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Adacel Technologies Limited
(ASX: ADA)

ASX & Media Release

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Adacel FY2018 H1 PBT $4.8 million, 15% above pcp, strong H2 outlook

Highlights

- FY2018 H1 PBT $4.8 million, approximately 15% above prior corresponding period
- Revenue increased by approximately 28%, gross margin increased by approximately 16%
- Strong Systems segment growth following commencement of multiple new programs
- Consistent performance from Services segment across multiple programs
- Interim dividend of 2.0 cents per share declared, approximately 14% above the interim dividend in the prior corresponding period
- Guidance for FY2018 profit before tax anticipated to be approximately 35% above FY2017

Key financial measures	**Six months ended 31 December**		**% change**
A$'000	**2017**	**2016**	
Revenue from continuing operations	**25,589**	**19,927**	**28.4%**
Gross margin	10,151	8,727	16.3%
Gross margin %	39.7%	43.8%	
EBITDA	5,112	4,669	9.5%
Profit before tax	**4,772**	**4,166**	**14.5%**
Net profit after tax	3,468	3,747	(7.4)%
Earnings per share (cents)	4.4	4.7	
Net cash flow from operations	3,717	1,353	174.7%
Net cash flow – all activities	(6,278)	(877)	(615.8)%
Net cash	10,096	14,923	(32.3)%
Dividends per share (cents)	**2.00**	**1.75**	**14.3%**

Overview

The Company achieved growth versus the prior corresponding period in a number of key metrics during the period. Overall, revenue from continuing operations grew by over 28% which drove an increase in gross margin for the period of over 16%, when compared to the prior corresponding period performance.

Profit before tax of $4.8 million for the period was approximately 15% above the prior corresponding period. Net profit after tax decreased by around 7%, due to an increase in the effective tax rate, which was largely driven by the effect of withholding tax associated with the payment of a special dividend during the period.

Commenting on the results for the half year, Chairman Peter Landos said: *"The Board is satisfied with the performance in the first half, and believes that the Company is well positioned for a stronger second half with an anticipated improved earnings result for FY2018."*

Chief Executive Officer, Gary Pearson, said: *"Following completion of the first half, we are on track for a stronger second half and improved earnings result in FY2018. Our confidence in this performance outlook is underpinned by the commencement of a number of both new system installations and systems upgrade programs during the first half, as well as the anticipated commencement of further new programs in the second half."*

Business Segment Financial Summary

Business segment revenue $'000s	**Six months ended 31 December**				**% change**
	2017		**2016**		
Revenue					
Systems	10,211	39.9%	3,794	19.0%	169.1%
Services	15,378	60.1%	16,133	81.0%	(4.7)%
Total revenue from continuing operations	**25,589**	**100.0%**	**19,927**	**100.0%**	**28.4%**
Gross Margin					
Systems	3,432	33.8%	1,546	17.7%	122.0%
Services	6,719	66.2%	7,181	82.3%	(6.4)%
Total gross margin	**10,151**	**100.0%**	**8,727**	**100.0%**	**16.3%**

Business Segment Operating Summary

Summary

As at 30 June 2017, the Company had indicated that it was satisfied with the order book, both in Systems and Services. This order book included a number of contract award notifications, many of which have transitioned to signed contracts during H1 FY2018.

Similarly, during the six months to 31 December 2017, the Company was the successful recipient of a number of contract award notifications, across both Systems and Services. These notifications totaled approximately $31 million, and include contract awards which were signed subsequent to 31 December 2017, as recently advised to the market. Two examples are the contracts signed with the Directorate of Air Navigation Services of France (**DSNA**) relating to a new air traffic management system in Guadeloupe in the French Territories, and Airports Fiji Limited (**AFL**) for a major overhaul of the air traffic management system in Fiji.

Systems

The Systems segment experienced revenue and gross margin growth in the first half of over 169% and 122% versus the prior corresponding period, respectively. The growth in revenue was driven by a combination of new programs, with both new and existing customers, which commenced during the period as well as the continuation of programs already underway. The growth in overall gross margin came despite a decrease in the gross margin %, due principally to the customised nature of certain system deliveries and the competitive nature of the international simulation and air traffic management systems markets.

Programs which were underway in the first half included additional engineering work with the French Territories French Guiana system, as well as system installations or upgrades for the DSNA's Guadeloupe, Saudi Arabia, Royal Australian Air Force, United States Air Force (**USAF**), Mozambique and Colombian Air Force, and upgrades to the Norway Avinor and NavPortugal air traffic management systems.

New programs which commenced during the period included new simulator systems for a second South American Air Force customer, Algeria, Saudi Arabia and Sri Lanka.

In addition to the Systems programs underway in the first half, there are new Systems programs which will commence installation during the second half of FY2018 including the major overhaul of the air traffic management system in Fiji, two simulation systems for Morocco and a ramp up in the installation for Guadeloupe. Additionally, the ramp up of the previously announced increase in the level of effort for the Federal Aviation Administration's (**FAA**) ATOP program will continue as well as on-going systems upgrades occurring throughout the global network of both civil and military customers.

Services

The Services segment maintained its consistent performance during the first half, revenue was below the prior corresponding period, due to the effects of currency fluctuations. Gross margins were 44% compared with 45% in the prior corresponding period, mainly due to increased hardware expenses on a support contract.

This consistent performance is anticipated to continue into the second half underpinned by existing programs with the FAA's Controller Training Contract, the FAA's TSS support contract, the USAF and increased levels of effort with Leidos on the FAA ATOP program, as well as the delivery of services beginning to commence on new systems installations completed in recent periods.

At the Company's 2017 Annual General Meeting, the Company advised of a potential change in the provision of various support services to the FAA by Adacel, that certain services had been awarded to another provider and that they would be transitioned during February 2018.

The Company is pursuing a formal review of this award notification by the FAA. Whilst this process is being completed and in order to allow the FAA to continue the training of controllers necessary for safe operation of their facilities by suitably qualified and supervised personnel, an initial extension of two months of the services currently provided has been agreed with the FAA. This extension, which expires on 8 April 2018 includes the option of monthly extensions beyond that time. The services components to be provided under this contract extension relate to Field Service Representatives, Contractor Logistics Support and Program Management.

Cash

The Company's net cash balance as at 31 December 2017 was $10.1 million, compared to $14.9 million for the prior corresponding period.

Net operating cash inflow for the period was $3.7 million, an increase of $2.3 million compared to the prior corresponding period.

Net cash outflow for all activities for the period was $6.3 million, due to a number of factors, including, the payment of dividends of approximately $7.9 million (including a special dividend of 7.75 cents per share). Other factors which influenced the cash flow result, include the impact from the commencement of a number of new system installations programs, timing of milestone payments, and activity under the on-market share buyback ($1.2 million).

Cash generation from operations in the second half of FY2018 is anticipated to be stronger than the first half with net cash levels expected to increase.

Strategic Initiatives

The Company continues to focus on the continued diversification of its revenue base, towards broader Services-oriented opportunities, as well as the expansion of the global systems footprint. Further, the Company is focused on the continued development of its core technologies and products.

Capital Management

Share Buy-Back

Adacel maintains the on-market share buyback as an available capital management lever. As appropriate, the Board anticipates the continued utilisation of the on-market share buyback.

Dividends

The Board has declared an interim dividend for the half year of 2 cents per share (unfranked), an increase of 14% over the interim dividend in the prior corresponding period. Key dates for the interim dividend are:

Record date: 16 March 2018
Payment date: 30 March 2018

Outlook

The Board anticipates a stronger second half in FY2018, and is targeting profit before tax of approximately 35% above 2017.

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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