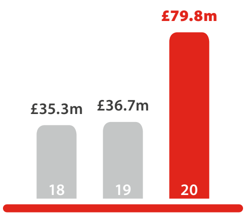
Financial Review

The results reflect our ongoing initiatives to grow our core revenue and selected product development to create a business that is more sustainable for the future, complemented by value enhancing acquisitions.

"The closing order book of £79.8m reflects the continued strong performances across all the markets in which we operate and provides excellent visibility heading into the new financial year."



Closing Order Book

£79.8m

M50 mask system and M61 filter contract award

Ongoing strong relationship with the U.S. DOD

Earlier this year we were awarded a sole-source sustainment contract to supply the M50 mask system, as well as a dual source contract to supply replacement M61 filters. These awards further underpin our ongoing sustainable revenues from the U.S. DOD's installed base of over two million M50 mask systems. We look forward to continuing to deliver the highest performing and highest quality respiratory protection to the U.S. DOD.

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We have delivered a strong financial performance during the year benefitting from both organic growth and the acquisition of Helmets & Armor. Revenue and adjusted operating profit grew by 30.8% and 33.6% respectively; an increase of 0.1% and 8.9% on an organic continuing operations basis.

	2020	2019 (Restated)[1]	% Change	% Change at organic constant currency
Orders received	£160.8m	£129.8m	23.9%	4.5%
Closing order book	£79.8m	£36.7m	117.4%	19.3%
Revenue	£168.0m	£128.4m	30.8%	0.1%
Adjusted EBITDA	£38.4m	£28.4m	35.2%	6.8%
Adjusted EBITDA margin	22.9%	22.1%	0.8%	1.4%
Adjusted operating profit	£30.2m	£22.6m	33.6%	8.9%
Operating profit	£5.9m	£9.9m	–	–
Adjusted profit after tax	£23.4m	£20.5m	14.1%	(2.8%)
Profit after tax	£1.6m	£10.2m	–	–
Adjusted basic earnings per share	76.5p	67.2p	13.8%	(2.9%)
Basic earnings per share	447.4p	46.2p	–	–

1 2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020 and to reflect the impact of adopting IFRS 16 Lease accounting which came into effect on 1 October 2019.

Orders received of £160.8m (2019: £129.8m) supported an increase in revenue to £168.0m (2019: £128.4m) reflecting the benefit of the inclusion of nine months of performance from Helmets & Armor. On an organic constant currency basis, revenue grew by 0.1% with Military revenue reducing by 3.6% given the strong comparator in 2019, offset by First Responder which grew strongly by 7.7% notwithstanding our exit from the Fire SCBA market.

Our adjusted EBITDA margin of 22.9% (2019: 22.1%), increased by 1.4% on an organic constant currency basis excluding the impact of Helmets & Armor. This primarily reflected the benefits of the commercial pricing of the new M50 and M53A1 DOD contracts and the strong performance from higher margin First Responder revenues. Adjusted EBITDA was £38.4m (2019: £28.4m); eliminating the effect of the Helmets & Armor acquisition and currency movements organic adjusted EBITDA grew by 6.8%.

Adjusted operating profit grew very strongly to £30.2m (2019: £22.6m). Eliminating the small benefit of currency movements and the Helmets & Armor acquisition, adjusted operating profit grew by 8.9% on a constant currency basis.

Financial Review continued

Reported operating profit of £5.9m (2019: £9.9m) reflects £6.5m (2019: £0.9m) of amortisation of acquired intangibles, an increase of £5.6m following the acquisition of Helmets & Armor, and exceptional costs of £17.8m (2019: £11.8m). In 2020, the exceptional costs related to the acquisition of Helmets & Armor and Team Wendy including acquisition costs of £9.6m, transition costs of £2.3m and acquisition accounting adjustments of £5.9m to account for acquired inventory at our underlying cost. In 2019, the exceptional costs included acquisition costs of £2.9m, a charge to equalise the pension benefits for men and women and past service costs of £3.5m and the one-off costs of £5.4m relating to our exit from the Fire SCBA market.

After an adjusted tax charge of £4.8m (2019: £1.7m), the Group recorded an adjusted profit for the period after tax of £23.4m (2019: £20.5m). The strong growth in adjusted operating profit more than offset the increased adjusted tax rate of 17% (2019: 8%), which has increased following the Helmets & Armor acquisition due to the greater proportion of U.S. profits and the prior period benefiting from the resolution of a number of uncertain tax positions in 2019. Adjusted basic earnings per share increased by 13.8% to 76.5p (2019: 67.2p).

On a reported basis, the profit before tax was £0.5m (2019: £8.7m) and, after a tax credit of £1.1m (2019: £1.5m), profit for the period was £1.6m (2019: £10.2m). Basic earnings per share from continuing operations were 5.2p (2019: 33.4p), with basic earnings per share including discontinued operations of 447.4p (2019: 46.2p), benefiting from the proceeds from the divestment of milkrite | InterPuls.

Cash from continuing operations was £32.6m (2019: £18.4m) benefiting from the receipt of cash relating to the 2019 $16.6m Rest of World Military mask system contract which offset a Helmets & Armor working capital out flow due to the timing of receipts from 3M under the terms of the transitional service agreement. Operating cash conversion from adjusted EBITDA increased to 84.9% (2019: 64.8%) and excluding Helmets & Armor cash conversion was 123.3%.

Revenue

	2020 £m	2019 £m
Military	82.8	87.2
Helmets & Armor	40.8	–
First Responder	44.4	41.2
Total	168.0	128.4

Military

Military revenue of £82.8m (2019: £87.2m) was down 3.6% at constant currency given the strong comparator in 2019. Order in-take of £88.5m (2019: £83.9m) was up 5.5% on a constant currency basis, contributing to a strong closing order book of £36.8m (2019: £29.4m) which gives us excellent visibility as we enter 2021.

U.S. DOD revenue totalled £58.9m versus £54.8m in 2019, reflecting the diversification of the respiratory protection portfolio with the benefit of a full year of deliveries of the M69 aircrew masks and M53A1 mask and powered air system products. This was offset, as expected, by lower volumes of the M50 mask system with first deliveries under the new sustainment contract. Volumes of M50 mask system spares and accessories grew in the year, highlighting the importance of the installed base of two million M50 mask systems in generating sustainable revenues. As a result, U.S. DOD spares and development costs revenue increased to £24.8m (2019: £12.2m).

Rest of World Military revenues of £23.9m (2019: £32.4m) declined as a result of the inclusion in 2019 of the $16.6m Rest of World mask system contract. During the year we have made excellent progress in delivering a more sustainable Rest of World Military business with a more visible contract pipeline. We delivered the first orders under the five-year U.K. General Service Respirator contract and secured a 10-year framework contract with the NATO Support and Procurement Agency to supply our FM50 mask system, together with filters, spares and accessories with the first deliveries under this contract expected in our 2021 financial year.

Helmets & Armor

We completed the acquisition of Helmets & Armor on 2 January 2020, so the performance this year includes the first nine months of our ownership. Over the period we have benefitted from revenue of £40.8m, being £38.4m from Military customers and £2.4m from First Responder. Military revenues comprise ongoing deliveries to the U.S. DOD of the IHPS helmet, completion of the low rate production volumes for VTP ESAPI body armor, as well as sales of flat armor to original equipment manufacturers of rotary wing aircraft.

Helmets & Armor delivered an EBITDA margin of 17.9% reflecting the initial cost synergy delivery. This resulted in an adjusted operating profit contribution of £5.1m.

R&D expenditure
£9.0m
(2019: £7.3m)

R&D spend as % of revenue
5.4%
(2019 5.7%)

We have made good progress integrating the Helmets & Armor business into Avon Protection and we remain on track to deliver the full targeted synergies of $5m in our 2021 financial year. The one-off costs expected to be incurred to complete the integration of $12.7m, are ahead of our initial estimates of $10m due to additional resources and costs required to deliver the back office integration during the COVID-19 pandemic. Going forward, we see the potential for further operational efficiencies and revenue synergies to be realised over the long-term.

First Responder

The First Responder business had an exceptional year with revenues increasing by 7.8% on a constant currency basis to £44.4m (2019: £41.2m), with increased demand related to COVID-19 having more than offset the prior year Fire SCBA revenues. Excluding the impact of our exit from the Fire SCBA market, underlying revenue increased by 23.0% on a constant currency basis.

We have seen a strong increase in demand from first responders for both original mask equipment and for replacement filters, accessories and spares, across the second half of the year, as a result of the COVID-19 pandemic. This momentum has resulted in a strong opening order book of £5.5m which gives us a confident outlook into the next financial year. We have continued to see strong demand in the new financial year from first responders for both original equipment and importantly for spares and accessories.

Research and development expenditure

We continue to invest for the future and our total investment in research and development (capitalised and expensed) amounted to £9.0m (2019: £7.3m) as shown below. Total research and development as a percentage of revenue was 5.4% (2019: 5.7%).

	2020 £m	2019[1] £m
Total expenditure	9.0	7.3
Less customer funded	(2.2)	(2.5)
Group expenditure	6.8	4.8
Capitalised	(5.1)	(3.2)
Income statement impact of current year expenditure	1.7	1.6
Amortisation	2.8	3.0
Total income statement impact before exceptionals	4.5	4.6
Revenue	168.0	128.4
R&D spend as % of revenue	5.4%	5.7%

1 2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020.

In the respiratory protection product portfolio, the most significant investments have been in the development of our next generation of supplied air and escape hoods products, further development of our filter technology, ramping up production on the U.K. GSR programme and ongoing improvements in the capabilities of the MCM100 underwater rebreather following a full dive test programme with the U.S. Navy.

In Helmets & Armor, investment expenditure has been focused on continuing the development of the next generation IHPS helmet and VTP body armor programmes ahead of first deliveries expected in the 2021 financial year.

Financial Review continued

Profit for the year

	2020			2019		
	Adjusted £m	Adjustments £m	Total £m	Adjusted (Restated)[5] £m	Adjustments (Restated)[5] £m	Total (Restated)[5] £m
Continuing operations						
Operating profit	30.2	(24.3)	5.9	22.6	(12.7)	9.9
Operating profit						
Before depreciation, amortisation and impairment	38.4	(17.8)	20.6	28.4	(8.0)	20.4
Impairment	–	–	–	–	(3.8)	(3.8)
Depreciation and amortisation	(8.2)	(6.5)	(14.7)	(5.8)	(0.9)	(6.7)
Operating profit	30.2	(24.3)[1]	5.9	22.6	(12.7)[1]	9.9
Net finance costs	(2.0)	(3.4)[2]	(5.4)	(0.4)	(0.8)[2]	(1.2)
Profit before taxation	28.2	(27.7)	0.5	22.2	(13.5)	8.7
Taxation	(4.8)	5.9[3]	1.1	(1.7)	3.2[3]	1.5
Profit for the year from continuing operations	23.4	(21.8)	1.6	20.5	(10.3)	10.2
Discontinued operations – gain on disposal	–	129.8[4]	129.8	–	–[4]	–
Discontinued operations – profit from discontinued operations	–	5.4[4]	5.4	–	3.9[4]	3.9
Profit for the year	23.4	113.4	136.8	20.5	(6.4)	14.1
Basic earnings per share	76.5p	370.9p	447.4p	67.2p	(21.0p)	46.2p
Diluted earnings per share	75.5p	365.8p	441.3p	66.6p	(20.8p)	45.8p

1 Adjustments

Adjustments of £24.3m (2019: £12.7m) excluded from adjusted operating profit comprise amortisation of acquired intangible assets of £6.5m (2019: £0.9m) and exceptional costs of £17.8m (2019: £11.8m). In 2020, the exceptional costs related to the acquisition of Helmets & Armor and Team Wendy including acquisition costs of £9.6m, transition costs of £2.3m and acquisition accounting adjustments of £5.9m to account for acquired inventory at our underlying cost. In 2019, the exceptional costs included acquisition costs of £2.9m, a charge to equalise the pension benefits for men and women and past service costs of £3.5m and the one-off costs of £5.4m relating to our exit from the Fire SCBA market.

2 Net finance costs

Net finance costs were £5.4m (2019: £1.2m) comprising £1.0m of bank interest due to drawing on the Group bank facility to partially fund the acquisition of Helmets & Armor in January (2019: £0.4m of finance income), £0.9m (2019: £0.7m) of interest in respect of leases, and other finance expenses of £3.5m (2019: £0.9m) which primarily represents the unwind of the discount on the net pension liability and contingent consideration of £3.1m and £0.3m of finance fees written off following the bank refinancing during the year. Other finance expenses have been excluded from adjusted profit for the year.

3 Taxation

Taxation was a credit of £1.1m (2019: £1.5m credit) comprising an adjusted tax charge of £4.8m (2019: £1.7m), at an adjusted effective rate of 17% (2019: 8%), offset by the tax effects of the impact of the acquisition costs, amortisation of acquired intangibles and the defined benefit pension scheme of £5.9m (2019: £3.2m). Included within this is a £1.2m credit in respect of previous periods which includes a £0.8m credit in connection with the release of provisions following the successful resolution of a number of prior year uncertain tax positions.

4 Profit from Discontinued Operations

The profit from discontinued operations of £135.2m in the year was comprised of the profit after tax of milkrite | InterPuls up to the date of disposal on 25 September 2020 of £5.4m and the post tax gain on disposal of £129.8m.

5 Restatements

The previously reported prior year comparatives for the adjusted measures have been restated for the following items: to reflect the impact of the new lease standard, to present milkrite | InterPuls as a discontinued operation following the disposal in September 2020 and to include the pension administration costs within the adjusted performance measures as these were previously excluded.

The table below shows the reconciliation of the previously reported key measures to the restated prior year comparatives:

	Note	As reported 30 September 2019 £m	Change in accounting policy £m	Discontinued operations £m	Pension adjustments £m	Restated 30 September 2019 £m
Adjusted Earnings		28.0	(0.1)	(7.0)	(0.4)	20.5
Adjusted Earnings per share (pence)	2.3	91.7p	(0.3p)	(22.9p)	(1.3p)	67.2p
Adjusted operating profit	2.1	31.3	0.4	(8.6)	(0.5)	22.6
Adjusted EBITDA	2.1	39.5	1.0	(11.6)	(0.5)	28.4

Reconciliation of restated reported measures is available in note 7.7 of the financial statements.

Net cash and cash flow

Cash generated from continuing operations was £32.6m, compared to £18.4m in 2019 benefiting from the cash receipt relating to the 2019 $16.6m Rest of World Military mask system contract which offset a Helmets & Armor working capital out flow due to the timing of receipts from 3M under the terms of the transitional service agreement. Operating cash conversion from adjusted EBITDA increased to 84.9% (2019: 64.8%), and excluding Helmets & Armor was 123.3% on an organic continuing operations basis.

	2020 £m	2019[1] £m
Cash flows from continuing operations before the impact of exceptional items	32.6	18.4
Cash impact of exceptional items and discontinued operations	(4.8)	6.6
Cash flows from operations	27.8	25.0
Net interest	(3.3)	(0.9)
Payments to pension plan	(21.8)	(1.5)
Tax	(2.7)	(6.1)
Purchase of property, plant and equipment	(6.1)	(2.2)
Capitalised development costs and purchased software	(9.5)	(3.5)
Acquisitions	(71.8)	–
Divestments	167.7	–
Investing and financing activities used in divestments	(4.8)	(2.9)
Purchase of own shares	–	(1.3)
Dividends to shareholders	(7.0)	(5.4)
Net proceeds from loan drawdowns	29.3	–
Foreign exchange and other items	0.8	0.6
Increase in net cash	98.6	1.8

1 2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020.

Financial Review continued

At the year-end, the Group had net cash of £93.2m (2019: £35.4m), being cash of £147.0m less bank debt of £31.0m and lease liabilities of £22.8m (2019: £12.9m). The increase in lease liabilities is due to £8.8m acquired as part of the Helmets & Armor acquisition, £6.4m as a result of new leases entered into during the year, offset by £3.3m divested with milkrite | InterPuls and £2.0m of rent payments.

During the year we entered into a new U.S. Dollar denominated bank facility of $200.0m (£157.0m) (2019: $85.0m (£66.7m)), which is committed to 8 September 2023, with a further two one-year extension options.

Our net cash position and strong balance sheet provided us with the capacity to complete the acquisition of Team Wendy in November as well as providing capacity to deliver our growth strategy and make further value enhancing acquisitions. Our policy is to maintain a strong financial position and keep the ratio of net debt to adjusted EBITDA under two times.

Acquisition and integration of Helmets & Armor

We completed the acquisition of the Helmets & Armor business for a total cash consideration in the year of $90.6m, made up of $87.2m of initial consideration after adjusting for the level of working capital at completion and contingent consideration of $3.4m. Further total potential contingent consideration of up to $21.7m (£15.2m) is payable depending on the value of orders received under the DLA ESAPI contract. We incurred cash acquisition costs in the year of £2.9m, bringing total acquisition costs to £5.7m.

Divestment of milkrite | InterPuls

We completed the divestment of the milkrite | InterPuls business for a total consideration of £178.5m after customary closing adjustments. As part of the proceeds from the divestment the Group agreed with the trustees of its U.K. pension scheme to make a one-time contribution of £20.0m to strengthen the scheme's funding position. We incurred associated transaction costs in the year of £8.8m.

Accounting standards changes

From the start of the financial year the way that leases are accounted for changed for the Group with the underlying principle being that all leases are now reported on the balance sheet. As a result of these changes, the Group has recognised a right of use asset for all the current operating leases above 12 months in length and excluding those of low value and a lease liability representing the present value of the lease payments to the end of the lease life.

The impact of the changes on the financial statements are that from the start of the year £9.2m of leasehold assets and £12.9m of leasehold liabilities, together with £1.7m to reflect the unwind of rent free periods and deferred tax movements, have been added to the balance sheet with the £2.0m net balancing figure reflected as an opening reserves adjustment. Following the completion of the acquisition of Helmets & Armor an additional £8.8m of leasehold assets and £8.8m of leasehold liabilities were added to the balance sheet and subsequent to the divestment of milkrite | InterPuls £2.3m of leasehold assets and £3.3m of leasehold liabilities have been removed from the balance sheet. £6.4m of new lease liabilities have been entered into during the year.

The changes have also impacted the presentation of the income statement as the lease payments are now included within finance costs. As a result of these changes the results from the 2019 financial year have been restated to reflect the impact of IFRS 16 and to allow comparison to the current financial year performance. There are no changes to the cash flow metrics as these are all non-cash presentational changes.

Financial risk management

The Group has clearly defined policies for the management of foreign exchange risk. Exposures resulting from sales and purchases in foreign currency are matched where possible and net exposure may be hedged by the use of forward exchange contracts.

The initial consideration of $91m for the agreement to acquire Helmets & Armor exposed the Group to foreign exchange risk on the U.S. dollar equivalent of the Sterling net cash held on the balance sheet and to match this risk the Group entered into a deal contingent forward contract to hedge £35m of cash held at the start of the year which was settled on completion of the acquisition at the beginning of January.

Given the change in reporting currency for our 2021 financial year, the agreement to divest milkrite | InterPuls for £178.5m created an exposure from 1 October 2020 to foreign exchange risk on the U.S. dollar equivalent of the Sterling cash proceeds. To manage this risk the Group entered into a second deal contingent forward contract to hedge £140m of the cash proceeds, which were not matched against Sterling costs, which was settled at the point of completion of the acquisition on 25 September. The Group does not undertake foreign exchange transactions for which there is no underlying exposure.

Credit and counterparty risk are managed through the use of credit evaluations and credit limits. Cash deposits are made at prevailing interest rates which are not generally fixed for more than one or two months. Borrowings and overdrafts are at floating interest rates. The Group does not carry out any interest rate hedging.

Currency effect and change of reporting currency

The Group has translational exposure arising on the consolidation of overseas company results into Sterling. Based on the current mix of currency denominated profit, a one cent appreciation of the U.S. dollar increases revenue by approximately £1.1m and operating profit by approximately £0.2m.

Subsequent to the acquisition of Team Wendy, and following the completion of the divestment of milkrite | InterPuls, the Group's activities will be predominantly conducted in U.S. dollars, with approximately 90% of revenues and the majority of Group's net cash and net assets denominated in U.S. dollars. As such, from 1 October 2020 the Group will change its reporting currency to U.S. dollars for our 2021 financial year. Following the change in reporting currency, dividends for the 2021 financial year and beyond will be set in U.S. dollars and converted into pounds sterling for payment at the prevailing exchange rate immediately prior to payment.

Dividends

The Board is recommending a final dividend of 18.06p per share (2019: 13.89p) which together with the 9.02p per share interim dividend gives a total dividend of 27.08p (2019: 20.83p), up 30% on last year. The final dividend will be paid on 12 March 2021 to shareholders on the register at 12 February 2021 with an ex-dividend date of 11 February 2021.

Our policy is to maintain a progressive dividend policy balancing dividend increases with the rates of adjusted earnings per share growth achieved, taking into account potential acquisition spend and the Group's financing position. Over recent years, we have grown the dividend per share by 30%p.a. and we expect to continue to grow dividends ahead of earnings over the medium-term. Our policy is to maintain dividend cover (the ratio of dividend per share to adjusted earnings per share) above two times. This year dividend cover was 2.8 times (2019: 4.4 times). Once dividend cover approaches two times we intend to increase dividends in line with the growth in adjusted earnings per share.

Nick Keveth
Chief Financial Officer

2 December 2020

Introduction of Helmets & Armor product range to First Responder Customers

During the year we introduced the Helmets & Armor product range to our North American First Responder customers, allowing us to take advantage of our strong distribution network. The product range is widely recognised for world-class protection and comfort and, as a result, we have secured a pipeline of opportunities, with plans for a full launch to our Rest of World First Responder customers underway.

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