

# Trading Statement

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BAE SYSTEMS PLC  
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## **BAE Systems plc - market update**

BAE Systems plc provides the following update.

**Charles Woodburn, BAE Systems Chief Executive**, said: *"We have continued to deliver a resilient performance in line with our expectations for a strong second half, thanks to the outstanding efforts of our employees in these challenging times. From a position of strength, the actions we took in quarter two to enhance our resilience are working well as reflected in our guidance, ensuring we continue to deliver on our customer priorities, whilst keeping our employees safe. Demand for our capabilities remains high and we recognise our role not only in supporting national security, but also in contributing to the economies of the countries in which we operate."*

### **Guidance**

The Group's full year guidance for 2020 sales and cashflow remains unchanged from the 2020 interim results. Underlying earnings per share are now expected to be slightly higher than previously guided with good operational performance and an expected lower tax rate offsetting the negative foreign exchange impact.

### **Outlook**

Demand for our capabilities remains high with order intake expectations for the Group ahead of our original pre COVID planning for the year.

The recent German Parliament announcement confirming the approval of the purchase of an additional 38 Typhoon aircraft is significant for the consortium, and we are working with Eurofighter GmbH and our industrial partners to conclude the relevant contracts in the near future.

Our large order backlog and incumbent programme positions are expected to lead to strong and profitable top line growth with increasing cash conversion in the coming years.

### **Key market update**

In the US, the Group's US-based portfolio remains well aligned to customer priorities and growth areas, which we expect to continue under the next administration. The backlog for the US based business has continued to grow organically and through the two acquisitions made earlier this year. This backlog provides good visibility of growth in the US business. The two-year budget deal enacted in 2019 established a defense spending level of c.\$740bn for fiscal year 2021. As lawmakers continue to work on authorization and appropriations bills, Congress passed a Continuing Resolution to provide funding through 11 December, with the CARES Act also extended through the same period.

In the UK, the government has recently re-stated its commitment to meeting the NATO target of spending of at least 2.0% of Gross Domestic Product on defence. The Government's Integrated Foreign Policy, Defence and Security Review is ongoing and the Ministry of Defence has stated it is progressing its contribution to this Review by planning how best to meet tomorrow's threats. We see a stable outlook for our UK operations, with defence revenues centred

around long-term, contracted and critical defence programmes in the Air and Maritime domains. The Group has limited UK-EU trading and the majority of the UK workforce are UK nationals. Accordingly, any resulting near-term Brexit impacts across the business are likely to be limited.

Our business in Australia, where we are the leading defence contractor, is set to grow significantly in the coming years as the Hunter Class Frigate programme matures. The government announcement in July to increase their 10-year investment in new and upgraded defence capabilities from \$195bn AUD to \$270bn AUD should provide further opportunities to enhance and extend our growth profile.

In Europe, a number of nations are increasing 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 Swedish based land vehicles business.

In Saudi Arabia, we are working closely with industry partners and the UK Government to continue to fulfil the contractual support arrangements in the Kingdom on the key European collaboration programmes.

## **Operational Update**

We are being agile as we address the challenges arising from the global pandemic with employee safety and wellbeing at the forefront. Collaboration and communication across our many stakeholders, particularly in our supply chain and with our Trade Unions, gives us high confidence in our ability to deliver across our defence programmes. As outlined in July, in our defence businesses most operations are operating with well over 90% of employees working. This includes a high proportion still working from home and critical on-site workers operating under the adjusted protective safety measures. We continue to monitor local operational situations with particular focus on our supply chains as we manage fragility in certain areas.

We have seen some pleasing progress since the half year as we continue to deliver improved operational performance against our strong order backlog. Our focus on F-35 ramp up in both the Air and Electronic Systems divisions has continued in the second half.

The integration of the former Airborne Tactical Radios and Military Global Positioning System businesses into the Electronic Systems sector is progressing well, benefitting from positive levels of engagement by the teams. The businesses are performing as expected and well positioned for growth.

The first of the Low Rate Initial Production (LRIP) Armoured Multi Purpose Vehicles have been delivered to the US Army customer and dozens of hulls are in progress on the production line as the programme continues to build momentum. The Amphibious Combat Vehicle programme successfully completed Initial Operational Test and Evaluation in September, a key milestone in moving from LRIP levels to the full rate production levels.

The Qatar Typhoon and Hawk build programmes are progressing well and our relationships are strengthening as we implement our support and training commitments with the Qatari Armed Forces.

On the Tempest programme, positive progress continues with the inputs to the outline business case submitted on time and good progress has been made towards a trilateral Memorandum of Understanding with our Italian and Swedish international partners.

In Maritime, the fifth and final OPV, HMS Spey, was accepted by the Ministry of Defence in October, and the acquisition of Techmodal is an exciting step for the sector as we look to support the Royal Navy's ambition to be a 'digital navy' by 2025.

At the start of November we completed the disposal of the ex-Silversky business. This has no material impact on the guidance.

## **Board**

On 1 November Nick Anderson joined the Board as a non-executive director. Paula Rosput Reynolds and Nick Rose, non-executive directors of the Company, will retire from the Board with effect from 31 December 2020.

## **Interim Dividend**

The Interim dividend of 9.4 pence per share will be paid on 30 November 2020.

## **Investor event**

The Group will hold an Investor Webex event on the 12 November focused on its long-term programme positions and alignment to its key customer defence and security priorities.

## **Full year results**

BAE Systems will announce its financial results for the year ending 31 December 2020 on 25 February 2021.

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