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Adacel Technologies Limited (ASX: ADA)

ASX Announcement & Media Release

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Adacel reports H1 FY2022 financial results in line with expectations, reiterates full year 2022 Profit before tax guidance, declares interim dividend and announces acquisition of Virtual ATC Tower business

H1 FY2022 Highlights

- Profit before tax (**PBT**) for H1 FY2022 of USD\$1.9 million, in line with Management expectations
- Consolidated revenues of USD\$12.7 million for H1 FY2022, compared to USD\$14.9 million for the same FY 2021 period, mainly due to timing of Systems project deliveries
- The Company reiterates its FY2022 earnings guidance of PBT of between USD\$5.7 million and USD\$6.0 million
- The Company declares an interim dividend of AUD 2.75 cents per share (unfranked), payable on 26 April 2022.
- The Company acquires new Virtual ATC tower business for single and multiple aerodrome operations suitable for integration with existing or new air traffic management, communication, navigation, and surveillance systems. Its original developer, Cybernetica, with offices in Tallinn, Estonia, developed the software solution for EANS – Estonian Air Navigation Services.

Financial Overview

Key Financial Measures USD\$ '000, except dividend	Half Year Ended 31 December		
	2022	2021	Movement %
Revenue	12,656	14,899	(15.1)
Gross Margin	5,361	6,427	(16.6)
Gross Margin %	42.4	43.1	
EBITDA*	2,684	3,860	(30.5)
EBITDA* %	21.2	25.9	
PBT	1,856	3,088	(39.9)
PBT % of Revenues	14.7	20.7	
Profit After Tax	955	2,891	(67.0)
Earnings Per Share (cents)	1.3	3.8	(65.8)
Interim Unfranked Dividend (cents)	AUD 2.75	AUD 2.75	-

*: Earnings before interest, taxes, depreciation and amortization.

Adacel's CEO Daniel Verret said, "We are satisfied with our financial performance for H1 FY2022, which was in line with our expectations. While we have experienced some delays due to the ongoing COVID-19 pandemic, the majority of our projects are progressing well. Importantly, we expect to deliver PBT consistent with FY2021."

The Company's financial performance for the half-year was negatively impacted by lower revenues generated in its Systems segment in H1 FY2022 compared to H1 FY2021, mainly due to timing of project deliveries.

The Company delivered revenues of USD\$12.7 million in H1 FY2022, a 15.1% decrease compared to the prior corresponding period. Gross margin, which includes an allocation of overhead and other fixed costs, decreased by approximately USD\$1.1 million to USD\$5.4 million. Gross margin, as a percentage of revenues, remained stable at 42.4% in H1 FY2022 compared to 43.1% in H1 FY2021.

EBITDA decreased to USD\$2.7 million, compared to USD\$3.9 million for the same period last year, mainly due to lower revenues.

For the half-year ended 31 December 2021, the Company delivered a PBT of USD\$1.9 million, compared to USD\$3.1 million for the prior corresponding period. The H1 FY2022 PBT was in line with Management's expectations.

The Company had net cash flows from operating activities totalling USD\$0.9 million in H1 FY2022, compared to USD\$2.0 million for the corresponding FY2021 period, mainly due to the timing of payments from customers. The Company's cash balance, as at 31 December 2021, stood at USD\$6.8 million.

Business Segment Reporting

	Half Year Ended 31 December	
	2022	2021
Revenue USD \$'000		
Systems	2,396	4,494
Services	10,260	10,405
Total	12,656	14,899
Gross Margin USD \$'000		
Systems	240	713
Services	5,121	5,714
Total	5,361	6,427
Gross Margin %		
Systems	10.0	15.9
Services	49.9	54.9
Total	42.4	43.1

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.

In H1 FY2022, Systems segment revenues decreased from USD\$4.5 million to USD\$2.4 million, compared to the same period in FY2021. The decrease was mainly attributable to the timing of project deliveries. Notably, in H1 FY2021, we delivered a significant number of Air Traffic Control Common Simulators (ACS) units to the US Army and that project was largely completed in H1 FY2021.

As a result, we generated a gross margin as a percentage of revenues of 10.0% for the reporting period, compared to of 15.9% for the same period last year.

While the on-going Covid-19 pandemic has caused some delays with certain projects, we remain confident that we will deliver full year Systems segment revenues comparable to FY 2021.

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 FY2022, Services revenues remained stable compared to H1 FY2021, and made up over 80% of total revenues.

Services Segment revenues and gross margin, as a percentage of revenues, stood at USD\$10.3 million and 49.9%, for the first half of FY 2022, compared to USD\$10.4 million and 54.9%, respectively, for the same period in FY 2021. The decrease in gross margin, as a percentage of revenues, was mainly due to revenue mix.

Revenue from North American customers comprised approximately 74% of total revenues, in line with our expectations, and reflecting the stability of our customers and importantly the recurring revenue base tied to multi-year contracts.

Dividend

The Board has declared an interim dividend of 2.75 cents per share, unfranked, consistent with last year. The dividend will have a Record Date of 3 March 2022 and will be paid on 26 April 2022.

Outlook

The Company reiterates its FY2022 guidance of profit before tax of between USD\$5.7 million and USD\$6.0 million.

Michael McConnell, the Chairman, stated; "Our management team continues to execute well with existing customers while building the foundation for future growth. In the last 12 months, we have added leadership and talent to our business development team and, as announced today, acquired both an experienced development team and intellectual property, to accelerate our entry into a large and growing virtual tower market for air traffic control. Moreover, with the affirmation of our FY 2022 guidance, declaration of an interim dividend and ongoing share repurchase program, we will continue to support our strategy while delivering returns to shareholders through a balanced capital management program.

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.

-ENDS

This announcement was authorised for release by the Board of Directors.

About Adacel:

Established in 1987, Adacel is a publicly traded company listed on the ASX. The company plays a significant role in global air space safety. A world-leader in its industry, Adacel applies cutting-edge technologies to develop advanced air traffic control simulation and training systems and state-of-the-art air traffic management solutions. Adacel's customers include international air navigation service providers (ANSPs), military, defense & security organizations, universities, and airport authorities. More than 21% of the world's airspace is managed with Adacel's Aurora ATM software. MaxSim Tower Simulator and Training systems lead the industry with the highest number of installations worldwide. Adacel's latest flagship system, a virtual Air Traffic Control (ATC) tower system delivers a wide spectrum of virtual tower operational solutions, from consulting services to system design, development, deployment, and support. For more information, please visit adacel.com.

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