

Full Year Results to 31 October 2011

Peter Hickson – Chairman

David Price – Chief Executive

Paul Rayner – Finance Director



Counter-IED



Countermeasures



Munitions



Pyrotechnics

Disclaimer

2012 Chemring Group PLC

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Summary

Peter Hickson – Chairman



Counter-IED



Countermeasures



Munitions



Pyrotechnics

Results Summary

- Strong growth in revenues
 - *up 25% to £745m, driven by Counter-IED & Munitions*
- Organic growth of 9%
- Profits before tax up 6% to £126m
- Earnings per share up 5% to 52p
- Order book up 9% to £878m
- Dividend increased by 25% to 14.8p
- Balance Sheet Review

Financial Review

Paul Rayner – Finance Director



Counter-IED



Countermeasures



Munitions



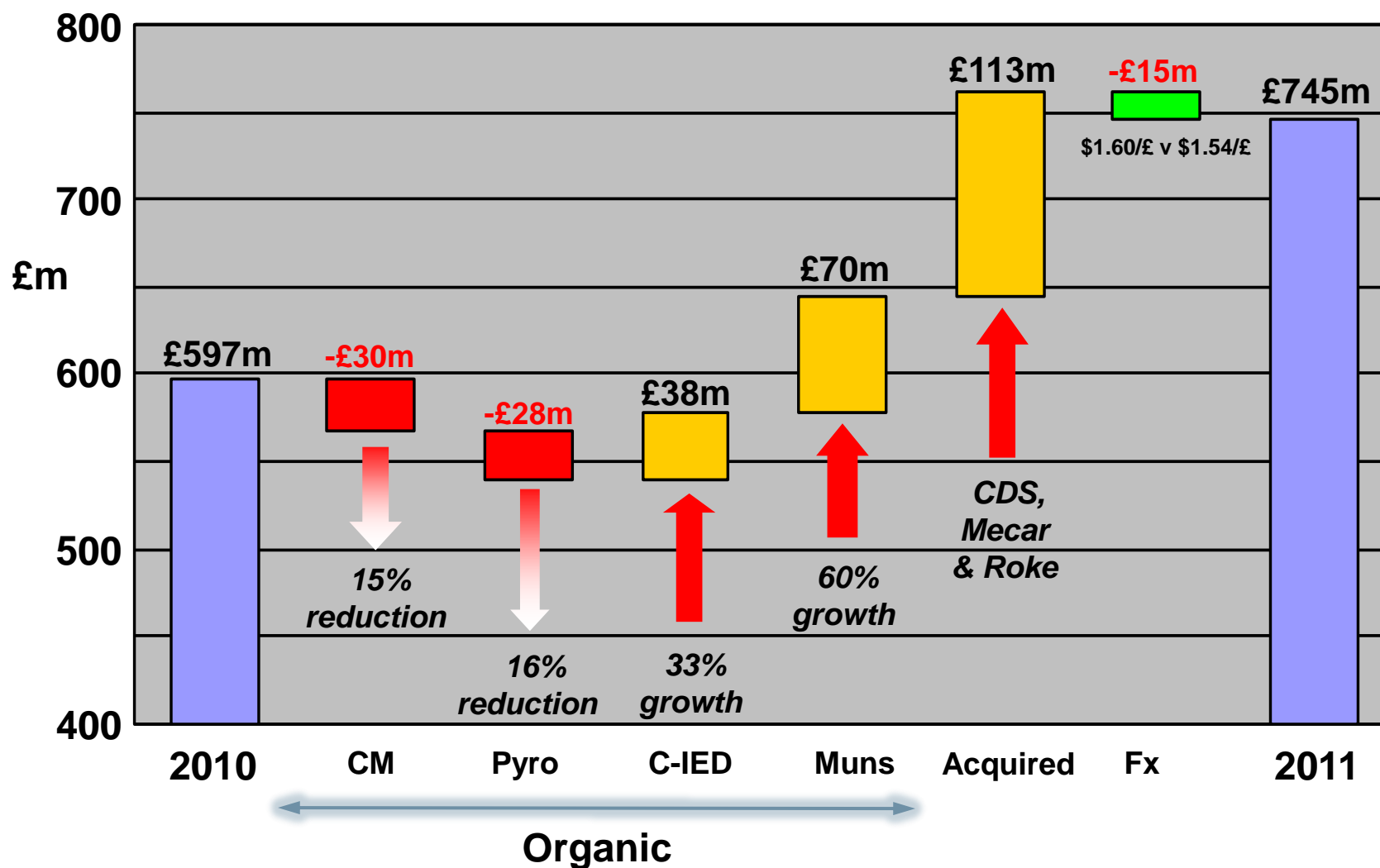
Pyrotechnics

Preliminary Results 2011

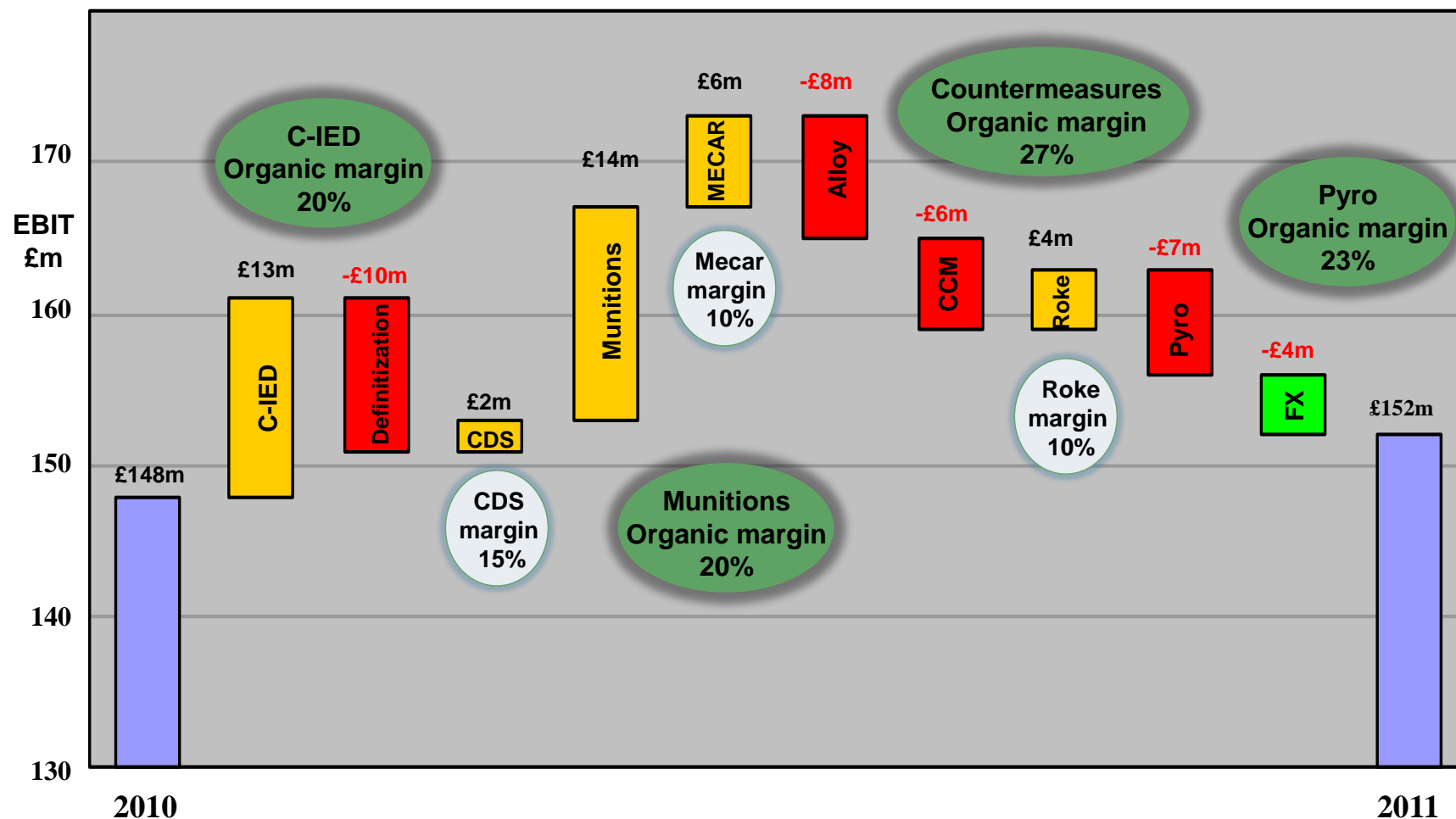
£m	2011	2010	Change
Revenue	745	597	25%
Operating profit	142	137	4%
Margin	19%	23%	(4 pts)
Underlying PBT	126	118	6%
Underlying EPS (p)	52p	50p	5%
Dividend (pps)	14.8p	11.8p	25%

- Strong revenue growth
 - 9% organic growth
- Reduced margin
 - Acquisitions 2 pts
 - Alloy & Niitek margins 2 pts
- Interest costs 14% lower than 2010
- Tax rate 23% from 26%
- Dividend 3.5 times covered

Organic Growth of 9%



Components of Divisional EBIT Growth



Counter-IED

Revenue

↑ 46% **£167m**

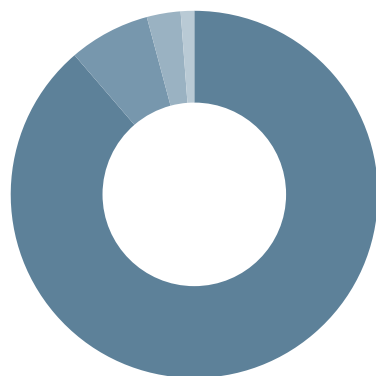
Operating Profit

↑ 14% **£32m**

Operating Margin

↓ 6pts **19%**

Revenue Breakdown



■ Detect ■ Disable ■ Defeat ■ Demil

- Revenues at NIITEK grew by 24%
 - 77 HMDS delivered in year to US Army
- 19% margin
 - Organic margin declined to 20% due to extended post-cost audits on successive HMDS contracts
 - CDS achieved 15% margin, in line with expectations
- Final pricing of 64 system contract delayed £13.5m of order intake & revenue to mid-November
- Multi-year IDIQ to support existing HMDS fleet continued to be delayed
 - \$50m bridging contract maintained capability
- Chemring Detection Systems acquired in July 2011 and contributed £15m to revenue

Countermeasures

Revenue

↑ 3% **£201m**

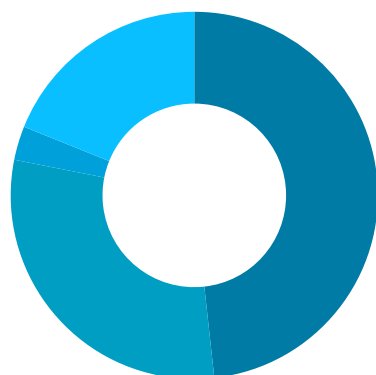
Operating Profit

↓ 20% **£47m**

Operating Margin

↓ 7pts **23%**

Revenue Breakdown



■ Fast Jet ■ Helo / Transport ■ Naval ■ Land / EW

- Limited revenue growth and organic sales down 15%
 - *NATO demand for Helicopter and Transport aircraft flares declined by 31% which was more severe than expected*
- Kilgore production recovered to record levels despite MJU-7 line remaining closed
- Countermeasures margin reduced to 23%
 - *Decoy margin dropped to 27% due to lower volumes at Alloy and CCM*
 - *Roke generated 10% margin, in line with expectations*
- Roke completed deliveries of RESOLVE dismounted electronic warfare system to UK Army
- RESOLVE won first export orders and received Queens Award for Innovation

Munitions

Revenue

↑ 104% **£237m**

Operating Profit

↑ 95% **£41m**

Operating Margin

↓ 1pt **17%**

Revenue Breakdown



■ Land ■ Naval ■ Components

- Revenue up by 104% driven by non-NATO markets
- Munitions margins declined fractionally
 - *Organic margins increased to 20%*
 - *Mecar production on track at 10%*
- Mecar restarted all production after 2010 incident
- Deliveries of 90mm and 105mm LAV started to grow
- Continued growth in US 40mm grenade deliveries to Australia and Middle East

Pyrotechnics

Revenue

↓ 18% **£140m**

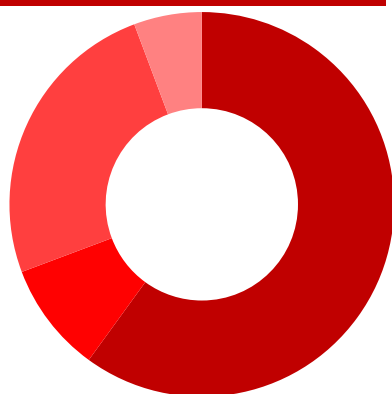
Operating Profit

↓ 19% **£32m**

Operating Margin

↓ 1pt **23%**

Revenue Breakdown



■ Smoke / Illum ■ Training ■ Safety Systems ■ Space

- European austerity measures weakened demand and revenues declined by 18%
- Operating margins remained flat in line with guidance
- UK demand for 81mm illumination rounds reduced
 - *New orders underpinned medium term demand*
- Kilgore restarted deliveries of marine location markers after qualification of upgrades
- JCAST test equipment delivered to F-22 fleet and played major role in supporting return to flight clearance
- Hi-Shear awarded development of next generation NASA Standard Initiator

Cash Flow

<u>£m</u>	<u>Final 2011</u>	<u>Final 2010</u>
Operating Cash Flow	125	128
Operating Cash conversion from EBIT	88%	93%
Tax	(17)	(30)
Capital spend	(62)	(49)
Interest	(18)	(14)
Free cashflow	28	35
Dividends	(23)	(19)
Net acquisitions spend	(58)	(177)
Purchase of own shares	(2)	(4)

- Operating cash flow at 88%
 - *Slightly lower conversion in 2011*
 - *5 year average 93%*
 - *Target to exceed 5 year average in 2012*
- Free cashflow
 - *Tax lower*
 - *Payment timing*
 - *Capex*
 - *£25m new facilities*
 - *£25m maintenance capex*
 - *£10m development of new product*

Balance Sheet

<u>£m</u>	<u>Final 2011</u>	<u>Final 2010</u>
Goodwill	243	231
Acquired Intangibles	192	182
Tangible Assets	231	197
Other Net Assets	140	87
Tax	(43)	(43)
Pension Deficit	(25)	(23)
Gross Debt	(355)	(366)
Cash	92	58
Net Debt	(263)	(308)
Shareholders' Funds	475	323

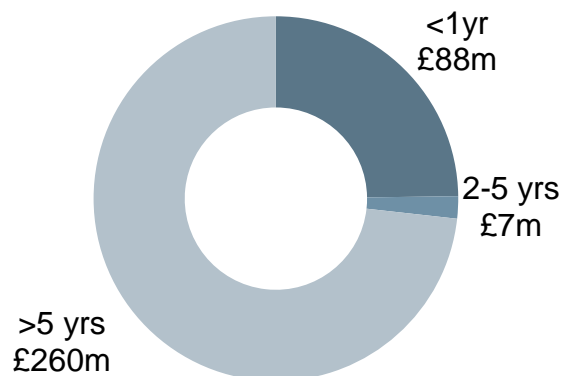
- New facilities £25m
 - CM facilities £20m
 - Explosive facilities Scotland £5m
- Development of new products £10m
 - Roke £4m
 - CCM £2m
- Capex guidance for 2012 of c. £40m
- Equity raise April 2011
 - CDS acquisition
 - Balance in cash
- 2012 average shares 193m
 - Treasury share acquisition late 2011

Cash & Debt

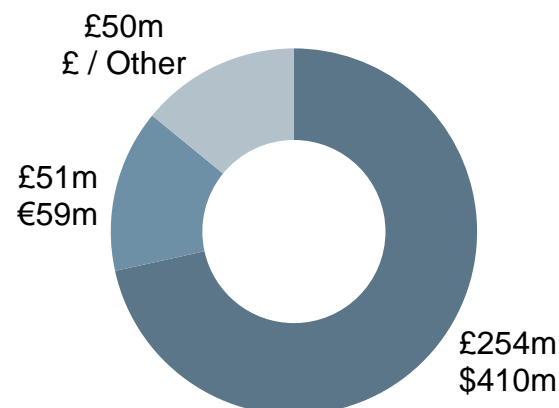
	Covenant	Actual
Interest cover to EBITDA	Minimum 4x	10.0x
Debt / EBITDA	Maximum 3x	1.6x

- Strong covenant compliance
- New £230m working facilities Jan 2011, renewal April 2015
- £150m headroom on facilities (2010: £104m)
- 73% of debt is only repayable after five years
 - 1 year debt – partial drawdown of revolving facility
- Average cost of debt 5% (2010: 5%)
- Gearing 55% (2010: 95%)

Gross Debt Profile £355m



Analysis of Debt in Local Currency



Outlook Review

David Price – Chief Executive Officer



Counter-IED



Countermeasures



Munitions



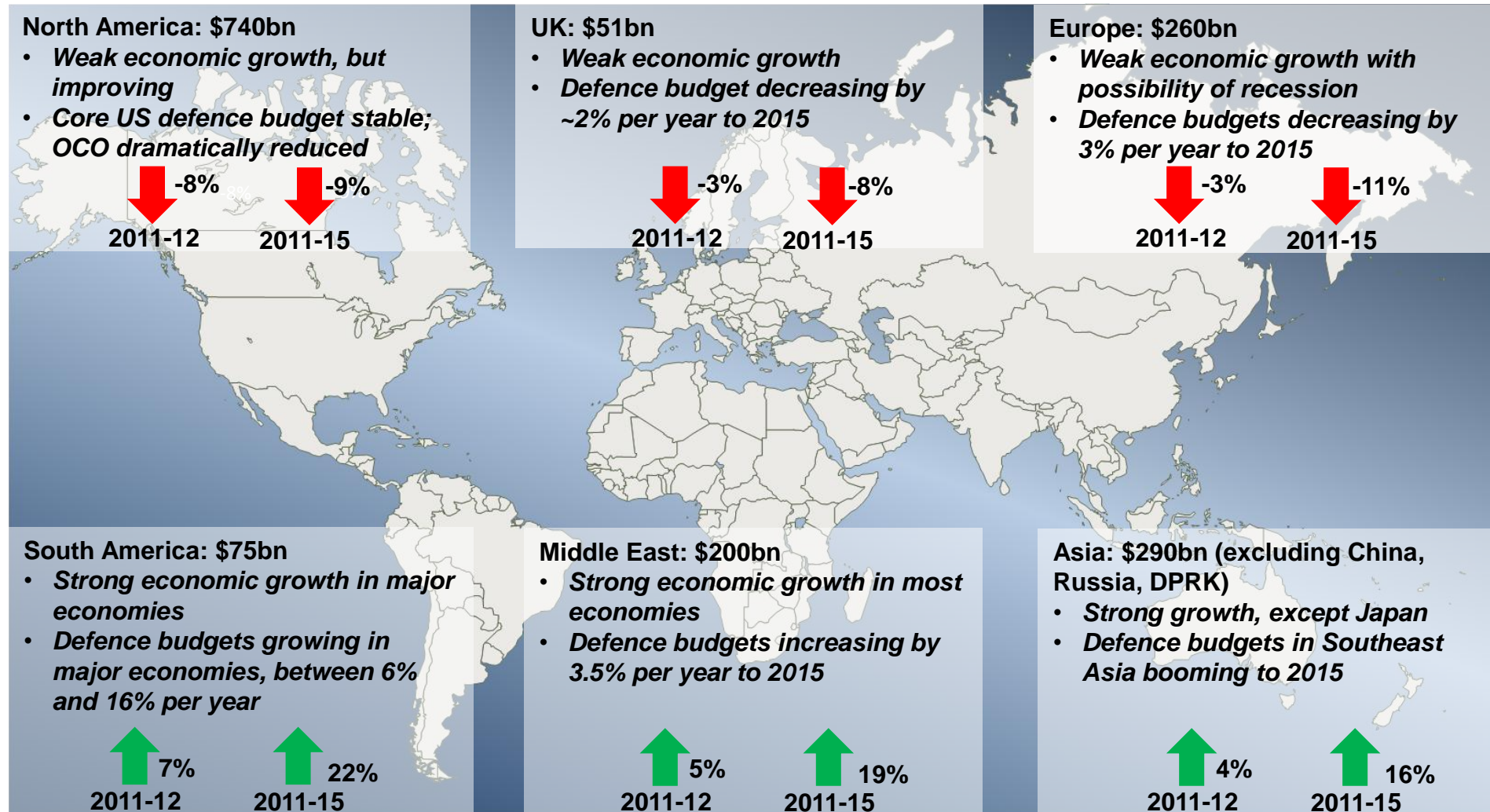
Pyrotechnics

Chemring today

- Market leading manufacturing business selling high technology electronics and energetic products to over 80 countries worldwide
- A diverse portfolio of products protecting military people and platforms against a constantly changing threat
- High margin, niche markets with short product development timescales and the agility to rapidly react to the urgent customer needs
- Balanced geographic and market profiles, with a growing presence in Non-NATO, positions us well to withstand economic downturn in any of our major markets
- A balanced strategy of organic growth and small bolt-on acquisitions. Well positioned to win further market share
- Strong R&D investment for new products and improvements in technology to continually expand its addressable markets

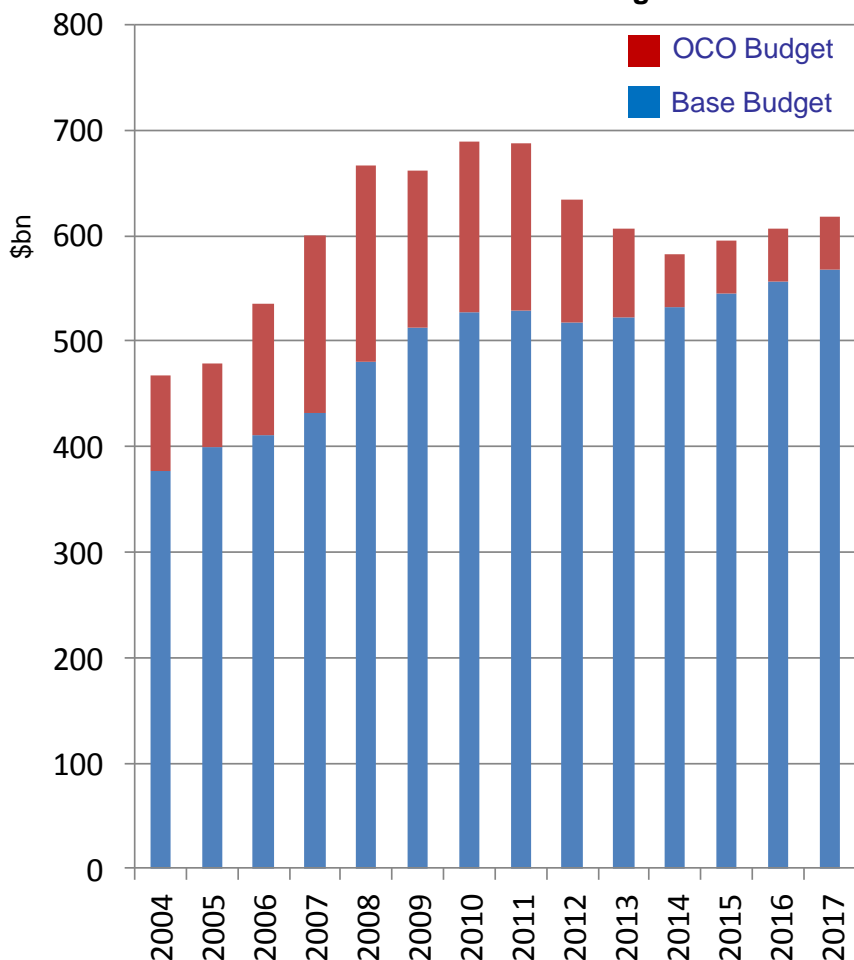
“....To be the leading producer of Protection Systems & Energetic Products for the global defence market.”

Market Conditions – non-NATO increasing to 40% of Global Market



Market Conditions – US Defense Budget

Total US Defence Budget



2012

- Continuing Resolution disrupts procurement
- FY 2012 base budget approved at \$520bn plus \$115bn OCO
- Implications for Chemring
 - *C-IED funding still over \$4.0bn*
 - *Funding for Countermeasures weakens*
 - *Limited impact of Munitions budget on Chemring niches*
 - *Pyrotechnics remain stable*

Medium term

- FY 2013 likely to be \$523bn plus \$83bn OCO
- Budget growth 2% per year from 2014 – 2017
- Sequestration could reduce budget by more than \$50bn per year

Re-structuring – Adapting to Market Conditions

US organic revenues expected to fall in 2012

Restructuring

- Staff reduction of 134 at Alloy in 2011 - full year benefit of ~\$9 million in 2012
- US businesses will reduce by approximately 75 staff in H1
 - *already reduced by 50 in January 2012*
- Further 125 staff reduction by the end of the year
 - *full year benefit of ~\$13 million in 2013*

Site Rationalisation

- Alloy Plant #3 closed in 2011 and all production transferred
- Closure of Marshall, Texas announced and transfer of work to Florida
- Further site rationalisation at Alloy and Niitek under review

Growth opportunities – Counter-IED



2012

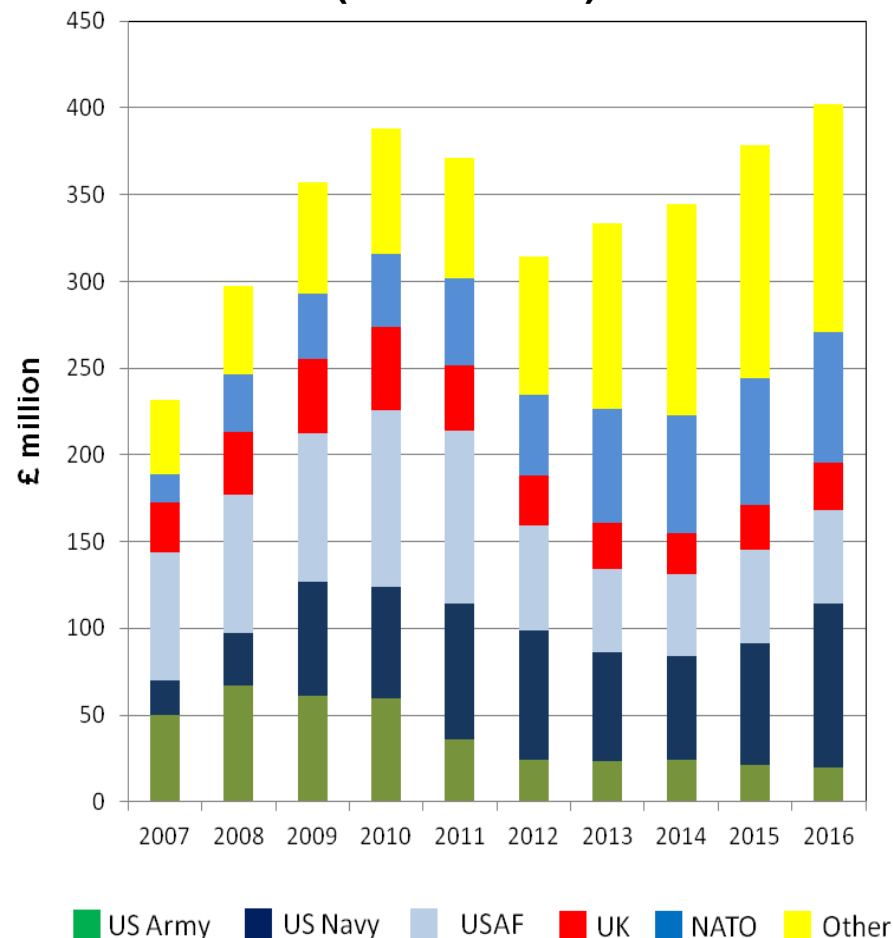
- Current negotiation for multi-year HMDS support contract expected to conclude by end of April
- 2012 development & production of modified GPR for MBDA CALIFE pushed-trailer for Italian Army
- Funded development of SPLINTER next generation hand-held detector underway for UK qualification
- Production of Mk7 APOBS for US Army & US Marines starts in July 2012 under multi-year \$150m IDIQ contract

Medium-term

- Competitive acquisition for over 500 next generation systems now expected in 2013
- Doubling of US Stryker NBC fleet increases demand for chemical and biological detectors (JSLSCAD & JBPDS)
- Tests of export version of JSLSCAD show exceptional performance – Middle Eastern sales likely
- Lightguard starts operational evaluation in 2012

Growth opportunities - Countermeasures

Expendable Countermeasures Market (2007 – 2016)



2012

- Lower demand for flares & decoys for helicopter & transport aircraft
- Strong growth in demand for fast jet decoys & restart of MJU-7 production

Medium-term

- Growth opportunity for fast jets
 - Over 200 F-35 aircraft by 2016
 - Over 400 Typhoons by 2016
- Pre-emptive special material decoys for F-16 and F-18 aircraft
- Testing of active RF expendable decoys starts in 2012

Growth opportunities - Countermeasures



2012

- Two naval rounds upgraded and qualified in 2011 with UK production expected in 2012
- Fully-functional CENTURION trainable launcher will be ready for sea trials in summer 2012

Medium-term

- Centurion launcher targeting a global fleet of over 800 vessels
- Low cost active RF decoys expected to capture NATO market
- Strong interest in vehicle-mounted applications of RESOLVE from Middle East

Growth opportunities - Munitions

2012

- Deliveries of vehicle-based 120mm mortar systems to Middle East customer start
- Growth in medium calibre ammunition deliveries to Europe & Middle East
- Deliveries of direct fire 90mm & 105mm ammunition increase

Medium-term

- Improved ammunition for Middle East, Far East & South America fleets
 - *Global fleet of 90mm LAV guns will double from 500 to 1,000 in the next five years*
 - *Global fleet of naval 76mm guns is now 550*
- PAC-3 production to increase by 50% in 2012
- XM-25 IAWS to enter full production for US Army



Photo Courtesy of U.S. Army

Growth opportunities - Pyrotechnics



2012

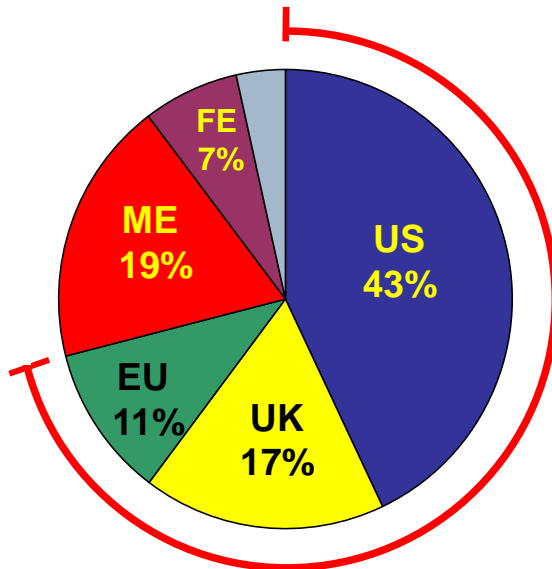
- Revenues expected to recover to 2010 levels
 - *Compact Smoke production issues resolved*
 - *US M662 (red star) & M992 (blacklight) production after delay in government approvals*

Medium-term

- Production of illumination payloads for 105mm, 155mm & 4.5" ammunition
- Production for 120mm spotting mortar round with WP substitute
- Targeting supply of emergency oxygen systems for all Boeing and Airbus aircraft
- USAF expanding JCAST system to F-16 and F-35

Non-NATO revenues – up 360% over last 4 Years

2011 Revenue £745m



NATO 71%

Non-NATO Revenues up 81%

Middle East – up 167%

Far East – up 16%

South America- up 8%

- **Middle East**

- Strong demand for direct fire anti-tank and mortar rounds
- Looking to form JV in Saudi Arabia during 2012 for countermeasures

- **Far East**

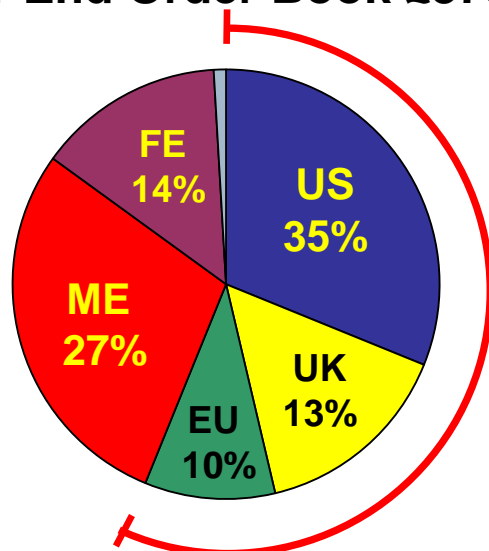
- Strong demand for all products from India
- JV with Hinduja Group
- Indian manufacture in 2013

- **South America**

- Brazil buying 400 IVECO LAVs with 90mm weapons
- Brazil interest in full product range
- Looking to form JV in Brazil during 2012

Order Book Analysis

Year End Order Book £878m



NATO 56%

- Today's Order Book £980m
 - Up 9% on Jan 2011
 - Up 12% on Oct 2011
 - Non-NATO now 44% of order book
- 2012 order coverage similar to 2010 @ 70%
- US & UK orders later than usual

Key Orders for 2012

- 81mm Illumination rounds €38m ✓
- Multi-year IDIQ for HMDS support \$500m+ Q2
- US Army biological detection \$50m Q3
- US Army chemical detection \$30m Q3
- UK flare acquisition £25m Q2

Order Book	2011	2010	Growth
Counter-IED	£127m	£99m	+28%
Countermeasures	£234m	£265m	-12%
Munitions	£371m	£267m	+39%
Pyrotechnics	£145m	£172m	-16%
Total	£878m	£803m	+9%

Summary

- **Growth in revenues & earnings**
- **Dividend up 25% to 14.8 pence**
- **Non-NATO revenues now 30% of Group**
- **US organic revenues will contract in 2012**
- **Operating margins should remain steady**
- **Order book up 9%**

Steady single-digit growth against adverse headwinds

Appendix



Counter-IED



Countermeasures



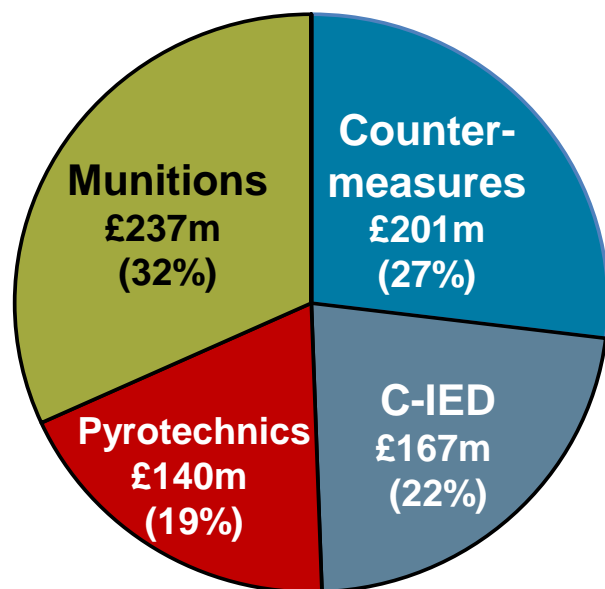
Munitions



Pyrotechnics

Segmental Analysis

Revenue



2011 Revenues - £745m

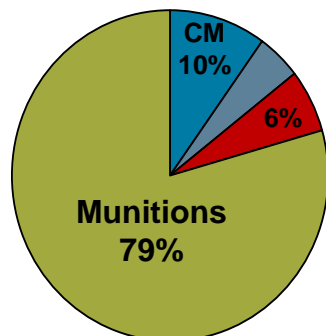
Revenues	2011	2010	Growth
Counter-IED	£167m	£115m	+46%
Countermeasures	£201m	£196m	+3%
Munitions	£237m	£116m	+104%
Pyrotechnics	£140m	£170m	-18%
Total	£745m	£597m	+25%

Order Book	2011	2010	Growth
Counter-IED	£127m	£99m	+28%
Countermeasures	£234m	£265m	-12%
Munitions	£372m	£267m	+39%
Pyrotechnics	£145m	£172m	-16%
Total	£878m	£803m	+9%

Regional Analysis

2011 Revenue £745m

NATO 71%

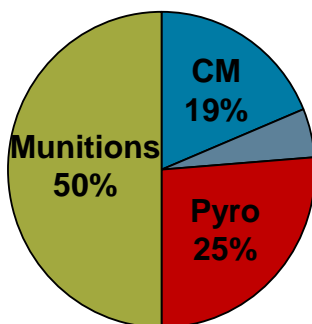


ME/FE – up 98%

Munitions – up 216%

CM – down 18%

Pyro – down 49%

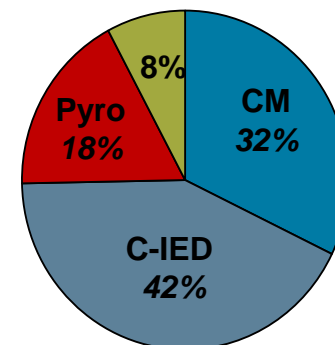
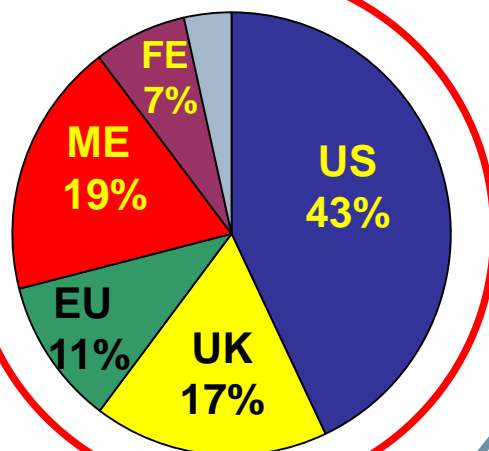


EU – up 10%

Munitions – up 38%

CM – up 39%

Pyro – down 35%

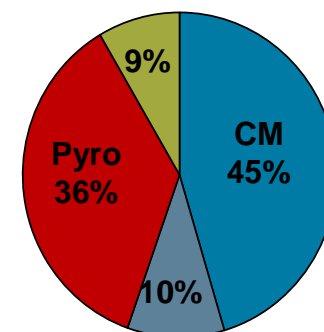


US – up 9%

C-IED – up 46%

Pyro – up 1%

CM – down 15%



UK – up 16%

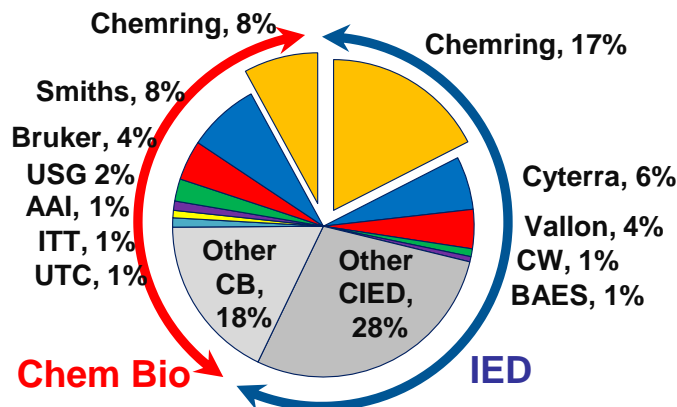
CM – up 52%

C-IED – up 74%

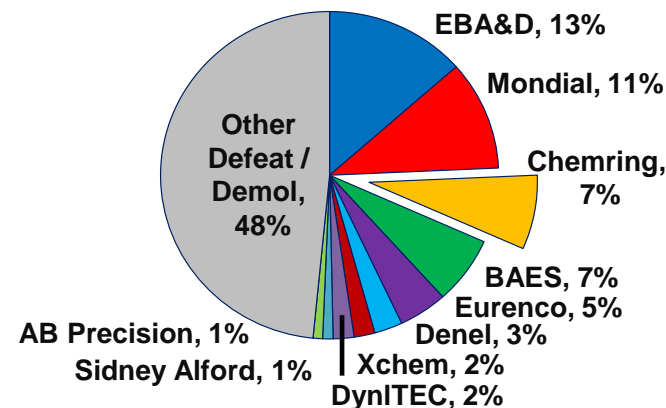
Pyro – down 14%

Counter-IED Market

Detect – £700m

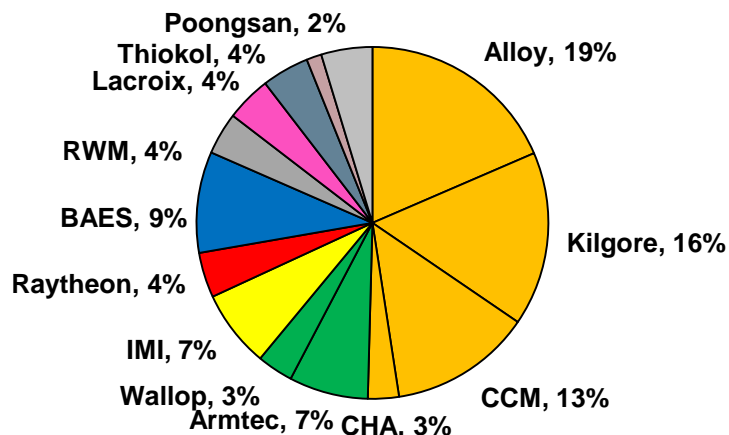


Defeat £300m

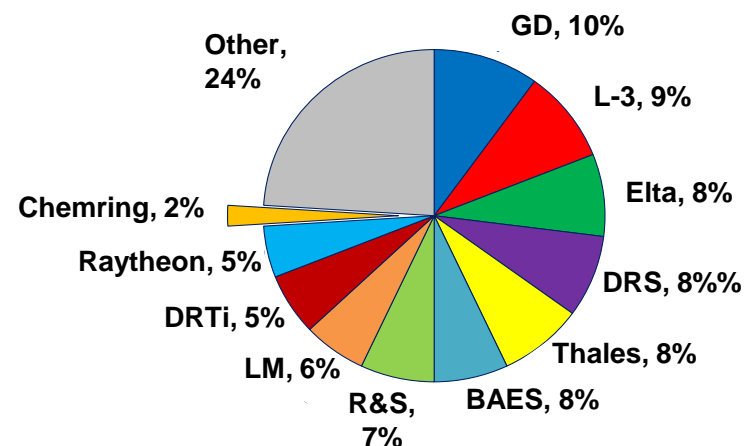


Countermeasures Market

Expendables – £360m

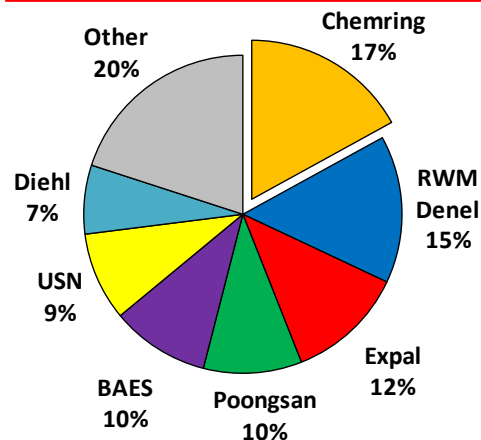


Land EW – £280m

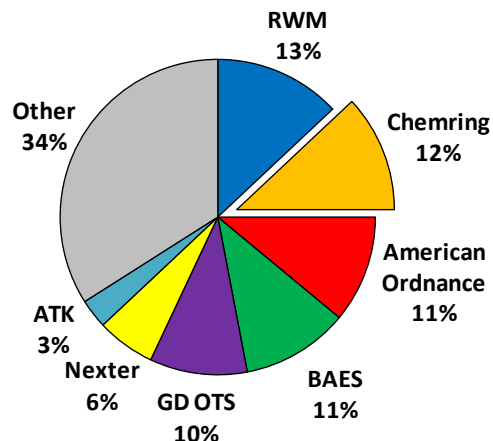


Munitions Market

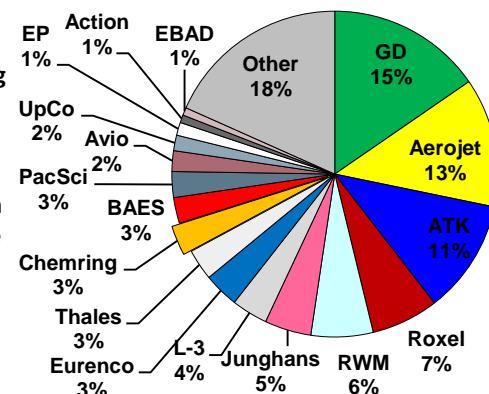
Naval Ammunition – £150m



LAV Ammunition – £300m

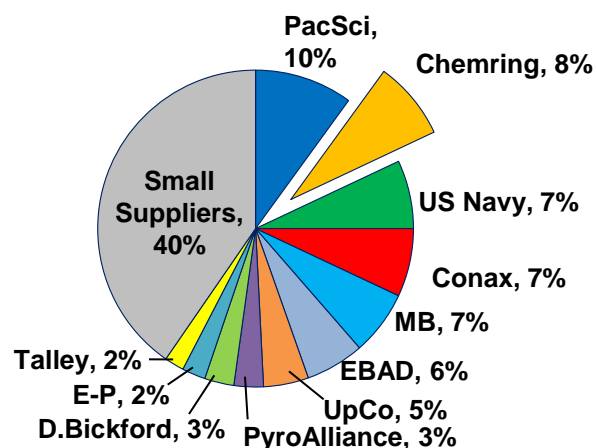


Components – £2bn

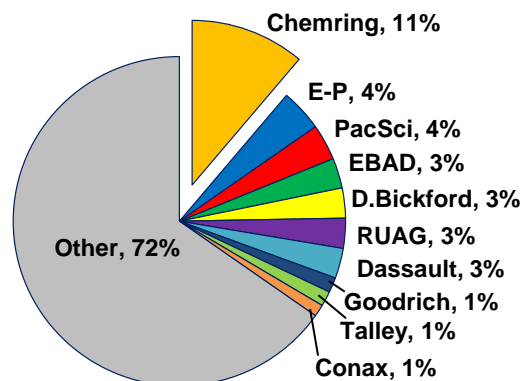


Pyrotechnics Market

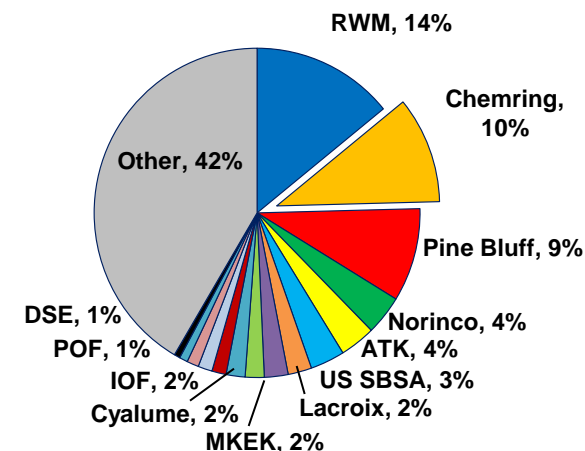
Safety Systems – £290m



Space – £180m



Smoke & Illum – £850m



Movement in Net Debt

<u>£m</u>	<u>Final 2011</u>	<u>Final 2010</u>
Net Debt 31 October 2010	(308)	(123)
Free Cash Flow	29	35
Equity dividends paid	(23)	(19)
Equity issue	110	-
Acquisitions	(58)	(177)
FX and other movements	(13)	(24)
Net Debt 31 October 2011	(263)	(308)

- Strengthening position due to additional funds obtained through equity issue
- Dividend payments continue to increase in line with group performance
- FX movement on US\$ loan notes

Working Capital

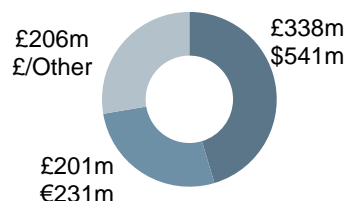
Working Capital	2011 £m	2010 £m	Change £m
Inventory	147	141	6
Trade Debtors	164	139	25
Trade Creditors	(105)	(100)	(5)
Advance Payments	(49)	(53)	4
Net Working Capital	157	127	30
Revenue	745	597	
Working Capital Days	77	78	(1)

- Increase in debtors in Q4
- Advance payments funding inventory
- Days target to reduce below 70 in 2012

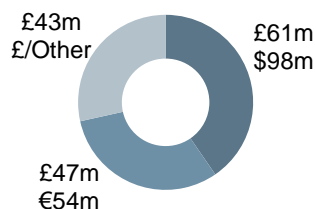
Foreign currency

by Currency as converted to £m

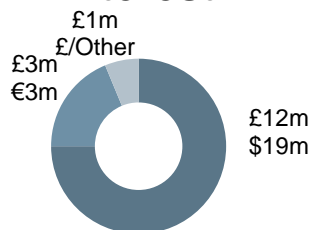
Revenue



Divisional EBIT



Interest



- Foreign currency rates
 - \$ rate depreciation 4% 2011: 1.60 (2010: 1.53)
- Debt denomination continues to be geared in line with group profile
- Interest 75% US\$ denominated
- 10¢ move in \$
 - c. £25m in revenue
 - c. £6m in EBIT
 - c. £17m change in debt
- 10¢ move in €
 - £16m in revenue
 - £4m in EBIT
 - £3m change in debt

Glossary of Terminology

• APOBS	Anti Personnel Obstacle Breaching System
• CDS	Chemring Detection Systems
• C- IED	Counter Improvised Explosive Device
• CM	Countermeasure
• FMS	Foreign Military Sales
• GPR	Ground Penetrating Radar
• HMDS	Husky Mounted Detection System
• IAWS	Individual Airburst Weapon System
• IDIQ	Indefinite Delivery Indefinite Quantity
• JBPDS	Joint Biological Point Detection System
• JCAST	Joint Combined Air Systems Tester
• JSLSCAD	Joint Services Lightweight Stand-Off Chemical Agent Detector
• LAV	Light Armoured Vehicle
• MJU	Multi-Jetison Unit
• OCO	Overseas Contingency Operations
• PAC-3	Patriot Advanced Capability 3
• RF	Radio Frequency