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Adacel Technologies Limited

(ASX: ADA)

ASX Release

FY2019 Earnings Guidance

Melbourne, July 1, 2019 - Since April 1, 2019, the Board and management undertook a comprehensive review of all aspects of its business. As a result of that work, the Company provides the following updated outlook for FY19 and guidance for FY20.

The Company anticipates a loss before tax in the range of \$1.7 million to \$1.9 million for FY19 compared to a profit before tax of \$10.2 million for the prior financial year.

The review identified three primary drivers to the reduced financial performance compared to the prior corresponding period:

1. ATM System Installations

New system installations in Guadeloupe, Fiji and NavPortugal have experienced significant cost overruns relating to the software development and customisation required for these projects. The Guadeloupe and Fiji projects represented the first implementations of Approach and Tower control systems, both of which required a level of complexity not previously experienced. The reasons for the software engineering inefficiencies have been identified and the necessary remedial actions implemented. The Company is confident in the successful completion of these projects in H120.

Furthermore, we have identified approximately 30 potential customers to whom the Company believes it can sell this Approach and Tower Control software platform developed over the last two years.

2. Orders Activity

Forecast orders for the second half of FY19 did not materialize as expected. In particular, while the level of activity in the ATOP program with the FAA and Leidos increased when compared to the prior year, additional work forecasted was lower than expected. As a result, we have taken a more prudent and rigorous approach to our sales forecasting methodology and processes.

Additionally, following a comprehensive review of all products and services, the Company identified a number of marginally economic products and these have been eliminated or put on the shelf.

3. Restructuring and Other Costs

The FY19 financial results include severances, restructuring and legal charges totalling approximately \$0.7 million.

Whilst we are extremely disappointed in the FY19 updated outlook, we are encouraged by the significant work of the executive team over the last 90 days, the actions taken, and the budget prepared for FY20.

The forecast PBT for FY20 is between \$4.1 million and \$4.6 million, representing an improvement of between \$6.0 million and \$6.3 million over FY19. The overriding approach we have taken is to Focus on the Core. The guidance reflects the following:

- A more rigorous forecasting methodology and focused product set;
- A cost structure right-sized to deliver on our key, known and high-probability contracts which approximates 77% of forecast revenue for the year;
- Completion, among others, of the Guadeloupe, Fiji and NavPortugal projects;
- Elimination of unprofitable products and services; and,
- Ongoing belt-tightening in many aspects of our operations.

The Board has confidence in management's ability to deliver on the FY20 budget. Concurrent with the completion of this 90-day process, our Chief Financial Officer, Daniel Verret has been appointed Acting CEO whilst the CEO search is underway.

Chairman Michael McConnell said: *"I want to thank both the executive management and the Board for their dedication and efforts since April 1st. Together we undertook a deep dive into all areas of the business and discovered many opportunities for improvement. We took quick and decisive action to re-set the operating foundation of the company. Moreover, we are instituting improved, data-driven management disciplines and metrics to strengthen operational accountability. FY20 represents a year in which Adacel will Focus on its Core products and services and the implementation of a set of management disciplines to drive operational improvements which together form the foundation for future profitable growth."*

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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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