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Adacel Technologies Limited (ASX: ADA)

ASX & Media Release

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Chairman's Address to Shareholders 2017 Annual General Meeting

On behalf of the Board and Management, I am pleased to be standing before you to report that the financial year ending 30 June 2017 was another profitable one for your Company albeit at a level which was below both the financial results of the prior year and the level at which we had set our own expectations at the commencement of the year. This performance was the result of delays in the arrival of certain contract awards in the latter part of the 2017 financial year, most of which have now been awarded and contracted by the Company and provide optimism for an improved 2018 when compared to 2017.

The key financial highlights in 2017 were:

- **A profit before tax** of \$7.9 million, on revenue of over \$42.0 million;
- An **increase of 33%** in total ordinary dividends for 2017 to 4 cents per share as compared to 2016;
- A **special dividend** of 7.75 cents per share;
- A **net cash** position as at 30 June 2017 of \$16.4 million.

In a moment I will provide some insight into the factors which affected the performance in 2017 and how these same factors have provided a platform for a strong outlook into 2018.

Retirement of Julian Beale

However, before doing so, I would like to take this opportunity to formally recognise and record the Board's appreciation of Julian Beale, who joins us at the meeting today. On 28 April, Julian indicated that he would be retiring from the Board, and he officially retired from office effective yesterday. Julian has been an integral member of Adacel since June 2003, serving as Chairman between September 2003 until November 2012, as well as playing a major role, initially in the Company's stabilisation, and then in the building of its foundations for future growth. He has been a wise and willing confidant for me over a long period and I will miss his insights, intellect, wit and wonderful sense of humour.

Julian, on behalf of the Board and all shareholders, I thank you for your contribution and wish you every success and indulgence in retirement. Mr Chairman, I thank you.

Appointment of Michael McConnell

Whilst I am speaking of the Board, I would like to acknowledge and welcome Mr Michael McConnell to his first Annual General Meeting as a non-executive director of the Company. Mike, whom is based in the USA, was appointed on 28 April 2017 and brings a broad range of financial, commercial and strategic skills to the Board. Also, I might note that two of Mike's children were born in Australia during his time in Sydney running the Disney Family's investments in the region. Shareholders will shortly be asked to vote on the re-election of Mike as a non-executive director.

Company Strategy

Before discussing details of the 2017 financial year, I would like to reiterate the key elements of Adacel's strategy.

The first part of our strategy is to diversify our revenues towards the Services segment whilst continuing to grow overall. As a percentage of revenue, the Services Segment has grown to approximately two-thirds of total revenue over the last 5 years. Importantly, the Services segment provides an annuity-style revenue contribution and good visibility for the Company.

The second part of the strategy is to maintain a prudent approach to capital management. Your Board recognises there is a cost to holding excess shareholder funds. Accordingly, we have and will continue to optimise the capital structure through dividends, special dividends and on-market share buybacks.

During 2017, the Company achieved a number of strategic objectives, in particular the consolidation and expansion of key customer relationships and the establishment of a number of new customer relationships, ones which provide for a broader global footprint of Adacel products and provision of software engineering services. The result of this expanded footprint and increased contribution from the Services segment provides for a diversity of earnings opportunities and a base level of cash flow into future financial periods.

Some of the key achievements were:

- The expansion of engineering support services on the **Federal Aviation Administration's ATOP** program with Leidos;
- The award of the next two systems under the **French Territories** program, being Martinique and Guadeloupe, meaning the Company has won the first three systems in a five-system program. The Company feels it is well placed in relation to the remaining two systems under this program. Cultivating an expanded commercial relationship with the French Aviation Authorities across its vast controlled territories is an attractive opportunity for Adacel;
- Continued and varied upgrades of both hardware and software across the entire installed base of simulator systems for the **United States Air Force**;

- New awards by the aviation authorities in **Sri Lanka, Algeria, Saudi Arabia and a Central American Air Force** to install new air traffic control tower simulation systems, including long term services contracts;
- A new award by the **Federal Aviation Administration Civil Aerospace Medical Institute** for an air traffic control simulation tower system plus services to aid further research;
- Continued and varied upgrades of both hardware and software across the installed base of simulator systems for the **Federal Aviation Administration**; and
- Upgrades to air traffic control tower simulators installed at **Royal Australian Air Force** locations in Australia.

Looking ahead

Moreover, as I have outlined and as previously disclosed, the Company has a solid foundation for strong earnings growth in the 2018 financial year.

Looking ahead, we have regularly provided guidance based on a range of factors affecting the full financial year. The Board and Management have forecast profit before tax growth in the 2018 financial year of approximately 35%. It is anticipated that first half performance will be broadly in line with the prior corresponding period with the second half representing a stronger contribution to total earnings, principally from the completion of a number of systems installations which are currently underway.

This earnings outlook remains subject to the outcome of a number of new and re-compete opportunities with both new and existing customers, notifications of which are expected over the coming months.

With that in mind, in the last 24 hours we have been notified that the Federal Aviation Administration intends to award components of a new field support contract, currently provided by Adacel, to a small engineering and support services company.

The financial impact for the 2018 financial year is not anticipated to be material.

Importantly, under the new contract the Federal Aviation Administration has stipulated the ongoing use of Adacel systems and software.

Finally, I would like to acknowledge the trust that our key customers place in Adacel, a trust which we do not take lightly. Nor do we take lightly the responsibility that is bestowed upon us to ensure that, by virtue of our products and service capabilities, civil and military airspace is safe and controlled by appropriately qualified personnel. Our commitment to deliver services to our customers which exceed their expectations is paramount to the continued success of our Company.

Conclusion

In conclusion, I would like to thank my fellow Board members for their guidance and commitment over the course of the year. I would also like to thank the management team and all of our valued staff for their hard work and dedication, which has underpinned the success of the past year and has cast the foundation for future success in the years to come.

-ENDS

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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.