Serving the national security interests of our customers

QinetiQ Group plc
Preliminary results for year ended
31 March 2023

25 May 2023

QINETIQ

Agenda

Serving the national security interests of our customers – headlines

1. Excellent operational performance across company globally
2. Addressable market >£30bn and higher customer demand
3. Enhancing global platform – Avantus & Air Affairs on-track
4. Targeting high single digit organic growth at 11-12% margin
5. Increased FY27 ambition to c.£3bn revenue inc. acquisitions
6. Robust plan to accelerate sustainable profitable growth
7. Capability to deliver our future growth plan sustainably

FY23 financial performance

Orders

£1,724.1m +41%

FY22: £1,226.6m[2]

Revenue

£1,580.7m +20%

FY22: £1,320.4m[2]

Profit[1]

£178.9m +30%
11.3% margin

FY22: £137.4m[2]

Cash

106% conversion
0.8x leverage

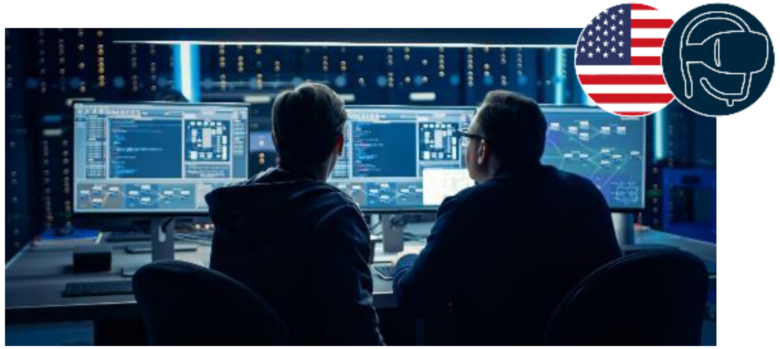
FY22: 113%[2]

Strategically aligned with our AUKUS[3] customers to deliver enhanced shareholder returns

[1] Operating profit from segments [2] FY22 impacted by write-down: £22.5m orders, £10.7m revenue, £14.5m operating profit [3] Australia, United Kingdom, United States

Serving the national security interests of our customers – operational highlights

£260m MSCA[1] 10 year contract



$80m Avantus intel customer selection

Air Affairs expanding threat representation

£80m SOCIETAS contract for mission data

$93m DNVT[2] contract for digital sensors

$13m laser directed energy contract

Excellent operational performance across company globally

[1] Maritime Strategic Capability Agreement [2] Digital Night Vision Technology

Financial results

Carol Borg
Group Chief Financial Officer

FY23 Financial Highlights

Orders	Revenue	Operating Profit*
£1,724.1m	**£1,580.7m**	**£178.9m**
FY22: £1,226.6m[1]	FY22: £1,320.4m[1]	FY22: £137.4m[1]
+41%	+20%	+30%

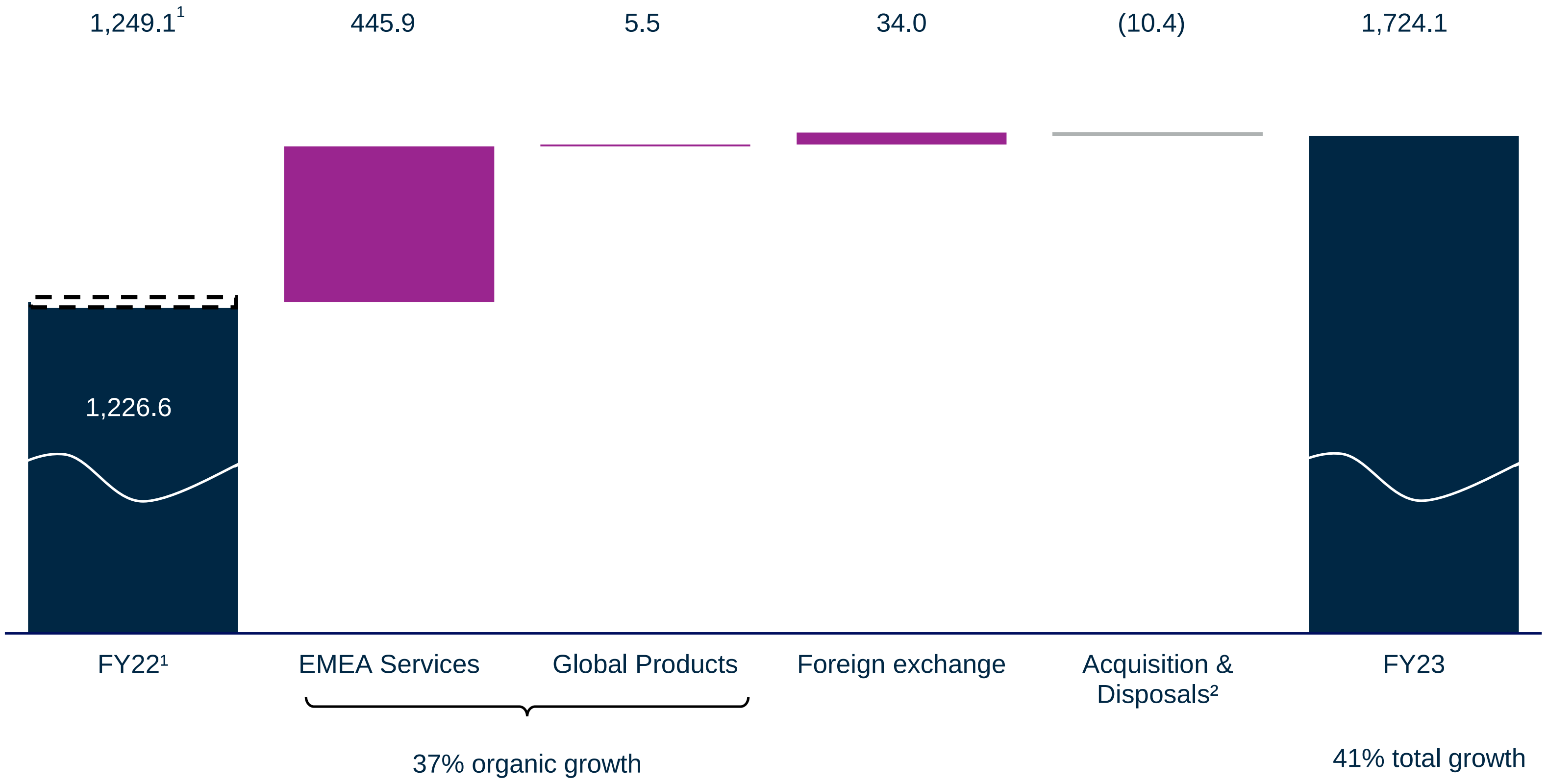
Cash conversion & leverage		EPS	ROCE
106%	**0.8x**	**26.5p**	**23%**
FY22: 113%[1]	leverage	FY22: 20.6p[1]	FY22: 26%
		+29%	-3% pt

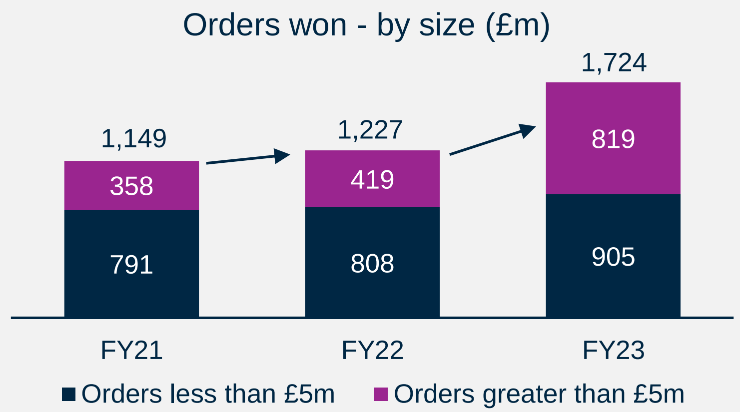
[1] FY22 impacted by write-down: £22.5m orders, £10.7m revenue, £14.5m operating profit

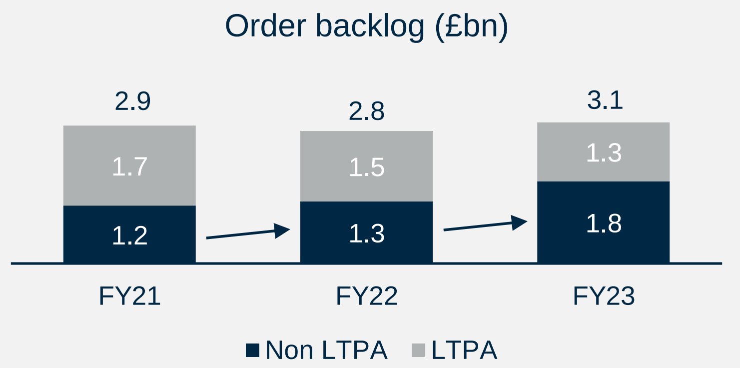
* All measures on this page are underlying. Operating profit is the total from the operating segments. Definitions of APMs can be found in the Appendix

Record high order growth; backlog increasing; larger, longer-term contracts

Orders (£m)





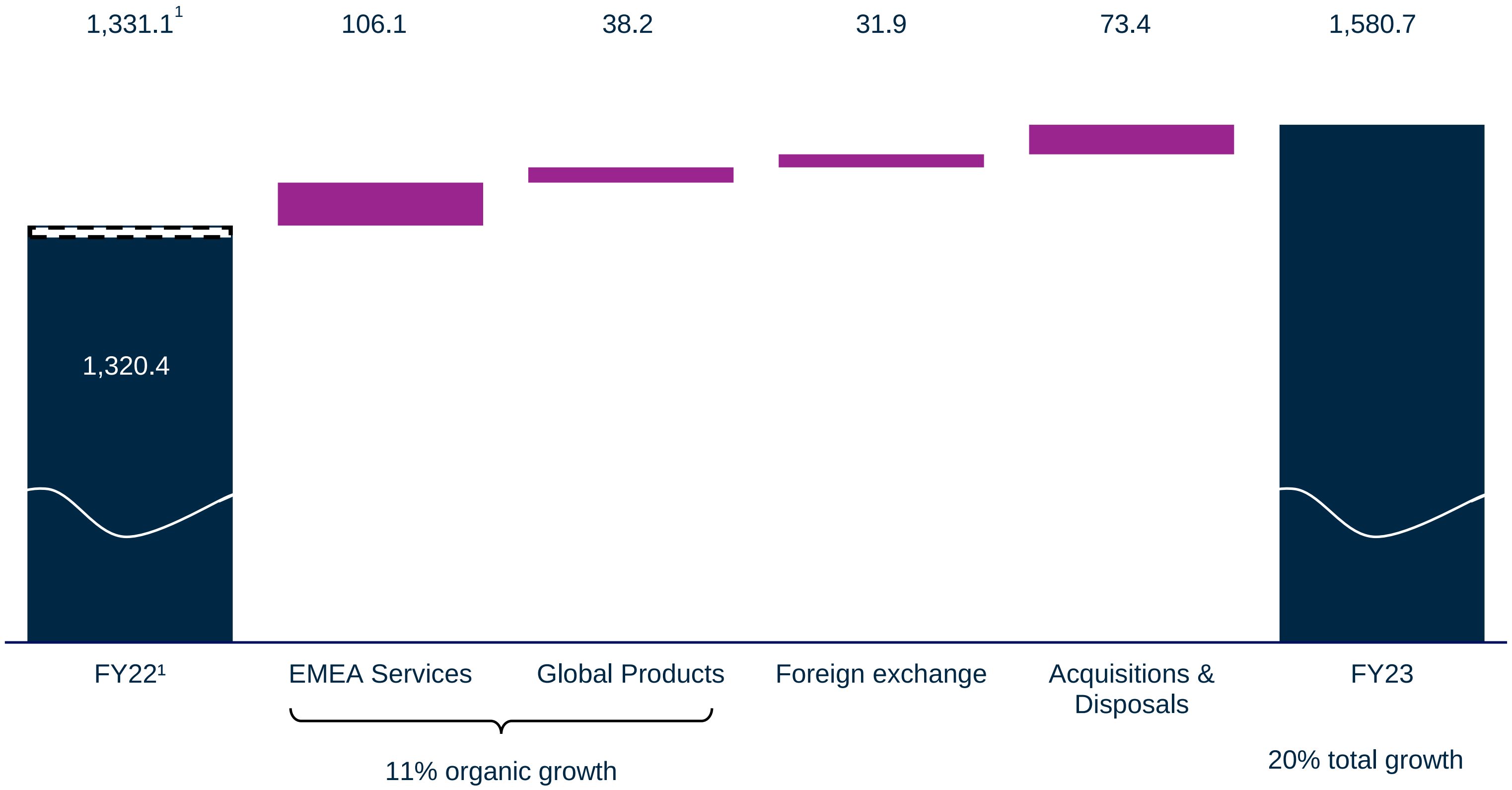


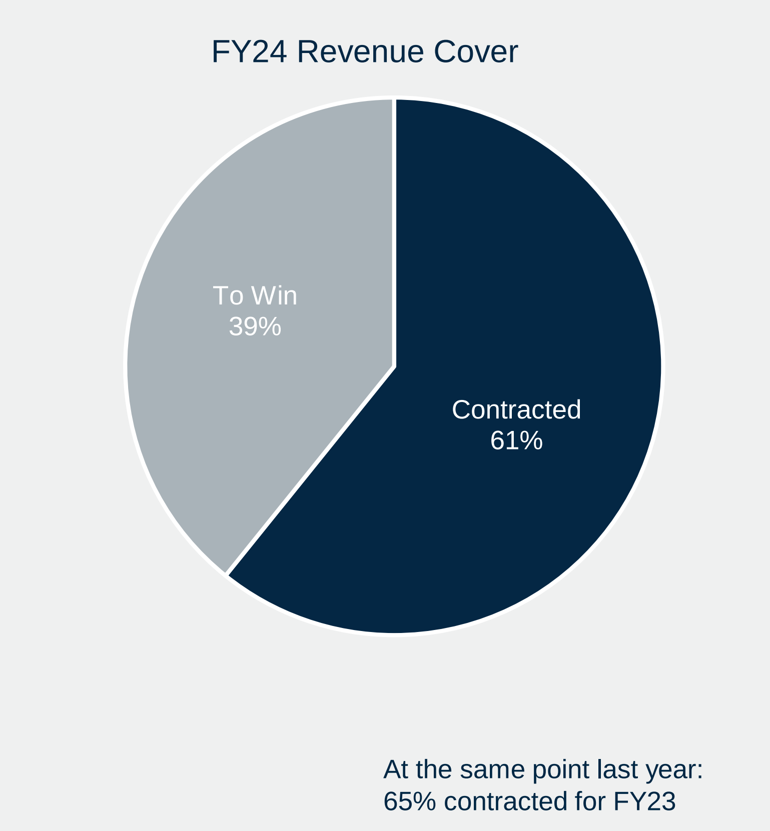
[1] Impact of prior year write-down for comparison purposes (£22.5m)

[2] FY22 included larger order intake in Space NV which was sold in Aug 2022

Strong revenue growth in both segments; partial contribution from acquisitions

Revenue (£m)





[1] Impact of prior year write-down for comparison purposes (£10.7m)

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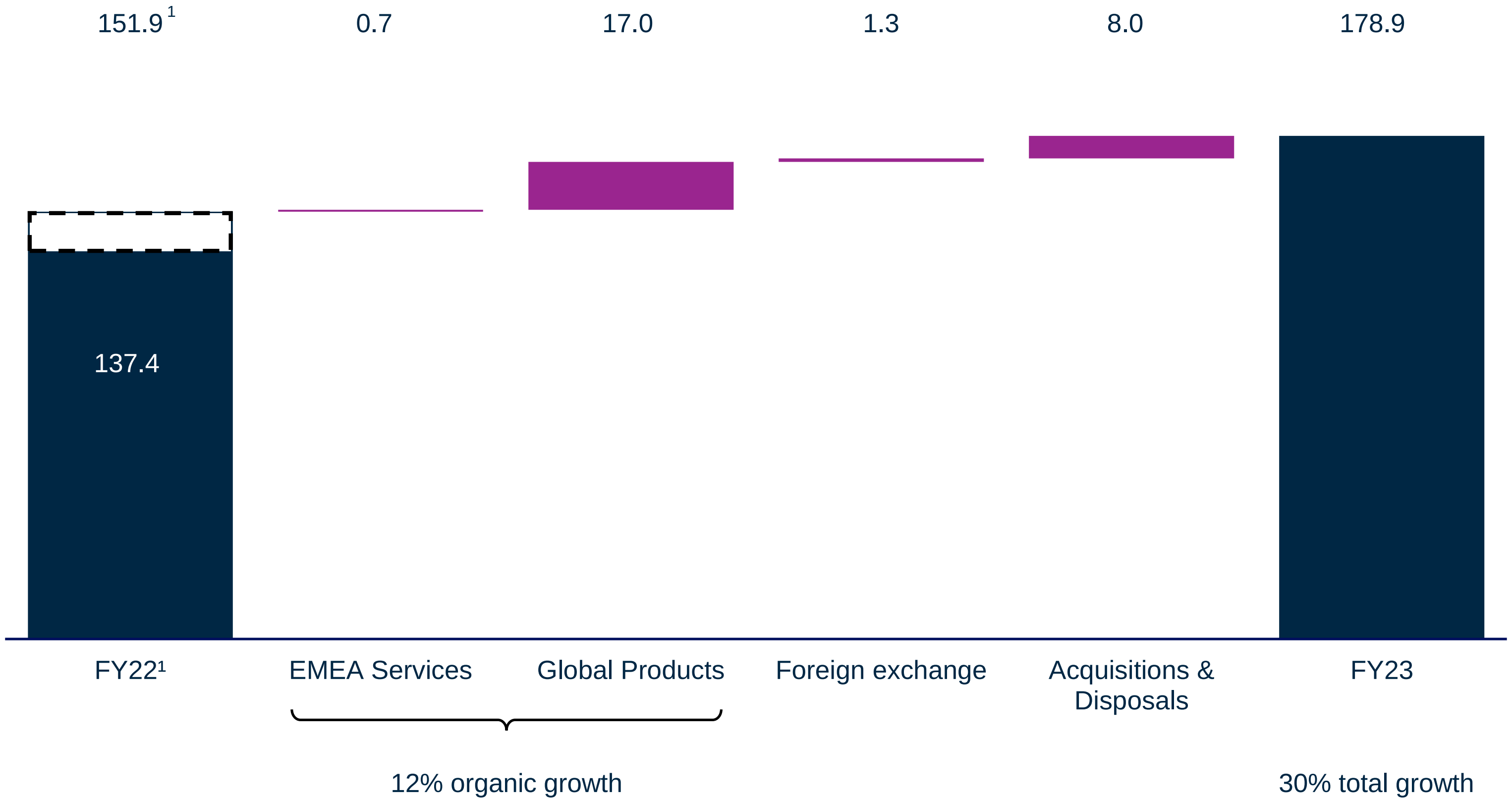
Strong profit growth, particularly in Global Products

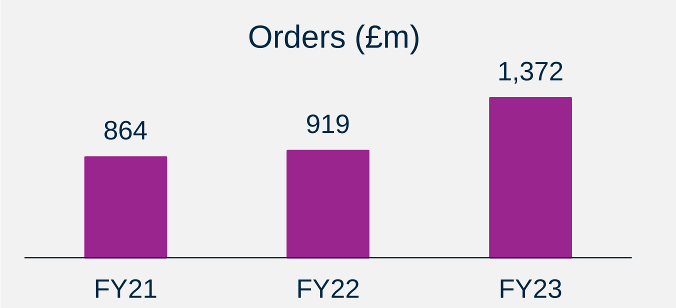
Underlying operating profit from segments (£m)

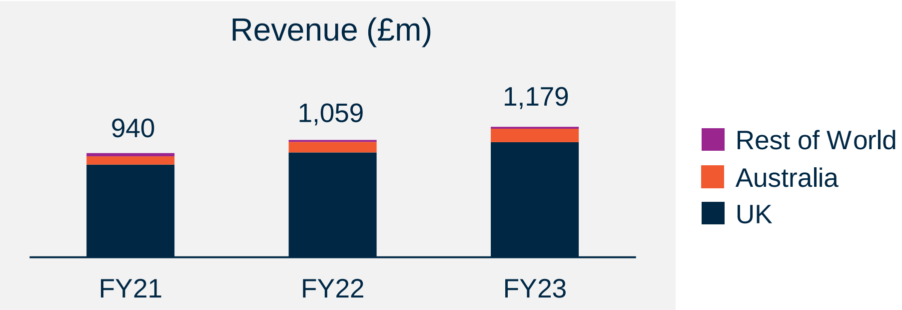


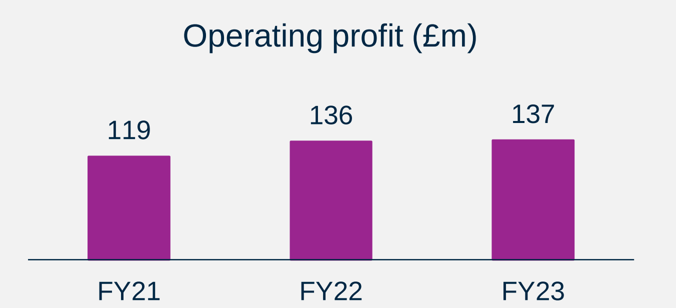
- EMEA Services has been impacted by the investment made in our people this year as a result of the cost of living pressures.
- Global Products delivered double digit margin of 10.4%, reflecting strong performance in the US.
- Our acquisitions, Avantus and Air Affairs have delivered operating profit margin in line with expectations.

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

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





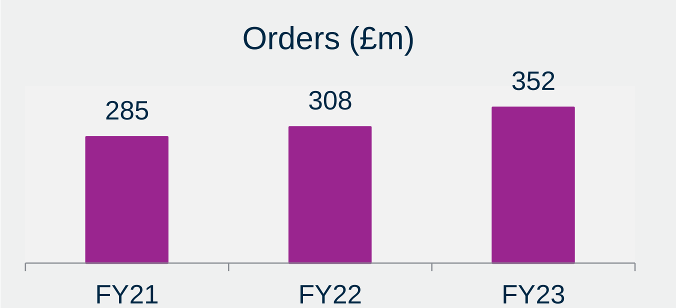


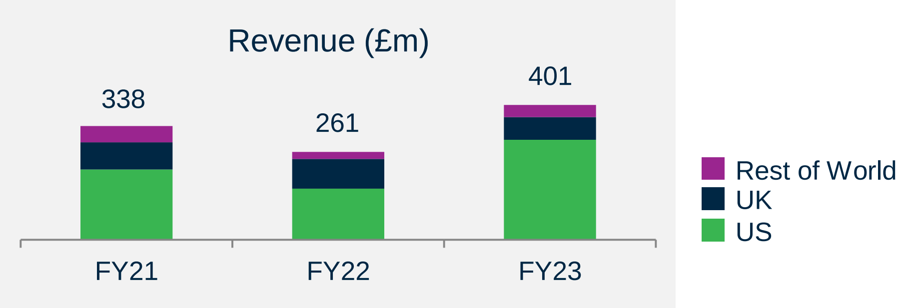
EMEA Services	**FY23 £m**	FY22 £m
Orders	**1,372.2**	918.9
Revenue	**1,179.3**	1,059.2
Underlying operating profit	**137.1**	135.6
Underlying operating profit margin	**11.6%**	12.8%
Book to bill ratio[1]	**1.4x**	1.1x
Total funded order backlog	**2,768.8**	2,541.6
Funded order backlog excl. LTPA amendments	**1,453.4**	1,037.9

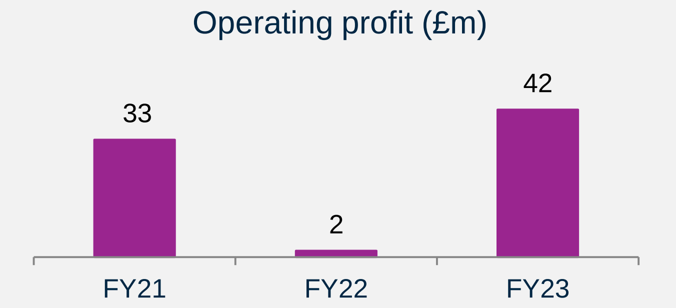
- Orders increased by 49% (reported and organic). Funded order backlog at £2.8bn with a book to bill ratio of 1.4x.
- Revenue increased by 11% reported and 10% organic.
- Operating profit margin at 11.6% including additional investment made to support cost of living, focused on lower paid employees.

[1] B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract revenue of £225m (FY22: £222m)

Global Products – strong performance in US and QTS, driving double digit margin







Global Products	**FY23 £m**	FY22 £m
Orders	**351.9**	307.7
Revenue	**401.4**	261.2
Underlying operating profit	**41.8**	1.8
Underlying operating profit margin	**10.4%**	0.7%
Book to bill ratio	**0.9x**	1.2x
Funded order backlog	**301.5**	287.2

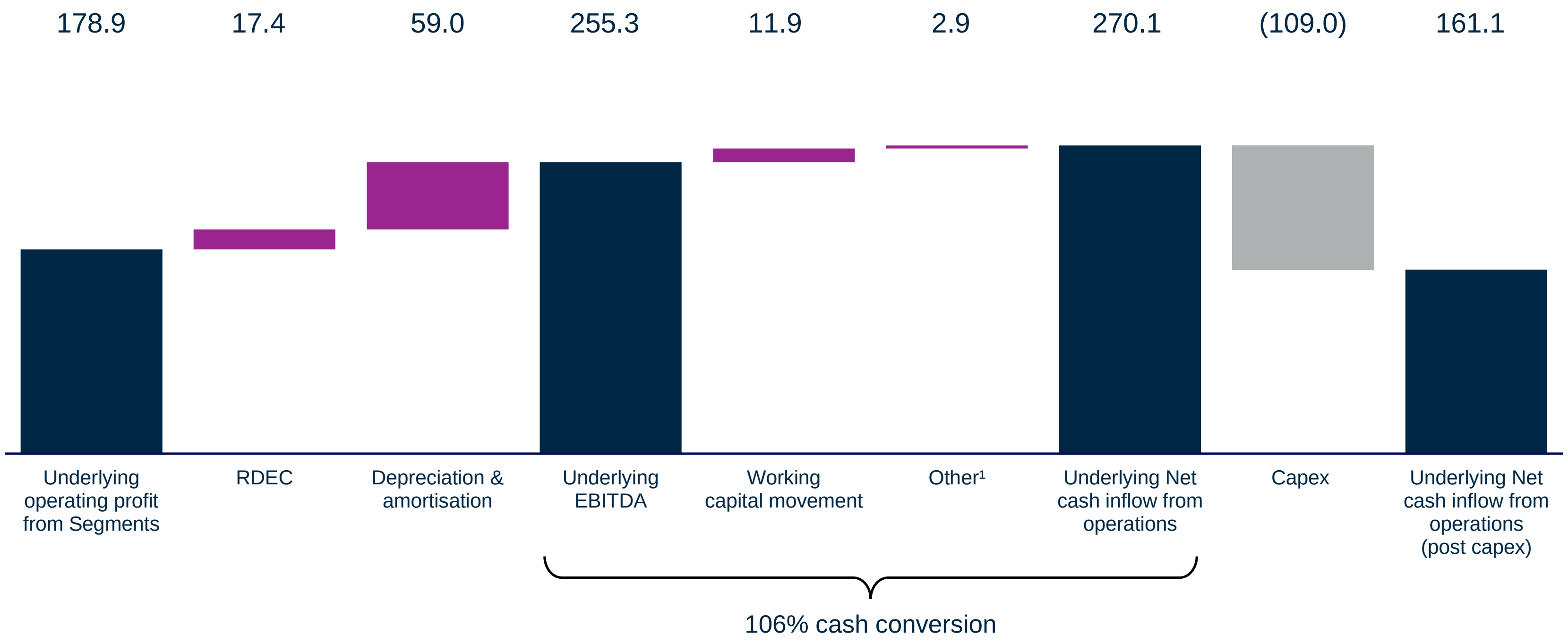
- Orders increased by 14% reported and 2% organic[1]. Funded order backlog due to shorter cycle business at £0.3bn with a book to bill ratio of 0.9x.
- Revenue increased by 54% reported and 15% organic[1].
- Operating profit margin at 10.4% reflecting the strong US performance, giving a strong foundation for future growth & integration of Avantus.

[1] Organic growth excluding the impact of the prior year write-down

FY22 impacted by write-down: £22.5m orders, £10.7m revenue, £14.5m operating profit

Strong and consistent cash generation

Cash generation (£m)



Leverage

	FY23
Definition = Net Debt / EBITDA	0.8x

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

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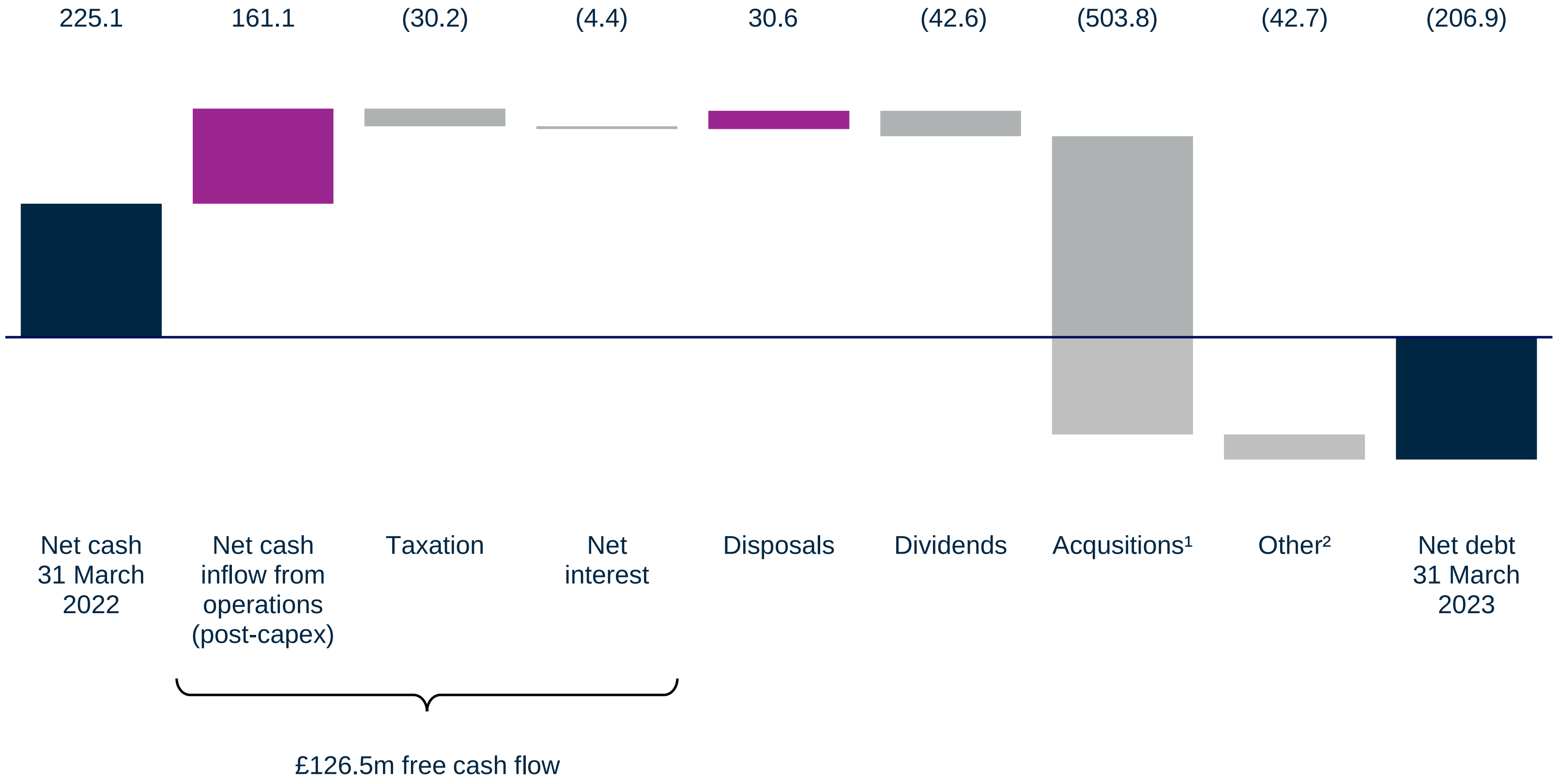
Deploying our balance sheet to support our growth strategy

Net (debt) / cash (£m)



Net (debt) / cash components

	FY23 £m	FY22 £m
Cash and cash equivelants	151.2	248.1
Borrowings - term loan	(337.6)	-
Leases	(31.3)	(22.1)
Derivatives	8.0	(1.8)
Capitalised bank fees	2.8	0.9
	(206.9)	225.1

[1] Acquisitions includes the £117.9m repayment of acquired debt

[2] Other movements mainly driven by acquisition costs, Increase in Lease obligations, restructuring costs and digital investment

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Strategic update

Steve Wadey
Group Chief Executive Officer

Protecting lives and securing the vital interests of our customers

Customers' mission	Thriving people	Shareholder return

Higher customer demand

+

Delivering with agility and pace

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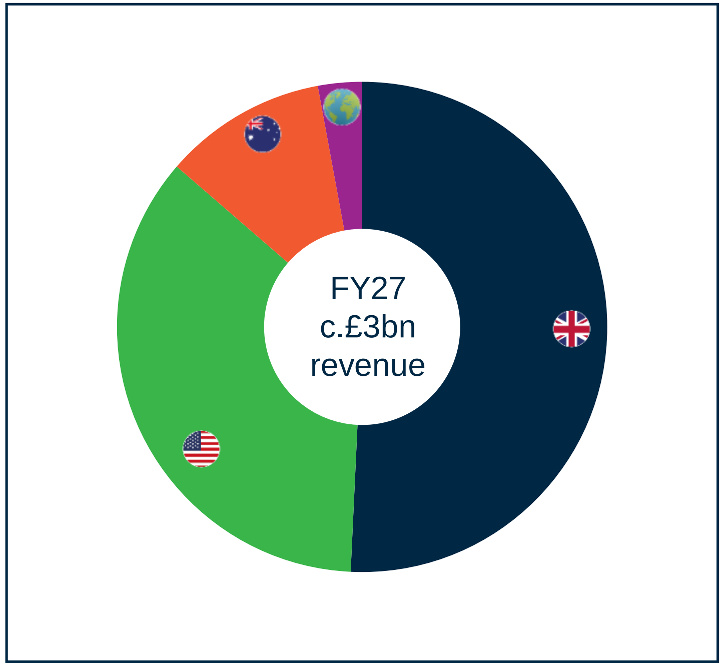

Accelerating profitable growth

Strategy and capabilities aligned to deliver sustainable growth

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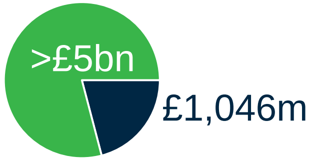
Increased European and Indo-Pacific threats driving rapid defence modernisation

Market opportunity[1] increased from >£20bn to >£30bn per year

- Warfare changing with widening threat spectrum
- Defence RDT&E[2] market expenditure growing
- Intelligence and security markets now included
- Increasingly aligned to high priority segments

$842bn budget request with record RDT&E at $145bn for new technologies

£50bn with £6.6bn focused on R&D and experimentation over 4 years



ROW

Strengthening NATO[3] alliance and partnerships with Canada & Germany

Budget increasing 7% to $53bn, focused on sovereign capability modernisation

Addressable market increased to >£30bn and higher customer demand

[1] Sources: Jane's Market Budget Forecast March 2023, UK MOD and US DOD forecasts for RDT&E, Australia Defence publications and QinetiQ estimates [2] Research & Development and Test & Evaluation [3] North Atlantic Treaty Organisation

● Market opportunity ● FY23 revenue

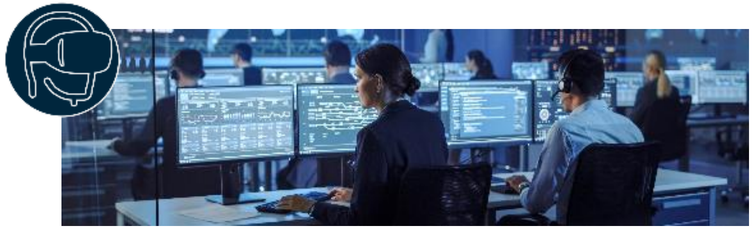
Customer focused growth strategy aligned with AUKUS[1] shared mission

Experimentation and technology

Robotics and autonomous systems

Engineering services and support

Test and evaluation



Cyber and information advantage

Training and mission rehearsal

Our purpose and strategy are increasingly relevant to national and global security needs

[1] Australia, United Kingdom, United States T3E: Test, Trials, Training and Evaluation

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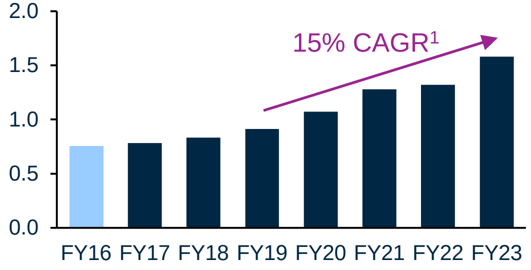
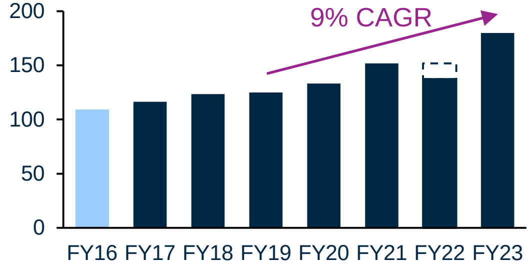
Delivering consistent performance and growth

Excellent operational performance

Revenue (£bn)



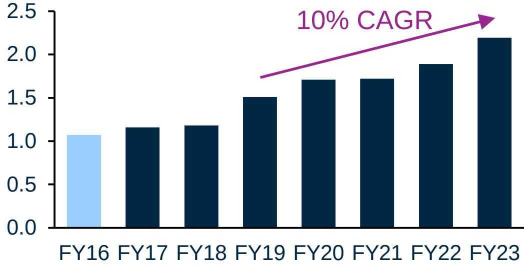
Operating profit (£m)[2]



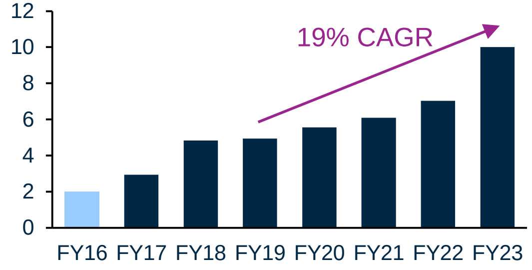
- Good programme delivery e.g. CRS-I[5] full rate production, 3-year extension to MSP[6] and £404m new EDP[7] orders
- Acquisitions continue to deliver double digit revenue growth with MTEQ, Inzpire and Naimuri each up 25% in year

Expanding revenue visibility

Revenue under contract for next 3 years (£bn)[3]



Orders pipeline for next 5 years (£bn)[4]

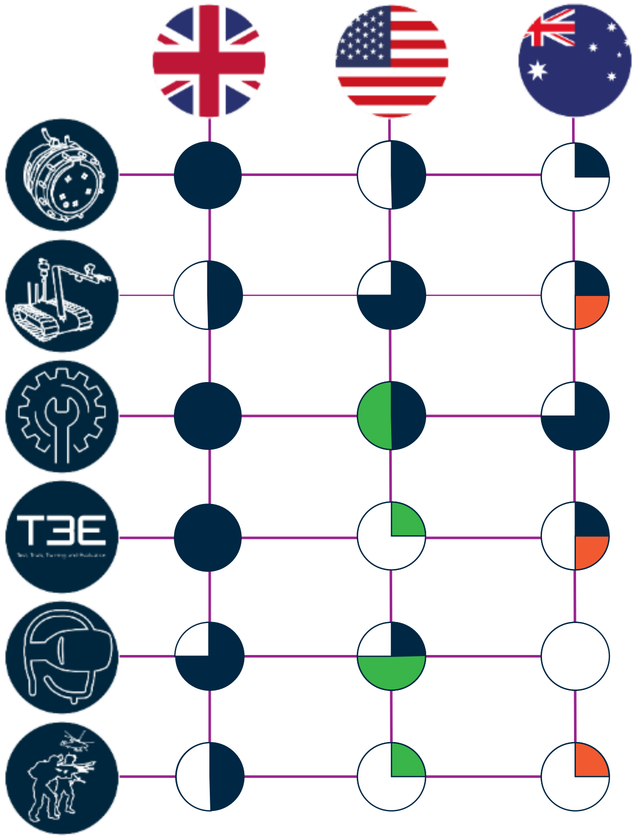


- Cutting-edge technology solutions to create operational advantage e.g. directed energy and electrification
- Partnering on larger longer-term programmes e.g. OMFV[8] driving 50% growth in orders pipeline to a record £10bn

Strong track record of organic and inorganic growth

[1] Compound Annual Growth Rate [2] FY22 shows add back for write-down [3] Revenue under contract for next 3 years at end of FY [4] Orders pipeline for next 5 years at end of FY, FY16 estimated [5] Common Robotic System – Individual
[6] Major Service Provider [7] Engineering Delivery Partner [8] Optionally Manned Fighting Vehicle

Enhancing our global platform to deliver mission-led innovation



Building a disruptive mid-tier US business

- Avantus ahead of plan e.g. fully integrated leadership
- $100m customer wins, including 100% re-compete
- Pursuing synergies across the DoD[1], Intel and DHS[2]

Building a global leader in threat representation

- Air Affairs secured next phase of airborne training
- Leveraging capabilities: QTS[3], GmbH and Air Affairs
- Expanding market e.g. Banshee into US TSMO[4]

Avantus and Air Affairs performing well and integrations on-track

Breadth of offering: ● Existing ● Avantus ● Air Affairs [1] Department of Defense [2] Department of Home Land Security [3] QinetiQ Target Systems [4] Threat Systems Management Office

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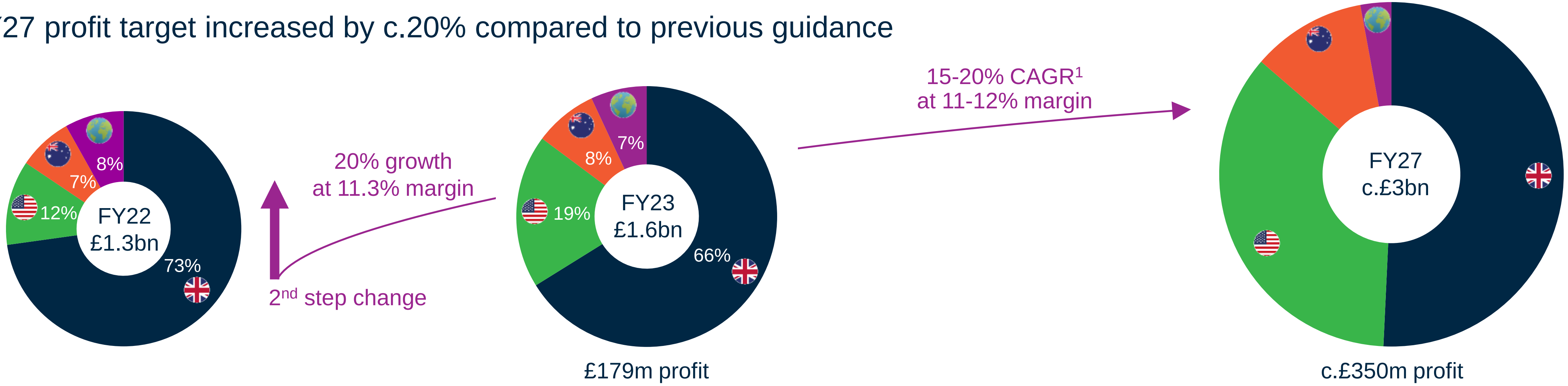
Increased FY27 growth ambition from £2.3bn to c.£3bn revenue

- Significant growth potential within >£30bn addressable market driven by increased threat
- Upgrading revenue target to deliver high single digit organic growth, supplemented by further strategic acquisitions
- Evolving geographic mix with Australia and US more than doubling, delivers higher growth at 11-12% margin
- FY27 profit target increased by c.20% compared to previous guidance



Robust plan to accelerate sustainable profitable growth

[1] Compound Annual Growth Rate, combined organic and inorganic growth

Creating a culture to enable our customers' mission

Thriving people

- Improved employee engagement and invested to retain and attract
- Top 100 leaders capable for scale of AUKUS[1] growth e.g. US & Australia

Advanced technology

- Aligned with AUKUS priorities e.g. sensing, autonomy & directed energy
- Underpinned by ongoing c.£20m p.a. IRAD[2] investment programme

Net zero

- Scope 1 & 2 reduced by 12% in year & "top rated ESG[3]" by Sustainalytics
- Top 1000 managers have 17.5% of their incentive to deliver ESG outputs

Capability to deliver our future growth plan sustainably

[1] Australia, United Kingdom, United States [2] Internal Research and Development [3] Environmental, Social and Governance

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Upgraded guidance

Steve Wadey
Group Chief Executive Officer

Carol Borg
Group Chief Financial Officer

Strategy to deliver sustainable growth for our shareholders

Driven by our purpose and strategy

Aligned strategic markets

Increasingly threat relevant

Strong operational performance

Investing in sustainable growth

Focused on our customers and people

High organic revenue growth	7 – 9%
Stable operating margin	11 – 12%
High cash conversion	90%+
Attractive ROCE[1]	15 – 20%
Responsible ESG[2]	Net Zero, Engagement[3]

A world-leading defence and security company with attractive returns

[1] Return On Capital Employed [2] Environmental, Social and Governance [3] Stakeholder engagement including employees and community

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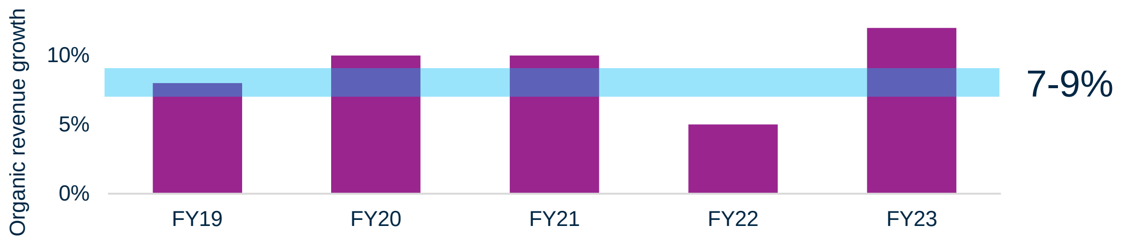
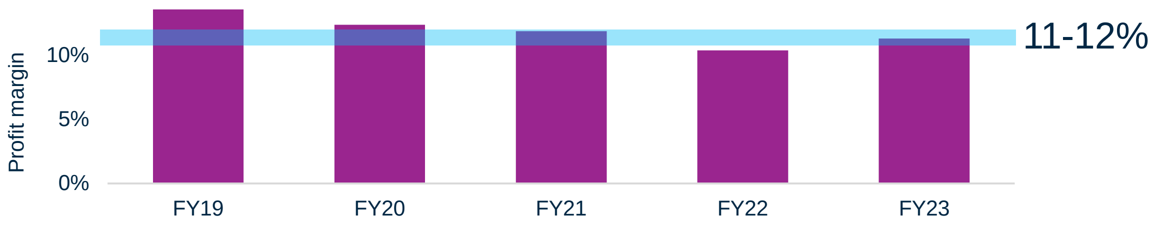
Track-record demonstrates confidence to achieve new guidance

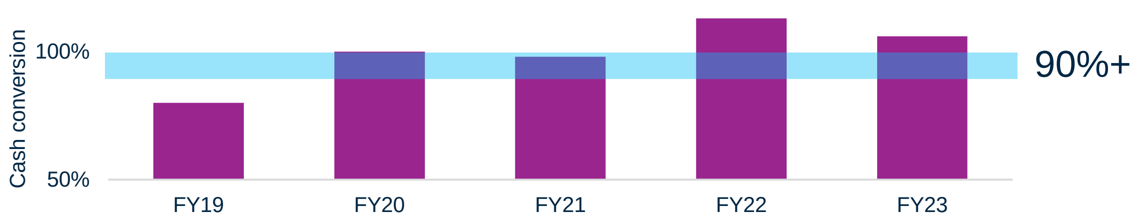
High organic revenue growth



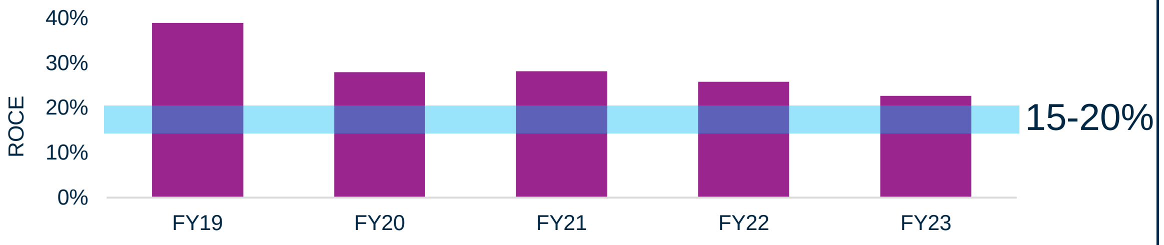
Stable operating profit margin



High cash conversion



Attractive return on capital employed



Deliberate focus on sustainable performance

= New QQ guidance

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Our capital allocation policy in action

Priority 1	Priority 2	Priority 3	Priority 4
Invest in our capabilities	Maintain balance sheet strength	Provide a progressive dividend to shareholders	Return excess cash to shareholders

Priority 1
- Organic investment in our people, capabilities and tools to support high single digit organic revenue growth
- Further strategic acquisitions to expand our distinctive offerings globally to achieve our FY27 £3bn revenue ambition at 11-12% margin

Priority 2
- Asset-light & cash generative business model: supports investment to drive future growth & manage leverage levels
- Continual review of portfolio for strategic relevance

Priority 3
- FY23 full year dividend announced: 7.7p per share
- Progressive dividend, in FY23 delivers 5% growth on prior year

Priority 4
- Regular review to ensure consistency with the overall strategy

Capital allocation policy supports delivery of our long-term ambition

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Outlook Statement

FY24: expectations unchanged[1]

- We enter FY24 with confidence, a healthy order-book and positive momentum with 61% revenue under contract.
- Consistent with our upgraded long-term guidance, we expect to deliver high single digit revenue growth compared to the FY23 pro-forma revenue (full year effect of FY23 M&A activity); this equates to high teens total revenue growth versus the FY23 reported revenue. Operating profit margin will be at the lower end of the 11-12% range.
- Capital expenditure is expected to remain within the £90m to £120m range.

Longer-term: upgraded guidance

- We are targeting high single-digit organic revenue growth, supplemented by strategically aligned acquisitions to build a circa £3bn company by FY27.
- This increased level of growth will be delivered at stable margins of 11-12%, reflecting the evolving geographic mix of the global company.
- Cash conversion will remain strong at over 90%, supporting our ability to deploy capital effectively to achieve our long-term growth ambition and deliver a return on capital employed at the upper end of the 15-20% range.

[1] Analyst expectations (median average) for EBIT as at 24/05/23: £206m

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Summary

Steve Wadey
Group Chief Executive Officer

Serving the national security interests of our customers – summary

1. Excellent operational performance across company globally
2. Addressable market >£30bn and higher customer demand
3. Enhancing global platform – Avantus & Air Affairs on-track
4. Targeting high single digit organic growth at 11-12% margin
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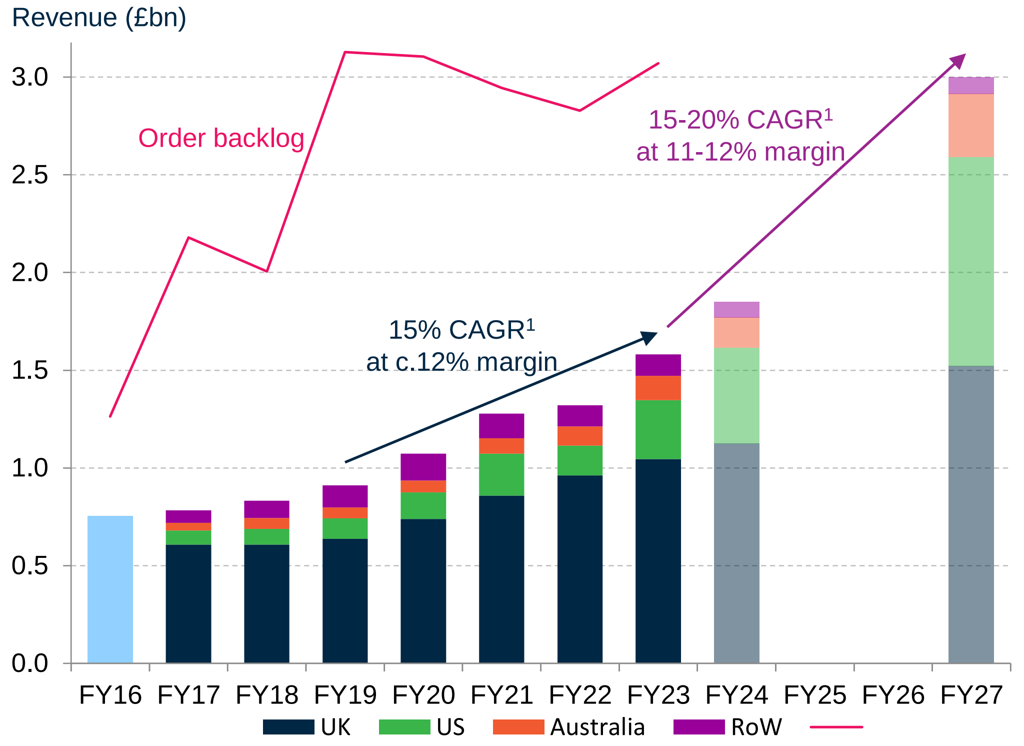
Financial performance



Strategically aligned with our AUKUS[2] customers to deliver enhanced shareholder returns

[1] Compound Annual Growth Rate [2] Australia, United Kingdom, United States

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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

Technical guidance

	FY23	FY23 Pro-forma	FY24	
Revenue	£1.6bn	£1.7bn	↗	With the full year effect of acquisitions expect to deliver high teens total revenue growth, equivalent to high single digit revenue growth vs FY23 pro-forma
Profit margin	11.3%	11.2%	→	With the full year effect of acquisitions and ongoing normalised investments, expect to deliver lower end of 11-12% margin
Underlying net finance expense	£(6.6)m		↗	£340m debt financing taken out with Avantus acquisition (5.2% weighted average cost of debt, including all fees), expect the FY24 net interest full year expense to be c.£15m
Effective tax rate[1]	11.3%		↗	Will increase to c.19% due to UK corporation tax rate increasing from 19% to 25%. This tax rate is illustrative for comparison against Profit from segments – the headline ETR (excluding RDEC credit) will be c.28%
Tax cash outflow	£30m		↗	Expect increase to c.£45m due to UK corporation tax rate rise
Net working capital change	+£11.9m		↘	Expect a modest working capital outflow to support our growth
Capital expenditure	£109m		↘	Capex expected to reduce modestly, within the £90-120m range
Closing net (debt) / cash	£(207)m		↘	With cash generative nature of the business model we expect to generate free cash flow of £110-120m. After dividend and potentially increased lease liability, expect closing net debt (including lease liability) of £150-170m

1 Illustrative tax rate to reflect RDEC credit included in the tax line (to be used on Underlying Operating Profit from Segments). Equivalent published tax rate of 19.4% excluding the benefit of RDEC in the tax rate
Arrows demonstrate the increase or decrease compared to FY23 pro-forma

Revenue by customer and country

Revenue by customer (%)

FY23

£1,580.7m

	%
MOD	57%
DoD	12%
Government agencies	15%
Commercial Defence	14%
Commercial	2%

FY22

£1,320.4m

	%
MOD	62%
DoD	7%
Government agencies	13%
Commercial Defence	14%
Commercial	4%

Revenue by destination country (%)

FY23

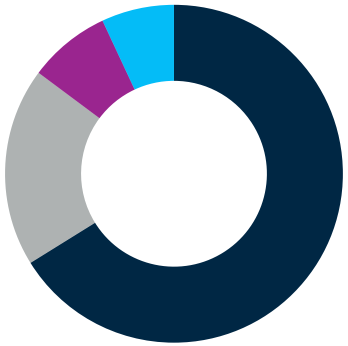
£1,580.7m

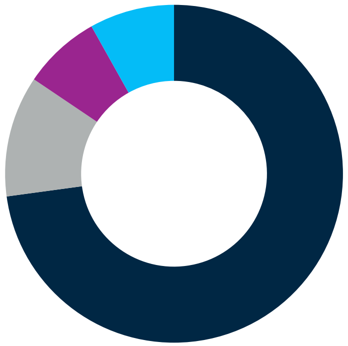
	%
UK	66%
US	19%
Australia	8%
Other	7%

FY22

£1,320.4m

	%
UK	73%
US	12%
Australia	7%
Other	8%





Income statement including specific adjusting items

	FY23 **£m**	FY22^ £m
Operating profit from segments	**178.9**	137.4
RDEC Income	**17.4**	6.2
Underlying operating profit before tax	**196.3**	143.6
Acquisition, integration and disposal costs	**(18.7)**	(5.0)
Digital investment	**(5.8)**	(1.9)
Restructurning costs	**(5.0)**	-
Pension past service cost	**-**	(2.4)
Fair value in respect of contingent consideration	**-**	0.6
Release of RDEC MoD appropriation liability	**19.6**	-
Gain on sale of property	**2.0**	0.7
Impairment of property	**-**	(1.2)
Amortisation of intangibles assets arising from acqusitions	**(15.6)**	(10.7)
Gain/(Loss) on disposal of business	**15.9**	(0.9)
Pension net finance income	**9.9**	4.5
Total specific adjusting items (pre-tax)	**2.3**	(16.3)
Underlying net Finance Expense	**(6.6)**	(1.4)
Profit before tax	**192.0**	125.9
Taxation	**(37.6)**	(35.9)
Profit after tax	**154.4**	90.0

^ 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.

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Impact of Foreign Exchange Translation

	FY23 Organic £m	FY22 £m	FY23 Restated at FY22 Rates £m	FY23 FX benefit £m	FY23 FX benefit %
Orders	**1,701.0**	1,226.6	**1,667.0**	34.0	2.8%
Revenue	**1,489.6**	1,320.4	**1,457.7**	31.9	2.4%
Underlying operating profit	**169.5**	137.4	**168.2**	1.3	0.9%
Total funded order backlog	**3,070.2**	2,828.8	**3,067.9**	2.4	0.1%

- Key driver of FX change in year was the translation of US businesses
- US revenue made up 19% of total group revenue in FY23 compared to 12% in FY22
- Average US exchange rate for FY23 was 1.21 (FY22: 1.36)

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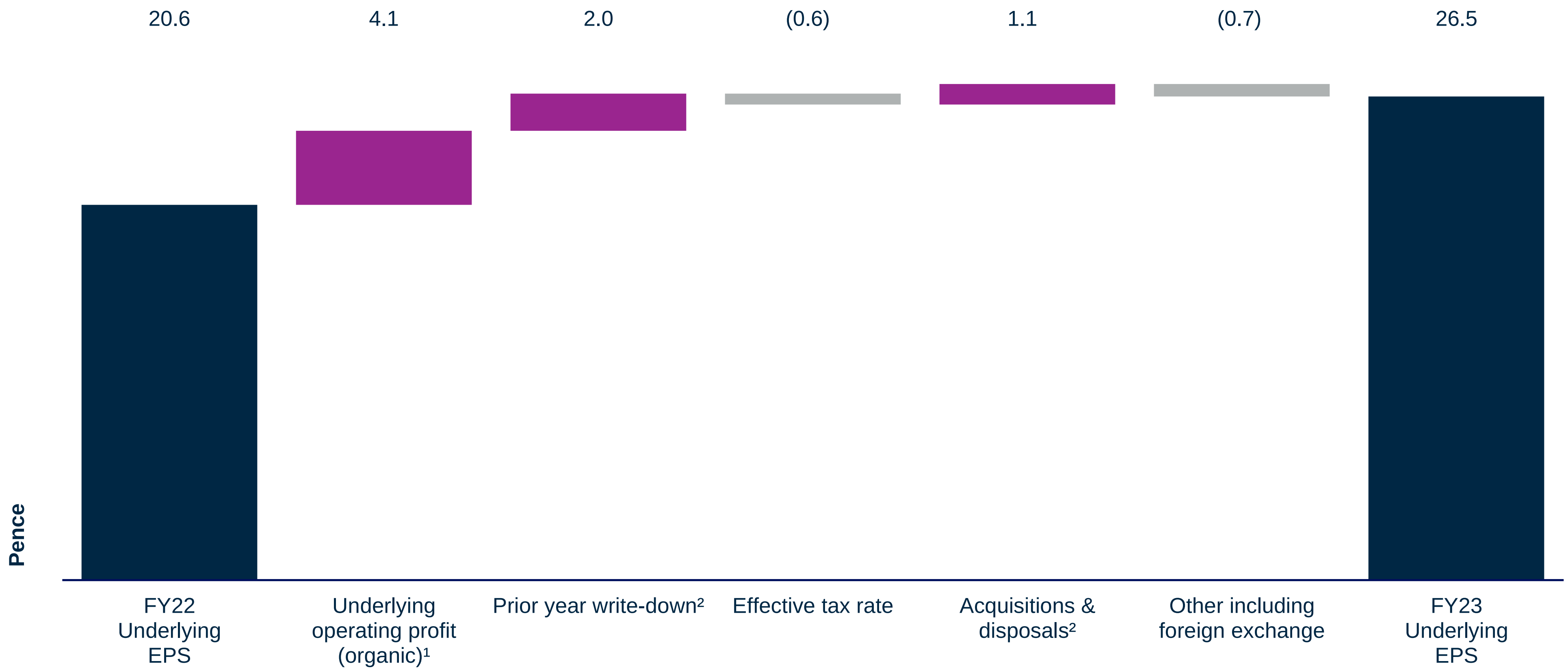
Understanding our different underlying profit and tax rates

	FY23 £m	FY22 £m
Underlying operating profit*	196.3	143.6
Underlying tax charge*	36.8	24.1
Tax income on specific adjusting items	0.8	11.8
Headline tax charge	37.6	35.9
*Underlying tax rate**	*19.4%*	*16.9%*
Illustrative effective tax rate, with impact of RDEC income included in the tax charge		
Operating profit from segments*	178.9	137.4
Tax charge including RDEC income	19.4	17.9
Effective tax rate including RDEC income	*11.3%*	*13.2%*

* Definitions of APMs can be found in the Appendix

Underlying earnings per share (pence)



1 Excluding prior year write-down and post-tax
2 Post-tax

Cash conversion

	FY23 £m	FY22^ £m
Operating profit from segments	**178.9**	137.4
Underlying RDEC income	**17.4**	6.2
Underlying operating profit	**196.3**	143.6
Depreciation and amortisation	**59.0**	52.1
Underlying changes in working capital	**11.9**	20.7
Loss on disposal of PPE	**0.2**	-
Share-based payments charge	**6.1**	7.4
Share of post-tax profit of equity accounted entities	**(0.8)**	(0.3)
Net movement in provisions	**(1.0)**	(1.0)
Retirement benefit contributions in excess of income statement expense	**(1.6)**	(1.8)
Net cash inflow from operations	**270.1**	220.7
Cash conversion %	**106%**	113%
Capex	**(109.0)**	(84.3)
Net cash inflow from operations (post-capex)	**161.1**	136.4
Net interest	**(4.4)**	(1.0)
Taxation	**(30.2)**	(25.4)
Free cash flow	**126.5**	110.0

^ 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.

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Movements in net cash

	FY23 £m	FY22^ £m
Free cash flow	**126.5**	110.0
Dividends	**(42.6)**	(40.2)
Acquisition of business	**(503.8)**	(0.8)
Disposal of business	**30.6**	1.5
Acquisition transaction costs	**(16.4)**	(3.7)
Change in lease obligations	**(15.3)**	-
Restructuring	**(5.0)**	-
Digital investment	**(5.8)**	(1.9)
Purchase of own shares	**(0.8)**	(0.8)
Other (including FX)	**0.6**	(3.1)
Change in net cash	**(432.0)**	61.0
Opening net cash - 1 April	**225.1**	164.1
Closing net cash - 31 March	**(206.9)**	225.1

^ 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.

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Balance sheet

	FY23 £m	FY22 £m
Goodwill	**409.0**	149.4
Intangible assets	**343.0**	140.3
Property, plant and equipment	**477.8**	414.5
Working capital	**(69.0)**	(85.4)
Retirement benefit surplus (net of tax)	**84.4**	265.8
Other assets and liabilities	**(70.0)**	(68.3)
Net cash	**(206.9)**	225.1
Net assets	**968.3**	1,041.4

Confirmed pension surplus

	FY23 £m	FY22 £m
Equities	**210.3**	220.8
LDI investment	**227.2**	291.8
Asset backed security investments	**4.3**	501.7
Bonds	**374.0**	306.0
Property funds	**-**	29.5
Cash and cash equivalents	**17.2**	78.5
Derivatives	**6.7**	(8.5)
Insurance buy-in policies	**515.5**	645.9
Market value of assets	**1,355.2**	2,065.7
Present value of scheme liabilities	**(1,235.4)**	(1,703.5)
Net pension asset before deferred tax	**119.8**	362.2
Deferred tax liability	**(35.4)**	(96.4)
Net pension asset	**84.4**	265.8

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