

23 November 2022

AB Dynamics plc
Final Results for the year ended 31 August 2022
"Strong strategic progress and financial performance"

AB Dynamics plc ("AB Dynamics", the "Company" or the "Group"), the designer, manufacturer and supplier of advanced testing, simulation and measurement products to the global transport market, is pleased to announce its final results for the year ended 31 August 2022.

	<u>Audited</u> <u>2022</u> <u>£m</u>	<u>Audited</u> <u>2021</u> <u>£m</u>	
Revenue	80.3	65.4	+23%
Gross margin	57.5%	56.8%	+70 bps
EBITDA ¹	16.4	13.5	+21%
Adjusted operating profit ¹	12.7	10.8	+18%
Adjusted operating margin ¹	15.8%	16.6%	(80 bps)
Statutory operating profit	5.2	4.2	+24%
Adjusted cash flow from operations ¹	20.7	16.0	+29%
Net cash	29.2	22.3	
	Pence	Pence	
Adjusted diluted earnings per share ¹	44.5	37.4	+19%
Statutory diluted earnings per share	17.1	13.1	+31%
Total dividend per share	5.3	4.8	+10%

¹Before amortisation of acquired intangibles, acquisition related charges and exceptional items. A reconciliation to statutory measures is given below.

Financial highlights

- Record revenue, order intake and EBITDA delivered, despite a challenging operational backdrop
- Market and customer activity levels have remained positive throughout the year which, together with a recovery of sales to China and a full year's contribution from the acquisition of VadoTech, drove revenue growth of 23%:
 - Organic revenue increased by 18%, albeit against a prior year comparative in which the first half was impacted by COVID-19
 - Track testing revenue grew by 30%, reflecting increases in driving robots and Advanced Driver Assistance System (ADAS) platforms following the recovery in customer activity, as well as growth in testing services from VadoTech
 - Laboratory testing and simulation revenues similar to the prior year, reflecting significant growth in simulation sales, offset by lower Suspension Parameter Measurement Machine (SPMM) revenues due to timing of delivery
- As expected, adjusted operating margin reduced to 15.8% driven by the investment in ABD Solutions to support the strategic long-term growth drivers
 - Operating margin across the core business increased to 17.5%
- Significant operating cash generation of £20.7m (2021: £16.0m) with cash conversion of 126%, leaving net cash at year end of £29.2m (2021: £22.3m) after funding the final payment on the acquisition of VadoTech and investing £3.8m in capital expenditure in the period
- Proposed final dividend of 3.54p per share, with total dividend of 5.30p per share (2021: 4.80p per share) reflecting the Board's confidence in the Group's financial position and prospects

Operational and strategic highlights

- Whilst the current macroeconomic operating environment still presents challenges in relation to supply chain disruption, the Group has been successful in delivering output and mitigating inflationary cost pressures through price increases for new orders
- Further progress made on the implementation of strategic initiatives targeting diversification, alongside the established pillars and opening up new markets beyond automotive through the launch of ABD Solutions
- ABD Solutions was awarded its first development contract by an industrial equipment supplier in Japan for a driverless retrofit solution for mining vehicles
- New product development continued in line with our technology roadmap for existing track testing and simulation markets and development of the core technology for ABD Solutions. Along with the successful launch of our new range of ADAS dummies, the full AB Dynamics LaunchPad product range and GST 120 have now been certified for use in Euro NCAP testing
- VadoTech Group has been successfully integrated into the Group and delivered a solid performance since it was acquired in March 2021
- Growth in percentage of Group's recurring revenue to 41%, up from 35%, enhanced by the strengthening of the APAC regional footprint
- Post-year-end acquisition of Ansible Motion and the creation of a new market-facing business unit, AB Simulation, enhances the Group's simulation capabilities, expands its simulator product range and achieves critical mass in this attractive sector

Current trading and outlook

- Momentum into the early part of the new financial year has been encouraging, supported by a solid order book providing good visibility through the first half
- Whilst being mindful of ongoing supply chain disruption and wider economic uncertainty, the Board remains confident that the Group will make further financial and strategic progress this year and its expectations for FY 2023 are unchanged
- Future growth prospects remain supported by long-term structural and regulatory growth drivers in active safety,

autonomous systems and the automation of vehicle applications

There will be a presentation for analysts this morning at 9.00am at Tulchan Communications, 85 Fleet Street, EC4Y 1AE. Please contact abdynamics@tulchangroup.com if you would like to attend.

Commenting on the results, Dr James Routh, Chief Executive Officer said:

"The Group has delivered an outstanding performance against a challenging market backdrop which includes the ongoing impacts of inflation and supply chain constraints. The financial results show further strong progress, with record levels of order intake, revenue, adjusted EBITDA and cash generation. In parallel, the Group has further strengthened in terms of strategic positioning through both organic investments and acquisitions and has now fully built out the senior leadership team and operating capabilities."

"We see significant opportunity in our core markets in automotive, which are supported by long-term structural and regulatory growth drivers, and are continuing to invest in new product development and technology. In addition, we are investing in new technologies to diversify the business into attractive adjacent markets through ABD Solutions."

"Our market drivers both in our core business and in ABD Solutions remain strong. Despite some potential short-term headwinds relating to global macroeconomic conditions, this backdrop, along with the Group's recent investments in capability and new products provides confidence of delivering continued progress in 2023 and beyond."

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The person responsible for arranging the release of this information is David Forbes, Company Secretary.

About AB Dynamics plc

AB Dynamics is a leading designer, manufacturer and supplier of advanced testing, simulation and measurement products to the global transport market.

AB Dynamics is an international group of companies headquartered in Bradford on Avon. AB Dynamics currently supplies all the top automotive manufacturers, Tier 1 suppliers and service providers, who routinely use the Group's products to test and verify vehicle safety systems and dynamics.

Group overview

Despite the challenging economic and operational backdrop, the Group delivered a strong set of results supported by recent investments in its capabilities and a recovery in customer activity levels following the pandemic. The Group has evolved significantly over the last three years, building a solid and scalable platform from which to capitalise on a multi-year growth opportunity.

The performance for the year was positive across both halves with a stronger second half reflecting normal seasonality. The Group delivered record levels of order intake, revenue and adjusted EBITDA, despite the headwinds of global inflation and supply chain constraints and further investment to support its long-term growth objectives.

The Group continued to deliver against its strategic priorities by launching new products, developing its service offering to drive recurring revenues and delivering on its diversification plans through progress in ABD Solutions. The Group also expanded its presence in the simulation market through the post-year-end acquisition of Ansible Motion and the establishment of a new market-facing business unit, AB Simulation.

The Group's ESG strategy has developed significantly during the year. ESG is an intrinsic part of the Group's overall

purpose and strategy and this year effort was focused on environmental performance, diversity of people, engagement with valued employees and local communities, and continuous improvement in governance and compliance. This resulted in an improvement in the Group's MSCI ESG rating to AA, with ambition to make further improvements during 2023.

Whilst the positive momentum from FY 2022 has continued into the new financial year, macroeconomic headwinds created by the combination of global inflation, forecast recession and geopolitical uncertainty have the potential to impact the Group during 2023. However, the Group is well positioned, with market-leading products and services, and remains supported by regulatory and structural growth drivers that provide a strong position for continued growth and performance during 2023.

Financial performance

The Group delivered significant revenue growth in the year of 23%, to £80.3m (2021: £65.4m). The second half of the year was particularly strong with revenue of £42.5m (H2 2021: £38.1m), a record half year period. This growth was delivered despite the ongoing impacts of inflation and supply chain constraints, which were successfully mitigated through proactive inventory management and price increases to the market.

Excluding the impact of the prior year acquisition of VadoTech, organic revenue increased by 18% in FY 2022, against a prior year comparative in which the first half of the year was affected by COVID.

The proportion of recurring revenue continued to increase, growing to 41% (2021: 35%), benefitting from the full year impact of the acquisition of VadoTech, which supplemented an increase in sales of software, long-term service and support contracts, spares, maintenance and calibration. The level of recurring revenue is now expected to broadly stabilise ahead of new market offerings which will be released in the near future.

Gross margins increased by 70 bps to 57.5% (2021: 56.8%), driven by the mix effect of a higher proportion of track testing revenue and supported by effective customer pricing leverage.

Adjusted operating profit of £12.7m increased 18% against 2021, with a reduction in adjusted operating margin to 15.8% (2021: 16.6%). This was impacted by the investment of £1.3m in ABD Solutions, the Group's new market-facing business unit that develops solutions to automate vehicle applications, as well as continued investment in the existing business.

Adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') increased by 21% to £16.4m (2021: £13.5m). Return on sales (defined as EBITDA divided by revenue) was 20.4% (2021: 20.6%), a decrease of 20 bps.

Net finance costs were £0.4m (2021: £0.4m), comprising lease interest and the unwinding of the discounted value of the deferred consideration on VadoTech.

Adjusted profit before tax was £12.4m (2021: £10.4m).

The Group adjusted tax charge totalled £2.2m (2021: £1.9m), an adjusted effective tax rate of 17.7% (2021: 18.3%). The effective tax rate is lower than the current UK corporation tax rate due to allowances for research and development and patent box. In future years the effective tax rate is expected to increase along with the increase in the UK corporation tax rate.

Adjusted diluted earnings per share were 44.5p (2021: 37.4p), an increase of 19%, reflecting the increase in operating profit and the reduction in the tax rate.

The Group delivered strong adjusted operating cash flow of £20.7m (2021: £16.0m) with cash conversion of 126% after a reduction in working capital of £3.2m. Net cash at the end of the year was £29.2m (2021: £22.3m), underpinning a robust balance sheet and providing significant funding headroom to support the post-year-end acquisition of Ansible Motion.

Statutory operating profit increased by 24% to £5.2m (2021: £4.2m), with statutory profit before tax up 29% to £4.9m (2021: £3.8m). The statutory tax charge was £1.0m (2021: £0.8m), leaving statutory profit after tax of £3.9m (2021: £3.0m). Statutory basic earnings per share was 17.3p (2021: 13.2p). A reconciliation of statutory to underlying non-GAAP financial measures is provided below.

Sector review

	2022 £m	2021 £m	
Driving robots	20.6	16.9	+22%
ADAS test products	29.7	22.7	+31%
Testing services	14.4	10.1	+43%
Track testing	64.7	49.7	+30%
Laboratory testing	5.2	6.4	-19%
Simulation	10.4	9.3	+12%
Laboratory testing and simulation	15.6	15.7	-1%
Total revenue	80.3	65.4	+23%

Track testing

The track testing business delivered revenue of £64.7m (2021: £49.7m), a 30% increase against the prior year. The first half of the financial year showed a strong recovery in track testing activity levels post-COVID with revenue of £30.4m (H1 2021: £20.9m), followed by an even stronger second half, with revenue of £34.3m (H2 2021: £28.8m).

The track testing performance was driven by notable sales growth across both driving robots and ADAS platforms, as well as the full year impact of the prior year acquisition, VadoTech.

Driving robot sales increased by 22% to £20.6m (2021: £16.9m), following the recovery of order intake in H2 2021.

The Group expects continued moderate growth in driving robots once new regulatory requirements for new ADAS technologies are released.

Revenue from ADAS platforms increased by 31% to £29.7m (2021: £22.7m) as demand continues to build, particularly for the new LaunchPad 80 and GST 120 products which provide the capability to perform testing at higher speeds. During the year these products were approved as test tools for official Euro NCAP testing.

The regulatory trend towards multi-object test scenarios will further drive demand for a range of platforms that meet these test requirements, including platforms to carry a range of objects (e.g. pedestrian dummies, cyclists, scooters, motorcycles etc) that can operate at a range of speeds and can interact with a variety of test vehicles from passenger cars to commercial vehicles. The recent launch of a range of ADAS testing dummies, including an articulated pedestrian and a motorcycle further expands the Group's offering in this area.

Revenue related to the provision of testing services increased 43% to £14.4m (2021: £10.1m) due to the full year impact of the prior year acquisition of VadoTech Group.

Laboratory testing and simulation

Laboratory testing and simulation revenue was flat year-on-year at £15.6m (2021: £15.7m) against a very strong prior year comparator during which revenues grew by 62%.

Simulation delivered further revenue growth of 12% to £10.4m (2021: £9.3m), even after a significant step change in the prior year with growth of 98%. This was driven by the strong order book for our aVDS simulators at the start of the financial year and significant growth in revenues from rFpro, following investment in a number of new capabilities and features. The post-year-end acquisition of Ansible Motion will enhance our product range, supporting continued growth.

Revenue from laboratory testing equipment (including SPMM) declined by 19% to £5.2m (2021: £6.4m) entirely due to timing of long-term SPMM contract builds. The market conditions remain strong and supportive and the order book for SPMM machines supports continued progress during 2023.

Strategic progress

During the year, the Board conducted its annual strategic review which has endorsed the continued focus on building and growing the core business, coupled with delivering on the Group's diversification plans through ABD Solutions. This organic-led growth strategy, compounded through value-enhancing acquisitions, enables the Group to set ambitious aspirational growth objectives.

Following the launch of ABD Solutions at the end of the last financial year, the Group has made strong progress against its stated strategic priorities. ABD Solutions has successfully developed the core modular technology required for our initial market focus in mining and defence and has been successful in winning development funding from a major Japanese mining customer and signed a Memorandum of Understanding with Amaroq plc for sustainable gold mining operations in Greenland.

In the core business, the Group has developed and launched several new products including the new variant of our driving simulator, the aVDS-HP, aimed at the general automotive market.

The Group also expanded its track testing product offering to cover ADAS testing dummies, including a market-leading articulating pedestrian, a scooter/moped and a motorcycle that can be used in conjunction with the LaunchPad 80 at high test speeds. A new ADAS platform product, LaunchPad Spin, is nearing completion which expands the LaunchPad product family to lower speed, high manoeuvrability applications. We expect these new products to be market-leading and to drive growth in track testing order intake and revenue during 2023.

VadoTech Group has been successfully integrated into the Group and delivered a solid performance since it was acquired in March 2021.

Towards the end of the financial year the Group launched a new market-facing business unit called AB Simulation, which encompasses our physics-based simulation software, rFpro, the existing AB Dynamics simulator product line and the newly-acquired Ansible Motion simulator technology to provide a market-leading range of products to address the growing automotive simulation market.

Following our initial investments in 2022, the Group has continued to build bench strength and capabilities in the senior management team with the appointments of a Chief Operating Officer, President Asia Pacific and North America, a Managing Director for AB Simulation and a Group Operational Excellence Director. In addition to these senior hires the Group is continuing to build out the wider capabilities of its employees and initiated a Professional Development Programme for leaders of the future.

The development of our Group-wide ERP system progressed significantly during the year, with the first modules having gone live in the UK and the remaining implementation for the wider Group due to commence during 2023.

Acquisitions

Shortly after the financial year end, the Group acquired Ansible Motion Limited, a UK-based provider of advanced simulator solutions to the automotive market, for initial consideration of £19.2m with deferred contingent consideration of up to £12.0m. The initial consideration comprised cash of £16.0m and £3.2m of new ordinary shares in AB Dynamics issued to the vendors.

Ansible Motion designs and manufactures high end motion platform systems for Driver-in-the-Loop development of vehicle dynamics, ADAS and automated systems and already uses the Group's rFpro software for its physics-based virtual environments. The Ansible Motion range of driving simulators complements the existing product offering from AB Dynamics and provides a comprehensive range of simulators that address a wider range of simulator applications. Ansible Motion will be integrated into the newly-formed AB Simulation business unit.

During the prior year, the Group acquired VadoTech Group, a leading supplier of testing services in the Asia Pacific

region. Since acquisition VadoTech has performed in line with the Board's expectations and has been fully integrated into the Group, reporting into the President Asia Pacific and North America based in the newly-formed Singapore regional operating hub.

Acquisitions continue to form a key part of the long-term strategic development of the Group and we operate a continuous process to identify and deliver acquisition opportunities. The current long-term pipeline remains positive and we expect to continue to deliver further value-enhancing acquisitions.

Alternative performance measures

In the analysis of the Group's financial performance and position, operating results and cash flows, alternative performance measures are presented to provide readers with additional information. The principal measures presented are adjusted measures of earnings including adjusted operating profit, adjusted operating margin, adjusted EBITDA, adjusted profit before tax and adjusted earnings per share.

This financial information includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because if included, these items could distort the understanding of the performance for the year and the comparability between the periods.

We provide comparatives alongside all current year figures. The term 'adjusted' is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. All profit and earnings per share figures in this financial information relate to underlying business performance (as defined above) unless otherwise stated.

A reconciliation of statutory measures to adjusted measures is provided below:

	2022			2021		
	Adjusted	Adjustments	Statutory	Adjusted	Adjustments	Statutory
Operating profit (£m)	12.7	(7.5)	5.2	10.8	(6.6)	4.2
Operating margin (%)	15.8	(9.3)	6.5	16.6	(10.2)	6.4
Profit before tax (£m)	12.4	(7.5)	4.9	10.4	(6.6)	3.8
Taxation (£m)	(2.2)	1.2	(1.0)	(1.9)	1.1	(0.8)
Profit after tax (£m)	10.2	(6.3)	3.9	8.5	(5.5)	3.0
Diluted earnings per share (pence)	44.5	(27.4)	17.1	37.4	(24.3)	13.1
Cash flow from operations (£m)	20.7	(2.0)	18.7	16.0	(1.7)	14.3

The adjustments to operating profit and profit before tax comprise:

	2022	2021
	£m	£m
Amortisation of acquired intangibles	5.5	4.4
Acquisition related costs	0.3	0.8
ERP development costs	1.7	1.4
Adjustments	7.5	6.6

The tax impact of these adjustments was a credit of £1.2m. The cashflow impact of the adjustments was an outflow of £2.0m and related to the acquisition costs and ERP costs.

Return on capital employed (ROCE)

Our capital-efficient business and high margins enable generation of strong ROCE (defined as adjusted operating profit as a percentage of capital employed). During the year, ROCE has increased from 11.5% to 14.2% as a result of the full year contribution from the investment in VadoTech, acquired in the previous year.

Research and development

While research and development forms a significant part of the Group's activities, a significant proportion relates to specific customer programmes which are included in the cost of the product. Development costs of £1.7m (2021: £1.2m) have been capitalised in relation to projects for which there are a number of near-term sales opportunities. Other research and development costs, all of which have been written off to the income statement as incurred, totalled £0.4m (2021: £0.5m).

Foreign currency exposure

Foreign exchange translation has provided a minor headwind on revenue and profit, with the movement in the stronger US dollar offset by the weaker Euro and Yen. On a constant currency basis, restating the current year at 2021 average rates, revenue would have been £0.7m higher and adjusted operating profit £0.1m higher.

Dividends

The Board is recommending a final dividend of 3.54p per share giving a total dividend for the year of 5.30p per share, which is an increase of 10% over the prior year, continuing the Board's progressive dividend policy.

Summary and outlook

The Group has delivered an outstanding performance against a challenging market backdrop which includes the ongoing impacts of inflation and supply chain constraints. The financial results show further strong progress, with record levels of order intake, revenue, adjusted EBITDA and cash generation. In parallel, the Group has further strengthened in terms of strategic positioning through both organic investments and acquisitions and has now fully built out the senior leadership team and operating capabilities.

We see significant opportunity in our core markets in automotive, which are supported by long-term structural and regulatory growth drivers, and are continuing to invest in new product development and technology. In addition, we are investing in new technologies to diversify the business into attractive adjacent markets through ABD Solutions.

Momentum into the early part of the new financial year has been encouraging, supported by a solid order book providing good visibility through the first half. Whilst being mindful of ongoing supply chain disruption and wider economic uncertainty, the Board remains confident that the Group will make further financial and strategic progress this year and its expectations for FY 2023 are unchanged.

Our market drivers both in our automotive business and in ABD Solutions remain strong. Despite some potential short-term headwinds relating to global macroeconomic conditions, this backdrop, along with the Group's recent investments in capability and new products, provides confidence of delivering continued progress in 2023 and beyond.

Directors' Responsibility Statement on the Annual Report and Accounts

The responsibility statement below has been prepared in connection with the Company's full annual report and accounts for the year ended 31 August 2022. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 23 November 2022 and has been signed on its behalf by James Routh and Richard Elsy CBE.

For the year ended 31 August 2022

		2022			2021		
	Note	Adjusted £'000	Adjustments £000	Statutory £'000	Adjusted £'000	Adjustments £'000	Statutory £'000
Revenue	2	80,305	-	80,305	65,380	-	65,380
Cost of sales		(34,089)	-	(34,089)	(28,269)	-	(28,269)
Gross profit		46,216	-	46,216	37,111	-	37,111
General and administrative expenses		(33,473)	(7,514)	(40,987)	(26,288)	(6,630)	(32,918)
Operating profit		12,743	(7,514)	5,229	10,823	(6,630)	4,193
Operating profit is analysed as:							
Before depreciation and amortisation		16,363	(1,998)	14,365	13,500	(2,198)	11,302
Depreciation and amortisation		(3,620)	(5,516)	(9,136)	(2,677)	(4,432)	(7,109)
Operating profit		12,743	(7,514)	5,229	10,823	(6,630)	4,193
Finance expense		(159)	-	(159)	(76)	-	(76)
Other finance expense		(215)	-	(215)	(332)	-	(332)
Profit before tax		12,369	(7,514)	4,855	10,415	(6,630)	3,785
Tax expense		(2,182)	1,236	(946)	(1,895)	1,095	(800)
Profit for the year		10,187	(6,278)	3,909	8,520	(5,535)	2,985
Other comprehensive income/(expense)							
Items that may be reclassified to consolidated income statement:							
Cash flow hedges		(93)	-	(93)	(31)	-	(31)
Exchange gain/(loss) on foreign currency net investments		3,574	-	3,574	(614)	-	(614)
Total comprehensive income for the year		13,668	(6,278)	7,390	7,875	(5,535)	2,340
Earnings per share - basic	6	45.0p	(27.7p)	17.3p	37.7p	(24.5p)	13.2p
Earnings per share - diluted	6	44.5p	(27.4p)	17.1p	37.4p	(24.3p)	13.1p

AB Dynamics plc

Consolidated statement of financial position

As at 31 August 2022

	2022 £'000	2021 £'000
ASSETS		
Non-current assets		
Goodwill	23,818	22,221
Acquired intangible assets	23,665	28,282
Other intangible assets	2,971	1,577
Property, plant and equipment	25,708	25,815
Right-of-use assets	876	913
	77,038	78,808
Current assets		
Inventories	13,611	6,771
Trade and other receivables	13,782	15,500
Contract assets	3,917	4,269
Taxation	882	1,443
Cash and cash equivalents	30,141	23,282
	62,333	51,265
Assets held for sale	1,893	1,893
LIABILITIES		
Current liabilities		
Trade and other payables	16,053	10,933
Contract liabilities	5,787	3,568
Derivative financial instruments	123	31
Short-term lease liabilities	628	456
Deferred consideration	-	4,929
	22,591	19,917
Non-current liabilities		
Deferred tax liabilities	6,397	6,552

Long-term lease liabilities	315	511
	6,712	7,063
Net assets	111,961	104,986
SHAREHOLDERS' EQUITY		
Share capital	226	226
Share premium	62,260	62,210
Other reserves	1,142	(2,339)
Retained earnings	48,333	44,889
Total equity	111,961	104,986

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Consolidated statement of changes in equity

For the year ended 31 August 2022

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 September 2020	226	61,736	(1,694)	41,956	102,224
Share based payments	-	-	-	1,139	1,139
Total comprehensive income	-	-	(645)	2,985	2,340
Deferred tax on share based payments	-	-	-	165	165
Dividend paid	-	-	-	(1,356)	(1,356)
Issue of shares	-	474	-	-	474
At 31 August 2021	226	62,210	(2,339)	44,889	104,986
Share based payments	-	-	-	750	750
Total comprehensive income	-	-	3,481	3,909	7,390
Deferred tax on share based payments	-	-	-	(84)	(84)
Dividend paid	-	-	-	(1,131)	(1,131)
Issue of shares	-	50	-	-	50
At 31 August 2022	226	62,260	1,142	48,333	111,961

AB Dynamics plc

Consolidated cash flow statement

For the year ended 31 August 2022

	2022 £'000	2021 £'000
Cash flows from operating activities		
Profit before tax	4,855	3,785
Depreciation and amortisation	9,136	7,109
Finance expense	374	408
Share based payment	795	1,240
Acquisition costs	290	304
Operating cash flows before changes in working capital	15,450	12,846
(Increase)/decrease in inventories	(6,889)	2,409
(Decrease)/increase in trade and other receivables	1,981	(3,913)
Increase in trade and other payables	8,140	2,956
Cash flows from operations	18,682	14,298
Adjusted cash flows from operations	20,652	15,961
Cash impact of adjusting items	(1,970)	(1,663)
Cash flows from operations	18,682	14,298
Finance costs paid	(90)	(139)
Income tax (paid)/received	(684)	1,062
Net cash flows from operating activities		

	17,908	15,221
Cash flows used in investing activities		
Acquisition of businesses	(5,114)	(14,329)
Purchase of property, plant and equipment	(2,098)	(5,536)
Capitalised development costs and purchased software	(1,711)	(1,104)
Net cash used in investing activities	(8,923)	(20,969)
Cash flows (used in)/generated from financing activities		
Net movements in loans	-	(493)
Maturity of fixed term deposits	-	5,000
Dividends paid	(1,131)	(1,356)
Proceeds from issue of share capital	50	474
Repayment of lease liabilities	(964)	(656)
Net cash (used in)/generated from financing activities	(2,045)	2,969
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	6,940	(2,779)
Cash, cash equivalents and bank overdrafts at beginning of the year	23,282	26,183
Effects of exchange rate changes	(81)	(122)
Cash, cash equivalents and bank overdrafts at end of the year	30,141	23,282

AB Dynamics plc

Notes to the consolidated financial statements

For the year ended 31 August 2022

1. Basis of preparation

The Company is a public limited company limited by shares and incorporated under the UK Companies Act. The Company is domiciled in the United Kingdom and the registered office and principal place of business is Middleton Drive, Bradford on Avon, Wiltshire, BA15 1GB.

The principal activity of the Group is the design, manufacture and supply of advanced testing, simulation and measurement products and services to the global transport market. The Group's products and services are used primarily for the development of road vehicles, particularly in the areas of active safety and autonomous systems, as well as automation of vehicles used for other applications, such as mining and defence.

The annual financial statements of the Group are prepared in accordance with in accordance with UK-adopted international accounting standards and applicable law. A copy of the statutory accounts for the year ended 31 August 2021 has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain any statements under section 498(2) or (3) of the Companies Act 2006.

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 August 2022 and have therefore not been applied in preparing the annual financial statements.

Going concern basis of accounting

The Group's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chief Executive's review. The principal risks and uncertainties and mitigations are included in the strategic report.

Note 20 to the consolidated financial statements sets out the Company's financial risks and the management of capital risks.

The Directors have assessed the principal risks, including by modelling a severe but plausible downside scenario, whereby the Group experiences:

- A reduction in demand of 25% over the next two financial years
- A 10% increase in operating costs from supply chain disruption
- An increase in cash collection cycle
- An increase in input costs resulting in reduction in gross margins to 45%.

At 31 August 2022 the Group had £30.1m of cash and £15.0m undrawn revolving credit facility. Even after the post-year-end acquisition of Ansible Motion for £16.0m of cash, in this severe downside scenario, the Group has sufficient headroom to be able to continue to operate for the foreseeable future. The Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least twelve months from the signing date of the financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

2. Segment information

The Group derives revenue from the sale of its advanced measurement, simulation and testing products derived in assisting the global transport market in the laboratory and on the test track. The income streams are all derived from the utilisation of these products which, in all aspects except details of revenue, are reviewed and managed together within the Group and as such are

considered to be the only segment.

The operating segment is based on internal reports about components of the Group, which are regularly reviewed and used by the Board of Directors being the Chief Operating Decision Maker (CODM).

Analysis of revenue by country of destination:

	2022 £'000	2021 £'000
United Kingdom	5,459	4,449
Rest of Europe	13,723	11,352
North America	19,466	15,884
Asia Pacific	40,941	32,717
Rest of World	716	978
	80,305	65,380

One customer individually represents 12.5% of total revenue for the year ended 31 August 2022 (2021: no customer individually represented 10% or more of total revenue).

Assets and liabilities by segment are not reported to the Board of Directors, therefore are not used as a key decision-making tool and are not disclosed here.

A disclosure of non-current assets by location is shown below:

	2022 £'000	2021 £'000
United Kingdom	39,565	41,174
Rest of Europe	1,262	1,009
North America	17,084	15,522
Asia Pacific	19,127	21,103
	77,038	78,808

Revenues are disaggregated as follows:

	2022 £'000	2021 £'000
Revenue by sector		
Track testing	64,743	49,680
Laboratory testing and simulation	15,562	15,700
	80,305	65,380

3. Alternative Performance measures

In the analysis of the Group's financial performance and position, operating results and cash flows, alternative performance measures are presented to provide readers with additional information. The principal measures presented are adjusted measures of earnings including adjusted operating profit, adjusted operating margin, adjusted profit before tax, adjusted EBITDA and adjusted earnings per share.

The financial statements include both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because if included, these items could distort the understanding of the performance for the year and the comparability between the periods.

We provide comparatives alongside all current year figures. The term 'adjusted' is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. All profit and earnings per share figures in this financial information relate to underlying business performance (as defined above) unless otherwise stated.

	2022 £'000	2021 £'000
Amortisation of acquired intangibles	5,516	4,432
Acquisition related costs	328	840
ERP development costs	1,670	1,358
	7,514	6,630

Amortisation of acquired intangibles

The amortisation relates to the acquisition of VadoTech Group on 3 March 2021 and the businesses acquired in 2019, DRI and rFpro.

Acquisition related costs

The costs in the current year relate to the acquisition of Ansible Motion Limited which completed on 20 September 2022 after the year end.

The costs incurred during 2021 relate to the acquisition of the VadoTech Group as well as staff retention payments to the employees of rFpro.

ERP development costs

These costs relate to the development, configuration and customisation of the Group's new ERP system which is hosted on the cloud.

Tax

The tax impact of these adjustments was as follows: amortisation £0.8m (2021: £0.7m), acquisition related costs £0.1m (2021: £0.1m) and ERP development costs £0.3m (2021: £0.3m).

Net cash

The reconciliation of cash and cash equivalents to net cash is as follows:

2022 £'000	2021 £'000
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Cash and cash equivalents	30,141	23,282
Lease liabilities	(943)	(967)
	29,198	22,315

4. Tax

The statutory effective rate of tax for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%).

The adjusted effective tax rate, adjusting both the tax charge and the profit before tax is 17.7% (2021: 18.3%), the reduction being mainly due to an increase in Patent Box relief.

5. Dividend paid

	2022 £'000	2021 £'000
Final 2020 dividend paid of 4.4p per share	-	994
Interim 2021 dividend paid of 1.6p per share	-	362
Final 2021 dividend paid of 3.2p per share	733	-
Interim 2022 dividend paid of 1.8p per share	398	-
	1,131	1,356

The Board has proposed a final dividend of 3.54p per share totalling £735,000. An interim dividend was paid of 1.76p per share totalling £398,000. If approved, the final dividend will be paid on 27 January 2023 to shareholders on the register on 30 December 2022, being the associated Record Date. The shares will be marked ex-dividend on 29 December 2022.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive shares. The Company has one category of potentially dilutive shares, namely share options.

The calculation of earnings per share is based on the following earnings and number of shares:

	2022 £'000	2021 £'000
Profit for the year attributable to owners of the Group	3,909	2,985
Adjusted profit after tax	10,187	8,520
Weighted average number of shares ('000)		
Basic	22,625	22,602
Diluted	22,908	22,782
Earnings per share		
Basic	17.3p	13.2p
Diluted	17.1p	13.1p
Adjusted basic	45.0p	37.7p
Adjusted diluted	44.5p	37.4p

7. Other reserves

	Merger relief reserve £'000	Reconstruction reserve £'000	Translation reserve £'000	Hedging reserve £'000	Total £'000
At 1 September 2020	11,390	(11,284)	(1,800)	-	(1,694)
Total comprehensive expense	-	-	(614)	(31)	(645)
At 31 August 2021	11,390	(11,284)	(2,414)	(31)	(2,339)
Total comprehensive income	-	-	3,574	(93)	3,481
At 31 August 2022	11,390	(11,284)	1,160	(124)	1,142

8. Foreign exchange

The foreign exchange rates applied during the year were:

Year end rate	2022	2021
US dollar	1.16	1.37
Euro	1.15	1.16
Yen	161	151
Average rate		
US dollar	1.31	1.36
Euro	1.19	1.15
Yen	158	145

9. Principal risks

The principal risks and uncertainties impacting the Group are described on pages 56-58 of our Annual Report 2022. They include: supply chain disruptions, downturn or instability in major geographic markets or market sectors (including inflation and pandemics), loss of major customers and change in customer procurement processes, failure to deliver new products, dependence on external routes to market, acquisitions integration and performance, cybersecurity and business interruption, competitor actions, loss of key personnel, threat of disruptive technology, product liability, failure to manage growth, foreign currency, credit risk and intellectual property/patents.

10. Post balance sheet events

On 20 September 2022, the Group acquired 100% of Ansible Motion Limited for initial consideration of £19.2m with deferred consideration of up to £12.0m.

The initial consideration comprised cash of £16.0m and £3.2m of new ordinary shares in AB Dynamics plc issued to the vendors. The contingent consideration is subject to certain performance criteria being achieved for the year ending 31 August 2023.

The book value of acquired assets and liabilities at the date of acquisition was £4.1m. The Group is currently in the process of determining the fair values of the assets and liabilities acquired. Based on unaudited accounts for the year ended 31 March 2022, Ansible Motion generated revenue of £8.0m (2021: £5.4m), earnings before interest, tax, depreciation and amortisation (EBITDA) of £1.9m (2021: £0.8m) and operating profit of £1.8m (2021: £0.7m).

Acquisition expenses totalled £0.5m of which £0.3m was incurred in the year ended 31 August 2022 and is included in administrative expenses in the consolidated statement of comprehensive income.

The number of shares issued totalled 258,795 which will increase the weighted average shares in issue for FY2023 by 243,865 shares.

11. 2022 Annual Report

The Annual Report for the year ended 31 August 2022 will be posted on the Company's website, www.abdplc.com, on 23 November 2022 and a copy will be posted to shareholders, as required, in advance of the Company's Annual General Meeting of 11 January 2023.

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