Avon Protection plc
CMD

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Transcript

AVON PROTECTION PLC

Presenters

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Jos Sclater: No applause then, guys?

Well, it's great to see so many of you here today, many friendly faces that I know and some new faces, which is also great. I was tempted to make a joke about, it must be quite a quiet day in the city today, but actually this is a super exciting story. We're really pleased to share it with you.

Last year was a year of some downs and some ups, but we do feel that we have built a platform that gives us very good ability to grow this business over the next five years. And I've just spent a day and a half with the leadership team, and I know that they are very keen to win as a business. They are highly energised, and they are very aligned on what we're trying to do, and if you don't believe me, they are all in the room. You'll see them in the technology showcase, so feel free to talk to them, and please do ask them what the strategy is, because if any of them don't know, then you let me know.

What we're going to talk to you today about is the Avon investment case. We split this into five sections just for ease of navigating the day. I'm going to talk to you about the platform for execution that we've built over the last year as part of our strengthened strategy. We'll talk to you about the growing markets, and why they provide a tailwind for this business.

The business leaders will talk about their businesses, and we will emphasise the recurring nature of much of the revenue of this business, something that we don't feel we really talked about enough up until now. And we'll talk to you about the growth initiatives that we've got that will deliver growth on top of that stable, recurring base.

We have an ambitious transformation programme that will drive margin improvement, and the business has a strong competitive moat. Which means that when we get to our margin targets, we believe we'll be able to stay there. We released our goals this morning, but just to recap, this is a business that will deliver 5% or more revenue growth per-year. It's a business that will deliver mid-teens operating margins. It's a business that is absolutely capable of generating good returns on capital, and strong cash conversion. And with that of course, we'll be well within our target leverage range.

We did get very excited in putting our slides together for this session. There is a bit of a danger that we've got so much cool stuff that you'll lose sight of the wood for the trees. So I am going to start by just emphasising a couple of points that I think are really important takeaways.

The first, just looking at the sign chart on the left, is this is a business with a very stable recurring revenue base. It's interesting, when we go and talk to investors, we get asked quite a lot, "Well, it looks very lumpy, this business."

That is not how we see it. We have replacement masks into existing installed fleets and they get lost, they get damaged, they get broken, they have new recruits. It's the same with helmets. Many police forces across North America have our, helmets and they regularly need replacing.

We sell a lot of filters into our existing installed mask space, and we sell a lot of pads into our existing helmets with pads in. And on top of that we have aftermarket, we have servicing, we have repairs, and actually as our rebreather business grows, we'll get even more accessories and servicing.

On top of the recurring base, we have what we've called here contracted growth. That is the two big helmets ID IQs. We already have a large amount of orders for them, and beyond that we have very good visibility of what the DOD thinks it's going to field.

Above that, we have what we've called non-contracted growth. That's our growth initiatives, and the guys will talk a bit about that later. But what to my mind gives me real confidence that we can deliver these goals is, if I add together the recurring revenue and the contracted revenue, that alone pretty well gets into our guidance range.

Just before I get into the substance of this slide, it is just worth pointing out that throughout this presentation, we have used our brand names to describe the two businesses. So we have talked about Avon Protection as being the respiratory business, and the Team Wendy business as being the head protection business.

The reason we've done that is because we have rebranded those businesses, and that's how we now go to market to try and drive even faster growth across the group. Where we've talked about the group or PLC, we've called it Avon Protection PLC.

But just turning to margins, the margin story is a relatively simple one. In Avon protection, we right-sized the business last year, and you've already seen that business delivered great margins last year on what was largely, last year, its recurring revenue base.

I'm not saying this isn't a business that won't get the odd big order, because if a military replaces its entire legacy fleet with our mass, that will give us a spike in demand. But we took a strategic choice to rightsize the business to the recurring revenue base. If we get a big order, that's great, it'll drop through to profit very quickly, but we no longer count on that happening.

In Team Wendy, there are two things that are driving margin. The first is the Site Optimisation Transformation Project, which involves the closure of our Californian plant, and the making of our Cleveland plant to be a world-class, excellent factory.

And on top of that we have the operational gearing that comes from the two DOD ID IQs, and you've already seen we have a very large amount of orders under those. As Donald Trump would say, we have a tremendous amount of orders for helmets on the DOD programmes.

On cashflow, all of our factories at the moment run batch manufacturing, and that creates a lot of working capital in the system. We want to move that to what we call flow. One of the brokers said, "Don't talk about that. None of them will understand it."

So what I mean by that is, when a raw material leaves the warehouse, we do not want it to stop moving until it's a finished product. That will drive up inventory turns, and that will help us free up cash to reinvest into the business. Paul will talk more about that later.

I'm not going to go through this agenda, it's in your packs, please have a look at it if you want. Just to emphasise, there is a break in the middle. We will have Q&A at the end, although I think Richard Page might be banned from that session. And then we will have a technology showcase.

The bios of the presenters are also in the packs, feel free to have a look at them. I think the only thing I would say at the moment is I am very, very happy with the team that we have built to lead this business. We have real capability, they have real energy, they have real desire to deliver on the strategy, and I think that's going to help us a lot.

Just turning to the first section of this, I read a report from McKinsey the other day and it said that roughly 15% of companies regularly, sustainably outperform the broader market, and that one of the main reasons that those 15% managed to do that is superior execution.

But I feel this isn't something that CEOs really talk about enough. Excellent execution is actually not that common. Roughly 70% of senior leaders in companies can't even name their top three strategic objectives.

This is the structure of this section. I'm going to talk about how we have built, over the last year, a compelling need for change. A desire in our employees to change. I'm going to talk about how we've created the platform for superior execution, and I will talk about our goals at the end.

Just starting with the first of these, if I had to pick only one metric to run a business with, it would be inventory turns. Inventory turns tells you how good your supply chain is, it tells you how good your flow is through your factories, it tells you whether your sales team is aligned on getting orders that level-load your factory.

And what this tells me is twofold. Firstly, our inventory turns are really bad. And secondly, they have not been improving over the last two years, even though everybody knew that cash was important to us over those two years.

But this also creates the case for change in this organisation, and we are very motivated to improve this. If we could improve inventory turns from three to five, it will free up $23 million in cash for this company. If we can get it to 10, and that is absolutely achievable in the medium term, we would free up about $40 million. And we had a talk yesterday from a continuous improvement kind of guru and he said, "Joss, you are crazy. You need to get this business to 20 turns." But please don't put that in your models. We're just processing that.

The other thing that has really helped to galvanize change is the recent poor performance. We've obviously had two or three years of declining profits. This is not a team that likes losing. But we do understand if we're going to drive growth and margin improvement in this business, we have to do things differently, and we have to get all 900 of our employees behind that ambition, and that's what we've been doing over the last year.

And change has started, and it's pretty radical change. We took SGNA down in Avon protection by 13% last year, before taking into account normal inflation. We took head count down 31% if we include the contractors. That's about 200 people we took out of that organisation. And interestingly, we don't think we've lost any ability to serve supply if we do get some big orders, and our footprint has reduced by 10% in the Avon protection business.

In Team Wendy, we exited the armor business from our Californian factory. We've already achieved the first milestone of our programme to move out of the Californian factory with the moving of Epic Finishing from California to Cleveland. We have now announced to the site that we're closing the site, and we've put appropriate retention packages in place, and we have agreed a great grant scheme with the state of Ohio to help us with the cost of the move.

The platform for execution, this is the structure of this section. We have the right team and the right organisation now. We have a very clear strategy. We have a collective ambition to achieve the goals that we've put out today. And our internal metrics on things like inventory terms are very ambitious.

We have an organisation that's aligned, both around values and also around what we call OKRs, and I'll talk about that in a second, and we have the processes, the management system, the leadership ability to drive excellent execution.

And this is the new organisational structure. Some of you may recall, a year ago we had a functional structure, or what I slightly prefer to call a dysfunctional structure. We've moved that to two clear businesses with their own strategies. They have their own leadership teams, you're going to hear from the two business leaders a bit later.

And our philosophy is, they have ambitious goals. We want them to own those goals, we want to empower them to deliver, and we want them to be accountable for them, and therefore, we want them to have all the resources that they need to deliver on their strategies.

There are a couple of exceptions. The sales channel on the commercial side is common distributors across both businesses. That does make a lot of sense, it gives us economies of scale with the distributors. So the commercial sales channel has remained common, and actually Jamie's at the back there, who leads that for us.

We also have kept IT as a shared service. We've done that because we get very good economies of scale across IT.

We don't have a lot of global processes, but we do have some that we believe in strongly. We have a common strategy process, a common management system, and a common approach to continuous improvement and programme management. They are all new, and they are all about driving strategy through to execution.

This is the new leadership team. I'm not going to go through all of them, but I would say there's a really good mixture here of people with deep, embedded Avon experience, and people from the outside. In fact, most of the team has come in from the outside. We also have a good mixture of people with public company experience and private equity experience.

And the last point is important. Philosophically, we try and drive this company as if we were private equity owners. And as some of you know, Rich and I and the rest of the team do have quite a lot of stock in this company, so we're quite invested in its future.

We have changed a lot of people across the organisation. That did mean the last year had quite a lot of upheaval, but we felt it was necessary to build the capability to take this business forward. If we look at the number of people that are either new in role or completely new to the organisation, we've changed 50% of the top 40 leaders. We've changed 40% of the top 150.

The important thing for me though, is we have now settled the team down. Everyone understands their roles and responsibilities, everybody is aligned, and that enables us to push forward into the transformative stage of our strategy.

This is the leadership model that I have in mind when I go into a company and seek to start driving change in it. In Avon, we have changed everything on this model. We have a new vision, a new mission, a new set of values, an ambitious set of goals.

We have used facts and insights outside in market studies, some of which Rich will talk about later, analysis of our strengths and weaknesses to develop a new strategy, and we drive that strategy down into clear objectives. And we've introduced better programme management and continuous improvement to drive action right here, right now, today.

And this is the vision for the company. Our aim is for heroes to survive and thrive, whatever the mission. And sometimes language is important.

We don't just want people that use our kit to survive, although that is very important to us. We want people that wear our helmets to know that it will stop a bullet. We want people that wear our mask to know it is going to stop gas getting into their lungs. We want people that use our rebreathers to know that they will survive a hundred meters below the ocean in one of the most hostile environments in the world.

But it's more than that, we want those people to thrive, and by that we mean we want them to be able to go about their mission in as easy and painless way as possible. So we want our helmets to be lightweight, we want them to be comfortable. We want to make the best pad systems of any helmet manufacturer.

We want our masks to be comfortable. We want them to be user-friendly. We want you to be able to fold them up and put them in your pocket when you don't need them.

And we want our rebreathers to be low calibration, reliable, to tell you if there's a problem, and potentially save your life before that problem happens. And I was talking to the UK Navy the other day and I learned a new word. Apparently our rebreathers have high swimability, and that is important for enabling people to go about difficult underwater missions.

How are we going to do that? We are going to provide unparalleled protection for people. And to me, that means two things. We need the best quality products, and we need the highest technology products.

We have introduced new values. I'm not going to try and indoctrinate you in the Avon fierce values, but it is important from an investor's perspective, because we want people to be motivated to really drive this business forward. We want them to connect with what the company is doing. We want their purpose to be aligned, in some way, with our purpose. And importantly, as we empower our businesses more and more to deliver on their strategies, we do need some guide rails to help them out behave the competition.

This is our strategy. We have spoken about this quite a lot, so I'm not going to go into it in detail now. And the guys will talk about it later as well. The strength and part is about creating the platform for superb execution, that's what I'm talking about now.

The transform bit is about driving cost-efficiency and cashflow improvement, and advance and revolutionise all about growth in the short, the medium, and the long term.

This is how we manage the business. We have a start plan that's five years, and then we drive that down into what we call OKRs, or objective and key results, which is objectives and the outcomes we expect over the next year, and the next three months. If people have very exciting OKRs with defined outcomes that we believe in, then we allocate resource to those OKRs.

If we're putting resource into areas that don't have OKRs with exciting results, then we reallocate resource away from those. I read somewhere that most companies only reallocate about 1% of their resource a year. We try and be much more dynamic than that. We use kaizans and sprints to drive pace, to drive action, and we use the quarterly reviews to look at, what should we stop? What should we continue? What should we course correct on? What learning have we had?

Of course, a great strategy is only any good if the people are motivated to deliver on it. That's why we've done so much work on having a compelling mission and vision, and a set of values. It's also why we have real strategic clarity in Avon, something which it's probably fair to say we didn't have before.

And that strategy has been driven all the way down to the shop floor. In fact, Justin, who is going to speak later, has done a great job of creating a room near the shop floor with a strategy on all of the walls that we take people in and explain what we're doing.

We do empower our people to deliver the strategy, but we also expect them to deliver the outcomes we're looking for. And of course, as many of you have already mentioned to me on the way in, we've aligned our incentives to the strategy.

So we have the right operating model, we have a highly-capable team. We have clear direction, we have a management system that delivers velocity, that increases pace, and all of that leads to superb execution.

When it comes to goals, we're actually more focused internally on leading indicators. And the main ones for me are the order book, inventory terms, and scrap. And all of those are going in the right direction already, but we have even more ambitious targets for them.

Externally though, we know you guys are more focused on financials, this is a business that absolutely can and should grow at 5% or more, per-year, over the next five years. We can achieve mid-teens margins. It's well invested, this business, and we are sure we can free up cash from the balance sheet enabling us to deliver ROIC of over 17%, and cash conversion between 80 and a hundred percent. And all of that will help us be well within our target leverage range.

So that's all from me for now. Bad news is, I am back later. And now I'll hand over to Rich.

Richard Cashin: Thanks, Jos.

Afternoon, everyone. So Jos just learnt a new word in swimability. I've learned a new word, out-behave. Anyone ever heard that before? That was a new one.

First of all, I've got a few slots up here today. I do appreciate that you can get too much of a good thing, so I'll try and keep them short. The first slot is about the markets in which we operate, and how they're developing over time. And I'll also spend a little bit of time looking at what our current revenue breakup is, and how that has evolved over the last 10 years or so.

I'll then go on to talk about the end markets that we face into, which is principally addressable defense markets and other commercial markets, which is somewhat euphemistic. It is a whole range of first-responder customers. So think firefighters, emergency response, police, that sort of thing.

And then finally we'll wrap up with some of the key drivers of those end markets to help you understand why we are confident in a pretty strong, robust outlook over the coming years.

I don't think there's anything on this slide that most of you won't already know. So as a recap, in April last year, we divided the business into two divisions, or strategic business units. The revenue split of those strategic business units for full year 23 was about 64% Avon Protection, 36% Team Wendy. As many of you will also be aware, the profitability of the business didn't quite follow the same maths. So Avon Protection generated more than all of the profit of the business, and offset a modest loss in the helmets business.

We're spread across six sites across North America, and the UK. One in the UK. No, two in the UK, four in North America, and our core markets, as I say, are principally US DOD, other NATO and non-NATO militaries, and first responder customers including police, firefighters, and so on.

So this chart shows the Avon protection and Team Wendy revenue split that I've already shown you, the 64-36. Hopefully that's what it says it is, and it also breaks it out into those key end-market groupings. The key takeaways here are that Avon protection is already a very well-diversified and broadly spread business, which is entirely consistent with the philosophy that that business has been on for the last 10 years, of designing and building a tremendously high-quality set of products principally for the US military customer. And then over time, commercialising and internationalising the revenue base for those products.

That is the journey that we want Team Wendy to follow too, and it's already started on that journey. Now, it's far less mature, as is portrayed by around 78% and actually currently growing US sales. But importantly across the two businesses, both Team Wendy and Avon Protection, the commercial markets are actually very important already.

And to make the point on this journey that we've been on in the masks business, this chart, I quite like this one actually. It shows the revenue breakdown for the masks business 10 years ago, and it looks at the combined group now, and as you can see, the US military component of our revenue line has been enormously diluted over that 10 year period.

That's not because US military has fallen off a cliff, in fact it hasn't. But it is because we found growth in other, adjacent markets. Mainly commercial ones actually, but also a number of other military markets.

And the other thing is, we've actually been able to leverage the really, really strong distributor base that we've built up in order to support the US market by pushing more products through those distribution channels. And actually, that's why adding the helmet's business to the portfolio has really helped, because we've got such a strong distribution base already.

And interestingly, I have broken out the split of US military sales between Team Wendy and Avon protection down at the bottom-right there. Just to make the point that even though the ultimate funding source for that revenue is the same across those product groupings, in reality, dealing with the different programme offices, they are completely different customers. And so we should face up to them differently.

So moving on to what's going on in defense markets worldwide. And I guess the most interesting thing here is not only the level of conflict that's going on right now, which is, you might have noticed, quite high, but also the nature of that conflict.

A few years ago, the generally-perceived view was that warfare was moving increasingly electronic. The importance of the soldier was diminishing in favour of increased investment in long-range ballistic strike, in naval power. And actually if you look at the conflicts that are happening right now, what we're seeing is the exact opposite of that view playing out. We're looking at a far more hybrid battle space, with actually an awful lot of close combat. Trench warfare in some cases.

And of course this just serves to highlight the importance of the protective equipment that we offer, especially when some of those adversaries that are out there right now do have some form in playing dirty. And so the importance of our equipment in protecting allied forces is absolutely critical.

So I think this chart is probably fairly familiar to most of you, but I have tried to pick out some key important trends over the last 40 years. Starting with the declining defence outlays as we went through the end of the Cold War, and then picking up in response to 9/11 and the War on Terror.

But the two standout data points for me are, number one, the asymmetric level of growth that we are seeing between the near peer nations on this chart, so think Russia and China, which have been growing the compound rate of 7% over 20 years, and that compares to 2% for everybody else. So there's a question there as to whether those two inconsistent rates of growth are sustainable over the medium-term. Don't know the answer, but it feels not.

And then the second data point that I think is useful to point out is the increase that we've started to see in outlays that really started around 2016, and has been growing consistently since.

And we should take a few messages away from this. First of all, defense outlays, despite popular belief, are largely agnostic to politics. Politics, statistically, has almost no impact whatsoever on defense outlays. It is all driven by threat. And so over that time, we've clearly had Republican presidents, we've had democratic presidents, we've had a whole mix of flavours of prime ministers here in the UK. But defense outlays have been following the threat.

And actually what's really driving that growth, other than just a pure response to conflict, which is clearly happening, but it's also a drive particularly within

NATO countries to meet their longstanding spending commitment of 2% of GDP.

And actually, just over the last couple of years, which may well be in response to what's happening in Ukraine, a number of those NATO countries have recently reaffirmed that commitment to 2%, and some countries are now going quite significantly above and beyond. I think expected outlays in Poland, for example, are growing at 10% a year for the next five years. So, big numbers.

So in order to better understand the trends in the markets that really matter to us, we did commission some work, just mentioned it earlier. We got a third party to come and look at this, to look at public spend data, to analyse other primary data sources and to try and understand what we think the growth rates in the markets that count is going to be over the next few years.

And these two charts essentially show the direction of travel of expected demand levels within US military in gold, and other NATO in grey, for military spend in total. The bar on the left is actually an average, annualised spend number for 2019 to 2023. Again, on the left it's helmets, and on the right it's respiratory. And then the next two bars are 2024 expected outlays and 2028 expected demand, respectively.

And you can see that there's a fairly healthy growth rate, three to four percent, CAGR. So we're swimming with the current here. That's quite a nice place to be in. Not every business has that luxury, so we're very fortunate.

You can also see that if you look beyond those core markets of US and other non-NATO markets, I've just pulled it out at the bottom, aggregate spend across helmets and respirators is anticipated to grow from around $345 million of spend this year, up to $380 million in 2028. So healthy growth around.

This chart does exactly the same job, but for law enforcement demand in the US and again other NATO countries. And again, you can see a solid growth level there, three to 4% across helmets and respiratory. And this kind of reflects the increasingly dangerous environments in which particularly law enforcement officers, but other breeds of first responders too, have to operate. And again, down at the bottom you can see the non-US, non NATO spend is also growing very strongly.

So what does all this mean? Just to tie it all together, I thought it was useful to pick out a few of the key growth drivers. And the first one, which is unusually there amber arrows instead of green arrows, because we're not seeing dramatic shifts here.

But what's fascinating is that for the first time in a long time, troop growth is happening. Troops have been in decline for years and years and years, and in response to all the unpleasantness that's going on right now, troop levels are expected to pick up. Not dramatically, but clearly that is a following wind, that's helpful.

Militaries are addressing higher threat by demanding higher specification. They want more reliable product, they want better quality product. That lends itself to Avon. Avon does high-quality stuff, it's the best. There is a very specific budget increase in biodefence in the US, that is clearly helpful, so that will sort of buoy the end market for us.

And then of course, we're just entering into what is going to be a multi-year replenishment cycle for helmets and rebreathers. Helmets, you can actually see right here, right now, IHPS is an embodiment of that. We are just in the fielding phase now as we roll out IHPS helmets, which are a direct replacement for their predecessor product.

And ATH is just starting that rollout phase. In fact, we'll be seeing some revenue from ATH in the next few months. And that will turn out to be a multi-year replenishment programme for the entire army. So you can see we've got a lot of exciting stuff going on. We've got some helpful tailwinds. We still have to relentlessly execute and Jos covered off that some earlier. Paul will talk a bit more about that later on. But this is in our gift to win. And so within that, I'll hand over to Steve and he'll come and talk to you about respiratory, why we can win there. And of course that includes rebreathers.

Video playout: For over a hundred years, we've been protecting those who protect us. Today, Avon is the go-to for protection. That instills mission-critical confidence, trusted by millions of users every day in over 70 countries. We are there when our protectors need it most. Our real-world insight allows us to innovate and stay ahead. Our expertise in materials, innovation, science and manufacturing excellence drives our continuous advancement. And through close collaboration with customers, we design and deliver mission-ready products tailoured to their needs.

Protection is about more than individual pieces of equipment. By designing products that work together, we offer the highest level of protection for the user, on land and at sea. Full system protection, all from one supplier. And as we look ahead to the next 100 years, we're already working on the next generation of protection for those who need it. The next generation of integrated mission-critical systems. We'll stay by the side of our protectors, ensuring they can complete the mission and come home safely every time. We are Avon Protection.

Steve Elwell: Thanks, everybody. Sorry, you'd think we'd rehearsed it, wouldn't you? As I completely forgot that was coming on. Look, hey, one thing I don't think we talk about often enough is I absolutely love this company and there's no way this company can not be successful. I mean, the CFO is called Rich Cashin for crying out loud, right? So, that's definitely got to be something that we win. Sorry, Rich, I might have promised you I wouldn't do that, but there we go.

Hey, look, good afternoon everybody, and thanks for being here. It's great to see so many here. For those of you I haven't met, I'm Steve Elwell, have the absolute privilege of calling myself the president of Avon Protection, which I think as covers a respiratory business. So, over the next 30 minutes or so, this slide very quickly just gives you a little flavour of the things that I'm going to try and cover. Today, we have by far, the best in class respiratory product and you'll see some of this if you haven't already in the technology showcase just across the way.

I'll talk a little bit about the long-term sole-source contracts we have in place. They provide a protection for us, they provide a competitive moat and they provide predictability to the underlying foundations of revenue for this business. I'll touch a little bit on the threat. I won't repeat what Rich just told you, but I will touch a little bit on the changing chem-bio market and really what that means for us in terms of a changing user base and how our innovation agenda is driving our access into that broader user base. And then last but not least, I will also touch on the underwater rebreather portfolio and the exciting things we have in store with that business over the next few years.

The image on the centre of this chart, this is our FM-50 product. It was designed and built originally for the US Department of Defense, as we called it, the M-50 programme. We then exported that product as the FM-50 into European and global militaries, and we sell the C-50, the commercial variant of this product into the non-military markets all around the world. This product is globally recognized as the best available on the market today by quite a long margin. It is the first choice of respiratory protection for NATO forces and for the Five Eyes community.

Fundamentally, this product is the reason why we win today. It's incredibly easy to fit, it's very comfortable to wear, it's very durable and it's very easy to decontaminate when you've been in a threat environment. The product is proven in the field. We'll talk a little bit in a moment about just how many users we have in the market today, and that means that this product is robustly tested by that very harsh user community and the environment they have to operate in.

We have leading quality processes. Those processes ensure that this product works right at that moment when you really need it to. So, if you are in a threat environment, your absolute number one priority is protecting your lungs. It's stopping that gas getting into your lungs. This product is proven to do that in the combat theatre . Those quality processes we have, they are independently verified. Our product is tested and certified through external agencies. That includes the CE, that includes NIOSH, that includes NFPA standards globally. So, we have that independent certification.

As a company, we're vertically integrated and what that means is we really understand what goes into this product. Our competitors, they assemble masks. They do not have that level of vertical integration. So when you become part of the Avon family and something goes wrong, we know exactly where that will go wrong. We know exactly in the supply chain where to look. And last but not least what I just talked about, we are underpinned by long-term sole source contracts. Every single one of those points on that slide there demonstrate why we are differentiated to our competition and why the competition simply do not have the product to really come after us.

We had some feedback quite recently from an ongoing combat theatre and in that combat theatre that feedback has instructed us that this mask, our mask, is the only mask that is saving lives. Competitor's products have failed and are failing in the market today. In terms of contracts, this just covers a little bit. I'm not going to talk about everything that's on here, but I will just scan down some of these. We are well-protected by the sole source supplier contracts. They're multi-year contracts. They give us stability, they give us predictability through, as Jos talked about, ongoing spares, replenishment, mask replacements and so on. And they pull through the outserts we sell, the filters that we sell and a whole bunch of other accessories.

The leading contract on here is at the top. This is the US Department of Defense sustainment contract. That's the M-50 product I talk about. We've made great strides in the last 12 months at rebuilding the relationship with the DoD. With that customer now we are seeing much better stability than we previously had. We've actually got forecasts agreed with that customer out to 2030, and we're seeing some increases on previous planning assumptions under this contract. We're in active discussions with the DoD today about what the sole source extension to that contract looks like, and we expect that to be signed around 2026, and we expect that to last for at least another 10 years.

Similar story applies to the M-50 3A1 contracts you can see on there, that largely provides the special forces operations with masks and the M-61 contract, which provides filter products for that M-50 product. Back in 2020, we successfully competed and won the NATO NSPA contract, so we bring the M-50 capability into Europe as the FM-50. We've now secured 11 nations on the NSPA programme. So, we're ramping up the install base across NATO and in Europe and now we're four years into that programme, we expect to now see that natural replenishment cycle start to rotate through as Jos talked about, masks get damaged, drinking tubes get damaged, filters get used. That install base will now start to move into that sustainment phase.

Last week we were absolutely delighted to be awarded a Swedish police contract, so that's an up to seven year framework programme that was a competitive tender in Sweden. We're bringing in a C-50 product into that market. That was independent, that was not through the NSPA programme. In that programme, just to hammer home the point of the product superiority we have, we competed against an incumbent nationalised provider of masks in Sweden. We won that programme purely based on the product superiority we have in the C-50. That's quite difficult to do that in some European nations.

And finally, I think we've announced previously the excitement we have over our rebreather the pipeline. Norway was a launch customer for that, and we were delighted again just after the Christmas holiday period to sign the Germany programme and we'll now start delivering units into the German Navy during the rest of this financial year. Those MCM programmes, that rebreather programme, gives us 20 to 30 years of sustainable revenue on the back of every single one of those contracts and that huge tailwind of aftermarket revenue that we expect this business to further drive stability.

Outside of the baseline of contracts that we have. The broader market for chem-bio protection is really supportive of continued growth. Over the last few years we've grown our install base substantially on the back of those programmes and through driving export orders. As we just touched on, we have a global sales team and we have a global network of distributors that truly are world-class in pushing our product onto the marketplace. The Avon Protection brand absolutely remains the number one trusted provider of chem-bio protection today, and we now have 4 million active users in just over 70 countries using our product.

With a growth rate of 3% annually over our plan period, what we can see is we're in a really good position for the future where we will capture new nations, we will capture new mass recapitalisation programmes. Put simply, we really don't miss an opportunity. Customers know who we are, they know how to work with us, they know our product is great and we really don't very often lose in the marketplace. But that threat landscape is changing, and Rich briefly touched on the changing nature of that sort of more modern land-based campaign warfare.

This is sometimes a difficult topic to talk about. Standing up and talking about the chem-bio threat is not often the nicest topic to talk about, but nevertheless, it is part of the drivers for our market. What we have seen, as Rich briefly touched on in Ukraine, we have seen alleged in the press uses of CS gas, fentanyl, in order to try and draw Ukrainian troops out of their trenches. It's a very, very effective method of drawing somebody out of their bunker, out of their trench, into an open fight. We start to see more of that, and the truth is, most Western nations now do expect that there's a tangible risk of a chem-bio attack on home soil over the next five years.

And of course we saw the shock of COVID. COVID really brutally highlighted to the world what a biological agent could be capable of. You've coupled that changing threat with the changing nature of accessible technology. So, things like delivery of through drones, for example. What you start to see is a creeping away from our traditional markets into some new markets where there is a tactical need for greater chemical, biological and respiratory threat protection. With some of those growing tensions, we're starting to see more civilians move into this market. More lower end security forces start to work into this market, looking for a new kind of respiratory protection.

For us, if I just try and quickly walk you around this chart. On the left-hand side, this is the lower capability end of the respiratory protection market. That's sort of non-lethal agents, some levels of particulate matter. That's served typically with what you call the N-95 type respirator, the basic face-piece, you probably all had one during COVID. That's not the market that we typically operate in. On the right-hand side of this chart, this is the traditional market we tend to serve in. Products that keep very high-end specialist operators safe in highly, highly toxic environments, and those environments represent an immediate danger to life.

In the middle, what we start to see between these two is an emerging capability gap, and we saw some of that on the threats on the previous slide.

This is a new type of respiratory system, one that really provides... Stop moving the screen. One that provides a new type of threat protection where in a much more tactical environment for a different user base. So, you'll see some of this over in the technology showcase later. This is MiTR, what we call Modular Integrated Tactical Respirator. It provides for that new generation of user who needs a lower level of technical use.

Typically, on the right-hand side, that's very expensive, high-protection gear. That new user in the middle doesn't need something that operates there. It's burdensome, it's a bit cumbersome, it's a little bit expensive. It's effectively over-specified. The kit on the left-hand side on the other hand, really doesn't provide enough protection for people in the centre. So, you've got a user group in there that at the moment really doesn't have the right level of protection. What we've seen in MiTR, where we've started talking about this in the market, it's already generating huge levels of excitement. We've filed a number of patents and design rights around the product and that gives us further protection in the technology we have.

The type of tasks, if I just touch on them, that this sort of user base will use are body recovery, drugs raids, to name just a few. As well as the new user group, we do expect MiTR to be sold in relatively high demand to some of our traditional user groups where there's a need for rapid entry into buildings. There's a need for that shorter duration tactical missions that they might go through. The product is now on trial with some of our major customers. We're a part of a number of evaluation programmes already and we expect to be able to announce a little bit more about that over the coming weeks.

The market, we sort of touch on the slide here. We think the market's around 200 million over the next few years in terms of an accessible market. I'll be brutally honest, that's largely based around our understanding of our traditional markets and we've still got more work to do on some new market access, so we expect the market to be a lot bigger than what we're showing on this slide. In terms of accessing the civilian market, this year we've launched an e-commerce platform. We're selling our traditional products into this e-commerce platform and we've seen some good growth through that into what's called the civilian prepared market.

We will commercially launch MiTR through that channel later this year. We'll initially launch the half mask and then laterally we'll follow up with the protected visor that comes with it. We will do a little deeper dive. I'll invite Justin up in a little while to give you a little bit more of a technology flavour of what's in MiTR. And as I said, you'll be able to see MiTR and some of the team that are developing this over in the technology showcase.

Back on our more traditional market in the sort of right-hand side of what was on that chart. Our customers have got further challenges related to needing to have complete equipment protection. So, this is where masks, suits, boots, gloves typically today, they are provided by different suppliers and our customers therefore carry what I would call an integration risk and how they bring them together and how they get that kit to work seamlessly together. To give you a little flavour for this, for Avon today with our masks, our filters and our accessories, we access roughly about 45% of that total chem-bio market for a full ensemble.

Put that into perspective, that's roughly about $4 - $600 of revenue per user who's in that marketplace. By accessing the broader ensemble market, by solving some of the integration and providing that ensemble kit, we increase that accessible value per user to around $950 to $1,200. So, quite a big step change on top of the install base and on top of the market we already have dominant access to. Of course, we've started this journey. We started with boots and gloves. Some of you will have seen we won the NSPA, the NATO programme a few years ago to now bring the boots and gloves capability into the European NATO market. And we've got the first two nations on contract for that and a big pipeline of that going forwards.

And then last year, we announced a strategic partnership with a company called OPEC. OPEC is a designer and manufacturer of chemical, biological sort of antiviral suit systems and then bringing those two activities together, we will launch later on this year an Avon range of full ensemble. Customers are already wanting to trial this, customers already want to work with us and we'll start, as I say, to solve some of that integration problem for our customers.

Around rebreathers, if you move on a little bit from the chem-bio market now. So, the military diver operates in an incredibly hostile environment. It's one of the harshest and most demanding environments you could be asked to operate in. Typically, a rebreather is used in the market for mine clearance and tactical or covert entry when special forces in particular need to access a facility. They offer low acoustic and low magnetic performance. That's absolutely essential, so you don't trip a mine. They don't produce bubbles, so they're a stealthy system effectively.

In terms of endurance, they're roughly 25 times greater endurance than an open circuit diving system. The diver will typically operate at depths of up to about 100 meters or so often for about four hours. It's very hostile, it's very dark, it's very cold, it's very lonely environment. These are dangerous tasks in a very, very stressful environment. So, first and foremost, with this kind of kit, the safety of the operator is paramount. And then second to that, it's being able to reduce the burden on that operator so they can focus on the mission at hand.

For our rebreather business, we've made really good progress over the last few years and we're starting to see strong pipeline conversion already. For us, this is a big market, so over about 450 million or so over the next 10 years and our pipeline of accessible opportunities over the next seven years is already greater than 250 million. Most of those contracts sit with NATO and Five Eyes nations and we have a very high confidence of closing most of these. As I said before, we launched this product with Norway. Norway, have now operating that system. That system is active with the military today, and we get very, very good feedback on not only the product, but also the service that this company provides in looking after the divers in being able to service those systems going forwards.

That's a really, really important part of this business. It's very, very different. That close working relationship with the end user is absolutely essential because of that safety case and we have that. You'll meet some of the team out at the back. They are ex-divers. Well, they're still current divers to be fair to them, but they are ex-operational navy divers who know this stuff inside out and that's really, really important. Of course, I've just mentioned we were delighted to be awarded the German Navy contract after Christmas, and again, that's further demonstration of the product superiority we have with our underwater rebreather MCM-100 product. We've got really strong marketing customer feedback and a number of early adopters now we expect to move forward with this product over the next few years.

It's a pretty long-term business for us, this. It generates a very, very long substantial tail of aftermarket revenues and gives us that real competitive moat that Jos and the others talked about before. Typically, this is a product once we're in, we're in that market for 20 to 30 years and it's very, very difficult for anybody to dislodge the product at that point. So, if I touch a little bit on the product itself, a rebreather, deep sea rebreather, we call it MCM-100. It's an underwater breathing apparatus. It supports the military diving operations that we just discussed. About 20 years experience has gone into this product to get it where it is today, and it's very, very clearly differentiated from any other systems that are on the market today.

It's fair to say Avon is the disruptor in this marketplace, taking out some of the installed competition. We have, with the patents and technology protection, we have a round about a 15 to 20 year technology advantage over competition for this and of course that means it's very difficult for competition to catch up with us. The types of things that differentiate this system, it's digital sensing system. It provides onboard monitoring of exhaled gas. That means it's keeping the diver safe, it's changing the gas mix actively to keep that diver safe, depending upon the physiological conditions that it's observing.

Mission setup time, that's a huge burden for a diver, is reduced by around about 50%. That means the diver can be much quicker getting on mission, getting into the water with a safe system much quicker than the existing systems on the market today. It's much lower through life operating costs than our competition provides, much simpler to service, much lower logistics burden. We've built a global network of what we call tactical partners. So, this is other partners with whom we work with, where we collaborate really closely to make sure this diving system is working collaboratively with what the future underwater battle space looks like.

So, that looks at things like integration with diver delivery vehicles, integration with communication systems, integration with navigation systems, all really, really important, particularly when you look at future Five Eyes collaborations and programmes like AUKUS. It's really, really important. The system like this integrates into that at underwater battle space. Similar to what I talked about in the chem-bio markets, we are also starting now to offer more of an integrated ensemble type offering. So, we bring in heated undersuits from a partnership. Go 100 meters below the ocean, I say it's dark, it's also very, very cold. I'm sure the team will tell you at the back. A heated undersuit, absolutely critical operates with the MCM system, integrates the complete ensemble for the diver.

I was quite surprised when I came into this business. Amazingly, we don't actually make the mask for our rebreather. We're now on contract with a major NATO customer and we're going to now bring a differentiated full-face breathing mask to market over the next few years and again, build ourselves up into that broader ensemble offering, taking a much broader share of the market than we have today. We'll dive into MCM in a little while when Justin comes up and... Dive, that was a terrible term, wasn't it? And we will go through the technology a little bit more in a little while.

And then just before I step off to let Justin take over and then I'll come back. We touched a little bit on our current products there or products that are just nearing joining the marketplace. One of the things I'm really proud of with this business, if I go back about a year, we had, I think it was no or virtually no customer-funded R&D. I don't think our R&D was particularly well-aligned to where our customers wanted to go. Today, that has changed. We're now on contract in a number of areas with funded R&D programmes, and we have a pipeline over the next three years of about 20 to 30 million of customer-funded R&D that really accelerates us forwards.

The kind of things, I'm not going to touch on everything that's on here, but the sort of things that we're working on are next generation threat analysis, under contract again with the NATO government and what that future threat analysis might mean for respiratory protection. So, that's analysing gaseous threats that are seen in the battle space, that's seen in campaigns and what that next generation of respiratory protection needs to look like. We're developing new filter materials. Today, an operator might carry two, three or four different types of filters with them. One filter that allows them to face a range of threats and that perhaps is smaller, more lightweight, less burdensome for the operator. Again, funded programmes with major, major nations around the world.

We're developing new material technologies that are much more comfortable than today's material technologies. We're even working on intelligent materials. One big problem for users is they have to decontaminate themselves, of course, when they've been in a threat environment. We're now developing materials that intelligently denature. IE, they try and get rid of the threat without the need then to decontaminate further on downstream. So, all of this makes sure that as the threat changes, so do we. Keeping this business and our product portfolio right at the forefront of where we need to go technologically.

If I talk about underwater a little bit, we have our deep sea rebreather that we just talked about, MCM. We're also now under contract to develop a shallow water variant of that capability. Shallow water market is bigger in terms of diver numbers than the deep sea rebreather market and of course what that gives us is a common architecture. We can bring that technological advantage to the shallow water market, and that brings to our customers common logistics footprint, common supply chains and so on and so forth.

All of these areas were under funded contracts with NATO governments today. That customer funding isn't just about funding for me, but it is also about bringing actual exploitation and customer pull for those products when we do launch them in the future. What I'm going to do very briefly now is just hand over to Justin who's just going to spend five minutes talking through a bit more detail on some of these products. Thanks, Justin.

Justin Hine: Thank you, Steve. Good afternoon, everybody. My name is Justin Hine and I'm the director of strategy and capability for Avon. I'd like to begin with a short anecdote of something that happened to me once. I was invited to go to a group of potential users to demonstrate product to them. I was going to meet them at their shooting range. I happily went with a range of product and when I got there, I was expecting to tell them all about it. The first thing they did to me is they said, "Did you design this product?" I was like, "Yeah, I'm part of the design team that designed this." "Do you believe in this product?" I was like, "Yeah, I believe in it." They're like, "Great. Put one on and go and stand over there." I was like, "Hmm, okay." So, I did. I randomly picked one out of the box and put it on and I went and stood there. And 10 seconds later, I was engulfed in a cloud of CS gas.

So, it's not that often that you get invited to go and visit some customers who are going to gas you, but this is what happened. Now, I was standing there thinking, "Well, this is going to be a bit embarrassing if this doesn't work very well," so I tentatively took a few breaths in and of course I was absolutely fine. There was no leakage. I couldn't smell anything. I was unaffected. And I tell you this story to reinforce what you've seen on the videos. This is what our users go through every day. We have a 4 million install base of users. The people that use our equipment are using it immediately to save themselves from a very toxic and dangerous environment.

And this is what registered with me at that moment. I wasn't expecting this. It happened and I was fine, I'm glad to say. That's why essentially Avon believes in the products that we develop. We really do. And the reason we believe in them is the reason why our customers believe in us, and the reason our customers trust us. That's why we have that installed base. That's why people keep coming back to buy product from us. So, I'd like to talk to you now a little bit more about two of the products that you've already seen. Two key products that are within our star strategy.

The first one of which is MiTR, which we have talked quite a bit about. But MiTR has involved a significant amount of input from our large installed base around the world. They've helped us collaboratively determine what the key features of this product are. This has allowed us to create this new product to help us deal with threats that are emerging today and maybe even threats that are going to emerge in the future. To develop MiTR, we've had to use our technological expertise. We've had to look at the system integration. We've had to look at the miniaturisation of the filter. We've had to deal with the airflow management of such a system. Combined with our effective design principles, our rapid prototyping and testing, and our material science expertise, we've quickly been able to convert this market need into a new product, which as Steve has said, will be released very shortly.

MiTR further makes a key step, which you can see on the chart into potentially a fully integrated respiratory solution. Many of the existing facets of MiTR, which when combined with other features like power, positive pressure airflow, or more advanced filtration, they will give the users a higher protection level, a greater time on target, and they'll still reduce the physical burden. Steve has also mentioned to you our MCM-100 product. This is a key disruptor in the marketplace. This disruption is achieved predominantly by the technology that's in this product.

In our underwater business, the development of MCM as a fully digital system makes it the safest and most capable rebreather on the market. A rebreather in its own right is designed as a system where you breathe in a loop. The system could fully monitor the inspired and the expired air to ensure that the oxygen levels are correct while simultaneously scrubbing the carbon dioxide from it. By scrubbing the carbon dioxide from the exiled breath and instantaneously measuring the amount of oxygen required to bring it back to a life-supporting level, the core mechanism of the MCM represents groundbreaking technology.

The MCM is controlled by a complex firmware system, and this firmware system can display the performance of the system to the wearer in a very simple and easy to understand form. That form is shown through either a wrist-mounted display or for really critical information, through a head-borne display. This makes the MCM-100 the most operable and safe product for a diver to wear. MCM-100 is the safest system out there. This patented technology, which is in MCM, is transferable to other products. The first of these is a combat diver rebreather. This system is smaller than an MCM-100 as it will operate at a shallower depth, but it will share much of the developed technology, control functions, and capability of MCM-100. The potential volumes of a shallow water rebreather are larger than for an MCM-100. Furthermore, we have a roadmap of how we can further exploit this technology. One area that's been identified is that of a terrestrial rebreather, a product that would work on land rather than at sea. A rebreather system like a terrestrial rebreather has some significant benefits over conventional compressed air systems, including increased duration, biometric monitoring, and significantly increased safety for the wearer. The increase in duration is not small. It could be up to four to five times that of a current system.

Also, the system can provide full life-supporting environment, which when combined with the biometric monitoring, it can be used in the most toxic environments possible and the user will not have to make any modifications or do any user intervention for it. So again, the simplicity and the ease of use will be a major step change. There still remain some challenges in developing a terrestrial rebreather, but the opportunity that's there is significant.

Finally, as Steve mentioned, ensembles is a big part of our future business. We are looking at developing ensembles in both the CBRN and in the underwater world. In the CBRN space, we've shown you some of the suits and there are some to see later, but essentially we're not stopping there. We are looking at what technology could go into one of these suits to further benefit the user. These types of materials could essentially denature chemical warfare agents.

Imagine how great it would be if you could have a suit which when a threat landed on you, the suit itself decontaminates that threat. This is some of the technology that we're actively involved in working on now. Such materials could have a real input into all of the Avon products and be very useful within our portfolio, significantly extending the protection offer to our users, and again, reducing the burden on them. So thank you very much. I'll now hand you back to Steve.

Steve Elwell: Thanks Justin. Quite conscious of time. I've just got a couple of slides left just to sort of pull all this together a little bit. So if I just walk you from the bottom upwards on this chart, this sand chart just represents what the future outlook for our business look like. The bottom blue and the green are those areas of recurring revenue that I talked about. That's that stable base that we have. Replacement masks, outserts visors, filters, they all get pulled through on the back of having 4 million users in the market today. We've got those contracts that we talked about. They give us that really solid base for this business, long-term predictability to that revenue that we see going forwards. We've got a small line you'll just see on top there where it says, "CBRN new customers." That's where we know we'll win in that market.

When new nations come along, a little bit like the Sweden contract I mentioned, new nations come along, that can be a little bit more lumpy for us. It's driven by defense contracts. As we all know, defense procurement has a real bad habit of moving to the right quite regularly, but we don't plan around that. And as Jos talked about earlier, what we've really worked hard at in the last 12 months with this business is we've right-sized this business around the blue and the green, around the repeatable, predictable revenues that we know we'll see in the future. That's the size of this business for us going forward, and that helps us deliver quality of earnings going forwards.

On top of that, we talked a little bit about miter. That's some of the areas of new product growth that we start to see. And then of course the excitement that we have for the rebreather business with our MCM-100 product over the next few years, building on the back of the Germany win. We have that really, really strong pipeline that I touched on just previously.

And so, how does this all come together? In summary, this is a business that's built on a large install base. We are by far the number one global brand in this market for chem bioprotection and we have that long-term sole source competitive mode of contracts around us that keeps the competition at bay. We've strengthened the financial foundations of this business and we've already built the operational discipline that will allow us to deliver the gearing on that. And with that, I'm going to hand you over to the helmets team and James Wilcox. James?

James Wilcox: Thank you, sir. I'll make it quick. Good afternoon, everybody. I'm James Wilcox. I joined the business in 2003 where I led the design team to develop the M-50 mask we talked about today. What we'll do is firstly just quickly give you a simple outline as we did with respiratory today. We'll cover the multi-year contracts that we have secured, how the strong DOD order book will deliver our near and longer term growth, the large commercial market opportunity within this business model, some of the leading technology you may not be aware of, and then we have an expanding product portfolio. All of this will be needed to grow the Team Wendy brand and deliver success.

But first, I'd like to move into the contractual area. So if you look at the charts on the screen, we have several long-term framework contracts. At the top, there is a next generation IHPS programme, which we have visibility through to 2028. That will move into sustainment with the Defense Logistics Agency, the DLA, where we expect that to be continuing in service. Below that, the next generation Advanced Combat Helmet or ACH-II, that is already run by DLA. We have long-term visibility and that'll be a long-fielded product for the future.

In the international markets, the Australian Defense Market, we have the Exfil programme with the Australians. We expect that to be recompete in a year or two's time. That's our installed base and we look to follow on that business. We'll talk a little bit more later, some of the more commercial contract frameworks that we're using with our U.S. customer. And as you'll see at the bottom, the U.S. DOD Army Pads contract provides long-term visibility of recurring revenue.

We do anticipate capturing further international contracts over the next few years. We have not shown those because we're in the capture strategy mode, but we expect a number of opportunities to mimic what you see on the screen. If we move to the Department of Defense programmes and the helmets we have, let us start with the market. Currently, we expect a 3% CAGR over the next few years. And for those of you who did not know this, we have about 66% of market share. We combine the Ceradyne acquisition into the Team Wendy brand, which we'll refer to today as Team Wendy, but this makes us the largest by value in the DOD market at present. And we currently have secured an order book of $120 million and this will give us the confidence that Team Wendy will retain its market leading position as we go forward.

Before we turn our attention to the two contracts, I just want to talk about the challenges in winning a DOD programme. It is a relentless journey that you have to have resilience and we have spent many years getting this position of having both contracts and both masks being first to market and first in service. And this is through the First Article Test programme and we're currently the only helmet manufacturer to be in this position. It's these high levels of performance and validation that stand us apart from the competition and make it very difficult to enter into this market.

If we now look on the left-hand side of the chart, the NextGen IHPS programme, this is a 560 million five-year IDIQ contract. Now to be clear, IDIQ is not a given term. We expect the demand around 190,000 helmets to be fielded under this programme, but this is a framework contract that allows more capability depending on demand. To date, we have secured an order book of around 45,000 helmets, and we have delivered 20,000 helmets successfully without one lot issue through that process. We are now in full rate production and I'm very pleased to say that after a challenging startup, our scrap rate from six months ago to now is one-fifth of what it was. So we've made significant progress in this area.

And it is a very challenging and demanding technology and quality standard. Again, this keeps the bar high and keeps the competition out. On the right-hand side of the chart, you'll see the Gen II helmet, the ACH. What I would like to suggest here is this is a broader higher-volume helmet, generalist main army and this will provide protection for those types of troops. This is currently made within our Salem, New Hampshire facility. As you can see, it is a $200 million framework contract over five years. Again, an IDIQ. But we expect demand for this to go on beyond the sustainment and contract periods based on historical fieldings.

We currently have an order book of around 100,000 helmets and we are in the ramp-up phase of this programme. Our capacity is currently constrained at the New Hampshire site and we are now expanding Cleveland. Cleveland will be able to produce the full demand required by the government by the end of this year. We expect annual demand of this programme to be around 50,000 helmets going forward. This is a dual award contract shared with Gentex, which is the same as the IHPS programme. And our real focus going forward now is margin improvement through site consolidation, through improved tooling that will reduce our molding time by up to 50%. We are confident we will deliver strong margin improvements within these programme areas.

So as you can see, we have made significant progress with the DOD programmes. Both these helmets are now in production and they're going to be a continuing significant contributor to this year's revenue onwards. If we now move our attention to the commercial Americas market, we expect a 4% CAGR growth in this market. And if you look on the screen, you'll see quite a large statistic of growth of gun homicides within the U.S. It is a general difficult market, high gun amounts of problems, and this is driving a huge amount of gun culture. We also see a shorter replacement cycle time compared to respiratory. Typically, helmets are replaced every five to seven years, which allows new technology and more opportunity within that market.

It is well-funded. The funding for this market comes through FEMA and other agencies. In an election year, like this year, additional funds are made available, which we expect will create a tailwind for demand at the back end of this year. We talk much about this market because we have a lot of experience in this market. This is a market where we took the M-50 DOD technology and commercialised it to be the C-50. We have built a number of channels, a number of relationships based on this, so going into this market with DOD technology that has been commercialized in helmets gives us strong confidence of our ability to win. Outside the law enforcement market, we also had considerable traction with non-DOD commercial contracts, which I'll talk a little about later.

On the bottom left, you've got to have a portfolio to succeed and I want to explain the good, better, best approach. It's a pretty standard approach and if I assemble that to a car industry like BMW, you have a three series, which is your high-volume product. You have your five series, which is your premium technology offering for the broader market. And then you have your seven series, which is your most advanced product and a smaller volume. We follow the same approach here with the portfolio for success. On the left-hand side, you will see the Epic helmet. This is our good offering. This is derivated from the ACH technology, and this will be specifically targeted at the large patrol and police officers market where the significant volume is and where the C-50 mask is already sold.

In the middle you'll see the Exfil helmet. This is the legacy Team Wendy portfolio. This is specifically aimed at tactical officers and would be paired with the FM-54 tactical mask. And on the right-hand side you'll see a new offering called Rifle Tech and you'll see this later. We just launched this at the Shot Show 2024, and this represents the highest level of protection of any helmet on the market. It's a sniper rifle protection helmet. Now, although this is a high-value product, it's a lower-volume market, so we tend to cater to all the markets depending on their needs.

On the right-hand side, I'd just like to talk about how we get to market and how we go about this. Our respiratory market is well proven through the existing respiratory sales team and infrastructure and we plan to leverage this for the Team Wendy brand. So we already have a strong distribution network. We have a very well-established e-commerce website, and there's a number of other areas that we already are very familiar with, leveraging the existing state contracts. Our customers call on the same ... Our people call on the same customers who use the same contract vehicles, who use the same procurement funding. This cross-selling approach, along with already trusted Avon brand will now give the added boost to the Team Wendy brand and value proposition when meeting new customers.

So in summary, our experience, our strong distribution channel and this proven team infrastructure of salespeople, along with now this expanded portfolio will provide us with confidence for sustained growth in this market over the coming years. Now let's talk about the rest of the world market. This is an expected CAGR of around 4% annually and we are now seeing defense budgets increasing with a 3% CAGR. This is a large unaddressed to market for Team Wendy with a value of around $300 million and we expect to see troops increase by about 1%.

Now, I want to mention on this area specifically that although troops are growing at a smaller rate to CAGR, the replacement programmes due to modernisation are replacing equipment of a higher value and a higher share of wallet, so our CAGR predictions are ahead of the troop growth based on the value of the equipment now being deployed. Finally, these markets tend to lag behind the DOD in terms of technology adoption. However, we're seeing a new level of modernisation programmes which will then further drive opportunities in this market. Again, on the left-hand side, the portfolio for success, this will differ slightly from the Americas because of regional requirements and we will offer a lower feature set mid-range helmet that will meet the needs when outbidding our competition.

We will still remain our focus on superior performance and lower weight to differentiate against the legacy aramid helmets. There will be a number of customers who will want to align with the DOD military and for this we'll offer them the Epic helmet and also for those in the specialist area, we will offer the Exfil and the Rifle Tech for those users. We are seeing a continued trend towards indigenous insourcing for this manufacturer of helmets, particularly in Europe, and we are currently assessing the need for regional footprint and we'll develop those win strategies as we go along.

So why are we confident that we are going to win in this market? On the right-hand side of the slide, you will see the reasons for this. We already have an experienced team at capturing large framework, first responder and military programmes, and also the specialist users and we've proven that within the respiratory business. We will strengthen this and target new opportunities. We are already a sole source supplier for the Australian and the Amman military with our tactical bump helmet. The existing sales team have also recently been strengthened by the hiring of a new sales director who also has an experience in this helmet industry. We have a well-established distribution channel and this will allow our agents with all regions to be leveraged to accelerate the growth of the Team Wendy brand.

So in summary, increasing international market demand, modernisation programmes and targeting regionally specific product offerings, combined with this new and mature or existing and mature commercial infrastructure, again, give us confidence of strong growth in this market. We'll now move over to Bump and other technology, because although ballistic is currently the main revenue generator of the Team Wendy brand, there remains strong opportunity within this market. And I'd like to also talk about how we're going to grow these important portfolios that deliver strong margin.

The Bump helmets on the left effectively deliver the same traumatic brain injury mitigation technology as the ballistic helmets, but they don't contain ballistic technology. Instead, they have shells made of injection molded plastic or carbon fiber. This type of offering and this market expands our opportunity to diversify and increase revenue streams. Users on the left already use the Bump LTP system, which is NAVAIR or the aircrew people within the DOD, and professional medical responders. But we're also now seeing both in wildland firefighting and roadside assistance applications, new certification standards being created to enhance safety to the wearer. These we are seeing as an attractive and readily accessible to grow our market for the future.

As we said, we already supply the Amman military with a variation of our Bump helmet and you'll see later we are working on a next generation of Bump helmet. Moving to the right of the slide, the founding technology of the Team Wendy brand was traumatic brain injury mitigation and pad technology. In fact, we manufacture these at very high volumes and we've already delivered over 7 million sets globally. This is a highly interesting market to us and a very recurring part of the business, especially as we own the DOD ACH sole pad supply source. Post-COVID though, this market has been quite quiet. However, in 2023, we have started to see significant orders from DLA and we currently have an order book of around 180,000 sets of pads and we expect that demand to continue as we field new helmets.

To leverage our recent investment in the UFPS or Universal Fit Pad System for the IHPS programme, we are also currently developing a higher performance pad system for our commercial helmet range. All of these helmets you see all have accessories and interfacing equipment that we can attach, such as hearing protection, night vision goggles, and of course our respirators. The modular nature of the design also allows us to develop a broad range of accessories, such as visors, spotlights, and detection beacons.

And to help facilitate these sales, we use our strong e-commerce platform already established. So with increased focus, new products and dedicated resource, we expect greater growth within these two categories. And this will deliver, again, a more diverse revenue mix while strengthening our margin. Now, I've talked for some time about business growth and the markets, I'd like now to turn to technology and how we differentiate ourselves from the competition. And I'd like to introduce, Vasilios Brachos.

Vasilios Brachos: Thank you, James. Good afternoon, everyone. I'm Vasilios Brachos. I'm the Vice President of Ballistic Technology for the Head Protection Unit. I want to thank you all for coming and really excited to be able to share with you some information about our technology. I want to start by going over some of the background history of our technology, where we come from, what is it that we do. For nearly 20 years, we have been leading the market by making the highest performance thermoplastic composite ballistic shells.

I'm very proud to say that, even though, unlike Justin, I was never asked by a customer to go to the corner and get shot at. This success has been based on our unique and innovative design and process capability that has allowed us to make thermoplastic, and I stress the word thermoplastic, thermoplastic composite shells in a way that differentiates us from the competition and allows us to efficiently produce the shells to the highest performance to weight ratio.

And that's important. That ratio of performance to weight is critical to the customer, because they always want the higher performance and they always want the lighter weight that they can put on their heads. Our composite ballistic expertise originally was demonstrated through aramid thermoplastic composite ballistic materials for the law enforcement market, that was back in 2006. And very quickly after that with ultra-high molecular weight, polyethylene fiber thermoplastic composite materials, and from now on I'm going to refer to those as polyethylene materials, for the U.S. DOD and international markets before the end of that decade.

The successful introduction of the first polyethylene-based helmet to the U.S. DOD, which was also the first rifle protective helmet for the U.S. DOD was done by us in 2009 in the form of the enhanced combat helmet. Since then, we continue to innovate and process technology resulting in multiple sole source or first to award DOD contracts, the latest of which is the two that James mentioned, the Next Generation IHPS and the Advanced Combat Helmet generation II.

Over the last 10 years, we have supplied the U.S. DOD with over 250,000 helmets, and we expect over the next five years to double that. We have a very good base, as James mentioned, from the order book. Our technology allows us to optimally balance performance to weight and to cost, and that combination is important for us to deliver the optimal requirements for each customer. As demonstrated by the two helmets that I just talked about, that their performance to weight to cost relation is very different, the Next Generation IHPS and the ACH Gen II. We continue to obtain access to the latest and next generation materials from key suppliers so that we can demonstrate the art of possible with those materials. Unlike anybody else, I have some actual videos in my slides, so I'm going to show you a video next of two helmets being shot side by side.

The one on the left is our ultra high molecular weight polyethylene helmet. The one on the right is one of our competitors. And they're being shot with a same projectile at higher velocities. So the first shot was at the same velocity ... At 1900 and they both stop at 2200. As you can see, the competitor's helmet allows the projectile to go through, and at 2400 we continue to stop that projectile and the competitor's helmet goes through. This is very important because the ability to stop a projectile from penetrating the helmet is life critical. That has been demonstrated by the U.S. DOD on data that they released that say that if a projectile penetrates the helmet, the probability of death is 80%. If the projectile is stopped, the probability drops to zero. So that is why what we do is life critical. The customer expects our helmets to stop as many projectiles, as high velocity as possible, to protect them from any situation out there.

Why are we so different than our competitors? There's at least six key reasons that I can call out that makes us very different. First of all, we have in-house agile design, prototyping and testing capabilities that allow us to go from design, to concept, to validation cycle faster than anybody in the market. Additionally, we have in-house capability of design and fabricating proprietary tooling. That tooling is critical for our capabilities because not only it allows us to optimally form these thermoplastic composite materials, but it also allows us to very quickly scale up for higher volumes. Also unique to the industry, we have our proprietary technology that we've designed for forming and molding these shells. That allows us, again, to make these materials, take these materials and make them into better shells than anybody else in the market.

Our new helmets enabled by these proprietary technologies can also benefit from unique capabilities in the structure, such as the no through hole attachment scheme for all the accessories, as well as the integral attachment capability for our retentions. These are both industry first and they've been adopted by the U.S. Department of Defense across all their helmets. Our long-term successful relationship with the U.S. DOD has allowed us to stay in the leading position and come to a point for no longer we are ... The DOD is pushing technology, but we're helping the DOD by pulling them into new technology. Finally, the years of innovation in thermoplastic composite processing and access to the best materials in the market have resulted in a market leading expertise.

I would like now to turn your focus into the core technology that we have that lies inside the ballistic shell. Traumatic brain injury, also known as TBI, is extremely prevalent to military and first responder personnel, with nearly half a million of incidents recorded by the U.S. DOD since 2000. There is of course great interest in reducing the injuries across the full spectrum, from very severe impact injuries to even mild concussions, because they all could be potentially linked to neurodegenerative diseases.

This video that you see in this slide shows the commonly used blunt impact testing methodology internationally. And the helmet shell, as you saw from that drop test, is critical and provides the transfer of the impact force or the blast wave from a blast event to a greater zone so that the forces get reduced. But at the end of the day, the padding inside the helmet is what really ultimately interfaces with the head and manages those forces and decelerations.

We are unique in the industry because we formulate as well as produce our own foams. And because we can do that, we can manage the performance to comfort ratio. We can optimally design the foams to offer the best combination of the two. Our foams are very much like memory foams, so depending on the stiffness and the density, we can manage their behavior from a comfort perspective. We developed and supplied the first widely fielded pad system in the U.S. military for the Advanced Combat Helmet back in the 2000s. As prior to that, there were no pad systems. There were sling systems that offered no impact protection. And we've gone on to supply millions of those pad systems since then. Combining our leading ballistic technology, we're a leading TBI mitigation technology. We can ensure that our helmets work optimally as a complete system.

Also, through long partnerships with secured multiple contracts, funded contracts to the order of $5 million from different customers to advance TBI mitigation technology and currently have four active and two pending research awards. The key focus of this area is understanding the response of the brain. This is done in partnership with research sponsors such as the Office of Naval Research, and we're working with university collaborators to study the brain at the cellular level. Understanding the brain allows us to try to work on several different investigations to improve performance against impact.

Improving the materials so that we can improve the impact protection through materials. Designing new test methods that better represent what are the actual threats to the brain, the type of impact. Developing computer models, also known as digital engineering models that simulate the impact. And finally, integrating sensors into the helmets that is both used as a research tool as well as long-term as potentially predicting or assisting diagnosis of injury to the actual wearer.

In particular, the computer models that predict the impact behavior are very important to us, because we better understand the forces that the brain sees, which are not very easy to actually measure in real life. And this is a long-term focus area for the whole community and it will integrate eventually cellular research findings for the brain. And finally, it helps us speed development of new impact mitigating materials because it reduces the cost and time to investigate these materials if you don't have to physically test them. That is all I had to share with you. There will be some exhibits in the technical showcase afterwards. I will exhibit some of this technology and products. I would now like to turn back to James. Thank you.

James Wilcox: Thank you. Right. Let's just turn now to the portfolio. So we've talked about contracts, we've talked about market assumptions, and we've talked about technology. However, over the next several years, we will aggressively expand the portfolio to capitalize on these opportunities. We already know from the chart that we have both the DOD helmets set and in production. So our focus will now move to the commercial portfolio expansion, and we will focus on that for the Americas and international markets.

And leveraging this DOD technology, which is well accepted by the end users, gives us a step change in technology for these people to be protected. Alongside the Epic and the Rifle Tech in the mid-range that we discussed earlier, we will provide a classic good, better, best offering, and we will achieve that by refreshing a next generation of Exfil helmets in the coming years. Now, although ballistics make up the majority of our current revenue, as we said, there's significant opportunity in the non-ballistic or Bump helmet market. Our portfolio will be refreshed with a new generation of Bump helmet that will improve protection, lower manufacturing costs and meet these emerging market opportunities.

Now, common in both of the markets and the categories we've talked about is the need for a pad system, and we will relentlessly continue our mission to mitigate TBI and we will leverage the significant customer funding we talked about previously. We will expand the pad replacement programme offering wares with improved performance each time, and this will result in a recurring revenue. The broader portfolio will be targeted to our installed base and we will leverage our enhanced e-commerce platform. Longer term, we do envisage an impact sensing technology combined with integration of power and communication within the helmet, and these will be aligned to modernization programmes. This product portfolio is all aligned under the STAR strategy that Jos talked about earlier, and again, this will deliver sustained growth for the future.

If I come onto modernization in the future, beyond the near time portfolio, there are three current main programmes running within the market, the IMHS within the DOD, which is effectively the next generation of IHPS. We have the Polaris programme, which is looking at future integrated soldiers programme within the DOD. And we have Akili with the European consortium put together to look at future soldier programmes. Now the question is, how do we play in that area? We will focus on the head protection area. And on the right-hand side of the chart, you will see the technologies needed to create an integrated soldier system. On the left-hand side, you see the yellow where we already work in those areas. But on the bottom right-hand side, you see some areas of technology that we currently don't possess, so we will need to look at augmented reality advisors and integration of that technology, active power and comms connection technology, and then an integrated ballistic and 3D hearing protection. The new MiTR programme that Steve talked about fully integrates into this programme and it leads us towards the ability to provide total head protection and our close working partnerships with these industry peers will provide us access to this leading technology. We plan to generate forward-looking demonstrators to influence these emerging programmes.

Now moving just onto the growth opportunity and there is significant opportunity within the next four years, as indicated on the sand chart. At the bottom of this chart, we already have a strong foundation of recurring revenue to build from, driven by our existing installed base of helmet and pad business and also long-term framework contracts. The significant nearer term growth is from the ballistic IDIQ growth, which is driven increased by our DoD programmes. 2023 was a very pivotal year for both those programmes, and now with the approval to make, we expect 2024 to start realizing these benefits.

The leveraging of our commercial channels and sales teams will continue to strengthen our other ballistic revenue has shown. We've added helmets to their portfolio in late 2023 and when this has already resulted in some very exciting growth within the Americas region and we will now start developing capture plans for a very largely untapped international market for Team Wendy. We expect to see continued growth within the non-ballistic helmet range as we engage those new markets and also refresh our current portfolio. Both the ballistic and non-ballistic growth drivers, both drive the need for pads and accessories.

This expanded portfolio will appeal to the broader market, again, driving stronger accessory sales in the outer years. All of these factors drive a strong revenue visibility over the next four years with much improved margins. To summarise what we've talked about today and why we at Team Wendy have confidence to win, firstly on the left-hand of the slide, we have the best leading DoD technology in the market and the best shells to weight ratio. You combine this with leading traumatic brain injury mitigation pad technology, you create the ultimate helmet. We also have the luxury of designing respiratory and an in-service market for that.

Bringing those two together will be unique in our market and we'll be the only provider to offer the combination of a certified system. Obviously, a modern expanding and rapidly broadening product range will give us the total package to enter the market. So we have the technology, but also on the right-hand side, you've got to have the customer and the channel. We now do have the DoD contracts and we're now delivering on those contracts. We have traction in Americas with a proven channel that we understand and a market we can capitalize on.

There is an untapped and growing international market, which we will also focus on with a broadened portfolio and capturing that next cycle of modernization programmes. Obviously, we have a very strong order book with a now great bigger focus on execution and profitability. We've also decided to add experienced staff to this area and this will also broaden this alongside our distributor teams. This aligned strategy, this focused investment, this relentless execution are all now supported by this strong order book and therefore gives us confidence for future growth for the future. Thank you very much.

Gary Turner: Good afternoon. Welcome back. Trust you managed to get some refreshment and stretch your legs and take some oxygen in after the presentations you've heard so far. You've heard from Rich, you've heard from Jos around something around the vision and the strategy and the drivers within the business at sort of high level. And then I hope you found those interesting presentations on the helmets and the respiratory side of our business from Steve and James. So I'm Gary Turner, I'm the Chief Transformation Officer for Avon. I'm a relatively recent joiner. I joined at the end of last year.

What does the Chief Transformation Officer do for a business like Avon? Well, what it does, it tries to work with the teams to keep those teams that are doing transformation programmes on track to deliver those transformation programmes on time and on budget. That's what I do for a living and I've been doing that for some 30 years now. This is probably one of my programmes, which is probably, I've been involved in more than 100 programmes. Over those years I build a bit of an understanding of what works and doesn't work when you deliver transformation programmes.

You heard from Joss earlier on saying it's one thing having a great strategy, but it's all about execution. My role is about helping Avon execute those programmes that you'll hear from in a minute on time and on budget. So what are the things that I'm looking for to help have on deliver these programmes on time, on budget? I'm going to summarize them into five things really. First off, it's having focus. You'll hear from the team on the transformation programmes. We only have four transformation programmes, which I'm delighted to say for me is the right level of number of programmes.

It provides that focus and to having individuals within the business having accountability and responsibility for delivering those programmes on time, on budget and having rewards and consequences associated with delivering those programmes. I'm looking for that. I'm looking for really good milestone plans and resource plans that are well thought through and coordinated and having those interdependencies and risk mitigations in place. That drives success.

I'm looking for the sort of horsepower behind those programmes in terms of resources and using sprint methodologies and other things to provide the energy and focus for driving those programmes forward and having those programmes, reporting and monitoring, so that we can see and get early warning, those programmes are on track. The good news is having been in the business for a few months now where I've sampled and looked at the four main programmes, I'm pretty comfortable that those programmes have these things in place. Are they all in place, perfect? Not quite, but pretty much there.

I'm pleased to say by doing these programmes in these ways, those transformation programmes have deliver the things we're looking those transformation programmes to deliver. What are those objectives? Let's drive operating margins, let's improve return on capital, and let's drive some cash conversion. Those programmes are about delivering those things and they're running in parallel to all the other things you've heard about, which is why we pulled them out and called them transformation programmes to give them that spotlight, give them that degree of focus within the business.

As a reminder about those transformation programmes, you'll probably be familiar with what they are, but let me just give you a quick refresh, because you're going to be hearing from Amy on footprint optimization. You're going to be hearing her talk a little bit about operational excellence and what's happening in Cleveland. You're going to hear from Paul around continuous improvement and the things that are being done day in day out to drive continuous improvement into the plants within into the business.

We'll then change gears when Rich will tell you a bit about functional excellence, particularly around finance transformation and he'll talk a bit about commercial optimization. In summary, a suite of programmes run in parallel to the business driving things that matter to shareholders within the business around margins, returns, and cash. Without further ado, I want to hand over to Amy who's going to tell you a bit about footprint optimization. Thank you, Amy.

Amy Carpenter: Thanks Gary. Good afternoon. I don't have any anecdotes about being used as a ballistic test model either, but I do believe in our product. I wanted to tell you about a significant transformation for our business. Well, I guess I should start and tell you who I am. Amy Carpenter, VP of Operations for Team Wendy, but this significant transformation project within the business unit. We recently announced the closure of our Irvine, California facility where we will consolidate into our existing Salem, New Hampshire site and significantly expand our Cleveland operations.

By October of 2025, we will have completed this major transformation programme, which will result in a $10 million annual recurring savings. The investment over the next 18 months will be returned in significantly less than three years. Salem will continue to focus on advanced ballistic research and development and operations will be simplified to continue to supply shells into Cleveland. Cleveland then will undertake significant expansion to accommodate the ACH Gen II programme and shell molding and all helmet finishing will be in Cleveland by October of 2025.

Business operations and strategic development will also be centralised in Cleveland. We believe this major transformation will deliver a significant and rapid step change in profitability for the business. As I just outlined, it is going to be a significant cost savings, but in addition to that, it really sets the stage on a vehicle for creating enhanced manufacturing capabilities in Cleveland. This is what's going to differentiate us from our competition.

We believe we will need these eight objectives to deliver world-class capabilities to meet our future growth targets, starting with a winning team, engaged agile team, attracting that talent and retaining them in a culture of purpose, focus and recognition. A safety first culture safety in everything that we do, and providing a clean and well organised organisation that our employees can feel proud of. Environment, a focus on sustainability by setting targets to reduce our emissions and waste, including material movement, freight, having dedicated net-zero teams across the business to identify and execute on opportunities to meet and exceed those goals.

As an example, and I think it was previously mentioned, our next generation of hybrid tooling is expected to deliver a 50% reduction in energy consumption during shell molding. Lean manufacturing, operating in a lean environment, improving our workflow, moving from a push to a pull system, results up reporting and using standard work so that all of our processes across manufacturing are consistent. Having a turnkey operation. By that, I mean everything that's needed from start to finish to build a helmet. That includes DoD compliance, soft goods capabilities.

This gives us the flexibility and agility to meet external events and to get product where it's needed, when it's needed. We've talked about the quality that's required for our products. Our products need to work every time the first time, so we need quality systems embedded throughout our manufacturing and operations that meet the stringent requirements of the DoD, but all customer specific requirements. Finally, operational excellence.

That means an improved utilization of our workforce, effectively managing our inventories, getting those inventory turns up, so that we have more cash to invest in the business, lowering our costs, improving our margins and bettering our profitability, but also maintaining excellent customer service. We believe that these objectives are going to provide the foundation for rapid and sustained growth that's been outlined here today and that's what I have to say. With that, I'm going to turn it over to Paul Hamilton.

Paul Hamilton: Good job. Good afternoon everybody. All right. As Amy said, I am Paul Hamilton. I am the President of Operational Excellence and Continuous Improvement for Ultra, for Avon. Hello? All right, maybe I shouldn't be joking. Yeah, and I'll be before you just talking about operational excellence and continuous improvement and how it's the greatest tool, transformational tool to industry and how we here at Avon are actually deploying it.

Operational excellence, again, you heard all my colleagues talk about it's a systemic way of delivering gold standard quality to our customers on time in full and being able to do it repeatedly and creating a sense for us, when our sales teams is out front, they're able to actually give our customers actual times that we can deliver and we execute to that time. The term Kaizen, Kaizen is the Japanese term. It stands for change for good. Outside of Toyota, it's known as continuous improvement.

That is an awesome tool that we're using here at Avon, because it will allow us to transform not only the plant and our business but the culture as well. It allows us, from a cultural perspective, we are training our team members on how to identify waste, how do we improve their processes and creating a platform where those folks can actually, from the ground floor, be able to communicate opportunities and barriers for us to remove. I think you heard about our mission, vision and values.

You heard a lot about our strategy. I think the best way to show you all is Kaizen in action. This Kaizen activity took place out of Cleveland at our Team Wendy plant. As you can see those smiling faces there, I have to tell you that picture was taken on day number five. It was a five-day activity. On day two, they probably didn't have so many smiles, but because the work is focused and the team is cross-functional, everybody's actually able to realize that we achieved a lot by focusing in on a task.

I'll share some of the results with you all later. But this team was challenged with some deliverables of reducing cycle times, improving single piece flow as well as increasing throughput. And this was in our helmets' assembly line. I'll give you a quick overview of Kaizen activity. It starts on day one. We actually mapped the process out, so we can identify and agree cross-functionally what the as-is state is. After we get through with that, we identify heartburns, waste, improvement opportunities.

Then from there, we actually prioritise them. We rank them, and then we actually develop go do teams. We actually go deliver on the plan for the week and then at the very end of the week we share our learnings in this activity, this is an actual picture of the process flow that we use. We still use sticky notes. It's something about getting to the board as a team, cross-functionally and seeing the process mapped out, seeing it to where you can actually communicate the actual opportunities.

Those opportunities are identified in the pink notes. I'll share with you two of these, two of the examples of what the team came up with to actually realise the benefits that I'll show you here next. The picture on the right there, that's a diagram, it's a material flow of how one helmet travels through the process before it is completely made in one week and then shipped. It tells you where the process was identified. The picture there on the right is a picture of our helmets sitting on racks and they come on and off the rack about eight times through the process and they travel about 1,590 feet.

That's pretty far for a process. They're stored for 24 hours for cure time. That's 24 hours added to the cycle time or the delivery time. I'll jump right to some of the improvements. Before the Kaizen, one helmet took 20 minutes. There was 12 operators, they produced 120 units. There was 652 pieces of inventory on the shop floor. That's 12 racks with 56 helmets on each rack at any one time. Again, like I said earlier, it takes one week, you have one week cycle time or one week lead time from the time it's pulled from our stores to the time it actually shifts to the next process.

After the Kaizen, and again I'm sharing this with you all because this is the power of Kaizen. This is the power of what we are implementing. By the way, this is just one of 79 Kaizen events that we undertook at the tail end of '23. You can see, we have 15% cycle time reduction. We had 220% productivity improvement, that means eight more units per day, half the number of operators, right? You got 220% productivity improvement. We had 82% inventory reduction. You may ask, "Well, what does that look like?"

In the circle there, that's around $250,000 savings just on inventory reduction. This is one Kaizen of 79. Plus, we get margin improvements. Everything that we're doing, again, we're focusing on scrap reduction, we're focusing on improving our turns, we're focusing on inventory reduction. Those are key there for us. As I wrap up, I got one more slide to share with you all, the thought of how do we actually take the strategy plan, the strategic plan and deploy it into our plants? We implemented something called a strategy execution Kaizen funnel.

This allows the plant to have a girth of work that's prioritised, properly resourced, in line with all the other programmes that we have to deliver on so that we're not under-resourced, but we can actually get quick results and it has very, very low risk to these. The difference in a programme and a project, programmes are really, really large, really, really impactful. You have to apply a lots of resources. The project or a Kaizen event is actually quick. It's short. We're actually fixing real problems that are happening on the shop floor.

This would be my last slide before I turn it over to Rich there. Again, we generated significant improvements financially and operationally just in this early launch. We're only just finishing year one. We have a group midterm targets of, again, you heard it through and through, it's thorough, it's embedded deep in us. We want to reduce scrap by 60%. We want to have a 25% productivity improvement and we want to increase our turns greater than five, like 10, right? Again, from that perspective, we have targets.

They may seem lofty, but we have an execution approach that will allow us to deliver and utilise our team members, because CI will not last without converting the culture, right? Thinking transformation must take place before plant transformation. With that, I will hand it over to Rich.

Richard Cashin: Cool. Me again, promised I'd come back. By the way, if you see Paul in the tech showcase later, be nice to him. He wrestles wild animals for fun. It's true that. I just wanted to close out the transformation session with a very quick case study on functional excellence, a few words on some of our other initiatives, a look at the way we seek to apply investment discipline rigidly across the business. Then finally, a reminder of where we are in our transformation journey.

On the slide here, this is an example of a process we kicked off in the finance team last year. We actually finished it, so we closed it out in January of this year. The underlying driver here was, it wasn't directly focused on cost saving, it was really to make sure that the finance team was aligned with the new divisional structure that was put in place. In other words, did we put resources? Have we got resources in the place we need them in order to have the maximum impact and to ensure that we deliver against our strategic priorities?

Bluntly, the answer was no. When we started, there was a whole reason behind that. We were very centrally heavy. There was good reason why that central weight was put in place, but we frankly don't need it anymore. The summarised version is, not withstanding the fact that the finance team was extremely capable and generally speaking, very, very busy, as a result of going through this process, we identified that some resource was in the wrong place. There was a lot of stuff that was getting done that felt like it was good stuff, but frankly we didn't need to do it.

It wasn't adding any value. We were producing reports that nobody was reading, myself included, mainly because I didn't understand them, and so we've stopped it. We focused instead on making the process as efficient as we can. In fact, we haven't yet done a Kaizen on finance, but we're going too soon. To the home team, you can look forward to this. But the intent is to get internal reporting cycles down from what is basically a seven-day reporting cycle now at the end of the month, two days. That's the first Kaizen and the second one, we'll try and get it down to one day.

But anyway, so we've made big steps here and the net effect of all of this is we've actually taken a million dollars of cost per annum out of the finance team at the same time. Commercial optimisation is actually the least mature of our transformation programmes right now, but nevertheless, we are moving forward. We have gone through the process of identifying some products with suboptimal returns and we've taken action on those, including in some cases where we are not the best provider and where we are not best placed to add the most value to the customer, we stopped doing it. We withdraw from the market.

There are better people out there who should be doing that business, not us. In areas where we have undervalued the amount of utility we provide to the customer, so we've taken a different approach and we've looked at pricing in those instances and there are a few of those lying around as well. We have taken tangible action. There is more stuff we can do in that area and we will continue to do. Also, where we've identified that value differential, it actually provides quite a nice little pipeline of future CI work for Paul to get stuck into.

So how do we take the cost out of that process to make ourselves more competitive in a market where we know we add significant value? Then finally, we're also taking a look at the distribution channels. We have very, very high quality distribution. I've mentioned it once already. I know Steve has mentioned it as well. I know James has mentioned it. We mean it, but nevertheless, there is some value leakage there, and so there are things we can do there to minimize value leakage and instead focus engineering and sales on adding most value to customers.

I'm sure many of you are familiar with the funnel diagram in the top left-hand side of this chart, sorry, it's actually a classic Deming cycle. If you're paying attention on the finance excellence slide, you'll have seen those headings going round the boxes. The point here is that we use this process quite rigidly. The bar chart below is actually based on proper money, proper dollars that we've spent on transformation programmes that we've been doing for the last six or nine months.

I guess what we're trying to demonstrate is that the total spend across these programmes by the time we got to the level one or appraised gate was only at 1% of the estimated cost to complete of the total programme. By the time we got to the plan gate, which is number two, we were only at 2% of the total estimated cost to complete of the programme. Even by the time we got to level three, we'd only got to 4%. What this shows is that we use the process to mature ideas prior to spending real money.

We don't even start spending real money frankly until we get to gate four. We have been through four formal reviews before we commit proper capital to this stuff. We take it seriously that enables us to fail fast and fail cheap, or better, it means that we can add certainty to the process as we mature it, so that we've got a fairly good idea of what the outcome is before we start throwing real money at it. Good progress on a disciplined approach to transformation investment.

Then finally, a quick reminder of the slide that we put up in the full year results presentation. I'm sure most of you'll recognize it. We did say that we would spend nine to $10 million in OPEX this year and one to $2 million in CapEx this year in support of transformation. We also said we'd spend a similar amount next year. None of those numbers have changed. As we drive home the transformation programmes across the key areas that you've heard about this afternoon, we're pretty confident that the amount of money we've told you that we're going to spend is still absolutely what we think we're going to deliver.

But most importantly, we promised a payback within three years and that hasn't changed either. What this is going to do is it's going to deliver a fairly significant step up in margin in this business in FY26. You're going to see some of the early stages starting to come through in the second half of this year. You'll see a few more come through in FY25, but at a relatively low level. The real kicker here, the real value creation is the programme that Amy was talking about.

This is moving from Irvine to Cleveland. This is groundbreaking. It will have a significant impact on our margin and we'll deliver that in FY26, so you will see a bit of a step change, but the net effect of all of this is that transformation programmes are progressing well. Thank you, and I think I'm handing over to Jos to talk about competitive moat.

Jos Sclater: Excellent. Thank you very much. Rich. We're on the home straight now guys. Don't worry. Actually, when I invest my own money into companies, I am very focused on investing into companies with a strong competitive moat, and it's because I want companies that can withstand the normal pressures of capitalist life, the pressures from competition. In my view, Avon has a very strong and unusually good competitive mode. Firstly, the programme lifecycles. This is a business where from needs determination through to replenishment on a military contract can often take up to 30 years or even longer.

There are sometimes RFQs within this process, but if we get in at the beginning on needs determination, it is very unusual not to be there at the end of the programme, running through production and then replenishment and aftermarket. What we've done on this side is we've put our main programmes into each phase of the programme lifecycle. I'm not going to go through all of these. We've talked loads about them already today, but I would make the point that we have a very balanced portfolio.

We've now got a lot of projects in the production stage, including the two big DoD stages, and importantly, they've gone through FAT approval and production readiness approval. We've got quite a number of programmes in aftermarket and replenishment, which is what's driving that stable replenishment base. But excitingly, over the last few months, we've also got at least three programmes in the needs determination phase. We've got shallow water rebreather, you can talk to Kev about that later, which is going to be funded we hope, by one of the NATO countries.

We've also got a new hood mask interface, which joins our mask to the hood. We think that's going to be funded by a very big customer. And we have a new biodefense mask, also, something that we think is about to be funded by big military customer. We'll tell you once we've actually signed the contracts, but we are very confident we're going to get funding for all of those programmes. The programmes we've already got in production are leading, have led to a very strong order book.

I believe we have the strongest order book in the 134 years of Avon history, but we certainly have the strongest order book since 2013, which is where we've got readily available data. In Q1 2024, we were about $160 million. But since then, you will have seen we have won a number of very large contracts, including another $35 million IHPS order. I'm not going to bring you up-to-date month by month, but if I just add the IHPS order on, we're over 180 million order book now, and it has actually gone up more than that for some other programmes that came in the last month.

Avon is generally either sole source or dual source on its programmes. Most of our big programmes are actually sole source, including on the MARS side and on a number of our helmet programmes. We do have a couple or three dual source ones. Filters, we do bid against another company for every time a block comes out. Similarly, on IHPS, we do bid, although interestingly, that 35 million order we just won was in competition and we did win the biggest share on it. And Gen II is dual sourced, although our share at 60% is actually locked in for the entire length of the programme.

We don't talk about this very much, perhaps because we had a bad experience on armor, but now we're through that. It is worth saying that certification is a major barrier to competition coming into this market. Now all of our programmes, all of our big programmes are already through DoD, FAT approval and DoD production readiness approval. We also do have other certifications though. We have NIOSH and NFPA and CE. Just to give you an anecdote on this, our supplied air system, that system has just been through NFPA and NIOSH.

It took us two years to get from start to finish and it required considerable engineering expertise and considerable expertise on how these regulations are written. We're lucky enough to have someone in the organisation that is very, very familiar with these certification requirements. Because it's so difficult, other people find it hard to get into this market. In fact, we are the only people with a certified SCBA system. We also have excellent brands and we are putting more money behind these. I think we've got the marketing guys here.

Actually, both of the marketing people are new and they are adding real horsepower behind the brands. Team Wendy is a newer brand, but the market loves the Team Wendy brand in North America. It's got a reputation for reliability and it's got a reputation for being very cool. If you're a SOCOM or SWAT guy, being cool, that's kind of what it's about. On the Avon protection side, it's 130 year old brand, with a stellar reputation going through two wars for reliability, cutting edge technology.

We are now pushing these harder and harder, including through our new e-commerce channels, which are growing well. One of the things we've done recently is we have introduced a new patent policy. We love patents. We think they create a great competitive MO, and we want to reward our engineers for filing patterns, because engineers like inventing stuff, they're not so keen on lengthy legal documents, so we feel that they deserve to share a bit of the benefit if we get patents that lead to very good revenue. As a result, we have about 70 patents already granted and we have about 25 in the process at the moment. Again, just to illustrate this with an anecdote, I won't go through all of the areas that we have patented. I was recently very heavily involved in the US Navy rebreather bid. Quite oddly, Kevin and I got dragged into drafting the technical requirements for that. And one of the points we were making is not only are we miles ahead in terms of technology, but we also have patterns around our rebreathers which we believe will give us a 20-year head start on everyone else.

In fact, I was with a customer the other day and I thought I'd lean forward a bit on our technical advantage and I said, "Oh yeah, our rebreather compared to the competitors. It's like comparing a tester to a Model T Ford." And the guy really surprised me. It's a UK Navy guy. He said, "Oh yeah, yeah, the Norwegian Navy told me that." I thought, okay, our rebreather is definitely a long way ahead."

And all that leads to leading market positions. We're the number one in basically every key market that we plant, which is amazing for a relatively small company. We're not yet number one in deep water rebreathers, but that is because there's a big installed base that other people currently have. Over the last two or three years though, we're the only people that have won any big programmes on rebreathers. We're absolutely confident we will become the number one in rebreathers as well, aren't we Kurth?

So in summary, strong certification or difficult certification, excellent intellectual property leading technology as you would've got from Justin and Vasilios earlier, a very large and growing order book, a long product lifecycle with a good spread of programmes across that lifecycle, a very large number of either sole source or dual source contracts and amazing brands that we are building on and developing even further. All of that means this is a formidable company and it's why I believe this company is going to generate great returns for shareholders.

Mr. Rich Cashin.

Richard Cashin: It's a gift that keeps on giving. I promise this is the last time you'll hear from me and I will keep this brief. However, it is a very important section. None of what you're about to hear is new. You've heard it all throughout the course of today, but some of the messages here I'm going to just try and bring together in relative summary form.

As Joss mentioned earlier, we are targeting greater than 5% CAGR revenue over the next four years. This is underpinned by a number of things. So first of all, we've got a solid underlying market. I talked about the markets earlier. We're pretty happy with the direction of travel there, swimming with the current easier than swimming against it.

Number two, we've got a high level of contracted growth, particularly in Team Wendy, but not exclusively in Team Wendy, and that's a fairly strong underpin to the level of growth that we're targeting in these goals that we're setting out today.

Thirdly, we've got targeted new product introductions, in many cases de-risked through customer funding. And actually both Steve and James talked about some of the specific customer funding areas that they're benefiting from now. But this is really important. Number one, it's customers demonstrating that they've got confidence in what we can offer, and number two, they're putting their money behind it. So it's highly likely that they're going to end up buying something at the end of that process. This is one of the best forms of business development you can do so we're super happy about that.

And then finally, a strong recurring revenue base, which frankly we haven't done a very good job at articulating outside of this business over the last few years. Frankly probably because we haven't understood it ourselves. So we spent a bit of time looking at it. We think we've understood it and this is why we're telling you about it now. But that strong recurring revenue base will grow over time as we deliver new product to new customers. So super, super happy about growing faster than the market and comfortably above 5%, we think.

And just tipping a hat to returns. We've actually worked hard to level off the cost base, particularly in Avon Protection over the last year or so, down to a level that supports the recurring revenue base alone. Now, we don't think we're losing anything on capacity. In fact, we know we're not. But we are gaining on agility. And what it means is that when those big lumpy orders come through; and they always will, but they're going to be pretty unpredictable, we'll be able to deliver them, but we don't need them to happen every year in order to generate sustainable and high quality returns that will make you guys in the room happy.

So comment on returns. Moving on to a nice simple walk. This is a simple walk from our 2023 adjusted operating margin out to the guided range of 14 to 16% by 2027. And the first blue bar is transformation. This is the range of programmes that we were talking about earlier and the two key things I want to tell you about this bar are, number one, a reminder that the biggest proportion of that bar is absolutely footprint optimization and that number two, as such, the real benefits of this will really kick in from 2026. We'll see a step change between '25 when we'll see some low level benefits kicking in from some of the other transformation programmes to 2026 when we'll get a full year impact of that footprint optimisation programme.

The next bar is all about growth. So this is the greater than 5% CAGR feeding through into operating leverage. I can tell you that the largest component of this, perhaps unsurprisingly, also comes from Team Wendy. We've got a lot of contracted growth. It's going to happen as long as we can execute. And Team Wendy is also in that slightly problematic situation, although you might look at it as an opportunity if you're Joss, where it loses money.

As we start delivering the growth, as we get through the CI programmes that we've been talking about and as we start getting the operating leverage that we know we're going to get, moving from losing money to generating a healthy margin is what that next bar is all about.

And then the third bar, the red bar is a whole load of other stuff. Number one, the first two blue bars or green or whatever they are, do assume that quite a lot of things are going to go right. In reality, life is going to get in the way, right? Things are going to go wrong. We'll break something somewhere along the line. And so we don't know what will hold back margin yet, but something will. We know it will, so there's no point in over-promising.

Secondly, we want to invest in continued growth organically. That comes in the form of R&D. As you know, we expense most of our R&D now and we would like to see R&D grow over time. So that will be a margin headwind and that's okay. That's a high quality margin headwind that we're very happy with. And then thirdly, and we touched on this earlier, but if we can improve the competitiveness within our business, we will start to be able to move into markets that historically have been quite unattractive to us from a value perspective.

In other words, we have been uncompetitive in those markets and so people have chosen other products because they're cheaper. This doesn't do an awful lot for margins, but it absolutely will do an awful lot for returns. So we'll improve our returns on invested capital as a consequence of being able to grow revenue faster.

Moving on to ROIC, and this is in my view, the most important of the targets that we set out. I think it's a fairly simple ROIC tree. Joss thinks it's quite complicated, so I'm going to take him to one side later and we'll talk through it, but I'm assuming that you guys will keep up.

The first point is we've set out a case of revenue growth of greater than 5%. We think that's very sensible. It's got the underpins that I spoke about earlier. But the corollary to that on the investment side is that deep down we firmly believe that this business is already very well invested, therefore we don't need to spend a load of CapEx to build capacity to meet that growth. A lot of that capacity is already here.

The follow-on obviously is as we work through continuous improvement and manufacturing optimization, so our efficiency is going to improve. Our capacity for a given level of resource will also improve. So that clearly generates pretty good and instantaneous returns that we like. And then on the investment side ... You changed this chart, didn't you, Gabby? I don't understand it anymore.

Clearly, well, the last bit that I really wanted to talk about actually is debt. We've got a target debt level of one to two times EBITDA. That's all very well and good. As we reduce debt over time as a consequence of delivering better returns, we'll get a short term benefit to EPS obviously because we'll pay out less in interest. But critically in the longer term it frees up growth CapEx or growth investment money to go and explore additional areas of growth. So I think ROIC is super important and we are very comfortable that we're going to be able to deliver greater than 17%.

Finally in bringing it all together, 5% growth. At least 5% growth. Very comfortable with that. Operating profit rising to mid-teens. Very comfortable with that. ROIC moving above 17%. Very comfortable with that. Cash conversion at that level of growth 80 to a 100% is about right. If growth goes much above 5%, maybe cash conversion will dip down a bit, but that's for good reason. Actually, it might accelerate. It depends how successful Paul is on inventory returns.

And then finally on one to two times leverage as I think I might've intimated earlier, that's a very sensible long-term run rate for this business. It means that we can run an efficient but not a stretched balance sheet and frankly with debt costs where they are right now, if we drop below that efficient range for a period of time, I won't be too upset about it.

So as you've seen, we've been through the presentations today. We don't need absolute perfection for this to happen, but we do clearly need to maintain a lot of focus on the key moving parts. And with that I'm going to hand back to Joss for some closing remarks and then we'll open it for Q&A.

Jos Sclater: Excellent, thank you. Rich. Only one summary slide and I'm actually not going to go through it because you guys can read through it probably as well as I can talk through it. What I would perhaps want to talk about is emotion, which is a strange thing for A CEO to end on perhaps, but last year was tricky at times and actually there was more to do than perhaps I could see from the outside. But the last three, maybe three to six months, I have been feeling a lot more confident about the ability of this business to deliver. That's perhaps because we got the team settled down and we have got an amazing team and I've just spent the last day and a half with them and they are very motivated to achieve our goals and they are super energetic with a strong desire to win.

And I actually think it is the clarity of the strategy and the motivation of the people and the capability of the team we built that gives me the confidence now to come out to you guys with some medium term goals that we absolutely believe we're going to be able to deliver.

So with that, I'm going to hand over to you guys to ask questions. Everyone apart from Richard Paige because his might be difficult.

I'm only joking, Richard. You go for it.

Richard Paige: Thank you for that. After previous interactions and after today's hearing, I think this is the best CEO/CFO combination. So hope that it holds to value.

Richard Cashin: Thank you.

Richard Paige: Two simple questions. We've heard R&D and IP and intellectual again and again. Over the next three to five years probably until let's say 2027, what is the R&D spend that we are going to spend and how much of that is going to be basically funded by clients?

Richard Cashin: So we target gross R&D of four to 7% of revenue. Right now we're clearly at the lower end of that. If we stay at the lower end of that, it's either because we're growing really quickly or it's because we've run out of ideas. I'm pretty sure it won't be the second one, but I would actually quite like to see that percentage increase. As the guys said, they're actually working through a pipeline of up to $30 million of funded R&D over the next few years. I haven't done the maths year by year to work out how much of that would be customer funded, but a decent ratio would be around 20%. I'd be quite happy if 20% of R&D was customer-funded.

Richard Paige: Good, thank you. And from what I gathered if I was paying attention is that a lot of the volume growth is coming by going to adjacent markets, which are high volume but probably lower priced. Is that right?

Jos Sclater: I would not say a high proportion is in that category. In fact, I'd say it's very much on the fringes at the moment. We do have an opportunity to sell masks into Brazil, for example, is a potentially interesting market for us. And in the past we've thought that's too price-competitive as a market. But what we have found out is that once we get to a certain level of volume, if we put more through the factory, we make very, very good returns on it. So I think we're not going to not sell to a country like that because it's margin diluted because it does actually generate as good cash, good returns. That might give us a little bit of margin dilution, but we're talking around the fringes here. Perhaps we shouldn't really have mentioned it. It's not key to the strategy.

Richard Paige: Do we have a CapEx number, if at all, over the next three to five years?

Richard Cashin: So we give you CapEx guidance out one year. We'll continue to do that. We might even push out guidance for a second year next time round, but I'm not going to second guess what CapEx might be. My comment that I made in the last section though is true. Fundamentally this business is pretty well invested. as we've gone through the DOD programme ramp ups in the Team Wendy business we've put a lot of capability and CapEx in there. As we've gone through that process, interestingly, we've identified some fairly seismic shifts in manufacturing techniques that are going to make every incremental bit of CapEx in that business significantly less expensive than what is currently there and more efficient. So we're pretty excited about the direction of travel for CapEx, but at its heart we're pretty well invested.

Richard Paige: Thank you. I'll shut up for now. I'll come back in round two.

Jos Sclater: And actually you've give me an opportunity to pick up Vasilios. I don't know where he is. But Vasilios has invented something we're calling hybrid tooling. I would explain that to you, but I'm not going to because it's so cool we see it as a competitive advantage. But what it does do is it halves the cycle time on our presses for the same output. Or to put it another way, it doubles throughput without any extra CapEx. Vasilios is worth its weight in gold. It is super cool. When's it going to be working Vasilios?

Richard Paige: Kind of heavy, you know?

Jos Sclater: No, no, no. I may have said it. No, it literally just takes a press and it doubles the rate that we can get molding out of the press.

Richard Paige: And it molds faster?

Jos Sclater: It does do that, yeah. But now you're verging on the competitive bit, so ...

Richard Paige: Thank you.

Jos Sclater: Sorry Andy, we'll come to you.

Andy: Thanks to the team for all your presentations. The respirator face mask ... I'm using the wrong terminology.

Jos Sclater: No, no, we understand. No problem.

Andy: MFMC 50. Are there any differences between those? That's my first question. Or is it the same product.

Jos Sclater: Can we ask Steve to answer that?

Richard Cashin: Yeah.

Jos Sclater: There are. That's why I ask...

Andy: Can I just get my questions out because they might be related?

Jos Sclater: Yeah.

Andy: You mentioned that in theatre competitor failures. Can you give us an idea of where those points of failure are on the other helmets? That's a Wendy question. And just I assume your helmets will be more expensive than the competition. How do you price them? Is it cost plus or is it an adjustment based on lives saved over competitive product? How do you build up that price?

Jos Sclater: Well, it is always interesting coming into a defense company, this one included, because the normal mentality in a defense company is everything's cost plus. We have worked really hard over the last year to change that culture. We have the best technology. Our products are sometimes the only ones that actually work. So in our view, we should be selling on the value we create to the customer. And that's very much something that we've been encouraging in all the bid reviews we've had over the last year.

I wouldn't say we totally got through that and there are actually a few things where we're built to print. We don't really like those, but there's a few where it is really quite cost competitive. But in general, we are more and more looking at what value are we creating for the customer. And rebreathers is a great example. We spent 10 years developing that. We spent $5 million of our own product. It's reasonable to make a decent margin in my view.

Steve Elwell: Do you want me to do the masks?

Richard Cashin: Yeah.

Steve Elwell: FM50, M50, there's a marginal difference related to the filter. That's just to do with DOD specs. C50, we take the ITAR constraints out. So M50 and FM50 have an ITAR level in there, so we can't sell that into a commercial market. So C50 removes ... Specification wise, very, very limited. The users tend not to notice much of a difference.

Jos Sclater: And do you want to talk about the tactical variant? M53 A1.

Steve Elwell: Oh, M53 A1, a much higher specification mask typically used in special operations type forces. It allows you to put a supplied air-powered air breather. If you run through the back, we can get you running around with a powered air breather on if you want to try that out. That's typically for long duration missions where you're going to be working particularly hard. So we'll provide power through the filters and help you to breathe effectively, give you

	an airflow, and then you can also upgrade that into a supplied air system. So that's where you're in a low oxygen environment. So of course it doesn't matter how much filtration you do, if there's no oxygen you simply can't operate. That would be something that's pertinent now, for example is rail and tunnel operations. You'll tend to have very, very low levels of oxygen in those environments.
Andy:	Can you just give us an idea of how other people's helmets fail where yours don't? You mentioned it in theatres.
Jos Sclater:	That's probably a question for James, but ...
James Wilcox:	Hello. I'm going to hand it back to Steve actually. We didn't talk about helmet failures in the field. We talked about experience of other masks that had failed in the field.
Jos Sclater:	That's true, yeah. Thank you, James. Short and to the point. What is nice about this business is we quite often get pictures of people holding their helmet that saved their life and you can see where the bullets hit it, but we don't compare our product to other people's product in the field. Vasilios's video did show though that compared to other competitor products; we won't tell you which competitor; our helmets stop the bullet and theirs doesn't.
Richard Cashin:	Mass failures is fairly easy. They do the criminal thing. They leak other people's. So that can be pretty poor filtration or it can be a very poor fit around the face. That's typically where they fail.
Jos Sclater:	Very good. And Andy?
Andy - Jefferies:	Good afternoon. It's Andy from Jeffries. Three quick questions please. You've talked about potentially the opportunity for regional manufacturing. Is that sub-assembly, assembly heavy manufacturing? Because your commercial international markets clearly very potentially big, risky maybe. But do you guys make everything in where you make it now and then finish it overseas or is there a big CapEx plan?
Jos Sclater:	I think it's very likely to be assembly and finishing. And we actually already do that for one of the European markets on masks where we ship a kit and they assemble it. So we know how the model can work. But there is a very big notion, and we don't want you to get super excited about potentially big orders because they often slip. But there is a big notion where they definitely want our masks. They're very likely to want in-country assembly and we're certainly thinking about that.
Andy - Jefferies:	Perfect. And can you explain to us why your distribution platform on route to market by distribution is so much better than any other people? To be perfectly frank, and I've known you for a long time, I didn't quite realize how much goes through distribution. So maybe you could just help me understand.

Josh: Yeah, I'm glad you asked that because I had a slide on it and the broker said no one's interested in that. I took it out.

So no, Sam and Mike at the back. The great thing is we have an absolutely commanding market share on masks and that has given us the strongest distribution channel. It's given us the distributors with access to state funding around all the police forces in the US and it's given us a really strong set of distributors around the NATO countries because they all want our masks. There's no one else's masks that's frankly any good. This is recorded, isn't it?

So because they're already selling our masks, it gives us an opportunity to take the Team Wendy helmets, which is also a great product, but it's less mature internationally and we will start increasingly using our channel to market to scale up the sales of our Team Wendy products. And we've already done that in North America because we already now moved Team Wendy from its own distributors and they now use the respiratory distributors. So we have one common channel that gives us more leverage with the distributors. It gives us better economies of scale with the distributors. It just makes us more important for the distributors.

Andy - Jefferies: And then last one. You can generate tons of cash. You've got loads of organic opportunities, top and bottom line. We haven't talked about M&A, which I'm assuming is because you don't want to talk about it, but there was one slide where you talk about developing partnering for next generation technology. Is that the best way ahead or can you bias that?

Jos Sclater: I think it's the best way for that. This is an organic strategy. My view is until we have proved that we have the ability to deliver superior execution with our own companies, we shouldn't be trying to fix other people's companies. However, three years down the line, I absolutely expect this team will have demonstrated that we can execute the strategy. At that point, absolutely we will look at other companies, but I need Paul to be able to demonstrate to me he can get inventory terms from three to a long way above five and I need the team to demonstrate we can execute. But if we get a model where we think we can reliably go into a company with inventory terms of three and get cash out of them and we can go into a company and teach them how to agree strategy and teach them how to deliver, then absolutely if we can create value for shareholders, we'll be back in the game. And as you know, Andy, I actually have an M&A background, which is why I know that most M&A is actually value destructive. So we're going to wait until we're sure it's value accretive.

Andy - Jefferies: Thank you

Jos Sclater: Richard, you're not really bad. I was only joking.

Richard Paige: I feel under pressure. I know my limits. Just coming back on the margin point. And I guess there's two parts I want to ask you on. Customer willingness. Obviously you spoke about value change, but on the larger contracts, government customers, are they really willing to provide a value approach to how you would price these things?

Jos Sclater: Often our contracts are not technically cost plus, so they are treated ... If there's competition then we can price it on its value. And bear in mind we think we will have the most efficient helmet manufacturing plant in North America, won't we, Amy? And on top of that, we already have a very efficient mass manufacturing factory.

So I think it is reasonable for us to make decent margins and they're not programmes that are limited by some of the government accounting rules that keep you down at 8% net margin. We're not in that zone.

Richard Paige: Maybe a slightly unfair one in terms of the differential between the margins at the moment, between respiratory and Team Wendy. 14 to 16% target. What should be the natural differential between those two businesses?

Jos Sclater: This is always a trick question, this one. We're well aware that with respiratory margins where we are, 16%, then Team Wendy needs to get to, I don't know, 12 or 13 or something. I think it's not going to be the same margins every year. We're comfortable with where we've guided to. I don't want to say, yes Team Wendy can get to 16 and therefore we're going to get to 20. We're happy with the margin guidance we're giving. We're not going to split it between the two divisions for you. Sorry. Nice try.

Richard Paige: And just the last one, in terms of the ACH and IHPS contracts, obviously you've won more than your fair share given competitive position on that. Does that change how we should think about the five-year profile of those two contracts?

Jos Sclater: I don't think so. It is though a fair question. On the sand charts, we actually assume we'll win 50% of IHPS across the period. But of course immediately we produced the sand charts, we won 60% of the first one and that actually takes us out all the way to the end of 2025. So I think there is an argument we've been a bit conservative on the sand chart. Not intentionally. We're not trying to mislead you. It's just the timing. We put the deck together and then about two days later we won 60% of the first block. It was a great day for us. It could have perhaps have gone either way. Again, we won that I think because not only are we reliably the best, we deliver on time, but also we are going to have a fantastically cost-effective manufacturing base, which helps us.

Richard Paige: So you brought up sand charts. I'm going to nip in another. Just on the M50, what are your assumptions are on the recurring revenue within that?

Jos Sclater: Oh, that's another one where actually the assumption is actually a little bit lower than what the DODs now told us, but it's not material. But we've said to you guys before that the DOD had gone down to about 10,000 miles a year. Actually, that has gone up a bit. Steve did mention it. Not massively, but they are now indicating they're going to buy about 15,000 a year. So percentage-wise it's massive. It's 50% increase on what we previously thought. But actually it's quite immaterial in the scheme of things. But what's important about it is not the quantum. It doesn't make much difference. What's important about it is the direction of travel. That's what's interesting. We're starting to see the DOD ordering more from us as part of replenishment and that is good news.

Richard Paige: Thank you.

Jos Sclater: Thanks Richard.

Gabby: Any other questions?

Jos Sclater: Oh, there's one over here. Yeah.

Unnamed speaker: Which premium do you recommend a bid?

Jos Sclater: This is not a strategy to sell the company. This is a strategy to grow the company. Any other questions?

Gabby: Do we have any questions from online? I'm sorry, there's one here.

Unnamed Speaker : Can I just follow up on the potential move to outsource to have local manufacturing? Given you've got a business that relies hugely on quality and hugely on reliability, how do you ensure if you subcontract the manufacturing into wherever that you can maintain your control on that?

Jos Sclater: Well actually Vasilios talked about it, and Steve. We don't subcontract a lot. That's one reason why we're such a great supplier because we are highly vertically integrated. We go all the way from raw sheets to polyethylene to a finished helmet and we all go all the way from raw rubber to a finished masks. So all we're buying is polyethylene and the suppliers, Honeywell and DSM. So they're very reliable suppliers and we buy rubber, which we do have a very reliable longstanding supplier. In fact, I think we used to be part of the group, didn't they?

So the reason we are such a great supplier for our customers is because we are vertically integrated all the way through. It gives us better quality control, it gives us more supply chain reliability and it will enable us to get inventory turns up.

Unnamed Speaker 2: So that manufacturing would be your manufacturing in the local.

Jos Sclater: Yeah.

Unnamed Speaker : Okay, thank you.

Gabby: Okay, if there's no more questions on the floor, we've got three questions from the webcast.

Moderator: Thank you. So a couple questions from online. First one. Net depth is listed as $85 million on one analysis website. What are the timescales and plans to reduce this significantly? Are we close to breaching any company covenants and how much cash is being invested in the recovery phase?

Richard Cashin: So goodness, there's like four questions there.

Moderator: Yes.

Richard Cashin: So gross net debt including leases, I think it's about 82 or 83 million at the end of FY23. Clearly from a bank covenant basis, the banks look at net debt on a pre IFRS basis. So in other words, leases and so on are excluded. And actually on a bank covenant basis we were below two times at FY23. So no, we are nowhere near breaching bank covenants. That's easy.

I think the amount of investment in the transformation is what we talked about just a few slides back. So nine to 10 million of OpEx this year and one to 2 million of CapEx and a similar level next year. And then it will drop like a stone in FY26.

Moderator: Thank you. And then another one here. Has Avon seen positive results selling directly to consumers?

Jos Sclater: I could answer that but I feel ... Actually yeah, one of you guys answer it.

Steve Elwell: Sorry. Is this working? We've dipped our toe in that market. I would say yes the direction of travel is very good. I think we've got more to do to really understand how to sell and operate in that market, but our trajectory is actually really positive and we'll maybe have some numbers on that towards the end of the year once we've seen it. But yeah, I think it's been a positive move so far. There's definitely a demand for our masks. I think Jos just touched on it. It's amazing the feedback on how many people want to wear a mask just because it does look pretty cool and that does sell.

Jos Sclater: Tash is at the back if you want to have a chat with her about our e-commerce strategy but it's growing fast, isn't it, Tash?

Moderator: Okay. Our last question here. What percent of the company do management own?

Jos Sclater: Oh wow. I don't know. Quite a lot. In my case it's about two years' worth of net salary. If I can do it that way but-

Richard Cashin: And ditto for me.

Jos Sclater: Yeah, I do know that Interactive Investors is the 10th biggest shareholder and we both bought stock through that.

Richard Cashin: Ninth now.

Jos Sclater: Yeah.

Gabby: Okay, I think that's the end of the questions. We'd really like to invite you around to the back room. So through back through reception to come and see our technology showcase. You can try on some helmets and some masks and see some of our innovation.