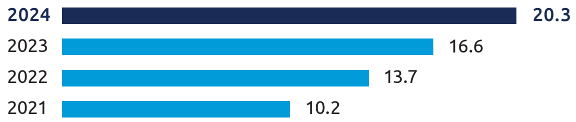
Chief Financial Officer's review

Adjusted operating profit (£m)

£20.3m +22%



Adjusted operating cash flow (£m)

£27.9m +19%

Continuing our track record of growth, margin improvement and strong cash generation

Overview

Our focus in 2024 has been on driving operational execution and delivering organic growth as well as acquisition integration. The performance demonstrates how the business has been transformed over the previous five years by strengthening our business model.

Investments in our sales infrastructure, geographical coverage and R&D innovation have driven revenue growth, while our focus on operational skills, capabilities, systems and processes has enabled us to improve margins. These profits have been converted into cash through disciplined working capital management and capital allocation, enabling us to fund acquisitions to build out our product and service portfolio and enhance the resilience of the business.

All three sectors made strong progress, driven by good momentum coming into the year and sustained through supportive market drivers and the launch of new products and services.

Demand for testing products has been driven by a number of factors such as increased complexity of testing required by regulation, automotive OEMs entering into new geographic markets and development of technology in assisted safety.

Testing services saw significant growth through recovery from adverse macroeconomic factors in the prior year and through the acquisition of VTS.

Simulation benefited from growth in simulation software.

ABD Solutions, our technology accelerator developing automated solutions for adjacent markets, remains in the pre-revenue phase, but has secured two contracts due for delivery in 2025 with potential follow-on orders to come.

The Group maintained its very strong financial position, with net cash at 31 August 2024 of £28.6m (2023: £32.0m) continuing the track record of excellent cash conversion, with a three-year rolling average of 116%.

Chief Financial Officer's review continued

Trading performance

The Group delivered revenue growth of 10%. Organic constant currency revenue growth was 12% as foreign exchange provided a minor headwind.

The proportion of recurring revenue increased to 45% (2023: 40%).

Gross margin remained stable at 59.6% (2023: 59.5%), with operational efficiencies in testing products, and increased utilisation in US testing services offset by a change in mix in simulation.

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. Adjusted EBITDA increased by 18% to £24.2m (2023: £20.5m). Adjusted EBITDA margin was 21.7% (2023: 20.4%), an increase of 130bps.

Adjusted net finance costs reduced to £0.3m (2023: £0.4m).

Adjusted profit before tax was £20.0m (2023: £16.3m). The Group adjusted tax charge totalled £3.7m (2023: £2.2m), an adjusted effective tax rate of 18.7% (2023: 13.2%). The effective tax rate is lower than the current UK corporation tax rate due to patent box relief. The increase in the year was due to the full-year effect of the increase in the UK corporation tax rate.

Adjusted diluted earnings per share was 70.0p (2023: 60.8p), an increase of 15%, reflecting the increase in operating profit offset by a higher tax charge.

The order book at 31 August 2024 was £30.3m (2023: £42.9m) covering approximately 25% of FY 2025 expected revenue, reflecting the standard lead time for testing products of approximately three months. The reduction on the prior year is due to timing of order intake in simulation.

Statutory operating profit was flat at £12.7m (2023: £12.6m) and after net finance costs of £0.7m (2023: £1.1m), statutory profit before tax increased by 4% from £11.5m to £12.0m. The statutory tax charge increased to £2.3m (2023: £0.5m), since the prior year benefited from a one-off non-taxable gain on the release of accrued contingent consideration on the acquisition of Ansible Motion. Statutory basic earnings per share was 42.3p (2023: 48.0p).

A reconciliation of statutory to underlying non-GAAP financial measures is provided below. The adjustments to operating profit of £7.6m comprise £6.4m of amortisation of acquired intangibles, £1.0m of ERP development costs and £0.2m in relation to acquisition costs (2023: £4.0m comprising £7.2m of amortisation of acquired intangibles, £1.3m of ERP development costs and a credit of £4.5m in relation to the release of contingent consideration of Ansible Motion net of acquisition costs). The £0.4m adjustment to the interest charge relates to the unwind of the discount on the contingent consideration for acquisitions (2023: £0.8m). The tax impact of these adjustments was £1.4m (2023: £1.7m).

Group financial position and cash generation

The Group delivered strong adjusted operating cash flow of £27.9m (2023: £23.5m) with cash conversion of 115% (2023: 114%). The strong cash generation was used to fund the acquisition of VTS and settle the final deferred consideration in respect of the acquisition of Ansible Motion. It also funded £3.8m of investment in product development, property, plant and equipment and dividends of £1.5m.

Net cash at the end of the year was £28.6m (2023: £32.0m), underpinning a robust balance sheet. Along with the Group's £15.0m revolving credit facility which extends to February 2026, this provides significant funding headroom to continue the Group's investment programme.

Non-current assets increased by £11.2m from £99.7m to £110.9m, mainly due to the acquisition of VTS which resulted in an increase in non-current assets of £17.5m, offset by depreciation and amortisation of £10.3m.

Working capital was £3.6m (2023: £6.2m), a decrease of £2.6m in a year when revenue has grown by 10%. Working capital as a percentage of revenue has decreased from 6.2% to 3.2%. The improvement reflects our continued focus on commercial contracting, inventory levels and cash management, along with timing differences arising from long-term contracts. Since the year end, there have been no significant changes to the financial position or significant cash flow transactions with the exception of the acquisition of Bolab.

Return on capital employed (ROCE)

Our capital-efficient business and high margins enable generation of strong ROCE (defined as adjusted operating profit as a percentage of capital employed). During the year, ROCE has increased from 15.4% to 17.4% benefiting from further improvement in operating leverage alongside continued investment discipline.

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 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. Bolab supplies low-voltage and high-voltage equipment for testing automotive sub-systems and components for conventional, hybrid and EVs.

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.

Research and development

While research and development form a significant part of the Group's activities, a significant and increasing proportion relates to specific customer programmes which are included in the cost of the product. Development costs of £0.2m (2023: £0.5m) 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 income statement as incurred, totalled £0.7m (2023: £0.2m).

Chief Financial Officer's review continued

Foreign currency exposure

The Group faces currency exposure on its foreign currency transactions and maintains a natural hedge whenever possible to transactional exposure by matching the cash inflows and outflows in the respective currencies.

With significant overseas operations, the Group also has exposure to foreign currency translation risk. On a constant currency basis, revenue would have been £2.5m higher than reported and both adjusted and statutory operating profit would have been £0.2m higher as Sterling strengthened against the US dollar, Euro and Yen. Constant currency revenue growth was 13% and growth in operating profit was 23%.

	2024	2023
Year-end rate		
US dollar	**1.32**	1.27
Euro	**1.19**	1.16
Yen	**191**	186
Average rate		
US dollar	**1.26**	1.21
Euro	**1.17**	1.15
Yen	**191**	165

Dividends

The Board is recommending a final dividend of 5.30p per share, giving a total dividend for the year of 7.63p per share, which is an increase of 20% over the prior year.

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 EBITDA, adjusted profit before tax, adjusted earnings per share and adjusted cash flow from operations.

The Annual Report includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Adjusted results exclude certain items because, if included, these items could distort the understanding of the performance for the year and the comparability between the periods.

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 Annual Report relate to underlying business performance (as defined above) unless otherwise stated.

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

	2024			2023		
	Statutory	**Adjustments**	**Adjusted**	Statutory	Adjustments	Adjusted
EBITDA (£m)	**23.0**	**1.2**	**24.2**	23.6	(3.1)	20.5
Operating profit (£m)	**12.7**	**7.6**	**20.3**	12.6	4.0	16.6
Operating margin	**11.5%**		**18.2%**	12.5%		16.5%
Finance expense (£m)	**(0.7)**	**0.4**	**(0.3)**	(1.1)	0.8	(0.3)
Profit before tax (£m)	**12.0**	**8.0**	**20.0**	11.5	4.8	16.3
Tax expense (£m)	**(2.3)**	**(1.4)**	**(3.7)**	(0.5)	(1.7)	(2.2)
Profit after tax (£m)	**9.7**	**6.6**	**16.3**	11.0	3.1	14.1
Diluted earnings per share (pence)	**41.7**		**70.0**	47.4		60.8
Cash flow from operations (£m)	**26.7**	**1.2**	**27.9**	19.3	4.2	23.5

Chief Financial Officer's review continued

Alternative performance measures continued

The adjustments comprise:

	2024		2023	
	Profit impact £m	**Cash flow impact £m**	Profit impact £m	Cash flow impact £m
Amortisation of acquired intangibles	**6.4**	**—**	7.2	—
Acquisition related costs/(credit)	**0.2**	**0.2**	(4.5)	2.8
ERP development costs	**1.0**	**1.0**	1.3	1.4
Adjustments to operating profit	**7.6**	**1.2**	4.0	4.2
Adjustments related to acquisition related finance costs	**0.4**	**—**	0.8	—
Adjustments to profit before tax	**8.0**	**1.2**	4.8	4.2

Amortisation of acquired intangibles

The amortisation relates to the acquisition of VTS and the businesses acquired in previous years: DRI, rFpro, VadoTech and Ansible Motion.

Acquisition related costs/(credit)

The current year cost and cash impact relate to the acquisition of VTS. The credit in the prior year relates to the £5.2m release of contingent consideration on the acquisition of Ansible Motion less acquisition costs of £0.7m. The prior year cash impact relates to acquisition costs and a bonus paid to employees of the acquired entity for pre-acquisition service.

ERP development costs

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

Acquisition related finance costs

Finance costs relate to the unwind of the discount on contingent consideration payable on the acquisition of Ansible Motion and VTS.

Taxation

The tax impact of these adjustments was as follows: amortisation of £1.1m (2023: £1.3m), acquisition related costs of £0.1m (2023: £0.1m) and ERP development costs of £0.2m (2023: £0.3m).

Net cash

The reconciliation of cash and cash equivalents to net cash is as follows:

	2024 £m	2023 £m
Cash and cash equivalents	**31.8**	33.5
Lease liabilities	**(3.2)**	(1.5)
	28.6	32.0

Return on capital employed (ROCE)

ROCE is calculated as follows:

	2024 £m	2023 £m
Adjusted operating profit	**20.3**	16.6
Shareholders' equity	**131.3**	125.2
Net cash	**(28.6)**	(32.0)
Deferred tax	**7.5**	8.7
Contingent consideration	**6.2**	5.9
Capital employed	**116.4**	107.8
Return on capital employed	**17.4%**	15.4%

Sarah Matthews-DeMers
Chief Financial Officer
26 November 2024