

Chief Executive Officer's review

Highlights 2024

- The Group delivered growth in revenue of 10% to £111.3m and a 22% increase in operating profit to £20.3m
- Strong growth in testing products and testing services
- ABD Solutions contract win and initial production units delivered with continued progress on pipeline of commercial opportunities
- VTS acquisition integration progressing well

Delivering results

Overview

I am pleased to report that the Group delivered a very strong set of results, continuing the trend of double-digit revenue growth and margin expansion. This was driven by improvements in our commercial and operating capabilities, underpinned by positive market dynamics in all three sectors.

During FY 2024, the Group continued to deliver against its strategic priorities by launching new products and services and through an initial contract award in ABD Solutions. The acquisition of VTS also expanded our presence in the testing services market, complementing the Group's existing offering.

Over the last five years, the Group has been transformed from a single entity in the UK to a multi-national group with twelve facilities in six countries across Europe, North America and Asia. Building on the strength of the core business, coupled with value-enhancing acquisitions, the Group now has a solid and scalable platform from which to capitalise on a multi-year growth opportunity, supported by strong long-term structural and regulatory tailwinds.

Financial performance

The Group delivered revenue growth in the year of 10% to £111.3m (2023: £100.8m) with increases across all three sectors, continuing the Group's track record of top-line growth due to improvements in road safety technology, new vehicle models and increased regulation.

Gross margin was 59.6%, up 10bps on 2023 due to operational efficiencies. Group adjusted operating profit increased by 22% to £20.3m (2023: £16.6m). The adjusted operating margin increased to 18.2% (2023: 16.5%) as a result of operating leverage and operational efficiency.

Chief Executive Officer's review continued

Financial performance continued

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 18% to £24.2m (2023: £20.5m). Adjusted EBITDA margin was 21.7% (2023: 20.4%), an increase of 130bps.

The Group delivered strong adjusted operating cash flow of £27.9m (2023: £23.5m) with cash conversion of 115% (2023: 114%) and net cash at the end of the year of £28.6m (2023: £32.0m), underpinning a robust balance sheet and providing the resources to fund the post year-end acquisition of Bolab and continue the Group's investment programme.

Sector review

Testing products revenue of £69.4m was up 10% against 2023 (£63.0m) with growth in ADAS platforms and driving robots offset by a reduction in laboratory testing products.

Testing services saw significant revenue growth of 29% to £16.7m (2023: £12.9m) in advance of new regulatory requirements, following the removal of external impediments that adversely impacted the prior year. In the Group's Californian operation we saw improved access to vehicles for testing and in the China based operation there was a relaxation of pandemic restrictions.

Simulation revenue increased by 1% to £25.2m (2023: £24.9m). Growth in simulation software was offset by a decrease in revenue from simulator motion platforms due to the timing of order intake for these large capital items.

Strategic progress

The Group continues to make good progress against its organic-led growth strategy, supplemented with value-enhancing acquisitions.

During FY 2024, the Group has expanded its testing product offering, with new products such as the Soft Pedestrian 360, the LaunchPad Spin and the Soft Motorcycle 360 having been approved by Euro NCAP.

Testing services have been strengthened through the acquisition of VTS, a provider of mileage accumulation, EV and environmental testing services.

In simulation, the integration of Ansible Motion, which was acquired in the previous year, positions the Group to benefit from a strengthened market position in this important area.

The increase in the level of recurring revenue to 45% (2023: 40%) enhances the resilience of the Group's business model.

The Group has continued to develop automated solutions for new markets and during the year delivered the initial units of a product for the construction industry and won a contract to supply an automated mileage accumulation solution.

Following significant investment in capability and capacity, the Group now has a solid and scalable operational and commercial platform from which to capitalise on an ambitious multi-year organic-led growth opportunity, supported by strong long-term structural and regulatory growth drivers and supplemented with value-enhancing acquisitions.

We will create value for shareholders through:

- Organic revenue growth supported by our market drivers
- Operating margin expansion from operational gearing, improvements in the supply chain and operational efficiency
- Further value-enhancing acquisitions

Our ambition is to double revenue and triple operating profit over the medium term, through the compounding effect of organic revenue growth of approximately 10% per year, an improvement in the operating margin to 20% and investing cash generated into acquisitions.

Acquisitions

On 2 April 2024, the Group acquired VTS, a provider of vehicle testing services, including environmental testing and range certification for EVs. The initial consideration was \$15.0m (£11.9m). Contingent consideration of up to \$15.0m will become payable in cash subject to certain performance criteria being met for each of the two years following completion. The acquisition expands both the Group's capability and geographic coverage in the important and growing field of EV battery and powertrain performance evaluation. It also provides the opportunity to leverage AB Dynamics' existing sales capabilities to drive cross-selling. VTS has been integrated into the Group's testing services sector and since acquisition has been earnings accretive, delivering £1.0m of revenue and £0.4m of adjusted operating profit during FY 2024.

After the year end, on 25 September 2024, the Group acquired Bolab, a niche supplier of automotive power electronics testing solutions, based in Germany. Bolab supplies low-voltage and high-voltage equipment for testing automotive sub-systems and components for conventional, hybrid and EVs.

Capital allocation

Our capital allocation framework delivers sustainable compounding growth as well as growing returns to shareholders.

- Continuous organic investment and innovation to protect and grow core business
- Organic investment into ABD Solutions driving growth in adjacent markets by leveraging core technology
- Complementary acquisitions contributing to one or more of the Group's stated strategies
- Progressive dividend policy

“Our market-leading position is driven by our technical capabilities and our reputation. Our products must satisfy challenging and complex requirements meaning barriers to entry are high.”

Dr James Routh
Chief Executive Officer

Chief Executive Officer's review continued

Acquisitions continued

The initial consideration was €5.0m (£4.2m). Contingent consideration of up to €6.0m (£5.0m) will become payable in cash across two tranches for the two years following completion, subject to meeting certain performance criteria for each year.

The acquisition supports the expansion of the Group's capabilities in the testing products business and provides further alignment with the structural growth drivers in the sector. Acquisitions have been, and will continue to be, a significant part of the overall strategy and there is a promising pipeline of potential value-enhancing and strategically compelling acquisition opportunities.

Summary

The Group has delivered a very strong performance, with sustained high levels of demand across key markets, demonstrating the benefits of the investment made in recent years in the commercial and operating capability of the business.

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

Trading in the early part of FY 2025 has been strong, supported by a solid order book, providing good visibility into the new financial year. Whilst being mindful of a potential slowdown in timing of pipeline conversion due to disruption in the automotive market and customer delivery schedules, the Board remains confident that the Group will make further financial and strategic progress this year. With strong trading momentum entering FY 2025 and benefiting from the acquisition of Bolab and improving margins, the Board expects to deliver FY 2025 adjusted operating profit slightly ahead of current expectations.

Our market drivers remain strong. This backdrop, along with a strong acquisition pipeline, provides confidence of delivering continued growth in revenue and margin in FY 2025 and beyond.

Dr James Routh
Chief Executive Officer
26 November 2024

Early career opportunities

Our organisation is committed to promoting engineering education and careers in a variety of ways. We are proud to sponsor the Arkwright Engineering Scholars programme and to have provided five volunteer mentors for the Royal Academy of Engineering's Graduate Engineering Engagement programme (GEEP). Our Apprenticeship programme offers students the opportunity to join us straight from school and gain hands-on experience in both the academic and practical aspects of engineering. Additionally, our Graduate Scheme, now in its fourth year, provides graduates with a comprehensive understanding of our business through rotations across various departments. We also offer internships across the Group, including year-long and summer placements. Finally, we participate in STEM and Career events aimed at influencing students from the point they start to consider their career choices, and we offer work experience opportunities for a variety of secondary schools.



Chief Executive Officer's review continued

Q&A WITH DR JAMES ROUTH

Driving delivery



Q What are your highlights of the year?

I am very pleased to deliver an overall performance in line with our long-term strategic plans, delivering 10% revenue growth and over 20% organic growth in operating profit as a result of our initiatives to scale and improve operating performance. Following the investments made in recent years, we have transformed the business into a strong platform that will enable and support our next phase of growth. We have also delivered good progress on inorganic growth, with the successful acquisition and integration of VTS in the US and the acquisition of Bolab in Germany after the period end. Both businesses will be value enhancing and support the ongoing development of the Group's product and service offering.

Q What are your priorities for the year ahead?

It is important that we continue to leverage the investments made in the operating platform of the business to drive continued organic revenue growth, whilst optimising the business to deliver improved operating margins. We will further invest in new product R&D and customer service offerings to maintain our strong, market-leading position. We will also work hard to increase collaboration across our sectors to deliver seamless solutions to our customers, cross-sell our products and services and increase customer penetration. During FY 2025 we will focus on the integration of Bolab following completion of the acquisition in September 2024, along with continuing to identify and progress further attractive, value-enhancing acquisition opportunities.

Q What will AB Dynamics look like in the future?

AB Dynamics will be a larger, broader based business through the ongoing compounding effect of top-line growth, supported by long-term market drivers and continued investment in innovative new products. Over the medium term we will expand operating margins to 20%+ through operating leverage, supply chain improvements and operating efficiency. In addition to the organic growth in the core business, ABD Solutions will further support incremental revenue growth through new products and attractive adjacent markets. The organic growth will be compounded by further acquisitive growth utilising our experience and track record to deliver further value-adding acquisitions. Our disciplined approach to capital allocation provides additional resources and optionality to fund these investments.

Q How is AB Dynamics positioned to be resilient against a backdrop of global uncertainty?

AB Dynamics has demonstrated that our business model is resilient against a backdrop of global macroeconomic and geopolitical uncertainty. We have delivered revenue growth every year during these uncertain times due to the strength of our market position, the clear regulatory and structural growth drivers in our markets and our differentiated products and services.

The investments made in recent years to build a strong commercial platform have supported this resilience and have created a more diversified business across a range of products, services, market sectors and geographic territories.

Q How is ABD Solutions progressing?

ABD Solutions has made excellent progress during FY 2024. We have delivered the initial units of a pedestrian detect and warn system for the construction industry and have a strong pipeline of commercial opportunities in the mining sector to convert existing fleets of vehicles to automated operation, particularly in Japan, Australia and South America. We were also particularly pleased to have won a contract with an automotive OEM for an automated mileage accumulation solution, demonstrating that as a technology accelerator, ABD Solutions can also open adjacent sectors in our core market.