

BAE Systems - Market update

7 May 2025

BAE Systems is providing the following market update ahead of its Annual General Meeting today.

Highlights:

- Trading so far this year in line with management's expectations.
- Full year guidance maintained.
- Order backlog and pipeline of work on incumbent positions provide good visibility and support long-term growth.
- Well positioned to capture additional defence spending.
- Investing to support growth.

Charles Woodburn, BAE Systems Chief Executive, said:

"We've had a strong start to 2025 and are maintaining our guidance for the full year. During this time where the defence and security landscape is rapidly evolving, we are focused on delivering our long-term programme commitments to our customers, while investing in our business to boost capacity, drive efficiencies and shape our portfolio to support future growth."

Trading update

Trading so far this year is in line with management's expectations. Our operational performance continues to be strong as we focus on consistent delivery of critical capabilities and technologies for our customers around the world. We are therefore maintaining our guidance for 2025.

Guidance

In 2025 we expect good growth in revenue and EBIT as well as solid cash generation. Our full year 2025 guidance remains unchanged from the preliminary results announcement published on 19 February 2025.

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| • Sales | +7% to +9% (2024: £28.3bn) |
| • Underlying EBIT | +8% to +10% (2024: £3.0bn) |
| • Underlying EPS | +8% to +10% (2024: 68.5p) |
| • Free cash flow (FCF) in 2025 | >£1.1bn |

Guidance is provided on a constant currency basis using a GBP:USD exchange rate of 1.28 for the year, which is in line with the average exchange rate in 2024. The average exchange for the year to date is 1.28 (as at 6 May) and the current spot rate is 1.34.

As a guide to our sensitivity to foreign exchange rates, a 5 cent movement in the GBP:USD exchange rate impacts sales by c.£525m, underlying EBIT by c.£75m and underlying EPS by c.1.4p.

Order intake

Notable awards received in the year to date include:

- Armored Multi-Purpose Vehicles - 356m award to procure long-lead material to support a definitised full rate production contract expected in the second half.
- ARCHER mobile howitzers and TRIDON Mk2 systems - artillery package approaching 300m in total including 18 ARCHERs, further TRIDON Mk2 systems and additional artillery location radar systems.
- Amphibious Combat Vehicles (ACV) - awarded two full-rate production contracts from the US Marine Corps totalling more than 360m for ACV-30mm vehicles, to include fielding support, spares and test equipment.
- Integration Support Contract (ISC) - Intelligence & Security received a nearly 800m contract in January to extend our ISC services to the US Air Force with options through to July 2027.
- Canadian River-class Destroyer - contract for next phase of Canada's River-class destroyer programme.
- MBDA - c£600m for various domestic and export awards.

Market backdrop of increased defence spending

The regions in which we operate are poised for higher defence spending. We expect this to provide a robust set of further opportunities across all our sectors.

In response to the increased global security challenges, a number of European NATO members have announced significant increases in their defence budgets. We have a strong, established position in Europe and our range of products and services aligns well to the capability requirements of these nations. These include combat aircraft, combat vehicles, air defence, missile systems, artillery, munitions, drones, electronic warfare and sensor technology.

The UK Government has stated its commitment to increase defence spending to 2.5% of GDP from 2027. It has also identified defence as one of eight growth-driving sectors in its upcoming industrial strategy. We are actively engaged with the Government on its ongoing Strategic Defence Review and Defence Industrial Strategy, which will make recommendations on the nation's future defence plan in the coming months.

In the US, a Continuing Resolution was passed in March to provide funding through the end of fiscal year 2025. The new administration has said it intends to provide the country with unmatched military strength for years to come, a plan that calls for increased spending and a reprioritisation of where it is spent. Our portfolio is well-aligned with the key priorities of US and international defence and intelligence customers, including our capabilities in combat vehicles, electronic warfare programmes, precision guidance and missile defence systems, as well as space electronics, instruments and spacecraft.

As we observe evolving tariff policy, we note that the vast majority of equipment we deliver to our US customers is produced in our US operations with a largely domestic supply chain. As such, we do not expect to be materially impacted by the US tariffs, as they are currently proposed.

Our key markets in Asia-Pacific and the Middle East are also expected to see higher defence spending, and we will continue to support our government customers in these regions with leading products and services.

Shaping our portfolio to support future growth

We continue to invest in our technologies, facilities and people to ensure our business has the capacity and agility to deliver on our programmes as well as anticipate and respond to higher defence spending and the emerging threats our government customers are facing.

In 2024 we invested a record amount in research and development (R&D) and capital expenditure, and we continue to invest to support future growth.

Our investment in self-funded R&D is focused on key technology areas including electronic warfare, autonomy, laser-guided weapons, uncrewed air systems, synthetic training, electrification applications and space solutions.

We are building on more than £1.0bn of capital expenditure in 2024, as we increase capacity for the future as well as develop and modernise our systems. This includes a new explosives filling facility in South Wales, a new shipbuild assembly hall in Glasgow and a modern shiplift and land-level repair complex in Florida, all of which are expected to become operational in the summer.

We continue to hire and train people to enable us to deliver for our customers. In the UK alone, we intend to recruit more than 2,400 apprentice, undergraduate and graduate roles this year.

Capital distributions

The 2024 final dividend of 20.6 pence per share will be paid, subject to shareholder approval, on 2 June 2025.

As at 6 May, we have completed £392m of the three-year up to £1.5bn share buyback programme, which commenced in July 2024.

Half year results

BAE Systems will announce its results for the six months ending 30 June 2025 on 30 July 2025.

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