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Adacel Technologies Limited (ASX: ADA)

ASX & Media Release

Melbourne, 18 February 2021

Adacel doubles reported PBT in H1 FY2021, increases guidance for FY2021 and declares interim dividend

Highlights:

- Profit before tax for H1 FY2021 doubles to \$4.2 million
- As of 18 February 2021, over 100% of Adacel's original forecast revenues for FY2021 are either booked or in backlog
- The Company declared an interim dividend of 2.75 cents per share (unfranked)
- The Company updates its FY2021 earnings guidance of profit before tax between \$7.00 million and \$7.3 million.

Financial Overview

Key Financial Measures AUD\$ '000	Half Year Ended 31 December		
	2020	2019	Movement %
Revenue	20,584	19,714	4.4
Gross Margin	8,857	7,181	23.3
Gross Margin %	43.0	36.4	
EBITDA	5,295	3,225	64.2
EBITDA %	25.7	16.4	
Profit Before Tax (PBT)*	4,226	2,108	100.5
PBT % of Revenues	20.5	10.7	
Profit After Tax	3,960	1,188	233.3
Earnings Per Share (cents)	5.18	1.54	236.4
Interim Dividend (cents)	2.75	1.00	

* Non-recurring items in FY2020 amounted to \$536K and included litigation costs and the impact of the adoption of AASB 16 Leases. There were no non-recurring items in FY2021

Adacel's CEO Daniel Verret said, "We are very pleased to report on our strong financial performance for H1 FY2021. While the implementation of some projects are affected by the COVID-19 restrictions, overall, the majority of our projects continue to progress as planned. More importantly, we are pleased to report that we have over 100% of our budgeted revenues either booked or in backlog, and, assuming no significant disruption in our operations, we remain on track to meet our financial objectives for FY2021."

For the half-year ended 31 December 2020, the Company delivered a profit before tax (PBT) of \$4.2 million compared to \$2.1 million for the prior corresponding period.

The Company delivered revenues of \$20.6 million, which represents a 4.4% increase from the prior corresponding period. Gross margin, which includes an allocation of overhead and other fixed costs, increased by \$1.7 million to \$8.9 million resulting in an increase from 36.4% of revenues in H1 FY2020 to 43.0% for this H1 FY2021.

Earnings before interest, tax, and depreciation (EBITDA) increased to \$5.3 million compared to \$3.2 million for the same period last year.

The Company's earnings performance was driven by a more profitable revenue mix, improved project execution and the right-sizing of the cost structure initiated 18 months ago.

The Company had net cash flows from operating activities totalling \$2.5 million in H1 FY2021 representing a significant increase in cash conversion when compared to H1 FY2020 when the Company reported only \$0.2 million in net cash flows from operating activities. The Company's cash balance was \$5.2 million as at 31 December 2020.

Business Segment Reporting

	Half Year Ended 31 December	
	2020	2019
Revenue \$'000		
Systems	6,179	4,062
Services	14,405	15,652
Total	20,584	19,714
Gross Margin \$'000		
Systems	947	(472)
Services	7,910	7,653
Total	8,857	7,181
Gross Margin %		
Systems	15.3	(11.6)
Services	54.9	48.9
Total	43.0	36.4

Systems

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

For H1 FY2021, revenues in our Systems segment increased from \$4.1 million to \$6.2 million. The increase is a result of a higher number of systems implemented including the delivery of additional Air Traffic Control Common Simulators (ACS) units to the US Army which was partially completed during the H1 FY2021. As a result, we generated a gross margin of 15.3% for the reporting period compared to a loss of 11.6% for the same period last year.

During the year, our customer in Guadeloupe funded an additional \$1M of enhanced system functionality. As a result, we now expect to complete this project in FY2022 assuming no further travel restrictions due to COVID-19.

Services

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

For H1 FY2021, Services revenues made up 70% of total revenues. Revenues in our Services segment decreased from \$15.7 million to \$14.4 million, due primarily to lower revenues of \$0.7 million associated with our FAA Air Traffic Controller Training program in the US due to COVID-19. Despite the COVID-19 restrictions, our FAA training program operated at almost 70% of capacity during H1 FY2021. Although we experienced slightly lower revenues and negative currency headwind, the Company delivered a gross margin of 54.9% in H1 FY2021 compared to 48.9% during H1 FY2020, due to revenue mix, increased productivity, and lower overall costs.

Revenue from North American customers comprised approximately 78% of total revenues, unchanged from the prior period reflecting the stability of our North American customers and the recurring revenue base tied to multi-year contracts.

Dividend

The Board has declared an interim dividend of 2.75 cents per share, unfranked. The dividend will have a Record Date of 1 March 2021 and will be paid on 15 April 2021.

Outlook

The Company updates its FY2021 full-year guidance of profit before tax of between \$7.0 million and \$7.3 million.

Chairman, Michael McConnell, said, “With a high level of confidence on delivering our FY2021 objectives, we are already beginning to turn our attention to FY2022. We continue to strengthen the foundation of the Company through fundamental business disciplines, operating efficiency, and forecasting. Moreover, our pipeline remains focused, and we are in advanced negotiations with multiple new potential customers.”

This media release includes references to non-AASB measures including Gross Margin and EBITDA. The directors believe the presentation of non-AASB 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-AASB financial measures have not been subject to audit or review.