

# Avon Rubber

## Body Armor ramp up deferred to FY22

Delays to product approvals and a protest by a competitor have led to the anticipated incremental revenue in FY21 from body armour contracts signed in FY20 being deferred to FY22. As a result, our FY21 revenue estimates are reduced by \$50m, dropping through to a reduction in FY21 EPS of 19%. We expect the contracts to deliver as previously expected in FY22. The rest of Avon Rubber continues to trade as anticipated and has experienced good order intake during Q121. FY22 is currently unchanged and Avon continues to grow strongly as it executes its growth strategy.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
09/19	162.0	28.3	84.9	26.6	52.4	0.6
09/20	213.6	36.0	96.2	34.5	46.3	0.8
09/21e	284.9	50.2	130.9	44.9	34.0	1.0
09/22e	362.0	69.4	181.1	53.9	24.6	1.2

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. Avon moves to reporting in US\$ in FY21, FY19/FY20 restated accordingly.

## Delays to US DOD contracts

Avon has announced that due to product approval delays for its DLA ESAPI (US Defense Logistics Agency Enhanced Small Arms Protective Inserts) and the US Army VTP (Vital Torso Protection) body armour contracts, deliveries are not expected to commence until H122 (mid-FY21 previously). The issues are caused by failure of the product while testing initial production samples; these are expected by management to be resolved but with a resultant delay. In addition, a competitor has protested the US Army's Next-Generation IHPS (Integrated Head Protection System) sole-source contract award announced on 24 September, which is not material for FY21 but may at least cause a delay of several months. It is plausible that the award will be maintained but this is not certain.

## Other expectations maintained

More positively, a separate announcement confirms initial orders under the NATO mask contract under this 10-year framework agreement from Norway, Finland and Belgium totalling \$33m for delivery across 2021 and 2022. The addition was already in our expectations but provides further underpinning of the anticipated recovery in international sales of respiratory systems. Across the announcements, management confirms that trading year to date has been in line with expectations, with good order intake. It now expects lower armour revenue for FY21 (c \$50m) resulting from the delays in ramping up deliveries through the rest of the year. All other expectations remain unchanged, as do FY22 estimates.

## Valuation: Still growing to assumed FY22 levels

Management has done a good job of building investor confidence as it transitioned to a more focused play in defence and security markets. However, the rating was pricing in execution with too low a risk. While the cash impact over FY21 and FY22 only equates to 34p per share, it will take management time to fully recover investor confidence and the rating. Avon continues to grow strongly, even in FY21.

Body armour contract delays

Aerospace & defence

17 December 2020

Price **3,272p**

Market cap **£1,014m**

US\$1.36/£1

Net cash\* (\$m) at 30 Sept 2020 147.8  
\*Excluding leases

Shares in issue 31.0m

Free float 98.8

Code AVON

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (9.2) (10.1) 87.0

Rel (local) (11.4) (17.7) 111.0

52-week high/low 4,625p 2,000p

### Business description

Avon Rubber designs, develops and manufactures personal protection products for Military and First Responder markets including respiratory mask systems, helmets and body armour. Its main customers are national security agencies such as the US DOD and c 90% of sales are from the US.

### Next events

AGM 29 January 2021

H121 results 25 May 2021

### Analyst

Andy Chambers +44 (0)20 3681 2525

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

[Edison profile page](#)

**Avon Rubber is a research client of Edison Investment Research Limited**

## Revisions to estimates

We have reduced our revenue expectation for Avon Protection by \$50m or 17% in FY21 to reflect the delay in the body armour contract ramp-ups. While we cannot be certain about the success of retaining the IHPS contract, we are assuming that FY22 revenues are unchanged as a result of some catch-up of FY21 deferred supply. It is entirely plausible that the protest will not be successful. The drop through to EBITDA leads to a reduction in FY21e PBT and EPS of 19%.

There is a slight reduction in expected cash flow, which slightly increases net interest payable in FY22, reducing PBT and EPS marginally.

### Exhibit 1: Avon Rubber earnings estimates revisions

Year to September (\$m)	2021e			2022e		
	Prior	New	% change	Prior	New	% change
<u>Revenues</u>						
Avon Protection	292.9	242.9	-17.1%	314.8	314.8	0.0%
Team Wendy	0.0	0.0		47.3	47.3	
<b>Total Revenues</b>	<b>334.9</b>	<b>284.9</b>	<b>-14.9%</b>	<b>362.0</b>	<b>362.0</b>	<b>0.0%</b>
<b>EBITDA</b>	<b>84.1</b>	<b>71.5</b>	<b>-14.9%</b>	<b>93.6</b>	<b>93.6</b>	<b>0.0%</b>
<u>Adjusted EBIT</u>						
Avon Protection	54.8	42.8	-21.8%	61.8	61.8	0.0%
Team Wendy	10.5	10.5		11.8	11.8	
<b>Adjusted EBIT</b>	<b>65.3</b>	<b>53.3</b>	<b>-18.3%</b>	<b>73.6</b>	<b>73.6</b>	<b>0.0%</b>
<b>Adjusted PBT</b>	<b>62.2</b>	<b>50.2</b>	<b>-19.3%</b>	<b>69.5</b>	<b>69.4</b>	<b>-0.2%</b>
<b>EPS - adjusted fully diluted (c)</b>	<b>162.2</b>	<b>130.9</b>	<b>-19.3%</b>	<b>181.4</b>	<b>181.1</b>	<b>-0.2%</b>
DPS (c)	44.9	44.9	0.0%	53.9	53.9	0.0%
Net debt/(cash)	(59.3)	(55.4)	-6.4%	(85.1)	(74.5)	-12.3%

Source: Edison Investment Research estimates

**Exhibit 2: Financial summary**

	\$m	2019	2020	2021e	2022e
Year end 30 September		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		162.0	213.6	284.9	362.0
Cost of Sales		(98.5)	(127.2)	(174.4)	(221.6)
Gross Profit		63.5	86.4	110.5	140.4
EBITDA		36.2	49.0	71.5	93.6
Operating Profit (before amort. and except.)		33.0	42.5	60.5	81.5
Intangible Amortisation		(4.2)	(4.0)	(7.2)	(7.8)
Operating profit (company definition)		28.8	38.5	53.3	73.6
Exceptionals		(17.2)	(35.3)	(8.9)	(8.9)
Other		(0.6)	(0.1)	(2.2)	(2.2)
Operating Profit		11.0	3.1	42.2	62.5
Net Interest		0.1	(2.4)	(0.9)	(2.0)
Profit Before Tax (norm)		28.3	36.0	50.2	69.4
Profit Before Tax (FRS 3)		11.1	0.6	41.2	60.5
Tax		1.9	1.4	(7.8)	(11.5)
Profit After Tax (norm)		26.1	29.9	40.6	56.2
Profit After Tax (FRS 3)		13.0	2.0	26.2	38.4
Average Number of Shares Outstanding (m)		30.5	30.6	30.6	30.6
EPS - normalised (c)		85.6	97.6	132.7	183.6
EPS - normalised & fully diluted (c)		84.9	96.2	130.9	181.1
EPS - (IFRS) (c)		42.7	6.7	109.1	160.0
Dividend per share (c)		26.6	34.5	44.9	53.9
Gross Margin (%)		38.8	40.4	38.8	38.8
EBITDA Margin (%)		22.1	22.9	25.1	25.8
Operating Margin (before GW and except.) (%)		20.2	19.8	21.2	22.5
<b>BALANCE SHEET</b>					
Fixed Assets		81.2	155.3	255.8	253.5
Intangible Assets		43.5	89.4	124.6	125.7
Tangible Assets		28.2	40.1	67.7	66.7
Right of Use Asset		9.5	25.8	29.3	26.5
Investments		0.0	0.0	0.0	0.0
Current Assets		147.1	299.3	335.5	401.7
Stocks		25.5	36.3	48.8	62.7
Debtors		43.6	46.0	61.2	77.8
Cash		59.6	187.3	59.3	85.0
Other		18.4	29.7	29.7	29.7
Current Liabilities		(43.6)	(98.2)	(213.1)	(248.8)
Creditors		(43.5)	(58.7)	(72.8)	(92.0)
Short term borrowings		(0.1)	(39.5)	0.0	0.0
Long Term Liabilities		(92.0)	(126.9)	(130.2)	(127.1)
Long term borrowings		0.0	0.0	0.0	0.0
Lease Liabilities		(15.9)	(29.0)	(32.6)	(29.8)
Other long-term liabilities		(76.1)	(97.8)	(97.6)	(97.3)
Net Assets		92.6	229.5	248.0	279.2
<b>CASH FLOW</b>					
Operating Cash Flow		8.8	(3.4)	82.3	75.1
Net Interest		0.0	(2.4)	(0.9)	(2.0)
Tax		1.9	1.4	(7.8)	(11.5)
Capex		(7.3)	(19.9)	(18.6)	(17.4)
Acquisitions/disposals		0.0	118.8	(134.4)	(9.2)
Financing		(1.7)	0.0	(1.3)	(1.3)
Dividends		(6.9)	(8.9)	(11.6)	(14.7)
Other		7.3	2.7	0.0	0.0
Net Cash Flow		2.2	88.3	(92.4)	19.1
Opening net debt/(cash)		(57.3)	(59.5)	(147.8)	(55.4)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		(59.5)	(147.8)	(55.4)	(74.5)
Total net financial liabilities/(assets)		(43.6)	(118.7)	(22.8)	(44.7)

Source: Company reports, Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by Avon Rubber and prepared and issued by Edison, in consideration of a fee payable by Avon Rubber. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia