Delivering our global ambition through mission-led innovation

QinetiQ Group plc
Interim results for half year ended
30 September 2021

11 November 2021

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Agenda

Delivering our global ambition through mission-led innovation

- Good performance impacted by two discrete issues
  - Orders up 25% on an organic basis; robust backlog £3bn
  - Revenue up 3% on an organic basis; flat after disposals
  - Profit £53.4m after £14.5m write-down on a complex project
  - EPS 8.1p, interim dividend maintained at 1/3 prior year total
  - On-track to deliver FY guidance: 14 October Trading Update

	H1 FY22	H1 FY21
Revenue	**£600.1m**	£603.2m
Operating profit	**£53.4m**	£69.0m
EPS	**8.1p**	10.1p
Dividend	**2.3p**	2.2p
Order backlog	**£3.0bn**	£3.1bn

- Strategic progress and robust plan to resolve issues
  - Secured £678m orders across Group inc. \$184m in US
  - Excellent growth in Australia up 19% and UK up 11%
  - Major contracts performing well e.g. MSP[1], LTPA[2] and EDP[3]
  - Response to US customer mission pivot & COVID challenges
  - Write-down due to risk exposure on complex project

- Priority to deliver FY whilst continuing growth strategy
  - Deliver operational performance; >90% revenue contracted
  - Drive complex project recovery plan to conclusion in-year
  - Recover US revenue performance in line with H2 FY21
  - Invest in new customer solutions and strategic acquisitions
  - Focus on profitable growth in >£20bn addressable market

[1] Major Service Provider [2] Long Term Partnering Agreement [3] Engineering Delivery Partner

H1 2022 Financial overview

David Smith
Chief Financial Officer

Strong orders growth; H1 financial performance impacted by write-down

	H1 2022 £m	H1 2021 £m
Revenue	**600.1**	603.2
Operating profit*	**53.4**	69.0
Operating margin*	**8.9%**	11.4%
Earnings per share* (pence)	**8.1**	10.1
Dividend per share (pence)	**2.3**	2.2
Funded order backlog	**3,007.6**	3,087.2
Orders	**677.8**	561.6
Net cash flow from operations (pre-capex)*	**70.2**	92.7
Cash conversion (pre-capex)*	**131%**	134%
Net cash	**139.2**	112.7

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

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Good underlying trading performance before complex project write-down impact

	H1 2022			**H1 2021**	**Underlying change**		
	Underlying* results £m	Complex project write-down £m	**Excluding write-down £m**	Underlying * results £m	Including write-down £m	Excluding write-down £m	Excluding write-down (organic^) £m
Orders*	**677.8**	22.5	**700.3**	561.6	21%	25%	29%
Revenue	**600.1**	8.0	**608.1**	603.2	(1%)	1%	4%
Operating profit*	**53.4**	14.5	**67.9**	69.0	(23%)	(2%)	(6%)
*Operating profit margin**	***8.9%***		***11.2%***	*11.4%*			

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
^ Excluding the impact of acquisitions and disposals (i.e. constant Group structure composition) and the impact of currency movements

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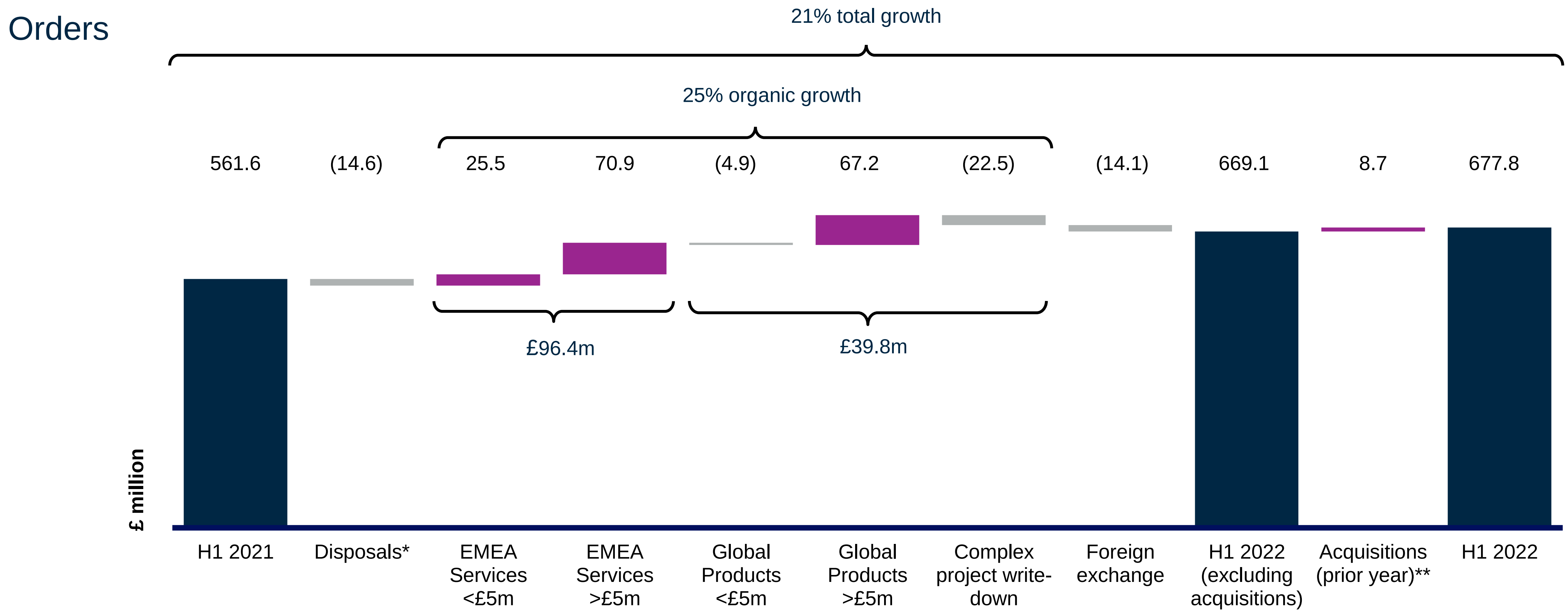
Strong orders growth



* Relates to prior year disposal of Optasense, Boldon James and Commerce Decisions
** Relates to prior year acquisition of Naimuri

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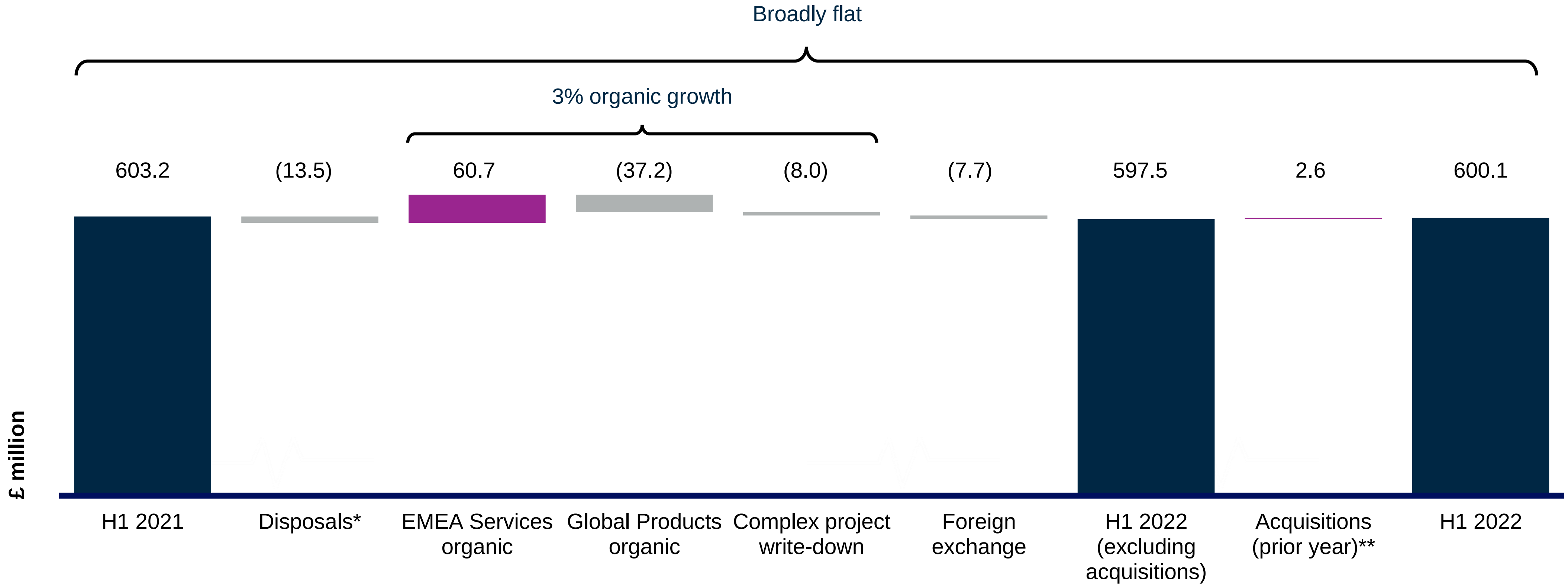
Strong organic revenue growth in EMEA Services partially offset by short-term challenges in the US

Revenue



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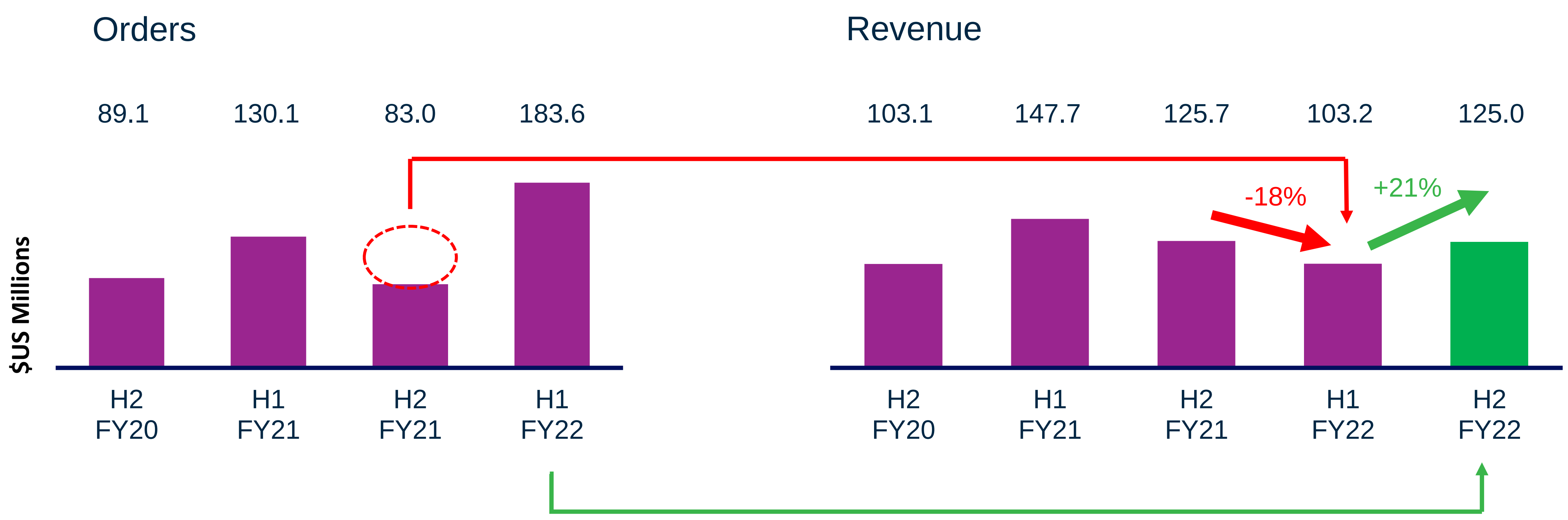
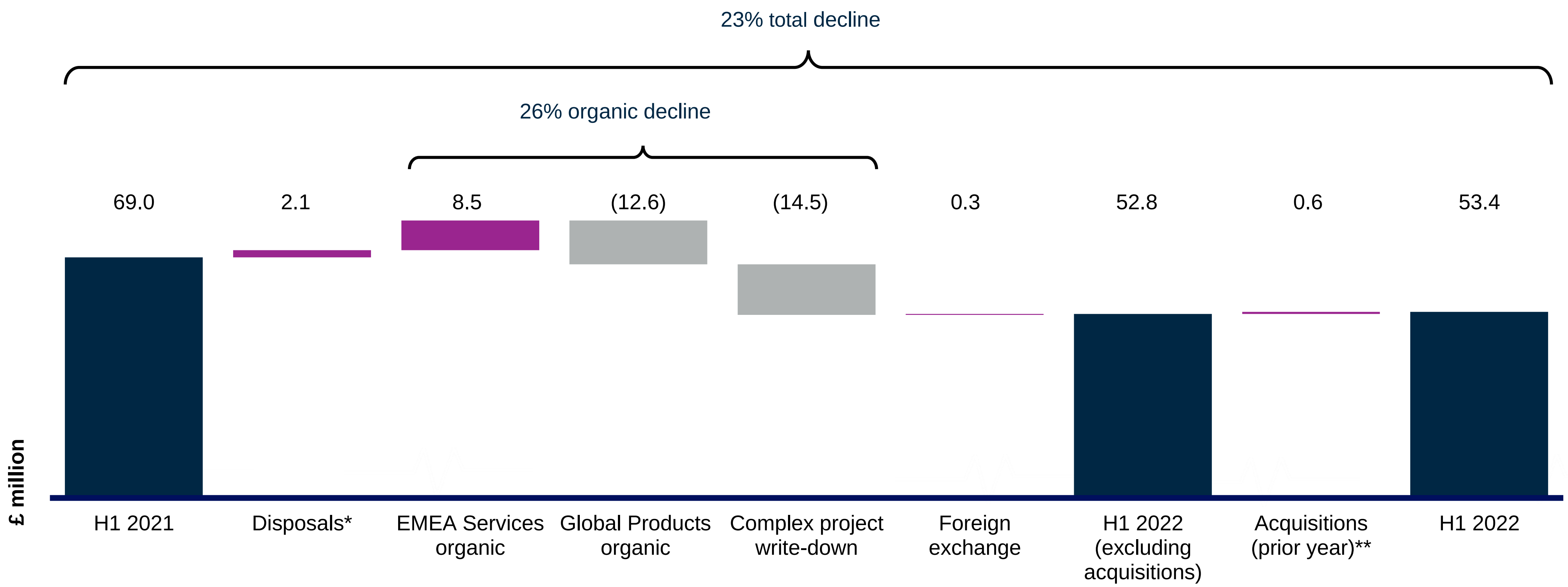
Second half revenue recovery in the US to H2 FY21 level



Strong EMEA services profit performance more than offset by short-term US challenges and complex project write-down

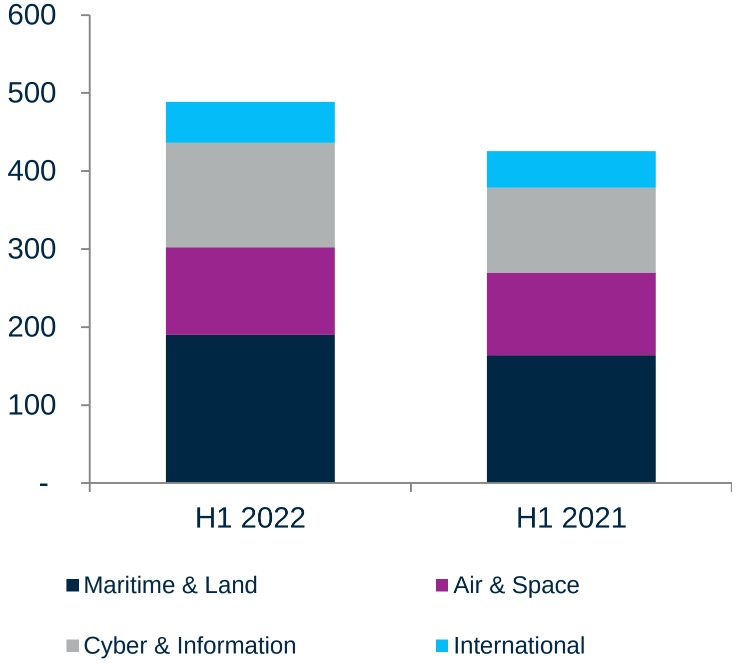
Underlying Operating Profit^



^ Underlying performance, before specific adjusting items, as defined in appendix
* Relates to prior year disposal of Optasense, Boldon James and Commerce Decisions
** Relates to prior year acquisition of Naimuri

EMEA Services – contract wins driving growth

H1 revenue (£m)



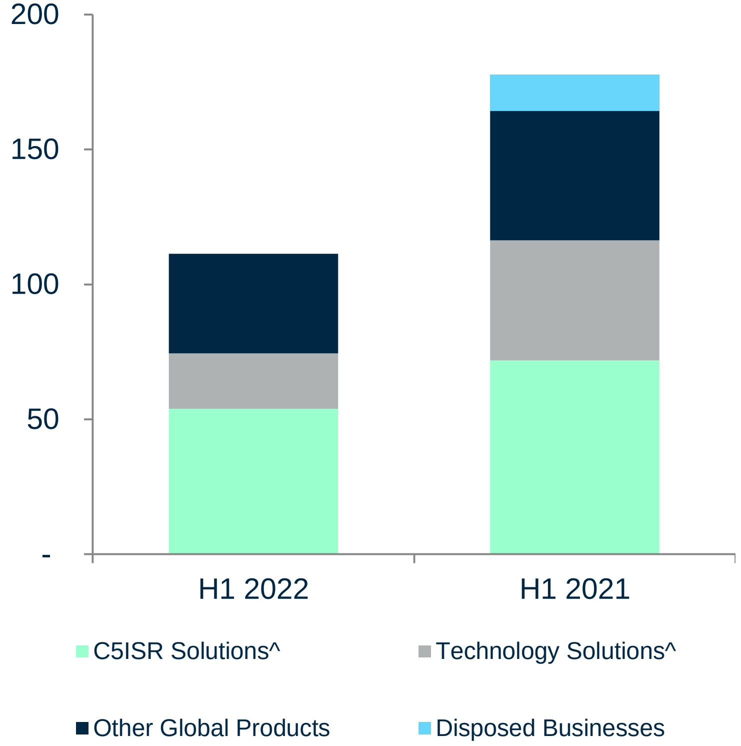
	H1 2022 £m	H1 2021 £m
Orders	**506.4**	402.6
Revenue	**488.7**	425.4
Underlying operating profit*	**67.1**	57.9
Underlying operating profit margin*	**13.7%**	13.6%
Book to bill ratio	**1.3x**	1.3x
Funded order backlog	**2,718.0**	2,786.9
Funded order backlog excl. LTPA contract	**1,105.7**	940.3

- Strong orders performance driven by £68m under the Weapons Sector Research Framework contract in UK and growth from Defence Digital and Defence Intelligence
- 15% revenue growth, 14% on an organic* basis as a result of new work under EDP and ongoing growth of the MSP contract in Australia
- Organic* operating profit grew by £8.5m (15%), driven by revenue growth at stable margins

* Group performance measures as defined in the appendix

Global Products – strong orders but performance impacted by short-term delivery challenges in the US and complex project write-down

H1 revenue (£m)



	H1 2022 £m	H1 2021 £m
Orders	**171.4**	159.0
Revenue	**111.4**	177.8
Underlying operating profit*	**(13.7)**	11.1
Underlying operating profit margin*	**(12.3%)**	6.2%
Book to bill ratio	**1.5x**	0.9x
Funded order backlog	**289.6**	300.3

- Orders growth driven by US$62m order for the full rate production of CRS-I robots in the United States offset by £22.5m complex project write-down
- Revenue down 37%, 28% on an organic* basis, principally driven by challenges in the US relating to COVID-19 supply chain and technical issues on SPUR production ramp-up and changes in customer funding priorities
- Organic* operating profit down £27.1m primarily driven by £14.5m complex project write-down and the challenges in the US businesses

* Group performance measures as defined in the appendix
^ Renamed US entities this year; MTEQ to C5ISR and QNA to Technology Solutions

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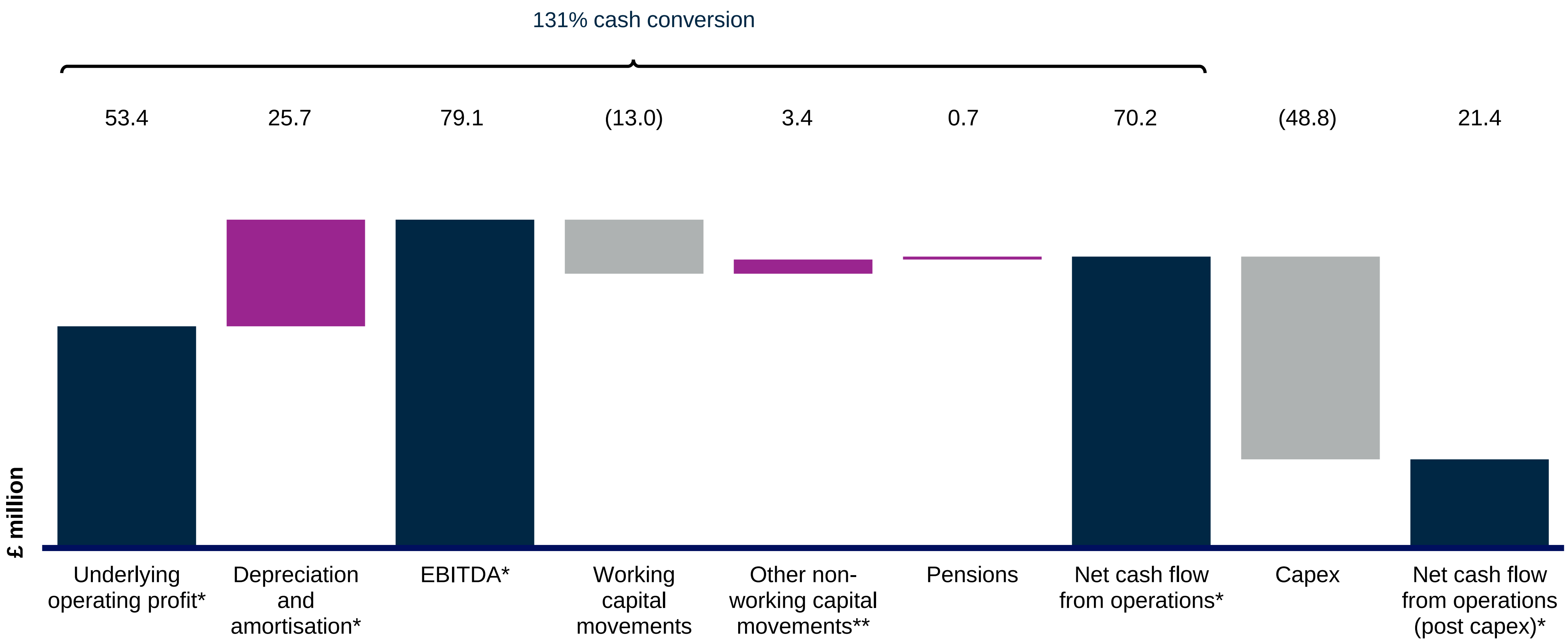
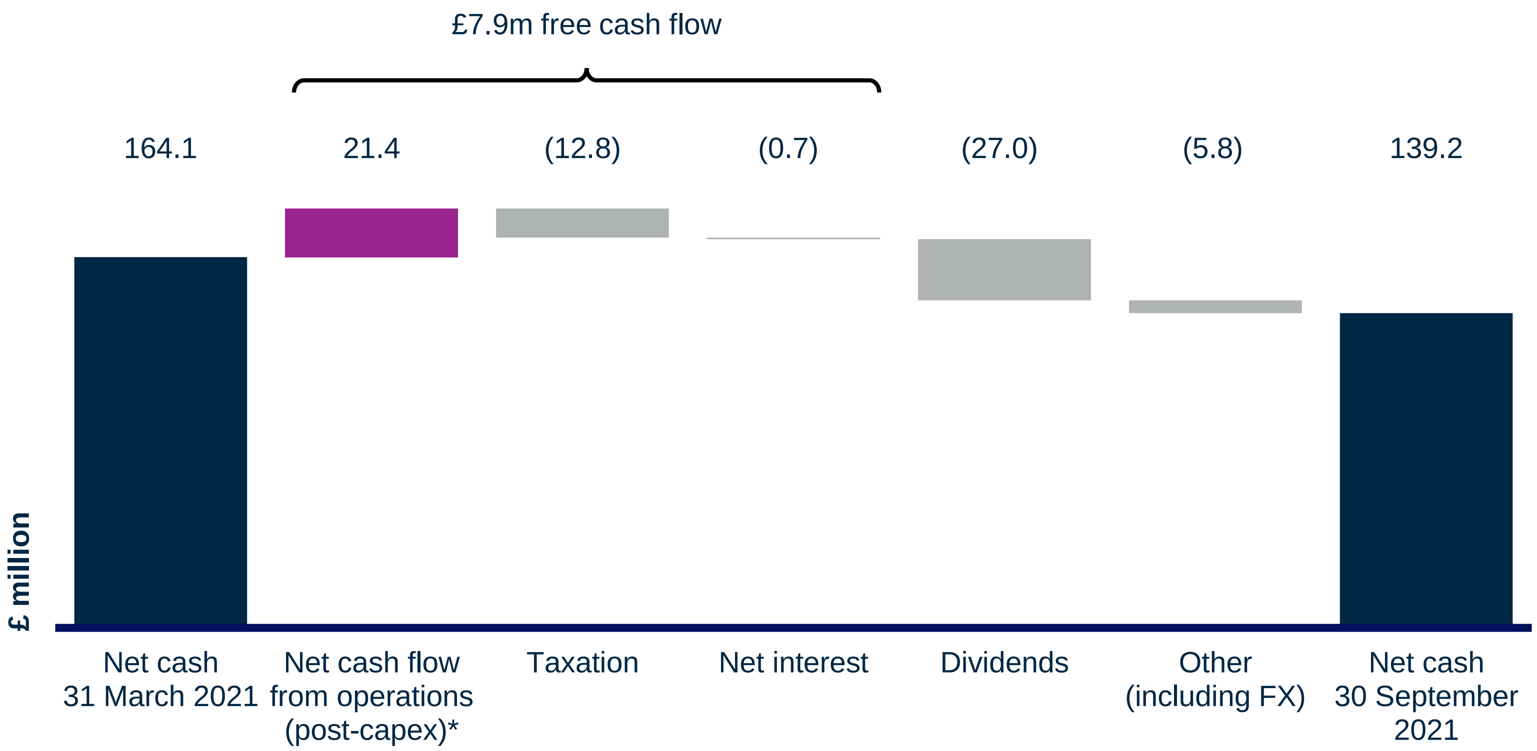
Stable cash generation



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

Balance sheet strength supports our growth strategy



- Continue with existing capital allocation policy:
  - Invest in our organic capabilities, complemented by 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
- £414.2m headroom: £139.2m net cash plus £275m available committed facilities, expandable to £400m

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

FY22 Outlook – technical factors

	FY21	FY22	
Net finance expense*	£1.9m		Expect stable net cash so flat underlying net expense
Effective tax rate*	15.9%		Expected to drop due to impact of super deduction
Tax cash outflow	£15.0m		Expected to grow due to share of overseas profit
Net working capital	£12.7m		Potential for further outflow depending upon trading performance
Capital expenditure	£79.5m		Capex expected at £90 - £120m

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

Outlook Statement

Outlook – FY22

- For the full year, we expect to deliver mid-single digit organic revenue growth at c.5% and underlying operating profit margin at the lower end of our 11-12% expected range, further reduced by the £14.5m write-down, which is fully contained in FY22 and will not impact FY23. Operating cash flow remains strong, and we expect capital expenditure to remain in the region of £90m to £120m per annum for the next two years. With >90% of FY22 revenue already delivered or under contract, we remain confident to deliver to this guidance.

Outlook – Longer term

- We are maintaining our medium to long-term guidance: we continue to target mid-single digit percentage compound annual organic revenue growth over the next 5 years, with strategic acquisitions further enhancing this growth. Similarly, we continue to target operating profit margin of 12-13%, although in the short-term we continue to anticipate margins being c.100bps lower, driven by increased investment on our digital transformation programme and by the evolution of our business mix.

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CFO transition

Carol Borg
Chief Financial Officer designate

Operational & strategic update

Steve Wadey
Chief Executive Officer

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Progress towards recovery of a large complex project

- Increased risk exposure due to technical issues and delay on system development for a service contract
  - Unable to disclose details of project as would prejudice ongoing negotiations with customer to amend contract
  - Write-down due to combination of emergent risks: system maturity, supplier capability and contract delivery conditions
  - £14.5m write-down represents a prudent judgement with full effect of impact contained in H1 FY22

- Recovery plan underway to reduce risk exposure through close work with supplier and customer
  - Technical issues understood and making good progress towards resolution
  - Clear technical and commercial milestones to drive the recovery plan to a conclusion within FY22
  - Objective remains to reduce the financial impact of the write-down

- Combination of risk factors on this project are unique within our contract portfolio
  - The system and the supplier have no other role on any other products or services within the company
  - The contract is a short-term service and we maintain a balanced accounting approach to all our contracts

Driving recovery plan to conclusion in-year with objective to reduce impact of write-down

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Characteristics and risk profile of diverse contract portfolio

- Current portfolio balances risk with large volume of small contracts
  - More than 70% of contracts by total contract value are less than £25m
  - Majority of contracts are low risk research and engineering services
- Actively managing overall evolution of risk profile to contract portfolio
  - Successful delivery on new larger contracts e.g. MSP[1], LTPA[2] and EDP[3]
  - Specific complex project is an exception due to combination of risk factors
- Our growth strategy remains to win larger, longer-term contracts and successfully balance our technical and commercial risk profile
  - Partnering to successfully win and deliver major programmes
  - Continuous improvement to bidding and programme delivery capability with strengthened technical and supply chain management processes

Contract portfolio key characteristics

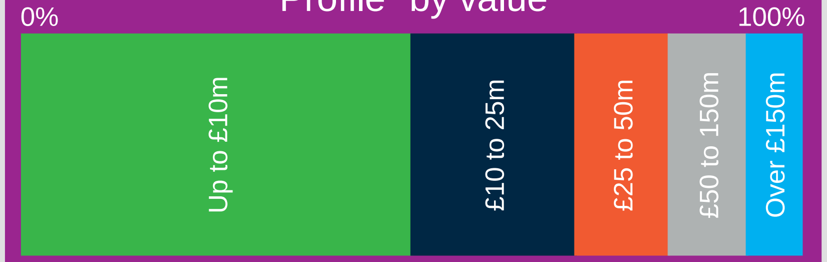
Order backlog
>£3bn

Number of contracts
>3000

Order pipeline
>£6bn

Contract durations
<1 to 10+ years

Profile[4] by value



Specific complex project is an exception to effective risk management of contract portfolio

[1] Major Service Provider [2] Long Term Partnering Agreement [3] Engineering Delivery Partner [4] EDP and LTPA contracts have been included as individual projects and tasks by value

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Response to impact of US customer's mission pivot and COVID delivery challenges

- Experienced short-term revenue impact; 18% down vs H2 FY21
  - Started year with lower orders due to COVID and administration transition delays
  - Additional contract changes due to customer's mission pivoting from Afghanistan to Indo-Pacific and COVID delivery challenges in our robotics business

- Focused response to drive performance improvement and future growth
  - Enhanced organisation focus, leadership capacity and reduced cost base
  - Sensing and robotics capabilities aligned with emerging Indo-Pacific threat
  - Ambition remains to more than double US business over next 5 years

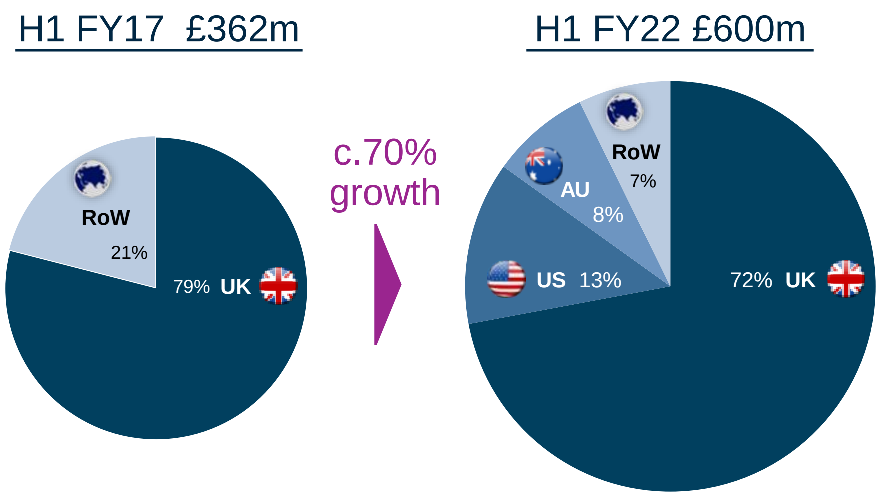
- Secured $184m orders to deliver future growth; $83m in H2 FY21
  - $62m full rate production contract for supply of more than 1200 CRS-I[1] robots
  - New offerings e.g. $12m for RCV-L[2] systems and $24m for strategic ISR[3]

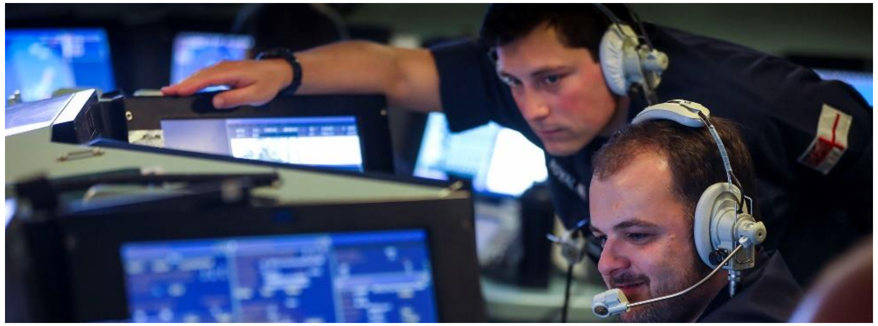
Objective to recover US revenue performance in-line with H2 FY21

[1] Common Robotic System-Individual [2] Robotic Combat Vehicle-Light [3] Intelligence, Surveillance and Reconnaissance

Excellent orders performance and strong growth in Australia and UK

- Secured £678m orders across Group; 25% growth vs H1 FY21
  - Demonstrating increasing relevance of our distinctive offerings
  - Providing strong foundation with large order backlog of £3bn
- Record revenue growth in Australia; 19% vs H1 FY21
  - Secured major engineering role with Land customer; AU$27m order
  - Major robotics bid leveraging capabilities from across the Group
  - Investing in sovereign skills to further strengthen role as a trusted partner
- Strong revenue growth across all UK businesses; 11% vs H1 FY21
  - New innovation orders e.g. £68m directed energy & £100m data intelligence
  - Strategic acquisitions delivering good growth i.e. Inzpire, NSC and Naimuri
  - Successful delivery of complex live-virtual NATO[1] missile defence exercise





Delivering value to our customers provides strong foundation for global growth

[1] North Atlantic Treaty Organisation

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Major customer opportunities driven by evolving threats and budgetary priorities

UK
- Focus on threat & technology-led modernisation
- Significant shift to operational independence
- Increasing pace with £6.6bn R&D over 4 years

US
- National Security Guidance and $715bn budget
- Focus on peer threats & capability modernisation
- Largest RDT&E[1] budget at $112bn; >5% vs FY21

AU
- Defence budget to increase by >75% by FY30
- Focus on regional threat & sovereign capability, including test & evaluation, autonomous systems

RoW
- Modernisation challenges and highly competitive
- Resurgence of national protectionism

Dynamics of new world

- Changing character of warfare & evolving threats
- Investing in technology and in-country capability
- Major shift required in agility and pace to respond

Our capabilities are increasingly relevant

- Customer relationships and domain knowledge
- Expertise in science, technology and engineering
- Innovation to drive cost-effective solutions at pace

Formation of AUKUS[2] alliance reinforces our strategy and relevance to meet the dynamics of new world

[1] Research, Development, Test & Evaluation [2] Australia, United Kingdom, United States

Our strategy continues to drive focus and global 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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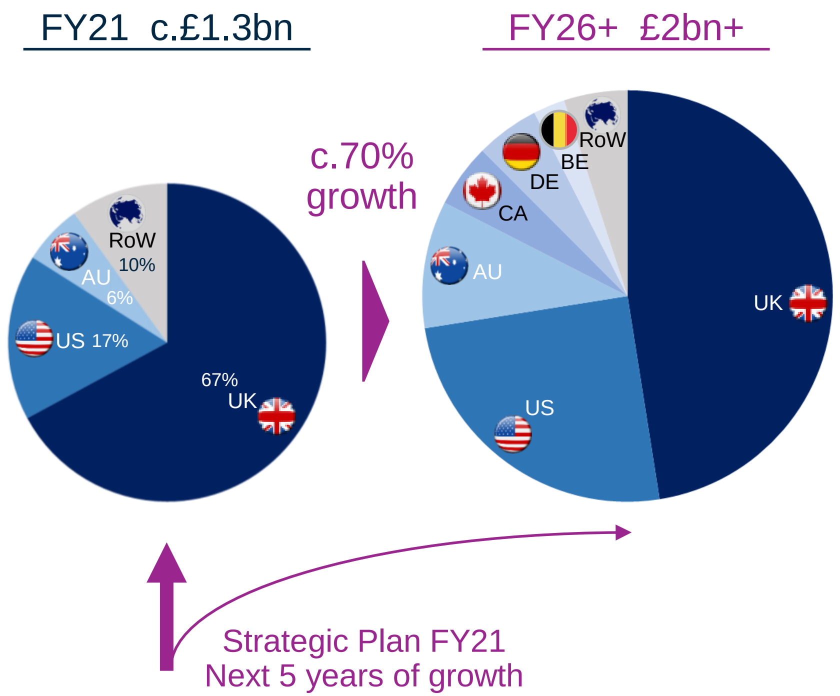
Focus on next 5 years of global growth

- Delivering multi-domestic strategy to grow integrated global company
  - Implementing strategy-led choices in our 5 year strategic plan
  - Pursuing growth in our six home and priority countries
  - Innovating to enable our customers to achieve their mission at pace
  - Extending global campaigns for organic growth: test, training & information
  - Pursuing strategic acquisitions to complement organic growth
  - Maintaining focus on ambition to more than double US business
- Transforming to stay ahead and meet customers' changing needs
  - Driving customer-led and internal digital transformation e.g. digital T&E[1]
  - Investing in new capabilities e.g. cyber & data analytics, LVC[2] and synthetics
  - Creating next generation services and products e.g. threat representation
  - Launching Net Zero strategy by year-end; good progress vs 2025 target

An integrated global defence & security company



Investing in our capabilities, technology and people to grow into >£20bn addressable market

[1] Test & Evaluation [2] Live Virtual Constructive

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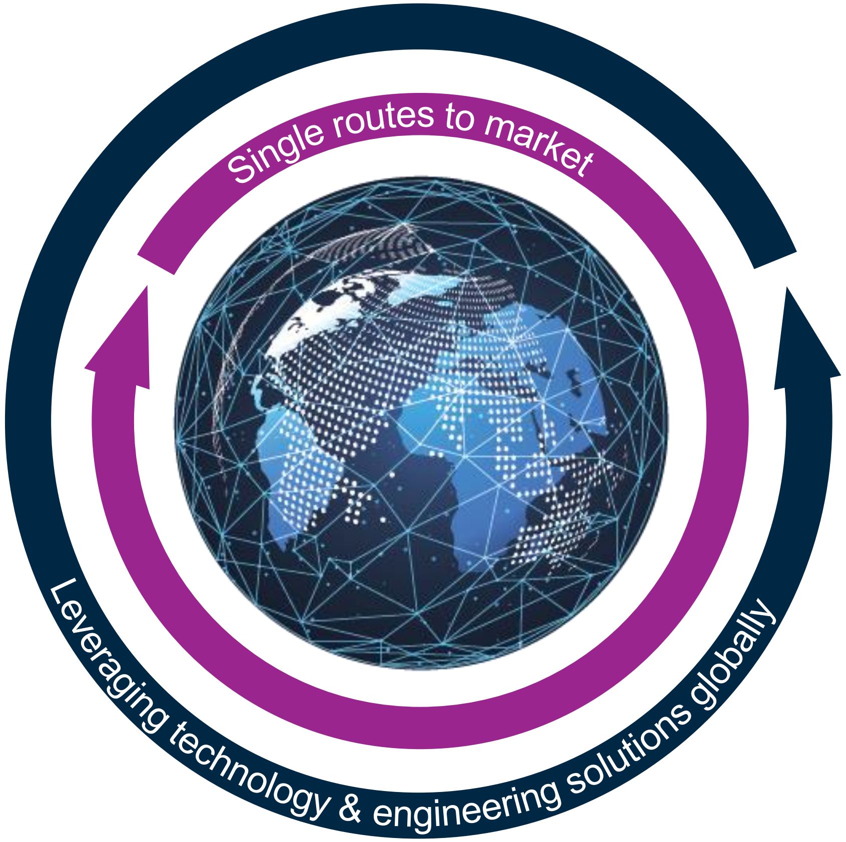
Partnering with our customers around the world to deliver mission-led innovation

Experimentation and technology

Test and evaluation

Training and mission rehearsal



Information and sensing

Engineering and support

Autonomous systems and robotics

Creating a global leader in high-value solutions to national defence & security challenges

Delivering our global ambition through mission-led innovation

- Good performance impacted by two discrete issues
  - £678m orders; 19% Australia and 11% UK revenue growth
  - On-track to deliver FY guidance: 14 October Trading Update
- Focused and robust action plan to resolve issues
  - Drive complex project recovery plan to conclusion in-year
  - Recover US revenue performance in-line with H2 FY21
- Priority to deliver FY whilst continuing growth strategy
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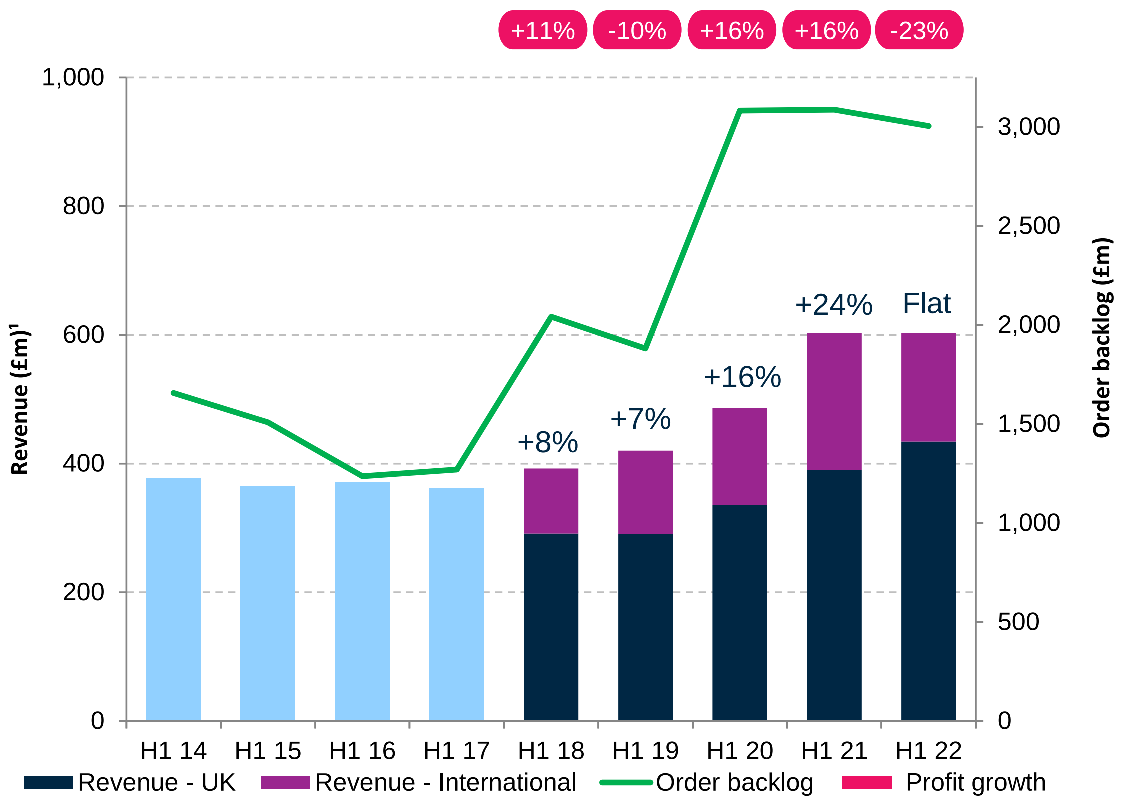

Continuing to grow an integrated global defence & security company to deliver enhanced returns

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

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Questions?

Appendices

Our Purpose

Protecting lives, defending sovereign capability and securing the vital interests of our customers

Environmental

Climate Change:
- Existing Scope 1-2 SBTi aligned targets to 2025
- Net Zero plan (Sc 1-3) by yr end incl 2030 target

Conservation and Biodiversity
Sustainable solutions for customers
Environmental Management
Waste and Resources

Social

Employee Health & Safety
Employee Wellbeing
Employee Engagement
Diversity & Inclusion
Employee Learning & Development
Employee Reward and Recognition
Community investment & STEM outreach

Governance

Business Ethics
Code of Conduct
Anti-bribery and Corruption
Tackling Modern Slavery
Ethical Trading Policy
Responsible & Sustainable Procurement
Leadership Remuneration

Our values

Integrity
Fully supported by Board & GLT

Collaboration
Industry leadership: ADS & DSF
Cross-functional approach

Performance
MSCI: *AA rating*
Sustainalytics: *A&D Sector Leader*

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

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
  - 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 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

Revenue by customer and country

Revenue by customer (%)

H1 2022

£600.1m

	%
MOD	**62%**
DoD	**9%**
Government agencies	**15%**
Commercial defence	**10%**
Commercial	**4%**

H1 2021

£603.2m

	%
MOD	**54%**
DoD	**16%**
Government agencies	**16%**
Commercial defence	**9%**
Commercial	**5%**

Revenue by destination country (%)

H1 2022

£600.1m

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

H1 2021

£603.2m

	%
UK	**65%**
US	**20%**
Australia	**7%**
Other	**8%**

A clear capital allocation policy

Priority 1	Priority 2	Priority 3	Priority 4
Invest in our organic capabilities, complemented by 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 2022 £m	H1 2021 £m
Revenue	**600.1**	603.2
Underlying operating profit*	**53.4**	69.0
Underlying net finance expense*	**(0.9)**	(0.9)
Underlying profit before tax*	**52.5**	68.1
Gain on sale of property	**0.5**	-
Gain on divestment of business	**-**	19.5
Fair value adjustment in respect of contingent consideration	**0.6**	-
Acquisition costs and acquisition related remuneration	**(0.9)**	(1.9)
Unsuccessful acquisition costs	**(4.1)**	-
Property impairment	**(1.2)**	-
Amortisation of intangibles	**(5.4)**	(5.5)
Pension net finance income	**2.3**	3.5
Total specific adjusting items (pre-tax)	**(8.2)**	15.6
Profit before tax	**44.3**	83.7
Taxation	**(20.5)**	(9.5)
Profit after tax	**23.8**	74.2

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

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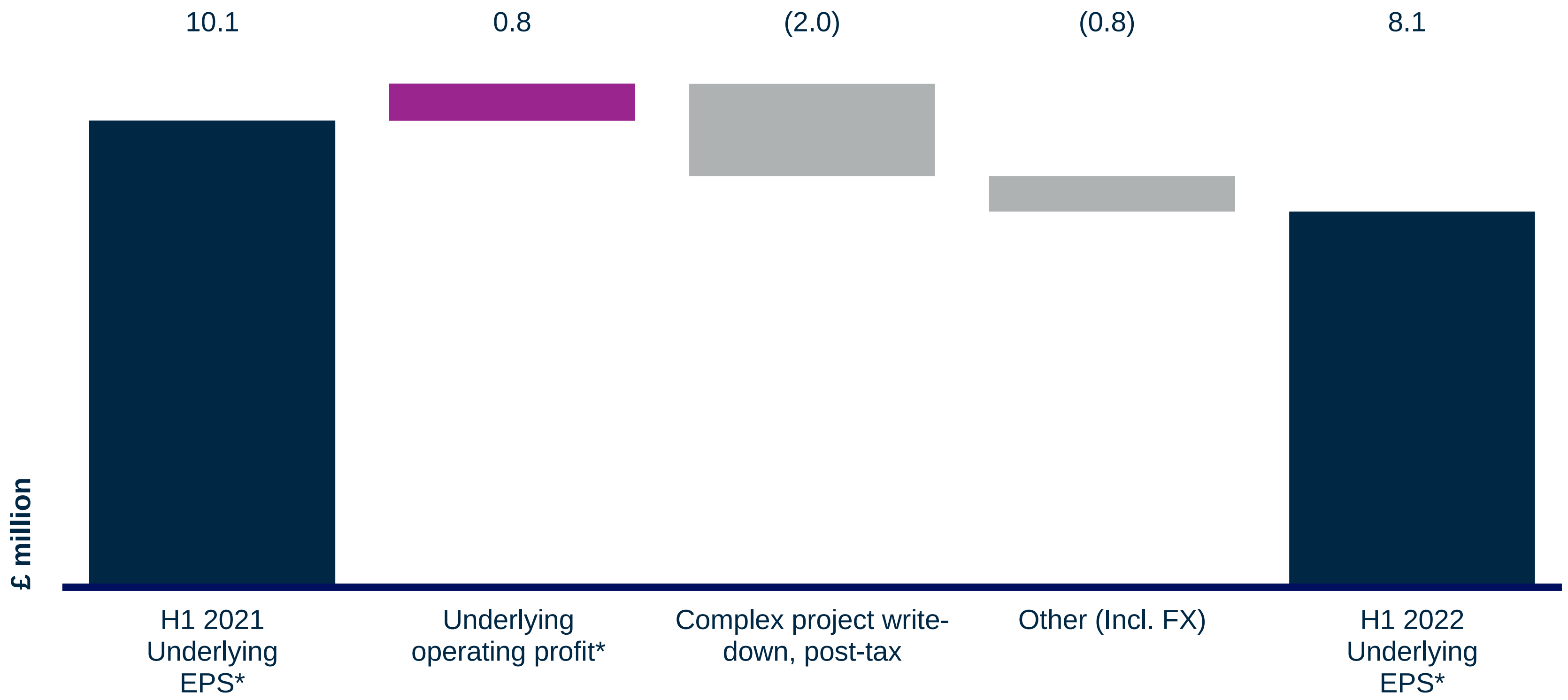
Taxation

	H1 2022 £m	H1 2021 £m
Underlying tax charge*	**(5.9)**	(10.5)
Specific adjusting items	**(14.6)**	1.0
Total tax charge	**(20.5)**	(9.5)
Underlying tax rate*	**11.2%**	15.4%

* 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 2022 £m	H1 2021 £m
Underlying operating profit*		**53.4**	69.0
Depreciation and amortisation		**25.7**	24.9
Changes in working capital		**(13.0)**	(10.7)
Loss/(profit) on disposal of PPE		**-**	1.0
Share-based payments charge		**3.6**	8.2
Share of post-tax profit of equity accounted entities	**3.4**	**-**	0.2
Net movement in provisions		**(0.2)**	(0.4)
Retirement benefit contributions in excess of income statement expense		**0.7**	0.5
Net cash inflow from operations*		**70.2**	92.7
Cash conversion %*		**131%**	134%
Net capex		**(48.8)**	(42.3)
Proceeds from disposal of plant and equipment		**-**	-
Net cash inflow from operations (post-capex)*		**21.4**	**50.4**
Net interest		**(0.7)**	(0.6)
Taxation		**(12.8)**	(11.7)
Free cash flow*		**7.9**	38.1

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

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Movements in net cash

	H1 2022 £m	H1 2021 £m
Free cash flow	**7.9**	38.1
Dividends	**(27.0)**	-
Dividends from joint ventures and associates	**2.0**	-
Acquisition of business	**-**	(24.6)
Acquisition transaction costs	**-**	(0.9)
Unsuccessful acquisition costs	**(4.1)**	
Disposal of businesses	**-**	26.6
Purchase of own shares	**(0.4)**	(5.2)
Other (including FX)	**(3.3)**	(6.0)
Change in net cash	**(24.9)**	28.0
Opening net cash - 1 April	**164.1**	84.7
Closing net cash - 30 September	**139.2**	112.7

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

Balance sheet

	30 September 2021 £m	31 March 2021 £m
Goodwill	**147.1**	145.5
Intangible assets	**143.7**	139.2
Property, plant and equipment	**408.6**	397.2
Financial assets at fair value through profit or loss	**0.9**	0.9
Working capital	**(11.0)**	(30.6)
Retirement benefit surplus (net of tax)	**201.7**	168.8
Other assets and liabilities	**(103.2)**	(95.4)
Net cash	**139.2**	164.1
Net assets	**927.0**	889.7

Confirmed pension surplus

	30 September 2021 £m	31 March 2021 £m
Equities	**221.5**	187.6
LDI investment	**327.0**	362.3
Asset backed security investments	**499.5**	455.6
Alternative and corporate bonds	**343.6**	352.8
Property funds	**48.3**	76.6
Cash and cash equivalents	**17.3**	49.3
Derivatives	**(5.3)**	(0.4)
Insurance buy-in policy	**687.9**	588.0
Market value of assets	**2,139.8**	2,071.8
Present value of scheme liabilities	**(1,862.4)**	(1,857.5)
Net pension asset before deferred tax	**277.4**	214.3
Deferred tax liability	**(75.7)**	(45.5)
Net pension asset	**201.7**	168.8

- Accounting net pension asset of £201.7m (after deferred tax)
- Scheme is hedged against ~90% of interest rate risk and 94% of the inflation rate risk, as measured on the Trustees' gilt-funded basis

QINETIQ

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**	**275.0**

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