

# CHEMRING GROUP PLC

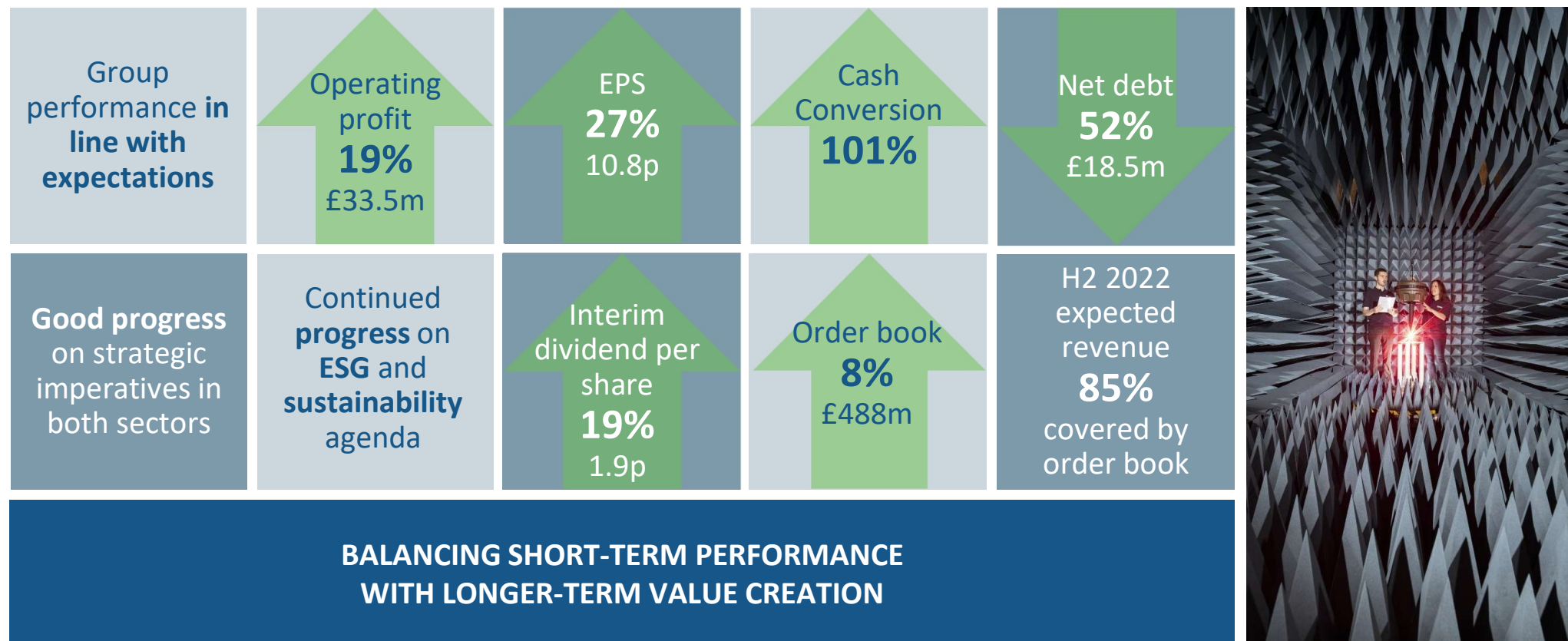
RESULTS FOR THE SIX MONTHS TO 30 APRIL 2022

**A STRONGER GROUP DELIVERING SUSTAINABLE GROWTH**



**MICHAEL ORD**  
GROUP CHIEF EXECUTIVE

# H1 2022 OVERVIEW – DELIVERING SUSTAINABLE GROWTH



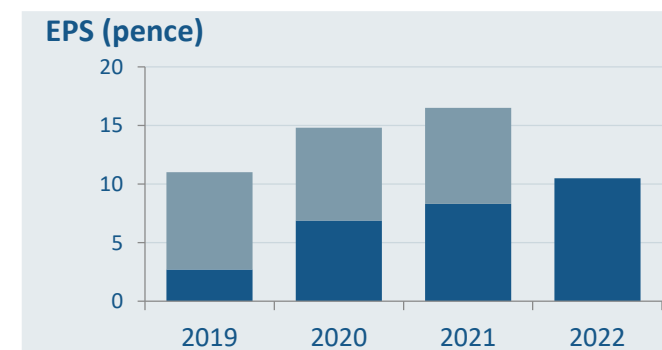
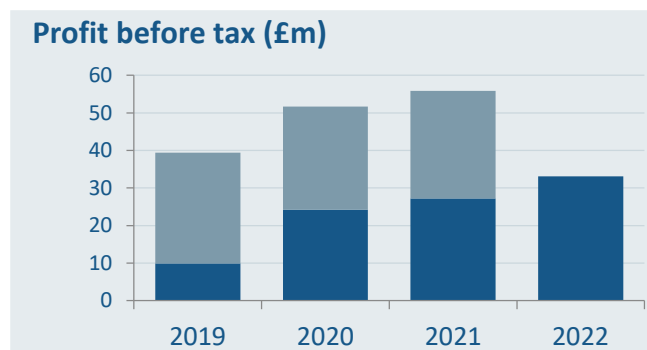
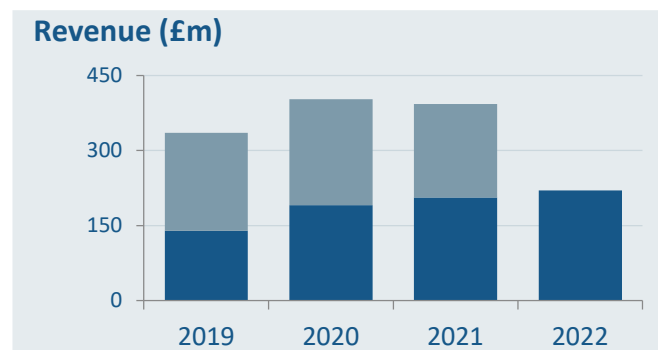
Numbers set out on this slide are underlying measures as reported for the period ended 30 April 2022



**ANDREW LEWIS**  
GROUP FINANCE DIRECTOR

# GROUP PERFORMANCE

■ H1 ■ H2



## FINANCIAL HIGHLIGHTS

- Revenue up 11% to £220m
- Operating profit growth of 19% to £33.5m
- Operating margin increased 100 bps to 15.2%
- Finance expense down 56% to £0.4m
- Diluted EPS increased 27% to 10.5p
- Operating cash conversion of 101% of EBITDA
- Net debt down 52% to £18.5m
- Interim dividend up 19% to 1.9p per share

## OPERATIONAL HIGHLIGHTS

- Strong performance from S&I driven by double digit growth in Roke
- Operational delivery at C&E sites driving margin progression, investment in sites progressing
- Order intake down 2% to £186m as a result of delays driven by the US continuing resolution
- Closing order book of £488m, £188m expected to be delivered in H2 2022
- H2 2022 expected revenue approximately 85% covered by order book at 30 April 2022



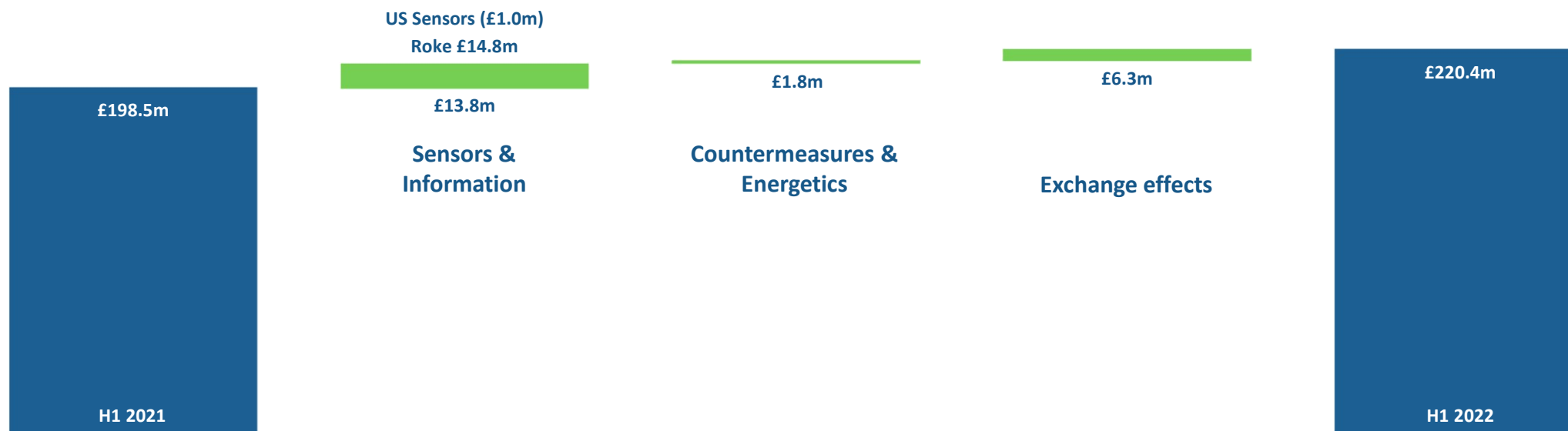
# INCOME STATEMENT

£m			H1 2022	H1 2021	2021
Revenue	↑	11%	220.4	198.5	393.3
Operating profit	↑	19%	33.5	28.1	57.5
Operating margin	↑	100bps	15.2%	14.2%	14.6%
Finance expense	↓	56%	(0.4)	(0.9)	(1.6)
Profit before tax	↑	22%	33.1	27.2	55.9
Tax rate			8.8%	12.1%	14.8%
Earnings per share (diluted)	↑	27%	10.5p	8.3p	16.5p
Dividend per share	↑	19%	1.9p	1.6p	4.8p

- Strong period in Sensors & Information driven by double digit growth at Roke
- Countermeasures & Energetics benefited from improved operational execution
- USD average exchange rate moved from \$1.39 to \$1.31 giving an operating profit tailwind of £1.0m
- Tax rate reduction due to recognition of a non-cash deferred tax asset in respect of potential future interest deductions in the US

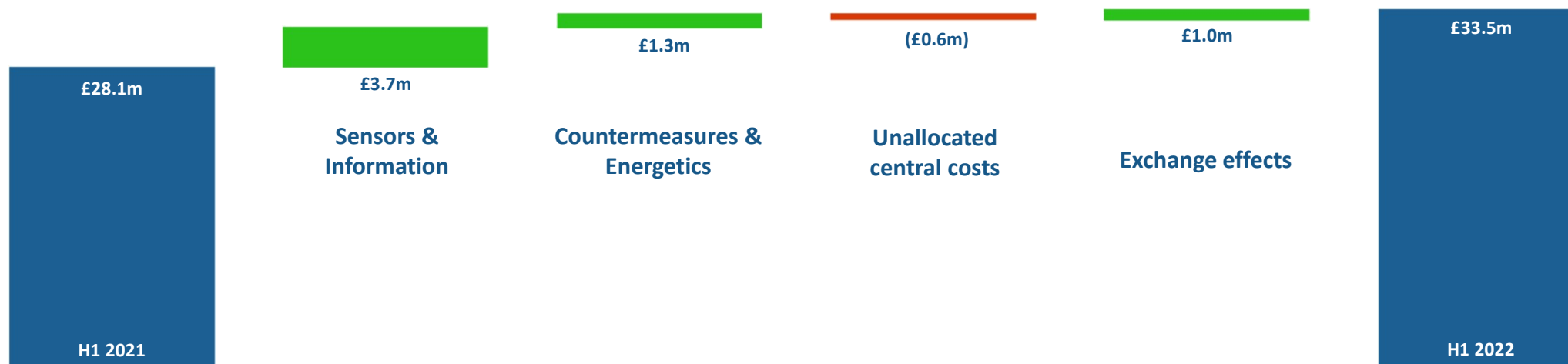
References to operating profit, profit before tax and earnings per share are to underlying measures

# GROUP REVENUE BRIDGE



- Strong period in Sensors & Information driven by double digit growth at Roke
- Countermeasures & Energetics saw a recovery in the niche energetics businesses while countermeasures was weaker
- USD average exchange rate moved from \$1.39 to \$1.31 giving a revenue tailwind of £6.3m

# GROUP OPERATING PROFIT BRIDGE



- Strong growth in Sensors & Information driven by drop through of higher margin revenue growth at Roke resulting in segmental margin increasing by 90bps to 21.5%
- Countermeasures & Energetics benefited from improved operational execution which drove improvement in operating margin of 80bps to 16.4%
- USD average exchange rate moved from \$1.39 to \$1.31 giving an operating profit tailwind of £1.0m



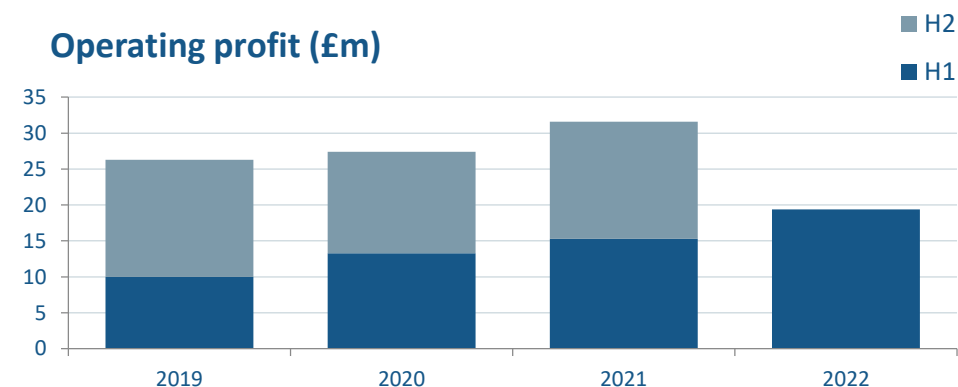
# SENSORS & INFORMATION

			H1 2022 £m	H1 2021 £m	2021 £m
Revenue	↑	21%	90.2	74.4	146.6
EBITDA	↑	25%	20.7	16.6	34.4
Operating profit	↑	27%	19.4	15.3	31.6
Operating margin	↑	90 bps	21.5%	20.6%	21.6%
Order book	↓	7%	101.5	108.9	113.6

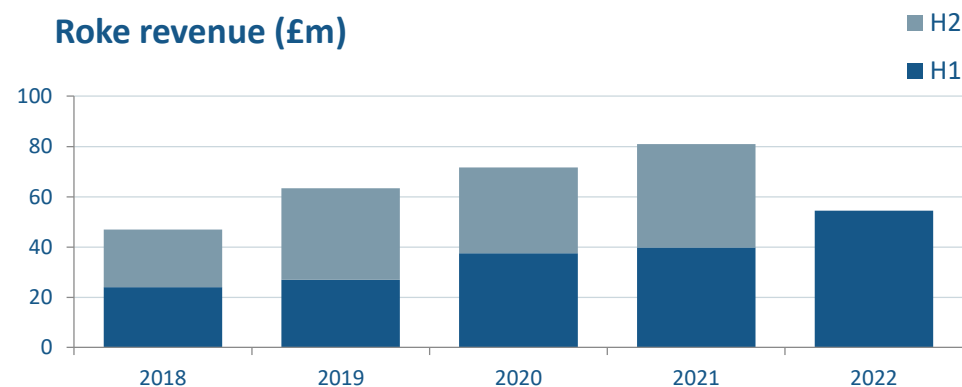
- Roke's market continues to be strong, record order intake, double digit revenue and operating profit growth with strong margins maintained
- Incremental investment planned in H2 2022 in Roke Academy and Roke USA to support continued growth
- HMDS delivery phase continuing, FY22 order delayed by US continuing resolution
- EMBD PoR progressing as planned with additional \$16m order received
- Closing order book of £101.5m

References to EBITDA, operating profit and operating margin are to underlying measures

Operating profit (£m)



Roke revenue (£m)



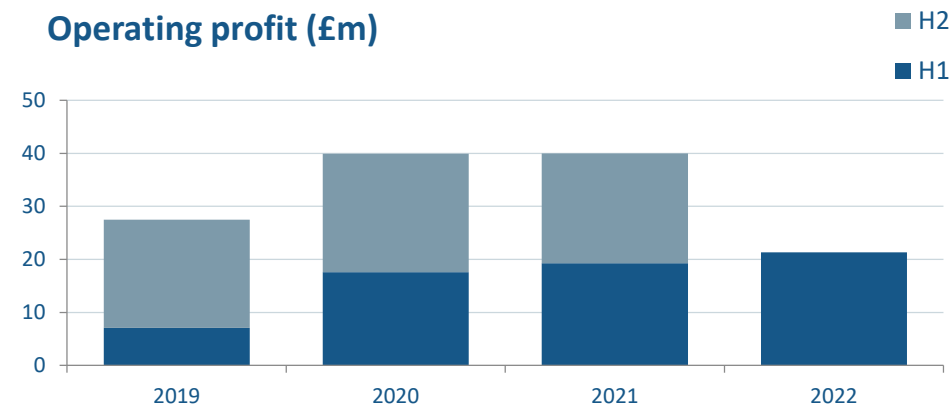
# COUNTERMEASURES & ENERGETICS

			H1 2022 £m	H1 2021 £m	2021 £m
Revenue	↑	5%	130.2	124.1	246.7
EBITDA	↑	7%	29.3	27.5	56.1
Operating profit	↑	10%	21.3	19.3	40.0
Operating margin	↑	80 bps	16.4%	15.6%	16.2%
Order book	↑	13%	386.6	341.5	387.2

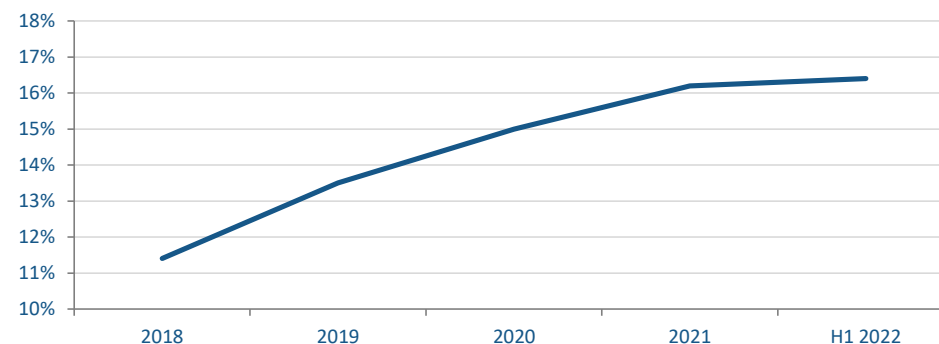
- Improved operational execution drove margin improvement
- Recovery in niche energetics businesses
- UK countermeasures orders from UK MOD and NATO offset fall and delays in US countermeasures orders
- Niche energetics orders increased, led by Norway securing orders with US Primes
- Tennessee capacity expansion investment continued, first revenue still expected in late 2022
- Closing order book of £386.6m

References to EBITDA, operating profit and operating margin are to underlying measures

Operating profit (£m)



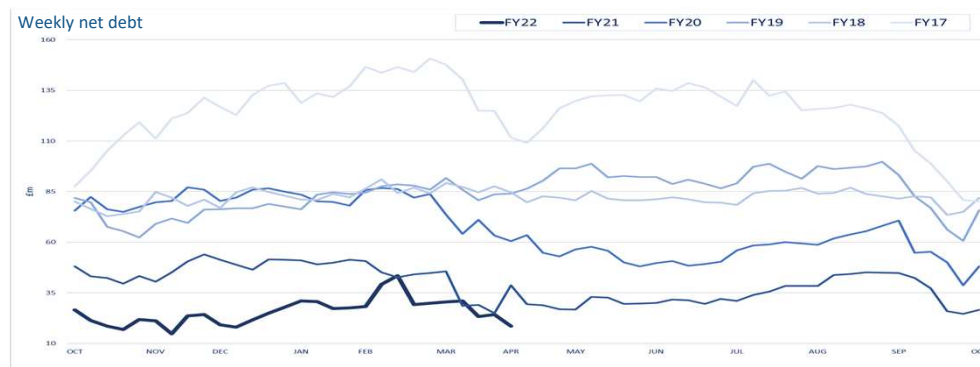
Operating margin (%)



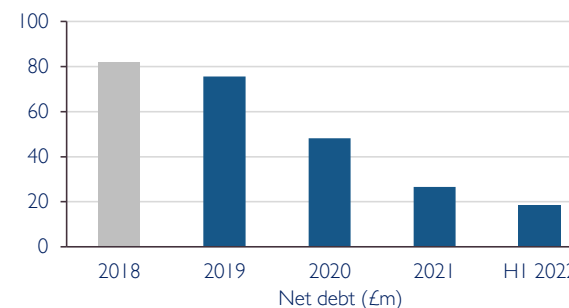
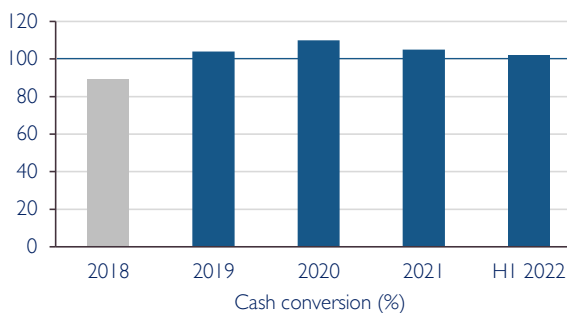
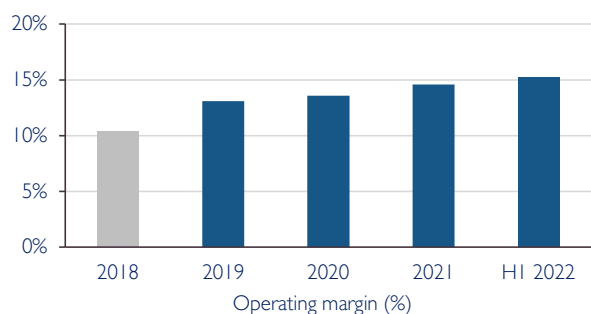
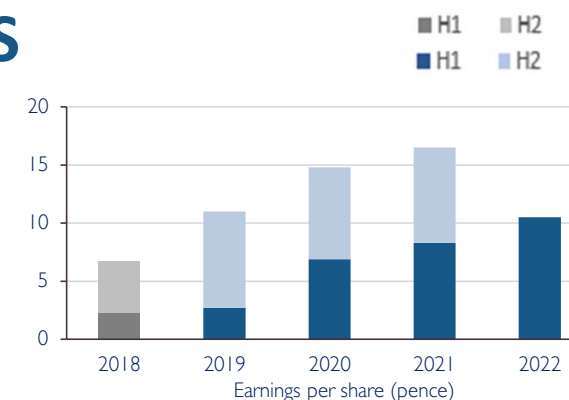
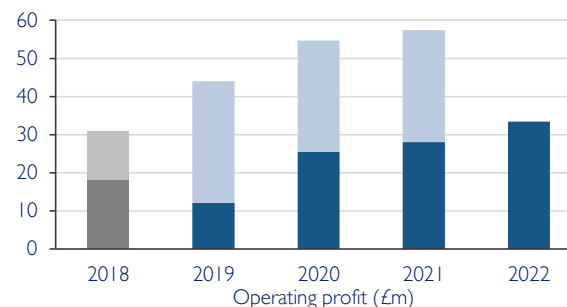
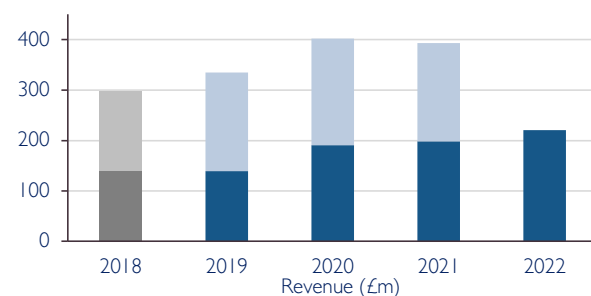
# CASH FLOW

£m		H1 2022	H1 2021	2021
Cash generated from continuing underlying operations		43.3	36.1	80.0
Cash impact of discontinued and non-underlying operations		(0.2)	(0.5)	(1.7)
Cash flows from operating activities	21%	↑ 43.1	35.6	78.3
Tax paid		(4.7)	(3.8)	(2.6)
Acquisition/divestment of subsidiaries, proceeds on disposal of PPE		6.0	0.4	(4.7)
Capital expenditure		(17.6)	(14.1)	(30.2)
Free cash flow	48%	↑ 26.8	18.1	40.8
Finance expense (including capitalised facility fees)		(0.4)	(2.2)	(3.7)
Own shares purchased, FX translation and other movements		(9.2)	1.0	(3.6)
Dividends paid		(9.1)	(7.4)	(11.9)
Movement in net debt		8.1	9.5	21.6
Opening net debt		(26.6)	(48.2)	(48.2)
Closing net debt	52%	↓ (18.5)	(38.7)	(26.6)

- Strong operating cash conversion, 101% operating cash: EBITDA, showing continued focus on working capital and management of intra period net debt volatility
- Capex investment, primarily in C&E segment with major programmes at Scottish, Norwegian and Tennessee sites
- 2022 capex guide remains c£45m before reducing in 2023 and expected to start to trend back towards depreciation by 2024
- Net debt reduced from £38.7m to £18.5m and net debt: EBITDA reduced from 0.5x to 0.2x



# IMPROVED GROUP PERFORMANCE CONTINUES



- Good track record of improvement over the last four years
- Operating margin expansion - good progress towards our medium term objective
- Improved quality of earnings with no exceptional items in any of the last four years
- Strong cash conversion over the period
- Investment in the infrastructure of the business with capex greater than depreciation in each of the last four years

References to operating profit and earnings per share are to underlying measures

# IMPROVING FUTURE VISIBILITY THROUGH A GROWING ORDER BOOK

H1 2022 ORDER BOOK UP 8% TO £488m - £188m EXPECTED TO BE DELIVERED AS REVENUE IN H2 2022, GIVING 85% COVERAGE

## SENSORS & INFORMATION



- Order intake of £74m (H1 2021: £100m), down 26%
- H1 2021 included a \$63m order for HMDS, US continuing resolution has delayed 2022 order receipt
- Period end order book of £102m (H1 2021: £109m)
- 2022 deliveries in order book of £44m, covering 59% of expected H2 2022 revenue (H1 2021: 80%)

## COUNTERMEASURES & ENERGETICS



- Order intake of £112m (H1 2021: £90m), up 24%
- Period end order book of £386m (H1 2021: £341m)
- 2022 deliveries in order book of £144m, covering 98% of expected H2 2022 revenue (H1 2021: 98%)

## THE ORDER BOOK'S IMPROVED QUALITY IS DRIVEN BY STRONG LONG-TERM CUSTOMER RELATIONSHIPS

Examples include:

- Continued strong order intake from Roke's National Security and Defence customers
- UK countermeasures business secured orders totalling £14m from UK MOD and £23m from long-term NATO customers



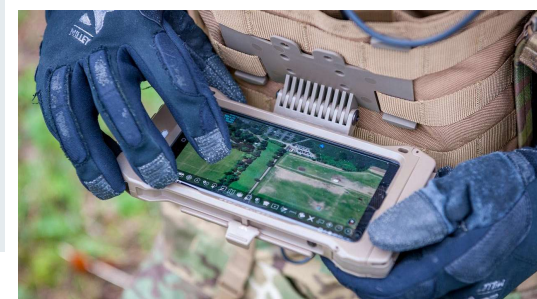
**MICHAEL ORD**  
GROUP CHIEF EXECUTIVE



# MARKET ENVIRONMENT



- Russia's invasion of Ukraine and rise of China causing US and allies to assess defence priorities
  - 2022 US Presidential Defense Budget request of \$813bn is the largest ever
  - European NATO committing to increase defence budgets, targeting the 2% of GDP NATO threshold
  - Vital importance of strategic alliances reinforced – NATO, Five Eyes & AUKUS
- Large proportion of new funds likely to be used for capital investments to modernise forces
  - Active Cyber Defence, Electronic Warfare, Space, Missile Systems, Hypersonics & Bio Security



- ✓ Increased regional tensions and instability may provide new opportunities as customers increase budgets and reallocate defence priorities
- ✓ Chemring is well placed to address modernisation requirements
- ✓ Time-lag between budget increases translating to new orders can be expected

# STRATEGY

- **Our strategy** is to deliver profitable growth by operating in markets where we have differentiating technology, deep customer relationships, and where high barriers to entry have been created
- As we transition from turnaround to growth we will operate two mutually supportive sectors

<b>SENSORS &amp; INFORMATION</b> “Capitalising on the opportunity”	<b>COUNTERMEASURES &amp; ENERGETICS</b> “Securing the annuity”
<ul style="list-style-type: none"> <li>• Our principal focus area for long-term growth, reflecting customer demand</li> <li>• We are investing to grow organically and aim to accelerate growth with acquisitions</li> <li>• Focus on expanding product, service and capability offerings through investment in R&amp;D and routes to market</li> </ul>	<ul style="list-style-type: none"> <li>• Invest and sustain for optimal value</li> <li>• Strengthen and protect our niche, world leading positions</li> <li>• Continuously improve our technological and operational base</li> <li>• Develop new solutions to meet emerging threats</li> </ul>

**WELL PLACED IN GROWING AREAS OF THE MARKET**



# ESG - BUILDING ON THE PROGRESS MADE IN 2021

- Maintained good progress in line with our HSE strategy
  - Recordable injuries up slightly at 0.76 (H1 2021: 0.66) but below annual target
  - Continuing to progress from a calculative to a proactive safety culture, with the goal of zero harm
- Ensuring we meet our near and longer-term targets
  - Preparing for CDP submission in July in addition to mandatory TCFD reporting by the end of FY22
  - Auditable framework for emissions reduction activities now in place
- Continuing to build a diverse, fair and inclusive culture which supports collaboration across the business
  - DE&I training now part of every development programme, from Early Careers to Senior Leadership Team development
  - Global Women at Chemring committee established to encourage women's networks in each business and across the Group

**GROWING UNDERSTANDING OF THE CRUCIAL ROLE OF DEFENCE IN PRESERVING PEACE AND DEMOCRACY, PROVIDING STABILITY IN WHICH SUSTAINABILITY CAN THRIVE**



# OUTLOOK

- Continue to build a **high quality business** for sustainable performance and growth
- Strengthening our values-based culture of **Safety, Excellence and Innovation**
- **Growing order book** across our US, UK and Australian home markets
- Approximately **85%** of 2022 expected revenue **covered** by order book
- Focus on **strong cash generation** to remain a primary objective, enabling opportunities for **further growth**
- In H2, we **expect additional operating expenses** in respect of the investment in **Roke Academy and Roke USA** as well as increased utility expenses
- Board's **expectations for 2022 performance remain unchanged**
- **Chemring's long-term prospects remain strong**

**HELPING TO MAKE THE WORLD A SAFER PLACE BY DELIVERING INNOVATIVE PROTECTIVE TECHNOLOGIES**



## **APPENDICES**



## APPENDIX 1. CHEMRING AT A GLANCE

A TECHNOLOGY COMPANY WITH AN INTERNATIONAL FOOTPRINT AND  
A BREADTH OF MARKET LEADING PRODUCTS AND SERVICES



### SENSORS & INFORMATION

- Focused on information and electronic warfare, chemical & biological agent and explosive hazard detection
- Operating across defence, national security and industrial domains
- Operate across whole life cycle – advice, engineering, design, research and solutions
- 500+ scientists, engineers and consultants

### COUNTERMEASURES & ENERGETICS

- Focused on advanced expendable countermeasures to protect air and sea platforms from the threat of missile attack
- High reliability single use devices performing critical functions for the space, aerospace, defence and industrial markets
- Cutting edge innovations including aircraft safety systems and space applications

### INNOVATING TO PROTECT

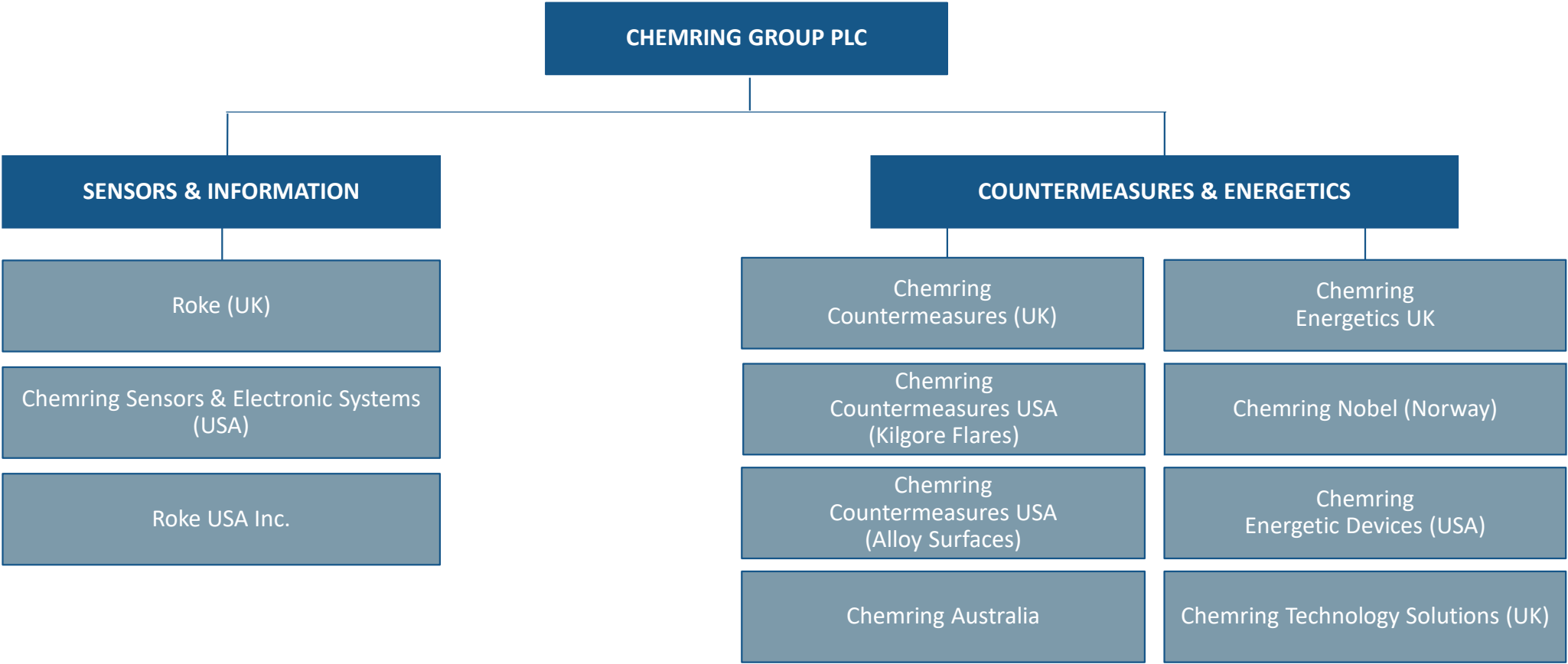
**We place safety at the heart of everything we do**

**Focused on ensuring we consistently meet high standards**

**We create world-class solutions and develop world-class thinking**



# APPENDIX 2. ORGANISATIONAL CHART



## APPENDIX 3. INVESTMENT CASE

- Significant multi-year visibility and high barriers to entry
- Diversified, protection-led portfolio, with strong customer relationships
- We operate in niche markets where we have technology differentiation
- Longer-term growth underpinned by increasing demand and possible market share gains augmented by selective acquisitions
- Mid teens margin Group with strong cash conversion



# APPENDIX 4. M&A

- Focus on creating balance sheet flexibility to be able to execute the right opportunities
- Strengthened business processes and capabilities to identify, transact and integrate opportunities
- Focus on Sensors & Information segment providing technology, skills and routes to market
- Cubica Group acquisition - integration has progressed to plan and the business is performing well



MARKET	KEY ATTRIBUTES	FINANCIAL	OPPORTUNITIES
<ul style="list-style-type: none"> <li>Assessing differentiated players in a fragmented market</li> <li>Cyber security and digital resilience businesses tend to drive higher multiples</li> </ul>	<ul style="list-style-type: none"> <li>Niche position</li> <li>Discriminating IP</li> <li>Customer mission criticality</li> <li>High degree of customer intimacy</li> <li>Cultural compatibility</li> </ul>	<ul style="list-style-type: none"> <li>Target has profitable track record and predicted growth</li> <li>Target has strong operating margins that fit our medium term objectives</li> <li>Funding discipline – balance sheet strength must be maintained post acquisition</li> </ul>	<ul style="list-style-type: none"> <li>Allocating suitable resources to target identification, prioritisation and relationship development</li> </ul>

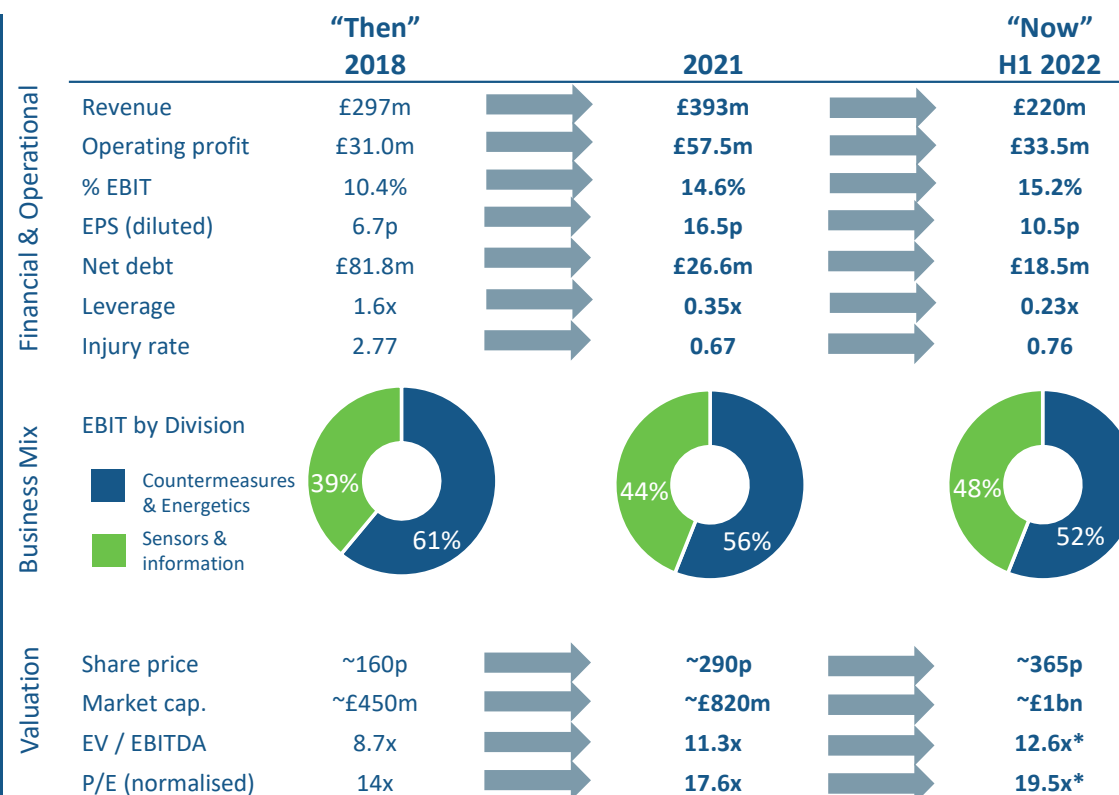


## APPENDIX 5. CHEMRING'S TRANSFORMATION

### ACHIEVEMENTS SINCE MARCH 2019 STRATEGIC REVIEW

- Embedded a proactive safety and risk management culture
- Strategic exit from commoditised energetics
- Strengthened divisional management teams
- Established Roke as a high growth technology business
- Increased margins by 480bps
- Decreased net debt from £81.8m to £18.5m while spending circa £134m on capex over the period
- Secured significant HMDS and EMBD biological detection contract wins / extensions
- Consolidated countermeasures into a single global structure

**ORGANIC GROWTH, MARGIN EXPANSION AND NEW STRATEGIC FOCUS HAS DRIVEN A MAJOR RE-RATING AND VALUATION UPLIFT**



\* Multiples calculated based on last twelve months EBITDA/ earnings

## APPENDIX 6. IMPACT OF FOREIGN EXCHANGE TRANSLATION

	Constant currency movement	H1 2022 Restated at H1 2021 rates £m	H1 2021 £m	Reported H1 2022 £m
Revenue	↑ 8%	214.1	198.5	220.4
EBITDA	↑ 11%	41.6	37.6	42.8
Operating profit	↑ 16%	32.5	28.1	33.5
Order book	↑ 4%	467.4	450.4	488.1

TRANSLATION	SENSITIVITIES
<ul style="list-style-type: none"> <li>50% of revenue US \$ denominated in H1 2022</li> <li>P&amp;L translation \$1.31 vs \$1.39 in H1 2021</li> <li>Balance sheet translation rate \$1.26 vs \$1.38 at H1 2021</li> </ul>	<ul style="list-style-type: none"> <li>10 cent weaker US \$ gives £8m decrease in half-year revenue and £1.2m decrease in half-year operating profit, full year effect circa £13m revenue and £2m operating profit</li> <li>10 cent weaker US \$ gives £1.0m decrease in net debt at HY</li> <li>Future guidance based on \$1.25</li> </ul>

## APPENDIX 7. IMPACT OF FOREIGN EXCHANGE TRANSLATION - SEGMENTAL

Group	Constant currency movement	H1 2022 restated at 2021 rates £m	H1 2021 £m	H1 2022 £m
Revenue	↑ 8%	214.1	198.5	220.4
EBITDA	↑ 11%	41.6	37.6	42.8
Operating profit	↑ 16%	32.5	28.1	33.5
Order book	↑ 4%	467.4	450.4	488.1



Sensors & Information	Constant currency movement	H1 2022 restated at 2021 rates £m	H1 2021 £m	H1 2022 £m
Revenue	↑ 19%	88.2	74.4	90.2
EBITDA	↑ 22%	20.2	16.6	20.7
Operating profit	↑ 24%	19.0	15.3	19.4
Order book	↓ 10%	98.0	108.9	101.5

Countermeasures & Energetics	Constant currency movement	H1 2022 restated at 2021 rates £m	H1 2021 £m	H1 2022 £m
Revenue	↑ 1%	125.9	124.1	130.2
EBITDA	↑ 4%	28.5	27.5	29.3
Operating profit	↑ 7%	20.6	19.3	21.3
Order book	↑ 8%	369.4	341.5	386.6



## APPENDIX 8. BALANCE SHEET

£m	H1 2022	H1 2021	2021
Goodwill & intangibles	126.3	117.0	122.8
Development costs	31.8	28.8	30.0
Property, plant & equipment	210.2	191.9	198.7
Trade working capital	90.3	83.3	84.4
Pension surplus	18.1	11.8	13.7
Other	(70.0)	(57.4)	(70.2)
	406.7	375.4	379.4
Net debt	(18.5)	(38.7)	(26.6)
Net assets	388.2	336.7	352.8

- Net debt reduced from £38.7m to £18.5m and net debt: EBITDA reduced from 0.5x to 0.2x
- Over the 3 year period, 106% of EBITDA has been converted to operating cash funding reinvestment in capex
- Increase in absolute value of working capital driven by FX. Working capital as a % of revenue has remained consistent at 22% (H1 2021: 20%)
- Total facilities of £158m, of which £132m were undrawn at 30 April 2022, provide good immediately available liquidity

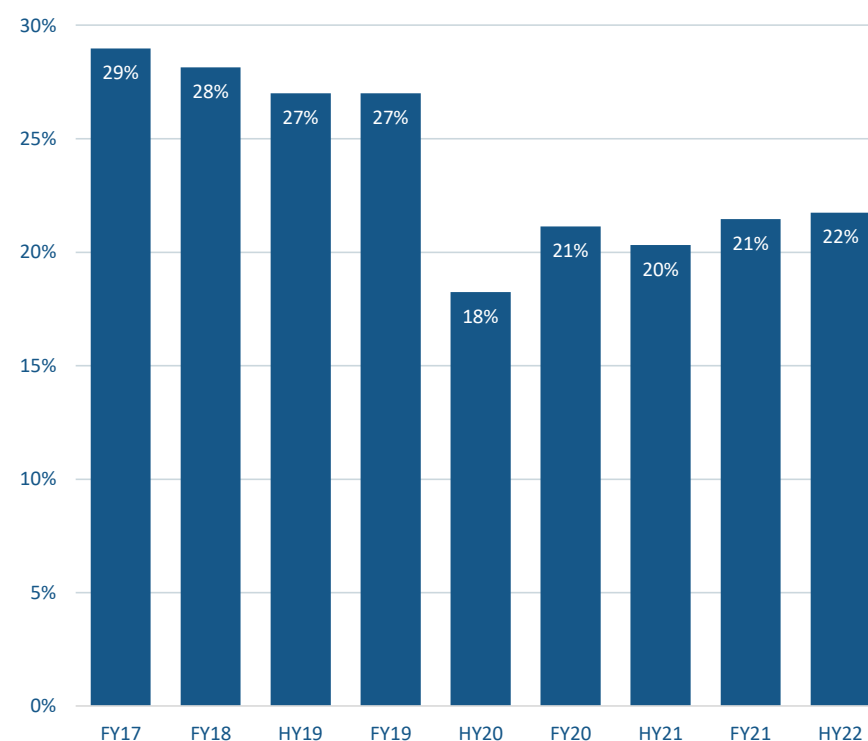
### Future focus

- Continue to drive strong operating cash conversion to fund capex in 2022/23 as Tennessee and other site investments are completed
- Free cash flow likely to strengthen further in 2023/24 as capex trends towards depreciation having been elevated for four years

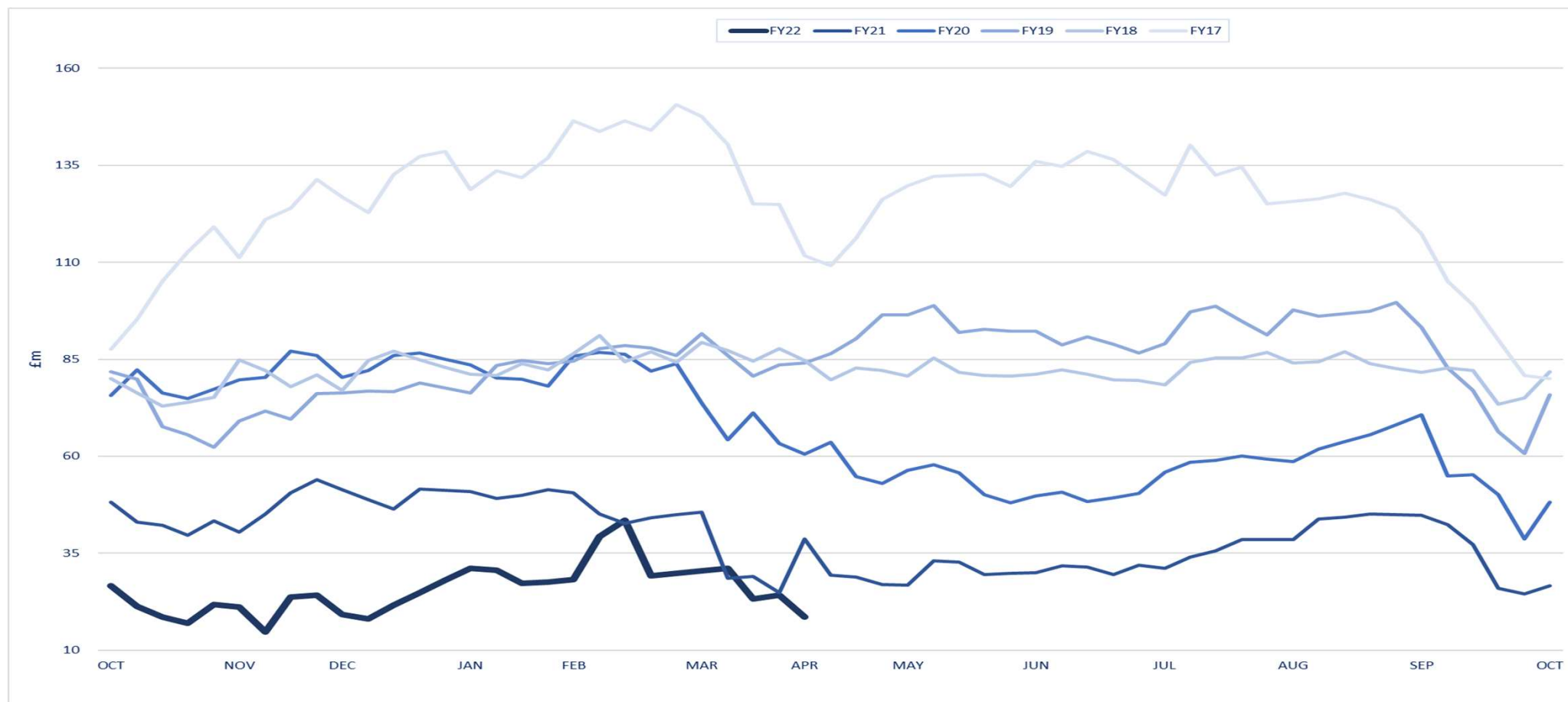
## APPENDIX 9. TRADE WORKING CAPITAL

£m		H1 2022	H1 2021	2021
Inventories		96.3	80.3	80.7
Advance receipts from customers		(27.5)	(24.4)	(17.1)
Net inventory		68.8	55.9	63.6
Receivables		46.8	40.4	40.9
Payables		(30.3)	(7.0)	(13.1)
Other items		5.0	(6.0)	(7.0)
	↑ 8%	90.3	83.3	84.4
		H1 2022	H1 2021	2021
Revenue (£m)	↑ 11%	220.4	198.5	393.3
Working capital as a % of revenue	↔	22%	20%	21%

Working capital as a % of revenue



## APPENDIX 10. WEEKLY NET DEBT



## APPENDIX 11. NON-UNDERLYING ITEMS

£m	Note	H1 2022 P&L cost	H1 2022 Cash paid
Acquired intangibles amortisation		(2.1)	-
Acquisition expenses	a	(0.5)	-
Mark to market of FX forward contracts		(1.6)	-
Claim related costs		-	(0.2)
Impact on profit before tax		(4.2)	-
Tax credit on non-underlying items		0.5	
Impact on profit after tax		(3.7)	

### Notes

a - Costs relating to acquisition of the Cubica Group

## APPENDIX 12. MEDIUM TERM FINANCIAL OBJECTIVES AND ASSUMPTIONS

REVENUE	<ul style="list-style-type: none"> <li>S&amp;I - Segmental mid single digit % growth from double digit growth in Roke and low single digit growth in US Sensors, with the potential for step changes as the US PoRs commence FRP</li> <li>C&amp;E - Low single digit % growth</li> </ul>
OPERATING MARGINS	<ul style="list-style-type: none"> <li>S&amp;I – Targeting high teen return on sales % in the medium term as the US PoRs commence FRP, 2022 diluted by £2m-3m OPEX investment in the start-up of Roke USA and Roke Academy</li> <li>C&amp;E – Targeting mid to high teen return on sales % in the medium term</li> <li>Group – Targeting mid teen return on sales % in the medium term</li> </ul>
INTEREST	<ul style="list-style-type: none"> <li>Expected to fall again in 2022 due to continued reduction in net debt and then stabilise</li> </ul>
CAPEX	<ul style="list-style-type: none"> <li>£45m for 2022 as investment in safety, automation and catch up capex continues in the main manufacturing facilities and the capacity expansion project in Tennessee is completed. Expected to trend towards depreciation in FY23/24 having been elevated for four years. H2 2022 expect an additional £5m net debt impact from new (IFRS 16) leases</li> </ul>
FX	<ul style="list-style-type: none"> <li>US\$1.25: £1</li> <li>Sensitivity to 10 cents movement in \$ rate is £2.0m at an annual underlying operating profit level</li> </ul>
TAX	<ul style="list-style-type: none"> <li>2022 at a lower rate than 2021, after which the rate is expected to trend towards approximately 20% as UK statutory rate increases from 19% to 25%</li> </ul>

## APPENDIX 13. MARKET CONSENSUS 2022, 2023 & 2024

- The Group is aware of eight analysts publishing independent research on the Group
- The Group has compiled consensus data\* from the research it has been made aware of, as set out below:

	2022	2023	2024
Revenue (£m)	429	450	471
Underlying operating profit (£m)	63.4	67.5	71.6
Underlying earnings per share (pence)	18.4	18.9	19.6
Net (debt)/cash (£m)	(15)	4	28

\*Compilation of data only, does not represent the Group's views of projections



## APPENDIX 14. GLOSSARY

Acronym	Meaning	Acronym	Meaning
<b>AVCAD</b>	Aerosol & Vapor Chemical Agent Detector	<b>F-35</b>	F-35 Joint Strike Fighter
<b>CM</b>	Countermeasures	<b>GHG</b>	Greenhouse Gases
<b>CCM UK</b>	Chemring Countermeasures UK	<b>HMDS</b>	Husky Mounted Detection System
<b>CCM US</b>	Chemring Countermeasures USA	<b>IDIQ</b>	Indefinite Delivery Indefinite Quantity
<b>CED</b>	Chemring Energetic Devices	<b>JBTDS</b>	Joint Biological Tactical Detection System
<b>CEUK</b>	Chemring Energetics UK	<b>LRIP</b>	Low Rate Initial Production
<b>CHA</b>	Chemring Australia	<b>LTI</b>	Lost Time Incident
<b>CHG</b>	Chemring Group	<b>MENA</b>	Middle East & North Africa
<b>CSES</b>	Chemring Sensors & Electronic Systems	<b>PoR</b>	Program of Record
<b>C&amp;E</b>	Countermeasures & Energetics	<b>SFO</b>	Serious Fraud Office
<b>CV-19</b>	COVID-19	<b>SMD</b>	Special Material Decoy
<b>EMBD</b>	Enhanced Maritime Biological Detection	<b>S&amp;I</b>	Sensors & Information
<b>EMD</b>	Engineering and Manufacturing Development	<b>UAV</b>	Unmanned Aerial Vehicle
<b>EW</b>	Electronic Warfare	<b>UK MOD</b>	United Kingdom Ministry of Defence
<b>FRP</b>	Full Rate Production	<b>US DoD</b>	United States Department of Defense

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