

Ultra Electronics Holdings plc

Preliminary Results

For the year ended 31 December 2018

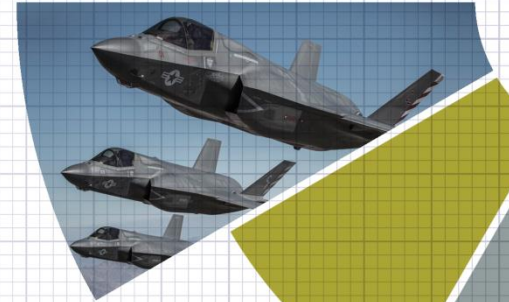
“Focus, Fix, Grow”



6 March 2019

Simon Pryce Chief Executive Officer

Amitabh Sharma Group Finance Director



An encouraging 2018...



making a difference

Solid underlying performance

Fundamentally good businesses

Improvement opportunities

Positive outlook

...and an exciting future

SLIDE 2

© 2019 Ultra Electronics: Proprietary Data

Fundamentally good businesses...



making a difference

WHERE WE OPERATE

Specialist international electronics & engineering

Defence & highly regulated markets

Strong Maritime & C3 domain expertise

Tier 3, selective tier 2

Strengths

WHAT WE ARE GOOD AT

Strong technology base

Broad capability range

Excellent technical engagement

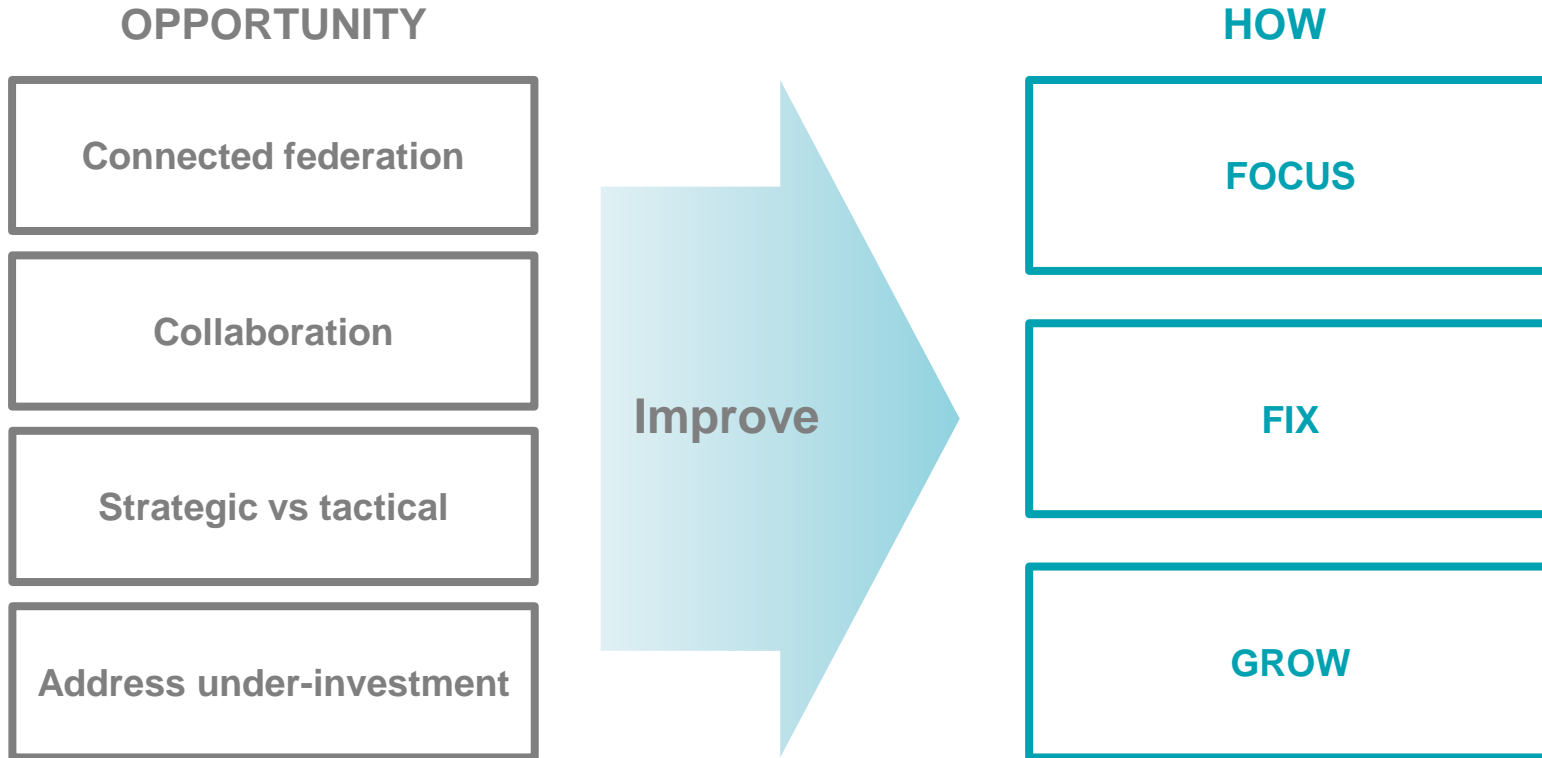
Great engineering talent

...strong core from which to grow

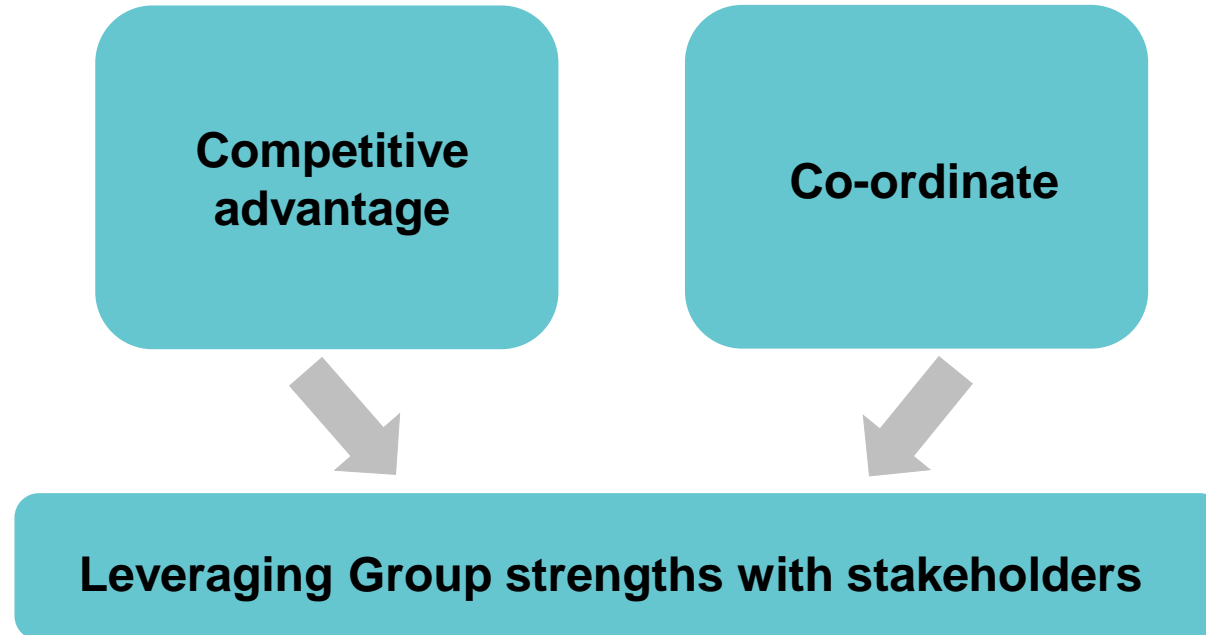
Exciting improvement opportunities...



making a difference



...to enhance already strong core

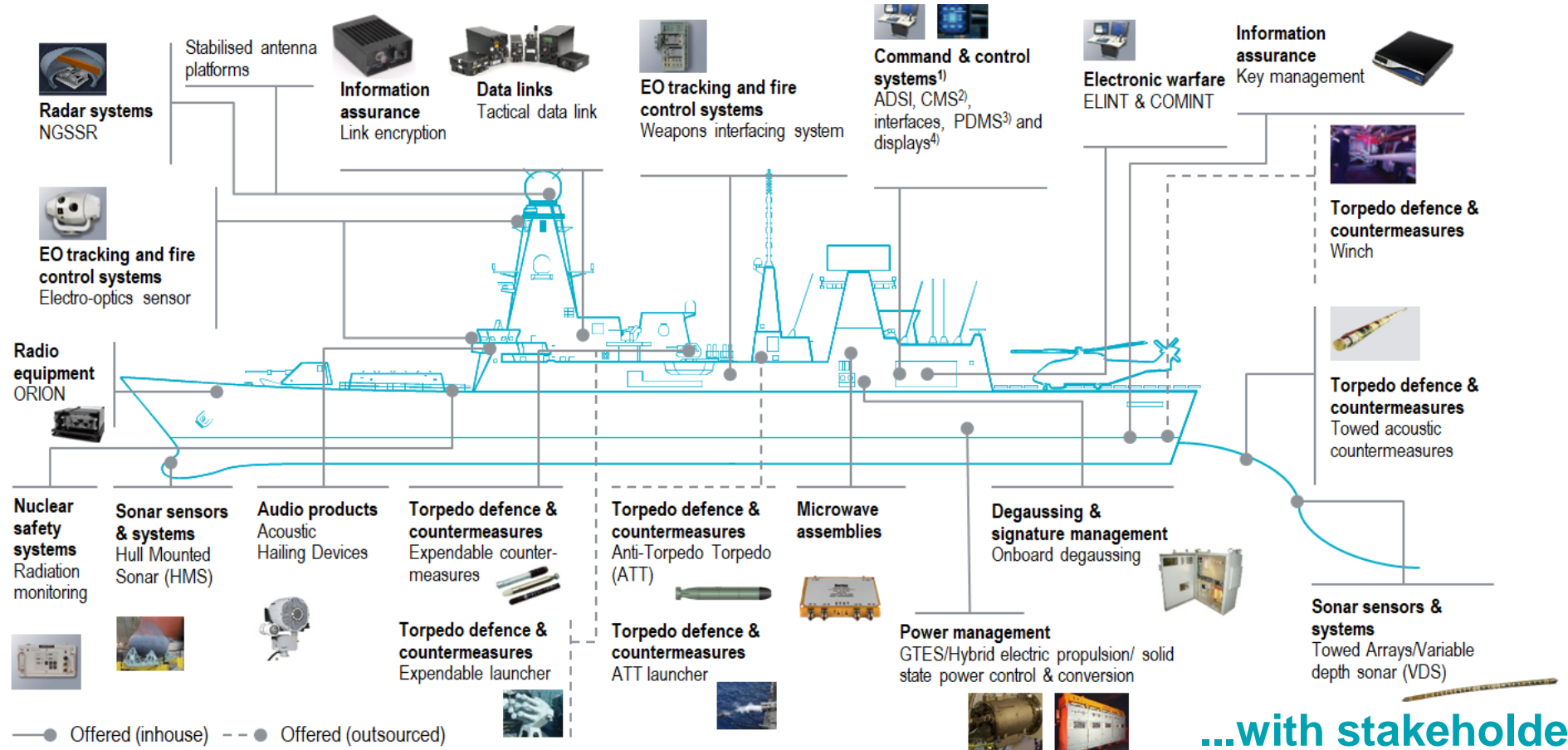


...where we can add value

Better leverage Group strengths...



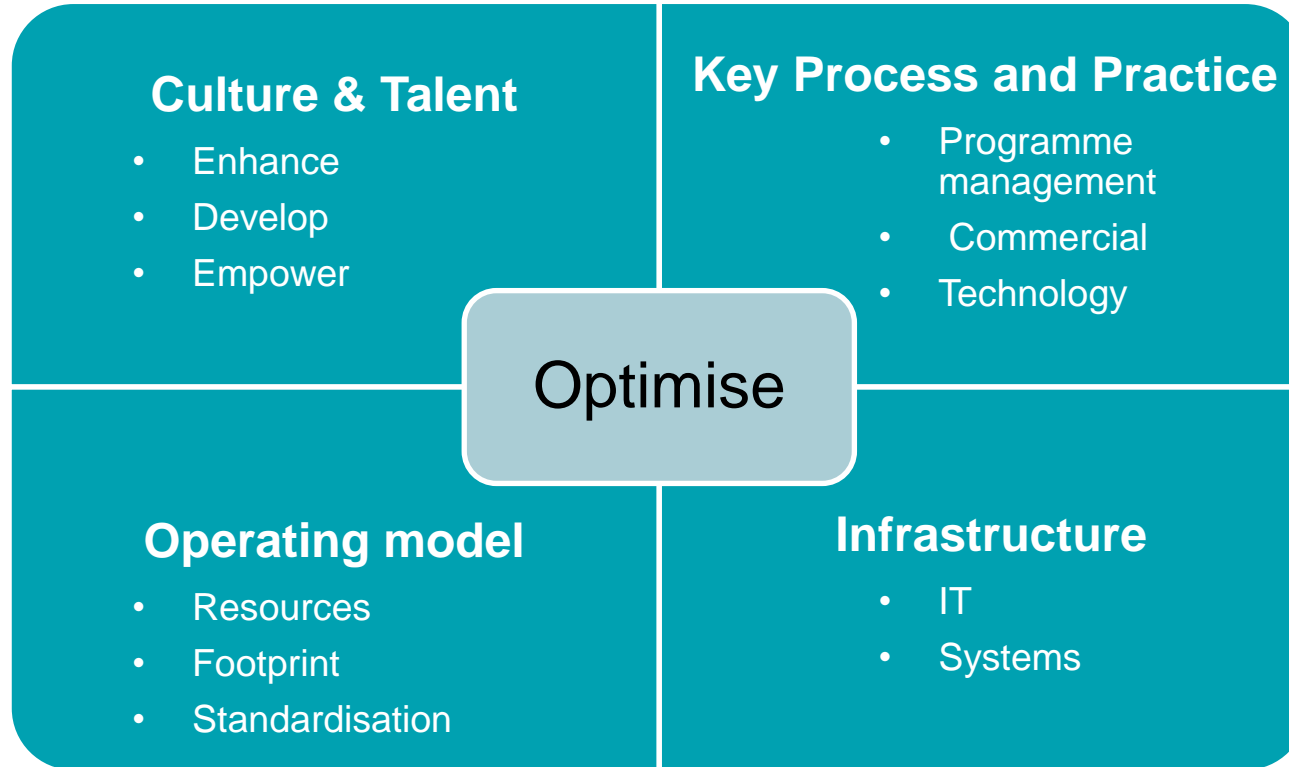
making a difference



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

...with stakeholders

SLIDE 6



...clear 2019 priorities

Grow...



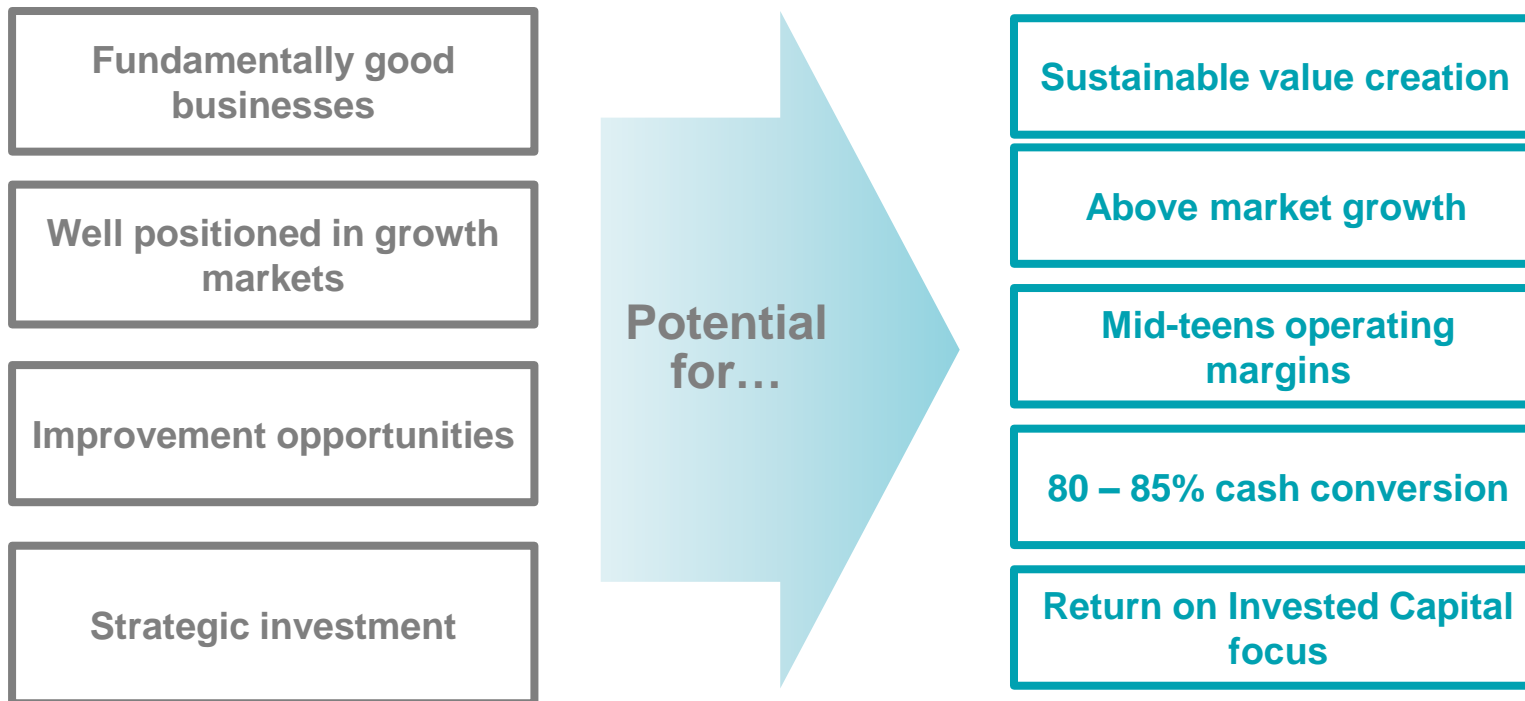
making a difference

Sector ⁽¹⁾	Addressable market growth forecast, 2018-23 (CAGR) ⁽²⁾	Market Outlook
Maritime	+4%	<ul style="list-style-type: none">• Global defence budgets remain strong with good pipeline of new-build surface ship and submarine platforms• Increasing emphasis on Anti-Submarine Warfare capabilities driven by geopolitical disputes• Growing importance of unmanned vehicle platforms in Maritime missions
C3	+7%	<ul style="list-style-type: none">• Increasing adoption of C3 systems – increased UD defence spending and regional arms race in Pacific• Growing demand for military communications infrastructure, cybersecurity functionality (e.g. encryption) and application of new technologies (e.g. machine learning and cloud/IoT)
Aerospace	+3%	<ul style="list-style-type: none">• Large defence procurement & upgrade platforms• Growing commercial market

...supported by positive markets

1) Market segmentation differs from that presented in Appendix 2 ('Revenue breakdown')

2) Company Compiled data

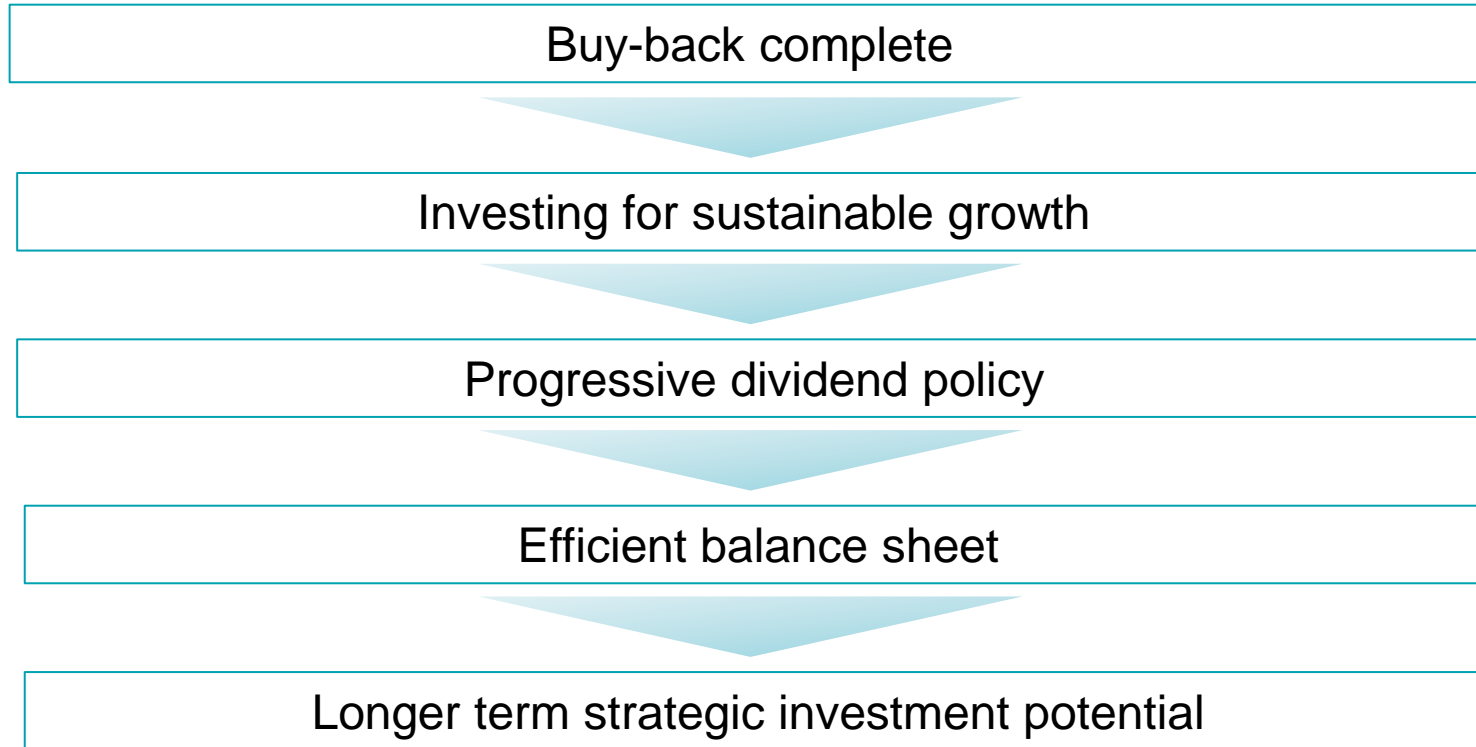


...exciting future

Buy-back, capital allocation priorities...



making a difference



... prudent and disciplined approach

Financial Review



making a difference



Highlights...



making a difference

	2018	2018 (Excl. development contract impact)	2017 (IFRS 15)	Growth	Organic Growth ⁽³⁾
Order book	£983.9m		£914.4m	+7.6%	+5.2%
Revenue	£766.7m		£768.3m	-0.2%	+2.2%
Operating profit ⁽¹⁾	£112.7m	£119.0m	£117.7m	-4.2%	-4.3%
Operating margin ⁽¹⁾	14.7%	15.5%	15.3%		
Profit before tax ⁽²⁾	£101.4m		£107.6m	-5.8%	
Earnings per share ⁽²⁾	109.5p		114.4p	-4.3%	
Total Dividend per share	51.6p		49.6p	+4.0%	

(1) before the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, acquisition and disposal related costs net of contingent consideration adjustments, and significant legal charges and expenses.

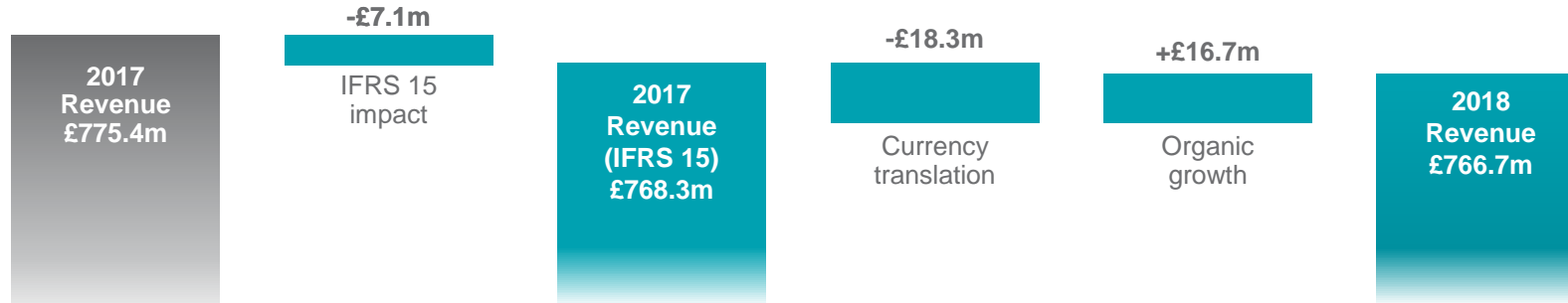
(2) before the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, fair value movements on derivatives and the loss on closing out a foreign currency derivative contract, defined benefit pension finance charges and GMP equalisation, acquisition and disposal related costs net of contingent consideration adjustments, loss on disposal, and significant legal charges and expenses.

(3) the annual rate of increase or decrease in revenue or profit that was achieved at constant currencies and when compared to the prior period results prepared on an IFRS 15 basis.

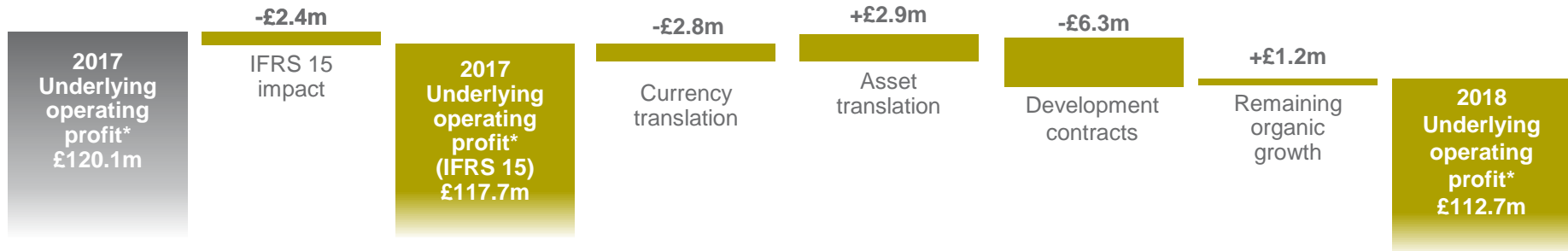
...return to organic revenue growth

Revenue and profit bridge...

Revenue bridge



Operating profit bridge



...return to organic revenue growth

* before the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, acquisition and disposal related costs net of contingent consideration adjustments, and significant legal charges and expenses.

Divisional performances



making a difference

Aerospace & Infrastructure

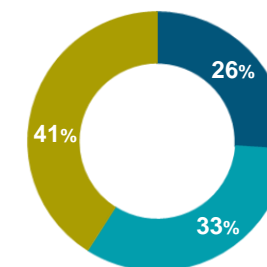
	2018	2017†	Growth
Order book	£333.7m	£294.6m	+13.3%
Revenue	£196.2m	£202.0m	-2.9%
Operating profit*	£30.0m	£32.0m	-6.3%
Operating margin*	15.3%	15.8%	

Communications & Security

	2018	2017†	Growth
Order book	£230.2m	£258.1m	-10.8%
Revenue	£252.6m	£243.5m	+3.7%
Operating profit*	£29.9m	£28.6m	+4.5%
Operating margin*	11.8%	11.7%	

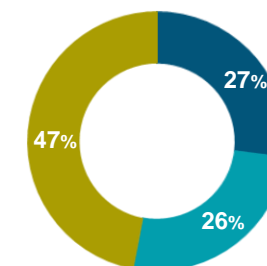
Maritime & Land

	2018	2017†	Growth
Order book	£420.0m	£361.7m	+16.1%
Revenue	£317.9m	£322.8m	-1.5%
Operating profit*	£52.8m	£57.1m	-7.5%
Operating margin*	16.6%	17.7%	



Group Revenue

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



Group Operating Profit

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

* before the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, acquisition and disposal related costs net of contingent consideration adjustments, and significant legal charges and expenses.

† 2017 has been re-presented as if under IFRS 15.

Operating cash flow...



making a difference

	2018	2017†
Operating profit*	£112.7m	£117.7m
Depreciation and disposals (incl. IT licences)	£11.7m	£13.1m
Capital expenditure (incl. IT licences)	(£18.3m)	(£11.2m)
Net capitalised R&D	(£0.1m)	(£0.3m)
Working capital (increase)/decrease	(£7.9m)	£5.5m
Pension contribution and other	(£8.8m)	(£8.3m)
Operating cash flow**	£89.3m	£116.5m
Cash conversion***	79%	99%
Net debt to EBITDA	1.25x	0.57x

Working capital increase	
Inventory	(£10m)
Debtors	(£2m)
Creditors	£4m

* before the S3 programme, amortisation of intangibles arising on acquisitions, impairment charges, acquisition and disposal related costs net of contingent consideration adjustments, and significant legal charges and expenses.

† 2017 has been re-presented as if under IFRS 15.

** 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 the S3 programme, acquisition and disposal related payments and significant legal charges and expenses.

*** Operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit.

...better than expected cash performance

SLIDE 15

Clarification of unbilled receivables ...

Amounts recoverable on long-term contracts < 1 year		
	To be invoiced	
Total	H1 2019	H2 2019
£81.0m	£62.0m	£19.0m

Amounts recoverable on long-term contracts > 1 year			
	To be invoiced		
Total	2020	2021	2022+
£22.6m	£10.9m	£3.3m	£8.4m

- Ultra fully compliant with IFRS 15
- Amounts recoverable greater than one year mainly relate to two contracts S2150 (£6m) and A400M (£11m)
- Both contracts had significant up-front development costs - recovered as we deliver the systems
- S2150 fully recovered in 2020
- A400M recovered over a longer period due to slow down in production rates*

* Currently in commercial negotiation

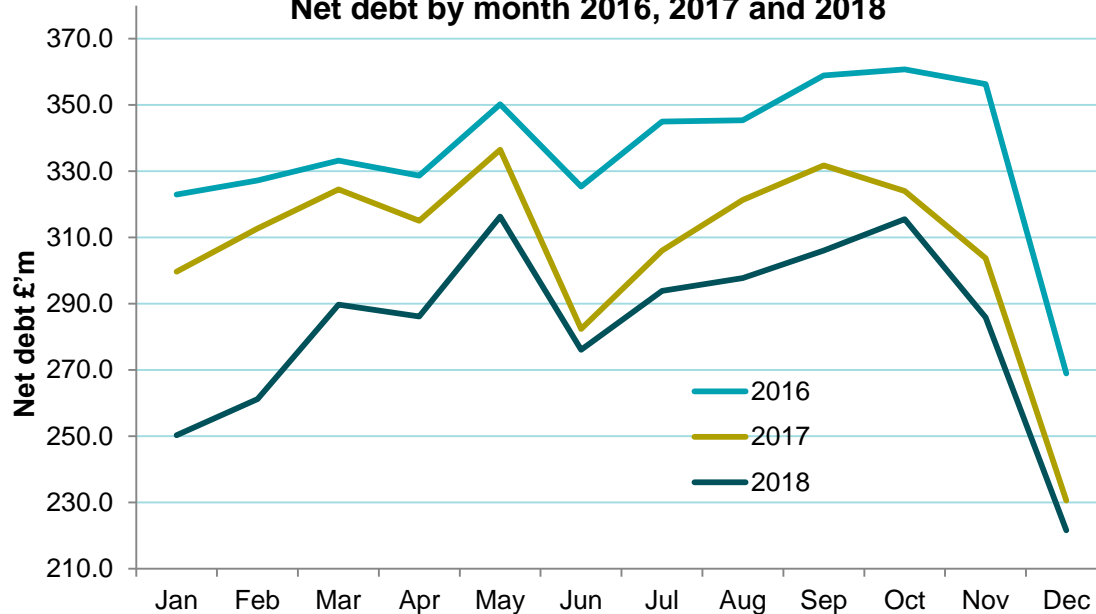
...fully recoverable

Average Working Capital Turn...



making a difference

Net debt by month 2016, 2017 and 2018



- £46m to normalise trade debtors and trade creditors in 2019
- Cash conversion over the medium term expected to be 80-85%

	2016	2017	2018
Trade Debtor/Creditor Normalisation	£38.2m	£61.3m	£46.4m

Net debt normalised to eliminate impact of
 1) ID business disposal proceeds of £22m from Aug 16 onwards
 2) Equity raise proceeds from July 2017 onwards
 3) Share buy-back from March 18 onwards

... improving business practices

Non underlying items...



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Non underlying items	Cost	Commentary	Cash	Non-Cash
Acquisitions and disposal costs	£2.7m	Mainly relating to the Sparton transaction. Costs also incurred on the disposal of the Airport Systems business	✓	
Derivatives	£5.6m	£11.1m loss on close out of the Sparton FX contract, partially offset by mark-to-market gain on other derivatives	✓ (-£11.1m)	✓ (+£5.5m)
Significant legal charges and expenses	£2.3m	Anti-bribery and corruption investigation costs	✓	
S3 programme	£6.5m	Closure costs of non-core product line in the M&L division. Restructuring/onerous lease costs of business in the C&S and M&L divisions Other S3 project management costs	✓ (-£2.6m)	✓ (-£3.9m)
Loss on disposal	£0.7m	Non-core Fuel Cell business disposal loss from M&L division		✓
Impairment charges	£7.6m	Airport Systems disposal - £6.6m goodwill impairment £1.0m development cost impairment due to closure of non-core product line in the M&L division		✓
Guaranteed Minimum Pensions (GMP) equalisation	£3.2m	The High Court ruling in October 2018 against Lloyds Banking Group impacts many UK businesses - £3.2m charge for Ultra		✓

2019 Financial guidance



making a difference

Investing for growth

IT c.£5m p.a
R&D c.4%-5% p.a
Mid-teens margins

Optimise working capital

Adjustment of £46m

Finance charges

IFRS 16 - No significant income statement impact

Pension interest – move to underlying finance charges

Tax

c.20%

Revised hedging strategy

£2.9m gain non-recurring

Net Debt: EBITDA

c.1.2x

Capital expenditure

c.£25m

H2 weighting

Due to phasing of military tactical radios for US Army

Great potential...



making a difference

Solid underlying performance

Fundamentally good businesses

Improvement opportunities

Positive outlook

...and an exciting future



1. Addressing historical financial and operational concerns
2. 2018 Revenue breakdown
3. Balance sheet
4. Net debt
5. IFRS 15 – 2017 impact
6. IFRS 16 – Leased assets
7. Foreign exchange
8. End of S3 programme
9. End user examples
10. Glossary

Addressing historical financial concerns...



making a difference

1) How does Ultra recognise profit on amounts recoverable from long term contracts?

- Ultra is fully compliant with IFRS 15 and has conducted a thorough review of how profit is and has been recognised on long term contracts
- Amounts recoverable greater than one year mainly relate to two contracts S2150 (£6m) and A400M (£11m)
- Both contracts had significant up-front development costs - recovered as the systems are delivered
- S2150 will be fully recovered in 2020. A400M will be recovered over a longer period due to slow down in production rates

2) Have you been factoring receivables?

- No, Ultra has never done this but prior inefficient working capital practices have been referred to.

3) Why is your cash conversion not higher?

- A mixture of reasons including increased working capital requirements due to a growing order book & supply chain constraints and increased pension contributions (Av £10m p.a. over the past three years).
- NB: Average cash conversion from FY16-18 is 90%. Ultra is confident in the medium term cash conversion guidance of 80-85% (which includes pension contributions)

4) Will there be future goodwill write downs on previous acquisitions?

- In the past Ultra has taken goodwill write-downs where the performance of the business does not reflect the carrying value on the balance sheet. Annual impairment tests are performed on all of Ultra's businesses, but Ultra does not currently expect further impairments.

5) Do you foresee any other contract risks?

- Ultra has performed a thorough "scrub" of all its large contracts. The review did not highlight any significant issues. Although Ultra is exposed to contract risk like any other business in the industry, Ultra is confident we are in a good place

Addressing historical operational concerns...



making a difference

1) Are there any more additional costs to come from the loss making Herley contract?

- Ultra is progressing with this contract with full support from the customer.
- Ultra expects to complete the contract in 2019 and is confident about the projected outturn.

2) What is happening with the SFO investigation?

- Ultra continues to cooperate with the SFO on the investigation; we cannot comment further on a live process. Ultra has reviewed the agency policy and register, put in place additional measures and policies across the group to reduce future risk relating to use of agents, and brought in external legal experts to review the new procedures and help with training across the group

3) Will you be selling any more businesses or re-organising the business structure?

- Ultra is currently going through a review of the business in line with 'Focus, Fix, Grow' as highlighted in 2018 FY results.
- Ultra will take a dynamic approach to the portfolio if in line with strategy and aligned with creating shareholder value.

4) Are you comfortable with the level of provisioning, goodwill and Capitalised R&D?

- Ultra has reviewed all capitalised R&D, contract loss provisioning, goodwill and intangibles, and hasn't found anything outside of expectations.

5) What is going to happen post the DoJ's decision to introduce more competition to sonobuoys?

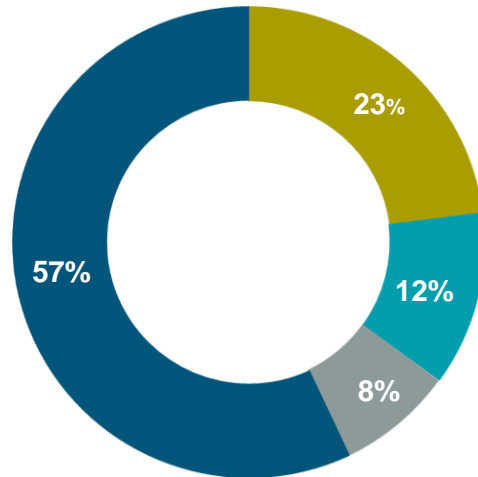
- There will be no short term impact on Ultra from the DoJ decision.
- In the medium - long term the market will evolve based on: 1) Demand from the Navy 2) Technology changes
- Ultra's other sonobuoys to export markets remain unaffected
- The sonobuoy market remains an area of significant growth given the evolving nature of conflict and current threats
- Given current capability and expertise Ultra expects to be a prominent player in the growing sonobuoy market into the long term

2018 revenue breakdown



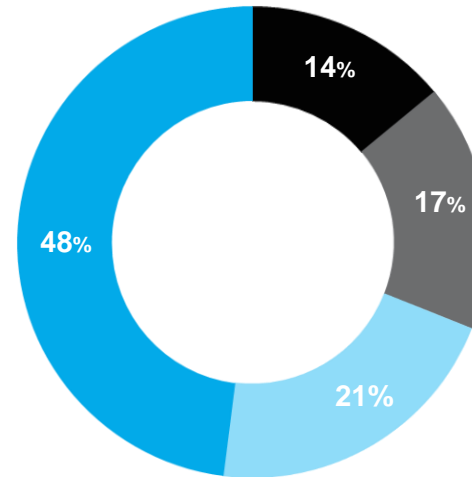
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By destination



- North America**
£439.3m
(2017: £406.6m; 53%)
- UK**
£171.5m
(2017: £160.5m; 21%)
- Rest of the World**
£93.0m
(2017: £127.0m; 16%)
- Mainland Europe**
£62.9m
(2017: £74.2m; 10%)

By market



- Defence (Air)**
£159.0m
(2017: £153.0m; 20%)
- Defence (Naval & Army)**
£368.1m
(2017: £358.2m; 46%)
- Security & Cyber**
£110.3m
(2017: £120.0; 16%)
- Transport & Energy**
£129.3m
(2017: £137.1m; 18%)

2017 has been re-presented as if under IFRS 15.

Balance sheet



making a difference

	31 Dec 18	31 Dec 17 [†]
Intangible assets	£491.7m	£531.4m
Property, plant and equipment	£62.6m	£59.2m
Other non-current assets	£41.4m	£49.9m
Non-current assets	£595.7m	£640.5m
Inventories	£88.6m	£77.8m
Trade and other receivables < 1 year	£205.2m	£195.1m
Trade and other payables < 1 year	(£212.2m)	(£217.8m)
Current working capital	£81.6m	£55.1m
Net current tax assets	£3.1m	£11.1m
Net debt	(£157.4m)	(£74.5m)
Provisions	(£19.5m)	(£14.2m)
Retirement benefit obligations	(£73.0m)	(£82.7m)
Other assets/liabilities	(£9.7m)	(£33.0m)
Net assets	£420.8m	£502.3m

Shares in Issue	Dec 2018	Dec 2017
Closing number of shares	71.5m	77.7m
Weighted average number of shares	74.4m	74.0m

[†] 31 Dec 17 has been re-presented as if under IFRS 15.

Net debt



making a difference

	2018	2017	
Opening net debt	(£74.5m)	(£256.7m)	Headroom (current facilities) £280m
Operating cash flow	£89.3m	£116.5m	Net debt to EBITDA ratio: 1.25x (2017: 0.57x [†])
Interest, tax and dividends	(£51.9m)	(£54.4m)	
Acquisitions and disposals	(£13.4m)	(£13.0m)	
Share buyback	(£91.9m)	-	
Other	(£15.1m)	(£4.2m)	
Shares issued	£0.1m	£137.3m	
Closing net debt	(£157.4m)	(£74.5m)	

[†] 2017 has been re-presented as if under IFRS 15.

IFRS 15 – 2017 impact



making a difference

Income Statement	Year ended 31 Dec 2017 as stated	IFRS 15 adjustment				Year ended 31 Dec 2017 adjusted for IFRS 15
		Over time becoming point in time	Separation of performance obligations	Other	Total	
Revenue	£775.4m	(£5.6m)	(£0.6m)	(£0.9m)	(£7.1m)	£768.3m
Underlying operating profit	£120.1m	(£1.4m)	(£0.6m)	(£0.4m)	(£2.4m)	£117.7m
Statutory operating profit	£61.5m	(£1.4m)	(£0.6m)	(£0.4m)	(£2.4m)	£59.1m
Statutory profit after tax	£48.9m	(£1.4m)	(£0.6m)	£0.3m	(£1.7m)	£47.2m
Balance sheet						
Inventories	£76.6m	£1.5m	-	(£0.3m)	£1.2m	£77.8m
Amounts receivable from over time contract customers	£116.7m	(£1.6m)	(£10.3m)	£1.4m	(£10.5m)	£106.2m
Amounts due to over time contract customers	(£58.7m)	(£2.9m)	-	£0.1m	(£2.8m)	(£61.5m)
Tax liabilities	(£13.6m)	-	-	£2.2m	£2.2m	(£11.4m)
Net assets	£512.2m	(£3.0m)	(£10.3m)	£3.4m	(£9.9m)	£502.3m

IFRS 16 – Leased assets



making a difference

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

- A right of use asset of £33m and a lease liability of £36m come onto the 1 January 2019 balance sheet
- Group underlying operating profit is expected to increase by around £1m in 2019 relative to old GAAP
- The 2019 financing charge will also increase by around £1.5m
- Hence, the net PBT impact is circa £0.5m reduction

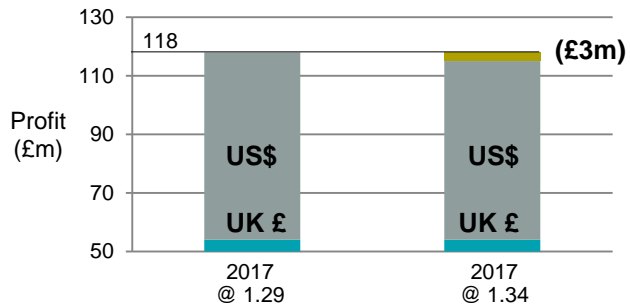
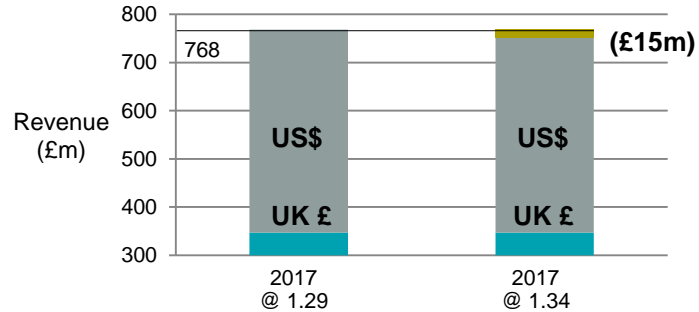
Foreign exchange



making a difference

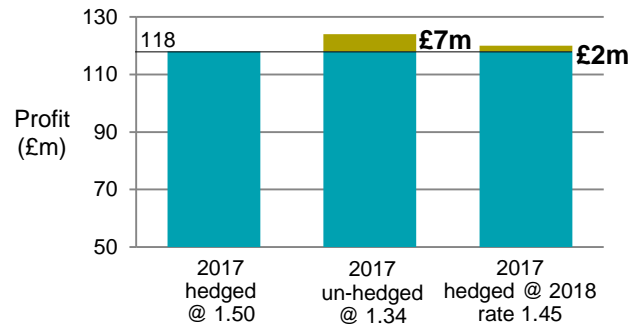
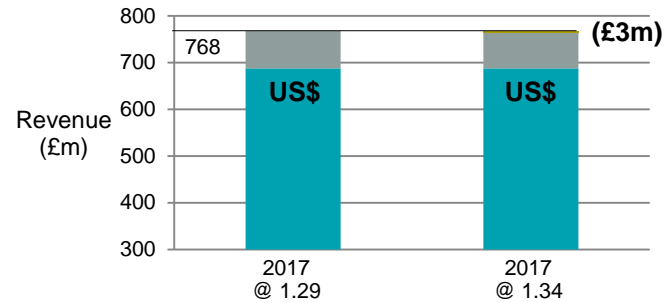
TRANSLATION

c 49% of Group revenue is in US\$ businesses



TRANSACTION

c 11% OF GROUP REVENUE IS US\$ REVENUE FROM UK BUSINESSES



Future hedge rates

	US\$:£	% covered
2019	1.39	98%
2020	1.33	44%
2021	1.34	33%

End of S3 programme

Workstream	2018 costs	Total costs to date	2018 savings
Property/facility management	£1.7m	£10.9m	£6.9m
Consolidation	£3.8m	£8.4m	£6.9m
Sourcing	£0.5m	£3.6m	£4.5m
HR	£0.1m	£0.7m	£0.5m
ERP related	£0.6m	£2.3m	£0.9m
Total	£6.7m	£25.9m	£19.7m

2018 work streams:

- Seven ERP implementations commenced in 2018. All on track with two now live. The remainder are due to complete by the end of H1 2019.
- Further 2% reduction in property footprint
- All UK payroll transferred to GBS. Transfer of UK accounts payable to GBS underway.



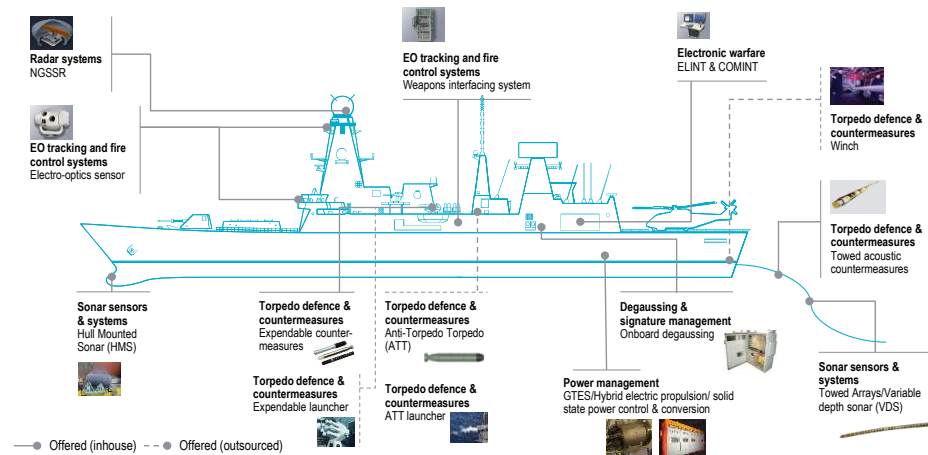
End user examples: Maritime



making a difference

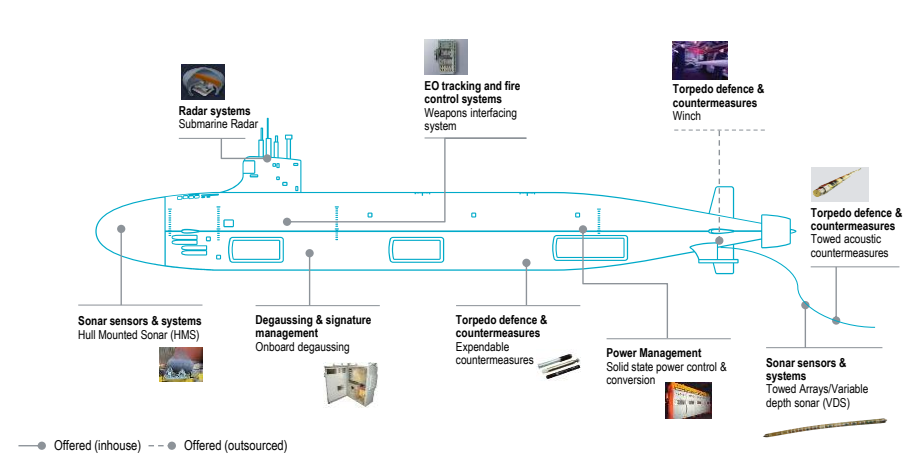
Ultra provides UW systems, degaussing, radar, tracking & fire control systems for surface ships

Use case applications – Surface ship



Ultra provides UW systems, degaussing, radar, tracking & fire control systems for submarines

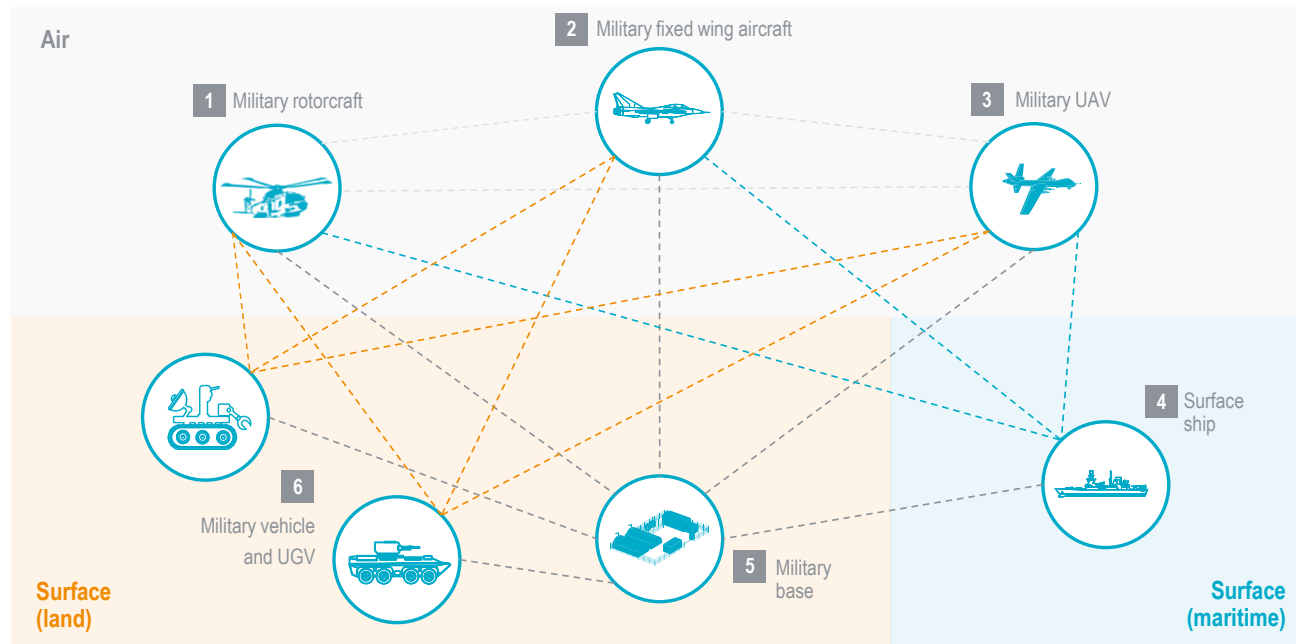
Use case applications – Submarine



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)

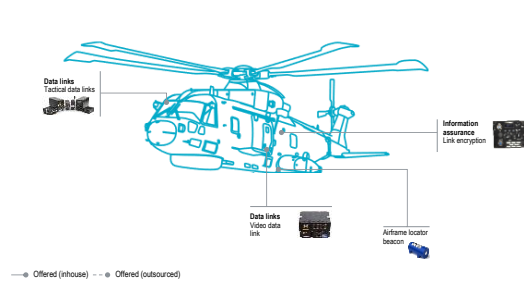


making a difference

1

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

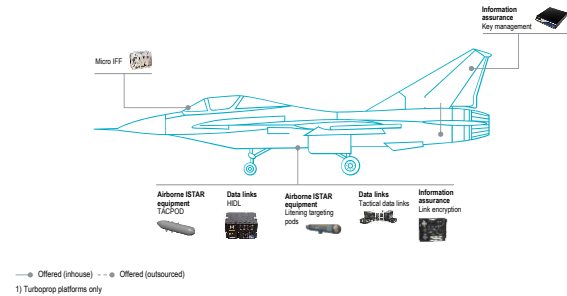
Use case applications – Military rotorcraft



2

Ultra provides data links and encryption for military aircraft

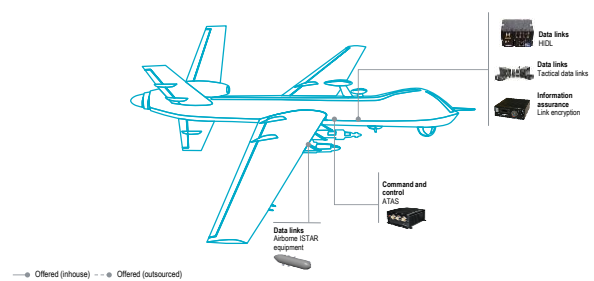
Use case applications – Military fixed wing aircraft



3

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

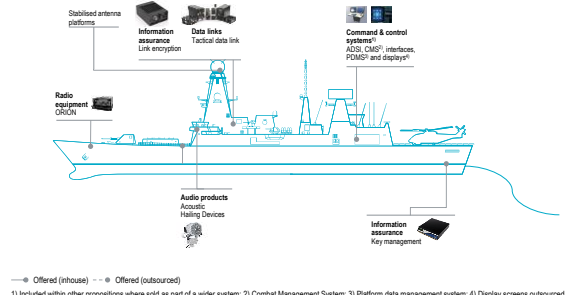
Potential use case applications – UAVs



4

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

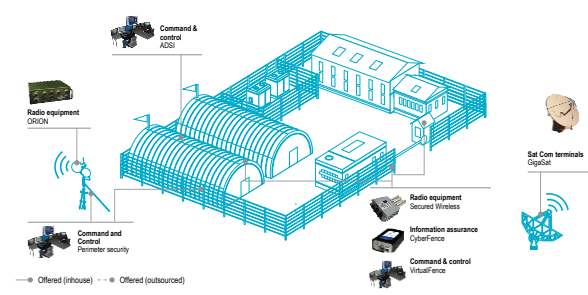
Use case applications – Surface ship



5

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

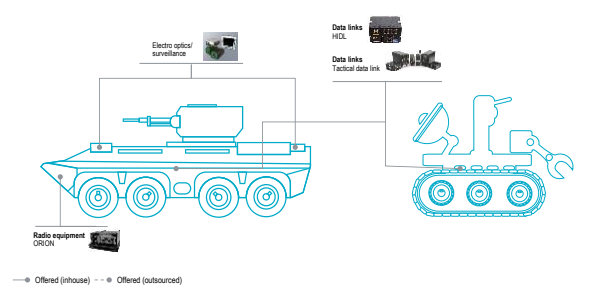
Use case applications – Land-based



6

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

Use case applications – Military vehicle and UGV



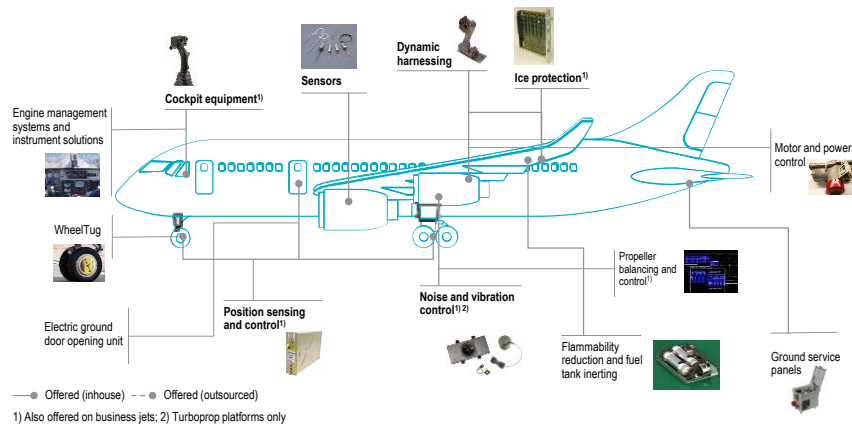
End user examples: Aerospace & Nuclear



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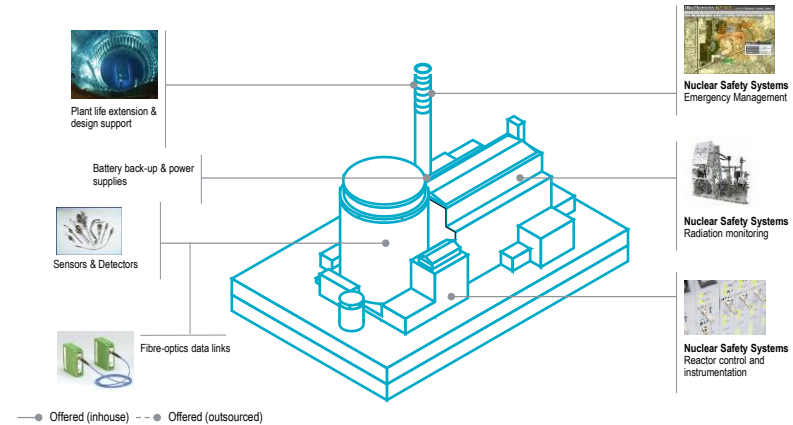
Ultra offers avionics, dynamic harnessing, wing ice protection, position sensing and noise & vibration control for commercial aircraft

Use case applications – Commercial aircraft



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

Use case applications – Nuclear power



Glossary



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Acronym	Definition
A400M	A military turboprop transporter aircraft being developed by Airbus Military
ADSI	Air Defense Systems Integrator
ATAS	Advanced Tactical Airborne System
ATT	Anti-Torpedo Torpedo
C3	Command, Communication and Control, including Cyber
CAGR	Compound Annual Growth Rate
CMS	Combat Management System
COMINT	Communications intelligence
DoJ	US Department of Justice
ELINT	Electronic intelligence
EO	Electro-optical
ERP	Enterprise Resource Planning
GAAP	Generally Accepted Accounting Practice
GBS	Global Business Services
GMP	Guaranteed Minimum Pensions
GTES	Gas Turbine Electric Start System
HIDL	High Integrity Data Link

Glossary



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Acronym	Definition
HMS	Hull Mounted Sonar
IFF	Identification Friend or Fie
ISTAR	Intelligence, Surveillance, Target Acquisition, and Reconnaissance
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
PDMS	Platform data management system
S2150	Ultra's Hull Mounted Sonar, used on Type 23 & Type 26 frigates
S3	Standardisation and Shared Services
SFO	Serious Fraud Office
TACPOD	Tactical Airborne C3I Pod
UAV	Unmanned aerial vehicle
UGV	Unmanned ground vehicle
VDS	Variable depth sonar

Safe harbour statement



making a difference

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