

aerospace
defence
security
space



UK DEFENCE OUTLOOK 2017



CONTENTS

Foreword	3
Summary	4
UK Defence Industry	6
Investing for the Future	9
Supporting High-Skill Jobs	11
About ADS	14
About the Data	15



FOREWORD



PAUL EVERITT Chief Executive, ADS Group

The UK Defence industry has a unique value to our country, both vital to national security and a major contributor to our economic prosperity. This UK Defence Outlook 2017 report underlines the full role the industry plays in our national life, providing vital jobs in communities across the country, as well as equipping our armed forces to keep our country safe.

This report shows the defence industry directly employed 142,000 people in 2016, with 4,300 apprentices demonstrating the commitment of businesses to investing in the future. Defence companies in the UK recorded overall turnover of more than £23bn last year, and annual export orders worth £5.9bn. Exports like these are crucial to securing long-term and sustainable growth in the UK, and this report shows that more than 60 per cent of the sector is confident of growth in the next 12 months, with export opportunities an important factor in their positive outlook.

This year's Defence and Security Equipment International (DSEI) sees the official launch of Team UK, bringing together the best of UK expertise from Government, industry and academia. Team UK will work with our international partners to provide optimum defence solutions that meet their requirements.

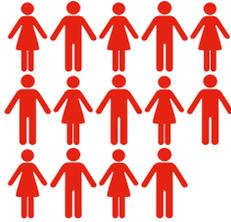
For this sector, the relationship between Government and industry is especially important. Team UK is the work of the Defence Growth Partnership, itself an initiative created by an industrial strategy that sees Government and industry working together to address long-term challenges. Industrial strategy will continue to have an important role in offering businesses long-term certainty and the confidence to invest, and we hope to see Government commitment to a Defence Sector Deal.

Most importantly, we need Government to work closely with our industry, engaging as early as possible in procurement processes, developing productive long-term relationships, and giving companies the freedom to take innovative approaches to the defence challenges of the future.

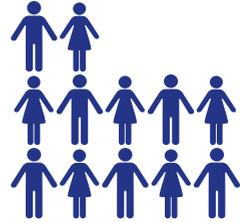
There is much to celebrate in the UK defence sector, as this report makes clear. The industry enjoys a positive outlook and we look forward to future growth providing high-value jobs, further gains in productivity and vital exports, as well as ensuring the safety of our nation and its international partners.

SUMMARY

142,000
Employees



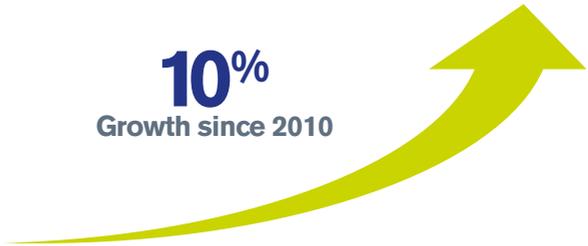
142,000
Direct UK Defence
sector jobs



120,100
Indirect UK Defence
sector jobs

£23bn
Turnover

10%
Growth since 2010

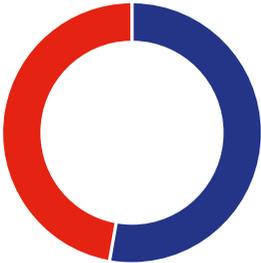


£5.9bn
Export Orders in
2016

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

62%





53%

of UK Defence companies
employ Apprentices and
Trainees

4,300
Apprentices

<10%

10-24%

25-49%

>50%

40%

38%

15%

7%

60%

Expect >10%
growth

Productivity growth since 2010

23%

UK Defence

3%

UK Economy

7x

More productivity
growth than UK
economy as a
whole

01 UK DEFENCE INDUSTRY

£23bn

Turnover

£5.9bn

Export Orders in
2016

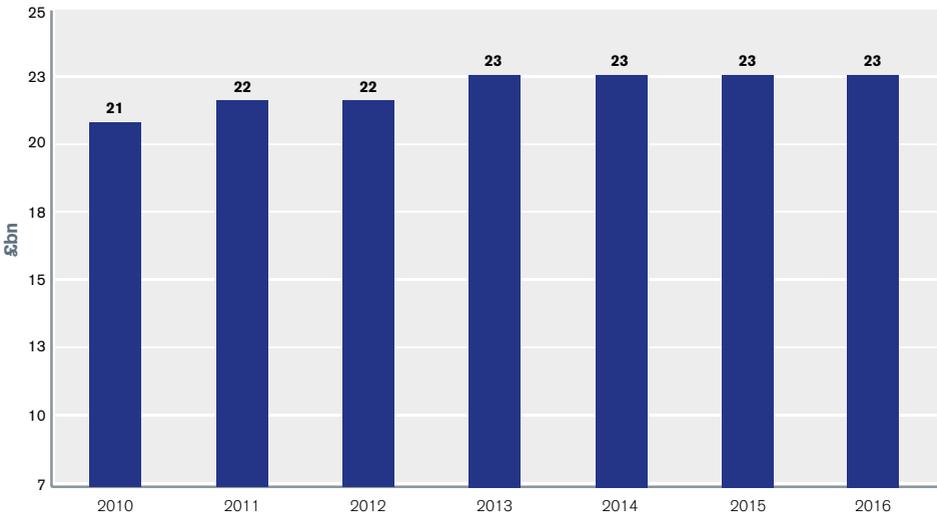
10%

Growth since 2010

- 60% of UK Defence companies are expecting growth of 10% or more in the next 12 months.
- Growth is being driven by export opportunities in Europe, North America and the Middle East.
- The UK is one of the world's most successful defence exporters, averaging second place in the global rankings on a rolling ten-year basis.

6

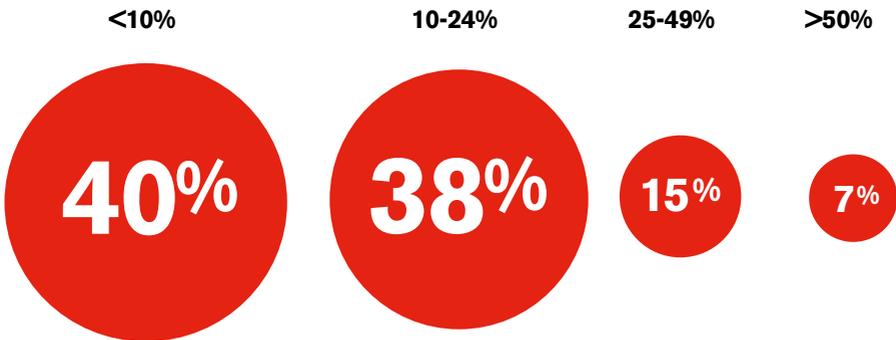
UK Defence sector turnover has grown by 10% since 2010



Source: Oxford Economics, ADS and ONS

60% OF FIRMS EXPECT GROWTH OF AT LEAST 10%

Defence company growth expectations

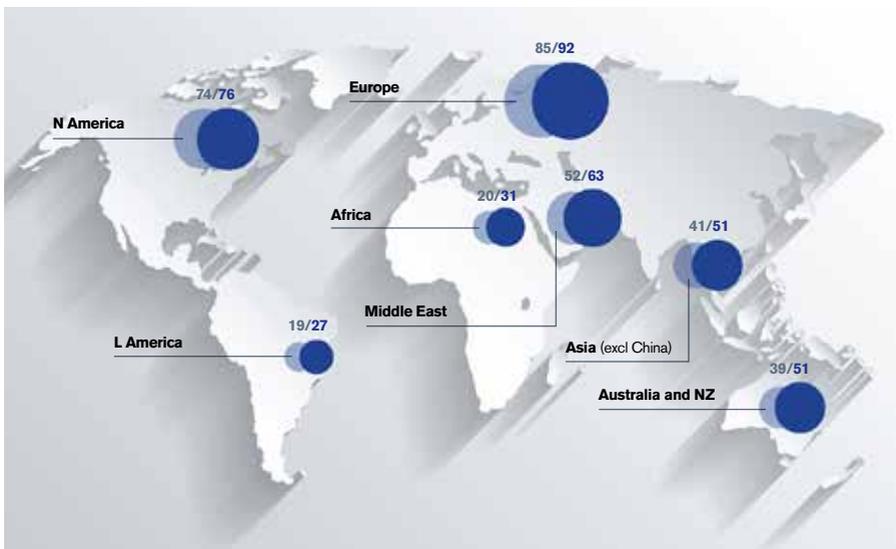


Source: ADS/ComRes Survey 2017

- More than half of UK Defence companies are expecting to grow by 10% or more in the next 12 months.
- The key drivers of growth include growth of existing business (70%), new export opportunities (62%) and growth of UK opportunities (43%).
- The uncertain economic environment in the UK (36%), together with the decline in spend by existing customers (35%) were cited as the greatest barriers to growth.
- A strong domestic market and a strategic approach to public procurement are essential for the UK's continued success in highly competitive markets.

62% SAY GROWTH IS DRIVEN BY NEW EXPORTS

% exporting to location / % entering new market



Source: ADS/ComRes Survey 2017

- Europe, North America and the Middle East continue to be the dominant export locations for the UK Defence sector, with companies focusing their exports in these regions over the next 3 years.
- Aerospace dominated UK defence exports in 2016 – accounting for 70% of the overall total.
- Continued government support for export campaigns will be vital to ensuring the UK remains one of the most successful exporters in the world.

02 INVESTING FOR THE FUTURE

£8.7bn

Gross Value Added

64%

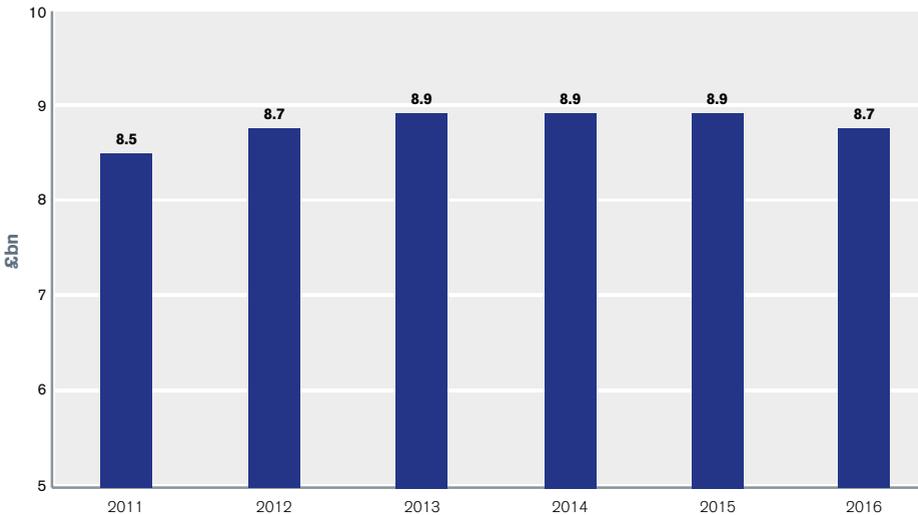
Increasing investment

23%

Productivity growth since 2010

- With GVA remaining steady over the last five years, the UK Defence industry continues to make a significant contribution to UK growth.
- Defence productivity has grown by 23% since 2010, versus just 3% growth across the UK economy as a whole.
- Companies are focused on investing in Business Development, R&D and Design and Engineering.

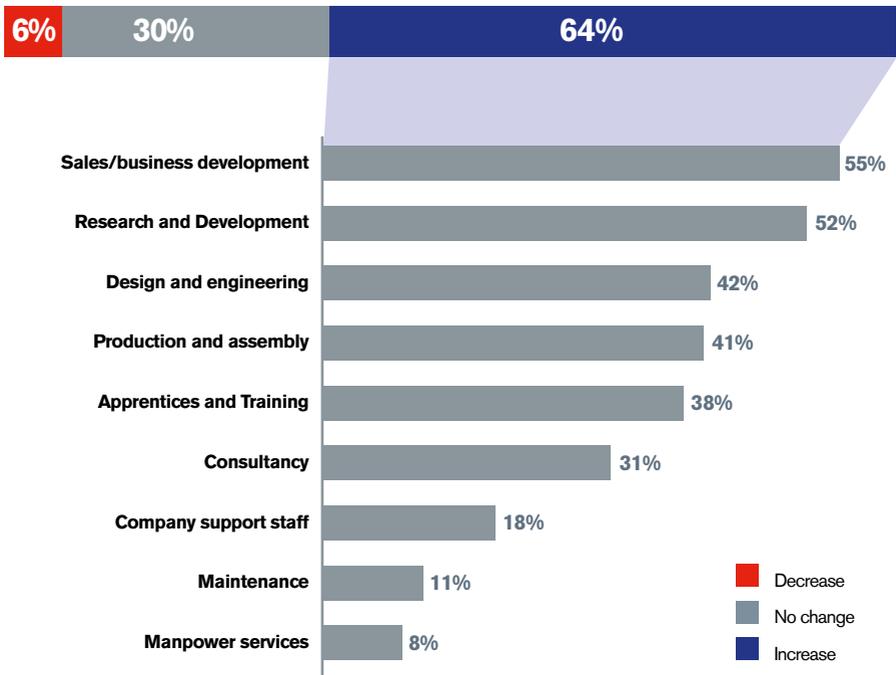
UK Defence sector GVA is contributing to national prosperity



Source: Oxford Economics, ADS

INVESTMENT IN SALES, DESIGN & INNOVATION

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



Source: ADS/ComRes Survey 2017

- The majority of companies focused on investment in developing new business opportunities, R&D and Design and Engineering.
- The continued increase in plans for investment in these areas from last year's survey highlights the need for companies to continuously innovate in order to remain competitive in the global market.

04 SUPPORTING HIGH-SKILL JOBS

142,000

Employees

4,300

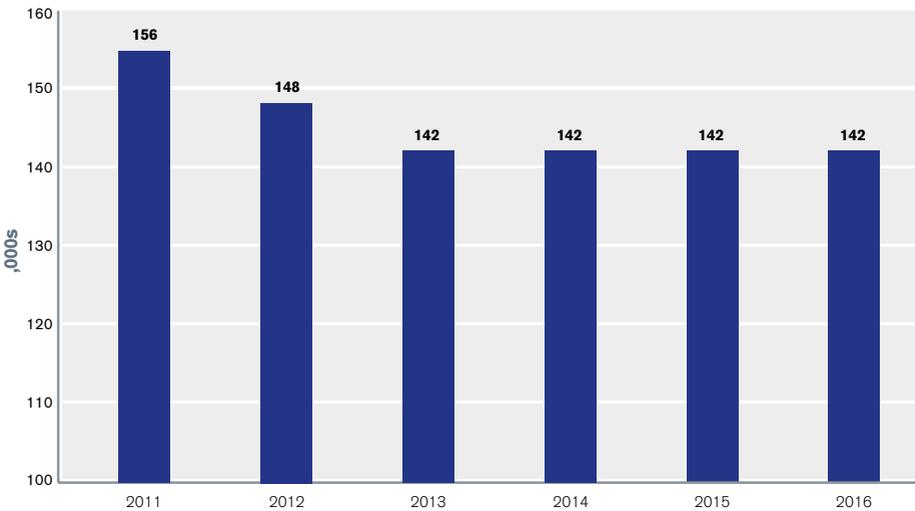
Apprentices & Trainees

30,000

British R&D and Design and Engineering jobs depend on the UK Defence sector

- 142,000 directly employed by UK Defence industry.
- 53% of companies employ apprentices or trainees.
- 1 in 3 companies are concerned about their ability to access the required R&D and Design and Engineering skills.

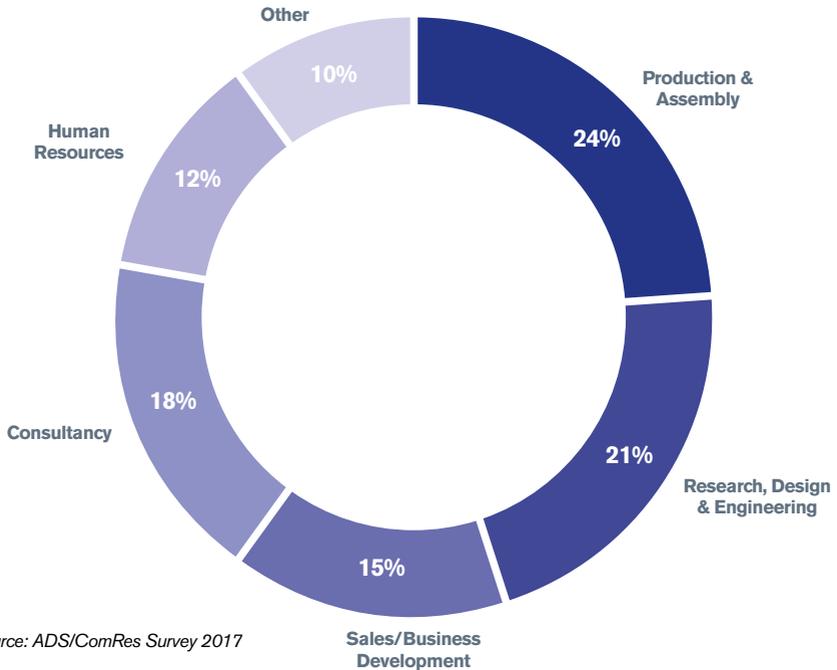
UK direct Defence employment



Source: Oxford Economics, ADS

A HIGHLY SKILLED WORKFORCE

% of employees in UK Defence companies, by job function

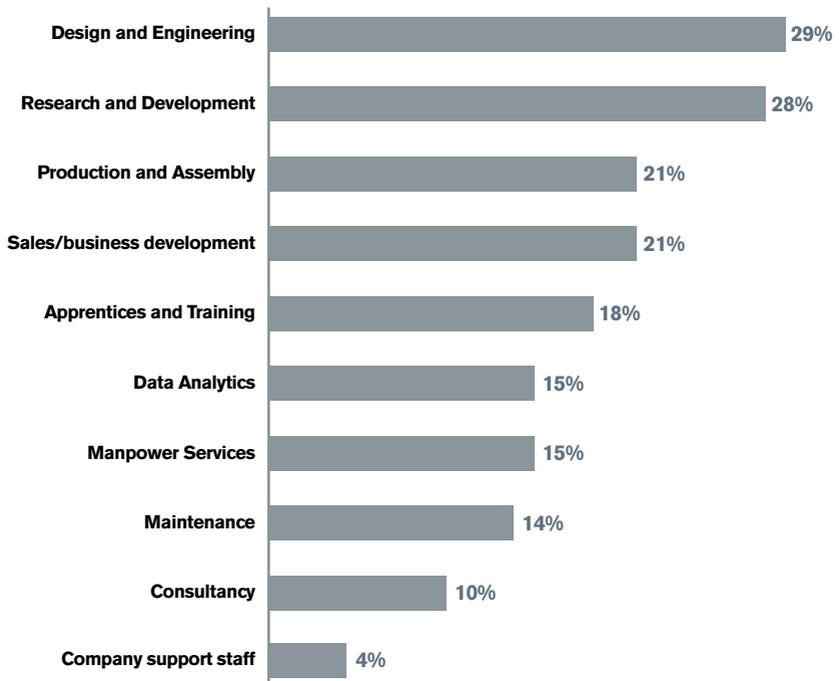


Source: ADS/ComRes Survey 2017

- Around 30,000 R&D and Design and Engineering jobs depend on the UK Defence sector.
- The average salary in the UK Defence industry is £39,300 - 42% more than the national average (approx. £27,600).
- 60% of the sector's apprentices and trainees are currently employed in Production and Assembly functions, reflecting the continued strength of UK Defence companies' order books.

ACCESS TO SKILLS FOR INNOVATION A CONCERN

% of companies not confident of accessing specific skills



13

Source: ADS/ComRes Survey 2017

- Almost 1 in 3 companies are not confident that they will be able to access the R&D or Design and Engineering skills required to drive innovation.
- 18% of businesses are also concerned about their ability to access the next generation of skilled workers through apprenticeships and training.
- 69% of companies, however, are confident in accessing Sales and Business Development skills in order to capitalise on new business opportunities and exports.

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.

14

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 2018 will run from 16-22 July 2018. In 2016, the Farnborough International Airshow saw \$124bn worth of confirmed orders.

ABOUT THE DATA

In 2017, 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/ComRes Survey:** ComRes interviewed 102 ADS members online between 21st February 2017 and 17th April 2017. The respondent list was provided to ComRes by ADS. The database provided by ADS contained 911 eligible respondents and 102 completed interviews were achieved, representing a response rate of 11%.
- **Oxford Economics:** ADS commissioned Oxford Economics to assess the turnover, employment and gross value added levels for each of ADS' four sectors. Their research draws on data from Office National Statistics, Dept for Business, Energy and Industrial Strategy, Ministry of Defence, Business Register Employment Survey (BRES), Workforce Jobs (WFJ) bulletin, DIT DSO, ADS Group and the ADS/ComRes Survey data.

ADS Group Limited Salamanca Square 9 Albert Embankment London SE1 7SP
enquiries@adsgroup.org.uk

www.adsgroup.org.uk +44 (0) 20 7091 4500

