Avon Protection

Year End Results

15th December 2021

Transcript

Paul McDonald: Good morning, ladies and gentlemen, and welcome to our 2021 year end results. For our agenda this morning, I will start with the key headlines and we'll provide further details regarding the strategic review of armor. Nick will present the 2021 financial results, including the financial impacts of the strategic review and our 2022 outlook, following which, I will talk about the group as it moves forward and the medium-term outlook, and we'll finish with questions from those of you that have dialled into the conference call.

Paul McDonald: 2021 has been both a difficult and challenging year for Avon Protection, and I'll talk in a moment about the events that have led us to this strategic review of armor business and our conclusion that an orderly wind down is in the best way forward for all stakeholders. We're now refocusing the group on respiratory and head protection, where we have strong, stable and growing business for the future. Whilst most people have focused on the challenges of body armor and the supply chains during 2021, this has masked much of the progress we've made across the rest of the group. Over the year, we've invested significantly to improve our operational capabilities as we adjust to being a larger business and we've made further progress with our organic product portfolios and is the reason why both I and the Board remain confident in the medium-term prospects for Avon Protection.

Paul McDonald: The decision to review the armor business followed a combination of events. This started in December 2020, with a single shot failure of the legacy body armor product, DLA ESAPI at first article testing. Then as you all know, last month, we experienced a further single shot failure with our follow-on body armor product, VTP ESAPI. Meanwhile, there have been further customer delays in completing the DLA ESAPI approval process, and collectively, this has created a challenging combination of events that calls into question the commercial viability of this part of the business, and hence why we've taken the time as a Board to consider our options and review. This has been especially challenging as we've had to try and ascertain the reasons for the failure and discuss with our customers as there a combination of technical, financial, people and timing challenges to consider in order to find the best and most amicable outcome for all parties involved.

Paul McDonald: I'd like to take a moment to explain some of the history regarding body armor and clarify some of the details around this issue. We bought the Ceradyne helmets and armor business from 3M back in January, 2020. Whilst our primary interest was the helmets business, we regarded armor as a sensible adjacency to helmets and one that should be cash generative and were happy to support. Historically, it had been a long-term provider to the DOD and had delivered over $500 million of revenue from DLA ESAPI since 2007. And we'd also delivered $70 million of the VTP ESAPI under the low-rate production contract prior to the acquisition. Some investors are confused between the difference of DLA ESAPI that was in service from 2007 and the new VTP plate that will be the long-term replacement, so we've highlighted the differences on the screen.

Paul McDonald: The VTP is a lighter, thinner plate with a different shape profile, and will replace the DLA ESAPI over time. Having been awarded a share of the four year $704 million VTP ESAPI contract in 2019 before the acquisition, it was known that the customer had mandated a change to remove the aluminium crack arrester, which is highlighted in black on the screen.

Paul McDonald: This was mandated for all body armor suppliers by the US DOD and was not expected to be a significant technical change but has turned out to be the heart of the challenges that we faced. Following the first article test failure of DLA ESAPI this time last year, we undertook an engineering review resulting in a number of changes to strengthen our products and improve our engineering and testing processes. We brought in an external expert to assess the technology and our engineering processes, we added greater contingency to the product which strengthened the products from the previous designs as highlighted on the screen, and we improved the quantity of testing and improved the testing consistency by using the government range for all pre first article testing to minimise variation.

Paul McDonald: This collectively verified our designs through statistical analysis of test data and substantially expanded the testing we do ourselves before going into the official testing process with the customer. For the DLA ESAPI, this means it's moved through the ballistic testing stage of first article testing, which I can confirm we passed in August. We applied the same learning to the VTP ESAPI plate, and having tested over 800 plates before submission, we went into the official testing with a very high level of confidence that was underpinned by our pretest data.

Paul McDonald: The failure was on one shot, having passed a pre-test at the same range only a few months earlier. And whilst I'm sure you would like to understand what has caused this, our conclusion is that a form of unknown variation caused this failure, which neither we or the customer can explain, even today. The single incidence failure is something very difficult to address as unlike last year, there is not an obvious list of further remedies and we cannot identify what caused this failure. We've therefore considered our three options. Redesigning the VTP plate and trying again, selling the armor business as a going concern, or winding it down, followed by closure.

Paul McDonald: Looking at those in turn, if we consider option one, the customer process to revalidate will take around 12 months and cost up to $3 million, which is in line with our expectations from 2021 and will essentially be a repeat of the process we have conducted this year. Without a clear understanding of the cause of failure, it's very hard to redevelop the product with confidence and at the end of that time, there would be no guarantee of success, and crucially, the VTP contract ends in March, 2023 so there will be further ongoing uncertainty regarding the timing of future orders. Whilst we believe, like other suppliers, we will get there eventually, the timing and investment remains uncertain and we believe there are greater opportunities to focus our resources on that will add further and greater value.

Paul McDonald: The second option is to consider a sale of the body armor business, which would allow someone to take on the above risks. Whilst the number of plausible buyers is limited, on balance, we think it is unlikely and will take time due to the regulatory approvals and customer consents. However, without the VTP product approvals, this business has limited short term revenue visibility, so we believe it is unlikely to achieve an acceptable value.

Paul McDonald: The third option is a wind down and closure of the business. The customer was not expecting this failure and has confirmed they would like us to complete the approval of the DLA ESAPI and deliver the existing $20 million order once testing approval is finally received, which is expected in the coming months. We're then expecting a further $20 million order once product approvals are in place, making a total of $40 million of orders, which will take up to two years to complete. On flat armor, which has revenues of around $6 million per year, we'll negotiate the end of the contracts to provide a smooth transition to alternative suppliers. Once our customer obligations have been completed, we will close the armor operations, which is expected to be towards the end of 2023.

Paul McDonald: Our conclusion is that option three provides the best solution for all parties involved. It will allow us to complete the current contracts and provides our customers the continuity that they need and maintains our relationship with the U.S. military. Our employees will have certainty, and for shareholders, it also prevents further cash outlay and provides certainty for the future. I'll now pass over to Nick, who will pick up on the financial impacts of this decision, and then move on to the year end results.

Nick Keveth: Good morning, everyone. I'd like to start by putting some numbers around what armor contributed in 2021. The table shows the split of business between armor and the core respiratory and head protection business. As you can see, armor has made a relatively small contribution to the top line with the $6.5 million of revenue in 2021 being entirely flat armor but has made a significant impact on the bottom line in margins, given we have maintained the cost base ahead of the expected ramp up of body armor contracts. Stripping out the armor operating loss of $10.5 million highlights the underlying performance of the core business.

Nick Keveth: As we wind down the armor business, we expect approximately $25 million of revenue in FY22 and a similar amount in FY23, being $20 million of DLA ESAPI plus around $5 million of flat armor in each year. Timings of DLA ESAPI revenues depend on receipts of product approvals, which we now expect in our second quarter. At this level of revenue, this business is broadly breakeven with low single digit millions of EBITDA expected. The net cash costs of closing the armor operations and right sizing the rest of the Group is estimated at between $3 to $5 million. We are targeting a $15 million reduction in overheads following closure. Approximately half of that is directly related to armor and will be realised in full following closure of the business, with the other half relating to right-sizing the retained organisation, which will be realised progressively through FY22 and FY23.

Nick Keveth: From a balance sheet perspective, there is an impairment of armor assets of $47 million, partially offset by a reduction in the contingent consideration liability of $16 million, resulting in the net exceptional of $31 million. There is no impairment of the goodwill arising on the acquisition of the Ceradyne ballistic business or of the assets related to the Ceradyne helmet operations.

Nick Keveth: Our balance sheet will continue to show the lease liabilities related to the armor business of $12 million. We will seek to sublet the three buildings used in the armor business to mitigate these lease costs. We expect to continue to report the armor business as a continuing operation during the current financial year as required by IFRS, with the business expected to be classified as discontinued once the exit has been completed. In the meantime, we will provide full visibility of the armor financials and the underlying performance of the respiratory and head protection business.

Nick Keveth: I'm going to cover the usual slides for our 2021 performance, but I'm aware that we gave you the headlines back in our post close in October. So, there shouldn't be any new news here. As such, I will keep my comments on the historical financials brief. Here are the headlines for the prior year. To be clear, all figures for FY21 are inclusive of the armor business. It's worth touching on the dividend, which at the recommended payout represents the 30% increase on the prior year. Over recent years, we have increased the dividend by 30% to reduce the dividend cover to around two times adjusted EPS. Given the performance of the year, dividend cover is 1.3 times for 2021. In recommending the final dividend we have taken into account our expectations that the cover will increase the two times this year and that the dividend will grow in line with earnings thereafter.

Nick Keveth: This revenue bridge shows the benefit of 11 months of Team Wendy, plus organic growth in military respiratory, and first responder, which was offset by a decline in ballistic military revenue into contract base. The decline in military ballistic revenue in a year when we had expected it to grow is the cause of the decline in EBITDA. Our overheads grew due to a combination of including Team Wendy and a four year impact of Ceradyne combined with scaling up for the anticipated growth in ballistics. The net result being the decline in EBITDA shown on the slide. Cash conversion of 83% has been aided by tight focus on working capital, Capex was elevated this year, due to IT costs associated with bringing the ballistic business onto our IT platform, as well as additional body armor product development costs.

Nick Keveth: This will reduce to more normalised levels this year of around $25 million. At the end of September 2021, we had net debt excluding lease liabilities of $26.8 million and gearing of less than one times adjusted EBITDA very comfortably under our bank covenant of three times. While the past financial year has had more than its fair share of challenges the order book has grown strongly. At the start of this new financial year, the order book of $143 million is over $40 million higher than at the beginning of 2021. Paul will talk more about our commercial momentum shortly. However, the level of orders, particularly in the rest of the world military respiratory, mean that we're in a good position for the coming year.

Nick Keveth: Turning then to the FY22 revenue build. The starting point is $242 million of FY21 revenue, excluding armor. We expect the biggest growth contributor to be rest of the world military respiratory. And this is backed up by orders already received under the NATO contract. Given the strength of our opening order book and pipeline of opportunities, we are confident in delivering continued organic growth from the rest of our respiratory and head protection business, as well as benefiting from a full year contribution from Team Wendy. As highlighted earlier, we also expect up to 25 million dollars of armor revenue, depending on the timing of the DLA ESAPI product approvals.

Nick Keveth: The current financial year has had a solid start ahead last year on an organic basis. As highlighted on the previous slides, we have a strong opening order book going into 2022. On the other side, we continue to experience the challenging operating environment with ongoing COVID related supply chain challenges and disruption in customer ordering patterns due to hybrid working arrangements. We are seeking to mitigate these challenges where possible, but for now this is the new normal. Given this backdrop, we are taking a cautious view on anticipated growth with expected revenue, excluding armor, of between $260 and $290 million dollars for the year, being growth of between 8% to 20%. Our EBITDA margin should improve materially as growth starts to come through the top line and we take actions to reduce overheads following the conclusion of the armor strategic review.

Paul McDonald: Thank you, Nick. As many of you are aware, this will be Nick's last results presentation. We are in the advanced stages of appointing Nick's successor and expect this to be announced early in the new year. Therefore, I'd like to thank Nick for his contribution and wish him all the best when he leaves the business next year.

Paul McDonald: Whilst the challenges in body armor dominated the headlines for 2021, I'd now like to spend some time to refocus on the positive growth drivers for the future and explain why we remain confident in the future outlook of this group. As you look at the future shape of the group, the respiratory and head protection businesses, which have been delivering for shareholders are the backbone of Avon Protection. This is where our focus now sits and there remain some exceptionally high quality businesses at the heart of this group. These are both global leading businesses with technology leadership, exceptional longstanding customer partnerships, high structural margins, and significant growth opportunities, both from expanding the geographic customer base and broadening the product portfolio in both product lines.

Paul McDonald: Respiratory protection is at the heart of our group. The industry leading M50 respirator developed by us over a decade ago, still sets the global standard for respiratory protection that has evolved over the last decade. We have a longstanding partnership with the U.S. military, which is our flagship customer. The installed base of respirators means that there's a steady income stream from spares and accessories, as well as replacement products supported by long-term contracts. The FM50 has been adopted by NATO for the 10 year supply contract and will enable further growth opportunities for the decade ahead, whilst mirroring the business model that we've seen with the U.S. DOD in the years ahead. We won the NATO contract in 2020 and are very pleased with progress to date and the wider opportunities this is creating. We currently have six countries placing orders under the contract, totalling $48 million to the end of September 2021, and have ongoing dialogue with three further countries. Of that $48 million, $32 million contributes to the opening order book. So, you can see why we're confident about building international sales and why this will deliver future growth.

Paul McDonald: The head protection business enjoys many similar dynamics to that of the respiratory business model. We have a leading position following the combination of Ceradyne and Team Wendy, with global leading technologies for both the shell and impact systems within ballistic helmets. While Ceradyne are the lead technology provider to the U.S. DOD, as we've seen with respiratory over the last decade, there are further commercial opportunities to be leveraged from this combination and wider crossover into the first responder market and wider opportunities outside the U.S. Focusing in on head protection, we currently have the first generation IHPS contract coming to an end in 2022, which has delivered over $200 million of revenue since 2017. The next generation IHPS helmet is significantly lighter and is the helmet that the U.S. Army will deploy for the future. And we're on target to submit the helmet to go into first article testing in quarter two or quarter three of this financial year.

Paul McDonald: The combination of Team Wendy and Ceradyne is a powerful one. And I can see many similarities to the journey we experienced with respiratory. We have the leading ballistic helmet to the U.S. Army, and are the design lead for the IHPS program. Our technology is at the cutting edge and is where the market will evolve towards in the decade ahead, as the protection demands increase to meet the future threats. Team Wendy and Ceradyne are collaborating on tenders with their complementary specialisms, both in military and first responder products, to broaden the combined portfolio of products to our existing customers whilst expanding the wider geographic customer base beyond the U.S. and has a positive future ahead.

Paul McDonald: First Responder remains a consistent and stable part of the group. Longer term, we see the First Responder and Team Wendy businesses being more closely integrated as they both operate using commercial off the shelf business models, and together they're some of the highest margin businesses within the group. Whilst the First Responder respiratory business has grown significantly over the last five years, we believe there's a significant opportunity for helmets within this user community. During 2021, we developed and launched the F90 helmet for this key segment. Whilst it's still early days, this helmet is proving very popular. It provides clear technical leadership in this segment. And we remain excited by the opportunities this will create in the years to come.

Paul McDonald: We've invested significantly over the past year in products that will help us to win over the coming years. The product developments are in the areas of respiratory and head protection, as well as in CBRN boots and gloves portfolio that is under development. The page highlights a number of products and confirms how active we've been in this area, which is reflected in our capitalised R&D activity. Additionally, we've also invested in our teams throughout the year. There was a lot of positive work to integrate the Ceradyne business from integrating the financial and HR systems to optimising the sales functions and implementing our own version of SAP across helmets and armor.

Paul McDonald: In recognition of the scale of the task, along with the likelihood of on-off travel restrictions, we have appointed a Chief Operating Officer, Steve Genzer who's based in the U.S.. Steve joined us from Ball Corporation where he was responsible for 24 manufacturing sites. And prior to this, he worked for Ansell Products and led their $700 million hand protection business. Steve joined us in September and his impact has been immediate, as we've navigated these difficult moments. And I'm delighted to have him join our team.

Paul McDonald: As a highly regulated defence contractor, you will appreciate and expect a high level of natural governance within our business. However, we are adapting and evolving to the wider expectations regarding sustainability and the change in capital allocation this will require for the future. Avon Protection recognises the responsibility we have and the improvements we can make to evolve our sustainability and diversity performance for the future. There are already some improvements ongoing, such as energy-efficient projects, implementation of ISO 14:001 across our operational sites, and a mentoring program for female colleagues to improve our balance across the group. But it's also clear we have more to do, and plan to put together an actionable strategy, which we'll be able to present this time next year. We expect this to be ambitious, to achieve our vision of being carbon net-neutral by at least 2045 and provide a platform to improve our performance in these areas for the future.

Paul McDonald: Despite the obvious disappointment of body armor, we continue to have confidence in the medium-term and remain optimistic for the years ahead. Nick spoke to you about our confidence in our expected revenue range in the coming financial year that will also enable a rebound in our EBITDA margins. This confidence is underpinned by a range of multi-year contracts for products where we are the global leader. The market beyond the U.S. remains a clear opportunity for us, and one where we are already seeing success that we can further leverage into helmets. This combination of customer relationships, leading market positions and market opportunities gives me confidence in the medium-term and our ability to deliver growth in the years ahead.

Paul McDonald: Ladies and gentlemen, that's it from us. I'd like to thank all of you for listening. Nick and I will now take questions from the conference call as usual, and could you please state your name and company, followed by the question. Thank you.

Operator: Thank you, and if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach your equipment. Again, that is star one to enter the queue for questions. We will now take our first question from Henry Carver of Peel Hunt. Please go ahead.

Henry Carver: Morning, guys. Henry Carver from Peel Hunt. Just a couple from me, and really on the guidance around next year, just trying to get a feel for how that's looking next year and the year after. And first of all, on the NATO, obviously a good level of orders there and some momentum building. Can you just give us a feel for to what extent we're in a rollout phase? Is it more general respiratory kit or is it some of the more specialist niche equipment? And just a feel for how long you see this initial phase playing out, and then I guess longer term with NATO.

Henry Carver: And then secondly, just looking through the prior year's guidance that you've given around what to expect from the U.S. military and where numbers are, it looks like we're a bit lower than the low end of the guidance range for other M50 and other U.S. military kit. Is that correct, and if so, why? And does that therefore mean that there's going to be a better year next year because they need the equipment coming through? Just any thoughts around that? And I guess just the final thing is just, related to all of that, what to look for next year in terms of first-half, second-half split. Thanks.

Paul McDonald: Brilliant. Thanks, Henry. I'll start, and I'll answer the NATO questions. So, of the customers that we've got at the moment, we're now in what I would call the installation phase of the business, rolling all of those respirators out to everyone that will use them. Of those countries that are involved, that's about 400,000 respirators that we've got. So, the moment, we've probably got orders for about 140,000 on there. So, it's a very good start. It really fills this year of the pipeline, and I think what you'll probably see is that will be delivered over the first four to five years of that contract, so we're starting to install that customer base, and with the capacity that we've got globally on respirators, we're seeing about 100,000 a year being allocated towards those customers. So, I think that you will see fairly consistent rollout of that.

Paul McDonald: The one caveat that I would put in there is that, as we've got other customers also coming on, that's going to add a little bit more pressure, and whether we can accelerate and release more of our capacity allocation onto that side. And I think with some of the challenges we're seeing around Europe, that could be something that's probable in there. So, I think that's going to be a positive driver for this year and the next two to three years. And then ultimately as you then get through that installation stage, you'll see the sustainment stage that we've seen in the U.S. as well. As the respirators start to age, they need to be replaced, the spare parts and that side. That contract, just to be clear is for both FM50 and the powered air and the ST54 product range. So, there are the other specialisms that people can use, and having fielded the initial infantry requirements, you are now seeing the higher-end technical products and those orders coming through. So, I think that's where you're seeing the dynamics of that contract.

Paul McDonald: I think the other side, if we just talk about guidance for the moment, 2021 has been a really difficult year for the business. When we had the failure in December 2020, I was sat there trying to predict, what's the year ahead? And I think my view, in very simple terms, was COVID will probably be a bit like what we saw in 2020: a difficult winter, and then we should have fairly clear water from May onwards like we did in 2020. I didn't foresee extended lead times in January. I didn't see a labor shortage. I didn't see a second wave of COVID in the middle of the year, and I didn't see most of our supply lead times moving from the 12 weeks to more like 30 to 40, which is the reality of what we've seen.

Paul McDonald: So, as we sit here, I'm right at the front end, releasing results. Everyone's saying, "What's your prediction for the year ahead?" just as we are here with a new wave, that's another unknown. So, I think what you are seeing is just us being a bit more prudent. I can't guarantee what the next 12 months will look like. I'm probably assuming it's going to be even harder than what we've seen in 2021. Whether that's right or wrong, we'll know at the end of the year. I've just taken this opportunity. It's not from orders and it's not from demand. I think you can see that from our customers. It's, can we actually get the timing of the orders out? Can we get the supply from our supply chain? Can we get it converted through to revenue? That's where I see some of the challenges, and we've got to start hitting our financial forecast to give investors confidence about the financial returns that we can get, and that's what's driven that, Henry.

Nick Keveth: And in that context, Henry, demand from the U.S DOD under all of our respiratory programs is very stable. In terms of half-one, half-two split, we are looking at around a 45-55% split with the heavier second half, as is the norm. That's a little bit accentuated by timing of body armor revenue, which is going to be very second-half-weighted. And we'll have a little bit of operational leverage skew in terms of stronger margins, therefore, in the second half than in the first half. So that's the big picture in terms of the phasing.

Henry Carver: Great. Thanks, guys. Very clear.

Operator: We'll take our next question from Anthony Plom of Berenberg. Please go ahead.

Anthony Plom: Yeah, morning guys. I have quite a few questions. Maybe I'll limit it to three. I guess the first one: do you mind just really, really simplifying the order cover into 2022? So, I guess what is absolutely nailed-on, risk-free revenues, either maybe some that have already been delivered or you just know they're going to come through, I guess what is potentially subject to potential timing issues, and then what do we need to win and deliver within the year to get to that $260 to $290 million? That'd be the first question.

Nick Keveth: Yeah, so we have an order book at the beginning of the year of $143 million, and so that's obviously giving us very good coverage compared to historical position at the beginning of the year for a range of $260 to $290 million plus up to $25 million of armor. From a military ballistics' perspective, we have order coverage in place for all of the revenue that's in-built into that guidance. In terms of the respiratory side, we largely have all the orders in hand in terms of the revenue for the rest of world military that we're guiding towards.

Nick Keveth: You can see on slide 21, we have $35 million of DOD orders in hand. We have a good visibility of pipeline there across all the programs, M50, M53A1, M69 in terms of the FY22 spend. So yeah, there is some timing risk around that. So, we're quite pleased to seen overnight the developments in terms of the DOD budget and that progressing through Capitol Hill.

Nick Keveth: We then have the, obviously, first responder, Team Wendy, which is much more of a run-and-repeat business where we cross that portfolio, take around $2 million of orders a week. That business has continued to have good momentum in the first 10 weeks of the new financial year. We're continuing to see that business deliver and perform. So I guess what's not nailed on, it is that run-and-repeat business in first responder, Team Wendy, which is continuing to trend in the right way, and it is securing the FY22 DOD orders, which we have good visibility watching the pipeline, and if we can get through to a DOD budget very quickly now, which looks like it is, then I think that will come through now quite timely.

Anthony Plom: So, of that, I'll call it, $120 million shortfall to get to that lower end of the revenue guidance, do you have a feel for what needs to come from the DOD and what is from outside that customer?

Nick Keveth: There's not a significant amount needed to come from the DOD to get to that bottom end. We're talking $20 or $30 million, which is very much in the normal swing of things.

Anthony Plom: Very clear. And then just following up on Henry's question, actually, on that 45-55% H1-H2 split, just to be clear, that's on the sales, not on profit?

Nick Keveth: Correct. That's on revenue, and so it'll be skewed slightly more the second half on the profit side, because of just the operational leverage that comes with a more even profile on the overheads. And also, the first actions that we're going to be taking around the right-sizing will be more weighted at the second half as well. So, there's a bit of a dual effect going on there.

Anthony Plom: And then two small questions and I'll hand over. Where does, I guess, coming out of armor leaves us on capitalised development cost and Capex guidance?

Nick Keveth: So, going forward for FY22, we are guiding to around $25 million dollars of capex, between $20 and $25 million, $25 million is a top end. And again, we envisage that being roughly 50% development, capitalised development costs, and 50% of that being maintenance capex across the business. So, that's the shape to expect in FY22 and moving forward.

Anthony Plom: Perfect. And then, just a final one for me. Just on, you talk about growing aftermarket revenue stream, which I get from a high install base, do you have a number on what aftermarket sales were in 2021?

Nick Keveth: It's between 25 and 30% across the portfolio as a whole, Anthony.

Anthony Plom: Perfect. Thanks very much.

Operator: We'll now take our next question from Rory Smith of Investec. Please go ahead.

Rory Smith: Oh, good morning. It's Rory at Investec. Thanks for taking my questions. I've got three, if I may. Firstly, and just picking up from Antony's last question there actually. Are you able to say what the split was between OE sales and spares and filters for U.S. DOD masks in particular? Secondly, you've previously given us a slide on medium-term order intake by product line. I can't see it in the deck this morning. Are you able to update us on any of the changes here for the non-Armor product lines, maybe helmets? And thirdly, in the statement you mentioned customer order volatility. Can you just add some colour on that please? What's driving that when you see it normalising? Thanks.

Nick Keveth: Yeah. I'll take the first two, and then Paul pick up the last one. In terms of the aftermarket split. On the U.S. DOD respiratory, it's in line with that 25 to 30% level. We see more 30% level within the first responder business. The ballistic head protection side has a slightly lower percentage, so that's the dynamics across the different parts of the business. But given how central the DOD business is to the total business, that overall group metric very much applies to that part of the business as well. And then, given the maturity of that business. The second question... Sorry. Can you just repeat the second question for me, Rory, about-

Rory Smith: Yeah, absolutely. Just medium-term order intake across the non-Armor product lines, thinking about the helmets-

Nick Keveth: Yes. The contracts. Yeah. Yeah. So, there's no real change to any of those, that guidance around expectations in the previous slides. Hence why we haven't put it in the pack. I think that all of the programs are very much trending and tracking as we would expect, and as we flagged in the past.

Paul McDonald: Yeah. And I think... So, let me try and probably cut up this order intake question, because I think there's probably a bit of confusion brewing in this, that just needs to be clarified fairly quickly. So, if you look at last year, we took $280 million dollars of order intakes, and you can see what... That's grown historically over the last five years from circa $150 to $160 million, through to the level. So, you can see that there's a fairly consistent pattern of orders coming in. I think with the order book that we've got coming into the year at just over $140 million, there's about $10 million of the Team Wendy/First Responder within that number. So, what I would say is you've probably got about $130 million of that, that will be delivered in this year, including $10 million from Team Wendy. Team Wendy and First Responder will have about $100 million order intake for the year combined.

Paul McDonald: So, you'd probably say that would be another $90 million that you would expect to come in on that short cycle, three months of rolling order book. And certainly with where we are in the year, we're seeing orders in line with expectations. So, that takes you up to that $230 million. And to get into that guidance, it's really around the military respiratory coming from the mass side of the business. So, I don't think there's a huge big gap in there and it's certainly in line... Well, it's actually a lot less than we would normally have in our business over the last five years. But just to talk through what's that volatility. We've obviously been under continuing resolution with the U.S.. There are positive noises coming out last night that not only is there a debt seeding, it looks like there's movement on the budget as well.

Paul McDonald: And I think that will then release all of the funding that we've got under CR, which we did last year. We know when the funding came through for the M53A1 and the M69's, that would be $40 million of that $50 million that we're probably looking for in total, out of that military side. So, it's showing there's a fairly small gap. I think the main side is I just want to see those orders that... The funding being released in the U.S., the orders coming through, and the sooner they come through, the less risk we have on supply chain lead times and everything else that comes in. So, I don't think it's the Delta of the order intake. It's just the timing of the order intake.

Rory Smith: Yeah. Absolutely. Thank you.

Operator: We'll now take our next question from Andrew Douglas of Jefferies. Please go ahead.

Andrew Douglas: Morning, gents. Thank you for taking my question. Two questions for me, please. Can you just give us an update on the DLA ESAPI and the timing of a product approval there? And just exactly, if you can help us understand, what's the holdup and is there a new hold up, or is it just an ongoing debate with the DOD? And secondly, can you give us update on the MCM100, the never-ending MCM100? It sounds like we are getting closer to the end there. So, if you can just give us a little help on what we should be looking for on that one, that would be helpful as well. Thank you.

Paul McDonald: Yep. Two good questions, Andy. So, DLA ESAPI, when you're on the back foot, what you really don't need is your customer to drag their feet, and I think that's what this has been. So, we passed the ballistic testing in August, that usually basically releases a report, and there's then questions that come out of those reports. And there's a formal administration mechanism for how the DOD engages with its supply base. We've basically waited 104 days for a letter to be sent to tell us exactly what we all knew in August, which has been the delay from the customer side. I actually received that on Tuesday, so we've now got that. We'll respond in 48 hours. We actually gave the customer drafts of all of these issues in August last year. So, this is why they're then saying that they'll push that through fairly quickly. And it's why they're committed to wanting to make those orders. So, it's not really a judgment from us. It is with the customer. And it's just been administrative delays.

Paul McDonald: The other side on the MCM100, that's now a formal quotation, we've actually submitted that quote. We submitted that in September, so that is a seven year, $118 million dollar formal quotation, including 475 MCM100 units for the U.S. Navy. We've put in about a 1300 page response to those bids, to give you an idea of the sort of technical data and why these things take time for people to read and go through. So, it's a really positive opportunity. We're waiting for the customer to review the bids and come back to us, but we have now quoted that, so we are pending where that contract is going to land.

Andrew Douglas: And how many people are you up against for that contract?

Paul McDonald: So, we believe it's two.

Andrew Douglas: Okay. Fine. Okay. Good job. Thank you very much, Paul.

Operator: And we now have a follow up, from Anthony Plom of Berenberg. Please go ahead.

Anthony Plom: Yeah. Hi. Sorry, just talking about the DLA ESAPI made me think about the helmets business. Do you mind giving us a bit of an update on, I guess, your working assumption on Ceradyne helmets, the first article testing, when that starts, finishes, when you get the report back, when revenue start? And then, am I right in saying there's still $6 million of contingent consideration potentially payable on that?

Nick Keveth: Just do the contingent consideration first. We paid $3 million of contingent consideration in early October in relation to the exercise by the DLA of the first option year of that contract. And so, that's flushed through already in this quarter. I think, yeah, we will be talking to the customer about how we wind down that at this stage. We're not expecting any further orders on that contract, so beyond this first option year, so there wouldn't be any further consideration payable beyond what we paid in October. In terms of the next generation IHPS, we are on track to submit the sample helmets for cycle testing in our second quarter. We expect that testing to take place either very late Q2 or early Q3, with the results being available at the formal report, being available towards the end of our Q3. All of our guidance is based on a next generation IHPS revenue kicking in, in FY23. And the helmet revenue that we've got in our guidance for FY22 is all based on closing out the existing first generation IHPS orders that we have in hand.

Anthony Plom: Thank you very much.

Operator: And there are no further questions, so I'd like to hand back to Paul McDonald, CEO, for closing remarks.

Paul McDonald: Brilliant. Thank you very much everyone. I think everyone knows this has been a difficult moment for the business. These have been some very difficult decisions that both myself and the Board have had to navigate and take. But we believe we've taken decisive action. We believe that this allows the company to get back onto the front foot with strong margins, high cash flows, and still a positive growth outlook with the technologies and the products that we have. So, with that, I'd like to wrap this up. I'd like to wish you all a Merry Christmas and best wishes for 2022 and the New Year.