

Trading Statement

Released : 15 Nov 2022 07:00

RNS Number : 3728G
 BAE SYSTEMS PLC
 15 November 2022

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BAE Systems plc - Market Update

Trading Update Key Points:

- Strong order intake continuing - further £10bn secured in the second half to date
- Good operational performance in challenging conditions
- Increased investment in R&D, people and facilities to support future growth
- Strong balance sheet supports capital allocation flexibility - >30% of 3 year £1.5bn share buyback completed
- Underlying group guidance for FY22 confirmed - represented upwards for both fx impact of the stronger dollar together with the progress made on the share buyback programme
- Large and predominantly long cycle orderbook, diverse portfolio and focus on programme performance gives line of sight for future growth and margin expansion

Charles Woodburn, BAE Systems Chief Executive, said:

"Our operational performance year to date underlines our confidence in the full year group guidance for top line growth and margin expansion as well as our cash flow targets. Order flow remains strong and our focus on programme execution, cash generation and efficiencies is helping us to navigate the challenging operating environment."

"Looking forward, our large order backlog, diverse portfolio position and focus on programme performance position us well for another year of top line growth and margin expansion in 2023. We see sales growth coming from all sectors and opportunities to further enhance the medium-term outlook as our customers address the elevated threat environment."

Guidance

The full year Group 2022 guidance across all metrics is unchanged on a constant currency basis from the Preliminary Announcement on 24 February 2022.

The dollar rate has significantly strengthened throughout the year from the \$1.38:£1 average rate assumed in February providing a tailwind to reported earnings. Illustrative group guidance is represented below based on an average \$1.23: £1 for the year and progress to date against the share buyback programme.

	Guidance at \$1.38: £1	Illustrative at \$1.23: £1
Sales	+2-4% (2021: £21,310m)	+7-9%

Underlying EBIT	+4-6% (2021: £2,205m)	+10-12%
Underlying EPS	+4-6% (2021: £47.8p)	+11-13%
2022 Free Cash Flow (FCF)	>£1bn	>£1bn
Cumulative FCF 2022-2024	>£4bn	>£4bn

Order flow

We are tracking towards a very strong year of order intake. With £18bn secured in the first half we have secured a further £10bn since the half year.

Notable new and strategically important awards received since the Interim results include:

Sector	Contract
Electronic Systems	LRIP Lot 2 award for EPAWSS for US F-15E and F-15EX aircraft
Electronic Systems	Design & manufacture next-generation infrared seekers for Terminal High Altitude Area Defense (THAAD) interceptor missiles
Platforms & Services	Beowulf won US Army cold weather all-terrain combat vehicle (CATV) competition, receiving a contract for production, spare parts and support - \$278m
Platforms & Services	US Ship Repair <i>USS Ross</i> maintenance and modernization - \$108m
Platforms & Services	US Army 5-year Bradley and Multiple Launch Rocket System carriers support services - \$383m
Cyber and Intelligence	US Navy Surface Combat Systems Center Support - \$143m
Maritime	Type 26 - Batch 2 ships 4-8 - £4.2bn

Operational update

Overall programme execution has remained good in all sectors year to date with a particular milestone since the half year being the delivery of the first four Typhoons to Qatar.

While we continue to work through ongoing supply chain challenges especially in those business areas reliant on microelectronics, the recruitment picture has started to improve since the half year, particularly in Electronic Systems. Consistent with our guidance, we continue to drive top line growth and margin expansion despite the various headwinds. We do not see a material impact from higher energy prices. We are well hedged in the UK and our other major markets are relatively energy independent.

Defence spending outlook

A key underpin for our growth aspirations is the benefit we derive from our geographic diversity. Many of the countries in which we operate have either announced increases or are making plans to increase spending to address the elevated threat environment. Whilst global economic and fiscal pressures weigh on governments, the commitment to defence in our major markets remains robust. Most major defence programmes tend to be long cycle in the build and subsequent support phases. As a result, contracts secured now will be executed and traded for many years to come providing us with long-term growth visibility.

ESG

Global events have more than ever demonstrated the need for strong defence and security in the face of aggression by nation states. It is important to recognise the defence industry's contribution to security and prosperity and that BAE Systems is a responsible, government-backed, strictly regulated and ethically-led defence and security company.

On 18 October, we held an investor engagement session featuring:

- An update on progress against our Environment, Social and Governance targets
- A discussion of focus areas going forward
- An update on our electrification work streams
- A series of case studies demonstrating how our sustainability objectives run through the business and go hand in hand with our drive on operational performance.

For further background, the recording and presentations can be accessed on investors.baesystems.com/results-centre.

Investment in the business

Investment in the business is fundamental to our aspirations. This year we are:

- On track to increase self-funded R&D
- Investing in new facilities - the most recent opening being in Cedar Rapids, Iowa, to support our Navigation and Sensor Systems business, a leader in mission critical GPS technology
- Committed to build a new ship build hall at our Govan facility in Glasgow
- Significantly increasing our UK apprentice intake in Air and Maritime

Balance sheet and capital allocation

The Group's balance sheet remains strong with no sizeable near-term maturities and a largely fixed debt structure. This in combination with the Group's ongoing strong financial performance enables us to continue to invest in organic opportunities, support the long-term dividend policy, whilst also providing flexibility to consider value enhancing acquisitions and accelerated returns to shareholders. Against the £1.5bn three-year share buyback programme we announced at the half-year results we have completed £484m to date.

Pension

Our balanced asset approach and conservative asset allocation has held up well in the recent market turmoil. We have appropriate liquidity across our funds, and the surplus that we reported at the half year remains intact.

M&A

On 28 October, we completed the sale of BAE Systems' financial crime detection business from our Digital Intelligence business.

Board

As previously announced, both Cressida Hogg, as Chair Designate, and Lord Mark Sedwill joined the Board on 1 November as Non-Executive Directors.

Interim dividend

The 2022 interim dividend of 10.4 pence per share will be paid on 30 November 2022.

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