Avon Protection

Half Year Results | Audio Webcast

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Transcript

Jos Sclater: Good morning, everybody. I think most of you know me, but for those of you that don't know me, I'm Jos Sclater. I joined Avon just four months ago. Before that, I was CFO at Ultra Electronics, Castrol Lubricants, and GKN. And a big part of my role at each company was to help create and implement transformation programmes, which unlocked the full potential in those businesses and created significant value for shareholders.

I am very excited to have joined Avon because I see similar potential. I visited all Avon sites. I've listened to shareholders, employees, and customers. I now feel I have a good understanding of the business and I'm going to give you my first impressions and share our new strategy after Rich presents the results. For now, I will pick out in our financial performance just one thing. Revenue was below our expectations in the first half. While that is disappointing, there are a lot of positive things happening in Avon, which have not yet had time to translate into improved financial performance. Over the last four months, I have seen meaningful steps forward. That gives me confidence that we will gain momentum and reveal Avon's full potential in the medium term. I'll now hand over to Rich.

Rich Cashin: Thank you very much, Jos, and morning, everybody. So straight into the numbers. And starting with the P&L, you can see the headlines, strong orders, and a record order book, although we did see a decline in revenue, which I will go on to on the next slide. EBITDA margin was up on both an including and excluding armour basis, and I will walk you through the movements here shortly.

The other item of notes in the P&L was the increase in finance costs, reflecting a higher net debt, and of course, the increase in variable rates. We implemented some interest rate swaps over the last year, which do match the duration of our credit facilities, and these have been instrumental in limiting the rate of increase in these finance costs.

The board has proposed an interim dividend of 14.3 cents per share, the same as the last first half, and consistent with holding the dividend flat at the full year results last year. As Jos will highlight later, the dividend policy will be reviewed later in the year as part of the revised capital allocation policy. Lastly, you will see that we have started to use return on invested capital as a metric for the business, which we feel is a particularly important measure to demonstrate value creation, and you will continue to see this reported in the future.

So here, you can see a more detailed breakdown of order receipts and revenue for the period split out by end market, but also by Respiratory and Head Protection. Note that this is on an excluding armour basis.

Orders grew by 12% in the first half with good growth in US DOD and UK & International orders across both Respiratory and Head Protection, being pinned back slightly by declining Commercial Americas intake. Overall, Head Protection orders grew in excess of 30%, while Respiratory grew by a more modest 3%. Despite the growth, we had higher internal expectations for DOD and particularly for UK and International orders. This doesn't represent lost opportunity, but rather reflects the challenge in predicting customer demand and funding.

Revenue was down 14% on last year, with the biggest decline in Respiratory coming from the UK and International market, following a very strong first half last year from the NSPA framework contract. The decline in Head Protection revenue was seen largely in the DOD, where we were still shipping first generation IHPS helmets last year and have not yet started delivery of the follow-on next gen IHPS contract, which is scheduled to commence in the second half. As we transition into our new organisational structure that Jos will talk about shortly, we will provide proforma numbers for each of the Respiratory and Head Protection business units ahead of the full year results.

So now, we move on to the EBITDA walk for the period and note that this is also on an excluding armour basis. The red bar represents the volume impact of the revenue decline covered on the previous slide. This was, however, more than offset by a number of other items. Firstly, we had favourable movements within the mix of our Respiratory products as lower-margin NSPA mask sales were replaced with higher-margin sales into the DOD. We saw operational improvements within our Respiratory facilities that resulted in reductions to labour and scrap wastage, although these were slightly offset by costs within Head Protection as we ramp up production on next generation IHPS.

And finally, we have continued to see the impact of the overhead savings programmes put in place over the last 18 months. It is, however, worth noting that inflationary headwinds have continued, especially within our people costs, where we have increased average compensation by 8%. Moving on to the cashflow statement, you can see that net debt increased by $27.6 million in the period. Working capital increases of $22 million accounted for the majority of this movement, largely due to the investment in inventory in preparation for deliveries in the second half of the year to satisfy firm orders. These deliveries include next generation IHPS, a large mask order for a middle-eastern customer, which was originally planned for the first half, and of course, the runoff of our outstanding armour obligations.

Other lines that are worth highlighting include payments to the pension plan, which, as explained at the full year results, were prepaid in full last year.

We received a tax refund of $4 million in settlement of historical tax over-payments. And lastly, you will notice that the share buyback programme has now been formally canceled.

As with the previous slide, the most notable movement on the balance sheet comes from the large inventory build, although we also saw an increase in the pension deficit as a result of a lower discount rate being applied to the liabilities. Leverage on a bank covenant basis has increased since October although it is slightly lower than this time last year. We expect to see a considerable improvement in leverage in the second half as the high inventory position starts to unwind. As armour transitions to a discontinued business, this will also have a very positive impact on the metric.

And then finally, moving on to our expectations for the full year. We continue to expect good growth in helmet deliveries, year on year, as next-generation IHPS deliveries ramp up. The weaker demand environment we have seen for our respirators in the first half is not expected to fully recover in H2. And so now we are more cautious on H2 Respiratory revenue than at the time of the full year guidance. As a result, we now expect group revenue, excluding armour, to be around 9% lower than last year. This clearly represents a bit of a recovery in the second half, but is lower than initially expected, reflecting the weaker Respiratory demand and risk remaining around the timings of some shipments. EBITDA margin, excluding armour, for the full year is expected to be broadly flat, year-on-year, following rapid and decisive action on rightsizing the part of the business where we have seen weaker than expected demand levels.

One of the key themes in the second half will be high-margin Respiratory products being replaced by lower-margin head protection volume, which will hold back the margin growth as we would otherwise have expected. The year-end cash position is expected to be broadly in line with last year with strong cash inflows in the second half as we reduce the inventory position built up in the first six months. The combination of these, we'll see a good improvement in the leverage ratio, which will be further helped as the armour business moves to discontinued operations. And I'll now hand back to Jos to talk about our future direction for the business.

Jos Sclater: Thank you, Rich.

Rich Cashin: Thanks.

Jos Sclater: I'd like to start by sharing my view of both Avon's strengths and some of its weaknesses. I believe that Avon has extraordinary potential in the medium term. The exit from the armour business has been difficult, but will result in a more focused, higher-quality business.

We have supportive markets, which we expect to grow at 2% to 3% in the medium term, driven by the increasing global security threat and a need for better, lighter products. We have a lot of excellent people. We're developing exciting new products and we have a strong competitive moat. Certification is a major barrier to entry and we have some long term contracts, strong brands, and patented technology. The customer base is now well-diversified with much less reliance on the DOD M50 programme. With the right strategy and improved execution, Avon can significantly improve growth, margins, and ROIC.

In terms of my views on the business, Respiratory is the global leader in air purifying respirators. Customer feedback consistently cites Avon as having the highest quality, most technically advanced products. And we have an enviable customer base across the military, special forces, and first responders. The large install base of masks drives replenishment orders and sales of filters, spares, and accessories. This provides reliable, long-term revenue at good margins. In the first half of this year, sales of filters, spares, and accessories were over 40% of Respiratory's revenue. In addition, the Respiratory business has built a leading position in self-contained breathing apparatus and underwater rebreather technology. And in both of those areas, I see good potential for future growth.

In Head Protection, Team Wendy continues to perform well, and the DOD Head Protection business is at the start of a rapid period of growth and margin expansion. We are going to try and ship around 4,500 IHPS helmets between now and the year end, though this is heavily dependent on the speed that the customer can process some pending change requests. And over the next few years, we see DOD helmet volumes increasing from nothing in the first half of this year to around 25,000 IHPS helmets per year and 50,000 ACH helmets per year.

Volumes could be even higher if our competitor can't meet the customer requirements. At the moment, there's still some way behind us. In addition, we are expecting Team Wendy to supply pads to all ACH helmets and next-generation IHPS helmets, including any made by our competitor. This provides both OEM revenue and reliable aftermarket sales. As the DOD volumes increase, we expect both operational gearing and self-help to accelerate margin expansion in the Head Protection business.

We are making excellent progress expanding with the DOD in the US, but our helmets market share outside that is still fairly small. In the medium term, we believe that we can grow our Head Protection business further by commercialising our leading edge ballistics technology and our pad systems, expanding beyond the DOD in a similar way to our expansion of Respiratory in the past.

Whilst Avon has considerable strengths it inevitably also has some areas that we can improve. Employee feedback consistently sites a lack of strategic clarity, which hindered focus and the ability to manage execution. Our employees have not always understood the need for initiatives, resulting in some initiatives stalling. For example, when I arrived there was a data project using external consultants, which had already cost $1.2 million, but which had no business case, plan or support from the factories who had to implement it. We have stopped the project and focused on higher priorities. Strategy execution more generally, was hindered by a complex functional organisation where there was no P&L ownership, and little accountability.

The Head Protection business consists of three historic businesses. These have not yet been fully integrated and are only now starting to play as a team that is stronger together. I've seen a lot of waste in the factories in the form of inefficiency, scrap, rework, quality issues, and high inventory. In general, the Head Protection factories are less mature than the Respiratory factories, and it is going to take work to get the DOD programmes to the profitability we expect. But with better planning, scheduling and flow we can improve lead times, productivity and inventory terms. Avon also lacks some capability in programme management, and in general there is an opportunity to inject more structure, pace and urgency into the business.

With regard to growth, I think it's worth focusing on mask orders from the DOD for a moment. This year we expect the DOD to order less than 10,000 masks, lower than the 15,000 ordered last year. Replenishment levels are behind previous expectations due to the refurbishment of masks by the DOD, the exceptional durability of Avon's masks, and low usage levels due to the U.S. withdrawal from active deployment in the Middle East, and low levels of training during covid. Sales to the DOD could increase in the medium term towards more normal replenishment levels if usage increases or masks reach the end of their useful life. But we must not be complacent. We have work to do to strengthen the relationship with the DOD in Respiratory, and we must work harder to drive sales by launching innovative new masks and filters.

In helmets we need to work out how to leverage the Team Wendy and Ceradyne technologies and brands more effectively. As you can see from this slide, the weaknesses have translated into a period of disappointing financial performance and unacceptable returns on capital. Things are now starting to improve. I'm now going to explain how we can accelerate.

On this slide I want to introduce you to the new strategy, which we call the STAR strategy. We involved around 40 of our people to develop the new strategy, which ensures buy-in and therefore increases the likelihood of excellent execution. The strategy has four elements, Strengthen, Transform, Advance, and Revolutionise. It starts with strengthening the fundamentals to quickly improve short term performance.

We have medium term transformation initiatives to improve efficiency in working capital turns. We have initiatives to advance the core business organically, and scale up some of our emerging business models. And we also want to Revolutionise the business so that it will still have a great pipeline of opportunities in four or five years time. I will expand on all four points of the STAR strategy on later slides.

STAR is primarily a five-year plan, which we will refresh each year to stay agile. In the short term we will focus on quick wins. This is critical if we are to deliver to our customers. During the next six months we will plan our transformation projects in more detail, with benefits expected over the medium term. We see the transformation activity tailing off towards the end of 2026, and ending completely during 2027. We will identify one-off transformation costs when we publish our results as the transformation projects end. We expect continuous improvement to be very well embedded, enabling momentum to continue.

Whilst the majority of our resources will focus on strengthening, transforming and advancing, we will also invest in research and development to ensure that growth is sustainable in the long term. We've strengthened the leadership team to improve execution. We have created a new Respiratory Protection and Head Protection strategic business units, which are led by Steve Elwell and James Wilcox. Both are internal appointments, though Steve Elwell joined us fairly recently. We have removed the Chief Operating Officer role, and Paul Hamilton has joined us to drive operational excellence and continuous improvement. He is already making a difference. Overall, the team is a good mixture of people with in-depth understanding of Avon's technology and history, and new recruits who have broad capability and an external perspective.

I'm conscious that execution is just as important as strategy, if not more important, so we have spent considerable time over the last four months defining the programmes of work and individual initiatives. Each priority and initiative has an owner and a sponsor. We've made good progress defining benefits, timing, resource requirements and milestones, but there is more to do. The SBUs are responsible for delivering their strategic initiatives, and next year we will align their incentives to their performance and delivery against their strategic initiatives. To ensure we can track progress at a group level we have introduced a project funnel which is consistent across the business. We will shortly implement a platform for the senior management team to track every strategic initiative real time, providing transparency and improving performance management.

I'd now like to spend some time going into detail on all four points of the STAR strategy.

In Strengthen, we are implementing a new operating model in which the strategic business units are responsible for delivering their strategies, and control all resources to do so, unless there are obvious efficiencies by organising at group level. This operating model will significantly reduce complexity and increase speed and accountability. We are also moving quickly to strengthen our factories by improving both leadership capability and processes. We're seeking quick wins by implementing quarterly improvement kaizens at each factory, using a new Avon methodology supported by common KPIs across productivity, scrap rework and operating efficiency. And we are creating a higher performance management culture through new monthly and quarterly reporting processes.

In Transform, we are focused on some typical transformation levers. There is a lot we can do to improve performance in Avon. We can significantly increase throughput and revenue per square foot, improve operational efficiency, reduce programme under-delivery, reduce supply chain costs, strengthen innovation sales and marketing, and improve productivity in finance. The detailed initiatives will vary in each strategic business unit, depending on their levels of maturity. To give you an anecdotal example of the opportunities, when I first visited the factories I found that all of them have very high scrap and rework rates. The savings opportunity in this area alone is over $1 million per factory.

In Advance, for Respiratory, we are going to launch a certified SCBA, and a new entry level mask in the near future, with a view to expanding our addressable market. We like the filters business and see opportunities to reduce costs, and we see an opportunity to capture a leading share of the growing market for deep water rebreathers. In Head Protection, we need to capitalise on the known strong DOD demand for new helmets and pads. Importantly, we need to bring the best of the Ceradyne and Team Wendy technologies together to exploit the large unaddressed market beyond the DOD.

In Revolutionise, we have some really exciting longer term opportunities. We're developing a game-changing short duration combat respirator and higher capability filters. We see opportunities to expand rebreathers into adjacent markets, such as mid to shallow water, and we see opportunities to expand masks systems into some hard to access countries, through localisation. We also have a roadmap towards expanding the capability and technology of our helmet platforms to include power and data, and reduce traumatic brain injury. Ultimately, we see an opportunity where we will have a major competitive advantage by integrating helmets and respirators.

The grid on this slide shows the STAR initiatives down the left and our financial and other objectives across the top. The shading in the stars shows the degree that each element of the strategy helps to deliver our objectives. As you can see, the strategy is designed to drive growth, expand margins and improve ROIC, whilst generating strong cash conversion and protecting more lives through our innovative products. We are also confident that we can reduce our impact on the environment by reducing scrap rates and optimising our manufacturing footprint. We'll publish a more detailed sustainability strategy in due course.

We're in the process of developing the detailed implementation plans for our strategic initiatives, and we'll be able to put more specific guidance around the targets and timing once we've completed that. We will also carry out a balance sheet review in the second half in the light of the new organisational structure and our plans for site optimisation. I want to make it clear that this strategy is not all about future action, we are already in action. We have introduced a standard continuous improvement methodology to all sites and I've already carried out half a dozen kaizens. I personally joined one in Cleveland a few weeks ago with Rich. And our team found opportunities to reduce helmet assembly lead times by over 90% and improve productivity by around 50%. I am confident that we will find further opportunities in other areas. We've also moved fast to fill critical capability gaps, including appointing a new leadership team in our Irvine factory, bolstering the sailing team with help from Paul Hamilton and significantly strengthening the Respiratory team, which liaises with the DOD.

We have been very pleased with the progress that we've seen so far. In transform, we've in-sourced production of our EXFIL SL helmet resulting in a gross margin improvement of over 15 percentage points. We've also had to move fast to right size our factory in Cadillac in the light of the current demand forecast. Over the last few weeks, we've reduced head count in Cadillac by around a quarter. This sets the factory up with the right level of resources from where we can drive continuous improvement from here. We have implemented a new programme management cadence, two weekly sprint methodology and oversight processes in relation to the DOD helmet programmes. This is already helping to surface issues quickly and enabling us to remove barriers to progress, but there is more to do to embed excellent programme management more generally. In advance, a lot has been going on. The first of the next generation IHPS has been approved for the delivery to the DOD.

Excitingly, we've also had the Team Wendy pad systems approved for use in all DOD helmet programmes. In addition to all that, we have launched a new ballistic helmet range for sale outside the DOD called Epic and we expect to start shipping that in H2. In Revolutionise, we've already developed a short term combat respirator, which we have demonstrated to key end users. Feedback was very positive. We're also making excellent progress developing next generation of filters to address the changing threat landscape. We've reviewed our approach to capital allocation.

To align with the new strategy with higher interest rates, we'd like to reduce leverage to between one and two times EBITDA and do not envisage further buybacks. We see a lot of opportunity for organic growth, so we're focused on that for now. In the medium term, we will be in a better position to assess the potential for M&A to accelerate our progress once the balance sheet has strengthened and we have proved that our transformational strategy works.

Similarly, we're reviewing our approach to shareholder returns and dividend policy with the aim of putting in place an approach that is both attractive for shareholders and sustainable. So to wrap up, I am convinced that Avon has the potential to be a world-class business with world-class performance. To achieve this, we need to make some changes and to do so with urgency and purpose. We have a clear understanding of what needs to change and we've got a new leadership team in place. We're already underway and we are moving fast. With the new STAR strategy, the organisation is focused on obtaining some quick wins, gains in efficiency and growth in the medium term and building a pipeline for future growth beyond that. We see significant opportunity to grow the top line, increase margins and improve cash returns on capital. And with that I'm very happy to take any questions that you may have.

Henry Carver: Thanks. Morning guys. Henry Carver from Peel Hunt. Just a couple, possibly linked. Just can you sort of confirm your outlook on the longer term margin expectations having seen what you've seen since arriving. And just secondly, around this, the M50 replenishment demand, obviously we're at sort of lower levels, presumably these levels now are probably not sustainable long term. Is there a point at which you can go to the DOD and sort of change the base on which, well, I guess pricing to put it bluntly at these volume levels or what can give there and what are the scenarios around that? Thanks

Jos Sclater: Both good questions and both on our minds. Medium term margins. So the way our transformation funnel works, everything moves through initial appraisal then through detailed planning, at the end of detailed planning we get a detailed business case. So we don't have a full granular financial model for every transformation initiative, but we have run through appraise on most things. So very high level I see no reason at all why this business can't get to mid-teens margins in the medium term.

Rich Cashin: Operating margins.

Jos Sclater: Operating profit margins, yes, sorry. We will be moving away from EBITDA margins to operating margins because that's more what I'm used to and I think Rich is supportive of that. M50, I mean you really asked two questions. M50 medium term volumes.

The programme office that did the initial order of over 2 million masks has now handed over to an outfit called Takeon who look after sustainment. TakeOn are really still getting their arms around it and we're still building our relationship with them. At the moment, we think next year's volumes are not going to be very different to this year. We do have a hypothesis that their volumes will move to more normal levels on other programmes, we've seen more normal levels between 10 and 20% depending on whether it's a SWAT team who has more usage or normal military. The moment we're less than half a percent replenishment rates, what we don't know is the shape or duration of that curve and we'll be working with TakeOn over the next, well actually we've got a meeting with them in a couple of weeks, but I don't know whether that will take us a long way forward in our understanding. But we will be working with TakeOn to try and understand the future demand requirements. On pricing, if the volumes were to stay at this level, then I'm sure we would be talking to TakeOn about pricing. We're actually contracted through to the middle of 2025, so that would be the opportunity if we're not seeing the pipeline looking stronger by that point.

Henry Carver: Great, thanks.

Andrew Douglas: Good morning guys. Andrew Douglas from Jefferies. I've got four quick questions, well hopefully quick, but four questions.

Jos Sclater: Four?

Andrew Douglas: I can make it five if you want, but no, we'll start with four. I'll come back to these ones. I'm interested in lots of stuff, but Revolutionise, let's start with that one, localisation. I guess it begs a kind of broader question about the kind of route to market, particularly if you're going to non US DOD and out into further parts of the world in Latin American. Can you just talk about what localisation actually means, and also how comfortable are you with your current route to market and what needs to be changed?

Jos Sclater: Okay, should we do one at a time?

Andrew Douglas: We'll do one at a time.

Jos Sclater: Okay. Yeah, that helps me. So funnily enough, Latin America, we think that what we probably need for that is an entry level mask which will still have excellent functionality but is better able to sell into those markets. We're actually working on that right now. Teams on the, quite a lot of encouragement to get on with that, but we think we have a way of making something that can open up those markets for us, which we've not historically accessed. Localisation though is going to be necessary for places like India. Funnily enough, we already do assembly in France to access the French market, so we know how to do it.

I think that would be a model where we take one of our existing masks. The difficult bit is doing the molding. We can do that in another country, probably the UK, but then do local assembly in India, for example.

Andrew Douglas: Does that imply you need lots of sub-assembly facilities around the world if you're going to go into ?

Jos Sclater: Well, us or a partner? Yeah, we actually do it in France. Our distributor actually does the assembly.

Andrew Douglas: On R and D, clearly the long term opportunity still remains very significant. Do you guys feel you need more bang from buck from R and D or is it more kind of dollars that you need to put into R and D?

Jos Sclater: I think both. We're definitely going to look at the innovation process to see if we can make it more efficient. In fact, one of the near time opportunities, we will probably run a continuous improvement kaizen on the actual development process over the next few weeks because I think we can take some of the time that it's taking to develop products. There are some things we cannot speed up. Certification in the US is very slow and it's out of our hands. The positive thing is when you get a certified product, it's also very difficult for other people to get a certified product. But if you're going to sell into the US, the certification process adds probably a year onto the development process. But there are things that we can do in parallel and that's what I want to look at is whether we can speed things up.

That said, I do think we probably need to put a bit more into R and D. I think it's been a bit starved over the last few years. That's really why we're looking at taking costs out of the back office through the transformation initiatives. Some of that we'd like to flow back to shareholders, you've heard this before in a former life from me, but we will try and drive efficiencies in the back office, put some of it back through margin improvement, some of it back through an increase in R and D. So I think we're at sort of 4%. I could see that hunching up a bit.

Andrew Douglas: With regards to, you talked about headcount reductions in Cadillac, what about the growth elements of your business in terms of the two helmets? Are you ready for ramp up or do you need to hire more people to kind of get out ?

Jos Sclater: I feel that's a leading question.

Andrew Douglas: No, no, not at all. Not at all. No, no.

Jos Sclater: I mean you've seen from the delays in the DOD helmets programmes that it has been quite difficult to hand over the IHPS helmet from R and D into manufacturing. I think partly we do the R and D in Salem and Irvine's the other side of America. I don't think the distance helps. They actually, the factories, two factories didn't like each other. That definitely didn't help, but that problem we've solved now by making some organisational changes and I think we needed more. We had a sort of very well-meaning team in Irvine, but we probably needed a bit more horsepower. So we've also fixed that problem. We have put some more horsepower into Irvine. So we are seeing Irvine stabilise. We've had to make more process changes than I would've liked on the IHPS helmets as we productionised it. For example, we found that the paint formulation causes us 10% rework. That's very painful. We've changed the paint formulation and we've solved that issue, but it takes a month and a half for the customer to approve the change, which is part of the problem we're seeing in the back end of this year. We're getting through those changes, I think is going to take six months to get that factory fully stable, and it's probably going to take a year to get it where I want it to be. Bear in mind, it is literally going to go from no helmets, when I went there three months ago, it was making no helmets. It's got to go from that to 75,000 helmets a year. So this is quite a considerable ramp up. It's not without risk.

Andrew Douglas: Understood. And then last, this is an ignorant question or a question out of ignorance. The new EPIC helmet range, what is that and what's the difference between that and the normal helmet.

Jos Sclater: It's seriously epic.

Andrew Douglas: It sounds epic.

Jos Sclater: It is really cool because what it shows is our ability to take cutting edge technology that we have put into the ACH helmet and put that into a commercial helmet. That means that SWAT teams, first responders, they can access the same level of technology. The even better thing, which I think is actually seriously clever is that we make the ACH on rotary presses, which is actually three presses and it travels round on a kind of carousel and does three pressing cycles. The heat and pressing is proprietary and very clever.

We've actually managed to replicate that on a vertical press with new control systems in Cleveland. That means we can reuse CapEx that we've already got to make EPIC. It also means that we'll probably have less breakdowns because the rotaries are lovely things, but they go wrong quite a lot we've found in the last three months. So I think that is going to really improve throughput, improve reliability, and helps us manufacture the EPIC helmet at a competitive cost point with the same leading technology that we supply to the DOD.

Andrew Douglas: Super. Thank you.

Richard Paige: Morning Richard Paige, Numis. I'll keep myself to two if I can. There's a lot here. Thank you. You obviously had some reasonable impressions of the business going in. What's most impressed, surprised, impacted you in terms of your thinking for the business?

Jos Sclater: I think the people in Avon are really good. Being a smaller company, I don't think I was expecting the quality of some of the people that I found. And I think that with a clearer strategy, a bit more encouragement to go faster, I think the people will help this company do really well. And the technology is very, very good, every customer interview we've done has cited the excellent technology and that gives me a really good feeling that we have the right position. If we can run a few things a bit more efficiently, drive things a bit harder, I think the foundations are excellent.

Richard Paige: Very clear. Thank you. And secondly, one of the problems that Avon struggled with in the past has been obviously the lumpy nature of contract flow. With all these changes, obviously there's a lot of organic opportunities. Do you feel as though the portfolio will enable you to predict better future workflows?

Jos Sclater: Yes, I do because ACH and IHPS are going to be between five and 10 years. Our competitor could surprise us, although actually we could get surprised on the upside, but I feel we've got five to 10 years of reliable helmet production for the DOD, which is a baseline that we did not have before. Team Wendy has always been a bit more of a book and ship business, although it has got some long-term contracts like the Australian military, but it's quite reliable. It tends to come in a reasonable flow.

Respiratory also has quite a reliable underlying baseline business. The bit that's been very volatile is the bit on top of that because on top of the reliable bit it has very patchy big orders from customers and very, very often those orders get delayed in the procurement process. Sometimes because our competitors object to the procurement process, we've seen that twice recently once on masks and once on re-breathers because these things often get protested so it's a bit out of your control. Sometimes you can think you're just about to get it and then it's protested. And one of them we've had rebid three times. So it's frustrating. I think that bit's going to stay quite difficult to predict, although my view is those orders seem to be delayed six months to a year always. So perhaps we should just build in six months to a year delay and it might get a bit more predictable. But I think there's a little bit on top that is quite unpredictable, but I think it's a comparative diminishing size. I don't know what you think Rich?

Rich Cashin: I agree and we talked about localisation, that's another way of mitigating that. I mean part of the problem that you'd identified in the question was perhaps an unhealthy reliance on one specific large customer. That customer will always be important to us and I'd rather hope we will always be important to them, but we can mitigate the impact of their importance to us by having a broader range of customers.

Richard Paige: Thank you.

Jamie Murray: Hi guys. Jamie Murray from Shore Cap. I have a question on inflation. I think you mentioned that you are pushing through some wage inflation into the business, but what about materials? How are you seeing material costs? How are you managing it and what are you seeing on the net and margins because of it?

Jos Sclater: Well, we have seen quite a lot of material cost increases. I think on rebreathers, the bill of materials has gone up 16% over the last year. I would say that's probably the worst because it's got a lot of the electronics in, and our other products don't have so much electronics. We obviously will look to recovering what we can through pricing. We also do have reasonable gross margins. So although raw materials can go up, it hurts you a bit less if you've got quite healthy gross margins. So that's one reason why it hasn't dropped through quite as brutally as in some businesses. And also we have responded by taking SGNA out. That said, I do think there's probably a bit more we can do on commercial optimisation as some people call it, but on pricing we will be looking at pricing as we go through the second half. We have already increased one of our key mask programmes on the pricing.

Jamie Murray: Cool, thank you.

Annabel Hewson: Morning. It's Annabel Hewson from Stifel, if I can remember who I am. Just one question if that's okay. And it follows on a bit from Rich's there about, you said at the beginning it's difficult to predict customer funding and requirements. Bearing in mind most of these customers you have worked with for quite some time as well. I mean are you seeing because of where we are geopolitically there's a change in their requirements? Or actually can you see a situation where you are actually changing your communication with the companies or in terms of how you are actually interacting?

Jos Sclater: I think in general our route to market and our relationships with the customers are good. We know what they know, but sometimes sort of as described earlier, things get delayed because they get protested. But I do think we lost some contact with the DOD.

I think that's partly because we combined the helmets and Respiratory sales teams, which is a good idea at one level because it was a common channel, but we do need to have some specialists that have connections with the DOD at the right level. And I think we lost a bit of that.

We've moved very quickly to fix that. It was obviously a problem when I arrived. We've recruited a lady out of the DOD programme office. She not only has connections with the programme office, but also more broadly with telecom and actually all the way down to the military places. I think she will massively help improve our relationship with the DOD. And over time the hope and I think expectation is that that will improve visibility of what the DOD is ordering. But she's only been with us three and a half months. She arrived shortly after me, three months maybe. So I think we need to give her a bit of time to rebuild that relationship.

Rich Cashin: And if I can just build on that, I mean some of the commentary around those customer relationships, it wasn't specifically targeted at the DOD. I mean there are plenty of other examples. We talked about a large Middle Eastern contract through no fault of anybody's really, that kind of slipped six months versus where we thought it would be. And this is Jos's earlier point about everything seems to slip out by six months to a year.

There's another meaningful contract, not massive but meaningful, in Northern Europe and it'll be the second time we've bid it this year and I think we bid it twice last year as well. And it's another one that just keeps slipping. So there are plenty of others out there. And part of that I think is part of how we should deal with this going forward, as Jos said, is start to build in a bit of flex in our internal schedule. But also it's the risk mitigation point that I was talking about earlier. The more of these sorts of conversations we are having with a broader suite of customers mitigate some of the effect of the lumpiness as you go through the ordering pattern.

Annabel Hewson: Thank you.

Jos Sclater: Any other questions guys? Okay, well thank you very much everyone. Thank you for coming.