

\$0.30 in 2019 as a result of the adoption of the new revenue recognition standard. Adjusted EPS is a non-GAAP financial measure.

SEGMENT RESULTS

Cubic Transportation Systems

	<u>Fiscal 2019</u>	<u>Fiscal 2018</u>	<u>% Change</u>
	(in millions)		
Sales	\$ 849.8	\$ 670.7	27 %
Operating income	77.2	60.4	28
Adjusted EBITDA	110.5	73.3	51

Sales: CTS sales increased 27% to \$849.8 million in 2019 compared to \$670.7 million in 2018, including the impact of the adoption of ASC 606. The increase in sales was primarily driven by growth in both organic and inorganic business in North America. Sales in 2019 were higher in the U.S. primarily due to system development on contracts in New York, Boston, and the San Francisco Bay Area. Businesses acquired by CTS during fiscal year 2019, whose operations are all located in the U.S., had sales of \$74.4 million in fiscal year 2019. Sales increased slightly in Australia between fiscal years 2018 and 2019 as increased system development work on a contract in Brisbane was partially offset by the negative impact of foreign currency exchange rates as well as a decrease in service sales. Sales were lower in the UK primarily due to a decrease in system development work in London and the negative impact of currency exchange rates. The average exchange rates between the prevailing currencies in our foreign operations and the U.S. dollar resulted in a decrease in CTS sales of \$22.2 million for 2019 compared to 2018, primarily due to the strengthening of the U.S. dollar against the British pound and Australian dollar.

Amortization of Purchased Intangibles: Amortization of purchased intangibles included in the CTS operating results totaled \$22.0 million in 2019 and \$5.2 million in 2018. The increase is due to the amortization of purchased intangibles for companies acquired by CTS in fiscal year 2019.

Operating Income: CTS operating income increased 28% in 2019 to \$77.2 million compared to \$60.4 million in 2018. The increase in operating income was primarily caused by higher margins on increased work on development projects in New York, Boston, the San Francisco Bay Area and Brisbane, as well as the impact of the adoption of ASC 606. These increases in operating income were partially offset by operating losses incurred by businesses acquired by CTS in fiscal 2019 as well as the negative impact of changes in foreign currency exchange rates. Businesses acquired by CTS in fiscal years 2019 incurred operating losses of \$10.1 million in fiscal 2019, which included acquisition transaction costs of \$8.1 million and amortization of intangible assets totaling \$19.3 million. The average exchange rates between the prevailing currency in our foreign operations and the U.S. dollar resulted in a decrease in CTS operating income of \$3.6 million for 2019 compared to 2018.

Adjusted EBITDA: CTS Adjusted EBITDA increased 51% to \$110.5 million in 2019 compared to \$73.3 million in 2018. The increase in Adjusted EBITDA was primarily driven by the same factors that drove the increase in operating income described above excluding the increases in amortization of purchased intangibles and acquisition transaction costs which are excluded from Adjusted EBITDA. Adjusted EBITDA for CTS increased by \$2.3 million in 2019 as a result of the adoption of the new revenue recognition standard.