

Chemring Group

Results for the six
months to 30 April 2019



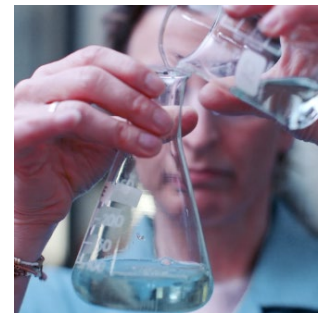
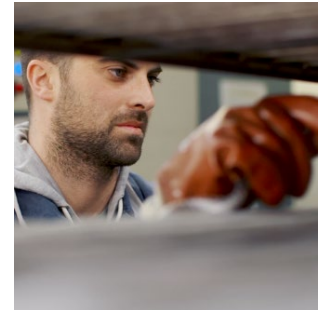
Innovating to protect™

Michael Ord

Group Chief Executive

Safety

- Safety remains our key priority and is driving increased investment in the Group's manufacturing infrastructure
- All milestones of new HSE strategy and plan have been met
- New HSE standards and guidelines introduced Group-wide
- Continuous month on month reduction in recordable injury rate over the past eight months from 2.77 to 1.32*
- HSE investigation at CCM UK is ongoing



* Number of recordable injuries per 200,000 man hours worked over a rolling twelve month period

Overview

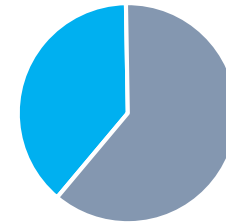
Overall Group H1 performance in line with our expectations

- Strong performance across **Sensors & Information sector**
- Continued progress on US Programs of Record
- **Countermeasures & Energetics sector** impacted by previously reported manufacturing issues and planned site commissioning
- Phased restart of UK Countermeasures site remains on track
- Australian subsidiary received two significant F-35 countermeasures contracts
- Sale of Chemring Military Products and closure of Chemring Prime Contracts completed

Board's full year expectations are unchanged

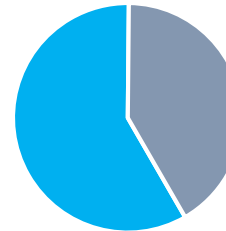
- Significant second-half weighting to revenue, underlying operating profit and cash
- Approximately 95% of H2 revenue is in the order book or has been delivered to-date

H1 2019 Revenue by Sector



■ Sensors & Information ■ Countermeasures & Energetics

H1 2019 Operating Profit by Sector



■ Sensors & Information ■ Countermeasures & Energetics

H1 2019 Revenue by Geography



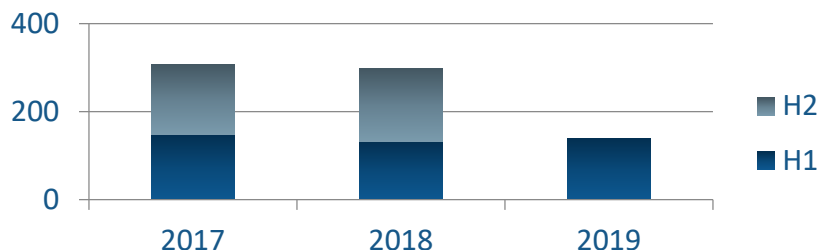
■ US ■ UK ■ ROW

Andrew Lewis

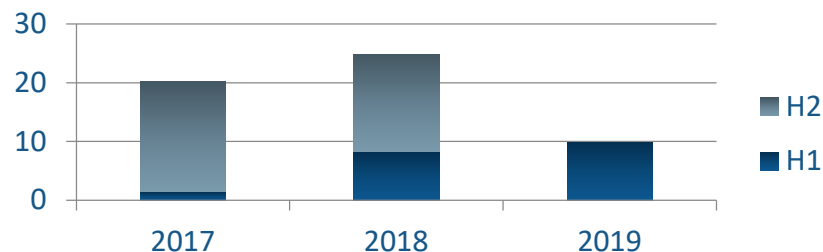
Group Finance Director

Group performance

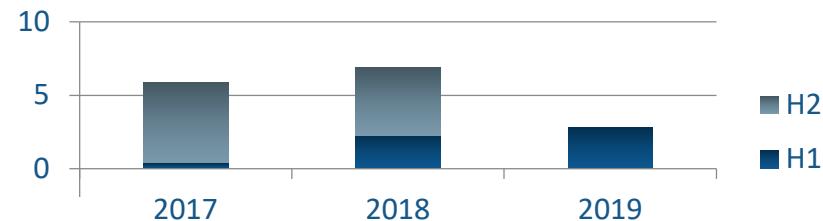
Revenue (£m)



Profit before tax (£m)



EPS (pence)



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

FINANCIAL HIGHLIGHTS

- Revenue up by 5%
- Operating profit growth of 4% to £12.1m
- Return on sales flat at 8.7%
- Finance expense down 33% to £2.2m
- Net debt stable at £84.0m
- EPS increased 22% to 2.8p
- Interim dividend up 9% at 1.2p per share

OPERATIONAL HIGHLIGHTS

- Order intake up 37% to £248m
- Strong performance from S&I driven by HMDS and Roke
- C&E markets strengthening, investment in sites progressing
- Closing order book of £494m
- H2 2019 expected revenue approximately 95% covered by order book and revenues to date
- £242m of orders in place for FY20 delivery and £64m for FY21 and beyond

Income statement

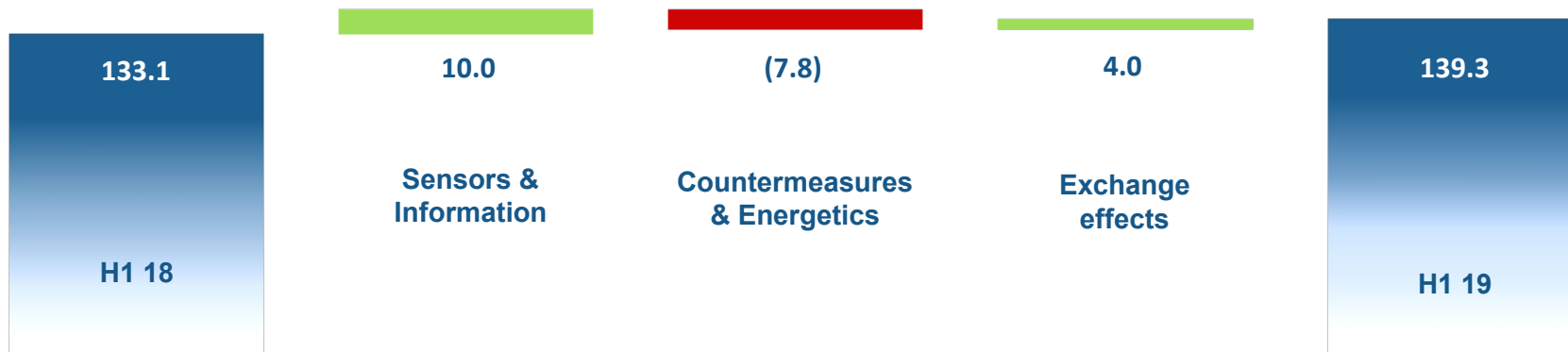
£m			H1 19	H1 18	FY18
Revenue	↑	5%	139.3	133.1	297.4
Operating profit	↑	4%	12.1	11.6	31.0
Finance expense	↓	33%	(2.2)	(3.3)	(6.1)
Profit before tax	↑	19%	9.9	8.3	24.9
Tax rate			20.2%	21.7%	22.9%
Earnings per share	↑	22%	2.8p	2.3p	6.9p
Dividend per share	↑	9%	1.2p	1.1p	3.3p

- Result for the period includes £13m of insurance recoveries in respect of the CCM UK incident in August 2018. This offset site operating and remediation costs, and the site broke even in the period
- Stronger period in Sensors & Information driven by HMDS program and Roke

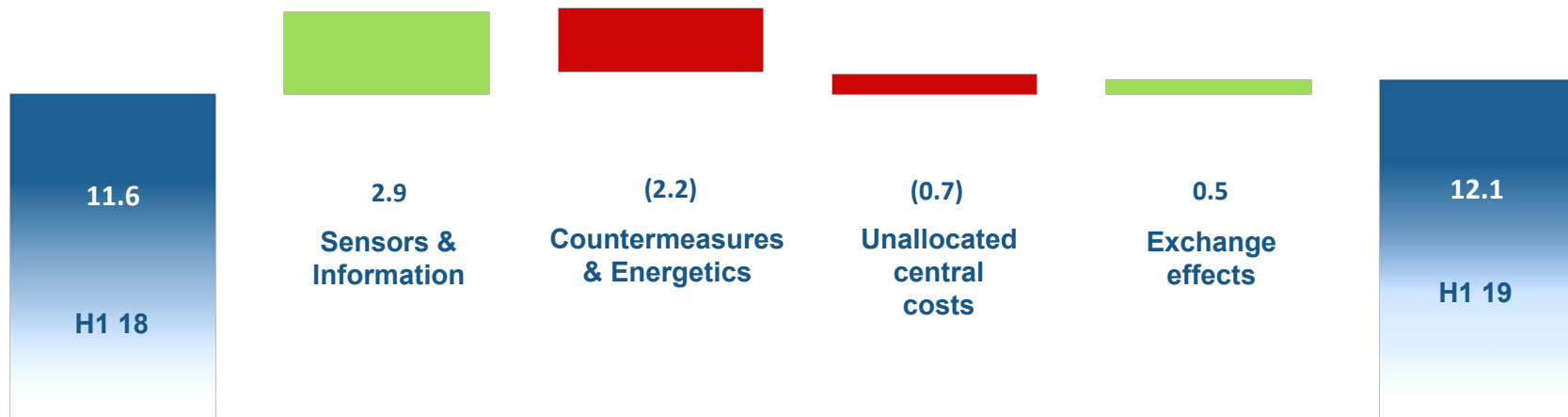
References to operating profit, profit before tax and earnings per share are to underlying measures

Revenue and profit bridge - Group

Revenue bridge (£m)



Operating profit bridge (£m)

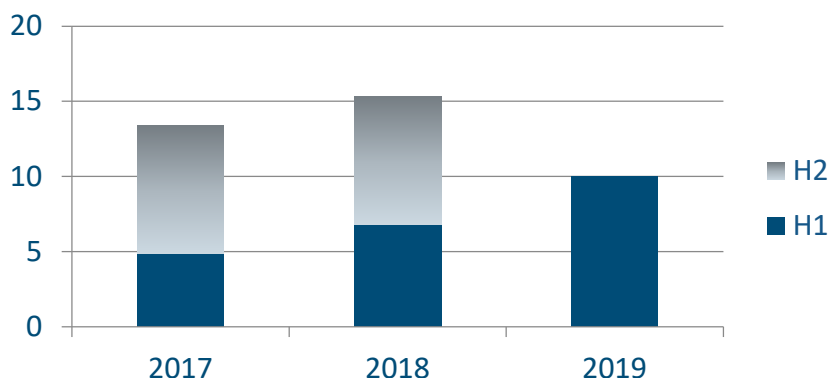


Sensors & Information

		H1 19 £m	H1 18 £m	FY18 £m
Revenue	↑ 27%	53.8	42.3	87.3
EBITDA	↑ 33%	11.7	8.8	18.5
Operating profit	↑ 47%	10.0	6.8	15.3
Operating margin		18.6%	16.1%	17.5%
Order book		99.5	43.2	75.4

- HMDS was a major growth driver in the period
- Roke's market continues to be strong
- Further US orders for HMDS (\$27m) and EMBD (\$9m)
- AVCAD and JBTDS programs progressing in line with expectations
- Closing order book of £100m, £52m for delivery in H2 2019, covering 79% of expected revenue

Operating profit (£m)



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

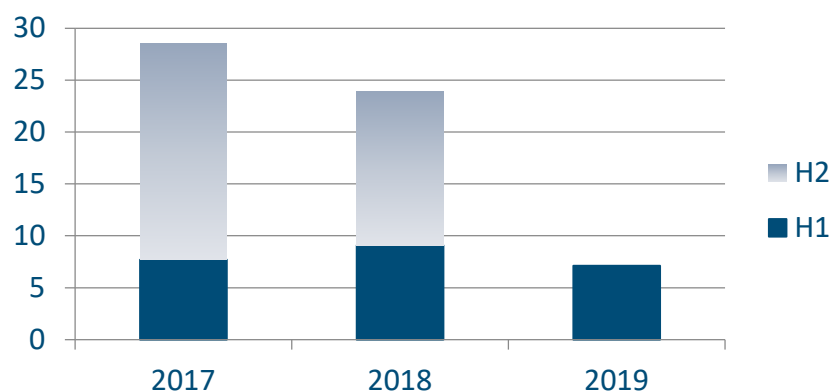


Countermeasures & Energetics

		H1 19 £m	H1 18 £m	FY18 £m
Revenue	↓ 6%	85.5	90.8	210.1
EBITDA	↓ 20%	13.6	17.1	39.6
Operating profit	↓ 22%	7.1	9.1	23.9
Operating margin		8.3%	10.0%	11.4%
Order book		394.6	319.7	318.3

- UK and Australian sites closed for re-commissioning
- Tennessee capacity expansion investment defined and commenced, expected cost c.£50m over the next two years
- Strategically important F-35 countermeasure orders received by Australian facility
- Closing order book of £395m, £136m for delivery in H2 2019, covering 100% of expected revenue


Operating profit (£m)



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



Impact of foreign exchange translation

Group		Constant currency movement	H1 19 restated at 2018 rates £m	H1 18 £m	H1 19 £m
					
Revenue	↑	2%	135.3	133.1	139.3
EBITDA	↓	9%	19.7	21.7	20.3
Operating profit			11.6	11.6	12.1
Order book	↑	34%	484.8	362.9	494.1

TRANSLATION

- 48% of revenue US \$ denominated in H1 2019
- P&L translation \$1.30 vs \$1.39 in H1 2018
- Balance sheet translation rate \$1.30 vs \$1.28 at FY18

SENSITIVITIES

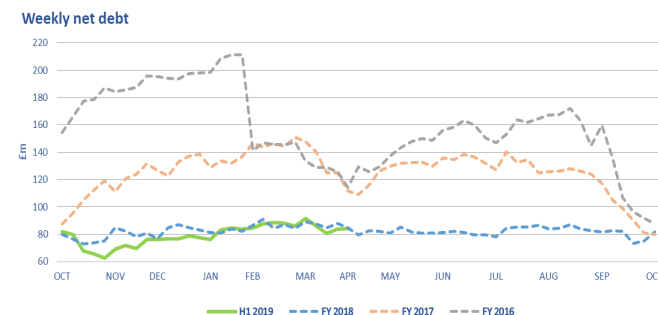
- 10 cent weaker USD gives £0.6m decrease in operating profit
- 10 cent weaker USD gives £4.2m decrease in net debt

References to EBITDA and operating profit are to underlying measures

Cash flow

£m	H1 19	H1 18	FY18
Cash generated from continuing underlying operations	21.9	19.1	44.7
Cash generated from discontinued underlying operations	9.4	2.3	12.2
Cash impact of non-underlying items	(3.0)	(1.7)	(7.6)
Cash flows from operating activities	28.3	19.7	49.3
Pension scheme deficit recovery contributions	(0.4)	(2.5)	(7.9)
Tax	(2.2)	(4.1)	(5.5)
Capital expenditure	(21.6)	(9.5)	(19.7)
Proceeds on disposal of subsidiary	0.6	-	-
Dividends paid	(6.2)	(5.6)	(8.7)
Finance expense	(1.6)	(3.8)	(6.0)
Amortisation of debt finance costs	(0.1)	(0.5)	(1.3)
Foreign exchange translation	1.0	1.7	(2.0)
Movement in net debt	(2.2)	(4.6)	(1.8)
Opening net debt	(81.8)	(80.0)	(80.0)
Closing net debt	(84.0)	(84.6)	(81.8)

- Solid operating cash conversion, 108% operating cash: EBITDA, showing continued focus on working capital and management of intra period net debt
- Capex investment, primarily in C&E segment with major programmes at UK and Tennessee sites
- Final pension deficit recovery payment of £0.4m made in November 2018



Balance sheet

£m	H1 19	H1 18	FY18
Goodwill & intangibles	139.4	171.4	146.8
Capitalised R&D	24.6	31.6	24.0
Property, plant & equipment	160.5	156.7	148.1
Working capital	80.5	129.8	83.7
Net assets held for sale	0.8	-	16.8
Other	(46.6)	(33.3)	(50.9)
	359.2	456.2	368.5
Net debt	(84.0)	(84.6)	(81.8)
	275.2	371.6	286.7
Pension surplus	7.8	3.5	7.5
Net assets	283.0	375.1	294.2

- Net debt:EBITDA ratio of 1.73x
- Final PP loan notes repayment of £64.1m due in November 2019
- Decrease in working capital due to collection of year end receivables and focus on managing in-year inventory
- Assets held for sale reduced as £10m realised in cash, CMP disposed of and CPC closed
- Net debt flat year on year as operating cash reinvested in capex

Michael Ord

Chief Executive's Review

Progress to date

Group-wide safety review and strategic plan implemented ✓

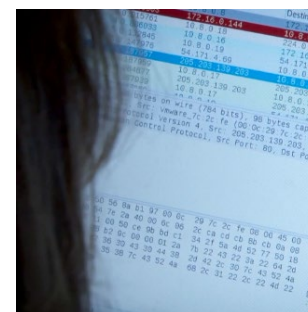
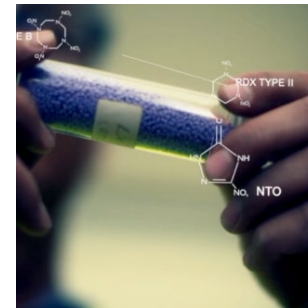
Strengthened management teams ✓

Strengthened governance and risk management ✓

Exit the commoditised energetics market – **ongoing**

Focus and structure applied to business growth - **ongoing**

- Technology roadmaps beyond current US Programs of Record
- Exploiting Roke technologies across wider markets and geographies
- Integration of global countermeasures capabilities



A business which continually innovates to protect its customers

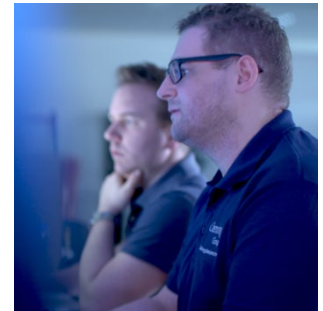
Sensors & Information Sector

Technology and innovation rich businesses in US and UK

- Complete life-cycle capabilities from R&D and consultancy to product delivery and support
- Operationally proven and customer endorsed technologies
- Incumbent supplier positions with blue-chip customers

Restructured Roke and CTS businesses to more effectively exploit sensor technologies and remove cost

Building a technology based strategy for growth beyond current programmes and contracts



Current US Programs of Record

Explosive Hazard Detection

HMDS

- **Sole source** position
- Entering FRP phase
- Further \$27m HMDS delivery orders received in the period
- Expected to be worth **c.\$500m (10 years)**



Biological Detection

JBTDS

- **Sole source** position
- In customer testing phase
- Expected to be worth **c.\$400m (10 years)**

EMBD

- **Sole source** position
- In EMD phase
- Further \$9m order received in the period
- Expected to be worth **c.\$100m (10 years)**



Chemical Detection

AVCAD

- **In competition**
- Two suppliers now in EMD phase
- Focus on building a technically and commercially winning solution
- **\$838m** IDIQ contract vehicle awarded
- DoD sourcing strategy post EMD to be determined



Countermeasures & Energetics Sector

We now operate in high quality niches with high barriers to entry

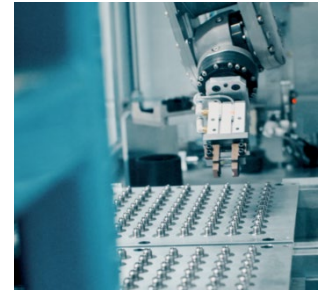
- Long-term supply positions
- Unique product and manufacturing technologies
- Exit of commoditised energetics businesses ongoing

We are the #1 global supplier of countermeasures

- Fast jets, helicopters and transport aircraft all carry our products
- Countermeasures are essential in training and operational missions
- Phased restart of UK Countermeasures site remains on track

We will invest in automation and modernisation to

- Improve safety
- Raise barriers to entry
- Improve operational effectiveness and reliability
- Increase capacity



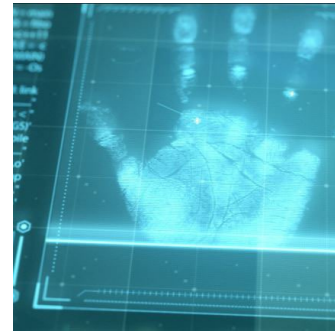
H1 Summary and H2 Focus

H1 Summary

- Significant changes implemented improving the quality of the Group
- US Programs of Record continue to progress in line with expectations
- Significant contract wins in Countermeasures underpins investment decisions
- Progress made in exiting commoditised energetics businesses

H2 Focus

- Maintain **safety** as key priority across the Group
- Group-wide **operational performance** and **continuous improvement**
- **Sensors & Information**
 - Build winning AVCAD solution
 - Build Roke growth plans
- **Countermeasures & Energetics**
 - Deliver CCM UK restart
 - Maintain schedule on CCM US expansion project in Tennessee
 - Mobilise F-35 countermeasure manufacturing in Australia
 - Exit commoditised energetics businesses

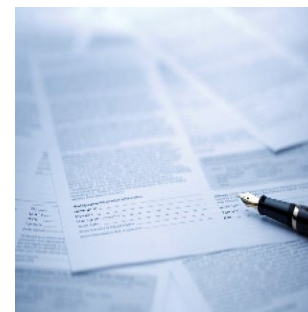
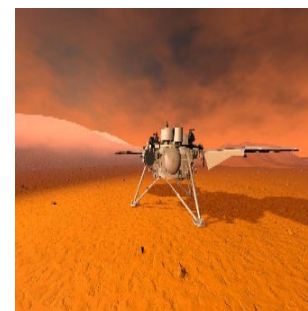
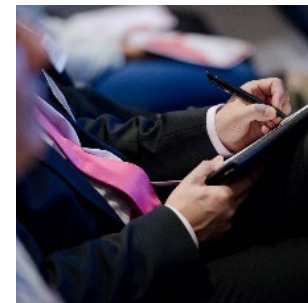


Financial objectives and assumptions 2019-2022

Revenue	<ul style="list-style-type: none"> S&I - Mid single digit % growth, with the potential for step changes as the US POR's commence full rate production C&E - 2020 step up as CCM UK and CHA run for a full year c.£20m - 2021/22 mid single digit % growth driven by the US market, including F-35
Operating margins	<ul style="list-style-type: none"> Targeting mid to high teen return on sales % at a segmental level in the medium term
Interest	<ul style="list-style-type: none"> Expected to fall again in 2020 as PP notes are repaid in Nov 2019 (\$84m @ 5.5%)
Capex	<ul style="list-style-type: none"> £40-50m for the next three years as investment in safety, automation and catch up capex is needed in the main manufacturing facilities and the capacity expansion project in Tennessee is completed
FX	<ul style="list-style-type: none"> US\$1.30: £1 Sensitivity to 10c move in \$ rate is £2.5m at an annual underlying operating profit level
Tax	<ul style="list-style-type: none"> Medium term blended rate in the low 20's%
Discontinued operations	<ul style="list-style-type: none"> Loss making in 2019 given timing of disposals and market conditions, no contribution in 2020 or beyond Cash on disposal immaterial

Outlook

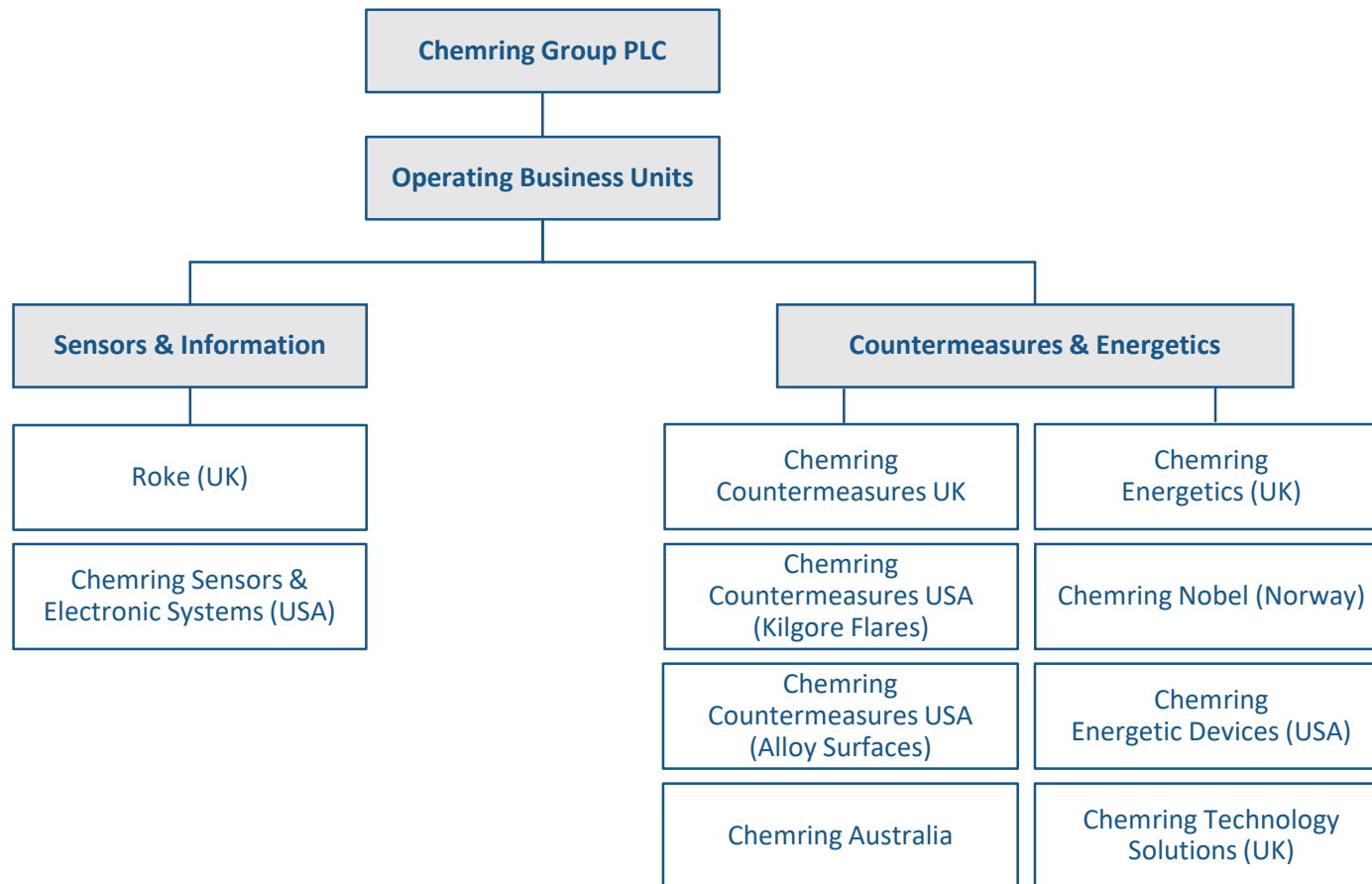
- Approximately 95% of expected H2 revenue is in the current order book or has been delivered to-date
 - The bulk of orders awaited are small and routine with no significant contracts required to be finalised for full year delivery
 - While there are a number of variables including operational execution risk, Brexit and associated international trade licensing, exchange rates and insurance recoveries in respect of the UK Countermeasures incident which occurred in August 2018, expected deliveries in the second half are well covered by the Group's current order book
- **The Board's full year expectations are unchanged**
- Significant second-half weighting to revenue, underlying operating profit and cash



Questions

Appendices

Appendix 1. Organisation chart



Appendix 2. Non-underlying items – continuing operations

£m	Note	H1 19 P&L cost	H1 19 Cash paid
Acquired intangibles amortisation		(5.6)	-
Business restructuring	a	-	(1.1)
Claim related costs	b	-	(1.4)
Other items		-	(0.5)
Impact on profit before tax		(5.6)	(3.0)
Tax credit on non-underlying items		1.2	-
Impact on continuing profit after tax		(4.4)	(3.0)

Notes

a - Closure of CED's Torrance site

b - Legal costs of SFO investigation

Appendix 3. Impact of foreign exchange translation

Group	Constant currency movement	H1 19 restated at 2018 rates £m	H1 18 £m	H1 19 £m
Revenue	↑ 2%	135.3	133.1	139.3
EBITDA	↓ 9%	19.7	21.7	20.3
Operating profit		11.6	11.6	12.1
Order book	↑ 34%	484.8	362.9	494.1



Sensors & Information	Constant currency movement	H1 19 restated at 2018 rates £m	H1 18 £m	H1 19 £m
Revenue	↑ 24%	52.3	42.3	53.8
EBITDA	↑ 30%	11.4	8.8	11.7
Operating profit	↑ 43%	9.7	6.8	10.0
Order book	↑ 122%	96.0	43.2	99.5

Countermeasures & Energetics	Constant currency movement	H1 19 restated at 2018 rates £m	H1 18 £m	H1 19 £m
Revenue	↓ 3%	83.0	90.8	85.5
EBITDA	↓ 2%	13.3	17.1	13.6
Operating profit	↓ 3%	6.9	9.1	7.1
Order book	↑ 22%	388.8	319.7	394.6

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

Appendix 4. Working capital

£m	H1 19	H1 18 cont	FY18 cont
Inventories	78.2	75.9	71.4
Receivables	40.2	43.9	45.4
Payables	(21.0)	(15.5)	(12.1)
Advance receipts from customers	(7.7)	(10.2)	(5.7)
Advance payments to suppliers	0.1	3.4	0.7
Other items	(9.3)	(13.4)	(16.0)
	80.5	84.1	83.7

cont—refers to continuing operations not classified as held for sale in the balance sheet. H1 2018 values have been restated to remove operations that have since been classified as discontinued.

Appendix 5. Market Consensus FY19 & FY20

- The Group is aware of 7 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:

	FY19	FY20
Revenue (£m)	350	384
Underlying Operating Profit (£m)	42	53
Underlying Earnings Per Share (pence)	9.6p	13.0p
Net Debt (£m)	90	83

Appendix 6. Glossary

Acronym	Meaning	Acronym	Meaning
AGPR	Advanced Ground Penetrating Radar	IDIQ	Indefinite Delivery Indefinite Quantity
APAC	Asia Pacific Region	IED	Improvised Explosive Device
AVCAD	Aerosol & Vapor Chemical Agent Detector	JBTDS	Joint Biological Tactical Detection System
CED	Chemring Energetic Devices	LRIP	Low Rate Initial Production
CHA	Chemring Australia	LTI	Lost Time Incident
CHG	Chemring Group	MJU	Multi Jettison Unit
CM	Countermeasures	MTV	Magnesium Teflon Viton
EMBD	Enhanced Maritime Biological Detection	NGCD	Next Generation Chemical Detector
EMD	Engineering and Manufacturing Development	NSA	Non-Standard Ammunition
EW	Electronic Warfare	POR	Program of Record
F-35	F-35 Joint Strike Fighter	PP	Private Placement
FRP	Full Rate Production	SMD	Special Material Decoy
HMDS	Husky Mounted Detection System	US DoD	United States Department of Defense

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