

28 April 2021

AB Dynamics plc

Unaudited interim Results for the six months ended 28 February 2021

“Stable performance with positive trading momentum”

AB Dynamics plc (AIM: ABDP, “ABD”, “the Group”), the designer, manufacturer and supplier of advanced testing systems and measurement products to the global automotive market, is pleased to announce its interim results for the six-month period to 28 February 2021 (the “period”).

	<u>H1 2021</u>	<u>H2 2020</u>	<u>H1 2020</u>
	£m	£m	£m
Revenue	27.3	26.8	34.7
Gross margin	57.7%	58.3%	58.5%
Adjusted operating profit ¹	3.5	3.3	8.0
Adjusted operating margin ¹	12.8%	12.2%	23.2%
Statutory operating profit	1.4	1.8	3.6
Cash flow from operations	7.8	3.7	3.3
Net cash	33.1	30.0	34.2
	Pence	Pence	Pence
Adjusted diluted earnings per share ¹	13.1	10.7	29.2
Statutory diluted earnings per share	5.6	7.2	12.9 ²
Interim dividend per share	1.6	-	-
Final dividend per share	-	4.4	-

¹Before amortisation on acquired intangibles, acquisition related charges, and exceptional items. A reconciliation to statutory measures is given in the Financial Review. Comparatives for H1 2020 have been restated to reflect the inclusion of share-based payments which were previously reported as an adjustment.

²The prior year comparative has been restated to reflect a change in the statutory tax charge following the finalisation of provisional fair value adjustments on the acquisition of Dynamic Research Inc ('DRI') included in the Annual Report for the year ended 31 August 2020.

Financial performance

- Improved order intake against H2 2020 across both divisions with a positive book to bill ratio providing confidence in delivery of H2 revenue expectations, a significant proportion of which is covered by the current order book
- As anticipated, revenue was broadly comparable to H2 2020 with COVID-19 impact continuing into H1 2021
- Track testing revenue was 29% lower than H1 2020 and 6% lower than H2 2020, due to ongoing COVID-19 disruption to customer testing activity, although driving robot sales started to recover during the period
- Laboratory testing and simulation delivered revenue growth of 23% on H1 2020 and 38% on H2 2020 driven by strong order intake following the deferrals last year
- Operating margins of 12.8% were consistent with H2 2020, reflecting reduced levels of activity and continued strategic investment in capability to support long-term growth drivers (H1 2020: 23.2%, H2 2020: 12.2%)
- Strong cash flow from operations of £7.8m. Significant net cash balance of £33.1m at the period end (29 February 2020: £34.2m, 31 August 2020: £30.0m) after investing £4.6m in capital

expenditure in the period, providing scope to support the Group's strategic growth objectives. During H2 2021, €20m of this cash was used to fund the acquisition of Vadotech Group

- Interim dividend of 1.6p per share (H1 2020: nil)

Operational and strategic performance

- Customer activity slowly returning as testing operations remain restricted with COVID-19 impact continuing into H1 2021
- Continued progress in growing the proportion of recurring and service-based sales, which will be further enhanced by the strengthening of our APAC regional footprint
- New product development continues as planned with successful launches including high speed ADAS platforms and a next generation simulator
- Continued investment for growth with the completion of the new Engineering Design Centre and the ongoing build of the senior management team
- Since the period end, Vadotech Group has been acquired, demonstrating further progress against the Group's strategic priorities. The acquisition expanded our capability into on-road testing services and established a regional hub in the strategically important APAC region

Current trading and outlook

- As anticipated, performance in the first half of the year was broadly comparable to the second half of FY20, with continued impacts of the COVID-19 pandemic
- The order intake trend provides confidence for continued positive momentum into H2
- The Board's expectations for the financial year are unchanged
- Future growth prospects remain supported by long term structural and regulatory growth drivers in active safety and autonomous systems

There will be a presentation for analysts this morning at 9.30am via conference call. 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 another resilient performance in the first half of the year against a backdrop of market conditions that continue to be challenging.

We have seen an encouraging rebuild of demand in our key markets from the severe disruption experienced in the second half of FY20. The Board's expectations for the financial year are unchanged, despite the continued disruption associated with further waves of infection which means that visibility remains limited and there remains short-term uncertainty as to the shape and rate of the recovery. This, together with the risk of currency headwinds and Brexit-related logistics disruption, means that we remain cautious in the near term. However, our improved order intake provides positive trading momentum into H2. Looking further ahead, we remain confident that demand will recover over the longer term and that the actions we have taken in the last 12 months position the Group very strongly to capitalise on this.

Despite the uncertain backdrop, we see significant scope for continued progress against the Group's strategy, as demonstrated by the acquisition of the Vadotech Group in March 2021 and the related growth opportunities. The market drivers are compelling and the medium-term outlook for AB Dynamics continues to be positive. The Board remains confident the Group can continue to deliver on its strategic priorities."

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The person responsible for arranging the release of this information is Felicity Jackson, Company Secretary.

Half Year Review

Group overview

Against a backdrop of macroeconomic conditions that remain challenging, the Group has delivered another resilient performance, whilst also continuing to invest to ensure AB Dynamics can capitalise on the significant long-term structural and regulatory growth drivers within its markets.

The Group has seen gradual recovery in order intake through the first half of the year, with customer activity returning slowly, as testing operations are still impacted by COVID-19 restrictions, and likely to remain so in the short term. Pleasingly, several capital equipment orders which were deferred in the prior year have now been received, including an order for an advanced variant of our simulator for a major automotive OEM.

Our continued investments have strengthened our market position to enable the business to emerge strongly as markets recover. New product development has continued as planned with new launches including high speed ADAS (Advanced Driver Assistance Systems) platforms and the next generation simulator. The completion of the new Engineering Design Centre and continued build of the senior management team strengthen our capability and capacity.

Financial performance

Against a very strong prior year comparative period (delivered prior to the COVID-19 pandemic) in which revenues increased by 34%, the results for the first half of FY21 are significantly lower. Revenue of £27.3m was down 21% (H1 2020: £34.7m).

However, as the COVID-19 pandemic did not impact the first half of last year, a more relevant comparative is against the second half of the last financial year. Against H2 2020, current period revenue was up 2% (H2 2020: £26.8m).

Gross margins reduced by 80 bps to 57.7% (H1 2020: 58.5%, H2 2020 58.3%), impacted by a higher proportion of large capital equipment revenues in laboratory testing and simulation, which are lower margin than the Group's other products and services.

Group adjusted operating profit of £3.5m decreased 57% against H1 2020, but increased 6% against H2 2020. The adjusted operating margin decreased against H1 2020 to 12.8% (H1 2020: 23.2%), being significantly impacted by the decrease in sales volumes, by our continued investment in our strategy for growth and building out the senior management team, partly offset by mitigating actions to reduce discretionary spending. It was up 60 bps against the second half of last year (H2 2020: 12.2%) with similar levels of activity.

Net finance costs were £nil (H1 2020: net income £0.1m).

Adjusted profit before tax was £3.5m (H1 2020: £8.1m). The Group adjusted tax charge totalled £0.5m (H1 2020: £1.5m), an adjusted effective tax rate of 15% (H1 2020: 19%).

Adjusted diluted earnings per share was 13.1p (H1 2020: 29.2p), a decrease of 55%, reflecting the decrease in operating profit.

Statutory operating profit reduced by 62% to £1.4m and after net finance costs of £nil (H1 2020: net finance income £0.1m), statutory profit before tax was down 63% from £3.7m to £1.4m, giving statutory basic diluted earnings per share of 5.6p (H1 2020: 12.9p). The statutory tax charge was £0.1m (H1 2020: £0.7m). A reconciliation of statutory to underlying non-GAAP financial measures is provided below. The adjustments of £2.1m comprise £1.7m of amortisation of acquired intangibles and £0.4m of acquisition costs (H1 2020: £4.4m comprising £1.8m of amortisation of acquired intangibles, £0.6m acquisition costs, £0.1m restructuring costs and £1.9m inventory impairment).

The Group delivered strong operating cash flow of £7.8m with the net cash position at the period end of £33.1m underpinning a robust balance sheet and providing the resources to acquire the Vadotech Group after the period end for €20.0m initial consideration and first performance payment from existing cash balances.

COVID-19

The emergence of the COVID-19 pandemic in early 2020 saw unprecedented impacts on global economies, with the automotive sector impacted particularly significantly. The Group took rapid steps to limit discretionary spend and conserve cash whilst we gained clarity on the overall short-term impact on the business.

The Group has not seen any significant adverse impacts on its supply chain or manufacturing facilities, but many larger, capital equipment orders were initially deferred by our customers. More significant however was the widespread curtailment of and significant disruption to both motor sport and the vehicle track testing activities of our customers during the second half of the previous financial year. This directly and severely impacted demand for our testing services and products. Whilst activity in these areas remains below pre-COVID 19 levels in many instances, we are seeing evidence of a gradual and sustained recovery. Order intake has started to improve during the last three quarters and several of the anticipated larger capital equipment orders have now been received, giving improved order coverage for the second half of the year.

Throughout the periods of lockdown, the Group has been able to maintain key manufacturing and track testing operations, whilst approximately 70% of our global workforce worked remotely. This balance has proved to be effective, and we have been able to continue delivering for our customers whilst maintaining our investment activities, particularly in product development. The restrictions on travel are curtailing certain installation, commissioning and training activities from taking place, however our recently added international sales and support offices have been able to continue to support customers where required.

Looking forward there remains uncertainty around the ongoing impact of COVID-19 and the Board continues to be cautious and alert to conditions in the wider automotive market. Timing of order intake is likely to remain variable and we expect this uncertainty to continue through at least the remainder of the financial year, particularly in relation to larger, capital equipment orders.

However, we are confident that the long-term structural and regulatory drivers that underpin our markets remain firmly intact. The Group is therefore continuing to invest, demonstrated by the recent acquisition of Vadotech Group, as well as further investment in new product development and business infrastructure, all of which the Board believes are critical to delivering its long-term growth and strategic development objectives.

Sector review

Track testing

Track testing revenue of £20.9m was down 29% against H1 2020 (£29.5m) and down 6% against H2 2020 (£22.2m).

Driving robot sales started to recover in the first half of the year to £9.1m (H1 2020: £13.7m, H2 2020 £7.3m), having fallen significantly in the second half of last year. Compared with pre-pandemic levels, the Group expects sales revenues in this sector to remain constrained in the short term, before growing again once new regulatory requirements for new ADAS technologies are released and customer track testing operations can resume at full capacity.

Demand for ADAS platforms was resilient during the second half of last year but reduced to £9.6m in H1 2021 (H1 2020: £12.7m, H2 2020: £11.4m). Demand for these products, particularly the Launchpad, is expected to continue to build as new test protocols are released from regulatory and consumer bodies such as Euro-NCAP. The 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. We have recently launched higher speed versions of the GST and Launchpad, which can operate at speeds of up to 120kph and 60kph respectively, enabling customers to perform a greater range of tests, particularly the assessment of automated lane keeping technology.

The track testing services provided to the US market by DRI enable customers to evaluate the performance of ADAS systems, autonomous vehicles and vehicle dynamics through its extensive test facility. DRI's track testing revenue of £2.2m fell by £0.9m in the first half of the year, which is usually their quieter period, as government related contracts were delayed due to the change of administration and customers' ability to attend the track was curtailed (H1 2020: £3.1m, H2 2020: £3.5m).

Order intake for track testing products has continued to improve, giving confidence for the continued recovery into the second half of the year.

The Group continues to invest in new product development in this sector with further new product launches planned for H2.

Laboratory testing and simulation

The laboratory testing and simulation sector delivered strong revenue growth against both comparator periods; at £6.3m it increased 23% on H1 2020 and 38% on H2 2020 (H1 2020: £5.2m, H2 2020: £4.6m).

Simulation sales grew significantly, with the receipt of one of the deferred simulator orders early in the first half and growth from the return of motorsport series. Simulation revenue of £4.3m grew 39% compared with £3.1m in H1 2020 (H2 2020: £1.6m).

Following the receipt of another deferred order, SPMM revenue of £2.0m was broadly similar to H1 2020 (H1 2020: £2.1m, H2 2020: £3.0m) with further opportunities in the pipeline.

The Group has made solid progress during the period in laboratory testing and simulation, with a number of orders received for large systems and further opportunities in the pipeline, although timing still remains uncertain. The current order coverage for SPMM and simulators provides good confidence for delivery of expectations for the remainder of the financial year.

The Group's new Engineering Design Centre now houses a simulation research and development facility to accelerate the development of new simulator technologies, including the next generation full motion simulator.

Progress on our strategy

We are pleased with the ongoing progress made against the five-point strategy announced in April 2019.

Investment in product development has been ongoing, with the market launch of the GST 120 and Launchpad 60 and the continued development of the wider ADAS platform family, completion of the aNVH 250 and further expansion of our simulator product family and simulation capability. These new products address future regulatory requirements for testing of ADAS systems and the market need to rapidly accelerate autonomous system verification. Significant investment in product development continues which supports our model of sustainable revenue growth.

To deliver the required capability and capacity to drive our future growth, the Group has further invested in strengthening and developing the senior management team and completed the build of our new Engineering Design Centre. Investment in building our business infrastructure continues with the ERP implementation project due to go live during 2021. This is a significant change project that will transform the business processes across the Group and provide strong foundations to support current and future growth.

Since the period end, the acquisition of Vadotech Group has been completed, expanding our capability into on-road testing services and establishing our regional hub in the strategically important APAC region and the acquisition pipeline remains promising.

Acquisitions

Vadotech Group was acquired after the period end, on 3 March 2021, for total potential cash consideration of up to €26.0m. Vadotech is a leading supplier of testing services in the Asia Pacific region, headquartered in Singapore with key operations in China, Germany and Japan. It provides comprehensive automotive testing services including evaluations of ADAS systems, infotainment, connectivity, electric vehicle performance and charging and other associated functions. The business has long-standing relationships with German automotive OEMs, providing vehicle testing services to local operations, underpinned by long-term customer framework agreements.

The acquisition supports a number of the Group's stated strategic priorities including:

- Expanding the Company's international footprint by providing a sales and technical facility in the strategically important Chinese market;
- Establishing a new Asia Pacific divisional operating hub in Singapore to manage the territory, drive additional cross selling of Group products in the region and identify and deliver further strategically important growth initiatives;
- Further increasing the Group's visibility of future revenue as Vadotech Group sales are supported by long-term customer framework agreements;
- Increasing the range of services provided by the Group to include full vehicle assessments including quality assurance testing and support to new vehicle R&D programmes;
- Establishing an electric vehicle and e-mobility technology training centre in Germany; and
- Opportunity to replicate the Vadotech Group business model in other territories such as Europe and the USA

The acquisition was completed on a cash free, debt free basis for an initial cash consideration of €17.0m, funded from the Company's existing cash resources. A further cash payment of €3.0m has become payable based on performance for the year ended 31 December 2020, with a further conditional cash payment of €6.0m being subject to certain performance criteria being achieved for the year ending 31 December 2021.

The acquisition provides a significantly larger physical presence for AB Dynamics in Asia Pacific and the Group will invest approximately £1.0m in ongoing operational costs to establish a strong regional hub for the wider business.

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

	H1 2021			H1 2020		
	Adjusted	Adjustments	Statutory	Adjusted	Adjustments	Statutory
Operating profit (£m)	3.5	(2.1)	1.4	8.0	(4.4)	3.6
Operating margin (%)	12.8	(7.8)	5.0	23.2	(12.9)	10.3
Profit before tax (£m)	3.5	(2.1)	1.4	8.1	(4.4)	3.7
Tax expense (£m)	(0.5)	0.4	(0.1)	(1.5)	0.7	(0.8)
Profit after tax (£m)	3.0	(1.7)	1.3	6.6	(3.7)	2.9
Diluted earnings per share (pence)	13.1	(7.5)	5.6	29.2	(16.3)	12.9

The adjustments to operating profit comprise:

	H1 2021	H1 2020
	£m	£m
Amortisation of acquired intangibles	1.7	1.8
Acquisition related costs	0.4	0.6
Inventory impairment	-	1.9
Restructuring	-	0.1
Adjustments	2.1	4.4

See note 3 for further details.

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 £0.6m (H1 2020: £0.2m) 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 profit and loss account as incurred, total £0.2m (H1 2020: £0.4m).

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.

There was no material difference between the reported profit for the year and that calculated on a constant currency basis as the impact of the weakening US dollar was offset by the strengthening Euro.

Dividends

The Board has declared an interim dividend of 1.6p per ordinary share which will be paid on 14 May 2021 to shareholders on the register on 30 April 2021. In 2020, against a background of significant macroeconomic uncertainty, the Board suspended the interim dividend pending the conclusion of the financial year. A final dividend of 4.4p per share was paid in respect of the year ended 31 August 2020. 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 another resilient performance in the first half of the year against a backdrop of market conditions that continue to be challenging. We have seen an encouraging rebuild of demand in our key markets from the severe disruption experienced in the second half of FY20. The Board's expectations for the financial year are unchanged, despite the continued disruption associated with further waves of infection which means that visibility remains limited and there remains short-term uncertainty as to the shape and rate of the recovery. This, together with the risk of currency headwinds and Brexit-related logistics disruption, means that we remain cautious in the near term. However, our improved order intake provides positive trading momentum into H2. Looking further ahead, we remain confident that demand will recover over the longer term and that the actions we have taken in the last 12 months position the Group very strongly to capitalise on this.

Despite the uncertain backdrop, we see significant scope for continued progress against the Group's strategy, as demonstrated by the acquisition of the Vadotech Group in March 2021 and the related growth opportunities. The market drivers are compelling and the medium-term outlook for AB Dynamics remains positive. The Board is confident the Group can continue to deliver on its strategic priorities.

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 European Union, 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
28 April 2021

AB Dynamics plc
Unaudited consolidated statement of comprehensive income

for the six months ended 28 February 2021

		Unaudited 6 months ended 28 February 2021 £'000	Unaudited 6 months ended 29 February 2020 (Restated)* £'000	Audited Year ended 31 August 2020 £'000
	Notes			
Revenue	2	27,280	34,672	61,514
Cost of sales		(11,552)	(14,401)	(25,592)
Gross profit		15,728	20,271	35,922
General and administrative expenses		(14,372)	(16,708)	(30,511)
Operating profit		1,356	3,563	5,411
Finance income		21	114	218
Finance expense		(18)	(15)	(30)
Other finance expense		-	-	(564)
Profit before tax		1,359	3,662	5,035
Tax expense		(87)	(749)	(483)
Profit for the period		1,272	2,913	4,552
Other comprehensive expense:				
Items that may be reclassified to consolidated income statement:				
Exchange losses on foreign currency net investments		(948)	(755)	(1,978)
Total comprehensive income for the period		324	2,158	2,574
Earnings per share – basic (pence)	5	5.6p	13.0p	20.2p
Earnings per share – diluted (pence)	5	5.6p	12.9p	20.1p
Alternative performance measures				
Operating profit		1,356	3,563	5,411
Amortisation of acquired intangibles		1,678	1,844	3,549
Inventory impairment		-	1,865	3,267
Acquisition related charge/(credit)		463	588	(1,865)
Restructuring		-	186	969
Adjusted operating profit		3,497	8,046	11,331
Net finance income/(expense)		3	99	(376)
Adjusted profit before tax		3,500	8,145	10,955
Adjusted tax		(515)	(1,520)	(1,939)
Adjusted profit after tax		2,985	6,625	9,016
Adjusted earnings per share – basic (pence)	5	13.2p	29.6p	40.1p
Adjusted earnings per share – diluted (pence)	5	13.1p	29.2p	39.9p

*Restated following finalisation of provisional fair value adjustments to deferred tax and goodwill on the acquisition of DRI detailed in the Annual Report for the year ended 31 August 2020.

AB Dynamics plc**Unaudited consolidated statement of financial position**

as at 28 February 2021

	Unaudited 28 February 2021	Unaudited 29 February 2020 (Restated)*	Audited 31 August 2020
	£'000	£'000	£'000
ASSETS			
Non-current assets			
Goodwill	15,821	16,542	16,170
Acquired intangible assets	15,719	19,574	17,623
Other intangible assets	2,389	423	1,114
Investment	12	13	12
Property, plant and equipment	26,845	20,637	24,309
Right-of-use assets	466	917	701
Deferred tax assets	-	390	-
	61,252	58,496	59,929
Current assets			
Inventories	9,090	10,560	9,180
Trade and other receivables	14,466	16,289	12,844
Contract assets	1,613	2,002	2,926
Taxation	868	2,428	2,838
Fixed term deposits	-	15,000	5,000
Cash and cash equivalents	34,084	20,139	26,183
	60,121	66,418	58,971
LIABILITIES			
Current liabilities			
Borrowings	485	-	505
Trade and other payables	14,857	17,530	12,370
Short-term lease liabilities	246	426	473
	15,588	17,956	13,348
Non-current liabilities			
Deferred tax liabilities	2,927	3,189	2,549
Long-term lease liabilities	237	496	249
Deferred consideration	-	3,239	-
	3,164	6,924	2,798
Net assets	102,621	100,034	102,754
Shareholders' equity			
Share capital	230	225	226
Share premium	61,785	60,857	61,736
Reconstruction reserve	(11,284)	(11,284)	(11,284)
Merger relief reserve	11,390	11,390	11,390
Translation reserve	(2,748)	(577)	(1,800)
Retained earnings	43,248	39,423	42,486
Total equity	102,621	100,034	102,754

*Restated following finalisation of provisional fair value adjustments to deferred tax and goodwill on the acquisition of DRI detailed in the Annual Report for the year ended 31 August 2020.

AB Dynamics plc
Unaudited consolidated statement of changes in equity
for the six months ended 28 February 2021

	Share capital	Share premium	Merger relief reserve	Reconstruction reserve	Translation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2020	226	61,736	11,390	(11,284)	(1,800)	42,486	102,754
Share based payments	-	-	-	-	-	570	570
Total comprehensive income	-	-	-	-	(948)	1,272	324
Deferred tax on share based payments	-	-	-	-	-	(86)	(86)
Dividend paid	-	-	-	-	-	(994)	(994)
Issue of shares	4	49	-	-	-	-	53
At 28 February 2021	230	61,785	11,390	(11,284)	(2,748)	43,248	102,621
At 1 September 2019	222	60,049	11,390	(11,284)	178	38,252	98,807
Share based payments	-	-	-	-	-	540	540
Total comprehensive income*	-	-	-	-	(755)	2,913	2,158
Deferred tax on share based payments	-	-	-	-	-	(1,656)	(1,656)
Dividend paid	-	-	-	-	-	(626)	(626)
Issue of shares	3	808	-	-	-	-	811
At 29 February 2020*	225	60,857	11,390	(11,284)	(577)	39,423	100,034
At 1 September 2019	222	60,049	11,390	(11,284)	178	38,252	98,807
Share based payments	-	-	-	-	-	1,282	1,282
Total comprehensive income	-	-	-	-	(1,978)	4,552	2,574
Deferred tax on share based payments	-	-	-	-	-	(974)	(974)
Dividend paid	-	-	-	-	-	(626)	(626)
Issue of shares	4	1,687	-	-	-	-	1,691
At 31 August 2020	226	61,736	11,390	(11,284)	(1,800)	42,486	102,754

*Restated following finalisation of provisional fair value adjustments to deferred tax and goodwill on the acquisition of DRI detailed in the Annual Report for the year ended 31 August 2020.

AB Dynamics plc
Unaudited consolidated cash flow statement
for the six months ended 28 February 2021

	Unaudited 6 months ended 28 February 2021 £'000	Unaudited 6 months ended 29 February 2020 (Restated)* £'000	Audited Year ended 31 August 2020 (Restated)* £'000
Profit before tax	1,359	3,662	5,035
Depreciation and amortisation	2,779	2,824	5,639
Net finance income	(3)	(99)	(188)
Acquisition costs/(credit)	-	39	(2,548)
Share based payments	570	540	1,282
Operating cash flows before changes in working capital	4,705	6,966	9,220
Decrease in inventories	90	602	1,992
Increase in trade and other receivables	(298)	(3,264)	(565)
Increase/(decrease) in trade and other payables	3,285	(1,049)	(3,737)
Cash flows from operations	7,782	3,255	6,910
Interest received	21	114	218
Finance costs paid	(113)	-	-
Income tax received/(paid)	1,570	(2,114)	(2,229)
Net cash flows from operating activities	9,260	1,255	4,899
Cash flows used in investing activities			
Acquisition of businesses	(560)	-	(2,823)
Purchase of property, plant and equipment	(3,363)	(1,977)	(7,276)
Capitalised development costs	(1,258)	(168)	(886)
Net cash used in investing activities	(5,181)	(2,145)	(10,985)
Cash flows from financing activities			
Movements in loans	(20)	-	477
Purchase of fixed term deposits	-	(15,000)	(20,000)
Maturity of fixed term deposits	5,000	-	15,000
Dividends paid	(994)	(626)	(626)
Proceeds from issue of share capital	53	811	1,691
Repayment of lease liabilities	(249)	(276)	(592)
Net cash flow generated from/(used in) financing activities	3,790	(15,091)	(4,050)
Net increase/(decrease) in cash and cash equivalents	7,869	(15,981)	(10,136)
Cash and cash equivalents at beginning of period	26,183	36,225	36,225
Effect of exchange rates on cash and cash equivalents	32	(105)	94
Cash and cash equivalents at end of period	34,084	20,139	26,183

*Restated following reclassification of fixed term deposits with a maturity date of greater than three months at inception.

AB Dynamics plc
Notes to the unaudited interim report
for the six months ended 28 February 2021

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 and manufacture of test equipment for vehicle suspension, steering, noise and vibration. The company also offers a range of services which include analysis, design, prototype manufacture, testing and development.

The interim financial information has been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the EU.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted for use by the European Union. A copy of the statutory accounts for the year ended 31 August 2020 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 2020.

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 August 2021 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 discussed in note 8, including by modelling a severe but plausible downside scenario for COVID-19, whereby the Group experiences:

- A reduction in demand of 25%
- 10% increase in operating costs from supply chain disruption
- Increase in cash collection cycle

With £33.1m of net cash at 28 February 2021 and availability of a revolving credit facility of £15.0m, 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 12 months from the signing date of this interim financial information. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

The interim financial information for the six months ended 28 February 2021 was approved by the Board on 28 April 2021.

2. Segment information

Revenues attributable to individual foreign countries are as follows:

	Unaudited 6 months ended 28 February 2021	Unaudited 6 months ended 29 February 2020	Audited Year ended 31 August 2020
	£'000	£'000	£'000
United Kingdom	3,191	1,145	2,146
European Union	4,763	9,097	14,775
North America	8,963	7,432	15,606
Rest of the World	10,363	16,998	28,987
	27,280	34,672	61,514

Revenues are disaggregated as follows:

Track testing	20,937	29,517	51,760
Laboratory testing and simulation	6,343	5,155	9,754
	27,280	34,672	61,514

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 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 2021	Unaudited 6 months ended 29 February 2020	Audited Year ended 31 August 2020
	£'000	£'000	£'000
Amortisation of acquired intangibles	1,678	1,844	3,549
Acquisition related charge/(credit)	463	588	(1,865)
Inventory impairment	-	1,865	3,267
Restructuring	-	186	969
	2,141	4,483	5,920

Amortisation of acquired intangibles

The amortisation relates to the businesses acquired in 2019, DRI and rFpro.

Acquisition related costs

The costs relate to the acquisition of the Vadotech Group after the period end as well as staff retention payments to the employees of rFpro. The cash to pay this was contributed by the previous owner of rFpro prior to acquisition, but as the employees had to remain within the business for a period prior to receiving payment, a charge had to be recognised in the income statement in both the current and the prior year. The credit in the second half of the prior year relates to the release of deferred consideration on the rFpro acquisition which, due to COVID-19 disruption was not payable.

Inventory impairment

In the prior year, following a detailed review of inventory levels and usage, a number of items previously included in the carrying value were written off and the system of accounting for inventory updated to better reflect the Group's current operations.

Restructuring

The restructuring costs in 2020 relate to rebalancing the skill base of the business and termination of agents.

4. Tax

The effective tax rate for the period is a charge of 6.4% (H1 2020: 20.5%, 2020: 9.6%) reflecting availability of additional R&D credits and an increased patent box deduction.

The adjusted effective tax rate, adjusting both the tax charge and the profit before taxation is 14.7% (H1 2020: 18.7%, 2020: 17.7%).

A number of changes to the UK corporation tax system were announced in the March 2021 Budget Statement which will increase the main rate of corporation tax to 25% by 1 April 2023. These changes have not been substantively enacted at the balance sheet date therefore the increased rate has not been reflected in calculating the Group's deferred tax liabilities at 28 February 2021. Once enacted, this is expected to increase the deferred tax liabilities and hence the Group's tax charge for the current year by approximately £0.5m.

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 2021	Unaudited 6 months ended 29 February 2020	Audited Year ended 31 August 2020
Profit after tax attributable to owners of the Company (£'000)	1,272	2,913	4,552
Weighted average number of shares ('000)			
Basic	22,583	22,416	22,482
Diluted	22,781	22,661	22,622
Earnings per share (pence)			
Basic	5.6	13.0	20.2
Diluted	5.6	12.9	20.1
Adjusted basic	13.2	29.6	40.1
Adjusted diluted	13.1	29.2	39.9

6. Dividends

A final dividend was paid in respect of the year ended 31 August 2019 of 2.8p per share totalling £626,000.

No interim dividend was paid in respect of the year ended 31 August 2020 as, given the significant macroeconomic uncertainty in April 2020, the Board took the decision to suspend the interim dividend pending the conclusion of the financial year.

At the Annual General Meeting the shareholders approved a final dividend in respect of the year ended 31 August 2020 of 4.4p per ordinary share totalling £994,000. This was paid on 22 January 2021 to shareholders on the register on 8 January 2021.

An interim dividend of 1.6p per ordinary share has been declared in respect of the year ending 31 August 2021 which will be paid on 14 May 2021 to shareholders on the register on 30 April 2021.

7. Net cash

Net cash comprises cash and cash equivalents, bank overdrafts, fixed term deposits with a maturity on acquisition of more than three months and lease liabilities.

	Unaudited 28 February 2021	Unaudited 29 February 2020	Audited 31 August 2020
	£'000	£'000	£'000
Cash and cash equivalents	34,084	20,139	26,183
Fixed term deposits	-	15,000	5,000
Borrowings	(485)	-	(505)
Lease liabilities	(483)	(922)	(722)
	33,116	34,217	29,956

During the period, the Group put in place a £15.0m revolving credit facility with National Westminster Bank plc. The facility remained undrawn at 28 February 2021.

8. Principal risks

The principal risks and uncertainties impacting the Group are described on pages 43-47 of our Annual Report 2020 and remain unchanged at 28 February 2021.

They include: COVID-19 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 and intellectual property/patents.

9. Related party transactions

Mr A Best, Chairman of the Company, is a trustee and beneficiary of the Best Middleton Trust. Rental payments of £24,000 (H1 2020: £24,000, 2020: £48,000) were made in the period to the Trust. No amounts were due to or from the Trust at any period end.

10. Acquisition of businesses

On 30 August 2019 the Group acquired 100% of Dynamic Research Incorporated ('DRI') based in California, US, for initial consideration of £17.3m (US\$21.0m), before acquisition expenses of £0.4m. Maximum deferred contingent consideration of £2.9m (US\$3.5m) was payable based on the performance of DRI for the twelve months ended 31 May 2020. DRI exceeded its performance targets and the deferred contingent consideration was paid in full in July 2020. An accrual for the deferred contingent consideration was included in the balance sheet on the date of acquisition at net present value and the discount of £564,000 unwound and included in other finance costs during the year ended 31 August 2020.

At 31 August 2019, the provisional fair value of goodwill was recorded as £11.7m in relation to this acquisition. At 31 August 2020, following finalisation of the deferred tax position, both goodwill and deferred tax liabilities were reduced by £2.2m and goodwill was recorded at £9.5m. Due to the availability of an election under US tax laws, the assets acquired have benefited from a step-up in the asset base cost, resulting in increased amortisation that is tax deductible in future periods. As the tax base of the assets is equal to the acquisition date fair value of those assets, no deferred tax has been recognised at the date of acquisition. The impact of the adjustment on the comparatives for the period ended 29 February 2020 was to reduce goodwill by £2.1m, reduce deferred tax liabilities by £2.0m and increase the tax charge by £0.1m.

During 2019 the Group acquired 100% of rFpro Limited for initial consideration of £18.1m, before acquisition expenses of £0.3m. Maximum deferred consideration of £3.5m was payable based on the performance of rFpro for the 12 months ended 31 January 2021. However due to COVID-19 disruption, the performance targets were not met and no further consideration was payable. The accrual for the deferred contingent consideration was released during the year ended 31 August 2020.

Post balance sheet event

On 3 March 2021, the Group acquired 100% of Vadotech Pte Ltd and Zynit Pte Ltd (collectively 'Vadotech Group') for total cash consideration of up to €26.0m. The acquisition supports a number of the Group's strategic priorities, including providing a sales and technical facility in the strategically important Chinese market, establishing a new Asia Pacific divisional operating hub and further increasing the Group's visibility of future revenue as Vadotech Group sales are supported by long term customer framework agreements.

The acquisition has been completed on a cash free, debt free basis for an initial cash consideration of €17.0m (£14.8m), funded from the Group's existing cash resources. Two further conditional cash payments of up to €3.0m (£2.6m) and €6.0m (£5.2m) are subject to certain performance criteria being achieved for the year ended 31 December 2020 and the year ending 31 December 2021, respectively. The criteria in relation to the payment for the year ended 31 December 2020 have been met therefore an additional €3.0m has become payable.

The book value of the acquired assets and liabilities at the date of acquisition was £3.8m. The Group is currently in the process of determining the fair values of the assets and liabilities acquired.

Acquisition expenses totalled £0.4m, of which £0.2m was incurred in the year ended 31 August 2020 and £0.2m is included in administrative expenses in the consolidated statement of comprehensive income for the period ended 28 February 2021.

Had the acquisition been completed at the beginning of the period, Group revenue would have been £33.9m and adjusted operating profit would have been £4.7m.