



AVON RUBBER P.L.C.
INTERIM RESULTS

2017

DELIVERING AND BUILDING GROWTH

AVON
Avon Rubber p.l.c.

Chief Executive Overview

Paul McDonald

Financial Review

Paul Rayner

Outlook

Paul McDonald



PAUL MCDONALD

Chief Executive Overview

DELIVERING AND BUILDING GROWTH

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CORPORATE

- New management team installed and making progress
- The first half of the year was positive and we continue to grow our order pipeline for the future



MILITARY

- A number of military opportunities exist that provide long-term growth potential
- M53A1 and XM69 programme readiness, will offset JSGPM impacts in FY19 and beyond



PROTECTION

- Acquisition & integration of Argus a success and contributing to sales growth in the Fire market
- Sales to foreign military, law enforcement and first responder customers increased as the underlying portfolio continues to grow



DAIRY

- Conditions for farmers have improved as milk prices increase
- Expansion of the farm services model continues which will grow a significant recurring revenue stream



PAUL RAYNER

Financial Review

DELIVERING AND BUILDING GROWTH

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	2017 Interim	2016 Interim	Increase reported	CC *	2016 Full Year
Orders received	£90.7m	£73.4m	24%	9%	£133.0m
Revenue	£81.1m	£66.3m	22%	7%	£142.9m
EBITDA**	£16.5m	£13.2m	25%	9%	£30.8m
Operating profit**	£10.9m	£9.0m	21%	6%	£21.8m
Profit before tax**	£10.7m	£8.8m	22%	7%	£21.6m
Cash from operations**	£17.0m	£14.7m	16%	-	£33.1m
Net cash/(debt)	£12.6m	(£8.4m)	-	-	£2.0m
Earnings per share:					
Underlying basic**	28.7p	28.7p	-	-	74.2p
Dividends	4.11p	3.16p	30%	-	9.48p

HIGHLIGHTS

- Strong orders, revenue and operating profit growth at reported currency
 - Revenue up 22% and operating profit 21%
 - Single digit organic growth at constant currency
- EBITDA up 25%, 9% constant currency
- Operating profit of £10.9m after absorbing additional amortisation and curtailment of an R&D programme
- Cash from operations up 16%
 - 103% converted from EBITDA
 - 156% converted from operating profit
- Higher tax rate of 19% vs 1% in 2016
 - Resulting in flat EPS vs H1 2016
- Net cash at £12.6m
- Strong interim dividend growth of 30% to 4.11p.

*CC: Constant currency

**All measures are underlying

ANALYSIS OF REVENUE AND OPERATING PROFIT

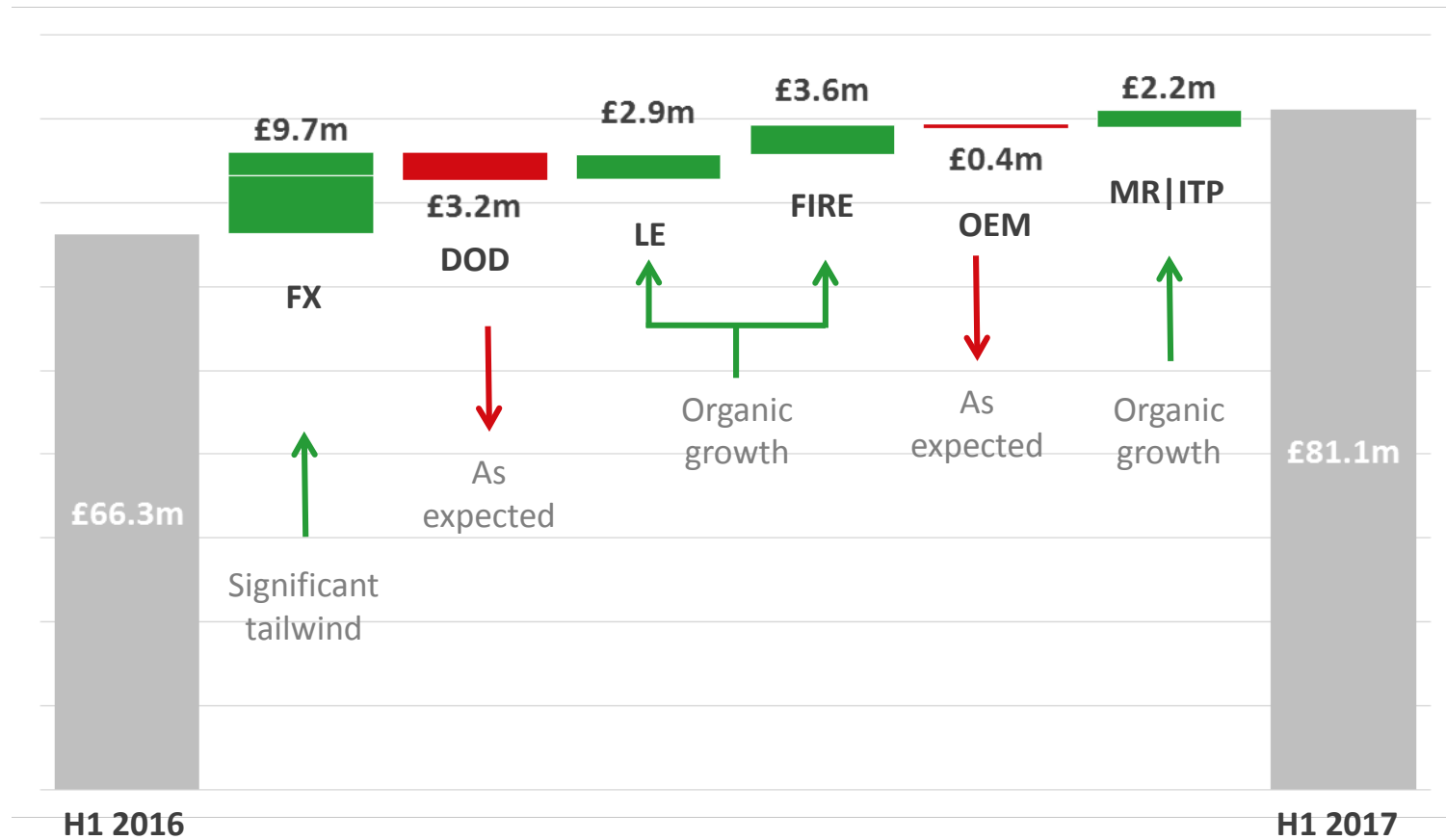
	2017 Interim	2016 Interim		2016 Full year		
Revenue						
Protection & Defence	£55.9m		£45.7m		£100.9m	
Dairy	£25.2m		£20.6m		£42.0m	
Total	£81.1m		£66.3m		£142.9m	
Operating Profit		Margin		Margin		
Protection & Defence	£8.0m	14%	£6.6m	14%	£16.0m	16%
Dairy	£4.0m	16%	£3.4m	16%	£7.2m	17%
Unallocated corporate costs	(£1.1m)	-	(£1.0m)	-	(£1.4m)	-
Total	£10.9m	13%	£9.0m	14%	£21.8m	15%

COMMENTS

- Strong first half:
 - Protection revenue up 22%, constant currency 6%
 - Dairy revenue up 22%, constant currency 7%
- Protection operating margins consistent at 14%
 - £0.6m absorbed in H1 for curtailed programmes and higher amortisation
- Dairy operating margins 16% in line with last year
 - Growth in overheads to support increased business
- Unallocated corporate costs slight increase on H1 2016
 - Full year expectations double H1 2017

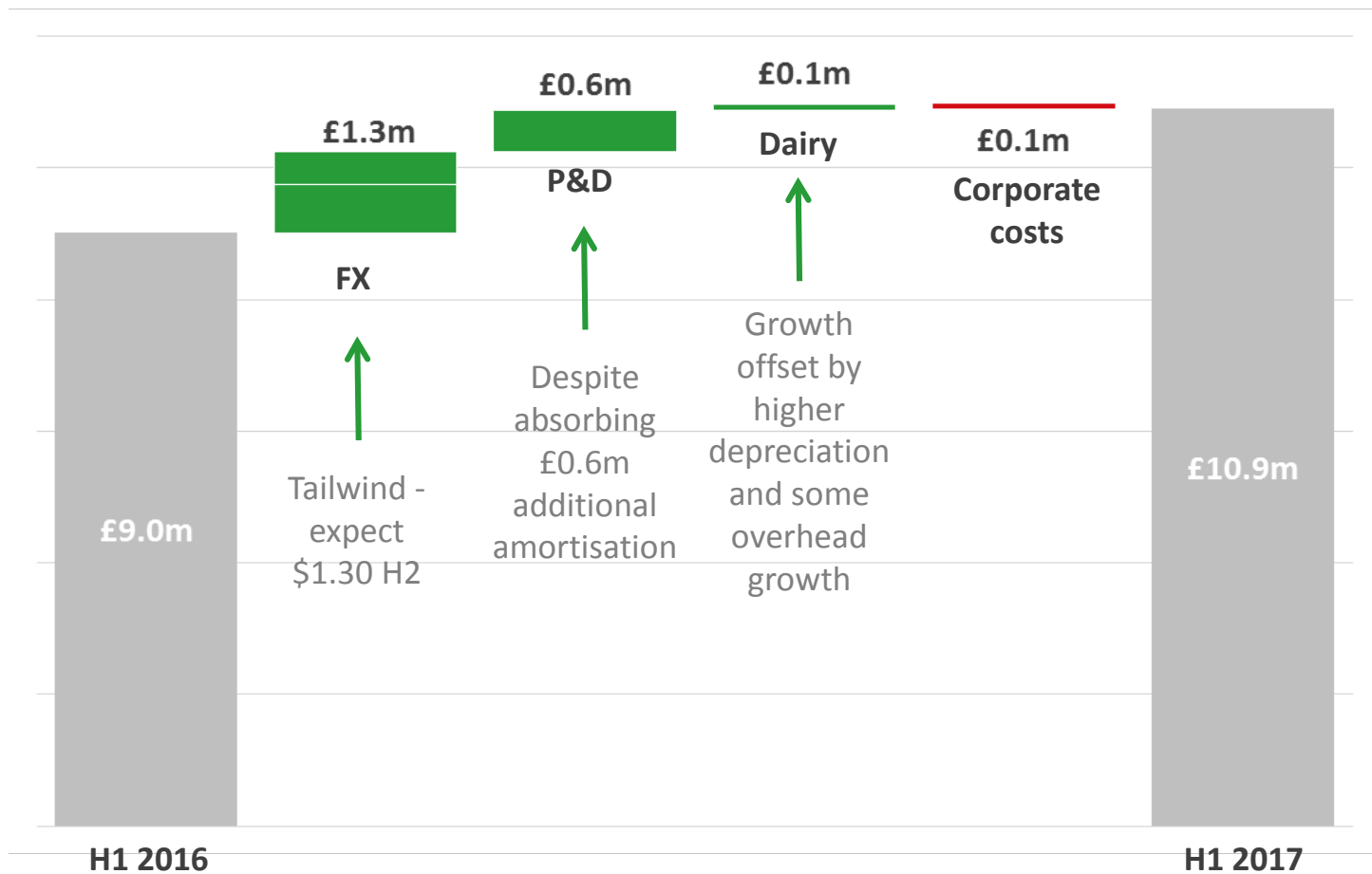
All measures are underlying

GROUP REVENUE BRIDGE



Protection revenue £10.2m higher
 Dairy revenue £4.6m higher
 FX £9.7m of which £6.9m is Protection and £2.8m is Dairy

GROUP OPERATING PROFIT BRIDGE

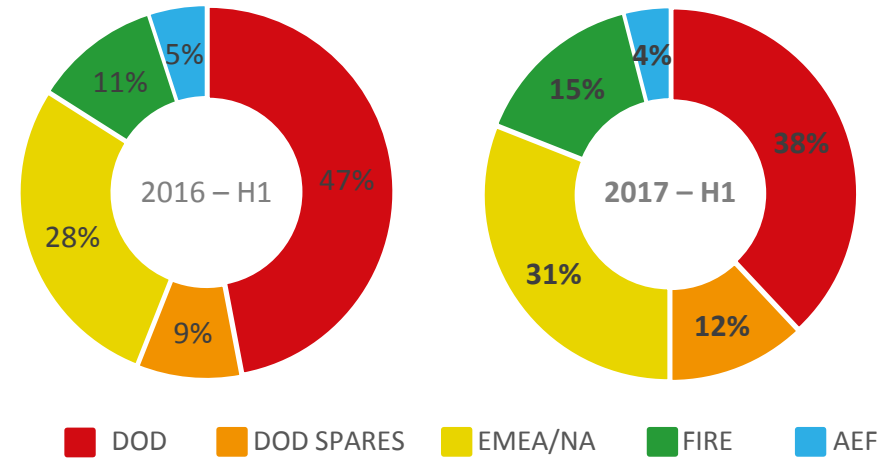


FX £1.3m of which £0.8m is Protection and £0.5m is Dairy

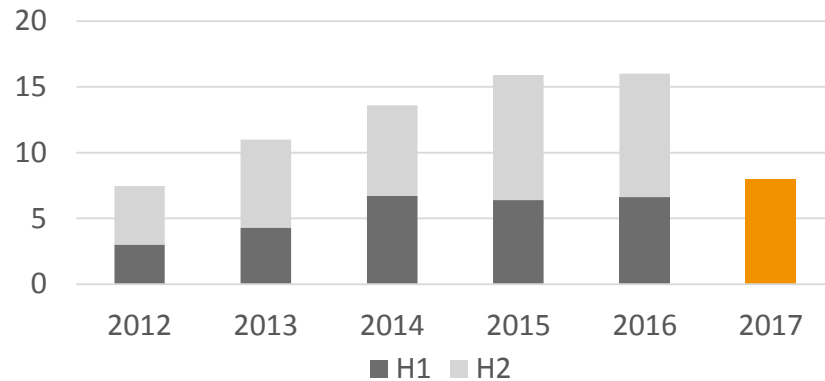
FINANCIALS

	2017 Interim	2016 Interim	Increase Reported	CC	2016 Full Year
Revenue	£55.9m	£45.7m	22%	6%	£100.9m
EBITDA	£12.1m	£9.7m	25%	9%	£22.4m
Operating profit	£8.0m	£6.6m	21%	6%	£16.0m
EBITDA margin	22%	21%	-	-	22%
Operating profit margin	14%	14%	-	-	16%

REVENUE SPLIT BY MARKET



OPERATING PROFIT £M



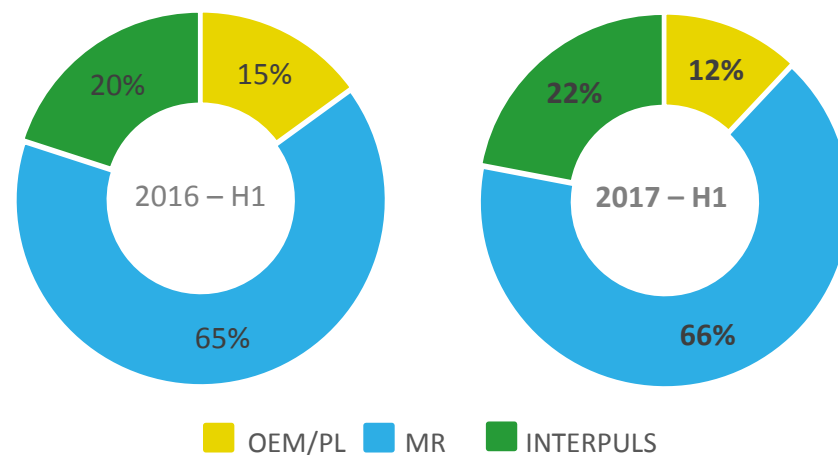
COMMENTS

- DOD revenue lower than last year as expected with JSGPM reducing
- Growth in DOD spares partially offsetting reduction in JSGPM
- Argus and SCBA growth in the period
- Strong order intake at £67.1m
 - £34.6m sold in H1
 - £19.0m deliverable in H2
 - Balance of £13.5m deliverable in FY18

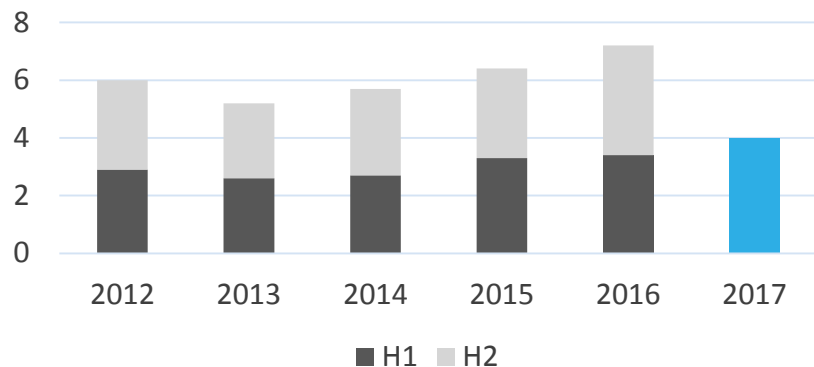
FINANCIALS

	2017 Interim	2016 Interim	Increase Reported	CC	2016 Full Year
Revenue	£25.2m	£20.6m	22%	7%	£42.0m
EBITDA	£5.5m	£4.5m	22%	9%	£9.8m
Operating profit	£4.0m	£3.4m	18%	6%	£7.2m
EBITDA margin	22%	22%	-	-	23%
Operating profit margin	16%	16%	-	-	17%

REVENUE SPLIT BY MARKET



OPERATING PROFIT £M



COMMENTS

- Positive market conditions for dairy in line with expectations
- Some overhead growth
- Slight increase in depreciation and amortisation impacting growth in operating profit
- Pipeline of opportunities for InterPuls

IMPACT OF US\$ TRANSLATION

- Average rate for H1 was \$1.24 (2016: \$1.42)
- £9.7m additional revenue and £1.3m additional operating profit due to FX tailwind
- Sensitivity analysis shows 5¢ movement will result in £2.6m in revenue and £0.3m operating profit on half year numbers
- Our H2 expectation of cable - \$1.30

TAX

- Underlying tax rate at H1 19% (2016: 1%)
- Tax charge in H1 of £1.4m (2016: credit of £0.5m)
- Full year guidance of 19%.

OTHERS

- R&D expenditure as % of revenue 4.8% (2016: 5.7%)
- Amortisation £2.0m H1 2017 (2016: £1.2m)
 - Full period of amortisation on some products
 - £0.3m additional charge H1 on curtailed programme

SUMMARY BALANCE SHEET AND CASH FLOW

BALANCE SHEET

	2017 Interim	2016 Interim	2016 Full year
Goodwill and acquired intangible assets	£23.7m	£23.3m	£26.0m
Development expenditure and computer software	£21.7m	£22.2m	£21.3m
Fixed assets	£29.1m	£29.1m	£30.1m
Working capital	£12.9m	£14.5m	£13.0m
Pension IAS 19 (net of tax credit)	(£32.0m)	(£13.0m)	(£31.3m)
Net cash/(debt)	£12.6m	(£8.4m)	£2.0m

CASH FLOW

	2017 Interim	2016 Interim	2016 Full year
Cash generated from operations	£17.3m	£14.4m	£32.7m
Capitalised development costs	(£0.9m)	(£1.7m)	(£3.2m)
Computer software costs	(£0.1m)	(£0.1m)	(£0.1m)
Fixed asset additions	(£1.7m)	(£2.0m)	(£3.5m)
Acquisitions	-	(£3.5m)	(£3.3m)
% conversion from EBITDA	103%	111%	106%
% conversion from operating cash	156%	163%	150%

- Development costs:
 - £0.9m capitalised H1 (H1 2016: £1.7m)
 - £2.0m amortised H1 (H1 2016: £1.2m)
- Working capital well controlled representing 26 days (H1 2016: 40 days, full year 2016: 33 days)
- Strong operating cash conversion H1
 - Expect some outflows H2 as Middle East orders increase working capital days
- Pension deficit:
 - 3 year valuation at 31 March 2016 agreed
 - £35.0m deficit
 - Recovery plan 9 years
 - Deficit repair contributions increasing to £1.5m from £0.7m
 - IAS 19 deficit stable



PAUL MCDONALD
OUTLOOK

DELIVERING AND BUILDING GROWTH

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NORTH AMERICA

- Strengthen our military contracting bid capture team
- Identify new customers and expand geographic footprint
- Progress JSGPM contract and post-contract sustainment position
- XM69 and M53A1 contract wins in place for FY18
- Ongoing M61 filter awards from DOD
- Continued spares awards with the growing operational footprint



REST OF WORLD

- Deeper relationships with more countries and leverage tactical product range
- Leverage key relationships with traditional S10/FM12 customers
- Launch of powered air portfolio
- Third world opportunities for FM12 in cost sensitive markets
- Widen our geographic footprint for RoW military opportunity



LAW ENFORCEMENT

- Continue the growth in North America LE channels
- Leverage wider hoods opportunity for civilian protection
- Further focus into oil and gas hoods opportunities
- Launch powered air combination systems into LE channels
- Focus on niche tactical opportunities with FM53, PAPR and ST54



FIRE

- Success with Argus, especially targeting North America opportunity
- Lead with TIC and leverage SCBA sales
- Continue long-term investment for TIC technology updates
- Development of our 2018 NFPA SCBA upgrade
- Commonise the SCBA platforms to improve margins



- Maximise the benefit of the milk price recovery



- Continue sales expansion in emerging markets such as China and South America



- Deliver sales synergies through the conversion of Milkrite and InterPuls dealer/distribution networks



- Expanded Farm Services offering to include Pulsator and Tag Exchange

- We have successfully acquired and integrated 3 core businesses within the last 3 years
- We have no need or desire to go beyond our core markets
- Our balance sheet supports further opportunities when available
- We believe further opportunities will be available for the future
- We will target bolt-on acquisitions, with proven management, key brand recognition and secure commercial contracts

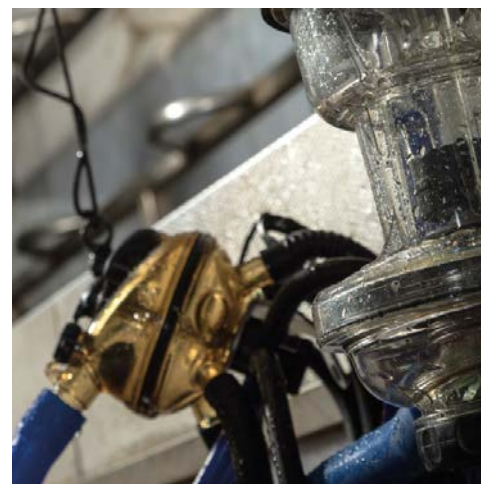


The first half has been positive and we continue to grow our order pipeline.

With a continued strong US dollar against sterling we anticipate a foreign exchange tailwind in 2017 compared to the last fiscal year.

Against the backdrop of anticipated increases in US defence spending and continuing improvement in milk prices the Board remains confident of achieving current year expectations.

Avon Rubber p.l.c. (the 'Group') is providing the following cautionary statement: This document contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of the Group. These statements are sometimes, but not always, identified by the words 'may', 'anticipates', 'believes', 'expects' or 'estimates'. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to (i) change to the current outlook for the world market for defence, security and dairy, (ii) changes in tax laws and regulations, (iii) the risks associated with the introduction of new products and services, (iv) significant global disturbances such as terrorism or prolonged healthcare concerns, (v) the termination or delay of key contracts, (vi) long term fluctuations in exchange rates, (vii) regulatory and shareholder approvals, (viii) unanticipated liabilities and (ix) actions of competitors. Subject to the Listing Rules of the UK Listing Authority, Avon Rubber p.l.c. assumes no responsibility to update any of the forward-looking statements herein.



APPENDICES

APPENDICES

DELIVERING AND BUILDING GROWTH



- US DOD sole-source contract for 50 series respirator
- Experts in our field for respiratory protection
- Leverage our mask of choice pedigree with other militaries around the world
- Leading APR range provides the opportunity to cross-sell other products
- New product development projects include the XM69, M53A1, MCM100 and ST54



LAW ENFORCEMENT

- Growing threat levels for law enforcement and first responders
- Expanded complementary product range to create hybrid modular combination systems
- Escape products provide growing opportunity for wider civilian protection



FIRE

- Market leading Thermal Imaging Cameras (TICs) and award winning Self-Contained Breathing Apparatus (SCBA)
- Since acquiring argus and their TIC portfolio, the brand has gone from strength to strength particularly in the US
- SCBA market share small but growing



INTERFACE

- Products that interface with the animal
- Improving animal health & farm efficiency



PRECISION, CONTROL & INTELLIGENCE

- Products around vacuum, milking and herd management
- Increase farm efficiency and profitability



FARM SERVICES

- Monthly rental business model with warranty & service included
- Locks in customers with our Exchange programme

