

EUROPEAN EQUITIES

HECONOMIE
Global Research

BAE SYSTEMS

Buy Recommendation

March 2025



ON THE AGENDA

BAE SYSTEMS

- I EXECUTIVE SUMMARY
- II INDUSTRY ANALYSIS
- III COMPANY OVERVIEW
- IV INVESTMENT THESES
- V VALUATION
- VI RISK ANALYSIS

I. Executive Summary

BAE SYSTEMS



European Equities Team

New European Equities Team – Fresh, Innovative & Ready for the Future.

Team Overview

Executive Summary

Industry Analysis

Company Overview

Investment Theses

Valuation

Risk Analysis



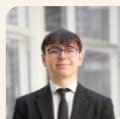
Philippe Chabot

Fund Manager

Previous experiences:

2

Years of experience



Mattias Ferrier

Investment Analyst

Previous experiences:



Years of experience



Julien Grivaz

Investment Associate

Previous experiences:

1

Years of experience



Abdesslam Benhachem

Investment Analyst

Previous experiences:



Years of experience



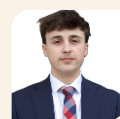
Pol Monnier

Investment Analyst

Previous experiences:



Years of experience



Bogdan Raru

Investment Analyst Intern

Previous experiences:



Years of experience



Jules Charbonneau

Investment Analyst

Previous experiences:



Years of experience



Our Raison D'être



Boosting Performance Through Strategic Short-Term Allocation Adjustments



Proactively Protecting the Portfolio by Forecasting and Managing Emerging Risks

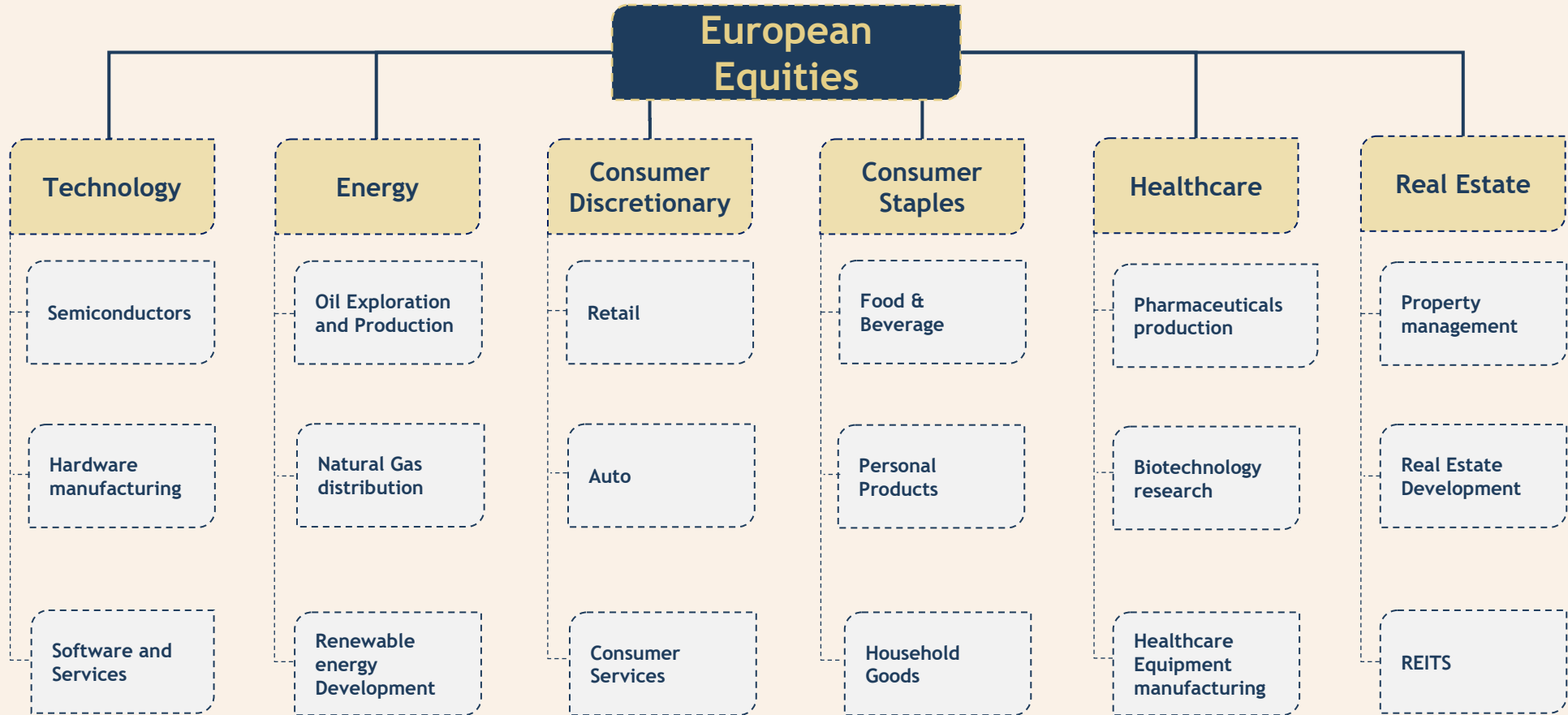


Enhancing Portfolio Flexibility Through Real-Time Asset Allocation Adjustments

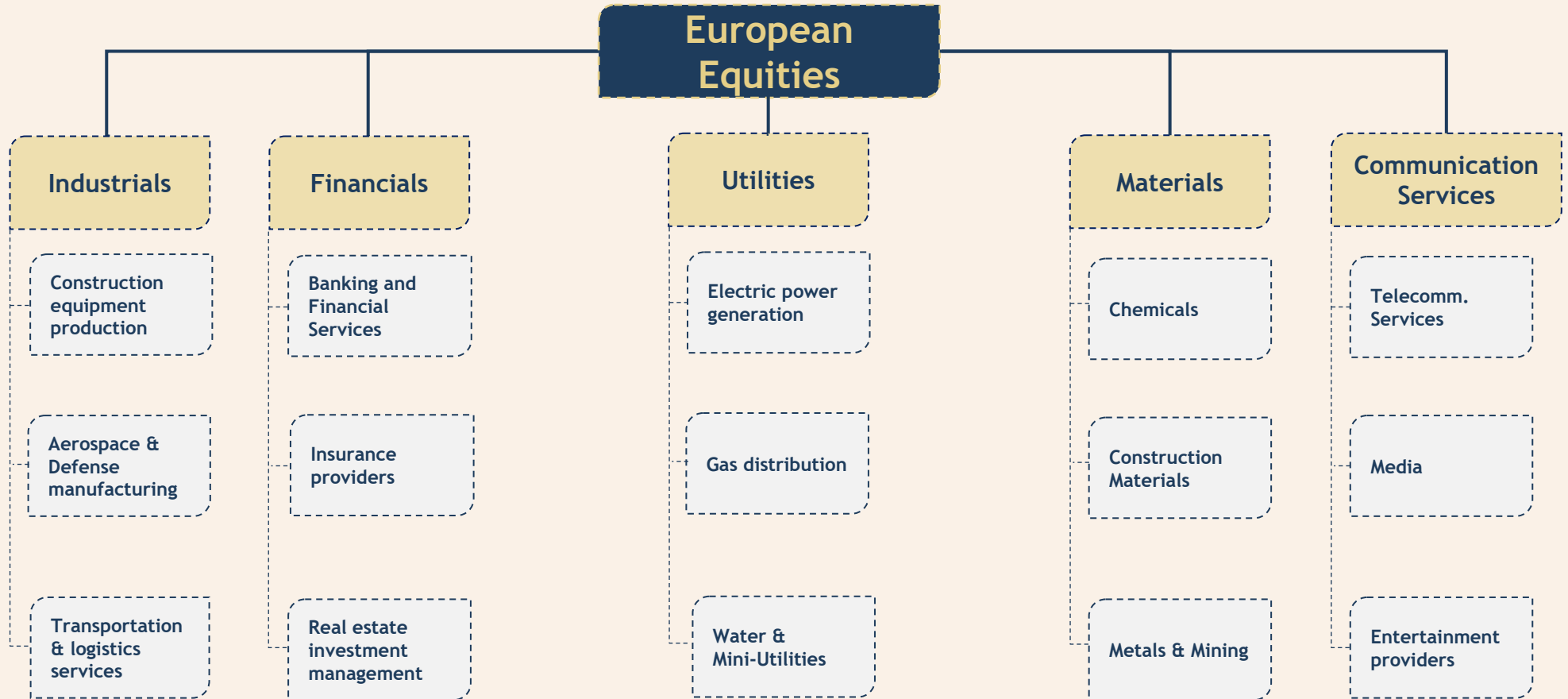


Optimizing Risk-Adjusted Returns Through a Strategic Balance of Growth and Stability

Overview of Industries and Sectors

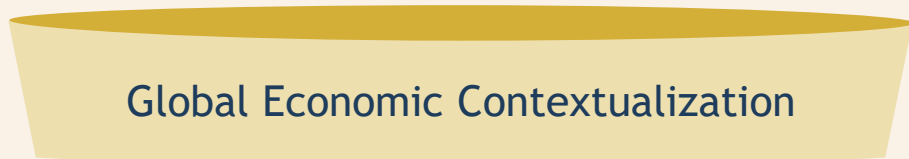


Overview of Industries and Sectors



HGR Macro Selection Process

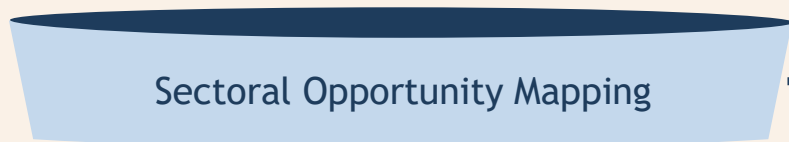
Executive Summary
Industry Analysis
Company Overview
Investment Theses
Valuation
Risk Analysis



1



The HGR research team begins its investment approach with global economic analysis, conducted by the Macro Investment Decision team, to identify key opportunities and risks. This thorough evaluation guides the investment teams in their initial selection process.



2



We prioritize the Aerospace & Defense sector due to its critical role in national security and military innovation. The global increase in defense spending, driven by geopolitical instability and technological advancements, continues to fuel demand for cutting-edge military solutions, positioning the sector for long-term growth.



3



We emphasize the defense industry's expansion, supported by sustained government contracts, increasing military expenditures, and the growing need for advanced capabilities in cybersecurity, artificial intelligence, and autonomous defense systems. BAE Systems benefits from a strong alignment with these industry trends.



4



Within the defense sector, the military technology and aerospace segments demonstrate the highest growth potential, fueled by demand for next-generation combat aircraft, naval defense systems, and digital warfare solutions. BAE Systems' leadership in these areas provides a competitive edge in securing high-value contracts.



5



BAE Systems' strong defense contracts, diversified portfolio, and technological leadership make it a key player in the defense industry. With robust financials, consistent R&D investment, and long-term partnerships with global defense agencies, BAE Systems is well-positioned for continued success.



6

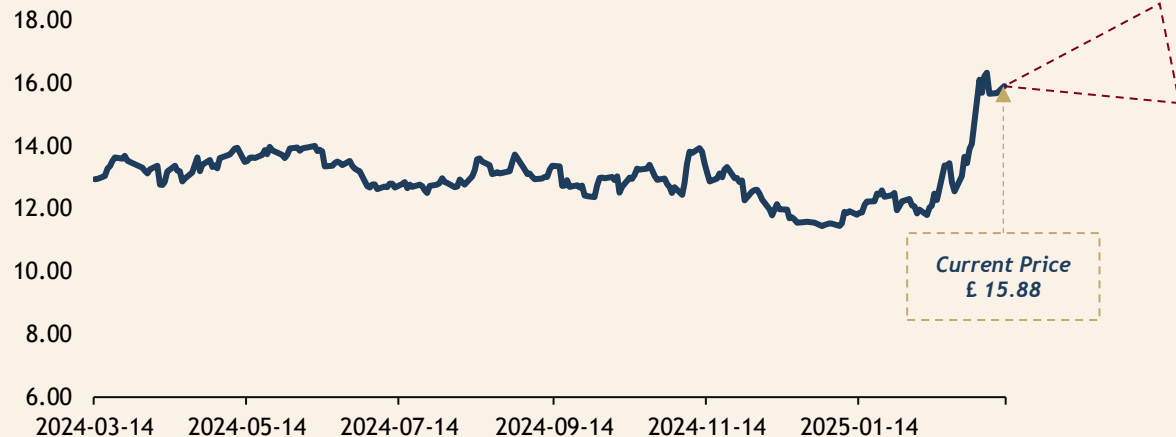


HGR Recommends a BUY on BAE Systems with a 34.6% upside.

Investment Recommendation

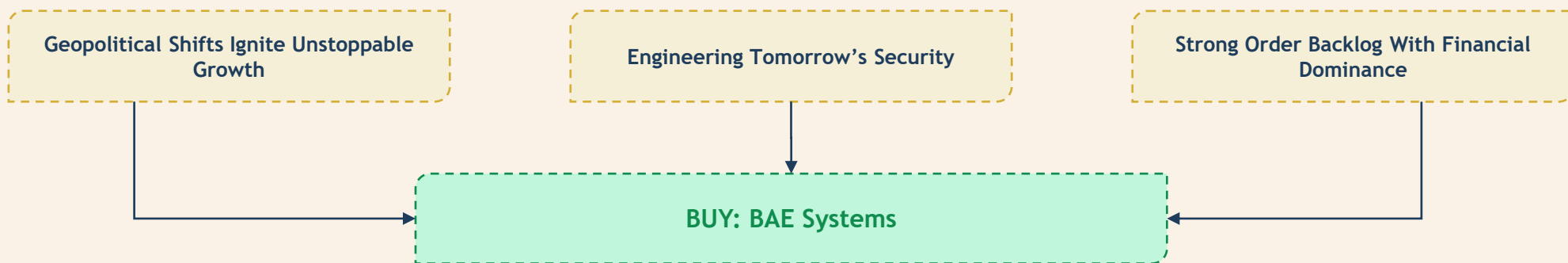
We Issue a **BUY** Recommendation of BAE Systems Implying a 34.6% Upside

Target Price



Target Price		
£ 21.32		
Current Price	Dividend Yield	Upside potential
£ 15.88	2.08%	34.6%

Investment Theses



II. Industry Analysis

BAE SYSTEMS

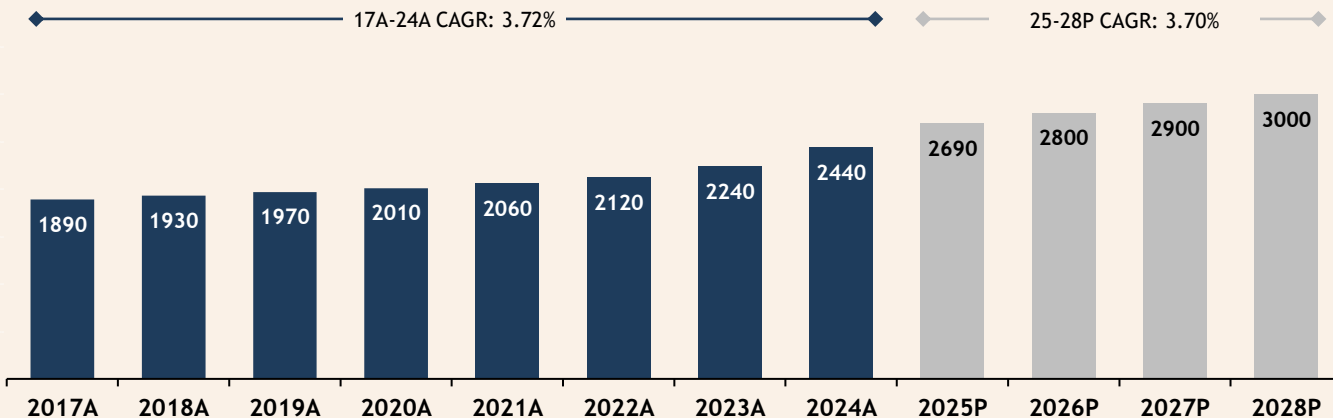


Defense Industry Overview

Growing Need for Defense in a Changing World

Total Defense spending Worldwide

(In Billions of US dollars)



Top Companies in the Industry per Region



Commentary

- Expected CAGR of 3.70% from 2025 to 2028 from Revenue industry growth.
- The global defense industry attracts substantial investments driven by ongoing geopolitical developments and national security priorities.
- The average defense deal size is \$88.3M.
- The industry is expected to grow massively in Europe due to geopolitical conflicts.

Executive Summary
Industry Analysis
Company Overview
Investment Theses
Valuation
Risk Analysis

HGR's Economic Take: The Rising Might

Growing Needs for Defense in a Changing World

Executive
Summary

Industry
Analysis

Company
Overview

Investment
Theses

Valuation

Risk Analysis

1

Rising Global Security Threats

Geopolitical tensions, regional conflicts, and the rise of cyber warfare are driving nations to strengthen their military capabilities. With emerging threats, governments are prioritizing defense investment to ensure national security.

2

Military Technological Advancements

Innovations in artificial intelligence, drones, space defense, and cybersecurity are leading to higher demand for cutting-edge military equipment.

3

Higher Defense Budgets & Military Spending

Many nations are significantly increasing their defense budgets to strengthen national security and deterrence capabilities.



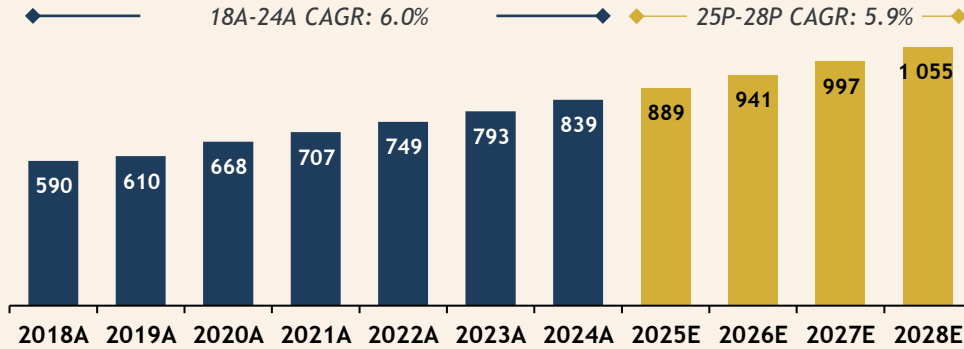
The European Equity Team is Overweight on the Defense Sector

Aerospace Subsector Overview

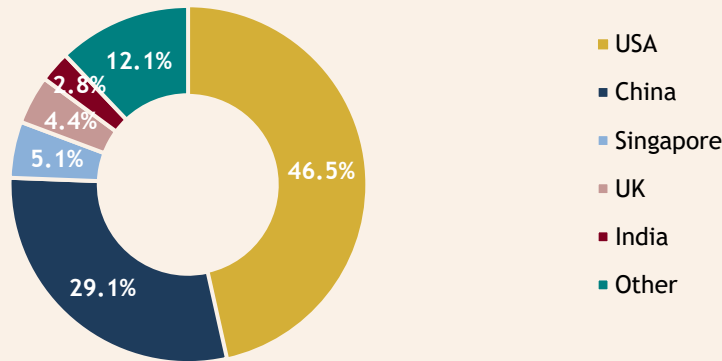
Propelling Aerospace into a New Era

Global Defense Aerospace Market Size

(In Billions of US dollars)



Global Space Sector: Investment Breakdown

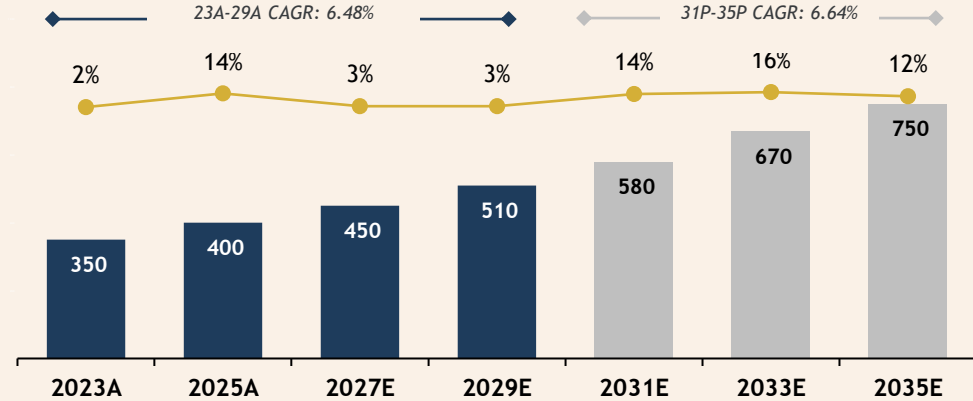


Key Market Drivers

- **Defense Spending Surge:** Global conflicts push military budgets higher, driving demand for advanced defense and aerospace technologies.
- **Next-Gen Military Tech:** AI, hypersonic missiles, and autonomous aircraft reshape modern warfare and defense strategies.
- **Strategic Government Partnerships:** Long-term defense contracts (AUKUS, NATO, U.S. DoD) secure stable revenue and continuous R&D investments.
- **Commercial Aerospace Recovery & Expansion:** Increasing airline orders, demand for fuel-efficient aircraft, and space-based defense initiatives contribute to sectoral growth.

Air Military Spending

(In Billions of US Dollars)

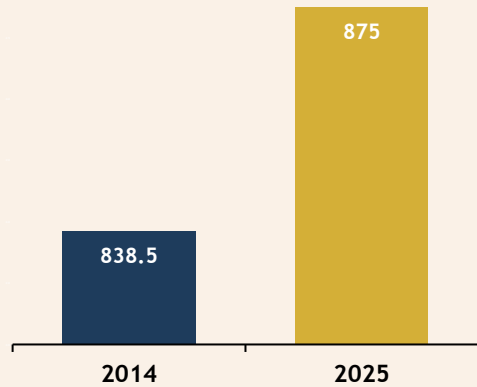


Aerospace Subsector Overview

Propelling Aerospace into a New Era

Global Aerospace Market Size

(In Billions of US dollars)



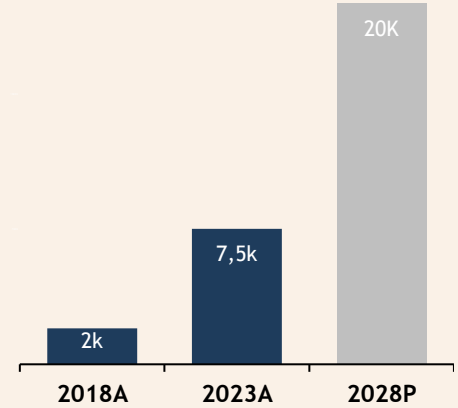
Aerospace Industry Trends

AI-powered defense systems gain traction	Cybersecurity is a battlefield priority
Hypersonic weapons reshape military strategy	Autonomous combat drones lead innovation
Electronic warfare systems disrupt enemy defenses	Next-generation stealth aircraft dominate the skies

The Rise of AI in Defense & Aerospace



Satellites Launched



A Growing Industry

The defense industry is experiencing continuous expansion, driven by rising geopolitical tensions and increasing military budgets. Investments in advanced defense systems, such as combat aircraft and submarines, create strong growth opportunities. BAE Systems directly benefits from this trend through its major government contracts.

Technological Race

AI, cybersecurity, hypersonics, and autonomous systems are revolutionizing the defense sector. BAE Systems is heavily investing in the development of cutting-edge solutions, including autonomous drones and electronic warfare systems. This technological race is crucial to staying competitive against U.S. and European defense giants.

Modern Warfare

The increasing use of drones and AI-powered combat systems is reshaping modern warfare. Nations are shifting towards unmanned systems for reconnaissance, attack missions, and electronic warfare. BAE Systems is developing next-generation autonomous military aircraft and AI-driven defense solutions to enhance operational efficiency and reduce human risk in combat scenarios.

Equipment Demand Surge

The war in Ukraine has highlighted the critical need for sustained ammunition production and rapid equipment deployment. Countries are ramping up manufacturing capabilities to avoid shortages in prolonged conflicts. BAE Systems, as a key supplier of advanced weaponry and armored vehicles, is scaling its production to meet the growing demand for modern warfare equipment.

HGR's Economic Take: Aerospace Ascendancy

Why the Aerospace Sector is Experiencing Rapid Growth

1

Expanding Global Defense Aerospace Programs

The rising need for next-generation fighter jets, surveillance aircraft, and military drones is driving strong demand for advanced aerospace systems. Governments worldwide are ramping up investments in cutting-edge aviation technologies to maintain air superiority and enhance national security.

2

Technological Advancements in Military & Civil Aerospace

Breakthroughs in hypersonic flight, AI-driven autonomous aircraft, and space-based defense systems are transforming the aerospace landscape. BAE Systems is at the forefront of developing advanced fighter jets (Typhoon, F-35), combat drones, and electronic warfare solutions.

3

Increased Military & Commercial Aerospace Spending

Global aerospace budgets are expanding, with governments prioritizing both defense and commercial aviation. The demand for sustainable aviation technologies, space exploration, and next-gen communication satellites further fuels long-term growth for the sector.



The European Equity Team is Overweight on the Aerospace Segment

III. Company Overview

BAE SYSTEMS

BAE SYSTEMS



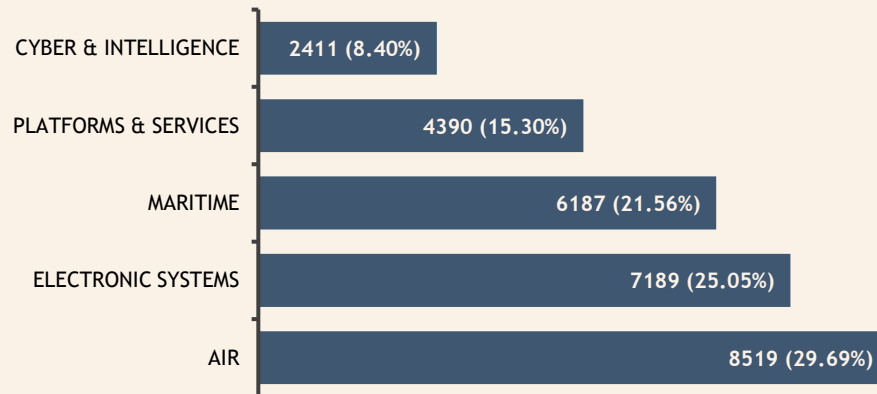
BAE Systems Company Overview

A Global Leader in Defense, Aerospace, and Security Innovation

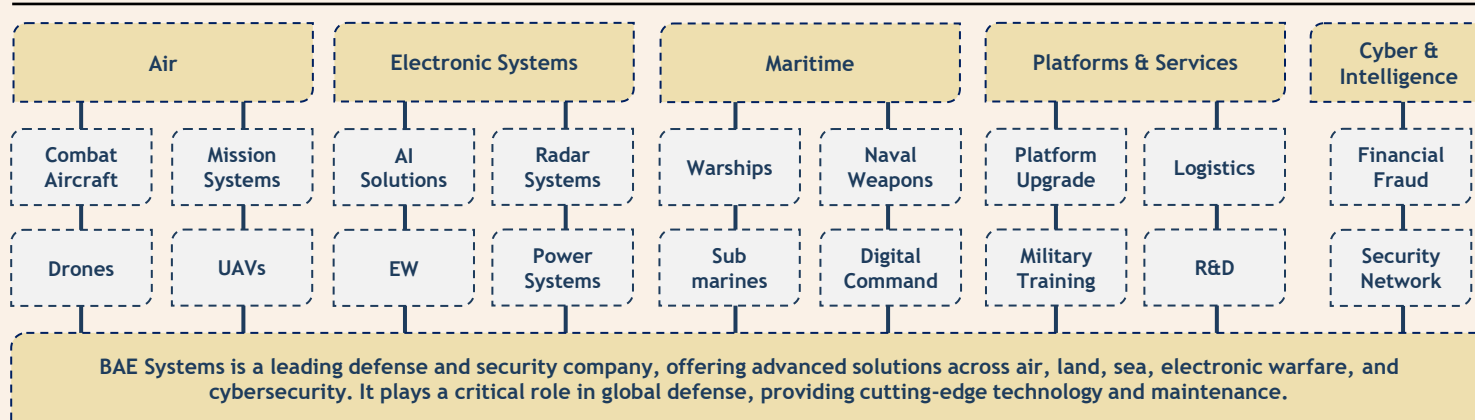
Company Highlight

- Government Defense Contracts** : A significant portion of BAE Systems revenue comes from government defense contracts. These include the design, manufacture and maintenance of military aircraft, naval systems land vehicles, and advanced weaponry.
- International Arms Export** : They generate substantial income from the international arms market, exporting military equipment to countries such as Saudi Arabia, Australia, and several NATO members.
- Cybersecurity & Intelligence Services** : BAE System has established a profitable cybersecurity and intelligence services division. This sector includes providing digital defense solutions, threats detection, and secure communication systems for governments, private corporations, and critical infrastructure.
- Commercial Aerospace & Civil Sector** : BAE Systems also generates revenue from the commercial aerospace sector, providing avionics, electrics systems, and engineering services to companies like Boeing and Airbus. Additionally, its involvement in sustainable aviation technologies and space-based defense systems adds another layer to its diversified revenue streams.

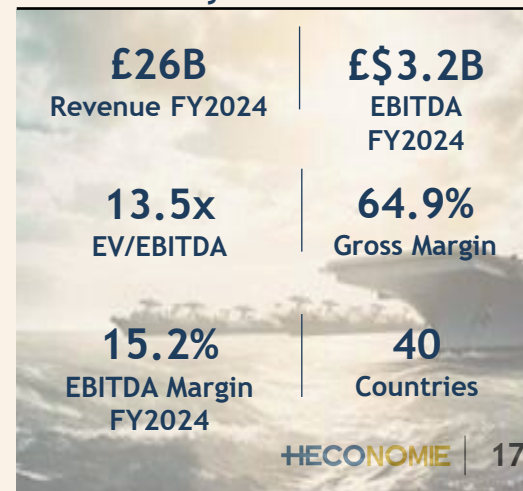
BAE Sales Per Sector



BAE Product Overview



Key Financials



BAE Systems Company Overview

A Global Leader in Defense, Aerospace, and Security Innovation

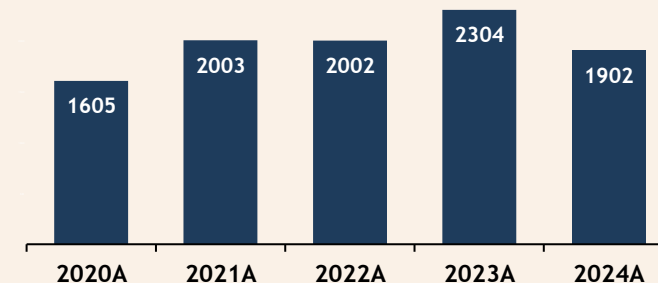
BAE 3 Pillars Strategy

Core Business	Key Points	Innovation	Key Points	Expanding	Key Points
<p>Expending key defense contracts</p> <p>Enhancing land, air, & naval capacities</p> <p>Modernizing existing defense systems</p>	<ul style="list-style-type: none"> BAE secures multi-year deals with governments, such as the UK's Dreadnought-class submarines and the US army's Bradley fighting vehicle. Continuous investment in advanced platforms, including the Tempest fighter jet, Type 26 frigates, and autonomous defense systems. Upgrading and sustaining military equipment to ensure cutting-edge operational readiness for global defense customers. 	<p>Artificial intelligence</p> <p>Cybersecurity & electronic warfare</p> <p>Space & hypersonic technologies</p>	<ul style="list-style-type: none"> Developing AI-powered battlefield solutions, autonomous drones, and robotic combat vehicles. Expanding capabilities in digital defense, cyber threat intelligence, and electronic warfare systems. Investing in space-based defense, missile defense shields, and high-speed hypersonic weaponry to counter emerging threats. 	<p>Strategic Joint Ventures & Alliances</p> <p>Localized Production & Supply Chains</p> <p>Growing Export Markets</p>	<ul style="list-style-type: none"> Collaborating with companies like MBDA (missile systems) and Lockheed Martin (F-35 program) for shared defense innovation. Establishing in-country manufacturing to support international partners (e.g., Saudi Arabia's Vision 2030 defense program). Expanding defense exports to key allies like Australia, India, and NATO countries to meet rising global security demands.

Management Overview

BAE's Sustained R&D Expenditure

(Millions GBP £)



 **Tom Arseneault**
CEO of Inc.
Joined in 2000

Previous experiences:

 **24** Years of experience



 **Charles Woodburn**
CEO of PLC
Joined in 2017

Previous experiences:

 **30** Years of experience



 **Simons Barnes**
Group Managing Director, Air
Joined in 2001

Previous experiences:

 **26** Years of experience



BAE System Position Against Peers

A strong defense player with the widest presence

BAE System Position Against Peers

Company	Aerospace & Fighter Jets	Naval & Submarine Warfare	Land Systems & Armored Vehicles	Cybersecurity, AI & Electronic Warfare	Missile Systems & Space Defense	Space & Satellite Defense
BAE SYSTEMS	Strong in Eurofighter Typhoon, F-35 components	Leader in submarines (Astute, Dreadnought), Type 26 frigates	Strong with Bradley Fighting Vehicle, Challenger 3 tanks	Strong in electronic warfare & AI battlefield systems	Missile guidance & integration, but lacks full-scale missile production	Expanding via Ball Aerospace acquisition
LOCKHEED MARTIN	F-35, F-22, C-130—strongest in fighter jets	Naval systems via Aegis integration, but no major shipbuilding	Limited armored vehicle presence	Leader in AI-driven combat and defense tech	Top in hypersonic missiles & missile defense (THAAD, HIMARS)	Strong in U.S. Space Force programs & satellite defense
NORTHROP GRUMMAN	Leader in stealth bombers (B-2, B-21 Raider)	Naval drones & electronic warfare, but no shipbuilding	Limited land systems presence	AI, drone warfare, electronic warfare leadership	ICBM & hypersonic missile programs	Space-based defense, U.S. satellite programs
Raytheon Technologies	Strong in avionics & radar, but no full aircraft production	Naval missile integration but no shipbuilding	No major armored vehicle presence	Leader in radar, cyber defense & electronic warfare	Largest missile manufacturer (Patriot, Tomahawk, AMRAAM)	Advanced space sensors & military satellite technology
GENERAL DYNAMICS	Primarily Gulfstream business jets, not military	Strong in U.S. nuclear submarines (Virginia, Columbia-class)	Strong in US land systems (M1 Abrams, Stryker, LAVs)	Some cyber capabilities, but not a core focus	Limited missile development	Not a major space defense player
Conclusion	Strong presence in fighter jet industry	BAE is the strongest in naval warfare (UK submarines and frigates).	BAE is strong in land systems with General Dynamics	Strong footprint in electronic warfare and AI-driven defense	BAE specializes in missile guidance and integration but does not produce missiles at scale.	BAE is expanding in space defense, but it remains smaller than competitors

Executive Summary

Industry Analysis

Company Overview

Investment Theses

Valuation

Risk Analysis

IV. Investment Theses

BAE SYSTEMS



Thesis I: Geopolitical Shifts Ignite Unstoppable Growth

Booming Defense Budgets and Global Tensions Propel BAE Forward

BA's Positioning

Key Area	Defense Budgets	BA Geo. Breakdown
Europe & U.K.	EU defense budget FY2024 of €326B, up 16.8% from 2023.	<ul style="list-style-type: none"> • \$470B defense market • 40% of sales • 52% of employees
United States	Defense budget FY2024 of \$886B, up 8.6% from 2023.	<ul style="list-style-type: none"> • \$847B defense market • 44% of sales • 34% of employees
Emerging Markets	M.E. defense spending up to \$200B.	<ul style="list-style-type: none"> • \$160B defense market • 12% of sales • 6% of employees

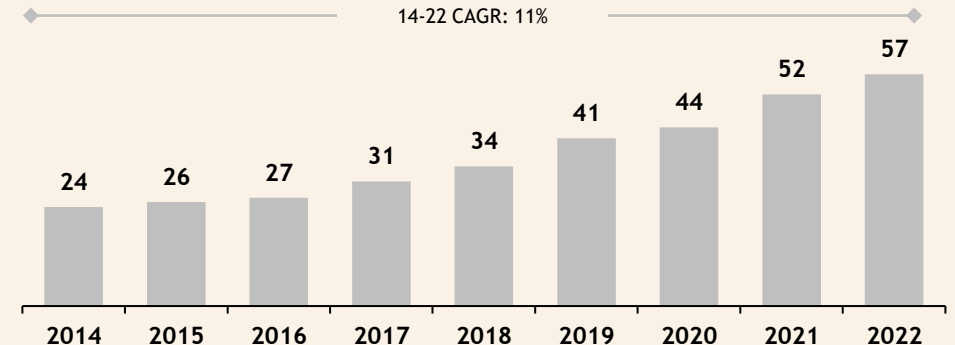
Key Developments

Development	Impact on Revenue
The U.S. has halted aid to Ukraine and a Republican faction is advocating for a U.S. withdrawal from NATO.	European nations will have to take on the U.S.' role in NATO and Ukraine = bigger role to play by BA.
Germany announced a Defense Spending Reform: unlimited credit-financed defense expenditures for spending >1% of GDP	Increase in procurement of advanced military equipment, mainly from European firms like BA.
France's Macron intensifies his advocacy for a European Army and a strategic autonomy for Europe	BA's key role in European defense projects make it a natural benefactor of the increased demand.

Europe	United Kingdom	United States
<ul style="list-style-type: none"> ▪ Eurofighter ▪ MBDA ▪ Combat vehicles/artillery : CV90, BvS10, ARCHER ▪ US foreign military sales ▪ Precision munitions ▪ Eurofighter domestic build ▪ GCAP ▪ \$2.5B CV90 Combat Vehicles for Denmark and Sweden contract (Dec 6, 2024) ▪ BA is meeting the European transition towards modern defense systems 	<ul style="list-style-type: none"> ▪ Astute and Dreadnought submarine build ▪ SSN-AUKUS submarine design and future build ▪ Naval ship build ▪ Typhoon capability upgrade UK sponsored ▪ Typhoon exports ▪ F-35 and support ▪ GCAP/Tempest ▪ Digital Intelligence ▪ Munitions ▪ £285M Royal Navy Warship Combat Systems contract (Jan 28, 2025) ▪ Strong relationship with the UK Ministry of Defense 	<ul style="list-style-type: none"> ▪ Electronic warfare ▪ Precision strike ▪ C4ISR ▪ Intelligence & security ▪ Combat vehicles ▪ US ship repair ▪ Munitions ▪ Space ▪ CSC ▪ \$251M U.S. Navy AEGIS Combat System Support contract (Feb 17, 2025) ▪ BA is a top 10 defense prime contractor in the U.S.

Military Defense Investments in the EU

(Billions EUR €)



Executive Summary
Industry Analysis
Company Overview
Investment Theses
Valuation
Risk Analysis

Thesis II: Engineering Tomorrow's Security

Technological edge, Scaling capabilities, and Market Leadership keeps BAE at the forefront of defense modernization

BAE Systems Constant Innovation

BAE Systems constantly innovates to stay ahead with evolving warfare technologies, including AI-driven defense, cyber warfare, and next-gen missile systems. Continuous R&D ensures strategic superiority, secures long-term contracts, and positions itself to answer shifting demand for modern defense solutions.

Research, design and development activities

BAE Systems is committed to advancing the next generation of defense and security technologies through significant investment in research, design, and development (R&D). In 2024, the company allocated £1.9 billion to R&D, with in customer and company-funded funds, ensuring continuous innovation in cyber warfare, AI-driven defense, and advanced military systems. This investment reinforces BAE's role as a leader in cutting-edge defense capabilities that keep global security at the forefront.

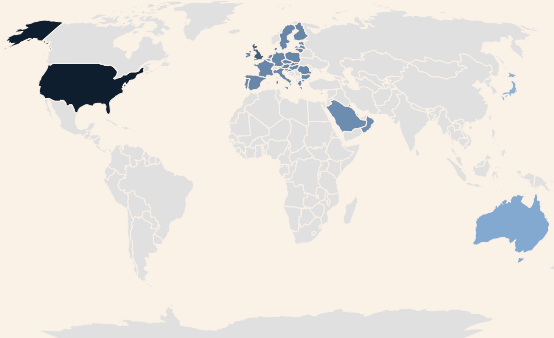
CAPEX Investment

BAE Systems continues to strengthen its infrastructure and innovation capacity through strategic capital investment. In 2024, the company allocated £1.0 billion in capital expenditure (CapEx), up from £0.8 billion in 2023, to develop world-class facilities that enhance production, innovation, and teamwork. These investments ensure BAE remains at the forefront of cutting-edge defense technology, delivering state-of-the-art solutions to its global customers.

M&A

BAE Systems is expanding its global footprint through strategic mergers and acquisitions, investing £4.8 billion in M&A to enhance its capabilities. This includes the largest acquisition in the company's history—the \$5.5 billion (£4.4 billion) purchase of Ball Aerospace in the U.S., strengthening its UAS and counter-UAS technologies. Alongside these acquisitions, BAE is committed to investing in people, supporting future talent through apprenticeship and graduate programs, ensuring a skilled workforce for cutting-edge defense innovation.

Global Presence



United State : 44% of sales

United Kingdom : 26% of sales

Europe : 14% of sales

Middle East : 12% of sales

Australia : 4% of sales

BAE Systems Partnerships

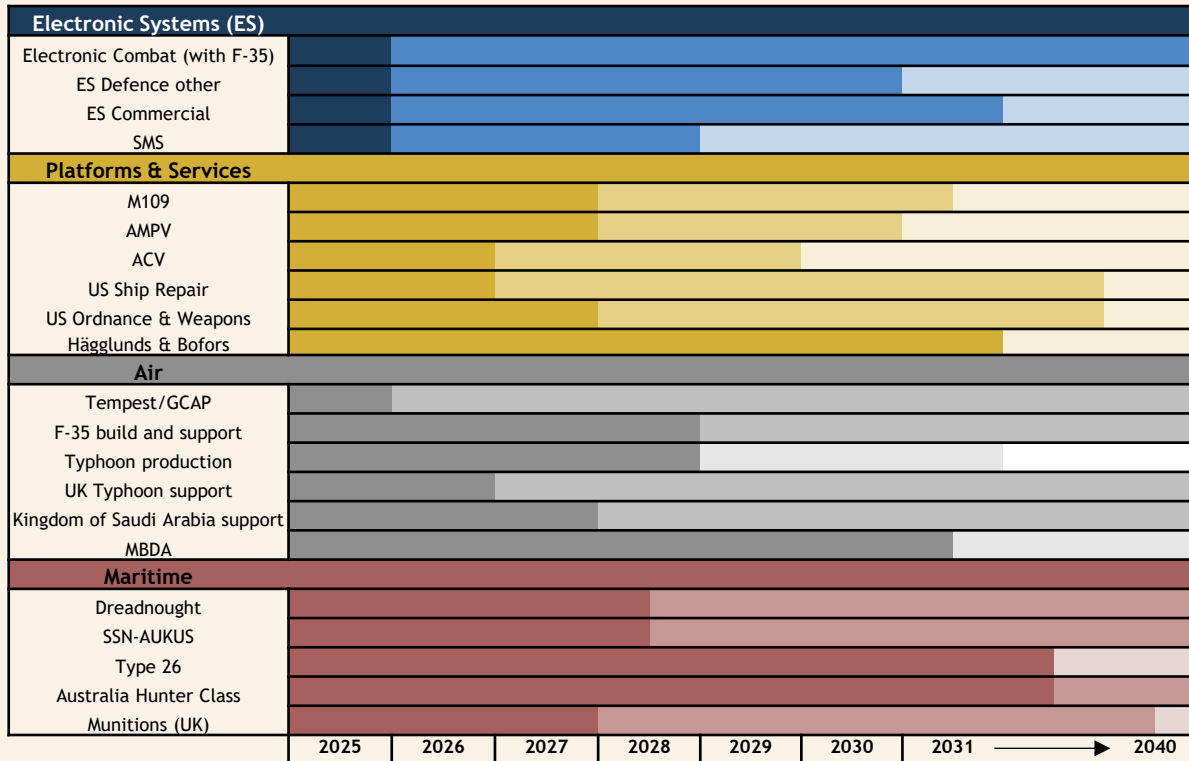
BAE Systems' partnerships are essential for securing long-term government contracts, expanding global defense influence, and accessing cutting-edge technologies in AI, cybersecurity, and hypersonics. These alliances ensure sustained revenue, technological superiority, and a strong competitive position in modern warfare.

- 1 Lockheed Martin (U.S.) - Fighter Jets & Missile Defense
- 2 Rolls-Royce (UK) - Aerospace & Naval Propulsion
- 3 Airbus (Europe) - Military Aircraft & Space
- 4 AUKUS Alliance (Australia, UK, US) - Nuclear Submarine Program
- 5 Microsoft & Other Tech Firms - Cybersecurity & AI Defense

Thesis III: Strong Order Backlog with Financial Dominance

Unshakable Order Book: BA is a Dividend Fortress

Multi-Decade Programs and Growing Global Opportunity Pipeline



Order Backlog :

Pipeline/Incumbent Position:

Opportunity :

Backlog for Cyber & Intelligence is generally for one year with an incumbency position following

Key Financial Figures

£77.8B
Order Backlog

£60.4B
Order Book

£33.7B
Order Intake

£2.5B
Free Cash Flow

£3.9B
Net Cash Flow From
Operating Activities

2.12%
Dividend Yield

Securing Growth Through FCF Resilience

BAE doesn't chase contracts; contracts chase BAE. The company's backlog includes F-35 fighter jet components, advanced missile systems, and next-gen cyber warfare solutions, securing revenue visibility for years.

BAE Systems' secure government contracts and cost efficiency ensure strong free cash flow, enabling continuous R&D investment in next-gen defense technologies.

Free cash flow in 2025 is expected to be greater than £1.1bn as cash advances received will start to unwind.

V. Valuation

BAE SYSTEMS



Valuation Summary

Resilient growth backed by Defense Demand, Technological Edge and Exemplary Execution

Model Outputs

Unlevered Free Cash Flows (Figures in £ millions)	Projections							Terminal
	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29	Dec-30	
Revenue	26,312	28,356	30,257	32,201	34,196	36,242	38,334	38,718
<i>Growth %</i>	14.0%	7.8%	6.7%	6.4%	6.2%	6.0%	5.8%	1.0%
Gross Profit	17,083	18,431	19,709	21,020	22,371	23,759	25,183	25,435
<i>Gross Margin %</i>	64.9%	65.0%	65.1%	65.3%	65.4%	65.6%	65.7%	65.7%
EBITDA	4,221	5,220	5,612	6,018	6,438	6,873	7,323	7,396
<i>EBITDA Margin %</i>	16.0%	18.4%	18.5%	18.7%	18.8%	19.0%	19.1%	19.1%
EBIT	3,558	4,483	4,826	5,181	5,550	5,932	6,327	6,390
<i>EBIT Margin %</i>	13.5%	15.8%	16.0%	16.1%	16.2%	16.4%	16.5%	16.5%
Tax on EBIT	712	934	1,046	1,166	1,295	1,434	1,582	1,598
<i>Effective Tax Rate %</i>	20.0%	20.8%	21.7%	22.5%	23.3%	24.2%	25.0%	25.0%
NOPAT	2,846	3,549	3,781	4,015	4,255	4,498	4,745	4,793
Plus: Depreciation & Amortization	663	737	786	837	888	942	996	1,006
Less: CapEX	(990)	(839)	(896)	(953)	(1,012)	(1,073)	(1,135)	(1,146)
Less: Changes in NWC	1,033	715	763	811	862	913	965	975
Unlevered Free Cash Flow (UFCF)	3,552	4,162	4,434	4,710	4,993	5,280	5,572	5,628
<i>FCF Growth %</i>		17.1%	6.5%	6.2%	6.0%	5.8%	5.5%	1.0%
<i>FCF Margin %</i>	13.5%	14.7%	14.7%	14.6%	14.6%	14.6%	14.5%	14.5%
<i>Stub-Year</i>			0.40	1.40	2.40	3.40	4.40	4.40
PV of UFCF			4,292	4,206	4,113	4,013	3,907	3,946

Key Assumptions

WACC: 8.39%

Perpetual Growth Rate: 1.00%

Statutory Tax Rate: 25.0%

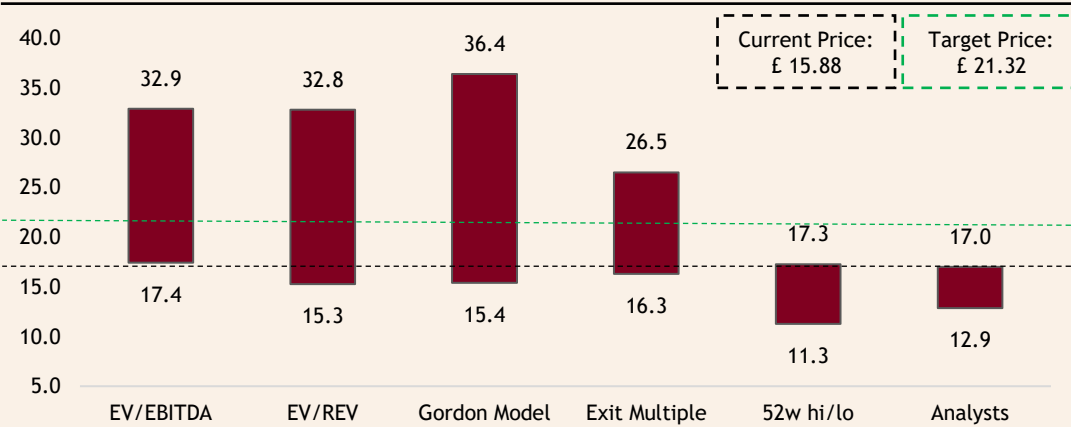
FDSO: 2998 M

- Revenue is projected to grow at -6-8% near term, driven by record defense budgets, geopolitical tensions, and backlog execution, tapering to 3% long-term.
- Segment forecasts align with contract deliveries, with growth in F-35, Tempest, SSN-AUKUS submarines, CV90 vehicles, electronic warfare, and exploding demand for cybersecurity and intelligence solutions.
- EBITDA margin expected to remain above 18%, supported by operating efficiencies, pricing power, and a favorable contract mix.
- Strong backlog monetization and disciplined capital allocation ensure sustained investment in R&D, stable cash flows, and predictable contract revenue.

Valuation Summary

Resilient growth backed by Defense Demand, Technological Edge and Exemplary Execution

Football Field



Sensitivity Analysis

		Gordon Model					
		\$21.65	0.00%	0.50%	1.00%	1.50%	2.00%
WACC	6.39%	26.54	28.38	30.56	33.19	36.42	
	7.39%	22.61	23.91	25.41	27.17	29.25	
	8.39%	19.62	20.58	21.66	22.90	24.34	
	9.39%	17.28	18.00	18.81	19.73	20.76	
	10.39%	15.39	15.95	16.58	17.27	18.04	

		Exit Multiple					
		\$21.00	8.0x	9.0x	10.0x	11.0x	12.0x
WACC	6.39%	19.28	21.09	22.89	24.69	26.49	
	7.39%	18.48	20.20	21.92	23.64	25.37	
	8.39%	17.71	19.36	21.00	22.65	24.30	
	9.39%	16.99	18.56	20.13	21.71	23.28	
	10.39%	16.30	17.80	19.31	20.81	22.32	

Comparable Companies

Company Info				LTM				FY+1				FY+2				Margins			Other Multiples				
Name	Ticker	Price	Market Cap. (€M)	EV/Revenue	EV/EBITDA	EV/EBIT	P/E	EV/Revenue	EV/EBITDA	EV/EBIT	P/E	EV/Revenue	EV/EBITDA	EV/EBIT	P/E	EBITDA	EBIT	Net profit	ROA	ROE	ROC	P/B	Net Debt/EBITDA
BAE Systems plc	LSE:BA.	£15.91	£47,683.53	2.1x	14.9x	20.4x	24.8x	1.8x	12.7x	16.4x	20.9x	1.7x	12.1x	15.2x	18.9x	12.4%	9.4%	7.4%	4.4 x	18.1 x	7.8 x	4.1 x	2.0 x
Thales S.A.	ENXTPA:HO	€198.80	€40,816.87	2.5x	17.3x	27.8x	34.4x	2.4x	13.7x	19.0x	24.5x	2.2x	13.4x	17.3x	21.7x	13.1%	7.2%	6.9%	2.8 x	12.8 x	7.2 x	6.5 x	1.1 x
Rheinmetall AG	XTRA:RHM	€1,080.87	€46,950.15	5.9x	32.5x	41.6x	80.7x	4.5x	23.5x	28.6x	43.2x	3.5x	17.1x	20.2x	30.2x	18.0%	14.6%	7.4%	6.8 x	22.1 x	14.3 x	13.8 x	0.6 x
RTX Corporation	NYSE:RTX	€99.80	€133,246.15	2.6x	16.0x	25.0x	36.4x	2.5x	14.6x	19.0x	21.0x	2.4x	13.6x	17.3x	18.9x	15.9%	10.5%	5.9%	3.3 x	8.1 x	5.0 x	2.9 x	2.8 x
Northrop Grumman Corporation	NYSE:NOC	€378.97	€54,857.48	2.1x	11.6x	15.5x	17.3x	2.0x	13.3x	17.2x	17.5x	1.9x	13.1x	17.0x	16.9x	16.7%	13.3%	10.2%	7.1 x	27.7 x	10.6 x	4.7 x	1.9 x
Leonardo S.p.a.	BIT:LDO	€36.97	€21,313.49	1.6x	13.8x	18.8x	23.6x	1.5x	12.4x	16.9x	24.3x	1.5x	11.4x	15.2x	21.4x	10.5%	7.9%	6.0%	2.7 x	12.3 x	6.2 x	2.8 x	1.1 x
L3Harris Technologies, Inc.	NYSE:LHX	€163.13	€30,622.21	2.4x	12.6x	19.7x	26.8x	2.4x	12.7x	14.9x	17.7x	2.3x	11.7x	13.8x	15.8x	18.4%	12.4%	7.0%	3.9 x	7.9 x	5.0 x	2.1 x	3.0 x
Huntington Ingalls Industries, Inc.	NYSE:HII	€151.03	€5,925.58	0.9x	9.2x	15.5x	14.0x	0.9x	10.2x	16.0x	14.1x	0.8x	9.3x	13.7x	11.6x	8.6%	5.8%	4.8%	3.6 x	12.6 x	5.6 x	1.6 x	2.3 x
Dassault Systèmes SE	ENXTPA:DSY	€32.27	€42,353.35	7.9x	25.3x	35.7x	42.7x	7.3x	20.1x	22.4x	27.6x	6.7x	18.3x	20.3x	25.2x	31.2%	22.1%	19.3%	5.7 x	14.2 x	7.5 x	5.6 x	NM
Overall Median		€198.80	€47,683.53	2.5x	16.0x	25.0x	34.4x	2.4x	13.7x	19.0x	21.0x	2.2x	13.4x	17.3x	18.9x	0.2x	0.1x	0.1x	4.4x	18.1x	7.8x	4.7x	1.9x
Overall Mean		€354.87	€64,710.84	3.0x	18.4x	26.1x	38.7x	2.6x	15.6x	20.0x	25.4x	2.3x	13.9x	17.4x	21.3x	0.2x	0.1x	0.1x	4.9x	17.8x	9.0x	6.4x	1.7x
BAE Systems plc	LSE:BA.	€15.91	€47,683.53	2.1x	14.9x	20.4x	24.8x	1.8x	12.7x	16.4x	20.9x	1.7x	12.1x	15.2x	18.9x	#VALUE!	9.4%	#VALUE!	4.4 x	18.1 x	7.8 x	4.1 x	2.0 x

Executive Summary

Industry Analysis

Company Overview

Investment Theses

Valuation

Risk Analysis

VI. Risk Analysis

BAE SYSTEMS



Risks and Catalysts Analysis

Critical Risks and Drivers stimulating the Defence Market

Catalysts



Major Defense Contracts and Collaborations: Under the SSN-AUKUS Submarine Program, BAE Systems has secured substantial contracts to design and develop the SSN-AUKUS class submarines. The UK government awarded BAE a £3.95 billion contract in October 2023 up to 2028, strengthening BAE's outreach in the current context



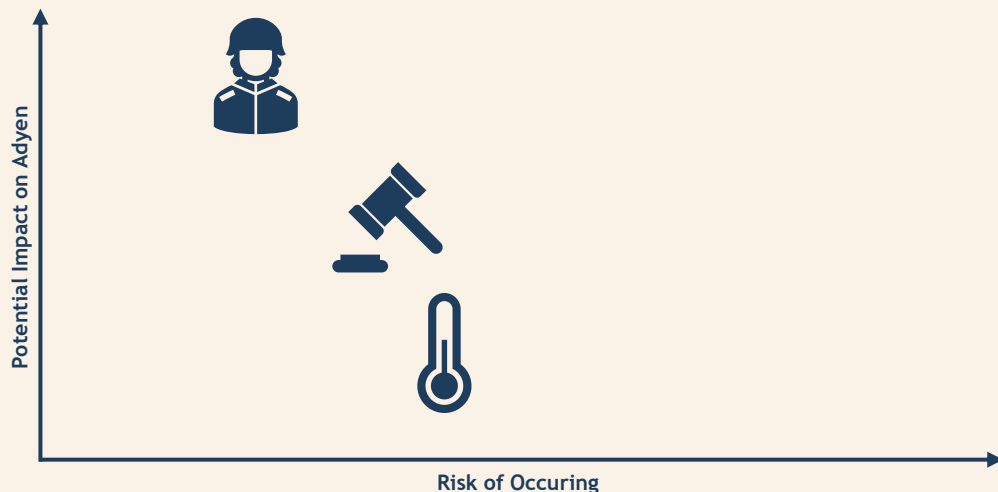
Rising defense expenditures: European countries are to increase military spending, with the UK planning to raise defense funding to 2.5% of GDP by 2027. Meanwhile, the Israel-Hamas conflict and broader instability in the Middle East are driving nations in the region to boost defense budgets. This heightened spending presents growth opportunities in the context of political uncertainty



Strategic Acquisitions and Technological Advancements: BAE Systems completed its largest acquisition by purchasing Ball Corporation's aerospace division for \$5.6 billion in February 2024. This acquisition enhances BAE's capabilities in aerospace technology, positioning the company to meet evolving defense needs.

Risks

	Risks	Mitigations
	Government Customers and Defence Spending	The Group operates across multiple geographic defense markets (US, UK, Saudi Arabia, Australia) with diversified product offerings. Many countries are increasing defense budgets due to heightened threats.
	Legal and Trade Compliance	The company has a comprehensive legal and compliance structure, including internal legal expertise, policy frameworks, and training programs to ensure adherence to regulations. It also works closely with joint ventures and external legal counsel to manage evolving legal risks.
	Climate Transition and Environmental Factors	The Group has set itself the target of achieving near-term GHG emissions reductions across its operations (Scope 1 and 2) by 2030 and working towards reducing the GHG emissions of its value chain by 2050. The primary planned activities to meet the 2030 target include the establishment of a renewable energy strategy



Appendix

BAE SYSTEMS

BAE SYSTEMS



Appendix #1: Valuation

Revenue Build

Revenues	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26	Dec-27	Dec-28	Dec-29	Dec-30
<i>(Figures in £ millions)</i>											
Electronic Systems	4,557	4491	5057	5456	7186	7689	8189	8700	9221	9751	10290
<i>Growth %</i>		-1.4%	12.6%	7.9%	31.7%	7.0%	6.5%	6.2%	6.0%	5.8%	5.5%
Platforms & Services	3,399	3318	3598	3842	4344	4648	4927	5208	5490	5772	6054
		-2.4%	8.4%	6.8%	13.1%	7.0%	6.0%	5.7%	5.4%	5.1%	4.9%
Air	6,593	6913	6286	6517	6880	7362	7846	8331	8816	9297	9775
		4.9%	-9.1%	3.7%	5.6%	7.0%	6.6%	6.2%	5.8%	5.5%	5.1%
Maritime	3,195	3340	4484	5391	6002	6422	6858	7310	7777	8259	8755
		4.5%	34.3%	20.2%	11.3%	7.0%	6.8%	6.6%	6.4%	6.2%	6.0%
Cyber & Intelligence	1,812	1752	2205	2321	2411	2616	2838	3075	3326	3592	3873
		-3.3%	25.9%	5.3%	3.9%	8.5%	8.5%	8.3%	8.2%	8.0%	7.8%
HQ	40	36	10	10	24	24	21	18	19	21	21
		-10.0%	-72.2%	0.0%	140.0%	0.0%	-13.3%	-14.6%	8.7%	9.6%	-2.7%
Intra-group revenue	(319)	(329)	(382)	(459)	(535)	(405)	(422)	(441)	(452)	(451)	(434)
		3.1%	16.1%	20.2%	16.6%	-24.3%	4.2%	4.4%	2.7%	-0.3%	-3.7%
Total Revenues	19,277	19,521	21,258	23,078	26,312	28,356	30,257	32,201	34,196	36,242	38,334

Appendix #2: Europe's Defense Revolution


Record Spendings uncovering new Opportunities in the Industry

Executive Summary
Industry Analysis
Company Overview
Investment Theses
Valuation
Risk Analysis

Situation Check

March 6 th , 2025	EU Leaders Summit	Implications
	<p>“European Union leaders took decisive steps to strengthen Europe's sovereignty and security, especially in response to Russia’s war against Ukraine. Leaders highlighted the need for a strong and coordinated approach to bolster European defence and protect EU citizens.”</p> <p>“Among many other measures, EU leaders agreed to use EDA’s work on capability development. EU leaders also asked EDA to be ready to support procurement (a single buyer to drive down the cost of armaments) in support of the European defence industry.”</p>	<ol style="list-style-type: none"> 1 EU Leaders commit to unprecedented military strengthening 2 Coordinated approach to enhance EU defense capabilities 3 EDA to act as a single buyer, limiting diplomatic risk 4 Massive Opportunity: As a top contractor, BA is directly benefiting from this new policy

A Realistic Scenario

Goldman Sachs	GS Take	How to fund those new spendings ?	EU is an expense absorbing Machine
	<p>“The team’s baseline assumption is that the EU will gradually increase its annual defense spending by around €80 billion (\$84 billion) by 2027 – equivalent to roughly 0.5% of GDP, according to the report dated February 27. Defense expenditures in the euro area accounted for 1.8% of GDP in 2024 and Goldman Sachs Research expects them to rise to 2.4% by 2027.”</p>	<p>“To meet a defense-spending target of 2.5% of GDP, the euro area needs to increase expenditures by an additional 0.6% of GDP annually, Taddei writes in a separate research report dated March 2. European leaders are discussing a common strategy for increasing defense spending, which could involve issuing more debt at the national or EU level, or setting up new lending facilities from European institutions.”</p>	<p>“The EU could turn to existing lending programs that are available for European governments – either the European Stability Mechanism (ESM) or the European Investment Bank (EIB). “The EIB has struggled to identify projects worth funding in line with the European priorities, and the industrial reconversion needed to scale up defence spending in Europe would likely provide an ideal target.”</p>