Chemring
Innovating to protect

# Innovating To Protect

Chemring Group PLC

Results for the six months to 30 April 2021

# Michael Ord

Group Chief Executive

# H1 2021 Overview

| | | | | |
|---|---|---|---|---|
| Group performance **in line with expectations** despite FX headwind | Revenue **4%** £198.5m | Operating profit **10%** £28.1m | EPS **20%** 8.3p | Net debt **36%** £38.7m |
| **Good progress** on strategic imperatives in both sectors | Recordable injury rate **42%** 0.66 | Rolling 2 year cash conversion **105%** | Interim dividend per share **23%** 1.6p | H2 2021 expected revenue **92%** covered by order book |

BALANCING SHORT TERM PERFORMANCE
WITH LONGER TERM VALUE CREATION

# Safety is our core value

Continued delivery of our Health, Safety & Environment (HSE) strategy:

- Reduction in Recordable Injuries – TRIF rate of 0.66 vs 1.13, representing 14 recordable injuries vs 27 in the comparable period
- Continued focus on Process Safety through our assessment of residual risks
- Commencement of our Asset Integrity programme
- Improved knowledge capture and sharing

OUR GOAL REMAINS ZERO HARM

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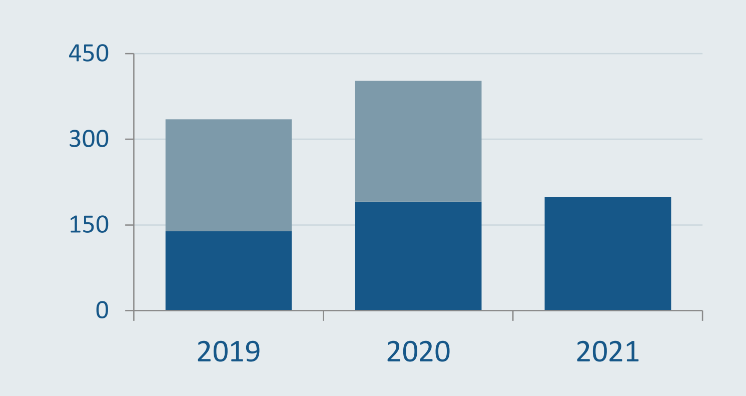
# Andrew Lewis

Group Finance Director

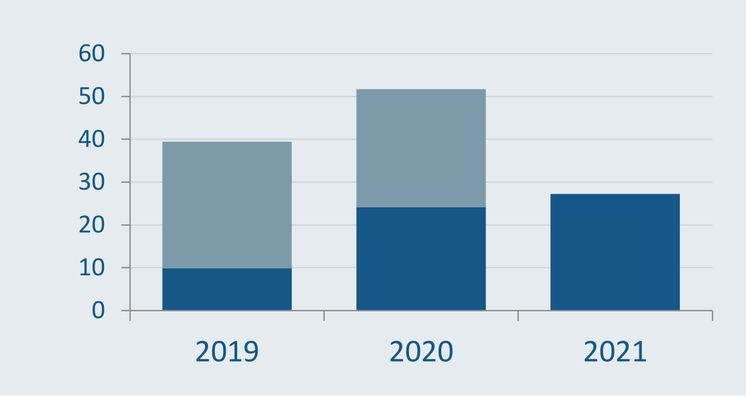
# Group performance

H2
H1

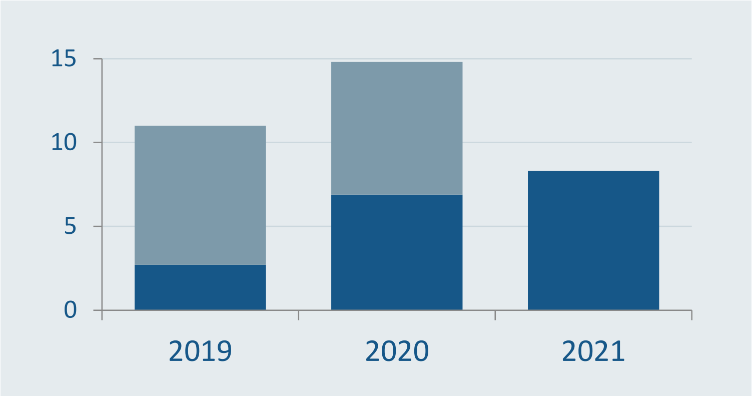
## Revenue (£m)




## Profit before tax (£m)




## EPS (pence)




## FINANCIAL HIGHLIGHTS

- Revenue up by 4% to £198.5m
- Operating profit growth of 10% to £28.1m
- Operating margin increased 80 bps to 14.2%
- Finance expense down 36% to £0.9m
- Operating cash conversion of 96% of EBITDA
- Net debt down 36% to £38.7m
- Diluted EPS increased 20% to 8.3p
- Interim dividend up 23% to 1.6p per share

## OPERATIONAL HIGHLIGHTS

- Strong performance from S&I driven by double digit growth in Roke and continued progress on the HMDS Program of Record
- Operational delivery at C&E sites driving margin improvement, investment in sites progressing
- New long-term contracts secured in Countermeasures & Energetics
- Closing order book of £450m, £199m expected to be delivered in H2 2021
- H2 2021 expected revenue approximately 92% covered by order book at 30 April 2021

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

# Group impact of foreign exchange translation

| | Constant currency movement | H1 2021 restated at H1 2020 rates £m | H1 2021 £m | H1 2020 £m |
|---|---|---|---|---|
| Revenue | ⬆ 8% | **206.3** | 198.5 | 191.0 |
| EBITDA | ⬆ 12% | **39.5** | 37.6 | 35.2 |
| Operating profit | ⬆ 16% | **29.6** | 28.1 | 25.6 |
| Diluted EPS | ⬆ 28% | **8.8p** | 8.3p | 6.9p |
| Order book | ⬇ 8% | **464.4** | 450.4 | 503.9 |

## TRANSLATION

- 54% (H1 2020: 48%) of revenue US $ denominated in H1 2021
- P&L translation US $1.39 vs US $1.28 in H1 2020
- Balance sheet translation rate US $1.38 vs US $1.26 at H1 2020

## SENSITIVITIES

- 10 cent weaker US $ gives £8m decrease in half-year revenue and £1.4m decrease in half-year operating profit, full year effect circa £14m revenue and £3m operating profit
- 10 cent weaker US $ gives £2.4m decrease in net debt at HY
- Future guidance based on US $1.40

References to EBITDA and operating profit are to underlying measures

# Income statement

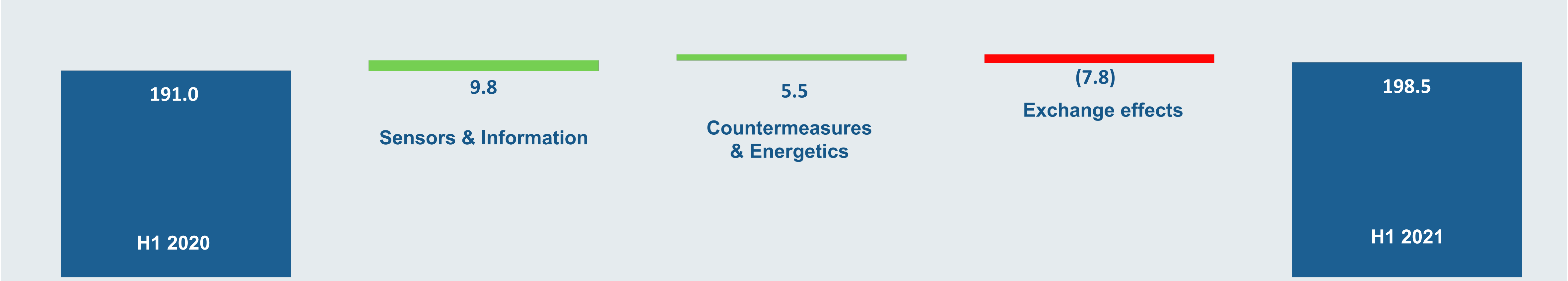
| £m | | | H1 2021 | H1 2020 | 2020 |
|---|---|---|---|---|---|
| Revenue | 4% | ↑ | **198.5** | 191.0 | 402.5 |
| Operating profit | 10% | ↑ | **28.1** | 25.6 | 54.7 |
| Operating margin | 80bps | ↑ | **14.2%** | 13.4% | 13.6% |
| Finance expense | 36% | ↓ | **(0.9)** | (1.4) | (3.0) |
| Profit before tax | 12% | ↑ | **27.2** | 24.2 | 51.7 |
| Tax rate | | | **12.1%** | 17.8% | 17.6% |
| Earnings per share (diluted) | 20% | ↑ | **8.3p** | 6.9p | 14.8p |
| Dividend per share | 23% | ↑ | **1.6p** | 1.3p | 3.9p |

- Strong period in Sensors & Information driven by double digit growth in Roke and continued progress on the HMDS Program of Record
- Countermeasures & Energetics benefited from improving operational execution, offset by the foreign currency headwind
- Reduced effective tax rate due to the recognition of a deferred tax asset in respect of future US interest deductions
- Interim dividend increased. New policy to target a medium-term dividend cover of c.2.5x underlying EPS

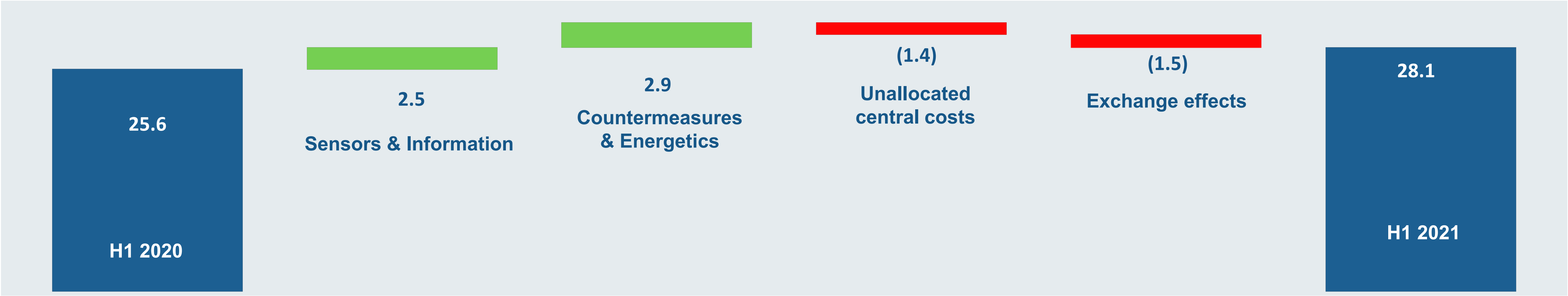
References to operating profit, profit before tax and earnings per share are to underlying measures

# Revenue and profit bridge - Group

## Revenue bridge (£m)

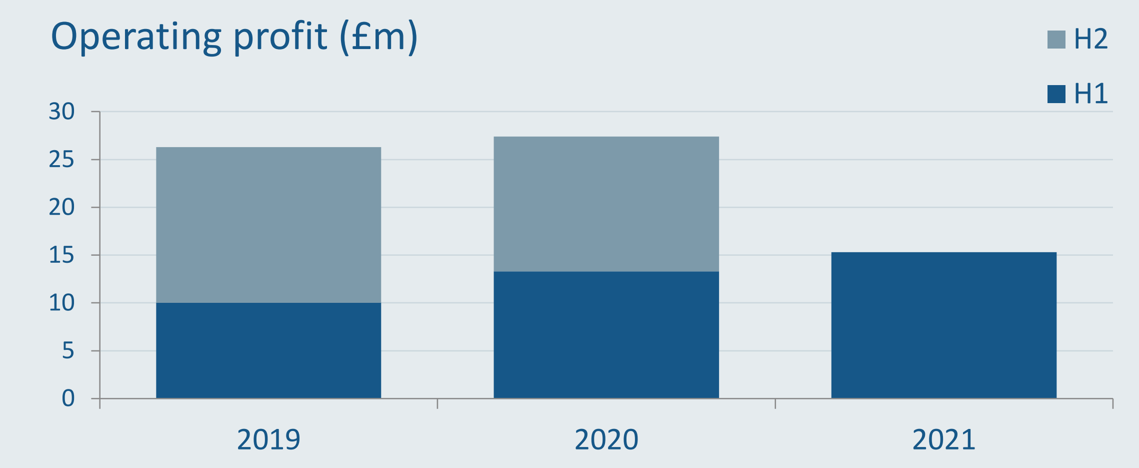



## Operating profit bridge (£m)



# Sensors & Information

| | | | H1 2021 £m | H1 2020 £m | 2020 £m |
|---|---|---|---|---|---|
| Revenue | 11% | ⬆ | **74.4** | 67.3 | 137.2 |
| EBITDA | 10% | ⬆ | **16.6** | 15.1 | 30.7 |
| Operating profit | 15% | ⬆ | **15.3** | 13.3 | 27.4 |
| Operating margin | 80bps | ⬆ | **20.6%** | 19.8% | 20.0% |
| Order book | 12% | ⬆ | **108.9** | 97.0 | 87.3 |

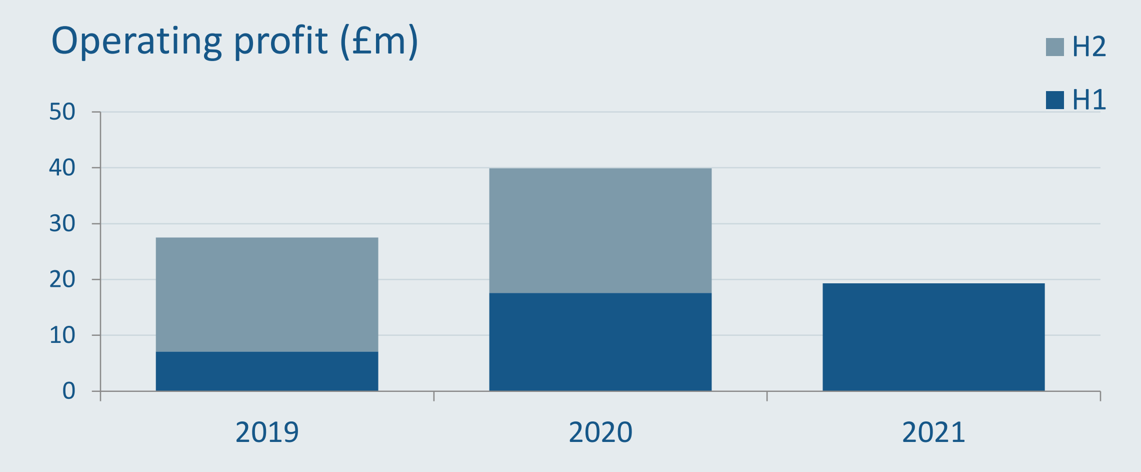



- Roke's market continues to be strong, double digit growth in orders, revenue and operating profit
- HMDS delivery phase continuing, further delivery orders received ($63m) under the previously announced $200m IDIQ contract
- Deliveries made on the EMBD LRIP award
- AVCAD / JBTDS Chem / Bio PoR progressing as planned
- Closing order book of £108.9m

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

# Countermeasures & Energetics

| | | | H1 2021 £m | H1 2020 £m | 2020 £m |
|---|---|---|---|---|---|
| Revenue | | | **124.1** | 123.7 | 265.3 |
| EBITDA | 8% | ⬆ | **27.5** | 25.4 | 56.5 |
| Operating profit | 10% | ⬆ | **19.3** | 17.6 | 39.9 |
| Operating margin | 140bps | ⬆ | **15.6%** | 14.2% | 15.0% |
| Order book | 16% | ⬇ | **341.5** | 406.9 | 388.7 |




- Increase in margin driven by improved operational execution, particularly at the UK countermeasures plant
- Tennessee capacity expansion investment continued, first revenue expected in H2 2022
- Countermeasures USA received a 5 year IDIQ contract, Chemring Energetics UK secured a 15-year long-term partnering agreement with Martin Baker
- Chicago facility participated in key space programmes, including Mars Perseverance Rover landing in February 2021
- Closing order book of £341.5m, decrease from H1 2020 reflects the delivery of the two year order for F-35 countermeasures and the negative impacts of foreign exchange rates

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

# Segmental impact of foreign exchange translation

| Group | Constant currency movement | H1 2021 restated at 2020 rates £m | H1 2020 £m | H1 2021 £m |
|---|---|---|---|---|
| Revenue | ↑ 8% | **206.3** | 191.0 | 198.5 |
| EBITDA | ↑ 12% | **39.5** | 35.2 | 37.6 |
| Operating profit | ↑ 16% | **29.6** | 25.6 | 28.1 |
| Order book | ↓ 8% | **464.4** | 503.9 | 450.4 |

| Sensors & Information | Constant currency movement | H1 2021 restated at 2020 rates £m | H1 2020 £m | H1 2021 £m |
|---|---|---|---|---|
| Revenue | ↑ 15% | **77.1** | 67.3 | 74.4 |
| EBITDA | ↑ 15% | **17.3** | 15.1 | 16.6 |
| Operating profit | ↑ 19% | **15.8** | 13.3 | 15.3 |
| Order book | ↑ 17% | **113.3** | 97.0 | 108.9 |

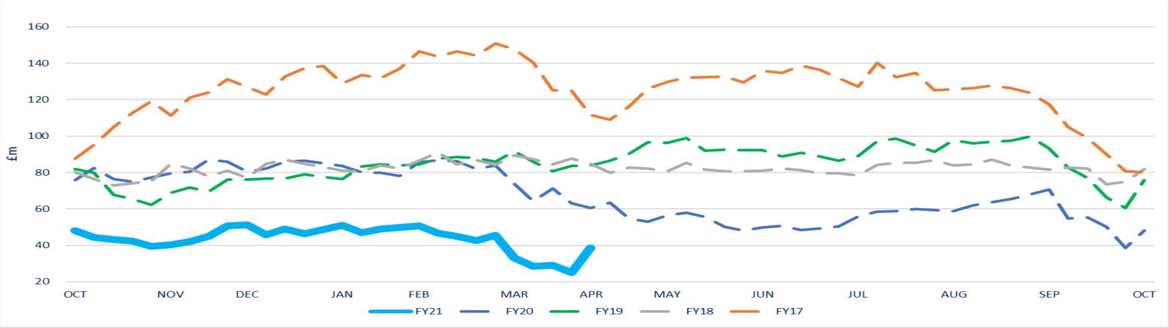
| Countermeasures & Energetics | Constant currency movement | H1 2021 restated at 2020 rates £m | H1 2020 £m | H1 2021 £m |
|---|---|---|---|---|
| Revenue | ↑ 4% | **129.2** | 123.7 | 124.1 |
| EBITDA | ↑ 14% | **28.9** | 25.4 | 27.5 |
| Operating profit | ↑ 16% | **20.5** | 17.6 | 19.3 |
| Order book | ↓ 14% | **351.1** | 406.9 | 341.5 |

References to EBITDA and operating profit are to underlying measures. Continuing businesses only

# Cash flow

| £m | H1 2021 | H1 2020 | 2020 |
|---|---|---|---|
| Cash generated from continuing underlying operations | **36.1** | 56.2 | 82.4 |
| Cash impact of discontinued underlying operations | **-** | (0.4) | (2.6) |
| Cash impact of non-underlying items | **(0.5)** | (2.8) | (4.9) |
| Cash flows from operating activities | **35.6** | 53.0 | 74.9 |
| Tax | **(3.8)** | (0.3) | 1.0 |
| Divestment of subsidiaries | **0.4** | 0.8 | 14.5 |
| Capital expenditure | **(14.1)** | (19.9) | (39.9) |
| Free cash flow | **18.1** | 33.6 | 50.5 |
| Finance expense | **(2.2)** | (2.3) | (3.0) |
| Own shares purchased, FX translation and other movements | **1.0** | (2.9) | (3.1) |
| Dividends paid | **(7.4)** | (6.8) | (10.4) |
| Movement in net debt | **9.5** | 21.6 | 34.0 |
| Adoption of IFRS 16: *Leases* | **-** | (6.5) | (6.5) |
| Opening net debt | **(48.2)** | (75.7) | (75.7) |
| Closing net debt | **(38.7)** | (60.6) | (48.2) |

- Strong operating cash conversion, 96% operating cash: EBITDA, showing continued focus on working capital
- Trend of maintaining low intra period net debt volatility continued
- Rolling two year average cash conversion is 105% of EBITDA
- Capex investment, primarily in C&E segment with major programmes at UK and Tennessee sites continuing
- 2021 and 2022 capex guide remains c£40-£50m before reducing in 2023 and expected to start to trend back towards depreciation



# Balance sheet

| £m | **H1 2021** | H1 2020 | 2020 |
|---|---|---|---|
| Goodwill & intangibles | **117.0** | 131.1 | 125.1 |
| Development costs | **28.8** | 28.6 | 29.8 |
| Property, plant & equipment | **191.9** | 186.5 | 194.0 |
| Working capital | **83.3** | 70.6 | 85.1 |
| Pension surplus | **11.8** | 4.8 | 7.6 |
| Other | **(57.4)** | (46.3) | (63.8) |
| | **375.4** | 375.3 | 377.8 |
| Net debt | **(38.7)** | (60.6) | (48.2) |
| Net assets | **336.7** | 314.7 | 329.6 |

- Net debt reduced to £38.7m and Net Debt : EBITDA ratio of 0.5x (H1 2020: 0.8x). The focus has been on operating cash generation to fund investment in capex
- Working capital as a % of annualised revenue has decreased from 21% to 20%, as working capital fell £2m compared to FY20
- Total facilities of £145m, of which £105m were undrawn at 30 April 2021, provide good liquidity
- The resilience of the pension scheme's investment strategy demonstrated by maintaining the surplus position

# Improving the quality of the order book

## H1 2021 ORDER BOOK £450m, £199m EXPECTED TO BE DELIVERED AS REVENUE IN H2 2021, GIVING 92% COVERAGE

### SENSORS & INFORMATION

- Order intake of £100m (H1 2020: £87m), up 15%
- Book to bill ratio of 135%
- Period end order book of £109m (H1 2020: £97m)
- 2021 deliveries in order book of £59m, covering 80% of expected H2 2021 revenue (H1 2020: 81%)

### COUNTERMEASURES & ENERGETICS

- Order intake of £90m (H1 2020: £163m), down 45%
- Book to bill ratio of 72%
- Period end order book of £341m (H1 2020: £407m)
- 2021 deliveries in order book of £140m, covering 98% of expected H2 2021 revenue (H1 2020: 98%)
- Strong comparator for order intake driven by multi-year contract for the supply of countermeasures for the F-35
- Change of Administration in US delayed orders to H2 2021

## 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
- Further HMDS delivery orders received ($63m) under the previously announced $200m IDIQ contract
- UK Energetics business' 15 year long-term partnering agreement with Martin Baker

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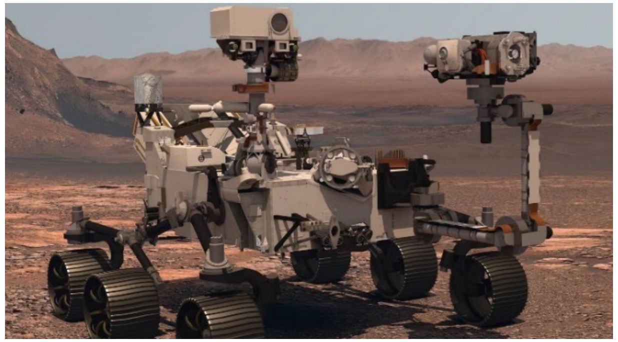
# Michael Ord

Group Chief Executive

# US Market Environment

- National Security priorities of Biden administration very similar to those of UK Integrated Review
  - ➢ Competition with China and a pivot to Indo-Pacific dominant in planning assumptions
- Flat DoD budget but increased emphasis on:
  - ➢ Cyber, Space, Hypersonics, EW, and Chem/Bio security
  - ➢ Diplomacy, intelligence collection/assessment and command systems
  - ➢ Relationships with allies and partners
- Ongoing Force realignment started in the last administration continues

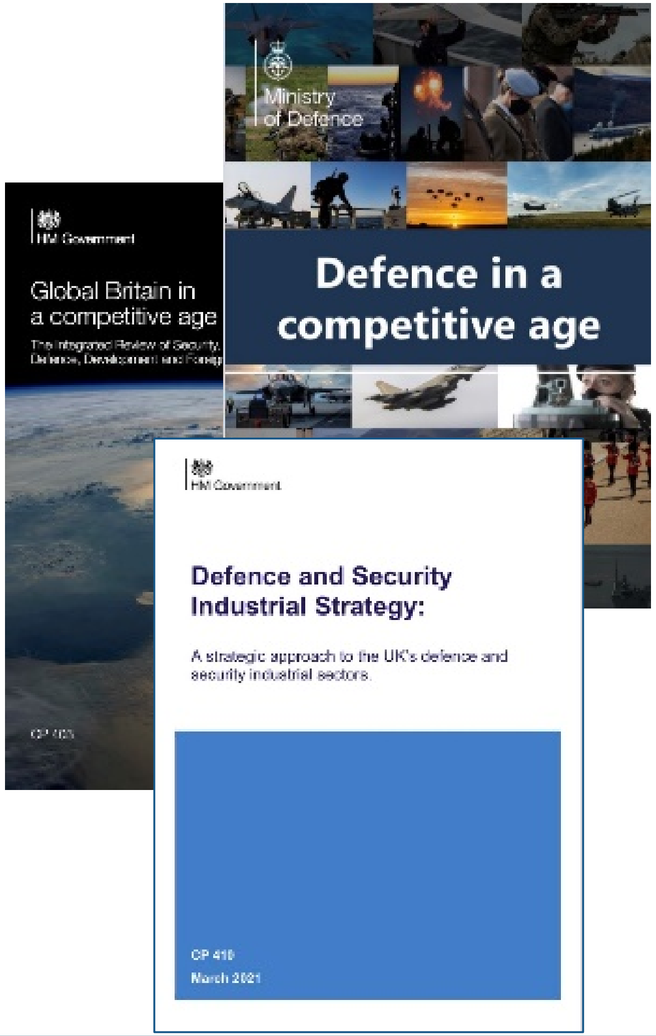
✓ Demand for Chemring’s Chem/Bio Sensors and Roke USA Inc
✓ Opportunities for Chemring Energetic Devices



# UK Market Environment

- Fundamentals of UK market position supported by recent policy priorities
- Need for sustainable UK industrial base recognised
  - ➢ Essential for national security & resilience
  - ➢ Vital role of mid-tier industry acknowledged
- US confirmed as UK’s most important strategic ally
  - ➢ Special Security Agreement (SSA) with DoD facilitates our US market positon
  - ➢ Leverage capabilities across both markets
  - ➢ Formation of “Roke USA” as a platform for growth

➢ Sensors & Information Sector validated as main area for strategic focus
- ✓ Science & Technology, AI, data science and autonomy focus
- ✓ Cyber-security and Offensive-cyber – UK Strategic Capability
- ✓ North-based National Cyber Force and “Cyber Corridor” – Roke Manchester
- ✓ Increased UKG investment in developing UK EW



# Investing in our Technologies

- Investing in new and adapting existing technologies to meet evolving customer requirements – technology roadmap with high relevance to customer missions

- Example areas of focus:
  - **Cyber and Electronic Warfare** – end to end solutions to control and dominate the digital and physical battlespaces
  - **Artificial Intelligence and Machine Learning** – simplifying complexity and enhancing decision making in rapidly changing environments
  - **Ground based Electronic Countermeasures** – individual protection against radio frequency initiated IED’s
  - **Airborne Multi-shot countermeasures** – next generation flare combining multiple payloads in one flare body, enhancing platform protection

**Protective technologies to detect and defeat ever-changing threats**

# Investing in our People

- **Chemring Wide Development Framework**
  - Focused on attracting, retaining and nurturing talent
  - Creating internal networks to share knowledge and experience
  - Leadership Development Programme supports all those involved in first line management
- **Early Careers Framework** focusses on the development of UK wide apprentice programme and the innovative Cyber Launchpad - providing opportunities for apprentices, graduates and early-career hires to develop a wide array of skills
- **Roke Manchester** - supporting Roke’s strategy to grow talent and develop new hubs across the UK
- Focused on **mental health** and **wellbeing**

Attracting, developing and retaining world-class talent


# Inorganic Investment Opportunities

- Focus on creating balance sheet flexibility to be able to execute the right opportunities
- Strengthening business processes and capabilities to identify, transact and integrate opportunities
- Focus on Sensors & Information segment providing technology, skills and routes to market

| Market | Key attributes |
|---|---|
| • Assessing differentiated players in a fragmented market<br>• Cyber-security and digital resilience businesses tend to drive higher multiples | • Niche position<br>• Discriminating IP<br>• Customer mission criticality<br>• High degree of customer intimacy<br>• Cultural compatibility |
| **Financial** | **Opportunities** |
| • Target has profitable track record and predicted growth<br>• Target has strong operating margins that fit our medium term objectives<br>• Funding discipline – balance sheet strength must be maintained post acquisition | • Allocating suitable resources to target identification, prioritisation and relationship development |

# Cubica Acquisition

- Established position in artificial intelligence, machine learning, data fusion and autonomy
- Leading technology that provides state-of-the-art solutions to enable online platforms and law enforcement detect imagery relating to child sexual exploitation
- Primary customer base – UK Government, law enforcement, and international customers
- An excellent strategic and cultural fit for our Roke business
- Brings significant additional research and development capability to the Group supporting next generation technologies and expansion of product, service and capability offerings
- Acquisition creates further opportunities for Chemring to enhance and further accelerate growth in our Roke business


**FY21 Revenue £2.9m, 19 employees located in Woking, UK**

# Key ESG Activities in 2021

**Building on the good progress made in 2020**

- Conducted multi-stakeholder materiality assessment to identify key priorities – high impact topics include:
  - health & safety
  - diversity & inclusion
  - reducing climate change
  - employee wellbeing
- Continued focus on employee wellbeing including adoption, where appropriate, of hybrid working practices
- Medium-term targets and plans will be published with FY21 results

**We are committed to building a strong and sustainable company**

# Outlook

- Continue to build a **high quality business** for sustainable performance and growth
- Strengthen our culture of Safety, Excellence and Innovation
- Approximately 92% of expected H2 revenue covered by order book
- Focus on strong cash generation to remain a primary objective
- Board’s expectations for 2021 performance remain unchanged
- **Chemring’s long-term prospects remain strong**

INNOVATING TO PROTECT

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# Appendix

# Appendix 1. Chemring at a glance

**Chemring is a technology company with an international footprint and a breadth of market leading products and services**


## Our Purpose

Chemring helps make the world a safer place. Across physical and digital environments, our exceptional teams deliver innovative protective technologies to detect and defeat ever-changing threats

## Our Values

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

**EXCELLENCE**
Focussed on ensuring we consistently meet high standards

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

## Our Expertise

### SENSORS & INFORMATION

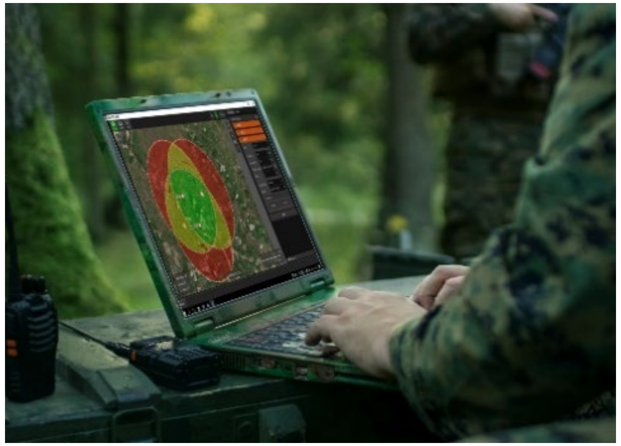
- Leading provider in information and electronic warfare, chemical & biological agent and explosive hazard detection
- Leading supplier of consulting and technology services, trusted by government and industrial partners worldwide to solve security-critical issues

### COUNTERMEASURES & ENERGETICS

- Global leader in 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

# Appendix 2. Business groupings

| Sensors & Information | Countermeasures & Energetics | |
|---|---|---|
| Roke | Chemring Countermeasures UK | Chemring Energetic Devices |
| Chemring Sensors & Electronic Systems | Chemring Countermeasures US (Kilgore Flares) | Chemring Energetics UK |
| | Chemring Countermeasures US (Alloy Surfaces) | Chemring Nobel |
| | Chemring Australia | Chemring Technology Solutions |

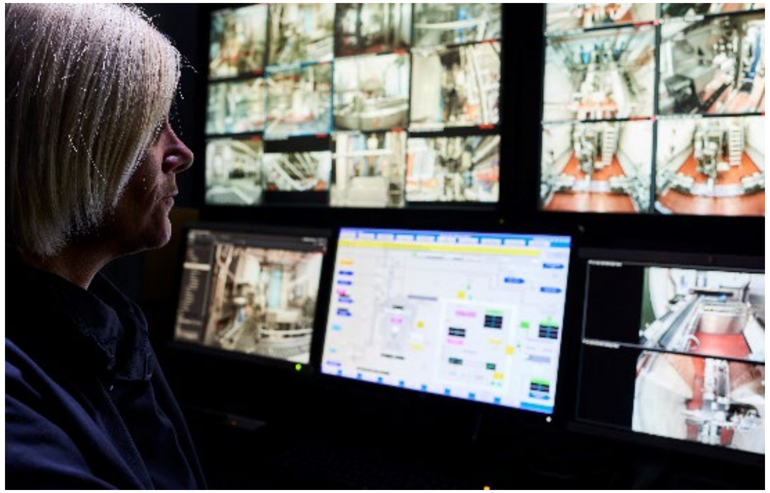


- Our client base spans defence, security and commercial industries and we deliver capabilities and solutions to over 50 countries across the globe
- We employ approximately 2,300 employees worldwide, at locations in the UK, the US, Norway, and Australia. Headquartered in Romsey, UK

**Working with our customers to make the world a safer place**

# 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 |
|---|---|---|---|---|



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# Appendix 4. Non-underlying items

## CONTINUING OPERATIONS

| £m | Note | H1 2021 P&L Cost | H1 2021 Cash paid |
|---|---|---|---|
| Acquired intangibles amortisation | | (3.7) | - |
| Business restructuring | a | - | (0.2) |
| Mark to market of FX forward contracts | | 0.8 | - |
| Impact on profit before tax / cash flow | | (2.9) | (0.2) |
| Tax credit on non-underlying items | | 0.4 | |
| Impact on continuing profit after tax | | (2.5) | |

Notes
a - costs relating to Tennessee site transformation programme

## DISCONTINUED OPERATIONS

| £m | Note | H1 2021 P&L cost | H1 2021 Cash paid |
|---|---|---|---|
| Claim related costs | a | - | (0.3) |
| Impact on profit before tax / cash flow | | - | (0.3) |

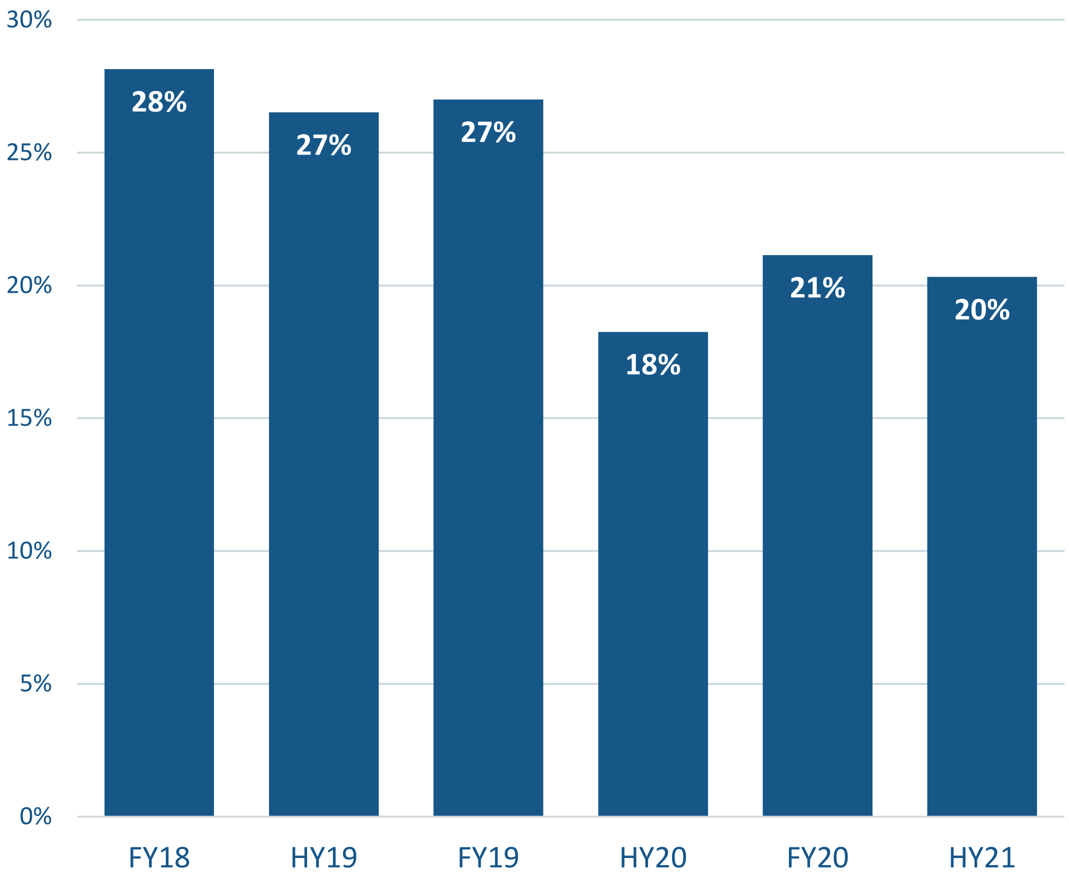
Notes
a - costs relating to business closures and previously disposed of businesses

# Appendix 5. Working capital

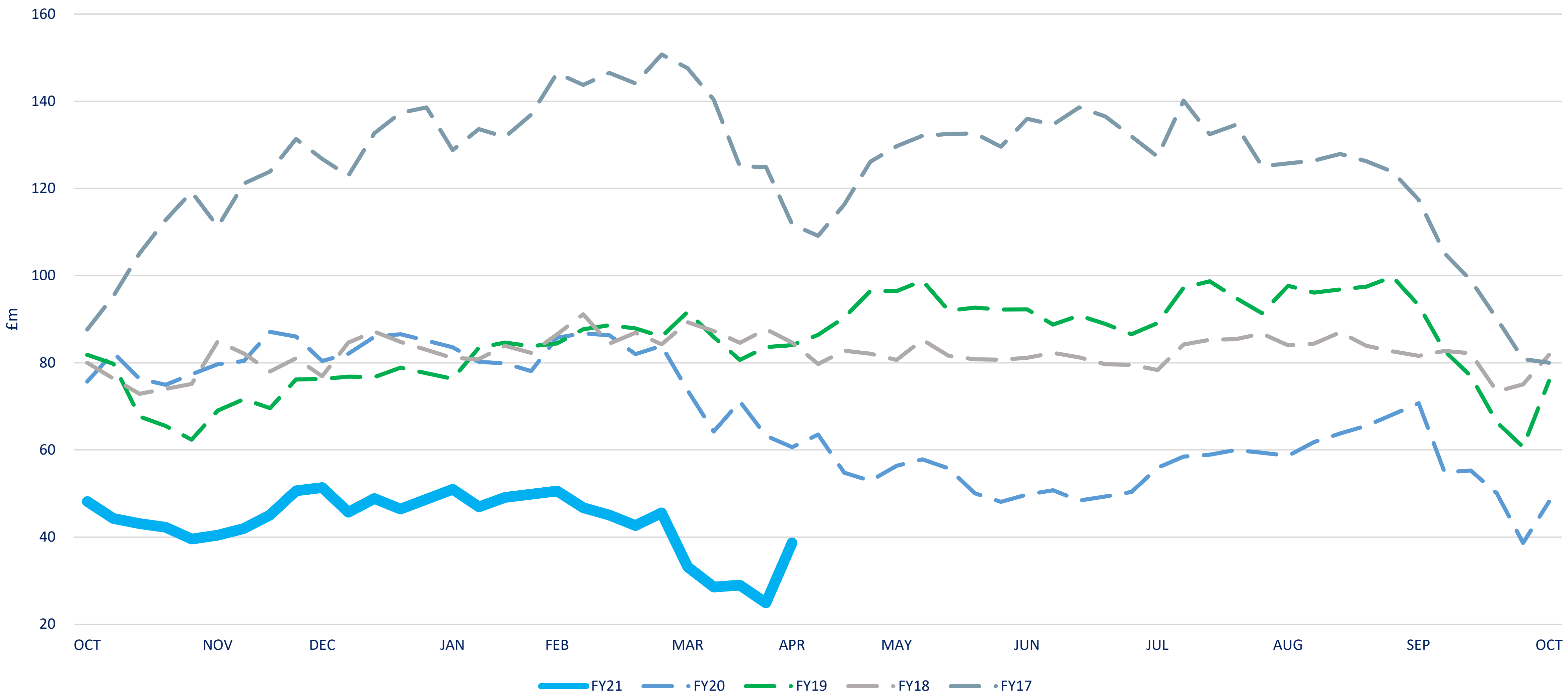
| £m | | H1 2021 | FY 2020 | H1 2020 |
|---|---|---|---|---|
| Inventories | | **80.3** | 91.3 | 91.1 |
| Advance receipts from customers | | **(24.4)** | (22.8) | (19.9) |
| Net inventory | | **55.9** | 68.5 | 71.2 |
| Receivables | | **40.4** | 45.9 | 41.0 |
| Payables | | **(7.0)** | (19.9) | (38.6) |
| Other items | | **(6.0)** | (9.4) | (3.0) |
| | 2% ↓ | **83.3** | 85.1 | 70.6 |

| | | H1 2021 | FY 2020 | H1 2020 |
|---|---|---|---|---|
| Revenue (£m) | 4% ↑ | **198.5** | 402.5 | 191.0 |
| Working capital as a % of last 12 months revenue | 1% ↓ | **20%** | 21% | 18% |

Working capital as a % of last 12 months revenue



# Appendix 6. Weekly Net Debt



# Appendix 7. Financial objectives and assumptions 2021-23

| | |
|---|---|
| REVENUE | • S&I - Mid single digit % growth, with the potential for step changes as the US PORs commence full rate production<br>• C&E - Low single digit % growth driven by the US market, including F-35, potential for step change across 2022 and 2023 as Tennessee facility generates first incremental revenue |
| OPERATING MARGINS | • Targeting mid to high teen return on sales % at a segmental level in the medium term |
| INTEREST | • Expected to fall again in 2021 due to continued reduction in net debt |
| CAPEX | • £40-50m for 2021 and 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 having been elevated for 4 years |
| FX | • US$1.40: £1<br>• Sensitivity to 10c move in $ rate is circa £14m at an annual revenue level and £3m at an annual underlying operating profit level |
| TAX | • 2021 – 2023: Effective tax rate in the mid to high teens<br>• Beyond 2023: Effective tax rate in the low 20s |

# Appendix 8. Market Consensus 2021, 2022 & 2023

- The Group is aware of seven analysts publishing independent research on the Group
- The Group has compiled consensus data from the research it has been made aware of
- The Group compiled mean consensus is:

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| Revenue (£m) | 404 | 423 | 445 |
| Underlying Operating Profit (£m) | 57.1 | 62.1 | 66.7 |
| Underlying Earnings Per Share (pence) | 15.1 | 16.1 | 17.8 |
| Net Debt (£m) | 44 | 29 | 7 |

# Appendix 9. Glossary

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

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