

7 August 2019

**Avon Rubber p.l.c.**

**(“Avon Rubber”, the “Company” or the “Group”)**

**Agreement to acquire 3M’s Ballistic-Protection Business**

Avon Rubber is pleased to announce that it has signed an agreement to acquire 3M’s ballistic-protection business (the “Business”) and the rights to the Ceradyne brand for an initial cash consideration of approximately \$91m (£75m) (the “Acquisition”), subject to closing and customary adjustments. A further contingent cash consideration of up to \$25m (£21m) is payable depending on the outcome of pending tenders.

**Highlights**

- The Board believes that the Acquisition represents a very attractive opportunity in line with our strategy and that the core strengths of the Business are closely aligned with those of the Group:
  - A leader in critical personal protective equipment, with strong brand recognition and established positions with the U.S. Department of Defense (“U.S. DOD”), Rest of World Military and Law Enforcement customers;
  - Track record of profitable revenue growth with a financial profile which is consistent with the Group’s medium-term objectives;
  - Visibility underpinned by existing, secured U.S. DOD contracts for next generation ballistic helmets and body armour;
  - Significant organic growth opportunities through new product development and broadening of the Rest of World Military and Law Enforcement customer base;
  - Strong and capable management team, who will remain with the business;
  - Excellent research and development capabilities with ongoing, customer funded programmes for next generation ballistic helmets and body armour, and a history of successful new product innovation and launches; and
  - Integrated and well invested manufacturing facilities with existing capacity to scale production.
- Operating primarily from three sites in the U.S. with approximately 280 employees, the Business is a leading provider of next generation armour solutions, including ballistic helmets and body armour, and is a trusted supplier to U.S. and Rest of World Military and Law Enforcement customers.
- In the year ended 31 December 2018, the Business delivered revenue of \$85.4m and EBITDA of \$10.8m.
- Recurring annual net cost synergies of approximately \$5m (£4m) are expected to be delivered in the first full year of ownership from integrating Information Technology

systems and back office functions. The one-off costs to implement are expected to be approximately \$10m (£8m).

- The initial cash consideration of approximately \$91m, which is subject to closing and customary adjustments, is payable on completion and will be funded from existing cash resources and an increased three year revolving credit facility of \$85m.
- If the Business is successful in pending tenders for legacy products, a contingent cash consideration of up to \$25m will be payable. The exact payment will depend on the value of any delivery orders resulting from these tenders.
- The Acquisition is expected to close in the first half of the Group's 2020 financial year, subject to U.S. regulatory approvals and customary closing conditions.
- The Acquisition represents further progress in the execution of the Board's stated strategy:
  - Significantly widens Avon Protection's product range in the personal protective equipment segment with a leading brand for next generation ballistic helmets and body armour;
  - Deepens our presence in the U.S. and relationship with the U.S. DOD as a key supplier of ballistic helmets and body armour for the Soldier Protection System ("SPS");
  - Enhances both the Group's research and development and manufacturing capability, providing capacity to support further growth and broaden the combined future product range;
  - Places Avon Protection at the forefront of technological development across Chemical, Biological, Radiological and Nuclear ("CBRN") and ballistic armour;
  - Allows Avon Protection to expand the Business' reach, opening opportunities to cross sell its products into our broader Rest of World Military and Law Enforcement customer base;
  - Value enhancing, with the Acquisition expected to deliver a return on investment exceeding the Group's Weighted Average Cost of Capital as well as being significantly earnings enhancing in the first full year of ownership; and
  - Organic revenue growth, margins and cash conversion base projections for the combined Group are consistent with our strategic objectives, with post acquisition net debt to EBITDA not expected to exceed 1.0x.

### **Trading Update**

The Board is pleased to report that trading in the second half has continued in line with its expectations, as outlined in the Half Year results announcement on 1 May 2019. The Board therefore remains confident of achieving its current year expectations.

A pre-close trading update will be released on 16 September 2019.

**Commenting on the Acquisition, Paul McDonald, Chief Executive Officer of Avon Rubber, said:**

*"The acquisition of 3M's ballistic-protection business is an important strategic step for Avon Protection.*

*The Business is a high-quality business, backed by proprietary technology, established contract platforms and well invested manufacturing operations. The combination of the Business and Avon Protection will significantly strengthen our technology and our personal protection product offering to an enlarged customer base, thereby accelerating the long-term growth prospects for the Group.*

*We believe that incorporating the Business into the Avon Protection portfolio will allow the business to expand more rapidly into Rest of World Military and Law Enforcement markets providing sustainable value creation for customers and shareholders. We look forward to welcoming the Business into the Avon Rubber family.*

*We are delighted to have identified an opportunity that fits our clear commercial and financial criteria, with a strong cultural fit. In the short term we will be focused on ensuring a successful and efficient integration of the two businesses and we look forward to continuing to make further strategic progress over the remainder of the year and beyond."*

**Analyst and Investor webcast**

Paul McDonald, Chief Executive Officer and Nick Keveth, Chief Financial Officer, will host a webcast for analysts and investors today at 8.00am.

The webcast will be broadcast live at

<https://webcasting.brrmedia.co.uk/broadcast/5d10a548221579216107ea74>

Dial in: +44 (0)330 336 9411

PIN: 6062965

The presentation and a recording of the webcast will be available on the Avon Rubber website at

<https://www.avon-rubber.com/investors/results-reports-presentations/>

**Market Abuse Regulation**

The information contained within this Announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR"). Upon the publication of this Announcement via a regulatory information service, this inside information is now considered to be in the public domain. The person responsible for arranging the release of this announcement on behalf of the Company is Miles Ingrey-Counter, Company Secretary and General Counsel.

**For further enquiries, please contact:**

**Avon Rubber p.l.c.**

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Rothschild & Co, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting for Avon Rubber and no one else in relation to the acquisition of the Business and will not be responsible to anyone other than Avon Rubber for providing the protections afforded to clients of Rothschild & Co nor for providing advice in relation to the acquisition of the Business.

**Note to editors:**

Avon Rubber is an innovative technology group, which designs and produces specialist products and services to maximise the performance and capabilities of its customers. We specialise in Chemical, Biological, Radiological and Nuclear ("CBRN") and respiratory protection systems, as well as milking point solutions through our two businesses, Avon Protection and milkrite | InterPuls.

Avon Protection is the recognised global leader in advanced CBRN respiratory protection systems for the world's Military, Law Enforcement and Fire markets.

milkrite | InterPuls is a global leader providing complete milking point solutions to dairy farmers across the world with the aim of improving every farm it touches.

For further information, please visit our website: [www.avon-rubber.com](http://www.avon-rubber.com)

## ***Background to and reasons for the Acquisition***

In 2017, the Group launched a clear strategy based upon creating shareholder value through three key elements:

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

The objective of this strategy has been to create a Group capable of sustaining growth at high margins, with strong cash flows and returns on capital. Significant progress has been made in the first two elements, reflected in the financial performance of the Group and the success in securing significant new contract platforms with the U.S. DOD.

The Board believes that there is an opportunity to complement the organic growth strategy described above with carefully selected, value enhancing acquisitions which would build a more robust and diversified business, whilst retaining the benefits of the Group's technology expertise and strong customer relationships.

The Board believes that the Business's product range is highly complementary to that of Avon Protection, with both focused on critical personal protection products within the Military and Law Enforcement markets to enhance the capability of the user. The core customers of each business will typically require CBRN, helmet and body armour products as part of their operational requirements. The Business has a strong position with U.S. DOD but has limited market penetration in Rest of World Military and Law Enforcement markets. Given Avon Protection's established and growing customer base in these markets, there is a clear opportunity to accelerate the Business's non-U.S. Military sales as well as approaching potential new customers with a wider product range.

The Business has two significant, multi-year platform programmes with the U.S. DOD for the Soldier Protection System, where they are a supplier for the ballistic helmet and body armour. The SPS delivers a next generation suite of personal protective equipment that provides a lighter weight and more tailorable product to meet the individual soldier's needs. These programmes will provide additional visibility over future revenues to the combined Group whilst also diversifying the Group's contract portfolio.

The Business has three U.S. based manufacturing sites which the Board believes are well invested and provide the manufacturing capacity and proprietary process technology to support the growth opportunities for the business in the medium term. This additional, well invested manufacturing capability will complement the existing Avon Protection footprint in the U.K. and U.S.

The Business has a proven research and development capability, which has enabled it to develop proprietary next generation products including the Integrated Head Protection System ("IHPS") and Vital Torso Protection ("VTP") as replacements for legacy products. This approach to research and development is closely aligned to that of the Group and the Board believes it will help underpin the wider capability of Avon Rubber to continue to develop products, which will maintain a market leadership position over the long-term and deliver further value through selective product development. The Acquisition provides the Group with both an enlarged product range, and

enhanced research and development capability, which the Board believes, will put the Group in a strong position from which to capitalise on these market trends.

Whilst the Group has been exploring acquisition opportunities for some time, as part of the stated strategy, management have maintained a very clear focus on capital discipline and ensuring that any opportunity met its financial and commercial criteria. The Board believes that the Acquisition fulfils each of these criteria and particularly:

- Strong brand recognition, with a leading position in ballistic helmets and body armour;
- Technology which broadens our product range;
- Secure revenue streams and an additional source of profitable growth;
- Strong management team that will transfer with the business;
- Organic revenue growth, margins and cash conversion for the combined Group consistent with our strategic objectives;
- Returns exceeding the Group's WACC;
- Enhancing to the Group's EPS; and
- Retaining a strong post-acquisition financial position.

### ***Information on the Business***

#### *Background*

The Business is a leading provider of next generation armour, including ballistic helmets and body armour plates to the U.S. DOD Soldier Protection System as well as being a supplier of helmets and body armour to Rest of World Military and Law Enforcement customers.

#### *Products and customers*

The Business operates in three product segments:

- Ballistic Helmets – customisable, lightweight ballistic helmets for Military and Law Enforcement customers. Products include established Advanced Combat Helmet ("ACH") and Enhanced Combat Helmet ("ECH") platforms used by the U.S. Armed Forces as well as the next-generation Integrated Head Protection System ("IHPS") and the F70 Law Enforcement helmet.
- Body Armour Plates – body armour solutions consisting of ceramic and composite components. Products include legacy SAPI and ESAPI ceramic armour solutions as well as the next-generation VTP systems.
- Flat Armour – rotary wing protection systems made from ceramic and composite materials for side and seat protection.

In the year ended 31 December 2018, the Business generated 58% of revenues from helmet products, 33% from body armour and the remaining 9% from flat armour sales.

The Business is the sole-source provider of Low Rate Initial Production ("LRIP") for both IHPS ballistic helmets and VTP body armour under the U.S. DOD Soldier Protection System (SPS) programme. They are one of three suppliers awarded the Full Rate Production ("FRP") SPS VTP body armour contract with a ceiling value of \$704m (ceiling value includes awards for all 3 suppliers) over a 4 year period with deliveries expected to commence during 2020. The Business is also well positioned to be a supplier for the SPS IHPS helmet FRP contract, which is expected to be issued by 2021. The Board expects the transition from LRIP to FRP for both helmets and body armour to naturally have an impact on revenue growth in 2020 and 2021, before delivering in line with our strategic growth objective thereafter. Based on the contracts secured to date and current fielding expectations, the Board believes that the combined Group's performance will be in line with our existing strategic objectives in respect of organic revenue growth, margins and cash conversion.

In the year ended 31 December 2018, 93% of sales were generated in the U.S., with 4% in Europe and 3% in Rest of World. Of total sales, 90% were to U.S. Military customers, 4% to Rest of World Militaries and 6% to Law Enforcement customers.

#### *Employees and locations*

The Business operates from three manufacturing sites, all located in the U.S. The facility in Irvine, California is the business' principal manufacturing and final assembly site with additional ceramic plate production undertaken in Lexington, Kentucky. The third facility, in Salem, New Hampshire, provides additional manufacturing and assembly capacity as well as operating as the research and development centre for the business. They currently employ approximately 280 people across these sites who will transfer to Avon on completion.

#### **Financial information on the Business**

In the year ended 31 December 2018, the Business delivered revenue of \$85.4m, EBITDA of \$10.8m and profit before tax of \$3.3m. The value of the gross assets that are the subject of the Acquisition as at 31 December 2018 was \$45.2m.

#### **Financial effects of the transaction**

The Acquisition is expected to close in the first half of Avon Rubber's 2020 financial year and is subject to U.S. regulatory approvals and customary closing conditions. The Acquisition is expected to be enhancing to Group adjusted earnings in the 2020 financial year.

The initial consideration of approximately \$91m, which is subject to closing and customary adjustments, is payable on completion and will be funded from existing cash resources and an increased debt facility of \$85m. If the Business is successful in the pending tenders, a contingent cash consideration of up to \$25m will be payable. The exact payment will depend on the value of any delivery orders resulting from these tenders.

The Board does not expect that net debt to EBITDA will exceed 1.0x as a result of the Acquisition.