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Adacel Technologies Limited (ASX: ADA)

ASX Announcement

23 August 2018

Adacel announces a 30% increase in PBT, Special Dividend and an increased Ordinary Dividend

Adacel Technologies Limited (**Adacel** or the **Company**) today released its financial results for the year ended 30 June 2018.

- **Profit before tax (PBT) of A\$10.2 million, 29.8% above prior corresponding period**
- **Growth in revenue from continuing operations of 25%**
- **Systems Segment revenue growth of 127%, Services Segment flat**
- **Final dividend (unfranked) to 2.5 cps, an increase of 11% over pcp**
- **Total ordinary dividends for FY2018 of 4.5 cps, an increase of 12.50% over pcp**
- **Special dividend (unfranked) of 5.0 cps, payable at same time as final dividend, bringing total dividends for FY2018 to 9.5 cps**

Financial Overview

Key financial measures	Year ended 30 June		% Change
	2018	2017	
A\$'000			
Profitability			
Revenue	53,060	42,432	25.0%
Gross margin	20,250	17,885	13.2%
Gross margin %	38.2%	42.1%	
EBITDA	10,903	8,836	23.4%
EBITDA %	20.5%	20.8%	
Profit before tax	10,192	7,851	29.8%
Net profit after tax	8,394	9,279	(9.5)%
Cash Flow and Capital Management			
Net cash flow*	(3,833)	0.585	n/c
Net cash	12,525	16,358	(23.4)%
Earnings per share (cps)	10.64	11.71	(9.1)%
Final dividend (cps)	2.50	2.25	11.0%
Special dividend (cps)	5.00	7.75	n/c

* includes the effect of exchange rate changes on cash and cash equivalents

Chairman, Peter Landos said: *“The Board is pleased to report the Company has delivered a year of strong profitability. Reflecting the Board’s confidence in the Company’s balance sheet and future outlook, we have an increased final ordinary dividend of 2.50 cents per share, and a special dividend of 5.0 cents per share, taking total dividends for FY2018 to 9.50 cents per share”.*

Chief Executive Officer, Gary Pearson, said: *“Over the past twelve months, Adacel has continued to strengthen its market leading position as the key supplier of systems and services to the air traffic control simulation and air traffic control management markets globally. This has been particularly evident in international markets outside of the USA, where the Company has experienced considerable success in securing new system sales. Although a highly competitive environment, we have taken a disciplined approach to drive sustainable and scalable improvements to the business”.*

Business Segment Reporting

Segment Contribution	Year ended 30 June	
	2018	2017
A\$'000		
Revenue		
Systems	21,912	9,670
Services	31,148	32,762
Total	53,060	42,432
Gross margin		
Systems	6,115	3,367
Services	14,135	14,518
Total	20,250	17,885
Gross margin %		
Systems	27.9%	34.8%
Services	45.4%	44.3%
Total	38.2%	42.1%

Operating activities

Systems

The Systems Segment revenue of \$21.9 million has increased by 127%, primarily driven by our success in international markets outside of the USA, both with existing and a number of new customers.

The Systems Segment gross margin was 62% above the prior corresponding period. The gross margin percentage in the Systems Segment was below the prior year due to the highly competitive nature of bidding for international systems programs, and the bespoke nature of their systems installations.

As reported in August 2017, the Company experienced new system orders late in FY2017 and that these would provide a platform for a strong contribution in FY2018. This contribution manifested across a number of new international customers, including some where the Company displaced competitor systems. Notable new customers included the Civil Aviation Authorities in Morocco, Algeria, Sri Lanka and China. Additional products and systems were sold to the FAA and a number of aviation colleges in the United States of America. The Company's activities in this segment were further boosted by a number of our customers electing to perform upgrades to their existing systems, including Saudi Arabia, the Royal Australian Air Force, Air Services Australia, Austrocontrol, the Dutch Caribbean, the United States Air Force and the FAA.

It was also a rewarding year for the ATM systems segment with new systems contracts with Fiji, Norway, Guadeloupe, French Guiana and Portugal. Installation of these systems commenced in FY2018 and are anticipated to be completed in FY2019. For example, the installation of the second system under the French Territories program, Guadeloupe, is approximately 50% complete. Installation of the third system under this program in Martinique should commence in FY2019. There are a number of other programs where the system installation or upgrade is partially complete, including: NavPortugal at 50%, Sri Lanka at 65%, Morocco at 50%, Air Services Australia at 35% and Fiji at 10%.

The competitive environment in winning these international systems contracts, and the high level of software customisation required during the installation phase is expected to continue to impact gross margins in the Systems Segment for FY2019.

Services

The Services Segment revenue of \$31.1 million was slightly below the prior year result, due principally to a temporary halt on a protested support contract.

The Services Segment gross margin percentage slightly increased while total gross margin was flat on the previous period.

Services revenues for FY2018 were broadly consistent with FY2017, albeit slightly lower. The growth of the services business over recent years has been impacted by the loss of a component of an FAA support contract in the current period. While Adacel expects to continue to see revenue from the FAA under this contract, the delivery of the software support component has been halted pending the outcome of Adacel's formal protest of the contract award. All other activities with the FAA continue unaffected by the protest process on the support contract.

The FAA ATOP contract continues to be a significant contributor to the Services Segment. Revenues from the ATOP program showed an 11% increase over the previous period. The process to fully resource the expanded contract demands was completed late in FY2018 and further growth is expected in FY2019 and future years.

The Company anticipates a consistent contribution from the Services Segment in FY2019, with further delays in a contribution from the FAA support contract mitigated by growth in the ATOP program and the commencement of services and support from systems installations completed in prior periods.

Profit before tax, net profit after tax and earnings per share

The Company achieved a profit before tax of \$10.2 million, a 29.8% increase over the prior year.

The Company recorded a net profit after tax (NPAT) of \$8.4 million, a reduction of 9.5% when compared to the prior year.

Cash flow and net cash

Net cash inflows from operating activities increased from \$4.9 million in 2017 to \$8.6 million in the current period. As at 30 June 2018, the Company had a net cash balance of approximately \$12.5 million, below the prior period by \$3.8 million, principally due to:

- Approximately \$2.0 million was used during 2018 for the purpose of buying the Company's shares under on-market share buybacks. A total of approximately 928,000 shares were purchased under these programs; and
- Total dividends paid during the period, including a special dividend, were \$9.5 million.

Tax

Adacel has carry-forward tax losses and credits available in various jurisdictions to offset future taxable profits.

In the prior corresponding period, and reflecting the Board's confidence in its future profitability, the Company recognised a net deferred tax asset of \$3.1 million, relating to available tax credits. The recognition of this amount gave rise to a net tax benefit in the 2017 income statement of \$1.4 million. Tax credits continue to be recognised and utilised in accordance with Company policy and applicable accounting standards.

In addition to this amount, and not recorded on the balance sheet, the Company has available tax losses in Australia and tax credits in Canada, the estimated net benefit of which, at the applicable tax rates, are \$11.8 million and \$10.1 million, respectively.

Dividend

The Board declared a final ordinary dividend for the year of **2.5 cent per share** (unfranked) and a special dividend of **5.0 cents per share** (unfranked), taking total dividends for the year to **9.5 cents per share**.

Key dates for the final ordinary dividend and the special dividend are:

Record date: 13 September 2018

Payment date: 27 September 2018

Strategic activities and outlook

The Company continues to focus on its core technologies and markets. It is actively pursuing initiatives aimed at mitigating the inherent lumpiness which exists in the Company's Systems Segment, and the maturation in its key markets, by seeking to expand its product and services capabilities.

This focus has manifested in a number of areas:

- The Company's capabilities in the delivery of ATM systems has grown and diversified. In the ATM market, the Company was historically known as having expertise in the delivery of oceanic ATM systems only. This capability has expanded such that the Company can now deliver smaller footprint land-based ATM systems, with successes in Fiji and the French Territories testament to that. The Company can see further opportunities in this segment as smaller countries look to upgrade their ageing ATM systems;
- The Company has progressed with its ambition to expand the number of new ATM products and features that complement the Aurora system, having recently completed the acquisition of several new ATM products. One new product is in the aeronautical information management segment and will allow our current and future customers to choose from a more comprehensive ATM product suite, and enable a broadening of the addressable ATM market for the Company;
- In the ATC simulation business, we are increasing our R&D investment into new technologies that will permit the launch of new complementary products for our existing ATC business and new business models for selling and licensing products and services;
- The Company will continue to seek acquisition opportunities to expand its product and service offering.

Further commentary around earnings guidance in FY2019 will be made at the Company's Annual General Meeting in November 2018.

Results Conference Call

Adacel Chief Executive Officer, Gary Pearson, and Chairman, Peter Landos, will host a conference call in connection with the FY2018 results at 9.00am on Friday 24 August 2018.

Details of the conference call are as follows:

Dial-in details:

Australia: 1800 685 494

International: +61 3 8687 0650

The conference call will be recorded and archived on the Adacel website at www.adacel.com.

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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.

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