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Adacel Technologies Limited

(ASX: ADA)

ASX & Media Release

Melbourne, 20 February 2023

Adacel reports H1 FY2023 financial results

H1 FY2023 Summary:

- Consolidated revenues of USD\$14.1 million for H1 FY2023, compared to USD\$12.7 million for the same FY 2022 period, mainly due to an increase in Systems segment revenue
- EBITDA of USD\$2.0 million for H1 FY2023, compared to USD\$ \$2.7 million for H1 FY2022; decrease due mainly to less favourable revenue mix in H1 FY2023
- Profit before tax (“PBT”) for H1 FY2023 of USD\$1.0 million, compared to USD\$1.9 million for H1 FY2022
- The Company declares an interim dividend of AUD 1.50 cents per share (unfranked), payable on 26 April 2023.
- Due to expected delays in new system project awards and a decrease in services revenues, the Company updates its FY2023 earnings guidance of EBITDA to between USD\$4.4 million and USD\$4.6 million and PBT of between USD\$2.4 million and USD\$2.6 million

Financial Overview

Key Financial Measures USD\$ '000, except dividend	Half Year Ended 31 December		
	2022	2022	Movement %
Revenue	14,061	12,656	11.1
Gross Margin	4,976	5,361	(7.2)
Gross Margin %	35.4	42.4	
EBITDA*	1,992	2,684	(25.8)
EBITDA* %	14.2	21.2	
PBT	958	1,856	(48.4)
PBT % of Revenues	6.8	14.7	
Profit After Tax	218	955	(77.2)
Earnings Per Share (cents)	0.30	1.3	(76.9)
Interim Dividend (cents)	AUD 1.50	AUD 2.75	(45.5)

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

Adacel's CEO Daniel Verret said, "While we recorded strong revenue growth in the first half of FY 2023, the revenue mix resulted in lower revenues from our Services segment which negatively impacted our consolidated gross margin. For the remainder of FY2023 we expect lower service revenues driven by our ATOP program in North America.

Furthermore, we have made a strategic decision to invest in business development activities to target significant opportunities which we expect to be awarded within the next 18 months.

The ongoing conflict in Ukraine has resulted in a delay of a planned delivery of a remote tower system to Estonia, however the Virtual Towers market is the highest growth sector in the ATC global equipment market, and we are well positioned to take advantage of this segment which is expected to grow to \$500 million by 2027."

The Company delivered revenue of USD\$14.1 million in H1 FY2022, an 11.1% increase compared to the prior corresponding period. Gross margin, which includes an allocation of overhead and other fixed costs, decreased by approximately USD\$0.4 million to USD\$5.0 million. Gross margin, as a percentage of revenues, decreased to 35.4% in H1 FY2023 compared to 42.4% in H1 FY2022.

EBITDA decreased to USD\$2.0 million, compared to USD\$2.7 million for the same period last year, mainly due to the less favourable revenue mix and increased sales and marketing related costs incurred towards securing contract wins for the remainder of FY 2023 and FY 2024.

For the half-year ended 31 December 2022, the Company delivered a PBT of USD\$1.0 million, compared to USD\$1.9 million for the prior corresponding period. The lower H1 FY 2023 PBT, compared to the same period for 2022, is in line with lower EBITDA generated in H1 FY 2023.

The Company had net cash inflows from operating activities totalling USD\$0.9 million in H1 FY2023, comparable to the corresponding FY2022 period. The Company had a small overdraft balance, as at 31 December 2022, due to the timing of customer payments.

Business Segment Reporting

	Half Year Ended 31 December	
	2023	2022
Revenue USD \$'000		
Systems	4,601	2,396
Services	9,460	10,260
Total	14,061	12,656
Gross Margin USD \$'000		
Systems	619	240
Services	4,357	5,121
Total	4,976	5,361
Gross Margin %		
Systems	13.5	10.0
Services	46.1	49.9
Total	35.4	42.4

Systems

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

In H1 FY2023, Systems segment revenue increased to USD\$4.6 million from USD\$2.4 million for the same period in FY2022. The increase was mainly attributable to the delivery of systems in Seychelles and Martinique.

The gross margin, as a percentage of revenue, generated for the reporting period increased to 13.5%, compared to 10.0% for the same period last year.

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 FY2023, Services revenue decreased by approximately 8% compared to H1 FY2023 mainly due to lower volumes from our ATOP program in North America. Services revenues made up approximately 67% of total revenue, compared to approximately 81% for H1 FY2022.

Services segment gross margin, as a percentage of revenue, stood at 46.1% for the first half of FY 2023, compared to 49.9% for the same period in FY 2022. Given the expected lower volumes for the remainder of FY 2023, we have adjusted our cost base accordingly.

Revenue from North American customers comprised approximately 70% of total revenue, compared to approximately 74% for the same period in 2022. Revenues generated in North America tend to be more Services segment centric.

Dividend

The Board has declared an interim dividend of AUD 1.50 cents per share, unfranked. The dividend will have a Record Date of 28 February 2023 and will be paid on 26 April 2023.

Outlook

The Company updates its FY2023 earnings guidance of EBITDA to between USD\$4.4 million and USD\$4.6 million and PBT of between USD\$2.4 million and USD\$2.6 million

Michael McConnell, the Chairman, stated, “While these results are disappointing, they are also understandable. As Daniel indicated, this decline is a result of three primary items: a delay in remote tower revenue in Estonia resulting from the war in Ukraine, a decline in ATOP revenues from 20-year highs given tighter US government budgets, and our conscious decision to invest in our products and business development activities to optimize our chances of winning six significant multi-year contracts. Throughout the long history of Adacel, the lumpy nature of its contracts often creates in-year volatility. Return on invested capital and return on equity remain high. Importantly, the team is confident in the Company's ability to secure a number of the contracts currently in the pipeline with expected award dates in the next 6-18 months. Moreover, as an expression of our confidence, we continue to pay a dividend within our publicly disclosed parameters and affirm our share buyback authorization.”

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, defence & 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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