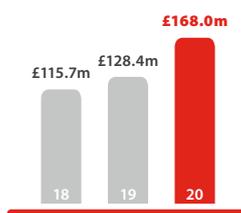

Chief Executive Officer's Review



2020 has been a year of both significant strategic evolution and strong organic execution for Avon Rubber

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“We have again delivered strong results ahead of expectations and continued to make significant steps transforming the business into a leading provider of life critical personal protection systems.”



Revenue

£168.0m



Development of HCH-40 CPAP Hood

The HCH-40 has been rapidly developed in response to the COVID-19 pandemic and resulting shortfall in availability of critical care patient treatment devices.

University College London approached us at the beginning of April to understand if we were able to provide a patient interface hood solution to work in conjunction with a new ventilator device to provide CPAP treatment (Continuous Positive Airway Pressure). Realisation of the final product leveraged aspects of our CH15 Escape Hood including moulded neck seal and polyurethane hood material.



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I am delighted to report another year of significant progress for Avon Rubber. The consistent execution of our strategy has transformed the Group into a focused provider of life critical personal protection systems with leading positions in respiratory and ballistic protection for the world's militaries and first responders.

Our strategy has focused on sustainable growth through diversifying the revenue we generate by delivering more products to our existing customers, as well as broadening our global customer base.

Organically we have continued to focus on maximising sales from our current product portfolio and actively developing next generation technologies to enhance our products and systems to better protect our customers from life critical risks. During 2020 we have secured new multi-year sustainment contracts to supply the U.S. DOD with the M50 mask system, M61 filters and associated spares and accessories, and we further broadened our respiratory protection customer base through a 10-year contract with the NATO Support and Procurement Agency to supply FM50 mask systems, powered and supplied air systems, filters, spares and accessories. We have also delivered a strong year in First Responders following increased demand for respiratory protection related to COVID-19.

To complement our organic growth, we have continued to target carefully selected, value enhancing acquisitions. The acquisition of Helmets & Armor, which we completed in January, was a milestone acquisition for Avon Rubber and has significantly expanded our portfolio through the addition of ballistic helmets and armor. The business has made excellent progress since completion, securing multi-year contracts with the U.S. DOD for next generation ballistic helmets and body armor, as well as the ongoing supply of legacy body armor products. The integration of this business continues to progress well and is on track for completion by the end of 2020.

The divestment of milkrite | InterPuls at the end of the financial year was a natural but important step in our strategic development, focusing the Group on our Avon Protection business and providing funding capacity for future M&A.

The acquisition of Team Wendy on 2 November 2020 represents another important strategic step for the Group, creating a global leader in helmets. The combination of Team Wendy, a leading provider of helmets, helmet liners and retention systems for Military and First Responder markets, with Helmets & Armor provides increased growth opportunities from a broader product range and enhanced helmet customer base globally.

Throughout the unprecedented COVID-19 pandemic we have continued to prioritise the safety and wellbeing of our people. It is thanks to their dedication and resilience that we have been able to operate with only minor disruption throughout the year.

I am delighted with the significant strategic progress we have made this year, repositioning the business as a leading provider of life critical personal protection to Military and First Responder markets. Our strategic actions are delivering a broader range of opportunities and adding value for both our existing and new customers, as well as our people and our shareholders. All of which leaves us well positioned to deliver further growth in 2021 and beyond.

Strategy

Our strategy is based upon creating shareholder value through three key elements:

- Growing the core by maximising organic revenue growth from within the current product portfolio and improving our operational efficiency;
- Pursuing selective product development to maintain our innovative leadership position; and
- Targeting value enhancing acquisitions to complement our existing business and further accelerate growth.

Chief Executive Officer's Review continued

Growing the core

Expanding our Military product portfolio and customer base

Strong Military order momentum in the year has been delivered through the strategic focus on our core Military markets with both the U.S. DOD and our Rest of World customers. Our ability to consistently deliver strong results reflects our innovation and technology leadership position. As a result, we continue to add to our contract pipeline by securing new long-term contracts with both the U.S. DOD and our Rest of World customers which provides us with significant visibility over revenues and earnings together with a diversified platform from which to deliver sustainable growth over the medium-term.

The landmark \$340m five-year contract awards in 2019 for the M69 aircrew mask and the M53A1 mask and powered air system confirmed our position as the sole source provider of General Purpose Masks, Tactical Masks, Powered Air Systems and Tactical SCBA across the entire U.S. DOD. We have followed the first orders and deliveries last year with receipt of the second order for \$21.2m in February 2020 under the M69 contract and have good visibility of the next order under this contract which is expected in the first half of 2021.

The M53A1 contract is to supply all branches of the U.S. DOD and other national and federal agencies with the M53A1 tactical mask, the MP-PAPR powered air system, the ST54 self-contained breathing apparatus and other spares and accessories. As expected, during the year we have received multiple follow-on orders under this contract and the diversity of the customer order profile is demonstrating the reach of our portfolio across this broader and increasingly visible customer base.

We secured two multi-year sustainment contracts during 2020 worth up to \$177m to continue supplying the U.S. DOD with the M50 mask system, M61 filter and related spares and accessories. These two awards highlight the benefit of the installed base of over two million M50 mask systems which continues to support strong sustainable revenues from original mask sales and the associated consumable products of filters, spares and accessories.

Alongside the diversified and growing order pipeline with the U.S. DOD, we have seen continued success with the broader respiratory portfolio in meeting a wider range of needs for our Rest of World customers. We continue to leverage our technology leadership position to attract growth from new and existing Rest of World customers and as a result continue to build a strong pipeline of customers for our respiratory protection products. We were delighted to announce a new 10-year framework contract with the NATO Support and Procurement Agency which provides a purchasing route for NATO and NATO affiliated nations to purchase from across our broad respiratory portfolio with the FM50 mask system, powered and supplied air systems and the full suite of spares and accessories included in the contract vehicle.

We have also successfully re-established our relationship with the U.K. Ministry of Defence ('U.K. MOD'). Following the success of our customer acceptance testing of the U.K. General Service Respirator ('U.K. GSR'), we moved into full production during the year. We are excited about the longer-term future of this relationship with the U.K. MOD and our demonstrable progress building our contract pipeline with our Rest of World customers.

Growing our First Responder business

The First Responder line of business has delivered an excellent year and has benefitted from the increased demand related to COVID-19, which offset our exit from the Fire SCBA market and increased margins. We have seen a strong increase in demand in the U.S. for both original mask equipment and for replacement filters, accessories and spares, across the second half of the year and into the new financial year.

Continuous focus on operational efficiency

Ensuring we deliver maximum operational efficiency alongside focusing on maintaining excellent customer service is an ongoing strategic focus across our global operations.

As we continue to expand our personal protection product portfolio and deliver ever more technical solutions for our Military and First Responder customers, we are focused on ensuring that we maintain high productivity and efficiency levels whilst being able to meet all of our customers' requirements. Maintaining our excellent product quality and reliability across our product range is critical to the success of our business given we operate in life critical personal protection products.

The acquisition of Helmets & Armor added three well invested manufacturing facilities to operate alongside our existing manufacturing footprint. In order to continue focusing on operational efficiency and to drive a common set of process across all locations we have brought all of our manufacturing and supply chain activities together into an integrated global operations team under the leadership of Keyana Hughes who has joined the Group's Executive Leadership team. Keyana joined the Group as part of the Helmets & Armor acquisition and brings extensive manufacturing experience which will support us in maximising the operational efficiency of our global operations.

Selective product development

Continued investment to maintain our innovative technology leadership position

We have continued to invest in the year to maintain our innovative technology leadership position across our existing portfolio as well as focusing on developing the next generation of new products that will deliver future growth for the business. We continue to ensure our development pipeline is designed in partnership with our customers to ensure that their exacting performance requirements are met whilst ensuring we have a committed and commercial route to market to maximise our return on investment.

During the year we have made a significant investment in our respiratory protection portfolio through the next generation of supplied air products and the next generation hoods programme, continuing to develop our filter technology and ramping up production on the U.K. GSR and MCM100, following a full dive test with the U.S. Navy. In our ballistic protection portfolio, development expenditure has been focused on continuing the investment in our next generation IHPS and VTP body armor programmes ahead of the expected first deliveries in 2021.

In 2020, we invested a total of £9.0m (2019: £7.3m), representing 5.4% of revenue (2019: 5.7%), in research and development. We expect to continue to invest at this level over the medium-term, reflecting our confidence in our expanded research and development capability to innovate across our broader personal protection portfolio to meet more of the integrated future technical needs of our customers for the benefit of further revenue and profit growth.

Value enhancing acquisitions

Milestone acquisition of Helmets & Armor

The acquisition of Helmets & Armor in January 2020 was an important strategic step, enhancing the growth prospects for Avon Protection. The Helmets & Armor business is high-quality, with a strong management team, backed by leading proprietary technology, established contract platforms and well invested manufacturing operations.

Our initial focus in 2020 has been on the smooth transition to Avon Protection ownership and maintaining business continuity. This has included ongoing fulfilment of the Integrated Head Protection System ('IHPS') Low Rate Initial Production contract, completion of the Vital Torso Protection Low Rate Initial Production body armor contract and securing follow on contracts of these next generation helmets and body armor systems.

Since completion the business has secured three very significant long-term body armor and helmet contracts with the U.S. DOD.

- The Next Generation Integrated Head Protection System ('NG IHPS') ballistic helmet contract, part of the U.S. Army's Soldier Protection System, is a sole source contract with a maximum value of \$93m. This new contract award will follow on from the existing low-rate initial production contract for the IHPS which is due to end in 2021.
- The Vital Torso Protection X-Side Ballistic Insert ('VTP XSBI') body armor framework contract, which is part of the U.S. Army's Soldier Protection System, is a dual source contract and has a maximum value of \$265m, over a four-year duration. This adds to the multi-source four-year framework contract with a maximum value of \$704m awarded in 2019 to supply Enhanced Small Arms Protective Insert ('VTP ESAPI') and X-Small Arms Protective Insert ('VTP XSAPI'). Deliveries under both contracts are expected to commence in the second half of our new financial year following completion of first article testing.



Helmets & Armor transition programme

Understanding our employees' needs

To ensure a smooth transition for all Helmets & Armor employees, surveys were conducted at the beginning of the year to gain an understanding of how the new employees felt about any changes that were occurring. We wanted to understand how the employees were feeling during the transition and what could be done to further support them throughout the integration.



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Chief Executive Officer's Review continued

- The Enhanced Small Arms Protective Inserts ('ESAPI') body armor framework contract is an award to supply the Defense Logistics Agency ('DLA') with legacy body armor inserts to support existing operational requirements during the transition to the next generation VTP body armor. The ESAPI contract was a competitively tendered award which has a maximum value of \$333m over a maximum three-and-a-half-year duration. The first order, worth \$20m, was received in March 2020, with deliveries expected to commence in our 2021 financial year following completion of first article testing.

Having secured a smooth transition to Avon Protection ownership and maintained business continuity, we have continued to make significant progress integrating Helmets & Armor into Avon Protection. Our first priority was on the back office support functions across IT, Finance and HR to ensure business continuity. We established a project plan to align the IT systems and system architecture with Avon Protection and have also embedded support into Helmets & Armor across Finance and HR functions. This project is on track to complete in December ahead of the expiry of the transitional service arrangements with 3M at the end of the calendar year.

As reported at the half year, we migrated our existing Helmets & Armor First Responder customers to Avon Protection in the Spring to provide those customers with a single point of contact. In July we officially launched our helmet product range to all our North American First Responder customers. We are pleased with the initial progress achieved and the pipeline of opportunities secured following this launch.

In the second half we combined the manufacturing and supply chain operations of the business across our global footprint under the leadership of a single integrated global operations team. Our global operations will drive standard ways of working, processes and systems across the footprint to drive operational efficiency, product quality and customer service.

In the first quarter of the new financial year we have completed the operational integration of Helmets & Armor into Avon Protection by combining responsibility for the Helmets & Armor Military customers into our Military line of business.

Following completion of the integration with Avon Protection, from the start of our 2021 financial year we will no longer report Helmets & Armor as a separate line of business, we will instead include the results of the business within our Military and First Responder lines of business.

As a result of the progress we have made in integrating Helmets & Armor, we are on track to deliver in 2021 the \$5m of annualised cost synergies identified at the time of the acquisition and see the potential for further operational efficiencies and revenue synergies to be realised over the long-term.

Divestment of milkrite | InterPuls supports strategic focus on Avon Protection

On 25 September 2020 we completed the divestment of milkrite | InterPuls for a cash consideration of £178.5m after customary closing adjustments. This transaction represents an important step in the strategic development of Avon Rubber. milkrite | InterPuls had been an important part of the growth of the Group over many years, but having achieved our valuation expectations for the business we believed that it was the right time to divest the business and use the proceeds to provide additional capacity for investment in the Avon Protection business.

Acquisition of Team Wendy creating a global leader in helmets

We completed the acquisition of Team Wendy on 2 November 2020, marking another important strategic step in the development of Avon Protection as a leading provider of life critical personal protection systems to Military and First Responder customers. Consistent with the wider Avon Protection model, Team Wendy is a high-quality business, backed by leading proprietary technology, an existing diversified customer base and with strong R&D development capabilities which will enhance the pipeline of opportunities and accelerate the growth of the Group.

Team Wendy is a leading supplier of helmets and helmet liner and retention systems for Military and First Responder markets. Combining Team Wendy with our existing Helmets & Armor business will create a global leader in Military and First Responder helmets with a broader product portfolio and stronger capabilities and routes to market.

Team Wendy adds leading helmet liner and retention systems used by the U.S. DOD and established positions in Rest of World Military and First Responder helmet markets to our existing Helmet & Armor business which is focused in next generation ballistic helmets and body armor for the U.S. DOD. The enlarged helmet business will be better positioned for investment in next generation products and establishes a broader platform into which other technologies can be incorporated. The enlarged helmet business will also have better scale and an enhanced route to market, with Team Wendy's complementary customer base and well-established global footprint expected to provide significant business development opportunities over the medium-term.

Given the complementary nature of Team Wendy to our existing helmets business, Team Wendy will continue to operate from its Cleveland, Ohio base on a stand-alone basis. Team Wendy will continue to be led by Jose Rizo-Patron alongside his existing strong management team. Following completion Jose has joined the Group's Executive Leadership team.

Well positioned to pursue further acquisitions

The successful integration of Helmets & Armor and the recent acquisition of Team Wendy illustrate the potential for the Group to leverage its leading market position, deeply embedded customer relationships and innovation capability across a broadening range of life critical protective equipment. The Group's customers are faced with evolving threats and operational challenges that increasingly require integrated and technology-enabled solutions and Avon Protection, as the market leader in respiratory and ballistic protection, is ideally placed to act as both a technology innovator and integrator. As such, there remains significant scope to extend our capability into adjacent product areas and we believe that further value enhancing acquisition opportunities will be actionable to supplement our continued organic growth over the medium-term. Following the acquisition of Team Wendy we will retain a strong balance sheet, with a small net cash position. The Group recently entered a medium-term bank facility of \$200m, which means we are well positioned to pursue other potential acquisitions that meet our criteria over the medium-term.

Outlook

The consistent execution of our strategy has transformed the Group into a focused provider of life critical personal protection systems with leading positions in respiratory and ballistic protection for the world's militaries and first responders.

Our medium-term outlook is underpinned by multi-year military contracts across the product portfolio. Together with a strong opening order book of \$101.7m (£79.8m) and continuing strong demand from First Responder customers, these contracts provide excellent visibility as we enter the new financial year. We are well positioned to deliver further organic growth in 2021 and beyond.

The 2021 financial year will also benefit from a full year contribution from Helmets & Armor, versus the nine months contribution in 2020. We expect revenues from helmet and armor products to continue at the current level in the first half of the year, with growth in the second half driven by deliveries under the new U.S. DOD body armor contracts following completion of first article testing.

Following the acquisition of Team Wendy, our 2021 financial year will benefit from 11 months of contribution. We expect Team Wendy to grow revenue in line with our investor proposition of 3%+p.a. in 2021.

We will continue to monitor the impact of COVID-19 on our business and to prioritise the safety and wellbeing of our employees and their families. Whilst the operating environment of COVID-19 remains challenging, customer demand for our products remains robust and we have continued to operate with only minor disruption to date. We will continue to closely manage our supplier base to ensure the continued delivery of our customers' ongoing requirements. We have transformed the business over the last three years and positioned it for future growth through our consistent focus on delivering against our strategic priorities of growing the core, selective product development and value enhancing acquisitions. This leaves us well positioned to deliver further progress in 2021 and beyond.



Paul McDonald
Chief Executive Officer

2 December 2020



Managing COVID-19 for all our stakeholders

The wellbeing of our employees and customers has remained our top priority throughout the unprecedented COVID-19 pandemic. We have adapted our working practices and facilities to ensure our people are kept safe and well throughout this crisis and as a result we have continued to operate with only minor disruption, playing a crucial role in supporting our customers ongoing requirements. We continue to manage the situation closely and follow Government and health authority advice to help prevent the spread of the virus.



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