



Chemring Group

**Results for the year
ended 31 October 2019**



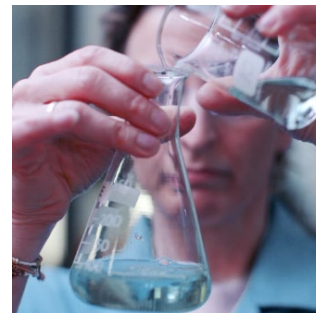
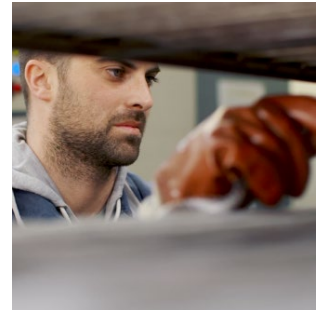
Michael Ord

Group Chief Executive

Safety

- **Safety is our core value**
- We continue to investment in automated manufacturing facilities
- New HSE standards and guidelines introduced
- All milestones of new HSE strategy have been met to date
- HSE investigation at CCM UK is ongoing

Our goal remains zero harm



Summary

Group performance ended slightly ahead of initial expectations

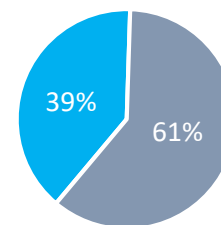
Good progress made in *Building a stronger business*

- Strong performance across **Sensors & Information**
- Planned site recommissioning and qualifications impacted **Countermeasures & Energetics**
- Solid operating cash conversion (104% operating cash / EBITDA)
- Completed exit from commoditised energetics businesses

Board expectation for FY20 performance is unchanged

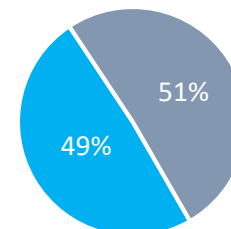
Approximately 76% expected revenue is covered by order book

FY 2019 Revenue by Sector



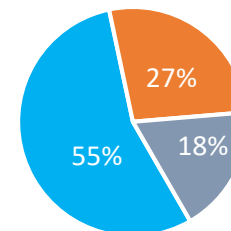
■ Sensors & Information ■ Countermeasures & Energetics

FY 2019 Operating Profit by Sector



■ Sensors & Information ■ Countermeasures & Energetics

FY 2019 Revenue by Geography



■ US ■ UK ■ ROW

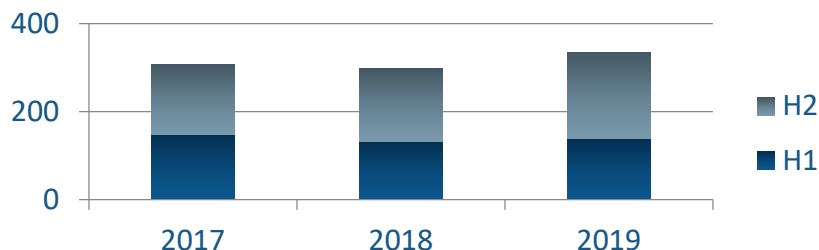


Andrew Lewis

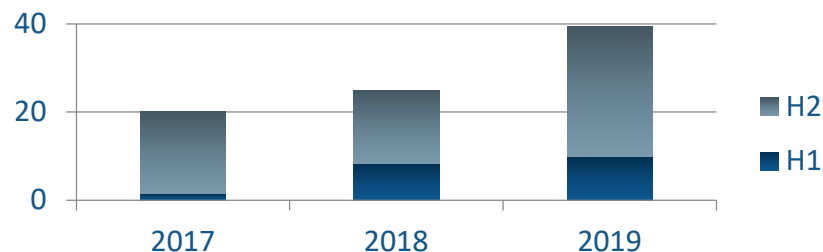
Group Finance Director

Group performance

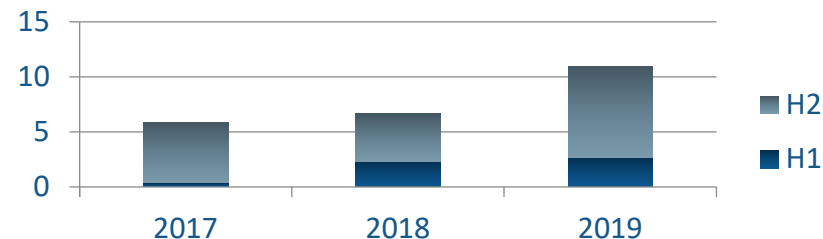
Revenue (£m)



Profit before tax (£m)



EPS (pence)



FINANCIAL HIGHLIGHTS

- Revenue up by 13% to £335.2m
- Operating profit growth of 42% to £44.0m
- Operating margin increased 270 bps to 13.1%
- Finance expense down 25% to £4.6m
- Operating cash conversion of 104% of EBITDA
- Net debt reduced to £75.7m
- Diluted EPS increased 64% to 11.0p
- Dividend up 9% to 3.6p per share

OPERATIONAL HIGHLIGHTS

- Order intake up 14% to £411m
- Strong performance from S&I driven by HMDS Program of Record and Roke
- C&E markets strengthening, investment in sites progressing
- Closing order book of £449m, £287m expected to be delivered in FY20
- FY20 expected revenue approximately 76% covered by order book

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

Income statement

£m		FY19	FY18
Revenue	↑ 13%	335.2	297.4
Operating profit	↑ 42%	44.0	31.0
Operating margin	↑ 270bps	13.1%	10.4%
Finance expense	↓ 25%	(4.6)	(6.1)
Profit before tax	↑ 58%	39.4	24.9
Tax rate		20.1%	22.9%
Earnings per share (diluted)	↑ 64%	11.0p	6.7p
Dividend per share	↑ 9%	3.6p	3.3p

- Stronger period in Sensors & Information driven by HMDS programme and Roke
- Result for the year includes £15m of insurance recoveries in respect of the CCM UK incident in August 2018. This offset site operating and remediation costs, and the site approximately broke even in the year. Further details are provided in appendix 6

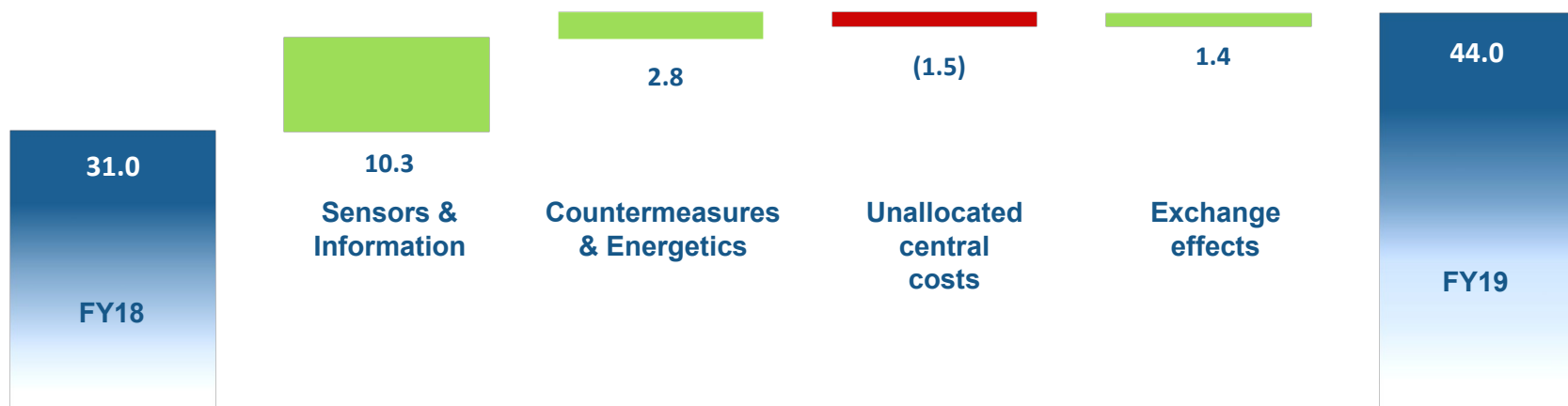
References to operating profit, profit before tax and earnings per share are to underlying measures

Revenue and profit bridge - Group

Revenue bridge (£m)



Operating profit bridge (£m)

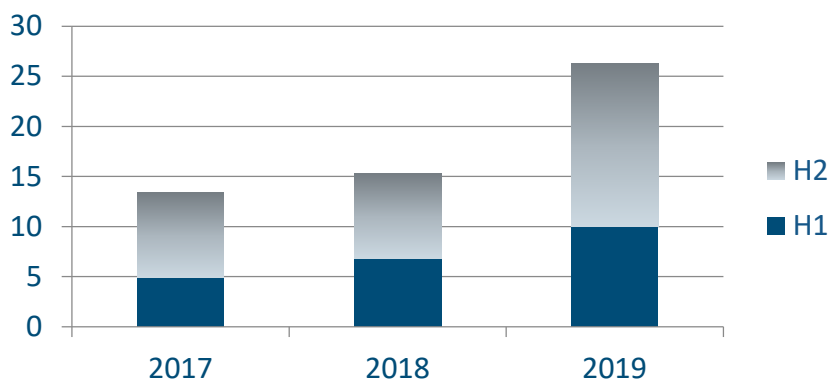


Sensors & Information

		FY19 £m	FY18 £m
Revenue	↑ 51%	131.9	87.3
EBITDA	↑ 58%	29.3	18.5
Operating profit	↑ 72%	26.3	15.3
Operating margin	↑ 240bps	19.9%	17.5%
Order book	↑ 6%	80.0	75.4

- HMDS was a major growth driver in the year
- Roke's market continues to be strong
- Further US orders for HMDS (\$30m) and EMBD (\$9m)
- JBTDS program progressed in line with expectations
- AVCAD passed through Critical Design Review in October 2019 and the customer ordered a further 75 EMD units
- Closing order book of £80m

Operating profit (£m)



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

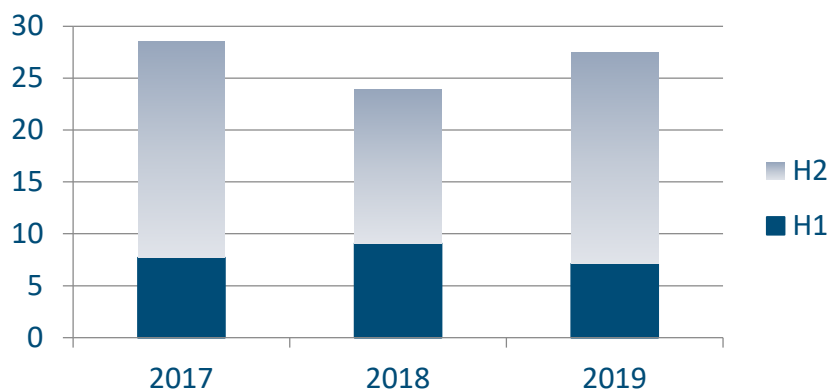


Countermeasures & Energetics

		FY19 £m	FY18 £m
Revenue	↓ 3%	203.3	210.1
EBITDA	↑ 5%	41.7	39.6
Operating profit	↑ 15%	27.5	23.9
Operating margin	↑ 210bps	13.5%	11.4%
Order book	↑ 16%	368.7	318.3

- UK and Australian sites closed for re-commissioning during 2019
- Tennessee capacity expansion investment defined and commenced, expected total cost c.£50m, due to complete in 2021
- Strategically important F-35 countermeasure orders received by Australian facility
- Strong year in niche energetics businesses
- Closing order book of £369m


Operating profit (£m)



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



Impact of foreign exchange translation

Group		Constant currency movement	FY19 restated at 2018 rates £m	FY18 £m	FY19 £m
					
Revenue		↑ 10%	326.2	297.4	335.2
EBITDA		↑ 19%	59.7	50.0	61.2
Operating profit		↑ 37%	42.6	31.0	44.0
Order book		↑ 17%	459.6	393.7	448.7

TRANSLATION

- 55% of revenue US \$ denominated in FY19
- P&L translation \$1.26 vs \$1.34 in FY18
- Balance sheet translation rate \$1.29 vs \$1.28 at FY18

SENSITIVITIES

- 10 cent weaker US \$ gives £1.8m decrease in operating profit
- 10 cent stronger US \$ gives £5.7m increase in net debt
- Future guidance based on \$1.30

References to EBITDA and operating profit are to underlying measures

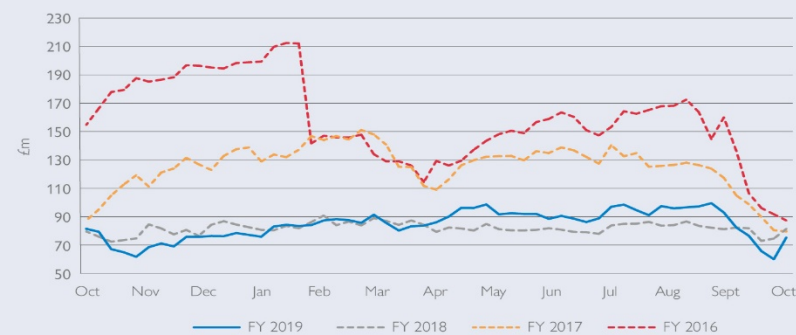
Cash flow

£m

	FY19	FY18
Cash generated from continuing underlying operations	63.9	44.7
Cash generated from discontinued underlying operations	13.7	12.2
Cash impact of non-underlying items	(12.4)	(7.6)
Cash flows from operating activities	65.2	49.3
Pension scheme deficit recovery contributions	(0.4)	(7.9)
Tax	(2.9)	(5.5)
Capital expenditure	(41.7)	(19.7)
Dividends paid	(9.5)	(8.7)
Finance expense	(5.2)	(6.6)
Foreign exchange translation and other non-cash movements	0.6	(2.7)
Movement in net debt	6.1	(1.8)
Opening net debt	(81.8)	(80.0)
Closing net debt	(75.7)	(81.8)

- Solid operating cash conversion, 104% 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

Weekly net debt





Balance sheet

£m	FY19	FY18
Goodwill & intangibles	133.8	146.8
Development costs	26.1	24.0
Property, plant & equipment	170.0	148.1
Trade working capital	90.5	83.7
Net assets held for sale	5.2	16.8
Other	(53.7)	(50.9)
	371.9	368.5
Net debt	(75.7)	(81.8)
	296.2	286.7
Pension surplus	9.6	7.5
Net assets	305.8	294.2

- Net debt : EBITDA ratio of 1.24x (2018: 1.64x)
- Final Private Placement loan notes repayment of £64.6m made in November 2019
- Increase in working capital due to timing of collection of year end receivables and year end inventory increased as preparation was made for Q1 deliveries with all sites expected to be operational in H1/20
- Assets held for sale reduced as £14m realised in cash, CMP / CD UK disposed of and CPC closed
- Net debt slightly down year on year, the focus has been on operating cash generation to fund reinvestment in capex

Improving the quality of the order book

Sensors & Information		Countermeasures & Energetics	
<ul style="list-style-type: none"> • Order intake of £134m (2018: £109m), up 23% • Book to bill ratio of 102% • Year end order book of £80m (2018: £75m) • FY20 deliveries in order book of £68m, covering 52% of expected FY20 revenue (2018: 40%) 		<ul style="list-style-type: none"> • Order intake of £277m (2018: £251m), up 10% • Book to bill ratio of 136% • Year end order book of £369m (2018: £318m) • FY20 deliveries in order book of £219m, covering 89% of expected FY20 revenue (2018: 83%) 	

The order book's improved quality is driven by strong long-term customer relationships.

Examples include:

- Roke's six year framework SERAPIS contract with DSTL
- UK countermeasures business's seven year supply framework agreement with UK MOD
- Australian countermeasures business's first orders from US DoD for F-35 countermeasures

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 repaid in Nov 2019
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 of COR of c\$12m expected in H1/20, being gross sale value less working capital adjustment and sale costs

Source: H1 FY19 Results Presentation – 5 June 2019



Michael Ord

Group Chief Executive

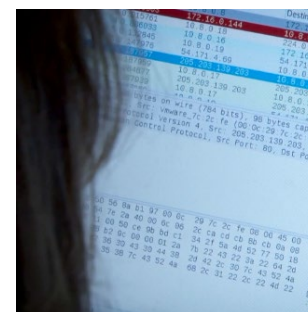
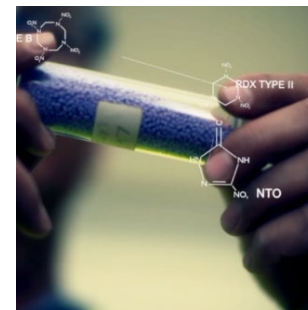
FY19 Objective: *Build a stronger business*

Build two high quality business sectors

- Invest to improve safety and operational performance
- Focus on US, UK and Australian markets
 - Defence, Security and Commercial
 - Niches with sustainable competitive advantage
- Deliver mid/high teen ROS over the medium term

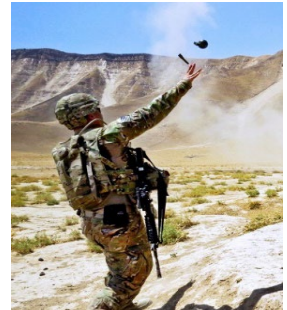
Four Key Projects:

1. Exit the commoditised Energetics market
2. Mobilise US Sensor Programs of Record
3. CCM UK re-start
4. Construction of CCM US Tennessee facility



Exit the commoditised Energetics market

- Removes risk and improves the quality of the Group and its future earnings
- Chemring Military Products & Chemring Defence sold and Chemring Prime Contracts closed
- Conditional sale of Chemring Ordnance announced in November



Mobilise US Sensor Programs of Record

- HMDS program achieved required delivery rate
- Biological programs (JBTDS & EMBD) in EMD phase with customer testing ongoing
- Chemical program (AVCAD) completed Critical Design Review (CDR) with further 75 units ordered to support customer testing
 - AVCAD program remains in competition with LRIP decision in 2021

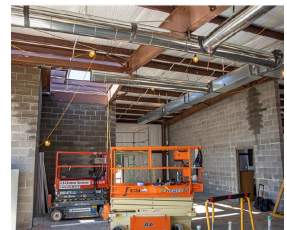
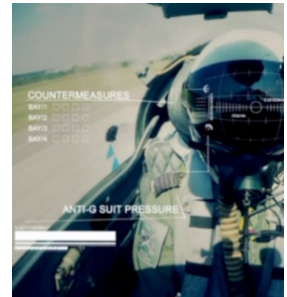


CCM UK re-start

- Phased re-start completed as planned
- Steady state manufacturing across all product lines by year end
- Focus now on lean manufacturing and modernisation investment to improve competitiveness
- HSE investigation ongoing

Construction of CCM US Tennessee facility

- Major construction milestones achieved in year
- Spend to date £15m
- Target to manufacture first article products in 2020
- Production scheduled to commence in 2021



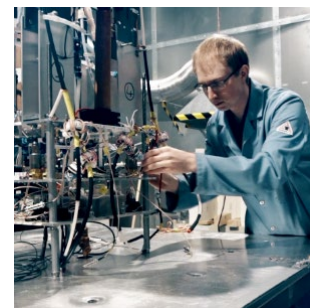
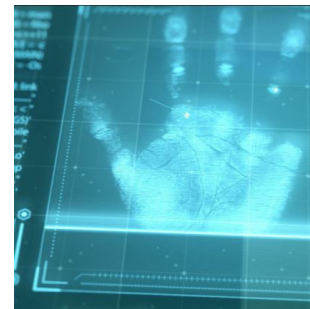
FY20 Focus

Maintain **safety** as the Group's core value

Continue building a platform for **sustainable** performance and growth

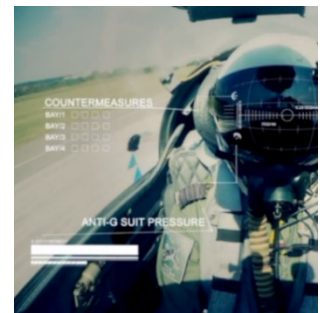
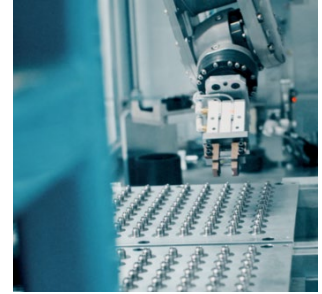
Specific objectives:

1. Global Countermeasures
2. Grow Roke
3. Protect and grow US Sensors



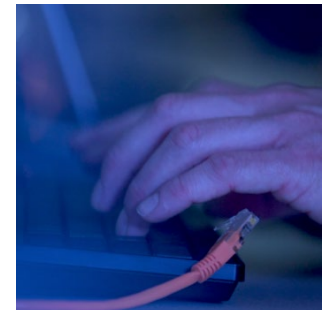
Global Countermeasures

- Defend and grow current global market leading position
- Strengthen customer focus globally and specifically with US DoD
- Invest to increase capacity and competitiveness
- Collaborate to share technology and operational excellence



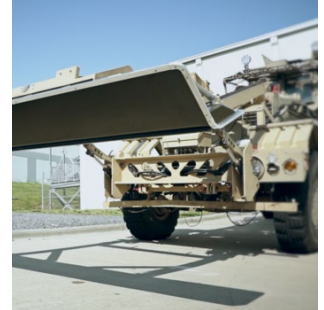
Grow Roke

- New Leadership team in-place
- Prioritising customer focus & business development capabilities
- Primary focus will be UK and Europe but will pursue opportunities in US and Australian markets
- Three Business Areas
 - National Security and Law Enforcement
 - Defence
 - Commercial



Protect and grow US Sensors

- Flawless execution of HMDS contracts
- Customer focus and support to progress biological detection programmes (JBTDS & EMBD)
- Continue to build a winning Aerosol & Vapor Chemical Agent Detector (AVCAD) solution
- Develop medium-term technology roadmaps beyond current programmes

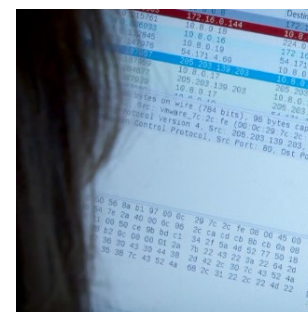
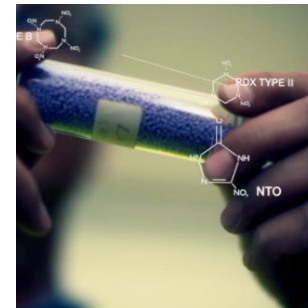


FY20 Outlook

- Continue to build a platform for sustainable performance and growth
- Strengthen our culture of Safety, Excellence and Innovation
- Solid demand across our US, UK and Australian home markets
 - Approximately 76% of FY20 expected revenue covered by order book
 - Customer focus and business development capability enhanced

Board's expectations for the FY20 performance remain unchanged

Innovating to protect

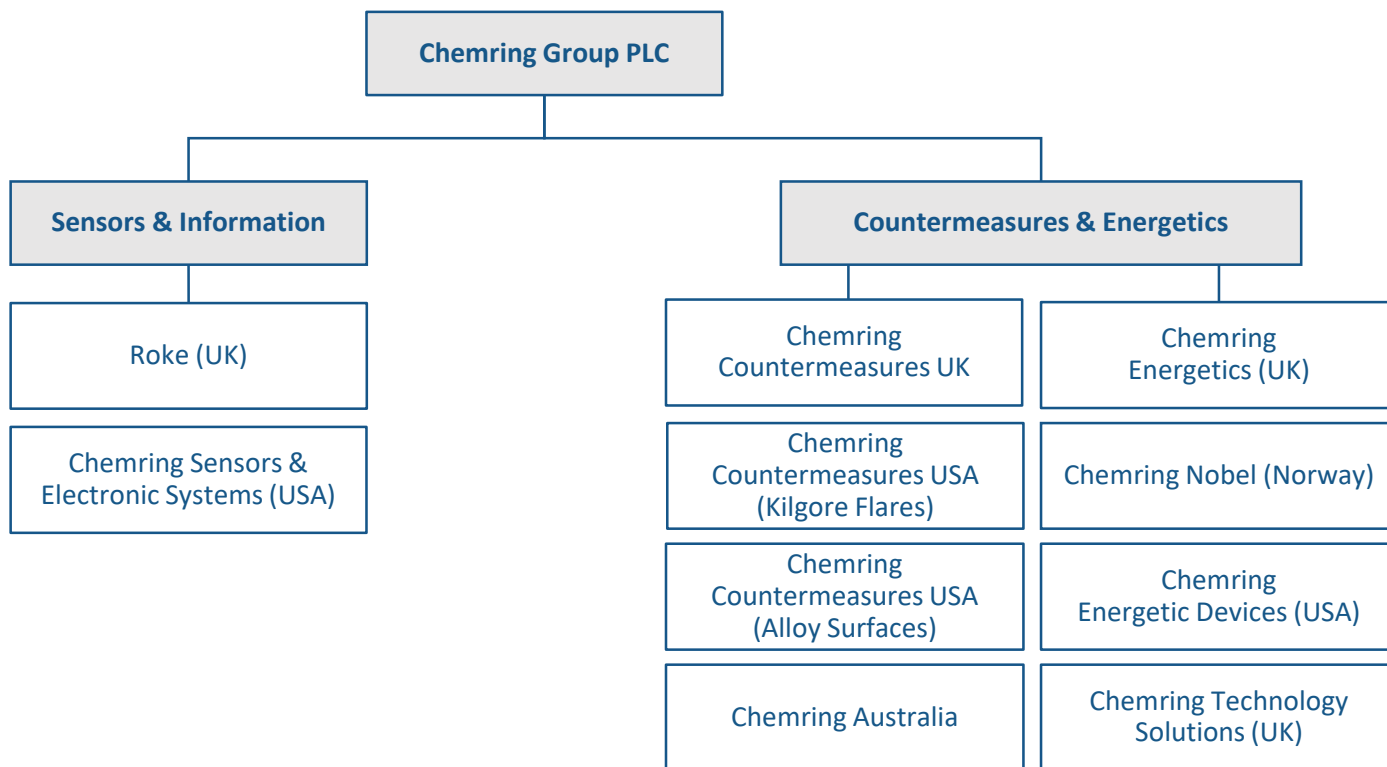




Questions

Appendices

Appendix 1. Organisation chart



Appendix 2. Non-underlying items – continuing operations

£m	Note	FY19 P&L cost	FY19 Cash paid
Acquired intangibles amortisation		12.1	-
Business restructuring	a	-	1.8
Claim related costs	b	-	3.5
Mark to market of FX forward contracts		0.6	-
Impact on profit before tax		12.7	5.3
Tax credit on non-underlying items		(4.3)	
Impact on continuing profit after tax		8.4	

Notes

a - Closure of CED's Torrance site

b - Legal costs of SFO investigation and cash settlement of legacy claims from 2015

Appendix 3. Non-underlying items – discontinued operations

£m	Note	FY19 P&L cost	FY19 Cash paid
Loss on disposal of subsidiaries	a	2.8	1.5
Claim related costs	b	1.1	5.1
Other items		(0.1)	0.5
Impact on profit before tax		3.8	7.1
Tax charge on non-underlying items		0.1	
Impact on continuing profit after tax		3.9	

Notes

a - loss on disposal of Chemring Military Products Inc. and Chemring Defence (UK) Limited

b - costs relating to business closures and previously disposed of businesses

Appendix 4. Impact of foreign exchange translation

Group	Constant currency movement	FY19 restated at 2018 rates £m	FY18 £m	FY19 £m
Revenue	↑ 10%	326.2	297.4	335.2
EBITDA	↑ 19%	59.7	50.0	61.2
Operating profit	↑ 37%	42.6	31.0	44.0
Order book	↑ 17%	459.6	393.7	448.7



Sensors & Information	Constant currency movement	FY19 restated at 2018 rates £m	FY18 £m	FY19 £m
Revenue	↑ 47%	128.3	87.3	131.9
EBITDA	↑ 54%	28.5	18.5	29.3
Operating profit	↑ 67%	25.6	15.3	26.3
Order book	↑ 7%	80.4	75.4	80.0

Countermeasures & Energetics	Constant currency movement	FY19 restated at 2018 rates £m	FY18 £m	FY19 £m
Revenue	↓ 6%	197.9	210.1	203.3
EBITDA	↑ 3%	40.8	39.6	41.7
Operating profit	↑ 12%	26.7	23.9	27.5
Order book	↑ 19%	379.2	318.3	368.7

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

Appendix 5. Trade working capital

£m	FY19 cont	FY18 cont
Inventories	78.1	71.4
Receivables	30.3	45.4
Payables	(6.7)	(12.1)
Advance receipts from customers	(15.3)	(5.7)
Advance payments to suppliers	4.4	0.7
Other items	(0.3)	(16.0)
	90.5	83.7

cont—refers to continuing operations not classified as held for sale in the balance sheet.

Appendix 6. Proforma C&E income statement – impact of insurance receipts

- The Salisbury site was subject to a phased re-start during the year. The site contributed revenue of approximately £21m and after accounting for insurance income of £15m (as other income not revenue) and site remediation and restart costs, delivered an approximately breakeven result for the year.
- The analysis below shows the impact of the insurance proceeds being accounted for as 'other income', not revenue on the segmental margin in Countermeasures & Energetics.
- The reported operating profit margin of 13.5% is flattered by not including insurance income in the denominator and management view a margin of approximately 12% as a better reflection of the progress made in 2019. This compares to 11.4% in 2018.

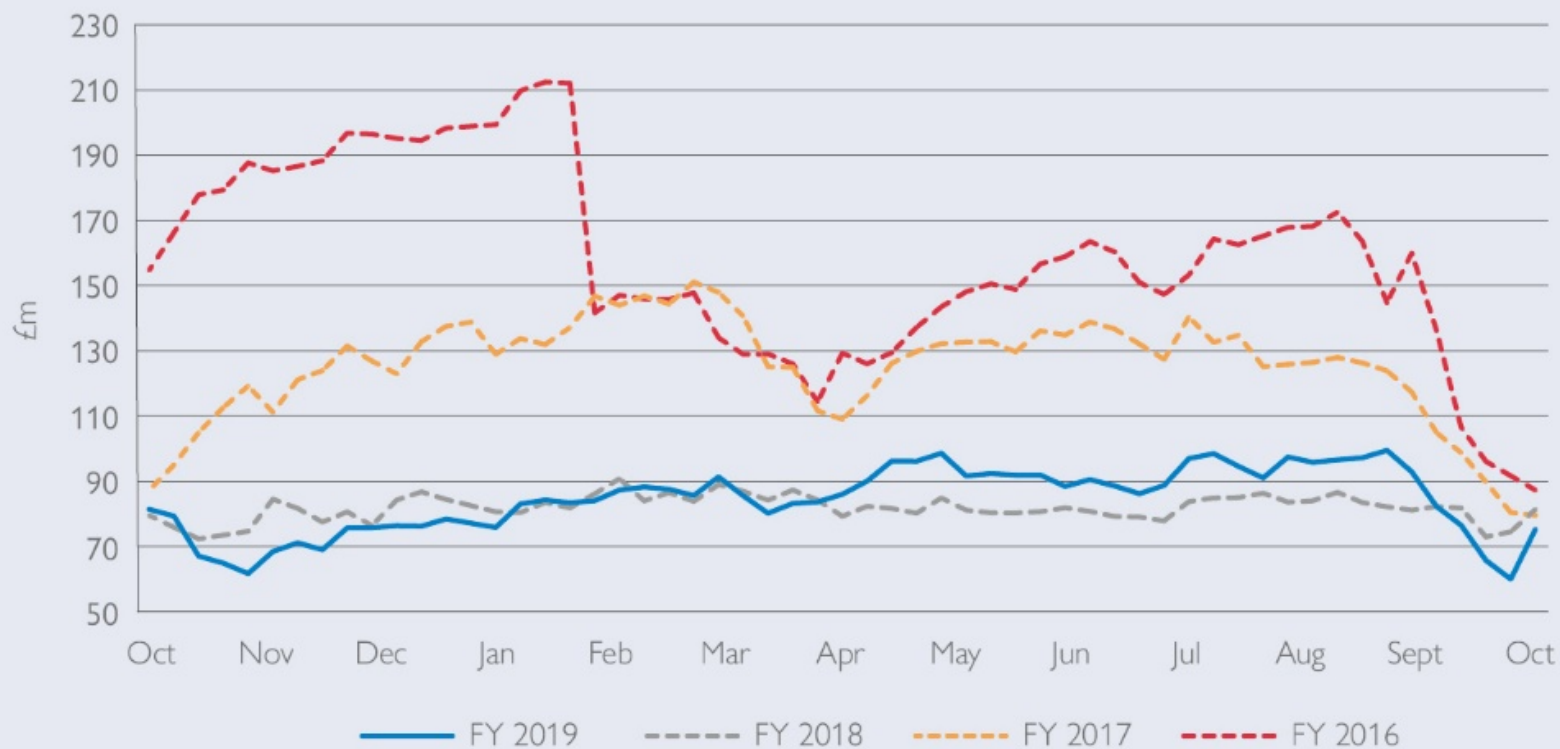
	Reported £m	Note 1 £m	Note 2 £m
Revenue	203.3	218.3	233.3
EBITDA	41.7	41.7	41.7
EBITDA %	20.5%	19.1%	17.9%
Operating profit	27.5	27.5	27.5
RoS %	13.5%	12.6%	11.8%

Note 1 - £15m of insurance income has been reported under IFRS as 'Other income', if this had been reported as revenue the proforma result above would have arisen.

Note 2 - £15m of insurance income has been reported under IFRS as 'Other income', making a profit contribution of £15m. Using a 'normal' C&E contribution margin of c50%, if the site had been operational, the revenue to generate this contribution would have been c£30m, as shown in the result above.

Appendix 7. Weekly Net Debt

Weekly net debt



Appendix 8. IFRS 16 Leases


HIGHLIGHTS


- Effective from 1 November 2019
- Operating profit increase / finance cost increase of £0.2m
- No impact on EPS
- No overall change in total cash-flows, EBITDA increase and operating cash flow increase of £1.6m, no material impact on cash conversion percentage
- Increase in net debt of £7m due to recognition of finance lease liability
- No impact on net assets


PRO FORMA IMPACT ON FY19 RESULTS

	EBITDA £m	Operating profit £m	Operating cash £m	Cash conversion
As reported FY19	61.2	44.0	63.9	104.4%
Estimated impact IFRS 16	1.6	0.2	1.6	(0.1%)
Revised FY19	62.8	44.2	65.5	104.3%

 LEASE ASSET
£7m

 NET DEBT
£7m

 EBITDA
£1.6m

 REVISED NET
DEBT TO
EBITDA RATIO
1.32 (As
reported 1.24)

* References to EBITDA, Operating profit, Operating cash, Cash conversion are to underlying measures

Appendix 9. Market Consensus FY20 & FY21

- 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:

	FY20	FY21
Revenue (£m)	377	402
Underlying Operating Profit (£m)	52.4	57.7
Underlying Earnings Per Share (pence)	13.0p	14.5p
Net Debt (£m)*	81	68

** Amount stated is before the impact of IFRS 16*

Appendix 10. Glossary

Acronym	Meaning	Acronym	Meaning
AVCAD	Aerosol & Vapor Chemical Agent Detector	EMD	Engineering and Manufacturing Development
CD	Chemring Defence	EW	Electronic Warfare
CM	Countermeasures	F-35	F-35 Joint Strike Fighter
CCM UK	Chemring Countermeasures UK	HMDS	Husky Mounted Detection System
CED	Chemring Energetic Devices	IDIQ	Indefinite Delivery Indefinite Quantity
CEUK	Chemring Energetics UK	JBTDS	Joint Biological Tactical Detection System
CHA	Chemring Australia	LRIP	Low Rate Initial Production
CHG	Chemring Group	LTI	Lost Time Incident
CHN	Chemring Nobel	MJU	Multi Jettison Unit
CMP	Chemring Military Products	MTV	Magnesium Teflon Viton
COR	Chemring Ordnance	NGCD	Next Generation Chemical Detector
CPC	Chemring Prime Contracts	POR	Program of Record
CSES	Chemring Sensors & Electronic Systems	PP	Private Placement
C&E	Countermeasures & Energetics	SMD	Special Material Decoy
DSTL	Defence Science & Technology Laboratory	S&I	Sensors & Information
EMBD	Enhanced Maritime Biological Detection	US DoD	United States Department of Defense

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