

Interim results presentation – April 2019

Enabling safer mobility



AB
Dynamics

Agenda

Introduction

James Routh
Chief Executive Officer

Our market drivers

Matthew Hubbard
Chief Technology Officer

An evolved strategy

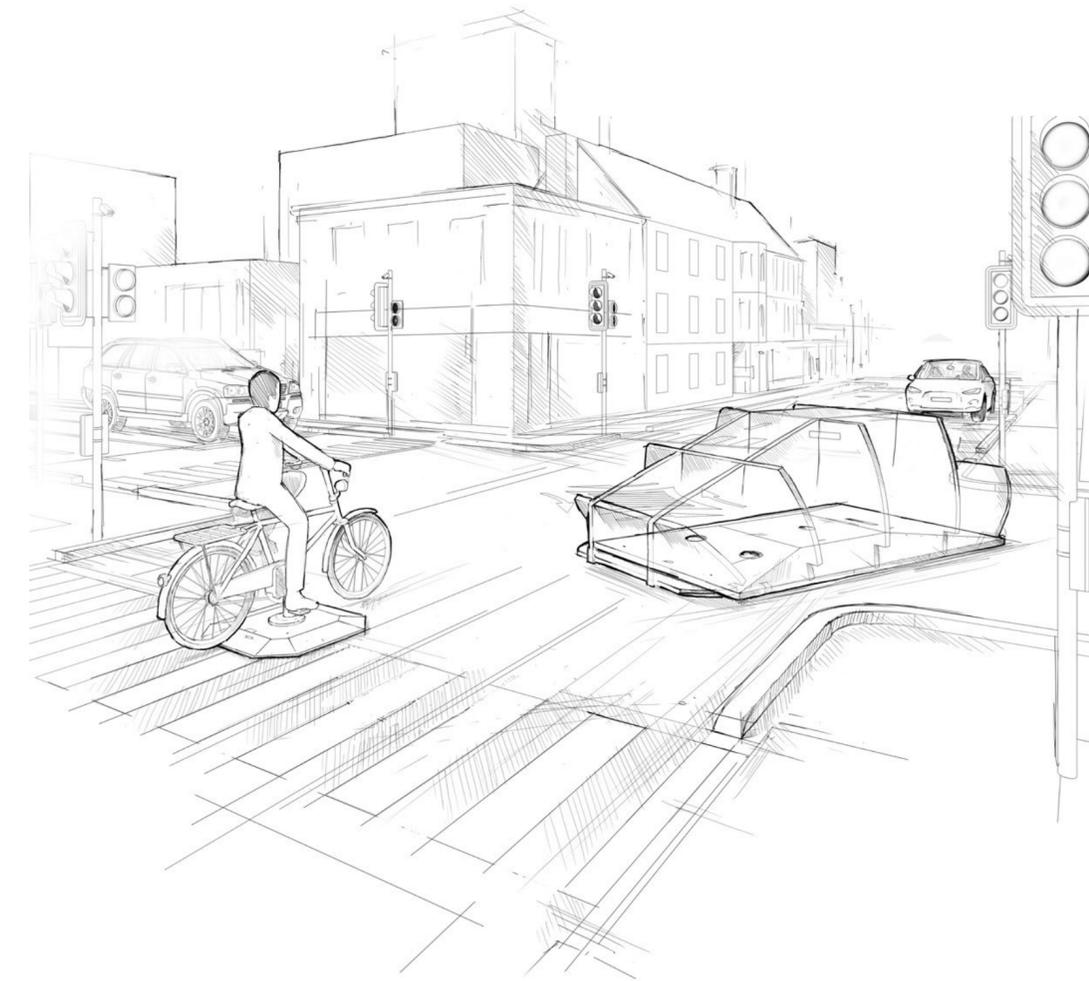
James Routh
Chief Executive Officer

HY19 financials

Robert Hart
Chief Financial Officer

Summary and outlook

James Routh
Chief Executive Officer



Introduction

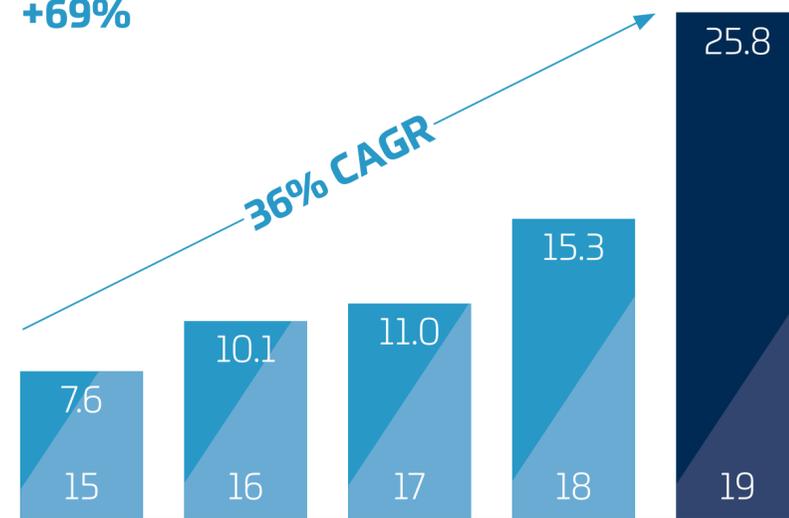


2019 HY Financial highlights

Revenue

£25.8m

+69%

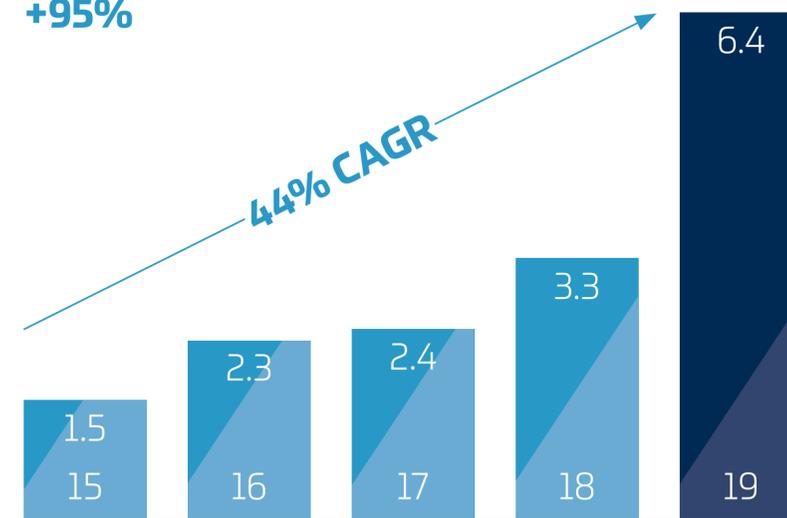


- Revenue growth driven by strong demand for track testing products, particularly driving robots
- Growth in H1 enhanced by reduction in delivery lead time
- Solid order book provides confidence for H2

Adjusted operating profit

£6.4m

+95%

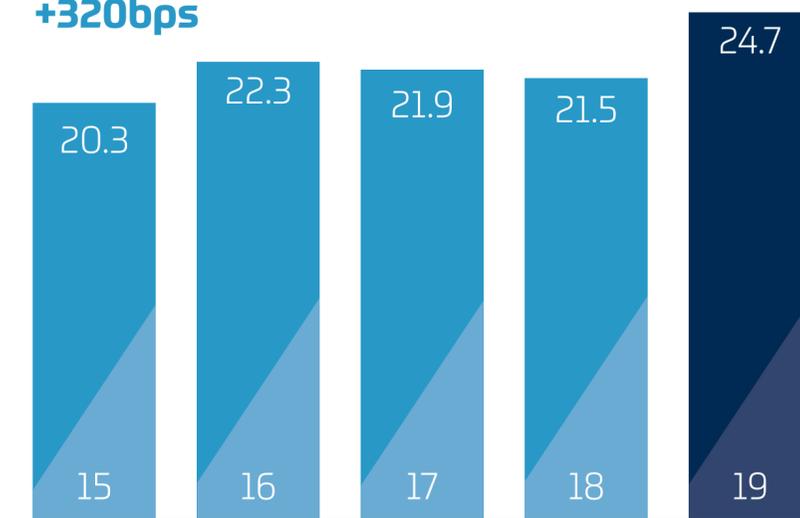


- Strong, sustainable gross margins
- Disciplined control of operating costs
- Largest proportion of anticipated 2019 increase in operating costs will be incurred in H2

Adjusted operating margin

24.7%

+320bps



- Operating leverage providing significant increase in H1 operating margins
- Anticipated H2 operating margins to be in line with full year 2018

2019 HY Operational highlights

Reduction of customer lead time through improved manufacturing efficiency

Reached milestone of 1,000th driving robot system

LaunchPad ADAS target platform continues to gain market traction

Second order for Advanced Driving Simulator (aVDS) for Kempten University, Germany

AB Dynamics Inc legal entity established in USA

Order book remains strong and provides full visibility for 2019 and beyond

Video

Synergy of testing solutions



Revenue CAGR of
31%
since H1 2014

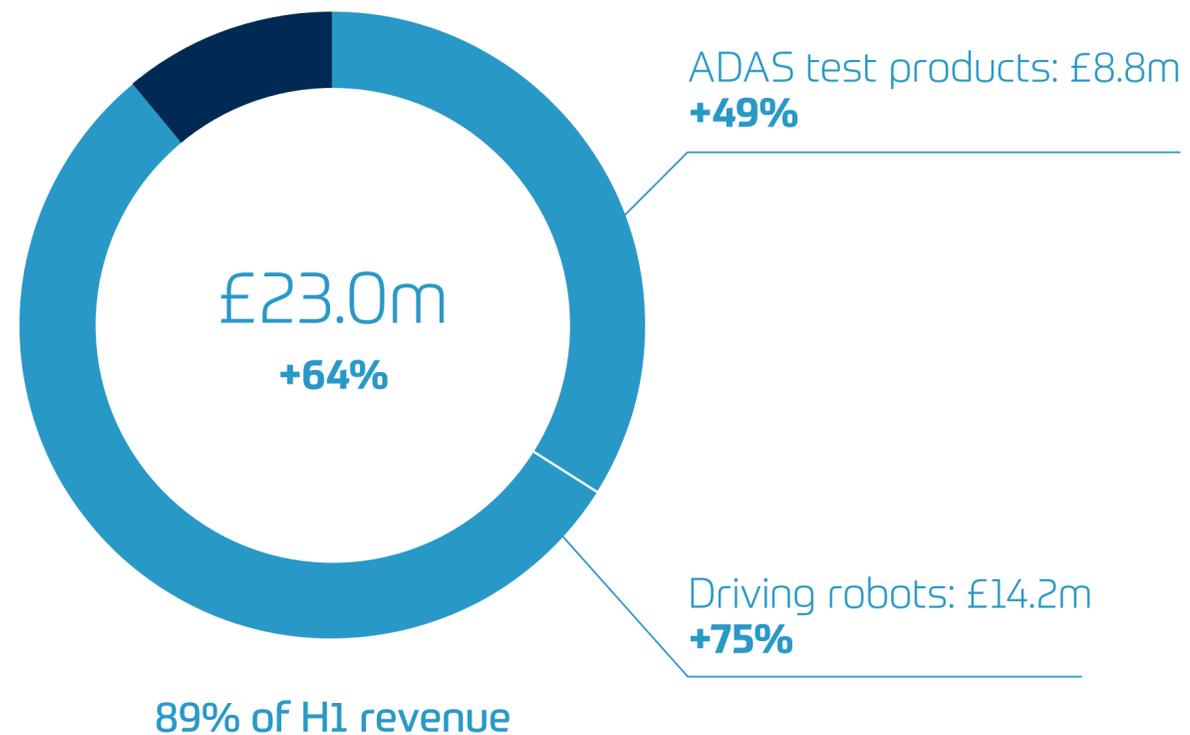
Business overview



Track testing

Products and services for the testing and development of Advanced Driver Assistance Systems ('ADAS'), autonomous vehicle technology and vehicle dynamics.

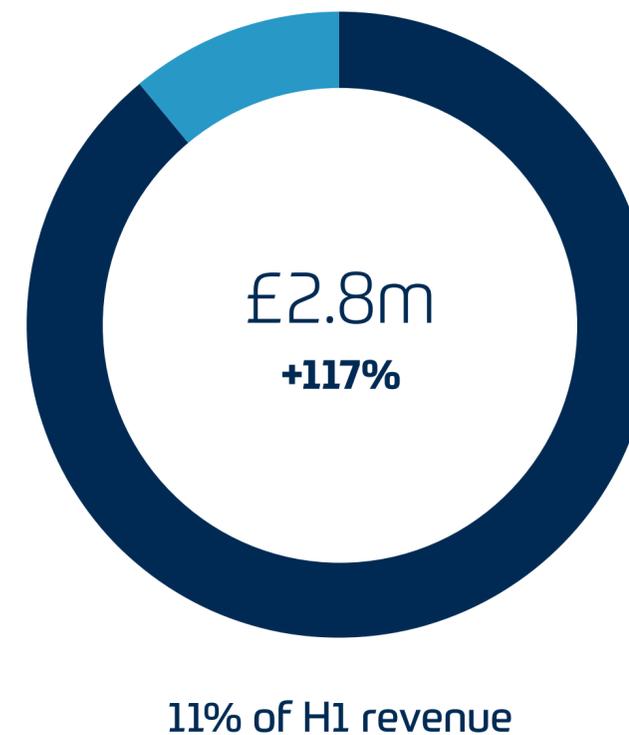
Revenue contribution to the Group



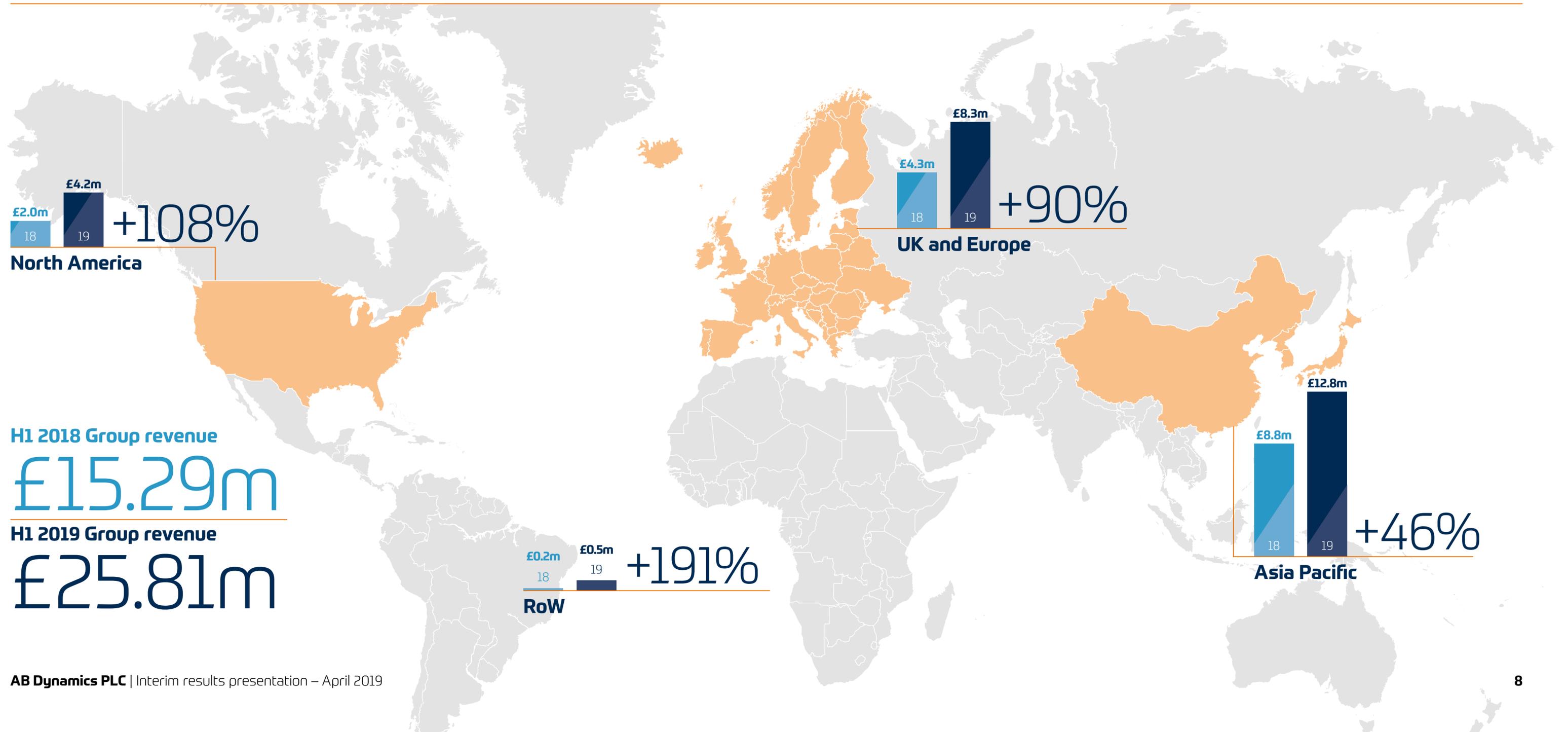
Laboratory testing

Products and services for simulation of ADAS, autonomous vehicles, driving dynamics and Driver in the Loop ('DIL'). Quantitative testing systems for vehicle suspension characterisation.

Revenue contribution to the Group



H1 Revenue by geographical area



Our market drivers



Market drivers

Government & consumer

- 1.35m annual road traffic fatalities globally¹
- In Europe, ca.50% of fatalities are Vulnerable Road Users (VRUs)²
- US pedestrian fatalities highest since 1990³

1 Source: www.thenational.ae

2 Source: <https://making-traffic-safer.com>

3 Source: www.statista.com

~90%

of accidents due to driver error

Regulatory

- Trend towards greater regulation of ADAS and autonomous systems
- Euro NCAP roadmap for Active Safety
- 40 countries including the EU have mandated all new cars must have minimum standards of ADAS by 2022
- Likely to be increased regulation of autonomous vehicle testing on public roads

Market dynamics

- Traditional OEMs face significant transformational market change
- Technology companies have significant funds to invest in mobility development
- Reducing cost and power consumption of embedded computing enabling ADAS and level 3 autonomy to be implemented
- Realisation that ADAS are still far from optimal and prone to false positives
- Realisation that FULL autonomy is not easily achievable and will take many years to implement
- Relatively low consumer demand for autonomy

Growth drivers – Euro NCAP active safety



Growth opportunities

ADAS



- Scenario testing will require more ADAS objects
- Future testing will require more realism in ADAS objects
- Pipeline of products with increased speed, enhanced endurance and higher load capacity

Driving robots



- Continued demand from all markets, particularly from emerging markets for additional driving robot equipment
- Robots are currently primarily used for ADAS testing, but there are also opportunities for vehicle dynamics and durability testing
- Base technology is relatively mature, but software is still evolving quickly, and there are opportunities for new actuators and electronics

Simulation



- Push to reduce product development costs through simulation prior to prototype builds
- Simulation allows automotive systems to be quickly modified and tested in different virtual environments
- Largest potential market is in the area of driver interaction with semi and full autonomy. Other more defined markets include motorsport

An evolved strategy



Strategy overview



New product development

New product development

Capability & capacity

International footprint

Service & support

Acquisitive growth

- Continued innovation and product development to meet current and future market requirements
- Comprehensive Product & Technology roadmap developed based on market trends, drivers and needs
- Investment levels and resources/skills established to deliver the Product & Technology roadmap
- Multiple new product launches across laboratory and track testing planned over the strategic review cycle



Capability & capacity

New product development

Capability & capacity

International footprint

Service & support

Acquisitive growth

- Facilities plan established with manufacturing and engineering space requirements defined for next five years
- New 'North Site' will be used as a simulator centre of excellence with demonstration facilities and full engineering R&D area
- Organisation structure redesigned to ensure scalability
- A rolling resource plan is in place which defines people requirements and skills
- A review of our business systems has highlighted the need for a new business management system incorporating ERP, CRM, finance and operations



International footprint

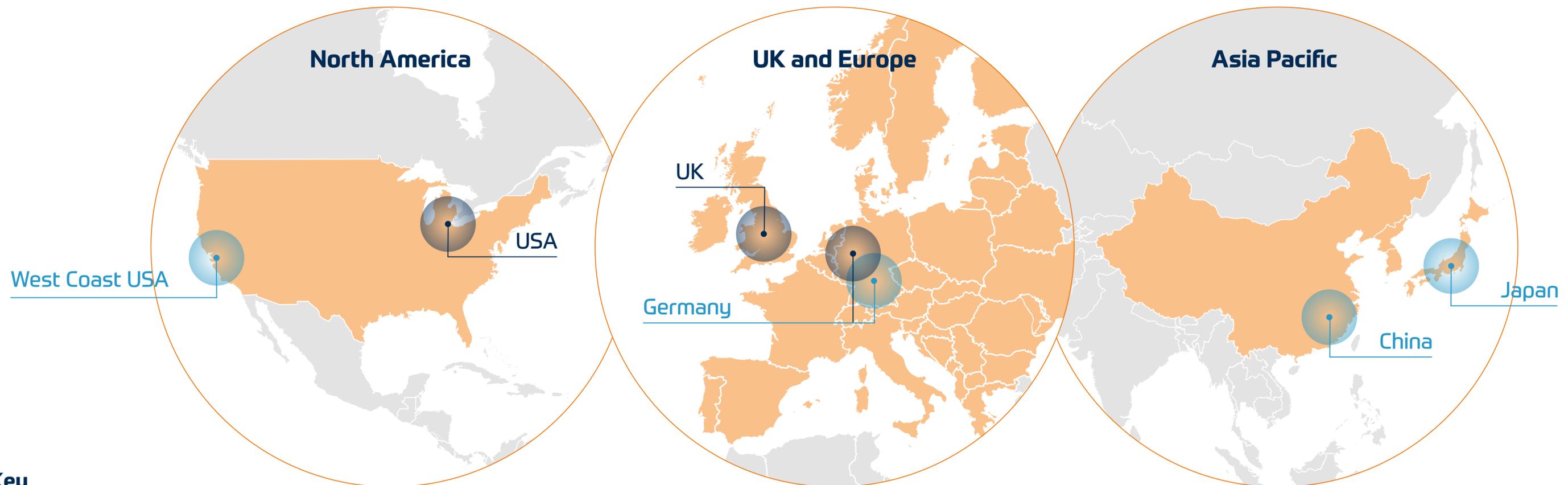
New product development

Capability & capacity

International footprint

Service & support

Acquisitive growth



Key



Current ABD locations



Potential ABD locations

Service & support

New product development

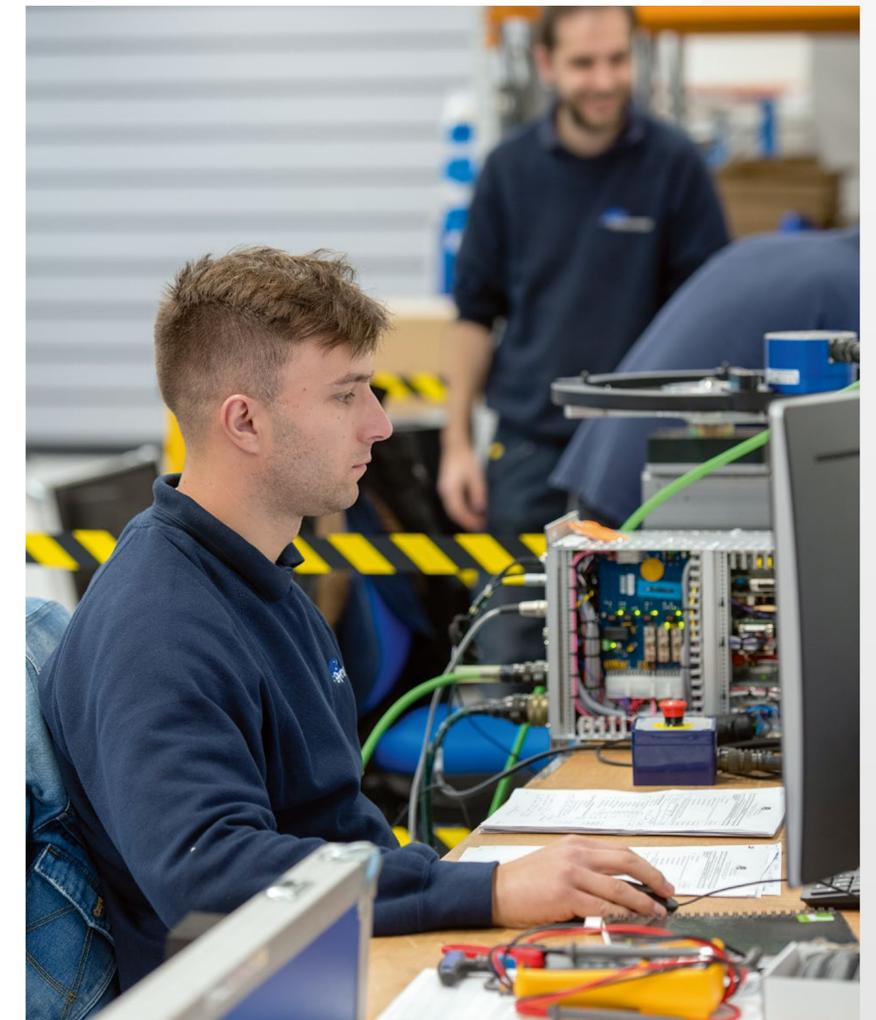
Capability & capacity

International footprint

Service & support

Acquisitive growth

- Will become increasingly important as test requirements become more complex
- Customers expect the highest levels of service and support
- Need for local spares and support services and timely response to support calls (appropriate time zone)
- Increased proportion of recurring revenue



Acquisitive growth

New product development

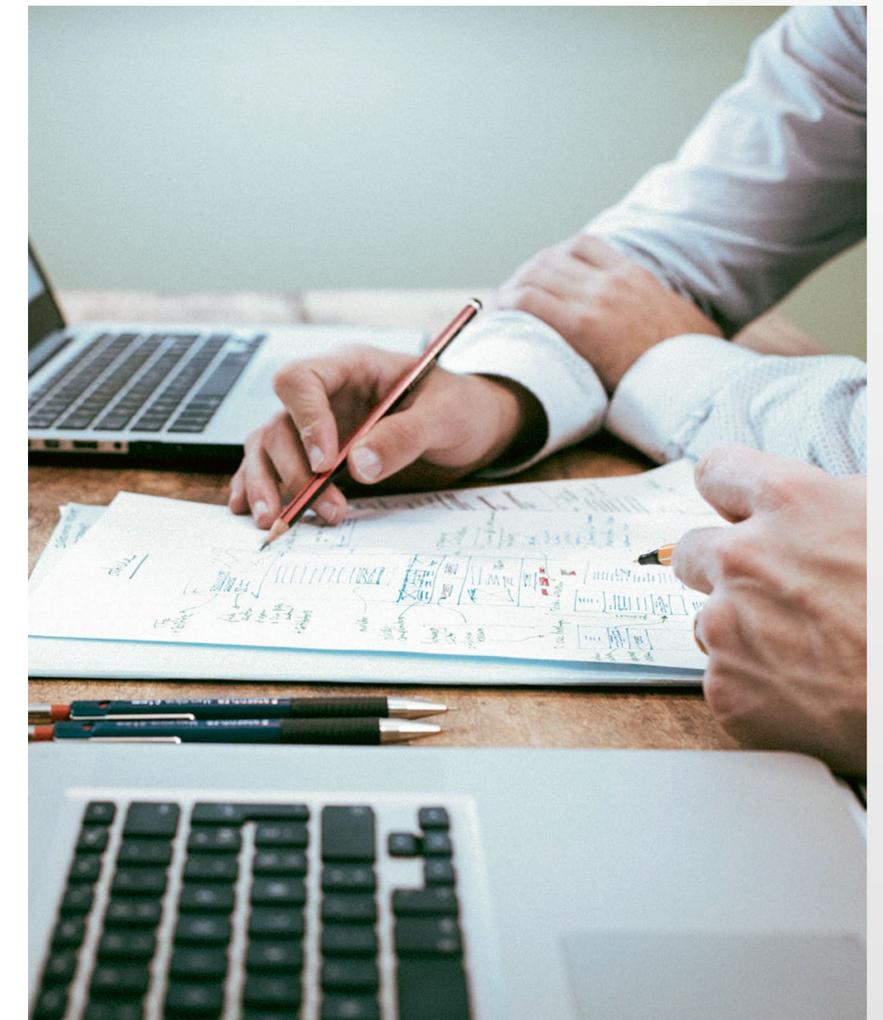
Capability & capacity

International footprint

Service & support

Acquisitive growth

- Acquire carefully selected, value-enhancing companies if appropriate
- Potential to facilitate delivery of the strategy, e.g. international growth, service/support and technology development
- Clearly defined strategic, operational, financial and cultural criteria established
- Developing the organisational skills required to enable potential acquisition processes to be efficiently managed
- Current pipeline of potential acquisition targets meeting above criteria



HY19 Financials



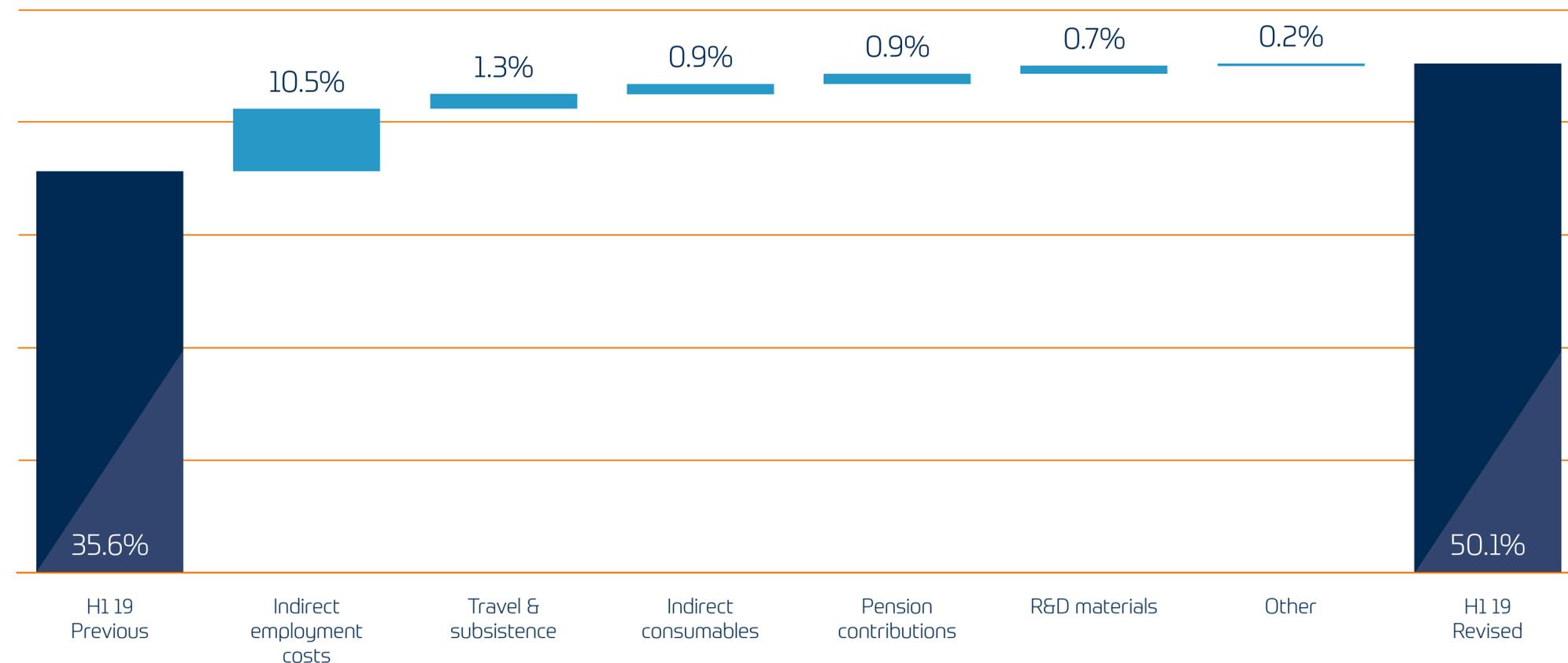
Half year results

Six months ended 28 February

| | 2019 | 2018 | Change |
|------------------------------|----------------|---------|-----------------|
| Revenue | £25.81m | £15.29m | +69% |
| Adjusted operating profit | £6.38m | £3.28m | +95% |
| Adjusted operating margin | 24.7% | 21.5% | 320bps |
| Adjusted profit before tax | £6.44m | £3.30m | +95% |
| Cash flow from operations | £5.41m | £5.54m | £(0.13)m |
| Capital expenditure | £1.84m | £2.70m | £(0.86)m |
| Net cash | £18.94m | £12.90m | £6.04m |
| Earnings per share – basic | 28.36p | 12.35p | +130% |
| Earnings per share – diluted | 27.61p | 12.03p | +130% |
| Total dividend per share | 1.612p | 1.465p | +10% |

Gross margin reconciliation

Gross margin %

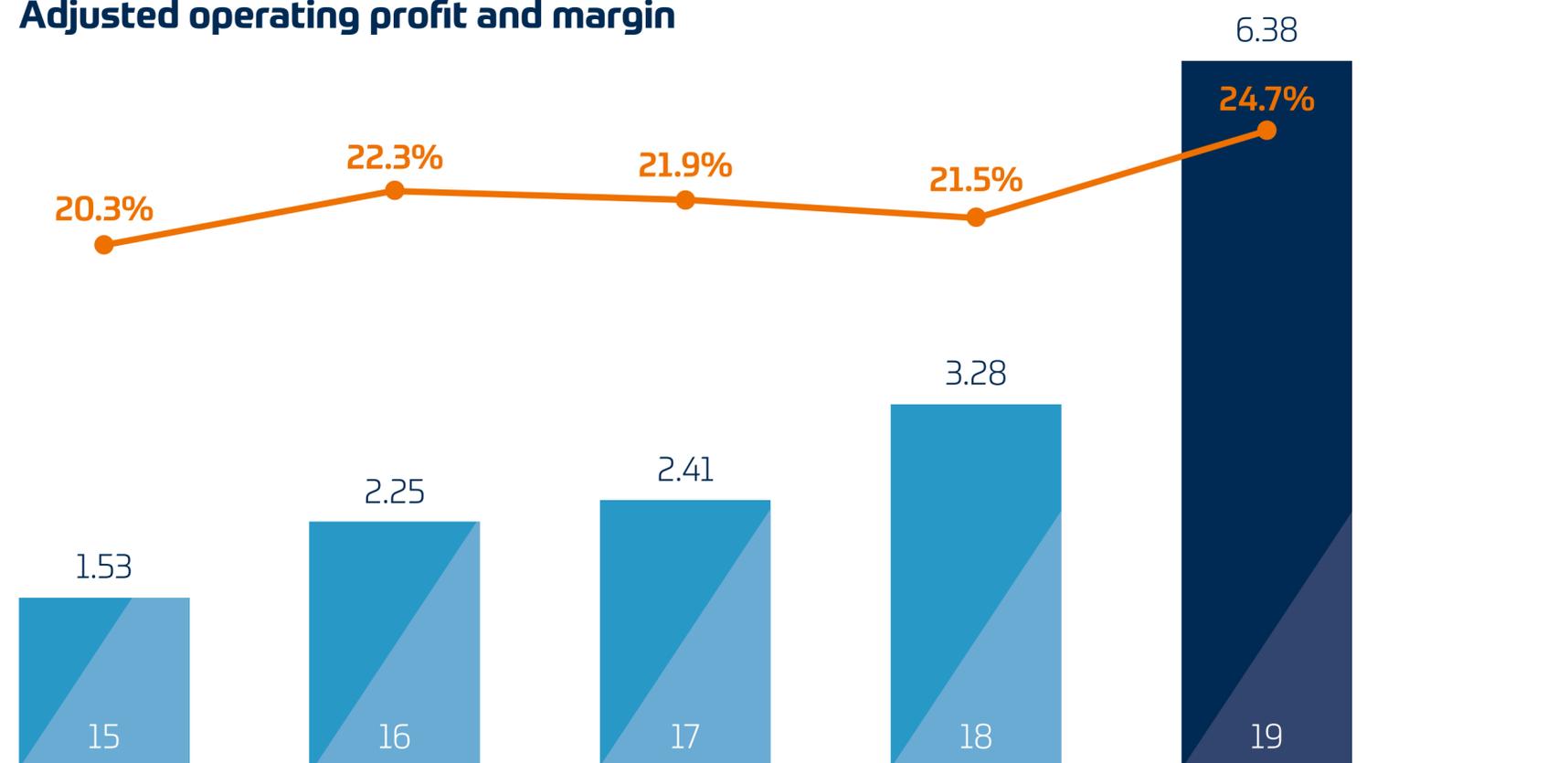


- Revised method of calculation of gross margin to provide a more representative analysis of product and service-related profitability
- Certain costs removed from cost of sales to operating costs

H1 Adjusted operating profit

(excluding share-based payment costs)

Adjusted operating profit and margin



Key

■ Adjusted operating profit (£m) — Adjusted operating margin (%)

- Revenue growth +69% to £25.81m
- Reclassified certain operating costs
- Operating profit before SBP +95% to £6.38m
- Adjusted operating margin +320bps to 24.7%
- Anticipate increased operating costs in H2
- Investment in people, working capital and infrastructure to drive further growth
- Adjusted PBT increased by 95%, compared with the same period last year
- Effective tax rate was 11.6% (2018: 18.7%)

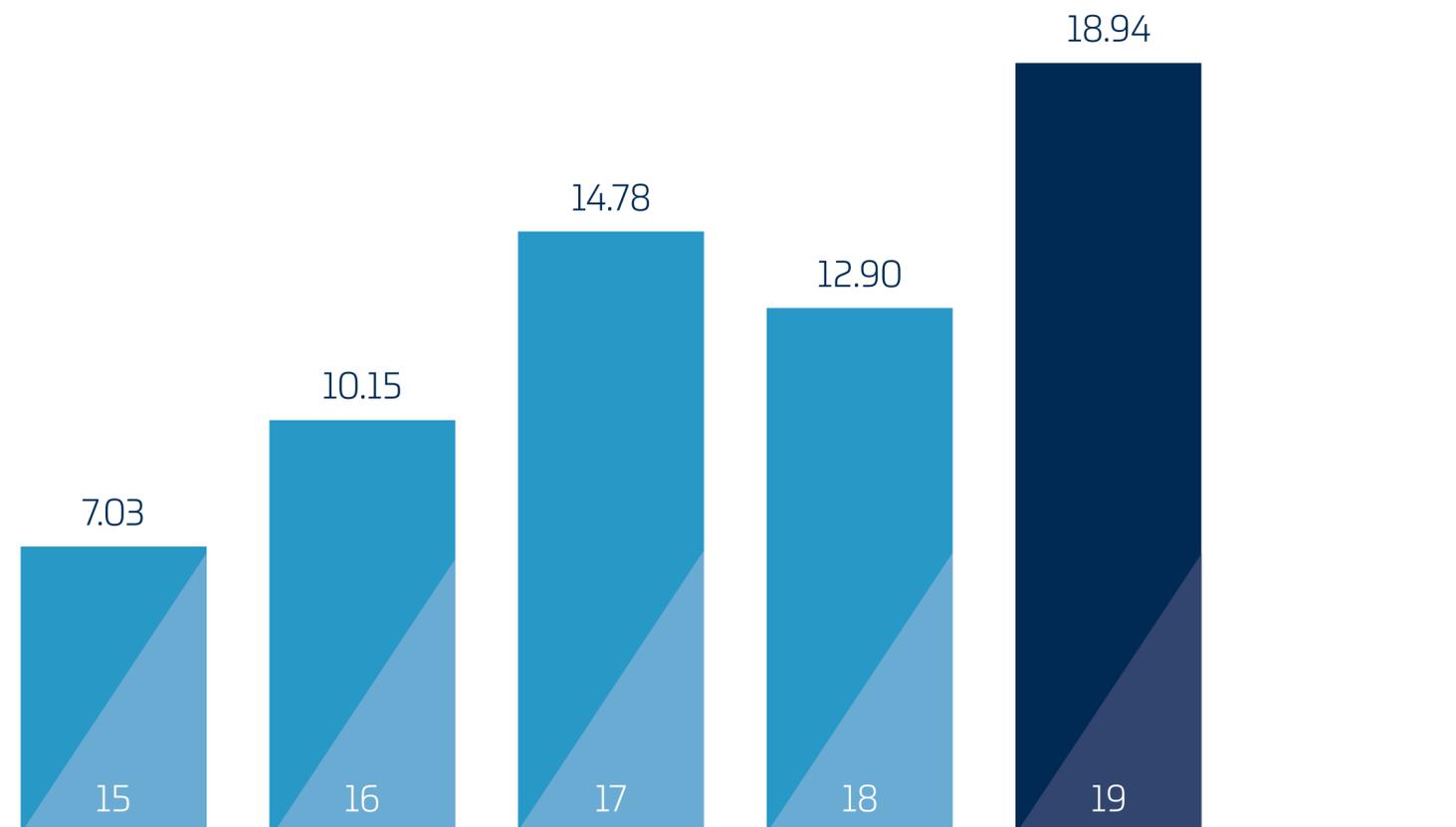
Cash flow

Six months ended 28 February

| Cash flow from operations £m | 2019 | 2018 |
|--|---------------|-------------|
| Profit before tax | 6.29 | 2.94 |
| Adjustments for: | | |
| Depreciation/interest income, etc. | 0.42 | 0.20 |
| Share based payment | 0.15 | 0.37 |
| Operating profit before working capital changes | 6.86 | 3.51 |
| Increase in inventories | (2.74) | (1.92) |
| (Increase)/decrease in trade and other receivables | (0.66) | 1.45 |
| Increase in trade and other payables | 1.96 | 2.51 |
| Cash flow from operations | 5.42 | 5.54 |

H1 Cash position

Cash at end of period
£m



- Cash flow generated from operations of £5.4m
- Dividends paid £430k (2018: £384k)
- Proceeds from issue of share capital £566k (2018: £1,092k)
- New 'North Site' planning permission received in March 2019, work commences May 2019, ca.£9m capex over 24 months
- The Company's net cash position remains robust at £18.9m (2018: £12.9m)

Financial metrics

Six months ended 28 February

| | 2019 | 2018 |
|------------------------------|---------------|--------|
| Effective rate of tax | 11.6% | 18.7% |
| ROCE | 14.1% | 9.2% |
| Earnings per share – basic | 28.36p | 12.35p |
| Adjusted EPS – basic | 29.11p | 14.24p |
| Earnings per share – diluted | 27.61p | 12.03p |
| Adjusted EPS – diluted | 28.34p | 13.87p |

Summary and outlook



Summary and outlook



Business

- Delivery of updated strategy
- Continuation of demand for driving robots and ADAS test products
- Increasing interest and pipeline for simulation systems
- Initial international growth into US and Germany
- Evolution of existing product range and launch of new products
- New facilities and infrastructure to support growth
- Strengthening of management team
- Overall outlook for 2019 remains positive



Market

- Structural growth drivers such as Euro NCAP and UN/EU regulation will drive demand for active safety systems
- Extended period of ADAS deployment in vehicles due to the realisation that autonomous vehicle technology will take longer to achieve than some predictions
- Market dynamics provide a positive backdrop for future growth

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