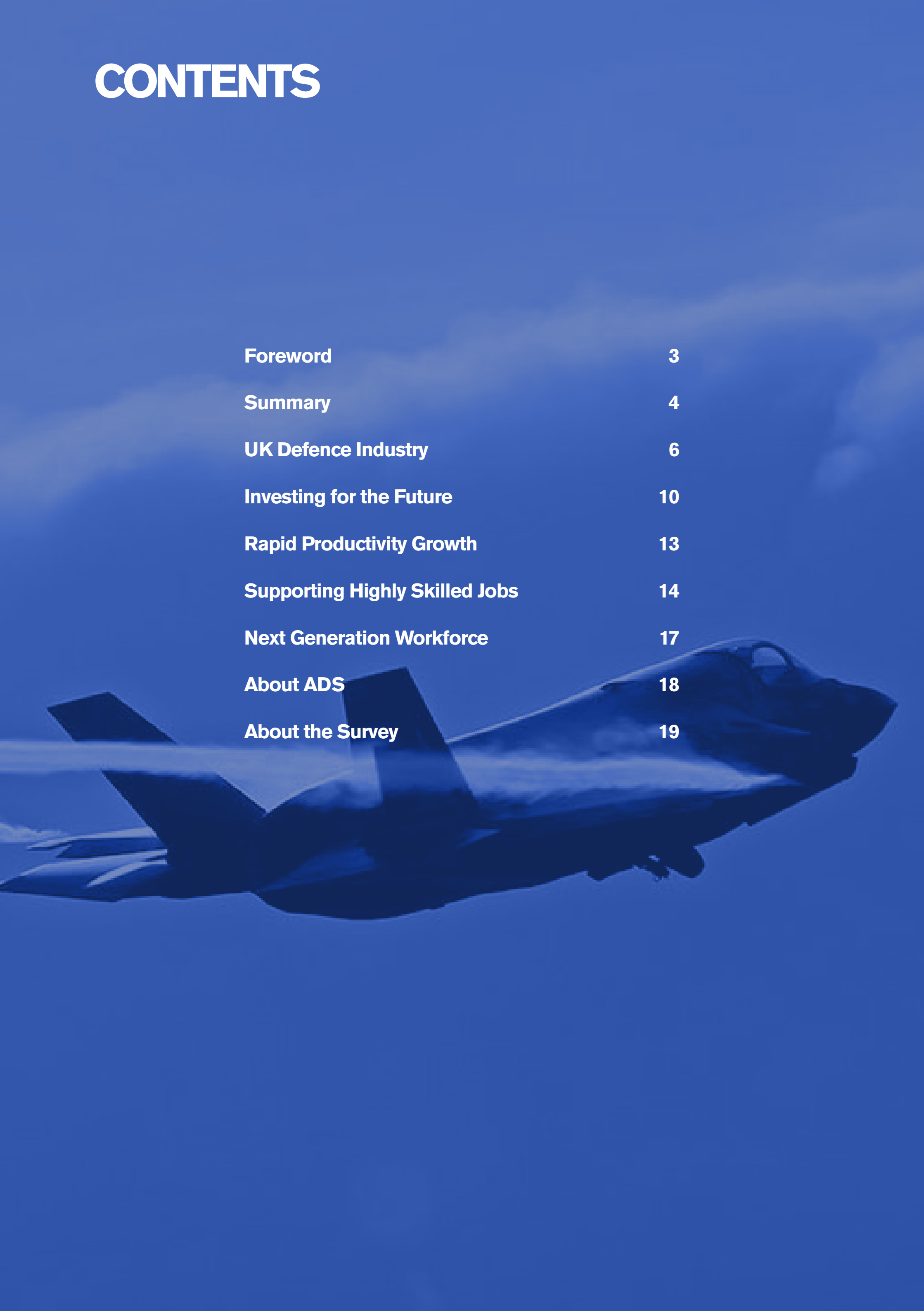
aerospace
defence
security
space

ADS

# UK DEFENCE OUTLOOK 2016



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# FOREWORD

## PAUL EVERITT Chief Executive, ADS Group

Following another prosperous year for the UK's Defence sector, the figures in this ADS Outlook Report underline the importance of the defence industry and the invaluable contribution it makes to both UK national security and prosperity. In 2015 the industry turned over £24bn - a rise of £2bn on 2014 - and directly employed 142,000 people. It continues to see average year-on-year growth, having risen by 18 per cent over the past five years.

The Government's Strategic Defence and Security Review (SDSR) published in late 2015 offers a pragmatic response to the new and challenging threats facing the country. The review's commitment to refresh defence industrial policy, focus on innovation, enhance exports and encourage more business with SMEs was greatly welcomed by the industry. These themes, together with a £178 billion defence equipment plan, provide industry with the confidence to invest in growth.

The relationship between industry and government has been significantly strengthened by the Defence Growth Partnership (DGP). The UK Defence Solutions Centre – a key DGP initiative – working alongside a strengthened UKTI DSO enables industry to present innovative and tailored solutions to customers worldwide, showcasing the very best of British expertise. Through its Innovation Challenges and the Dual Use Technology Exploitation cluster, SMEs from the complete value chain are benefitting from funding and fostering innovation through partnerships with adjacent industries. Ongoing support for the DGP continues to boost the competitiveness of UK industry, ensuring the UK is the preferred partner for international defence collaboration and innovation.

The growth of the industry is anticipated to continue, with nearly half of companies predicting growth of greater than ten per cent in the coming year. New export opportunities are a key driver of this, with 63 per cent of companies anticipating growth through securing business in international markets.

The Defence industry's productivity has also increased by 29 per cent over the past five years, compared to gains of just two per cent in the rest of the economy. This is a clear indication that investment in R&D delivers a valuable return and contributes to our national prosperity.

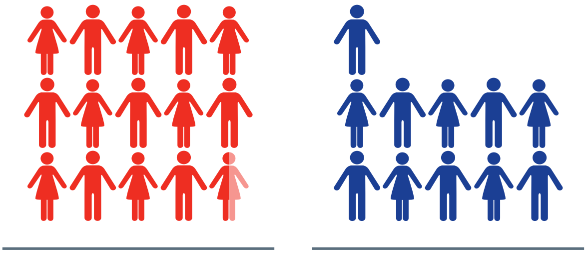
While the sector remains a success story, there is still more to do to ensure it endures in the long-term. ADS will continue to work with industry and government to help inform and implement SDSR 2015. As defence budgets continue to come under pressure worldwide, international competition will strengthen and the demand for innovation will grow. Continued government support to industry is vital if companies are to have the confidence required to invest in innovation, delivering valuable productivity gains and enabling companies to boost their competitiveness.

# SUMMARY



**142,000**

**Employees**



142,000
Direct UK Defence
Sector jobs

111,000
Indirect UK Defence
Sector jobs

**£24bn**

**Turnover**

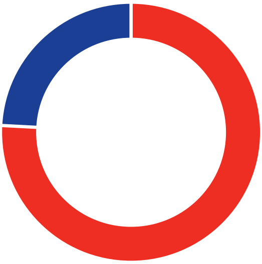
**18%**
**Growth in last 5 years**

**£7.7bn**

**Average Exports 2010 – 2014**

**UK Defence companies expect growth as a result of new export opportunities**

**63%**



**69%**
of UK Defence Companies employ Apprentices and Trainees

**4,300**
Apprentices



| <10% | 10-24% | 25-49% | <50% |
|---|---|---|---|
| 52% | 39% | 5% | 4% |

**48%**
Expect >10% growth

Productivity growth, 2010 – 2015

| UK Defence | UK Economy |
|---|---|
| 29% | 2% |

**29%**
Productivity growth

# 01 UK DEFENCE INDUSTRY

**£24bn**
**Turnover**

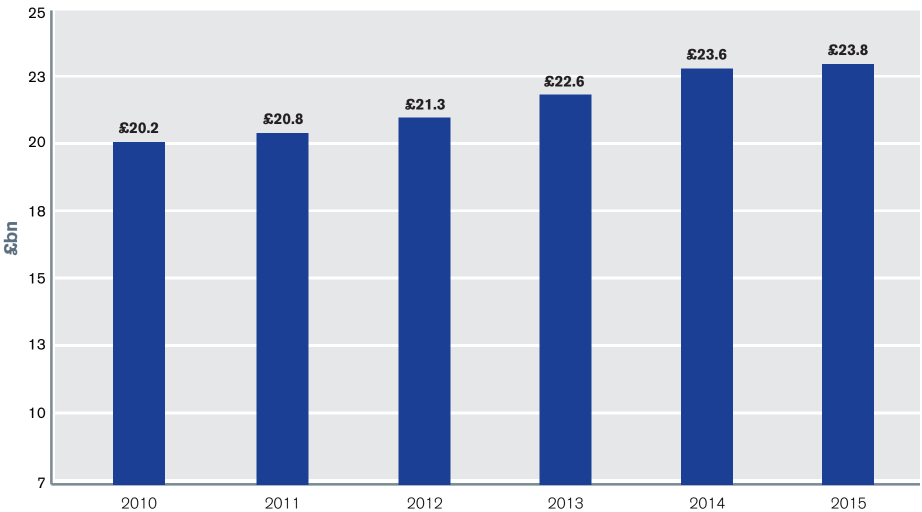
**£7.7bn**
**Average Exports 2010 – 2014**

**18%**
**Average Growth 2010 – 2015**

- UK Defence sector has grown by 18% over the last five years
- Around half of UK Defence companies expecting growth of greater than 10%
- Growth driven by export opportunities in North America, Latin America and the Middle East



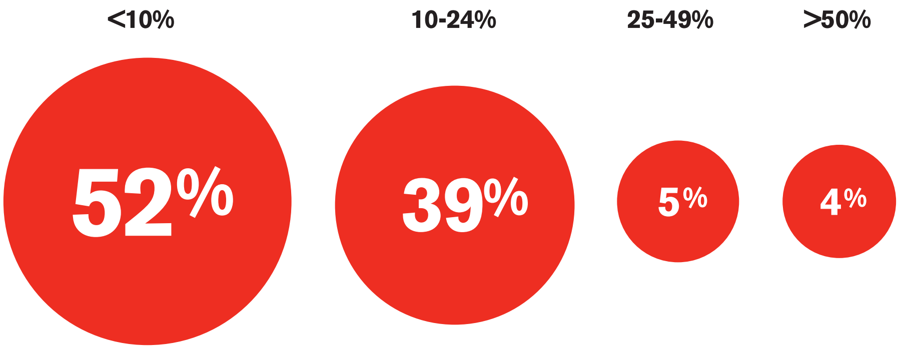
### UK Defence output has grown 18% since 2010




*Source: Oxford Economics, ADS and ONS*

## 48% OF FIRMS EXPECT GROWTH OF AT LEAST 10%

### Defence company growth expectations

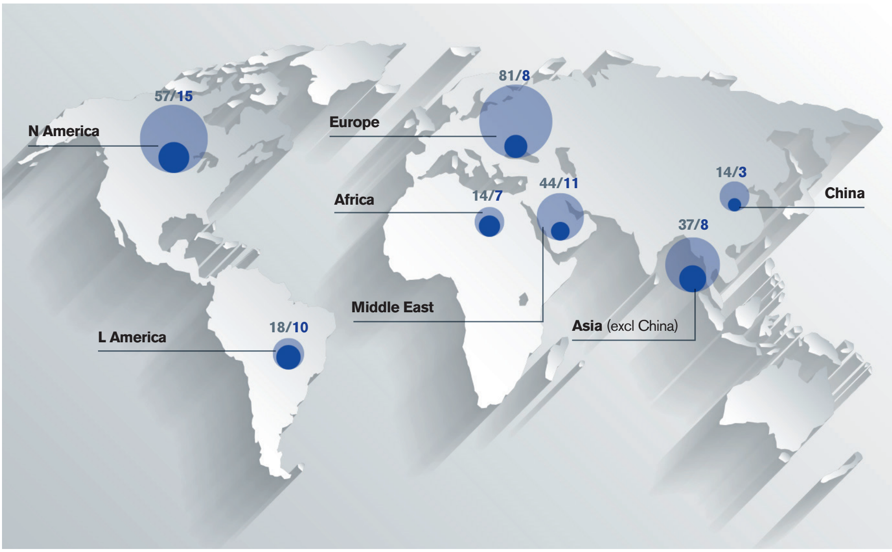



*Source: ADS/GfK NOP Industry Intelligence Survey 2016*

- Nearly half of Defence companies are expecting to grow by 10% or more in the next 12 months
- Key drivers of growth in the next 12 months include:
  - Growth of existing business (70%)
  - New export opportunities (63%)
  - Growth of UK opportunities (45%)

## 63% SAY GROWTH IS DRIVEN BY NEW EXPORTS

### % exporting to location / % entering new market

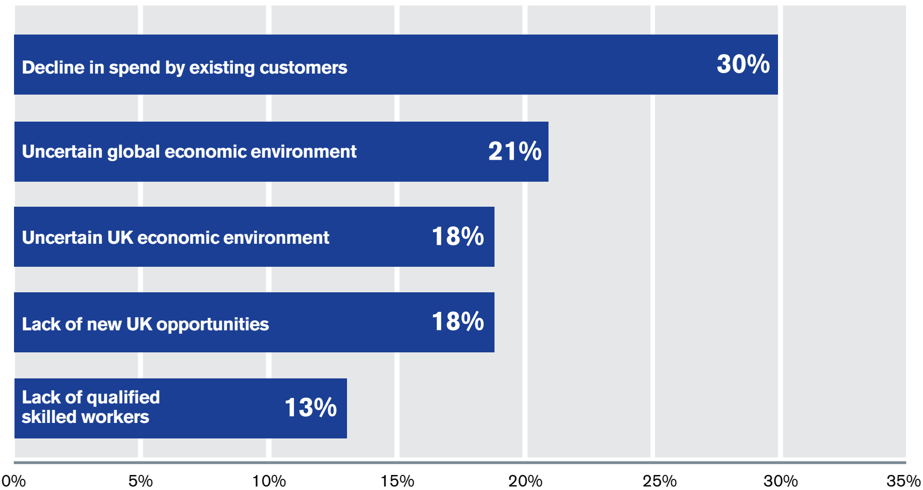



*Source: ADS/GfK NOP Industry Intelligence Survey 2016*

- Europe continues to be the dominant export location for UK Defence companies
- Other locations where companies have cited growing export levels include North America, the Middle East and Latin America
- Exports underpin our national security and make a significant contribution to the UK economy

## BUSINESSES CONCERNED OVER ECONOMIC OUTLOOK

**Top 5 barriers to growth, % of companies citing each barrier**




*Source: ADS/GfK NOP Industry Intelligence Survey 2016*



- Decline in spend from existing customers remains the main issue for companies, driven by ongoing financial constraints and pressure on the supply chain
- Businesses remain concerned over the uncertain economic environment and outlook - both here in the UK and around the world
- Lack of new opportunities in the UK means businesses are seeking to improve growth through new export opportunities

# 02 INVESTING FOR THE FUTURE

**£9 bn**
**Gross Value Added**

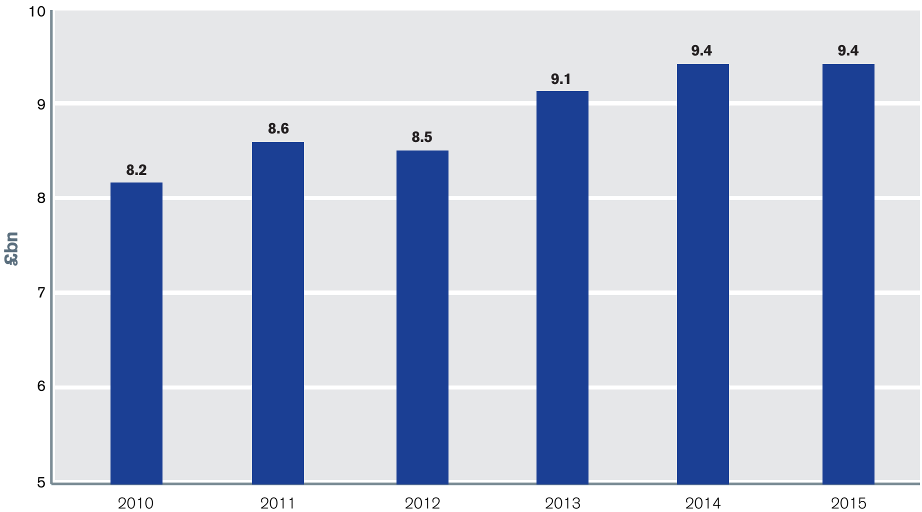
**71%**
**Increasing investment**



**29%**
**Productivity growth since 2010**

- Companies focused on investing in business development, research and development, and design and engineering
- Defence productivity has grown by 29% since 2010, versus just 2% in the rest of the economy

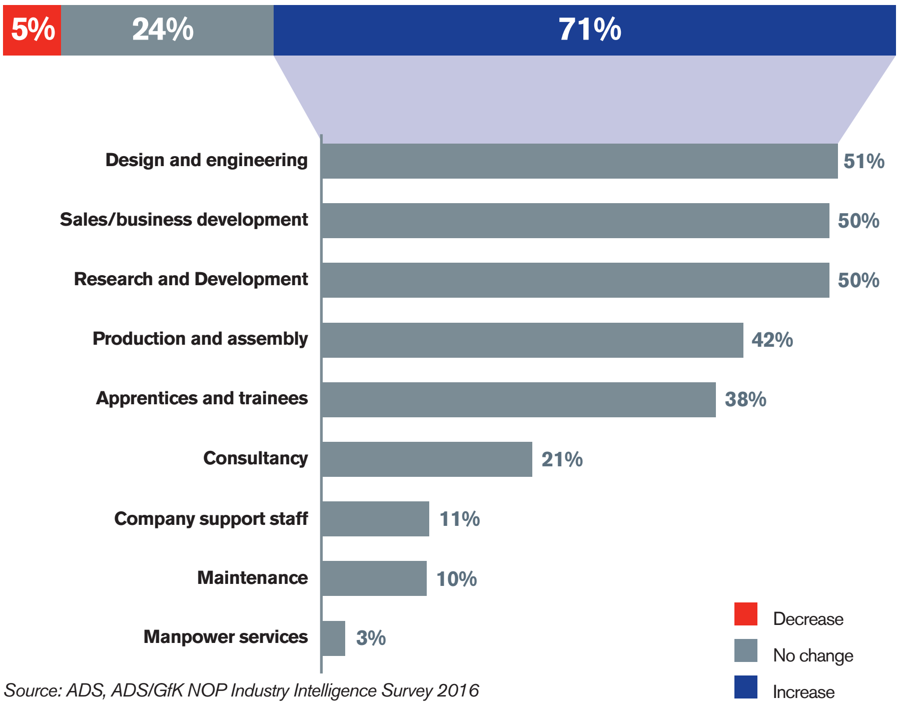
**UK Defence GVA is contributing to UK growth, £bn**




*Source: Oxford Economics, ADS*

# INVESTMENT IN SALES, DESIGN & INNOVATION

### % of companies with plans for investment, overall & by function

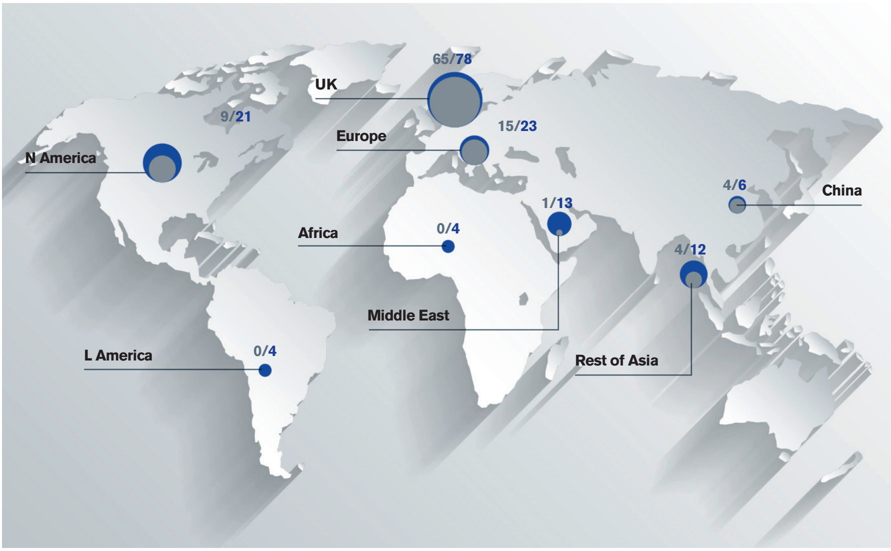



*Source: ADS, ADS/GfK NOP Industry Intelligence Survey 2016*

- Majority of companies focused on investment in developing new business opportunities, R&D and design and engineering
- The increase in plans for investment in R&D from last year's survey highlights the need for companies to innovative in order to remain competitive

# UK VITAL FOR SUPPLY CHAIN AND INVESTMENT

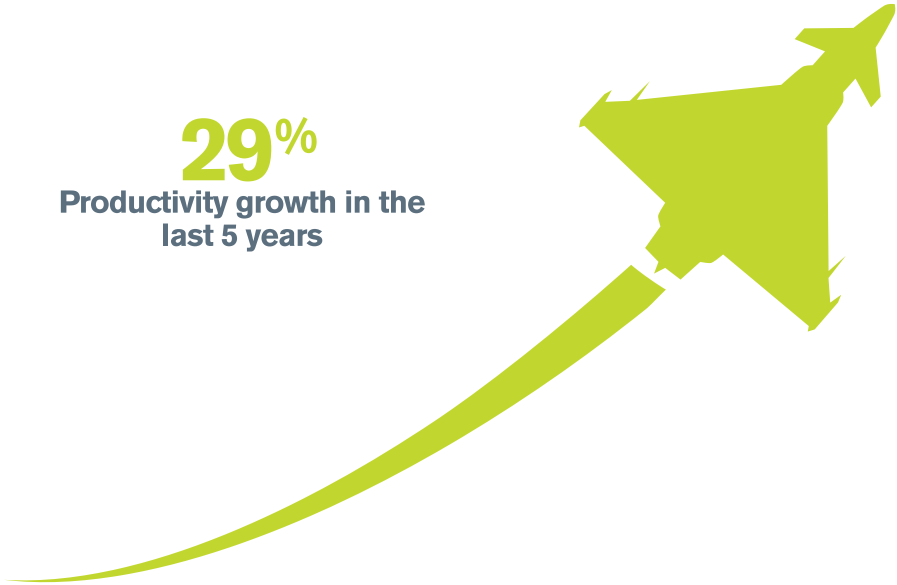
### % of supply chain in location / % investing in location




*Source: ADS/GfK NOP Industry Intelligence Survey 2016*

- UK, Europe and North America remain the focal point for global defence supply chain investment
- Minimal supply chain presence in Latin America, the Middle East, Africa and Asia offers opportunities for growth and new export opportunities
- 66% of UK Defence companies stated that none of their production has operated outside the UK in the last 3 years

# 03 RAPID PRODUCTIVITY GROWTH




*Source: Oxford Economics, ADS and ONS*

- Over the past five years, productivity in UK Defence grew by around 29%
- Productivity growth across the economy was up only 2%
- High productivity increases competition and helps the UK retain a leading position in the global market

# 04 SUPPORTING HIGHLY SKILLED JOBS

**142,000**
**Employees**

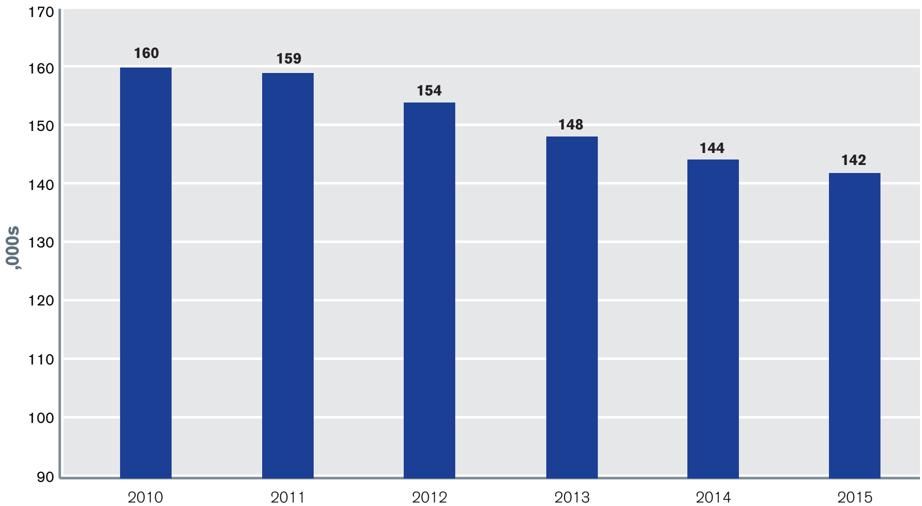
**4,300**
**Apprentices & Trainees**

**30,000**
**British R&D, Design & Development jobs depend on the UK Defence Sector**

- 142,000 directly employed by UK Defence industry
- 69% of companies employ apprentices or trainees
- Access to highly skilled workers remains a significant concern for the sector



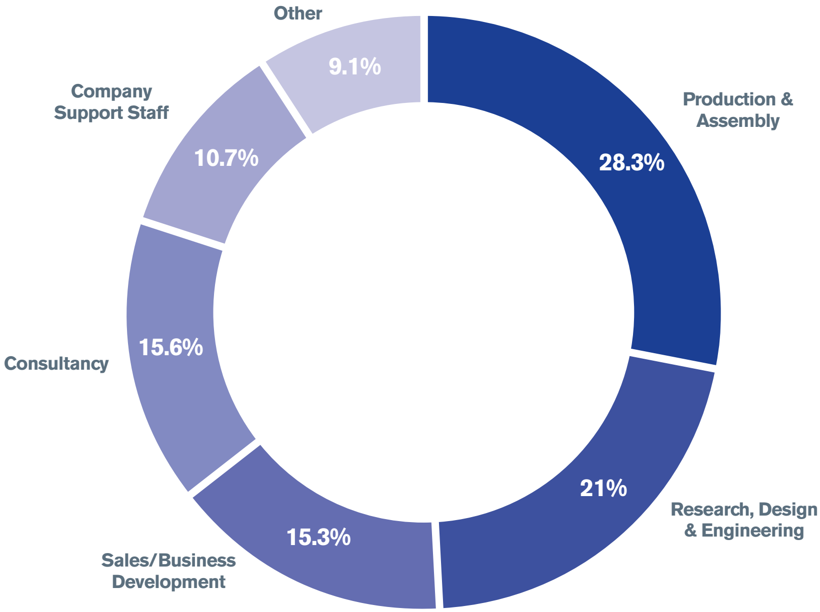
## UK direct Defence employment, (000s)




*Source: Oxford Economics, ADS*

# A HIGHLY SKILLED WORKFORCE

## % of employees in UK Defence companies, by job function

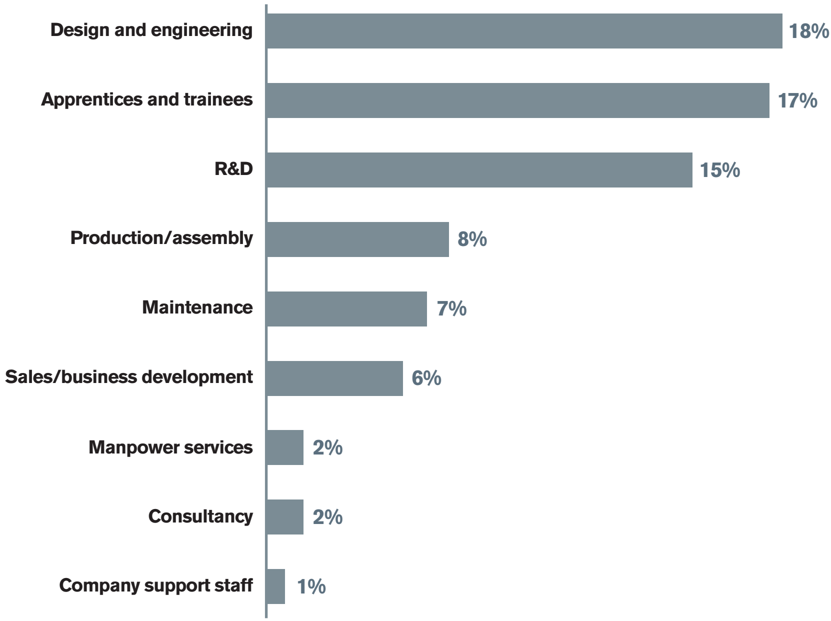



*Source: ADS/GfK NOP Industry Intelligence Survey 2015*

- Around 30,000 R&D, Design & Engineering jobs directly in the UK Defence sector
- £39,000 average salary in the UK Defence industry - 44% more than the national average (approx. £27,000)

# ACCESS TO SKILLS FOR INNOVATION A CONCERN

## % of companies not confident of accessing specific skills

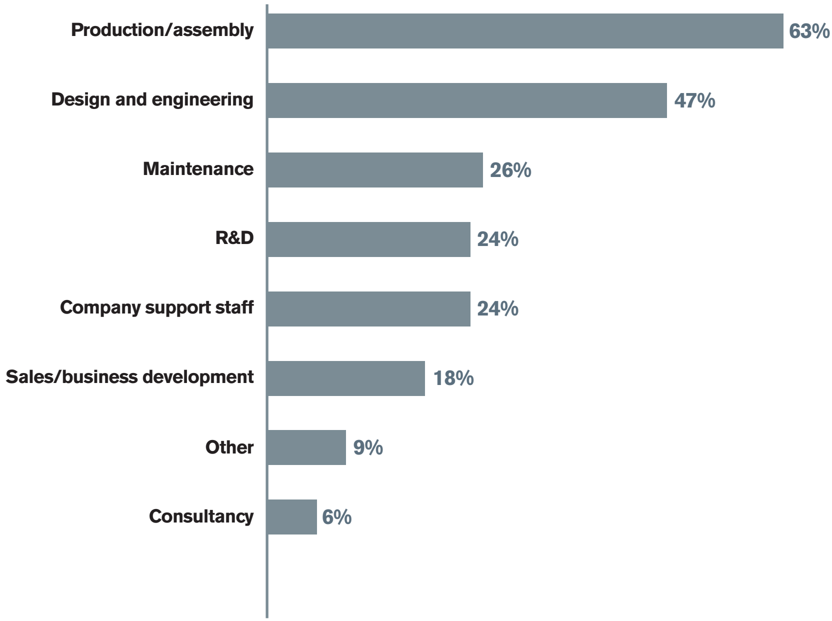



*Source: ADS/GfK NOP Industry Intelligence Survey 2016*

- Almost 1 in 5 companies are not confident they will be able to access the necessary design and engineering or R&D skills to drive innovation
- 17% of businesses also concerned over the ability to access next generation of skilled workers through apprenticeships and trainees
- 60% of companies are confident in accessing sales and business development skills in order to access new business opportunities and exports

# 05 NEXT GENERATION WORKFORCE

### Apprentices and trainees currently employed by business function




*Source: ADS/GfK NOP Industry Intelligence Survey 2016*

- Over half of all apprenticeships and trainees in production and assembly functions reflects continued strength of order books of UK Defence companies
- Significant number of apprenticeships and training in design and engineering and R&D functions illustrates the sector's drive for innovation to boost competitiveness

# ABOUT ADS

**ADS Group is the UK trade organisation representing the Aerospace, Defence, Security and Space sectors. ADS is focused on representing the interests of these valuable wealth producing industries in the UK and overseas to key stakeholders, government, and the media**



**ADS plays an instrumental role in bringing industry and government together, working closely and collaboratively to maintain and grow the UK's world leading position in these industries. In doing so, these sectors will support and facilitate a sustainable UK economic recovery, securing future sector prosperity through a strong strategy and united approach.**

**Farnborough International Limited is a wholly owned subsidiary of ADS Group. The Farnborough International Airshow 2016 will run from 11-17 July 2016. In 2014, the Farnborough International Airshow saw over $200bn worth of confirmed orders.**

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# ABOUT THE SURVEY

In 2016, ADS Group commissioned two different research strands to assess the size, shape and priorities for the UK's Aerospace, Defence, Security and Space sectors.

- **ADS/GfK NOP Survey:** GfK interviewed 234 ADS members online between 22nd February 2016 and 23rd March 2016. The respondent list was provided to GfK by ADS. The database provided by ADS contained 915 eligible respondents and 234 completed interviews were achieved, representing a response rate of 24%.

- **Oxford Economics:** ADS commissioned Oxford Economics to assess the turnover, employment and gross value added levels for each of ADS's four sectors. Their research draws on data from Office National Statistics, Dept for Business, Innovation and Skills, Ministry of Defence, Business Register Employment Survey (BRES), Workforce Jobs (WFJ) bulletin, ADS Group and the ADS/GfK NOP Survey data.