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Adacel Technologies Limited (ASX: ADA)

ASX & Media Release

Melbourne, 19 February 2024

Adacel reports H1 FY2024 financial results

H1 FY2024 Summary:

- Consolidated revenues of USD\$13.1 million for H1 FY2024, compared to USD\$14.1 million for the same FY2023 period.
- EBITDA of USD\$0.2 million for H1 FY2024, compared to USD\$2.0 million for H1 FY2023; largely explained by the decrease in revenue and a change in revenue mix in H1 FY2024.
- Loss before tax for H1 FY2024 of USD\$1.1 million, compared to a profit of USD\$1.0 million for H1 FY2023.
- Due to the delays in ramping up recent contract wins, the Company updates its FY2024 earnings guidance of EBITDA between USD\$0.8million and USD\$1 million and a loss before taxes of between USD\$1.8 million and USD\$2.0 million.
- H1 FY2024 has seen the Company secure a contract pipeline which provides a strong baseline of recurring revenue for FY2025 and beyond.
- The Company's internal forecasts for FY2025 estimate a range of EBITDA of between USD\$6.0 million and USD\$8.0 million.

Financial Overview

Key Financial Measures USD\$ '000, except dividend	Half Year Ended 31 December		
	2023	2022	Movement %
Revenue	13,069	14,061	(7.1)
Gross Margin	3,625	4,976	(27.2)
Gross Margin %	27.7	35.4	
EBITDA*	198	1,992	(90.1)
EBITDA* %	1.5	14.2	
(Loss) / Profit Before Tax	(1,059)	958	(210.5)
(Loss) / Profit Before Tax % of Revenues	(8.1)	6.8	
(Loss) / Profit After Tax	(1,360)	218	(723.9)
Earnings Per Share (cents)	(1.8)	0.30	(700)
Interim Dividend (cents)	AUD 0.00	AUD 1.50	(100)

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

Adacel's CEO Daniel Verret said, "While we are clearly disappointed with the results of the first half of FY2024, it's important to acknowledge that most of the contract wins that underpinned our original plan have been signed and have begun. The successful win back of the FAA TSS Support and Technical Refresh contract was both significant and important to our Company as it validated our ongoing product enhancements, improved operations efficiency and enhanced customer engagement. While we had originally budgeted to begin executing this contract in the first half, unforeseen delays in finalizing the award and transitioning the contract contributed to the lower-than-expected results of H1 FY2024. Since mid-February, we now have approximately 40 new field service representatives on site supporting our customer and this contract for the next five years. In addition, in recent weeks the FAA has issued purchase orders for over USD\$8 million including over USD\$2 million related to a new Software Contract that is separate and distinct from the Hardware contract announced in October 2023. Also, we recently announced a new contract with NAV Portugal. This too had originally been budgeted to begin in H1 FY2024. We now plan to begin delivering this new program in H2 FY2024 which will continue into FY2025. While our contract with the United States Air Force (USAF) was partially extended to the end of February 2024, we anticipate that this contract award will be signed shortly. Combined with the new contract awards from the US Army and the FAA, the Company will have surpassed its goal announced 18 months ago of signing USD\$100 million of new contracts for our MaxSim product.

Furthermore, we have strengthened our operations with the addition of the new Vice President of Air Traffic Management (ATM), Neil Bowles. With over 25-years' experience and a proven track record delivering strategic initiatives and enhancing market position, Mr. Bowles will provide executive leadership to our operational ATM technology Business Units including Aurora, Reval, and our ATOP program in North America. His appointment will focus on driving growth and solidifies our position to take advantage of the global the Air Traffic Control equipment market."

The Company delivered revenue of USD\$13.1 million in H1 FY2024, a 7.1% decrease compared to the prior corresponding period. Gross margin, which includes an allocation of overhead and other fixed costs, decreased by approximately USD\$1.4 million to USD\$3.6 million. Gross margin, as a percentage of revenues, decreased to 27.7% in H1 FY2024 compared to 35.4% in H1 FY2023.

EBITDA decreased to USD\$0.2 million, compared to USD\$2.0 million for the same period last year, mainly due to the lower revenues and a change in revenue mix in H1 FY2024.

For the half-year ended 31 December 2023, the Company delivered a loss before tax of USD\$1.1 million, compared to a profit before tax of USD\$1.0 million for the prior corresponding period. The variance in profit / (loss) before tax in H1 FY2024, compared to the same period for H1 FY2023, is due to the lower EBITDA generated in H1 FY2024 as explained above.

The Company had a net cash outflow from operating activities totaling USD\$1.4 million in H1 FY2024, compared to a net cash inflow of USD\$0.9 million in H1 FY2023. This decrease is mainly attributed to the timing of customer payments, as well as higher cash outflows from research and development expenditures and lower revenues partially offset by higher tax credits received during the period.

During H1 FY2024, the Company drew on its USD\$3 million non-revolving demand loan predominantly to meet the anticipated increase in working capital requirements associated with ramping up on the new contracts with the FAA. The demand loan will be repaid over 84 months.

Business Segment Reporting

	Half Year Ended 31 December	
	2023	2022
Revenue USD \$'000		
Systems	3,635	4,601
Services	9,434	9,460
Total	13,069	14,061
Gross Margin USD \$'000		
Systems	(92)	619
Services	3,717	4,357
Total	3,625	4,976
Gross Margin %		
Systems	(2.5)	13.5
Services	39.4	46.1
Total	27.7	35.4

Systems

The Systems segment includes all sales of complex systems and products covering operational control as well as simulation and training. This segment also includes all hardware and software upgrade sales.

In H1 FY2024, Systems segment revenue decreased to USD\$3.6 million from USD\$4.6 million for the same period in FY2023. The decrease was mainly attributable to the advancement of significant contracts in the Seychelles and Norway in H1 FY2023. While the Company had planned to begin working on a new program in Portugal in H1 FY2024, delays in finalizing the contract resulted in lower Systems revenues. The contract was signed in December 2023, and

the Company expects to begin delivering on this project later in H2 FY2024.

The gross margin, as a percentage of revenue generated for the reporting period, decreased from 13.5% to -2.5%, when compared to the same period last year. The gross margin continues to be impacted by the lack of revenue generating work planned for the Company's operations in Estonia. The ongoing conflict in Ukraine has stalled all previously planned development work with the Estonian Air Navigation Services.

Services

The Services segment includes all aspects of support, field services and on-site technical services.

For H1 FY2024, Services revenue remained stable compared to H1 FY2023, from about USD\$9.5 million in the prior corresponding period, to USD\$9.4 million. Services revenues made up approximately 72% of total revenue for H1 FY2024, compared to approximately 67% for H1 FY2023. With the new FSRs in place supporting the FAA contract since 15 February, the Company expects revenues from this segment to grow in H2 FY2024.

Services segment gross margin, as a percentage of revenue, stood at 39.4% for the first half of FY2024, compared to 46.1% for the same period in FY2023 mainly due to the revenue mix.

Revenue from North American customers comprised approximately 79% of total revenue, compared to approximately 70% for the same period in 2023. Revenues generated in North America tend to be more Services segment centric.

Dividend

The Company, in accordance with its stated policy of paying a dividend of approximately 50%-60% of PBT has not declared a dividend. The Company remains committed to this policy.

Outlook

The Company updates its FY2024 earnings guidance of EBITDA to between USD\$0.8 million and USD\$1 million and loss before taxes of between USD\$1.8 million and USD\$2.0 million. The reduction in the forecast is directly related to the delays in the contract awards for the FAA, USAF and Nav Portugal compared to the original plan. In addition, in H2 FY2024, the Company planned to resume the Reval virtual tower program in Estonia which has now been paused due to the ongoing conflict in Ukraine.

Michael McConnell, Adacel's Chairman, stated, "While we are disappointed that the planned revenues and EBITDA for FY2024 have been delayed, we are encouraged with the contract wins and anticipated wins in excess of \$100 million over the last 9 months. Moreover, a portion of the FY2024 EBITDA shortfall arises from the underutilization of existing resources. We have undertaken a deep review of those costs and, together with refinements to our forecasting methodology, give us confidence this will not happen in the future. Looking ahead, given the initiation of the contract wins in FY2024, our internal forecasts are for FY2025 EBITDA of between USD\$6.0 million and USD\$8.0 million."

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 authorized 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, REVAL, 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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ADACEL

INVESTOR PRESENTATION

H1 FY2024, ENDED 31 DECEMBER 2023

DISCLAIMER

This presentation has been prepared by Adacel Technologies Limited (ACN 079 672281) (Adacel or the Company). The information contained in this presentation is current at the date of this presentation. The information is a summary overview of the current activities of the Company and should be read in conjunction with the Company's disclosures lodged with the Australian Securities Exchange, including the Company's Appendix 4D lodged on 20 February 2024.

This document contains certain "forward-looking statements". Indications of, and guidance on, future earnings and financial position and performance, including Adacel's financial year 2024 outlook, are forward-looking statements, as are statements regarding Adacel's plans and strategies. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Adacel, which may cause actual results to differ materially from those expressed or implied in such statements. Adacel cannot give any assurance or guarantee that the assumptions upon which management based its forward-looking statements will prove to be correct or exhaustive, or that Adacel's business and operations will not be affected by other factors not currently foreseeable by management or beyond its control. Such forward-looking statements only speak as at the date of this document and Adacel assumes no obligation to update such information.

This presentation includes certain financial measures that are not recognized under Australian Accounting Standards (AAS) or International Financial Reporting Standards (IFRS). Such non-IFRS financial measures do not have a standardized meaning prescribed by AAS or IFRS and may not be comparable to similarly titled measures presented by other entities and should not be construed as an alternative to other financial measures determined in accordance with AAS or IFRS. Recipients are cautioned not to place undue reliance on any non-IFRS financial measures included in this presentation.

All references to dollars are to American currency (USD) unless otherwise stated. The release, publication or distribution of this presentation in jurisdictions outside Australia may be restricted by law. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

ADACEL AT A GLANCE

A LEADER IN AIR TRAFFIC MANAGEMENT, SIMULATION & TRAINING SOLUTIONS

Adacel | Public Company | Founded in 1987 | 230 Employees



ADACEL TECHNOLOGIES, LTD. 

Melbourne, Australia

Direct field support to Royal Australian Air Force (RAAF) and Air Services Australia



ADACEL, INC. 

Montréal, Québec Canada

Air Traffic Management (ATM) and International Simulation & Training business



ADACEL SYSTEMS, INC. 

Orlando, FL, USA

US Simulation & Training and customer support



ADACEL TECHNOLOGIES ESTONIA OÜ 

Tallinn, Estonia

Single & multi-tower remote operations and customer support

PRIMARY CUSTOMERS



**AIR NAVIGATION
SERVICE PROVIDERS**



**DEFENSE & GOVERNMENT
ORGANIZATIONS**



**AVIATION TRAINING
INSTITUTIONS**

GLOBAL FOOTPRINT



250+ LOCATIONS



40+ COUNTRIES

MEET OUR TEAM

Senior Management



Daniel Verret
CEO



Michael Saunders
Vice President
Business Development & Strategy



Neil Bowles¹
Vice President
Air Traffic Management

Board of Directors



Michael McConnell
Non-Executive Chairman



Peter Landos BEco (ANU)
Non-Executive Director



Silvio Salom
Non-Executive Director



Natalya Jurcheshin, B.Comm, CA
Non-Executive Director



Sally McDow
Company Secretary

H1 2024 - ADACEL KEY FIGURES

REVENUE **\$13.1 million**

GROSS MARGIN **\$3.6 million**
(27.7% of revenues)

EBITDA **\$0.2 million**

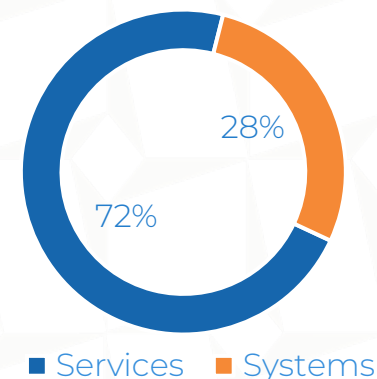
PROFIT / LOSS BEFORE TAXES **\$(1.1) million**
(8.1)% of revenues

PROFIT / LOSS AFTER TAXES **\$(1.4) million**

NET CASH **\$ 522 thousands**

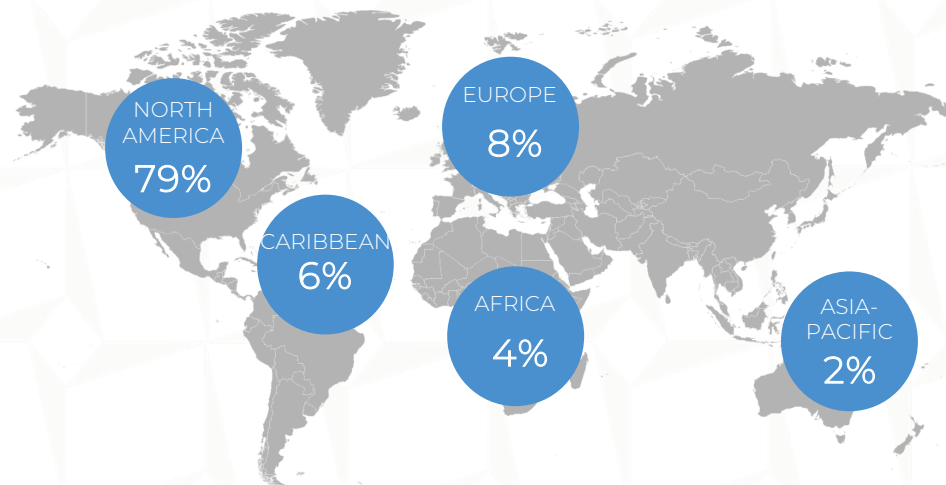
TWO OPERATING SEGMENTS

(breakdown of sales by operating segment)



DIVERSIFIED GEOGRAPHICAL PRESENCE

(breakdown of sales by geographic region)



H1 2024 HIGHLIGHTS

Services Segment

- Services revenue – approximately 72% of total revenue
- Revenue remained stable when compared to the same period in 2023; gross margin at approximately 39% compared to 46% in H1 FY 2023, mainly due to revenue mix.
- The expected growth in H1 FY2024 did not materialize in part due to delays in the new FAA TSS Support and Technical Refresh and the delay in the full renewal of the USAF contract.

Systems Segment

- Systems revenue – approximately 28% of total revenue
- The expected revenues in H1 FY2024 did not materialize as planned due to delays in finalizing a new program contract in Portugal which was ultimately signed in December 2023 and will begin in H2 FY2024

FY2024 Guidance Update

- Company now expects EBITDA of between \$0.8M - \$1M for FY2024
- The updated guidance is attributable to :
- FAA TSS Support and Technical Refresh
 - Effective Contract Date for FAA TSS Support and Technical Refresh of 1 December 2023
 - Transition of approximately 40 Field Service Representatives completed in February 2024
 - Over \$8 million of purchase orders received since December 2023 including over \$2 million related to a new Software contract that is separate and distinct from the Hardware Contract
 - Immediate focus is on hardware with other services deferred to FY2025
- USAF 5 Year Contract Renewal
 - Expired in November 2023
 - Support only extended for 3 months until the end of February 2024 which impacted other services revenues
 - Contract award expected shortly

FY2024 Guidance Update

- Nav Portugal – New Contract Award
 - Originally planned for an award date of August 2023
 - Contract signed in December 2023
 - Program delivery to begin in H2 FY2024 with execution to continue into FY2025
- Estonian Air Navigation Services
 - Originally planned to resume program in H2 FY2024
 - Customer has advised us that the program is on hold due to the ongoing conflict in Ukraine and its impact on 2024 budgets.

CORPORATE OVERVIEW

Appendix

ADA Price / Volume for July 1, 2023 - December 31, 2023



CAPITAL STRUCTURE

Shares on issue	76.2m
Share price December 31, 2023	AUD\$0.87
Share price June 30, 2023	AUD\$0.55
Market Capitalization December 31, 2023	AUD\$65.9 million
Net cash as of 31 December 2023	USD\$0.5 million
HY 2024 Dividend per share	NA

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THANK YOU
