Avon Protection - Half Year Results
24th May 2022

Transcript

Paul McDonald: Good morning everyone. Welcome to the Avon Protection half year results. I'm Paul McDonald, and I'm joined by Rich Cashin, our new CFO.

Paul McDonald: As you will have seen this morning as part of the RNS, we have announced I'll be stepping down as CEO and will work with the board to allow a smooth transition in the months ahead. Avon is a remarkable company with great products that provides a vital role in global security. I wish everyone at the company continued success for the future.

Paul McDonald: Now, down to business, and we can start with the agenda. For our agenda this morning, I'll take you through the headlines. Rich will then take us through the financials. Finally, I'll talk through what's happened in the period and the opportunities ahead.

Paul McDonald: Avon has seen some challenging times since 2021, many of which we did not see early enough, and I wanted to recap on some of those challenges. As we entered 2021, we knew that COVID would still be around us. We expected a challenging winter as we saw in 2020. However, as you look back, there were far more headwinds than we expected. We saw two major waves of infection during 2021. First, the Beta variant which saw longer material lead times, leading to longer component lead times. This was then followed by Delta in July that brought further challenges. Our major customer moved to remote working, which led to longer administration times, delays in orders, longer program approvals and an extension of shipping lead times.

Paul McDonald: As a result, we entered 2021 with a typical order to delivery lead time of circa 16 weeks. That ended the year closer to 40 weeks, resulting in higher orders, but insufficient revenue for the year, added on top of this the body armour issues and the arrival of the Omicron variant. This created a challenging backdrop as we entered into 2022. We've made some progress, but we've also experienced further headwinds, including the vaccine mandate in the US, labor shortages, and higher staff turnover, which have created further challenges throughout the period.

Paul McDonald: The half year has delivered some mixed results against a challenging backdrop. We expected to have seen further progress on orders over the last six weeks to provide clarity for the remainder of FY22. Once these orders are received, they will provide granularity of mix and confidence for the out turn of the year. In the absence of orders, we are taking a more prudent view to ongoing risks that will reduce as orders are received.

Paul McDonald: Now, you don't need me to tell you that the security situation in Europe has changed markedly since February this year. You can't go a day without politicians either pledging further support for Ukraine or talking about expanding domestic capability. The US leads the way with the highest budget and funding levels. Having approved the $40 billion Ukraine relief package this weekend, we expect this to flow into orders over the short and medium term. Whilst many European countries have spent less than the NATO recommended amount for many years, they have maintained dated equipment to combat historic threat levels.

Paul McDonald: With the emergence of an advanced and sophisticated threat level, we're now seeing countries realise that they're not fully prepared to meet this, which requires additional protection and funding. This is resulting into the immediate aid packages and defence budget increases we're all starting to see flowing through. We are expecting further funding for Ukraine and meaningful increases in European defence budgets as they look to upgrade their capability for the future.

Paul McDonald: How does this impact Avon? I'm sure this is the key question on many of your minds. In the short term, it's difficult to predict timing. We expect this to become clearer in the weeks and months ahead with a key focus on the US aid package with funding approved last Sunday. Initially, in March, we were inundated with requests for immediate delivery of product. We carry minimal amounts of finished products, so that was sold, but not in a significant amount.

Paul McDonald: We're starting to enter into the second phase where countries wish to support Ukraine and provide longer-term aid support, which is releasing wider funds. A lot is going on diplomatically as to who funds what, so the challenge is converting the political statements into agreed orders, which is ongoing. This is where the greatest variability sits for us, and it's difficult to predict in the short term.

Paul McDonald: As we look beyond the short term, the security situation has shifted. With an increased expectation of militarisation of the NATO-Russian border and associated increased troop deployment levels, this is a longer term driver for demand growth for Avon Protection.

Paul McDonald: Having set the backdrop of the environment, I'll hand it over to Rich to take you through the financials, and I'll come back at the end.

Rich Cashin: Thank you, Paul, and good morning, everybody. It is a pleasure to be here, and it's great to be a part of Avon Protection.

Rich Cashin: I'll talk through the first half numbers to explain the moving parts in the period. I'll then go on to give some guidance for the year ahead, and then I'll finish with some first impressions after just a few weeks in the job. As a point of housekeeping, all numbers are on a constant continuing operations basis, excluding armour, and comparisons are on an organic constant currency basis unless otherwise stated.

Rich Cashin: You can see the headlines here. Orders received, and hence the closing order book, were down. Regarding order receipts, this principally relates to lower DOD receipts and also an element of lapping a strong prior year comparator in respective orders under the NATO NSPA contract, which first came to life in October, 2020. The other line items I will cover shortly.

Rich Cashin: Please note that there has been a restatement of the prior year half-one figures. This principally relates to the allocation of the additional charge relating to inventory which was identified in October last year as part of the year-end process. Critically, there is no change to last year's full year accounts. This is simply a correction of that allocation between the two halves, and the details are included in a slide in the appendix.

Rich Cashin: Moving on to the income statement, this shows continuing operations including armour. Organically, revenue is down 1.1%. This is due to the extra month of Team Wendy. At the EBITDA line, the underlying business, excluding armour, has seen a margin fall. I'll take you through a bridge for that in a moment. In addition, armour has made a loss due to having minimal revenue in a period where a certain amount of costs have remained in place as we await first article test approval of the DLA ESAPI product. This situation will persist until that approval is received. While we're close to completing the process, it isn't done until it's done, but we do expect it in the second half.

Rich Cashin: The remainder of the P&L flows as you would expect with an EPS for the business ex armour of 9.1 cents per share and a loss per share of 2.2 cents including armour. We're paying a dividend at the same level as last year and, of course, it's the full year dividend, decided at the end of the year, that determines the cover.

Rich Cashin: Turning to revenue, firstly, we have changed our reporting groupings to align with our new internal reporting structure and, in particular, the integration of Team Wendy into our existing helmets business. As such, there is now US DOD, which is US military. We've got commercial Americas, which is largely first responder and includes Team Wendy and also captures any military sales in the North American and South American continents, excluding the US. Then there's UK and international, excuse me, which is everything outside of North and South America, both military and first responder.

Rich Cashin: Regarding the year, what you can see within a broadly flat revenue is that US DOD is down largely due to the delayed federal budget and international is up due to continued strength in the NSPA respiratory contract. The increase in commercial Americas is largely the additional one month of Team Wendy.

Rich Cashin: It's worth noting that significant amounts of our revenue are largely resilient to inflation in the medium term. We have ratchets in military contracts, and we are able to change the list price on our first responder products. For example, we've actually put up the price twice this year, once in October and once in March, on first responder and these prices have been accepted by the market.

Rich Cashin: I showed on the previous slide the change in revenue between this period and the prior half year, with more revenue from Europe and less from the US DOD. This has made a small difference due to margin differences between those markets, although the greater difference is what has happened within those markets. The mix impact we are describing is principally due to the blend of business within US DOD where we have sold fewer complete systems and, as such, profit from that part of the business was lower.

Rich Cashin: Secondly, overheads have increased. This changes broadly as we had budgeted, but we had expected it to be more than compensated for by higher revenue and higher direct profit. We began the program of $50 million of cost overhead savings partway through this period split broadly 50/50 between armour and the continuing business, and it has had a modest impact in the period.

Rich Cashin: In relation to the continuing business, as shown here, we expect to see a benefit of three to $4 million in the second half and to exit the full year with the run-rate savings from that program.

Rich Cashin: A margin of around 10% at the EBITDA level is clearly substantially lower than we should be, and so we have some clear actions to turn this round. The first challenge is mixed. When the US federal budget is finally signed, if it is, we hope to see more DOD and first responder orders and revenues flow, where there's clearly a very strong macro demand environment, which drives medium term confidence. Nearer term, there is volatility in the funding and timing of customer orders, as Paul mentioned, and it's that which causes risk to the H2 outlook as regards revenue mix.

Rich Cashin: We are working very hard to secure those additional orders, but as such, the mix remains dependent on orders that are yet to be secured. The operational issues have a number of causes. The first being inefficient manufacturing patterns, in part caused by difficulties in sourcing raw materials. We have implemented changes in the past few months to allow more agile ordering, and we are starting to see the benefit of that. Part of the challenge also relates to the helmets facility where we are between the first IHPS Gen I program, and the second generation product on which we are awaiting completion of testing. And we are therefore going to further reduce overheads with an additional $6 million program, which will be fully implemented by the year end. And is a low risk way of us addressing the imbalance between overheads and current revenue levels. This program is on top of the $15 million program announced last December. And in terms of margin, the saving from H2 is largely from the first program, as you would expect, and should deliver $3 to $4 million in the second half, which is roughly 200 to 300 basis points improvement.

Rich Cashin: Turning to the cash flow. The numbers are largely self-explanatory, but I will bring your attention to CapEx where we are back to a more modest run rate of expenditure, this year expected to be $12 to $15 million. Note that we have announced today that the buyback which was paused at the halfway point in early April, is on hold to allow for continued organic investment and leveraged stability. Please refer to the technical guidance slide in the back of the deck as ever for more information on a number of line items. Net debt shown here excluding lease liabilities has increased by just under $30 million in the period of which two thirds have been returns to shareholders. The remainder is largely as expected, although clearly the initial contribution from EBITDA is lower than expected. Leverage defined by our bank covenant on a pre IFRS 16 basis has risen to 2.6 times. This is principally due to the EBITDA shortfall. And as EBITDA recovers, then so too will leverage. Needless to say, working capital and CapEx continue to be tightly managed.

Rich Cashin: I've taken the opportunity at this first reporting date under my watch to interrogate the balance sheet. And as a result, there is a write-off of $3.8 million principally related to capitalised development and planter machinery on our UK GSR contract due to changes in cost assumptions based on market conditions. Going forward while the policy relating to capitalisation of R & D costs in alignment with the accounting standards is unchanged, I anticipate moving to a more normalised level of R & D, and so inevitably less will go on the balance sheet for the foreseeable future.

Rich Cashin: Lastly, there is a striking reduction to the net pension scheme deficit. This is almost entirely due to the change in bond yields, which has increased the discount rate and hence reduced the liability.

Rich Cashin: So, the medium term order outlook is strong, as we are proactively engaged with all of our major customers as they react to the increased threat environment, and how we can help them at this time. Of the opening order book of $111 million, about $100 million of that is expected to be delivered and recognised as revenue in the second half, with the remainder relating to orders that are likely to be fulfilled in the first half of next year. That still leaves us with a certain amount that we need to win and deliver this second half period, and we are working hard on converting the very evident interest into firm funded orders. In terms of our expectations, there is a wider than usual range of outcomes for this financial year at present, with very evident opportunity tempered by clear risks in funding and ordering patterns.

Rich Cashin: On revenue, while inquiries are at an all-time high, revenue mix is uncertain, dependent on orders that are yet to be won. We're happy that the work done to reduce component sourcing risk will help us better convert those orders into revenue when they arrive. The margin should improve due to better mix, although this is partially contingent on the orders as just described. We will also benefit from the existing cost reduction program, which along with some early wins from the additional savings program should improve the overhead in the period by $3 to $4 million, roughly 200 to 300 basis points. And we'll exit the year with a run rate saving of around $14 million.

Rich Cashin: And then finally, as a reminder, I joined Avon Protection at the beginning of March and took over as CFO at the beginning of April. So, I'm seven weeks into my new role. I think this is week eight now, and I'm excited to be here, and it is a natural extension of my career in aerospace and defence finance.

Rich Cashin: So, what have I learned? Many things I expected, in particular, an outstanding team throughout the business and a great culture. Our products are clearly world class, and our capabilities, for example, in research and development are second to none. The company is at an interesting point in its strategic development, with a clear opportunity to leverage the brilliant products and the flagship customers in the US to become a truly global business. The business has invested ahead of the growth, which was expected to have been delivered now. And we have of course benefited from that investment, but we do need to trim in the short term in order to adjust for current circumstances.

Rich Cashin: Clearly, the business has had a number of challenges over the last year or so, and that inevitably weighs on sentiment. We're trying to get our arms around that, and there's still more to do. But on my own patch in finance, we need to have a closer partnership with the other functions in the organisation to enable the business to gain greater insights. That will lead to improved forecasting and decision making, and in turn, better guidance for investors.

Rich Cashin: Finally, the focus is shifting to delivering growth and improving efficiency in an environment where throwing cost at the problem is no longer an option. We need to become fitter and more agile if we are to capitalise on the tremendous opportunities ahead of us. And the overhead reduction programmes we have initiated are a helpful first step on this journey. And with that, I'll hand back to Paul.

Paul McDonald: Thanks Rich. I'd like to take a few moments to first talk about what we've achieved in the past half year and how we've addressed the challenges, then go onto the medium-term outlook and why we remain excited about the future of the business.

Paul McDonald: The H1 period has been mixed, with the problems of armour discussed at length in December and the challenges this has created for profitability as we rebalance the business. We've made pleasing progress with our helmet's business. Firstly, the contract award of the advanced combat helmet, second generation or ACH Gen II, this is a mid-level general issue helmet for the US Army, Navy and Air Force. It's expected to be a dual-source program and we've won the larger and first part of that contract. This shows some of the strategic benefits of bringing these businesses together as it's also a product that neither Team Wendy or the Ceradyne business would likely have won, as it was by combining the technology from both in-house that we were able to meet the specification at a competitive price. As a result, we'll be supplying the US DOD with both their infantry helmet, ACH Gen II, and their ballistic helmet, IHPS NextGen, which will position Avon Protection as the leading supplier of helmets into the US military

Paul McDonald: Behind the scenes, we're getting on with other necessary steps. The progression of the IHPS Next Gen through first article testing is following the expected timetable, which will quickly be followed by the ACH Gen II. We've implemented further commercial and cost synergies by insourcing helmet shells, which Team Wendy historically bought from external providers. And we now supply them from our own sites and allows us to capture and control the majority of value for these products under our own control.

Paul McDonald: I'd like to take a moment to speak about our people who, like in most businesses, are at the heart of everything that we do. It's been a very challenging period and a lot has happened in the last six months. We now have an integrated organisation which entailed some changes in senior management as we streamlined three structures into one. We've implemented the vaccine mandate in the US sites as we were required to do, which caused some employee turnover. So, we have a near fully vaccinated workforce in the US. It's also well publicised that the labour market is tight, particularly in the US. And we are not immune to that. We believe we are through some of the challenges that held us back over the last six months, and we are seeing increasing levels of output in the second half of the year from our sites.

Paul McDonald: Addressing the challenges. Whilst Rich touched on this, I would like to talk a bit more about the product lead times, as they've been a recurrent theme over the last year or so. Having seen our traditional lead times move from 16 weeks to more like 40 during 2021, I'm pleased to say they're stabilising.

Paul McDonald: In 2022, we're taking a more agile approach to procurement, which the new, higher demand environment facilitates. Since March the use of air freight, paid for by the customer, also helps a lot and has allowed us to increase output to meet the higher levels of demand and reduce the sea freight lead times of 14 weeks.

Paul McDonald: Lastly, whilst armour is going to be wound down, we still have the DLA product to produce and deliver. The first article test process is nearing its conclusion, much delayed due to the DOD constraints, but we look forward to this being resolved shortly. As soon as that approval is received, we will immediately begin deliveries of finished product to the customer to deliver the remaining contract and allow a managed wind down to complete.

Paul McDonald: So, turning now to the bigger picture. As Rich touched upon, Avon remains an excellent business, a global market leader in our chosen products in a structurally growing market with long term customer relationships and significant barriers to entry. The opportunity to take our products and expand globally is clear to see as we expand the product portfolio and global geographic customer base.

Paul McDonald: This slide confirms the breadth of our customer coverage and the longevity of the customer relationships. For the US, we're now coming up to 20 years since we began development of what became the M50, which entered service in 2008. With the addition of the helmets portfolio, we're now the leading supplier of both helmets and respirators to the US DOD. Beyond that we have excellent positions in Australia with helmets and the Middle East with respirators, where we are looking to sell a combination of both products to our existing customers.

Paul McDonald: In Europe, we have long standing relationships with the UK and are building our wider respiratory coverage via the NSPA contract. This provides a good baseline position, and the service life of helmets are 10 to 20 years as we enter service, and more like 25 to 30 years with the respirators, so we will remain in service with these customers for many years to come. Rich has talked about the remainder of this financial year and the opportunities and risks related to that. In the short term, we've increased the production capacity for respirators and are running at maximum capacity throughout H2. We're aware of the underlying demand requests and are producing at the capacity to meet them in the short term.

Paul McDonald: Looking to the medium term, we have considerable opportunity. We're working through how to meet this potential demand, being mindful to use our capital in a disciplined way, whilst working with our customers to meet their needs. I'd now like to invite questions starting with those in the room, and then moving on to any of those that have dialled in.

Henry Carver: Thanks. Yeah, Henry Carver from Peel Hunt. Just a couple on the CapEx and R&D outlook. Obviously, you're cutting back for obvious reason short term, but just any colour on what sort of stuff you're working on. How the funding going forward's going to affect that and just any thoughts around that, please? Thanks.

Rich Cashin: Yeah. I mean, if I kick off. If you look at where we've come from over the last three or four years, there's been a bow wave of fairly significant product investment. And a lot of those product investments are now reaching sufficient maturity that they will start to go into revenue. So, we've talked about IHPS Gen II, there's been some work around ACH Gen II, a few other programmes. And so those are naturally tailing off.

Rich Cashin: So that gives us an opportunity to trim at the research and development level, but there is still some really good healthy activity going on on some of the other programmes that you are aware of. So, there's the MCM 100, which is the underwater rebreather which I think was actually on the slide before this one. So, investment continues there.

Rich Cashin: But again, it's a fairly mature investment profile now. So, it's almost doting the I's and crossing the T's rather than doing fundamental rework and thereafter it's kind of refreshing the mass portfolio and the stuff that goes around that. So, we're not cutting programmes that we would otherwise have been investing in. It's just a natural cadence of stuff that we've been doing which is reaching an end. And this gives us an opportunity to pause and turn that into revenue.

Henry Carver: That's very clear. Thanks Rich. And also, just the helmet outlook generally. You're going to be leader in that market you said, when the IHPS is out there. What kind of market share is that of DOD and what is the opportunity more generally globally? Thanks.

Paul McDonald: Yeah, so the ACH is the general infantry combat helmet. So, what's issued to most people is that helmet. That's been in service since 2008 in the current legacy model. That will come out and it will be replaced by the Gen II. So, it's uplifted the materials, it's uplifted the protection factor. So, from a volume perspective, that will be the largest platform of helmets from a Western military.

Paul McDonald: What that then creates is the technology that we can then leverage into other European military customers. So, it's really a bit like what you saw with the DOD respirators, Henry, we started with the M50 and you've seen us migrate that into the FM50 around the world, same will happen with our helmets platform. So, ACH Gen II is that mid-range helmet. Then we've got the close combat helmet where you're going to come into live fire situations. You don't issue those to people permanently. You give them to them as they're going into that conflict situation. And again, we're then the leader of that technology in 14 millimetre rifles.

Paul McDonald: So, from a technology point, we're absolutely leading the way and over the next 10 years, what I think you'll see is the rest of the world starting to follow that technology trend exactly as we've seen in respirators.

Henry Carver: Thanks.

Andy Douglas: Morning gents. Andy Douglas from Jefferies. Can you talk about the second half mix, potential range of outcomes? I'm sorry, wordy question. You just said Paul, at the end, you're going to be running flat out for the next couple of months, yet we've still potentially got a negative mix. So, what could that look like, both more positively and negatively, if we get the orders that we are expecting. And what I don't quite understand is if we don't get the orders, are you still going to be running flat out? I don't quite understand those two dynamics, so if you can help me there.

Andy Douglas: And then secondly on the debt. Clearly a bit higher than we thought at the half year. Can you talk about the levers that you guys potentially still have up your sleeve, just in case things do get a bit trickier. You talked about leverage coming down, Net debt to EBITDA leverage coming down at the year end. Just talk about what you can do. That'd be helpful. Thank you.

Rich Cashin: Sure. So, I'll have a crack at those. On the mix point, I think when we put our trading statement out in April, we intimated with a fair degree of confidence that actually the mixed recovery would start fairly early in the second half. And that was based on stuff we genuinely thought we knew. And I guess the one thing that's changed a bit since then is it's the timing and funding point. The underlying demand is absolutely there. We know what it is. We know where it is. We know how much it is and we know who it's for. So, none of that has changed.

Rich Cashin: Actually... I mean, there's not been one eyeota of change and actually people have taken nibbles out of that overall size already. So, we are seeing a little bit of progress, but not as much progress as we would need to see to shore up the second half. I mean, look, if everything was perfect and we landed the great order today that enabled us to maximise delivery, then the profile that we talked about in April, which is a reversal of the first half mix impact in the second half is still two thirds possible, because we've got two thirds of the second half left to go. But clearly the longer you leave it, the more risk there is. And that's why we've couched it in those terms in today's announcement. So, does that help on the mixed point?

Andy Douglas: Your ability to deliver a full system or full product is good to go as of tomorrow if the order comes in...

Rich Cashin: Correct.

Andy Douglas: You're waiting for the order. If you don't get the order, then you're delivering potentially low mixed products or just not at all?

Rich Cashin: Well, so I don't think that we've got a significant revenue risk the second half. So, we've got pretty good order visibility by our own standards in the second half. I talked about $100,000,000. That gives us a bit to go and get for the balance of the year but in historical terms, actually the bit that we've got to go and get is relatively small. So, I don't see there being a significant revenue risk, but what we're dancing around here is the potential positive impact of getting that right mix of revenue through in the second half.

Rich Cashin: And just to cover off the other point on will we still make. It comes back to that underlying demand level. It hasn't changed. And so, the right thing to do in order to provide support to our customers is to continue making. If there is a reason to slow down, then we will slow down. But for now, there isn't a reason to slow down.

Rich Cashin: On leverage, and it's kind of a related point to an extent, but clearly 2.6 times at the half year is at the higher end of where we would like it to be. The biggest determinant as I think I said when I was standing over there is the EBITDA piece. I mean, there is a fair amount of gearing associated with the EBITDA because it's a very small number right now.

Rich Cashin: We do see sequential improvement in EBITDA almost irrespective of mix in the second half. That's clearly helpful and don't forget, there's a bit of self-help in there as well. We've got the $3 to $4 million of cost savings that will be generated as a consequence of the initial $15 million programme that was announced last year.

Rich Cashin: There may well be some low hanging fruit, associated with the $6 million that I've announced today. There are things we can do on the EBITDA level, and then, of course, from the cash perspective, which is the other side of the equation, we've talked about CapEx coming down.

Rich Cashin: We will be managing working capital as closely as we can, and we made a very conscious decision back in March/April time to break down the barriers that were impacting our ability to deliver when orders came through, particularly around supply chain lead times. That has left us carrying higher inventory, but that was entirely deliberate and it's now there, we've got it. Now what we've got to do is go and sell it.

Richard Page: Morning, Richard Page from Numis. A couple of questions. First of all, on the order profile. The DOD, how do we expect this coming? Is it a one lump sum order or is it several orders? What is the visibility? Are we waiting for just one announcement from them to free that up?

Richard Page: Secondly, on the IHPS, just to revisit the timetable there and any early indications as how testing's going in the field?

Richard Page: And then thirdly, on the EBITDA. Has EBITDA improved in Q2 versus Q1? Are you able to disclose that?

Richard Page: Sorry, one last one as well while I've got the mic. Might as well lob them all in. Just on the cost savings. There's $6 million of additional. What's that going to cost you in cash terms as well, please?

Rich Cashin: You want to take the first one?

Paul McDonald: Morning, Richard.

Paul McDonald: The US situation, we are aware of what they wanted to consider in their Ukraine package, so we've quoted for that and we're in discussions with that. I think it's fair to say, we know what it is. They've been waiting for the arbitrary sign-off of this relief funding. It was $40 billion. It started off as $33, it's ended up being $40. Of the $40, $8.7 of that is effectively the armaments replenishment aspect, which is the bit that impacts us.

Paul McDonald: We're now, that was signed off obviously on Sunday by President Biden. We're now waiting for the tranche of how do they allocate that money onto the orders. I can't say, is it one or two? I think it's probably going to be one because now the funding is in place, they'll move forward and that's entirely in line with what we've seen with other countries. They've kind of got an idea of what they want. They're waiting for the money to be confirmed. When the money's confirmed, it then converted into orders.

Paul McDonald: That's why it's been so difficult for us. We know roughly what they're talking about. I can't tell you on which day it will come and how it will come, that's controlled by the customer.

Paul McDonald: If we cover that. IHPS Next Gen has been making progress. It's actually increased in priority for the US government, obviously with everything that's happened in March. There's been a key focus and that was a prioritised programme.

Paul McDonald: We've made very good progress through the ballistics side of that. We're now into the more of the long term environmental testing side of it. Very pleased with that, and I think that we are probably anticipating that we'll have confirmation of that in the second half and probably Q3.

Paul McDonald: Do you want to deal with the EBITDA side?

Rich Cashin: Oh yes. So, EBITDA, I think we were pretty clear in the April release actually, but we talked about a fairly slow start to the year, but accelerating. So sequentially, Q2 was significantly better than Q1, and actually months five and six were significantly better than months one to four, depending on how much detail you want to get into.

Rich Cashin: On the cost savings, the cash cost to achieve will be $1.5 to $2 million of the six.

Rich Cashin: Thank you, both of you.

Annabel: Thank you. Morning guys. It's Annabel from Stifel. Just two questions, please. First on the balance sheet action you took on UK GSR. I'm assuming you've completed that for the whole group now, and there's nothing else left to cover.

Annabel: The second point, you've declared flat dividend for the year. If we don't have the order progress in H2, is there any risk that we put that on hold, or we have to rethink our dividend policy?

Rich Cashin: Thank you. Those all sound like questions for me again, don't they? On the balance sheet, the balance sheet as published is my best view of what the balance sheet should be at this time. Based on everything I know now, I've taken all the actions I want to take if that helps. Clearly, we review assumptions on a fairly regular basis, but right now I'm pretty comfortable with the headroom on the other capitalised items.

Rich Cashin: On the dividend, I don't think there's a risk to the H1 dividend that's just been announced, and obviously the H2 dividend will be determined at the appropriate time.

Annabel: Just in terms of early view, but the financial management systems you have in place now. Are you happy with everything you are seeing given your experience in other companies?

Rich Cashin: That's a good question, actually. The GSR kind of stuck out a bit for a number of reasons as a capitalised item on the balance sheet, partly because we had to make some fairly strong assumptions in order to justify the carrying value, and frankly, I don't have all of the information I need to make those assumptions. So, it was the right thing to not make them.

Rich Cashin: But secondly, it's quite a different product to the other capitalised items that are on the balance sheet, and that can be put into much clearer families on which you can see significant market opportunities. Therefore, there's a very good argument for saying that the stuff that is on the balance sheet now has a rightful home on the balance sheet.

Annabel: Okay. Thank you.

Paul McDonald: I think that's all questions. Thank you very much. Thank you for your time this morning.