

QinetiQ
Full Year Result 2023/24
Video Webcast

23rd May 2024

Transcript



Disclaimer

This transcript is derived from a recording of the event. Every possible effort has been made to transcribe accurately. However, neither QinetiQ nor BRR Media Limited shall be liable for any inaccuracies, errors, or omissions

Stephen Lamacraft: Well, Good Morning everybody, and welcome to the QinetiQ full year 2024 results. So my name is Stephen Lamacraft, I'm the Interim Group Director of Investor Relations, and I'm joined with our group CEO, Steve Wadey, and our Interim group, CFO, Heather Cashin. What we'll do is we'll start off with the run-through of the presentation with Steve and Heather, and then we'll go to Q&A. Steve, over to you.

Steve Wadey: Thank you, Stephen, and good morning. Welcome everybody to our results for FY24. Thank you for joining us here. Today I'd like to start by thanking our incredible people. The world is experiencing the highest threat environment for a generation, and our teams across the world have worked in partnership with our customers and suppliers to deliver a strong overall group performance. The conflicts in Ukraine, the Middle East and rising tensions with China are driving significant changes in modern warfare. As a consequence, our customers are increasing spending in critical areas of technology and innovation to stay ahead of the threat. With our partner Oshkosh, this picture shows our robotic combat vehicle system undergoing testing and experimentation at Fort Irwin in the summer last year. This next-generation autonomous system will increase situational awareness and military effectiveness for the US Army against future threats. Innovation and cutting-edge technology is what we do.

Our mission-critical services and products are highly aligned with national defence and security priorities. We have a clear strategy delivering enduring value for our customers and shareholders. Our agenda today is as follows. I'll start by giving you a year in review, Heather, our interim group CFO will provide a commentary on our financial results. She was previously our group financial controller, and we've worked together for over six years. Heather is providing continuity until Martin Cooper joins at the end of the summer. Finally, I'll come back and give you our strategic outlook. We'll then open up for questions.

So first of all, our year in review. Let's look at our three key headlines. First of all, I'm really pleased that we have delivered strong group financial results for FY24 modestly ahead of our guidance, which have been achieved against the background of more difficult market conditions in the US. Secondly, we enter this year with strong momentum and increasing spending in our major markets, which gives us confidence to increase our guidance for FY25, compared to our result for FY24. And underpins the delivery of our £2.4 billion organic revenue at approximately 12% margin by FY27.

And finally, with a strengthened balance sheet and an enhanced focus on disciplined capital allocation, we have optionality for additional investment in growth and further shareholder returns. In summary, we are well positioned and have a clear strategy to deliver attractive returns and create sustainable shareholder value.

Moving on to the financial highlights. We've achieved a record order intake at £1.74 billion, with a book to bill of 1.1, and a strong order backlog. Revenue is up 21% through good programme execution, up 14% on an organic basis.

Operating profit is up 20% with a stable margin of 11.3%, up 16% on an organic basis. Cash performance remains strong with high conversion at 104%, reducing our leverage from 0.8 to 0.5 times. We delivered continued strong earnings growth with underlying earnings per share, up 11% to 29.4 pence. Return on capital employed was maintained above the upper end of our guidance at 21%, and we're increasing the growth of our progressive dividend from 5% to 7%, with a full-year dividend for FY24 of 8.25 pence, and launched a £100 million share buyback programme.

I'll now look at our performance in each of our operating segments. EMEA services delivered excellent revenue growth at stable margin driven by execution of high prior year orders and responding to our customer's immediate needs. We achieved a number of significant operational milestones. Our programme to accelerate production of mission data and improve the protection of all UK military platforms delivered three months early. We demonstrated our world leading laser directed energy technology with the first firing against aerial targets in the UK. This system is now being accelerated onto Royal Navy warships from 2027.

And in Australia, we successfully integrated the Air Affairs business, which is performing well. With 20% more flying hours and 90% more aerial target missions than originally planned. We also made strategic progress on our long-term contracts. In Australia, we secured a three-year extension to our major service provider contract, winning \$87 million of new orders for critical land ammunition programmes. We are on track to secure the long-term partner agreement five-year extension through to 2033, continuing in our role as UK MOD's strategic partner for test and evaluation.

And our engineering delivery partner contract delivered significant benefits for our UK customers with £472 million of new orders, including commencing work on the new AUKUS submarine. These are just a few of many highlights where we are delivering critical capabilities for enduring national and defence and security priorities underpinning our sustainable growth.

Global solutions continue to be impacted by a difficult US market, due to one of the longest and deepest continuing resolutions on record. Revenue was lower than expected at stable margin. Within this context, we achieved a number of significant milestones. We offset the planned ramp down of the CRS(I) Robot programme by delivering the highest ever production levels of our aerial targets. Our Banshee target was certified for the US market, opening the door to significant opportunities to leverage our capabilities globally.

And whilst Avantus declined over the whole year, the business did achieve modest growth in the second half with double-digit margin and 100% cash conversion. Importantly, Avantus won \$977 million of awards, achieving a funded book to bill of just over 1.2, giving us good revenue visibility for the years ahead.

Our most strategic achievement was fully integrating Avantus to build our US platform and leverage market opportunities. The benefits of integration are now being realised, demonstrated by winning \$1.3 billion of total contract awards in the US. Our largest US orders with three five-year programmes that provide high value engineering services and mission support for the Space Development Agency, strategic capabilities office, and the Tethered Aerostat Radar System, known as TARS, for Homeland security.

TARS is a really great example of a contract that would not have been won without our integrated US platform. And all of these three programmes have significant on-contract growth potential. In addition, we have strengthened our business development team who have qualified a multi-billion dollar pipeline of opportunities that are directly aligned with the new US National Defence Strategy.

With the integration of Avantus Complete, our US business is positioned to drive synergies and deliver a significant contribution to our sustainable growth over the coming years.

I'll now hand over to Heather to take us through our financial results.

Heather Cashin:

Thank you, Steve, and good morning everyone.

Firstly, our key financial highlights. In FY24, we've delivered record order intake of 1.74 billion, growth on a strong comparator last year. This demonstrates continued high demand for our distinctive offerings. Strong revenue at 1.91 billion, growing 21% on a reported basis, delivered through good programme execution across all our major contracts. Good underlying operating profit from segments at 215 million, growing 20% on a reported basis at a consistent margin of 11.3%. High levels of cash conversion at 104%, contributing to leverage falling to 0.5 times. Underlying basic earnings per share of 29.4 pence increased by 11% due to our excellent operational performance offset by a higher effective tax rate in the UK, an interest expense, and finally, return on capital employed. We're pleased to see another year of strong performance marginally ahead of our guidance, delivering 21%. So overall, a strong group result in FY24, which is a good foundation to deliver our future ambition and guidance.

Moving on to orders, we've delivered a good order performance in the period against a strong order intake last year. In FY23, we booked the 10-year Maritime Strategic Capability Agreement or MSCA for 260 million. This was a significant in-year one-off. Organically orders declined 10% year-on-year, excluding the MSCA, orders grew 7%. Order performance of 204 million from acquisitions and disposals includes the contribution from Avantus and Air Affairs and the disposal of Space NV on a comparator basis to the prior financial year.

For FY24, including the impact of acquisitions, order growth was 19% for the year, excluding MSCA, and 1% including the MSCA. If we look to the charts on

the right, at the top, we can see orders won by size. We continue to book orders on both smaller and larger contracts. Given our larger US footprint, we've expanded our disclosure in line with normal US practice. In the US orders are won, and subsequently funding is released.

We book the funded amounts in each year in the orders number. The box highlights contract awards for which funding has not yet been appropriated or authorised. An example of this is the TARS contract that Steve mentioned earlier. The total contract was \$170 million. We booked 16 million in FY24, and the remaining contract value we expect to be funded by the customer and booked in future years. The chart on the bottom right highlights that we closed FY24 with a strong funded order backlog of 2.9 billion, with an additional US unfunded backlog of 0.8 billion, bringing the total to 3.7. The US unfunded backlog and the overall book to bill of 1.1 times gives us great visibility into our future growth.

We've delivered strong revenue at 1.9 billion, growing 21% or 14% on an organic constant currency basis, demonstrating increasing demand for our six distinctive offerings. This has been driven by increased delivery across our EMEA services. Major contracting frameworks. Global solutions was down 11 million, which I'll come back to later. Acquisitions and disposals are shown US partial year contributions to give an accurate year-on-year comparison. This reflects the comparator contribution from Air Affairs, Avantus and the disposal of Space NV.

As the chart on the right highlights, we end FY24 with 64% of our FY25 revenue under contract, compared to 61% at the same point last year, helping to underpin our confidence in the year ahead. The US unfunded orders of 6% represent contract awards, which are expected to be funded in FY25. We've delivered strong underlying operating profit from segments at 215.2 million, which represents an increase of 20% or 16% on an organic constant currency basis. This is an 11.3% operating profit margin, consistent with our guidance range of 11 to 12%, demonstrating sustainable revenue growth at stable margin. The largest contributions to year-on-year growth with a full year impact of the Avantus acquisition and organic revenue growth at stable operating margins within EMEA services.

On the right, you'll see a table reconciling underlying operating profit from segments to statutory operating profits. If I take these one by one, income from Research and Development Expenditure Credits, or RDEC, increased in FY24 due to an increase in the rate paid from 13% to 20%. Amortisation of intangibles has increased year-on-year, reflecting the intangibles acquired through Avantus and Air Affairs. Acquisition costs have reduced, and in FY24, are primarily driven by the integration costs for Avantus and Air Affairs. We expect this number to be significantly lower in FY24 as we focus on organic growth.

The digital platform represents a discreet, multi-year investment projects to enable our global growth strategy and our AUKUS customer needs. We expect

approximately 35 million of additional costs over the next three years, which will fade through to completion.

The cost here reflects the implementation costs previously accounted for as CapEx before the SAS accounting changes. All recurring costs such as licences and maintenance are reported within the underlying cost base. Within other, in FY23 we also reported a one-off adjustment pertaining to the decision from UK government to allow companies to keep the RDEC benefits. This does not repeat in FY24.

Now turning to the segmental split of group performance. First, we have EMEA Services. Orders saw 7% growth excluding the impact of MSCA. When including MSCA orders saw a 13% decline. We secured 1.2 billion of orders, including 472 million from the engineering delivery partnership framework. We also achieved a variation on price uplift on the LTPA, an extension to our battlefield and tactical communications and information systems or BATCIS contracts, and a significant multi-year aerial training targets services contract in Germany. Revenue growth was strong at 20% driven by our UK sectors, which were underpinned by execution of the EDP framework and inflation uplifts.

Operating profits grew in line with revenue at 19%, and margins remained stable at 11.5% in FY24. EMEA Services has a funded order backlog of 1.4 billion excluding the LTPA and a book to bill ratio of 1.04 times compared to 1.17 times excluding MSCA in FY23.

Next on to Global Solutions, total orders grew 56% driven by the full year contribution of Avantus, orders grew 7% on an organic basis. As explained earlier, strong US unfunded orders of 578 million support our confidence and visibility in Global Solutions. Global Solutions overall saw 23% revenue growth with a small organic decline of 3%. As Steve mentioned earlier, we were impacted by the continuing resolution in the US and a planned ramp down in projects coming to an end.

Global Solutions, excluding Avantus, delivered broadly flat revenue due to the decline in revenue from the CRSi ramp down offset by the highest ever production levels in QinetiQ target systems. Avantus saw a high single digit organic revenue decline over the course of the year and a modest revenue growth in H2 versus H1. Despite these headwinds, we've delivered double-digit operating profit margins of 10.5% with double-digit margins in both Global Solutions and Avantus. We have a strong funded backlog of 321 million further supported by our unfunded backlog from contract awards not yet authorised and appropriated. Our book-to-bill ratio of 1.1 times and Avantus' book-to-bill ratio of 1.2 times gives us confidence heading into FY25 and beyond.

Now, if we move to cash, we've delivered excellent underlying net cash flow from operations at 320 million, materially ahead of guidance which equates to a cash conversion ratio of 104%. This cash conversion is as a result of our strong underlying cash performance and continued focus and discipline on working

capital management. We've invested 96 million in capital expenditure, investing in infrastructure improvements and capability enhancement. 37 million of this relates to investments in the LTPA reduced from the prior year. The LTPA CapEx is funded through the contract, which means that a low QinetiQ fund upfront investment it is paid back through the depreciation over the life of the contract.

A key component of delivering our strategic ambition is to have a robust financial framework that ensures efficient use of our balance sheet. Our net debt position improved from 207 million to 151 million through the year as we saw strong cash conversion and working capital management, particularly in the second half. In FY24 we also returned 62 million to shareholders in the form of dividends and buybacks with 16 million of the hundred million buyback being executed during FY24. We continue to see a buyback as being a compelling component of shareholder return. Following a year of strong cash generation, prudent investment in the business and the introduction of the share buyback programme, we're pleased to end the year with a leverage ratio of naught 0.5 times, an improvement from 0.8 times last year. This gives us flexibility for growth and enables the potential for future shareholder returns.

Following this strong set of results, we are increasing our FY25 guidance and are on track to deliver our FY27 outlook. We enter FY25 with strong momentum, a healthy order book, an increased visibility with 64% revenue under contract. We expect FY25 to deliver high single-digit organic revenue growth compared to FY24 at a stable operating profit margin. We are on track to deliver 2.4 billion of organic revenue at approximately 12% margin by FY27. This will deliver an attractive return on capital employed at or above the upper end of the 15 to 20% plus range.

Cash conversion will remain high at 90% plus with capital expenditure within the 90 to 120 million range. Our strength and balance sheet provides optionality through disciplined deployment of capital for bolt-on acquisitions to compound growth at 11 to 12% margin and further shareholder returns. Thank you. Back to you, Steve.

Steve Wadey:

Great job, Heather. Thank you. So now let me take you through our strategic outlook. The world is experiencing the highest and most rapidly evolving threat environment for a generation. Russian forces remain entrenched within Ukraine, in the Middle East the Israel-Hamas conflict is ongoing and tensions continue to rise with China. As a result, Australia, the UK and the US are increasing spending over the long term and focused on developing next generation capabilities and having greater collaboration. In the US, the defence budget for research and development, R&D, and test and evaluation, T&E, is the largest ever at \$145 billion. The UK and Australia have committed to approximately 2.5% of GDP, with the UK increasing R&D to more than 5% of a growing defence budget. Their evolving capability and investment priorities are driving increasing spending to build resilience and achieve technological superiority in our areas of strength.

These areas include R&D, T&E, training and mission rehearsal and cyber and intelligence. Our strategy and unique value proposition enables our customers to rapidly create, test, and use capability to stay ahead of this threat. By aligning our distinctive offerings to their areas of high priority spending we are well positioned to continue to grow sustainably into our addressable market worth more than £30 billion per year.

Within this geopolitical context, we are a differentiated company driven by our purpose, protecting lives by serving the national security interests of our customers. This has never been more relevant. Since launching our strategy in 2016, we have been building a disruptive and integrated global defence and security company uniquely relevant to modern warfare. Our track record has been achieved through disciplined execution of our strategy to ensure we build our global platform coherently with sustainable growth and attractive returns. We have increased revenue by more than two and a half times, stabilised margin and doubled earnings.

By focusing on our customer's needs and partnering with industry, we have won larger, longer term programmes, expanding our revenue visibility and securing an order backlog of £3.7 billion, including £0.8 billion of US unfunded backlog as Heather described earlier. We also have an exceptionally robust pipeline of future growth opportunities worth more than £11 billion over the next five years. A current example is the entry into the US market with our differentiated threat representation capabilities. Our strategy and distinctive offerings are uniquely relevant and aligned to our customer's needs underpinning confidence in our ability to continue delivering organic growth at double the rate of national defence budgets.

In order to stay relevant for the long term, we remain focused on building our global platform to deliver for our AUKUS customers and their allies. In April, I made three key appointments to our leadership team, Martin Cooper as Group CFO, Iain Stevenson as Chief Operating Officer, and Will Blamey as Chief Exec UK Defence. These changes strengthen our capability as we continue to scale and grow globally. In delivering for our customers the single biggest contributor will be our people. We've made significant progress creating an environment where they can all thrive with our highest ever level of employee engagement.

To stay at the forefront of cutting edge technology and innovation we continue to invest approximately £20 million per year in research and development aligned to their customer priorities, such as trusted AI. To deliver for our customers and generate even greater returns for our shareholders we leverage our skills and products across the company through collaboration. A great example is the transfer of our unique T&E skills from the UK to build sovereign T&E capability in Australia. Last month, our AUKUS customers began consultation with industry on new regulations to support greater pooling and sharing of their resources by improving the exchange of technology and information. Whilst these changes will take time to come into effect, they will be a significant shift for our industry. The investment in our digital platform that

Heather described earlier will enable us to benefit from these changes by increasing collaboration to create more value for our customers and support further growth.

The fundamentals of our strategy are robust, enabling our AUKUS customers to deliver their evolving capability and investment priorities. Let me give you four examples where their priorities, shown on the left, are driving increasing spending in our areas of core strength, R&D T&E training and mission rehearsal and cyber and intelligence.

The proliferation of drones, as we've seen in Ukraine, is driving the need for laser-directed energy weapons with low cost per shot and unlimited resupply. These next generation systems are as a result of long-term R&D into disruptive technologies as seen by our pivotal role in the DragonFire programme. Capability modernisation such as the new Australian Submarine programme is driving the need for state-of-the-art, physical and digital T&E to share information and assure sovereignty, leveraging our world-leading role in test and evaluation.

The need to maintain operational edge requires training, and mission rehearsal against highly representative threat scenarios. As a global leader in airborne training and targets, we are seeing increasing demand. Finally, modern warfare requires an edge in the cyberspace to enable superiority in the battle space. As an embedded partner of scale in the UK and now also in the US, we have a critical role to support our defence and intelligence customers with our cyber and data intelligence solutions. Building on our successful performance and increasing relevance to our AUKUS customer's mission, our strategy is on track to deliver £2.4 billion of organic revenue at approximately 12% margin by FY27.

Our strategy is underpinned by our enhanced focus on disciplined capital allocation and execution. As a highly cash generative business, we deploy our capital consistently with our policy to deliver value accretive investments and attractive returns for shareholders whilst maintaining a prudent balance sheet. During the year, we've decided to increase shareholder returns. In January, we launched a hundred million pounds share buyback programme, which is on track, and today we've announced an increase to the growth of our progressive dividend from 5% to 7%.

In the near term. Our priority for capital deployment is to execute our organic growth plan. We continue to invest in our people technology and capability to enable our AUKUS strategy, including delivering US growth from our newly integrated US platform driven by Avantus synergies. Finally, our strength and balance sheet gives us optionality for additional investment in sustainable growth and further shareholder returns.

Stepping back, we have a clear investment case, which is unchanged. Our company is focused on our AUKUS customers mission and aligned to structural growth markets with our value proposition uniquely relevant to the enduring

and increasing threat. By continuing to execute this strategy, we will achieve our guidance as shown on the right of this slide, delivering high single-digit organic revenue growth at stable operating margin with high cash conversion and attractive return on capital employed. We are well positioned for sustainable growth with compelling value creation for our shareholders.

So in summary, as the world continues to experience the highest threat environment for a generation, I'm incredibly proud of the outstanding skills and capabilities of our people working in partnership to enable our customers' mission. Building on our excellent track record, we have delivered a further year of strong group financial results. We enter FY 25 with momentum and increasing spending in our major markets, giving us confidence to increase our guidance and underpinning the delivery of £2.4 billion of organic revenue at approximately 12% margin by FY 27. With a strengthened balance sheet and an enhanced focus on disciplined capital allocation we have optionality for additional investment in sustainable growth and further shareholder returns. In summary, we're well positioned and have a clear strategy to deliver another year of growth and compelling value for our shareholders. Thank you, and Heather and I would be happy to take any questions.

Stephen Lamacraft: Thank you, Steve. Thank you, Heather. So we'll start with questions in the room before we go to questions that are online. When you ask your question, if you could just give your name and the company you work for, that would be great. Thank you.

Sash Tusa: Thank you. Sash Tusa from Agency Partners. I wondered if you could just talk about cash flow and particularly where the beat came compared to your expectations. Is it reasonable to think that because your revenue performance at EMEA services was better, a disproportionate amount of the extra cash came because of that or is it more broadly split between the two divisions?

Steve Wadey: Okay, maybe I could say a few words and-

Heather Cashin: Yeah, that's fine.

Steve Wadey: ... Heather, happy to be... I mean, I think if you just look back over history, Sash, we've actually had strong cash conversion. It's one of the fundamentals of the business, which I think is well regarded and I think we've been consistent in delivering high cash conversion over many years. Our rolling guidance is always at 90% plus, but I think this year we delivered 104, last year was 106. So yes, a beat to our rolling guidance, but just based on our consistent and rigorous programme management and cash management. Nothing different to just good solid programme execution in my mind. But, Heather, do you want to add anything on segmental?

Heather Cashin: I think so. I mean we manage our cash on a group basis. I think you'd expect rather than looking particularly segmentally, I think all business units continue to contribute to cash performance on a very strong basis.

Steve Wadey: Does that answer your question, Sash?

Sash Tusa: Not really. I think I may have phrased it wrong then. Cash flow was very, very tilted to the second half. So I mean wondered what changed in the second half and where did it change the most?

Steve Wadey: Yeah, I think over the whole year... Is the mic still working? Over the whole year there was no change. It's consistent with our track record. I think in the half, yes, we were down at the half and I think we said there was just some timing issues around some programme deliveries and some cash receipts. So I think as we said at the time, there was no concern or worry to be had at the half and I think we've just proven that out and I wouldn't expect any fundamental repeat of that in future years. We have got consistent delivery in our programmes and we'd expect our normal split half to half.

Sash Tusa: Okay, so the first half of this last year was very much a one-off in terms of-

Steve Wadey: It was a one-off. That's exactly the way to think about it. Sorry, I missed the point of your question.

Sash Tusa: No, I think I misstated it actually. Thank you.

Richard Paige: Morning. Richard Paige from Deutsche Numis. Couple from me please. First of all, UK intelligence contribution with a really strong performance in EMEA services has stepped up again. Could you just give us a bit more on that and outlook there? By the same token on the US, lots of moving parts within their CRSi roll off Avantus and what's happened ultimately in FY 24 and what the outlook is within the US particularly obviously post the continuing resolution roll-off election year, please.

Steve Wadey: Two simple questions. How long have you got?

Richard Paige: I'm trying to think of a difficult financial one for Heather.

Steve Wadey: Well, if you have got one, can you say it now so she can think about it? Well, first of all, I mean if you go back to our capital market stay in New York and we had James Willis, our chief exec for UK intelligence on the stage, I think we started to reveal a lot more about our UK intelligence sector and I can't remember exactly the number, but it's a 20-plus percent growth in its period, or over the last five years, sorry. And I think that team in UK intelligence is doing a really great job. It's really, as I said in my presentation, embedded both with our defence customer and our intel customer. Some really strong programmes delivering further momentum. Specific that I mentioned was what's called the

Societas programme, where we're transforming the production and mission data for all UK platforms and that programme's doing exceptionally well.

So I think the underlying position that we have got in our UK intel business is exceptionally strong. In fact, if I bridge from that to your second question, if you actually step back and think about UK intelligence and US, and you may have noted I used the phrase "and we now have an embedded position in the US." If you actually add up our intel business in this similarity between UK intelligence and what we do in the US, something of the order of 900 million plus of our revenue is what you might want to call a cyber and data intelligence business or C5 ISR, whichever terminology you want to refer to. So we are now big in both the UK and US and I think that as you grow in scale, maybe some of the high rates that we've had at 20% plus organic growth will peter out. But with two strong embedded positions, we'll expect that to really underpin the sustainable growth that we've got within our outlook and really gives us confidence in the contribution to the 2.4 billion organic growth through to FY 27.

Maybe specifically on the US comment and gives me the opportunity to expand a little bit about what happened in the year. I mean I think we all recognise and we've discussed openly that Avantus was lower than we all expected and I think we addressed that in the first half results. A large factor in that was, as I said in the presentation, a longer and deeper continuing resolution than a very long period of time, one of the longest on record. But the business has done really well and the team there have worked really hard.

Avantus secured, as I said, \$977 million of total contract awards. You can effectively think that it worked through a re-compete season and one, all bar, one I believe of its re-competes, that creates a really strong foundation with that backlog. It ended with a book to bill, as I said, just over 1.2. The second half grew on the first half, modest growth in the second half versus the first half. And with backlog and book to bill that I've mentioned, it now establishes Avantus back on its trajectory, mid-single digit as Heather said in her presentation for the year we're now in and back to double-digit in '26 and beyond.

Avantus really sort of integrated and now on its growth trajectory and I think now we need to look at it completely as an integrated US platform. We have a really strong team. We strengthened the business development team during the course of the year, that I mentioned. We have a really clear strategy, four primary revenue streams that are directly aligned to the US National Defence Strategy. The first of those revenue streams is really what we would call persistent surveillance. The TARS programme is a brilliant example of that. As I mentioned in the presentation, there is no way that Avantus in its own right would've won that programme. The US team couldn't have. It's part of the combination. The power of the combination really enabled us to win that programme. And whilst our guidance, I would say if the US is prudent, if I take that example and I mentioned on contract growth, we can see on that particular

programme approximately 50% on contract growth coming in the next couple of years. That's the first revenue stream.

I think the second revenue stream is we're sort of focused on our core DNA in the US, which is R&D. If you go all the way back to the origin of our US, when the company, well before I was here acquired Foster-Miller, it was in R&D and innovation, you may have heard that theme coming through in today's presentation. And the leverage of our technology solutions, part of the team up in Boston and what we acquired with MTEQ and its advanced sensors, we're focused on core R&D. Really good news this week, one of our programmes that we announced last year, NGABS, to Heather's point about incremental funding, has just landed its next major block of incremental funding. So that's R&D.

The third area of our focus in the US is really around autonomous systems, something we've got to strengthen in the UK and the example that I gave at the beginning, robotic combat vehicle is a great example and we're well positioned. And then the final one is exactly where we just started the question, cyber and intelligence. And in fact we've had some positive news there based on the platform. We've just won two IDIQ positions with two completely new intel customers, NRO and NGA, which is really great to start to see the benefits of why we acquired Avantus, a great business, why we've fully integrated it and why we're confident in the growth coming through. I could talk all day about this, Rich. Does that answer your question?

Richard Paige: I think that's pretty comprehensive. Thanks. Sorry.

Stephen Lamacraft: Before we take the next question, can I just remind those who are online because we've got over 100 people watching online, if you have any questions, please just use the phone line provided to ping them through. Thank you.

David Farrell: Hi, thanks, David Farrell from Jefferies. A couple of questions from me. I can't help but notice we're stripping out the MSCA contract to give kind of a view of the underlying performance. Then when we look at global solutions, there's quite a few large contracts in there, a few hundred million dollars for five-year contracts. Just wondering what the repeatability is of securing contracts like that in global solutions.

Steve Wadey: Would you like to describe the MSCA point first, Heather?

Heather Cashin: Yeah, so I'll probably go to that first. I think there is a key difference in the way that the orders are won and funded between the UK and the US. So on the MSCA piece, we won the 260 million order last year when we booked it and hence it's within the orders. With those larger US orders, they are large five-year deals. However, they're only funded incrementally year by year. So within the orders number, there is only one year worth of the one year being funded. So I think that's probably the key difference to start with in terms of those big US orders.

Steve Wadey: And I think, David, if I could just make a couple of points and maybe build back up to the future, EMEA is in a really great position and as Heather presented, I think it does make sense to do a comp of the 1.04 to the 1.17 because a ten-year contract is a distorting factor. And I think we all know that order intake is a lumpy business. So I think that gives a better comparison for EMEA. And I think that if you look at some of the positions that we have within EMEA, we are absolutely growing. You can see it on some of the data that we've given. We are growing the number of larger long-term contracts. So our position on those big service contracts is expanding. So we're very confident in the underlying sustainable growth of EMEA in line with the guidance that we're giving.

I think secondly, to Heather's point about the additional disclosure in the US, I mean, I remember in this forum describing this at least for about two years when we were much smaller in the US, maybe when we were like 100, \$150 million. This concept that, not concept, this practice that the US fundamentally contracts in a different way to the UK. So this notion of you win a multi-year contract and then you have this incremental funding that has to get appropriated and authorised each year, it's completely normal practice. So we consciously decided that after the first full year of integration of Avantus and now we have scale in the US, we don't want shareholders to have a distorted understanding of either our backlog or our pipeline opportunity by only seeing the value of our funded first year of contract awards. And some of the numbers are quite material. You take our current backlog of completely funded at 2.9. If you add in back to the really great progress of US order intake, you get to 3.7. So I think in terms of that repeatability and onward momentum, we're in a very strong position. And then just add, because it's only come up once in this presentation, add the pipeline. The pipeline, we're over £11 billion and that's just what we're seeing in terms of funded. We haven't given an unfunded number on that. So, if you start to factor in that on top of backlog, you more than get the cover to both the EMEA and the global solutions guidance that we've given.

David Farrell: Perfect. Thanks. Second question. You've referenced it a couple of times, the continuing resolution in the US and how that impacted the business. Are there any learnings you can take for the next almost inevitable continuous resolution as to how you would manage the business?

Steve Wadey: Yeah, I think the answer is quite simple. We did learn from it and we factored prudence into our guidance. And if you look at the guidance for global solutions, and our US business sits within global solutions, stable performance is about building in prudence on a strong finish to the year in terms of backlog and book-to-bill to make sure that we've got an election in the US. It may go into another continuing resolution. So we've built more prudence into our guidance. That's the primary learning.

David Farrell: Okay. So it is more about financial guidance as opposed to day-to-day running of the business that you can take something away from?

Steve Wadey: Well, that's the guidance comment. So in terms of the business, I think I've referred to the two primary learning points. We've absolutely integrated, we've strengthened the BD, and our focus of our programmes is more directly aligned to the US National Defence Strategy. So we're part of budget streams that are growing. They're coherent with our overall group strategy. So yeah, there's learning in terms of strategy and business operation, and at the same time, there's learning in terms of prudence within our financial guidance.

David Farrell: Great. Thanks.

Joel Spungen: Hi, there. It's Joel Spungen here from Investec. I'm not as familiar as many of the other people in this room with your business. I'm still getting to learn it, so forgive me. But I was wondering if I could start by asking about M&A, I guess specifically with the integration of Avantus now complete, do you feel that you are ready to take on another material deal? And maybe related to that, are there any comments you can make about pricing for potential targets in the market?

Steve Wadey: Yeah, that's a really easy question because I think I said it in our presentation. During the course of the year, we've really enhanced our focus on capital allocation and our near-term focus is absolutely on organic growth and making sure that we deliver all the way through to our 2.4 billion target by FY27. It's true that we have a strengthened balance sheet and part of the enhanced focus on capital allocation, that does give us optionality to invest in the business, but it also provides optionality for further returns to shareholders.

And as I mentioned during the course of the year, we consciously chose to increase shareholder return. We launched a 100 million buyback, as Heather said. We continue to see buybacks as part of our ongoing consideration of options within our capital allocation. And we've also increased, that we've announced today, the increase in our progressive dividends. So, I think if we step back and look at, yeah, whilst we might have a long-term strategy for further growth, our clear near-term focus is on the organic plan.

Joel Spungen: Is there any comment you can make about some pricing on potential targets or anything like that? Has that changed at all?

Steve Wadey: More generically, I don't think the dynamics on pricing of targets has really changed in the last few years. You tend to see higher multiples in the US versus Europe. I think those dynamics broadly remain constant.

Joel Spungen: Thank you. Just maybe one quick one. You mentioned about LTPA. Is there any risk around that or is it highly likely that that will be extended to 2033?

Steve Wadey: So if you are new to the story, the current contract, which was a 25-year contract, currently runs through to 2028, and in November just gone, we announced that we had signed a principle's agreement with the UK government

to work through a negotiation that would take that through to 2033. And as I mentioned in the presentation, those discussions are going well, we're absolutely on track, and I would expect early in 2025 that that contract extension would be signed, and that will provide services through to 2033.

Joel Spungen: Thank you.

Sash Tusa: It's Sash Tusa again, I wonder if I could just ask a question about robotics and sort of compare and contrast with targets. The targets business is clearly a production business and you said volumes are extraordinarily high at the moment. Robotics still seems to be, and this seems to be generic across the industry, I think this is a QinetiQ issue, but it's a series of one-off contracts that occur, vanish, occur, vanish. And there doesn't seem to be stability in the business. Is that because customers still haven't worked out what to do with these things?

Steve Wadey: Yeah, I think you actually make a fair point. And actually, as I'm thinking about the answer, I think we're actually seeing a changing dynamic between robotics and targets, Sash. I think if you look at some of the dynamics, I think in one of the questions earlier, we've seen our small robot programme called Chrissy plan, it's ramped down, it reached peak production and then has faded down. That's one of the underlying drivers for some of the reduction in revenue in our legacy US business. And that will continue and come to a conclusion, in fact, already has, in this year. So we'll see that step down to completion when we compare FY24's results to what we deliver in FY25. But I think what we are seeing in robotics and it's also a conscious choice for ourselves that we are progressively moving up the value chain to the higher layers of intelligence of... And you see it, we're actually calling autonomous systems more than robotics.

And if you look at our role with Oshkosh on the robotic combat vehicle, we're doing the autonomous systems layer, the networks, the algorithms, the integration, the safety, those are the higher value. We're not doing the core manufacture of the platform. So I think it's true to say that the lumpy nature as you are sort of alluding to of the core robotic platform is a feature of this marketplace. But we're offsetting that by moving up the value chain into more enduring roll-around autonomous systems. I think with targets it is a little bit different. I think we're actually seeing exceptional demand in targets, which I would broaden out to threat representation. We have airborne training services, we have targets, we have digital and simulated training services. I think that current conflicts are really underpinning the need aligned with our value proposition that you have to test, you have to know that the kit that you're taking into the field is going to work as you expect, it performs, it's safe, it's interoperable. And therefore, the demand on training and mission rehearsal is growing both from a production and a service-based point of view.

And it's partly why we tried to simplify the understanding of QinetiQ, again, today by talking about core R&D where all nations, particularly in August, are putting more and more into R&D because R&D is the way that you overmatch

the enemy. They're putting more into T&E because you have to know that the kit is going to work safely and at the level it's going to give you the operational edge. You have to be prepared and ready to fight. That's what training and mission rehearsal is. And cyber and intelligence is just growing, it's not just the physical world. So they are the two dynamics. So I think it's a good spot, Sash, it's something of a dynamics changing in the company.

David Farrell: Hi, David Farrell from Jefferies again. One thing for Heather. I just want to unpick the organic revenue growth in EMEA services a little bit. Firstly, what element of that was pricing versus activity levels? And then the second question is what kind of headcount growth was there in EMEA services last year?

Heather Cashin: Headcount growth in EMEA services? You say a few words while I just find my...

Steve Wadey: The first thing I would say is that we're really pleased with EMEA growth. EMEA delivered really good performance and the primary drivers for that were an exceptionally strong prior year. I think if you go back to our FY23 results, we had an overall book-to-bill of 1.4. So during the course of the year, EMEA, the teams did an outstanding job executing those orders.

We also, on the back of operational tempo, had increasing demands during the course of the year that again, the team did execute, part of that was delivered through, and we'll see some increases in headcount. And those are the primary drivers. There were some inflationary benefits as we've talked about before. We have got contracts where we get some inflationary benefit, but the primary driver for the growth really was the strong prior year orders and some of the increasing demand that came through in the year.

Heather Cashin: Yeah, so to build on that, in terms of the growth, I think probably only a couple of percent, 2 to 4% probably coming through inflation. In terms of the underlying delivery, a lot of it was through delivery from our people. Back to that headcount question, headcount actually increased 8% year-on-year within EMEA services. So a lot of it coming through core project delivery through our people.

David Farrell: Great answer. Thanks.

Heather Cashin: Okay.

Steve Wadey: Thanks.

Stephen Lamacraft: Okay, thank you. I can see that there are no questions online, so if there are no final questions in the room, then, Steve, maybe a closing remark if you fancy.

Steve Wadey: Yeah. Great. Well, thank you, everyone, for your questions. Maybe we should just finish. Yeah, we're really pleased with the results. We got really good momentum. We're absolutely on track for 2.4 billion. The level of organic

growth that we need to achieve, if you've done your sums, is now 8%. It's bang on in the middle of our guidance. Last year, it was 9%. So confidence is increasing. And also, we've got a much greater focus on capital allocation, that's all about optionality to invest in the business and options for further shareholder returns. So, thank you for your time and if you've got any follow-up questions, Heather and I'll both be very happy to answer them. Thank you.

Heather Cashin: Thank you very much.

ENDS