Avon Protection

FY21 trading update

Confirming the growth path

Aerospace & defence

Avon Protection has indicated that management guidance for FY21 revenue and EBITDA margin has been achieved before an additional one-off, non-cash inventory write-down of around $4m in ballistics. Cash generation was better than anticipated after record levels of investment and order intake remained strong despite previously indicated pandemic delays. The healthy opening backlog underpins strong growth in FY22 as ballistics revenues ramp up, Team Wendy makes a full year contribution and EBITDA margins should recover as volumes improve. Following COVID and the ballistics deferrals, Avon's focus on protection markets continues to offer a strong pipeline of potential contracts to support continued growth in FY23.

Year end	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	P/E (%)	Yield (%)
09/19	162.0	28.3	84.9	26.6	29.8	1.1
09/20	213.6	36.0	96.2	34.5	26.3	1.4
09/21e	248.0	25.6	66.7	44.9	37.9	1.8
09/22e	328.9	46.8	122.2	53.9	20.7	2.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Avon Protection met its FY21 guidance issued in August, of revenues at $250m (FY20: $214m), with Team Wendy contributing $41m in its initial 11 months of consolidation. Revenue growth in Military respiratory revenues (+10%) was offset by the declines in ballistic protection (-31%), leaving overall Military revenues down 3% at $149m. First Responder achieved 2% revenue growth to $61m against a strong COVID-assisted performance last year. EBITDA margins are now expected to be in the 15–16% range (from 17–18%) after a one-off inventory write-down of around $4m in ballistic protection. Adjusted for that, profitability is also in line with previous guidance. Stronger than expected cash conversion of c 80% leaves adjusted net debt at $27m (excluding lease liabilities) at end September. Encouragingly, order intake grew 34% to c $280m, or 15% excluding Team Wendy, resulting in an order backlog of $141m at the year end.

In September, Avon confirmed the award of a two-year $87.6m dual-source contract for the second-generation Integrated Head Protection System (IHPS). Production is expected to start in H222 leading to revenues in H123, after first article test samples are delivered in H122. Larger production contracts from the US Army should ensue and the award follows on from the low-rate initial production (LRIP) contract for first-generation IHPS helmets, which was extended to 2022.

The company confirmed on 24 September that the first of two one-year extension options had been exercised under the DLA's Enhanced Small Arms Protective Inserts (ESAPI) body armour contract, triggering a $19m minimum order to add to the initial $20m order in FY21. Production is ramping up, with shipments and revenues expected in Q222.

With ballistics contracts getting back on track, management expectations for FY22 are underpinned and guidance is unchanged. Avon continues to invest record amounts to support the growth strategy, with a strong pipeline of opportunities to further develop its leading global position in respiratory and ballistic protection.

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Price	**1,854p**
Market cap	**£575m**
	US$1.364/£1
Adjusted net debt ($m) at 30 Sept 2021 (excluding lease liabilities)	27
Shares in issue	31.0m
Free float	98.8%
Code	AVON
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

Business description

Avon Protection 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 Department of Defense and c 90% of sales are from the United States.

Analyst

Andy Chambers +44 (0)20 3077 5700

industrials@edisongroup.com

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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