



## Chemring Group PLC

Results for the six months to  
30 April 2015

- Significant reduction in H1 profit, due to delays in order receipts and customer acceptance
- Full year expectations unchanged – more than 75% of required H2 revenue now in order book
- Order book £502.8 million at 30 April 2015 (2014: £401.8 million), £208.8 million for delivery in the current year
- Significant orders exceeding £50.0 million received since period end, with deliveries scheduled to start in H2, and further material orders expected to be secured in H2 in all three segments
- Key strategic wins on long term US Sensors & Electronics development programmes
- Restructuring of operations to reflect long term programmes and opportunities
- Interim dividend maintained at prior year level

- Orders exceeding £50.0 million received since period end from US Government and Middle East customers, with deliveries starting in H2
  - orders comprise pyrotechnics and ammunition, with £40m deliverable in H2
- Progress on significant Middle East orders expected to be concluded in H2:
  - 3d-Radar detection equipment
  - 40mm ammunition
  - conclusion of technical developments relating to 2014 Middle East HMDS production order
- Initial procurement and production to fulfil these requirements has commenced. Activity expected to be recognised in H2, delivering profit contribution of c.£12m
- Deferred customer acceptance for advanced countermeasure expected to be concluded in July
- Automated production capabilities commissioned, increasing H2 capacity and throughput
- Shipping restrictions in H1 now resolved, with backlog being delivered
- Expectations for the full year unchanged

- Continued drive on safety culture and behaviour programmes through improved knowledge sharing and near miss programmes
- Emphasis on reduction of risk in high hazard activities:
  - Commissioning of automated manufacturing facility at Chemring Countermeasures UK
  - Countermeasures automated assembly facility at Kilgore fully operational
  - Commissioning of block explosive manufacturing facility at Chemring Energetics
- Continual improvement of site safety cases and process safety management
- Lagging indicators are encouraging but we remain alert:
  - Reduced level of Lost Time Incidents and energetic related injuries
  - Benchmarking against peers worldwide

# Financial & operational review

**Steve Bowers – Group Finance Director**

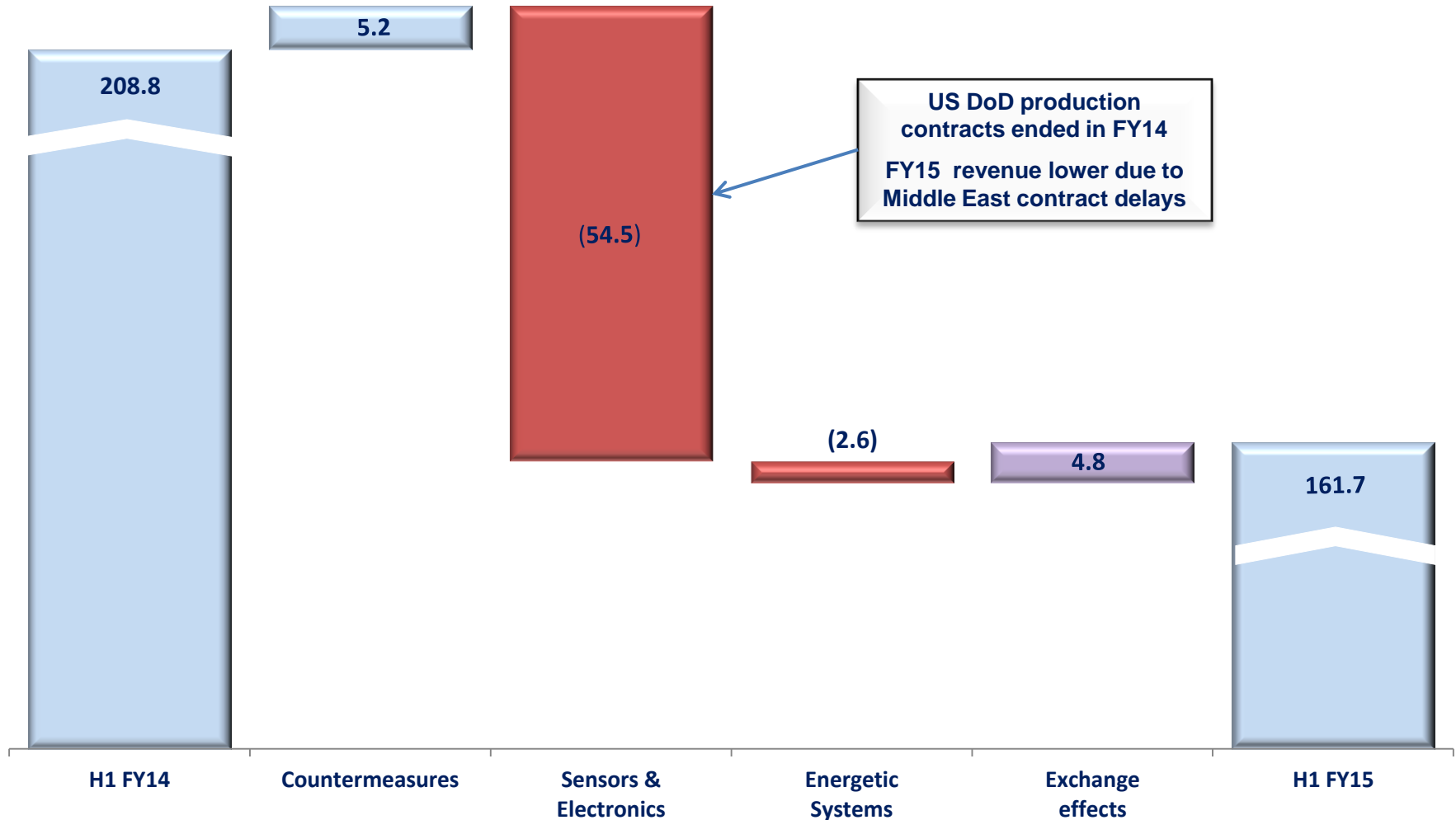
# Headline results

	H1 FY15	H1 FY14
Revenue	<b>£161.7m</b>	£208.8m
Operating profit	<b>£5.5m</b>	£22.4m
(Loss)/profit before tax	<b>£(1.3)m</b>	£13.4m
(Loss)/earnings per share	<b>(0.5)p</b>	5.4p
Dividend per share	<b>2.4p</b>	2.4p
Net debt	<b>£148.5m</b>	£229.2m

*References to operating profit, (loss)/profit before tax and (loss)/earnings per share are to underlying measures*

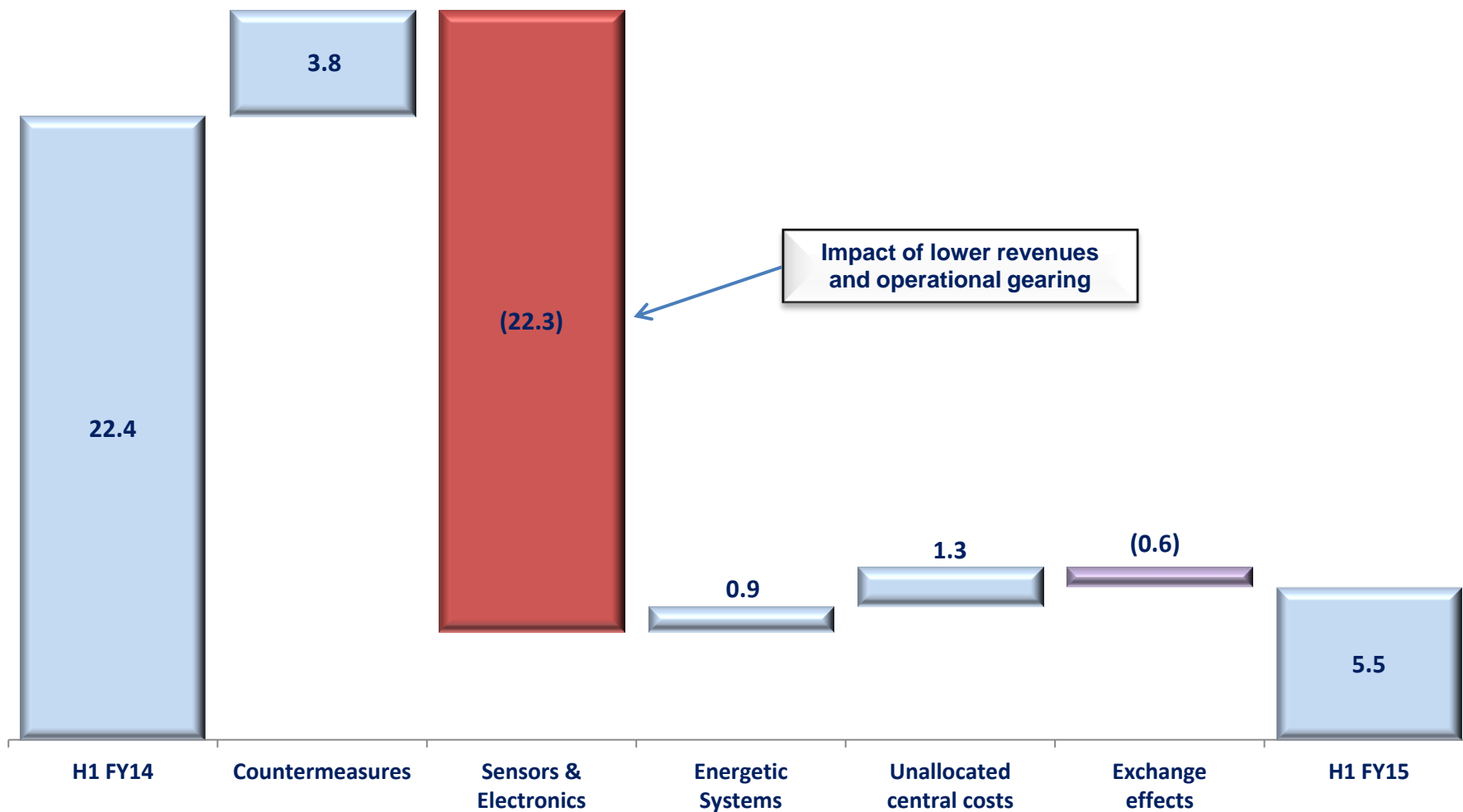
*H1 FY14 data relates to continuing operations*

# Revenue bridge



Continuing operations, £m

# Operating profit bridge

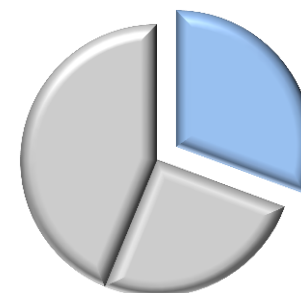


Continuing operations, £m



	H1 FY15	H1 FY14	Change
Revenue	<b>£49.5m</b>	£43.5m	+ 13.8%
Operating profit	<b>£4.7m</b>	£1.5m	+ 213.3%
Operating margin	<b>9.5%</b>	3.4%	
Order book	<b>£199.3m</b>	£161.8m	+ 23.2 %

31% of revenue



## H1 drivers

Production issues in UK delayed revenue – resolved in H2

Growing consistency in Kilgore production, gross margins improving

Order book growth weighted towards UK and Australia

## H2 guidance

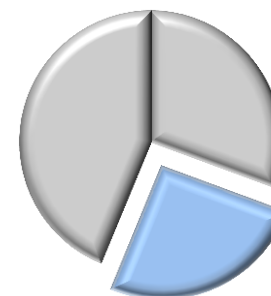
Improvement in UK – improved production, new capacity on-stream

Further operational reliability at Kilgore, driving margins

Restructuring of Alloy Surfaces under review

	H1 FY15	H1 FY14	Change
Revenue	<b>£41.4m</b>	£94.7m	- 56.3%
Operating profit	<b>£0.9m</b>	£23.3m	- 96.1%
Operating margin	<b>2.2%</b>	24.6%	
Order book	<b>£88.8m</b>	£50.1m	+ 77.2%

25% of revenue



## H1 drivers

Delays in progressing 3d-Radar and HMDS Middle East production contracts

Order book rise reflects US R&D wins – including \$14.9m for biological detection programme

Re-structuring of UK business to deliver greater customer focus and improved resource utilisation

## H2 guidance

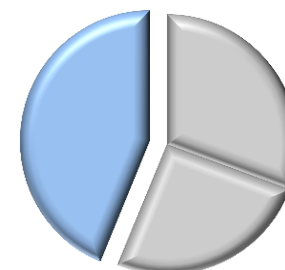
Progress on Middle East orders expected in H2

Site rationalisation and headcount reduction in US to reflect current production volumes

Completion of UK re-structuring, enabling improved service to address customer demand, particularly cyber

	H1 FY15	H1 FY14	Change
Revenue	<b>£70.8m</b>	£70.6m	+ 0.3%
Operating profit	<b>£3.6m</b>	£2.6m	+ 38.5%
Operating margin	<b>5.1%</b>	3.7%	
Order book	<b>£214.7m</b>	£189.9m	+ 13.1%

44% of revenue



## H1 drivers

Robust performance, evidencing further operational improvement

Margin increase driven by UK sites – solid production throughput on MoD and Middle East contracts

Encouraging order intake

## H2 guidance

US non-standard ammunition order \$62.7m received for FY15 delivery

Further Middle East orders expected

Performance improvement continues to be targeted to raise margins at production line level

# Income statement

## Discontinued operations

Munitions operations divested in FY14

## Corporate costs

Benefit of FY14 initiatives and further headcount reduction in H1 FY15

## Interest

Reduced due to loan note repayment in H2 FY14

## Tax

Consistent rate at c.20%

## Dividend per share

Interim dividend maintained

		H1 FY15	H1 FY14
£m			
Operating profit			
- continuing operations		9.2	27.4
- discontinued operations		-	4.6
Corporate costs		(3.7)	(5.0)
Operating profit		5.5	27.0
Interest		(6.8)	(9.0)
(Loss)/profit before tax		(1.3)	18.0
Tax rate		20.3%	22.0%
(Loss)/earnings per share		(0.5)p	7.3p
Dividend per share		2.4p	2.4p
Dividend cover		n/a	3.0x

# Non-underlying items

## Business restructuring and incident costs

Roke restructuring £1.4m

## Acquisition and disposal costs

Release of provisions relating to prior year disposals

## Claim related costs

Provision for historic claim relating to Kilgore

## Acquired intangibles amortisation

Routine amortisation only

H1 FY15 £m	P&L cost	Cash paid
Business restructuring and incident costs	1.8	3.6
Acquisition and disposal costs	(2.7)	0.2
Claim related costs	4.7	-
Acquired intangibles amortisation	7.1	-
Other items	(0.1)	-
	10.8	3.8

# Balance sheet

## Capitalised R&D

Includes £20.2m Sensors & Electronics development projects

## Working capital

See next slide

## Net debt

£12.9m increase in H1, of which £6.0m FX translation. Usual seasonal outflow mitigated by stringent cash management

## Other

Disposal related provisions

£m	H1 FY15	H1 FY14	FY14
Goodwill & intangibles	<b>202.9</b>	204.9	205.6
Property, plant & equipment	<b>174.1</b>	175.5	177.1
Capitalised R&D	<b>35.2</b>	29.7	33.2
Working capital	<b>75.5</b>	65.4	70.0
Tax	<b>(7.4)</b>	(19.3)	(10.3)
Pension deficit	<b>(18.6)</b>	(20.8)	(21.8)
<i>Gross debt</i>	<b>(161.9)</b>	(249.8)	(157.4)
<i>Cash</i>	<b>13.4</b>	20.6	21.8
Net debt	<b>(148.5)</b>	(229.2)	(135.6)
Held for sale	-	94.6	-
Other	<b>(17.7)</b>	0.8	(17.9)
Net assets	<b>295.5</b>	301.6	300.3

		H1 FY15	H1 FY14	FY14
<b>Exchange rate effects</b>	£m			
US\$ translation accounts for £2.0m of H1 increase				
<b>Inventories</b>				
Increase driven by production phasing and build-ahead in anticipation of H2 orders				
	Inventories	<b>96.3</b>	83.4	78.1
	Trade receivables	<b>49.4</b>	47.3	59.3
	Contract receivables	<b>22.7</b>	31.0	20.2
	Trade payables	<b>(43.6)</b>	(36.6)	(37.1)
	Advance payments	<b>(11.6)</b>	(6.1)	(4.5)
	Other items	<b>(37.7)</b>	(53.6)	(46.0)
<b>Trade receivables</b>				
Reduced due to timing of sales		<b>75.5</b>	65.4	70.0
<b>Contract receivables</b>				
Lower level of contract-accounted production activity				
<b>Other items</b>				
Reduced accruals and provisions				

# Operating cash flow

	£m	H1 FY15	H1 FY14	FY14
<b>Depreciation</b>				
H1 FY15 reflects continuing operations run-rate				
	Operating profit – inc. discount ops	5.5	27.0	49.0
	Depreciation	7.5	9.3	17.0
	Loss on fixed asset disposals	-	0.1	(0.2)
<b>Amortisation</b>	Amortisation	3.1	3.2	6.7
Stable charge compared to H1 FY14 – will rise over time as project developments conclude	Pension contributions	(2.5)	(4.0)	(8.2)
	Other	0.6	0.7	1.2
		14.2	36.3	65.5
<b>Pension contributions</b>	Inventory	(16.8)	(2.0)	2.3
Payments under long term funding plan	Debtors	6.0	27.2	24.0
	Creditors & provisions	9.5	(34.3)	(28.3)
<b>Working capital</b>	Working capital change	(1.3)	(9.1)	(2.0)
Net outflow of £1.3m excludes exchange effects	Operating cash flow	12.9	27.2	63.5



# Movement in net debt

		H1 FY15	H1 FY14	FY14
<b>Capex</b>	£m			
Tight control over spending, with H1 additions focused on site infrastructure	Operating cash flow	<b>12.9</b>	27.2	63.5
	Non-underlying items	<b>(3.8)</b>	(3.9)	(25.9)
	Capex	<b>(3.1)</b>	(5.3)	(10.9)
<b>Capitalised R&amp;D</b>	Capitalised R&D	<b>(4.5)</b>	(5.5)	(12.1)
Spend reducing as expected. Investment centred on Sensors & Electronics	Interest	<b>(6.2)</b>	(9.5)	(20.6)
	Tax	<b>(2.8)</b>	(0.5)	(3.4)
<b>Interest</b>	Dividends	-	-	(12.0)
Reduced cash outflow, in line with P&L charge	Disposal proceeds	-	6.2	137.1
	Acquisition of 3d-Radar	-	-	(1.4)
<b>Exchange rate effects</b>	Other	<b>0.6</b>	(1.0)	(2.5)
Increase in debt due to translation of USD borrowings at H1 FY15 rate of \$1.54 (Oct 2014: \$1.60)	Exchange rate effects	<b>(6.0)</b>	11.8	1.3
	Movement in net debt	<b>(12.9)</b>	19.5	113.1
	Net debt b/f	<b>(135.6)</b>	(248.7)	(248.7)
	Net debt c/f	<b>(148.5)</b>	(229.2)	(135.6)

# Debt funding & covenants

## Covenant amendment

Alleviation at April & July 2015:

- Revolving Credit Facility
  - leverage 3.75x at April, 3.50x at July (was 3.00x)
  - interest cover 3.00x (was 4.00x)
- Loan notes
  - adjusted debt leverage 3.75x at April, 3.50x at July (was 3.00x)
  - interest cover 3.00x (was 3.50x)

## Revolving Credit Facility

£70m, committed to July 2018

## Loan notes

£167.3m principal outstanding

First repayment £31.8m, due Nov 2016

Adjusted leverage calculated using gross debt less remaining proceeds from FY14 disposals

## April 2015

**Actual**    **Covenant**

## Revolving Credit Facility

Leverage - net debt to EBITDA	<b>3.07x</b>	<3.75x
Interest cover	<b>3.41x</b>	>3.00x

## Loan notes

Leverage		
- gross debt to EBITDA	<b>3.21x</b>	<3.75x
- adjusted debt to EBITDA	<b>3.13x</b>	<3.75x
Interest cover	<b>3.68x</b>	>3.00x

# Modelling considerations

## Income statement

- Significant H2 weighting due to delays in order receipts and customer acceptance
- Orders exceeding £50.0m received since period end, with deliveries scheduled to start in H2
- Minor USD rate effect - 1¢ weakening gives £0.1m increase in PBT
- FY15 restructuring costs c.£6m, centred on Sensors & Electronics
- FY15 interest expected to be c.£15m
- Tax rate stable at c.20%
- Unchanged dividend policy expected for FY15 - 3.0x cover based on underlying EPS

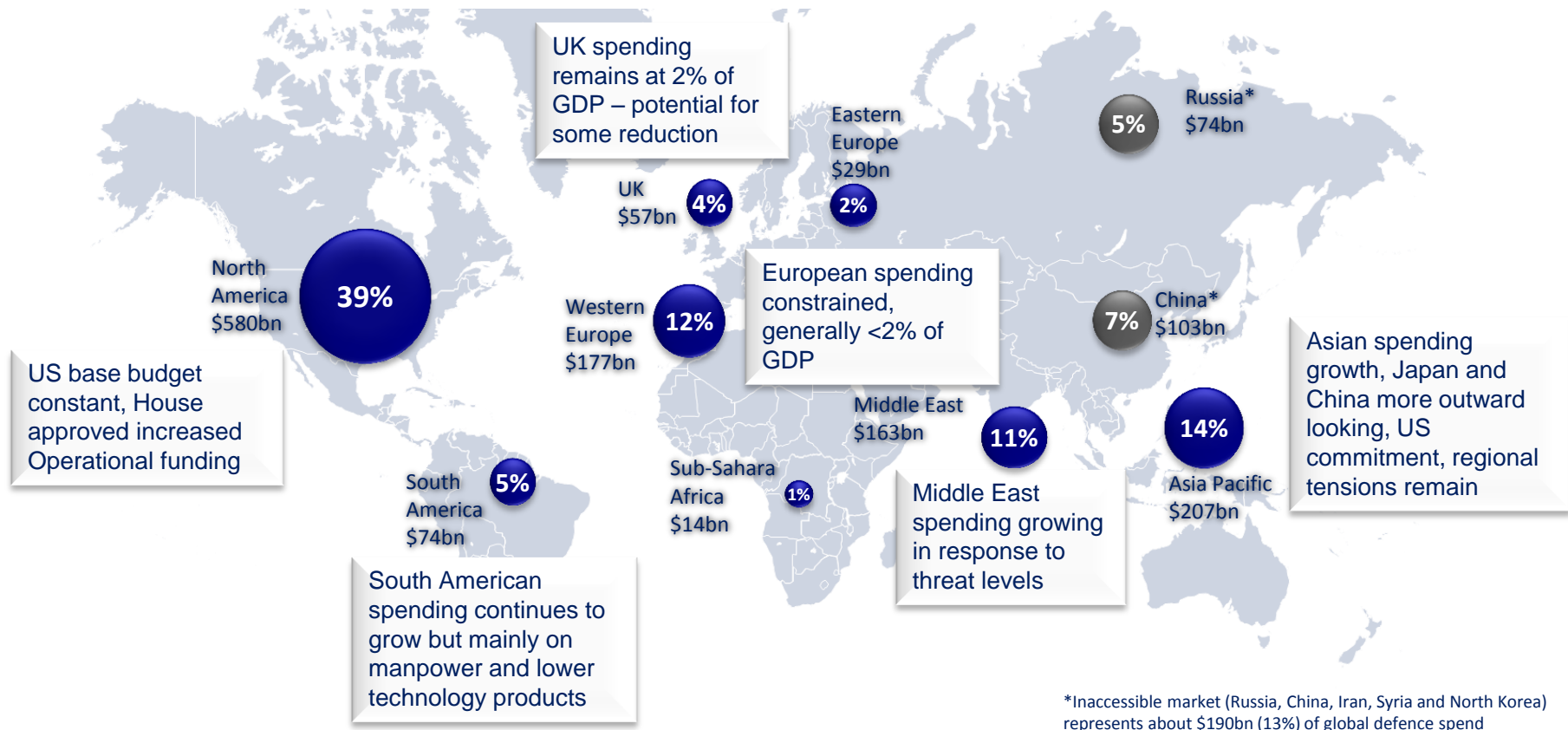
## Balance sheet

- USD rate effect - 1¢ weakening gives £1.0m more debt
- Organic cash generation expected to accelerate in H2 as delivery under major production contracts steps up
- Capex to run in line with depreciation
- Capitalised R&D c.£10m in FY15, reducing thereafter as UK projects conclude and US projects transition to customer funding

# Chief Executive's review

**Michael Flowers – Group Chief Executive**

## Global defence spending likely to stabilise in 2015



**Near term growth in niche market segments such as cyber, electronic warfare and force protection**

## Portfolio and segmental strategies aligned to meet future demand



### Countermeasures

- maintain world lead
- strengthen position on key programs - Typhoon and F-35
- grow market share through in-country relationships and technology transfer in emerging markets



### Sensors & Electronics

- focus on areas of technological lead in detection, electronic warfare and force protection
- win key NATO programmes to exploit globally



### Energetic Systems

- maintain current business base and product offering whilst seeking new markets
- Growth focus on Middle East and North Africa, and Asia Pacific

- **Exploit capabilities and follow-on products into adjacent markets**
- **Target growth regions and commercialisation of products**
- **Continue to improve operational performance**

# Major programme update

## Counter IED HMDS A2

- Engineering and Manufacturing Development (“EMD”) sole source contract to design the next generation HMDS to provide enhanced capabilities; delivery of two prototypes, nine production systems, hardware spares and also services to include both support and testing
- Initial development program on-track, additional funding to occur in Q4 2015, production contracts to be awarded at end of EMD phase

Year	15	16	17	18	19	20	21	22	23-30
Revenue £m	10	20	25	25	30	50	50	50	300

## Next Generation Chemical Detection (“NGCD”)

- EMD program for all branches of the US military with three different variants to support future chemical detection capability requirements
- Competitive programme, Chemring progressed to second phase for each variant in H1

Year	15	16	17	18	19	20	21	22	23-30
Revenue £m	3	6	15	24	30	40	50	80	320

## Joint Biological Tactical Detection System (“JBTDs”)

- Man-portable biological detection system to support future detection capability requirements for all services
- Chemring confirmed as sole source provider in H1, production contracts will follow EMD phase

Year	15	16	17	18	19	20	21	22	23-30
Revenue £m	4	8	8	18	30	40	40	40	100

## F35 Countermeasures

- Supply of specialist countermeasures for global F35 fleet, expected to be >2500 platforms
- Kilgore is sole qualified supplier, with qualification of Chemring Australia as second source on going

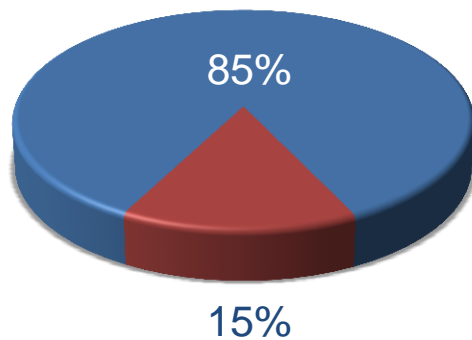
Year	15	16	17	18	19	20	21	22	23 - 30
Revenue £m	6	10	15	30	60	60	60	60	60 pa

Source: Estimated total programme revenues based on US DoD data and Company analysis

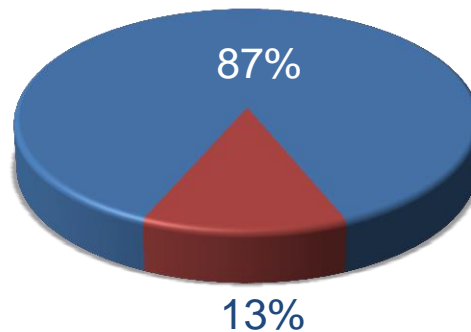
# Geographic diversification

- Reduction in NATO expenditure following withdrawal of forces from Iraq and Afghanistan has demanded greater geographic diversification
- Initial priority has been six key Middle East nations, followed by expansion into Asia Pacific market
- Market growth delivered in all technology areas, with further growth forecast
- Product offerings vary, from simple pyrotechnic products to electronic warfare systems

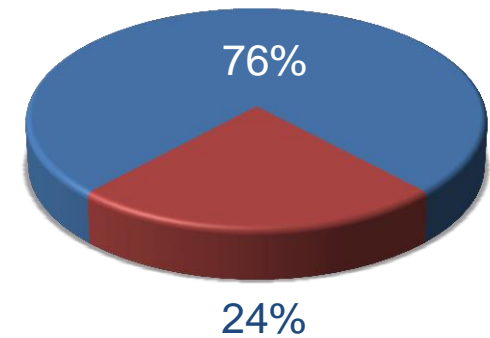
## FY13 Revenue



## FY14 Revenue



## H1 FY15 Revenue



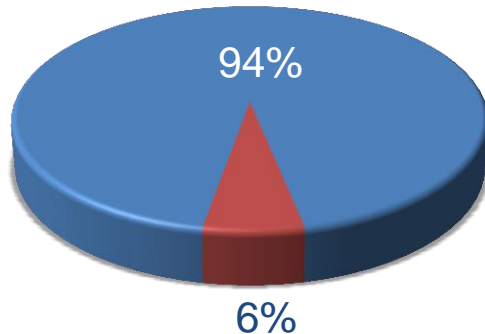
■ NATO

■ Non-NATO

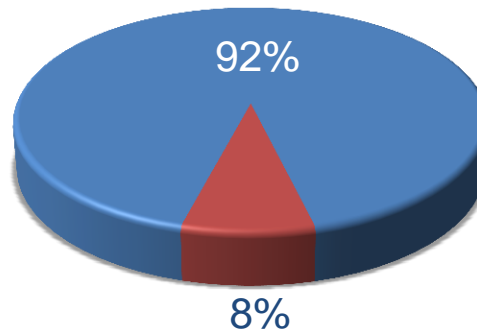


- Many systems developed by Chemring have dual use in security and industrial markets
- Strategy of promoting existing products / technologies into industrial and security sectors in countries where we have strong market presence
- Key products include actuators (automotive and aerospace), hand-held explosive and chemical detectors (police and emergency services), ground penetrating radar (infrastructure and industrial), pyrotechnics, communications and information security

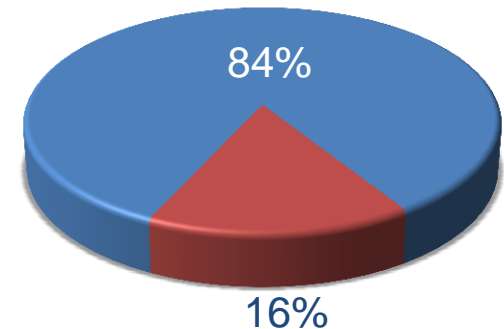
**2013 Revenue**



**2014 Revenue**



**H1 2015 Revenue**



**Defence**



**Non-defence**

# Segmental analysis - Countermeasures



Naval launcher

Air  
countermeasures



Advanced  
countermeasures



Naval decoys



Special material  
decoys



## 2015 Priorities

- Consolidate gains made at Kilgore
- Maintain technology lead in home markets through customer-funded and self-funded R&D
- Deliver F-35 qualification contract in Australia
- Further segment collaboration, particularly across Atlantic
- Continue efforts to secure launch customer for Centurion launcher

## 2015 H1 Achievements

- Strengthened leadership team at Kilgore with improving margins
- Solid order intake, particularly at Chemring Countermeasures UK and Chemring Australia.
- Chemring Countermeasures UK - automated facility commissioned and operational
- Completed F-35 Low Rate Initial Production for United States Marine Corps, progressing Chemring Australia second source qualification
- Centurion launch customers identified and technical and commercial interaction ongoing

# Segmental analysis - Sensors & Electronics



## 2015 Priorities

- Win export orders for Husky Mounted Detection System
- Win non-NATO and civilian opportunities for 3d-Radar
- Win development programme for Joint Biological Tactical Detection System (“JBTDS”)
- Successfully progress Next Generation Chemical Detection (“NGCD”) R&D programmes
- Exploit hand-held detector range and gain market share
- Enter commercial market for hand-held detection units
- Enter Beta testing for Perception, conclude development and start product sales
- Optimise structure and R&D efforts

## 2015 H1 Achievements

- 3d-Radar opportunities progressing in military and commercial markets
- JBTDS R&D contract won – Chemring confirmed as sole source provider
- Successful progression to second phase of NGCD programme in all three variants
- Hand-held IED detector orders received, and development of UK variant concluded. Major opportunities in US and other global territories being pursued
- Success with Resolve Electronic Warfare in export markets
- Initial service orders for Perception and Smartswitch received
- Major re-structuring at Chemring Technology Solutions, consolidation of US production sites



# Segmental analysis - Energetic Systems



Military  
pyrotechnics

Space and  
missile  
components

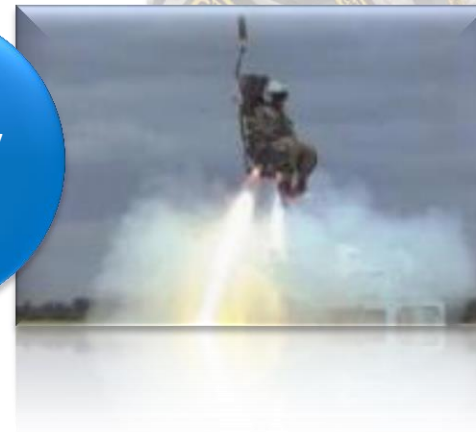


Demolition  
stores



Mine & obstacle  
breaching  
systems

Aircrew egress /  
safety



## 2015 Priorities

- Consolidate gains made at Chemring Energetic Devices and Chemring Ordnance whilst exporting best practice to other sites
- Continue to seek new markets for existing products, particularly in the Middle East and Far East
- Focused and small-scale developments to ensure currency of product range
- Capital investment to support short payback programs that deliver margin improvement on current programs
- Continue to build trans-Atlantic capability to address US and European space, aircraft and missile prime contractors

## 2015 H1 Achievements

- Continued progress at Chemring Energetic Devices following FY14 integration. New customers being won, although delivery performance still lagging
- Very strong order intake, particularly in Middle East, additional opportunities expected to be concluded in H2
- Capital investment starting to deliver margin improvement and operational predictability
- Automated block explosive manufacturing facility commissioned at Chemring Energetics UK
- Significant opportunities for actuators being pursued in industrial and automotive markets

- Significant orders received since period end, further material orders expected in H2
- FY15 outlook unchanged, >75% of required H2 revenue now in order book
- Key strategic wins on long term US Sensors & Electronics development programmes
- Important strategic and operational progress - greater focus, collaboration and accountability
- Market challenging, but opportunities exist through geographic and sector diversification
- Leading technologies and market positions
- Increased optimism in delivering Chemring's longer term potential



# Questions?

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