

Ultra Electronics Holdings plc

Interim Results

For the six months ended 30 June 2019

Making progress



7 August 2019

Simon Pryce Chief Executive

Amitabh Sharma Group Finance Director



A solid start...

1

... to the year

Strong markets

Order book/ revenue
growth

Delivering as anticipated

2

... to our strategic
journey

Strategic evolution

Focus; Fix; Grow

Significant improvement
potential

...making progress

Focus: Changing strategy..

FROM:

Aggregation of
autonomous, tactical
businesses

130+ capabilities

Poor connectivity

Limited parenting benefit

Evolving
to...

TO:

Focused, application-
engineered solutions
provider

Maritime, Intelligence &
Communications defence

Critical Detection & Control

Collaboration, economies
of scope & scale

...focused on value creation

Fix: Progress



Culture & talent

Strengthening capability

Defining Vision, Mission & Values

Revised ethics & code of conduct



Operating model

Review organisation design

Evolve roles & responsibilities

Reallocate resources



Process & practice

Programme management

Commercial management

Technology investment



Infrastructure

IT systems

Intranet

Application standardisation

...on key initiatives

Grow: Technology strength delivering new programmes



Canadian Surface Combatant

Leading role within CSC team for underwater warfare & sonar systems

Were the Government of Canada to elect to procure the full 15 ships, CSC could cumulatively be worth in excess of \$500m USD for Ultra



Next Generation Surface Search Radar

NGSSR sole source development contract worth \$34.5m.

NGSSR as a programme, is potentially worth in excess of \$250m USD for Ultra



Orion Radio IDIQ*

\$500m IDIQ and initial \$17m order for radio systems to support Army's TRILOS program



Sonobuoy IDIQ*

\$1bn ERAPSCO IDIQ for four key types of sonobuoy to the US Navy

...confidence in the future

*IDIQ = Indefinite delivery, indefinite quantity contract award

Financial Review



Highlights

£'m	H1 2019	H1 2018*	Organic Growth ⁽³⁾
Order book	1,014.1	951.2	+6.6%
Revenue	387.1	357.5	+8.3%
Operating profit ⁽¹⁾	52.9	49.1	+7.7%
Operating margin ⁽¹⁾	13.7%	13.7%	
	H1 2019	H1 2018	Growth
Earnings per share ⁽²⁾	52.5p	45.1p	+16.4%
Interim Dividend per share	15.0p	14.6p	+2.7%

* comparative period presented at constant currency and as if IFRS 16 had applied, and adjusted for disposals to reflect the comparable period of ownership

- (1) Underlying profit and margin are before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses, and for 2018 the S3 programme and impairments
- (2) Underlying EPS is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses, gain or loss on disposals, fair value movements on derivatives and for 2018 the S3 programme, impairments, defined benefit pension finance charges and the loss on closing out a foreign currency derivative contract
- (3) Organic movements are the change in revenue, operating profit and order book at constant currencies when compared to the prior period results and adjusted for acquisitions or disposals to reflect the comparable period of ownership. Prior period operating profit has been adjusted as if IFRS 16 had applied

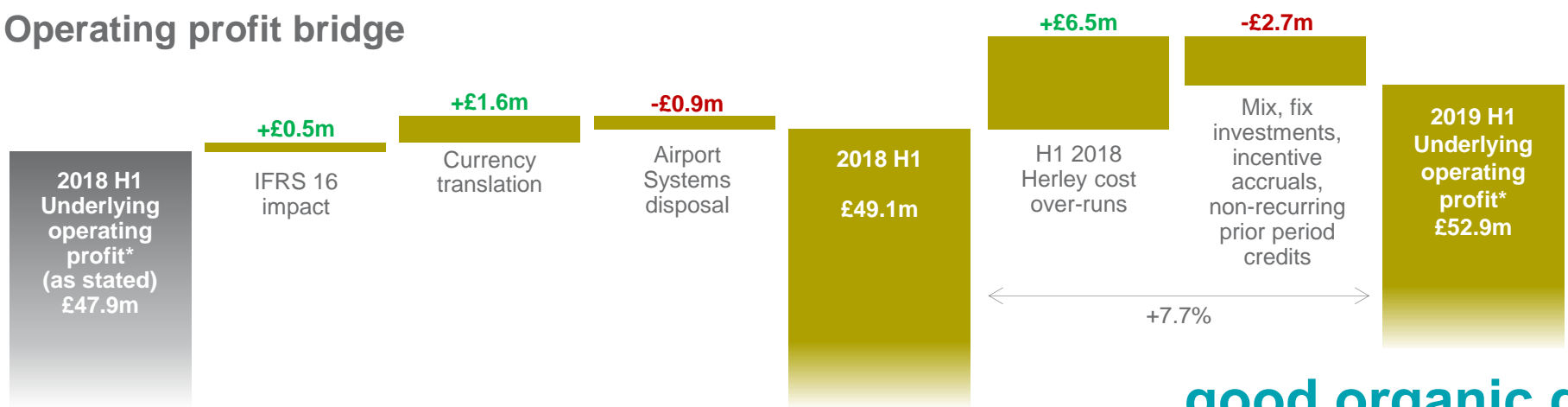
... a solid first half

Revenue and profit bridges

Revenue bridge



Operating profit bridge



...good organic growth

* before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses, and for 2018 the S3 programme and impairment charges

Divisional performances

Aerospace & Infrastructure

£'m	2019 H1	2018 H1*	Organic Growth ⁽²⁾
Order book	300.2	287.4	+4.5%
Revenue	100.5	88.6	+13.4%
Operating profit ⁽¹⁾	11.3	14.0	-19.3%
Operating margin ⁽¹⁾	11.2%	15.8%	



...Order book growth continues

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Divisional performances

Communications & Security

£'m	2019 H1	2018 H1*	Organic Growth ⁽²⁾
Order book	259.5	287.5	-9.7%
Revenue	117.8	114.5	+2.9%
Operating profit ⁽¹⁾	12.0	8.3	+44.6%
Operating margin ⁽¹⁾	10.2%	7.2%	
Operating margin ⁽¹⁾ excluding Herley overrun costs		12.9%	



...\$500m IDIQ contract for Orion Radio systems

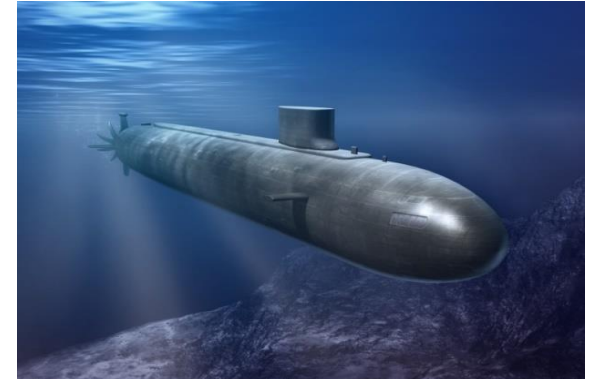
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Divisional performances

Maritime & Land

£'m	2019 H1	2018 H1*	Organic Growth ⁽²⁾
Order book	454.4	376.3	+20.8%
Revenue	168.8	154.4	+9.3%
Operating profit ⁽¹⁾	29.6	26.8	+10.4%
Operating margin ⁽¹⁾	17.5%	17.4%	



...\$1bn ERAPSCO IDIQ contract for sonobuoys to the US Navy

* comparative period presented at constant currency and as if IFRS 16 had applied, and adjusted for disposals to reflect the comparable period of ownership

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Average working capital turn...

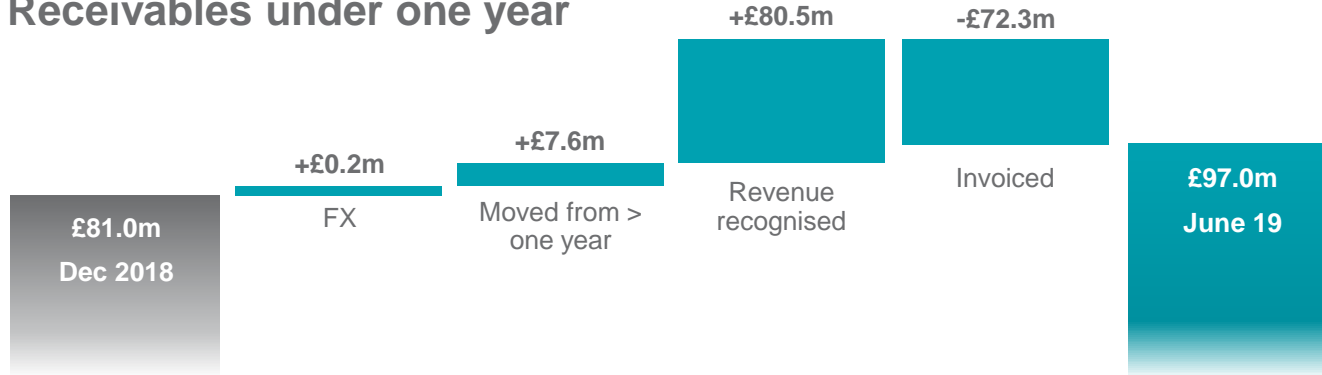
	H1 2019	H1 2018		2019 guidance
Net debt to EBITDA*	1.32x	1.39x	↓	1.2x
Average 12m Working Capital turn	6.80x	6.38x	↑	
Working Capital Normalisation	£31m	-		c.£45m

...structurally an 80 – 85% cash conversion business

* net debt and EBITDA excluding the impact of IFRS 16 and adjusted to remove EBITDA generated by businesses up to the date of their disposal. Net debt to EBITDA including the impact if IFRS 16 is 1.50x

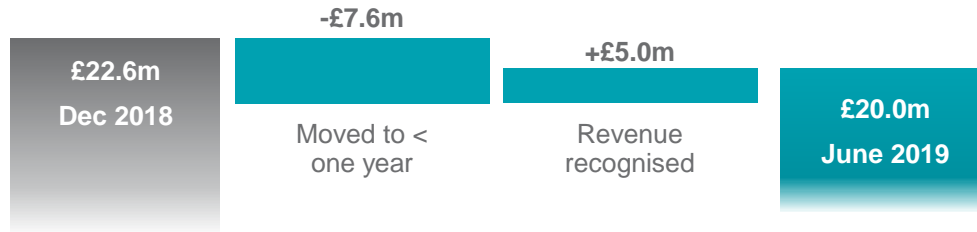
Update on long term contract receivables...

Receivables under one year



- Over 75% of the amounts recoverable less than one year will be invoiced in H2

Receivables over one year

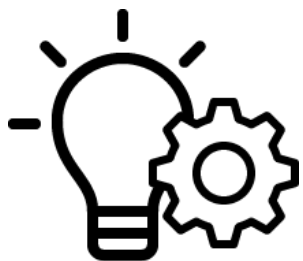


- Amounts recoverable greater than one year mainly relate to two contracts S2150 (£7m) and A400M (£10m)*

...we are churning receivables

* both contracts had significant up-front development costs - recovered as we deliver the systems. S2150 fully recovered in 2020 and 2021. A400M recovered over a longer period

Investment update



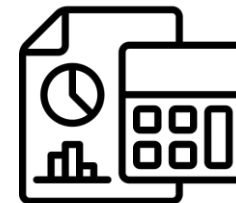
R&D

- Total spend increased
- Expect 3.5% - 4% of revenue in 2019
- Long term guidance of 4-5% of revenue remains



IT & “Fix” programme

- Guidance of c.£5m of IT and “Fix” program investments per year for the next three years remains



Cap Ex

- Cap Ex to be in the range of £20m - £25m in 2019



...increased investment discipline

2019 technical guidance...



Growth H1
weighted

Margins normalise

IFRS 16

No significant income
statement impact

No change to Ultra's
FCF

c.£45m
working capital
adjustment

£31m in H1 2019

Tax

2019 tax rate
unchanged at c.20%

EC CFC decision
£0m - £20m

...no significant changes

Summarising H1

Benefitting from strong markets

Good order book development

Continued organic revenue growth

Delivering as anticipated

...making progress

Entering H2...

Strategic development and focus

Progress on 'Fix' initiatives

Good improvement potential

Key positions on new programmes

...confidence in the longer term opportunity

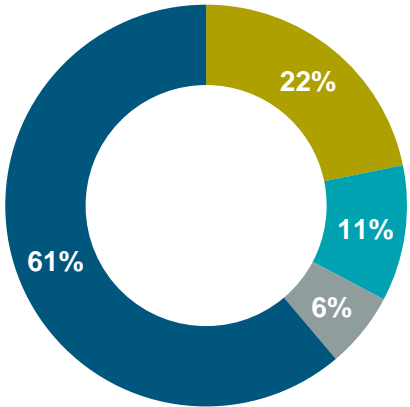


Appendices

1. H1 2019 revenue breakdown
2. Balance sheet
3. Net debt
4. Operating cash flow
5. IFRS 16 – Leased assets
6. Foreign exchange
7. Capital allocation priorities
8. End user examples
9. Glossary

H1 2019 revenue breakdown

By destination



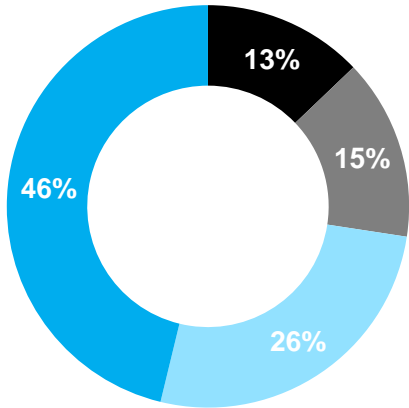
North America
£236.8m
(2018: £190.0m; 54%)

Rest of the World
£42.4m
(2018: £50.4m; 14%)

UK
£84.3m
(2018: £80.6m; 23%)

Mainland Europe
£23.6m
(2018: £29.5m; 8%)

By market



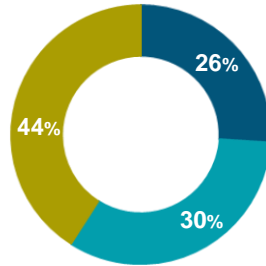
Defence (Air)
£102.1m
(2018: £75.1m; 21%)

Security & Cyber
£49.8m
(2018: £47.8m; 14%)

Defence (Naval & Army)
£178.9m
(2018: £164.2m; 47%)

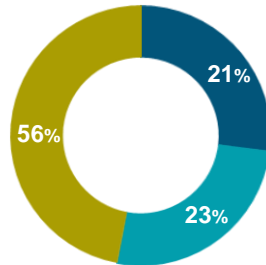
Transport & Energy
£56.3m
(2018: £63.4m; 18%)

By division



Group Revenue

- Aerospace & Infrastructure
- Communications & Security
- Maritime & Land



Group Operating Profit

- Aerospace & Infrastructure
- Communications & Security
- Maritime & Land

Balance sheet

£'m	30 Jun 19	30 Jun 18	31 Dec 18
Intangible assets	488.5	524.4	491.7
Property, plant and equipment	61.2	61.2	62.6
Leased assets	34.3	-	-
Other non-current assets	38.3	44.0	41.4
Non-current assets	622.3	629.6	595.7
Inventories	99.6	91.9	88.6
Trade and other receivables < 1 year	216.8	203.3	205.2
Trade and other payables < 1 year	(191.5)	(190.9)	(212.2)
Current working capital	124.9	104.3	81.6
Net current tax assets	6.9	10.2	3.1
Net debt*	(208.2)	(170.1)	(157.4)
Provisions	(18.1)	(14.8)	(19.5)
Retirement benefit obligations	(68.5)	(78.4)	(73.0)
Other assets/liabilities	(35.1)	(36.7)	(9.7)
Net assets	424.2	444.1	420.8

Shares in Issue	Jun 2019	Jun 2018	Dec 2018
Closing number of shares	70.8m	74.2m	71.5m
Weighted average number of shares	70.9m	76.0m	74.4m

*net debt excluding finance leases is £171.0m

Net debt

£'m	2019 H1	2018 H1
Opening net debt	(157.4)	(74.5)
Operating cash flow	13.4	6.5
Interest, tax and dividends	(37.8)	(34.3)
Acquisitions and disposals	20.2	(12.2)
Share buyback	(8.6)	(49.7)
Lease liability (IFRS 16)	(37.2)	-
Other	(0.8)	(5.9)
Closing net debt*	(208.2)	(170.1)

Headroom
30 June 2019
 (committed facilities)
 £214m**

Net debt to EBITDA ratio
(including IFRS 16):
 1.50x

Excluding IFRS 16:
 1.32x (2018: 1.39x)
 Ultra's covenants exclude
 IFRS 16

* net debt excluding IFRS 16 finance leases is £171.0m

** the remainder of the Term Loan was repaid on 31 July 2019. Following this repayment the headroom under committed facilities is £150m. The Group also has a cash balance of £93m at 30 June 2019

Operating cash flow



£'m		H1 2019	H1 2018
Operating profit*		52.9	47.9
Capital expenditure (incl. IT licences)		(8.4)	(8.1)
Depreciation and disposals (incl. IT licences)		5.9	5.5
Leased asset amortisation	} IFRS 16	4.6	-
Leased asset payments		(4.5)	-
Working capital increase		(32.6)	(33.3)
Net capitalised R&D		(0.2)	(0.4)
Pension contribution and other		(4.3)	(5.1)
Operating cash flow**		13.4	6.5

* before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses, and for 2018 the S3 programme and impairments

** underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, R&D, and excluding the cash outflows from acquisition and disposal related payments, significant legal charges and expenses, and for 2018 the S3 programme

IFRS 16 – Leased assets

Effective from 1 January 2019. Prior periods are not restated.

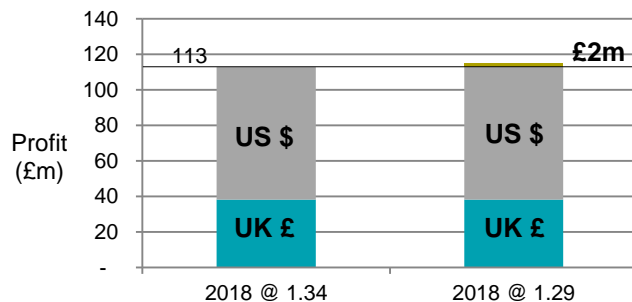
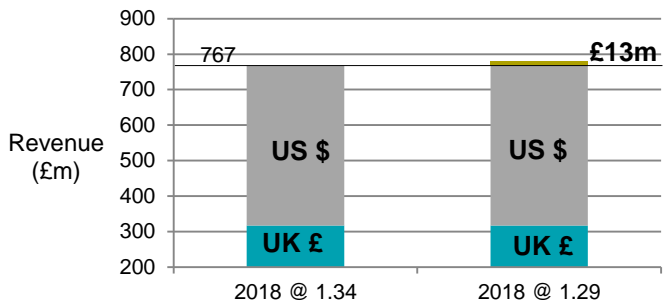
- A right-of-use asset of £37m and a lease liability of £39m created on 1 January 2019 balance sheet
- Group full year underlying operating profit increases by around £1m in 2019 relative to old GAAP
- The full year 2019 financing charge increases by around £1.5m
- Hence, the net PBT full year impact is circa £0.5m reduction

- Ultra defined Free Cash Flow will not increase as a result of IFRS 16

Foreign exchange

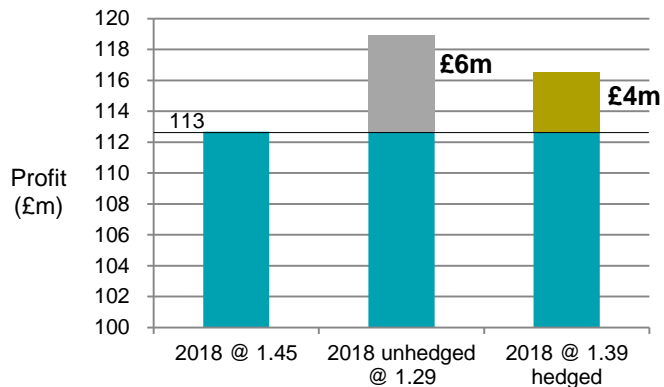
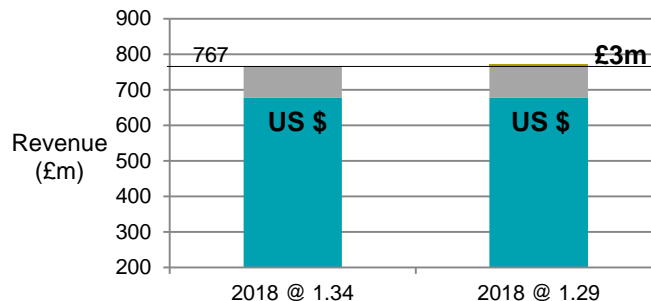
TRANSLATION

c 50% of Group revenue is in US\$ businesses



TRANSACTION

c 12% of Group revenue is US\$ revenue from UK businesses



Future hedge rates

	US\$:£	% covered
2019	1.39	100%
2020	1.32	75%
2021	1.32	55%

Capital allocation priorities...

Buy-back completed in January 2019

Investing for sustainable growth

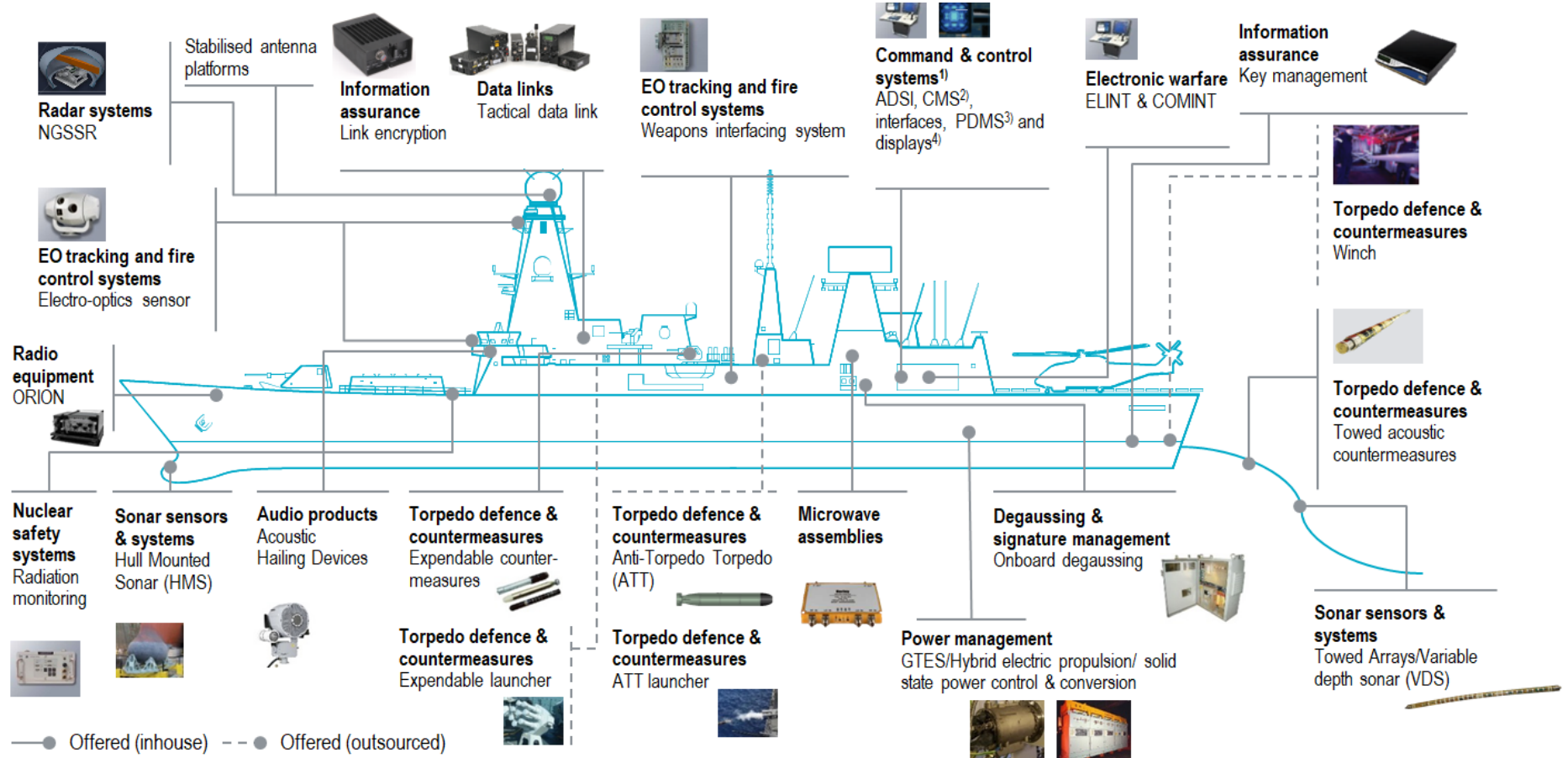
Progressive dividend policy

Efficient balance sheet

Longer term strategic investment potential

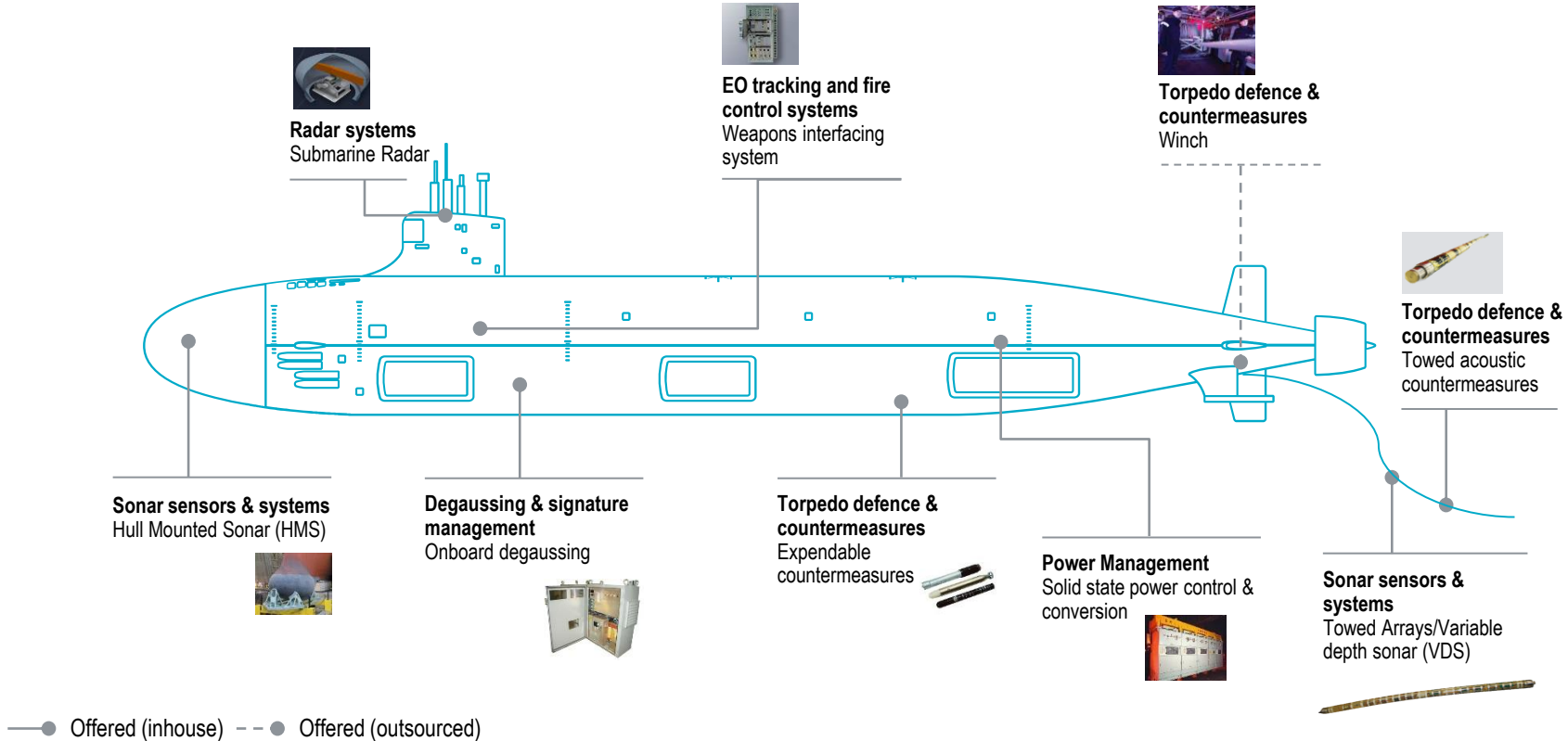
... prudent and disciplined approach

End user examples: Maritime (1/2)



1) Included within other propositions where sold as part of a wider system; 2) Combat Management System; 3) Platform data management system; 4) Display screens outsourced

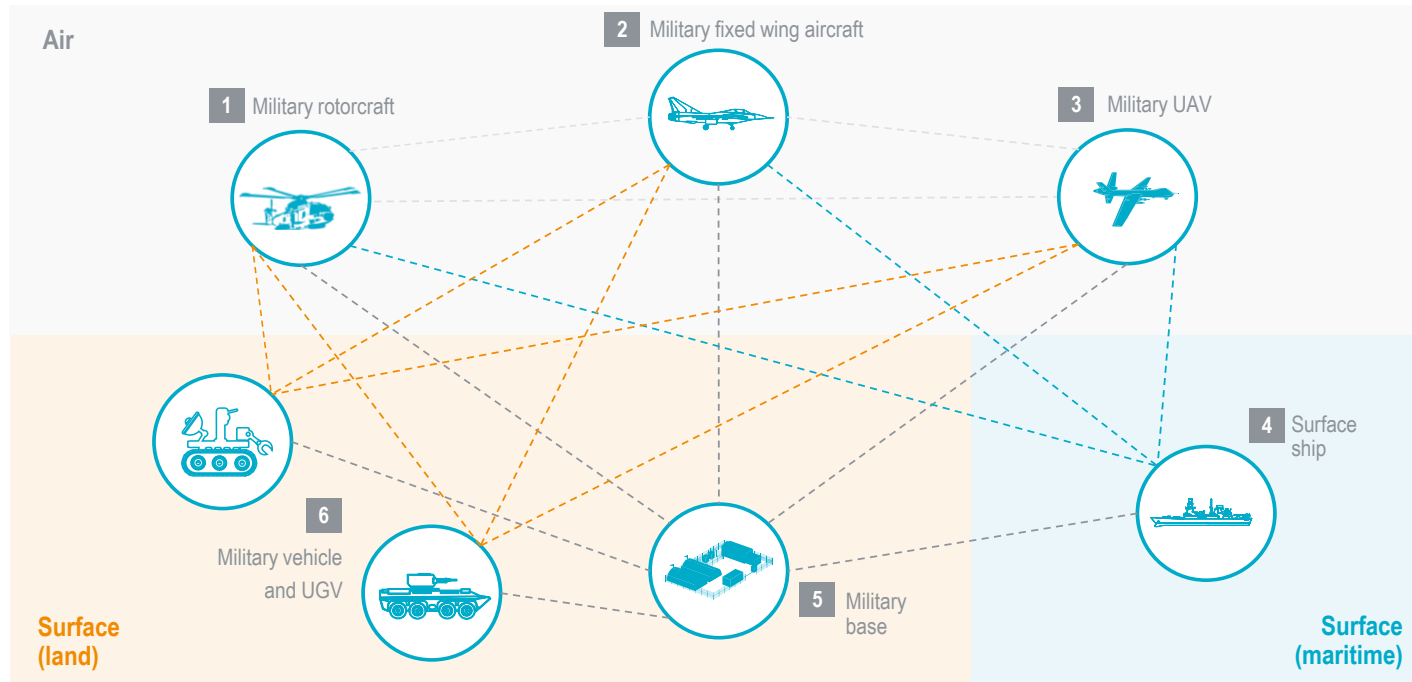
End user examples: Maritime (2/2)



End user examples: C3 (1/2)

Ultra's C3 offerings span a variety of platforms in the networked battlefield, with a particular focus on air surface integration

Use case overview – C3



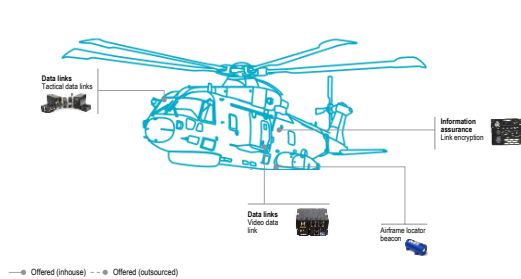
End user examples: C3 (2/2)



1

Ultra's C3 offerings for military helicopters comprise data links and encryption

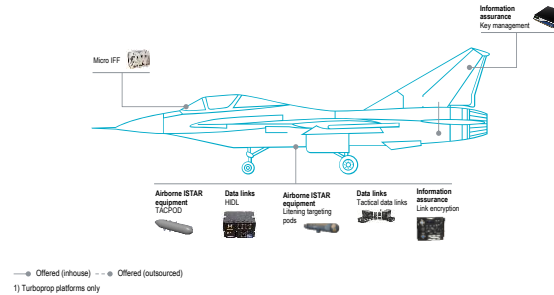
Use case applications – Military rotorcraft



2

Ultra provides data links and encryption for military aircraft

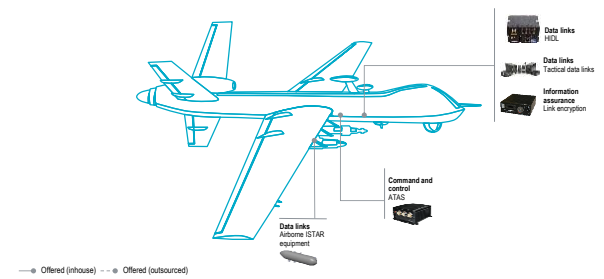
Use case applications – Military fixed wing aircraft



3

Ultra's propositions could also serve C3 applications on UAVs, namely data links, encryption and command & control

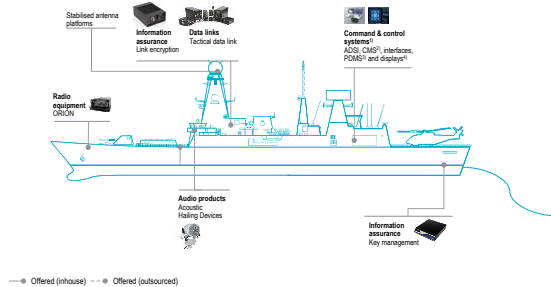
Potential use case applications – UAVs



4

Ultra provides data links, command and control systems and encryption for surface ships

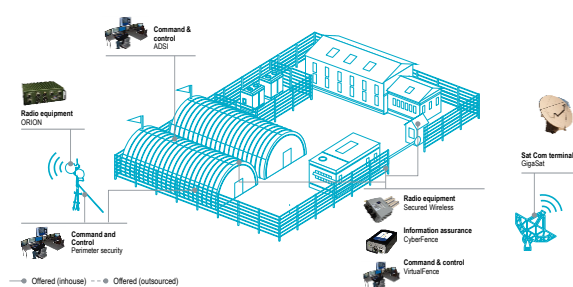
Use case applications – Surface ship



5

Ultra provides command & control systems and communications equipment for stationary land-based installations

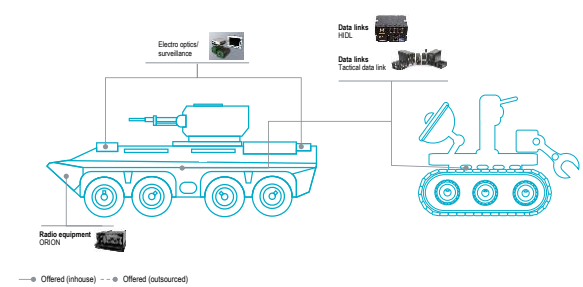
Use case applications – Land-based



6

Ultra provides data links and radio equipment for military land-based vehicles

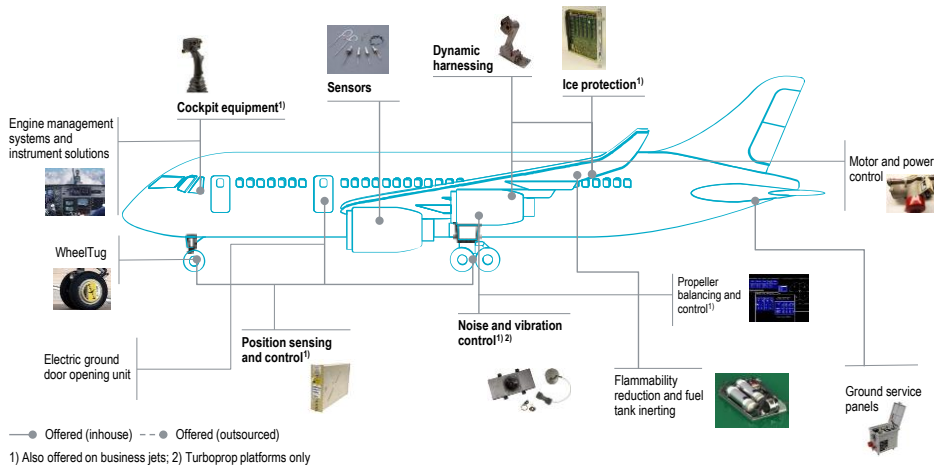
Use case applications – Military vehicle and UGV



End user examples: Aerospace & Nuclear

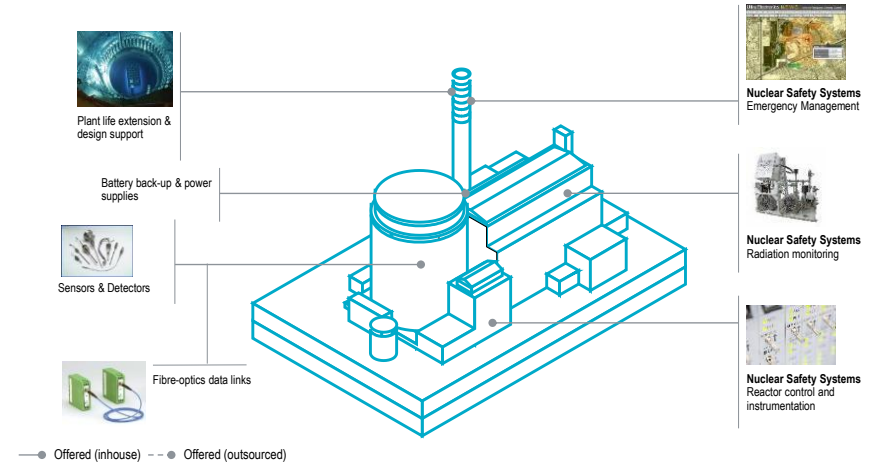
Ultra offers avionics, dynamic harnessing, wing ice protection, position sensing and noise & vibration control for commercial aircraft

Use case applications – Commercial aircraft



Ultra provides safety critical sensors and nuclear safety systems, including wider radiation monitoring

Use case applications – Nuclear power



Glossary



Acronym	Definition
A400M	A military turboprop transporter aircraft being developed by Airbus Military
ADSI	Air Defense Systems Integrator
CSC	Canadian Surface Combatant
C3	Command, Communication and Control, including Cyber
CAGR	Compound Annual Growth Rate
ERP	Enterprise Resource Planning
GAAP	Generally Accepted Accounting Practice
GBS	Global Business Services
HMS	Hull Mounted Sonar
IDIQ	Indefinite-delivery/indefinite-quantity contract
NGSSR	Next Generation Surface Search Radar
ORION	Ultra ORION is a family of multichannel, multiband, point-to-point (PTP), point-to-multipoint (PMP) and mesh radio systems.
PBT	Profit before tax
S2150	Ultra's Hull Mounted Sonar, used on Type 23 & Type 26 frigates
TRILOS	US Army network modernization programme, Terrestrial Transmission Line of Sight Radio
UAV	Unmanned aerial vehicle
UGV	Unmanned ground vehicle
VDS	Variable depth sonar

Safe harbour statement

Ultra Electronics Holdings plc (the 'Group') is providing the following cautionary statement. This document contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of the Group. These statements are sometimes, but not always, identified by the words 'may', 'anticipates', 'believes', 'expects' or 'estimates'. By their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to: (i) changes to the current outlook for the world market for defence, security, transport and energy systems; (ii) changes in tax laws and regulations; (iii) the risks associated with the introduction of new products and services; (iv) significant global disturbances such as terrorism or prolonged healthcare concerns; (v) the termination or delay of key contracts; (vi) long-term fluctuations in exchange rates; (vii) regulatory and shareholder approvals; (viii) unanticipated liabilities; and (ix) actions of competitors. Subject to the Listing Rules of the UK Listing Authority, Ultra Electronics Holdings plc assumes no responsibility to update any of the forward-looking statements herein.