

Acquisition of leading US defence business from Northrop Grumman

Serco Group plc ("Serco" or the "Company")

30 January 2025

Serco Inc, a subsidiary of Serco Group plc, has agreed to acquire Northrop Grumman's mission training and satellite ground network communications software business (MT&S) for 327m (£264m) in cash. The business provides the US military with advanced mission training services, and software that makes satellite ground networks more efficient. With expertise in training services and software engineering, and a track record of innovation, it supports programmes across the US Army, Space Force, Air Force, Navy, Combatant Commands and international partners.

MT&S will build additional scale for Serco in North America, growing our business to beyond 2bn of revenue and 200m of profit. It brings new capabilities and access to a broader base of customers, which will provide further opportunities for Serco to grow organically in both North America and internationally.

Commenting on the acquisition, Mark Irwin, Serco Group Chief Executive, said:

"We have approximately doubled revenue and more than trebled profit in Serco's North America business in recent years through a successful combination of organic growth and strategic acquisitions. MT&S provides an excellent opportunity to continue that success.

The acquisition increases our scale, capabilities and growth potential in US defence, the largest defence market in the world, as well as providing solutions we can offer to our customers worldwide. The acquired capability delivers comprehensive, critical, technology-enabled services fully aligned to the US military's focus on enhancing warfighting standards and readiness through solutions that are both efficient and effective.

We look forward to welcoming nearly 1,000 new colleagues from MT&S to Serco and are excited to add their knowledge and experience to our work supporting the US Department of Defense's enduring mission to provide the combat-credible military forces needed to protect the security of the nation."

Value enhancing financial profile with strong financial returns.

- In calendar year 2025, the business is expected to generate revenue of around 300m (£242m) and underlying operating profit of 34m (£27m)¹, with an underlying operating profit margin of approximately 11%, before transaction and integration costs.
- Price discipline retained, with return on invested capital expected to meet our weighted average cost of capital in the second full year of ownership and exceed it thereafter.
- Mid-single digit accretive to underlying EPS in 2026, the first full year of ownership.
- Adds 0.9x to net debt:EBITDA. Leverage comfortably within our target range of 1-2x following the transaction and expected to de-lever thereafter.
- The 327m (£264m) consideration will be paid in cash, with sufficient capacity available through existing cash and debt facilities.
- Completion expected in mid-2025, subject to regulatory approvals.

Compelling strategic rationale in a highly attractive market

This acquisition increases our participation in the US market and the international defence sector. In US defence, it transforms our capabilities in the attractive areas of technology-enabled military training and satellite ground network software services. The combination of Serco and MT&S further enhances the growth potential of both.

- **Increases exposure to defence and US markets.** Following the acquisition defence will be our largest sector, representing approximately 40% of Group revenue² and North America overall will represent approximately 50% of Group underlying operating profit. These markets are large, have margins higher than our Group average and have strong, structural drivers of growth.
- **Enhances our capabilities in large and attractive parts of US defence market.** MT&S helps to ensure armed forces mission-readiness. It will advance our expertise in synthetic training, exercise simulation, and satellite ground network software services. Training represents a significant proportion of defence investment, and the acquisition materially strengthens our position in this market providing a strong platform for future organic growth.

- **Combination of Serco and MT&S enhances growth potential of both:**
- **Improved cost competitiveness of MT&S:** MT&S will benefit from being part of Serco where services are core and defence training is a strategic priority area. Under our ownership, MT&S will have a lower indirect cost base, significantly enhancing its competitiveness.
- **Increased scale and technology capabilities will benefit Serco's pipeline of potential new work:** MT&S has a strong track record delivering large programmes in training, space and technology services for the US Department of Defense. The ability to reference this past performance will enhance our ability to win new work in our existing pipeline. We also expect to be able to expand the pipeline as we explore new opportunities with our combined capabilities.
- **Exporting MT&S's capabilities outside of the US:** Military training and satellite ground network communications software capabilities are critical services for armed forces around the world. MT&S offers best in class solutions in these areas, which have so far been primarily limited to the US. We see significant applicability to our other existing markets, including the UK, Australia, and Europe.

Background to MT&S: a leading provider of services to the US military

MT&S is a leading provider of training and satellite ground network communications software solutions to the US military.

Its technology-enabled training services help war fighters achieve mission readiness through advanced simulation-based training and mission rehearsal capabilities across multi-domain immersive environments, powered by live, virtual, and constructive technologies. Through the Mission Command Training Program (MCTP) the business coordinates advanced training exercises using US Army principles, tactics, techniques, and procedures to give soldiers the most realistic scenarios to train with. MT&S owns and develops the Distributed Mission Operations Network (DMON). The network delivers secure connectivity and network interoperability between unique simulator platforms across the globe, allowing aircrews in different locations to train together in a high-fidelity virtual environment, including mission planning and execution materials, scheduling, briefing, execution, and debriefing.

Its software optimises satellite ground station performance. This includes providing software for communications planning and network monitoring.

Conference call and presentation

Mark Irwin (Group Chief Executive), Nigel Crossley (Group CFO), Anthony Kirby (Group Chief Executive designate) and Tom Watson (CEO North America) will conduct a conference call and presentation for analysts and institutional investors at 09:00 UK time on 30 January.

The call will be webcast live at <https://www.lsegissuerservices.com/spark/SercoGroup/events/474583e9-0bfd-4e45-b339-338b5a6145e7> and subsequently available on demand.

To be able to ask questions please use our dial-in facility accessed on <https://registrations.events/direct/LON5818326>

Notes

¹ Estimated calendar year 2025 revenue, underlying operating profit and margin assuming the business was under Serco ownership and included in numbers from 1 January 2025.

² Revenue mix including Serco's share of joint ventures.

Currency exchange rates: For the conversion into pounds we use a GBP:USD rate of 1.28 as the average for 2024 and 1.24 as the spot rate for the acquisition consideration.

This announcement contains inside information.

Ends.

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About Serco

Serco brings together the right people, the right technology, and the right partners to create innovative solutions that make a positive impact and address some of the most urgent and complex challenges facing the modern world.

With a primary focus on serving governments globally, Serco's services are powered by more than 50,000 people working across defence, space, migration, justice, healthcare, mobility, and customer services.

Serco's core capabilities include service design and advisory, resourcing, complex programme management, systems integration, case management, engineering and asset & facilities management.

Underpinned by Serco's unique operating model, Serco drives innovation and supports customers from service discovery through to delivery.

More information can be found at www.serco.com

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