# Chemring Group PLC
# 2024 Interim results


UK MOD © Crown copyright 2023

# Record order book and strong long-term prospects


Photo credit: United Launch Alliance

**Presented on 4th June 2024 by:**
Michael Ord – Group Chief Executive
James Mortensen – Chief Financial Officer

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# Introduction

## Michael Ord – Group Chief Executive

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# H1 2024 Good progress across KPIs – in line with our expectations

## Growth

**Order intake**

+2%
£345m
(H1 2023: £338m)

**Revenue**

+8%
£223m
(H1 2023: £206m)

## Earnings

**Operating margin**

11.2%
(H1 2023: 12.7%)

**Earnings per share**

6.6p
(H1 2023: 7.4p)

## Cash generation

**Cash conversion**

83%
(H1 2023: 64%)

**Net debt: EBITDA**

0.85x
(H1 2023: 0.36x)

## Safety and ESG

**Recordable injury rate**

0.8
(H1 2023: 0.9)

On track to meet both near and longer term ESG targets

Throughout this presentation, prior period comparatives have been re-presented to reflect continuing operations only. References to operating profit, operating margin, EPS, operating cash and cash conversion are to continuing underlying measures

# Significant long-term visibility – positive outlook unchanged

- » Board's **expectations for 2024** performance remain **unchanged**
- » **Record order book of >£1bn** with **93%** of H2 2024 expected revenue **covered** by order book (H1 2023: 90%)
- » The **outlook for the global defence** market is increasingly robust, with **strong growth** predicted for at least the **next decade**
- » **Significant opportunity** to capitalise on the Group's **unique capabilities** reinforcing Chemring's position as a **key supplier** to NATO
- » Long-term **visibility** and **customer support** gives confidence to **further invest** in capacity and capability to meet **customers'** evolving needs

Ambition to increase annual revenue to c.£1bn by 2030



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# Financial review

## James Mortensen – Chief Financial Officer


Photo credit: Blue Origin

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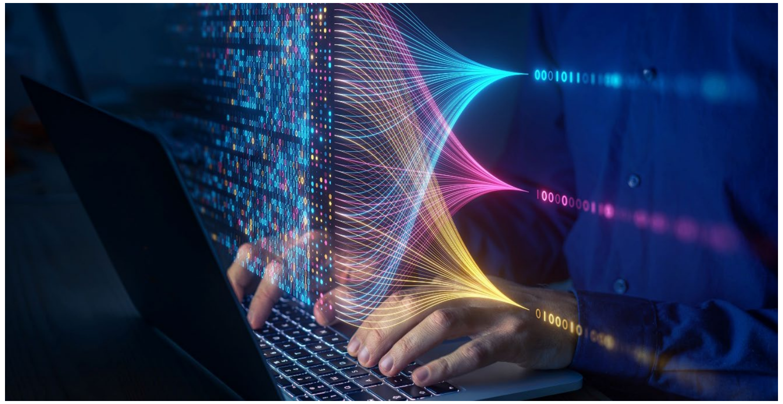
# Initial observations


Demand is long term



Chemring is more than just countermeasures

We have unique manufacturing capabilities

**Confidence in the delivery of the plan and the outlook**

# Financial highlights

| | H1 2024 | | H1 2023 | 2023 |
|---|---|---|---|---|
| Order book | **£1,041m** | *+39%* | £750m | £922m |
| Revenue | **£223.4m** | *+8%* | £206.3m | £472.6m |
| Operating profit | **£25.0m** | *(5)%* | £26.3m | £69.2m |
| Operating margin | **11.2%** | *(150) bps* | 12.7% | 14.6% |
| Diluted EPS | **6.6p** | *(11)%* | 7.4p | 20.0p |
| Cash conversion | **83%** | *+190 bps* | 64% | 90% |
| Dividend | **2.6p** | *+13%* | 2.3p | 6.9p |

**Summary:**

» Record order book

» Good sales momentum

» Lower operating margin and H1 weighting

» EPS impacted by higher tax and finance costs

» Strong cash conversion



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# Order book

**Total orderbook**
£1,041m

**Growth**
39%

**H2 2024 Coverage**
93%

## Sensors & Information

**Orderbook**
£158m

**Growth**
3%

**H2 2024 Coverage**
83%

» Expected 2025 revenue 30% covered

» Continued strong order intake for Roke National Security and Defence

## Countermeasures & Energetics

**Orderbook**
£883m

**Growth**
48%

**H2 2024 Coverage**
99%

» Expected 2025 revenue 90% covered and 2026 65% covered

» Significant orders for our specialist energetic materials businesses, space and missiles



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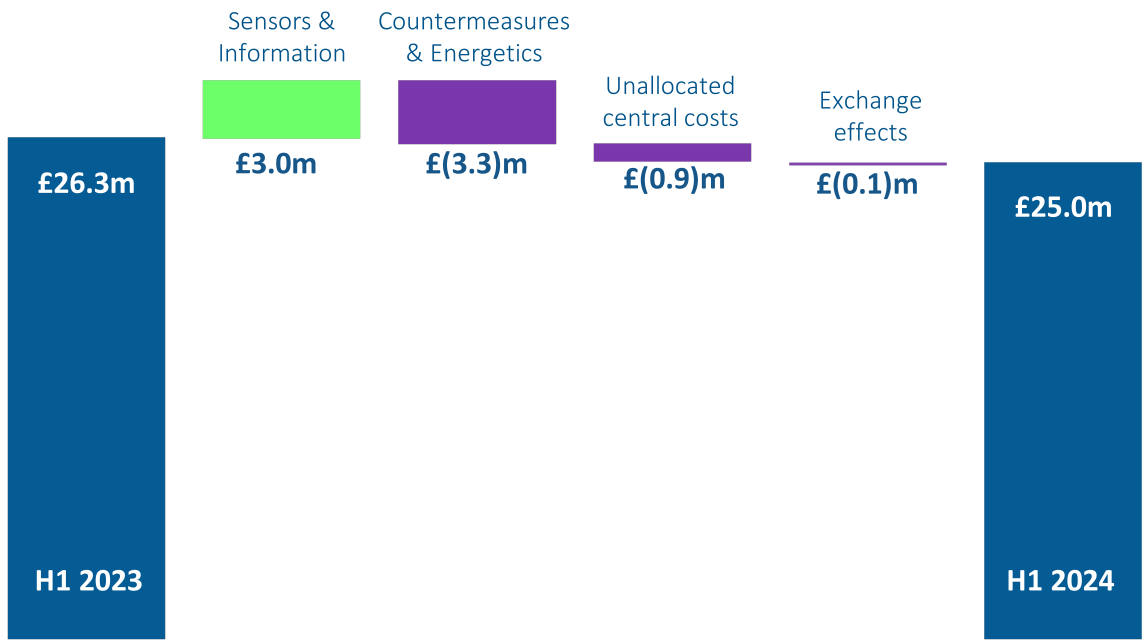
# Group and segmental performance

| | Revenue (£m) | Revenue growth | Operating profit (£m) | Operating profit growth | Operating profit margin |
|---|---|---|---|---|---|
| Sensors & Information | 105.7 | *+15%* | *21.6* | *+16%* | 20.4% |
| Countermeasures & Energetics | 117.7 | *+3%* | *11.8* | *(22)%* | 10.0% |
| **Group** | **223.4** | ***+8%*** | ***25.0*** | ***(5)%*** | **11.2%** |

» Sensors & Information – strong growth in Roke (+19%) with margin improvement despite continued investment

» Countermeasures & Energetics – growth in energetics offset a weaker period for countermeasures. Margin impacted by operational challenges at our Tennessee countermeasures facility

# Group operating profit bridge




» Overall operating profit down 5%

» Good momentum across the majority of the business

» Held back by our Tennessee countermeasures facility, but now back on track



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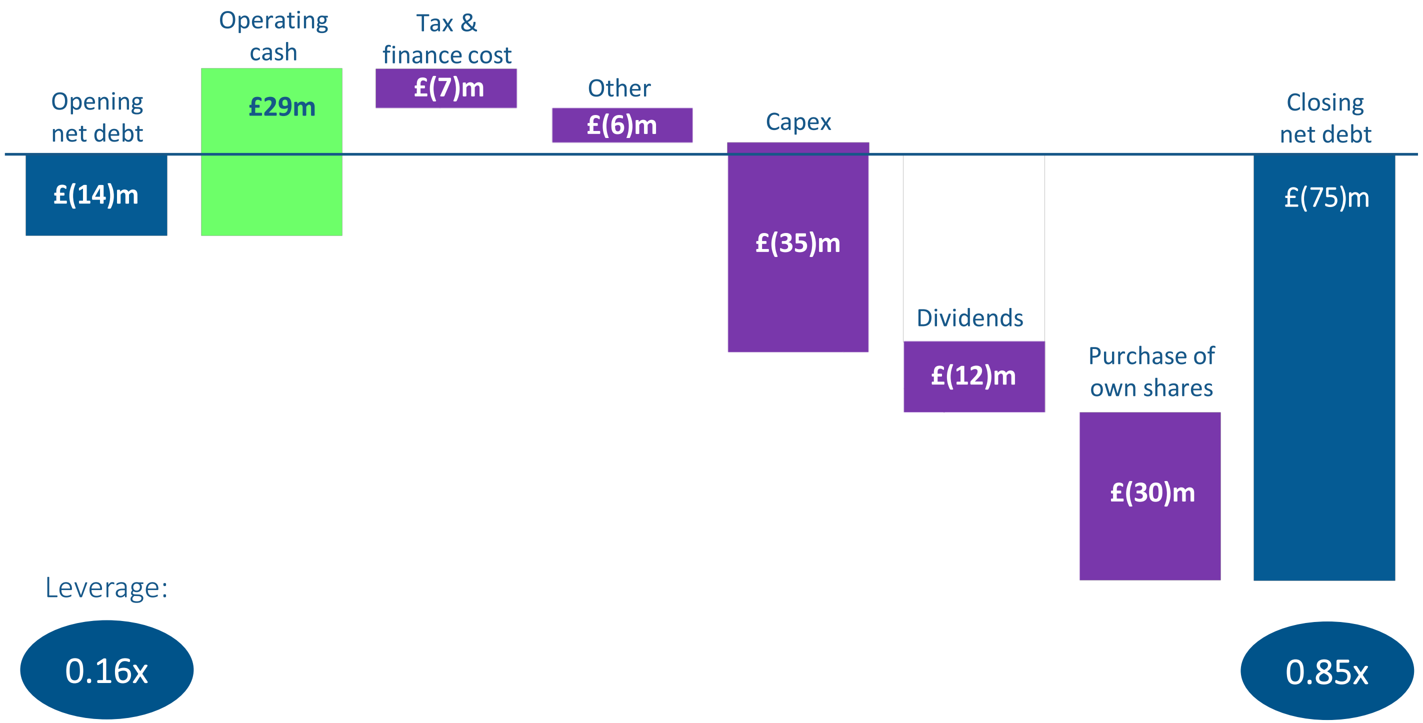
# Group net debt bridge




- Continued focus on cash management, with cash conversion of 83%
- £35m capex, of which £24m spent on Energetics capacity expansion
- £42m returned to shareholders in the period, £13m remains on the buy back
- Less than 1x leverage



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# Capital allocation

| Invest in the business | Focused M&A | Ordinary dividends | Surplus capital |
|---|---|---|---|
| » Investment in our Energetics businesses to capitalise on unprecedented demand<br>» Ongoing capex investment to increase automation, enhance safety and drive margin improvement | » Bolt-on acquisitions in our core and close adjacencies – in particular Roke and US Space & Missiles<br>» Disciplined approach; healthy pipeline with several opportunities currently under assessment<br>» Asset purchase agreement signed in relation to the IP and assets of our explosive hazard detection business | » Key part of total shareholder return<br>» Targeting medium-term dividend cover of c.2.5 times underlying EPS | » Returned to shareholders<br>» Share buy-back has returned £37m since inception |

Resilient balance sheet – target <1.5x leverage



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# Guidance and financial summary

**Tailwinds**

» Re-armament upcycle

» Record order intake, significant order coverage

» Good commercial momentum

» Further investment opportunities

**Headwinds**

» Foreign exchange – strengthening of GBP versus US$/AU$/NOK

» Slower ramp up than expected in our Tennessee countermeasures facility

» Seeking increased raw material cost recovery from US DoD

» Near-term budget timing disruption due to election cycle in UK and US

Full year outlook unchanged



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# Strategy update and outlook

## Michael Ord – Group Chief Executive


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# Market environment

## Evolving market environment

» UK, US and European allies are increasing sovereign supply-chain recapitalisation and defence spending in response to the heightenend threat environment

» Increased competition from China, with Asia-Pacific nations investing in deterrent capabilities

» Renewed focus on both traditional and technologically advanced defence capabilities

» Investment into digitisation, space and unmanned systems

## Chemring opportunity

» Unprecedented demand levels for energetic materials and propellants

» Growing demand for precision engineered devices for space and missile applications

» Growing demand across all Roke services and products including Active Cyber Defence, Electronic Warfare, Operational Mission Support Services, AI and OSINT

» Countermeasures market robust

**Geopolitical tension is driving a fundamental re-armament upcycle over the next decade and beyond**



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# Strategic framework

**Our values: safety, excellence, innovation**

**Our strategic imperatives:**

| Grow | Accelerate | Protect |
|---|---|---|
| Invest in people, technology and increased capacity to drive organic growth | Accelerate growth with bolt-on acquisitions | Strengthen our world leading positions through increased modernisation and innovation |

**Our strategic ambition: to increase annual revenue to c.£1bn by 2030***

**Balancing near-term performance with longer-term growth and value creation**

*Based on market assumptions, incl. bolt-on M&A, current FX rates

# Growth and long-term demand in Energetics

» Expand capacity across all three Energetics businesses and capture increased long-term demand

» Increasing capital investment programme to £200m (+£80m) to increase total revenue by £100m per annum in 2028

» £90m of capital investment in Norway funded by grants from the European Commission & Government of Norway

**Norway**

» Investment: £145m

» Grants: £90m

» Incremental revenue: +£60m pa

**US**

» Investment: £10m

» Incremental revenue: +£10m pa

**Scotland**

» Investment: £45m

» Incremental revenue: +£30m pa

Incremental operating profit: +£30m per annum in 2028



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# Growth and long-term demand in Energetics (2)



Photo credit: United Launch Alliance


## Norway

- » Project split into 3 phases with planning and construction on schedule
- » Expansion plans will increase capacity by c.275%
- » Order intake up 26% YOY, with visibility out to 2031, reinforcing our position as a key supplier to NATO

## US

- » 45,000 sqft building purchased adjacent to our current facility, doubling our productive floorspace
- » Enhances ability to maintain continuous flow manufacturing operations
- » Key enabler of growth ambitions and cements position within the space launch and missiles market

## Scotland

- » Constructing an advanced propellants production facility
- » Construction on track with concrete pours for most of the buildings complete
- » Provides increased capacity and a safer operating environment



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# Maintaining Roke's growth

Increasingly unstable global security market driving growing customer demand across all of Roke's markets:

» **National Security** – £33m orders received under framework agreements

» **Defence** – robust RFQ pipeline of >£200m for defence products
  – Zodiac ISTAR programme for UK MOD increased by £10m to £50m over 2024/25

» **Futures** – acquired Cubica technology providing access into growing autonomy market for the integration and supervision of both sensors (e.g. counter-UAS) and uncrewed systems

» **Intelligence** – providing access to the fast-growing Open-Source Intelligence market

**On track to grow 2028 revenue to >£250m, whilst maintaining strong margins**

# Driving innovation

» We have over 1,000 engineers, scientists, and subject matter experts working at the cutting edge of technology
  – in AI and Data Science alone we have over 100 engineers and scientists

» We spend c.£115m a year on R&D, of which c.90% is customer funded

## Innovation showcase – space and missiles

» Our business in Chicago is at the forefront of pyro-actuation technology with strong relationships with NASA, United Launch Alliance (ULA), Blue Origin and SpaceX

» ULA's Vulcan had its first launch in January 2024 and is a key supplier to the US government and commercial payload companies

» By the second half of 2025, due to commercial demand, ULA plans to launch every other week

» We supply 12 items for each launch, including Solid Rocket Booster (SRB) jettison, umbilical release, rocket motor ignition and vehicle self-destruct


Photo credit: United Launch Alliance


Image credit: NASA



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# Summary and outlook

### H1 2024: In line with expectations

» **Good progress** despite challenges that have led to a heavier H2 weighting

» Granted **c.£90m** of funding towards **Energetics** Capex **expansion plans**

» Record order intake with **93% of 2024 revenue covered** by the order book

» Full-year performance **in line** with market expectations

### Longer-term outlook increasingly robust

» **Strong growth** predicted over at least the **next decade** – Well positioned in niche, high margin and growing markets

» **Record order book** (>£1bn) and long-term partnering agreements give **excellent visibility** of future earnings

» Balance sheet strength gives **increased optionality** for **inorganic growth**

» **Ambition** to increase annual revenue to **c.£1bn by 2030**

## Balancing near-term performance with longer-term growth and value creation



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# Appendices


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# Organisation

| BUs/capabilities | Sensors & Information: Roke | Roke USA | US Sensors | Countermeasures & Energetics: Countermeasures UK | Countermeasures USA | Countermeasures Australia | Energetic Devices | Energetics UK | Chemring Nobel | Technology Solutions |
|---|---|---|---|---|---|---|---|---|---|---|
| Operational mission support services | ● | | | | | | | | | |
| Active cyber defence & OSINT | ● | | | | | | | | | |
| Land EW | ● | ● | | | | | | | | |
| Sensors | ● | | ● | | | | | | | |
| Air & naval countermeasures | | | | ● | ● | ● | | | | |
| Energetics material & products | | | | | | | | ● | ● | ● |
| Precision engineered devices | | | | | | | ● | ● | | ● |



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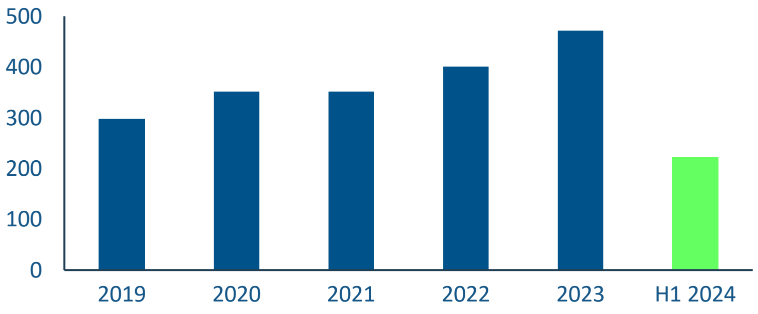
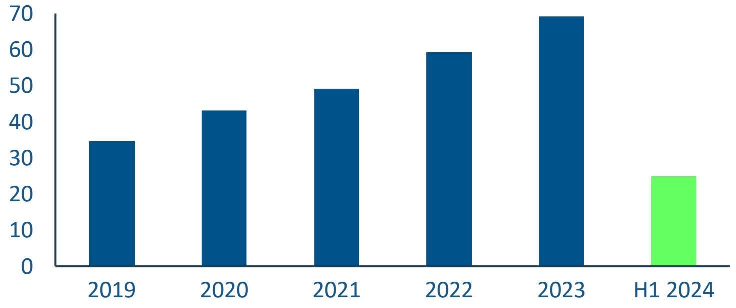
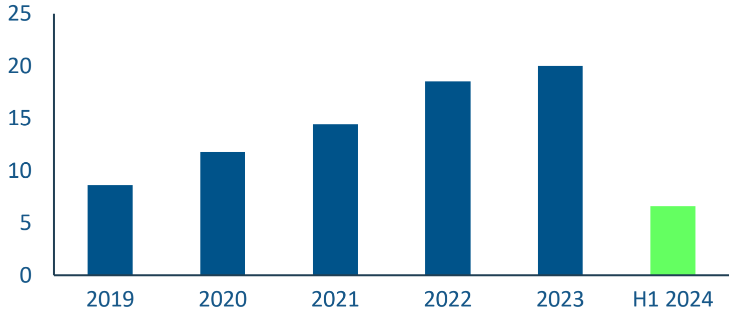
# Group performance 2019 – H1 2024



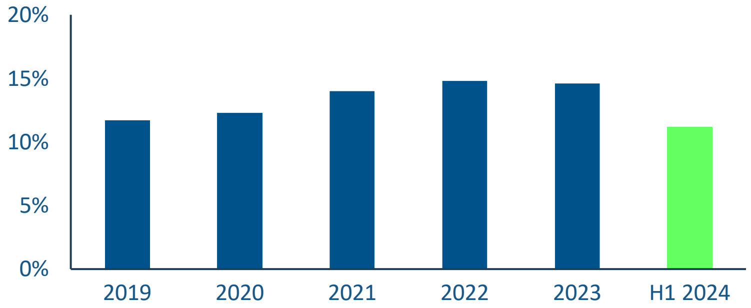
Revenue (£m)



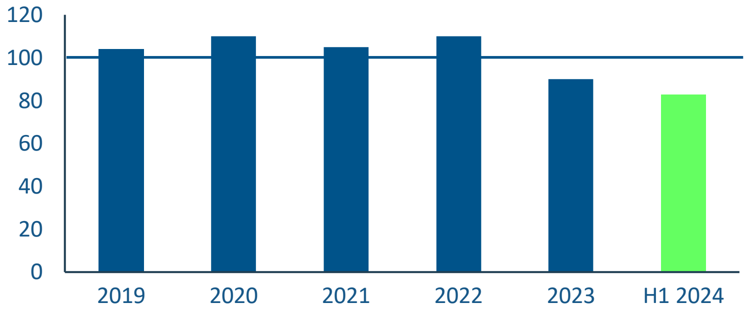
Operating profit (£m)



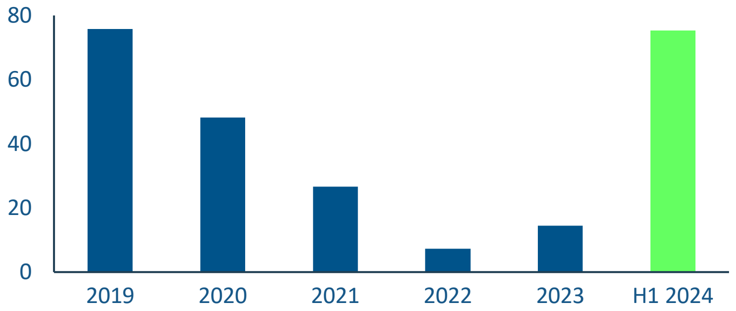
Earnings per share (pence)



Operating margin (%)



Cash conversion (%)



Net debt (£m)



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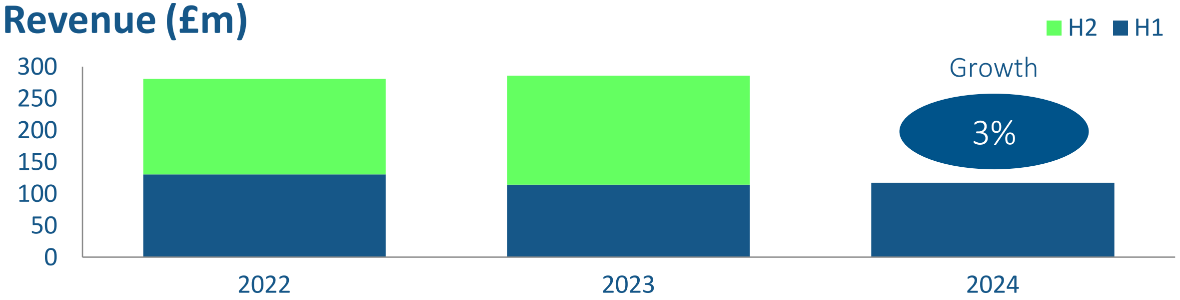
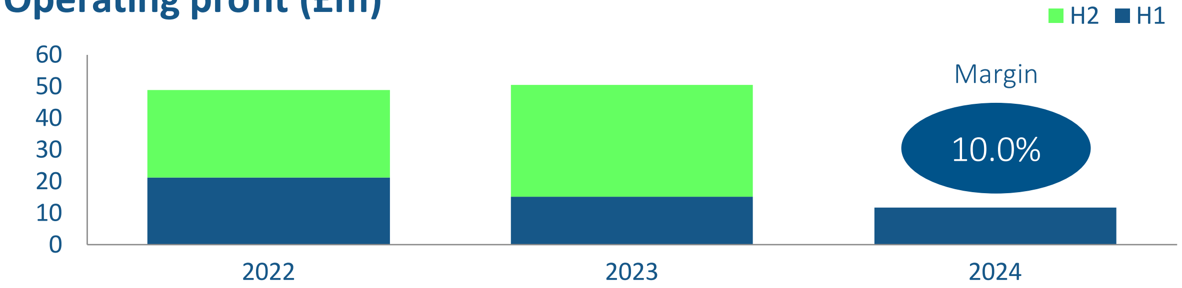
# Countermeasures & Energetics

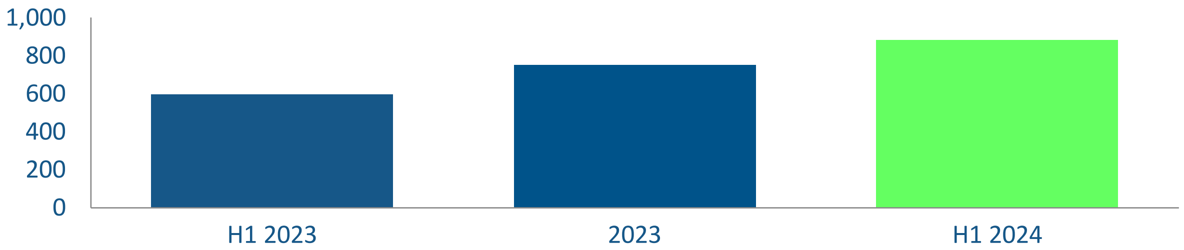
## Revenue (£m)




## Operating profit (£m)




## Order book (£m)




## Business update

» Record order intake (£249m) and order book (£883m)

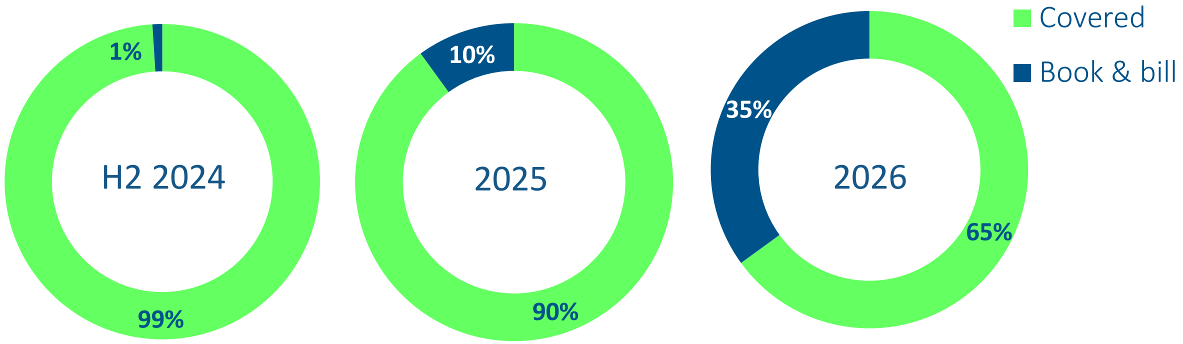
» Growth in energetics revenue offset by countermeasures

» Capital investment plan progressing, supported by £90m of awarded grant income

» Weaker margin due to operational challenges at our Tennessee countermeasures facility

» C&E order cover for H2 2024 99%

## Order coverage



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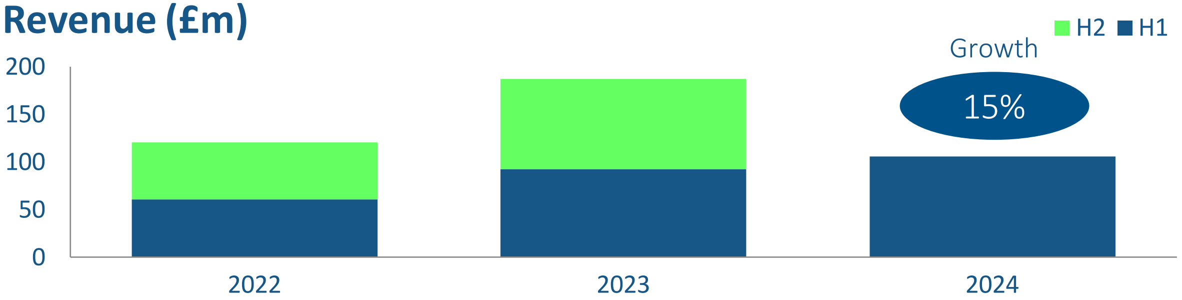
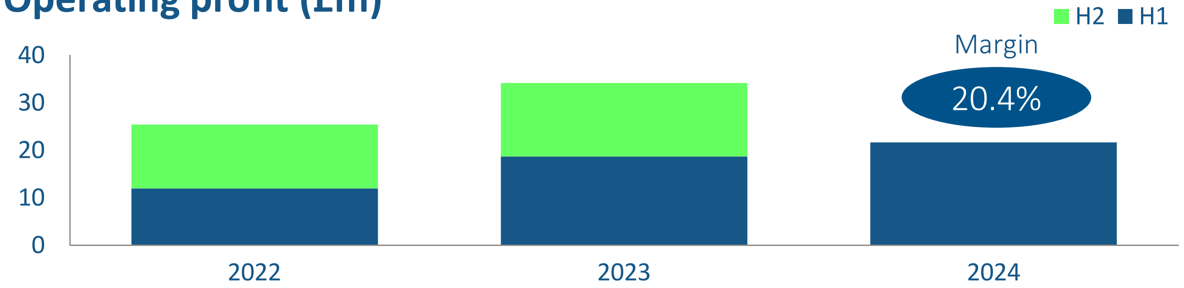
# Sensors & Information

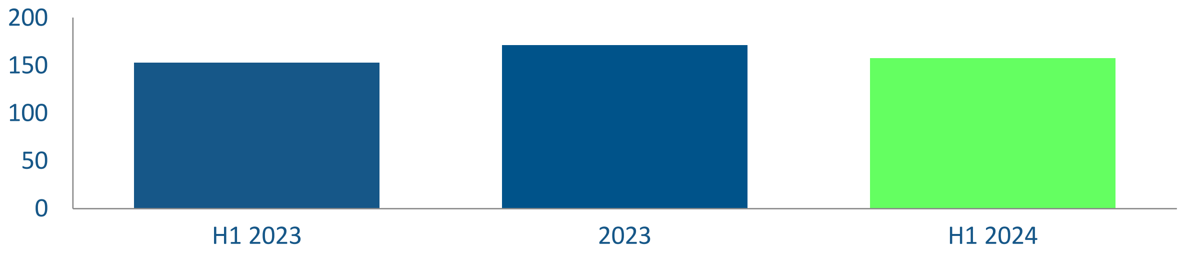
## Revenue (£m)




## Operating profit (£m)




## Order book (£m)

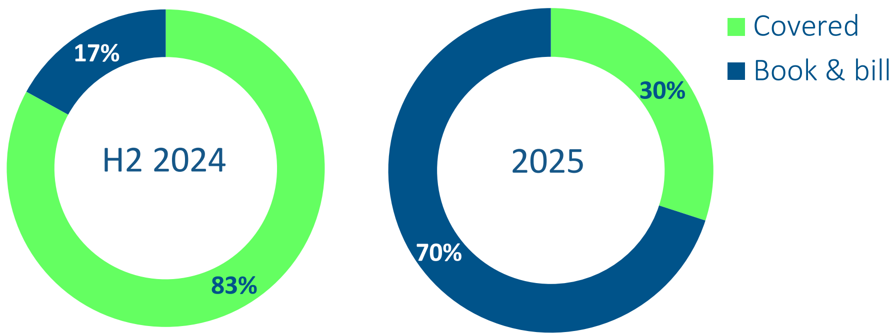



## Business update

- » Roke revenue growth 19%. Excluding passthrough growth would be 26%
- » Operating margin improved slightly to 20.4%
- » US Sensors in receipt of $15m EMBD order, deliveries in 2025
- » S&I order cover for H2 2024 83%, compared to 72% prior half year

## Breakdown of Roke revenue (£m)


## Order coverage

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# Adjusting items

| | Note | H1 2024 | | H1 2023 |
|---|---|---|---|---|
| Statutory operating profit | | **£17.5m** | *(24)%* | £23.1m |
| Acquired intangibles amortisation | | **£1.0m** | | £1.8m |
| Acquisition related expenses | a | **£1.7m** | | £1.8m |
| Mark to market of FX forward contracts | | **£(1.1)m** | | £(0.4)m |
| Pension Buy-in / Buy-out | | **£5.0m** | | — |
| Change of senior management positions | | **£0.9m** | | — |
| Adjusted operating profit | | **£25.0m** | *(5)%* | £26.3m |
| | | | | |
| Finance costs | | **£(2.3)m** | | £(1.0)m |
| Tax charge on adjusted profit | | **£(4.3)m** | | £(3.8)m |
| Adjusted profit after tax | | **£18.4m** | *(14)%* | £21.5m |
| | | | | |
| Adjusted EPS | | **6.6p** | *(11)%* | 7.4p |

a – £1.6m relating to IFRS 2 charge on acquisition of Cubica and Geollect and £0.1m relating to professional fees incurred in relation to mergers and acquisitions activity



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# Medium term financial objectives and assumptions

| | |
|---|---|
| **Revenue** | » Group – targeting mid-single digit growth in the near term, accelerating to low double digit growth as new capacity comes online<br>» S&I – targeting segmental mid-single digit % growth from double digit growth in Roke and US Sensors expected to be flat, with a subsequent step change in growth as the JBTDS PoR commences FRP<br>» C&E – targeting low single digit % growth in Countermeasures with step change growth in Energetics as additional capacity is commissioned |
| **Operating margins** | » Group – targeting mid teen return on sales % in the medium term<br>» S&I – targeting high teen return on sales % in the medium term as the US PoRs deliver mid teen return once in FRP and Roke maintains strong low 20s percentage margin<br>» C&E – targeting mid to high teen return on sales % in the medium term as higher margin Energetics growth becomes a greater proportion of the segment |
| **Interest** | » H2 2024 expected to be similar to H1 as higher interest rates and borrowings drive increased finance costs |
| **Capex** | » £40m for 2024, £80m for 2025, £50m for 2026 and £30m for 2027 as the £200m 4-year investment in increased Energetics capacity is completed, in addition to maintenance capex of £20-30m per annum<br>» Offset by grant funding of £90m, with about £30m expected in H2 2024, £15m in H2 2025, £20m in H2 2026 and £25m in H2 2027 |
| **FX** | » US$1.25: £1, AU$1.90 : £1 and NOK 13.50 : £1. Change in NOK rate assumption (previously 13.0 : £1), will decrease full year 2024 revenue by circa £2m and decrease operating profit by circa £0.5m<br>» If GBP was 10% weaker against USD, AUD and NOK this would increase revenue by £16m and increase operating profit by circa £1.5m |
| **Tax** | » 18.9% in H1, expected to be similar in H2 and then rising towards mid 20’s due to the increased weighting of UK profits |
| **Share capital** | » Based on the position at H1 2024, the Group would expect the number of shares used in EPS calculations for 2024 to be 273.3m (basic) and 279.6m (diluted), and for 2025 to be 273.1m (basic) and 279.4m (diluted)<br>» In H2 circa £10m to be spent acquiring shares used for the vesting of LTIP awards, bought and held in the ESOP trust |

# ESG

- **Maintained AAA ESG rating with MSCI (Dec 2023)**
- **Maintained good progress in line with our HSE Zero Harm strategy**
  - Recordable injuries stable at 0.8 (H1 2023 0.9) and on course to stay below our annual limit of 1.0
  - Continue to consolidate within a calculative safety culture whilst demonstrating proactive leadership
- **Ensuring we meet our ESG near and longer-term targets**
  - New environmental data platform being implemented as our basis of reporting, to include Scope 3 data
  - All LPG boilers replaced at Australian site, removing 200 $tCO_2e$ (2.5%) from our Group Scope 1 footprint
- **Continuing to build a diverse, fair and inclusive culture which supports collaboration across the business**

Committed to building a strong, inclusive and sustainable company



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# Impact of foreign exchange translation

| | Constant currency movement | **H1 2024 restated at 2023 rates £m** | H1 2023 £m | **H1 2024 £m** |
|---|---|---|---|---|
| Revenue | +10% | **226.1** | 206.3 | **223.4** |
| EBITDA | +1% | **35.7** | 35.2 | **35.5** |
| Operating profit | (5)% | **25.1** | 26.3 | **25.0** |
| Order book | +40% | **1,046.7** | 749.5 | **1,040.6** |

**Sensitivities**

- 36% of revenue is denominated in USD, AUD and NOK in H1 2024 (H1 2023: 43%)
- If GBP was 10% weaker against USD, AUD and NOK this would increase revenue by £16m and increase operating profit by circa £1.5m
- Future guidance based on US$1.25 / A$1.90 /NOK 13.50
- FX assumption at 2023 YE was NOK rate of 13.00 : £1. Revised guidance at H1 2024 assumes NOK rate of 13.50 : £1, which will decrease full year 2024 revenue by circa £2m and decrease operating profit by circa £0.5m

## Translation

| | | Average rate | | Closing rate | |
|---|---|---|---|---|---|
| | % of revenue | **HY24** | HY23 | **HY24** | HY23 |
| USD | 23% | **1.26** | 1.24 | **1.25** | 1.26 |
| AUD | 2% | **1.92** | 1.85 | **1.93** | 1.90 |
| NOK | 11% | **13.59** | 12.71 | **13.87** | 13.44 |



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# Balance sheet

- Net debt of £75.3m and net debt: EBITDA ratio of 0.85x
- Over the 2 year period, 95% of EBITDA has been converted to operating cash funding reinvestment in capex
- Working capital as a % of revenue has remained consistent at 18% (H1 2023: 21%, 2023: 17%)
- Total facilities of £166m, of which £69m were undrawn at 30 April 2024, provide good immediately available liquidity

| £m | **H1 2024** | H1 2023 | 2023 |
|---|---|---|---|
| Goodwill & intangibles | **107.9** | 130.3 | 110.1 |
| Development costs | **17.5** | 32.7 | 17.6 |
| Property, plant & equipment | **261.0** | 222.3 | 242.2 |
| Trade working capital | **86.8** | 89.9 | 82.3 |
| Pension surplus | **0.8** | 10.3 | 5.9 |
| Other | **(47.8)** | (60.9) | (65.2) |
| | **426.2** | 24.6 | 392.9 |
| Net debt | **(75.3)** | (25.0) | (14.4) |
| Net assets | **350.9** | 399.6 | 378.5 |



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# Market consensus

- » The Group is aware of six 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 in the table
- » Investec is Corporate Broker to Chemring

| | **2024** | 2025 | 2026 |
|---|---|---|---|
| Revenue (£m) | **506** | 547 | 595 |
| Underlying operating profit (£m) | **72.8** | 79.9 | 88.3 |
| Underlying earnings per share (pence) | **20.0** | 22.1 | 24.4 |
| Net debt (£m) | **67** | 73 | 60 |

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



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# Glossary

| Acronym | Meaning |
|---|---|
| CCM UK | Chemring Countermeasures UK |
| CCM US | Chemring Countermeasures USA |
| CED | Chemring Energetic Devices |
| CEUK | Chemring Energetics UK |
| CEMA | Cyber and Electromagnetic Activities |
| CHA | Chemring Australia |
| CHG | Chemring Group |
| C&E | Countermeasures & Energetics |
| DE&I | Diversity, equity and inclusion |
| EMBD | Enhanced Maritime Biological Detection |
| ESG | Environmental, social and governance |
| EW | Electronic Warfare |
| FRP | Full rate production |
| F-35 | F-35 Joint Strike Fighter |

| Acronym | Meaning |
|---|---|
| IDIQ | Indefinite Delivery/Indefinite Quantity |
| JBTDS | Joint Biological Tactical Detection System |
| LRIP | Low rate initial production |
| LTI | Lost time incident |
| MENA | Middle East & North Africa |
| MTV | Magnesium Teflon Viton |
| NSIA | National Security and Investment Act |
| NATO | North Atlantic Treaty Organisation |
| OSINT | Open Source Intelligence |
| PoR | Program of Record |
| S&I | Sensors & Information |
| UK MOD | United Kingdom Ministry of Defence |
| US DoD | United States Department of Defense |
| 20XX | Reference to fiscal year 20XX |

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