

Chief Executive Officer's Review



“We have made significant further progress against our strategic objectives to deliver medium-term, sustainable growth, despite the challenging operating environment.”

2021 HAS REGRETFULLY BEEN A CHALLENGING YEAR FOR AVON PROTECTION AND OUR STAKEHOLDERS, HOWEVER WE HAVE TAKEN DECISIVE ACTION TO ADDRESS THE ISSUES OF OUR ARMOR BUSINESS AND REFOCUS THE GROUP AS A GLOBAL LEADER IN RESPIRATORY AND HEAD PROTECTION.

Our body armor business has been impacted by first article testing failures for the legacy DLA ESAPI product in December 2020, and the next-generation Vital Torso Protection (VTP) product in November 2021. In response to these unexpected events, the Board has undertaken a strategic review of our armor business and concluded that an orderly wind-down of the body and flat armor business to fulfil our existing body and flat armor customer commitments is in the best interest of our stakeholders as a whole.

This is clearly a disappointing outcome which will impact a number of our stakeholders, however this decisive action refocuses the Group and the executive team on growing our world leading positions in respiratory and head protection. While naturally overshadowed by events in armor, we have made significant further progress in these businesses with significant levels of investment to further underpin our position as a leading provider of respiratory and head protection systems for military and first responder customers.

Our strategy remains focused around three core strategic pillars:

- Growing the core by maximising organic sales growth from our current product portfolio
- Pursuing selective product development to maintain our innovation leadership position
- Targeting value enhancing acquisitions to complement our existing businesses and add additional growth opportunities for the Group

This strategy is designed to grow revenue by supplying a wider range of products to our existing customers, as well as broadening our global customer base.

Over the past year, we have made further progress against these objectives and towards growing and strengthening our respiratory and head protection businesses. This includes growing orders from European customers under the NATO framework contract, and through the acquisition of our second head protection business, Team Wendy in November 2020. Combining Team Wendy with the Ceradyne ballistic helmet business acquired in January 2020 has created a global leader in military and first responder helmets, helmet liners and retention systems to add to our world leading respiratory protection business, with significant growth opportunities for the future.

Our revenue expectations, excluding armor, in the new financial year and beyond remain underpinned by long-term contract positions with the U.S. DOD, a growing customer base outside the U.S., and a growing aftermarket revenue stream driven from the installed base of our products, providing confidence and long-term visibility for our future revenues.

Sustainability

The Board recognises the importance to each of our main stakeholder groups of Environmental, Social and Governance (ESG) matters. As practice and regulation in this area continues to grow, we remain committed to delivering positive, measurable improvement in these areas seriously, whilst recognising that we are at the beginning of this journey.

We have acknowledged the need for a high-level sustainability vision, which links to the Group's purpose, as a backdrop to our strategy. We have many sustainability initiatives already in place throughout our sites, across all three aspects of ESG, and over the coming months we will be aligning our existing initiatives across all sites in order to put in place a clear strategy and framework for delivery of the Group's ESG agenda, which will include specific targets, initiatives and commitments against which stakeholders will be able to measure the Group's performance and our progress towards our vision of being net carbon neutral by 2045.

Strategic review of armor

On 12 November 2021 we announced that our next-generation VTP ESAPI body armor product had failed first article testing. This followed a similar result in December 2020 for the legacy DLA ESAPI body armor product. We also announced that we were experiencing further delays to achieving final product approval for the DLA ESAPI product following the successful completion of ballistic testing in August 2021, thereby pushing expected revenues from the second quarter into the third quarter of FY22.

As a result, the Board has conducted an in-depth strategic review of the armor business. The best interests of all stakeholders, and in particular our customers and employees in addition to our shareholders, have been at the core of our decision-making.

We have concluded that continuing the body armor business and re-developing the VTP ESAPI product is not in the best interests of our stakeholders, given the lack of certainty of obtaining product approval and of generating an acceptable return on our investment. Were we to continue to invest in this product, at best, we would be able to achieve approval in late 2022 towards the end of the four-year contract which is due to end in March 2023. As such, the balance between risk and opportunity is one that the Board considers unattractive.

The Board has also evaluated selling the body and flat armor business. The Board's expectation is that any divestment is unlikely to be achievable given the uncertainties surrounding the business.

As such, the Board has concluded that it is in the best interests of our stakeholders as a whole to undertake an orderly wind-down of the body and flat armor businesses. In the short-term, we will continue to engage with our customers and operate the businesses in order to fulfil our contractual obligations. As at 30 September 2021 our armor order book totalled \$26.6 million, being \$20.6 million of body armor and \$5.9 million of flat armor. We will not pursue further armor contracts or further contract extensions. However, we anticipate a further \$20 million order under the DLA ESAPI contract terms once product approvals have been obtained, as well as additional orders under existing flat armor contracts to facilitate the smooth transition of these customers to alternative suppliers. We anticipate up to \$25 million of revenue from our armor business this year, with similar amounts in our 2023 financial year. However, we will work to fulfil our obligations as quickly as possible with closure expected during our 2023 financial year.

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Following closure, the armor infrastructure and remaining assets will be sold and overheads reduced by c. \$15 million. The estimated net cash costs of closure and right-sizing the retained organisation of between \$3 to 5 million are expected to be weighted towards our 2023 financial year.

Following closure of the body armor business we will vacate three U.S. leasehold properties with annual lease costs of \$1.7 million. The net present value of these lease liabilities as at 30 September 2021 was \$11.8 million, of which \$8.6 million relates to the lease for our Lexington, Kentucky facility which expires in January 2035. Following closure of the armor business we will look to mitigate these liabilities through sub-letting the properties.

We have booked impairments relating to the armor business of \$46.8 million in our 2021 financial statements to fully write down the armor specific assets to their estimated recoverable amounts. This has been partially offset by a gain of \$15.7 million to reduce the provision for contingent consideration payable to 3M due to lower revenue expectations under the DLA ESAPI contract, resulting in a net non cash exceptional of \$31.1 million in our 2021 financial statements. There has been no impairment of the \$28.0 million of goodwill relating to the Ceradyne acquisition or the Ceradyne helmet intangible assets of \$28.9 million.

2021 performance

We have seen continued good commercial momentum in 2021 with an order intake for the year of \$282.7 million, representing year-on-year growth of 34.9% and up 38.8% excluding Team Wendy and armor. Excluding armor, order intake was \$281.0 million (2020: \$176.0 million). We carry an order book excluding armor of \$116.5 million into the new financial year, an increase of \$46.2 million on last year, predominantly due to a substantial increase in orders for our Military respiratory products under the NATO framework contract.

Revenue of \$248.3 million represents growth of +16.2% including a first time contribution of \$41.0 million from Team Wendy. Excluding Team Wendy, revenue declined by 2.6% with our Military respiratory and First Responder businesses delivering revenue growth of 8.1% and 1.3% respectively, while Military ballistic revenue declined by 30.6% due to the delays in approval for our U.S. DOD body armor contracts. Team Wendy, which we acquired in November 2020, performed well and in line with our expectations at the time of the acquisition.

Military respiratory revenue growth of 8.1% was appreciably lower than the 31.0% growth in orders, due to significantly increased COVID-19 related disruption in the second half of the year, resulting in delays in the receipt of customer orders, supply chain disruption due to longer lead times and a tight U.S. labour market.

Ballistic protection revenues in 2021 were significantly lower than we had anticipated, as a result of contract delays. However, given our confidence, at the time, in the opportunity for this business we were committed to retaining the cost base and infrastructure necessary to support our medium-term goals. This has resulted in an adjusted EBITDA margin of 15.1% in the year.

Avon Protection a global leader in respiratory and head protection

Looking ahead, the future of Avon Protection is centred on our leading respiratory and head protection businesses, which both provide significant growth opportunities for the future.

World-leading respiratory business

The respiratory business has been at the heart of Avon Protection for well over a decade. It is a global standard-setter and market leader in the field of military and first responder respiratory protection. Built on our long-standing partnership, the U.S. DOD is the flagship customer for our Military respiratory portfolio, providing the Group with a stable, recurring revenue base as well as a key reference point for other military and first responder customers globally who look to the U.S. as a technology leader in the defence sector. Alongside deliveries of new mask, powered air and supplied air systems under our M50, M53A1 and M69 long-term contracts, we continue to benefit from sustainable revenues from filters, spares and accessories to support the installed base of over two million M50 general service respirators.

In addition to the visible 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 global customers. The award of the 10-year NATO framework contract in August 2020 provides NATO and associate members access to our respiratory portfolio and will drive growth outside of the U.S. DOD in the medium-term. During the year we have received orders totalling \$48 million under this contract from six NATO members and associates including Norway, Finland, Belgium, Lithuania, Denmark and the Netherlands. We are in active dialogue with three other NATO members with a view to them joining the programme. Alongside this, we have continued to deliver the sustainment volumes of the U.K. General Service Respirator and develop a pipeline of other earlier-stage programmes that will play a part in driving growth in the medium-term.

Creating a global leader in head protection

Combining Team Wendy with the Ceradyne ballistic helmet business has created a global leader in military and first responder helmets, helmet liners and retention systems. Ceradyne is the technology leader in high performance rifle rated ballistic helmets through its partnership with the U.S. Army. In September 2021, we were pleased to announce that following the tender process, we had been awarded a new contract for the next-generation U.S. Army IHPS worth up to \$87.6 million over two years on a dual source basis, together with an initial \$1.3 million order for first article testing samples for delivery in the second quarter of our 2022 financial year. Production under this contract will underpin helmet revenues in 2023 and follow on from production of the existing first generation IHPS which, following the extension in March 2021, is due to end in 2022. During the year Team Wendy has collaborated with Ceradyne to develop an updated liner pad system for the next-generation IHPS helmet which is expected to be introduced in 2022 following completion of first article testing.

The body armor first article test failures, acted as a catalyst to accelerate management and process integration between the acquired Ceradyne business and Avon Protection, with a result that engineering systems and processes are considerably more robust compared to this time last year. Preparations for the next-generation first article testing are well advanced with regular reporting and progress updates being provided to the Executive Directors.

Following completion of the acquisition in November 2020, Team Wendy has performed well and in line with expectations at the time of acquisition. Whilst Team Wendy continues to operate on a standalone basis, we have integrated the business into the Avon Protection governance, management structures and performance management processes.

Team Wendy has also started to work together with the Ceradyne business within Avon Protection on major tender processes as well as opportunities to enhance our helmet portfolio. In particular, Team Wendy and Avon Protection have collaborated on the development of the next-generation IHPS liner pad system and the F90, our first combined commercial helmet for first responders and rest of the world militaries. The F90 helmet combines the Ceradyne ballistic helmet shell forming capabilities and Team Wendy's liner and retention capabilities.

In addition, we have delivered procurement benefits from utilising Avon Protection's buying power and supplier relationships as well as transferring the manufacturing of Team Wendy ballistic helmet shells to in-house production.

Our combined head protection portfolio has a growing pipeline of opportunities with the U.S. DOD, Rest of World Militaries and First Responders that will drive growth in 2022 and beyond.

First Responder well positioned for further growth

During 2021 we have seen the benefits of offering a broader range of respiratory and head protection products to our existing U.S. First Responder customers. Revenues increased by 1.3% against a strong comparator in 2020, driven by 81.3% growth in helmet revenues.

Following the launch of the F90, a lightweight mid performance ballistic helmet, in the fourth quarter of 2021, we are confident in delivering further growth from our First Responder customer base in 2022.

Investing for growth

We continue to focus on maintaining our reputation for technological excellence and innovation across both respiratory and head protection product lines. The strategic objective of our product development programme is to both increase the capability of the current platforms we provide and also to move up the value chain by providing more advanced systems for our specialist user groups. 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.

We have continued this focus on selective new product development in the year, with \$13.2 million (2020: \$10.1 million) of investment in new product development projects in respiratory and head protection. The increase in investment over the prior year primarily reflects the Group's growth with additional development resources and capability across the respiratory and head protection product portfolio being supplemented with the addition of Team Wendy.

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In the respiratory portfolio, we have made notable investments over the year in;

- enhancing the ST54 tactical self-contained breathing apparatus;
- FM61 filter development for the NATO framework contract;
- developing a range of CBRN boots and gloves; and
- enhancements to the MCM100 underwater rebreather in association with the ongoing U.S. Navy tender process.

For the head protection portfolio, development expenditure has focused on the next-generation IHPS programme and the F90 helmet launch.

In addition to the helmet in-sourcing, Team Wendy has focused on developing an additional small sized variant of its EXFIL ballistic helmet in response to a customer specific requirement as well as developing the next-generation IHPS liner pad system, supporting development of the F90 helmet and contributing to a U.S. DOD funded research project exploring innovative helmet liner solutions to reduce traumatic brain injury.

Over the long-term, the strategy of our selective product development programme is focused on looking to the future of ever more sophisticated technical and operational requirements of serving military and first responder personnel through the development of seamlessly integrated respiratory and head protection systems with data and communications technology.

Integration of Ceradyne and Team Wendy

In the past two years we have become a focused protection business, with the acquisitions of Team Wendy and Ceradyne, alongside the sale of the milkrite | InterPuls dairy business. This has transformed the Group into a leading provider of life critical respiratory and head protection systems for military and first responder customers.

Our priority over the past year has been on the integration of the new businesses into Avon Protection. Our fully aligned management structure, through our executive leadership team, is well established and has been augmented, as we integrate our U.S. businesses into a standardised platform.

This year we have completed the transfer of the Ceradyne ballistic protection business onto Avon Protection IT and finance systems, and at the same time expanded senior management in this area to support the business for the growth ahead. Our processes across research and development, including product testing protocols, have been aligned in order that the businesses can work together effectively and share best practice.

Our current focus is on maximising the potential of our respiratory and head protection businesses and exiting the armor business. As such, the Board does not intend to initiate any further major merger and acquisition activity until after our 2022 financial year.

Strengthening our team

As we continue to grow, it is important that we continue to strengthen both our people and senior leadership team to meet our long-term aspirations and to improve the diversity of our team. During the year we have made significant progress in strengthening our team.

We have appointed Steve Genzer as a U.S. based Chief Operating Officer (COO), to oversee day-to-day operations across all aspects of the business and have expanded the Group Executive leadership team to strengthen the U.S. presence of our leaders, with the addition of Jose Rizo-Patron who leads the Team Wendy business.

We have continued to strengthen the finance structures and have added a Director of Strategy and M&A, a Director of Investor Relations, and a Group Financial Controller, whilst further strengthening our U.S. finance team.

Commercially we have welcomed a new EMEA Sales and Business Development Director, in addition to a dedicated Sales and Business Development Director for our U.S. DOD ballistic protection business.

In Human Resources we have appointed a U.S. Human Resources Director and have standardised our pay and benefits structures across our U.S. sites.

In Operations, we have added a Quality Director and centralised our Sourcing and Supply Chain structure under a unified system as we migrated to an integrated global operating platform.

To reinforce our focus on diversity and inclusion we launched a women's mentoring programme as part of Balance@Avon. The initiative aims to motivate, empower and help our female employees understand themselves and their aims and how they might work towards achieving them. The programme is currently running with 18 employees in the first cohort, each having been allocated a female mentor.

Current trading and outlook

We have a global market leading position in specialist respiratory and head protection products, with visible opportunities to grow in these markets in both the short and medium-term. We enter 2022 with a well-invested operating infrastructure, which combined with sustained investment in product development, increased management bench strength, and a strong order book, means that the Board has confidence in the prospects of the business for 2022 and beyond.

We have had a solid start to trading in our respiratory and head protection businesses in the first two months of the new financial year, with revenues excluding Team Wendy ahead of last year, despite ongoing supply chain constraints.

Our Military respiratory business is expected to show consistent delivery in the U.S. and good growth from Rest of World military customers, in particular from the NATO framework contract. Our First Responder and Team Wendy businesses are both expected to grow in line with our medium-term revenue growth expectations.

Growth expectations for FY22 and beyond are underpinned by our long-term contracts in respiratory and head protection and our strong opening order book excluding armor of \$116.5 million, which provides good visibility going into the new financial year. We are continuing to experience the impact of disruption in global supply chains and customer order pattern volatility, which we are actively working to mitigate. Given the ongoing challenges, we are taking a cautious view on the anticipated rate of growth for FY22 at this stage in the year and we expect our respiratory and head protection businesses to deliver revenue in the range of \$260 million to \$290 million in FY22 (8% to 20% growth), with further revenue of up to \$25 million from the armor business depending on the timing of DLA ESAPI product approvals.

While we expect to deliver growth, the year ahead will also be one of transition, as we wind-down the armor business and refocus the Group as a respiratory and head protection business. We expect our adjusted EBITDA margin to recover materially in FY22 as a result of the operational gearing effect and actions to reduce overheads as part of the body armor exit.

Our medium-term outlook is underpinned by multi-year military contracts across the product portfolio. Growth in Rest of World revenues in both respiratory and head protection are expected to continue, with growth over the medium-term at least in line with our long-term growth KPIs, and the Board remains confident in the medium-term prospects for Avon Protection.

Paul McDonald
Chief Executive Officer

14 December 2021