

# ONE Ultra, delivering

2020 Preliminary Results

9 March 2021

Innovating today for  
a safer tomorrow



# Unlocking underlying strengths...

ULTRA



**Good strategic progress**

Key programme wins



**Strong growth**

Record order book



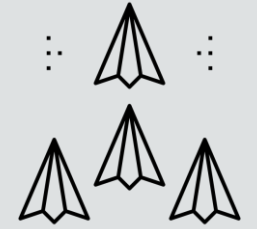
**Robust performance**

Excellent execution



**Transformation working**

Delivering for all stakeholders



**Exciting Potential**

Well positioned

...delivering excellent outcomes

# Good strategic progress...



## 'NIXIE' torpedo countermeasure system

Electro-acoustic towed torpedo countermeasure system. Potential value of \$270m over 5 years



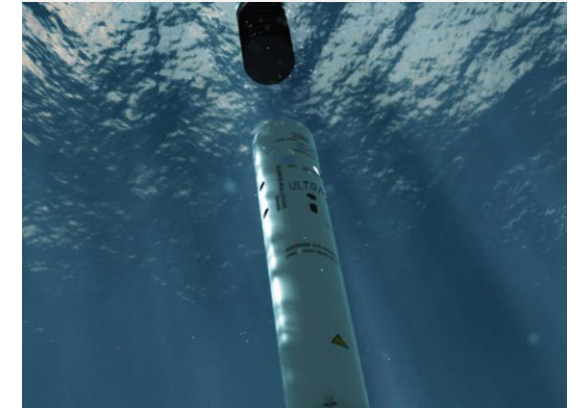
## US Navy Amphibious Tactical Communications System

Development and production of ORION radios for US Navy. Potential value of \$145m



## Canadian Surface Combatant

First awards on CSC for variable depth & hull mounted sonar awards. Potential value up to \$500m



## ER-DIFAR design & manufacture contract

Ultra's first development Sonobuoy award outside the ERAPSCO JV. \$24m award with significant production value potential

...key programme wins

# Strong growth...

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## MK 54 lightweight torpedo arrays

\$45m award, two more option years



## Sonobuoy awards

\$163m under ERAPSCO's 5-year IDIQ (+ an additional \$80m order in March 2021)



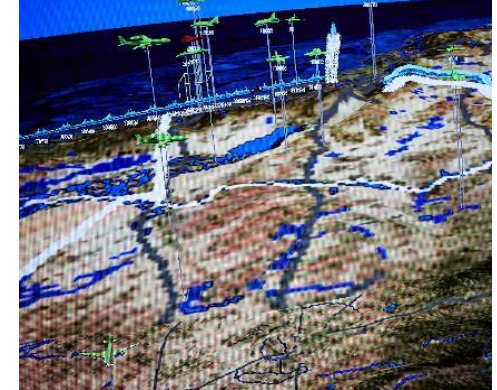
## Production contract award for NGSSR

\$42m development & low-rate initial production



## ORION radios

\$64m of orders under US Army TRILOS IDIQ



## Air Defense Systems Integrator (ADSI)

ADSI system, license fees & support sales

...record order book

# Robust performance



# Excellent execution

£'m	2020	2019*	Organic Growth <sup>(3)</sup>
Order book	1,064.2	1,005.3	+5.9%
Revenue	859.8	817.4	+5.2%
Operating profit <sup>(1)</sup>	126.1	118.7	+6.2%
Operating margin <sup>(1)</sup>	14.7%	14.5%	
	2020	2019	Growth
Profit before tax <sup>(2)</sup>	114.5	105.3	+8.7%
Earnings per share (p) <sup>(2)</sup>	130.6	119.5	+9.3%
Cash conversion	92%	73%	
ROIC <sup>(3)</sup>	20.0%	17.8%	

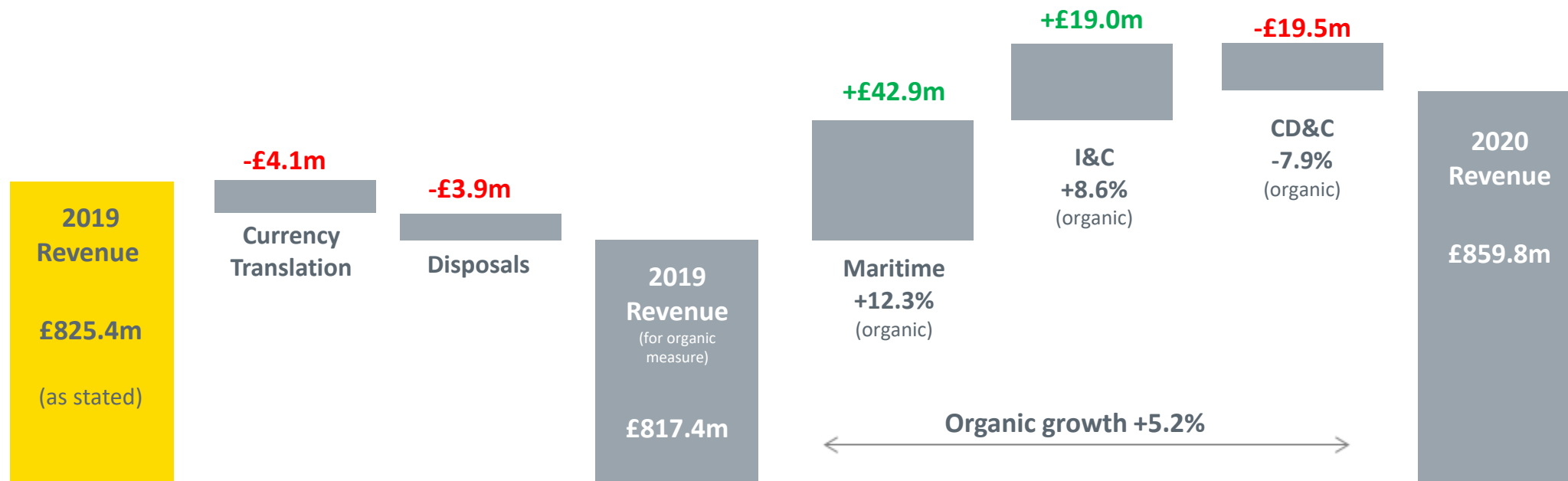
Increased investment into R&D and transformation

Travel and marketing costs lower than expected due to Covid-19

Very good cash conversion

... good margin & ROIC development

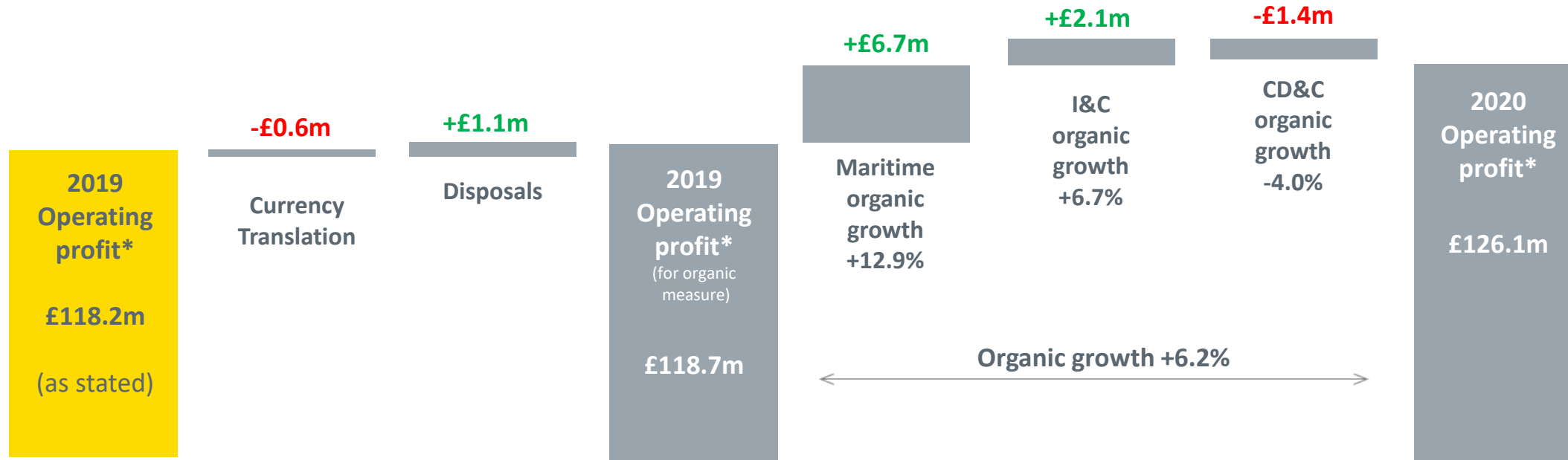
# Third consecutive year of organic revenue growth



Outperforming our markets

...despite Covid-19

# Strong profit growth



...driven by our defence businesses



£'m	2020	2019*	Organic Growth <sup>(2)</sup>
Order book	<b>539.6</b>	472.4	+14.2%
Revenue	<b>391.8</b>	348.9	+12.3%
Operating profit <sup>(1)</sup>	<b>58.6</b>	51.9	+12.9%
Operating margin <sup>(1)</sup>	<b>15.0%</b>	14.9%	

Excellent order book, driven by hull mounted sonar arrays, NGSSR, torpedo defence systems and sonobuoys

Increased investment in R&D and transformation

...excellent growth on existing and new platforms

£'m	2020	2019*	Organic Growth <sup>(2)</sup>
Order book	<b>237.1</b>	216.7	+9.4%
Revenue	<b>241.0</b>	222.0	+8.6%
Operating profit <sup>(1)</sup>	<b>33.5</b>	31.4	+6.7%
Operating margin <sup>(1)</sup>	<b>13.9%</b>	14.1%	

Strong demand for Command, Control & Intelligence (C2I) and radio products

Better productivity and increasing investment

...well positioned in a growing market

# Critical Detection & Control

(PCS, Forensic Technology & Energy)

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£'m	2020	2019*	Organic Growth <sup>(2)</sup>
Order book	<b>287.5</b>	316.2	-9.1%
Revenue	<b>227.0</b>	246.5	-7.9%
Operating profit <sup>(1)</sup>	<b>34.0</b>	35.4	-4.0%
Operating margin <sup>(1)</sup>	<b>15.0%</b>	14.4%	

Forensics demonstrating its growth potential

Significant impact of Covid-19

Improved operating margins

...responded to the pandemic with agility

# Statutory PBT increased by 14.0%

£'m	2020	2019
<b>Underlying profit before tax<sup>(3)</sup></b>	<b>114.5</b>	<b>105.3</b>
Gain on derivatives mark to market	3.4	10.6
Amortisation of acquired intangibles	(12.6)	(21.7)
Acquisition and disposal related costs	(1.1)	(0.9)
Gain/(loss) on disposal	2.8	(0.9)
Significant legal charges and expenses	(3.3)	(1.4)
<b>Statutory profit before tax</b>	<b>103.7</b>	<b>91.0</b>

Reduction in amortisation due to historical acquired assets becoming fully amortised

...helped by lower amortisation

# Operating cash flow

£'m	2020	2019
Underlying operating profit <sup>(1)</sup>	126.1	118.2
Depreciation and amortisation	24.9	26.0
<b>EBITDA</b>	<b>151.0</b>	<b>144.2</b>
Lease payments (IFRS 16)	(9.0)	(7.8)
Working capital and provisions	4.4	(16.7)
Capital expenditure*	(22.1)	(22.8)
Pension contributions	(11.0)	(10.8)
Other flows	2.8	0.7
<b>Underlying operating cash flow<sup>(5)</sup></b>	<b>116.1</b>	<b>86.8</b>
<b>Operating cash conversion<sup>(6)</sup></b>	<b>92%</b>	<b>73%</b>

Working capital turns increasing from 7.3x to 10.1x

... excellent cash conversion

# Strong liquidity and balance sheet

	2020	2019
<b>Free cash flow**</b>	£99.4m	£64.7m
<b>Net debt*</b>	£158.8m	£228.1m
<b>Net debt to EBITDA*</b>	1.05x	1.58x
<b>Liquidity headroom available</b>	£280m	£214m
<b>IAS 19 UK pension deficit</b>	£70m	£71m
<b>Total dividend per share</b>	56.9p	54.2p

Free cash flow improved by £35m  
Leverage for covenant purposes is x0.34

£47m of remaining pension payments under current schedule of contributions

Final dividend increased by 5.9%.

... enabling us to invest in Ultra and increase the dividend

# 2021 financial guidance

	2020	2021
<b>Growth &amp; Margins</b>	Revenue +5.2% Operating profit +6.2%  14.7% margin	Order book supports further growth at similar levels to 2020. We are not assuming a recovery in commercial aerospace until at least 2023.  Margins around 14% due to increased R&D and transformation costs and some return of travel and marketing related costs.
<b>Transformation investment</b>	£8.2m	Accelerating to £11 - 13m in 2021 with year on year benefits in 2022
<b>Internal R&amp;D</b>	3.7% of revenue	Between 3.8% to 4.0% of revenue
<b>Returns</b>	ROIC <sup>(1)</sup> 20.0%	Around 20%
<b>Cash flow and Capital Expenditure</b>	Strong cash conversion of 92% Capital Expenditure of £22.1m*	Operating cash conversion of 75%-85% with capital expenditure around £35m driven by increased site investments & other transformation investment
<b>Tax rate</b>	19% (cash tax rate: 9.6%)	Less than 20% (cash tax rate less than 10%)

# Transformation working...

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## Site Excellence

**Optimizing property portfolio with closure of one site and initiating projects on two more.**

Site investments approved for two Canadian facilities  
Improved working practices, shopfloor layout & communication tools



## Operating Model

**New organisational structure**

Improved empowerment guidelines, operational metrics and personal & team objectives



## Technology Enablement

**New collaboration technologies in place**

Transitioning to a global and unified IT function  
New Group CTO appointed to better align R&D with customer's future needs



## Procurement

**New head of group procurement & centralized function created**

Progress on aggregating demand to improve supplier collaboration  
Enhanced internal capacity to build PCB's



## ONE Ultra Culture

New common vision, mission, values agreed, launched & embedded

**40% of leaders new or in a new role**

Leadership capability assessment & training programmes commenced

**Increased employee engagement**



## Operational & Functional Excellence

**Progress on HR, finance, IT, project management and sales processes**

Piloted standardized customer engagement & feedback process



**Grow**


**Fix**

**Focus**


...driving real change




# Delivering for all stakeholders...

**Employees** 


- 75.5% engagement
- Employee voluntary turnover <10%
- 50% critical roles filled by internal candidates
- Succession plans
- 25% leadership role candidates diverse

**Customers** 

- Strategic markets calculated
- Customer feedback mechanism in progress
- On time delivery
- Appointed new CTO
- Leaders spent 10% time on continuous improvement/change

**Suppliers** 

- Reviewed partnering options
- Opportunities for total cost of supply reduction identified
- Supplier reduction targets set
- Executing PCB consolidation

**Communities** 

- Created group CSR strategy
- Set environmental impact reduction measures and targets
- Set footprint reduction targets
- Group wide approach to Health & Safety created
- Code of Conduct launched to all employees
- Group wide matching scheme & Covid-19 community fund launched



**United Services Organization, USA**

**Sun Youth, Canada**

**Operation Flinders, Australia**

PROUDLY SUPPORTING

**Make-A-Wish**  
UNITED KINGDOM  
**Make a Wish, UK**

ULTRA



**Exciting potential**

# Well positioned...

ULTRA

COUNTERING ASYMETRIC THREATS

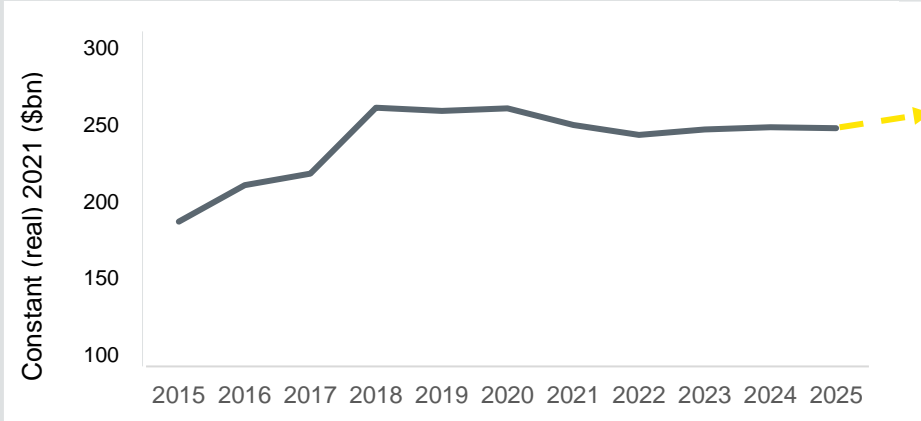
DOING MORE WITH LESS

ACCELERATING DETECT TO DEPLOY

MISSION ENABLING SENSING

+ Changing focus

### Total DoD Investment accounts (RDT&E and procurement)



- + US: stable
- + Other five-eyes: moderate growth
- + Commercial aerospace: slow recovery
- + Other CDC markets: moderate growth

Maritime

5-year CAGR:

2-4%

Intelligence & Communications

5-year CAGR:

3-5%

Critical Detection & Control

5-year CAGR:

2-4%

...growing segments

# Increasing technology investment...

Countering asymmetric threats

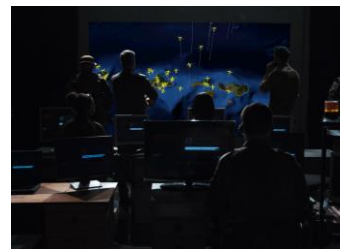
Doing more with less

Accelerating detect to deploy

Mission enabling sensing



Federated multi-domain analytics



Adaptive cognitive networking and situational awareness



Next generation ASW



Systems to enable autonomous persistent operations

...supporting segment out-performance

# Transformation accelerating into 2021...

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## Site Excellence

### Site optimisation to:

- minimise environmental footprint, improve efficiency
- support culture, talent, growth

## Technology Enablement

### UltraLabs developing growth accelerators

Improve application consolidation/standardization

## ONE Ultra Culture

Embed CI and values through performance/ talent management

### Continue to attract, retain, develop key talent supporting continued growth

Focus on diversity

2021 goals set, actions to deliver, progression to 2024

## Operating Model

### Deliver benefits from new organisation

Improved customer/user engagement to accelerate growth

Organisational alignment around common objectives

## Procurement

### Begin realising savings from demand aggregation and supplier collaboration

## Operational & Functional Excellence

### Implement global HR processes, realise the improvement

Leverage global finance processes to drive performance

Embed Continuous Improvement, standardise tools



...year-on-year benefits earlier than planned

ONE Ultra delivering

Stable markets, good visibility

Well positioned in growth segments

Increased investment

Transformation accelerating

... delivering sustainable stakeholder value

ULTRA.

Questions?

ULTRA.

# Appendices





# Our strategic business units

## Maritime

(46% of Group revenue)

A strategic partner in the maritime defence domain, primarily across the five-eyes\* nations

Our areas of focus:

- + Sonobuoy Systems
- + Sonar Systems
- + Naval Systems & Sensors
- + Signature Management & Power

## Intelligence & Communications

(28% of Group revenue)

Delivering information advantage to the war fighter through the intelligent application of technology

Our areas of focus:

- + Command, Control & Intelligence
- + Tactical Communications
- + Advanced Cyber Security
- + Specialized Radio-Frequency System

## Critical Detection & Control

(26% of Group revenue)

Developing and delivering control systems, data analytics and sensors to solve complex problems for customers

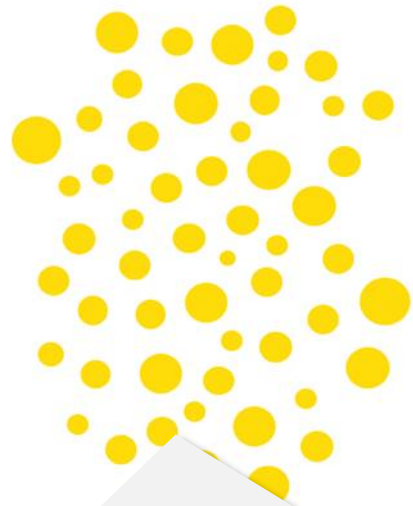
Our areas of focus:

- + Precision Control Systems
- + Forensic technologies
- + Energy and industrial sensors and systems

\*An intelligence alliance comprising Australia, Canada, New Zealand, the United Kingdom and the United States.

# A reminder of our ONE Ultra strategy

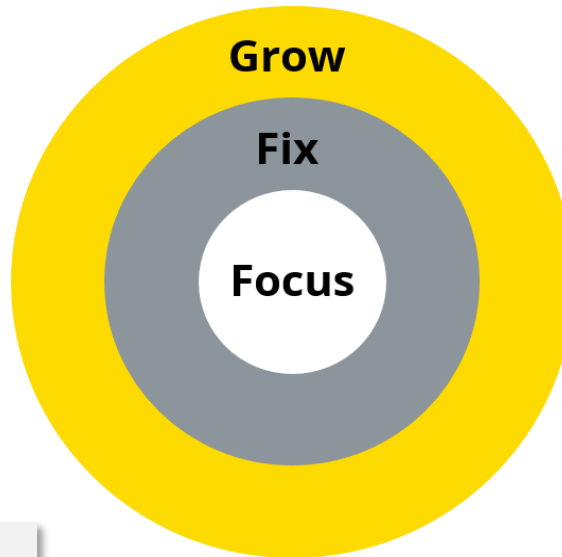
Historical state



An aggregation of SME's,  
with limited integration

- Confused/ no strategy
- Internally and externally difficult to work with, inwardly focused
- Tactical and short term
- Maturing technology/capability, limited/uncoordinated investment
- Inconsistent processes / poor execution /poor decision-making/weak delivery

Change agenda



Future state



One organisation, with a common purpose  
and shared values


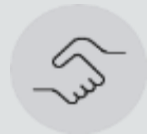




- Focused, consistent strategy
- Aligned, collaborating, sharing for best stakeholder outcomes
- Strategic, relevant, innovative problem solvers, targeted relevant investment
- Process and improvement focussed, cost efficient
- Agile, turbo-charged, quality decision making
- Rigorous execution and delivery

# ONE Ultra...

## A Common Purpose

Innovating  
today for a  
safer tomorrow.

## Shared Values

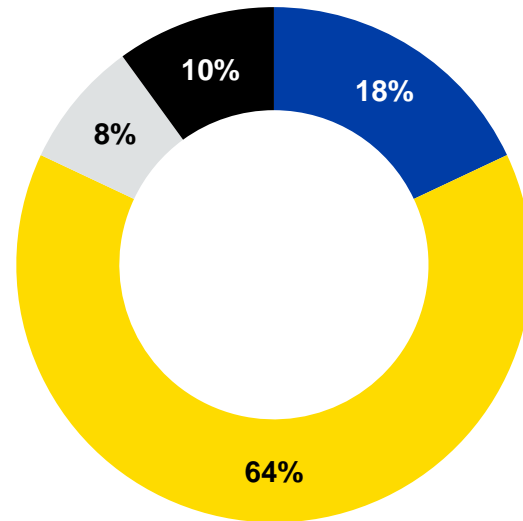
-  Agile
-  Sharing
-  Performing
-  Innovating
-  Rewarding
-  Empowering

## An over-arching Vision

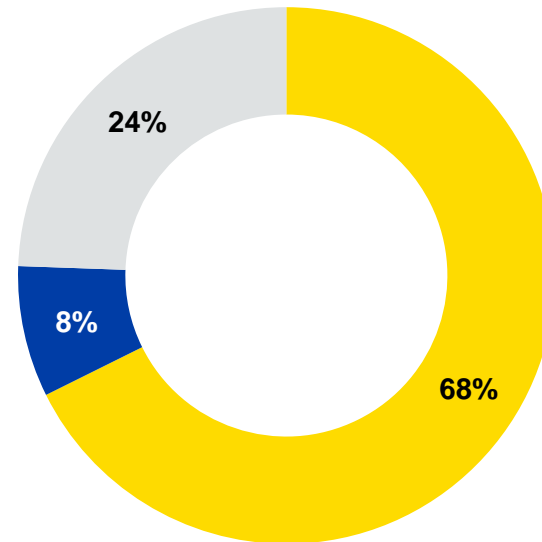
To make Ultra  
A leading partner  
delivering outstanding  
solutions to customers'  
most complex  
problems in defence,  
security, critical  
detection & control.

# 2020 revenue breakdown

By destination



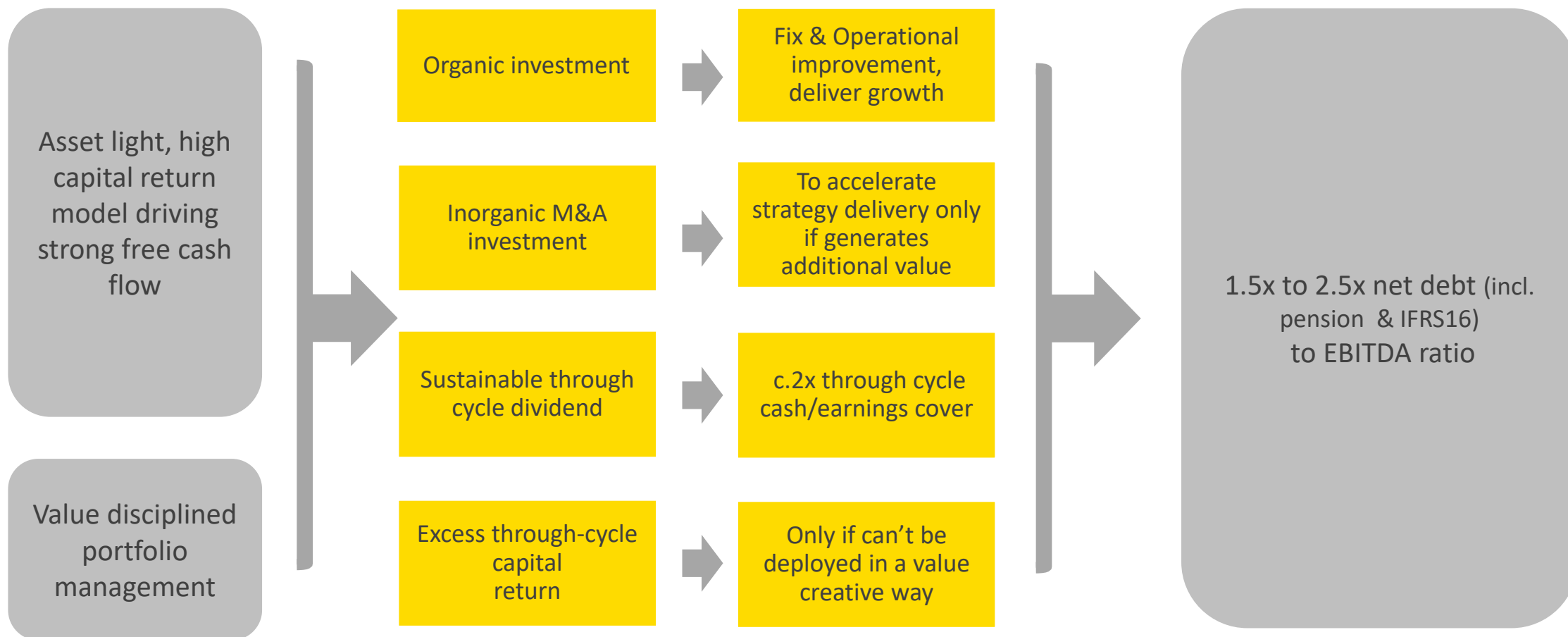
By market



- North America**  
£546.5m  
(2019: £502.5m; 61%)
- UK**  
£158.4m  
(2019: £171.1m; 21%)
- Rest of the World**  
£89.9m  
(2019: £95.9m; 11%)
- Mainland Europe**  
£65.0m  
(2019: £55.9m; 7%)

- Defence (Five Eyes)**  
£581.1m  
(2019: £544.5m; 66%)
- Defence (Non-Five Eyes)**  
£67.9m  
(2019: £64.8m; 8%)
- Commercial & Other**  
£210.8m  
(2019: £216.1m; 26%)

# A more disciplined approach to capital allocation ...



...supporting strategic delivery

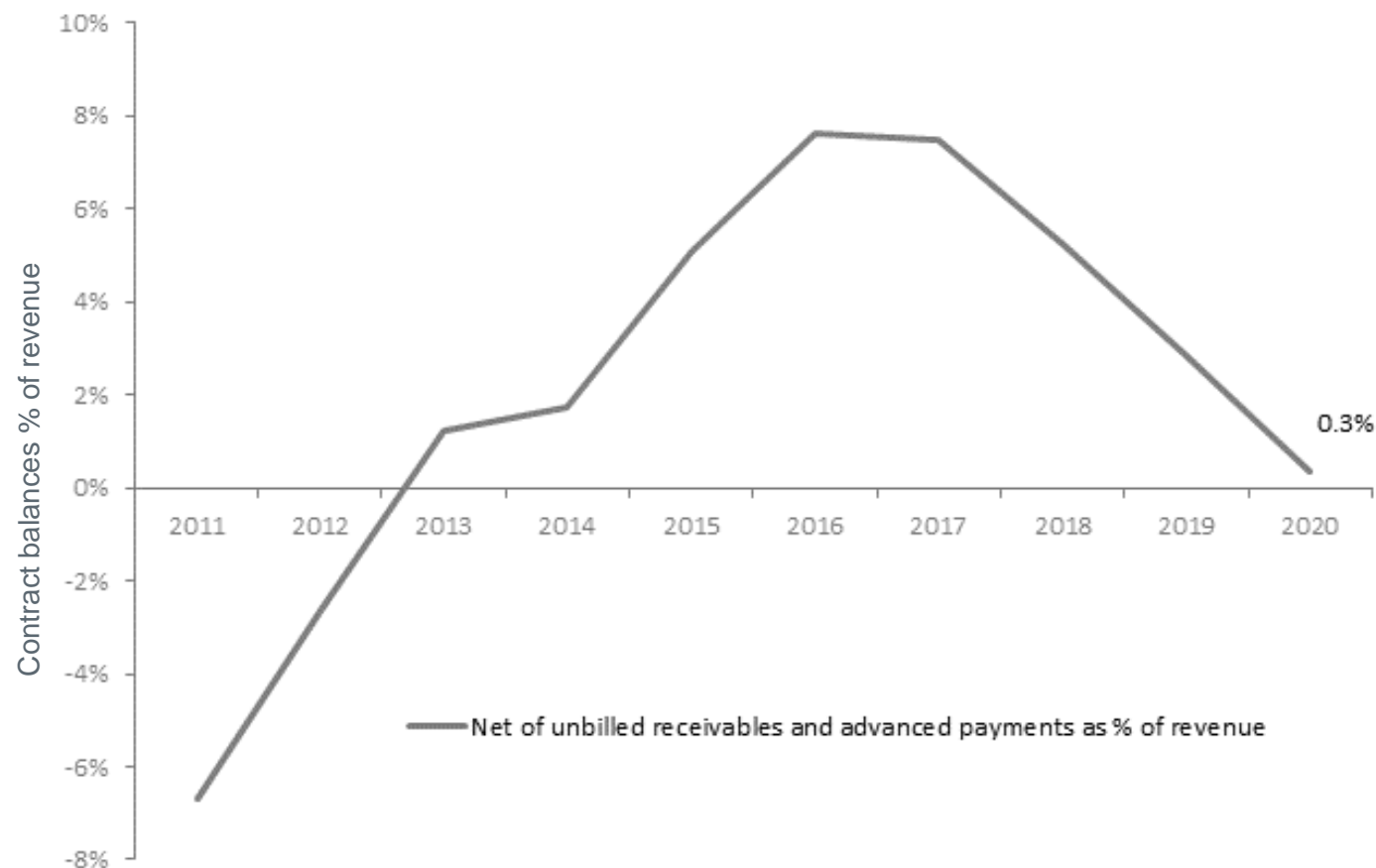
# Balance sheet

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£'m	31 Dec 20	31 Dec 19
Intangible assets	445.2	458.6
Property, plant and equipment	66.6	64.2
Leased assets	33.6	36.1
Other non-current assets	28.6	38.4
<b>Non-current assets</b>	<b>574.0</b>	<b>597.3</b>
Inventories	103.6	90.7
Trade and other receivables < 1 year	188.4	205.4
Trade and other payables < 1 year	(199.3)	(192.3)
<b>Current working capital</b>	<b>92.7</b>	<b>103.8</b>
Net current tax assets	2.9	5.0
Net debt*	(85.8)	(154.8)
Provisions	(24.6)	(24.8)
Retirement benefit obligations	(73.1)	(73.3)
Other assets/liabilities	(21.4)	(22.6)
<b>Net assets</b>	<b>464.7</b>	<b>430.6</b>

Shares in Issue	Dec 2020	Dec 2019
End of period	71.1m	71.0m
Weighted average	71.0m	70.9m

# Net unbilled receivables & advances back to neutral position



... A400M unbilled receivables being recovered largely as expected

## Foreign exchange

- Translational FX: **A 1 cent movement in the USD exchange rate is a £4.2m impact on revenue and £0.6m impact on profit.**
- c. 52% (2019: 52%) of Group revenue is in US\$ businesses.
- A further c. 12% (2019: 13%) of Group revenue is US\$ revenue from UK businesses.

Future hedge rates

	US\$:£	% covered
2021	1.29	100%
2022	1.31	70%
2023	1.33	20%



## Appendix 1 - footnotes

- (1) Underlying operating profit and margin are before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, and significant legal charges and expenses.
- (2) Underlying profit before tax and earnings per share are before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal related costs, gain or loss on disposal, and significant legal charges and expenses.
- (3) Organic movements are the change in revenue, operating profit and order book at constant currency translation when compared to the prior period results and adjusted for acquisitions or disposals to reflect the comparable period of ownership.
- (4) ROIC is calculated as underlying operating profit for the twelve months preceding the period end expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives.
- (5) 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 and significant legal charges and expenses.
- (6) operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit.

The comparative period has been presented at constant currency translation and adjusted for disposals to reflect the comparable period of ownership

## Appendix 2 - Reconciliation from underlying operating cash flow to Free Cash Flow

£'m	2020	2019
<b>Underlying operating cash flow</b>	<b>116.1</b>	<b>86.8</b>
Income taxes	(5.4)	(9.5)
Net interest	(5.2)	(8.6)
Lease liability interest	(1.7)	(1.5)
Disposal-related restructuring costs	(1.6)	-
M&A costs	(1.3)	(0.6)
Significant legal charges & expenses	(1.5)	(1.9)
<b>Free Cash Flow</b>	<b>99.4</b>	<b>64.7</b>

## 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.