BAE Systems to acquire Ball Aerospace
A Space and Defence Technology Leader

August 17 2023
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BAE Systems Acquires Ball Aerospace – A Space and Defence Technology Leader

- Space Systems and Mission Enabling Defence Technology leader delivering mission critical solutions to customers
- Strongly aligned with Intelligence Community, Department of Defense, and US Government’s highest priorities
- Attractive positioning and outlook across military and civil space, C4ISR and missile and munitions
- Long and distinguished track record of innovation and development
- Enhances the growth profile of the Group and margin accretive post synergies

A unique opportunity to strengthen our BAE Systems’ world class multi-domain portfolio
Financially Compelling - Complementing the Strength of BAE Systems Investment Case

**Ball Aerospace Value Enhancing Financial Effects**

- Expected c.10% revenue CAGR over next 5 years
- c.$4.8bn EV Net of Tax Benefit\(^{(1)}\)
- Implied 2024 EBITDA ~13x multiple post cost synergies \(^{(2)}\)
- EPS accretive post run-rate cost synergies expected
- Cash flow per share accretive excluding synergies
- Expected ROIC > WACC within 5 years post completion

**BAE Systems Structurally Compounding Investment Case**

- Strong revenue growth outlook
- Improved margins with continued expansion
- Strong cash conversion
- Strong investment grade balance sheet
- Disciplined capital allocation framework
  - 19 years dividend increase
  - Share buy back programme to be maintained
  - Recent M&A track record

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\(^{(1)}\) For US tax purposes the transaction will be treated as an asset purchase for federal tax purposes with an expected net present value tax benefit of c.$750m

\(^{(2)}\) Net of c.$750m net present value tax amortisation benefit and $30m run-rate cost synergies
Ball Aerospace is a Space Systems and Mission Enabling Defence Technology Leader

**Leading Space Systems and Mission Enabling Defence Technology and Critical Mission Partner**

- **Advanced solutions offering including:**
  - Space Systems
  - Advanced remote sensing and other scientific systems
  - Tactical systems
  - Analytic tools and expertise

- **Track record as a trusted mission partner to IC, DoD, NASA, NOAA**
  - US government >90% of contracts

- **Highly innovative culture with demonstrated results**

- **Strong financial scale and profile**
  - Estimated revenue of ~$2.2bn 2023 and ~10% EBIT margin
  - Medium term ~10% CAGR revenue growth expected
  - All-time high $8bn of forward revenue visibility (2)

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### Ball Aerospace Revenue Mix

<table>
<thead>
<tr>
<th>End Markets</th>
<th>Domain Activities</th>
<th>Business Units</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil (~15%)</td>
<td>Space (~70%)</td>
<td>Tactical Missiles &amp; Other (~30%)</td>
<td>Fixed Price (~55%)</td>
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<tr>
<td>Defence (~85%)</td>
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<td>ATIS (1) (~5%)</td>
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<tr>
<td>National Defence (~50%)</td>
<td></td>
<td>Civil Space (~15%)</td>
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<tr>
<td>Tactical Solutions (~30%)</td>
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</table>

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(1) Advanced Technology and Information Solutions
(2) Order backlog and contracts won not booked

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Mission Critical Solutions Underpinned by World Class Capabilities

Delivering mission critical solutions to customers...

...across growing space, C4ISR, and missile markets

Breadth of advanced capabilities...

...underpin delivery of differentiated offerings
## Ball Aerospace - Strong Outlook and Positioning Across the Portfolio

<table>
<thead>
<tr>
<th>% Revenues</th>
<th>National Defence (50%)</th>
<th>Tactical Solutions (30%)</th>
<th>Civil Space (15%)</th>
<th>Advanced Technology and Information Solutions (5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission Solutions</td>
<td></td>
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<tr>
<td>Key Customers</td>
<td></td>
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<tr>
<td>Ball Aerospace Differentiation</td>
<td></td>
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<tr>
<td>Segment Growth Drivers</td>
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</tbody>
</table>

### National Defence (50%)
- Geospatial Intelligence
- Space Domain Awareness
- Defence Weather

### Tactical Solutions (30%)
- Airborne Antenna Systems
- Advanced Tactical Imaging
- Shipboard Systems

### Civil Space (15%)
- Space-based Environmental Monitoring
- Operational Weather Technology
- Ground-breaking Imaging

### Advanced Technology and Information Solutions (5%)
- Remote Sensing Analytics
- Open Data Architectures
- Directed Energy Research

### Mission Solutions
- End-to-end solutions that transform the National Security Space architecture

### Key Customers
- DoD / IC investing in evolving space architectures to meet emerging threats
- DoD investing in new technologies to meet emerging threats

### Ball Aerospace Differentiation
- Mission-enabling technologies to the warfighter across land, sea, air and space domains
- Science offerings at any scale

### Segment Growth Drivers
- Focus on climate change driving increased funding in government, commercial and international markets
- Aligned with key R&D priorities
Excellent Cultural Fit and Alignment

A mission-driven workforce with a culture of innovation

- Highly skilled and talented workforce
- >60% hold US Security Clearances
- ~40% have earned advanced degrees\(^{(1)}\)
- ~70% in technical roles\(^{(2)}\)
- Near 10 year average tenure

"Mission Inspired. Results Driven. Values Oriented."

State-of-the-art and well resourced facilities

- Tactical Development and Test Facilities
- Payload Development
- Cleanrooms
- Near-Field Range
- Thermal Vacuum Test Chamber
- EMI XL Chamber

~ $1bn invested over last five years\(^{(3)}\)

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\(^{(1)}\) Proportion of the c. 87% full-time employees who self-reported education level.
\(^{(2)}\) Includes Engineering and Other Technical roles.
\(^{(3)}\) Investment amount includes Capex, R&D and IRAD.
Complementary portfolio capabilities offer potential top line growth opportunities

Acquisition brings leading positions in satellite systems, geospatial intelligence, space-based Space Domain Awareness, tactical solutions and antenna arrays

To complement existing BAE Systems core capabilities in EW, communications, ISR systems and PGMs
High Quality Value Accretive Asset

Gross Cash of $5.55bn less PV of Tax benefit = Economic cost of $4.8bn

Double Digit Sales CAGRs
- 2018 sales $1.2bn
- 2023e sales $2.2bn
- c.10% CAGR 23-27
- Potential to hit $4bn by 2030

23-27E

Profitable Growth
- 2023e EBITDA of c.$310m with EBIT ROS of c.10%
- 23-27E EBIT Growth CAGR > Sales CAGR with 2023e margins of c.10% expanding >200bps

23-27E

Strong Cash Conversion
- >80% of EBIT

Expected EPS and cash flow accretive in first full year, ROIC > WACC within 5 years
## Value Creation – Significant Operational and Revenue Synergy Potential

<table>
<thead>
<tr>
<th>Operational Opportunities</th>
<th>Revenue Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Benefits from Global Supply Chain</td>
<td>• Complementary capabilities, customers and business models to a wide range of Electronic Systems franchises</td>
</tr>
<tr>
<td>• Proven Life Cycle Management Framework</td>
<td>• Deeper customer relationships</td>
</tr>
<tr>
<td>• Operational excellence embedded across programmes</td>
<td>• Enhanced offerings to our customers</td>
</tr>
<tr>
<td>• Balance Sheet strength to support long term contracts</td>
<td>• Cross-sell opportunities</td>
</tr>
<tr>
<td>• Shared service optimisation and functional cost take-out</td>
<td>• Improved performance through cost efficiencies</td>
</tr>
<tr>
<td>• Access to engineering, manufacturing and test facilities to reduce future investment by Electronics Systems</td>
<td>• Integration plan to enable collaboration and shared understanding of capabilities</td>
</tr>
<tr>
<td>• Access to Electronic Systems lower cost manufacturing lines</td>
<td></td>
</tr>
</tbody>
</table>

~$30m run-rate synergies, net of pass-back to customer

≥ $2bn in additional ES sales (cross-selling) over 10 years
Attractive financial rationale

Key Points of Reference

- Gross Cash Consideration $5.55bn
- PV of section 338 election c.$750m
- Economic value of $4.8bn ~13X 24 EBITDA post cost synergies
- $30m p.a. in run rate cost synergies expected

Illustrative Deleveraging Profile

- Illustratively reducing 0.2-0.3x p.a.

Tax Effects

- Acquisition is FCF accretive to the Group (ex-synergies)
- Acquisition EBITDA >> assumed incremental interest

Cash Generation

- Group proforma 24E Net Debt including pensions and leases <2.0X
- Excluding pensions and leases ~1.5X

Leverage

Compelling financial rationale: EPS and cash flow accretive in year 1 expected

Note: Illustratively at current FX rates
Strong Balance Sheet and Capital Allocation Priorities Unchanged

- Strong and flexible balance sheet, with capital allocation optionality
- Capital allocation priorities unchanged
- Commitment to maintaining strong investment grade credit rating
- Ongoing share buyback programme to continue as announced at H1 results

Free cash flow 2023-2025: £4.5bn - £5.5bn

(1) Targeted guidance, subject to geopolitical and other uncertainties. Excludes the impact of the proposed acquisition of Ball Aerospace.
Financial Summary

BAE Systems Strong Performance

- **2020-2022**
  - Sales CAGR: +6%
  - Margin Expansion: 90bps
  - Cash Generation: £5.2 bn

- **2023 Guidance vs 2022**
  - Sales Growth: +5-7%
  - Margin Expansion
  - Cash Generation: >£1.8 bn

Acquisition adds a quality business featuring:

- Double digit sales growth
- Strong synergies
- Earnings accretive
- Margin accretive
- Cash Flow accretive

Acquisition builds on a strong, value compounding business model
Continuing to Deliver Against Our Investment Proposition

Long Term Sustainable Growth

**Record Backlog**
- Order backlog of £66bn as at 30 June 2023
- >2 Years of Revenue

**Significant Embedded Future Value**
- Sustainment, support and follow-on orders for existing long term programs

**Growing Global Defence Budgets and Opportunity Pipeline**
- Set for growth in: US, UK, Europe, Asia Pacific
- Opportunities across all our major markets

**Future Technologies**
- Innovating sustainable technologies to deliver the defence network of the future

**Investing in the business**
- Investing in R&D, facilities and our people to support long term growth

**Strong programme performance**
- Margins expanding
- Free cash flow growing

Track record positions BAE Systems well to maximise this opportunity to enhance long term sustainable growth
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Questions
Supplementary Information
Appendix: Reference Numbers for Acquisition

Estimated 2023:
- Sales $2.2bn
- EBITDA c.$310m
- ROS c10%

Outlook:
- 5 Year Sales CAGR c.10%
- EBIT ROS to >12% medium term

Synergies:
- c.$30m p.a. cost synergies
- >$2bn in 10 yr. top line synergies (cross-selling)

Tax:
- Ball Aerospace benefits from R&D credits to give a stand alone ETR at ~15%

Sales Mix 23e:
- ND c.50%
- Tactical c.30%
- Civil Space c.15%
- ATIS c.5%

Consideration:
- $5.55bn net of final adjustments
- Less PV of tax
- $4.8bn

Post Close Proforma Group Leverage
- 1.7x ND to EBITDA (excluding pensions & leases)

Financing:
- Illustrative financing of $4bn debt at 5.5% incremental interest pre-tax of $220m

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