

AB Dynamics plc

Unaudited interim results for the six months ended 28 February 2023

"Strong performance, strategic progress and sustainable growth"

AB Dynamics plc (AIM: ABDP, 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 interim results for the six-month period to 28 February 2023 (the "Period").

	<u>H1 2023</u>	<u>H1 2022</u>	
	£m	£m	
Revenue	49.0	37.8	+30%
Gross margin	57.1%	57.7%	-60bps
Adjusted operating profit ¹	7.8	5.7	+37%
Adjusted operating margin ¹	15.9%	15.1%	+80bps
Statutory operating profit	2.9	2.5	+16%
Adjusted cash flow from operations ¹	9.5	8.5	+12%
Net cash	21.3	27.7	-23%
	Pence	Pence	
Adjusted diluted earnings per share ¹	27.5	19.9	+38%
Statutory diluted earnings per share	6.7	8.5	-21%
Interim dividend per share	1.94	1.76	+10%

¹Before amortisation of acquired intangibles, acquisition related charges, and exceptional items. A reconciliation to statutory measures is given in the Alternative Performance Measures section of the Half Year Review.

Financial highlights

- Market and customer activity levels have remained positive throughout H1, with strong activity in both track testing and laboratory testing and simulation, particularly in Europe
- Revenue increased by 30% against H1 2022 of which 14% was organic growth
 - Track testing revenue grew by 13% reflecting increases in robots and ADAS platforms
 - Laboratory testing and simulation revenue grew by 99%, of which 20% was organic driven by a strong performance at rFpro and delivery of SPMM systems. The remainder related to the acquisition of Ansible Motion
- The proportion of recurring and service-based sales has been maintained at 41% (H1 2022: 41%)
- The Group has remained effective in mitigating inflationary cost pressures, with gross margins robust at 57.1% (H1 2022: 57.7%)
- Operating margin improved by 80bps to 15.9% as a result of the increased levels of activity and the benefits of enhanced performance initiatives, partially offset by the investment in ABD Solutions to support the strategic long-term growth drivers
 - Excluding ABD Solutions, the operating margin increased to 18.0% (H1 2022: 16.4%)
- Operating cash generation remained strong at £9.5m (H1 2022: £8.5m). Significant net cash balance of £21.3m at the period end (28 February 2022: £27.7m, 31 August 2022: £29.2m) after funding the initial consideration for the acquisition of Ansible Motion
- Interim dividend of 1.94p per share (H1 2022: 1.76p), growth of 10%

Strategic highlights

- Continuing progress made in the strategic initiative to open up new markets beyond automotive
- ABD Solutions has won a £1m contract for delivery of a retrofit pedestrian detection system for construction machines for delivery during FY 2024, illustrating the wide range of applications for its technology
- The integration of Ansible Motion is continuing as planned and the business has delivered a solid performance since acquisition in September 2022
- New product development continues in line with the technology roadmap for existing track testing and simulation markets and development of the core technology for ABD Solutions
 - Along with the launch of the new range of ADAS motorcycle and pedestrian dummies, and LaunchPad Spin, the Group has also released ray tracing capability for its simulation software.
- Well placed to sustain growth momentum into the medium term, supported by:
 - Strong organic growth across automotive markets, supported by regulatory tailwinds and rapid technology change, with a greatly strengthened operational and commercial platform
 - The substantial opportunity beyond automotive markets presented by ABD Solutions, transitioning from technology development to commercialisation

- Significantly enhanced simulation and software capabilities enabled by the expanded product range created through the acquisitions of rFpro and Ansible Motion
- A strong financial position that provides scope for further value-enhancing growth investment in FY 2024 and beyond

Current trading and outlook

- Performance in the first half of the year was strong, with good conversion of orders to revenue together with improved operational efficiency and effective cost management
- The Group has a solid order book, providing visibility into the second half of the year
- Whilst mindful of ongoing economic uncertainty, as well as timing of pipeline conversion, the Board remains confident that the Group will make further financial and strategic progress this year, with its expectations for FY 2023 performance 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

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

"The Group has delivered a strong financial and operational performance in the first half of the year, with growth in the core business as well as progress in the development of ABD Solutions and in our simulation business with the acquisition of Ansible Motion. Against the backdrop of ongoing external challenges in relation to supply chain disruption and wider economic uncertainty, the Group has delivered growth in revenue, operating profit and operating margins. We have also continued to invest in all areas of the business, supporting improved capability as well as our ambitious growth plans."

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

"Despite the risk of short-term volatility relating to global macroeconomic conditions and timing of order intake, our market drivers both in our core business and in ABD Solutions remain strong. This backdrop, along with the Group's recent investments in capability and new products, provides confidence in achieving the Board's expectations during the second half of 2023 and delivering further progress in the years beyond."

There will be a presentation for analysts this morning at 9.00am at the London Stock Exchange. Please contact abdynamics@teneo.com if you would like to attend.

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Half Year Review

Group overview

Despite the challenging economic and operational backdrop, the Group has delivered a strong performance, with record levels of revenue, supported by recent investments in its capabilities to capitalise on the significant long-term structural and regulatory growth drivers within its markets.

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 formation of AB Simulation and the acquisition of Ansible Motion.

Financial performance

Revenue increased by 30% to £49.0m against H1 2022, of which 14% related to organic growth and the remainder to the acquisition of Ansible Motion.

Gross margin was 57.1%, down 60bps on H1 2022 due to a higher proportion of laboratory testing and simulation revenue, offset by effective pricing management and increased recurring revenue.

Group adjusted operating profit of £7.8m increased 37% against H1 2022. The adjusted operating margin increased against H1 2022 to 15.9% (H1 2022: 15.1%), as a result of the increase in sales volumes.

Adjusted net finance costs were £0.2m (H1 2022: £0.2m, FY 2022: £0.4m).

Adjusted profit before tax was £7.6m (H1 2022: £5.5m). The Group adjusted tax charge totalled £1.3m (H1 2022: £1.0m), an adjusted effective tax rate of 16.5% (H1 2022: 18.0%).

Adjusted diluted earnings per share was 27.5p (H1 2022: 19.9p), an increase of 38%, reflecting the increase in operating profit and a lower tax rate.

Statutory operating profit increased by 16% to £2.9m and after net finance costs of £1.0m (H1 2022: £0.2m), statutory profit before tax was down 17% from £2.3m to £1.9m, giving statutory basic earnings per share of 6.7p (H1 2022: 8.6p). The statutory tax charge was £0.3m (H1 2022: £0.4m). A reconciliation of statutory to underlying non-GAAP financial measures is provided below. The adjustments to operating profit of £4.9m comprise £3.7m of amortisation of acquired intangibles, £0.8m of ERP cloud computing costs and £0.4m of acquisition related costs (H1 2022: £3.2m comprising £2.7m of amortisation of acquired intangibles and £0.5m of ERP cloud computing costs). The £0.8m adjustment to the interest charge relates to the unwind of the discount on the deferred contingent consideration for Ansible Motion (H1 2022: £nil). The tax impact of these adjustments was £0.9m. The statutory net finance costs were £1.0m (H1 2022: £0.2m).

The Group delivered strong adjusted operating cash flow of £9.5m (H1 2022: £8.5m) with the net cash position at the period end of £21.3m (31 August 2022: £29.2m) underpinning a robust balance sheet and providing the resources to continue the Group's investment programme.

Sector review

	H1 2023 £m	H1 2022 £m	
Driving robots	14.2	9.7	+46%
ADAS test products	14.0	13.3	+5%
Testing services	6.1	7.4	-18%
Track testing	34.3	30.4	+13%
Laboratory testing	2.8	2.0	+40%
Simulation	11.9	5.4	+120%
Laboratory testing and simulation	14.7	7.4	+99%
Total revenue	49.0	37.8	+30%

Track testing

Track testing revenue of £34.3m was up 13% against H1 2022 (£30.4m).

Driving robot sales increased 46% against H1 2022 to £14.2m (H1 2022: £9.7m), following strong order intake during H2 2022. The Group expects continued growth in driving robots at more normalised levels, as new regulatory requirements for evolving ADAS technologies are released, such as the recent launch of the Euro NCAP 2030 roadmap and its new Truck Safe rating scheme. It is expected that there will be over 700 Euro NCAP test scenarios by 2025, up from 591 in 2023. New tests for commercial vehicles offer further opportunities for market expansion.

ADAS platform sales increased 5% to £14.0m in H1 2023 (H1 2022: £13.3m). The new higher speed versions of the GST and Launchpad, which can operate at speeds of up to 120kph and 80kph respectively, enable customers to perform a greater range of tests, particularly the assessment of automated lane keeping technology and vehicle interactions with Vulnerable Road Users such as motorcyclists, and are continuing to gain traction. The recent launch of a new range of soft targets including motorcycles and articulating pedestrians and a new more manoeuvrable platform, the LaunchPad Spin, will further drive demand.

Testing services revenues decreased 18% to £6.1m (H1 2022: £7.4m) due to local COVID restrictions delaying the provision of testing services in China and continued delays in availability of test vehicles more widely due to the well documented supply chain challenges in the automotive market.

The Group continues to invest in new product development in this sector in order to meet forthcoming regulatory requirements and to ensure we retain our market leadership in track testing products and technology.

Laboratory testing and simulation

The laboratory testing and simulation business delivered strong growth, with revenue of £14.7m, an increase of 99% on H1 2022 (£7.4m) of which 20% was organic growth in simulation software and delivery of SPMM systems, with the remainder from Ansible Motion which was acquired at the beginning of the period.

SPMM revenue of £2.8m grew by 40% in H1 2023 (H1 2022: £2.0m) and the division carries forward a solid order book, which provides good coverage for the remainder of the financial year.

Organic growth in simulation revenue was 13% reflecting high customer demand for our simulation software, with revenue of £6.1m (H1 2022: £5.4m). The contribution from Ansible Motion was £5.8m reflecting the strong order book at the time of acquisition.

Progress on our strategy

The Group continues to make good progress against its strategic priorities, as well as further integrating ESG as a core tenet of its strategy and operating model.

Investment continued in the core automotive sector, which is characterised by strong regulatory and structural growth drivers and rapid technology change. New product development and the strengthened operational and commercial platform leaves the Group well placed to benefit from increasing regulation and the increasing number and complexity of test scenarios required by NCAP bodies.

AB Simulation, launched at the beginning of the period, has successfully consolidated the simulation business, including Ansible Motion, into a dedicated and focused market-facing business unit. AB Simulation enhances the Group's simulation capabilities, expands its product range and achieves critical mass in this attractive sector.

As part of the objective to diversify into adjacent markets, ABD Solutions continues to make significant progress in its mission to add automated solutions to existing vehicles fleets faster and more cost effectively. ABD Solutions has demonstrated its product offering in contrasting environments for potential customers in defence and mining and successfully proved its concept and market solution, Indigo Drive. A digital twin has been developed which provides operational environment validation and a platform for accelerated product testing.

Its focus is transitioning from technology development to commercialisation with negotiations ongoing around mining related contracts. The Japanese mining development contract is progressing as planned and a Memorandum of Understanding has been signed with Jevons Robotics in Australia for mining applications. In addition, ABD Solutions has been awarded a contract for delivery of a retrofit pedestrian detection system for a UK customer for construction industry applications.

Acquisitions

On 20 September 2022, the Group acquired 100% of the issued share capital of Ansible Motion Limited, a leading provider of advanced simulators to the global automotive market for an initial consideration of £18.1m, of which £3.2m was satisfied in new ordinary shares in AB Dynamics plc and the remainder in cash. Contingent consideration of up to £12.0m will become payable in cash subject to certain performance criteria being met for the year ending 31 August 2023. The integration of Ansible Motion is progressing well with the product range having been incorporated into the Group's other simulation offerings.

Acquisitions have been and will continue to be a significant part of the overall strategy, and there is a promising pipeline of potential acquisition opportunities.

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, EBITDA, adjusted operating margin, adjusted profit before tax and adjusted earnings per share.

The interim report 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.

Comparatives are provided alongside all current period 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 interim report relate to underlying business performance (as defined above) unless otherwise stated.

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

	H1 2023			H1 2022		
	Adjusted	Adjustments	Statutory	Adjusted	Adjustments	Statutory
EBITDA (£m)	9.6	(1.2)	8.4	7.3	(0.5)	6.8
Operating profit (£m)	7.8	(4.9)	2.9	5.7	(3.2)	2.5
Operating margin (%)	15.9	(10.0)	5.9	15.1	(8.5)	6.6
Finance expense (£m)	(0.2)	(0.8)	(1.0)	(0.2)	-	(0.2)
Profit before tax (£m)	7.6	(5.7)	1.9	5.5	(3.2)	2.3
Tax expense (£m)	(1.3)	0.9	(0.4)	(1.0)	0.6	(0.4)
Profit after tax (£m)	6.3	(4.8)	1.5	4.5	(2.6)	1.9
Diluted earnings per share (pence)	27.5	(20.8)	6.7	19.9	(11.4)	8.5
Cash flow from operations (£m)	9.5	(3.4)	6.1	8.5	(0.5)	(8.0)

The adjustments comprise:

	H1 2023	H1 2022
	£m	£m
Amortisation of acquired intangibles	3.7	2.7
ERP development costs	0.8	0.5
Acquisition related costs	0.4	-
Adjustments to operating profit	4.9	3.2
Acquisition related finance costs	0.8	-
Adjustments to profit before tax	5.7	3.2

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 £0.3m (H1 2022: £0.1m) 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 expensed to the profit and loss account as incurred, total £0.1m (H1 2022: £0.1m).

Foreign currency exposure

The Group faces currency exposure on its foreign currency transactions and with significant overseas operations, also has exposure to foreign currency translation risk. The Group maintains a natural hedge whenever possible to

transactional exposure by matching the cash inflows and outflows in the respective currencies.

On a constant currency basis, revenue would have been £0.9m lower than reported and operating profit would have been £0.1m lower as both the US dollar and the Euro strengthened against H1 2022. Constant currency revenue growth was 27% and growth in operating profit was 35%.

Dividends

The Board has declared an interim dividend of 1.94p per ordinary share (H1 2022: 1.76p) which will be paid on 19 May 2023 to shareholders on the register on 5 May 2023. The ex-dividend date will be 4 May 2023.

A final dividend of 3.54p per share was paid on 27 January 2023 in respect of the year ended 31 August 2022 totalling £810,000. It is the Board's intention to pursue a sustainable and growing dividend policy in the future having regard to the development of the Group.

Summary and Outlook

The Group has delivered a strong financial and operational performance in the first half of the year, with growth in the core business as well as progress in the development of ABD Solutions and in the simulation business following the acquisition of Ansible Motion. Against the backdrop of ongoing external challenges in relation to supply chain disruption and wider economic uncertainty, the Group has delivered growth in revenue, operating profit and operating margins. The Company has also continued to invest in all areas of the business, supporting improved capability as well as the ambitious growth plans.

There is significant opportunity in the core markets within automotive, which are supported by long-term structural and regulatory growth drivers. There is continued investment in new product development and technology whilst also investing in innovative technologies to diversify the business into attractive adjacent markets through ABD Solutions.

In 2023, revenue and profit are expected to be more evenly weighted across the two halves of the year than in previous years. Despite the risk of short-term volatility relating to global macroeconomic conditions and timing of order intake, the market drivers both in the core business and in ABD Solutions remain strong. This backdrop, along with the Group's recent investments in capability and new products, provides confidence in achieving the Board's expectations during the second half of 2023 and delivering further progress in the years beyond.

Directors' Responsibility Statement

The Directors confirm that this condensed consolidated half year financial information has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the United Kingdom, and that the half year management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed consolidated half year financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

By order of the Board
Dr James Routh
Chief Executive Officer
25 April 2023

AB Dynamics plc

Unaudited condensed consolidated statement of comprehensive income

for the six months ended 28 February 2023

	Note	Unaudited 6 months ended 28 February 2023			Unaudited 6 months ended 28 February 2022		
		Adjusted	Adjustments	Statutory	Adjusted	Adjustments	Statutory
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	49,042	-	49,042	37,826	-	37,826
Cost of sales		(21,039)	-	(21,039)	(16,011)	-	(16,011)
Gross profit		28,003	-	28,003	21,815	-	21,815
General and administrative expenses		(20,214)	(4,933)	(25,147)	(16,102)	(3,214)	(19,316)
Operating profit		7,789	(4,933)	2,856	5,713	(3,214)	2,499
Operating profit is analysed as:							
Before depreciation and		9,622	(1,222)	8,400	7,313	(480)	6,833

amortisation							
Depreciation and amortisation	(1,833)	(3,711)	(5,544)	(1,600)	(2,734)	(4,334)	
Operating profit	7,789	(4,933)	2,856	5,713	(3,214)	2,499	
Net finance expense	(206)	(794)	(1,000)	(170)	-	(170)	
Profit before tax	7,583	(5,727)	1,856	5,543	(3,214)	2,329	
Tax expense	(1,253)	932	(321)	(999)	606	(393)	
Profit for the period	6,330	(4,795)	1,535	4,544	(2,608)	1,936	
Other comprehensive income							
Items that may be reclassified to consolidated income statement:							
Cash flow hedges	136	-	136	30	-	30	
Exchange (loss)/ gain on foreign currency net investments	(539)	-	(539)	132	-	132	
Total comprehensive income for the year	5,927	(4,795)	1,132	4,706	(2,608)	2,098	
Earnings per share - basic (pence)	5	27.7	(21.0)	6.7	20.1	(11.5)	8.6
Earnings per share - diluted (pence)	5	27.5	(20.8)	6.7	19.9	(11.4)	8.5

AB Dynamics plc
Unaudited condensed consolidated statement of financial position
as at 28 February 2023

		Unaudited 28 February 2023 £'000	Unaudited 28 February 2022 £'000	Audited 31 August 2022 £'000
ASSETS				
Non-current assets				
Goodwill		36,825	22,269	23,818
Acquired intangible assets		36,769	25,304	23,665
Other intangible assets		3,080	1,618	2,971
Property, plant and equipment		25,418	25,210	25,708
Right-of-use assets		1,648	1,020	876
		103,740	75,421	77,038
Current assets				
Inventories		15,616	9,535	13,611
Trade and other receivables		18,910	17,641	13,782
Contract assets		2,037	3,728	3,917
Taxation		140	815	882
Cash and cash equivalents	7	28,991	28,772	30,141
		65,694	60,491	62,333
Assets held for sale		1,893	1,893	1,893
LIABILITIES				
Current liabilities				
Borrowings	7	6,000	-	-
Trade and other payables		19,995	10,607	16,053
Contract liabilities		7,229	8,184	5,787
Derivative financial instruments		-	1	123
Short-term lease liabilities	7	784	556	628
Deferred consideration		11,190	5,016	-
		45,198	24,364	22,591
Non-current liabilities				
Deferred tax liabilities		9,236	6,464	6,397
Long-term lease liabilities	7	952	511	315
		10,188	6,975	6,712
Net assets		115,941	106,466	111,961
Shareholders' equity				
Share capital		229	226	226

Share premium		65,568	62,210	62,260
Other reserves	8	739	(2,177)	1,142
Retained earnings		49,405	46,207	48,333
Total equity		115,941	106,466	111,961

AB Dynamics plc

Unaudited condensed consolidated statement of changes in equity

for the six months ended 28 February 2023

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 September 2022	226	62,260	1,142	48,333	111,961
Total comprehensive income	-	-	(403)	1,535	1,132
Share based payments	-	-	-	230	230
Deferred tax on share based payments	-	-	-	117	117
Dividend paid	-	-	-	(810)	(810)
Issue of shares	3	3,308	-	-	3,311
At 28 February 2023	229	65,568	739	49,405	115,941

At 1 September 2021	226	62,210	(2,339)	44,889	104,986
Total comprehensive income	-	-	162	1,936	2,098
Share based payments	-	-	-	570	570
Deferred tax on share based payments	-	-	-	(455)	(455)
Dividend paid	-	-	-	(733)	(733)
At 28 February 2022	226	62,210	(2,177)	46,207	106,466

At 1 September 2021	226	62,210	(2,339)	44,889	104,986
Total comprehensive income	-	-	3,481	3,909	7,390
Share based payments	-	-	-	750	750
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

Unaudited condensed consolidated cash flow statement

for the six months ended 28 February 2023

	Unaudited 6 months ended 28 February 2023 £'000	Unaudited 6 months ended 28 February 2022 £'000	Audited Year ended 31 August 2022 £'000
Profit before tax	1,856	2,329	4,855
Depreciation and amortisation	5,544	4,334	9,136
Finance expense	1,000	170	374
Acquisition costs	-	-	290
Share based payment	230	570	795
Operating cash flows before changes in working capital	8,630	7,403	15,450
Increase in inventories	(914)	(2,764)	(6,889)
Decrease/(increase) in trade and other receivables	460	(1,600)	1,981
(Decrease)/increase in trade and other payables	(2,034)	4,954	8,140

Cash flows from operations	6,142	7,993	18,682
Cash flows from operations are analysed as:			
Adjusted cash flows from operations	9,480	8,473	20,652
Cash impact of adjusting items	(3,338)	(480)	(1,970)
Cash flow from operations	6,142	7,993	18,682
Finance costs (paid)/ received	(12)	85	(90)
Income tax received/ (paid)	546	(707)	(684)
Net cash flows from operating activities	6,676	7,371	17,908
Cash flows used in investing activities			
Acquisition of businesses	(11,233)	-	(5,114)
Purchase of property, plant and equipment	(882)	(554)	(2,098)
Capitalised development costs and purchased software	(292)	(138)	(1,711)
Net cash used in investing activities	(12,407)	(692)	(8,923)
Cash flows generated from/ (used in) financing activities			
Movements in loans	6,000	-	-
Dividends paid	(810)	(733)	(1,131)
Proceeds from issue of share capital	47	-	50
Repayment of lease liabilities	(602)	(423)	(964)
Net cash flow generated from/ (used in) financing activities	4,635	(1,156)	(2,045)
Net (decrease)/ increase in cash and cash equivalents	(1,096)	5,523	6,940
Cash and cash equivalents at beginning of the period	30,141	23,282	23,282
Effect of exchange rates on cash and cash equivalents	(54)	(33)	(81)
Cash and cash equivalents at end of period	28,991	28,772	30,141

AB Dynamics plc

Notes to the unaudited interim report

for the six months ended 28 February 2023

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 is the specialised area of design, manufacture and supply of advanced testing, simulation and measurement products to the global transport market.

The annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 August 2022 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.

The same accounting policies, presentation and methods of computation have been followed in this unaudited interim financial information as those which were applied in the preparation of the Group's annual financial statements for the year ended 31 August 2022.

Certain new standards, amendments to standards and interpretations are not yet effective for the year ending 31 August 2023 and have therefore not been applied in preparing this interim financial information.

The interim accounts are unaudited and do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006.

Going concern basis of accounting

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

At 28 February 2023 the Group had £21.3m of net cash and £9.0m undrawn revolving credit facility. Even 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.

The interim financial information for the six months ended 28 February 2023 was approved by the Board on 25 April 2023.

2. Segment information

Revenues attributable to individual foreign countries are as follows:

	Unaudited 6 months ended 28 February 2023	Unaudited 6 months ended 28 February 2022	Audited Year ended 31 August 2022
	£'000	£'000	£'000
United Kingdom	2,115	2,780	5,459
Rest of Europe	10,405	6,772	13,723
North America	14,158	10,105	19,466
Asia Pacific	21,065	17,501	40,941
Rest of World	1,299	668	716
	49,042	37,826	80,305

Revenues are disaggregated as follows:

Track testing	34,299	30,420	64,743
Laboratory testing and simulation	14,743	7,406	15,562
	49,042	37,826	80,305

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, EBITDA, adjusted operating margin, adjusted profit before tax and adjusted earnings per share.

The interim 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 interim report relate to underlying business performance (as defined above) unless otherwise stated.

A summary of the items which reconcile statutory to adjusted measures is included below:

	Unaudited 6 months ended 28 February 2023	Unaudited 6 months ended 28 February 2022	Audited Year ended 31 August 2022
	£'000	£'000	£'000
Amortisation of acquired intangibles	3,711	2,734	5,516
ERP development costs	786	480	1,670
Acquisition related costs	436	-	328
Acquisition related finance costs	794	-	-
	5,727	3,214	7,514

Amortisation of acquired intangibles

The amortisation relates to the acquisition of Ansible Motion Limited on 20 September 2022, Vadotech Group on 3 March 2021 and the businesses acquired in 2019, DRI and rFpro.

ERP development costs

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

Acquisition related costs

The costs relate to the acquisition of Ansible Motion Limited which completed on 20 September 2022.

Acquisition related finance costs

Finance costs relate to the unwind of the discount on deferred contingent consideration of £12.0m payable on the acquisition of Ansible Motion.

Tax

The tax impact of these adjustments was as follows: amortisation £0.6m (H1 2022: £0.5m), acquisition related costs £0.1m (H1 2022: £Nil), ERP £0.2m (H1 2022: £0.1m) and acquisition related finance costs £Nil (H1 2022: £Nil).

Cash impact

The operating cash flow impact of the adjustments was an outflow of £3.3m (H1 2022: £0.5m) being £0.8m (H1 2022: £0.5m) in relation to ERP development costs, £0.4m (H1 2022: £Nil) in relation to acquisition costs and £2.1m (H1 2022: £Nil) in relation to a bonus paid to employees of the acquired entity for pre-acquisition service. The cash to pay this bonus was included within the cash acquired in the opening balance sheet, therefore the impact on the cash flow statement was a reduction in cash flows on acquisition of businesses and a corresponding decrease in cash flows from operations.

4. Tax

The statutory effective tax rate for the period is a charge of 17.3% (H1 2022: 16.9%), the difference from the prior period reflecting the acquisition related finance costs which are not deductible for tax purposes.

The adjusted effective tax rate, adjusting both the tax charge and the profit before taxation is 16.5% (H1 2022: 18.0%). The reduction reflects the availability of additional R&D and patent box tax credits.

5. Earnings per share

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

	Unaudited 6 months ended 28 February 2023	Unaudited 6 months ended 28 February 2022	Audited Year ended 31 August 2022
Profit after tax attributable to owners of the Group (£'000)	1,535	1,936	3,909
Adjusted profit after tax attributable to owners of the Group (£'000)	6,330	4,544	10,187
Weighted average number of shares ('000)			
Basic	22,859	22,624	22,625
Diluted	23,036	22,834	22,908
Earnings per share (pence)			
Basic	6.7	8.6	17.3
Diluted	6.7	8.5	17.1
Adjusted basic	27.7	20.1	45.0
Adjusted diluted	27.5	19.9	44.5

6. Dividends

An interim dividend of 1.76p per ordinary share in respect of the year ended 31 August 2022 was paid on 20 May 2022 to shareholders on the register on 6 May 2022 totalling £398,000.

At the Annual General Meeting the shareholders approved a final dividend in respect of the year ended 31 August 2022 of 3.54p per ordinary share totalling £810,000. This was paid on 27 January 2023 to shareholders on the register on 30 December 2022.

An interim dividend of 1.94p per ordinary share totalling £444,000 has been declared in respect of the year ending 31 August 2023 which will be paid on 19 May 2023 to shareholders on the register on 5 May 2023.

7. Net cash

Net cash comprises cash and cash equivalents, bank overdrafts, borrowings and lease liabilities.

	Unaudited 28 February 2023 £'000	Unaudited 28 February 2022 £'000	Audited 31 August 2022 £'000
Cash and cash equivalents	28,991	28,772	30,141
Borrowings	(6,000)	-	-
Lease liabilities	(1,736)	(1,067)	(943)
	<u>21,255</u>	<u>27,705</u>	<u>29,198</u>

The Group has a £15.0m revolving credit facility with National Westminster Bank plc. On 16 September 2022 the Group drew down £6.0m to fund part of the initial consideration for the acquisition of Ansible Motion Limited.

8. Other reserves

	Merger relief reserve £'000	Reconstruction reserve £'000	Translation reserve £'000	Hedging reserve £'000	Total £'000
At 1 September 2021	11,390	(11,284)	(2,414)	(31)	(2,339)
Other comprehensive income	-	-	132	30	162
At 28 February 2022	11,390	(11,284)	(2,282)	(1)	(2,177)
Other comprehensive income	-	-	3,442	(123)	3,319
At 31 August 2022	11,390	(11,284)	1,160	(124)	1,142
Other comprehensive income	-	-	(539)	136	(403)
At 28 February 2023	11,390	(11,284)	621	12	739

9. Foreign exchange

The foreign exchange rates applied during the period were:

	H1 2023	H1 2022
Period end rate		
US dollar	1.206	1.342
Euro	1.137	1.196
Yen	164	154
Average rate		
US dollar	1.187	1.352
Euro	1.143	1.185
Yen	164	154

10. Acquisition of subsidiary

On 20 September 2022, the Group acquired 100% of the issued share capital of Ansible Motion Limited, a leading provider of advanced simulators to the global automotive market.

The initial £18.1m consideration comprised £14.9m of cash and £3.2m of new ordinary shares in AB Dynamics plc. Contingent consideration of up to £12.0m will become payable in cash in January 2024 subject to certain performance criteria being met for the year ending 31 August 2023. An accrual for the deferred contingent consideration was included in the balance sheet at net present value of £9.9m at the acquisition date. £0.5m of the initial consideration has been retained against any potential warranties.

The carrying amount of each class of Ansible Motion Limited's assets before combination is set out below:

	Book value £'000	Fair value adjustments £'000	Provisional Fair value £'000
Intangible assets	-	16,800	16,800
Tangible assets	96	(65)	31
Right of use asset	441	-	441
Inventory	2,318	(1,218)	1,100
Trade and other receivables	2,315	1,382	3,697
Trade and other payables	(6,482)	(89)	(6,571)
Lease Liability	(441)	-	(441)
Deferred tax liability	-	(4,139)	(4,139)
Deferred tax assets	168	54	222
Net (liabilities)/ assets acquired	(1,585)	12,725	11,140
Goodwill arising on acquisition			13,265
			24,405
Initial cash consideration			14,541
Cash acquired			(3,744)
Acquisition expenses			436
Net cash paid, after acquisition expenses			11,233
New ordinary shares issued			3,200
Less: acquisition expenses			(436)
Deferred consideration payable			10,408
			24,405

Deferred consideration

2022

Performance payment	9,882
Retained consideration	526
	10,408

The initial cash consideration was satisfied with available cash resources and a short-term utilisation of part of the Group revolving credit facility. £0.5m of the initial purchase price has been retained against any potential warranties and is included within deferred consideration.

The valuation exercise to identify intangible assets acquired, as required under IFRS3, has been provisionally applied as at the half year. The final valuation will be reflected in the Annual Report and Accounts for the Group for the year ending 31 August 2023, together with the appropriate IFRS 3 disclosures. Identifiable net assets with a total fair value of £16.8m and goodwill of £13.3m have provisionally been recognised.

Ansible Motion Limited contributed revenue of £5.8m, and operating profit of £1.3m for the period between acquisition and the balance sheet date. Acquisition related costs amounted to £0.4m which have been expensed when incurred. £0.8m of the discount on the deferred contingent consideration unwound in the period and has been included in finance expenses.

11. Principal risks

The principal risks and uncertainties impacting the Group are described on pages 56-58 of our Annual Report 2022 and, with the exception of updated risks below, all other risks remain unchanged at 28 February 2023.

In light of recent banking failures, counterparty risk has increased as the Group has exposure to the risk of counterparty default and potential inability to access cash deposits held by the counterparty. This risk is mitigated by monitoring counterparty credit ratings on a regular basis and spreading cash across a number of different counterparties.

The unchanged risks include: Supply chain disruption, downturn or instability in major geographic markets or market sectors, loss of major customers and changes 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, intellectual property/patents and environmental risk.



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