

Chief Executive Officer's Review

We have a greater and wider range of opportunities for both Avon Protection and milkrite | InterPuls



I am delighted to report on a transformational year for Avon Rubber where we have delivered against all three elements of our growth strategy.

The results reflect ongoing initiatives to grow our core revenue and selected product development to create a business that is more sustainable for the future with improving operating profits and cash flows.

Our strategy has been focused on enhancing the future visibility and sustainability of our growth through diversifying the revenue we generate from our product portfolio by delivering more products to our existing customers, as well as broadening our customer base. This has supported the growth in our order intake and revenue in 2019, as well leaving us well positioned for 2020 with a strong opening order book. The broader range of products and customers provides the Group with more flexibility to deliver consistent growth in revenue and operating profits going forward. This was evidenced by our performance in the second half of 2019, following the challenging market conditions experienced earlier in the year.

The strong balance sheet position and cash generation from the business has allowed us the scope and confidence to pursue both acquisition opportunities and invest in product development to support future growth. The acquisition of 3M's ballistic protection business is a milestone moment for Avon Rubber which will significantly add to our personal protection portfolio and greatly accelerate our future growth prospects. We remain committed to research and development and investing in our product portfolio maintaining the competitive advantage for our existing range, as well as continuing to develop new products in partnership with our customers to meet their ongoing needs.

I am confident that our achievements this year have transformed the outlook for the business. We have a greater and wider range of opportunities for both Avon Protection and milkrite | InterPuls to continue delivering value for our customers, our people and our shareholders in the future.

Strategy

Our strategy is based upon creating shareholder value through three key elements:

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

Growing the core

Avon Protection

Excellent growth across our Military business with both the U.S. Department of Defense and our Rest of World customers has resulted in Avon Protection delivering another record year. This was achieved through our strategic focus on improving and expanding our product offering to provide a broader portfolio of products to meet more of the needs of our customer base.

Expanding our Military product portfolio and customer base

The award of two very significant long-term contracts with the U.S. DOD for the M69 aircrew mask and the M53A1 mask and powered air system, which have a combined maximum contract value of \$340m, confirm Avon Protection as the sole source provider of General Purpose Masks, Tactical Masks, Powered Air Systems and Tactical SCBAs across the entire U.S. DOD.



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The M53A1 framework contract, which also covers additional Avon Protection products, including the ST54 self-contained breathing apparatus, has a maximum value of \$246m and a minimum five-year duration. This framework is accessible to a number of different and new customers within the U.S. DOD, including all four military service branches and other national and federal agencies. We received the first order under the contract earlier in the year, worth \$20.2 million, which we have partially completed during the year and expect further orders during 2020.

The M69 sole source contract to supply the U.S. DOD with the M69 Joint Service Aircrew Mask for Strategic Aircraft, related accessories and engineering support, extends Avon Protection's portfolio reach into the aviation sector for the first time and has a maximum value of \$93m and a minimum five-year duration. As with the M53A1, we received the first order under the contract, worth \$17.8m, earlier in the year and we also partially completed the first deliveries this year.

These important contract awards from the U.S. DOD mark our transition away from the historic focus on the M50 mask system, to a multi-product modular portfolio meeting a wider range of needs across all military branches of the U.S. DOD. Notwithstanding this, the M50 mask system remains an important part of the portfolio and positive discussions regarding the future requirements of the U.S. DOD and their anticipated sustainment volumes are ongoing and we expect to receive a contract award in the new financial year. In addition, we have a highly visible pipeline of Rest of World military opportunities and are in active dialogue with a broad range of customers who are looking to upgrade their capability to the FM50 mask system.



LINK TO STRATEGY



U.K. MOD GSR

The U.K. MOD General Service Respirator is now in production and work has begun to deliver the first order.

Avon Protection was awarded the five-year contract to supply and provide in-service support for the GSR with the U.K. MOD in February 2018. After a year of development, samples of the GSR were provided to DSTL for laboratory testing and user evaluation. These tests were successfully passed and the GSR was accepted into service in September.

Avon Protection received the first order for respirators and spares at the beginning of October. To meet the needs of full-scale production, two new manufacturing lines have been created to assemble the mask and filter systems, creating a number of jobs for people in the local area.

This major milestone in our history demonstrates the significant lead we have regarding production and development capabilities compared to our competitors, whilst ensuring we are now positioned as the leading supplier for CBRN respiratory protection.



For more information, go to our website at:
www.avon-rubber.com/investors/

Chief Executive Officer's Review continued

We re-established our relationship with the U.K. Ministry of Defence ('U.K. MOD') when we won the contract last year to supply their GSR mask. Subsequent to the award, we have been preparing the tooling and processes for the full manufacturing requirements as well as undertaking customer acceptance testing, which was completed in the final quarter of the year. We expect the first orders and deliveries to follow in early 2020. Through those activities we have been able to demonstrate to the U.K. MOD our focus on quality and technical expertise, and as a result, we see further opportunities to deepen our relationship with the U.K. MOD, leveraging from our wider product portfolio.

We launched our MCM100 deep-water rebreather in 2018 and completed the first large order from the Norwegian Military during this year. The MCM100 has opened up a significant number of new opportunities with the U.S. DOD, European and Rest of World Militaries. We have had an active year of dive trials and supplied a number of evaluation units, which has enabled us to demonstrate our leading next generation technology to this demanding user group of military divers.

Our continuing strong relationship with all branches of the U.S. Military has enabled us to develop and bring to market a full suite of respiratory protection products including masks, PAPRs and SCBAs. Due to the modularity of our product offering, we

can offer a unique and combined product solution to meet the budgets and differing usage requirements of other potential Military customers.

The breadth of our product offering, and commitment to ongoing investment in research and development in partnership with our customers is a core strength of our model. This means we are in a very strong position to continue to deepen our existing customer relationships and pursue new opportunities that our world-leading reputation is continuing to generate.

Growing our Law Enforcement business

This year the strong momentum in our Law Enforcement business was interrupted by the impact of the partial shutdown of the U.S. Government at the start of 2019, restricting some of our key user communities' access to their operational funding and their administrative capability to place orders. The shutdown had a significant impact during 2019 and whilst purchasing activities returned to normal in the second half, affected customers were unable to accelerate their procurement processes to fully mitigate the first half delays. Despite the interruption, the Law Enforcement community is still showing a strong demand for our protection products as the elevated environment of CBRN threats remains high on the agenda.

We continue to see good market penetration with U.S. and Rest of World Law Enforcement customers, where we have been able to

demonstrate the benefits our market leading portfolio and modular product range to meet the diverse needs of a broader section of customers who are responding to the changing threat levels. We expect to continue to grow our market share in all of our key markets, which will support a return to growth in 2020 in anticipation of a more stable political environment to allow us to leverage from our product innovation leadership position.

Exiting the Fire SCBA market

Given the breadth of our personal protection offering following the acquisition of 3M's ballistic protection business, we have reviewed our participation in the Fire SCBA market. Participation in this market has helped us develop and advance our capability with our SCBA portfolio while meeting the needs of our Fire customers. The capabilities and knowledge that we have gained during our participation in the Fire market has supported the development of the ST53 and ST54 SCBA products for users in our core Military and Law Enforcement customer base. In 2019 we sold more of our current range of SCBA products to Military and Law Enforcement customers than to the Fire market. The ST54 is one of the central products attached to the framework \$246m M53A1 contract award this year to meet all the tactical requirements of the U.S. DOD. The expertise we have generated in SCBA technology now sits within our wider Military and Law Enforcement R&D teams who will ensure we retain our technology leadership in this area.



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U.K. GSR user acceptance testing passed

The Fire market remains highly competitive with a fragmented customer base where we have a small market position and compete against much larger players. This means we generate margins and returns that are significantly below our strategic targets. We have therefore taken the decision that it is the right time to move away from our participation in the Fire SCBA market and reallocate resources to focus on our core growth opportunities with our Military and Law Enforcement customers. In 2019 revenues relating to the Fire SCBA product line were £6.7m.

We will continue to stay committed to the argus thermal imaging camera technology which continues to contribute to our revenues and profit. The argus range is a trusted brand for firefighters and the full range of NFPA approved products provides customers with multiple entry points on a cost or capability basis. During the year we saw increased volumes across our full range of products from the premium Mi-TIC S to the more cost effective Mi-TIC E solution to maintain Avon Protection's position as a leading global supplier of certified thermal imaging cameras.

Moving forward to the half year results in May 2020, we will report on a combined 'First Responders' line of business that incorporates both Law Enforcement and Fire.

milkrite | InterPuls

We have continued to focus our strategy on enhancing our position as the globally recognised milking point experts. The dairy market is increasingly moving towards industrialised farming with greater levels of closures and consolidation of smaller farms but importantly with no reduction to cow

numbers as mega dairies grow. At the same time, the growing global population and increasing consumption of dairy products per capita has resulted in increasing demand for dairy-based products which support these market dynamics and the drive to deliver improvements in farm efficiency and animal welfare. The milkrite | InterPuls product portfolio is primarily focused on efficiency and animal welfare and, combined with our knowledge of our customers and service focus, we see medium and long-term opportunities for broadening the geographic reach of our products to maximise the benefit from these changing market dynamics.

Maintaining our Interface leadership

We have a global market-leading position in Interface, with our Impulse and Impulse Air ranges designed to maximise animal health and milking efficiency. Our focus on innovation in Interface products ensures that we maximise our competitive advantage and maintain our market leadership position. In addition, we continue to focus on expanding our global dealer network to maximise market coverage and access to new customers.

Expanding Precision, Control & Intelligence (PCI) sales support

We have an advanced range of PCI products designed to deliver milking point efficiency and our emphasis is on establishing reference farms alongside a specially trained and focused sales force who can support a broad technical dealer network to provide an upgraded sale and support capability to our customer base across all geographies. During the year, we have continued the progress from 2018 by focusing on our technical sales specialists and capability in our North American team. We are

focused on leveraging from our established PCI reference farms and market leading Interface platform to align the more technical PCI products to the benefits they can bring to our customers in the performance and efficiency of milk production. The PCI products are importantly fully compatible with legacy OEM dairy systems which provides farmers and dealers flexibility to choose the best equipment solution.

Growing the Farm Services lease ownership model

The unique Farm Services model was developed to offer farmers an alternative entry point to some of the core elements of our product portfolio including our clusters, pulsators and tags on a lease hire basis. The model offers a fully incorporated service and warranty scheme managed directly with the farm and provides farmers with an additional option of accessing the whole product portfolio and the full purchase model of Interface and PCI.

This year we have seen a pause in the growth of this model due to difficult market dynamics particularly in North America during the first half of the year. Our customers continue to see the benefit of accessing our product range on a lease hire basis but the growth from farms taking up Farm Services was offset by closures of smaller farms, as dairy farms consolidate.

Farm Services ultimately represents the future delivery platform for our increasingly advanced products, which provides a direct contact for service and support with our customers.

With stabilising market conditions we expect Farm Services to return to growth in 2020.

Chief Executive Officer's Review continued

Continuous focus on operational efficiency

Ensuring we deliver maximum operational efficiency whilst not compromising on excellent customer service is a constant strategic focus across the manufacturing and service operation for Avon Protection and milkrite | InterPuls.

For Avon Protection our well established and efficient manufacturing operation has enabled us to maintain excellent product quality control and reliability across our product range. As we continue to expand our product portfolio and move up the value chain in personal protection, with greater focus on more technical solutions for mask systems and supplied and powered air products, we are focused on ensuring that we maintain high productivity levels whilst being able to meet all of our customers' requirements. To better align product development and manufacturing, we will be relocating our Chelmsford, U.K. thermal image camera development facility to our main U.K. site in Melksham.

For milkrite | InterPuls to achieve a greater level of production efficiency and customer service levels, during the year we took the opportunity to consolidate all our European commercial operations into our existing Italian facility. This provides a single customer service point for all customers. At the same

time, we have also transferred European liner production in house to support our operational efficiency.

Selective product development

Continued investment to maintain our competitive advantage and to expand our product range

We have continued our investment this year in enhancing the technical capability of our existing portfolio and developing new products that will deliver future growth for the business. The majority of our development pipeline is designed in partnership with our customers to ensure that their performance requirements are met whilst ensuring we deliver the highest commercial returns on our investment.

The development expenditure in the year has predominantly focused on Avon Protection, with significant investment in the U.K. GSR, MCM100 and next generation hood programmes. Development expenditure for milkrite | InterPuls included the compact milk meter to address the market for smaller milk producing animals.

In 2019, we invested a total of £8.2m (2018: £9.7m), representing 4.6% of revenue (2018: 5.9%), in research and development. Over the medium-term we expect to maintain the level of funding at around 5% of revenue for product development.

This reflects our confidence in our ability to innovate to meet the future technical needs of our customers thereby generating revenue and profit growth.

Value enhancing acquisitions

Milestone acquisition of 3M's ballistic protection business

The acquisition of 3M's ballistic protection business is an important strategic step for the Group and Avon Protection. The business we are acquiring is high quality, backed by leading proprietary technology, established contract platforms and well invested manufacturing operations which will accelerate the growth prospects for the Group.

This acquisition will significantly strengthen our current technology and our personal protection product offering by adding the leading next generation helmets and body armour. It also deepens our already strong relationship with the U.S. DOD as a key supplier of helmets and body armour. Avon Protection will also be able to cross sell the helmets and body armour to its existing Rest of World and Law Enforcement customers.

3M's ballistic protection business enhances the Group's research and development capability and supports further growth and an expected combined and integrated future product range. The acquisition ultimately places Avon Protection at the



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forefront of future evolution in CBRN and ballistic armour protection. In the short term however we will be focused on ensuring a successful and efficient integration of the business, including the realisation of identified financial synergies.

We will continue to explore other acquisition opportunities where we see the potential to deliver significant strategic and financial value. Following the acquisition of 3M's ballistic protection business we will continue to maintain a strong balance sheet, with leverage not expected to exceed one times EBITDA at close, together with an extended bank facility of \$85m and a larger cash generative business supporting an expected return to a net cash position during 2021. This financial position, our strong cash conversion, as well as our willingness to extend leverage up to two times EBITDA, means we are well positioned to pursue other potential acquisitions that also meet our criteria and act quickly and decisively where we identify them.

People

We continue to evolve the Executive leadership of both businesses as we look to deliver on the clear strategic direction and alignment for the Group as a whole.

In recognition of the extensive Law Enforcement growth opportunities within Avon Protection, I am delighted to welcome

David Mack to the Executive leadership team to lead our global Law Enforcement business. David is an internal appointment who comes with extensive experience in this market and his addition will greatly enhance our strategic delivery in Avon Protection to support our ambitious and exciting growth strategy in our core Law Enforcement business in the future.

Outlook

Our strong opening order book of £40.4m provides good visibility as we enter the new financial year, and we are well positioned to continue our strong momentum into 2020.

Within Avon Protection, we expect to complete the acquisition of 3M's ballistic protection business in the first half of the financial year as we continue to make good progress with the regulatory clearance process. We expect to receive follow-on orders for the M69 aircrew masks and M53A1 mask and powered air system together with the five-year sustainment contract for the M50 mask system during the financial year. We expect the revenue opportunities from a full year of delivery of the M69 and M53A1 mask systems to offset the impact of the anticipated reduction in M50 mask system sustainment volumes. We also expect to receive the first orders for the U.K. GSR and to make the first deliveries to the U.K. MOD together with the receipt of further orders

for the MCM100 following the extensive trials in 2019. Alongside this, we expect a return to sustainable growth from the widening customer and product base in Law Enforcement in a more stable political environment. We will see a reduction in Fire revenues following our strategic review of our participation in the North American SCBA market but the benefits of refocusing our resources will support growth and overall returns in Avon Protection.

Dairy market conditions have stabilised over the last six months and although there remains market caution around the wider political environment, we currently anticipate that the growth trends experienced by milkrite | InterPuls in the second half of 2020 will continue in the new financial year.

We have transformed the business over the last year through delivering against our strategic priorities of growing the core and selective product development and value enhancing acquisitions. This leaves us looking ahead with confidence, well positioned to deliver further success in 2020 and beyond.

Paul McDonald
Chief Executive Officer

13 November 2019