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22 April 2020

AB Dynamics plc

Interim Results for the six months ended 29 February 2020

"Strong first half financial and operational performance across the Group"

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 29 February 2020.

	HY 2020	HY 2019	
	£m	£m	
Revenue	**34.7**	25.8	***+34%***
Underlying revenue growth	***11%***	*69%*	
Adjusted operating profit[1]	**8.6**	6.4	***+34%***
Adjusted operating margin	**24.8%**	24.7%	***+10 bps***
Adjusted profit before tax[1]	**8.7**	6.4	***+36%***
Statutory operating profit	**3.6**	6.2	***-42%***
Statutory profit before tax	**3.7**	6.3	***-41%***
Statutory profit after tax	**3.1**	5.6	***-45%***
Cash flow from operations	**3.3**	5.4	***-40%***
Cash	**35.1**	18.9	***+86%***
	Pence	Pence	
Adjusted diluted earnings per share[1]	**31.2**	28.3	***+10%***
Basic earnings per share	**13.7**	28.4	***-52%***
Fully diluted earnings per share	**13.5**	27.6	***-51%***
Total dividend per share	**-**	1.61	***N/A***

[1]Before amortisation on acquired intangibles, acquisition related charges, restructuring costs, inventory impairment and share based payment charges. A reconciliation to statutory measures is given in the Financial Review.

Good first half performance across both operating sectors

- Track testing revenue growth of 29% driven by ADAS test platform sales and track testing services
- Laboratory testing & simulation revenue growth of 82% driven by strong contribution from recently acquired rFpro in addition to new product sales

Continued execution of strategic priorities

- New product development continues as planned with new launches including aNVH and Static Simulator

- Increased proportion of recurring revenue from 10% to 25% of Group revenue due to increased sales of tiered service packages and contribution from recently acquired businesses
- Overseas sales offices performing in line with expectations with particularly strong performance in USA and Japan

Positive contribution from acquired businesses

- rFpro delivered robust revenue growth and strong operating margins
- DRI performed in line with expectations in both sales of ADAS test products and track testing services

COVID-19

- Mitigating actions promptly implemented to control discretionary spending and conserve cash whilst continuing to invest in new product development and business infrastructure
- Impact in the second half of the year currently uncertain, both in terms of customer demand and the supply chain
- Manufacturing facilities continue to be operational to ensure the Group can deliver against its existing order book and new customer orders
- Sufficient inventory to address the short to medium term requirements of manufacturing and fulfilment of the orderbook

Strong, debt free balance sheet

- Significant net cash of £35.1m providing resources to withstand the likely impact of the COVID-19 pandemic and to support the Group's investment requirements

Current trading and outlook

- Following a strong first half performance, the outlook for the second half of the year remains highly uncertain due to the COVID-19 pandemic
- Although there has not been a material reduction in order intake in the year to date, there has been deferment of some larger orders
- The Group is further securing the existing strong cash position through disciplined control of discretionary spend and capital expenditure
- The Group has withdrawn guidance and suspended the interim dividend
- 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:

"I am delighted that we have been able to deliver another strong set of results for the first half of the financial year alongside good progress against our strategic objectives. We are particularly pleased to see a material increase in the proportion of recurring revenue, a good performance from both acquired businesses and an increase in adjusted operating margin.

However, given the considerable uncertainty and inevitable macroeconomic impact of the COVID-19 pandemic, the outlook for H2 is similarly uncertain. Given this macro environment we are withdrawing our guidance for the current year and suspending the payment of an interim dividend until we gain greater clarity.

The Group has taken steps to preserve cash and has a robust balance sheet with sufficient resources to address any likely COVID-19 related impacts whilst continuing to invest in key areas to ensure the Group can capitalise on the long term structural and regulatory growth drivers in our markets."

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

Half Year Review

Group revenues benefitted from robust trading across both sectors in the six months ended 29 February 2020, increasing by 34% to £34.7m against the very strong prior year comparable period. On an underlying basis, excluding the contribution from the acquisitions of Dynamic Research Inc ("DRI") and rFpro, revenues increased by 11% on an organic basis.

In the Track Testing sector, revenues increased by 29% to £29.6m with Advanced Driver Assistance System ("ADAS") test products increasing by 44% to £12.7m and, as anticipated, driving robot sales flat against a very strong prior year comparator in which robot sales grew by 75%. The Track Testing sector continued to grow due to increased sales of our Guided Soft Target ("GST") and Launchpad product lines as requirements for the testing of active safety systems continue to evolve. Track testing services conducted at DRI contributed £3.1m of revenue to the sector.

The Laboratory Testing & Simulation sector increased revenues by 82% to £5.1m driven by growth in Suspension Parameter Measurement Machine ("SPMM") sales complemented by the first sale of a new ABD product, the Axle Level Noise, Vibration & Harshness ("aNVH") test rig to a major OEM. The simulation sub-sector grew strongly due to the contribution from rFpro simulation software sales and the pipeline in the area of Advanced Vehicle Driving Simulators ("aVDS") is promising.

The Group has delivered good progress against its stated set of strategic priorities including the increase in proportion of recurring revenue from 10% to 25% of total sales. During the period AB Dynamics launched a structured tiered service package with the aim of supporting the Group's large installed base of product, facilitated by the establishment of the directly controlled overseas sales and support offices. In addition, a high proportion of rFpro revenue is recurring through the sale of software licenses and DRI delivers recurring revenue under long term track testing service contracts.

Gross margins improved by 840 bps to 58.5% due to the positive impact of the acquisitions made during FY2019, changing our routes to market in key territories by opening direct sales and support offices and manufacturing efficiencies. Adjusted operating margin at 24.8% is above the strong prior year comparative period due to the higher gross margin, despite the offset of the full year effect of planned operating cost increases incurred during H2 FY2019.

AB Dynamics has a robust balance sheet and a proven track record of profitable, cash generative growth which the Group reinvests in organic growth initiatives and the acquisition of value adding businesses. The acquisition pipeline has improved, although the timing of opportunities may be delayed due to the impact of COVID-19.

Results & Dividends

In the six months ended 29 February 2020, Group revenues increased by 34% to £34.7m (2019: £25.8m). Adjusted operating profit increased by 34% to £8.6m (2019: £6.4m) and adjusted operating margins increased by 10 bps to 24.8% (2019: 24.7%). Statutory operating profit decreased by 42% to £3.6m after adjustments for amortisation of acquired intangibles and other acquisition-related costs and an inventory write-off. After adjusting for the incremental contribution from acquisitions, underlying revenues increased by 11%.

Adjusted profit before tax increased by 36% to £8.7m (2019: £6.4m) and the corresponding adjusted earnings per share ("EPS") increased by 10% to 31.2p (2019: 28.3p). On a statutory basis, profit before tax was £3.7m (2019: £6.3m) and basic earnings per share were 13.7p (2019: 28.4p).

Cash inflow from operations was £3.3m (2019: £5.4m), the reduction of £2.1m being due to an increase in trade receivables with two OEMs following administrative issues with their supplier payment portals. The outstanding balance was received after the period end. The cash balance at 29 February 2019 was £35.1m (28 February 2019: £18.9m, 31 August 2019: £36.2m).

Given the current global macroeconomic uncertainty caused by the COVID-19 pandemic, the Board is recommending that the interim dividend is suspended until the conclusion of the financial year. The Board will review the performance at the fiscal year end and make any adjustments deemed necessary to the final dividend at the end of the financial year.

Operating Review

Track Testing

The track testing sector performed strongly in the first half of the financial year delivering 29% growth in revenues to £29.6m. This was driven by robust demand for the Group's ADAS test platforms and the provision of track testing services through the recently acquired DRI business. As anticipated, Driving Robots sales were broadly flat on a strong prior year comparative as customer activity focussed on current test requirements primarily requiring additional ADAS test platforms.

The regulatory and structural growth drivers for track testing products and services remain strong. In many countries, global customers are required by regulation to ensure that new vehicles have suitable active safety and driver assistance systems to minimise the risk of accidents and injuries. This is driven by both consumer demand (NCAP) and by regulation (e.g. EU/UN regulations on ADAS systems). These technologies are also the building blocks for the incremental increases in automated driving functions in a wide range of vehicles from passenger cars to commercial vehicles.

The Group's sales of ADAS test platforms increased by 44% to £12.7m, driven by strong sales of the Launchpad ADAS platform which is used for the testing of ADAS systems with Vulnerable Road Users (VRUs), including pedestrians, cyclists and motorcycles. The GST product line continues to grow strongly as customers use this platform to evaluate vehicle to vehicle ADAS system performance in conjunction with the ABD SoftCar360 target. The Group continues to develop new products in the field of track testing, enhancing the Ground Traffic Control proving ground automation software and the Radar Cart used to evaluate the radar signature of vehicles and platforms used in ADAS testing. We are also delivering new capabilities for existing products that extend the operational capabilities in terms of platform speed, battery technology and usability.

Our range of driving robot products meet the current set of regulatory and NCAP test requirements and many customers have sufficient products to meet their immediate needs. However, new requirements are currently being developed for the next phase of the NCAP roadmap requirements which will likely require differing capabilities, both in terms of hardware and software.

DRI conducts track testing services on behalf of a range of OEM and US government customers to evaluate the performance of ADAS systems and vehicle dynamics of a variety of vehicles. DRI utilises its test track near Bakersfield, California and uses both ABD and DRI products to deliver this service. In the first half of the year, DRI track testing services contributed £3.1m of revenue and a high proportion of this revenue is based on long term contracts.

Laboratory Testing & Simulation

The Laboratory Testing & Simulation sector delivered strong revenue growth of 82% to £5.1m driven by the contribution of the rFpro acquisition and delivery of both SPMM and aNVH contracts. The core Laboratory Testing sub-sector delivered robust revenue growth on the prior year period of 33% to £2.0m. Simulation sales grew by 139%, primarily due to the contribution of rFpro which performed strongly in the first half.

The aNVH is a new testing product launched during the year, based on proprietary novel actuator technology to optimise noise, vibration and harshness (“NVH”) transmission from the wheel hubs via suspension components into the suspension mounting points. The system allows the prototype axle system to be optimised early in the design process and avoids the need for expensive and compromised NVH solutions in the production vehicle.

rFpro delivered a strong performance in the first half following the acquisition in June 2019, with revenue of £2.4m. rFpro supplied its leading physics-based simulation software and highly accurate Digital Twins to a range of customers including automotive OEMs, tier 1 suppliers and motorsport teams. The market opportunity for aVDS driving simulators increased during the first half, which has delivered a strong pipeline of opportunities with global OEMs and motorsport teams, albeit with some expected delays due to the COVID-19 pandemic.

To further enhance the Group’s product offering in the field of driving simulation, the family of simulators was expanded to include an entry level Static Simulator system. The system has the benefits of the high end aVDS simulator including rFpro simulation software and active steering and pedals but without the high frequency six degree of freedom motion platform. The static simulator broadens the addressable market for the Group’s simulators, allowing customers a relatively cost-effective entry point into the utilisation of simulation for the assessment of ADAS, active safety and autonomous systems.

COVID-19 Pandemic

The COVID-19 pandemic is unprecedented and presents significant challenges to businesses globally. The Group has been monitoring the potential risks associated with COVID-19 since it first emerged in China and our first priority is the safety and wellbeing of the Group’s staff.

As part of the Group’s focus on the safety and wellbeing of staff we reviewed our current working arrangements for our global locations in March and as a result all those who can are working from home. For manufacturing operations, we conducted a thorough risk assessment of all workplaces and implemented preventative measures to ensure workplace safety. As a result, all manufacturing operations are currently operating at close to normal capacity whilst also adhering to Government safety advice.

Whilst the Group has not seen a material reduction in order intake during March and into April, we have seen deferment of some orders, particularly when related to higher value capital equipment. The Group is likely to see an impact on order intake in the second half of the year as customers temporarily close operations, conserve cash and limit R&D activities. The expected demand profile differs geographically as countries enter and exit the pandemic at varying points in time.

The Group has sufficient inventory and work in progress to maintain production schedules for the foreseeable future and to date there are limited impacts from supplier constraints. The Group is constantly monitoring supplier performance and through proactive dialogue we will attempt to mitigate any risks to production. In many cases, for critical components, the Group has a dual sourcing strategy to ensure any impact relating to individual suppliers are minimised.

rFpro continues to operate effectively as the provision of software can easily be produced from a home environment. The DRI business in California is currently operating both manufacturing and track testing under an exemption to the Californian State shutdown.

The Group has implemented mitigating actions to ensure cash conservation for the duration of the crisis and has approximately £35m of cash available to support any potential emergent issues. It is critical that we maintain our new product development activities during this period to ensure new products and services are delivered on time to meet market demand. R&D activities are continuing as planned with engineering being completed remotely using collaborative online tools. The Group has also determined that it should continue to invest in the Company wide ERP system and has approved the contract to deliver the system in FY21. These actions should ensure AB Dynamics remains well-positioned post-COVID-19.

Discretionary spend has been tightly controlled and the nature of the pandemic is naturally reducing certain operating costs. If required, the Group will make use of government assistance programmes to furlough staff if deemed appropriate, but there are no current plans to utilise these schemes.

The construction of both the North Site and the Melksham Manufacturing Centre has been postponed both to conserve cash and in order to maintain compliance with safe working guidelines in terms of social distancing. Depending on the duration of the delay to the North Site project it is estimated that approximately £3m of cash outflow will be deferred into FY21. We have also suspended declaration of an interim dividend and delayed our acquisition plans.

Summary and Outlook

The first half shows the early benefit of the revised strategy we presented a year ago. Acquisitions have improved performance and diversified our blue chip customer base; new products have been welcomed by the market and recurring revenue has more than doubled as a percentage of Group sales. This has been reflected in our financial performance which shows continued growth across the business despite a strong comparable period.

COVID-19 is an unprecedented business challenge. The Group continues to closely monitor all aspects of this global crisis and has taken active steps to protect staff, reduce operating costs and conserve cash, whilst simultaneously continuing to invest in new product development and business infrastructure. However, due to the uncertainty in assessing the full impact of COVID-19, the Board is withdrawing forward guidance.

The Board considers this balanced approach the most appropriate manner in which to address the current challenges whilst ensuring that the Group remains well positioned to capitalise on the significant long-term structural and regulatory growth drivers in our markets.

Financial Review

Financial performance

Revenue increased by 34% to £34.7m (2019: £25.8m) driven by an increase in track testing revenue of 29% to £29.6m (2019: £23.0m) and laboratory testing and simulation revenue of 82% to £5.1m (2019: £2.8m). Organic revenue increased by 11%.

Adjusted operating profit increased 34% to £8.6m (2019: £6.4m), while adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') increased 38% to £9.5m (2019: £6.9m).

Adjusted operating margin increased by 10 bps to 24.8% (2019: 24.7%) due to the increase in gross margin. After adding back depreciation and amortisation, this left return on sales (defined as EBITDA divided by revenue) of 27.1% (2019: 26.6%), an increase of 50 bps.

After net interest income of £0.1m (2019: £0.1m), adjusted profit before tax was £8.7m (2019: £6.4m).

The Group adjusted tax charge totalled £1.6m (2019: £0.7m), an adjusted effective tax rate of 18.5% (2019: 11.4%). The tax rate reflects the anticipated geographic split of taxable profits for the full year. The increase is a result of the higher proportion of profits expected to be generated overseas in territories with higher tax rates than the UK.

Adjusted diluted earnings per share were 31.2p (2019: 28.3p), an increase of 10%. The drop through was lower than the increase in adjusted operating profit due to the increased tax rate.

Adjustments totalled £5.0m (2019: £0.1m) of which £1.8m related to amortisation of acquired intangible assets, £0.6m to non-cash costs in relation to acquisitions, including staff retention payments, £0.5m to share based payments and £0.2m to restructuring costs. A further £1.9m related to a write down of inventory. Following a detailed review of stock levels and usage, a number of items previously included in the carrying value have been written off and the system of accounting for inventory has been updated to better reflect the Group's current operations.

Statutory operating profit fell by 42% to £3.6m and after interest income of £0.1m (2019: £0.1m), statutory profit before tax was down 41% from £6.3m to £3.7m, giving statutory basic earnings per share of 13.7p (2019: 28.4p). The statutory tax charge was £0.6m (2019: £0.7m). A reconciliation of statutory to underlying non-GAAP financial measures is provided below.

Cash resources

Cash at the end of the period was £35.1m (31 August 2019: £36.2m, 28 February 2019: £18.9m).

Despite the significant cash resources, given the rising level of uncertainty as to how the current situation will develop, we consider it prudent to preserve the Group's cash and liquidity position and have implemented a number of cash conservation measures, including deferring spend on the North Site and Melksham Manufacturing Centre, a recruitment freeze and reducing discretionary spend. We have also suspended the declaration of the interim dividend.

Cash flow

Cash inflow from operations was £3.3m (2019: £5.4m) after net investment in working capital of £3.7m. After interest income of £0.1m and paying tax of £2.1m and dividends of £0.6m, this allowed us to invest £2.1m in property, plant and equipment and research and development. A large proportion of the investment in working capital related to an increase in receivables from 2 OEMs. This arose from a change in their administrative procedures and the cash was received post-period end.

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 £0.2m have been capitalised in relation to projects for which there are a number of near-term sales opportunities.

Foreign currency exposure

The Group faces currency exposure on its foreign currency transactions and, with the acquisition of DRI and international expansion of our sales offices, exposure to both foreign currency translation risk and transaction risk has increased.

The Group maintains a natural hedge whenever possible to transactional exposure by matching the cash inflows and outflows in the respective currencies wherever possible.

There was no material difference between the reported profit for the year and that calculated on a constant currency basis as the exchange rates in the first half of the year were broadly similar to the comparative period.

IFRS 16

IFRS 16, 'Leases' has been adopted in the period. This new standard introduces the principle that all leased assets should be reported on the balance sheet of the lessee, recognising an asset for the right to use the leased item and a liability for the present value of its future lease payments. This resulted in the recognition of a right of use asset of £0.9m and a corresponding lease liability being recognised on 1 September 2019. It has also resulted in an increase in depreciation of £0.3m with a corresponding decrease in operating lease rental costs.

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 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 2020			**H1 2019**		
	Adjusted	Adjustments	Statutory	Adjusted	Adjustments	Statutory
Operating profit (£m)	8.6	(5.0)	3.6	6.3	(0.1)	6.2
Operating margin (%)	24.8	-	10.3	24.7	-	24.2
Profit before tax (£m)	8.7	(5.0)	3.7	6.4	(0.1)	6.3
Taxation (£m)	(1.6)	1.0	(0.6)	(0.7)		(0.7)
Profit after tax (£m)	7.1	(4.0)	3.1	5.7	(0.1)	5.6
Diluted earnings per share (pence)	31.2	(17.7)	13.5	28.3	(0.7)	27.6

The adjustments comprise:

	H1 2020	H1 2019
	£m	£m
Amortisation of acquired intangibles	1.8	-
Inventory impairment	1.9	-
Acquisition related costs	0.6	-
Share based payments	0.5	0.1
Restructuring	0.2	-
Adjustments	5.0	0.1

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
22 April 2020

AB Dynamics plc
Unaudited consolidated statement of comprehensive income
for the six months ended 29 February 2020

	Notes	Unaudited 6 months ended 29 February 2020 £'000	Unaudited 6 months ended 28 February 2019 £'000	Audited Year ended 31 August 2019 £'000
Revenue	2	34,672	25,809	57,957
Cost of sales		(14,401)	(12,889)	(30,039)
Gross profit		20,271	12,920	27,918
Administrative expenses		(16,168)	(6,539)	(16,505)
Share based payment costs		(540)	(146)	(586)
Operating Profit		**3,563**	**6,235**	**10,827**
Finance income		114	57	171
Finance expense		(15)	-	-
Profit before tax		**3,662**	**6,292**	**10,998**
Tax expense		(597)	(732)	(2,340)
Profit for the year		**3,065**	**5,560**	**8,658**
Other comprehensive income:				
Items that may be reclassified to consolidated income statement:				
Deferred tax on share based payments		(860)	-	-
Exchange gains on foreign currency net investments		(755)	-	178
Total comprehensive income for the period		**1,450**	**5,560**	**8,836**
Earnings per share – basic (pence)	5	13.7p	28.4p	42.9p
Earnings per share – diluted (pence)	5	13.5p	27.6p	42.1p
Alternative performance measures				
Operating profit		3,563	6,235	10,827
Amortisation of acquired intangibles		1,844	-	-
Inventory impairment		1,865	-	-
Acquisition related costs		588	-	1,551
Share based payment		540	146	586
Restructuring		186	-	550
Adjusted operating profit		**8,586**	**6,381**	**13,514**
Net finance income		99	57	171
Adjusted profit before tax		**8,685**	**6,438**	**13,685**
Adjusted tax charge		(1,611)	(732)	(2,291)
Adjusted profit after tax		**7,074**	**5,706**	**11,394**
Adjusted earnings per share – basic (pence)	5	31.6p	29.1p	56.4p
Adjusted earnings per share – diluted (pence)	5	31.2p	28.3p	55.4p

AB Dynamics plc

Unaudited consolidated statement of financial position
for the six months ended 29 February 2020

	Unaudited 29 February 2020	Unaudited 28 February 2019	Audited 31 August 2019
	£'000	£'000	£'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	18,641	-	19,244
Acquired intangible assets	19,574	-	21,803
Intangible assets	423	212	268
Investment	13	-	14
Property, plant and equipment	20,637	14,832	17,922
Right-of-use assets	917	-	-
Deferred tax assets	390	1,615	1,952
	60,595	**16,659**	**61,203**
CURRENT ASSETS			
Inventories	10,560	9,641	11,149
Trade and other receivables	16,289	10,919	12,986
Contract assets	2,002	398	1,885
Taxation	2,428	184	939
Cash and cash equivalents	35,139	18,939	36,225
	66,418	**40,081**	**63,184**
TOTAL ASSETS	**127,013**	**56,740**	**124,387**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17,530	12,253	16,920
Short-term lease liabilities	426	-	-
	17,956	**12,253**	**16,920**
Net current assets	**48,462**	**27,828**	**46,264**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5,136	358	5,421
Long-term lease liabilities	496	-	-
Deferred consideration	3,239	-	3,239
	8,871	**358**	**8,660**
NET ASSETS	**100,186**	**44,129**	**98,807**
EQUITY			
Share capital	225	197	222
Share premium	60,857	10,821	60,049
Reconstruction reserve	(11,284)	(11,284)	(11,284)
Merger relief reserve	11,390	11,390	11,390
Translation reserve	(577)	-	178
Retained earnings	39,575	33,005	38,252
TOTAL EQUITY	**100,186**	**44,129**	**98,807**

AB Dynamics plc
Unaudited statement of changes in equity
for the six months ended 29 February 2020

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Reconstruction reserve £'000	Retained profits £'000	Total equity £'000
At 1 September 2019	**222**	**60,049**	**11,390**	**(11,284)**	**38,430**	**98,807**
Share based payment expense	-	-	-	-	540	540
Profit after taxation and total comprehensive income for the financial year	-	-	-	-	1,450	1,450
Tax impact of exercised share options	-	-	-	-	(796)	(796)
Dividend paid	-	-	-	-	(626)	(626)
Issue of shares, net of share issue costs	3	808	-	-	-	811
At 29 February 2020	**225**	**60,857**	**11,390**	**(11,284)**	**38,998**	**100,186**
At 1 September 2018	**195**	**10,258**	**11,390**	**(11,284)**	**27,484**	**38,043**
Share based payment expense	-	-	-	-	146	146
Profit after taxation and total comprehensive income for the financial year	-	-	-	-	5,560	5,560
Tax impact of share options	-	-	-	-	245	245
Dividend paid	-	-	-	-	(430)	(430)
Issue of shares, net of share issue costs	2	563	-	-	-	565
At 28 February 2019	**197**	**10,821**	**11,390**	**(11,284)**	**33,005**	**44,129**
At 1 September 2018	**195**	**10,258**	**11,390**	**(11,284)**	**27,484**	**38,043**
Share based payment expense	**-**	**-**	**-**	**-**	586	586
Profit after taxation and total comprehensive income for the financial year	**-**	**-**	**-**	**-**	8,836	8,836
Tax impact of exercised share options	**-**	**-**	**-**	**-**	2,271	2,271
Dividend paid					(747)	(747)
Issue of shares, net of share issue costs	27	49,791	-	-	-	49,818
At 31 August 2019	**222**	**60,049**	**11,390**	**(11,284)**	**38,430**	**98,807**

AB Dynamics plc
Unaudited cash flow statement
for the six months ended 29 February 2020

	Unaudited 6 months Ended 29 February 2020	Unaudited 6 months Ended 28 February 2019	Audited Year Ended 31 August 2019
	£'000	£'000	£'000
Cash flow from operating activities			
Profit before tax	3,662	6,292	10,998
Adjustments for: -			
Depreciation and amortisation	2,824	473	1,324
Interest income	(99)	(57)	(171)
Acquisition expenses	39	-	768
Share based payment	540	146	586
Operating cash flows, before working capital changes	**6,966**	**6,854**	**13,505**
Decrease/(increase) in inventories	602	(2,738)	(3,447)
Increase in trade and other receivables	(3,264)	(658)	(1,667)
(Decrease)/increase in other payables	(1,049)	1,957	1,554
Cash flow from operations	**3,255**	**5,415**	**9,945**
Interest received	114	57	171
Income tax paid	(2,114)	(280)	(1,350)
Net cash flow from operating activities	**1,255**	**5,192**	**8,766**
Cash flow used in investing activities			
Acquisition of businesses	-	-	(32,792)
Purchase of property, plant and equipment	(1,977)	(1,837)	(4,706)
Capitalised development costs	(168)	-	-
Sale of property, plant and equipment	-	-	(228)
Investment in overseas sales office	-	(493)	-
Net cash flow used in investing activities	**(2,145)**	**(2,330)**	**(37,726)**
Cash flow from financing activities			
Dividends paid	(626)	(430)	(747)
Proceeds from issue of share capital, net of share issue costs	811	565	49,818
Repayment of lease liabilities	(276)	-	-
Net cash flow (used in)/from financing activities	**(91)**	**135**	**49,071**
Net (decrease)/increase in cash and cash equivalents	**(981)**	**2,997**	**20,111**
Cash and cash equivalents at beginning of period	36,225	15,942	15,942
Effect of exchange rates on cash and cash equivalents	(105)	-	172
Cash and cash equivalents at end of period	**35,139**	**18,939**	**36,225**

AB Dynamics plc
Notes to the unaudited interim report
for the six months ended 29 February 2020

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 2019 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 statements for the year ended 31 August 2019, with the exception of updating accounting policies to reflect changes required by the adoption of IFRS 16.

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 August 2020 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.

<u>Going concern basis of accounting</u>

The Directors have assessed the principal risks discussed in note 7, including by modelling a severe but plausible downside scenario for COVID-19, whereby the Group experiences:

- A significant reduction in demand over the next six months
- Supply chain disruption
- Closure of manufacturing operations for 4 months

With £35.1m of cash at 29 February 2020, 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 financial statements.

The interim financial information for the six months ended 29 February 2020 was approved by the Board on 22 April 2020.

2. Segment information

Revenues attributable to individual foreign countries are as follows:

	Unaudited 6 months ended 29 February 2020	Unaudited 6 months ended 28 February 2019	Audited Year ended 31 August 2019
	£'000	£'000	£'000
United Kingdom	1,145	431	2,028
Rest of the European Union	9,097	7,838	15,741
North America	7,432	4,215	9,499
Rest of the World	16,998	13,325	30,689
	34,672	25,809	57,957
Revenues are disaggregated as follows:			
Track testing	29,517	23,038	49,796
Laboratory testing and simulation	5,155	2,771	8,161
	34,672	25,809	57,957

No customer represents 10% or more of total revenue.

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 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.

	Unaudited 6 months ended 29 February 2020	Unaudited 6 months ended 28 February 2019	Audited Year ended 31 August 2019
	£'000	£'000	£'000
Amortisation of Acquired Intangibles	1,844	-	-
Inventory Impairment	1,865	-	-
Acquisition Related Costs	588	-	1,551
Share Based Payment	540	146	586
Restructuring	186	-	550
	5,023	146	2,687

Amortisation of acquired intangibles
The amortisation relates to the businesses acquired in the previous year, DRI and rFpro.

Inventory impairment
Following a detailed review of stock levels and usage, a number of items previously included in the carrying value have been written off and the system of accounting for inventory has been updated to better reflect the Group's current operations.

Acquisition related costs
The cost relates mainly to staff retention payments to the employees of rFpro. The cash to pay this was contributed by the previous owner of the business prior to acquisition, but as the employees have to remain within the business for a period prior to receiving payment, a charge has to be recognised in the income statement.

Share based payment
The cost of the share schemes has been calculated using option pricing models and spread over the performance period of the schemes.

Restructuring
The restructuring costs relate to a redundancy programme in the UK in which the skill base of the business was adjusted.

4. Tax

The effective tax rate for the period is a charge of 16.3% (H1 2019: 11.6%) reflecting the change in the geographic structure of the Group following the recent overseas expansion.

The adjusted effective tax rate, adjusting both the tax charge and the profit before taxation is 18.5% (H1 2019: 11.4%).

5. Earnings per share

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

	Unaudited 6 months ended 29 February 2020	Unaudited 6 months ended 28 February 2019	Audited Year Ended 31 August 2019
	£'000	£'000	£'000
Profit after tax attributable to owners of the Company	3,065	5,560	8,658
Weighted average number of shares ('000)			
Basic	22,416	19,604	20,201
Diluted	22,661	20,138	20,585
Earnings per share			
Basic	13.7 pence	28.4 pence	42.9 pence
Diluted	13.5 pence	27.6 pence	42.1 pence
Adjusted basic	31.6 pence	29.1 pence	56.4 pence
Adjusted diluted	31.2 pence	28.3 pence	55.4 pence

6. Dividends

A final dividend was paid in respect of the year ended 31 August 2018 of £0.022 per share totalling £430,000.

An interim dividend was paid in respect of the year ended 31 August 2019 of £0.0161 per share totalling £317,000.

At the Annual General Meeting the shareholders approved a final dividend in respect of the year ended 31 August 2019 of 2.79p per ordinary share totalling £626,000. This was paid on 13 February 2020 to shareholders on the register on 3 January 2020.

No interim dividend has been declared in respect of 2020.

7. Principal risks

The principal risks and uncertainties impacting the Group are described on pages 22-25 of our Annual Report 2019 and remain unchanged at 29 February 2020.

They include: downturn or instability in major markets, loss of major customers, 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.

In addition, the Group is closely monitoring the COVID-19 pandemic and taking steps to follow relevant Government guidance to mitigate any potential impacts to the health and safety of employees. We are reviewing the impact on customers and suppliers, reducing discretionary costs and conserving cash.

8. Related party transactions

There were no related party transactions during the period or outstanding at the end of the period (H1 2019: £nil).