Avon Protection - Full Year Results

22 November 2022

Transcript

Bruce Thompson: Well, good morning everyone, and welcome to the presentation of the Financial Year '22 Financial Results of Avon Protection PLC. In terms of the presentation this morning... and just have the next slide and the next one. The structure will be that after giving a few of the headlines of the year, I'm going to hand over to Rich Cashin, Chief Financial Officer for the strategic and operational review. He'll then run through the financial review, and then we'll move on to the outlook. Rich will first talk about the outlook for our new financial year '23, and then I will make some comments on the medium-term outlook. Then we'll move into questions. Initially, questions from the room here, and then we'll take any questions that have come through online.

Moving on to the headlines for the year, summed up with strong second half recovery and significant long-term growth opportunity. Certainly the positive of the year, looking back, is in that first bullet, strong order intake and strong organic revenue growth with revenue growth 9% organically over the previous year. Some really good orders that have come in through the year, which Rich will be describing a little bit more in the presentation. Particularly, I think, in picking out in terms of the success in developing the head protection business with, initially in February of this year, the award of the large contract with the US DOD on the ACH Gen II basic military helmet. Then towards the end of year, bringing in the next generation IHPS helmet, our first delivery order on that contract, really showing our progress on the testing of that product. In the head protection business, we can really make that statement that we are the leading world supplier of head protection systems to the US DOD, but also expanding that worldwide.

Also, growth in our international markets, the contract that we won with the NSPA for NATO forces last year on the respiratory products has come through strongly in the year. I think you'll have seen in the statement that we've now delivered over 200,000 respirators under that contract, and very significantly some 65,000 actually making their way through that contract through into Ukraine. So some real positives in the head protection business worldwide, and also growth in international markets. Those orders coming in, and the revenues generated there offset a rather softer year in the US DOD respiratory side of the business. But I think the main challenge really for the year, we can see in the third bullet here, the challenge has really been converting those orders into revenue and then from there into decent levels of profitability. I'm going to leave Rich with all of the lame jokes related to World Cup and football, but the only one that I will say is that we do have this game of two halves here.

The first half, very much, if we look back to the first half of this financial year, it was a very different world, post Afghanistan, pre Ukraine, a lot of uncertainty out there in the world's militaries. I think that reflected itself in our business. Orders coming through rather smaller and rather slower than we were expecting. Supply chain issues really starting to effect us, and not really having the confidence to put in those orders and to ramp up production. Until, I suppose, at the half year point we then saw a change in the environment, sadly with Ukraine, and we were able to lean forward a little bit more into ordering of our materials, our raw materials for products, and also in terms of setting production levels.

I think we've seen that coming through in the second half in terms of improved operational efficiency. Obviously, we've made some major steps which Rich will describe on the whole overhead side of the business as well. But against that also, the background of the losses within the armor business through the year. But we certainly saw that improvement coming through in the second half of the year on profitability. Strong cash generation, cash conversion of over 140% in the year. That really has had a positive effect on the leverage in the balance sheet, which has gone down below the 2.0 level. That's good to see. Final dividend of 44.90 cents, level with the previous year, and really reflecting the confidence in the medium-term future of the business. That heightened demand environment really underpins that confidence, and therefore allows us to maintain that dividend at the level.

Then I think finally, before I hand over to Rich, I'll embarrass him first, that I think one of the major changes during the year that really gives us confidence moving forward is the strong executive team that we've managed to get in place. Firstly through the appointment of Rich Cashin as Chief Financial Officer at the half year, and then more recently, as you know, we have announced the appointment of Jos Sclater as Chief Executive Officer, and he's starting in January. So we have a good, strong, experienced management team carrying us forward into the medium term. I think that's all I'm going to say in terms of introduction. I'll hand over now, Rich, to Rich to go through the strategic and operational review.

Rich Cashin: Thank you, Bruce. Good morning everyone. I'm afraid I've got to read from this. As we're all aware, the threat environment around the world has changed dramatically over the last 12 months, as Bruce said. With the war in Ukraine and increasing tension around the South China Sea, the need for protective capabilities has never been stronger, and Avon remains very well placed to meet these needs. Our preexisting contract frameworks within Europe and the US, as well as our established wider rest of the world customer base, with countries including Australia and the UAE, provide a strong platform to enable us to get products in the hands of those who need it; whilst the current climate also presents greater opportunities over the medium term to increase our presence in markets and geographies where we don't currently operate. Defense spending in the US, NATO and their allies looks to be robust in the medium term, with the very evident fiscal challenges being offset by the requirement to respond to the current threat environment.

As mentioned on the previous slide, our longstanding relationships with militaries around the world provide the basis for the strength of our core respiratory business. This is no more evident than in Europe, where we have seen further success off the back of the NSPA contract, which enables us to provide our full range of respiratory products to a number of European countries. In the year, we've made deliveries to seven countries under the framework contract, with more countries expressing interest in joining the framework in the future. As Bruce already mentioned, we celebrated the 200,000th mask delivery under the NSPA framework during this year. Not withstanding our strong relationship with the US DOD, we did see a decline in DOD revenues in the year, following the conclusion of the M69 respirator contract, along with reduced volumes of powered air purifying respirators, and a very strong prior year comparator for spares and accessories. Nevertheless, we continue to work in partnership with the US DOD, and we maintain a very strong market share for our respiratory products, demonstrating our long-term relationship with this important customer.

We have also made substantial strides in developing our head protection business during the year. Following contract award in 2021, we received the first delivery order for $42 million for the next generation IHPS in September of this year. Initial deliveries are expected to ship in the first half of FY23. We were awarded the ACH Gen II contract in February of this year, and submission for first article testing is planned for right around now, actually, with initial revenue expected in FY24. This product is of particular note as it combines the helmet shell technology of Ceradyne, with the liner technology of Team Wendy, and is a great example of the strategic benefit of bringing these two businesses together. The result of these two program wins is that Avon Protection will become the leading supplier of ballistic helmets into the US military. We've also made further synergies by insourcing the helmet shells for a number of legacy Team Wendy products, allowing us to capture more of the value that these generate.

Despite the strong year from a demand perspective, particularly in the second half, we have seen a number of challenges. The global supply chain issues, coupled with increased volatility in customer order patterns, hampered our ability to react to the demand in the first half of the year. We took the initiative to buy forward a number of components where we had seen the largest increase in lead times, predominantly electronics and textiles, to combat these issues, which has allowed us to run our facilities at much more consistent and therefore more efficient levels of output.

We have also made significant progress against the two cost reduction programs announced in the year, half of the $15 million announced in December, 2021, has now been executed; with the other half linked to the closure of the armor business, which we expect to be fully withdrawn from by the end of FY23. The further $6 million reduction announced in May of this year has been fully delivered, but as mentioned at the time, these costs are more variable in nature and therefore we will likely put some of these costs back as revenue grows. Lastly, delays in approvals for a number of our products resulted in limited throughput in some of our facilities, whilst bearing all of the costs. As previously announced, we have now been granted FAT approval for both our NG IHPS helmets and our DLA ESAPI body armor, and we're therefore ramping up production accordingly.

We'll now move on to look at some of the financials for FY22, before looking at some guidance and expectations for the year ahead. You can see the headlines here. Orders received for the year were down slightly on the prior year, with increases in head protection, including the previously mentioned $42 million for NG IHPS, offset by decreases in respiratory following a strong prior year comparator with respect to orders received under the NSPA contract. Order book was up as orders received outpaced revenue. Revenue was up with an increase in our UK and international business driven by the NSPA contract, offsetting, as I said, a decline in US DOD sales following the end of M69, and strong spares and accessories in the prior year.

You can see from the donut charts on the right that our UK and international revenue has shifted from 22% of the group in the prior year to 38%, whilst the proportion of respiratory and head protection revenue stayed relatively unchanged.

Adjusted EBITDA was down for the year, and I will talk through the movements in more detail shortly. The remainder of the P&L flow's pretty much as you would expect, with an EPS excluding armor of 54.7 cents and including armor of 20.4 cents. And as Bruce said, we're paying a final dividend of 30.6 cents, giving a full year dividend of 44.9 cents in line with last year and in line with the decision made at the half year results.

From the income statement, you can see that armor contributed 13.3 million of EBITDA loss to the group in the year, due to low revenue and operational challenges along with a high overhead cost base. The losses will continue into FY23, but will be alleviated somewhat by increased revenue from high deliveries of DLA, ESAPI, and flat armor.

So, walking through revenue. As at the interims, we segment reporting by US DoD, which is US Military, commercial Americas, which is largely first responder and includes Team Wendy, but also captures other military sales in that continent beyond the US, and then there's UK and International, which is everything outside North and South America, both military and first responder. This year, we saw a large increase in revenue from the UK and international business, driven by the NSPA contract offsetting a decline in USD, as I've already described. The increase in commercial Americas predominantly reflects the additional month of Team Wendy.

Following from the previous slide, we now see an EBITDA walk for the year and note that this is on an excluding armor basis. Although we saw favorable volume and FX swings in the year, headwinds within mix and operational efficiency led to the decrease year-on-year. The adverse mix impact is partly a result of the shift in revenue from DoD to UK and international and partly owing to a higher accessories revenue within UK and international. The remaining $9.6 million decrease is roughly split 50/50 between manufacturing inefficiencies encountered in the first half due to a number of factors, including supply chain issues and increased overheads. This change in overheads is broadly as had been planned at the time of the FY21 results, but it was expected to be more than compensated for by higher revenue and profit. The two cost saving programs initiated in the year have been executed, excluding the armor element, and we will see the benefit entering the new year, albeit tempered by inflationary factors.

So, here you can see the cash flow. The numbers are largely self-explanatory, but there are a few points worth highlighting. Firstly, the payment into the pension plan, which included a $4 million prepayment covering contributions for FY23, enabling us to lock in benefits following the increase in bond yields. Second, is the large decrease in capital expenditure, which is driven by decreases in IT programs and in armor-related investment. We expect this to trend back towards normal levels moving forwards. And finally, there is the purchase of our own shares which relate to the share buyback program, which was suspended in May. Please refer to the technical guidance in the back of the deck for more information on a number of line items.

Net debt shown here, excluding lease liabilities, has increased by just over $17 million in the period with $26 million returned to shareholders. Walking through the bars, you can see the lower than expected contribution from EBITDA offset by tight control of working capital. We then have the larger than usual pension contributions, highlighted earlier, alongside the returns to shareholders covering dividends and the paused buyback program. In line with what we said at interims, leverage, defined by our bank governance on a pre-IFRS 16 basis, has fallen to under two times. Lease liabilities at the end of the year totaled $23.8 million, down from $29.1 million this time last year.

Looking at the balance sheet, there are a few points of note. Capital assets have reduced with D&A outpacing additions following lower levels of capital expenditure than previous years, and impairments of assets related to the UK GSR program at the half year. The largest movement is of course the reduction in the pension deficit, which has been all but wiped out by the increased discount rate, driven by the change in bond yields.

And now moving on to some FY23 expectations. Firstly, the new financial year has started in line with our expectations and is supported by the opening order book of $151 million. In terms of revenue, with the commencement of the next generation IHPS, we will see growth in head protection, although this will be offset slightly by a modest decline in respiratory, following a strong year with the NSPA contract in '22.

Armor revenue is expected to total between 28 and $30 million as we fulfill our contractual obligations. Margin is expected to be in line with FY22 on an excluding armor basis, with some adverse mix as a result of new product introduction costs and heightened inflationary pressures, largely offsetting the annualised effects of the cost-saving programs and operational efficiency improvements that we have implemented.

Looking beyond FY23, next generation IHPS and ACH Gen II, along with a number of new opportunities will underpin future growth. As current headwinds subside and growth generates operating leverage, there is an opportunity for margin improvement from here. Although armor will continue to be a headwind in FY23, the negative impact will lessen as we ship more DLA ESAPI product, resulting in an improved margin on an including armor basis from 9.4% in FY22 to double digit levels. And I'll now hand back to Bruce to conclude.

Bruce Thompson: Yes. Thank you. Rich, and thank you for giving the near-term outlook looking at the next financial year or the current financial year, FY23. If we now look more medium and long-term. Firstly, you can see greater focus on protective technologies and capabilities. The world has changed since even during this last year. And unfortunately, that is to our benefit in terms of the products that are demanded in this increased threat environment.

Ongoing proliferation of the CBRN, chemical, biological, radiological, and nuclear offensive capabilities in hostile nation states. Again, with that, then that creates the demand for our products particularly. And just generally anticipated increase in public defense spending on personal protective equipment over the medium, long-term, including those long-term upgrade programs.

So, I think with those first three bullets, you see that we see an environment from a market point of view that offers us greater opportunities in the medium and long-term. And I hope also through the presentation that Rich has delivered, that we do look forward with confidence, with a business that has improved in the second half of this year, moving into the first half of this current financial year, with improvements being made in the operational efficiency, with a more stable production planning environment and very importantly, and finally, with a strong executive management team in place ready to move the business forward.

So, I think with those final words, let me hand over now to the questions in the room. And before actually asking the questions, if you could just give name and company, obviously for our benefit, but also for the benefit of the webinar.

Henry Carver: It's Henry Carver from Peel Hunt. Just a couple. Firstly, on the ACH Gen II, obviously that's a new helmet combining Team Wendy as well. What would be the risk to FAT on that? Have we learned enough from recent FAT testing to build in plenty of contingency there? Or, is there still a risk, be it even on their side and getting it all started? Anything comforting around that would be helpful. Yeah, if we just start with that one maybe.

Rich Cashin: Yeah. So, ACH Gen II is the general infantry helmet. It is ballistically resistant, but to nothing like the same extent of the next generation IHPS. And so technologically, it's deemed to be less challenging, and so we think we're in a pretty good spot from a technology perspective. The risk with these things is always around timing. And a larger part of that is outside of our control, which is why we've factored in a bit of a buffer as to ... I mean, if we're submitting FAT samples now, if the customer got right on it and started testing them immediately, in theory you could convert that to revenue pretty quickly. Our working assumption is that revenue will start at the beginning of FY24. So, that's how we mitigate that risk.

Henry Carver: Got it. Thanks. And then, just a couple of broader points, but how long might you expect it to take to maybe get the NSPA interested in taking helmets as well as respiratory? Is that a long lead time type project for you, or do you think given what's going on, we might see an acceleration in their thinking around their kit?

Rich Cashin: Yeah, it's a great question. I mean, the way I see that playing out is actually on a more country by country basis. I think, I don't yet foresee a path to signing a big blockbuster deal with NSPA, which means that we're going to flood the European market with helmets. I think it's an interesting point, European customers tend to favor slightly different things than US customers. And as a business, we're still learning about the nuances between the two, but I think there's a great opportunity for us to start picking off individual countries within NATO and hopefully we'll be able to see some progress on that quite soon.

Henry Carver: Brilliant, thanks. And then just lastly on the DoD and what we've learned, not just around the way they order, but the M50 generally, and particularly I'm thinking of the lifespan of a mask, we were always under the impression, or I certainly was, that it was a kind of 10-year lifespan and that was a fairly strict number, but it feels now quite a long way after the start of the initial rollout contract, that it might be a longer life. Is there anything that we of learned over the last couple years, I guess, after the rollout contract was finished, about those masks, that make us think differently about how to forecast, effectively?

Rich Cashin: Yeah. Thank you. It's a good question, again. So, when the US general purpose mask contract was first signed-

This sort of general purpose mask contract was first signed, there was an expectation that these masks would have a life of 10 years. I think as we've gone through the delivery period, we've come up with the alarming observation that the quality of our product is rather better than we thought, which is good, but also bad.

So it does mean that the theoretical life of these things is a bit longer. Now, what that actually means in replacement cycles within the USDOD is anybody's guess actually. And I mean there are plenty of anecdotal examples where we get some very clear signals from the customer that they don't require any more product, and then the following week we'll get an order for 6,000, as happened right at the end of last year, funnily enough. So I don't want to predict that we're going to be delivering 60,000 masks a year into perpetuity into the USDOD, but there again, nor do I want to predict that we won't be.

I mean Bruce made the point that the sort of customer ordering patterns are somewhat less predictable than they used to be. And actually there's a little bit of a Ukraine effect in there. As NATO and allies scrabble together to work on behalf of Ukraine, there was a very finite pool of people who buy this sort of equipment. And when they're diverted to helping Ukraine, they're probably somewhat less focused on their domestic requirements. So there's every chance that there was a bit of pent up demand there, but the guidance does not assume a blockbuster return to DOD delivery growth.

Bruce Thompson: I think I'd just add a couple of points to that. Firstly, Rich's comments are absolutely right and are focused on the masks, but what we mustn't forget is that alongside the masks you also have quite a lot of accessories and ancillary products which are driven by that demand. And so very specifically, you've got the filters and those filters are not things which actually you keep for 10 years or more. Those, whenever they're in use, they get replaced and there is a shelf life for those. So towards the end of the year you saw we got a reasonable size order for filters and accessories coming through. And so even though the mask demand may not be there at the same levels, we still will be getting revenues through.

But I think the second very important point is that our mask is really seen as being the leading mask in the world supplied into the USDOD, but continually people are looking further forward and looking for advancements to that mask technology. And that particularly actually relates to the combination of the mask and the helmet and making those two things work together. You don't want to be in a situation where to put the mask on, you actually have to take the helmet off when you're in a combat situation. And when you have all of those developments coming on, then we have the opportunity, so long as we stay ahead of the field, that actually that can generate new demand. If there's a new product that we're coming out with which is significantly better than the older one, then that can actually improve those purchasing cycles.

Andrew Douglas: Good morning gents. It's Andrew Douglas from Jefferies. Three questions please. The M69 order completed in the year, can you give us a feel for follow-on potential orders from there, be it spares or on masks? And are there any additional contracts which finish this year on that front?

Secondly, on Team Wendy and insourcing, can you just give us a feel for how much that has progressed? And I'm working on the assumption that any future orders now get a Team Wendy insert. Is that fair?

And then last, but by no means least, the working capital performance, well done, strong performance there. Does any of that unwind or is that actually a structural working capital improvement so we now get an ongoing better performance from working capital?

Rich Cashin: Okay. I'll try and pick those off one by one. M69. So the end of the M69 contract was something that we knew about, it wasn't a surprise. Inevitably, there will be some accessories that will still feed into that and frankly, it wouldn't surprise me if we still get follow-on orders for the masks themselves. It would not be unheard of for a contract to come to an end, particularly in the US, and then to find that there's still a bit of demand there. But to all intents and purposes, we're assuming that the revenue we got from M69 last year won't recur this year. There are no other material contracts coming to an end in FY23, so that's good.

Andrew Douglas: Sorry, what's the life of an M69 product? Similar to M50, is it? Or is it-

Rich Cashin: I'm going to have to get back to you on that. I have no clue. Apologies. Rory, make a note of that one.

On Team Wendy, so we're talking about the insourcing of the shells here. So Team Wendy has done ballistic helmets for a while. They have outsourced the shells to a third-party provider. Clearly we have the capability in house to be producing those shells and our working assumption is that if we were to get an order today, we would satisfy it internally, not externally. So there is still some demand that's with the third party provider, but I don't see significant new demand going that way.

And then finally on working capital, thank you. No significant one-offs in working capital in FY22 aside from the one item that actually went the other way, which is the pension prepayment. And so I don't expect to see a dramatic unwind in the improvement we saw as we go through '23. But clearly, as I flagged in the numbers section, I would expect CapEx and R&D to move up to slightly more normal levels as we go through this year and into next.

Andrew Douglas: And can I just ask one quick one on a point of clarification. On the armor business, which is included inside the numbers, but is to be discontinued, in the statement you say that you're still expecting it to complete, to wind up in this year, I'm assuming you mean calendar, so we'll still have this-

Rich Cashin: Fiscal.

Andrew Douglas: Fiscal, so it will be classed as discontinued this year?

Rich Cashin: No. So because we're not selling it, it can't be classed as discontinued. if you're winding it down, you're required to report it as continuing until such time as it is wound down.

Andrew Douglas: Okay. Thank you.

Bruce Thompson: I think just adding on the armor business, I think we are pleased to be in the position that we can really plan and wind it down. At an earlier stage, we were still having to ensure that on the customer demand side of things, that we actually exited the business with no impact on those customers. So we have now actually finalised the orders that are required of DLA ESAPI and also the Boeing Flat Armor side of things as well. So we're in a clear position of when we can say it will close down.

Richard Paige: Morning. Richard Paige from Numis. Just a couple from me please. The next gen IHPS or contract, obviously quite significant proportion of the order, so could you just remind us how the timeframe of that $42 million order is or contracted, those deliveries will be made against that order in terms of timeframe?

Rich Cashin: Yeah. It is second half of '23 and into '24 and it'll be roughly 50/50.

Richard Paige: That begs the broader question, which is just the order cover for the revenue expectations for this year.

Rich Cashin: So we've got the order book of 151 now, clearly IHPS is in there. Actually if you look at order book now versus history, we're in a pretty good spot. This is a fairly fast order to cash business and the order book cover is unusually high right now and undoubtedly helped by a little bit that will be delivered in FY24, but order cover for FY23 delivery is slightly better than we were this time last year.

Richard Paige: Thank you. And the second one, you mentioned inflation obviously working against some of the operational improvements you're making. Could you just remind us contractually how easy inflation is to claw back in terms of what you've got across the business please?

Rich Cashin: Yeah, so there's a good chunk of our business where we do have pricing power and we have been exercising that pricing power, as you would expect, in line with if not ahead of costs where we can. But similarly, there is a chunk of our business where we can't do that. So I mean IHPS is a classic example. IHPS is a contract that we won in 2021, it was priced in 2021, and the price that we agreed in 2021 is consistent with the price that we now expect to get as we start shipping those helmets in '23. As we go through the program of IHPS, there will be opportunities to reset that, but there's a good example of where we can't capture inflation back straight away.

Andrew Douglas: Thank you.

Bruce Thompson: I think just, so to be completely clear on that, the delivery order we've had on IHPS next gen is the first delivery order under that contract and that's under the JNA contract. And then obviously what will be discussed during this next period will be a full rate production contract and obviously in that situation, you're able to submit different pricing.

Annabel Hewson: Sorry. Hi. Hi, it's Annabel Hewson from Stifel. Just two questions if I may. Firstly on R&D, where obviously you've scaled back and we understand the reasons for that. But I mean historically I think Avon always said that you were about sort of five years ahead of the closest competition in terms of your portfolio. Is that something you can sustain now with the trimming that you've done and well, what are the areas where we have scaled back a little bit given the strength of demand in the market?

And secondly, you alluded to the US and timing of orders and things being a little bit difficult. It's obviously been a challenging budgetary time. Is there any more color you can give us around the market? Maybe talk about the US Navy rebreather, if we can talk about that, or any other things that are on the horizon that could be potentially interesting.

Bruce Thompson: I'm just going to step in before Rich gives the detailed answers to those questions because I think the first statement you made, I think I would always feel it's a little bit complacent if we say we're five years ahead of the competition, we're confident of that. I think in this sort of business, absolutely we've got very strong positions with the leading technology now in both respiratory and in head protection, but we have to continue to work to maintain that position in advance and I think any industrial company saying that they're five years ahead of all of the competition may be a little bit complacent. So we're not saying that at this point.

Annabel Hewson: Understood.

Rich Cashin: Thank you Bruce. So with R&D, I mean clearly there was some development cost being expended on armor, which we're now not doing anymore. So there's one obvious step down. Thereafter, I think if we look at where we're focusing our R&D dollars, there's clearly quite a lot around helmets and the integration of new helmet platforms into the portfolio, which we've discussed. Actually, Bruce alluded to some of the more important stuff that we're looking at around respiratory as well. So, the spread of R&D is actually pretty good. I don't think that we've got any orphans out there, certainly, and we've given guidance in the back of the slides to show you the direction of travel for R&D, and as you can see, it is creeping back towards what you might deem to be a normal level. So, I don't think we're in danger of falling behind here, but clearly we do need to keep pushing forward to maintain those technology leadership positions. So, that's R&D. On the broader market outlook, the word is unpredictable, I think. So, timing of orders is unpredictable. We saw it last year, I suspect we'll see it again this year. FY22 was somewhat unusual in that we managed to have an entire 12 months of continuing resolution. Hopefully that doesn't get repeated this year.

As you look through budget submissions, you can see clarity of where you expect expenditure to happen, but until such time as that comes into effect, that's what gives rise to some of the unpredictability. So, hopefully we can give you some more clarity around the half year results on that. Then other contract opportunities, Bruce has already talked about potential follow-ons on IHPS. Clearly ACH Gen II, when that starts converting to revenue will be good news. The MCM100, Rebreather product, the US Navy are looking at that, as are other agencies within the US, interestingly outside of... So, the US Navy is predominantly focused on mine clearance. There are other opportunities for MCM100. Actually, if you move beyond the US, that's probably where we'll see more immediate interest. It's already in operation in Norway and in Belgium and in the UK, and we've seen plenty of interest from other European and Asian countries to adopt that technology into their Navies, and it's under diving trials right now. So, lots of opportunity with that product.

Annabel Hewson: Thank you.

Andrew Douglas: Thank you. Just a quick follow up from that question. If we look at your R&D pipeline and new products, you've got a lot of NPI this year. Answer this exactly over what timeframe you want. In terms of new products, which you are going to deliver into the market over the next five, 10 years or whatever period you want, do we have blockbusters? Do we have five or six that are going to do 10 million a year? What does that pipeline look like in terms of size and lumpiness, if I can?

Rich Cashin: That's quite a difficult question.

Andrew Douglas: I know.

Rich Cashin: I mean, near term, clearly the big things are those helmet programs as they come in. Looking a little bit further out, it's almost a little presumptuous at this stage, and the reason why I say that is, for example, if we talk about the respiratory thing that Bruce was talking about. How do you get a slightly more integrated solution so that you can put a respirator, or respirator on without taking a helmet off? We can come up with a few bright ideas and a few good technologies that sit behind that, but we're not going to turn it into a product until such time as our customer tells us there's a need for it. So, might that be a blockbuster down the line? Yes, absolutely. Can I tell you it is and when? No. But that's the nature of the business. It's an iterative development program.

Andrew Douglas: As opposed to. having an M69 and a 53A1 and a blah, blah, blah.

Rich Cashin: But of course. Those were effectively developed in exactly the same way. So, we've identified what we think is a need, we'll come up with what might be a solution, discuss it with the customer. They'll say, "Well, no, that's not what we want," or, "It is what we want." Yeah.

Bruce Thompson: I would just reinforce what Richard has said, because I think if we look back over the recent period, a lot of that product development work is effectively bearing fruit now. The challenge now, and we have to keep reinforcing it, is in execution. So, if we look at those helmet programs, we've got ourselves into that leading position on the ACH Gen II with the basic combat helmet. Then very importantly, on the IHPS Next Gen, which is the ballistic rifle penetration helmet. The challenge there is not necessarily to introduce a new product, it's really to maximise the potential of that. It's already had spinoff.

Rich was mentioning before about combining the Ceradyne Ballistic Shell Technology with the Team Wendy Liner and Retention Systems. We've developed a product more for commercial applications called the F90, which a number of you will have heard about, which combines those very competitive qualities of the Ceradyne and Team Wendy Technologies. So, those are all products, which it's really about execution and maximizing the potential of those. As we were saying before, it's then making sure that we are ready with the next generation of products, both on respiratory and head protection, so that we don't lose out to competition. But not necessarily forcing the pace of those introductions and replacing our existing models.

Andy Edmond: Andy Edmond, Equity Development. Rich, I wonder if you could just say a little bit more about the current states of supply chain challenges, and there's an overall feeling of improving logistics and production. How that relates to the forward ordering that you'd done earlier in the year, and what confidence that leaves you in timely delivery of that encouraging order book.

Rich Cashin: Yeah. Great question. Just looking at some anecdotal evidence over the last two or three months, we have seen some of those lead times coming back in, which is great, and is consistent with commentary you're probably hearing elsewhere. Logistics itself is still a bit of a challenge. So, in other words, getting space on boats at a cost that makes sense, that's pretty hard work right now. But yet, we're seeing gradual improvement in the supply chain. But that's based on the stuff that we know and understand very well. Some of the execution challenges that Bruce was talking about, as we start ramping up on new products, there might be supply chain constraints that we haven't yet found. So, I'm slightly cautious to say, yeah. It's all better. It's all off to the races.

Bruce Thompson: Donald Rumsfeld in disguise.

Rich Cashin: Well, but it is true. Where we understand the risk, we are working hard to mitigate it. There's always the chance that there is risk out there, particularly in new products, where we haven't yet stressed the supply chain enough to meet full rate production. Time will tell, but we're working hard to mitigate those when we encounter them.

Andy Edmond: Thank you.

Bruce Thompson: Any more questions in the room? Well, thank you, and we'll just see if there are questions coming through online.

Webcast Operator: There's been no further questions from the webcast, Bruce, so I'll pass back to you for any closing remarks.

Bruce Thompson: Good. Well, I think first thing is just to thank you for coming along and hearing the results presentation, and giving some good challenging questions during the session. I think you can see, we're looking forward to this new financial year and beyond. A lot of optimism in terms of looking at the good things that have been done within the business, particularly in coming through in the second half of this financial year. But at the same time, not being complacent, and understanding that there are challenges still in execution. We have some great potential there on new programs that we must bring through into revenue and into decent levels of profitability and cash flow. But thank you very much indeed for joining us on this presentation. Thank you.