Chemring
Innovating to protect

Chemring Group

Results for the six months to 30 April 2020

Michael Ord

Group Chief Executive

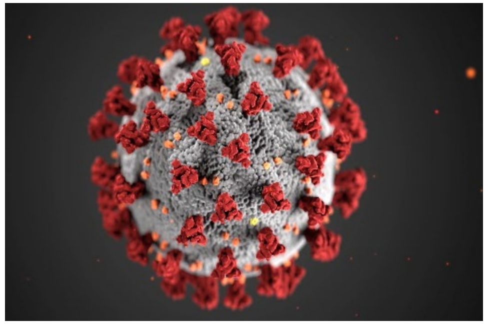
Safety is our core value

Our response to COVID-19

- Focus on protecting our people, their families and the communities in which we operate
- Implemented government guidelines
- Mobilised business continuity plans with all businesses operating throughout

Successful delivery of HSE strategy continues

- Focus on Occupational Safety, Process Safety and Asset Integrity
- Investing to modernise and automate our manufacturing facilities



Our goal remains zero harm

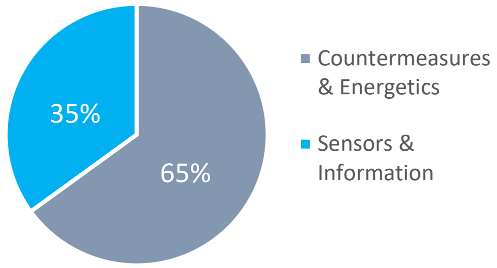
Overview

- **Building a stronger and higher quality business**
  - Group H1 performance ahead of our expectations
  - Resilience in response to CV-19

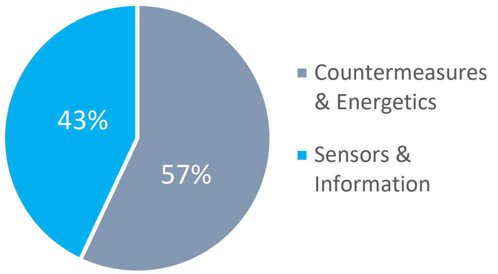
- **Sensors & Information continues to show good growth**
  - Continued progress on US Programs of Record
    - HMDS IDIQ increased by $200m
    - Positive procurement decision with receipt of LRIP award on EMBD
  - Double digit growth in orders and revenue at Roke

- **Improving performance in Countermeasures & Energetics**
  - Increased revenue as Australian and UK facilities fully operational driving improved profitability
  - Strong order intake – including $107m definitised contract for F-35 at Chemring Australia

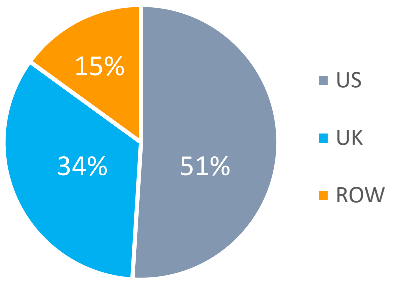
H1 2020 Revenue by Sector



H1 2020 Operating Profit by Sector



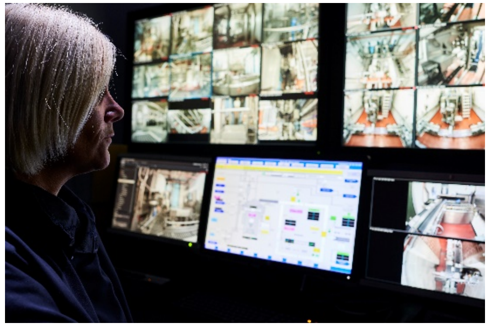
H1 2020 Revenue by Geography



Overview (2)

- Strong operating cash conversion (160% operating cash / EBITDA)
- Completed strategic exit from commoditised energetics businesses
- Approximately 95% expected H2 revenue is covered by order book
- Board expectations for full year performance is unchanged, despite the challenging environment

Improving the quality of the business



Andrew Lewis

Group Finance Director

COVID-19 Financial Management Response – Impact on HY20

Focus on :-

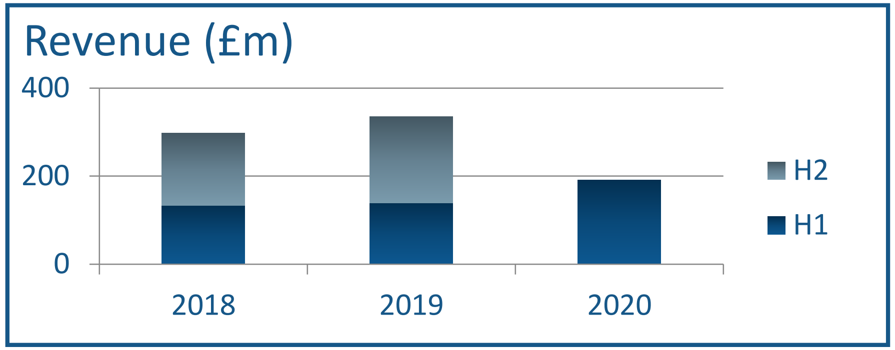
a) Ensuring available liquidity maximised

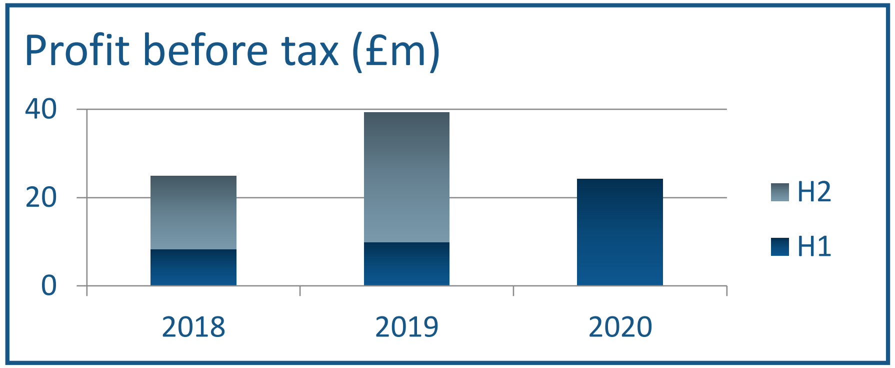
b) Optimising commercial terms to positively impact cashflow

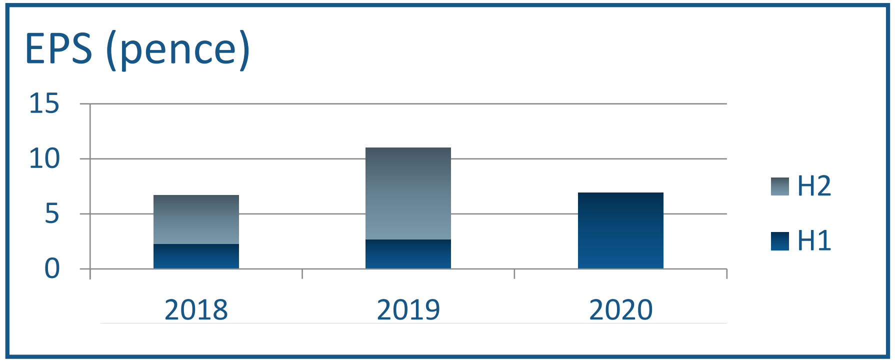
c) Managing discretionary spend/capex

ACTION	IMPACT
Liquidity	
1. Drew £50m of our RCF in March 2020 to ensure cash was immediately available should it be required. 2. In April 2020 obtained an additional short-term facility of £100m, of which £50m was drawn.	The balance sheet is now "grossed up" with cash and debt, providing liquidity as a risk mitigation tool given the inherent uncertainty that existed in March/April.
Operating cash / net debt	
1. Worked with customers to ensure cash receipts received on time or early. 2. Built in revised payment dates for VAT, PAYE, social security according to local government guidance. 3. Prioritisation of capex spend based on business need and availability of goods/services from the supply chain.	At half-year approximately £15m of receivables have been pulled in from early in H2. Approximately £3m has been deferred and is now expected to be paid in H2. We expect a deferral of Capex in 2020 into 2021 due to the availability of suppliers, particularly in the construction industry.
Revenue / operating profit	
1. Agreed flexible inspection / testing protocol and accelerated delivery dates to customers, including part-shipments to ensure goods got to customers promptly. 2. Careful control of discretionary spend.	Strong revenue in H1 as this was successfully implemented. Positive impact on margins in H1 as travel and subsistence and marketing / attendance at trade shows were all curtailed.

Group performance







FINANCIAL HIGHLIGHTS

- Revenue up by 37% to £191m
- Operating profit growth of 112% to £25.6m
- Operating margin increased 470 bps to 13.4%
- Finance expense down 36% to £1.4m
- Operating cash conversion of 160% of EBITDA
- Net debt reduced to £60.6m
- Diluted EPS increased 156% to 6.9p
- Dividend up 8% to 1.3p per share

OPERATIONAL HIGHLIGHTS

- Order intake up 1% to £250m
- Strong performance from S&I driven by HMDS Program of Record and Roke
- Operational delivery at C&E sites driving margin progression, investment in sites progressing
- Closing order book of £504m
- H2 2020 expected revenue approximately 95% covered by order book
- £270m of orders in place for FY21 delivery and £55m for FY22 and beyond

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

Income statement

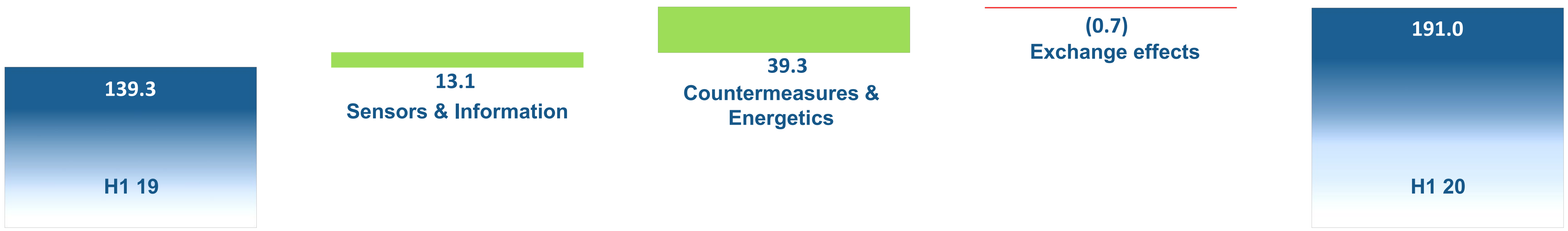
£m			H1 20	H1 19	FY19
Revenue	37%	↑	**191.0**	139.3	335.2
Operating profit	112%	↑	**25.6**	12.1	44.0
Operating margin	470bps	↑	**13.4%**	8.7%	13.1%
Finance expense	36%	↓	**(1.4)**	(2.2)	(4.6)
Profit before tax	144%	↑	**24.2**	9.9	39.4
Tax rate			**17.8%**	20.2%	20.1%
Earnings per share (diluted)	156%	↑	**6.9p**	2.7p	11.0p
Dividend per share	8%	↑	**1.3p**	1.2p	3.6p

- Strong period in Sensors & Information driven by HMDS programme and double-digit growth at Roke
- Countermeasures & Energetics benefited from all sites being open throughout the period and demonstrating improving operational execution

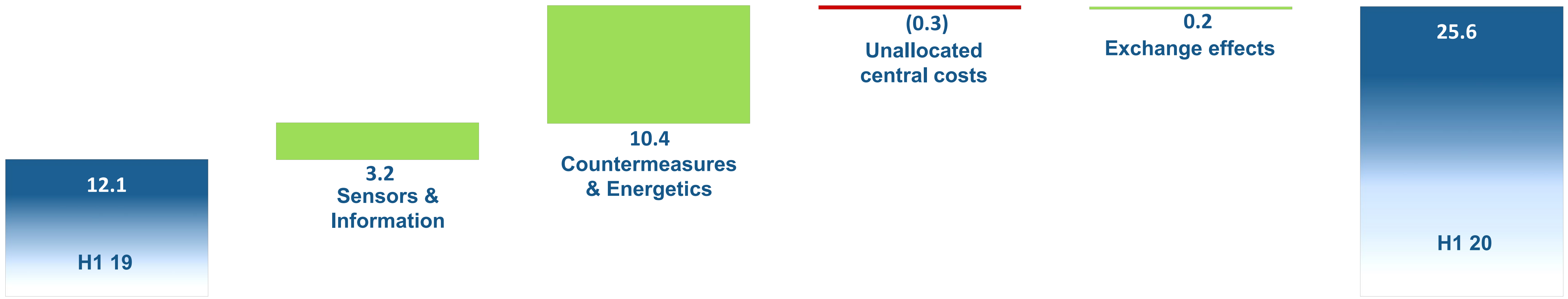
References to operating profit, profit before tax and earnings per share are to underlying measures

Revenue and profit bridge - Group

Revenue bridge (£m)



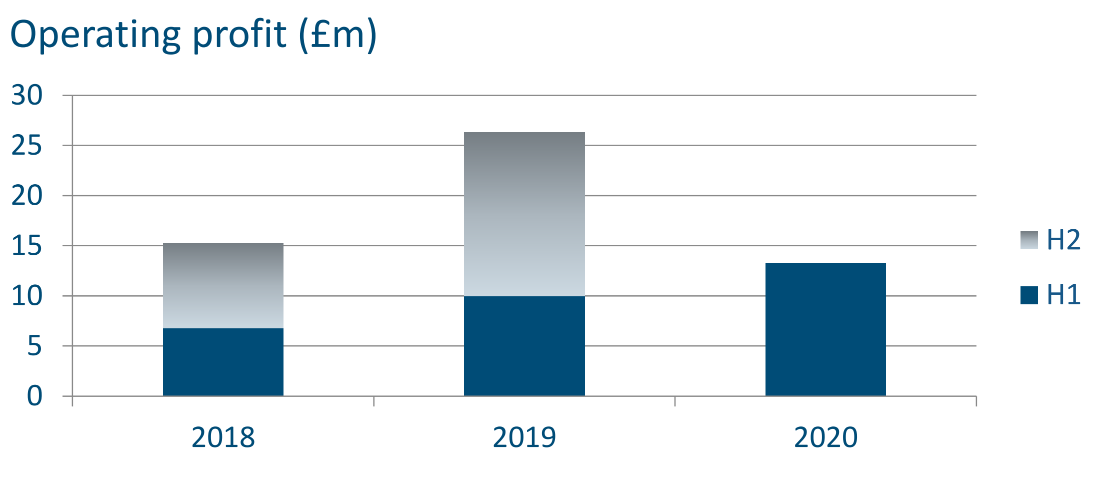
Operating profit bridge (£m)



Sensors & Information

			H1 20 £m	H1 19 £m	FY19 £m
Revenue	25%	↑	**67.3**	53.8	131.9
EBITDA	29%	↑	**15.1**	11.7	29.3
Operating profit	33%	↑	**13.3**	10.0	26.3
Operating margin	120bps	↑	**19.8%**	18.6%	19.9%
Order book	3%	↓	**97.0**	99.5	80.0

- HMDS delivery phase continuing, further delivery orders received ($32m) and IDIQ contract extended by $200m
- EMBD LRIP contract awarded in May
- Roke's market continues to be strong, double digit growth in orders, revenue and profit
- Roke secured a strategically important first EW order for Resolve in the US
- AVCAD / JBTDS Chem/Bio PoR progressing as planned
- Closing order book of £97m

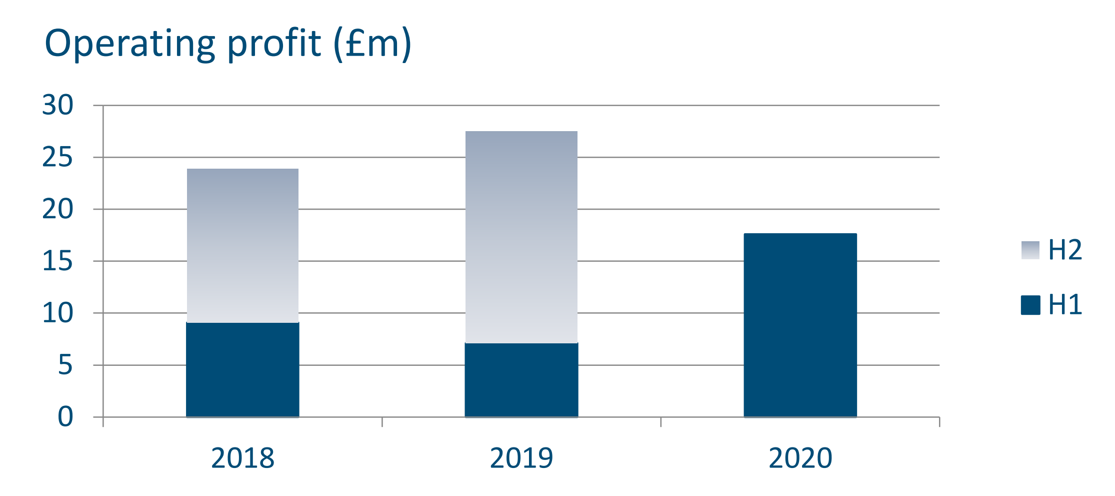


References to EBITDA, operating profit and operating margin are to underlying measures

Countermeasures & Energetics

		H1 20 £m	H1 19 £m	FY19 £m
Revenue	45% ↑	**123.7**	85.5	203.3
EBITDA	87% ↑	**25.4**	13.6	41.7
Operating profit	148% ↑	**17.6**	7.1	27.5
Operating margin	590bps ↑	**14.2%**	8.3%	13.5%
Order book	3% ↑	**406.9**	394.6	368.7

- UK and Australian sites operational after restart and re-commissioning during 2019 driving operational performance improvement and margin
- Tennessee capacity expansion investment continued, first revenue still expected in FY22
- $107m F-35 countermeasure order received by Australian facility
- Strong period in niche energetics businesses
- Closing order book of £407m



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

Impact of foreign exchange translation

Group		Constant currency movement	**H1 20 restated at H1 19 rates £m**	H1 20 £m	H1 19 £m
Revenue	⬆	38%	**191.7**	191.0	139.3
EBITDA	⬆	72%	**35.0**	35.2	20.3
Operating profit	⬆	110%	**25.4**	25.6	12.1
Order book	⬆	3%	**508.6**	503.9	494.1

TRANSLATION

- 49% of revenue US $ denominated in H1 20
- P&L translation $1.28 vs $1.30 in H1 19
- Balance sheet translation rate $1.26 vs $1.29 at FY19

SENSITIVITIES

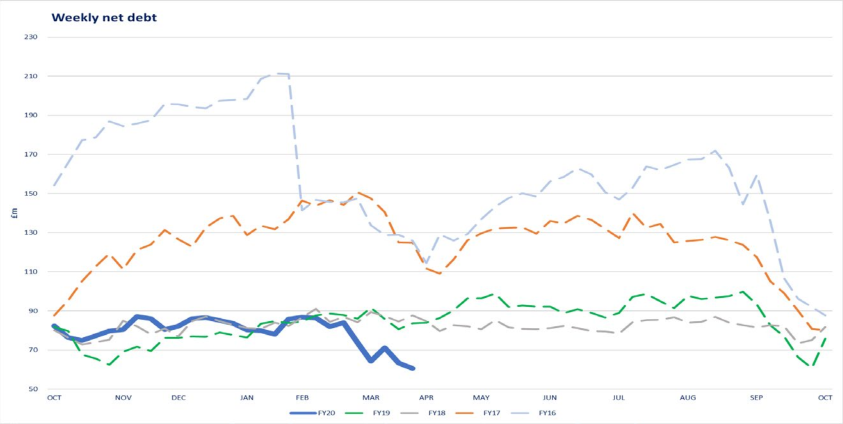
- 10 cent weaker US $ gives £1.5m decrease in operating profit
- 10 cent weaker US $ gives £4.1m decrease in net debt
- Future guidance based on $1.25

References to EBITDA and operating profit are to underlying measures

Cash flow

£m	H1 20	H1 19	FY19
Cash generated from continuing underlying operations	**56.2**	21.9	63.9
Cash impact of discontinued underlying operations	**(0.4)**	9.4	13.7
Cash impact of non-underlying items	**(2.8)**	(3.0)	(12.4)
Cash flows from operating activities	**53.0**	28.3	65.2
Pension scheme deficit recovery contributions	**-**	(0.4)	(0.4)
Tax	**(0.3)**	(2.2)	(2.9)
Capital expenditure	**(19.1)**	(21.0)	(41.7)
Dividends paid	**(6.8)**	(6.2)	(9.5)
Finance expense	**(2.3)**	(1.9)	(5.2)
Own shares purchased, FX translation and other movements	**(2.9)**	1.2	0.6
Movement in net debt	**21.6**	(2.2)	6.1
Adoption of IFRS 16: Leases	**(6.5)**	-	-
Opening net debt	**(75.7)**	(81.8)	(81.8)
Closing net debt	**(60.6)**	(84.0)	(75.7)

- Strong operating cash conversion, 160% operating cash: EBITDA, showing continued focus on working capital and management of intra period net debt together with short-term actions taken in response to CV-19 to maximise liquidity
- Capex investment, primarily in C&E segment with major programmes at UK and Tennessee sites
- FY20 & FY21 capex guide remains c£40-50m before reducing to align with depreciation in FY22



Balance sheet

£m	**H1 20**	H1 19	FY19
Goodwill & intangibles	**131.1**	139.4	133.8
Development costs	**28.6**	24.6	26.1
Property, plant & equipment	**186.5**	160.5	170.0
Trade working capital	**70.6**	80.5	90.5
Net assets held for sale	**7.6**	0.8	5.2
Other	**(53.9)**	(46.6)	(53.7)
	370.5	359.2	371.9
Gross debt	**(164.8)**	(90.4)	(77.0)
Cash in hand	**104.2**	6.4	1.3
Net debt	**(60.6)**	(84.0)	(75.7)
	309.9	275.2	296.2
Pension surplus	**4.8**	7.8	9.6
Net assets	**314.7**	283.0	305.8

- Net debt : EBITDA ratio of 0.80x (H1 19: 1.73x, FY19: 1.24x)
- Final Private Placement loan notes repayment of $83.6m made in November 2019
- Decrease in working capital due to timing differences created by the management actions in response to CV-19
- Assets held for sale remaining balance relates to COR. Sale completed in May 2020
- Net debt significantly down year on year, the focus has been on operating cash generation to fund reinvestment in capex and ensure the Group’s liquidity positon is strong given the on-going CV-19 uncertainty
- Cash of £104m and total facilities of £245m, of which £84m were undrawn at 30 April 2020, provide good immediately available liquidity

Improving the quality of the order book

Sensors & Information

- Order intake of £87m (H1 19: £79m), up 10%
- Book to bill ratio of 130%
- Period end order book of £97m (H1 19: £99m)
- Order backlog includes £57m of H2 revenue, covering 89% of expected H2 revenue (H1 19: 79%)

Countermeasures & Energetics

- Order intake of £163m (H1 19: £169m)
- Book to bill ratio of 132%
- Period end order book of £407m (H1 19: £395m)
- Order backlog includes £122m of H2 revenue, covering 98% of expected H2 revenue (H1 19: 92%)

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

Examples include:

- Order intake from Roke's National Security and Defence customers increased by 31% to £34m
- Roke secured its first order for EW Resolve product from the US Army
- UK Countermeasures & Energetics business' seven year framework agreement with UK MOD
- Australian countermeasures business's Undefinitised Contract Action from US DoD for F-35 countermeasures was extended by a year and increased from $60m to $107m
- US countermeasures business secured orders totalling $77m from US Navy and Air Force

Michael Ord

Group Chief Executive

Good progress against FY20 objectives

1. **Defend and grow Global Countermeasures**
   - Benefitted from increased revenue at the Australian and UK facilities
   - Significant contract wins underpin investment decisions
   - CCM US expansion project in Tennessee on schedule

2. **Grow Roke**
   - Double digit growth in orders and revenue including strategically important first Electronic Warfare order for Resolve into the US DoD
   - Building further plans for growth

3. **Protect and grow US Sensors**
   - Continued progress on the US Chem/Bio Programs of Record
     - Positive procurement decision with receipt of LRIP award on EMBD
   - Further delivery orders of $32m received for HMDS, IDIQ increased by $200m

ESG

Our enduring purpose is relentlessly ***Innovating to protect*** our customers:

- We are committed to safe, sound and ethical business conduct at all times at all of our locations
- Re-shaped portfolio focused on protecting people, assets and information

Environmental - *actively seeking ways to reduce our environmental impact*

- Carbon footprint - energy, water usage and waste – all sites ISO 14001 certified
- Environmental sustainability committee formed and review underway

Social - *people are at the heart of our business*

- Safety at work – external review undertaken, roadmaps in place
- Protecting our workforce during CV-19
- Increased investment in the support and development of our people

Governance - *conducting business in an ethical and responsible manner at all times*

- An inclusive culture based on respect and diversity to ensure a strong and positive working environment for all colleagues
- Ethics and Compliance Committee formed
- Improved Board diversity

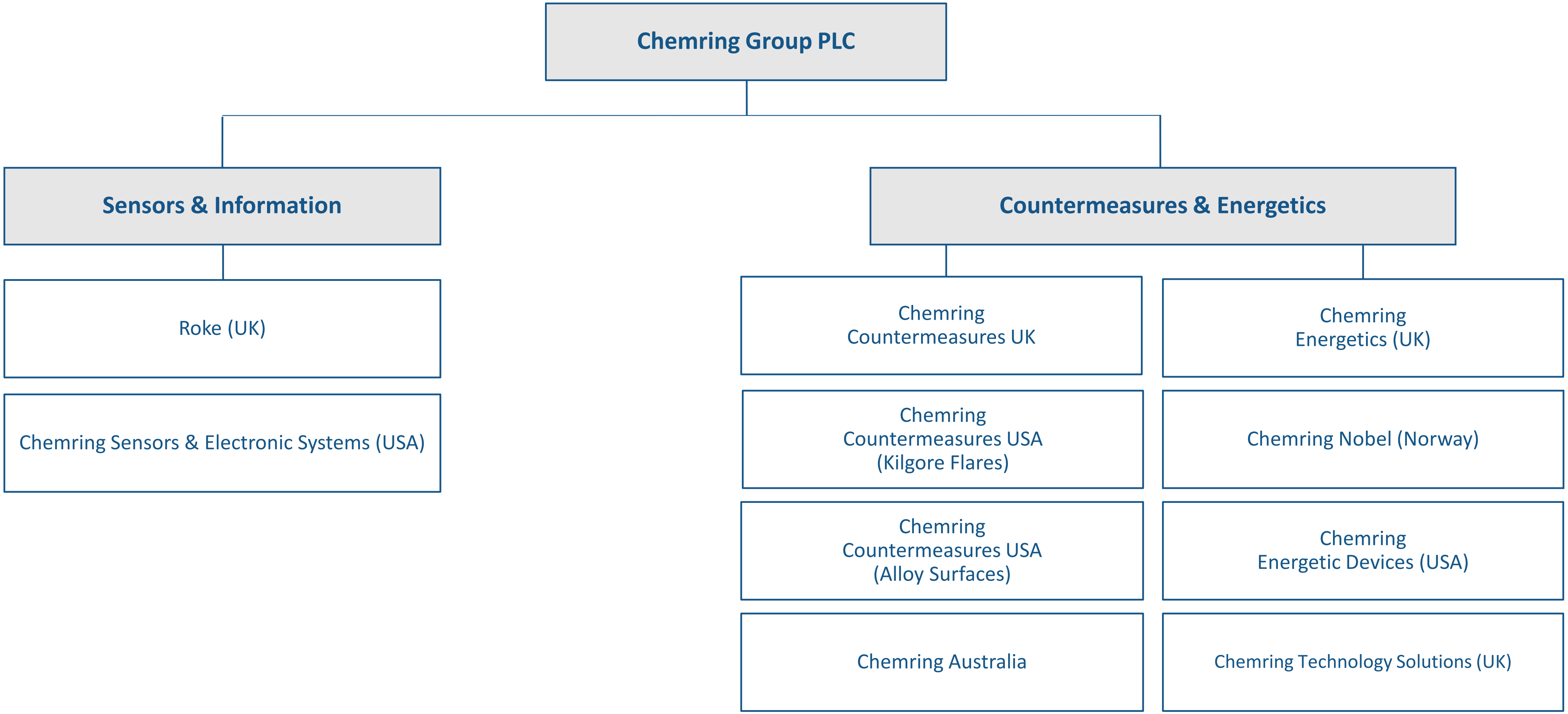
Outlook

- Continue to build a high quality business for sustainable performance and growth
- Strengthen our culture of Safety, Excellence and Innovation
- Growing order book across our US, UK and Australian home markets
- Approximately 95% of H2 expected revenue covered by order book
  - Focus on strong cash generation to remain a primary objective
  - Caution based on potential CV-19 impact on timing of revenue recognition
- Board's expectations for full year performance remain unchanged
- Despite near-term uncertainty, Chemring's long-term prospects remain strong

Innovating to protect

Appendices

Appendix 1. Organisation chart



Appendix 2. Non-underlying items – continuing operations

£m	Note	H1 20 P&L cost	H1 20 Cash paid
Acquired intangibles amortisation		**(4.4)**	**-**
Business restructuring	**a**	**-**	**(0.7)**
Claim related costs	**b**	**-**	**(1.5)**
Mark to market of FX forward contracts		**(0.8)**	**-**
Impact on profit before tax		**(5.2)**	**(2.2)**
Tax credit on non-underlying items		**1.6**	
Impact on continuing profit after tax		**(3.6)**	

Notes
a - Costs relating to closure of CED's Torrance site and demolition element of Tennessee capacity expansion programme
b - Legal costs of SFO investigation and cash settlement of legacy claims from 2015

Appendix 3. Non-underlying items – discontinued operations

£m	Note	H1 20 P&L cost	H1 20 Cash paid
Costs relating to disposal of subsidiaries	a	(0.1)	(0.1)
Claim related costs	b	-	(0.4)
Other items		-	(0.1)
Impact on profit before tax		(0.1)	(0.6)
Tax charge on non-underlying items		-	
Impact on continuing profit after tax		(0.1)	

Notes
a - transaction fees on disposal of Chemring Ordnance Inc. (completed in May 2020)
b - costs relating to business closures and previously disposed of businesses

Appendix 4. Impact of foreign exchange translation

Group	Constant currency movement	H1 20 restated at H1 19 rates £m	H1 19 £m	H1 20 £m
Revenue	↑ 38%	**191.7**	139.3	190.0
EBITDA	↑ 72%	**35.0**	20.3	35.2
Operating profit	↑ 110%	**25.4**	12.1	25.6
Order book	↑ 3%	**508.6**	494.1	503.9

Sensors & Information	Constant currency movement	H1 20 restated at H1 19 rates £m	H1 19 £m	H1 20 £m
Revenue	↑ 24%	**66.9**	53.8	67.3
EBITDA	↑ 28%	**15.0**	11.7	15.1
Operating profit	↑ 32%	**13.2**	10.0	13.3
Order book	↓ 4%	**95.2**	99.5	97.0

Countermeasures & Energetics	Constant currency movement	H1 20 restated at H1 19 rates £m	H1 19 £m	H1 20 £m
Revenue	↑ 46%	**124.8**	85.5	123.7
EBITDA	↑ 86%	**25.3**	13.6	25.4
Operating profit	↑ 146%	**17.5**	7.1	17.6
Order book	↑ 5%	**413.4**	394.6	406.9

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

Appendix 5. Trade working capital

£m	**H1 20 cont**	H1 19 cont	FY19 cont
Inventories	**91.1**	78.2	78.1
Receivables	**41.0**	40.2	30.3
Payables	**(38.6)**	(21.0)	(6.7)
Advance receipts from customers	**(19.9)**	(7.7)	(15.3)
Advance payments to suppliers	**0.5**	0.1	4.4
Other items	**(3.5)**	(9.3)	(0.3)
	70.6	80.5	90.5

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

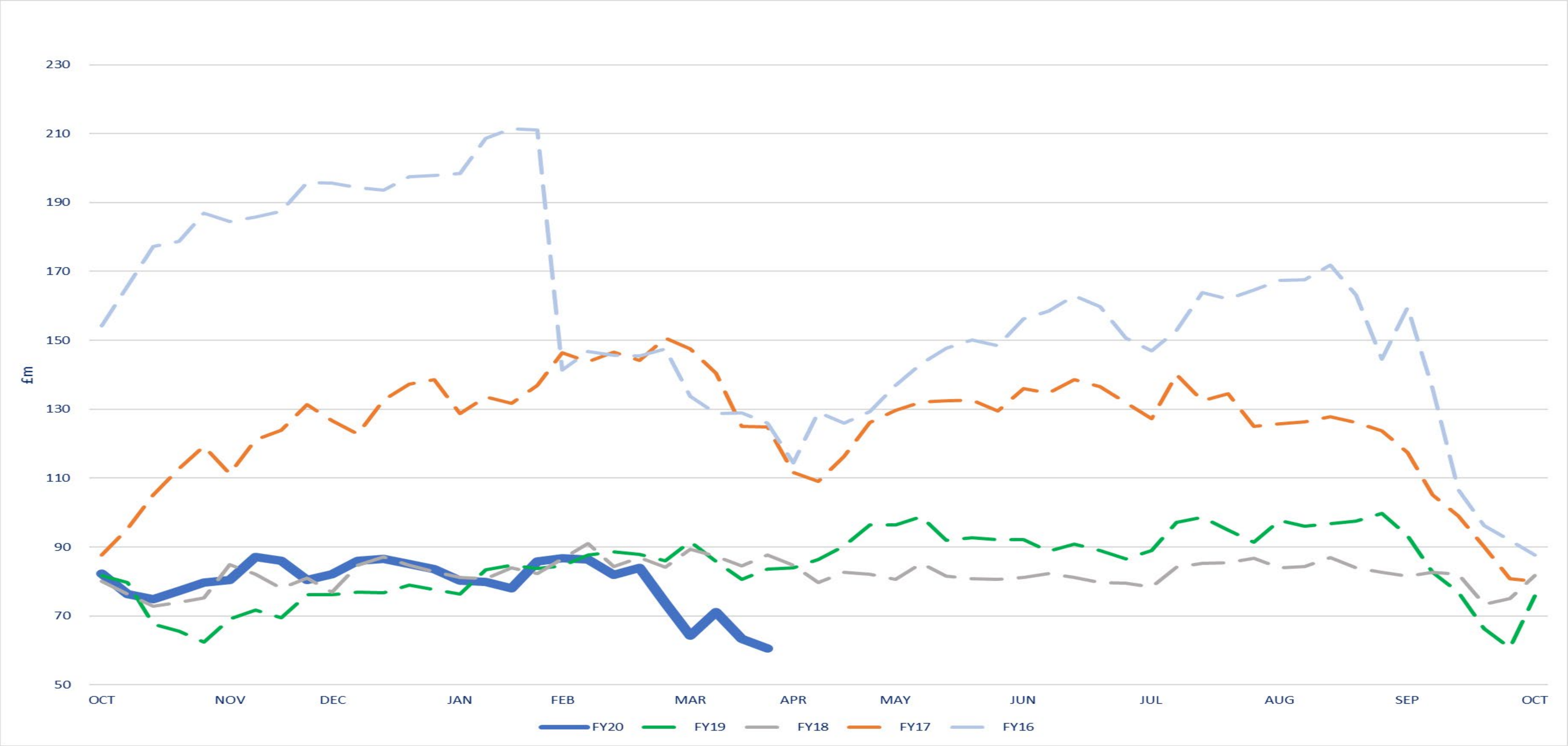
- The Salisbury site continued its phased re-start during the period. The site contributed revenue of approximately £30m and after accounting for insurance income of £5m (as other income not revenue), delivered a £4m profit for the period.
- The analysis below shows the impact of the insurance proceeds being accounted for as 'other income', not revenue on the segmental margin in Countermeasures & Energetics.
- The reported operating profit margin of 14.2% is flattered by not including insurance income in the denominator and management view a margin of approximately 13% as a better reflection of the progress made in H1 20. The comparatives for H1 19 and FY19 are shown for reference.

	Reported H1 20 £m	Note 1 H1 20 £m	Note 2 H1 20 £m	**Reported H1 19 £m**	Note 1 H1 19 £m	Note 2 H1 19 £m	**Reported FY 19 £m**	Note 1 FY 19 £m	Note 2 FY 19 £m
Revenue	**123.7**	128.7	133.7	**85.5**	98.5	111.5	**203.3**	218.3	233.3
EBITDA	**25.4**	25.4	25.4	**13.6**	13.6	13.6	**41.7**	41.7	41.7
EBITDA %	***20.5%***	*19.7%*	*19.0%*	***15.9%***	*13.8%*	*12.2%*	***20.5%***	*19.1%*	*17.9%*
Operating profit	**17.6**	17.6	17.6	**7.1**	7.1	7.1	**27.5**	27.5	27.5
RoS %	***14.2%***	*13.7%*	*13.2%*	***8.3%***	*7.2%*	*6.4%*	***13.5%***	*12.6%*	*11.8%*

Note 1 - £5m (H1 19: £13m, FY19: £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 - £5m (H1 19: £13m, FY19: £15m) of insurance income has been reported under IFRS as 'Other income', making a profit contribution of £5m (H1 19: £13m, FY19: £15m). Using a 'normal' C&E contribution margin of c50%, if the site had been fully operational, the revenue to generate this contribution would have been c£10m (H1 19: £26m, FY19: £30m), as shown in the result above.

Appendix 7. Weekly Net Debt



Appendix 8. Financial objectives and assumptions 2019-22

Revenue	• 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	• Targeting mid to high teen return on sales % at a segmental level in the medium term
Interest	• Expected to fall again in 2020 as PP notes repaid in Nov 2019
Capex	• £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	• US$1.30: £1 • Sensitivity to 10c move in $ rate is £1.5m at an annual underlying operating profit level
Tax	• Medium term blended rate in the low 20's%
Discontinued operations	• Loss making in 2019 given timing of disposals and market conditions, no contribution in 2020 or beyond • Cash on disposal of COR of $17m received in early H2/20, being gross sale value which is subject to working capital adjustments and sale costs

Source: H1 FY19 Results Presentation – 5 June 2019

Appendix 9. IFRS 16 Leases

HIGHLIGHTS

- Effective from 1 November 2019
- Operating profit increase / finance cost increase of £0.1m
- No impact on EPS
- No overall change in total cash-flows, EBITDA increase and operating cash flow increase of £0.9m, no material impact on cash conversion percentage
- Increase in net debt of £6.5m due to recognition of finance lease liability
- No impact on net assets

IMPACT ON H1 FY20 RESULTS

	EBITDA £m	Operating profit £m	Operating cash £m	Cash conversion
'Old' basis H1 FY20	34.3	25.5	55.3	161%
Impact of IFRS 16	0.9	0.1	0.9	(1)%
As reported H1 FY20	35.2	25.6	56.2	160%

	£m
Initial adoption	(6.5)
Payments in period	0.8
Interest charge	(0.1)
Foreign exchange movement	(0.4)
Liability at 30 April 2020	(6.2)

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

Appendix 10. Market Consensus FY20, FY21 & FY22

- 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	FY22
Revenue (£m)	366	383	404
Underlying Operating Profit (£m)	50.4	55.4	61.0
Underlying Earnings Per Share (pence)	12.8	14.1	15.7
Net Debt (£m)	78	76	64

Appendix 11. Glossary

Acronym	Meaning	Acronym	Meaning
AVCAD	Aerosol & Vapor Chemical Agent Detector	**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
COR	Chemring Ordnance	**MTV**	Magnesium Teflon Viton
CPC	Chemring Prime Contracts	**NGCD**	Next Generation Chemical Detector
CSES	Chemring Sensors & Electronic Systems	**POR**	Program of Record
C&E	Countermeasures & Energetics	**PP**	Private Placement
DSTL	Defence Science & Technology Laboratory	**SMD**	Special Material Decoy
EMBD	Enhanced Maritime Biological Detection	**S&I**	Sensors & Information
EMD	Engineering and Manufacturing Development	**US DoD**	United States Department of Defense

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