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# Adacel Technologies Limited

(ASX: ADA)

## ASX & Media Release

28 February 2019

### ADACEL MEETS GUIDANCE FOR FIRST HALF, ANTICIPATES STRONGER SECOND HALF PERFORMANCE

#### Highlights

- Profit before tax for the six months ended 31 December 2018 of \$2.2m (after adoption of AASB15)
- H1 earnings guidance met
- Stronger H2 anticipated as key systems installations complete, and other systems roll off warranty
- Continued expansion of ATOP program with the FAA and Leidos
- Renewal of United States Air Force Tower Simulator support contract
- Expansion of commercial relationships with NavPortugal and Fiji Aviation Authorities
- Member of team alongside Lockheed Martin awarded entry to participate in the US Army Training Aids, Devices, Simulators and Simulations Maintenance Program
- Award of prime position on SeaPort NxG contract vehicle
- Interim dividend of 1.0 cent per share (unfranked)
- Guidance for FY2019 profit before tax (PBT) between 21% to 32% below FY2018 based on adoption of AASB15 (PBT to be between 35% to 45% below FY2018 prior to adoption of AASB15)

## Financial Overview

A\$'000	For the six months ended 31 December		% change
	2018	2017 (restated)	
Revenue from continuing operations	23,750	25,379	(6.4)%
Gross margin	8,408	10,092	(16.7)%
Gross margin %	35.4%	39.8%	
EBITDA	2,633	5,053	(47.9)%
EBITDA %	11.1%	19.9%	
Profit before tax	2,249	4,713	(52.3)%
Net profit after tax	1,454	3,390	(57.1)%
Earnings per share (cents)	1.9	4.3	(55.8)%
Net cash flow - operations	(1,253)	3,717	(133.7)%
Net cash flow - all activities	(9,810)	(6,278)	(56.3)%
Net cash	3,144 *	12,525 **	(74.9)%
Interim dividend	1.00	2.00	

\* As at 31 December 2018

\*\* As at 30 June 2018

The Company has adopted AASB 15 “Revenue from contracts with customers” from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB15, the Company has adopted the new rules retrospectively and has restated comparatives for the 2018 financial year (including the half year ended 31 December 2018). Please refer to Note 8 of the financial statements for a summary of the differences resulting from the adoption of AASB 15.

Profit before tax for the half year ended 31 December 2018, following the adoption of AASB15, was \$2.2 million compared to \$4.7 million for the previous corresponding period, representing a decrease of 52.3%. Excluding the effects of AASB15, profit before tax for the period would have been \$1.5 million compared to \$4.8 million for the previous corresponding period.

The Company delivered revenues of \$23.8 million, 6.4% lower than the previous corresponding period and a gross margin of \$8.4 million which was 16.7% lower than the comparative period. Factors contributing to these results are described under *Business Segment Reporting* below.

Earnings before interest, tax and depreciation (EBITDA) in the period was \$2.6 million compared to \$5.1 million in the previous corresponding period, for the most part due to the lower gross margins and incremental G&A and R&D costs.

Following payments of \$9.1 million, comprising an ordinary and special dividend, totalling \$5.9 million, the purchase of shares under the on-market buyback program of \$1.6 million and repayment of R&D grants of \$0.9 million, the Company’s net cash balance decreased to \$3.1 million. The Company had net cash outflows from operating activities totalling \$1.3 million due to timing associated with payments to suppliers and receipts from customers on various programs.

All receivables from key customers are constantly monitored, to ensure that payments remain on commercial and contracted terms.

## Business Segment Reporting

A\$'000	Half Year Ended 31 December	
	2018	2017
<i>Revenue</i>		
Systems	9,568	10,001
Services	14,182	15,378
Total	23,750	25,379
<i>Gross margin</i>		
Systems	1,185	3,373
Services	7,223	6,719
Total	8,408	10,092
<i>Gross margin %</i>		
Systems	12.4%	33.7%
Services	50.9%	43.7%
Total	35.4%	39.8%

### Systems

The Systems Segment represents all sales of integrated software systems and products covering operational air traffic management as well as simulation and training applications. This segment also includes all hardware and software upgrade sales.

Revenues from the Systems Segment decreased by 4.3% to \$9.6 million for the period due to the mix and timing of new projects offset partly by the effects of currency fluctuation.

There were several installations completed in both the simulator and ATM businesses. New simulators were installed in Sri Lanka, Kurdistan, Algeria and Morocco. Additionally, there were numerous upgrades and technical refresh programs completed with existing customers in Austria, Hungary, Australia, the USA and Saudi Arabia.

A new ATM customer for Aurora was added in South America and major system installations and upgrades are underway for NavPortugal, French Guyana, Fiji and Guadeloupe.

The competitive environment in winning these international systems contracts, and the high level of software customization required during the installation phase affected the gross margins achieved in the segment.

### Services

The Services Segment includes all potential recurring revenue, including software maintenance and all aspects of system support, field services and on-site technical services.

The services segment provided a strong revenue contribution for the half. Despite the loss of the FAA services contribution, total Service Segment revenue declined by only 7.8%. This was, in large part, due to an increase in revenues from the Federal Aviation Administration ATOP program. Additional key programs include the expanded NavPortugal five-year Field Services contract and the FAA Controller Training Contract.

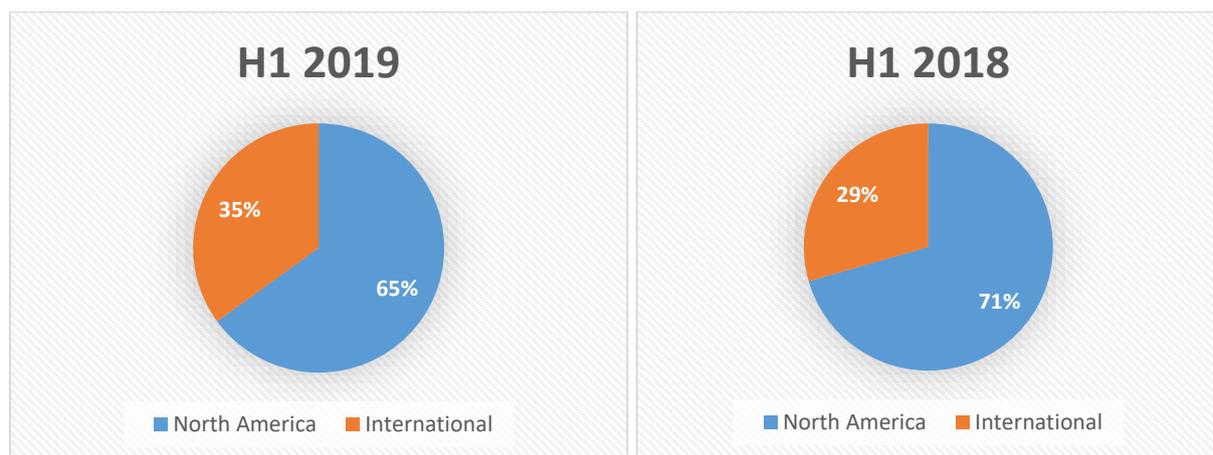
Despite lower revenues in the Services Segment, gross margin for the period was higher compared to the previous corresponding period due to our ability to generate increased margins on certain projects.

A number of previously installed systems have now entered the extended support phase of their lifecycle and have provided an additional modest increase in services revenue.

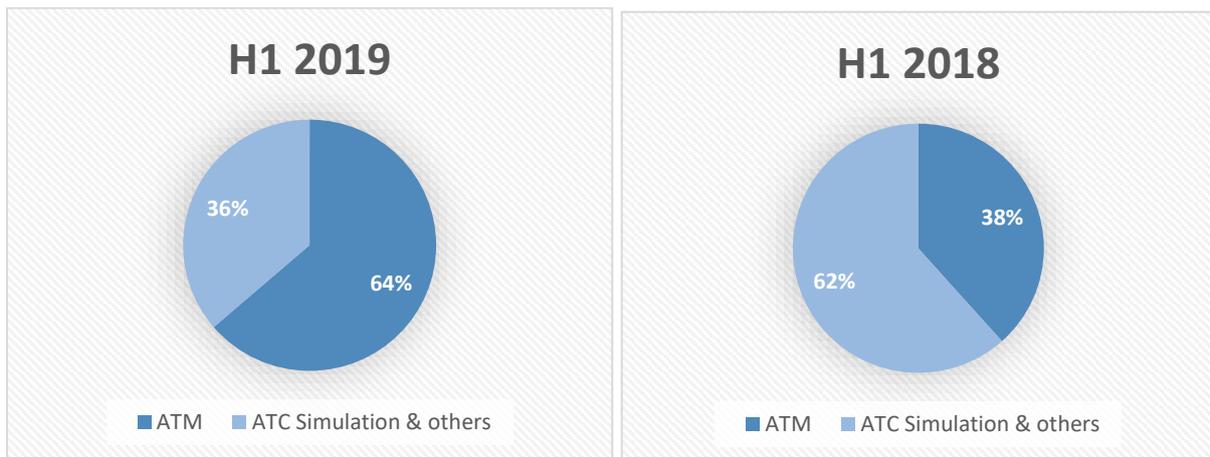
Other notable events include the renewal of the USAF support contract for one year plus four one-year options and a prime contractor position on the SeaPort NxG contract vehicle. SeaPort NxG provides the US Navy and Marine Corp with a \$50 Billion IDIQ contract vehicle for award of engineering and program management support services.

Adacel was also part of the Lockheed Martin team that was awarded the US Army Training Aids, Devices, Simulators and Simulations (TADSS) Maintenance Program (ATMP). This program is incrementally funded with a six-month base period of performance and six optional one-year periods extending through June 2025. ATMP is designed to provide lifecycle management, operation and maintenance for deployed Army TADSS systems. In total, the program will sustain more than 300,000 fielded systems worldwide, and at this early stage, Adacel provides two full-time resources in support of the ATC Simulation program at Fort Rucker.

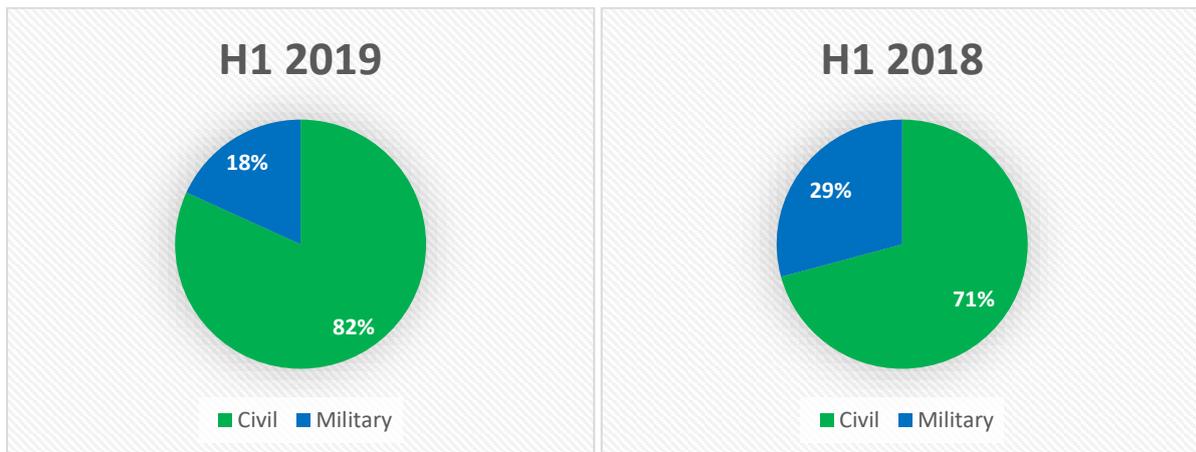
Revenue from international customers in the period comprised approximately 35% of total revenues, an increase from 29% in the previous corresponding period, reflecting the success in recent periods in securing new systems orders in international markets. North American revenues comprise of 65% of the business for the period to 71% in the previous corresponding period. It is anticipated that this split between international and North American revenues will continue.



During H1 2019, ATM revenues represented 64% of total revenues compared to 36% for ATC Simulation and others. This compares to 38% and 62%, respectively for the previous corresponding period. The shift in revenues is attributable to the decrease in ATC-based revenues from the FAA and the increase in new systems sales and increased work associated with the FAA ATOP program.



During H1 2019, revenues from civil customers increased to 82% of total revenues up from 71% for the same period last year while military revenues decreased from 29% in the previous corresponding period to 18%. The main reason for the shift is due to the completion of a significant military program in H1 2018 combined with the increase in civil programs in H1 2019.



## Strategic Activities

With enhanced credentials in the air traffic management market globally, in particular leveraging the expertise from contracts with the French Territories, NavPortugal and Fiji, the Company has committed to broadening its product range, and, in doing so, pursuing the expansion of its addressable markets.

In that regard, the Company has completed the acquisition of several new products in the air traffic management domain, including products which provide capabilities that support Aurora installations but also provide opportunities to grow our addressable markets as standalone sales. The products include an aviation billing and permitting system that is cloud based and will provide recurring revenue through a Software as a Service (SAAS) model, Digital Automatic Terminal Information Service (D-ATIS) providing weather information to airports and pilots, also available as a SAAS model, Digital Video and Audio Recording of radio communications and surveillance data,

a GPS master clock for time synchronization across multiple aviation applications, and a digital aircraft tracking and monitoring system targeted at emerging economy markets. The applications are currently undergoing a rebranding and upgrade phase and we expect them to provide revenue contributions in FY2020.

Additionally, Adacel has acquired a comprehensive Training Management System that provides a suite of capabilities targeted at tracking and managing air traffic controllers through all phases of training. The suite is linked with many of the Adacel training products providing a seamless training experience.

At the World ATM Trade Show in March 2019, Adacel will be displaying and demonstrating several new R&D innovations in ATC training. The capabilities provide customers with features designed to optimize the effectiveness and efficiency of their training systems.

The Company continues to seek acquisition opportunities to expand its product and service offering.

The Company advises that it continues to pursue Adsync Technologies Inc. in relation to alleged breaches of intellectual property rights, with the case currently in the discovery phase.

## Capital Management

### *Share Buyback*

The Company maintains an on-market share buyback as an available capital management lever. The Board anticipates the continued utilisation of the on-market share buyback, where appropriate.

### *Dividend*

The Board has declared a final dividend of 1.00 cent per share, unfranked (2017: 2.00 cents per share). The interim dividend will have a record date of 14 March 2019 and will be paid on 28 March 2019.

## Changes to the Composition of the Board of Directors

### *David Smith*

After more than 30 years of service to the Company, Mr David Smith has announced his retirement from the Board of Directors, effective 28 February 2019, to pursue other life interests. Mr Smith commenced as technical director and significant shareholder in 1988, before transitioning to a Non-Executive Director in July 2000.

The Company would like to thank Mr Smith for the significant contribution he has made over many years and wishes him every success in retirement.

## Outlook

The Board anticipates a stronger second half in FY2019 compared to the first half. Profit before tax for FY2019 is expected to be below FY2018 by between 21% to 32%. Factors which have contributed to the change in the guidance for FY2019 include issues pertaining to the US Government shutdown which occurred from late December 2018 until late January 2019. This

shutdown caused delays in direct work on existing programs as well as decisions relating to the award of new contracts.

This media release includes references to non-IFRS measures including Gross Margin and EBITDA. The directors believe the presentation of non-IFRS financial measures are useful for the users of this media release as they provide additional and relevant information that reflect the underlying financial performance of the business. Non-IFRS financial measures have not been subject to audit or review.

**-ENDS**

### **About Adacel**

*Adacel is listed on the ASX and is a leading developer of operational air traffic management systems, speech recognition applications and advanced air traffic control simulation and training solutions. Further information on the Company can be found on its website at [www.adacel.com](http://www.adacel.com)*

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