# Emerging with strength and agility to accelerate our global growth

QinetiQ Group plc
Interim results for half year ended
30 September 2020

12 November 2020

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# Agenda

# Emerging with strength and agility to accelerate our global growth

- Strong recovery performance through COVID-19 crisis
  - Orders up 37%, 17% on an organic basis
  - Revenue up 24%, 8% on an organic basis
  - Operating profit up 16%, flat on an organic basis
  - 134% cash conversion pre-capex
  - EPS up 10%, reinstated FY20 and interim FY21 dividend

| | **H1 21** | H1 20 |
|---|---|---|
| Revenue | **£603.2m** | £486.5m |
| Operating profit | **£69.0m** | £59.7m |
| EPS | **10.1p** | 9.2p |
| Dividend | **2.2p** | 2.2p |
| Order backlog | **£3.1bn** | £3.1bn |

- Strategic focus delivering solutions for our customers
  - £500m EDP orders in 2 years, £367m at half year
  - 2 year LTPA transition programme ahead of schedule
  - International revenue from £76m to £213m in 4 years
  - Completed acquisition of Naimuri and £40m in disposals
  - Employees engaged and adapting our ways of working

- Renewed ambition and strategy to accelerate growth
  - Increasing full year guidance for Group performance
  - 93% revenue under contract for remainder of year
  - Continuing resilience actions to deliver despite COVID-19
  - Investing in evolved strategy to meet needs of new world
  - Well positioned to grow into >£8bn addressable market



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# H1 2021 Financial overview

David Smith
Chief Financial Officer

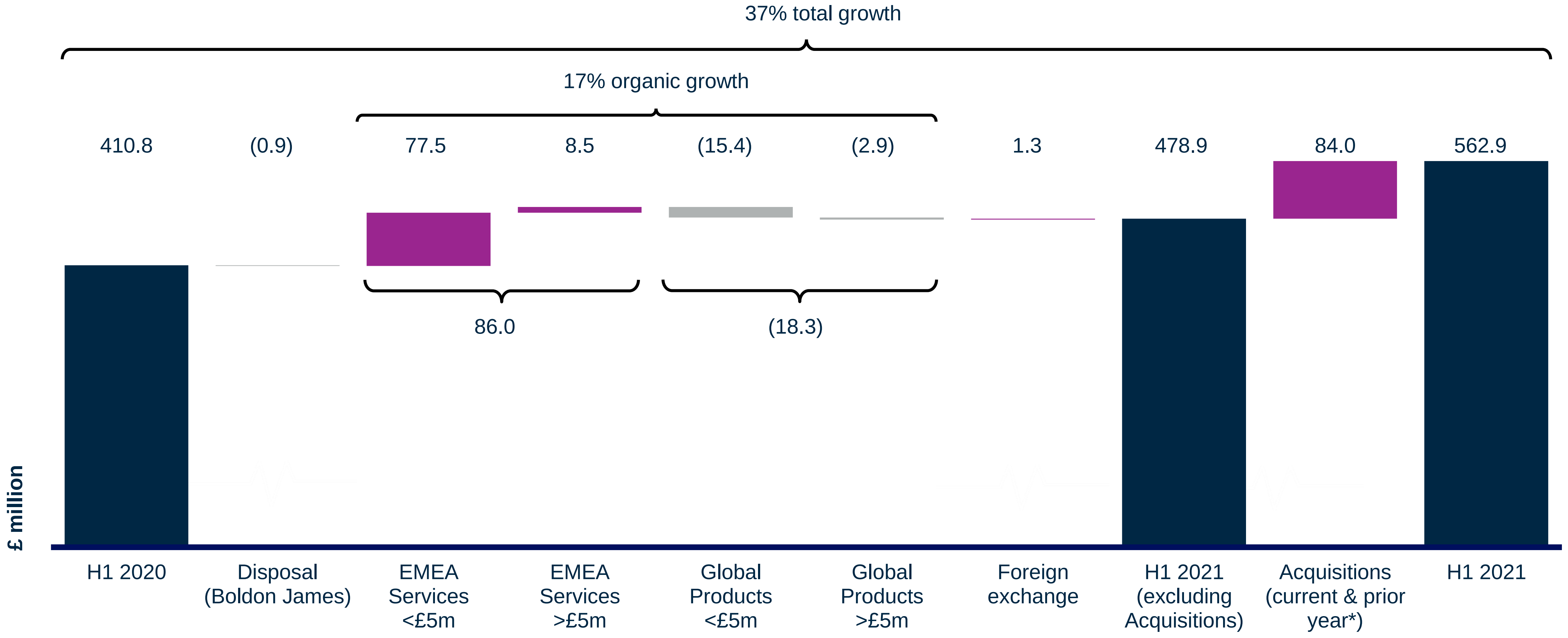
# Strong financial performance – on track for a fifth year of growth

| | **H1 2021 £m** | H1 2020 £m |
|---|---|---|
| Revenue | **603.2** | 486.5 |
| Operating profit* | **69.0** | 59.7 |
| Operating margin* | **11.4%** | 12.3% |
| Earnings per share* (pence) | **10.1** | 9.2 |
| Dividend per share (pence) | **2.2** | 2.2 |
| Total funded order backlog | **3,087.2** | 3,083.6 |
| Total orders | **562.9** | 410.8 |
| Net cash inflow from operations (pre-capex)* | **92.7** | 77.0 |
| Cash conversion (pre-capex)* | **134%** | 129% |
| Net cash | **112.7** | 173.5 |

*Underlying performance, before specific adjusting items, as defined in appendix.

# Strong order growth with excellent EDP performance

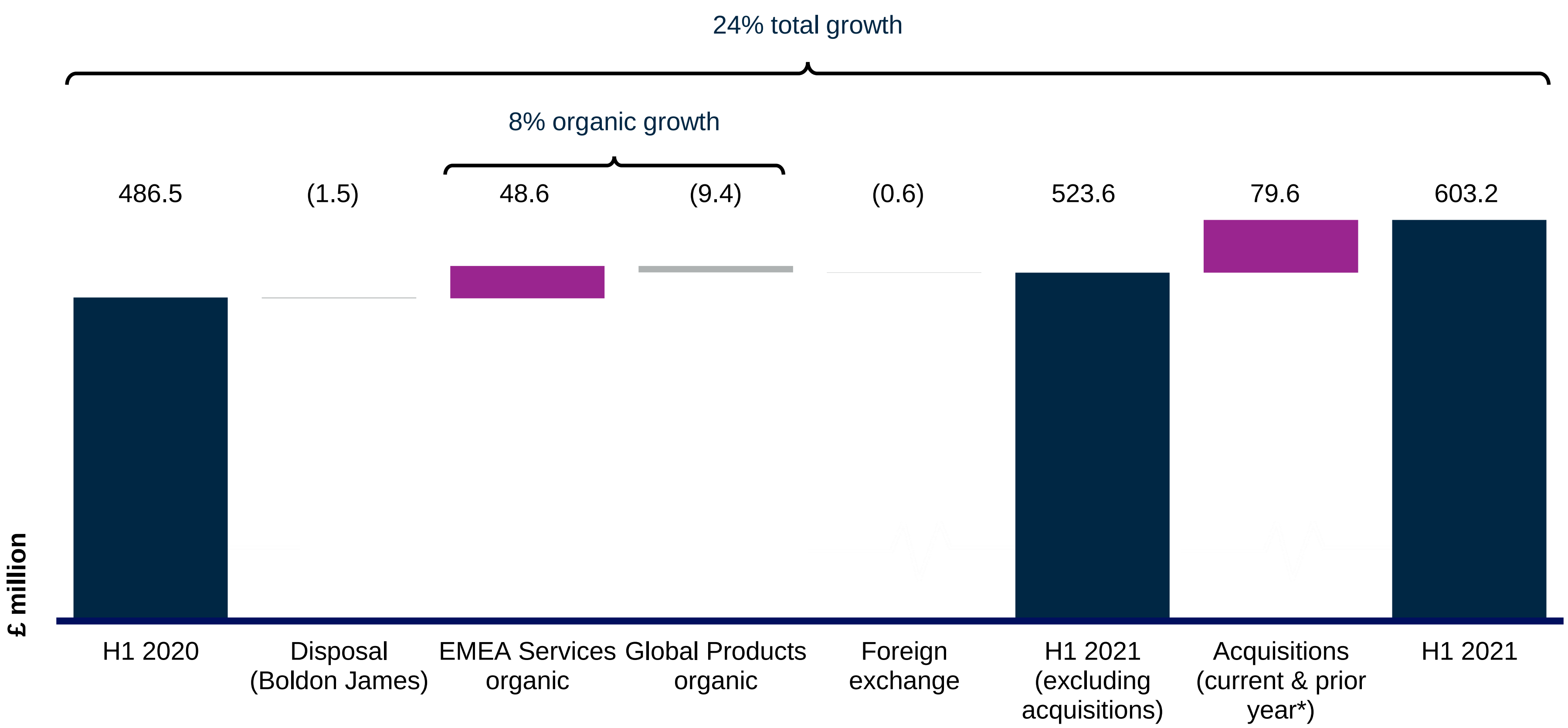
## Orders




* Comprises £83.5m for MTEQ and NSC for period with no prior year comparator and £0.5m for Naimuri

# Organic growth in EMEA Services complemented by acquisitions

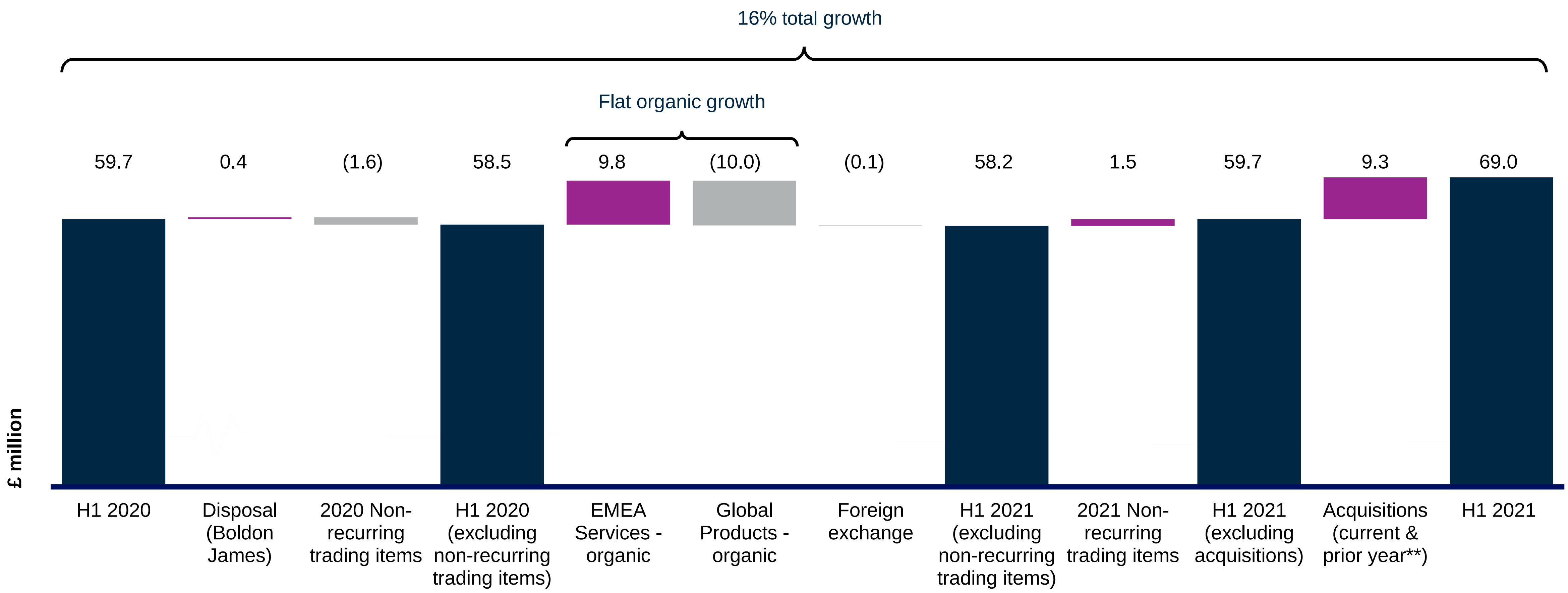
## Revenue




* Comprises £77.6m for MTEQ and NSC for period with no prior year comparator and £2.0m for Naimuri

# Resilient profit performance through COVID-19

## Underlying Operating Profit*

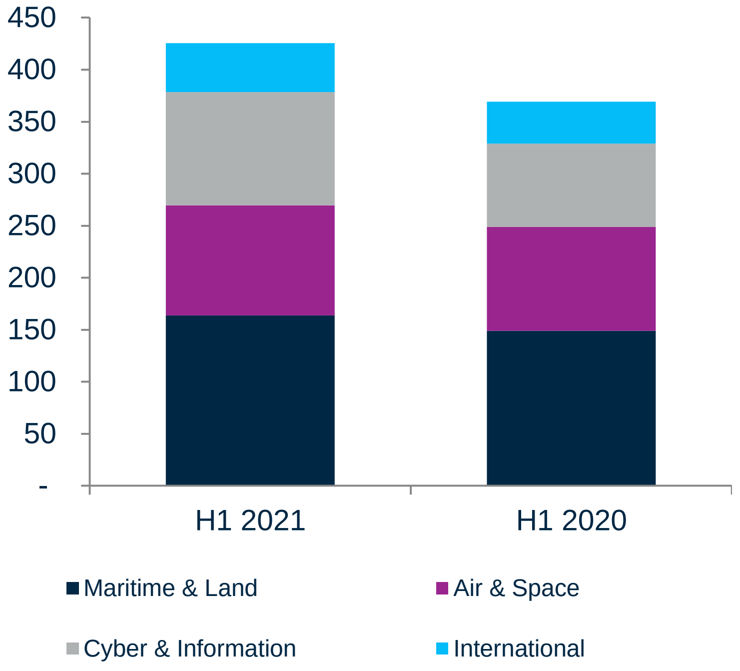



* Underlying performance, before specific adjusting items, as defined in appendix

** Comprises £8.7m for MTEQ & NSC for period with no prior year comparator and £0.6m for Naimuri

# EMEA Services – contract wins driving growth

**H1 revenue (£m)**




| | **H1 2021 £m** | H1 2020 £m |
|---|---|---|
| Total orders | **403.9** | 308.4 |
| Revenue | **425.4** | 369.1 |
| Underlying operating profit* | **57.9** | 46.2 |
| Underlying operating profit margin* | **13.6%** | 12.5% |
| Book to bill ratio | **1.3x** | 1.2x |
| Total funded order backlog | **2,786.9** | 2,872.0 |
| Funded order backlog | **940.3** | 823.8 |

- Strong orders performance driven by £129m under the EDP contract
- 15% revenue growth, 13% on an organic* basis as a result of new work under EDP and ongoing growth of the MSP contract in Australia
- Profit increase driven by disciplined execution on long-term contracts (e.g. LTPA), cost controls and contribution from acquisitions
- Excluding non-recurring trading items, acquisitions and foreign exchange, underlying operating profit grew by £9.8m (22%), driven by revenue growth and improved project margins

* Group performance measures as defined in the appendix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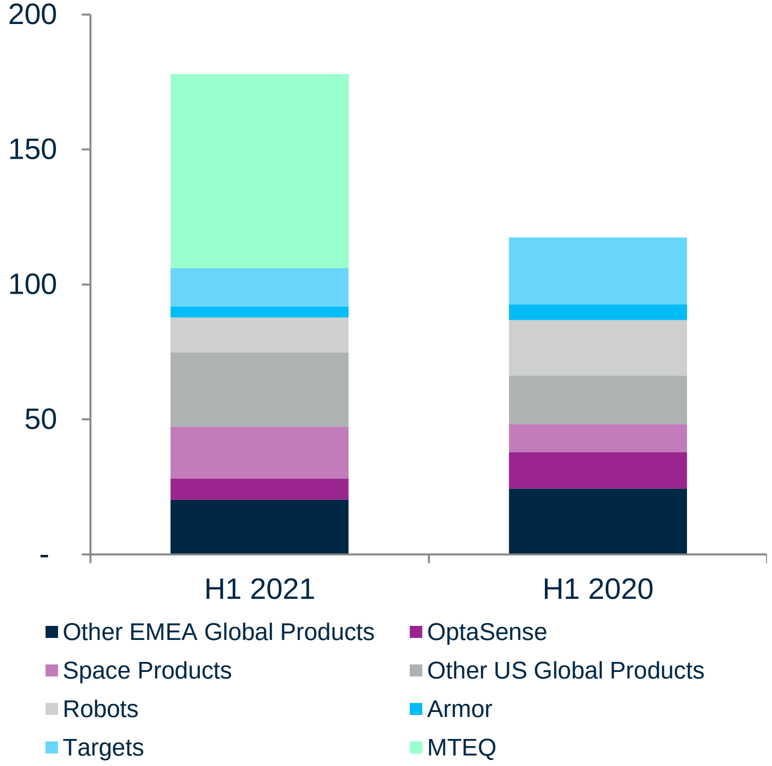
# Global Products – MTEQ acquisition drives order and revenue growth

**H1 revenue (£m)**

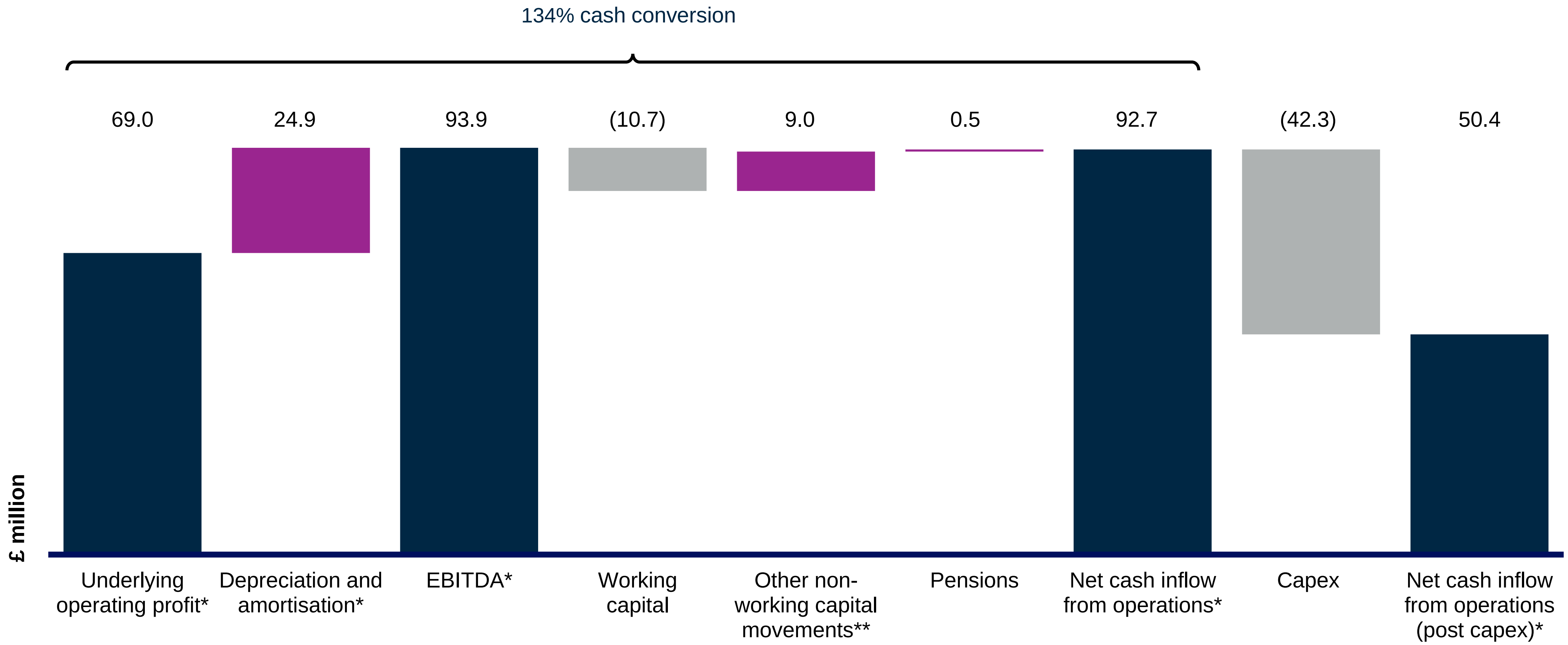



| | **H1 2021 £m** | H1 2020 £m |
|---|---|---|
| Orders | **159.0** | 102.4 |
| Revenue | **177.8** | 117.4 |
| Underlying operating profit* | **11.1** | 13.5 |
| Underlying operating profit margin* | **6.2%** | 11.5% |
| Book to bill ratio | **0.9x** | 0.9x |
| Funded order backlog | **300.3** | 211.6 |

- Orders growth driven by MTEQ acquisition, partially offset by impact of COVID-19 and weak oil price on QTS and OptaSense
- Revenue up 51%, but down 8% on an organic* basis, principally driven by COVID-19 related delays to QTS sales and OptaSense work
- Organic operating profit down £10m primarily due to losses in QTS and Optasense. Offset by MTEQ profit of £7.4m

* Group performance measures as defined in the appendix

# Strong cash generation underpins investment for growth




* Underlying performance, before specific adjusting items, as defined in appendix
** Driven by the non-cash element of the share based payments charge



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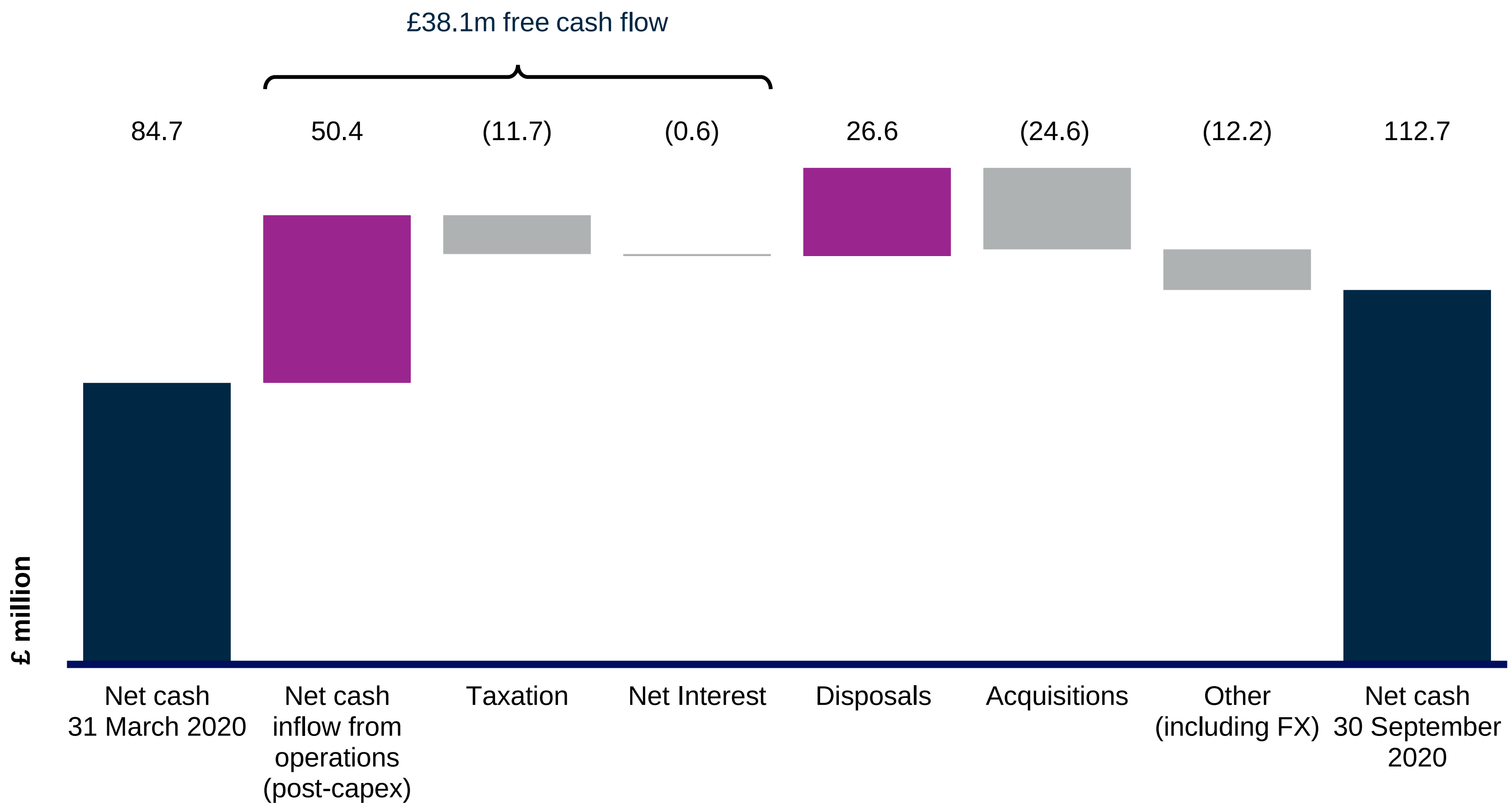
# Balance sheet strength supports our growth strategy




- Active portfolio management with the disposal of Boldon James and acquisition of Naimuri
- Continue with existing capital allocation policy:
  - Invest in our organic capabilities, complemented by bolt-on acquisitions where there is a strong strategic fit
  - Maintain the necessary balance sheet strength
  - Provide a progressive dividend to shareholders
  - Return excess cash to shareholders
- £387.7m headroom: £112.7m net cash plus £275m available committed facilities, expandable to £400m

# FY21 Outlook – technical factors

| | FY20 | FY21 | |
|---|---|---|---|
| Net finance expense* | £1.0m | ↗ | Expect increased expense due to lower net cash |
| Effective tax rate* | 14.0% | ↗ | Expected to increase to 15% due to greater proportion of international profit |
| Tax cash outflow | £10.0m | ↗ | Cash tax is expected to be higher due to higher effective tax rate |
| Net working capital | £2.5m | ↘ | Potential for further outflow depending upon trading performance |
| DB pension contributions | £2.8m | → | Expected to be flat |
| Capital expenditure | £107.8m | → | Capex to remain stable at £80m - £90m |

* Underlying performance, before specific adjusting items, as defined in appendix

# Outlook Statement

## Outlook – FY21

- On 30 September 2020 we reinstated guidance for the full year indicating we would deliver results modestly ahead of published consensus. Although there is still uncertainty around how the pandemic may develop and impact customer behaviour and operations over the coming months, with nearly £1.2bn of FY21 revenue already delivered or under contract we are again increasing full year guidance.

- We now expect to deliver low double-digit revenue growth (low to mid-single digit revenue growth on an organic basis) with operating profit margins broadly consistent with our first half performance, reflecting lower COVID-19 impacts but higher digital transformation investment in the second half. Delivering this guidance will result in the Group's FY21 results being modestly ahead of current average consensus expectations*. Cash flow and capex guidance remains as provided on 30 September 2020.

* Average (mean) consensus for FY21 as at 11 November 2020 (before this guidance upgrade): Revenue £1,146m, Operating Profit £130m

## Outlook – Longer term

- Longer-term, we have a renewed ambition and evolved strategy to accelerate growth at stable margins, supported by a high-performance culture, combined with investment in our people, technology, systems and infrastructure. In pursuit of this evolved strategy, we will proactively make strategically aligned acquisitions to further complement this organic growth.

- While we are maintaining our medium to long-term operating margin guidance of 12-13%, in the short-term we anticipate margins being around 100 basis points below this target. This reflects COVID-19 related disruption, increased investment in our digital transformation programme and the evolution of our business mix with the acquisition of MTEQ and growth of EDP.



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# Strategic & operational update

Steve Wadey
Chief Executive Officer

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# Successfully mitigating COVID-19 and launched major shift to next phase of growth

| | Resilience | Recovery | Renewal |
|---|---|---|---|
| | FY20 / Pandemic | FY21 | Now / FY22 onwards |
| 1. Employees | • National safeguarding measures<br>• 80% home + 20% site working | • Establish our new normal<br>• Accelerate digital transformation | • Flexible, agile, distributed teams |
| 2. Customers | • Fight COVID-19<br>• Deliver national critical priorities | • Solutions to enable reprioritisation<br>• Accelerate mission-led innovation | • New defence & security paradigm |
| 3. Company & investors | • Strengthen sources of liquidity<br>• Robust actions to boost resilience | • Investment in future capability<br>• Accelerate global operating model | Integrated global defence & security company |

1. ~~Postpone dividend decision~~
2. ~~Leadership salary reduction~~
3. Cost controls and savings
4. ~~Release contractors~~
5. No salary increases
6. ~~40% holiday by June~~
7. ~~Furlough staff use holiday~~
8. ~~Incentives paid in shares~~

Fair, balanced and proportionate across stakeholders

**Continuing resilience actions and adapting our ways of working to deliver despite COVID-19**



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# Strong market opportunities driven by evolving threats and budgetary pressures

**UK**
- Changing defence and security needs
- Need to mitigate budgetary pressure

**US**
- Biden wins Presidential election
- Modernising to meet near-peer adversary

**AU**
- Continued support for increasing budgets
- Building sovereign industrial capability

**RoW**
- Modernisation challenges
- Resurgence of national protectionism

## Dynamics of new world

- Changing nature of warfare with evolving threats
- Budgetary pressures and recession
- Emerging technology & resilient in-country industry
- Major shift required in agility and pace to respond

## Our unique strengths are increasingly relevant

- Customer relationships and domain knowledge
- Expertise in science, technology and engineering
- Partnering with academia, industry and SMEs
- Innovation to drive efficient solutions at pace

**Well positioned to meet changing needs of new world and grow into >£8bn addressable market**

# Mission-led innovation delivering solutions for dynamics of new world

## $15m Robotic Combat Vehicle Light demonstrator

- Next Generation Combat Vehicle for US Army
- Combining distinctive robotics & sensing expertise
- First prototype system delivered on time

Delivering advanced technology to meet new threats

## £500m Engineering Delivery Partner orders in 2 years

- Innovative industrial partnership for UK MOD
- Providing distinctive engineering services
- 1000+ tasks supporting critical defence capabilities

Partnering to enable savings and deliver on-time

**Co-creating solutions to evolving threats and budgetary pressures with greater agility and pace**



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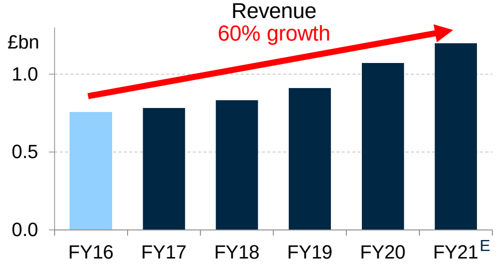
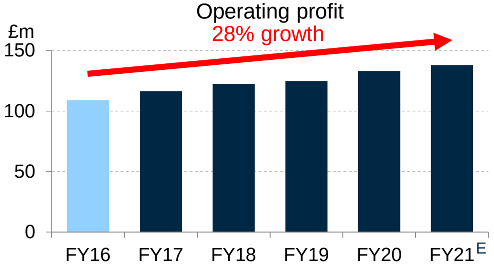
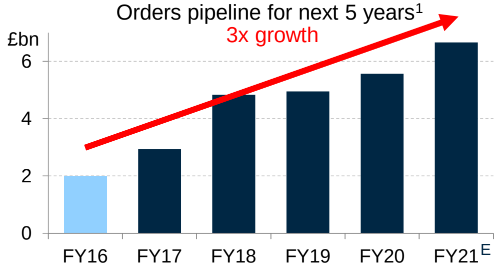
# Renewed ambition to accelerate growth building on strong track record

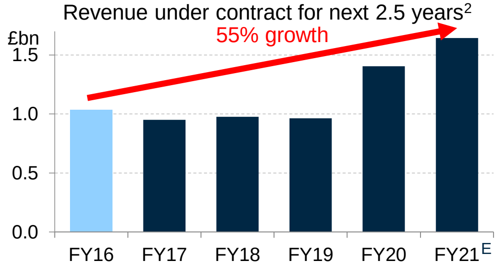
## Strong operational performance

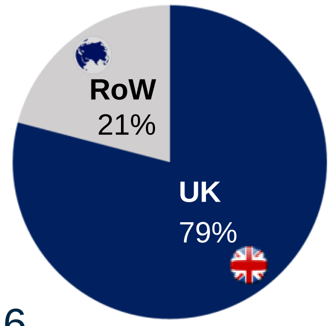



## Good forward visibility

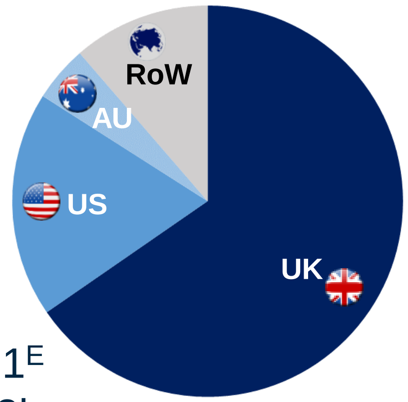


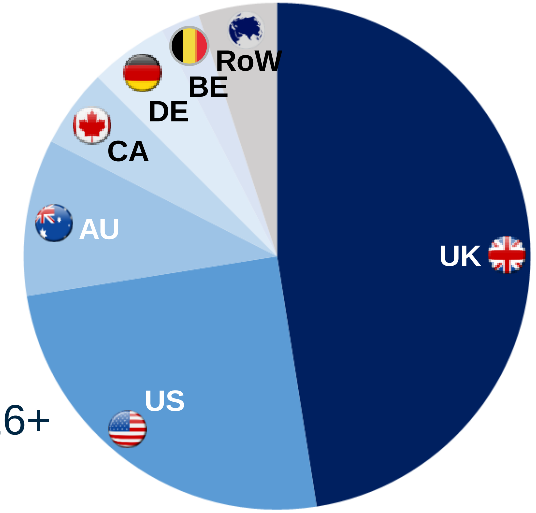

FY16
£755m

60%
growth




FY21E
c.£1.2bn

FY26+




**Growing an integrated global company at stable margins to deliver enhanced shareholder returns**

E Updated FY21 revenue guidance as described in the 'Outlook' section

1. Orders pipeline for next 5 years at end of each FY; FY16 estimated and FY21 at half year

2. Revenue under contract for next 30 months at half year of each FY



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# Evolved strategy to increase focus and accelerate growth

## Vision

The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage

## Mission-led innovation

Create it | Test it | Use it

## Customer focused growth strategy

### Global leverage

Build an integrated global defence and security company to leverage our capability through single routes to market in UK, US, Australia, Canada, Germany and Belgium

### Distinctive offerings

Co-create distinctive products and services to offer exceptional value for our customers in engineering, experimentation, test, training, information and autonomous systems

### Disruptive innovation

Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace

## High performance inclusive culture

Our Values  Integrity | Collaboration | Performance

Our Behaviours  Listen | Focus | Keep my promises

*We deliver responsibly, sustainably and for the benefit of all our stakeholders*



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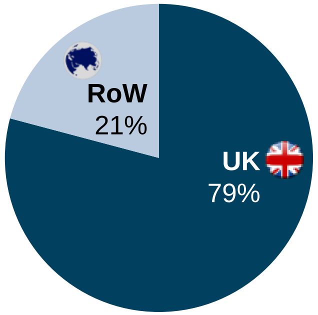
# Delivering our customer focused growth strategy through global leverage (1/2)

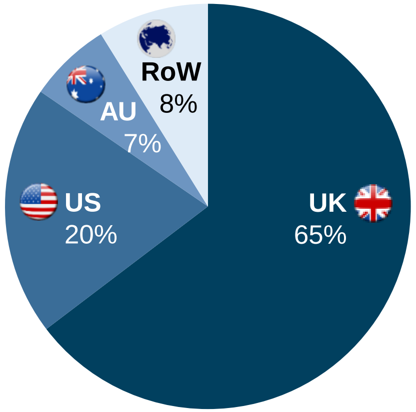
- Successfully building an integrated global defence & security company through multi-domestic business model
  - Focus on UK, US, Australia, Canada, Germany and Belgium
  - 95% of revenue delivered by our in-country industrial capability
  - International revenue grown from £76m to £213m in 4 years
  - Actively managing portfolio with £40m of non-core disposals
  - £266m invested in strategy-led acquisitions and proactively exploring further opportunities to complement organic growth

- Successfully modernising and leveraging capabilities
  - 2 year LTPA transition programme ahead of schedule in UK
  - AU$15m air range contract in Australia using LTPA skills from UK
  - US$27m US Air Force contract to utilise LTPA ranges in UK

H1 17 £362m




H1 21 £603m




**On track to grow international revenue from 35% to more than 50% over the next five years**



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# Delivering our customer focused growth strategy through disruptive innovation (2/2)

### AU$100m engineering contract in Australia

Critical sovereign capabilities

### 500th Hammerhead delivered by Canada

Next generation threat representation

### €9m order for space experiment in Belgium

Relevant to a growing domain

### €10m order for air target training in Germany

Operational readiness of Armed Forces

### US$10m hybrid-electric drive order in US

Leveraging next generation UK technology

### £54m intelligence and cyber orders in UK

Rapidly growing strategic role

**A global company delivering distinctive offerings across domains in six home and priority countries**

# Transforming to stay ahead for our customers' advantage

- Changing nature of warfare drives new defence and security paradigm
  - Adversaries adapting to use technology & information in new & unexpected ways
  - Customers require major shift in agility and pace to neutralise evolving threats

- Driving mission-led innovation through high performance inclusive culture
  - Investing in our people and systems to enhance winning & delivery performance
  - Employees engaged and adapting to build flexible, agile distributed teams
  - Harnessing the strengths of diversity through global talent and supply chain

- Investing in digitisation to accelerate next generation products & services
  - Leveraging skills and data globally to scale; develop once and reuse
  - Growing £6bn qualified pipeline of opportunities through distinctive offerings, i.e. engineering, experimentation, test, training, information and autonomous systems

**Investing for the benefit of our customers, our people & our shareholders**




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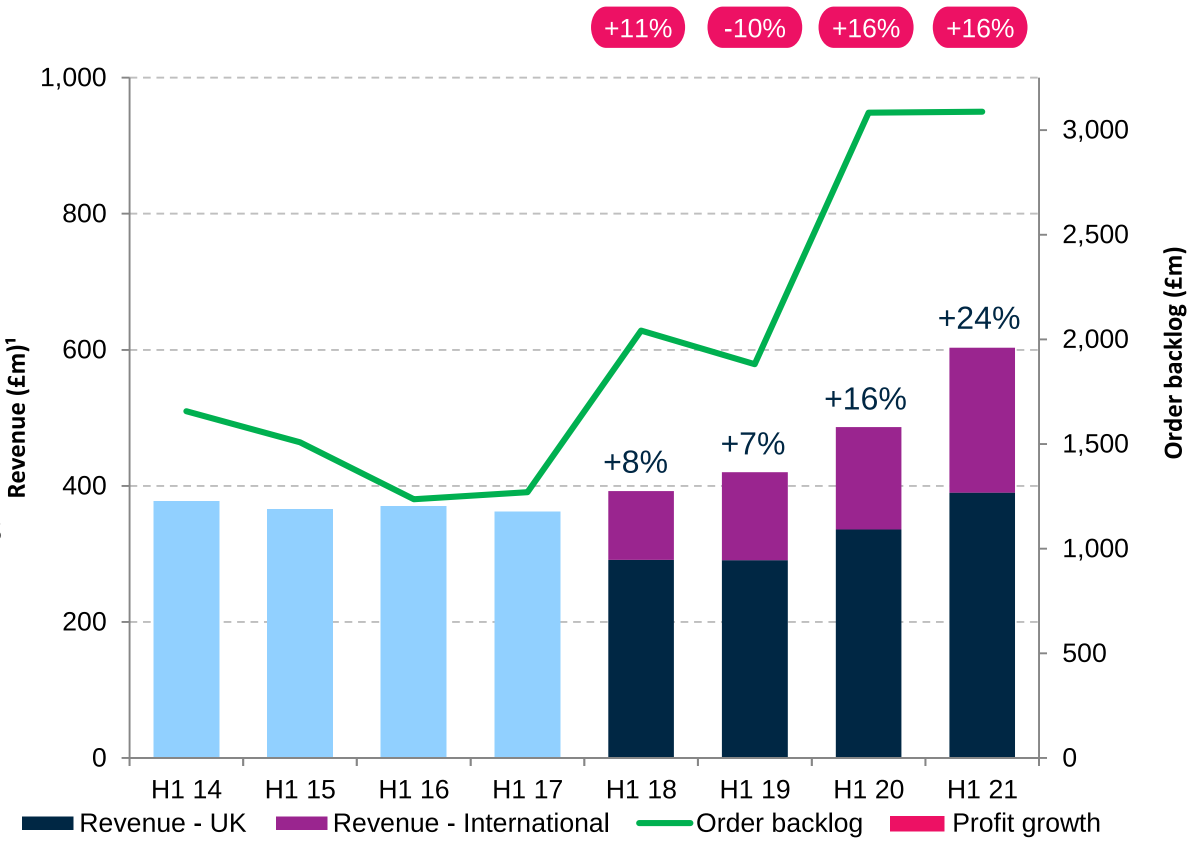
# Emerging with strength and agility to accelerate our global growth

- Strong recovery performance through COVID-19 crisis
  - 37% orders, 24% revenue and 16% profit total growth
  - 17% orders, 8% revenue and flat profit on an organic basis
  - Good revenue visibility with large order backlog of £3.1bn

- Renewed ambition and investing in evolved strategy
  - Continuing resilience actions to deliver despite COVID-19
  - Opportunities from evolving threats & budgetary pressures
  - Mission-led innovation delivering solutions for our customers
  - Transforming to stay ahead for our customers' advantage

- Well positioned to meet changing needs of new world and grow into >£8bn addressable market




**Growing an integrated global company at stable margins to deliver enhanced shareholder returns**

[1] Graph shows revenue based on continuing operations only and incremental growth on a reported basis



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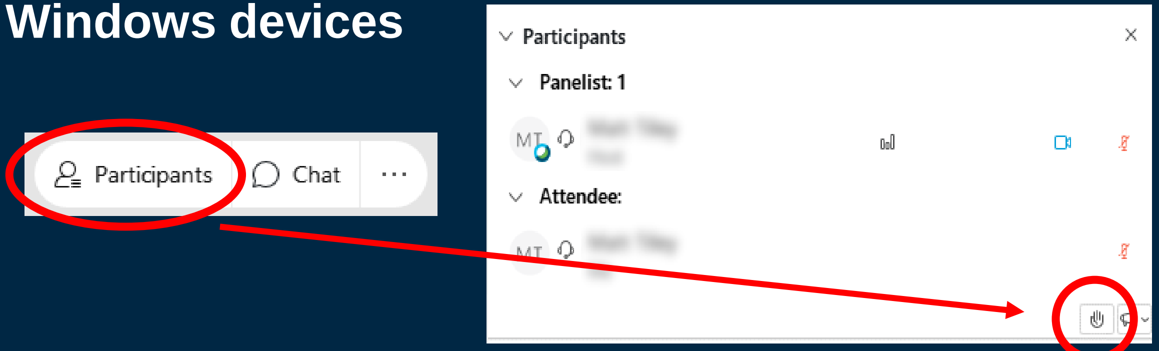
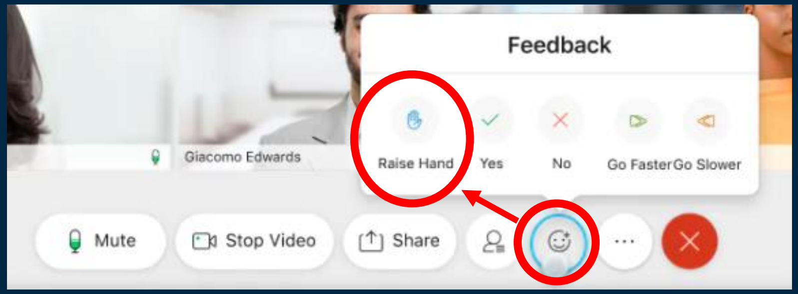
# Questions?

In order to ask a Question please use the ‘Raise Hand’ feature then the Host will unmute your line. The ‘Raise Hand’ feature is found here:

## Windows devices




## Apple iOS devices



# Appendices

# ESG Framework (CS&R)

| **Our purpose: Protecting lives, defending sovereign capability and securing the vital interests of our customers** | **Customer propositions:** |
|---|---|
| Focussed on operational safety of our armed forces, ensuring information security for sovereign nations and protecting the environment through the use of innovative technologies and sustainable solutions | Uncrewed systems, robotics and autonomy, virtual training in lieu of live training, hybrid electrical drive systems, smart grid, technology that advances our understanding of climate change, power source & battery technologies, information and cyber security |

### Environment

- Climate Change: GHG emissions (science based) target: reduce 25% by 2025, net zero plan underway
- Biodiversity: Stewardship of protected habitats, e.g. Sites of Special Scientific Interest, World Heritage Site
- Waste: Proportion of waste used/recycled, single use plastics

### Society

- Diversity and Inclusion: Inclusion 2025 strategy, employee networks (ERGs), gender pay gap, training
- Safety and Wellbeing: Safe for Life, Wellbeing programme, mental health first aiders
- Investment in Skills: Learning and development, early careers, STEM Outreach in the community

### Governance

- Defence Industry ESG: Chair of UK Industry Sustainability Working Group
- Ethical Behaviours: Anti-bribery, Modern Slavery action plans, Trading Policy
- Included in Remuneration: Collective objectives include safety, security, employee engagement and D&I

*We deliver responsibly, sustainably and for the benefit of all our stakeholders*



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# Delivering our vision-based strategy

## Vision

The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage

## Customer focused growth strategy

### Global leverage

Build an integrated global defence and security company to leverage our capability through single routes to market in UK, US, Australia, Canada, Germany and Belgium

### Distinctive offerings

Co-create distinctive products and services to offer exceptional value for our customers in engineering, experimentation, test, training, information and autonomous systems

### Disruptive innovation

Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace

## Performance

### Winning

- Improving customer & commercial focus
- Partnering to enable major competitive bids
- Leveraging Group-wide capabilities

### Delivering

- Improving customer satisfaction
- Effective programme & risk management
- Focusing on efficiency & cost reduction

### Investing

- Modernising our core capabilities
- Strategic bolt-on acquisitions
- Developing culture, people & technology



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# How we create value

Create It → Test It → Use It

## Capability Generation & Assurance - *integrated*

Research & Experimentation | Test & Evaluation | Training & Rehearsal

**Capability integration**
Systems | Systems of systems

**Threat representation**
Live | Virtual | Cyber

**Operational readiness**
Team | Group | Joint

## Services & Products - *distinctive*

e.g. advice, intelligence, information systems, protection, unmanned systems, space systems

## Technology - *disruptive*

e.g. advanced materials, sensing, communications, cyber, analytics, autonomy, directed energy

Inherent Strengths

Academic & industrial partnerships

Science & engineering expertise

Domain knowledge & experience

Delivering operational advantage to defence & security customers

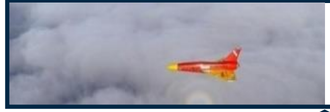
Understanding future needs

Example

## Typhoon released to service

e.g. Test & Evaluation

## Threat representation



e.g. Targets

## Disruptive technology

e.g. Autonomy

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# Expanding into our addressable market

- Focus on core offerings
  - RDT&E1 + Training: integrated capability generation & assurance
  - Services & Products: distinctive
  - Technology: disruptive

- Focus on target markets
  - Primary sectors: Defence, Security, Critical Infrastructure
  - Home countries: UK, US, Australia
  - Selected new countries in Europe, Middle East and Asia-Pacific

- Addressable market > £8bn pa: significant growth potential
  - Increasing share in existing markets
  - Leveraging strengths into attractive near-adjacent markets

**Driving global growth through campaigns & acquisitions**

**SERVICES & PRODUCTS**
(defence, security and critical infrastructure)

| | |
|---|---|
| Size | £££bn pa |
| Growth | +2-5% CAGR |
| Share | <1% (£408m) |

**UK TRAINING**

| | |
|---|---|
| Size | £1bn pa |
| Growth | +1% CAGR |
| Share | ~7% (£71m) |

**INTERNATIONAL TRAINING**

| | |
|---|---|
| Size | ££bn pa |
| Growth | +1-3% CAGR |
| Share | <1% (£51m) |

**UK RDT&E[1]**

| | |
|---|---|
| Size | £1.5bn pa |
| Growth | +1% CAGR |
| Share | ~30% (£459m[2]) |

**INTERNATIONAL RDT&E**

| | |
|---|---|
| Size | £6bn pa[3] |
| Growth | +4% CAGR |
| Share | <1% (£84m) |

[1] RDT&E = Research & Development and Test & Evaluation.
[2] ~£320m pa via Long Term Partnering Agreement (LTPA) with UK MOD.

[3] Australia, Canada, New Zealand, France, Germany, Sweden, Saudi Arabia, UAE, Qatar, Turkey included. USA ($116bn pa) excluded above.

Sources: Jane's Market Forecast FY20 market sizing pre-Covid (USD/GBP exchange rate of 0.81), UK MOD. QinetiQ market share based on FY20 revenue. CAGR = compound annual growth rate (FY20-24)

current market share    future market potential

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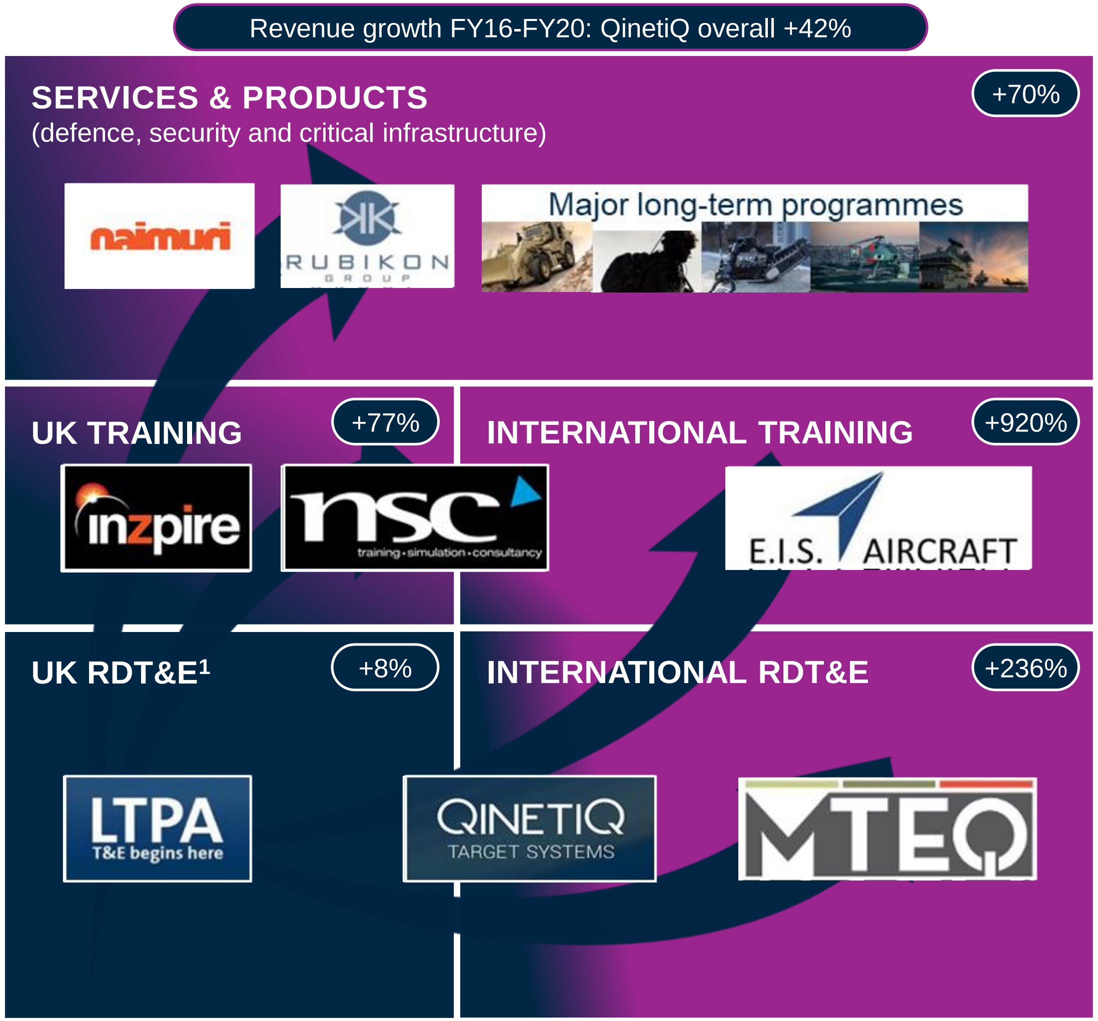
# Building an integrated global defence & security company

- Successfully expanding into >£8bn addressable market
  - Rapid generation & assurance of capability to counter threats

- Vision-based strategy driven growth, launched May 2016
  - Winning major long-term programmes through customer focus
  - Delivering mission-led innovation through partnering
  - Investing in 7 strategy-led acquisitions to strengthen offerings
  - Leveraging capabilities into attractive near-adjacent markets
  - Improving discipline in programme execution & efficiencies

- Maturing high performance culture to harness full potential
  - Engaging and incentivising our employees to deliver our strategy
  - Implementing truly integrated global operating model

**Well positioned and increasingly relevant for the future**




[1] RDT&E = Research & Development and Test & Evaluation

current market share | future market potential

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# Definitions

- Underlying performance is stated before:
  - Amortisation of intangibles arising from acquisitions
  - Pension net finance income
  - Gains/losses on investments, property and intellectual property
  - Transaction and integration costs in respect of business acquisitions
  - Impairment of property and goodwill
  - Tax impacts of the above items
  - Significant non-recurring deferred tax movements
- Book to Bill:
  - Orders won divided by revenue recognised excluding the LTPA contract
- Organic revenue 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
- Organic operating profit growth:
  - The level of year on year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusted for business acquisitions and disposals to reflect equivalent composition of the Group

# Revenue by customer and country

## Revenue by customer (%)

### H1 2021

£603.2m

| | % |
|---|---|
| MOD | 54% |
| DoD | 16% |
| Government agencies | 16% |
| Commercial defence | 9% |
| Commercial | 5% |

### H1 2020

£486.5m

| | % |
|---|---|
| MOD | 58% |
| DoD | 9% |
| Government agencies | 17% |
| Commercial defence | 9% |
| Commercial | 7% |

## Revenue by destination country (%)

### H1 2021

£603.2m

| | % |
|---|---|
| UK | 65% |
| US | 20% |
| Australia | 7% |
| Other | 8% |

### H1 2020

£486.5m

| | % |
|---|---|
| UK | 69% |
| US | 11% |
| Australia | 7% |
| Other | 13% |

# A clear capital allocation policy

| Priority 1 | Priority 2 | Priority 3 | Priority 4 |
|---|---|---|---|
| Invest in our organic capabilities, complemented by bolt-on acquisitions where there is a strong strategic fit | Maintain the balance sheet strength | Provide a progressive dividend to shareholders | Return excess cash to shareholders |



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# Income statement including specific adjusting items*

| | H1 2021 £m | H1 2020 £m |
|---|---|---|
| Revenue | **603.2** | 486.5 |
| Underlying operating profit* | **69.0** | 59.7 |
| Underlying net finance expense* | **(0.9)** | (0.4) |
| Underlying profit before tax* | **68.1** | 59.3 |
| Gain on sale of property | **-** | 13.3 |
| Gain on divestment of business | **19.5** | - |
| Acquisition costs (including renumeration) | **(1.9)** | (1.4) |
| Amortisation of intangibles | **(5.5)** | (3.1) |
| Pension net finance income | **3.5** | 3.2 |
| Total specific adjusting items (pre-tax) | **15.6** | 12.0 |
| Profit before tax | **83.7** | 71.3 |
| Taxation | **(9.5)** | (9.1) |
| Profit after tax | **74.2** | 62.2 |

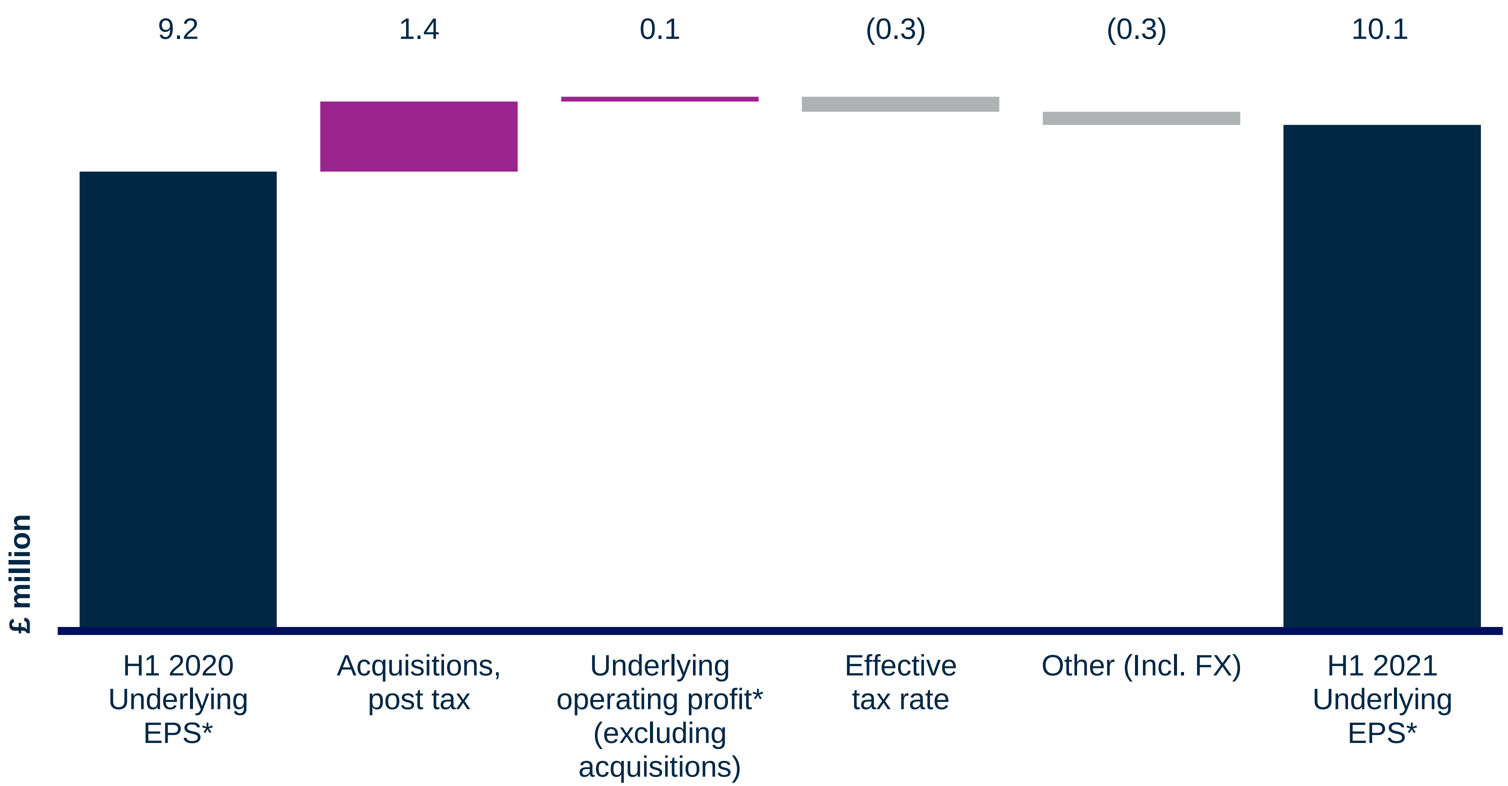
* Underlying performance, before specific adjusting items, as defined in appendix

# Taxation

| | **H1 2021 £m** | H1 2020 £m |
|---|---|---|
| Underlying tax charge* | **(10.5)** | (7.3) |
| Tax on specific adjusting items | **1.0** | (1.8) |
| Total tax charge | **(9.5)** | (9.1) |
| Underlying tax rate* | **15.4%** | 12.3% |

* Underlying performance, before specific adjusting items, as defined in appendix

# Underlying earnings per share* (pence)




* Underlying performance, before specific adjusting items, as defined in appendix

# Cash conversion

| | | H1 2021 £m | H1 2020 £m |
|---|---|---|---|
| Underlying operating profit* | | **69.0** | 59.7 |
| Depreciation and amortisation | | **24.9** | 21.8 |
| Changes in working capital | | **(10.7)** | (5.1) |
| loss/(profit) on disposal of PPE | | **1.0** | (1.6) |
| Share-based payments charge | **9.0** | **8.2** | 3.6 |
| Share of post-tax profit of equity accounted entities | | **0.2** | 1.0 |
| Net movement in provisions | | **(0.4)** | (0.4) |
| Retirement benefit contributions in excess of income statement expense | | **0.5** | (2.0) |
| Net cash inflow from operations* | | **92.7** | 77.0 |
| Cash conversion %* | | **134%** | 129% |
| Net capex | | **(42.3)** | (40.4) |
| Proceeds from disposal of plant and equipment | | **-** | 1.6 |
| Net cash inflow from operations (post-capex)* | | **50.4** | **38.2** |
| Net interest | | **(0.6)** | (0.2) |
| Taxation | | **(11.7)** | (8.9) |
| Free cash flow* | | **38.1** | 29.1 |

* Underlying performance, before specific adjusting items, as defined in appendix

# Movements in net cash

| | **H1 2021 £m** | H1 2020 £m |
|---|---|---|
| **Free cash flow** | **38.1** | 29.1 |
| Dividends | **-** | (25.5) |
| Acquisition of business | **(24.6)** | (0.1) |
| Disposal of property | **-** | 12.5 |
| Disposal of businesses | **26.6** | - |
| Purchase of own shares | **(5.2)** | (0.4) |
| Repayment of finance lease | **(4.6)** | - |
| Other (including FX) | **(2.4)** | (3.4) |
| **Change in net cash** | **28.0** | 12.2 |
| Opening net cash - 1 April | **84.7** | 161.3 |
| **Closing net cash - 30 September** | **112.7** | 173.5 |



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# Balance sheet

| | **30 September 2020 £m** | 31 March 2020 £m |
|---|---|---|
| Goodwill | **176.5** | 180.8 |
| Intangible assets | **143.9** | 138.9 |
| Property, plant and equipment | **389.7** | 375.6 |
| Working capital | **(63.0)** | (77.5) |
| Retirement benefit surplus (net of tax) | **198.0** | 245.9 |
| Other assets and liabilities | **(32.3)** | (61.3) |
| Net cash | **112.7** | 84.7 |
| Net assets | **925.5** | 887.1 |

# Confirmed pension surplus

| | **30 September 2020 £m** | 31 March 2020 £m |
|---|---|---|
| Market value of assets | **2,171.7** | 1,912.3 |
| Present value of scheme liabilities | **(1,921.0)** | (1,602.6) |
| Net pension asset before deferred tax | **250.7** | 309.7 |
| Deferred tax liability | **(52.7)** | (63.8) |
| Net pension asset | **198.0** | 245.9 |

- Accounting net pension asset of £198.0m (after deferred tax)
- Decrease in net pension asset is driven by a decrease in discount rates and an increase in inflation that both contributed to an increase in the scheme liabilities, partially offset by an increase in asset values
- Scheme is hedged against ~90% of interest rate risk and 89% of the inflation rate risk, as measured on the Trustees' gilt-funded basis
- The latest completed triennial valuation of the Scheme was a net surplus of £139.7m as at 30 June 2017. The triennial valuation as at 30 June 2020 is currently in progress
- Payments are made under an asset backed funding scheme of £2.7m per annum + CPI (FY21: £2.8m) until 2032

# Defined benefit pension scheme – balance sheet position

| | **30 September 2020 £m** | 31 March 2020 £m |
|---|---|---|
| Equities | **178.5** | 160.8 |
| LDI investment | **336.8** | 347.5 |
| Asset backed security investments | **583.2** | 465.0 |
| Alternative bonds | **228.6** | 215.3 |
| Property funds | **208.9** | 167.0 |
| Cash and cash equivalents | **20.1** | 15.8 |
| Derivatives | **(1.4)** | (5.1) |
| Insurance buy-in policy | **617.0** | 546.0 |
| Market value of assets | **2,171.7** | 1,912.3 |
| Present value of scheme liabilities | **(1,921.0)** | (1,602.6) |
| Net pension asset before deferred tax | **250.7** | 309.7 |
| Deferred tax liability | **(52.7)** | (63.8) |
| Net pension asset | **198.0** | 245.9 |


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# Defined benefit pension scheme – key assumptions

| Assumptions | 30 September 2020 % | 31 March 2020 % |
|---|---|---|
| Discount rate | **1.65%** | 2.30% |
| Inflation (CPI) | **2.20%** | 1.90% |
| Future male pensioners (currently aged 60) | **87** | 87 |
| Future female pensioners (currently aged 60) | **90** | 90 |
| Future male pensioners (currently aged 40) | **89** | 89 |
| Future female pensioners (currently aged 40) | **91** | 91 |

**Sensitivity of Scheme liabilities to main assumptions:**

| Assumption | Change in assumption | Sensitivity* |
|---|---|---|
| Discount rate | Increase / decrease by 0.1% | Decrease / increase by £39m |
| Rate of inflation | Increase / decrease by 0.1% | Increase / decrease by £27m |
| Life expectancy | Increase by 1 year | Increase by £70m |

* The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment portfolio. As at 30 September 2020 this hedges against approximately 90% of the interest rate and 89% of the inflation rate risk, as measured on the Trustees' gilt-funded basis



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# Credit facilities

| | Maturity date | Denomination | Value in denomination | Value £m |
|---|---|---|---|---|
| Revolving credit facility | September 2025 | GBP | 275.0 | 275.0 |
| **Total committed facilities** | | | | **275.0** |

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