

## **Full Year Results Transcript – 17 December 2024**

### **1. Title slide – Building for growth**

### **2. Introduction - Michael Ord, Group CEO**

Good morning and welcome to the presentation of Chemring's results for the year ending the 31<sup>st</sup> of October 2024.

I am joined by James Mortensen, our Chief Financial Officer, and Tony Wood our new Chairman.

For this morning's presentation I will cover some Group highlights from the year and some comments on the company's strong long-term prospects.

I'll then hand over to James who will take us through the financial and operational performance in more detail, and then, I'll then comment on the general market environment and the progress we have made in delivering our organic growth strategy.

### **3. Delivering Continued Progress**

In 2024 the Group marked its 50th anniversary as a listed company on the London Stock Exchange with another year of positive performance.

The emphasis we continue to place on building a resilient business has enabled us to overcome the occasional operational headwind and positions us well to take advantage of the significant organic growth opportunities we have available to us.

During the year, we increased our organic growth investment programme and this has been matched by the strong order intake we expected.

Across the year, we have delivered good progress and growing momentum against our stated goal of balancing near-term performance with longer-term growth and value creation.

Clearly, none of this would be possible without the commitment and dedication of our people and I want to take this opportunity to acknowledge and thank all of my colleagues across the Group for their unrelenting professionalism and hard work.

### **4. 2024 Good Progress Across KPI'S**

Turning now to the headline numbers, and the heightened activity in both sectors:

Our three energetics businesses had an outstanding year with all three delivering record order books, and two of the three delivering record revenues and operating profits.

Roke maintained its track-record of delivering growing revenues and operating profit.

And our UK countermeasures business finished the year with the full slate of record order intake, order book, revenue and operating profit. Quite an achievement!

Overall Group revenues grew 8% to 510 million pounds, earnings per share was 19.3 pence, and cash conversion grew from 90 to 102% continuing to demonstrate the cash generative nature of our Group.

I think the stand-out result is the 673 million pounds of order intake our businesses have won during the year, which results in the Group reporting a record order book of 1.04 billion pounds, which is up 13% since the end of last year. Further clear evidence, if you needed it, of the strength of our end markets.

We have also continued to make good progress delivering our Safety and ESG plans, and their associated key metrics continue to improve.

I'll now hand over to James who will take you through the financial, operational, and innovation review.

## **5. Financial Review – James Mortensen – CFO**

Thanks Mick. We are pleased to report results in line with expectations, and that record order book gives us great momentum as we build for the future.

## **6. Financial Highlights**

- And that order book is now at £1bn, up 13% - and if the recently announced orders were included, it would have stood at £1.3bn, up 43%!
- Good momentum continued in revenue, up 8%
- Operating profit was up 3%, despite being held back by US Countermeasures
- EPS down 4% impacted by higher tax and finance costs
- Strong cash conversion at 102%
- And so, the Board has declared a final dividend of 5.2p giving a total dividend of 7.8p, up 13%

So turning next to our segmental performance.

## **7. Group and Segmental Performance**

Countermeasures and Energetics revenue grew 4%. Growth in energetics was offset by a weaker period for countermeasures. So operating profit was down 8%, and margin decreased to 15.6%.

Strong momentum continued in Sensors and Information with revenue up 13% and operating profit up 21%. Operating margin was up slightly on last year at 19.5% despite the continued investment to position Roke well for future growth.

Group revenue was up 8%, despite an FX headwind of £7m. Group operating profit was up 3%, but operating margin was down 70 basis points to 13.9%.

So, let's look in a bit more detail at each of the segments...

## **8. Countermeasures & Energetics**

It was another strong year for order intake in Countermeasures and Energetics, demonstrating the critical, highly engineered nature of the products in this segment. As our customer programs are ramping, we are seeing that demand, often in the form of multiyear orders. This was demonstrated by our recent \$106m 5-year order supplying missile components.

Revenue grew 4% to £298m with strong operational performance across our Energetics and UK Countermeasures businesses. Given the strong order coverage, this was a year focussed on safely delivering against our operational plans – each of our sites worked tirelessly to meet our customer expectations - we had record years at a number of our sites.

We spoke about the operational challenges at our Tennessee facility in H1, and whilst progress hasn't been as fast as we hoped, we did make good progress in H2 – continuing to ramp production, and drive quality and efficiency as we go up that curve.

Overall margin was down 210 basis points to 15.6% as a result of those operational challenges in US Countermeasures, and the legacy contract we delivered against in H2 on which we made no profit. The US customer has informed us that they have funding to extend that contract into FY25, and so that brings that lower margin contract into H1 and also pushes out 2 months of production of more profitable contracts into FY26.

Order cover remains really strong, with 97% coverage this year, 81% coverage next year and 52% coverage in 27.

## 9. Sensors & Information

Moving now to Sensors and Information where Roke posted another year of strong revenue growth, it was up 23% excluding passthrough. We were particularly pleased with the growing contribution made by our product and defence businesses – up 41% and 57% respectively.

This was both:

- from delivering Electronic Warfare products to countries from Lithuania to Japan
- and also delivering against major programmes such as the UK army's new ISTAR modernisation programme, known as Project Zodiac.

Our national security business continued to perform strongly, but we did slow recruitment in some areas in the second half in anticipation of a slowdown in spend given the UK election. We now see that business as well positioned to take advantage when order flow improves.

Operating margin improved 120bps to 19.5%, driven by increased product and services revenue at Roke, and a decline in lower margin dilutive pass-through revenue - excluding which margin would have been up 40bps to 22.5%.

Order intake was down 30%, driven by a decrease in Roke as customers returned to placing annual orders, and the order for JBTDS Low Rate Initial Production was in the prior year comparative. Look, we are aware of the challenges some of our competitors are facing - but our strategy to focus on our customers most complex and challenging problems, has meant to date we've been better shielded from budget challenges.

At 48%, order cover for FY25 is a few percentage points lower than we'd like at this time of year – but given the critical areas where we support our customers, we expect order flow to improve as we go through the year.

Moving on to net debt...

## 10. Group Net Debt Bridge

With a strong focus on cash generation - operating cash was £96m and cash conversion was 102% in the year:

- We have continued to invest in additional capacity, with £49m spent on the Energetics expansion projects and a further £22m spent on maintenance and automation. This has been offset by £22m of grant funding.
- We have also returned £48m to shareholders, through our growing dividend and the share buyback; and we also purchased shares to satisfy acquisition consideration and employee share options.

We had closing net debt of £53m, representing 0.56x leverage. We forecast net debt to rise to about 1x next year with about £70m to spend on energetics expansion.

Now let me tell you more about the grant funding, which really demonstrates our key position in the supply chain.

## **11. Grant funding and financing update**

On 18<sup>th</sup> March we announced £90m of grant funding for Chemring Nobel to increase production of military explosives.

About £60m was from the EU, and the act in support of ammunition production, which focused on increasing capacity and tackling bottlenecks in the supply chain.

Of the high explosives work-stream, we received the 54% of all the amounts granted. Most of the other parties focused on TNT, whereas we are expanding production of the specialty military explosives: HMX, RDX and NTO.

The Government of Norway has matched half of that funding, providing another £30m, with the grant made on similar terms to the EU, but with a different timing of cashflows.

I should flag – there are no commercial restrictions associated with the grants, we just have to deliver the increased capacity.

I am also pleased to announce we have entered into a UK Export Finance Development Guarantee facility for up to £80m. This is a four-year arm's length facility on similar commercial terms to our RCF.

It brings our total available facilities and overdrafts to £246m, giving us significant flexibility when we think about investments in further organic growth.

## **12. Capital Allocation**

So, next a recap on capital allocation. Overall we want to maintain a resilient balance sheet and will target leverage of less than 1.5x.

First, we'll continue to invest in the business. Chemring Nobel remains the primary focus for further investment - we recently announced the feasibility study in Norway, and similar conversations are ongoing with a number of governments. But we are also looking at opportunities to add capacity and increase automation in some of our other businesses, like our UK Countermeasures business and Roke.

Second, we'll continue to execute focused M&A – within our core or close adjacencies in particular Roke and US space and missiles. We'll remain disciplined and we have a healthy pipeline of opportunity.

Third, dividends are a key part of total shareholder returns, the target of annual dividend cover of 2.5x has now been met, and so we expect to maintain that level of cover going forwards.

And finally, we'll return surplus capital to shareholders. The buyback programme has returned £37m to shareholders and the Board has determined the relatively small amount remaining is better utilised in ongoing operations, and so the current buyback programme will therefore lapse today.

Now, let's turn to FY25, and how we see that progressing.

### 13. Guidance and financial outlook

- In Countermeasures and Energetics we are targeting low double-digit growth. That is made up of low double digit growth in Energetics and mid-single digit growth in Countermeasures
- Sensors and Information will be flat. US Sensors will decline as JBTDS has now completed low rate initial production and we await the start of full rate production, expected in FY26. This will offset continued growth in Roke and because of this we expect Sensors and Information to decline slightly in the first half
- We are targeting mid-teens margin in the medium term, but unlikely to hit that in 25
- We expect H1/H2 phasing to be similar to 24 with about a 40:60 split in operating profit
- The impact of the UK Government's recently announced increases to National Insurance will be £1.7m in FY25 rising to £2.6m once the impact annualises. We'll work hard to absorb as much of that as possible, but a proportion will drop through to our bottom line – we'll provide more detail at the half year

There are also some external factors which could impact us in the near term:

- We have an administration change in the US and a Strategic Defense Review in the UK – both could lead to short term budget timing disruption
- And obviously any significant movements in FX.

Right, next, I want to give you the building blocks to our ambition to hit £1bn revenue by FY30.

### 14. £1bn revenue ambition

- Energetics will add more than £170m; £100m for the expansion projects we have already announced, plus more than £70m from the underlying business growing at mid-single digit CAGR
- Roke will add more than £100m revenue. Roke grew 23% this year, and whilst it won't be completely linear – we see Roke growing at a high to mid-single digit CAGR to £250m in FY28 and then beyond
- US Sensors will add more than £30m from the current baseline, stepping up to more than £55m as JBTDS enters full rate production
- Countermeasures will add £25m from low single digit growth; that's assuming there is no force deployment
- And then we'll add another £150m from further capacity expansion in energetics, or through bolt-on M&A

On margins, we have guided to mid-teens in the medium term, but you can imagine - we'll add some significant revenue in our higher margin businesses and so you'd expect some operational leverage in the longer term.

### 15. Driving innovation

So that was the numbers, now for innovation – one of our core values, and something which has been one of my highlights since joining Chemring – visiting our businesses and learning about the amazing work we are doing.

We've flagged this before – we have over 1,000 people working at the cutting edge of technology. We spend over £115m a year on R&D, of which about 90% is customer funded.

We are a key part of the supply chain for current and future missile systems, with our highly engineered components providing a critical function.

Our business in Chicago is well known for its' pyro-actuation technology, with strong relationships with all the major US primes. We've recently been working on a new hypersonic missile program for the US Army and

Navy and we just qualified two devices: a bolt cutter to separate the glide body on the right and a pyrovalve which releases gas to charge its guidance system on the left.

Our business in Scotland also supplies similar pyro-actuation technology to the European missile primes; but Roke is also innovating in this area.

Accurately measuring how close you are to the ground is vital – even more so if you are an unmanned aerial vehicle. The first iteration of the Miniature Radar Altimeter solved this problem for low speed or hover applications. But it soon became clear that terrain following and mapping required higher processing speed.

Roke have gone on to optimise the software and algorithms to perform in high manoeuvrability situations. This ensures the platform can respond quickly to changes in altitude and cope with high velocities.

You can imagine, there are a number of applications for this technology - from drones to long range strike missiles. Innovation always has been and always will be a key driver for the Group.

Thank you, that brings me to the end of my section - I'll hand back to Mick for the strategy update and outlook.

## **16. Michael Ord, Group CEO**

Thanks James.

Let me briefly remind you of our strategic imperatives:

### **17. Delivering on our strategic imperatives**

Our approach remains evolution not revolution, and our values of safety, excellence and innovation are foundational to all our plans, as does our relentless focus on balancing near-term performance with longer-term growth and value creation.

Beyond that our strategy is based around three imperatives:

Our primary focus is to grow the company by investing in our businesses and the development of our people, our intellectual property and our infrastructure.

Next, we will seek to accelerate further growth with bolt-on acquisitions, most likely in the Roke areas of defence electronics, information advantage, and active cyber defence, and in the design and manufacture of mission-critical components and devices used in space and missile applications.

And our third imperative, is the continued investment in our sole-source, market-leading, businesses, with a focus on safety, modernisation, automation, and new product development.

### **18. Market Update**

Turning now to our market environment. Whether it's the ongoing conflicts in Ukraine and the Middle East, or the increasing threats in the Asia-Pacific, geo-political tensions are continuing to drive a fundamental re-armament upcycle which is expected to last for at least a decade.

In the US, the incoming administration are signalling a focus on deterrence against emerging threats, and we expect US defence spending to at least grow in-line with inflation.

Here in the UK the new government has reaffirmed the commitment to increase defence spending to 2.5% of GDP, and they have launched a Strategic Defence Review (SDR) and a Defence Industrial Strategy (DIS). We

expect both will present further opportunities for all our UK businesses, but we are also maintaining a close watch on the risk of delays in the governmental procurement process while the SDR is running.

More broadly, NATO members are increasing spending on defence, and the capacity and capability of their sovereign defence industrial bases. All NATO countries are seeking to achieve a minimum 2% GDP spent on defence, with 23 out of the 32 members now meeting this threshold.

## **9. Robust demand is underpinned by three core drivers**

In supporting our customers to win in this ever-changing threat environment we see three drivers which present opportunity for the Group:

Firstly, the security threats in the Asia-Pacific will require continued investment in stand-off and area-denial missile systems, and space-based systems, both of which are areas where we are incumbent.

Second, the threat to Europe has resulted in many nations seeking to restore and enhance their defence and national security capabilities. This is a combination of technology driven solutions, such as electronic warfare and information advantage, and traditional defence capabilities, such as artillery rounds and shoulder launched missiles.

The third is the threat to the UK's national security: Driven in part by the two prior threats, the UK also faces of threats of terrorism and organised crime, which continues to require Roke's capabilities in active-cyber defence, and operational mission support, and an increasing use of artificial intelligence and other niche digital technologies.

## **20. Criticality of production and stockpiles well recognised**

I want to draw a specific focus on what is happening in area of munitions and missiles where the criticality of production and stockpiles has received significant attention from multiple commentators.

We all know that in the 35 years since the collapse of the Berlin Wall in 1989 successive Governments across NATO have allowed their military stockpiles to reduce, and we all know Ukraine has proved those planning assumptions to be wrong. We are told stockpiles are now at low levels and it is clear that governments are increasingly concerned about the lack of scale of the West's defence industrial base.

We believe the increased demand for our products is long-term which underpinned our decision to invest to appropriately increase the capacity of our three energetics businesses.

So, how are these expansion plans progressing?

## **21. Norway Capacity Expansion**

The expansion of our Norwegian business is our largest growth opportunity as we expand production to satisfy the unprecedented demand for high-grade military energetic material for use in missiles and munitions.

The business is currently operating at maximum capacity and in parallel we are executing on-site expansion programmes which will increase capacity by up to 275%. A major milestone has been the completion of the new acid recovery facility, the green building on the slide, which is now in the process of being commissioned – so progress is very real and tangible.

Such is the level of demand for Chemring Nobel's materials we are now looking at further expansion plans beyond that which we are delivering on-site.

In October, in conjunction with the Norwegian Government, we launched a feasibility study into the establishment of a new large-scale production facility in Norway. This co-funded study will assess geographic locations, infrastructure requirements, and environmental considerations, it will also assess funding and commercial arrangements with the Norwegian Government.

We are also exploring options outside of Norway. Last month we signed a 12 year framework with Diehl Defence, and received a €231m initial purchase order for MCX material. As part of this agreement we are exploring options to perform the blending stage of the manufacturing process in Germany.

## **22. US Capacity Expansion**

Turning now to the US where we continue to see growing demand for precision engineered devices for space and missile applications, and where our business in Chicago, is a highly respected supplier to US government agencies, defence prime contractors, and a growing number of commercial space launch providers.

In January, the business acquired an additional 45,000 sq. ft. facility adjacent to its existing site. The new facility doubled existing production floorspace, and commenced operations in April, and has significantly enhanced our ability to establish and maintain continuous flow manufacturing operations, which was essential if we were to deliver against customer requirements, and is also a key enabler of future growth.

## **23. Scotland capacity expansion**

And in Scotland where we are building the most advanced extruded double-based propellants manufacturing facility in Europe and significantly increasing capacity in a safe and modern manufacturing environment.

The progress that has been made on site throughout the year has been impressive, with the photos on this slide giving you an idea of the transformation that is taking place. The project is on schedule and within budget, with buildings nearing completion and equipment starting to be installed.

With the facilities being handed over in early 25 we will then commence with the commissioning and qualification programme which, given the nature of the product being manufactured, is a comprehensive activity. We expect live production to begin no later than early 2027.

## **24. Maintaining Roke's growth**

Turning now to Roke where FY24 has been another record year in terms of revenue, profit and cash generation. Roke's strategy is working, and by focussing on the 'tip of the spear' it has continued to cement its position as a key strategic supplier to the UK's national security agencies, and despite Government spending headwinds, multiple orders valued at c.£50m were received from the national security community.

In line with our focus on increasing revenue from the defence and products side of Roke, we have continued to see growing customer interest in our range of defence capabilities.

A notable highlight during the period was further wins in Electronic Warfare with contracts received from customers in Sweden, Lithuania, Latvia, the United Arab Emirates and Japan. The order for ten Resolve EW systems to Japan was particularly notable. This was Roke's first EW sale into the East Asia region and secures securing a high-quality reference customer.

Roke now has a 5-year prospective sales pipeline that is valued at greater than £300m, for defence products as customers increase their focus on these technologies.



Earlier I mentioned the Strategic Defence Review. From Roke's perspective our assessment is that our strengths are well aligned to supporting the UK Government with the key challenges which were identified in the terms of reference for the SDR.

We therefore anticipate that the SDR should increase opportunities for Roke, however, as James commented earlier, there may be some headwinds including departmental budget pressures until it is published in 2025. Whilst we are mindful of these potential near-term headwinds it does not impact our plans to grow Roke's annual revenues to £250m by 2028, which remain on track.

## **25. Summary and Outlook**

So, to conclude: We have made good progress in 2024 as we continue to build and grow our high quality and resilient business, and as we invest for future growth.

With seventy seven percent (77%) of our expected 2025 revenue in the order book at the end of October, the Board's expectations for 2025 performance remains in-line with market expectations, but with a weighting towards the second half.

So, with market-leading innovative products, technologies, and services, that are critical to our customers, and with a strong balance sheet, I am confident that we will meet our ambition of £1bn in annual revenue by 2030, and that we will continue to deliver on our commitment to balance near-term performance with longer-term growth and value creation.

## **26. Questions and answers**

### **Michael Ord, CEO, Chemring Group**

So if anyone has any questions, we'll be happy to take them now. Can I please ask that you state your name and the organisation that you represent before asking your question.

### **Q: Henry Carver, Davy**

Thanks. OK. Morning, it's Henry Carver from Davy. Just one on Roke. I'm just interested in the international success you've had this year. Can you give us any idea of, are you replacing existing capabilities or are you introducing something that is new to all those countries you listed off? Can you provide any more colour on the wins there and what that means going further forward.

### **A: Michael Ord, CEO, Chemring Group**

A combination of both, Henry. So with some customers we are upgrading their current electronic warfare and electronic attack systems, where we've sold systems previously to them in the past. The greater proportion of it is where customers are now identifying tactical electronic land based warfare is a capability that they've either under invested in in the past, and they see the future threat profile as requiring a significant increase in capability in that area, or they've never really had that capability and recognise it's going to be essential going forward.

I think a lot of lessons are being learned from Ukraine, where tactical electronic warfare is a key discriminator and key enabler on the battlefield, and there's so many of our customers now who are recognising that they require those technologies in their arsenal.

### **Q: Henry Carver, Davy**

And one that I don't think was on the list was the US for the hardware. Is that still something that is that is sort of, on the boil, as it were?

**A: Michael Ord, CEO, Chemring Group**

So yes, so we're still working with a number of customers in our Roke USA business, predominantly areas of tactical electronic warfare. We didn't mention any of it in the presentation, so this year the team landed their first DARPA research contract, specifically in the area of tactical electronic warfare.

And we are funding ourselves a programme to build a very low space, weight and power, portable tactical electronic warfare system that we'll be bringing a prototype to the market early next year.

**A: James Mortensen, CFO, Chemring Group**

It is a really interesting system that uses the best systems architecture from Roke, and then these really powerful customer off the shelf components to make it even better than the sum of those parts.

**Q: Sash Tusa, Agency Partners**

I just wondered whether you could talk about a couple of things. First of all, could you just flesh out a bit the dynamics in Tennessee, both in terms of the legacy flares contract but also the production problems you had in the first half and the ramp up thereafter. And then the other question I've got slightly broader, but if you're looking at capital allocation and particularly between Europe and the US, how have your views of the two of those main markets changed over the last year?

**A: Michael Ord, CEO, Chemring Group**

So in Chemring Countermeasures USA, Tennessee, there are a few dynamics happening in the US countermeasures market. So firstly, I think as we've spoken about previously, we're trading at the back end of a legacy Chemcontract that was signed in 2016, where fundamentally, the team got the pricing wrong. And we had hoped to complete that contract in FY24, but there's going to probably be, I think a couple of months of production which are going to push into FY25, so we've just got to get our way through that and we're working through that. We're really confident that that'll get closed out as quickly as possible.

Overall, operationally in Tennessee, we've got a number of lines and we continue to make progress on commissioning the new automated facility. I think the focus in Tennessee is going to be matching capacity of the facility to the forward customer demand. The customer seems to be very supportive of ongoing MTV manufacturing in Tennessee, but they're balancing out themselves where they think actually that that demand will go, so our expectation is that the facility will be running at full tilt throughout the whole of FY25, and then as we get into FY26 and FY27, we'll start to match capacity with demand.

And then from a capital allocation perspective James?

**A: James Mortensen, CFO, Chemring Group**

Yeah, I think well, your point is really spot on Sash. I think what you're getting at is you know we see lots of opportunity to invest further in Europe at the moment and that's where the big focus is, particularly with energetics. You know, we have recently done our expansion in the US, within that energetics facility. And so now it's just commissioning that facility and getting into continuous flow production, but really the further opportunity that we see is really in energetic expansion in Europe, but actually also in Roke, also our UK countermeasures business to increase automation and increase capacity there.

So yeah, at the moment I think we are more focused on Europe and I think that's really because governments are realising, more so in Europe, how the defence industrial base has shrunk historically. And so they really need to rebuild that and rebuild that industrial defence, the kind of strategic deterrent.

**A: Michael Ord, CEO, Chemring Group**

And you know as well as anyone, don't you with regards to how much actually some of the real essential raw material supply base has shrunk over the last 30 years, and then the ramp up in munition and missile systems has exposed a significant, well, a gaping hole in the defence industrial base, and it is remarkable when in the conversations that we're having with a number of governments around the speed that they want to move and willing to be able to provide significant grant funding to enable that to happen.

**Q: Sash Tusa, Agency Partners**

The chart you put up about European industrial capacity and demand for missiles had at least two references to Rocket Motors. And expansion rocket motors in the US is incredibly slow at the moment, despite Northrop Grumman's comments about GMLRS. What roughly are the costs for you of establishing new rocket motor capabilities? If that's what customers wanted for reasons of onshoring, for example?

**A: Michael Ord, CEO, Chemring Group**

So the facility that we're building in Scotland is a £45 million investment that we're making, and that's specifically for extruded double based propellant. The larger volumes which are required are in composite propellants, which we don't manufacture. If you were to step into establishing a new composite facility, then the scale of the investment will be similar. You'll be talking about £50 or a £60 million facility. But we currently don't have any plans to do that. The customers and the end markets that we supply are very specific with regards to extruded double base, so things such as shoulder launch munitions, smaller rocket systems, aircraft escape systems. They are, traditionally used with extruded double base which has a platonised thrust profile. If you're going to go into, say, larger cast formed propellants, so the type that you mentioned about GMLRS, then that would be a completely new facility. And I think you will see in Europe that there is going to be a need for greater propellant manufacturing. There's a significant under capacity.

**Q: George McWhirter, Berenberg**

Morning, George McWhirter from Berenberg. Just on the US sensors business on JBTDS. Was the timing of the full rate production in 2025 in line with your expectations or is there a slight delay there? And on the mid-term outlook for JBTDS, are you still confident about the mid-term and the potential for the sort of a large potential of that IDIQ to be cooled off? Thank you.

**A: James Mortensen, CFO, Chemring Group**

So I think probably the full rate production order is slightly later than what we what we expected. We probably expected it in FY25 rather than FY26. And so to start on that a little bit earlier. But I think you know everything that we have seen from the US government is very positive in relation to JBTDS. So after you do that low rate initial production, you know we're going through trials with the US government and all of those have been very positive so far. We see the budget allocation in the US DoD so the money is there. And then the conversations that we're having with the US government at the moment are around, how we actually go into a full rate production as well. And so we expect that IDIQ to come through and we expect it to be in the region of £230-£250 million. And so yeah, we're still very confident that it will come through.

**A: Michael Ord, CEO, Chemring Group**

We're actually working with the US Army, who's the lead customer on JBTDS to understand specifically what their fielding profile is. So how many systems do they require each month over that four years? And that's providing us with I think great confidence of what we'll understand what that ramp up's going to look like. I

think the interesting thing about JBTDS is that we're getting a lot more interest now from other international customers. Clearly when you bring JBTDS in as the primary detect and collect biological sensor for the US Army, you can't get a better salesperson than that so the US FMS or even direct commercial sales or direct international military sales route we think is a real opportunity for once we get JBTDS fielded with the US Army.

It'll be really interesting to see how that programme grows.

**Q: Richard Paige, Deutsche Numis**

Probably just following on from that US sensors, is there much beyond JBTDS? You've probably answered my question partially there by looking at the international opportunities, but are there other contracts on visibility of contracts you work on there?

**A: James Mortensen, CFO, Chemring Group**

Well, so the JBTDS IDIQ means that would be like five years. Then after that we're in the process of developing the next generation of products. So both at EMBD and JBTDS as well. So no, I mean we see further opportunity and then you know, like Mick was saying the extent that you can refashion that product so that you can sell it internationally, that's where we see a big opportunity as well. So yeah, no, we see that demand continues.

**Q: Richard Paige, Deutsche Numis**

Thank you. Moving on to energetics and the capacity expansion, intrigued by comments on the Diehl announcement looking at potential mixes. If that does go ahead, have you got potential to move other contracts within that sort of remit?

**A: Michael Ord, CEO, Chemring Group**

We wouldn't be moving contracts. It would be establishing new contracts. So yeah, so our relationship with Diehl Defence is really exciting. So we signed this 12 Year Framework Agreement to provide energetic material primarily into their 155 munitions programme. We've worked for Diehl for many, many years, so sole source provider of a lot of their energetic material to their missile programmes so we know them really well. We work well together.

And Diehl themselves are stepping into 155 munitions manufacturing in Germany for the first time, and they're working collaboratively with Nammo. Clearly who are bringing the 155 technology. And we are the sole source providers of the material to Nammo. So that's how we all kind of got together to compete and win for the 155 contract in Germany. Clearly the German Government, they have, like all of the European governments we're talking to, have a real imperative to actually fill stockpiles, so primary focus is to obviously fill their stockpile.

But Germany, like the rest of the European governments, also want to establish and grow a defence industrial base and therefore, if they can use these contracts as catalysts to be able to establish industrial footprint, within their sovereign borders, then, they're going to take that opportunity. So as part of that initial contract, when we looked at the overall supply of the material to the 155, basically when you take 3 different types of explosives, you basically melt them together and then pour them into the munition, we said that we would do that blending stage in Germany as a first step of establishing energetic manufacturing capability in Germany. Now if that contract expands, and we expect it probably will, then that's going to require greater capacity for material production that will likely outstrip our ability to build this supply out of Norway. And

the German Government are very positive around working with us to establish a manufacturing facility in Germany. To do that, if indeed those volumes step up. And that dynamic is what you're seeing with a number of customers where a lot of people, a lot of governments, are saying that, you know, their defence industrial base, you know, defence industrial base and supply chains are becoming elements of statecraft. And therefore they want to ensure that they're establishing and securing their own position. So Germany is really interesting for us.

**Q: Richard Paige, Deutsche Numis**

Fantastic. Thank you. Just one on the sensors and information order cover as well. Does that reflect just the number of months of visibility you have, or is it more a low rate of production in the initial months over the same time?

**A: James Mortensen, CFO, Chemring Group**

No, I think it's more the number of months rather than short cover in the earlier period, and you know like I said in the presentation, it's 2 or 3% lower than what it normally would be. Most of it is due to those orders that we had in the prior year comparative that kind of make it look much lower than you know what it normally would.

**Q: David Farrell, Jefferies**

Can I just start off on working capital? I think you said working capital to sales ratio was broadly flat, but actually within that inventory's payables receivables all seem to have moved quite a lot year on year. Can you just kind of work through to those individually in terms of what's going on please?

**A: James Mortensen, CFO, Chemring Group**

Yeah, sure. I think inventories have ticked up a little bit. I think that's more because as we're entering into these long term contracts, we're having to buy the long lead time items that kind of match with them. And so you'll also see the customer pre payments have increased which kind of matches that off. I think in terms of payables and receivables, I think broadly those have moved more in line with where our revenue has increased. And so I don't think there's much else to really say about them, I really think it's the inventory one that tipped up more.

**Q: David Farrell, Jefferies**

Just going back to capital allocation and the cancelling of the share buyback today, £13 million when you've got one times net debt to EBITDA this year and then in 2026, looking at the kind of broadly flat cash profile might raise a few eyebrows. Is there anything imminent there for in terms of kind of M&A or future CapEx expansion that that's going to come through in 2025 that might explain why £13 million can't be done this year?

**A: James Mortensen, CFO, Chemring Group**

No, there's nothing particularly imminent. You know, it was just a small amount and the Board thought it was best used in ongoing operations. So there's nothing more to add there really. We've talked about it today - there are lots of opportunities for organic expansion and you know we are on the lookout for M&A, but there's nothing imminent that we would flag that is the reason that is not carried on.

**Q: David Farrell, Jefferies**

Oh and sorry, two final ones. You mentioned putting organic capacity into Roke and I guess kind of historically we thought about Roke as a kind of head count business. Does that reflect therefore the desire to have greater manufacturing capability around electronic warfare products?

**A: James Mortensen, CFO, Chemring Group**

Yes, that's exactly it. It's kind of increasing the capacity for that product side of the business that isn't linked to headcount and so it's that defence and the product business and yeah, we see pretty strong growth in that. You know like we've been talking about this kind of pipeline of £300 million, and so it's really so that we can meet that demand.

**Q: David Farrell, Jefferies**

And then final question, you obviously got a reference to changing government in the UK that was in July. You know we're six months down the line. Can you just kind of give us an indication in terms of what's happening in intelligence because I think £50 million of orders, for probably what's the largest constituent of Roke's are just kind of book to bill is .5/.6 at best in 2024.

**A: Michael Ord, CEO, Chemring Group**

So obviously the new administration's come in, I mean they've maintained their cadence in most of the areas, but I think it is fair to say that we are seeing a slowing down in some of the areas with regards to contract and order placement. I think that's just purely a bit of a function of the departments are going through a number of reviews at the moment. You've got the SDR, we've got the DIS, defence industrial strategy, getting spun up. Clearly the national security agencies are involved in the departmental spending review as well, so it's not unusual to see with a change in administration that you see a little bit of treacle being poured into the contracting machine. We're hopeful that will start to clear itself out in the new year and then we'll start to get maybe back to a you know more of a run rate that we've seen previously.

**Q: Ben Bourne, Investec**

Good morning all. Just to perhaps square all this away. In the path to a billion of revenue by 2030, in the chart it shows that more than £150 million from new expansion or acquisitions. How do you see the balance of that now given everything you've said?

**A: James Mortensen, CFO, Chemring Group**

I think obviously at the moment, you know we see much more opportunity and organic expansion and you know just given what's in front of us, particularly in Europe and the energetics expansion. We see a good chance of it coming through that, but then very much in the same vein, there is lots of opportunity out there in terms of M&A you know, particularly within Roke it's such an amazing ecosystem of companies that we work with within that space. We've got a dedicated employee within Roke that is out there every day speaking with people and we say no to a lot more than what we say yes to, but there are some really nice opportunities out in that space. And so again that could easily be the route to kind of fill some of that as well.

**A: Michael Ord, CEO, Chemring Group**

As well, I think the scale of the organic opportunity is somewhat unprecedented. Especially in the areas of energetic material and propellant material. We are doing this feasibility study with the Norwegian Government. And it's not about just building an annex to what we've got. It's about establishing a completely new site, which in some scenarios will be much larger than the current site that we've got at the moment.

And then you've got discussions ongoing in Germany around what we've touched on earlier. And you know, we're starting to have conversations with the UK government around what's the defence industrial base here in the UK looking like from an energetic material perspective? So you can easily see a path through James's chart just purely from an organic growth perspective.

And I think what we quite like about that is, is that we're not introducing any new technology. In fact, most of our customers are asking us to go for the lowest risk option where we're just taking the processes that we use. So the types of chemistry, the Bachmann process chemistry that we use in Norway and you know in so many of the politicians are saying, can you just cut and paste exactly the same type of plant into our country?

**A: James Mortensen, CFO, Chemring Group**

And yeah, that's the point, isn't it? You know, through the energetics expansion programme within the Norway site, we've already kind of designed the engineering for those facilities. So you know, we're building them at the moment. They're kind of, you know, ready built to print almost and you just pick them up and kind of put them in other locations.

**Michael Ord, CEO, Chemring Group**

Well, I think that concludes this morning. Thanks very much everyone and we look forward to seeing you in June to present the half year results. Thanks very much and have a great Christmas.