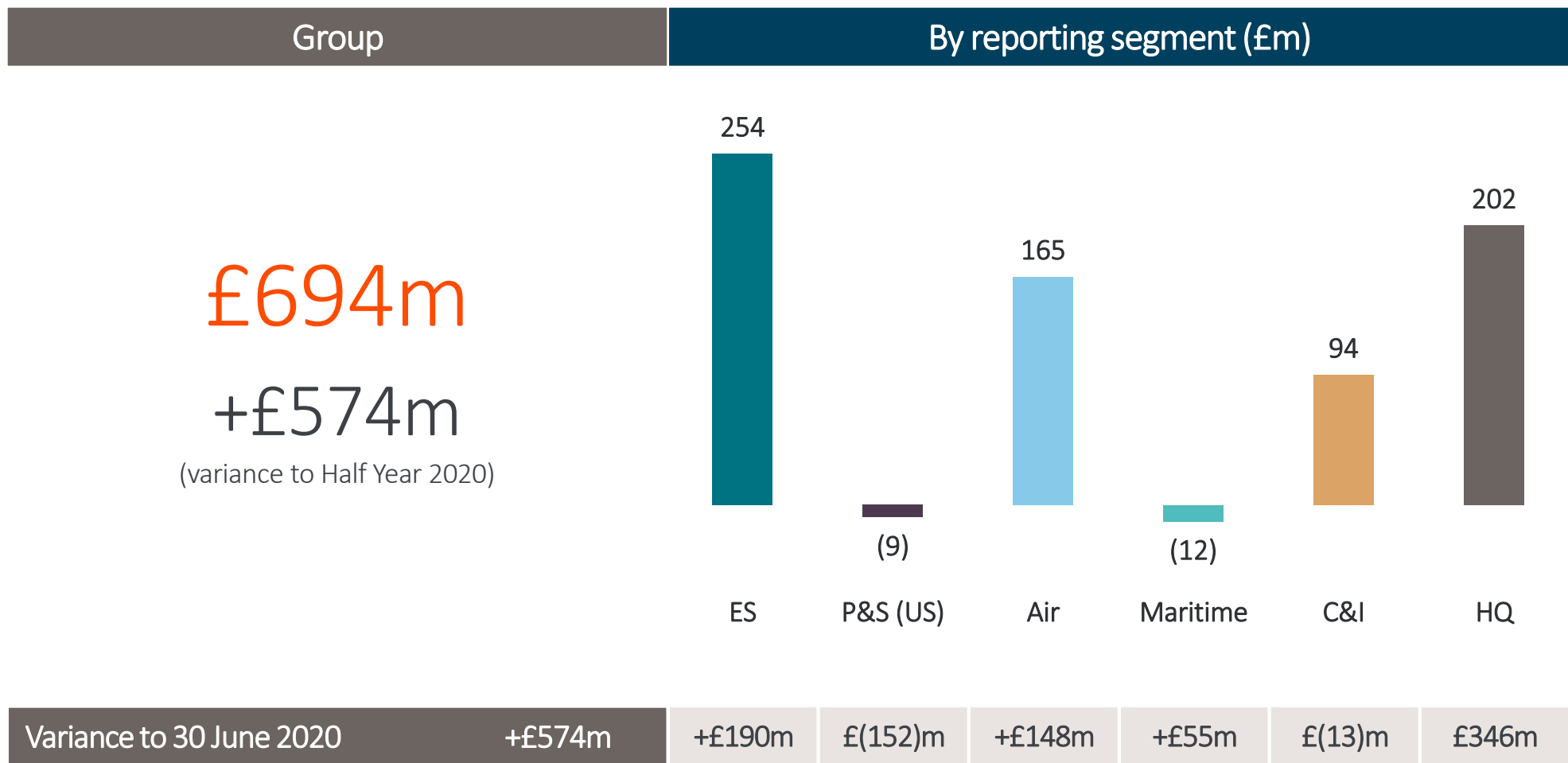
* excludes HQ & eliminations

Underlying EBIT/margin



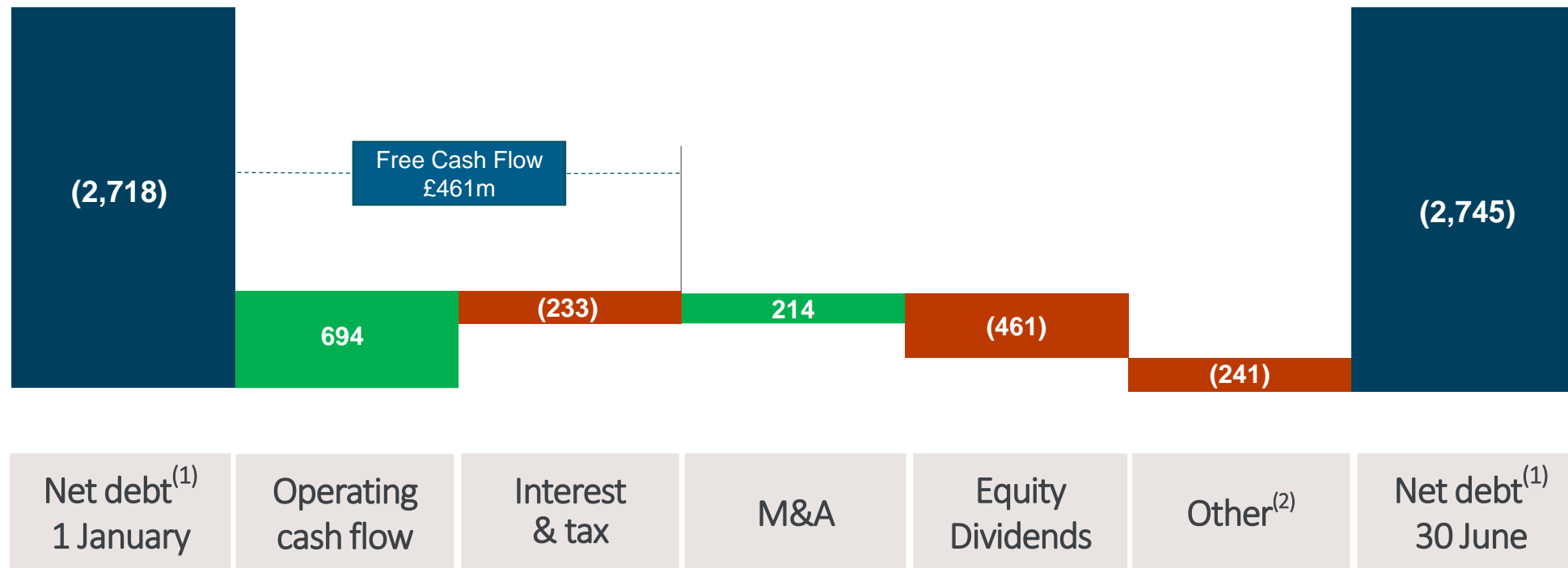
* for HQ, the positive 'growth' denotes improved contribution to EBIT

Operating business cash flow



2020 Half year comparison excluding the £1bn one-off UK pension contribution

Net debt (£m)



(1) Net Debt excludes lease liabilities

(2) Other includes £172m dividends paid to non-controlling interests

2021 Group guidance (EBIT basis) ^(1,2)

Guidance is provided based on a \$1.35:£1

Sales

+3% to +5%

(2020 £20,862m)

Underlying EBIT

+6% to +8%

(2020 £2,037m)

Underlying EPS

+3% to +5%

(2020 44.3p)

2021 Free cash flow (FCF)

>£1bn

(2020 £1,367m⁽³⁾)

3 year FCF (2021 – 2023)

>£4bn

Other

Sensitivity to 10c
movement is c.2p

Tax Rate ⁽⁴⁾
c.18%

Underlying
Finance Costs
c.£270m

Minority Interest
c.£85m

Targeting good top and bottom line growth and 3 year cash expansion
Improved operational performance offsets FX headwind

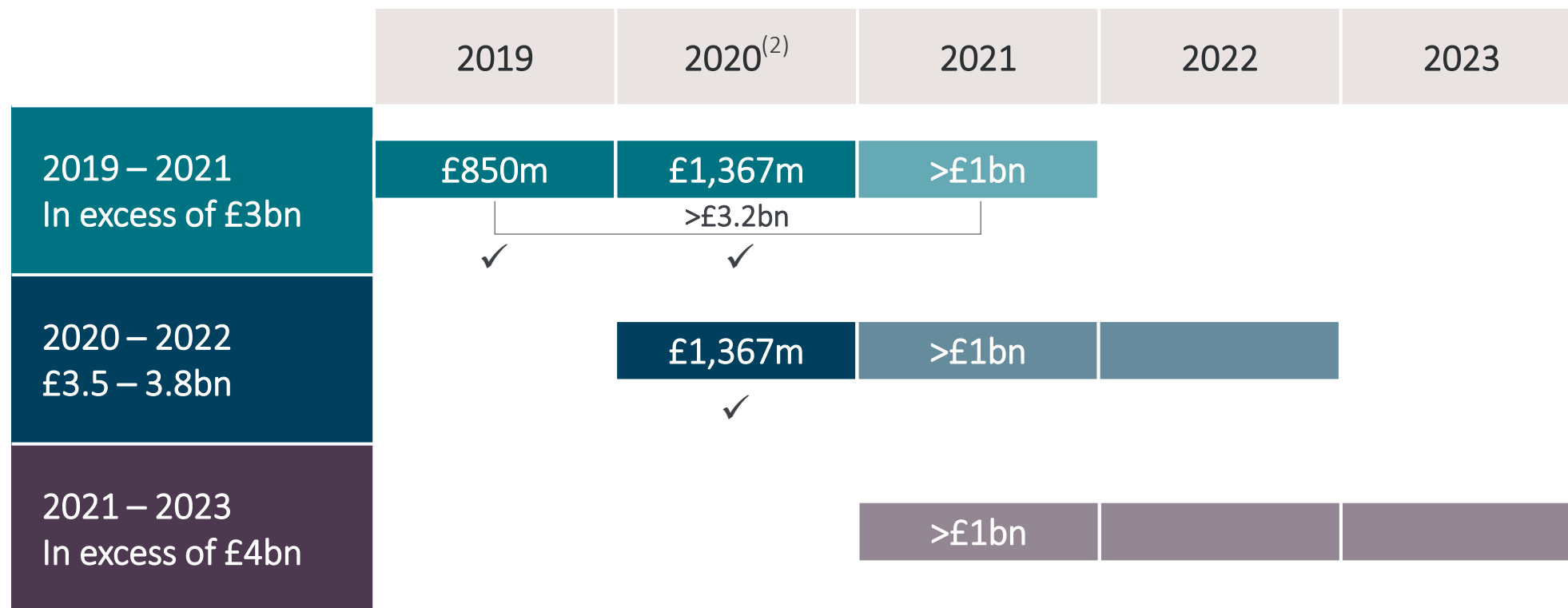
1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance

2) 2021 Guidance, restated to EBIT (March 2021)

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

4) Excluding one-off tax benefit of £94m

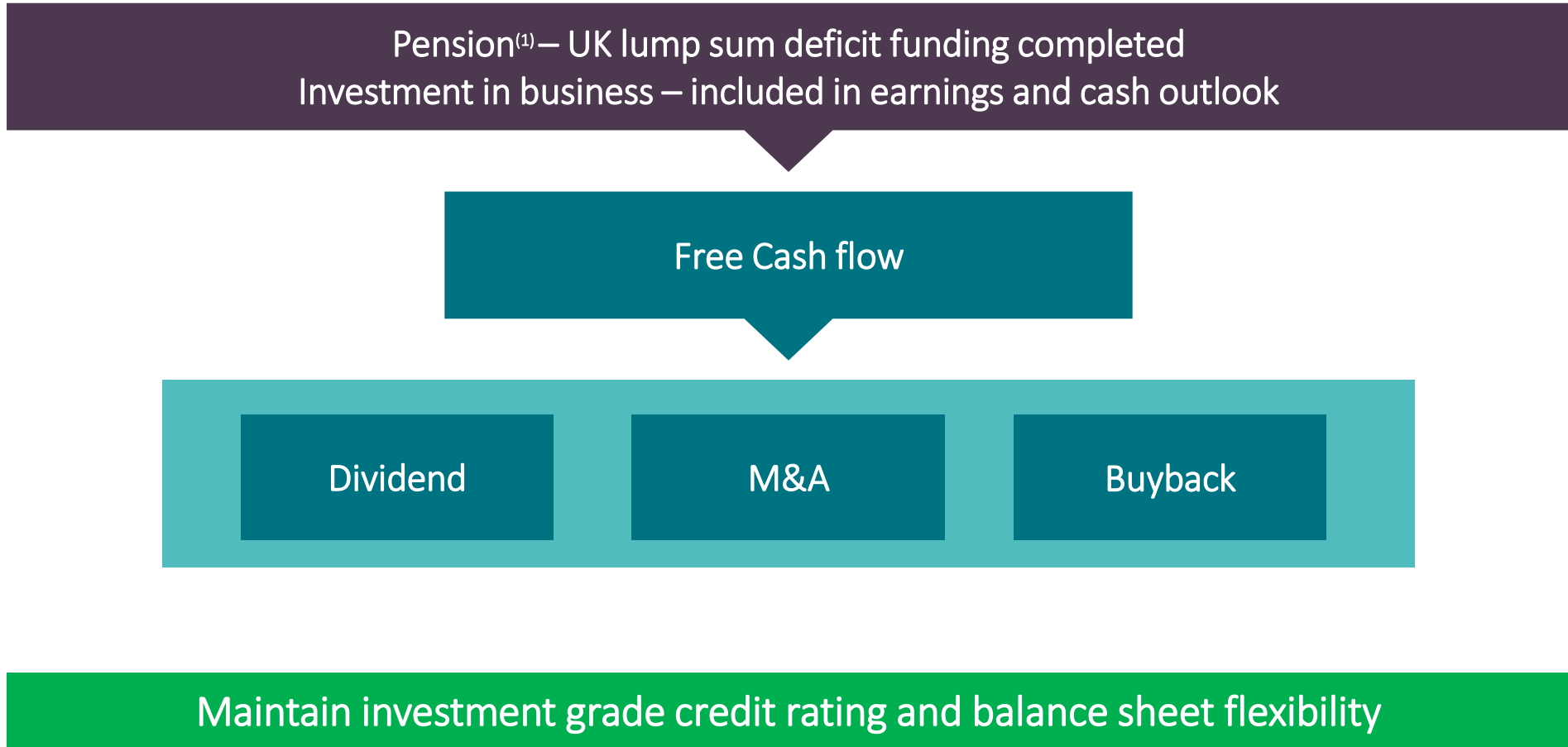
3 year free cash flow guidance⁽¹⁾



On track to meet rolling 3 year targets
Guidance held against FX headwind

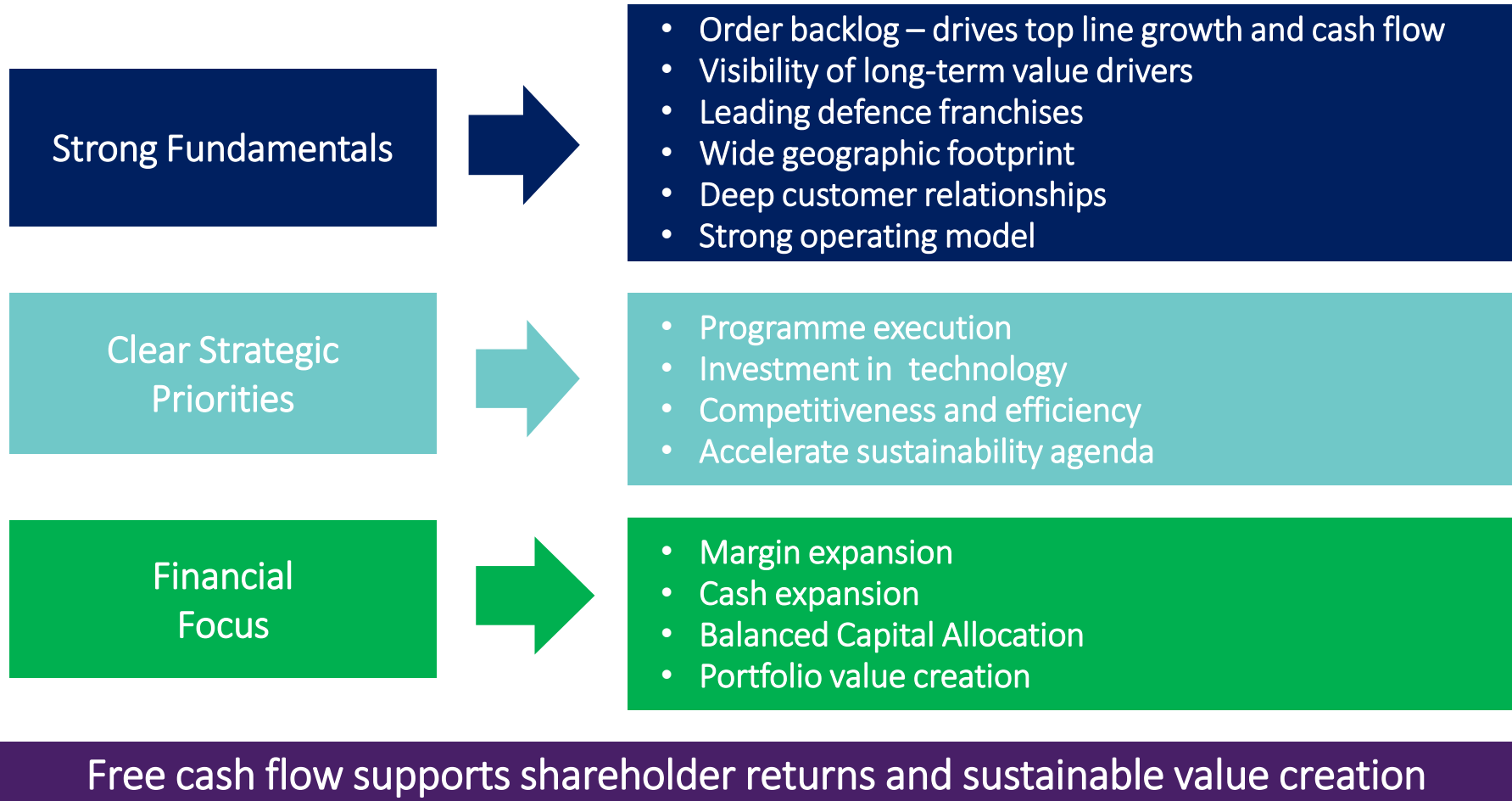
- 1) Whilst the Group is subject to geopolitical and other uncertainties, the guidance is provided on current expected operational performance
- 2) Excluding the £1bn one-off UK pension contribution

Capital Allocation

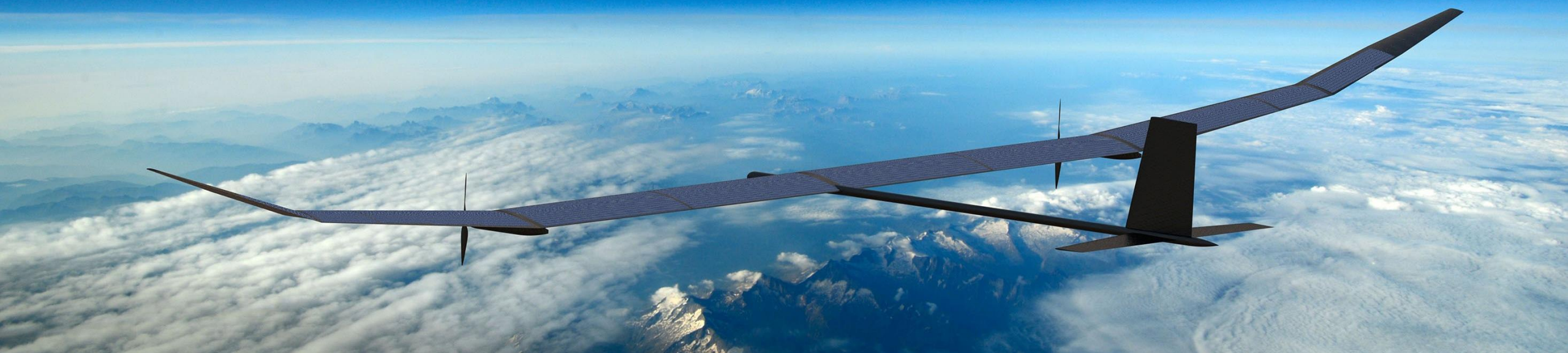


1) Per current funding plan. Next triennial review will be in 2022

Summary



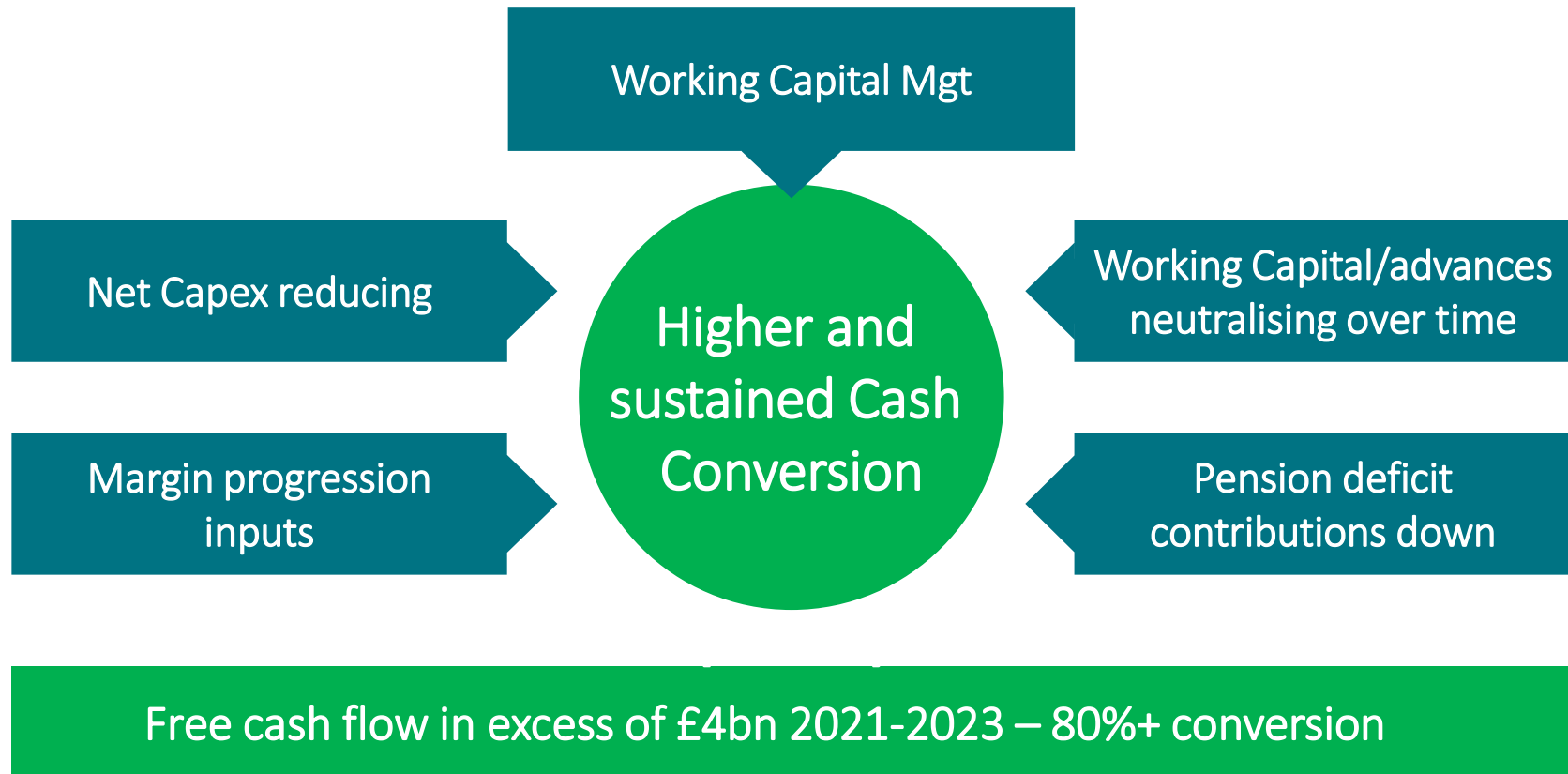
Q&A



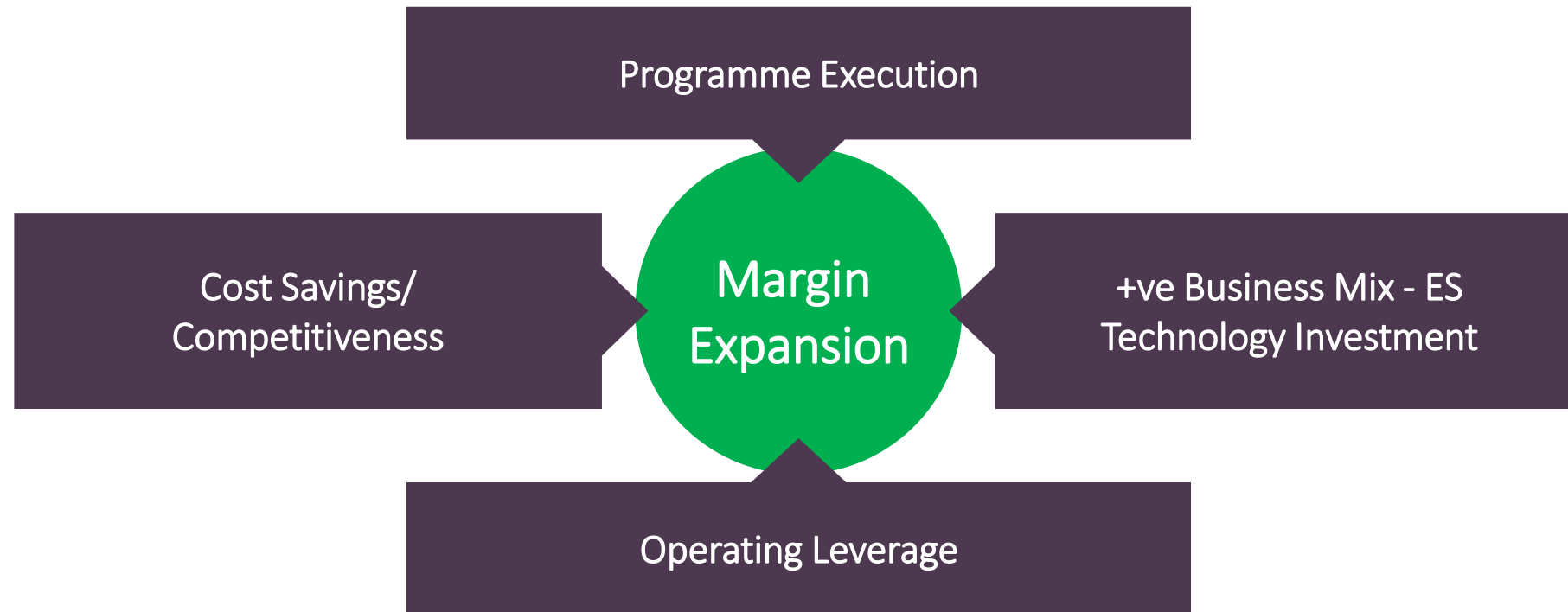
Supplementary Information



Cash conversion improvement – key drivers



Margin Expansion



Leading defence franchises

Multi-Domain Capabilities

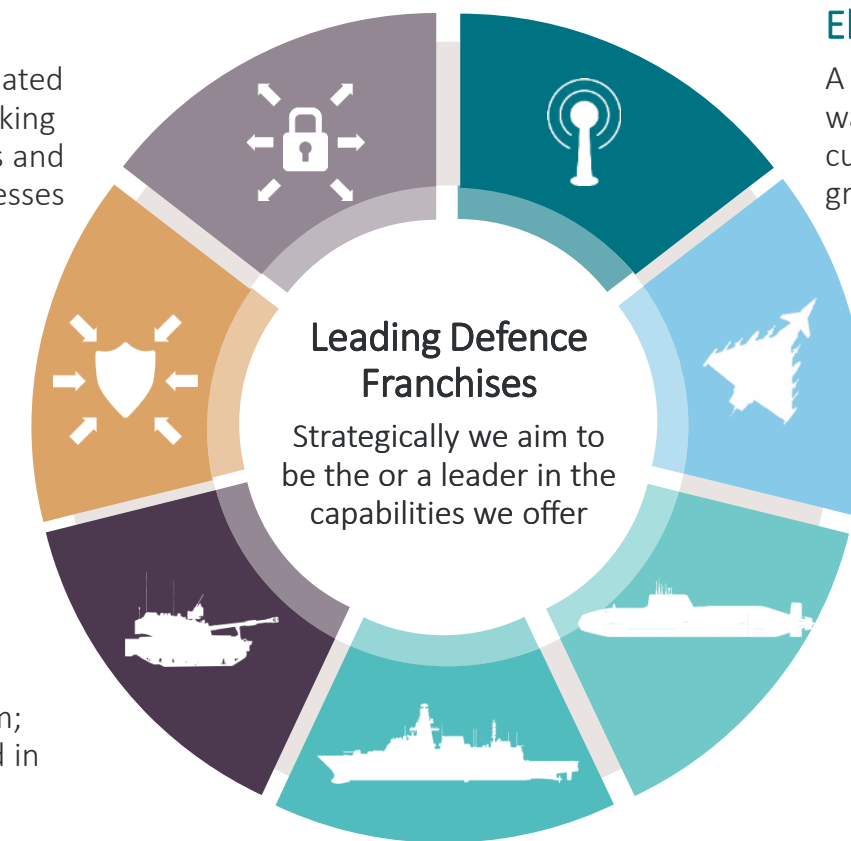
Well positioned to offer differentiated solutions in autonomous, networking and data exploitation – augments and differentiates our platform businesses

Cyber

Trusted partner for allied nations in this growing and fast moving threat environment

Combat Vehicles

Build 4 of 5 vehicles in US Heavy Brigade Combat Team; CV90 / BvS10 manufactured in Sweden



Electronic Warfare

A leader in full-spectrum electronic warfare technology and solutions– customers increasing focus and growth expectation

Combat Air

Consortium positions on F-35 and Typhoon – Leading availability model for combat aircrafts support – Leading development of next generation combat air systems and technologies

Undersea Warfare

Design, build, combat management systems, weapons and autonomous systems capabilities

Combat Ships

Design, build, support and integrate complex combat ships – capabilities in some or all of these areas currently being carried out in UK, US, Australia and Canada

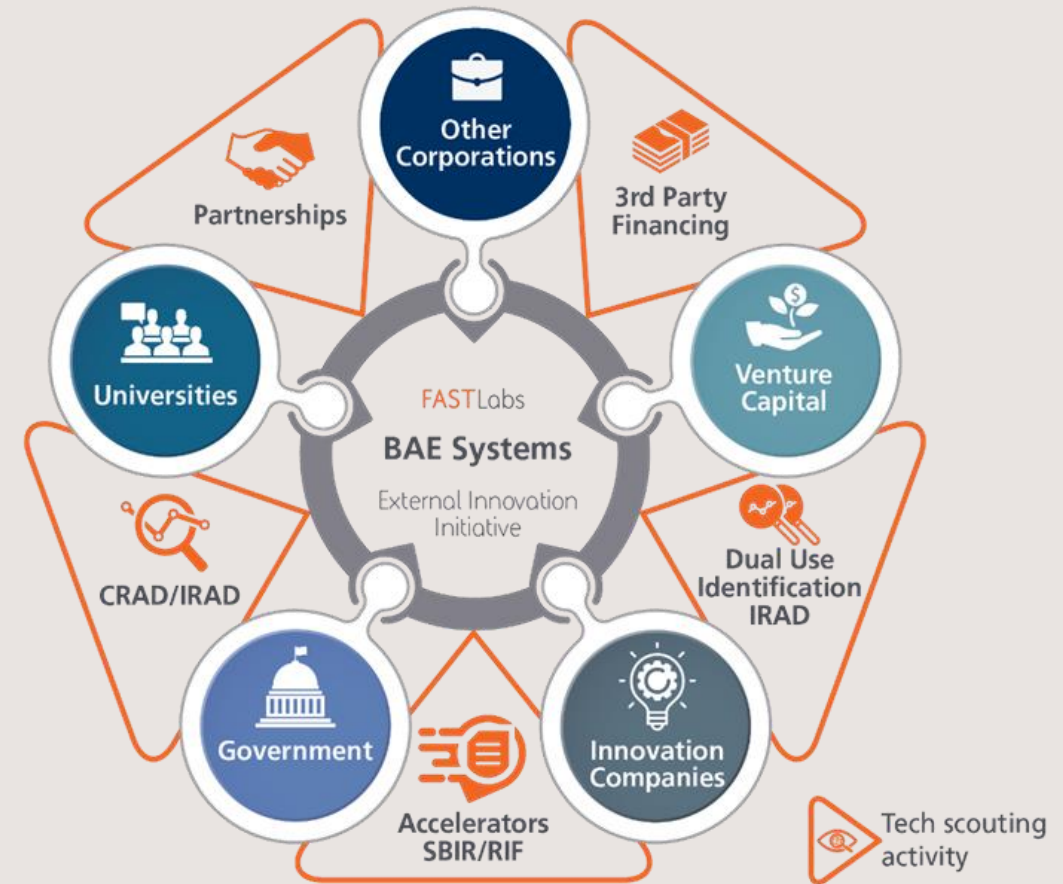
Differentiated technology

Focus areas:

- Advanced electronics
- Electronic warfare
- Space and hypersonics
- Autonomy
- Cyber
- Sensors and processing
- Augmented human performance
- Artificial intelligence

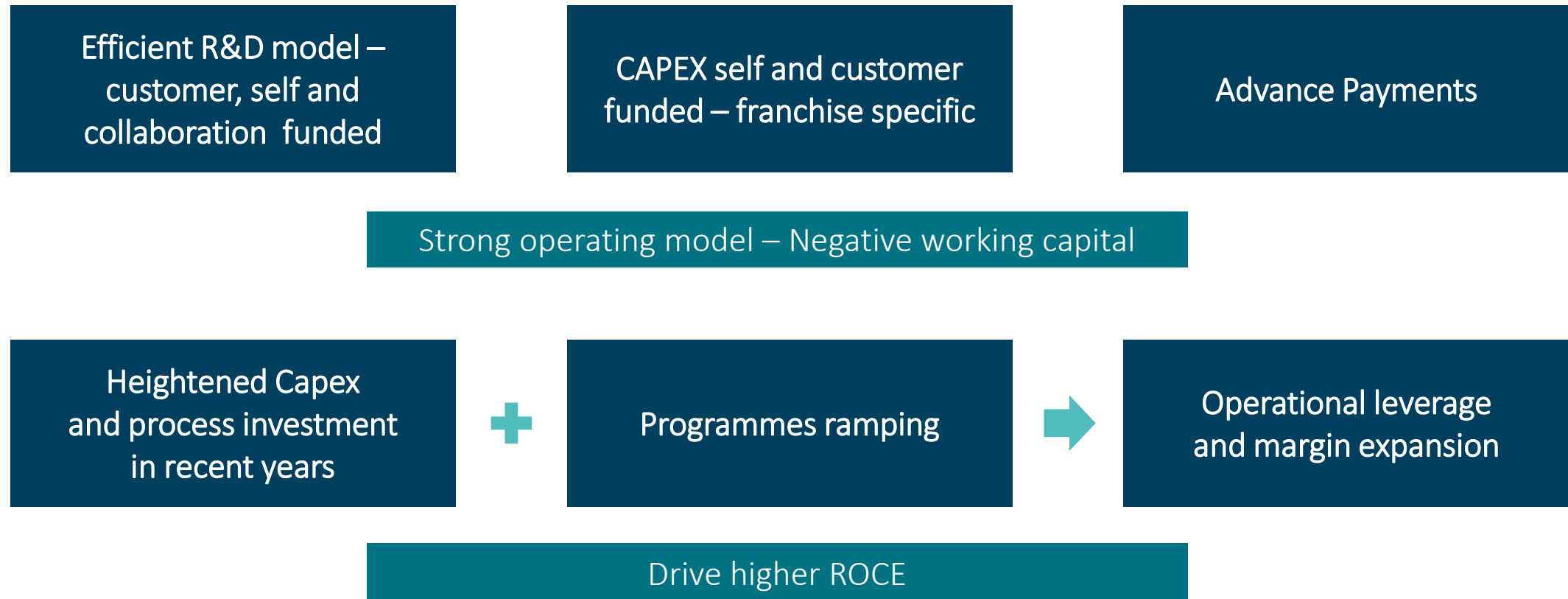
Development of technologies:

- Underpins strategy
- Drives product and service development
- Gives our customers the advantage they seek
- Integral to sustainability agenda
- Supports efficiency and productivity drive

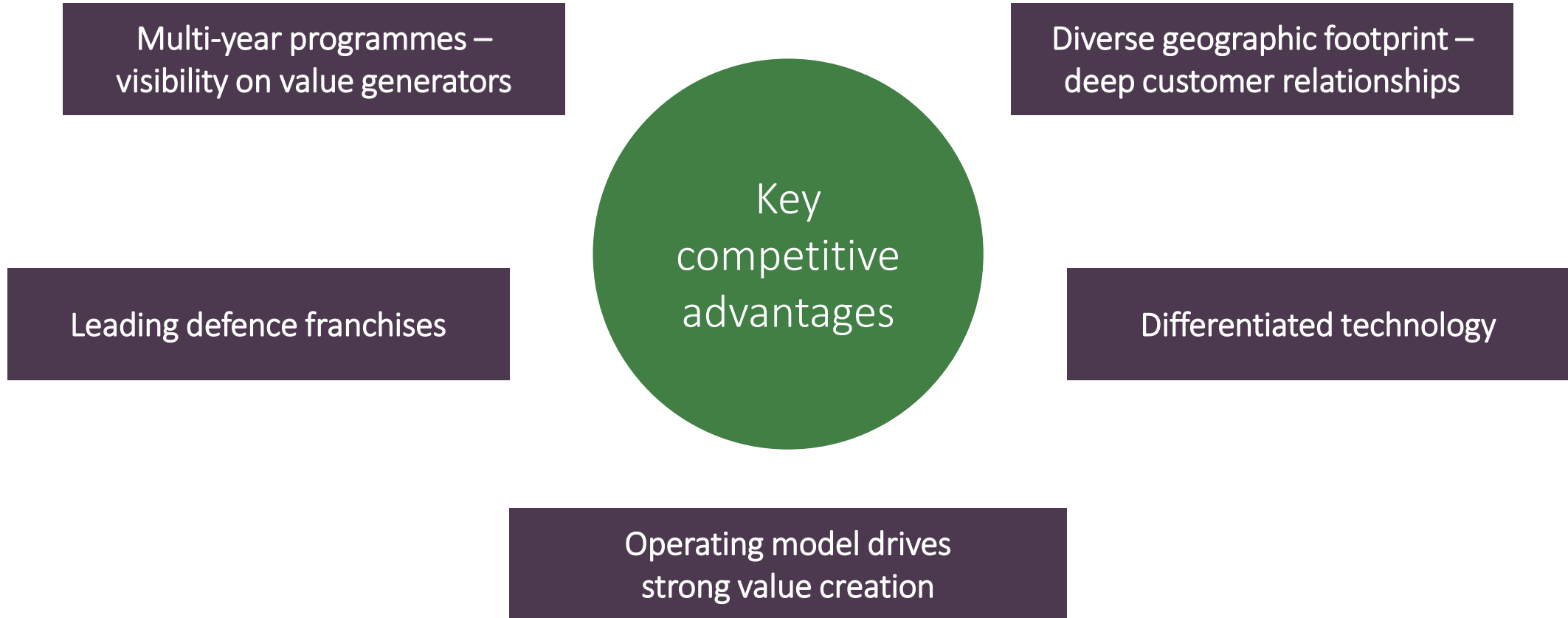


Value creating operating model

- Our operating model and domain incumbency is a strength and creates barriers to entry



The Group today and competitive advantage

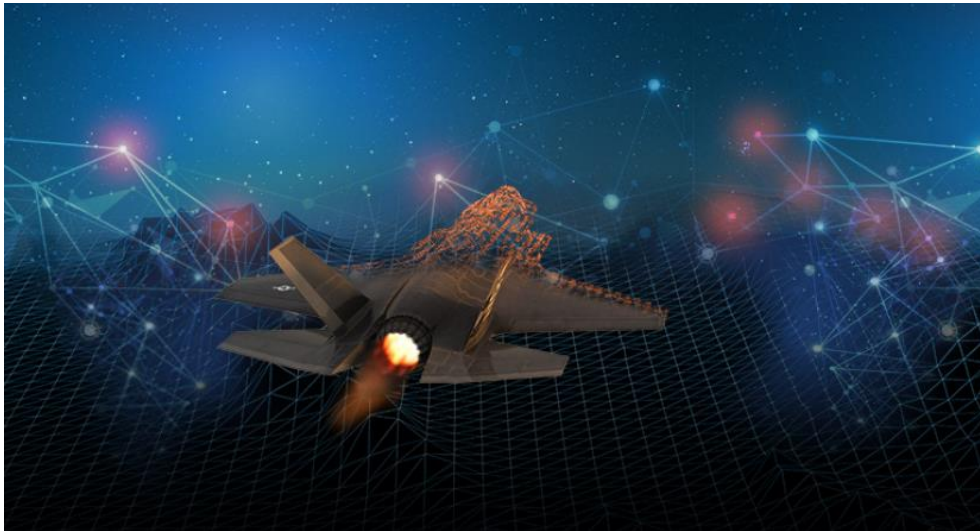


Multi year programme visibility

- £44.6bn Order backlog; incumbent positions on key long term programmes; opportunities predominantly on aircraft sales and support, electronic systems and land vehicles:

	Major Programme/Franchise	2020 Sales	Sales outlook	Comment
ES	Electronic Combat Solutions	\$1.4bn	↑	Strong demand for electronic warfare systems to defeat threats
	ES Defence other	\$3.6bn	↑	Diverse portfolio, acquisitions positioned to deliver strong growth
P&S US	Combat Mission Systems	\$2.2bn	↑	c.1,150 vehicles in backlog
	US Ship Repair	\$1.0bn	↑	Sustained US Navy demand for ship repair and modernisation services
Air	F-35 (AIR)	£0.9bn	↑	Ramping to full rate - sustainment growth
	Typhoon Support	£1.7bn	↑	Upgrade programmes and increasing jets in service
	Typhoon Production	£0.9bn	↔	Qatar, Kuwait and Germany in backlog
	KSA Support	£1.5bn	↔	Government-to-Government long term support
	MBDA	£1.2bn	↑	c.€17bn backlog (100%), domestic and international outlook strong
Maritime	Submarine Build	£1.4bn	↔	Astute and Dreadnought
	Global Combat Ship	£0.7bn	↑	Type 26 (UK), Hunter Class (Aus) CSC (Canada)
C&I	Cyber and Intel	£1.8bn	↑	Growing government budgets and focus
No major franchises sunsetting, either growing or stable				

Electronic Systems

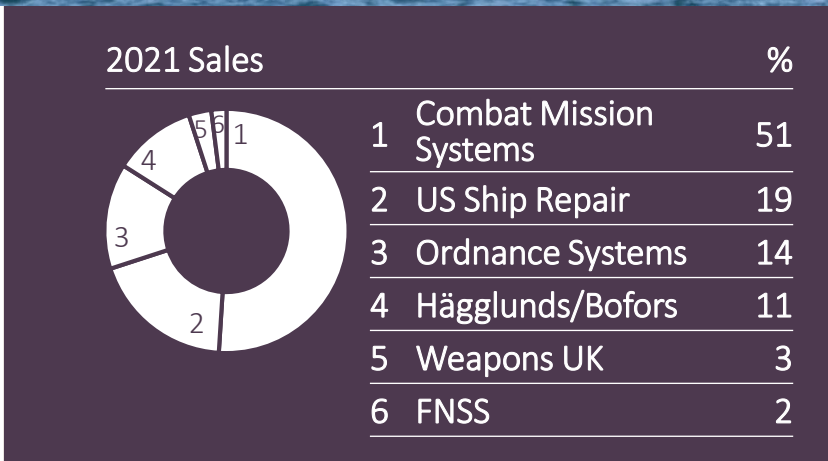


Half year	2021	2020
Sales	\$2,974m	\$2,777m
Underlying EBIT	\$465m	\$361m
Margin	15.6%	13.0%
Cash flow	\$353m	\$81m
Order intake	\$3,102m	\$3,554m
Order backlog ⁽¹⁾	\$9.2bn	\$8.8bn

- Sales up 6% on a constant currency basis
 - Strong contributions from the acquisitions
 - Partially offset by the COVID-19 impact on commercial business
 - 2nd half weighting – on track to grow 10%-12% by full year
- Margin up 260bps
 - Strong operational performance
 - Acquisitions delivering expected margins
- Cash reflects good working capital management and programme execution
- Order backlog – book-to-bill ratio 1.0
 - Multiple Electronic Warfare programmes
 - Strong demand for Precision Strike and C4ISR capabilities

1) Order backlog comparative as at 31 December 2020

Platforms & Services (US)

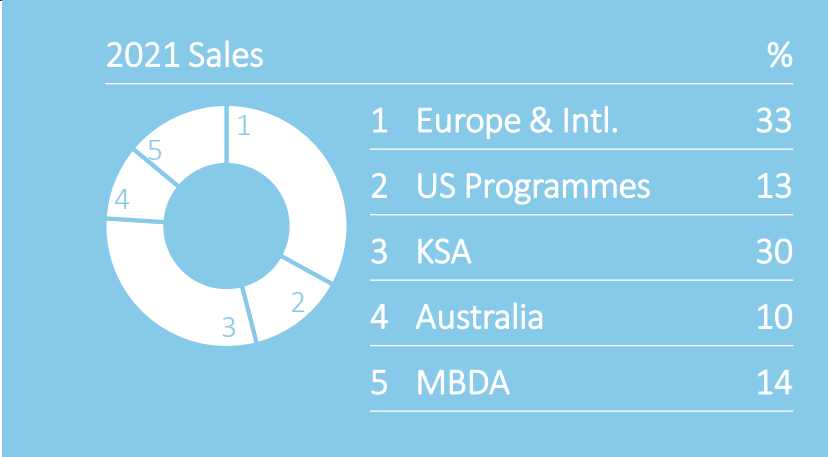


Half year	2021	2020
Sales	\$2,214m	\$2,165m
Underlying EBIT	\$152m	\$149m
Margin	6.8%	6.9%
Cash flow	\$(12)m	\$180m
Order intake	\$2,562m	\$2,608m
Order backlog ⁽¹⁾	\$8.4bn	\$8.3bn

- Sales growth 0.6% on a constant currency basis
 - Combat Vehicle volumes more than doubled compared to H1 2020
 - COVID-19 impact on US Ship Repair and M777 sales to India held back overall growth
- Margin
 - Ship Repair continues to be impacted by COVID-19 and operational challenges
 - 2nd half margin expansion expected
- Cash
 - 2020 benefited from customer related COVID-19 actions
- Order backlog – book-to-bill ratio 1.2
 - Notable awards for Netherlands CV-90 & Ship Repair

1) Order backlog comparative as at 31 December 2020

Air

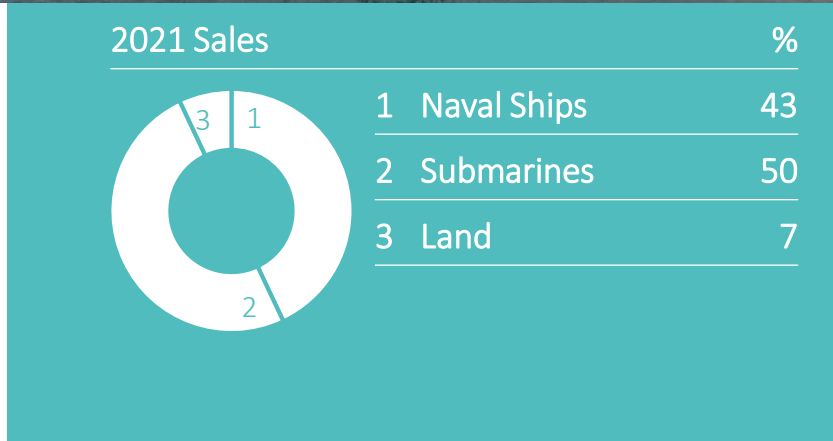


Half year	2021	2020
Sales	£3,827m	£3,610m
Underlying EBIT	£407m	£340m
Margin	10.6%	9.4%
Cash flow	£165m	£17m
Order intake	£2,720m	£2,482m
Order backlog (1)	£20.6bn	£22.5bn

- Sales up 6% on a constant currency basis
 - Driven by F-35, Typhoon support & upgrade activity, the continued ramp in production on Qatar and growth in Australia
 - Australia sales grew by >20% led by the Hunter Frigate programme
- Margin up 120bps
 - Excellent programme execution
 - Emergence from COVID-19 pandemic
- Cash flow strong
 - Good working capital management and programme execution
- Order backlog
 - Initial Tempest Concept and Assessment award, further F-35 awards and continued good demand in MBDA and Australia

1) Order backlog comparative as at 31 December 2020

Maritime

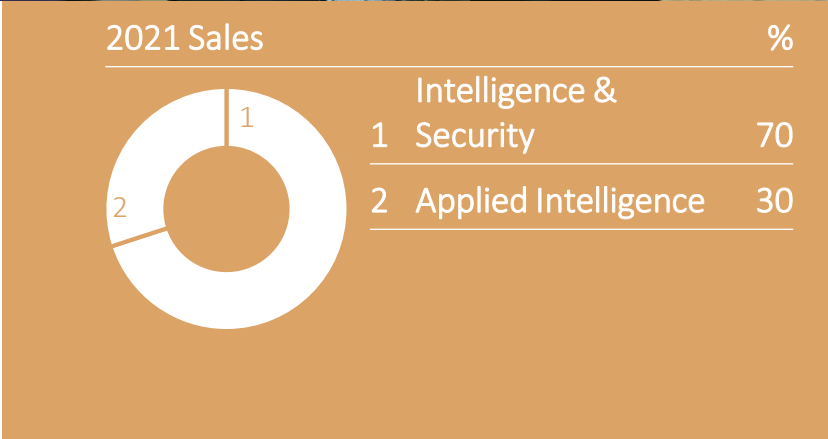


Half year	2021	2020
Sales	£1,656m	£1,505m
Underlying EBIT	£149m	£109m
Margin	9.0%	7.2%
Cash flow	£(12)m	£(67)m
Order intake	£2,771m	£1,035m
Order backlog (1)	£10.2bn	£9.1bn

- Sales growth at 10%
 - Dreadnought and Type 26 activity continues to climb
 - Support services for the deployment of the UK Carrier Strike Group
- Margin up 180bps
 - Strong programme execution
 - Emergence from COVID-19 pandemic
- Cash performance reflects the usual first half timing profile
- Order backlog growth
 - Future Maritime Support Programme, ongoing Dreadnought funding and the flow down from RBSL of work for Challenger 3

1) Order backlog comparative as at 31 December 2020

Cyber & Intelligence



Half year	2021	2020
Sales	\$1,195m	\$1,151m
Underlying EBIT	\$116m	\$74m
Margin	9.8%	6.5%
Cash flow	\$131m	\$135m
Order intake	\$1,376m	\$1,269m
Order backlog ⁽¹⁾	\$2.3bn	\$2.3bn

- Sales up 1% on a constant currency basis
 - I&S growth of 1%
 - AI stable as 10% growth in Government business offset the impact of commercial business disposals in H2 2020
- Margin up 340bps
 - AI benefitting from high utilisation in its Government business and cost base improvements
- Order backlog
 - I&S book-to-bill 1.0 and Applied Intelligence 1.4

1) Order backlog comparative as at 31 December 2020

2021 Half year summary salients by reporting segment

(£m / £bn backlog)	Sales	Underlying EBIT	Margin	Operating Cash Flow	Order Intake	Order Backlog
Electronic Systems	2,142	335	15.6%	254	2,234	6.6
Platforms & Services (US)	1,595	109	6.8%	(9)	1,845	6.1
Air	3,827	407	10.6%	165	2,720	20.6
Maritime	1,656	149	9.0%	(12)	2,771	10.2
Cyber & Intelligence	861	84	9.8%	94	991	1.7
HQ	129	(56)		202	142	–
Eliminations	(175)				(121)	(0.6)
	10,035	1,028	10.2%	694	10,582	44.6

2021 Half year balance sheet

	30 June 2021 £m	31 Dec 2020 £m
Summary balance sheet		
Intangible fixed assets	11,625	11,745
Tangible fixed assets ¹	3,011	3,158
Investments	480	409
Working capital ¹	(2,440)	(3,021)
Pension deficit	(2,357)	(4,485)
Lease liabilities	(1,116)	(1,203)
Tax assets & liabilities	682	906
Financial assets & liabilities	8	36
Net debt	(2,745)	(2,718)
Assets held for sale	-	94
Net assets	7,148	4,921

(1) Net of funding received for the Dreadnought submarine programme

Pension deficit (£bn)	30 Jun 2021	31 Dec 2020	30 Jun 2020
Assets	30.1	29.8	29.3
Liabilities	(32.6)	(34.6)	(35.7)
Pension deficit	(2.5)	(4.8)	(6.4)
Group share of deficit	(2.4)	(4.5)	(6.0)
UK - Bond yields	1.9%	1.4%	1.5%
Inflation rate	2.9%	2.7%	2.7%
US - Bond yields	2.8%	2.4%	2.6%

2021 Half year reconciliation of earnings

(£m / pence EPS)	Half Year - Underlying			Half Year – Reported	
	2021 (excl. one-off tax benefit)	2021 (incl. one-off tax benefit)	2020	2021	2020
Underlying EBIT	1,028	1,028	849	1,028	849
Non-recurring items				346	(21)
Other intangible amortisation/impairment				(43)	(3)
EBIT				1,331	825
Underlying Finance Costs	(122)	(122)	(127)	(122)	(127)
Pensions & Fair Value mvmts				(45)	(7)
Finance Costs				(167)	(134)
Underlying Tax	(166)	(166)	(137)	(166)	(137)
Other Tax				10	5
One-off Tax Benefit		94		94	-
Tax				(62)	(132)
Underlying	(39)	(39)	(27)	(39)	(27)
Non-recurring				(63)	-
Non-controlling interest				(102)	(27)
Earnings	701	795	558	1,000	532
Weighted average number of shares	3,200	3,200	3,189	3,200	3,189
Earnings per Share	21.9p	24.8p	17.5p	31.3p	16.7p

2021 Half year underlying EPS bridge (pence)

