
QinetiQ Group plc

Pre-close Trading update

30 September 2020 - QinetiQ Group plc ("QinetiQ" or "the Group") today issues a trading update prior to entering the close period for its interim results, which we will announce on 12 November 2020.

Strong second quarter performance

In the second quarter we successfully shifted focus to driving our recovery performance, having taken decisive action as we entered the COVID-19 crisis to build the resilience of the Company to protect critical skills and capabilities and drive medium to long-term growth. Order intake throughout the first half continued to be particularly strong. Our focus on recovery delivered good revenue and profit performance during the second quarter resulting in us finishing close to our original targets, despite COVID-19 impact in the first quarter. Cash performance was also strong due to our proactive and robust cost management actions. As we enter the second half, we are now renewing our focus on driving sustainable growth, whilst being mindful of the potential risk of further impact due to the pandemic.

On 1 April 2020 we announced the postponement of the decision on the dividend and the withdrawal of guidance until later in the year when there would be greater clarity. Having successfully managed to reduce the impact of COVID-19 on the Group and with normal operations resuming, we have started to release some of our short-term resilience actions including senior leader salary reductions and limited company-funded furlough. We therefore announce today the Board's decision to pay the deferred final dividend from FY20 as well as the reinstatement of guidance.

EMEA Services

EMEA Services has performed well, with limited impact from COVID-19 as the division benefits from long-term contracts and delivers work that is critical to sovereign defence capabilities. The division has delivered good revenue growth and margins combined with stronger orders in the period.

Global Products

Global Products has shorter order cycles than EMEA Services and has seen a greater impact from COVID-19 disruption, particularly in QinetiQ Target Systems, OptaSense and in the US. Despite this, top line growth has continued, driven by the contribution of MTEQ.

Strategy Update

Our strategy to deliver mission-led innovation for our customers' advantage and grow the company whilst enhancing returns for shareholders continues to make good progress. In the second quarter we achieved a number of milestones that demonstrate continued delivery of the strategy:

- We have continued to operate all of the ranges under the Long Term Partnering Agreement (LTPA) throughout the COVID-19 crisis to support critical national defence outputs, including a UK first, an Army Warfighting Experiment trial, where an airborne team comprising a manned helicopter and semi-autonomous unmanned aircraft worked together to jointly identify targets.

- The Engineering Delivery Partner (EDP) contract has continued to perform well, surpassing 1,000 tasks since inception in October 2018, with total orders to-date exceeding £320m. In the second quarter we won a £13.5m contract for Technical Support Services to the P8 platform and a £9m contract for Engineering Support to the MOD's Deployed IT infrastructure project for Defence Digital.
- Working alongside BAE Systems, our E-X-Drive technology has been selected for use by the US Army for their prototype hybrid-electric Bradley Fighting Vehicle. This is an example of QinetiQ investing in and deploying its IP to deliver mission-led innovation for our customers, extending the life of existing platforms and supporting the modernisation and sustainability of new platforms.

Dividend decision

The Board has decided to pay an additional dividend of 4.4p per share, representing the deferred final dividend from FY20. This results in a total dividend for the year ended 31 March 2020 of 6.6p per share. The additional dividend will be paid on 16 November 2020 to shareholders on the register at 9 October 2020.

The Board's decision to reinstate the FY20 final dividend at a level that represents the FY20 total dividend equal to the prior year, reflects a fair, balanced and proportionate approach across all stakeholders in response to the impact of COVID-19. The Board also intends to reinstate the progressive dividend policy for FY21, with the interim and final dividend in line with the normal financial calendar.

Guidance

Whilst the Group benefits from a strong balance sheet, a significant order backlog of more than £3bn and long-term contracts which provide good revenue visibility, there remains a level of uncertainty in respect of COVID-19. We anticipate full year order intake to be strong, ahead of the prior year, and we expect high single digit percentage revenue growth compared to last year (low single digit growth on an organic basis). We are maintaining our medium to long-term operating profit margin guidance of 12-13%. However, we expect the short-term margin to be c.100bps lower, driven by COVID-19 disruption, increased investment on our digital transformation programme and evolution of our business mix with the acquisition of MTEQ and growth of EDP. We expect this trajectory on revenue growth and 11-12% profit margin to continue into FY22. Delivering this guidance will result in the Group's FY21 results being modestly ahead of current average consensus expectations*.

Operating cash flow before capex is expected to remain strong, noting previous guidance of a likely working capital unwind from the strong cash position at year end. Full year capex is expected to be in the £80-90m range.

Steve Wadey, Group Chief Executive Officer said:

"The business remains robust with encouraging new orders and a significant order backlog, good liquidity and a strong balance sheet. We acted quickly to protect our employees, our customers and our company and I am pleased that these proactive actions are working effectively. We have delivered a good first half performance and, as a result, we are able to reinstate guidance and confirm payment of the previously deferred dividend.

Looking further ahead, we continue to make good progress in building an integrated global defence and security company. I would like to take this opportunity to thank all of our employees for their ongoing dedication and hard work throughout this unprecedented period of uncertainty."

* Average (mean) consensus for FY21 as at 30 September 2020: Revenue £1,133m, Operating Profit £128m

Interim results

QinetiQ will announce its interim results on 12 November 2020. We will be hosting a virtual results presentation, details of which will be available on our website shortly at: www.QinetiQ.com/investors.

Inside information

This announcement contains inside information and the person responsible for making this announcement is Jon Messent, Company Secretary.

About QinetiQ

QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

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