Contributing to global and national security

QinetiQ Group plc
Interim results for half year ended
30 September 2022

10 November 2022

Agenda

Contributing to global and national security – headlines

- Strong and consistent operational performance
  - Orders up 18%, 11%[1] on an organic basis
  - Revenue up 12%, 8%[1] on an organic basis
  - Operating profit up 39%, 7%[1] on an organic basis
  - 106% cash conversion pre-capex
  - EPS up 41%; interim dividend at 1/3 prior year total

	H1 FY23	H1 FY22
Revenue	**£673.4m**	£600.1m
Operating profit	**£74.1m**	£53.4m
EPS	**11.4p**	8.1p
Dividend	**2.4p**	2.3p
Order backlog	**£3.0bn**	£3.0bn

- Disciplined execution of multi-domestic strategy
  - Strong programme delivery across all major contracts
  - Good order intake across the Group at c.£800m
  - Increased investment in people and capabilities for future
  - Step change through strategic US & Australia acquisitions

- On-track to deliver ambition; £2.3bn+ revenue by FY27
  - Increasing revenue; profit in-line with FY23 expectations
  - Respond to increased demand for our distinctive offerings
  - Close Avantus and Air Affairs deals; execute integration
  - Drive sustainable growth into >£20bn addressable market

[1] Excluding impact of write-down in FY22 half year results

Contributing to global and national security – operational highlights

RAF mass missile firing exercise

CRS-I[1] initial production completed

$77m new orders through MSP[2]

£60m ACE[3] contract for digital solutions

Successful E-X-Drive trials on Bradley

5 year mine warfare contract

Delivering high-value solutions to national defence and security challenges

[1] Common Robotic System-Individual [2] Major Service Provider [3] Accelerated Capability Environment

QINETIQ

Financial overview

Carol Borg
Group Chief Financial Officer

H1 FY23 Financial Highlights

Orders	Revenue	Operating Profit
£798.8m	**£673.4m**	**£74.1m**
H1 FY22: £677.8m[1]	H1 FY22: £600.1m[1]	H1 FY22: £53.4m[1]
+18%	+12%	+39%

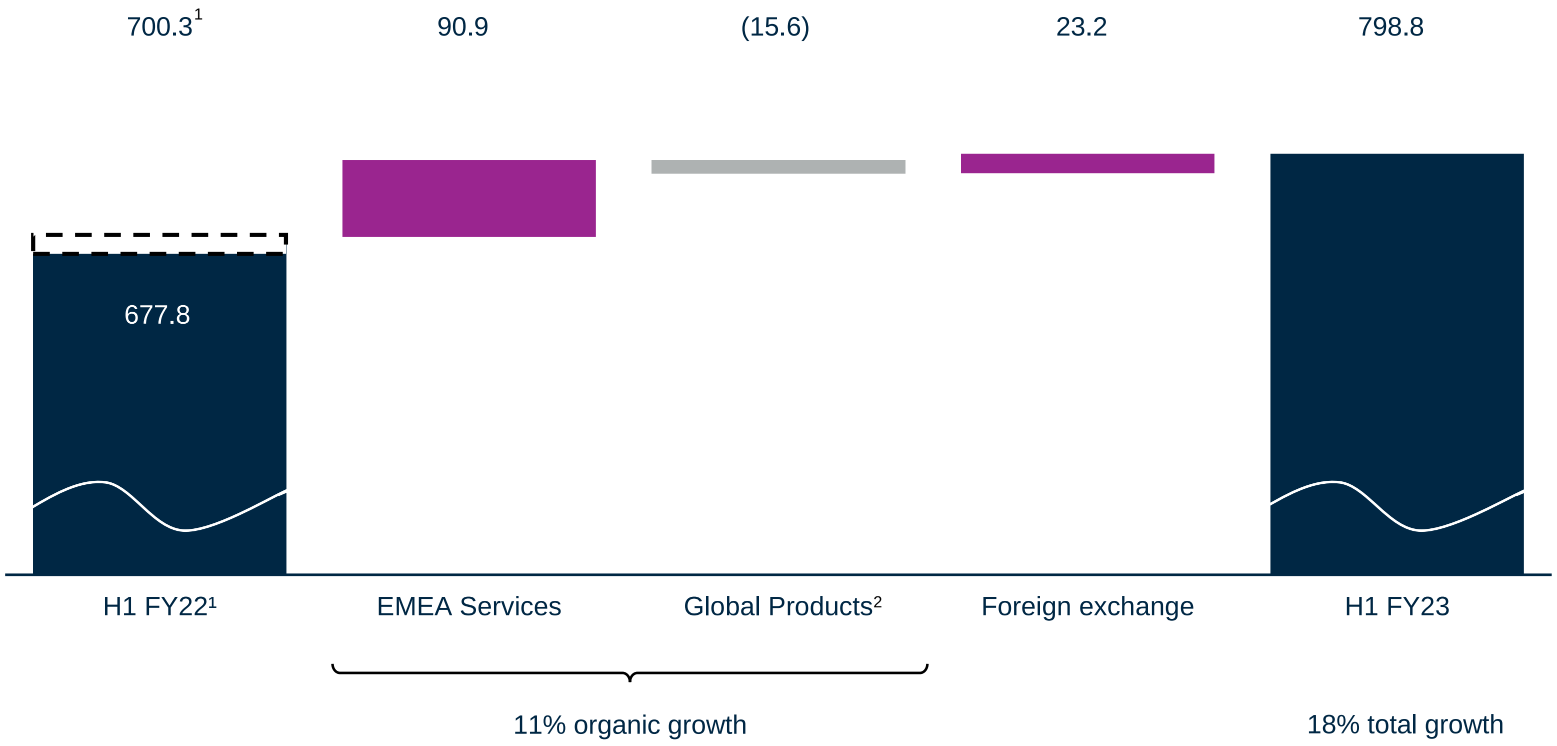
Operating Cash	EPS
£106.8m	**11.4p**
H1 FY22: £70.2m	H1 FY22: 8.1p[1]
+52%	+41%

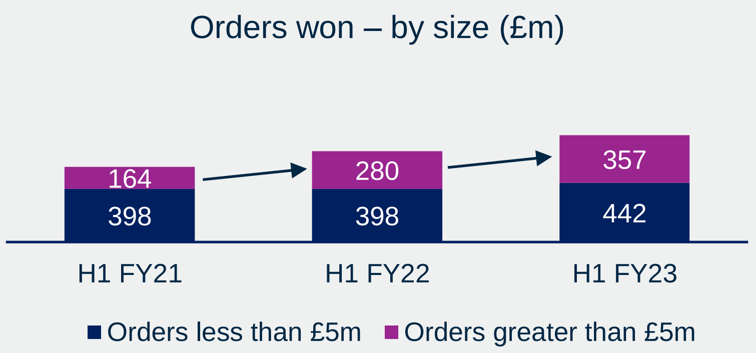
[1] H1 FY22 impacted by write-down: £22.5m orders, £8m revenue, £14.5m operating profit

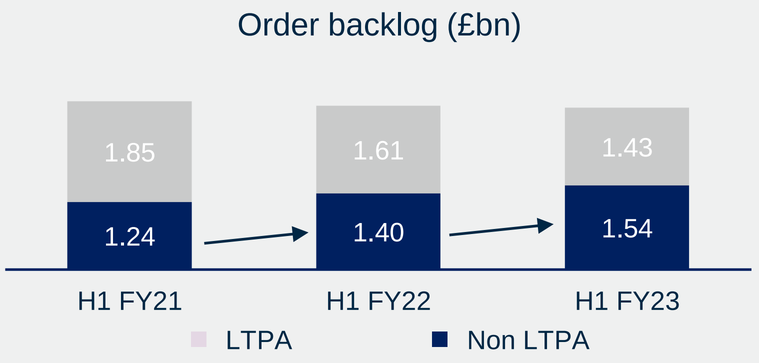
QINETIQ

Good order growth and backlog moving towards larger, longer-term contracts

Orders (£m)



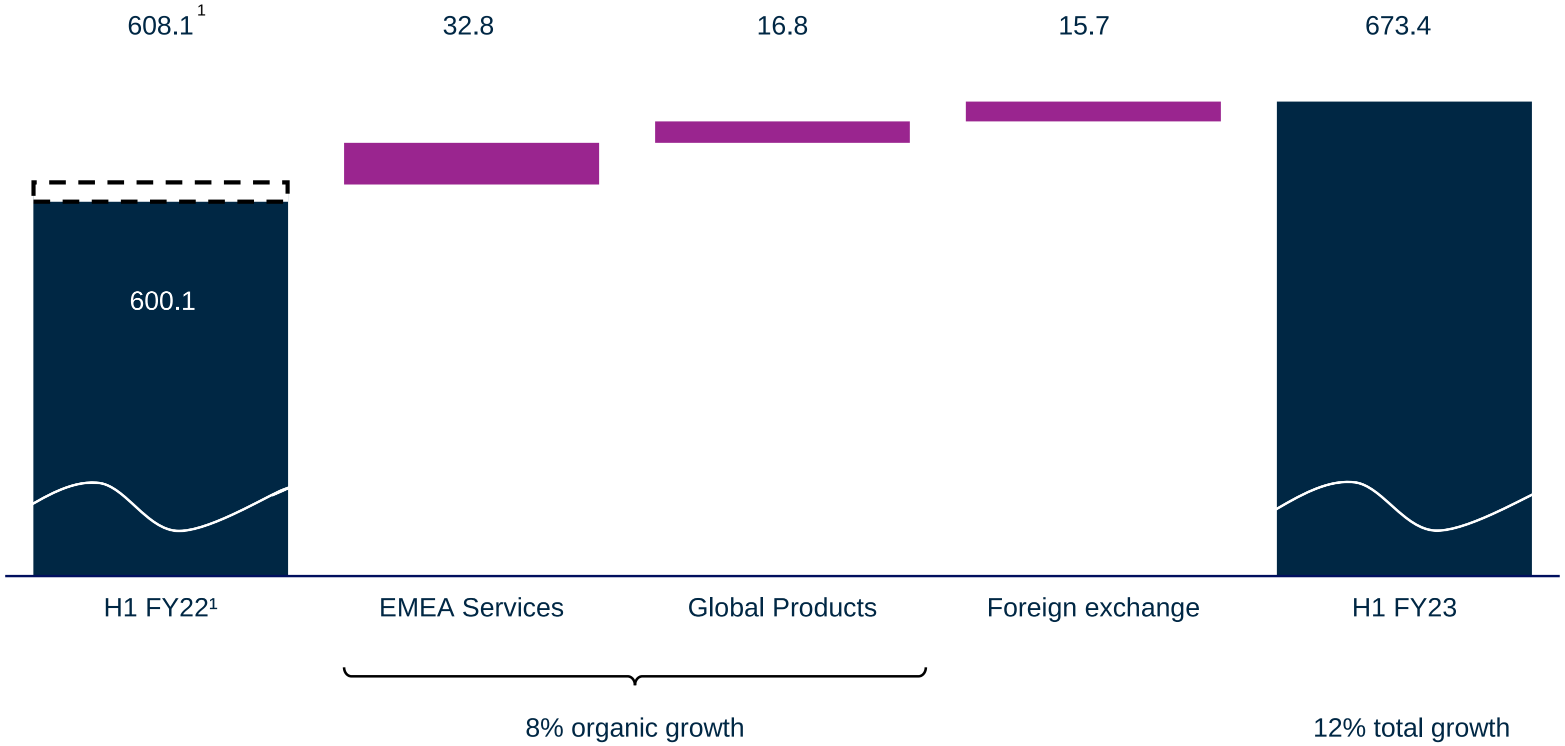


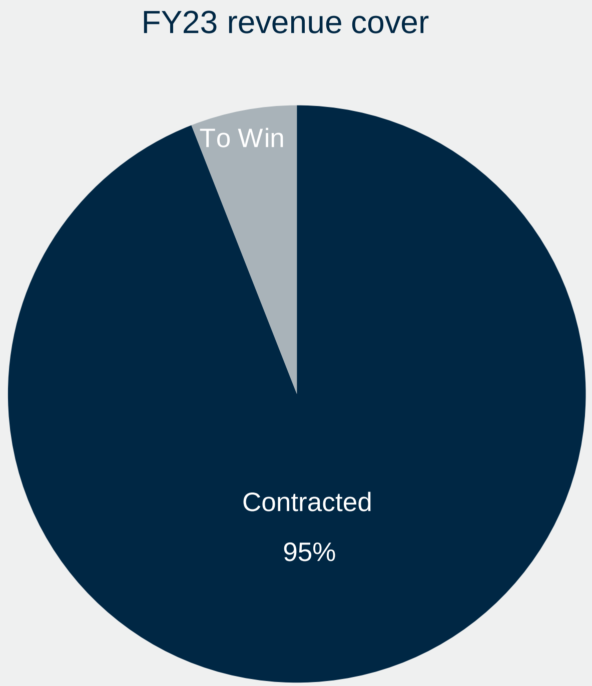


[1] Impact of prior year write-down for comparison purposes (£22.5m) [2] Prior year first half includes large production contract won for CRS-I, valued at $64m

Strong revenue growth in both EMEA Services and Global Products

Revenue (£m)





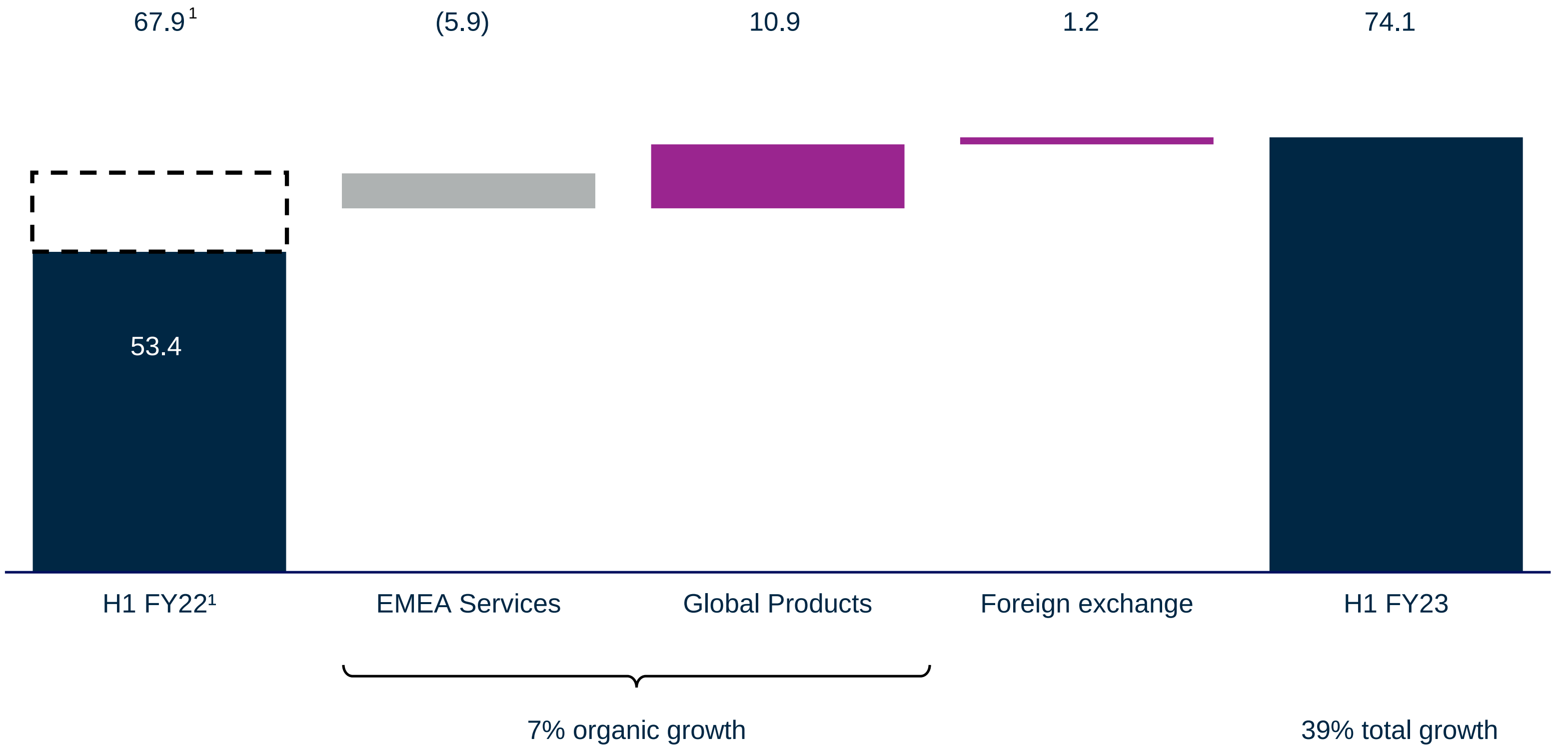
At the same point last year:
90% contracted for FY22

[1] Impact of prior year write-down for comparison purposes (£8m)

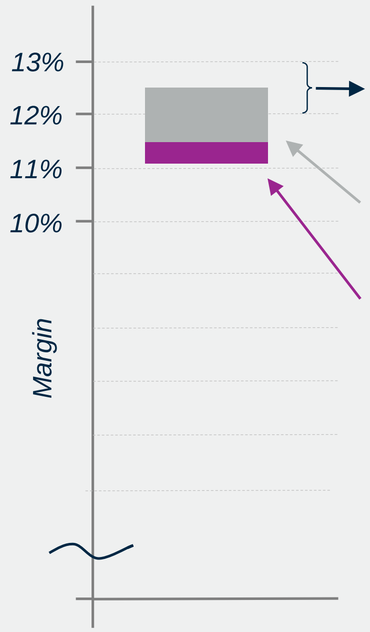
QINETIQ

Good profit growth whilst continuing to invest in our people and capabilities

Underlying Operating Profit (£m)



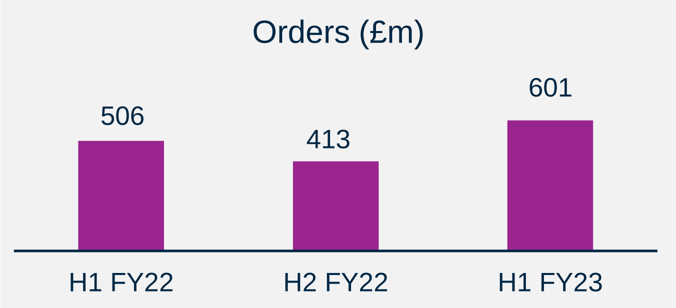
Effect of Strategic Investments on margin

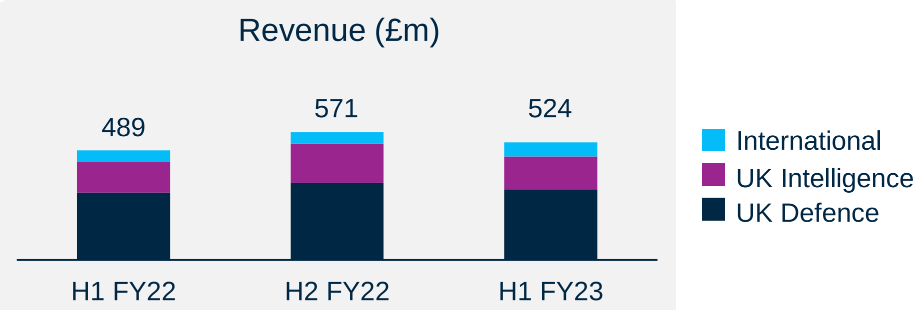


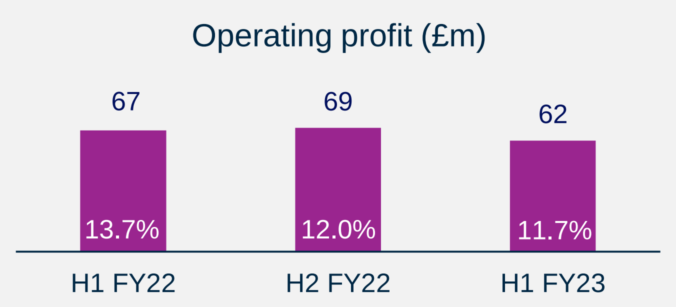
- Long-term ambition of 12-13% target margin remains
- Previously guided 100bps incremental investment into people & capabilities
- New £5m incremental cost of living investment
- Investment shifted to the right marginally – no change to short or long-term profit guidance
- Enhanced competitiveness and operational efficiencies will drive margin improvement to our FY27 ambition (12-13% margin)

[1] Impact of prior year write-down for comparison purposes (£14.5m)

EMEA Services – significant year on year growth, driven by large contracts







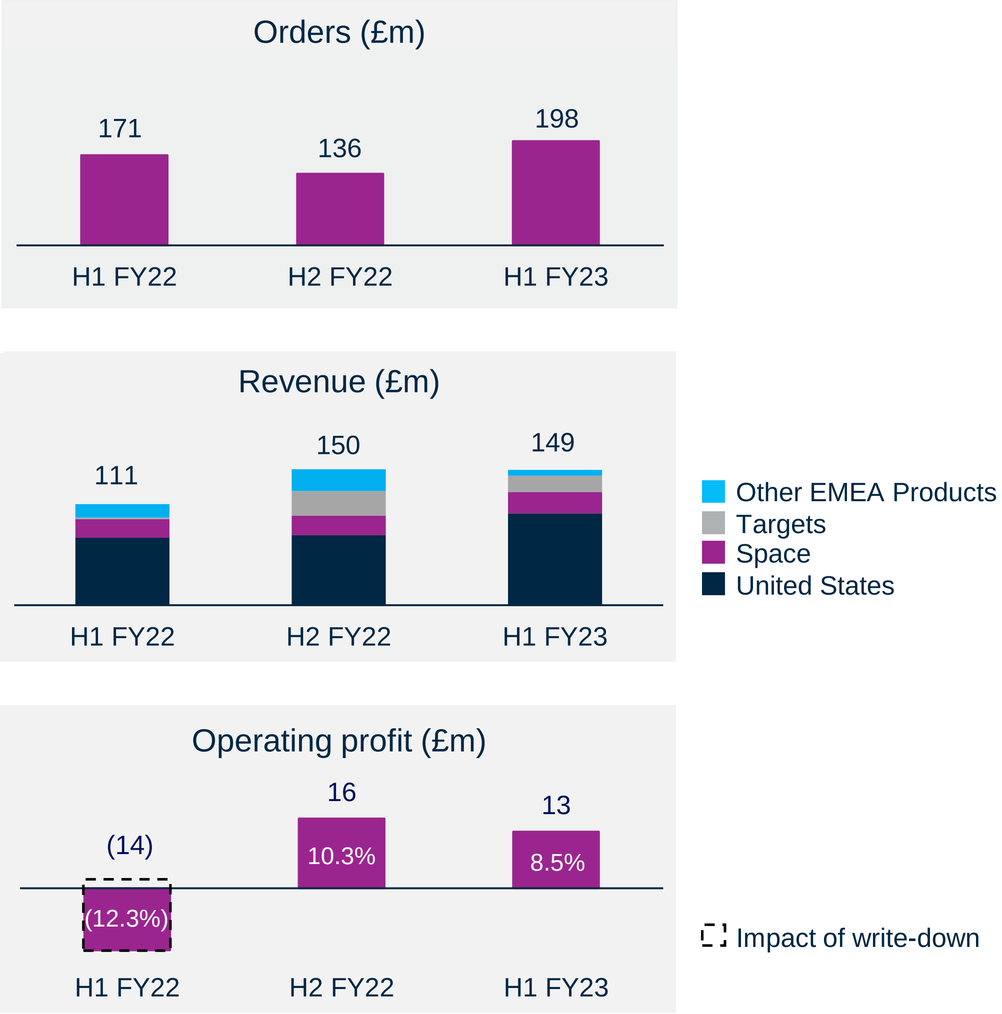
EMEA Services	H1 FY23 £m	H1 FY22 £m
Orders	**600.8**	506.4
Revenue	**524.3**	488.7
Underlying operating profit	**61.5**	67.1
Underlying operating profit margin	**11.7%**	13.7%
Book to bill ratio[1]	**1.4x**	1.3x
Total funded order backlog	**2,601.2**	2,718.0
Funded order backlog excl. LTPA amendments	**1,175.3**	1,105.7

- Orders increased by 19% reported and 18% organic, driven by a £32m contract with UK MOD for the FCAS[2] programme, a £26m LTPA[3] contract uplift to reflect inflationary effects & contracts totalling A$77m in Australia through the MSP[4] programme
- Revenue increased by 7% (reported and organic) driven by strong growth in Australia primarily through the MSP contract and ongoing growth in the UK business driven by the EDP[5] contract
- Operating profit declined by 8% (9% organic) driven by strong prior year comparator period and additional investment into our people and capabilities to support long-term growth

[1] B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract revenue of £106.3m (FY22: £111.9m)
[2] Future Combat Air System [3] Long Term Partnering Agreement [4] Major Service Provider [5] Engineering Delivery Partner

QINETIQ

Global Products – good performance in US and QTS

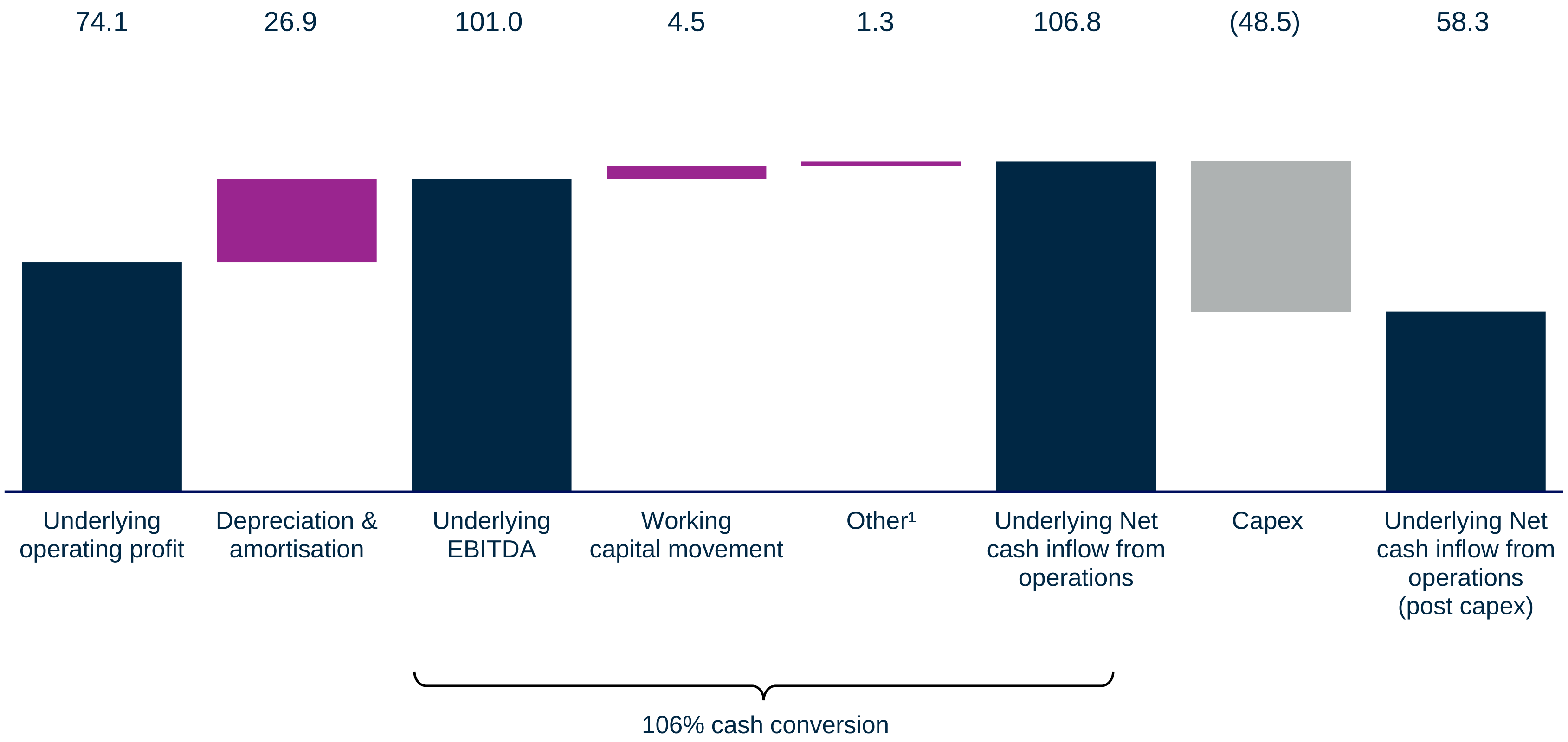


Global Products	**H1 FY23 £m**	H1 FY22 £m
Orders	**198.0**	171.4
Revenue	**149.1**	111.4
Underlying operating profit	**12.6**	(13.7)
Underlying operating profit margin	**8.5%**	(12.3%)
Book to bill ratio	**1.3x**	1.5x
Funded order backlog	**367.4**	289.6

- Orders increased by 16% reported and 4% organic, due to good order intake in the US and QTS
- Revenue increased by 34% reported and 22% organically, delivering 8.5% operating profit margin, largely driven by the strong improvement in US performance. Prior year profit was impacted by £14.5m write-down
- US orders, revenue and profit above FY22 H2, giving a strong foundation for future growth both organically and inorganically with the integration of Avantus

Strong and consistent cash generation

Cash generation (£m)



Cash conversion metric

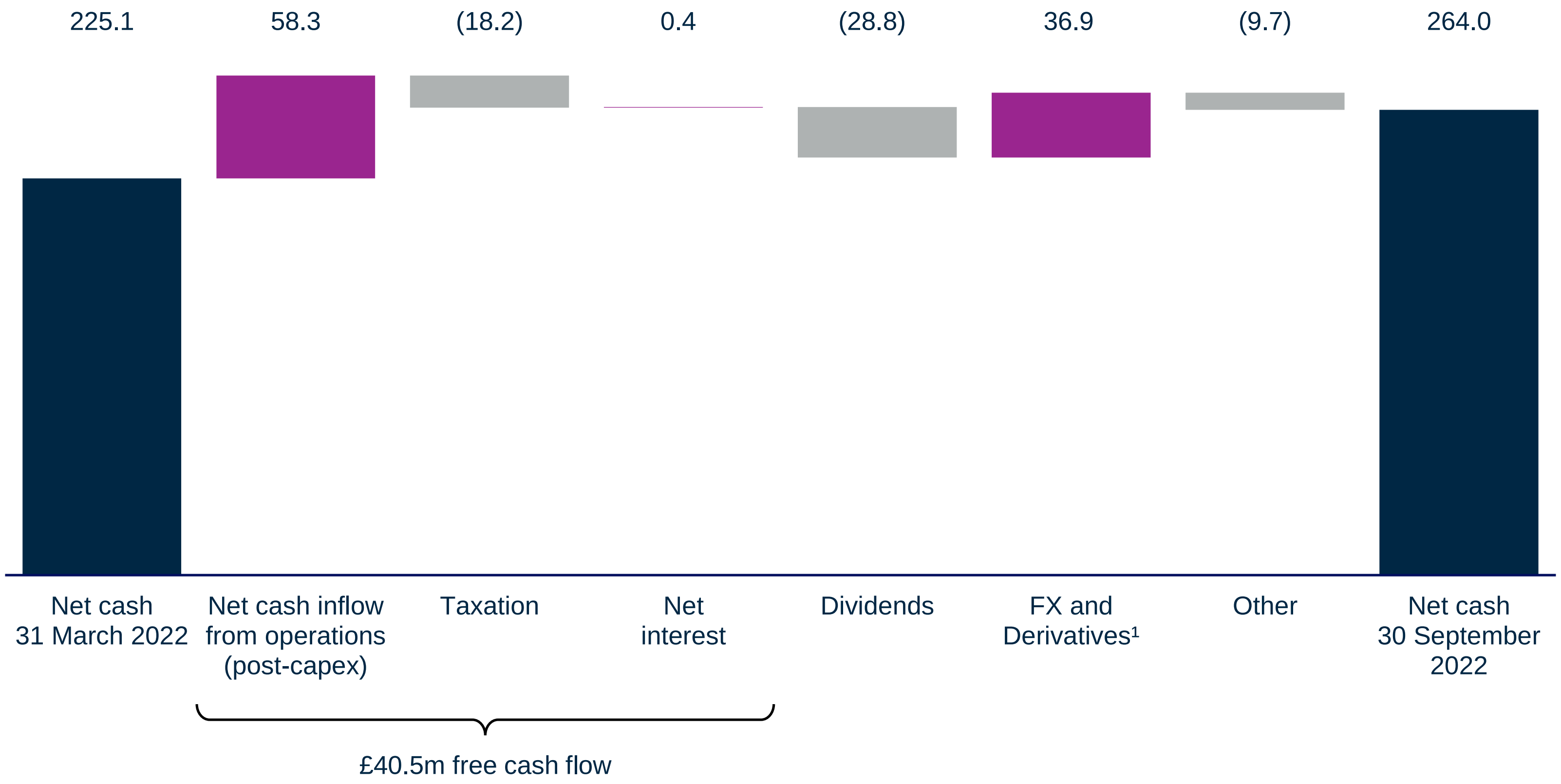
	H1 FY23	H1 FY22
Definition = $\frac{\text{Pre-capex cash flow}}{\text{EBITDA}}$	106%	89%

[1] Other movements driven by share based payments and pensions impacts

QINETIQ

Balance sheet strength supports our growth strategy

Net cash (£m)



Capital allocation policy

Priority 1: Invest in our capabilities
- Capex: £49m invested
- M&A: £514m[2] committed through 2 acquisitions set to complete in H2 FY23

Priority 2: Maintain balance sheet strength
- Excellent cash conversion
- Supports sustainable leverage
- Disciplined Treasury Policy (e.g. FX)
- Completed Belgium disposal: £28m[2]

Priority 3: Progressive dividend to shareholders
- £29m dividend payments
- FY23 half year dividend: 2.4p per share

Priority 4: Return excess cash to shareholders
- Regular review to ensure consistency with overall strategy

[1] Driven by Avantus FX hedges, interest rate swaps and FX on intercompany loan movements [2] GBP value as at date of announcements

FY23 other technical factors

	FY22	FY23	
Net finance expense	£1.4m	↗	Debt financing for Avantus will increase finance expense
Effective tax rate	13.2%	→	Expected to reduce organically for FY23 to c.11.5% due to SSRO determination on RDEC, offset by increased tax rate from US and Australian acquisitions
Tax cash outflow	£20.0m	↘	Expected to decrease to <£10m cash tax outflow in year, with tax rebate in H2 due to SSRO determination on RDEC
Net working capital change	£22.8m	↘	Expect modest cash outflow as a result of our growth ambition
Capital expenditure	£84.3m	↗	Increase modestly to within the £90m - £120m range as we invest in customer facing propositions, our employee value proposition & our business infrastructure

Effective tax rate reduces; all other factors consistent with prior guidance

QINETIQ

Outlook Statement

FY23

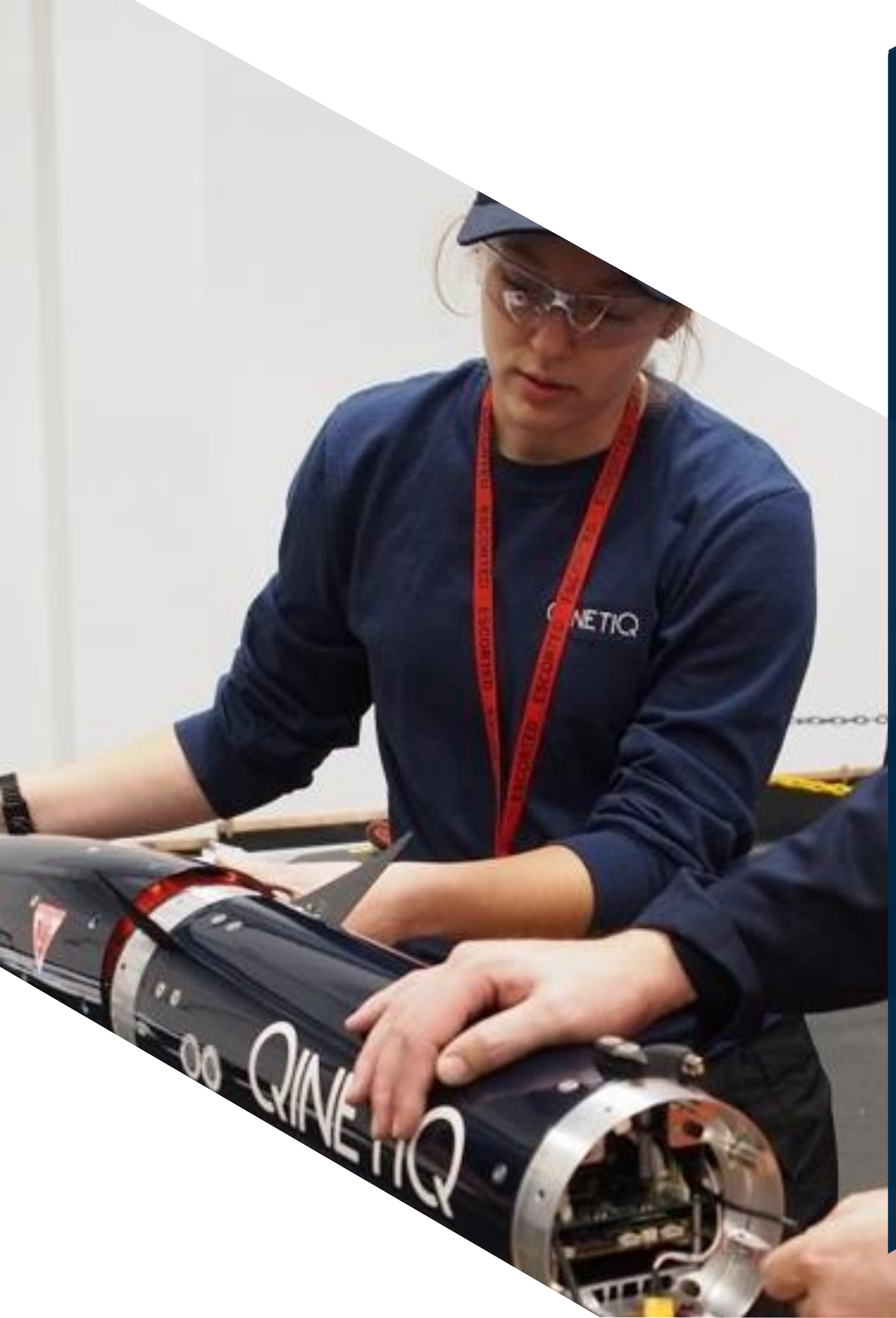
We enter the second half of FY23 with confidence, a healthy order-book and positive momentum with 95% revenue under contract – we are increasing our revenue guidance and are on-track to deliver profit in-line with expectations for FY23. Given our strong growth in the first half, we will deliver high single-digit percentage organic revenue growth with underlying profit margin at the lower end of our 11-12% short-term expected range due to increased investment in our people and capabilities to enable growth. Capital expenditure is expected towards the middle of our £90m to £120m expected range.

Whilst the expectations we set out at the time of each the Avantus and Air Affairs announcements remain unchanged, we will update for the combined effect of the Avantus and Air Affairs acquisitions following completion.

Longer term

Our ambition remains to grow revenues to more than £2.3bn by FY27. With our recently announced acquisitions, this means we are targeting mid-to-high single digit percentage compound revenue growth over the next five years, with further strategic acquisitions enhancing this growth. We are targeting an operating profit margin of 12-13% in the mid to long-term. ROCE is forecast to remain strong at the upper end of the 15-20% range.

QINETIQ



Strategic update

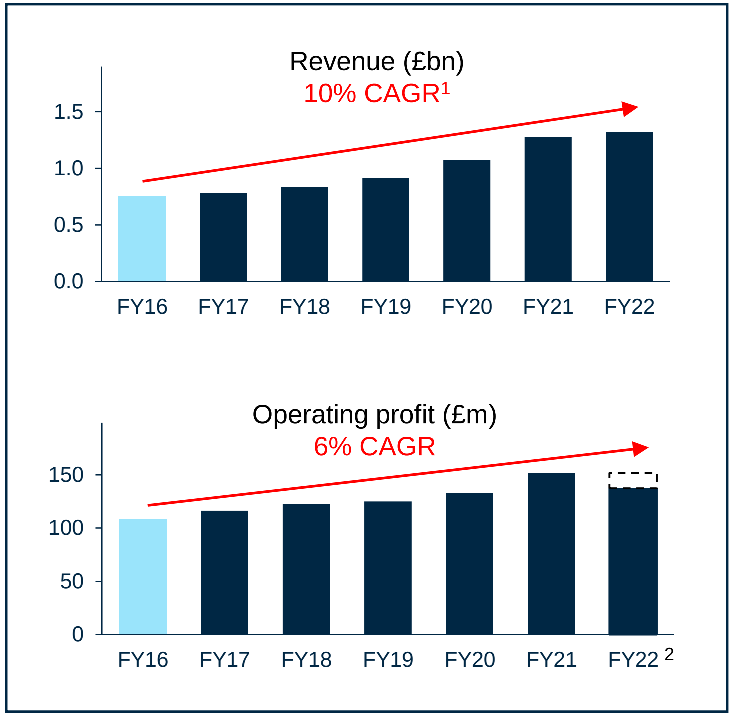
Steve Wadey
Chief Executive Officer

Protecting lives and securing the vital interests of our customers

Customers' mission

Thriving people

Shareholder return



Our purpose and strategy are increasingly relevant to respond to market dynamics

[1] Compound Annual Growth Rate [2] FY22 shows add back for write-down and is included in CAGR

QINETIQ

Major customer opportunities driven by evolving threats and budgets

- European and Indo-Pacific threats driving rapid modernisation
  - Adversaries deploying traditional and novel capabilities
  - Budgets are increasing whilst economic outlook challenging
  - Strengthened alliances and partnerships e.g. NATO and AUKUS[1]

- Major focus on AUKUS countries with shared security mission
  - Priority capabilities and technologies e.g. undersea, advanced cyber, autonomy, hypersonics, directed energy and artificial intelligence
  - Customers require major shift in agility and pace to neutralise threat

- Global growth through implementation of multi-domestic strategy focused on high-value high-priority customer needs
  - Leveraging skills, technologies and capabilities across the Group

	FY22		Market opportunity[2]
UK	Revenue	£962m	>£3bn +2-3% growth[4]
	Market share[3]	<35%	
US	Revenue	£153m	>£15bn +3%[5] growth
	Market share	<2%	
Australia	Revenue	£98m	>£0.5bn +3-5% growth
	Market share	<15%	
Global	Revenue	£107m	>£1.5bn +1-3% growth
	Market share	<10%	

Increasing demand for our high-value solutions within >£20bn addressable market

[1] Australia, United Kingdom, United States [2] Addressable market opportunity sources: Jane's Market Budget Forecast April 2021, UK MOD and US DOD forecasts for RDT&E, Australia Defence publications and QinetiQ estimates
[3] Share of addressable market based on FY22 revenue [4] CAGR: Compound Annual Growth Rate [5] Higher growth rate than US market due to focus on high priority growth segments

QINETIQ

Building an integrated global defence and security company

- Good order intake across Group at c.£800m; 18% growth
  - EDP[1] continues to deliver value for customers with £193m new orders in UK
  - Refreshed focus on customer needs driven $173m awards in the US
  - Significant growth with $77m new orders through MSP[2] in Australia

- Strong revenue growth across Group; UK 6%, US 19% and Australia 16%
  - Support to operations and consistent delivery across all major contracts

- New US leadership team driving operational performance and growth
  - Consistent customer delivery e.g. SPECTRE[3] flight test and EMALS[4] production
  - Refocused strategy and expanded pipeline to drive organic growth
  - Acquiring Avantus and on-track to more than double US sector

Successfully delivering consistent operational performance

[1] Engineering Delivery Partner [2] Major Service Provider [3] Spectral Exploitation Camera for Targeting and Reconnaissance [4] Electromagnetic Aircraft Launch System

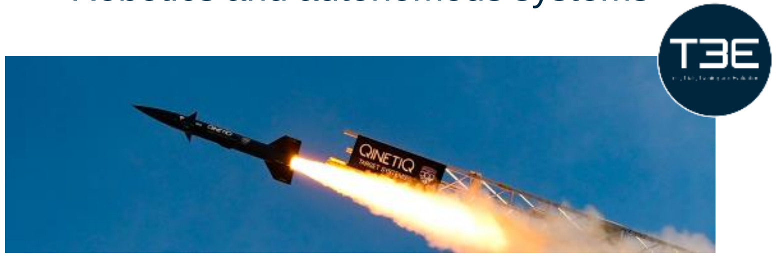
QINETIQ

Partnering with our customers to deliver six distinctive offerings

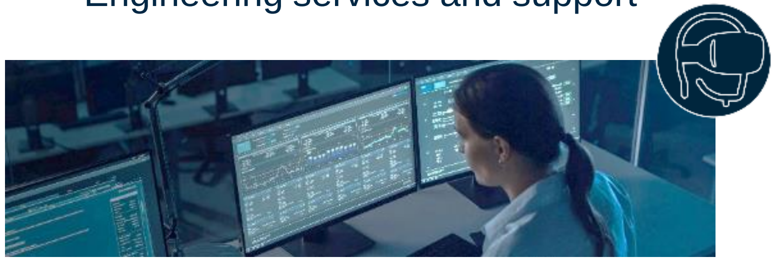
Experimentation and technology

Robotics and autonomous systems

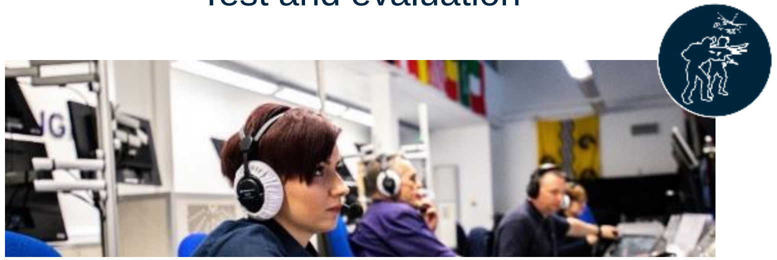
Engineering services and support



Test and evaluation



Cyber and information advantage



Training and mission rehearsal

Our high-value solutions are increasingly relevant to national defence and security challenges

T3E: Test, Trials, Training and Evaluation

QINETIQ

Staying ahead for our customers' advantage

People

- Attracting new talent and £5m additional investment, responding to cost of living
- US leadership team built for growth
- T&E[1] sovereign skills programme launched

Technology

- Growing future technical capabilities
- Rapid prototyping solutions to create operational advantage e.g. Vampire
- Focused IRAD[2] programme e.g. swarming

Digital

- Secure interoperable digital workspace
- Global processes and systems e.g. ERP[3]
- Digital design and assurance of major projects e.g. OMFV[4] and digital T&E

Investing in our innovation platform to ensure long-term sustainable growth

[1] Test & Evaluation [2] Internal Research & Development [3] Enterprise Resource Planning [4] Optionally Manned Fighting Vehicle

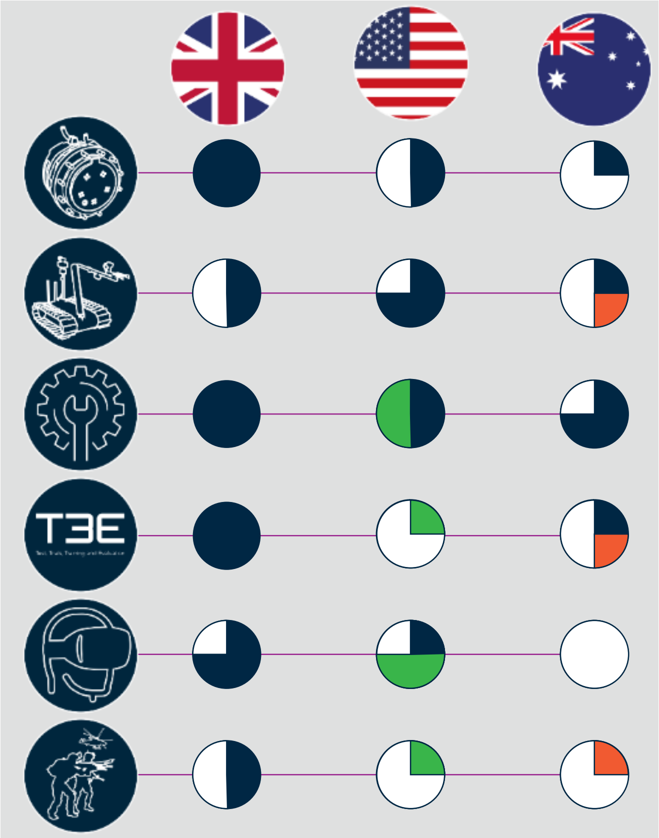
QINETIQ

Creating a global leader in mission-led innovation

- Robust and disciplined execution of our multi-domestic growth strategy
  - Building local capability to meet customer needs e.g. Technology Centre in Australia
  - Collaborating across countries through global campaigns e.g. T&E[1] and RAS[2]

- $590m acquisition of Avantus in US; c.$300m revenue and 1150 people
  - Market leading cyber, data analytics and software development solutions
  - Extends customer base and builds capability in defence and intelligence markets
  - Integration prepared and ready to execute; approvals on-track to close in December

- $53m acquisition of Air Affairs in Australia; c.$45m revenue and 200 people
  - Market leader in air threat representation and aerial target services
  - Extends scope of capability; integration ready and on-track to close in November



Capability acquired with: Avantus Air Affairs

Coherently growing an integrated company relevant to the dynamics of new world

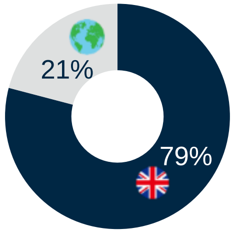
[1] Test and Evaluation [2] Robotics and Autonomous Systems Breadth of offering

Delivering sustainable growth over the next 5 years

- Combination of QinetiQ, Avantus and Air Affairs creates a step change in delivering our global strategy
  - Grows revenue by c.25%; doubles size of our US business and increases Australian business by 40%
  - Extends customer base in defence and security markets and enables further growth through global leverage

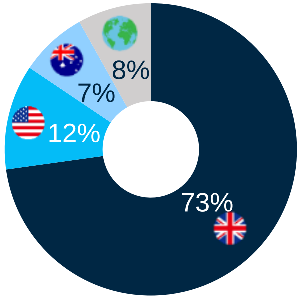
An integrated global defence and security company

FY16 £755m

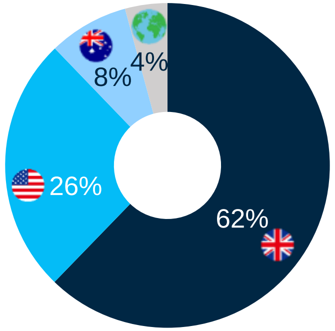


FY22 Reported to Proforma

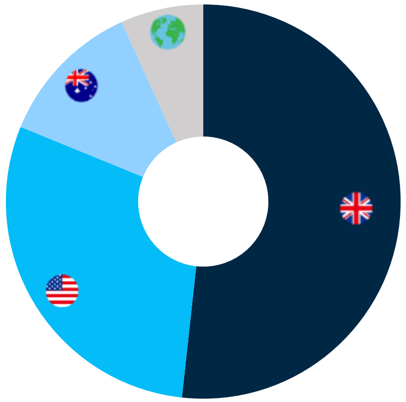
QinetiQ £1.3bn



QinetiQ + Avantus + Air Affairs £1.6bn[1]



FY27+ £2.3bn+[1]



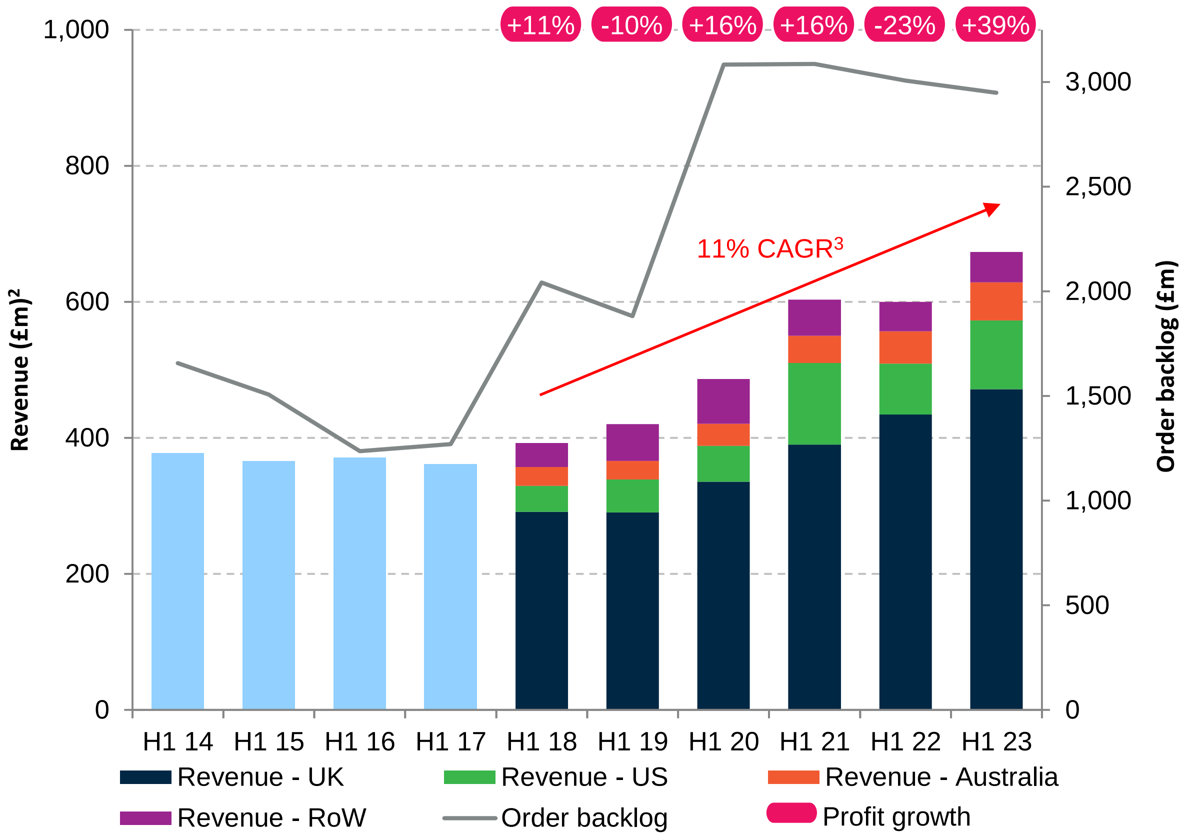
On-track to deliver our 5 year strategic growth ambition

[1] FX of Avantus and all FY27 US revenue at 1GBP:1.13USD. Avantus FY22 figures are LTM Mar-22A Air Affairs financials use an FX rate of 1GBP:1.79AUD.

QINETIQ

Contributing to global and national security – summary

- Strong and consistent operational performance
  - 18% orders, 12% revenue and 39% profit total growth
  - 11%[1] orders, 8%[1] revenue and 7%[1] profit organic growth
  - Good revenue visibility with large order backlog of £3bn
- Disciplined execution of multi-domestic strategy
  - Increased investment in people and capabilities for future
  - Step change through strategic US & Australia acquisitions
- On-track to deliver ambition; £2.3bn+ revenue by FY27
  - Respond to increased demand for our distinctive offerings
  - Close Avantus and Air Affairs deals; execute integration
  - Drive sustainable growth into >£20bn addressable market



Growing our global company to deliver enhanced shareholder returns

[1] Excluding impact of write-down in FY22 half year results [2] Revenue based on continuing operations only and incremental growth on a reported basis [3] Compound Annual Growth Rate

Q&A

Appendix

Definitions

- Underlying performance is stated before:
  - Amortisation of intangibles arising from acquisitions
  - Pension net finance income
  - Gains/losses on disposal of businesses, investments and property
  - Transaction and integration costs in respect of business acquisitions and disposals
  - Impairment of property and goodwill
  - Change in accounting policy in respect of software implementation costs
  - One-off period of digital investment
  - Tax impacts of the above items
  - Other significant non-recurring tax movements
- Book to Bill:
  - Orders won divided by revenue recognised excluding the LTPA contract
- Organic growth:
  - The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group

QINETIQ

Revenue by customer and country

Revenue by customer (%)

H1 FY23

£673.4m

	%
MOD	60%
DoD	12%
Government agencies	16%
Commercial Defence	9%
Commercial	3%

H1 FY22

£600.1m

	%
MOD	62%
DoD	9%
Government agencies	15%
Commercial Defence	10%
Commercial	4%

Revenue by destination country (%)

H1 FY23

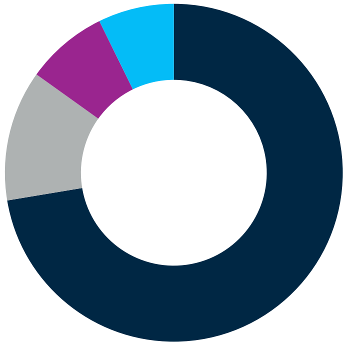
£673.4m

	%
UK	68%
US	15%
Australia	9%
Other	8%

H1 FY22

£600.1m

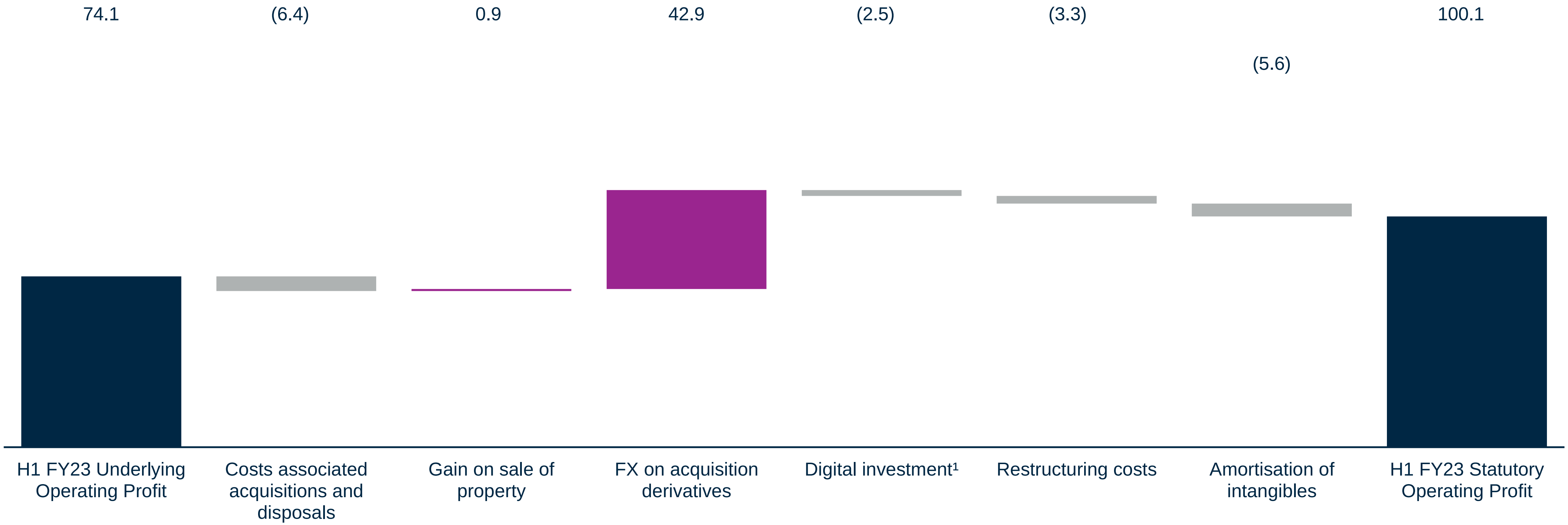
	%
UK	72%
US	13%
Australia	8%
Other	7%



QINETIQ

Exceptional costs pre-tax, driven by acquisitions and change in accounting policy

Underlying to Statutory Operating Profit (£m)



[1] following IFRIC agenda decision

Income statement including specific adjusting items

	H1 FY23 £m	H1 FY22^ £m
Revenue	**673.4**	600.1
Underlying operating profit	**74.1**	53.4
Underlying net finance expense	**(0.5)**	(0.9)
Underlying profit before tax	**73.6**	52.5
Gain on sale of property	**0.9**	0.5
FX on Acquisition derivatives	**42.9**	-
Fair value in respect of contingent consideration	**-**	0.6
Acquisition costs	**(6.4)**	(5.0)
Amortisation of intangibles	**(5.6)**	(5.4)
Property impairment	**-**	(1.2)
Restructuring costs	**(3.3)**	-
Pension net finance income	**4.9**	2.3
Digital Investment	**(2.5)**	(1.9)
Total specific adjusting items (pre-tax)	**30.9**	(10.1)
Profit before tax	**104.5**	42.4
Taxation	**7.9**	(20.1)
Profit after tax	**112.4**	22.3

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 to the interim financial statements.

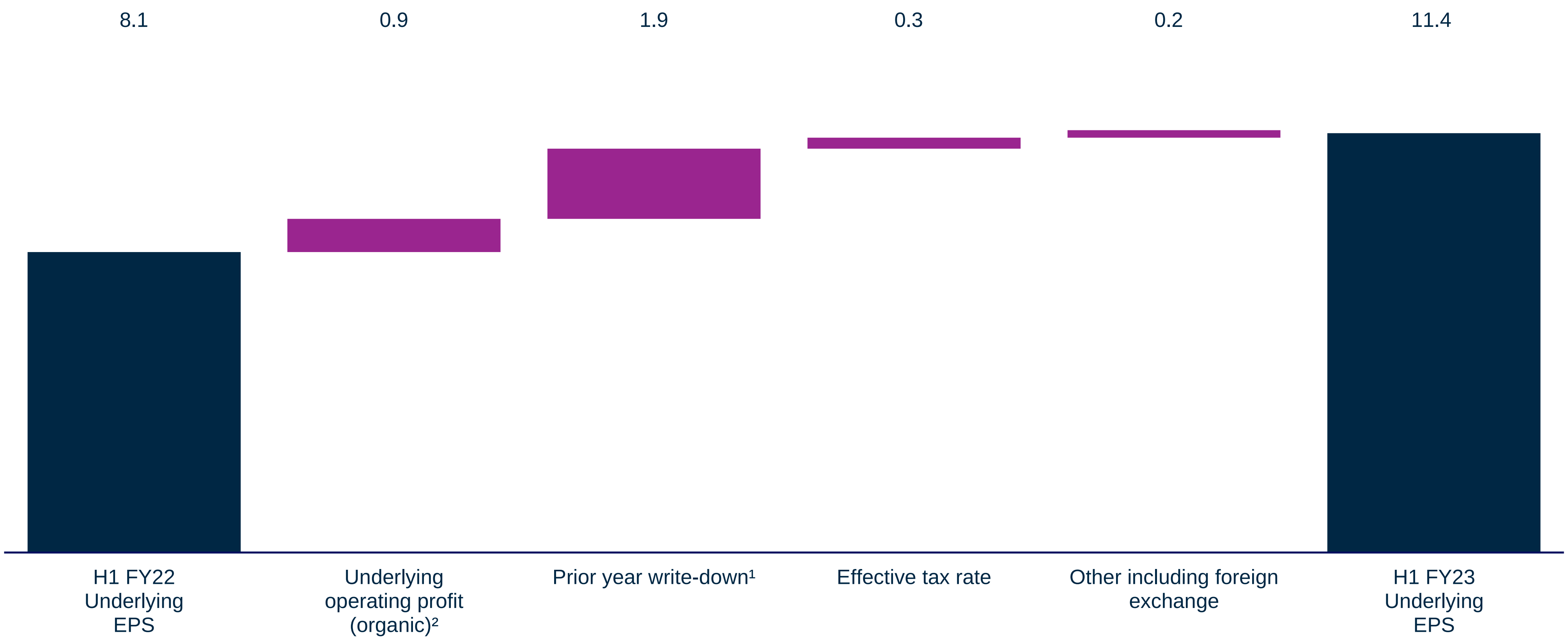
QINETIQ

Taxation

	H1 FY23 £m	H1 FY22^ £m
Underlying tax charge	**(8.2)**	(5.9)
Tax on specific adjusting items	**16.1**	(14.2)
Total tax charge	**7.9**	(20.1)
Underlying tax rate	**11.1%**	11.2%

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 to the interim financial statements.

Underlying earnings per share (pence)



1 Post-tax
2 Excluding prior year write-down

Cash conversion

	H1 FY23 £m	H1 FY22^ £m
Underlying operating profit	**74.1**	53.4
Depreciation and amortisation	**26.9**	25.7
Underlying changes in working capital	**4.5**	(13.0)
Share-based payments charge	**1.0**	3.6
Share of post-tax profit of equity accounted entities	**(0.3)**	-
Net movement in provisions	**-**	(0.2)
Retirement benefit contributions in excess of income statement expense	**0.6**	0.7
Net cash inflow from operations	**106.8**	70.2
Cash conversion %	**106%**	89%
Capex	**(48.5)**	(46.9)
Net cash inflow from operations (post-capex)	**58.3**	23.3
Net interest	**0.4**	(0.7)
Taxation	**(18.2)**	(12.8)
Free cash flow	**40.5**	9.8

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 to the interim financial statements.

QINETIQ

Movements in net cash

	H1 FY23 £m	H1 FY22^ £m
Free cash flow	**40.5**	9.8
Dividends	**(28.8)**	(27.0)
Acquisition of business	**(1.6)**	-
Dividends from Joint Ventures	**-**	2.0
Acquisition transaction costs	**(2.4)**	(4.1)
Change in lease obligations	**(1.4)**	(1.1)
Restructuring	**(2.4)**	-
Digital investment	**(2.5)**	(1.9)
Disposal of property	**1.1**	-
Purchase of own shares	**(0.4)**	(0.4)
Other (including FX)	**36.8**	(2.2)
Change in net cash	**38.9**	(24.9)
Opening net cash - 1 April	**225.1**	164.1
Closing net cash - 30 September	**264.0**	139.2

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1 to the interim financial statements.

QINETIQ

Balance sheet

	H1 FY23 £m	FY FY22 £m
Goodwill	**158.3**	149.4
Intangible assets	**140.2**	140.3
Property, plant and equipment	**431.6**	414.5
Working capital	**(55.0)**	(85.4)
Retirement benefit surplus (net of tax)	**150.7**	265.8
Other assets and liabilities	**(46.0)**	(66.3)
Net cash	**264.0**	225.1
Net assets	**1,043.8**	1,043.4

Confirmed pension surplus

	H1 FY23 £m	FY FY22 £m
Equities	**218.1**	220.8
LDI investment	**252.4**	291.8
Asset backed security investments	**116.2**	501.7
Bonds	**337.1**	306.0
Property funds	**13.9**	29.5
Cash and cash equivalents	**16.9**	78.5
Derivatives	**(21.8)**	(8.5)
Insurance buy-in policies	**496.8**	645.9
Market value of assets	**1,429.6**	2,065.7
Present value of scheme liabilities	**(1,220.6)**	(1,703.5)
Net pension asset before deferred tax	**209.0**	362.2
Deferred tax liability	**(58.3)**	(96.4)
Net pension asset	**150.7**	265.8

QINETIQ